Is India the next China?

James Stewart and Luke Smith

India is one of the world's largest countries by population, on par with China at 1.4 billion people, and on a similar growth path to China—but some 20 years behind.

India's economy is expected to trace the growth shown by China, and this will manifest in infrastructure and building development and other expansion that is rich in commodity demand—and investment opportunities.

Prior to the 1990s, China and India were seen as relative equals on the global stage. Both fell into the category of emerging market economies, characterised by stagnant low levels of GDP, a lack of foreign direct investment (FDI), and with minimal investment in critical infrastructure. Many issues plagued the two nations and hindered economic progress. However, in the early 1990s, China turned its focus to the manufacturing sector where it became a major centre for global manufacturing, subsequently seeing it reach heights that significantly outpaced India.

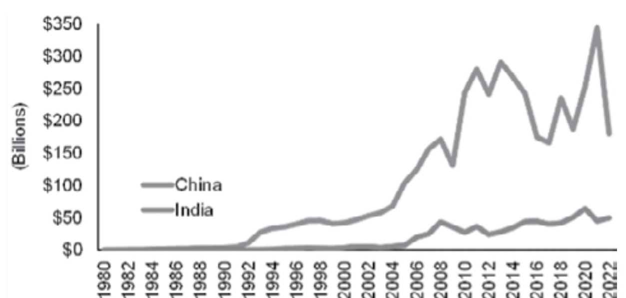
China received significant FDI after the 1990s which saw its growth opportunities outpace that of India's (see Figure 1). Increased investment led to infrastructure spend and a noticeable uptick in the Chinese economy, one that can be replicated in India as the rest of world looks to decouple from a relatively sole reliance on China.

There is particular focus from the international community on an internalisation of critical operations and a desire to diversify risk. India could be a clear beneficiary of this trend.

With India having trailed China's growth trajectory for the past 30 years, there is disparity in the quality of life experienced between these two countries. China, having become more developed, has seen significant pressures on its wages. Minimum wages in China have risen to an equivalent US$360 per month compared to that of India which are approximately US$145 per month.

India provides significant cost savings opportunities for large manufacturing operations, and we are seeing a shift in investment flows in the near term towards such favoured jurisdictions, and beyond China.

Figure 1. Foreign direct investment: India versus China



Top line = China
Bottom line = India

Source: World Bank, World Development Indicators

China has grown to dominate manufacturing, exports and resources markets with its aggressive expansionary policies and growth strategies over the past three decades. This has been led by its push to urbanise its population and raise the average standard of living from subsistence towards that of developed nations.

China has been spectacularly successful at achieving this goal as measured in terms of the overall population movement from agrarian to urban life. Interestingly, between the late 1960s and the early 1980s, India was ahead on the urbanisation of its populace.

With this urbanisation has come rising incomes, helping support a growing wealth base, and fuelling consumer spending and investment. The disparity in urbanisation levels is reflected in the monthly average wage. China has seen a rapid rise in average wages over the past two decades compared to the relatively stagnant level of Indian wages.

While not the sole factor, the rise in average wages in China has created an internal market for goods, services and resources, at the same time as China has rapidly expanded its manufacturing and external trade activity, driving similar disparities in GDP growth.

While China was building manufacturing, India was evolving into one of the world's leading outsourcing and service economies. This outsourcing market had smaller long-term growth opportunities compared to that of China's globally dominant manufacturing sector.

Demographic differences

Asia accounts for more than half of the world's consumers, with China's consumer class estimated at around 899 million people and India's with around half that at 473 million people (see Figure 2).

In terms of demographics, the median age of a Chinese consumer is 39, while India's is only 30 years of age.

The youth advantage is a key driver of potential in India. By 2030, India is expected to have 357 million consumers below the age of 30, making them the largest young consumer market globally.

In contrast, China's consumers are ageing, with the number of those 45 years and over expanding, with China expected to become the largest senior consumer market in the world. By contrast, India will be home to one-fifth of the world's youth consumers by 2030.

China is entering an era dominated by an ageing population. The rising ratio of dependants to workers along with rising health costs for the growing elderly cohort may lead to constraints on economic growth. In contrast, India will be able to reap the demographic rewards for its significantly more youthful population mix through superior productivity in the decades ahead.

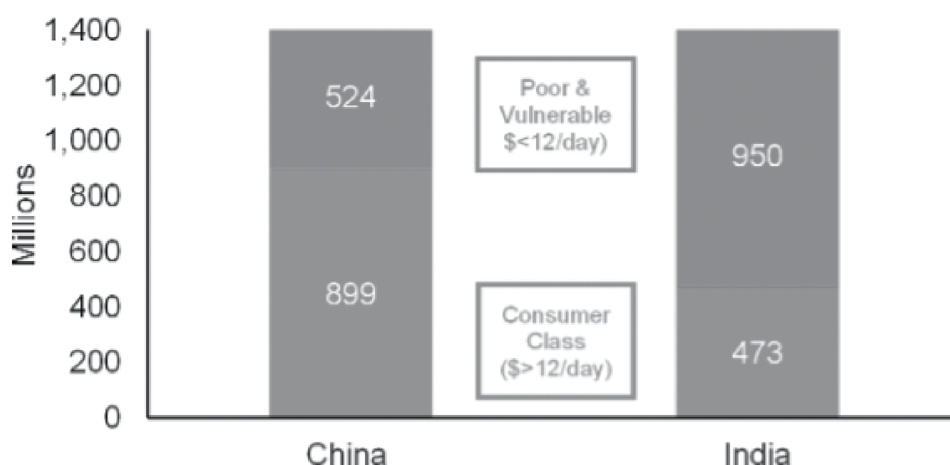
However, in order to maximise the high growth potential associated with a young population, there will need to be improvements in education, enhancements in healthcare, significant infrastructure development, and the standard of living will have to rise. All of this will have a multiplier effect on economic growth, much as it did in the early growth phases for China's path from agrarian to urbanised economy.

Production differences

China is the leading manufacturer of steel products, electronic equipment, cements and fertilisers globally, all of which have a direct link to underlying commodity demand. China continues to maintain its strong commodity-based growth profile, driving significant global demand for all major commodities worldwide, and consuming over half (50%) of the world's iron ore, copper, aluminium, nickel and zinc.

As a major manufacturing hub, China requires significant volumes of commodities in order to produce product for the global economy. For example, China imports large volumes of iron-ore in order to manufacture steel and other metal products. China's iron ore and steel consumption is largely a function of its infrastructure spending.

Figure 2. Population breakdown: India versus China



Source: World Data Pro, 2023

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China and India differ over what they have produced historically, as China placed emphasis on manufacturing while India placed a greater importance on being the world's global outsourcing hub, building a more service-orientated economy.

As India continues to move further away from this service focus to one that increasingly includes manufacturing, it will become a larger consumer of the world's commodities.

In order for India to continue to grow, it requires infrastructure. This means India needs steel. While relatively independent on iron ore, India needs to import large volumes of metallurgical coal [also called met coal or coking coal, and used to produce coke, the main source of carbon in steelmaking] for the production of steel.

India's share of global commodity demand is increasing across the board as the economy moves towards manufacturing, with India absorbing more than 5% of the worlds alumina [also known as aluminium oxide, a white, crystalline compound used as a base for producing aluminium], aluminium, bauxite and zinc.

High-demand products such as consumer electronics, household appliances, mobile phones and footwear have become popular items increasingly manufactured in India due to the cost advantages. This is expected to place significant upward pressure on overall resources demand.

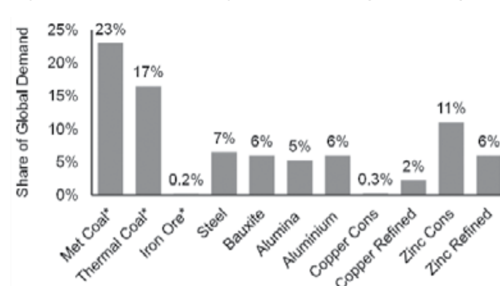
Demand for commodities

In terms of steel, India has outlined a strong pipeline of infrastructure spending over the next five years, with approximately US$1.4 trillion of investment planned for over 7,400 key projects, including rail, airports and roads.

This spending is on top of both private and government-subsidised housing plans that have been implemented in the post-COVID world. These infrastructure and property projects clearly have direct impact on commodity consumption.

The forecast growth profile sees demand for steel continue to rise as the Indian economy forges ahead through infrastructure spend. India consumed approximately 125 million tonnes of steel in 2022, which is around 6.5% of the world's total consumption. Currently, China accounts for around 54% of global steel demand while India only accounts for 7% (see Figure 3). Various experts forecast that Indian steel demand will double in the coming decade as a result, increasing India's importance within the commodities complex.

Figure 3. India's share of global commodity demand (2023)



**Note Coal and Iron Ore reflect seaborne import share, all others are global production basis.*

Source: Kallanish, Credit Suisse, UBS

Both iron ore and metallurgical coal consumption remain elevated as a result of this steel demand. Metallurgical coal and iron ore are essential ingredients in the production of steel. Typically, steel is smelted in a blast furnace by combining iron ore and metallurgical coal with oxygen. In order to create 1 tonne of steel, 1.6 tonnes of iron ore and 0.8 tonnes of metallurgical coal is needed, apart from any additional base metals like zinc or nickel.

In terms of bulk materials, namely iron ore and metallurgical coal, there are some interesting differences between China and India. While India represents roughly 10% of the global consumption of iron ore, it is relatively self-sufficient, given that it has an adequate supply of domestic sources.

This means it is able to meet most of its internal demand for iron ore with its own resources. Given this, India is not expected to be a large net consumer of seaborne iron ore in the coming years. This compares to China which represents roughly 60–70% of the seaborne iron ore market.

On the flipside, India has limited domestic sources of metallurgical coal and is required to import this material to support its steel manufacturing industry. As a result, metallurgical coal represents the most dominant source of external commodity demand for the country (see Figure 3). This compares to China which has significant domestic sources of metallurgical coal, as does Mongolia to the north.

India's lack of domestic sources of metallurgical coal requires the importation of large volumes for its steel production, compared to China which has a large degree of self-sufficiency.

The world demand outlook therefore flips here compared to iron ore, with India accounting for around 23% of global metallurgical coal demand compared to China at around 19%, based on 2022 data. India's accelerating steel demand is likely to see it become an increasing component of the seaborne market as a result.

It is worth noting that at this early stage, base metal (aluminium, copper, zinc and nickel) import demand is marginal from a global perspective, given the early stage of India's economic development. Copper is worth mentioning as the metal expected to generate incremental demand growth as a function of the expected take-off in economic expansion that will come with increasing urbanisation, and an increasing consumer class in India.

Investment opportunities

The acceleration of India's economic growth, and the investment in infrastructure and property required to support this growth, will see it rise as one of the world's leading buyers of commodities, metallurgical coal in particular.

Within the S&P/ASX 200, the main beneficiaries of this boom in demand will be the metallurgical coal producers like BHP, Whitehaven Coal and Coronado Resources. There remains considerable upside opportunity for companies that will be able to meet India's metallurgical coal demand in the coming years due to a notable level of underinvestment in metallurgical coal production.

Because of India's internal reserves of iron ore, demand for Australian product is only expected to be incremental, and a marginal contributor for the likes of BHP, Rio Tinto and Fortescue Metals.

Like many countries, India is attempting to accelerate growth through economic stimulus in order to move beyond the impacts of the pandemic. In February 2023, India announced a CAPEX increase of 33% to 10 trillion rupees for FY23. This announcement was directly targeted towards employment spend and an increase in infrastructure spending.

Of India's 7.2% projected GDP figure for FY23, 3.3% is to be spent on capital investment, bringing the total spend to almost 50% of GDP. Again, this follows a similar path to how China was able to navigate the Global Financial Crisis of 2007, and emerge as the world's leading growth powerhouse.

China continues to consume more than half of the world's key commodities, making this demand the major predictor of price moves. India sits in a similar position to where China was 20 years ago, with significant growth potential.

Ultimately, India will play an integral role in the global economy as it transitions into a competitive investible jurisdiction. Compounded by its young population, and their desire to urbanise, we are going to see incredible demand, for both jobs and infrastructure, feed through the economy.

With India on track to exceed Chinese growth compared to where it was 20 years ago, there will be a profound impact on commodities demand looking ahead. **FS**

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