Second Substantive Session of the Preparatory Process for the Third International Conference on Financing for Development

United Nations, New York

The Past and Future of Emerging Markets

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November 10, 2014

Your Excellencies, Distinguished Delegates, Ladies and Gentlemen:

My name is Uwe Bott and I served as a senior executive to such institutions as GE Capital and the Depository Trust & Clearing Corporation (DTCC). I now advise the financial sector primarily on systemic and geopolitical risk as President of Bott Consulting.

Over the last 15 years, many emerging markets have made extraordinary progress closing the gap to the advanced economies for several reasons. Many EMs implemented prudent fiscal and monetary policies reducing their budget deficits, bringing down public sector debt and containing inflation.

EMs also benefited from a benign external environment. The Chinese economy grew rapidly creating an unprecedented appetite in China for commodity imports, which were largely satisfied by EMs.

EMs also lowered their borrowing costs because of loose monetary policies in many advanced countries, even preceding the financial crisis of 2008.

Over the next 15 years, external conditions will be less benign. China's growth is slowing. Its economy has become the world's second-largest and reached critical mass. Growth from such a large production base will likely be limited to an annual average of 5%-7%.

As a result, commodity prices have already fallen and will continue to remain weak. Moreover, new technologies such as 3-D printing will make us more efficient in the use of commodities.

Oil-exporting EMs face a particular challenge. Prices will likely remain depressed for three reasons: Weak global demand, growing market share of renewables and the shale oil and gas boom, especially in the United States.

Finally, loose monetary policy in advanced countries will eventually come to an end. While Japan and the Eurozone will need further quantitative easing, the U.S. economy is growing fast and the U.S. Fed has completed tapering. By late 2015, U.S. interest rates, which are the benchmark for global borrowing costs, will begin to rise again.

And yet, EMs can continue to grow at a formidable clip, but the impetus to such growth will have to come from within with some assistance from outside.

EMs must extend macroeconomic stabilization through micro reforms. These reforms must correct weaknesses in their legal systems, cut red tape and address inflexible labor markets.

Many EMs can build on budding domestic capital markets. Local-currency savings in EMs are estimated at $9 trillion, but are largely invested in domestic treasury instruments for risk mitigation.

Advanced countries' stock exchanges should strike strategic alliances with exchanges in EMs, transferring knowledge and technology while tapping into the growing potential of these exchanges.

But there is also the challenge to safely channel vast EM resources into much needed water and sanitation, power, schools and hospital projects.

In the U.S., the Ascending Markets Financial Guarantee Corporation or AMF Guarantee is currently in the late stages of raising capital with an expected launch by mid-2015. AMF Guarantee will do business only in EMs and it will structure and guarantee projects by delivering triple-A ratings in local currency on the national rating scale to their underlying borrowings. That, in turn, will allow local institutional investors to invest in instruments other than domestic treasuries.

Middle-income countries such as Namibia, Colombia, India or Romania would benefit in three ways: More efficient capital allocation in domestic infrastructure investments, strengthened capital markets and a reduction of hard-currency borrowings.

For poorer nations without local savings, AMF Guarantee could guarantee remittance transactions for leading local banks or commodity exports, both strengthening EMs financial sectors and expanding their export potential.

Finally, the World Bank and other multilateral as well as bilateral donors will continue to play an important role, especially in lower-income countries, where they will remain the primary source for funding of infrastructure projects.

Micro reforms in EMs and combining traditional responses to development finance with innovative approaches will support the prosperity in EMs for the next 15 years.

Thank You.