Chinese Dragon Year in 2012 - Boom for India?

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In this write up, the author has taken up for discussion the up coming dragon year in China in 2012. By taking into consideration the past experiences into focus, he indicates that the same would be quite beneficial for China and its index would get a great fillip. He puts forth a question:-Will India gain from Chinese Dragon year? He hopes that as foreign investors who have invested in China, have also invested in India and while the dragon year will keep the spirit high amongst foreign investments in China, continued investments in India will keep the markets steady.

Introduction

1. China has been fore runner for long many years and now due to its massive economic development and expansion plans, it's young stock market has boomed reflecting the strong GDP growth. However, not all was good when the global economy went through turbulent times.

There was an annual growth of an average of 10% in GDP for five years up to 2008, but China's economy suddenly started cooling in response to the global slowdown. GDP growth slowed to 9% in 2008's third quarter, from 11.9% in 2007. Exports slowed down, construction, steel demand, electricity consumption, car sales and air travel had all started to fall. Share prices slumped by 70% from their peak and house prices started to drop. However, the Government's stimulus package gave its reflection with GDP jumping 9.7% during the 1st quarter of 2011.

China's Current scenario

2. China's main bank - People's Bank of China in the first week of April 2011 hiked interest rates in continuation of its efforts to curb inflation. Interest rates have been hiked four times since October 2010.

The one-year deposit and lending rates were increased by 25bps to 3.25% and 6.31%, respectively. Inflation based on consumer prices was at 4.9% in February

2011 with export growth at 36% YoY being very strong in March 2011 versus a mere 2.4% growth in February 2011.

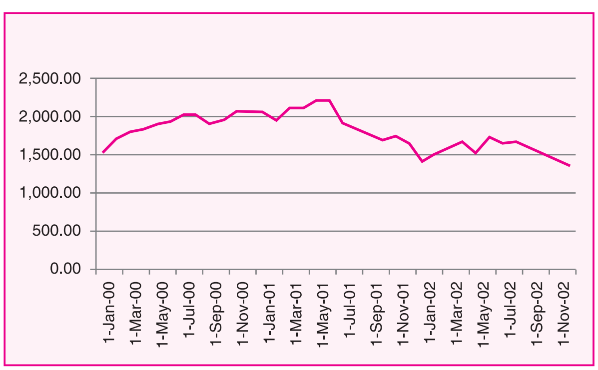
Chinese New Year's Big Take

3. The Chinese calendar follows 12 animals and follows a 60-year cycle while it is 100-years internationally. The Chinese New Year started on Thursday, February 3, 2011 **- The Year of the Rabbit,** considered as a timid sign against other dynamic signs. The year 2012 is quite important to understand since it is the Dragon Year. The importance of a dragon cannot be simplified in China given that dragon's are considered legends in Chinese mythology. The indisputable dragon traditionally symbolize's potent and auspicious powers with strength, particularly control over water, rainfall, hurricane, and floods. 2013 and 2014 are re-presented by snake and horse, respectively.

Dragon Year

4. China following the 12 animals sign on a 60-year cycle means, the big **Dragon Year falls in 2012**. Past dragon years have been in 2000, 1988 and 1976. Past empirical evidences show that the Shanghai Composite Index which reflects both, A & B Shares, appreciated by 14% in 1999 while in the Dragon Year of 2000, the index appreciated by 51%. Since the index was launched on July 15th 1991, past data is not available to check on index movements of 1988 and 1976.

In years following 2000, the Composite index fell by 21% in 2001 and by 18% in 2002 showing the strength of the legendary dragon on stock market in China.



Similarities and Differences

5. A lot has been written on China and India's commonness and on differences. We look at the snapshot.

The population of each country is well over one billion people. In terms of politics, culture and religion, both countries have influenced each other.

China's total area is almost 3 times that of India's. Both countries have large territories which make up for the State-wise distribution from the Centre. Economic centre's such as Shanghai & Guangzhou in China and Mumbai & Hyderabad in India function by themselves and are far de-linked from the politically centered areas of Beijing and New Delhi.

China has a robust and huge export economy but it is now struggling to re-capture the previous growth figures, while India stands at an advantage on the services sector. Hence, china will need to depend much more on domestic demand given that there is over-capacity globally and global demand growth would take its time to grow for the Chinese robust export economy to come back to previous growth figures.

India's major weakness in the past had been its population. China has been able to utilize its workforce but is aging now without any recourse in hindsight due to its one-child policy. India, on the other hand, has been able to increase its service's sector growth by improving its skills base. Though manufacturing is growing in India, yet it is still a domestic demand driven economy. The once considered English-speaking edge of India over China in the services sector was sealed into an advantage for India given its software skills over the language. Following is a snapshot on key figures:

KEY FIGURES*: China and India

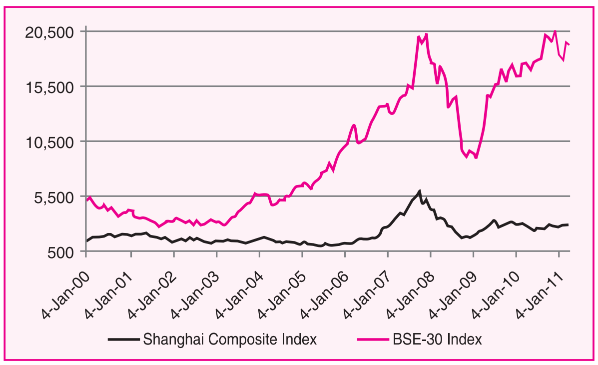
	China	India
Populations (2010)	1.34 billion	1.2 billion
Total Area	9.6mn sq kms	3.2mn sq kms
GDP growth rate (1980-2009) %	10.0	6.0
GDP per head (2009) $ PPP	6,828	3,270
Literacy Rate (% of Adult Males)	96.7	75.2
Literacy Rate (% of Adult Females)	90.5	50.8

*Various World economic magazines *i.e.* World bank, IMF etc.

Will India gain from Chinese Dragon Year?

6. Emperical evidence has shown that Shanghai Composite Index and BSE-30 Index from 2000 till date have shown similar trends from mid-2006 and onwards.

Both markets have shown two identical spring-ups twice between mid-2006 up to early 2008. The fall has been similar as well during the global fall, starting October 2007 and onwards when Shanghai Composite dropped by 65% from 5995 levels to 2083 in Feb 2009. BSE-30 Index showed similar trends by falling 55% from 19,800 to 8900 levels during the same period.



Indian economy generally follows the Chinese way with a lag period. Indian economy largely started its bull run from 2003 onwards with GDP growth of more than 7% while China has been showing GDP growth of more than 7% much over 10 years. China opened up to the world in 1978 while India embarked on economic reforms starting 1991, *i.e.*, 13 years later.

Both countries stock markets response to global markets has been similar and, more so, to foreign investments. Foreign Direct investments played a crucial role in creating a robust and monstrous export market out of china.

Although the contrast between India's elephant and China's dragon are sharp now, yet both have shown sharp rallies in respective stock markets coming from foreign investments. Chinese growth lies in privatization and though, their infrastructure is way ahead that of India's, PSU divestments in India are coming up in steady phases building foreign investors share in building India's infrastructure.

Conclusion

7. China's stock market is young over the traditional BSE-30 index's long history. Shanghai composite index rose by 24% from March 2009 till date while BSE-30 rose by 97% during the same period. This shows the cheerfulness of sentiment of foreign investments coming into India and while we think that the Dragon year in 2012 will spring up Shanghai composite index, it will be driven by foreign investments. We think that, foreign investors who have invested in China, have also invested in India and while the dragon year will keep the spirit high amongst foreign investments in China, continued investments in India will keep the markets steady.

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