Should investors head for China or India?

04 May, 2011

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"If you want one year of prosperity, grow grain. If you want 10 years of prosperity, grow trees. If you want 100 years of prosperity, grow people" – Chinese Proverb.

Ironically, the biggest Achilles heel for the Indian and Chinese economy – their large population and the steady increase year on year, is now their greatest asset. A stark difference, however, exists.

China implemented a single child policy some years back and today faces an increasing dependence ratio. On the other hand, India still has very favourable demographics. The time has come for India to reap the rich "Demographic Dividend".

India's efforts in the last couple of decades to open up its economy have placed the 75 per cent of its population which is under age 35, and is largely educated and English speaking, on the global opportunities map.

Leading global names are ramping up offshore development centres in India, while Indian players are gobbling up client facing business across the globe. Both are looking to benefit from the cost arbitrage and scaling up possibilities that India has to offer.

Led by a quantum jump in personal disposable income, this change has made the population a potent consumption machine. Increasing incomes are leading to an unparalleled consumption explosion. Coupled with very low per capita incomes and consequent under penetration of most products, India is today perhaps the biggest latent demand market in the world.

Urbanisation and the subsequent advent of nuclear families is further fuelling demand for consumer products and infrastructure. In the next five years alone, total infrastructure

investment is estimated at $475bn (E327bn). This will not only fuel direct growth but also indirectly build up related industries. We believe as India implements the required changes to investment policy in the coming years, this could lead to a hastening of FDI into the country, further accelerating GDP growth. Goldman Sachs, in its latest Bric update, estimates India to grow far more rapidly than China over the next 40 years to reach $15,000bn in GDP from the current $1,000bn.

The demographic advantage also ensured that India has very low dependence on global economic cycles. With exports still below 20 per cent of GDP, the country continues to be driven by domestic demand. This was clearly evident during the recent global financial crisis, during which large parts of the world slipped into recession but India slowed down only a couple of points to roughly 6.7 per cent GDP growth. In contrast, China has become a significant trading partner from Asia to the US and other developed countries, exposing it to volatility in growth of these economies.

A century old stock market, with more than 7,000 companies listed and a combined market cap of about $1,200bn, Indian equity markets are a trove of opportunity. With compounded average annual returns of 18 per cent plus over the last 30 odd years, the markets have had an enviable long-term track record. With more and more drivers to growth emerging, we find it difficult to believe these long-term returns can deteriorate sharply from here on.

The three broad themes that appear as key drivers to growth going forward are: domestic consumption, infrastructure investments and global outsourcing. Businesses that leverage off these opportunities are likely to do well.

The risks we see relate to the macro- environment, more particularly the fiscal deficit of the Government and high inflation and interest rates currently. An acceptable resolution of these issues is critical for the full potential of the economy to be realised.