

China's role in Latin America: Participation & Consequences

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Summary

Evolution of bilateral trade and investment

LatAm's export dependency on China

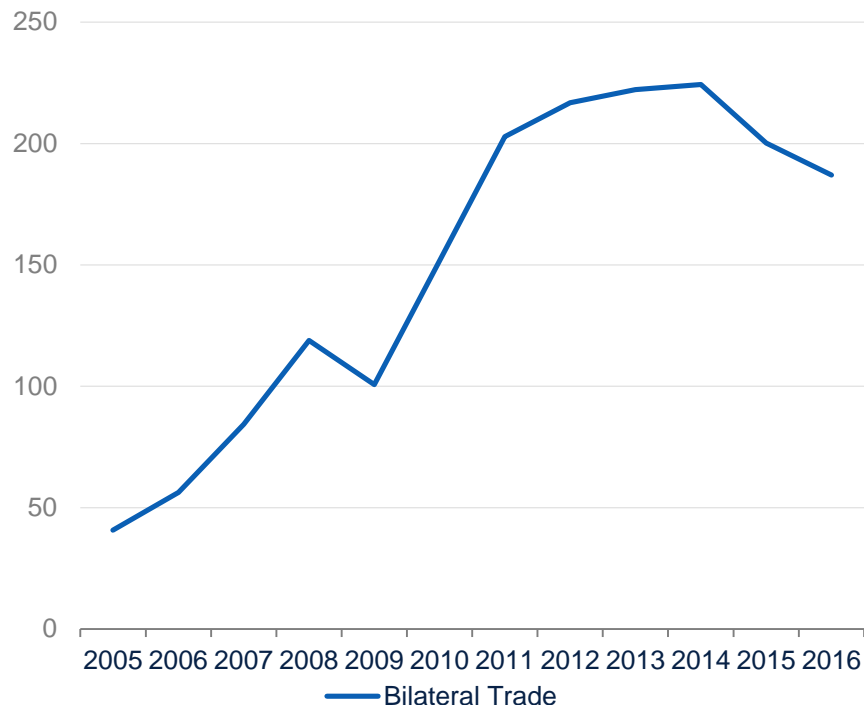
China's OFDI and financial influence in Latam

**Extant critiques on China's role in LatAms
and new opportunities: OBOR**

Bilateral trade has grown very quickly but remains unbalanced

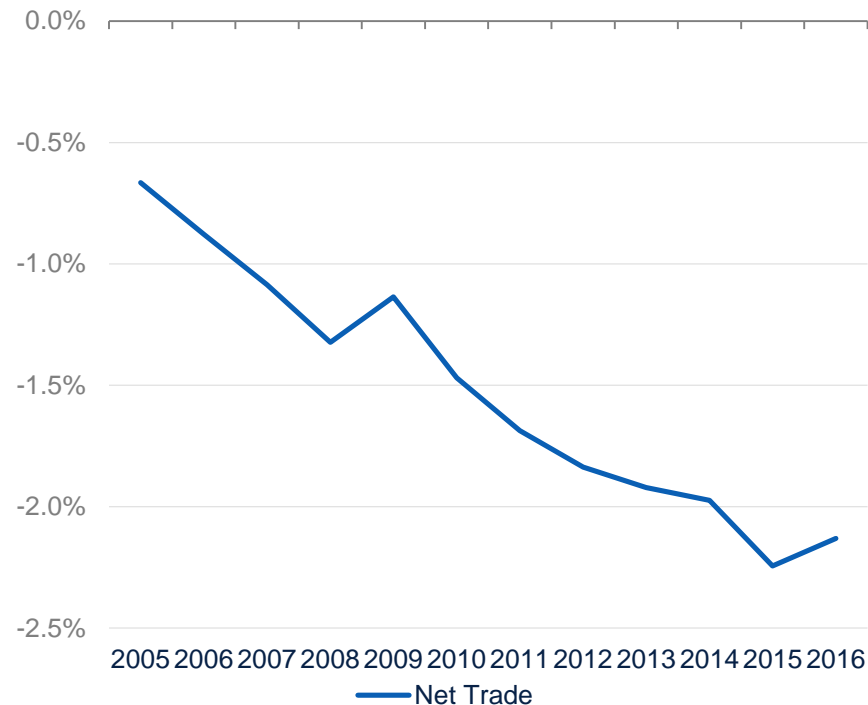
Bilateral trade(US\$ billion)

Source: BBVA Research ,IMF DOT and World Bank



Net trade(% GDP)

Source: BBVA Research ,IMF DOT and World Bank



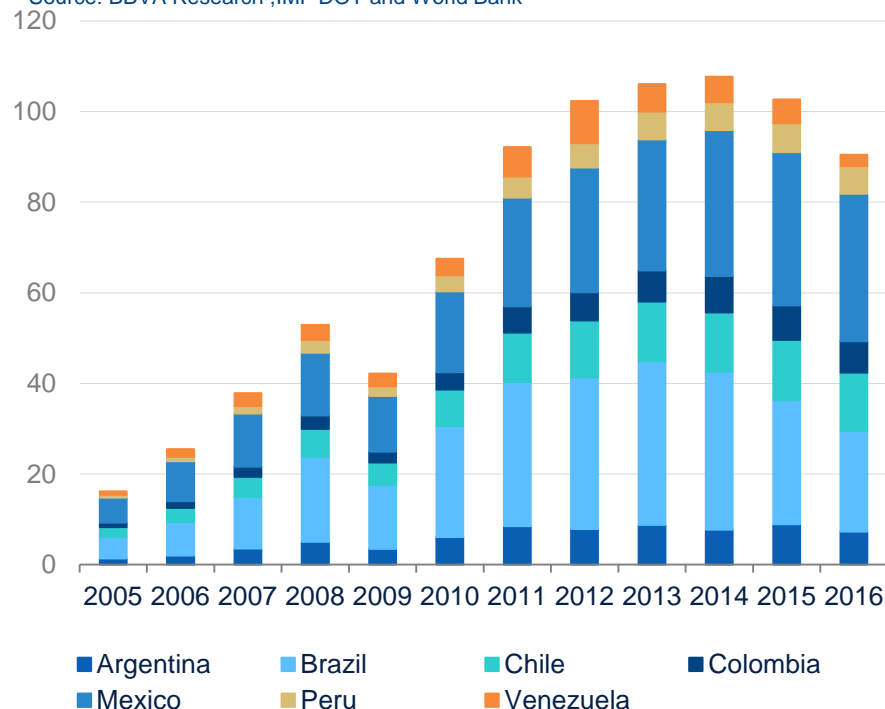
China's trade ties with Latin America intensified tremendously.

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

Bilateral trade has grown quickly but remains unbalanced (I)

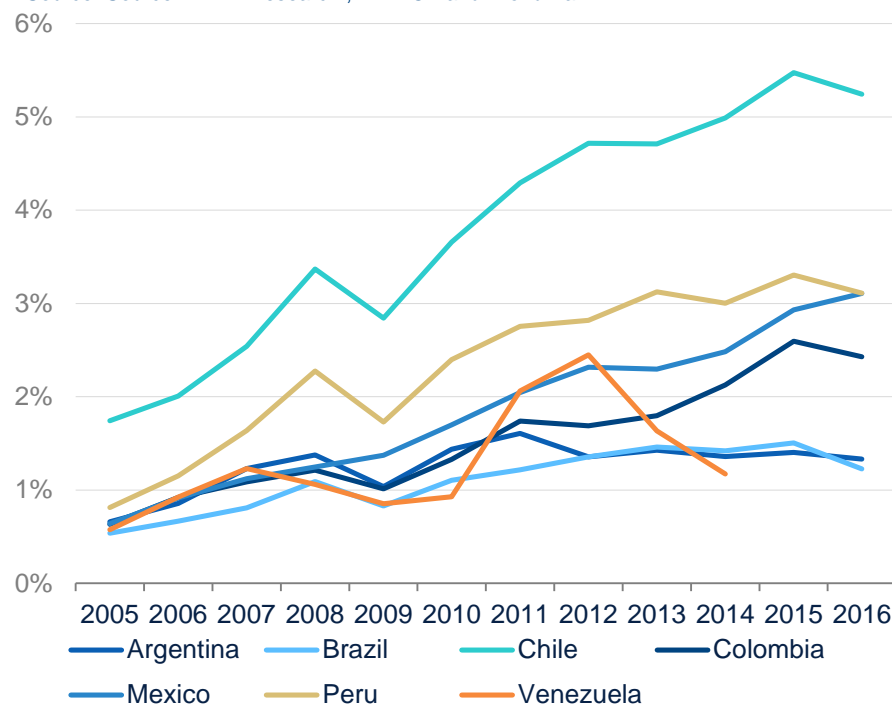
Latin American imports from China (US\$ billion)

Source: BBVA Research ,IMF DOT and World Bank



Latin American imports from China (% GDP)

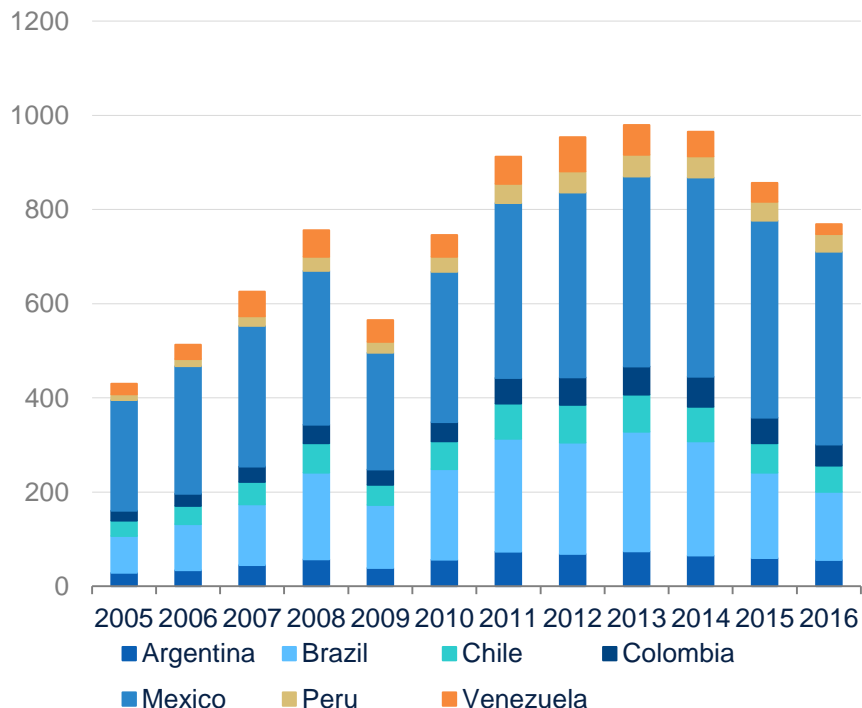
Source: Source: BBVA Research ,IMF DOT and World Bank



Bilateral trade has grown quickly but remains unbalanced (II)

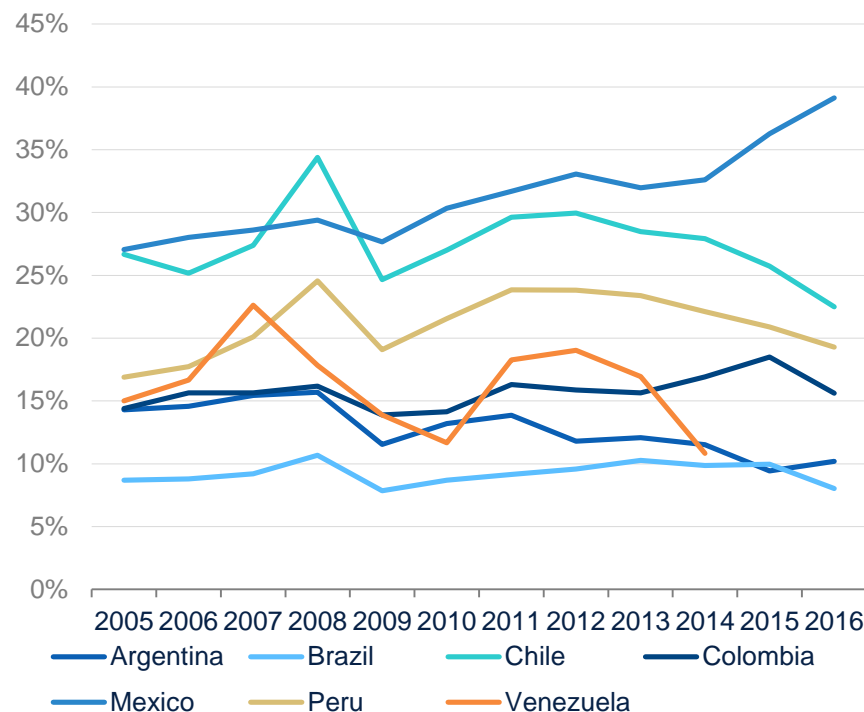
Latin American exports to China(US\$ billion)

Source: BBVA Research ,IMF DOT and World Bank



Latin American exports to China(% GDP)

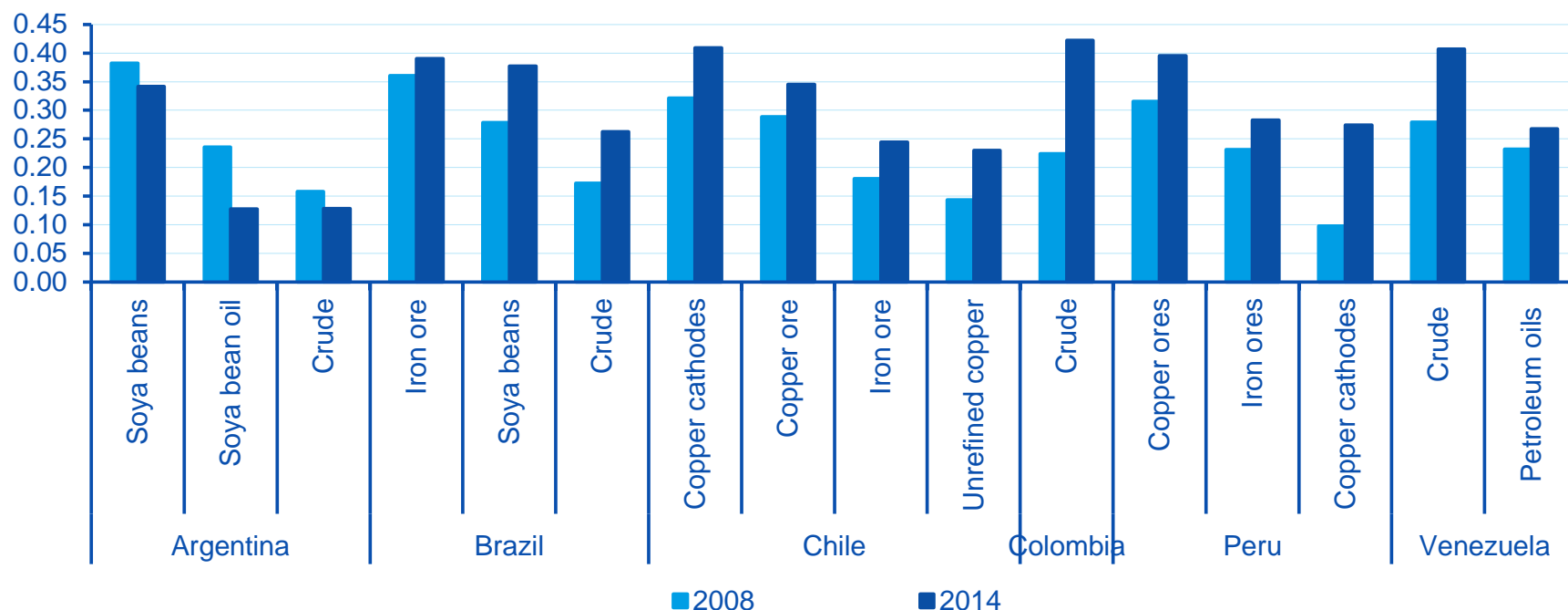
Source: BBVA Research ,IMF DOT and World Bank



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

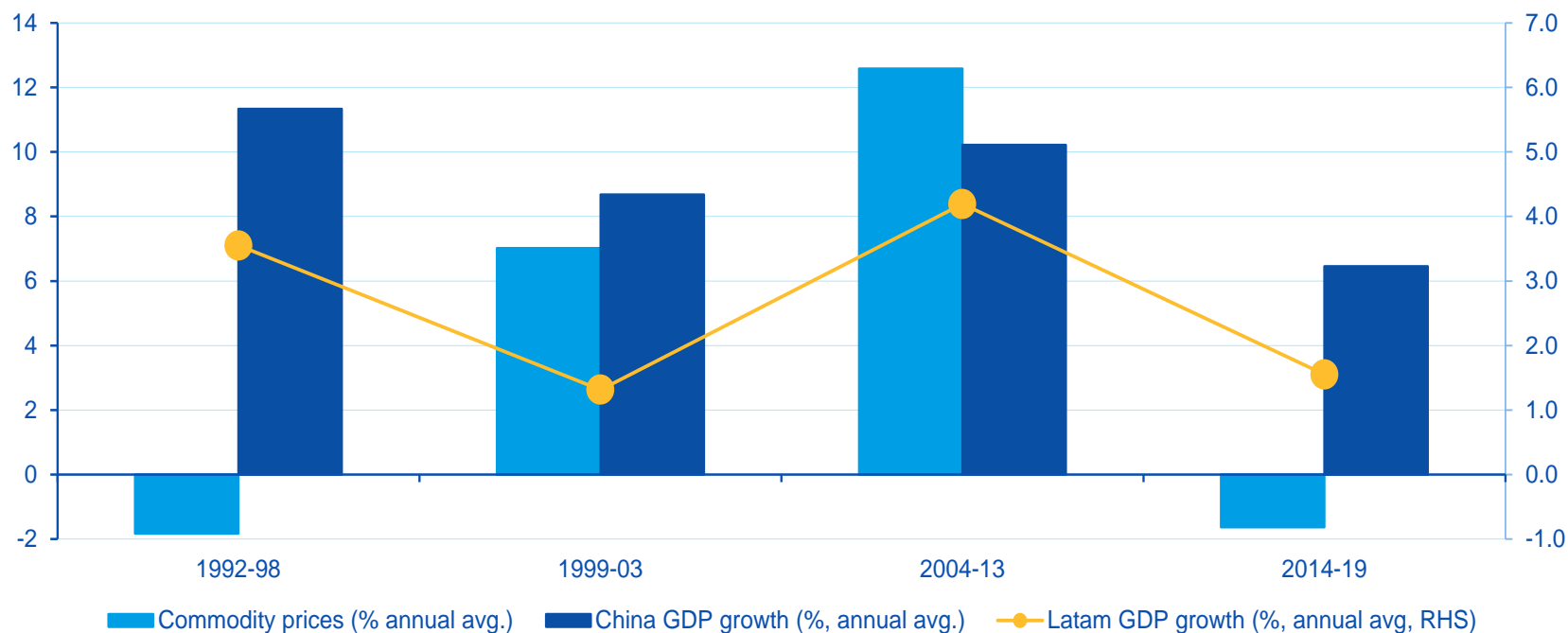


Brazil, Argentina, Chile, Peru, Colombia, Mexico and Venezuela were the main exporters to China in 2014. Excluding Mexico, all of them ranked amongst the top-10 most dependent countries on China.

Commodity prices link up growth of China and Latam

LatAm and Chinese growth and commodity prices

Source: IMF



Trade dependence index: another perspective

- To measure the degree of exposure of Latin American countries to shifts in Chinese demand, we have deployed the use of our export dependency index. (Garcia-Herrero, Nigrinis and Ferchen, 2013). The Index measures the relative exposure of Latin American exporters to shifts in demand from China and is scaled from 0 to 1 (the higher the score, the more exposed an exporter is to disruptions of trade with China).
- We undertook the analysis using 6-digit trade figures from the United Nations COMTRADE database (Harmonized System 2007 nomenclature) to ensure granularity and consistency and contrasted our results across two points in time, 2008 and 2014. The analysis was very comprehensive, covering the products that accounted for 80% or more of all exports to China in 2014, for all countries in Latin America and the Caribbean. We define our export dependency index as follows:

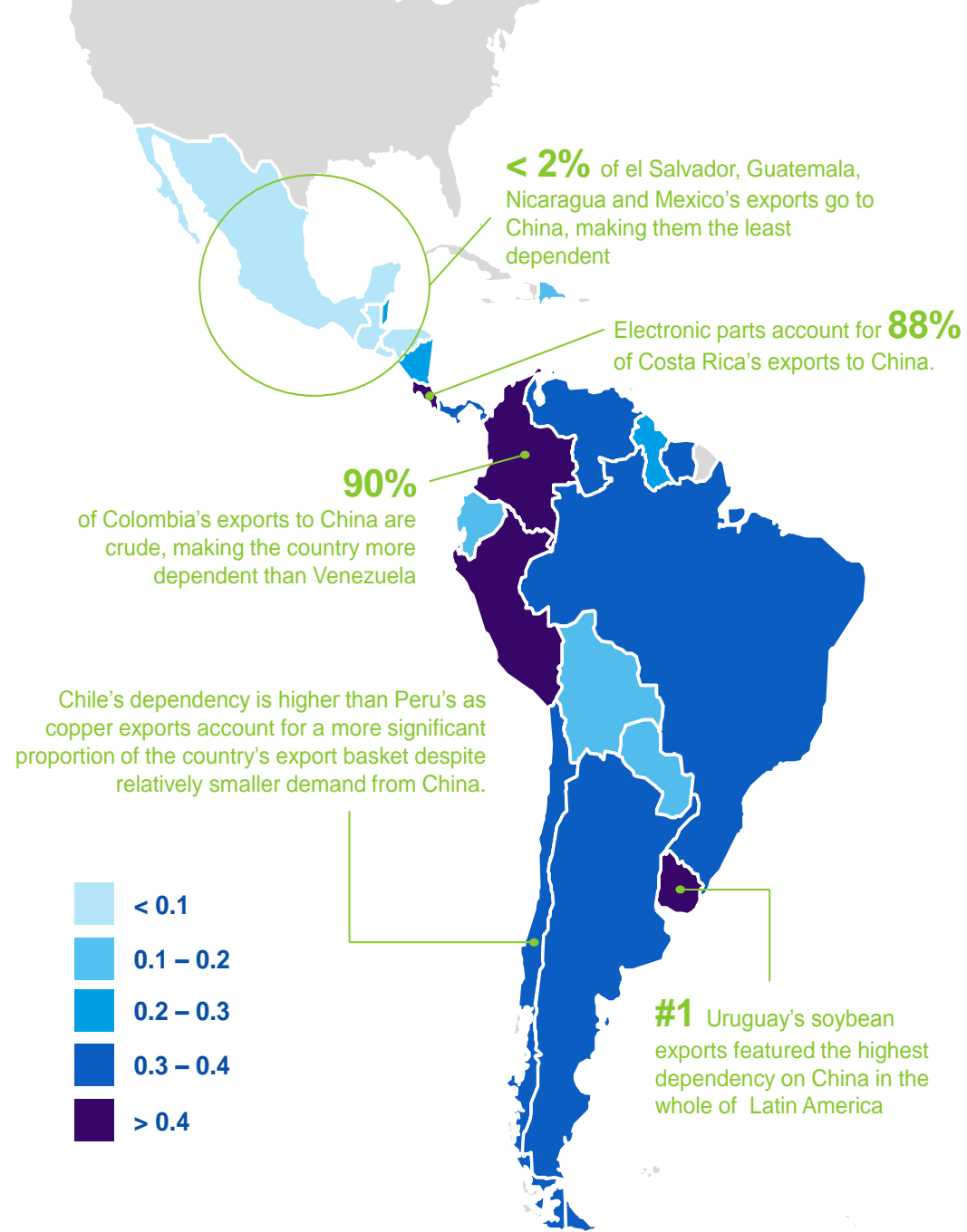
$$Index_{x,y} = \sqrt[3]{\frac{EXP_{x,y}}{EXP_y} \times \frac{EXP\ to\ China_{x,y}}{EXP_{x,y}} \times avg \left[\frac{IMP_x\ China}{IMP_x} \times \left(1 - \frac{EXP_{x,y}}{EXP_x} \right) \right]}$$

Export dependency on China is a relative measure which examines the exposure by Latin American exporters to shifts in Chinese demand. Our index does not include exports to countries other than China, nor will look at the export dependency of countries outside Latin America and the Caribbean.

Trade dependency 1

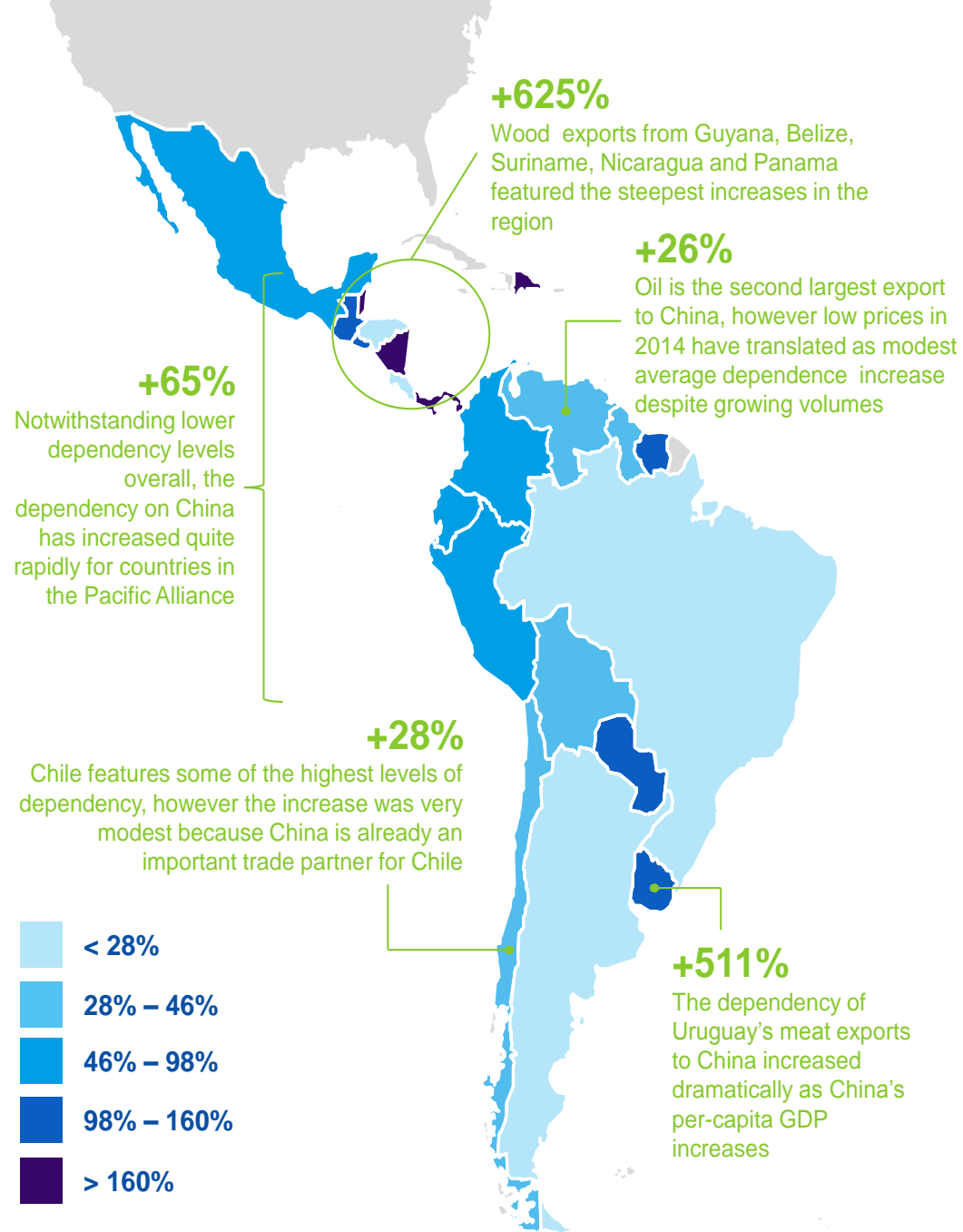
- Export dependency by country on a trade-weighted average basis (Index: 0-1)
- The countries with the highest absolute dependency levels tend to be important commercial partners or strategic allies of China in Latin America.
- E.g. Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Venezuela

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

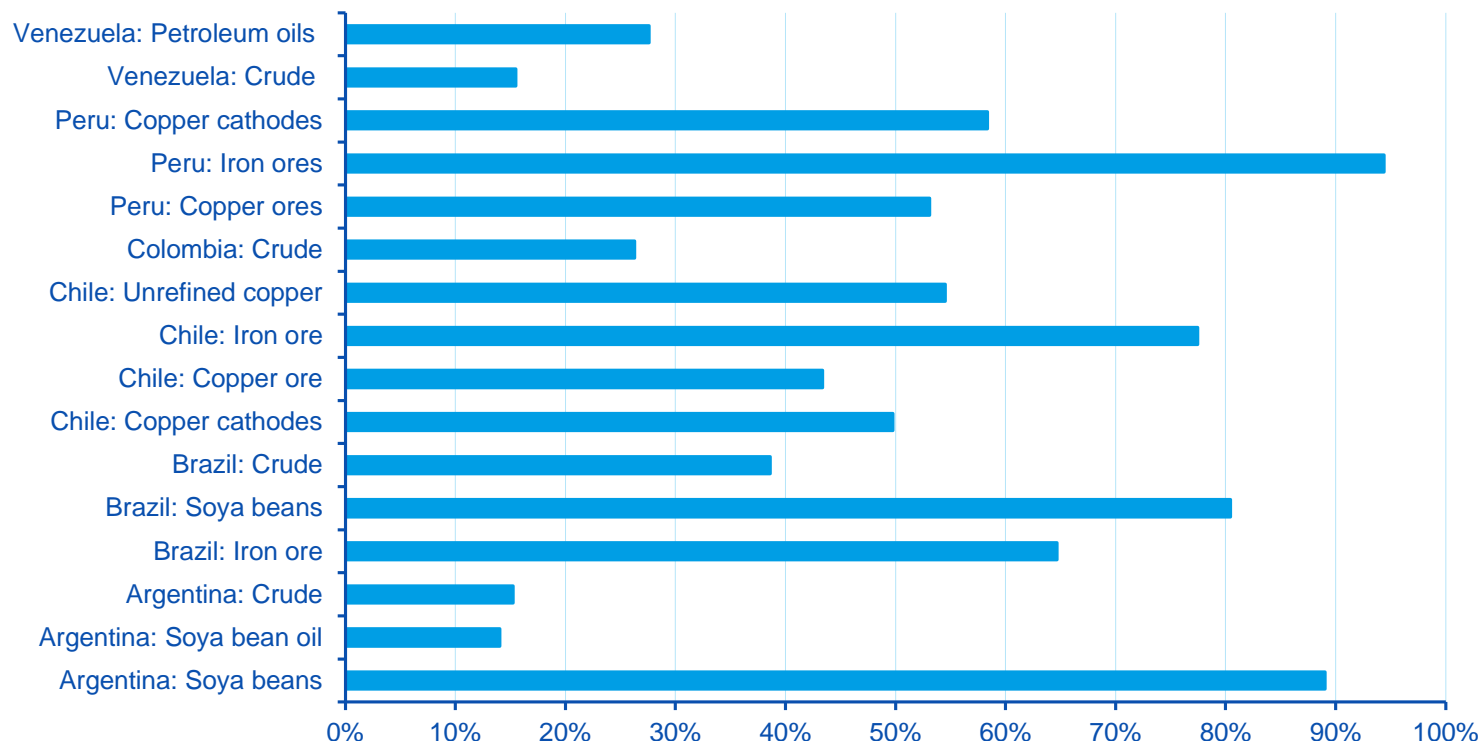
- Change in export dependency index between 2008 and 2014 (Δ %)
- despite lower overall levels of export dependency, the steepest increases can be observed amongst countries which have traditionally been considered to be closer commercially and politically to the United States.
- E.g. Pacific Alliance,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



Mexico is an exception for the rest of Latin America

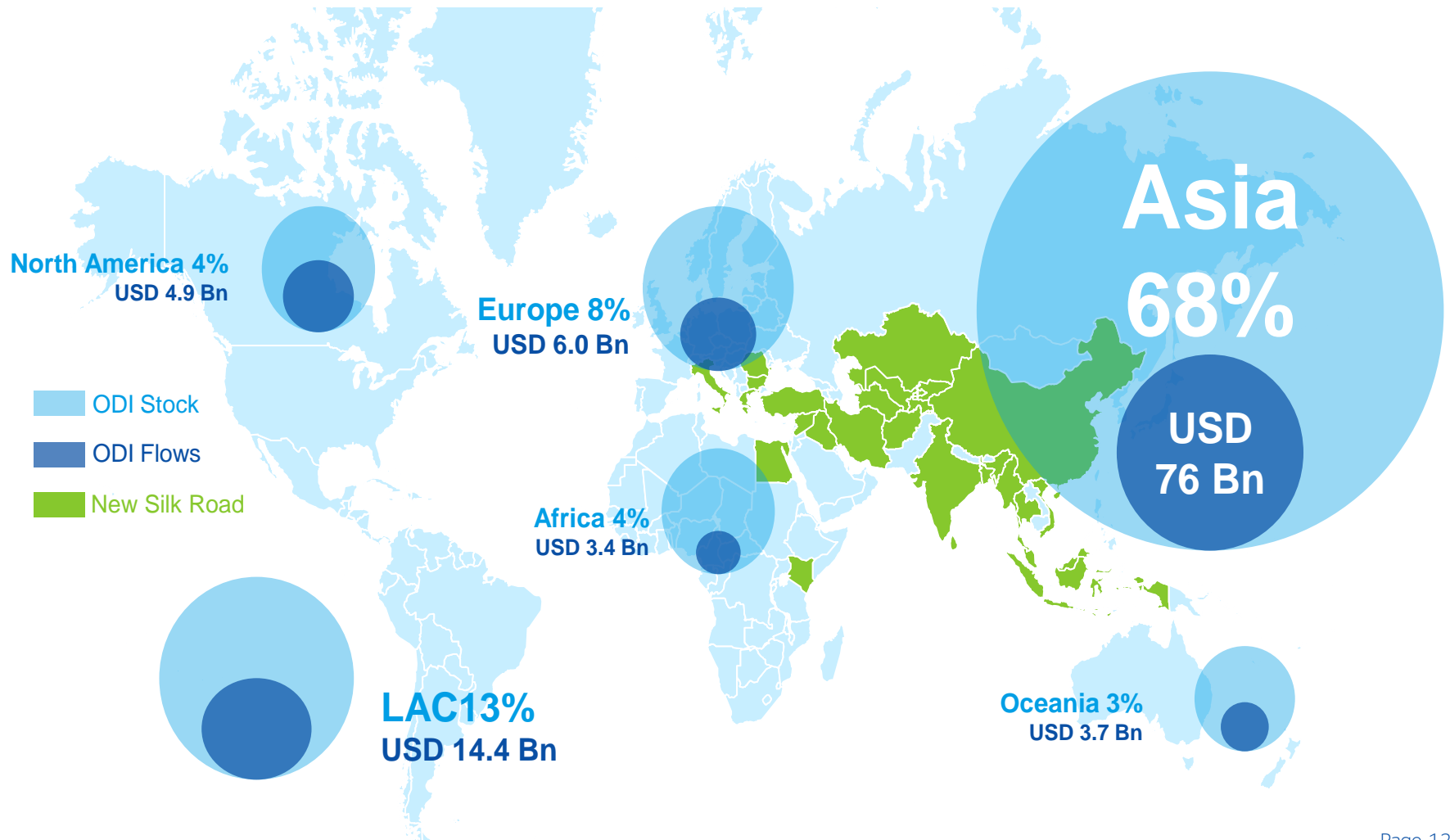
Country Y's exports of Commodity X to China as a % of total exports of commodity X in 2014

Source: BBVA Research based on UN COMTRADE statistics

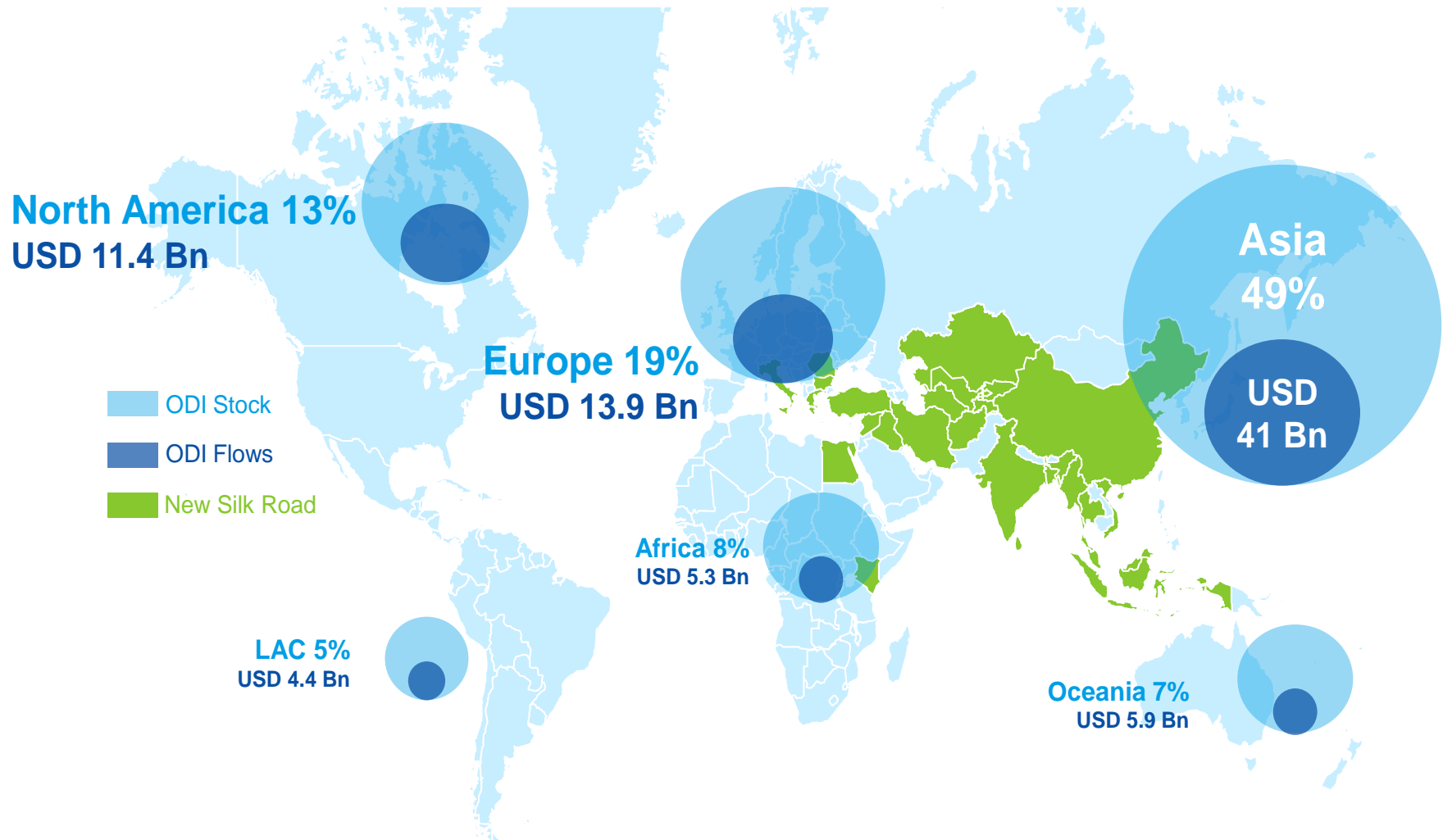


Mexico's export dependency on China grew by 95% between 2008 and 2014, slightly above the average for Latin America, which was 88%. Mexico is China's second largest trade partner in the region, behind Brazil, while China is Mexico's second largest partner.

Distribution of Chinese OFDI



Distribution of Chinese ODI BBVA



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)

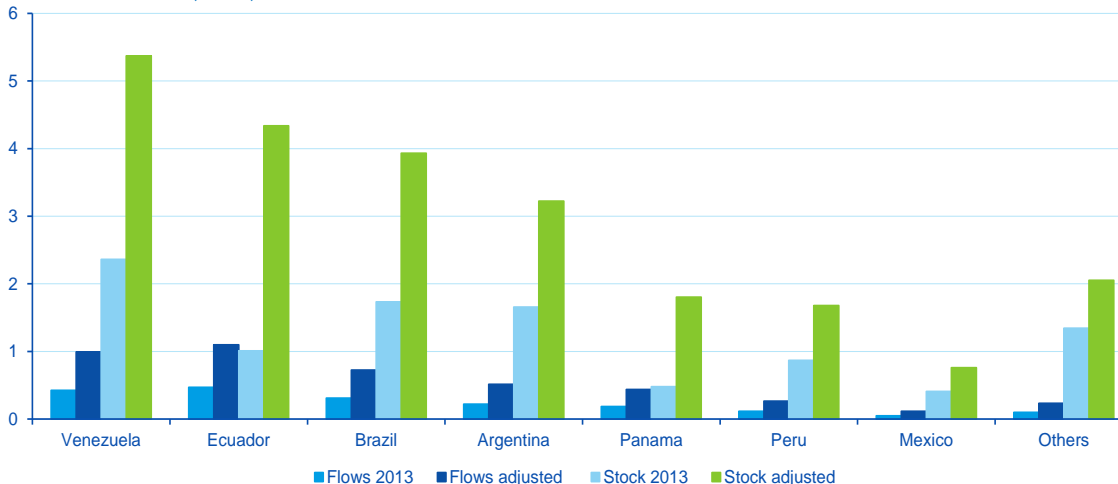
Source: MOFCOM, NBS, SAFE and BBVA Research

Stocks excluding valuations in billions of USD

MOFCOM			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%

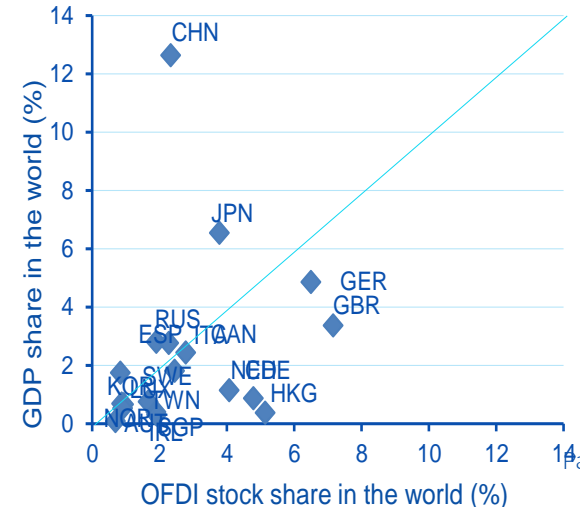
Distribution of Chinese ODI in LatAm (USD Bn)

Source: MOFCOM, NBS, SAFE and BBVA Research



Chinese ODI underrepresented

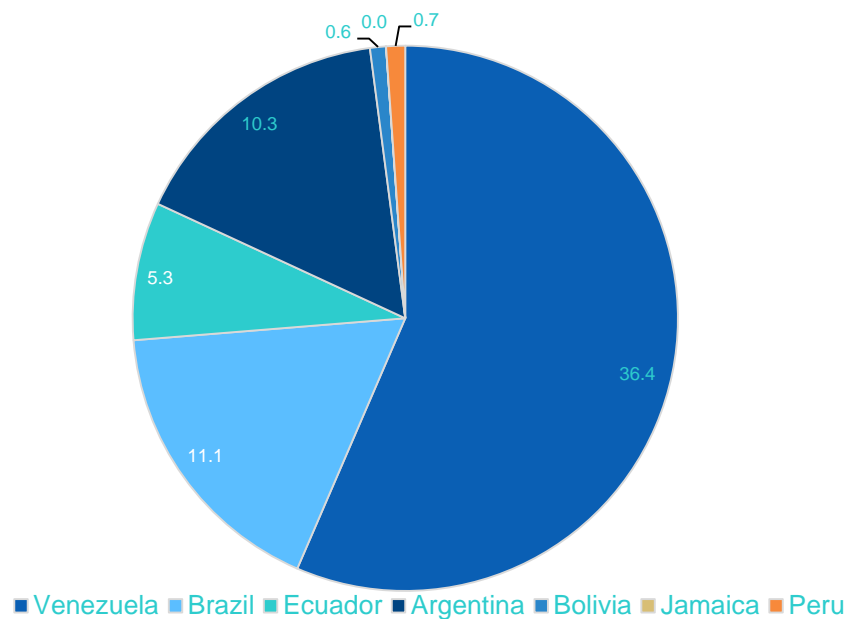
Source: UNCTAD and BBVA Research



China policy bank loans to Latin America

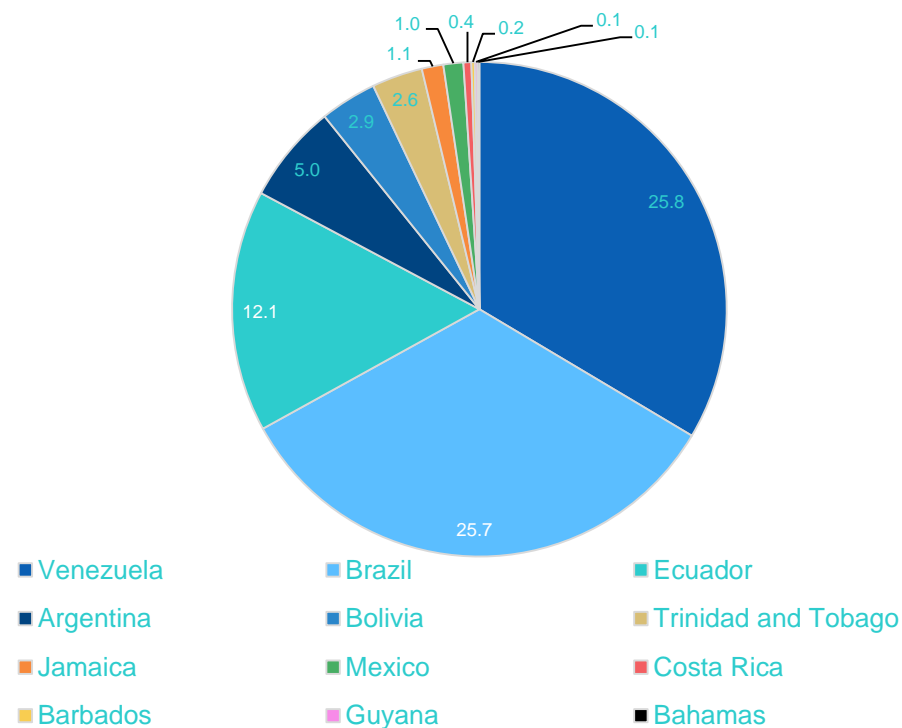
China policy bank loans to Latin America 2005-2011 (US\$ billion)

Source: BBVA Research ,IMF DOT and World Bank



China policy bank loans to Latin America 2012-2016 (US\$ billion)

Source: BBVA Research ,IMF DOT and World Bank

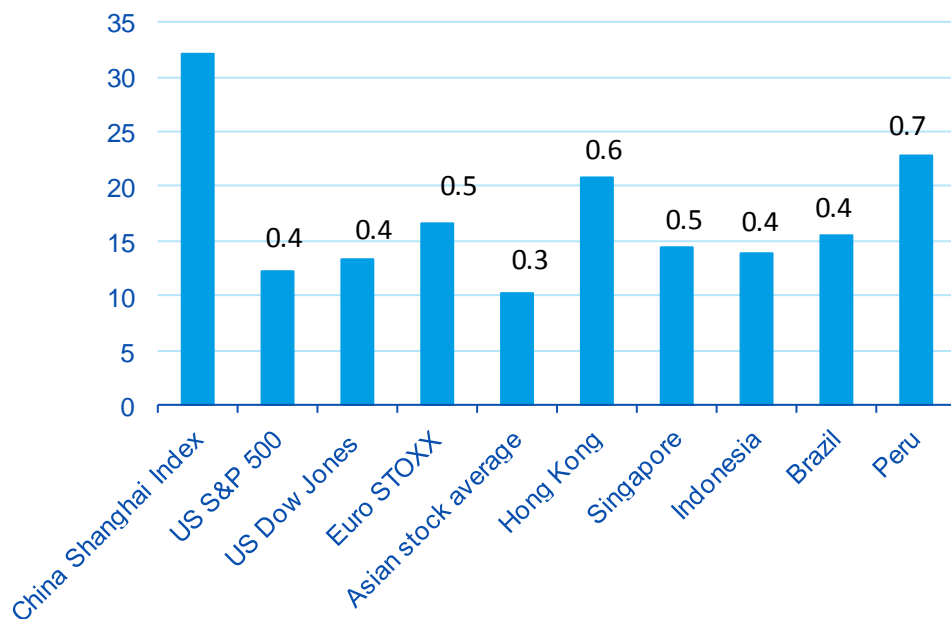


Since 2005, China Development Bank and China Export-Import Bank have provided more than \$141 billion in loan commitments to Latam and Caribbean countries.

Case study: China financial market spill-over effects

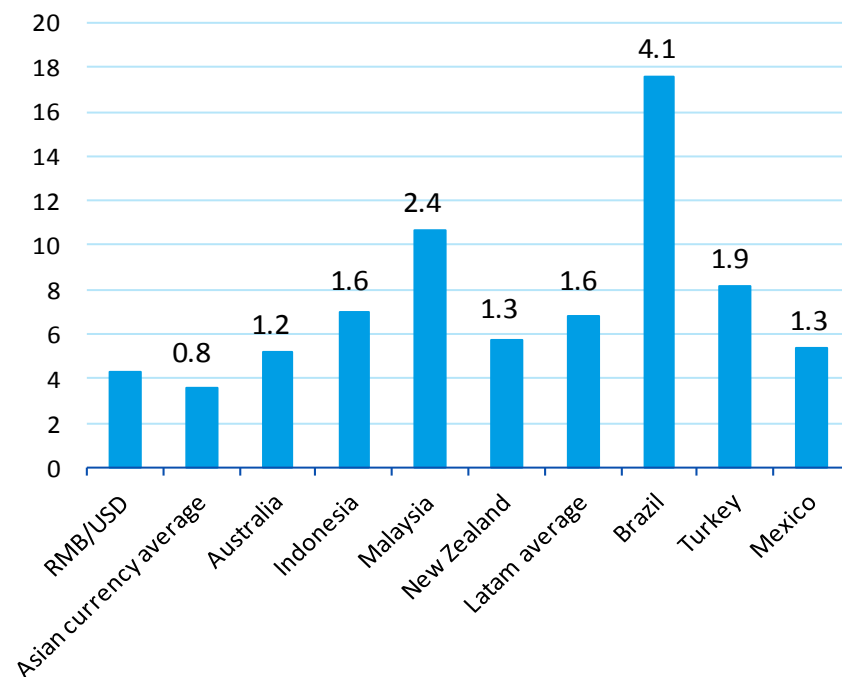
Stock market reactions of China's stock market crash and RMB sharp devaluation

% Source: BBVA Research and Bloomberg



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

% Source: BBVA Research and Bloomberg

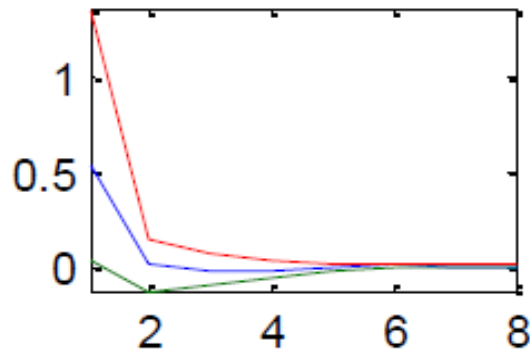


Market response to financial shocks : stock market

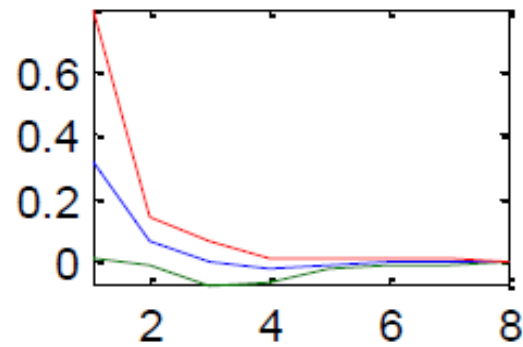
The responses of Latam stock to 1sd. Of China stock shock

Source: BBVA Research

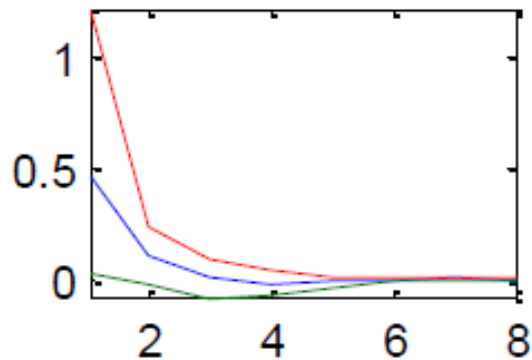
Brazil Stock



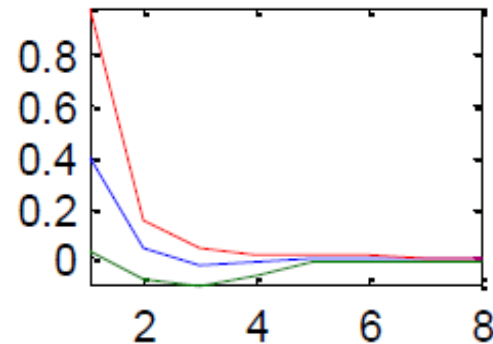
Chile Stock



Peru Stock



Mexico Stock

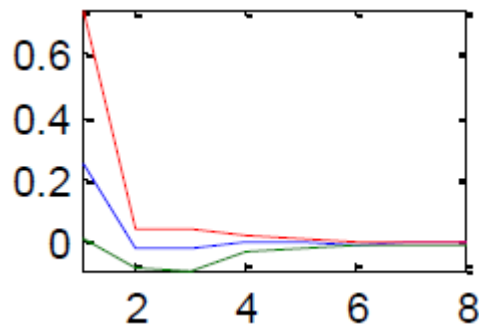


Market response to financial shocks : Currency

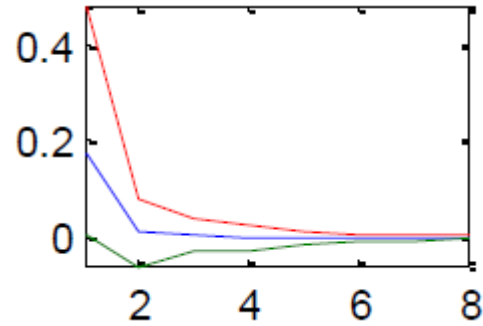
The response of Latam currencies upon 1 s.d of RMB /USD shock:

Source: BBVA Research

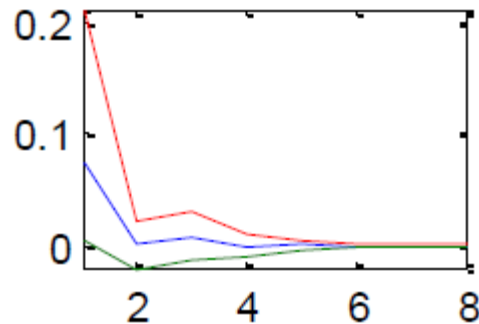
BRL/USD



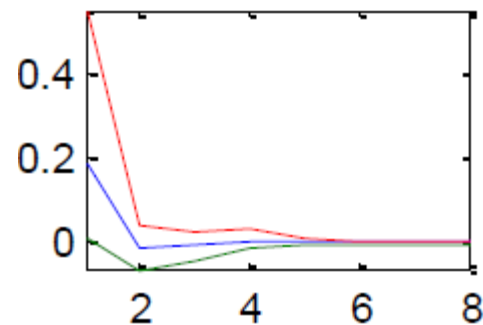
CLP/USD



PEN/USD

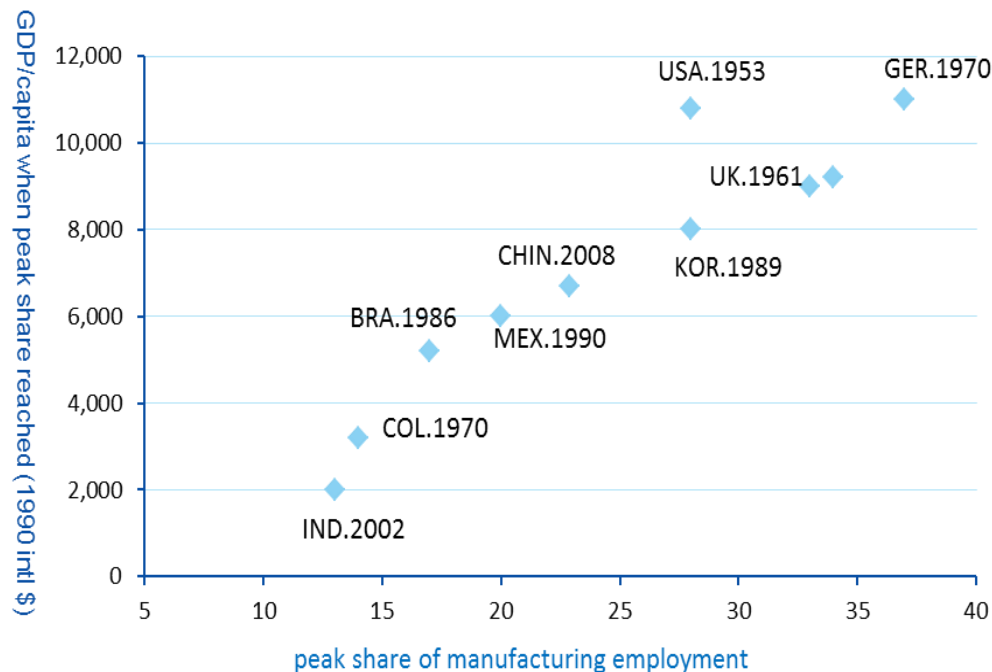


MXN/USD



Is China the culprit of LatAm's premature deindustrialization

- Premature De-industrialization: Middle-income Trap
- Latam worse than other EMs : abandoning import substitution.
- Manufacturing jobs are shifting to China (*Economist* 2017).



Intraregional exports and imports (% 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

Source: UNCTAD Statistical database and BBVA Research

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 OBOR

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)

OBOR: defining new relationship between China and Latam



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

Source: UNCTAD Statistical database and BBVA Research

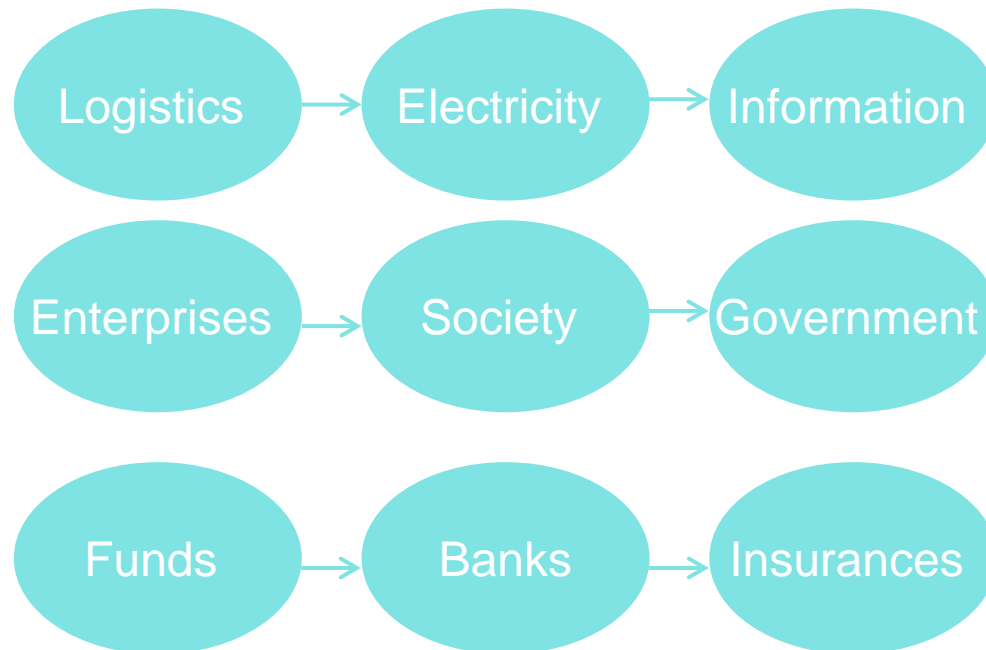
Region	Percentage of GDP
East Asia and the Pacific	7.7
Central Asia	4.0
Latin America and the Caribbean	2.8
Middle East and North Africa	6.9
South Asia	5.0
Sub-Saharan Africa	1.9

OBOR: What's in for Latam?

New model of Production Cooperation between
Latam and China:

Proposed by China's Premier Li Keqiang 2017

“3×3”:



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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