

# The Pacific Alliance: integration and growth

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# Outline

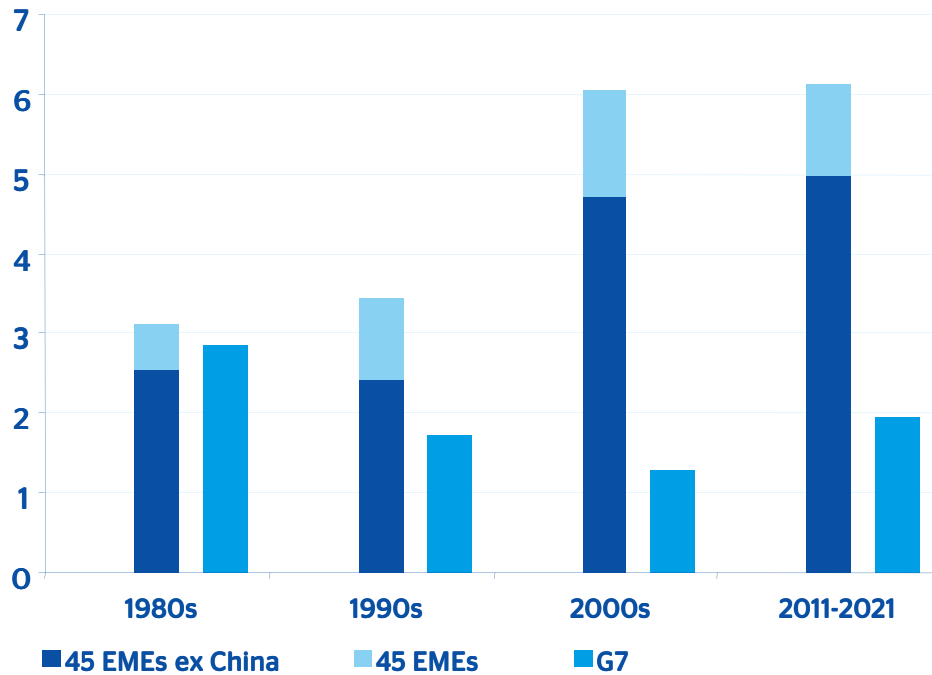
- 1 A rising group of countries among emerging economies**
- 2 Committed to integration, without forgetting about the global economy
- 3 Stability and growth, but some challenges as well



# Emerging markets: the most dynamic

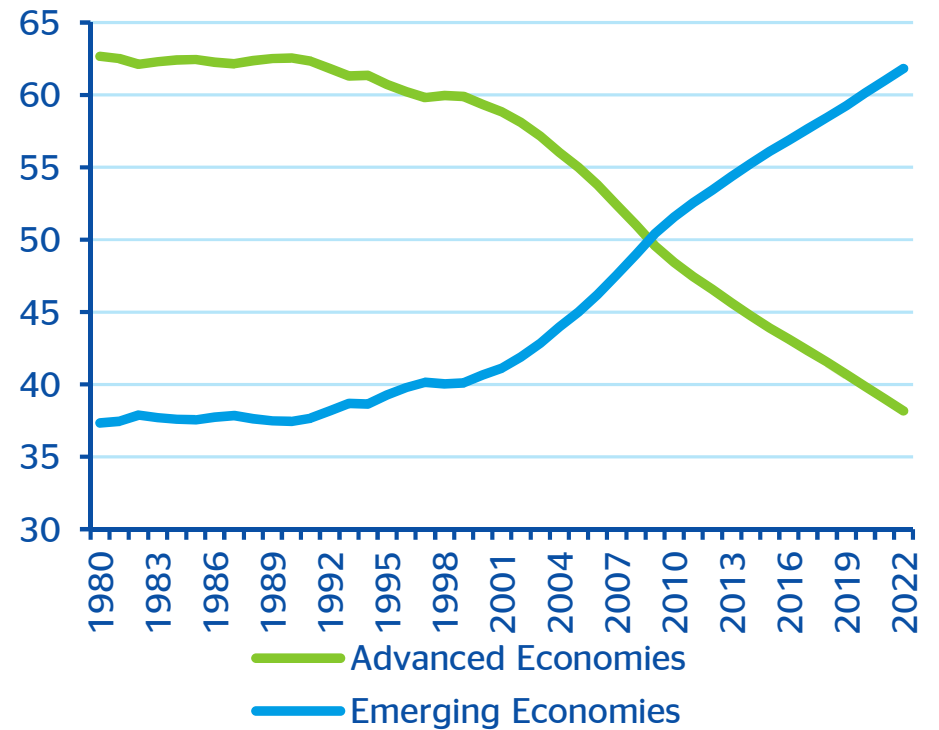
**GDP growth, adjusted by PPP (%)**

Source: BBVA Research



**Share of global GDP: emerging vs. developed (%)**

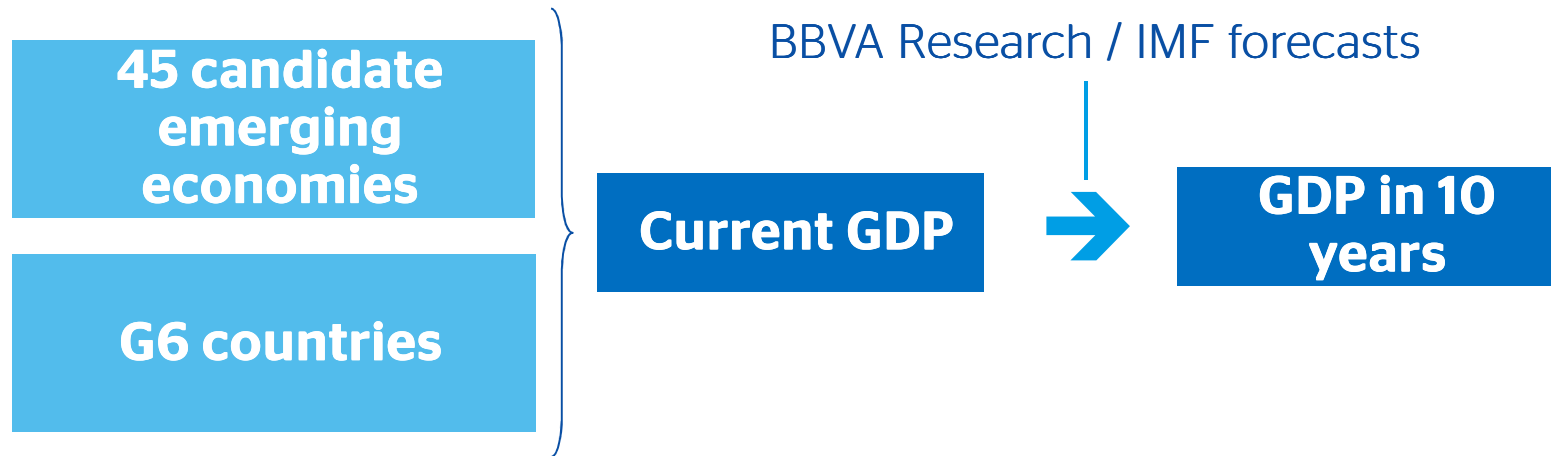
Source: BBVA Research



# BBVA EAGLEs: Emerging And Growth Leading Economies

BBVA EAGLEs: emerging economies that will be the biggest contributors to global growth

## Step 1



## Step 2

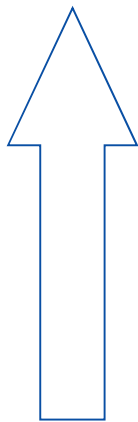


# BBVA EAGLEs: combining size and growth rates

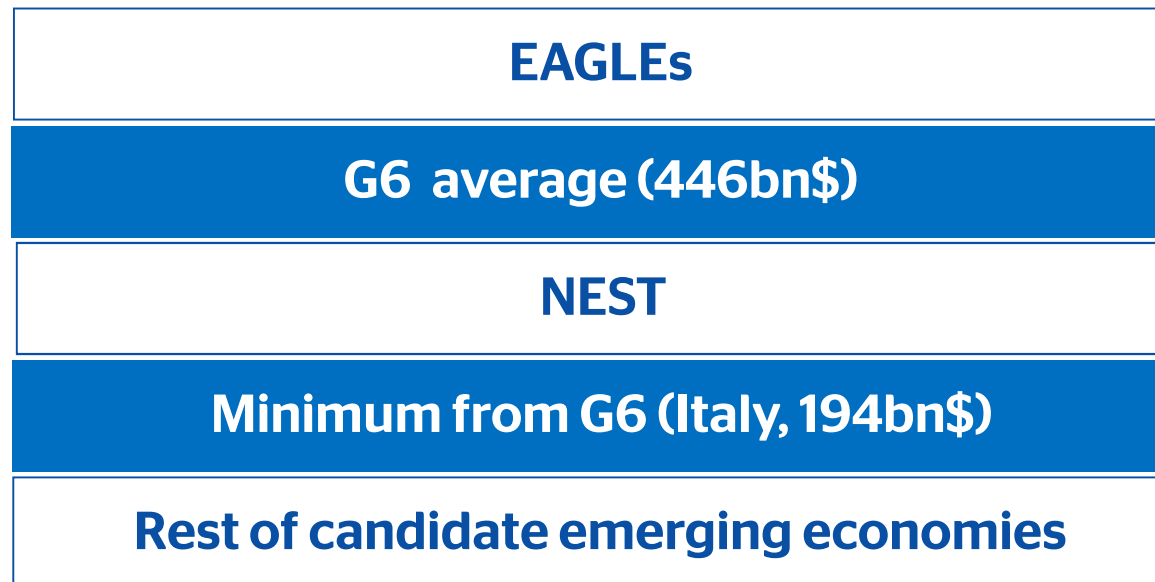
## Step 3

Ranking and selection according to incremental GDP

**Biggest  
incremental GDP**



**Smallest  
incremental GDP**

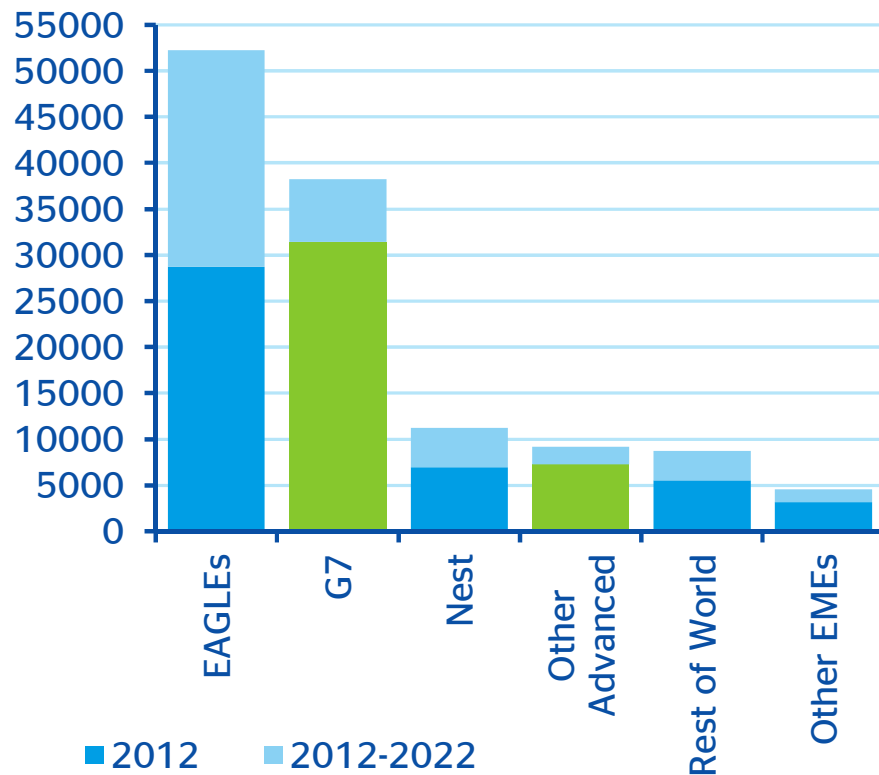


# EAGLEs versus G7: A new G?

- EAGLEs will contribute 60% of global GDP growth in the next 10 years.
- NEST countries will contribute an extra 10% (G7: 16%)

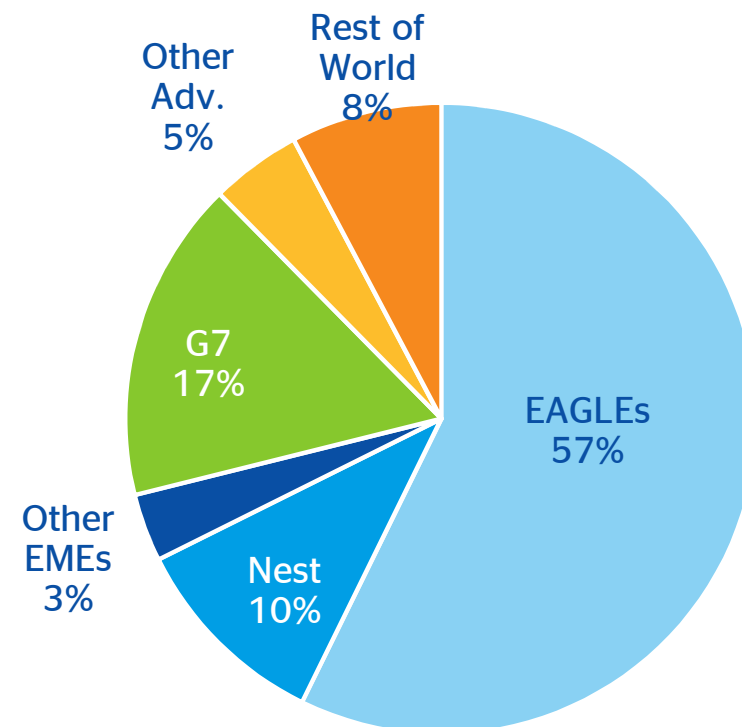
**GDP (PPP adjusted): current and in the next 10 years (2012-2022). Bn dollars**

Source: BBVA Research



**Contribution to global GDP growth 2012-2022 (%)**

Source: BBVA Research



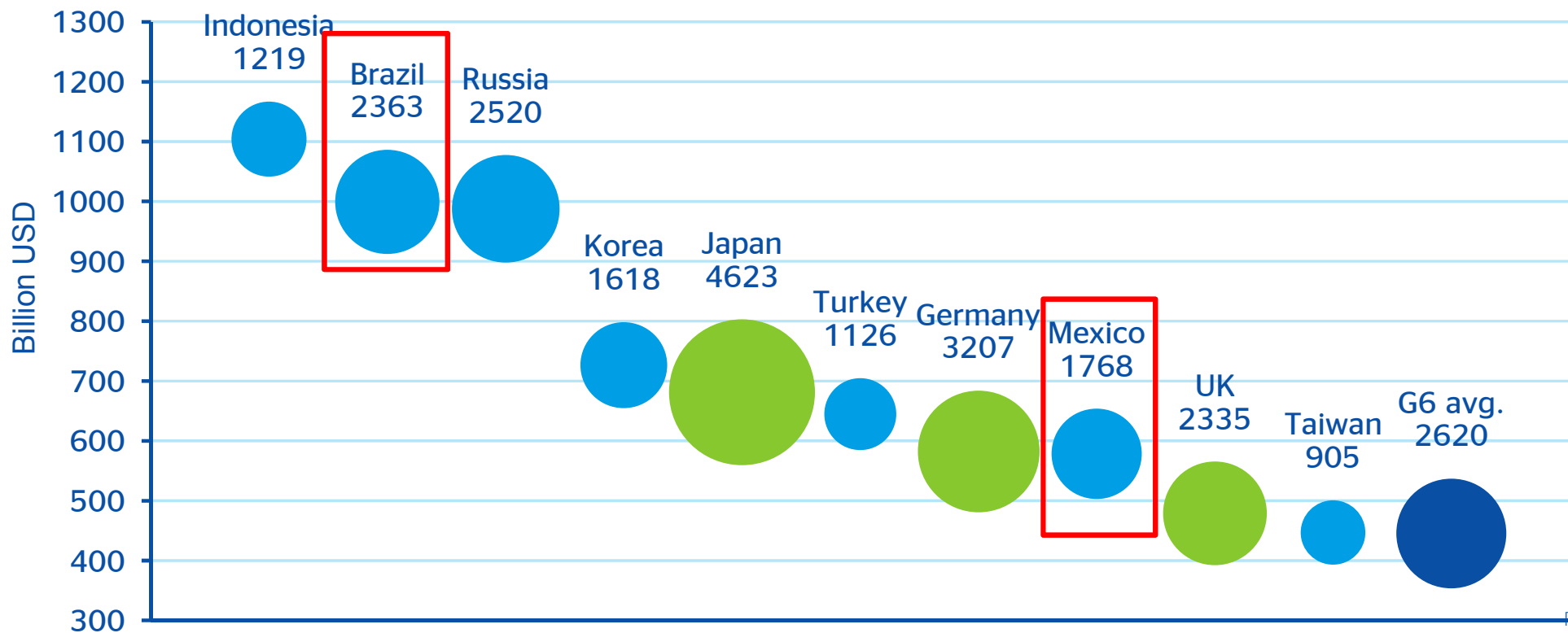
# EAGLEs: global players

- BBVA EAGLEs: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Turkey and Taiwan

## EAGLEs (ex China and India) vs. G6:

**Current GDP size (2012, size of circles) and contribution to global GDP growth 2012- 2022 (bn dollars)**

Source: BBVA Research and IMF

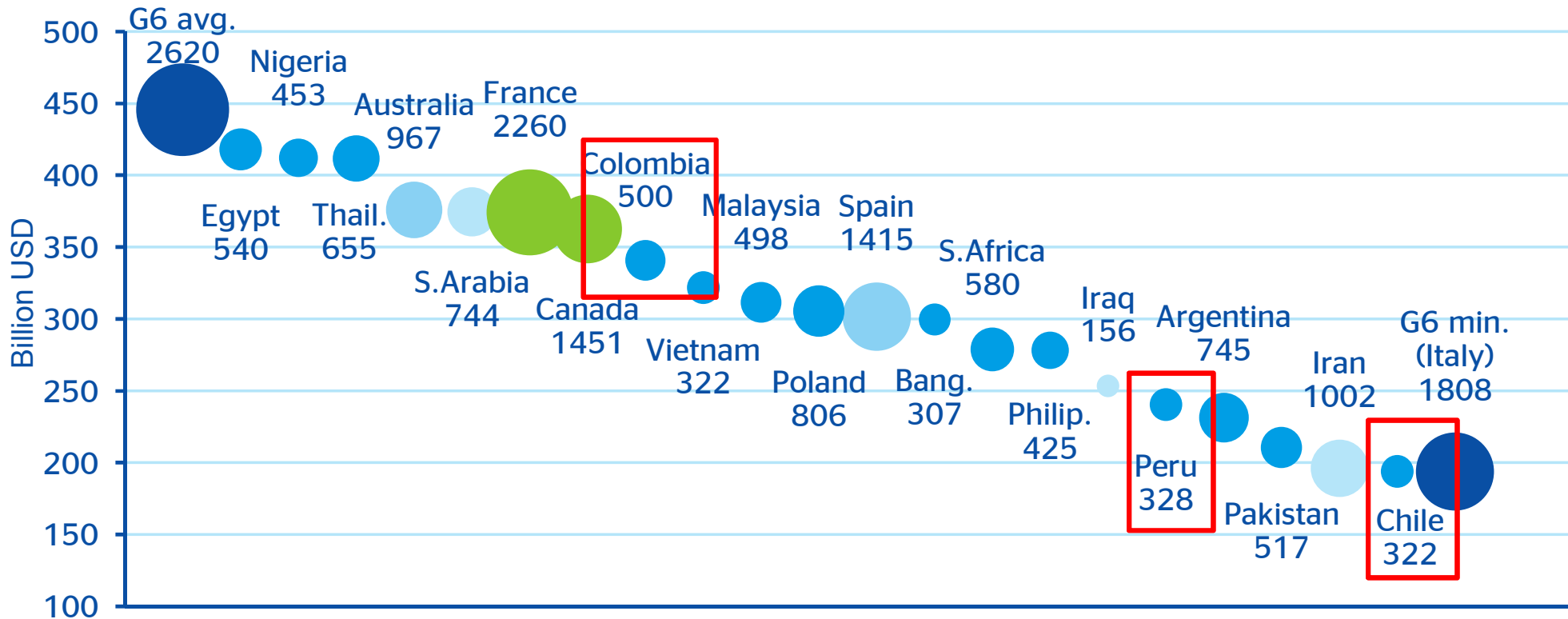


# Waiting list of potential EAGLEs: The NEST

## NEST vs. G6:

Current GDP size (2012, size of circles) and contribution to global GDP growth 2012- 2022 (bn dollars)

Source: BBVA Research and IMF

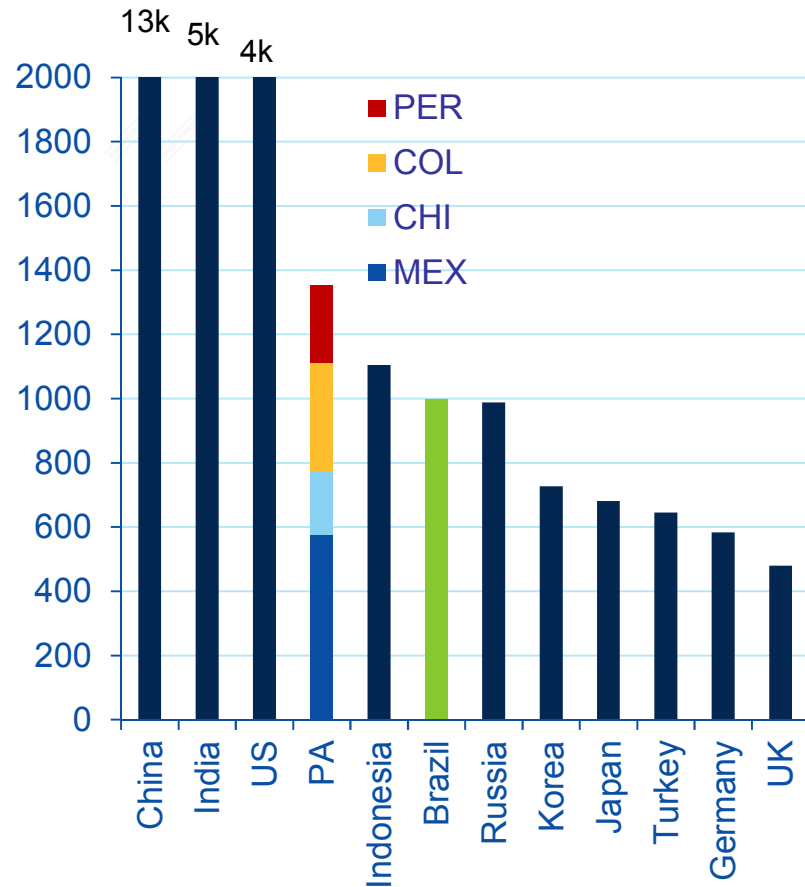




# The Pacific Alliance in the global scene

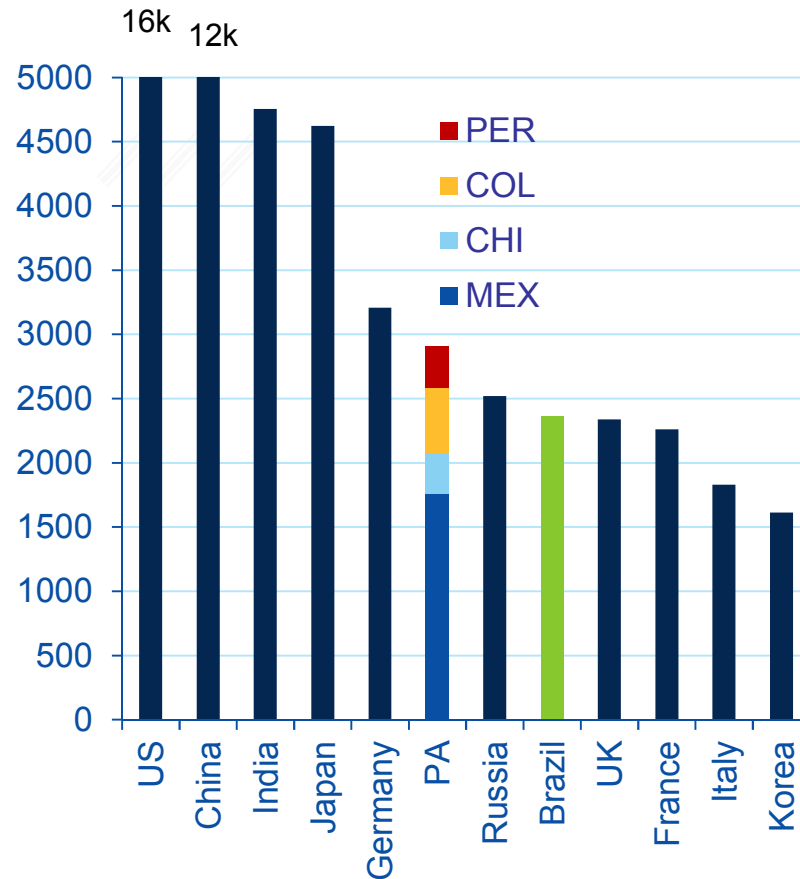
**Biggest economies in 2012  
(bn. USD, PPP adjusted)**

Source: BBVA Research and IMF



**Biggest contributions to GDP growth in the next 10 years  
(m USD, PPP adjusted)**

Source: BBVA Research and IMF





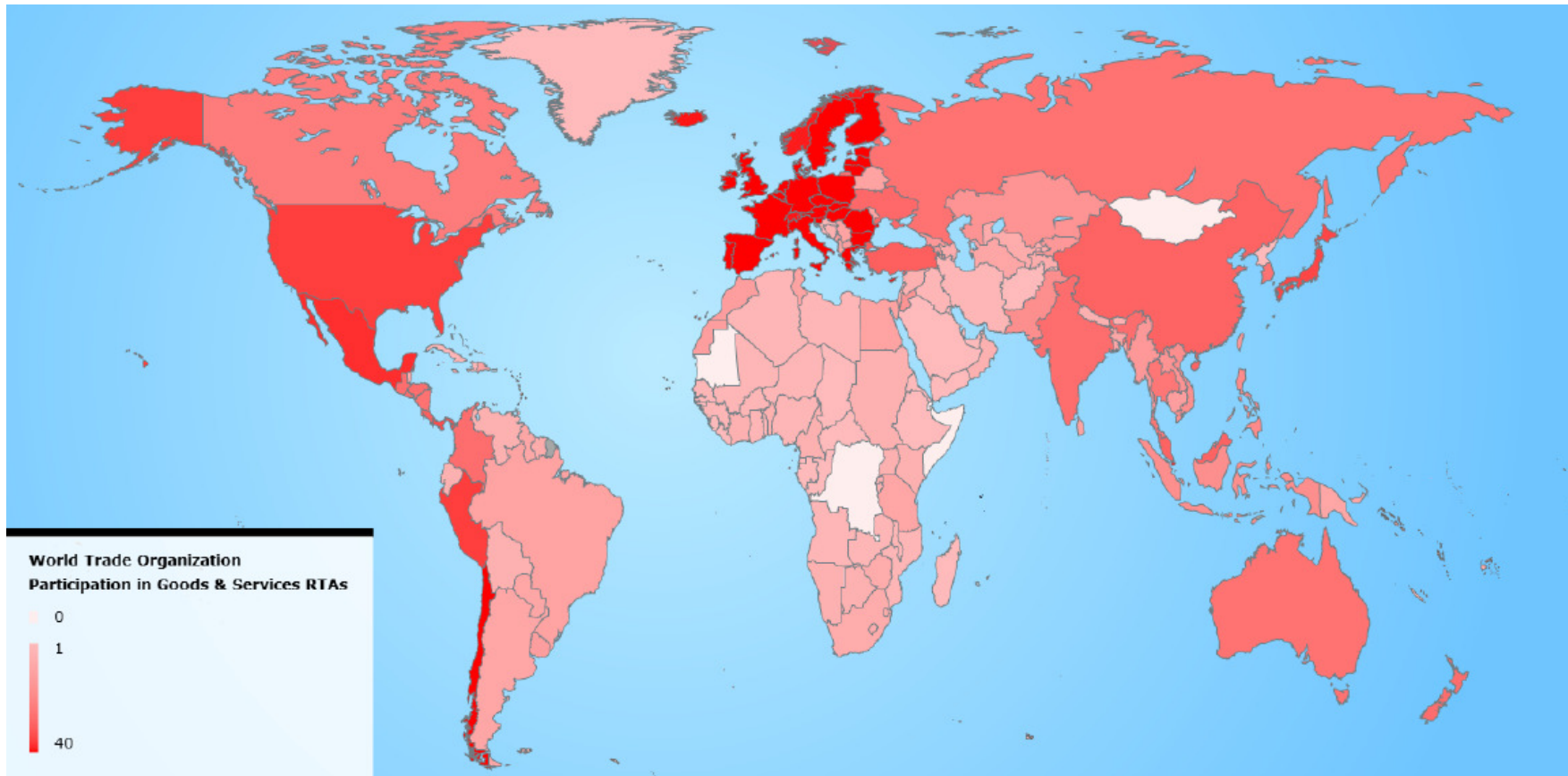
# Outline

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# Committed to integration in the global economy

## Number of trade agreements signed

Source: BBVA Research and WTO



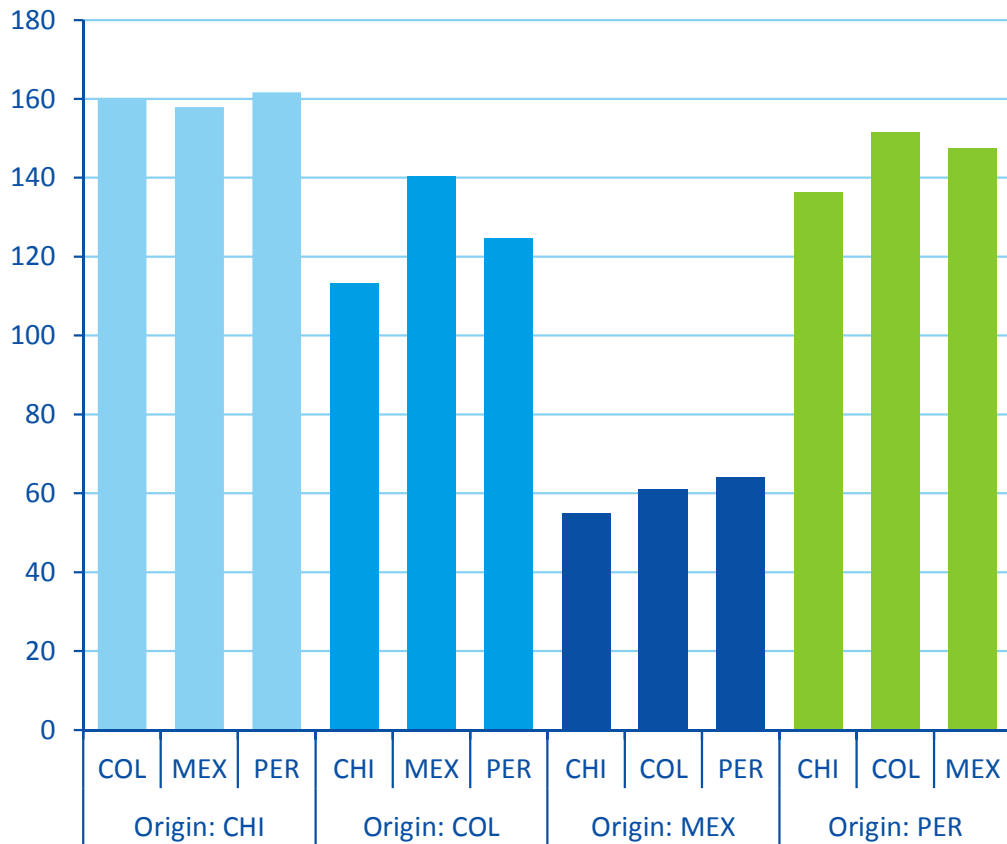
... especially with the main economic regions

Trade agreements signed					
	with US	with EU	with Japan	with China	Total number of agreements
Chile	✓	✓	✓	✓	21
Colombia	✓	✓	✗	✗	11
Mexico	✓	✓	✓	✗	18
Peru	✓	✓	✓	✓	16
Brazil	✗	✗	✗	✗	5

# Also committed to trade integration within the PA. But trade opportunities are asymmetric for now

**Export potential (origin-destination)**  
(index: 0= very high; 200 = very low)

Source: BBVA Research and COMTRADE



Trade between PA countries is just 4% of their total foreign trade

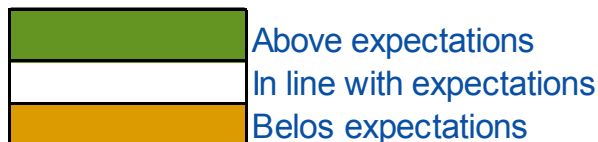
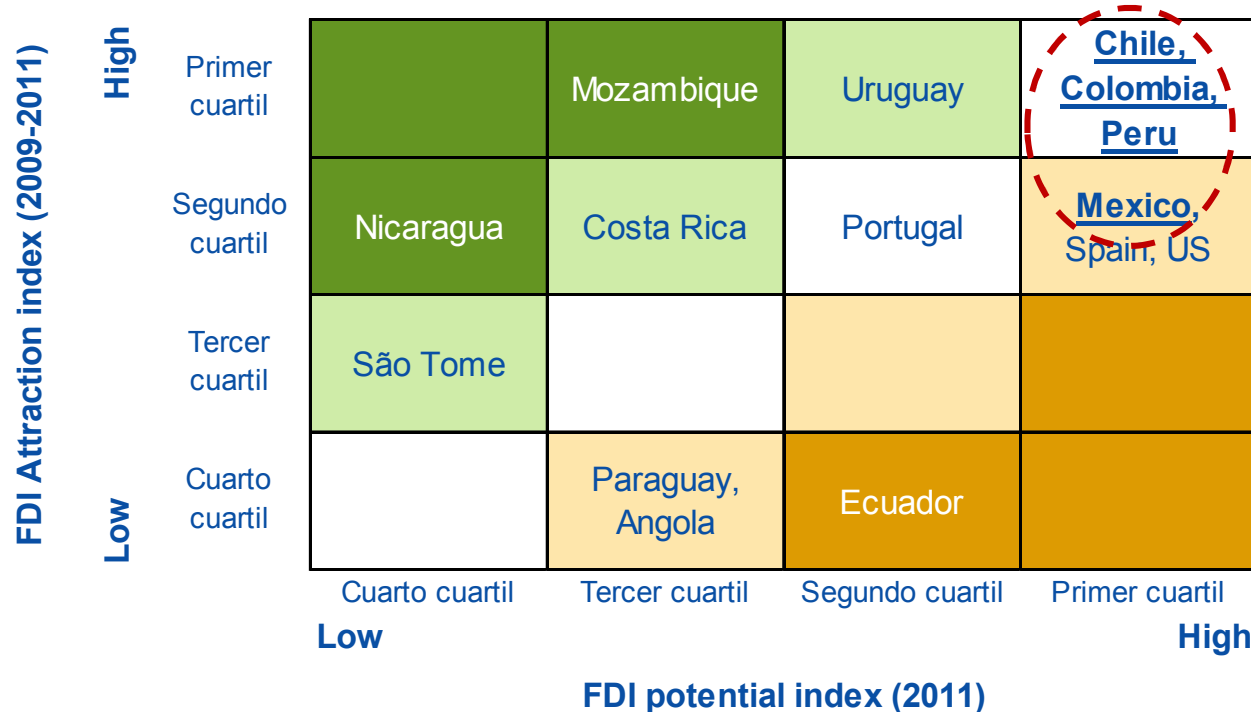
There is scope to increase trade within PA but, potential is highest in the case of Mexico

Nevertheless, cooperation within PA can extend beyond trade flows: know-how , investment and labor market

# Pacific Alliance attracts FDI in line with its high potential....

## FDI: attraction and potential to attract

Source: BBVA Research and UNCTAD



PA countries among those with highest potential to attract FDI

FDI potential index:

- (i) attractiveness of domestic market;
- (ii) productivity of labor force;
- (iii) availability of natural resources;
- (iv) infrastructures

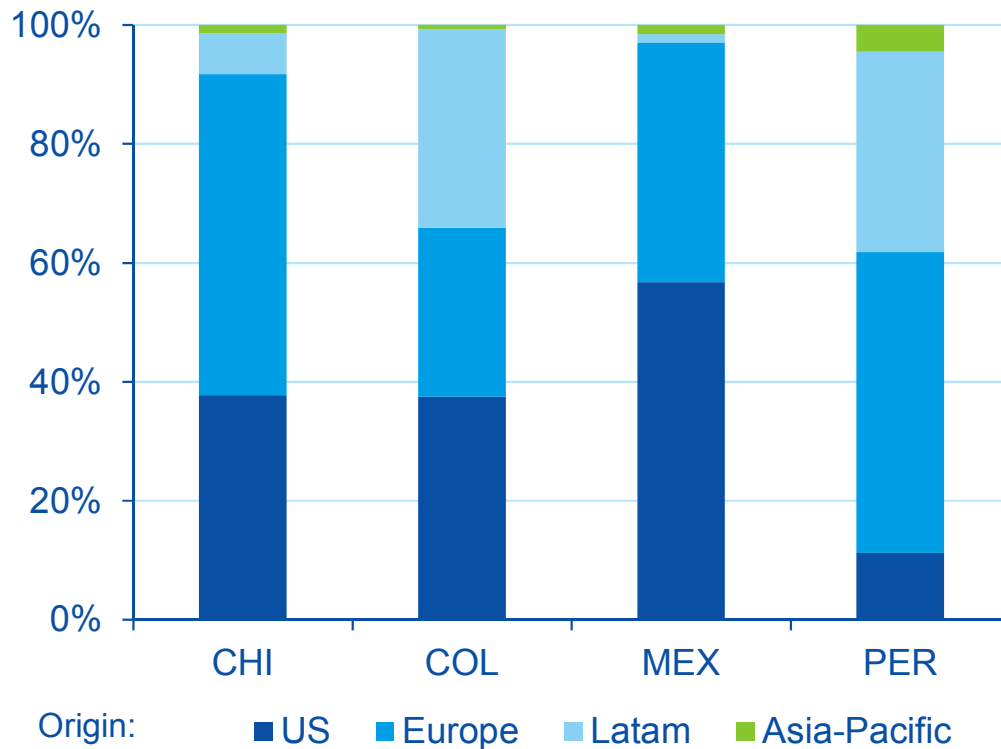
FDI attraction:  
ranking of inward FDI both in absolute terms and relative to country size



... especially from US and Europe, with growing interest from Asia

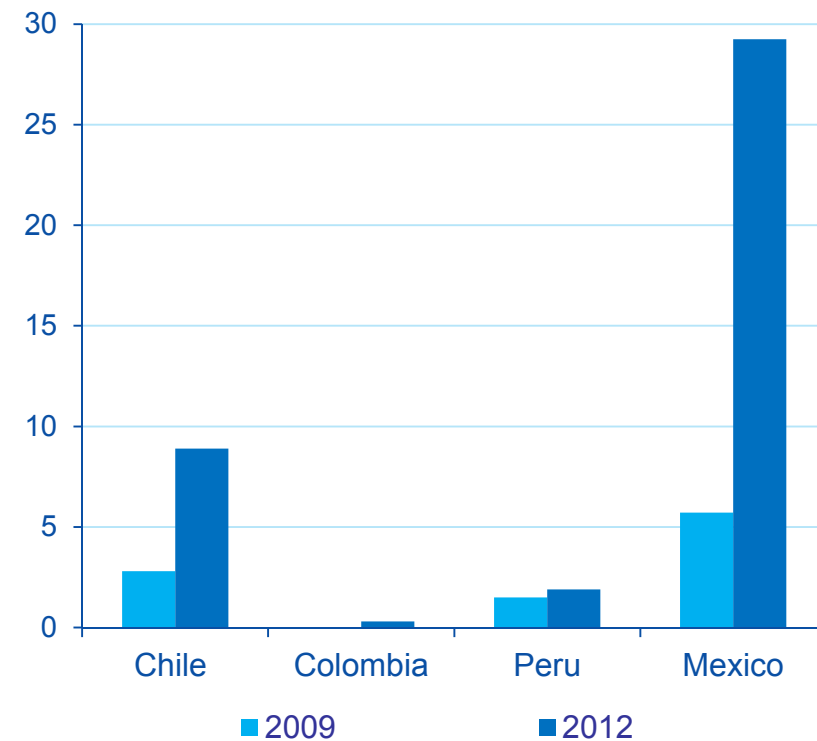
**PA: Source of FDI (% del total 2002-2012)**

Source: BBVA Research, ECLAC and national sources



**FDI from Asia to PA (% of total FDI to PA)**

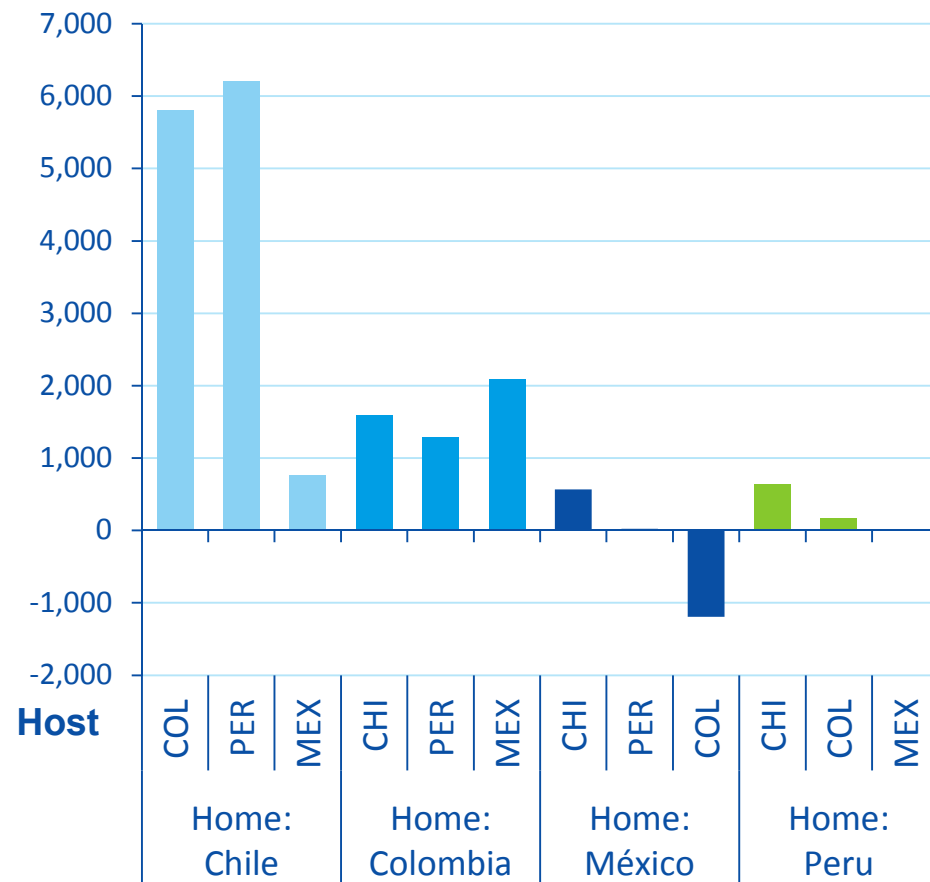
Source: BBVA Research, ECLAC and national sources.



# ... but there is still a sizable asymmetry in FDI flows within the Pacific Alliance

**Cumulated FDI to PA countries 2009-2012  
(home-host country, m USD)**

Source: BBVA Research and Banco Central de Chile



There is scope and potential for bigger bilateral FDI flows within the PA

Chile has led the process in Peru and Colombia: geographical proximity; search of economies of scale; similar characteristics

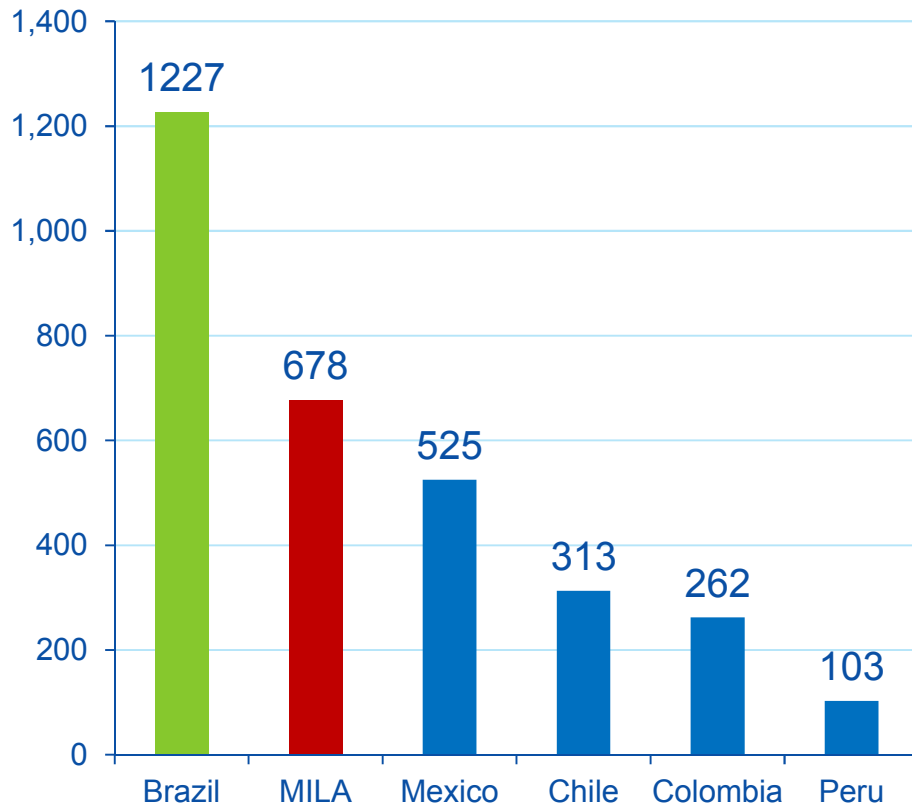
Mexico and Colombia: focus on financial sector, telecoms and retail



# Integration in portfolio investment is lagging behind in the Pacific Alliance

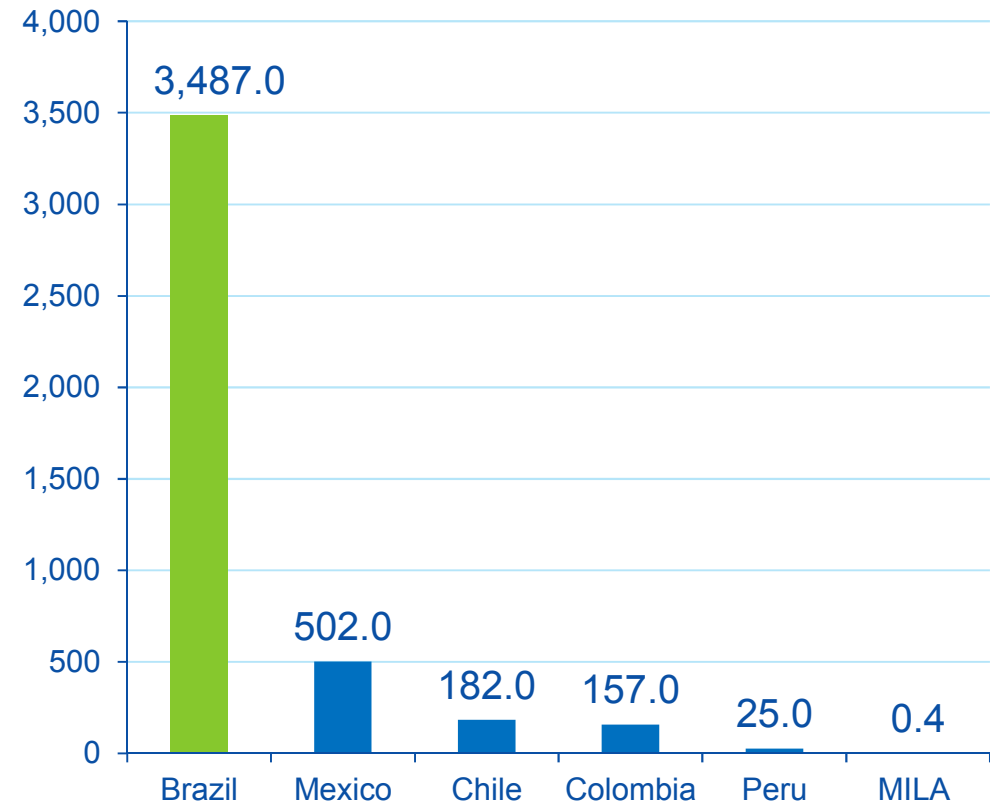
**Stock market capitalization (m USD, Dec 2012)**

Source: BBVA Research and Bloomberg



**Volume of transactions (2012, m USD)**

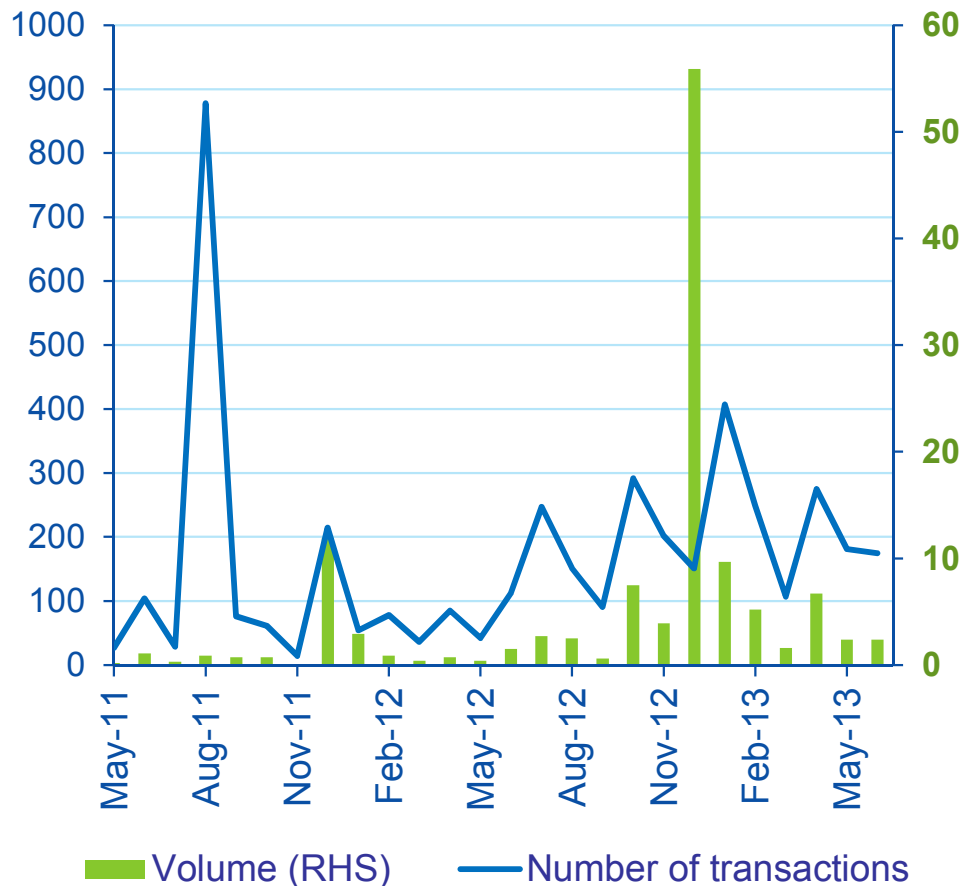
Source: BBVA Research and Bloomberg



# MILA: a great opportunity to develop the regional stock market

**Volume and number of transactions in MILA  
(m USD, number)**

Source: BBVA Research and MILA



- There are already mutual funds operating in MILA, hedging risk between markets
- MILA will be further developed when Mexico joins in
- Need to keep working on having similar tax burdens in different countries, simultaneous IPOs and more financial instruments



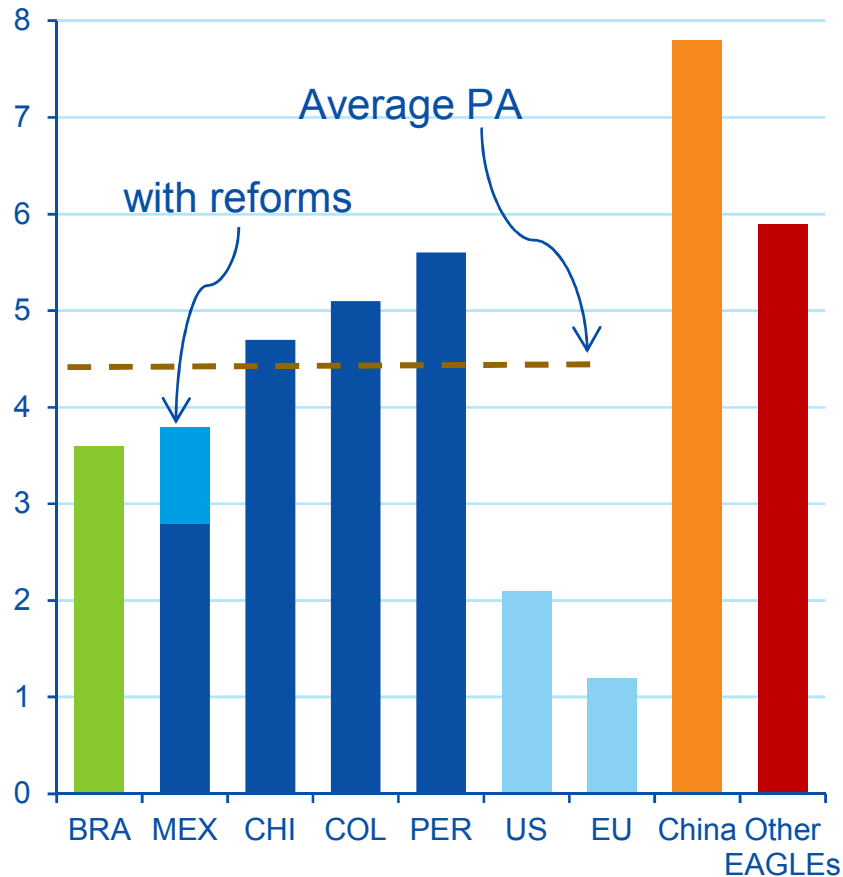
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# Pacific Alliance: high potential growth

## Potential GDP growth next 10 years (%)

Source: BBVA Research



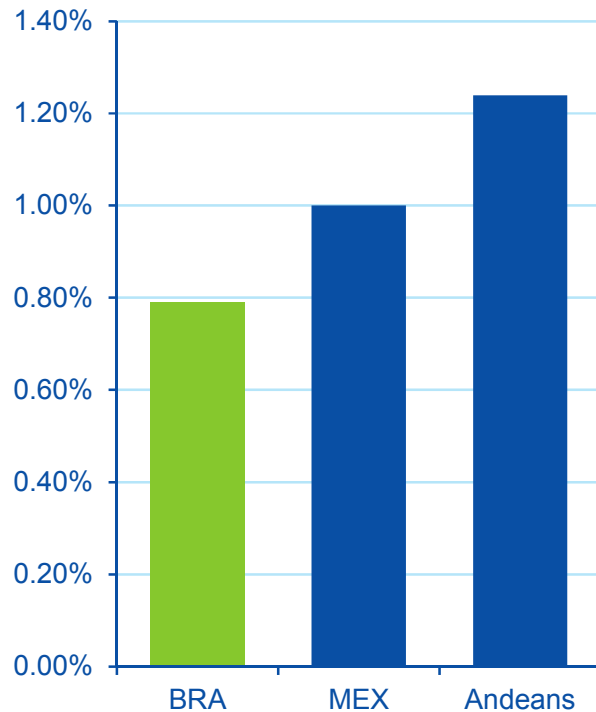
Besides a high contribution to global growth, a high potential growth rate

Commitment to reform will contribute to increasing potential growth

# Dynamism due in part to favorable demography and the rise of the middle class

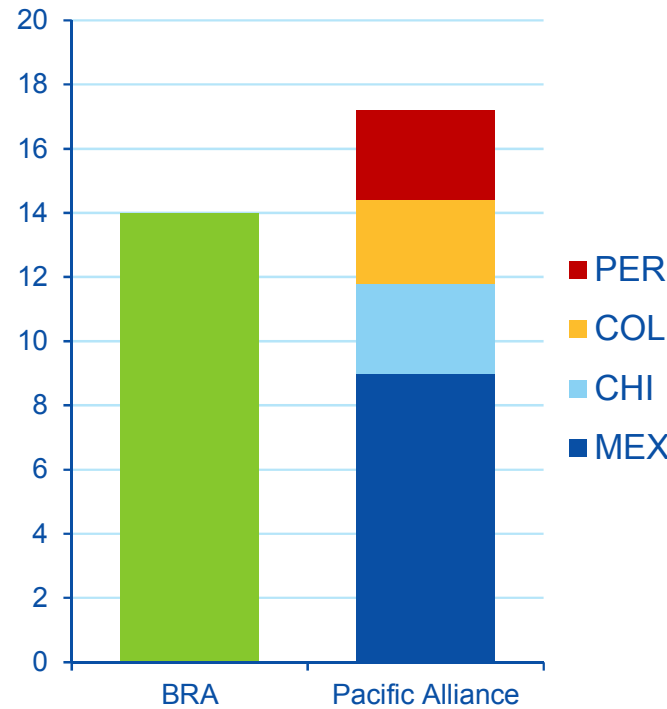
**Population growth rate  
(% annual, 2011-21)**

Source: BBVA Research

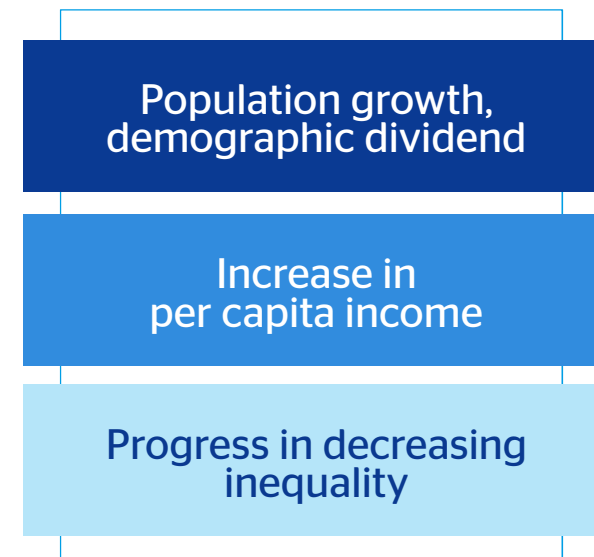


**Increase in middle class  
(million people, 2011-21)**

Source: BBVA Research



Increase in middle class

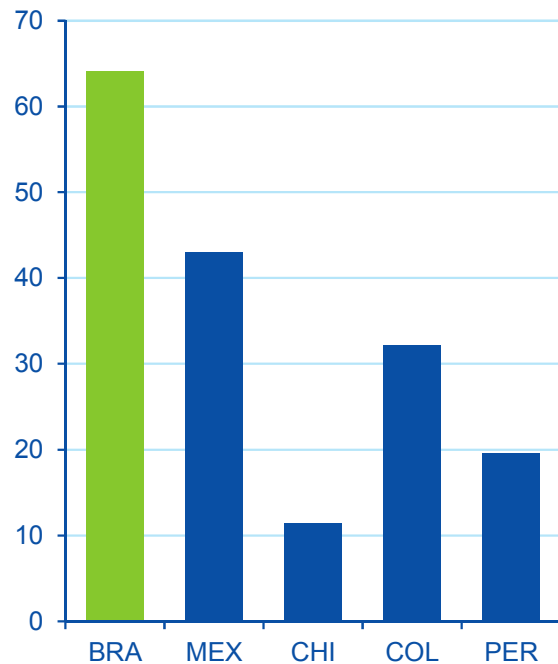




... also (and more importantly) due to prudent policies, low interventionism and openness

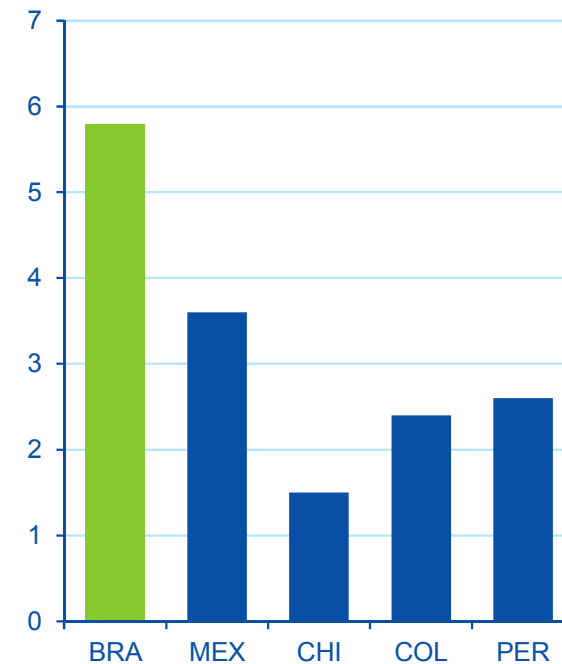
**Public debt (gross)  
%GDP, 2012**

Source: BBVA Research and FMI



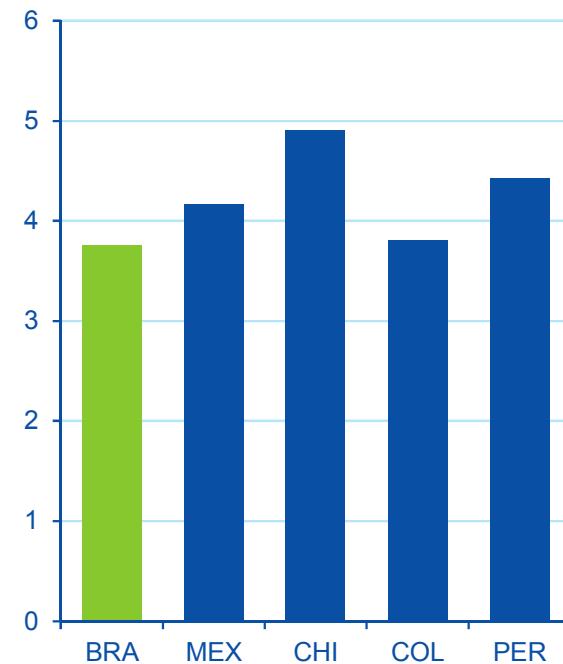
**Inflation (% , 2012)**

Source: BBVA Research and FMI



**Index (0-7) of competition in the  
domestic market  
(7 = maximum competition)**

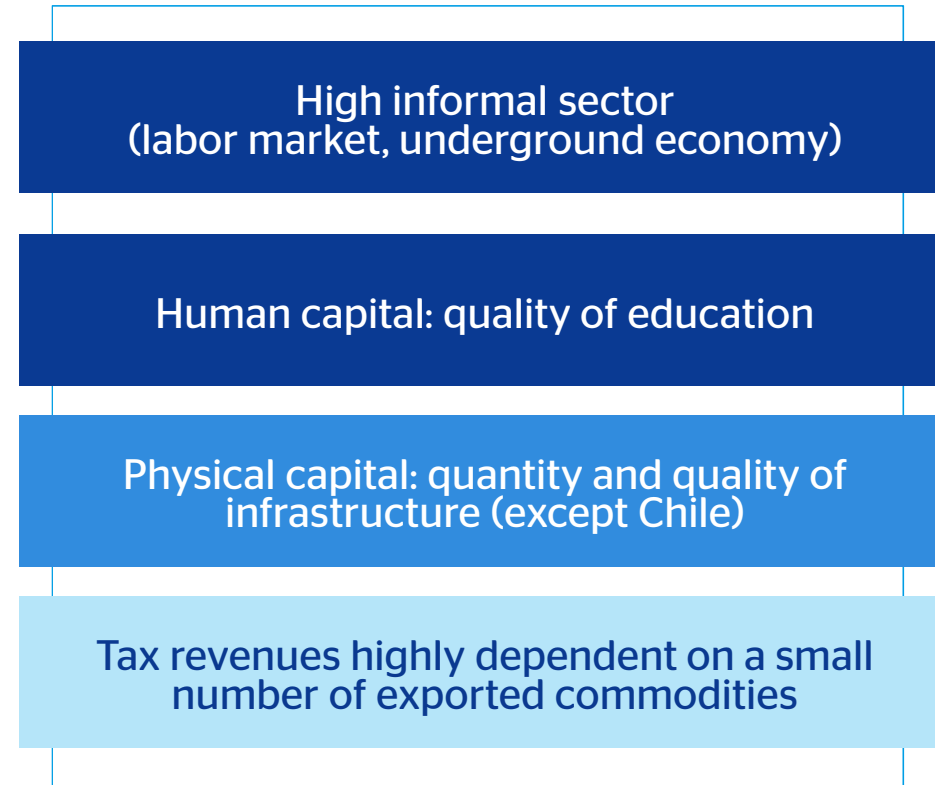
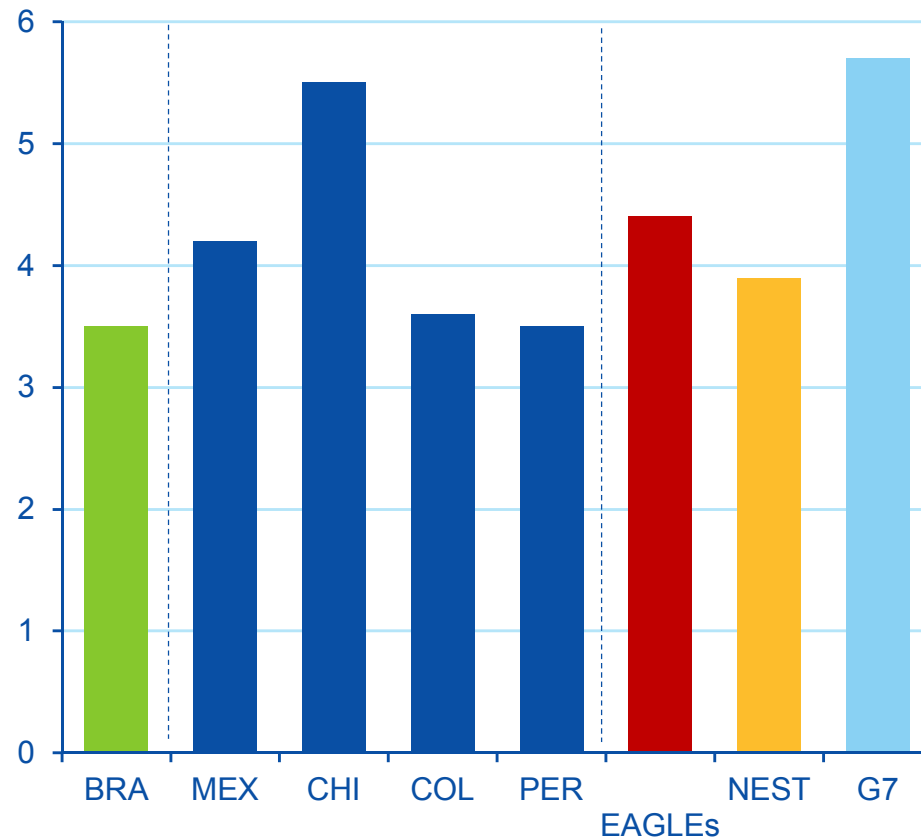
Source: BBVA Research and World Economic Forum



# But the PA also faces big challenges

## Quality of infrastructure (Index: 0-7, 7 = maximum quality)

Source: BBVA Research and World Bank



## To summarize ...

- 1 The Pacific Alliance (PA) is the sixth biggest economy in the world** and will be the fourth in term of contribution to global growth in the next 10 years.
- 2 The PA is committed to trade and financial integration both within the alliance as well as with the rest of the world.** There is ample room to develop further integration within the AP.
- 3 The PA's potential growth is close to 4,5% during the next decade.** Growth will be based on continuing reforms and prudent economic policies.
- 4 Growth could be even higher** if there are further advances in reducing the informal sector and increasing investment in infrastructure and in human capital (education).



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