Chapter 6
AI in Emerging Markets

ABSTRACT

In this chapter, the authors explore the effects of artificial intelligence (AI) disruption in emerging markets (EM) – countries that are harnessing technology much faster and more enthusiastically than many of their developed-market compatriots. Dubbed the Fourth Industrial Revolution (4IR), AI technologies are disrupting at speeds that have no historical precedent. With the potential economic benefits of AI already clear, governments in many EM countries—including China, South Korea, Russia, Hungary, Poland, the UAE, and Saudi Arabia—are pursuing policies that will help leapfrog developed markets. However, there are risks including concerns that a potential global recession may slow the rapid growth that the likes of China and other EM countries have enjoyed thus far. Additionally, there are key challenges relating to social, ethical, and legal frameworks as well as a need for security policies.

"If AI is to be a boon and not a global burden, its benefits will need to be shared" –Lee Kai-fu, chairman of Sinovation Ventures

DOI: 10.4018/978-1-7998-4607-9.ch006

INTRODUCTION

What Are Emerging Markets (EM)?

'EM' was coined in 1981 by Antoine van Agtmael[1] who had decades of experience successfully anticipating and acting on global EM trends. The International Monetary Fund classified[2] the world into advanced and developing economies on the basis of:

- per capita income level (i.e. how much citizens of a country earn)
- export diversification (i.e. how diverse a country's exports are)
- degree of integration into the global financial system (i.e. a country's level of financial sophistication)

Reclassification only happens when a significant change occurs or the case for change in terms of the three criteria above becomes overwhelming. The Morgan Stanley Capital International (MSCI) EMs Index[3], launched in 1988, is another type of classification used for EM countries. Reviewed quarterly, it reflects changes in the underlying equity markets. EM countries are economies that are moving toward becoming what are known as *developed markets*. These countries are crucial to driving global economic growth. Examples of advanced markets include the US and Western Europe, including the UK. Examples of developing economies include countries across the Asia–Pacific region and Latin America. They have lower levels of liquidity, less established markets and lower levels of per-capita income.

Although there are many EMs worldwide, the four largest are Brazil, Russia, India and China (BRIC), as depicted in Figure 1. Many investors believe that these markets are relatively stable and may eventually replace the G7 as the world's next superpowers. This makes them essential for any international investor's portfolio (Kuepper, 2019). The BRIC economies differ greatly from each other in many ways:

- **Brazil:** nothing short of an economic miracle over the past decade. In fact, the country is now the second-largest producer of iron ore in the world and produces more ethanol than Asia and Europe combined.

Related Content