

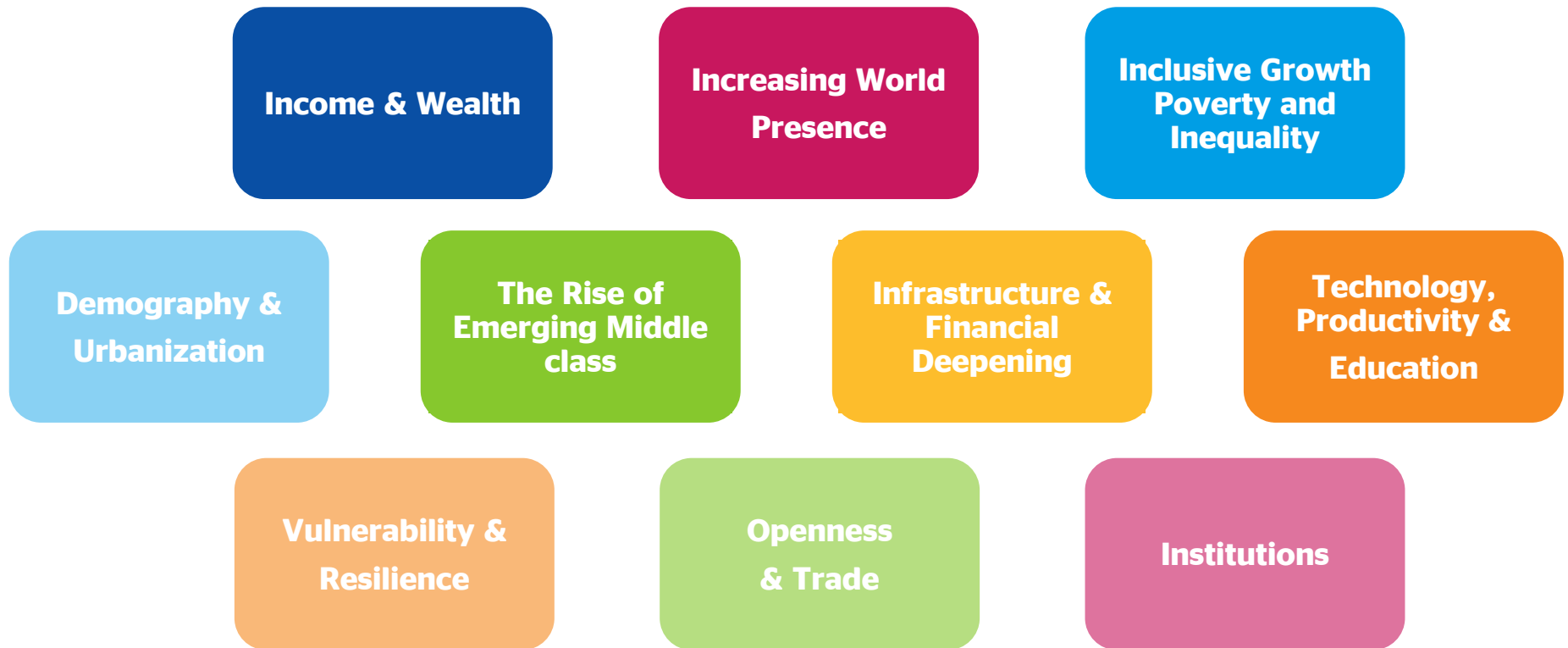
Emerging Trends in Developing Countries

Lección inaugural Master en Desarrollo, Instituciones e Integración Económica

Álvaro Ortiz Vidal-Abarca - Chief Economist Cross Emerging Markets
BBVA Research

Valencia, October 2013

Multidimensional Emerging Markets Trends



**Income
& Wealth**

**Wealthier and Healthier: Emerging Markets
are Catching Up with Developed World but
still a sizeable Gap**

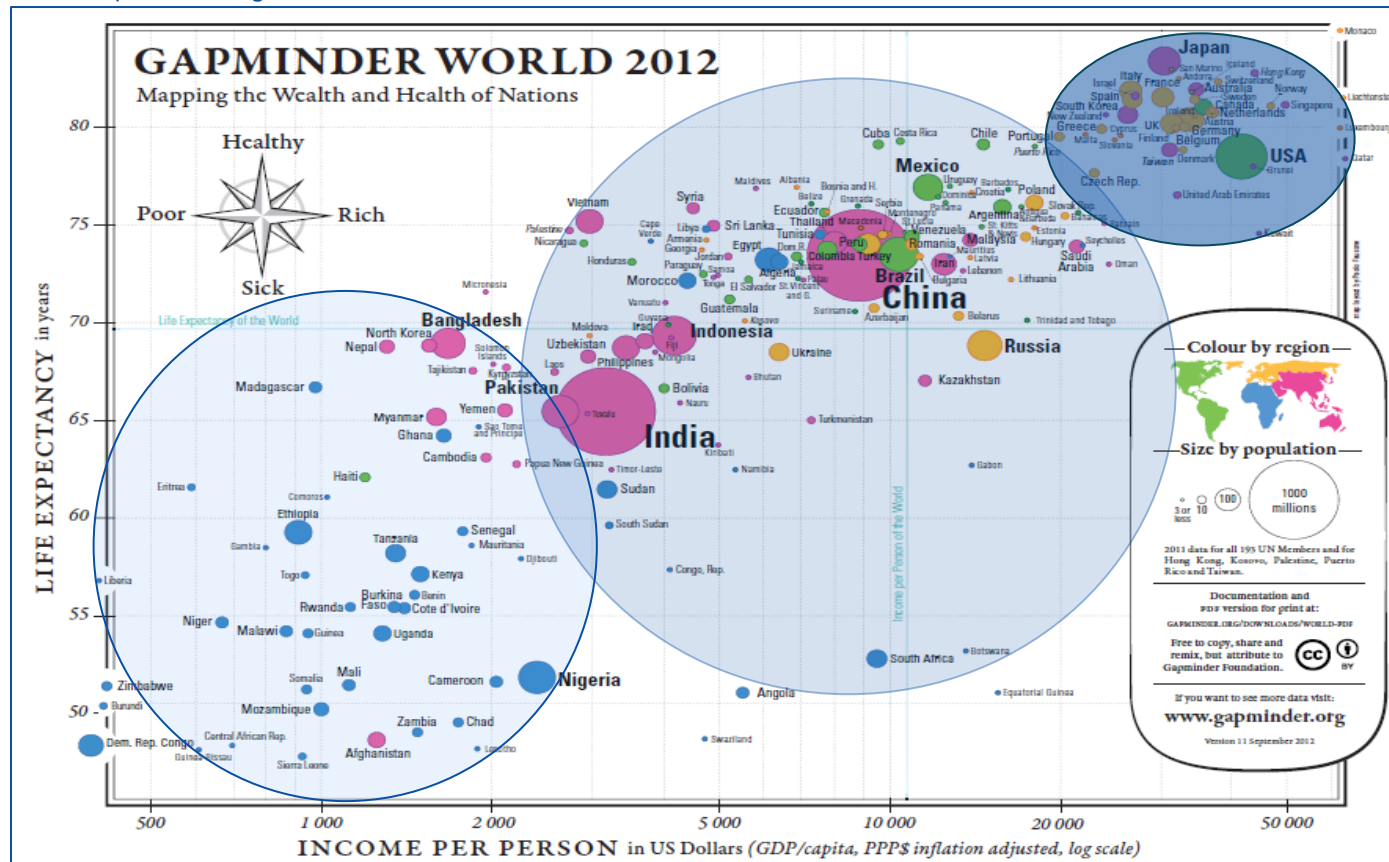
First, the static picture... to identify where do we stand?

Income & Wealth

World: Wealth and Health (2012)

(GDP per cápita in US\$ and Life Expectancy)

Source: Gapminder through World Bank Data



Developed Economies

Emerging Economies

Frontier Economies

The Catch Up will continue: GDP per capita growth differences will remain important...

Income & Wealth

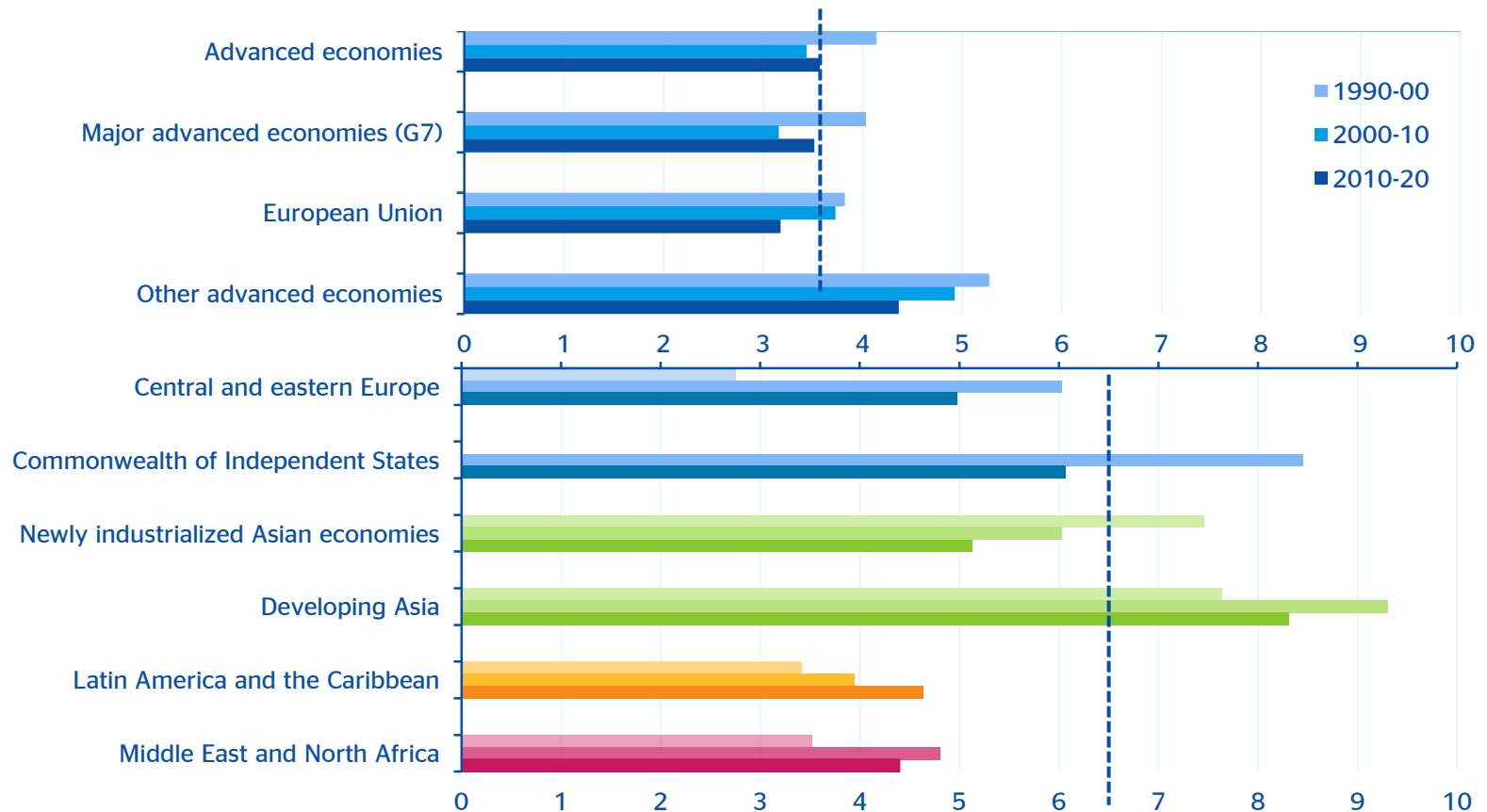
GDP per capita Growth Rate (1980-2020)

(% yoy, in nominal PPP-adjusted USD)

Source: BBVA Research

Advanced Economies

Emerging Economies

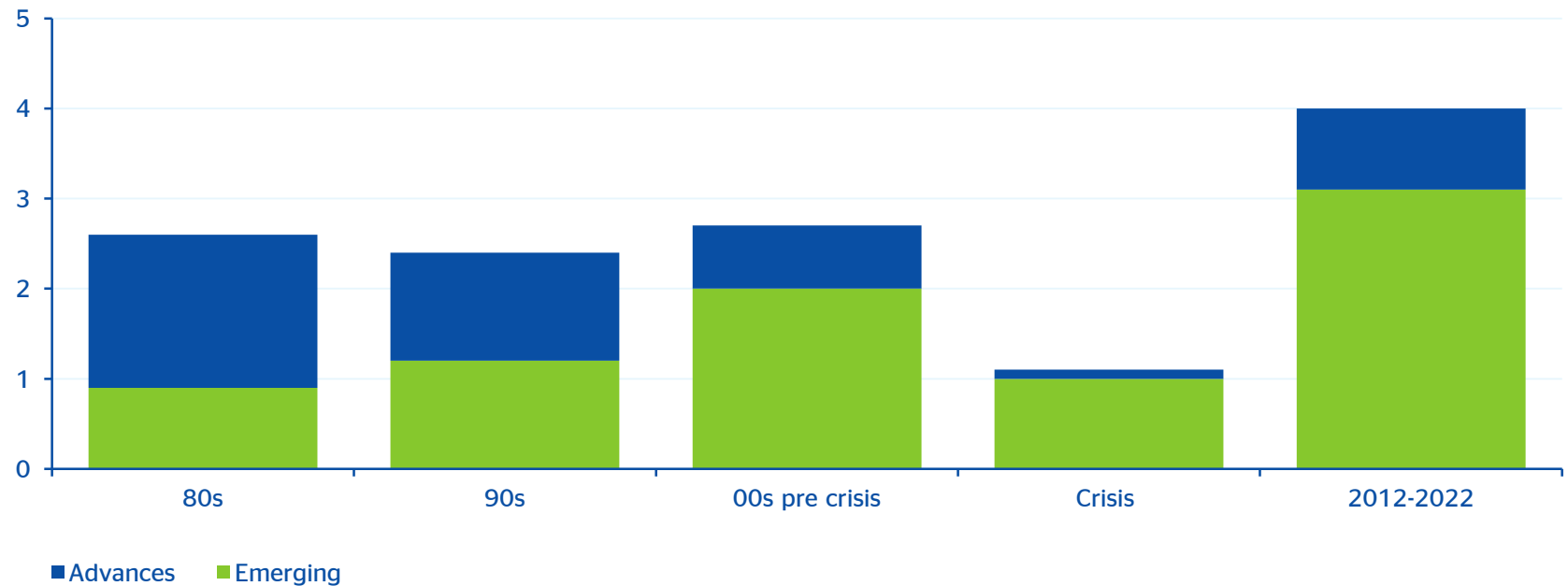


Which is allowing Emerging economies to increase their role in global growth

Income & Wealth

Contribution to global growth by period and country groups (1980-2022)

(in percentage points)
Source: BBVA Research and IMF

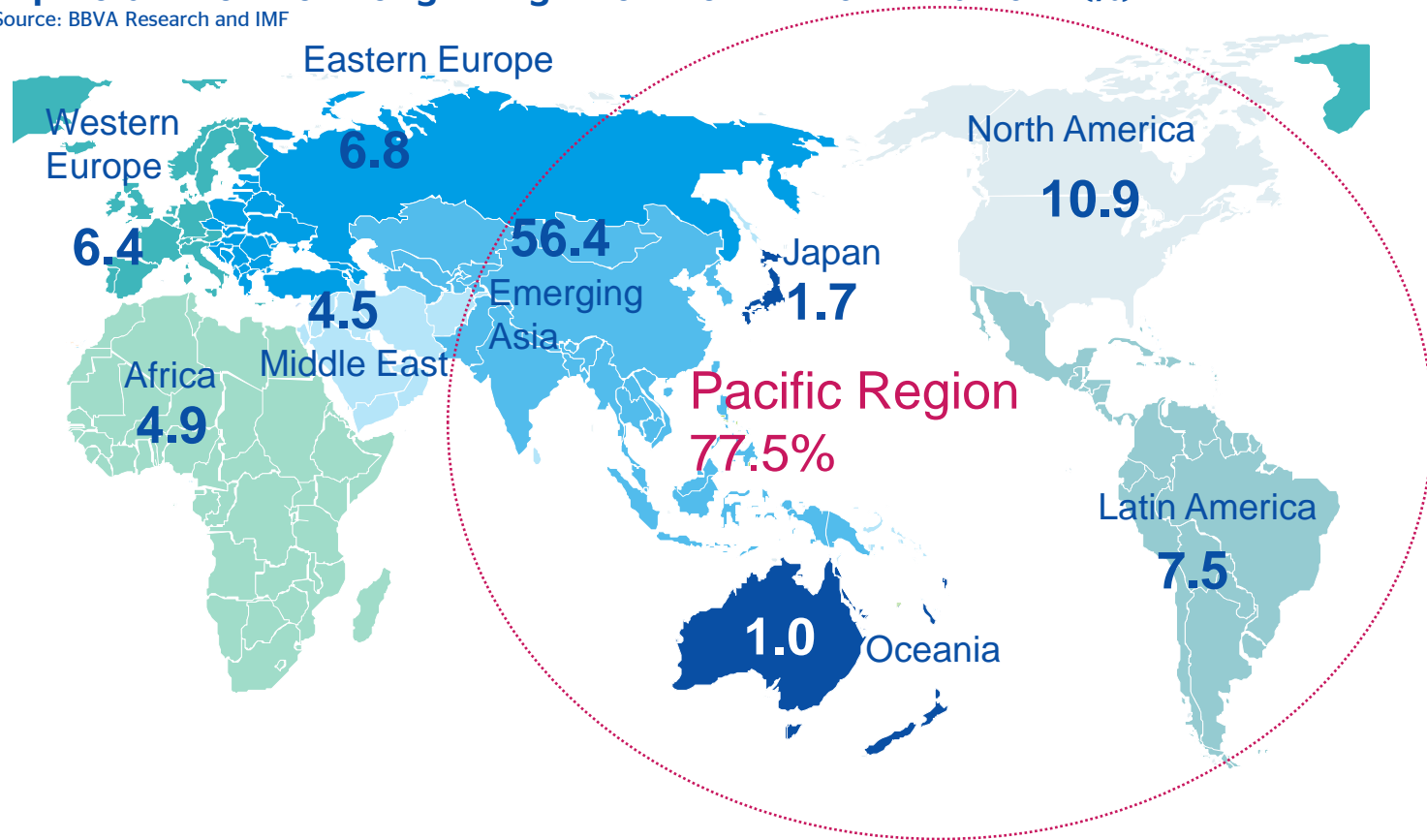


The “new growth” will be increasingly based in EM with a bias in the pacific region

Income & Wealth

Expected contribution to global growth between 2012 and 2022 (%)

Source: BBVA Research and IMF



**Increasing
World
Presence**

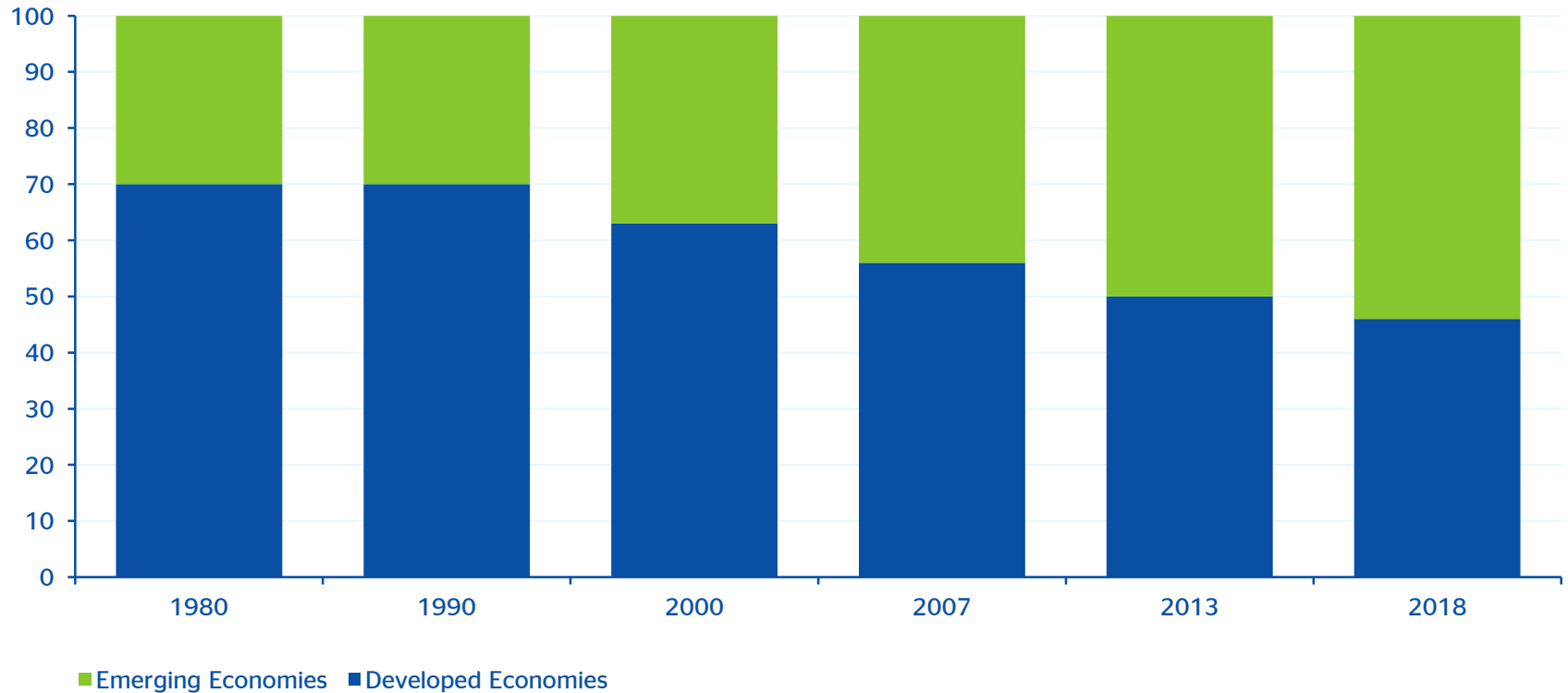
Emerging Markets are increasing their share in World GDP but Balance of Power Quotas remain unchanged

Emerging markets are increasing their share in world GDP

Increasing World Presence

Share of world GDP: developed and emerging markets (%)

Source: IMF/WEO



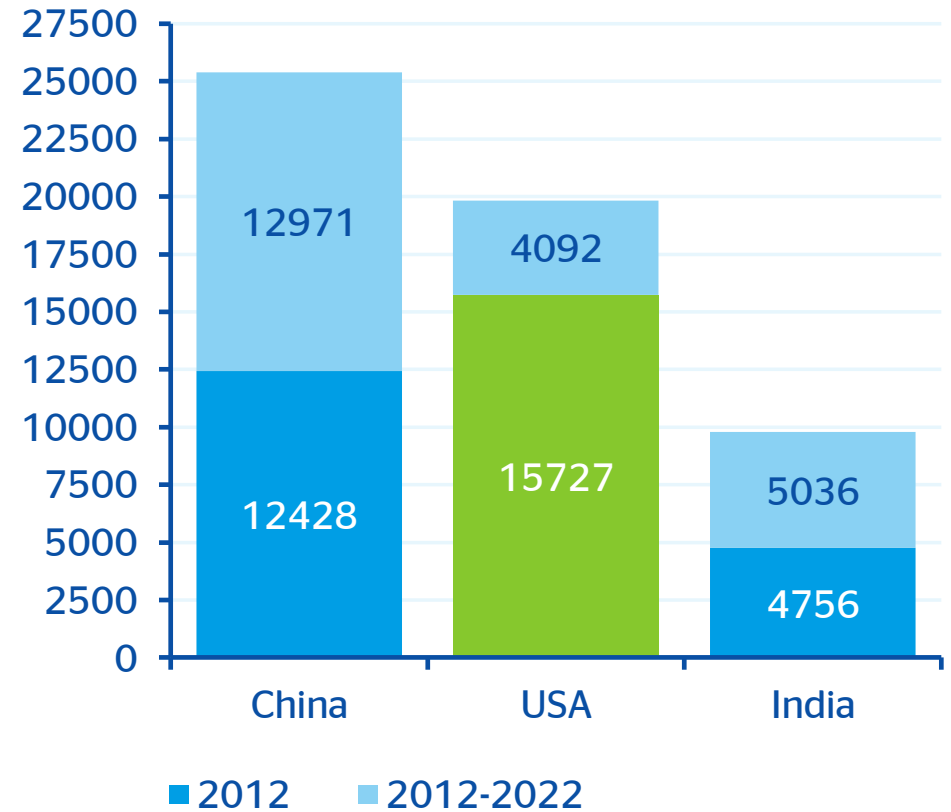
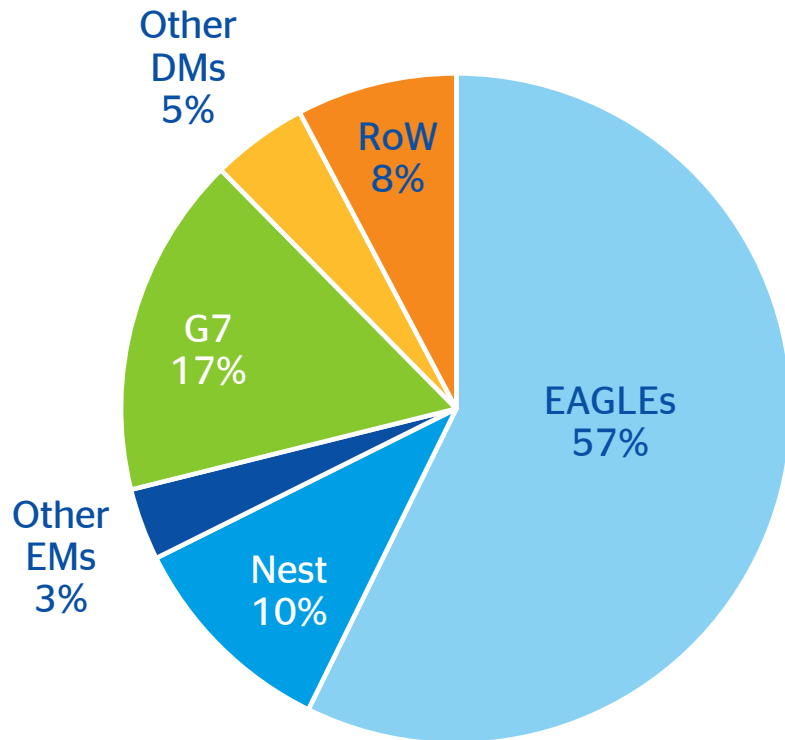
China and India play in another league

Increasing World Presence

Incremental GDP between 2012 and 2022

(% share of world growth and bn USD for the 3 big players)

Source: BBVA Research and IMF/WEO

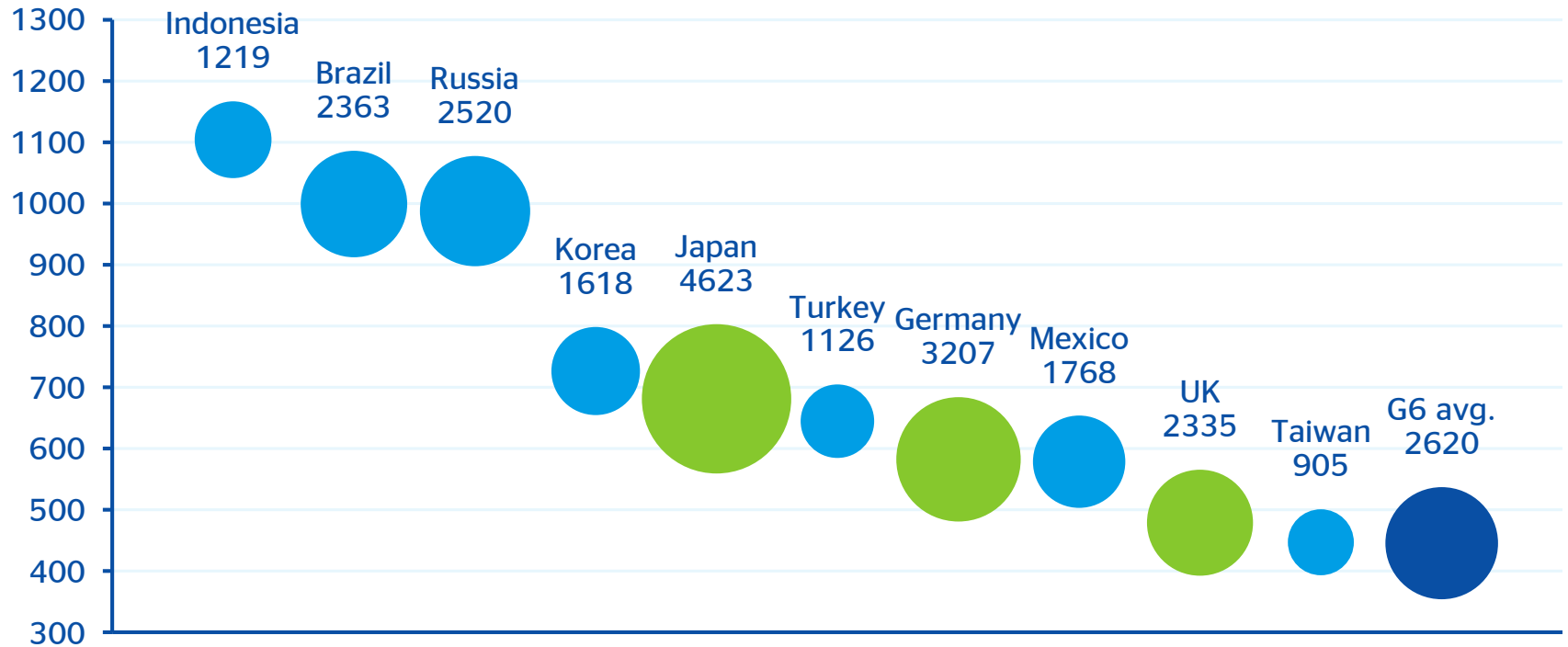


Other relevant players in Asia, as well as in Latin America and Europe

Increasing World Presence

Incremental GDP between 2012 and 2022 and GDP level in 2012 [EAGLEs]

(bn USD) (incremental GDP in y-axis and 2012 level below country labels) (bubbles are proportional to 2012 level)
 Source: BBVA Research and IMF/WEO

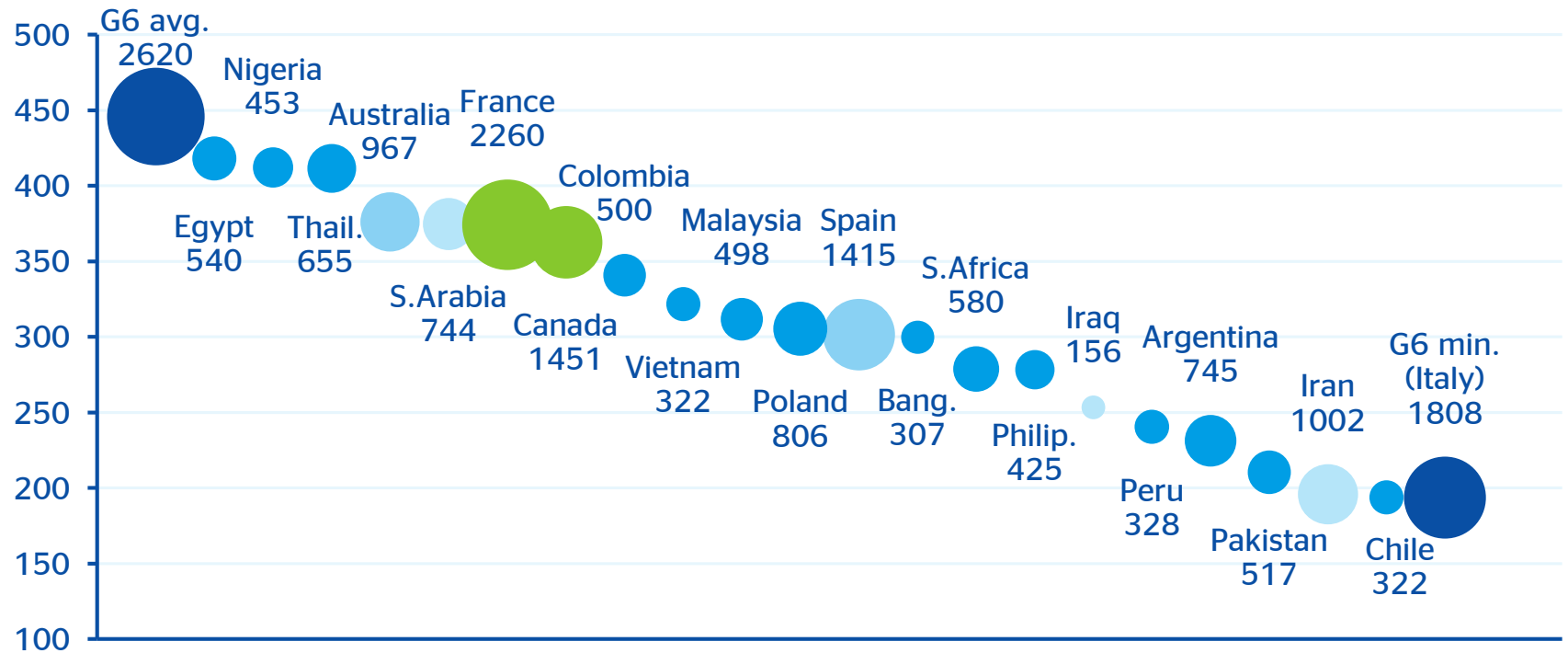


And there are more candidates, some of them really close to the threshold

Increasing World Presence

Incremental GDP between 2012 and 2022 and GDP level in 2012 [Nest]

(bn USD) (incremental GDP in y-axis and 2012 level below country labels) (bubbles are proportional to 2012 level)
 Source: BBVA Research and IMF/WEO

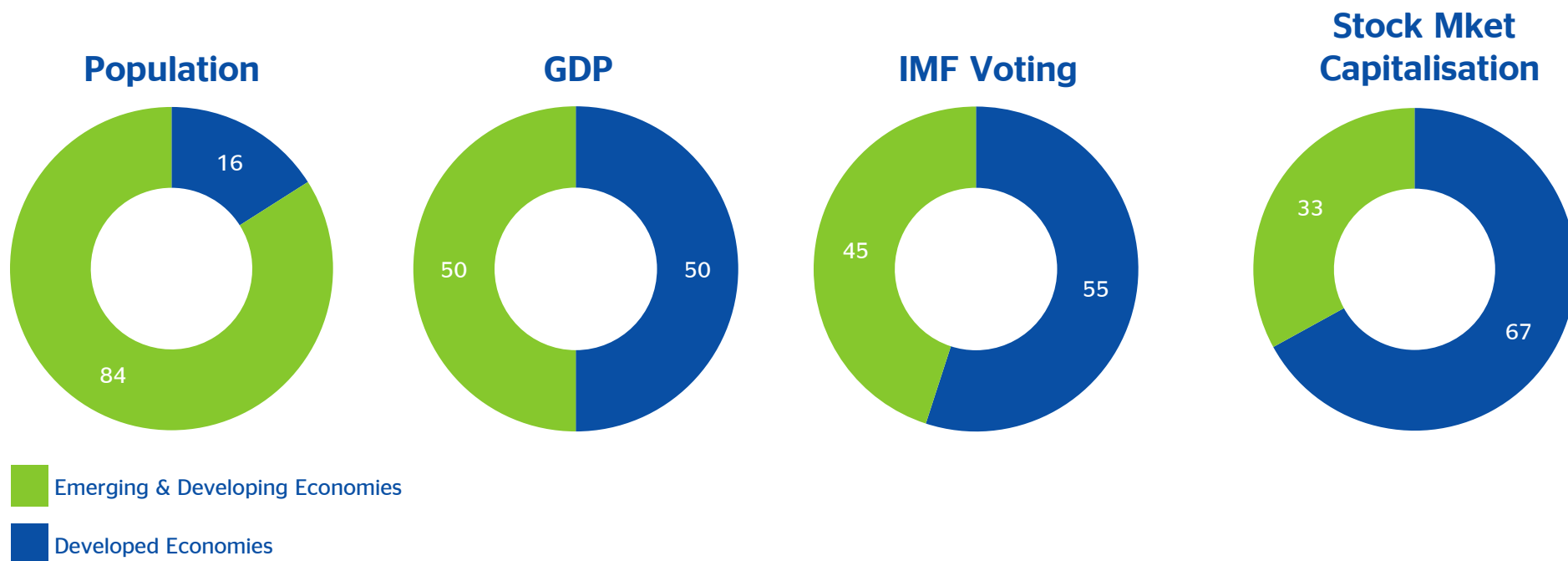


A new global economic order is pushing for a new view on international relations

Increasing World Presence

Emerging & Developed Economies(%)

Source: IMF and BBVA Research





**Inclusive
Growth**

**Reducing Poverty but Rising Inequality
Social Protection should increase to cope
with increasing social demands**

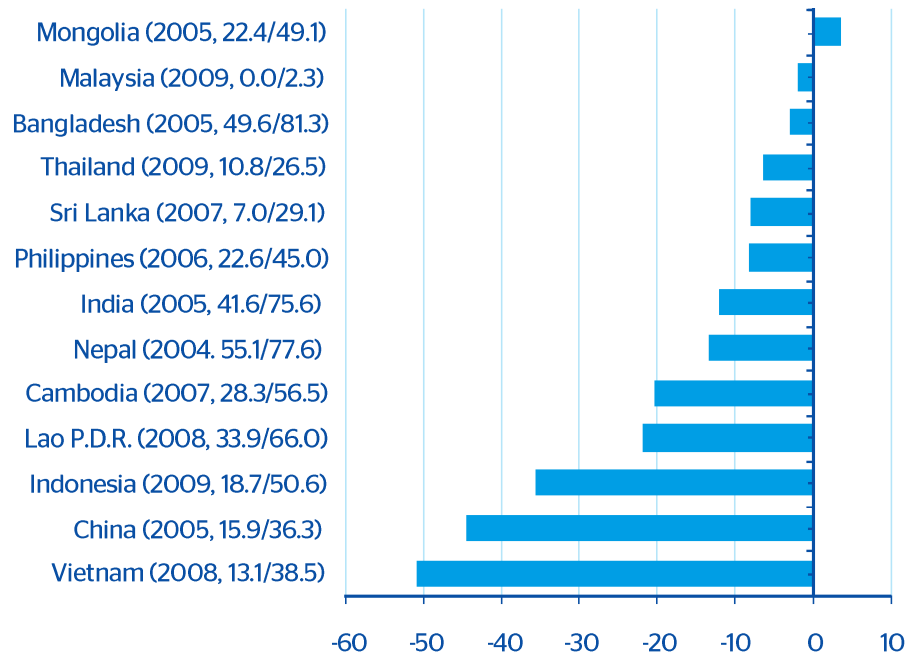
The EM growth has been “somehow” a pro poor growth

Inclusive Growth

Selected Asia: Change in Poverty Headcount Ratio

(in percentage points, since 1990)

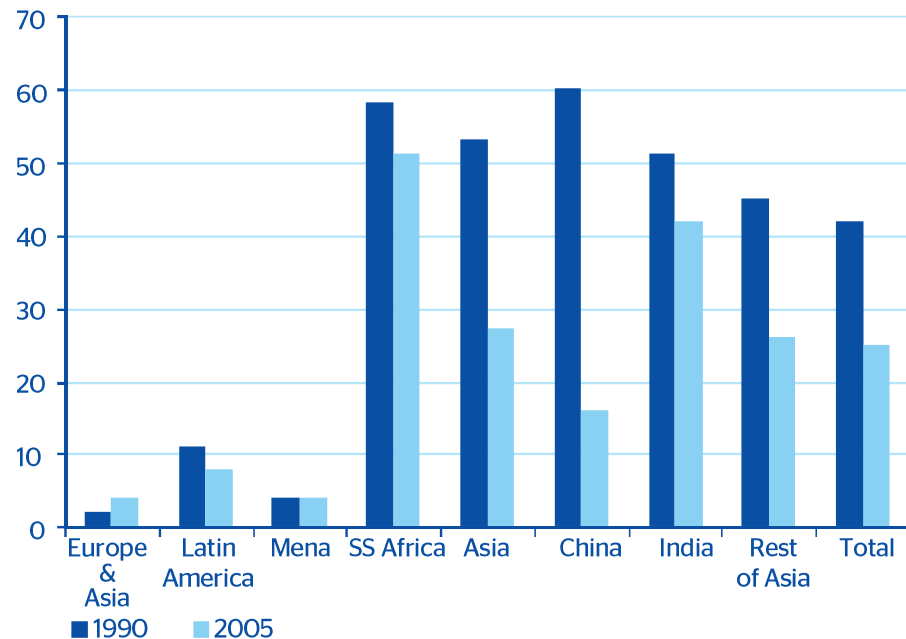
Source: IMF Regional Economic Outlook: Asia and Pacific



Poverty: % of People living under 1.5\$ per day

(at 2005 ppp prices)

Source: IMF Regional Economic Outlook: Asia and Pacific

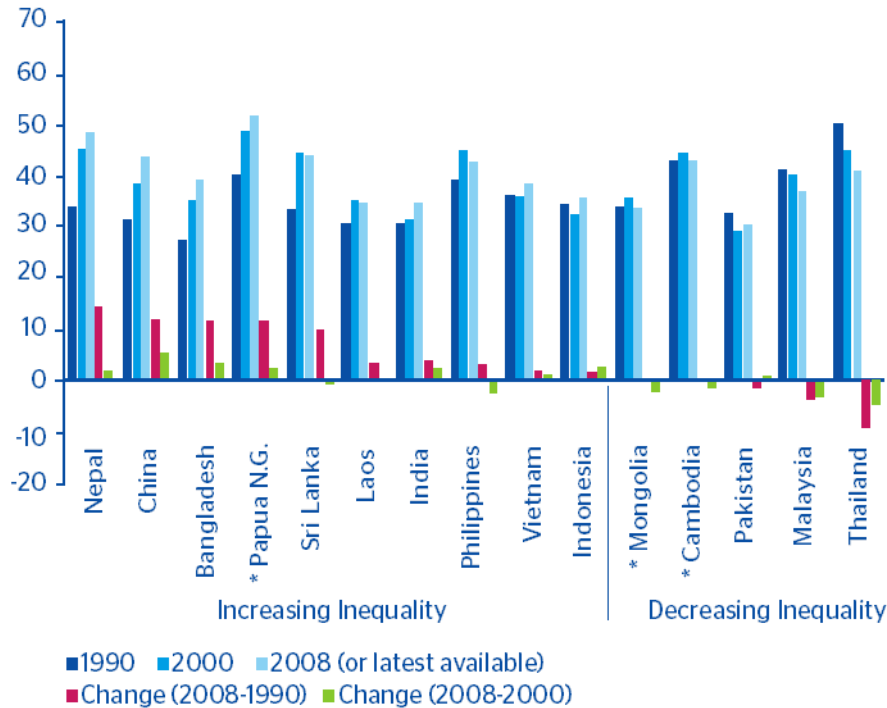


But with raising inequality in some fast growth areas

Inclusive Growth

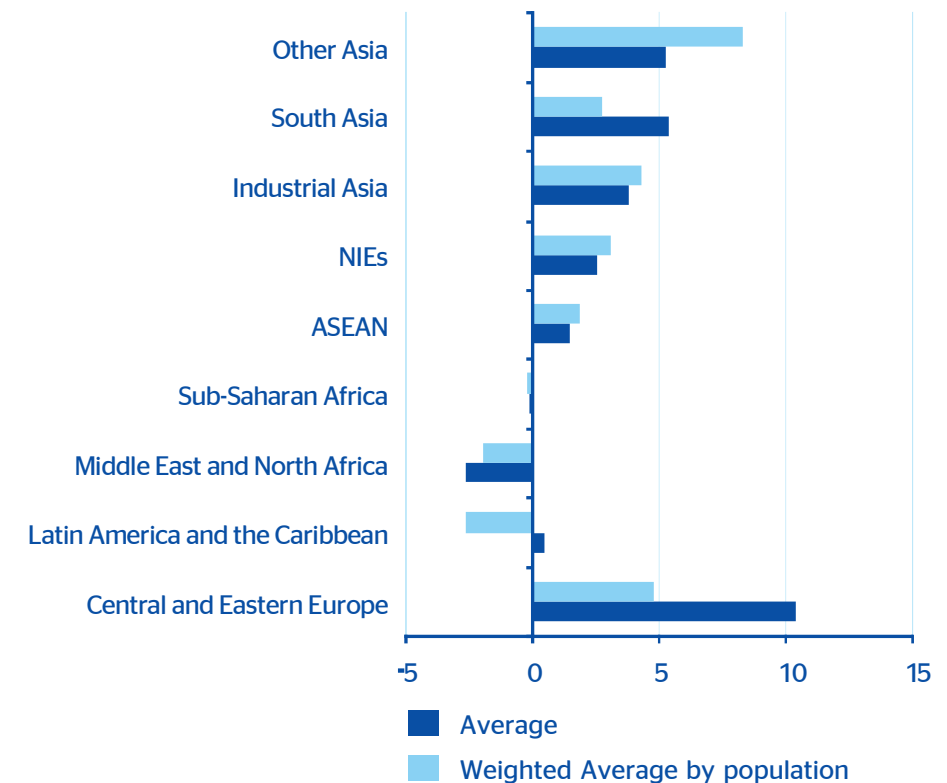
Change in Gini Index since 1990 (percentage points)

Source: UNICEF



Change in Gini Index since 1990 (percentage points)

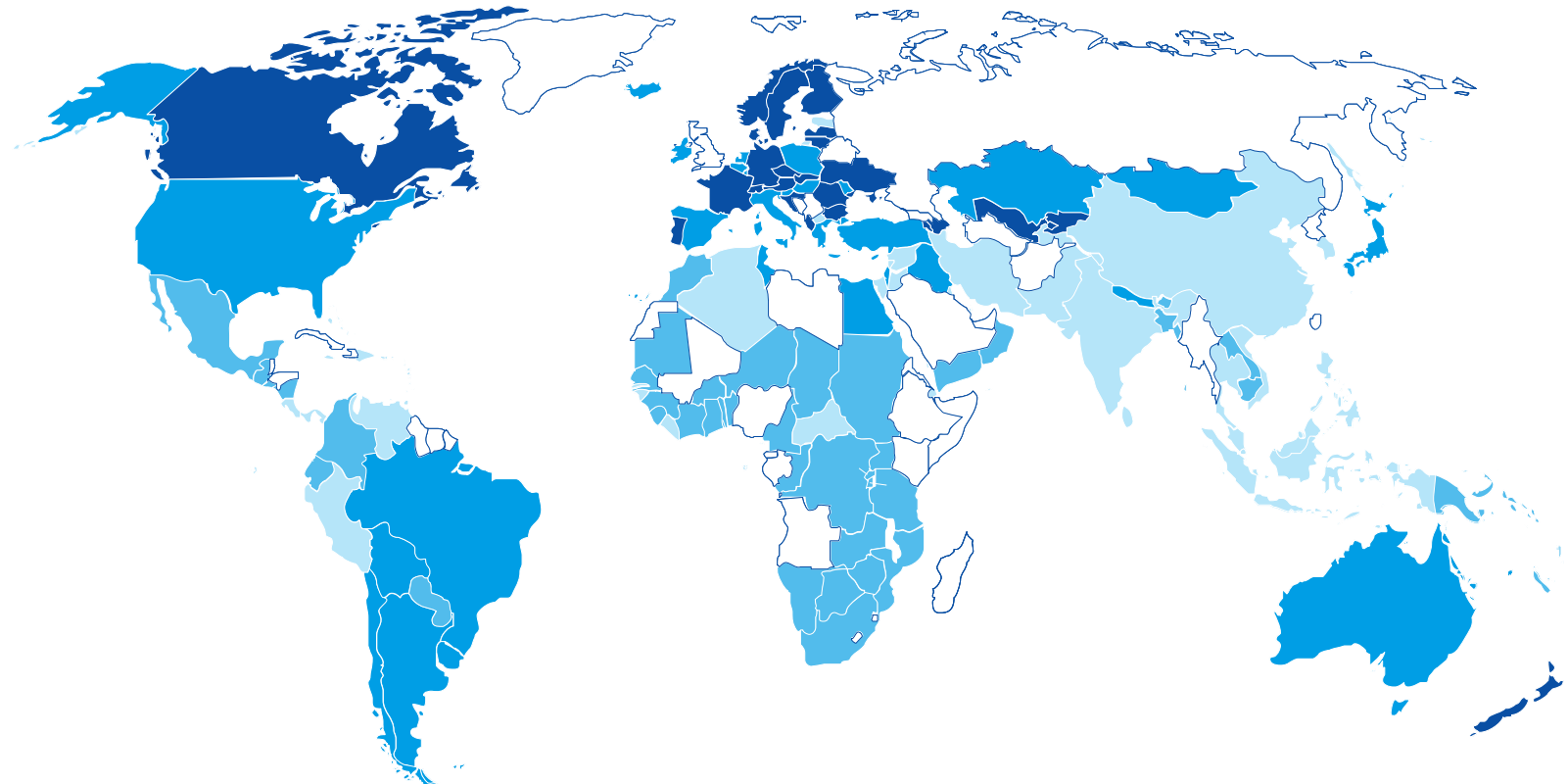
Source: IMF Regional Economic Outlook: Asia and Pacific



The Safety Net on EM is still far from Western Levels...

Inclusive Growth

Old-age pension beneficiaries (% of population above retirement age)
Source: ILO



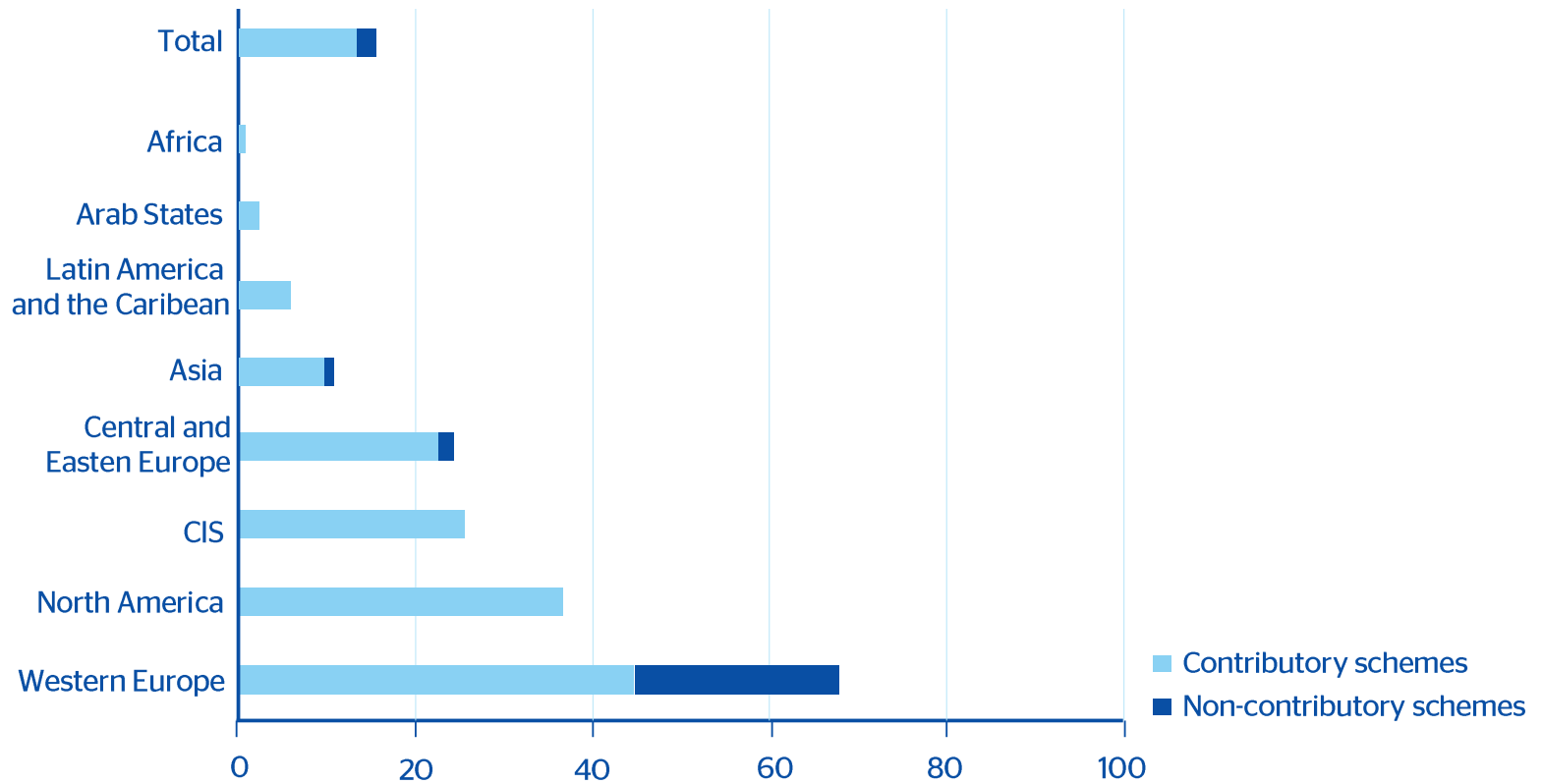
Less than 20 per cent (46)
 Between 20 and 50 per cent (24)
 Between 50 and 90 per cent (39)
 90 per cent and over
 No data

In many aspects...

Inclusive Growth

Unemployment effective coverage worldwide (% of unemployed)

Source: ILO

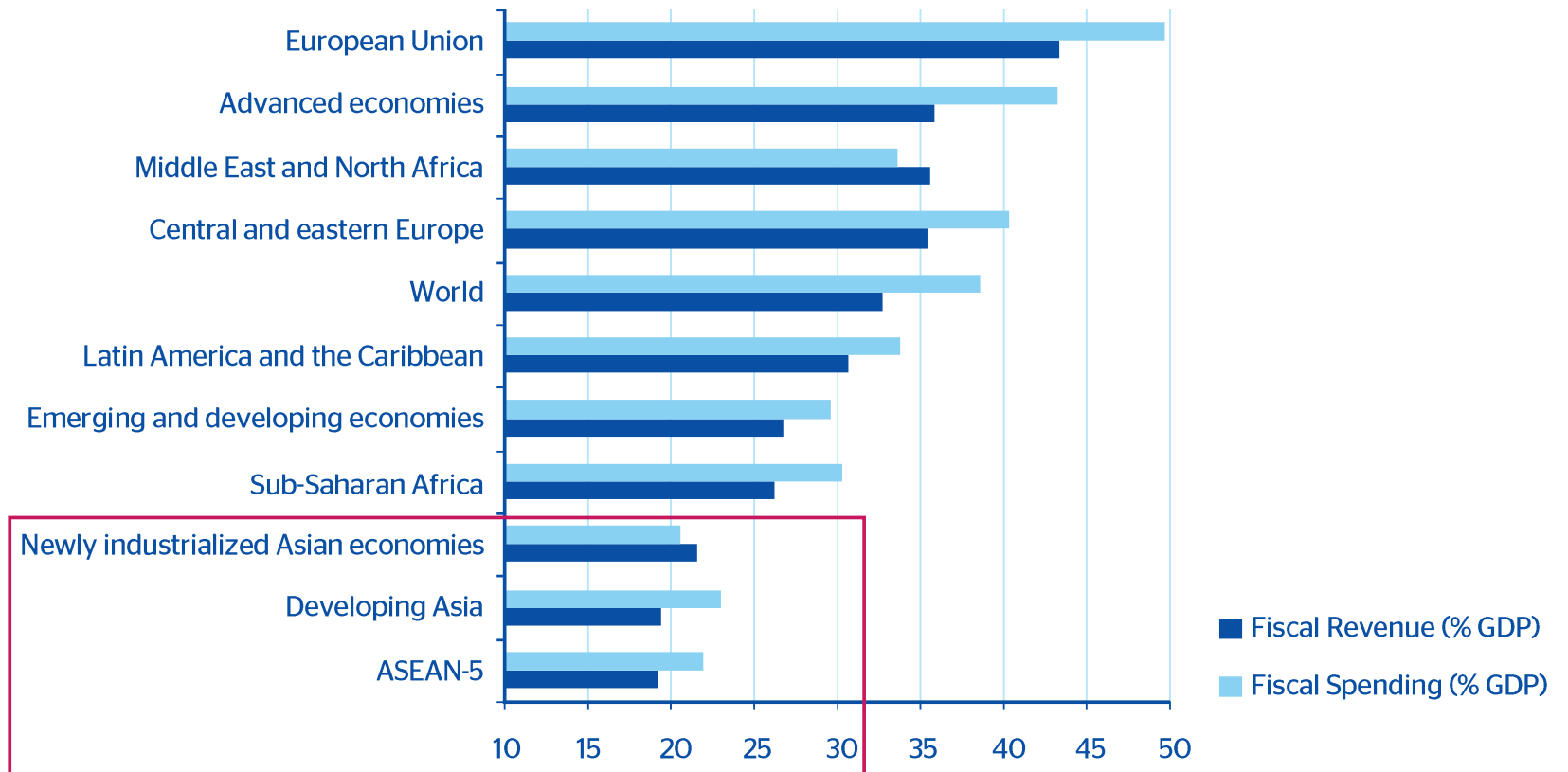


One of the reason is low Fiscal Revenue...

Inclusive Growth

Fiscal revenue and spending 2010 (% GDP)

Source: IMF



Which limits Social Spending and inclusiveness

Inclusive Growth

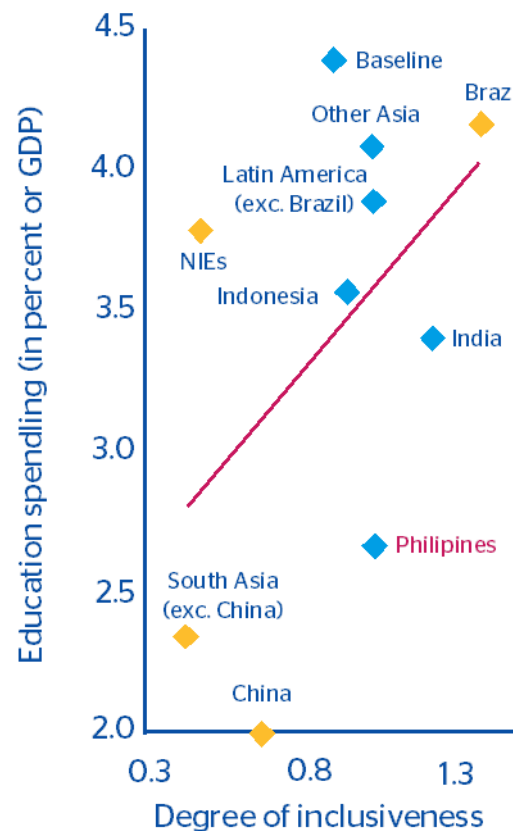
Social spending (% of GDP)

Source: IMF

	Pension 2010 1/	Health 2010 1/	Education 2007 1/
ASEAN-5			
Indonesia	0.9	1.3	3.5
Malaysia	2.9	2.9	4.5
Philippines	1.1	1.4	2.6
Singapore	0.6	1.0	3.2
Thailand	0.8	1.6	4.9
Other Asian Economies			
China	2.2	2.2	1.9
India	1.7	0.9	3.2
Vietnam	1.6	1.5	5.3
Regional average			
ASEAN-5	1.3	1.6	3.7
Advanced	7.4	7.0	-
Emerging	4.2	2.7	-

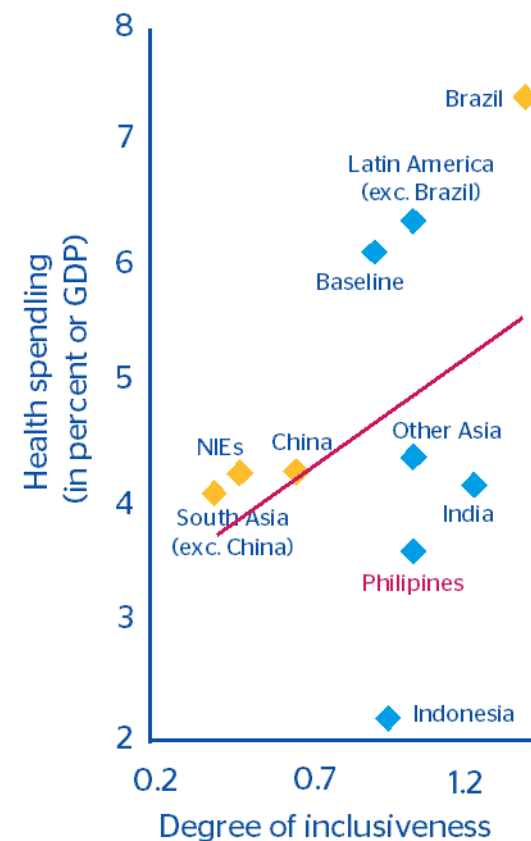
Education and inclusiveness

Source: IMF Regional Economic Outlook: Asia and Pacific



Health and inclusiveness

Source: IMF Regional Economic Outlook: Asia and Pacific



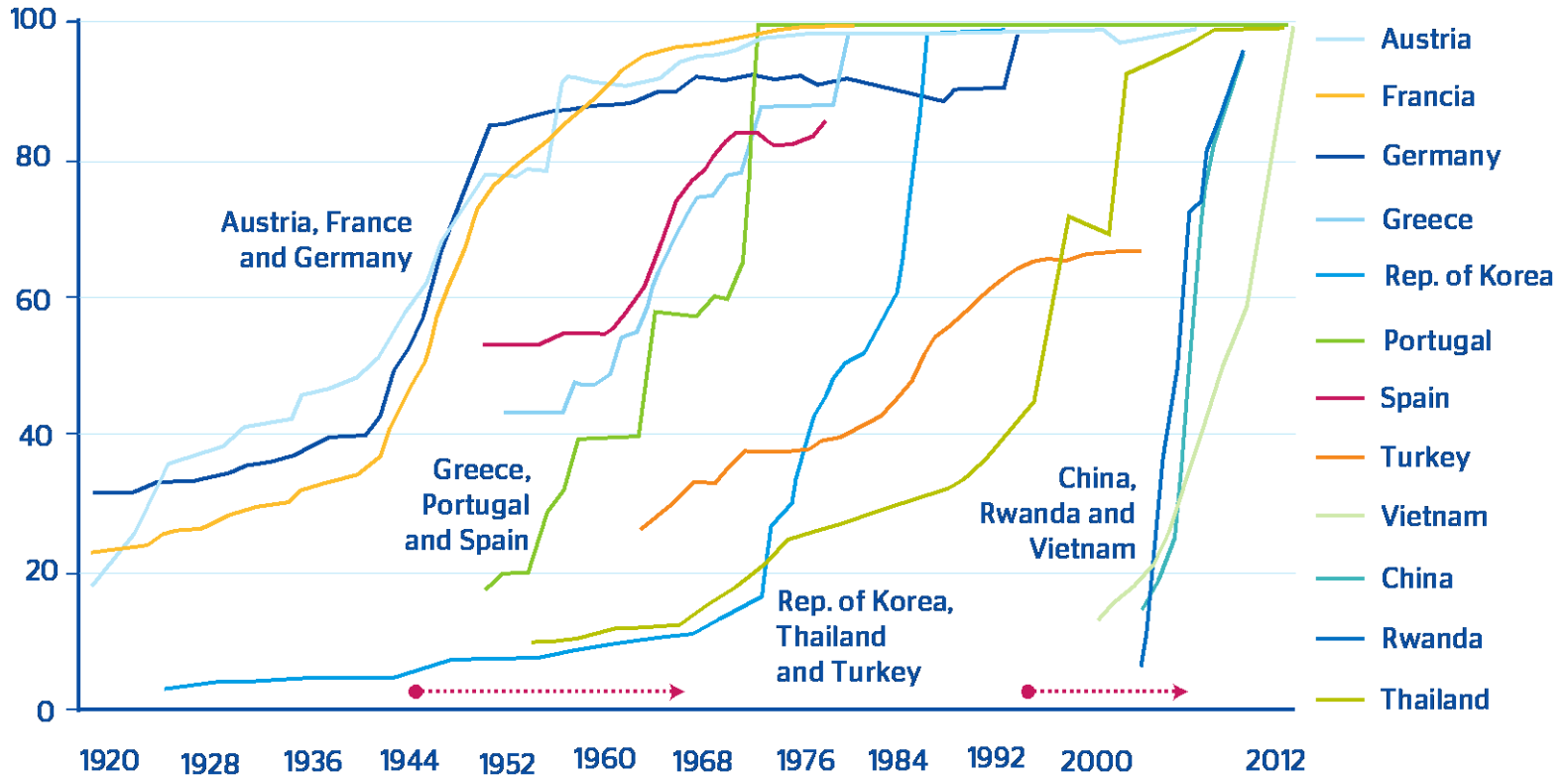
But in some dimensions is improving very fast compared with previous historical experiences

Inclusive Growth

Health protection coverage for selected countries

(% of total population)

Source: ILO



Increasing
World
Presence

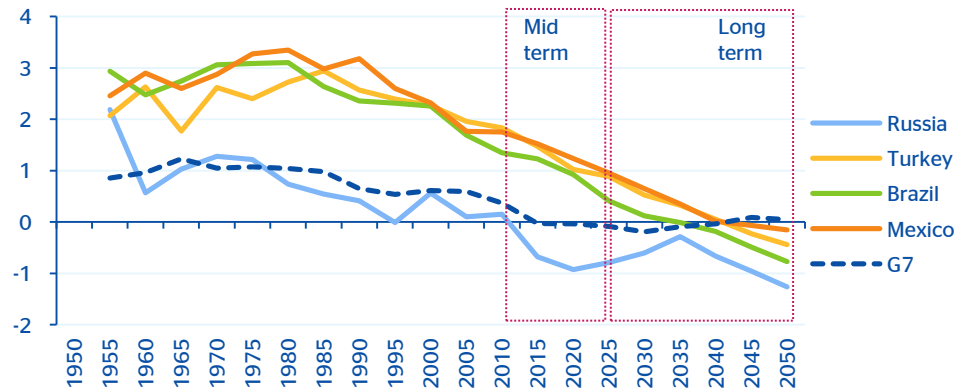
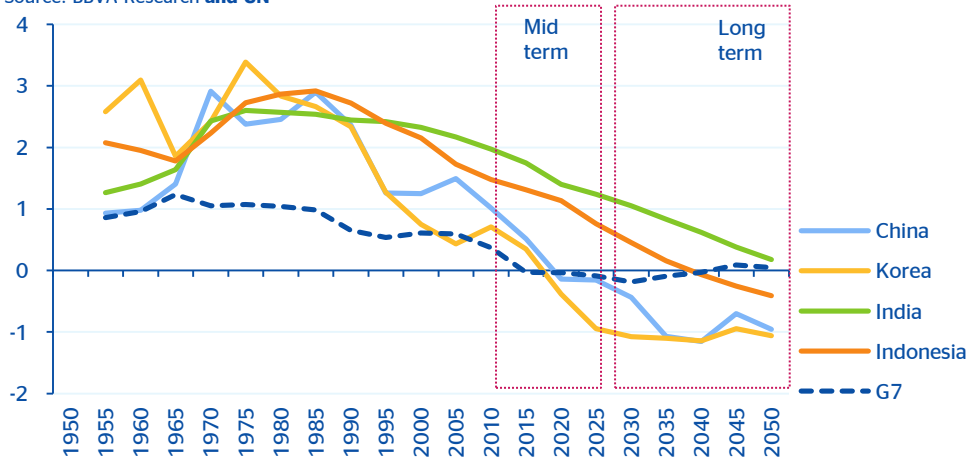
Population will “moderate” but the “premium” is still alive and Households will increase Urbanization & Agglomeration a new challenge

Population will gradually decline in EM but still maintains an important premium with developed

Demography & Urbanization

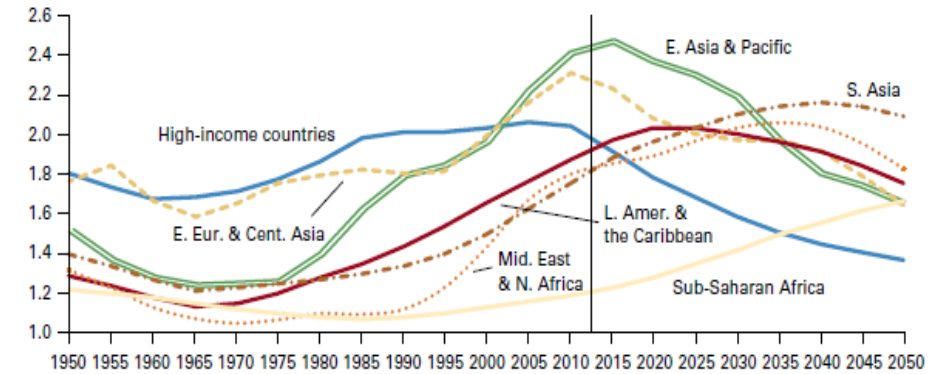
Labor Force Population Growth (% yoy)

Source: BBVA Research and UN



World Labor Force: Ratio of Working Age to non Working Age Population

Source: World Bank

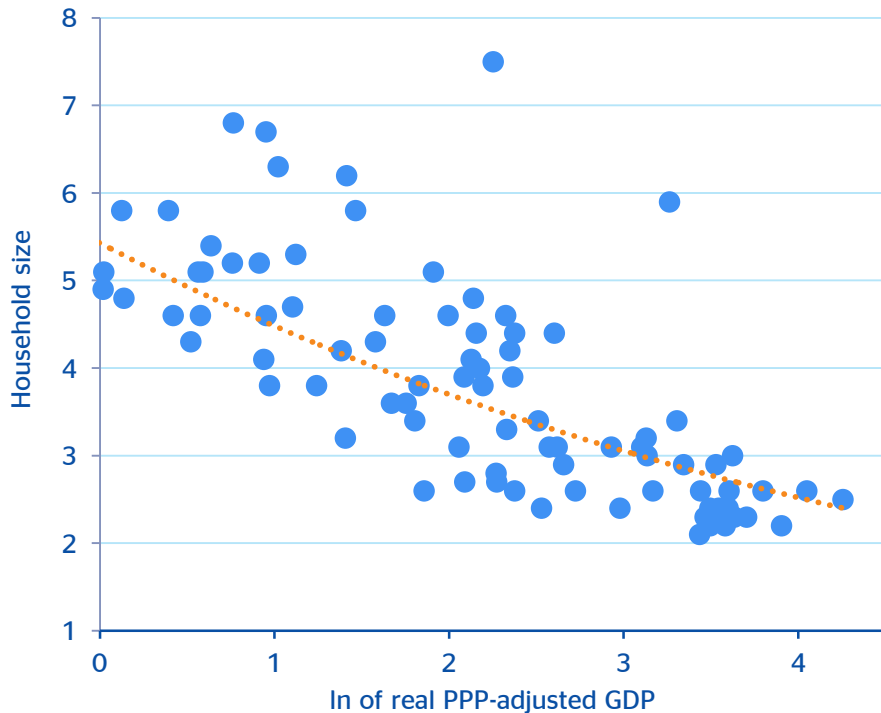


...But Household size will also decline limiting the population decline impact in some goods

Demography & Urbanization

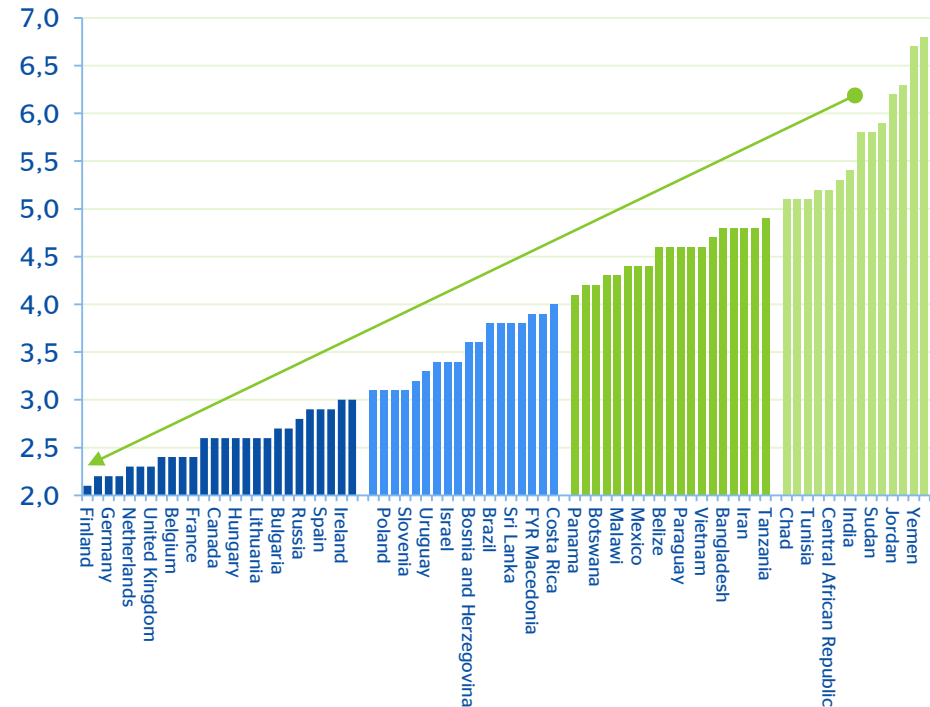
Household Size and GDP Per cápita

(in members ans log of gdp per capita)
Source: BBVA Research and UN



World Household Size

(members per hoesold unit)
Source: BBVA Research and UN

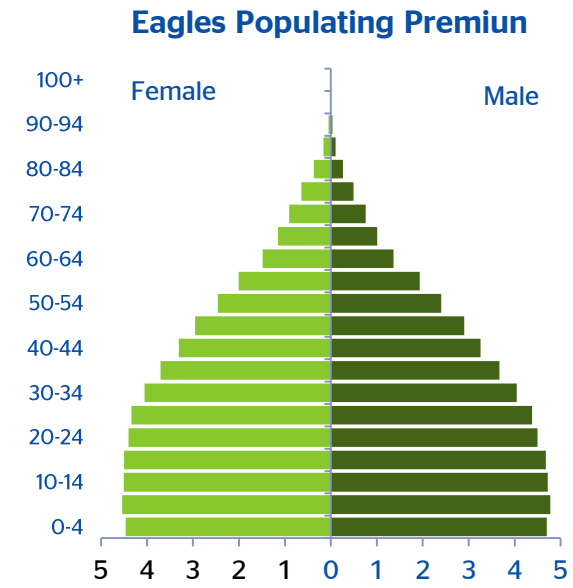
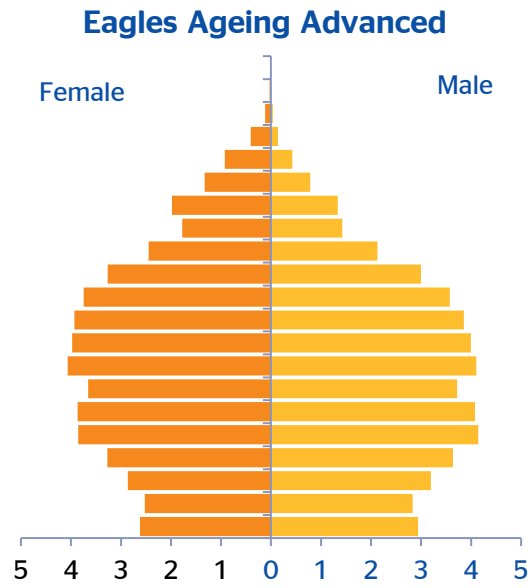
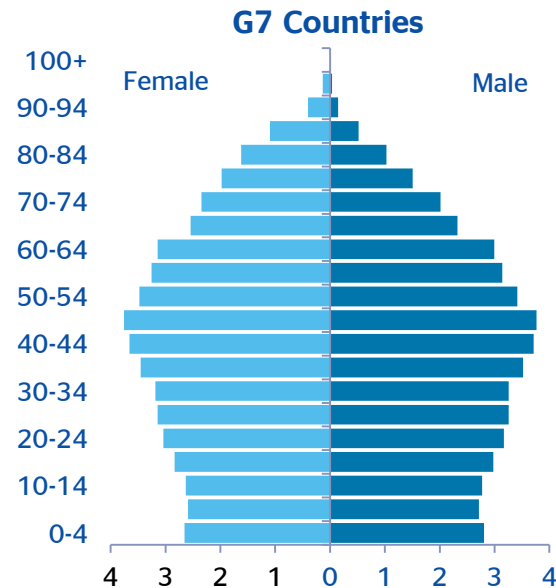


Different Population Pyramids will create different opportunities and challenges...

Demography & Urbanization

Population pyramids for selected economies (2010)

Source: BBVA Research and UN

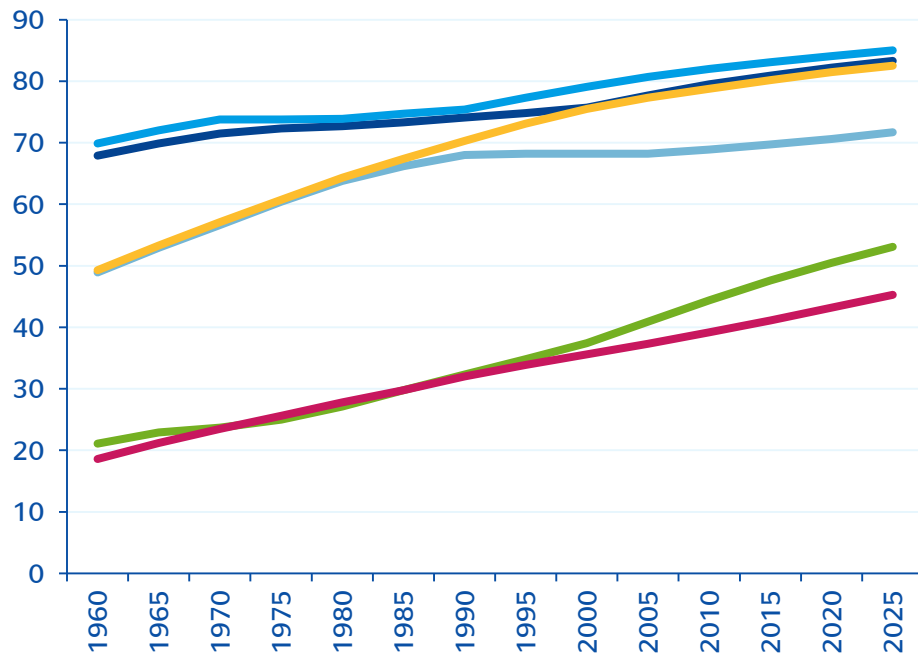


...Urbanization will increase very fast in some of the regions...

Demography & Urbanization

World Urbanization Rates(1980-2020)

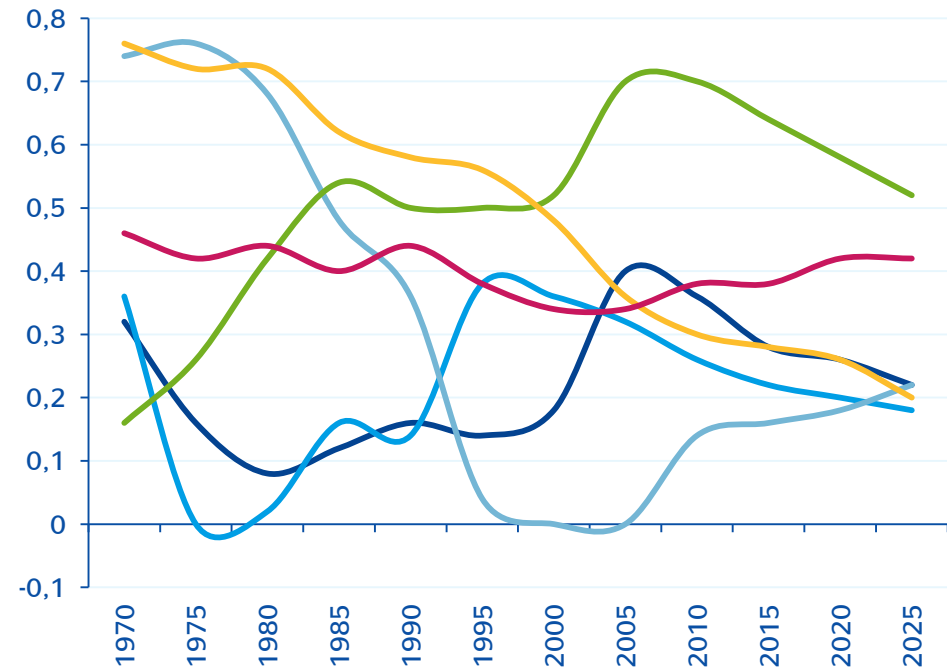
(Urban population as a % of total)
Source: United Nations



West Europe N. América East Europe
Asia Latam Africa

World Urbanization Rates(1980-2020)

(Annual Change in Urbanization Rates)
Source: United Nations



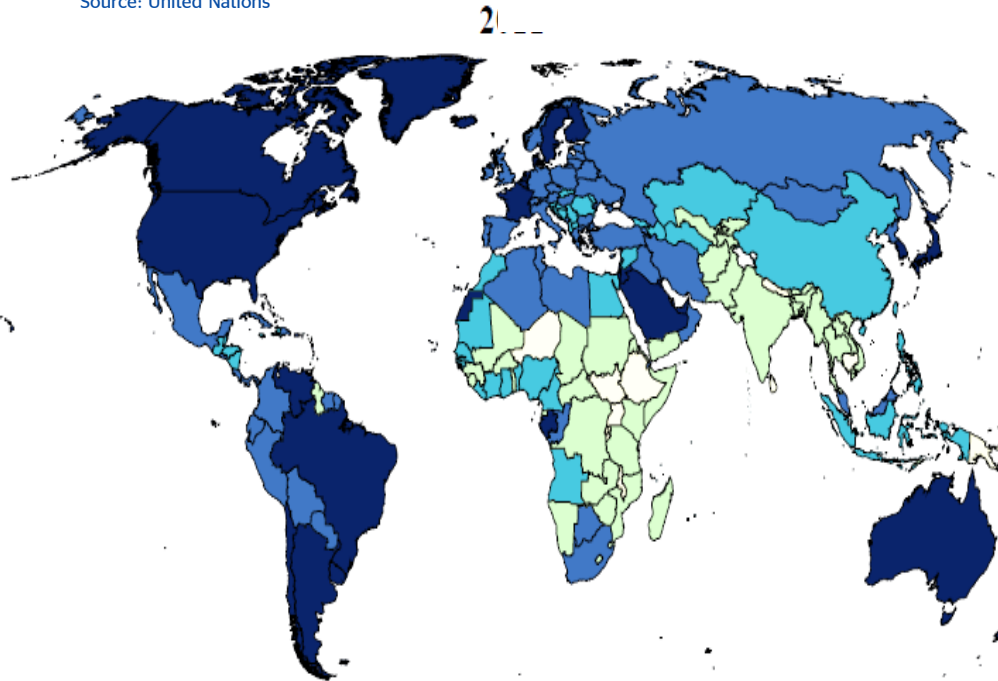
West Europe N. América East Europe
Asia Latam Africa

Regional Aggregates mask some rapid changes in some countries (Andeans & South East Asia)

Demography & Urbanization

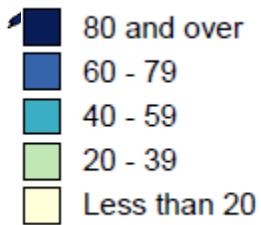
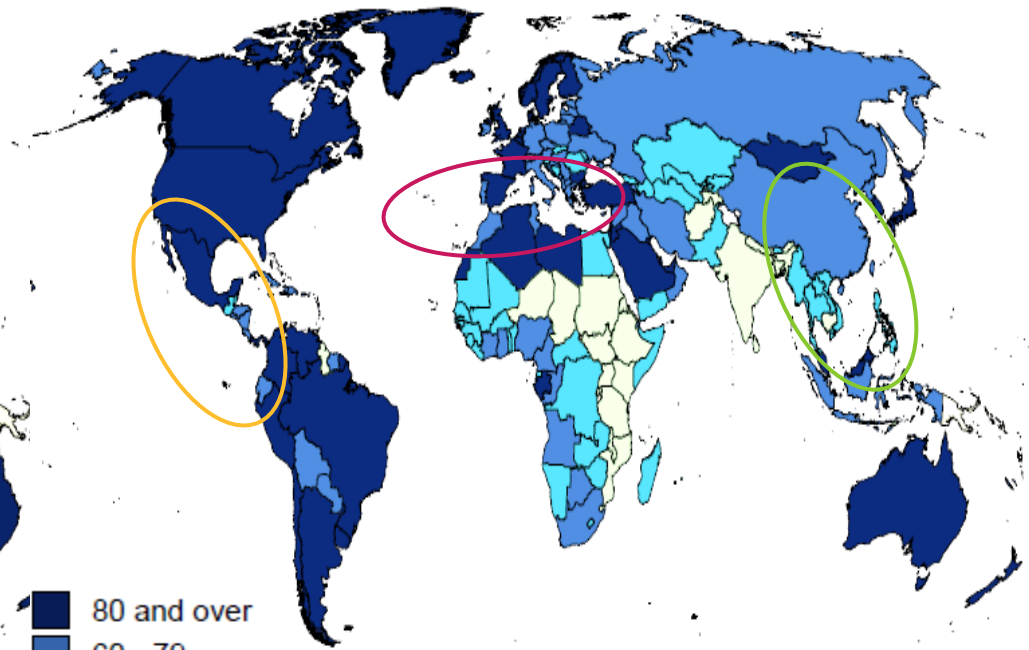
World Urbanization Rates(2011)

(Urban population as a % of total)
Source: United Nations



World Urbanization Rates(2030)

(Urban population as a % of total)
Source: United Nations



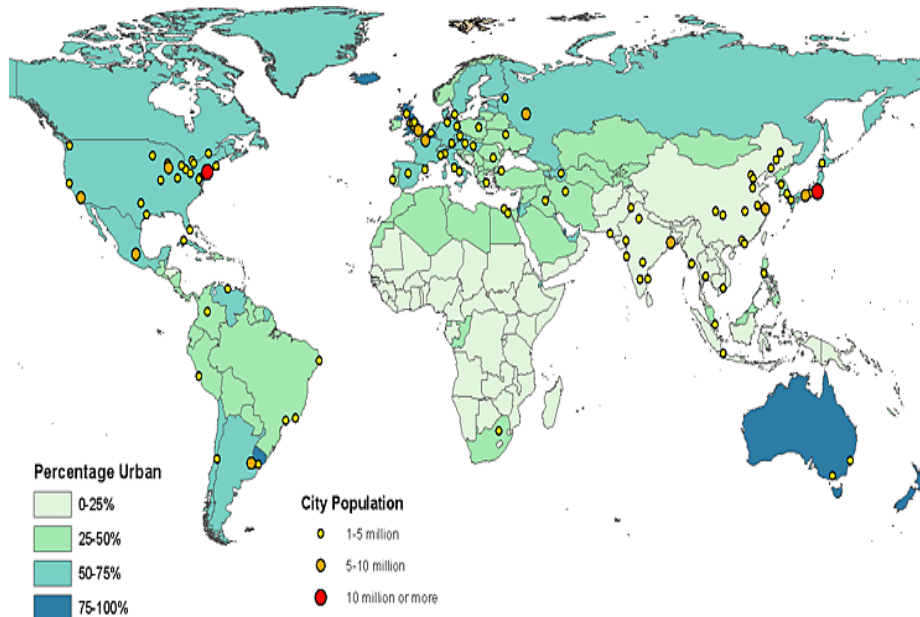
...and we will observe an intensive Urban Agglomeration process specially in Asia

Demography & Urbanization

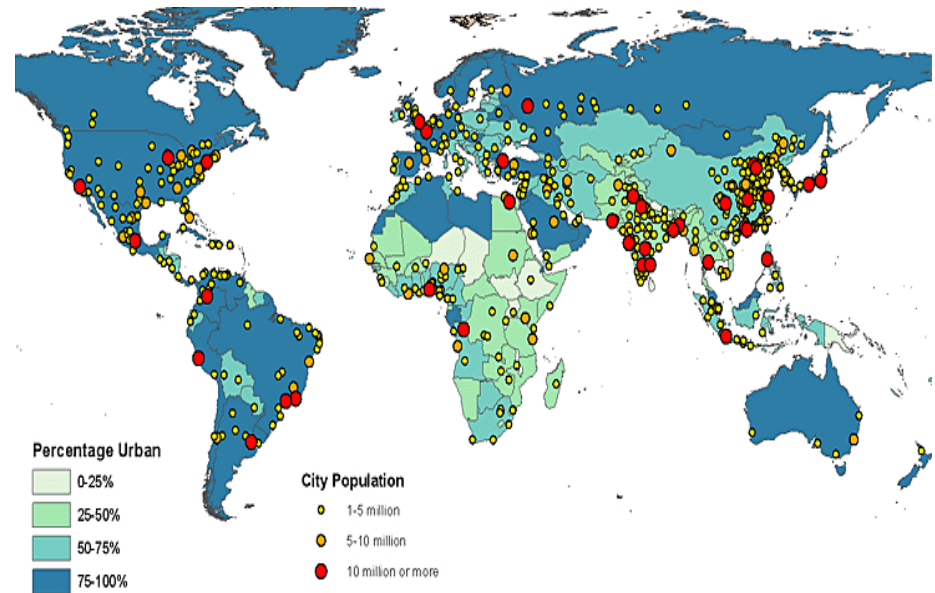
Percentage of urban population and agglomerations by size class

Source: UN Urbanization Prospects, 2011 revision

2011



2025



The Rise of
EM Middle
Classes

The “Emerging Middle Classes” revolution has already started changing consumption patterns and social demands

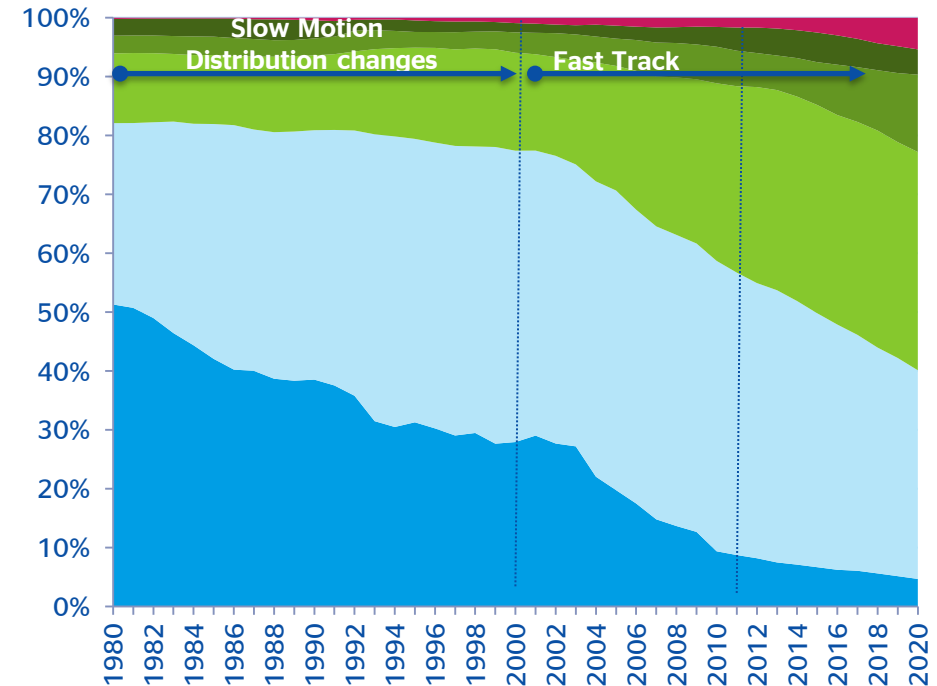
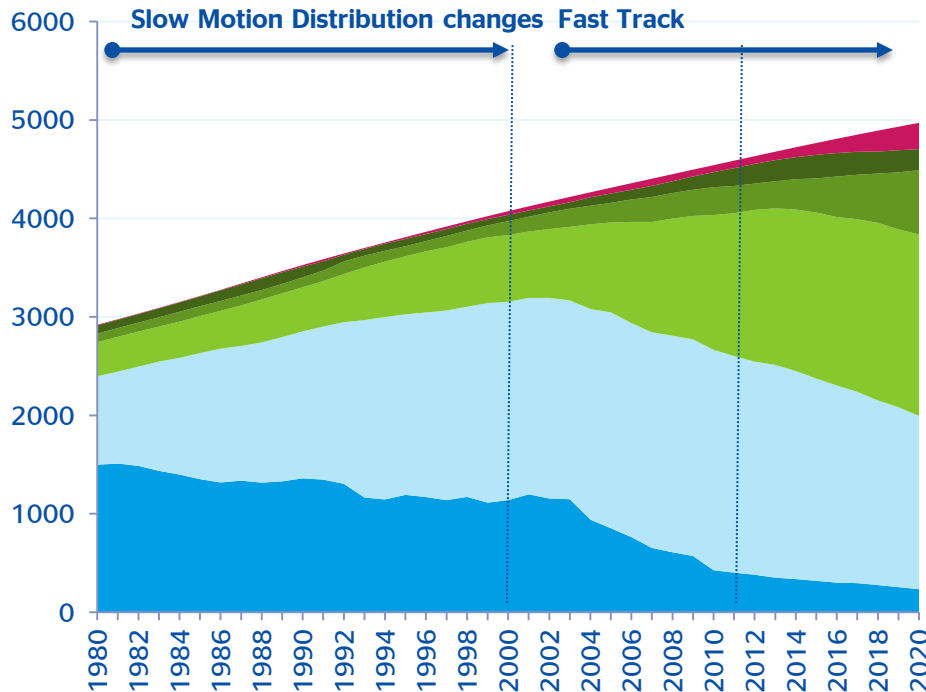
...The EM Middle Classes revolution accelerated at the beginning of this century...

The Rise of Emerging Middle Classes

Estimation of income distribution by GDP per capita in emerging economies (1980-2020)

(millions of people and % of total population; original data in real PPP-adjusted USD)

Source: BBVA Research



- Affluent
- High Middle Class
- Medium Middle Class
- Low Middle Class
- Low Income
- Poor
- Affluent (>40000 USD)
- High Middle Income (25000 to 40000 USD)
- Medium Middle Income (15000 to 25000 USD)
- Low Middle Income (5000 USD to 15000 USD)
- Low Income (1000 USD to 5000 USD)
- Poor (<1000 USD)

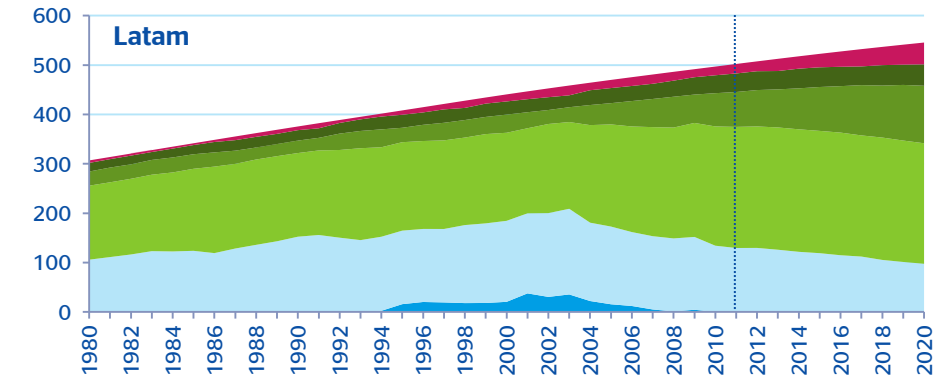
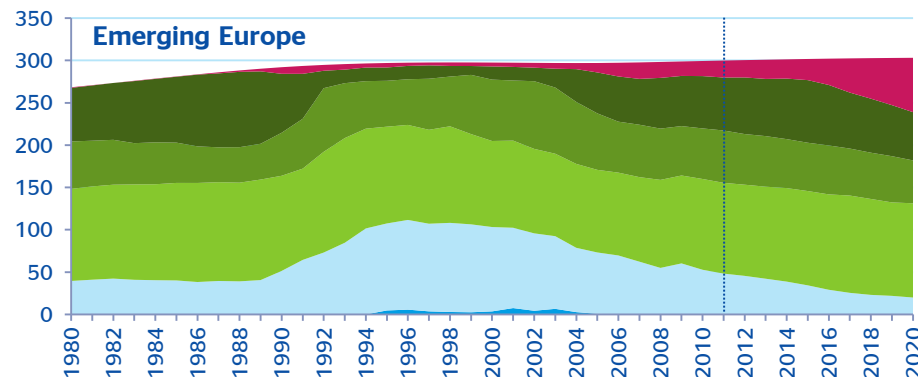
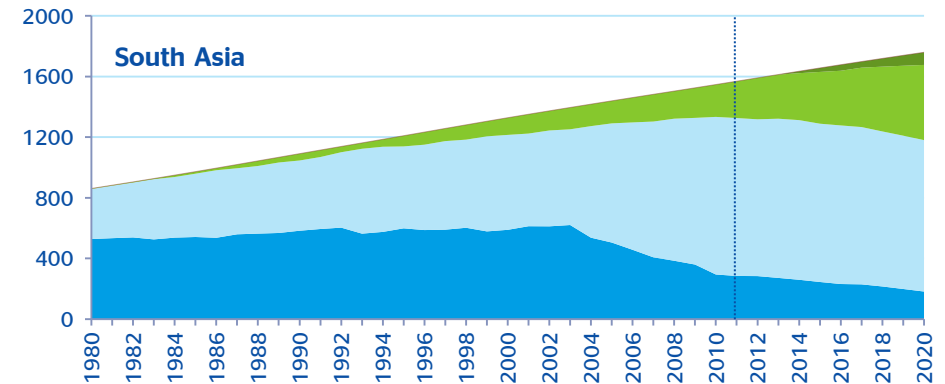
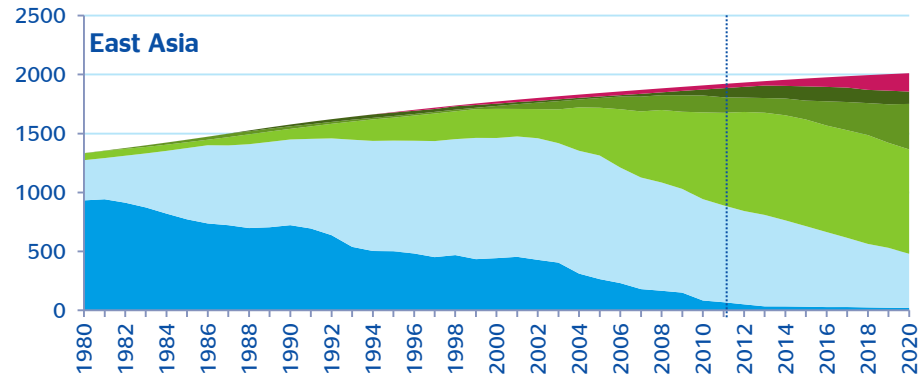
... and is being specially intensive in some areas...

The Rise of Emerging Middle Classes

Estimation of income distribution by GDP per capita in emerging economies regions (1980-2020)

(millions of people and % of total population; original data in real PPP-adjusted USD)

Source: BBVA Research



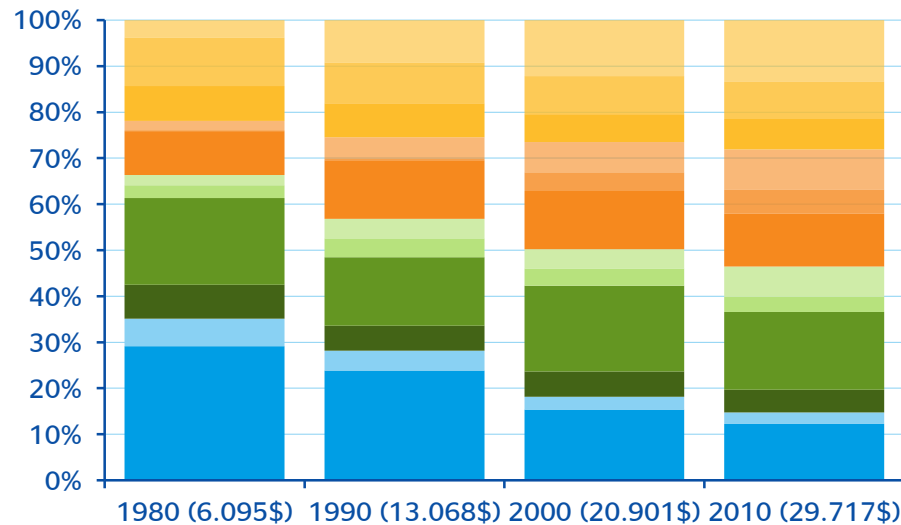
■ Affluent (>40000 USD)
 ■ High Middle Income (25000 to 40000 USD)
 ■ Medium Middle Income (15000 to 25000 USD)
 ■ Low Middle Income (5000 USD to 15000 USD)
 ■ Low Income (1000 USD to 5000 USD)
 ■ Poor (<1000 USD)

We will observe a gradual change in consumption patterns...

The Rise of Emerging Middle Classes

Consumption Patterns in S. Korea (1980-2010):

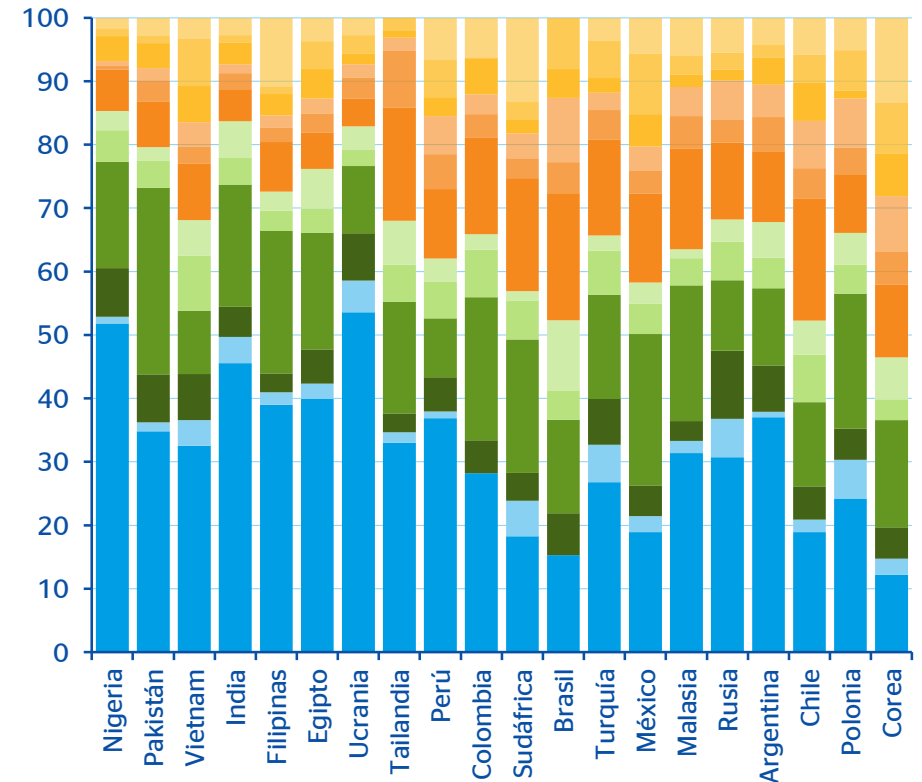
(spending distribution by COICOP groups. (PPA Adjusted GDP per cápita)
Source: BBVA Research



- Food & Non. Alc. Beverages
- Dressing & Shoes
- Menaje
- Transport
- Leisure & Culture
- Hotels and Catering
- Tobacco & Alcohol
- Housing
- Health
- Communications
- Education
- Other Business Services

Emerging Markets Consumption Patterns

(GDP pre capita order, % en consumer price index basket, 2012)
Source: BBVA Research & IMF



**Infrastructure
& Financial
Deepening**

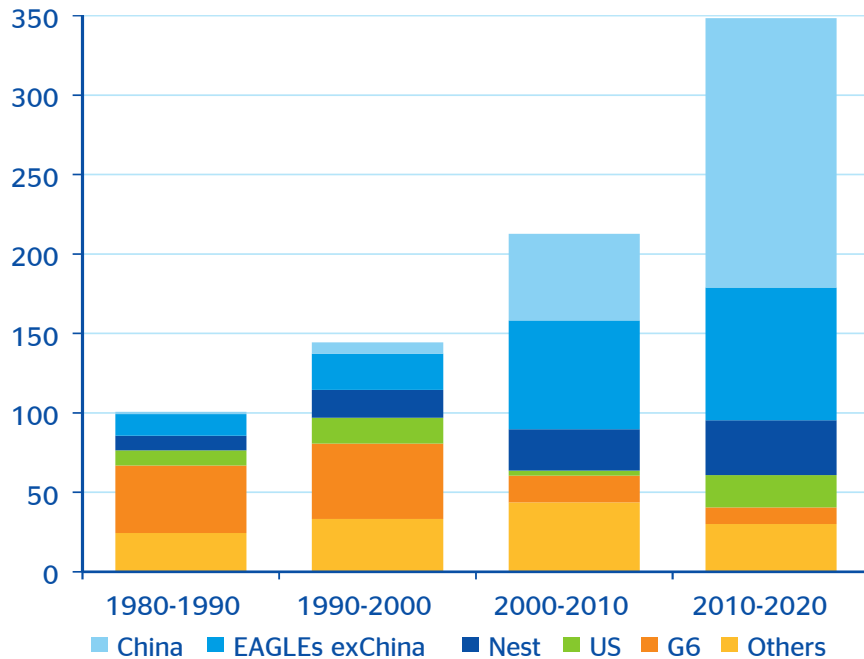
Population, Wealth Creation, Urbanization & Agglomeration will generate pressures on Infrastructure. Financial Deepening will help

Income transition and changing consumption patterns: auto industry

Infrastructure & Financial Deepening

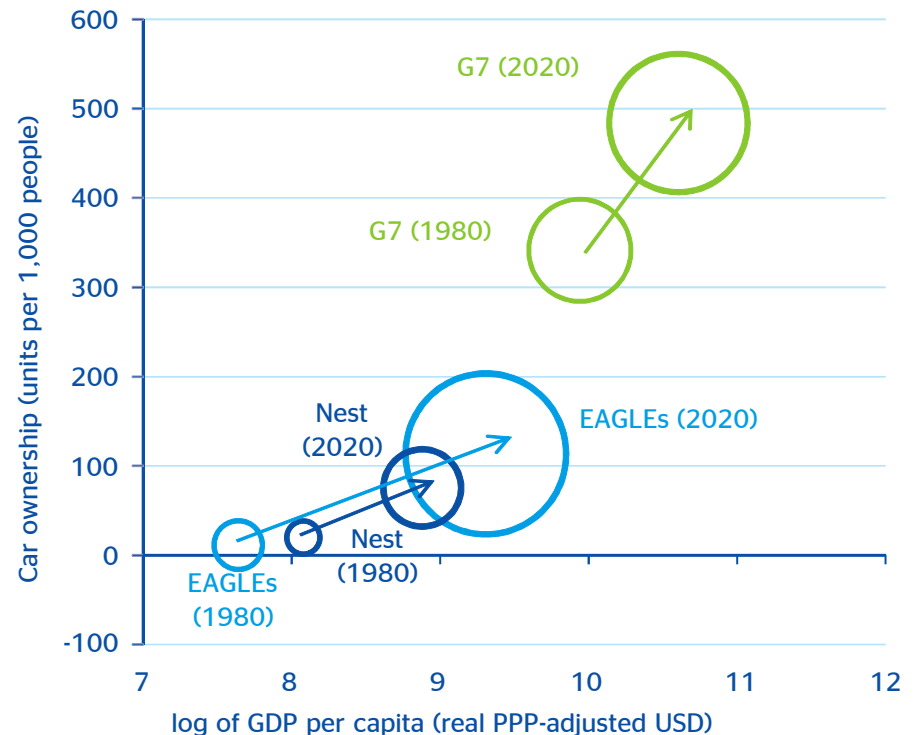
Increase of world car fleet by decades

(millions of units)
Source: BBVA Research



GDP per capita (PPP-adj. USD) and car ownership

(units per 1,000 people)
Source: BBVA Research



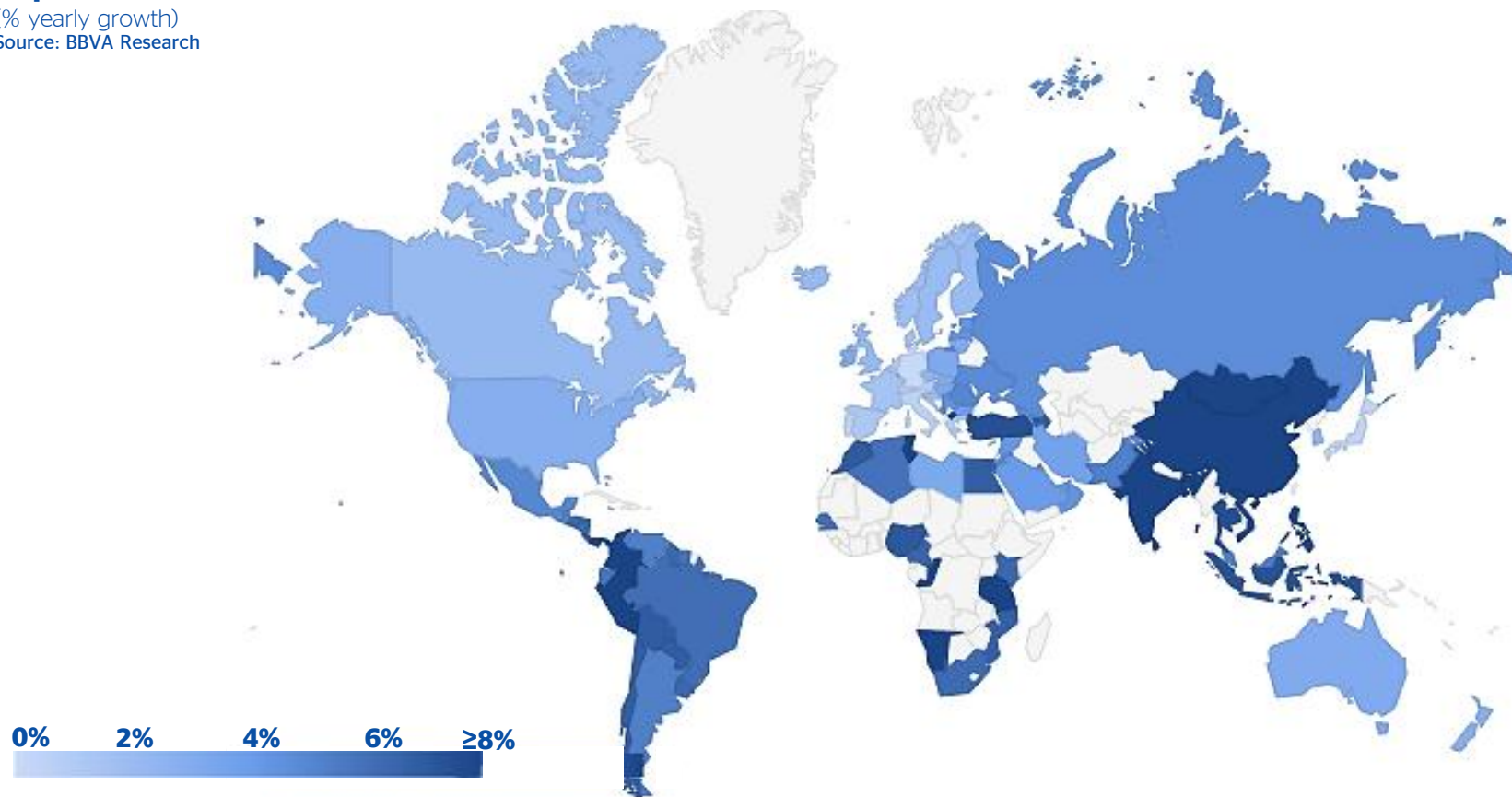
EAGLEs = Brazil, China, India, Indonesia, Korea, Mexico, Russia, Taiwan and Turkey
Nest = Bangladesh, Pakistan, Malaysia, Philippines, Thailand, Vietnam, Argentina, Chile, Colombia, Peru, Poland, Egypt, Nigeria, South Africa

Expected annual increase in car fleet for the next decade concentrated in Asia and Latam

Infrastructure & Financial Deepening

Expected annual increase in World Car Fleet (2010-2020)

(% yearly growth)
Source: BBVA Research

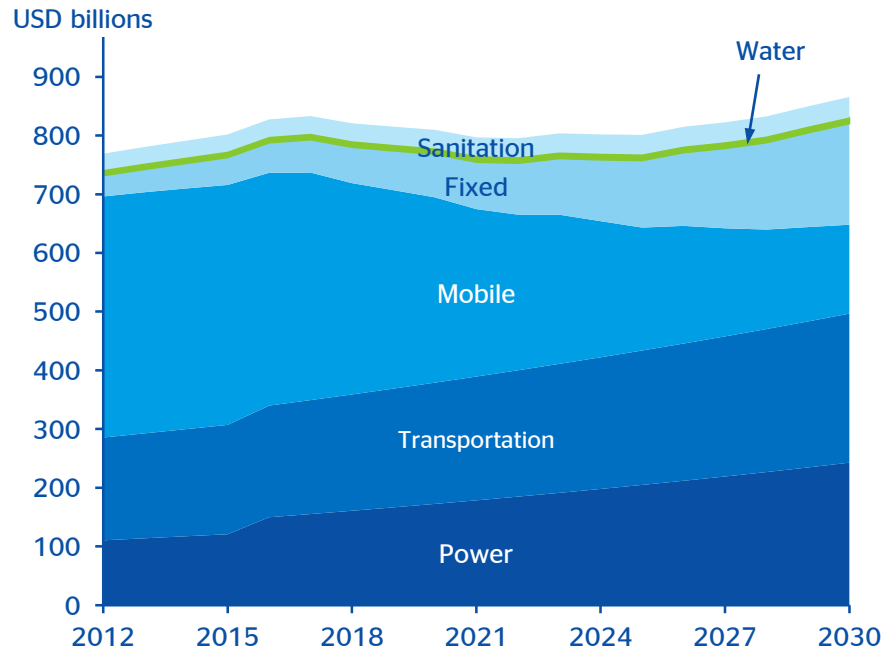


Thus infrastructure needs will continue to grow... specially in the high growth areas

Infrastructure & Financial Deepening

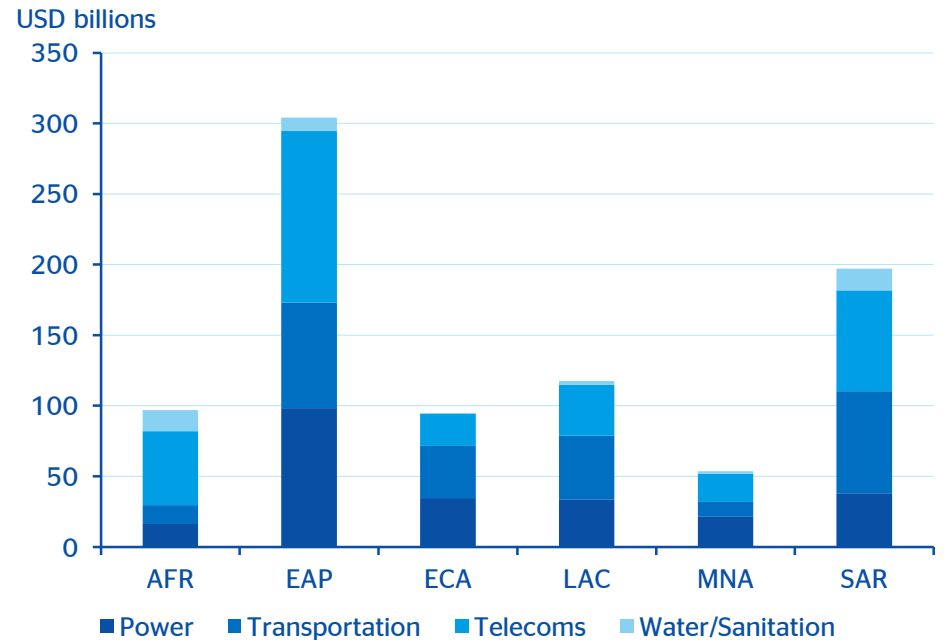
Annual Infrastructure Investment Needs in Developing Markets: Changes 2010-2030

(Total in USD bns)
Source: World Bank



Regional Infrastructure Investment Needs in Developing by Markets 2030

(Total in USD bns)
Source: World Bank



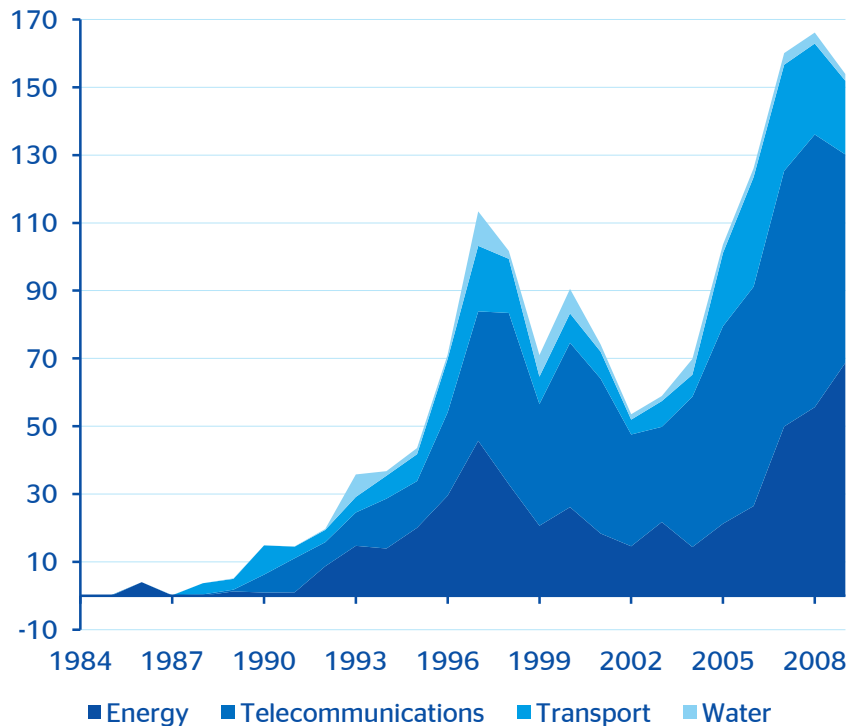
AFR: SubSaharan Africa, EAP:East Asia Pacific, ECA: Eastern Europe and Central Asia, LAC: Latin America, MNA: Middle East N Africa, SAR:South Asia

But remember that the fiscal base is still low so new forms of financing are coming

Infrastructure & Financial Deepening

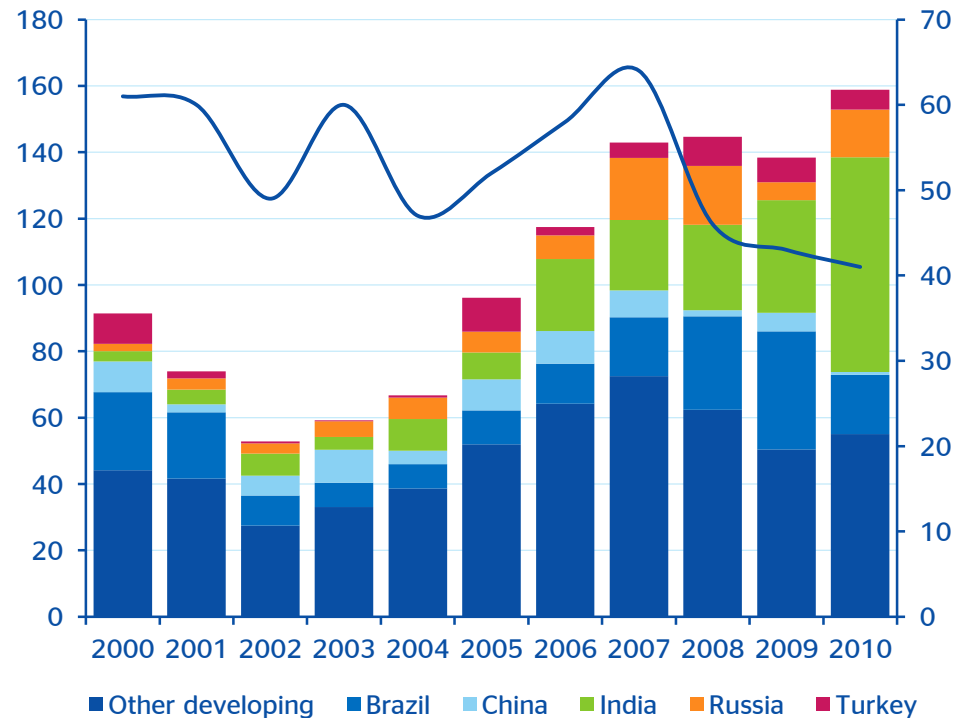
Public Private partnership infrastructure projects

(in USD bns)
Source: World Bank



Public Private partnership infrastructure projects by Countries (in 2005 USD bns)

Source: World Bank

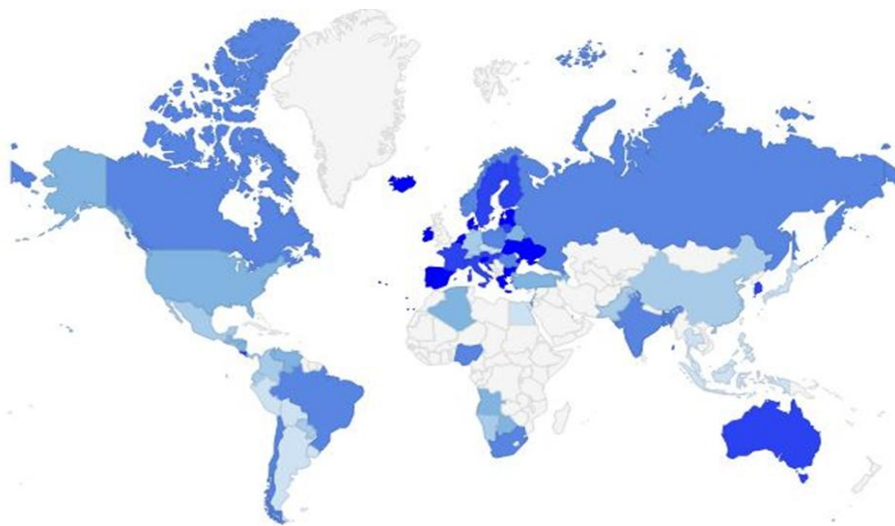


And the traditional “financial deepening” will accelerate

Infrastructure & Financial Deepening

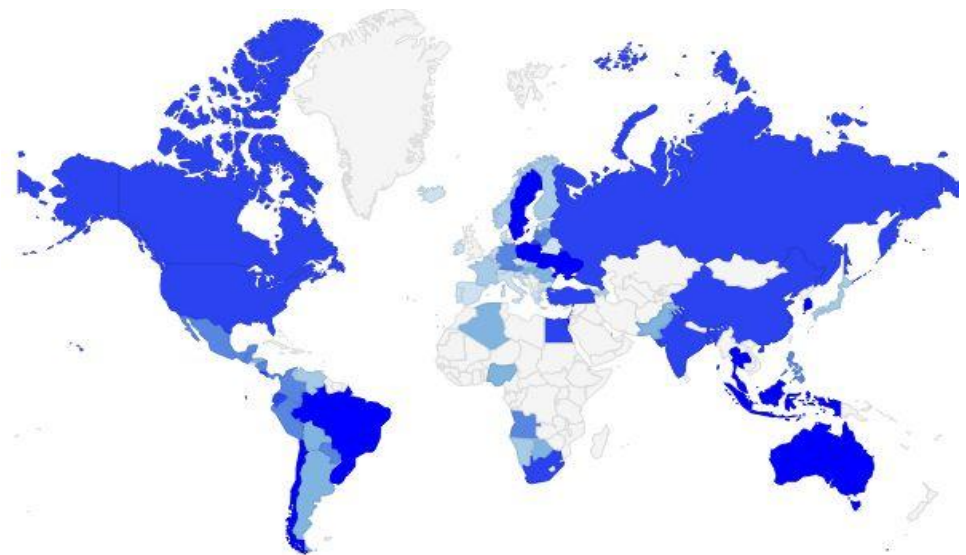
Private Credit to GDP: Changes 1998-2008

(Average Annual Change in the ratio)
Source: BBVA Research



Private Credit to GDP: Changes 1998-2008

(Average Annual Change in the ratio)
Source: BBVA Research



Technology,
Productivity
& Education

Facing a global productivity slowdown but with still higher productivity growth than developed

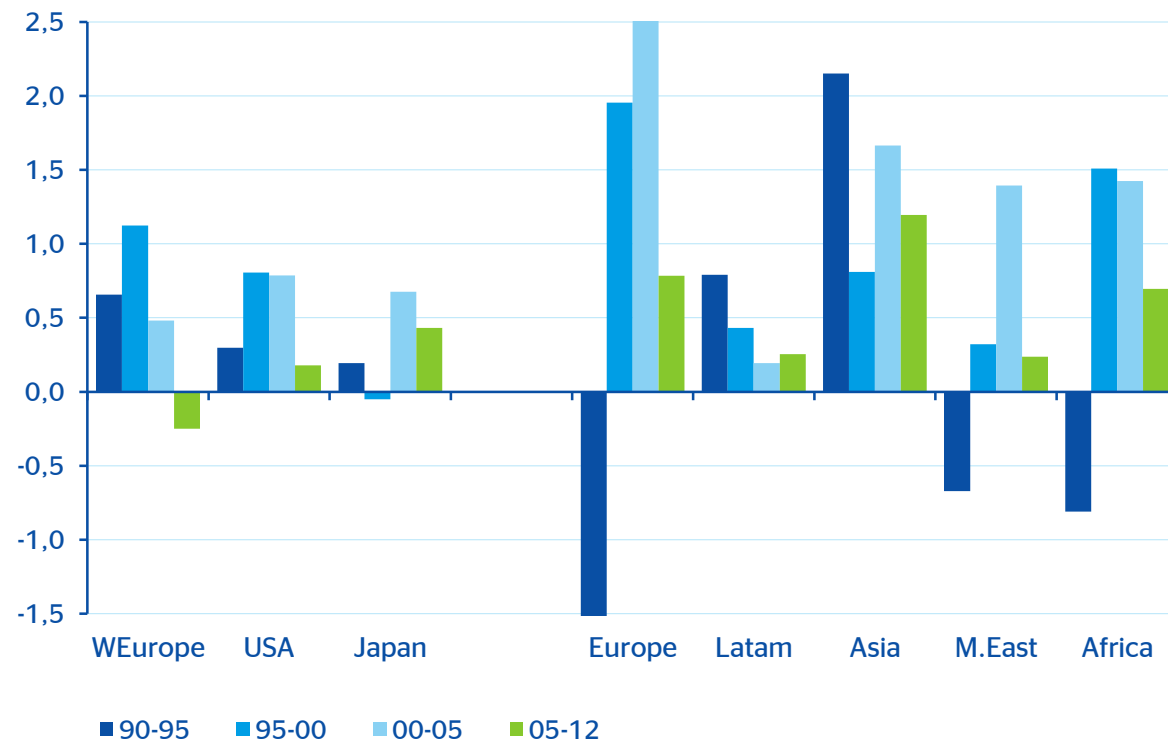
Countries. Younger and increasingly well prepared labor force: A real challenge for Developed

Total factor productivity is slowing down but EM premium is still alive

Technology, Productivity & Education

Total Factor Productivity Growth (1990-2012)

(median, 5 years mov.avg growth rates)
Source: Total Economy Database and Own Calculations)

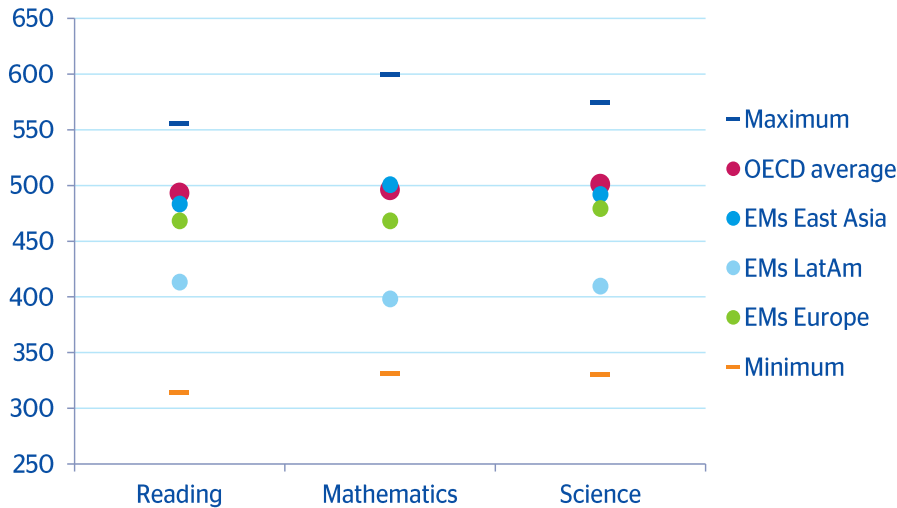


In some regions Education performance is near the OECD average...and human capital is not far from ours

Technology, Productivity & Education

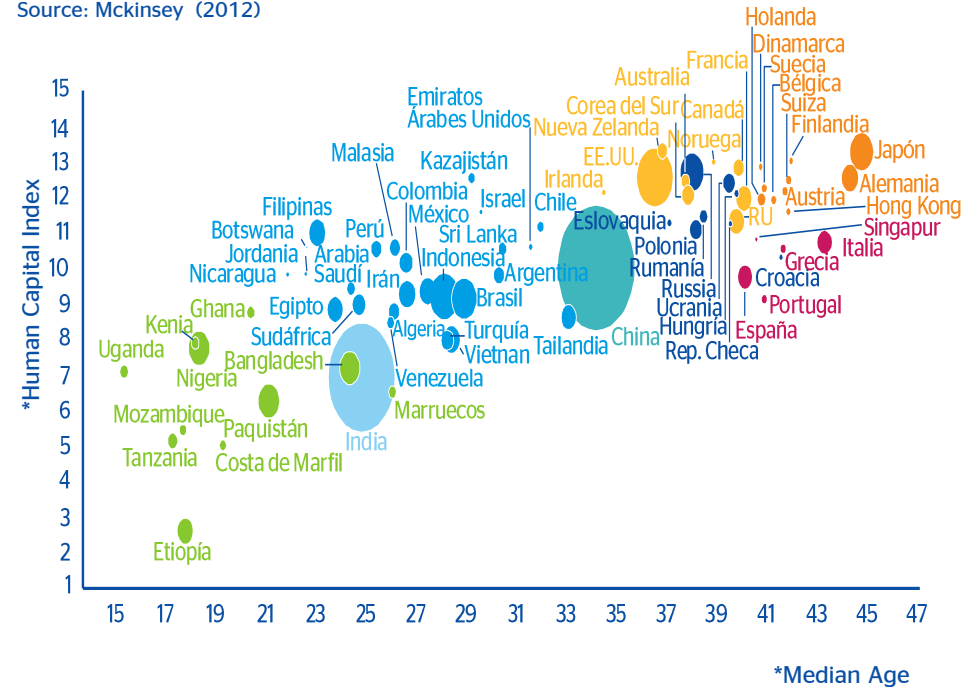
Secondary school student performance (score; 2009)

Source: BBVA Research and OECD PISA Report



Education index* and median age (2010)

Source: Mckinsey (2012)



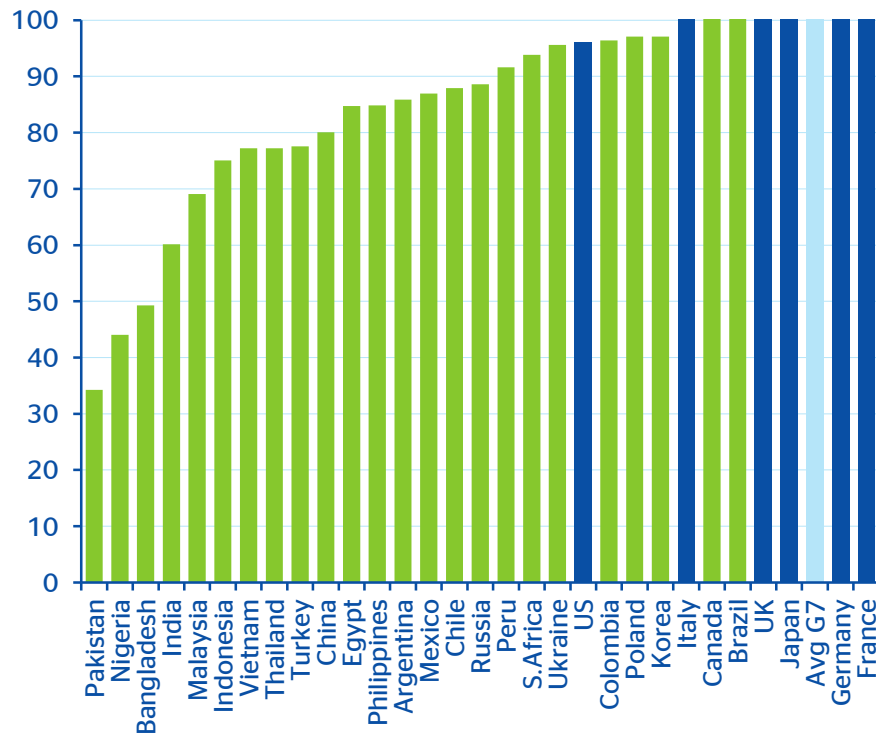
Differences in enrolment are centered in tertiary education

Technology, Productivity & Education

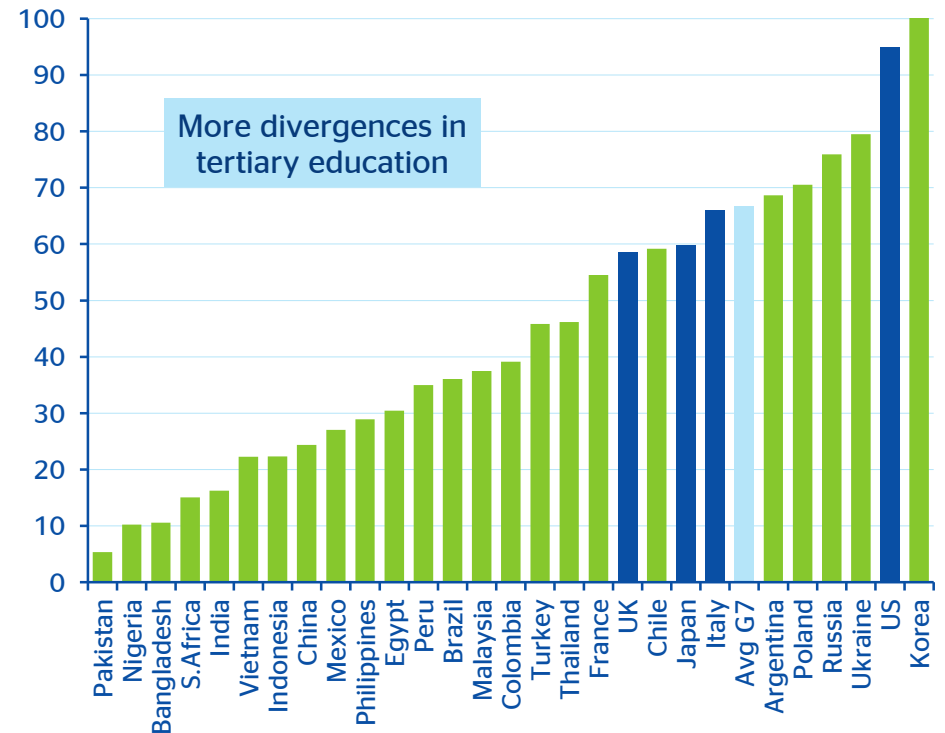
School enrolment (total enrollment over population of corresponding age; 2010*)

Source: BBVA Research and World Bank

Secondary education



Tertiary education



More divergences in tertiary education

*Or latest year available

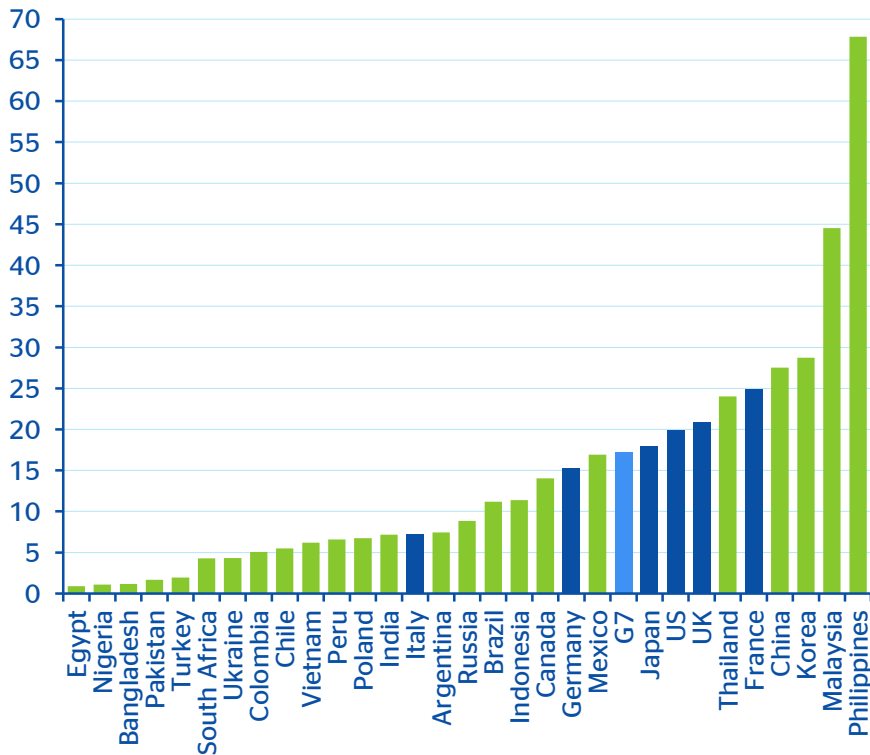
Which is increasingly reflected in the Tech content of manufactures and services exports

Technology, Productivity & Education

High Tech Exports (2010)

(as % of manufactures exports)

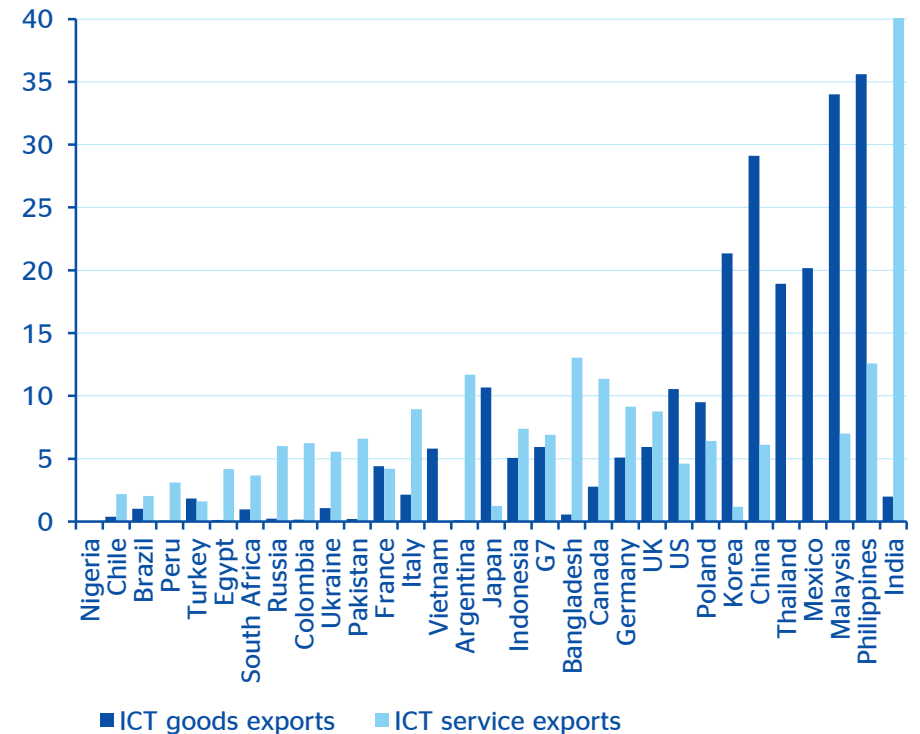
Source: World Bank



ICT Goods and Services Exports

(as % of goods and service exports)

Source: World Bank





Vulnerability
& Resilience

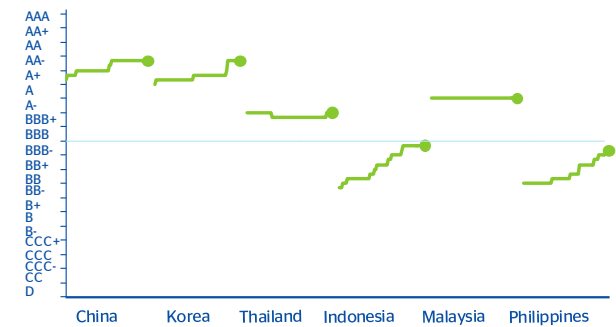
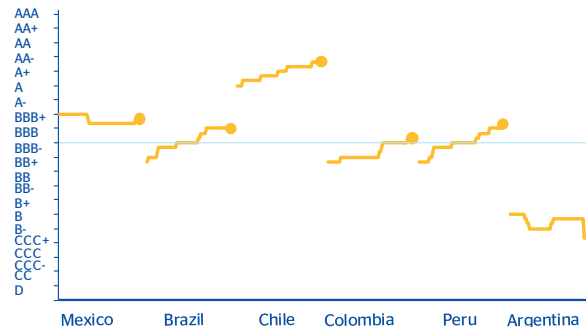
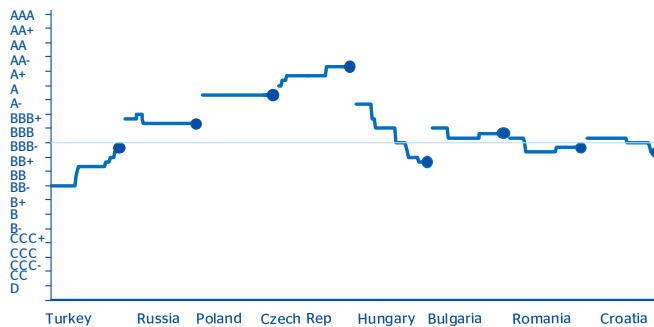
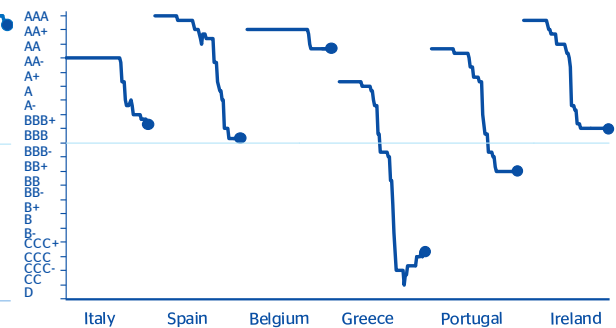
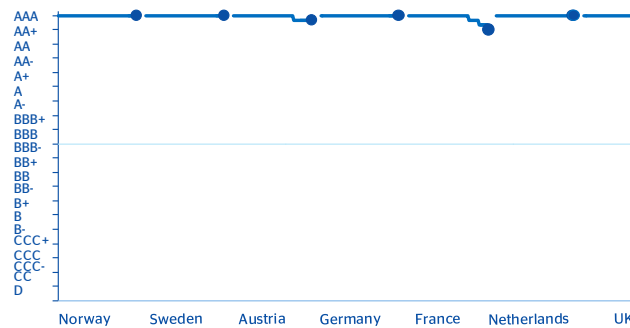
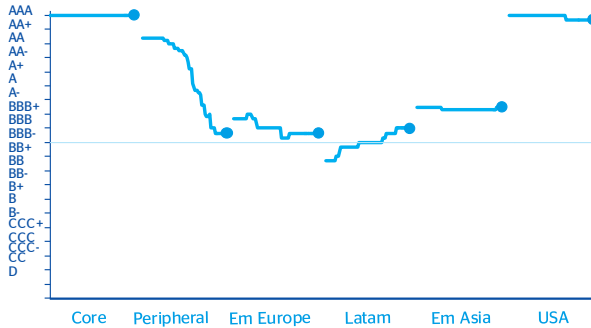
The last EM crisis (1990s) are key to explain the Special Resilience to the 2008 crisis and Low Vulnerability

A vulnerability convergence

Vulnerability & Resilience

Sovereign Rating Index 2007-2013

Source: BBVA Research by using S&P, Moodys and Fitch Data

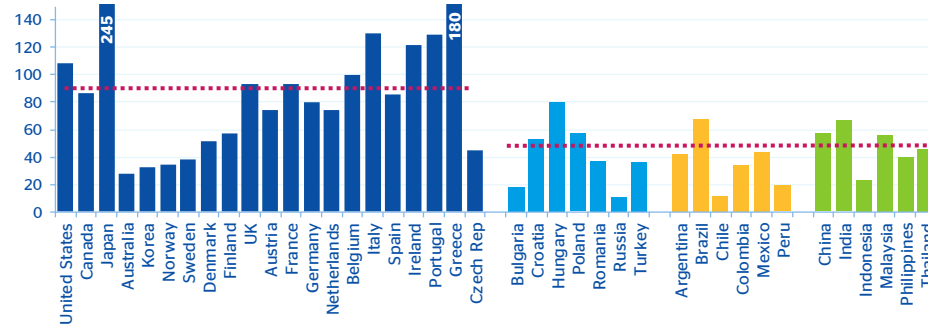


Somehow justified by Stock vulnerability data

Vulnerability & Resilience

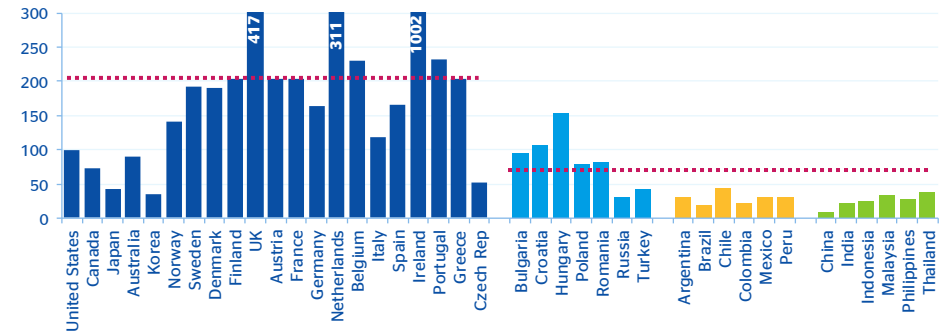
Gross Public Debt 2013

(% GDP)
Source: BBVA Research and IMF



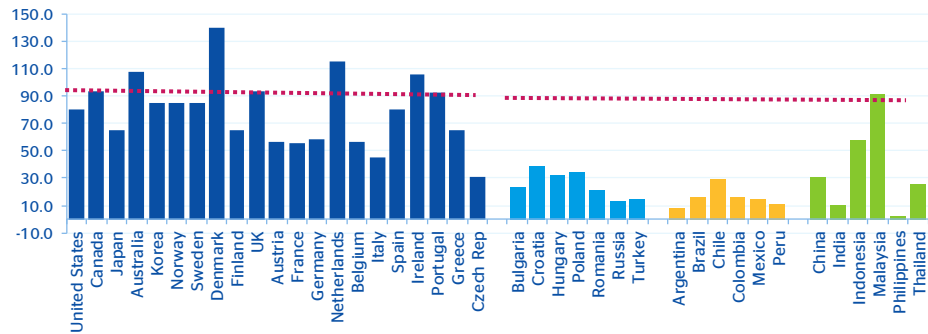
External Debt 2013

(% GDP)
Source: BBVA Research and IMF



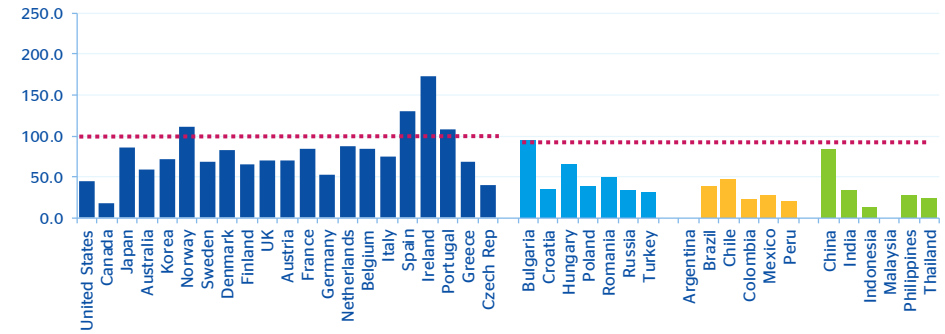
Household Debt 2013

(% GDP)
Source: BBVA Research and BIS



Corporate Sector Debt 2013

(% GDP)
Source: BBVA Research and BIS



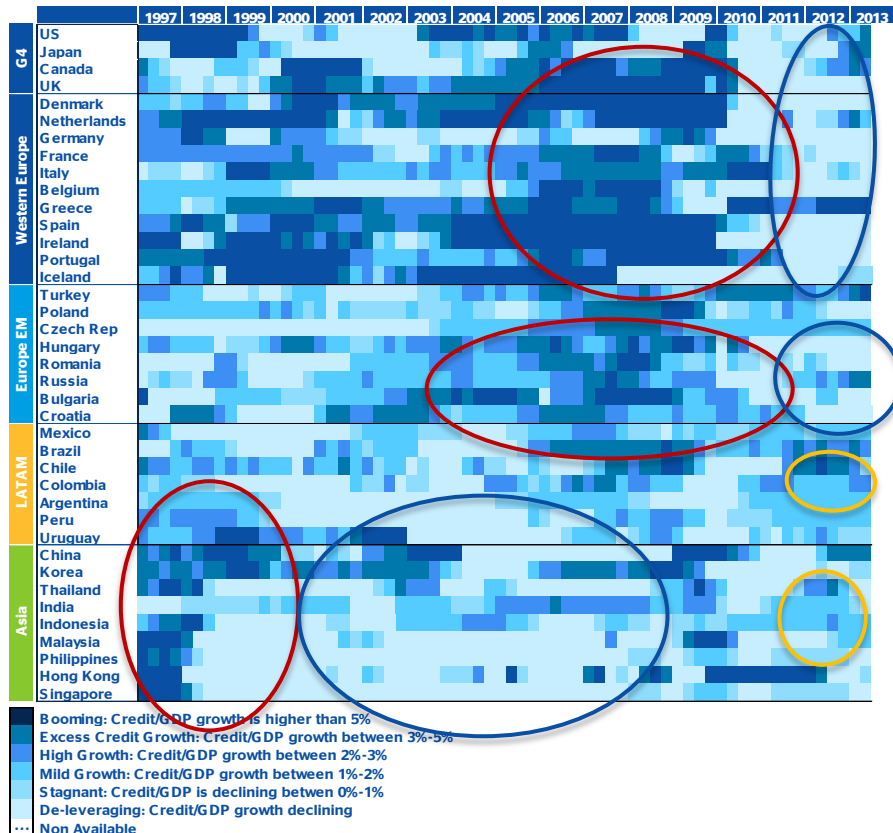
..... Risk Thresholds

Credit Bubbles are not particularly relevant to worry in excess... but some incipient signs have been appearing

Vulnerability & Resilience

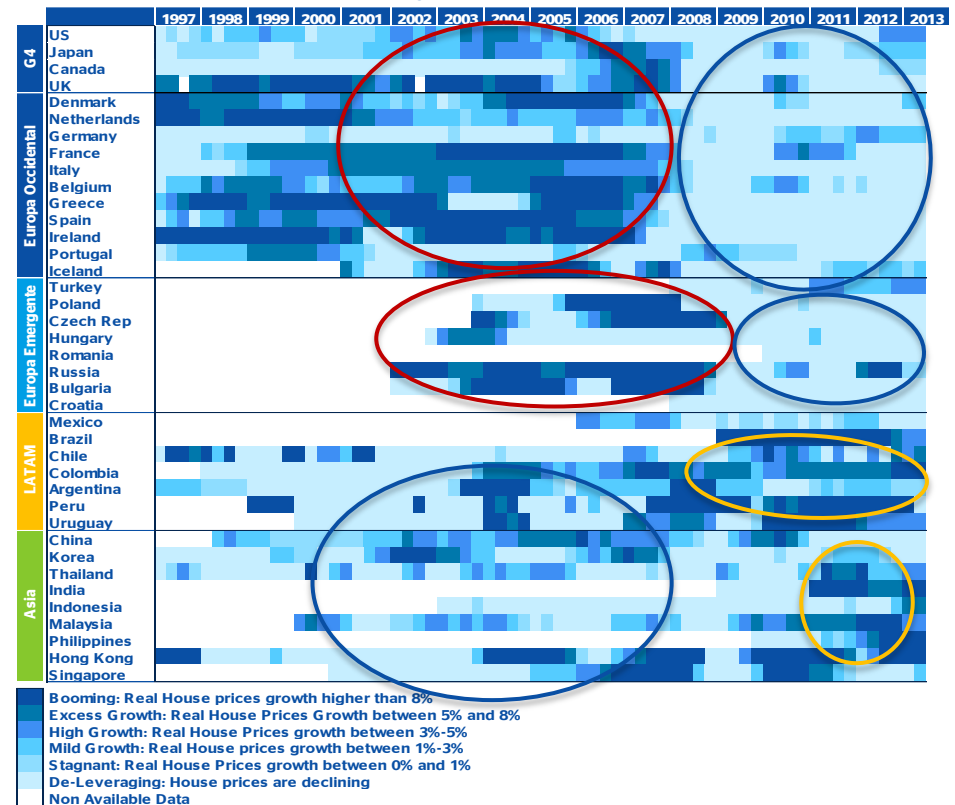
Private credit colour map (1996-2013 Q2)

(yearly change of private credit-to-GDP ratio)
Source: BBVA Research and Haver



Real housing prices colour map (1996-2013 Q2)

(yearly change of real housing prices)
Source: BBVA Research, BIS and Globalpropertyguide

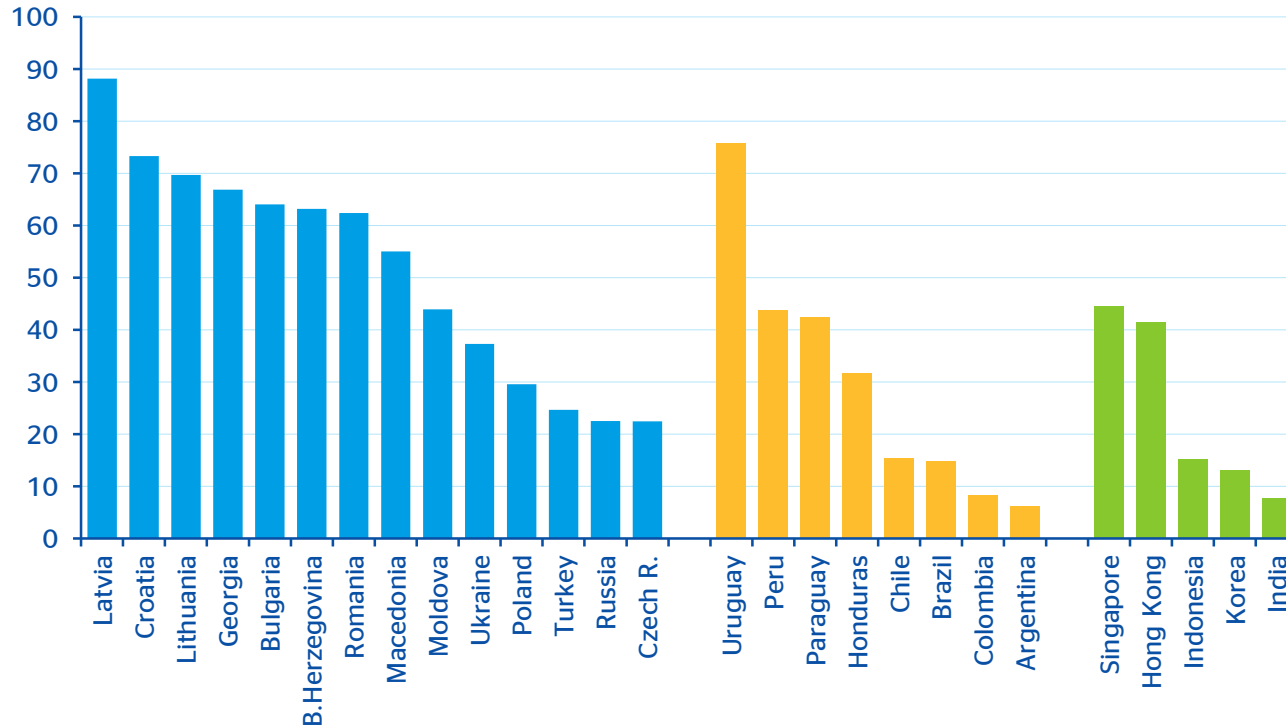


Besides, some important previous vulnerabilities are now lower (except for EM Europe)...

Vulnerability & Resilience

Emerging Markets: FX Loans 2012

(% Total Loans, 2012 or latest available data)
Source: IMF



Which is the result of several years of reforms...

Vulnerability &
Resilience

Policies and reforms after late 90s-early 00s crises

- Exchange rate flexibility
- Fiscal discipline and debt consolidation
- Central bank independence
- Lower price increases and inflation-targeting
- Banking supervision
- Better business environment



Openness
& Trade

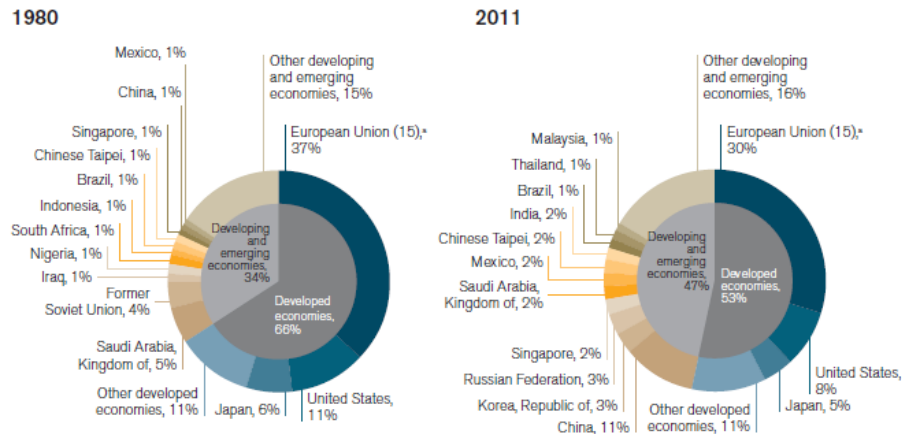
Increasing share in World Trade with South-South flows increasing. Diminishing influence of GATT but increasing bilateral agreements

The share of EM in World Trade is increasing

Openness & Trade

Distribution of world exports

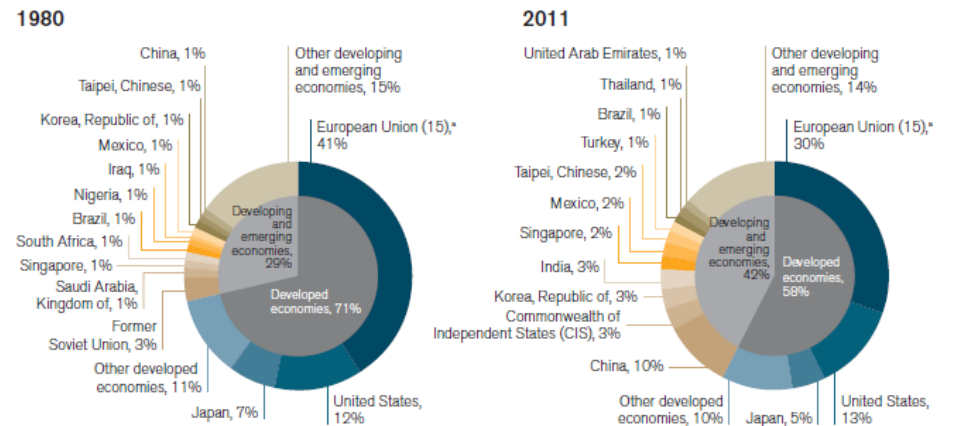
(% of total exports)
Source: WTO



* Includes intra-EU trade.
Source: WTO Secretariat.

Distribution of world Imports

(% of total imports)
Source: WTO



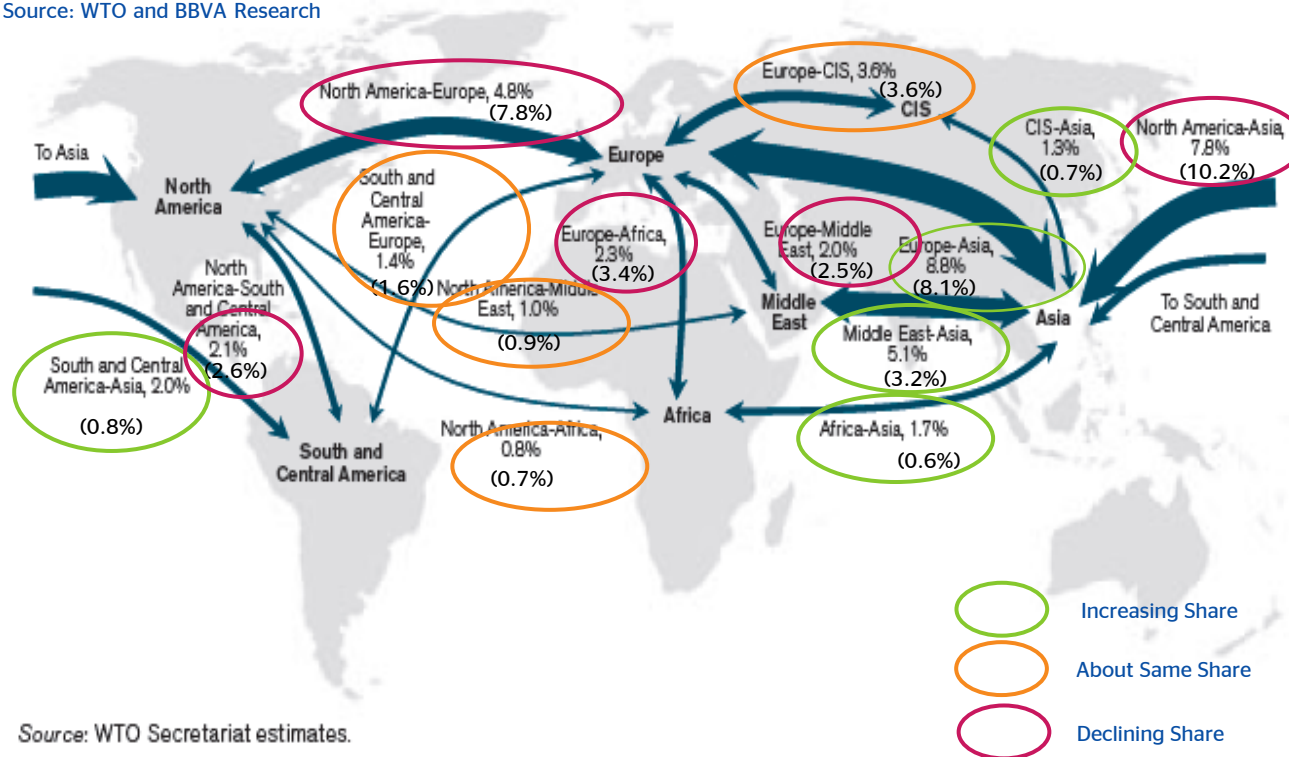
* Includes intra-EU trade.
Source: WTO Secretariat.

And trade routes are changing

Openness & Trade

Share of Total Trade between Geographic regions in World Trade 2011

(1990 shares in brackets)
Source: WTO and BBVA Research



Source: WTO Secretariat estimates.

Note: World trade includes intra-EU trade. Arrow weights based on shares in 2011. Trade within regions and with unspecified destinations represented 54% of world trade in 2011.

Rapid growth in emerging countries increases South-South relations

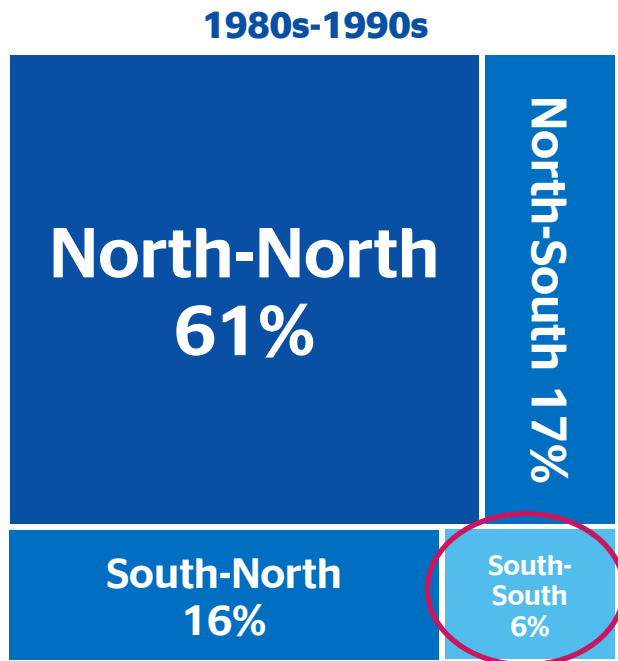
Openness & Trade

Read more at: "Asia-driven South-South trade intensifies specialization patterns in the rest of emerging regions"
www.bbva.com/KETD/fbin/mult/EWSouthSouthTrade_i_tcm348-390302.pdf?ts=3082013

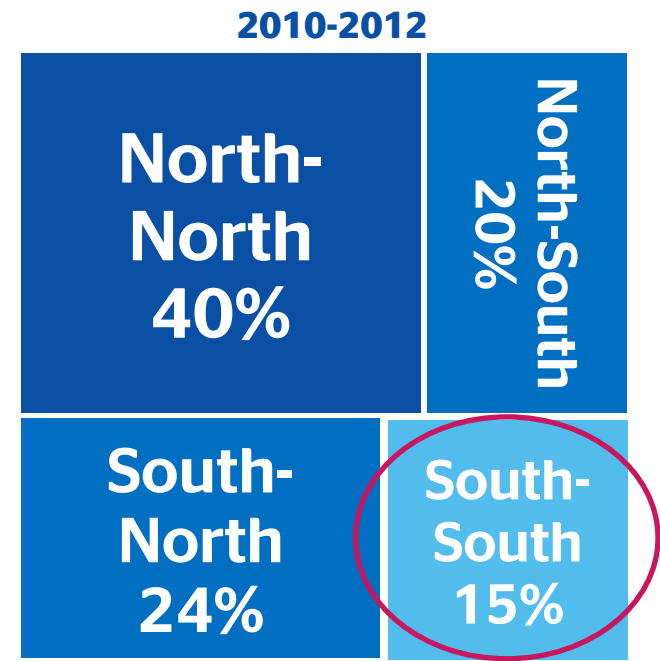
Distribution of world exports according to origin and destination

(% of total exports)

Source: BBVA Research and IMF/DOTS



South in 40% of transactions



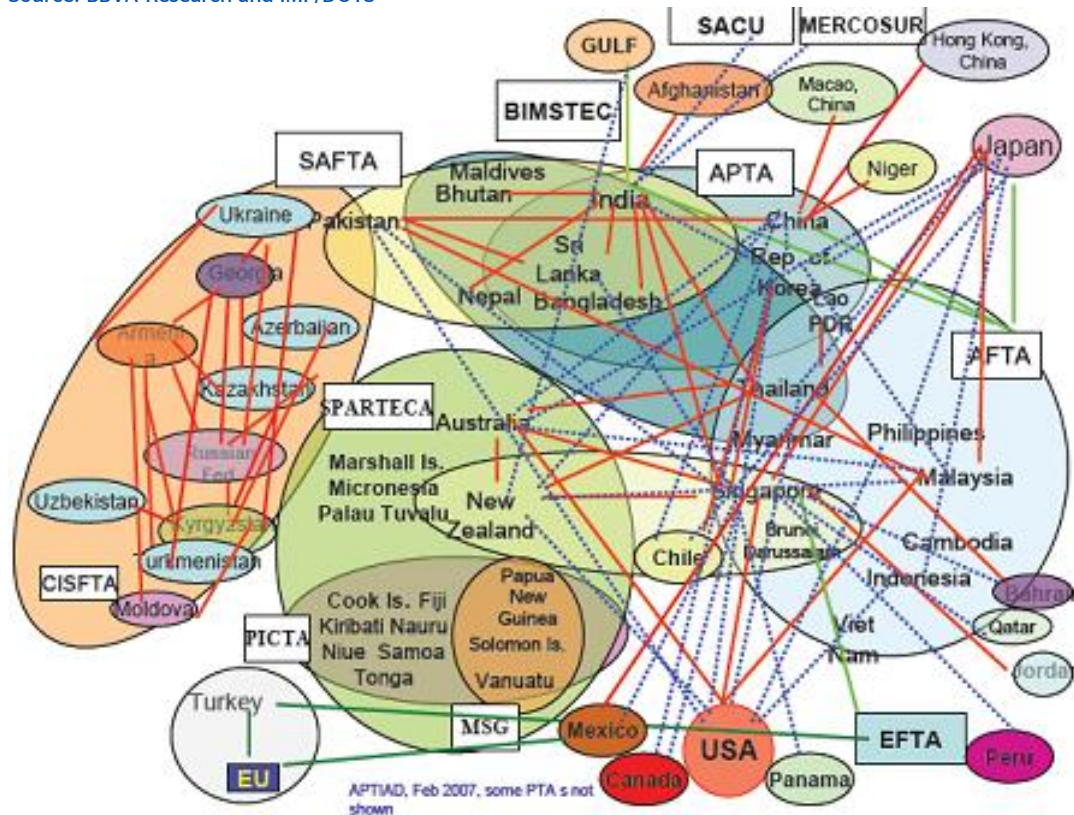
South in 60% of transactions

GATT loosing influence but Increasing bilateral agreements

Openness & Trade

The Asian Noodle

(Trade agreements in Asian Countries)
Source: BBVA Research and IMF/DOTS





Institutions

Still far from Developed Economies

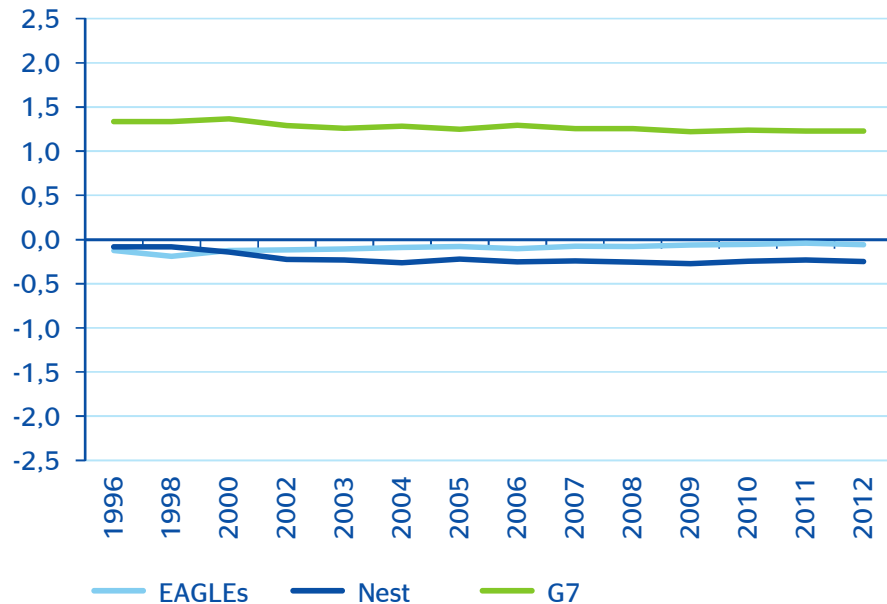
Institutional challenges remain to keep growth momentum

EMs improvements have been limited and the gap is still wide relative to the G7

Institutions

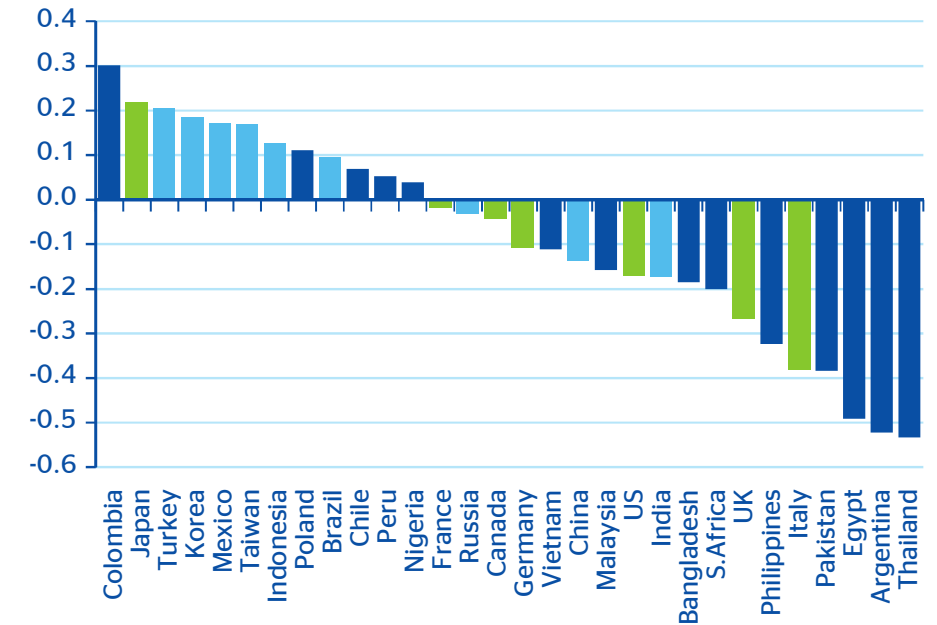
Governance Indicators 1996-2012

(average of six indicators)
Source: BBVA Research and WB



Governance Indicators 1996-2012

(average of six indicators)
Source: BBVA Research and WB



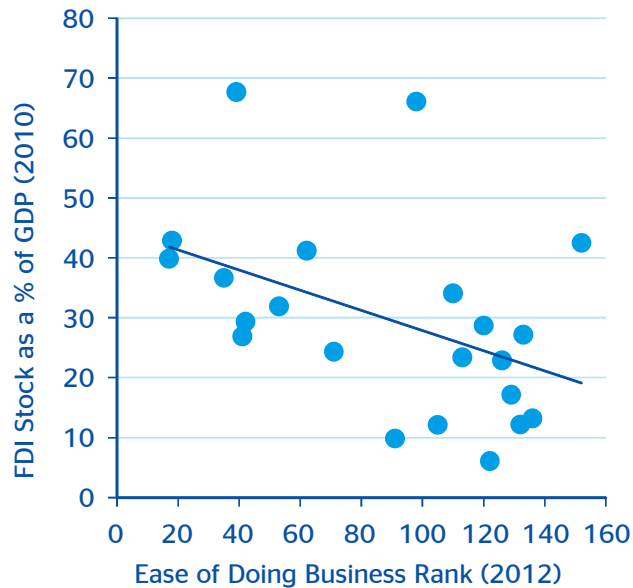
Institutions matter for capital attraction

Institutions

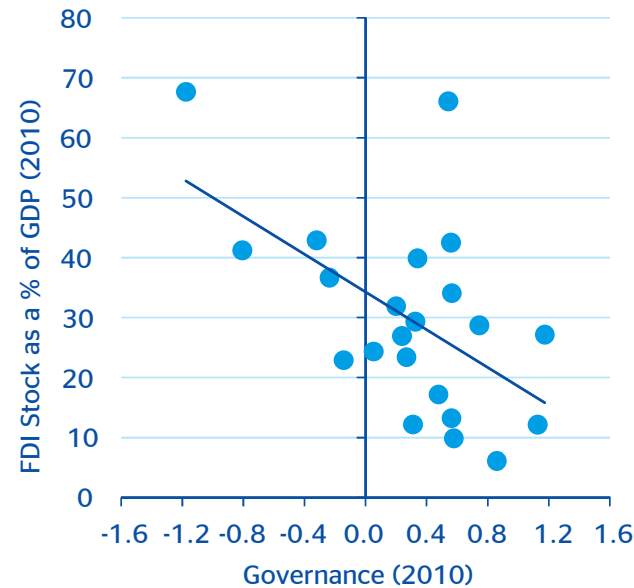
FDI stock and institutional factors

(FDI in % of GDP and institutional indicator as specified)
 Source: BBVA Research, UNCTAD, World Bank and CSP

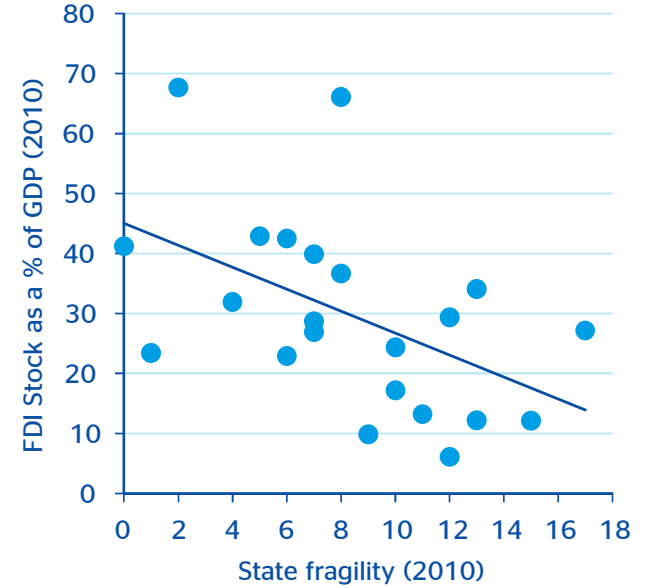
Ease of Doing Business (ordinal ranking)



Governance (-2.5 to +2.5; inverted scale)



State fragility (0 to 25)

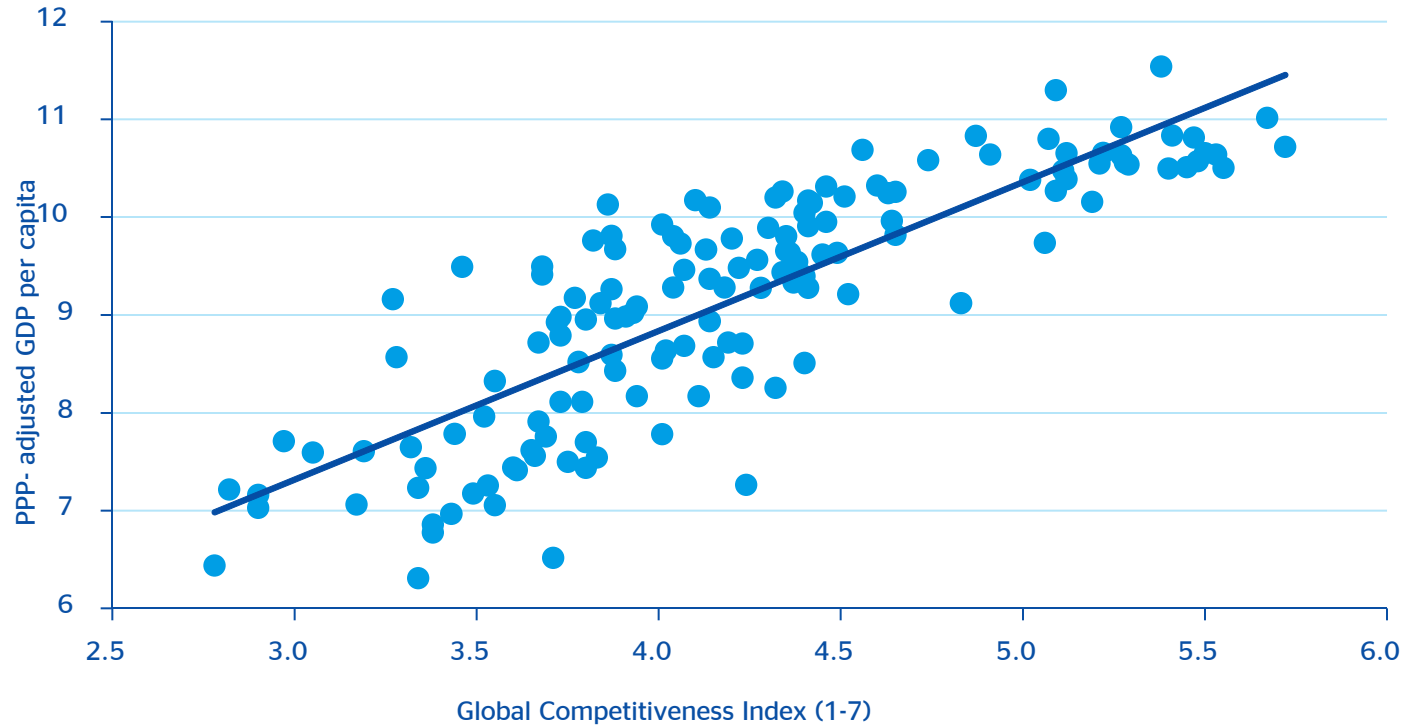


Institutions matter for welfare

Institutions

Global competitiveness index and GDP per capita (PPP-adjusted)

(GCI from 1 to 7 and GDP per capita in logs)
 Source: BBVA Research and World Economic Forum



Thank you...