# India ready to emerge as China's growth stalls

## Apple laid its iPhone woes at Beijing's door. That dependence mirrors global economy as a whole, writes *Helen Chandler-Wilde*

Designed in California, made in China, and bought across the world: the iPhone is a neat symbol of Chinese economic growth. The country created riches by exporting manufactured goods such as iPhones to the West, then spent that wealth buying iPhones.

However, the Apple tastes a little tarter than before. "We did not foresee the magnitude of the economic deceleration, particularly in Greater China," said Tim Cook, CEO of Apple in a letter to investors at the start of January, explaining why sales forecasts were cut. China was the source of the problem, according to Cook: "Lower than anticipated iPhone revenue, primarily in Greater China, accounts for all of our revenue shortfall."

Chinese growth slowed to the lowest level since 1990 last year, according to official figures. In 2018, the country's economy expanded by 6.6pc, far down from the peak of 14.2pc in 2007.

In recent years, the rapid expansion of the Chinese economy has been the backbone of global growth. In 2018-19 it will contribute 27.2pc to the expansion of the world economy.

The recent slowdown, caused in part by the trade tensions between the US and China, demonstrated how global growth now relies on emerging markets.

Their growth rate is much faster: advanced economies grew 2.4pc in 2018, compared with 4.6pc in emerging markets, according to the IMF. This difference will only get starker over time, with growth in developed economies expected to fall to 1.5pc by 2023, while it strengthens to 4.8pc in emerging markets.

"Emerging markets will end up contributing 77pc of global growth by 2023," says Jan Dehn of emerging markets investor Ashmore.

"Even in 2019 it will already be 69pc of all growth in the world."

So as China slows, some of global growth will be picked up by other fast-growing economies. Other countries in Asia look promising.

The biggest contender is India, forecast to create 12.9pc of global growth this year. Its population is four times that of the US and only just less than China at 1.34bn people. Its GDP was $2.6 trillion (£1.9 trillion) in 2017, and is growing at robust and steady levels of around 6pc to 7pc.

This year, there is likely to be extra growth, as Narendra Modi's government may spend more before the general election to boost polling.

"We're quite excited about India in a weak growth environment," says David Cornell, chief investment officer at Ocean Dial, a capital management firm that specialises in India.

"India is a big beneficiary of a slower global economy," says Cornell, who says the country would benefit from lower commodity prices caused by a Chinese slowdown because it imports commodities.

Unlike the Chinese model, India is not an export-led economy. It has a current account deficit, and is mainly growing by expanding domestic markets. This means it is more shielded from fluctuations in global demand than more connected economies like China.

**4.6pc**

**The growth rate in emerging markets in 2018, which compares favourably with the rate of 2.4pc in advanced economies**

Demographics also work in India's favour to bolster economic growth.

"It's got 1.3bn people and 50pc of those are under 25," says Cornell. "It doesn't need to save a lot. It can consume a large percentage of what it earns because it isn't saving for retirement.

"It could pick up China's slack, but not overnight: China is about a $12 trillion economy and India is a $2 trillion economy. It's still small by comparison.

"But India will continue to grow at 7.2pc while everyone else's growth is falling."

Brazil is also seen as a promising source of world growth. It is relatively sizeable, with a population of over 200m people. Its GDP was over $2 trillion in 2017, close to India despite its much smaller population. The country recently elected divisive Jair Bolsonaro to the presidency, who is promising economic reform.

"It is a large economy, the largest in South America and coming out of a deep recession", says Dehn.

"It's likely that Bolsonaro will do several fiscal reforms in the next 12 months.

"Once that happens, Brazil's economy in terms of its business cycle is similar to where the US was in 2011-12. There's a lot of spare capacity a while before inflation pressures.

"The economy is at a stage where there are a number of Goldilocks years ahead of it."

He says that high central-bank credibility, fiscal reform and a high real interest rate means Brazil will receive a lot of investment in the next few years, and will grow quickly.

He said this would be helped further by recent currency adjustments, which have significantly weakened the real against the dollar, boosting exports.

However, Brazil's economy is still just one sixth the size of China's, so growth falling by one percentage point in China would have to be offset by much greater gains in Brazil.

"Brazil is 2.5pc of the world economy so the fact that growth will increase from 1.5pc to 2pc won't massively affect the world," says Simon Macadam of Capital Economics.

Despite having an economy less than half the size of the UK, Indonesia will generate twice as much growth in 2018-19. It is another country where political reforms may shape the economy. Voters will go to the polls in the second quarter of the year, and incumbent centre-Left president Joko Widodo is currently ahead in the polls.

"He is doing two things that are absolutely essential," says Dehn.

"One, good orthodox fiscal and monetary policy – just running the public finances really well."

Dehn says Jokowi is also focusing on supply side expansion through developing infrastructure.

"As the population and economy grow at some point the road system is not big enough.

"If you don't deal with those supply-side things, then you run into constraints.

"If you take a taxi ride in Jakarta it takes an hour and a half to get to the airport. They need these problems lifted.

"But these guys are doing it all the time, not like doing Crossrail once in a generation.

"Indonesia will continue to grow strongly, and it is a big economy so I imagine its contribution to global growth will be on a par with us by 2023."

Other smaller countries may be growing at faster speeds than Brazil, Indonesia or India, but to be a significant contributor to global growth, a country must be sizeable. That is why, despite slowdowns in China, it will still be a big player in the growth rankings for some years to come.

Its share of growth may even increase, as compounding effects mean its share of world growth may still increase.

Most agree about one thing: the US and Europe are not going to be increasing their share of growth. Demographics go against the West; an ageing population means fewer workers and lower GDP. Stable or falling populations mean the same.

Political tensions will only make that worse.

"Trump has abandoned free trade as a mainstay part of US policy," says Dehn.

"The trade war is self-defeating for America – the US has done so well as a free trade capitalist economy.

"It's such an idiotic mistake that it defies understanding."

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