WARWICK EMERGING MARKETS SOCIETY

THE EMERGING TIMES

Issue 3, 2014/2015

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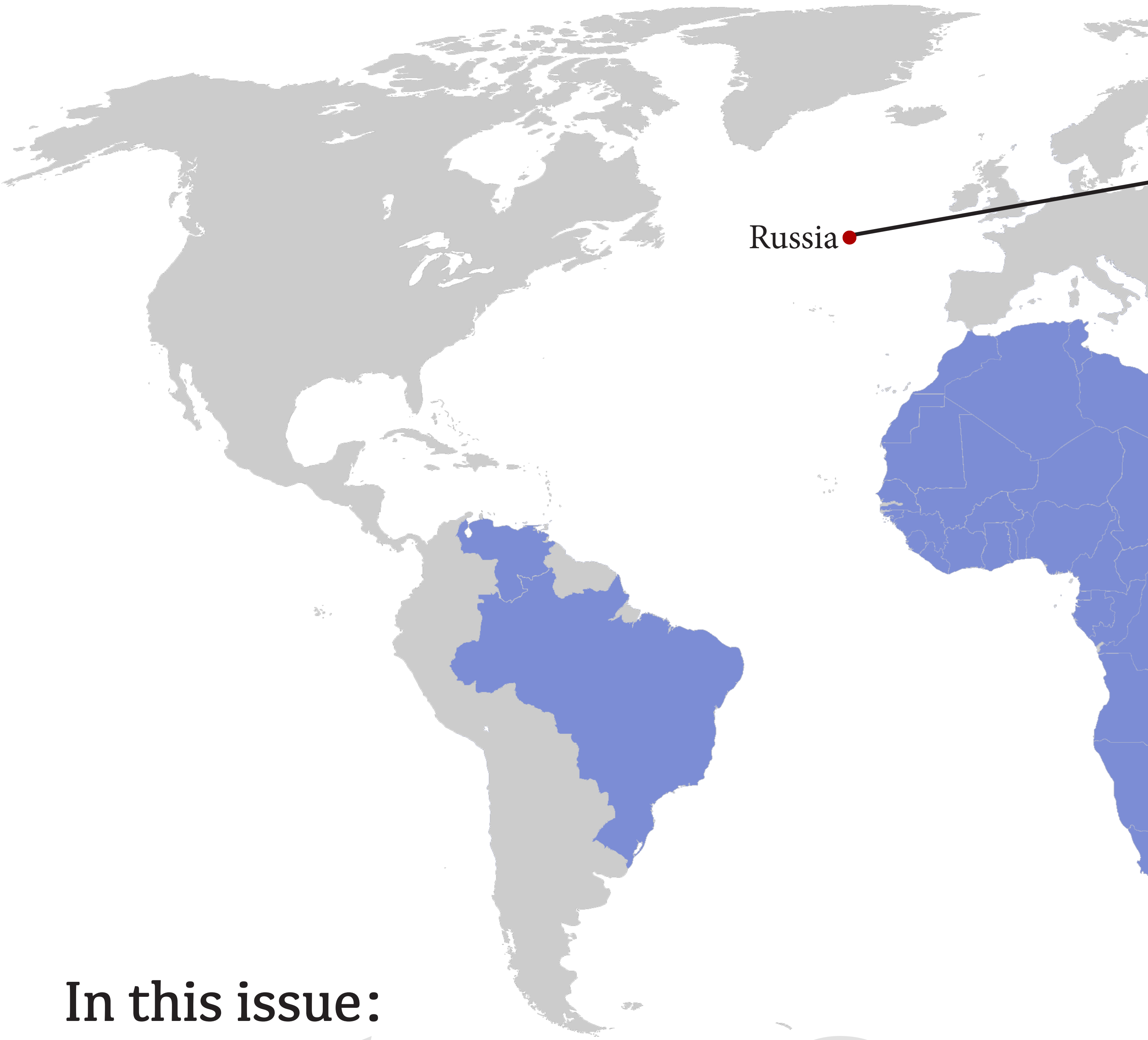
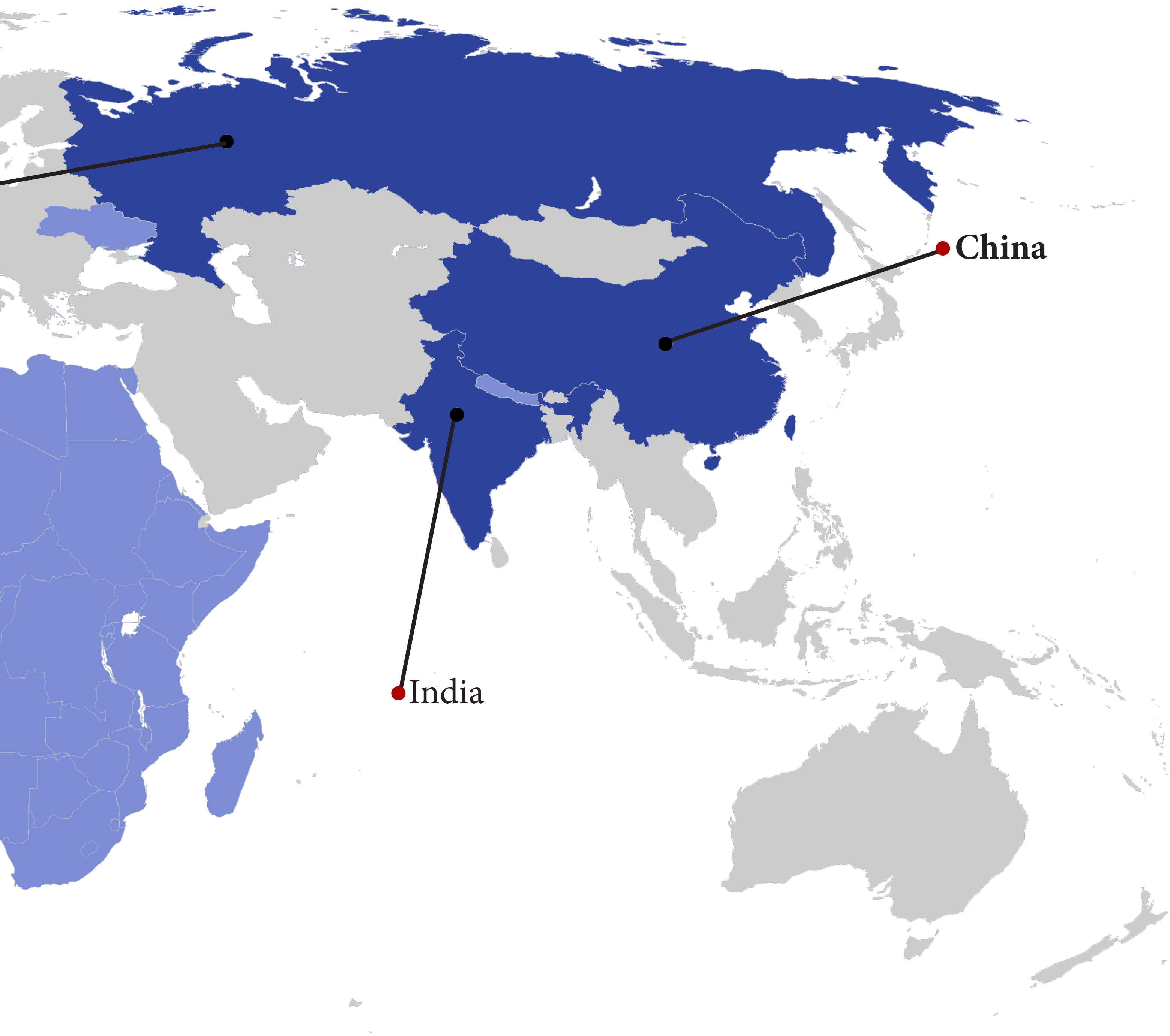
Tracking our path around the world…



In this issue:

The Emerging Times aims to take you on a journey around the world with us. Have a look at our map below to find out which emerging markets are featured in this issue. As a guide, areas shaded in light blue are ones we have featured in previous issues while dark blue areas are ones featured in this issue. Be sure to pick up future issues to continue the journey with us and explore other countries.



3

China & India

4

Others

Goodbye from the Editorial Team

Welcome to the 3rd and final issue of The Emerging Times for the year 2014/15! As some of you may know, this year was the first time the Warwick Emerging Markets Society (WEMS) launched a society magazine and we are very proud of how successful the magazine has been so far. We have received a lot of encouragement and constructive feedback in the past year and we hope this magazine continues to grow and improve in the years to come.

In January this year, WEMS organised a very successful speaker series with our university's very own and very well respected Eric Golson. With more than 300 people turning up to hear Golson's thoughts on the effects of sanctions on the Russian economy, its growth capabilities, and the underestimated power of its leader, Vladimir Putin, it was indubitably a hit among all with many students leaving the event with greater insights and new opinions on the whole situation. But, just in case, you didn't manage to attend the talk, The Emerging Times' is hear to give you a round up of what happened (Page 2).

In this issue, we also tackle the growing debate on India vs China with 3 articles offering different perspectives on India (Page 7), China (Page 9), and their fight to outgrow each other (Page 11). We also take a closer look at what's happenig with oil prices (Page 3) and the Russian ruble (Page 5). And of course we had to include the much-awaited outlook for emerging markets in 2015 and what kind of opportunities lie ahead (Page 15) as well as an interesting piece on the global middle class (Page 13).

As always, a huge thank you to all who helped make this magazine possible and see you in the next academic year!

Happy reading,
Anisha Primalani and Nicolas Rivard
Editor-in-Chief and Head Writer

From left: Nicolas Rivard, Head Writer; Anisha Primalani, Editor-in-Chief; Andor Jakob, Creative Director

and farewell from the Co-Presidents

It has been our pleasure to lead the WEMS team this year! We have had a thoroughly enjoyable experience working with a group of bright individuals to improve and expand the society this year, making this one of our most memorable university experiences. We would like to thank everyone in our team for making this year successful especially for the hard work and commitment given for the Forum in November last year. And with that, we shall pass it on to the new Co-Presidents. We wish them the best of luck to continue on the legacy of WEMS!

- Abhilash Dubbaka and Jonathan Chu

Jonathan Chu and Abhilash Dubbaka, Co-Presidents

WEMS Events in Term 2

In January this year, WEMS organised a very successful speaker series with our university's very own and very well respected Eric Golson. Golson is a Research Fellow at the University of Oxford, and Teaching Fellow at the University of Warwick and London School of Economics. His research focuses on political economic and business history. Here's a round up of what you missed.

Whilst recent attention has rightly revolved around Russia's ongoing military involvement in the Ukraine, Eric Golson, Economics professor at the University of Warwick, believes Russia's crisis may not be as bad as it seems, and Putin may actually be "one of the most effective leaders the East has ever seen!" In his talk, "Putin Underestimated: The Russian Economy isn't Doomed", Golson outlines the impacts (or lack thereof) of trade sanctions imposed on Russia, oil price drops and Russian external debt.

Trade sanctions

"They have never worked and will not solve this". Golson points to the ineffectiveness of sanctions as a reliable alternative to military force; only in situations where the "cost of sanctions are greater than the costs of military force and the regime itself is threatened, will we see any results from sanctions - and only in war is this possible!"

Oil prices

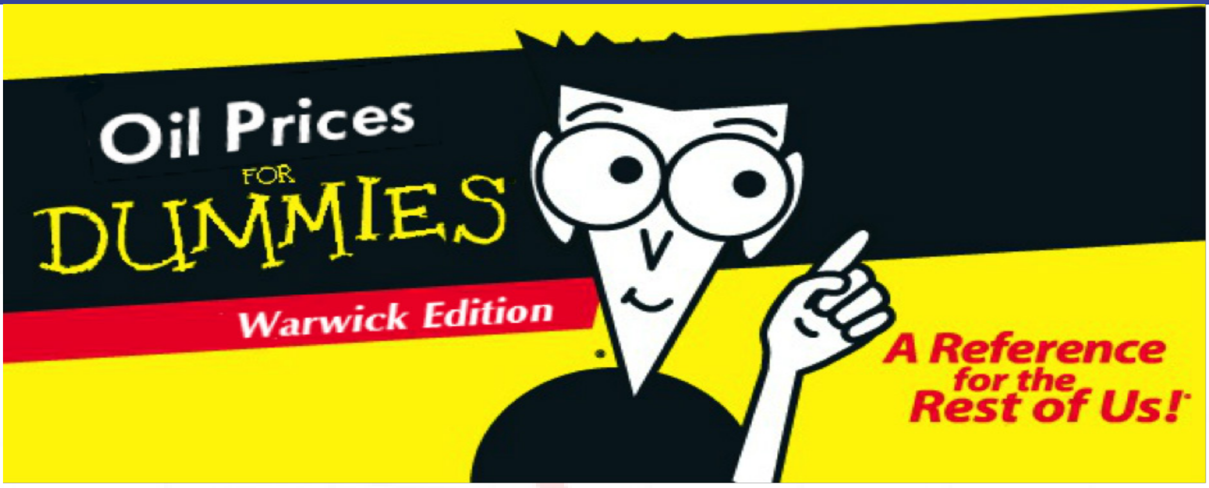
Despite the dramatic price drops, Russia are still in surplus of c. $60bn per year! How?! Golson points to Russia's abundance of natural gas - which just so happens to be in high-demand by China - as a possible buffer! "Oil prices will cause a severe 5% GDP recession in 2014-2015", Golson concludes, "and reduce trade income at most".

Capital flows

Payment of external debts of c. $105bn represents only a small net capital outflow (c. $24bn). Remember that Russia has "reserves of $385.5bn as of 31/12/2014, $124bn less than last year", and with "$225bn due in the next 2 years and an annual trade surplus of c. $60bn", Golson sees capital flows from Russia as more of a "slow running but solvable - problem, not a crisis".

Whilst news of Russia's ongoing involvement in Ukraine is nothing new, Golson urges European nations and the US in particular to be concerned by Putin's increasing use of 'Salami tactics' in the Ukraine, a clear ploy to wrestle control of the Black Sea through Crimea. Dramatic oil price drops have naturally had huge ripple effects throughout the global economy, not least in economies so reliant on oil for exports, energy and production. Whilst this has resulted in a "net loss of $126bn in export earnings for Russia (7.2% of GDP)", Golson doesn't expect the Russian economy to "spiral out of control" anytime soon. Indeed, "Putin's position is strong."

By: Nicolas Rivard. Nicolas is the Head Writer of The Emerging Times



(The picture above was created using www.covers.dummies.com by the writer of this article)

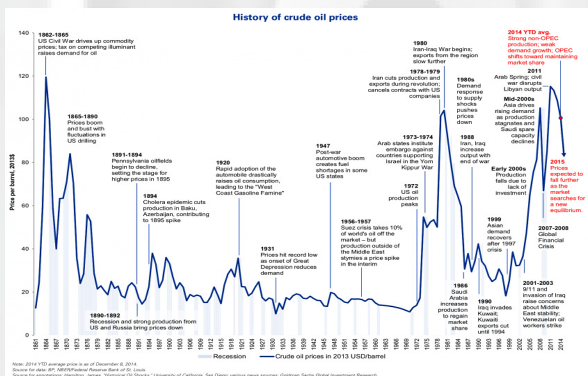
Oil Prices - A Reference for Dummies

With "every industry critically dependent upon it and countries willing to wage war over this black gold" (Graham-Rowe, D., 2008), it is difficult to envisage a scenario where oil takes a backseat in global affairs. The world revolves around oil – present technology renders it virtually impossible to rely solely on non-conventional sources of energy and expect the same stability it has brought to the world.

However, each time I drive past the gas station, the electronic fuel price display caustically stands out with real-time price data – changing relentlessly, more often than not in unfavourable, fist-clenching fashion.

This only stresses the significance of the broader question: exactly what determines oil prices? How does the market place a price tag on a resource we cannot correctly estimate to be exhaustive? To understand this, we must examine the history of oil prices that mould today's valuation.

The graph below shows oil prices at 2013's purchasing power and illustrates the history of crude oil prices since time immemorial (or 1861). In their research, Dvir and Rogoff (2009) elucidate the first three peaks, or "epochs" - observed on the graph. Oil prices hit its first peak during an intense period of industrialisation in the U.S., marked by an 8-fold increase in industrial output by 1900. Fluctuations would persist due to shifts in supply and demand factors, but never reached a high until the formation of OPEC in 1960. This preluded the second peak in 1980 as the Iran-Iraq war choked oil exports from the region while U.S. oil production reached a bottleneck. The third peak in oil prices would be in the mid-2000s, when a new era of industrialisation spearheaded by emerging economies such as China (a 21-fold increase in output from 1970-2000) drove oil prices to a new high.



(Source: Goldman Sachs, 2014)

The most striking attribute about the graph, however, is proof that oil prices have hit historic lows far lower than the six-year low that we saw the Brent Crude reach on 12th January. This highlights the unpredictability of oil prices, with no clear trend or visible direction. Nonetheless, we could extract some valuable learning lessons by attempting to identify the underlying factors that precipitate oil price changes.

Oil – a Speculative Asset Class

Presently, oil is one of the world's most actively traded commodities. The introduction of reliable, cohesive price indices, such as the Brent and WTI crude index (two of the more widely cited indexes), helped reflect the relative general market sentiment on oil prices. This has a profound impact on its price volatility as investors are both proactive and reactive to any weaknesses or potential in its price. The speculative motive is extremely powerful. Indeed, Beidas-Strom & Pescatori (2014) attests to this in their research citing it as "the main contributor to the volatility of oil prices". An 8% price surge in end January - the largest one-day rally in oil prices in over 3 years - came on the mere confirmation that oil magnates are reducing capital expenditure (Crooks, 2015) – this testifies to the role of speculation in dictating today's oil price.

The Manacled Oil Value Chain

Unlike other mainstream agricultural commodities such as coffee beans or rice, suppliers of oil face a chronic time lag in responding to global demand for oil (in economic terms, known as a price-inelastic supply curve). On average, the cycle of exploration, appraisal and development of a new conventional oil field takes 7-10 years. It was just 4 years back in 2011 when oil prices reached its fourth peak (see graph) and oil companies rushed into the fray to develop new technologies and explore oil fields that were previously unsustainable cost-wise – such as offshore deepwater oil reserves in the Gulf of Mexico and the North Sea, or the shale boom in the U.S.. This was, in actual fact, an overdue response to a world already adjusting to high prices, with consumer preferences showing an increasing disinclination towards oil and economies slowing down amidst weak global demand and geopolitical tensions. In fact, the current oil price slump we observe today is a consequence of the market's failure to recognise that a slowdown in oil production, rather than an increase, was required in the face of an impending fall in demand. It is safe to say that the current reduction in upstream efforts (E&P) will quell the price slump and bring short-term stability to prices, but then again, consumers may suffer in the long run as the environment bears the brunt of increased oil consumption before cyclically high prices return.

The aforementioned factors do not necessarily imply a duality in approach towards oil price. Rather, it is this constant interplay of factors, as well as the lack of a calibrated system that effectively equilibrates demand and supply and the uncertainty from the potential amount of oil humans could yield from Earth, that imbalances the oil price as we know it.

So as I drove down the road back towards home, an instant wave of relief came over me; because unlike gas prices, I had a destination in mind as well as an adequate amount of fuel to reach it.

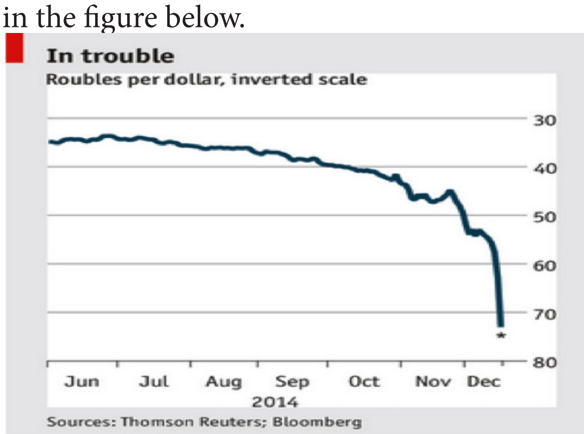
By: Benjamin Chua

Benjamin is a 2nd Year Accounting and Finance Undergraduate. He is passionate about the Oil & Gas industry as well as emerging markets in Latin America, and starts his day with a good cup of tea and FT to keep himself informed. His neutrality (in writing) does not extend to his avid love for football.

Russia's Currency Crisis: The Effects of a Weakened Ruble on the Russian Economy

Overview

Hit by the recent sanctions, the strong depreciation of the ruble and the recent downgrade of its sovereign rating, the Russian economy has shown an increasingly weak performance. For the first time since the economic crisis, the economy will most probably go into a recession and all of these factors make it very hard - if not impossible - for the Central Bank of Russia (CBR) to accommodate all the problems at once and come up with a strategy to slowdown the Russian decline. Inflation is above 11% and the ruble reached an all time high of 72.45 compared to the dollar in December, as seen in the figure below.



Monetary Policy and the Depreciation of the Ruble

Russia's surprise cut in interest rates from 17% to 15% was primarily a product of political pressure trying to re-boost the economy and overcome the emergent recession. But will this actually help? The central bank made it clear that its decision was aimed at stopping the decline in economic activity, but even after the rate cut, the difference between borrowing at 15% or 17% is minor and may fail to improve economic activity while increasing the risk of capital outflows.

The recent cut was announced only a month and a half after the bank raised the rate to 17% in December, in a failed attempt to control the depreciation of the ruble. This caused an immediate negative effect on the ruble and Russian stocks. In fact, the Russian currency has lost more than 17% of its value since the beginning of 2015. The rapidly depreciating ruble has led to a surge in inflation. The CBR, however, thinks inflation will cool down in relation to the ruble and hence only sees this as a short-term effect and is more worried about economic growth. The Latest CBR report predicts inflation rates will stabilize in the second quarter of this year at around 15% and will then start decreasing. However, only time will tell if the cuts have done more harm than good or perhaps whether cuts should have been introduced later on?

Another key issue, however, is the effect of the ruble on food and other imports. Nearly 40% of the goods in the Consumer Price Index (CPI) are food items and around 25% of these are imported. Therefore, when the ruble depreciates, Russia's price levels tend to increase. The problem with this is that the ruble is a commodity currency and Russia has a strong long-term relationship between oil prices and exchange rates; if oil prices continue to fall, the ruble will too.

Oil Prices

As we can see, lower oil prices resulting in a depreciating ruble can have various negative effects on the economy. However, there could also be various benefits:

Firstly, high oil prices have hindered structural policy reform. There is hope that a period of oil price weakness and negative macro-economic circumstances will encourage a deeper institutional reform. This in some sense was seen when the central bank decided to float the ruble by not intervening to support the exchange rate. The problem is that Russia's issues are not related to macro management but are issues such as bureaucracy, corruption, protection of property rights etc. And there seems to be little evidence that Putin is trying to change regime to one based on more independent institutions and an active encouragement of foreign investment.

Secondly, the deprecation of the ruble might finally end years of 'Dutch disease', where the strong currency caused all non-oil exports to be uncompetitive. The hope is that western sanctions will stimulate the domestic, non-oil sector that is very weak compared to other countries.

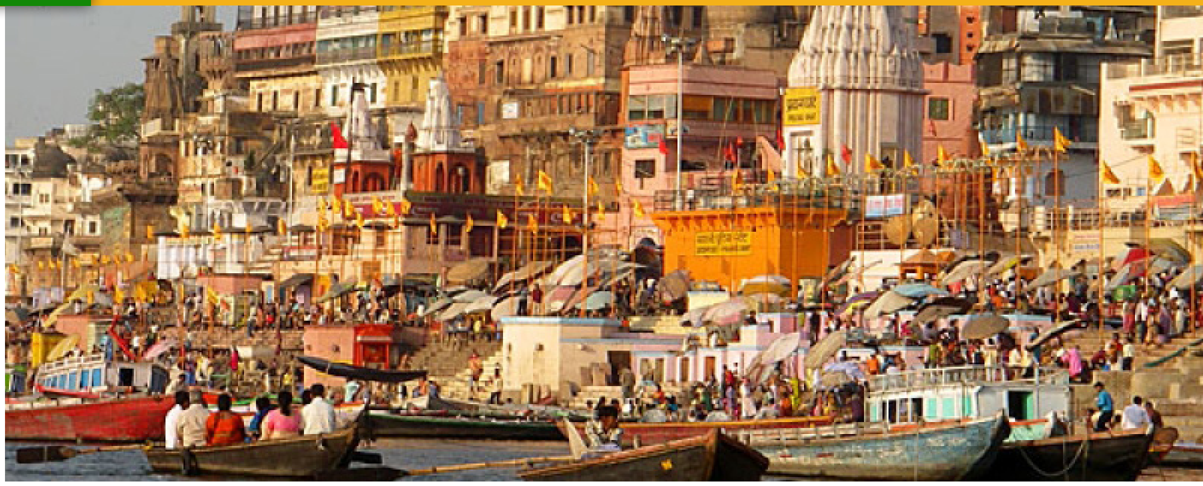
Lastly, with such a problematic domestic economy, there is hope that the Russian government will be less willing to risk escalation in Ukraine and focus on internal matters. However, Russian intervention in Ukraine may have been aimed for the exact purpose of diverting attention from problems at home, which were already apparent before Ukraine erupted.

Predictions About the Future

Russia's central bank and government are likely to face increasing demands both from companies and the banking sector as consumer confidence remains weak and the real economy contracts. If oil takes another fall in the coming months, there will be a new confidence crisis.

Russian central bank's vast reserves ($379bn) should help tackle this, however, the recent S&P downgrade to "junk" status - which will eventually result in a wave of automatic selling - combined with falling oil prices and western sanctions is rapidly eroding them and Russia will need to find another solution other than just replacing foreign investment with its own reserves.

By: Paolo Lippi
Paolo is a 3rd Year Economics student. He is particularly interested in the effects of commodity prices on economic growth within emerging markets.



TeaModi. What's happening in India?

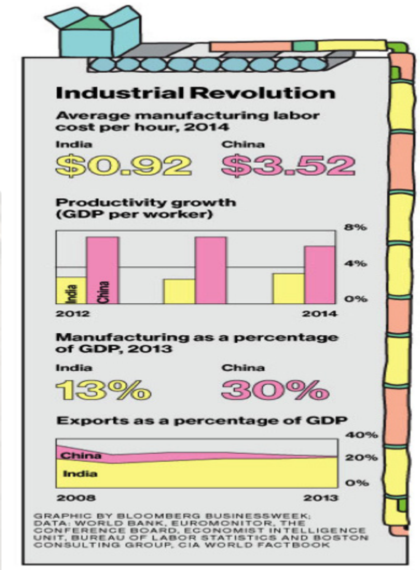
Facebook bought Whatsapp, our Scottish friends didn't leave us, MH370 went missing - whose exact location still remains unknown - and the Brazil vs Germany world cup match remained a highlight despite Brazil being knocked out in the semi-finals. Yes, I am listing all the events of 2014. However, my list missed out one of the major events which also set history last year. Some of my Indian friends may have guessed it; it is indeed the Indian General Elections.

2014 saw the world's biggest voting event. The Bharatiya Janata Party (BJP) had a clear cut victory - largest ever in Indian elections history - in May 2014 and Narendra Damodardas Modi was elected as the Prime Minster of India. Who would've thought that the son of a tea seller at a railway station would one day be one of the most powerful people in the world?

There have been many reasons why India has been in news for the past few years and a majority of them haven't been very 'appreciative' of the economy as such. The citizens of the country have been longing for change for a while now and Modi is believed to be the 'light at the end of the tunnel' for many Indians. A workaholic, under whom the public employees' work progress can be tracked by video surveillance, has made an impact on the economies around the world within 8 months of being in office.

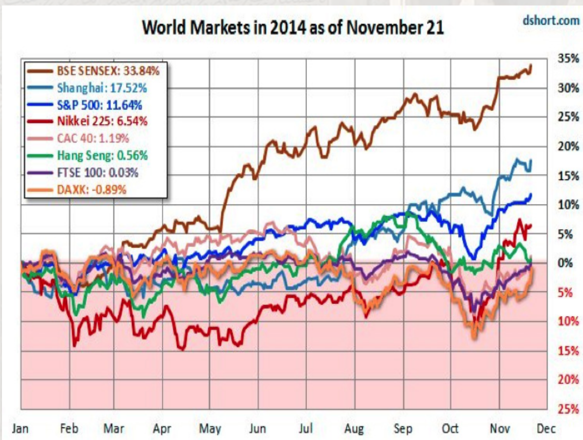
One of the major emerging economies of the world, China, lies at the eastern boundary of India. Relations between the two countries have been somewhat intense ever since the Sino-Indian War of 1962. Political leaders over the years have taken several measures to ease tensions between the two countries. China has been tracking India's progress ever since Modi came to power. Xi Jinping, President of China, made a three day visit to India after Modi's victory in September 2014. After many years of diplomatic talks, Xi's visit finally opened China's money bags for investment in India, which suggests breakthroughs for the Indian economy.
After the general elections last year in India, many have anticipated that it may not be late until India outgrows China. "The Sino-India competition is like a soccer match. China is leading at the first half of the game with a wide margin. The second half of the game is beginning as India enters into the Modi era," said The China Youth Daily.

The first figure on the next page provides evidence of how productivity growth in India based on GDP per worker has increased as of 2014, where as that of China, even though it is higher than India's, has decreased compared to its own growth in 2012 and 2013. Gone are the days of 'Made in China', with Modi's new campaign of 'Make in India' rapidly making India a global manufacturing hub. Under his plan, Modi has openly invited foreign investors and global firms to do business in India and this has attained success globally.



(Source: Bloomberg Business, 2014)

India's BRIC mate Russia has agreed to major investments with Modi accepting Putin's offer to make Russia one of the most advanced helicopters in India and to construct nuclear plants jointly in both Russia and India. Arun Jaitley, Finance Minister of India, announced plans to reduce fiscal deficit, invest in infrastructure and boost investment along with other such measures in his budget which came out in July last year. With these plans and Modi's election in May, the stock market of India went up significantly compared to the other markets around the world hence increasing investor confidence in India.



(Source: Business Insider UK, 2014)

The graph above shows India's main stock index BSE SENSEX (in brown) compared to the stock markets around the world. Recent events show that Modi plans to shift the economic power towards India. Barack Obama and Michelle Obama were recently warmly invited to India for the country's Republic Day celebrations on 26th January 2015. Three days of diplomatic talks took place with the famous Indian hospitality, around 15,000 CCTV cameras and Chai. It was the first time that a U.S. president made a second visit to India and the first time that an American president was the chief guest at the Republic Day celebrations showing the importance that Obama places on his relations with India.

With much history made on his visit, Obama ended his visit with many deals such as the renewing of the ten year India-US defence framework agreement, a nuclear deal, four defence projects for co-development and co-production to help India upgrade its defence manufacturing ability and the relation between Obama and Modi saw a development which many fear may indicate a joint fissure towards China. However this shouldn't be seen as a pact against China considering China being one of the major trade partners of both countries. As Obama sat next to Modi on Republic Day, we saw him witness the Indian defence equipment and the great show by the armed forces. We can only imagine what Obama holds next for India after viewing that spectacular show.

Hopes are certainly high for Modi and his plans to take India forward, especially after the massive economic development that the Indian state of Gujarat went through when Modi was Chief Minister of Gujarat; but for now I'll leave you with the Indian head nod to think about the future of India.

By: Manavi Garg

Manavi is a 2nd year Economics student. She has an avid interest in the economies around the world and the effects of the changes in the world economy on political decisions such as the recent Indian and Greek elections as well as other issues such as the Quantitative Easing in Europe.

Does the World truly understand the Profound Ramifications of Xi Jinping's New China?

There is little doubt that since and before cementing his political status as China's 'Paramount Leader' in 2013 by becoming President of the People's Republic of China (PRC), Xi's influence within the mainland, and arguably Greater China, has definitely been experienced. In the span of a year and a half, the President has overseen the fall of over 33 Chinese officials and upper echelons, all as part of an Anti-Corruption campaign initiated by Xi to smooth the way for social and economic reforms.

The aforementioned campaign targets not just internal individuals guilty of extravagant spending but also foreign funded businesses operating in the country; reverberating fears from international firms. Large firms such as GlaxoSmithKline (GSK) and Microsoft have all come under fire from the Government for corruption related cases. There seems to be little that can stop the impetus as Xi has publically announced that he was willing to risk his own reputation and safety all in the name of reform. Whether this is true or whether this is simply a façade for protectionist policies and a soviet era-esque communist purge, the path that Xi is walking down is bound to cause tremors outside of Mainland China.

As Xi Jinping's anti-corruption campaign prepares to impose a record fine of 1.24bn Yuan on twelve Japanese auto firms for apparent price fixing, it begs the question, does the World (especially the West) precisely comprehend the fusillade of effects that are imminent.

Analysts are quick to highlight the apparent slowdown in the Chinese economy attributed to the anti-corruption campaign. Bank of America Merrill Lynch analyst, Lu Ting reported that the fiscal contraction stemmed from reduced consumption of luxury goods and services had cost the Chinese economy 937bn Yuan or 1.8% of the Chinese GDP in 2012. In that same year where Chinese consumers had accounted for over 27% of worldwide luxury good consumption according to McKinsey & Co a slowdown in the market for luxury goods was synonymous with a slowdown for

Western Economies. A Bain and Company 2010 market study detailed that the top three luxury brands desired by Chinese consumers were Louis Vuitton, Chanel and Gucci. As a result it is no surprise that the campaign severely hit European exports.

The effects of the campaign are blatant and have already taken its toll on European exports but it is the continued, never ceasing zeal of Xi Jinping and the implications that very few people are able to appreciate.

Most people fail to realise that there is no end in sight for this campaign (and therefore the adverse effects on foreign businesses and markets). Dingding Chen from The Diplomat believes that if the campaign were to stop now the Government would be prone to a counterattack by parties with a vested interest in keeping the current status quo. As a result it would seem that Xi should and cannot stop the systematic takedown of corrupt officials and companies.

The implications of this is that there will be an ever increasing risk and expense to operate in the country. The American Chamber of Commerce reported that out of 400 US surveyed companies, 40% had increased their spending to reduce the risk of attracting the hammer of Xi's anti-corruption campaign. Ultimately this means that operating in China becomes far less profitable even as the country's middle class finally makes an emergence.
At first glance it seems that the cons far outweigh the benefits, the International Monetary Fund (IMF) has even revised their economic forecasts for China from near 10% to a low approximate 6.5%.

However, some analysts have been rather optimistic about Xi's plan for a new China. Matthew A. Cole from the University of Birmingham has done studies that show the profound benefits of a safer China, including lowered financial risk and therefore increased Foreign Direct Investment (FDI) in the long run- a strict contrast to the present situation.

And it is this result that may help to unravel Xi's thoughts. It has long been known that the CCP, to gain legitimacy has used economic success as the key logic as to why people should support it. It would seem that if this campaign succeeds and attracts more FDI, to an economy that has already begun to show signs of stagnation; the CCP would gain a more positive reputation in the long run. Not only is this an important reason itself, the reputation of the CCP is made especially important if it wishes to gain unilateral control of its two Special Administrative Regions (SARs) – Hong Kong and Macau. At present, the future of the SARs are still in public debate and will be decided by 2047 as a result one would expect now to be the time for the CCP to start establishing loyalists; something they can do with this campaign.

Ultimately, it's possible, that this is one massive propaganda campaign to influence the world in supporting a unified and prosperous China, under the pretence of reform. It certainly is plausible that Xi is sacrificing a few years' worth of prosperity to ensure a powerful government by 2047.

By: Michael Lam
Michael is a 2nd year Economics student with a strong interest in Chinese politics and economics.

The Tortoise and the Hare: The story of India and China

Hare was once boasting of his speed before the other animals. "I have never yet been beaten, when I put forth my full speed. I challenge any one here to race with me." Tortoise said quietly, "I accept your challenge."

China was once boasting of its speed before the other emerging economies. Putting forth its full speed across the last three decades propelled it to challenge the world's largest economy, the US, to race with it – and China surpassed the US in purchasing power parity GDP in 2014.

But just like Aesop's fable of 'The Tortoise and the Hare', this story is not a glorification of the hare. In fact, it's an underdog tale, and the hare is nothing without its contender: India's Narendra Modi seems to have quietly accepted the challenge.

Three decades ago, India and China reported the same GDP per capita - a race is redundant without a starting line after all - yet instead of bounding up into Chinese double digits, average growth in India over the last few decades has been around 6.5%. The diagnosis, despite a strikingly similar geography and demography, lies firstly in conflicting takes on how to industrialise.

While China implemented its monumental 1978 reforms, abandoning central planning for 'Special Economic Zones' and the take-off of export industries; India (in what seems an excessive extension of independence from British colonialism) darted in the opposite direction. Their drive towards the inefficiencies of Import Substitution Industrialisation (ISI) means industrial production now contributes 25% to output compared to 44% in China. India insulated itself from the benefits of comparative advantage and trade; India punitively put on a shell.

The track has been made bumpier still by the more fragmented political framework whereby devolution of power to caste-based state parties works against nation-wide reform. Particularly, India is known for ignoring a bleeding public purse: gross government debt has now accumulated to over 66% of GDP (versus 22% in China).
But many developed nations are guilty of greater national debts (the UK's stands at 90%, for instance). The problem is more that the

fiscal plan fuelling India's is inane.
The recurrent deficit is due predominately to overly supportive subsidies on basics such as food and petroleum. The spending 'crowds out' private sector access to domestic savings for investment, which raises the interest rate and curbs commercial expansions. This could be tolerable, if Indian consumers re-spent enough of their additional disposable income from subsidies to generate more private sector cash-flow anyway. But they don't. India is still generally poor and the fiscal multiplier on transfer payments is below 1 compared with an estimation of 2.45 if spent on capital investments.

I recently attended a talk from Andrew Haldane, the Chief Economist at the Bank of England, propounding that 'Investment is Growth' (compellingly demonstrated by the fact that China's commitment to investment during its expansion means it now creates an economy the size of Cyprus every week). This is a lesson India needs to open its eyes to.

But soon stopped Hare and, to show contempt for Tortoise, lay down to sleep

China is indeed getting sleepy. Last year's slight fall in growth (to 7.4%) marks the slowest rate in 24 years as decreasing returns to scale begin to naturally manifest on the development path. The question is whether Indian circumstances have sufficiently changed to take advantage and forge ahead. Excitingly, many believe they have.

Firstly, inflation-ridden India was blessed by the most extraordinary financial event of 2014: the colossal collapse in the oil price from $115bbl in June to lows of $48 mercifully alleviated the burden of escalating prices for consumers and businesses alike. This collapse also allowed government to painlessly cut beloved petroleum subsidies which had guzzled up one quarter of the 2.6 trillion rupee ($42.4 billion) subsidies bill.
The second significant driver of optimism in India comes from the driver himself. To understand what Narendra Modi offers, see the BRICS expert Jim O'Neill's very verbose quote: 'He's good on Economics'. For a demonstration, look to his previously governed state of Gujarat which now enjoys average GDP growth of 10%, has seen important improvements to basic infrastructure and is considerably more free market; all of these would be a blessing if successfully transposed across the whole economy.

The fact that Modi's victory was an absolute landslide will also prove significant as it implies there is an adequate buffer of political popularity for our incumbent to withstand reactions when policies become painful, ending the cycle of paying offs toward enduring reform.

Hare stretched and yawned and began to run again, but it was too late- Tortoise was over the line.

The intersection of Indian acceleration and Chinese slow-down implies India should overtake China as soon as 2016-2018. In fact, India is even expected to become the fastest-growing emerging market as Brazil, Russia and South Africa suffer weaker commodity prices. So in the upcoming years, the moral of the story is blatantly inspired by the Hindu religion which so richly laces Indian culture and politics: Come find me in 2018 for a new tale, of an Indian reincarnation from the tortoise to the hare.

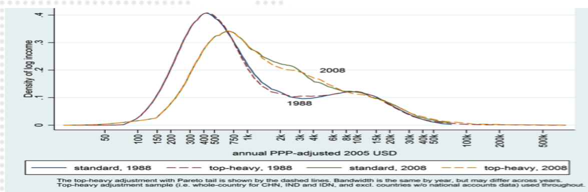
By: Kasia Chodurek
Kasia is a 2nd year Economics student with a distinctly unrefined subset of interests but if it contains macroeconomics, she will be all ears.

The Emerging Global Middle Class

In the last three decades, the working and middle classes in the US and Europe have experienced stagnating wages. Concerns of rising inequality are becoming ever louder. These claims, however, fail to acknowledge a global perspective that puts these phenomena into a very different light. According to the World Bank there is no single country that is as unequal as the world in total. However, as the last three decades show, the measure of global inequality is slightly declining.

One of the major reasons for the stagnation in Western wages is the increased competition among labour-intense sectors made possible through globalisation. As a consequence, the competitors in the developing world have managed to gain a greater share of global income and a higher standard of living.

Branko Milanovic, an economist who has made tremendous research on global inequality and distribution, has provided useful data to analyse these changes. In early January, Paul Krugman cited him on his blog and titled a graph of relative income gains between 1988 and 2008 as "Recent History in One Chart"."A striking fact is that among the percentiles in 1988 [around the median] that turned out twenty years later to have been the most successful part of the global income distribution, 90% of people came from Asia. Among the 1988 percentiles that 20 years later turned out to have been the least successful part of the global income distribution, 86% came from mature economies."



(Source: Lakner and Milanovic, 2013)

As see in the graph above, the gap between 'the rich' and 'the rest' is starting to be closed – arguably the new global middle class. Middle class, globally speaking, is usually seen as those who have between $10 and $100 a day to spend. Irrespective of the arbitrariness inherent in defining what middle class is, whether in relative or in absolute terms, is the fact that the middle class distinguishes itself from the poorer through its consumption patterns – it is the "consumer class".

The economic opportunities arising from a sizeable middle class with a disposable income of at least $4000-$6000 PPP are tremendous.

When consumers enter these levels they tend to buy higher quality and technologically more sophisticated goods, giving rise to increased product differentiation, with the eventual potential of higher profits, which again leads to higher levels of investment. Further, at this stage of development, it is often argued that avoiding the middle-income trap through moving away from resource-driven growth is crucial. Key to this is the development of domestic consumption led growth patterns.

At this very moment, China's domestic demand is exploding and other Asian markets are starting to adopt similar patterns. Classical middle class markets – electronic devices, cars, good-quality food – are growing rapidly. For every car sold by GM in China in 2004, ten were sold in the US; the rate ten years later is around 1:1. Access to industrial goods and new information technologies is not restricted to people earning at mature economy standards. Xiaomi, the world's fourth largest mobile phone producer has grown its market share among technology-obsessed middle classes in Asia. It is producing "phones and accessories for the next billion consumers" and is this year estimated to sell 60m smartphones in the Chinese market alone.

Retailers like Tesco and Wal-Mart have not missed the opportunity to move into the major cities in China and the ASEAN region. The share of groceries bought in supermarkets and not in traditional markets is increasing. All this leads to harmonised lifestyles and consumption patterns, increased investment, and more secure growth, which is not as prone to global demand shocks. Thus, the make-up of these emerging economies is changing completely. They are now getting more and more into a position where they produce a lot for themselves.

Maybe the most important consequence is that, as a middle class gains more and more voice by being economically empowered, they could provide the necessary base for resisting authoritarian regimes – a hope that has been voiced particularly in respect to China. How the Chinese elite is going to react to these possibilities remains open.

However, the reactions of entrepreneurs, global investors and emerging middle classes are certain: They will keep this process going as long as possible. If they succeed, the world in 2040 will be likely to have fewer than 200m in absolute poverty and a middle class of around 4.8bn. This is the picture of a truly converging world. What we are witnessing is not just people being lifted out of poverty (<2$) but people who can actually afford a relatively comfortable life.

This is not to downplay the striking poverty still present all around Asia, whether in rural and urban China, India, and South-East Asia, not to mention other parts of the world. However, the progress made in the last 30 years is not to deny. As during the Industrial Revolution, the improvement in living standards led to increased empowerment of those groups demanding political and labour rights. In the same way the new middle classes of today will demand more transparency, human rights and accountability. This is neither the end of poverty, nor of inequality – it is, however, a step forward to political empowerment of the disenfranchised and economic development that delivers reasonable living standards to those in need.

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(Source: www.observer.com)

2015: Windows of Opportunity for Emerging Markets

According to Goldman Sach's 2015 Outlook for the Emerging Markets, there are 3 key themes which will determine the direction in which the EM growth story shall continue. The first and most obvious is the pervasive impact of falling oil prices, which will not only provide inflation relief but also the opportunity for some central banks to hike rates less than they otherwise would or cut them altogether. Considering the shift in income from commodity producers to oil consumers, with both groups represented across the EM universe, one can expect both challenging and improved situations across the EM group of countries. The next determinant of growth is the slowing Chinese economy which is transforming its driver of growth from investment to consumption and implementing flexible policy to deal with the credit and housing imbalances. A key question that arises from this situation is whether China is experiencing only a modest deceleration or whether an underestimation of this possibility can create a broader set of risks for the EM group as a whole given the Chinese economy's existing influence. Finally and perhaps understated in light of the aforementioned points, is the ironic challenge that most of developed EM societies like Hungary, Korea, Israel are facing, that of low inflation which is similar to the developed world in Europe. Thus, they are faced with an ongoing battle to try and combat the challenge of low inflation while other EM countries struggle with the challenges posed by exorbitant inflation.

Therefore, while an analysis of the EM group as a whole indicates a growth picture which does look somewhat positive, there is a great deal of dispersion across group in terms of growth potential and the kinds of challenges these economies are facing. Although growth in Emerging Asia will moderate gradually due to the slowdown in China, growth momentum for the ten ASEAN countries remains robust and broadly similar to the past 10 years, averaging 5.6% in 2015-2019 .

Nevertheless, it would be premature for policymakers to be complacent as what was experienced in the past year was probably a prelude to, rather than the end of, a period of heightened market volatility. The sentiment of global financial markets has turned more sanguine recently amid expectation of prolonged low interest rates in the US. However, the pace of monetary normalisation in the US is very much uncertain, data dependent and a quick catalyst for sharp corrections when capital flows reverse further in countries with domestic vulnerabilities. A clear example of this is India's growth, which should be stable over 2015-19 but the prospects of which could easily change depending on external circumstances and the implementation of long overdue reforms of the new Modi government such as the promotion of domestic and foreign investment, and the development of new important infrastructure.

It is therefore imperative that regional economies make use of any breathing space available to take credible measures in the form of structural reforms which would reduce macroeconomic and financial imbalances as well as provide fundamentally strong bases for economic growth.

Firstly, the supply-side constraints in a number of regional economies are linked to weak investments, in particularly infrastructure investments. Many investors have cited that while there is no lack of funds or interest in investing in Asian infrastructure projects, there is a lack of a pipeline of bankable projects. This is a consequence of fundamental issues such as uncertainties relating to a government's commitment in supporting a specific sector, lack of credible PPP frameworks and project governance, evident in countries such as India and the Philippines. Secondly, intra-regional trade has been an essential driver of growth following the global financial crisis as EM economies sought to increase their domestic demand and reduce their reliance on exports to developed economies. As the world economy continues to rebalance, the region's ability to sustain its growth depends on its capacity to maintain domestic demand through sustained productivity enhancement as mentioned above, and further trade integration within the region. While intra-regional trade has been evolving quickly, a further reduction in trade barriers would help foster deeper regional trade ties and facilitate the efficient allocation of resources. Finally, regional economies must strive to enhance financial market reforms and promote further financial integration within the region in order to better channel Asia's surplus savings to meet its own investment needs; and to enhance the absorptive capacity of Asia's financial markets to fluctuating capital flows. Further liberalisation of the financial sector and improving financial infrastructure such as establishing credit information sharing system and microfinance institutions should also help some regional economies to allocate credits more efficiently.

These reforms are critical not only to sustain Asia's growth leadership over the medium term, but also, in some cases, to maintain investor confidence and secure financial stability in the near term. The year 2014 saw major transformations in the region's political landscape, with economies being impacted differently as Indonesia's presidential election brought Joko Widodo to power, while India's general election ushered in Narendra Modi as the new Prime Minister. While the electoral processes in both countries were regarded as peaceful changes of government, it will be the ability to strengthen their countries' fundamentals and remove impediments to effective use of resources which will catalyse productivity, raise living standards and ultimately ensure the successful existence of these respective governments.

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