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The Biggest Economic Opportunity of the 21st Century

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November 5, 2008

Master investor Warren Buffett has said the 21st century will belong to China. Venture capitalist John Doerr has called cleantech "the biggest economic opportunity of this century." Put those two statements together, and you have the makings of the biggest economic opportunity of the 21st century.

Brace yourself
See, China's economic miracle has not come without costs. One of the highest has been paid by the environment. China's factories, power plants, cities, and enormous demand for natural resources have taken a severe toll on the country -- tainting the air, the water, and the land.

China is now the largest emitter of carbon dioxide in the world. Air pollution was a significant worry for the athletes competing outdoors in the Beijing Olympics, and *National Geographic* recently reported on the "cancer villages" that line the once-pristine but now polluted Yellow River.

The good news is that the Chinese government is no longer turning a blind eye to the problem. The 11th (and most recent) five-year plan made a national "green strategy" a core platform. That means penalties for businesses that abuse the environment, as well as a focus on conservation and emissions reduction, and an emphasis on sustainable development rather than on more rapid development at any cost.

What's said is done
Starting to clean up China and *having* a clean China are monumentally different realities; however, the country's Xinhua News Agency recently reported on some of the significant penalties that have been levied on polluters. For example, "Companies that were identified as violating environmental laws were barred from the Canton Fair ... the most important channel for Chinese exporters to expand overseas." What's more, the China Banking Regulatory Commission has "banned loans to blacklisted companies."

In other words, bad environmental practices will get you cut off from international trade and access to capital. For a small, growing business in China, that will mean fast failure.

A blueprint for green
This is not a surprise. When the Chinese government includes a platform in its five-year plan, it means business. That's why, as an investor, one of the smartest ways to think about investing in China is to focus on trends that the government has supported on the record. This brings us to green, clean, and alternative-energy technologies, aka cleantech.

The China State Environmental Protection Agency estimated that investment in environmental protection would top $160 billion during the current five-year period (2006-2010). What's more, China's enormous trade surplus, significant construction plans, and new focus on green initiatives have the potential to turn the country into the world's largest marketplace for cleantech.

That's good for the environment, but what's even better for investors is that there are *no state-owned companies* operating in the space. So unlike most commercial niches in China, where behemoths such as PetroChina (NYSE: PTR) and China Mobile (NYSE: CHL) both dominate and are protected, the government will be very welcoming to foreign, public, and foreign *and* public companies in a rapidly growing space.

Straight cash
One public company that's already set to work on China's environmental issues **is** General Electric **(**NYSE: GE). The company is pushing its Ecomagination initiatives hard in the country, and GE China is now a more-than-$5 billion business. Speaking on his company's commitment, GE China CEO Steve Bertamini told *Fortune*, "The Chinese will lead the way in these technologies just because they have to."

But even though China will be an important lever for GE, GE is an enormous conglomerate, and the green opportunities in China alone won't help the stock double or triple from here. And although not nearly as large as GE, the same holds true for big, well-known companies pursuing cleantech, such as BP (NYSE: BP).

That, however, is not true for several innovative small companies.

Two small China cleantech plays
One is Fuel Tech (Nasdaq: FTEK), which manufactures air-pollution reduction systems for use in (among other applications) coal-fired power plants. Given that China may face a 10-gigawatt energy shortage this year and already plans to build the equivalent of one coal power plant per week over the next decade, this is an enormous opportunity for Fuel Tech, a company that's already seeing adoption of its products in China and has just $87 million in trailing revenue and a $300 million market cap. And on Friday, the company announced that it had been awarded a second demonstration of its FUEL-CHEM product in the PRC.

Wind power is also a candidate for widespread adoption in China. According to a recent report in *Shanghai Daily*, the government is thinking about increasing subsidies to wind power to expand capacity from 5,600 megawatts to 100,000 megawatts by 2020. GE's expertise in this niche means that it will almost certainly be involved, but small Chinese company A-Power Energy Generation Systems (Nasdaq: APWR) also moved in 2007 to "become a full-scale producer of high-quality wind turbines," according to Chairman and CEO Jinxiang Lu.