THE CHINDIA STORY

SUPER POWERS OF THE FUTURE

- BRIC Countries- Super powers of the Future
  - China & India lead the group.
- India & China - Toppers
  - China with GDP in PPP terms of USD 10 trillion vs India USD 4.00 trillion.
- Top countries in terms GDP growth
  - **China 11 % India 9 %.**
- Bilateral Trade.
  - Increased from USD 1 billion 10 years ago to USD 14 billion.
  - India & China have pledged to increase bilateral trade to USD 40 billion by 2010.

SUPER POWERS OF THE FUTURE

- Huge Forex reserves
  - China largest with USD 1.43 trillion vs India 5th largest with USD 261 billion.
- Trade Balance
  - China – surplus USD 177 billion
  - India – deficit USD 61 billion.
- Rapidly appreciating Currencies.
  - Yuan has strengthened by 5 % in the last 12 months while the Indian Rupee has strengthened by 13 %.
- Measures to control forex reserves and currency appreciation.
  - Allow free flow of capital across the border
  - Globalisation of economy – High M&A turnover

Super Powers (Contd)

- High inflationary pressure.
  - CPI increase- China 6.5 % Y-O-Y in August 2007 –highest in 10 years.
  - India 5.6 %-Declining due to higher appreciation of currency.

- Complementary business model
  - China – Manufacturing based economy – major hardware producer.
  - India – Services based economy - world's back office & edge in software.
- Massive investment flows.
  - FDI constitutes major chunk of China's forex reserves.
  - FDI into India from August 1991 to March 2007 amount to USD 54.63 billion . FDI equity inflows during the year 2006-07 increased by 184 % from USD 5.5 Billion in the year 2005-2006 to USD 15.73 billion during the year 2006-2007.
  - India and China put together have cornered 32 % of global FDIs in 2007 as against 10 % in the year 2005.(The Global FDIs have grown by 38% to USD 1.306 trillion during the year 2006.)

Drivers of Growth in the Region

- High Growth
  - For the first time in H1 2007, increase in consumer spending in China +India added more to global growth than consumer spending in the US
  - Growth in Asian region was up 0.4% in 2006 from a year earlier, led by China and India, to 7.6%.
  - Emerging Asia (developing countries in Asia- excludes Japan, Korea, Singapore, etc.) growth hit 9%
  - Chinese growth led by investment, while India's growth was more domestic demand driven

EQUITY Markets

- Soaring stock markets.
  - Shanghai Composite Index has gone up by 4.5 times during the past 2 years- from 1090 in October 2005 to 6000 now.
  - The BSE Sensex has gone up by over 1.5 times from 7800 in October 2005 to 20000 now .
- FII Flows major contributors for rising stock markets
  - Investments by FII till date into Indian stock markets – to the extent of USD 68 billion. Last 12 month flows amount to USD 16 billion .
  - The rules for investments by QFII into China are being gradually relaxed in order to increase such investments in a phased manner.

Developments in the Indian Financial Markets

- FIIs are now allowed to hold US$3.2bn in government bonds (limit was $2.6bn before March this year)
- For the corporate bond market the limit is $1.5bn
- Foreign entities have started raising Indian Rupee resources investments in India.
  - Eg Inter- American Development bank raised Rs.1 Billion (USD 23 million) through an INR denominated bond.
- Recent upgradation of Indian debt to investment grade by various rating agencies has increased demand for Indian debt instruments.

Developments in the Indian Financial Markets

- Measures proposed by RBI to increase capital outflows
  - Overseas investment limit for Indian companies increased to 400% of their net worth
  - Aggregate ceiling on overseas investment by mutual funds enhanced to US $5Bn
  - Prepayment of ECBs without RBI approval increased to $500 million
  - Limit for foreign portfolio investments for Indian companies increased to 50% of net worth
  - Remittance limit doubled to US$200,000 per financial year for individuals

Regulatory Measures

- Measures taken by the Reserve Bank Of India to control inflation .
  - Hike in the mandatory Cash Reserve Ratio by 0.50 % on Oct 30,2007 to 7.50% (2.25 % hike since Jan 2007).
  - Restricted lending to Real Estate Sector.
  - Removal on the daily cap of INR 30 billion that banks in India can place under the reverse repo auction of the RBI.

Regulatory Measures

- Measures taken by the Chinese authorities to control inflation and excess liquidity .
  - PBOC has hiked the RRR (Reserve Requirement Ratio) for financial institutions' Yuan deposits for the eighth time to 13 % during October 2007. The hike of 0.50 % will freeze Yuan 188 billion in the banking system.
  - Restrictions being laid of investment in residential properties by foreign companies by the government.
  - PBOC has been sterilising the liquidity created by rising foreign exchange reserves by issuance of short term bills .

Developments in China

- Measures taken by the Chinese Government to manage foreign exchange reserves efficiently.
  - Chinese Investment Corporation with a initial corpus of USD 206 billion.
  - CIC proposes to invest across the globe.
  - India to be a major destination for such investments.
  - QDII Investments allowed in overseas markets
  - Substantial stake held in US based private equity group has given indirect entry to the Indian market.

Impact on other ASIAN countries

- Emerging markets particularly in Asia will witness higher investments from both China and India.
- The need for gradually reducing dependence on the US and EU for Exports by China and India may pave way for greater trade with the Asian counterparts.
- Higher M&A linked growth to capitalise on respective strengths.
- Outsourcing of basic processes from cheaper nations.
- Free trade amongst the countries to boost domestic consumption.

Thank You