

Pakistan emerges a market winner

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It is widely accepted that despite the US recession and a slowdown in developed markets, the world economy will continue to grow, with the prospects favouring major developing countries such as Brazil, Russia, India and, above all, China.

The tricky part is that it doesn't appear to be the case. The real winners are countries like Pakistan - so far this year's best-performing emerging market, with bags of untapped potential as political stability returns to the country.

Indexes have their limitations but they can identify trends and changes in investing patterns. In this period of global uncertainty they are also one of the few yardsticks we have for comparison. A glance at the Dow Jones Islamic Market Industry indexes, for example, finds that everything - from basic materials and consumer goods through financials, healthcare, industrials, energy, IT, telecom and utilities - is down so far this year by between one per cent and nearly 12 per cent.

Similarly, virtually all country or region specific Islamic indexes in the Dow Jones stable, like their conventional counterparts, are in negative territory by substantial margins. In fact, Pakistan is only joined by the Kuwait and Taiwan Islamic Market Indexes in outperforming the Dow Jones Industrial Average this year. We may be seeing the first sign of cooling of investor sentiment towards emerging markets.

Pakistan is firmly bucking the trend. This year, the Karachi Stock Exchange 100 has gained 7.4 per cent, making it the best performer among major emerging markets indexes. Similarly, the Dow Jones Wilshire Pakistan Index is up 7.8 per cent and the Dow Jones Islamic Index for Pakistan up a comparable 7.62 per cent, as of March 25.

Comparison

Compare that with India's Sensex which has tumbled 20 per cent this year and China's Shanghai Composite that has dropped 31 per cent. Similarly, the Dow Jones Brazil, Russia, India and China (BRIC) 50 Index is down 16.5 per cent this year with the Islamic BRIC Index going further downhill by 17.68 per cent.

In fact, the most dramatic decline this year has been in the Dow Jones Islamic Market China Offshore Index, which has tumbled by a hefty 30 per cent, closely tailed by the conventional China Offshore 50 Index, down by 25.38 per cent.

February's elections and the recent swearing in of Pakistan's new Prime Minister Yousaf Raza Gilani are a major step in restoring longer term political stability to the country. But the economic indicators were there even before these events. While reporting of bombings and assassinations have been making the headlines, broad-based economic growth in Pakistan has averaged about 7.5 per cent over the last five years. Market capitalisation of the Karachi Stock Exchange is \$75 billion while Pakistan's GDP in 2007 totalled \$145 billion.

Pakistan has also been singled out by the Investors Chronicle as one of the seven hottest emerging markets, along with Ukraine, Kazakhstan, Egypt, the UAE, Bangladesh and Nigeria, and is seen as offering tremendous investment opportunities exceeding those of other emerging markets.

That's not to say that Pakistan's economic potential will not once again be overshadowed by turbulent and violent politics or succumb to a global turndown. Right now, however, the indexes are telling us investors are taking a bullish view.