



India - A World of Contrasts

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Recently, I had the opportunity to join one of our Matthews Asia portfolio managers during a research trip to India, and was reminded of both the importance of such on-the-ground visits as well as the rigor required to conduct them.

A typical research trip for our investment team members can involve a hectic schedule of meetings with up to 50 companies during a two-week period. This may often entail travel beyond large cities to sometimes remote inland reaches in search of the best companies to meet a portfolio's objectives. These face-to-face meetings are critical not only in the evaluation of individual companies and management teams, but in keeping a finger on the pulse of a particular market as a whole. They allow us the ability to take in any changes in a company's environment and competitive landscape, and better scrutinize their outlook.

We started our trip this time in Mumbai before moving on to Pune and then to Chennai, the capital city of the southern state of Tamil Nadu, and met with firms in a variety of sectors. Perhaps the most striking aspect of life in the world's largest democracy may be the vibrant tapestry of contradictions. In India, the chasm between the supremely wealthy and abject poor is notoriously wide and yet also in surprisingly close and constant proximity to one another. You only need to walk from your car to the entrance of a board room to witness the disparity. Outside, chaos (although a sort of organized chaos) seems to rule and yet once inside, you may likely find the sort of savvy, forward-thinking entrepreneurs with whom we frequently visit.

India's remarkable Unique Identification (UID) project exemplifies the country's contrasts. Started in 2010, the program harnesses advanced technological power in the form of biometric iris scans with the aim to create a fundamental system of accountability among its 1.3 billion people. Now, hundreds of millions of people born without any formal registration or birth certificates can be documented — their existences verified — and may claim services and benefits that citizens in wealthier economies take for granted. This vast and "cardless" endeavor has tremendous implications — not the least of which is a system of inclusion. A secure identity system should help government efficiencies in such areas as taxation as well as combat corruption and voter fraud. It can offer individuals more control over things like financial and medical records and better facilitate such benefits as insurance coverage. While India struggles with such widespread poverty on the one hand, it is leapfrogging developed nations in technological terms on the other.

Health care and education are two other areas that highlight India's stark contrasts and complexities. While India boasts some state-of-the-art medical care facilities, malnutrition afflicts more than half of all rural children. In terms of schools, there has recently been an expansion in basic education. However, according to UNICEF, gender disparity is still prevalent as almost twice as many girls as boys are pulled out of school, or never enrolled.

In addition, India's overall population is projected to grow rapidly, and even outpace China as the most populous nation, according to a 2013 United Nations Development Programme (UNDP) Human Development Report. The UNDP study predicts that by 2050 India's education distribution will still be highly unequal, with a sizeable group of uneducated elderly adults. The rapid expansion in the country's tertiary education, however, may build a better-educated young adult labor force.

To be sure, the vast Indian landscape is quite uneven, and in varying stages of development. Its infrastructure faces great challenges. We continue to focus on finding solid companies that have the potential to survive and thrive in the toughest of environments. Particularly in a diverse economy as India, Matthews' bottom-up stock selection process is critical to help mitigate risks that may arise from such factors as inadequate governance and policy hurdles.

In the end, I left India with conflicting emotions — concerned about the current human condition for large swaths of its population but excited and encouraged by the vast opportunities presented by this populous and ever-changing country.

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