



Emerging markets: learning to fly

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**“Across Asia,
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Africa, and the
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Introduction

Humanity’s long-held dream of flying came true, when in 1903 brothers Wilbur and Orville Wright achieved the first powered flight. It lasted only 12 seconds, yet it changed the course of transportation forever¹.

The global economy is experiencing a similar pivotal moment today.

For decades, emerging markets (EM) were viewed as passengers in the global economic system – dependent on demand from developed markets (DM), exposed to fluctuations in the US dollar (USD), and vulnerable to swings in global liquidity. However, the narrative is changing.

Across Asia, Latin America, Africa, and the Middle East, emerging economies are increasingly learning to fly on their own – powered by rising domestic demand, deepening economic and political integration, and growing financial and technological independence from DMs.

This shift marks the beginning of a new cycle of self-sustaining growth for the emerging world.



¹ [120 Years Ago: The First Powered Flight at Kitty Hawk - NASA.](#)

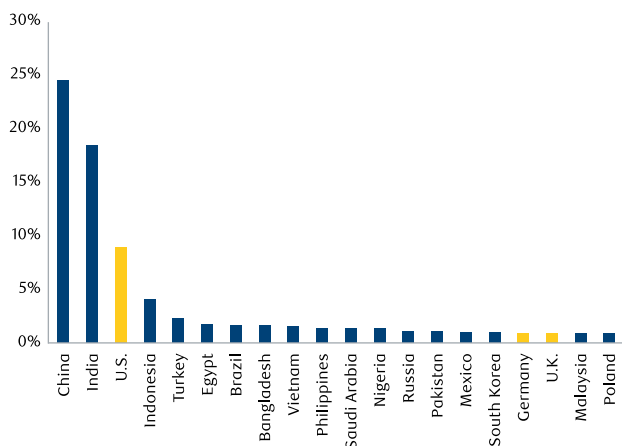
Shifting centre of gravity

The world is under transformation, driven by a confluence of factors from geopolitics and demographics to technology transformation and financialisation. This is leading to evolving economic and political power dynamics, with the centre of gravity shifting towards the emerging world.

Today, more than 80% of the global population resides in the developing world, and this demographic weight is steadily translating into economic influence.

EM countries already account for over 50% of global GDP and are expected to generate roughly 65% of global economic growth by 2035 (Exhibit 1).

Exhibit 1: EM economies are the primary engine of global economic growth
Share of global GDP growth by country (2025-30)



Source: RBC GAM, IMF World Economic Outlook, Oct 2025, Macrobond.
Note: based on IMF forecast from 2025 to 2030.

The rise of domestic demand

Historically, EMs grew primarily through exports to DMs. Factories in Asia produced goods for consumers in Europe and North America, while commodity exporters supplied raw materials to advanced economies.

However, a structural shift is underway. Growth is increasingly being driven by expanding domestic demand, supported by several powerful long-term forces:

Demographics: emerging economies remain significantly younger than the developed world on aggregate.

As global fertility rates decline, EMs have a unique opportunity to capitalise on their demographic bonus. Over the coming decade, most EMs will benefit from supportive demographics, with old-age dependent populations averaging 24% through 2035.

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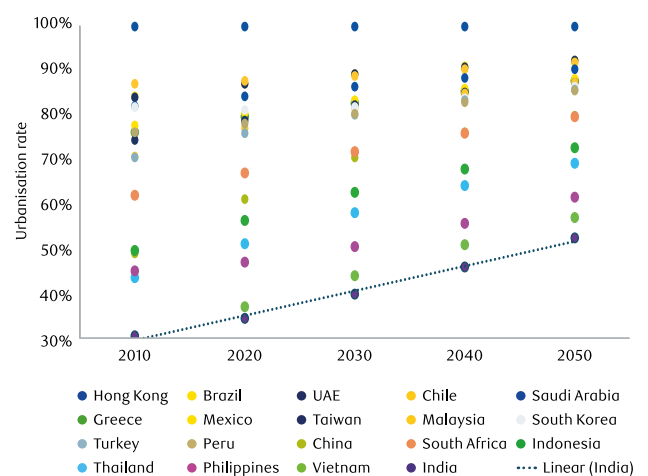
This favourable demographic trend creates a natural tailwind for consumption and economic growth, as working age populations continue to expand in countries like India, Indonesia, Mexico, South Africa, and Saudi Arabia.

By 2050, the old-age dependency ratio is expected to average 35% across EM, still well below the 50% anticipated for high-income countries².

Urbanisation: this has historically been a key driver of economic growth. Each year, millions of people move from rural areas into cities across the developing world. This migration tends to trigger higher incomes, greater consumption, stronger demand for infrastructure and housing.

India stands out for its low penetration across many different areas, presenting attractive growth opportunities. In terms of urbanisation, India has amongst the lowest levels in EM, but rapid growth is expected, from around 35% currently to over 50% by 2050 (Exhibit 2).

Exhibit 2: India stands out for its low but expanding urbanisation: urbanisation rates across key EM countries



Source: World Urbanisation Prospects 2018, UN.
Note: the data denotes percentage of population at mid-year residing in urban area.

² [Emerging Markets: A Decisive Decade | S&P Global](#).

Financial and technological inclusion: emerging markets are still home to a large unbanked population, yet the spread of mobile technology is transforming financial systems across the region.

Digital payments, mobile banking, and fintech platforms are connecting hundreds of millions of consumers to the formal economy for the first time (Exhibit 3).

In many cases, EMs are leapfrogging traditional banking infrastructure entirely. The result is a rapidly expanding consumer economy.

Innovation: EMs are no longer simply catching up when it comes to technological innovation. They are moving ahead, sometimes faster than expected, with markets like Taiwan and South Korea standing out for their dominance in the AI supply chain and broader semiconductor ecosystem, while China has emerged as a global leader in many key technologies, including EVs, drones, high speed rail, innovative drugs, AI, and robotics.

To put this in context, China is electrifying faster than any other major economy and is now the world's electricity superpower (Exhibit 4). It produces over 60% of global electric vehicles and 75% of battery capacity³, it installs more industrial robots per year than the rest of the world combined⁴, while the number of Chinese STEM graduates is nearly equivalent to all other countries globally (Exhibit 5).

Testament to China's focus on innovation, its trade surplus has more than doubled over the past five years, and its exports have become more diversified and moved up the value chain.⁵

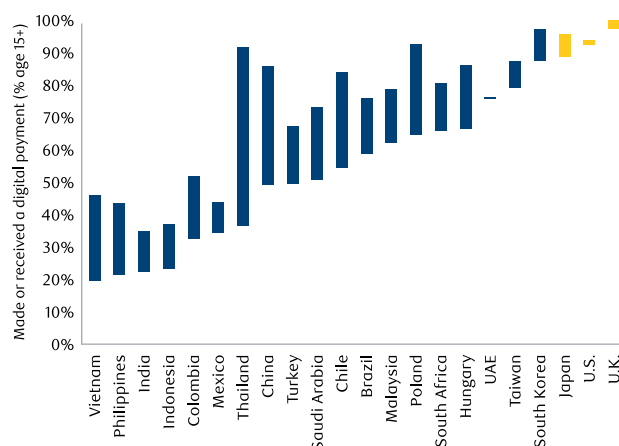


³ From Mines to Motors, China Dominates Electric Vehicles - CEPA.

⁴ International Federation of Robotics, 2025.

⁵ RBC GAM, China General Administration of Customs, Macrobond.

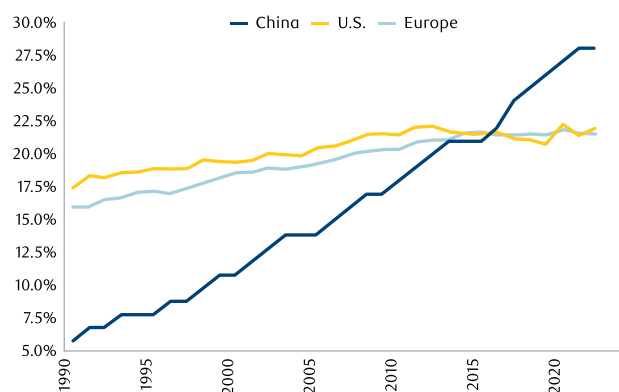
Exhibit 3: Proportion of people making or receiving digital payments in EMs is growing (2014-2021)



Source: Global Findex database 2021. Data denotes the increase in digital payments made or received by % 15+ population from 2014 to 2021. For Mexico and Vietnam, the increase is from 2014 to 2022. For UAE, the digital payments made and received during the period remained constant at 77%.

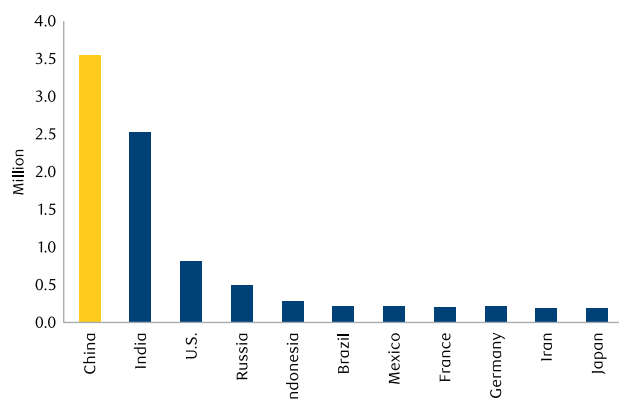
Exhibit 4: China is electrifying faster than any other major economy

Electricity share of final energy consumption



Source: IEA, Gavekal Research, as at March 2026.

Exhibit 5: Top countries by number of graduates in science, technology, engineering and maths (STEM)



Source: Center for Security and Emerging Technology using OECD and the statistical yearbooks of Russia, Indonesia, Iran, India, and China, in 2020.

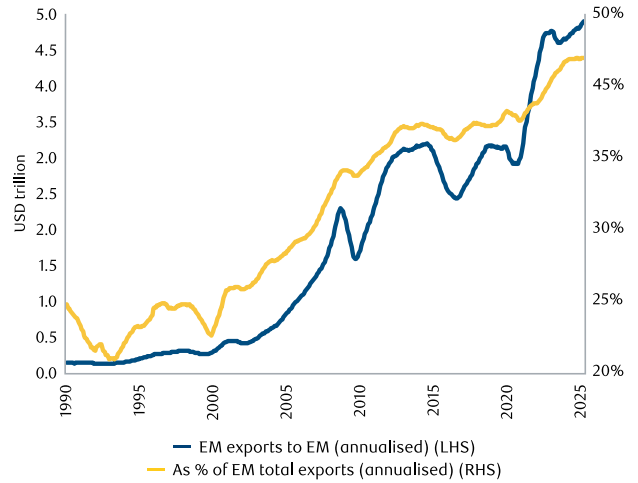
A new trade map

A profound shift is taking place in global trade patterns, with EMs increasingly trading with one other and reducing their dependence on developed nations. Brazil exports more soybeans to China than the U.S., while African countries are increasingly trading with India, Turkey and each other than the West.

Geopolitical tensions and U.S. trade tariff uncertainty have accelerated this development, driving a surge in intra-EM trade. In 1990, trade between emerging economies accounted for roughly one-quarter of total EM trade. Today, it is approaching half of total trade flows (Exhibit 6).

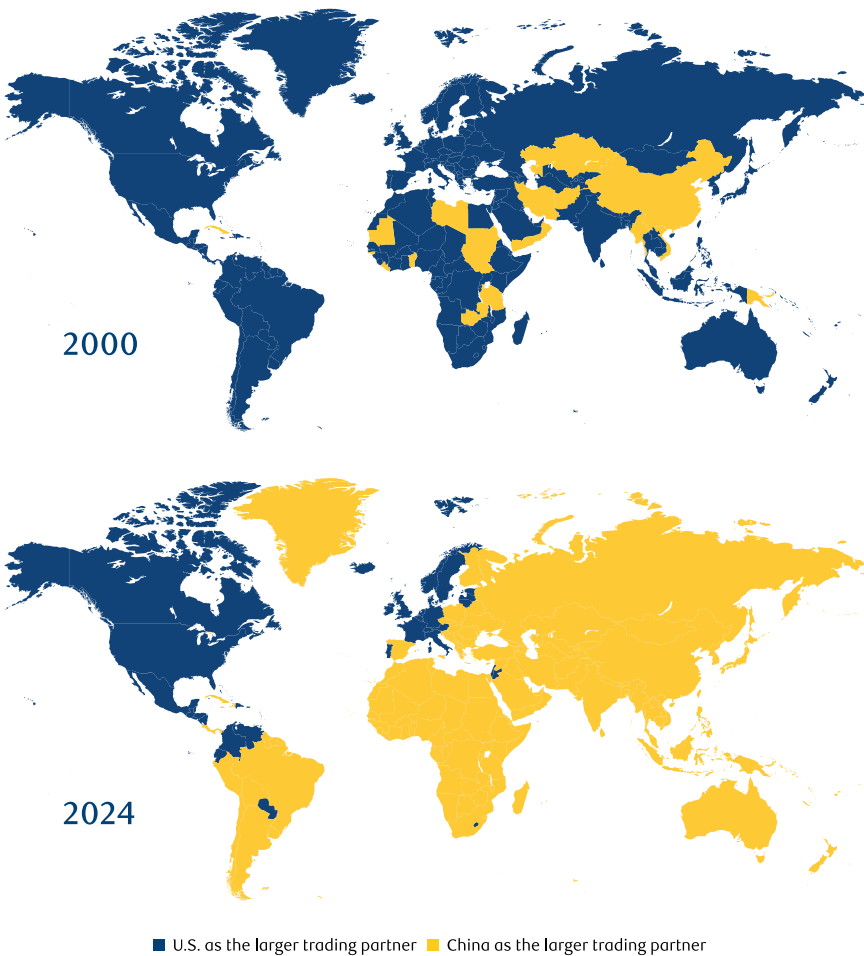
China has been particularly successful in reducing its exposure to U.S. trade to only 2.5% of GDP, while its trade surplus has more than doubled over the past five years through strengthened relations with ASEAN and the Global South⁶.

Exhibit 6: Intra-EM trade continues to rise to nearly 50% of total exports



Source: RBC GAM, IMF, Haver Analytics, as at June 2025.

Exhibit 7: China is now the world's trading superpower



Source: Gavekal Research, as at March 2026.

Moreover, its role in the global economy has evolved. In 2000, the U.S. was the dominant trading partner for most countries. By 2024, China had become the largest partner for approximately 70% of the world⁷ (Exhibit 7).

Meanwhile, emerging nations' leadership in critical inputs from metals and minerals to agriculture and semiconductors, positions them strongly in an era of geopolitical fragmentation, decarbonisation, and technology transformation.

Global trade routes are being redrawn through demographics and demand. The result is a more resilient and interconnected EM ecosystem.

⁶ RBC GAM, IMF, Haver Analytics, China General Administration of Customs, Macrobond.

⁷ US Census, Customs of China and General Administration of Customs.

The quiet currency shift

Meanwhile, the gradual shift towards de-dollarisation reflects a desire for greater financial autonomy amidst rising geopolitical and U.S. policy uncertainty.

Historically, trade occurred in USD, reserves were largely in USD, and a significant part of debt was USD-denominated. However, EM central banks are increasingly diversifying into local or regional currencies and increasingly focusing on other assets like gold (Exhibit 8).

At the same, a growing share of trade between EM economies is being settled in non-U.S. currencies, particularly amongst large EM blocs such as the BRICS⁸, reducing reliance on the USD in cross-border transactions.

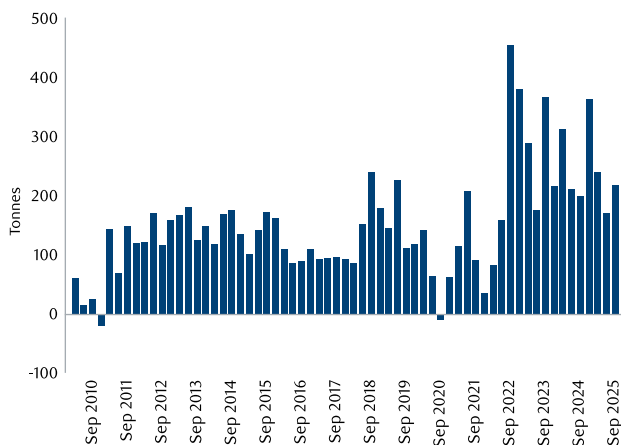
Illustrative of these trends is the steep decline in the foreign share of U.S. treasury holdings, from 38% in 2010 to 13% in 2025⁹, as countries like China have reduced their exposure (Exhibit 9).

While the USD remains dominant in global currency reserves, its share has reduced from around 70% two decades ago to 58% currently¹⁰.

De-dollarisation is reaching critical mass with self-reinforcing changes in behaviour making further gradual erosion of USD usage likely. As this incremental diversification of the international monetary system continues, this supports the case for a weaker USD going forward – a key positive driver of EM equities and currencies performance historically.

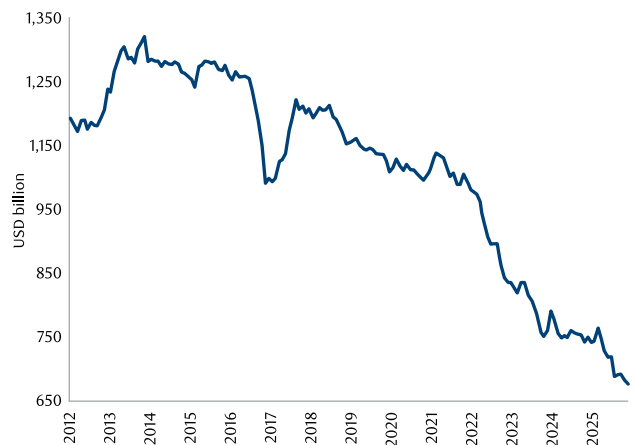
EM central banks are diversifying away from the USD

Exhibit 8: Central bank net purchases of gold



Source: World Gold Council, Jefferies, as at January 2026.

Exhibit 9: China's holdings of U.S. Treasury securities



Source: U.S. Treasury, Jefferies, as at 2025.

Note: China's holdings of U.S. Treasury securities declined from USD1.04 trillion in February 2021 to USD683 billion in November 2025.



⁸ BRICS is an informal grouping of emerging countries that has developed into an intergovernmental organization. [BRICS | Members, History, Name Origin, Proposed Currency, & Facts | Britannica](#).

⁹ Foreign official holdings as a percentage of U.S. Treasuries outstanding has declined from 38% in July 2010 to 13% in November 2025. Source: US Treasury, Bloomberg, Jefferies, November 2025.

¹⁰ IMF, Haver Analytics, Macrobond, RBC GAM, September 2025; [Federal Reserve Board](#).

Resilient foundations

In the past, EMs have tended to be sensitive to economic cycles in the developed world. When growth slowed in the US or Europe, for instance, emerging economies felt the impact through declining exports and capital outflows.

However, this dependence has been on the decline.

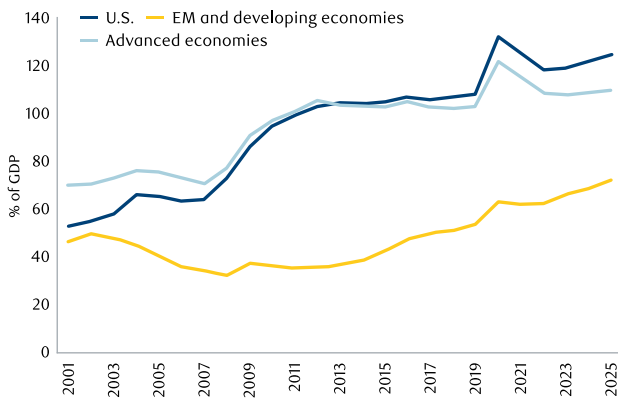
Orthodox policy making and structural reforms in many EM countries has led to much healthier macroeconomic fundamentals, particularly relative to the developed world. (Exhibits 10-12).

The combination of stronger external balances, prudent fiscal dynamics, lower debt levels, and high real rates, has significantly improved the backdrop for EM economies. Testament to this is the strong outperformance of EM bonds in recent years.

Coupled with the structural tailwinds of expanding domestic demand, innovation, and intra-EM trade, this makes EM economies less cyclical and more structurally driven today. As EM countries increasingly stand on their own two feet, this will lower sensitivity to the DM economic cycle and on USD funding requirements, reducing vulnerability to U.S. interest rates and currency strength.

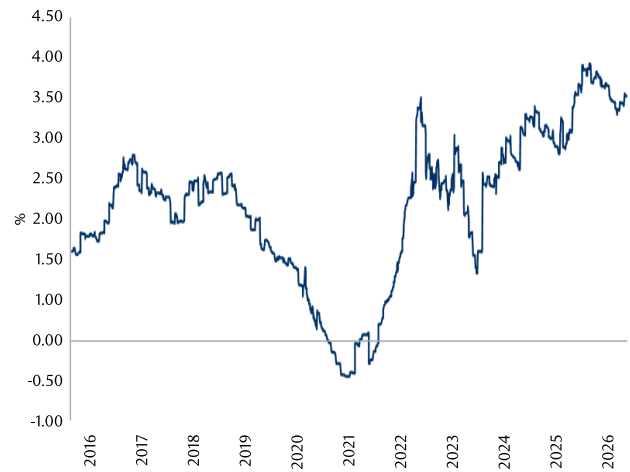
Exhibit 10: Large fiscal imbalances in U.S. and advanced economies have pushed up debt levels

General Government Gross Debt (% of GDP)



Source: IMF WEO, as at October 2025.

Exhibit 11: Real policy rates differential EM versus DM at decades high



Source: RBC GAM, Bloomberg, as at November 2025.
 Note: real rate differentials calculated as the spread between select average EM 5-year bonds minus inflation and average G3 (Europe, US, Japan) 5-year bonds minus inflation. EM countries include South Africa, Turkey, Brazil, Mexico, Colombia, Indonesia, India and Malaysia. For illustrative purposes only.

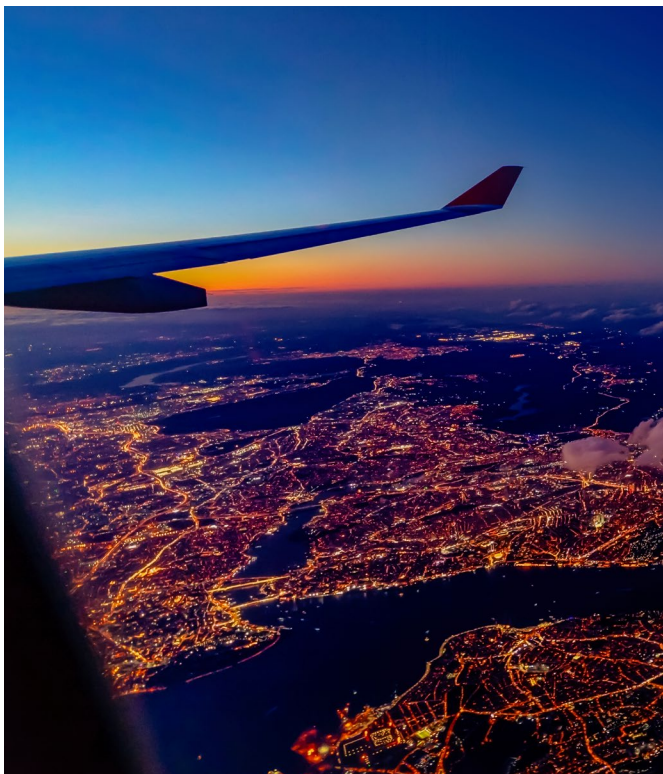
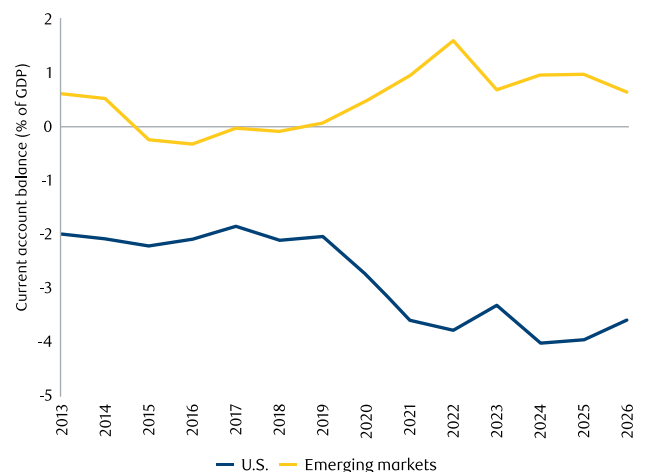


Exhibit 12: EM versus U.S. current account % of GDP



Source: RBC GAM, IMF World Economic Outlook, as at October 2025.
 Note: IMF projections for 2025 and 2026.

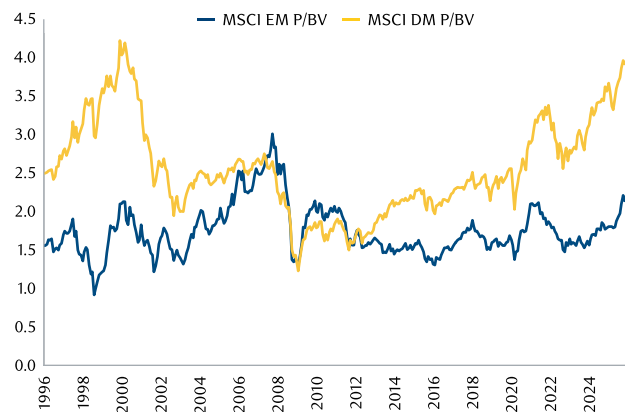
An opportunity still under-owned

Despite this compelling outlook, EMs remain underrepresented and undervalued. Most global equity benchmarks still only allocate 10-12% to EM countries, far below their share of global population or economic growth, while EM equities continue to trade at a historically wide discount to DM (Exhibit 13).

“The combination of stronger external balances, prudent fiscal dynamics, lower debt levels, and high real rates, has significantly improved the backdrop for EM economies.”

Exhibit 13: EM Equities trade at a historically wide discount to DM

MSCI EM and DM indices absolute trailing P/BV



Source: Bloomberg, MSCI, as at December 2025.

Learning to fly

EMs are far from homogeneous – they include economies at very different stages of development, with diverse political systems, cultures, and growth models. Yet collectively they are undergoing a transformation and moving away from dependency on DMs.

These shifts do not occur overnight. However, when structural changes begin to compound, they can reshape the global economy meaningfully.

Like the Wright brothers' first flight, the early stages may seem modest, but once lift-off is achieved, the trajectory can accelerate quickly.

If the next era of global growth is indeed driven by EMs, the world may soon discover something remarkable: the passengers are becoming the pilots.

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