

EDITORIAL

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ADVANCED ECONOMIES, EMERGING ECONOMIES: DOES THIS DISTINCTION STILL HOLD ANY MEANING, AND FOR WHICH COUNTRIES?

The concept of 'emerging economies' as opposed to advanced economies is multifaceted and often poorly defined. The simplest and most commonly used indicator is GDP per capita, on which the classification used by international financial institutions (IFIs) is largely based. However, if we broaden the range of indicators by structuring them according to an analysis of economic potential or country risk: 1/ China still exhibits characteristics of an emerging economy, yet is no longer classified as such given its status as an economic superpower; 2/ the distinction between advanced countries and those that have become advanced but remain classified as emerging markets by economic research departments and, in some cases, by IFIs, is no longer justified; 3/ the distinction remains relevant for other emerging markets, particularly commodity-exporting countries, including the Gulf states.

In their flagship publications (World Economic Outlook, Global Economic Prospects), the IMF and the World Bank distinguish between advanced and emerging economies, primarily on the basis of GDP per capita. The concept of an 'emerging economy' first appeared in the early 1980s to refer to 'developing economies offering opportunities for investors'. It was revived in the early 2000s to refer to economies that still exhibited strong potential but appeared risky, as a consequence of the financial crises of the late 1990s^{1 2}. Since then, this concept has referred alternately, or jointly, to one or other of these approaches.

The scope of emerging and developing countries has, of course, changed, and economies considered emerging in the early 1990s are no longer classified as such – in some cases for many years now – by the IMF and the World Bank. However, in most publications by the economic research departments of banks and large companies, these economies are still classified as emerging markets. These are mainly Asian countries that were once described as 'newly industrialised' (South Korea, Hong Kong, Singapore and Taiwan).

The aim of this editorial is to provide an objective analysis of the distinction between 1/ long-established advanced economies, 2/ formerly emerging economies that have become advanced (including the Newly Industrialised Countries of Asia and the economies of Central Europe, which, thanks to EU membership, have shown the greatest catch-up), which we shall refer to as 'newly advanced', and 3/ other emerging countries, based on indicators that complement per capita GDP alone³. This analysis focuses on two aspects: opportunities and risk^{4 5}.

CHINA: A STEAMROLLER THAT SITS UNEASILY WITH THE CONCEPT OF AN EMERGING MARKET, DESPITE BEING CLASSIFIED AS SUCH

China remains an emerging market in terms of opportunities for businesses and investors, regardless of the indicator used: per capita GDP, but also – and above all – high growth potential despite the trend towards a slowdown since 2012; a major information and communication technology sector for the country's economy, which the development of AI can only accelerate⁶; and, finally, significant scope for further growth of the middle class compared with advanced countries (see *Table 1*, page 5). Added to this are well-developed infrastructure and a competitive workforce with a good level of education.

In terms of risk, the balance also favours classification as an emerging economy. Volatility indicators (see *Table 3*, page 5) are, admittedly, very similar to those of advanced economies, but the country is characterised by a structural budget deficit and public debt (whether or not adjusted for the government's tax base) that are higher than in advanced economies (see *Table 3*, page 5).

However, China must also be assessed in absolute terms, given its financial clout, the diversity and central role of its economy within Asian and global value chains, and the sheer scale of its 'steamroller' economy. A few figures: one percentage point of growth represents USD 200 billion, equivalent to half of South Africa's GDP. The assets of the Chinese banking system are 1.3 times those of all European banks combined. Finally, foreign exchange reserves of its central bank (USD 3416 bn at end-June 2026) make China a leading lender of last resort, particularly in its own currency.

1 The crises of 1997–1998 in Asia, followed by those in Argentina, Brazil, Russia and Türkiye between 1998 and 2000.

2 The acronym BRIC, coined in 2001 by Jim O'Neill, then chief economist at Goldman Sachs, is sometimes used to refer to the emerging world. In Jim O'Neill's view, it was simply intended to identify the economies that could rival that of the United States, not only as drivers of the global economy but also as mediators in debt restructuring. As these economies were the most populous (along with Indonesia) and set to remain so, it is hardly surprising that this acronym has endured, simply because the aggregate GDP of these four countries rose from 40 per cent of the GDP of all emerging and developing economies (in purchasing power parity terms) in 2000 to 55 per cent in 2025, and that it has accounted for 75 per cent of the growth rate of all emerging and developing economies over the past 25 years. However, the economic analysis did not go any further.

3 Our sample of advanced economies comprises Australia, Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. The sample of advanced economies that were formerly emerging consists of the Asian NPI countries (Korea, Hong Kong, Singapore and Taiwan), Israel, Hungary, Poland, the Czech Republic and Slovakia. The other emerging economies in our sample are South Africa, Algeria, Angola, Saudi Arabia, Argentina, Brazil, Bulgaria, China, Colombia, Chile, Egypt, the United Arab Emirates, India, Indonesia, Malaysia, Morocco, Mexico, Oman, Nigeria, Pakistan, Peru, the Philippines, Thailand, Türkiye, Tunisia and Vietnam.

4 The distinction between 'emerging economies' and 'developing countries' will not be discussed here because, beyond a simple classification based on per capita income, it requires further analysis.

5 As data series are not available for a sufficiently large number of countries to form these groupings, the risk indicators are limited to sovereign risk. That said, since the Asian crisis of 1997–1998, episodes of major financial crises and/or stress have overwhelmingly been triggered by a deterioration in this risk, rather than by the risk of non-transfer ('pure' balance of payments crises are exceptional amongst emerging economies) or systemic credit risk. In all emerging economies, the banking sectors no longer exhibit balance sheet imbalances which played the role of transmission mechanism or amplifier of external financial shocks (such as a tightening of monetary policy in the US).

6 According to the IIF, the information and communication technology sector (including both hardware and software) already accounts for 10 per cent of GDP and, since 2022, has been offsetting the negative contribution of the residential construction sector to overall growth.



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WHILST THE DISTINCTION BETWEEN LONG-ESTABLISHED ADVANCED COUNTRIES AND NEWLY ADVANCED COUNTRIES IS NO LONGER JUSTIFIED, IT REMAINS RELEVANT WITH REGARD TO EMERGING ECONOMIES.

Newly advanced countries still have a very marginal catch up compared with long-established advanced countries, but volatility indicators are on a par, including the exchange rate (with Hungary being the exception), and sovereign risk indicators are only marginally worse. If some of these countries are nevertheless considered to be riskier, it is due to potential or actual geopolitical risk (South Korea, Israel, Taiwan). It should be noted that, according to our analysis, Poland should be classified as a newly advanced emerging market, whilst it remains an emerging market for IFIs and economic research services.

As regards the countries considered as still emerging by both international financial institutions and economic research departments, the customary distinction between commodity-exporting countries and others remains relevant. However, in both cases, these economies exhibit, to varying degrees, the characteristics of emerging economies: a substantial gap in growth potential, an underdeveloped middle class, greater volatility in growth and inflation⁷, and sovereign risk indicators that are all worse than those of advanced economies (with the exception of the structural budget balance).

Among commodity-exporting countries, a distinction should be made between the countries of the Gulf Cooperation Council (GCC) and the others. Indeed, i) the standard of living there is equivalent to that of advanced economies (if the population is limited to nationals only) and ii) the GCC countries can rely on their sovereign wealth funds to absorb shocks. Nevertheless, they share characteristics with emerging economies (low economic diversification, investment projects that may become 'white elephants', geopolitical risk). Finally, the 'original sin' (government debt denominated in foreign currencies, due to a lack of a sufficient domestic funding base in local currency) still characterises emerging commodity-exporting countries and still partly dollarised economies, such as Türkiye.

François Faure

⁷ Any assessment of exchange rate volatility must be based on a separate analysis of inflation volatility and real exchange rate volatility. To conclude that volatility is higher or lower, both components must move in the same direction. Consequently, only Argentina, Egypt, Türkiye and Africa's two main net oil-exporting countries (Angola and Nigeria) exhibit higher exchange rate volatility.



(A) Opportunity indicators	GDP per capital (PPP - US=100)	potential (%)	Middle class (% population)
Advanced countries (1)	80.2	1.7	64.5
o.w. newly advanced (2)	66.9	1.9	66.5
Emerging countries (3)	24.9	3.0	47
China	32.6	3.3	44
Commodity exporters (4)	23.2	2.8	40.5
Others (excluding China) (5)	10.6	3.7	19

TABLE 1

SOURCE: IMF, OECD

(B) Risk indicators	Growth volatility	Inflation volatility	Fx volatility
Advanced countries (1)	2.8	2.4	3.5
o.w. newly advanced (2)	2.9	2.6	3.8
Emerging countries (3)	3.6	3.2	5
China	1.9	2.3	3
Commodity exporters (4)	4.2	3.8	6
Others (excluding China) (5)	3.2	3.1	3.4

TABLE 2

SOURCE: FITCH

*Standard deviation of the annual percentage change in real GDP over the past 10 years ending in 2025

**Standard deviation of the annual percentage change in the Consumer Price Index over the 10-year period ending in 2025

***Standard deviation of the percentage change in the average annual index of the real effective exchange rate over the past 10 years ending in 2025

(C) Sovereign Risk Indicators	Cyclically-adjusted primary balance	Interest payments (% GDP)	Public debt (% GDP)	Fiscal base-adjusted public debt-to-GDP ratio*	Local currency- denominated public debt (% total debt)
Advanced countries (1)	-0.8	3.0	62.3	-0.3	100
o.w. newly advanced (2)	-2.6	2.0	55.5	-0.4	86.3
Emerging countries (3)	-0.9	15.3	59.6	0.2	65.7
China	-6.2	4.9	99.2	1.0	99.3
Commodity exporters (4)	-0.5	9.8	46.5	0.2	60.8
Others (excluding China) (5)	-1.3	10.6	65.9	0.5	79.2

TABLE 3

SOURCE: FITCH, BNP PARIBAS

* in standard deviation of the regression (calculations BNP Paribas)

(1) Australia, Austria, Belgium, Denmark, France, Germany, Greece, the Republic of Ireland, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

(2) The Republic of Korea, Hong Kong, Hungary, Israel, Poland, the Czech Republic, the Slovak Republic, Singapore and Taiwan

(3) South Africa, Algeria, Angola, Saudi Arabia, Argentina, Brazil, Bulgaria, China, Colombia, Chile, Egypt, the United Arab Emirates, India, Indonesia, Malaysia, Morocco, Mexico, Oman, Nigeria, Pakistan, Peru, the Philippines, Thailand, Türkiye, Tunisia and Vietnam.

(4) South Africa, Algeria, Angola, Saudi Arabia, Argentina, Brazil, Colombia, Chile, the United Arab Emirates, Indonesia, Oman, Nigeria and Peru.

(5) Bulgaria, China, Colombia, Chile, Egypt, India, Malaysia, Morocco, Mexico, Pakistan, the Philippines, Thailand, Türkiye, Tunisia and Vietnam.



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