

Mena markets outperform global indices

DUBAI **Shveta Pathak**

Equity markets in the region have outperformed both developed and developing countries and, with a low correlation with main asset classes, are poised to emerge even stronger in the next one to two years, a senior executive of an asset management company has said.

Middle East and Africa being the "only regions" in the world with reserves higher than debt, (debt is eight per cent while reserves are 22 per cent of the GDP in Middle East against the world average of 146 per cent for debt and 12 per cent for GDP) have greater flexibility to deal with the current challenges. "Until the middle of 2008, these mar-

THE NUMBER

8%

Is the percentage of debt in Mena compared to 22 per cent reserves. The world debt average is 146 per cent

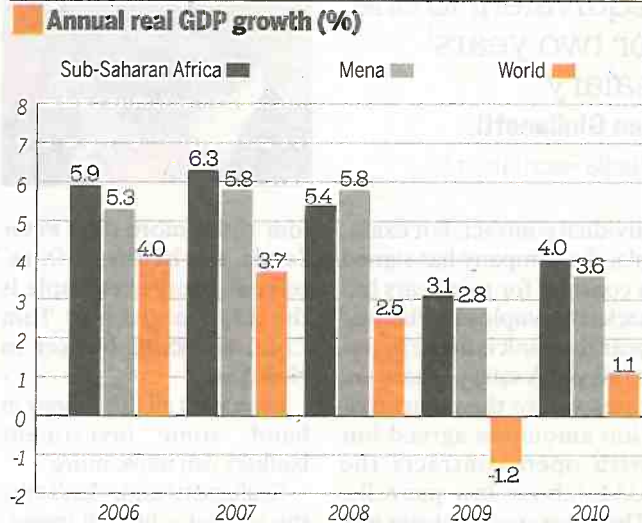


Zin Bekkali

kets quite significantly outperformed global markets and in the coming one-two years would show much higher growth," Zin Bekkali, Chief Executive Officer of Silk Invest, told **Emirates Business**.

The economic crisis marks the ushering in of a new phase where economies of Asia, Africa and the Middle East would emerge new growth champions, said Bekkali.

"Arab and African markets have restructured their economies and are best positioned to profit most from next stage of globalisation. With the world turning upside down, a major shift of economic power to the regions on the original silk trade route is happening," he said.



Source: World Bank December 2008, Silk Invest

Quoting recently released data by Silk Invest, he said the share of Africa and Middle East would double from seven per cent now to 14 per cent in world's GDP by 2050 whereas a major decline is likely in the share of the US, Western Europe and Latin America.

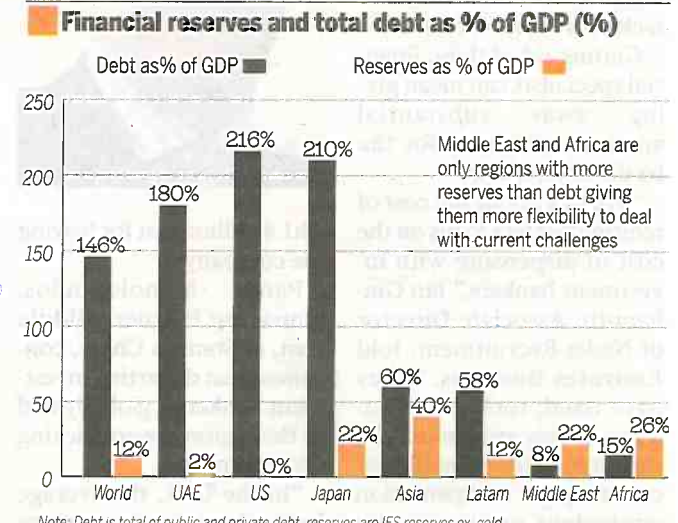
Heavy investment in infrastructure, even in difficult times, a robust population growth and vast talent pool will drive growth in this region, Bekkali said.

For investors worldwide, it provides an excellent opportunity to diversify their port-

folios and gain from this growth story, added Bekkali.

"Investors worldwide need to understand that they must have this region in their investment portfolios. Particularly investors in European countries and the Western world, who have negligible exposure to these markets, must invest here increasingly. This part of the globe is the centre of trade.

"The new balance in the world would see these countries growing twice the level of developed countries. People still sometimes don't want to recognise the new reality.



Note: Debt is total of public and private debt, reserves are IFS reserves ex. gold

Source: IMF

In coming years this reality would become more evident and would be clearly seen."

Africa and ME present four per cent of world market capitalisation and eight per cent of FDI inflows, people should start to include these regions in their investment portfolios, he added.

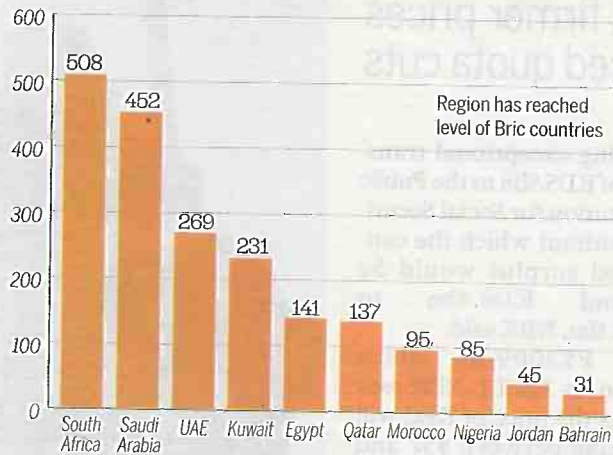
"If you talk of the annual real GDP growth, most African and Arab markets are growing by around three per cent, while the world is contracting."

Quoting company data, Bekkali said in 2010 the estimated annual real GDP

growth was four per cent for Sub Saharan Africa, 3.6 per cent for the Mena region. In Middle East, the annual FDI inflows have gone up from \$4 billion (Dh14.68bn) to \$71bn between 2000 and 2007, and even if there is a decline of five to 10 per cent, these markets would stay at much higher levels than they were in year 2000.

African and Arab markets should be able to accommodate heavy investments in the coming years as the region has reached level of Brics countries when it comes to market capitalisation.

Total market cap (USD, Billion)



Note: Estimates and data of Dec 2008

Source: GIH, NBK, Bloomberg, Silk Invest

To cash in on this growth, Silk Invest recently came out with mutual funds, which will invest in Middle East and African markets. The company has started marketing its funds to investors in Europe. In the next two to three years, it expects the fund to generate returns of 15-20 per cent annually.

Among the sectors that Silk Invest is expecting to show good performance include logistics, petrochemicals and food.

Talking about market ups and downs, he said volatility would become part of the markets. "We view the current downturn as a short-term correction. In the long run, volatility would be a part of the markets."

Regarding investors in the Middle East, Bekkali said they had traditionally been focusing more on Western markets.

"However, they should shift more of their assets to this region. The fact that they have the luxury of a long-term investment horizon places them in a better position to gain from the growth. The past 10 years have seen some changes but it still has a way to go."

However, investors should diversify their portfolio and try not to copy each other, Bekkali added.

Investor sentiment has definitely taken a hit due to the worldwide crises but investors must not miss the opportunity the current scenario presents, he said.