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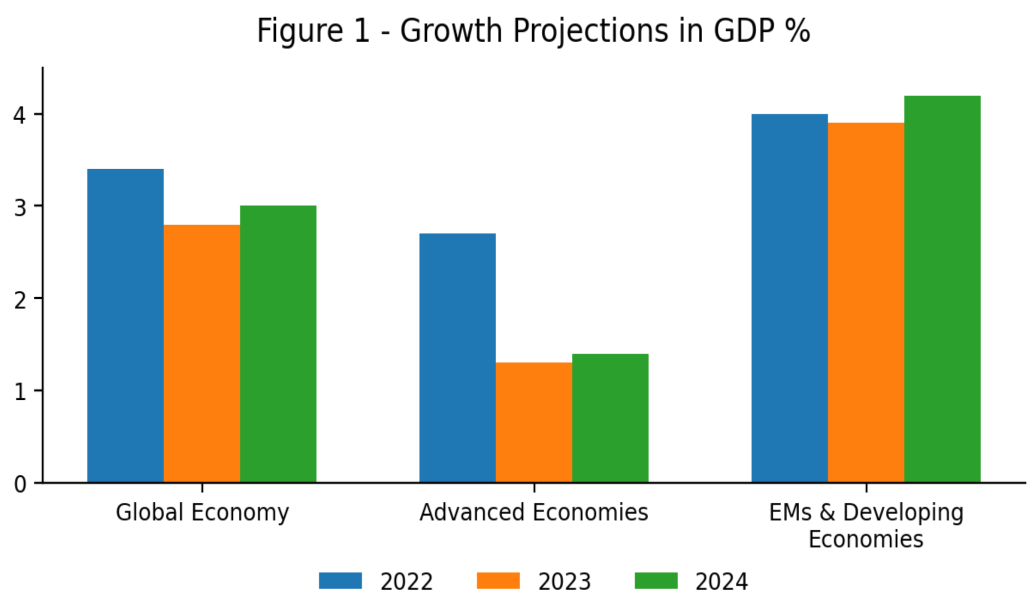
Emerging Markets - Their Time Has Come

Introduction – EMs on the rise

Emerging markets have traditionally been considered secondary investments – an asset class to diversify one's holdings rather than an anchor on which to build a portfolio. And with good reason. All too often, a shift in macroeconomics or a regional contagion could send these markets reeling.

Since 2000, however, EMs have made remarkable advances in modernizing and stabilizing their economies. While major economies struggled with war, climate change, rising political tensions, and the pandemic, emerging markets have shown an ability to wade through these troubled waters with forethought and prudence. Largely as a result of good governance, they have doubled their average per- capita income. And according to the International Monetary Fund's latest World Economic Outlook, they are projected to grow three times as fast as the advanced economies this year and next.



Source: IMF April 2023 Outlook

One sign of their success has been the growth of their economies. In 2022, they outpaced both the advanced economies and the global economy (Figure 1), according to the IMF. And based on data from Datastream, IBES, MSCI, and UBS, the earnings per share growth of their equities markets will outpace the US in 2023 and 2024 and nearly double the EPS growth of European equities during those years.

Fixed-income investments from emerging markets have also become more attractive. Many EM debt issues offer yields that are multiples of US or EU yields, while being backed by sound economies and banking systems.

To be sure, EMs are subject to the same market fluctuations as other countries. And they remain dependent on the developed world for export markets and global financial stability. But they have come a long way. By absorbing lessons from the advanced markets, they have often done them one better. For instance, in the face of overheated markets following the stimulation policies of the pandemic, EMs as a group raised interest rates faster and sooner than leading economies, enabling them to better cope with inflation and future recessions.

In the following pages, we will describe how a diverse group of countries, ranging from Indonesia to Mexico to Poland, have strengthened their economies in difficult times and set them up to thrive. We'll also give pointers on how to invest and do business in these countries. And finally, we'll profile a handful of emerging markets, including the largest, China, and the newest pacesetter, India.

EMs defined

The term "emerging markets" refers to countries that are in the process of transforming their traditional economies into more efficient, transparent, and investor-friendly markets. While they vary widely, EMs generally are characterized by rapid industrialization, large populations, a growing middle class, and large-scale urbanization.

There is no universally accepted list of emerging markets. The IMF broadly divides economies into advanced economies and emerging market and developing economies, while index providers such as Morgan Stanley Capital International (MSCI) use their own classifications. The MSCI list identifies 24 emerging markets, many of them missing from the IMF list, such as the Czech Republic, Greece, Korea, Pakistan, Peru, Taiwan, and Qatar. Countries not on MSCI's list, but on the IMF's, are Argentina, Iran, and Saudi Arabia.

China shows up on virtually every EM list. While it might seem strange to categorize the world's second largest economy as "emerging", its per-capita income is only $13,000 per year, which allows a lot of room for growth. (We'll have more to say about China's potential later in our EM profiles.)

EMs on the offensive

So, how did EMs get to where they are today?

One answer is improved governance. Since the turn of the last century, EMs have granted central banks more independence, consolidated their fiscal spending, and discouraged large current-account deficits. They have also enacted transparent practices and regulations that have fostered trust among investors and attracted foreign investment. Brazil, for example, exposed widespread corruption with its multi-year "Operation Car Wash" investigation (Operação Lava Jato in Portuguese), which began in 2014 and led to new economic leadership and systemic reforms.

Another factor is better market fundamentals. Larger foreign reserves, deeper capital markets, and intense infrastructure development are characteristic of many EMs. One of the most remarkable

infrastructure stories has been India’s installation of a digitized personal identification system based on iris scans and fingerprints. Known as Aadhaar (Hindi for “Foundation”), the system now covers 99.9% of India’s vast population. (See the India profile below.)

A third factor is the development of a sizable middle class that fuels demand and creates a flourishing market of educated tech-savvy consumers. A prominent example is China, whose rapidly expanding middle class has reached a critical mass, according to some observers. Without a sizeable middle class, China would not be able to transition from an export-based economy to a more self-sufficient economy based on domestic demand.

Undervalued assets

As noted above, EM equities are currently undervalued compared to their counterparts in more advanced markets. This valuation discrepancy provides an attractive entry point for investors seeking greater returns and long-term growth.

To give one example, South Korea's equity market, the KOSPI, has been at its lowest level in two years. Much of the market’s depressed valuation can be attributed to the country’s special risks, most prominently regional instability and the impact of the US-China trade war. But the country also has a number of strong positives – a defense pact with the US, a robust economy, and a major presence in high-growth industries, such as semiconductors and telecommunications. South Korea figures prominently in exchange traded funds (ETFs), such as the MSCI Emerging Market Index. Some 12% of the index’s holdings are from this Asian Tiger.

Debt issues in EMs have also become attractive investment opportunities. Higher yields in riskier markets are nothing new, of course. But with a shift towards local-currency bonds and upgraded regulatory frameworks, EM bond markets are considerably more stable than in the past.

Mexico's debt issue market, for example, has significantly improved its transparency through wider dissemination of data, and it has increased liquidity by developing a secondary market for its bonds. The country now is one of the most attractive bond markets among EMs. Typical of its rates, the 10-year, peso-denominated government bond had a yield of 9.00% on May 25, compared to 3.83 % for 10-year US Treasuries on the same date.

The combination of higher yields and greater stability has moved some analysts to note that EM bonds are delivering growth-stock-level returns but with the low volatility and low prices of government bonds in advanced economies.

Potential threats

While EMs are currently the standouts in investment and business potential, the age-old rules of caution still apply. Looking ahead, there are any number of threats that could roil these markets.

Arlan Suderman, Stonex Chief Commodities Economist, has noted two prominent ones – rising interest rates and higher commodity costs.

"Rising interest rates put pressure on these emerging markets to make larger loan payments, many of which are dollar-denominated," he stated. "Additionally, higher commodity costs could worsen their current account balances, since many of these countries are significant importers of commodities. If the dollar rises along with interest rates, the situation will be challenging for them."

The war in Ukraine is another potential threat. The conflict has hit EMs particularly hard, pushing up energy and food prices and eroding the purchasing power of their economies.

Escalating geopolitical tensions could also pose serious consequences. In the years leading up to and following the war in Ukraine, globalism has suffered at the hands of regionalism. If the standoff between the US and China worsens, say, the fallout could lead to trade disruptions, capital flight, and other negative results.

Another major challenge is climate change. As extreme weather becomes more common, it will hurt agricultural production and economic growth, likely stalling the advance of EMs, many of which are major exporters of commodities.

The good news is that these threats are not insurmountable. According to the IMF, EMs can weather them if they

- Diversify away from commodities toward manufacturing and services
- Build up their foreign exchange reserves
- Shock-proof their financial systems

• Invest in climate change adaptation

Based on the resilience of EMs during the past several years, particularly their handling of inflation, there is reason to believe they will be equal to these challenges and come through the 2020s in good shape.

Fundamentals of investing in EMs

For those who would like to invest in EMs, there are four basic instruments available: exchange traded funds (ETFs), mutual funds, stocks, and bonds. ETFs and mutual funds have many similarities. They pool together a diversified range of assets, which provides broad market exposure. They are managed by fund managers with experience in trading the markets. And the funds can be easily purchased (or sold) through online exchanges in the US, the UK, and elsewhere.

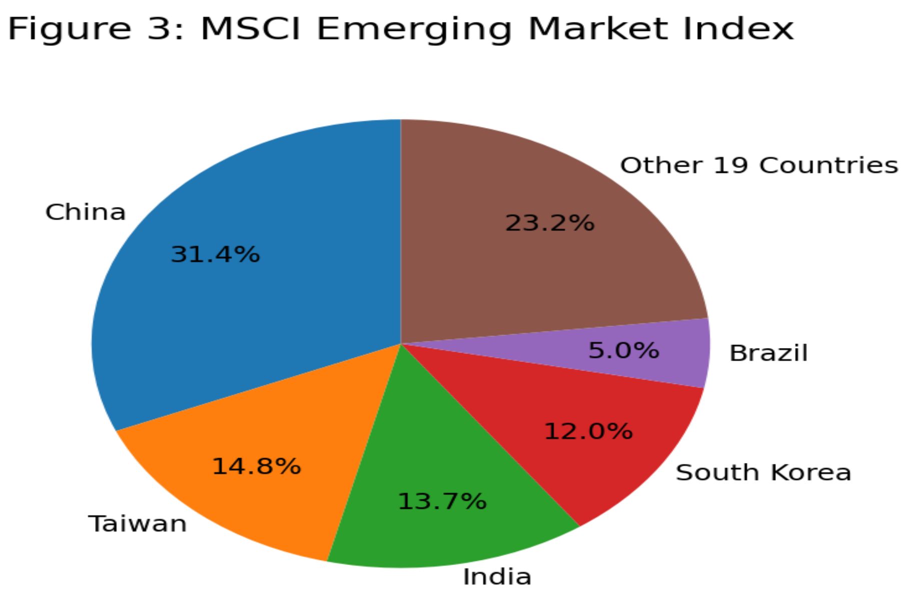
Stocks and bonds, while riskier, allow investors to target high-growth and high-return assets. Firms such as Tencent Holdings in China and MercadoLibre in Uruguay have recorded exceptional growth over the years, rewarding shareholders with substantial returns. Going forward, Novo Nordisk, a Danish pharmaceutical company, could do the same. It has developed the fat-reducing drug Wegovy, which is catching on around the world. (Yes, sometimes a formula for reduction can lead to growth!)

For more details on investment vehicles, here are some basics:

ETFs – There are two types of ETFs: active and passive. In an active ETF, the fund's manager will accumulate assets that are most likely to serve the overall objective of the fund, whether it's growth,

value, clean energy, or investor safety. By contrast, a passive ETF will try to maintain a representational array of holdings, using market capitalization as a proportional weighting factor.

Thus, the MSCI Emerging Market Index, the most popular, puts 70% of its investments into four of the 24 countries in its index, with over 58% of the holdings concentrated in Asia.



Comparing active and passive ETFs, Michael Lytle, StoneX Chief Investment Officer, noted, “Our bias is toward the active ETFs. While more costly in the short term, active investing takes into consideration a number of value drivers, such as earnings potential, population growth, an EM’s position on the development cycle, and open markets. Overall, we have seen this approach deliver better results.”

Mutual Funds – As with ETFs, mutual funds provide many ways of accessing the market. You can choose between equity or fixed-income funds (bonds), or a combination of the two. And your focus can be market-wide or specific to country or sector. Many mutual funds are actively managed and tend to be more expensive than passive ETFs, although index mutual funds, which are passively managed, are also available. Like ETFs, active mutual funds are managed in accordance with an overall objective, such as safety or growth.

Stocks – Stocks tend to be less liquid than ETFs or mutual funds. Much of the liquidity depends on country, sector, size of trade, and currency used (USD or local). There are often special custody requirements, such as owning a trading account in the home country. Transaction costs may vary, but they have no effect on the bid or ask price. Also, local markets may have unique exchange practices.

ADRs/GDRs – In the US, investors can indirectly purchase some foreign shares through an American Depositary Receipt. An ADR is a negotiable security issued by a US bank, with the size of the issue determined by the underlying foreign company. For example, there are approximately 1.2 billion ADRs of Novo Nordisk, the Danish pharma firm mentioned above, available for trade on the New York Stock

Exchange under the ticker symbol NVO. In the UK, the equivalent of ADRs, Global Depository Receipts (GDRs), represent shares of foreign companies traded in London and other international markets.

Bonds – Investors can choose from government bonds, corporate bonds, or local-currency bonds. Keeping one's risk tolerance and investment horizon in mind is a must. As noted earlier, the Mexican bond market has attracted considerable attention. So have other EMs, such as Indonesia, whose government bonds have been popular due to their relatively higher yields and improved credit ratings. As with foreign stocks, bonds can be less liquid. Also, there are often special custody arrangements and hidden transaction costs that should be researched.

Some final thoughts on investing in EMs:

- Do your homework. The more you know, the more confidence you will have in your investment, and the more willing you will be to stay the course through market ups and downs.
- Know your risk tolerance. If you feel uncomfortable with risky investments, stay with legacy firms that have good growth potential and healthy cash balances. Even better, invest in broad- ranging indices.
- For short-term investors: Consider earnings growth and the current economic cycle.
- For long-term investors: Research the population growth (or decline), and look for open markets, that is, markets where securities are freely traded without significant restrictions or limitations.

Doing business in EMs

Launching a new business or expanding a current one into an emerging market can be as rewarding as it is daunting. History is full of remarkable success stories (Volkswagen conquering the US in the 1960s) and notable failures (Walmart downsizing in India, and Amazon pulling out of China). For those who are up to the challenge, here are some recommendations.

Research – Understanding the target market, consumer preferences, cultural nuances, and regulatory frameworks enables businesses to develop effective strategies and tailor their products or services accordingly. Companies like Coca-Cola have successfully adapted their marketing strategies to specific EMs. For example, in China, the company has employed traditional Chinese symbols and imagery in its advertising, while in India, Coke has featured movie stars to promote the product.

Partner – Local partners contribute insight, networks, and expertise that can help businesses build a viable presence in a foreign culture. Starbucks' partnership with Tata

Group in India is a notable example of leveraging local expertise to establish a foothold.

Adapt – Understanding and embracing local cultures is essential for creating trust, building relationships, and catering to the needs of the target population. McDonald's, for instance, offers udon soup in Tokyo and fish and chips in London.

Manage risk – Developing a comprehensive risk management strategy is vital to navigating challenges such as political instability, currency fluctuation, and regulatory changes. Companies that operate in multiple EMs, like Unilever, employ sophisticated risk management frameworks to monitor and mitigate potential risks, ensuring long-term sustainability and growth.

Leverage technology: Mobile technology, e-commerce platforms, and digital payment systems have transformed the business landscape of many EMs, providing new avenues for growth. Companies like Alibaba in China and MercadoLibre in Latin America have capitalized on the digital revolution, creating thriving e-commerce ecosystems.

Conclusion – The appeal of EMs

As the global economy continues to evolve, emerging markets have positioned themselves as places of potential. Their appeal is multi-faceted. With improved governance, robust market fundamentals, a burgeoning middle class, undervalued assets, and favorable macroeconomic conditions, they can offer ample opportunities for investors and businesses alike.

However, to succeed in these markets, thorough research is a must. That means understanding the risks and adapting to the local environment. It also means identifying those areas where your business or investment plan best matches the characteristics of these very different markets. And finally, it means a gut check on how flexible you and your colleagues can be when you come up against surprises – both good and bad.

In the final analysis, EMs appear poised to lead the charge over the next several years. By capitalizing on their potential, and by effectively managing the challenges, investors and businesses can unlock substantial value and long-term growth in some of the more dynamic economies of the 21st century.

Emerging Market Profiles

Brazil: Gateway to Latin America

Brazil, famous for its jazzy bossa nova melodies and soccer legends like Pele, is also a vibrant, burgeoning market. With a population of 214 million, it is the largest economy in Latin America and the 9th largest in the world.

Its economic drivers include a rapidly growing middle class, a strong education system, and a corporation-friendly tax regime. Government incentives and its strategic location have helped to make Brazil not just a magnet for foreign investment, but also a natural gateway to Latin America and the Caribbean, home to more than 670 million people, or nearly 8.5% of the global population.

Here is a breakdown of some key markets:

Agriculture: Brazil has been the global leader in coffee production for 150 years. It also leads the world in sugarcane and orange production, and it is a major producer of soybeans, corn, beef, dairy, and sugar.

Energy: Globally, Brazil is the eighth largest producer of oil and the twelfth largest producer of natural gas. The country is also a leader in renewable energy, and it has a large and growing market for energy products.

Manufacturing: Brazil is the second largest exporter of processed foods and of pulp for paper production. Its automotive and chemicals industries both rank eighth in the world. It is the ninth largest producer of steel. The country is also deep into electronics, textiles, and manufactured goods. One standout brand is Centaurus. Founded in 1991, the company's televisions, refrigerators, washing machines and air conditioners are bought throughout Latin America and the Caribbean.

Services: Services represent the largest segment of the Brazilian economy, accounting for 60% of gross domestic product (GDP). The sector covers a wide range of activities, including communications, financial services, health and social services, professional sports, hotels, and catering.

Infrastructure: The country has a large and growing market for infrastructure projects, of which the crowning project has been the North-South Railway (Norte-Sul in Portuguese). At an estimated cost of $100 billion, the 1200-mile system (2,200 kilometers) was fully operational for the first time on May 25, connecting the length of the country with the interior and helping to open up the Amazon region.

Tourism: Brazil is a major tourist destination, second only to Mexico in Latin America. The country has a rich culture and history, and it is home to some of the most beautiful beaches in the world, such as the Copacabana. Tourism has seen a compound annual growth rate of 5.4% between 2015 and 2021.

Although Brazil's real GDP contracted at the end of 2022, surveys of purchasing managers indicate that the service and manufacturing sectors are expanding. A new administration under President Luiz Inácio Lula da Silva ("Lula") is working to stabilize government debt. The Banco Central do Brasil has succeeded in pushing year-over-year inflation down from 10.9% last June to 7.3% in March. This may seem high, but for a country with a history of hyperinflation, it is encouraging.

Other encouraging signs are a record high trade surplus of nearly $11 billion reported in March, and a doubling last year of foreign direct investment. Additionally, the country is building on a tech sector that benefited greatly from the pandemic. By developing technologies such as telemedicine that were in high demand, the tech sector grew by 22% in 2020, even as world GNP shrank by 5.2%.

Headwinds that may slow the economy include a decline in real wage growth, a dampening of retail sales, and an unemployment rate that rose to 8.6% in February from 7.9% at the end of 2022. Consumer sentiment, however, remains upbeat, with consumer confidence achieving a post-pandemic high in May of 89.50 points out of 100. As the country continues to work on lowering inflation, success in this area will do much to overcome the country's challenges.

China: Act II

Rising from the aftermath of the Great Famine (1959-1961) and the Cultural Revolution (1966-1976), the Middle Kingdom has come into its own with unprecedented growth. Premier Deng Xiaoping's introduction of wide-ranging economic reforms in the late 1970s sent China on an astonishing trajectory of 9.5% compound annual rise in GDP between 1980 and 2019.

Today, it is the second largest economy in the world, after the US. And yet, it is still considered an emerging market due to its relatively low per-capita income of $13,000 per year, which would indicate it has considerable room to grow.

As with other countries, China's economy was staggered by the pandemic, although it still managed to grow by about 2.2% in 2020. It rebounded in 2021 with a GDP that rose by 8.1%, but it struggled again in 2022 with widespread pandemic lockdowns that saw GDP growth fall to 2.99%. Today, the country appears to be on the mend again, with a growth rate of 5.24% forecast by the IMF for 2023.

The big question for China is whether its second act will equal its first. For many years, the conventional wisdom held that China would outstrip the US economy and far exceed it. But in recent months, some observers, such as The Economist magazine, have wondered if the dragon has peaked. With a declining workforce, an aging population, a trade war with the US, a rising India (see below) and a restrictive financial system, among other challenges, there is growing speculation that if China does overtake the US, it will be just barely, and not for many years.

Nevertheless, China remains a large and growing market with many opportunities for investing and doing business. With a population of 1.4 billion (second now to India), the country's middle class continues to blossom and thrive. The cost of labor is still low, the country continues to make major advances in infrastructure, and with its universities producing tens of thousands of engineers and computer scientists every year, it has become a major center for technology and innovation, particularly in clean energy.

Here are some key markets where foreign investment has played a substantial role:

Manufacturing: China is the world leader in this sector, which is expected to grow in importance in the coming years as China moves up the value chain and produces more high-tech goods. Of particular note, China is the top producer of automobiles, turning out 27 million vehicles in 2022, or more than the US and Japan combined. China is also the leader in electric vehicles, with an estimated 200 EV manufacturers.

Information technology: China is a major player in the global information technology (IT) industry, hosting some of the world's largest IT firms, such as Huawei, Alibaba, and Tencent. As the country continues to digitize, the sector will grow in importance. Major IT areas include artificial intelligence, cloud computing, big data, and cybersecurity.

Services: The growth of the middle class and its affluence have been the key drivers behind services becoming the fastest-growing sector of the economy. Think of it like Amazon (which does not have a presence in the country) on steroids.

Infrastructure: Not only is China investing heavily in roads, railways, and airports at home, but it is also doing so abroad through its massive Belt and Road Initiative Program. Launched in 2013, the BRI aims to connect Asia, Africa, and Europe through a network of infrastructure projects. Estimates of the total BRI budget range from $4 trillion to $8 trillion.

Natural resources: China is a major consumer and exporter of natural resources. Of utmost significance is the country's near-monopoly on rare earths. These are seventeen chemically similar elements that are essential for the production of high-tech products such as electric vehicles, wind turbines, and smartphones.

While China provides a cornucopia of opportunities, doing business there can be daunting. The regulatory environment is complex and difficult to master. The competition among foreign entities is intense. And the intellectual property rights environment is infamous for encouraging theft. Moreover, the Communist Party's control of the economy can make it difficult for both foreign and domestic businesses alike.

Still, China is a behemoth that will continue to weigh heavily on the world economy. Several foreign firms (Apple, Walmart, Volkswagen, Unilever, Nike, etc.) have made more profits there than in any other country, including the US. Furthermore, the leadership understands that it has a tacit pact with the population to keep the economic engine running at full speed. To that end, it has made a number of reforms in recent years to encourage foreign investment, including tax breaks and incentives. All in all, China looks to remain a major investment magnet for the foreseeable future.

India: Three makeovers

Its middle class is estimated to be upwards of 400 million strong, or more than the combined populations of the US and the UK. Its people are taught English as a second language from the first grade. Its film industry, Bollywood, turns out twice as many films as Hollywood, some of which are screened globally. It is a major provider of IT services, which contributed 7.4% of the country's GDP in 2022 and employs over four million workers. And for the past 20 years, it has been the second fastest growing large economy behind China, rising as much as 9% per year in the mid-2000s.

Despite its many assets, India has failed to come into its own as a major economic power. The country has been stalled time and again by bureaucracy, lack of infrastructure, and just plain bad luck, such as the financial crisis of 2007 and the pandemic.

However, that is about the change. The country is forecast to be the fastest growing large economy in 2023 at 5.9%, according to the IMF. And due to three critical makeovers, the Indian government has a chance of taking the economy to a whole new level.

The first makeover is the remarkable ID program that has assigned 99.9% of all adults with a 12-digit number verifiable by fingerprints or iris scan. Called Aahaar (Hindi for "Foundation") the program is used to transfer government payments to recipients directly, greatly reducing skimming or corruption. Among a growing list of capabilities, Aahaar also enables participants to open bank accounts and perform other transactions within minutes.

The second makeover is the introduction of cheap smartphones and communication services launched by a subsidiary of Reliance Industries Ltd., an Indian conglomerate. Largely through this change, more than 700 million Indians now use the internet, and the country's consumption of data is greater than that of the US and China combined.

The third makeover is the country's 500% increase in infrastructure spending since 2014, with the result that the construction of national highways, seaport capacity, and airports has doubled. Mumbai, India's economic heart, is engaged in a building frenzy of new bridges, roads, tunnels, and metro lines that will bring 21st-century connectivity to the megalopolis and its 20.7 million residents.

Nandan Nilekani, former CEO of Infosys and the visionary behind Aadhaar, has predicted that the combination of the new ID system and cheap smartphones will unleash a tide of microbusinesses. He foresees tens of millions of jobs being created, bypassing the need for a mass manufacturing base to supercharge the economy.

Here are some market sectors that offer opportunities:

Information technology: If you've ever had a problem with your computer or a digital platform, you've probably spoken to someone in Bengaluru. The third most populous city (13 million), Bengaluru is the country's IT hub, home to such tech giants as Infosys, Wipro, and TCS. With a large pool of skilled IT workers, and major government investments, the sector is projected to create millions of new jobs.

Manufacturing: Textiles, automobiles, and pharmaceuticals are among the products for which the country is a major producer. Labor costs are low, literacy is high (74%), and the government has invested in manufacturing infrastructure.

Agriculture: Wheat, rice, and cotton are among the country's largest agricultural products. It is also a major exporter of oilseeds, buffalo meat, chicken, dairy, and fruits and vegetables, such as mangoes, bananas, and onions.

Tourism: Its rich culture and history, as well as its beautiful historical sites, such as the Taj Mahal, make India a major tourist destination. Nearly 18 million visited the country in 2019, and the industry is making a comeback from the pandemic. In 2022, revenues from tourism are estimated to have risen by 1% from 2019, and year-over-year employment is expected to be up by 8.3%, accounting for 35 million jobs.

While the government has made a number of reforms to simplify investing and operating a business in India, the market still has its challenges. These include a complex bureaucracy, a high level of corruption, and an infrastructure that is not as developed as other EMs, which can make it difficult to transport goods and services.

As the three makeovers transform the economy, however, many long-standing issues will be resolved. And with the country's large and growing market, young and educated workforce, and favorable business environment, India is poised to become a leading place for investing and doing business.

Saudi Arabia: Young, savvy, and diversifying

The largest Middle Eastern country by area (about three times the size of Texas), Saudi Arabia produces 12% of the world's oil, coming in second behind the US (20%). It is also the fifth most populous Middle Eastern nation, with roughly 35 million citizens.

Currently, the country is in the midst of a major diversification effort as the government invests heavily in non-oil sectors such as tourism, manufacturing, and technology. This transformation, along with a rapidly growing middle class, provides ample opportunities for foreign investors and businesses.

Other advantages include a young and educated workforce, with an average age of 29 and a literacy rate of 90%, a large pool of skilled workers, a stable political environment, and a government dedicated to making the country an investment magnet through incentives, tax breaks, grants, and loans.

Here are some markets that offer opportunities to foreign investors and businesses:

Oil and gas: According to the International Energy Agency, as late as 2040, oil and gas will fuel 56% of global energy requirements, compared to 20% for renewables. This is almost identical to the current breakdown, which means that even while renewables are projected to grow substantially, the need for legacy fuels will also grow.

Tourism: Saudi Arabia is a growing tourist destination, attracting over 18 million tourists in 2019, many of whom come to see its stunning natural landscapes. Many others come on religious pilgrimages to Mecca, Medina, and elsewhere. The government has set a target of 30 million tourists by 2030 and has committed major investments in tourist infrastructure to achieve that goal.

Manufacturing: Saudi Arabia is a major manufacturer of automobiles, electronics, construction materials, and other products. The sector is favored by the low cost of labor and the government's commitment to improving manufacturing infrastructure. One standout company is Saudi Arabia Basic Industries Corporation (SABIC), a global chemicals firm that produces plastics, fertilizers, metals, and automotive components for global automakers.

Technology: Saudi Arabia is investing heavily in the technology sector. The country is home to a number of technology startups, such as Tamara, a fintech backed by $100 million in funding, and Foodics, a cloud-based restaurant management system with over 10,000 customers.

While Saudi Arabia has a favorable business environment and is committed to encouraging foreign businesses, there are a number of challenges. The bureaucracy is complex, and the conservative Muslim culture can make it difficult for foreign businesses to adapt. The official language is Arabic, which makes having Arabic speakers essential. And despite the enormous oil revenues the country has received over the past decades, its infrastructure is not as developed as other countries, making it difficult to transport goods and services.

On the plus side, Saudi Arabia has the wherewithal, the skilled labor force, and the commitment to diversify its economy. With an ever-expanding market of savvy consumers – consumers who have an appetite for high-quality and high-tech products – and a country that is rapidly urbanizing, Saudi Arabia is fast on its way to creating a critical mass of opportunities for businesses and investors.

Nigeria: Africa's future powerhouse

Nigeria is the most populous country in Africa. But the remarkable thing about the country is not its 200 million inhabitants, but the 400 million that it is forecast to have by 2050, surpassing the US as the third

most populous country in the world. Combine that with an economy that is the largest in Africa, a literacy rate of roughly 77% and rising, and other key factors, and you have the making of great economic potential.

Consider these assets:

- A young, educated population, with more than 60% under the age of 30.
- A wealth of natural resources, including oil, gas, iron ore, zinc, lead, and precious stones such as garnets, topaz, and aquamarine.
- A strategic location in West Africa, giving it access to major markets in Europe, Asia, and the Americas.
- A recent history of political stability, with the last two governments turning over power peacefully.
- A government committed to economic reform, making for a more hospitable business environment.

Agriculture is one of the mainstays of the country. Nigeria is the globe's largest producer of palm oil, the fourth-largest producer of cashew nuts, and the fifth-largest producer of cocoa beans. Other key exports include rubber, livestock, poultry, and farmed fish. In 2020, agriculture represented 16% of Nigeria's total exports. Much of the country's growth in the sector is due to governmental efforts, which have significantly boosted output.

In manufacturing, the country exports a wide range of finished goods. These include food and beverages, cement, textiles, petrochemical, automotive parts, electrical appliances, building materials, machinery, and metal products. In 2020, the manufacturing sector accounted for 14% of Nigeria's employment and 10% of GDP.

The country's tech sector has had several major successes in recent years. For example, the country is a major hub for fintech startups, particularly those aimed at providing credit to small businesses and individuals. The country is also a major market for e-commerce (aided by its large population) and edtech, which, among other things, provides quality education to rural areas and underserved communities. Agritech has also found a home in Nigeria, developing innovative techniques for farmers, and supplying them with access to information, markets, and financing.

Doing business in Nigeria is not without its challenges. The complex bureaucracy, a high level of corruption, and undeveloped infrastructure are all major difficulties. Of special note is the challenge of political insecurity.

The government is working hard to address lawlessness, boosting security spending, deploying more troops to affected areas, and improving intelligence gathering. Foreign entities that wish to do business in the country can protect their personnel by working with a local partner who understands the risks and the necessary precautions. It should also be noted that most expatriots who work in various parts of the country report that they generally feel safe.

Looking forward, Nigeria has tremendous potential. With a growing middle class, a vibrant entrepreneurial culture, rich natural resources, and a strong focus on education, the country has superb

assets fueling its growth. If it can overcome its challenges, Nigeria could well become Africa's economic powerhouse.