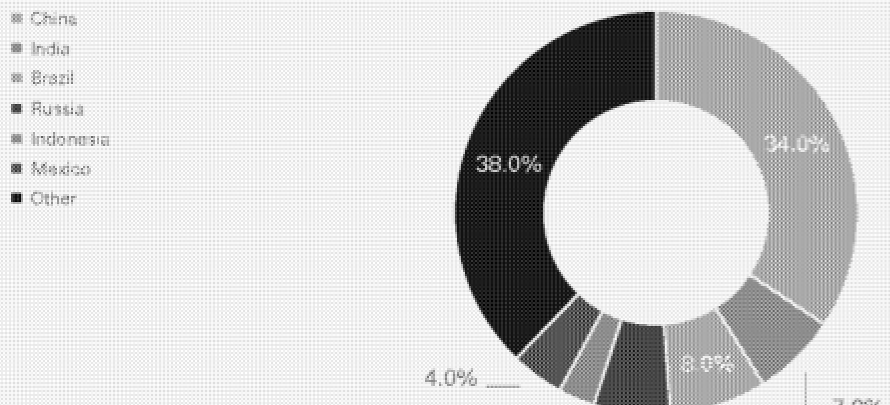
Share of emerging markets in GDP



Source: International Monetary Fund. Global Economic Outlook, based on GDP figures of 2014 in U.S. dollars, as of April 2015

A glance at emerging markets

China is predominant among emerging markets with a 34% share of emerging markets' GDP in U.S.-dollar terms. Since trade links between emerging markets have increased in the last few years, economic growth in other emerging markets is being pulled down by decelerating growth in China.

The pace of emerging-market growth has started to fade. This development is epitomized by their economic heavyweight, China, which is expected to grow by a "meager" 6.8% and 6.0% in 2015 and 2016 respectively.[4] Over-capacity in many sectors is leading to lower investment growth. The fiscal policy pursued by the Chinese government is rather restrictive. Consumer spending has however risen in recent years due to substantial wage increases. Since the debt level of private households is low, the savings rate is gently falling and available income is rising, consumption should remain a pillar of growth this and next year.

Negative feedback effects

But these wage increases have eroded China's competitive advantage. As a result, exports no longer act as a driver of growth. Moreover, slower demand growth in the emerging markets has a corresponding negative feedback effect on trade between these countries – something that has become increasingly significant in recent years.

Commodity-exporting emerging markets have been hit particularly hard. Firmly believing that high growth would continue, these countries had strongly expanded their mining and extraction capacities. But from mid-2013 onwards, commodity prices collapsed. Countries such as Brazil and Russia, which are heavily dependent on commodity exports, are already in recession. This may start to bottom out next year but is not over yet.

In order to return to higher growth levels, emerging markets cannot escape economic reforms. Property rights must be promoted, private corporations must be granted more leeway to operate and access to loans must be improved. Commodity-exporting countries must further increase their efforts to diversify in order to achieve economic stability. Structural reforms would also help to attract foreign direct investment (FDI) again to modernize and expand business in many emerging markets.

[4] Deutsche AWM forecast as of 9/21/15

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