

China's role in Latin America: Participation & Consequences

November 2017

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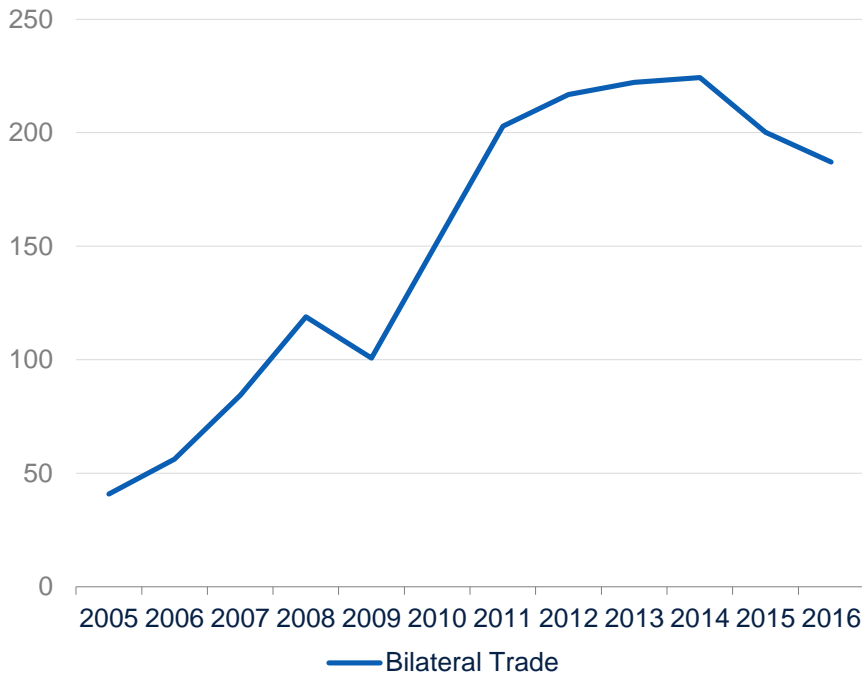
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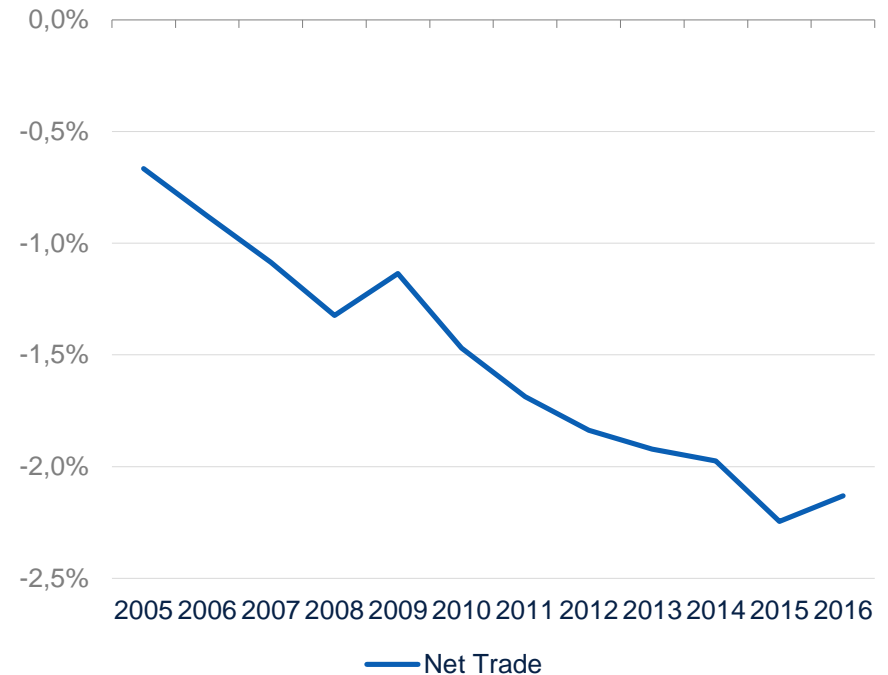
Bilateral trade has grown very quickly but remains unbalanced

Bilateral trade
(US\$ billion)



Source: BBVA Research ,IMF DOT and World Bank

Net trade
(% GDP)



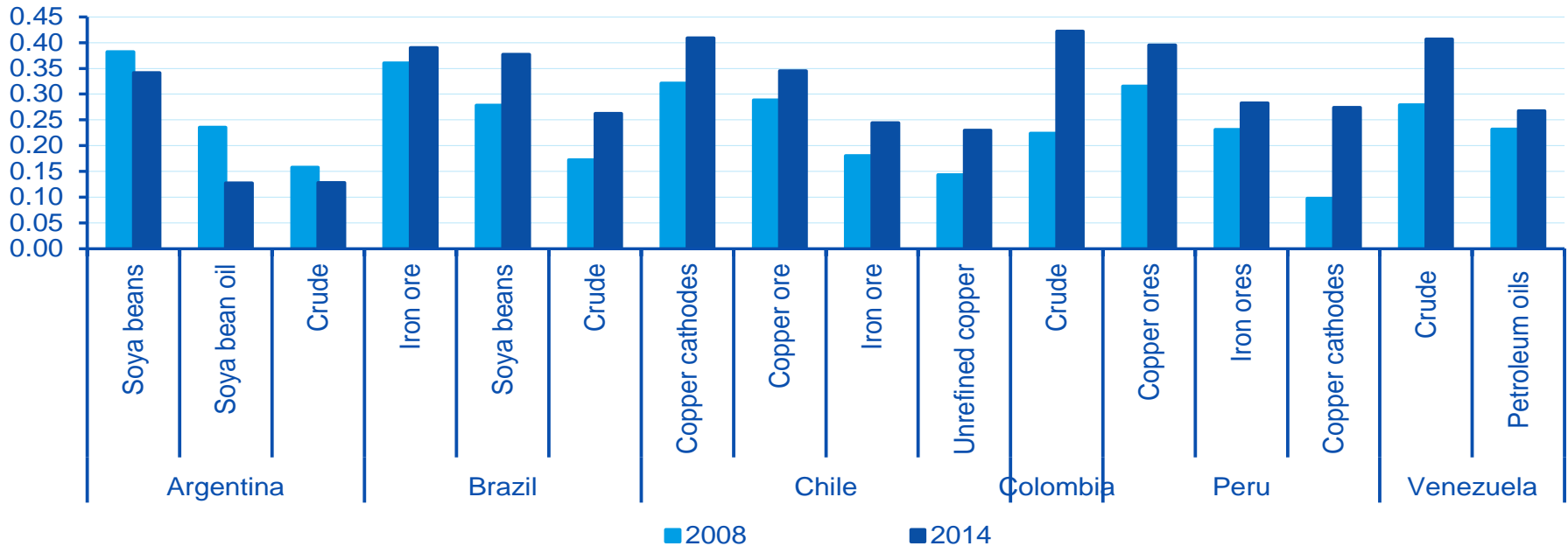
Source: BBVA Research ,IMF DOT and World Bank

China's trade ties with Latin America intensified tremendously.

However, the trade relationship is unbalanced as evidenced by huge trade deficit of Latam.

Dependency for largest exports centered on four products

Export dependency indexes for commodities accounting for 75-80% of total exports for LatAm-7 (ex. Mexico)

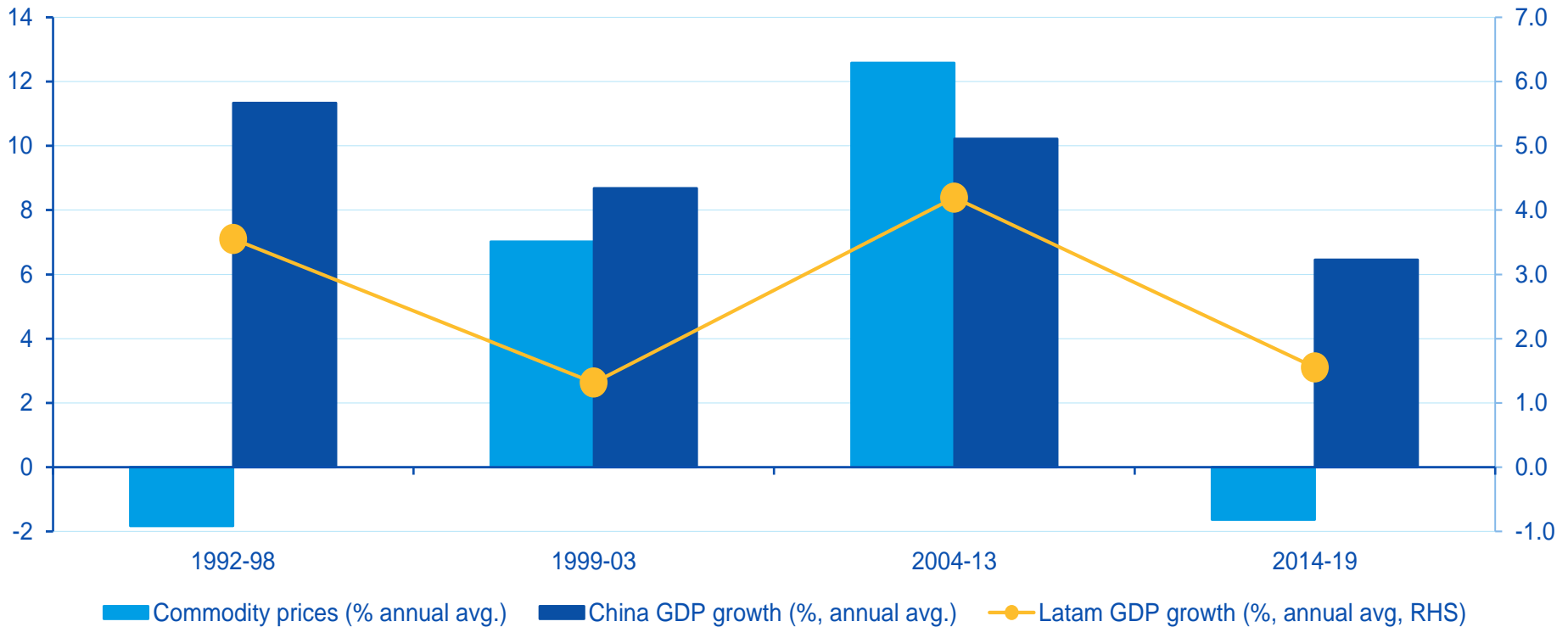


Source: BBVA Research based on UN COMTRADE statistics

Brazil, Argentina, Chile, Peru, Colombia, Mexico and Venezuela were the main exporters to China in 2014. Excluding Mexico, all of them ranked amongst the top-10 most dependent countries on China.

Commodity prices link up growth of China and Latam

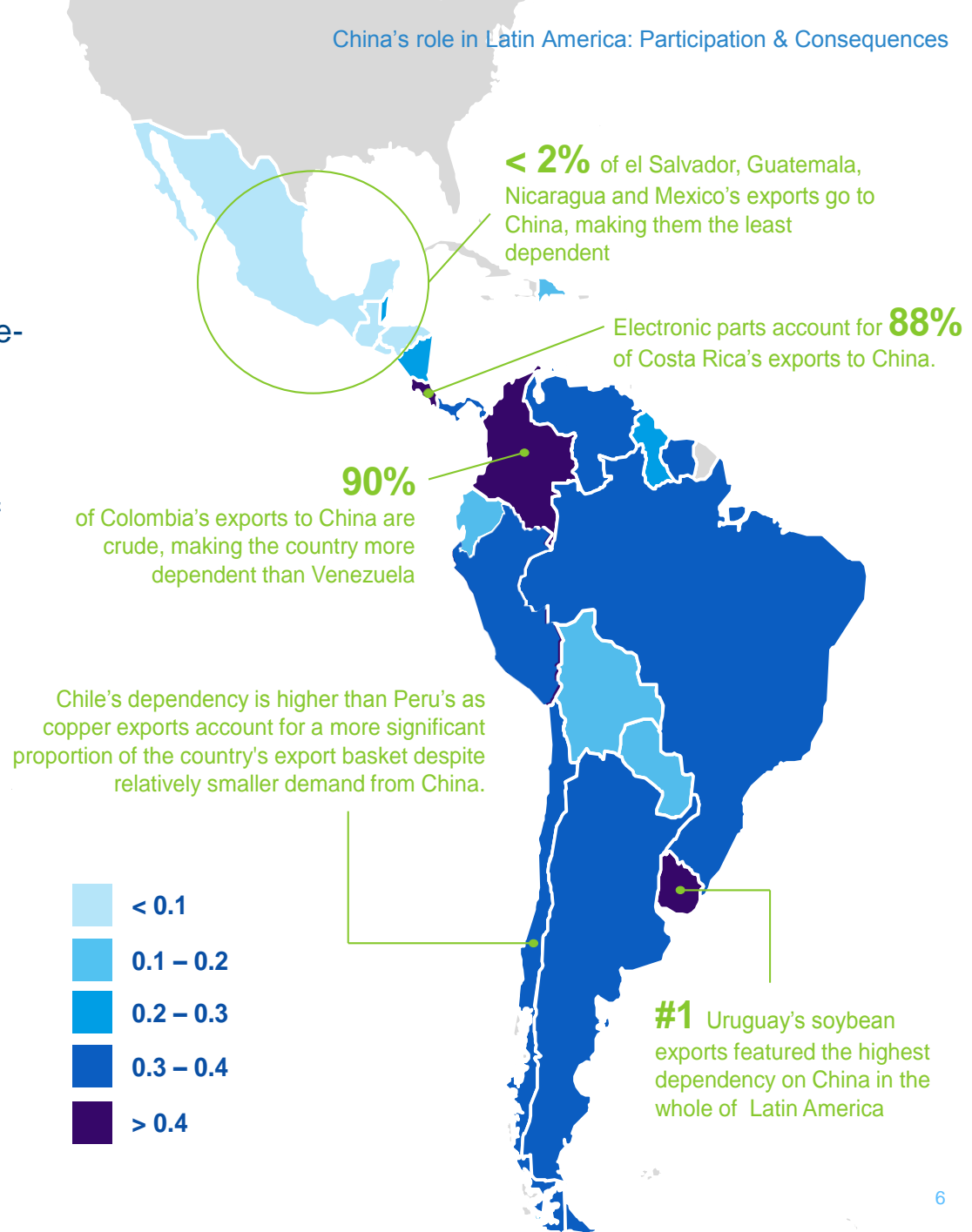
LatAm and Chinese growth and commodity prices



Trade dependency 1

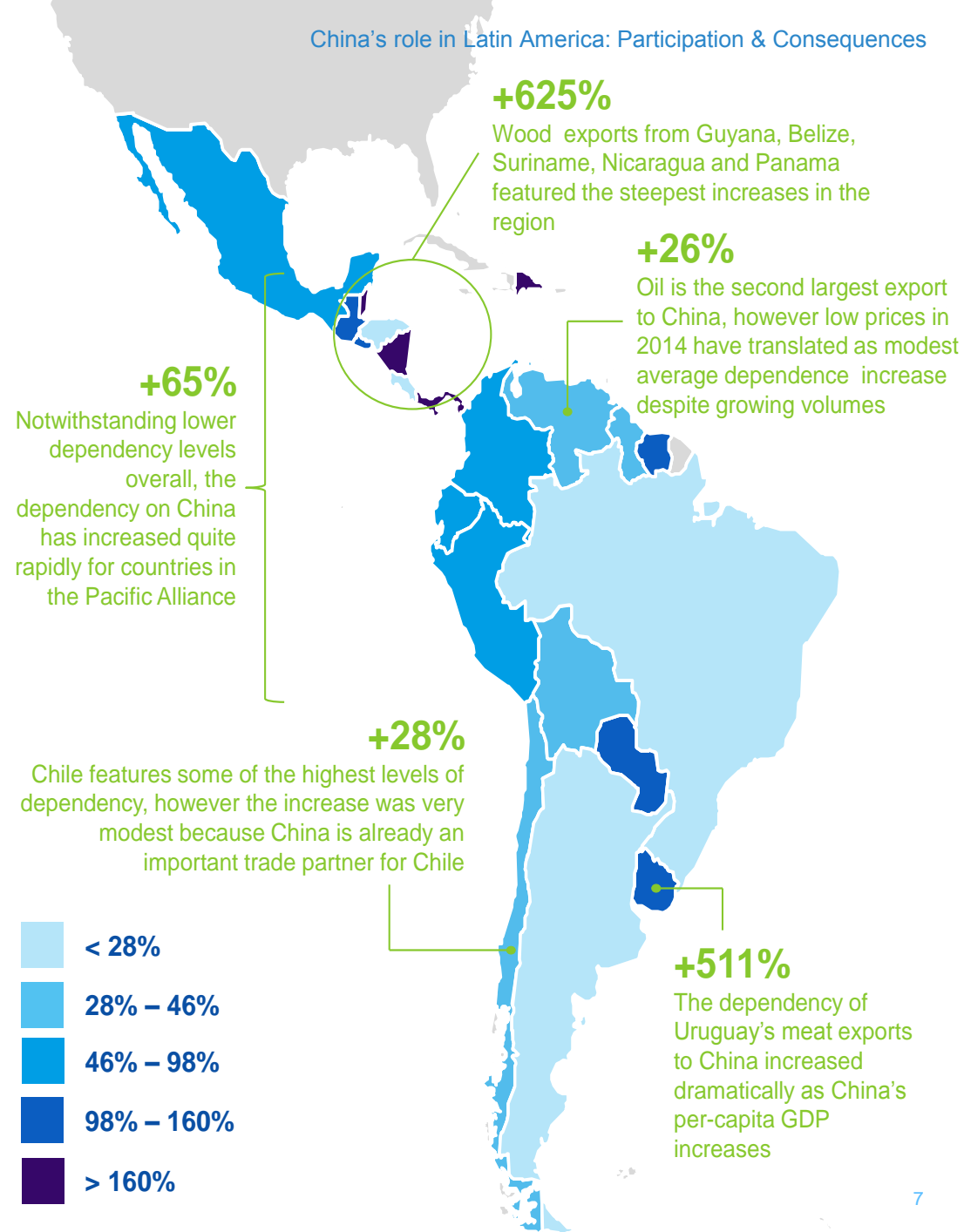
- Export dependency by country on a trade-weighted average basis (Index: 0-1)
- The countries with the highest absolute dependency levels tend to be important commercial partners or strategic allies of China in Latin America.
- E.g. Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Venezuela

Ranking	Country	Dependency 2014	Dependency 2008
1	Costa Rica	0.43	0.45
2	Colombia	0.42	0.22
3	Uruguay	0.41	0.27
4	Venezuela	0.37	0.27
5	Brazil	0.36	0.30
6	Chile	0.35	0.30
7	Peru	0.34	0.26
8	Panama	0.32	0.02
9	Guyana	0.30	0.00
10	Argentina	0.30	0.34

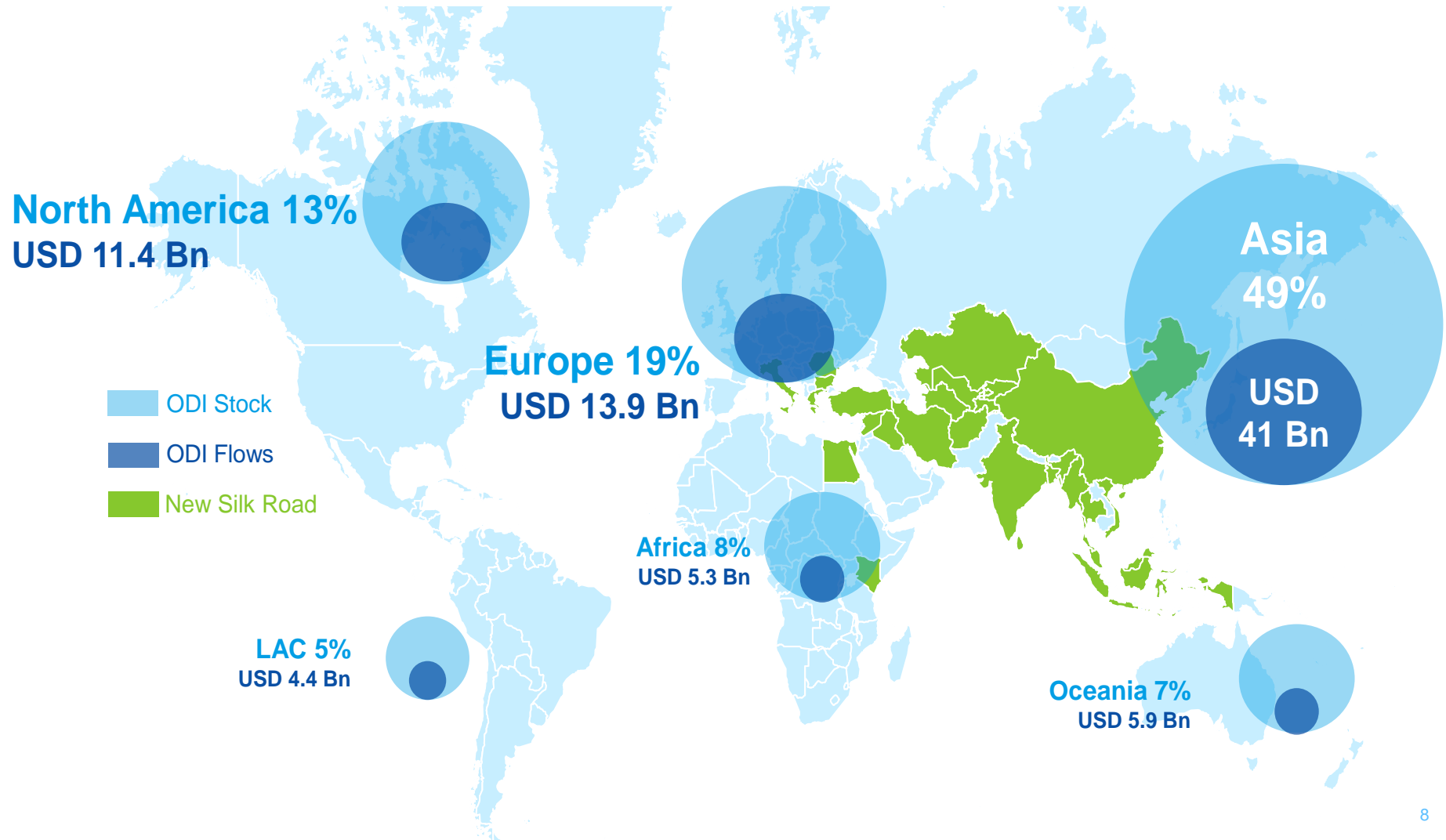


Trade dependency 2

- ◆ Change in export dependency index between 2008 and 2014 (Δ %)
- ◆ despite lower overall levels of export dependency, the steepest increases can be observed amongst countries which have traditionally been considered to be closer commercially and politically to the United States.
- ◆ E.g. Pacific Alliance, Panama, Uruguay



Distribution of Chinese ODI (BBVA estimation)



Room to increase ODI to the region

Excluding offshore centers, ODI stocks to LatAm increase after adjusting

(USD 9.9 Bn vs. USD 23.2 Bn)

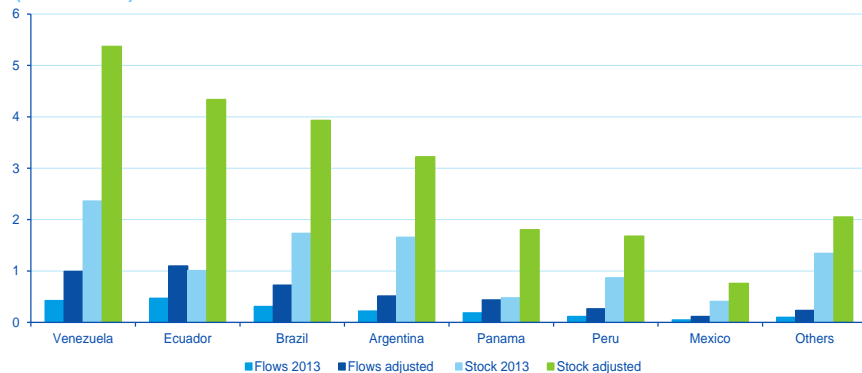
Stocks excluding valuations in billions of USD

MOFOCM			Adjusted by BBVA		
Region	Total	% Total	Region	Total	% Total
Asia	447.41	68%	Asia	245.32	49%
Latin America	86.09	13%	Latin America	23.15	5%
Europe	53.16	8%	Europe	95.19	19%
North America	28.61	4%	North America	63.19	13%
Africa	26.19	4%	Africa	38.88	8%
Oceania	19.02	3%	Oceania	32.70	7%
TOTAL	660.62	100%	TOTAL	498.46	100%

Source: MOFCOM, NBS, SAFE and BBVA Research

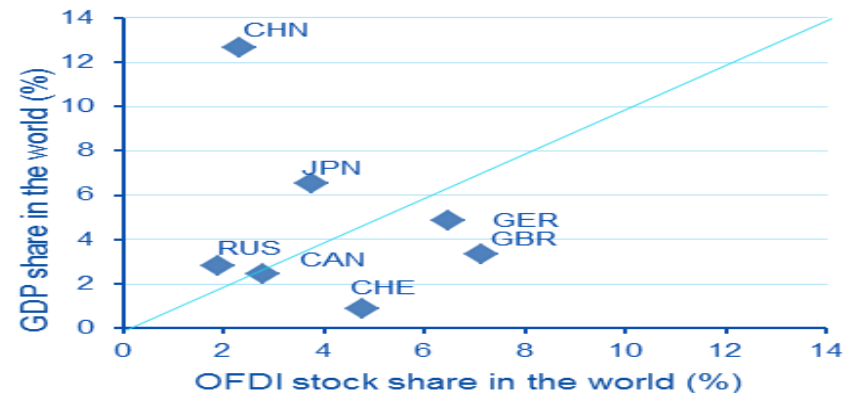
Distribution of Chinese ODI in LatAm

(USD Bn)



Source: MOFCOM, NBS, SAFE and BBVA Research

Chinese ODI underrepresented

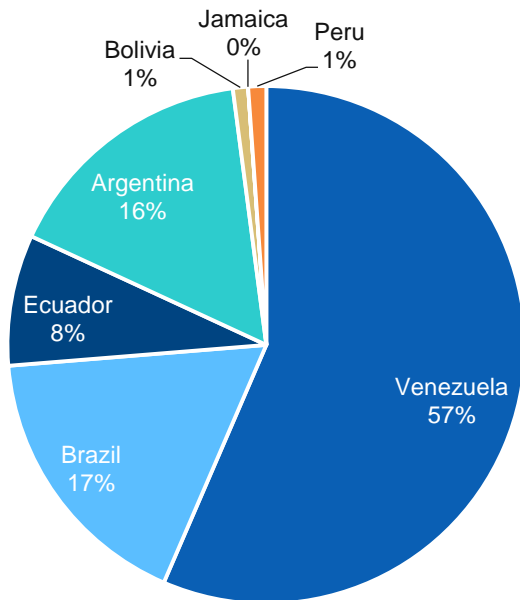


Source: UNCTAD and BBVA Research

China policy bank loans to Latin America

China policy bank loans to Latin America 2005-2011

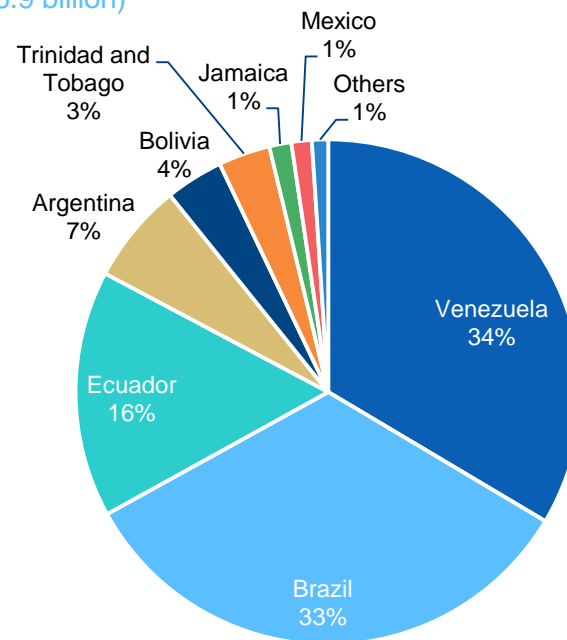
(total 64.4 US\$ billion)



Source: BBVA Research ,IMF DOT and World Bank

China policy bank loans to Latin America 2012-2016

(US\$ 76.9 billion)

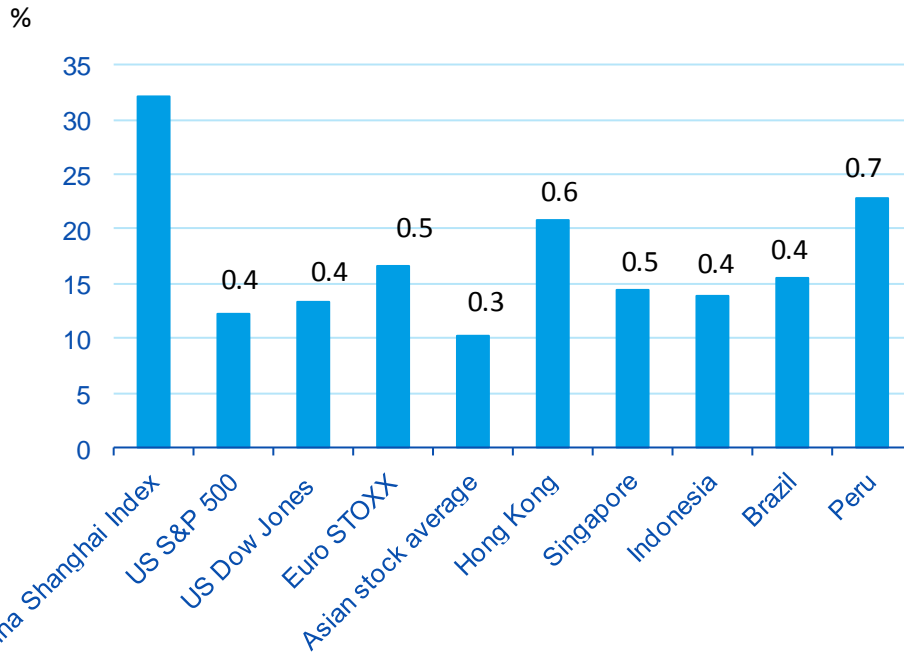


Source: BBVA Research ,IMF DOT and World Bank

Since 2005, China Development Bank and China Export-Import Bank have provided more than \$141 billion in loan commitments to LatAm and Caribbean countries.

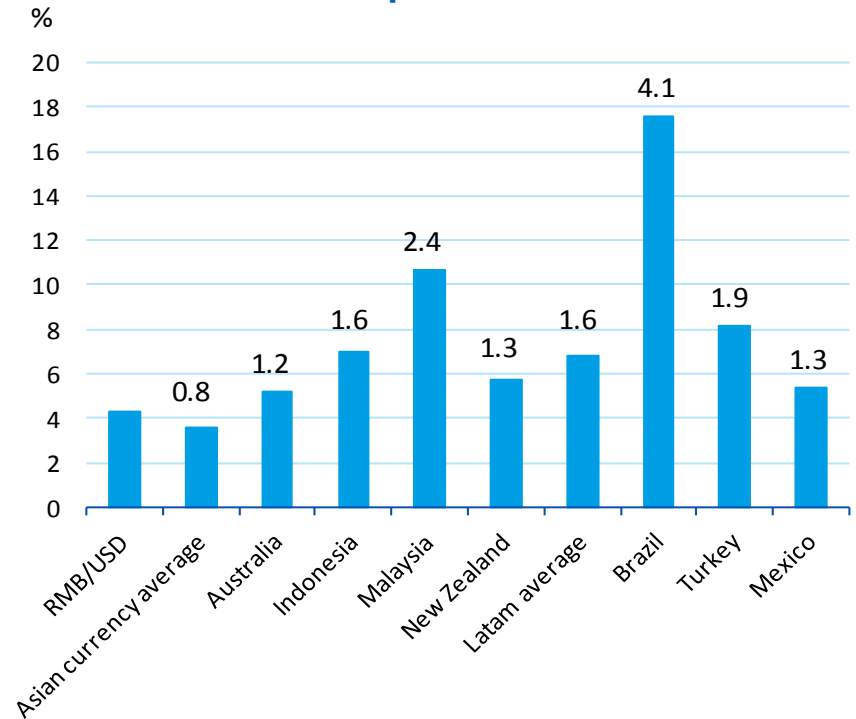
Case study: China financial market spill-over effects

Stock market reactions of China's stock market crash and RMB sharp devaluation



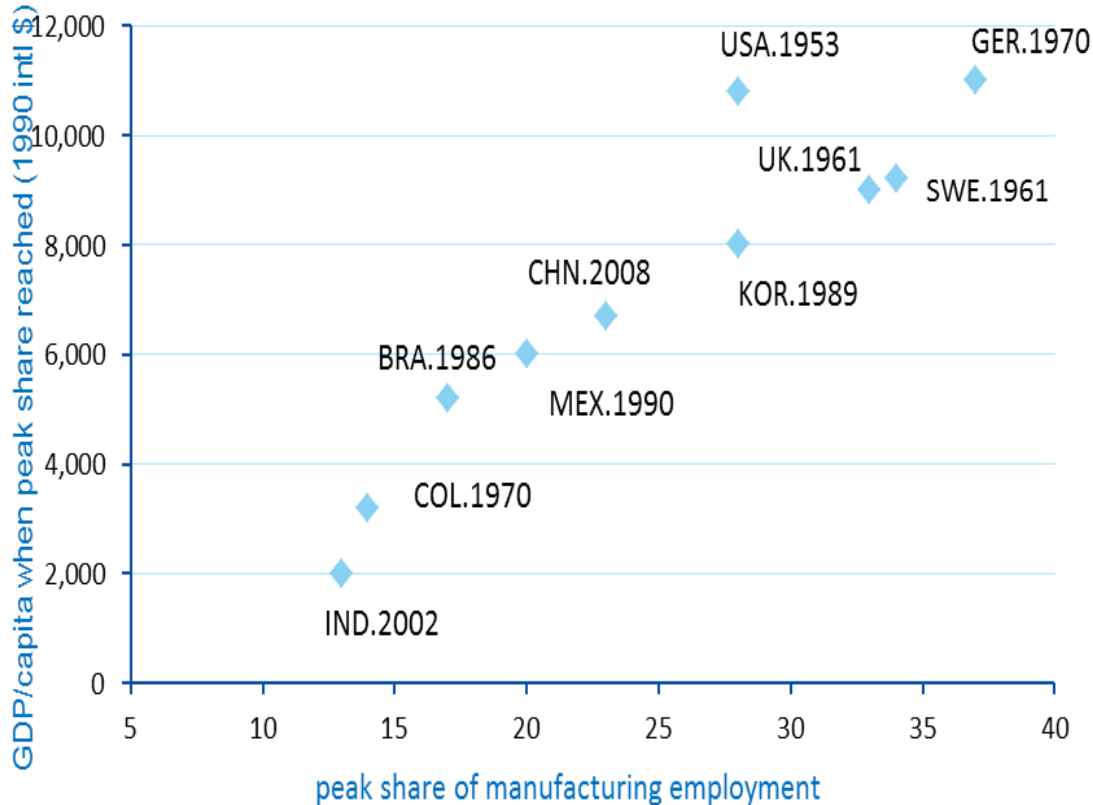
Source: BBVA Research and Bloomberg

FX market reactions of China's stock market crash and RMB sharp devaluation



Source: BBVA Research and Bloomberg

Is China the culprit of LatAm's premature deindustrialization



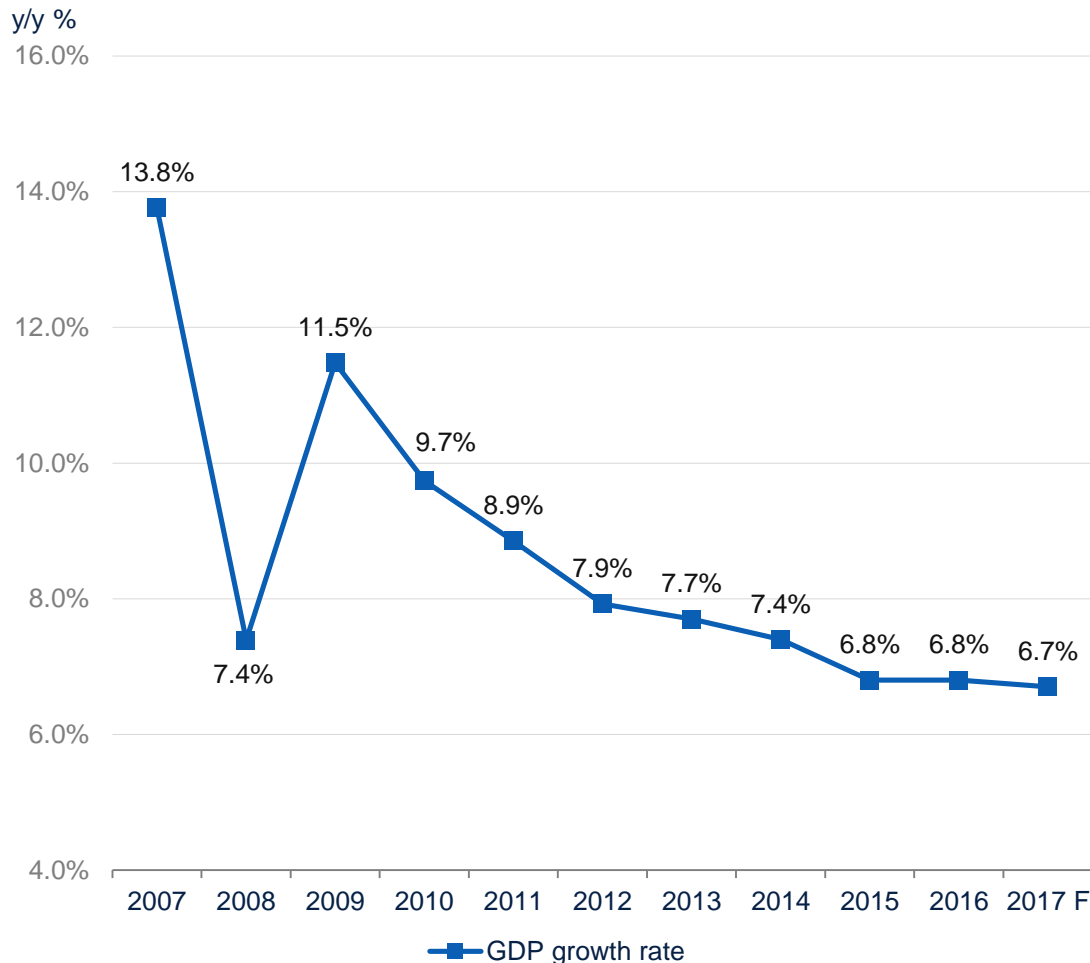
More thoughts on this point

- ◆ Premature De-industrialization: Middle-income Trap
- ◆ LatAm worse than other EMs: abandoning strategy of import substitution?
- ◆ Manufacturing jobs are shifting to China (Economist 2017)

Intraregional trade (% of total exports or imports)

	Exports			Imports		
	1996-2000	2001-2006	2007-2011	1996-2000	2001-2006	2007-2011
Developing Africa	9.7	9.8	10.9	13.3	13.5	12.7
Eastern Africa	12.4	14.1	13.9	8.8	9.3	7.1
Middle Africa	1.2	1	1.3	2.6	2.5	3.1
Northern Africa	3.2	2.9	3.9	2.8	3.7	3.8
Southern Africa	4.4	2.1	2.1	11.9	10.7	7.9
Western Africa	10.2	10	9	11.3	12.5	10.2
Developing America	19.1	17.6	20.6	17.6	19	21.1
Developing Asia	41.5	45.1	50.1	40.6	49.3	53
Developing Oceania	1.3	3	3.3	0.9	2.3	2.7
Europe	67.3	71.4	70	68.3	67	64.4

The 19th Party Congress: New Core, New Goal and New Strategy



New economic policy guidelines

- ◆ Downplaying growth target
- ◆ Shifting from growth speed to growth quality:
 - lower unemployment
 - more equitable income distribution
 - slower debt accumulation
 - reduced environmental damage
- ◆ Policy consistency on structural reforms
- ◆ Sticking to open-up strategy and pushing forward One Belt One Road

What's relevant for Latam?

Policy Implications

More consumption-driven
Growth and less stimulus

Supply-side reforms (elimination of
Overcapacity In certain industries)
and green growth

Adherence to Opening-up policy and
“One Belt One Road” Initiatives

Impact on Latam

Dampening demand for commodity
(except for agriculture products)

Shifting production capacity
to other countries

Opportunities and challenges
(creation & diversion effects)

One Belt One Road: A new opportunity



Institutions for financing

- ◆ AIIB: \$100Bn
- ◆ BRICS Bank: \$100Bn
- ◆ Silk Road Fund: \$ 40Bn
- ◆ China Latam Fund: \$10Bn
- ◆ Sino-Latam Production Cooperation Fund: \$10Bn

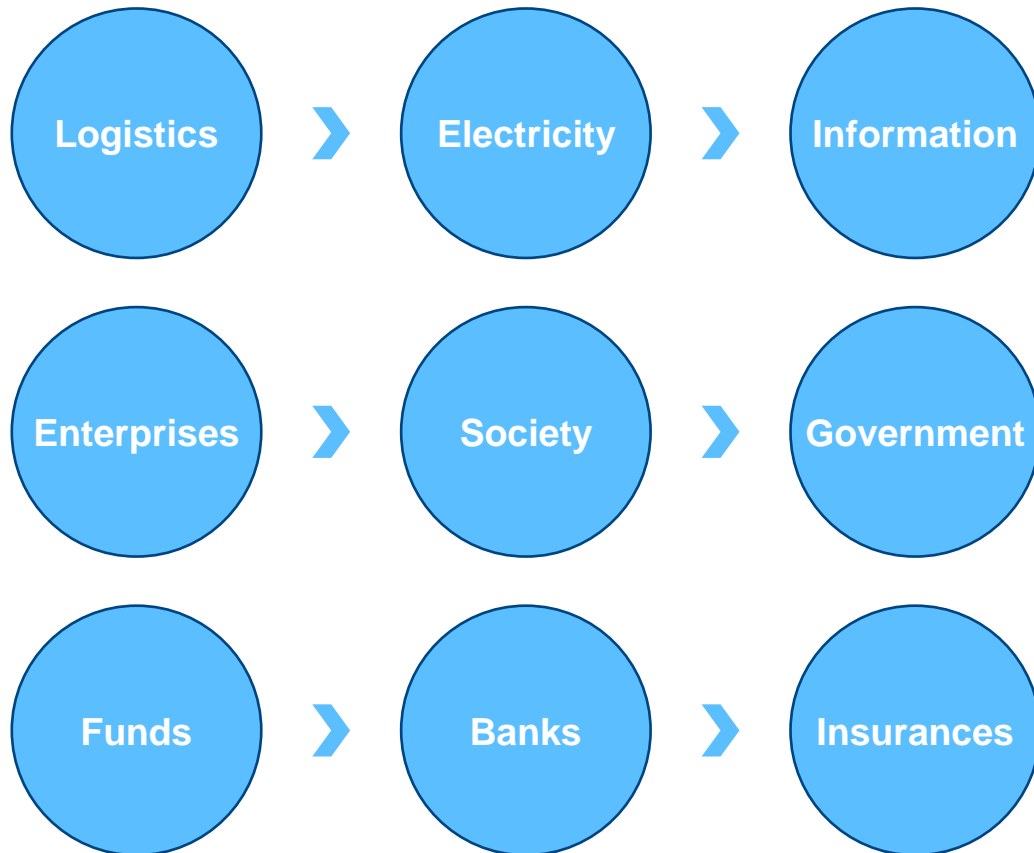
Huge potential for cooperation in infrastructure investment

Infrastructure investment across regions

Region	Percentage of GDP
East Asia and the Pacific	7.7
Central Asia	4.0
Latin America and the Caribbean	2.8
Middle East and North Africa	6.9
South Asia	5.0
Sub-Saharan Africa	1.9

One Belt One Road: What's in for LatAm?

Proposed by China's Premier Li Keqiang in 2017
 New Model ("3 x 3") for further of Production
 Cooperation between LatAm and China



LatAm needs to think beyond commodities

- ◆ Re-industrialization
- ◆ Policies to facilitate intra-regional trade.
- ◆ Experience of other countries : Industrial Parks (13 in Eurasia countries)

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