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This One Thing Could Make a Huge Difference in Emerging Economies

Greater participation of women in the workforce could spur a drastic increase in GDP in emerging markets and globally, according to NDR.

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Paul Yeung/Bloomberg

There's one thing that could dramatically improve an emerging economy's growth trajectory: greater female participation in the workforce.

Rising rates of labor participation among women could spur a drastic change in potential real gross domestic product growth in emerging markets and globally, according to Ned Davis Research, a global independent investment research firm (and *Institutional Investor*'s sister company).

As NDR explains in a special report on women in the workforce, long-term potential real GDP growth is largely a product of the growth in a country's labor force and its productivity growth, which measures how well that labor is used. The participation rate among women is one of the biggest factors in determining the size of a labor force, according to authors Alejandra Grindal, chief economist at NDR, and Patrick Ayers, an NDR senior analyst.

"[Demographics] are a portion of economic growth," Grindal told *Institutional Investor*.

"Your potential growth is your resources, and one of the most valuable resources a country has is its people."

Female participation rates vary drastically across countries. In emerging markets, increased participation of women in the workforce could change the very nature of the economies, according to NDR.

Grindal and Ayers compiled a list from NDR's all-country world index and selected the economies with female participation rates under 60 percent, a rate observed in economies with the largest and most gender-diverse workforces. The list included countries such as Egypt, India, Pakistan, Saudi Arabia, Turkey, Singapore, Ireland, Finland, Austria, Greece, France, the U.S., and Chile, among others.

The co-authors then calculated how much the labor force would rise in the countries with low numbers of working women if each country raised its female labor force participation rate to 60 percent.

In Egypt, the growth of the entire labor force could reach 50 percent if more women participated. In India and Pakistan, the labor force would grow 40 percent.

Overall, more women entering the workforce would allow emerging market economies to "better take advantage of economies of scale and comparative advantage," Grindal and Ayers wrote.

Even countries with large, developed economies could grow their labor force if more women entered the workforce. The U.S., for example, could grow its workforce by 4 percent if it got its female participation up to 60 percent, while Germany's would rise 3 percent.

"This is essentially a rough estimate and it shows how much more upside an economy could have if it just had that number of individuals come back in," Grindal said.

The economies with the highest degree of female participation in the workforce — meaning they had the highest rates of working women overall — were Peru, New Zealand, Switzerland, Sweden, and China. Meanwhile, Sweden, Norway, Vietnam, and Canada had the closest numbers of females and males in the workforce, with a gap of less than 10 percentage points.

The size of the workforce is just one factor in total real potential GDP. Productivity growth also matters. According to NDR, workforces that include more women tend to be more productive. Citing 2019 data from the International Labour Organization, NDR reported economies with more female participation, like those in Norway, Switzerland, Sweden, New Zealand, and Israel, saw stronger growth in their respective productivity rates than those with lower female participation, like Greece and Japan.

Grindal attributed women's outsized role in productivity to three factors. First, in developed and many emerging markets, women are more likely than men to have tertiary education, or a post-high-school degree. A higher degree of education is more closely associated with greater productivity, she said.

Second, Grindal noted that women are more likely to invest in their children, both with their time and money. "That's essentially creating a more productive workforce going forward," she said.

Women also add diversity to the workforce, which is associated with higher performance and thus productivity.

According to Grindal, labor market growth is fundamental for equity market performance, meaning it's in the best interest of investors to pay attention to labor force participation.

"Demographics are important," she said. "They're important for looking at the growth trajectory, and quite honestly, it's one of the few things you can predict reasonably accurately in the long term. But you also need to take into account the participation."

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