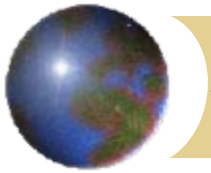


*Asia Business Forum October 13,  
2006.*

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

*Claimer/disclaimer. China as comparison. Sources.*

By: Adjunct Professor - CBS, Visiting Senior Research Fellow -  
ISEAS, Jørgen Ørstrøm Møller. [www.oerstroemmoeller.com](http://www.oerstroemmoeller.com).



## *Prelude (1)*

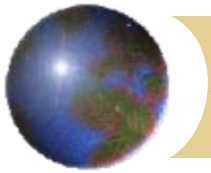
- Potential versus reality.
  - The potential is an unprecedented shift in power structure.
  - The reality is whether it will be allowed to happen and if so the circumstances.
- How to distil what we need to know from the myriads of information?
- The starting points:
  - The world is without leadership. Middle East, WTO, Global economy. There is a vacuum, not of power, but of leadership.
  - The Global economy is much more vulnerable than generally perceived.
  - 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 ↓, squeeze more investment out of Indian economy, squeeze more consumption out of Chinese economy. If managed correctly still global balance and no global recession.

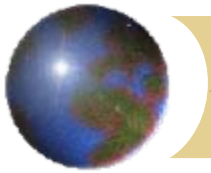
- This is what puts the Indian economy in perspective.



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

## a) Economics

- Measured in official exchange rates China's 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  $\cong$  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).

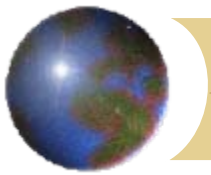


## *2) The shift from US to China and India (2)*

### b. Technology.

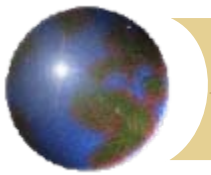
Handphone starts to become credit card, key to our doors.

- 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 approx. 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

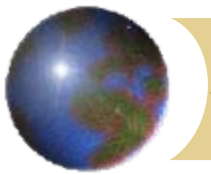


### *3) India's economy (2)*

Per cent of GDP. China/**India**.

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

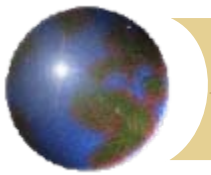




### *3) India's economy (3)*

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

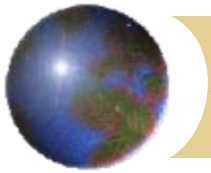
Services 11,7/18,6 29,9/22,4

- 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.



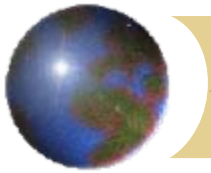
### *3) India's economy (7)*

- 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%.

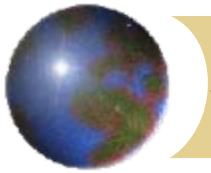
15 – 64 year. China 69,5%. India 63%.

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%↑

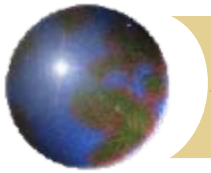
India one of the few countries with population growth –  
absolute and composition.

.



### *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

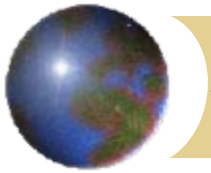
India: Weak government. Democracy.

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.



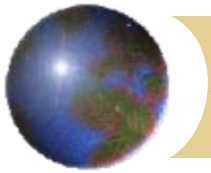
## 4. *Strengths and weaknesses (3)*

- 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.



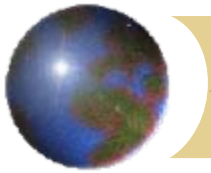
## *4. Strengths and weaknesses (4/2)*

- 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.



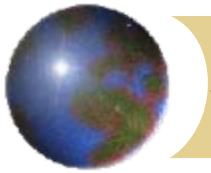
## *4. Strengths and weaknesses (5)*

- 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.



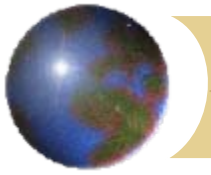
## 4. *Strengths and weaknesses (6)*

- 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)*

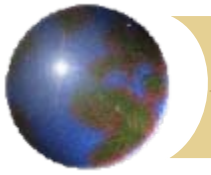
- Indian multinationals coming, soon, fast and with power. 2005 ► 136 M & As = 5,2 bn UsD First half 2006 ► 76 M & As = 4,7 bn.
- Mittal Steel – Arcelor.
- Most active sectors: IT sector, banking and financial services, pharmaceutical.
- Compare FDI into India = approx. 6 bn UsD.
- Household names: Mittal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



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

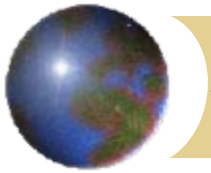
- The great game. Institutionalisation of Asia. China or India, no, China and India. Japan difficult to get in.
- It will shape the future.
- A large FTA with 3 bn people, growth of approx. 6-7% and income per capita fast rising above 1500 USD.





## *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.



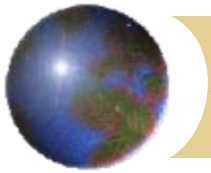
## *5. Asian integration. Tandem with China. Foreign and Security Policy (4/1)*

This is changing the world.

- Combine China's low cost and efficient production with India's low cost R & D plus high-tech services. Hot air?

	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)*

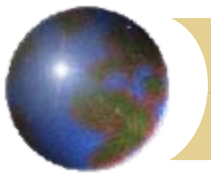
- It is already seen how multinational companies make use of this comparative advantage.
- It won't last long before Chinese and Indian companies start to do the same.
- China: infrastructure, logistics, older population demanding services, high savings and high labor productivity.
- India: Innovative companies, young population demanding consumer goods, high capital productivity.



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

Indian security.

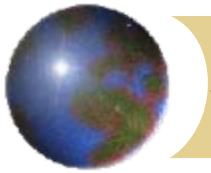
- Shiite arc from Beirut to Mumbai. India caught up in the muslim civil war.
- Indian planners do not really see beyond the Subcontinent.
- Starting to do so. Leverage in foreign and security policy. Israel, Iran.
- Relations with US.
- Decisive point: China. No conflicting vital interests.



## *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](http://www.oerstroemmoeller.com)