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Where savers should turn to protect their wealth

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Democratic India trumps authoritarian China as the best emerging market to protect your wealth

Philip Salter

MANY in the UK look upon the peripheral economies of Europe – living on borrowed money and reliant on the kindness of tourists to keep them from falling back into the dark ages – with disdain. However, the UK’s facade of economic power is also crumbling – the East is in the ascendancy, with India best placed to put its former colonial overlord into the shadow.

Unfailing gold bull and senior fund manager at t1ps Tom Winnifrith is currently setting up an Indian fund. There are few as forthright as him in their analysis of Western decline – he blames Western governments and the voting public, using the analogy of big government as a fluke living in the belly of a herring – as the fluke eventually kills the fish, governments are destroying Western economies.

BETTER THE MARKET YOU KNOW

Despite the best efforts of investors, China remains a riddle, wrapped in a mystery, inside an enigma. Although Winnifrith thinks Mumbai is in the midst of a property bubble, he thinks it is nothing compared to bubbles in China. The key difference for Winnifrith is that in India the property bubble is driven by capitalism, by the profit motive. Capital tends to be allocated in the right places, albeit sometimes at the wrong times. “In China, capital is allocated by central dictate, but also by the artificial returns you get from suppressing the value of your currency.” For this reason he expects far greater bubbles in China causing greater volatility and swings.

DOMESTIC DEMAND

Sukumar Rajah of Franklin Templeton Investments says that since the liberalisation of the 1990s, Indian companies have been able to leverage their deep knowledge of the local market, including in consumer insight and the regulatory environment. They have also been able to expand into overseas markets. Guido Stiel, co-fund manager of the Allianz RCM BRIC Stars fund cites companies such as Opto Circuits and Glenmark Pharmaceuticals, which have both broken into the US. As well as healthcare, Stiel likes Indian companies in the energy and infrastructure sectors.

But even if demand from abroad slows, India has huge domestic demand. Rajah explains: “India’s high forex reserves, low external debt and low export-to-GDP ratio provide a cushion to deal with the global crisis and slowdown, like it did in 2008.”

India is not a bed of roses. Corruption is endemic, with many large transactions requiring the receiver to accept black market money. And the accounting standards of smaller companies leave a lot to be desired. Also, the first half of 2011 hasn't been great, but like all emerging markets India is a place to put your money over the long term – provided this long term story remains convincing you should ride the volatility.

Yet India is a thriving liberal democracy with attractive demographics. Also, the Reserve Bank of India appears to now be ahead of the curve on inflation. Anjalika Bardalai of the Economist Intelligence Unit expects 7.9 per cent GDP growth in 2011 and 8.2 per cent in 2012. Although nobody should put all their savings in one country – particularly one that you don't live in – it looks to be the emerging market of choice. Winnifrith sums it up well: “A young aggressive capitalist population is better than China's slightly older aggressive quasi-capitalist population. But that in turn is better than a passive geriatric population that expects the state to do everything for them and that is what we have in Europe.” We might now thrash them at cricket, but this looks to be India's century.