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China/HK and Latin America: Opportunities and Challenges

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Hong Kong, 2nd December 2008

Contents

- **China & Latin America:**
Two Complementary Strangers

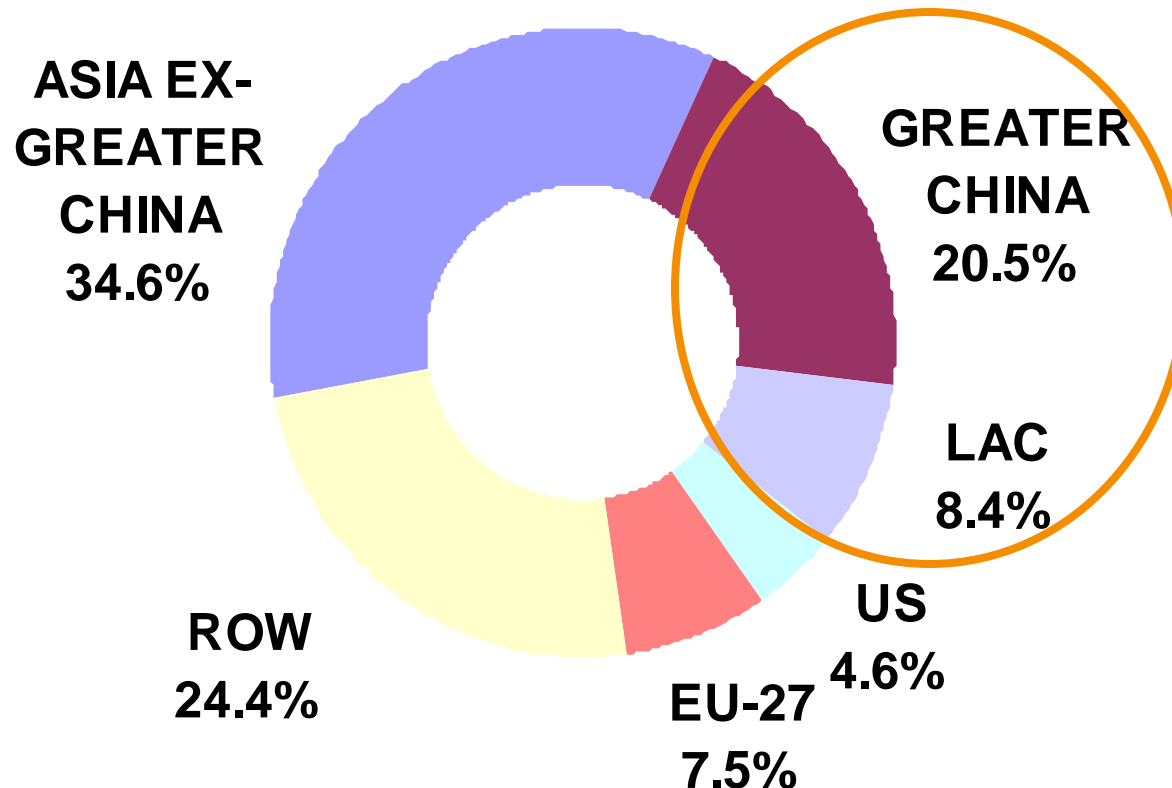
- **What Are the *Opportunities?***
 - ***In Trade***
 - ***In Foreign Direct Investment***

Two Complementary Strangers

- ✓ **China/HK and Latin America:
Two Heavyweights in the World**
- ✓ **The paradox of Latin America:
Even if remote, very good partner for China/HK**

China and Latin America: nearly one third of world's population

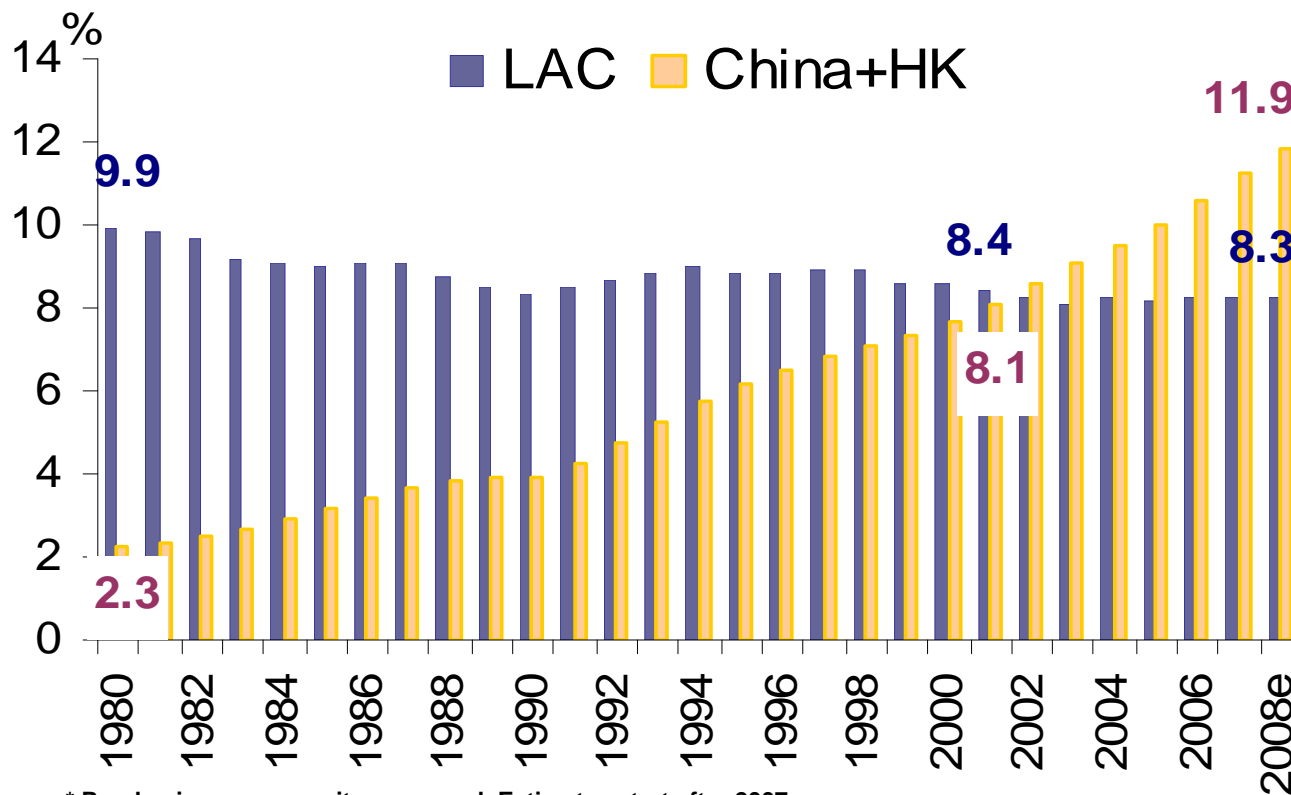
Share of World Population, 2008e



Source: ERD BBVA, IMF (October 2008)

Important economic blocs: 1/5 of world's GDP

China/HK and Latin America's share of world GDP (PPP*)



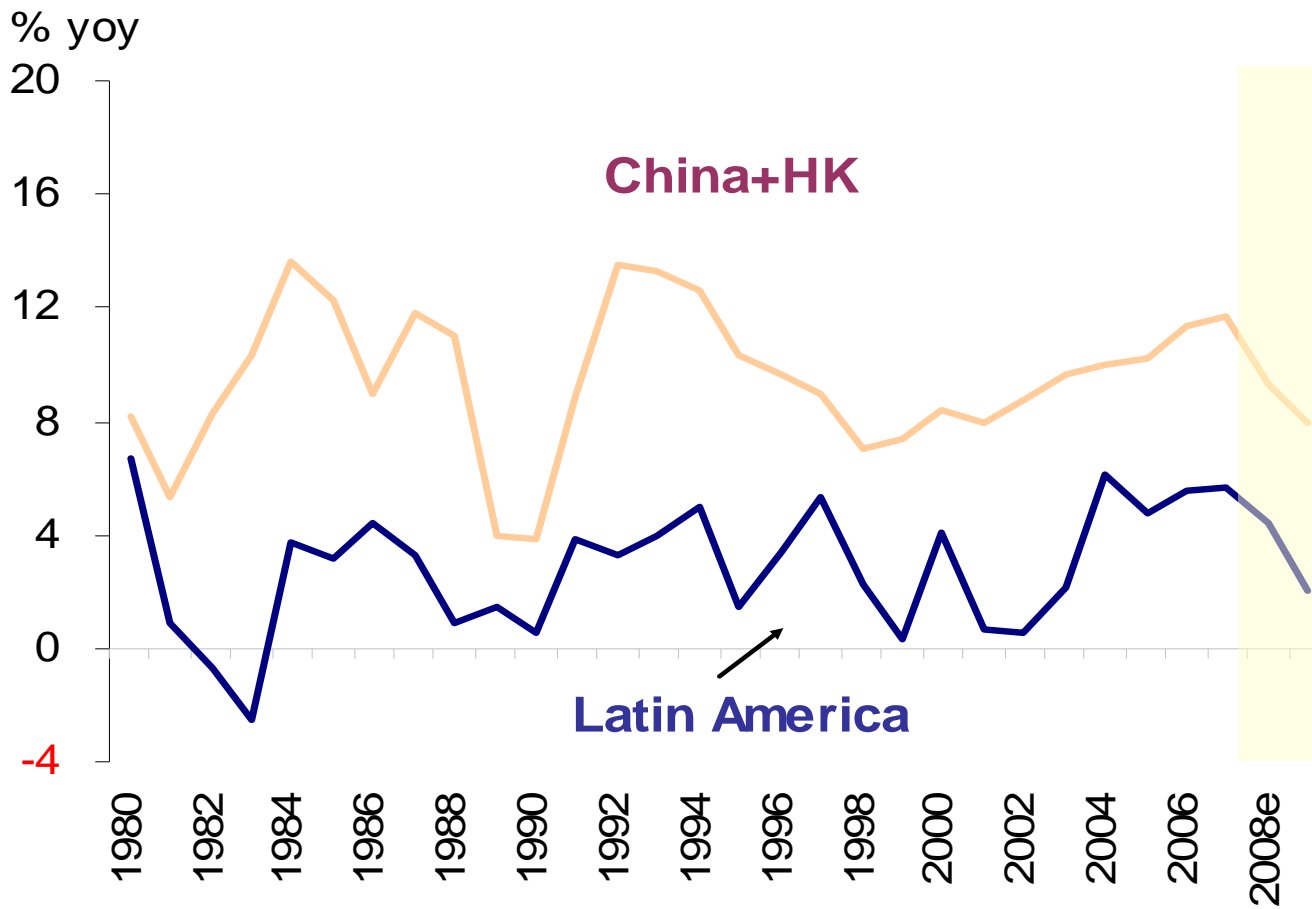
* Purchasing-power-parity measured. Estimates start after 2007.

Source: ERD BBVA, IMF (October 2008)

China/HK's economic growth spectacular

Latin America's sharply accelerated in recent years

Real GDP growth in annual % change (2008-9 estimates)

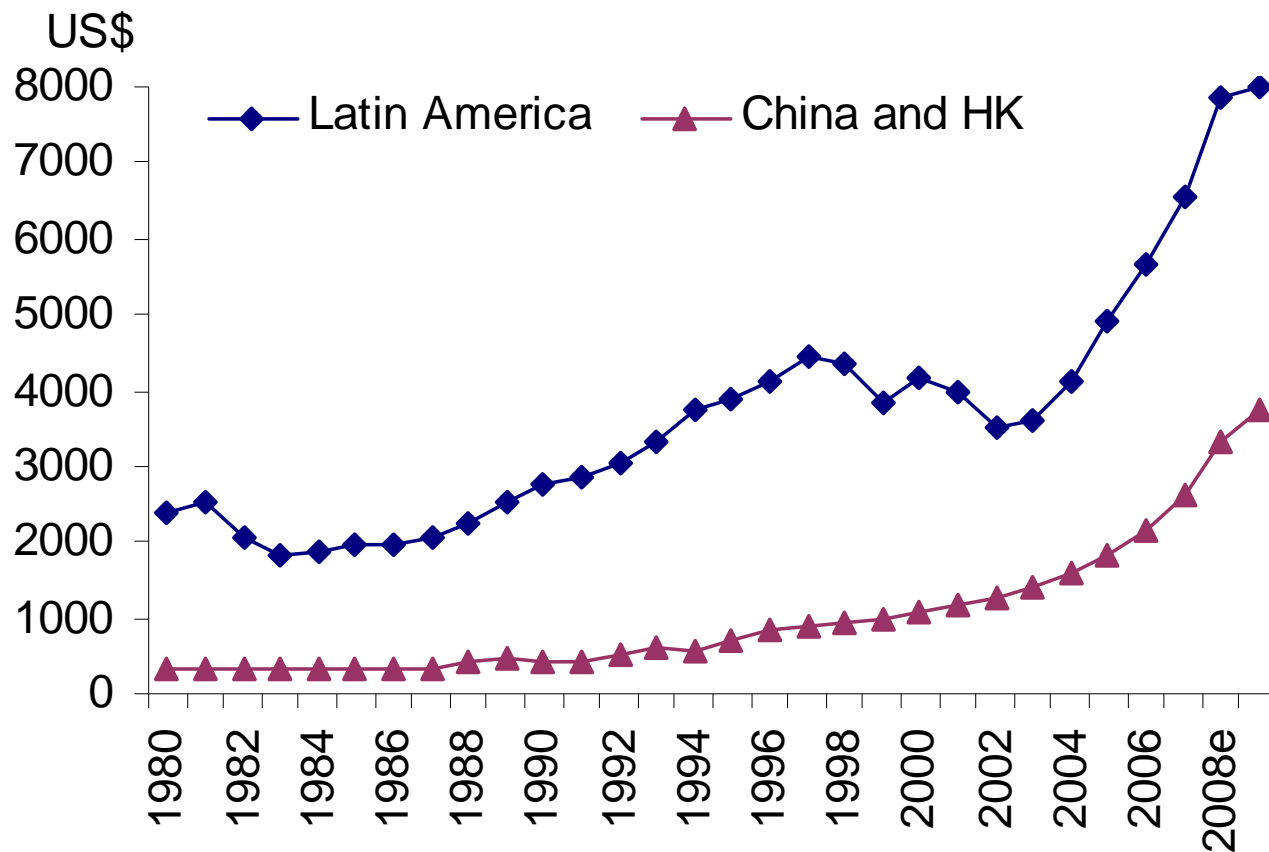


* BBVA forecasts for 2008-2009 (baseline scenario). China and HK growth: PPP weighted.

Source: ERD BBVA, IMF (October 2008)

Yet, Latin America retains higher per capita income

China and HK vs Latin America: GDP current per capita
(in US dollars)



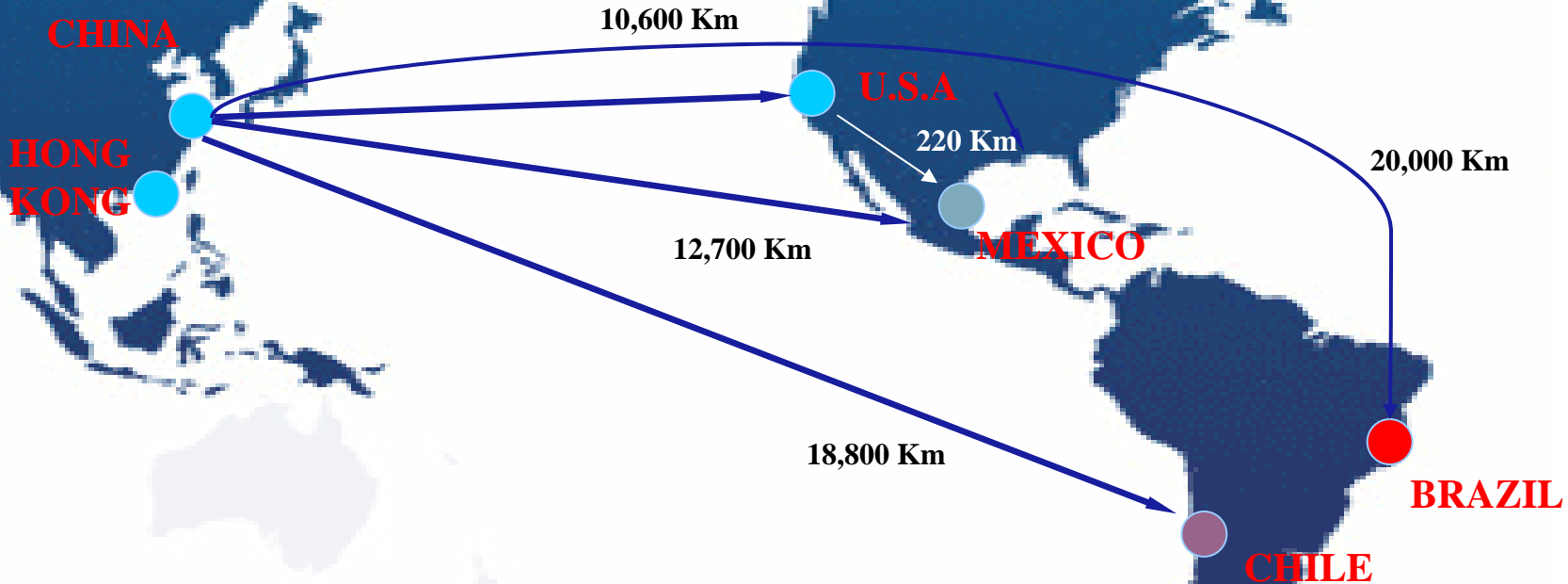
Source: ERD BBVA, IMF (October 2008)

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The paradox of China-Latin American relations: **BBVA** clearly remote...

- High transport and communication costs
- Long delivery time
- Very different time zones
- Few direct air links
- Few free trade agreements so far...



But bilateral trade agreements increasing

Already two years ago with Chile (Oct 06)

Very recently with Peru and Colombia (Nov 08)

Wednesday, November 19th, 2008

China and Peru Sign Free Trade Agreement, Extending Asian Influence in Latin America

Colombia signs trade pact with China

SUNDAY, 23 NOVEMBER 2008 00:20 |



Colombia's government, unable to attain a free-trade agreement with the U.S., signed a bilateral investment treaty with China, granting most favored nation status to each other's companies.

Negotiating with Costa Rica

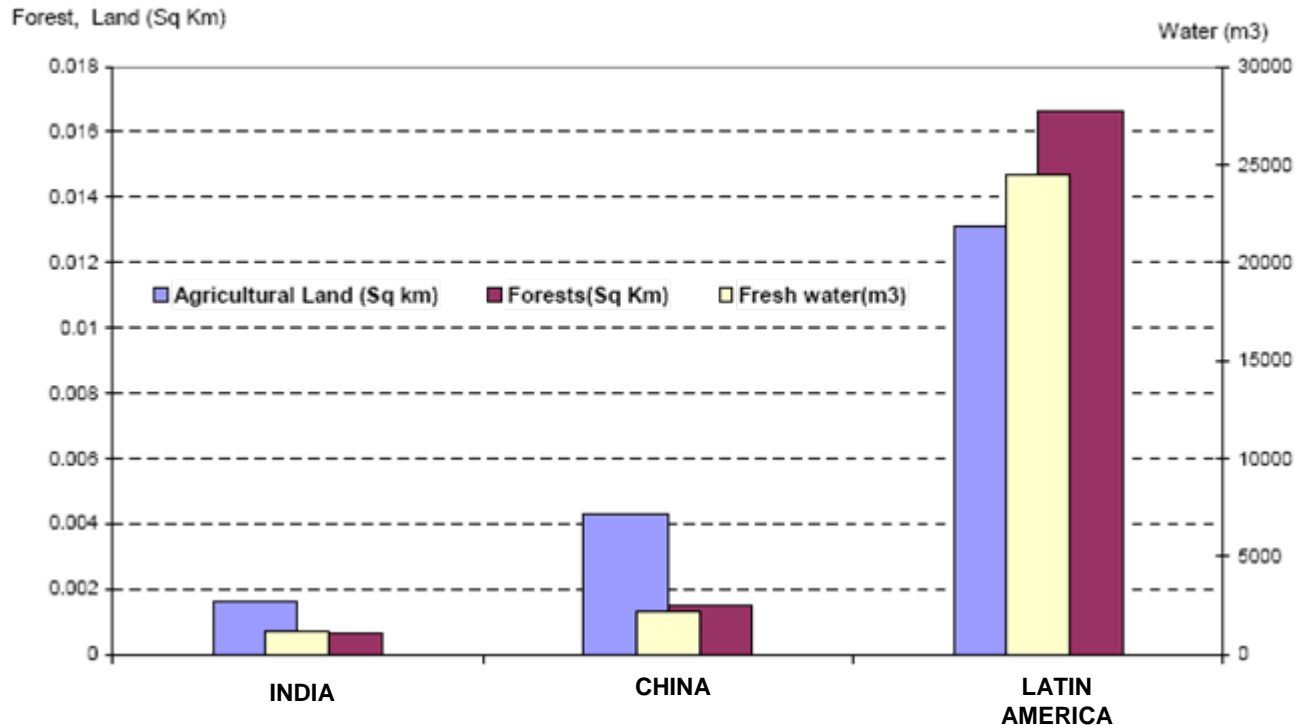


China, Costa Rica work on possible free trade deal

Latin America is complementary to China due to a striking difference in natural endowments

China's agricultural land per capita is just 1/3 of that of Latin America!

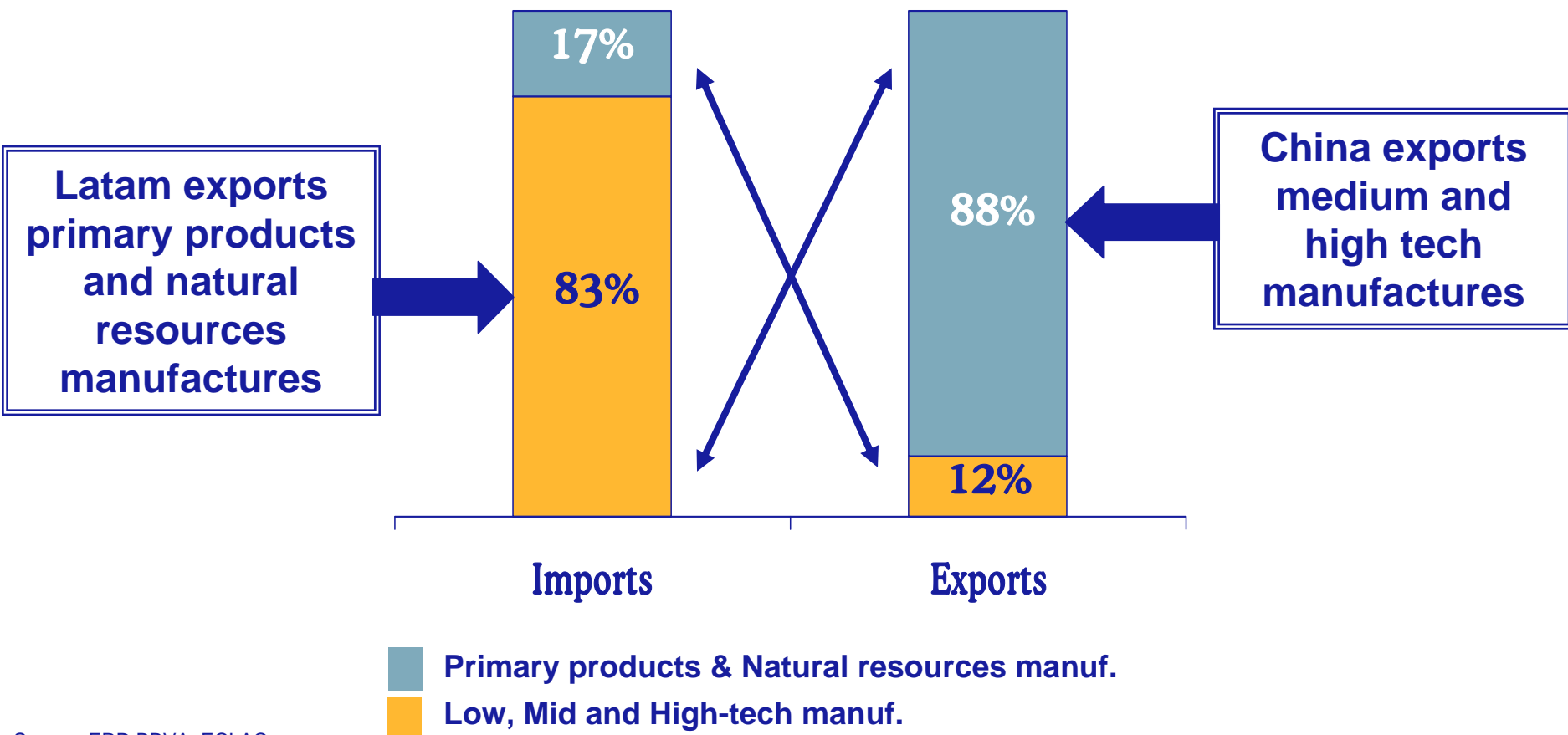
Selected natural resources per capita, 2005



Source: WDI

Structure of bilateral trade, thus, highly complementary

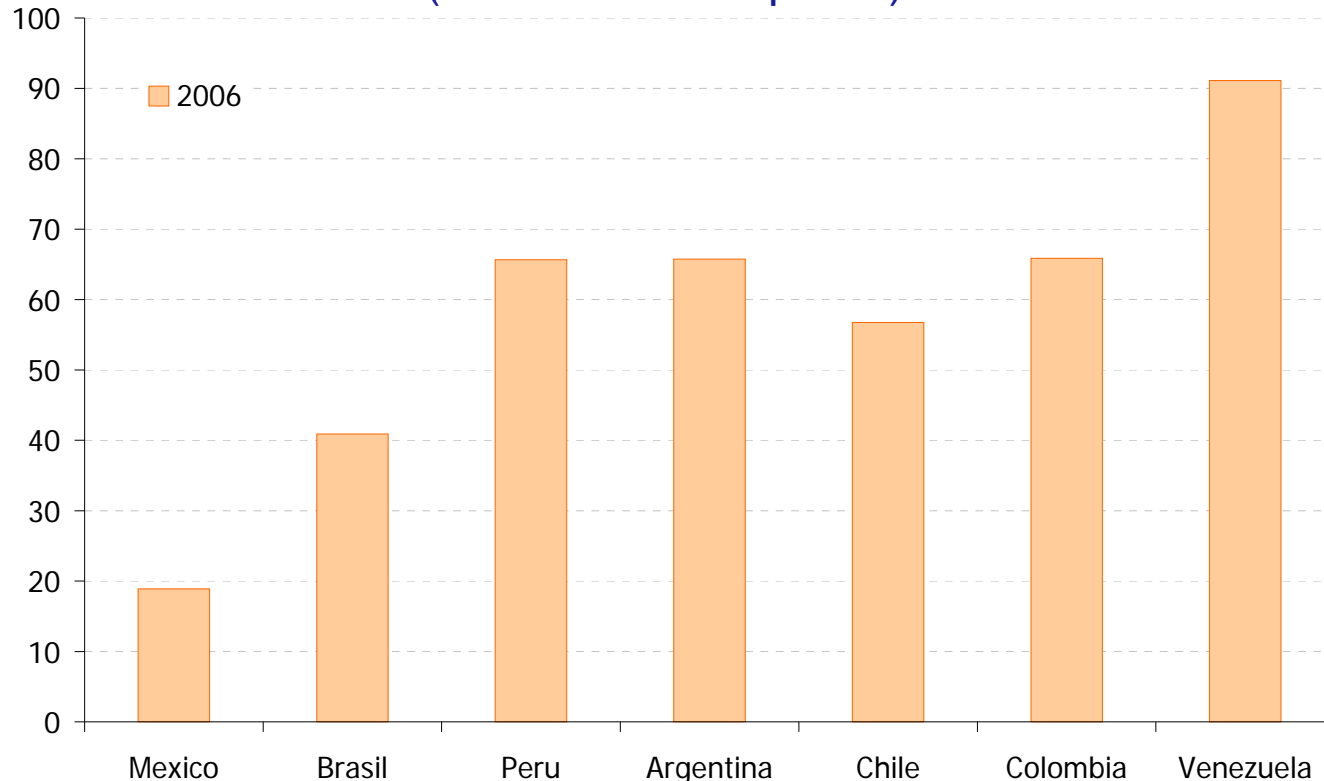
China: import/export structure with Latam, 2006
(% of imports/exports flows)



Source: ERD BBVA, ECLAC

More generally, Latin America exports mostly commodities and primary products

Exports of Commodities by Country (as % of total exports)

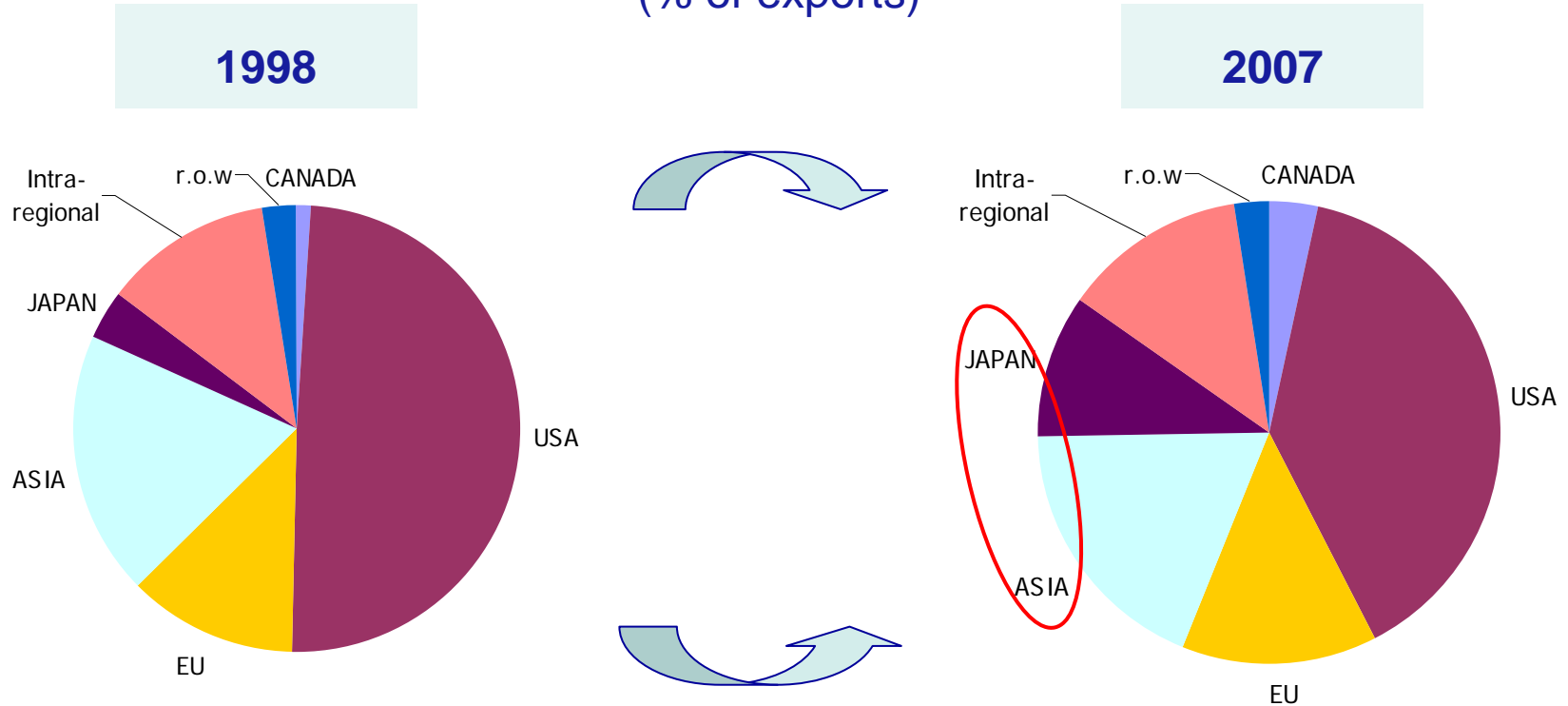


Source: UN-Comtrade

Major Latin American economies, except Mexico, are heavily dependent on exports of commodities.

And Latin America's export growth in recent years has been driven by Asia

Latin America's export destinations, 1998 vs 2007 (% of exports)

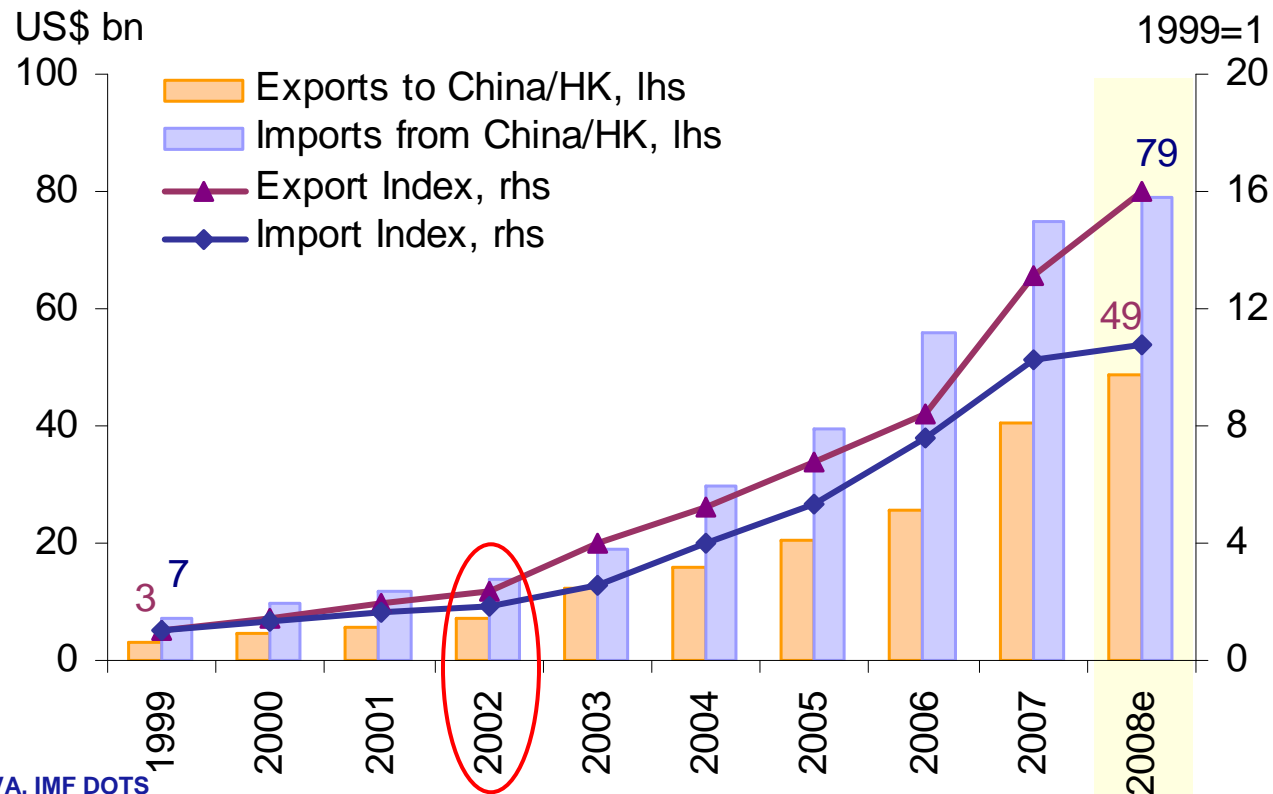


Source: ERD BBVA

Latin America's exports increased at an annual rate of 13% in the current decade driven by Asia's demand for commodities.

China's commodity hunger fueled the rapid expansion of trade with Latin America

LAC: trade with China and HK, 1999-2008e
(USD billion current, index 1999=base)



Source: ERD BBVA, IMF DOTS

Latin America's exports to China has grown 163% since 2000; imports from China 136%.

China has emerged as a major trade partner

Exports to China at current prices, 2002 vs 2007
(as % of total exports and rank among destinations)

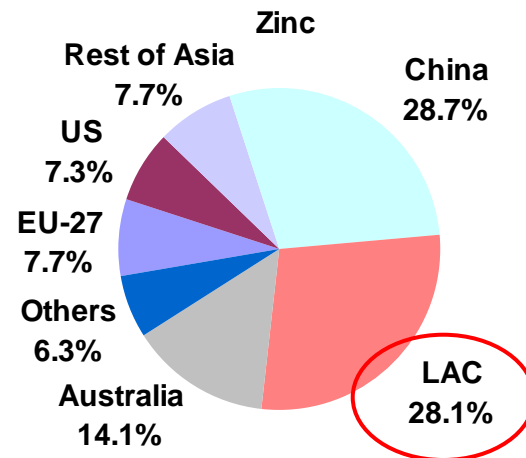
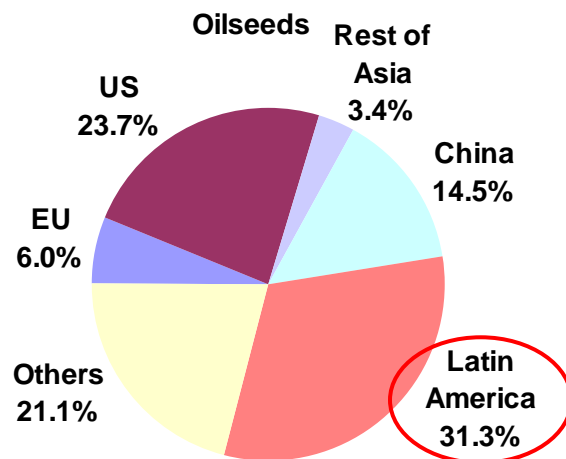
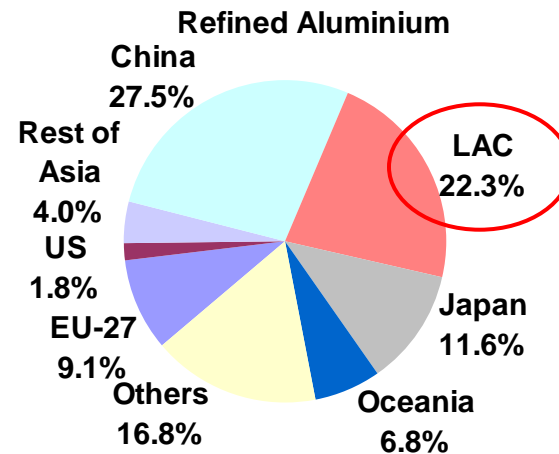
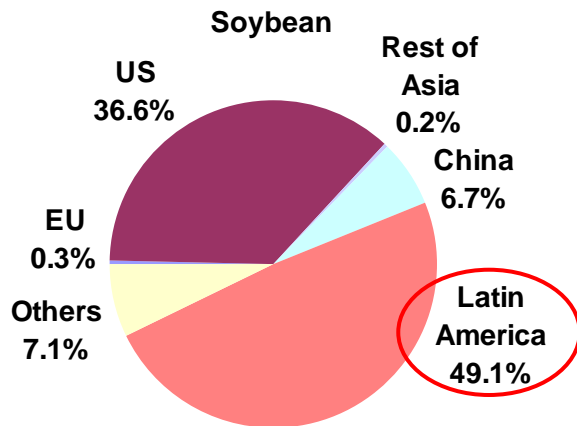
	2002 (% of total)		2007 (% of total)	
Argentina	4.31	5th	9.42	2nd
Bolivia	0.56	17th	1.16	15th
Brazil	4.25	4th	6.83	3rd
Chile	7.24	3rd	15.51	1st
Colombia	0.33	39th	2.62	7th
Mexico	0.28	12th	0.70	10th
Paraguay*	0.84	17th	1.03	15th
Peru	7.97	3rd	10.94	2nd
Uruguay	5.57	5th	3.59	↓ 7th
Venezuela	0.38	31st	0.16	↓ 35th

*2006 latest year available

Source: ERD BBVA on the basis of ALADI

LAC is key supplier of agricultural products, minerals and metals to China/HK and rest of Asia

Production Share by Region/Country, 2006-2008
(as % of world, selected commodities)



Source: ECLAC (2008)

Most remarkable, China has become the 1st or 2nd supplier to most Latin American markets

Imports from China at current prices, 2002 vs 2007
(as % of total imports and rank among suppliers)

	2002 (% of total)		2007 (% of total)	
Argentina	3.70	4th	11.46	3rd
Bolivia	4.83	7th	7.74	5th
Brazil	3.41	7th	10.8	2nd
Chile	7.16	4th	11.44	2nd
Colombia	4.2	6th	10.03	2nd
Mexico	3.72	3rd	10.49	2nd
Paraguay*	12.64	3rd	25.70	1st
Peru	6.19	4th	12.12	2nd
Uruguay	3.83	6th	9.61	4th
Venezuela	1.93	9th	9.68	3rd

*2006 latest data available

Source: ERD BBVA on the basis of ALADI

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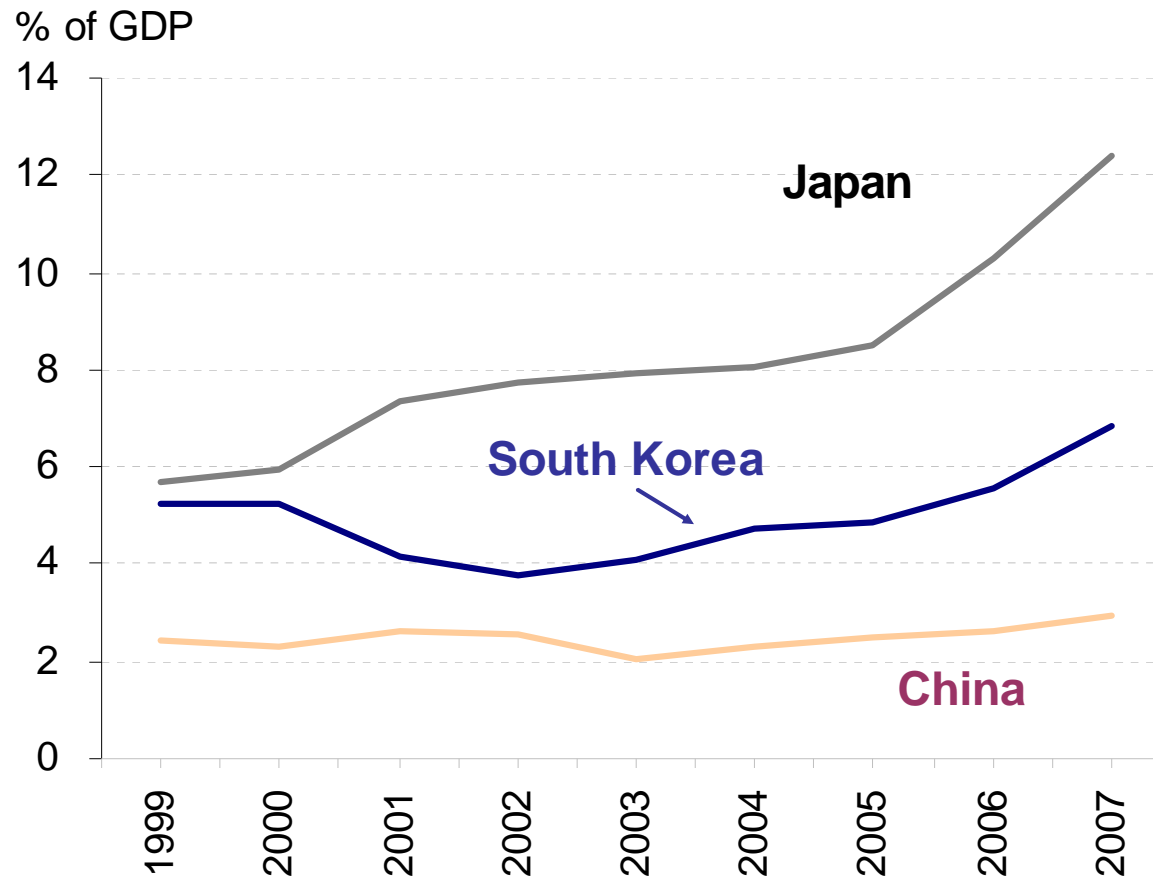
China's huge and growing reserves have been a source of financial and direct investment abroad



Source: ERD BBVA

Chinese FDI has ample room to increase further when compared with its peers in Asia

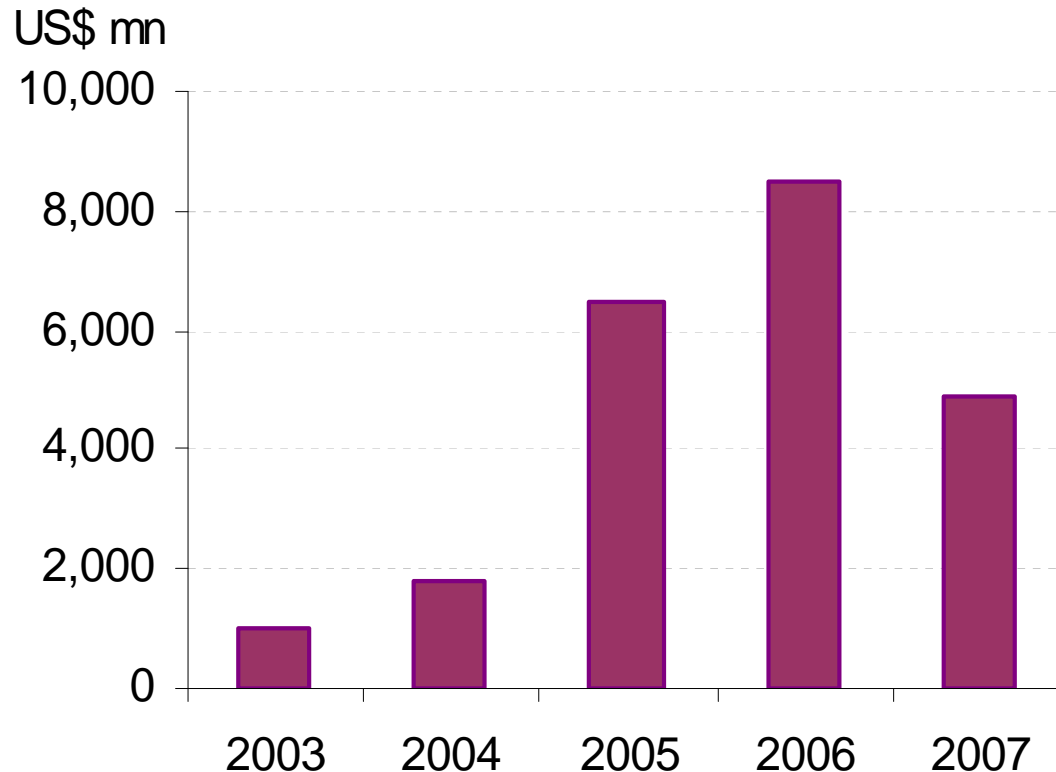
Chinese FDI stock vs Selected Asian Peers (outward FDI stock as % of GDP)



Source: ERD BBVA, UNCTAD (2008)

China's FDI into Latin America grew 80% per year since 2003

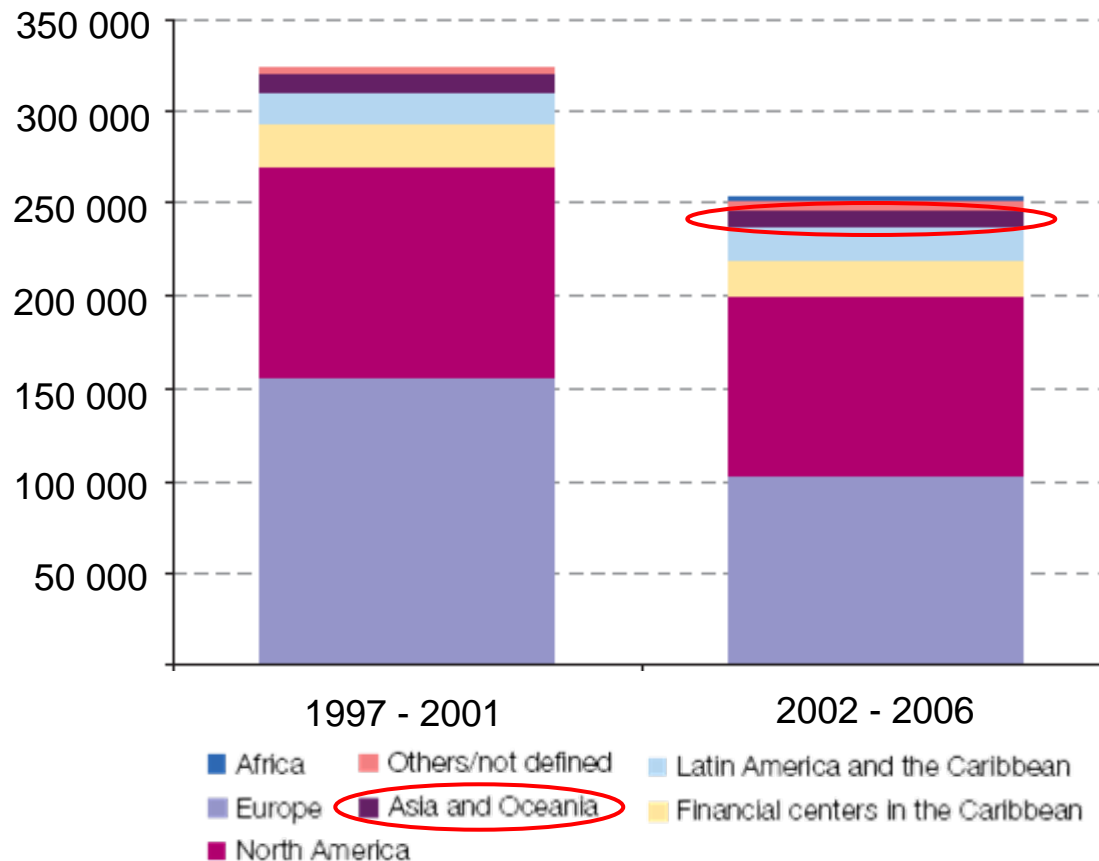
Chinese FDI into Latin America (non-finance sector)
(US\$ millions)



Source: ERD BBVA, CEIC

But ample room to increase in view of a very low starting base

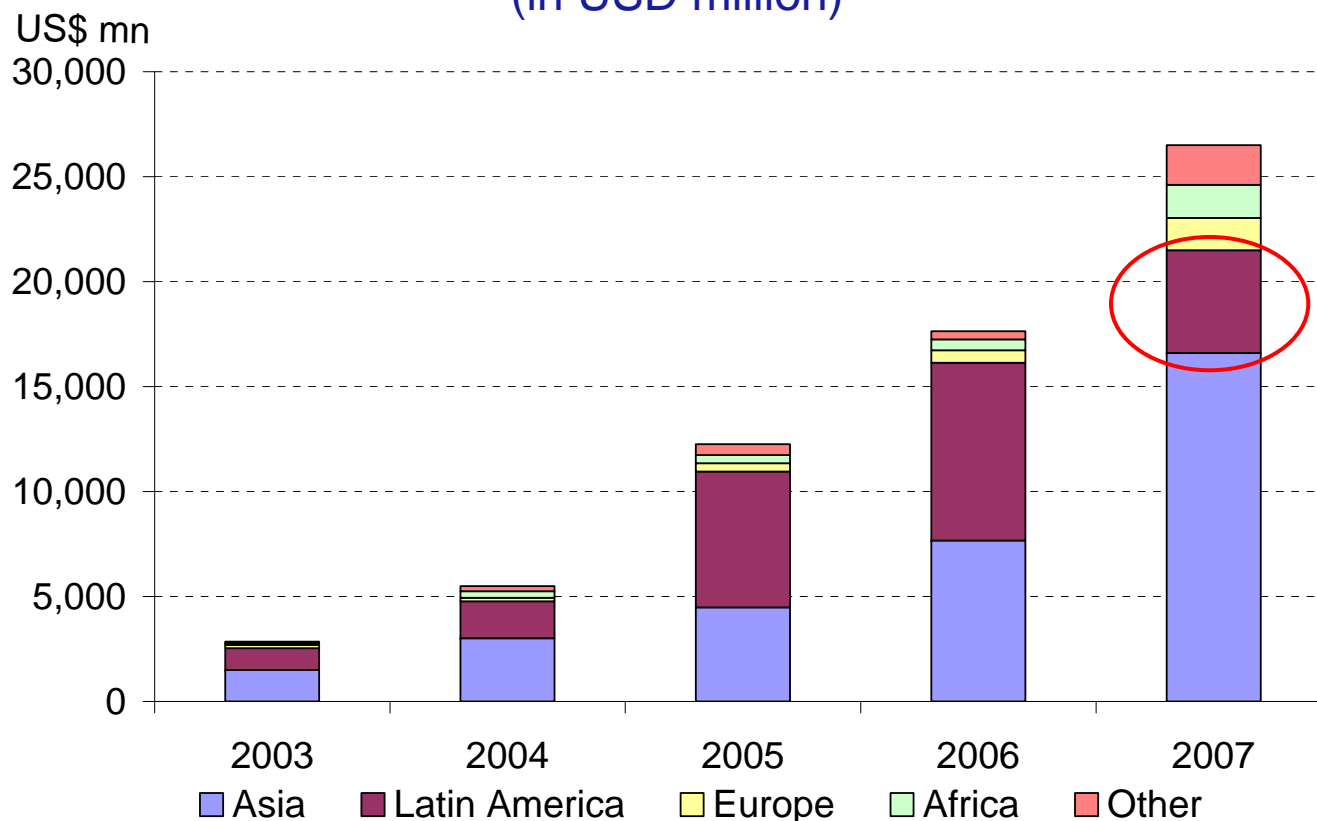
Latin America's inward FDI, 1997-2001 vs 2002-2006
(stock in US\$ millions)



Source: ECLAC (2008)

Moreover, Latin America is important for China's outward FDI

Chinese FDI flows by destination (non-finance sector), 2003-2007 (in USD million)



Source: ERD BBVA, China's Ministry of Commerce

Latin America has become China's largest foreign investment destination outside the Asian region.

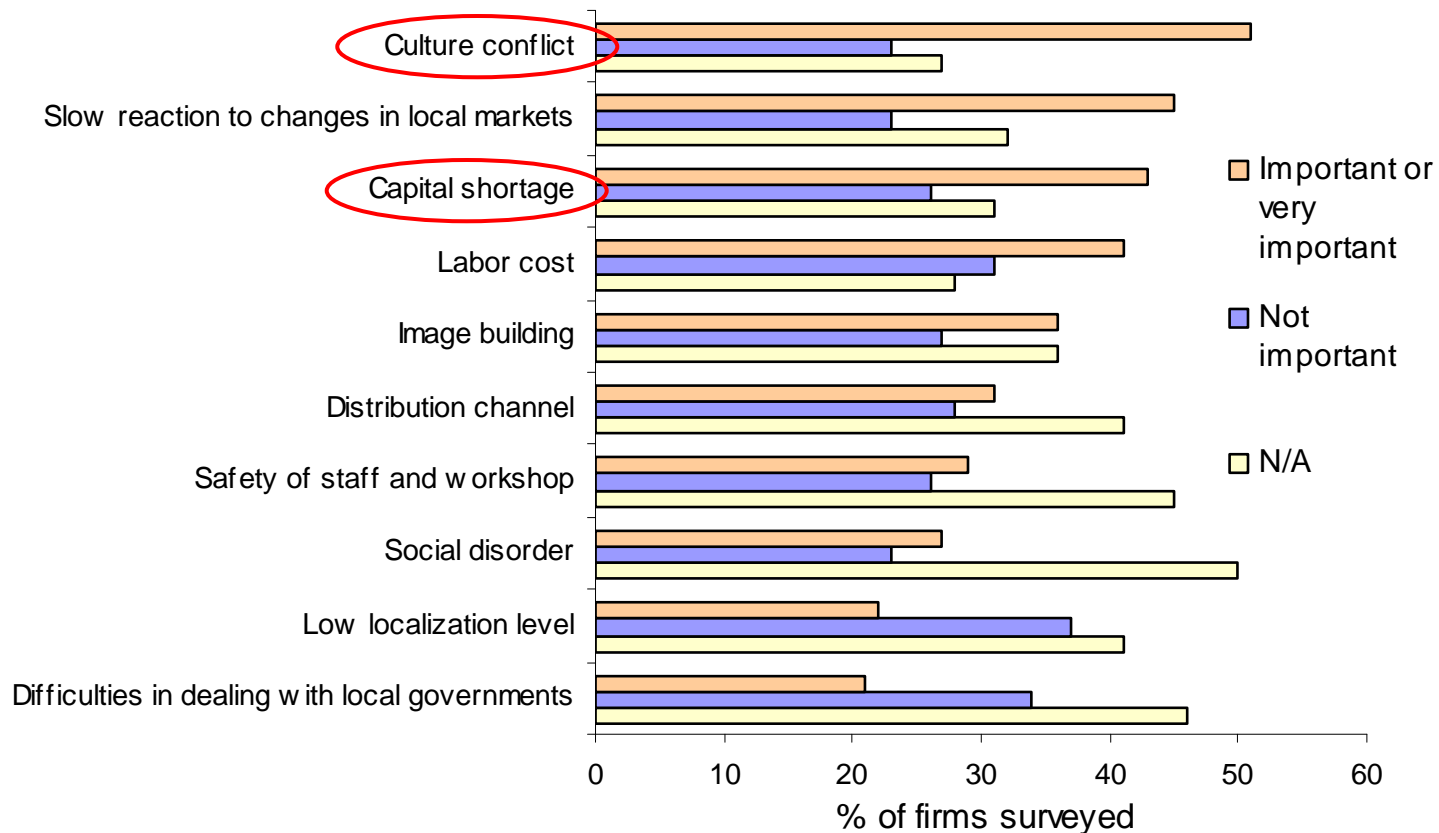
Key Chinese investments in Latin America

YEAR	INVESTING CO.	RECIPIENT CO.	STAKE	SECTOR	COUNTRY	INVESTMENT AMOUNT (US\$ million)
2008	Jiangxi Copper - China Minmetals	Canadian miner Northern Peru Copper (NOC)	94%	Copper mines	Peru	356 (C\$ 436)
2007	Chinalco	Peru Copper	75%	Copper mines	Peru	860
2007	Zijing Mining Group Co.	Monterrico Metals Plc-listed in London	90%	Copper mines	Peru	186 (GBP 96)
2006	China Minmetals Non-ferrous Metals Co	Corporacion Nacional del Cobre de Chile	Joint Venture	Copper mines	Chile	550
2006	China National Petroleum Corp (CNPC)	PDVSA	Joint Venture	Crude oil exploration	Venezuela	10
2006	Minmetals	Government of Cuba	Joint Venture	Niquel	Cuba	500
2006	Sinopec (China) & ONGC	Omimex	50%	Crude oil	Colombia	55
2005	Minmetals	Noranda	44%	Copper mines	Chile	20
2005	Andes Petroleum, CNPC and Sinopec	Encana	100%	Crude oil	Ecuador	1,420
2005	Shengli International (SINOPEC)	YPFB	Joint Venture	Crude oil	Bolivia	1,500
2003	Sinochem	CRS Resources	14%	Crude oil	Ecuador	100

Source: ERD BBVA, press

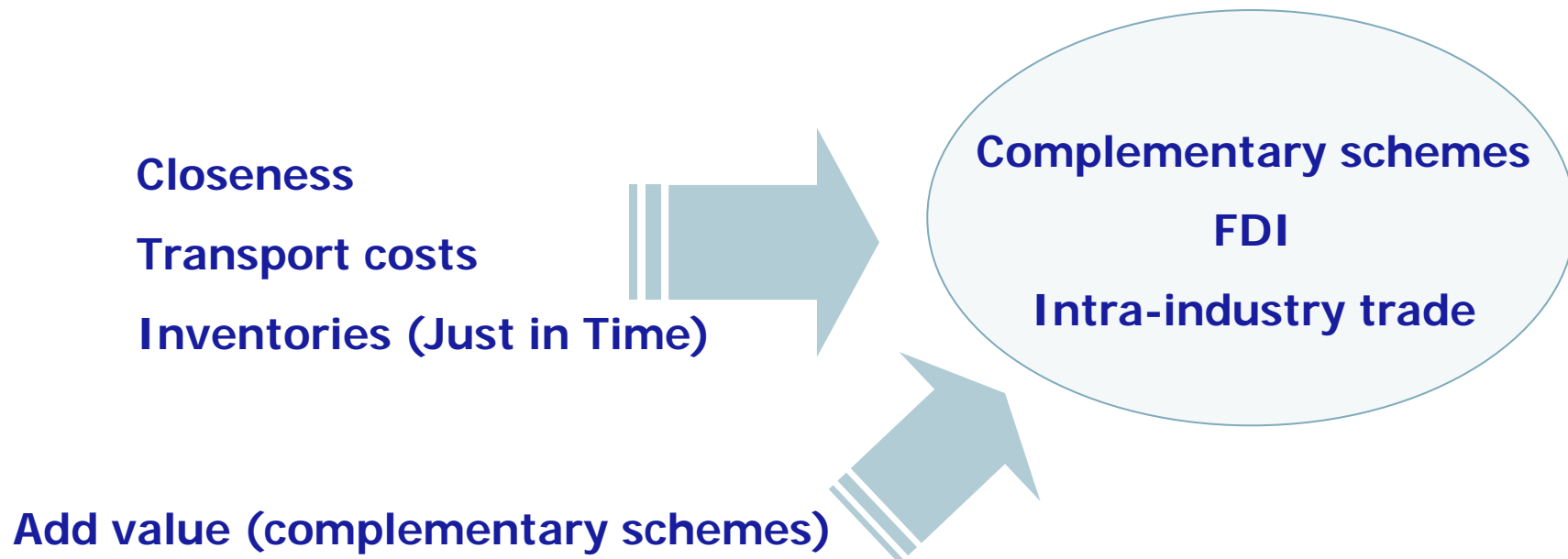
How is the Chinese investment experience overseas?

Main Challenges Faced in International Operations (in % of responses, firm survey)



Source: Battat, Joseph, FIAS/ MIGA Firm Survey (April 2006)

Latin America should exploit geographical proximity to the US market to attract China's FDI

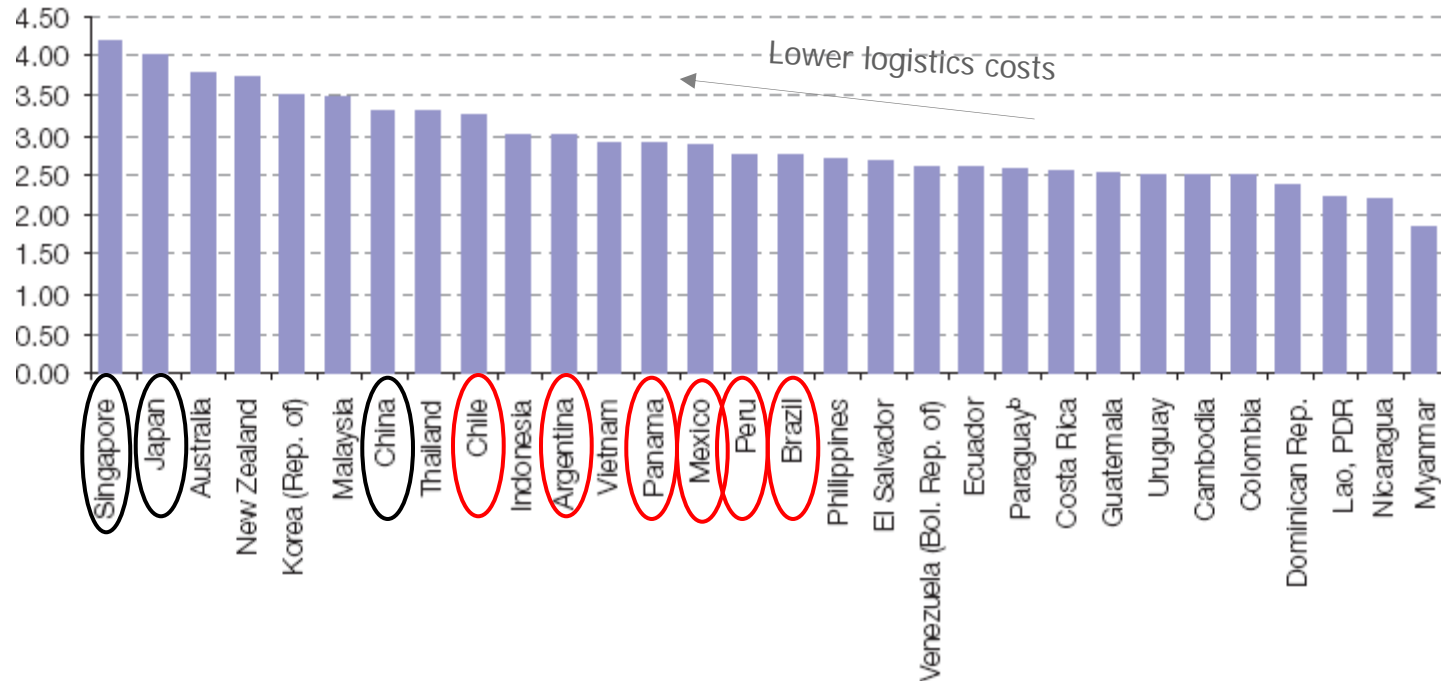


In order to attract FDI, Latin American countries still has much work to do in improving their institutions and infrastructure

Latin America is and will continue to be an important market for China/HK (export diversification and provision of services).

Latin America needs also to strengthen its trade logistics in order to lower exporters' costs

Logistics performance index
(score in the range of 0-5)



Source: ERD BBVA, ECLAC (2008), World Bank (2007)



To conclude

- Latin America and China are complementary strangers
- Our bet is that the potential gains of such natural complementary will be reaped in the next few years
- Ways to foster this process are:
 1. Permanent alliances in trade (FTA) to secure commodities to China
 2. Latin America's gradual shift from the current inter-industry trade pattern to vertically integrated trade with the help of HK and Chinese investors

In the current difficult circumstances worldwide,

financing will be key

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Thank you!

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