

# OUTSIDE SHOT

By JOHN LEE

## Don't Underestimate India's Consumers

Western multinationals are often attracted to China's size, but they're bypassing Asia's true shopping powerhouse

The scale of China has always fascinated merchants. In 19th century England, spinning-mill owners were convinced they would reap profits beyond their dreams if they could just get every Chinese to buy one handkerchief. Alas, the one man one handkerchief plan never took, and for multinationals hoping to tap China's masses, the country continues to disappoint. Since the global economic crisis, Beijing has constructed a way around a slump. Roads, ports, railways: Name it, and China is likely building it. But its consumers aren't pitching in. As a percentage of gross domestic product, Chinese consumption is the lowest of any major economy, at less than one-third. Almost all the country's growth this year has come from infrastructure spending or speculation in domestic assets.

Western multinationals should consider fantasizing about India instead. The momentum for its bounceback comes from Indians, including the poor, buying their way to growth. The demand for handbags, air travel, and fine dining in Mumbai may have eased, but domestic consumption accounts for two-thirds of the Indian economy, twice China's level.

China's problem is that its top-down, state-led model of development (not to mention its artificial suppression of the yuan) structurally impairs domestic spending. According to Minxin Pei, director of the Keck Center for Interna-



tional & Strategic Studies, three-quarters of China's capital goes to 120,000-odd state-controlled entities and their many subsidiaries, leaving 40 million-plus privately owned businesses to fight for scraps. The upshot: Business profits tend to end up in state coffers, not Chinese wallets. Wage and income growth, even for China's urban residents, hovers at about half the level of GDP growth over the past 15 years.

India's bottom-up private sector model, for all its chaos and bureaucracy, provides a stark contrast. While the nation badly needs infrastructure, its consumers are in a far better position to spend. India can now boast of an overwhelmingly independent middle class about 300 million strong, vs. China's 100 million to 200 million, depending on the parameters. Profits from India's businesses, large and small, go into Indian pockets rather than the state's.

The contrast sharpens outside these two nations' cities. Half of China and two-thirds of India live in rural areas. That's about 700 million people in each. The rural half of China is falling behind. Back in the mid-1980s, the mainland's urban-rural income ratio was 1.8. It now stands at about 3.5. Although per-capita incomes have risen, an estimated 400 million mainly rural residents have seen net income stall or decline over the past decade. Yasheng Huang, a professor at the Massachusetts Institute of Technology's Sloan School of Management, estimates that China's absolute levels of poverty and illiteracy have doubled since 2000.

In India, they've been halved. The urban-rural income gap has steadily declined since the early '90s. Over the past decade, economic growth in rural India has outpaced growth in urban areas by almost 40%. Rural India now accounts for half the country's GDP, up from 41% in 1982. World Bank studies show that rural China accounts for only a third of GDP and generates just 15% of China's growth. Meanwhile, rural India is chipping in about two-thirds of overall growth.

Jagmohan S. Raju of the University of Pennsylvania's Wharton School points out that every major Indian consumer company knows it can't succeed without reaching the villages. That's why Indian companies arguably lead the world in innovative low-income products. Telecom provider Bharti offers the world's lowest call rates; Tata Motors sells the world's cheapest car. And the push for the villages has led to a well-developed consumer marketplace throughout India.

For Western brands chasing the luxury market, both China and India offer abundant opportunities. But when what you sell is suited to—and scaled to—millions of city and country dwellers, it makes sense to aim your efforts at India, at least for now. **IBW**

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