Some perspectives on India and China

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Here for good

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Contents page

A perspective on India’s growth experience	3
Opportunities in India	5
India’s near term challenges	43
Our views on China	50
The dragon and the tiger	59

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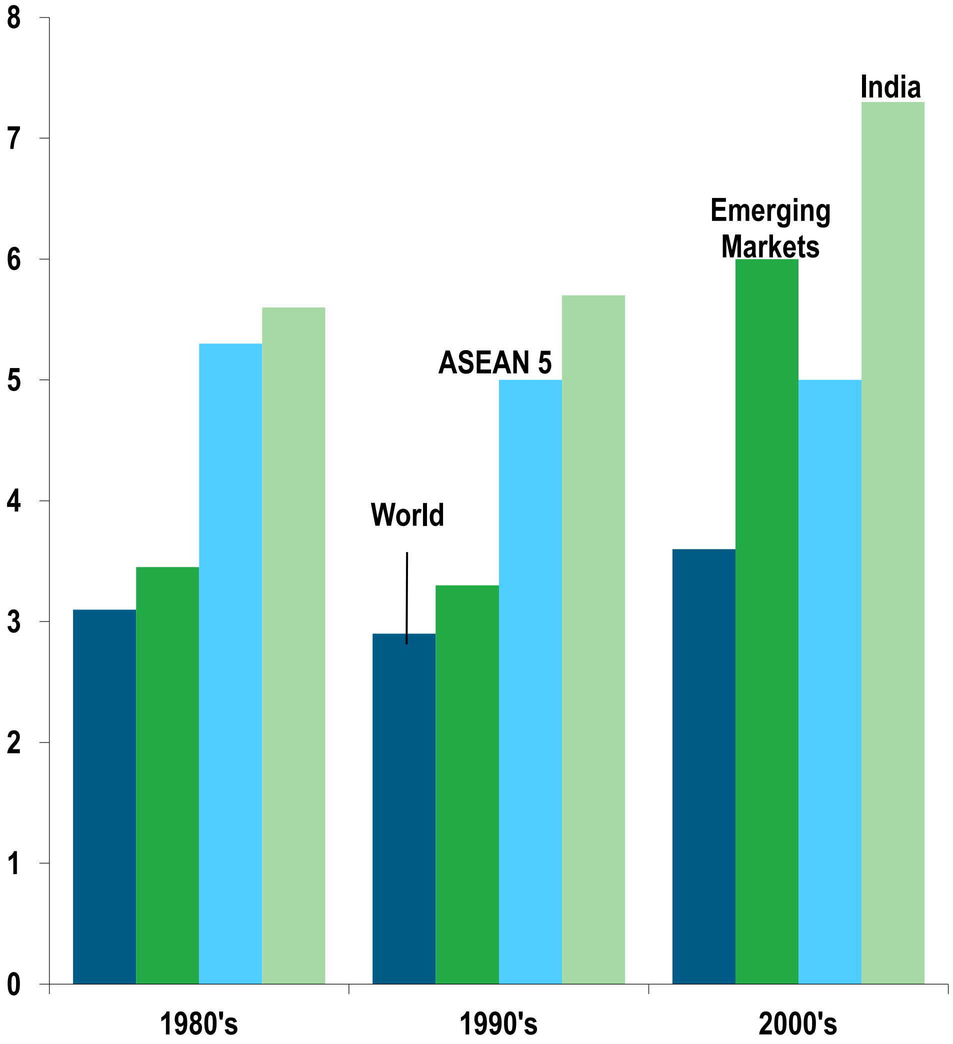
A perspective on India's growth

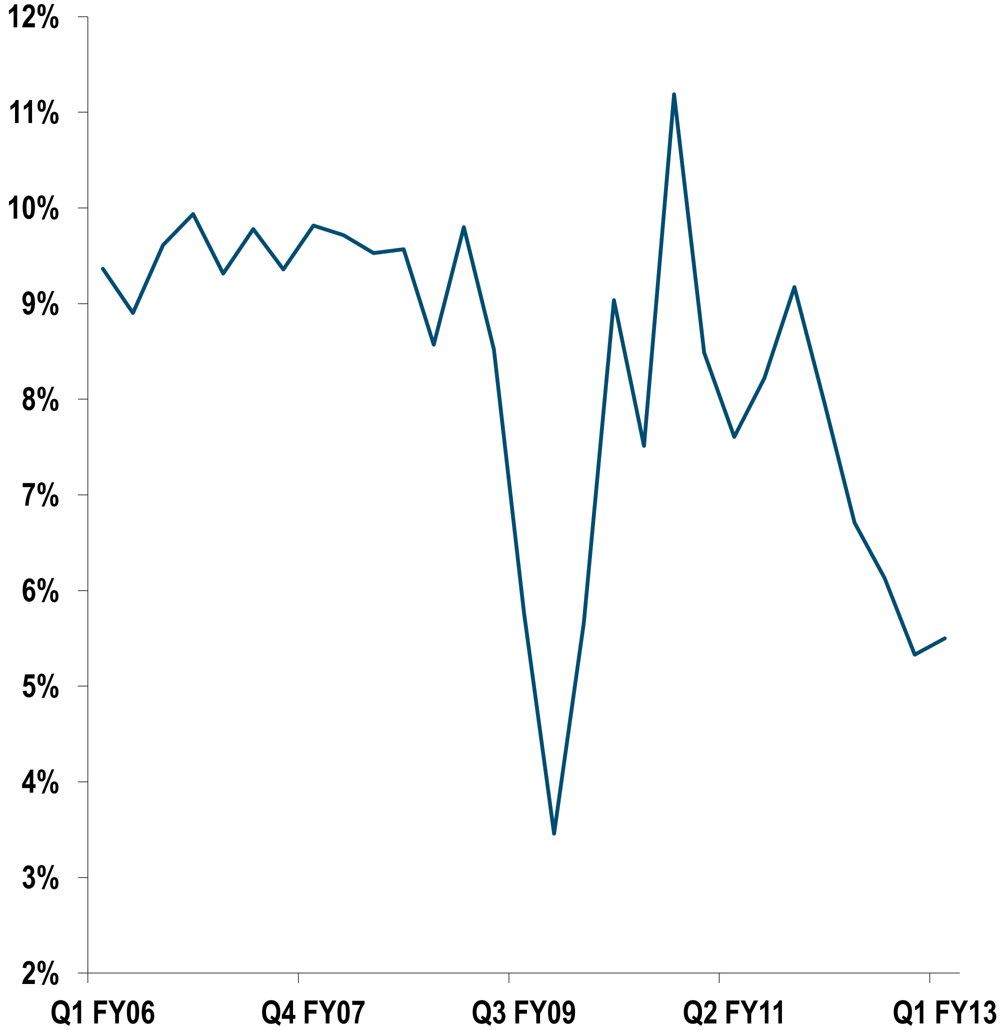
Growth not a 'flash in the pan'

GDP growth, % y/y



But growth is decelerating more recently

GDP growth, % y/y



Sources: IMF, CEIC, Standard Chartered Research

Cycles of pessimism and optimism are not new to India

India has come a long way since 2002

2002

2004

2010

2012

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Opportunities in India

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Underpinnings of the India opportunity

Ingredients for sustainable economic growth

Economic, Social and Political Drivers

Demographics

- Young working population – Low dependency ratio
- High savings rate

Domestic Demand

- Growing consumer markets
- Changing lifestyles
- Unleashing rural demand

Infrastructure Build

- Growth preceded infra development
- Private sector participation

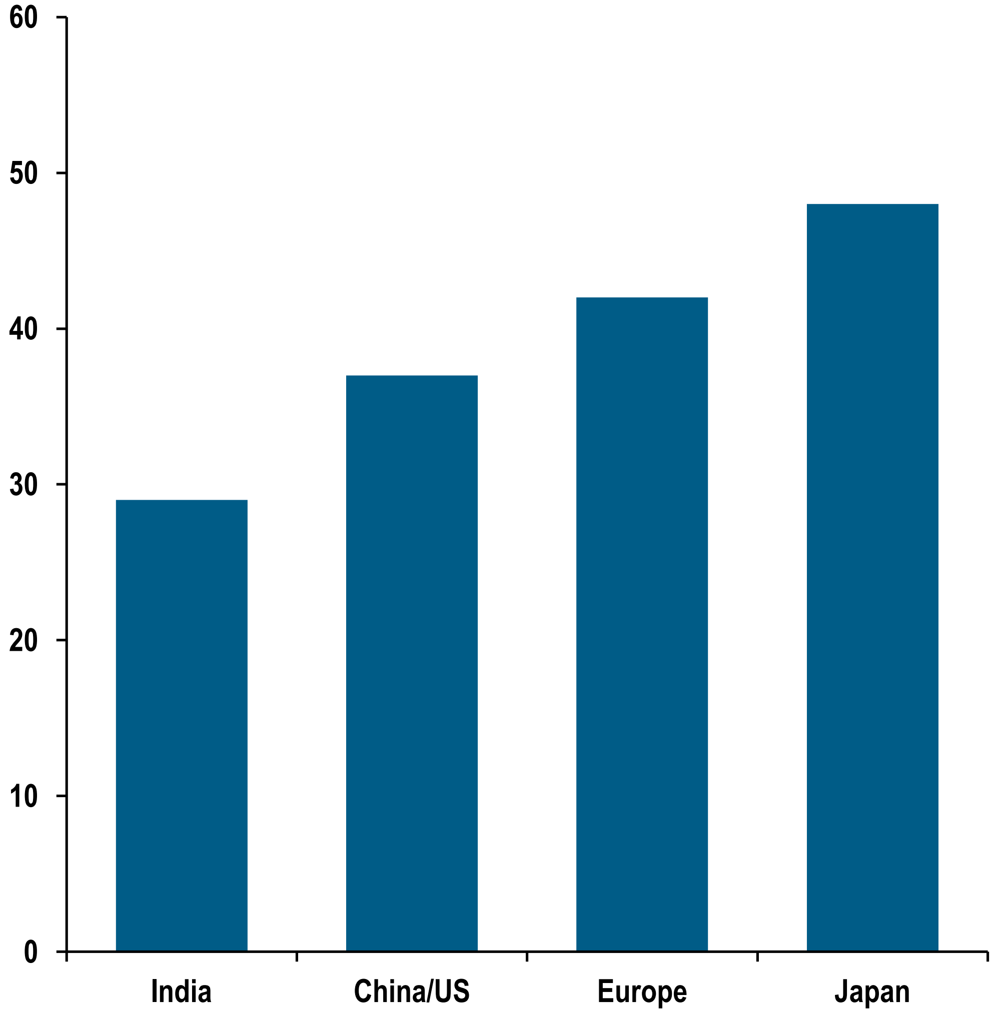
Global integration

- Removing the trade barriers
- Opening up to capital flows

Sources: Standard Chartered Research

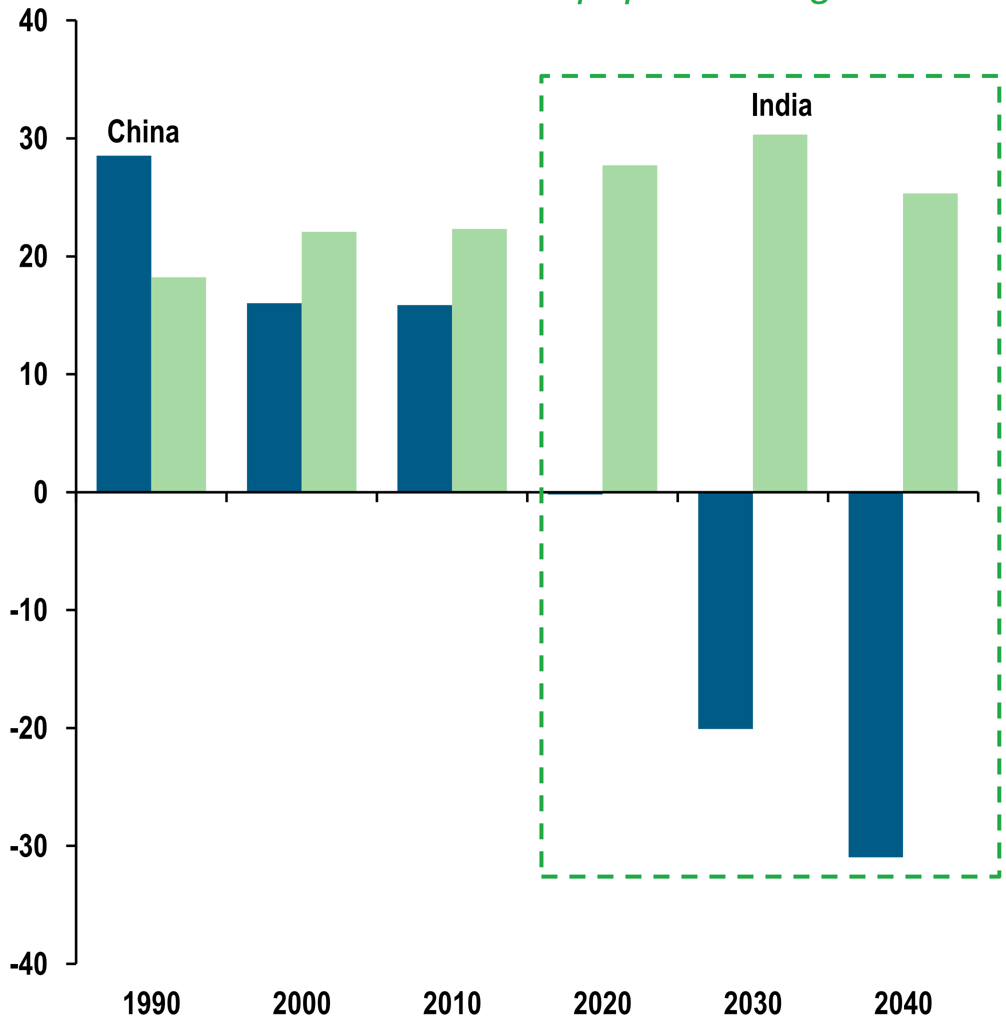
Demography: Young population to run the global workshop

Average age by 2020



Growing share of the global workforce

% share of incremental world population aged 15-59



Out of every 100 new entrants in the global workshop, 28 will be Indians

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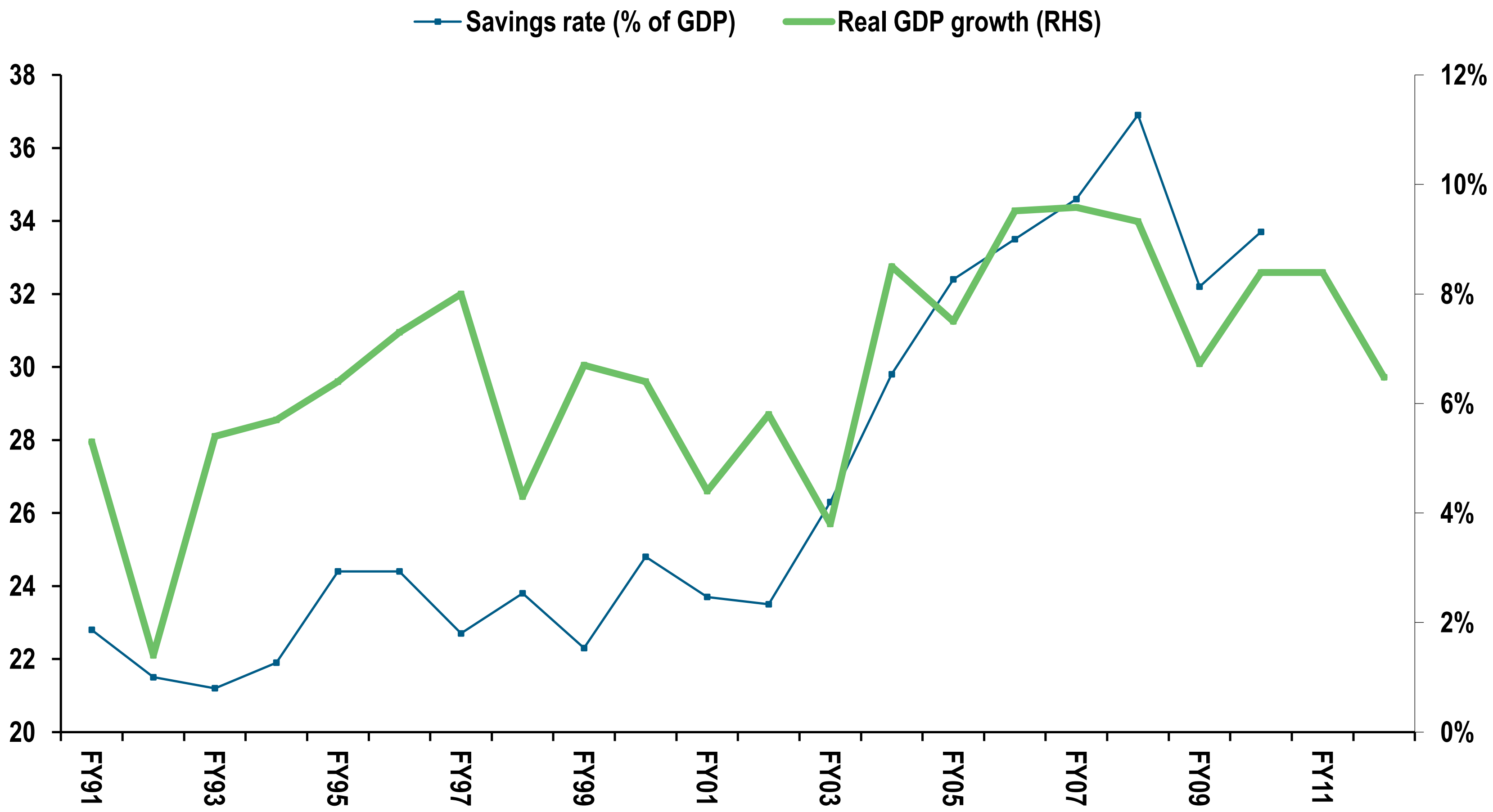
Sources: UNDP, Standard Chartered Research

Young population saves more

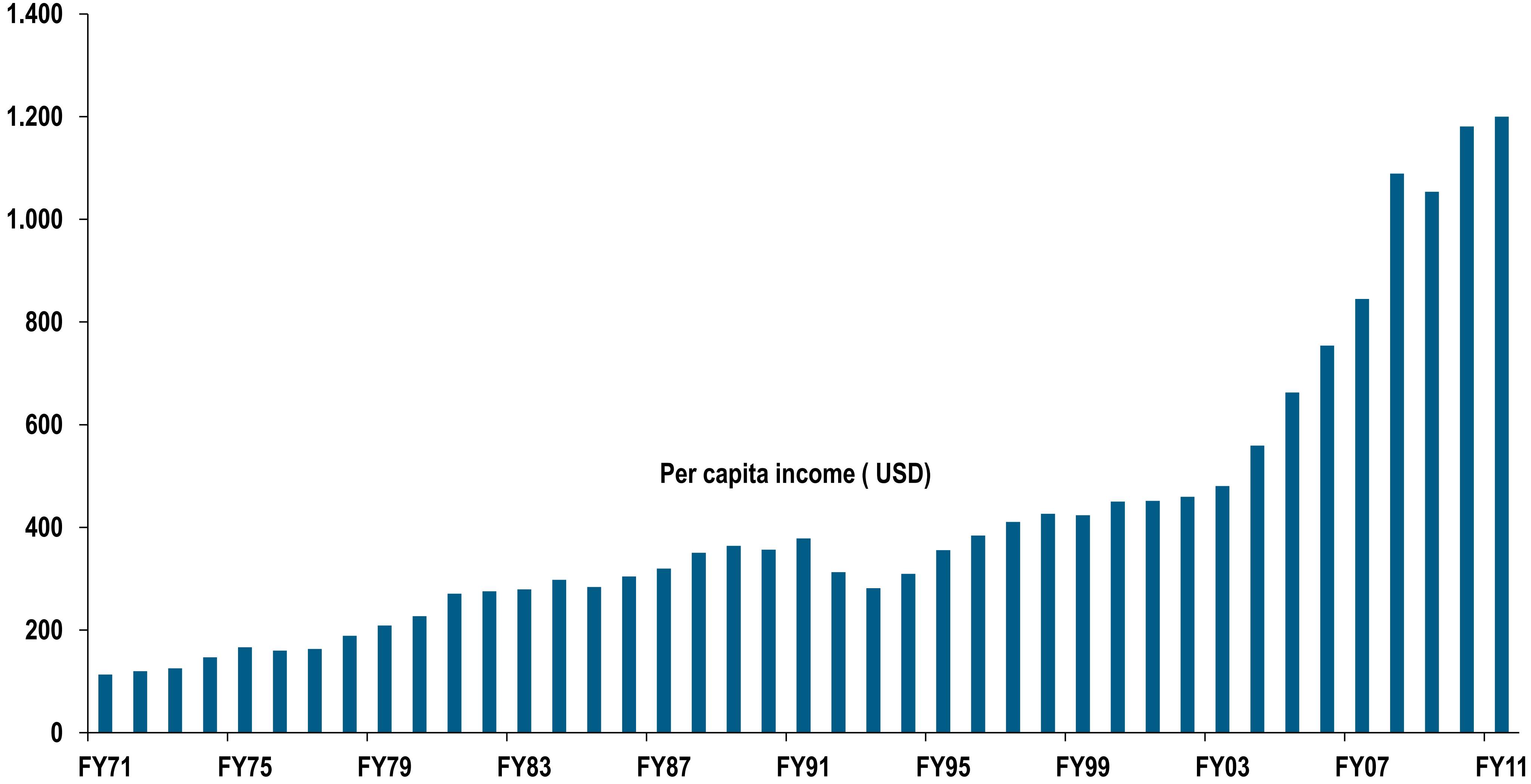
Savings rate of more than 30% of GDP creates the base for sustained investment



Sources: CEIC, Standard Chartered Research

The income explosion….

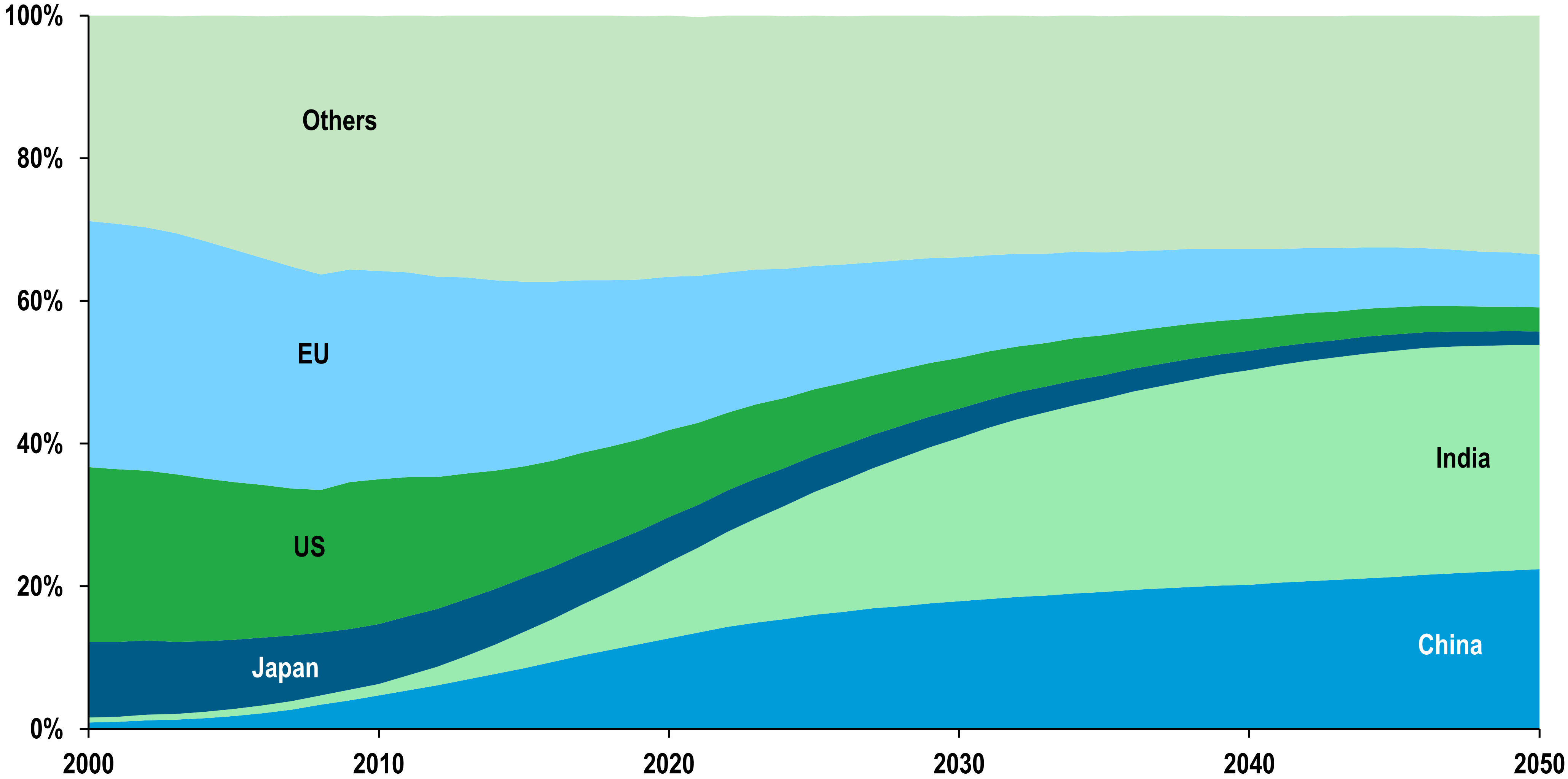
Per capita income increased from USD 100 to USD 500 in 33 years and then moves to USD 1000 in just 5 years



Sources: CEIC, Standard Chartered Research

…..and the bulge in middle class

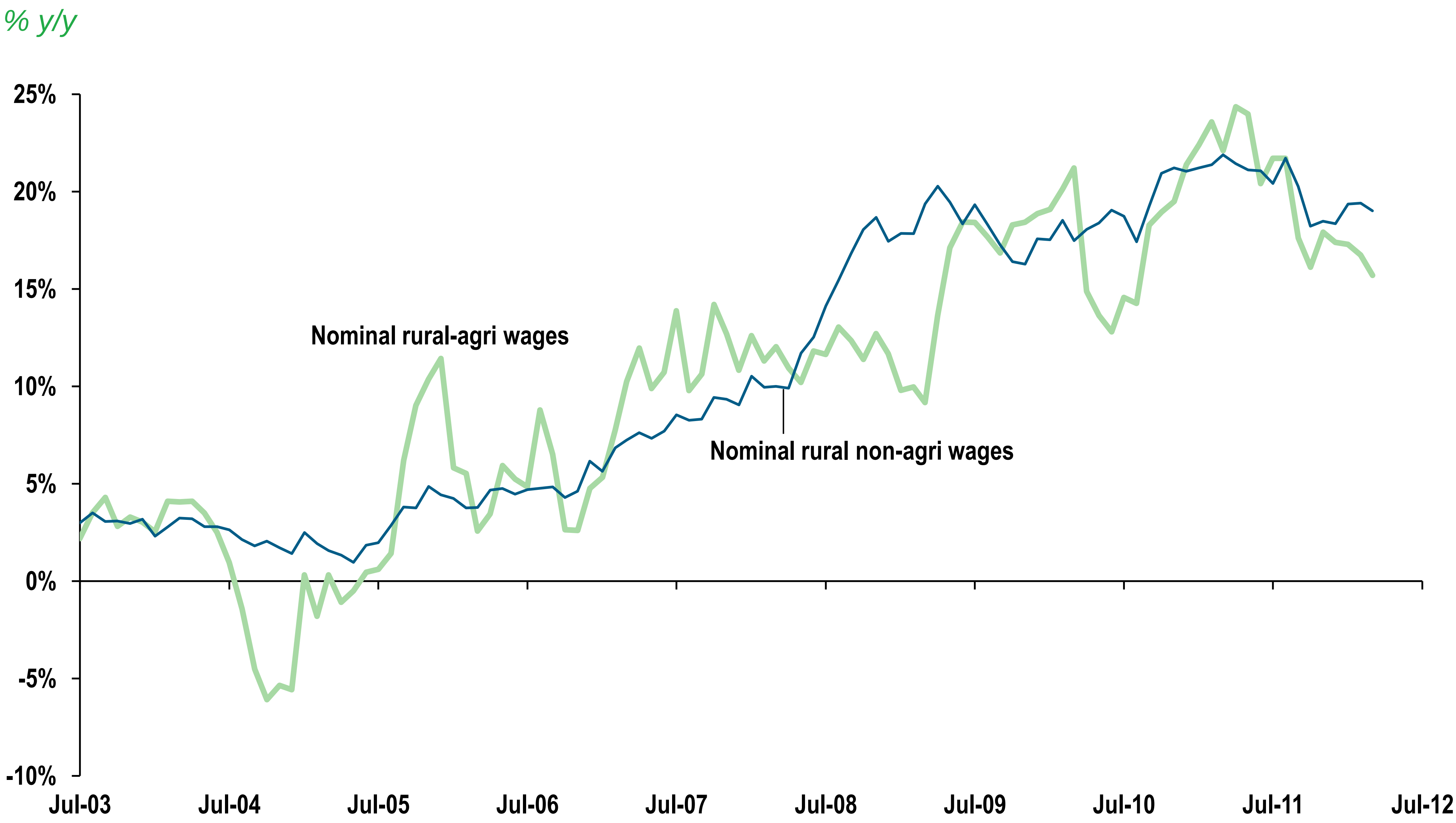
Shares of global middle-class consumption, 2000-50,%



This rise of middle class will offer a huge consumer market

Sources: OECD, Standard Chartered Research

Paradigm shift in rural wages



Sources: CEIC, Standard Chartered Research

The “chaotic” urbanisation process

Urbanisation rate increased from 27.2% in 2001 to 31.2% in 2011, 230mn more urbanites in the next two decades

	2011	2001	% growth
Statutory Towns	4,041	3,799	6%
Census Towns	3,894	1,362	186%
Urban Agglomerations	475	384	24%
Out Growths	981	962	2%
Class I towns	468	394	19%
Million plus towns	53	35	51%

Source: Standard Chartered Research

Gen “I” aspires a better life

	1990s	2010
# Television channels	1	>500
# car models	~5	~165
# Shopping malls	0	>500
% of household with mobile phones	0	~60
Internet penetration, %	0	~11

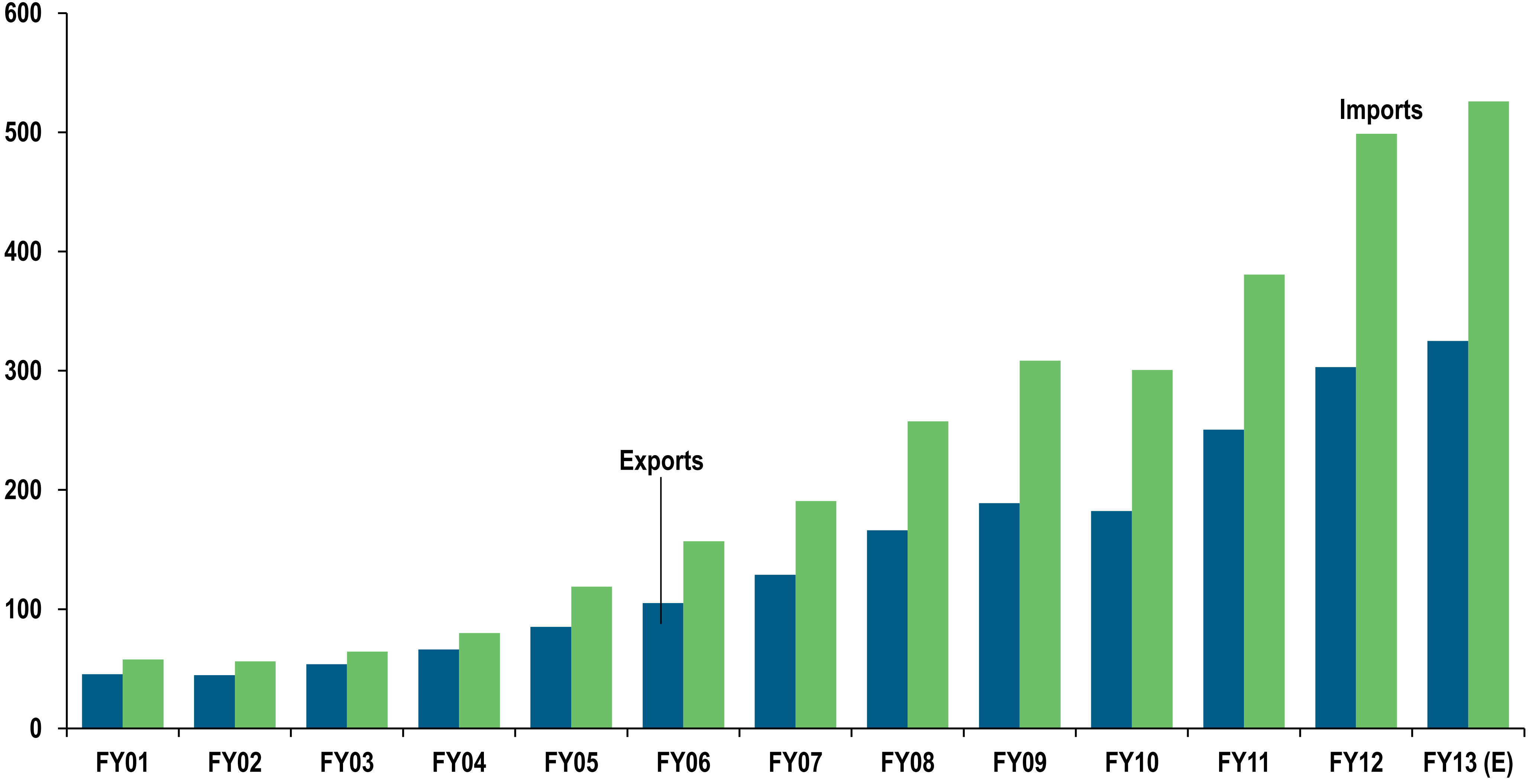
75% of population in 2020 will be from Gen “I” i.e. grew up in a liberalized economy (<14 years of age when economy started opening)

Sources: Boston Consulting group, Standard Chartered Research

Increased openness to trade flows

Exports and imports increased 7 times in almost a decade

USD bn



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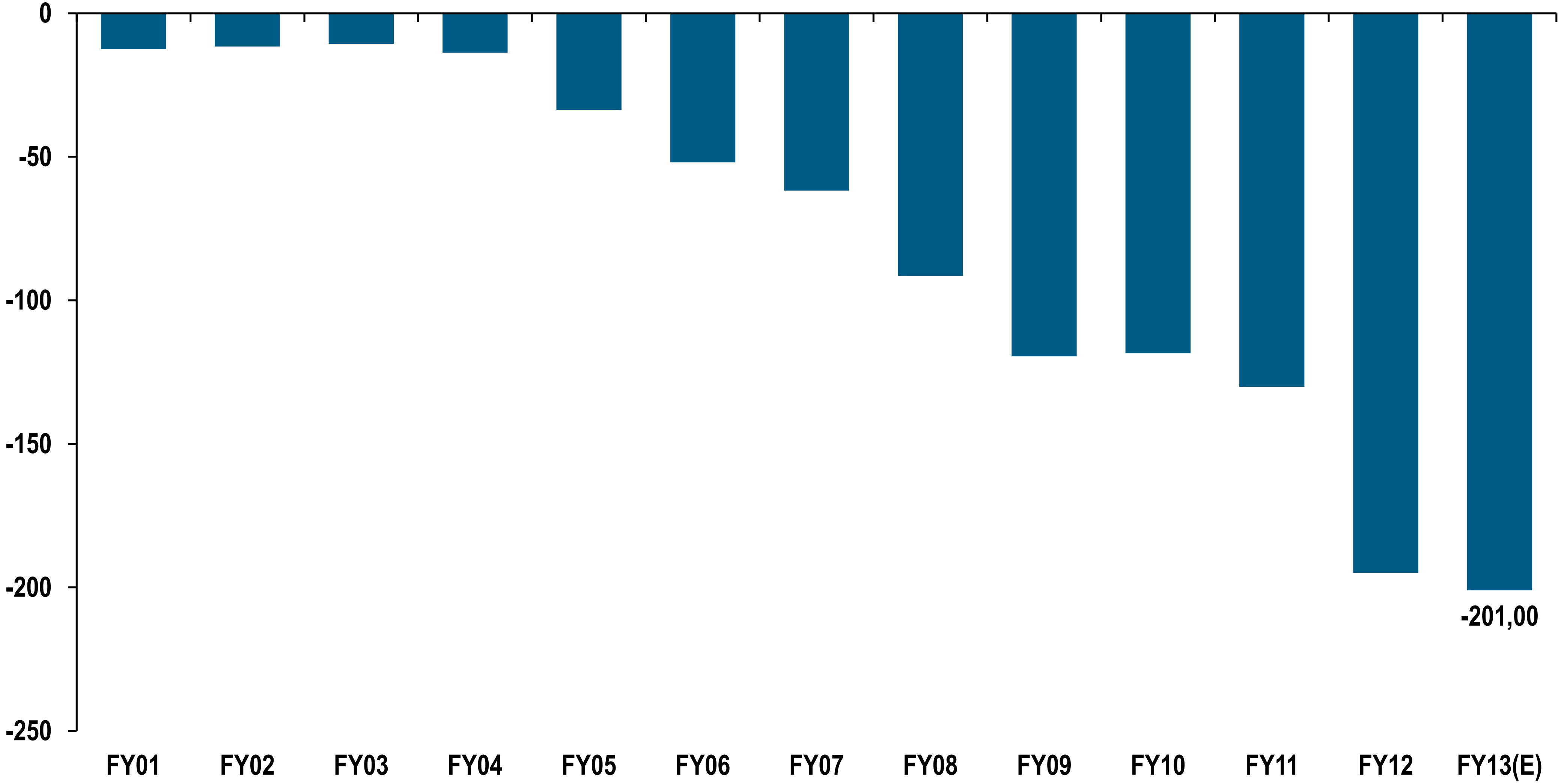
Sources: CEIC, Standard Chartered Research

Although trade deficit has become a policy challenge

Trade deficit
USD bn



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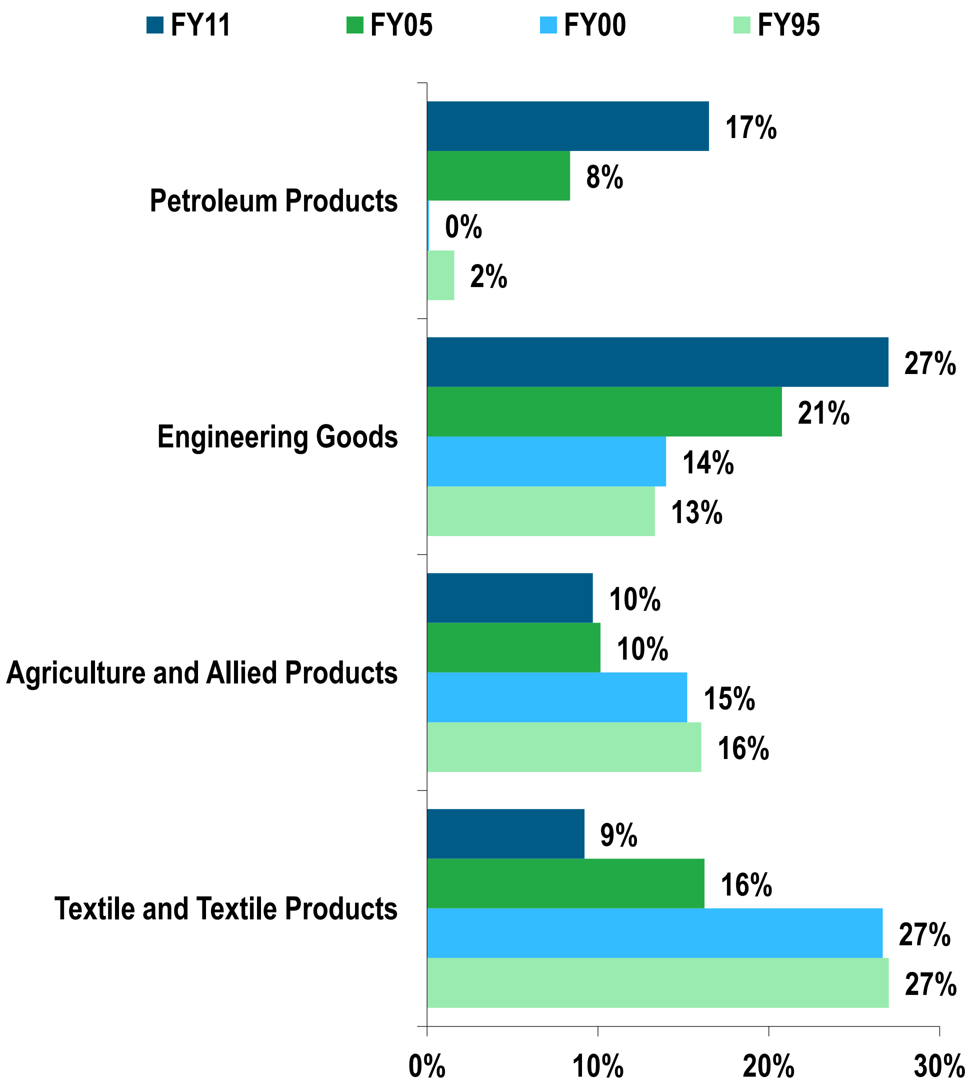
Sources: CEIC, Standard Chartered Research

The strategy of export diversification

Moving up the value chain

% share of total exports



Diversification into different geographies

% share of total exports

	Region/Country	2011-12 (Apr – Dec)
I.	OECD Countries	33.6
	EU	17.5
	North America	11.7
	US	11.1
	Asia and Oceania	2.7
	Other OECD Countries	1.7
II.	OPEC	18.5
III.	Eastern Europe	1.1
IV.	Developing Countries	40.3
	Asia	29.3
	SAARC	4.1
	Other Asian Developing Countries	25.2
	China	5.8
	Africa	6.6
	Latin America	4.4
V.	Others/Unspecified	6.5
	Total Exports	**100**

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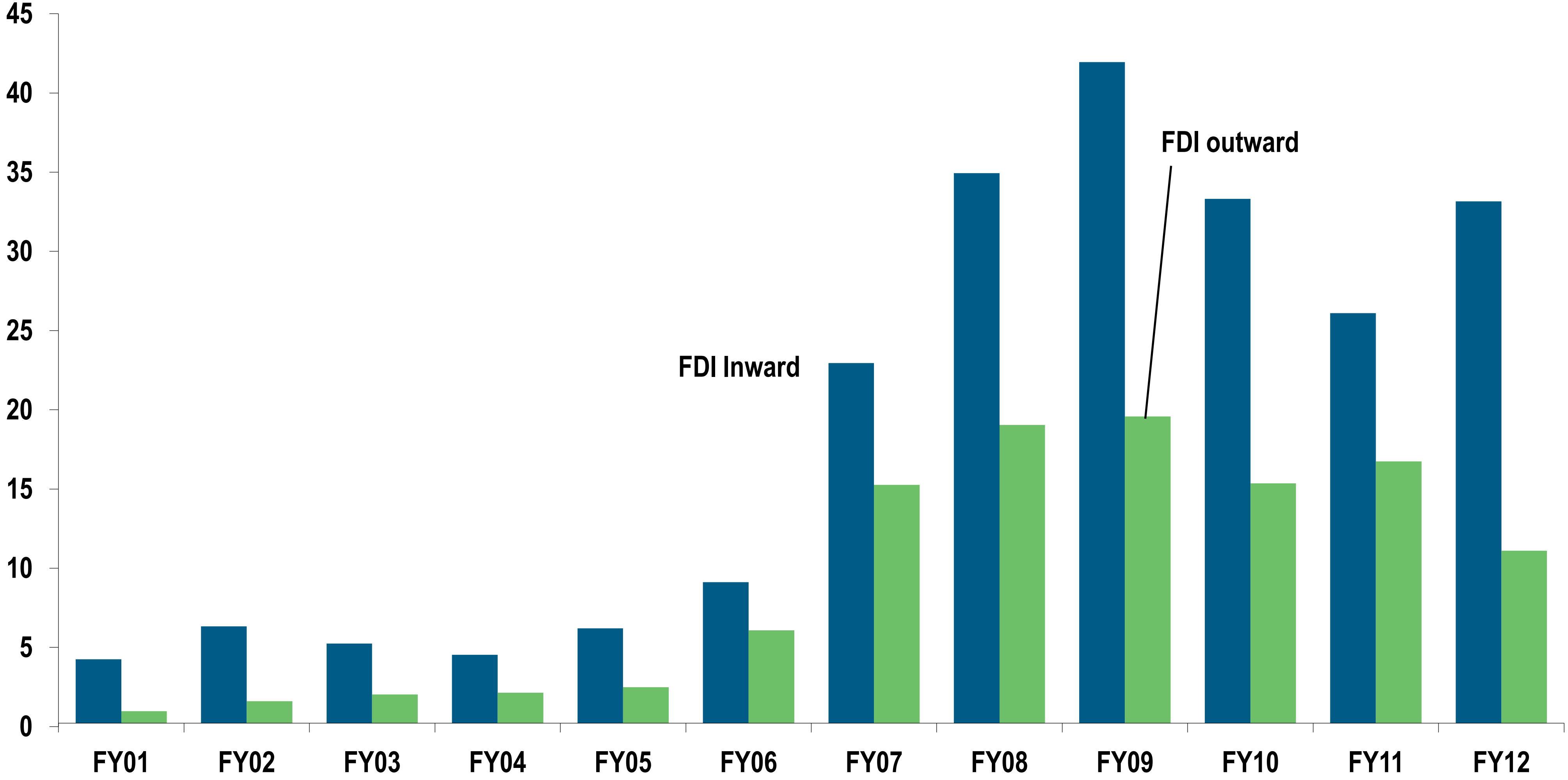
Sources: CEIC, RBI, Standard Chartered Research

Two-way FDI flows

FDI allowed in most of the sectors, few restrictions remain which are being gradually removed
USD bn



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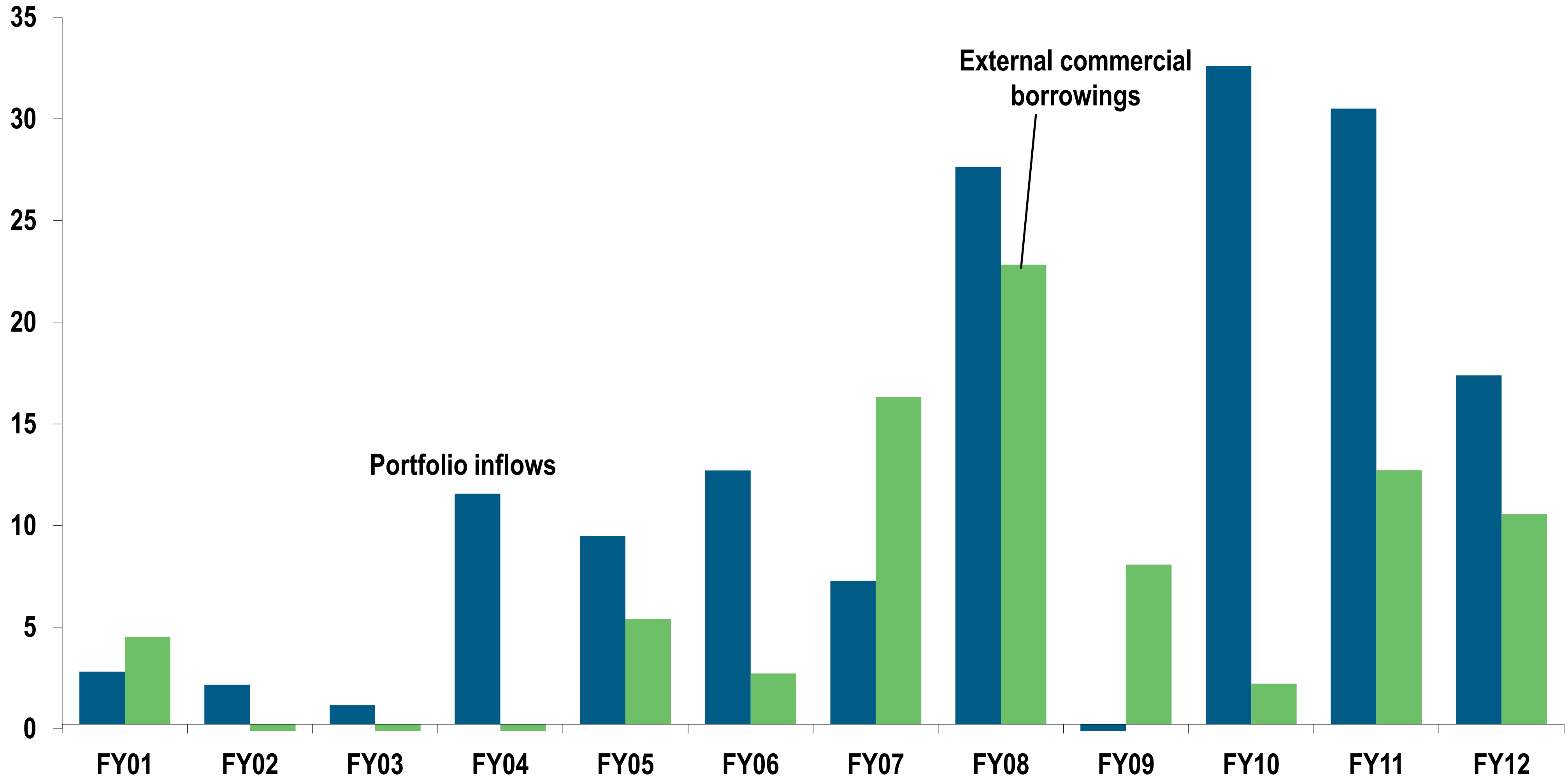
Sources: CEIC, Standard Chartered Research

Attracting portfolio flows

Preferring equity inflows over debt inflows
USD bn



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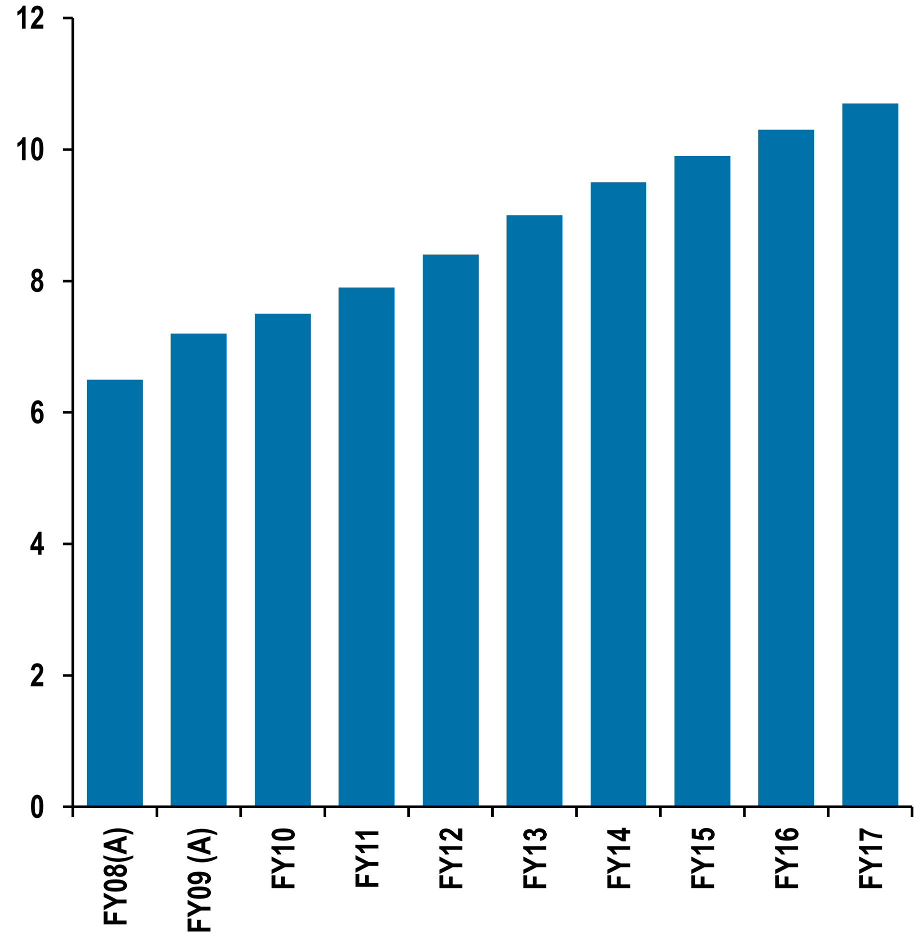
Sources: CEIC, Standard Chartered Research

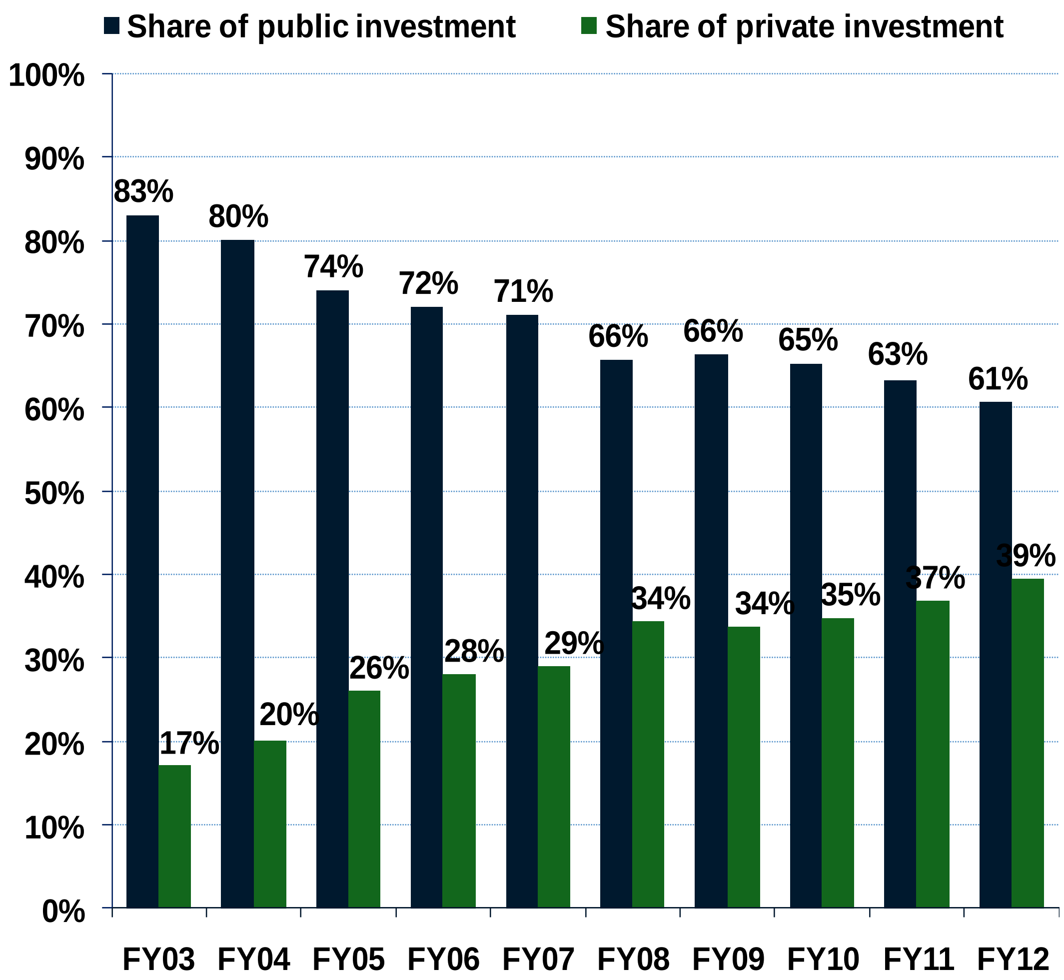
Infrastructure spending to boost market opening

Spending on infrastructure as % of GDP

USD 500bn for FY08-12, USD 1trn for FY13-17



Private sector importance increases

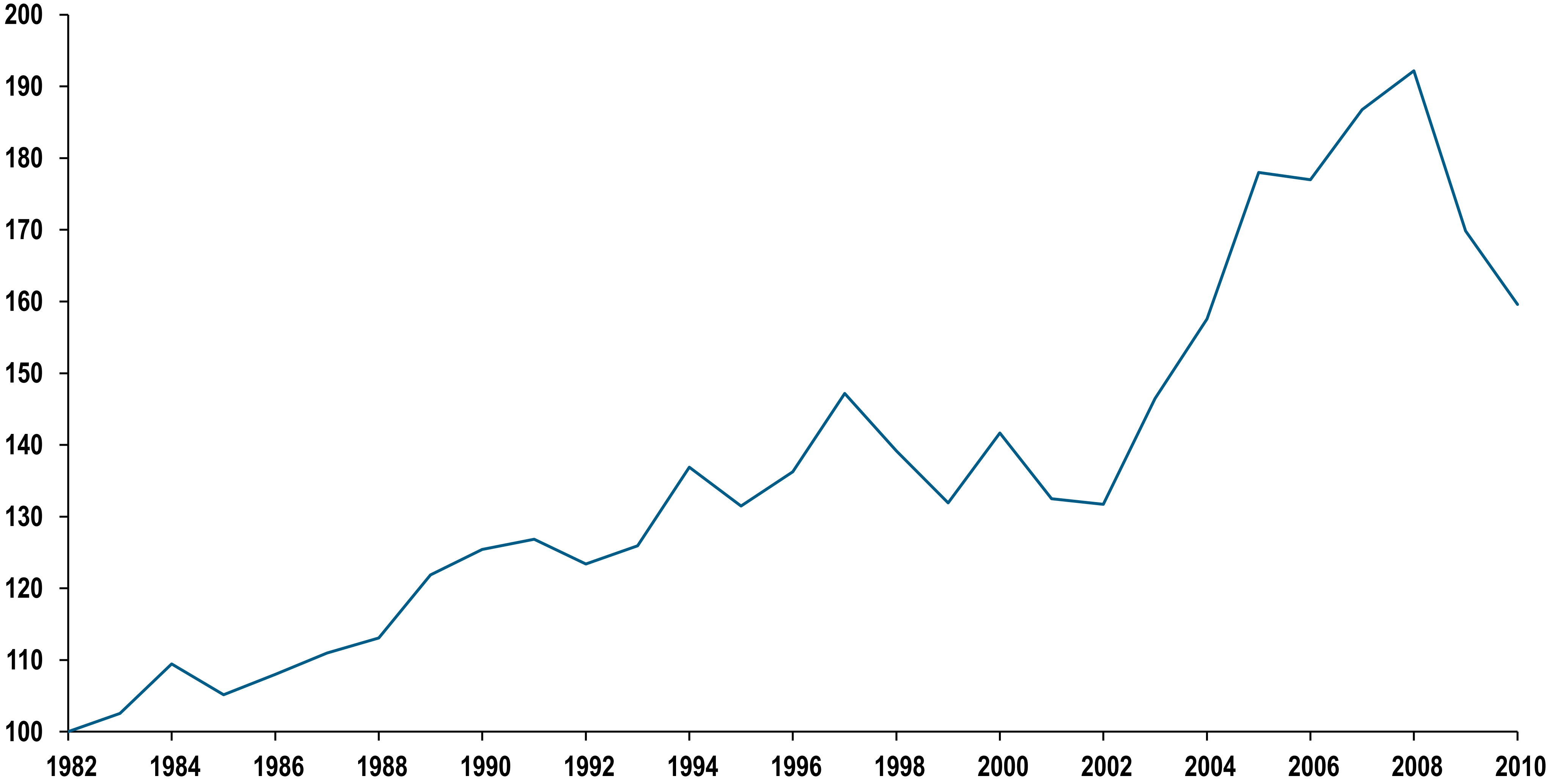


Source: Medium Term Appraisal of 11th Plan, Economic Survey FY11, Standard Chartered Research

India’s near term challenges

Declining productivity

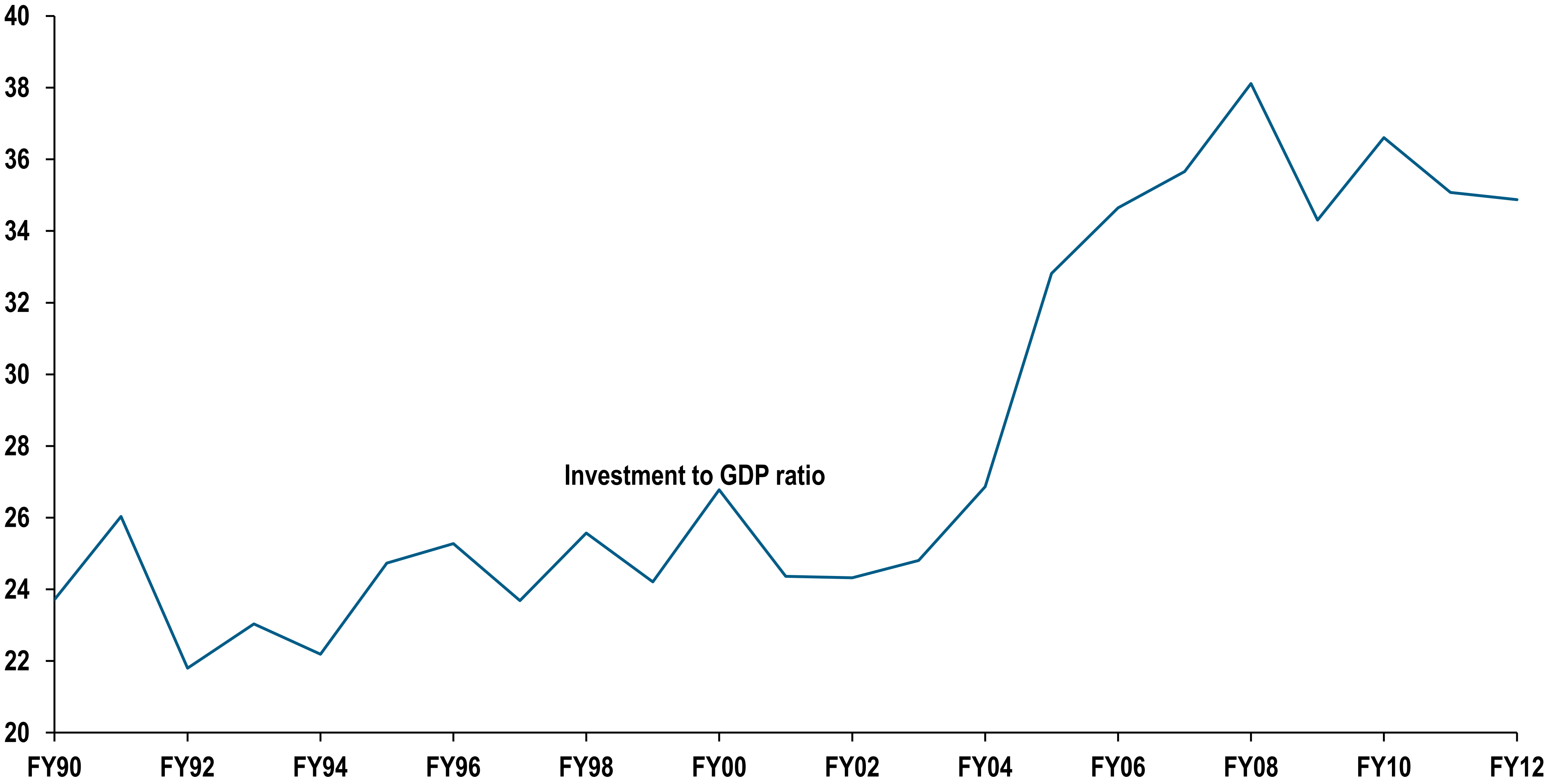
Total Factor Productivity (TFP)



Sources: CEIC, Standard Chartered Research

Moderating investment

% of GDP



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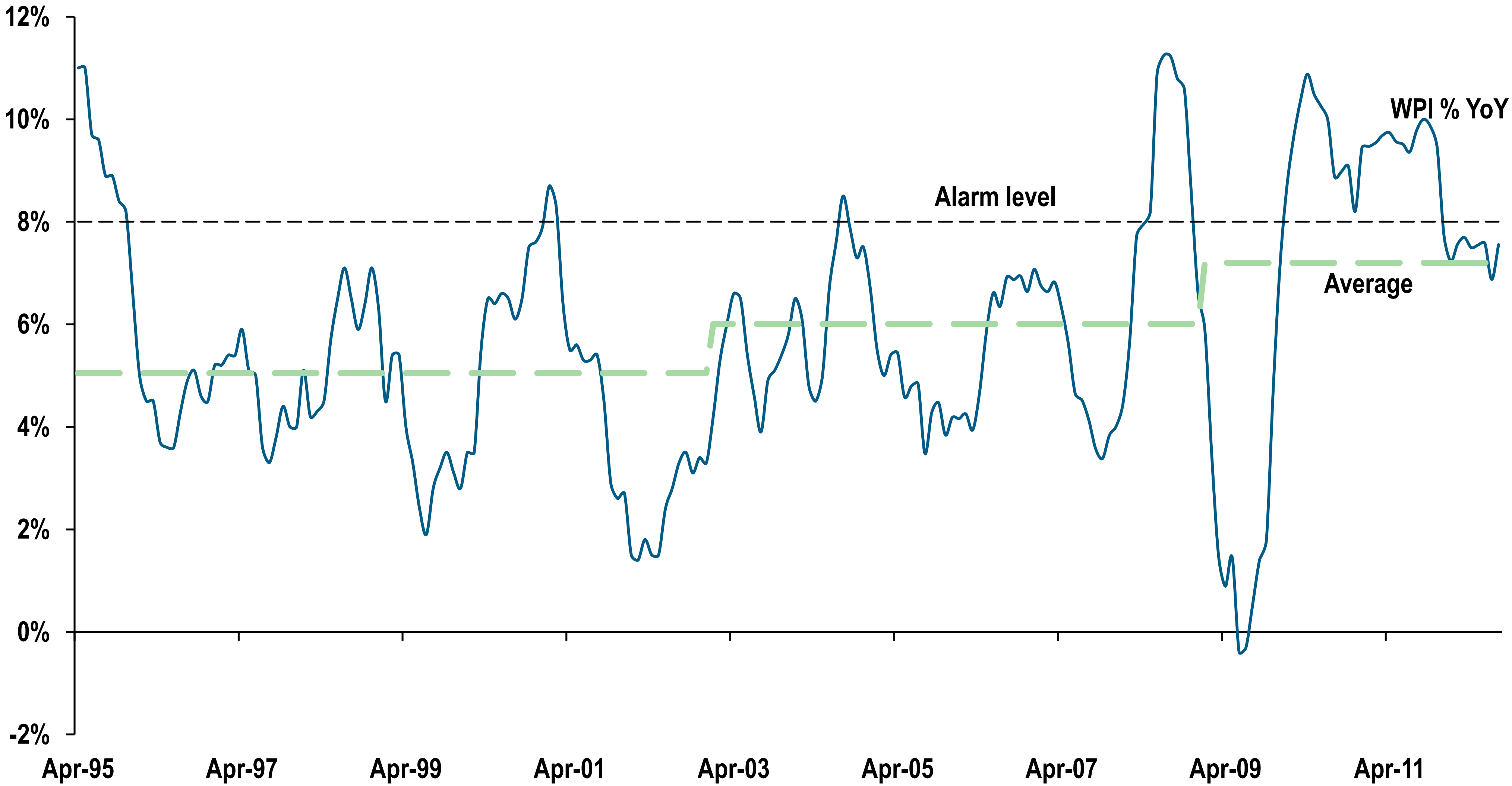
Sources: CEIC, Standard Chartered Research

Sticky inflation

Rising average inflation rates and inflation stickiness make us worried

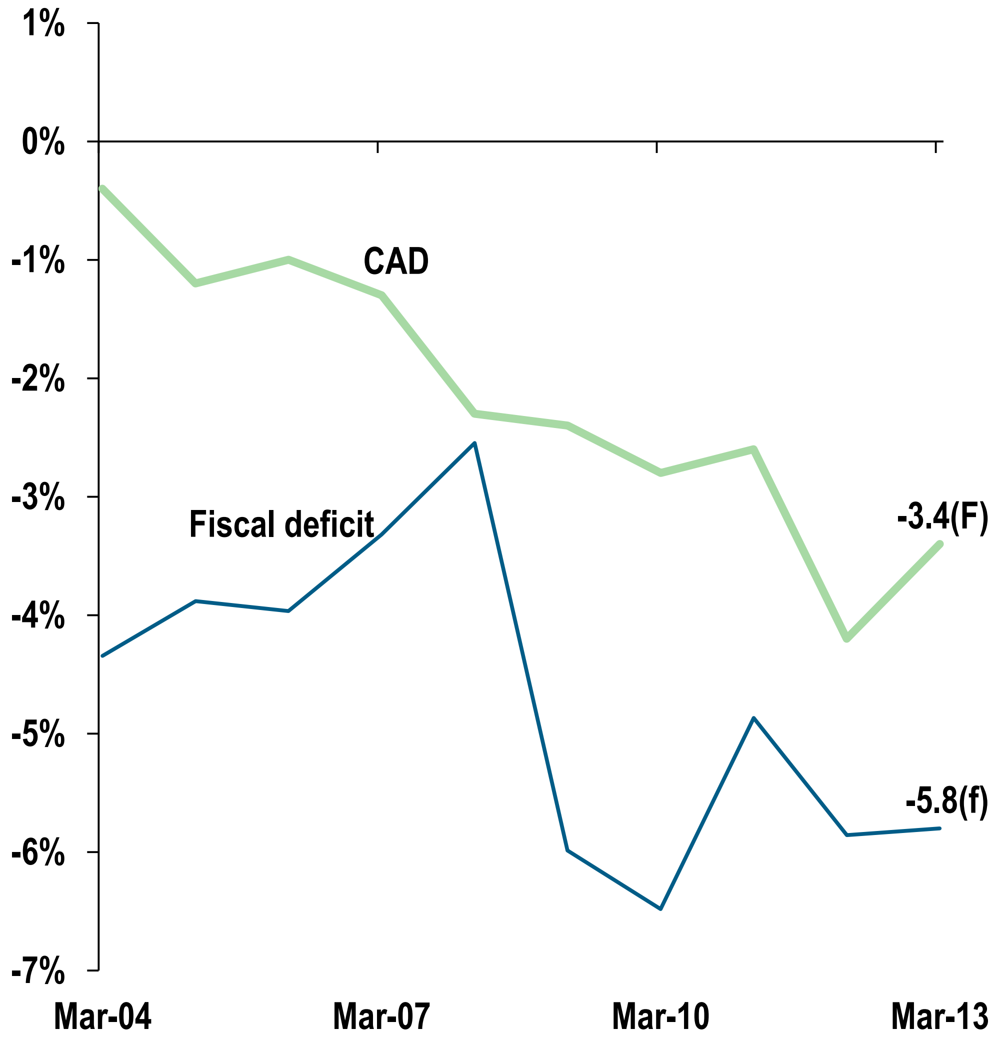


Sources: CEIC, Standard Chartered Research

Widening deficits

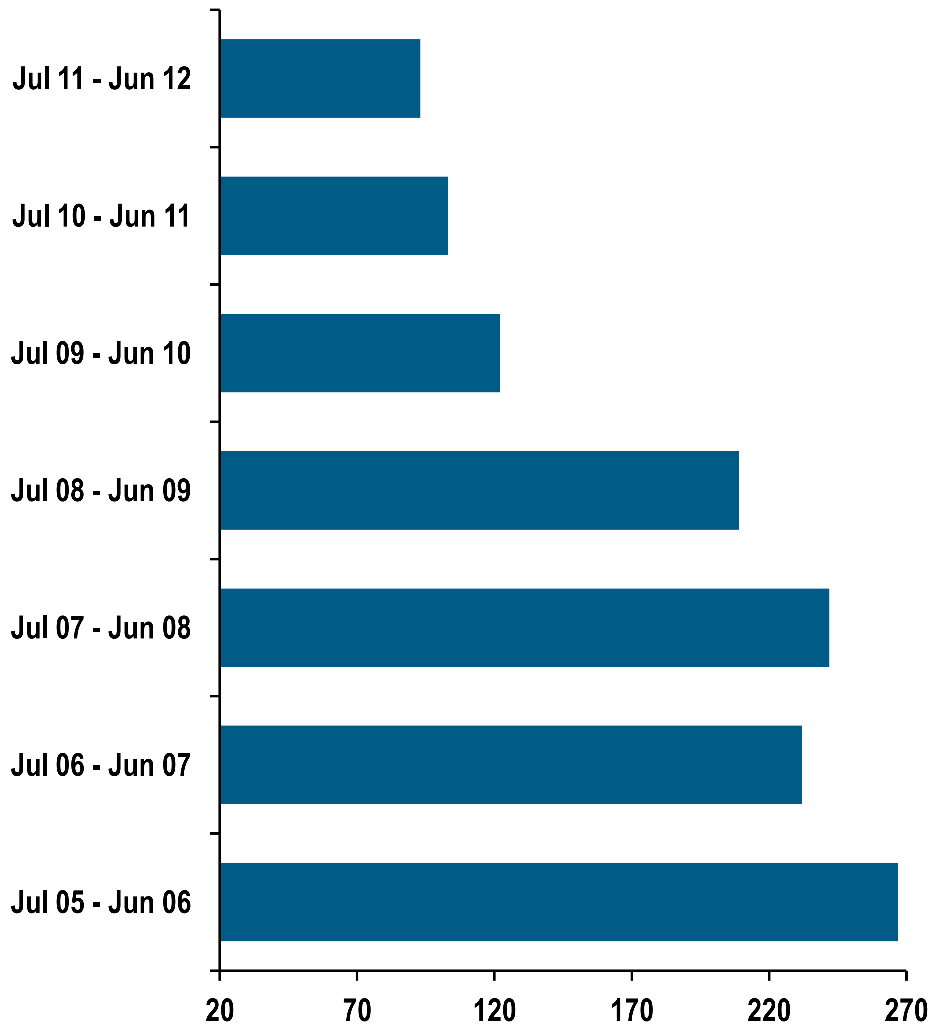
Twin deficits

% of GDP



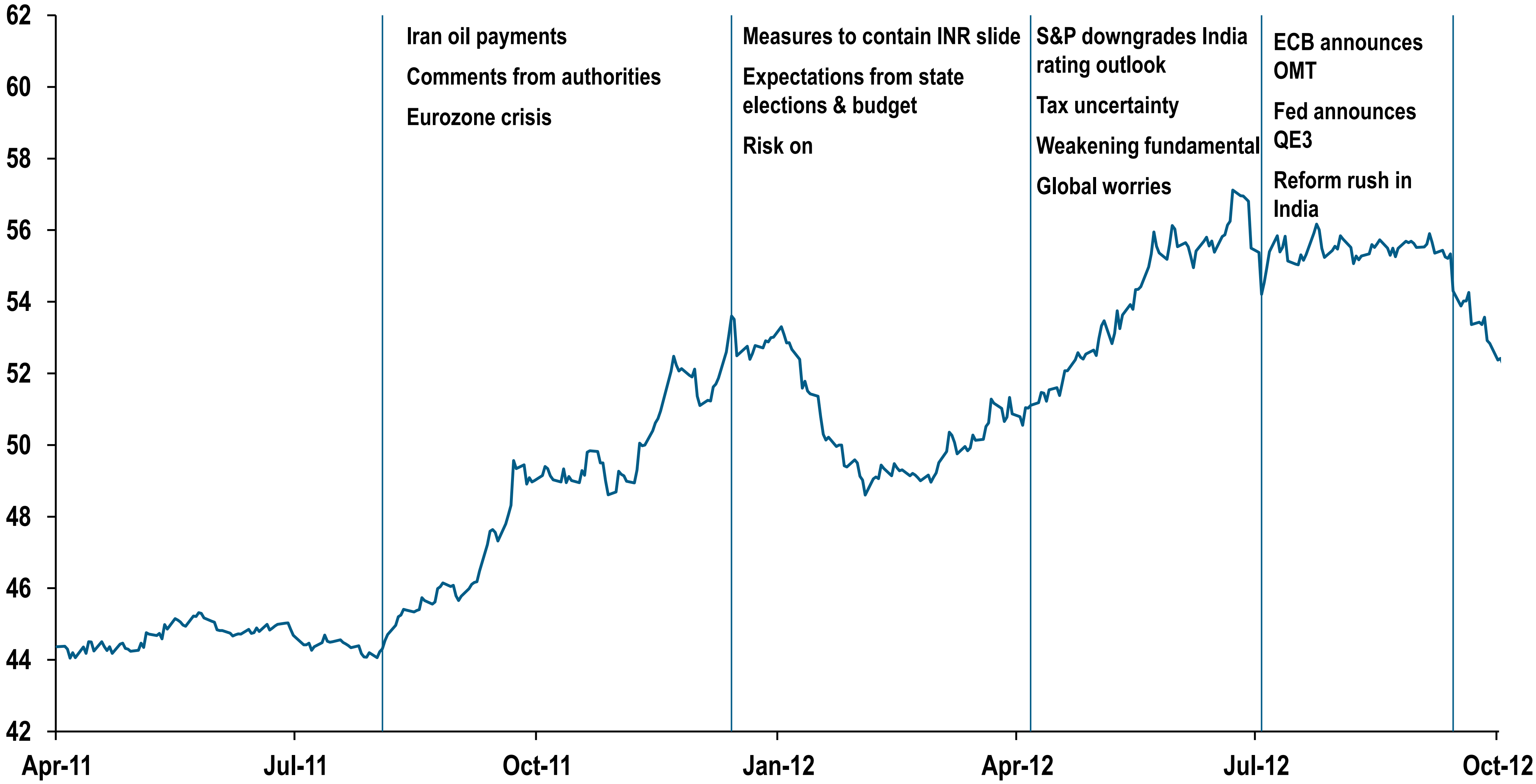
Governance deficit

Number of cabinet decisions taken in a year



Source: Standard Chartered Research

Depreciating currency



Sources: Bloomberg, Standard Chartered Research

Reform rush!

Foreign investors	Status
49% FDI in multi-brand retail	Notified, state approval reqd
100% FDI in single-brand retail	Notified
49% FDI in insurance and pension	Parliament approval reqd
FDI in Aviation	Parliament approval reqd
GAAR deferral	Likely soon
Retrospective taxation	Under consideration
Withholding tax reduction	Notified
FII debt holding simplification	Notified

Fiscal deficit reduction	Status
Diesel price hike	Announced
Cooking gas cylinder cap	Announced
Divestment	Intent shown, details awaited
Deficit consolidation roadmap	Under consideration
Urea price decontrol	Under consideration

Domestic investment	Status
SEB loss restructuring	Announced, state approval reqd
FSA between power producers and Coal India	Likely soon
Incentives for small investors in equity markets	Announced
Tax incentives for insurance products	Under consideration
National Investment Board	Under consideration
Faster clearance of projects	Under consideration
Land acquisition Bill	Under consideration

India 2020: Land of opportunities

Nominal GDP multiplies to USD 9.5trn, per capita income at USD 7000

Exports likely to expand to USD 2trn penetrating unexplored markets

Young population – Average age at 29 years, half the population below 25

India to become the third largest economy

Outstanding bank credit could be USD 6.2trn

40% of the population entering middle class with aspirations to consume

Infrastructure investment for the decade could be USD 2.4trn

Changing consumption profile – from food to branded luxury

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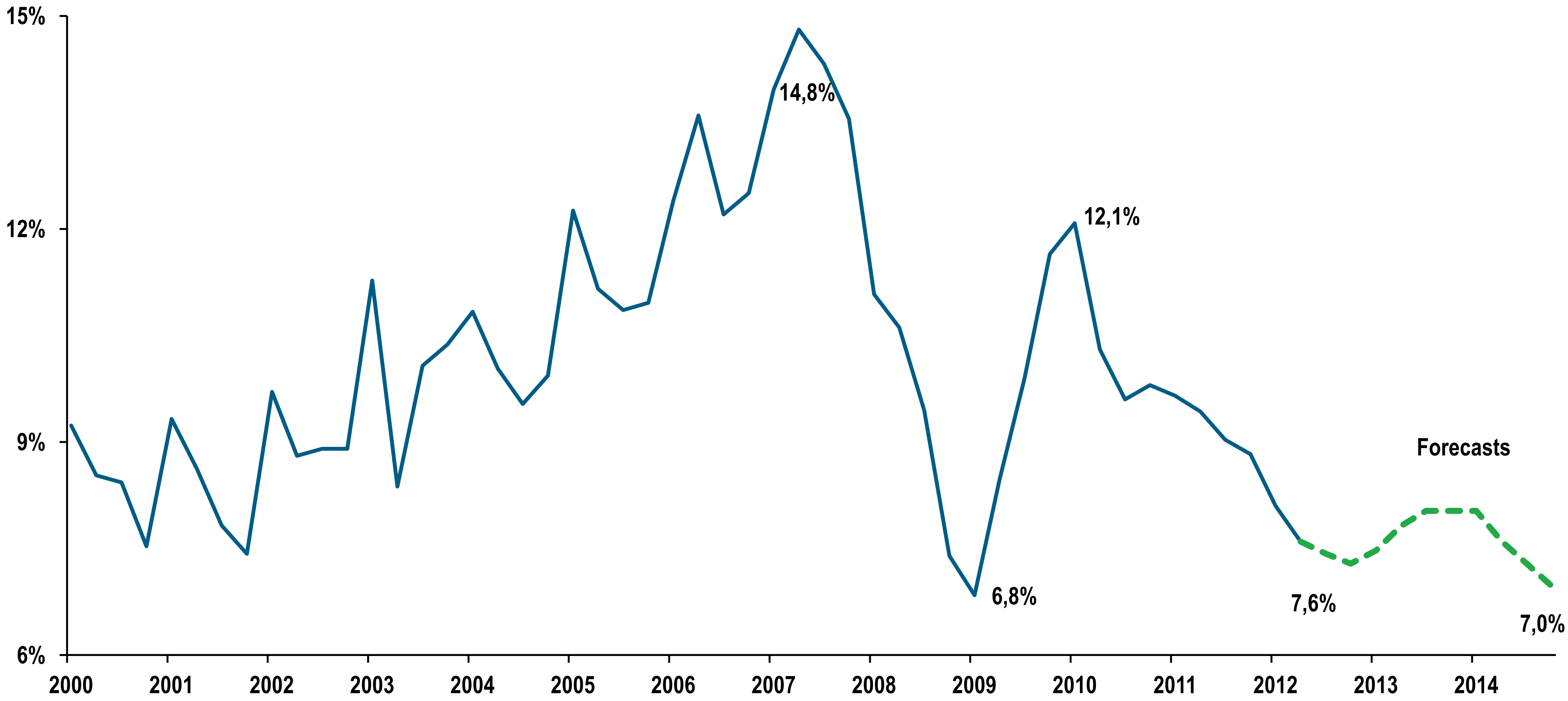
The China story

China’s economic cycle

Quarterly GDP growth rate, y/y, real



Sources: CEIC, Standard Chartered Research

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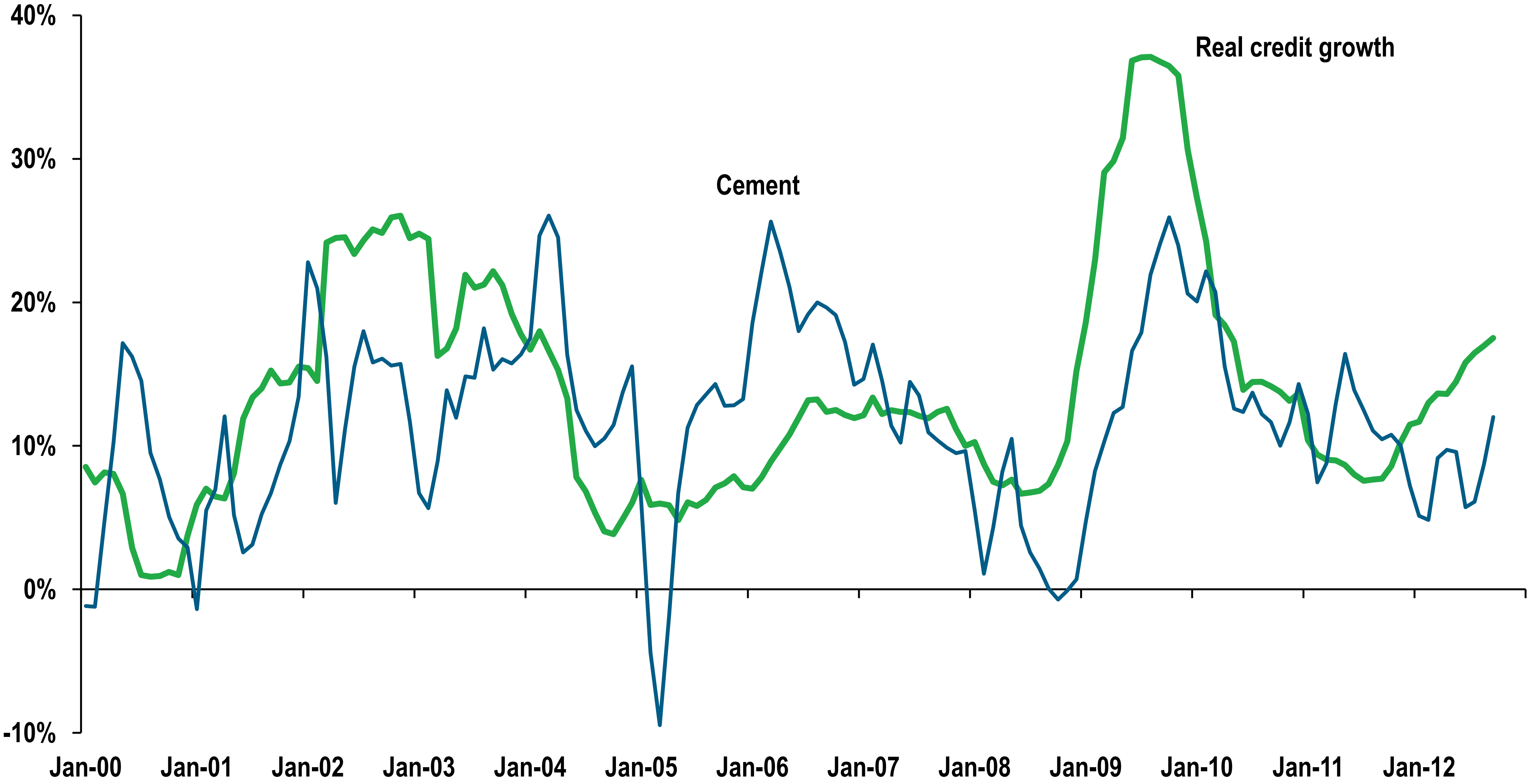
Real credit growth suggests investment activity will pick up

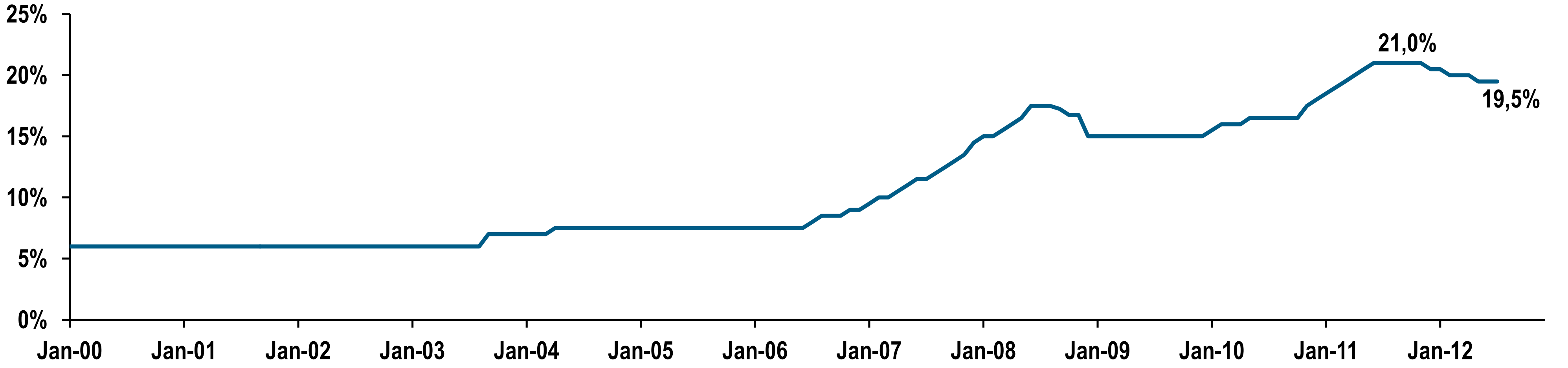
Cement production and real credit growth, % y/y



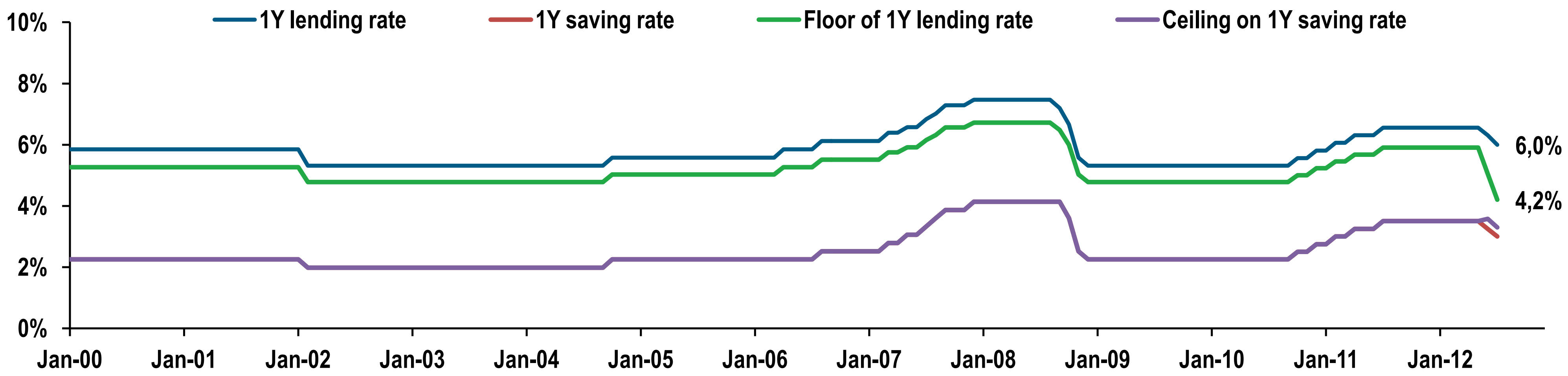
Sources: CEIC, Standard Chartered Research

Monetary policy easing will help

PBoC lowered RRR



Saving and lending rates were lowered too



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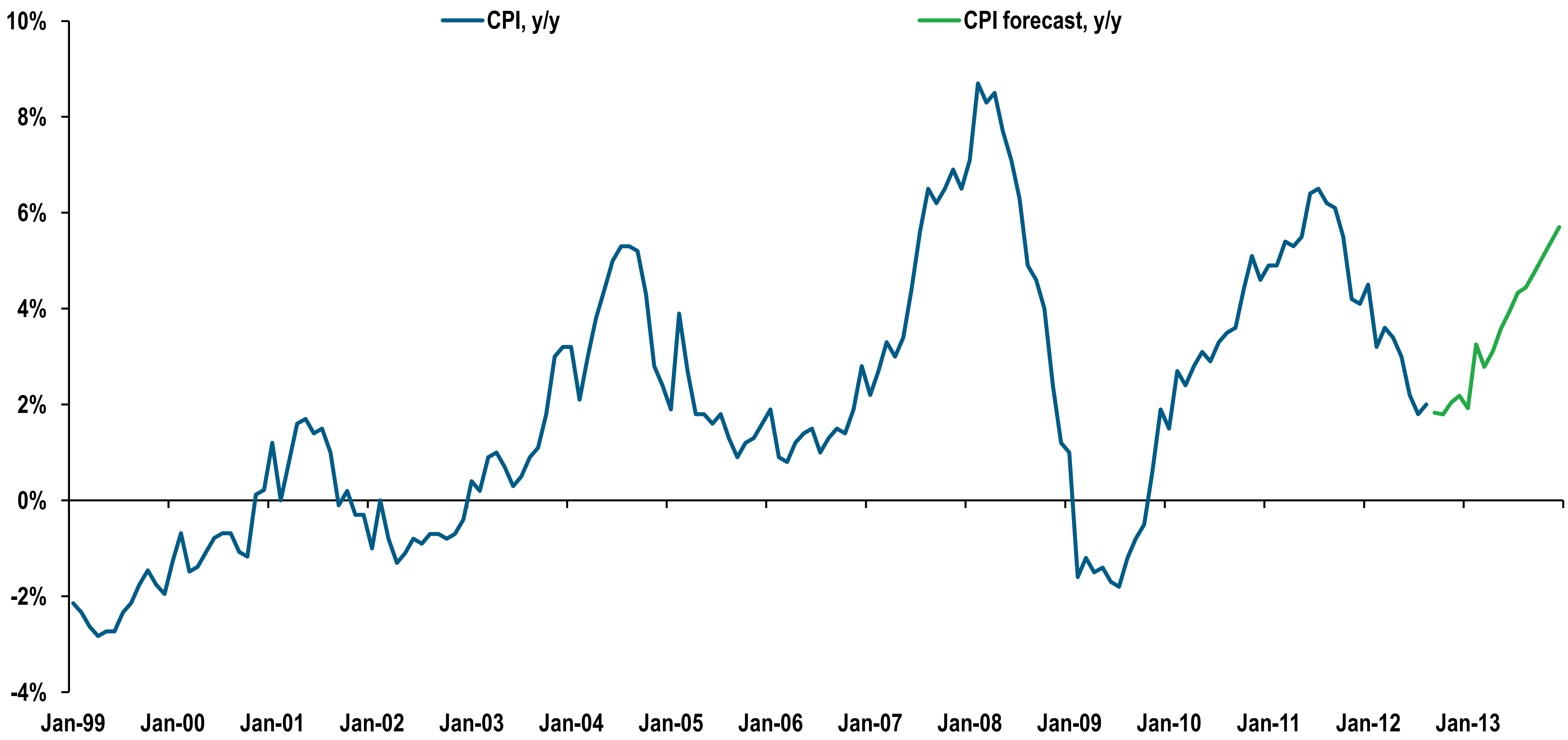
Sources: Bloomberg, Standard Chartered Research

Inflation is not a concern for 2012, but 3013 could be different

CPI inflation is expected to continue to rise in 2013, we expect the first rate hike in Q4 2013



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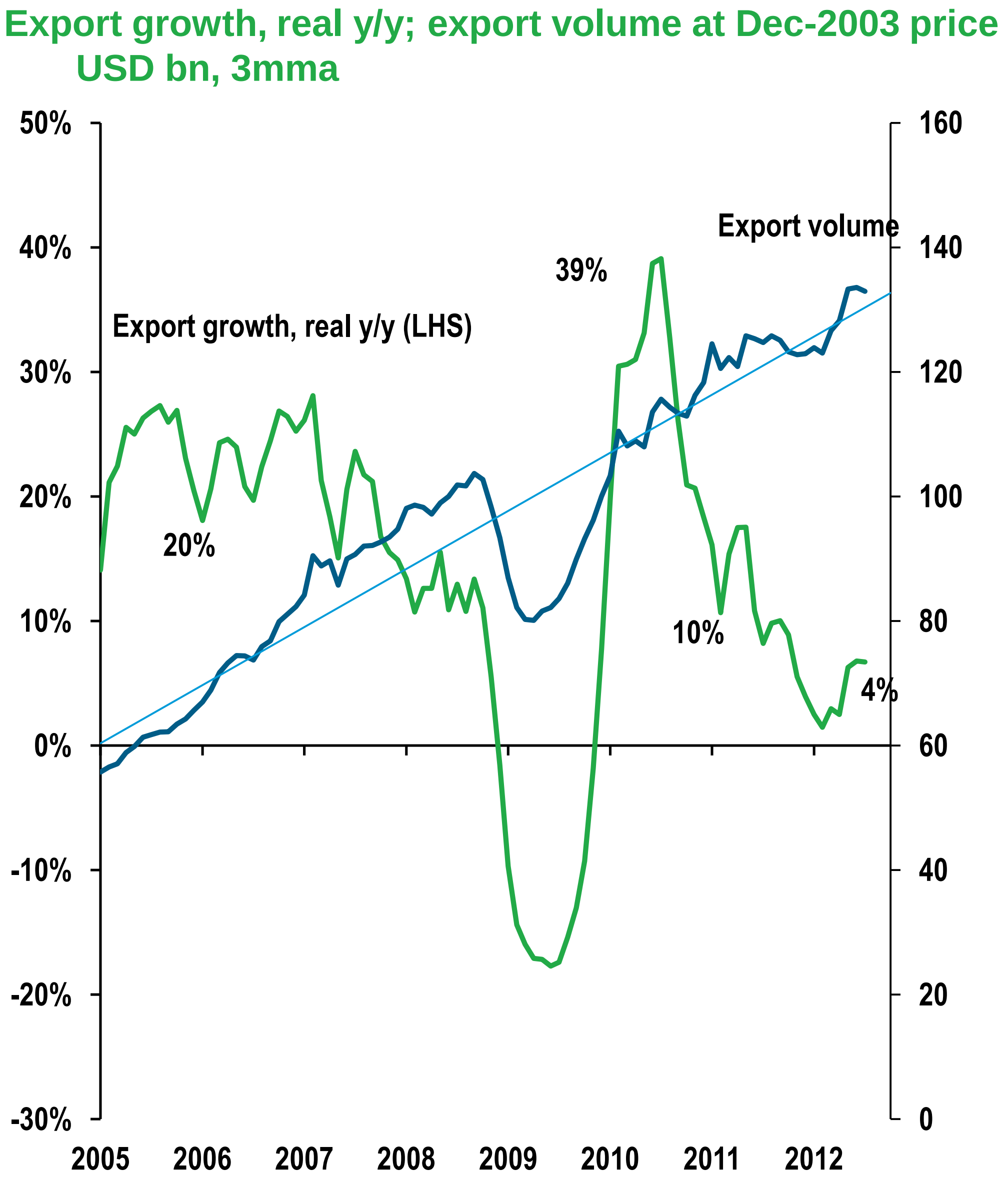
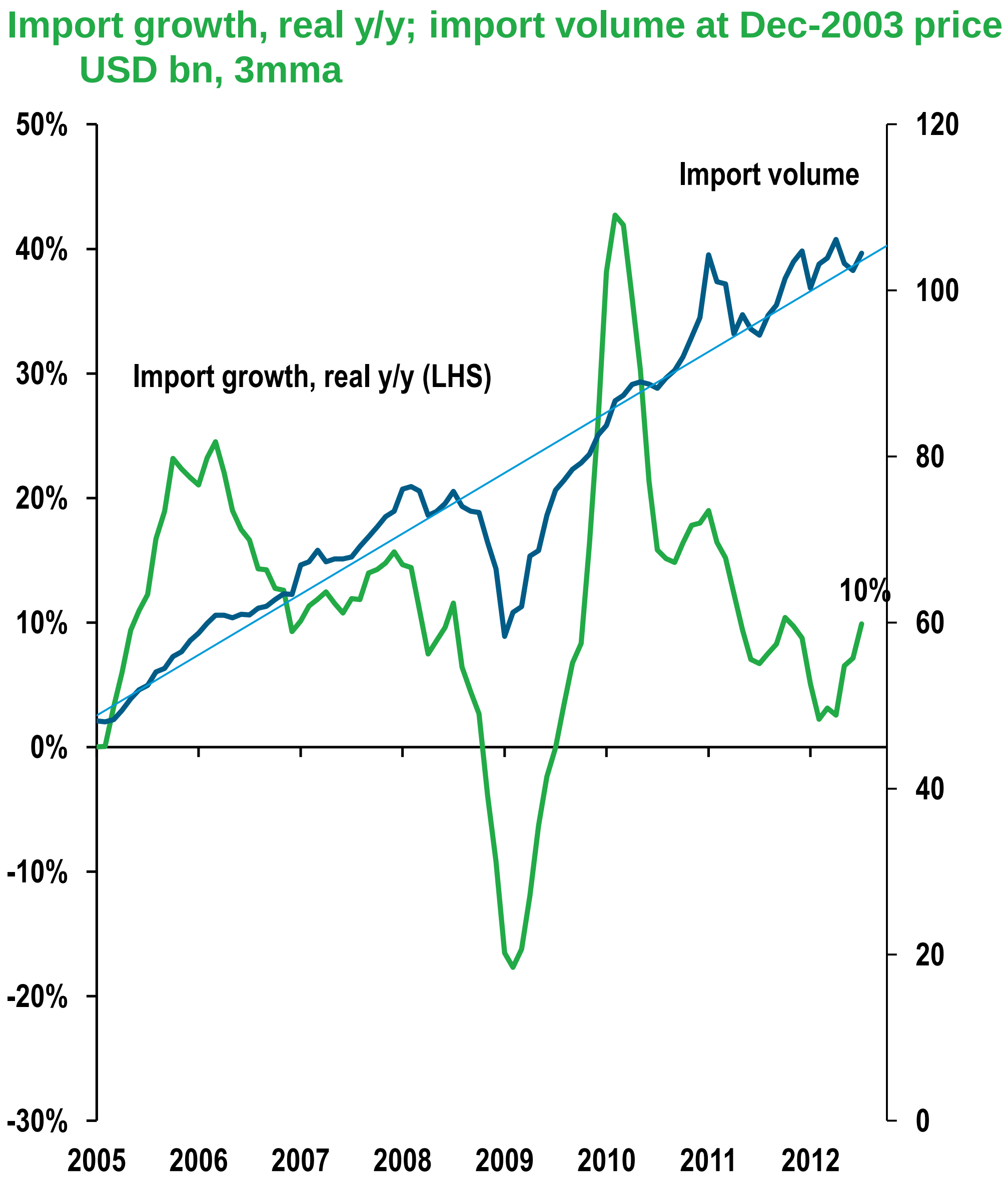
Sources: CEIC, Standard Chartered Research

Exports and imports are OK, considering the world is so bad…



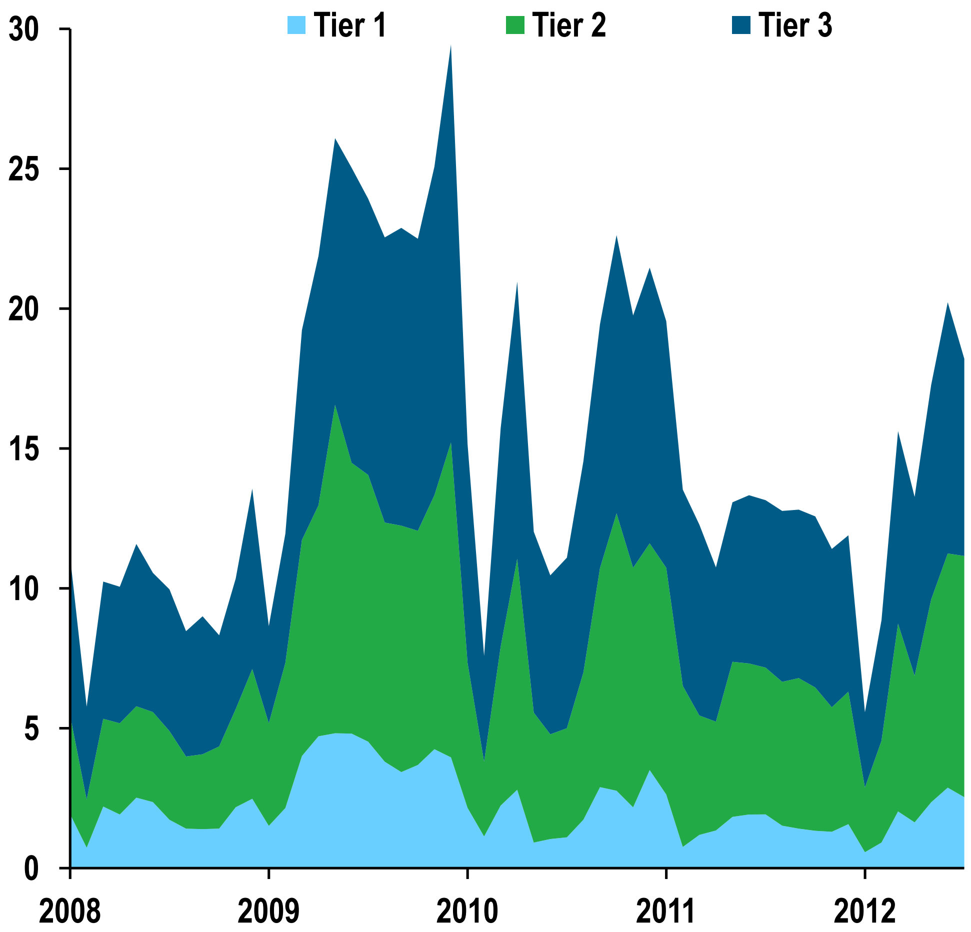


Sources: CEIC, Standard Chartered Research

Housing is key and it is turning

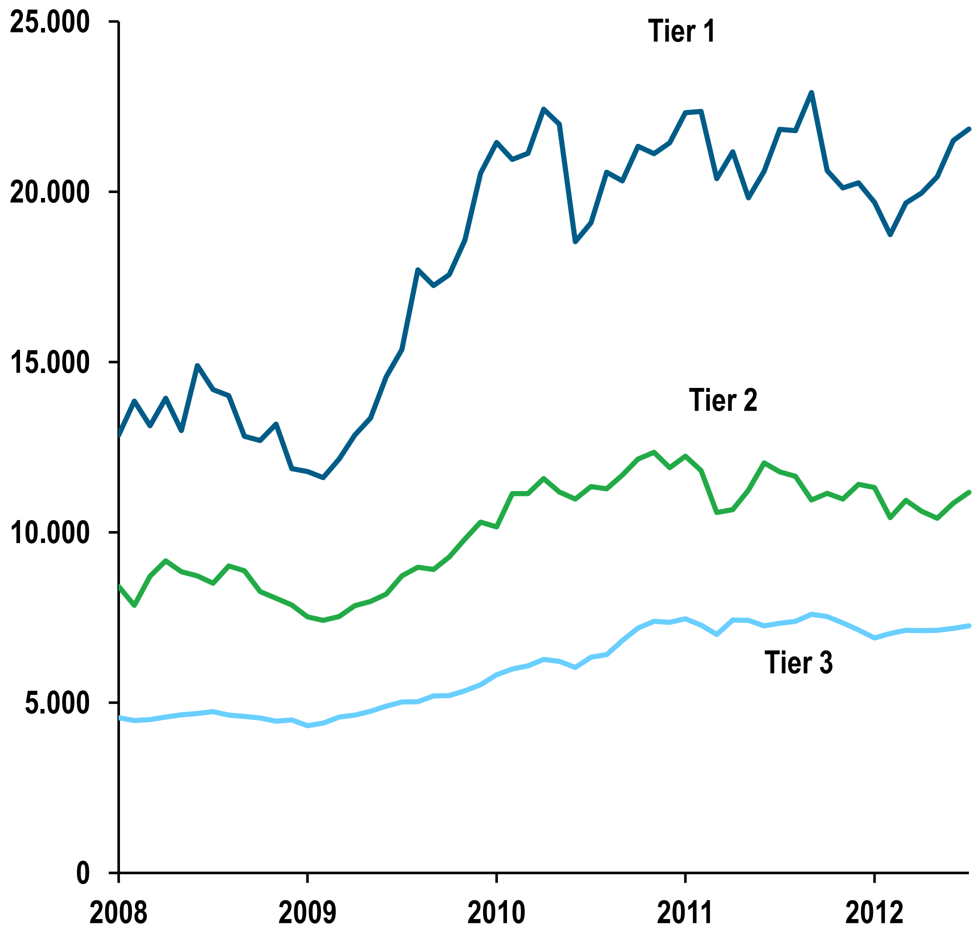
Transaction volumes

31 cities' primary sales, mn sqm of floor space sold



Prices

31 cities' average selling prices, CNY/sqm



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Sources: CRIC, Standard Chartered Research

The dragon and the tiger

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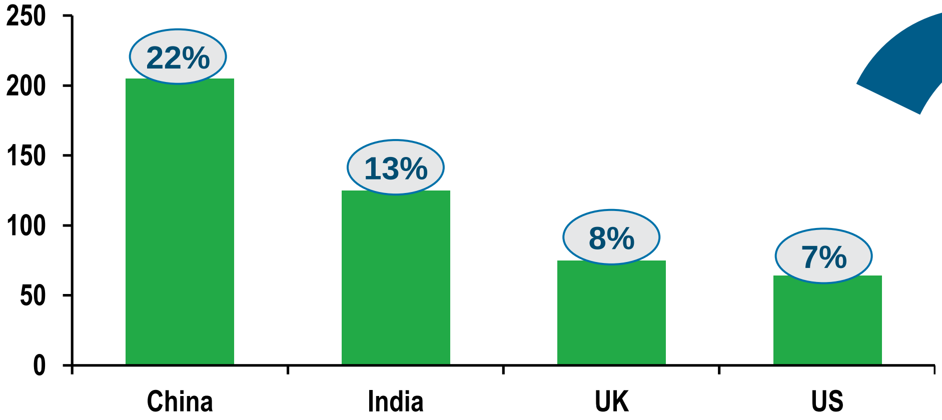
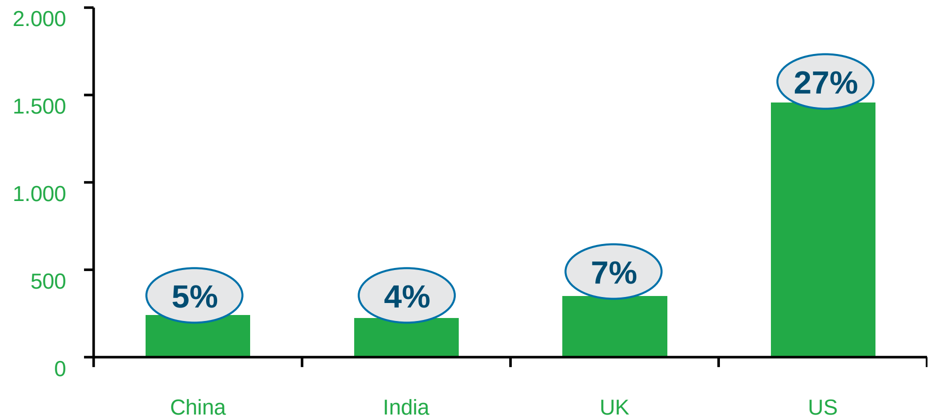
Will history repeat itself?

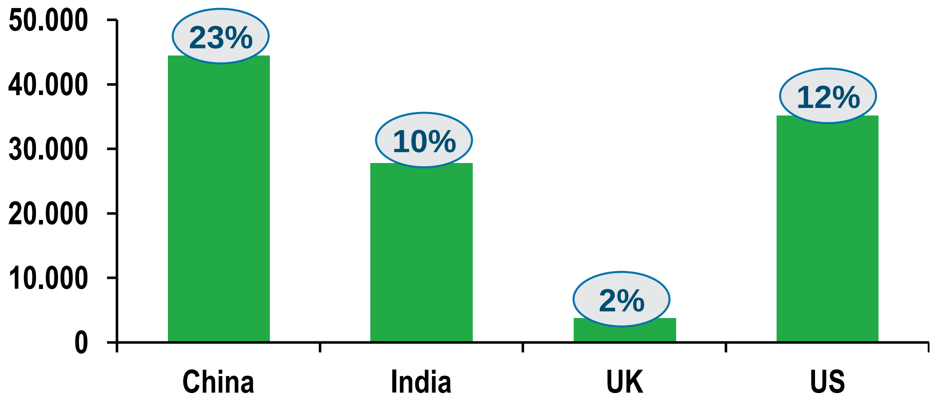
GDP in Year 1850 (US$ bn)



GDP in Year 1950 (US$ bn)



GDP in Year 2030 (US$ bn)



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Sources: IMF, Standard Chartered Research

Shift in balance of economic power

Rank	2000	USD trn	2010	USD trn	2020	USD trn	2030	USD trn
1	US	10.0	US	14.6	China	24.6	China	73.5
2	Japan	4.7	China	5.9	US	23.3	US	38.2
3	Germany	1.9	Japan	5.6	India	9.6	India	30.3
4	UK	1.5	Germany	3.3	Japan	6.0	Brazil	12.2
5	France	1.3	France	2.6	Brazil	5.1	Indonesia	9.3
6	China	1.2	UK	2.3	Germany	5.0	Japan	8.4
7	Italy	1.1	Italy	2.0	France	3.9	Germany	8.2
8	Canada	0.7	Brazil	2.0	Russia	3.5	Mexico	6.6
9	Brazil	0.6	Canada	1.6	UK	3.4	France	6.4
10	Mexico	0.6	Russia	1.5	Indonesia	3.2	UK	5.6

Sources: BIS, Standard Chartered Research

Advantage India

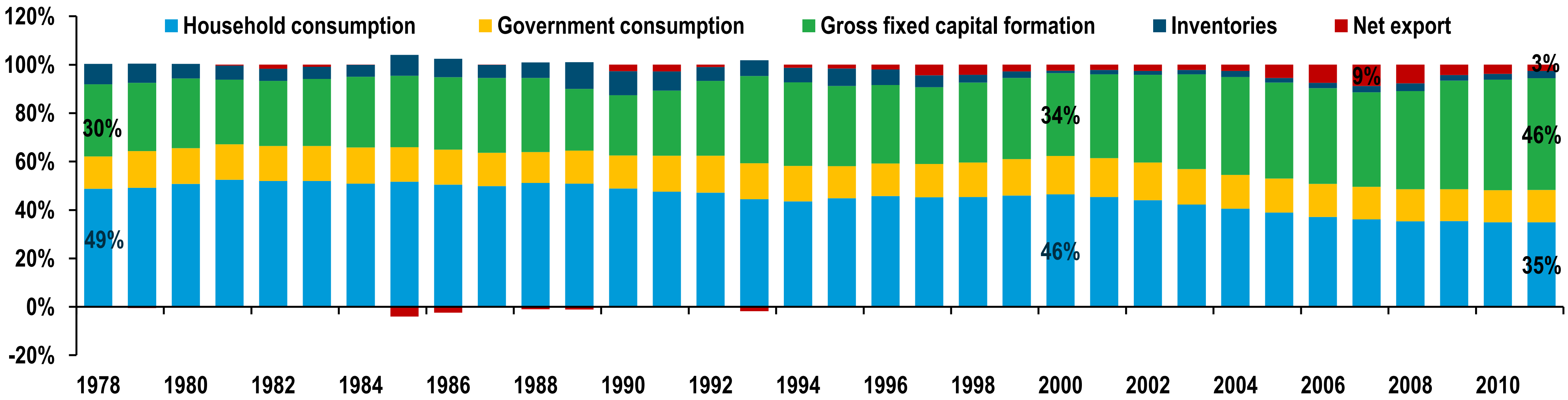
- A more sustainable balance between consumption and investment
- Less exposed to global economic shocks
- Did India skip a step on path of development? India's services vs China's manufacturing
- The demographic advantage: Ageing China and young India
- Private enterprise: the dynamism behind India's growth
- Democratic institutions (including rule of law and freedom of speech) as bedrock of sustainable growth
- Deeper and more developed financial markets and market determined macro variables
- The language advantage

Where India is lagging China

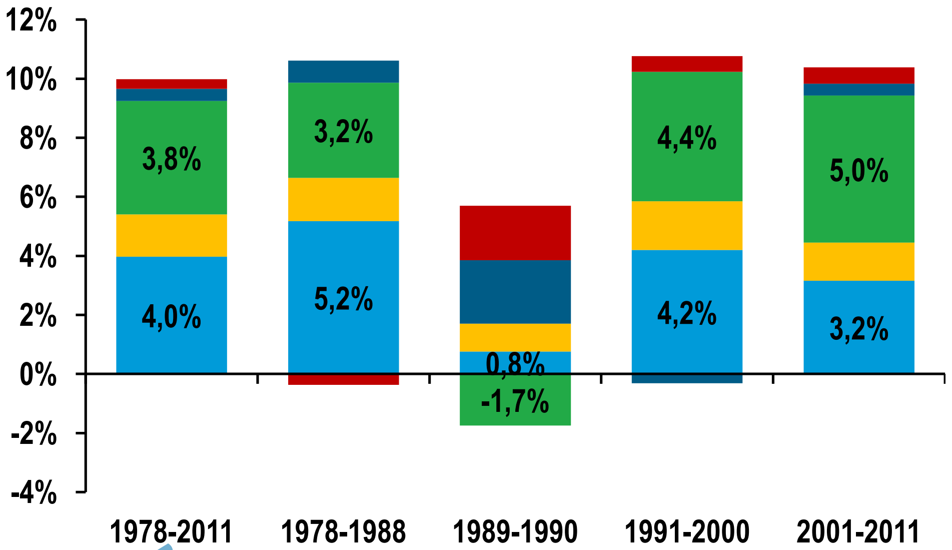
- A 13-year head start on economic reforms
- Infrastructure and natural resources
- Planned urbanization trends
- Innovation and speed of execution
- Fiscal and monetary policy flexibility which can provide buffer to macro shocks

China's dependence on investment

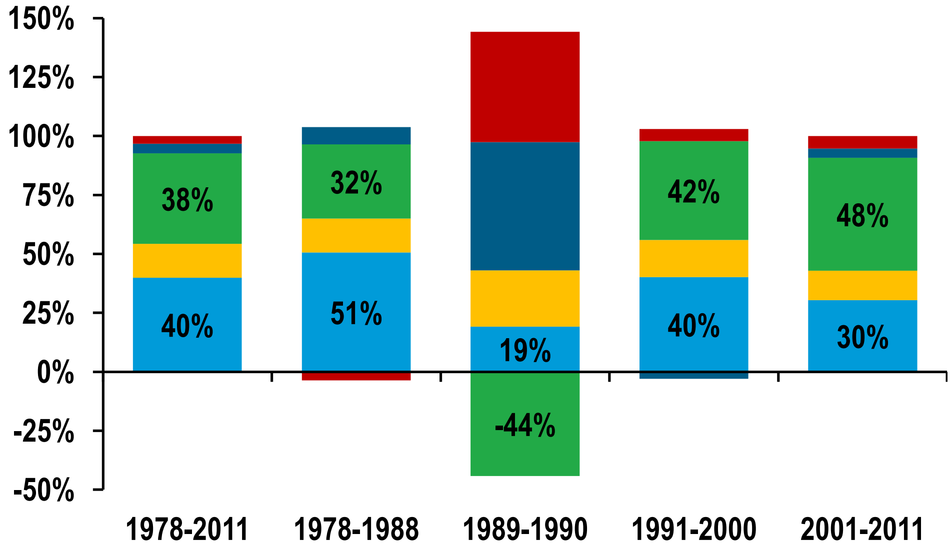
GDP share by expenditure



Weighted growth rate for each GDP component



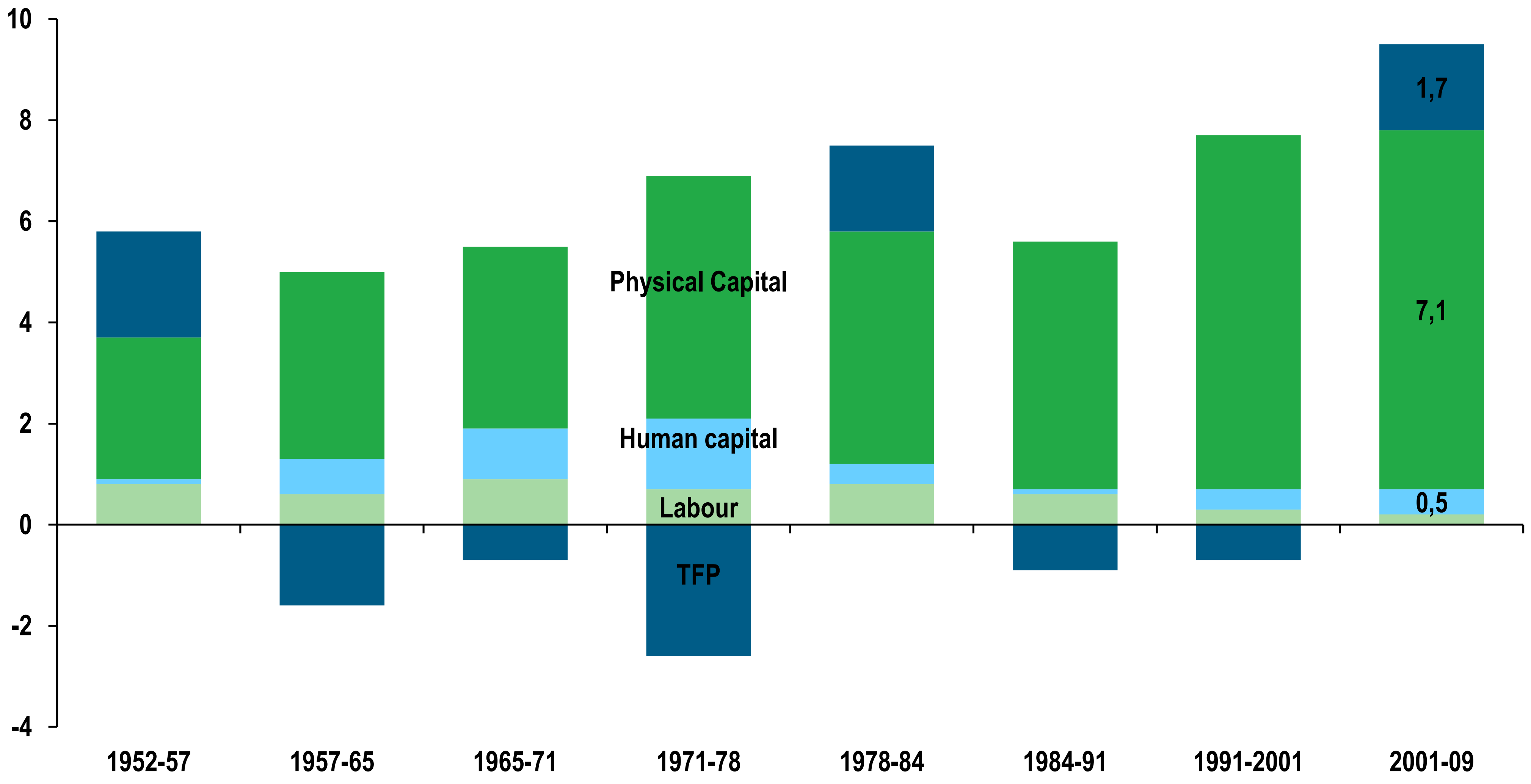
Growth contribution of each GDP component



Sources: CEIC, Standard Chartered Research

China's growth: from investment and productivity

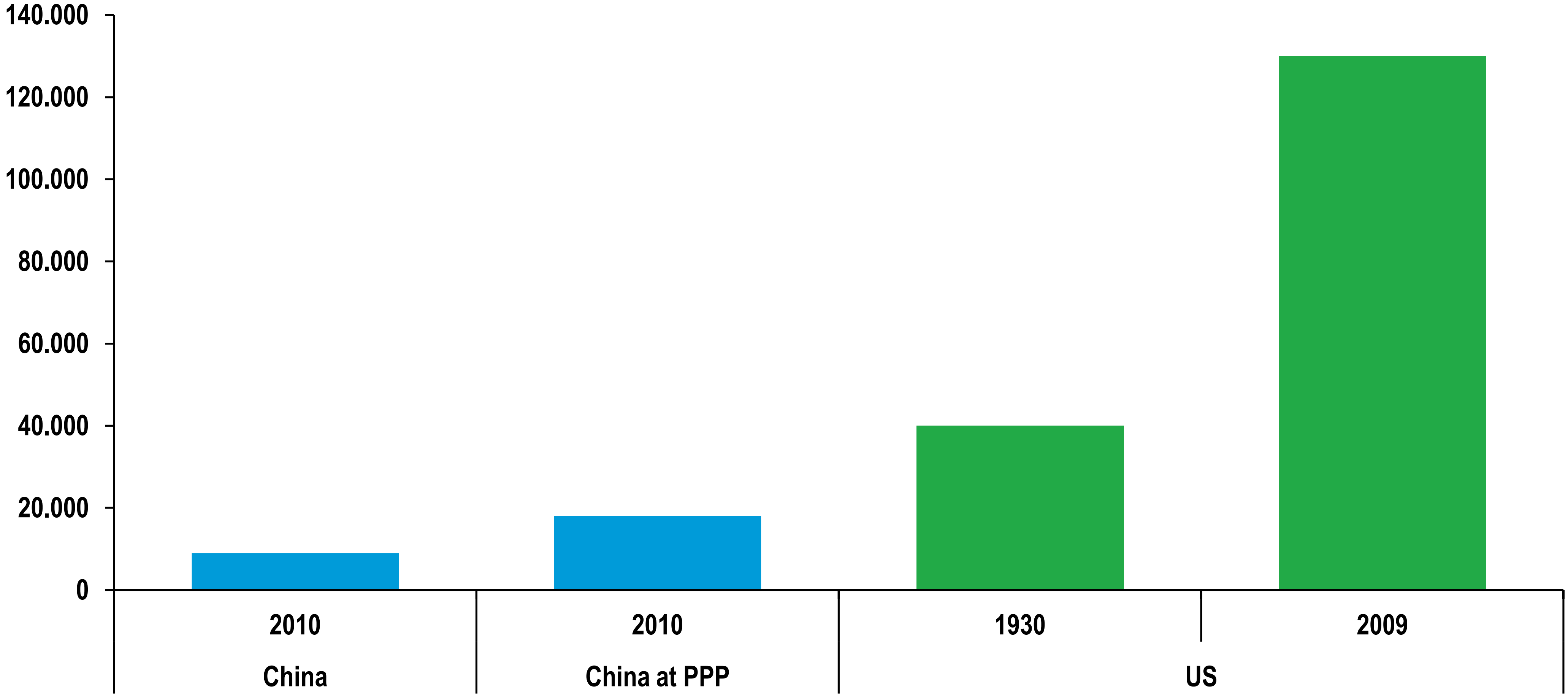
Contribution to average growth over each period, ppt



Sources: Wu, NBS, Standard Chartered Research

China's capital stock is much lower than the US

Capital stock per capita, USD at constant 2005 prices

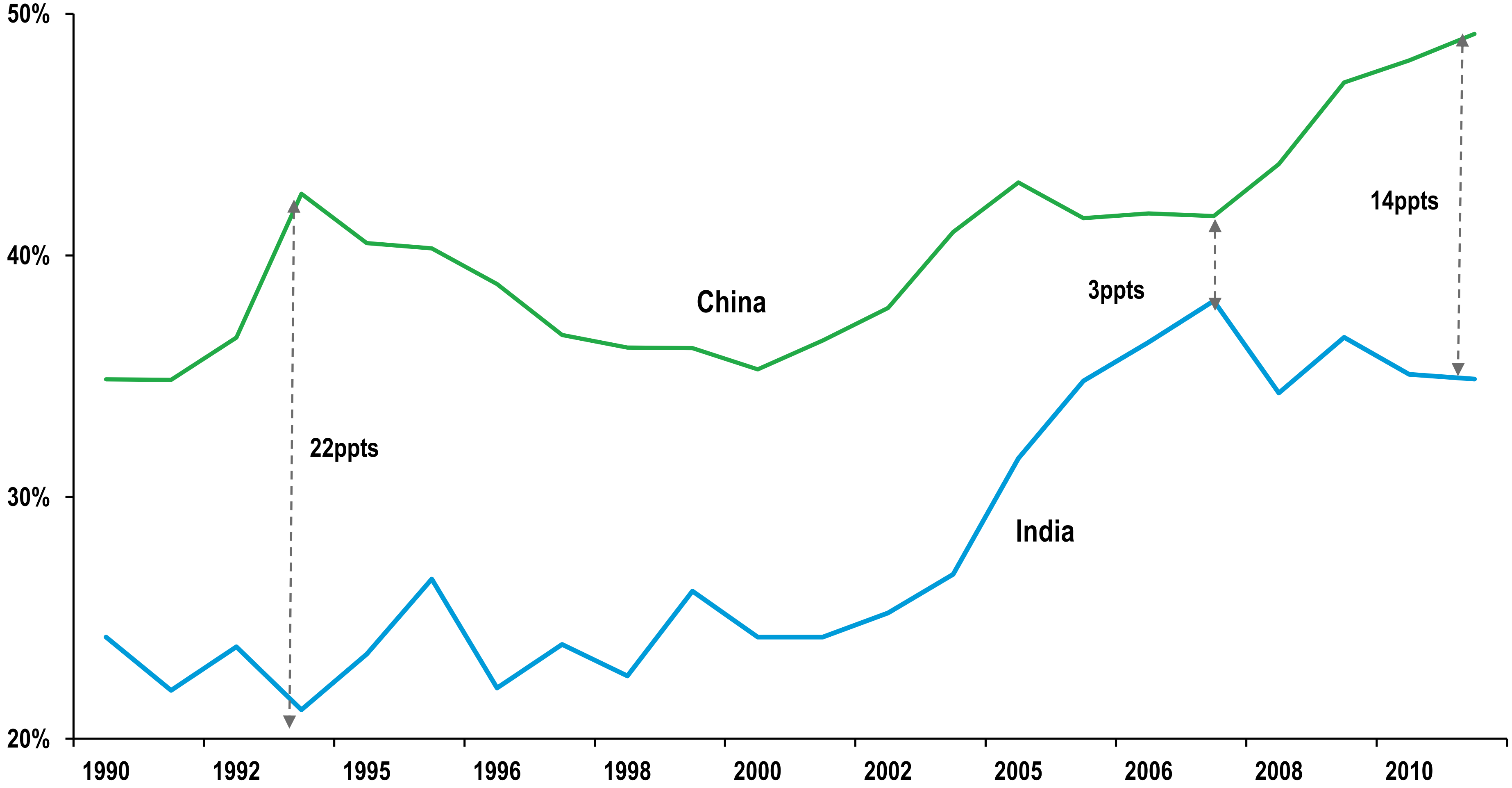


Sources: Dragonomics, Standard Chartered Research

Bridging the investment gap

Investment % of GDP:

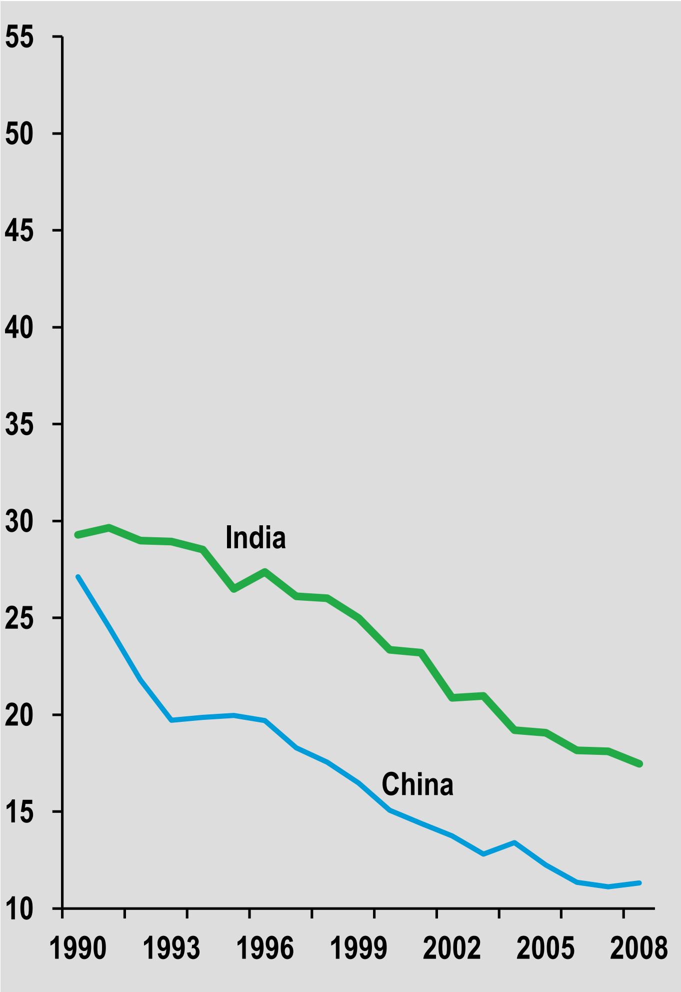
India was catching up with China



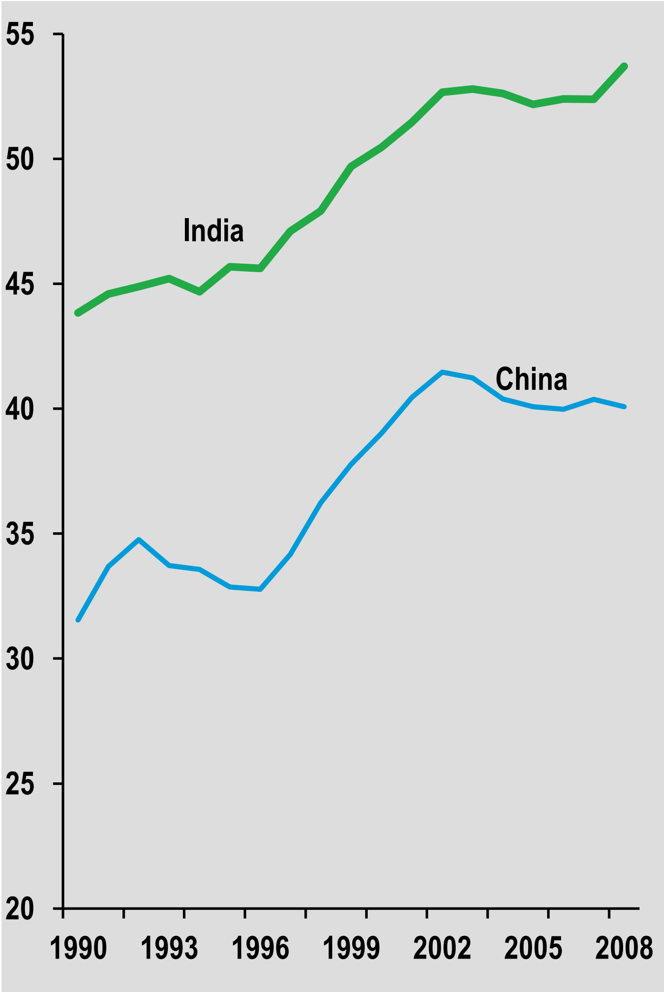
Sources: The World Bank, Standard Chartered Research

Different economic models continue

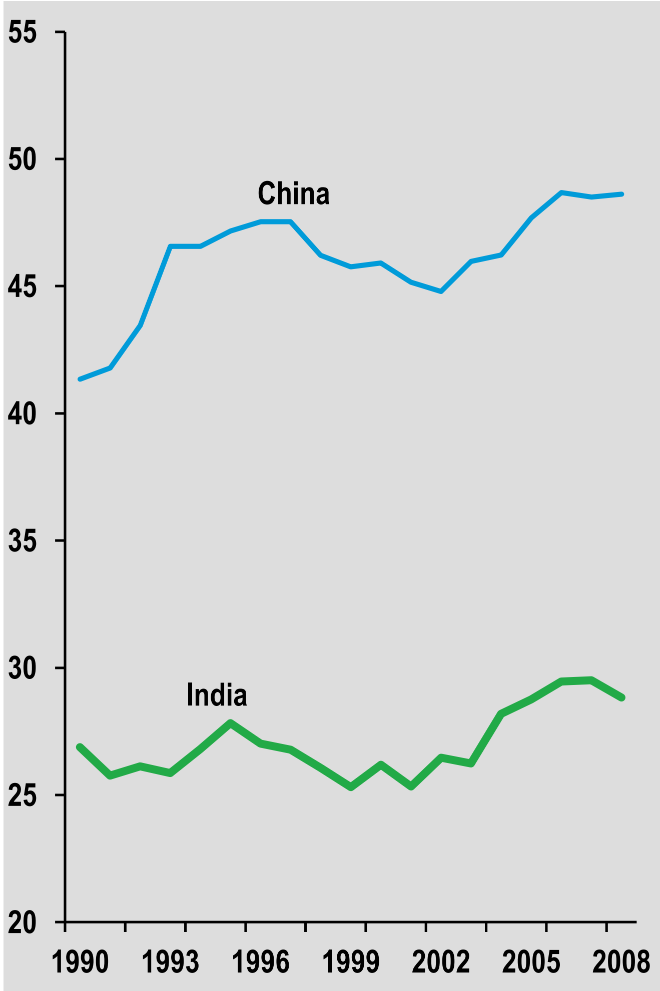
Agriculture
% of GDP



Services
% of GDP



Industry
% of GDP

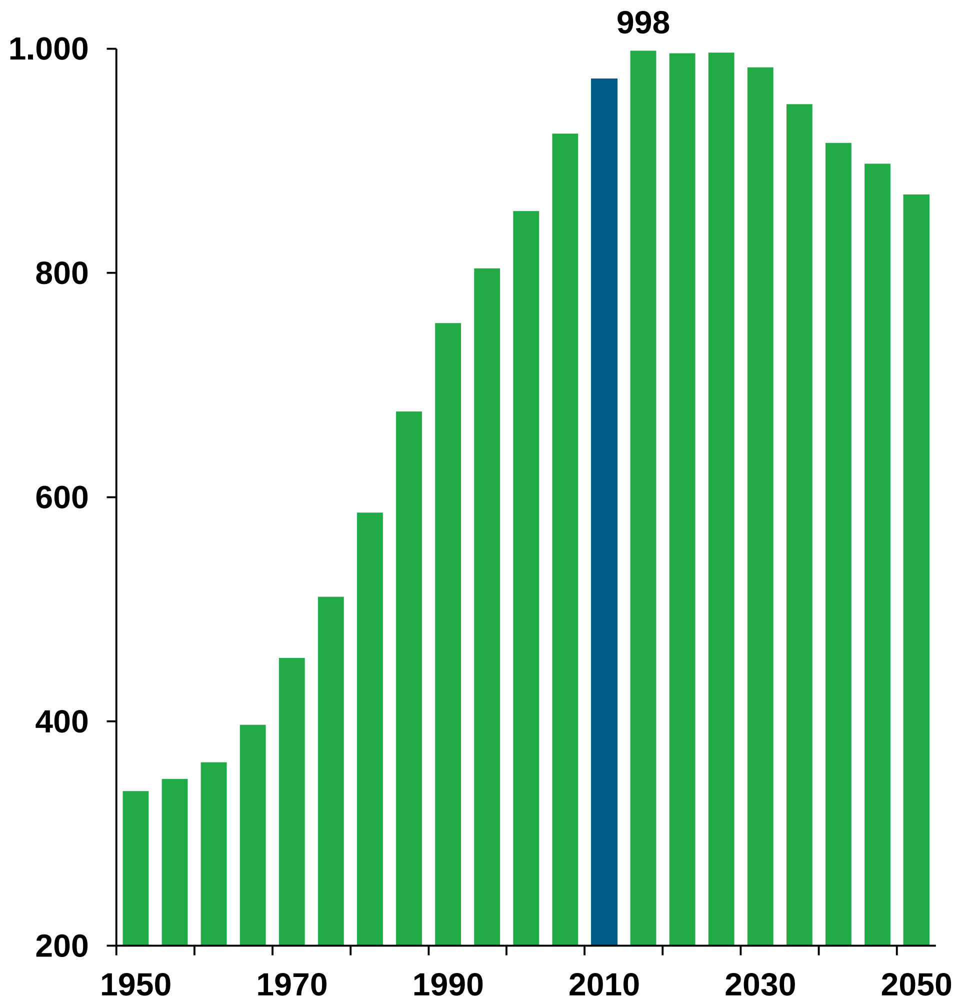


Standard Chartered

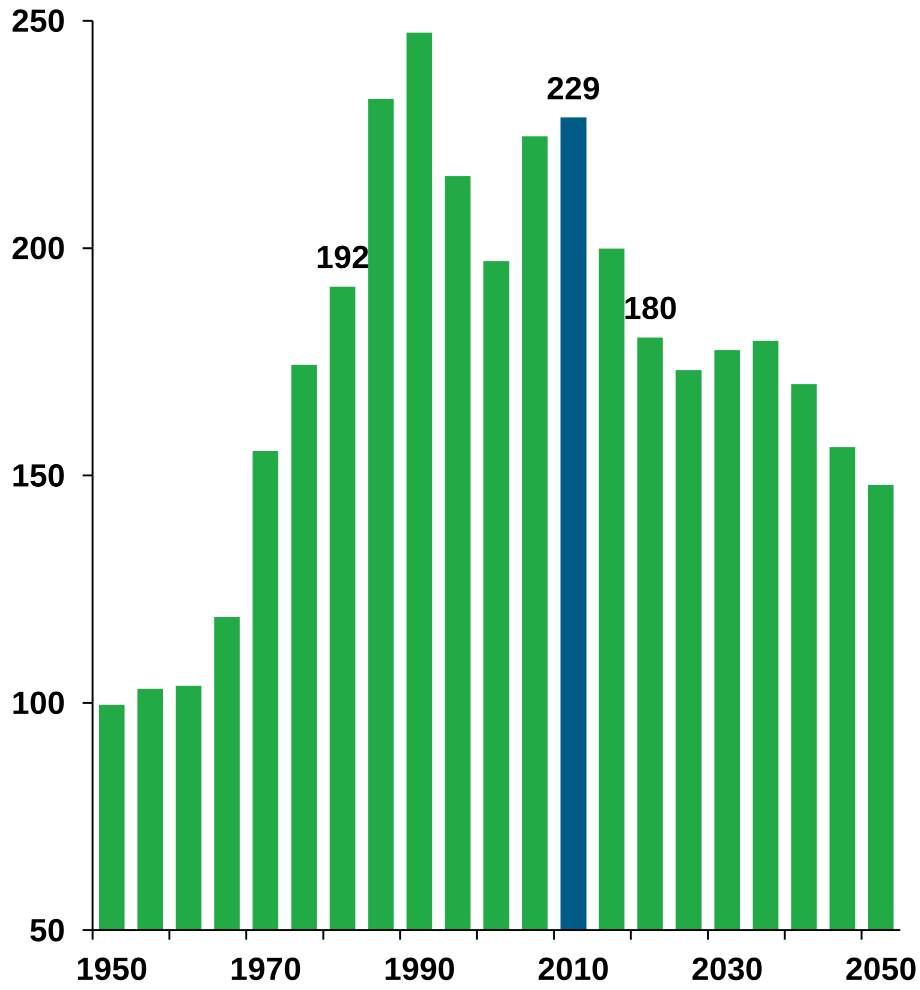
Sources: World Bank, Standard Chartered Research

The Lewis Turning Point has arrived for China

Working age population to peak in 2015 (mn)



Young working age (15-24) population to fall sharply (mn)



Sources: CEIC, Standard Chartered Research

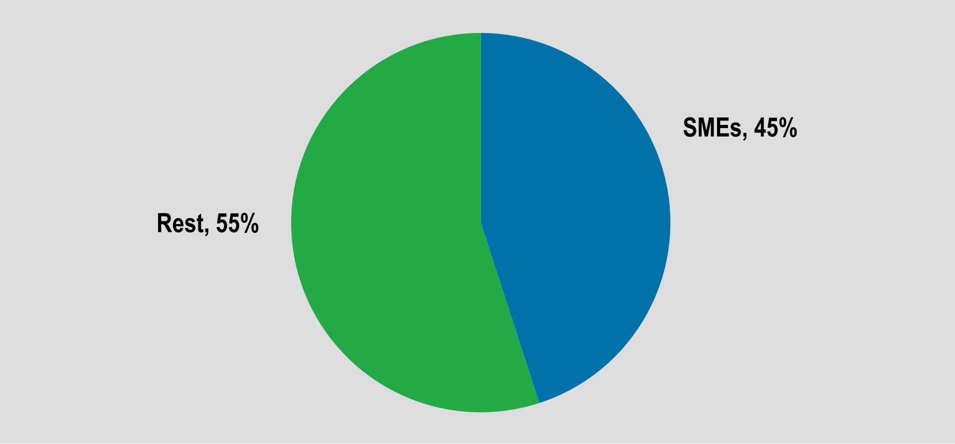
Entrepreneurship and creativity: built to last

India's Jugaad (creative improvisation) focuses on SMEs

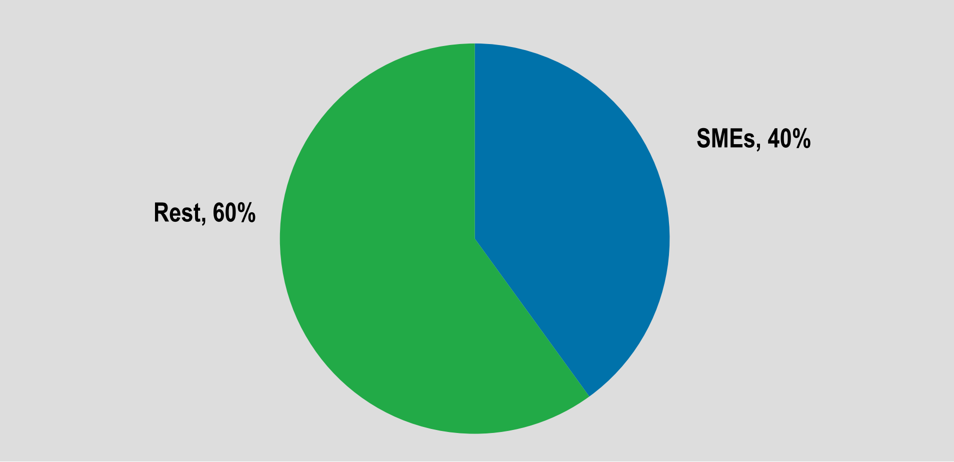
SME sector:

- 26 million enterprises
- 60 million jobs
- SMEs contribute 45% of industrial output and 40% of exports

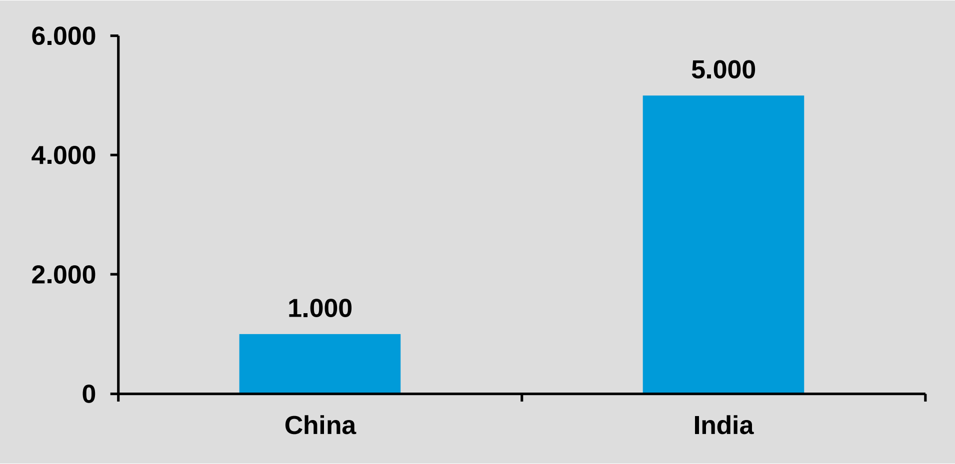
SMEs contribution to industrial output



SMEs contribution to exports



Access to finance *(publicly listed companies)*



Sources: Union Budget Speech for FY11, Shanghai Stock Exchange, RBI, Standard Chartered Research

SCB Forecasts for India

	FY09	FY10	FY11	FY12	FY13(F)
GDP growth, %	6.7	8.4	8.4	6.5	5.4
WPI, %	8.0	3.9	9.6	8.8	7.8
Fiscal balance, % of GDP	-6.0	-6.3	-5.1	-5.9	-5.8
CAD, % of GDP	-2.4	-2.8	-2.6	-4.2	-3.4
Repo rate, %	5.00	5.00	6.75	8.50	7.75
Reverse repo rate, %	3.50	3.50	5.75	7.50	6.75
USD-INR, end-march	50.70	44.90	44.60	50.94	52.50

India's Fiscal Year (FY) is from 1 Apr to 31 Mar

Source: Standard Chartered Research

SCB forecasts for China

	2009	2010	2011	2012F	2013F	2014F
GDP growth, %	9.2	10.4	9.2	7.7	7.8	7.5
CPI, %	-0.7	3.3	5.4	2.0	4.0	4.0
Current account, % of GDP	5.1	5.1	2.7	1.9	2.7	3.1
USD-CNY (year end)	6.828	6.623	6.301	6.31	6.19	6.00
FX reserves, USD bn (increase)	2,399 (453)	2,847 (448)	3,181 (334)	3,547 (366)	3,925 (378)	4,380 (455)
1-yr base loan rate, %	5.31	5.81	6.56	6.00	6.25	7.00

Sources: Standard Chartered Research

Thank you

Global Disclaimer (page 1 of 2)

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