Becoming pivotal in a changing world

Emerging Markets Outlook 2026

Triodos Investment Management

Emerging markets are set to grow steadily, with their economies expected to increase by 4% year-on-year in 2025 and 2026. At the same time, major world powers – driven by the AI and energy-related transitions – are intensifying their pursuit of vital natural resources in emerging markets, turning them into pivotal players. Although US tariff tensions have cooled down, shifting global trade patterns continue to create some uncertainty. Against this dynamic backdrop, sustainable growth faces new tests on the back of geopolitical rivalries and social and environmental vulnerabilities.

Becoming pivotal in a changing world

The global economy is now being led by countries striving for self-reliance. Trust has been set aside for national security and former trade partnerships are being downplayed in favour of national ambitions. Higher tariffs, increasing economic sanctions, tighter export controls, companies being added to trade blacklists are now at the forefront. Emerging markets find themselves caught in the middle of this struggle, often feeling pressured to take sides in a world that is becoming more divided. They are positioning themselves as an important alternative to advanced economies for investors seeking robust returns and risk diversification. Short-term portfolio flows are making a notable return to these markets, raising a pressing question: is this the beginning of a positive shift that will create the conditions to attract sustained long-term capital flows to emerging markets?

A surprisingly positive year

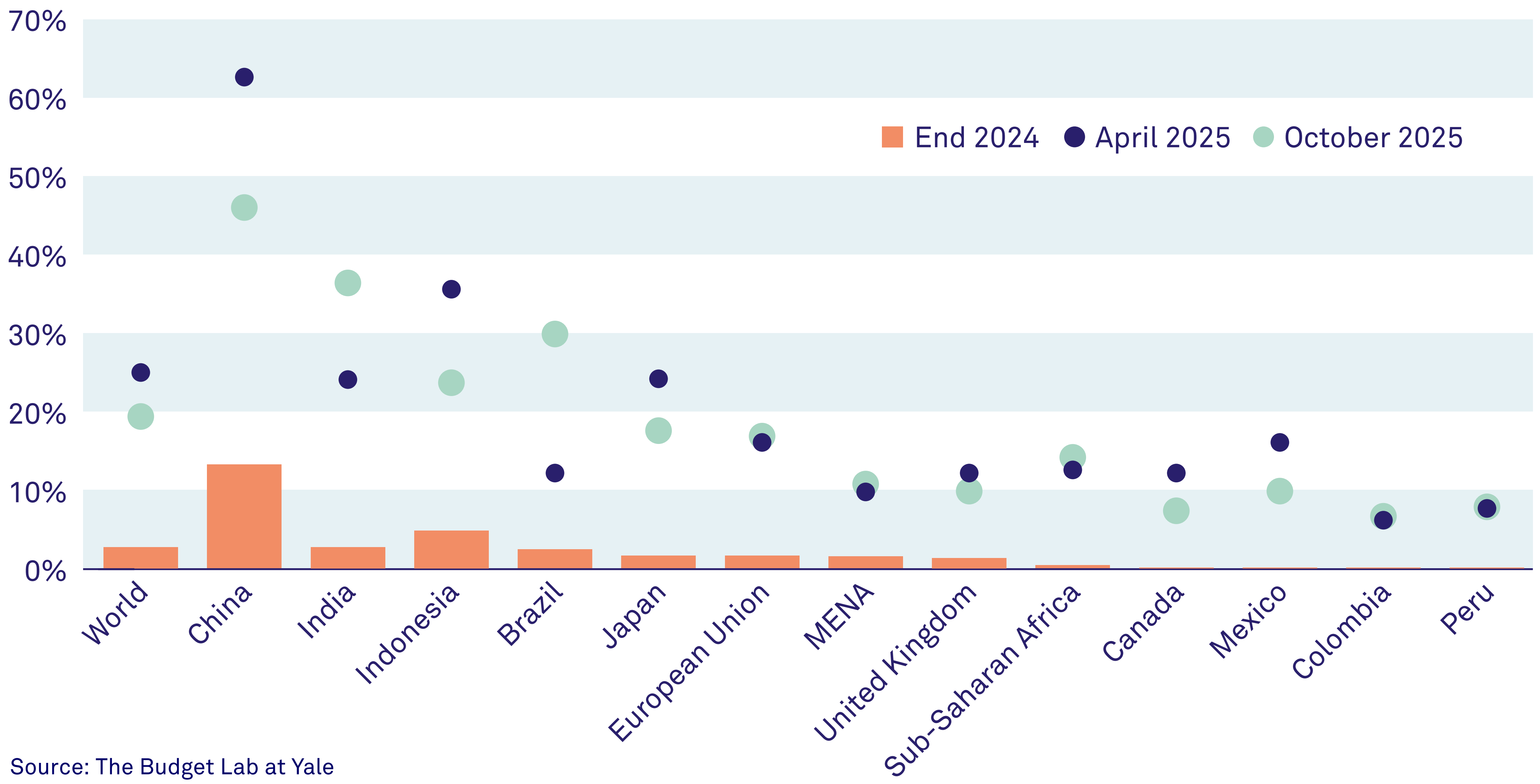
Despite global policy uncertainty, emerging markets are showing steady growth at 4% year-on-year in 2025. Several factors, outlined below, are supporting the performance of emerging markets and making them increasingly attractive for risk diversification:

1. Tariffs and trade

US effective tariffs have declined compared to April's 'US Liberation Day's' peak tariff announcements (see figure 1). This drop has given businesses in emerging markets more confidence even though tariffs remain higher than at the end of 2024. A broad-based surge in US tariffs now appears to be off the table. However, a pending decision from the US Supreme Court regarding the legality of these tariff measures could further contribute to uncertainty.

Meanwhile, the US Administration continues to use tariff threats as a negotiation tool with specific countries and sectors. China and India have been most affected by the tariff increases and the related uncertainty. Their recent growth, however, has been driven mainly by increasing export growth to other partners outside the US and higher investment growth in areas such as renewable energy and technology. China's domestic clean energy investments are shaping the global economy, while India is investing to build its own energy supply chain. A large, unmet demand for reliable and affordable energy in emerging markets has supported China's renewable energy export growth. Pakistan's ongoing solar boom and Uzbekistan's ongoing wind turbine boom are driven by China. Additionally, trade is shifting to other markets to avoid US tariffs. In fact, intra-trade within emerging Asia has increased significantly in 2025.

Figure 1 US effective tariff rates by country

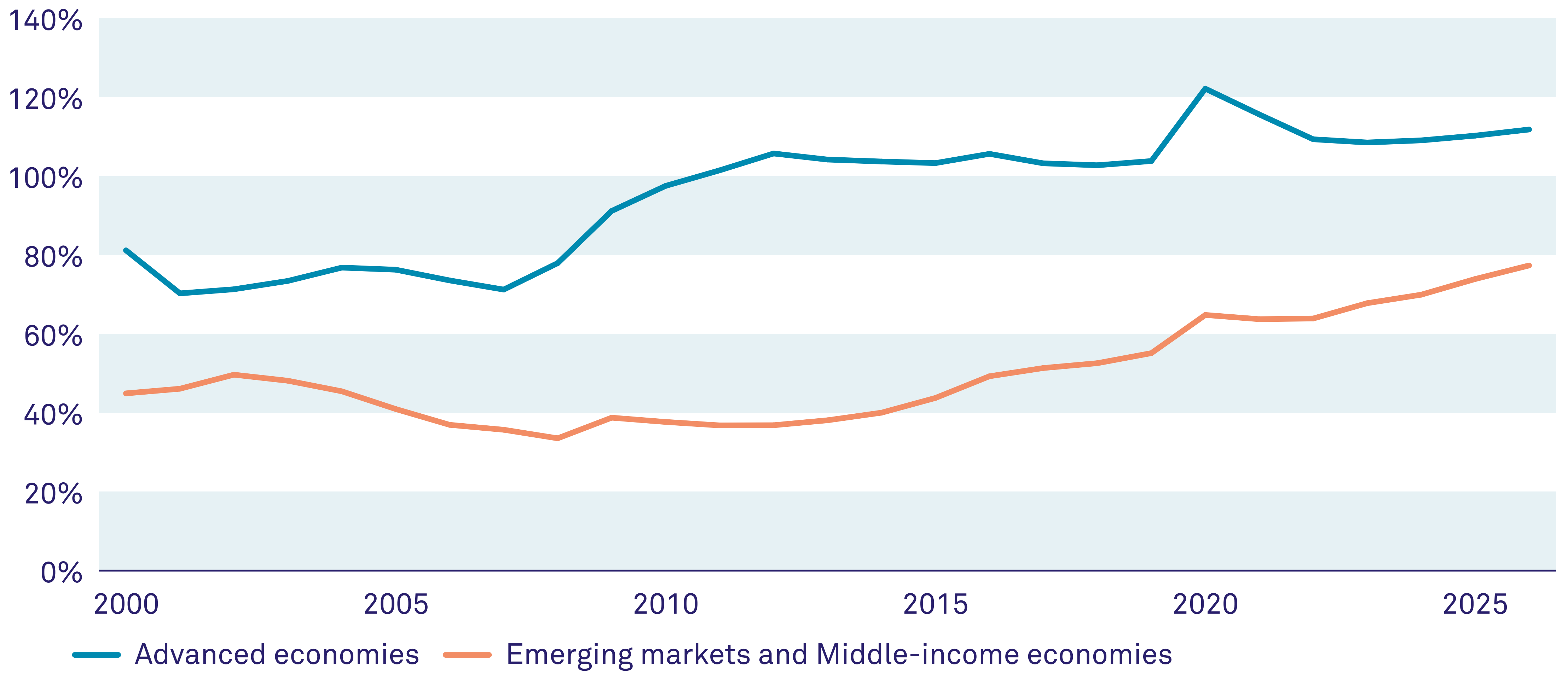


Source: The Budget Lab at Yale

2. Favourable policies

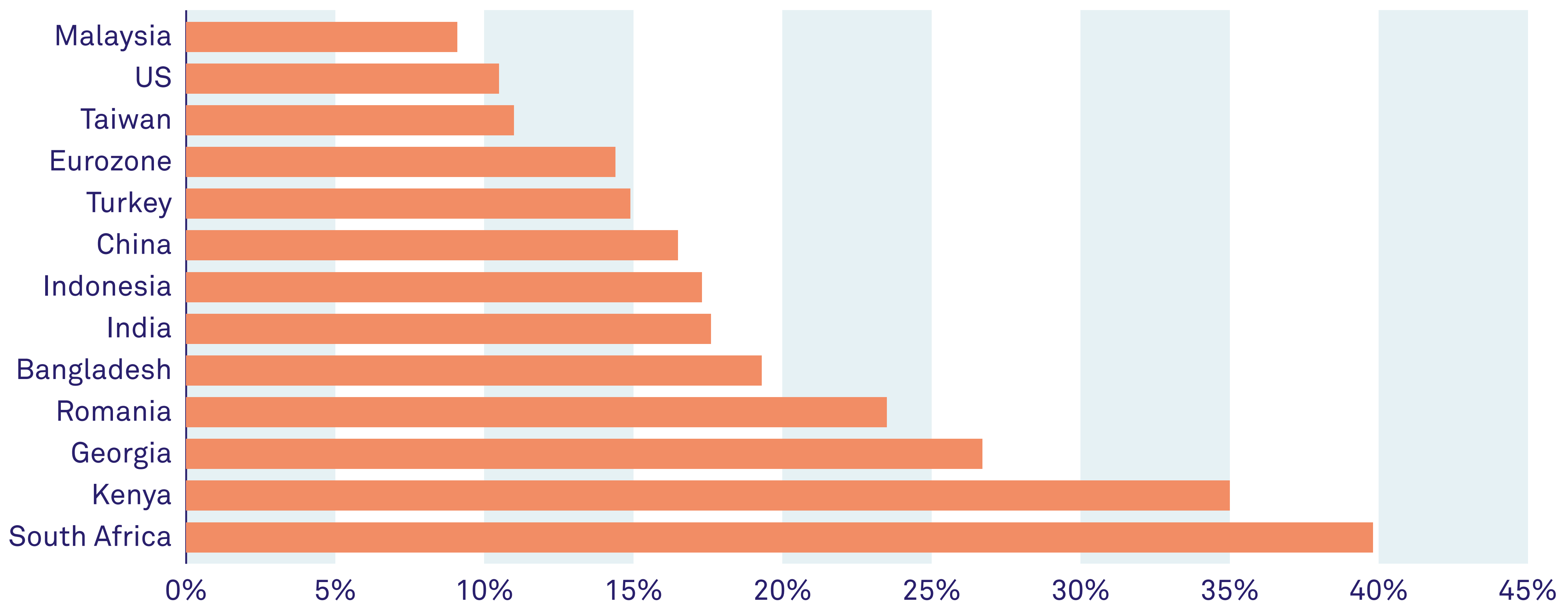
Many emerging markets' central banks have striven to keep inflation expectations low, whereas governments have managed their budgets better. National debt levels are lower than in most advanced economies (see figure 2). Together with higher international reserves, this has enabled emerging markets to withstand recent periods of uncertainty, leading to lower risk premiums. A relatively prolonged period of US dollar weakness throughout most of 2025 has made it less costly for emerging markets to service their debt in dollars. This is because the interest and repayment obligations on dollar-denominated loans in emerging economies are reduced upon their conversion into local currency. Furthermore, as US policy rates are declining, the dollar is unlikely to steadily strengthen in the near-term. At the same time, the decline in global interest rates will likely continue to stimulate capital flows to emerging economies. These capital

Figure 2 Government gross debt (% GDP)



Source: International Monetary Fund

Figure 3 Selected countries youth unemployment (% total population, latest available data)



Source: International Labour Organisation, National Statistics

inflows have been supported by disciplined monetary and fiscal policies across emerging markets, which we expect will continue.

Even though no low-income emerging economies have defaulted on their national debts over the past year, the impact of the reduction in foreign aid, which is adding to their fiscal vulnerabilities and capacity to meet social spending, is becoming visible. In several countries, the limited access to basic services and the lack of job opportunities have led to protests. The widespread use of social media has also made inequality more visible, further fuelling public dissatisfaction. In Indonesia, Bangladesh and Kenya, where recent protests escalated, youth unemployment is high (see figure 3). This is evidence that growth without social inclusion is not sustainable.

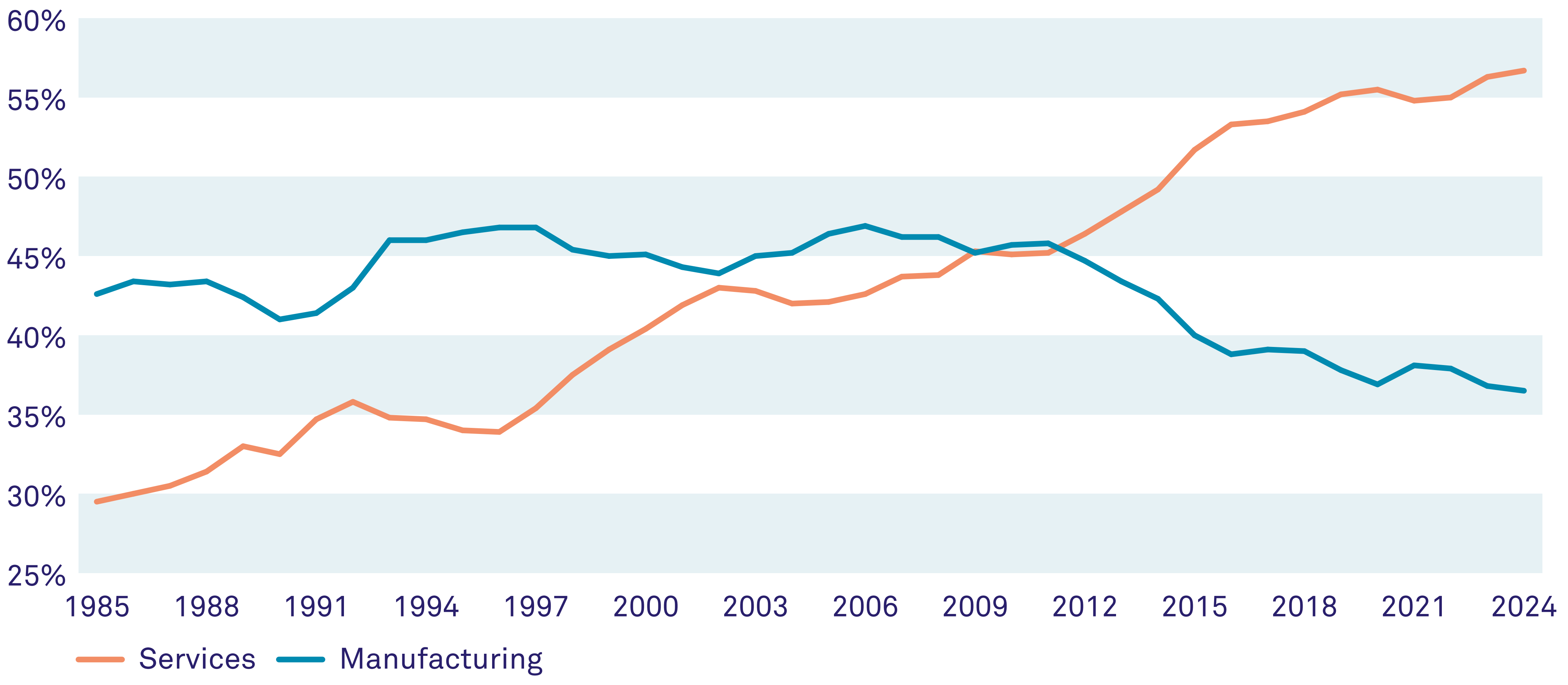
3. Growth in services

The services sector in the largest emerging markets is helping to protect their economies from the impact of US tariffs and changing trade policies. For example, **India's service economy** has grown at almost twice the rate of the rest of the world and accounts for more than half of its GDP. Its **tech workforce** is vast: the country has more open-source developers than China, second only to the US. India is also home to technology and research centres for multinational companies, which employ 3 million people. India's services exports account for nearly 5% of the world's, up from 3% a decade ago.

China has an equally large services sector (see figure 4). The country's services economy has grown significantly, rising from less than 30% of GDP in 1985 to 57% in 2024. At present, the services industry accounts for half of all employment. The country is working to close the talent gap in high-tech industries by investing more in developing skills to support its artificial intelligence (AI)-related technology sector.

Despite having large services sectors, both China and India face other challenges. China's property market, for example, is weak and social safety nets are limited, holding back consumer spending. India, meanwhile, is engaged in difficult negotiations with the US regarding

Figure 4 China manufacturing and services (% of GDP, current prices)



Source: LSEG Datastream/Triodos Bank

its protected agriculture sector and its energy imports from Russia. Both China and India are relying on the development of technology to boost their services sectors, but it will take time to fully benefit from innovation.

4. AI-related technology

Ambitions to lead in AI-related technology are driving new investments in the US and emerging Asian countries, including China and India. These ambitions have also led to US tariff exceptions on tech-related goods, amid the ongoing tariff war. The rise of AI investment in emerging markets is already delivering benefits in areas such as healthcare and education – for example by reducing errors in medical diagnoses and helping schoolchildren improve their English. However, the benefits of AI-related technology have not yet spread to the broader economy and their impact will not be uniform everywhere. The benefits for economies that are primarily users of AI-related technology remain largely unclear. What will it mean for unskilled workers carrying out routine tasks? And how will countries with limited internet access, weaker education systems and poorly regulated tech sectors be affected? These countries could even experience negative impacts before seeing any productivity gains. Indeed, AI-related technology can be misused, potentially leading to misinformation, social divisions or user isolation. For AI-related technologies to truly foster economic growth, a solid foundation of education, services and industry is essential. Interestingly, countries with more internet users and higher education levels tend to be more cautious about the potential downsides of AI.

Growth and inflation to hold up well in 2026, under rising risks

Looking ahead to 2026, we expect emerging countries to maintain a growth rate of around 4%, as richer countries compete to secure resources exported by emerging economies. However, there are vulnerabilities under the surface. Lower-income emerging countries will probably see weaker growth in 2026. Remittances' growth – money sent home by workers from abroad – is expected to be muted as migration policies become stricter. At the same time, foreign aid is expected to become scarcer, while protectionism and higher commodity prices will likely keep growth subdued in these countries. International Monetary Fund programmes will therefore remain a crucial source of funding.

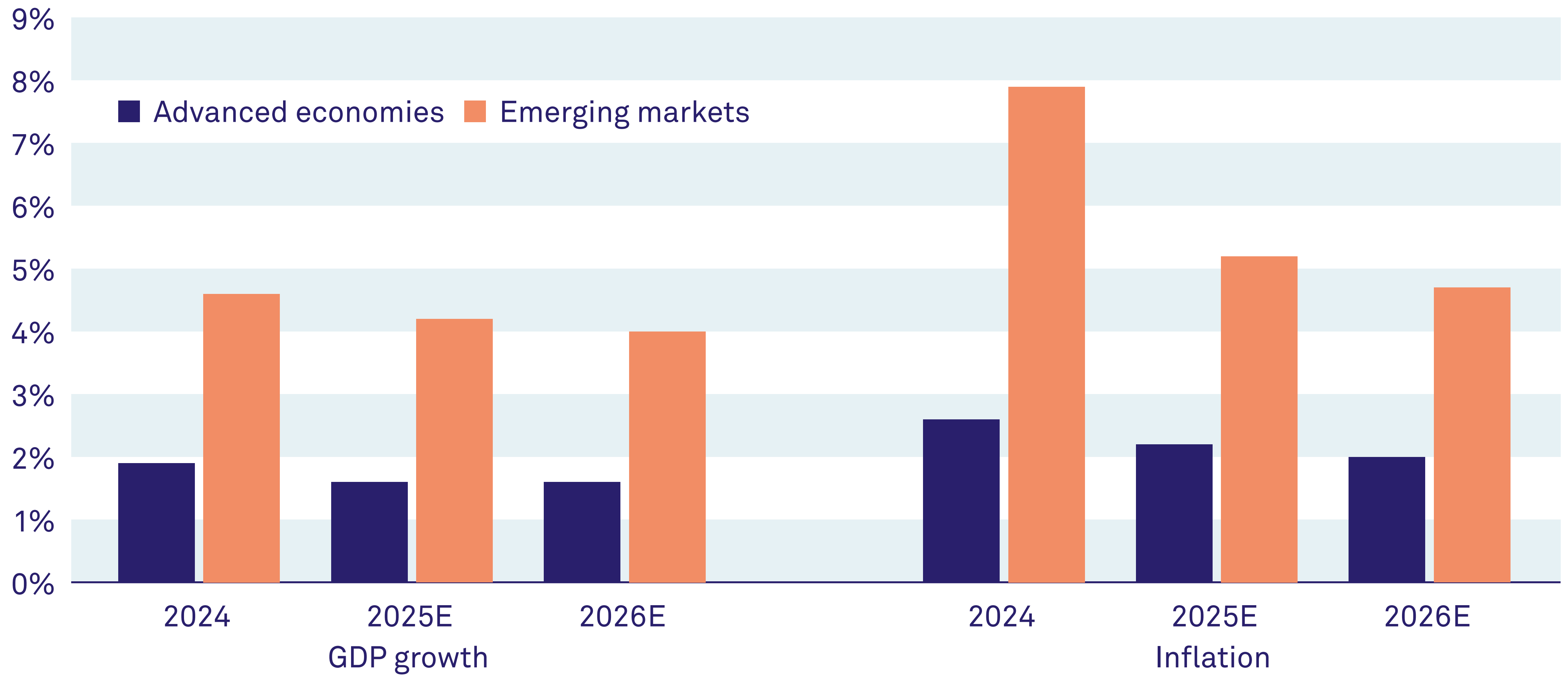
Inflation in most emerging markets fell during 2025, but the pace of this decline has slowed recently. Only in Asia inflation keeps dropping, while emerging Europe and Sub-Saharan Africa continue to struggle with high inflation. In 2026, we expect inflation in emerging markets to gradually recede to around 4.7%, from slightly above 5% in 2025 (see figure 5). This moderation reflects the strength of emerging market currencies against the US dollar. Alongside prudent central bank policies, this currency appreciation helps reduce imported inflation.

Medium-term power struggle, turning challenges into opportunities

The ability of emerging economies to adapt to and manage an uncertain world has been key to their steady growth in 2025. However, they continue facing major challenges. We are living in a time when global peace is under threat, with lasting consequences. Conflicts such as the wars in Ukraine and Gaza, the civil wars in Sudan and Yemen and the crisis in Myanmar have serious human and economic impacts, hampering development, increasing poverty and inequality.

These challenges are intensifying as the US and China are engaged in a geo-economic 'war'. Both are using economic and non-economic instruments for their own domestic political and foreign policy interests. Europe, meanwhile, is struggling to become more independent, especially regarding its security and energy supply.

Figure 5 GDP growth and inflation (% of GDP, current prices)



Source: S&P Global

These global changes are opening up opportunities for new partnerships, many based on the production of important minerals, strengthening the position of many emerging markets. But there are many challenges embedded in these new approaches:

The US is strongly **prioritising its own interests** and rethinking its development finance and trade partnerships. The suspension of **foreign aid** and the stripping down of Africa's preferential trade agreement under **the African Growth and Opportunity Act** (AGOA) are examples of unexpected shifts in policy. Recently, the US has sought to rebuild cooperation with Malaysia and Cambodia on important natural resources. 'As long as the US' key interests are protected', the US has offered not to raise tariffs further. And US reciprocal tariffs will likely be suspended to tackle US inflation pressure and improve affordability through products that cannot be produced in the US – with Guatemala, Ecuador and El Salvador as expected beneficiaries.

The International Development Finance Corporation (DFC) was the last US institution standing to support low-income countries under the current administration. However, an **Executive Order** has been issued recently for the DFC to focus on national security and to increase 'American mineral production'. The DFC in its new role has approved a handful of funding packages for mining projects this year, including in Brazil and Gabon. It is unclear how this will contribute to countries' sustainable development and supply chains.

Europe is rethinking its **Global Gateway** plan, an instrument of development aid. The idea is to make it a project investment tool for resource access, aiming that much of the project value stays in the resource producing country. Europe follows a different course from China, but there is no clear roadmap of how projects will be organised to bring partners up the value chain through skills and technology and how they will work with communities and civil society under this new approach. Other areas Global Gateway supports include investments in clean energy and health.

China is trying to fill the void left by the US in emerging countries. The country is using its control over rare earth minerals to boost its position as leader by strengthening global infrastructure and transport and has upgraded its Belt & Road Initiative to become a 'new paradigm of global governance'. In 2024, financing for infrastructure projects in emerging markets under this initiative increased by 32% year-on-year, according to China's Ministry of Commerce.

At a first glance, coordination across these initiatives is missing to ensure scalability and effective allocation of investments under sustainable standards. US, Chinese and European sustainability goals remain very different, which will affect the impact on communities and environmental goals of the partner countries. This may increase competition for influence, leading to greater division among recipient countries, which means less capacity to negotiate favourable terms.

Pivotal players

In a world where old alliances are under pressure and new power dynamics are reshaping the global order, emerging markets are no longer passive participants, but turning into pivotal players. Emerging markets are being courted as trade partners when it comes to their natural resources and as an export destination to avoid US tariffs. But the success of these new global dynamics will depend on how fairly the benefits are shared in reducing inequality, financing housing, creating jobs and facilitating transitions towards a sustainable economy.

The coming years will reveal if investors and emerging markets can transform these new dynamics into sustainable, inclusive growth. This is where impact investing will be critical. Sustainable long-term investments in these countries will play a crucial role, not only in shaping the future of these countries, but of the world as a whole.

Forecast table selected emerging economies

	GDP growth (% yoy)			**Inflation** (CPI, % yoy avg)			**Government debt/GDP** (%)			**Government balance/GDP** (%)			**Current account/GDP** (%)		
	2024	Forecast 2025	Forecast 2026	2024	Forecast 2025	Forecast 2026	2024	Forecast 2025	Forecast 2026	2024	Forecast 2025	Forecast 2026	2024	Forecast 2025	Forecast 2026
Belarus	6.4	2.0	2.2	5.8	7.1	5.3	28.2	28.2	29.7	13.0	9.6	7.8	-3.0	-3.0	-3.1
Bolivia	0.7	0.2	-2.5	5.1	21.7	60.0	87.3	97.5	96.7	-10.2	-10.7	-6.0	-2.8	-3.5	-3.4
Brazil	3.0	2.2	2.0	4.4	5.2	4.5	76.9	78.7	81.1	-8.5	-8.1	-8.0	-2.7	-3.2	-3.1
Chile	2.4	2.6	2.6	4.3	4.3	3.4	30.8	28.7	26.5	-2.9	-2.4	-2.3	-1.5	-2.5	-2.5
China (mainland)	5.0	4.8	4.3	0.2	0.0	0.6	25.6	28.2	30.6	-4.8	-5.0	-6.4	2.3	2.9	2.4
Colombia	1.6	2.6	2.7	6.6	5.2	4.4	55.5	58.7	60.0	-6.7	-7.3	-6.8	-1.7	-2.7	-2.5
Ecuador	-2.0	2.5	1.9	1.5	0.8	2.7	50.3	46.1	44.9	-2.0	-3.7	-3.2	5.7	6.1	5.5
India	6.5	6.3	6.2	4.9	2.9	4.3	49.9	55.1	53.6	-4.8	-3.8	-3.8	-0.8	-1.1	-2.6
Indonesia	5.0	5.1	5.1	2.3	1.9	2.8	39.9	42.6	44.8	-2.0	-2.8	-3.0	-0.6	-0.4	-1.5
Ghana	5.7	5.5	4.8	22.9	14.7	8.0	65.0	64.0	61.0	-5.0	-3.1	-3.5	2.3	2.1	2.2
Kazakhstan	4.8	6.2	4.1	9.0	11.6	12.6	22.3	21.9	22.4	-2.1	-2.5	-2.8	-1.7	-2.3	-2.9
Kenya	4.7	4.9	5.1	4.5	4.1	4.9	64.3	64.4	62.6	-5.1	-4.5	-4.6	-1.3	-4.5	-4.3
Mexico	1.2	0.6	1.2	4.7	3.9	4.2	36.6	35.9	36.4	-4.9	-4.6	-3.9	-0.9	-0.3	-0.6
Pakistan	2.5	2.6	3.3	12.6	3.8	5.2	100.3	88.3	87.5	-8.9	-5.6	-5.1	0.2	0.6	-0.3
Peru	3.3	3.0	2.9	2.4	1.5	2.1	31.6	33.7	34.0	-3.6	-2.4	-2.2	2.2	3.4	5.5
Philippines	5.7	5.5	5.6	3.2	1.7	2.8	60.7	59.8	57.1	-5.7	-5.9	-4.7	-3.9	-3.1	-2.5
Poland	2.9	3.4	3.3	3.7	3.4	2.6	55.4	61.4	65.6	-6.5	-6.9	-6.6	0.0	-1.1	-1.0
Russia	4.3	1.0	1.7	8.4	8.8	5.3	26.2	31.6	20.9	-1.6	-2.4	-0.6	3.0	0.7	0.8
South Africa	0.5	1.1	1.5	4.4	3.3	4.3	75.7	79.5	78.7	-2.8	-3.3	-4.4	-0.7	-1.3	-2.7
South Korea	2.0	0.9	1.9	2.3	2.0	1.8	53.6	53.4	54.4	-1.7	-2.1	-2.5	5.3	5.5	4.9
Thailand	2.5	2.0	1.9	0.4	0.2	0.8	56.6	56.2	56.2	-4.1	-4.3	-4.1	2.2	1.0	0.7
Turkey	3.5	3.3	3.2	58.5	34.8	23.2	21.3	22.0	20.8	-5.0	-3.6	-3.2	-0.8	-1.4	-1.6
Uzbekistan	6.5	7.1	6.5	9.6	8.9	7.7	35.7	33.5	34.7	-3.3	-2.9	-3.0	-5.0	-3.3	-2.9

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Investing in positive change

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