

2024: Faster Growth Despite Headwinds 2025: Trade Reorientation

Emerging Markets Chief Economist Elijah Oliveros-Rosen's Year-End Blog

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This report does not constitute a rating action

For the final 2024 edition of our Essential Economics Newsletter, we asked each S&P Global Ratings chief economist to share their insights on the following questions:

- What was the biggest surprise for you in 2024, and what are the takeaways?
- What will you be watching most closely in 2025, and why?

2024: Faster Growth Despite Headwinds

In 2024, emerging markets (EMs) faced significant headwinds, including high global interest rates, ongoing geopolitical tensions, and uncertainty over the outcome and implications of elections around the globe. Despite the difficulties, growth in most EMs proved to be stronger than most expected. In 13 of the 18 major EMs that we cover, real GDP growth in 2024 either matched or outpaced that of 2023. Additionally, in most cases, growth remained above trend throughout 2024 (see chart 1). In the EMs within our sample where growth weakened this year (Argentina, Mexico, China, India, and Turkey), it was mainly due domestic idiosyncratic factors, not external conditions.

EMs' continued resilience in GDP growth has been driven by robust consumption growth. In most EMs, fiscal stimulus remains above pre-COVID levels, which has boosted household spending. In the median EM, private consumption has risen to 67.5% of GDP, compared with 60.1% of GDP. This helped offset the impact of high interest rates and GDP growth uncertainty fueled by political and geopolitical considerations.

Takeaways. Consumption growth in EMs has helped cushion the impact of challenging external conditions on GDP growth and could continue helping in 2025. Fiscal stimulus has been driving consumption in most EMs. However, debt ratios have risen across most EMs, and if financial conditions tighten, additional fiscal stimulus will become costlier. As a result, more fixed investment, which as a share of GDP remains relatively unchanged from pre-COVID levels, will be needed to boost productivity, and ensure more sustainable GDP growth moving forward.

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2025: Trade Reorientation

A likely increase in trade protectionist policies is expected to influence the direction of trade flows, with important implications for EMs. We saw evidence of this happening during President-elect Trump's first presidential term. After Trump first announced tariffs on Chinese imports in January 2018, some Chinese goods that had been directed to the U.S. went to other markets instead. The share of U.S. imports coming from China has noticeably decreased, while some EMs' and other economies' shares of imports from China have increased (see chart 2). Another round of U.S. tariffs on Chinese exporters could accelerate their push into other markets, including EMs.

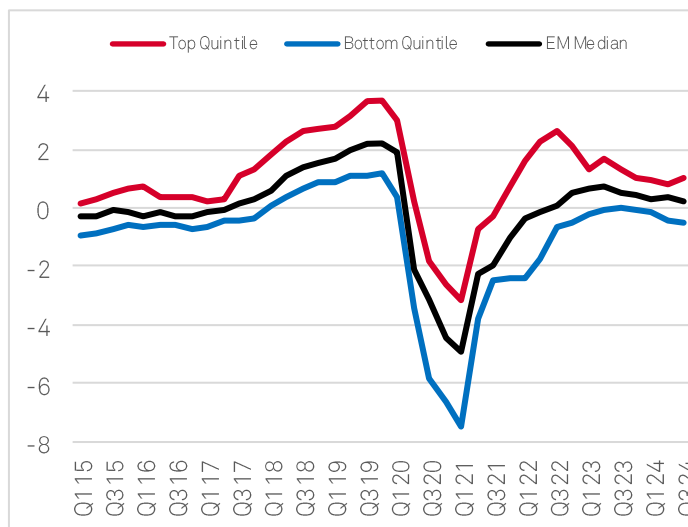
The impact of this potential trade diversion on EMs is threefold. Domestic manufacturers in EMs will have fierce competition from very cost-efficient Chinese manufacturers, potentially displacing some of their production. EM firms exporting to other EMs will also have higher competition from Chinese goods going to those markets. In addition, greater imports of lower-priced goods from China could have a disinflationary effect. The net effect would depend on the magnitude of trade diversion and the given imported goods' weights in consumer baskets.

What to watch. It's worth keeping a close eye on how EM policymakers react to the likely increase in trade protectionism by the U.S. and potentially other major economies, the flows of final goods, and in particular of intermediate goods. In recent years, the share of intermediate inputs from China being imported into EMs has risen. This means that in many cases, goods produced in EMs and exported to other parts of the world have more Chinese inputs than in the past and may potentially be subject to stricter rules of origin policies by the incoming U.S. administration.

Chart 1

External Headwinds Did Not Buckle Growth

Emerging Markets - Median Real Domestic Demand

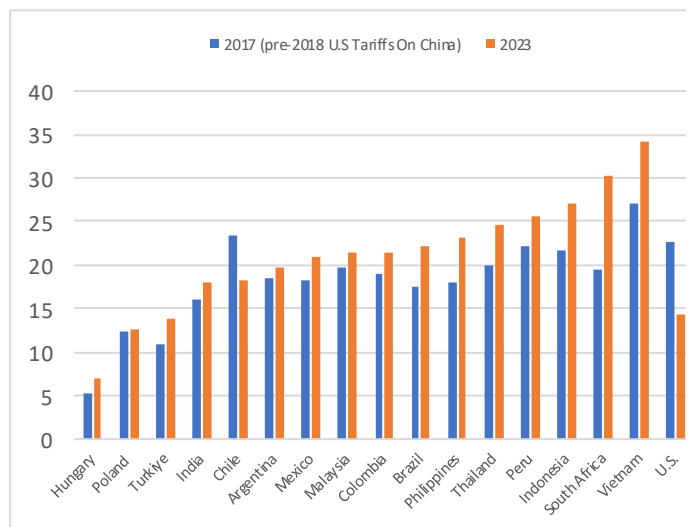


Note: Median calculation includes major EMs. Source: Haver Analytics, S&P Global Ratings.

Chart 2

Protectionist Policies Could Re-Direct Trade

Share Of Goods Imports Coming From China



Source: WITS, Haver Analytics, S&P Global Ratings.

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