Cross-Country Emerging Markets Analysis

Economic Watch

Madrid, 15 December 2010

Economic Analysis

Alicia García-Herrero

Chief Economist, Emerging Markets alicia.garcia-herrero@bbva.com.hk

Daniel Navia

Chief Economist, Cross-Country Analysis Emerging Markets daniel.navia@grupobbva.com

Mario Nigrinis

mario.nigrinis@bbva.com.hk

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

Poland	Russia
Turkey	China
India	South Korea
iliula	Taiwan
Egypt	Vietnam
Mexico	Philippines
	Thailand
Colombia	Indonesia
Peru /	Bangladesh
Brazil	Nigeria
Argentina	South Africa
■ Nest ■ EAGLEs	
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)

	•	· · · · · · · · · · · · · · · · · · ·	Incremental GDP:	
Country	2010	2020	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

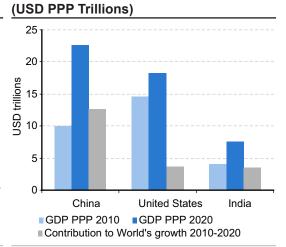
Developing vs Developed Economies
(USD PPP Trillions)

35 30 25 20 20 EAGLES G7 Incremental GDP 2010-2020 Current GDP PPP 2010

Source: BBVA Research

Chart 3

Dominant Economies in this decade



Source: BBVA Research

Chart 4
Other major EM apart from China & India (Percentage share, USD Trillions)

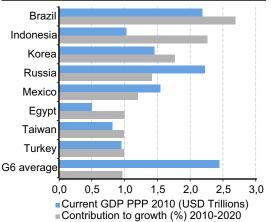
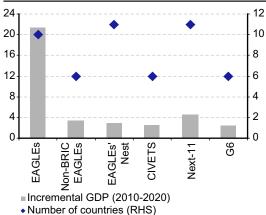


Chart 5

EAGLEs and other groups. Incremental GDP 2010-2020, USD PPP Trillions



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)	
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)



References

Garcia-Herrero Alicia, Daniel Navia and Mario Nigrinis. BBVA EAGLES. Cross-Country Emerging Market Analysis. 2010-11-15.

Jim O'Neill. Building Better Global Economic BRICs. Global Economics Paper No: 66. Goldman Sachs. 30-11-2001.

Dominic Wilson and Roopa Purushothaman. Dreaming With BRICs: The Path to 2050. Global Economics Paper No: 99. Goldman Sachs. 01-10-2003.

Dominic Wilson and Anna Stupnytska. The N-11: More Than an Acronym. Global Economics Paper No: 153. Goldman Sachs. 28-03-2007.

The Economist. World economy: Beyond BRICS. CIVETS. The Economic Intelligence Unit. 23-07-2010.

The Economist. Another BRIC in the wall: The perils of overestimating emerging markets. 21-04-2008.

William Pesek Jr. South Korea, Another `BRIC' in Global Wall. Bloomberg. 08-12-2005.

The Economist. Land of promise: Brazil is big, democratic, stable and rich in resources, says Brooke Unger (interviewed here). So why is it not doing a lot better? 12-04-2007.

James Dunn. Emerging markets put China, India in the shade. The Australian. 27-08-2008.

The Star. Study: Energy-rich Arab countries are next emerging market. 23-02-2007.

Elections Meter. BRIC. 25-03-2009.

Beth Kowitt. For Mr. BRIC, nations meeting a Milestone: Goldman Sachs chief economist Jim O'Neill coined the term, but couldn't have imagined its impact. CNN Money. 17-06-2009.

China Martens. IBM Targets Russian Developers: Could overtake India, China in number of developers, says senior executive. Russoft. 11-02-2006.

.



DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".



This report has been produced by Emerging Markets Unit, Cross-Country Analysis Team

Chief Economist, Emerging Markets Alicia García-Herrero +852 2582 3281 alicia.garcia-herrero@bbva.com.hk

Chief Economist, Cross-Country Analysis Emerging Markets Daniel Navia +34 91 5378351 daniel.navia@grupobbva.com

Mario Nigrinis 852 2582 3193 Mario.nigrinis@bbva.com.hk José Ramón Perea 34 91 374 72 56 jramon.perea@grupobbva.com Alfonso Ugarte 34 91 537 37 35

alfonso.ugarte@grupobbva.com

BBVA Research

Group Chief Economist José Luis Escrivá

Chief Economists & Chief Strategists:

Regulatory Affairs, Financial and Economic Scenarios: Mayte Ledo

teresa.ledo@grupobbva.com

Financial Scenarios Sonsoles Castillo s.castillo@grupobbva.com

Financial Systems

Ana Rubio

arubiog@grupobbva.com Economic Scenarios

Juan Ruiz

juan.ruiz@grupobbva.com

Regulatory Affairs María Abascal

maria.abascal@grupobbva.com

Market & Client Strategy: Antonio Pulido ant.pulido@grupobbva.com

Equity and Credit

Ana Munera ana.munera@grupobbva.com

Interest Rates, Currencies and

Commodities

Luis Enrique Rodríguez

luisen.rodriguez@grupobbva.com

Asset Management Henrik Lumholdt

henrik.lumholdt@grupobbva.com

Spain and Europe: Rafael Doménech

r.domenech@grupobbva.com

Spain

Miguel Cardoso

miguel.cardoso@grupobbva.com

Europe Miguel Jiménez

mjimenezg@grupobbva.com

United States and Mexico:

Jorge Sicilia

j.sicilia@bbva.bancomer.com

United States

Nathaniel Karp

nathaniel.karp@bbvacompass.com

Mexico

Adolfo Albo

a.albo@bbva.bancomer.com

Macro Analysis Mexico

Julián Cubero

juan.cubero@bbva.bancomer.com

Emerging Markets: Alicia García-Herrero

alicia.garcia-herrero@bbva.com.hk

Cross-Country Emerging Markets Analysis

Daniel Navia

daniel.navia@grupobbva.com

Pensions **David Tuesta**

david.tuesta@grupobbva.com

Asia

Stephen Schwartz

stephen.schwartz@bbva.com.hk

South America Joaquín Vial jvial@bbvaprovida.cl

Argentina

Gloria Sorensen

gsorensen@bancofrances.com.ar

Chile

Alejandro Puente apuente@grupobbva.cl

Colombia

Juana Téllez

juana.tellez@bbva.com.co

Peru

Hugo Perea

hperea@grupobbva.com.pe

Venezuela

Oswaldo López

oswaldo_lopez@provincial.com

Contact details:

BBVA Research Asia

43/F Two International Finance Centre 8 Finance Street Central HONG KONG

Phone: + 852 258 23201

E-mail: economicresearch.asia@bbva.com.hk