

Box 1

THE GROWING IMPORTANCE OF EMERGING ECONOMIES

Emerging economies¹ – which in 2009 accounted for 82% of the world's population – are playing an increasingly important role for the global economy and for the euro area in particular. Indeed, over the period 2004-09 emerging economies accounted for 63% of the increase in global output.

In terms of economic size, their share in global output has increased from less than 20% in the early 1990s to more than 30% at present, measured at market exchange rates. If the concept of purchasing power parity (PPP) is used – that is, taking account of differences in the cost of living – the share of emerging economies in world GDP is already 45%, almost 10 percentage points higher than in the early 1990s (Chart A). According to the IMF's World Economic Outlook, this share will surpass 50% in 2013.

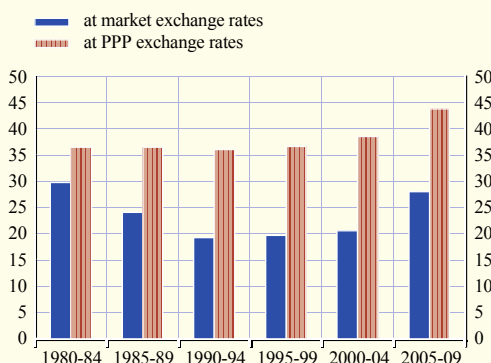
Regarding individual economies, China and India – accounting for around 20% and 18% respectively of the world's population, compared with about 5% each for the euro area and the United States – have now entered the circle of the largest economies in the world. In terms of market exchange rates, China is now the third largest economy behind the United States and the euro area, based on 2010 World Economic Outlook projections. China's GDP level is already 91% of euro area GDP in PPP terms – though only 43% at market exchange rates. In PPP terms, India is among the top five economies, with GDP amounting to more than one-third of that of the euro area. Using either method, the subsequent positions are dominated by the emerging world, including Brazil, Russia and Mexico (the exceptions being the United Kingdom and Canada) (Chart B).

Emerging economies are very open to international trade, which is reflected in their growing share in world trade. On the export side, the emerging economies' share has increased from around 19% of world exports in the early 1990s to close to 35% recently. On the import side, the share has increased from 20% to 30% over the same period.

¹ This box adopts the definition of emerging market economies given by the IMF.

Chart A Emerging economies' share in world GDP

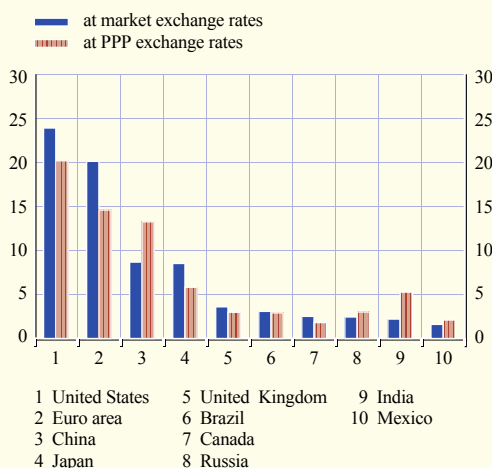
(percentages)



Source: IMF World Economic Outlook.

Chart B GDP of selected economies in 2010 relative to world GDP

(percentages)



Source: IMF World Economic Outlook.

Emerging economies have also made some significant progress in terms of financial development. In particular, the share of the major emerging economies' stock markets in world capitalisation increased from 7% in 1990 to 32% in 2009. This has been associated with considerable net private portfolio inflows both prior to the global financial crisis and – following a phase of temporary capital flow retrenchment, especially in the last quarter of 2008 and the first quarter of 2009 – during the subsequent recovery.

Regarding economic links with advanced economies, the recent global crisis has confirmed that developments in emerging economies continue to depend significantly on advanced economies. Indeed, even though the shock stemmed from the advanced world, the median emerging economy suffered about as large a decline in output as the median advanced economy.²

Taking a historical perspective, however, it becomes clear that emerging economies have been less affected in the recent crisis than in the past, and have indeed even led the global recovery. Emerging Asia – especially its largest economies – has evidenced a large degree of resilience to the global economic downturn. In China real GDP growth declined only slightly, from 9.6% in 2008 to 9.1% in 2009. This is mainly because the Chinese authorities reacted promptly with a RMB 4 trillion (12% of GDP) stimulus package combined with a strongly expansionary monetary policy, which boosted infrastructural investment and contributed to the resilience of private consumption. Another important factor was that the domestic value-added content of Chinese exports is relatively low owing to a large share of processing trade. As a result, falling exports implied almost equally falling imports of intermediate goods and, thus, only a limited negative impact of net exports on GDP growth. Finally, owing to the still binding restrictions on inward and outward portfolio investments, banks' balance sheets were not severely impacted by the global financial turmoil. From the second quarter of 2009 onwards, private capital inflows regained pace, as did foreign exchange reserves, which totalled USD 2.4 trillion in June 2010.

² See "How Did Emerging Markets cope in the Crisis?", IMF, 2010.

Turning to the importance of emerging economies for the euro area, it should be highlighted that the share of euro area exports (excluding intra-euro area trade) to Asia increased from 19% in 2000 to 22% in 2009, whereas exports to the United States decreased from 17% to 12% in the same period. The share of China in total euro area exports increased from 2% in 2000 to 5.3% in 2009. Exports to Russia more than doubled during the same period, from 1.8% to 3.9%, thereby exceeding exports to Japan, although Russia's share had been even higher in 2008 (5.0%), before the collapse in world trade. A similar trend can be identified for India, albeit on a much smaller scale, with this country accounting for 1.7% of euro area exports in 2009.

A further breakdown of euro area exports using quarterly data shows that China's share increased from 3.8% in the first quarter of 2007 to 6.2% in the second quarter of 2010. In nominal terms euro area exports to China increased by 54% between the first quarter of 2009 and the second quarter of 2010. The largest share of this increase can be attributed to machinery and transport equipment – especially road vehicles. More generally, while euro area exports have grown by 21.8% since their trough in the second quarter of 2009, more than a quarter of this increase can be attributed to exports to emerging Asia, almost 10% to exports to Latin America, and a further 6% to exports to the Commonwealth of Independent States, including Russia.

Looking ahead, the importance of emerging economies for both global and euro area developments is likely to increase further over time. This is suggested by all available long-term projections based on demographic trends and models of capital accumulation and production.