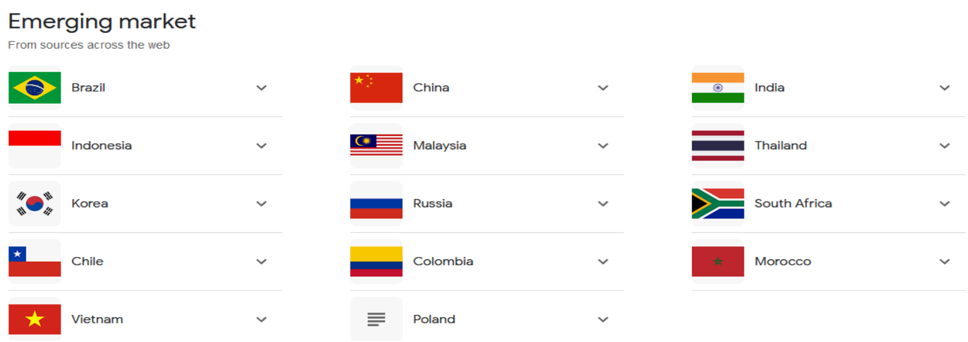
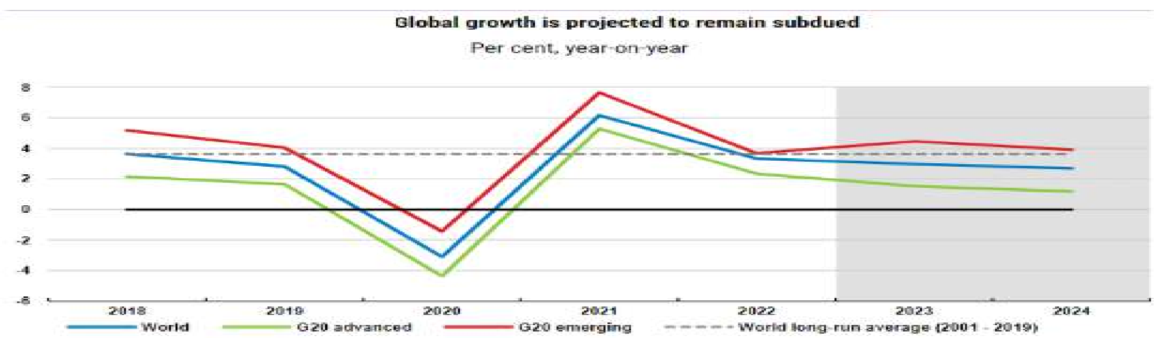
Emerging Economies

Currently, one-third of the world economy is accounted for by the Brics countries. However, they have never formed a unified economic entity due to the wide variations in GDP per person, trade patterns, and policy types. Their political views also diverge. In 2001, economist Jim O'Neill of Goldman Sachs coined the term "BRIC" (minus South Africa). He anticipated that the four BRIC economies would establish the lead in the world market by 2050. In 2010 there was the inclusion of South Africa on the list. Russia and China are dictatorial, but Brazil, India, and South Africa are democracies. While the latter is overtly anti-Western, the former group supports non-alignment. The strategic rivalry between China and India, meantime, makes it less effective as a venue for trade and regulatory policy. During the 15th Sumit in South Africa, the BRICS alliance extended invitations to Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates to join and their membership would take effect as from 01 January 2024. Twenty-three nations have officially applied to join the BRICS, including the six which have been invited. Some of the emerging markets are listed below:



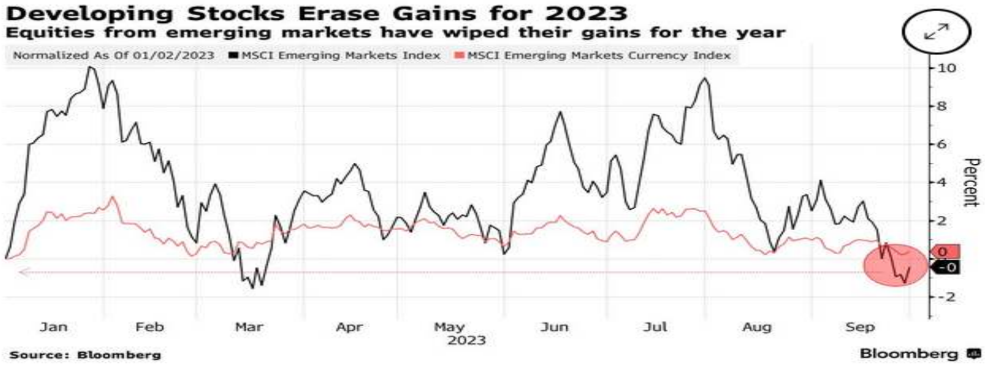
China stands out among the G20 emerging-market economies due to its unique cyclical and structural strains. China has been loosening monetary policy to address the slowdown in domestic demand growth, whereas the majority of sizable emerging-market economies have followed the big advanced economies in hiking interest rates, partly to prevent unintended depreciation of their currencies versus the US dollar. After a brief uptick in growth following the reopening in early 2023, growth in China is predicted to drop down this year and the following. In comparison, it is anticipated that GDP growth in India and Indonesia, the other two largest emerging-market economies in Asia, will remain largely stable in 2023 and 2024, at roughly 6% and 5%, respectively. The rest of the G20 emerging-market economies have quite different development prospects, largely based on unique national conditions including the difficulties posed by high inflation in Turkey and Argentina and changes in commodity prices. With the exception of China, the G20 emerging-market economies are expected to grow more modestly between 2023 and 2024.



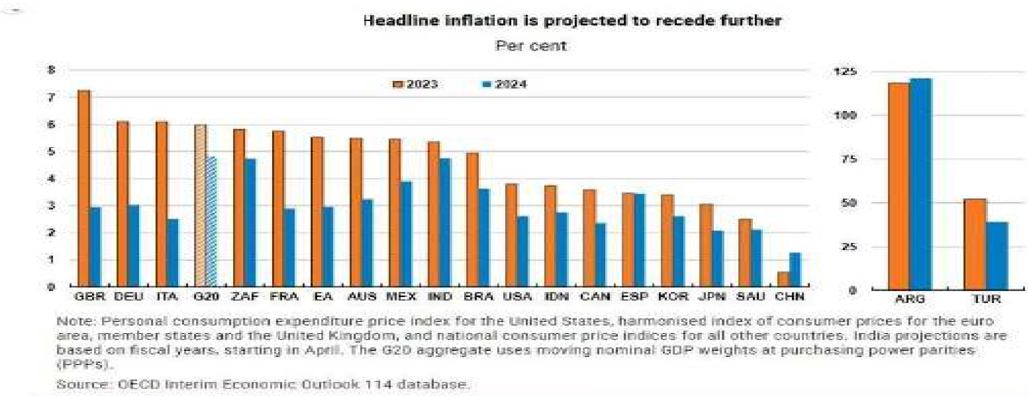
Note: Aggregates use moving nominal GDP weights at purchasing power parities (PPPs).
Source: OECD Interim Economic Outlook 114 database.

For the eight months that concluded on August 31, 2023, emerging-market equities returned 4.6%, less than the 16.1% return for developed markets during that same period. China's poor performance, which accounts for 28.6%

of the emerging-market stock benchmark, was a major contributing factor to this relative weakness. China and Fed policies have been the two main obstacles facing emerging markets. The worst quarter for emerging-market equities in a year just ended, wiping up most of 2023's gains. Not far behind are cryptocurrencies. Since the end of the epidemic in late 2022, China's economy has been mostly poor. Chinese consumers have been wary due to high rates of youth unemployment and notable weakening in the residential real estate market. Chinese stocks are currently trading at 10 times their 12-month ahead profits, which is lower than the average of 11.6 since 2006. Since China makes up over one-third of all emerging-market corporations, the country's poor performance has had a significant negative impact on the asset class as a whole.



In the majority of G20 nations, headline consumer price inflation has decreased somewhat sooner than anticipated. This has been made possible by the reversal of the 2022 increase in food and energy commodities brought on by Russia's invasion of Ukraine. The revised projection for average G20 inflation in 2023 and 2024 is 4.8% and 6%, respectively, down from 7.8% in 2022. Nonetheless, by late 2024, headline inflation would still be higher than medium-term targets in the majority of G20 economies.



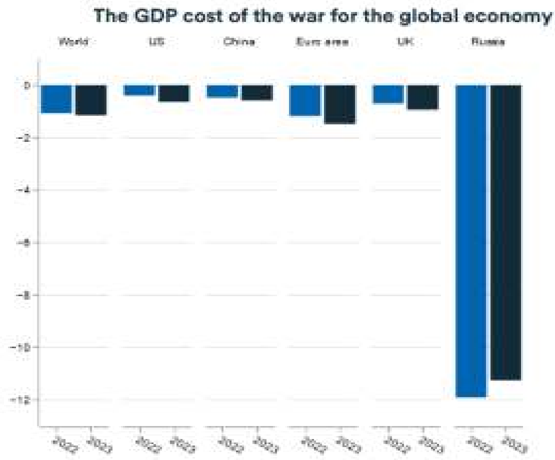
Historically, financial stress brought on by a swift monetary policy tightening in developed markets—particularly the United States—has forced emerging nations to tighten their own policies in order to protect their currencies and avert inflation. This cycle has shown us that central banks in emerging and developed markets have seen a decline in inflation, while those in Brazil, Mexico, and other countries have tightened policy at a rate significantly quicker than that of the United States. In light of this slowing inflation and the dimming prospects for global development, many central banks in emerging markets will probably decide to concentrate on cutting interest rates in the upcoming year rather than raising them. In stark contrast to developed markets, where there is a higher chance that central banks will keep raising rates over the course of the next 12 months, we anticipate rapid reductions in Brazil and Chile.

Conversely, though, sales of commodities or, in India's instance, a robust demand for computer services and pharmaceuticals have helped many emerging nations considerably improve their current-account balances. In the long run, an increase in emerging-market currencies relative to the US dollar is anticipated. The recent "de-dollarization" of commodity transactions has been expedited by rising geopolitical tensions, as many emerging economies have reached agreements to settle trade in their own currencies as opposed to using the US dollar.

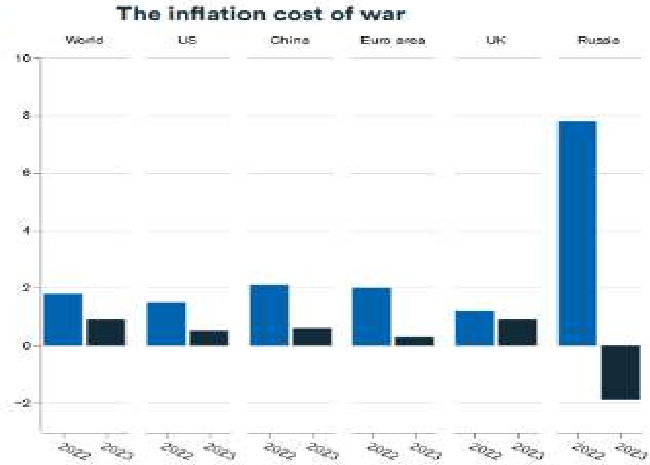
A shift is normal in the West's worldwide exchange away from China - a pattern known as re-globalization - to give long haul valuable chances to developing business sector exporters. Progressively, we find worldwide organizations expanding their stock chains as they face essentially higher international dangers, generally through heightening exchange pressures between the U.S. what's more, China. China's exports to other emerging markets have increased while those to the United States have decreased. Beginning around 2018, the level of Chinese products bound for Latin America, Africa, India and Southeast Asia has developed to 36%, while the U.S. share has tumbled to 15%.

According to Reuters, as the world's largest exporters attempt to support the global oil price, Russia announced on Sunday 17 December 2023 that it would extend its cuts to oil exports in December by up to 50,000 barrels per day or more. Ukraine has received strong support worldwide. Russia has been subjected to unprecedented levels of punitive sanctions and defensive trade measures from nations all over the world. Trade represented close to half (50%) of Russia's GDP prior to the war. There is no guarantee that the sanctions will stop Russian aggression. They also haven't brought Russia to the table for negotiations, and it's likely that they've had very little effect on the Russian economy.

Russia's total manufacturing production decreased by just 1.7% in January–February 2023 compared to the same period the previous year. However, all Western automakers left Russia, and the country's vehicle manufacturing fell to less than 25% of what it was before the invasion. A significant increase in the production of items used in the war, such as textiles, metals, and medical supplies, has taken its place. Rugged trade barriers notwithstanding, Russia possesses sufficient resources and the capacity to continue producing reasonably simple goods. Additionally, Russia's GDP estimates are probably going to hide the true impact of the war on the common people. Similar to Ukraine, up to 120,000 Russian soldiers are thought to have died in the conflict, according to US government estimates. In the future, the breakup of technical, scientific, and cultural relations with the West can be detrimental to the Russian economy. This may cause a "brain drain" of younger, more globally minded Russians who do not want to remain in a nation that has become an international laughing stock. In addition, the value of the rouble, the currency of Russia, has decreased. Similar to 1998, during the crisis of the rouble, social and political stability is expected to be negatively impacted, and a severe recession seems inevitable. This financial crisis for Russia can persist longer and be more severe than the one in the 1990s if no steps are taken in the direction of peace.



Source: National Institute Global Econometric Model (NiGEM) simulations



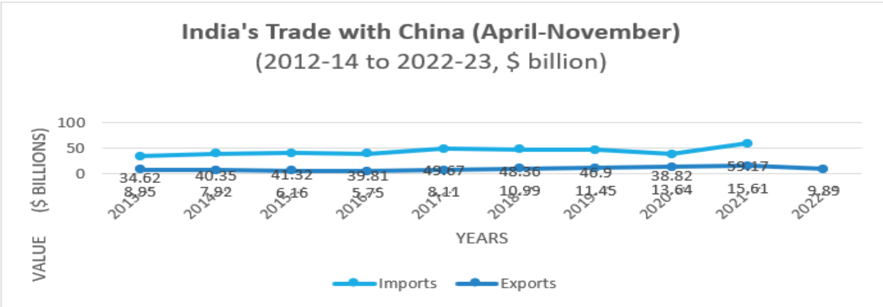
Source: NiGEM simulations

It can also be noted that the last ten years have seen a worsening of ties between the two powerful Asian nations, especially after an altercation between Indian and Chinese troops in the Galwan Valley in 2020. Although there are valid worries that the relationship between these nuclear powers is deteriorating, particularly due to their continued provocative behavior, neither Beijing nor New Delhi wants to see things escalate into a more severe crisis. As the rivalry between the United States and China heats up, the United States has attempted to bolster its security and economic ties with India considering that it views India as a key ally in Washington's Indo-Pacific strategy. However, in the midst of growing rivalry from big powers and the emergence of a multipolar world, New Delhi continues to adhere to its policy of nonalignment, therefore don't expect India to merely comply with the lead of the United States. The social media site TikTok and other well-known Chinese apps have been banned in India as part of a series of actions taken to retaliate against what it sees as Chinese threats.

CHINA			INDIA	
2012	2022		2012	2022
6,300	12,720	GDP per capita ($)	1,434	2,388
1,354	1,412	Population (million)	1,274	1,417
42%	75%	Internet users (% of population)	11%	46%
797	2,136	Equity market value ($ billion)	295	1,131

The Indian government also moved to prevent Chinese telecom behemoths Huawei and ZTE from providing services for its 5G network. When Indian investment leaves the Chinese market, the Chinese economy slows down. India has the potential to become the next major manufacturing hub if economic reforms are expedited. The diagram is an illustration of the GDP but mostly the decline of usage of internet. China is India's greatest commercial partner in the world, yet it also has the world's highest trade imbalance with China (which implies that India absorbs in excess of what it exports to China). This gap has practically doubled in just over a decade. India’s trade imbalance with China was approximately $73.3 billion in 2021–2022 and is predicted to surpass $100 billion in FY23. 38–40% of India's overall goods trade deficit in the post-Covid era is accounted for by its trade imbalance with China. Approximately 42% more has been added to the value of imports falling under HS category 86, which is "Nuclear Reactors, Machinery, Mechanical Appliances, etc." Compared to $13.9 billion the year before, the total value of imports falling into this category in 2021–2022 was $19.8 billion. More precisely, the category "Automatic Data Processing machines & Units" (HSC 8471) under this HS code saw an increase in imports. The other main import categories—Organic

Chemicals, Plastic & Articles, Fertilizers, Iron & Steel, etc.—are also seeing increases, which has helped to raise the value of imports in 2021–2022. The import trends under these product categories continue through November 2022, April–May 2022, and have helped to drive up imports even in 2022–2023 in comparison.



Source: Department of Commerce's Export Import Data Bank

Many EM countries' economic profiles have improved significantly from a decade ago. Government balance sheets have improved. In 2021, emerging economies' surpluses in their current accounts was $480 billion, more than double the amount recorded in 2019. Moreover, unlike in many industrialized markets, politicians in developing countries did not give substantial gifts to individuals during COVID, which benefited their budgetary position. Government reforms in countries such as India have made doing business easier. The Indian government has implemented pro-business reforms including a digital identity system, which have spurred growth by facilitating credit expansion and bringing broad swaths of the economy into the official sector. Production-linked incentive programs aimed at expanding India's local manufacturing base are also gaining traction. Indonesia has increased the number of airports, highways, and seaports, opened up more industries to foreign investment, and attempted to reduce red tape by changing labor and tax regulations.

Emerging economies with abundant natural resources, such as those in South America and Africa, have immense potential if they use their income carefully to lower development barriers. Larger economies, like India, are likewise seen with great confidence as capital spending rises and opens up chances for the development of rail, road, and renewable infrastructure. And with its new economic plan, even the severely impacted Turkey is once again on the investor's radar. However, since there is an equal and stronger demand for human capital, better welfare, and an energy transition in low-income countries as elsewhere, investments in these nations must also rise.