

China's role in Latin America: Participation & New Strategy

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Index

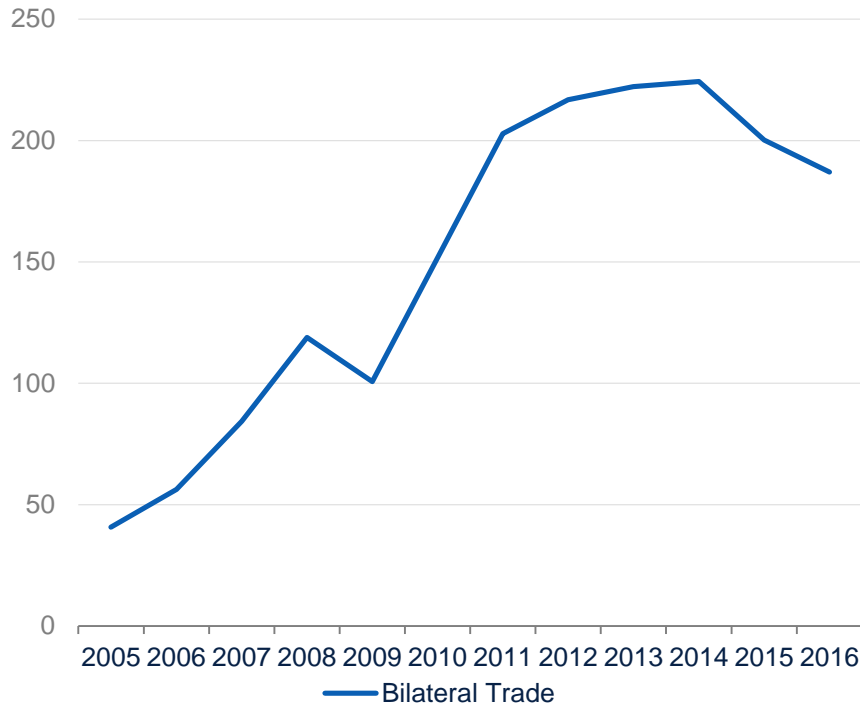
- 01** Evolution of bilateral trade and investment
- 02** LatAm's export dependency on China
- 03** China's OFDI and financial influence in LatAm
- 04** OBOR and its implications for business



Bilateral trade has grown very quickly but remains unbalanced

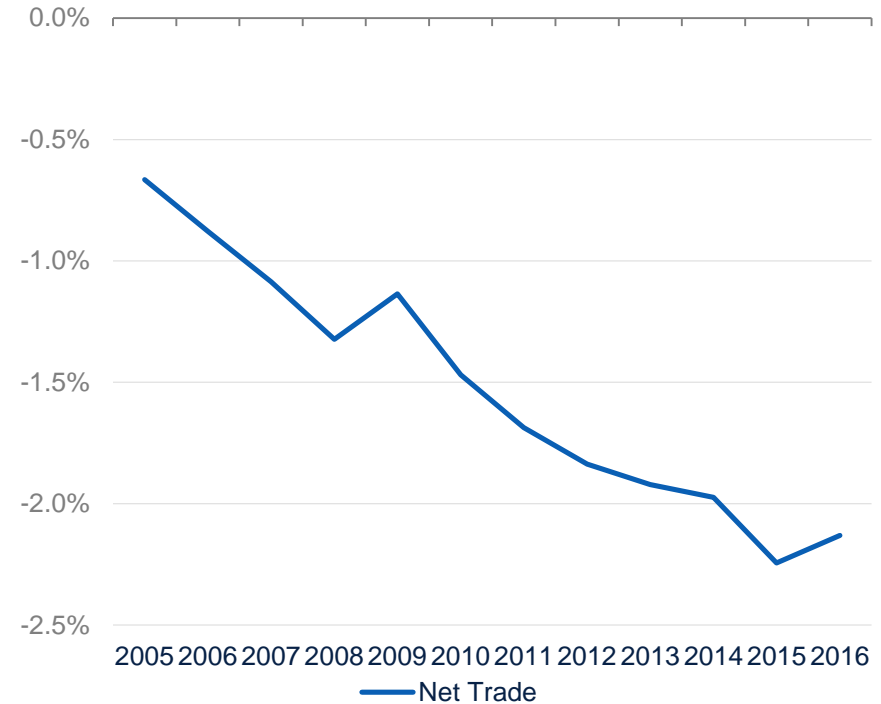
Bilateral trade(US\$ billion)

Source: BBVA Research ,IMF DOT and World Bank



Net trade(% GDP)

Source: BBVA Research ,IMF DOT and World Bank



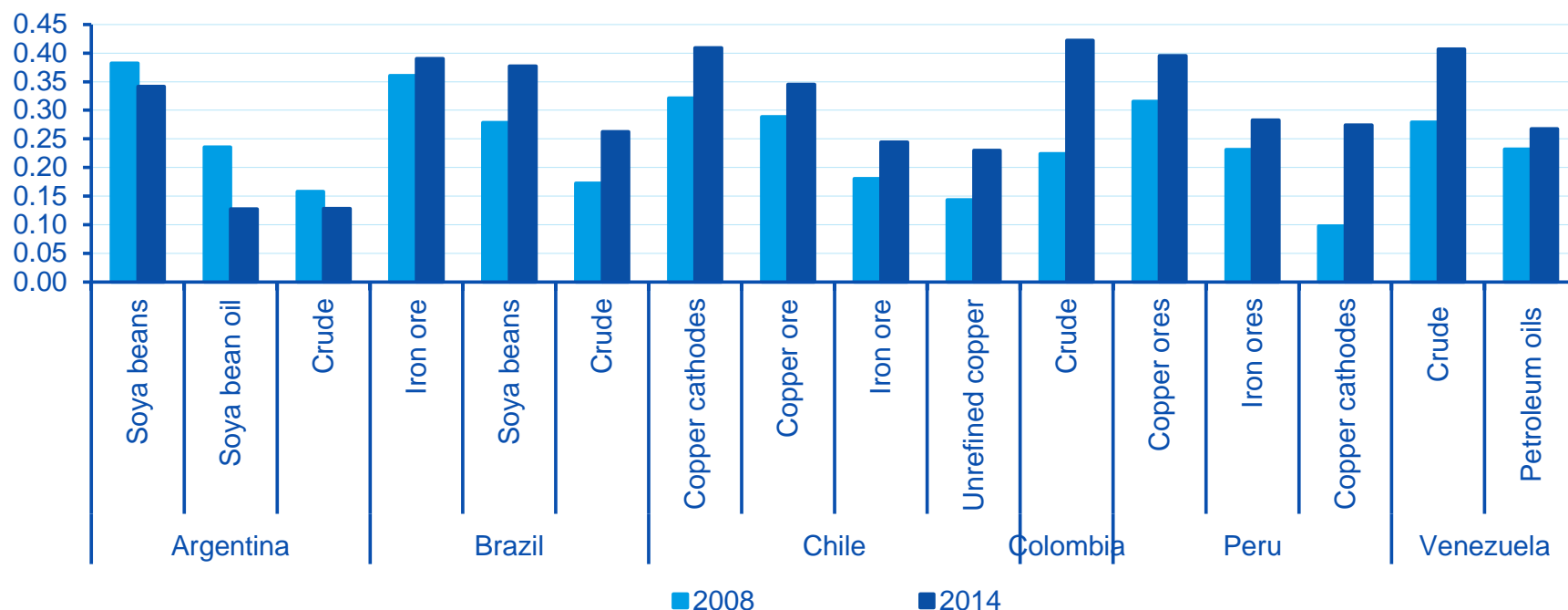
China's trade ties with Latin America intensified tremendously.

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

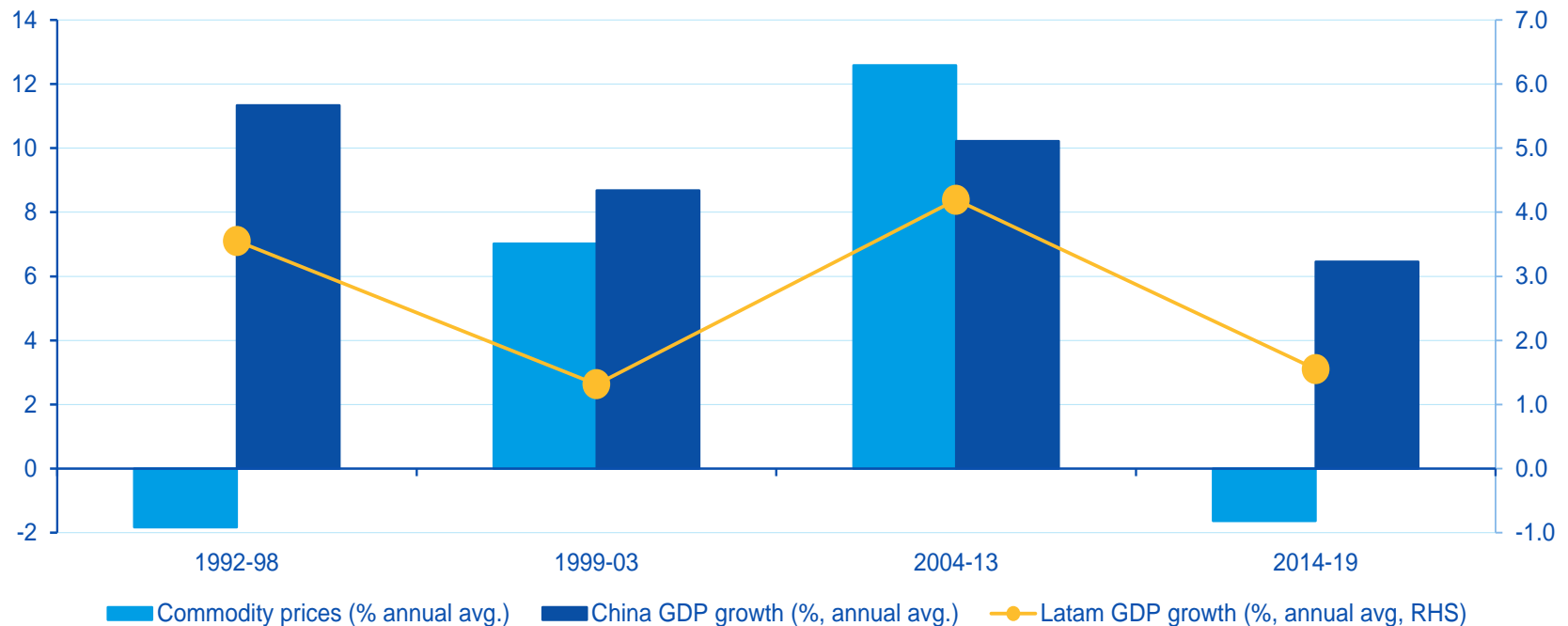


Brazil, Argentina, Chile, Peru, Colombia, Mexico and Venezuela were the main exporters to China in 2014. Excluding Mexico, all of them ranked amongst the top-10 most dependent countries on China.

Commodity prices link up growth of China and Latam

LatAm and Chinese growth and commodity prices

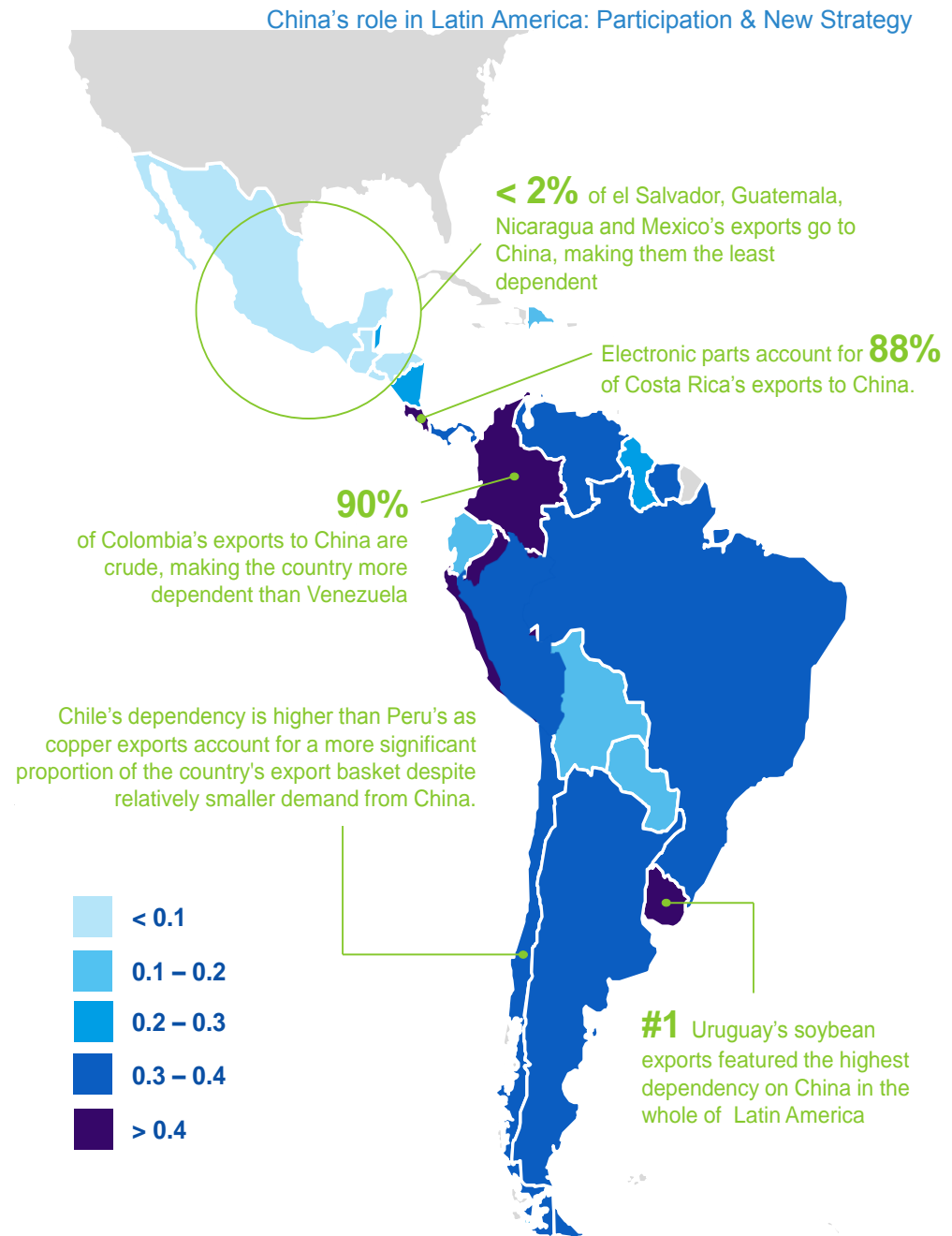
Source: IMF



Trade dependency 1

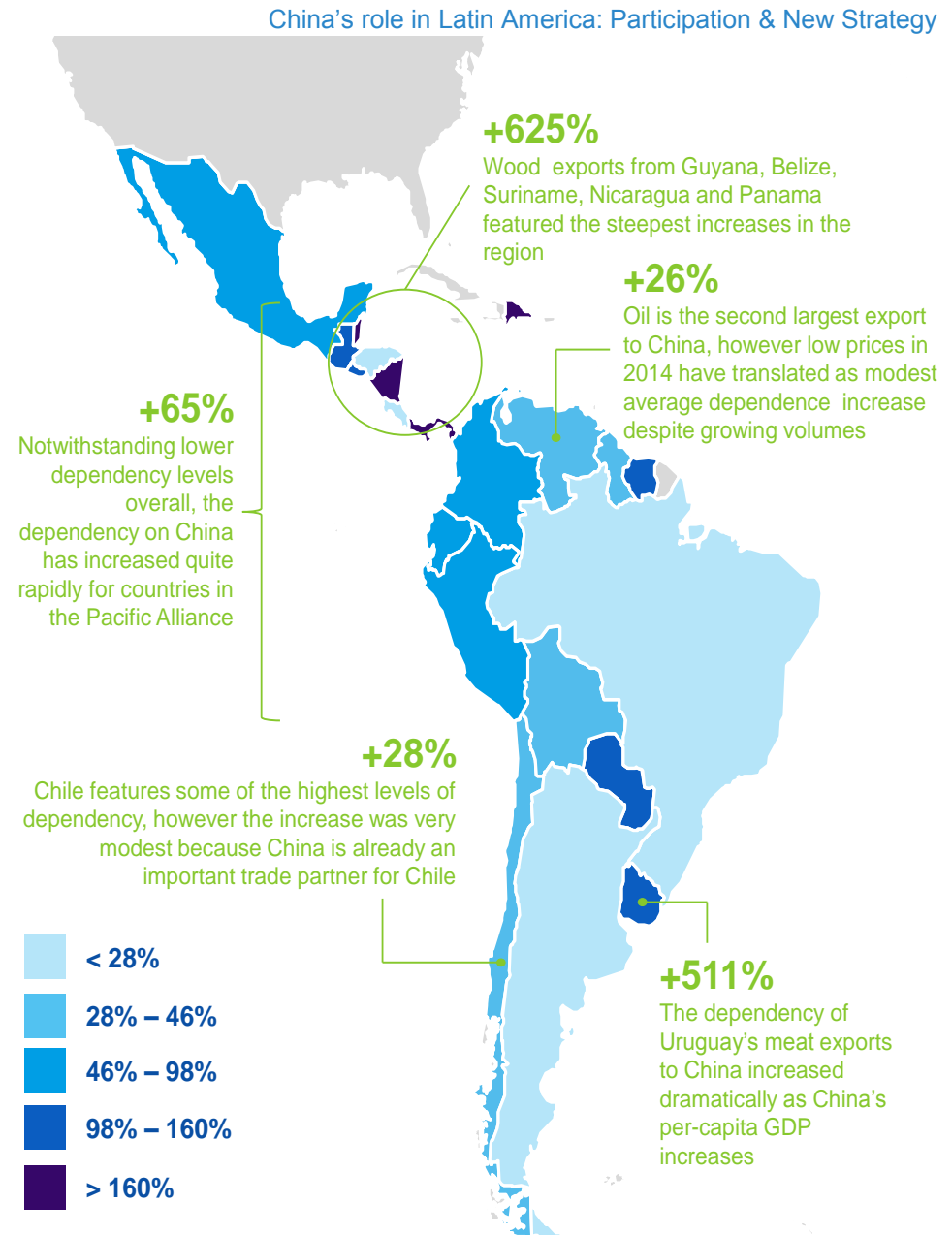
- Export dependency by country on a trade-weighted average basis (Index: 0-1)
- The countries with the highest absolute dependency levels tend to be important commercial partners or strategic allies of China in Latin America.
- E.g. Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Venezuela

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

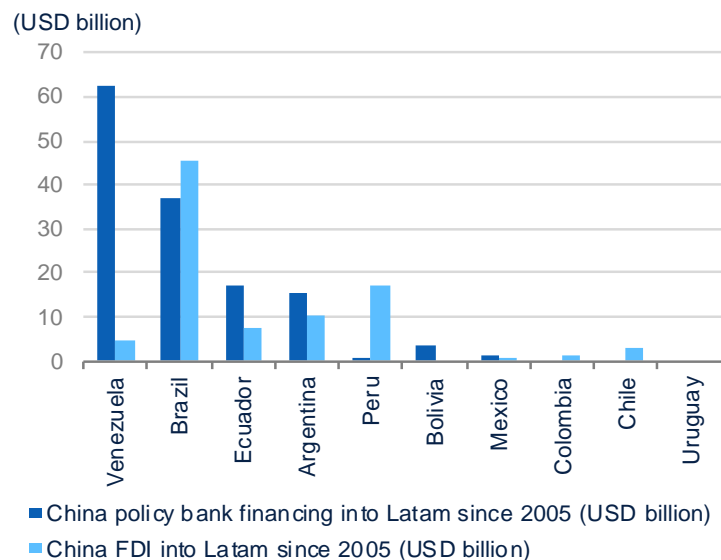
- Change in export dependency index between 2008 and 2014 (Δ %)
- despite lower overall levels of export dependency, the steepest increases can be observed amongst countries which have traditionally been considered to be closer commercially and politically to the United States.
- E.g. Pacific Alliance,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



Chinese FDI in Latin America, aren't uniform and still relatively muted when compared to other Asian investors

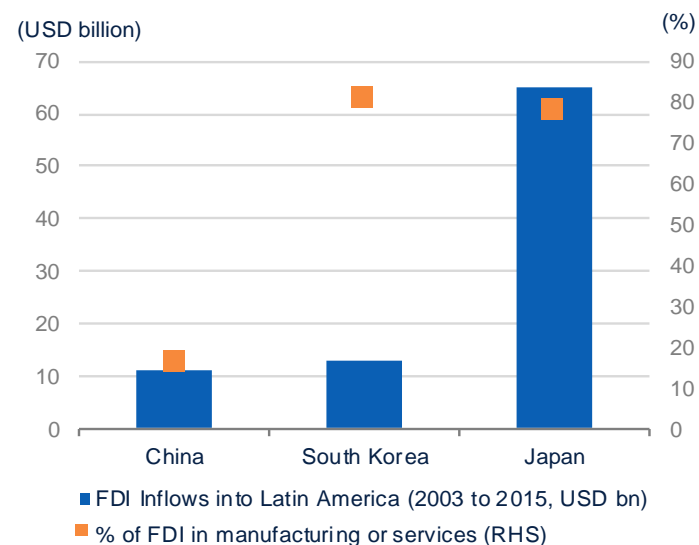
China's aggregate bank financing and foreign direct investments (FDI) in Latam from 2005 to 2016

Source: BBVA Research and Bloomberg



China's FDI inflows into Latam have mainly concentrated in energy and metals sector

Source: BBVA Research and Bloomberg



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)

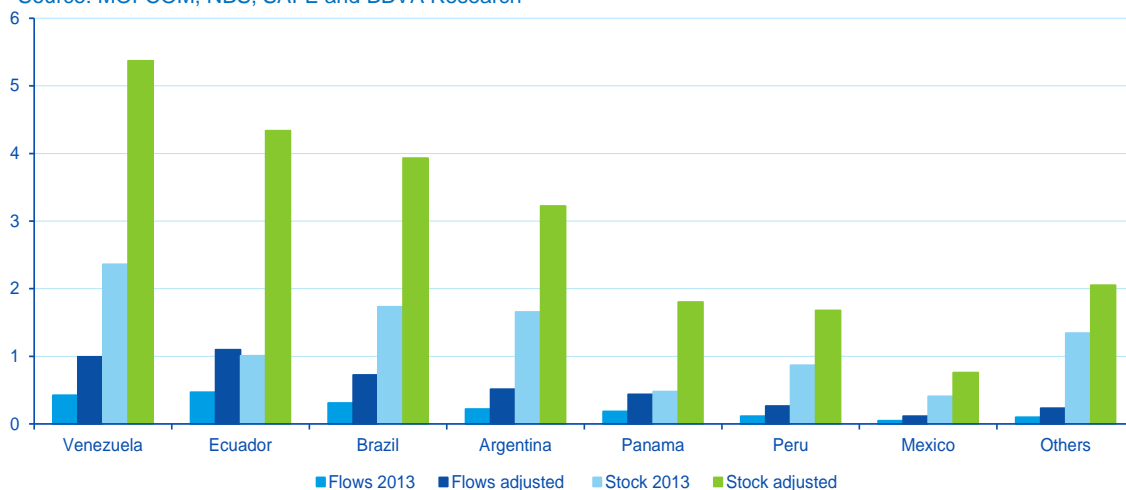
Source: MOFCOM, NBS, SAFE and BBVA Research

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%

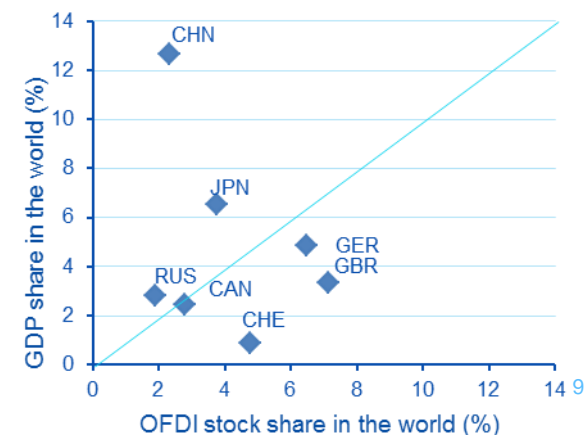
Distribution of Chinese ODI in LatAm (USD Bn)

Source: MOFCOM, NBS, SAFE and BBVA Research



Chinese ODI underrepresented

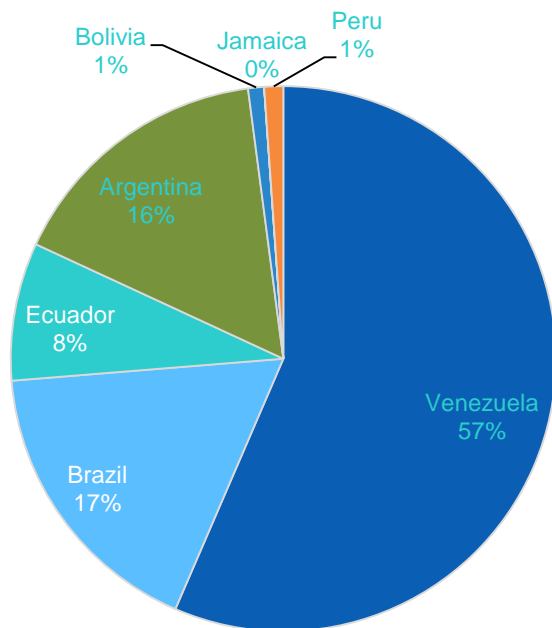
Source: UNCTAD and BBVA Research



China policy bank loans to Latin America

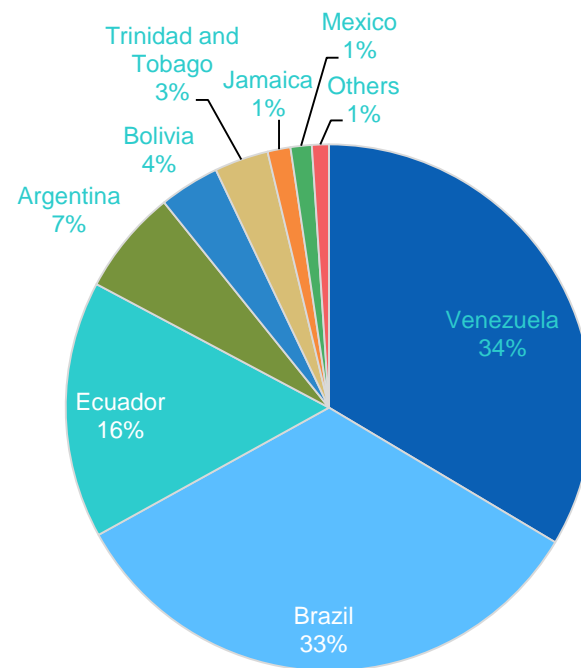
China policy bank loans to Latin America 2005-2011 (total 64.4 US\$ billion)

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

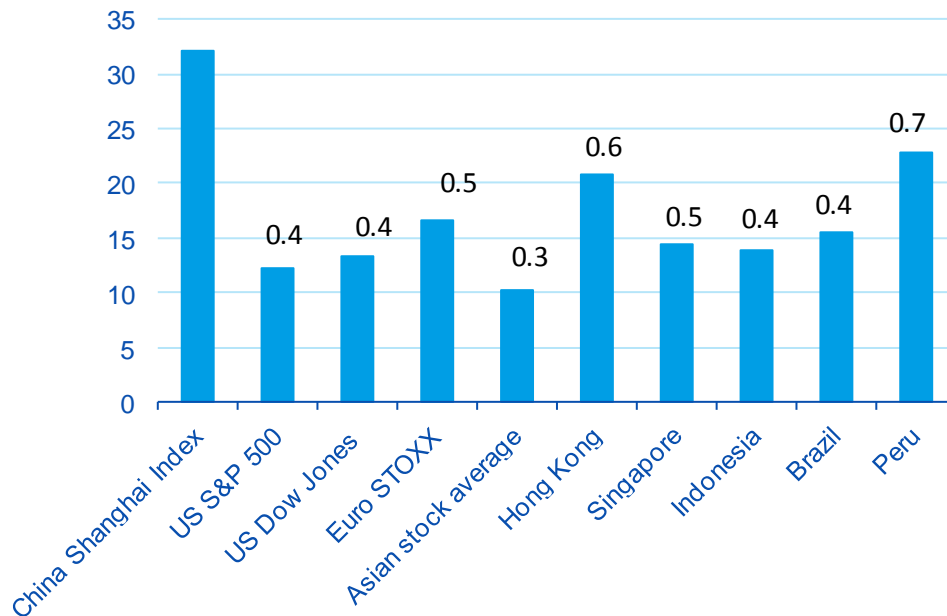


Since 2005, China Development Bank and China Export-Import Bank have provided more than \$141 billion in loan commitments to LatAm and Caribbean countries.

Case study: China financial market spill-over effects

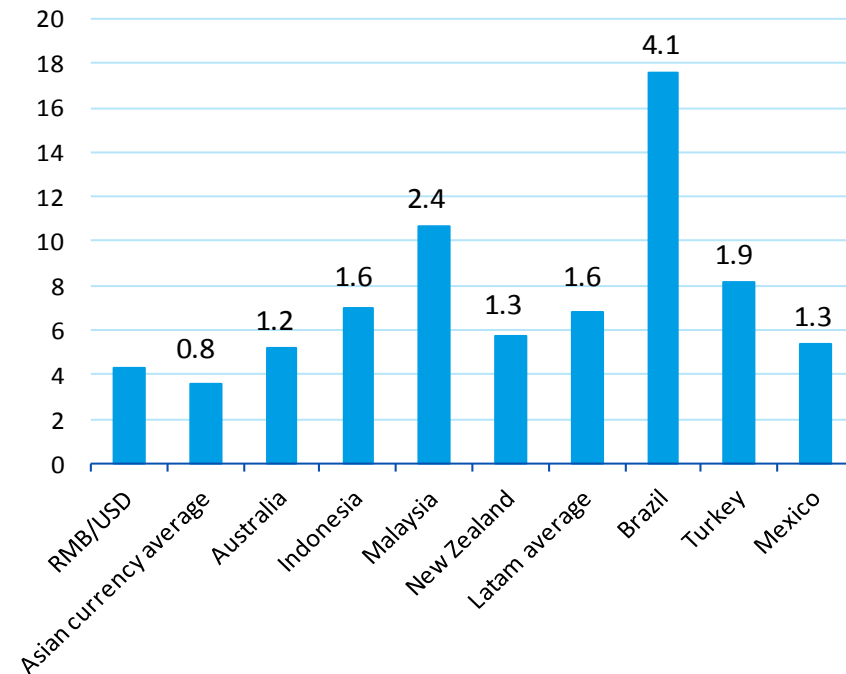
Stock market reactions of China's stock market crash and RMB sharp devaluation

% Source: BBVA Research and Bloomberg

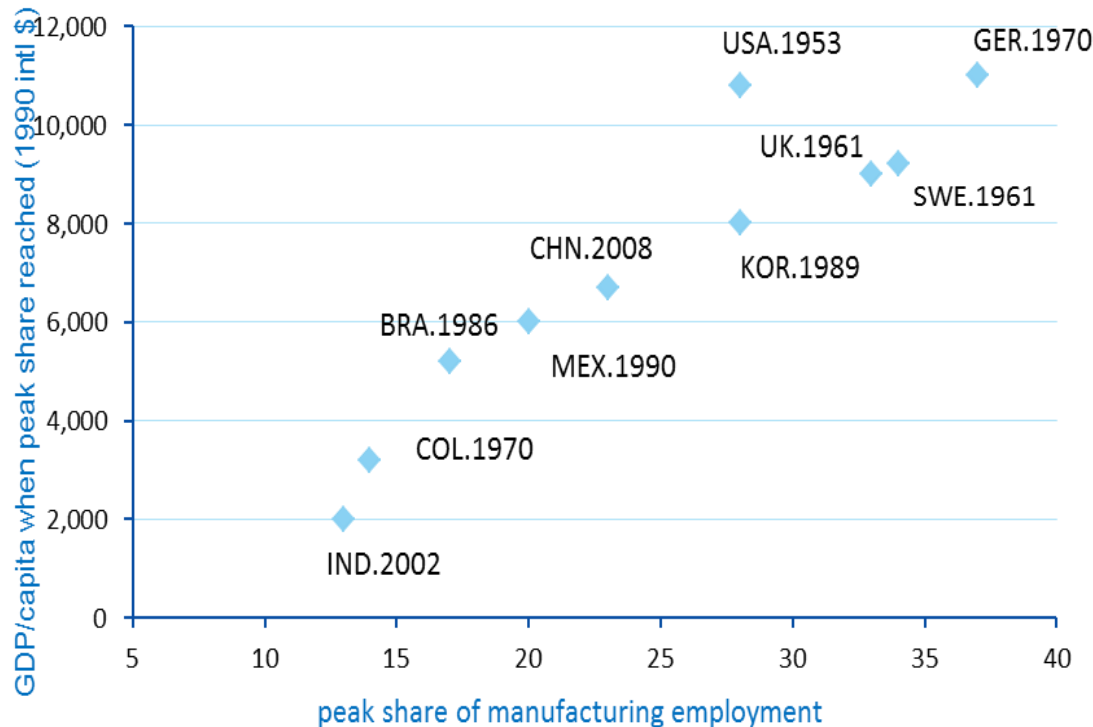


FX market reactions of China's stock market crash and RMB sharp devaluation

% Source: BBVA Research and Bloomberg



Is China the culprit of LatAm's premature de-industrialization



More thoughts on this point:

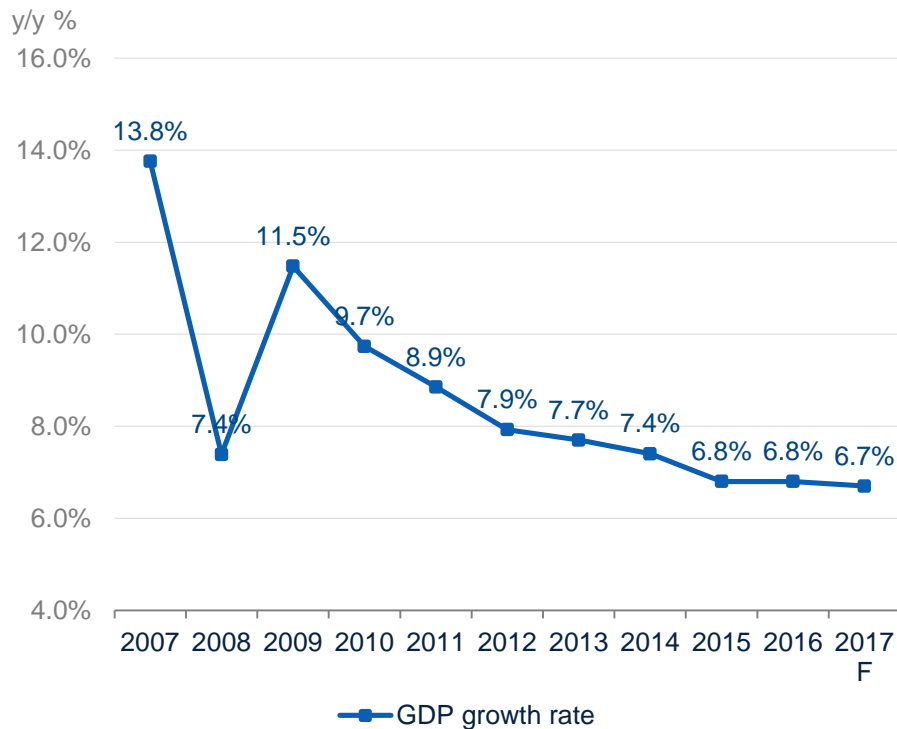
- Premature De-industrialization: Middle-income Trap
- LatAm worse than other EMs : abandoning strategy of import substitution?
- Manufacturing jobs are shifting to China (Economist 2017).

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

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 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

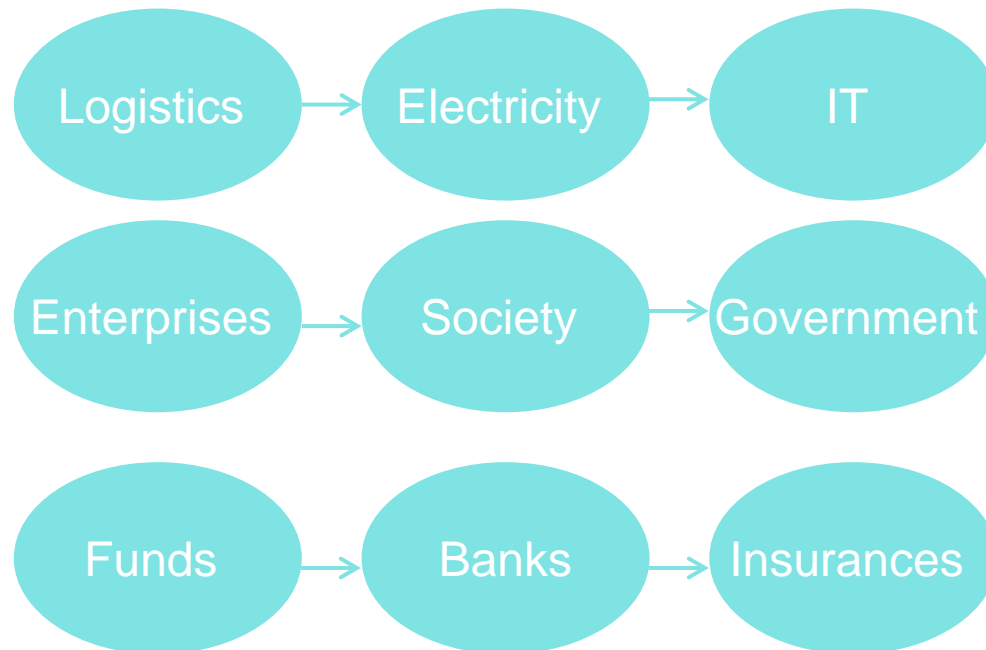


Institutions for financing:

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

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

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



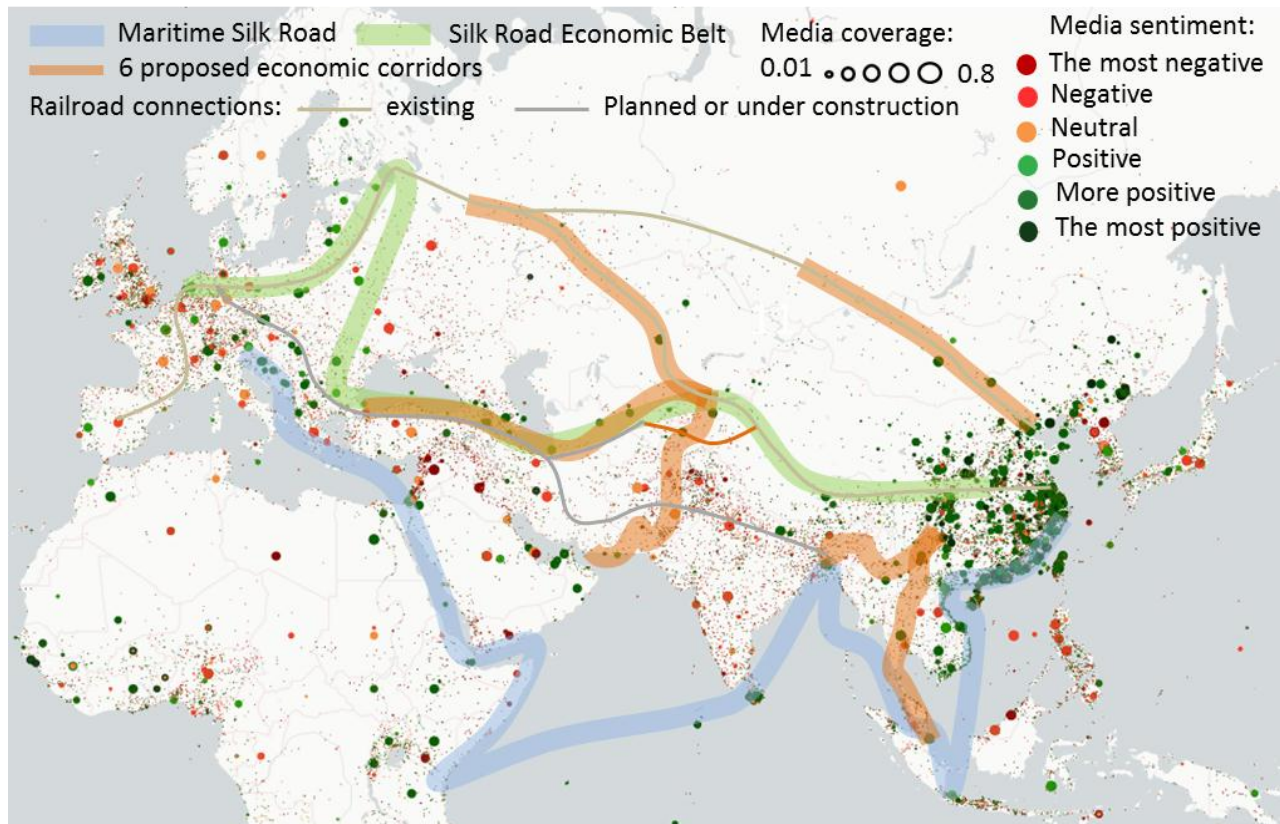
LatAm needs to think
beyond commodities

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

Media sentiment is more positive on proposed OBOR corridors

OBOR media coverage and sentiment

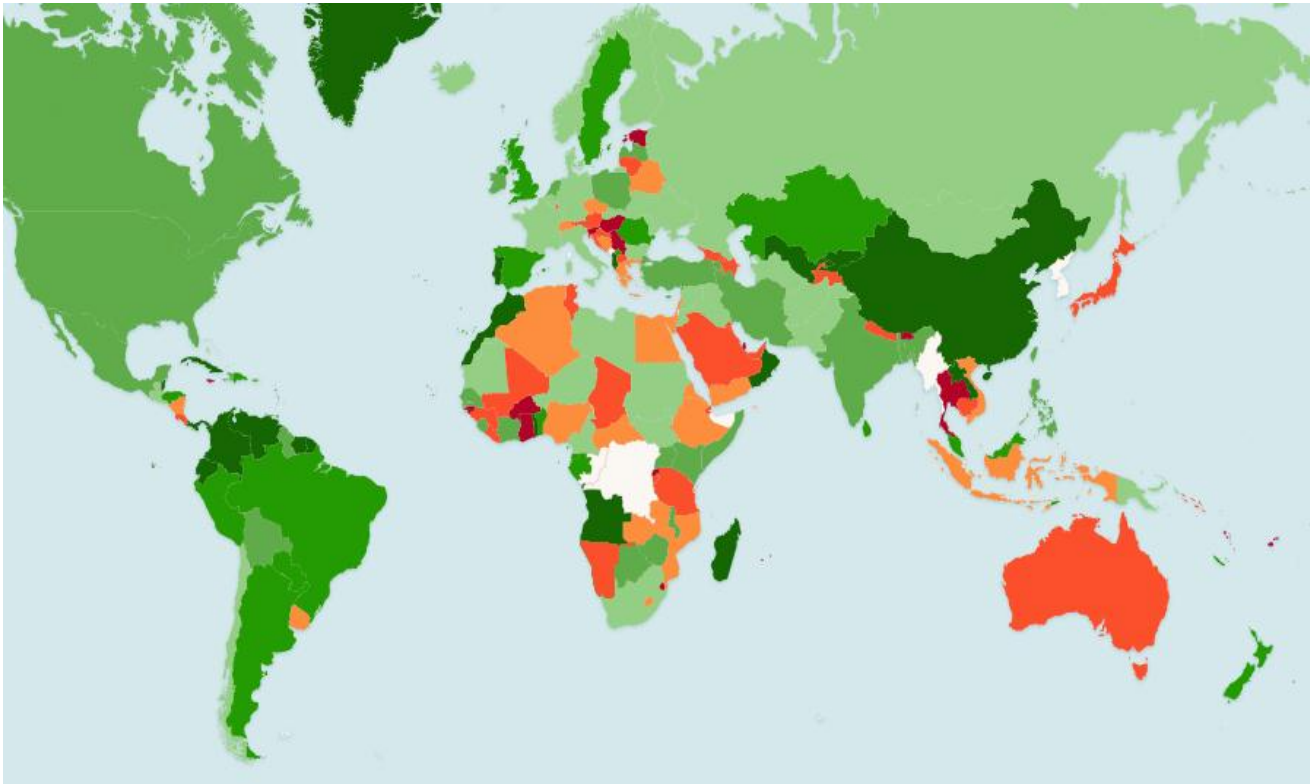
Source: www.gdelt.org and BBVA Research



Improving media sentiment of Chinese infrastructure investment across Latam

Media sentiment on Chinese investment on infrastructure (in terms of change in sentiment from 2015 to 2017)

Note: Refer to chart on Slide 18 for colour map. Source: GDELT and BBVA Research



Sentiment in Spanish media on Chinese infrastructure investment is more positive in Latam than elsewhere

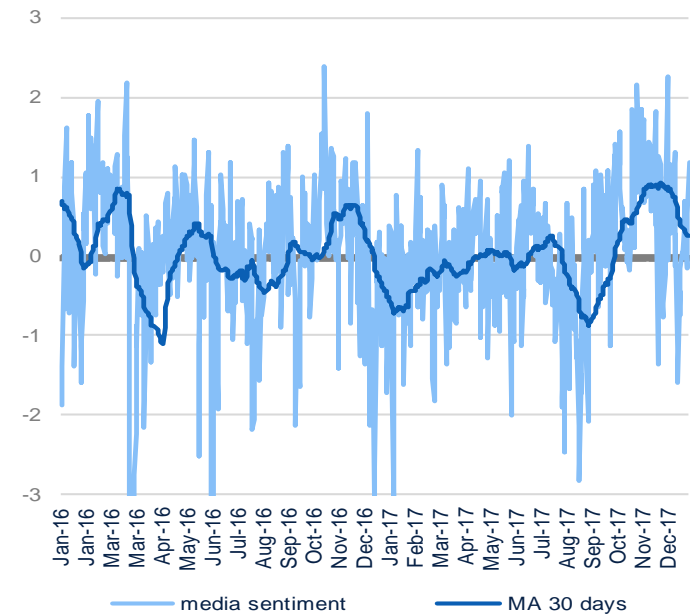
Media sentiment on Chinese investment on infrastructure in Latam in Spanish media

Source: GDELT & BBVA Research



Media sentiment over the world on Chinese investment on infrastructure in Spanish media

Source: GDELT & BBVA Research



Implications for European (Spanish) Business

Business opportunities

Engage in the first-round investment wave

Engage in the second round
(New FDI after local infrastructure improves)

High adding-value services to above business

Strategies

Sniper model: target Chinese investors, target Chinese funds, target Latam demand

Level the playing field for all
(government, chamber and other channels)

Consulting, Legal, Financing etc.

Who is coming to knock the door?

Industry	Chinese Top 100 OFDI investors
Aviation & Airline	China National Aviation Holding Corporation; Aviation Industry Corporation of China; HNA Group Co.,Ltd.; China Southern Air Holding Company China Aerospace Science and Technology Corporation (CASC)
Electricity	State Grid Corporation of China; Power Construction Corporation of China China Three Gorges Corporation; China Huaneng Group State Power Investment Corporation; China Huadian Corporation China GuoDian Corporation; China Datang Corporation
Energy	China National Petroleum Corporation; China National Offshore Oil Corporation China Petrochemical Corporation (Sinopec Group); Sinochem Corporation; Yanzhou Coal Mining Company Limited; China General Nuclear Power Corporation; Shenhua Group Corporation Limited
Mining	China Minmetals Corporation.; Aluminum Corporation of China Jinchuan Group Ltd.; China National Gold Group Corporation Zijin Mining Group Co., Ltd.; CRCC-Tongguan Investment Co.,Ltd. China Nonferrous Metal Mining (Group) Co.,Ltd.
Telecommunication	China Mobile Communications Corporation; Huawei Technologies Co.,Ltd. China Unicom Co.,Ltd.; ZTE Corporation Co.,Ltd. China Telecom Global Limited
Transportation & Logistics	China Ocean Shipping (Group) Company; China Shipping (Group) Company China Communication Construction Company Ltd.; CRRC Corporation Limited Guangzhou Yuexiu Holdings Limited; China Railway Construction Corporation China Railway Engineering Corporation; Guangdong Province Navigation Group Co.,Ltd. Zoomlion Heavy Industry Science&Technology Co., Ltd.

Huge potential for cooperation in infrastructure investment

Infrastructure investment across regions

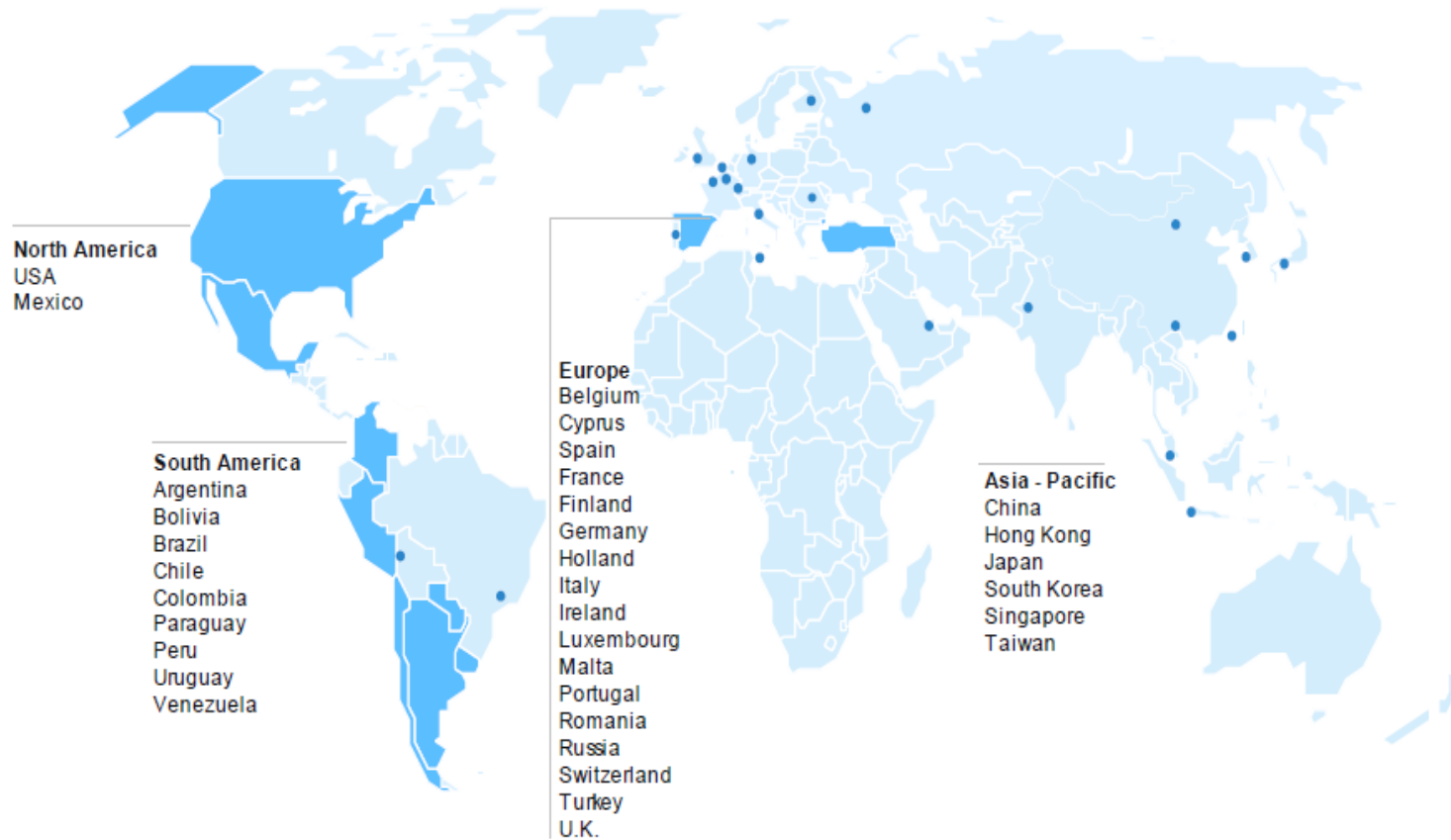
Source: UNCTAD Statistical database and BBVA Research

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

Chinese engineering, procurement and Construction Companies already hold strong positions in LatAm

Chinese EPC company	International Contractor Ranking as per Global Revenues	Presence in Latin America	Activity
China Communications Construction Company Limited (International)	3	Brazil, Mexico, Caribbean	Specializes in projects such as ports, roads, bridges, railways, and dredging.
Power Construction Corporation of China	11	Argentina, Bolivia, Ecuador, Honduras, Venezuela. Nearly 10% of its activities taking place in Latin America.	State-run ECP contractor involved in development of energy, transportation and waterworks project, including design, consulting, construction, operation, and maintenance.
China Railway Group	20	In 2017, entered into agreement with Sigdo Koppers for railway systems upgrading, building new metro lines, and tunnels in LatAm.	Contractor in international projects and engaging in investment and financing management. Offers export credit, package loan for resources projects, bilateral and multilateral cooperation.
China National Machinery Industry Corporation	23	Venezuela	Industrial projects, agricultural projects, water engineering projects, power projects and communications projects.
China Metallurgical Group Corp	49	Bolivia, Venezuela	Project integration, new energy industry and resource development.
China Civil Engineering Construction Corporation	60	Ecuador	Project contracting, civil engineering design, real estate development, and also import and export trading services.
China International Water and Electric Corporation	74	Ecuador	Development, engineering, and construction services for small and medium international projects in hydropower.

BBVA is a global financial group on both the belt and the road, with capacity to project OBOR influence to America



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