UBS

Until 2030, each year, an average of 10 million people are expected to enter India's working-age population, which is about 920 million currently. (UBS)

Is India the new China?

17 May 2023, 2:56 pm CEST, written by UBS Editorial Team

With over 1.4 billion people, India officially became the world's most populous nation in April this year.

This development has sparked debate on whether the country may also be positioned to overtake China in terms of economic standing on the world stage. In our view, the two nations have vastly different economic and political profiles. But it is the stark contrast between them that makes both countries attractive diversifiers for investment portfolios.

A key difference is their political systems and governance models. China's more centralized government has historically been effective in passing economic policies to further the country's growth, whereas India's multiparty democracy has been characterized by longer decision-making timelines. Nonetheless, the Indian government has been able to make progress on implementing reforms to improve and leverage the country's workforce in a bid to boost the economy in recent years.

The two countries also have markedly different demographics. In addition to the overall population, India also outpaces China in terms of working-age population. According to the UN, almost one-fifth of the world's 15- to 64-year-olds will be Indian by 2030. With a median age of 28, a full 10 years below that of China, India has a key advantage in terms of labor supply. Until 2030, each year, an average of 10 million people are expected to enter India's working-age population, which is about 920 million currently. In comparison, China's working-age population peaked in 2015 and is on track to decline by 27 million by 2030. India's large labor pool should keep a lid on labor costs and in turn support economic growth.

Meanwhile, India lacks the manufacturing ecosystem that has been a key driver of China's phenomenal economic growth. Manufacturing contributed to about 30% of China's GDP and only 15% of India's in 2021. One reason for this gap is India's smaller investment in infrastructure. In 2019, for example, China invested about 6.5% of its GDP in infrastructure development, while India invested 4.5%, something the government is working on boosting.

All in, we think India's secular growth outlook is more promising than China's. Still, the economic development gap between the two countries will take a long time to meaningfully narrow, in our view. From an investment perspective, as we shared in our recent Investing in emerging markets report, the current economic cycle in much of the world remains fairly unsynchronized, and the global geopolitical and supply chain map is being hastily redrawn. For these reasons, we

think geographic diversification in investment portfolios is more important than ever, with exposure to both China and India becoming quite desirable.

Over the next few years, corporate profits in India look likely to grow at a low-to-mid teens annual rate on average, led by financials and infrastructure players. India's equity market price-to-earnings ratio is nearly double that of China, so the country's secularly superior earnings prospects may be mostly priced in. When it comes to Chinese stocks, segments that will benefit from long-term policy tailwinds such as electric vehicle battery and materials, renewable energy, and industrial upgrade beneficiaries, look appealing.

More tactically, we think the consumption-led economic recovery should make China an outperformer in the emerging world in the coming months. For India, we believe the market's valuation is too ambitious and will likely pull back. We expect Indian stocks to trade sideways for the remainder of this year.

For a deeper dive into this topic, please refer to our report "**Is India the new China?**".

Main contributors: Alejo Czerwonko, Chinenyenwa Amaechi, Xingchen Yu

Content is a product of the Chief Investment Office (CIO).

Original report - **Is India the new China?** 17 May, 2023.

Important information
As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.
© UBS 2021. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.
There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.