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India: Will it be China Mark II?

The recent Commonwealth Games put Delhi and India right in the media spotlight. Much of the coverage was cautious or negative in the weeks before, but quite different during and after the successful Games. This shift — from caution to congratulations — may be a foretaste of the way Australia comes to understand India's economic future and its importance to Australia. With all the recent focus on China, so far we have had only a glimpse of what India's growth might mean to us. Caution is understandable.

In fact, India is Australia's fastest-growing major trading partner, with two-way trade growing 55 per cent to nearly \$22 billion in 2008–09. It has the fourth largest economy in the world today, a market of 1.15 billion people, and its upward trajectory is extraordinary. Australia's exports to India have grown at an annual average of 25 per cent over the past five years, climbing from our 13th largest to 4th largest market in a decade.

So, it is no surprise some economic analysts believe China will overtake the USA as the world's leading economic power by 2020, and India will then overtake China by 2030.

One commentator has drawn on Aesop's fable to describe India as the tortoise to China's hare. And we might remember from childhood just who was the unexpected winner of that mythical race.

Chinese hare vs. Indian tortoise

The differences between the two countries are stark. China is a disciplined one party state which has implemented strong infrastructure development and maintains centralised control over the economy. India is an English-speaking democracy which sometimes struggles with its infrastructure and corporate governance, but offers a free market economy and a private sector that is energetic and entrepreneurial.

There is no doubt China, which has had a 20 year start on India for its economic revolution, leads the way. On 2009 gross domestic product (GDP) figures (Table 1), one may well question the belief among some commentators that the Indian economy will grow bigger and faster than China's over the next 20 years.



Table 1 – India vs. China

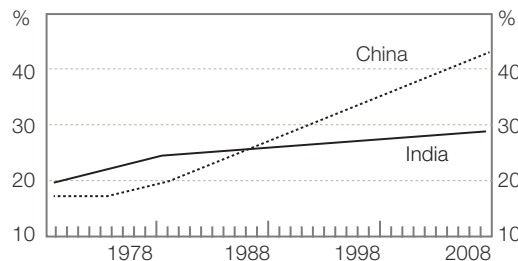
	India	China
Estimated 2009 figures		
GDP	US\$3.57 trillion	US\$8.74 trillion
GDP growth year on year	7.4%	9.1%
Estimated at July 2010		
Population	1.156 billion	1.338 billion
Population aged 0–14	30.5%	19.8%
Median age	25.9 years	35.2 years

Source: CIA Factbook

However, the population figures tell quite a different story. China’s rise was based on its large, cheap labour pool, but because of the one child per family policy, China’s workforce is not replacing itself and is ageing, while India’s surging birth rate will keep its workforce young and growing. As the figures show, the median or average age for an Indian person is almost 10 years lower and that gap is likely to widen.

Beyond these factors, the biggest impact will come from the twin forces of urbanisation and industrialisation. As these forces gain further momentum, the demand for resources accelerates – people move to cities that require new buildings, roads, rail networks, bridges, communications, vehicles, banks, shopping and office blocks. As the graph shows, the urbanisation of China is well ahead of India’s current rate, but India’s may well be as big, or bigger.

Urbanisation Rate



Source: Worldbank

As the Deputy Governor of the Reserve Bank, Philip Lowe, pointed out recently, while the two countries have similar numbers of people, India has only 40 cities with one million plus people, compared with 170 in China. It will take a lot of iron ore, coal, and services to support the development of even another 100 large cities in India.

Implications for Australia

Some economists play down the tortoise and hare analogy since it is not a “race” one country has to win; both countries have room to grow and their own problems to solve. It is certainly possible, given India’s higher population growth, fast emerging middle class, projected rate of urbanisation, and entrepreneurial spirit, India’s economy could match or outstrip China’s in 20 years time.

While the current Australian outlook strongly links our future to that of China, there are sound reasons to value and improve the already strong demand from India for our raw materials, agricultural products and other exports. If current discussions between the two countries lead to a Free Trade Agreement then trade will accelerate even more.

Many Australian investors already have a stake in India’s growth story through major companies like ANZ, BHP Billiton, Fosters, Boral, Bluescope Steel, Orica and others which have invested there. While our major resource companies are leading the way, those companies which provide other products and services should not be overlooked.

And keep an eye on that tortoise.