Power, inequality and post-growth

Emerging Markets Outlook 2024

Triodos Investment Management

Our outlook for 2024 focuses on post-growth. The question is whether post-growth, led by ecological and social injustice concerns, will be able to trigger the transformations needed for sustainable development in emerging economies. One thing is sure, the recent transformation debates are contributing to increasing awareness that the planet is finite and that radical change is needed – a sound wake-up call. And this is needed.

Power, inequality and post-growth

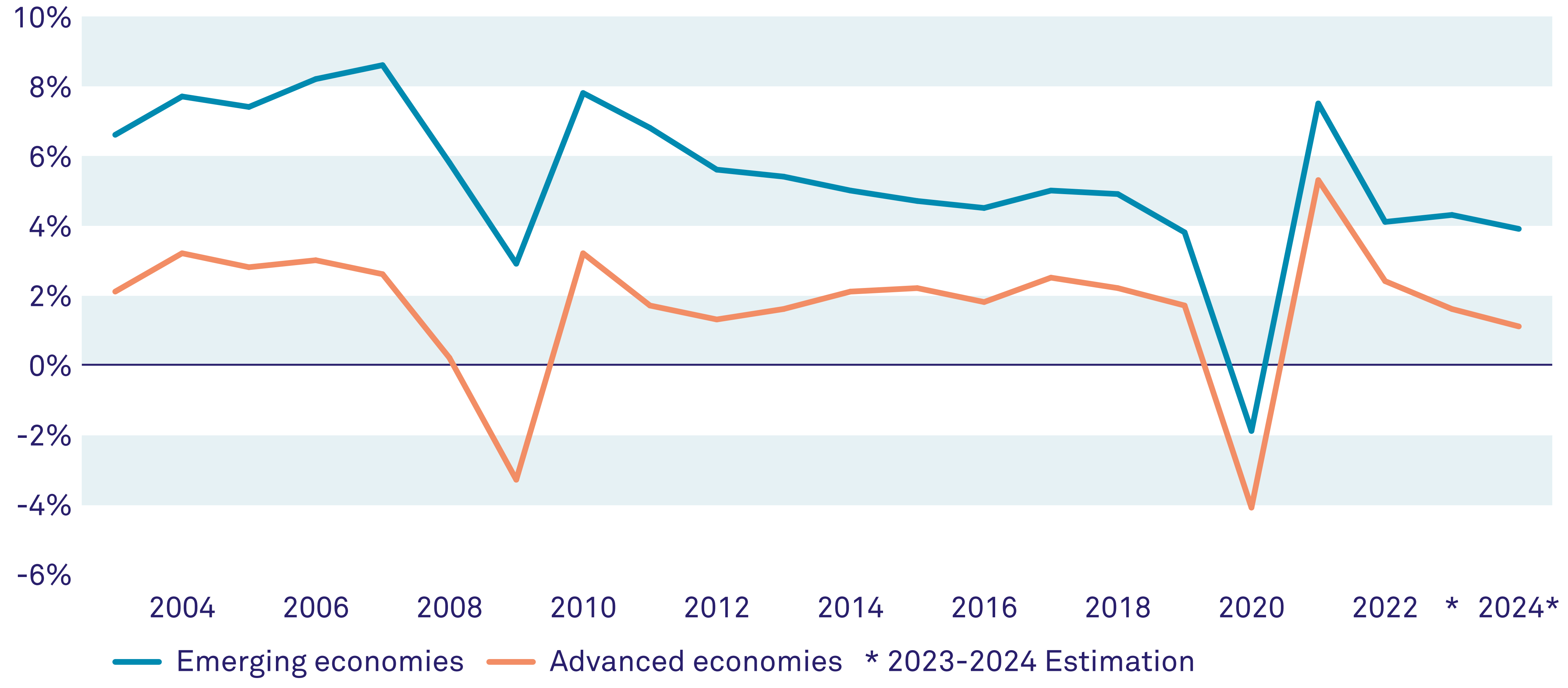
So far this year, economic activity and inflation in emerging economies have generally fared better than expected, despite the increasing geopolitical risks and the Fed and the ECB's higher-for-longer interest rate policy. The downside is that emerging economies are still failing in a more equal income distribution, while efforts to improve funding for climate change adaptation and mitigation have been insufficient. These circumstances will force countries, particularly low-income countries, to continue struggling to keep their act together. In 2024, GDP growth in emerging economies will likely slow down, in line with our expectations for a mild recession in the US, meagre growth in the eurozone and ongoing geopolitical tensions.

Our outlook for 2024 focuses on post-growth. Much of the post-growth discourse is centred on advanced economies. Post-growth favours a planned and democratic reduction of production and consumption in high-income countries to reduce environmental pressures and inequality while increasing overall wellbeing. The focus on advanced economies makes some sense if we acknowledge that high-income countries are primarily at the cause of the climate crisis. The richest 10% of the world is responsible for half of today's greenhouse gas emissions, while the poorest 50% are responsible for just 7% of these emissions. Despite this, the burden of climate change is mostly felt by low-income countries.

The question is whether post-growth, led by ecological and social injustice concerns, will be able to trigger the transformations needed for sustainable development in emerging economies. The path that post-growth scholars envision for emerging economies focuses on 'demand-reduction in high-income countries, and a faster and more effective development in the Global South through industrial policy to meet human needs'. There is much more to sustainable development in emerging economies than that, however.

Emerging countries' economic systems are often struggling with vested interests, political constraints and weak economic institutions, fed by the search for power in society. Power that feeds on historical imbalances in the global economic and political order. Economic systems and their growth compulsion are not the main cause for the repeated obstruction of sustainable development in these countries. The good news is that recent transformation debates are contributing to increasing awareness that the planet is finite, and that radical change is needed - a sound wake-up call. The seeds are being sown by social movements with both ecological and inequality concerns seeking political representation across the world.

Figure 1 GDP growth (year-on-year)



Source: National Statistics

In this 2024 Emerging Markets Outlook, we discuss the recent developments in emerging economies and our expectations for 2024. Emerging economies are assessed on their economic activity and on their efforts to improve social inequality and climate change, as well as some of the causes that lead emerging economies astray from their own sustainable development path.

Emerging economies modest slowdown in growth

Emerging economies have generally weathered the recent shocks well and continue to grow at a faster pace than advanced economies. This positive gap has even widened lately (see figure 1). In fact, domestic demand appears to be turning the corner in emerging Asia and in a few countries in Latin America, such as Mexico and Costa Rica. This positive performance has increased the appetite for investments in emerging economies, like India and Mexico, which showed a notable combination of rising stock prices and an appreciation of their currencies in the past couple of quarters.

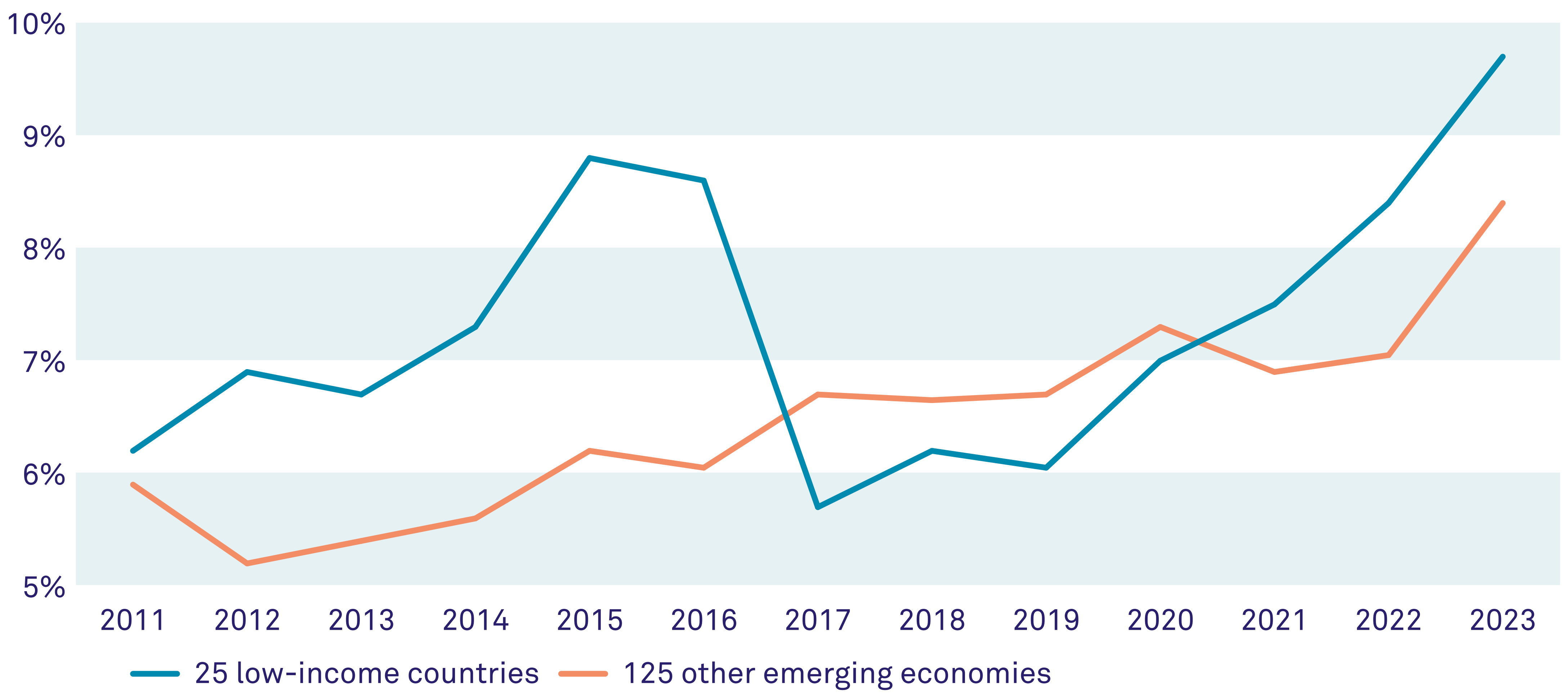
Indeed, India's rise in the global economy is hard to ignore. India's second quarter GDP growth accelerated to 7.8% yoy from 6.1% yoy the previous quarter. The buoyant GDP growth pattern reflects increasing government investments in residential real estate and an easing of credit standards in a sound financial system, as well as buoyant export growth. At the same time, however, the agricultural sector is plagued by an excess labour supply. This is creating a situation with supressed wages and considerably low living standards in rural areas compared to the modern sector, along with listed companies with strong employment demand and high wages.

More concerning has been China's struggle to rebound from the COVID lockdowns and the property market weakness. Authorities have been providing targeted support to the housing market, while the central bank has cut policy rates. This support seems to be paying off. China's third-quarter GDP growth of 4.9% yoy showed positive surprises in industrial production and retail sales. Restoring public confidence remains key, however. In 2023, President Xi continued enforcing party discipline and internal controls, increasing national security regulations. This is worrying foreign companies and it affects the business environment for large companies. It is also making China's younger population weary about their future. On top of this, the US continues to implement export controls on cutting-edge related technology mainly aimed at China and making its further technological progress more difficult.

In emerging Europe, migration, trade and financial inflows following Russia's invasion of Ukraine continue to support economic activity. Growth in the region has been moderate this year with a strong divergence across countries. For instance, Georgia has shown strong domestic demand, while an easing of remittance flows, weaker gold and agricultural production have been weighing on activity in the Kyrgyz Republic.

In South Africa – which accounts for almost 20% of Africa's GDP – economic activity picked up somewhat as the country deals with the impact of energy shortages. However, the eagerness to please voters in the run-up to the elections in 2024 is leading to a lofty fiscal deficit, but not necessarily spending that would support long-term activity. Additionally, South Africa, like other countries in the region, is dealing with the impact of high interest rates. Interest payments of low-income countries equal nearly 10% of general government revenue (see figure 2). And with their limited fiscal space and high debt levels, this means crowding out other government spending for social needs and having less available resources to invest in the energy transition and prepare for climate change impacts.

Figure 2 Interest costs soar for emerging economies
Net interest payments as proportion of government revenue



Sources: IMF, World Bank

Global North and Global South unsuitable categories for sustainable growth debates

When searching for a path to a sustainable planet, resolving contradictions is inevitable. The question is whether terms that depict dual positions or regional inequalities and injustices help in this effort. The terms “Global North” and “Global South” - now in fashion - fall into this category. Although these terms do not indicate a geographical division since the Global South’s two largest countries – China and India – lie entirely in the northern hemisphere, their origin denotes a mix of political, geopolitical and economic commonalities between developing countries, which differentiates them from other nations. The term “South” became synonymous with the Group of 77, a collection of developing countries that was established in 1964 at the South Summit to jointly advocate for their common economic interests and to enhance their negotiating capacity at the United Nations. The expression “Global South” followed, with its roots in postcolonial discourse, particularly in the writings of US activist Carl Oglesby about the Vietnam war, which appeared in 1969. In the 1980s, with the Brandt report on international development issues, the North-South divide was again addressed. Today, the members of the Group of 77, now 134 countries, are regularly referred to as the Global South. But what if these dual positions are just one of the central hurdles for global cooperation to achieve more widespread economic and ecological justice?

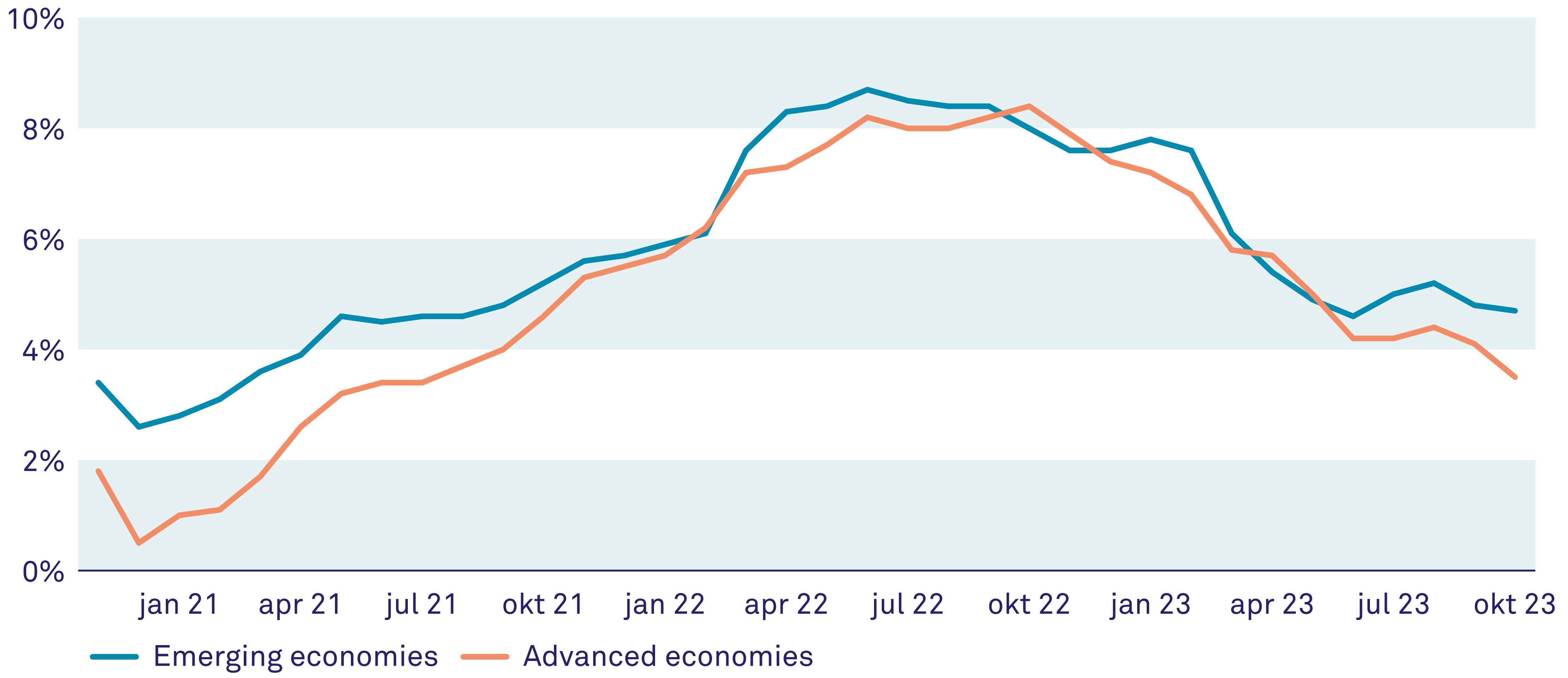
Other alternative country groupings used by multilateral financial institutions such as the IMF and the World Bank include advanced, emerging and developing countries or a division based on the differences in income levels, such as high and low-income countries. The term emerging markets refers to an asset class invented by the International Financial Corporation hoping to attract the investment needed for emerging markets to thrive. Many of these categories focus on a linear progression of emerging and developing countries, which are expected to follow the path of the advanced and developed or high-income economies. And this despite the uniqueness of the national circumstances in these cohorts.

It is desirable when discussing country groupings, to focus on the synergies and trade-offs between advanced and emerging economies and their joint actions towards essential goals. This would allow a better understanding of the collective welfare, which is even more necessary when advanced economies undergo transformations that will not always be positive for the rest of the world. Taking the energy transition as an example, advanced economies count on the raw material, labour and natural resources of emerging markets to reach their climate targets without due attention to the systemic effects of their consumption.

A more integrated approach in the categorisations is justified in the growth debate as China and India are projected to contribute jointly to about half of world GDP growth in both 2023 and 2024, with their own share of global GHG emissions. This makes them meaningful players, along with their idiosyncratic challenges and constraints, including politics and institutions.

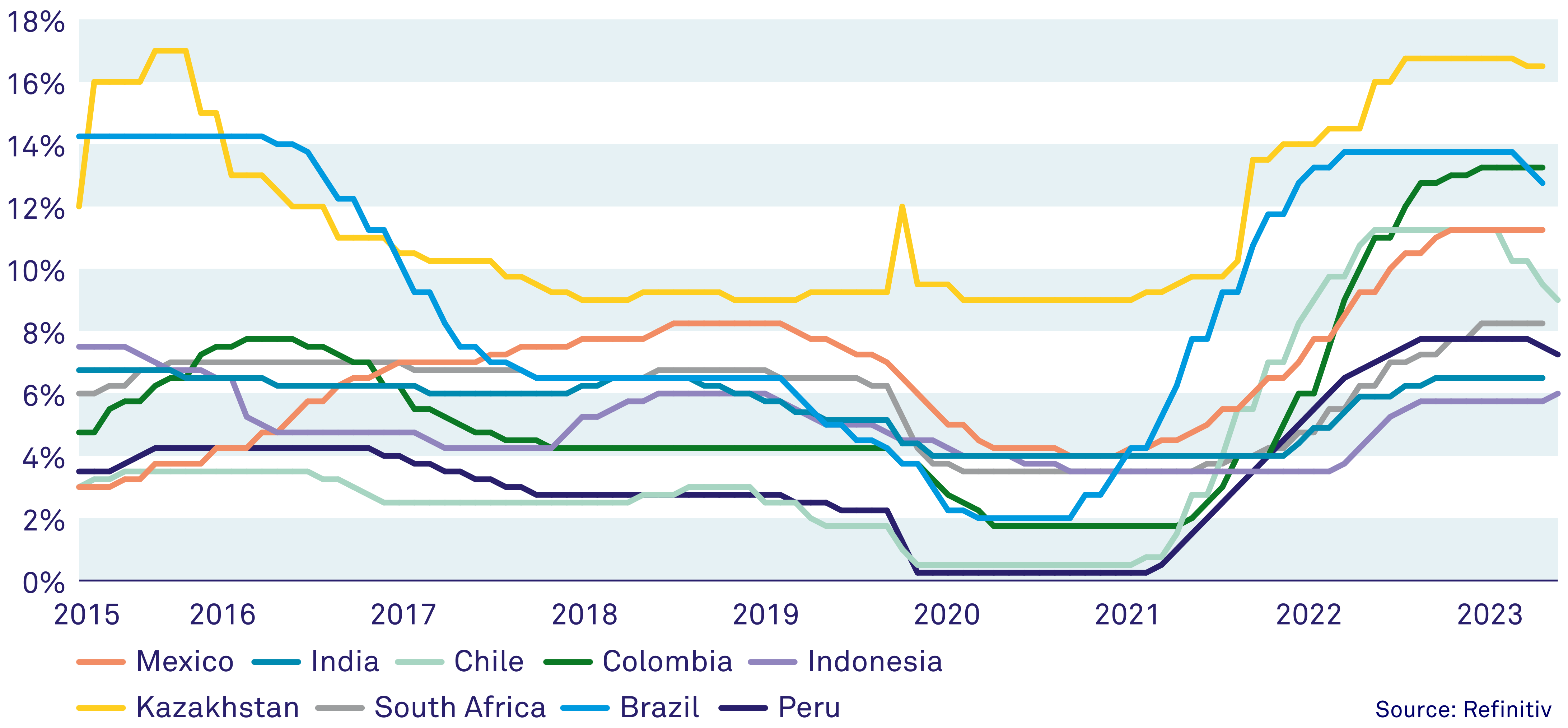
At Triodos, we use the terms advanced, emerging economies and low-income countries in our publications. However, we are searching for new terms that facilitate global convergence and, more importantly, that provide a measurement of welfare that goes beyond GDP measurements. Something that reflects how countries are balancing income and energy inequalities with natural diversity. This is likely to encourage virtues such as cooperation, fairness and natural wealth to come more naturally to the forefront of the global economic debate.

Figure 3 Headline inflation (year-on-year)



Source: National Statistics

Figure 4 Emerging economies central bank policy rates



Source: Refinitiv

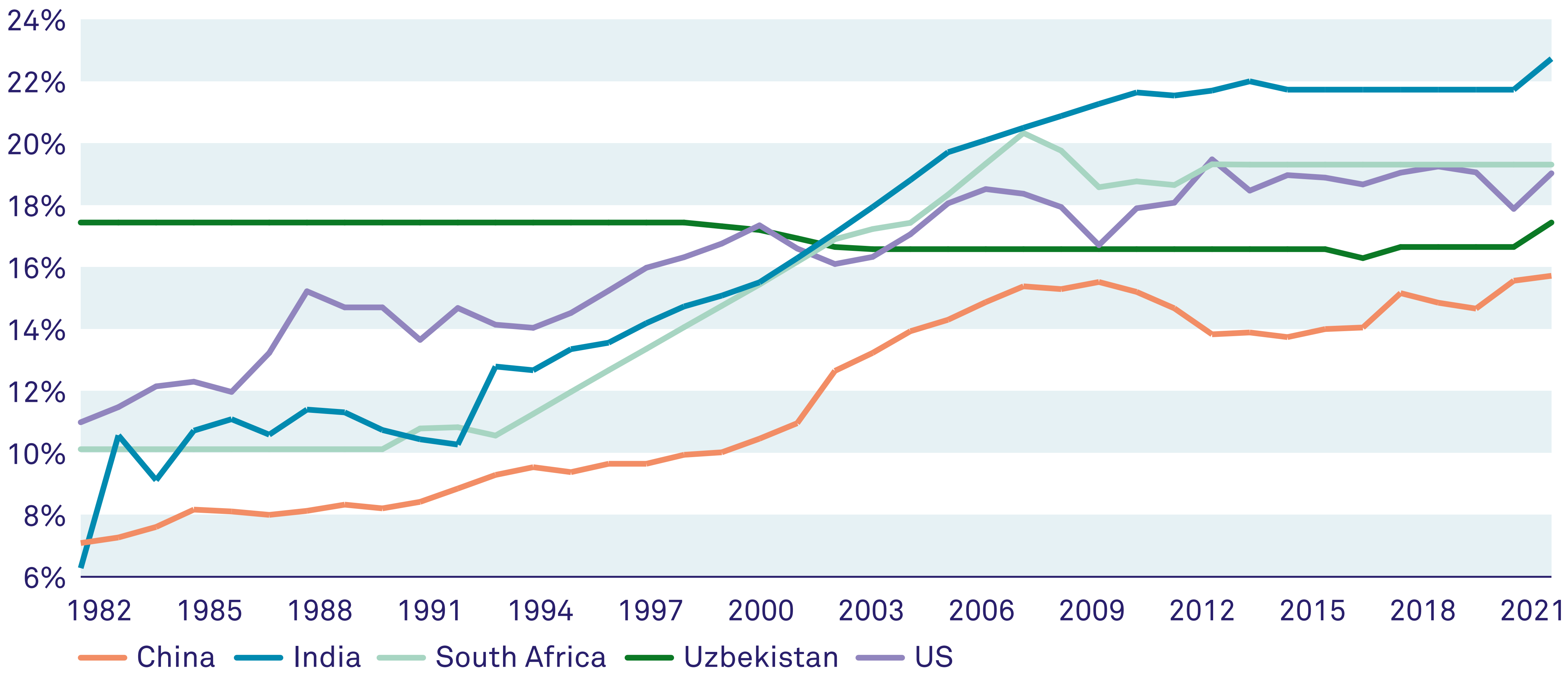
Meanwhile, inflation in emerging economies has almost halved since the peak in June 2022, reaching 4.7% in October (see graph 3). The fall in energy prices and – to a lesser extent – in food prices has driven the decline in headline inflation. In Asia, inflation on average is lower than in other regions. China's inflation was slightly negative in the third quarter (-0.1%), reflecting weak consumer confidence, while providing space for monetary stimulus. In Pakistan and Sri Lanka, where inflation stood at double-digits for quite some time, there has been a considerable decline recently. Slowing inflation in emerging Europe and relatively stable inflation in Latin America has also allowed central banks to cut rates in Georgia, Kazakhstan, Tajikistan, Brazil, Chile and Peru (see figure 4). In Africa, large fiscal imbalances and weaker currencies keep inflation high. Countries with weak institutions, like Nigeria, are having the most difficulty in taming inflation.

Unequal income distribution

Despite their sustained growth, emerging economies are failing to distribute income more equally. The best performing countries measured by GDP growth continue to see increased income inequality. The Gini coefficient of disposable income shows that in most emerging economies, income inequality has increased in countries with less inclusive institutions that provide less social spending, such as Zambia and Ghana.

And looking at the income share of the richest 1% of the population, we see that income inequality is growing, particularly at the top (see figure 5). India for instance, has one of the world's most unequal societies. The share of GDP going to the richest top 1% rose from 10% in 2010 to 22% in 2022. But India has been making some progress in spurring a middle class, which is now about half of the total population. Every year, India adds a city the size of London to its urban population, involving

Figure 5 **Income share of the richest 1% of the population**



Source: https://wid.world/data/

vast construction of new buildings, factories and transportation networks.

China's inequality has remained at a similar level since 2016. The share of GDP of the top 1% of the population is around 15%. However, individual opportunities are sacrificed in the name of the collective interests. One example are the rural migrant workers that do not share the same rights as the urban population. China's authorities are also witnessing that younger generations are finding it more difficult to follow the party's aspirations, as they think that their options for a better life are fading. Youth unemployment reached a new high of 21.3% in June 2023.

All in all, emerging economies experiencing economic growth rates above their historical standards or above that of their peers show that such growth does not necessarily result in better income distribution. To fix this, it will take more than isolated policies. A system change is needed, recognising that institutions in emerging economies must become more inclusive and effective, that education and labour skills must be scaled up and that advanced economies and multilaterals must do their part in facilitating this system change.

Climate funding for emerging economies still falling short

This year has not been successful for allocating the resources needed for emerging economies to deliver on their Paris Climate Agreement goals. Additionally, negotiations for a new COP28 United Nations Climate Summit are ongoing. The longer it takes, the larger the finance gaps. This now stands at between USD 194 billion and USD 366 billion per year. Only a small number of emerging market economies have an investment-grade rating. Eight countries even have credit default swap (CDS) spreads above 1000 basis points, leading to prohibitive yields.

The result is that investments in fossil fuels in emerging economies are still more sizeable than investments in renewable energy, while countries with urgent needs to invest in renewable energy do not have the means to do so. The UN Green Climate Fund, a centrepiece of climate funding for emerging economies, needs replenishment. Pakistan, for instance, has barely had access to funding and is still expanding its coal-fired capacity. One of the questions is whether the pool of contributions can be broadened to include the wealthier emerging economies along with strongly increased contributions from advanced economies. These are not easy points to settle.

In the meantime, advanced economies have been able to accelerate their energy transition with natural resources from emerging economies, increasing the risk that the supply of critical commodities for the transition will eventually fall short of demand, putting pressure on prices. This while emerging economies have not yet started their energy transition at the scale that would be needed to reach their targets. And with the higher interest rates, financing costs for renewable energy projects have become more expensive for the private sector in emerging economies making their funding more difficult.

As the UN Secretary said recently, wealthier countries bear a moral responsibility to help poorer nations recover, adapt and build resilience to disasters. Poor countries suffer disproportionately from climate change because of their geographical location and dependence on agriculture. Climate events are driving disadvantaged people of their land and increase hunger in these countries. Only with better institutions, international support and private financing can a large part of the planet work on mitigation and adaptation to reduce climate risks. Additionally, countries using fossil fuels must phase them out quickly and move to clean energy sources to avoid a displacement of emissions from one part of the world to another.

The outlook

GDP growth in emerging economies will likely slow in 2024. This is in line with our expectations for a mild recession in the US, meagre growth in the eurozone and unresolved geopolitical risks, on the back of weaker global trade and investment growth in the coming quarters.

We see global fragmentation continuing. There is still the risk that the Hamas-Israel localised conflict will spread to other countries in the Middle East. We expect this to remain a localised conflict, but the fighting is likely to continue for a while, contributing to a rise in risks in the region. It is also uncertain how China will navigate an increasingly hostile external environment and internally how it will keep the population in tune with its ambitions. We expect geopolitics to continue putting pressure on producing markets and increase volatility in commodity prices.

At the same time, the effects of El Niño on food and utility prices, as well as costlier inputs for the global energy transition could increase inflation pressures. All of this will make it more difficult for inflation in emerging economies to move near central banks' targets before 2024. The increased geopolitical risks could also induce further military spending, crowding out government's social spending and spending for the adaptation or mitigation of climate change.

The limited government support for climate change in emerging economies suggests that the private sector will have to play a key role in financing climate mitigation and adaptation investments in emerging economies. The IMF has estimated that by 2030, private finance will have to cover about 80% of the climate mitigation investment needs in emerging countries. For private financing to have the largest impact, emerging economies will have to continue improving their institutional and governance frameworks to make them more inclusive, while scaling down fossil fuel subsidies, which surged to a **record high** in 2022 and have increased further in emerging economies in 2023. At the same time, carbon pricing/taxes which are being implemented or scheduled for implementation in several emerging economies, including Chile, Colombia, South Africa and Vietnam, are already helpful.

For the global economy to prosper and for people and planet to flourish, we need a system change that is more mindful of the synergies and common objectives of advanced and emerging economies and their mutual responsibilities in decreasing inequality and protecting natural wealth. Country performance measurements must not only focus on the flows of goods and services and consumption, but also on the virtues of global cooperation to decrease inequality and protect natural wealth.

Forecast table- emerging economies selected countries

	GDP growth (% yoy)				Inflation (CPI, % yoy avg)				Government debt/GDP (%)				Government balance/GDP (%)				Current account/GDP (%)			
	2021	Preliminary 2022	Forecast 2023	Forecast 2024	2021	Preliminary 2022	Forecast 2023	Forecast 2024	2021	Preliminary 2022	Forecast 2023	Forecast 2024	2021	Preliminary 2022	Forecast 2023	Forecast 2024	2021	Preliminary 2022	Forecast 2023	Forecast 2024
Belarus	2.3	-4.5	2.1	1.1	9.5	15.2	5.4	5.5	33.7	45.6	53.8	55.4	0.2	-1.8	-1.3	-1.2	3.2	2.4	-0.9	-0.9
Bolivia	6.1	3.5	2.4	2.6	0.7	1.7	3.1	3.7	63.8	68.3	71.7	74.0	-9.3	-7.9	-6.8	-5.7	2.2	3.8	-0.8	0.0
Brazil	5.3	3.0	3.2	2.0	8.3	9.3	4.6	4.5	79.0	73.5	75.4	74.1	-4.3	-4.6	-7.8	-6.3	-2.8	-2.8	-2.1	-1.7
Chile	11.9	2.5	-0.4	1.8	4.5	11.6	7.4	3.0	36.3	38.0	34.4	31.6	-7.7	1.1	2.6	1.2	-7.3	-9.0	-5.7	-6.9
China (mainland)	8.5	3.0	5.0	4.6	0.9	2.0	0.5	2.0	101.0	110.0	122.0	129.0	-3.8	-4.7	-3.4	-4.8	2.0	2.2	1.4	0.6
Colombia	11.0	7.3	0.9	1.8	3.5	10.2	11.8	7.5	48.4	38.7	35.1	31.8	-5.2	-2.6	-4.8	-4.3	-5.6	-6.3	-4.5	-5.3
Ecuador	4.2	2.9	2.0	2.3	0.1	3.5	2.4	3.0	57.2	54.4	45.5	43.5	-1.6	-0.9	-2.2	-1.2	-1.5	-1.9	-2.1	-1.9
India	9.2	7.3	6.6	6.2	5.1	6.7	5.9	5.4	50.4	49.6	56.5	56.1	-6.2	-6.7	-6.3	-6.0	-1.1	-2.3	-1.9	-2.7
Indonesia	3.7	5.3	5.2	4.8	1.6	4.2	3.8	3.9	41.0	39.8	36.3	35.9	-4.1	-0.6	-2.2	-2.1	0.3	1.0	0.0	-1.0
Kazakhstan	4.3	3.3	3.9	4.4	8.0	15.0	15.1	7.8	22.3	21.4	23.4	26.0	-1.2	-2.8	-3.9	-3.1	-1.3	3.4	-1.5	-1.0
Kenya	7.6	4.8	4.7	5.5	6.1	7.7	7.5	5.5	64.0	72.1	69.7	68.9	-8.2	-6.1	-5.7	-5.0	-5.2	-5.0	-5.3	-6.9
Mexico	6.1	3.9	3.3	2.3	5.7	7.9	5.6	4.4	41.0	38.8	36.9	36.5	-2.9	-3.2	-3.5	-4.4	-0.6	-1.2	-0.5	-1.5
Pakistan	6.5	6.2	1.7	1.9	9.5	19.9	30.1	11.7	87.1	86.9	89.1	92.6	-6.1	-7.6	-6.6	-6.4	-3.6	-3.8	-3.4	-3.9
Peru	13.5	2.7	0.2	1.9	4.0	7.9	6.4	3.3	35.0	33.0	34.1	34.0	-2.5	-1.4	-2.8	-2.1	-2.2	-4.0	-1.1	-1.0
Philippines	5.5	7.6	5.2	5.5	4.0	5.8	6.0	3.5	60.4	60.9	60.5	58.5	-8.6	-7.3	-5.5	-5.2	-1.5	-4.5	-3.2	-3.1
Poland	6.9	5.5	0.4	2.6	5.2	13.2	11.1	6.1	54.1	49.6	53.9	54.4	-0.2	-2.8	-4.1	-4.5	-1.4	-3.0	1.1	0.8
Russia	5.6	-2.1	2.7	2.1	6.7	13.7	6.1	4.7	17.2	21.0	26.3	33.3	0.8	-1.4	-3.1	-2.1	6.6	10.6	2.3	0.0
South Africa	4.7	1.9	0.7	1.3	4.6	6.9	5.7	5.0	67.6	70.3	77.4	76.2	-4.9	-2.4	-4.4	-4.9	3.7	-0.4	-2.4	-2.5
South Korea	4.3	2.6	1.3	2.2	2.5	5.1	3.5	2.3	53.3	54.8	57.8	58.4	-1.5	-3.0	-1.3	-1.1	4.7	1.8	1.6	2.9
Thailand	1.5	2.6	2.7	3.4	1.2	6.1	1.6	2.1	52.8	53.6	53.0	52.1	-4.9	-2.4	-2.7	-1.6	-2.1	-3.0	2.4	4.9
Turkey	11.8	5.3	2.3	1.4	19.6	72.3	56.2	62.7	37.9	26.9	25.8	23.3	-2.8	-0.9	-5.9	-4.1	-0.9	-5.3	-5.3	-3.5
Uganda	6.7	4.7	5.6	6.0	2.2	7.2	5.2	4.0	50.4	50.9	47.9	44.3	-9.4	-7.4	-5.1	-4.6	-8.3	-8.7	-8.3	-8.1
Uzbekistan	7.4	5.7	5.4	5.0	10.8	11.4	9.7	8.0	36.6	36.9	35.2	34.6	-3.2	-3.9	-2.9	-2.9	-7.0	-0.8	-5.8	-7.6

Updated 10/11/2023 Source: IHS

Disclaimer

- This document has been carefully prepared and is presented by Triodos Investment Management.
- It does not carry any right of publication or disclosure, in whole or in part, to any other party.
- This document is for discussion purposes only.
- The information and opinions in this document constitute the judgment of Triodos Investment Management at the time specified and may be subject to change without notice, they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. Under no circumstances is it to be used or considered as an offer to sell, or solicitation of any offer to buy, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or be taken as investment advice.
- The content of this document is based upon sources of information believed to be reliable, but no warranty or declaration, either explicit or implicit, is given as to their accuracy or completeness.
- This document is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.
- All copyrights patent s and other property in the information contained in this document is held by Triodos Investment Management and shall continue to belong to Triodos Investment Management. No rights whatsoever are licensed or assigned or shall otherwise pass.
- All copyrights patents and other property in the information contained in this document is held by Triodos Investment Management and shall continue to belong to Triodos Investment Management. No rights whatsoever are licensed or assigned or shall otherwise pass.

About Triodos Investment Management

With over 25 years of experience as a globally active impact investor, and as a wholly owned subsidiary of Triodos Bank, Triodos Investment Management has developed deep sector-specific insights across Energy & Climate, Inclusive Finance, Sustainable Food & Agriculture, and Impact Equities and Bonds. Offering impact solutions through private equity, debt, and listed equities and bonds, our assets under management amounted to EUR 5.5 billion as per 31 December 2022.

Investing in positive change

For more information about our impact investment strategies, please contact our Investor Relations team at:

+31 (0)30 694 2400
TriodosIM@triodos.com
www.triodos-im.com/impact-equities-and-bonds

Published
November 2023

Text
Maritza Cabezas

Design and layout
Via Bertha, Utrecht

Cover photo
Kyle Glenn

Triodos Investment Management