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Topic: India at crossroads - how will India respond to the future dynamics of Asia

Claimer/disclaimer. China as comparison. Sources.

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Prelude (1)

- Potential versus reality.
  - The potential is an unprecedented shift in power structure.
  - The reality is whether it will be allowed to happen and if so the circumstances.

- How to distil what we need to know from the myriads of information?

- The starting points:
  - The world is witout leadership. Middle East, WTO, Global economy. There is a vacuum, not of power, but of leadership.
  - The Global economy is much more vulnerable than generally perceeved.
  - A power shift from Europe and North America to Asia.

Prelude (2)

- The Global economy. US recession?
- US growth. 1Q 5.9%, 2Q 2,9→2,6%. 3Q 2% (?).
- Consumption. ↑ 0,1% Aug, 0,8% July.
- Durable goods. ↓ 0,5% Aug.
- Real estate.

Sales ↓first time in 11 years, house prices ↓, ex houses for sale and not sold highest since 1993.

Prelude (3)

- The Asian economy. Supply chain and domestic demand.
- India. Shift to manufacturing, more investment.
- China. Increase consumption.
- Asian integration. China and India.
- National imbalances do not matter if global balance BUT equation to be solved now

  US consumption ↓, squezee more investment out of Indian economy, squeeze more consumption out of Chinese economy. If managed correctly still global balance and no global recession.
- This is what puts the Indian economy in perspective.

1) The shift from US to China and India (1)

a) Economics

- Measured in official exchange rates Chinas share of global GNP is about 3,5%, India about 1,6%. BUT PPP gives about 15% respectively about 8%. China and India 80% of US GNP, add Japan, Korea and Southeast Asia ≅ 125%.

- China is the factory of the world, pricesetter for industrial goods and offer technology. PPP second largest economy, largest recipient of Foreign Direct Investment (FDI).

- India is the servicecenter for the world, price setter for service goods and offers solutions. Fourth largest economy (PPP).

2) The shift from US to China and India (2)

b. Technology.

Handphone starts to become credit card, key to our doors.

- China. 403 mio subscribers mobilephones, fixed lines 360 mio, 123 mio internet (20% increase y/y) of which 77 (45% increase y/y) mio broadband, SMS. 2b?Ntb?=? India. 5 mio more ….every….month! Approx 125 million.
- Year 2010. China number one globally with 178 mio PCs. India 80 mio.
- From 2000 to 2003 fell the share of non-electronic transactions in the largest Indian bank from approx.60% to appox. 20%. In 3years!

3) India's economy (1)

China/India. Per cent of GDP.	1990	2003
Private consumption	49,9/65,8	46,8/63,8
Government	12,1/11,6	10,9/11,3
Investment	35,2/24,1	40/26,1
Net exports	2,7/-1,5	2,3/-1,2

3) India's economy (2)

Per cent of GDP. China/India.

	1990	2003
Agriculture	27/31,3	13,1/21,1
Industry	41,6/27,6	46,2/27,2
Services	31,3/41,1	40,7/51,7

3) India's economy (3)

Growth in output. Sector. 1993-2004. y/y %.

	China	India
Agriculture	3,8	2,7
Industry	11,9	6,5
Services	10,0	8,6
GDP	9,9	6,3

3) India's economy (4)

Employment. Sector. % of total. 1980. 2000.
China. India.

Agriculture.	68,7/68,1	46,0/59,3
Industry	18,2/13,9	23,2/18,2
Services	11,7/18,6	29,9/22,4

- Key observation. Structure not viable. Employment prospects in service sector too narrow. Agricultural sector too many persons. Manufacturing too few.

3) India's economy (5)

- Growth prognosis 2006. 8,9%, original prognosis 7,3%.
- Government policy: 10% y/y for 10 years.
- World Bank says 8%.
- Capital output ratio says 7 – 8%.
- Verdict. Higher productivity or higher investment to achieve goals.

3) India's economy (6)

- Master card: Growth prognosis 2006 to 2015. y/y. China 7,0%. India 7,3% (pm Vietnam at top with 8,3%).
- Savings in 2005 and 2015. Bn UsD.

  China 900 and 2600. India 200 and 1000.
- Growth rate of savings.

  China 288%, India 500%.
- Growing investment in India can be financed.

3) India's economy (7)

- Growing Middle Class (>5.000 UsD) 2005 and 2015. Million people.

  China 70 – 250. India: Figures differ widely. Estimate 70 – 125.

  Prognosis 2020: China 650 mio – India 350 mio.
- Households > 220.000 UsDollars 53.000 – 150.000.
- Households < 2.000 UsDollars. 80% - 52% (2010).
- Indian private consumption ↑

3) India's economy (8)

Demography. Share of population

0 – 14 year. China 23,1%. India 32,2%.
15 – 64 year. China 69,5%. India 63%.
65 year - China 7,4%. India 4,8%.

Share in active bracket 2030: China 66,8%↓, India 68,9%↑, Japan 59,2%↓, USA 62,6%↕, EU 59%↕

India one of the few countries with population growth – absolute and composition.

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3) India's economy (9)

- Key problem. Switch from services to manufacturing. More investment without reducing consumption.
- Savings trends indicate investment can be financed even if FDI remains comparatively low – presently approx 6 billion UsDollars.
- Demography points to rising demand.

4. Strengths and weaknesses (1)

- China: 30% of GNP goes to export. India: 15%.
- China: Savings rate measured as share of GNP 40%. India: 25%.
- China: FDI 54 billion Usdollar. India: 6 billion Usdollar.

- What does it tell us about efficiency of the use of capital?

- China: Non-performing loans as per cent of all loans 40%.
- India: Negligible.
- What does it tell us about the financial system?

- The role of the financial system: Investment or trade surplus.

4. Strengths and weaknesses (2)

China: State Owned enterprises the incubator.
India: The market.
China: Strong government. Autocratic
India: Weak government. Democracy.
China: Good infrastructure. India: Lousy infrastructure, but……..
China: Corporate governance????. India: Not bad.
China: Legal system not bad. India: In the long run we are all dead!
China: Public finances apparently OK. India gives rise to worry, deficit may be rising to over 4% of GDP and not really under control. Public debt equals 60% of GDP.

4. Strengths and weaknesses (3)

- 1992 to 2007. Reforms primarily aimed at the industrial sector, trade and foreign investment. Retail sector not yet.
- Recently reforms slow down, Government weak. Does it matter?
- Average tariff 1992 and 2002. China 43% - 12%. India 128% - 32%.
- Legal system. Good but

  - No one how many laws, regulations etc.
  - Many of them old. Sarai Act from 1867 and five star hotel.
  - Incoherent
  - Enforcement belongs to eternity. a) 30 mio cases waiting. b) Mumbai bombings 1993. c) Nakate 1985 to 2005.
- Labor relations improved substantially but still problems ref industrial action about new airports

4. Strengths and weaknesses (4/1)

- Oil 30% of energy supply, coal 55%.
- Coal reserves fourth largest in the world. Interest in gassification of coal.
- 1995 share of global oil consumption = 2,3%. 2005 = 3%.
- 1995 to 2005 y/y growth of oil 4,6% (China 7,5%).
- Share import of total oil consumption up from 44% in 1995 to 77% in 2005.
- Main sources: Nigeria and Southeast Asia.

4. Strengths and weaknesses (4/2)

- ONGC Videsh (OVL) has 24 oil and gas projects in 14 countries incl. Russia, Sudan, Vietnam, Myanmar
- India explores oil in Kazakhstan, Iran, Sudan, Vietnam, Ecuador.
- LNG terminals to receive supplies from Australia, Oman, Algeriat, Nigeria, Malaysia.

4. Strengths and weaknesses (5)

- Special economic zones (SEZ).
- No base for evaluation. February 2006.
- Around 267, various size.
- Experience from China indicate that they are too small.
- Two crucial factors. Tax alleviations. Labor relations.
- Illustrate however government`s readiness to try and understanding of the problems.

4. Strengths and weaknesses (6)

- India is king of outsourcing. IT → BPO → KPO.
- 2005 BO 36 bn UsDollars = 5% of GDP. 3,5 million employed. Prognosis for 2010 7% of GDP.
- Global market for IT = approx. 20 bn, India 2/3. BPO 11 bn, India 40%.
- 10% of all US bank transactions outsourced to India. Prognosis for 2030: 30%
- Ingenuity. Uruguay!
- ESO (engineering services outsourcing, global market 15 bn UsD, India´s share 12%.
- Problem: Qualified manpower!!!!! Is China the solution?

4. Strengths and weaknesses (7)

- Indian multinationals coming, soon, fast and with power. 2005 ►136 M & As = 5,2 bn UsD First half 2006 ►76 M & As = 4,7 bn.
- Mittal Steel – Arcelor.
- Most active sectors: IT sector, banking and financial services, pharmaceutical.
- Compare FDI into India = approx. 6 bn UsD.
- Household names: Mittal Steel, ICICI, CLSA, Dr Reddy`s Lab, Ranbaxy, Tata tea, Infosys, Wipro, Reliance.

5. Asian integration. Tandem with China. Foreign and Security Policy (1)

- The great game. Institutionalisation of Asia. China or India, no, China and India. Japan difficult to get in.
- It will shape the future.
- A large FTA with 3 bn people, growth of approx. 6-7% and income per capita fast rising above 1500 UsD.

5. Asian integration. Tandem with China. Foreign and Security Policy (2)

- Relate to the global economy.
- China producing, US consuming.
- Falling US growth present a political dilemma for China and India.
- Political stability → social stability → jobs → growth → domestic demand.

5. Asian integration. Tandem with China. Foreign and Security Policy (3)

- Trade rising from 120 million UsD in beginning 1990`s to 18 bn 2005 and 20 bn in 2006. 165 times in 14 years.
- In 2008 China as Indias biggest trading partner, China number five trading partner for India.
- India`s main export natural resources.
- Direct investment disappointing. 2004 China 60 million UsD in India and India 235 million in China.
- Many reasons. No confidence, no knowledge, holding back.

5. Asian integration. Tandem with China. Foreign and Security Policy (4/1)

This is changing the world.

- Combine China´s low cost and effcient production with India´s low cost R & D plus high-tech services. Hot air?
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2004.	China	India
Labor. GDP per unit (UsD)	2140	1380
Capital productivity.	10-12%.	15-17%

Source: Master Card.

5. Asian integration. Tandem with China. Foreign and Security Policy (4/2)

- It is already seen how multinational companies make use of this comparative advantage.
- It won´t last long before Chinese and Indian companies start to do the same.
- China: infrastructure, logitstics, older population demanding services, high savings and high labor productivity.
- India: Innovative companies, young population demanding consumer goods, high capital productivity.

5. Asian integration. Tandem with China. Foreign and Security Policy (5)

Indian security.

- Shiite arc from Beirut to Mumbay. India caught up in the muslim civil war.
- Indian planners do not really see beyond the Subcontinent.
- Starting to do so. Leverage in foreign and security policy. Israel, Iran.
- Relations with US.
- Decisive point: China. No conflicting vital interests.

5. Asian integration. Tandem with China. Foreign and Security Policy (6)

Case study. China & India (Chindia).Energy.

- Syria and Sudan – cooperated
- January 2006. Wide ranging agreement signed, hydrocarbon sector.
- March 2006. Hindustan Petroleum and Sinopec. Preliminary agreement on a number of projects.
- August 2006. 850 mio UsD common project in Colombia.
- Yadavaran. Sinopec 51%, ONGC 29%

6. Conclusion.

- India joins globalisation, China 1990s.
- Asian integration. China, USA, Japan.
- Indian multinationals are coming, fast.
- What may save the world from a global recession:

  - growing domestic demand China(C)/India(I).

  - use their comparative advantage.
- The risks. Terrorism, Pakistan, NOIC, inequitable income distribution, too small manufacturing sector.
- www.oerstroemmoeller.com