

India's growth runway and what it means for global resources

Research and Insights

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Ausbil Investment
Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

Is India the next China? Ausbil's Global Resources Team looks at India's significant growth runway and whether it is set to mirror China's 30-year expansion, and what this means for global resources.

Key points

- India is one of the world's largest countries by population, on par with China at 1.4bn people, but with a younger population, and one that is far less urbanised.
- India is offering a similar growth path to China, but is some twenty years behind.
- In terms of commodity demand, India is relatively self-sufficient on iron ore, but it does not have metallurgical (met) coal reserves, so is one of the world's biggest importers of coal for steelmaking.
- India's economy is expected to trace the growth shown by China over the last 20-years, and this will manifest in infrastructure and building development, and other expansion that is rich in commodity demand.
- The investment opportunities in India today largely centre around metallurgical coal opportunities and, to a lesser extent, iron ore.



James Stewart CFA
Portfolio Manager,
Global Resources

Q: Why has China moved towards greater urbanisation over the past four decades?

A: 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.

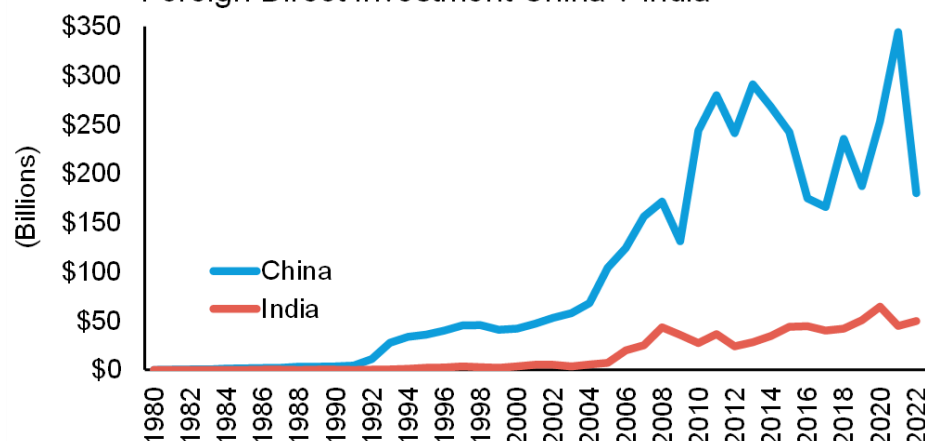
As outlined Chart 1, China received significant FDI after the 1990s which saw its growth opportunities outpace that of India's. Increased investment led to infrastructure spend and a noticeable uptick in the Chinese economy, one that can be replicated in India as the rest of world looks to decouple from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



Luke Smith
Portfolio Manager,
Global Resources

Chart 1: Direct foreign investment

Foreign Direct Investment China v India



Source: World Bank, World Development Indicators



Eric Stene
Equity Analyst,
Global Resources

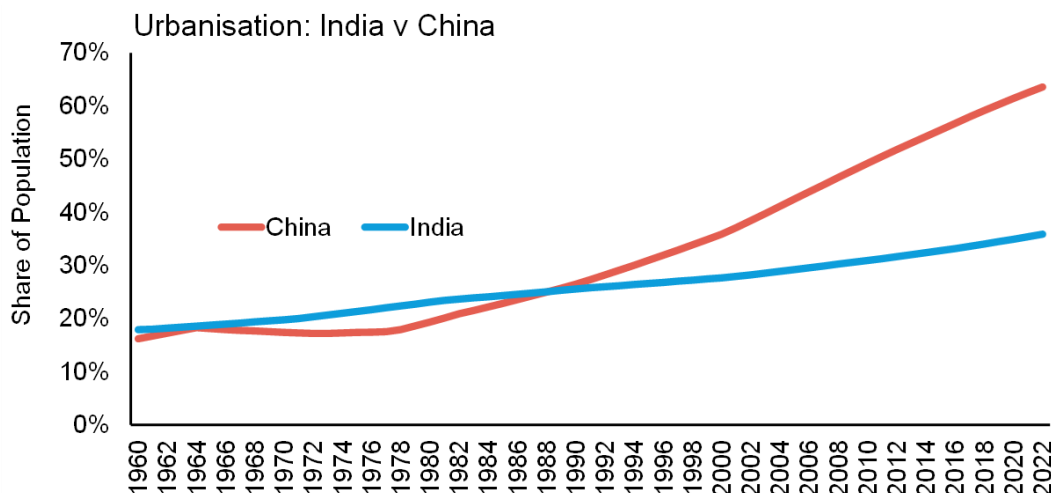
With India having trailed China's growth trajectory for the last 30 years, there is disparity in the quality of life experienced between these two countries. China, having become more developed, has seen significant pressures on its wages. Minimum wages in China have risen to an equivalent US\$360 per 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 these favoured jurisdictions, and beyond China.

Q: How does China's economy differ from India's?

A: China has grown to dominate manufacturing, exports and resources markets with its aggressive expansionary policies and growth strategies over the last 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, as illustrated in Chart 2. Interestingly, between the late 1960s and the early 1980s, India was ahead on the urbanisation of its populace.

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.

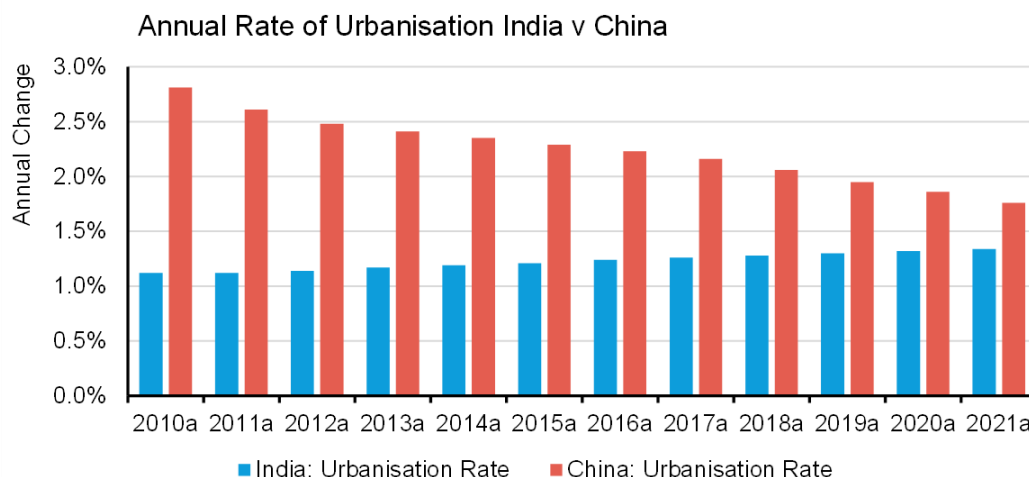
Chart 2: China has successfully urbanised



Source: World Bank, World Development Indicators

According to the World Bank, 65% of China's population was classified as urbanised in 2022, however with a declining growth rate, falling from 2.81% in 2010 to 1.76% in 2021, as illustrated in Chart 3. Comparatively, India's urbanisation level reached 36% of its population in 2022, and this is on a rising trend in urbanisation, from 1.12% in 2010 to 1.34% in 2021.

Chart 3: India's urbanisation rate is rising in contrast to China which is slowing



Source: World Bank, World Development Indicators

With this urbanisation has come rising incomes, as illustrated in Chart 4, 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.

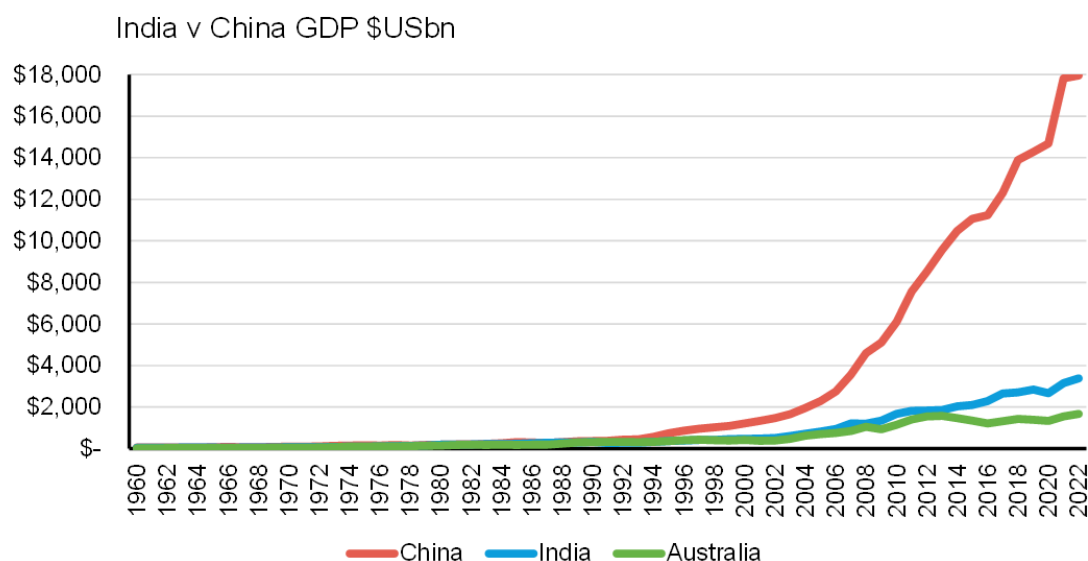
Chart 4: Rising income in China and India



Source: Trading Economics

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, as illustrated in Chart 5.

Chart 5: GDP compared over time: China v India and Australia

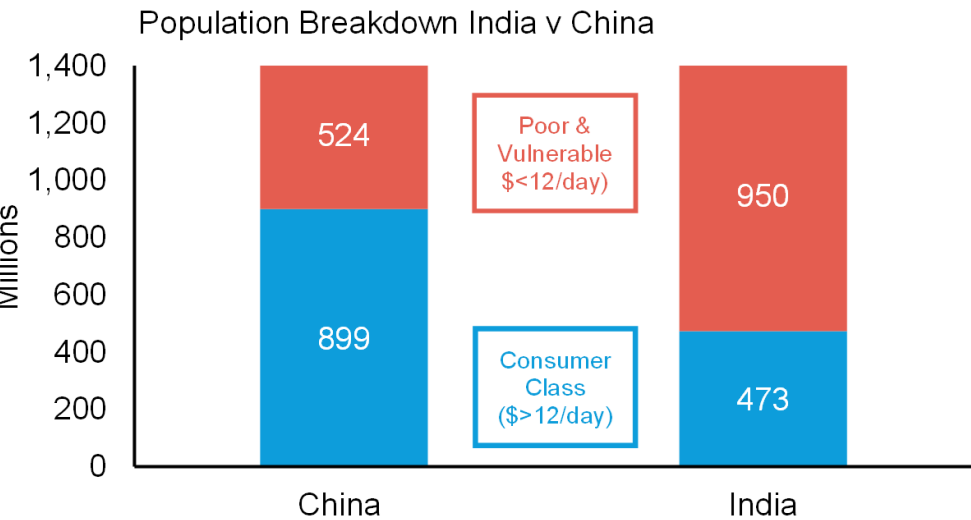


Source: World Bank, World Development Indicators

Q: How does the population growth of India compare to China, and what are their overall demographics?

A: The global definition of someone who belongs in the consumer class is an individual who spends more than US\$12 per day (World Data Lab). 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, as shown in Chart 6.

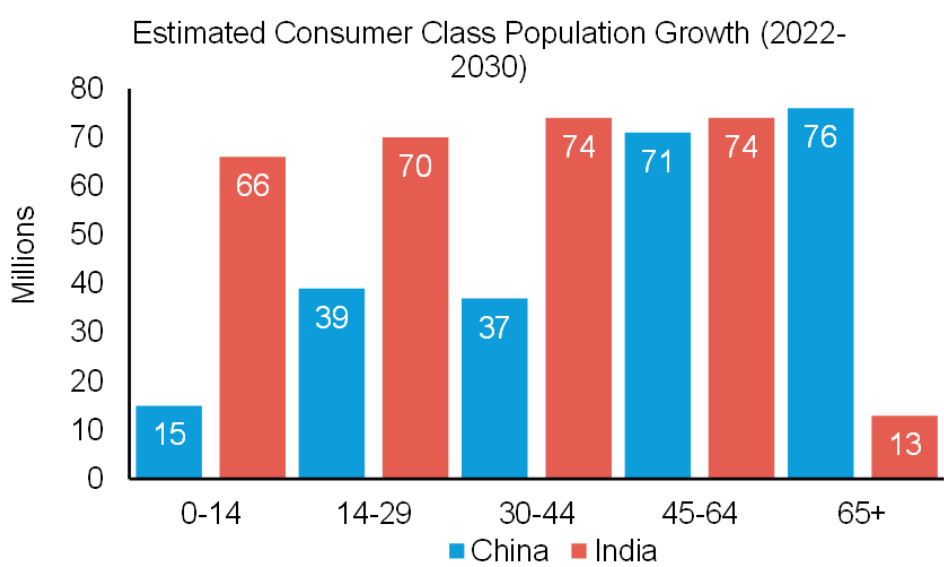
Chart 6: Populations compared



Source: World Data Pro, 2023.

In terms of demographics, the median age of a Chinese consumer sits at 39 whilst 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 aging, with 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 1/5th of the world's youth consumers by 2030, as shown in Chart 7.

Chart 7: Population growth across all ages



Source: World Data Pro, 2023.

China is entering an era dominated by an aging population. The rising ratio of dependents 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 health care, 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.

Q: What do India's and China's economies produce, and are they similar or different?

A: 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 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.

China and India differ over what they have historically produced as China placed emphasis on manufacturing whilst 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.

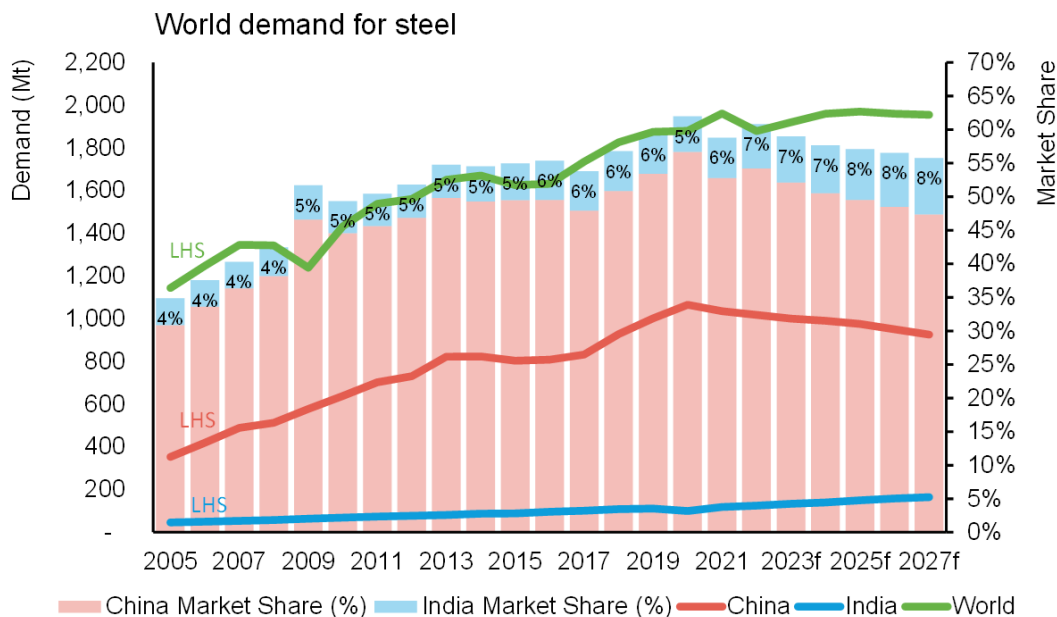
In order for India to continue to grow, it requires infrastructure. This means India needs steel. While relatively independent on iron ore, India needs to import large volumes of metallurgical coal for the production of steel. India's share of global commodity demand is increasing across the board as the economy moves towards manufacturing, with India absorbing more than 5% of the world's alumina, 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 their cost advantages, which is expected to place significant upward pressure on overall resources demand.

Q: Where does India sit on the scale of demand for steel and bulk materials?

A: In terms of steel, India has outlined a strong pipeline of infrastructure spending over the next 5-years, with approximately US\$1.4tr 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. Various experts forecast that Indian steel demand will double in the coming decade as a result, increasing India's importance within the commodities complex. Chart 8 illustrates total global steel demand, with China and India's share of that demand highlighted. In 2022, China accounted for around 54% of global steel demand while India only accounted for 7%.

Chart 8: Global Demand for Steel: China v India



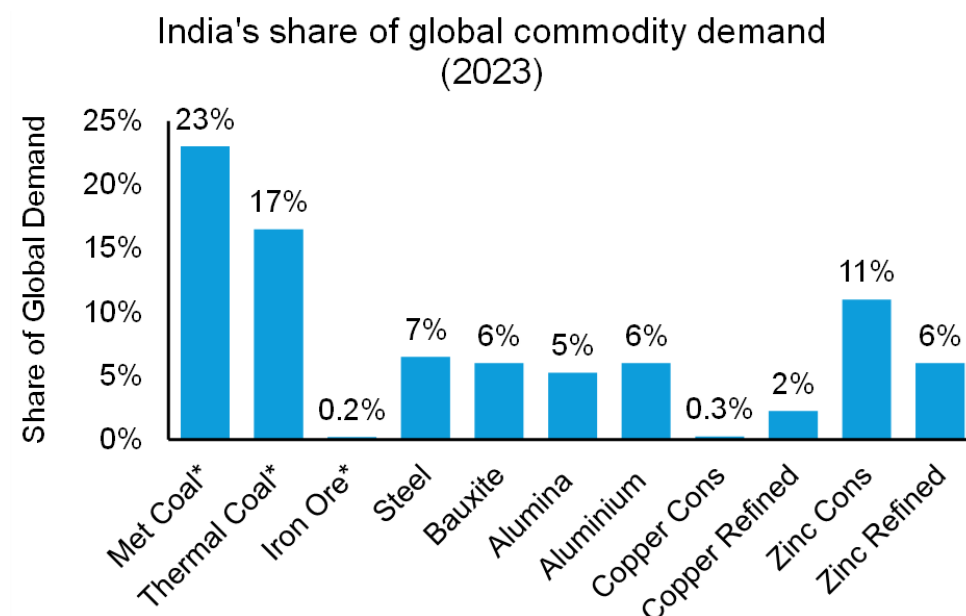
Source: Ausbil, Credit Suisse.

Both iron ore and met coal consumption remain elevated as a result of this steel demand. Met 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 met coal with oxygen. In order to create 1 tonne of steel, 1.6 tonnes of iron ore and 0.8 tonnes of met coal is needed, apart from any additional base metals like zinc or nickel.

In terms of bulk materials, namely iron ore and met coal, there are some interesting differences between China and India. While India represents roughly 10% of the global consumption of iron ore, they are relatively self-sufficient given that they have an adequate supply of domestic sources. This means they are able to meet most of their internal demand for iron ore with their 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 who represent roughly 60-70% of the seaborne iron ore market.

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

Chart 9: India's share of global commodity demand (2022)

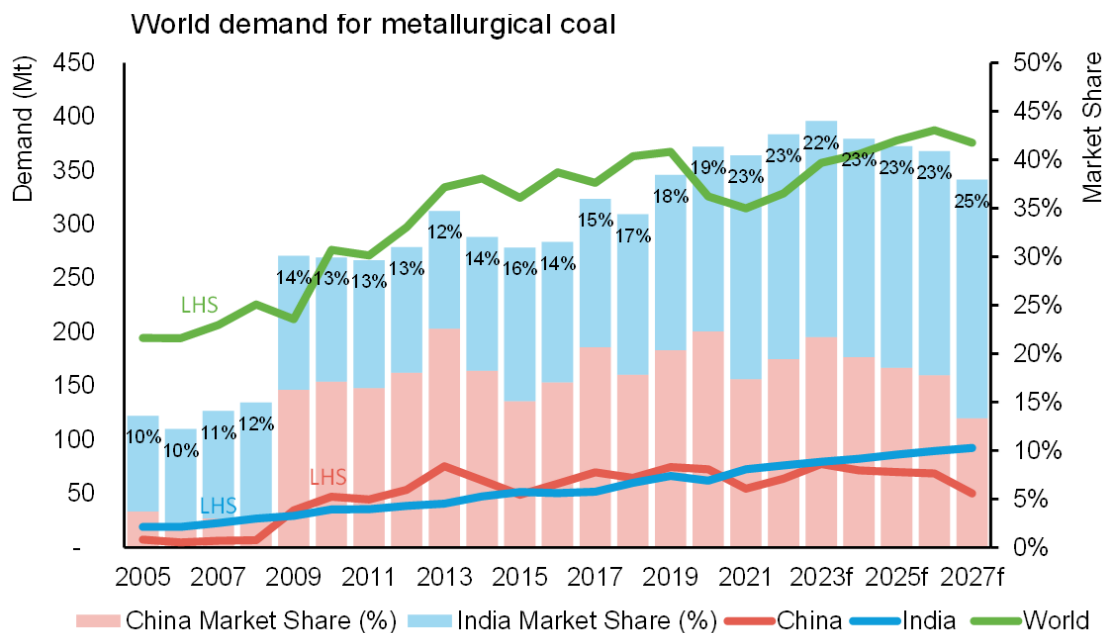


*Note Coal and Iron Ore reflect seaborne import share, all others are global production basis.
Source: Kallanish, Credit Suisse, UBS.

India's lack of domestic sources of met coal requires the importation of large volumes for their steel production, compared to China who 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, as illustrated in Chart 10. 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 growth that will come with increasing urbanisation, and a growing consumer class in India.

Chart 10: Seaborne Demand met coal: China v India



Source: Ausbil, Credit Suisse.

Q: What are the key investment opportunities from growth in India's economy?

A: The acceleration of India's economic growth, and the material investment in infrastructure and property required to support this growth, will see India rise as one of the world's leading buyers of commodities, met coal in particular. Within the ASX 200, the main beneficiaries of this boom in demand will be the met coal producers like BHP, Whitehaven Coal and Coronado Resources. There remains considerable upside opportunity for companies that will be able to meet India's met coal demand in the coming years due to a notable level of underinvestment in met 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 to the likes of BHP, Rio Tinto and Fortescue Metals.

Q: What is the outlook for India?

A: 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, even if it starts mainly with met coal.

Contact Us

Institutional



Mark Knight

Chief Executive Officer
Phone 0438 307 841
Email mark.knight@ausbil.com.au



Fawaz Rashid

Senior Manager, Global Institutional Distribution
Phone 0401 830 483
Email fawaz.rashid@ausbil.com.au

Wholesale



Hik Chadirchi

National Manager, Wholesale Clients
Phone 0424 160 728
Email hik.chadirchi@ausbil.com.au



Andrea McGarry

Business Development Manager, QLD & NT,
Wholesale Clients
Phone 0411 465 426
Email andrea.mcgarra@ausbil.com.au



Dimitri Giannaras

Business Development Manager, NSW & ACT,
Wholesale Clients
Phone 0431 576 815
Email dimitri.giannaras@ausbil.com.au



Marko Matosevic

Business Development Manager, VIC, TAS & WA,
Wholesale Clients
Phone 0431 340 553
Email marko.matosevic@ausbil.com.au



William Orr

Business Development Manager NSW,
Wholesale Clients
Phone 0402 620 188
Email william.orr@ausbil.com.au

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Ausbil Investment
Management Limited
Level 27
225 George Street
Sydney NSW 2000
Australia
Toll Free 1800 287 245