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Rapid growth markets well-placed to weather economic storm

- Rapid growth markets (RGMs) to grow by 6.2% this year and by 5.9% in 2012 compared with 1.6% for the Eurozone this year falling to 1.1% next year.
- Disorderly Eurozone debt crisis could lead to growth in RGMs dropping to 4.1% in 2012.
- Forecast of 25 Rapid Growth Markets which are becoming increasingly important in terms of both their overall weight in the world economy and their global influence

Luxembourg, 7 November 2011 –The dynamics of the global economy have changed with a new set of fast-growing markets challenging the position of the established advanced economies. The rapid growth markets are expected to grow collectively by 6.2% this year, almost four times more than the anemic growth expected in the Eurozone according to Ernst & Young's new quarterly *Rapid Growth Markets Forecast (RGMF) just* released.

The RGMs have grown on average by 5.8% per year over the last decade, more than three times as fast as the advanced economies combined and this rapid pace of expansion is set to continue with growth in RGMs outpacing the advanced economies by more than 3.5% per annum over the next decade. This is presuming they deal with inflationary pressures and have sufficient infrastructure in place to secure long term growth.

This new quarterly economic forecast is well placed to offer insight on macroeconomic trends across 25 RGMs which have been selected based on the size of the economy and population, strategic importance for business and proven strong growth and future potential.

Alain Kinsch, Country Managing Partner of Ernst & Young Luxembourg, explains, "The turbulence of the last three years has placed a premium on insightful and timely economic forecasting. Ernst & Young has been associated with leading edge economic analysis for more than two decades in the Eurozone and the UK. With the launch of the Rapid Growth Markets Forecast I am delighted we are extending that scope across the globe."

Alain Kinsch comments, "The RGMs are becoming increasingly more important in terms of both their overall weight in the world economy and their global influence. While the advanced economies struggle with weak growth the RGMs are well-placed to weather the economic storm."

Strong growth expected to continue

The RGMs bounced back strongly from the global recession, with their GDP rising on average by 7.3% in 2010 – back to the boom rates that preceded the global financial crisis and much faster than growth had been prior to the mid-2000s. The forecast predicts average GDP growth in the RGMs forecast to be just under 6% in 2012.

The economic success of the RGMs reflects the steps most have taken to liberalize their economies and the openness of trade. Exports account for around 50% of GDP in the RGMs as a whole, compared with 13% in the US or 41% in the Eurozone.

Growth potential of RGMs over the next decade

There are many reasons to be optimistic about the rapid growth markets over the next 10 years. While they have achieved significant growth in recent years, there is still considerable scope for RGMs to grow strongly. Continued industrialization and urbanization, along with strong population growth and emergence of a substantial middle class will encourage continued growth in the RGMs.

The improved economic management and political stability as well as high investment and savings rates and the avoidance of high debt have all increased the investment rates from western companies as they seek growth in the RGMs in the face of weak home markets. Foreign direct investment inflows to all RGMs have risen from US$205b in 2000 to US$444b in 2010, and they now receive around 50% of global FDI inflows.

Alain Kinsch comments, "Some countries have been particularly successful in attracting FDI inflows to spur their development. However, FDI is no longer a one-way street – RGMs are themselves increasingly becoming major international investors in advanced economies, as their leading companies buy up western competitors."

Positive but bumpy road ahead

Alain Kinsch comments, "While the overall outlook for the RGMs is positive, one thing is certain: their progress will not be smooth. The RGMs have to deal with a number of challenges to ensure ongoing growth."

The challenges include avoiding inflationary pressures arising from overheating; managing the impact of capital inflows on the competitiveness of their manufacturing industries and ensuring that their infrastructure (physical and human) is sufficient to support their long-term growth potential.

The impact of global slowdown on the RGMs

The weak outlook for the advanced economies will inevitably continue to weigh on growth in the RGMs in 2012. The dependence of RGMs on trade with advanced economies has declined since the mid-2000s, reflecting both the relative decline of advanced economies and the strength of domestic demand growth in RGMs, which has fuelled greater inter-regional trade. But even so, exports from RGMs to advanced economies are still equivalent to almost 15% of RGM GDP.

Within the RGMs, both American and Asian countries have seen the most marked slowing in growth, reflecting their dependence on trade and policy tightening in their largest economies.

Alain Kinsch comments, "While the RGMs are far from decoupled from global economic risks, they are well positioned to deal with these challenges."

In the case of a disorderly Eurozone debt crisis that leads to a prolonged recession in the Eurozone and a stagnation of growth in the US in 2012-13, RGMF believes that GDP growth would be cut to 3.2% across the RGMs in 2013, much lower than the 6.8% RGMF currently expects but still the envy of most advanced economies.

Among the RGMs, Eastern Europeans would be hit through their links with their neighbors. But oil and commodity exporters such as Russia, Brazil and Chile would also be severely impacted as the value of their principal exports are hit by lower prices as well as weaker demand. Those with greater trade and financial linkages such as Korea and Singapore would also be heavily hit. But RGMF expects countries such as China and India to be more modestly affected, partly reflecting the large size of their domestic markets and the beneficial effects of lower oil and commodity prices.

Alain Kinsch comments, "The impact of such a scenario on RGMs would be cushioned by the policy response we would anticipate in many of these economies. With fewer financial overhangs from the recent financial crisis, we would expect to see a reversal of the recent monetary policy tightening implemented in many countries. And, indeed, many could also raise government spending and cut taxes to support demand."

Optimistic outlook for RGMs

The global economic outlook is very uncertain, with the risks of a renewed recession in advanced economies and widespread financial crisis growing. However, the RGMs are increasingly developing their own critical economic mass and most have the financial means, if necessary, to help support growth and protect their banking sectors to prevent being significantly impacted.

Alain Kinsch concludes, "While further deterioration of the economic situation would not be good news for the RGMs such a scenario would, however, even further increase their weight in the global economy as the advanced economies decline. Moreover, RGMF would expect such a scenario to be a temporary speed bump on the path to increased prosperity in RGMs – slowing growth in the near term but not undermining the supply-side fundamentals that underpin the rapid growth we expect in RGMs over the next decade."

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