# The Economic Outlook for Emerging Markets

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*Asia, Asia, Asia!*
*Old and wondrous land...*
*Ravel: Shéhérazade, 1903*

The term 'emerging market economies' to describe a group of countries has been around for nearly forty years. It is vague and unsatisfactory in some respects, but it has endured for lack of a better description. This study offers criteria by which to delimit the group, and discusses their growth prospects over the medium term. In doing so, it addresses issues of convergence of emerging market and advanced economies and among emerging market economies themselves, the distribution of fundamental characteristics and the risk they face.

## Definition

As good a place as any to start the analysis is the *Wikipedia* entry for emerging markets.[1] Thirty-seven countries are identified by their inclusion in at least one of nine lists of emerging markets. To qualify for inclusion here, economies must satisfy three criteria:

- They must be included in at least six lists.
- They must have an estimated GDP per capita income in 2019 of between $ 6 000 and $ 30 000 in 2011 purchasing parity power prices.
- They must be one of the 25 largest economies on the *Wikipedia* list in 2019, valued at market exchange rates in current US dollars.

Application of these criteria produces a list of fifteen countries: Brazil, Chile, China, Colombia, Egypt, India, Indonesia, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, Thailand and Turkey. Together they account for 53% of the world's population and 31% of the world's output value at market exchange rates in 2019. This compares with the 40% of global output produced by the United States and the European Union combined. By 2024, the fifteen countries are projected to contain 52% of the world's population and to produce 34% of global output.

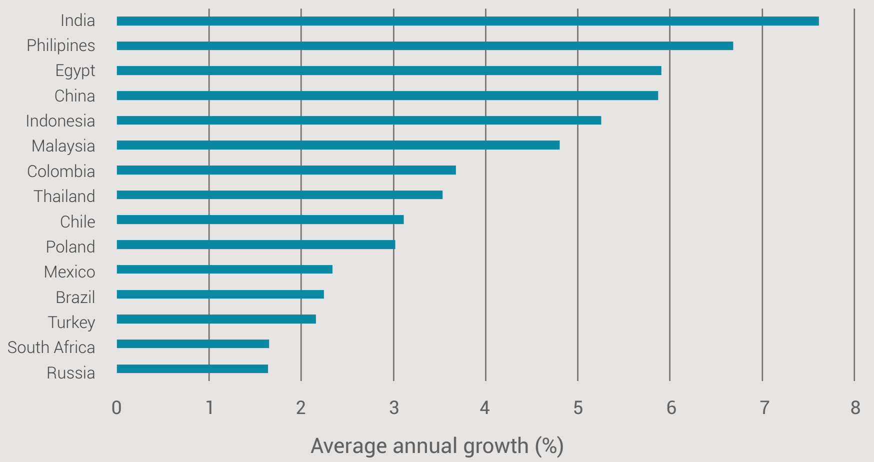
## Projected growth performance, 2019 - 2024

The International Monetary Fund's projected growth performances of the fifteen countries are highly dispersed, as indicated in Figure 1. India's projected growth rate is more than four and a half times greater than that of Russia.

'Economic convergence' means a tendency for per capita income in poorer countries to grow faster than in richer countries, leading to greater equality in per capita income across all countries.

Given advanced countries' projected per capita growth rate of 1.3%, there is divergence between South Africa, Turkey and Mexico, and advanced countries, and very slow convergence between Russia, Brazil and Chile, and advanced countries. There is some convergence between emerging market economies themselves, but it is not strong. Growth prospects in South Africa and Turkey are well below what would be expected on the basis of their GDP per capita at market rates, while China, Malaysia and Poland demonstrate better growth prospects than expected.

Graph 1: Gross Immigration Flows and Asylum-seekers in the EU+




## Economic structure

The economic characteristics of the countries are diverse, as Table 1 indicates.

**Table 1**

| Country | Projected per capita GDP growth at least 250% of advanced countries | Investmentas a share of GDP of at least 24%, 2019 | Net oil exporter, 2017, most recent estimate | Share of manufacturing in GDP at least 18%, most recent estimate | Imports plus exports more than 50% of GDP, 2019 | Human capital index at least 0.60, most recent estimate |
|---|---|---|---|---|---|---|
| Brazil | | | X | | | |
| Chile | | | | | X | X |
| China | X | X | | X | | X |
| Colombia | | | X | | | |
| Egypt | X | | X | | | |
| India | X | X | | | | |
| Indonesia | X | X | | X | | |
| Malaysia | X | X | X | X | X | X |
| Mexico | | | X | | X | X |
| Philippines | X | X | | X | X | |
| Poland | | | | X | X | X |
| Russia | | X | X | | | X |
| South Africa | | | | | X | |
| Thailand | X | | X | X | X | X |
| Turkey | | | | X | X | X |

*Sources: Investment: International Monetary Fund, World Economic Outlook Database, April 2019*
*Net oil exports: United States, Central Intelligence Agency, World Factbook, 2018*
*Share of manufacturing in GDP : World Bank, World Development Indicators*
*Imports and exports: International Monetary Fund, World Economic Outlook Database, April 2019*
*Human capital index: World Bank, Human Capital Index and Components, 2018*

Among the countries with highest rates of growth, Malaysia makes it on all five indicators; Thailand on net oil exports, manufacturing, openness and human capital; Philippines on a high investment rate, manufacturing and openness; China and Indonesia on a high investment rate and manufacturing; and Egypt on net oil exports alone.

On the other hand, being an oil exporter does not guarantee high growth, as Brazil, Colombia, Mexico and Russia show. Nor does a high share of manufacturing, openness and a high HCI, as in Poland and Turkey, or openness alone, as in South Africa.

## Country risk

The quantitative and qualitative analysis of sovereign risk is of considerable interest to domestic and foreign direct and portfolio investors. Many studies are available only through subscription, but there are seven publicly available quantitative indicators which are considered here. They are:

- Five-year credit default swap rates. A credit default swap insures investors against sovereign defaults and a high rate indicates a high risk of default. A basic rate of below 100 is here regarded as an indicator of low risk.
- Sovereign ratings from the three main ratings agencies – Standard and Poor, Moody's and Fitch. One point is scored for each investment grade rating, and a score of three is an indicator of low risk.
- Transparency International's Corruption Perception Index – a score of above 60 (highest scores are least corrupt) indicates low risk.
- The Euromoney Country Risk score – a score of above 40 (highest scores are least risky) indicates low risk.
- Six World Bank Governance Indicators: Voice and accountability, political stability, government effectiveness, regulatory quality, rule of law – four or more scores above the 15-country median indicate low risk.
- The Organisation for Economic Co-operation and Development's country categorisation for purposes of export credits – categories 2 and 3 indicate low risk.
- Freedom House's aggregate democracy score – a score of 60 indicates a relatively high degree of political freedom and civil liberties.

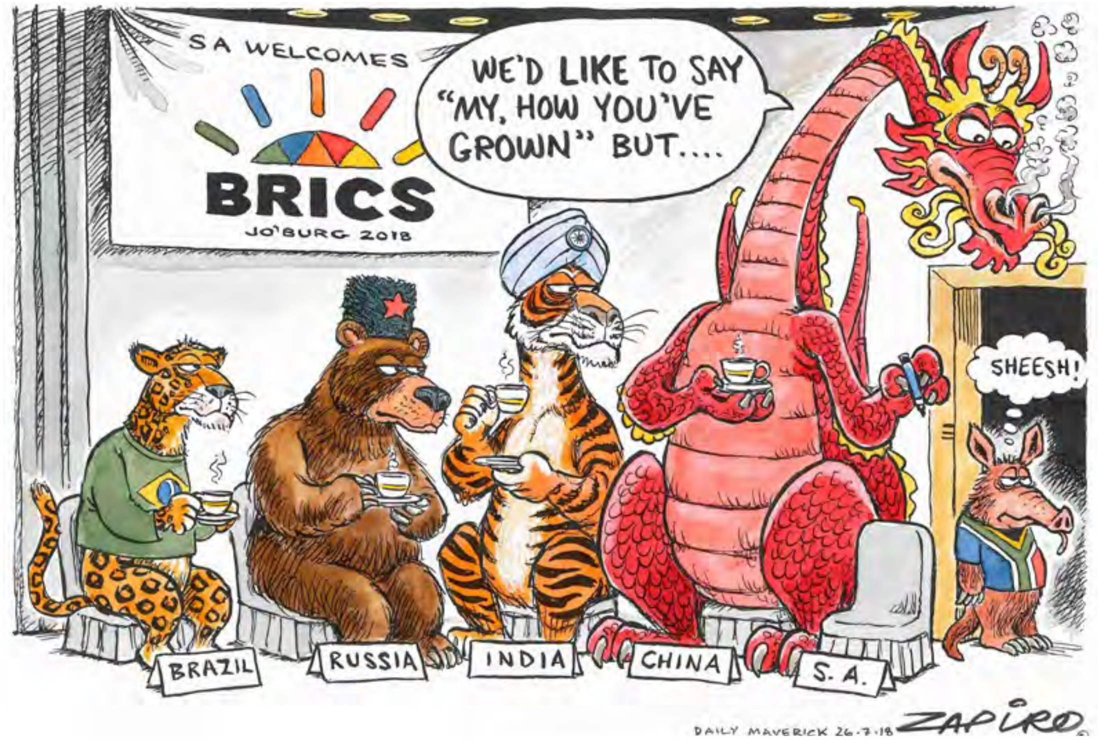
Appendix Table A1 sets out the information in detail, and calculates the number of indicators reflecting low risk (higher scores indicate lower risk). Countries with a score of at least four are regarded as low risk.

Table 2 cross tabulates prospective growth rates with country risk.

**Table 2**

| Projected growth | Risk | |
|---|---|---|
| | High | Low |
| **Low** | Brazil<br>Colombia<br>Mexico<br>Russia<br>South Africa<br>Turkey | Chile<br>Poland |
| **High** | Egypt<br>Philippines | China<br>India<br>Indonesia<br>Malaysia<br>Thailand |

Eleven of the countries are on the main diagonal, with six relatively high risk and low




> The International Monetary Fund carries out Article IV consultations with each country every year. The publicly available information contains detailed IMF staff analysis, including a risk assessment matrix, which considers the probability and impact of deviations from the assumptions behind the IMF growth projections

growth countries, and five relatively low risk and high growth countries, all in Asia. The four off-diagonal countries contain two with low GDP per capita growing fast with high risk, and two of the highest GDP per capital countries, both of which are low risk, but have started to approach the slower growth of advanced industrial countries.

## Medium term risks to economic growth

The International Monetary Fund carries out Article IV consultations with each country every year. The publicly available information contains detailed IMF staff analysis, including a risk assessment matrix, which considers the probability and impact of deviations from the assumptions behind the IMF growth projections. The risks considered fall into three main categories:

- **Global economy risks**. These include tighter global financial conditions, economic slowdowns in advanced economies, economic slowdowns in the Chinese economy, adverse movements in geopolitical conditions and adverse movements in global risk appetite.
- **Policy risks.** These include policy uncertainty, reform failure, retreat from cross- border openness, weak rule of law, and an inappropriately heavy footprint of the state in the economy.
- **Macroeconomic risks.** These include unsustainable and uncoordinated macroeconomic developments, poor fiscal policy and threats to the financial system.

Both probabilities and impacts are assigned to one of five categories as shown in Table 3.

**Table 3**

| Grade | Points |
|---|---|
| Low | 1.0 |
| Low/medium | 1.5 |
| Medium | 2.0 |
| Medium high | 2.5 |
| High | 3.0 |

For each indicator and country, a risk score is calculated by multiplying the probability points by the impact points and the scores are aggregated for the three groupings. The score is positive when the risk is downside and negative when the risk is upside, so the aggregated scores represent net downside risk. Appendix Table A2 sets out the details.

Table 4 summarises the scores by group.

**Table 4 - Risk scores**

| Country | Global risk | Policy risk | Macroeconomic Risk | All risks |
|---|---|---|---|---|
| Brazil | 9 | 10 | 9 | 28 |
| Chile | 16.5 | 5 | 3 | 24.5 |
| China | 4 | 4 | 6 | 14 |
| Colombia | 22 | 14 | 0 | 36 |
| Egypt | 17 | 4 | 4 | 25 |
| India | 10 | 8 | 10 | 28 |
| Indonesia | 14 | 3 | 4 | 21 |
| Malaysia | 15 | 6 | 13.5 | 34.5 |
| Mexico | 15 | 11 | 10.5 | 36.5 |
| Philippines | 7.5 | 6 | 0 | 13.5 |
| Poland | 9 | 11 | 0 | 20 |
| Russia | 19.5 | 8 | 4 | 31.5 |
| South Africa | 17.3 | 7.5 | 12 | 36.8 |
| Thailand | 16.5 | 18 | 12 | 46.5 |
| Turkey | 20.3 | 4 | 6 | 30.3 |

The greatest downside risks are found in Thailand, South Africa, Mexico, Malaysia, Colombia, Russia and Turkey. Growth prospects are more fragile in Thailand and Malaysia than in India, Indonesia and China. They are slightly less severe in Brazil than in South Africa, Mexico, Colombia, Russia and Turkey. They are low in Egypt, Chile, Poland and Philippines.

## Conclusion

The results of the analysis are clear. The Asian countries are going to pull away from the rest, with some downside risk in Thailand and Malaysia. The Latin American countries will grow at a moderate rate, with high downside risk in Mexico and Colombia. Egypt and Philippines are catching up, while Poland and Chile are making a slow transition to advanced country status. Russia, South Africa and Turkey face the worst headwinds.

NOTES

1 The lists have been compiled by the (1) International Monetary Fund, (2) the BRICS plus eleven countries chosen for their potential to become some of the largest economies in the world in the 20th century, (3) the Financial Times Stock Exchange classification of countries, (4) the Morgan Stanley Capital International classification, (5) the Standard and Poor's classification, (6) the J P Morgan bond market classification, (7) the Dow Jones classification, (8) the Russell Investments classification and (9) the Columbia University list of emerging market global players.

# Appendix

## Table A1 - Country Risk Analysis

| Country | Five Year Cds Swap Rates Basis Points | Investment Grade | Corruption Perception Index | Euromoney Country Risk Score | World Bank Governance | Oecd Classification Export Credits | Freedom House Aggregate Score 2018 | Score |
|---|---|---|---|---|---|---|---|---|
| BRAZIL | 171.80 | 0 | 35 | 63.22 | 2 | 5 | 78 | 2 |
| CHILE | | 3 | 67 | 73.61 | 6 | | 94 | 5 |
| CHINA | 40.85 | 3 | 39 | 63.55 | 3 | 2 | 14 | 4 |
| COLOMBIA | 93.16 | 3 | 36 | 58.72 | 2 | 4 | 65 | 3 |
| EGYPT | 321.00 | 0 | 35 | 41.63 | 0 | 5 | 26 | 0 |
| INDIA | 77.32 | 2 | 41 | 58.60 | 4 | 3 | 77 | 6 |
| INDONESIA | 93.83 | 2 | 38 | 58.27 | 4 | 3 | 64 | 4 |
| MALAYSIA | | 3 | 47 | 64.75 | 5 | 2 | 45 | 5 |
| MEXICO | 107.57 | 3 | 28 | 58.13 | 1 | 3 | 62 | 3 |
| PHILIPPINES | | 2 | 36 | 54.46 | 2 | 3 | 62 | 2 |
| POLAND | 66.30 | 3 | 60 | 70.99 | 6 | | 85 | 6 |
| RUSSIA | 121.18 | 2 | 28 | 56.83 | 0 | 4 | 20 | 0 |
| SOUTH AFRICA | 185.95 | 2 | 43 | 59.20 | 6 | 4 | 78 | 4 |
| THAILAND | | 3 | 36 | 63.00 | 3 | 3 | 31 | 3 |
| TURKEY | 440.41 | 0 | 41 | 57.07 | 3 | 5 | 32 | 1 |
| Source | World Government Bonds | Ratings agencies | Transparency International 2018 | Euromoney 30.4.2019 | World Bank governance indicators Most recent | OECD Export Credit classification | Freedom House | |
| Date | 30.4.2019 | 30.4.2019 | 2018 | 30.4.2019 | | 2019 | 2018 | |

*Las Condes, Chile*

## Table A2

| Risk Assessment Matrices | Tighter Global Financial | China Slow-Down | Us/ Advanced Slowdown | Higher or Lower Oil Price | Global Risk Appetite | Geo Political | Political Uncertainty | Policy Uncertainty | Reform Failure/ Success | Cross Border Retreat |
|---|---|---|---|---|---|---|---|---|---|---|
| **BRAZIL** | | | | | | | | | | |
| Likelihood | H | L/M | | | | | H | | | M |
| Impact | M | M | | | | | M | | | M |
| **CHILE** | | | | | | | | | | |
| Likelihood | H | L/M | M | M | | | | | M | H |
| Impact | M | H | M | L | | | | | M | H |
| **CHINA** | | | | | | | | | | |
| Likelihood | | | | | M | | | | | M |
| Impact | | | | | M | | | | | M |
| **COLOMBIA** | | | | | | | | | | |
| Likelihood | H | M | H | L | | | M | M | | M |
| Impact | H | M | M | H | | | H | M | | M |
| **EGYPT** | | | | | | | | | | |
| Likelihood | H | M | | | | M | | | M | |
| Impact | (H) | (M) | | | | (M) | | | | |
| **INDIA** | | | | | | | | | | |
| Likelihood | | | H | | | M | | | M | M |
| Impact | | | M | | | M | | | M | M |
| **INDONESIA** | | | | | | | | | | |
| Likelihood | H | M | | L | | | | | M | |
| Impact | M | H | | M | | | | | L/M | |
| **MALAYSIA** | | | | | | | | | | |
| Likelihood | H | L/M | M | M | | | | | | H |
| Impact | M | M | M | L | | | | | | M |
| **MEXICO** | | | | | | | | | | |
| Likelihood | H | | M | | | | L | | | H |
| Impact | H | | H | | | | M | | | H |
| **PHILIPPINES** | | | | | | | | | | |
| Likelihood | H | | | | | | | | | H |
| Impact | M/H | | | | | | | | | M |
| **POLAND** | | | | | | | | | | |
| Likelihood | M | | M | | | | M | | | H |
| Impact | M/H | | M | | | | M/H | | | M |

### Table A2

| Risk Assessment Matrices | Tighter Global Financial | China Slow-Down | Us/ Advanced Slowdown | Higher or Lower Oil Price | Global Risk Appetite | Geo Political | Political Uncertainty | Policy Uncertainty | Reform Failure/ Success | Cross Border Retreat |
|---|---|---|---|---|---|---|---|---|---|---|
| **RUSSIA** | | | | | | | | | | |
| Likelihood | H | L/M | | L | | H | | | M | M |
| Impact | L/M | H | | H | | M/H | | | M | M |
| **SOUTH AFRICA** | | | | | | | | | | |
| Likelihood | H | L/M | H | | | | | M | | |
| Impact | M/H | M/H | M | | | | | H/M | | |
| **THAILAND** | | | | | | | | | | |
| Likelihood | H | L/M | H | | | | M | H | | M |
| Impact | M | H | M | | | | H | M | | H |
| **TURKEY** | | | | | | | | | | |
| Likelihood | H | L/M | | | | H | | M | | M |
| Impact | H | L/M | | | | H | | L | | L |

*Sukhumvit Road, Thailand*

| Risk Assessment Matrices | Unco-ordinated, Unsustainable Macro | Fiscal Policy | Domestic Financial |
|---|---|---|---|
| **BRAZIL** | | | |
| Likelihood | | H | |
| Impact | | H | |
| **CHILE** | | | |
| Likelihood | | | L |
| Impact | | | H |
| **CHINA** | | | |
| Likelihood | M | | |
| Impact | H | | |
| **COLOMBIA** | | | |
| Likelihood | | | |
| Impact | | | |
| **EGYPT** | | | |
| Likelihood | | M | |
| Impact | | (M) | |
| **INDIA** | | | |
| Likelihood | | M | M |
| Impact | | H | M |
| INDONESIA | | | |
| Likelihood | | M | |
| Impact | | M | |
| **MALAYSIA** | | | |
| Likelihood | M | M | L/M |
| Impact | L/M | M/H | M |
| **MEXICO** | | | |
| Likelihood | M | L/M | |
| Impact | H | H | |
| **PHILIPPINES** | | | |
| Likelihood | | M | M |
| Impact | | M/H | M |
| **POLAND** | | | |
| Likelihood | | | |
| Impact | | | |
| **RUSSIA** | | | |
| Likelihood | | | M |
| Impact | | | M |
| **SOUTH AFRICA** | | | |
| Likelihood | | M | M |
| Impact | | H | H |
| **THAILAND** | | | |
| Likelihood | M | M | M |
| Impact | M | M | M |
| **TURKEY** | | | |
| Likelihood | M | | |
| Impact | H | | |