P R E S S R E L E A S E

São Paulo / Paris, February, 18th 2016

China's role in Latin America is much more than a trade issue

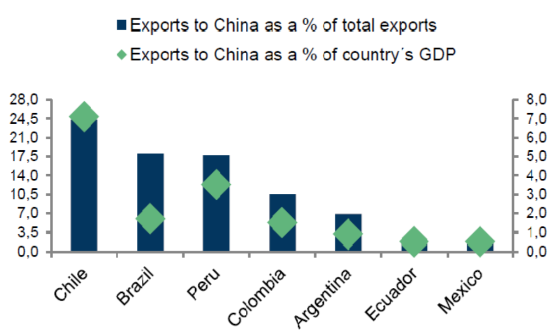
China, on its way to becoming an important financial player for economies with restricted access to international markets, has announced its intention to increase its investment stock in Latin America to 250 billion USD and to attain an annual trade flow of 500 billion USD within the next ten years. This announcement is good news for Latin America, which experienced a recession in 2015. According to Coface's estimations, the region saw a 0.6% drop in GDP in 2015 and is expected to show a marginal improvement in 2016 (-0.2 %).

Acceleration of trade relations between China and Latin America over the past 15 years

China is now the second largest source of Latin American imports (following the United States) and the third largest destination for its exports (after the United States and the European Union). In 2014, Brazil, Mexico, Argentina, Colombia, Chile, Peru and Ecuador, which together represented approximately 88 % of the region's GDP, exported 83.3 billion USD to China, against imports of 152.2 billion USD.

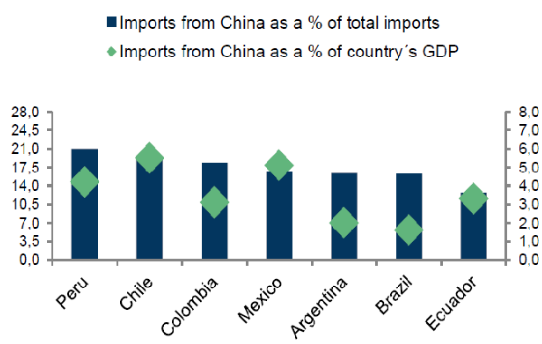
Brazil is China's main Latin American partner in trade flow, representing approximately 78 billion USD in 2014. China is a major destination for Brazil´s exports, accounting for 18 % of the country's total exports, though in terms of total GDP it only represents 1.7 %.

Latin American exports to China



Source: National Statistical Institutes, Central Banks and IMF; year = 2014

Latin American imports from China



Source: National Statistical Institutes, Central Banks and IMF; year = 2014

In terms of trade, **Chile**'s dependence on China is the highest in the Latin American region. In 2014, Chile sent 24.4 % of its total exports to China, equal to 7.1 % of its GDP. In contrast, **Mexico** tends to be the least impacted by lower Chinese demand and exports to China account for just 0.5 % of its GDP. For imports, on the contrary, Mexico is one of the region's main destinations for Chinese products.

PRESS RELEASE

Latin America became a major supplier of basic products to China but was, in turn, invaded by cheap manufactured imports. Between 2009 and 2013, the five main products exported from Latin American and Caribbean countries (LAC) to China were commodities. These represented 71 % of the total exports from the region, while the five main Chinese exports to LAC accounted for 24 % of the total. LAC exports are more concentrated and based on low added-value products, while China's exports are more diversified, with higher added-value.

The future trade scenario appears less attractive

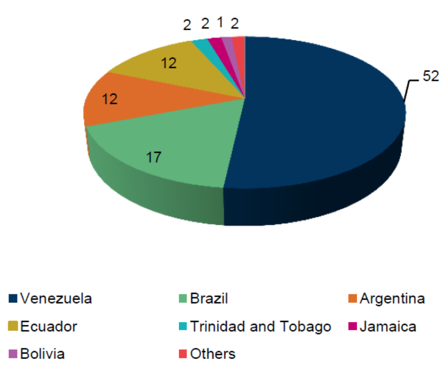
Coface forecasts that Chinese GDP growth will continue to decelerate over the coming years, with 6.2 % in 2016, down from 6.9 % in 2015, and well below the annual growth average of 10 % reported during the previous decade. Latin America appears to be one of the most affected regions in the world by the Chinese slowdown, particularly with regards to its trade and also because of the raw materials low prices, which is also partly explained by a less dynamic activity in China.

China might also suffer a decrease in its market shares due to losses in competitiveness, which can be explained by wages increasing above productivity and the appreciation of the Yuan over recent years. China's rising labour costs over the last ten years have reduced the advantages of producing in the country. The country had been known, for many years, for its relatively cheap labour force. This helped to increase the competitiveness of China's goods and explains the strong increase in exports to Latin America. This reality has, however, changed, especially since China is not included in the Trans-Pacific Partnership, which aims to reduce trade barriers and promote trade between the signatory countries.

An investor looking for opportunities

Over the years, China has extended its international presence to other channels in addition to trade. It has particularly increased its financial presence in Latin America and Africa.

Chinese loans to Latin America (% of total) between 2005 and 2015



Source: Inter-American Dialogue

According to the Inter-American Dialogue, during the period from 2005 to 2015, China lent 125 billion USD (around 2.5 % of regional GDP) to countries and enterprises in Latin America. However, China is still far from being Latin America's major source of foreign direct investments (FDI) and represents roughly 6 % of the region's total FDI.

P R E S S   R E L E A S E

China has especially helped to improve Latam's infrastructures through its lending. Over the last decade, China invested more in the region's domestic infrastructure than in any other economy. This has enabled engineering and construction companies to intensively develop their technological and logistical capacities.

Although China has announced strong investments in Latin America, its capacity to deliver is uncertain. China has also experienced disagreements with Latin American businesses and governments due to contract terms and environmental concerns.

China will continue to play an important role in Latin America's near future, especially in terms of investments. Latin America, however, needs to work on guaranteeing investment reciprocity and to improving its understanding of China's investment model.

"All in all, China remains a powerful source of investments, loans and trade that cannot be denied. However conditions need to be deeply analyzed, as there are still many obstacles to overcome" explains Patricia Krause, Economist for Coface's Latin America region.

MEDIA CONTACTS:
Maria KRELLENSTEIN – T. +33 (0)1 49 02 16 29 maria.krellenstein@coface.com
Justine LANSAC – T. +33 (0)1 49 02 24 48 justine.lansac@coface.com

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2015, the Group, supported by its ~4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 99 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 340 underwriters located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French State.

www.coface.com

Coface SA. is listed on Euronext Paris – Compartment A
ISIN: FR0010667147 / Ticker: COFA

COFA LISTED EURONEXT