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# EMERGING MARKETS SUSTAINABILITY:

## A New Growth Foundation

The pandemic's deep and disparate impacts have taken a toll on global markets, and Emerging Markets (EM) equities have not been spared. Amid the post-pandemic tumult, however, there are green growth indicators providing hope for a post-pandemic recovery.

The increasing focus on sustainability in EM economies is one such indicator. The traditional case for investing in EM equities hinged on access to a growing middle-class, global trade tied to competitive manufacturing, and availability of natural resources. As EM governments chart a return toward growth, however, they are increasingly aligning economic policies and capital commitments with sustainability goals, a trend EM companies are taking advantage of by investing in innovative solutions to become local and global leaders.

In 2020, for example, South Korea announced it would invest KRW73.4 trillion (4% of its GDP) through 2025 in green remodeling of public facilities, renewable energy production, and eco-friendly vehicles. Through these efforts to transition towards a more sustainable industrial ecosystem, South Korea expects to create more than 600,000 new jobs and boost employment by 2.5%.

In another example, Indonesia recently set ambitious carbon targets, pledging to reach nearly 50% renewable electricity generation by 2030 and phase out gas-powered cars by 2050.

Meanwhile, China announced its own ambitious carbon-neutral goals in 2020 that will require significant investment in a low-carbon, energy-efficient economy. The country's Party Congress,

held in October 2022, reaffirmed environmental protection and decarbonization as pillars of economic growth policies. China will almost certainly look to tap the potential of its enormous domestic market to push for technological self-reliance by continuing investment in new infrastructure, such as 5G, cloud computing, ultra-high-voltage power grids, and renewable energy.

EM government commitments to sustainability are not confined to Asia alone. Following COP26, South Africa announced its Just Energy Transition Partnership with Germany, France, the UK, the US, and the EU. The decarbonization investment plan and its aim of supporting the phase-out of coal is increasingly seen as a model for EM countries.

In 2021, Brazil bowed to international pressure to set a target of achieving net-zero emissions by 2050 — a decade ahead of the previously agreed upon schedule — while ending illegal deforestation by 2030. The country's newly elected government is expected to be more focused on achieving these goals, especially regarding deforestation.

### **Emerging Markets: Home to Global Sustainability Leaders**

Emerging Market companies have reached the alternative energy forefront. LG Chem in South Korea and BYD in China are electric vehicle (EV) supply chain leaders, and China, fueled by policy support and innovation, now accounts for half of global EV market share and is also home to more than 70% of the global solar energy supply chain.

Companies in Taiwan, Brazil, Chile, and elsewhere have become important suppliers to the EV and renewable energy supply chains. Taiwan's global power management company, Delta Electronics, is one of the companies well positioned to benefit from new demands driven by electric vehicles, data storage, and industrial automation. And thanks to the rise of technology and digitalization — the latter proving particularly effective at reducing the carbon footprint of the manufacturing supply chain — EM-based global suppliers are offering solutions for more sustainable and energy-efficient economies.

How quickly and how indelibly these initiatives make their mark on the global economy remains to be seen, but there are already encouraging signs, as global supply chains are increasingly adjusting to new alliances and production security demands. Altogether, policy and capital commitments from governments, growing technical knowhow, and enhanced industrial capabilities have become too significant to dismiss.

The post-pandemic economy is shaping up to look quite different from the globalized, “just-in-time” world we left behind. Instead of depending on the Agri-Industrial Revolution that catapulted Developed Markets forward, Emerging Markets are betting on the Resource Revolution to propel productivity gains. As their share of global solutions leaders expands, EM companies may hold a winning hand in a sustainability-driven recovery.



## **ABOUT LIZ**

Liz is the lead portfolio manager of Boston Common's Emerging Markets (EM) strategy. In this capacity, she works with analysts to create sustainability-focused EM portfolios, helps grow the firm's EM research capabilities, oversees overall portfolio positioning, and communicates with clients and prospects. She also has research responsibilities focusing on the global consumer staples sector. With over 21 years of investment experience spanning EM and Global equities, fixed income, and quantitative research, Liz is passionate about investing in EM companies that can enable the transition to a more inclusive and sustainable future.

Prior to joining Boston Common, Liz was an analyst and portfolio manager at Batterymarch Financial Management, where she most recently served as the head of Asia ex-Japan on the Emerging Market Equities team. She played an instrumental role in launching an Asia ex-Japan long-short fund and a Global Equity fund. She also gained asset allocation experience with Standish Mellon Asset Management. She began her career in economic and strategy consulting in 2000.

Liz earned a BA in International Finance from Wuhan University (China), an MA in Economics from Tufts University, and an MBA from the MIT Sloan School of Management. She is a CFA charterholder and a member of the Boston Security Analyst Society. Outside of investing, she volunteers as a Girl Scout troop leader and enjoys tennis, yoga, and traditional Chinese dance.