Young, hopeful and about to start boosting growth rates

China's demographic dividend is over but others are emerging, says **Daniel Knowles**

FOR MUCH of the last two decades, the Chinese economy has astonished investors and worried politicians. Growth of an average of 9.3 per cent has been driven by an astonishing bout of domestic investment. But it has also been helped on by an immense "demographic dividend", engineered by the country's one child policy.

But with inflation now creeping into the Chinese economy, and some speculation that the cheap labour might be running out, the next decade might not be quite so buoyant. So where else can investors look?

Immediately south of China seems wise. While China's population is fast aging, its neighbours Vietnam, India and Indonesia all have fantastically young workforces.

By one estimate, some 70 per cent of Vietnamese will be of working age by 2018 while 65 per cent of Indonesians will be. Similarly, by 2020, the average Indian will be 29 years old – compared to 37 in China. That youthfulness ought to increase savings rates, helping governments to build infrastructure and drive up growth rates.

Vietnam is a particularly interesting prospect. Investor confidence has suffered recently, not least thanks to an unfortunate default last month by the state owned shipbuilder Vinashin. But over the long term, there are a lot of reasons to be optimistic about Vietnam.

According to Kevin Snowball, chief executive of PXP Vietnam Asset Management, which manages two Vietnam based funds, Vietnamese equities are "are now selectively very cheap on an absolute, historical and relative basis".

Snowball notes that investors have been discouraged by high inflation, a weak currency and a trade deficit. But he argues that structural trade deficits in countries building modern industrial economies are perhaps inevitable and largely the result of productive imports. And inflation figures are magnified by the high weighting of food in the Vietnamese CPI basket.

Eventually, Vietnam's young and well educated population, as well as its comparative export competitiveness (manufacturing wages are half equivalents in China) should keep growth strong, while the Vietnamese government's need to attract investors will lead to further opening up of the economy to outsiders.

MIDDLE CLASS CONSUMPTION

But if the instability of Vietnam is too much to bear, India is also much better placed demographically than China. Tarun Ghulati, the CEO of UTI International, which manages the UTI India fund, argues that not only is India's population young, it is also ambitious.

Ghulati points out that "the high propensity to consume among the young population and the growing number of wealthy individuals will ensure that India continues to show strong growth over the next decade." As America grapples with the prospect of rebalancing away from import dependence, China's export strength may become a weakness, while India's domestic driven growth shouldn't.

Increasing middle-class consumption ought to drive growth in Indonesia too. Since the resignation of the strong man President Suharto in 1999, Indonesian politics has been getting progressively more stable and investor friendly. The Indonesian government passed an investment law in 2007 designed to attract foreign funds, and it is currently engaged in an anti-corruption battle.

According to Dhananjay Phadnis, manager of Fidelity's Indonesia Fund, further reform, especially of infrastructure, could raise growth from its current level of around 6 per cent per annum to a rate closer to 8 or 9 per cent – which ought to appeal to many investors.

The emergence of huge, new economies outside of the developed world is clearly going to continue. Undoubtedly, China will keep growing. But with a multitude of other large countries experiencing the magical combination of a demographic dividend and a helpful government, the next big investment story is less likely to be China than it is one of its neighbours. Investors would do well to consider that.

Street traders in Danang, Vietnam: a market on the way up

Picture: ROBERT HARDING

EMERGING MARKET FUND PERFORMANCE FOR VIETNAM, INDIA AND INDONESIA

Source: Morningstar

Top Five Indian Funds	10/12/07 10/12/10 % Change	Portfolio Size (£m)	Domicile	Portfolio Manager	Management Group
First State Indian Subcontinent A	45.51	249.48	UK	David Gait	First State Investments Ltd
Aberdeen Global Indian Equity A2	45.09	2,744.68	Luxembourg	Management Team	Aberdeen Asset Managers Limited(Lux)
First State Indian Subcontinent I Acc	43.2	158.83	Ireland	David Gait	First State Investments (Hong Kong) Ltd
PineBridge India Equity Y	38.39	316.5	Ireland	Peter Soo	PineBridge Investments Ireland Ltd
UTI India 1986 Shares	33.23	N/S	Mauritius	V Srivatsa	UTI International Ltd
Indonesian Funds					
FF - Indonesia A USD	94.35	711.54		Dhananjay Phadnis	Fidelity (FIL (Luxembourg) S.A.)
Allianz RCM Indonesia A USD	17.75	104.88	Luxembourg	Ho Yin Pong	Allianz Global Investors Lux

Vietnamese UK listed trusts	Latest Disc	Latest Nav	% Change	Portfolio Size (£m)	Domicile Manager	Portfolio Manager	Management Group
JSM Indochina ORD	N/A	0.35	62.14	51.57	Cayman Islands		JSM Capital Indochina Ltd
Vinaland ORD	-34.04	1.41	-14.48	452.66	Cayman Islands		VinaCapital Investment Management Ltd
Vietnam Enterprise Invmts Ltd Redeemable	N/A	2.28	-49.31	244.48	Cayman Islands	Management Team	Dragon Capital Management LLC
Vietnam Growth Ltd Ordinary	N/A	N/A	N/A	1.23	Cayman Islands	Michael Lippold	Dragon Capital Management LLC
Vietnam Dragon Ltd Ordinary	N/A	N/A	N/A	1.23	Bermuda	Michael Lippold	Dragon Capital Management LLC

FUND MANAGEMENT NEWS

BY DANIEL KNOWLES

NEW MERGER ARBITRAGE FUND

PineBridge investments has launched a new merger arbitrage fund designed to profit from investing in publicly announced merger and acquisition transactions. The UCITS III compliant fund is managed by Lan Cai, who has 15 years of experience in investing in equities and derivatives. Ms Cai has managed PineBridge's merger arbitrage strategy for institutional clients since 2002, generating positive performance for eight years. It is also relatively uncorrelated with equity and bond markets and is not very volatile.

ABERDEEN LATIN AMERICAN FUND

Aberdeen Asset Management is to unveil a version of its Global Latin America fund to be domiciled in the UK. A version of the fund domiciled in Luxembourg already exists. Devan Kaloo, head of global emerging markets at Aberdeen, will be taking charge of the fund, which plans to pick Latin American stocks according to strict quality criteria. Over the last three years, the fund has generated 4.28 per cent, narrowly underperforming its benchmark of 4.42 per cent.

NEW FRONTIER MARKETS FUND

Schroders has launched a Luxembourg-domiciled frontiers market equity fund for Alan Conway and Rami Sidani. The Sicav structured ISF frontier markets equity fund will be benchmarked against the MSCI frontiers market index, which is weighted 60 per cent towards the Middle East. The fund is to invest heavily in Kuwait and Qatar, as well as other countries such as Nigeria, Argentina and Pakistan. It is to be dollar denominated with plans to launch a euro version in the future.

INVESCO PERPETUAL ASIAN FUND

Invesco Perpetual will be launching a new Asian equity income fund on 7 March of this year. The fund aims to generate both income and also long term capital growth by investing in shares in Asia and Australasia, excluding Japan. The fund will be managed by Stuart Parks and Tim Dickson and is an addition to Invesco Perpetual's existing Asian equity franchise. The fund management team will target a dividend yield of 120 per cent of the MSCI AC Asia Pacific ex-Japan index.