

Brazil and The Shifting Wealth of Nations

The Re-Balancing of the World Towards Emerging Markets

ESADE Business School

Javier Santiso, Professor of Economics and Director, ESADEEgeo

Ex Director General, OECD – Director, Telefónica International.



ESADE

1.

The Shifting Wealth of Nations

2.

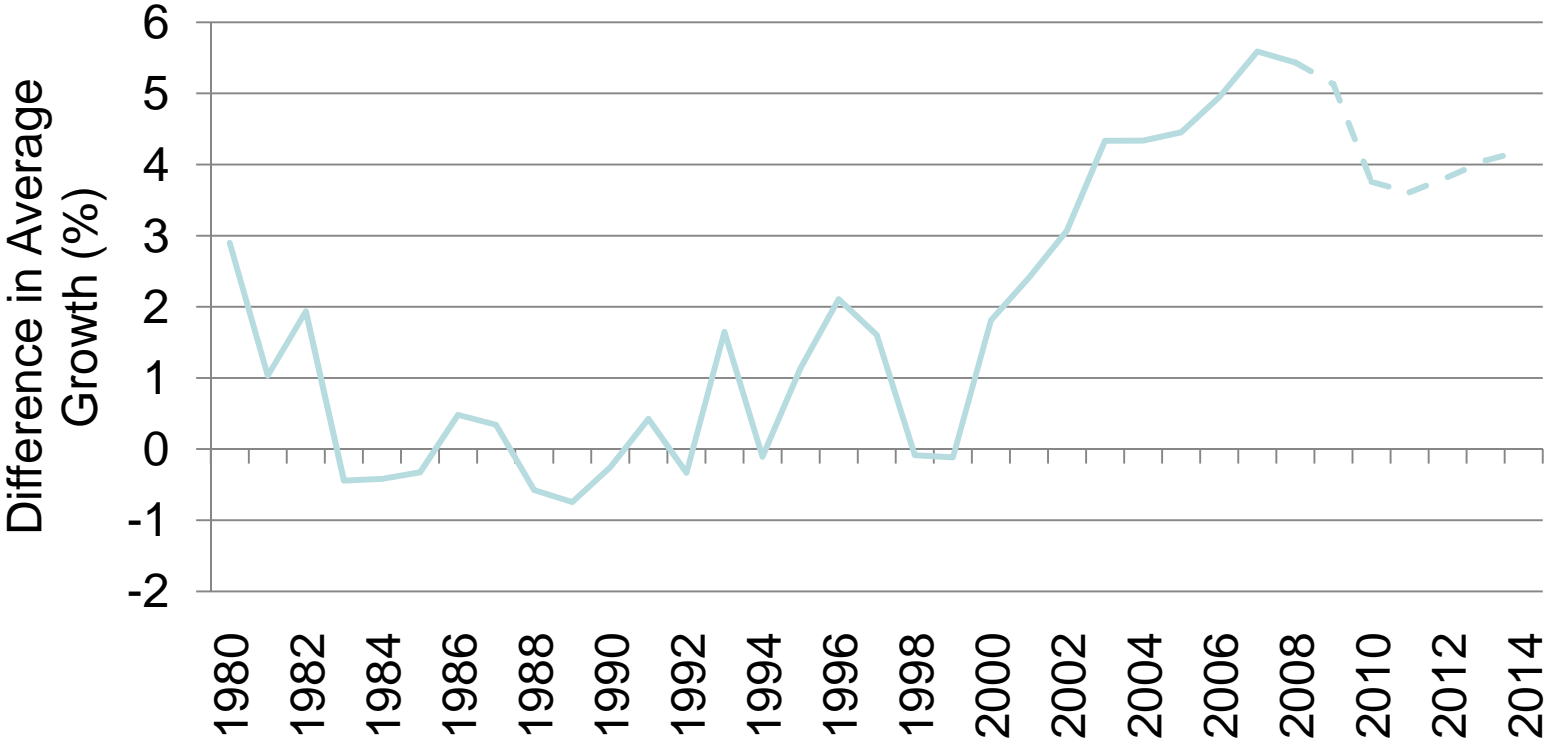
Brazil Political Economy of the Possible

3.

A Focus on China, Brazil and Latin America

Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

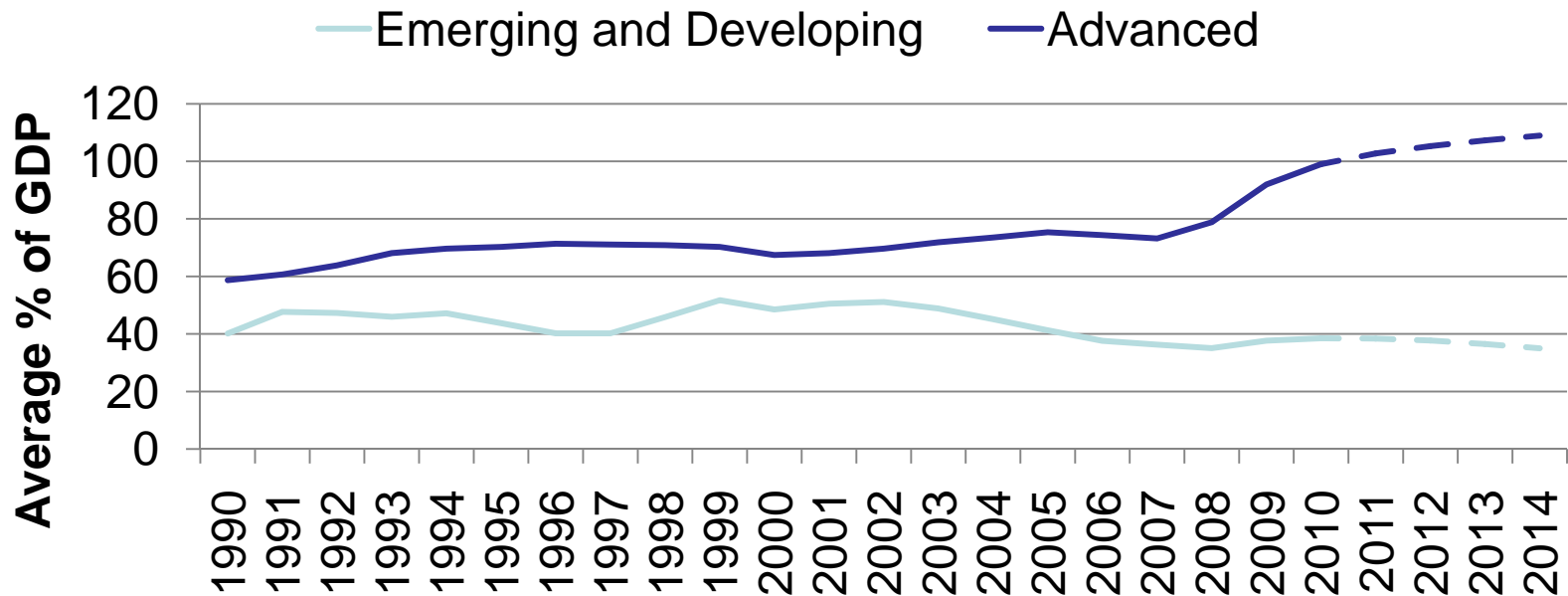
- Growth Gap between Developing/Emerging & Advanced.



Source: OECD Development Centre, 2010 (based on Fosu, 2010 OECD Development Centre Non-Resident Fellow Working Paper).

Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

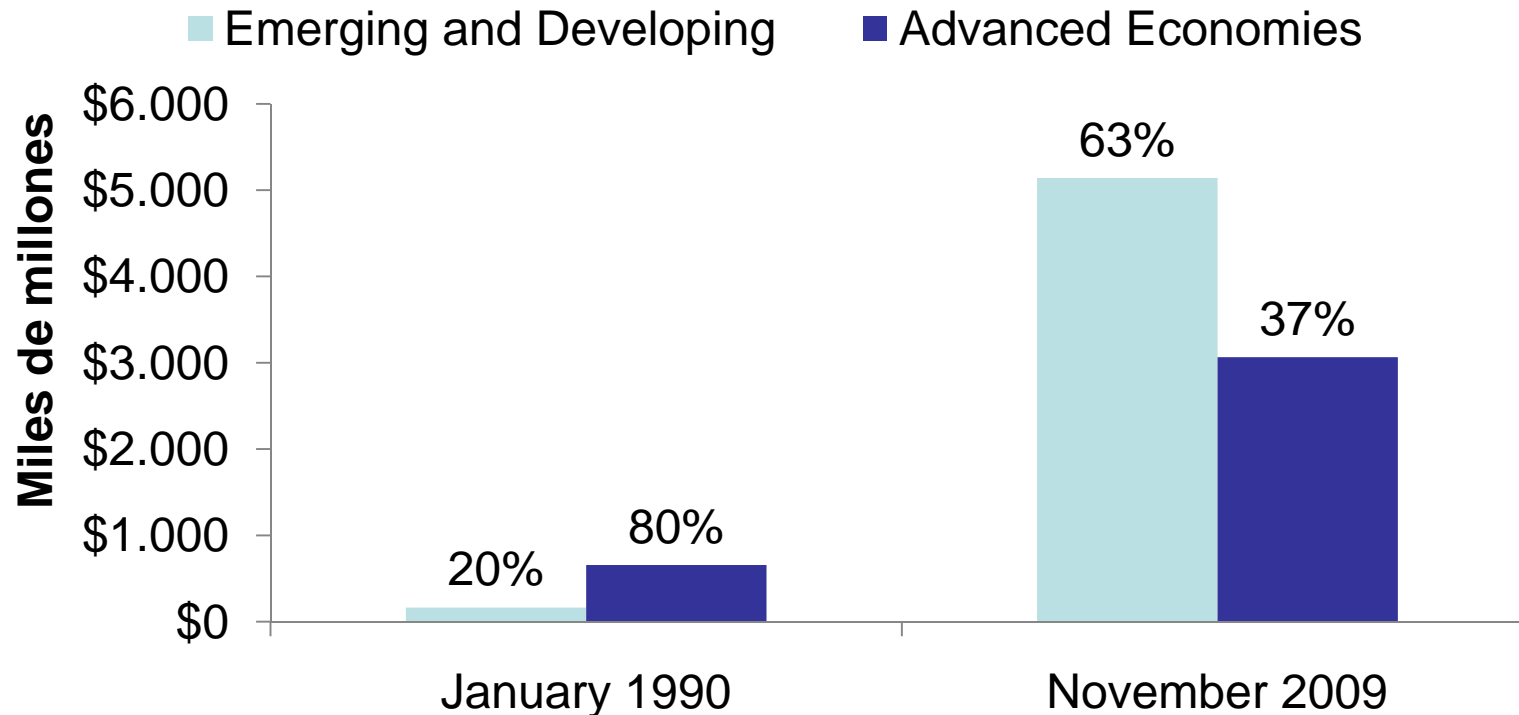
- Public Debt and Growth Dynamics.



Source: OECD Development Centre, 2010
(based on IMF World Economic Outlook, Oct. 2009)

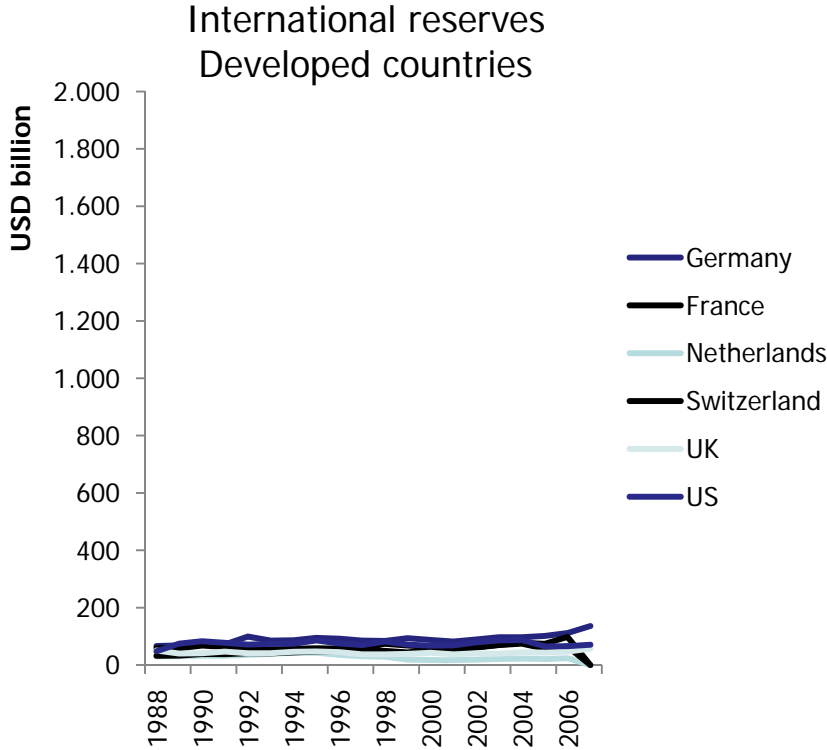
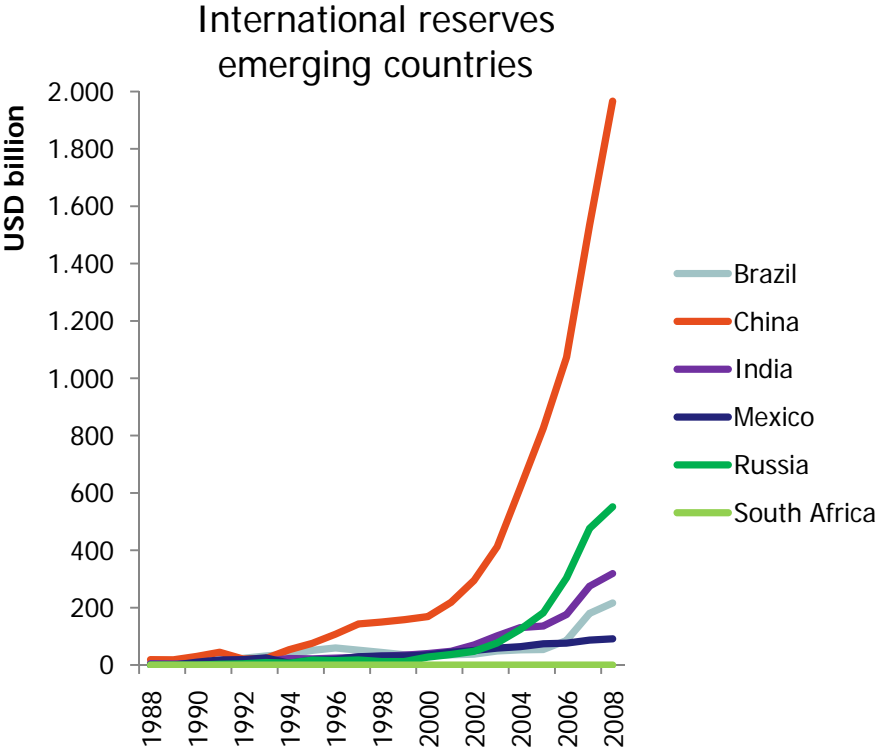
Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

- Reserve Holdings in USD Billion.



Source: OECD Development Centre, 2010 (based on IMF data).

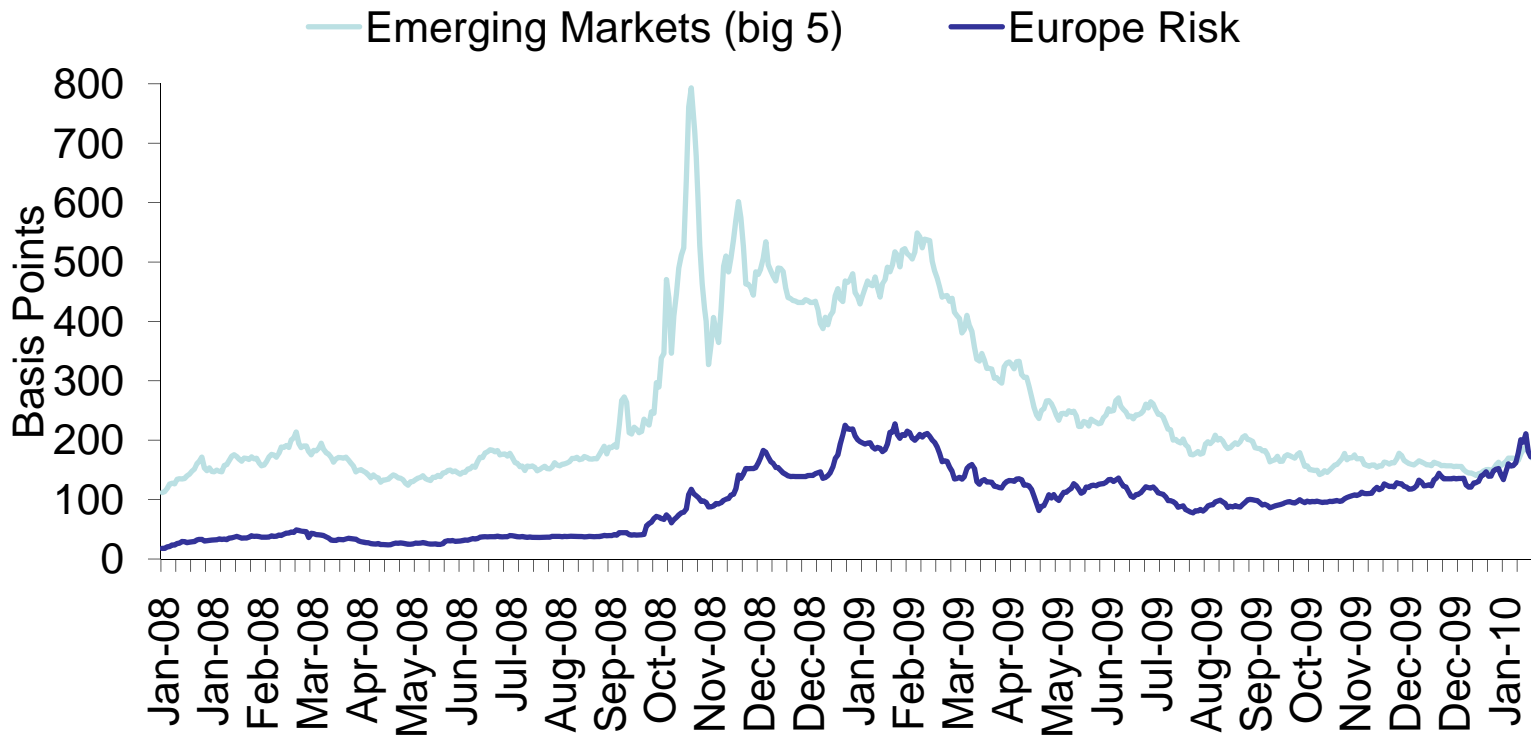
Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition



Source: Based on Economist Intelligence Unit, 2010.

Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

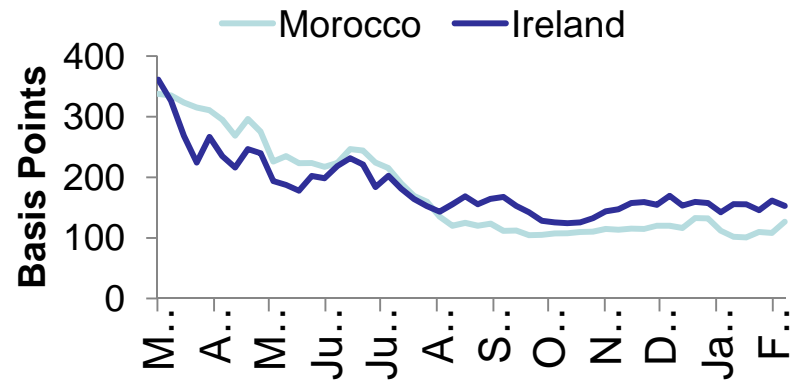
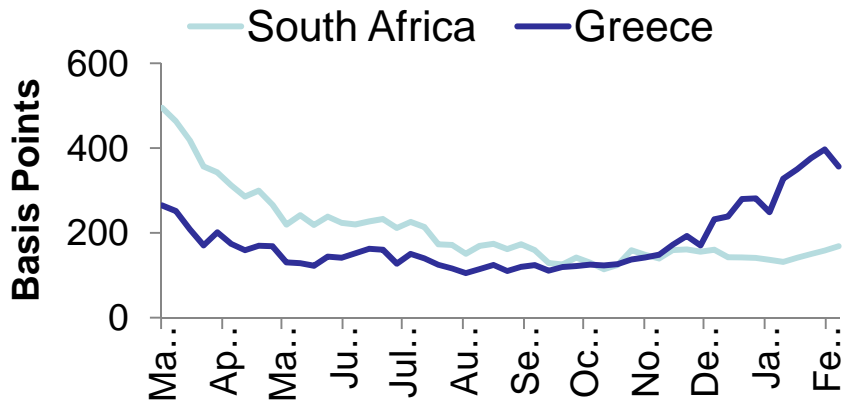
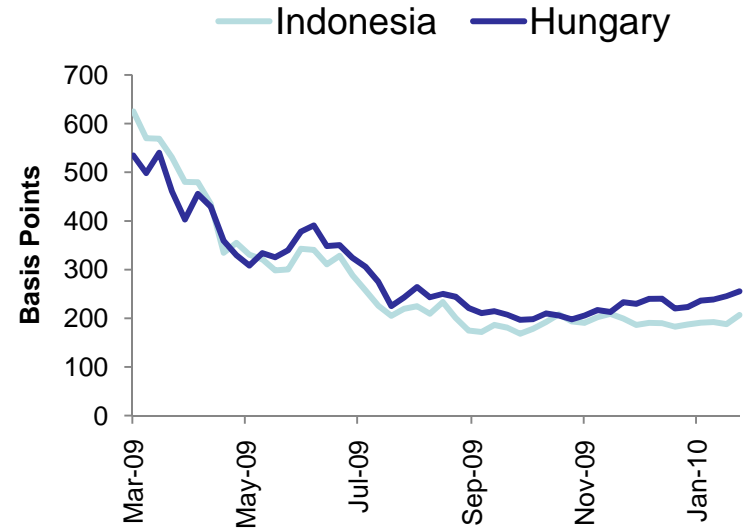
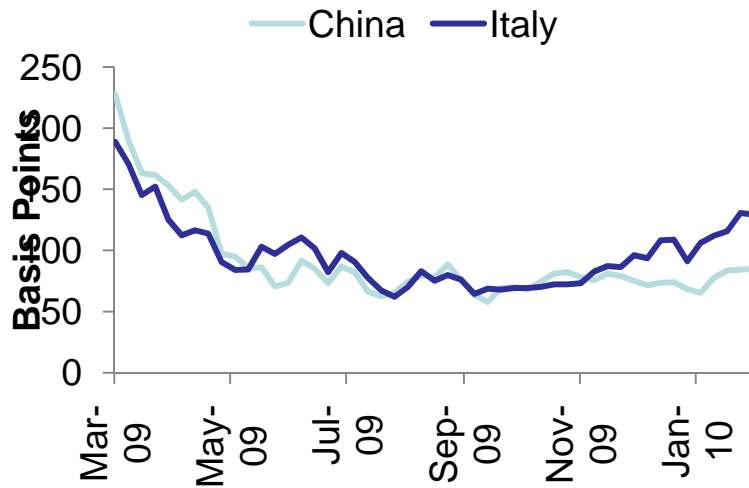
- Public Debt and Sovereign Spreads.



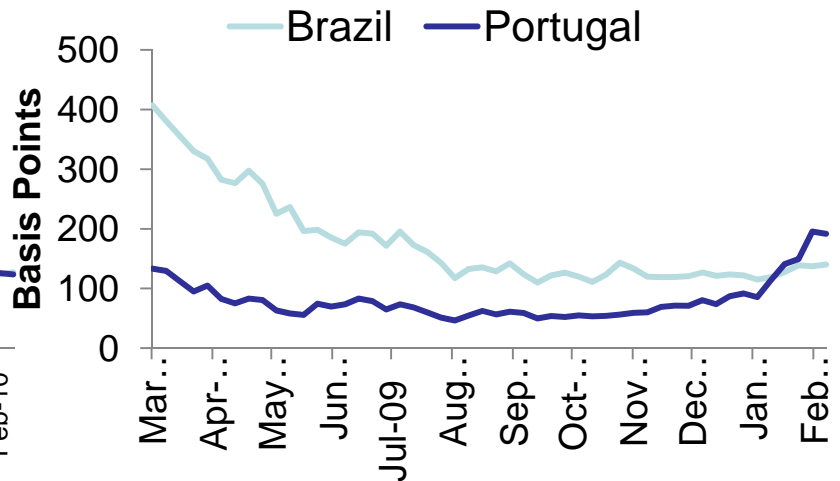
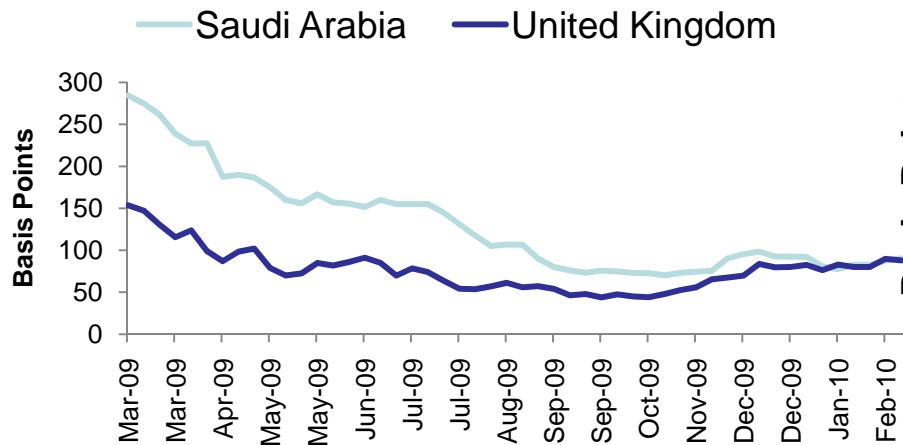
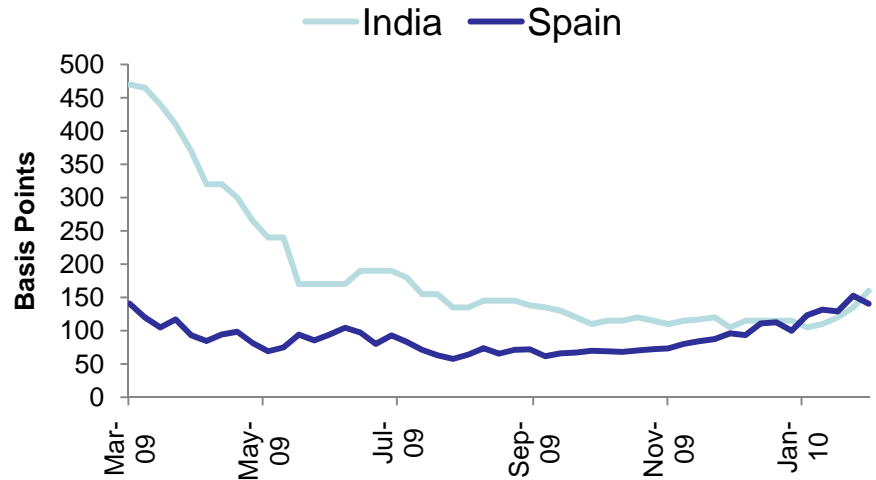
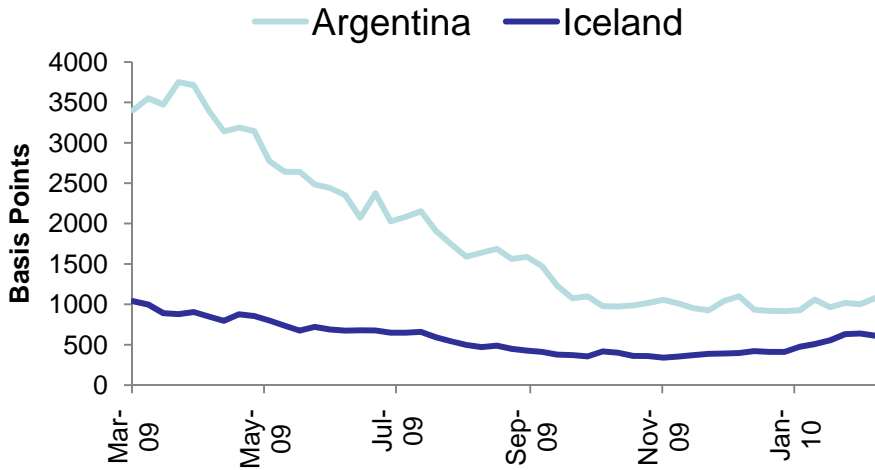
EM Markets: Embig weighted of Brazil, Mexico, Russia, Turkey & Phillipines
Europe Risk: Median Greece, Ireland, Portugal and Spain

Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

- Sovereign Credit Default Spreads.

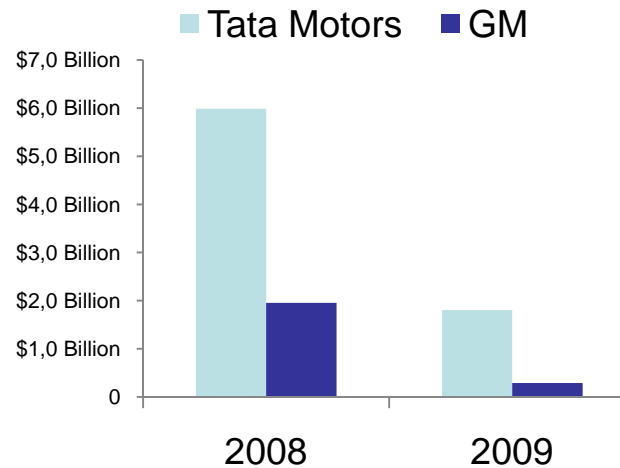
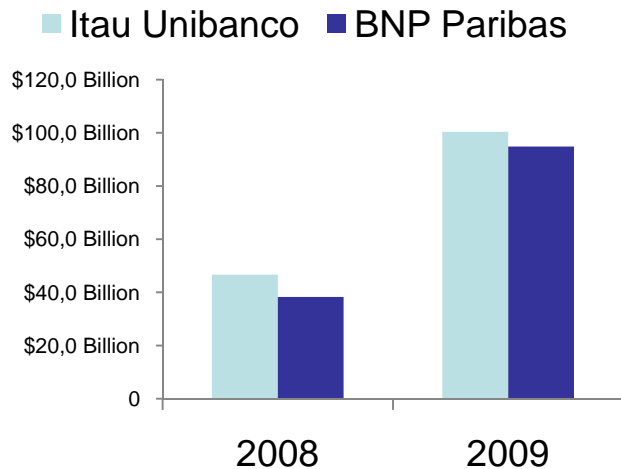
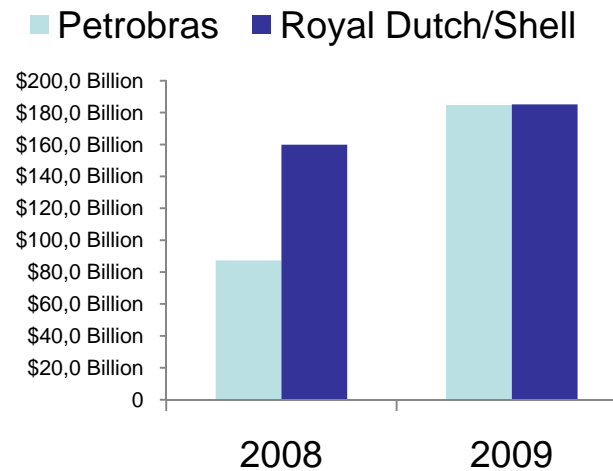
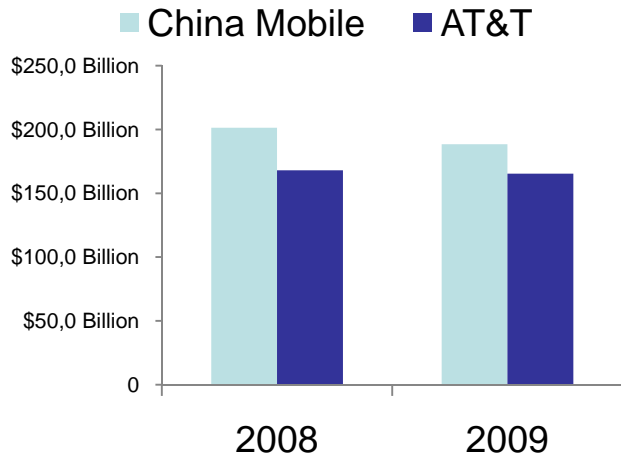


Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

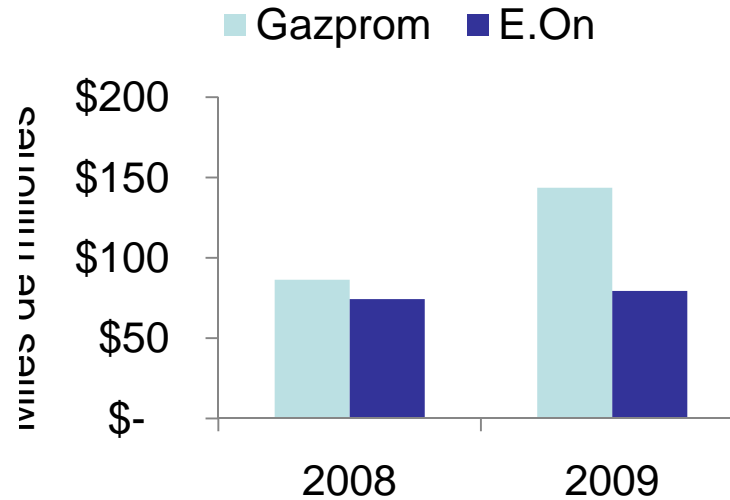
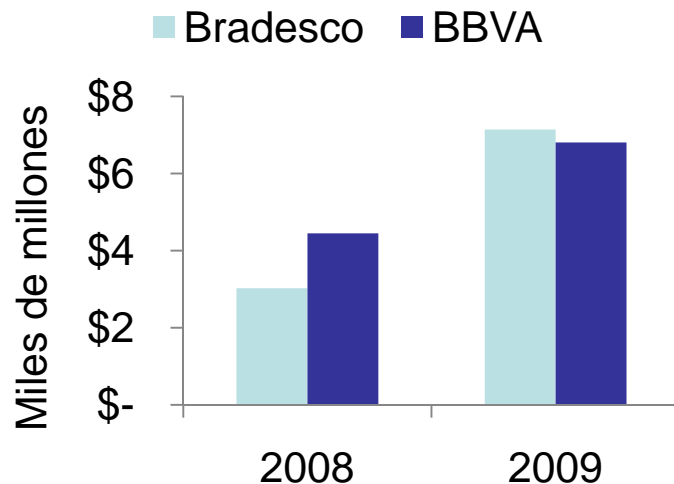
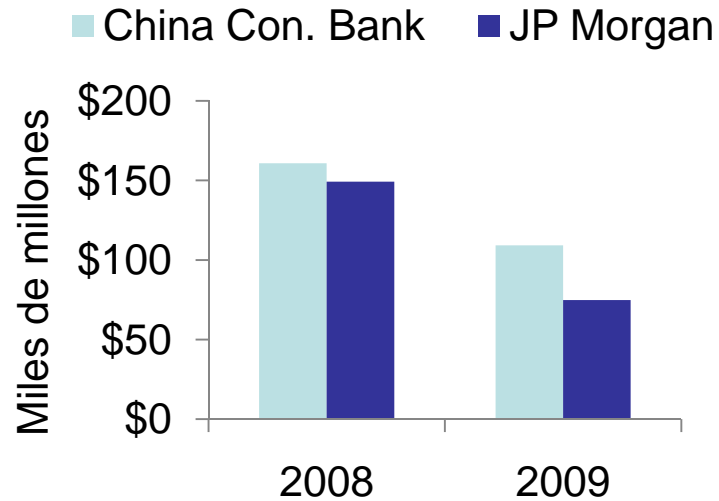
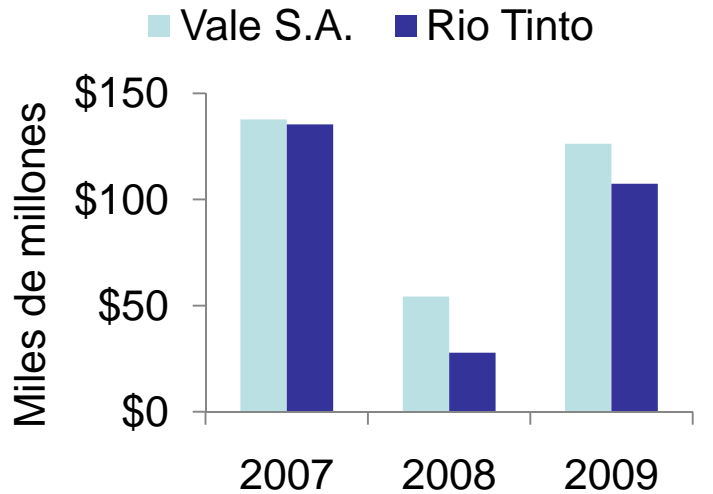


Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

- Market Capitalization.

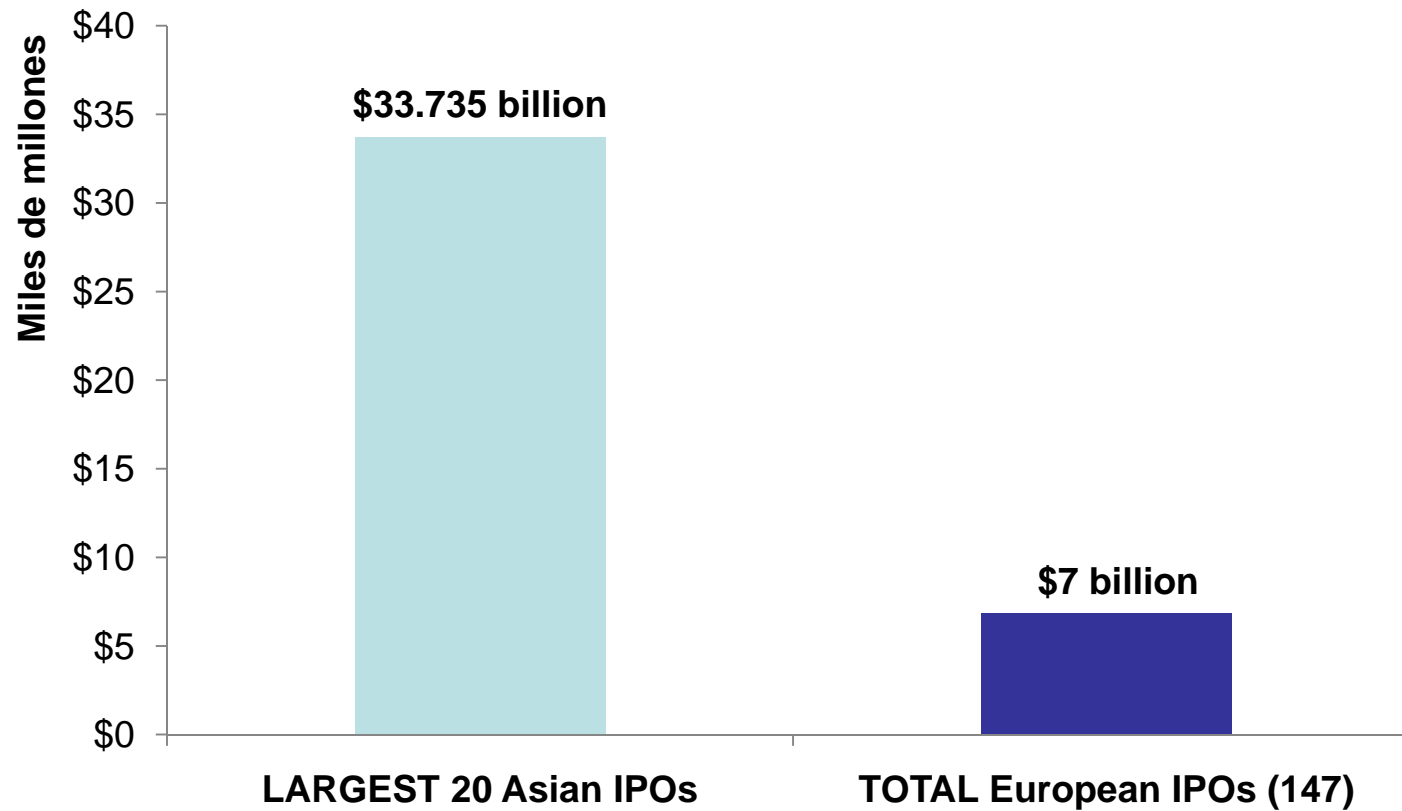


Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition



Global Crisis & Shifting Wealth of Nations: An Accelerator of Transition

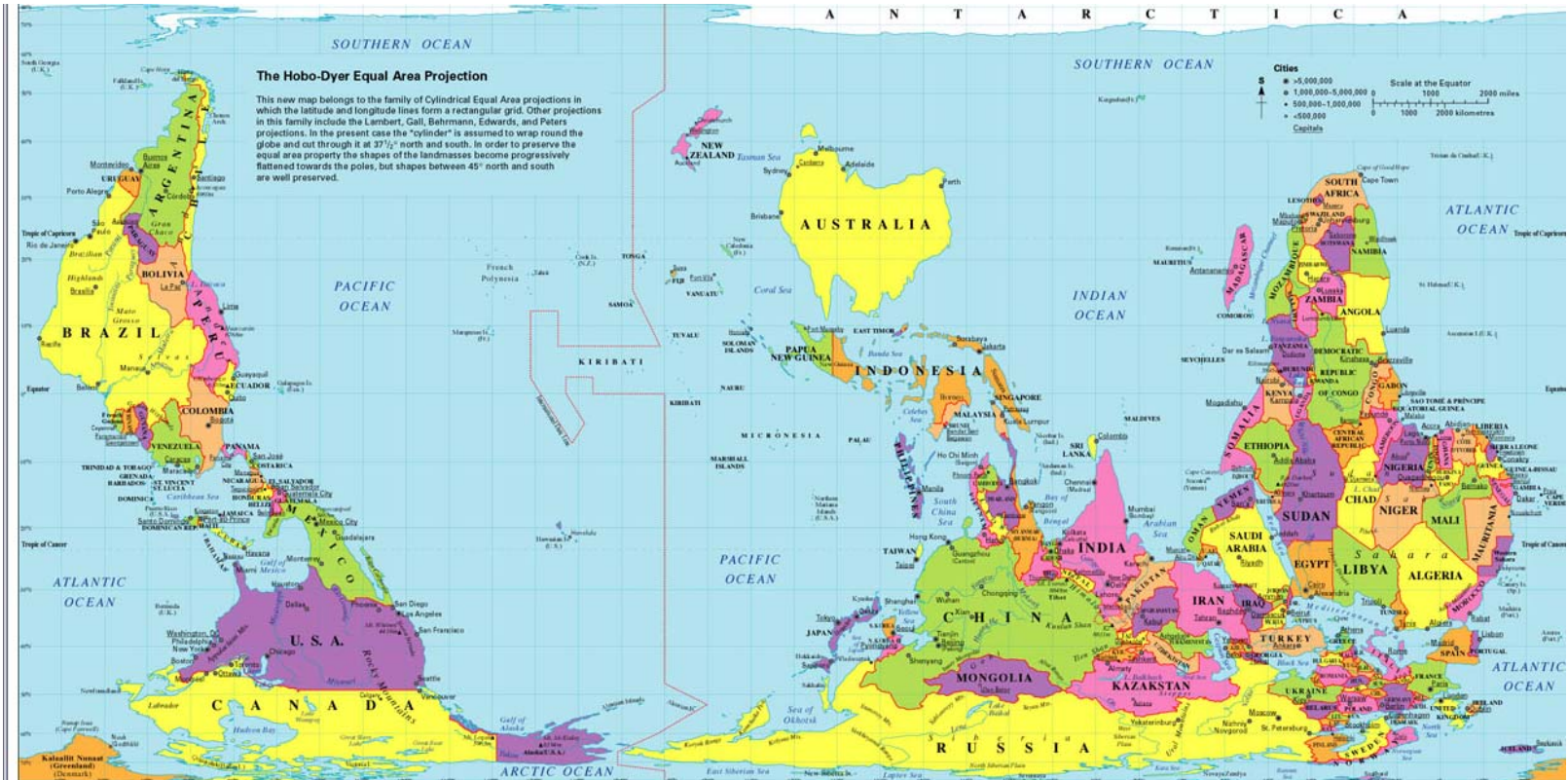
- IPOs in 2009: Largest 20 Asian vs. Total European.



A Cognitive Crisis: The View from the South



A Cognitive Crisis: The View from the South



A Cognitive Crisis: The View from the South

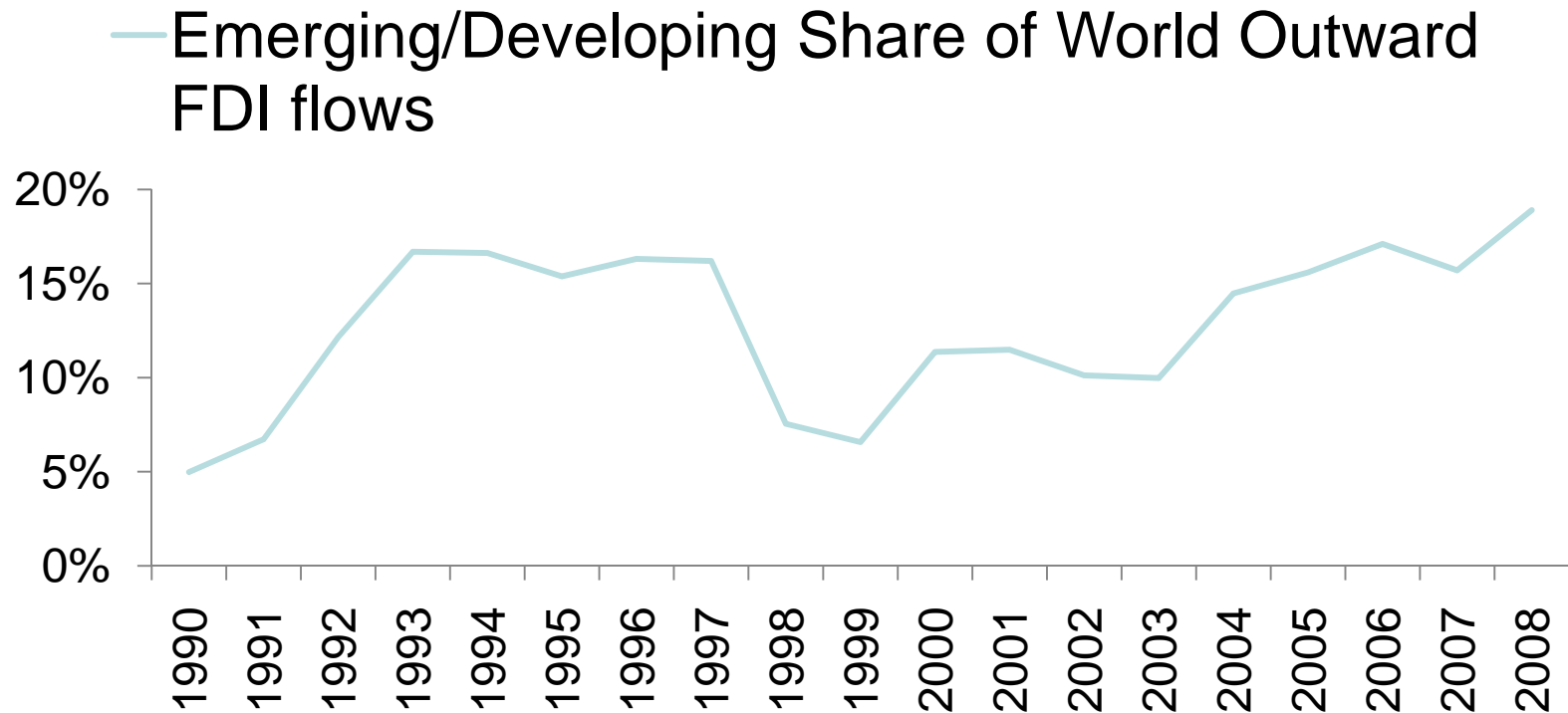
世界地图

WORLD MAP



① 柬埔寨 Cambodia ② 孟加拉国 Bangladesh ③ 尼泊尔 Nepal ④ 吉尔吉斯斯坦 Kyrgyzstan ⑤ 塔吉克斯坦 Tajikistan ⑥ 土库曼斯坦 Turkmenistan ⑦ 格鲁吉亚 Georgia ⑧ 塞浦路斯 Cyprus ⑨ 丹麦 Denmark ⑩ 爱沙尼亚 Estonia ⑪ 拉脱维亚 Latvia ⑫ 立陶宛 Lithuania ⑬ 俄罗斯 Russia ⑭ 白俄罗斯 Belarus ⑮ 摩尔多瓦 Moldova ⑯ 乌克兰 Ukraine ⑰ 波兰 Poland ⑱ 斯洛伐克 Slovakia ⑲ 捷克 Czechia ⑳ 斯洛文尼亚 Slovenia ㉑ 奥地利 Austria ㉒ 德国 Germany ㉓ 意大利 Italy ㉔ 法国 France ㉕ 荷兰 Netherlands ㉖ 比利时 Belgium ㉗ 卢森堡 Luxembourg ㉘ 葡萄牙 Portugal ㉙ 西班牙 Spain ㉚ 希腊 Greece ㉛ 土耳其 Turkey ㉜ 塞浦路斯 Cyprus ㉝ 马耳他 Malta ㉞ 阿尔巴尼亚 Albania ㉟ 保加利亚 Bulgaria ㊱ 罗马尼亚 Romania ㊲ 塞尔维亚 Serbia ㊳ 黑山 Montenegro ㊴ 克罗地亚 Croatia ㊵ 波斯尼亚和黑塞哥维那 Bosnia and Herzegovina ㊶ 马其顿 North Macedonia ㊷ 科索沃 Kosovo ㊸ 斯洛伐克 Slovakia ㊹ 捷克 Czechia ㊺ 波兰 Poland ㊻ 立陶宛 Lithuania ㊼ 拉脱维亚 Latvia ㊽ 爱沙尼亚 Estonia ㊾ 丹麦 Denmark ㊿ 芬兰 Finland ① 阿拉伯联合酋长国 United Arab Emirates ② 阿曼 Oman ③ 沙特阿拉伯 Saudi Arabia ④ 也门 Yemen ⑤ 伊朗 Iran ⑥ 伊拉克 Iraq ⑦ 科威特 Kuwait ⑧ 卡塔尔 Qatar ⑨ 巴林 Bahrain ⑩ 阿曼 Oman ⑪ 黎巴嫩 Lebanon ⑫ 叙利亚 Syria ⑬ 以色列 Israel ⑭ 约旦 Jordan ⑮ 巴勒斯坦 State of Palestine ⑯ 土耳其 Turkey ⑰ 塞浦路斯 Cyprus ⑱ 希腊 Greece ⑲ 意大利 Italy ⑳ 法国 France ㉑ 西班牙 Spain ㉒ 葡萄牙 Portugal ㉓ 马耳他 Malta ㉔ 斯洛伐克 Slovakia ㉕ 捷克 Czechia ㉖ 波兰 Poland ㉗ 立陶宛 Lithuania ㉘ 拉脱维亚 Latvia ㉙ 爱沙尼亚 Estonia ㉚ 丹麦 Denmark ㉛ 芬兰 Finland ㉜ 瑞典 Sweden ㉝ 挪威 Norway ㉞ 冰岛 Iceland ㉟ 奥地利 Austria ㊱ 德国 Germany ㊲ 意大利 Italy ㊳ 法国 France ㊴ 荷兰 Netherlands ㊵ 比利时 Belgium ㊶ 卢森堡 Luxembourg ㊷ 葡萄牙 Portugal ㊸ 西班牙 Spain ㊹ 希腊 Greece ㊺ 土耳其 Turkey ㊻ 塞浦路斯 Cyprus ㊼ 马耳他 Malta ㊽ 斯洛伐克 Slovakia ㊾ 捷克 Czechia ㊿ 波兰 Poland

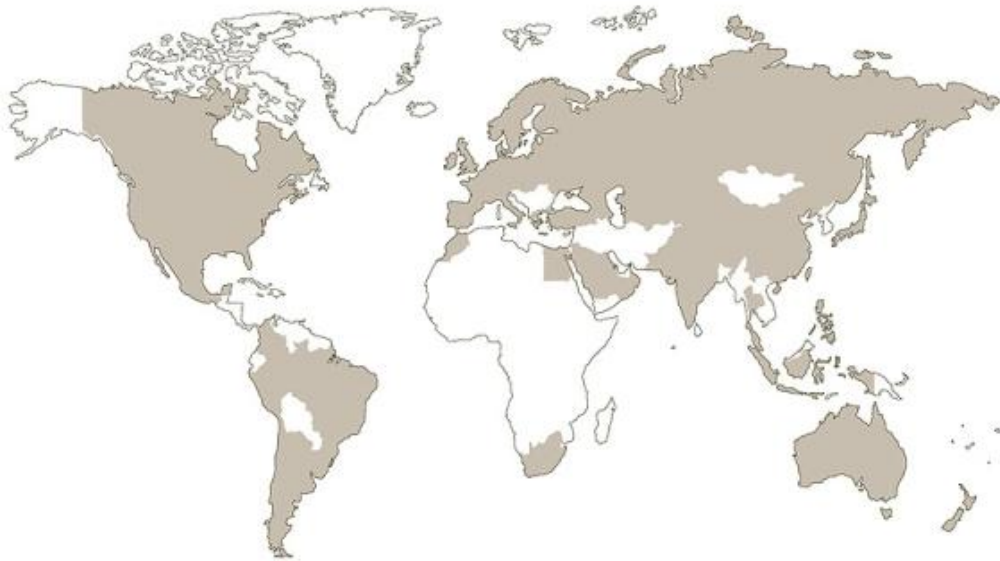
A Cognitive Crisis: Rising South-South Linkages



Source: OECD Development Centre, 2010 (based on IMF data)

New Investors are Emerging in Latin America: The Example of ADIA and Sovereign Wealth Funds

ADIA's Investment Portfolio by Countries



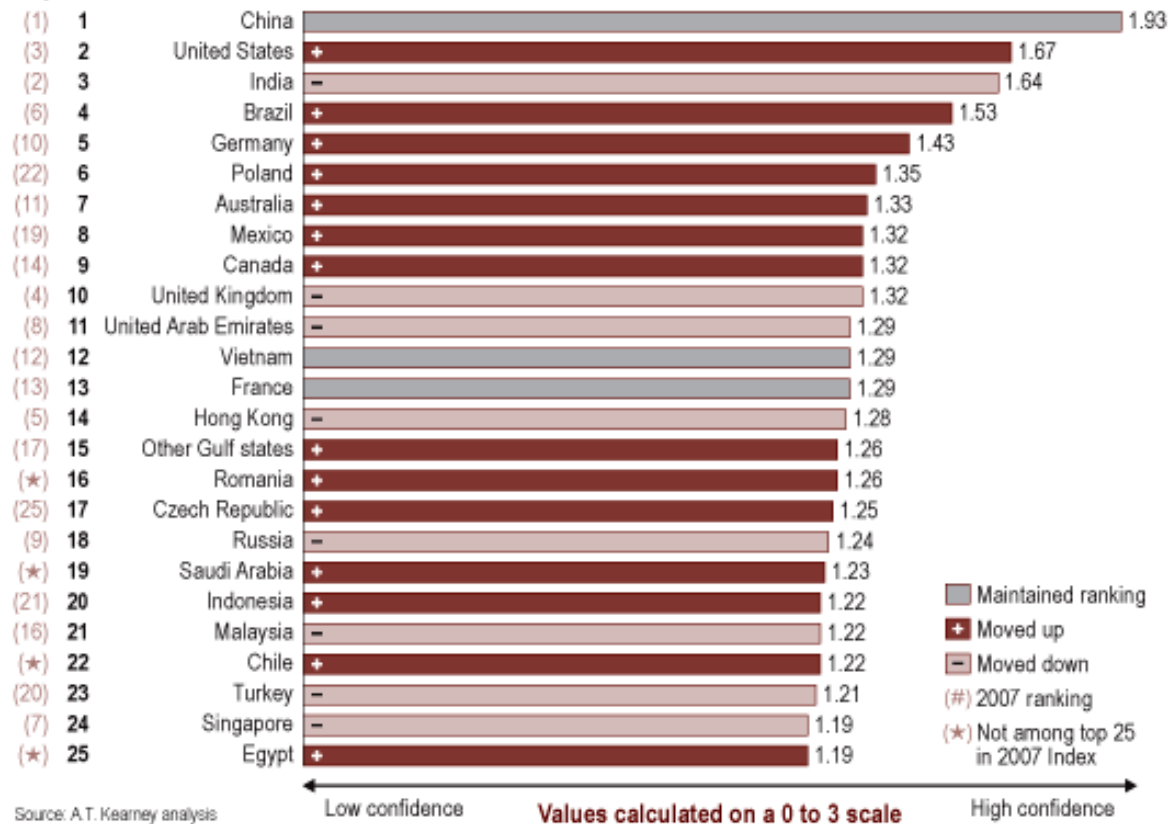
- In March 2010: Previ, the pension fund for Banco do Brasil SA employees, signed a memorandum of understanding with the sovereign wealth fund of Qatar to study a partnership in businesses in Brazil.
- Previ has also had talks on possible partnerships with the sovereign wealth fund of China.
- In 2010, Singapore Temasek is starting investment operations in Brazil and Mexico, two countries where the SWF opened offices in 2009.
- Opportunities also for major OECD multinationals: Santander raised Emirates funding from its listed subsidiary in Brazil.

Source: Based on ADIA Annual Report, 2010.

Brazil tops the FDI destination ahead of Germany, France, Russia or Mexico

2010 FDI Confidence Index®

Top 25



Brazilian multinationals are becoming global investors and the 2010s will show more investment abroad

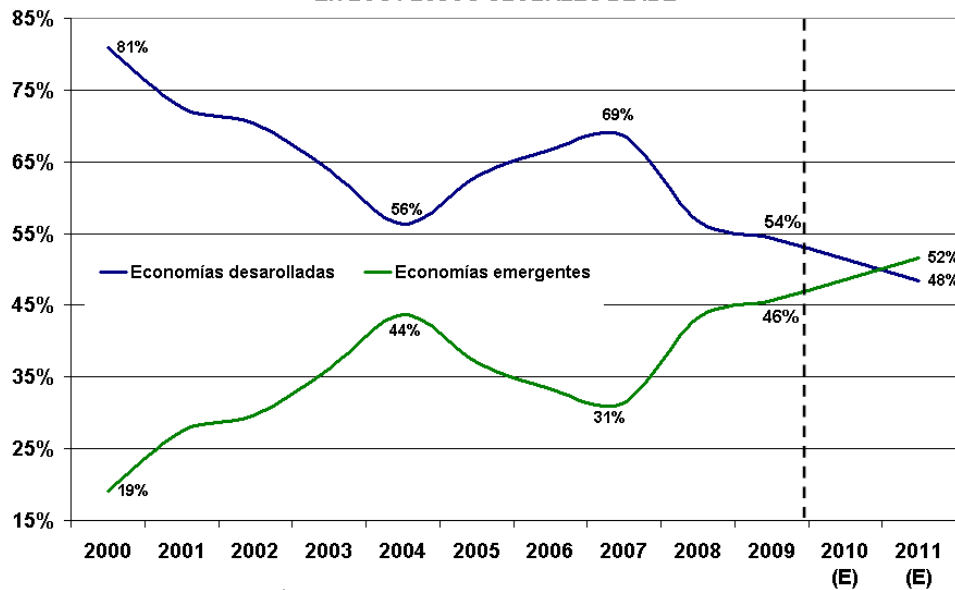


Bradesco



PETROBRAS

PARTICIPACIÓN DE FLUJOS DE IDE PARA ECONOMÍAS DESARROLLADAS Y EMERGENTES EN LOS FLUJOS GLOBALES DE IDE



FUENTE: UNCTAD ESTIMACIÓN (E): SOBEET



VALE

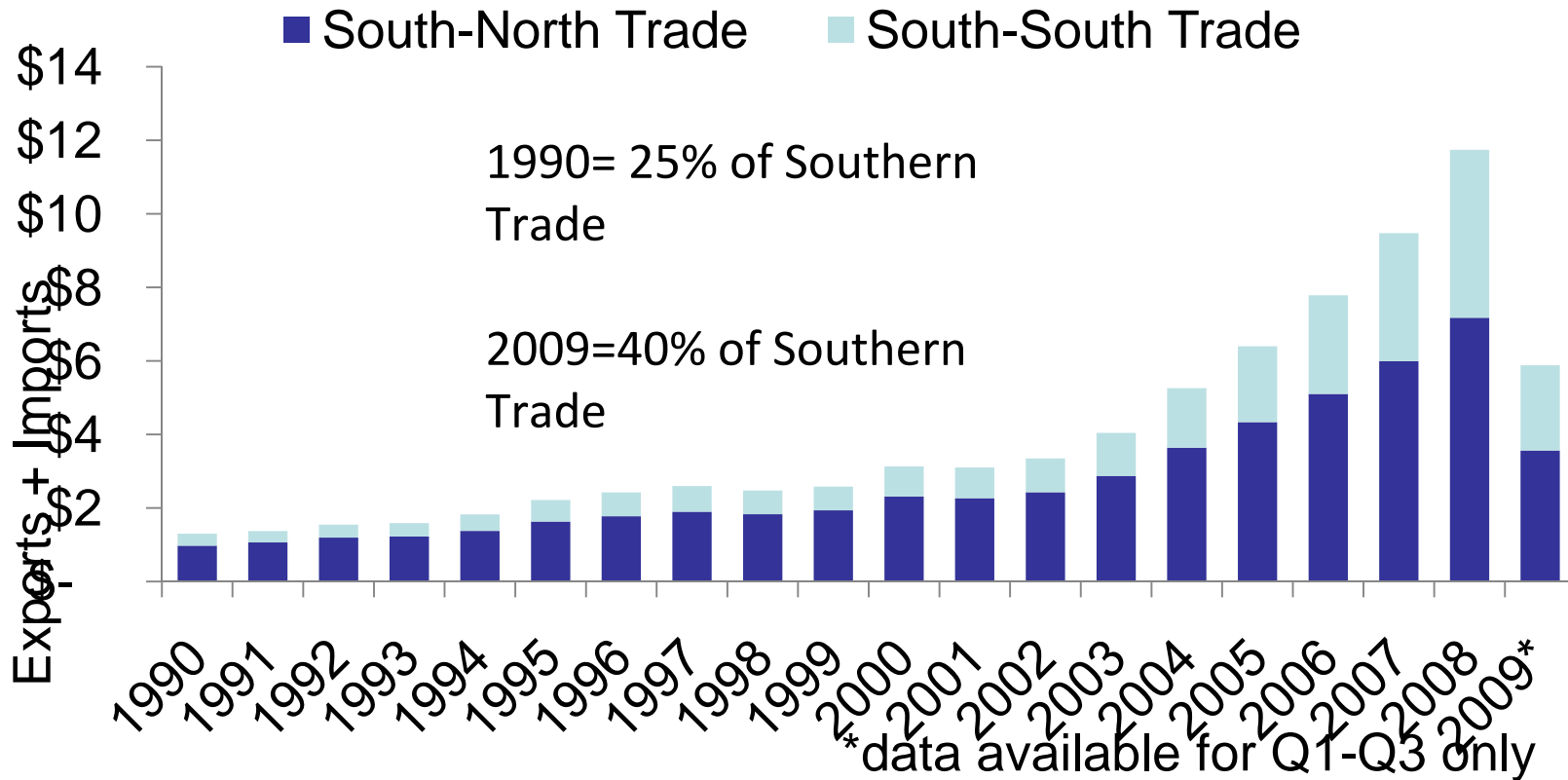
ODEBRECHT



BRASIL FOODS



A Cognitive Crisis: Rising South-South Linkages

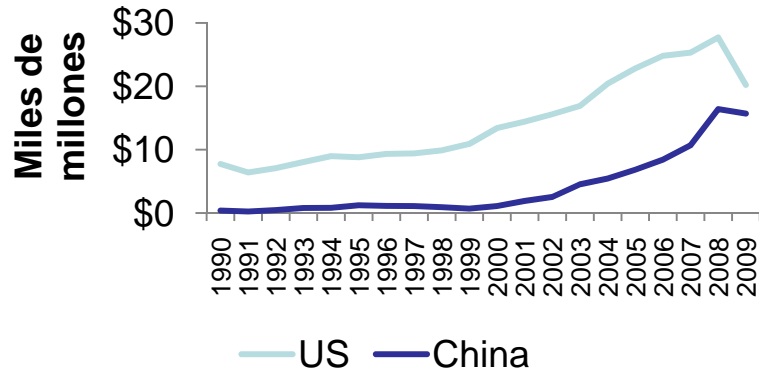


Source: OECD Development Centre, 2010 (based on IMF data)

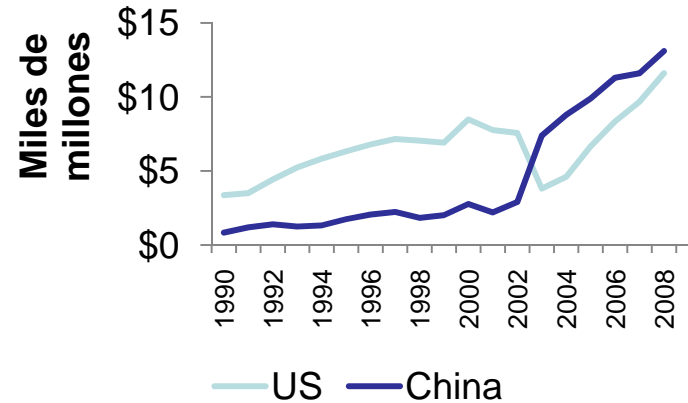
A Cognitive Crisis: Rising South-South Linkages

- Trade with the US vs. Trade with China

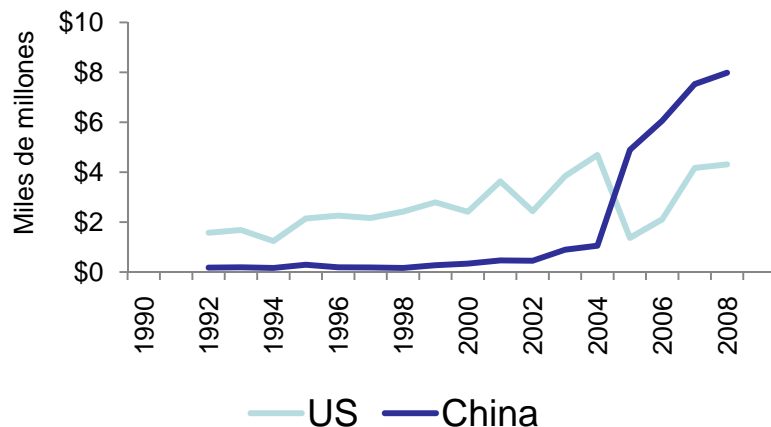
Brazilian Exports



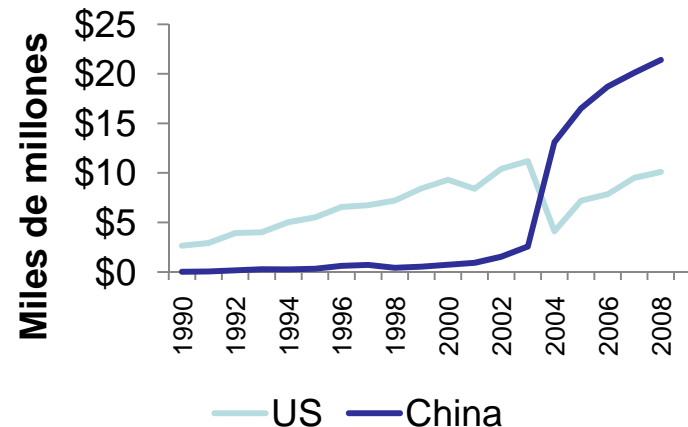
Indonesian Exports



South African Exports



Indian Exports



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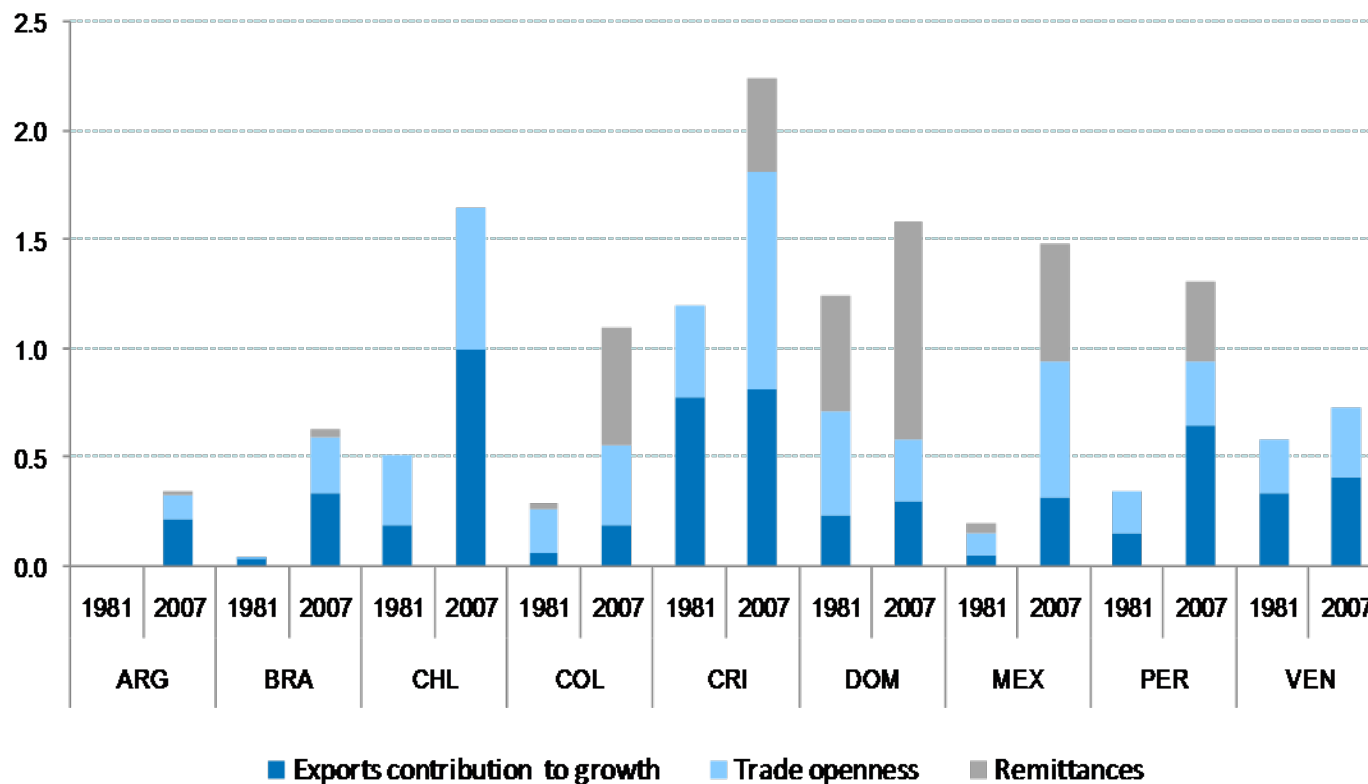
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A Focus on China, Brazil and Latin America

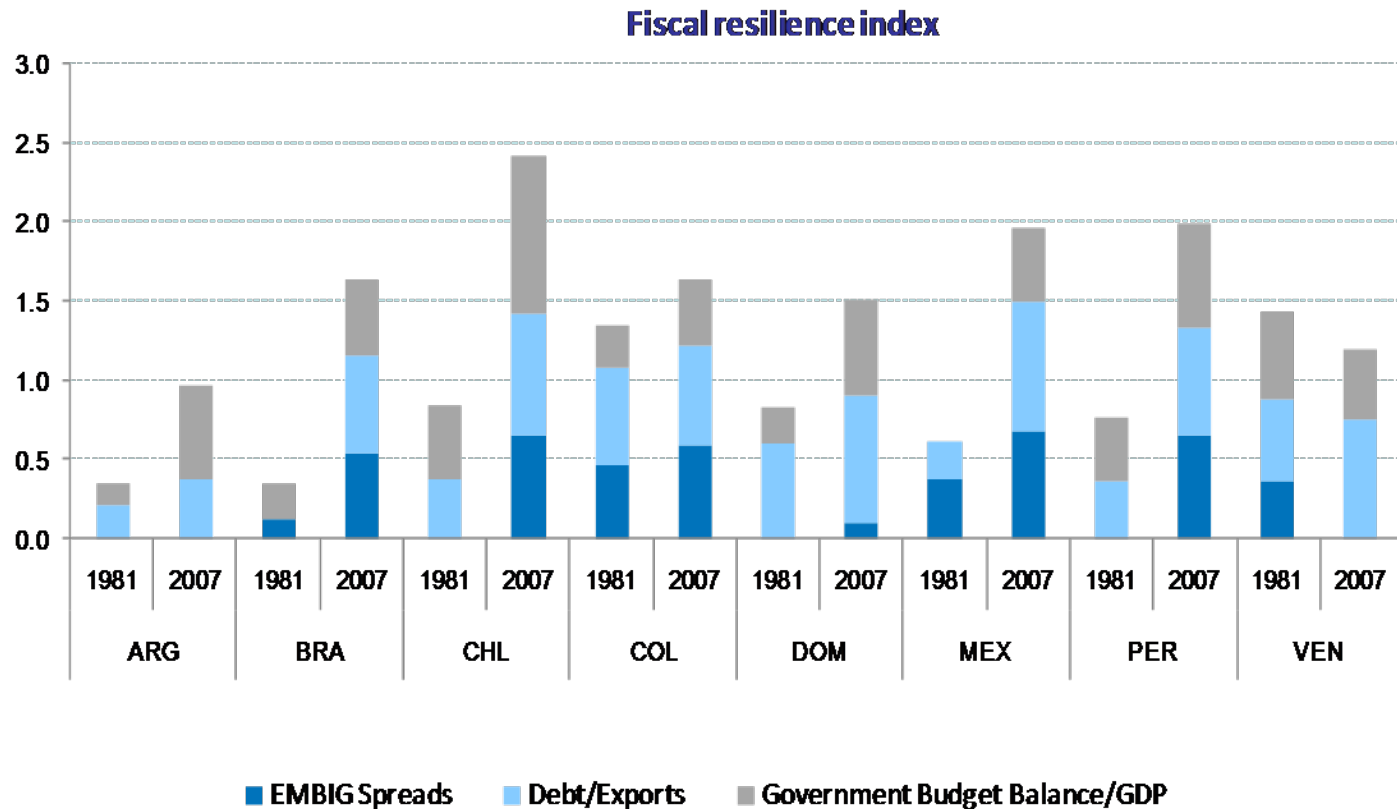
Latin America experiences a major shift towards *possibilism*: The region became more open and exposed to exogenous shocks

Current account exposure index



Source: OECD Development Centre calculations (based on the IMF's IFS database, Penn World Tables 6.2 and the World Bank's WDI database).

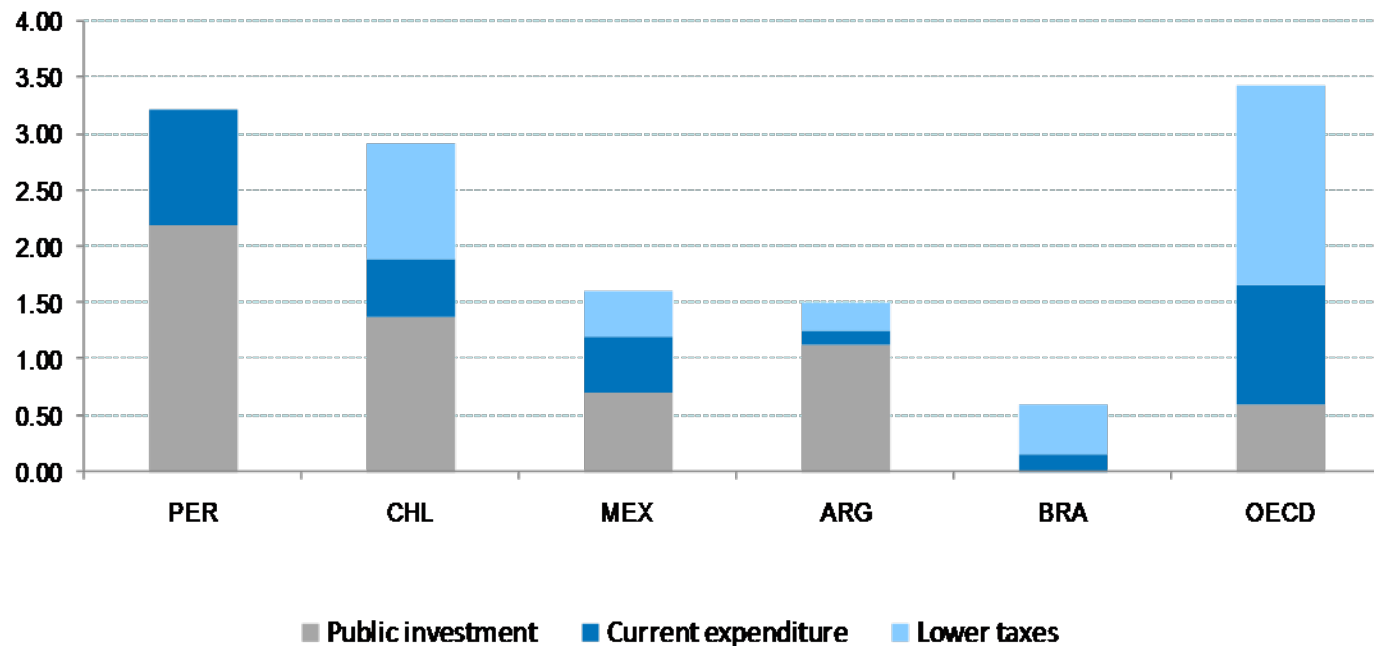
Latin America experiences a major shift towards *possibilism*: ... but the region built significant macro policy resilience



Source: OECD Development Centre calculations based on World Bank GDF and WDI databases, ECLAC Economic Indicators and Statistics database (BADECON), IMF IFS database, Institutional Investors and Datastream database.

Latin America experiences a major shift towards *possibilism*: ...fiscal and monetary policy became more effective and sustainable

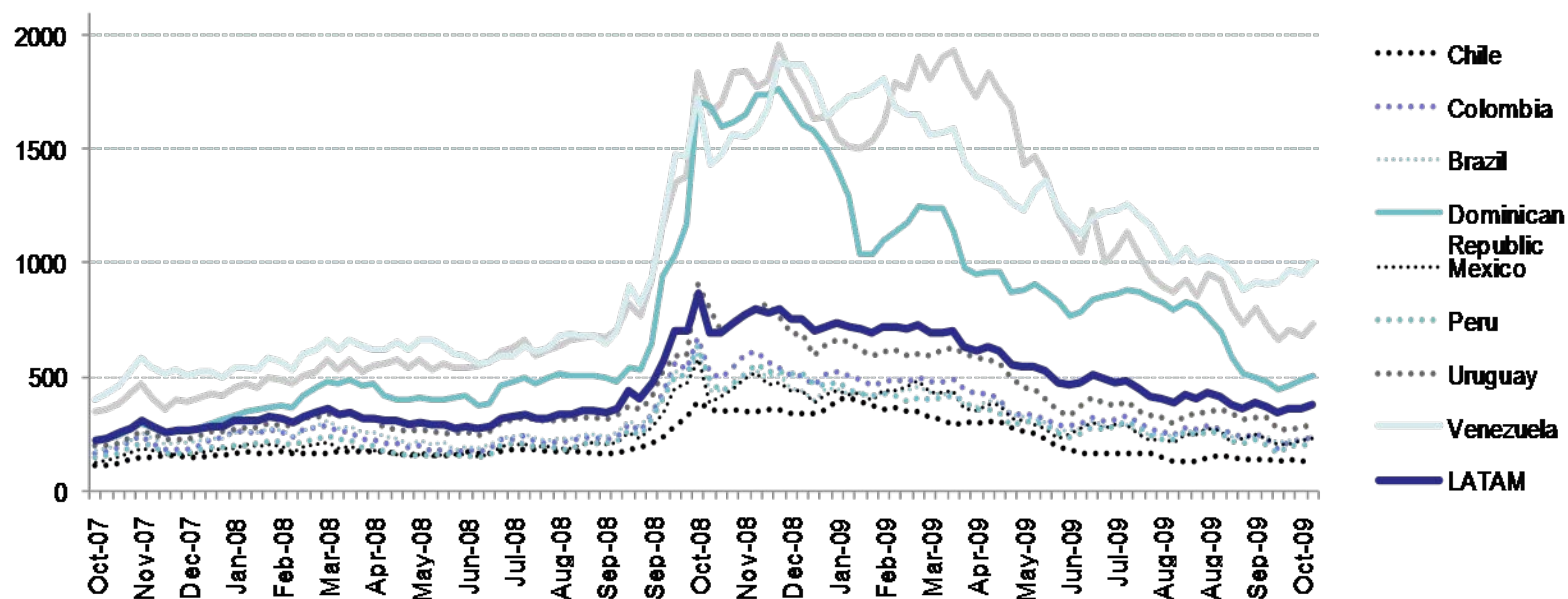
Fiscal stimulus in selected Latin American countries



Source: Based on OECD, IMF, and National Ministries of Finance (Peru and Chile).

Latin America experiences a major shift towards *possibilism*: ...fiscal and monetary policy became more effective and credible

EMBI spreads
(basis points)



Source: based Datastream, 2010

Brazilian Growth in 2008-2010: Leading The Latin America Pack



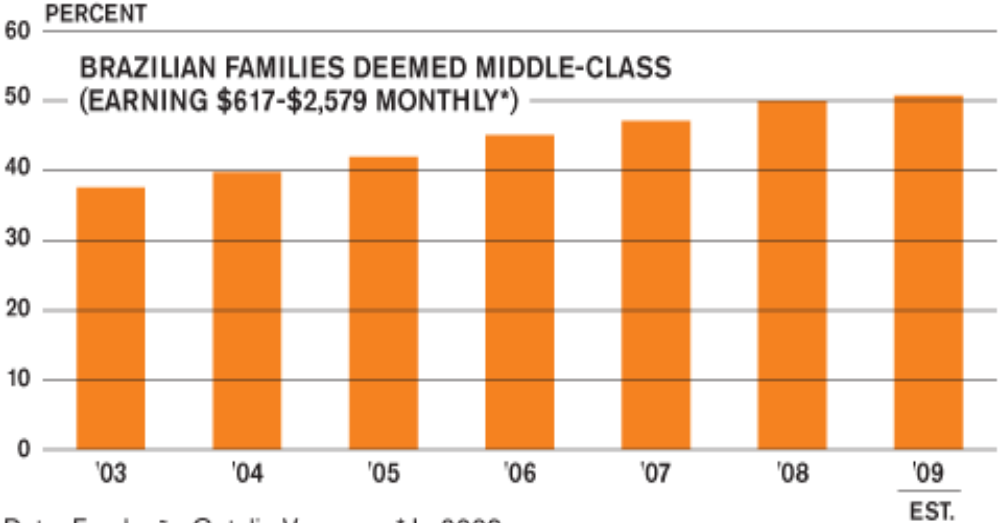
The very same year of the OECD global crisis, Brazil gets the investment grade



The very same year of the global crisis in OECD countries, Brazil gets a record of 5 USD billion of FDI inflows

Brazilian Growth in 2010: Leading The Latin America Pack

THE EXPANDING MIDDLE



- ✓ Middle classes represent more than 50% of total population, 10 pp more than 5 years ago.
- ✓ 20 million of people (10% of the population) have reached levels of 7 500 USD income over the past 5 years.
- ✓ Young brazilians and woman are the bulk of new incorporations.

Brazilian Growth in 2010-2030: Leading The Latin America Pack



Brazil will catch up sooner than expected OECD countries



Global Economics

Commodities and Strategy Research End
2009

Year in which Brazil will catch up with...

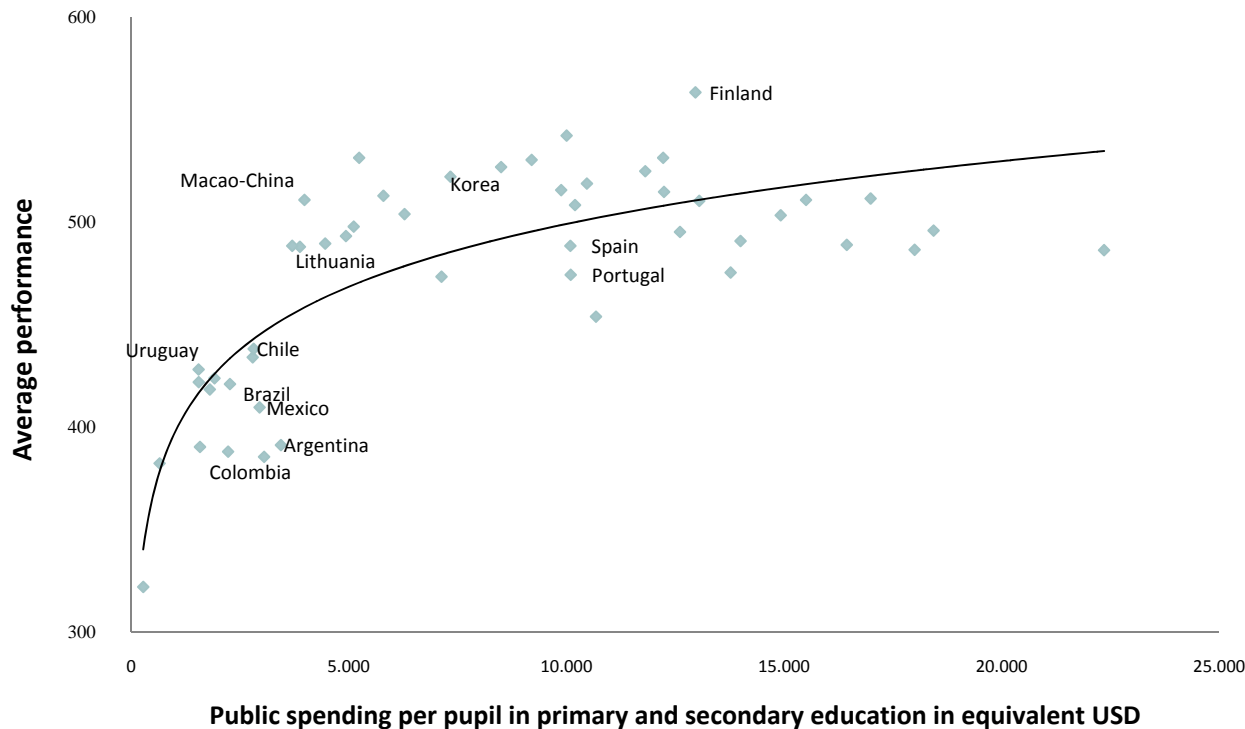
	Italy	France	Germany
Estimated in 2003	2025	2031	2036
Estimated in 2009	2020	2027	2029



Source: Based on Goldman Sachs, 2010.

Brazil still have challenges ahead (as Latin America)

Public spending ^a on education and performance in PISA ^b



*Education spending per pupil is still five times lower in Latin America than in OECD countries...
But quality is as big a problem as quantity*

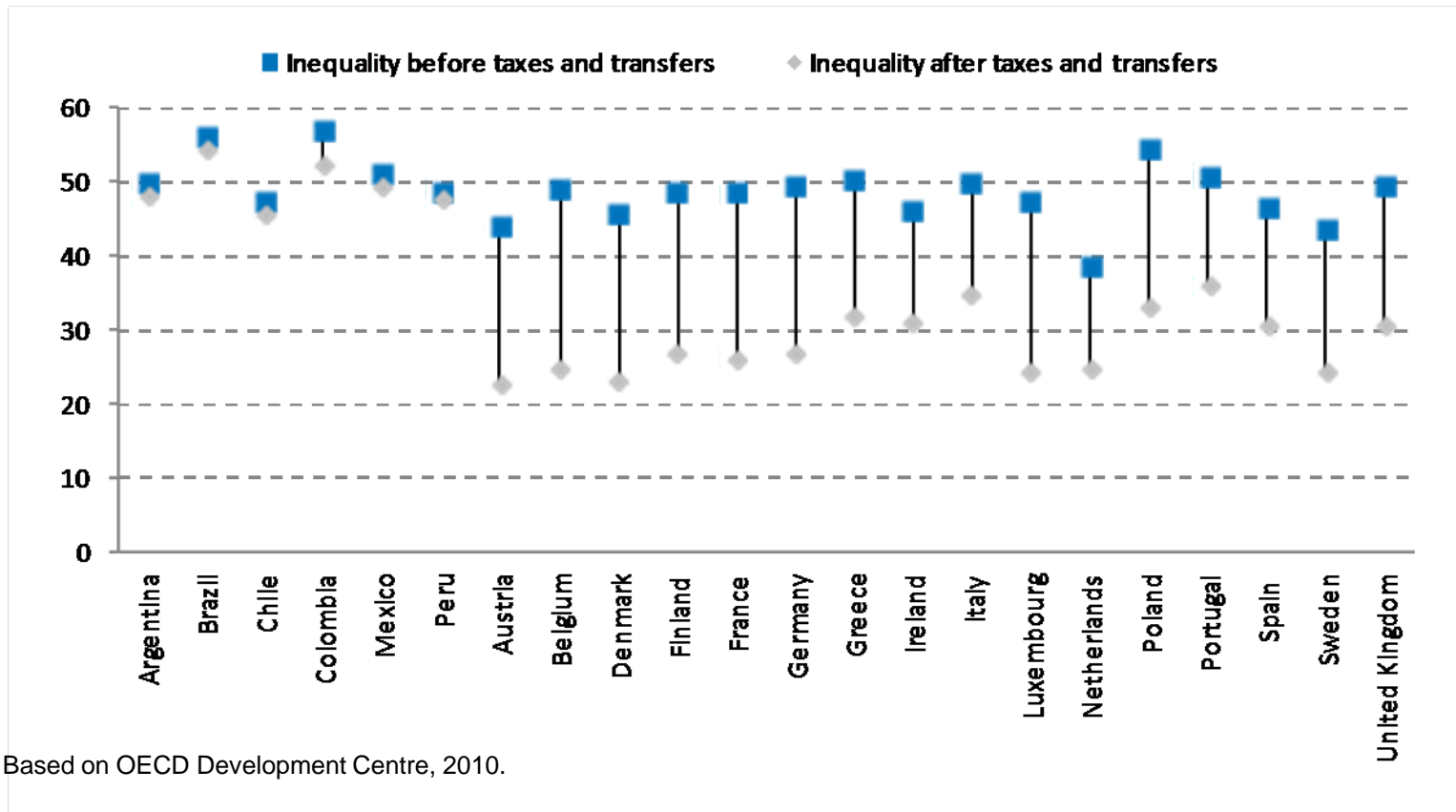
Notes:

- a) Public spending is calculated as average of available data since 2000.
- b) Countries performance average on the PISA science scale

Source: OECD Development Centre 2008 based on PISA 2006 Science Competences for Tomorrow's World and OECD and UNESCO World Educational Indicators, UNESCO's Institute of Statistics database.

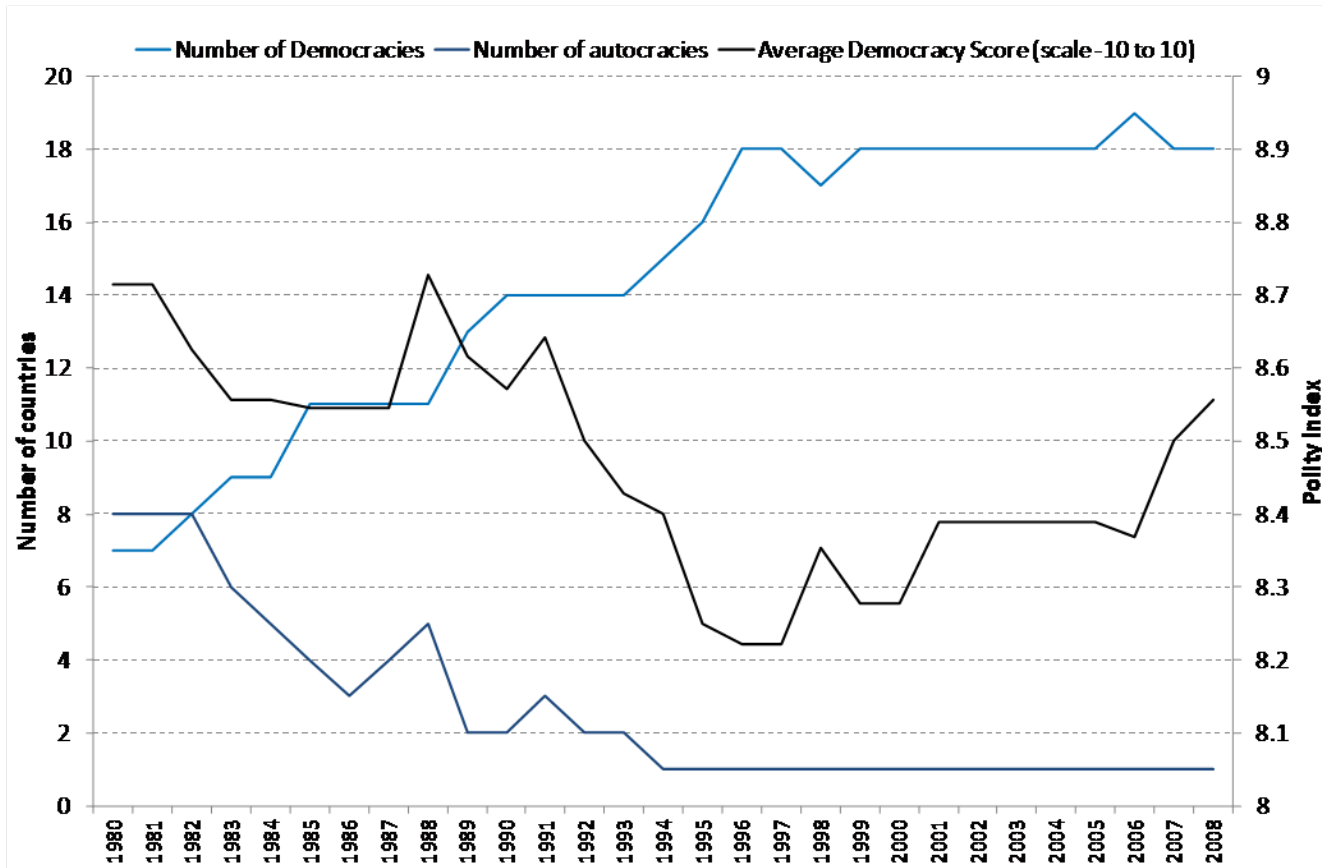
Brazil still have challenges ahead (as Latin America)

Income inequality before and after taxes and transfers
(Gini coefficient, around 2000)



Source: Based on OECD Development Centre, 2010.

The Middle Class Bonus: Strong Supports for Democracy



Source: Based on OECD Development Centre, 2010.

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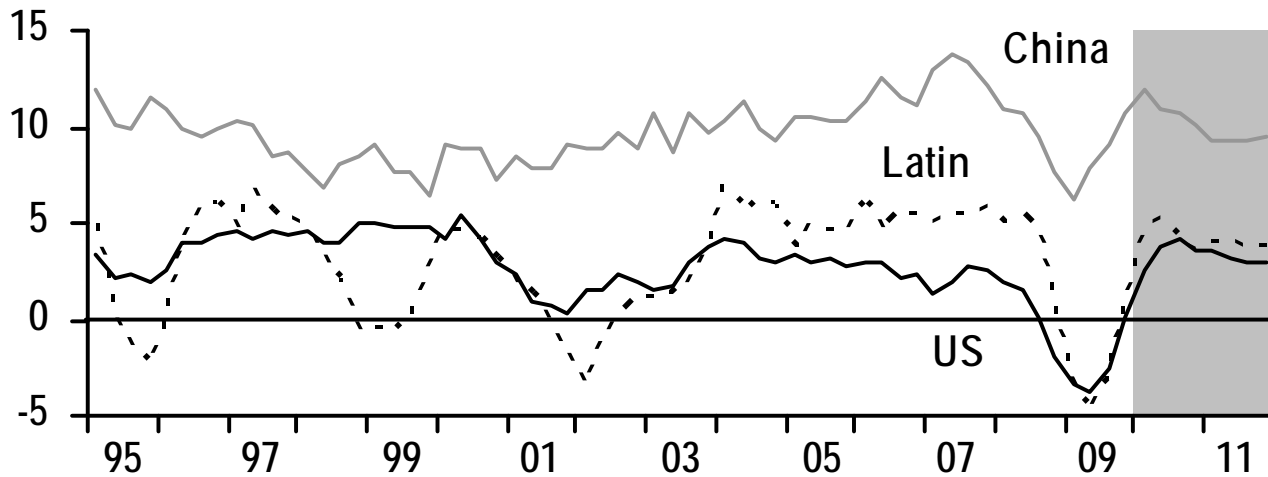
3.

A Focus on China, Brazil and Latin America

Latin America's economic fate is increasingly tied to China

Latin America, US, and China GDP

% oya



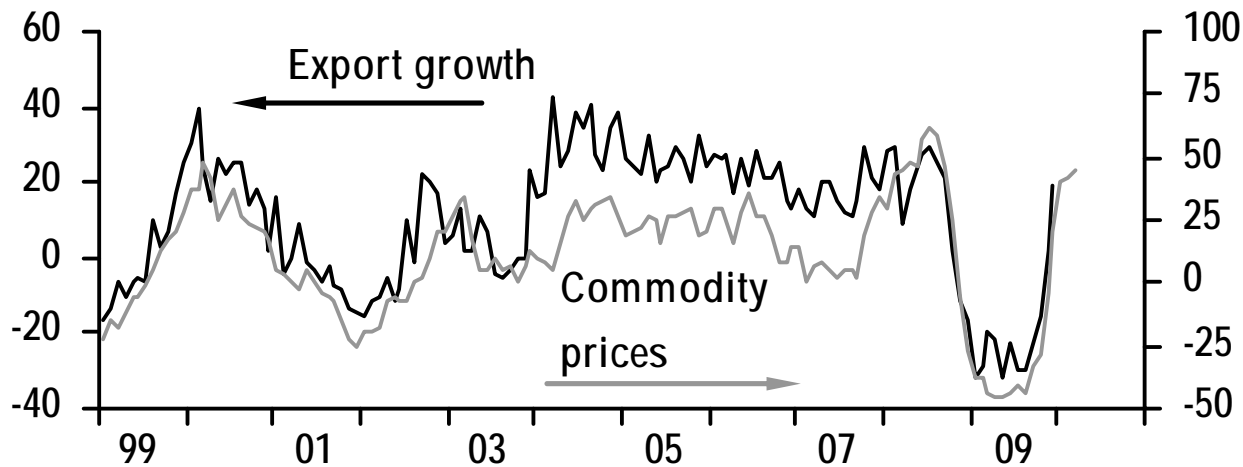
Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China

Latin America (ex Mexico): Commodity rally is driving exports higher

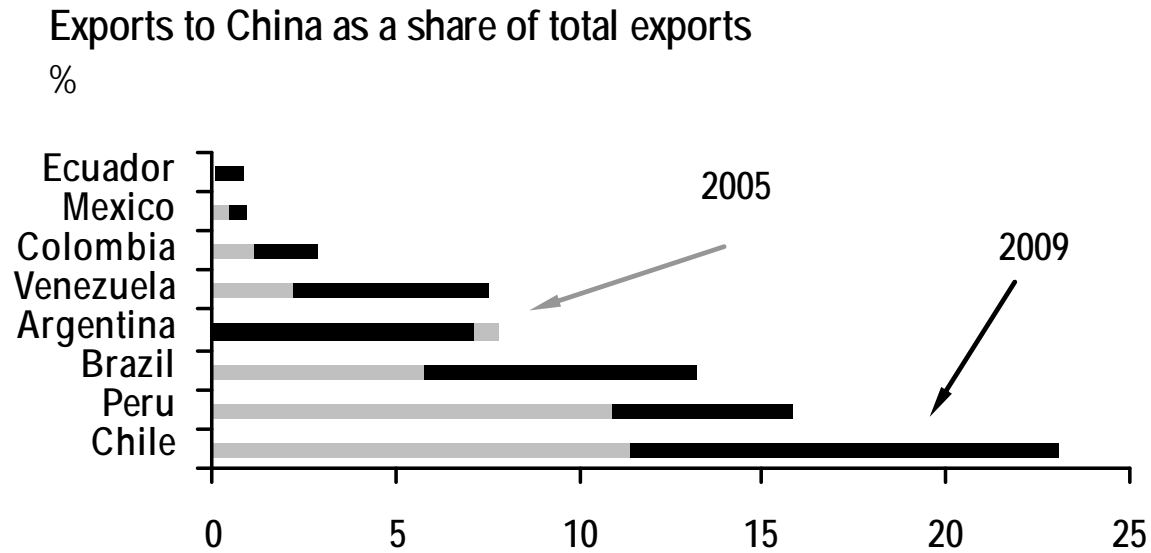
Export growth; oya %

Total commodity price index, oya %



Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China



Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China

Latin America: Exports profile (% of total exports)

	Total Exports (% GDP)	Commodity Exports	Exports to US	Exports to China	Exports to EU
Argentina	18,2	59,7	6,7	7,1	19,0
Brazil	9,7	55,4	10,2	13,2	22,2
Chile	30,5	74,8	11,3	23,1	22,1
Colombia	14,3	56,9	39,9	2,9	14,3
Ecuador	25,5	80,9	33,4	0,9	14,6
Mexico	26,2	20,9	80,6	1,0	4,9
Peru	21,2	77,7	18,9	15,8	23,3
Venezuela	14,8	99,9	35,4	7,5	7,4
Latin America*	18,9	47,8	40,1	7,5	14,0

* GDP-weighted average

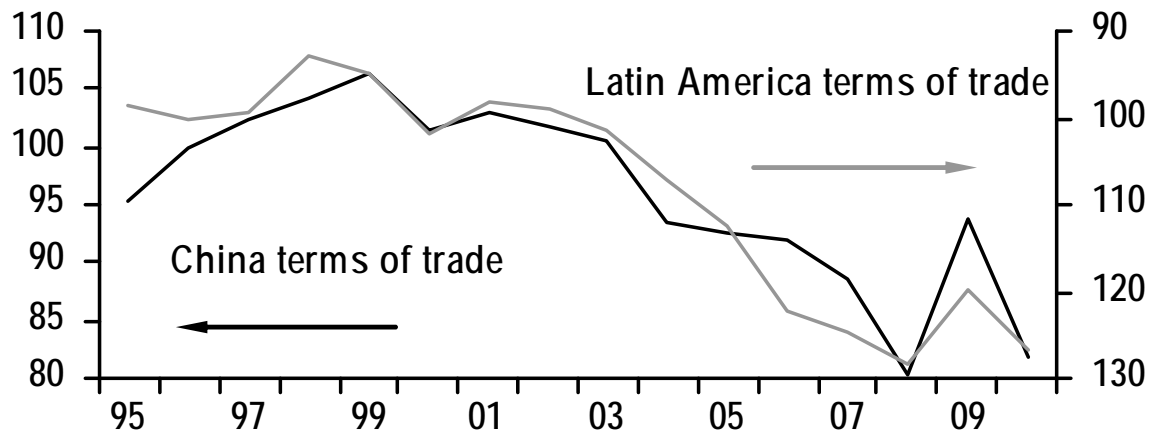
Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China

Latin America and China's term of trade are highly correlated

Terms of trade indices; index 1996=100

Inverted scale

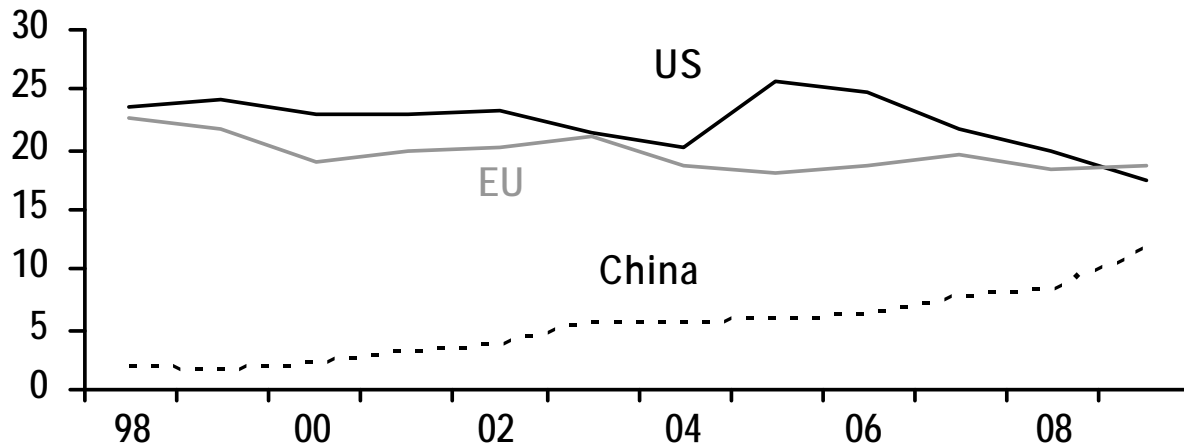


Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China

Breakdown of South America exports by destination

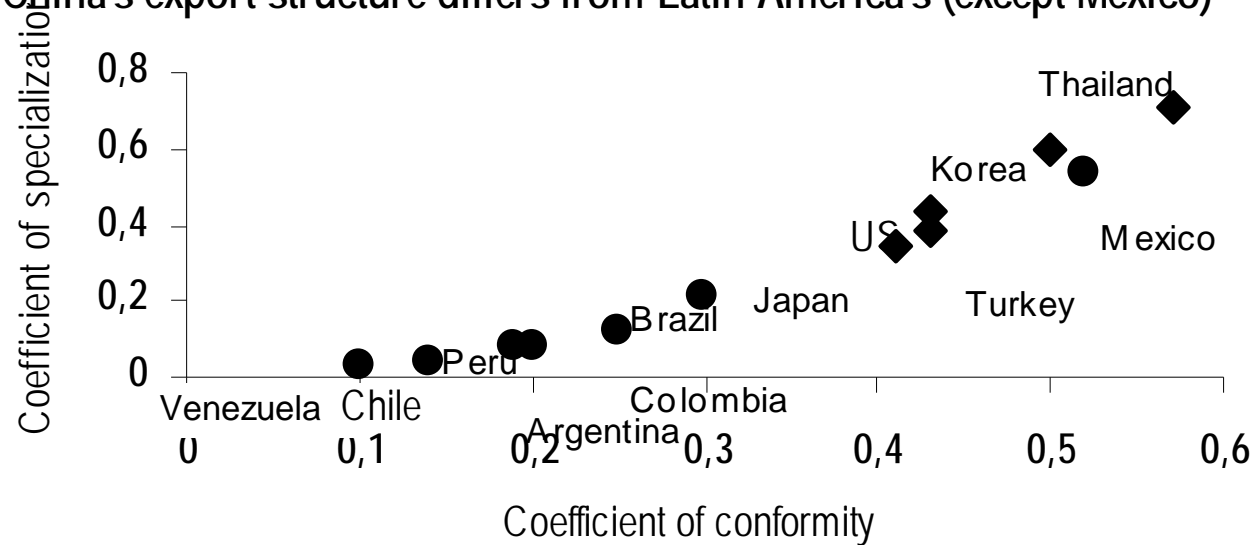
% of total exports



Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China

China's export structure differs from Latin America's (except Mexico)

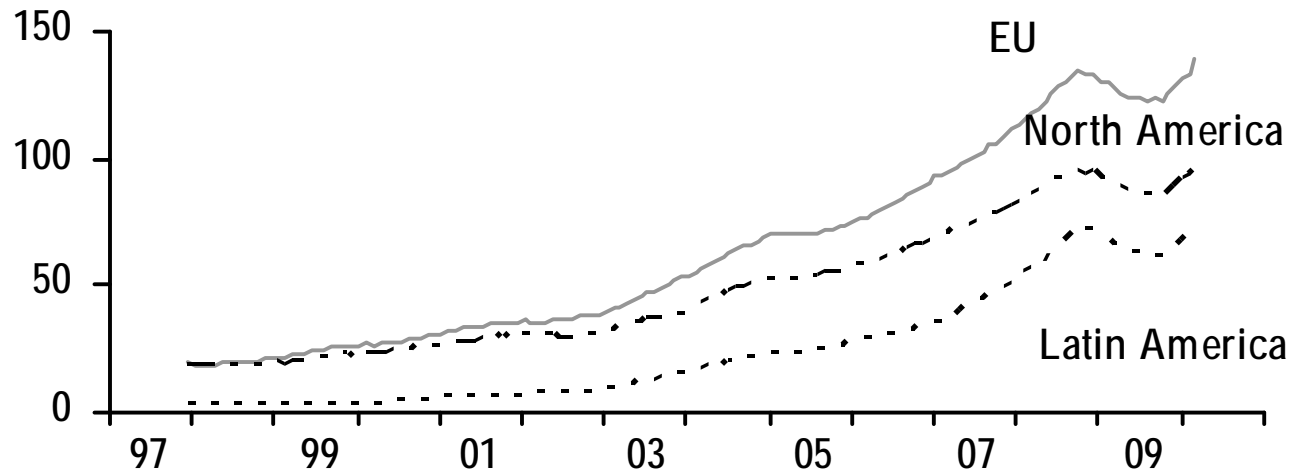


Source: based on JP Morgan, 2010.

Latin America's economic fate is increasingly tied to China

China imports by region

US\$ bn

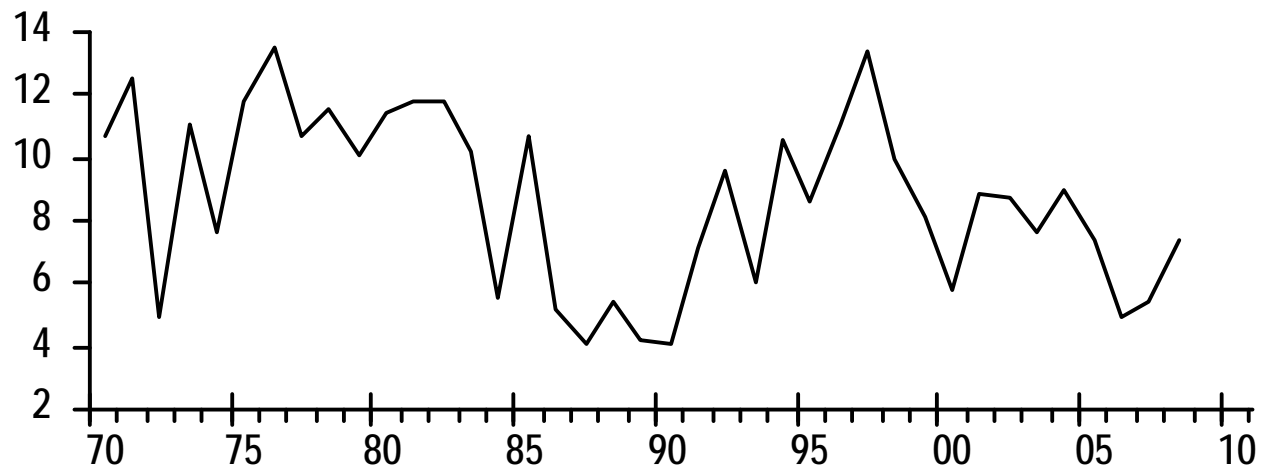


Source: based on JP Morgan, 2010.

Latin America not yet a major destination of China's FDI

Latin America is not attracting as much FDI as other regions...

Share of global FDI inflows; %

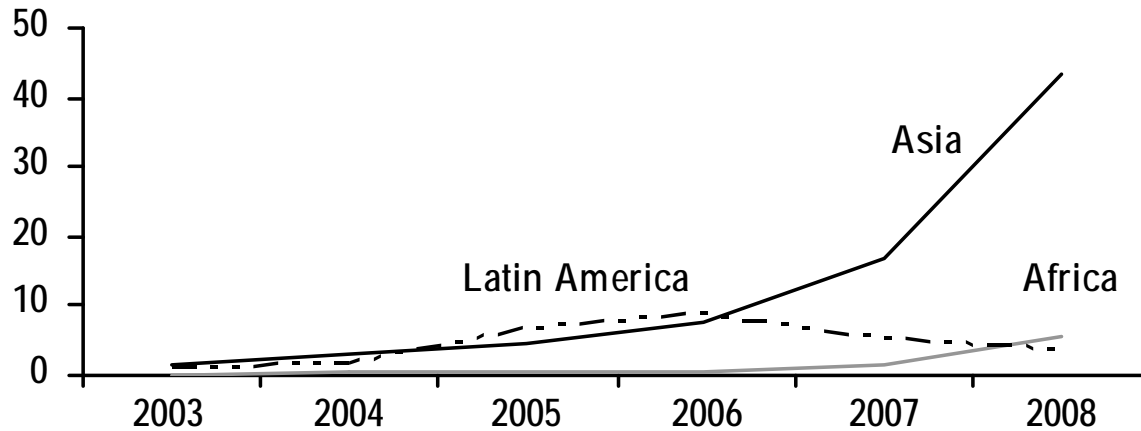


Source: based on JP Morgan, 2010.

Latin America not yet a major destination of China's FDI

... But it has the potential to attract more FDI inflows from China

Chinese direct investments in specific regions; US\$ bn



Source: based on JP Morgan, 2010.

Bilateral Loans to Latin America are Setting New Links with China

Recent Chinese bilateral loans to Latin America

Country	Year	Institutions	Amount (US\$ bn)	Instruments
Argentina	2009	Government	10,0	Currency swap
Brazil	2010	CDB ¹ and Petrobras	10,0	Credit line ³
Ecuador	2010	Exim Bank of China and Ecuador Government	1,7	Credit line linked to hydroelectric project
Ecuador	2009	PetroChina and PetroEcuador	1,0	Credit line
Venezuela	2010	PetroChina and CBD, PDVSA, Bandes, Govt	20,0	Credit line
Venezuela	2008	CDB ¹ and Bandes ²	8,0	Credit line

Source: based on JP Morgan, 2010.

Conclusion: Emerging Markets Leaders At the Top of OECD Multinationals and Business Schools

More and more
CEOs of Top OECD multinationals and BS

Indra Nooyi (India): CEO of Pepsico

Vikram Pandit (India): CEO of Citibank.

Carlos Ghosn (Brazil): CEO of Renault Nissan.

Eduardo Leite (Brazil): Chairman of Baker& McKenzie.

Mohamed El Erian (Egypt): CEO of PIMCO.

Nitin Nohria (India): Dean of Harvard Business School.

Sunil Kumar (India): Dean of Chicago Business School.

More and more
Multinationals mixing OECD and EM DNA's

Lakshmi N. Mittal (India): Chairman and CEO of Arcelor Mittal.

Sergey Mikhaylovich Brin (Russia): Co-founder of Google.

Carlos Brito (Brazil): Chairman and CEO of AB Inbev.

Tidjane Thiam (French-Ivorian): CEO of Prudential.

Paolo Rocca (Italian-Argentinean): Chairman and CEO of Tenaris

Alberto Weisser (Brazilian): Chairman and CEO of Bunge

Beyond Economics: A Re Balanced World

Emerging Markets Leaders at the Top in International Organizations:



- Angel Gurría (México): Former Minister now Secretary General of the OECD. Based in Paris.



- Zhu Min (China): Former Deputy Governor of the People's bank of China as a special advisor of IMF Managing Director. Based in Washington DC.



- Juan Somavia (Chile): Director General of ILO. Based in Geneva.



- Justin Lin (China): Chief Economist of The World Bank Group. Based in Washington DC.

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