

Risk metrics favour India as a suitable alternative to China

Jeremy Weltman Monday, December 05, 2022

Euromoney's survey data points to a narrowing gap in risks, as concerns about China mushroom.



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The recent outpourings of discontent on China's streets may be unprecedented, but for investors they represent another item on a long list of concerns to be considered when allocating assets across the world's largest emerging markets (EMs).

From authoritarianism, poor human rights and foreign policy threats to intellectual property infringements, stifling regulations and a [self-harming zero-Covid policy](#) – undermining the economy and unsettling the social peace – China's risks are increasing.

This is borne out in recent score trends in Euromoney's country risk survey, showing China's total risk score falling continuously during the past year, indicating a lower degree of asset safety.

The question now is whether those risks will continue to rise and, in turn, whether other leading EMs are a more attractive proposition.

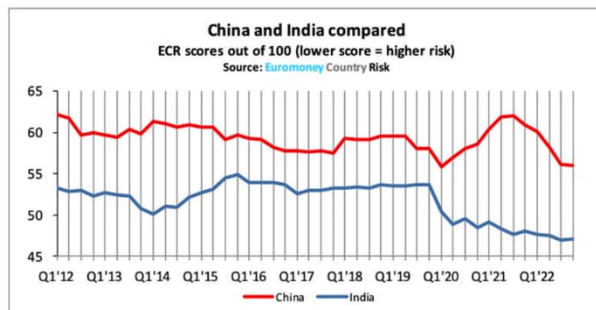
China's total risk score is still more favourable than other Brics.

At 59th out of 174 countries in [Euromoney's global risk rankings](#), China is an equivalent risk to Costa Rica, one place above, and Georgia, just below.

The survey data shows falling scores for all of the world's leading EMs this year, but the degree to which they have fallen is illuminating.

Invariably, Russia's score has been downgraded the most, but China's is down more considerably than most other EMs, in sync with Turkey.

In comparison, India's score has fallen the least among the Brics, as well as most of the Mints, except for Indonesia.



Indo-China economic shift

This is largely down to a robust economy. In 2021, China and India's GDP growth rates were similar, exceeding 8% in real terms, as both countries recovered from the pandemic disruptions. Yet the latest forecasts are depicting contrasting trends.

China's real GDP growth is seen slowing to 3.2% this year and only accelerating to 4.4% in 2023, according to [the IMF's latest World Economic Outlook](#). India's growth forecasts on the other hand are respectively 6.8% and 6.1%.

In [Q3 2022](#), corresponding to Q2 of the Indian fiscal year, economic growth remained strong, with real GDP up by 6.3% year-on-year, making the country one of the region's fastest-growing economies.

India will shoulder a balance-of-payments current-account deficit, of course, in comparison with a surplus in China, and its inflation rate will be higher, but recent monetary-policy tightening and an easing of soaring energy prices are expected to bring inflation back down.

In October, annual inflation measured by the consumer price index slowed to 6.8%, after increasing for two months in succession to 7.4% in September.

“The stage seems to be getting set for India to become the world's third-largest economy by around 2027 – amid unparalleled political stability”
- Sher Mehta

All of this is reflected in the changes to the factor scores in Euromoney's survey. Whereas all five of China's economic risk indicators have been marked down this year, only three have for India, and by much less. Two of India's scores have even improved, those for bank stability and the economic-GNP outlook.

It is not surprising the gap between the two is narrowing steadily, remarks Sher Mehta, one of Euromoney's extensive panel of survey experts and director of macroeconomic research and country analysis at Virtuoso Economics.

“The stage seems to be getting set for India to become the world's third-largest economy by around 2027 – amid unparalleled political stability,” he says.

The incumbent government in India, led by prime minister Narendra Modi is becoming more popular, he says, and it seems to be laying a robust foundation to foster high and sustainable growth that is inclusive over the medium and long-term.

This is being achieved through ongoing structural reforms, fiscal consolidation, sound monetary-fiscal policy coordination, a slew of incentive schemes, corporate tax cuts [and infrastructure spending](#).

Sanjeev Mehta, another Euromoney survey contributor and a professor of economics at the Royal Thimphu College, is equally confident about India's economic prospects.

Manufacturing might

He notes several manufacturing promotion schemes, such as the 'Make-in-India' initiative, Atmanirbhar Bharat – concerned with making the country self-reliant – and Skilling India.

The Indian manufacturing sector has started to emerge as one of the growth drivers, he says, with multinational corporations from the US, South Korea and [Japan planning to invest](#) in India.

Sher agrees, stating that India will emerge as a manufacturing hub in global value chains during the coming years and attract more foreign direct investment (FDI).

“Japan has incentivized its firms to relocate them to India from China. US and South Korean firms are also planning investments in India through partnerships and joint ventures

- Sanjeev Mehta”

Sanjeev says that Indian manufacturers are using digital technology and moving towards automated and process-driven manufacturing backed by creativity. This is expected to boost productivity driven growth.

“Japan has incentivized its firms to relocate them to India from China,” he says. “US and South Korean firms are also planning investments in India through partnerships and joint ventures,” adding that the government’s foreign policy has been a “spectacular success using the current situation to the best of its advantage”.

Of course, India needs to expand its domestic capacity over the longer term to produce [green energy](#). Yet, a balanced and multi-vector approach to foreign policy means that India has managed to import oil, coal and fertilizers at cheaper rates. Keeping payment settlements in rupees has further helped.

Sanjeev expects the Economic Cooperation and Trade Agreement (ECTA) to boost Indo-Australia trade by 70% during the next four to five years from its current level of \$31 billion to about \$50 billion and make India one of the largest recipients of Australian FDI in Asia.

The trilateral Supply Chain Resilience Initiative (SCRI) with Australia and Japan will also foster greater resilience in supply chains and impart diversity into supply sources within the Indo-Pacific region.

Sher agrees the Australia-India trade deal should provide a substantial boost to trade and investment, as the collaboration will likely benefit critical and labour-intensive industries in India, enhancing employment in these sectors.

Once implemented, it will provide duty-free access to numerous broad sectors in India vis-à-vis the Australian market.

“Some prominent sectors that are likely to benefit are IT (the biggest gainer), textiles, leather, jewellery, pharmaceuticals and machinery,” he says. “India will also benefit via cheaper imports of raw materials and intermediate goods.”

India’s thrust is on structuring modern free-trade agreements to enhance cross-border trade and investment.

Sher says: “India’s G20 presidency this year presents it with an unparalleled opportunity to advocate its vision of multilateralism – enhancing transparency vis-à-vis governance via digital transformation of government and emphasizing greater accountability, attempting to lower institutional risk and fostering government stability for more rapid economic development.”

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