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# From Wall Street to the Great Wall: Investment Opportunities in China

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Most investors, including institutional investors, are underexposed to China, despite the fact that it is the fastest growing economy in the world and likely to remain so for many years. Although investment in China carries risk, the risks can be minimized and are well rewarded. Investors can invest directly in Chinese shares sold on international exchanges, invest indirectly by buying international corporations that do business in China, and invest in Chinese real estate, either directly or through exchange-traded funds.

China is one of the most exciting and dynamic places in the world to be invested today, but most investors, including institutions, are underexposed to China. My intention here is to present my reasons for being so bullish on China and also to identify what I perceive to be the most viable opportunities and strategies for investing in the Chinese economy. I will begin with a brief history of China as an economic entity. I will then discuss the factors in favor of China's continued success, the risks that investors must face, and some specific strategies and opportunities for those who wish to increase their investments in China.

## Brief History of China since 1820

In 1820, China was probably the largest economy in the world. Although economic data are certainly not complete for periods before the 20th century, enough data are available for some economic historians to suggest that in 1820, China produced perhaps a third of the world's GDP, as shown in **Figure 1**. Western Europe (already at the beginning of its industrial age) held the second spot with about 23 percent of worldwide GDP. India's economy was third, with about 16 percent, and the United States was barely a blip on the screen, with perhaps 2 percent. China had the most land area and the largest population of any other country, and it was an economic powerhouse.

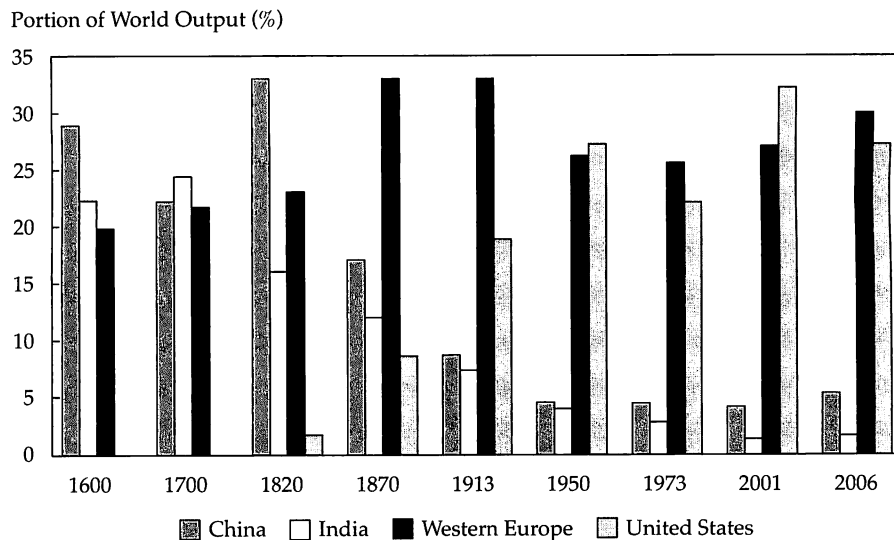
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Unfortunately, the Chinese became complacent in their success. They were the greatest country in the world, and they believed they had nothing to learn from other people, certainly not from Western Europeans. They were not particularly interested in trade, because they had everything they wanted in China, or so they believed. They did not need anybody else. But as the industrial revolution progressed, it transformed the economic power of Western Europe, which passed China at a galloping pace.

Although China was not interested in trade, the Europeans were. The British, in particular, were interested in Chinese silks, porcelains, and tea, but they seemed to have nothing that the Chinese wanted in return—until the British came up with a product that large numbers of Chinese (if not the Chinese government) wanted. That product was opium, which could be cheaply produced for the British in India. The market was small in the beginning, but enthusiasm for the product soon grew, and the British were quite happy trading opium for all the products they had always wanted from China. Unfortunately for the British, the Chinese emperors did not think that having their country enslaved to opium was a good thing. In what was the equivalent of the Boston Tea Party, the Chinese seized a British ship and dumped its cargo of opium into the sea.

The British did not take kindly to such behavior, and they returned with naval and land forces that were technologically far advanced compared with the Chinese military. Thus began what became

**Figure 1. GDPs for China, India, Western Europe, and the United States, 1600–2006**



Sources: Years 2001 and 2006: International Monetary Fund, World Economic Outlook database, October 2007 edition. Years before 2001: Angus Maddison, University of Groningen.

known as the Opium Wars (1839–1842, 1856–1860) and what Mao Zedong referred to as China’s century of humiliation, in which the powers of Western Europe, led by Britain, essentially took over much of what was good in China. Hong Kong was ceded to Britain as a colony, and several cities, such as Shanghai, became treaty ports, much to the benefit of Britain and the detriment of China.

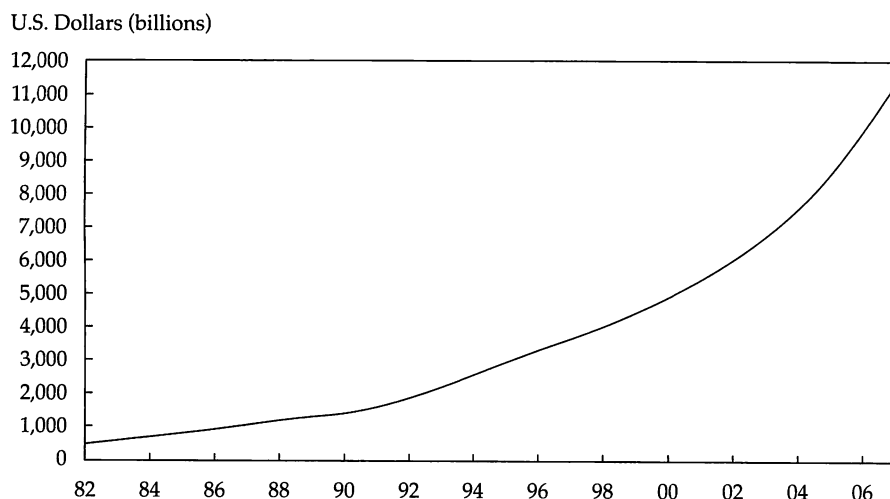
Unfortunately for China, much of the 20th century was no better than the 19th century. From 1931 to 1945, China was repeatedly attacked and then invaded by Japan, with the Japanese taking over thousands of square miles of China’s territory. Millions of Chinese were killed or died from the devastating effects of this war, which eventually became part of World War II. After the conclusion of hostilities following World War II, China’s conflicts continued, with a civil war between the communists led by Mao Zedong and the Kuomintang government led by Chiang Kai-shek.

By the end of the 1940s, Mao had established the People’s Republic of China and initiated a series of Soviet-style five-year plans to begin recovering the nation’s economy. The first of these plans apparently worked well, largely because China’s economy, devastated by the civil war and the war with Japan, had nowhere to go but up. But in 1957, after the success of the first five-year plan, Mao announced his Great Leap Forward, intended to double the production of steel and agriculture. Unfortunately, as Mao’s communist state nationalized businesses and collectiv-

ized the farms, the state-owned enterprises proved to be woefully inefficient and the collective farms could not produce even enough food to feed the workers on the farms. To add to the economic misery, Mao later instigated what was known as the Cultural Revolution, which left the country in turmoil from 1966 to 1976. By the end of the Mao years, China was a devastated economy.

The next leader was Deng Xiaoping, and he began what I consider to be the real revolution. Some of my Chinese friends say it was not a revolution when Deng introduced capitalism because he was in fact reintroducing capitalism to China. Whereas Mao was an ideologue, Deng was a practical man who declared that socialism should not mean shared poverty. Indeed, he said to be rich is glorious. “It does not matter,” he said, “whether a cat is black or white, so long as it catches mice.” During the Deng years, the Chinese people were free to start their own businesses, and from that arose a remarkable transformation. Deng announced that even on the collective farms that were unable to produce enough food to feed the farms’ own workers, if the farmers happened to produce a little extra, they could keep the profits. Productivity skyrocketed.

In fact, the real economic growth that has occurred in China since 1982 is unprecedented (see **Figure 2**). No country in history has grown as fast as China. The United States did not when it was growing rapidly. Europe did not when it was recovering from World War II. Japan, when its growth

**Figure 2. China's GDP after Inflation, 1982–2007**

Note: Purchasing power parity is in 2008 U.S. dollars.

Source: International Monetary Fund.

seemed on its way to burying the Western world, did not grow at anywhere near this rate, nor did South Korea during its growth phase. Since the Deng period in the early 1980s, China has grown at average annual rates of 9.5–10 percent. During the last few years, the real rate of growth has been in the double digits. In 2007, it was more than 11 percent. During the first quarter of 2008, the growth rate has dropped slightly but is still more than 10 percent.

## Reasons for China's Continuing Growth

Some observers wonder whether China will continue to grow. I think it will, and I can give several reasons for that optimistic outlook.

First, China's growth so far has been almost entirely in cities such as Beijing, Shanghai, and Guangzhou. The middle and western regions, which are largely rural, are still poor—some relatively, others extremely. Although education in the rural areas is generally not as good as education in the urban areas, the Chinese government has been increasing the budget for rural education at a rate of about 45 percent per year. Currently, approximately 500 million Chinese in the middle and western regions are educated and either unemployed or underemployed. They are a resource just waiting to be added to the industrial working class.

Second, China has made and is continuing to make investments in infrastructure. One of the reasons I am optimistic about China is that China has done a good job of building its infrastructure. The power grid in China works. The rail system works.

Railroads at the end of the Mao years were not much different technologically from the railroads in the United States at the end of the Civil War. In fact, a sign that used to be in the Beijing railroad station read, "Better a socialist train that is late than a capitalist train that is on time." Today, China has one of the most advanced rail systems ever built. It has an east–west train that goes 260 miles per hour. The infrastructure, therefore, is available to facilitate growth throughout the country.

Third, government policy is firmly in favor of keeping the growth engine going. I spent a lot of time talking to government officials in China. They know their history. They know that China was the greatest economic power in the world in 1820, and they are convinced that it can be so again. I would not want to bet against them.

Finally, the main reason I am so optimistic about China has to do with the overriding importance of culture. When I was in graduate school, I was fortunate enough to have studied with Sir W. Arthur Lewis, who was a Nobel laureate in the field of economic development. He was largely responsible for creating the field of economic development. At that time, scholars were asking questions such as the following: Do economies need government planning to grow? Should countries use tariffs to protect their infant industries and to provide for economic growth? Can mathematical models demonstrate how much consumption, how much investment, and how much government involvement are needed for growth? Amid all these questions, I remember Arthur, one of the wisest men I have ever known, saying to me: "You know, I have studied

this all my life, and I believe the only thing that is really important is culture." So, I say, give me a people who revere education (and the Chinese have revered education since the time of Confucius), give me a people who are hard working, give me a people who are entrepreneurial, give me a people who are risk takers, give me those parts of the culture, and I will show you a nation that will grow. Just walking the streets of a Chinese city, you can feel the energy. It is palpable. Once Deng Xiaoping unleashed that culture, China's enormous economic growth almost had to follow.

## Risks Related to China

Despite my optimism about China, I realize that risks exist and could have an adverse effect on my positive projections.

China continues to have tense relations with Taiwan and Japan, but it also shares much economic interdependency with them. Furthermore, the Chinese government is thoroughly practical. Although the threat of a shooting war with Taiwan is sometimes raised, I do not think it will happen, because China wants to maintain its phenomenal economic growth.

Environmental degradation is a serious problem in China, but it is a problem that China is taking seriously. China is probably building more nuclear plants and doing more with wind power than any other country in the world. It is also making serious investments in the development of solar power. My friends in Beijing tell me that half the days in Beijing are now blue-sky days, so I think China is making progress. I remain hopeful that China will address its environmental problems.

China's swift economic growth has led to an uneven distribution of income, and that has caused some serious social unrest, especially in the rural parts of the country. A divide exists between not only the rich and the poor but also the rich eastern regions and the poor middle and western regions. Economic growth, however, is not the problem but the solution, or at least part of the solution. As growth occurs in the poorer regions, social unrest should decline.

Corruption continues to be a problem, but like environmental problems, it is being taken seriously and is being addressed. For an extreme example of how China is working on the problem of corruption, consider the case of Zheng Xiaoyu, former director of China's State Food and Drug Administration. Last year, he was found guilty of taking bribes and was executed.

Finally, China continues to have a weak banking system with a lot of bad loans. Yet, nonperforming loans and explicit government debt remain small relative to the country's GDP.

No doubt, anyone investing in China must consider very real risks, but China is making a serious effort to address such risks. Change is occurring, and the change is in the right direction.

## Overview of China Today and Its Prospects

Growth rates in China will inevitably decline. Double-digit rates cannot continue, but growth will remain in the high single digits. I think China will continue to have the highest growth rate of any major country in the world, and within 20 years, China will be the world's leading economic power.

Investing in China is complicated and risky. For example, China's A-share market, available only to Chinese citizens and institutions, has suffered a decline of more than 50 percent since the end of 2007. I cannot say whether the decline is the result of a bubble, but enormous volatility in China's market obviously exists. In fact, the Brazilian market, which is generally considered quite volatile, looks relatively tame compared with the Chinese stock markets.

Government ownership of a number of the major companies in China is another serious problem, creating issues of governance and overhang. For example, consider a large, poorly run enterprise with 10,000 employees and state ownership of half its shares. The company cannot pay its loans and should be shut down, so it goes to a bank and asks for an additional loan to keep going. The bank declines the loan because it knows the loan is unlikely to be repaid. But the government is half owner of the company and tells the bank to make the loan because without it, 10,000 people will be out of work, possibly sparking riots. The bank is then pressured into creating what it knows to be nonperforming debt.

The example is oversimplified, but it represents a real problem that the Chinese government is finally addressing. For example, the government has made all state-owned shares tradable, so such shares are being released to the public. But the solution to one problem can end up causing another problem, which in this case is the problem of overhang. If all state-owned shares are released at once, they will kill the market—something China must be careful not to do.

China is an economy that is obviously still sorting itself out, and investing in China poses a number of problems, but the risks are worth the rewards.

## Strategies for Investing in China

To invest successfully in China while mitigating risk, I propose a mixed strategy in which investors make some direct investments in shares available in the international market, some indirect investments in multinational companies that benefit from the growth of China, and some investments (either direct or indirect) in Chinese real estate.

**China's Equities.** China has an alphabet soup of shares. The A shares, unavailable to investors outside China, trade in Shanghai and Shenzhen, which are basically closed markets except for qualified foreign institutional investors who have a limited number of quotas. In addition to A shares, China also has H shares and N shares, both available to international investors. H shares are listed on the Hong Kong Stock Exchange, and some of the best companies in China have registered to be traded in Hong Kong and comply with International Financial Reporting Standards. Other good companies have registered with the U.S. SEC and trade in New York on either the NYSE or the NASDAQ. Shares in these companies are called N shares. Additional shares trade in other international markets, and many companies trade on multiple or all exchanges. Unfortunately, the lack of arbitrage has led to some companies being traded in Shanghai and Shenzhen at premiums that sometimes are extremely high.

The growth rate of earnings for H and N shares has been extremely high, some of the highest earnings growth rates in the world, and the companies with better accounting standards list on the Hong Kong and New York exchanges, for which the listing requirements are more stringent than other stock exchanges. Furthermore, the price/earnings growth (PEG) ratios are quite moderate for H and N shares, as seen in **Figure 3**. As of 2007, the PEG

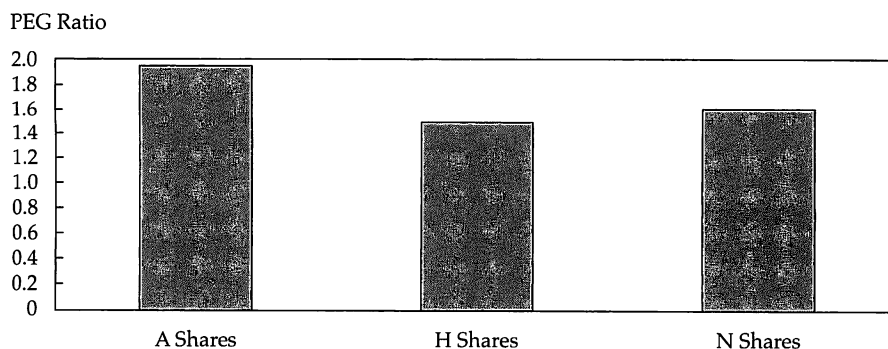
ratio for the U.S. market was about 2.0, whereas the PEG ratio for H shares was about 1.5 and for N shares, about 1.6. The PEG ratios for all Chinese shares as of May 2008 have come down, with the PEG ratios for H and N shares being just above 1.0.

Most investors remain underexposed, however, to this important economy. In fact, China's weight in the indices that investors are likely to buy is perhaps 1 percent, despite the fact that at official exchange rates, China has 5 percent of the world's GDP. Also, if those official rates were adjusted for purchasing power, China would probably represent 10 percent of the world's GDP, and its currency is the cheapest in the world. Yet, I know of few portfolios with 10 percent exposure to China. Investors are simply underweighted.

When I did a matched-pair analysis of the FTSE Xinhua 25 stock index with equivalent shares on the NYSE (see **Figure 4**), I found that growth rates were considerably higher for the Chinese shares and the P/Es were only slightly higher. Combine that finding with the PEG ratios at about 1.0, and I believe now is an excellent time to enter the markets in China. Furthermore, by investing in Chinese companies, investors will reap the benefits of the likely long-term appreciation of the yuan, which is, as I have said, the cheapest currency in the world.

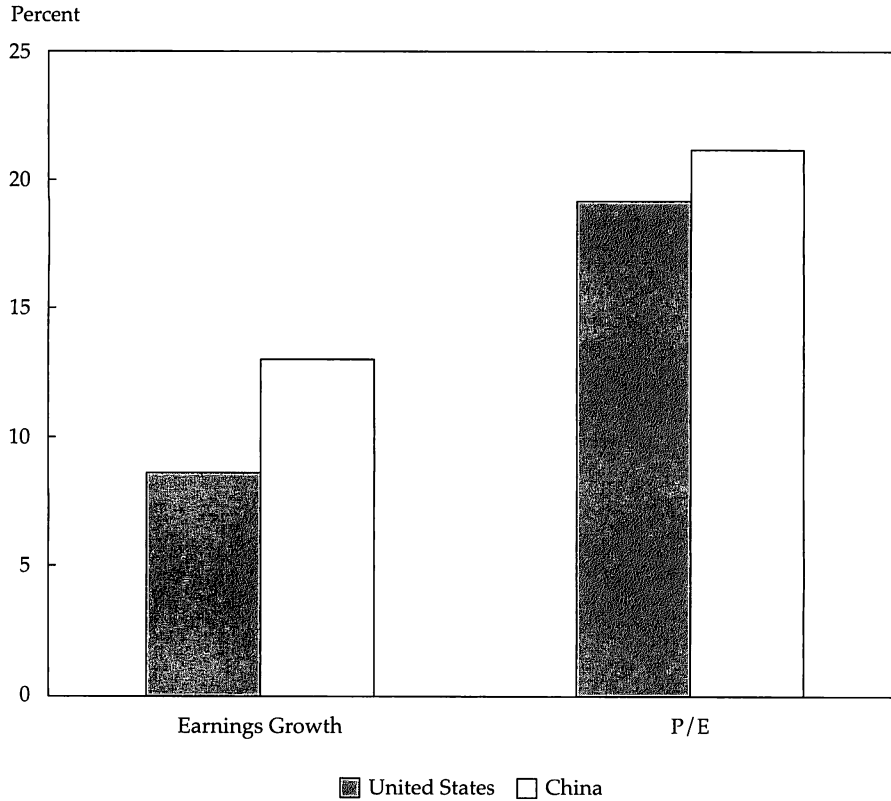
Every country during its growth phase has had an appreciating currency. For example, **Figure 5** shows that during Japan's economic expansion in the 1970s and 1980s, the exchange rate on the yen went from more than ¥350/\$1 to about ¥120/\$1. South Korea's currency experienced a similar change during South Korea's growth phase. The Chinese yuan is still a pegged currency, although it could also be called a dirty float. The Chinese government is

**Figure 3. PEG Ratio for Chinese A, H, and N Shares, 2007**



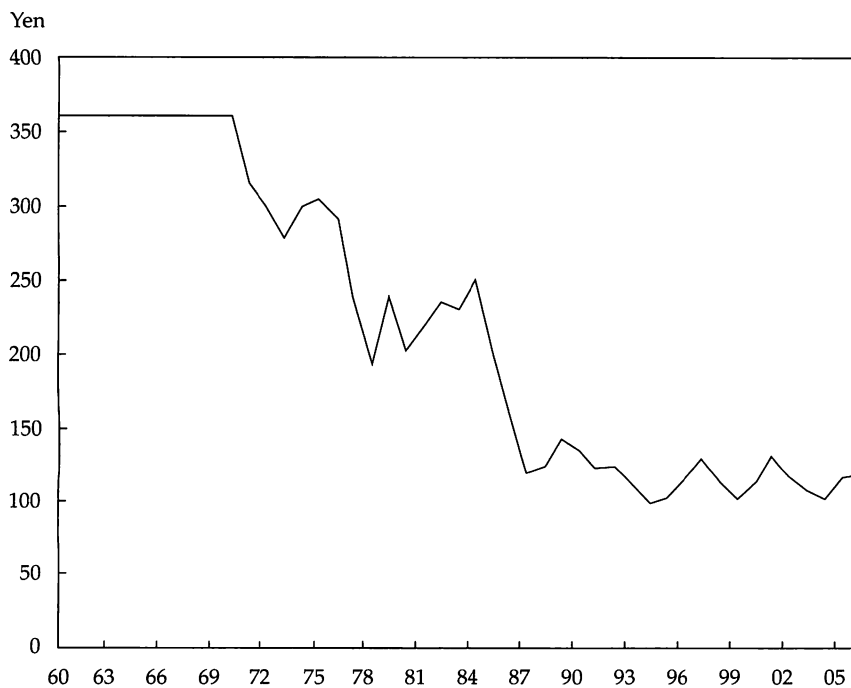
Sources: A-share data are from the Boserba Asset Management Company earnings forecast; H-share and N-share data are from Bloomberg.

**Figure 4. Earnings Growth and P/Es for the United States and China**



Sources: P/E and earnings growth estimates for U.S. companies are derived from Bloomberg and Thomson I/B/E/S. Estimates for Chinese companies are mainly from Boserá Asset Management Company internal research with some additional estimates from Thomson I/B/E/S.

**Figure 5. Yen/Dollar Exchange Rate, 1960–2005**



letting it go a little bit at a time, and in the two years since China started to let it go, the yuan has been appreciating by about 5 percent per year. Investors that buy Chinese companies will benefit from this currency appreciation.

Being well known as an efficient market economist, I can say in all candor that I have finally found an inefficient market, and that is China's A-share market. For example, when I do a random walk test of the U.S. market, the result looks a lot like a random walk, but China's A-share market looks nothing like a random walk. Runs occur in the same direction; managed funds outperform their respective benchmarks; and the law of one price is regularly violated. Chinese stocks that sell as A, H, and N shares—such as China Life—do not necessarily sell at the same price. A company's A shares have sometimes sold at double the price for the same shares in the H- and N-share markets. Such premiums have come down and are now generally about 30 percent, but they still violate the law of one price, which is an indicator that the A-share market is not efficient.

Conversely, those stocks that trade in international markets where arbitrage is possible and institutional investors can participate appear to be efficiently priced. In fact, when I compare actively managed U.S. mutual funds investing in China with low-cost index funds, I find that most active managers underperform the index. The mutual funds are either registered in the United States or Hong Kong, and I compare them with the FTSE Xinhua 25 stock index (FXI) that trades as the exchange-traded fund (ETF) FXI. A couple of funds outperform the index, but most active funds do worse than the FXI, which indicates that the H- and N-share markets are not inefficient. Otherwise, I would have found active managers beating them easily, as they do in the A-share market.

**Chinese Real Estate.** Among the issues facing China is a problem with inflation, but that problem, combined with China's consistently strong growth, indicates a strong case for China's real estate market. China has made the appropriate and necessary infrastructure investments to enhance the real estate market, and the development of the middle and western regions of the country is still in its early stage. Furthermore, whenever a country goes through a period of growth, it also experiences increased urbanization. Today, about 40 percent of China's population lives in cities. By 2020, that number will have increased to about 60 percent. An ETF that trades under the ticker symbol HAO provides easy, low-cost access to investing in Chinese real estate development and management companies. My book *From Wall Street to the Great Wall* has numerous photographs that dramatize the extent of

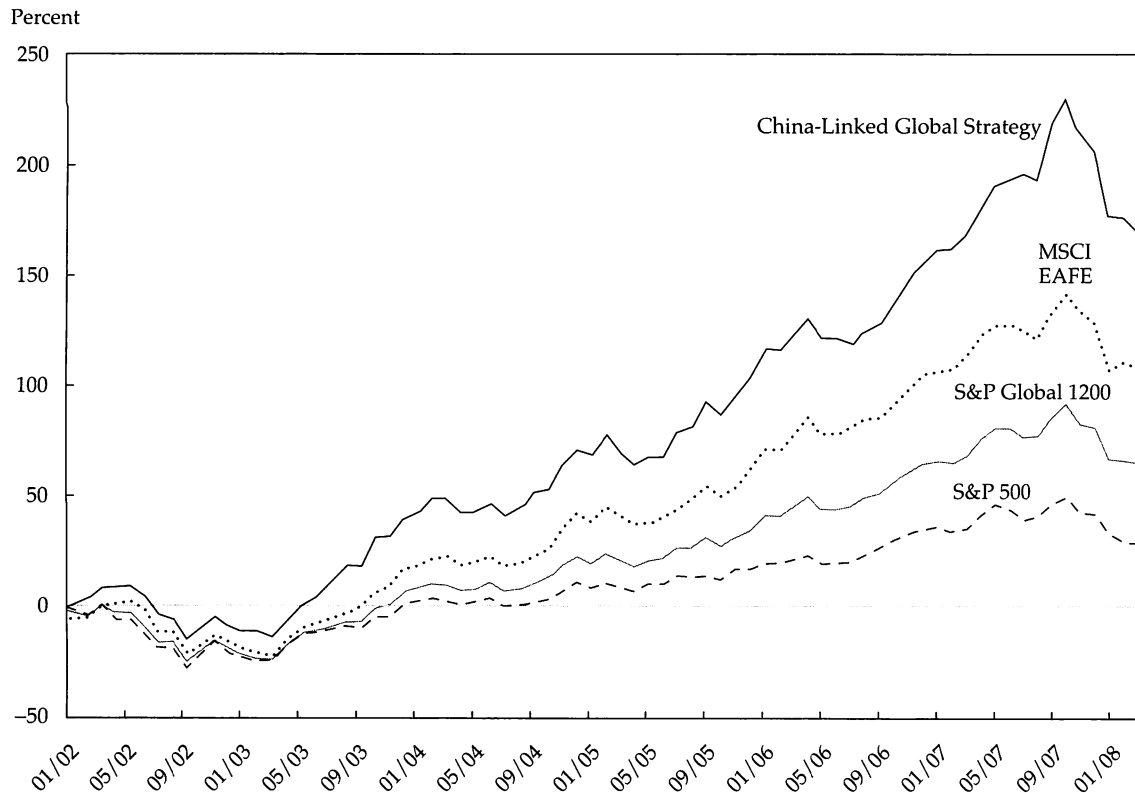
urban development in places like Shanghai, Hong Kong, Wuhan, and Guangzhou. In places where rice paddies stood 10 years ago, high-rise complexes are springing up today.

**China-Linked Global Equities.** Many international companies are benefiting from their involvement in the booming Chinese economy. Therefore, besides investing in Chinese companies traded on international markets, another and perhaps lower-risk way of gaining access to China's growth is to invest in international companies that benefit from the Chinese demand for their products, such as industrial goods, consumer goods, luxury goods, and commodities and natural resources. Investors can also put money into companies that take advantage of China's low-cost, skilled labor. Investors in these types of companies gain the following benefits compared with most Chinese equities:

- higher accounting and listing standards,
- more transparency,
- more highly developed corporate governance,
- more predictable legal system, and
- more attractive valuations.

For example, Yum! Brands, the parent company of Kentucky Fried Chicken, Pizza Hut, and Taco Bell, is doing poorly in the United States. Yet, Yum! Brands' earnings are growing at 20 percent or more per year—almost entirely because of China. Yum! Brands is opening 1.5 stores a day in China. The United States might have lost its taste for Kentucky Fried Chicken, but China has not. Yum! Brands also has a chain of family-style Chinese restaurants under the symbol of East Dawning that is doing extremely well. In essence, buying Yum! Brands means buying a company whose future growth depends largely on China.

Las Vegas Sands is another company doing well in China. Las Vegas Sands has a Venetian resort, complete with canals and gondolas, in Las Vegas. The Venetian in Macao is three times as big as the one in Las Vegas—with three times as many canals. Nike has a factory in China for making sneakers. Australia's BHP Billiton is a raw materials company that has benefited enormously from China's boom, and its growth depends to a large extent on China. Other companies to consider include American International Group, the Walt Disney Company, the Coca-Cola Company, Starbucks Corporation, the Nestlé Group, Louis Vuitton Malletier, PepsiCo, McDonald's, and FedEx. These and many others are finding great opportunities in China. Investing in a portfolio of such multinational companies provides excellent exposure to China's boom at a lower risk than investing directly in Chinese companies. Past returns do not, of course, signify future returns, but as shown in **Figure 6** and **Tables 1–3**, a portfolio of such China-linked multinationals compares quite

**Figure 6. China-Linked Global Strategy Compared with Selected Indices, January 2002–March 2008**

favorably with other indices—in this case, the MSCI EAFE, S&P Global 1200, and S&P 500 Index. In fact, with the financial markets currently in decline, now is a good time to enter this market.

**Table 1. Summary of Returns from a China-Linked Global Strategy and Various Indices: January 2002–March 2008**

Strategy	Annualized Return	Standard Deviation	Sharpe Ratio
China-Linked Global Strategy	17.28%	16.74%	0.34
S&P Global 1200	8.36	13.44	0.21
MSCI EAFE	12.48	15.03	0.28
S&P 500	4.16	12.65	0.11

## Conclusion

China is likely to be the fastest growing country in the world for at least another decade. Chinese stocks traded on international markets are reasonably priced, particularly with the current market decline. Most investors are woefully underexposed to China, and that includes internationally inclined institutional investors who should know better. Finally, a mixed strategy combining both direct investments in H and N shares with investments in companies that will benefit from China's growth provides the best risk-reward ratio. In fact, if I am wrong about India and it grows as fast as China, indirect investments will allow investors to benefit from both of the fastest-expanding economies in the world.

This article qualifies for 0.5 CE credits.

**Table 2. Returns by Period for a China-Linked Global Strategy and Various Indices: January 2002–March 2008**

Strategy	Three-Month Return	One-Year Return	Three-Year Annualized Return	Five-Year Annualized Return
China-Linked Global Strategy	-11.48%	0.96%	16.69%	25.47%
S&P Global 1200	-8.90	-1.89	10.75	16.66
MSCI EAFE	-8.82	-2.27	13.79	21.90
S&P 500	-9.45	-5.08	5.85	11.32

**Table 3. Correlations for a China-Linked Global Strategy and Various Indices: January 2002–March 2008**

Strategy	China-Linked Global Strategy	S&P Global 1200	MSCI EAFE	S&P 500
China-Linked Global Strategy	1.00	0.91	0.91	0.85
S&P Global 1200	0.91	1.00	0.95	0.96
MSCI EAFE	0.91	0.95	1.00	0.84
S&P 500	0.85	0.96	0.84	1.00

# Question and Answer Session

Burton G. Malkiel

**Question:** How much personal exposure do you have to China?

**Malkiel:** My portfolio is probably 20 percent Chinese, and that includes not only indices but also individual companies. I don't like to write books about a place without having some kind of experience with both the indices and the individual companies. I have been working on China for about three years. I started with a 15 percent exposure that eventually grew to 25 percent and is now down to 20 percent. Such exposure is much higher than I would recommend for other investors, but my reason for such high exposure was to learn about the market.

**Question:** The one-child policy in China has created a hole in its demographic profile. How will its aging population affect China's future?

**Malkiel:** A number of critics are predicting a tremendous problem caused by a tsunami of old people and not enough young people. To test this premise, I have generated dependency ratios for China, the United States, and other countries to measure how bad the problem might be. The dependency ratio is the number of people older than 60 years versus the number of people 20–60 years old. I am not a particular fan of this ratio, because it implies that anyone older than 60 is totally washed up and has nothing left to offer, which is obviously misinformed. Nevertheless, I generated the dependency ratios and found that the ratio will get worse in China. But even in 2020 and 2050, the ratio for China is not as bad as the dependency ratio for the United States, and it is much better than the dependency ratio for Japan and Western Europe.

Even with the one-child policy, the birthrate in China is higher than the birthrate in Italy and Spain. So, I think people are overestimating the difficulty.

**Question:** Can you comment on problems relating to property rights, intellectual property, piracy, and corporate governance in the Chinese market?

**Malkiel:** Intellectual property protection is clearly not the same in China and the United States. The Chinese are not simply copiers, however, and are increasingly producing intellectual property of their own. As this trend continues, it will be in their interest to strengthen the rule of law in China. For example, the Chinese have made great strides in developing ideas for solar energy panels, and they will not want to see this intellectual property slip away because of their own lax laws. Alternatively, although imitations of name brand products are a problem worldwide, China remains a solid market for consumer and luxury goods. For example, Louis Vuitton sells more *genuine* Louis Vuitton bags in China than any other place in the world. Protection of property and intellectual rights in China is not as strong as it should be, but it is getting better and should continue to do so because it is in China's own interest.

**Question:** With India's large educated population and democratic framework, why are you making the case for China and not for India?

**Malkiel:** I pick China over India largely because of the infrastructure issue. India's infrastructure is still fragile. The power grid is not

strong enough to guarantee that factories can run even eight hours a day. The roads and railroads are also not good. My own university does private investing in both India and China, and our private-investing people believe that India is four years behind China. I am not negative on India. I think India will have the second-highest growth rate in the world. But I believe China is in an even stronger position because it has done a much better job of strengthening its infrastructure.

**Question:** Which other emerging countries will benefit most from China's growth and provide perhaps a safer investment option?

**Malkiel:** I don't know whether either would be much safer, but Brazil and Russia have both benefited from their raw-material richness. Brazil has just found probably the second-largest oil discovery in the Western Hemisphere and is certainly doing well. Russia is doing well because it also has oil. And China, as we all know, is consuming more oil than other countries. If someone wanted to invest in Brazil and Russia, I would not argue against it.

Other likely beneficiaries of China's growth will be countries like Vietnam. As wages in China rise—which is a good thing because the increase will help with the distribution of income—China will lose its low value-added industries, such as textiles, because they will migrate to Vietnam and other locales where wages are low.

**Question:** Is the world in trouble if the average Chinese person consumes resources at the same rate as the average American?

**Malkiel:** The world is already in trouble. I hear people in the United States asserting that oil is up because of speculators and not for any fundamental reason. I disagree. I think the growth in China, India, and other countries has created an increase in the demand for commodities, and the prices of commodities will continue to rise. The world is not going to run out of resources. But the price of resources will be pushed high enough to prompt more effort in encouraging the use of shale oil, hybrids, and electric cars. People will adjust, but that adjustment, as the price of raw materials goes up, will be difficult.

**Question:** As the success of free markets increases, could the communist government of China feel a threat to its hold on power and revert to central planning to maintain its position?

**Malkiel:** I cannot imagine them reverting to central planning because too many of them remember the Mao years and understand that central planning does not work. I think less of a political problem exists in China than in Latin America with the resurgence of views of leaders like Venezuela's Hugo Chavez.

**Question:** China has 10,000 CFA candidates. Do you think the growth of the CFA Program in

China will have an effect on China's financial markets?

**Malkiel:** I think it will help the markets in China move toward efficiency and openness, which will be encouraged by, for example, people at the Shanghai Stock Exchange, who would like to see Shanghai become the financial capital of Asia. I think it will also lead to a decrease in China's present currency controls, which is a cause of the inefficiencies in the A-share market. For example, investors cannot short their A shares because they cannot move the currency needed to do the arbitrage. The growth of the CFA Program in the region will be an unambiguous benefit for both China and the world.