

Economic developments in emerging market economies: old problems and new challenges

Economic growth has weakened significantly in many emerging market economies (EMEs) in recent years. Their economic catching-up process has stalled. Incomes in some regions, such as Latin America, have even fallen further behind those of the advanced economies.

The reasons for this growth slowdown in EMEs are manifold. The end of the boom in China played an important role, after its export-oriented growth model had increasingly begun to come up against limits. As a result, Chinese demand for raw materials weakened, which had a negative impact on commodity-exporting economies. In addition, efforts in many EMEs to improve domestic growth fundamentals through structural reforms have been flagging.

EMEs are facing a number of new challenges of late. There are increasing political efforts in many countries to reassess international trade relations and to promote domestic production instead. This could have a lasting adverse impact on the globalisation process, which had opened up new opportunities for many EMEs. Moreover, the recent sharp, worldwide rise in interest rates is potentially problematic, as it poses macroeconomic risks, especially for less developed economies. Finally, EMEs are also being called upon to contribute to fighting climate change and thus accordingly restructure their economies over the medium and long term.

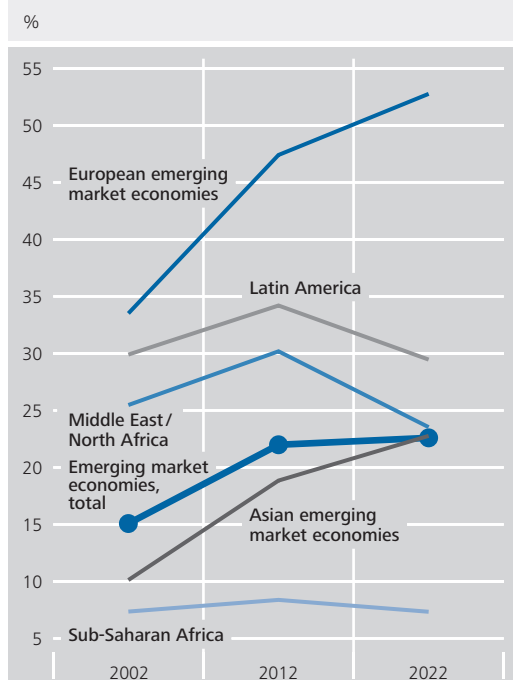
All in all, EMEs will probably have to adapt to a difficult macroeconomic environment. It would thus be all the more important to give fresh impetus to the economic catching-up process through broad-based reforms.

Slowing economic growth in emerging market economies

Significant, regionally broad-based slowdown in growth over the past ten years

Emerging market economies (EMEs)¹ have been major drivers of the global economy, especially in the 2000s. Since then, however, their economic momentum has declined markedly. Looking at the entire group of countries, economic growth has fallen to an average of 4% per year over the past ten years (2013-2022), compared with 6½% in the preceding decade.² This slowdown has been broadly based across regions. Asian EMEs, which had grown particularly rapidly between 2003 and 2012 at an average of 8½% per year, only reached a rate of 5¾% from that point onward. In Latin America, economic growth fell to just 1% per year. On a per capita basis, i.e. taking population growth into account,³ real gross domestic product (GDP) actually stagnated there. Many countries in the Middle East and in Sub-Saharan Africa have also recently seen only very modest growth in economic output per capita.

Per capita incomes in emerging market economies relative to advanced economies*



Sources: IMF World Economic Outlook (April 2023) and Bundesbank calculations. *Based on purchasing power parities.

Deutsche Bundesbank

By contrast, in the advanced economies, GDP growth remained at an average of 1¾% per year, as in the preceding ten-year period. Owing to the reduced growth lead of EMEs, their progress towards convergence slowed considerably. Over the past ten years, the average (nominal) per capita income in EMEs has risen only slightly in relation to advanced economies, from 22% in 2012 to 22.6% last year.⁴ The incomes of some commodity-exporting countries fell markedly further behind those of the advanced countries. This was mainly due to the generally rather weak price trend for raw materials in recent years.

Progress towards convergence slowed down

Reasons for EMEs' weaker growth

The end of China's boom and sluggish commodities markets

In the 1990s, many EMEs, particularly in Asia and Eastern Europe, had initiated market reforms and opened up to global markets. These steps put them on course for integration into the international division of labour, which was a major factor driving their economic ascent. The establishment of multinational enterprises was also a factor here, as the associated transfer of foreign technology and know-how sustainably increased productivity in many EMEs. Advanced economies, in turn, gained access to low-cost imports and new, rapidly growing sales markets. The German economy also benefited strongly from this (see the box on p. 60).

Export-oriented growth as the foundation for rapid economic growth

1 EMEs are all those countries that are not classified as advanced economies. This is based on the International Monetary Fund's (IMF) classifications in its World Economic Outlook.

2 The coronavirus pandemic played only a minor role in moderating growth. Average growth had already fallen to 4.5% per year in the period 2013-2019.

3 The total population in EMEs has grown by an average of 1.2% per year over the past decade, compared with 1.3% in the preceding decade.

4 The conversion of per capita income is based on purchasing power parity exchange rates. These take into account the fact that the price level in EMEs tends to be lower.

China's steep rise flattened out; structural problems became apparent

In the 2010s, however, China, in particular, reached the limits of its export-oriented growth model.⁵ One important reason was the country's reduced cost advantage. Wage growth accelerated considerably in view of the increasing utilisation of rural labour force potential and demographic changes. China had also increasingly exploited its sales potential on the world markets for certain products. In the meantime, Chinese authorities tried to alleviate their supply-side problems through a highly expansionary economic policy. This, however, led to considerable overinvestment in areas including real estate.

Rebalancing Chinese economy proving difficult

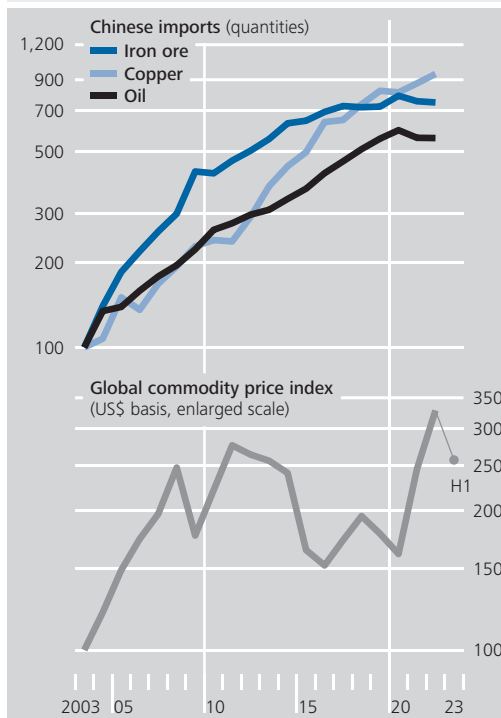
More recently, the Chinese government finally started to rebalance its economy. It first sought to drive the technological catching-up process forward. As it was beginning to reach the limits of existing technology, it encouraged more home-grown innovations. Despite high government investment in research and development, however, the results have so far been mixed.⁶ In addition, Chinese authorities tried to curb unprofitable investment and, in turn, boost consumption. The latter actually saw some success – at least until the outbreak of the coronavirus pandemic – but did not fully offset the slowdown in investment momentum. Overall, economic growth in China has continued to slow down in recent years.

The end of the Chinese boom hit commodity-exporting EMEs in particular

The economic slowdown in China led to a faltering of growth models in some countries which had previously benefited strongly from China's rise. This was particularly true of commodity-exporting EMEs.⁷ China's commodities imports had grown rapidly in the 2000s. The country actually became the most important global buyer of certain industrial metals. Over the past decade, however, growth in Chinese demand for commodities has flattened considerably. In addition, the global commodity supply increased significantly due to factors such as the shale oil revolution in North America. The years-long boom in the international commodity markets subsequently ended abruptly. Many commodity prices tended to

Chinese commodity imports and global commodity prices

2003=100, log scale



Sources: China Customs, IMF and Bundesbank calculations. Deutsche Bundesbank

barely rise or even fell in the 2010s. Without the tailwind provided by the boom, economic growth in commodity-exporting countries declined sharply.⁸

Structural deficits and a lack of willingness to reform

Only a few EMEs have seen the deterioration in the external environment in recent years as a reason to improve their domestic growth bases. On the contrary, in many, willingness to reform actually seemed to ebb.

⁵ See Deutsche Bundesbank (2018).

⁶ See, for example, Tran (2022).

⁷ See Deutsche Bundesbank (2015).

⁸ Commodity price fluctuations not only trigger short-term (cyclical) effects in commodity-exporting countries, but can also influence potential output and the medium-term growth trend. In particular, the investment response is crucial. See International Monetary Fund (2015).

The impact of slower growth in emerging market economies on the world economy and on Germany

The subdued growth in emerging market economies (EMEs) has put the brakes on the world economy in recent years. Global GDP growth slowed to an average of 3.1% per year in the period from 2013 to 2022, compared with 4.2% in the preceding ten-year period. Arithmetically, this loss of pace was attributable almost entirely to EMEs.¹ Nonetheless, their weight in the world economy continued to increase owing to their remaining growth lead. According to recent figures, EMEs contributed almost 60% to global economic output based on purchasing power parities.²

The economic slowdown in EMEs was accompanied by a dampening of import demand. Averaged over the period from 2013 to 2022, their imports of goods and services increased by only 2.8% per year after price adjustment, following an annual increase of almost 10% previously. This sharp deceleration was the

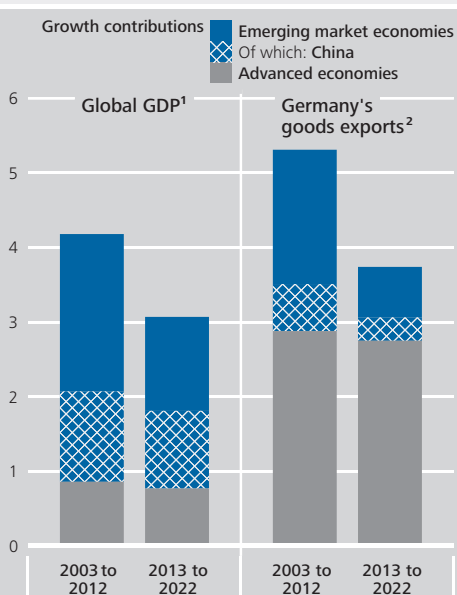
main cause of the weakness in world trade growth in recent times. At an average of 3.2% per year, advanced economies' imports have even risen somewhat faster than those of EMEs over the past decade. At the same time, EMEs' exports have also lost momentum. On balance, the share of EMEs in global goods trade, having increased substantially up to 2012, has stagnated at around 40% based on market exchange rates.

The German export sector benefited strongly from the rapid growth in EMEs in the 2000s. This was aided by Germany's range of exports, with its focus on capital and transport goods, which fitted well with the import needs of many EMEs.³ In line with EMEs' weak import dynamics in recent times, German goods exports to these countries then lost a considerable amount of steam. This significantly dampened Germany's overall export growth.

German exports to China, too, have increased only moderately over the past ten years, having previously expanded extremely sharply. This was due not only to weaker economic growth in China, but also to the reorientation of China's investment and export-driven growth model towards private consumption (rebalancing). As the import content of private consumption is smaller than that of investment and exports, this has been accompanied by a dampening of China's imports.⁴ In addition, China has succeeded in replacing imports with domestic production in certain product groups, e.g. in the automotive sector.

Influence of emerging market economies on the world economy and on German exports

Average growth per year (%)



Sources: IMF, Federal Statistical Office and Bundesbank calculations. ¹ Price-adjusted, aggregation based on purchasing power parities. ² Nominal (euro basis).
 Deutsche Bundesbank

¹ It should be borne in mind that global economic growth would even have increased markedly in recent years if EMEs had maintained their previous pace of expansion. This is due to the growing weight of EMEs in global GDP.

² At market exchange rates, EMEs accounted for 43%.

³ See Deutsche Bundesbank (2011, 2013) for more information on the sector-specific characteristics of German exports to China.

⁴ See Deutsche Bundesbank (2018).

Some steps back in institutional framework conditions ...

Institutional frameworks such as political stability, the rule of law and the extent of corruption are important determinants of long-term growth outlook prospects.⁹ Many EMEs have always shown marked deficits in this respect when compared to advanced economies. According to the World Bank Worldwide Governance Indicators,¹⁰ some major commodity exporters, including Brazil, Mexico and South Africa, have recently fallen further behind advanced economies.¹¹ Among the other EMEs, developments were mixed. According to this assessment, China, India and Indonesia have significantly improved their institutional framework in recent years. By contrast, Türkiye and some eastern European countries have dropped behind.¹²

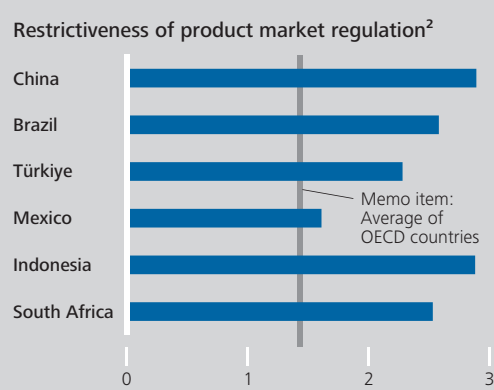
... and a high degree of regulation remains

In addition to institutional quality, regulatory frameworks are an important factor. According to the OECD indicators on product market regulation,¹³ said regulation was still considerably more restrictive in major EMEs than in advanced economies. One important problem area is that of government-owned corporate holdings, which the OECD considers a form of product market regulation. In China, Indonesia and Russia, in particular, there are many state-owned enterprises, often with low productivity. In other countries such as Brazil and South Africa, excessive bureaucracy is a major weakness.

Pandemic amplifies human capital deficits

A further structural impediment to faster economic convergence, particularly in less developed EMEs, is likely to be a lack of human capital. Progress has been made in the length and quality of schooling in most regions in recent years. However, school closures during the coronavirus pandemic are likely to have led to particularly high learning losses in EMEs (see the box on pp. 63 f.).

Political and regulatory frameworks in selected emerging market economies



Sources: World Bank, OECD and Bundesbank calculations.
1 According to the Worldwide Governance Indicators published by the World Bank (averages of six sub-indicators). Higher values indicate higher institutional quality. **2** According to OECD indicators of economy-wide product market regulation; on a scale from zero (least restrictive) to six (most restrictive). Data for Indonesia and China refer to 2019 and 2020 respectively; otherwise, data refer to 2018. Data for India are not available.
 Deutsche Bundesbank

⁹ See, inter alia, Acemoglu et al. (2005).

¹⁰ For more information on the methodology, see Kaufmann et al. (2010).

¹¹ Results are currently available up to 2021. For Russia, therefore, political developments in connection with the war in Ukraine are not yet shown.

¹² The setbacks could be related to the emergence of populist governments. According to an analysis by Funke et al. (2022), the share of countries with populist governments worldwide reached an all-time high in 2018. Many of these were EMEs. According to the study, institutional quality suffers under a populist government and the economy tends to grow much less strongly.

¹³ For more information on the methodology, see Vitale et al. (2020).

More recent challenges for EMEs

Deglobalisation trends

Increasing competition from EMEs led to protectionist tendencies in advanced economies

The close integration of EMEs into the international division of labour in the 1990s and 2000s intensified global competition. In the advanced economies, this triggered considerable adjustment processes and accelerated macroeconomic structural change. Many sectors and regions benefited from this, but there were also losers. In recent years, protectionist tendencies have grown significantly in many advanced economies, reflecting an increasingly uneven distribution of wealth gains from globalisation.

Protectionist measures to avert unfair trade practices by China

China's dealings, in particular, have spurred several advanced economies into action. Many trading partners have accused the country of violating the rules of the world trade order by undertaking unfair trade practices such as price dumping or infringement of intellectual property rights. Hopes that China would reduce its government influence on economic activity upon joining the World Trade Organization in 2001 have been largely dashed. In addition, China has now become an assertive global power. The above factors have seen political tensions intensify, especially between China and the United States and specifically in the area of trade policy.¹⁴

Efforts to diversify critical inputs

Heightened geopolitical risks are one factor driving many countries' efforts to geographically diversify their imports of commodities and critical intermediate input goods or to promote domestic production. Trade and industrial policy initiatives to this effect have already been put forward in the EU.¹⁵ Experience of the disruption of international supply chains during the pandemic and the European energy dependencies exposed by the Ukraine war played a key role here.

Political efforts to further unravel the fabric of economic relationships with certain countries

– also known as geoeconomic fragmentation – could alter the structure of the global economy over the coming years. At least in the case of strategically important goods, production and associated supply chains could be increasingly reshored domestically or in geographically closer or allied countries. Foreign direct investment already provides initial evidence of such movements.¹⁶

If the trend toward deglobalisation prevails, this will likely lead to considerable losses in global prosperity. EMEs could be among the biggest losers. Many of them, including China, have adapted their economic structure to the international division of labour and are strongly geared toward foreign trade with advanced economies. In a more fragmented global economy, it may become more difficult for other EMEs, especially those with very low per capita incomes, to use an export-based approach to rapidly catch up.¹⁷

Under such a changed framework, EMEs would have to make even more active efforts in future to exploit the benefits of international trade. One way to do this would be to further reduce trading costs. In EMEs, the cost of cross-border trade in goods remains, on average, more than one-and-a-half times that in advanced economies.¹⁸ This cost disadvantage is attributable not only to higher transport and logistics costs but also to less favourable trade policy framework conditions on the part of the EMEs. Incentives to reduce trade policy barriers could also be provided by regional free trade agreements.¹⁹ A number of EMEs have stepped up their participation in these in recent years.

Geoeconomic fragmentation could alter structure of global economy

Deglobalisation would hit EMEs particularly hard

EMEs should make best use of the benefits of international trade

¹⁴ See Deutsche Bundesbank (2020).

¹⁵ In 2021 the EU formulated a trade strategy of open strategic autonomy. While it continues to advocate global cooperation, it also emphasises the need to reduce external dependencies. See European Central Bank (2023).

¹⁶ See International Monetary Fund (2023), pp. 91-114. Up to now, the foreign trade data have provided only weak indications of such shifts. See European Central Bank (2023), pp. 26 ff. and Jakubik and Ruta (2023).

¹⁷ See Aiyar et al. (2023).

¹⁸ See World Bank (2023a).

¹⁹ These include, for example, the RCEP in the Asia-Pacific region or the African Continental Free Trade Area.

The role of human capital in emerging market economies' catching-up process

There is a considerable global disparity between individual nations' per capita incomes. In 2022, the GDP per capita in purchasing power parities (PPP) of the ten poorest countries in the world was not even US\$1,800. India and China, the two most populous countries on the planet, had figures of around US\$8,300 and US\$21,400, respectively, whereas per capita income in Germany stood at US\$63,800. There are many different factors driving these disparities, including fixed capital supply and the availability of technology, but human capital also plays a role. The term human capital covers the abilities and skills of the population needed for employment and thus the quality of the workforce.

Human capital is created through upbringing, primary, secondary and tertiary education, vocational training, and professional development.¹ The average number of years of schooling is a very simple metric for measuring a country's human capital. The World Bank's Learning Adjusted Years of Schooling (LAYS) index also incorporates learning outcomes.² Whereas in emerging market economies (EMEs) the pure number of years of schooling is often only slightly lower than in advanced economies, the gap is far greater when applying the World Bank's quality-adjusted indicator.³ That holds particularly true for African countries.

¹ In addition, a certain survival rate and sufficient healthcare are fundamental preconditions to the accumulation of human capital.

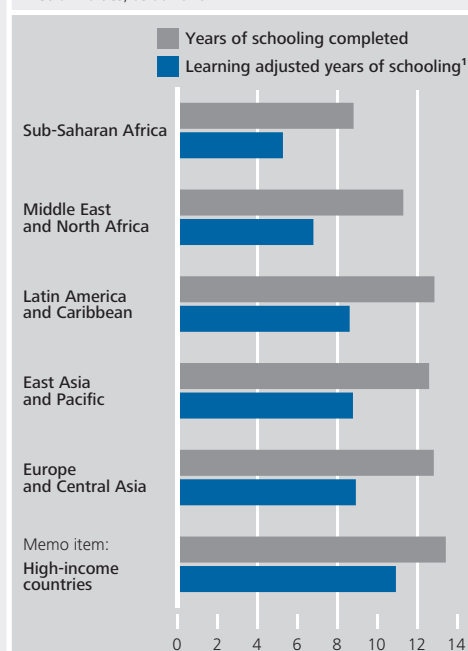
² The indicator weights the number of years of school completed by relative performance on harmonised tests. See World Bank (2018).

³ Here and below, including 51 countries below the "high-income" group for which the necessary World Bank indicator values are available.

There is a rather close correlation between a country's human capital as measured by the World Bank indicator and its per capita GDP. A higher level of education among the population is generally associated with higher incomes. However, this is not yet proof of causality, as higher incomes in turn also enable higher investment in education. Widespread "brain drain" is likely to be a factor behind the extremely low per capita incomes of some African countries. In addition, in many of the region's countries, considerable segments of the workforce are tied up in agriculture, often leaving them unable to make full use of their acquired human capital. Therefore, human capital gains often lead to significant increases in prosperity only if workers migrate to more productive sectors.

School education and learning outcomes in emerging market economies, by region

Median values, as at 2020

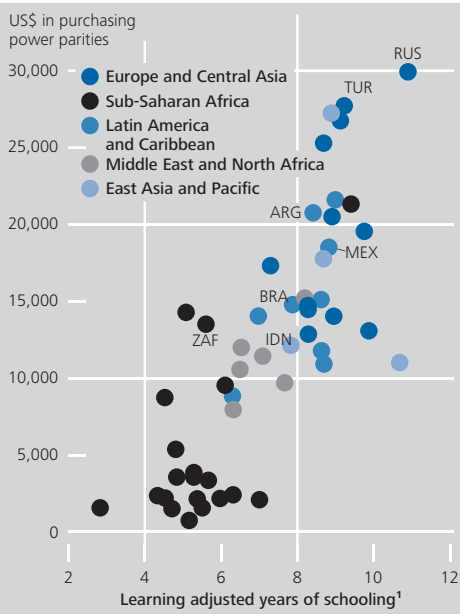


Sources: World Bank and Bundesbank calculations. ¹ As defined in World Bank (2018).

Deutsche Bundesbank

Per capita GDP and learning adjusted years of schooling in emerging market economies

As at 2020



Sources: World Bank and Bundesbank calculations. ¹ As defined in World Bank (2018).
 Deutsche Bundesbank

In addition, initial levels of education and subsequent per capita GDP growth are positively correlated. Those countries with an above-average number of learning adjusted years of schooling in 2010 grew more strongly on average in the following decade. The striking regional differences suggest, however, that additional factors were important drivers of growth. Some Middle Eastern countries, in particular, posted quite small per capita growth despite having a high number of learning adjusted years of schooling.

Against this background, measures to enhance human capital are of great importance in EMEs' economic catching-up process. However, this is a long and drawn-out process. Over the past few decades, many EMEs have seen enormous progress in educational participation. Most recently, the length of schooling has increased in most regions; however, this was not always asso-

ciated with equivalent gains in learning adjusted years of schooling. North Africa and the Middle East have even experienced setbacks. In the 2010 to 2020 period, the average number of years of schooling increased by just over half a year, but that figure decreased when measured in terms of learning outcomes.

The coronavirus pandemic represented a particular challenge to educational institutions in EMEs, where school closures tended to last longer than in advanced economies and online learning opportunities were few and far between. The dropout rate rose. Studies indicate that learning losses averaged three-quarters of a school year. Losses were mostly smaller in advanced economies.⁴ As EMEs' economic catching-up process moves forward, one of their key challenges will be avoiding falling further behind advanced economies with regard to educational opportunities.

⁴ See Patrinos et al. (2022).

Increased macrofinancial risks

EMEs vulnerable to crises when international financing conditions tighten

The global surge in inflation over the past two years, driven in part by the impact of the pandemic and the Russian war of aggression against Ukraine, led to a steep rise in interest rates in many countries. This poses particular risks for EMEs. In the past, periods of tighter international financing conditions have often led to monetary and financial crises in these countries, in some cases setting the affected economies back by years.²⁰

Although the macroeconomic framework has improved significantly, ...

However, the financial and monetary systems of EMEs proved comparatively robust during the global financial crisis of 2008-09.²¹ The improvement of the monetary policy framework in the preceding years, such as the strengthening of central bank independence and the introduction of binding inflation targets, is likely to have played an important role in this. As a result, many countries have managed to sustainably curb the previously high inflation rates. This, in turn, has been a key prerequisite for deepening domestic capital markets. As a result, some EMEs have increasingly been able to borrow in local currency – even abroad in many cases – which made it considerably easier to service such debt.²² The massive build-up of foreign reserves in some countries and the introduction of flexible exchange rates are also likely to have played a key role in strengthening resilience.

... there has been a sharp increase in government debt ...

Nevertheless, a number of factors indicate that stability risks in EMEs have risen again of late. First, government debt grew sharply in many countries as a result of the economic strains caused by the pandemic. Even after the pandemic, fiscal deficits often remained high, partly to cushion the impact of sharp increases in energy and food prices. According to the IMF, EMEs' general government debt increased from 55% of GDP in 2019 to 65% in 2022.²³ In connection with the significant rise in interest rates, many EMEs are therefore likely to face considerable additional medium-term fiscal burdens from servicing their debt.

New trade policy measures* worldwide



Source: Global Trade Alert database. * Affecting trade in goods. Data excluding late reports for the respective reporting year (the cut-off date being 31 December of that year).

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Furthermore, some EMEs had already seen a significant rise in external debt, including private debt, in the years prior to the pandemic. This was the case in sub-Saharan Africa in particular.²⁴ Such liabilities are very often denominated in foreign currency. As a result, many financially weaker debtor countries have been particularly hard hit by the recent sharp depreciations of their currencies against the US dollar.²⁵

... and external debt

Against the backdrop of these developments, the financial situation in a number of EMEs has become much tighter in recent months. External financing via bonds has become increasingly difficult, especially for poorer countries. According to the IMF, more than half of all EMEs with a low per capita income have re-

Considerable financial tensions already evident in many countries

²⁰ Examples include the debt crises in Latin America, especially in the 1980s, and the severe financial market turmoil at the end of the 1990s which spilled over from South-East Asia to other EMEs.

²¹ It is also noteworthy that all major commodity exporters were able to cope with the sharp fall in commodity prices between 2014 and 2016 without external assistance.

²² See Rogoff (2022).

²³ In advanced economies, government debt rose from 104% of GDP in 2019 to 112% in 2022.

²⁴ China has increasingly emerged as a creditor of African countries, also in order to strengthen its trade relations with these countries and gain geopolitical influence.

²⁵ See World Bank (2023b).

Short-term external debt and debt service in emerging market economies*

As a percentage of primary income and export revenues



Source: World Bank World Development Indicators. * Ratio of short-term external debt or interest and redemption payments for all external debt to primary income and exports of goods and services. Weighted average of all low-income and middle-income countries according to the World Bank's country classification.

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cently defaulted or been close to doing so – far more than in the 2009-2019 period (37%).²⁶

Debt sustainability may have deteriorated

In the near term, the financing conditions for EMEs are set to remain challenging. This will be compounded by the persistently weak growth outlook in many countries. Overall, debt sustainability appears to have deteriorated significantly in many EMEs. Governments, but also private actors, are therefore likely to come under increasing deleveraging pressure. This, in turn, could further dampen the economic outlook in these countries.

Need for action to strengthen climate protection

EMEs strongly affected by climate change

Climate change represents a double challenge for EMEs.²⁷ First, it poses considerable physical risks to many of these countries. This is particularly true for regions close to the equator, where the prevailing temperatures are already very high. Furthermore, their lower incomes make it more difficult for EMEs to cushion the impact of climate change and climate policy on their people and the economy.

High CO₂ emissions in EMEs

Over the past few years, there has been growing international recognition that climate protection needs to be given a higher priority.

EMEs have an important role to play in reducing global CO₂ emissions. In 2022, EMEs accounted for two-thirds of global CO₂ emissions, almost half of which were attributable to China alone.²⁸ Although per capita emissions are rather low in many EMEs, these countries' emissions are comparatively high in relation to GDP and GDP growth. For example, the CO₂ intensity – defined here as the amount of CO₂ emissions in relation to GDP at purchasing power parities – in EMEs has been just over one-and-a-half times higher than in advanced economies of late.²⁹ This is due, in particular, to the large share of coal in energy production.³⁰

In the coming years, EMEs' CO₂ emissions are likely to continue to rise. At present, there is still a close link between economic growth and the increase in CO₂ emissions in these countries. By contrast, in many advanced economies decoupling has now progressed to such an extent that CO₂ emissions are declining despite positive economic growth.

Further increase in emissions expected

It is important that EMEs also step up their efforts to decarbonise their economies. However, meaningful CO₂ pricing has only been applied in a few EMEs to date.³¹ In addition, renewable energy would have to be used to a much greater extent. Many EMEs generally have

EMEs should push ahead with decarbonising their economies

²⁶ See International Monetary Fund (2023), pp. 15-16.

²⁷ Indicators pointing to the particularly high risk in many EMEs include the indices of the Notre Dame Global Adaptation Initiative (ND-GAIN), which systematically capture climate risks for individual countries. See Notre Dame Global Adaptation Initiative (2021) and German Council of Economic Experts (2021).

²⁸ It should be borne in mind that some of the EMEs' emissions are generated by the production of goods that are exported to advanced economies and could therefore be attributed to the latter. See United Nations (2022).

²⁹ Based on GDP at market exchange rates, the CO₂ intensity in EMEs is actually three times as high as in advanced economies. As a measure of the efficiency of economic output, however, an assessment using purchasing power parities appears more appropriate, as it factors out prevailing international price differences.

³⁰ Coal is by far the most polluting fossil fuel. The burning of coal accounts for just over one-third of primary energy consumption in EMEs; in China, India and South Africa it even accounts for more than half. One factor here is that these countries have considerable domestic coal reserves.

³¹ China introduced an emissions trading scheme in 2021, but its current design is not very effective. See, inter alia, World Bank (2022).

good conditions for the production of renewable energy, and China is pushing ahead with this at full speed.³² Elsewhere, however, such projects often fail because of a lack of financing or due to political reasons.³³

Exporters of fossil fuels have particularly high adjustment needs

A number of EMEs, including Russia and countries in the Middle East, have specialised in exporting fossil fuels. They face the particularly great challenge of weaning their economies from these exports in the long term.³⁴ In recent years, some of them have expressed their intention to diversify their economies. So far, however, these efforts have mostly been half-hearted, partly because business with oil and gas is still very profitable.

■ Outlook

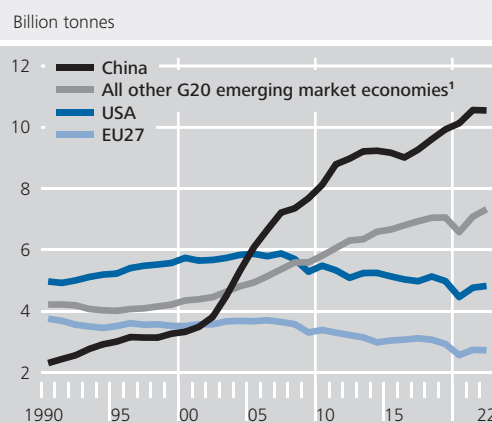
Structural slowdown in China's growth likely to continue

The pace of economic growth in EMEs has declined significantly in recent years. Many of the relevant drags on growth are likely to remain in place in the coming years. This is particularly true of the structural slowdown in growth in China, not only due to the growing demographic problems, but also because the potential for achieving productivity gains due to technology adaptation has diminished. A key factor here is therefore likely to be the extent to which the country can transform itself into an innovation-driven economy. Given the powerful governmental influence on the economic and social system, the country's success in this endeavour remains to be seen. Much will also depend on whether China continues to have access to the most advanced technologies in global markets.

Open world trade order a prerequisite for export-oriented growth

Globalisation, which has long been an important catalyst for the development of many EMEs, could weaken considerably. In the near term, it will be important to keep the world trade order open. A lot here will rest on China, in particular. At the same time, the absence of a level playing field in the Chinese domestic market is also an important reason why, for some time now, many foreign firms have been

CO₂ emissions of selected countries and groups of countries



Source: Energy Institute. ¹ Argentina, Brazil, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Türkiye.
 Deutsche Bundesbank

pulling out of the country to a degree. Other EMEs are now filling this gap. India, in particular, has gained a foothold regarding the global production of electronic goods. For the world's most populous country, this raises hopes of a faster process of industrialisation and convergence. India could thus form a certain counterweight to China in the coming years.

EMEs specialised in the export of commodities would benefit from greater diversification in their economies. Given the volatility of international commodity markets, this could help to achieve more sustainable – and more broadly distributed – prosperity gains. In view of the increasing global climate effort, exporters of fossil fuels will probably be compelled to realign their economies anyway. The production and export of hydrogen could offer alternative development opportunities for some of these countries.³⁵

Commodity-exporting EMEs should make their economies more broadly based

³² China is the global leader in energy production from renewable sources. In the next few years, output from solar and wind power is set to increase significantly. See Hove (2023).

³³ See, inter alia, International Energy Agency (2023).

³⁴ In order to achieve the objective of climate neutrality at the global level by 2050, global fossil fuel production would need to decline by around 80% from 2021 levels. See International Energy Agency (2022).

³⁵ See Ansari (2022).

In an overall challenging environment, opportunities for EMEs will therefore also emerge in the coming years. The fact that EMEs' incomes and productivity are still trailing far behind advanced economies would suggest that, in principle, they still have abundant growth potential. However, an economic policy course needs

to be set in order to harness this potential. It is through appropriate institutional, regulatory and educational reforms that EMEs are most likely to succeed in strengthening the forces of productivity and thus in giving new impetus to the economic catching-up process.

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