Special Report

Shifting Sands: The Demographic Drivers of Change in Emerging Economies

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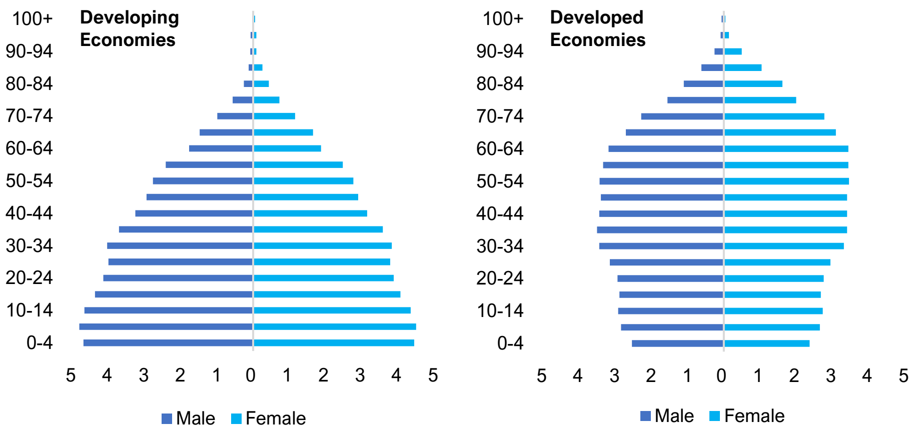
Contents

Young and Growing Population

In last 25 years, world population expanded by 2.1 billion, with majority growth from developing economies

Population Pyramids, 2022

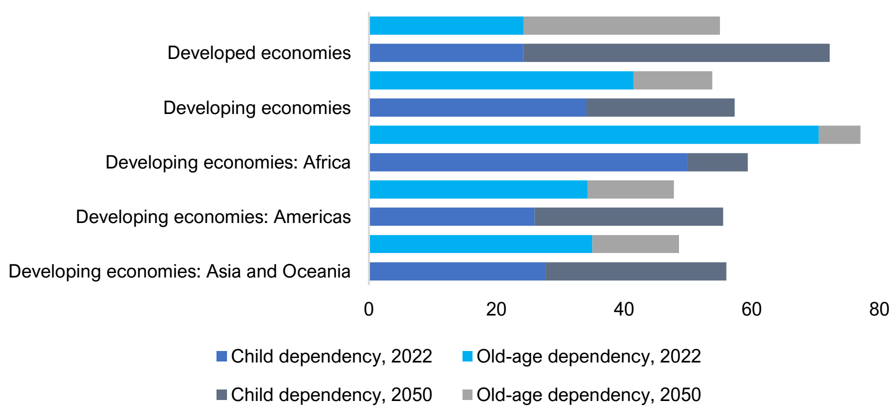
(In Percentage)



- In developing economies, the age structure resembles a pyramid, where older age groups successively decreased compared with younger ones.
- In contrast, developed economies showed that the most significant age groups fall between 35 and 54 years. The global decrease in births, temporarily accelerated due to COVID-19, is evident in the lower number of children under age 5 compared with the next higher age group.
- On a global scale, in 2022, 59% of individuals over 75 years were female, whereas only 48% of children being girls. This gender disparity is seen in developed and developing economies.

Dependency Ratio by Age Structure

(In Percentage)



- In majority of economies, the age distribution follows a pattern wherein dependency ratios initially decline, attributed to a decrease in the proportion of children, followed by subsequent increases as more individuals surpass the age of 64.
- Across most global regions, the dependency ratio noticeably declined, with anticipated reductions in the child dependency ratio likely to be outweighed by increase in the old-age dependency ratio.
- Within developed economies, there is an ongoing upward trend in dependency ratios, with estimates indicating a potential increase to 73% by 2050.

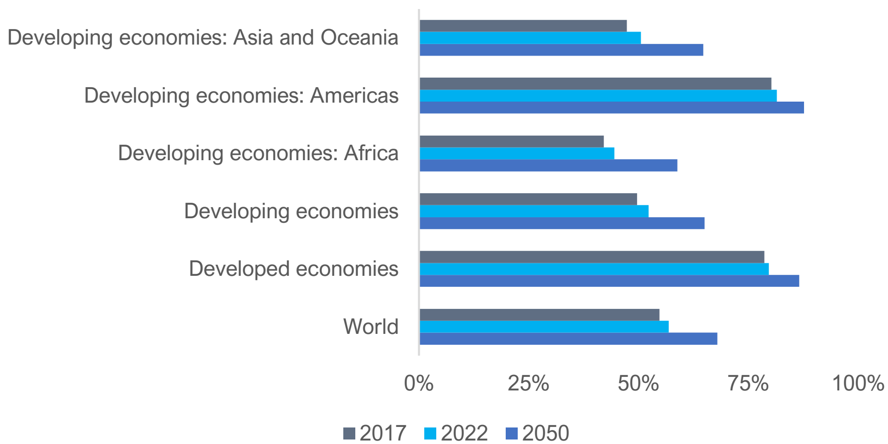
Source: *Handbook of Statistics 2023 and Aranca Research*

Urbanization to Drive Economic Growth in Developing Economy

Over 50% currently live in cities globally; by 2045, urban population likely to expand 1.5 times and touch 6 billion

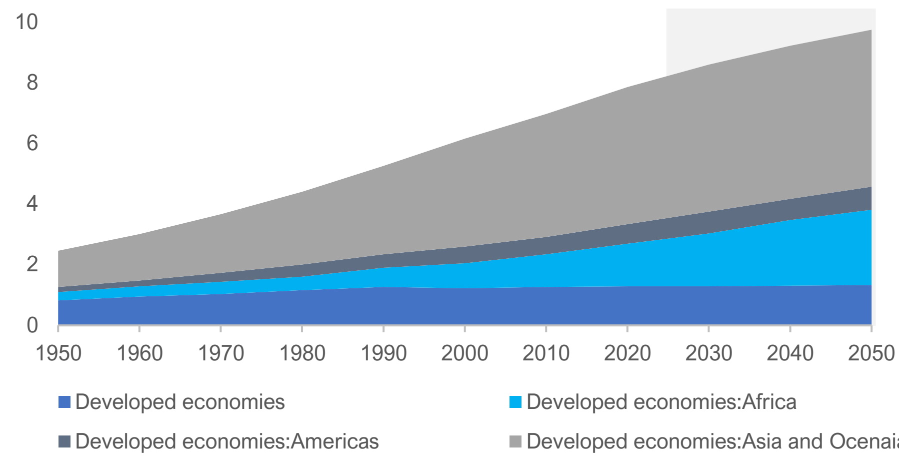
Urban Population by Group of Economies, 2022

(In Percentage)



World Population by Group of Economies

(Billions)



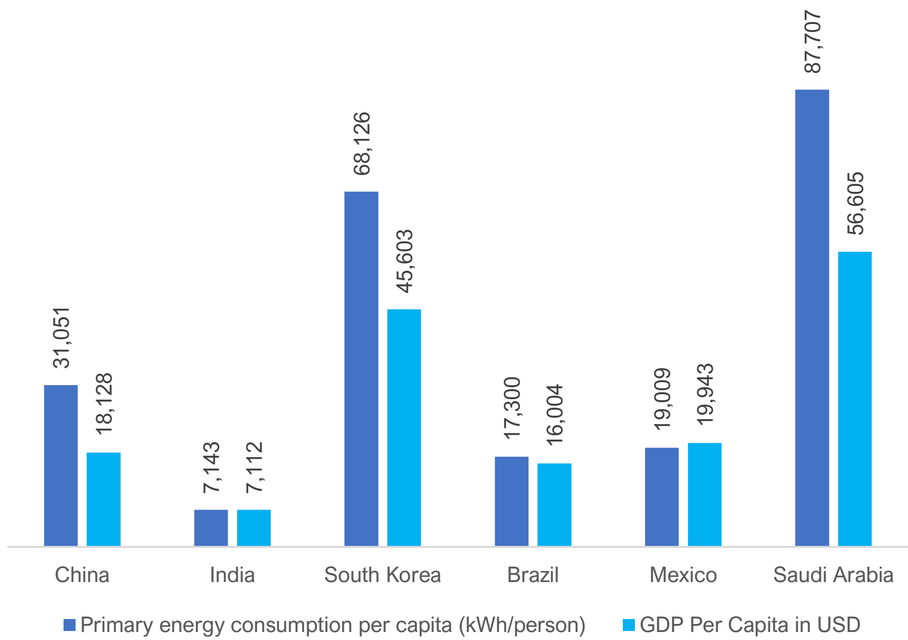
- Urbanization and economic development are interconnected, considering that 80% of the world's GDP comes from cities. A positive correlation is observed between high GDP per capita and the proportion of urban population. This connection underscores the idea that economic prosperity often accompanies urban growth.
- In contrast to developing nations, countries such as Switzerland (73.92%), Norway (82.97%), the US (82.66%), Denmark (88.12%), Sweden (87.98%), Australia (86.24%), and Canada (81.56%) boast notably high levels of urban population.
- In the past decade, urbanization remarkably surged in developing economies, with Asia and Oceania recording a rise in the urban rate from 44.0% in 2012 to 50.6% in 2022. During the same period, Africa observed a 4.6 percentage point increase. Conversely, the Americas, characterized by high urbanization levels in developing economies, posted modest urbanization.
- The challenges of managing urbanization growth in developing economies are considerable. However, there are numerous opportunities to harness the potential of cities for sustainable development.

***Source:** Handbook of Statistics 2023 and Aranca Research*

Energy Consumption in Developing Economies

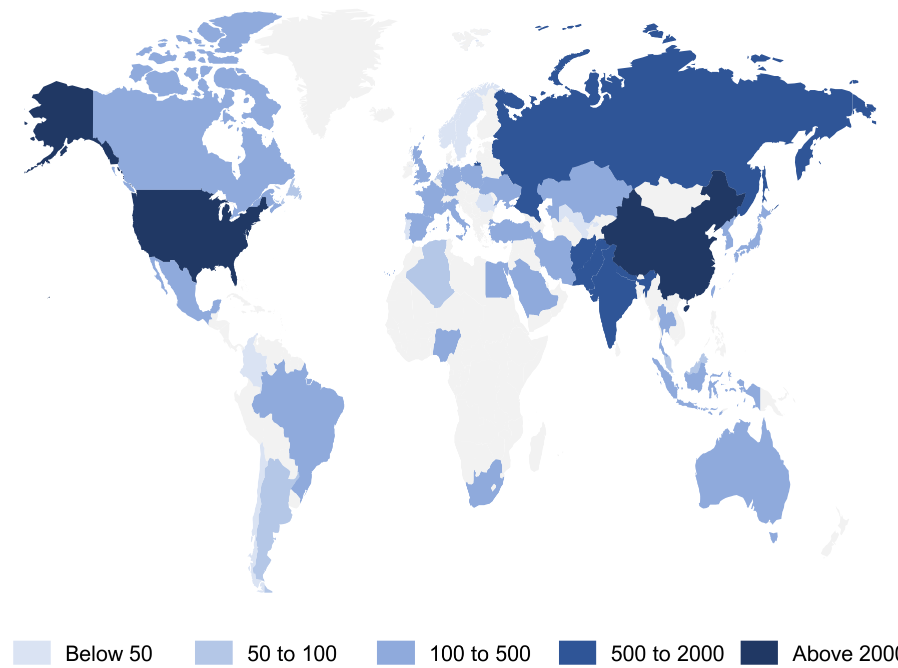
Developing countries tend to use more energy per capita than developed ones

Primary Energy Consumption Per Capita



- Developing nations account for over 50% of the world's energy consumption, despite having substantially lower per capita usage than developed countries.
- Over the past 15 years, energy demand from developing nations has nearly doubled and is anticipated to increase 30% in the next 15 years. This signifies a continuously expanding portion of global energy demand.

Total Energy Consumption, 2022



- Global energy consumption growth slowed drastically in 2022, decreasing from +4.9% in 2021 to +2.1%, but surpassing the 2010–19 average of +1.4% per year.
- Strong economic growth boosted energy consumption in India (+7.3%), Indonesia (+21%), and Saudi Arabia (+8.4%), with moderate increases in Brazil and Mexico (+2.4%) and Argentina (+4.5%).

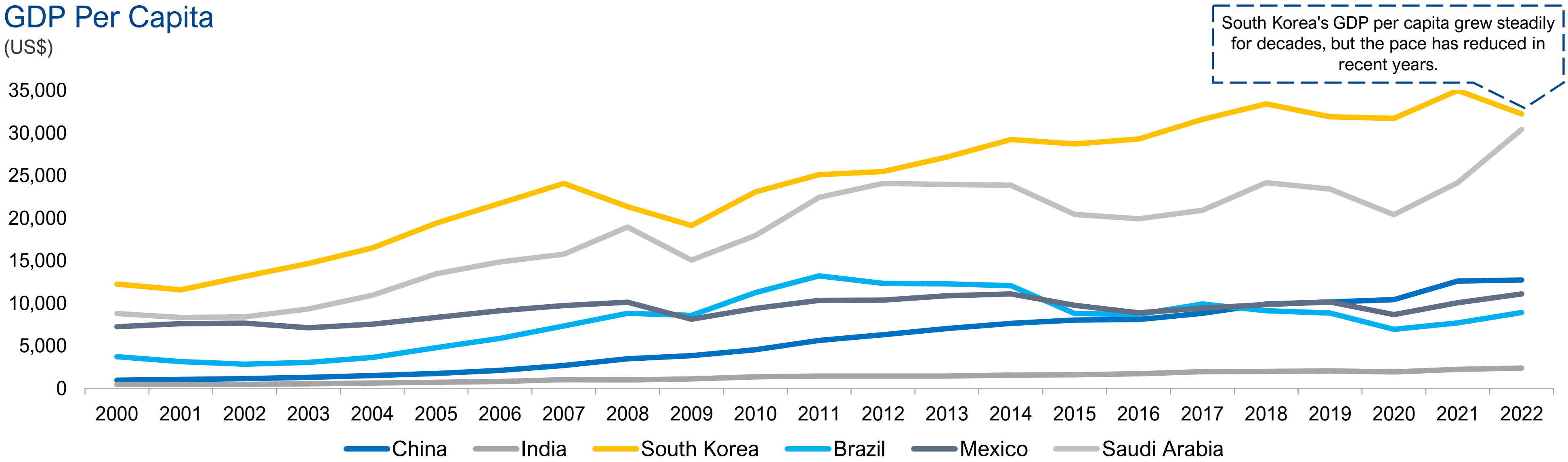
Source: *Enerdata and Aranca Research*

Rise in Income Levels

Income surge in emerging markets signals new era of economic prosperity, increased consumer spending potential

GDP Per Capita

(US$)



- The global middle-class is on the rise, particularly in emerging markets. By the end of 2021, there were an estimated 1.2 billion middle-class households in emerging economies, and this figure is projected to grow 2.7% annually until 2030. This compares to developed countries, where the middle class comprised 225–230 million households in 2021 and is expected to advance slightly faster at 6.3% per year until 2030.
- Within developing economies, an upward trend in disposable income within the upper-middle-class segment is projected to significantly outpace overall household growth and spending patterns in the coming decade. Between 2019 and 2030, households with annual disposable income ranging from USD 45,000 to USD 100,000 purchasing power parity (PPP) are likely to expand at a robust annual rate of 5.6%, far exceeding the modest 1.2% average growth anticipated for the total number of households. Furthermore, spending within this upper-middle-income segment is forecasted to climb to 6.9% per year in real term, surpassing the projected 1.9% average annual real spending growth for households within the USD 15,000–45,000 (PPP) income bracket.
- China's economic landscape to post a major shift by 2030. While households earning an annual disposable income of USD 15,000–45,000 (PPP) would still represent a large portion, those within the USD 45,000–100,000 (PPP) bracket – estimated at 160 million households – would exercise greater purchasing power. This projected shift makes China's new, higher-income middle class a crucial target for consumer brands in the next few years.

Source: *Macrotrends, Euromonitor International and Aranca Research*

Gender Inequality

Women remain significantly under-represented in STEM* workforce, with just 29.2% female workers

Country	Global Gender Gap Index 2023		Labor Force Participation Rate (%)		Population Sex Ratio	Gender Pay Gap
	Score	Rank**	Female	Male	Female/Male	Percentage (%)
China	0.678	107th	63.73	78.16	0.96	-
India	0.643	127th	28.26	76.14	0.94	-
South Korea	0.680	105th	55.04	73.66	1.00	31.06
Brazil	0.726	57th	52.37	72.87	1.04	9.09
Mexico	0.765	33rd	43.62	75.69	1.05	12.50
Saudi Arabia	0.637	131st	34.55	79.17	0.73	-

- China's progress on gender equality stalled in 2023, ranking 107th and slipping five positions. While educational attainment boasts full parity in tertiary education, economic and political empowerment lags, with just 11.4% parity in political representation. The skewed sex ratio at birth remains a considerable challenge, impacting health parity.
- India's gender gap progress is mixed: improved ranking but economic and political gaps remain. Education has the best parity, while senior roles and political representation lag. Health shows slow but steady improvement.
- Brazil marks its best year yet in gender equality, reaching 72.6% parity and 57th place globally. Political representation soared with record number of women in ministerial positions and parliament. Economics see moderate progress, whereas education approaches full parity across all levels. Health emerges as the leader with full parity, fueled by improvements in sex ratio at birth and life expectancy.
- Despite inching closer to parity, Mexico's global ranking slipped, highlighting persistent gender gaps. Ranked 33rd with 76.5% parity, the country leads in education but stumbles in economic and health domains.

Note: **STEM - Science, Technology, Engineering and Mathematics | **Out of 146 Countries*
Source: *World Economic Forum and Aranca Research*

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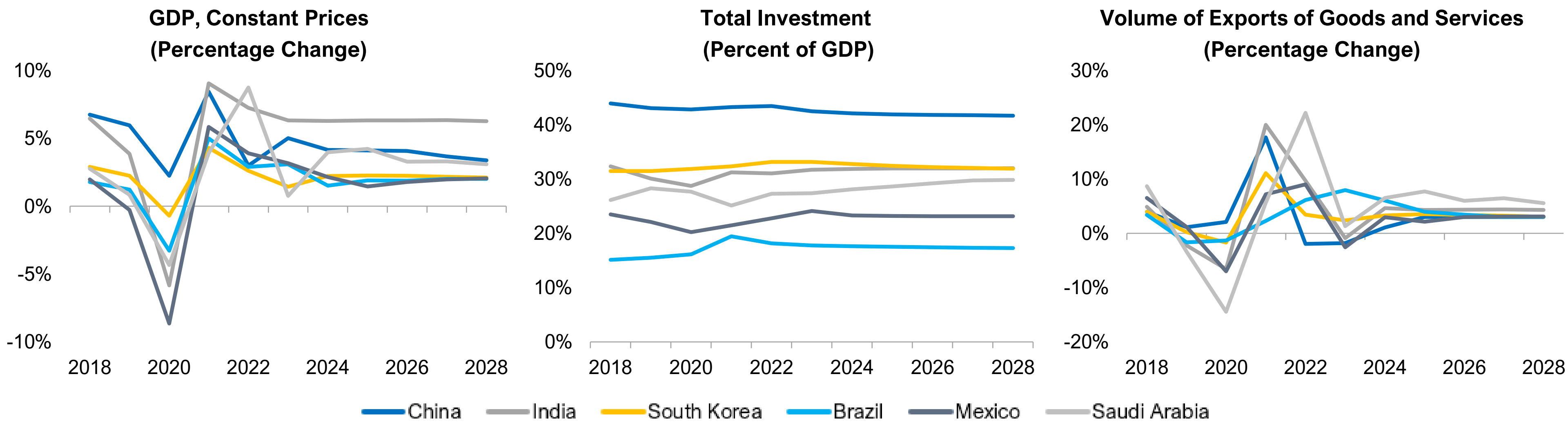
Trends in Emerging Markets (1/2)

India poised to outshine counterparts in GDP growth, whereas China remains committed to substantial investments



- India's growth outlook remains positive driven by anticipated rise in domestic demand, increased infrastructure spending and focus on digitalization.
- China's growth slowed from 8.9% in Q1 23 to 4.0% in Q2 23, attributed to the post-COVID-19 reopening surge. Due to the economic slack and falling energy and food prices, inflation dropped to 0.2% YoY in Q2 2023. Brazil's decision to maintain a consistent 3.0% inflation rate starting in 2025 would help diminish uncertainty and bolster the effectiveness of monetary policy.

- Investment consistently lagged pre-pandemic levels globally. Businesses exhibited reduced eagerness for expansion and risk-taking due to factors such as escalating interest rates, withdrawal of fiscal support, subdued prospects for product demand, stricter lending conditions, and increasing uncertainties related to geoeconomic fragmentation.

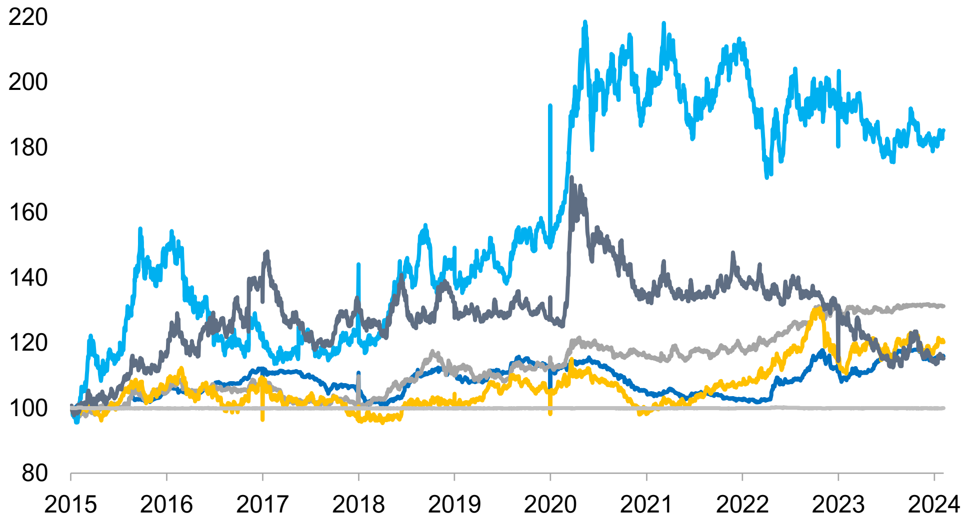
- China is a global manufacturing hub, leading in the production of various goods. The volume of exported goods, including electronics, textiles, and machinery, significantly contributed to its economic growth.
- While manufacturing and exports play a vital role, there is a growing emphasis on developing and expanding service sectors to ensure sustainable and diversified economic growth.

Source: *World Economic Forum and Aranca Research*

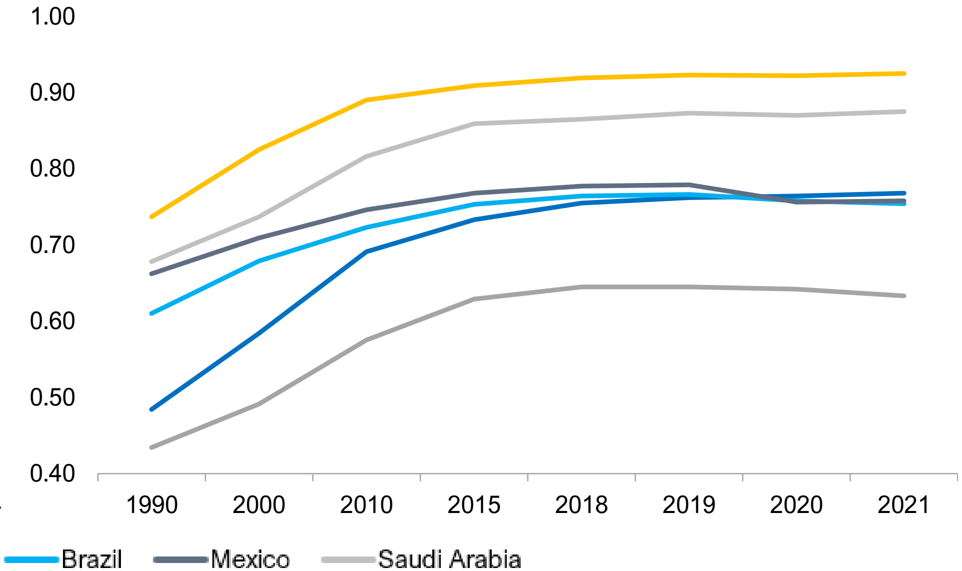
Trends in Emerging Markets (2/2)

Mexico’s Peso dominates in emerging markets, while South Korea leads peers in HDI excellence

Exchange Rate
(Rebased, Compared to USD)



Human Development Index (HDI)
(Value)



- Between 2015 and 2022, the Brazilian Real (BRL) markedly depreciated, mainly due to political unrest, economic uncertainty, and depressed commodity prices in the initial years of this period. However, the currency exhibits signs of recovery since 2022.
- Since mid-2020, the Mexican Peso has steadily appreciated, becoming one of the strongest currencies among emerging markets in the past four years. This is largely attributed to Mexico's nearshoring boom, surging remittances, and strong fiscal position.
- South Korea boasts a high HDI, reflecting its well-developed education system, high life expectancy, and a strong economy. Investments in technology and innovation have played a crucial role in enhancing the overall quality of life.
- Saudi Arabia has invested heavily in social and economic reforms as part of Vision 2030, aiming to diversify the economy and improve human development.

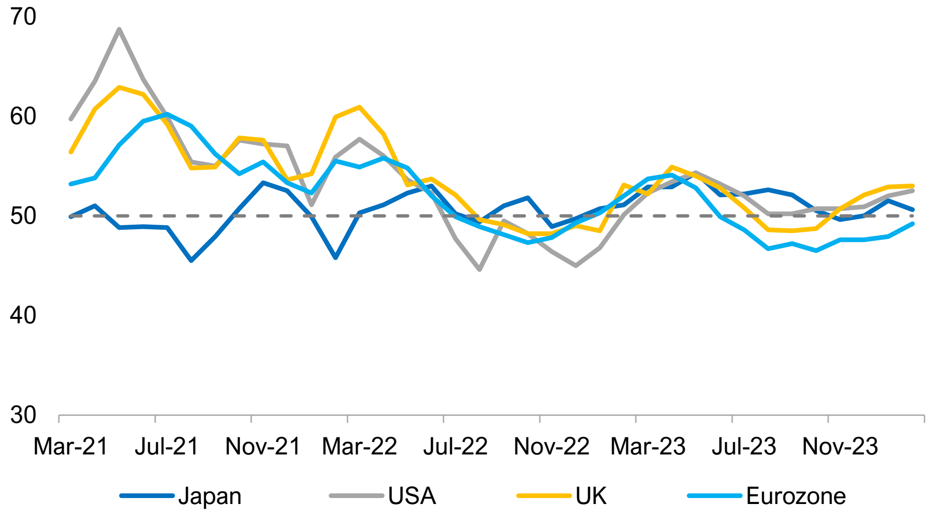
***Source:** Bloomberg, United National Development Program and Aranca Research*

Growth in Emerging Markets Accelerated in Early 2024

Emerging markets lead early-year growth, notably in India and Brazil, whereas China and Russia see consistent expansions

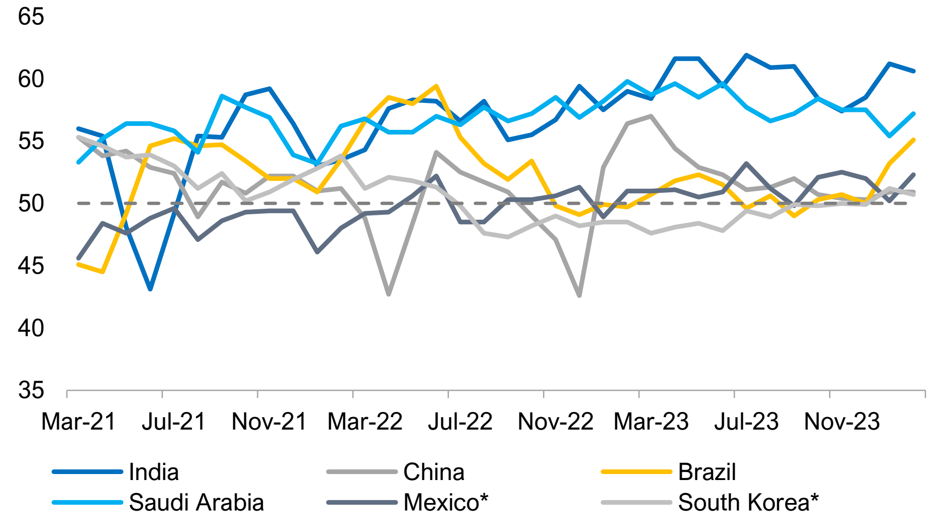
Key Developed Markets (PMI, Composite)

Diffusion Index (50 = no change on prior month)



Key Emerging Markets (PMI, Composite)

Diffusion Index (50 = no change on prior month)



- At the start of the year, India's growth surged to a six-month high, led by gains in manufacturing and services. Brazil's private sector activity increased in January, recovering from December's stagnation. Although Russia and China recorded moderate slowdowns from December, they maintained solid and moderate growth rates.
- Despite the disruption from the Red Sea crisis significantly impacting European economies due to their geographical proximity, emerging markets have largely remained unaffected so far. Additionally, trade conditions in emerging markets improved for the first time in seven months, driven by a revival in goods export orders that helped offset a slight drop in services export trade.
- Output price inflation softened in emerging markets as well as developed ones, where output prices rose at the slowest rate since last October. This led to the average prices for goods and services increasing at the slowest pace since October 2020, indicating potential easing of inflation in the coming months. Given the significant role of developed market central banks in setting global interest rates, the latest data points to a trend that is favorable for easing financial conditions soon. This is expected to bolster output growth in developed and emerging economies.

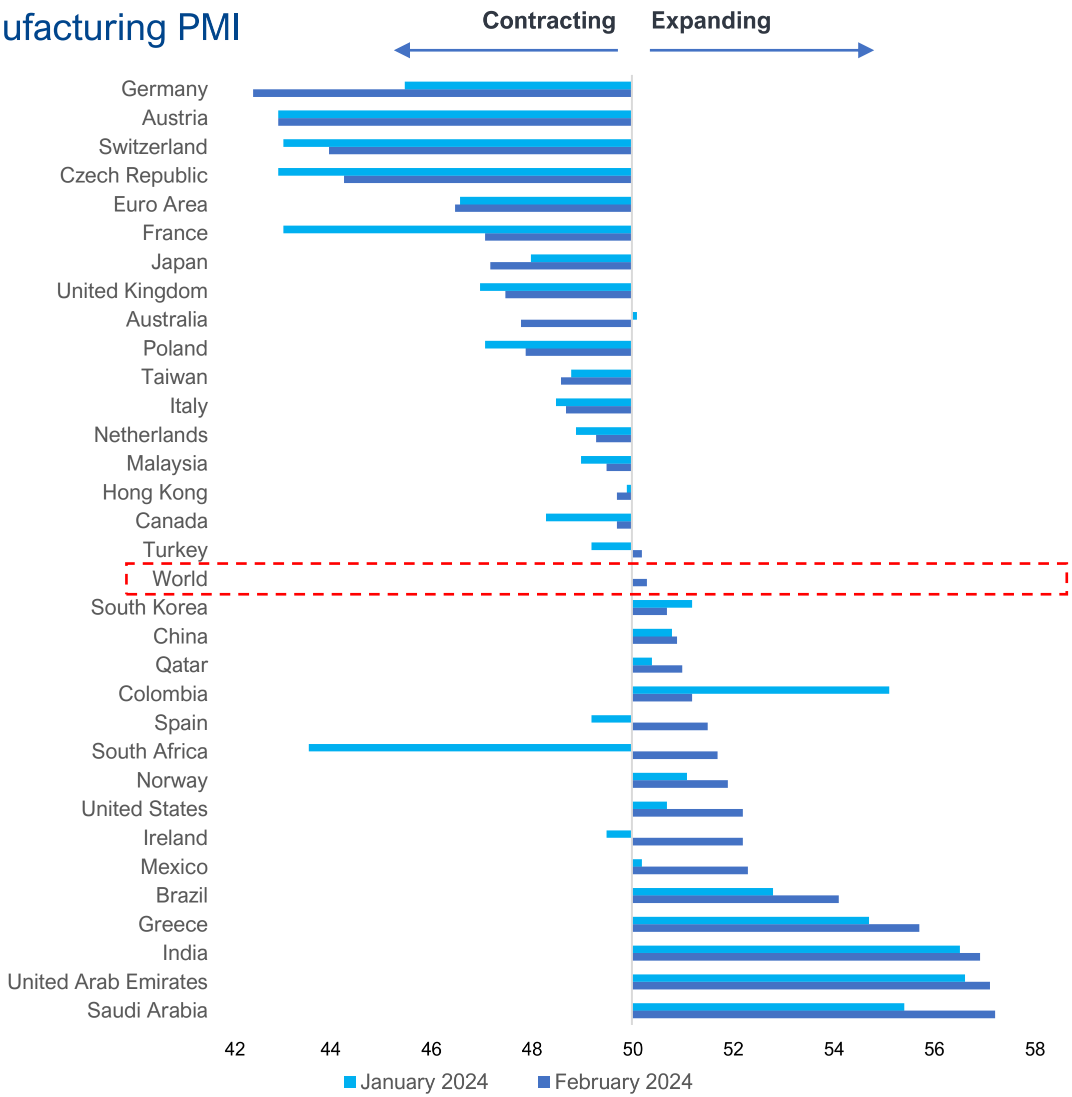
Note: **Manufacturing PMI*

Source: *Bloomberg and Aranca Research*

Manufacturing Activity Gains Momentum in Emerging Markets

Global economic activity reaches an eight-month high, albeit increased selling price inflation

Manufacturing PMI



Source: *Trading Economics and Aranca Research*

- The global economy picked up in February, with manufacturing and services expanding rapidly. However, this growth came with rising inflation, particularly in the service sector.
- The positive economic trend continued in February, with a broad-based improvement across both manufacturing and services. This widespread growth pushed the number of expanding sub-sectors to a ten-month peak. Manufacturing output continued its upward trajectory for the second month in a row, driven by a resurgence in new orders for goods.
- While economic activity picked up, selling price inflation also rose and remained significantly higher than pre-pandemic levels.
- The global economy strengthened further, with both manufacturing and services experiencing a widespread surge in growth. Positive signs suggest this momentum will continue in the near future.
- Average selling prices increased in February, which remain higher than pre-pandemic levels. This increase is primarily due to inflation within the service sector. As a result, we can expect consumer price inflation to remain elevated for the foreseeable future.

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