

India and China: collision ahead or the emergence of Chindia?

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India and China: collision ahead or the emergence of Chindia?

1. A short comparative reminder
2. Large differences in development patterns and potential risks ahead
3. Complementarities less convincing than areas of friction



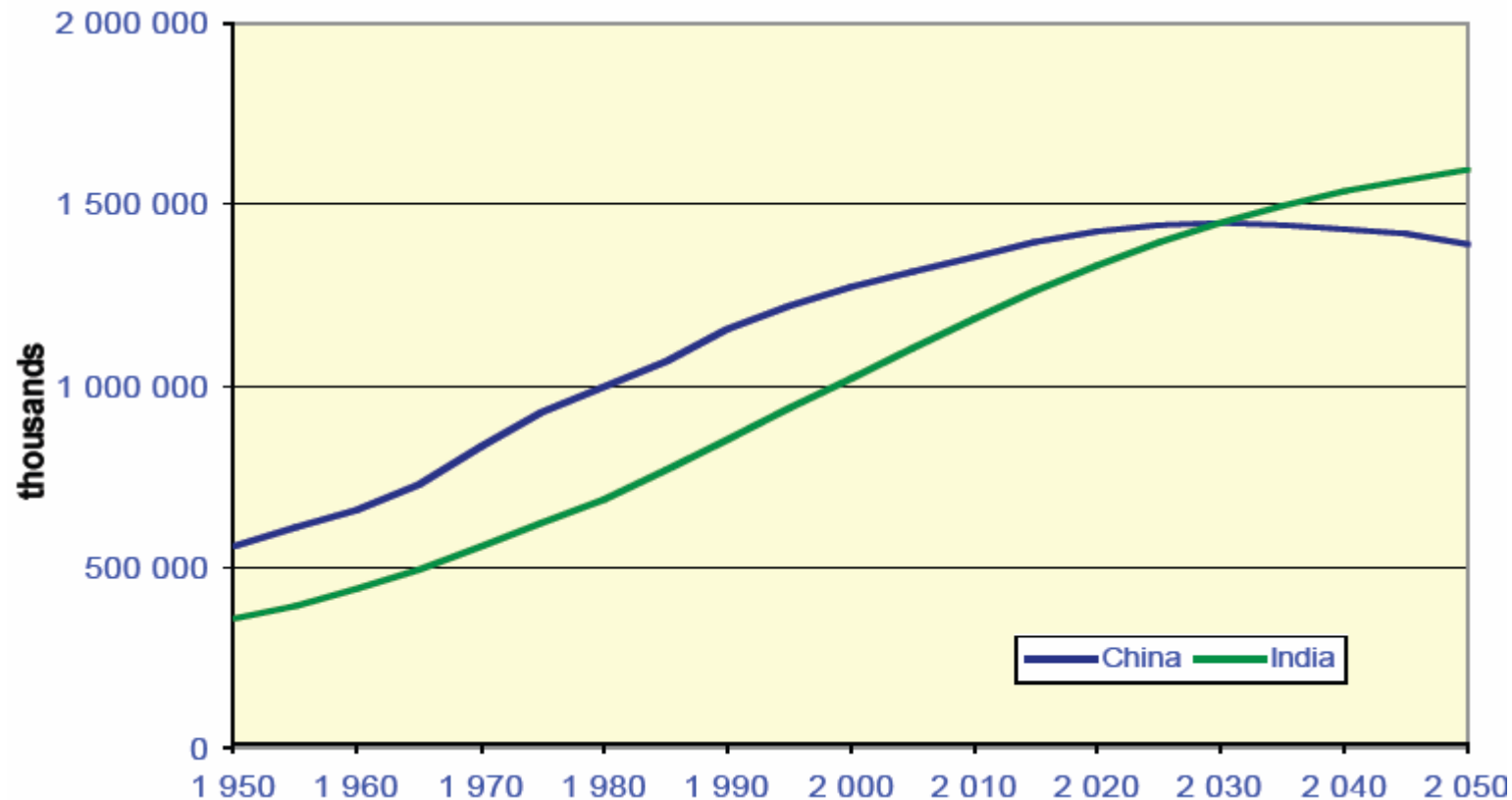
1 - A short comparative reminder

| | | |
|---------|---------------------------------------|---------|
| 1110 mn | Population | 1312 mn |
| 3830 \$ | GDP per cap. (\$ PPP) | 7660 \$ |
| 6.8% | GDP growth (1997-2006) | 9.1% |
| 23% | External trade in goods (% GDP) | 62% |
| 8.5% | External trade in services (% GDP) | 7.1% |
| 5.0% | Private consumption (growth 96-05) | 6.5% |



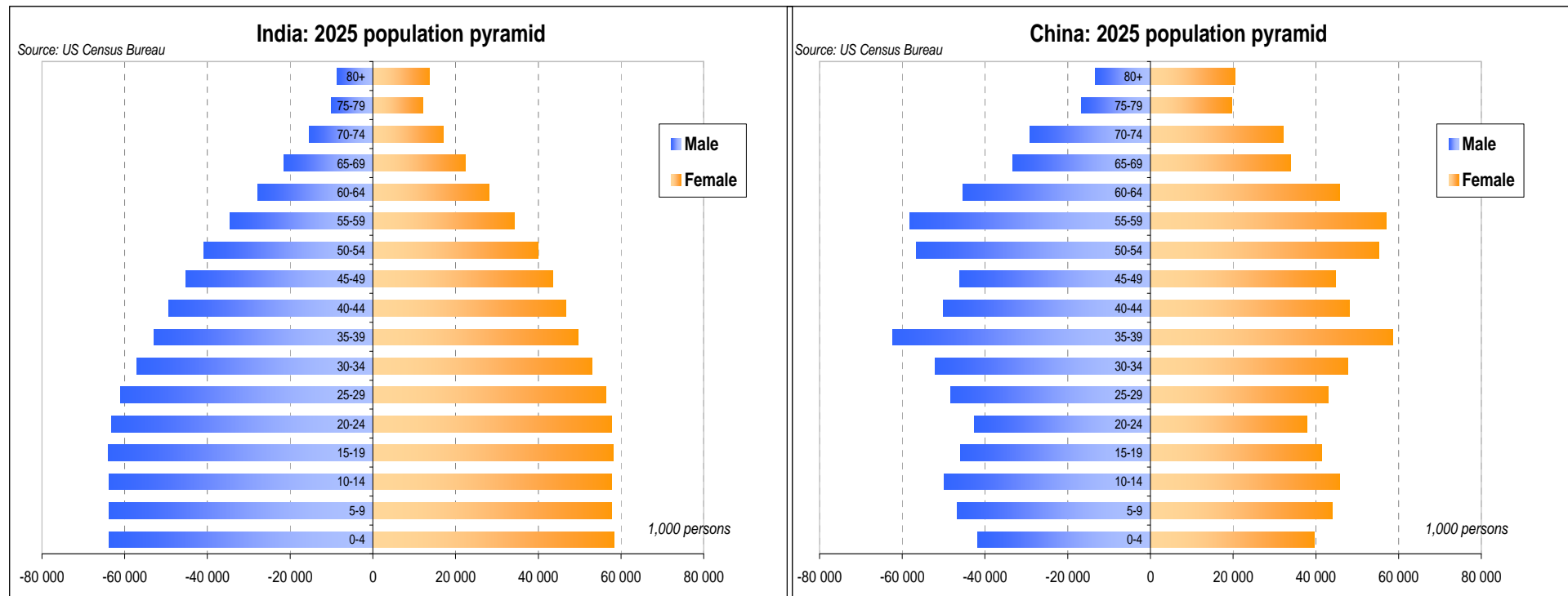
1 - A short comparative reminder

Demographic trends (total population)



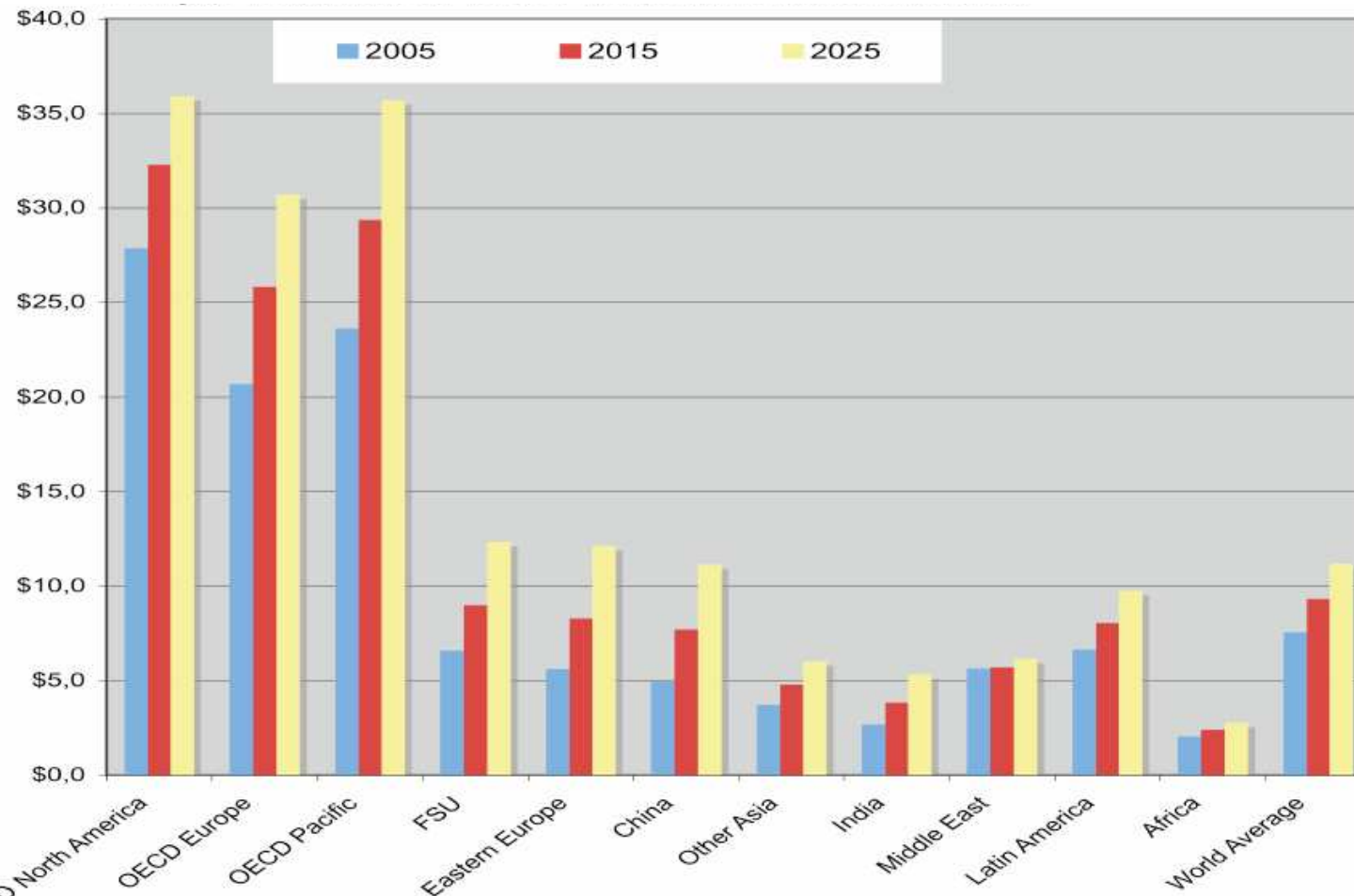
1 - A short comparative reminder

Demographic trends (population by age groups)

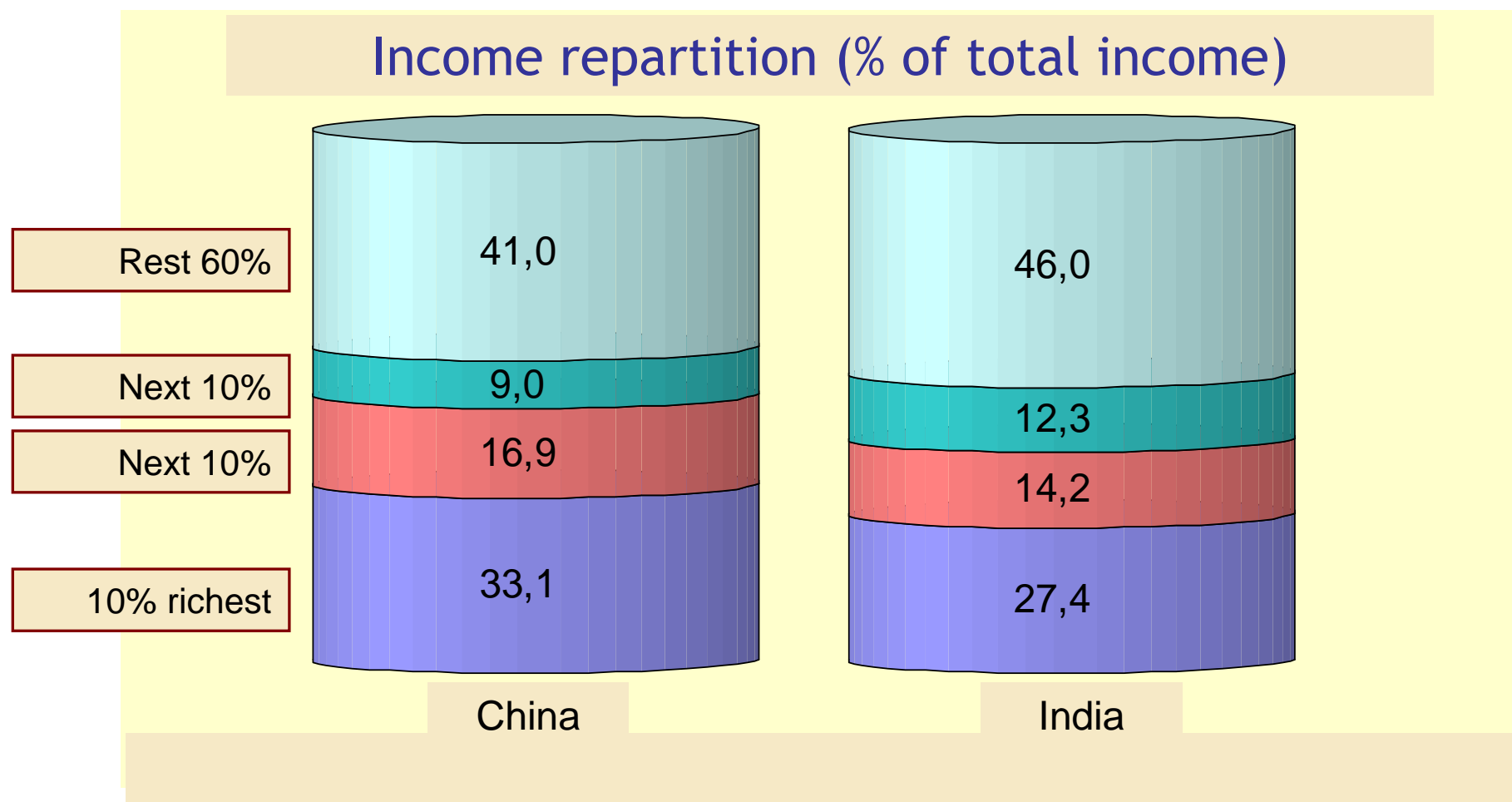


1 - A short comparative reminder

Simple projection of GDP over the long-term
GDP per capita in '000 \$ ppp



1 - A short comparative reminder



1 - A short comparative reminder

China

- ✓ The world's sweatshop
- ✓ Highly productive and competitive
- ✓ “Capitalist jungle” without political flexibility
- ✓ High degree of government control and global strategic objectives
- ✓ Legal and regulatory uncertainty

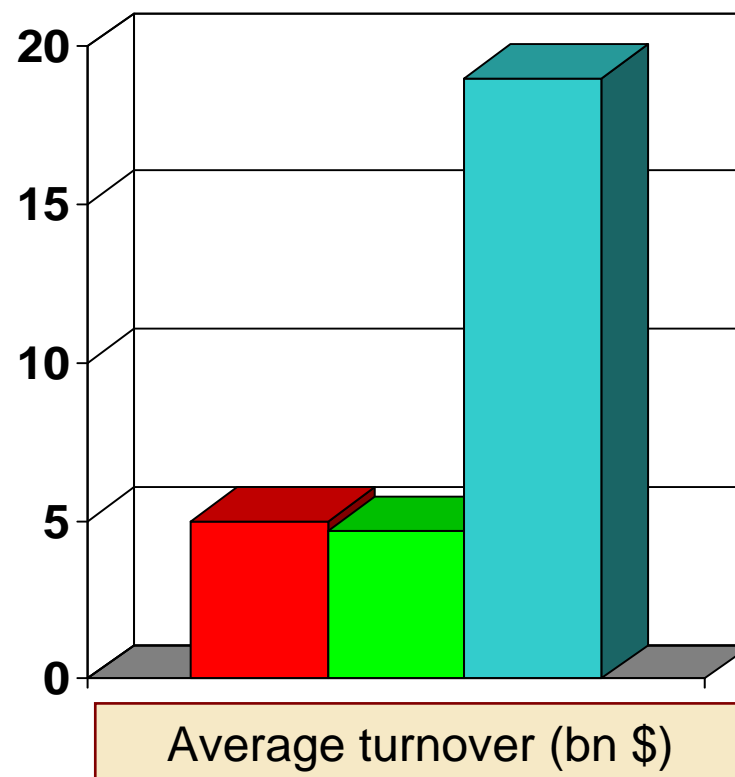
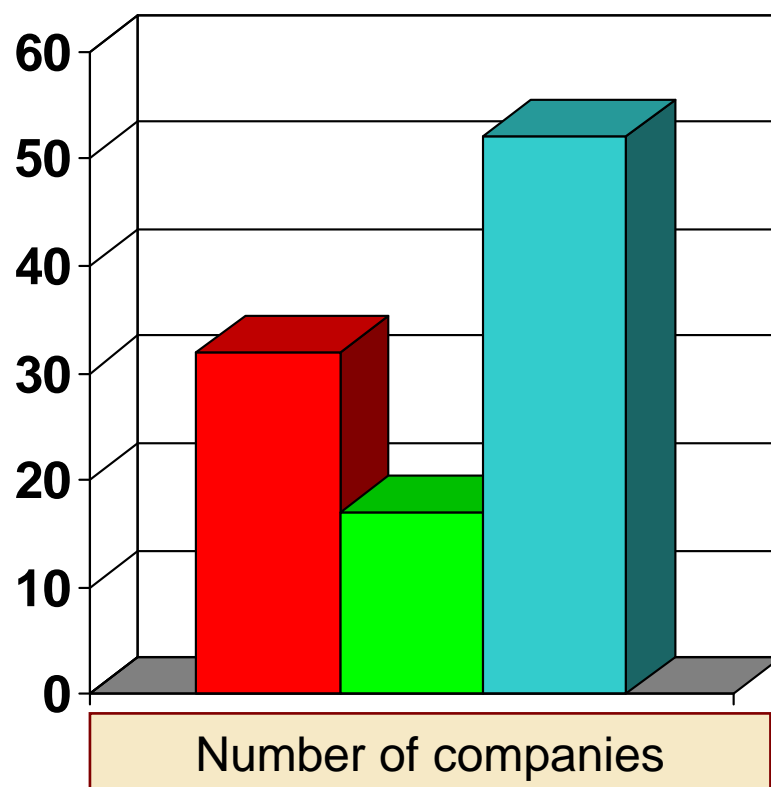
India

- ✓ Services & innovations
- ✓ Financial capabilities, but high protection
- ✓ Bureaucratic hurdles and political changes
- ✓ Critical changes in large corporate structures and objectives
- ✓ Established legal system but massive red tape



1 - A short comparative reminder

Companies among the world's 2000 largest



China

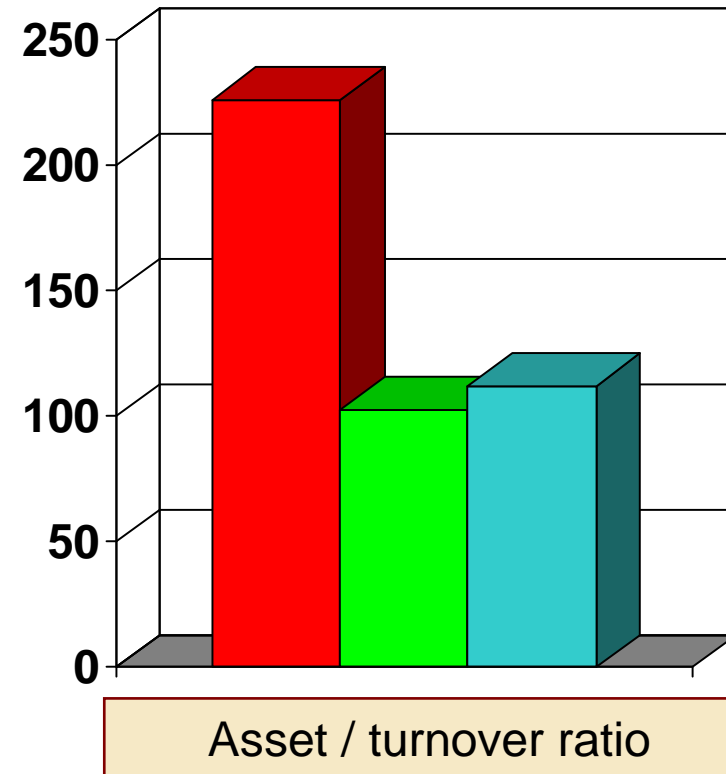
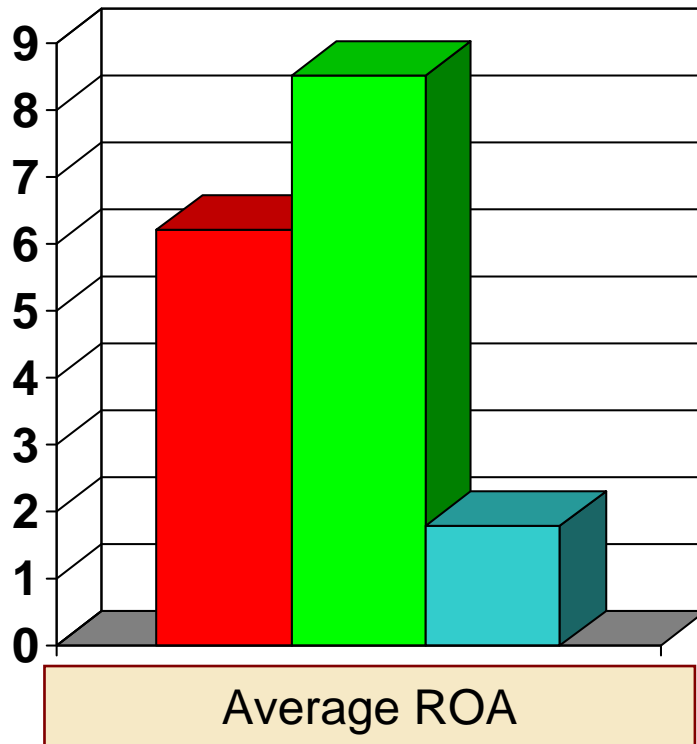
India

France



1 - A short comparative reminder

Companies among the world's 2000 largest



China

India

France



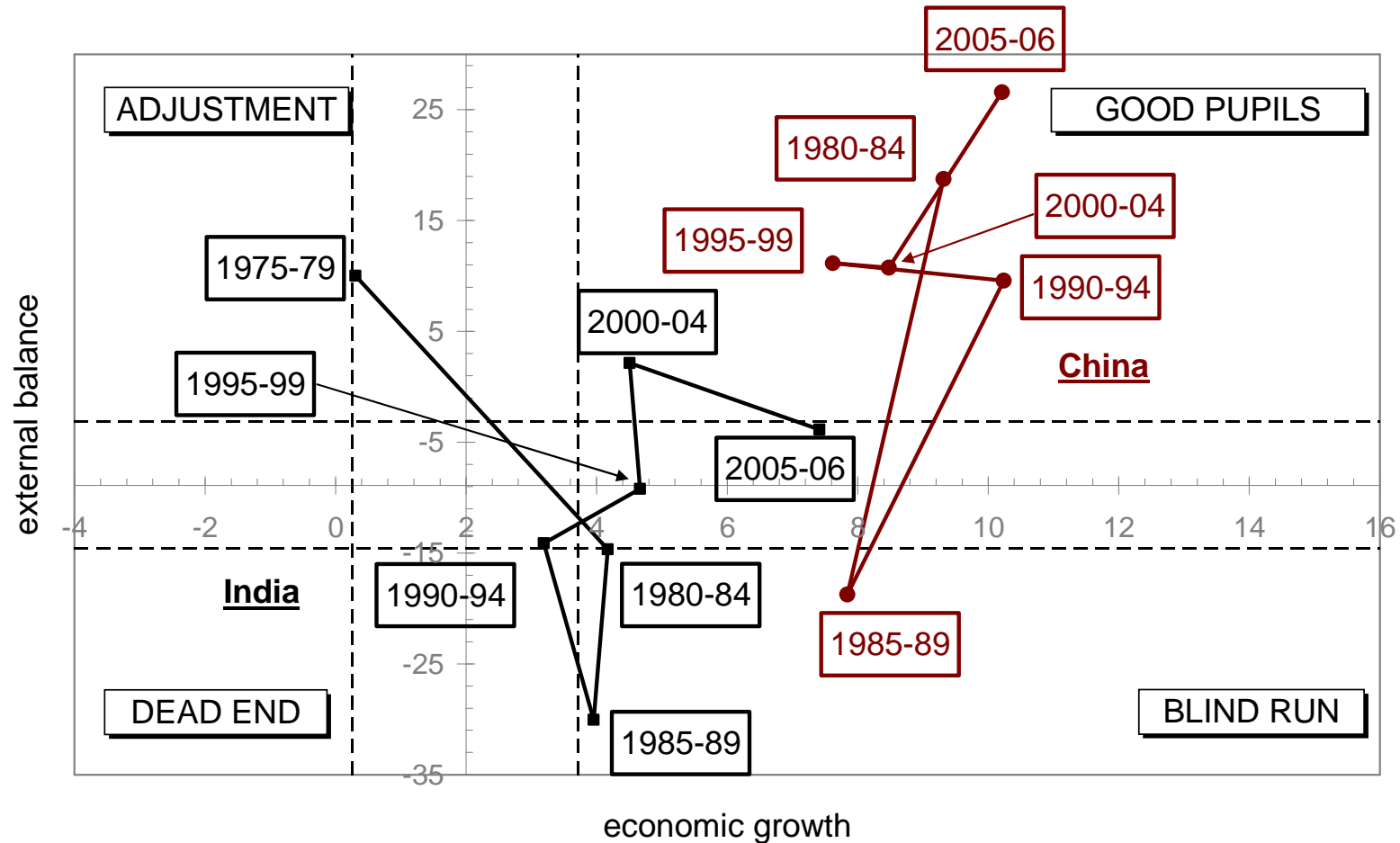
2 - Large differences in development patterns and potential risks ahead

- Using TAC's proprietary tool for risk assessment
- Through different Fundamental economic & financial balances
- And a specific look at political factors

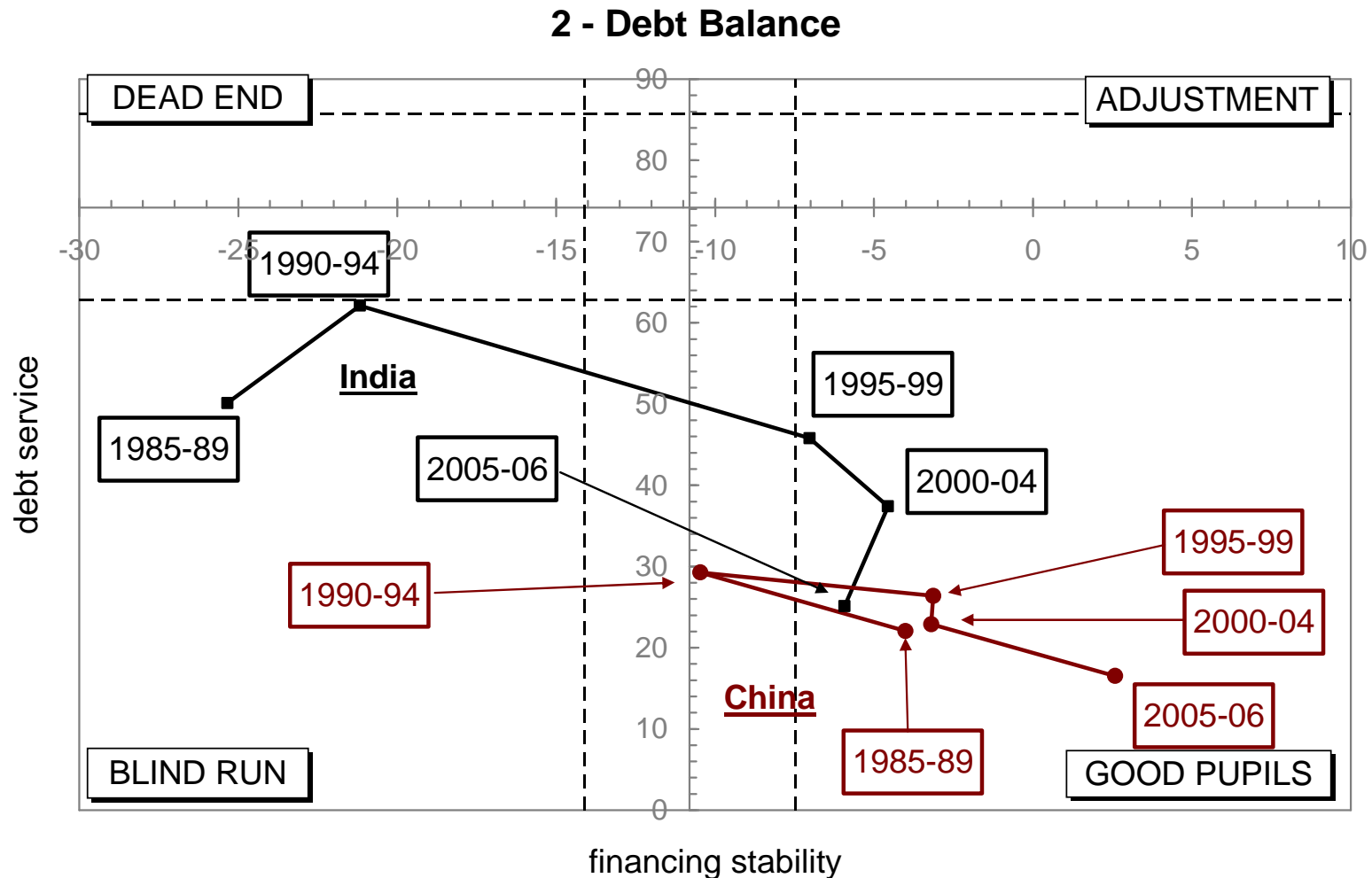


2 - Large differences in development patterns and potential risks ahead

1 - Growth Balance

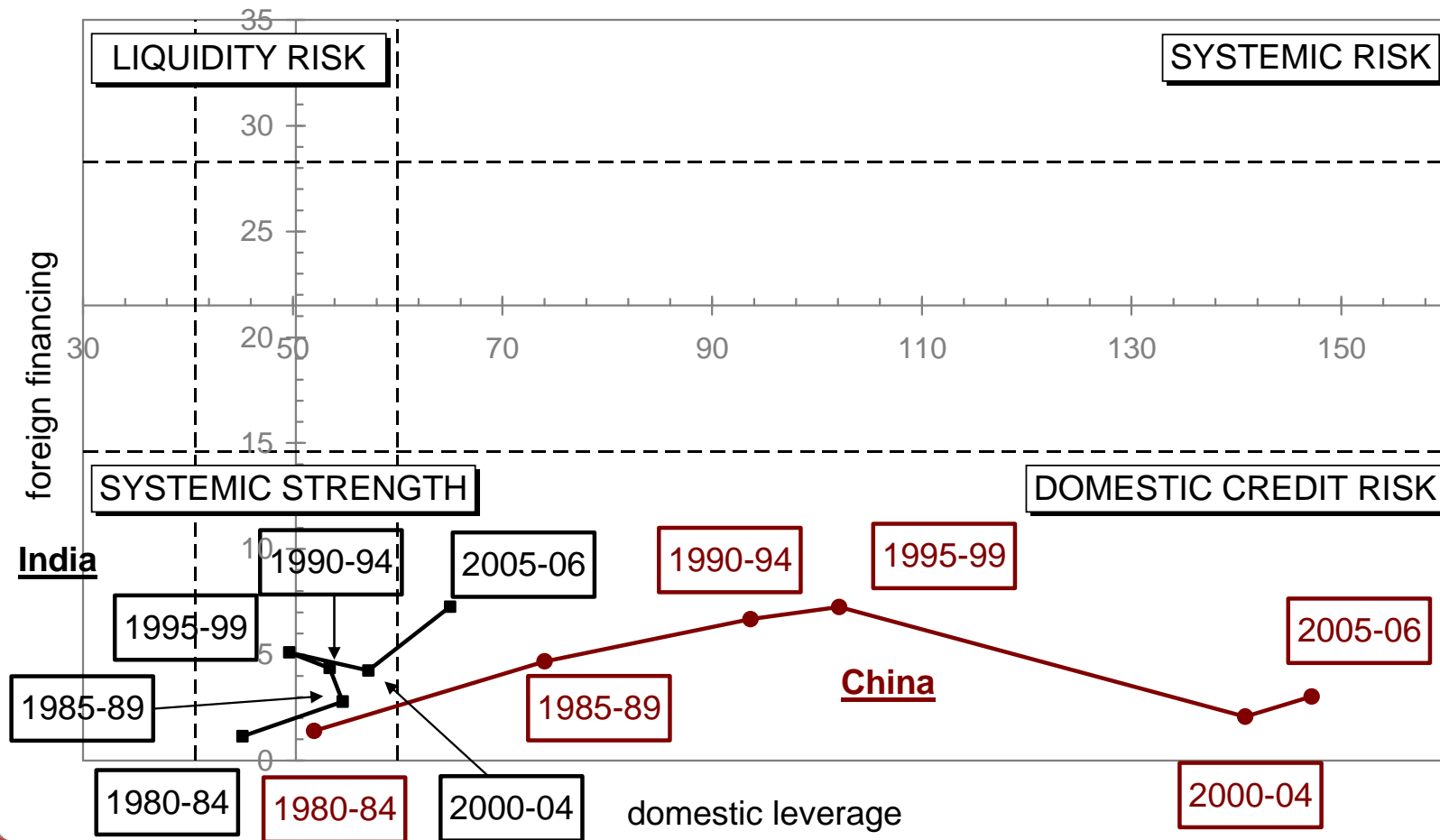


2 - Large differences in development patterns and potential risks ahead

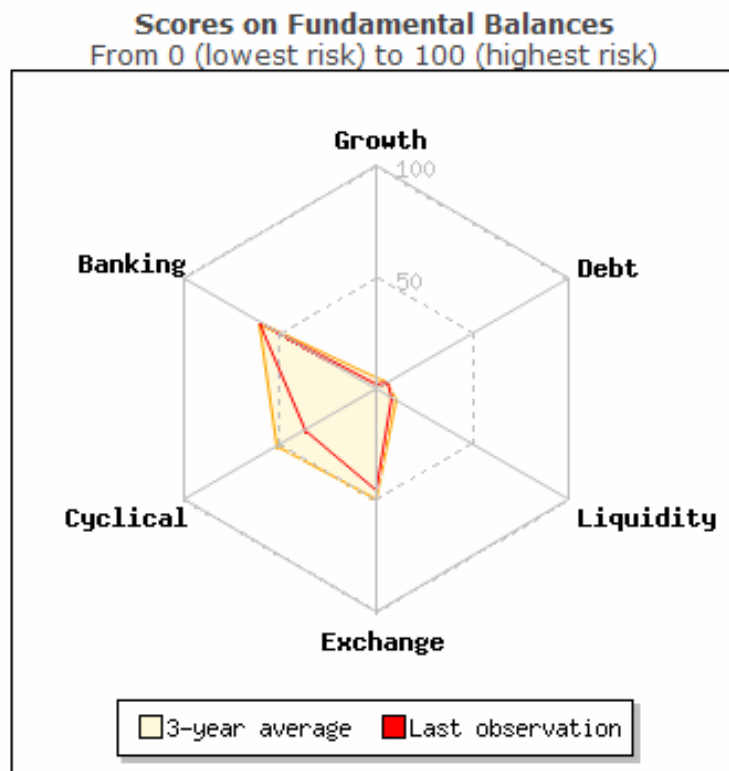


2 - Large differences in development patterns and potential risks ahead

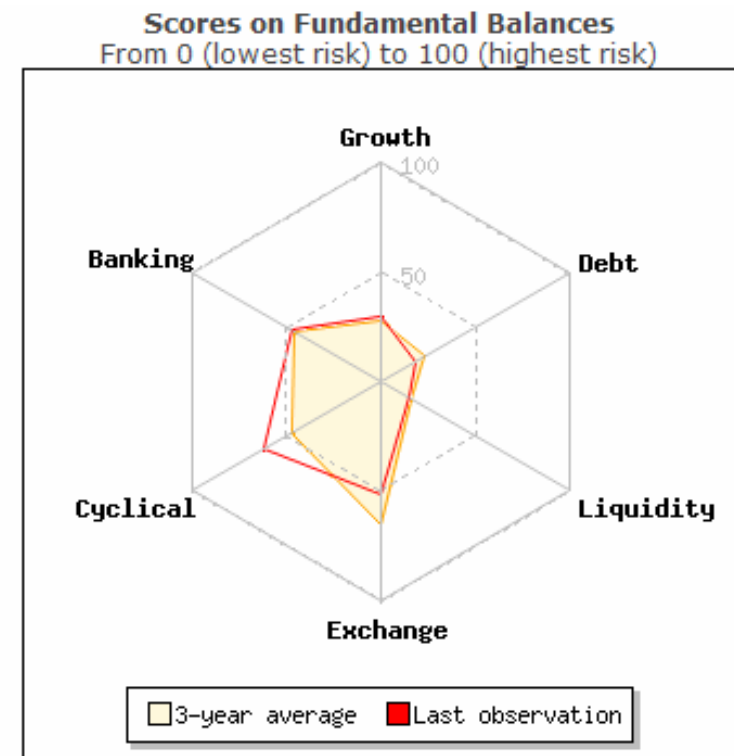
6 - Banking System Balance



2 - Large differences in development patterns and potential risks ahead



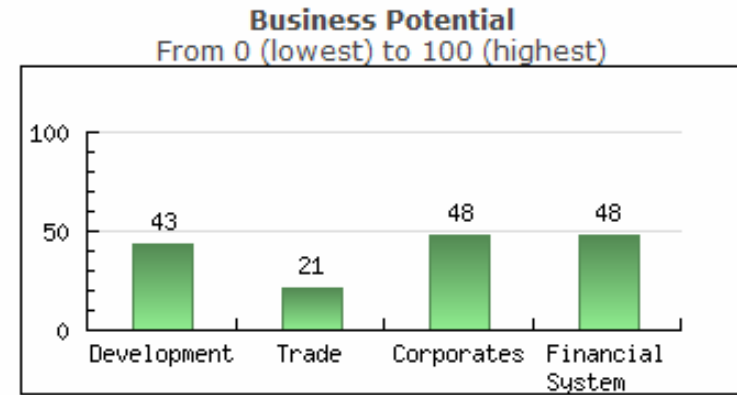
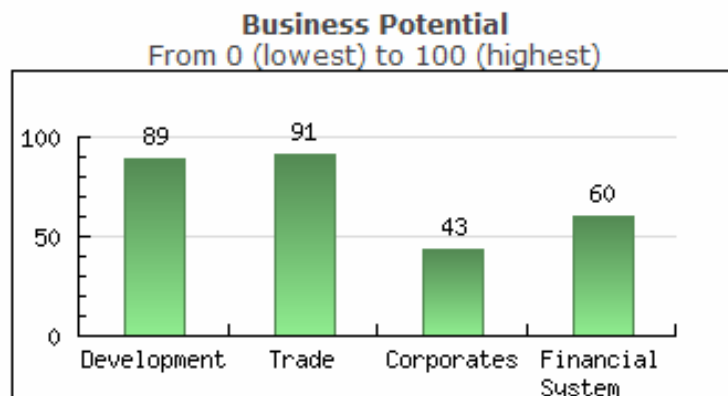
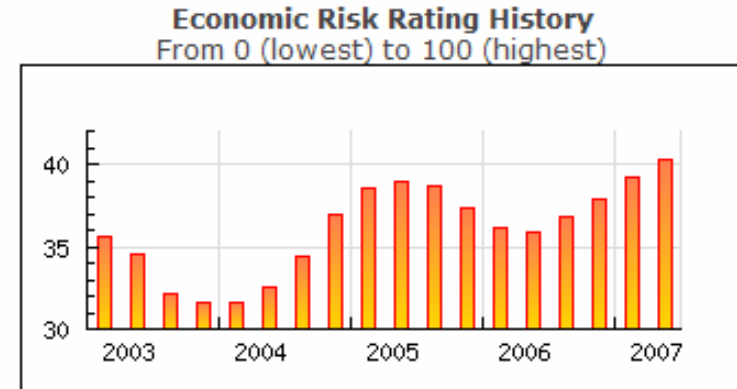
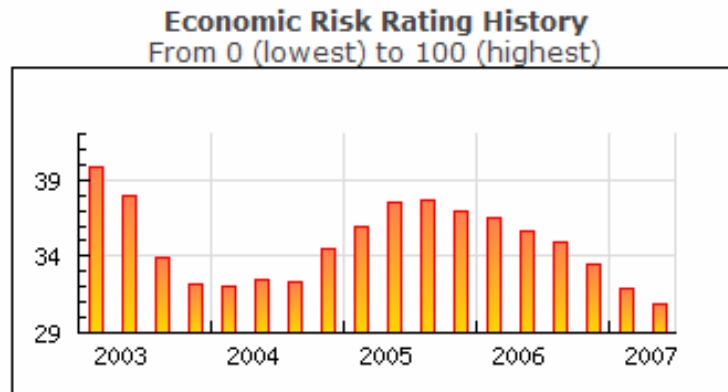
China



India



2 - Large differences in development patterns and potential risks ahead

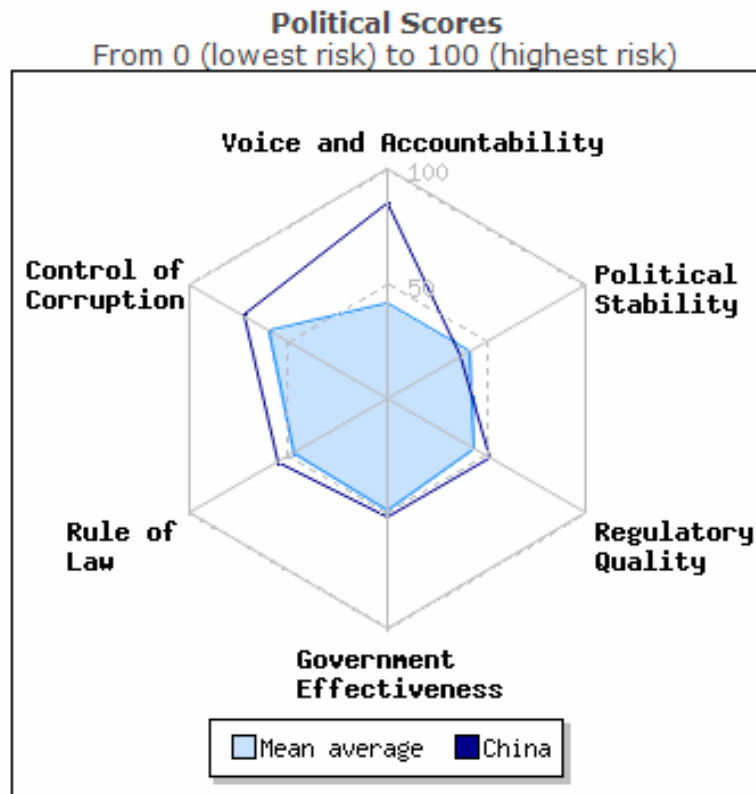


China

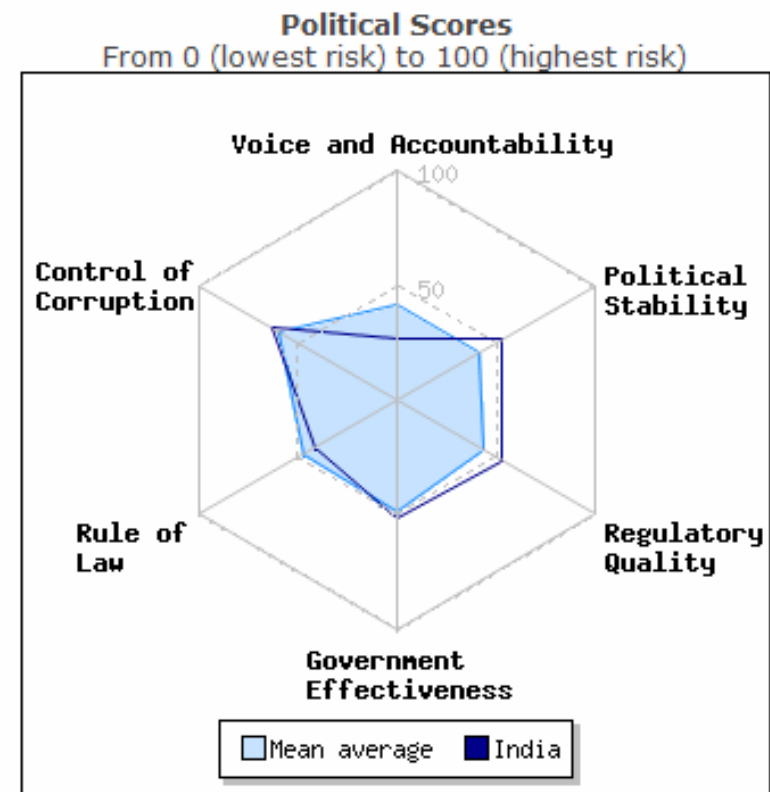
India



2 - Large differences in development patterns and potential risks ahead



China



India



2 - Large differences in development patterns and potential risks ahead

China

- ✓ Cyclical adjustment after a period of over-investment financed by excessive leverage
- ✓ Inequality in development (geographic, social groups, urban / rural) without political outlets
- ✓ Corporate structure and governance
- ✓ Environmental issues and dangers

India

- ✓ Fiscal balances in a context of delicate relations Center - States
- ✓ Massive need for infrastructure but also for exchange rate competitiveness
- ✓ Basic education / social needs with increasing gaps
- ✓ Regulatory environment for competition and labor



3 - Complementarities less convincing than areas of friction

Three key questions for the medium-term:

- What is the potential extent of India - China complementarities
- Can the world cope with the emergence of two “heavy weights”?
- Can Asia bear with two new regional powers?



3 - Complementarities less convincing than areas of friction

Complementarities and the emergence of *Chindia*

- ❑ Trade in very different types of goods or services ... for the time being
- ❑ Core areas of expertise for the major companies offer attractive “synergies”
- ❑ Potential for strategic alliance in the case of heightened tensions with major world powers



3 - Complementarities less convincing than areas of friction

Major Indian exports (total world)

| | |
|-----------------------------|--------|
| Pearls, precious stones | 15 836 |
| Mineral fuels & oils | 11 912 |
| Garment, not knit | 5 456 |
| Organic chemicals | 4 876 |
| Ores, slag and ash | 4 470 |
| Machinery & equipment | 4 204 |
| Iron and steel | 3 828 |
| Vehicles other than railway | 3 306 |
| Garment knit | 3 203 |
| Cotton | 2 996 |

Major Chinese imports (total world)

| | |
|----------------------------------|---------|
| Electrical, electronic equipment | 174 835 |
| Machinery & equipment | 96 284 |
| Mineral fuels & oils | 64 089 |
| Optical, technical apparatus | 49 963 |
| Plastics and articles thereof | 33 308 |
| Organic chemicals | 28 019 |
| Iron and steel | 26 210 |
| Ores, slag and ash | 26 033 |
| Copper and articles thereof | 12 896 |
| Vehicles other than railway | 12 309 |

These 10 products account for 60%
of total Indian exports



3 - Complementarities less convincing than areas of friction

Major Chinese exports (total world)

| | |
|----------------------------------|---------|
| Electrical, electronic equipment | 172 314 |
| Machinery & equipment | 149 694 |
| Garment, not knit | 35 031 |
| Garment knit | 30 871 |
| Optical & technical apparatus | 25 479 |
| Furniture, lighting, signs, | 22 361 |
| Toys, sports requisites | 19 124 |
| Footwear | 19 053 |
| Articles of iron or steel | 19 032 |
| Plastics and articles thereof | 17 783 |

These 10 products account for 70%
of total Chinese exports

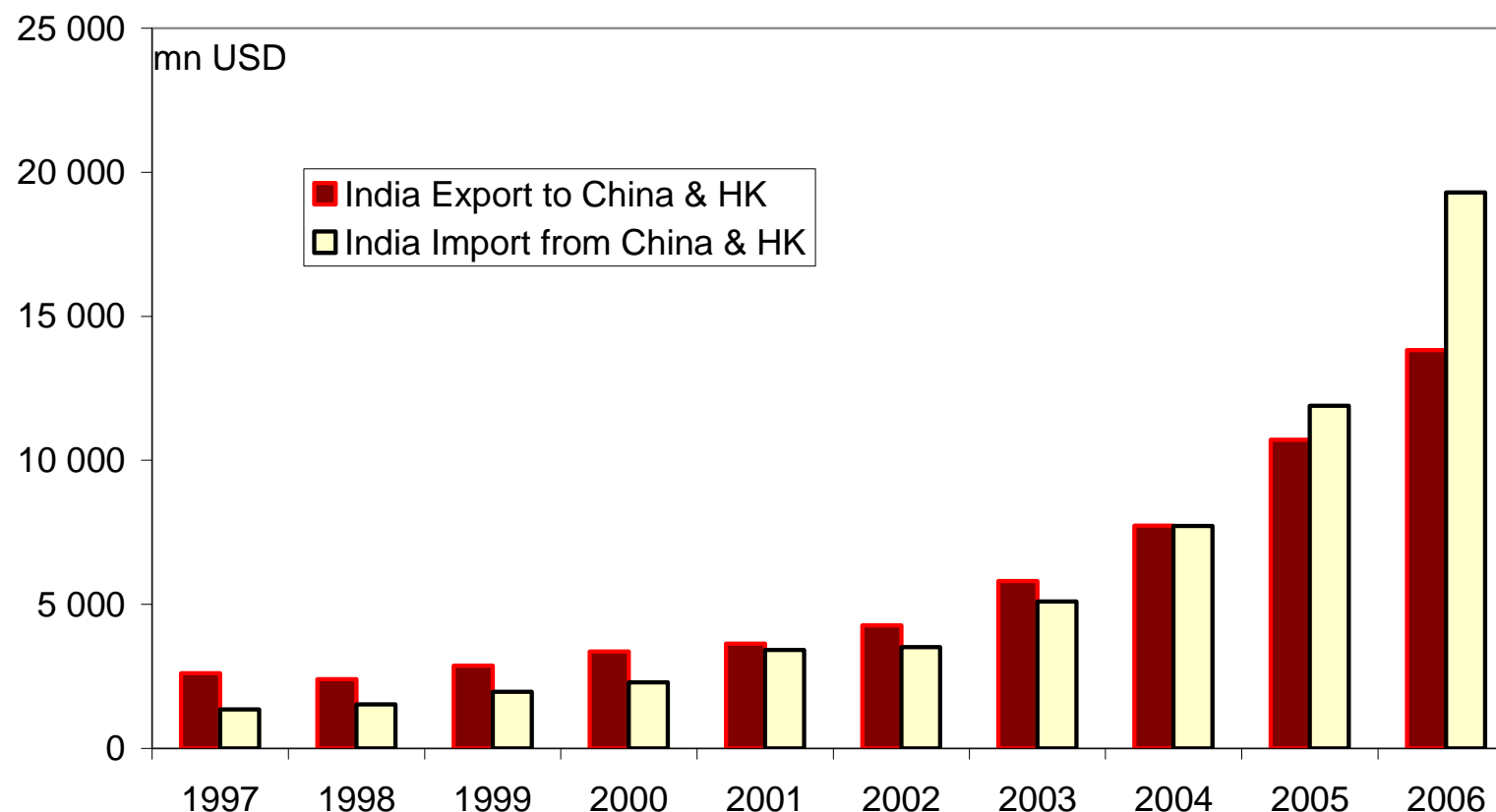
Major Indian imports (total world)

| | |
|----------------------------------|--------|
| Mineral fuels & oils | 50 510 |
| Pearls, precious stones | 20 765 |
| Machinery & equipment | 13 970 |
| Electrical, electronic equipment | 11 946 |
| Iron and steel | 5 468 |
| Organic chemicals | 5 165 |
| Aircraft, spacecraft | 4 999 |
| Ships, boats | 2 722 |
| Optical & technical apparatus | 2 667 |
| Plastics and articles thereof | 2 567 |



3 - Complementarities less convincing than areas of friction

China-India Trade



Source: IMF-DOTS

3 - Complementarities less convincing than areas of friction

Can the world cope with Chindia ?

- ☐ Access to resources (energy, commodities)
- ☐ Trade regime and the relevance of WTO
- ☐ Relationship with the US and Russia
- ☐ Environmental issues (water, CO2)



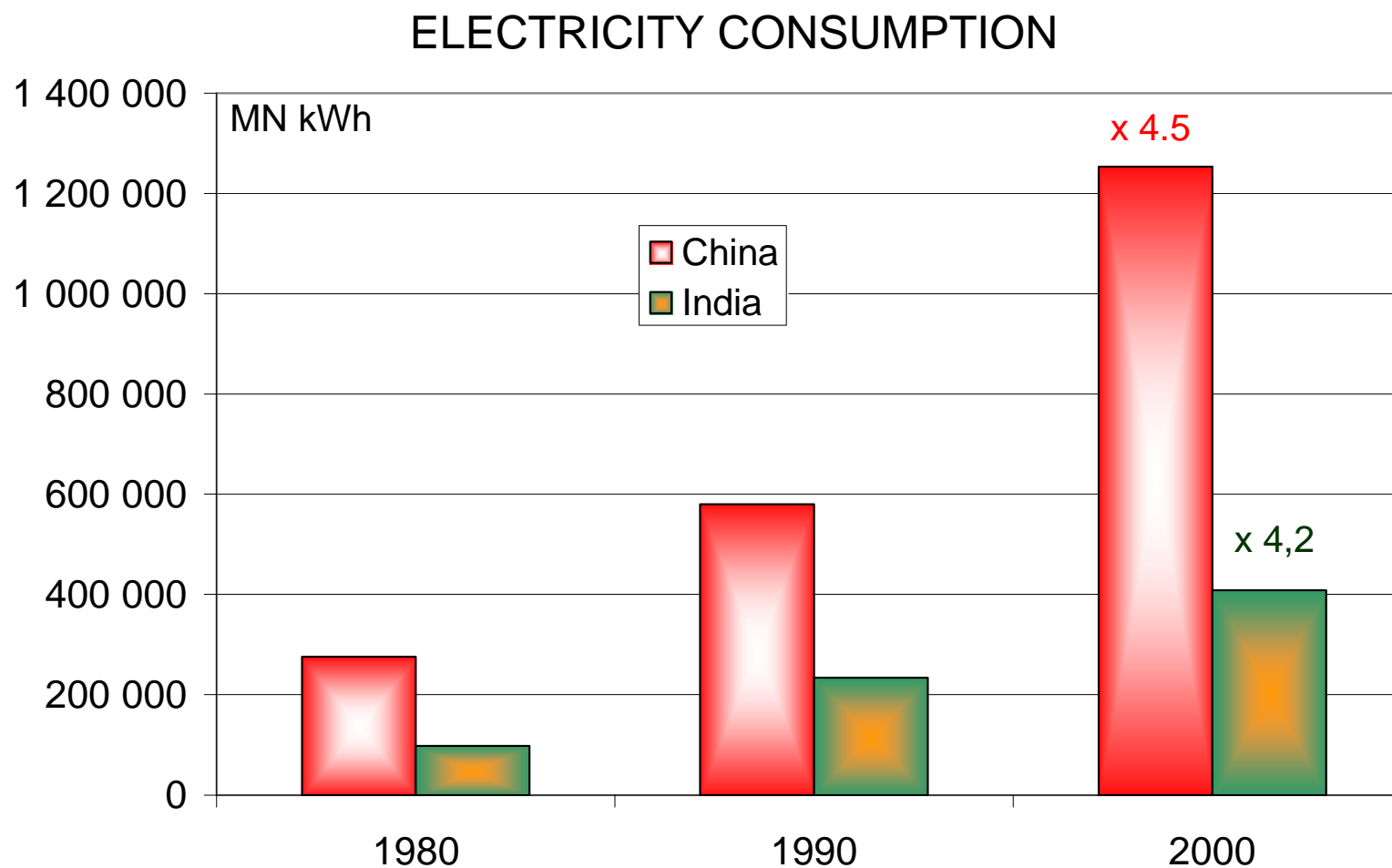
3 - Complementarities less convincing than areas of friction

Energy consumption: the race is on...

| | Oil | Gas | Oil + Gas | Coal | Other | Total |
|---------|-----|-----|-----------|------|-------|-------|
| USA | 39 | 26 | 65 | 24 | 11 | 100 |
| Russia | 19 | 55 | 74 | 15 | 11 | 100 |
| Japan | 48 | 14 | 62 | 21 | 18 | 100 |
| Germany | 39 | 23 | 62 | 26 | 12 | 100 |
| China | 25 | 3 | 28 | 66 | 6 | 100 |
| India | 36 | 9 | 45 | 51 | 4 | 100 |
| World | 37 | 24 | 61 | 26 | 13 | 100 |



3 - Complementarities less convincing than areas of friction



3 - Complementarities less convincing than areas of friction

Asia and Chindia: cooperative or competition relationship ?

- ❑ The worries raised by China's rapid re-emergence as a world power, and the potential strategic relationship with India
- ❑ Different development patterns are likely to trigger different views of the regional trade integration
- ❑ Differences in political structures and the likelihood of misunderstandings
- ❑ Zones of local frictions: Tibet and Nepal, Myanmar, Indian Ocean, Malacca Strait



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Conclusions (1)

- Highly attractive potential for business development in both countries, but with “peak interest” at different moment in time
 - ✓ Stiff competition and corporate risks in China, but with much larger markets for a long period of time
 - ✓ “Premium for early entry” and a fundamentally positive development over the medium- to long-term in India



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Conclusions (2)

- Nature of risks, more than the degree of risks, is very different in the two countries
 - ✓ Cyclical overheating, long-term weakness in infrastructure and uncertainties about economic policy direction in India
 - ✓ Over-investment and financial leverage, in a highly uncertain regulatory outlook for foreign companies in China



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Conclusions (3)

- Areas of collision and frictions are likely to overshadow the potential for complementarities, especially on a medium-to long-term horizon



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Thank you for your kind attention and
patience

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