

Economic Watch

Cross-Country Emerging Markets Analysis

Hong Kong, 3rd November 2011
Economic Analysis

Cross-Country Emerging Markets Analysis

Chief Economist
Alicia Garcia-Herrero
alicia.garcia-herrero@bbva.com.hk

Mario Nigrinis Ospina
mario.nigrinis@bbva.com

The “emerging” What can we expect?

- **The emerging economies (EAGLEs) will lead global growth and contribute three and a half times the amount of G7 Economies**

It is anticipated that the size of GDP of the emerging markets will surpass that of the industrialized before 2015.

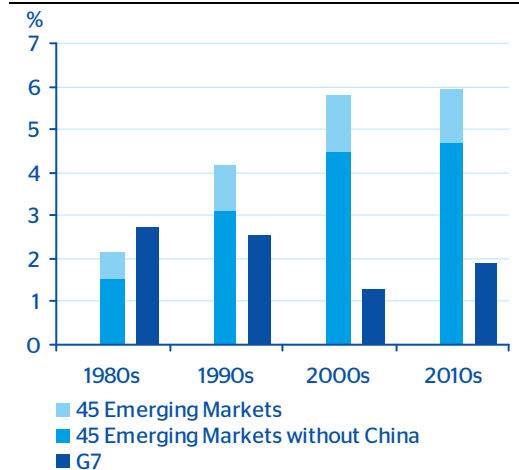
- **This is the century of Asia**

Within the EAGLEs economies, half are Asian: China, India, Indonesia, Korea and Taiwan. These five economies will be responsible for more than 80% of anticipated growth for EAGLEs countries.

- **The prominence of Asia benefits LatAm Economies**

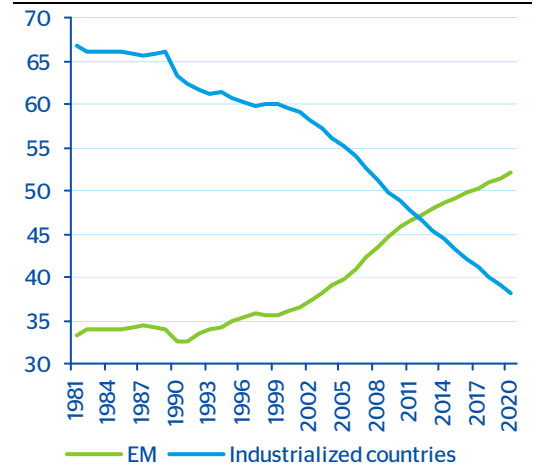
Initially, commodity trade has been the main reason for channelling Asia's growth to LatAm. In the future, flows of foreign direct investment and the integration of global production will strengthen Asia's leading position in the region.

Chart 1
Average growth rate by decade



Source: BBVA Research and IMF

Chart 2
Share of world GDP PPP.
Emerging vs industrialized economies



Source: BBVA Research and IMF

The emerging economies are the global players

After two decades with GDP growth rates higher than the G7 economies they have gained a leading role worldwide owing to several factors. After the 2009 global crisis, these markets have become the engine that drives the world economy. They have also reached a critical mass and its actual size is slightly lower than that of industrialized economies. But more important is the role that they will play in the future. The forecast is to maintain positive growth of at least four percentage points, which will lead them to produce more than half of world output by the end of this decade, which means, among other things, a process of rebalancing economic and political powers that has begun to emerge in recent years.

This is the century of Asia

It is clear, that not all emerging economies are the same. BBVA Research has identified a group of emerging economies which will lead global growth (EAGLEs, or Emerging and Growth-Leading Economies) taking into account that their expected contribution to global growth is higher than anticipated for the G7 economies average excluding the US. This group will be responsible for more than half of global GDP growth over the next 10 years, while the G7 economies will only contribute 14%, with five Asian economies led by China.

The Outlook for Asia in this decade is more than favorable. Their contribution to global investment growth and to the expansion of the middle class is expected to exceed that of G7 economies. These economies have also become a huge export machine which today created the largest importers of energy and others raw materials. Similarly, their foreign investment has rocketed in recent years, although their stock continues to be low when compared to developed economies. For all these reasons it can be said that Asia has become the center of the world.

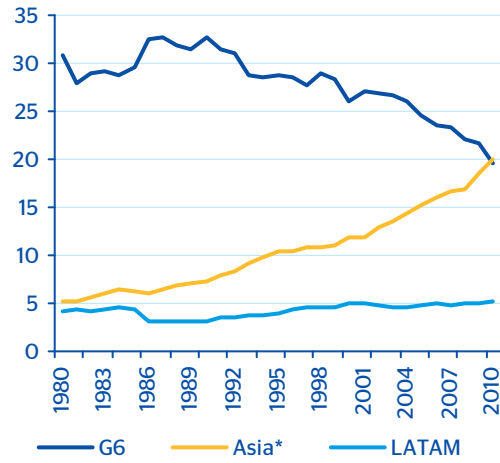
The prominence of Asia benefits LatAm Economies

Trade in commodity provides a connection with Latin America which has been able to benefit from the faster rates of growth in Asia. China has become the main trading partner of many countries in the region, including Brazil and Chile. However, some economists have questioned the negative implications that might arise in the future in view of China's reliance on the export of such goods. One positive fact is that most Latin American economies have undertaken a process of diversification of its exports in the last 50 years, although today half of their sales abroad continue to be commodities.

But considering the case of exports to China, dependence is a sensitive point because they are concentrated in raw materials, and secondly, we need to consider the market power of the Asian economy, whose purchases represent more than half of world imports, as in the case of iron or soybeans. However, in the future this dependence will be compensated to the extent that Latin American economies are integrated into the global supply chain in Asia. Also, economic ties between the two regions are strengthened through foreign investment flows, which in a first stage were focused on the exploitation of natural resources, but later began to finance infrastructure construction projects and finally manufacturing.

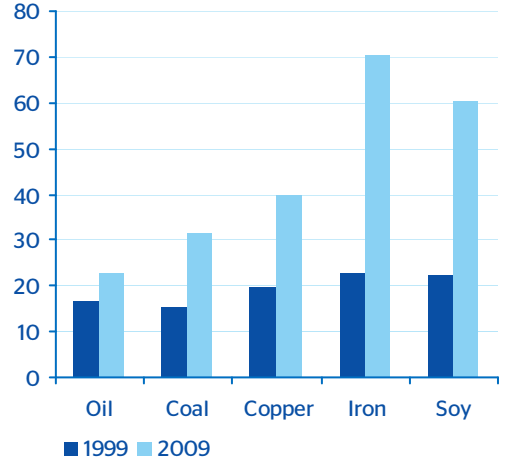
In conclusion, all indications shows that this will be the century of Asia, which will help Latin American economies insofar as it represents a structural increase in demand for raw materials. This process will be led by China, which will not only remain a power in exports, but also in investment. It is anticipated that this process will accelerate as China makes progress in liberalizing its capital account, which will allow the renminbi to be a reserve currency and strengthen its leadership role in global governance. This process of restructuring of global power will also support other emerging economies, as evidenced by the role played today by the G20 as a replacement for other benchmark groups of the past. The risk is that instead of moving to a stage of "multilateralism" there will be a regionalization of power characterized by a model of protectionism in three blocks, America, Europe and Asia, which would be very damaging to Latin Americas economies.

Chart 3
Share of world exports
(percentage of the world total)



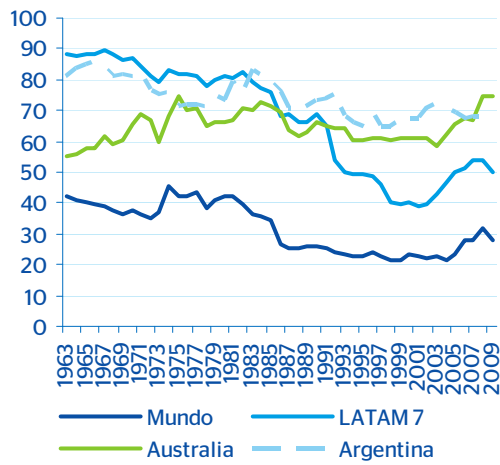
Source: WTO

Chart 4
Imports from EAGLEs and Nest Asian countries
(percentage of the world total)



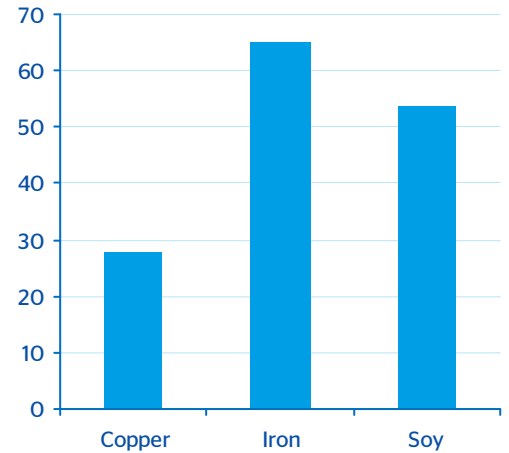
Source: BBVA Research and COMTRADE

Chart 5
Exports of raw materials
(percentage of total exports)



Source: BBVA Research and COMTRADE

Chart 6
China: Share of world imports of raw materials
(percentage of world total)



Source: BBVA Research and COMTRADE

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.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. 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 is not a member of the FINRA and is 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".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.