

Cross-Country Emerging Markets Analysis

Economic Watch

Madrid, 15 December 2010

Economic Analysis

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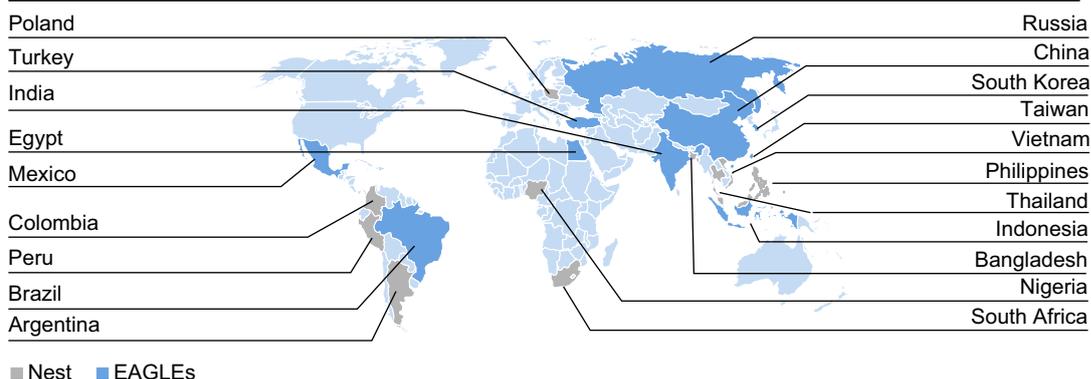
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Why investors should focus on BBVA EAGLES

As world growth rotates towards the emerging markets, focus should shift from BRICs to EAGLES

- **BBVA EAGLES (Emerging and Growth-Leading Economies)** is a grouping acronym created by BBVA Research to gather all emerging economies whose contribution to World's GDP in the next ten years is expected to be larger than the average of the G7 economies, excluding the US.
- **This is a dynamic concept** where country members can change along time according to their forecasted performance relative to developed economies, based on BBVA Research forecasts to be updated annually.
- **This ensures that successful economies will get a chance to be included in the group based on an objective criterion** and that those who fail to perform will drop out, anticipating changes in their prospects.
- **In the first forecasting exercise ten EAGLE economies, sorted by relevance, have been identified:** China, India, Brazil, Indonesia, South Korea, Russia, Mexico, Egypt, Taiwan and Turkey.
- **This selection shows the need to go beyond BRICs:** the non-BRIC EAGLEs will be as relevant for world growth as the G6. Moreover, Indonesia and Korea are more important for world growth than Russia.

Chart 1
BBVA EAGLES and the EAGLES' Nest



Source: BBVA Research

The EAGLEs concept

As the world economic growth rotates from developed to developing countries identifying which economies will lead this process becomes critical. There have been other attempts in the past to create a set of countries to focus on (BRIC, CIVETS or Next-11), nevertheless the methodology followed by BBVA Research differs from others' in several points and it is particularly geared to offering a relevant guidance to investors, updated constantly and based on facts, not fads. In particular:

- Instead of looking at economic size and population, which may be misleading, EAGLEs focuses on the incremental GDP (IGDP) economies will generate instead, that is, their contribution to world growth. The use of IGDP is key: having a big size or a high growth rate is not enough on its own to be a key global player; it is the combination of both that really matters. This is a more relevant concept for identifying business and market opportunities with more anticipation
- Dynamic: it is updated each year on the basis of economic performance and changes in economic conditions, as reflected in BBVA Research forecasts. It is not a closed group and the concept is not linked to an acronym formed by a given set of countries. This will allow identifying key markets in the EM universe and warn about potential "fallen angels" in advance.
- Objective: The criterion for inclusion is explicit. In order to become an EAGLE each country's expected incremental GDP in the next 10 years needs to be greater than the one anticipated for the average of the G7 economies, excluding the US.
- The results are based on a shorter horizon - 10 years - than the ones considered in other cases, ranging from 20 to 50 years, as global economy may experience huge changes in such a long period of time. This horizon is more relevant for most investment decisions.

The first EAGLEs group

According to BBVA Research forecasts, World GDP in the current decade will increase by 41 trillion US dollars adjusted by PPP. The EAGLEs contribution (their IGDP) will be slightly over 50% whereas G7 share will only be 14% (Chart 2). It is worth highlighting China's expected role in the next ten years; its contribution to total world growth will account for almost 30%, four times more than the US (Table 1) and 2.4 times more than the other three BRIC countries. India will actually match the US contribution to growth (Chart 3), even if its GDP will still be lower by 2020. Brazil will be the third biggest contributor, followed by Indonesia and Korea (Chart 4). Note that Indonesia and Korea will each contribute to world growth more than Russia, and if combined these two economies will generate 1.5 times more incremental GDP than Brazil. This is a clear case where the relevance of the BRIC concept is challenged. Actually for the current decade, an investor who prefers the old idea of a static concept with an acronym related to the countries within the group should be focused on the CIBIKs¹ (China, India, Brazil, Indonesia and Korea) instead of the BRICs. Next on the list is Mexico, whose IGDP contribution is expected to be greater than the one of Germany or the UK, in spite its current GDP size adjusted by PPP is only 53% and 71% of them respectively. Finally it is Egypt, Taiwan and Turkey; each economy's IGDP is expected to be higher than in Canada, France and Italy. The non-BRIC EAGLEs will be more relevant for world growth than the G6 (Chart 5). In summary, the EAGLEs group is the group of emerging markets that are already relevant and are expected to gain even more prominence in this decade.

1: CIBIK is the Slovak name for the Northern Lapwing bird.

Table 1

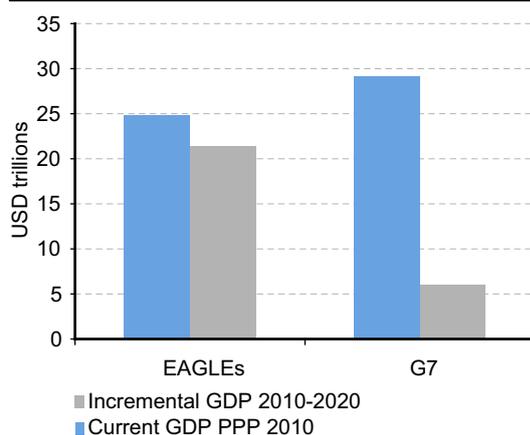
Size and incremental GDP for the EAGLEs.
Gross Domestic Product (USD PPP 2010 trillions, constant valuation)

Country	2010	2020	Incremental GDP: Contribution to World growth (%)
China	10.1	22.7	30.2
India	4.0	7.6	8.5
Brazil	2.2	3.3	2.7
Indonesia	1.0	2.0	2.3
Korea	1.5	2.2	1.8
Russia	2.2	2.8	1.4
Mexico	1.5	2.1	1.2
Egypt	0.5	0.9	1.0
Taiwan	0.8	1.2	1.0
Turkey	1.0	1.4	1.0
EAGLEs	24.8	46.1	51.1
Japan	4.3	5.0	1.7
Germany	2.9	3.4	1.1
United Kingdom	2.2	2.6	1.0
Canada	1.3	1.7	0.8
France	2.1	2.5	0.8
Italy	1.8	1.9	0.4
G6	14.7	17.1	5.8
United States	14.6	18.2	8.7
G7	29.3	35.3	14.4

Source: BBVA Research (Forecast November 2010)

Chart 2

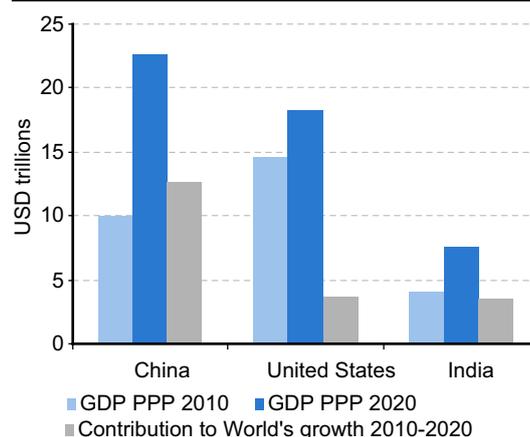
Developing vs Developed Economies
(USD PPP Trillions)



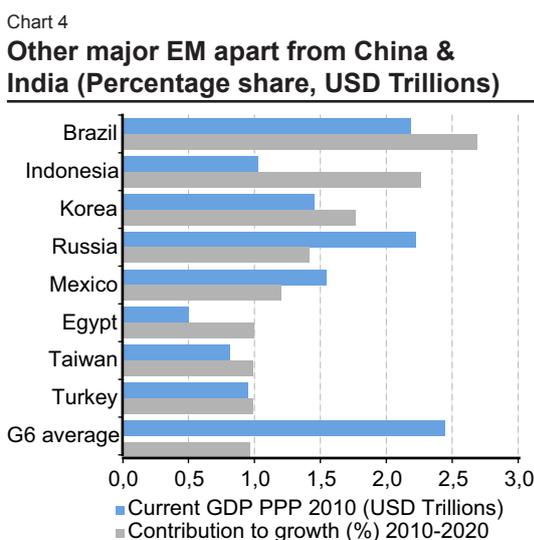
Source: BBVA Research

Chart 3

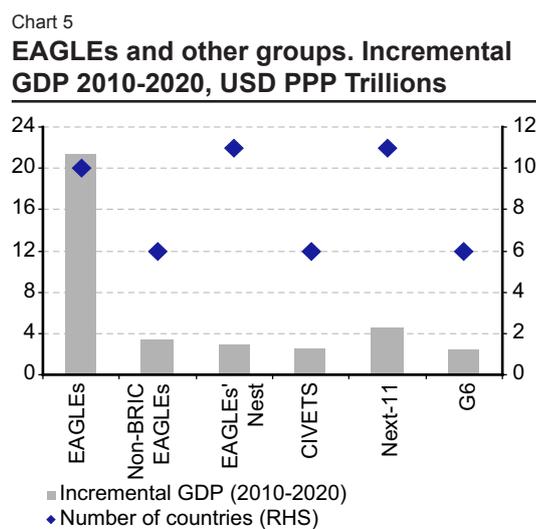
Dominant Economies in this decade
(USD PPP Trillions)



Source: BBVA Research



Source: BBVA Research



Source: BBVA Research

Watch list or the EAGLEs' Nest

As already mentioned, EAGLEs is a dynamic group which will be revised once a year. BBVA Research has identified a set of countries where expected IGDP in the next decade will be lower than the average of the G6, but higher than Italy's which is the country expected to contribute the less to global growth within the G7. This set of countries, named EAGLEs' Nest is a watch list of possible new EAGLEs provided they will improve their expected growth rate for the next decade. The members are Thailand, Nigeria, Poland, Colombia, South Africa, Malaysia, Vietnam, Bangladesh, Argentina, Peru and the Philippines. Altogether their incremental GDP will be almost 7% of total world growth. These are the economies to watch for finding the "next" key economies, which could gain global prominence if global conditions and internal policies align in this decade (see Table 2).

Table 2
GDP Growth

Country	Average growth needed to become an EAGLE (2010-2020)	The difference between required and forecasted growth
Thailand	5.5	0.3
Poland	4.4	0.9
Nigeria	7.5	1.0
South Africa	5.6	1.4
Colombia	6.6	1.5
Argentina	5.2	1.6
Malaysia	6.9	1.7
Vietnam	9.1	2.3
Bangladesh	9.4	2.7
Peru	9.3	3.4
Philippines	7.8	3.5

Source: BBVA Research (Forecast November 2010)

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