The new emerging economy investment demographic

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The greatest economic hope for the developing world is that it will ultimately catch up with rich countries.

At least from the end of the colonial period, this has been the general expectation. Differentials in GDP growth between poorer countries and rich ones would ultimately result in a convergence of living standards in the developing world to that approaching the rich world. Economists projected that these emerging economies with younger demographics would attract and use capital efficiently, expand enabling infrastructure, utilize technology and this would fuel rapid growth and deepen development.

For the most part of the second half of the 20th century this hypothesis turned out to be true for only a handful of standout emerging countries. Convergence was mostly an Asia story and after the economic liberalization that swept through eastern Europe after 1990, an emerging European one. Most other aspirant countries were left behind.

Public policies supporting this agenda are likely to drive the convergence agenda for those progressive emerging countries and a more affluent world Investment Trends

Beyond the theory of convergence came the notion of the “middle income trap” – a level of GDP per capita beyond which a grouping of countries could no longer progress. This proposed that poor countries would stop converging with rich countries once they achieved middle income status. Countries with experiences consistent with this theory included Thailand, Turkey and large parts of Latin America. However new research shows that since the turn of the millennium, many countries are now beginning to break through this developmental “glass ceiling”, largely driven by market liberalization and domestic structural reform. China and India have led this emerging market reformist agenda.

Emerging economies played an outsized role in powering the world economy out of the financial crisis in the past. Between

2008 and 2015, for example, emerging markets accounted for almost 90% of the growth in nominal global GDP, much of this underpinned by a China-powered commodity super cycle.

But for large parts of the developing world – the Global South – divergence from the developed world is the trend of the times. Whilst for the most part of the century, commodity prices have been robust, this has not translated into positive developmental prospects for many commodity exporting countries. Quantitative headline growth does not automatically equate to deeper qualitative growth in countries. Many of these countries have not carried out the necessary structural reforms such as privatizing loss-making state-owned enterprises and minimizing supply side constraints through better economically enabling infrastructure in line with the rapid change in the global economy.

Without structural reform, they will underperform going forward, thus contributing to the divergence trend. The trend for these economies is not globalization through integrating into global value chains but rather marginalization from flows of trade and capital. The pandemic has hit much of the developing world hard with China being one of the few sizeable economies that expanded in recent years. Most other emerging economies shrank these past two years. The United Nations reports that the global “extreme poverty rate” has risen for the first time in over 20 years[1]. The global economic recovery is continuing, but emerging nations face a long journey back to normality.

The grouping of countries that are classified as emerging markets is large and varied. So, too, are the circumstancesof each country. To succeed, emerging markets must now embrace new drivers for qualitative growth. Such measures would include increased labor market reform, driving gains in productivity and embracing the adoption of technology. Whilst emerging markets have much less scope to boost their economies relative to their first world counterparts – they spent at about a quarter of the rate of rich countries through the pandemic – there are some innovative policy measures that they should now consider. The key determinants of success are the attraction of global talent and the enhancement of female participation in the labor force and economy. According to a recent study published by Nielsen[2], global equality between men and women is still a very distant goal. The World Economic Forum calculates in its Economic Participation and Opportunity index that it will take another 267.6 years for this wide gap to be closed.[3] Economies that take full advantage of latent talent – both empowering women and attracting from abroad – will thrive in the emerging post-Covid global economy. Promoting women’s education and inclusion into the economy is a primary driver of emerging economies that will enable them to graduate into the ranks of the rich world.

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A recent IMF study finds that the gains in productivity and growth from deeper inclusion of women into the labor force are greater than previously believed. For developing countries which rank in the bottom half of countries in terms of gender inequality, closing these wide gender gaps could increase GDP by a (staggering) average of 35%[5]. The IMF calculates that 80% of this gain will come from the increased work force and 20% from the contribution of gender diversity to productivity gains[6]. Whilst much global progress has been made toward gender equality in education, a major contributor to inequality is women’s underrepresentation in the workplace.

The WEF asserts that participating in labor markets has been an important channel for economic empowerment – globally almost 80% of men of working age (15-64) are in the labor force whilst just 52.6% of women in the same age range are[7]. Narrowing this gap should be top of mind for governments in emerging countries seeking to drive growth and inclusion. This is especially pertinent considering the negative impact of the pandemic on both the labor market, income and its disproportionate impact on women and their roles balancing household and workplace roles.

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