

GCC economies to outpace developed markets in 2009

Emerging markets will continue to grow at a faster pace than developed markets in 2009, says a senior global strategist at one of the world's largest investment and asset management companies.

'Our investment bank is looking for a GDP growth of 0.9% year on year from emerging markets in 2009. This outlook is a contrast with a contraction in developed markets of -3.4% year on year,' said Tom Elliott, London-based Vice President at J.P Morgan, on a recent Dubai visit.

Recent figures released by leading newswires quoting a senior official at the Dubai Chamber of Commerce and Industry (DCCI) indicate a two to four percent in 2009 for the UAE.

Elliott added, 'A key feature of recent economic growth for emerging economies has been the development of stable political systems together with the adoption of market-friendly economic policies in Asia, Latin America, Eastern Europe and in the Gulf region. This has attracted foreign investment, which has in turn stimulated both exports and the growth of domestic spending.'

'Another feature segregating the growth rate between emerging and developed markets is demographics: the developed world is becoming older and some countries are experiencing falling populations,' suggests Elliott.

In 2008, emerging stock markets underperformed developed markets due to shrinking demand for exports, falling commodity markets from July, and a global scarcity of credit that triggered a lack of confidence by investors in the sustainability of recent corporate earnings growth from emerging markets.

How governments in the developed world respond to the current crisis will affect the outlook for the emerging economies, says Elliott, who also warns that a move towards protectionism could seriously harm long term growth prospects for the emerging markets.

However, Elliott believes world leaders will resist the temptations of erecting trade barriers and those emerging market economies and their stock markets will revert to strong growth in 2010. He also notes that valuations look attractive, with the historic P/E on the MSCI Emerging Market at 8.5 times, down from 18.5 times in October 2007.

Speaking to potential and current investors in the region, Elliott advised that over a

longer time horizon markets like China, Asia, the UAE and its surrounding neighbours were likely to outperform as the economies continued to see faster productivity growth than the West. Asked specifically about the price of oil, Elliott was cautiously optimistic.

He replied that WTI is currently a barrel mark, well above the long term average of the past decade and that this is despite us being in a global economic contraction. When OECD and Chinese demand growth resumes, Elliott thinks that renewed concerns over 'peak oil' will once again push up the price.