MEMBERS' CONTRIBUTIONS

Emerging Markets Growth

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Emerging economies are increasingly being credited with being the drivers of the global economy in recent years. While developed economies have been grappling with low economic growth, on an average, at sub 2% levels in the last decade, emerging economies have seen a comparative growth of over 6%. The significance of emerging market economies in the global economy can be gauged from the increase in their contribution to the world economy in recent years. The share of emerging market and developing economies in World GDP has almost doubled from 20% in 2002 to nearly 40% in 2012. The performance of these economies and their growth trends has thus been gaining increasing importance and is closely watched worldwide by diverse segments.

The ascent of emerging economies

The emerging and developing economies, comprise Central and Eastern European, Asian, Latin American, Middle East and African countries. Amongst these, China, Brazil, Russia, India, Mexico, Indonesia, Turkey and Saudi Arabia are the largest developing countries and contribute the most to the group's economic growth – 66% of emerging economies GDP as of 2012 (IMF estimates).

Many of the emerging and developing economies have witnessed significant growth over the last decade, through the global financial crisis. The growth in emerging and developing countries accelerated during 2001-2007 (from 4 % to 9%, IMF estimates), while economic growth in the developed nations remained stagnant/weak (moving from 1.5% to 3%).

Economic activity in the emerging economies declined during 2008 and 2009 in the aftermath of the global financial crisis that emerged in 2008. Although, growth here declined to 6% and 3% in 2008 and 2009 respectively, it was significantly higher than the 0.06% and (-)3.47% growth of the developed economies in these years. Economic growth bounced back in the emerging economies in 2010, with growth of 8%, while the developed economies recorded 3% growth.

The developing economies have emerged as being resilient, able to sustain periods of longer and stronger growth and to witness shorter and less severe downturn with the ability to recover quickly.

The growth in emerging economies over the years is being attributed to improved policy framework in these nations and higher degree of diversification across various parameters viz. economic structure, trading patterns & partners and capital flows. Growth in these economies in recent years has been fuelled by capital inflows, strong credit growth and higher commodity prices (in case of the commodity exporting countries). Consumption too has seen a significant increase in these economies, resulting in higher demand for everything from food, fuel, metals and services. Emerging markets, especially Asian countries have emerged as major spenders and consumers, mainly owing to these regions being home to nearly half the world's population.

By and large steady economic growth in the emerging economies and evidence of their resilience to significant global shocks is resulting in a perceptible shift in economic power from the advanced economies to the developing economies, along with a change in perception that these economies are a greater than regarded force of global economic growth.

Emerging economies in recent times

Although the emerging economies have clocked better growth rates across various economic parameters and displayed considerable resilience over the years, these economies were faced with lower growth in 2011 (a decline of 1.2% to 6.4%) and a larger than projected slowdown in 2012, lowering GDP growth to 5% . The growth decline here is largely on account of both weakening growth in the developed nations (which impacted exports from the emerging economies to the advanced economies) and domestic shocks (policy action for moderating and balancing growth in country's such as China and India to name a few).

The emerging markets are also being faced with increased competition that is pushing down their margins, necessitating development of business models that can cope and withstand such pressures. Concerns are being raised in certain quarters about the prospects of these economies with signs of growth slowdown in some developing economies.

Emerging economies as investment destinations.

The emerging economies have emerged as a favored investment destinations for global investors. The global financial system is flushed with liquidity, owing to the ultra loose monetary policy of the developed nations such as US, UK, Japan and various countries of the euro area, and is seeking suitable investment opportunities. The central banks of the advanced economies have been flooding the global economy with cheap money through measures such as quantitative easing and interest rate cuts in an attempt to prop demand and economic growth in their economies.

Emerging markets serve as an effective avenue for investment diversification as these economies are not plagued with the woes similar to those afflicting the advanced economies and have been recording significantly higher levels of economic activity and growth when compared with their counterparts in the advanced economies. This trend is likely to continue in the foreseeable future too. Emerging markets reportedly attract around 50 percent of global foreign direct investment' (FDI) inflows.

Potential of emerging economies

The global economic power is to shift further from the developed nations to the emerging and developing economies in the coming years.

The euro area is likely to be in a phase of prolonged stagnation and economic activity here would be weak as per the IMF, even though the financial stress here has seen some moderation. The US on the other hand is witnessing some recovery in its economy but fiscal risks persist there.

Meanwhile, the emerging economies are widely forecasted to continue their growth trajectory in the future too i.e. to grow at 2 to 3 times faster than the developed nations. Consequently, their contribution to the global economy would become even more significant, especially that of countries such as India and China. The IMF projects emerging markets share in world GDP to increase to 45% by 2018. Some projections expect this share to increase to even 50% by 2020.

Investors would thus continue to seek investments and have a presence in the emerging markets for the foreseeable future, to cash in the growth potential of these markets.

Embassy Of Royal Netherland's First Secretary Mr . Robert Dresen Visits Lahore Stock Exchange

- LSE Press Release

The Head of Economic Affairs – Embassy of Netherland, Mr. Robert Dresen visited The Lahore Stock Exchange to seek an insight on the Capital Market of Pakistan. The Managing Director and Chief Executive Officer of Lahore Stock Exchange, Mr. Aftab Ahmed Chaudhry along with his staff shared the structure and performance of the Capital Market of Pakistan. He appraised the Pakistan's Capital Market by sharing the current market capitalization that is reported to be $ 44 billion contributing to 17% of the economy's GDP. He underlined the factors such as the amount of wealth created in the economy through the trading of the shares is reported to be USD 33 billion. He also stated, considering the size of the GDP of the economy that is close to making USD 750 billion provided we document every little development taking place in the country. The Managing Director LSE, Mr. Aftab Ahmed Chaudhry strongly expressed to establish a free trade between Pakistan and India that could yield mutual benefits and accelerate towards the economic development on both ends as Pakistan's currency is half of the Indian Currency along with other features such as relatively low cost of production and labor available in Pakistan that produces competitive prices in the international market. On the contrary, Pakistan can also benefit the Indian industry in particular to the automobile industry that is far more competitive and cheaper in India and can feed to the excessive demand of vehicles in Pakistan. He also highlighted the various initiatives taken in building a strong mechanism and infrastructure to bring maximum transparency in the trading system thereby, safe guarding the investor's investment. On behalf of LSE's management, he shared LSE's seriousness in taking all relevant steps to ensure the protection of local and foreign investor's investment. He also enlightened on the no restriction policy of the government to the foreign investors that gives a free hand to the foreigners in trading in the Capital Market of Pakistan. Foreigners can acquire up to 100% equity in a company provided they make a proper disclosure to the documents whereas the policy of the neighboring country such as India is studied to be rigid. He stated that Pakistan is observed to be an isolated economy and the foreign investors and the financial institutions shall avoid making their investment decisions or judgments based on the political, economic and social conditions of Pakistan rather their decision shall be based on the expected dividend yield that they could earn.

Mr. Robert showed his concern for Pakistan in becoming a vibrant Emerging Capital Market and expressed that Pakistan has all the potential to increase its economic growth given the regulations, the size of the economy, the volatility, political stability and inflation are well maintained. Mr. Robert was hopeful that Pakistan has all the potential to grow and compete the Developed Capital Markets.