

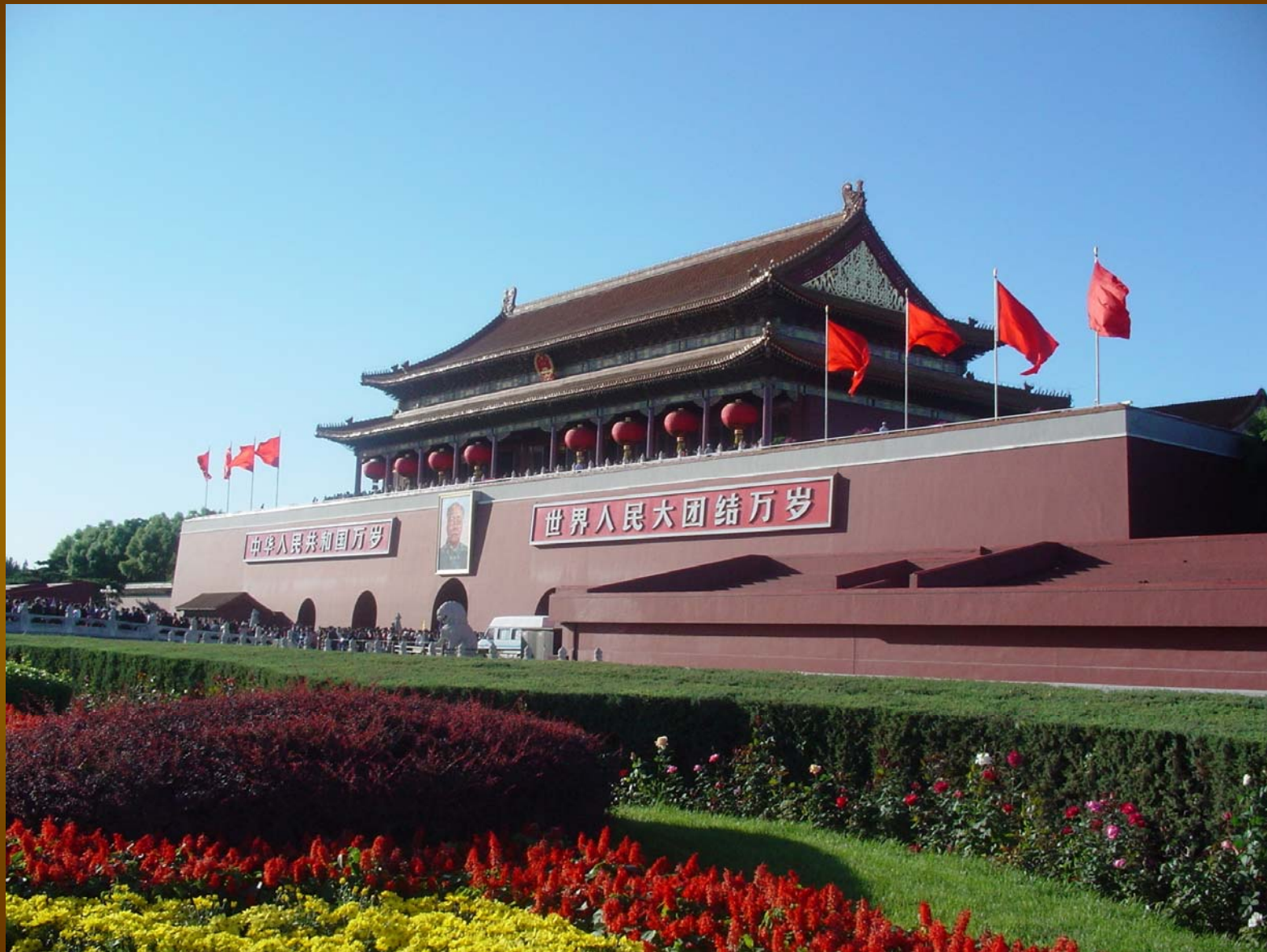
China vs India – the new Asian Question

A Go board with pieces and text overlaid. The board is a grid with red and black lines. Pieces are white and black, with Chinese characters on them. The text is in yellow and white.

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Capital Club, 12th April 2007





China and India

- About 1.2 billion people each
- Huge land mass with large coastal regions
- Both newly independent
- Ancient cultures
- Sovereignty issues with neighbouring provinces
- Both are nuclear powers
- Both have growth rates past 5 years @10%
- Both members of the WTO

Connections

- Delhi – Beijing 3-5 daily flights
- Bombay – Shanghai 1-3 daily flights
- Or via horse across the Himalayas: Five weeks

China

- One Party State
- Need to move up the manufacturing value chain
- Needs to develop services industries
- Huge trade imbalances
- Export driven economy
- Undergoing significant legal reforms
- 70% of population in rural areas
- GDP of USD2.5 trillion
- Growth of 10.5%
- GDP per cap (PPP): USD7,400
- Distribution of wealth problems

India

- Democracy
- Needs to balance services industry with manufacturing
- No major trade imbalances
- Consumer driven economy
- Undergoing significant legal reforms
- 70% of population in rural areas
- GDP of USD904.2 billion
- Growth 9.2%
- GDP per cap (PPP): USD3,500
- Distribution of wealth problems

One Party State

- China has been able to move forward as state controls, plans and executes development strategy without interference
- Clashes however with peoples rights
- Inherent problems with keeping population busy and uncritical of the government
- Managed democracy seen as a potential shift to balance these issues

Democracy



- Problems with executing development due to obtaining majority consensus and litigation issues
- Freedoms to travel
- Freedoms to obtain greater individual thinking
- Legal reform needed to permit government to action much needed development

Internationalization Issues

- China open in past 20 years
- Hukou system stifling movement of labor domestically and overseas
- Language difficulties
- India used to international travel
- No restrictions
- English widely spoken

India vs China Business Development

- Bombay Stock Exchange is Asia's oldest
- In top 100 companies, only 22 changes in past 15 years
- Shanghai & Shenzhen Exchanges new and still largely state supported
- Indian rather than Chinese companies are internationalizing
- More India-China than China-India

Domestic Financials

India vs China Listed Companies

- Bombay Stock Exchange:
 - USD0.82 trillion; 3,500 listed companies
 - Shanghai:
 - USD1.3 trillion; 845 listed companies
 - Shenzhen:
 - USD0.34 trillion; 540 listed companies
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India vs China domestic development

- India far behind in infrastructure
- Needs to empower rural population to enhance domestic economic wealth and stability
- Main issue is legal reform to better manage the democracy in a more positive rather than static manner

China vs India Domestic Development

- Well advanced infrastructure
- Need to empower rural populations to sustain growth
- Main issue may well be legal reform to move away from one party state to a managed democracy in order to spread responsibilities

Short Term Outlook

- India to continue growth @ 10% over next ten years
- Strong domestic company base moving aggressively overseas
- Will inherit some of China's low end manufacturing
- Cities to watch: Delhi, Bombay & Chennai
- Will develop trade imbalances with US by 2015

Short Term Outlook

- China economy to slow after 2010 to 6%
- Trade imbalances will remain high
- Gradual shift to inland investment
- Border cities of Harbin, Urumqi, Kunming and Nanning will become key players
- Gradual move to managed democracy



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