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Opinion Emerging markets : How to deal with the problem of 'submerging markets'

A global effort to mitigate the effects of food insecurity, currency weakness and rising debt is essential

A demonstrator shouts during an anti-government protest by the Inter University Students' Federation in Colombo, Sri Lanka, last month © Dinuka Liyanawatte/Reuters

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The toxic trifecta of soaring food and energy prices, coupled with the threat of drought, is having a severe impact on a number of developing nations. Several countries commonly referred to as emerging markets could perhaps be better described as “submerging markets”.

Sri Lanka, where frustrated citizens stormed the presidential palace in July, could be merely the opening act in a wave of instability across the developing world. In 2015 the G7 made a commitment (reiterated in 2022) to lift over 500mn people out of hunger and malnutrition by 2030. At this point, however, we appear to be going in the opposite direction. The World Food Programme predicts that over 320mn people are at risk of acute hunger.

Many emerging market countries took advantage of the era of low global interest rates to fund spending by raising debt in the international capital markets. But rate increases by the US Federal Reserve, combined with weaker EM currencies, are now resulting in severe debt servicing burdens which are eating into governments' discretionary spending on health and education.

The impact of emerging market meltdown could be felt in developed countries across North America and Europe in the form of increased migration flows. As several Central American countries, among others, grapple with dramatically slowing growth and food price inflation, we

may again see waves of refugees gathering along the US's southern border. We could also see more boatloads of desperate people from Africa and the Middle East arrive on European shores in search of better lives.

Food insecurity and economic downturns will result in many countries experiencing civil war-type conflicts as local groups compete for scarce resources. And these economic and security challenges will result in migration flows that adversely affect both potential migrants and the countries that receive them.

There are several steps that can be taken to address the challenges facing emerging market nations.

In the short term, the IMF and sovereign donors should announce a three-year debt servicing moratorium for the most vulnerable countries. This will help create much-needed fiscal space, and should be coupled with a requirement that the proceeds saved in lieu of debt payments be invested in agriculture, health and education.

Furthermore, the IMF, together with the G7 and EU, should also increase lending to emerging markets to help fund fertiliser, food and energy imports. Countries such as Saudi Arabia and the United Arab Emirates, which benefit from higher energy prices, should be strongly encouraged to contribute to these global efforts, along with China and Japan.

Aid should also be channelled towards groups such as the World Food Programme and the International Rescue Committee, which together operate in over 120 developing countries and have built-in processes to direct food and other supplies to the most needy. The G7 and larger trading blocks across Europe, North America and Asia should also encourage targeted duty free imports from these countries, with the assistance of the World Trade Organization.

The G7 summit in July announced an incremental \$4.5bn to combat hunger — but the Greek bailout packages in the last decade totalled over \$300bn. While stabilising Greece helped to stabilise Europe, the gap between these numbers is massive.

We don't want a planet where millions go hungry, countries default on their debt, the hungry are forced to leave their homes to find subsistence elsewhere and civil wars rage — in short, a world in which countries submerge. We can and must do better.