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Flagship

Emerging Markets Economic Outlook & Strategy

Artificial Intelligence and the EM Growth Divide

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CITI'S TAKE

There are only a few potential EM winners (Taiwan, Korea, Singapore) in the US-led AI capex cycle, but if the 1990s IT revolution were any guide, prospects for future productivity gains could accrue more to the "users" versus "producers". Here too, EM looks relatively disadvantaged vs DM, as AI adoption prospects remain highly correlated with per capita GDP through digital-infra/skills, and occupational structure's readiness for AI disruption. China's lower-cost "frugal stack" could accelerate AI diffusion across EM but its benefits are likely to be unevenly distributed to a few. It is too early to assess labor-market effects, but abundance of young job-seekers in Africa & Asia is a challenge. AI could narrow the skills-gap between DM and EM, but overall effects are unlikely to be large enough vs displacement and commodification of lower skilled tasks. India's business process outsourcing services export growth remains very resilient, while Philippines' is slowing sharply.