

somewhat more volatile than those of developed countries. The largest mass of money going into emerging markets comes from the developed world. Therefore, whenever there's a problem in these markets, and particularly if their home country is doing well, foreign investors will retreat and take money out very quickly. That creates volatility. And when the herd starts moving, the whole herd moves out. That happens in the opposite direction as well. We have to accept this. But emerging markets have begun to offer value after the recent falls and investors are beginning to recognise that.

However, stock markets are so volatile that they're not a good reflection of what's happening on the ground. If you look at the economic growth of emerging markets, even with the problems in Russia and the problems in Brazil, they are now growing at an average of 5 per cent. If you know that, you know that emerging markets are actually doing very well.

But the good news is that internal markets in these countries are becoming bigger and local investors are becoming more influential. That can help reduce volatility.

**What's your view on China after the recent correction? The government intervened to stop the fall and that seems to have shaken investor confidence too.**

I think this is temporary. China is really keen to move to a market-driven economy and model itself on the US because it has realised that a market economy leads to more efficient allocation of resources. This is something the Communist Party has not been able to do. But they are in a dilemma right now.

They want a market economy but they don't seem to like the volatility that comes with it.

You didn't have to be too smart to figure out that Chinese stock markets would fall. Once they fell, the extent of the fall surprised everyone. There's a rule in China that allows a company to suspend trading if it feels the stock is too volatile. So, when a few used this rule, everyone jumped on the bandwagon to suspend trading. But that phase didn't last very long. Many of the stocks are now back for trading. There's also another problem that we have, which is

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called the short-term flip rule. If you own more than 5 per cent of a company and if you sell and make short-term profits, those must be handed back to the company. These kinds of restrictions are clearly not good for the market.

But in any case, most of the Chinese stocks that Templeton buys are not bought in China but in Hong Kong. The Hong Kong market did not fall as much as that of Shanghai. There's a big discount that exists between the same stock traded in Shanghai and in Hong Kong. The foreign-exchange controls in China prevent that gap

from being bridged too quickly.

The worry about the Chinese real-estate bubble is also overdone. In big Chinese cities, there's plenty of demand for housing and the market is quite vibrant. Statistics show that residential apartment sales are rising. China, you should realise, is nowhere near the US on urbanisation. There's a lot of migration happening to cities and that's driving real housing demand. A move towards services in the economy will also aid that shift. With manufacturing, China is trying to move to a model where they do manufacturing with more value added within the country. You now have companies, like Huawei, producing sophisticated telecom equipment in China. Low-cost manufacturing is moving to destinations like Vietnam and Bangladesh. While this shift happens, the growth is likely to slow down. Basically, the transformation both in China and India is likely to be the same as that in the US earlier.

I know many people have bemoaned the fact that China is slowing down, but I don't understand that. It's the second largest economy in the world and it's growing at 6-7 per cent!

**Will this lead to lower imports of commodities by China? No matter what goes wrong with commodities, today people like to attribute it to China.**

Yes, China is a major user of commodities, and if Chinese growth slows its commodity imports have to flatten out as well. But where people are making a mistake is in understanding the pace of that slowdown. China is still importing more commodities than before. Its import growth has decelerated;