

Globalisation shifts focus to emerging markets

Rapid urbanisation and industrialisation are creating opportunities for investors in the commodity and infrastructure sectors, writes **Jon Dingley**

Considering the recent volatility in the markets and the fact that many markets have had amazing runs over the past few years, as an investor it is a very difficult time to choose where to invest. How can I profit from the current environment? Is my portfolio exposed to the right sectors? How can I plan for a prosperous retirement? Should I be selling or buying?

These are all tough questions. However, now is not a time to panic, as successful investment strategies recognise global trends so that investment portfolios are well positioned to capture these opportunities. What we do know, is that we are witnessing globalisation and rising world trade which offers high growth in certain emerging markets.

What is evident in countries such as China, India and Vietnam is an urban revolution and as a result this rapid growth is creating investment opportunities. Over the next 25 years, the population of the world's cities is expected to grow by more than 3 billion. By 2030, it is estimated that 80 per cent of the people in the world will live in a city.

Nowhere is this trend more obvious than in China, where 30 million people are leaving the countryside every year. This rising population is putting substantial pressure on the existing infrastructure.

Philip Richards, chief executive of RAB Capital, says this is highly significant for investors as "the extent of urbanisation and industrialisation in Asia is staggering". The provision of basic infrastructure – energy, water and roads – is a common agenda among governments around the world and this is no truer than in China and India. Last year, the Indian Prime Minister Manmohan Singh confirmed this, saying: "We need an investment of about US\$150 billion in the next seven to eight years to realise our ambition to provide our country with an infrastructure which is equal to the economic and social challenges that we face." Globally, infrastructure investment needs until 2030 are estimated at US\$30 trillion for transport, energy, water and communications.

This demand for infrastructure developments means a massive demand for commodities. Extensive development plans have already been laid out in China, which is set to overtake the US as the world's largest economy in the next 10 years. The Chinese government

has major infrastructure plans in place for the next 20 years, backed by ever increasing reserves, now in excess of US\$1 trillion – so they can clearly fully fund these projects. These commitments by India and China will put exceptional demand on natural resources such as metals, energy and agricultural commodities.

Water is also a vital resource, but until recently it had received little attention from the investment community. According to Man Investments, certain hedge funds are available to take advantage of mispriced stocks and a hedge fund focused on water can provide diversity to a portfolio consisting of other commodities.

As is the case with other commodities, there is a growing supply and demand mismatch in water and, in a similar fashion to the demand for other commodities, the demand for water grows when people migrate to the cities. This problem is accentuated by the negative effects of global warming. Droughts and pollution of rivers and lakes have further reduced available resources and this is a major problem for China.

Most experts put the amount spent on water, water equipment and infrastructure at US\$300 billion to US\$400 billion a year. China has announced that it is going to spend 1 trillion yuan over the next several years to improve water treatment and recycling facilities. The country has 22 per cent of the world's population and only 7 per cent of the world's water. Much of the available water is too contaminated to use, even for irrigation of agricultural fields or industrial purposes. Agriculture accounts for about 70 per cent of world water usage and taking into account the growing demand for food crops and bio-fuels, this can only result in higher agricultural commodity prices as demand outstrips supply. Ultimately, irrespective of what happens with the markets, people still need to eat.

In these volatile times it is exceptionally difficult to time the markets. However, urbanisation and industrialisation in emerging markets is creating investment opportunities, particularly in certain commodity and infrastructure sectors and, if investors are willing to look at the big picture and take a medium to long term investment approach, they can be well positioned to capitalise on these global trends.

Jon Dingley is managing director of TTG (HK)

Extensive development plans have already been laid out in China, which is set to overtake the US as the world's largest economy in the next 10 years

Jon Dingley
Managing director
TTG (HK)

