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, ESADEgeo
Ex Director General, OECD – Director, Telefónica International.
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.

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).

![Bar chart showing reserve holdings in USD Billion for Emerging and Developing vs. Advanced Economies between January 1990 and November 2009.](chart.png)
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.

<table>
<thead>
<tr>
<th>Emerging Markets (big 5)</th>
<th>Europe Risk</th>
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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.

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

Source: OECD Development Centre, 2010 (based on Datastream data).
Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

Source: OECD Development Centre, 2010 (based on Datastream data).
Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

- Market Capitalization.

China Mobile • AT&T

Petrobras • Royal Dutch/Shell

Itau Unibanco • BNP Paribas

Tata Motors • GM

Source: OECD Development Centre, 2010 (based on Datastream data).
Global Crisis and the Shifting Wealth of Nations: An Accelerator of Transition

Source: OECD Development Centre, 2010 (based on Datastream data).
Global Crisis & Shifting Wealth of Nations: An Accelerator of Transition

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

OECD Development Centre, 2010 (based on Dealogic data).
A Cognitive Crisis: The View from the South
A Cognitive Crisis: 
The View from the South
A Cognitive Crisis:  
The View from the South
A Cognitive Crisis: Rising South-South Linkages

Emerging/Developing Share of World Outward FDI flows

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 staring 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

1. China (1.93)
2. United States (1.67)
3. India (1.64)
4. Brazil (1.53)
5. Germany (1.43)
6. Poland (1.35)
7. Australia (1.33)
8. Mexico (1.32)
9. Canada (1.32)
10. United Kingdom (1.32)
11. United Arab Emirates (1.29)
12. Vietnam (1.29)
13. France (1.29)
14. Hong Kong (1.28)
15. Other Gulf states (1.26)
16. Romania (1.26)
17. Czech Republic (1.25)
18. Russia (1.24)
19. Saudi Arabia (1.23)
20. Indonesia (1.22)
21. Malaysia (1.22)
22. Chile (1.22)
23. Turkey (1.21)
24. Singapore (1.19)
25. Egypt (1.19)

Source: A.T. Kearney analysis
Brazilian multinationals are becoming global investors and the 2010s will show more investment abroad
A Cognitive Crisis:
Rising South-South Linkages

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

South-North Trade
South-South Trade

1990= 25% of Southern Trade
2009=40% of Southern Trade

*data available for Q1-Q3 only
A Cognitive Crisis: Rising South-South Linkages

- Trade with the US vs. Trade with China

Brazilian Exports

Indonesian Exports

South African Exports

Indian Exports

Source: UN Comtrade data accessed via WITS, 2010
1. The Shifting Wealth of Nations

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3. 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.

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.
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
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...

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Italy</td>
<td>2020</td>
<td>2025</td>
<td>2025</td>
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<tr>
<td>France</td>
<td>2027</td>
<td>2031</td>
<td>2031</td>
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<tr>
<td>Germany</td>
<td>2029</td>
<td>2036</td>
<td>2036</td>
</tr>
</tbody>
</table>

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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Latin America’s economic fate is increasingly tied to China

Latin America’s economic fate is increasingly tied to China

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

Export growth; oy a %

Total commodity price index, oy a %

Latin America’s economic fate is increasingly tied to China

Latin America’s economic fate is increasingly tied to China

<table>
<thead>
<tr>
<th>Latin America: Exports profile (% of total exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Exports (GDP)</strong></td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Argentina</td>
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<tr>
<td>Brazil</td>
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<tr>
<td>Chile</td>
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<tr>
<td>Colombia</td>
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<tr>
<td>Ecuador</td>
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<tr>
<td>Mexico</td>
</tr>
<tr>
<td>Peru</td>
</tr>
<tr>
<td>Venezuela</td>
</tr>
<tr>
<td><strong>Latin America</strong>*</td>
</tr>
</tbody>
</table>

* GDP-weighted average

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

Latin America’s economic fate is increasingly tied to China

Breakdown of South America exports by destination

% of total exports

Latin America’s economic fate is increasingly tied to China

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

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

### Bilateral Loans to Latin America are Setting New Links with China

#### Recent Chinese bilateral loans to Latin America

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

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.
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
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.