China and India: What's Expected of a Behemoth

When you think of the term 'emerging economies,' China and India will certainly be two of the first names that pop into your head; indeed, the two have become so representative of the term that they're often mentioned in the same breath. They are, of course, radically different countries: in terms of style of governance, ethnicity, culture, geography, and a host of other divergent factors, the nations are by no means facsimiles of each other. What they do have in common, however, is that their populations make them geopolitical and economic juggernauts by default and the world at large expects things of large nations. These days, national might is best expressed in economic terms, and the combination of a large population and high expectations will mean that both countries will do what it takes to be the economic powerhouses it seems they should be.

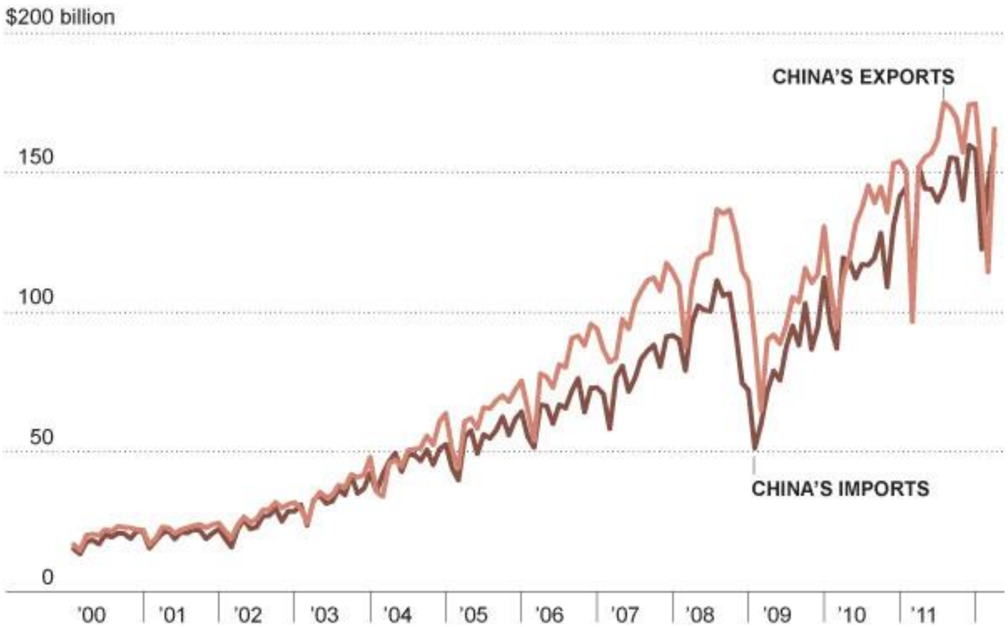
The term 'economic powerhouse' these days seems to correlate awfully closely with the volume of trade a nation handles. The world's borders are not shut, goods are moving faster than ever, and increasing levels of trade in, for an obvious example, China, has made some people and some nations very rich. Other nations are certainly envious of China's success and some may seek to emulate it; others will go their own path. India by all rights should be an economic powerhouse as well, but its position as the world's 9th or 10th largest economy—depending on who's doing the counting—shows that it's still punching well below its weight. Let's look at what's happening in China and India, potentially figure out why they are so different, and look for indicators for the future.

China's meteoric rise over the past decade makes it the poster child for the benefits of international trade and open markets. Its current position as number two in world GDP is not only a feather in its cap, but it's a direct indicator of the fact that, at least economically, China is doing something right. And what has it been doing? We all know the answer: exporting, exporting, and exporting. In order to do that, they've had to create a massive export-oriented infrastructure system and an equally massive domestic manufacturing base. And boy, have they.

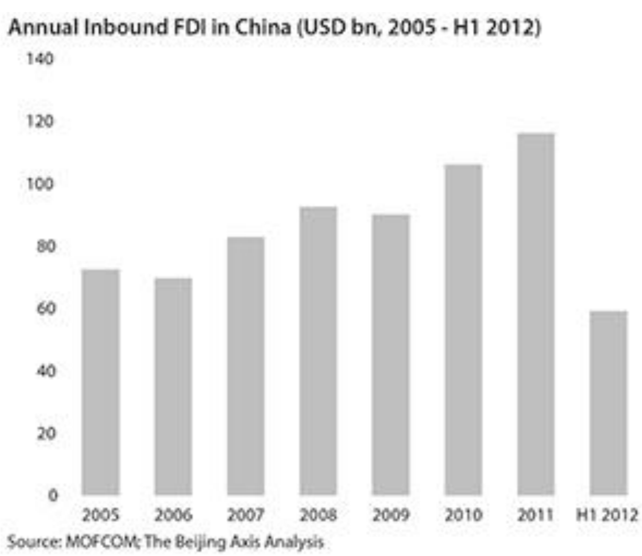
To date, China has six of the world's ten largest ports, and ten of the top twenty. In 2011 alone, those top six ports combined handled 120.69 million twenty-foot container equivalent units (TEUs), dramatically outpacing any other economy.[1] Although there are some who bemoan a slowdown in the Chinese economy, estimates for export growth—though somewhat spotty—in March of 2013 ranged from 5-18% year-on-year, which represents strong growth, and nothing near contraction. It's been easy to be desensitized by the frequent double-digit growth rates in most sectors of the Chinese economy, and to forget that even 5% growth is significant. After 2009's slowdown, China has regained its export strength and boosted it to 20% stronger than 2008 levels, at a whopping 139,736,156 TEUs in 2012.[2]

[1] http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports
[2] World Bank

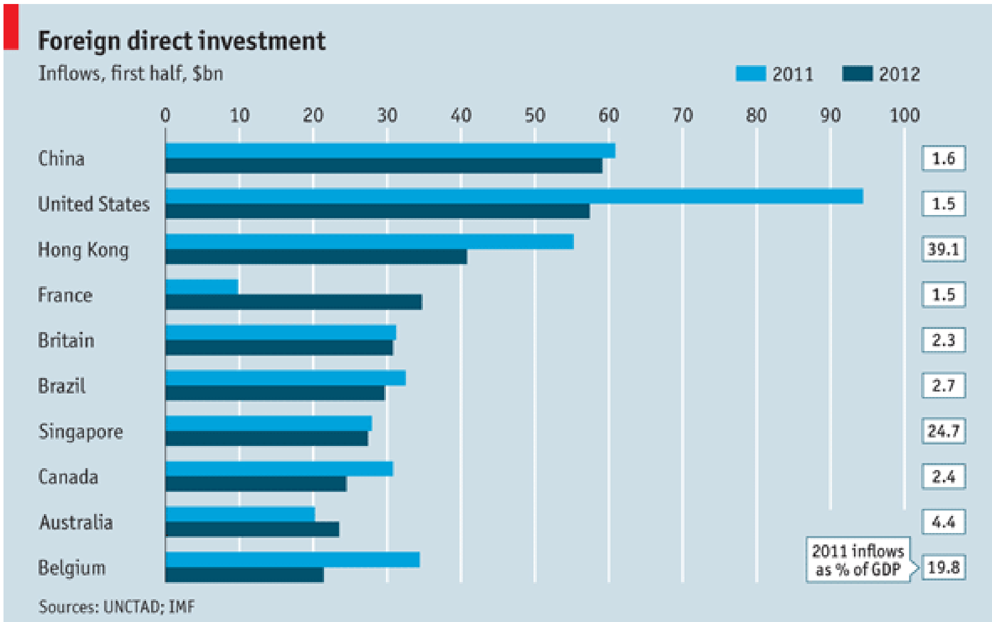
China's level of imports shadows its level of exports, and reflects what's still a rapidly growing urban middle class. Despite recent concerns voiced in the New York Times about China's 'sluggish' domestic growth, on aggregate it is growing rapidly: see chart below[3]. You may note the sharp yearly drop: that represents Chinese New Year, when not a lot of business gets done.



One of the major things that's helped China's expansion is the large amounts of foreign direct investment (FDI) it has received over the past decade and more. This FDI has allowed the construction of the manufacturing and infrastructure bases that form the nest upon which China sits. FDI inflows in China ranked second only to the USA in 2011, and ranked first in 2012.



[3] http://www.nytimes.com/interactive/2012/04/10/business/global/chinas-exports-rise-but-imports-lag.html



India's story when it comes to trade is, essentially, it is a much smaller trading power than China. Compared to China's aforementioned 139,736,156 TEUs in 2012 exports, India had a meager 9,983,940.[4] For those readers who are math-shy, that means that India only exported 7.1 percent as many goods as China did, making it the world's nineteenth-largest exporter. For a country with a longer coastline, a population that's as large or larger, and a functioning democracy this comes as a surprise. India's economy grew by 9.3% in 2010-11, 6.2% in 2011-2012, and is expected to have slowed to 5% in the 2012-13 fiscal year. [5] There's clearly room for growth in India, but why is its story so different from China?

There's two real reasons that stand out. First, India's government is not as centrally organized as China's is, which makes it more difficult to allocate funds and coordinate plans for large infrastructure projects. Second, levels of FDI in India are only a fraction of what they have been in China, which can be a major supply of funds to create manufacturing and infrastructure.

India has 13 major ports, which handle the majority of its shipping trade. Some sixty percent of India's trade is handled through the Mumbai port system, which is a bit odd considering that the coastline is so long and that there should be other options. Indeed, there should be other options available soon, as there are currently 14 projects underway to expand existing ports to allow greater capacity.[6] Minor ports in India are currently expanding their share of the trade, but this may change as

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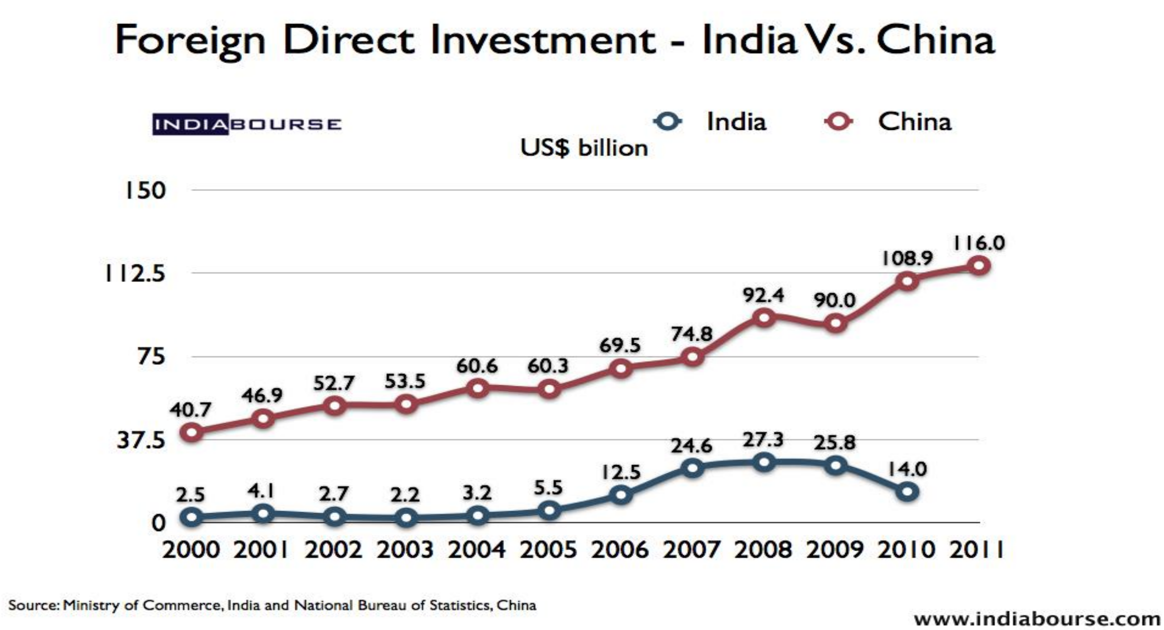
[4] World Bank
[5] http://www.moneycontrol.com/news/economy/indian-gdp-estimated-at-5fy13-lowest-since-fy04-govt_829548.html
[6] Deloitte Research

container ships become ever larger. Of the major ports, 6 experienced growth between April-November 2012.[7]

One of the biggest problems with containerization in India is its roads. This makes trade of any sort more difficult: not everybody lives directly on the coast, and you have to get goods to and from the port. Indian roads are generally considered to be inferior to those in other countries, despite the extensive network in place. The road budgets in many states allocate much more money to maintaining existing roads than to creating new ones, which is problematic for expected increasing levels of trade.[8] Inland container receiving stations, while experiencing increased traffic from ports, still face the challenges of the high cost of development combined with an outdated overland transport system. About 60% of cargo transported in India is transported by roads, and these long, questionably sound roads certainly slow down traffic. The question of infrastructure in India represents one of the country's biggest challenges. It also highlights governmental differences between India and China; where China has a strong central government and weaker local governments, India is the opposite. This simply makes coordinated plans for development more difficult.

Foreign Direct Investment in India has reached nowhere near the levels in China, for many reasons; those reasons could likely fill a book. But the numbers are telling, as are the results.



[7] http://www.safety4sea.com/page/15597/9/india:-growth-of-cargo-handling-in-port-sector
[8] Deloitte Research

The above graph is a large part of the reason why you see so many “Made in China” stickers instead of “Made in India” ones. The commercial manufacturing base that was implanted in China by FDI hasn’t happened in India—yet. This is not to say it will not. Expectations do play a large role in market dynamics, and India’s huge and largely untapped workforce will likely attract more investors in the near future. It’s going to be tough to kick-start India’s economy: of the big four emerging economies (Brazil, Russia, India, China) it’s the poorest with a per capita income of just $1300 a year. India claims to have one of the most liberal FDI policies in emerging economies, but there are still roadblocks to certain developments;[9] many require bureaucratic approval which, at least anecdotally, can make doing business significantly more difficult.

Both China and India are still finding their feet as major players in the global economic game. They both have major potential for growth—even China, still—and will certainly be a large part in the ever-changing economic system. One can expect that imports and exports in both of these countries will continue to grow in scale, especially as domestic economies improve. Given concerted effort to maintain current levels of growth in China, China will retain its position as the world’s largest manufacturer and exporter. Given that India can coordinate the improvement of its infrastructure and attract the FDI needed to kick-start its economy, it may soon shoot up the charts to rub elbows with China and other leading economies.

[9] http://www.indembassy.co.il/FDI%20Policy%20and%20Regulations.htm