



Season 1, Episode 3—April 2022

Megatrends!

Demographics: An Aging Workforce Hunts for New Global Investment Opportunities

BARINGS

22-2161171

Megatrends!

In a decade, what will investors wish they had known today?

- 1 Have the gains from **globalization** peaked or just shifted?
- 2 Will **aging populations** slow growth—or spur innovation?
- 3 Will **government debts** drive growth or swamp financial markets?
- 4 How will **climate transition** reshape the global economy?
- 5 How much will **new technologies** disrupt existing industries?

Question: Can Demographics Reverse the Trend in Capital Flows?

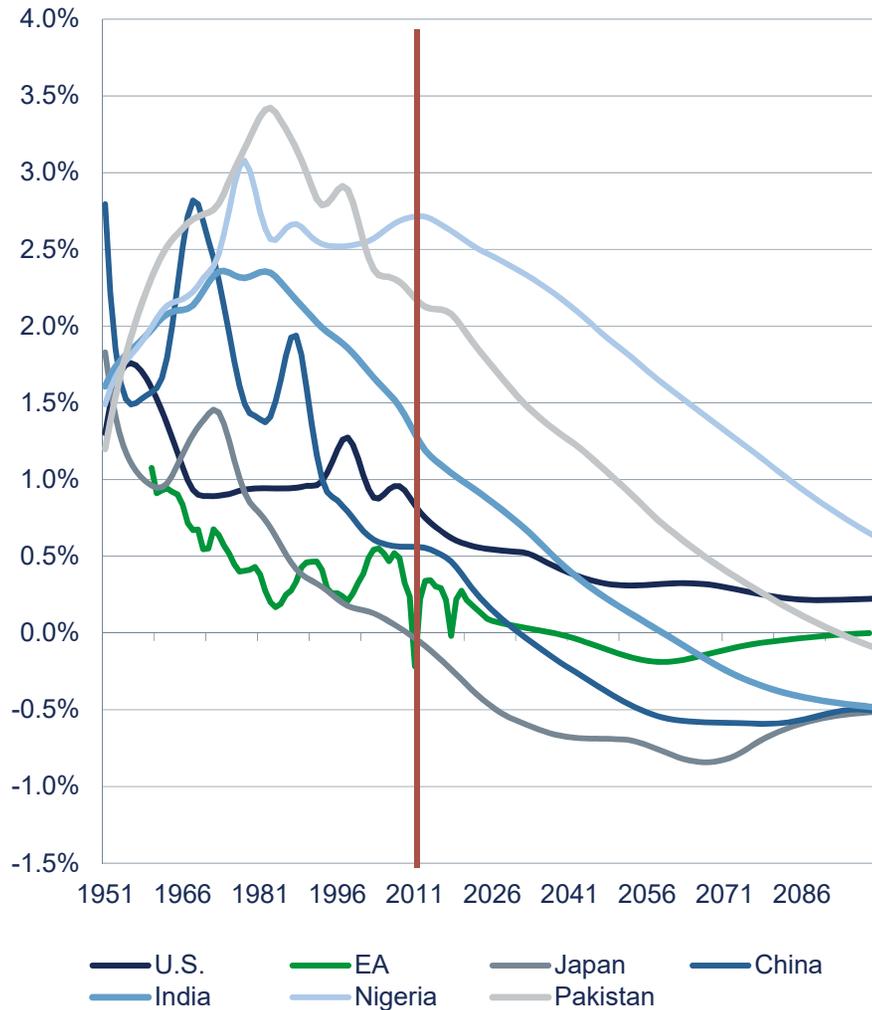
Diverging demographic trends between rich and poor countries will accelerate.

DIVERGING DEMOGRAPHIC TRENDS BETWEEN RICH AND POOR COUNTRIES WILL ACCELERATE

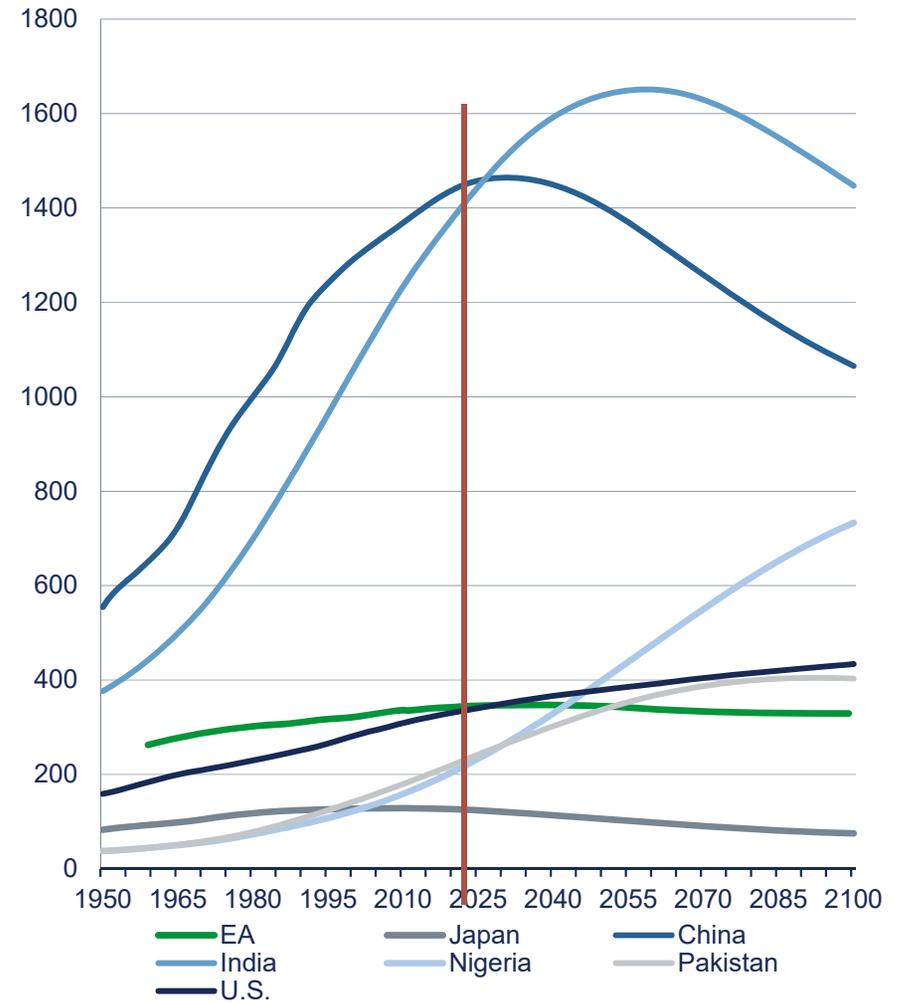
1. Richer, older, developed countries face slowing population growth, while poorer, younger, developing countries face faster population growth.
2. Poorer, developing countries will make up an increasingly greater share of the global potential labor force.
3. Being able to tap into this potential global labor force provides much opportunity...
4. ...but what would it take? Successful investments could boost standards of living in these developing countries, aiding demand for consumer goods, housing, transportation, and more.
5. Will demographic forces be enough to reverse the trend in capital flows from poor to rich countries?
6. What are the economic and investment implications?

1. Populations of Poorer, Developing Countries are Growing Faster than Richer, Developed Countries

POPULATION PROJECTIONS, Y/Y%



POPULATION PROJECTIONS, MILLIONS



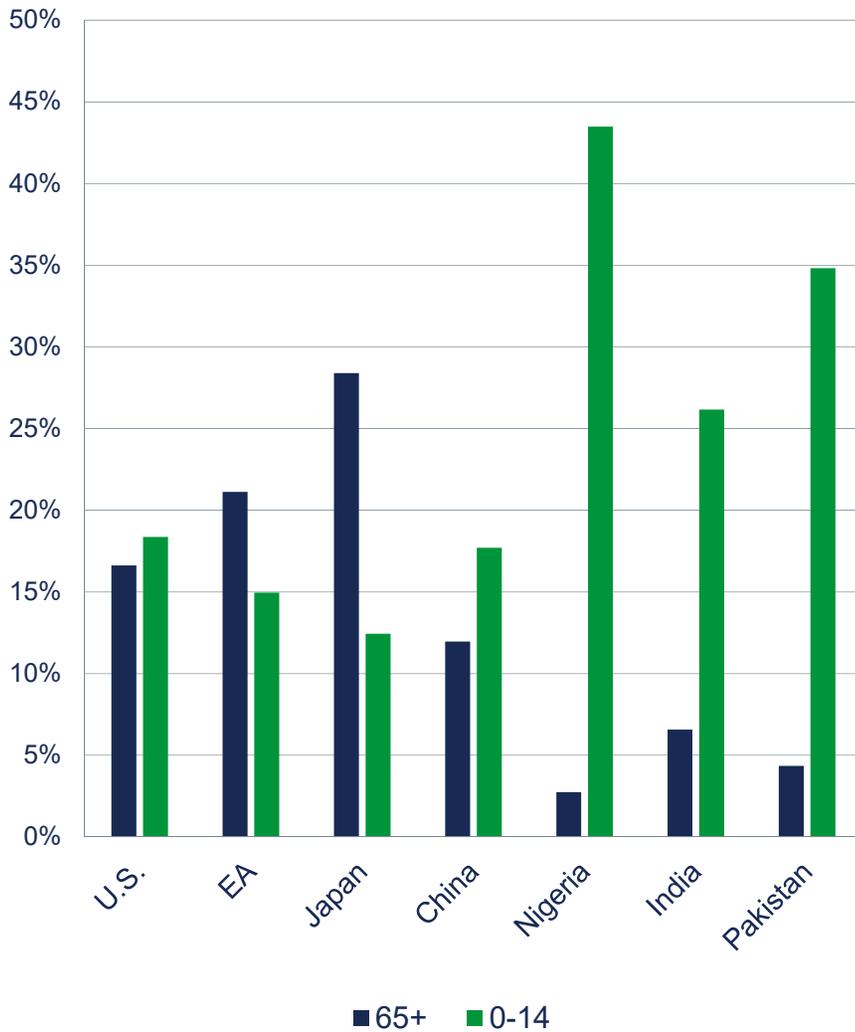
Source: Bloomberg; Haver; Our World in Data; United Nations. As of February 22, 2022..

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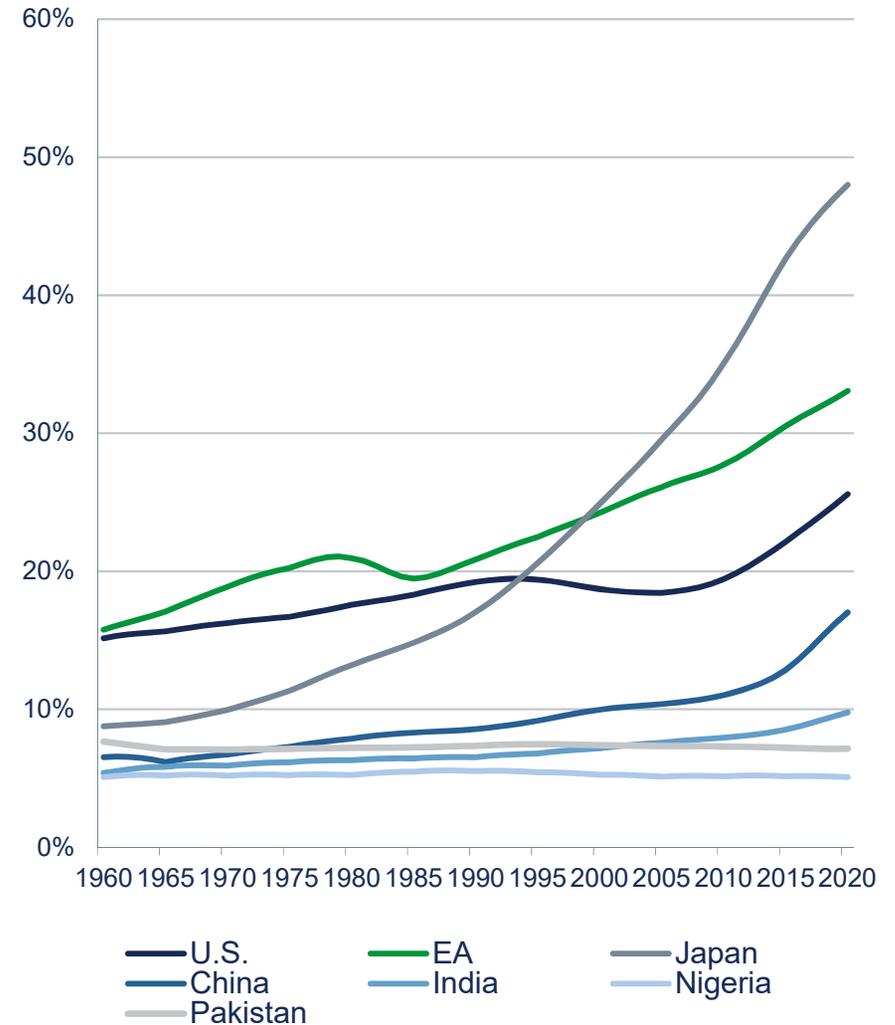
1. Richer, Developed Countries are Relatively Older & Aging

Higher old age dependency ratios have been associated with slower growth and greater strains on fiscal budgets.

SHARE OF TOTAL POPULATION BY AGE, 2020



OLD AGE DEPENDENCY RATIO



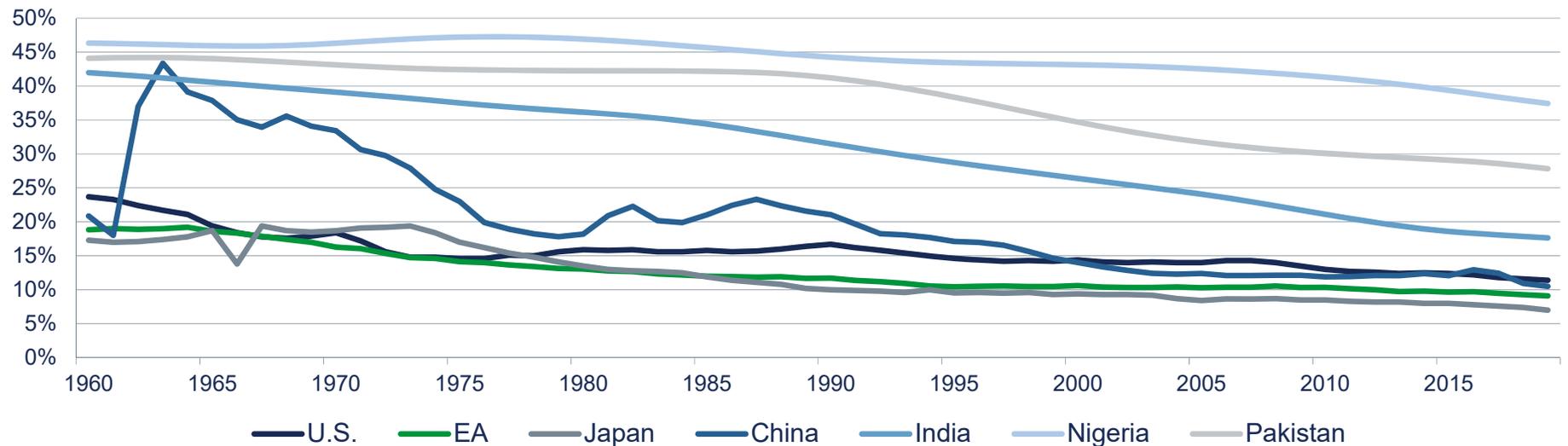
Source: World Bank. As of February 22, 2022.

1. Trends are Set to Continue Amid Diverging Birth Rates

Developing countries are experiencing higher birth rates than older, developed countries.

	Fertility Rate per 1,000 Women	
	1990	2019
Low income	6.5	4.6
Lower-middle income	4.3	2.7
Upper-middle income	2.5	1.8
High income	1.8	1.6
World	3.2	2.4

BIRTH RATE PER 1,000 PEOPLE



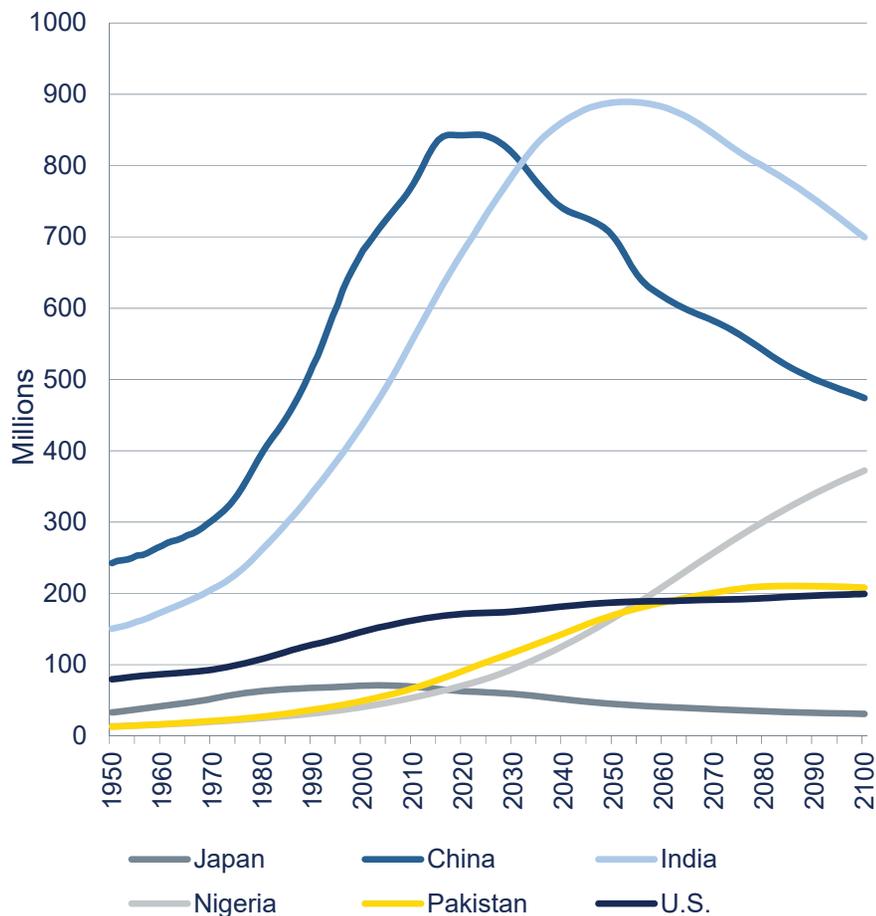
Source: Center for Global Development; World Bank. As of February 22, 2022.

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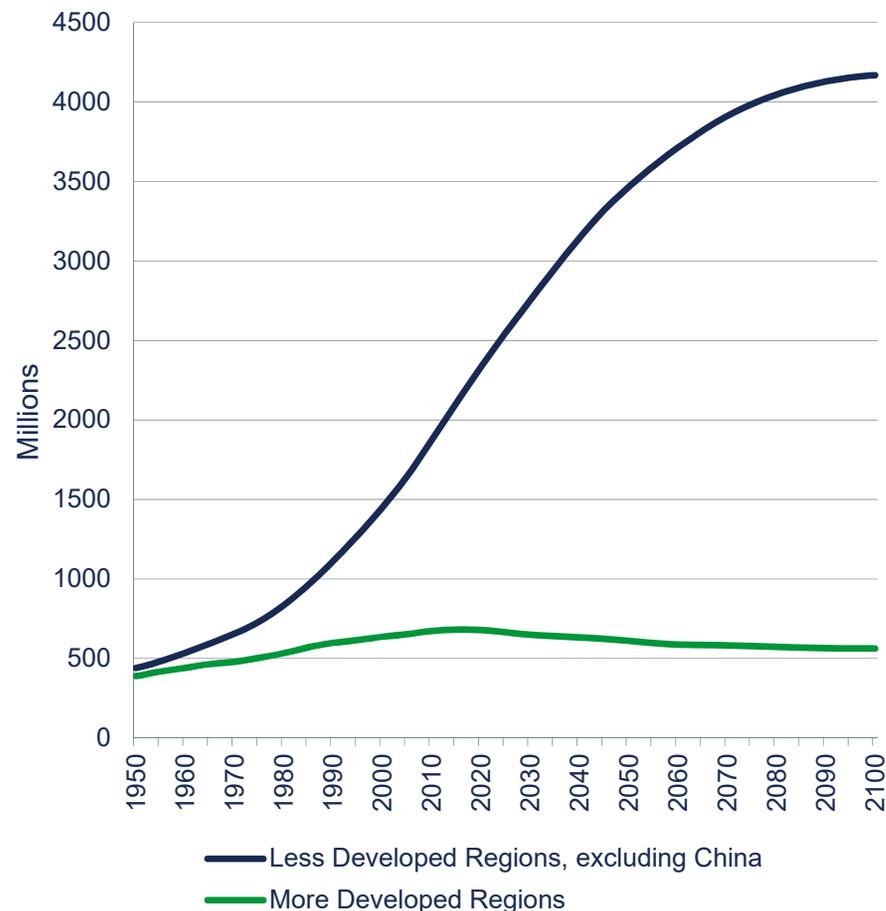
2. Developing Countries will Account for an Increasingly Greater Share of the World's Prime-Working Age Population

In 2042, less-developed regions (excluding China) are projected to account for 70% of the world's working age population between the ages of 25–64.

**POPULATION PROJECTIONS,
AGES 25–64, MILLIONS**



**POPULATION PROJECTIONS,
AGES 25–64, MILLIONS**



Source: Our World in Data. As of February 22, 2022.

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3. Tapping into These Potential Labor Pools Provides Much Opportunity

Without migration, U.N. estimates suggest many higher-income countries will see declines in the size of their potential labor forces. However, mass migration is an unlikely solution.

	Change in Population Age 20–64, 2020–2050 (millions)	2050 Worker Shortfall (millions)
Low-income	440	+232
Lower-middle income	677	+231
Upper-middle income	-85	-465
High-income	-46	-202
World	986	-297

**2050 worker shortfall is shortfall in the 20-64 population compared to forecast required to keep the 2050 dependency ratio the same as in 2020.*

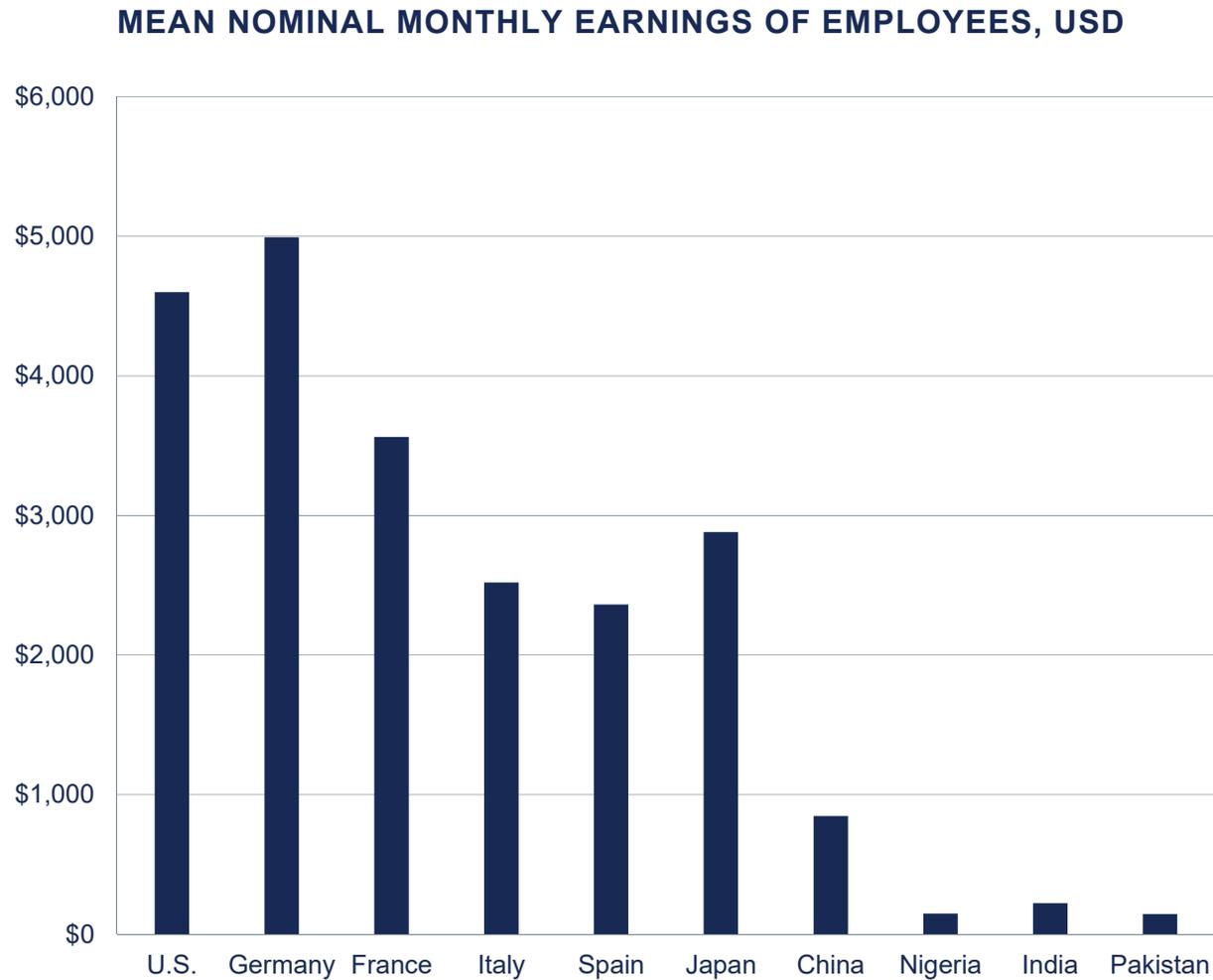
***Assumes no migration*

According to calculations by the Center for Global Development:

*“A back-of-the-envelope calculation suggests... if 667 million people moved from the poorer to the richer countries to fill the high- and upper-middle income country worker gap at that same productivity differential, it would have **an impact on global GDP of approximately \$30 trillion dollars, or about 25 percent of global output.**”*

4. Wages Would Rise in Developing Countries

Wages are much lower in developing countries and would likely need to rise to attract workers.

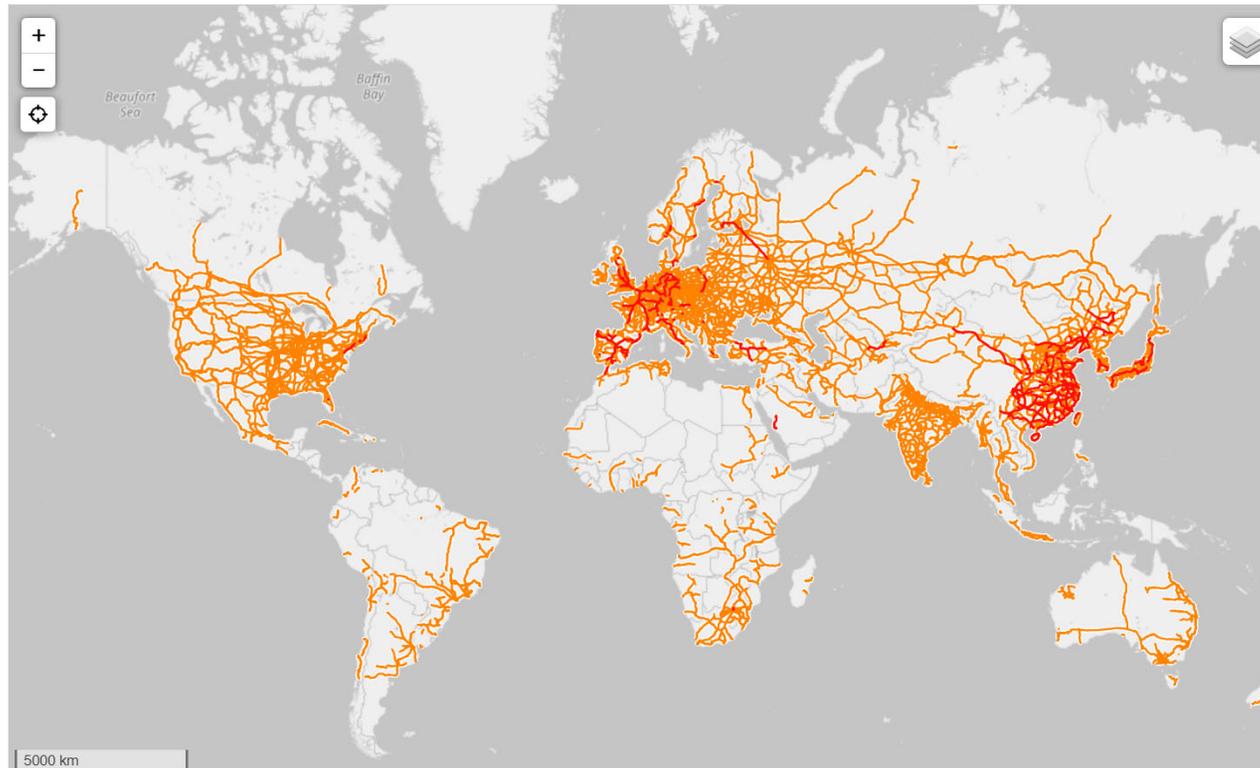


*Data as of—U.S.: 2021; Germany, Italy, Japan, and India: 2020; France and Nigeria: 2019; Spain: 2018; China: 2016.
Source: International Labour Organization. As of February 22, 2022.

4. Access to Transportation Would Need to Improve

Transportation access is much lower in developing than developed countries.

RAILWAY INFRASTRUCTURE



Track usage

- Branch line
- Main line
- High-speed line

Source: <https://www.openrailwaymap.org/>. As of April 7, 2022.

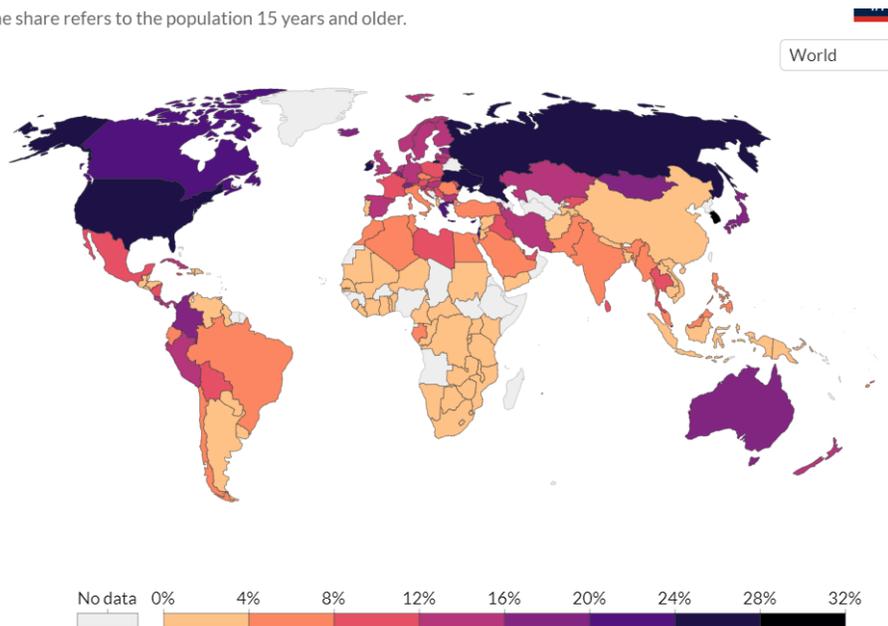
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4. Investing in Education & Skills Training Would be Needed

Populations in developing countries have, on average, lower education levels.

SHARE OF THE POPULATION WITH COMPLETED TERTIARY EDUCATION, 2010

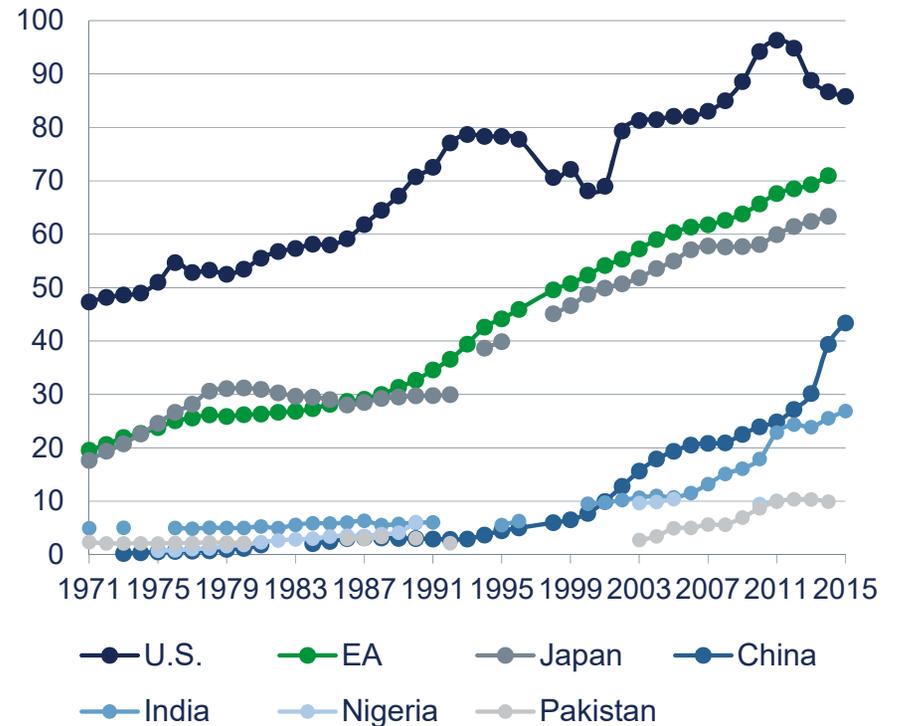
The share refers to the population 15 years and older.



Source: Robert J. Barro and Jong-Wha Lee

OurWorldInData.org/tertiary-education/

GROSS ENROLLMENT RATIO, TERTIARY*



Source: Our World in Data. As of February 22, 2022.

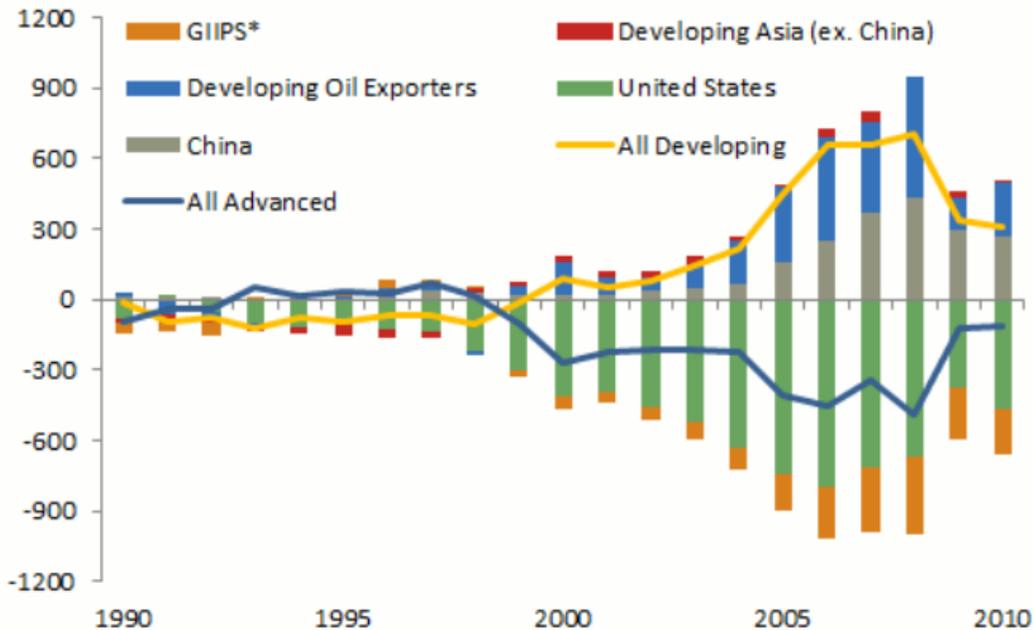
<https://ourworldindata.org/tertiary-education>

*Notes: Gross enrollment ratio is the number of students enrolled at a certain level of education as a % of the population of the age group that officially corresponds to that level.

5. Capital Flows Conundrum

While theory suggests capital should flow from rich to poor countries, this has not been the case so far.

CURRENT ACCOUNT BALANCES, U.S. DOLLARS, BILLIONS



* Greece, Ireland, Italy, Portugal, and Spain.

Source: IMF.

POSSIBLE REASONS CAPITAL OUTFLOWS FROM POOR COUNTRIES OUTWEIGH INFLOWS INCLUDE¹

- Governance challenges
- Burdensome business climate
- Less-competitive markets
- Unfamiliar regulatory environments
- Differing labor force skills
- Reserve accumulation by central banks
- Frictions in either the global financial or goods markets²

Sources:

1. <https://carnegieendowment.org/2011/06/23/capital-flow-conundrum-pub-44798#:~:text=Economists%20and%20policy%20makers%20alike,simplistic%3B%20it%20is%20also%20dangerous.>
2. [https://www.nber.org/system/files/working_papers/w22081/w22081.pdf.](https://www.nber.org/system/files/working_papers/w22081/w22081.pdf)

5. Capital Flows Conundrum

HORIOKA AND FORD'S THEORY EXPLAINED

- Gross flows of capital can occur with transfers of financial capital alone. However, **net flows of capital also require integration of global flows of goods.**
- They argue that if there are frictions in either the financial or goods markets, this would prevent the net flows of capital from developed to developing countries.
- While money has been able to flow, they argue that it has been **frictions in the flow of goods that has stopped net capital from flowing to developing economies.**
- If the need for companies in developed economies to invest in labor in developing economies due to demographic trends is strong enough, could this allow for greater flow in the global goods market, and allow net capital to flow from developed to developing countries?

6. Economic & Investment Implications

IMPLICATIONS

- The contribution to **global growth** from richer, aging countries with slower population and labor force growth may slow, while younger, poorer countries with fast-growing populations will contribute increasingly more to global growth.
- Companies who are able to successfully **tap into global labor forces** and consumption abroad will benefit.
- Investment in **infrastructure in select younger, developing countries**—roads, transportation, factories, warehouses, real estate, internet
- **Technology**—online education and upskilling trainings in younger, developing countries; technologies to connect and communicate with labor abroad; etc.
- If capital flows from rich to poor countries, the **older, rich countries should see increases in rates on the margin** as investment flows to other countries with higher risk and faster growth.
- If companies fail to supplement labor forces in developed economies, labor shortages and **higher wages** in developed economies will lie ahead.



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As of March 31, 2022.

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