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Look east for profits

When it comes to the investment world, we may as well be living on two different planets.

One planet is dominated by the United States where there is increasing talk of a slowdown and even a recession. The talk here centers on the difficulties in the housing market and potentially increased inflation. Some even talk of stagflation, which is the worst combination of a stagnant economy and higher inflation. There's also uncertainty about interest rates and the constant watch on Federal Reserve Chairman Ben Bernanke, whose every whisper is dissected for clues to the future of interest rates.

Pran Tiku
LOCAL COLUMNIST

So, will the economy and corporate earnings fall off the cliff and derail what has been an improving stock market? The story is not so different in other so-called "developed" markets for a variety of reasons.

Japan is having a shaky start from its long slumbering recession that has lasted more than a decade. Europe continues to struggle through sluggish growth and most of Latin America continues its difficult climb and is mostly running in place except for Brazil, which has been an exception.

There is, however, a whole other planet worth exploring when it comes to investing. This planet is South Asia and China and it's showing signs that are dramatically different from the weakened posture of the "developed" world planet. This world, which in the past has been called "developing," has shown itself in the recent past to be dynamic and determined and continues to point to dramatic opportunities.

So, what is this "new world" comprised of? The countries that show up on top of the list are China and India, followed by Korea, Indonesia and Malaysia, but mostly dominated by the two giants, China and India.

China

The next two decades are likely to be dominated by China, which is expected by 2025 to be the second largest economy. By 2050, it is expected to be the largest economy replacing the United States.

This country of 1.3 billion people is on a tear. Their economy has been growing at more than 9 percent (the U.S. growth rate has been at 2.5-3.5 percent) for a decade. It has enormous trade surplus against the United States and is the debtor in chief to the United States.

Currently, China is dominating manufacturing but is likely to focus on consumption in the future. This means that given its billion-plus population, it can sustain a growth rate for decades similar to the United States in the last century of industrial revolution, increasing population and innovation.

BUILDING WEALTH

India

India is the only other country with a billion-plus population. The advantage of this incredibly complex country over China is its demographics. More half of the population is under 25. This working-age population is not only young and energetic but also increasingly educated. India produces more science and engineering graduates than the United States. India's middle class now surpasses 300 million people and is rising. It is high on consumption and infrastructure development. A large segment of this population is fast changing their lifestyle from survival to leisure and comfort.

During my recent visit to India, in many a conversation, I encountered the animal spirit of the young population firsthand and their growing self-confidence. They pack coffeehouses such as Barista with their laptops and continue incessant chatter on their cell phones and they seem to be ready to take on the world.

Abhay Aima, India's head of the HFDC Bank in Mumbai, one of the country's largest banks, told me in a recent interview that the "Indian government is becoming more and more irrelevant everyday." He continues, "Business owners, particularly entrepreneurs are making things happen here... We are leapfrogging technology. We bypassed the telephone landlines and moved straight to cell phones and are adding 6 million cell phones a month at what are some of the cheapest rates in the world."

Somnath Mukherjee, the head of investment strategy at Standard Chartered Bank, a British-based bank with branches in India, said, "We expect a growth rate of over 9 percent for a long time." According to Mukherjee, "there has been a major shift where now foreign companies are choosing to invest in factories in India as a diversification to China. This trend is going to continue." He pointed to the opening of facto-

Look east for investments

COLUMN, *From E1*

ries by companies such as GE, Hundai, Daimler, GM, Ford, Nokia, Mitsubishi as examples of foreign investors putting their stakes in India.

As a continuation of this trend, in the past few days there was an announcement covered with great fanfare: Wal-Mart announced plans to team up with Bharti Ventures, an Indian retail giant, to open more than 200 Wal-Mart Bharti stores in various parts of the country.

The city of Bangalore in south India is a virtual who's who of what has been termed as India's Silicon Valley. Companies such as Google, Yahoo, Microsoft and Intel are prominent landmarks in this previously sleepy town. All these companies are spreading their wings and pouring millions of dollars into this infrastructure and people.

These companies are creating a presence and hiring thousands of engineers and scientists from such prestigious institutions as the Indian Institute of Technology (ITT), which is renowned the world over for its excellence. They are doing this at one-fifth the cost of U.S. engineers. These companies are now spearheading an effort to create world-class innovation centers from designing new chips to new auto designs for hybrid cars.

I also had a chance to talk to Shahzad Madon, the chief investment strategist with Prudential/ICICI Bank located in Mumbai. His overall theme is that India's opportunities in the next two decades are exceptionally strong. Though he admits "we will have some hiccups." He believes the consumption-led growth, infrastructure development, telecommunications and financial sectors are poised for huge growth. We expect these sectors to grow around 20-25 percent each year.

Opportunities

It is currently difficult to buy directly into India or China's stock markets. The rules are complicated but there are better and easier ways for U.S. investors to invest in these markets by buying country-specific funds dedicated to these markets. Such an approach would allow for wider diversification as well as opportunity to cash in on future growth in these countries.

It is, however, important to note that all "emerging" markets with great growth potential can be full of short-term risks. Investments in these countries are not for the faint of heart and can be very volatile on a short-term basis (1-3 years). So, it is important that only a portion of an investment portfolio be invested into such funds. Investors should be prepared to stay for a long time. There is never a free lunch in investing, but buying a piece of India or China today may be worth a lot more than the ticket price.

Recommended mutual funds for India/China include Power Shares, Golden DragonHalter USX China and Mathews China Fund for China and Mathews India Fund for India.

Pran N. Tiku is a financial adviser with Peak Financial Management, a wealth management firm in Waltham. He can be reached at pran@peak-financial.com.