ECONOMIST IMPACT

From emerging to surging: Intra-emerging markets trade and investment amid new globalisation

A brief overview

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About this report

'From emerging to surging: Intra-emerging markets trade and investment amid new globalisation. A brief overview.' is an Economist Impact report sponsored by Invesco. In addition to desk research and data analysis, a series of interviews were conducted to complement the analysis in this report. Economist Impact would like to thank the following experts (listed in alphabetical order by first name) for their time and insights:

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- **David Luke,** Professor in Practice and Strategic Director, Firoz Lalji Institute for Africa, London School of Economics and Political Science
- **Louis-Vincent Gave,** Chief Executive Officer, Gavekal
- **Lourdes Casanova,** Director, Emerging Markets Institute, Cornell University
- **Mona Haddad,** Global Director for Trade, Investment and Competitiveness, World Bank
- **Shamel Azmeh,** Senior Lecturer in International Development, The Global Development Institute, University of Manchester

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Executive Summary

Over the past three decades, emerging markets—a set of countries that are not too rich, not too poor and largely open to trade and investment—have harnessed free-market globalisation to achieve remarkable economic growth. This is evident from their real GDP, which has soared from US$7.41trn in 1980 to US$47.95trn in 2023. Their trade patterns have also evolved, with trade between emerging and developing economies now comprising over 45% of their total trade, up from 25% in 1990. These trends present important opportunities for emerging markets.

Emerging markets can strengthen economic ties between themselves and better integrate with their regions, to not only continue their growth trajectories, but also enhance their resilience and, ultimately, gain a weightier role in the global economy.

Amid the new era of globalisation—marked by geopolitical tensions, protectionist policies and the looming threats of climate change—these countries are in a strong position to capitalise on their bolstered trading capacity.

Indeed, emerging markets can strengthen economic ties between themselves and better integrate with their regions, to not only continue their growth trajectories, but also enhance their resilience and, ultimately, gain a weightier role in the global economy. There are several key factors that would contribute to the success of intra-emerging market trade and investment. Establishing free trade agreements, both regionally and internationally, can significantly boost exports, while developing robust digital and physical infrastructure can expand what, and improve how, emerging markets trade. Leveraging their expanding consumer markets and managing demographic trends with the right policies can further propel emerging markets to trade and invest more between themselves. With a nod to the health of the planet, sustainable investment and trading strategies can foster a low-carbon economy, while unlocking new opportunities for growth.

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Emerging markets in globalisation's new chapter

At first glance, the economies of India and the UAE do not have much in common. India's GDP per capita is a modest US$2,410, in stark contrast to the UAE's figure of US$53,708.[1] Similarly different are the economies of South Africa and Colombia: the former relies heavily on mining and trading minerals, whereas the latter's economic strength lies in oil exports and agriculture. Parallels between the market structures and industrial profiles of Brazil, Thailand, Mexico and Egypt are also hard to draw. Yet, to economists, these nations, along with a dozen others, share one important characteristic: they are emerging markets, a category of countries that are not too rich, not too poor and largely open to trade and investment.[2,3]

Most of these countries gained their 'emerging market' status amid the unfettered economic globalisation of the past couple of decades.

The real GDP of emerging markets soared by nearly 550% between 1980 and 2023, leaping from US$7.41 trn to US$47.95trn.

Although in different ways, they harnessed the benefits of trade liberalisation and greater cross-border capital flows to improve their prospects for growth. Brazil capitalised on its vast natural resources, exporting soybeans, iron ore and oil, while also developing robust agricultural and industrial sectors. Thailand, besides expanding its tourism sector, became a hub for electronics manufacturing and, increasingly, the automotive sector by leveraging its skilled yet inexpensive labour. Egypt, despite political upheavals, maintained economic stability through a combination of tourism, foreign remittances and a diversified industrial base, including textiles and chemicals.

While the growth paths of emerging markets differ, the steps their governments took are similar: implementing market-friendly reforms, integrating into global supply chains and attracting foreign direct investment (FDI). The results have been impressive: the real GDP of emerging markets soared by nearly 550% between 1980 and 2023, leaping from US$7.41trn to US$47.95trn.[4]

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Yet, as the world becomes increasingly fractured, the benefits of free-market globalisation that helped propel growth in emerging markets are no longer as favourable.

The new era of globalisation, spurred by escalating geopolitical tensions, is steering global trade and investment flows towards a world economy in which countries, investors and businesses may face new pressures to align with emerging geo-economic blocs. Trade liberalisation, which seemed unstoppable two decades ago, now faces significant pushback; protectionist policies such as subsidies and tax incentives, which countries like China have long employed, are resurfacing worldwide, including in the West. Climate change adds to these pressures, with emerging markets likely to be among those bearing the greatest cost of its effects. Major disruptions, such as the covid-19 pandemic, have exposed vulnerabilities in the global economy. Yet, the era of new globalisation could also be provident for emerging markets.

Over the past couple of decades, emerging markets have significantly expanded their trade capabilities—a strength they should leverage now more than ever. Notably, they have also increased trade with both peers and neighbours—partnerships they should deepen and expand.

If successful, this would allow emerging markets to continue their growth trajectories, bolster their resilience and, ultimately, gain a weightier role in the global economy. Yet achieving greater economic integration among emerging markets will require strategic initiatives and cooperation.

Over the past couple of decades, emerging markets have significantly expanded their trade capabilities—a strength they should leverage now more than ever. Notably, they have also increased trade with both peers and neighbours—partnerships they should deepen and expand.

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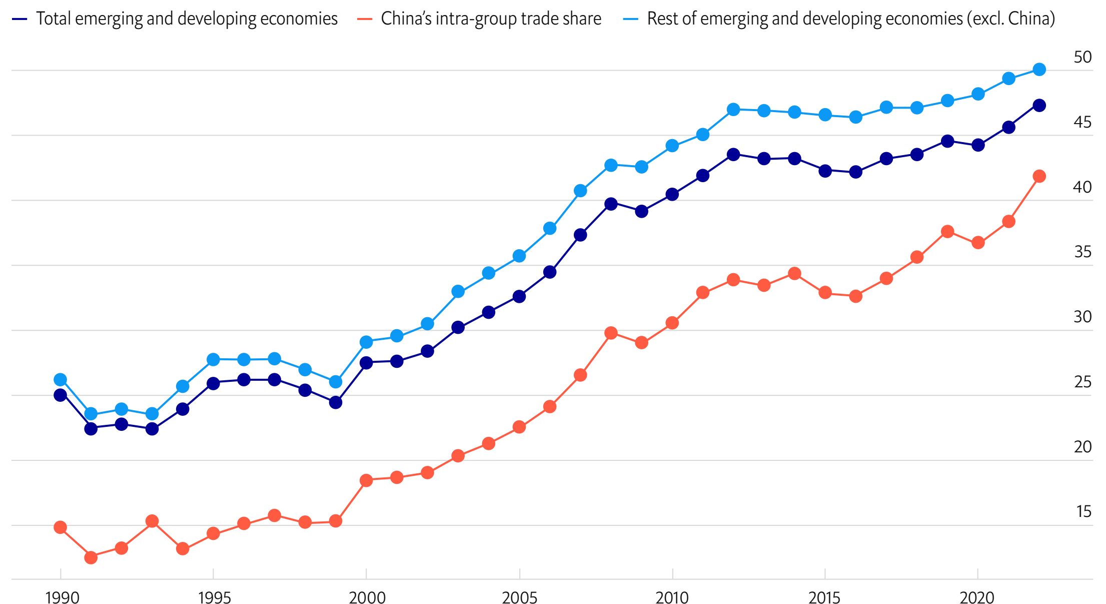
Patterns of intra-emerging markets trade and investment

Before attaining their 'emerging market' status, most of these countries were labelled 'developing economies', a group characterised by comparatively slower growth trajectories and lower participation in global trade and investment.[5] Exploring the growth of 'now-emerged' economies, therefore, requires considering the broader group of emerging markets and developing countries together. The results are clear: since 1990, trade between emerging and developing economies has seen remarkable growth.

When adjusted for inflation, total trade among these economies surged from US$2.03trn to a staggering US$5.26trn between 1990 and 2022 (in 2010 US$).[6] Even more impressive is the rise in the share of the grouping's trade conducted with each other, as a percentage of their total trade with the world (see figure 1). In 1990, roughly 25% of the total trade of emerging and developing economies was with economic peers, but by 2022, this share had risen to over 45%.

Figure 1: Emerging and developing trading habits

Intra-emerging and developing economies trade, % of total trade (goods)



Source: IMF, Direction of Trade Statistics; Economist Impact calculations

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China's growth has been particularly impressive amid the trade expansion among emerging and developing economies. Although its share of intra-emerging and developing economies trade remains comparatively smaller (due to extensive trading with advanced economies), China's growth has underpinned the increase in trade volume within the group. Between 1990 and 2023, China's total trade with the world surged from approximately US$731.25bn to about US$2.98trn, a nearly threefold increase.[7] This has supercharged China's weight in economic affairs but has also put this no-longer-so-emerging market at the centre of geopolitics. The ripple effects are felt throughout the global economy. As Mona Haddad, Global Director for Trade, Investment and Competitiveness at the World Bank, puts it, "geopolitical tensions between China and the US are leading to a rise in protectionism and friendshoring that is bound to affect trade with other countries". This dynamic is ushering in an era of geo-economic fragmentation: a trend of geopolitical alliances dividing the world economy.

These divides are reflected in patterns of investment. Researchers from the IMF mapped this fragmentation by comparing global FDI flows between 2015 and 2020 with those between 2020 and 2022. Their findings are telling. While average levels of FDI from one time period to the next declined by 19.5% worldwide, the patterns of change in investment between different regions and countries were significant (see figure 2). Foreign direct investment from the US to China dropped by 40.6%, while FDI in the opposite direction saw a decline of 22.1%[8] —a trend that mirrors the geo-economic standoff between the world's two largest economies.

Figure 2: Capital clashes
Foreign direct investment flows, Q1 2015-Q1 2020 compared with Q2 2020-Q4 2022
Percentage-point difference from total change (-19.5%)

From \ To	US	Americas excl. US	Advanced Europe	Emerging Europe	China	Asia excl. China	Rest of World
US	0	9.2	0.6	19.4	-40.6	2.3	21.6
Americas excl. US	18.6	27.3	14.9	34.0	-13.3	5.9	27.6
Advanced Europe	7.5	-11.7	9.3	-0.9	-19.7	-9.8	8.6
Emerging Europe	27.6	2.9	9.9	18.1	13.9	-22.3	-11.5
China	-22.1	-6.9	-17.8	-31.3	0	-44.3	-31.9
Asia excl. China	-3.2	-8.7	-11.7	-2.4	-49.2	-23.7	-4.4
Rest of World	26.4	7.1	5.3	11.4	-24.7	-3.7	18.6

Source: IMF, World Economic Outlook (April 2023)

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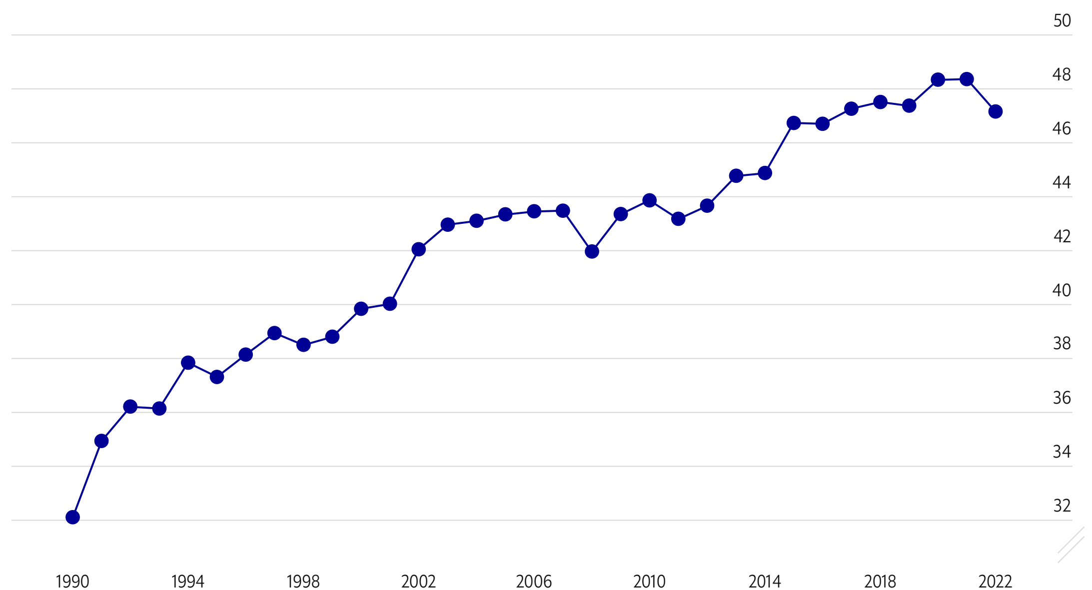
Also telling, however, are the patterns of growth. Comparing 2015-2020 with 2020-2022, investment flows from the Americas (excluding the US)[9] to Emerging Europe increased by 34%, while those in the opposite direction increased by 2.9%. It is clear that certain emerging and developing economies, amid geoeconomic fragmentation, are investing more between themselves, across regions.

Yet, more impressive are the intra-regional trends. Emerging markets, alongside developing ones, are investing more and trading more within their neighbourhoods. Intra-regional investment across Emerging Europe grew by 18.1%, and trade within the Americas (excluding the US) saw a 27.3% increase between the 2015-2020 and 2020-2022 time periods. While Asia's intra-regional investment decreased, trade between the developing economies of the region experienced a boom (see figure 3). In 1990, about 32% of the trade of emerging and developing economies in Asia was intra-regional, yet by 2022, this share had climbed to 47%.[10] This shift, underpinned by a distancing from emerging and developing Asia's once-heavy reliance on Western markets for growth, could be an opportunity for the region.

Indeed, trading within their neighbourhoods often makes sense for developing and emerging markets. Shamel Azmeh, senior lecturer at the Global Development Institute at the University of Manchester, explains the strategic advantage of intra-regional trade: "Regional specialisations, such as in Asia, lead to increased trade between countries. This is driven by regional production networks where different parts and components come together across regions." These networks allow countries to leverage their competitive advantages, creating a more efficient regional economy.

Figure 3: Love thy neighbourhood

Intra-emerging and developing Asia trade, % total trade



Source: Asia Regional Integration Center; Economist Impact calculations

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From past to progress: unravelling drivers, risks and opportunities

The forces of globalisation sustained the growth of most emerging markets over the past few decades; yet among those countries, China stands out as a chief beneficiary. While still considered an emerging market, it now shares many advanced-economy characteristics. Its colossal economic growth has not only been significant domestically, but has also been important for the 'emergence' of other economies. China's demand for raw materials and goods created significant opportunities for emerging and developing economies to export more. Its integration into global supply chains allowed not-yet-developed economies to build domestic capacity and emerge as viable partners in international trade. However, emerging markets now face a new reality: China is experiencing an economic slowdown and is caught in the global economy's fragmentation.

Leveraging competitive advantages between themselves and fostering economic ties that are geopolitics-proof, alongside conventional economic partnerships, would allow emerging markets to better withstand uncertainty.

Despite the benefits of being entwined with the world's second-largest economy, many emerging economies are aiming to remain neutral or non-aligned. They do this motivated by economic pragmatism. As Cuong Ba Tran, head of the Trade Facilitation Division of the Association of Southeast Asian Nations (ASEAN), a regional bloc, puts it: "In ASEAN, we place economic issues as one of our top priorities. Our approach is to make trade deals with our dialogue partners on the basis of international rules and law, upholding the centrality of economic relations." This pragmatic approach allows emerging markets to manoeuvre strategically between the Western geo-economic bloc, led by the US, and the Eastern bloc, spearheaded by China and Russia. Amid these geopolitical shifts, emerging markets have a significant opportunity to find new avenues for intra-emerging market cooperation. Leveraging competitive advantages between themselves and fostering economic ties that are geopolitics-proof, alongside conventional economic partnerships, would allow them to better withstand uncertainty. Against this backdrop, there are several key factors promoting increased trade and investment flows between emerging markets.

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Enhancing efficiency through trade arrangements and regional integration

One of the most significant drivers of intra-emerging market trade are the establishment of free trade agreements (FTAs), at both regional and international levels. The diversity of emerging economies implies that they are entwined with various trade and cooperation arrangements, each contributing uniquely to their economic performance.

Emerging European countries, like Hungary, the Czech Republic and Poland, benefit from membership in the European Union. While other parts of the world are unlikely to achieve the European level of integration—68% of European trade is intra-regional—the role of agreements in facilitating the free movement of goods, services and capital in fostering significant economic growth is clear. In fact, modelling by the IMF indicates that countries with trade agreements experience, on average, an 80% increase in exports over ten years compared with similar countries without such agreements, with emerging markets seeing the greatest benefits.[11]

"Political will is crucial for emerging markets to open up, trade and invest in other emerging markets."

Lourdes Casanova, director of the Emerging Markets Institute at Cornell University

Yet, trade agreements can be hard to forge. The African Continental Free Trade Area (AfCFTA), an ambitious agreement aimed at creating a free trade area for goods and services across the continent, is a clear example. To David Luke, professor in practice and strategic director of the Firoz Lalji Institute for Africa at the London School of Economics and Political Science, the AfCFTA "could be a game-changer for the African economy".

The World Bank estimates that implementing the agreement could lift 30 million Africans out of extreme poverty and boost the continent's GDP by 7% by 2035.[12] Despite its potential and urgency, however, "progress [with the full implementation of the AfCFTA] has been slow", adds Mr Luke. To Ms Haddad of the World Bank, taking "full advantage of the opportunities of the AfCFTA" requires implementing "complementary reforms at the domestic level".

Indeed, one hurdle to the success of trade arrangements like the AfCFTA can be a lack of political will. Lourdes Casanova, director of the Emerging Markets Institute at Cornell University, is explicit: "Political will is crucial for emerging markets to open up, trade and invest in other emerging markets". This issue is particularly evident in how India, a key player among emerging markets, has approached trade agreements. Anne-Marie Gulde-Wolf, deputy director of the IMF's Asia and Pacific Department, explains, "India's absence from the [Regional Comprehensive Economic Partnership (RCEP), an FTA among Asia-Pacific countries,] and its slow progress in forming trade agreements are major hindrances". In Ms Gulde-Wolf's view, India's aim to boost manufacturing output is politically recognised, yet the means of doing it—through "enhanced trade integration with other emerging markets"—has failed to garner the necessary support of policymakers.

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Developing blueprints for strong foundations

Infrastructure

While trade arrangements and regional integration are crucial for greater trade and investment between emerging markets, they are often not enough. As Mr Azmeh of the University of Manchester comments, "Trade agreements help, but there are also issues around transportation, logistics and border crossing. It's not enough to have zero tariffs to promote regional trade." Indeed, good infrastructure helps emerging markets reduce costs and improve efficiency, which translates to greater trade and greater FDI attractiveness. One recent World Bank study finds that building digital, energy and transport infrastructure in developing countries significantly boosts trade, productivity and overall economic growth.[13] Transport infrastructure, in particular, can increase trade by an average of 6%, while digital infrastructure investments can increase productivity by up to 10%.[14] In discussing how the successes of ASEAN can be transferred elsewhere, Mr Tran corroborates the importance of infrastructure: "Initiatives like the AfCFTA face clear impediments like the lack of infrastructure", he says, adding that "the slow progress in these areas hinders the potential benefits that such a trade agreement could bring".

As consumers in emerging economies get richer, they create demand for goods and services that other emerging economies with competitive advantages can leverage, leading to an increased trade amongst them.

Demography and consumer potential

Expanding consumer markets and demographic trends are critical factors fuelling intra-emerging market trade and investment flows. As consumers in emerging economies get richer, they create demand for goods and services that other emerging economies with competitive advantages can leverage, leading to increased trade amongst them.

India stands out: the world's most populous country has witnessed tremendous growth in its retail market over the past 10 years, driven by urbanisation and significant income growth. According to the Economist Intelligence Unit, India's total consumer expenditure has grown from US$1.19trn in 2014 to a projected US$3.35trn by 2028, marking an impressive increase of over 182%.[15] To fully capitalise on the swelling wallets of its citizens, India should reconsider its reserved stance toward FTAs. By opening up, India can attract foreign businesses eager to tap into its expanding market while enhancing its export opportunities—benefitting not only itself but also its emerging-market counterparts.

Demography is another advantage that was conventionally wielded by most emerging markets to increase trade and investment. Indeed, most developing economies leveraged their relatively young populations, allowing them to rely on labour-intensive manufacturing to grow. Yet, the possibility for economic gains through a 'demographic dividend' has now ebbed for many emerging markets. Policy choices, which can influence economic outcomes despite demographic shifts, therefore become important.

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Indeed, many emerging markets that once had youthful populations are now experiencing lower birth rates. This has reduced the proportion of working-age people, diminishing the labour force that once fuelled economic growth. As Ms Casanova, of Cornell University's Emerging Markets Institute notes, "The demographic dividend is present in fewer and fewer countries, remaining mainly in Africa. It is no longer a factor in Latin America or China, and the demographic peak of India will probably take place soon."

Nonetheless, with the right policies, this change in demographic advantage could increase trade between emerging markets. Countries, such as China, that no longer enjoy a demographic dividend might increasingly benefit from trading with and investing in those that still benefit from larger working-age populations. This could lead to stronger economic ties between demographically young economies, such as some in Africa, and their ageing counterparts in Latin America and Asia.

In fact, such a trend could aid African economies, as they face a challenge of their own, what Mr Luke of the LSE terms a "demographic time bomb"—rapidly growing populations without sufficient job creation. By attracting investments and boosting trade from other emerging markets, African economies can create more jobs, turning their impending demographic challenge into an opportunity. In this context, programmes facilitating infrastructure development and economic integration, such as China's Belt and Road Initiative, can play a pivotal role, enhancing the potential for demographic and economic exchanges.

Technology

The other significant threat to conventional economic development boosted by demography is technology. The rise of automation and improvements in AI have led some economists to question conventional growth models for emerging and developing countries, whereby transitioning resources from agriculture to industry, and then to services, achieves economic growth.[16] Indeed, if a substantial share of manufacturing jobs in emerging economies get automated, demand for low-skilled labour in manufacturing will be reduced, preventing countries from moving enough workers into the industrial sector. Ms Haddad of the World Bank puts it clearly: "With more robots and AI, there is bound to be an impact on employment, although we don't yet know by how much." And indeed, some counter that technologies might, instead, pose a greater risk to jobs in advanced economies than in emerging ones. This is because advanced economies have a larger proportion of high-skilled workers in sectors like professional services, where recent technological advances, such as generative-AI, could end up replacing more jobs.

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In any circumstance, technology holds important opportunities for how and what emerging markets trade. Tech-oriented services, for example, is one sector promising trade growth. India has been quick to capitalise on it: one analysis suggests that by 2029, the revenue from IT services in the country could almost double to US$44bn, up from roughly US$23bn in 2023.[17] In turn, advances in digital technologies—such as blockchain, AI and the Internet of Things—will change how emerging markets trade, enhancing trust through more efficient and transparent trade processes. Still, adopting these technologies will require investment in skills, as well as in infrastructure, with one critical piece of digital infrastructure being universal broadband. According to the IMF, 73% of the additional US$418bn investment needed to connect all unconnected citizens globally is in emerging markets.[18]

"Incorporating sustainability into our trade agreements is not only about compliance with advanced economies but also about recognising the economic benefits and the importance of environmental stewardship."

Cuong Ba Tran, head of the ASEAN Secretariat's Trade Facilitation Division

Factoring in sustainability for growth and progress

With the risks posed by climate change looming large, environmental sustainability considerations are gaining importance across advanced economies. Emerging ones should not fall behind. As Mr Tran of the ASEAN Secretariat notes, "Incorporating sustainability into our trade agreements is not only about compliance with advanced economies but also about recognising the economic benefits and the importance of environmental stewardship." Emerging economies only stand to gain if they adopt a forward-looking approach to environmental sustainability. For example, The Asian Development Bank (ADB) argues that investment in green infrastructure, such as solar and wind energy projects, can enhance trade and investment flows among emerging Asian markets.[19] One ADB report, spotlighting green infrastructure investment opportunities in Indonesia, underscores how green bonds and other finance instruments for 'climate-resilient infrastructure' are meeting an increasing demand for sustainable investments, while contributing to a low-carbon economy.[20]

Meanwhile, the costs of inaction will weigh on human wellbeing and, equally, on economic growth. Ms Gulde-Wolf of the IMF is clear: "The economic costs of environmental degradation in some [emerging economies] are enormous and are going to come up unless some serious investments are made." As an illustration of the human cost, Ms Gulde-Wolf cites air quality in Delhi, India's capital and the world's most polluted city. According to one estimate, Delhi's pollution levels can shorten lives by almost 10 years.[21] In turn, the World Bank estimates that the cost of welfare losses and lost labour income amounts to roughly 8.5% of India's GDP.[22]

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Conclusion

In the challenging new era of globalisation, trade and investment between emerging markets presents an opportunity for sustained growth. Having bolstered their capacity to trade over the past three decades, these economies can now wield this strength, both regionally and internationally. There are steps that emerging markets can take to increase trade among themselves.

Key among them are establishing trade agreements, developing both digital and physical infrastructure and facilitating the adoption of enabling technology. Yet, emerging markets will also face challenges. They need to take into account ecological sustainability considerations, demographic shifts and, increasingly, navigate a geopolitically divided global economy.

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Appendix

Economist Intelligence Unit, List of emerging economies

Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Iran, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Thailand, Turkey, United Arab Emirates.

Economist Intelligence Unit, List of emerging and developing economies:

Albania, Algeria, Angola, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Belarus, Bolivia, Bosnia and Hercegovina, Botswana, Brazil, Bulgaria, Cambodia, Cameroon, Chile, China, Colombia, Congo (Brazzaville), Congo (Democratic Rep. of), Costa Rica, Côte d'Ivoire, Cuba, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Gabon, Georgia, Ghana, Guatemala, Honduras, Hungary, India, Indonesia, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kuwait, Lebanon, Libya, Malawi, Malaysia, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nicaragua, Nigeria, North Macedonia, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Senegal, Serbia, Seychelles, Sierra Leone, South Africa, Sri Lanka, Sudan, Syria, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, United Arab Emirates, Uganda, Ukraine, Uruguay, Uzbekistan, Venezuela, Vietnam, Yemen, Zambia, Zimbabwe.

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