SINGALLIANCE

# Letter n°85

## India versus China: a partner, a rival, but not yet an alternative.

***"Power is the ability to do, produce or destroy" Raymond Aron.***

According to ***Angus Maddison***, in 1700, India and China each accounted for around 20% of the global GDP, before both missing out on the industrial revolution that greatly benefited the West.

- In 1947, at the time of India's independence, India's GDP per capita in PPP was higher than China's. However, today China's GDP per capita is three times that of India, $21,470 per year compared to $8,380 according to the World Bank statistics for 2022. In real terms, China contributes to 18% of the global GDP while India contributes 3.1%.

- Between the early 1980s and the early 2010s, China enjoyed an average annual GDP growth of 10%, a level that India did not achieve.
- Since the Covid crisis, the engines of Chinese growth seem to have stalled, and the country is facing deflation. Structural factors are to blame, including a decrease in population, excessive debt, and overcapacity in many sectors, including real estate and infrastructure.

- These concerns are reflected in the weakening Chinese currency, which is at an all-time low, while the Indian Rupee has remained stable against the $ this year. Additionally, Chinese stock markets have declined by 4.5% this year, whereas the Indian market has appreciated by 7%.

- Amid these concerns, there is hope that India, now the world's most populous country, will become a new driver of the global economy and perhaps a mirage of an alternative to China.

  This letter discusses three points: political opposition and economic complementarity, China's unmatched influence compared to India, and China's unique position in the energy transition.

**India-China**: **from political opposition to economic complementarity**.

***India vs. China***:

The tensions are long-standing and show no sign of diminishing, whether it's regarding the border between the two countries, relations with Pakistan, ties with Sri Lanka, or alignment with Western powers. Let's examine these four points:

- The border between India and China:

The two countries share 3,500 kilometers of borders but do not agree on the demarcation. In 1962, taking advantage of the Cuban Missile Crisis, China launched a successful offensive against India in the Himalayas, specifically in Tibet. Since then, sporadic skirmishes have occurred. In recent years, responding to China's increasing provocations along the Himalayan border and its encroachment into Indian territory in Ladakh, Modi has deployed 70,000 soldiers.

- Tensions with Pakistan:

The opposition to China finds a second front with Pakistan, an ally of China. Pakistan was at war with India during independence and again in 1965 and 1971 during the creation of Bangladesh. The rivalry between India and Pakistan also extends to water resources and the control of the Indus River.

Narendra Modi, a nationalist leader hailing from Gujarat, a state close to Pakistan, and in power since 2014, revoked the autonomy of Kashmir, a predominantly Muslim state in India, in 2019. He has been working to marginalise Muslims, who make up 15% of India's population.

Incidentally, China, a loyal ally of Muslim-majority Pakistan, has shown no mercy towards its own Muslim minority, the Uighurs, of whom one to two million are now confined in camps.

- The rapprochement between India and Sri Lanka:

Taking advantage of the financial crisis in Sri Lanka, India seems capable of regaining influence over the country and pulling it away from China's orbit through the assistance it provides.

- The rapprochement with Western countries against China:

India is a partner of the United States in the Quad, an alliance with Japan and Australia that is largely aimed at countering China.

Concerned about the growing ties between Russia and China, India has reduced its reliance on Russian weaponry. While the dependency was at 80% until 2015, it's now less than 50%, as India is increasingly making purchases from the United States and France.

***Complementarity between the two countries***:

The opposition between the two powers as seen from the Western perspective differs slightly from reality. There haven't always been heightened tensions at the border, and the two leaders share four or five common political aspects: a mutual rejection of Islam, a similar stance towards Western notions of human rights, a shared refusal to condemn Russia's invasion of Ukraine, a shared dependence on coal and thus reluctance to hasten the energy transition.

- From an economic perspective:

Amidst a structural slowdown in the Chinese economy, the rapidly growing Indian market holds strong appeal for Chinese companies seeking new markets and contracts. Many Chinese brands, such as Xiaomi and Oppo (under the BBK Electronics group), are well-liked by Indians, particularly in the mobile phone sector.

Bilateral trade between the two powers is expanding and has reached $140 billion. China has become India's primary trading partner, selling $120 billion worth of goods to India in 2022, while only purchasing $20 billion. India's attempts to reduce this dependency have been unsuccessful thus far. India relies on China for components essential to its pharmaceutical industry, as well as for semiconductors. To mitigate this reliance, Modi sometimes resorts to imposing import taxes, reaching as high as 70%, as seen in the case of Chinese toys.

Chinese companies have the potential to be partners with India in developing its infrastructure and industry, given their evident successes.

- From an ecological point of view:

Both countries are the largest polluters on the planet. China produces twice as much greenhouse gas emissions as the United States. India is the second-largest coal producer after China, with coal accounting for 45% of its energy balance.

China, with 17% of the world's population, possesses only 6% of global water reserves and 7% of arable land due to soil degradation caused by pollution, and desertification continues to expand.

- From the perspective of the welfare state:

Both countries are also poorly organised. In India, healthcare expenditures (public and private combined) as a percentage of GDP barely exceed 3%, far below the 16% seen in the United States. Similarly, education expenditures do not surpass 2.7% of GDP.

Emphasising healthcare and education expenditures, Indian Nobel laureate ***Amartya Sen*** raises a question in his latest book: are people poor because they fall below a minimum vital income, or because they lack genuine opportunities for choices in critical life decisions? This second hypothesis lies at the heart of challenges faced by the youth in both countries.

Both countries struggle to create jobs, with problematic youth unemployment rates. Officially, China reports a youth unemployment rate of 21.5%, but according to other Chinese statistics, it might exceed 40%, similar to India.

Both countries exhibit glaring inequalities, surpassing those observed in Western nations.

**The significance of China in the global economy is incomparable to that of India**:

***India vs. China in global GDP***:

China’s GDP has grown from 1.6% of global GDP in the 1990s to 18%, amounting to $17.9 trillion. China leads in exports, is a major investor in foreign markets, orchestrates the Belt and Road Initiative and the Shanghai Cooperation Organisation (SCO), and holds influential power at the United Nations.

Since the early 1990s, according to the World Bank, India's GDP has grown from $300 billion to $3.4 trillion in 2022.

While India now ranks 5th globally in terms of GDP and aspires to surpass Germany and Japan in the coming years, its current GDP is only slightly more than one-sixth of China's GDP.

Despite India's average annual growth of nearly 7% over the last two decades, this impressive rate has still been lower than China's, possibly inflated, growth, and India's GDP suffered a significant setback during the COVID crisis.

In reality, India remains fundamentally a poor country. According to the World Bank, India's annual GDP per capita was $2,250 in 2021, ranking 165th in the world, far behind China's $12,600, which itself ranks 79th, and even farther from the $70,000 per capita observed in the United States.

Based on purchasing power parity, India fares slightly better, having increased from just over 3% to 7%. However, its annual GDP per capita of $5,000 only places it 126th globally, trailing behind China at 82nd with $16,000 and the United States with $59,000.

***India vs. China in international trade and investment***:

China accounts for 15% of global trade and is by far the world's top exporter with $3.4 trillion in exports, surpassing the United States at $1.8 trillion and Germany at $1.4 trillion. India contributes no more than 2% to international trade.

Year after year, China records significant surpluses in its trade balance and current account balance, while India faces structural deficits ranging from 2% to 5% of GDP depending on the year.

China constitutes 18% of global goods exports, ahead of the European Union at 16% and the United States at 10%.

While American imports from China have only increased by 6% over four years, and although the proportion of imports from China to the United States, which peaked at 21%, has declined, it remains substantial at 17% compared to 4% from Vietnam, 2.7% from India, and 1.1% from Indonesia.

China is also the European Union's top trading partner, just ahead of the United States.

Through the Belt and Road Initiative, China has invested nearly $4 trillion over the past decade. The G7 countries intend to respond, but the proposed investment amount in emerging economies would not exceed $600 billion and would primarily target Africa.

In summary, India is far behind China in international trade.

***India vs. China in tourism***:

Chinese tourism around the world is welcomed by host countries because in 2019, even though only 1/10th of Chinese citizens held a passport, it still amounted to 155 million tourists and $250 billion in spending, which is twice as much as American tourists.

Indian tourists around the world are still relatively few compared to the Chinese, and tourism in India, with fewer than 10 million visitors each year – a third of China's numbers – and even just a quarter in terms of revenue, remains underdeveloped.

***Multinational corporations do not see India as a substitute for China***:

According to The Economist, 13% of the revenues of the top 200 Western multinational companies are generated in China. Many Western companies are considering expanding their presence in India but continue to invest in China. This is the case with Volkswagen in Xinjiang, as the group sells more in China than in Europe.

In the luxury sector, China accounts for nearly a third of global demand.

In technology, as we have seen, companies like Apple owe part of their success to the Chinese market. Not long ago, Apple derived 90% of its production and a quarter of its revenue from China. Today, despite diversification to Vietnam and India, China still contributes 19% of Apple's revenue. Often, especially in Vietnam, Apple collaborates with subsidiaries of its Chinese suppliers, such as Wingtech, Goertek, and Luxshare.

While Americans aim to reduce their dependence on China and foster relations with other Asian countries, this transition takes time because China often holds a comparative advantage.

For instance, US imports of smartphones are still 75% dependent on China, down from over 80% at its peak, while smartphone imports from India only make up slightly more than 5%. Indian exports of mobile phones did not exceed $5 billion in 2021-2022, and this year it's $10 billion.

Regarding semiconductors, the American desire to reduce imports from China is similar (5% today compared to over 12% in 2019), but Taiwan (over 14%), Vietnam (11%), and Thailand (over 8%) are benefiting more than India (2%).

For the assembly of American capital goods, dependence on China, which was over 40% before the Trump measures in 2018, has decreased even more rapidly to 25% today. However, Vietnam, Indonesia, and Bangladesh are gaining more advantage than India.

Overall, only 1% of US electronics imports come from India, making it a still negligible partner for Western countries.

**China's central role in the energy transition**:

China is the world's foremost polluter, but it also leads in investment for decarbonisation with $265 billion in 2021, surpassing the United States at $115 billion.

Western countries aim to reduce their dependence on China, yet cooperation with China remains indispensable due to its dominant role at all levels of the energy transition chain:

***Upstream***:

China produces up to 90% of rare earth metals and holds, according to US authorities, a number one position in 35 out of 54 critical metals. China may not always be the top producer, but its dominance comes from metal refining. This is the case for cobalt, where it holds a 70% market share; for lithium with 58%; for copper with 42%; and nickel with 23%. Even when China isn't a major producer, as in the example of lithium, it has managed to secure stakes in foreign companies.

With these positions, China recently didn't hesitate to announce the suspension of gallium sales as a retaliatory measure.

***Solar panels***:

Through subsidies and protection of its domestic market, China has managed to establish a dominant position over the last decade, capturing 80% of the global market share, hosting 7 of the top 10 global manufacturers, and achieving unbeatable production costs. According to the IEA, Chinese companies are about a third cheaper than their European competitors.

India, with ambitious solar goals by 2030, will struggle to achieve them and will never replace China in this sector, no matter what happens.

***Wind power***:

In 2023, over half of the world's installed wind turbines will be in China. For many components, China holds a 70% market share, and Chinese turbines are up to two times cheaper than European ones.

***Electric vehicles***:

China controls 60% of the battery market. CATL is the indisputable leader, and BYD, another Chinese company, not only produced 1.1 million electric vehicles in China in the first half of the year but is also the second-largest producer. China solidifies its dominant position in electric vehicles and batteries, and recently, Enovate Motors signed an agreement in Saudi Arabia to set up a factory.

According to Benchmark Mineral, by 2031, China will have production capacities of 322 Giga-hours, far surpassing the Koreans at 192 Giga-hours and surpassing the French and Swedes.

The Chinese group CATL supplies VW and Mercedes, Chinese BYD supplies Stellantis, and Chinese Envision AESC supplies Nissan in the UK. Faced with such dependence, the warning issued by Carlos Tavares, President of Stellantis, is better understood.

In summary, in various segments of the energy transition, China is indispensable and more competitive. Western attempts to gain market share from China will be even more challenging due to reindustrialisation in several countries, notably the United States, facing labour shortages, rising wage costs, and stricter environmental standards compared to China. India does not emerge as an alternative.

**Conclusion**: ***"Delusion alone is easy. Truth is always difficult." Rabindranath Tagore***. Nobel Prize in Literature.

The notion of India as an alternative to China is an illusion, propagated by demographic surpassing. However, the truth, hard to admit but undeniable for the coming decade, is that India is incapable of becoming China's replacement and the new engine of global growth.

Equal in population, yet fundamentally different, India and China diverge on many fronts, including the perennial conflict over Kashmir.

- ***From a political point of view***, relations with Pakistan remain hindered by Chinese support of nearly $60 billion for Pakistan's corridor on the Belt and Road Initiative, while India's GDP is almost ten times greater than Pakistan's.

  Many countries, including the United States, Europe, and Japan, have played the Indian card as a political and economic alternative of weight against China, a means to circumvent the Belt and Road Initiative. However, they silently lament Modi's nationalist drift and hubris.

- ***From an economic point of view***, both countries were insignificant in the global economy at the turn of the 1950s, but today, China's GDP is nearly six times that of India. While China's growth raises concerns, India's growth raises doubts.

- ***From a demographic point of view, the two countries diverge***: while China's population, now smaller than India's, is declining, India's population continues a trajectory observed since 1947. Back then, India's population was under 380 million; today, it surpasses 1.4 billion, and the peak won't be reached until 2060, with 1.65 billion. The number of children per woman (World Bank figures 2020) remains at 2 in India, not exceeding 1.28 in China despite government encouragement. The percentage of people over 65 in 2050 will exceed 30% in China and won't surpass 15% in India.

- ***From a structural point of view, the two countries are in stark contrast***: in India, agriculture employs around 50% of the workforce but contributes just over 15% of the GDP, while in China, industry drives the economy.

- ***From a trade point of view***, China has become India's top economic partner, but the trade relationship is imbalanced, with a bilateral trade deficit exceeding $50 billion. India exports cotton and iron ore, and imports manufactured goods from China.

  India and China compete in Africa, but over the last decade, India extended $12 billion in credit compared to China's $135 billion. Unlike China, which sends state-owned enterprises to execute projects in infrastructure, agriculture, and resource extraction, India's presence primarily consists of private enterprises. Indian presence, fuelled by historical diasporas in places like South Africa and Kenya, is evident in the automotive, IT, diamond, and pharmaceutical sectors, with investments mainly concentrated in three countries: Egypt, South Africa, and Mozambique.

- ***From a monetary point of view***, China's foreign exchange reserves, $3.1 trillion, are almost equivalent to India's GDP, while India's foreign exchange reserves amount to nearly $600 billion.

- ***From a stock market perspective***, India's market capitalisation of $3.3 trillion is significantly lower than China's $19 trillion, and its market is currently less attractive.

Geneva, 24 August 2023

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