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Economic Watch

Cross-Country Emerging Markets Analysis

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Economic Analysis

Cross-Country Emerging Markets Analysis

Chief Economist
Alicia García-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.

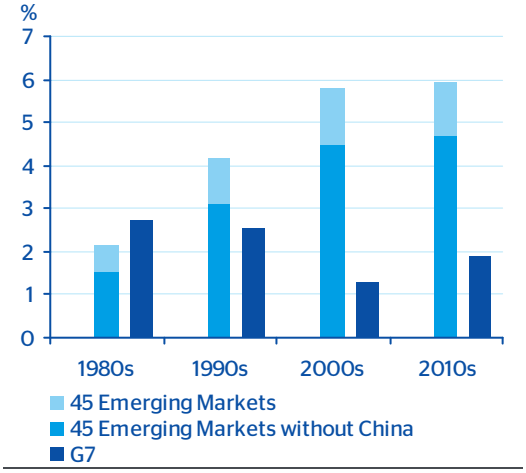
- **This is the century of Asia**

  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**

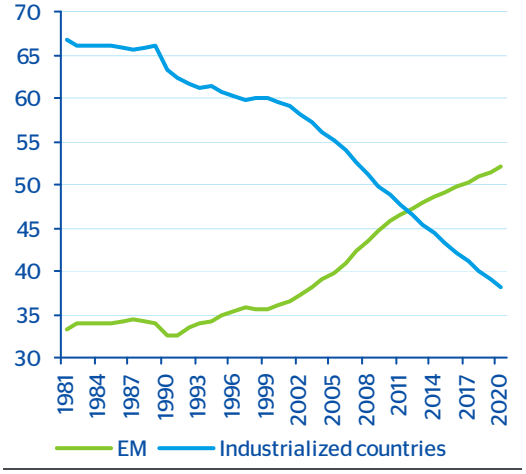
  Initially, commodity trade has been the main reason for channelling Asia's growth to LatAm. In the future, flows of foreign direct investment and the integration of global production will strengthen Asia's leading position in the region.

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 percentages 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.

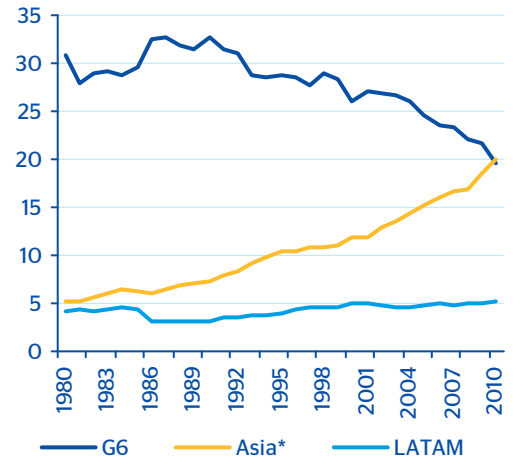
The prominence of Asia benefits LatAm Economies

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.

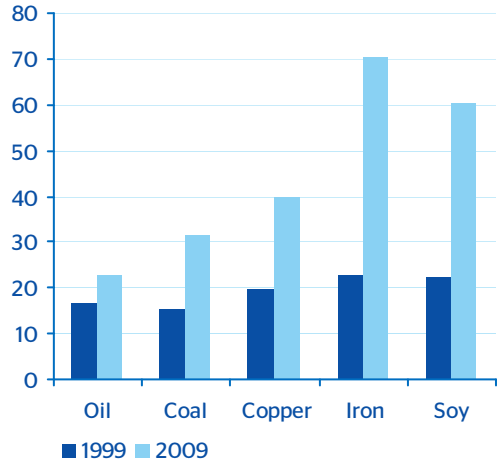
In conclusion, all indications shows that this will be the century of Asia, which will help Latin American economies insofar as it represents a structural increase in demand for raw materials. This process will be led by China, which will not only remain a power in exports, but also in investment. It is anticipated that this process will accelerate as China makes progress in liberalizin 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)



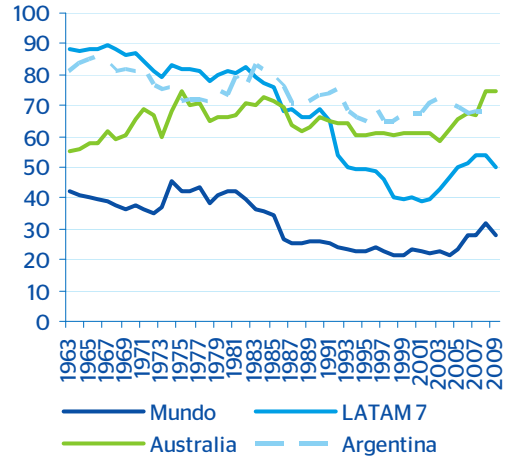
Source: WTO

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



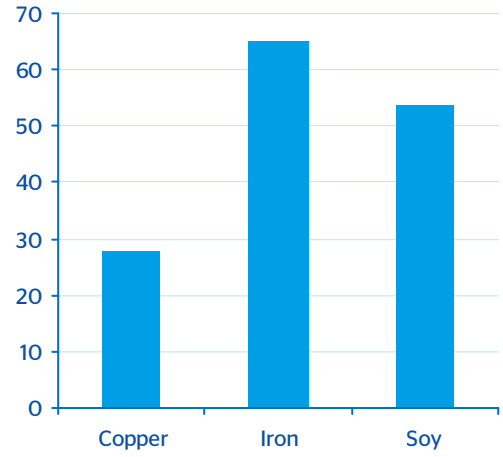
Source: BBVA Research and COMTRADE

Chart 5
Exports of row 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

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