

Asia and Latin America:

China ruling trade relations and Japan investment but not for too long

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Main messages

- 1** Trade flows between Asia and Latam have surged in the last 15 years. But it remains very unbalanced, focused on commodities as main South American export. China has gathered a lot of influence on commodity markets
- 2** Japan's FDI stock in Latam is larger than China's. This could reverse sooner than expected, as Chinese FDI into the region is surging at a faster rate than Japan's.
- 3** Sizable Asian assets are being increasingly allocated in FDI rather than reserves, which provides a huge opportunity for financing key investment projects in Latam, such as infrastructure.
- 4** China's slowdown will put downward pressure on Latam economies. The impacts will be felt more strongly amid industrial metal exporters.

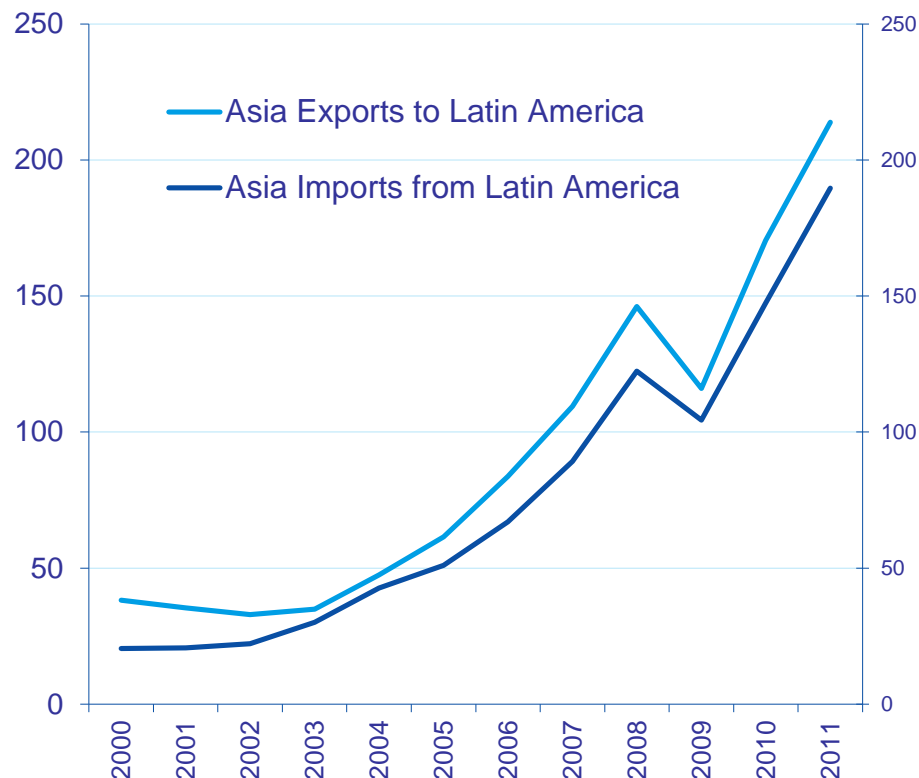
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- 2 FDI from Asia to Latam also surges: Japan's FDI still king but with Chinese FDI growing faster**
- 3 How would South America be affected by China's hard landing**

Trade Flows between Asia and Latin America have surged in the last 15 years

Imports and Exports between Asia¹ and Latin America² (USD bn)

Source: BBVA Research and UN Comtrade



- Asian countries show strong growth in trade with Latin America
- Especially, China and Japan's trade deficits with the region are widening
- China mainly imports raw materials/resources (soybeans, coal, copper, iron ore, zinc, crude petroleum) and exports manufactured goods.

(1) Asia includes: China, Hong Kong, Japan, Korea, Singapore and India. (Taiwan does not report to UN Comtrade database)

(2) Latin America includes: Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Panama, Paraguay, Peru, Venezuela and Uruguay.

China top trading partner... but not only for exports, also for imports!

China, Japan and Korea's ranking as trade partner in Latin America

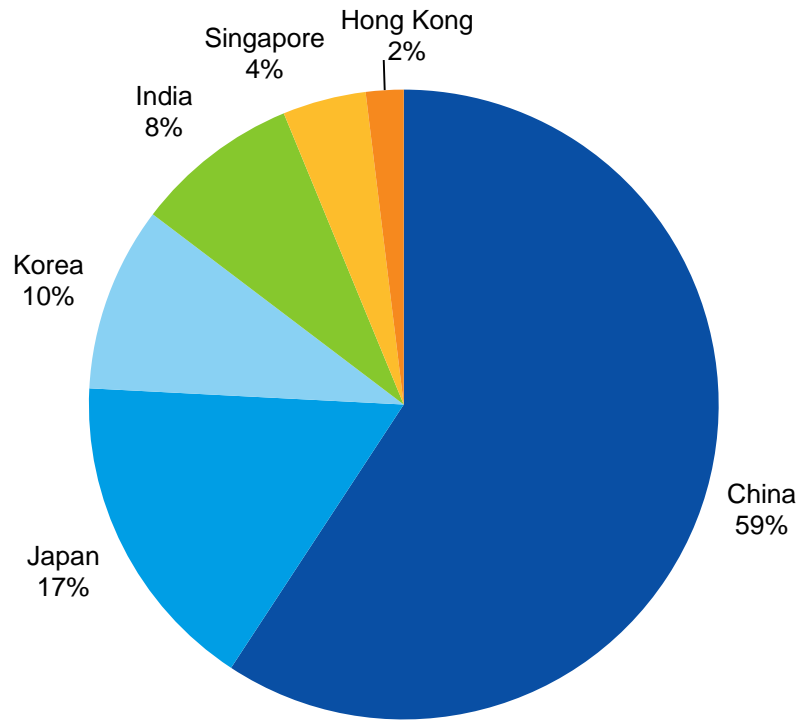
Source: BBVA Research and COMTRADE

	Export to China		Import from China		Export to Japan		Import from Japan		Export to Korea		Import from Korea	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Argentina	6	2	4	2	14	21	9	9	28	24	15	11
Brazil	12	1	11	2	5	6	4	6	18	12	15	5
Chile	4	1	4	1	2	2	3	6	8	5	7	5
Colombia	36	2	9	2	9	16	7	9	29	20	18	10
Mexico	19	3	6	2	5	8	2	3	21	17	6	4
Peru	2	1	9	2	3	3	2	5	11	8	13	10
Venezuela	35	7	18	2	17	38	12	16	38	34	20	23

China, Japan and Korea concentrate 85% of trade with Latam

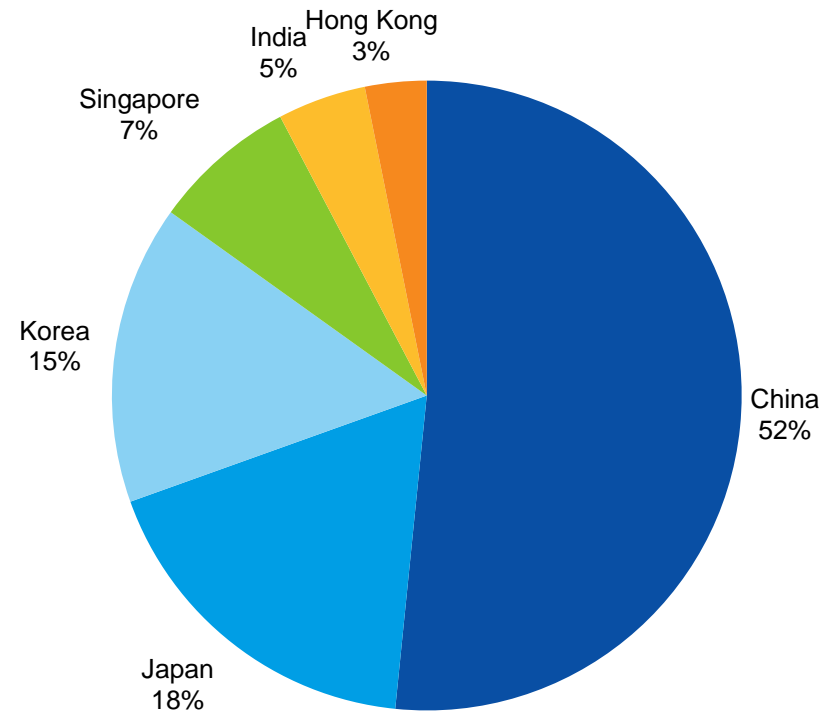
Top Import Partners in Asia (2011)

Source: BBVA Research and UN Comtrade



Top Export Partners in Asia (2011)

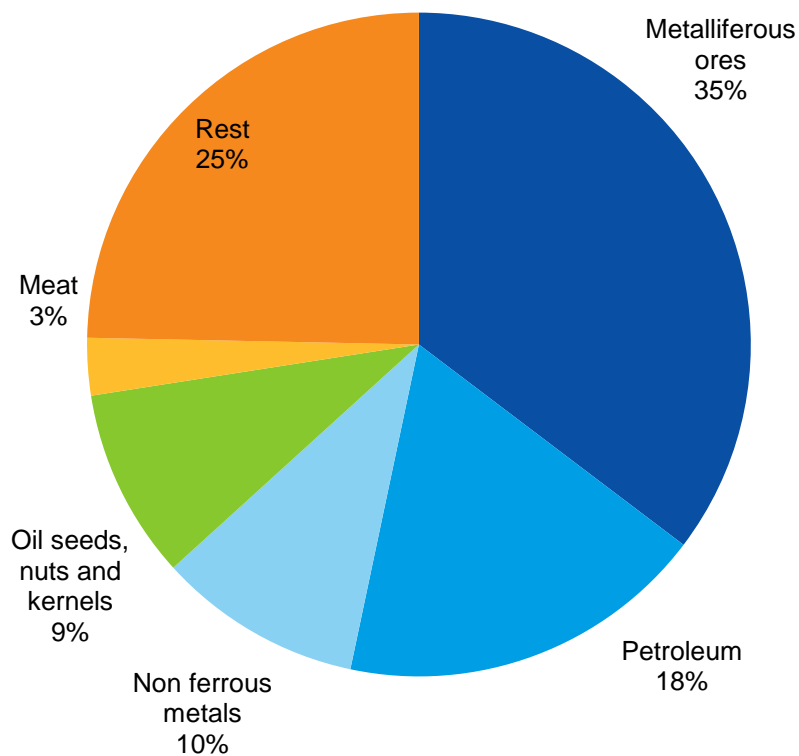
Source: BBVA Research and UN Comtrade



3/4 of Latam exports to Asia concentrated on commodities

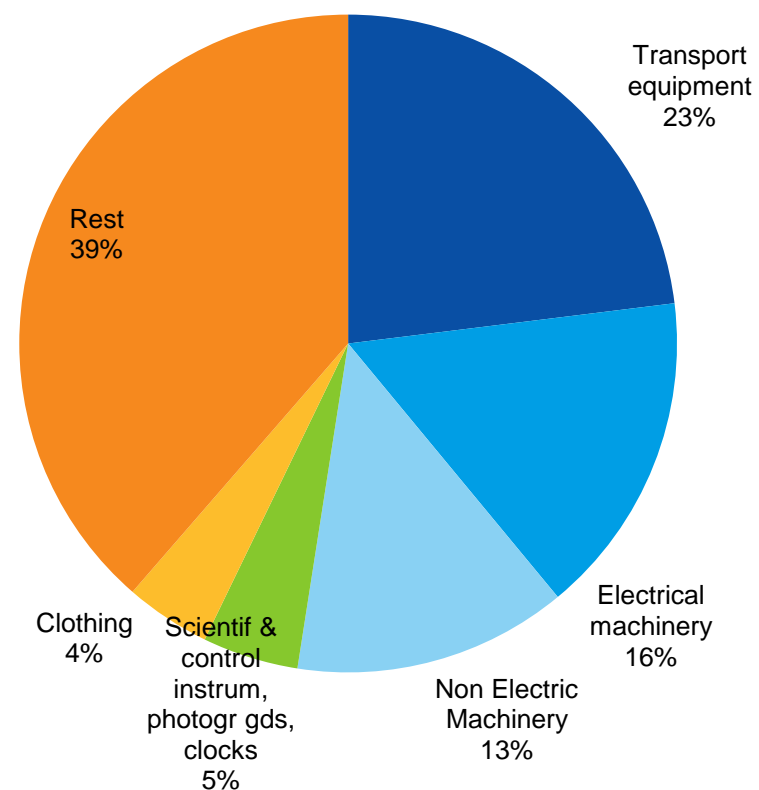
Asia Top 5 Import Goods from Latin America (2011)

Source: BBVA Research and UN Comtrade



Asia Top 5 Export Goods to Latin America (2011)

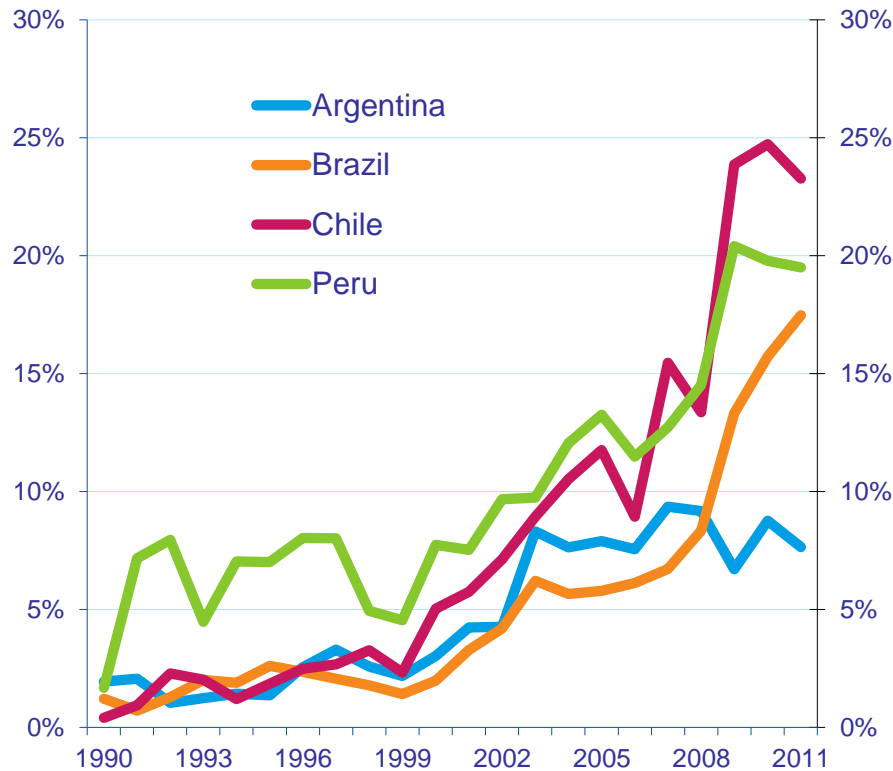
Source: BBVA Research and UN Comtrade



China key destination for South American exports and it is mainly commodities

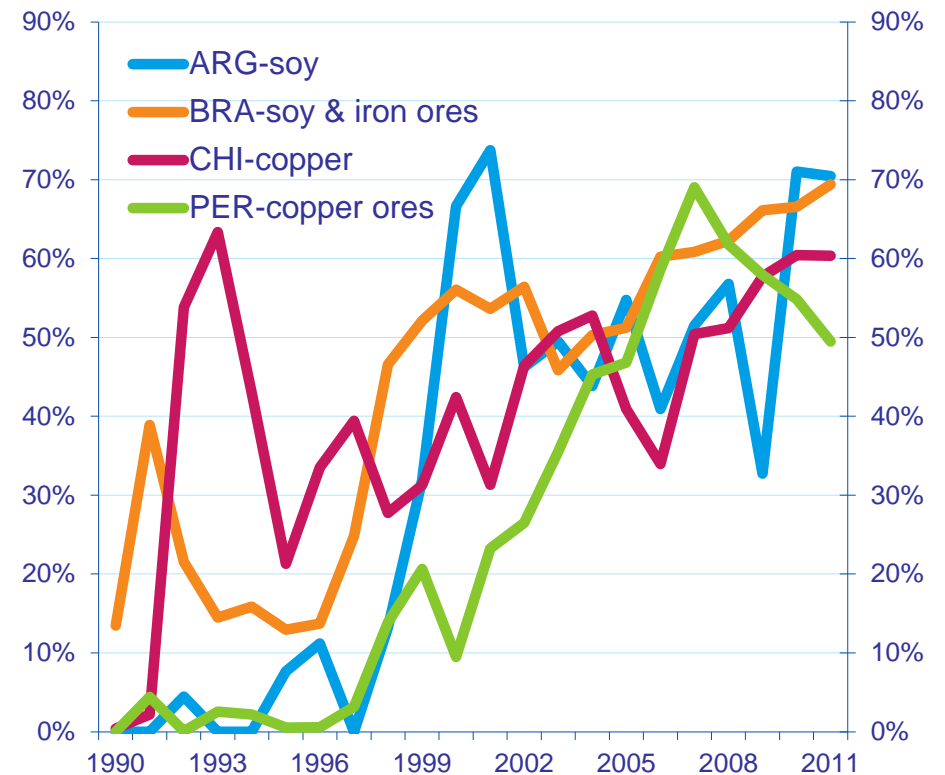
Exports to China: % of total exports

Source: COMTRADE, Haver and BBVA Research



Commodity exports to China: % of total exports to China

Source: COMTRADE, Haver and BBVA Research

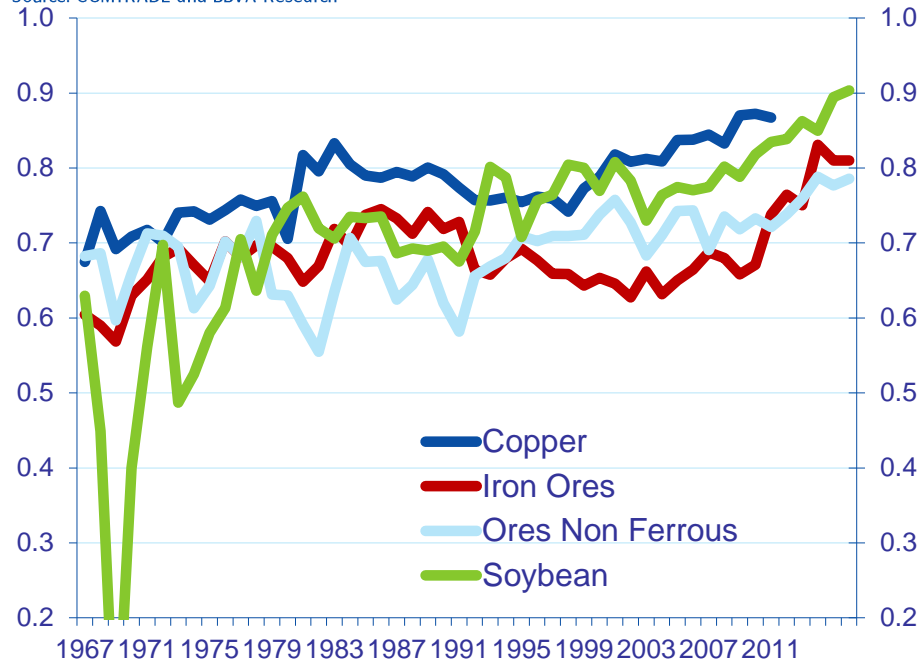


China is a bigger buyer in South America. It is worrisome the exports to China are concentrated in one or two raw materials

Commodity markets highly concentrated, also on the demand side

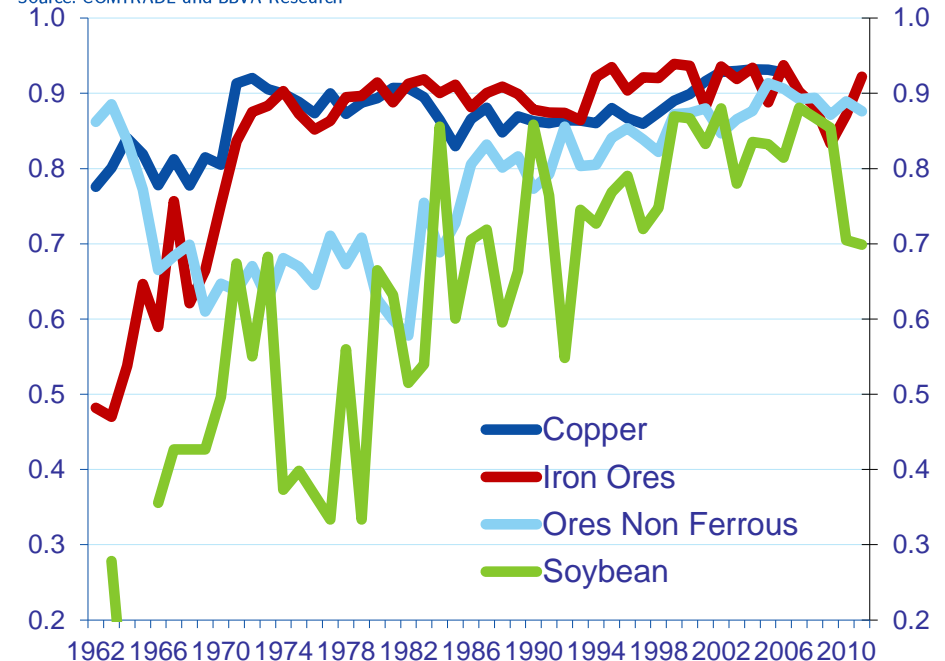
Export Market concentration: Gini index (higher values indicate fewer and bigger exporters)

Source: COMTRADE and BBVA Research



Import Market concentration: Gini index (higher values indicate fewer and bigger importers)

Source: COMTRADE and BBVA Research

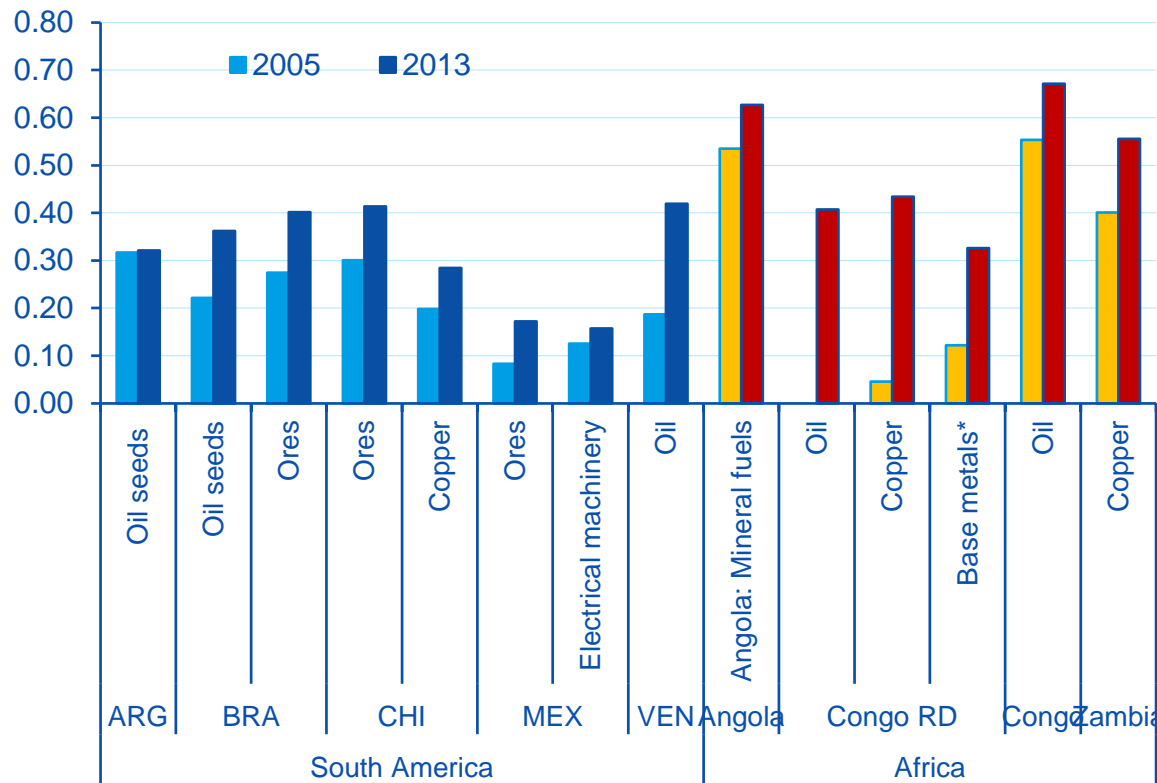


In recent years China gained lots of market power as the main buyer whereas South American countries are not always the largest suppliers

Latin America's trade increasingly dependent on China but still less than Africa

Exports dependency of China index: 0 no dependency - 1 complete dependency

Source: COMTRADE and BBVA Research



Dependency on Chinese demand for all commodities considered have increased compared to year 2005

South American countries considered are more reliant on Chinese demand than the Asia Pacific exporters, but less so than Africa

Asia Pacific more diversified exports structure by destination explains this result

These results must be reviewed considering the size of exports relative to GDP, their weight on fiscal revenues and their appeal for FDI projects

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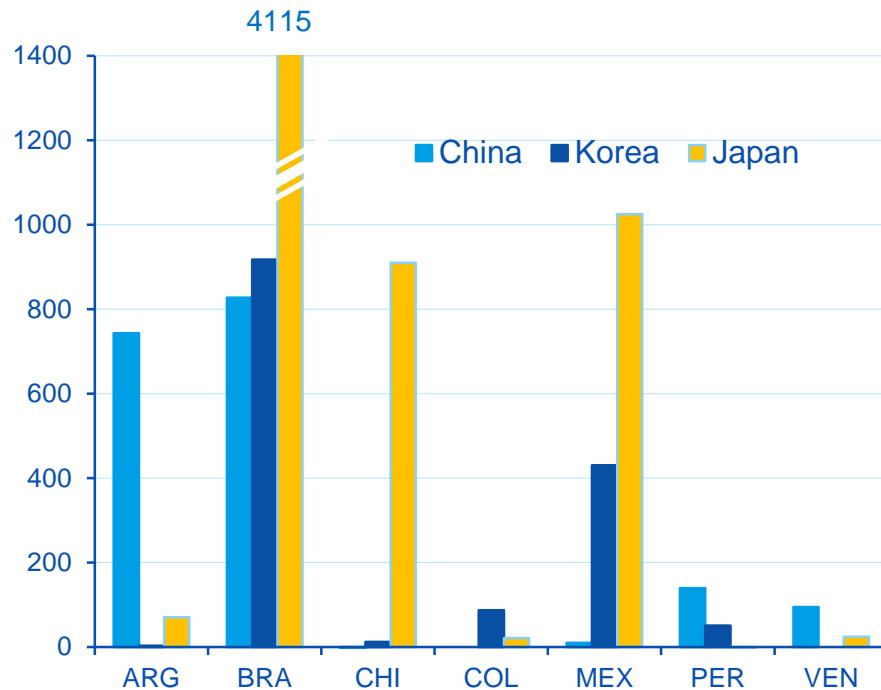
- 1 Growing trade ties between Asia and Latam but also challenges
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Japan still king for FDI, Korea increasingly relevant together with China

China's investments in LatAm are hard to explain based on pure economic fundamentals. Venezuela is the second largest recipient of FDI. Brazil, a much larger economy ranks only slightly above while Mexico's investment from China is very low for its size.

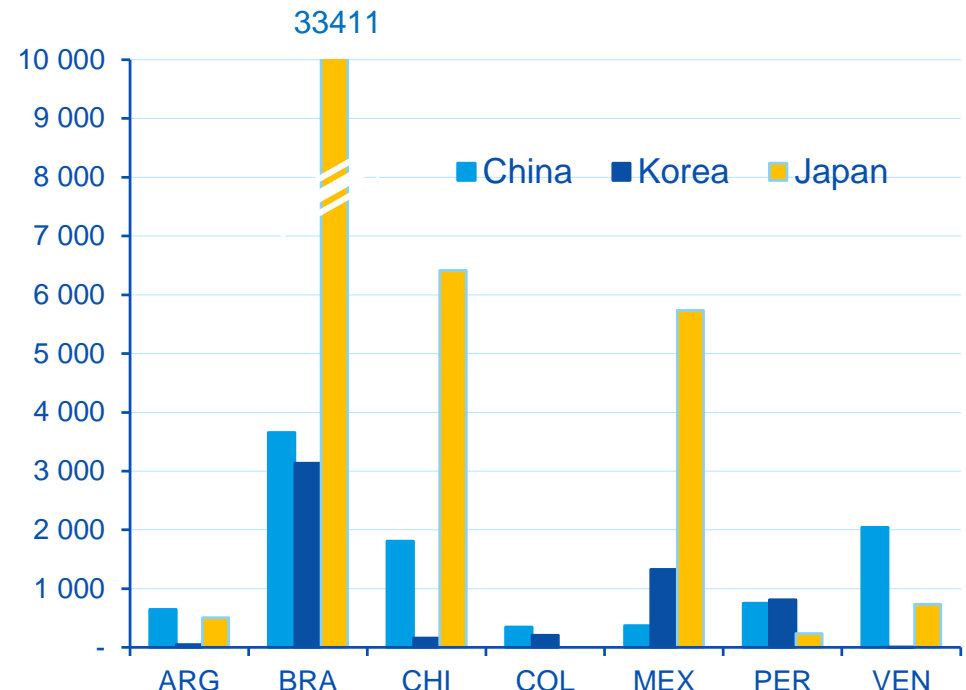
Foreign Direct Investment in LatAm: flows in 2012 (million USD)

Source: UNCTAD and BBVA Research



Foreign Direct Investment in LatAm: stocks in 2012 (million USD)

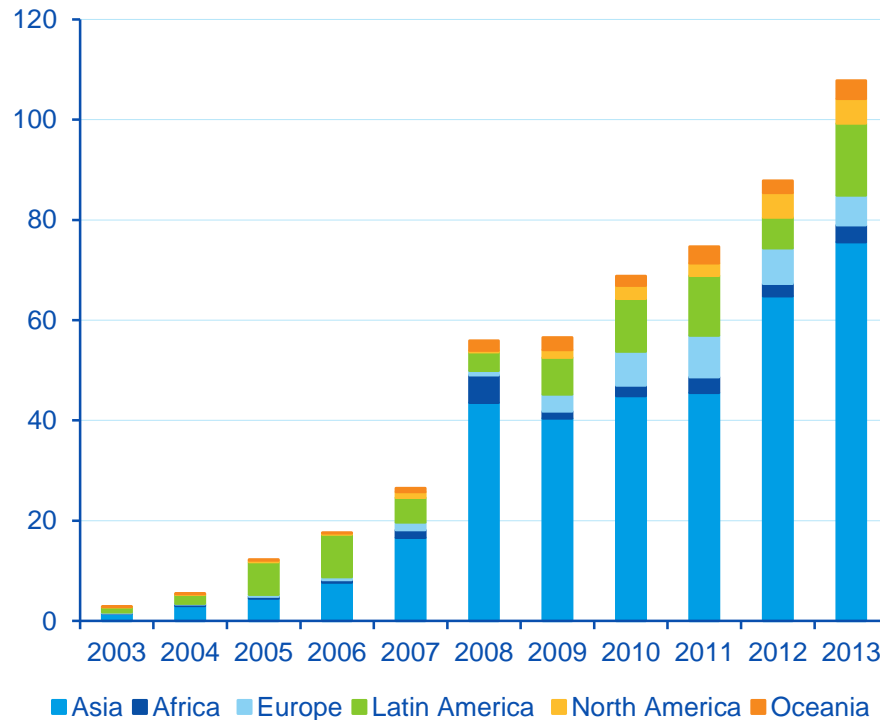
Source: UNCTAD and BBVA Research



...although volumes to the region are limited when compared on a global scale

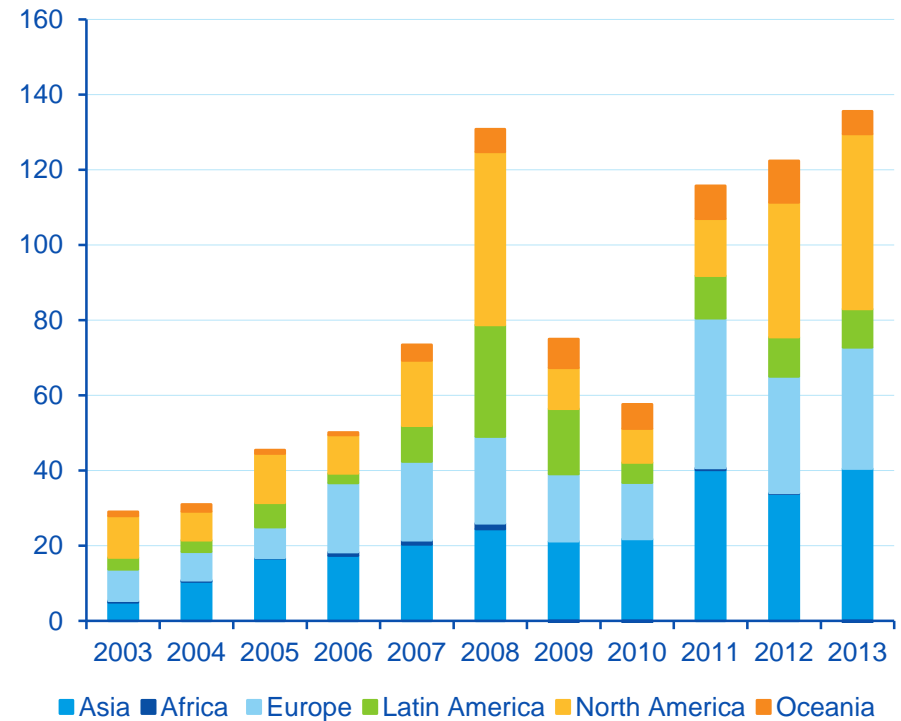
Historical FDI flows of China (USD billion)

Source: National Bureau of Statistics People's Republic of China and BBVA Research



Historical FDI flows of Japan (USD billion)

Source: JETRO and BBVA Research

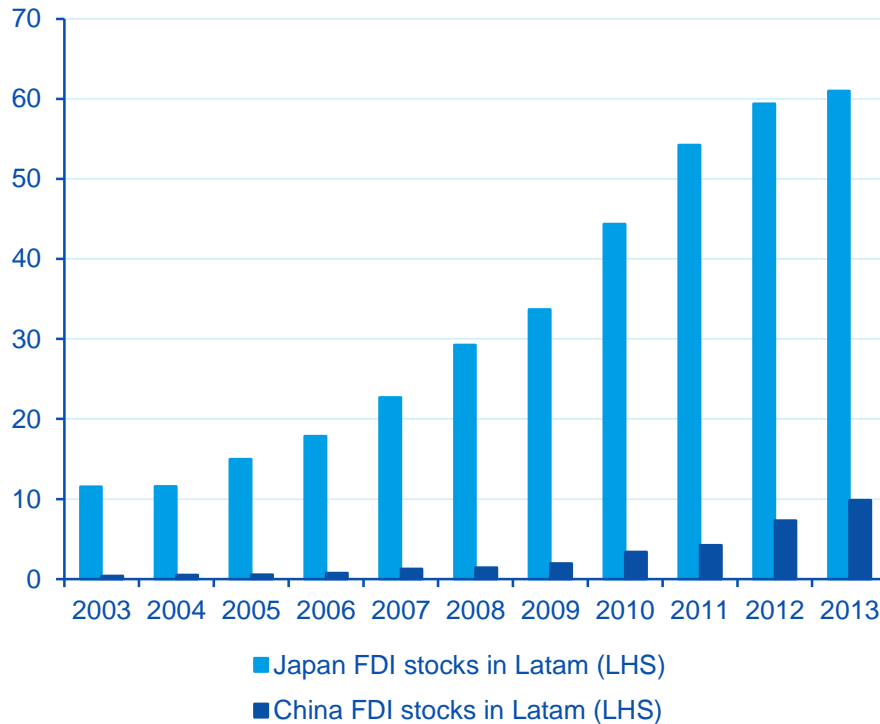


Asian overseas foreign direct investment continues to go primarily to countries within the Asia region and developed economies, followed by Latin America.

Japan has bigger FDI stock in Latam but China's is rising faster

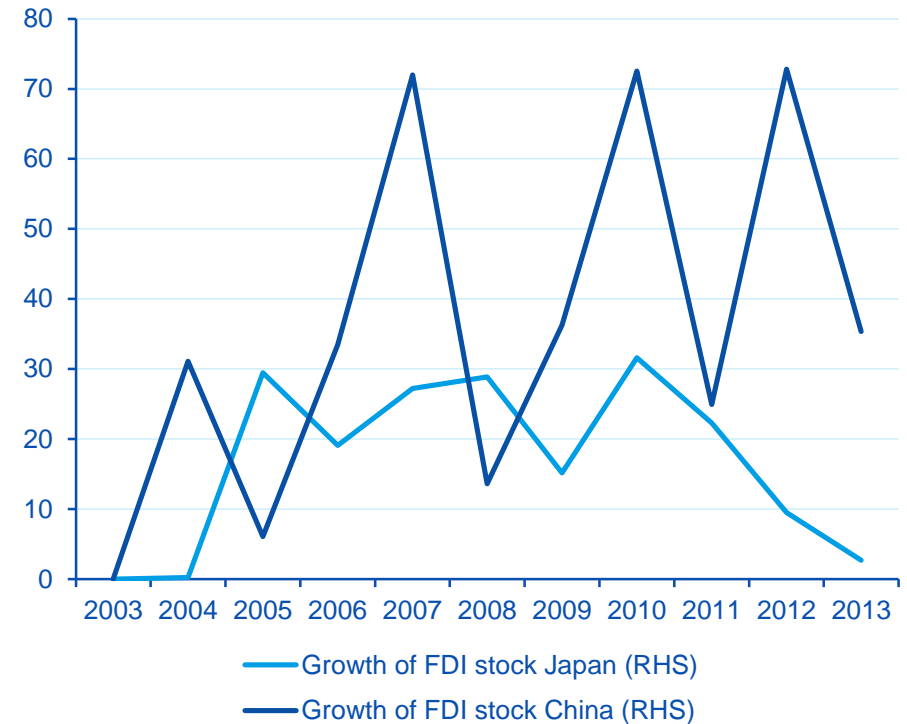
FDI flows to Latam ex. Cayman Islands and BVI (USD billion)

Source: National Bureau of Statistics People's Republic of China, JETRO and BBVA Research



Chinese FDI stocks in Latam growing faster (YoY %)

Source: National Bureau of Statistics People's Republic of China, JETRO and BBVA Research

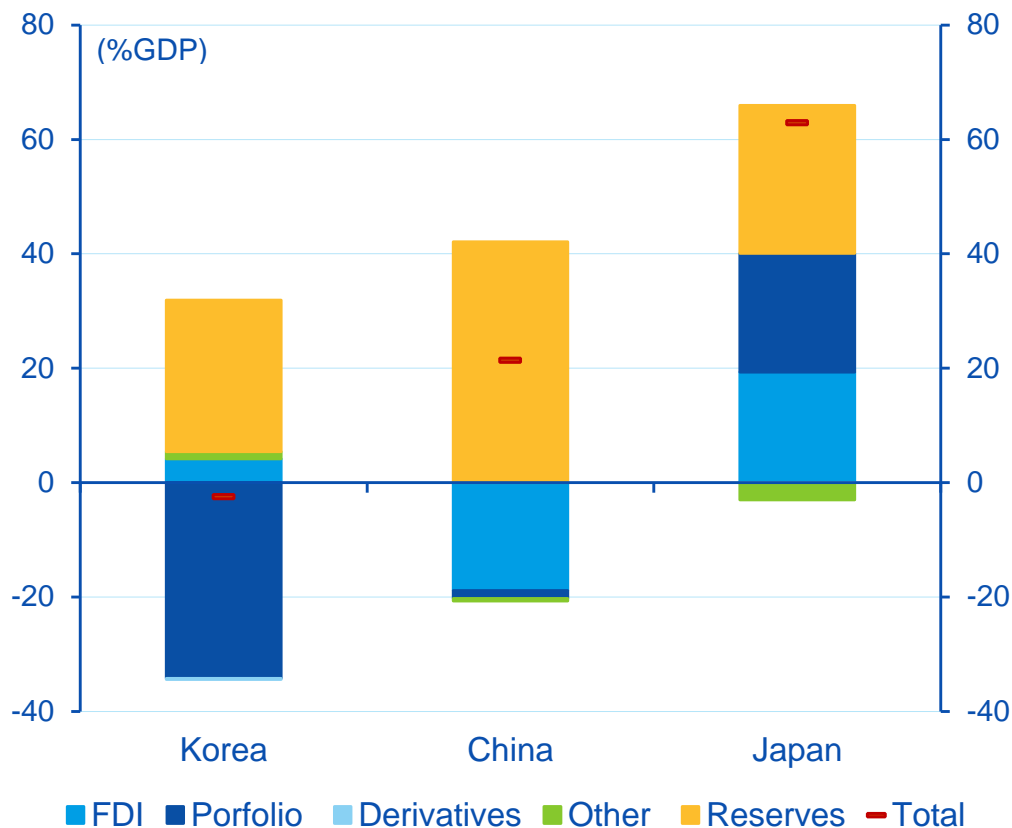


Excluding tax havens in the Caribbean, **China's FDI stock in Latam is much smaller than Japan's**, but faster annual growth rates make it **potentially more significant**

Asia could get a better asset allocation increasing FDI instead of reserves

Net international investment position for Asia 3 countries (2013)

Source: BBVA Research and IMF



Asia 3 needs to diversify its hugely positive international investment position away from reserve assets and towards FDI..

... away from the developed world and towards the emerging world

This is a huge opportunity for Latam economies to finance infrastructure projects required to close the competitive gap

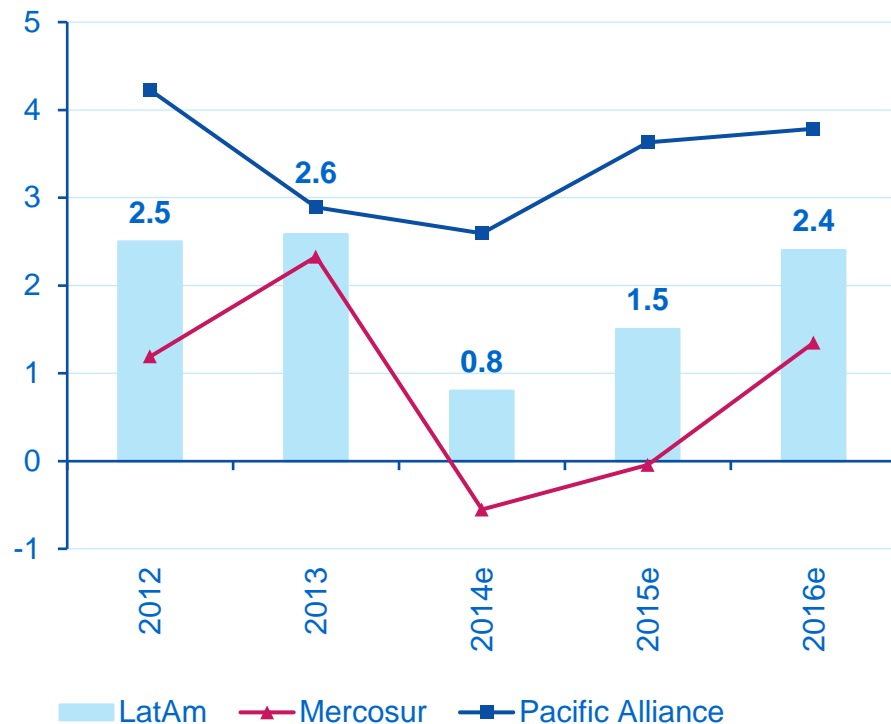
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With China's soft landing, Latin America's growth should recover from a difficult 2014 but very heterogeneously

Latam*: GDP growth (%yoy)

Source: BBVA Research



Bottom of deceleration probably over in Q4 2014.

Growth set to increase on higher global growth (especially in the US) and public investment in Andeans, but still clearly below potential for the region

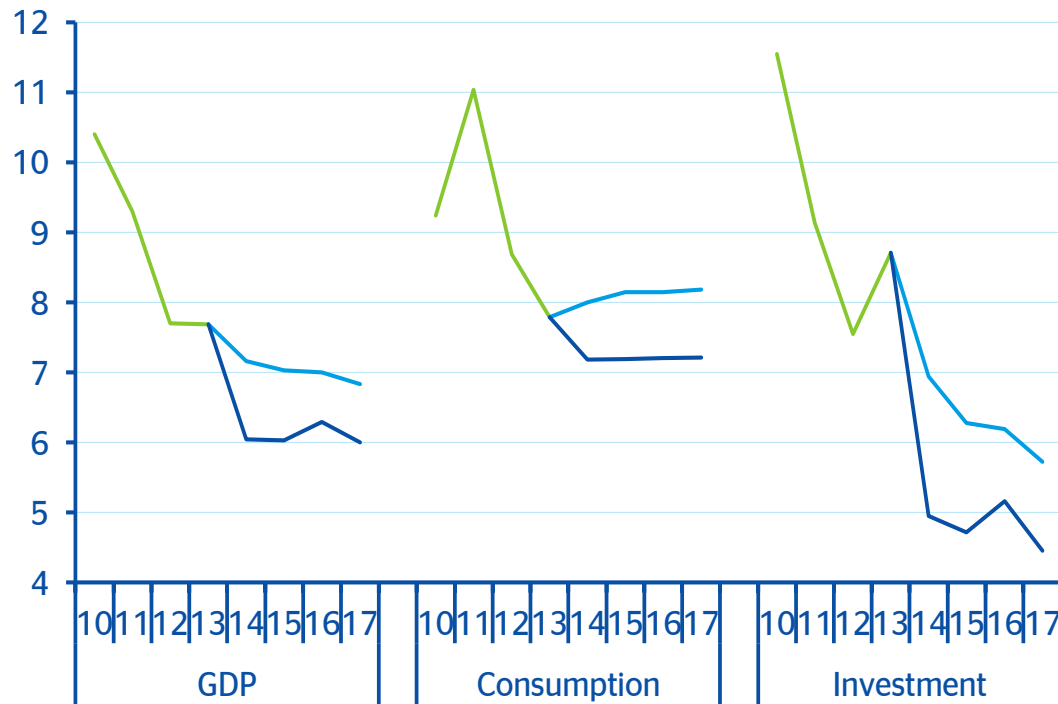
Strong heterogeneity: Pacific Alliance set to grow close to its potential in 2015-16. Mercosur stagnant in 2015 and first half of 2016.

- Weighted average by GDP at PPP.
- Pacific Alliance: Mexico, Colombia, Peru, Chile;
- Mercosur: Brazil, Argentina, Venezuela, Paraguay, Uruguay

But China's hard landing cannot be excluded

China: baseline and risk scenarios

Source: BBVA Research



— Actual — Base scenario — Risk scenario

A very significant risk for Latam is a possible scenario of sharp deceleration in China, although it is a very unlikely scenario in the short run

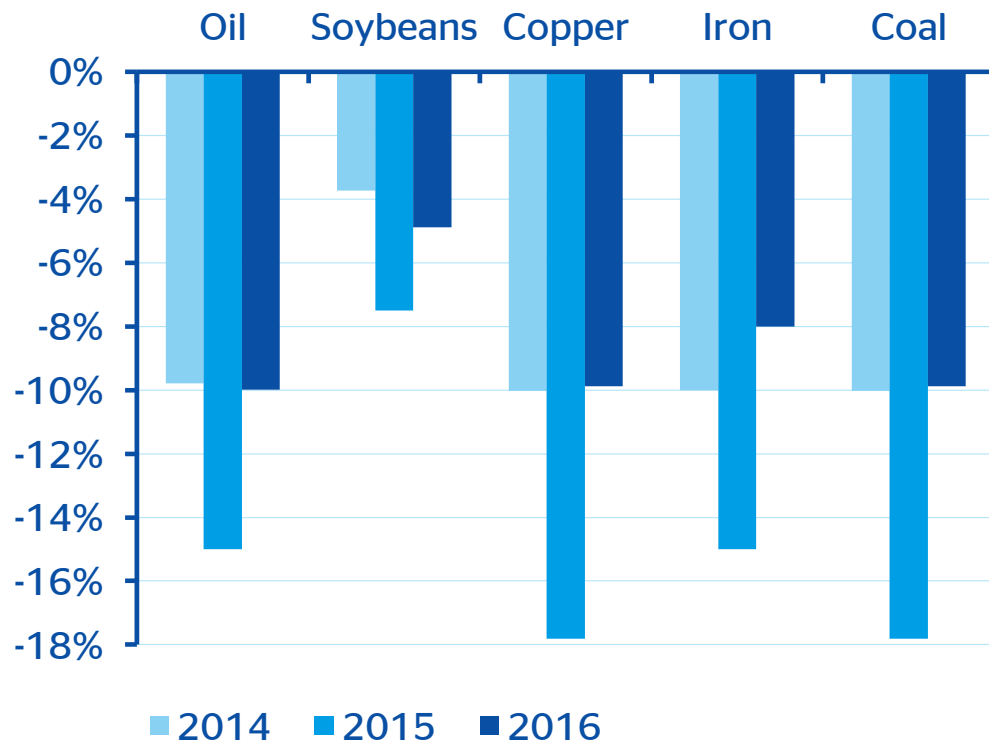
This could be the result of excessive pressure on the parallel banking system, or a sudden tightening in lending conditions

Main impact on investment, but also negative effects on consumption

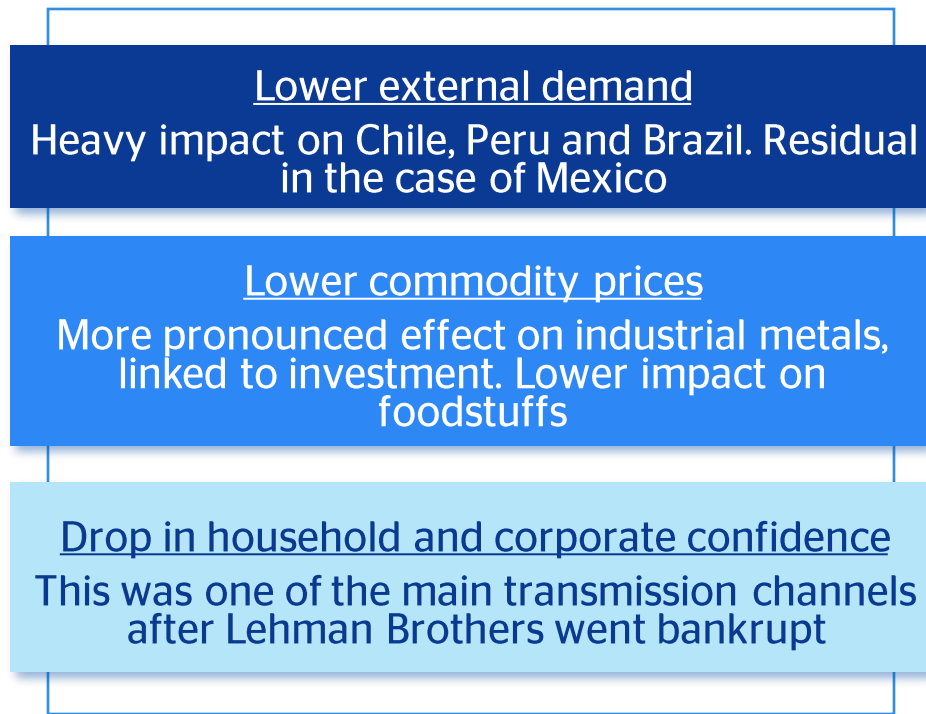
China would affect Latam through three channels

Effect of the risk scenario in China on the price of raw material exports
 (% difference from the baseline scenario)

Fuente: BBVA Research



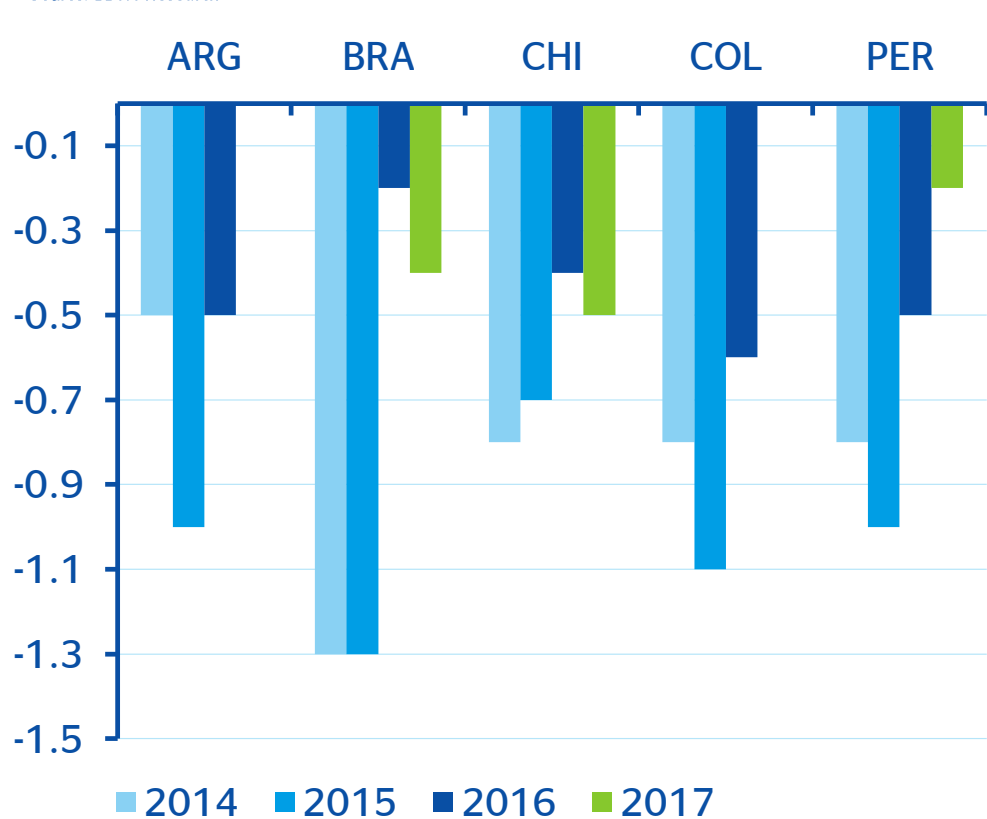
Transmission channels to Latam



Large impact across the region but better supported by the Andean countries

Latam: impact on growth of the risk scenario in China (difference in pp from baseline scenario)

Source: BBVA Research



Substantial impact in the region, apart from Mexico. Reduction in South American growth of around 1pp in 2014 and 2015

Internal demand strongly affected by the fall in confidence. Effect mitigated in countries with scope for countercyclical policies (Colombia, Chile, Peru)

Relatively low impact in Argentina because of the smaller drop in foodstuff prices compared to metals and energy

Main messages

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Thank you!

For further comments and questions, please contact :
alicia.garcia-herrero@bbva.com

Annex 2: Asian companies investing in Latam

Japanese investment involves the most important corporations in different sectors

Japanese Companies investment in Latin America

Source: MercoPress, Wikipedia, Korea: Roi model for Latam

COMPANIES	SECTORS	COUNTRIES	ACTIVITIES
Yamaha	Electronics, Motor	Brazil, Colombia, Peru, Chile	Telecommunications, Infrastructure, Home Appliances
Kirin	Beverages	Colombia, Brazil	Beer Brewery
Mitsubishi	Automotive	Peru, Chile, Brazil, Mexico, Colombia	Cars Exports, Car plants
Toshiba	Electronics and Telecommunications	Mexico, Argentina, Chile, Brazil, Colombia	Telecommunications, Infrastructure, Home Appliances
Toyota	Automotive	Mexico, Brazil, Colombia	Cars Exports, Car plants
Sumimoto Mitsui Financial Group	Financial Services	Chile, Brazil, Mexico, Colombia	Telecommunications, Infrastructure, Home Appliances
Hino Motors	Automotive	Brazil, Colombia	Cars Exports, Car plants
Mazda	Automotive	Mexico	Cars Exports, Car plants
Itochu	Trading company	Mexico, Panama	Transport, Manufactures, Shipping

Korean investment involves the most important corporations in different sectors

Korean Companies investment in Latin America

Source: MercoPress, Wikipedia, Korea: RoI model for Latam

COMPANIES	SECTORS	COUNTRIES	ACTIVITIES
SK Group	Oil and Gas, Iron/mining	Brazil, Colombia, Peru, Chile, Venezuela	Oil and gas, mining fields
Hyundai Motors Co.	Automotive	Chile, Colombia, Brazil, Panama and Peru	Cars Exports, Car plants (Brazil)
Samsung Group	Electronics, Telecommunications	Peru, Bolivia, Chile, Brazil, Mexico, Colombia	Telecommunications, Infrastructure, Home Appliances
KIA Motors	Automotive	Mexico, Peru, Chile, Brazil, Colombia	Cars Exports, Car plants (Brazil-in process)
POSCO	Industrial Metals and Mining	Bolivia, Brazil	Material developer (lithium, Niobium, steel products)
LG Electronics	Electronics, Telecommunications	Peru, Bolivia, Chile, Brazil, Mexico, Colombia	Telecommunications, Infrastructure, Home Appliances
Hyunday Heavy Industries Co.	Transportation, manufactures	Brazil, Venezuela	Manufacture construction equipment (excavators, loaders)

Chinese investment involves the most important corporations in different sectors

Chinese investment companies in Latam

Source: CEPAL and BBVA Research

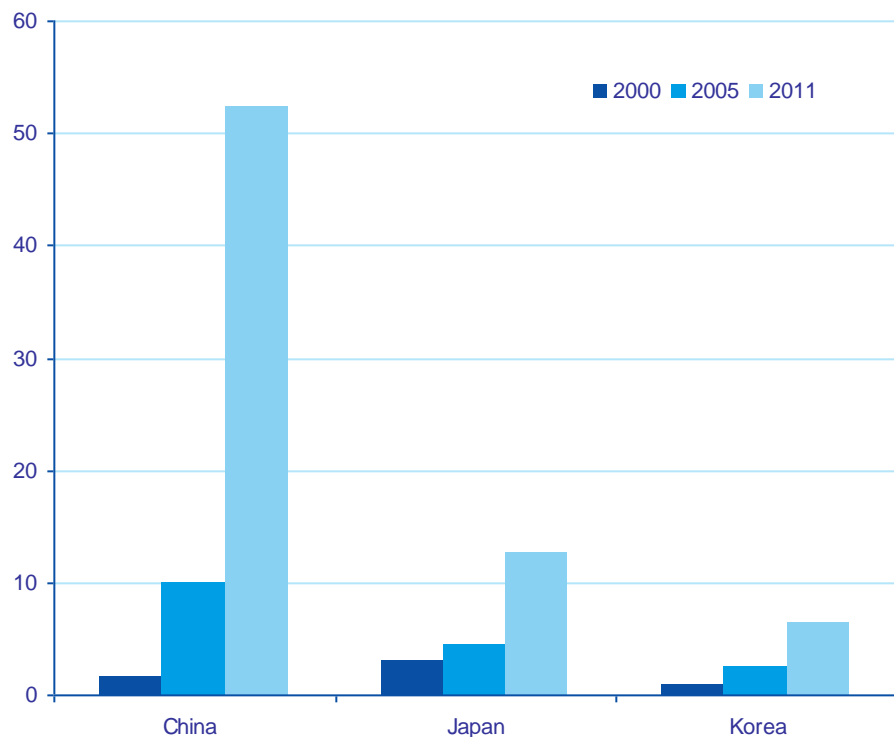
COMPANIES	SECTORS	COUNTRIES	ACTIVITIES
CNPC	Oil	Peru, Venezuela, Ecuador	Oil exploration
Sinopec	Oil	Brazil, Argentina, Colombia	Oil exploration
Sinochem	Oil	Brazil, Colombia	Oil exploration
CNOOC	Oil	Argentina	Oil exploration
Shougang, Chinalco, Minmetals, Nanjinzhao	Mining	Peru	General mining
Wuhan Steel	Steel mills	Brazil	Steel production
East China mineral exploration, China Niobium	Mining	Brazil	General mining
State Grid	Electricity	Brazil	Electricity transmission
Huawei, ZTE	Telecom.	Brazil and other countries	Telecomm. equipment
Chery	Automotive	Brazil, Uruguay, Venezuela	Automobiles
JAC	Automotive	Brazil	Automobiles
Gree, Midea	Appliances	Brazil	Electric appliances
Lenovo	Electronics	Brazil, Mexico	Computers
Golden Dragon	Steel	Mexico	Steel production
Nexteer	Automotive	Mexico	Automobile production

Annex 3: Detail on Trade flows Asia - Latam

Trade Flows: Asia 3 trade with Brazil

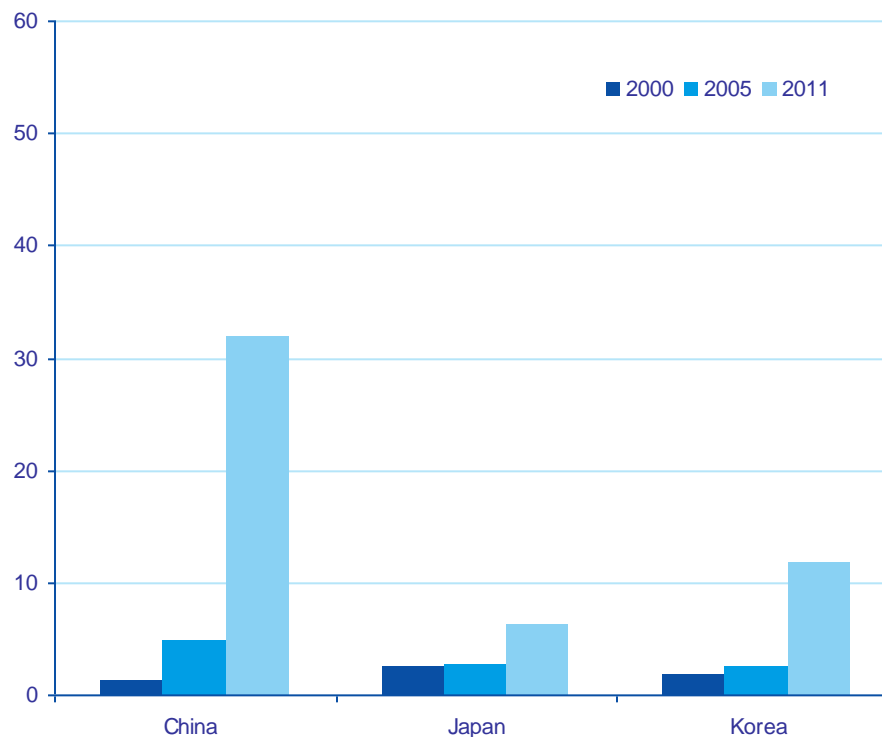
Asia 3 Imports from Brazil (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Brazil (USD bn)

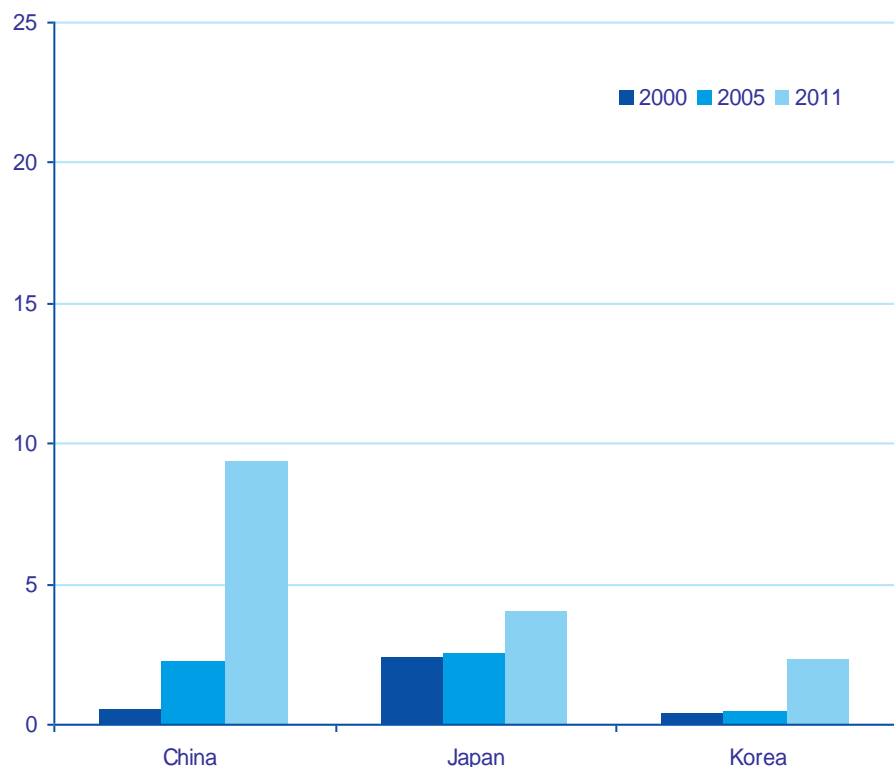
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Mexico

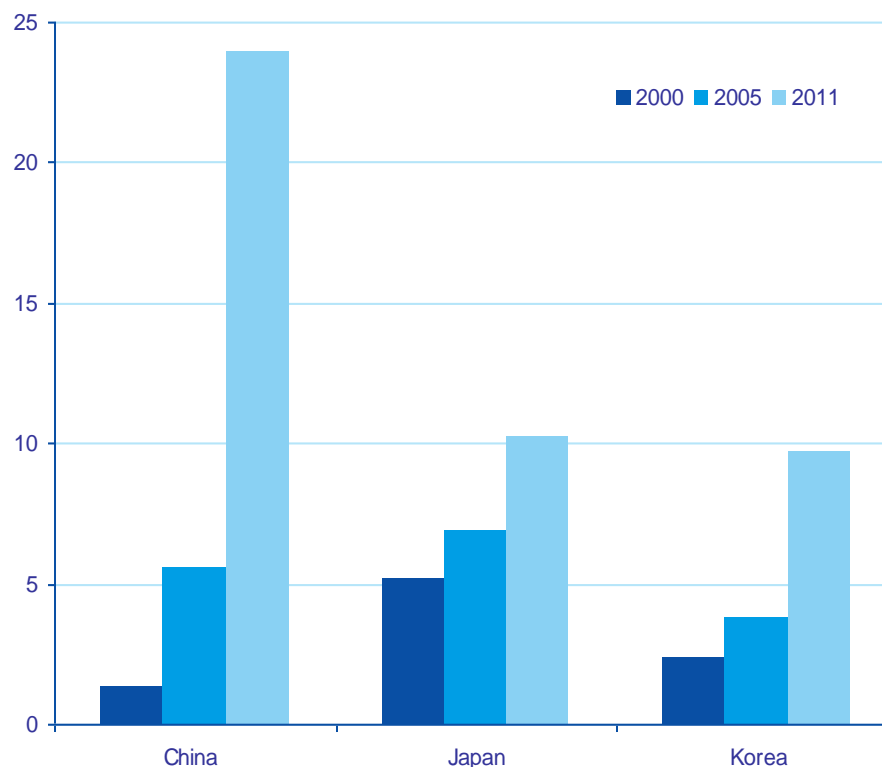
Asia 3 Imports from Mexico (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Mexico (USD bn)

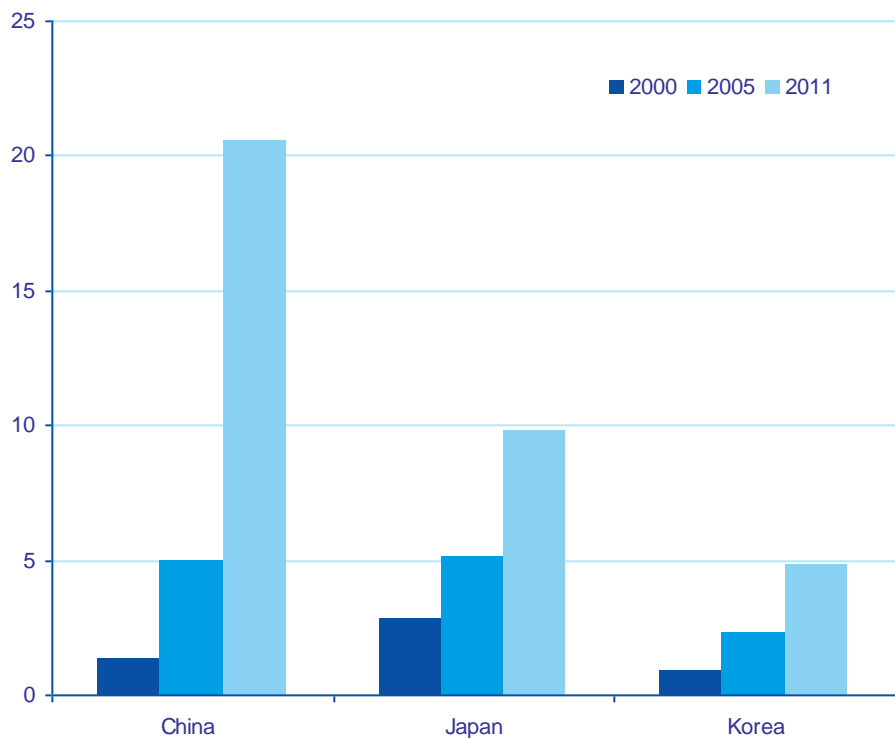
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Chile

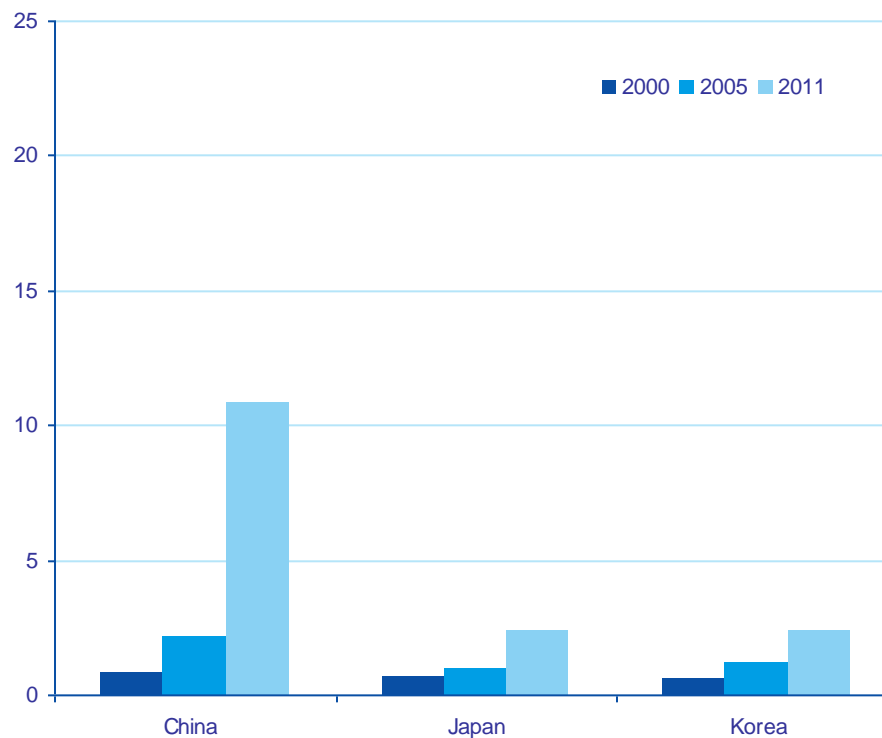
Asia 3 Imports from Chile (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Chile (USD bn)

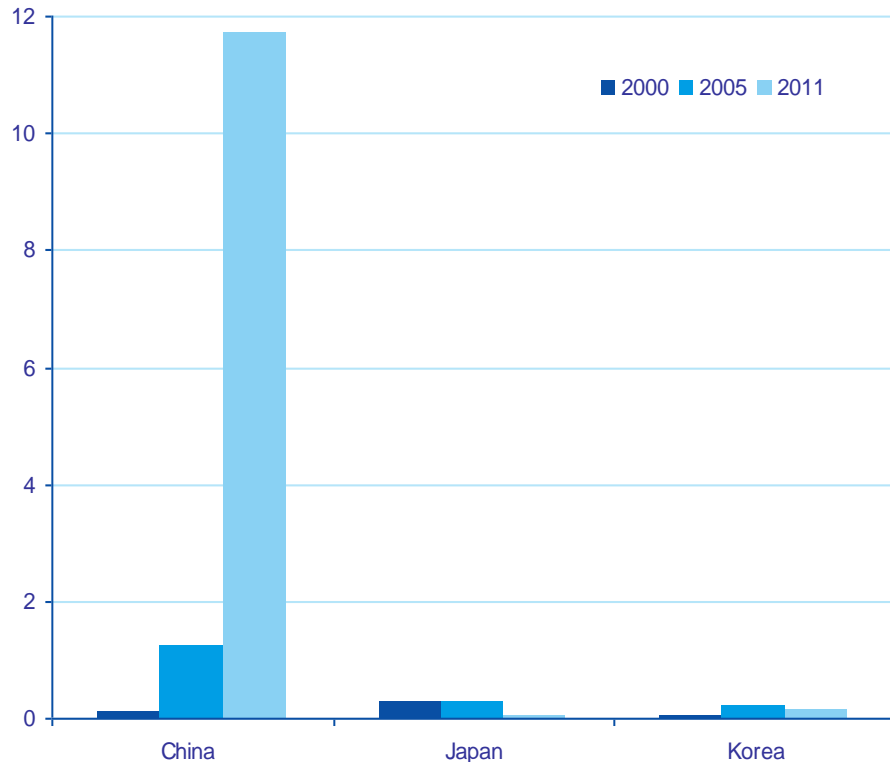
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Venezuela

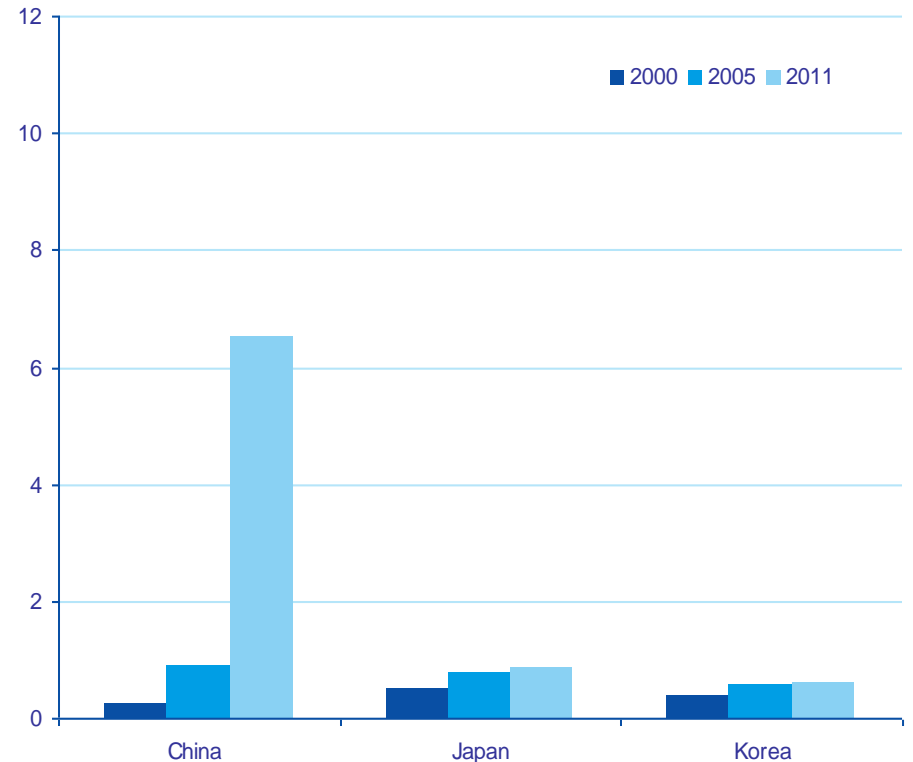
Asia 3 Imports from Venezuela (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Venezuela (USD bn)

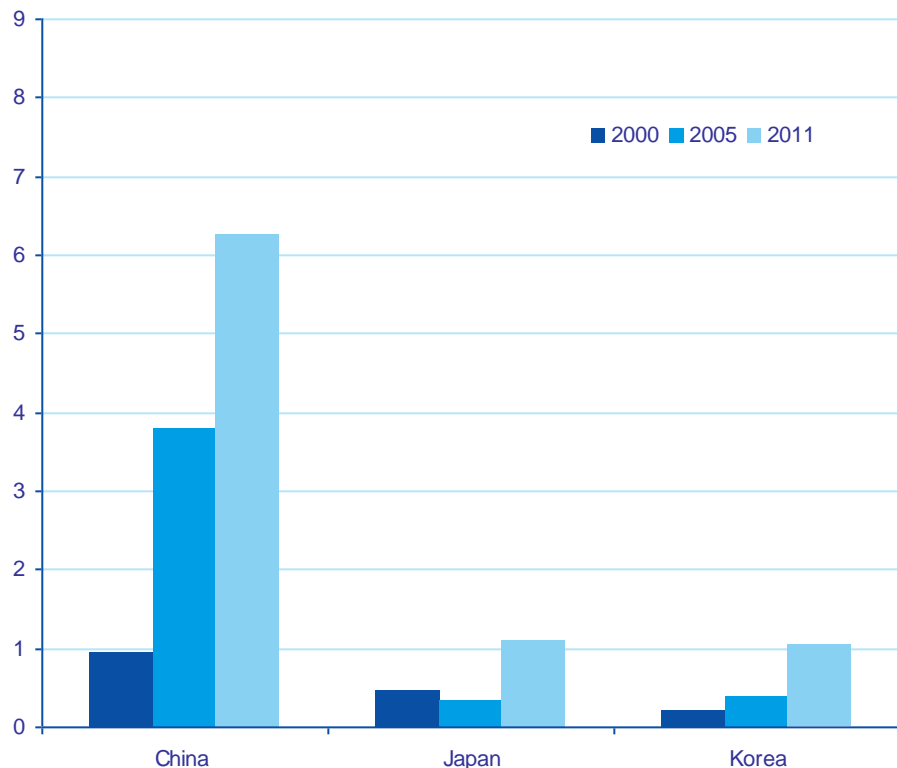
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Argentina

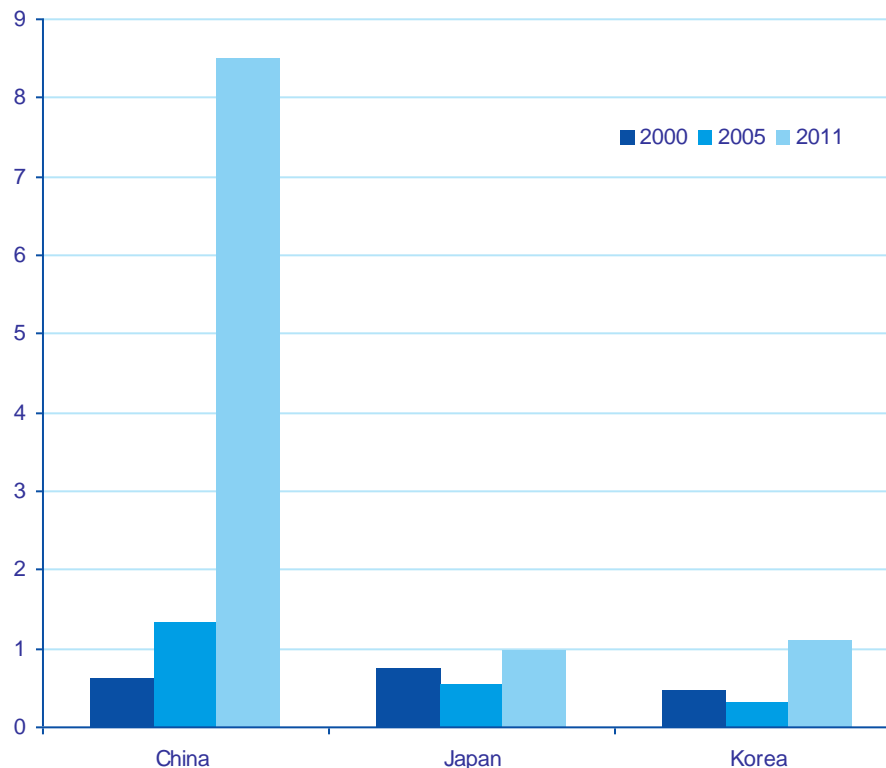
Asia 3 Imports from Argentina (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Argentina (USD bn)

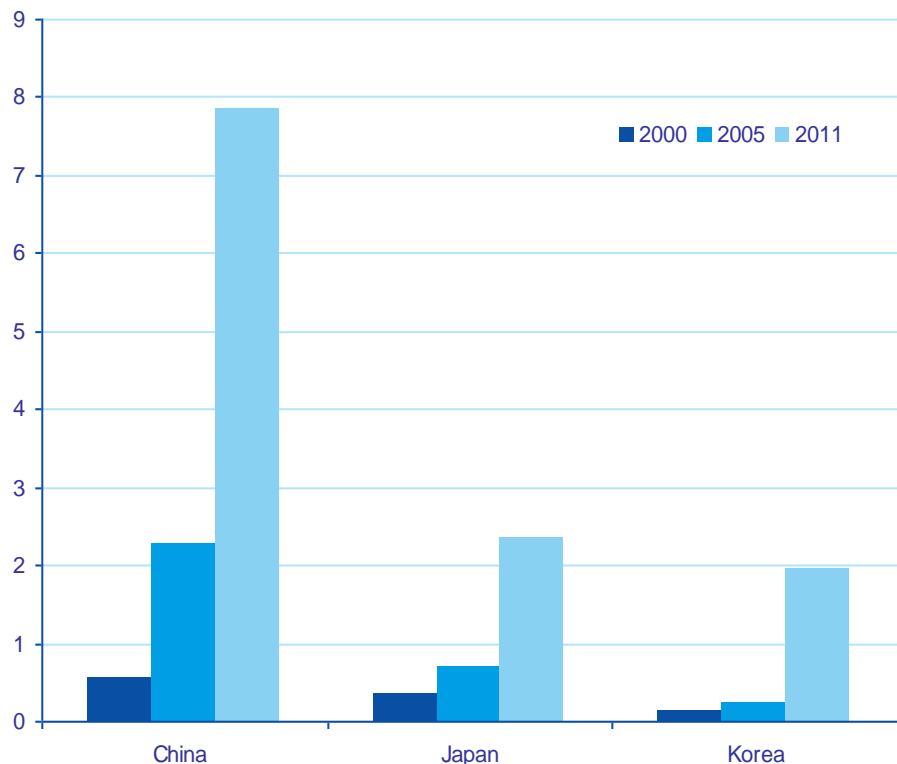
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Peru

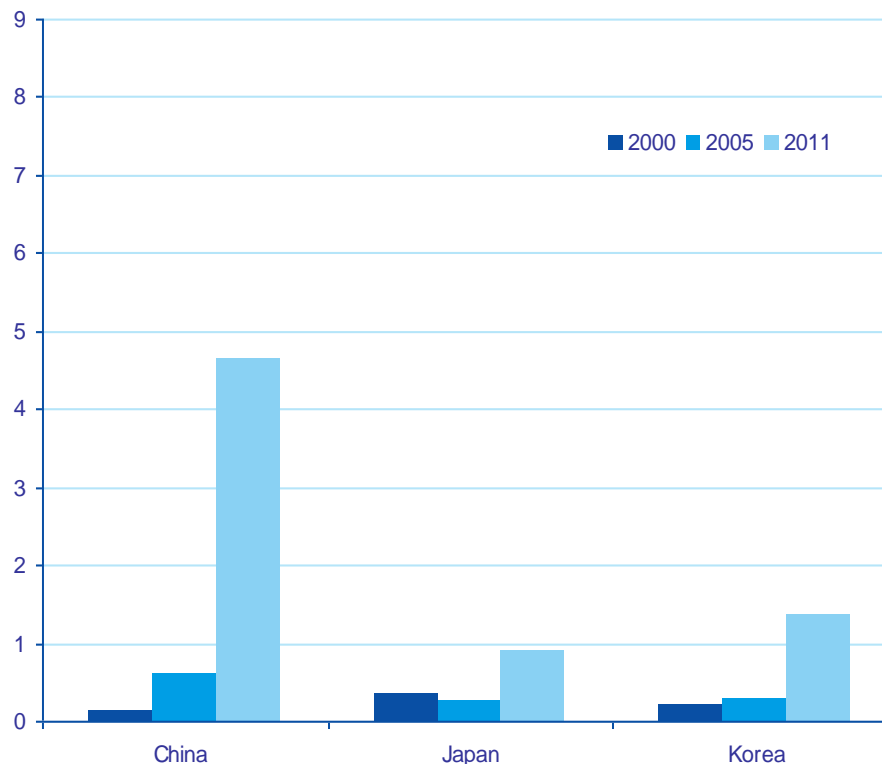
Asia 3 Imports from Peru (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Peru (USD bn)

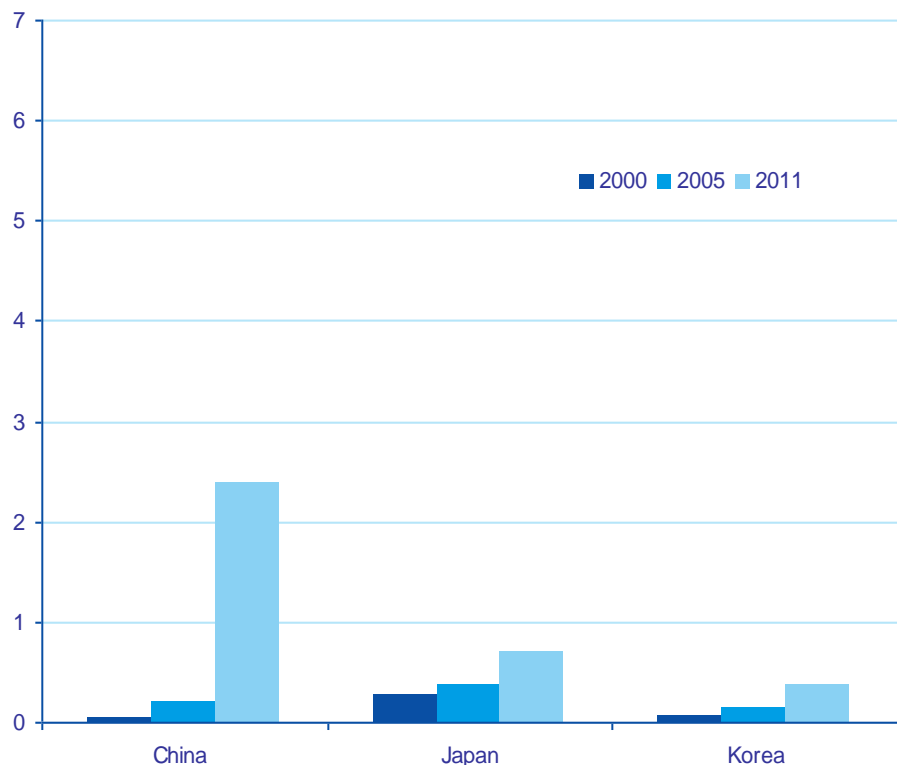
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Colombia

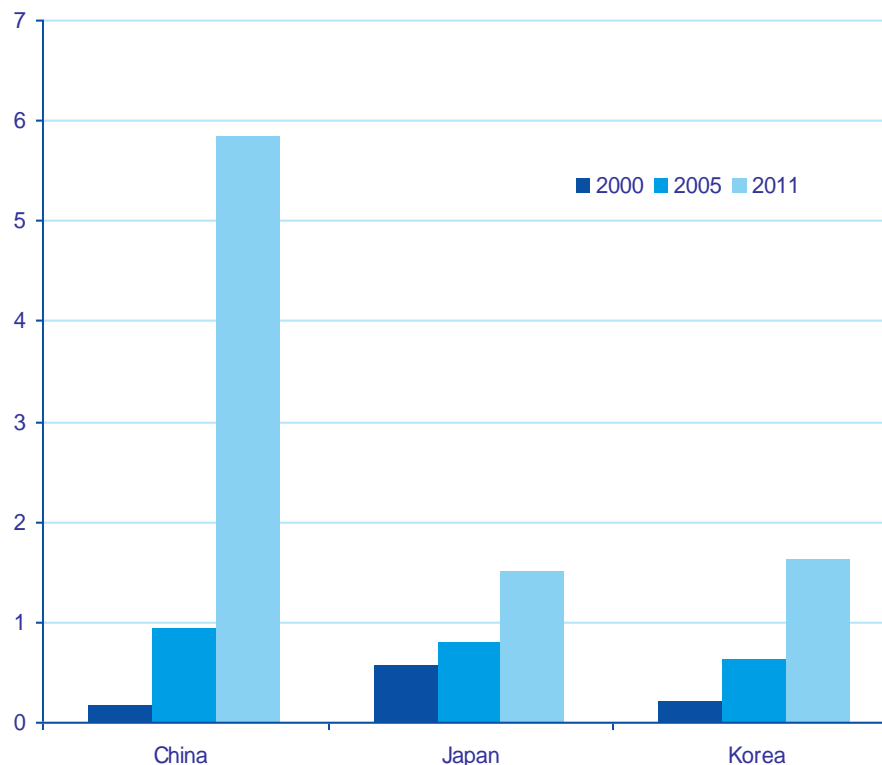
Asia 3 Imports from Colombia (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Colombia (USD bn)

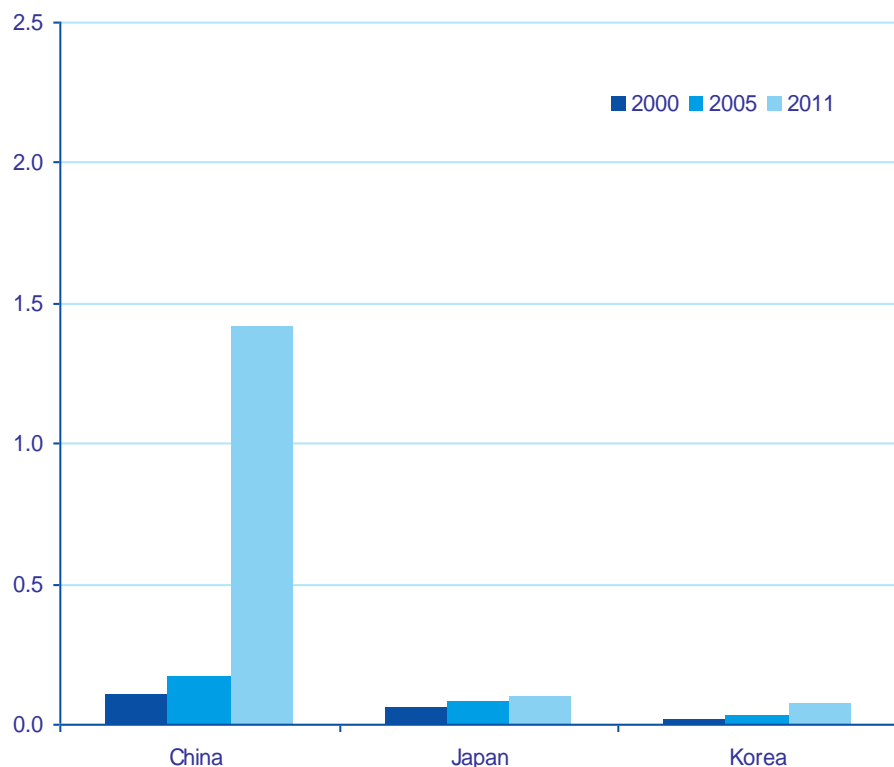
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Uruguay

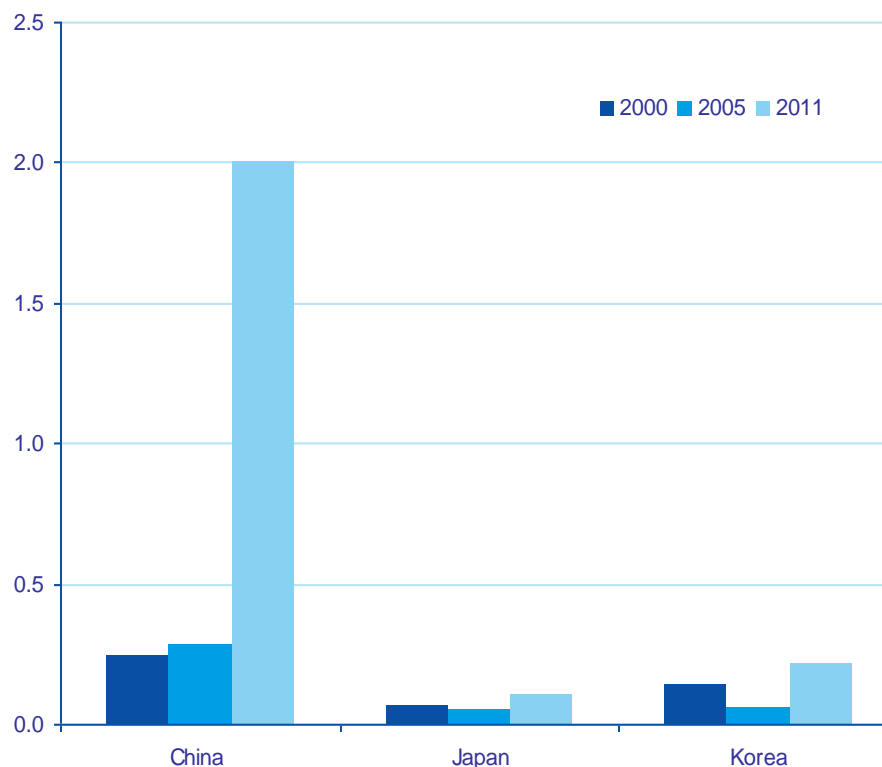
Asia 3 Imports from Uruguay (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Uruguay (USD bn)

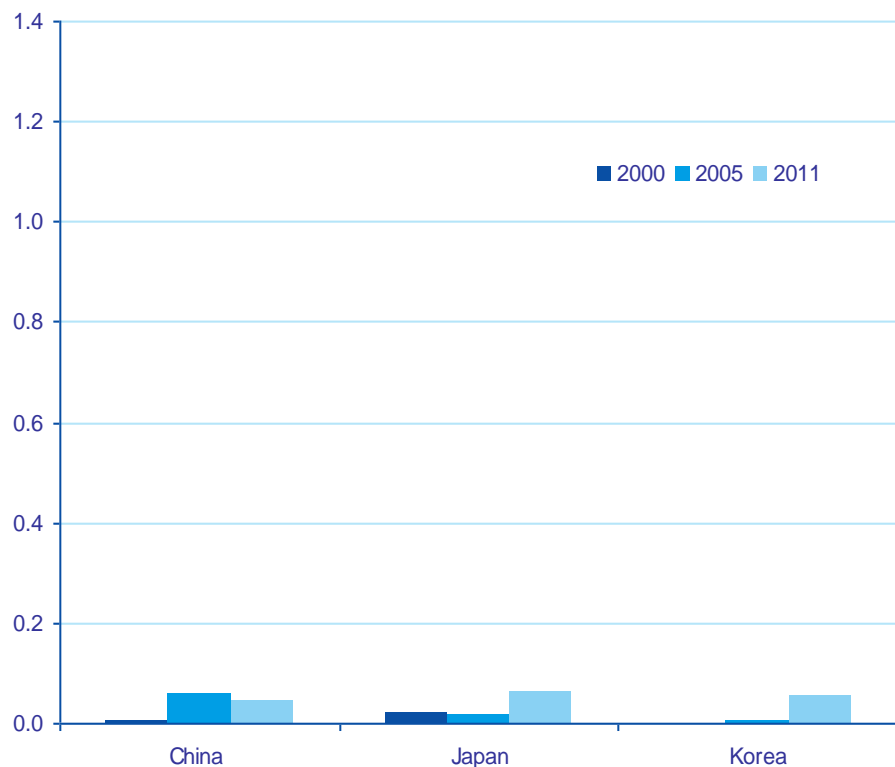
Source: BBVA Research and UN Comtrade



Trade Flows: Asia 3 trade with Paraguay

Asia 3 Imports from Paraguay (USD bn)

Source: BBVA Research and UN Comtrade



Asia 3 Exports to Paraguay (USD bn)

Source: BBVA Research and UN Comtrade

