What initiatives for a more robust growth? What challenges to overcome? What opportunities to seize?

Despite the slowdown in some new growth countries overall economic growth in this group of countries will be at about 5% this year - comfortably above growth levels of developed countries with the US now expected to be at about 2.7% for this year, the euro zone at around 1.5% if everything goes well, and Japan doing presumably something around 1%. While we see a context of greater uncertainty and volatility in the global economy, there is no doubt whatsoever that the world center of economic gravity will continue to shift towards the East and the South – taking into account a trend of increasing differentiation among emerging markets – the new growth countries.

Anybody needs reassurance on that? Just a few key figures:

- ✓ According to the World Bank estimate emerging markets countries had one third of the world stock of capital in 2010. By 2030, 15 years from now they will detain 50% of the world stock of capital.
- ✓ The share of emerging market countries of gross capital inflows and outflows was 23% in 2010. By 2030 – 15 years from now – this share will have more than doubled to 47%.
- ✓ The percentage of intra emerging markets trade was just 10% of the global trade volume in 1995, by 2020, in the next five years, intra emerging markets trade will represent 1/3 of the global trade.
- ✓ According to a McKinsey study the share of new growth countries companies in the Fortune 500 list will rise from 5% in 2000 to more than 45% in 2025
- ✓ Last but not least, total consumer spending in emerging markets which was just 12 trillion dollars in 2010 is expected to increase to 30 trillion dollars by 2025- accounting for almost 50% of the world's total consumer spending.

This is not to dismiss the fact that the period of relatively easy growth for emerging markets which lasted until 2011, sustained by high commodity prices, easy access to money created by the US FED Quantitative Easing is now over. One can points to different reasons for this change of landscape but I would like to focus particularly on three:

1) ***<u>The impact of forthcoming increases of interest rates in the US or of the decrease of commodities prices.</u>*** This is leading to a reduction of revenues for some new growth countries while money supply is tightening for almost all emerging markets with an aggravating factor for many corporations in emerging markets which had been borrowing heavily in dollars and find now their debt burden more difficult to sustain. However, we should note that while the US is about to tighten monetary policy, the euro zone and Japan are on Quantitative Easing mode and the question now should be how to try to use the latter to mitigate the impact of the former. In the same way while commodities producing countries are suffering from the present situation the decline of oil prices is coming as a very welcome relief for a number of countries which are at the consumer end. Nevertheless one needs to consider that sources of foreign capital might prove to be less open than what was the case a few years ago and that markets in developed countries for goods and services from new growth countries might become tighter or subject to much harsher competition.

2) However, for all the importance of external factors, what is even more important in terms of the challenges for sustaining high growth in most emerging markets is that these countries are now suffering from ***<u>a too weak or even slowing down rate of improvement in total productivity factors.</u>*** Overall, labor productivity growth in emerging and developing economies has slowed down from a peak in the first decade of the century of about 6% on average to 3.7% in 2012 to about just 3%-3.5% today. Reversing the trend is a major challenge and will require, among other things, accelerating structural reforms in all emerging markets countries and leveraging more widely and more efficiently the potential of Information & Communication Technologies.

3) Another major challenge is ***<u>the reshaping of global supply chains</u>***. New technologies such as 3 D and very soon 4 D printing, structural changes happening in the labor markets of both developed economies and emerging markets, the revolution in connectivity, concerns about environment footprint and climate change impact, new assessment of political risks, all these factors are combining to make MNCs shorten and simplify their global supply chains, bring them closer to the consumers markets. We have seen in the last few years a number of US companies taking these trends into account and relocating some of their activities from China to America. But it is not only against China that the US is gaining in terms of attractiveness for re-shoring. According to a survey from the Boston Consulting Group, the US has now overtaken Mexico as the place where US companies are most likely to build a new factory to manufacture for the American market. Another element of that trend is the expansion of automotive

production in the UK which is emerging as one of the lowest cost and most convenient manufacturing location in Europe.

Many new growth countries need to think how they are going to continue to push for developing existing activities and creating new ones that will help absorb the mass of people coming every year into the job market while at the same time updating technology and adopting rapidly the new technologies such as robotics, 3 D Printing which might require less manpower, but a much better skilled and higher paid one. That will be the prerequisite for them to remain part of these restructured supply chains and to remain connected to the global business eco-system.

As we consider these three challenges with direct and significant business implications, I would also like to focus on some trends at play which have a tremendous potential impact for addressing successfully these challenges but that need to be leveraged in a wider and more systematic way than is the case now.

1) We see in major new growth countries the start of ***very promising structural reforms processes*** aimed at improving the framework conditions for economic activity and sustaining higher growth rates in the future. We need of course to start with India in this list but Mexico, Indonesia, the Philippines, Korea are also undergoing some very significant changes. China is in a different category as the structural reforms that the leadership is trying to implement would not increase growth rates but would create the basis for a sounder and more balanced growth in the future.

2) In almost all new growth countries we are witnessing today ***a remarkable surge of entrepreneurship***. India and China are primary examples of that trend but one needs to look at what his happening in Mexico, in South Africa, in Kenya, in many countries of Africa to realize that a new generation of entrepreneurs is emerging with a growing impact on the business landscape, creating new wealth. This is not to say that all is rosy and good. Many obstacles remain to the faster and wider spreading of entrepreneurial culture, whether in terms of mindset and old habits dying hard of looking for a secure job working for the government, lack of appropriate education and skills for creating a business, the need in most countries for a more propitious financing and regulatory environment to create and develop new companies.

   However, the trend is there and gaining momentum. And the new entrepreneurs are not only getting younger, they also comprise a higher percentage of female entrepreneurs than before and most of them are much more technology-savvy. Opportunities for frugal innovation - allowing to offer lower costs products and services to meet local demand which was so far kept unanswered - are feeding this momentum towards the expansion of new businesses. This new generation of high impact entrepreneurs is today beginning to have a significant impact as a driver for faster economic growth.

3) Linked to this surge of entrepreneurship we also see ***the surge of technology-created opportunities*** for accelerating economic growth. One of the most important and impactful trend of the last 20 years has been the incredible shrinkage of **"time to knowledge"**, i.e. the time taken for new technologies to spread and be adopted and leveraged by other people. The combined impact of globalization and of the IT and telecom revolution is allowing the new growth countries to close more and more rapidly the technology gap with developed countries and for frontier markets to do the same *vis à vis* the new growth countries. Leap frogging is now the name of the game. ***In fact, today, innovation is coming from everywhere.*** Domains such as life sciences and pharma, IT, aerospace, automotive, alternative energies are now open for an increasingly active competition from the new MNCs from new growth countries.

   Look at the potential that the Unique Identity Card has opened in India in terms of reducing fraud and corruption and integrating millions of people into the financial and business circuits. Another famous example is the M-PESA revolution in Kenya: How the money transfer system based on mobile phone technology has revolutionized business in Kenya. 25% of the country's GDP flows through the M-PESA system. Here also, it means integrating millions of new people into the financial and economic systems. We see everywhere the potential for new technology to help new growth countries leap-frog "classic" technological evolution and accelerate economic activity by creating new categories of consumers and connecting with them.

4) Linked to these factors another crucial element is ***the surge of the middle class in all the new growth countries*** with not only its growing purchasing power and consumer expectations becoming an increasingly important driver of economic activity, contributing to a shift beginning to take effect from economic growth driven by low cost exports to a growth driven more and more by domestic consumption. However, something at least as important is happening in terms of the evolution of the new growth countries: The aspiration of this new middle class towards better functioning societies, better and cleaner political governance models. This is creating a very forceful and most welcome pressure - for instance - in turning the plague of corruption which

until recently was almost accepted as a fact of life as a "front burner" issue. As importantly, this middle class is now becoming a **major standard bearer for the growth imperative**.

5) Last but not least is the element of regional trade and economic integration which – when well managed - can be a very efficient lever for economic growth and for accelerating reforms conducive to more solid growth. I have mentioned before how South-South trade is expected to have grown from 10% to one third of the global trade between 1995 and 2020. Whatever country is not today fully involved in efficient trade networks is bound to end up on the losing side of the great global economic game. In that respect the success story of ASEAN mutating this year into the ASEAN Economic Community regrouping more than 600 million people into a competitive market should provide food for thought for other emerging market countries in other parts of the world.

   The era of global trade agreements is definitely dead. The reality of today and tomorrow is an increasing and a deepening of regional trade agreements. There are increasing calls in North America for NAFTA evolving into a more integrated North American industrial platform. In Latin America while Mercosur has been a failure because based on false premises and the protectionist instincts of Brazil, the Pacific Alliance formed recently between Mexico, Colombia, Chile and Peru has all the makings of a game changer for the region. China is discussing the creation of a Free Trade Area with ASEAN and, at the same time is discussing a tripartite trade agreement with Japan and Korea despite all the political differences between the three countries.

   In many ways, a country is today worth the economic and trade networks it belongs to. In that respect India has to think hard on how it needs to integrate into more regional trade groupings and what it wants to do with SAARC the South Asian Association for Regional Cooperation which is, to say the least, not the best example of regional trade and economic cooperation structures.

These are some of the elements that will contribute to make the new growth countries a sure bet for the future. In that respect perspective is important. It is even crucial. The present uncertainties or difficulties are real but do not affect the core fundamentals of the demography, urbanization, infrastructure dividends which will continue to assert their long-term impact. We have to be careful that the vision we have of the structural trends happening in new growth countries be not distorted by what is happening in some of these countries stock markets which are seen as having underperformed recently compared to the US and European or Japanese markets. Let's face it, the stock markets in new growth countries are not only less liquid than the ones in the developed economies – which makes ups and downs more accentuated – they are also influenced in a disproportionate way by the decisions of foreign investors who have in most cases other consideration in mind.

As mentioned earlier, if there is a moment to be optimistic and hopeful about India it is now. Similarly, whatever the bumps in the road, this is definitely not the moment to be pessimistic about the new growth countries.

Business leaders and investors should of course keep their eyes wide open operating in and dealing with new growth countries, and borrow a page from the success stories of many of the new MNCs from new growth countries which have in their DNA the elements of versatility, and speed of adaptation to fast changing market conditions and new consumers expectations.

But as they get more and more connected into the global economic system, as fundamental factors assert their impact, as domestic and external pressures work for improved framework conditions and for better political and corporate governance, new growth countries are, by and large, giving more reasons than less to remain optimistic about them.
