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Investors Can Profit As China's Economy Grows To Become World's Largest, Says Noted Economist

LOS ANGELES – China's economy is likely to become the world's largest within 20 years, according to a noted economist who said investors can profit from that nation's extraordinary growth through a careful strategy that recognizes the inherent risk and high volatility of Chinese stocks.

"China's economic growth is unprecedented," Prof, Burton Malkiel said in a presentation Wednesday to the CFA Society of Los Angeles, a network of investment management professionals that works to disseminate useful financial information and promotes the highest standards of ethics, education, and professional excellence.

"No country in history has ever experienced the economic growth China has had and while this growth rate will inevitably decline, in my judgment it will continue to be the highest for any large country in the world for the next decade and possibly longer. China is likely to become the largest economy in the world within 20 years."

Malkiel, whose best-selling book "*A Random Walk Down Wall Street*" provided the theoretical foundation for now-popular index fund investing, stressed that investing in Chinese stocks is complicated and risky.

"The volatility of Chinese stocks is enormous," he said. "Therefore, the best way for investors to profit from the growth of China is with a mixed strategy that includes some direct investments in Chinese companies along with investments in multinational companies whose growth is highly influenced by the growth of China. Using direct and indirect investments makes what is inherently a risky market much less risky."

Malkiel, a shrewd observer of Wall Street for decades who is currently a Princeton University economics professor and who formerly served on the President's Council of Economic Advisors and as Dean of the Yale School of Management, said the recent decline in Chinese stocks may provide an attractive entry point for long-term investors. He brushed off suggestions that interest in China may peak with the summer Olympics.

"There will be a lot of interest in China and a lot of publicity when Beijing hosts the Olympics, but the story isn't going to end there," he said. "For example, Shanghai is going to host the biggest World's Fair in history in 2010. China's economic growth still has a long way to go, and the opportunities for careful investors are enormous."

Among the factors that will contribute to China's future economic growth are the development and urbanization of the country's Middle and Western regions, a vast pool of educated labor resources, continuing infrastructure investments and the government's sense that China is destined to be a major power, Malkiel said. He noted also that there are risk factors, including tensions with Taiwan and Japan, environmental degradation within the country, uneven income distribution, corruption and a weak banking system. He recommended that investors stick to Chinese companies traded on the Hong Kong and New York Stock exchanges (known as "H" and "N" shares), where corporate governance and accounting standards are more strict.

Malkiel's new book, "*From Wall Street to the Great Wall: How Investors Can Profit from China's Booming Economy,"* discusses investment strategies for a range of Chinese assets, including stocks, bonds, art and real estate.

(Editors Note: Prof. Malkiel can be reached through his assistant, Ellen DiPippo, at (609) 258-0384.)

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