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AI Innovation Spurs Potential Opportunity in Emerging Markets

By: Steven Quattry | October 3, 2023

KEY POINTS

1. Investors may be overlooking opportunities from AI applications in EM countries.
2. AI is expected to unleash a wave of emerging creators across various digital mediums.
3. Legacy structural problems in EM may create even more potential opportunity for AI.

New York - The artificial intelligence (AI) bull market has been focused mainly on developed economies, but that's about to change.

Take Vietnam, for example. It's home to many innovative technology companies. It's also one of the fastest growing economies and it's been investing heavily in the next digital transformation. We are invested in the country's largest IT services company, which continues to develop leading AI applications.

Moreover, many other emerging markets (EM) companies are already harnessing the benefits of AI to accelerate their businesses goals. Recent examples include a Poland-based gaming company using AI to speed up game development and graphic production, and an Indonesian company using AI to implement customer scoring for its super app. Services such as mobile payments, investment features, insurance, credit scoring and loan services are all commonly offered through super apps.

EM has led the way in innovation

Innovation has been a unique strength across many emerging economies. We believe AI may spark a new wave of EM-led innovation, just as the smartphone led to mobile-first innovations in EM countries, such as the super-app, QR codes and digital payments, which are now ubiquitous in the West. Whereas the smartphone provided EM households with access to digital products and services, AI may be the new killer-app,¹ innovative enough to influence computing trends and sales.

This will be enabled by a world where coding with AI is now as easy as typing, driving the cost of developing software towards zero, which may lead to a greater supply of digital creation by those living in EM countries. This rapidly declining cost of digital creation from AI will also likely result in fragmentation of digital mediums, perhaps producing more niche and localized offerings. It reminds us how the zero marginal cost structure of the Internet democratized media at the expense of print and cable, leading to fragmentation and entirely new business models. Young, tech-savvy populations residing in places such as Jakarta, Lagos, Ho Chi Minh City, Cairo and Dhaka will increasingly produce innovation across industries that will transform everyday life.

Ultimately, AI is likely to have the biggest impact on EM countries themselves. These countries are plagued by structural issues, such as the mixed quality of healthcare, low standards of education and underdeveloped financial services, all of which hinder economic development. But a simple framework for thinking about the opportunity of AI in EM countries is that more legacy problems mean more opportunities for AI.

Take healthcare: ChatGPT² is already outperforming doctors in the U.S. on medical diagnosis tests, according to a Journal of the American Medical Association (JAMA) study. Imagine this tool being used via a smartphone in a rural clinic in countries facing a shortage of physicians. Poor education hurts entire generations in many EM countries. Yet, ChatGPT can be turned into a teaching software with a few prompts.

Or take small businesses, which in the emerging markets create seven out of 10 jobs,³ but suffer from productivity levels less than half that of larger firms.⁴ AI can offer inexpensive, customized expertise to drastically improve small business productivity. In short, AI puts the personalized expertise of a doctor, tutor or management consultant at the fingertips of billions of smartphone users in developing countries. The impact will be immense.

Bottom line: AI is expected to have its biggest impact in EM countries, where the technology will enable a new class of creators and solve structural problems. Investors may be well served to broaden their exposure to AI beyond the handful of today's valuation rich opportunities.

¹ A feature, function or application of a new technology or product which is presented as nearly indispensable or far superior to rival products.

² An AI chatbot that uses natural language processing to create conversational dialogue like a human.

³ World Bank Group, as of April 3, 2023.

⁴ International Labour Organization (ILO), OECD Structural and Demographic Business Statistics, April 2017.

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Steven Quattri
Portfolio Manager
Next Gen Emerging
Markets Strategy

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