
White Paper

**Global Macro —
Demographics
and Retirement**

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Global Emerging Markets: Macro Prospects and Challenges

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Executive Summary

Emerging market (EM) economies have been accounting for the lion's share of global growth over the past two decades, and with global growth currently slowing, future growth prospects of EM economies assume great importance. This is especially pertinent in the context of adverse demographic conditions, recessions and policy instabilities casting a long shadow over the future growth of EM. The current pandemic-induced crisis also highlighted the sharp variations among EM countries in terms of public health, governance and economic structure.

In this paper, we highlight these differences across a selected set of EM economies and discuss how they affect GDP growth, GDP per capita, debt, pensions and capital markets. The countries we cover are Argentina, Brazil, China, Colombia, the Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia, South Africa, South Korea, Thailand, Turkey and the United Arab Emirates (UAE).

- EM economies are demographically and economically diverse and their populations are no longer growing as fast as the world average and nor are they as young as they are perceived to be.
- These demographic changes have had a significant effect on the labor force, growth, consumption, savings, productivity and inflation of EM.
- The impact varies across different EM countries due to the varying prospects of demographic dividends. In this context, EM economies need to better leverage their working age population and improve their labor productivity to escape the so-called “*middle-income trap*”.
- EM economies also need to guard against projected capital outflows due to changes in policy rates and expected returns as well as perceived greater stability elsewhere given EM’s greater sensitivity to internal and global shocks.
- EM economies would benefit from deepening their domestic capital markets, which should help in the conversion of local savings to profitable investments to support their ageing populations while increasing the resilience of local markets.
- “Green growth” strategies and environment-friendly urbanization policies should help EM in achieving sustainable and balanced growth, which will contribute to various global sustainability initiatives.

The world economy has been facing a low-growth trend since the start of the current millennium. More recently, the ongoing pandemic crisis and various geopolitical tensions have been forcing countries to focus more and more inwardly. Against this backdrop, EM economies that have historically constituted a dominant share of global growth face challenges as well as potential opportunities. In this context, we examine the economic and demographic changes that influence EM economies and markets.

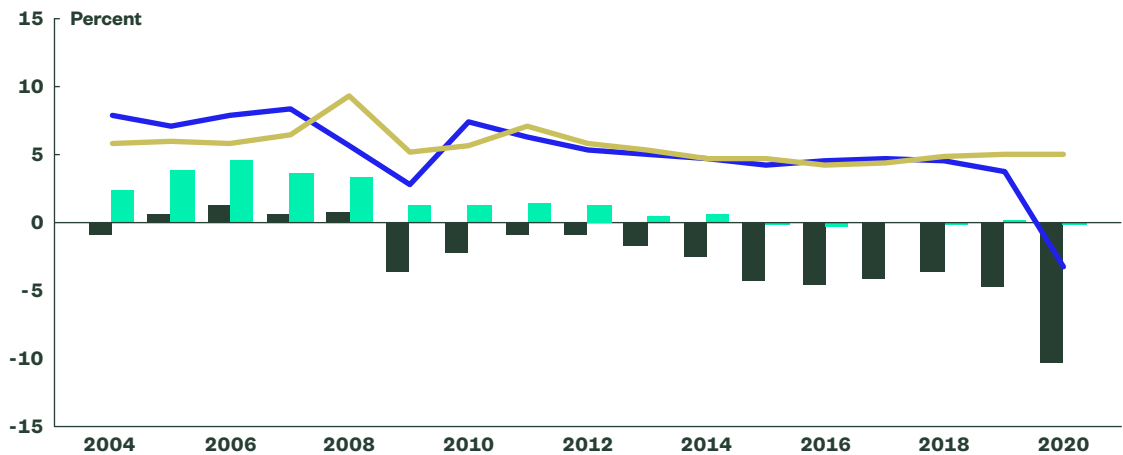
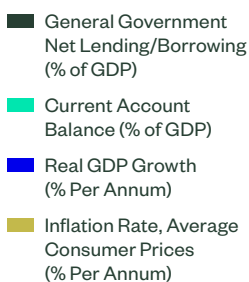
After two decades of impressive growth, EM countries are facing strong headwinds that are adversely affecting their GDP growth. In this section, we assess GDP growth, GDP per capita, inflation, interest rates and the nature of debt across selected EM countries.

1.1. EM Versus DM Economies

Since the onset of the COVID-19 pandemic in early 2020, both EM and developed market (DM) economies have suffered economically and socially. EM economies have suffered more relative to DM economies due to their larger sensitivity to factors including disrupted global supply chains, a sharp fall in global demand and weaker fiscal and income positions. It is important to record that GDP growth in EM economies over the past two decades has been strong, accounting for 60% of global GDP growth. However, real GDP growth in EM has been on a downward trend, similar to that of DM (Figure 1).

Although inflation in EM as well as DM has been declining steadily since peaking at 9.2% in 2008, it remained relatively elevated at 5% for EM versus 0.8% for DM as of 2020. The current account balance of EM also turned negative in 2015 from 4.7% in 2006, while advanced countries witnessed an improvement on this count over the period. More importantly, the fiscal balance of EM economies has deteriorated over the past decade with general government net borrowing estimated to have reached 10.4% of GDP in 2020 (Figure 1).

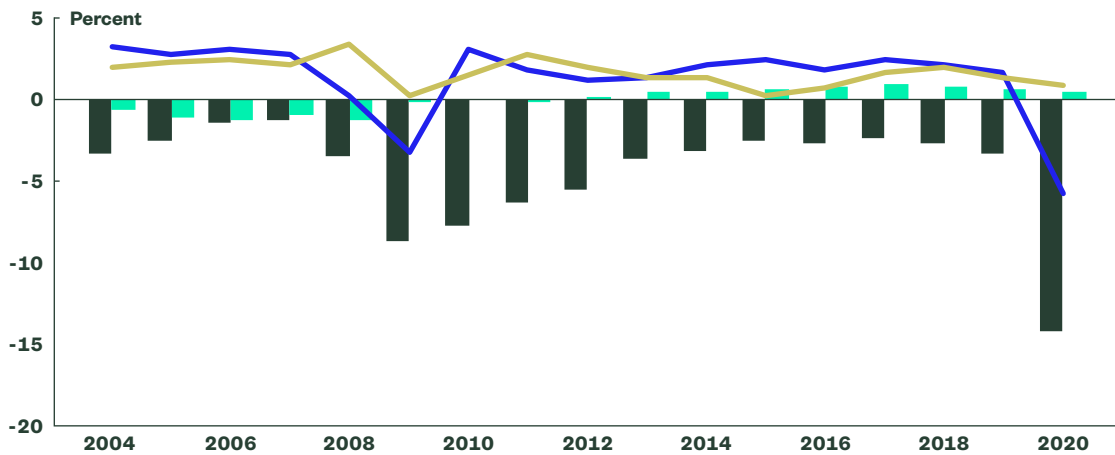
Figure 1a
Real GDP Growth — EM Economies



Source: The IMF, State Street Global Advisors, as at January 2021.

Figure 1b
**Real GDP Growth —
 DM Economies**

■ General Government Net Lending/Borrowing (% of GDP)
 ■ Current Account Balance (% of GDP)
 ■ Real GDP Growth (% Per Annum)
 ■ Inflation Rate, Average Consumer Prices (% Per Annum)



Source: The IMF, State Street Global Advisors, as at January 2021.

Compared with DM countries, many EM countries entered the pandemic era with weaker financial positions and pre-existing macroeconomic concerns. These continue to limit the capacity of EM governments to deploy adequate fiscal and monetary stimuli to lessen the severe impact of the COVID-19 pandemic. The current structure of the economy, industry, labor and financial markets of EM countries is likely to constrain their GDP growth, fiscal position and debt while dealing with the crisis.

1.2. Country Comparisons

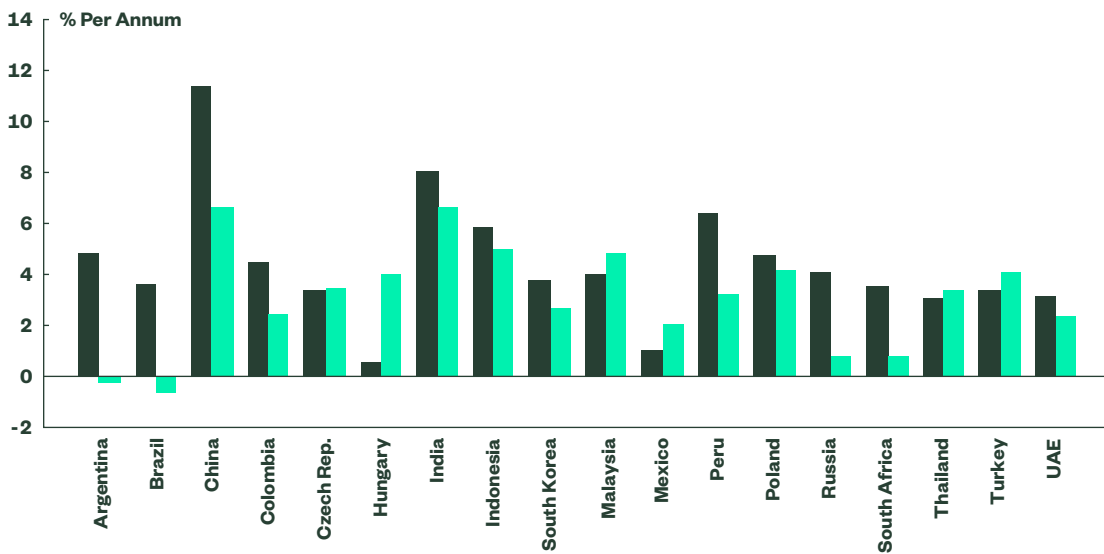
While expecting that EM will experience a sharp fall in GDP growth in aggregate, we note that the growth pattern will exhibit variations across countries. The COVID-19 crisis has exposed sharp differences between EM countries in terms of their economic fundamentals and governance structures.

a. Real GDP Growth

GDP growth rates have declined in most EM countries with some experiencing sharp falls (Figure 2). In particular, China's GDP, which grew at 11.5% per annum (p.a.) during 2005–2009, dropped to 6.7% p.a. during 2015–2019 while Argentina and Brazil's GDP growth turned negative at -0.3% p.a. and -0.6% p.a., respectively, during 2015–2019.

Figure 2
Real GDP Growth

■ 2005–2009
 ■ 2015–2019



Source: The IMF, State Street Global Advisors, as at April 2020.

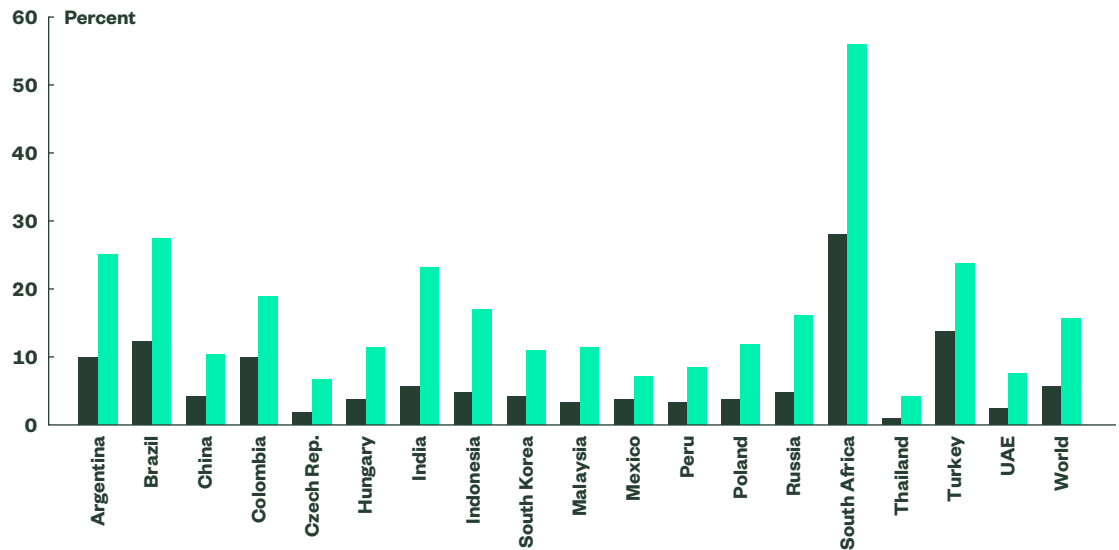
Increased trade barriers, the US-China trade war and lower global demand post the Global Financial Crisis (GFC) have affected trade growth, leading to lower GDP growth in many EM countries. The current pandemic-led crisis has brought these problems to the fore.

b. Unemployment Rate

Unemployment rates have increased on account of informal labor markets being adversely hit by COVID-19, resulting in reverse migration from urban to rural areas. As governments have slowly started shoring up public confidence, many low-income migrants have started returning to their workplaces in larger urban cities.

Figure 3
Total and Youth
Unemployment
Rates in 2019

■ Total Unemployment
■ Youth Unemployment

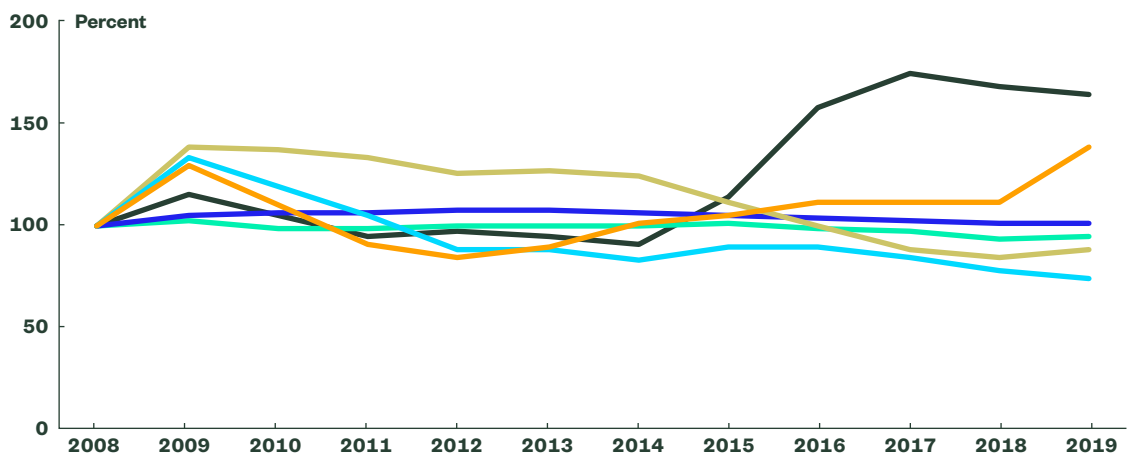


Source: The World Bank, State Street Global Advisors.

The unemployment rate, particularly youth unemployment rate, has remained high in many EM economies. South Africa had the highest rate of youth unemployment (56%), followed by Brazil (27.4%), Argentina (25.3%), Turkey (23.7%) and India (23.3%) in 2019. South Africa also had the highest total unemployment rate (28.1%), compared with 5.4% globally (Figure 3). The pandemic-induced crisis has worsened inequality within countries, too, and particularly so among EM economies.

Figure 4
Unemployment
Rates From
2008 to 2019

■ Brazil
■ China
■ India
■ Mexico
■ Russia
■ Turkey



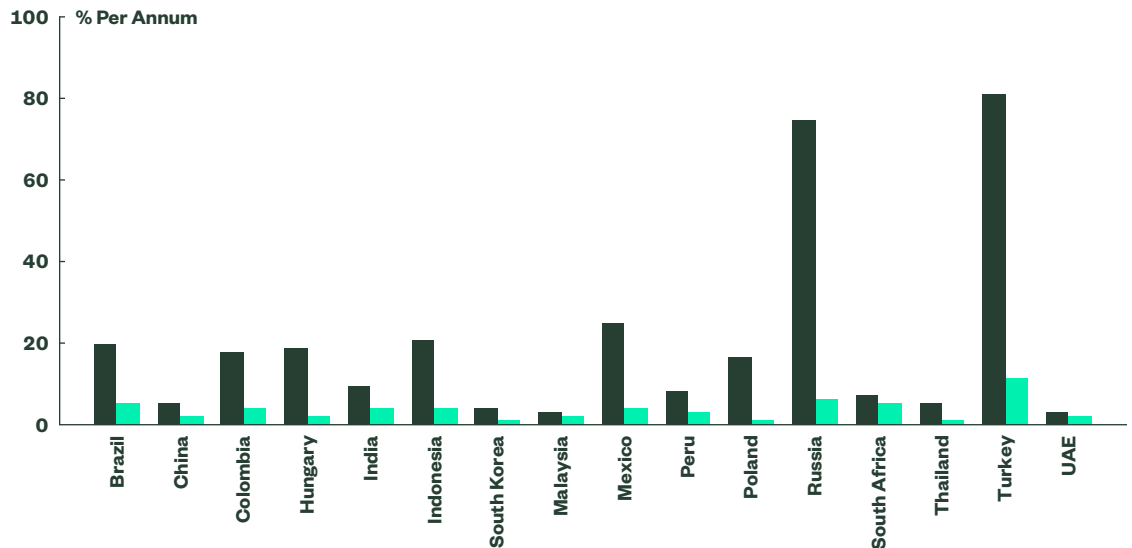
Note: Rebased to 100 as of 2008 January.
Source: The World Bank, State Street Global Advisors.

c. Inflation

High inflation can adversely and disproportionately affect the poor, who tend to hold most of their assets in cash and rely heavily on wage income, welfare benefits and pensions. Many EM and DM economies have recorded an extraordinary decline in inflation thanks to international trade, financial liberalization, improved monetary and fiscal policy frameworks and demographic shifts (Figure 5).¹ A low-inflation scenario offers central banks more scope for monetary easing during times of crisis. However, in a highly integrated global economy, maintaining low inflation could be a great challenge especially for smaller open EM economies.

Figure 5
Inflation Rate —
Average Consumer
Prices

■ 1995–99
■ 2015–19



Source: The IMF, State Street Global Advisors.

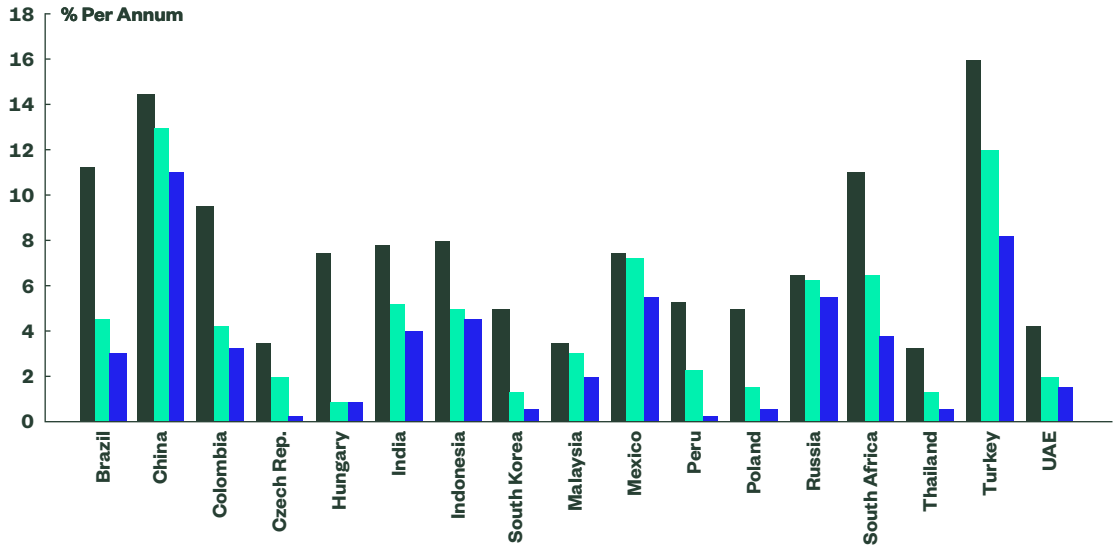
Monetary and fiscal stimulus actions from central banks and governments are expected to increase domestic demand once the pandemic curve starts flattening. While the full impact of COVID-19 is hard to predict, if the increase on the demand side is larger than the supply side, it will result in higher prices and inflation. Among our selected EM economies, Turkey's inflation rate was the highest at 11.6% p.a. while Thailand's was the lowest at 0.3% p.a. during 2015–2019. Emerging countries have been under severe economic distress in trying to support their populations and workers during the pandemic. Countries with high inflation, such as India, Indonesia, Russia and South Africa as well as those in Latin America, would need to ready themselves for a further spike in inflation rates by strengthening their monetary, fiscal and financial policy frameworks.

d. Interest Rates

Interest rates in EM economies have been on a downward trend over the past three decades, allowing central banks in these countries to cut rates more aggressively to ease the pain from the crisis. As evident in Figure 6, policy rates have declined sharply across most EM countries over the past 12 years. Although there have been sizeable rate cuts in EM since the onset of COVID-19, except in a small number of countries such as the Czech Republic (0.25%), Peru (0.25%), South Korea (0.5%) and Thailand (0.5%), most policy rates still remain far from the lower zero bound. This means EM countries still have room for further rate cuts to support their economy.

Figure 6
Policy Rates

01/01/2008
01/01/2020
05/28/2020



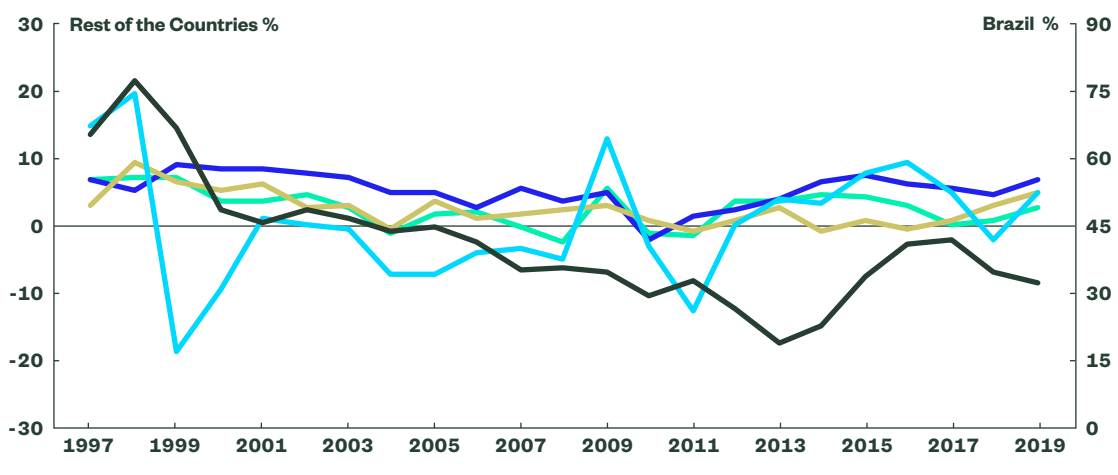
Source: Macrobond, State Street Global Advisors, as at 28 May 2020.

We note that global long-term real interest rates have been declining over the past two decades due to the US Federal Reserve easing its monetary policy as well as due to changes in demography, advances in technology and the growing importance of bond markets as a means of international monetary transmission (Figure 7). Additionally, subpar global growth since the GFC and higher global savings have also held long-term rates down.² Low interest rates in DM might lead to higher capital inflows into EM, the magnitude of which is dependent on relative interest rate differentials as well as macroeconomic and political stability.

However, we should bear in mind that reductions in EM policy rates have also narrowed down their differential versus DM rates, which might offset the impact of low global interest rates on EM. Macroeconomic literature on recessions and financial crises in EM countries suggests that capital outflows have been a major contributing factor over the past four decades. Developing a robust and resilient domestic financial market that helps in the transformation of savings into productive investments is an imperative to avoid the vulnerabilities and fragilities that threaten global macro developments.

Figure 7
Real Interest Rates

Brazil
China
India
Mexico
Russia



Source: The World Bank, State Street Global Advisors.

2 Demographic Changes in EM Economies: Consumers and Workers

Demographic shifts have a profound effect on emerging economies — policy makers and leaders of EM countries have often lauded the demographic dividend that their economies enjoy. In this section, we discuss the demographics of selected EM countries and their impact on the GDP of those economies.

2.1. Emerging Markets Versus the World

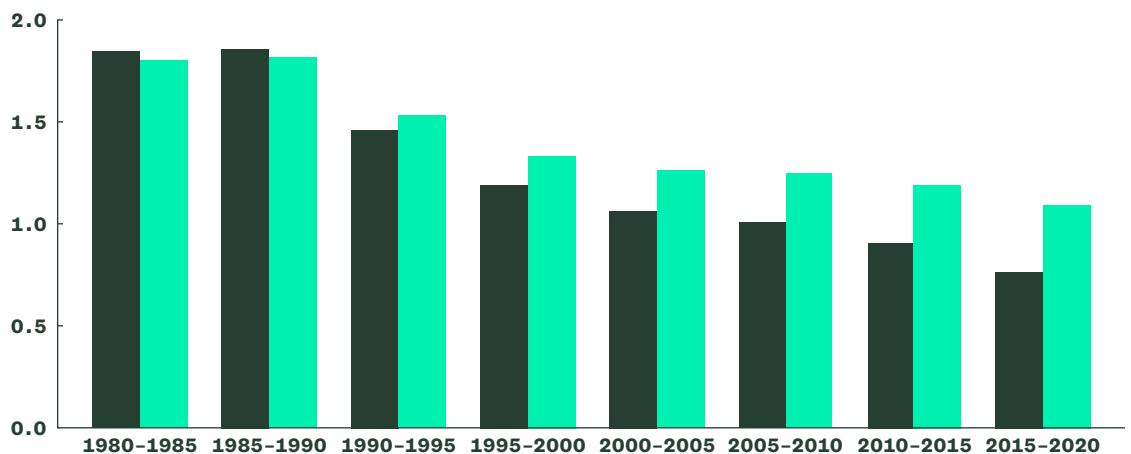
Population growth rate in EM has shown signs of stalling and in certain cases even decline after decades of rapid growth. EM economies are experiencing unprecedented changes to their age structures as well with the growth rate of the share of very old people (80+) being surprisingly higher than the global average growth rate.

a. Population Growth

The eighteen emerging countries selected here represent 52% of the world population (Figure 8). The population growth of these countries in aggregate has experienced a faster slowdown than the global average. That trend is set to continue with projected population growth of 0.8% a year until 2020, slower than the world average of 1.1% p.a. Lower population growth typically precedes lower labor force growth and lower working age population growth.

Figure 8
Population Growth
— World vs Selected
EM Economies

Selected EM Economies
World



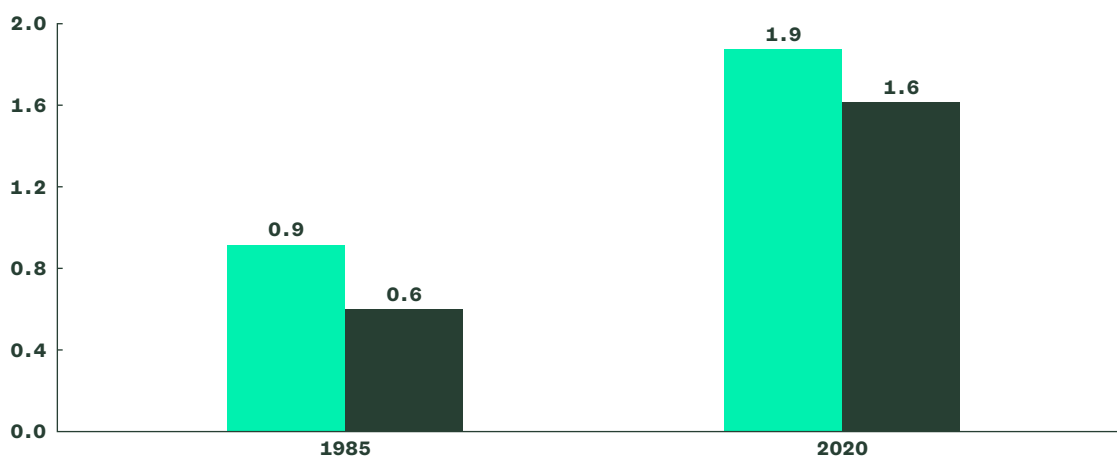
Note: The selected emerging economies are Argentina, Brazil, China, Colombia, the Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia, South Africa, South Korea, Thailand, Turkey and the UAE.
Source: The United Nations, State Street Global Advisors.

b. Increasing Share of the Very Old

Ageing population is a concern for not only DM but also EM. The share of the very old (80+ aged) in our eighteen selected EM economies has increased by 2.7 times (from 0.6% in 1985 to 1.6% in 2020) compared with 2.1 times globally (Figure 9). Although most EM economies do not have legacy age-related expenditures that advanced countries are saddled with, they will have to soon reckon with higher expenditures and a rapid increase in public debt given the current rise in the number of ageing people across EM. This also reflects the growing income and wealth inequality within EM countries despite lower poverty rates over time — the smaller number of affluent live much longer than the median person in the population.

Figure 9
Increasing Share of
80+ Age Group

■ Selected EM Economies
■ World



Note: The selected emerging economies are Argentina, Brazil, China, Colombia, the Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia, South Korea, South Africa, Thailand, Turkey and the UAE; increasing share as percentage of total population.

Source: The United Nations, State Street Global Advisors.

2.2. EM Demographics, Demographic Dividends and Labor Markets

Since demographics vary across emerging countries, demographic dividends as well as the nature of labor markets (size, composition and practices) vary among them as well, depending on specific economic circumstances.

a. Core Demographics

Our selected countries exhibit very different demographic profiles.

- Population sizes across our selected countries vary widely (Figure 23). China — the most populated country with a population of 1.4 billion — is 149 times the size of Hungary, which has a population of just 9.7 million.
- Population growth rates have varied dramatically (similar to population size) as well — from -0.2% p.a. (Hungary) to 1.6% p.a. (Peru) over the 2015–2020 period (Figure 24). High population growth rates typically result in high working age population growth rates, albeit with a lag, leading to higher GDP growth. Figure 23 also shows that all countries have been experiencing lower population growth rates over the past few decades.

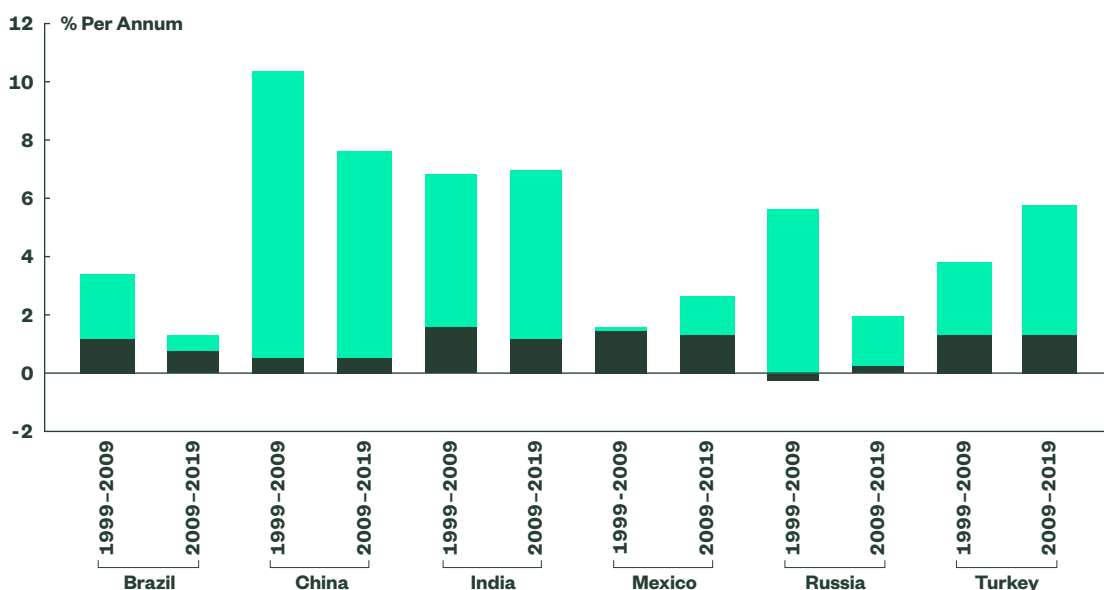
- Aging population is now a trend in emerging countries, but the changes are far from uniform. Lower fertility rates are a major driver of an aging population — we note that there has been a sharp decline in fertility across our selected EM countries from 1985–1990 to 2015–2020 due to several factors, including greater female participation in labor force. The economics of the costs of child raising as well as religious aspects are also determining factors as living conditions and prosperity improve. We highlight the differences in fertility rates across our selected countries — it ranged from a low of 1.1 children per woman in South Korea to 2.4 children per woman in South Africa during the 2015–2020 period (Figure 25). The replacement fertility rate is 2.1 children per woman of child-bearing age.
- Another driver of an aging population is increased life expectancy (Figure 26). The life expectancy at birth ranges from a low of 63.6 years in South Africa to a maximum of 82.8 years in South Korea over the same period.
- Fewer children and greater number of old people is a global trend captured in the old-age dependency ratio — i.e., the number of people aged 65+ per 100 people aged 15–64 years. We note an increasing trend but also a wide divergence in this ratio — ranging from the UAE, which has a ratio of 1.5, to the Czech Republic, which has a ratio of 31.4 (Figure 27).

b. Population Growth, GDP Per Capita Growth and GDP Growth

GDP growth consists of population growth and GDP per capita growth, which is the growth in living standards. Population growth has contributed substantially to GDP growth in most emerging countries. GDP per capita growth rates are significantly lower than GDP growth rates in many countries owing to the faster rates of population growth in some poorer EM countries (Figure 10).

Figure 10
Population Growth and GDP Per Capita

■ Population Growth
■ GDP Per Capita Growth

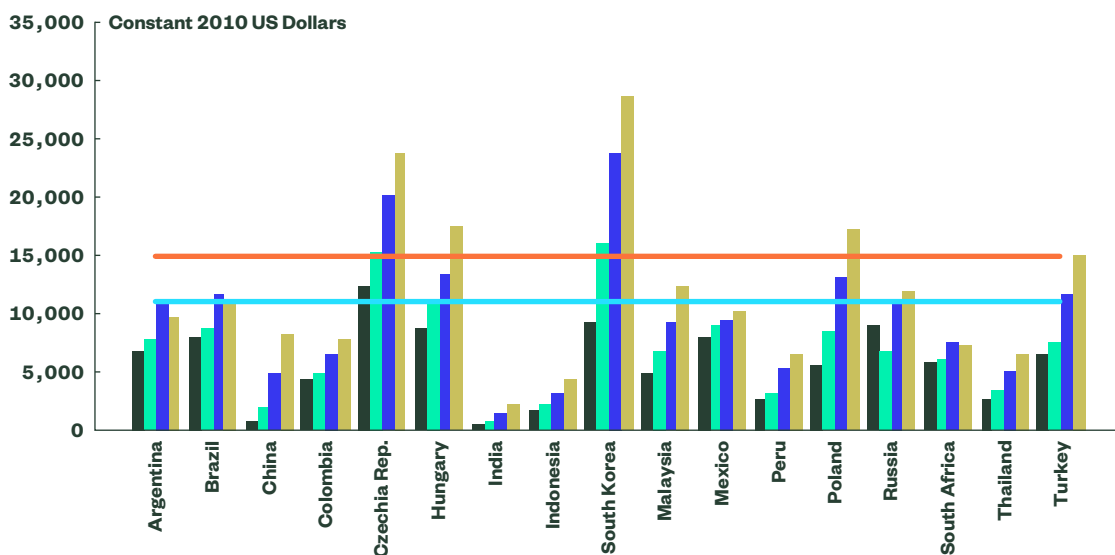


Source: The IMF, State Street Global Advisors.

Many emerging countries are stuck in the so-called middle-income trap, which is a concept elaborated by Gill and Kharas (2007) to explain why some countries struggle to make the transition from being middle-income economies to being high-income ones.³ As wages rise and labor forces shrink, factors that create a high-growth momentum lose out as middle-income countries find themselves getting squeezed between low-wage, low-income competitors and rich innovators that embrace technological changes.⁴

Eichengreen et al. have highlighted that the growth momentum of middle-income countries slows down specifically at two thresholds — GDP per capita of around US\$11,000 and then at around US\$15,000.⁵ Although countries such as the Czech Republic, Hungary and Poland seem to have crossed these thresholds, many others (including China) may find it difficult to negotiate the middle-income trap (Figure 11).

Figure 11
GDP Per Capita



Note: Threshold 1 has a GDP per capita of around US\$11,000 and threshold 2 of around US\$15,000.
Source: The World Bank, State Street Global Advisors.

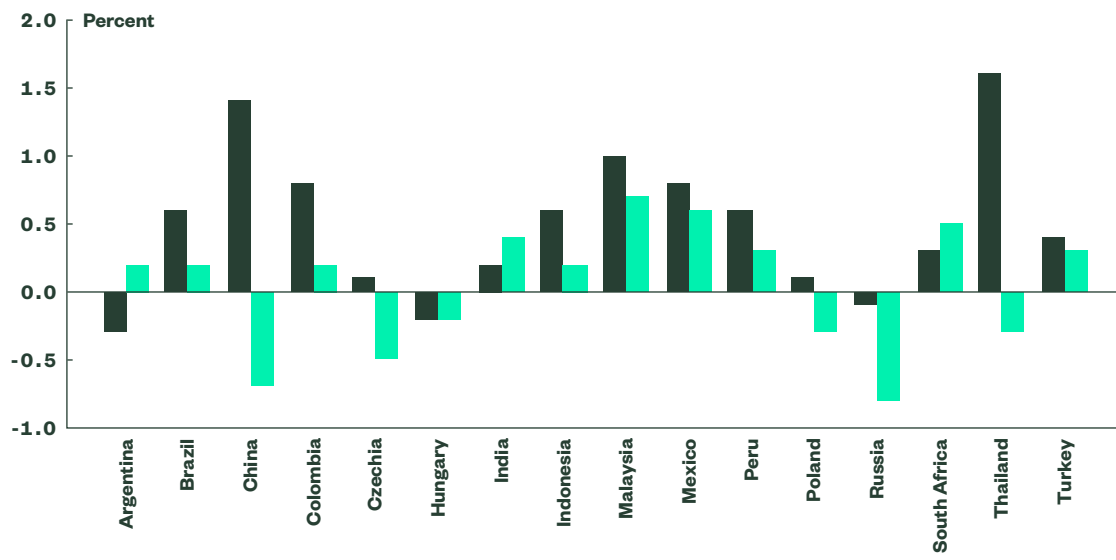
c. The Demographic Dividend

In discussions on how population dynamics influence a country's economy, the concept of demographic dividend has played a significant role. Demographic dividend mainly refers to the economic growth potential that can result from shifts in a population's age structure, which means changes in a country's age structure can have significant effects on its economic performance.⁶ The effects of demographic dividend are visible on a country's labor supply, savings and human capital.

The first dividend is triggered by declining fertility rates in economies with youthful populations, leading to a faster increase in the number of workers, a decline in the dependency ratio and rapid growth in per capita income. This first dividend typically lasts for decades but is relatively transitory in nature. The ratio of number of workers per consumer — a measure of the first dividend known as the support ratio — has declined sharply in many countries over the past four decades (Figure 12). These countries include China, the Czech Republic, Hungary, Poland, Russia and Thailand, while younger countries such as India, Indonesia, Malaysia and Mexico should still benefit from it.

Figure 12
**Growth Rate of
 Support Ratio**

■ 1985
 ■ 2018



Note: Support ratio refers to the number of workers per consumer.
 Source: The National Transfer Accounts 2017, State Street Global Advisors.

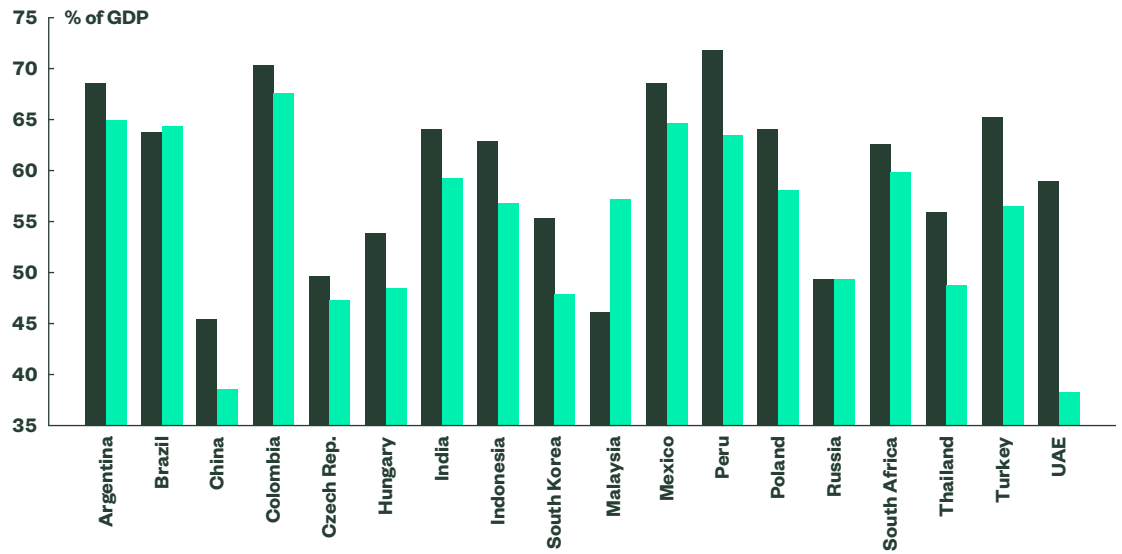
The quantum of demographic dividend depends on trends in population structure, how much people produce and consume at each age, how a society supports its elderly and how much capital is accumulated. The realization of the dividends and their contribution to economic growth, however, depend on the effectiveness of policy implementation. Mason (2005) has shown that while East and Southeast Asia have benefited from demographic dividends, Latin America has not taken full advantage of such dividends.⁷ The ability to exploit a demographic dividend depends on policy decisions on education, health, labor force, among others. As a result, there is a need to align these policies in Latin America to make sure that economies there are able to take better advantage of their demographic bonus.

d. Consumption Expenditures and Savings

Consumption expenditure accounts for the bulk of EM GDP, but it varies significantly across our selected countries (Figure 13). In Latin American countries, household consumption accounts for 64%–68% of GDP, higher than that of many central European and Asian countries (all below 60%) as well as of several developed countries. However, this region's savings are also the lowest globally and its middle-class consumption is mainly financed by credit, which further increases its risk of falling back into poverty.⁸

Figure 13
Household
Consumption

■ 2001
■ 2018

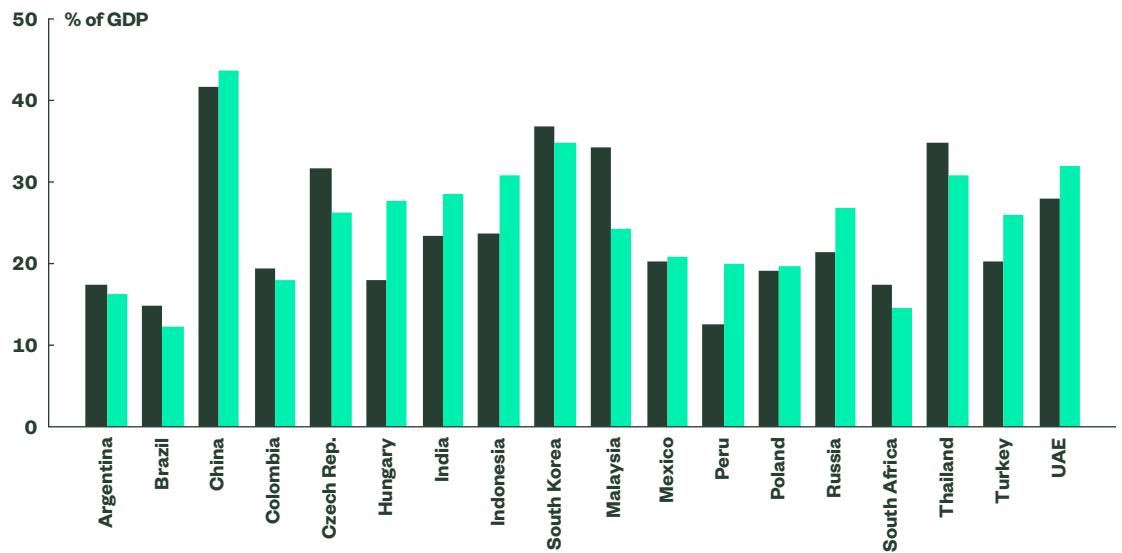


Source: The IMF, State Street Global Advisors.

By contrast, Chinese household consumption share is among the lowest in the group (34% of its GDP), reflecting its current high rate of savings, much of which is precautionary in nature in the absence of sufficient social protection schemes (Figure 14).

Figure 14
Gross National
Savings

■ 1995
■ 2019



Source: The IMF, State Street Global Advisors.

Not spending enough and not having adequate savings are some of the problems that EM countries are facing. In this context, EM countries would need to deepen their domestic capital markets to safeguard themselves from capital outflows and increase stability. In addition, increased participation of local populations in the growth and development of markets should help in reducing concerns regarding wealth distribution or inequality.

e. Labor Market

Demographic evolution and economic transformation in EM have key implications for its labor markets. We note that workers have an influence on the production of goods and services that make up a country's GDP. Over 1990–2018, there has been a sharp decline in male labor participation rates across most EM countries except Peru (Figure 28). On the other hand, trends in female labor participation rates were mixed with countries such as Peru, the UAE and Brazil having significant increases and some others such as China experiencing a decline. In addition, most countries experienced an increase in labor force participation rates in older groups above 55 years (Figure 29).

We note that labor force participation rate varies by gender and age group across our selection of sixteen countries (Figure 30). For instance, there are contrasts between Mexico, India and Turkey in terms of female labor force participation rates, showing the catch-up potential for economies with lower participation rates. Similarly, labor force participation rate by age varies significantly amongst countries. For the oldest age group of 65+ years, labor force participation rate was the highest in Peru at 50.1% as of 2018. This was approximately 24 times that of Hungary, which had the lowest rate of 2.7%. Labor force participation rate for the 15–24-year age group was also the highest in Peru (61.5%), more than double that of the lowest rate of 26.4% for South Africa.

f. Educational Attainment and R&D Research

Labor force numbers alone do not represent a complete picture of a labor market. Productivity levels and growth are more important and reflect how demographic factors along with policy and institutional factors affect GDP growth. Education, especially at the tertiary level, and R&D research are two important contributors to productivity levels and productivity growth. There is diversity in terms of tertiary education across emerging countries (Figure 31).

Most emerging countries have relatively low tertiary education attainment. Examples include China (9.7%), South Africa (7.4%) and India (10.6%) although there are exceptions where very high tertiary education has been attained. For instance, Russia had the highest tertiary educational attainment (53.1%) among the selected countries as of 2017 and its percentage was much higher than that of the US (46%), Japan (51%) and of advanced European countries such as Germany (28.6%), France (35.2%) and Italy (18.7%). Most EM countries, especially in Latin America, also have relatively low R&D expenditure (ten out of sixteen selected countries spent less than 1% of their GDP on R&D as of 2018), which partly explains their low productivity growth.

2.3. Economic Growth and Its Drivers

The economic transformation of emerging countries has been remarkable over the past few decades, yet most of them find it difficult to reach high-income status in a timely manner. In this section, we assess real GDP growth and its key drivers across selected emerging countries to understand the likelihood of these economies sustaining their long-run growth.

a. Demographic Decomposition of Real GDP Growth

Real GDP growth can be decomposed into: 1) working-age population growth (population aged 15–64 years), 2) labor productivity growth (real GDP/hours worked) and 3) labor utilization growth (hours worked/working-age population). Over the past few decades, both labor productivity and working-age population have shrunk across selected countries, dragging down real GDP growth in these economies (Figure 33).

Additionally, we note that the relative importance of contributing factors varies widely across regions. Most EM countries in Asia benefit from significant labor productivity and working-age population growth. The large share of real GDP growth in Russia and European EM countries came from labor productivity growth that reflects their high human capital investments. In contrast, the real GDP growth in Latin American countries was due to working-age population growth and not necessarily labor productivity growth.

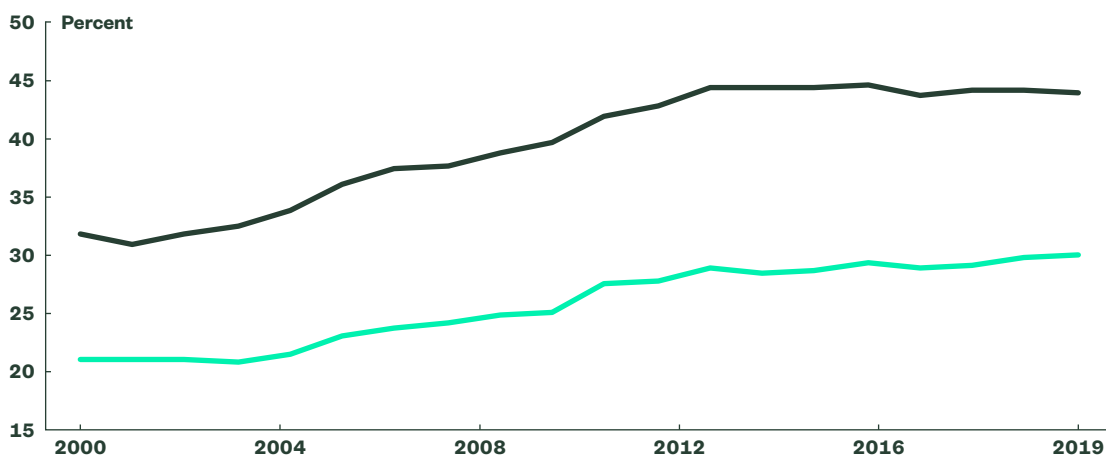
We note that to sustain their long-run growth and avoid the “middle-income trap”, emerging countries would need to focus on improving at least two contributing factors. In particular, given that the working-age population growth has been shrinking, EM countries should focus more on increasing their productivity and labor utilization growth to boost their overall real GDP growth. This can be done by way of embracing technological changes, increasing investments in education and human capital and pursuing labor reforms while strengthening economic fundamentals. Labor reforms as well as increased female and old-age participation in the labor force should boost the number of the working age population.

b. Trade (Oil, Commodities)

Over the past two decades, the share of DM in world trade has been increasing sharply. DM economies’ share of goods exports grew from 31.9% in 2000 to 44.3% and their share of services exports rose sharply from 21% in 2000 to 30% in 2019 (Figure 15).

Figure 15
Share of Global Goods and Services Export of Developing Economies

■ Goods Export Share
■ Services Export Share



Source: The United Nations Conference on Trade and Development, State Street Global Advisors.

Many EM economies are susceptible to external shocks due to their high trade openness (Figure 34). Some countries with low trade openness such as Brazil and Argentina are also very vulnerable to global market volatility due to the **undiversified nature of their trade**.⁹ These EM countries are likely to bear the brunt of the COVID-19 crisis as well as lower oil prices given their pre-existing structural problems as well as heavy reliance on commodities. The effect of higher commodity and oil prices reflects differently across EM countries that are net-exporters versus those that are net-importers of oil or other commodities. The post pandemic recovery may affect the dynamics of oil prices as well as commodities such as copper as economies and markets start recovering. The geopolitics of oil supply and the dynamics of different suppliers are uncertain to predict, but most likely the trend of oil prices is upward, synchronous with recovery trends.

Figure 16
**Brent Crude Oil
Spot Price**



Source: Macrobond, Intercontinental Exchange, State Street Global Advisors, as at 2 December 2020.

In emerging countries, capital markets have grown significantly over the past two decades mainly due to their strong economic growth, development of pension systems, increased interest from foreign investors, large democratization programs that increased the number of IPOs significantly as well as the development of a retail investor base. However, in the context of the current challenging macroeconomic conditions as well as aging populations, these countries need to pay more attention to their capital markets, which remain thin and underdeveloped.

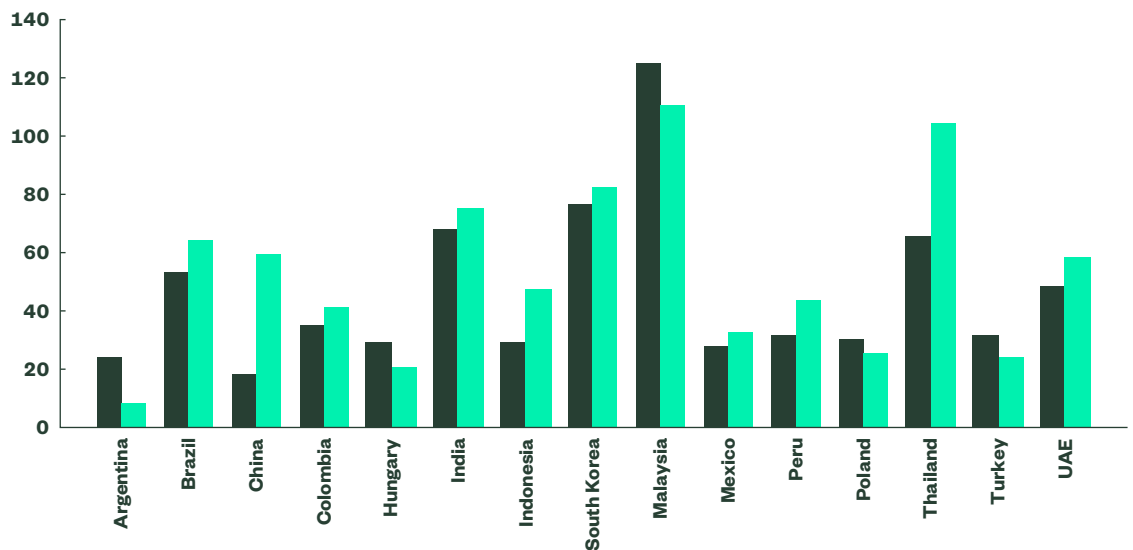
3.1. Equity Markets

Since 2000, a global shift in IPO market — from advanced economies toward emerging economies — has been observed, driven mostly by Asian economies, especially China.¹⁰

The market capitalization of listed domestic companies as a proportion of their respective country’s GDP varies from country to country. South Africa leads in this regard, followed by Malaysia, while Argentina is at the bottom with its listed domestic company market capitalization constituting only 9% of its GDP (Figure 17). We note that there has been a declining trend in terms of market capitalization of listed domestic companies in central European countries such as Hungary and Poland as well as in Latin American countries. In fact, while Latin American equity markets exhibited some dynamism during the first decade of 2000, the region’s equity markets experienced the slowest recovery in the post-GFC period.

Figure 17
Market Capitalization of Listed Domestic Companies as Percentage of a Country’s GDP

■ 2005
 ■ 2019

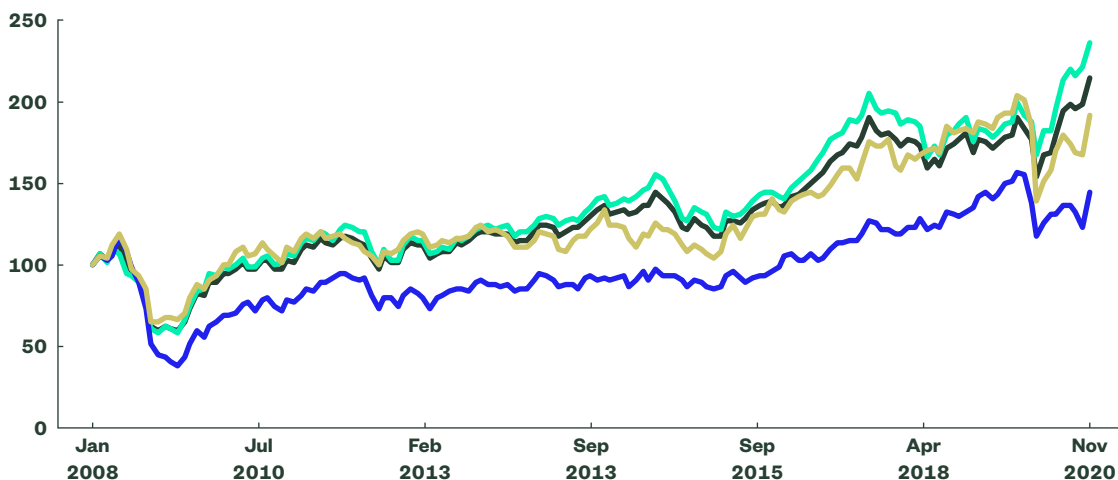


Note: The 2019 data for Korea is based on 2018 data; the 2005 data for the UAE is based on 2007 data.
 Source: The World Bank, State Street Global Advisors.

In contrast, this proportion has been increasing in Asian countries. For instance, in the case of China, the share was only 18% in 2005 versus 59.4% in 2019, driven by its high GDP growth, financial markets reforms and the inclusion of its equities in the MSCI indices, leading to increasing foreign participation. EM Asia has also generated the highest return post the GFC, compared with other regions (Figure 18).

Figure 18
Total Return of the MSCI Emerging Markets Index

■ MSCI EM
 ■ MSCI EM Asia
 ■ MSCI EM Europe
 ■ MSCI EM LatAm



Note: Rebased to 100 as of 2008 January.
 Source: MSCI, State Street Global Advisors, as at 30 November 2020.

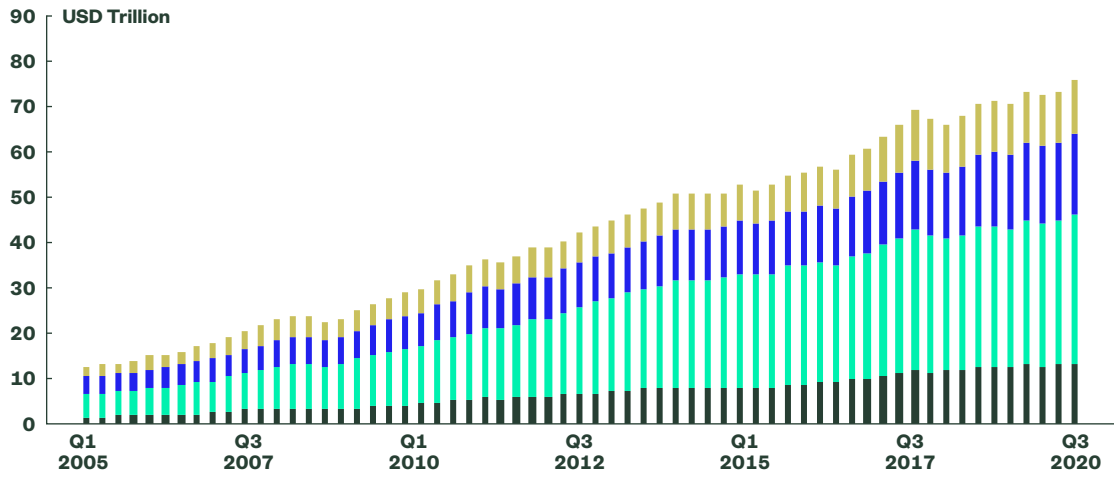
3.2. Debt

Onerous external debt has fueled many past crises in Asia and Latin America. Although, over the past two decades, EM securities markets have improved with increasing liquidity and a broad deepening, emerging economies still appear not as resilient to volatility as DM economies. Amid low global growth and population headwinds, EM countries should do good by paying more attention to this area.

EM debt increased by more than five times from US\$12.9 trillion in Q1 2005 to US\$76.4 trillion in Q3 2010. Over the same period, EM share of global debt also rose steeply from 10.2% to 28.0%. As shown in Figure 19, non-financial corporate debt has accounted for the largest share of EM debt, currently at 43%, with significant growth coming from China, driven by globalization, low interest rate in advanced countries since the GFC, financial deepening as well as policy-induced stimulus channeled through the merger of state-owned banks. China's debt moved from a negligible pre-crisis level of US\$3.4 trillion in Q1 2005 to approximately US\$47.1 trillion in Q3 2020 and non-financial corporates accounted for 49.3% of its total debt. Among our selected countries, South Korea and India had the second- and third-highest debt levels at US\$5.5 trillion and US\$3.7 trillion in Q3 2020, respectively.

Figure 19
Emerging Markets Debt

- Household
- Non-Financial Corporates
- Government
- Financial Corporates

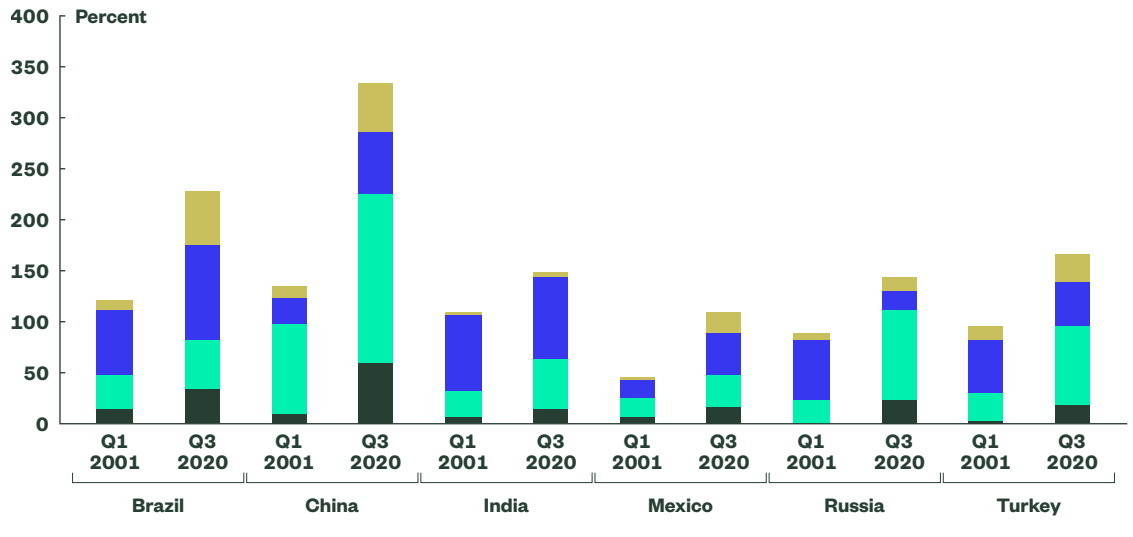


Note: Peru is not included due to data unavailability.
 Source: The Institute of International Finance, State Street Global Advisors.

In terms of total debt-to-GDP ratio, household and financial debt relative to GDP has increased in all emerging countries (Figure 20). As of Q3 2020, China had the highest debt-to-GDP ratio across our selected countries of 337%.

Figure 20
Debt-to-GDP Ratio

- Household Debt
- Non-Financial Corporates
- Government
- Financial Corporates



Source: The Institute of International Finance, State Street Global Advisors.

4

EM Economies and Sustainable Development Goals

Sustainable Development Goals (SDGs) were developed by the United Nations (UN) with a focus on developing countries. SDGs, which are a set of 17 goals, were established in 2015, and are intended to be achieved by 2030. With the increasing popularity of sustainability, many emerging countries are increasingly focused on SDGs.

4.1. Health

Good health and well-being is goal three of the SDGs. Emerging countries not only need to focus on ways to maximize growth and shield against external shocks but also establish adequate healthcare facilities to manage longevity risks specific to their varying demographic profiles.

Over the past 30 years, life expectancy at age 60 has increased across all emerging countries but most significantly in South Korea (+7.2 years) and Czech Republic (+5.1 years) (Figure 35). Life expectancy at age 60 was the highest in South Korea (25.1 years), followed by Colombia (23.0 years), and the lowest in India (18.0 years), followed by Indonesia (18.3 years), as of 2015–2020.

Lower levels of per capita health expenditure in India and Indonesia to some extent explain their lower longevity. The per capita health expenditure in these two countries is less than one-third of the corresponding level in China (Figure 36), a country that relatively underspends on health care. India, Indonesia, the UAE and Thailand also have low current health expenditure as a share of their GDP, at less than 4%.

Most of the health expenditures in Brazil, India and Indonesia are borne privately. The Czech government spends the highest share of GDP on health amongst our selected EM countries, while governments in India and Indonesia spend the lowest (Figure 37).

4.2. Gender Equality

Gender Equality is the fifth among the SDGs. As highlighted earlier, achieving gender equality is an imperative if the world is to grow in an equitable and sustainable way for every generation across all countries.¹¹ One of the widely accepted measure of gender inequality is the Gender Inequality Index (GII) developed by the UN. The index is a composite that captures gender disparities in health, empowerment and labor in 159 countries. The GII comprises the following segments: 1) reproductive health (maternal mortality ratios and adolescent fertility rates), 2) empowerment (share of parliamentary seats and secondary education attainment for both males and females and 3) economic opportunity (labor force participation rates by gender).

South Korea was the best ranked country in terms of gender equality in 2019, ranked at 11, followed by the UAE at 18 among our selected countries (Figure 38). Gender inequality remains large in other EM countries and particularly in India (123) and Indonesia (121).

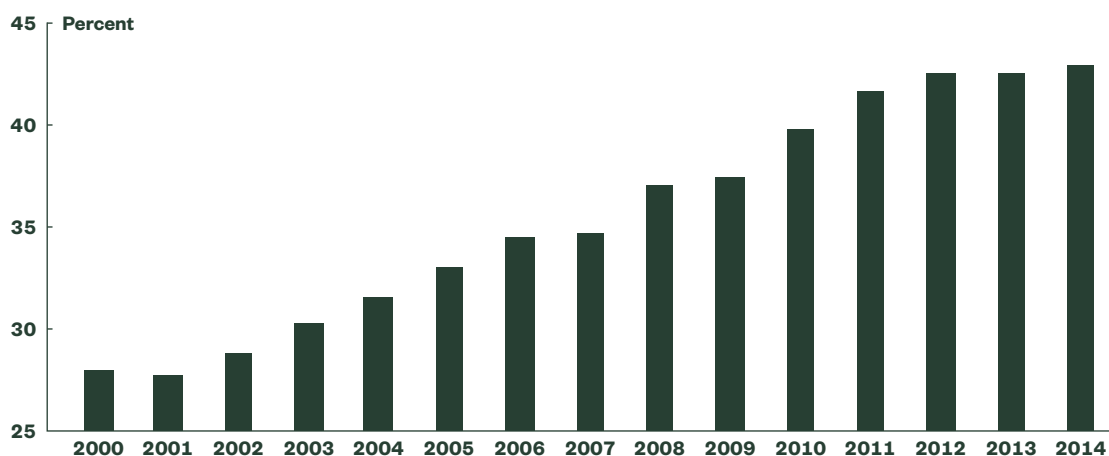
A more gender equal world will generate higher growth, lower debt, lower income inequality and more sustainability. Emerging countries need holistic reforms in education, labor markets and financial services. The need to close the gap is most acute in these regions and should form part of the immediate agenda of international sustainable development programs.

4.3. Climate Change

“Green growth” strategies and environmental-friendly urbanization policies should help EM economies achieve sustainable and balanced growth. Over the past few decades, the economic success story of EM has come at the cost of its natural resources. Such growth is unsustainable in the medium and longer term without embracing green and inclusive policies.

The largest five emerging economies accounted for 43.2% of the world’s CO₂ emissions in 2014, rising from 28.1% in 2000 (Figure 21). China constituted 28.5% of global CO₂ emissions in 2014, followed by India (6.2%) and Russia (4.8%). CO₂ emissions have been increasing sharply in EM. Chinese emissions reached approximately 10 million kiloton (kt) in 2016, four times its level in 1991 (Figure 22). India’s CO₂ emissions in 2016 reached 2.4 million kt, almost 4 times its level in 1991 of 658,190 kt.

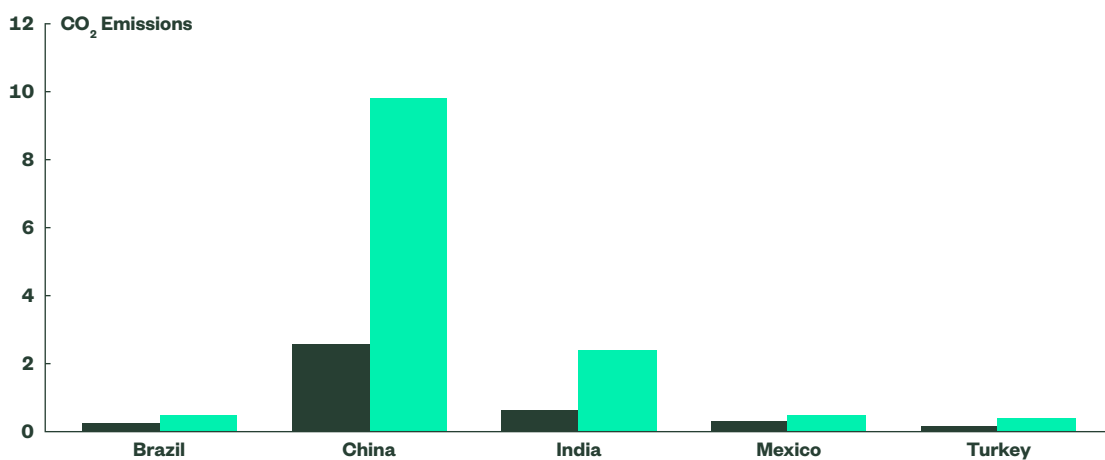
Figure 21
CO₂ Emissions in EM



Note: CO₂ emissions in EM as percentage of total world CO₂ emissions.
Source: The World Bank, State Street Global Advisors.

Figure 22
CO₂ Emissions in China and India
Quadruple in 25 Years

■ 1991
■ 2016

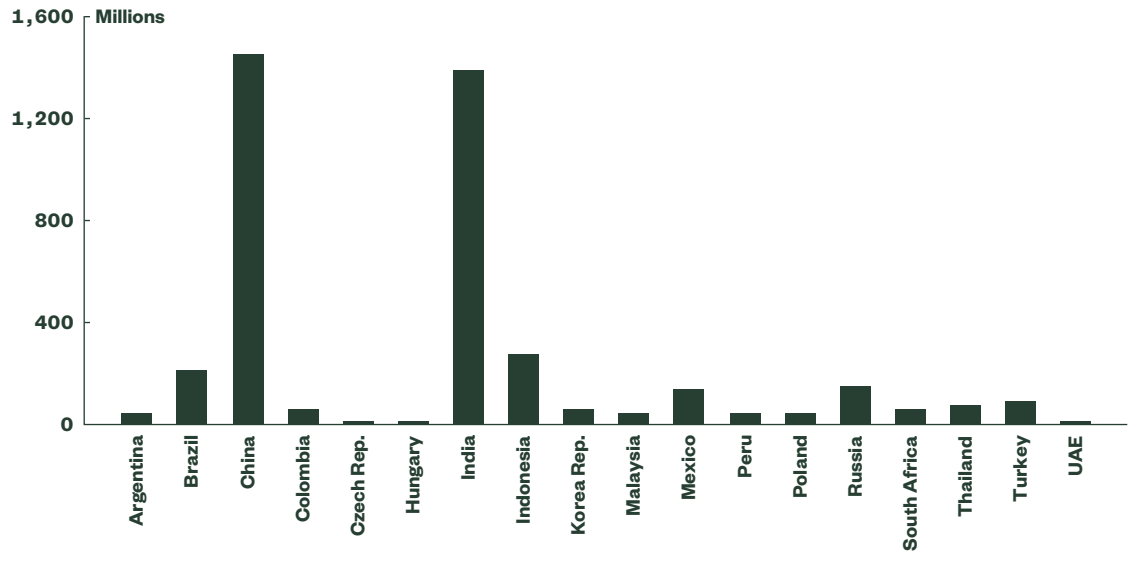


Note: CO₂ emissions in million kilotons.
Source: The World Bank, State Street Global Advisors.

Even in the current low-growth environment, emerging countries shoulder the major burden of global growth. And this growth potential crucially hinges on demographics. Creating a flexible and enhanced labor power that could support sustainable consumption will be the challenge for all emerging countries. The demographic dividends of EM countries cannot be taken for granted unless appropriate policies ensure an increase in labor participation and utilization. Rapid urbanization, creation of cities and balanced development aligned with the UN's SDGs will be essential for these emerging countries to grow not just their per capita GDP but also living standards.

Appendix

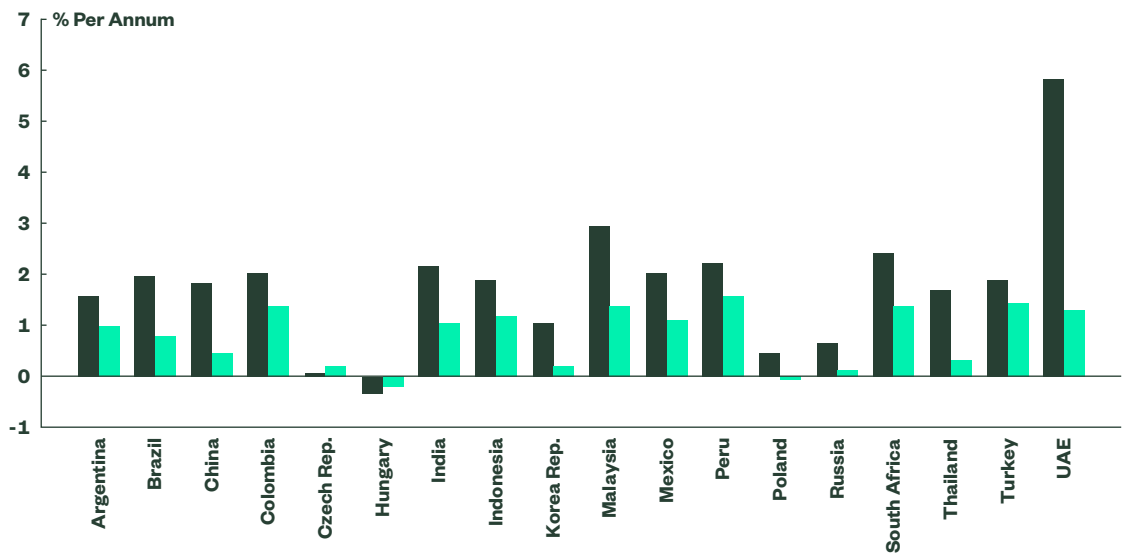
Figure 23
Total Population
in 2020



Source: The United Nations, State Street Global Advisors.

Figure 24
Population Growth
Shows a Decreasing
Trend

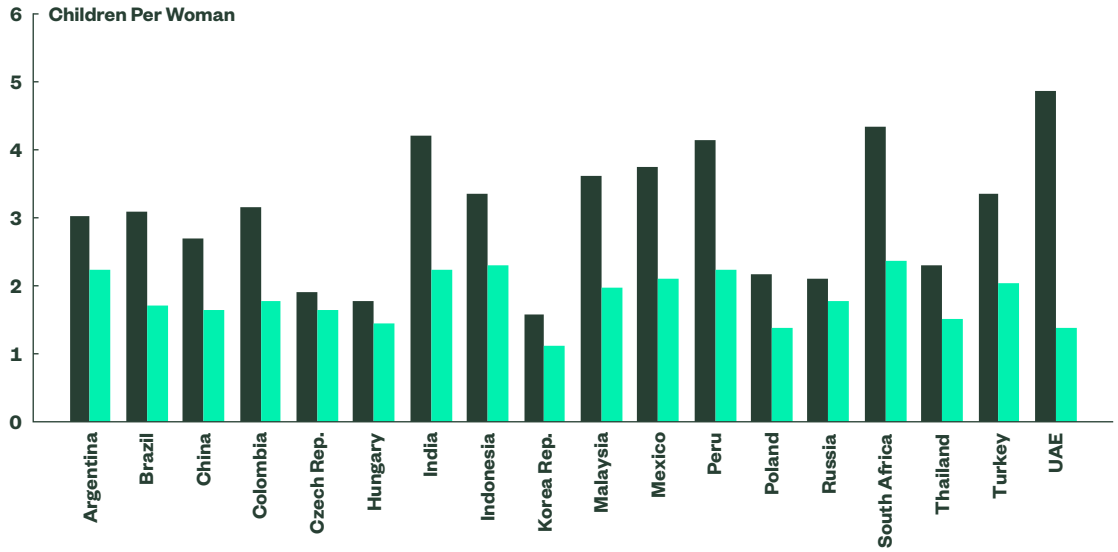
■ 1985-1990
■ 2015-2020



Source: The United Nations, State Street Global Advisors.

Figure 25
Fertility Rates on a Downtrend Too

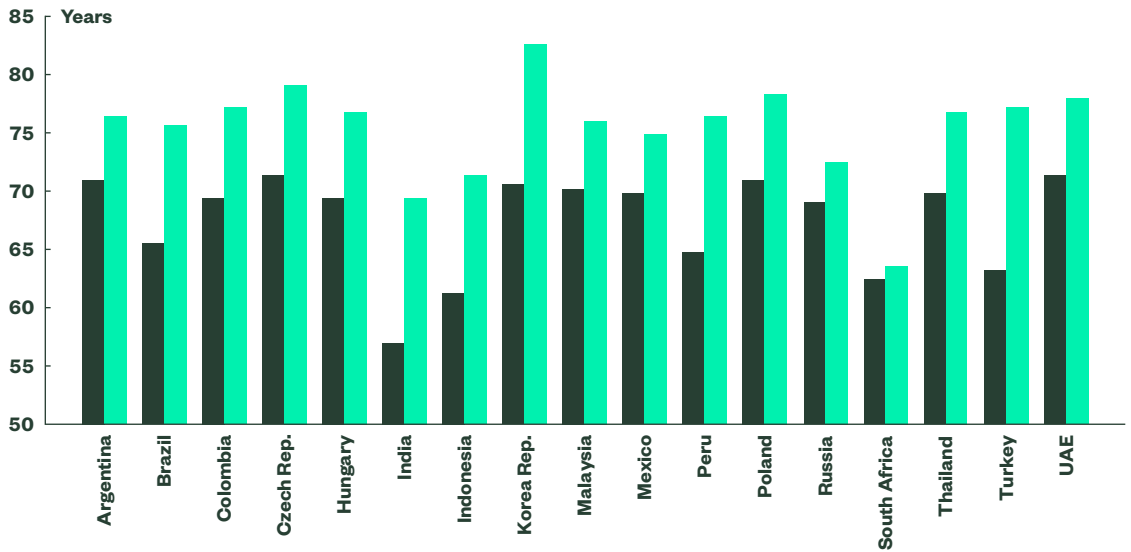
■ 1985-1990
 ■ 2015-2020



Source: The United Nations, State Street Global Advisors.

Figure 26
Life Expectancy at Birth on an Upward Trend

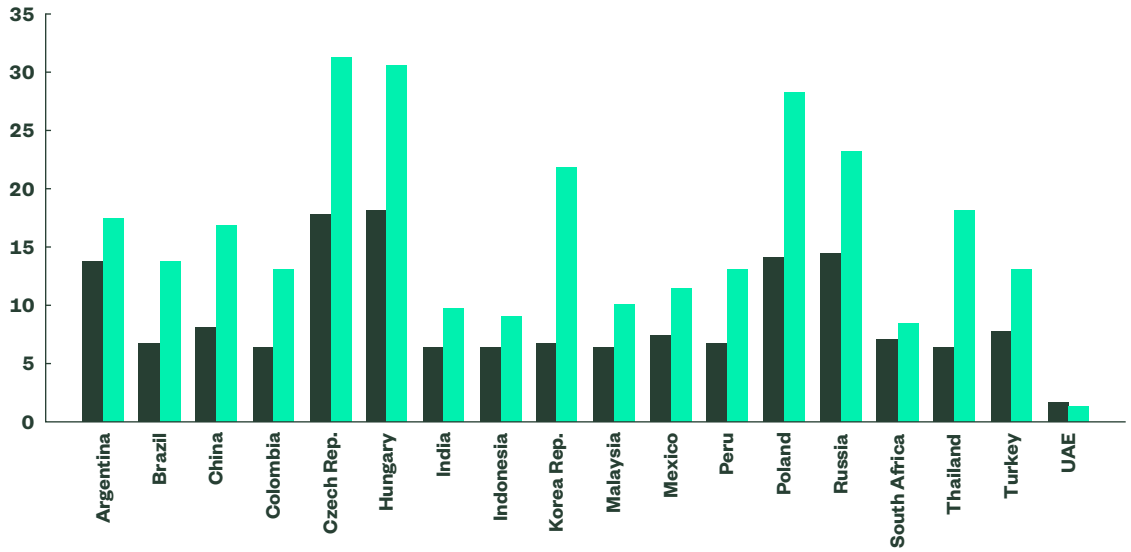
■ 1985-1990
 ■ 2015-2020



Source: The United Nations, State Street Global Advisors.

Figure 27
Old Age Dependency Ratio Shows an Upward Trend

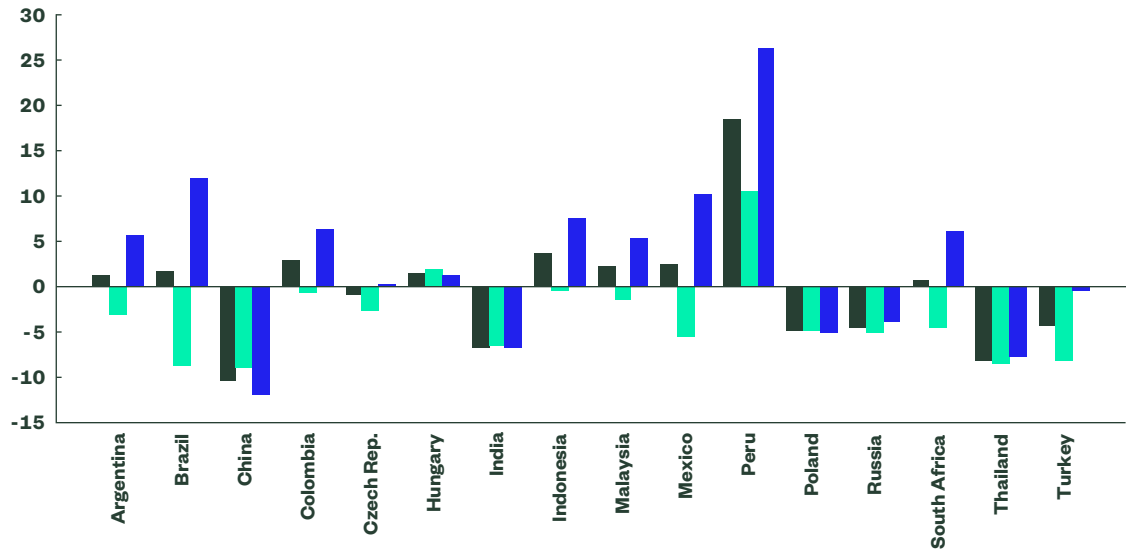
■ 1985
 ■ 2020



Note: Dependency ratio refers to the number of people aged 65+ per 100 people aged 15–64 years.
 Source: The United Nations, State Street Global Advisors.

Figure 28
Change in Labor Force Participation Rates by Gender (1990–2018)

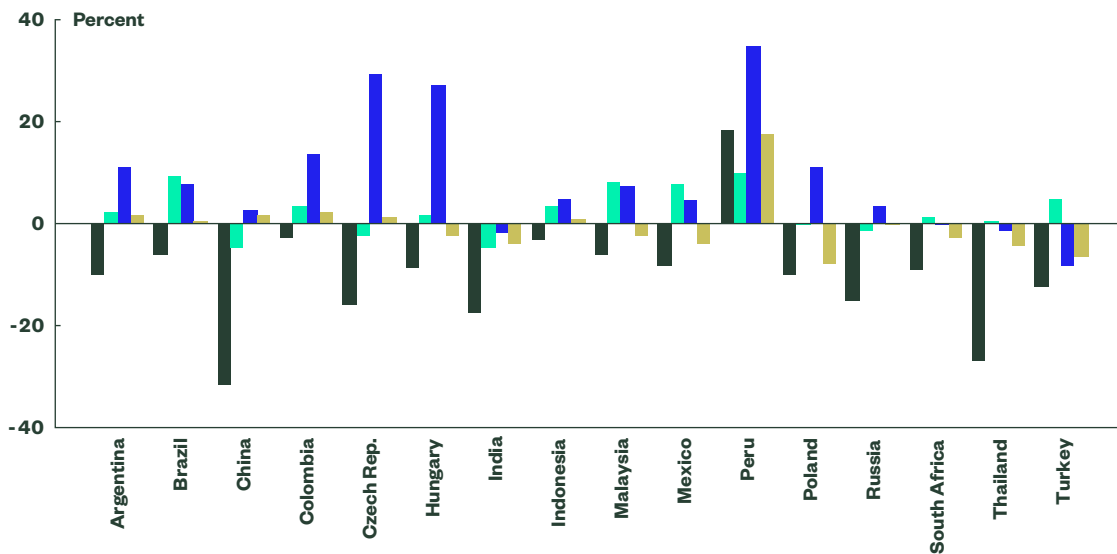
■ Total
 ■ Male
 ■ Female



Source: The International Labour Organization, State Street Global Advisors.

Figure 29
Change in Labor Force Participation Rates by Age (1990–2018)

■ 15–24
■ 25–34
■ 55–64
■ 65+



Source: The International Labour Organization, State Street Global Advisors.

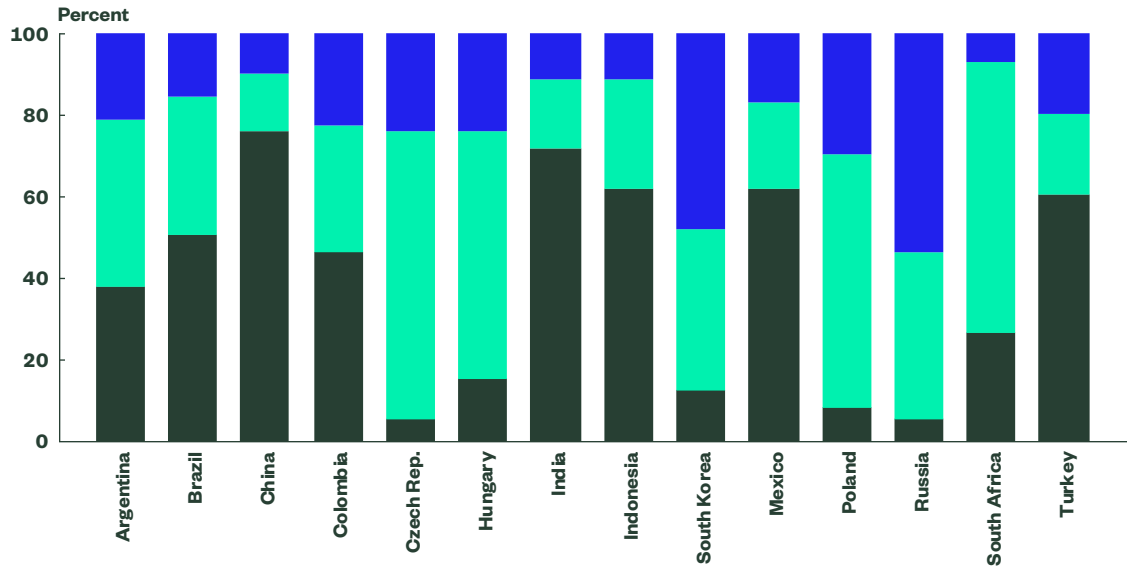
Figure 30
Share of Labor Force Participation by Gender and Age Groups (2018)

	Total	Female	Male	15–24	25–34	55–64	65+
Argentina	60.5	49.0	72.8	37.8	79.3	64.1	15.8
Brazil	64.0	54.0	74.4	55.8	81.9	50.8	14.2
China	68.7	61.3	75.9	46.4	89.8	59.3	21.0
Colombia	70.0	58.6	82.0	53.0	85.4	66.7	29.8
Czech Rep.	60.2	52.4	68.4	30.9	82.1	65.1	6.5
Hungary	56.2	48.3	65.0	32.0	82.4	54.2	2.7
South Korea	63.0	52.8	73.3	31.6	77.1	69.0	31.8
India	51.9	23.6	78.6	30.4	62.4	54.5	27.0
Indonesia	67.1	52.2	82.0	47.6	75.2	69.0	41.0
Malaysia	64.6	50.9	77.4	42.1	85.7	49.8	24.3
Mexico	61.1	43.8	78.9	44.6	74.7	56.6	27.2
Peru	77.2	69.9	84.7	61.5	85.1	82.2	50.1
Poland	56.9	48.9	65.5	34.8	84.6	50.2	5.4
Russia	62.0	54.9	70.5	33.3	89.8	49.4	5.9
South Africa	55.5	48.9	62.6	26.4	74.4	44.7	6.5
Thailand	67.5	59.5	76.2	41.1	87.2	67.4	24.7
Turkey	52.5	33.5	72.6	44.0	70.4	35.8	11.7
UAE	83.0	51.2	93.4	52.0	91.3	75.3	27.3

Source: The International Labour Organization, State Street Global Advisors.

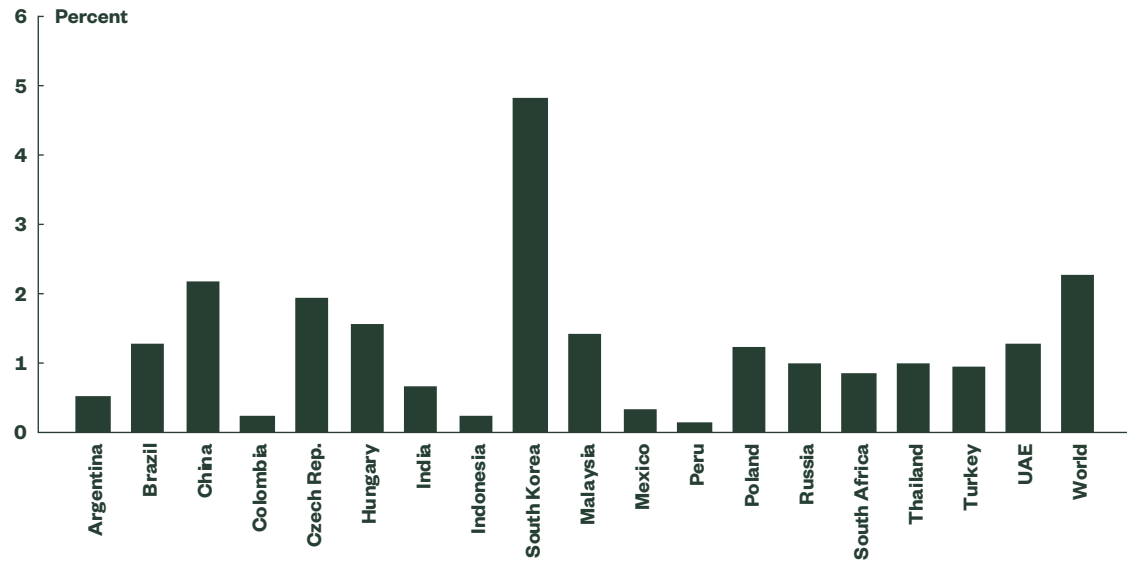
Figure 31
Educational Attainment as of 2017 — 25–64 Year Age Group

■ Below Upper Secondary
■ Upper Secondary or Post-Secondary Non-Tertiary
■ Tertiary



Source: The Organisation for Economic Co-operation and Development, State Street Global Advisors.

Figure 32
R&D Expenditure as Percentage of GDP

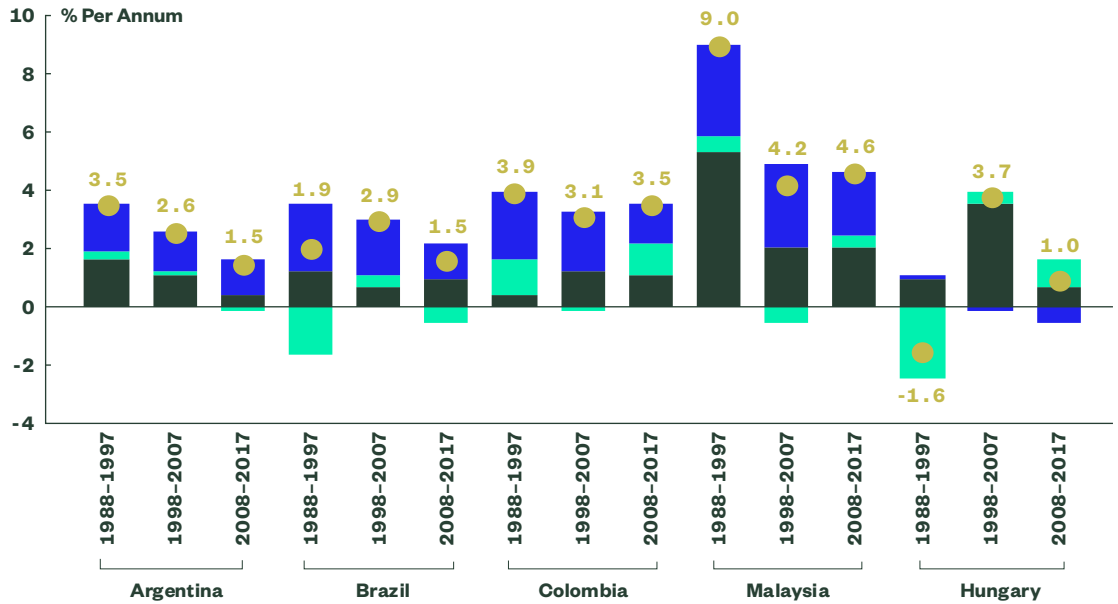


Note: Data for Argentina, Brazil, South Africa, Thailand and Turkey from 2017; data for Malaysia from 2016; data for others from 2018.

Source: The World Bank, State Street Global Advisors.

Figure 33a
Real GDP Growth Decomposition (1988-2017)

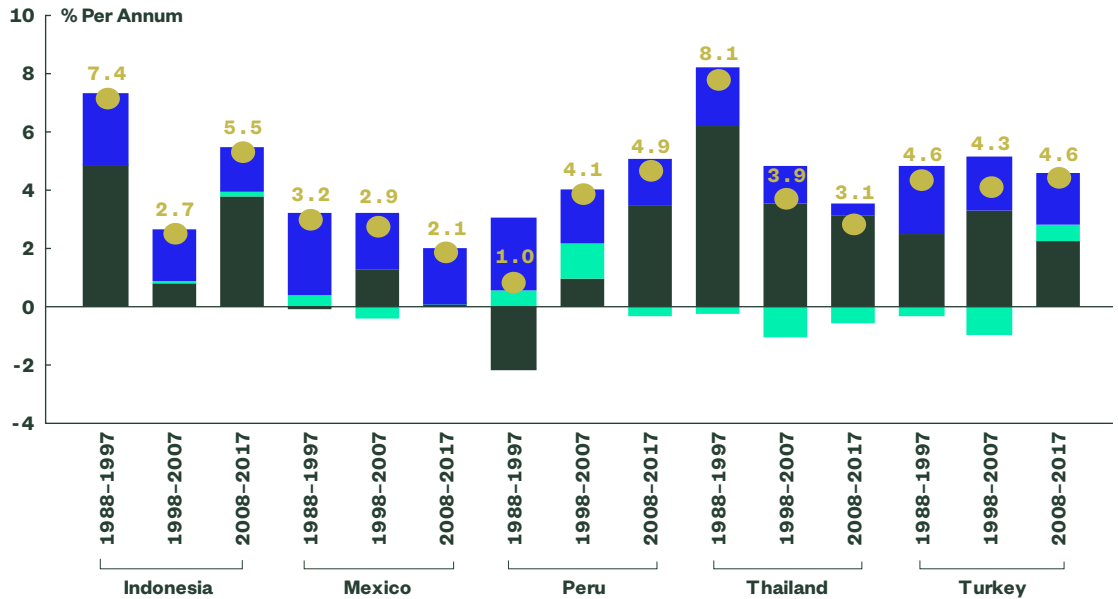
- Labour Productivity Growth
- Labour Utilization Growth
- Working Age Population Growth
- Real GDP Growth



Source: The United Nations, the Groningen Growth and Development Center, State Street Global Advisors.

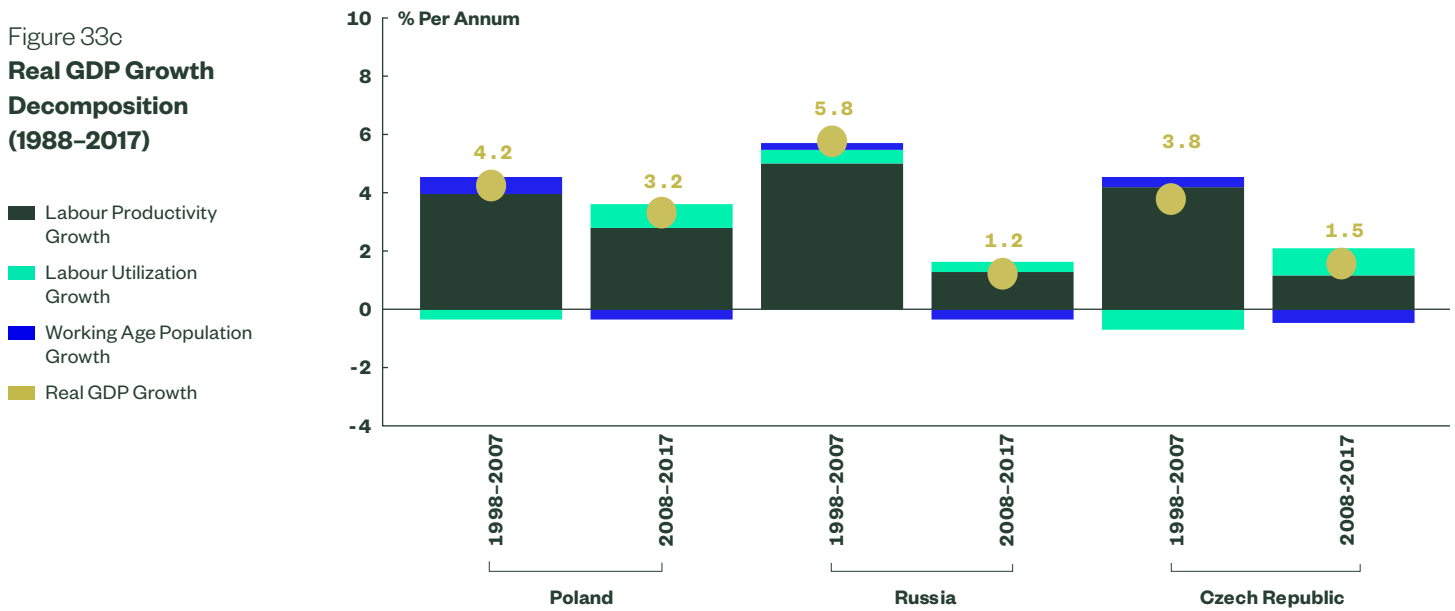
Figure 33b
Real GDP Growth Decomposition (1988-2017)

- Labour Productivity Growth
- Labour Utilization Growth
- Working Age Population Growth
- Real GDP Growth



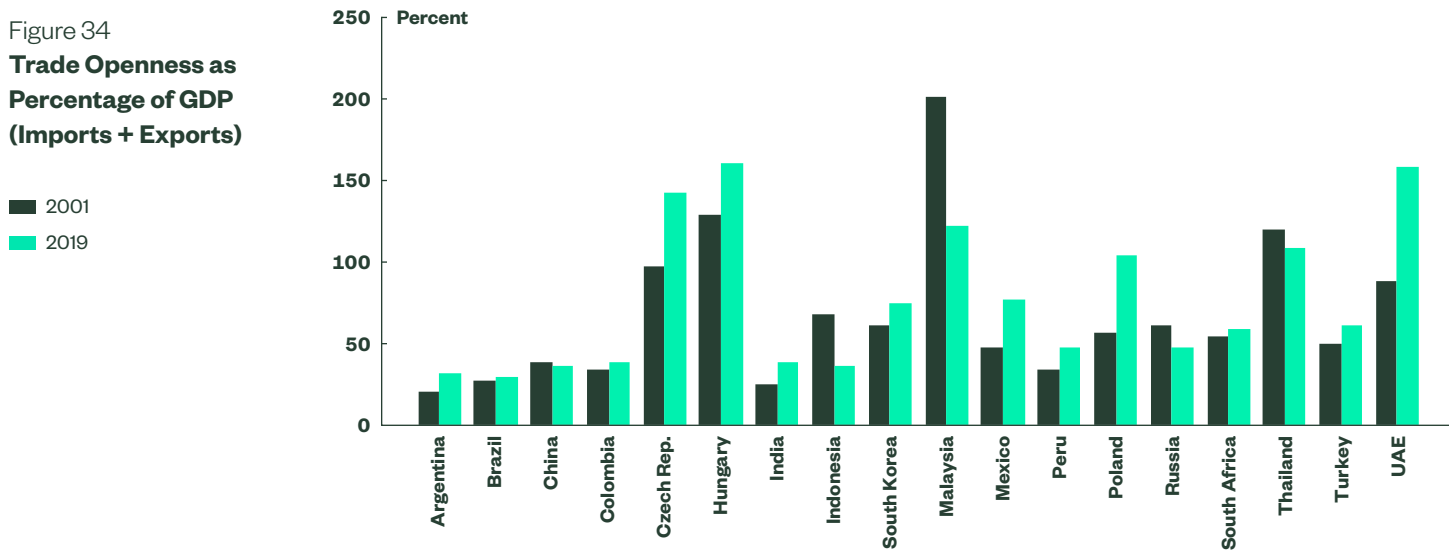
Source: The United Nations, the Groningen Growth and Development Center, State Street Global Advisors.

Figure 33c
Real GDP Growth Decomposition (1988-2017)



Source: The United Nations, the Groningen Growth and Development Center, State Street Global Advisors.

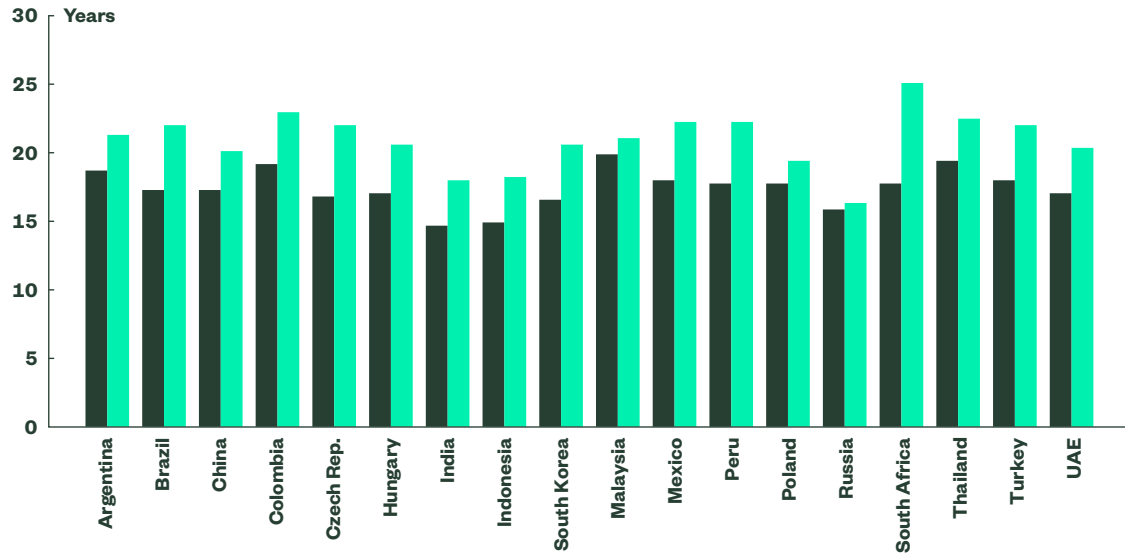
Figure 34
Trade Openness as Percentage of GDP (Imports + Exports)



Source: The World Bank, State Street Global Advisors.

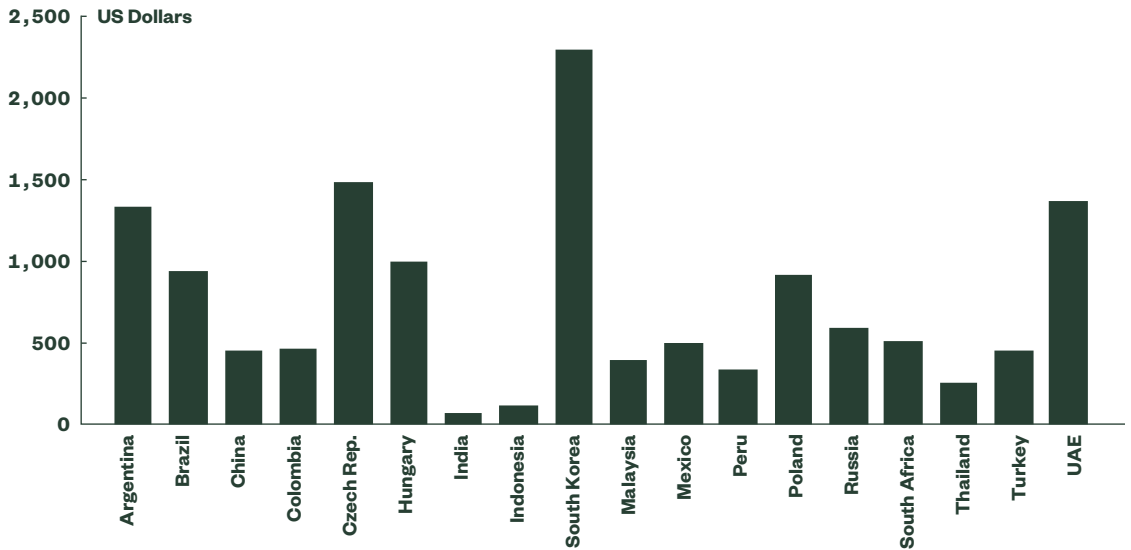
Figure 35
Life Expectancy at Age 60

■ 1985-1990
 ■ 2015-2020



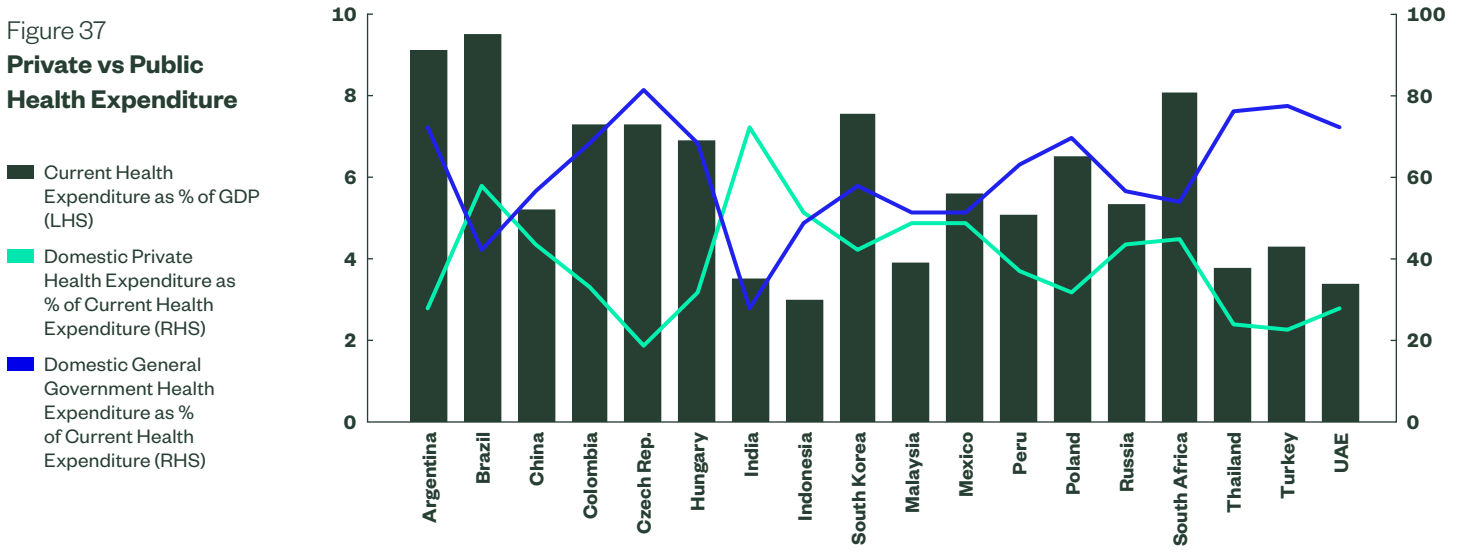
Source: The United Nations, State Street Global Advisors.

Figure 36
Current Health Expenditure Per Capita (2017)



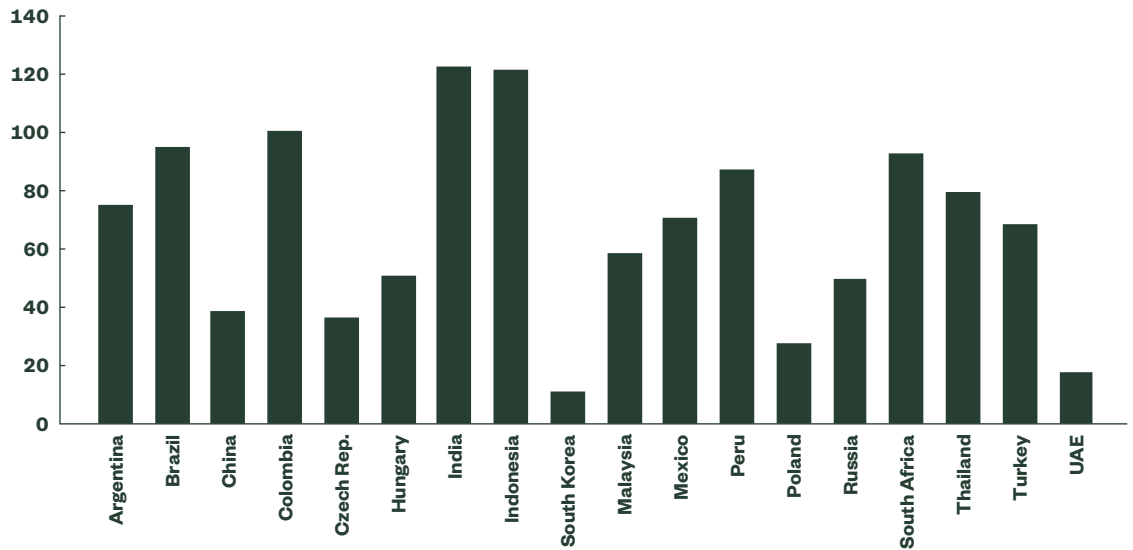
Source: The World Bank, State Street Global Advisors.

Figure 37
Private vs Public Health Expenditure



Note: RHS refers to both public and private health expenditure as percentage of total current expenditure.
 Source: The World Bank, State Street Global Advisors.

Figure 38
Gender Inequality Index Ranking (2019)



Source: The United Nations, State Street Global Advisors.

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