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Geo-consumerism and India-China Competition:

A Comparative Assessment of Consumption Data

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This discussion document offers a comparative study of India and China's consumption trends. The study attempts to compare the size and demography of the existing consumer base and the consumption expenditure within the two most populous countries.

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Executive Summary

This discussion document offers a comparative study of India and China's consumption trends. The study attempts to compare the size and demography of the existing consumer base and the consumption expenditure. It reveals that India's consumption figures are disproportionately higher than China's for the size of its economy. It also finds that a large consumer market is not a first-order factor in influencing foreign investments in a country. Nevertheless, it can significantly influence the lucrativeness of a country if the first and second-order factors cease to be a differentiating factor among India's competitors.

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I. Introduction

China and India are the world's two most populous countries. A large population means a burgeoning consumer base. And consumers are at the core of any economy for it is their *will* and *ability* to consume that creates demand and the need for supply, thereby keeping the economy alive, which in turn is a critical constituent of a state's comprehensive national power.

By proportion, consumption (consumers) contributes the largest share to a country's GDP ahead of the other three drivers, namely private expenditure, government expenditure, and net exports. To put things in perspective, in the OECD countries, the share of consumption as a percentage of their GDP roughly stands at over 60%, even reaching as high as 80% for some. For China, the corresponding share until 2021 stood at 55%.[1] In India, consumption constitutes 60% of its national GDP.[2]

Gross Fixed Capital Formation (GFCF), a marker for investment in an economy, generally tracks domestic consumption. Final consumption expenditure and investment are components of Aggregate Demand and are intertemporally linked with each other. First, firms make investment choices based on their expectations of future sales. If firms expect their sales to go up due to increased consumption demand, they are likely to increase their investment. The second interlinkage is the partial playing out of the classic Keynesian multiplier effect. Increased investment leads to employment generation, which leads to increased disposable income, which, in turn, creates demand for the goods produced. In effect, it creates a virtuous cycle of expanding consumption and investment in the economy. Also, innovation is directly linked to Total Factor Productivity (TFP) — efficiency and productivity in the economy.

Furthermore, consumers play a central role in driving innovation in the economy. Throughout human history, consumers have been at the centrestage of all the phases of industrial revolutions. It is so because unless consumers attribute relevance to a product, the underlying technology, however innovative and significant, is meaningless. Even technologies such as semiconductors and the internet that were first confined to military applications reached their zenith post-commercialisation. In that sense, consumers infused meaning into innovation that drove various phases of industrialisation in the past.

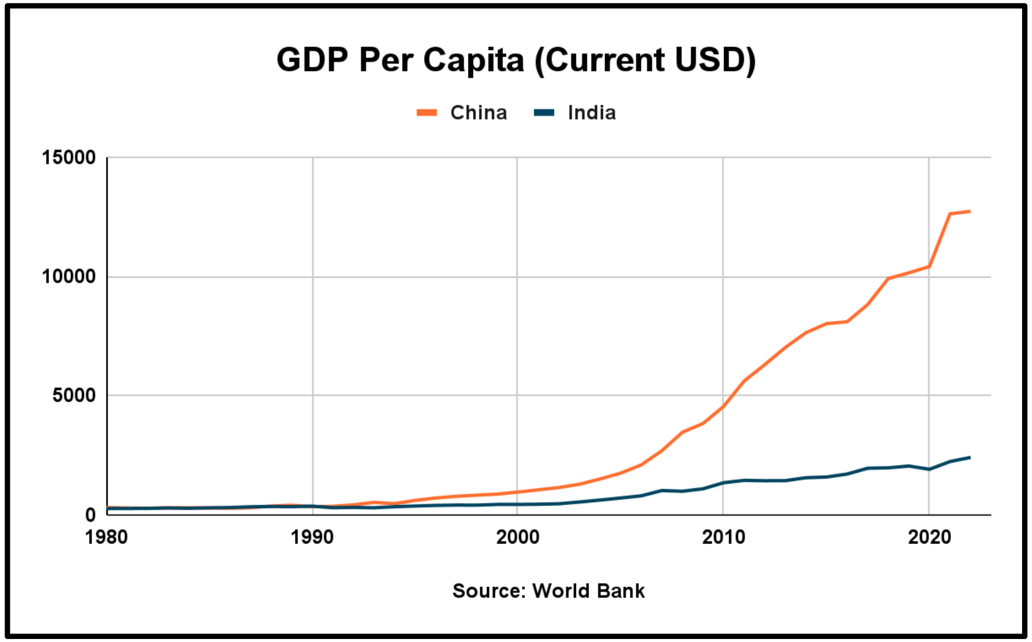
Consumption in a free market enables multiple suppliers, thus fostering competition which, in turn, is a prerequisite for innovation. Innovation also relies on research and development (R&D) investment. R&D investment would come from profit that would only be possible if there exists scope for scalability. And to achieve scale, a large and growing consumer class is quintessential. Therefore, for any research to translate into technology and then continue to innovate over time, end-product consumption is perhaps the most significant factor.

Finally, a large consumer base acts as a cushion in times of worsening geopolitical environment for it serves as a large market for exporting nations. For both India and China, their demography has been one of the principal sources of their geo-economic[3] relevance to the world. This in turn has been key in determining how major powers have engaged with them. Geoeconomics has, in many instances, either cushioned or catalysed the impact of the geopolitical tide to their benefit. Be it the US opening up to China in the 1970s or its tilt toward India since the turn of the millennium, geoeconomics has complemented the geopolitical considerations of the time. Of late, as the geopolitical environment has soured for Beijing, its geoeconomic weight has tempered the anti-China tide.

Geoeconomics can be defined as the geostrategic use of economic power. Alternatively, geoeconomics is using economic strength to pursue geostrategic interests

Geo-consumerism can be understood as a subset of Geoeconomics wherein a large consumer base is used to pursue geostrategic interests.

Consequently, around 1990, when China and India's per capita GDP was the same and the population was comparable at 1.1 billion and 830 million, respectively,[4] there existed an opportunity for both countries to leverage their expanding consumer base and relatively cheap labour to integrate into the global supply chain. Eventually, China outcompeted India to become the global hub for foreign investment in consumer and labour-intensive industries. In the period following 1990, China's per-capita GDP massively accelerated as compared to India's. It embarked upon the path to become a global manufacturing hub along with an expanding consumer base with a rising spending power.



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Three decades later, in 2023, India surpassed China to become the world's most populous country.[5] The development came against the backdrop of a declining birth rate (6.4 births per 1000 people) and Total Fertility Rate (~1%) in 2023. China also recorded a negative population growth rate for the first time in six decades. This means a rising dependency ratio in China, which is further projected to increase over time, putting stress on the younger population. In contrast, India's population and birth rate

(~2.1) are expected to remain significantly higher than that of China (1.2),[6] with a relatively lower dependency ratio.[7]

This development came amid slowing growth rates in China. Lately, the Chinese economy has been witnessing a slowdown, with the growth rate likely to stabilise around 4(±1) percent. The worsening of the external strategic environment for China has further exacerbated its economic woes. The deepening of the geopolitical contest between China and the US has initiated debates around de-risking and diversification away from China with several businesses pursuing a 'China+1' strategy. China's domestic consumption (demand) has slowed down in the last two years and has failed to recover to pre-COVID levels. This is concerning for the Chinese leadership, which has been seeking to shift from an investment and export-driven growth model to one that is primarily driven by domestic demand. India on the other hand, has recorded a growth rate ranging between 6.5 to 7.5 per cent in the post-COVID period.[8] India has also emerged as one of the options for Western businesses seeking to diversify and de-risk.

Reading the above developments together, there was a sense of euphoria among the strategic and business community in India with regard to the prospect of becoming the largest market and source of human capital, leaving China behind. A superficial but logical conclusion emerged from these developments that suggested that this relative demographic change combined with the favourable geopolitical currents would finally catalyse India's rise as a real geoeconomic counterweight to China going ahead. In light of this shifting dynamic, a few questions arise — are the tides appearing to change course and undergoing a shift? Is this the beginning of the much-anticipated change or just another phase of euphoria that will gradually die down?

Assessing the damage that this competing narrative centred around India could have on China's growth, the Chinese discourse attempted to counter the prevailing excitement around 'India's moment' by drawing attention to the size and quality of its consumer market that will remain significantly higher for at least a decade despite India's population eclipsing China's.

While it is true that China's per capita income is at least five times that of India and its consumer population about twice that of India, the story of the Indian consumer class is one of brisk growth. China is committed to boosting domestic consumption as a new driver of its economic growth in an attempt to rebalance its economy away from investments and exports but is handicapped by declining household consumption.

In this context, it becomes imperative to investigate the gap between the strengths and weaknesses of the two countries to arrive at a realistic assessment of the evolving situation. One of the key metrics to answer these questions is the comparative data on consumption in the two countries. So, what does the consumption story tell us about the deepening rivalry and competition between the two Asian giants?

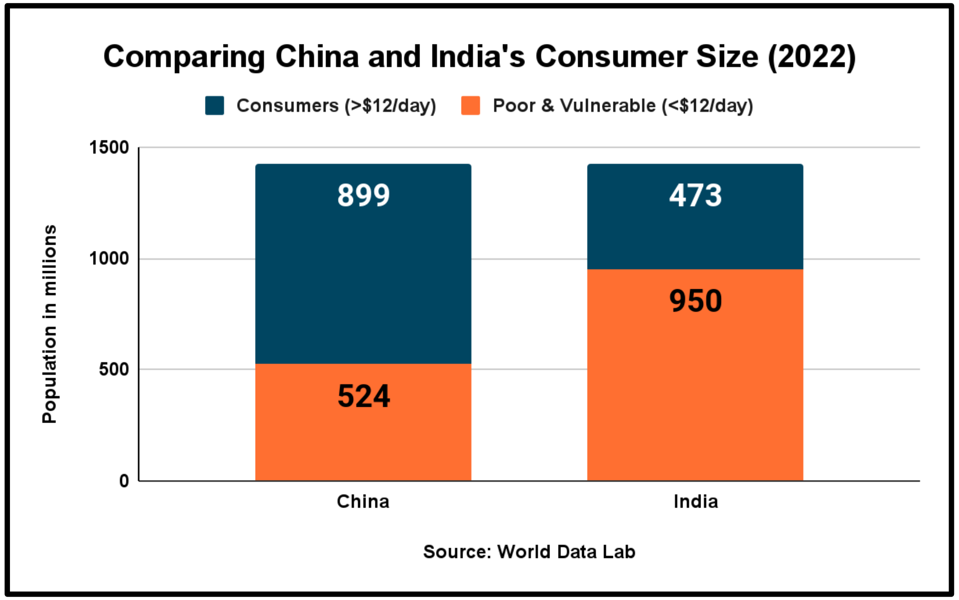
This paper attempts to compare various aspects of the consumption data of China and India. The first section looks at the size of the consumer base and future projections from the two countries. The second section draws a comparison between the consumption expenditure and patterns of Indian and Chinese consumers. The third and final section offers policy recommendations for India to capitalise on its strengths in its competition with China.

II. Taking Stock of Consumer Classes in India and China

We have discussed the critical role of consumers in an economy; it would be worthwhile to define who a consumer is. A consumer is anyone who spends at least $12 a day at the 2017 Purchasing Power Parity (PPP) rate which is roughly equivalent to ₹247.20 or CN¥ 49 in 2023.[9] It is equally important here to distinguish the consumer class from the middle class as often there is a risk of conflating the two. The World Data Lab defines the middle class as a constituent of the consumer class. Using spending as a metric, it defines the middle class as anyone who spends between $12-$110 a day. The World Bank, however, uses income as a parameter and defines the middle class as anyone who earns at least $10 and less than $50 in PPP (2011) a day.[10] This paper prefers the former classification that uses spending to define the two classes for the simple reason that expenditure fully captures the consumption pattern of consumers as opposed to their income.

Consumer Base and Growth Projections

The strength of the world's consumer class as of June 2023 stood at around 4 billion,[11] approximately half the world's population. China is home to the world's largest consumer population, at over 900 million people.[12] In comparison, India boasts a consumer base of over 500 million — the second largest in the world, but just a little over half the number in China.[13]



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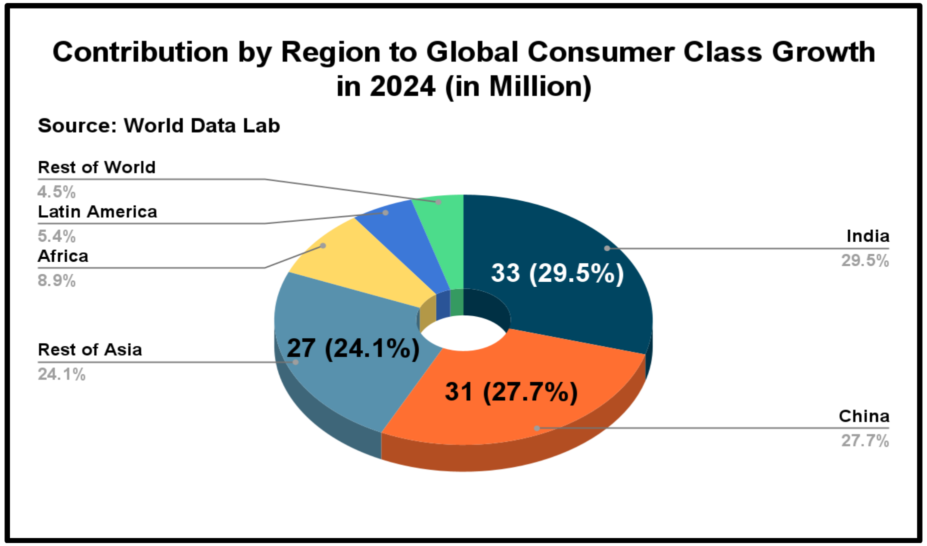
Despite the stark difference in size, India closely matches China in terms of annual growth in absolute numbers to its consumer population. In 2023, China was poised to add another 36 million consumers to its numbers while India was to add another 31 million.[14] In 2024, the ranks will likely reverse as India is projected to add 33 million consumers as against China's 31 million.[15]



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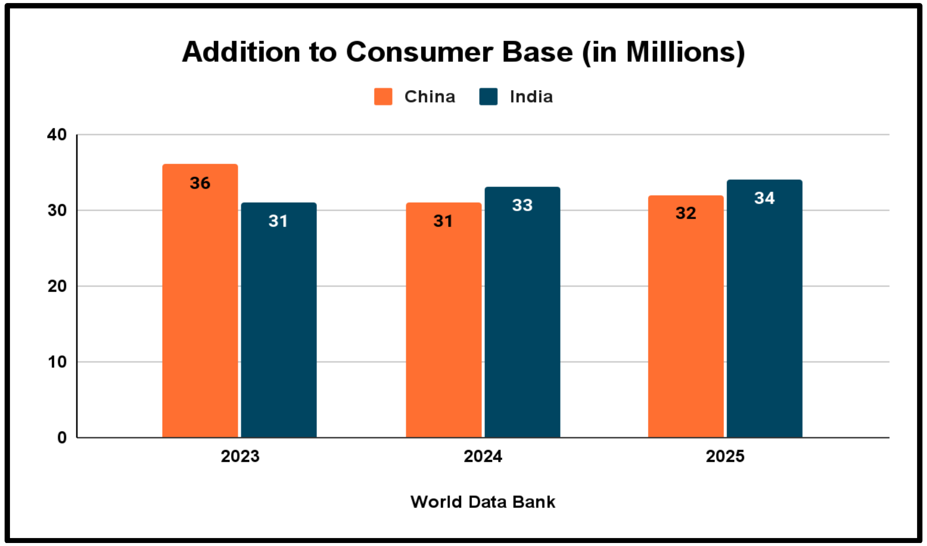

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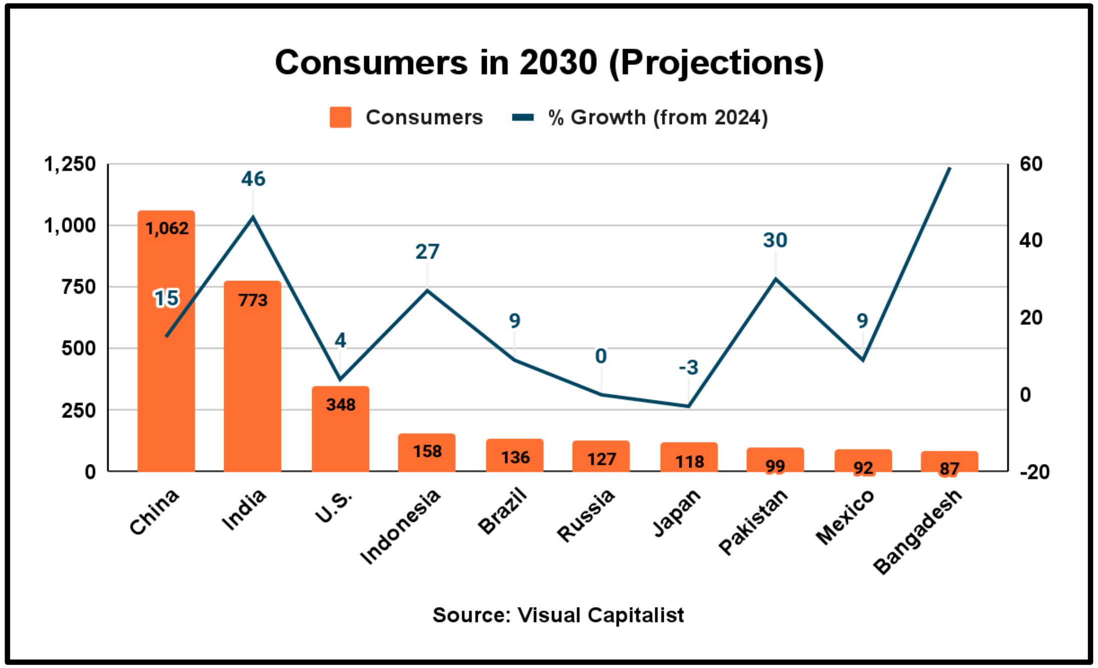
Together, by 2030, India and China will add over half a billion new consumers, representing 55 per cent of the global total.[16] While India's consumer size is rising at a brisk pace of 6.5 percent, the rate at which China is likely to add consumers to its economy is declining. Yet, in absolute numbers, China will continue to boast the largest consumer base until at least the next decade, allowing it to become the first-ever country with a billion-plus consumer class by 2026-27.[17]



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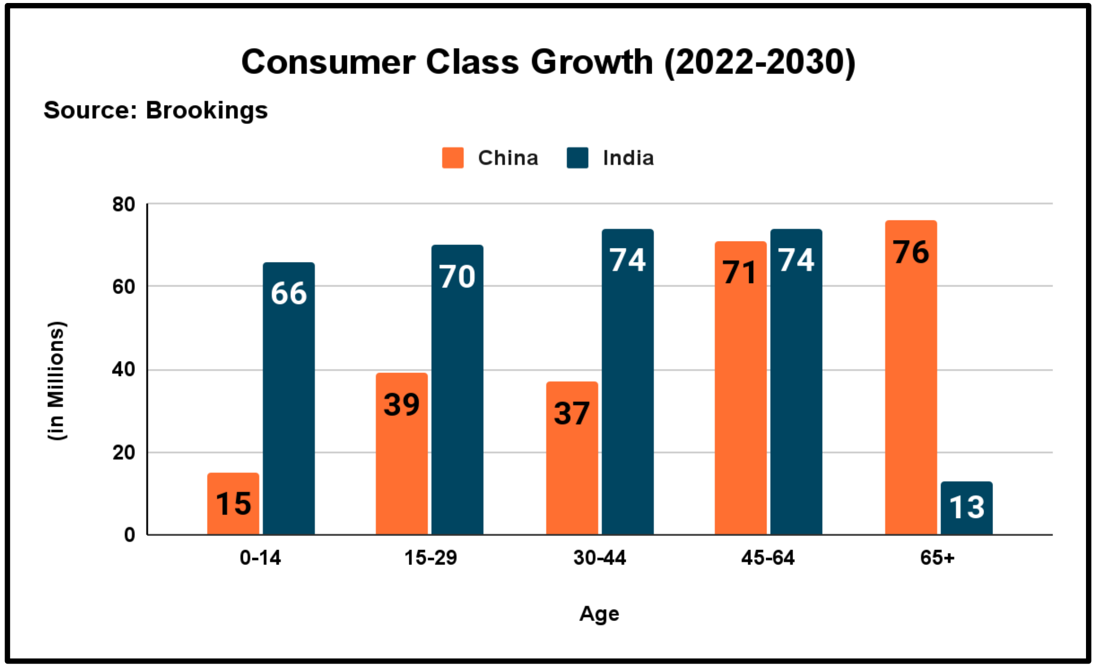
The 2030 projections estimate that China's consumer class will grow by 15% over its 2024 numbers to reach 1062 million. India's consumer class in the same period is expected to grow by a staggering 46% to reach 773 million.[18]

Demography: Age Distribution of Consumers in China and India

A Brookings Institution report provides useful data on the growing consumer class in different age categories in the two countries. The chart below provides a breakup by age of the consumers that the two countries will add between 2022 and 2030.[19] It shows that while China will add more than 60% of its consumers in the age group of '45 and above', the growth in India's consumer base will be equally led by all age groups except for the '65 and above' age category recording a meagre rise of 13 million as against China's 76 million (the highest in any age category for China). This would make China a country with a relatively older consumer class with a median age of 39. Conversely, India would have a younger base with an average age of 30 years. Consequently, China and India will become the largest senior (one-fourth) and young (one-fifth) consumer markets, respectively, by 2030.[20] India, by 2030, will have 357 million consumers under the age of 30.[21] However, the rise in global consumer spending (including in young markets like India) will be led by the elderly (50 and above) and not the youngsters.[22]



Data Visualisation adapted from Brookings (recreated by Author)

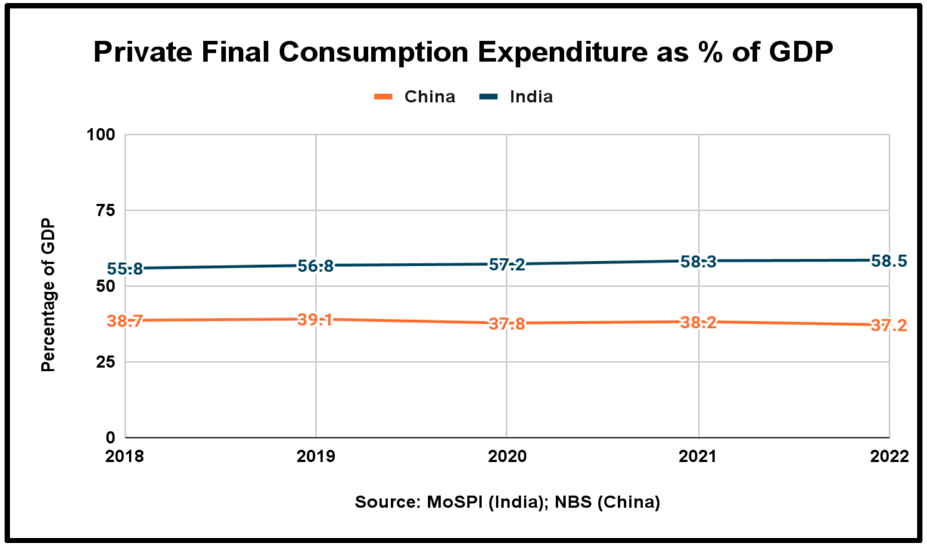
Thus, despite adding more numbers to its consumer strength, India will fall behind China in terms of adding annual global spending for two reasons. First, the existing spending power of Chinese consumers is greater than India.[23] Second, the majority of the global annual spending will be contributed by the older consumer class where China will add maximum numbers.[24]

III. Consumption Expenditure

Further data breakup on expenditure by consumers (spending > $12/day) in the two countries isn't available. However, a proxy in the form of national household consumption expenditure (including per capita numbers) offers useful insights to allow for a comparison. Since income and consumption are concentrated within the middle and consumer classes, the above data sets can serve as a proxy for the strength (by expenditure) of the consumer class.

Private Final Consumption Expenditure

Accordingly, the Private Final Consumption Expenditure (PFCE), which measures total consumption expenditure by households and non-profit institutions serving households (NPISH) on goods and services, reveals interesting patterns. Firstly, as a percentage of GDP, India spends significantly more on consumption than China. In comparison, while PFCE contributes more than 58% to India's GDP currently,[25] it contributes only 38% to the Chinese economy.[26] Additionally, final consumption, which includes government consumption expenditure as well, constitutes 68% and 53% of the GDP, respectively.



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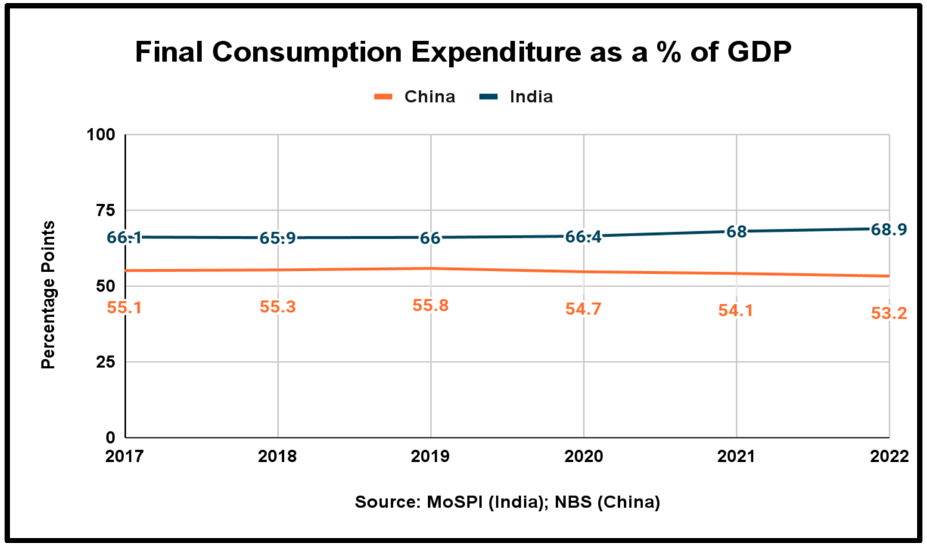

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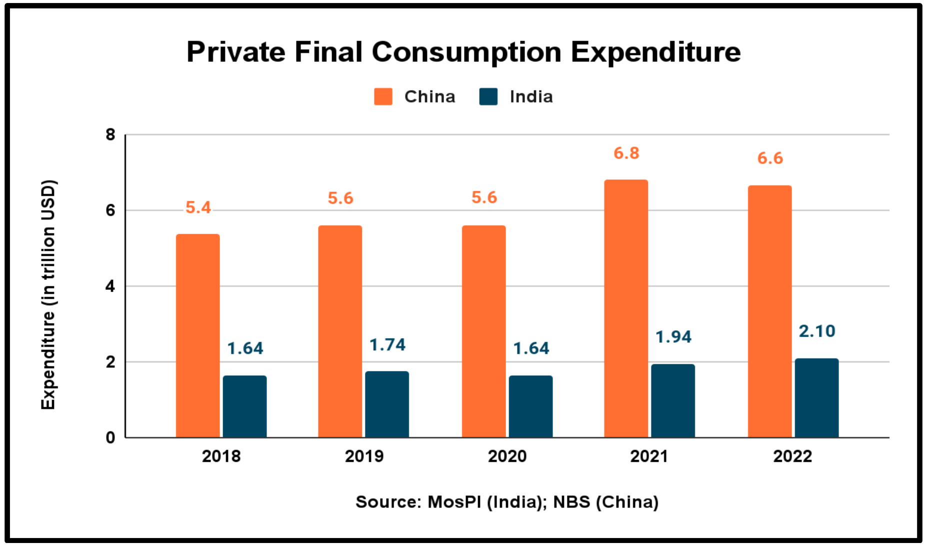
But while the gap in terms of PFCE is around 20 percentage points, it narrows down to around 15 percentage points when one compares final consumption. This implies that the government is a much bigger consumer (in percentage terms) in China than in India. Another contrasting trend discernable from the following charts is that while the percentage for India is steadily increasing, the same for China has been on a decline.

A few insights become noteworthy here. To begin with, given consumption powers most of India's GDP as compared to China, the former does not depend heavily on the external market to keep its economy running as against the latter. Alternatively, it also means that a potential opportunity for India exists to exploit the export market since India's net export contribution to its GDP is negative. On the other hand, given that China is a largely export-driven economy with low domestic consumption levels, its ability to turn inwards in the event of a worsening of the external market is limited compared to India. The consequences of this are already playing out for China.

The aggregate data on PFCE too reveals intriguing patterns. Firstly, despite China's economy being ~5 times that of India, its PFCE amounts to relatively a lot less, only ~3.5 times that of India's (refer to the charts below).



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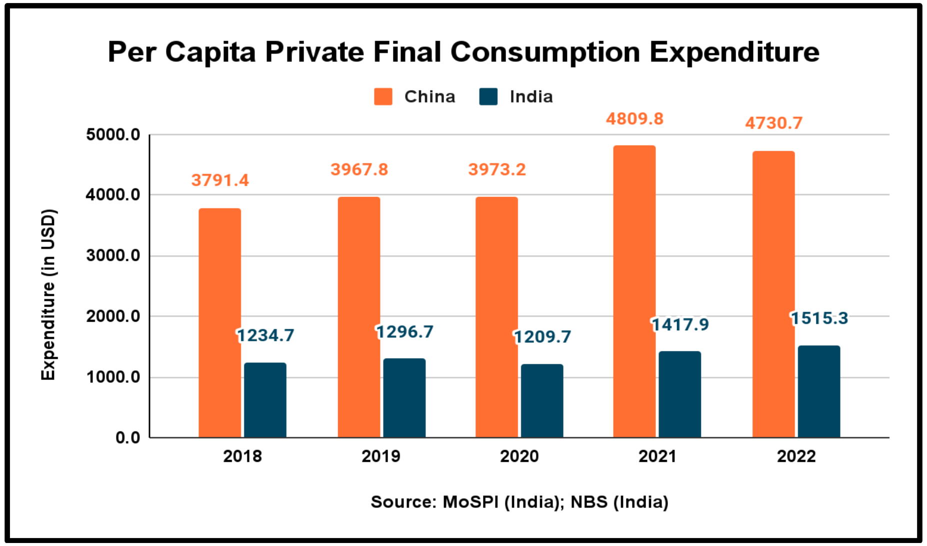

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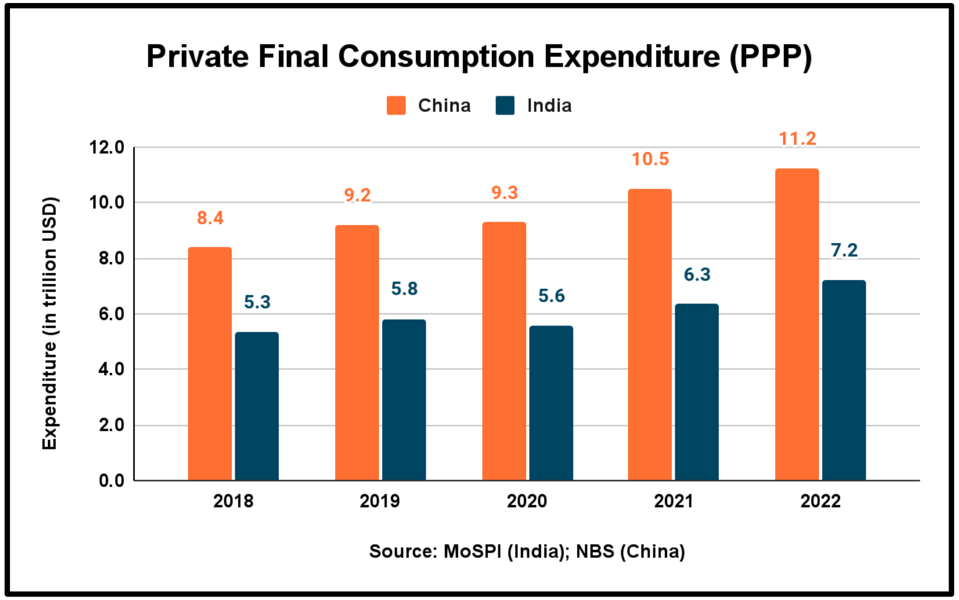
Thus, it not only means that consumption is a much larger contributor to India's GDP, but that India will equal China's consumption level at a relatively much lower GDP (~US$10 trillion) as against China which achieved the scale at around US$17 trillion of GDP.

Secondly, despite the gloomy narrative around China's consumption, its PFCE has registered a significant increase in the past four years. Despite the setback it suffered during the pandemic and consequent lockdowns, the PFCE remained rather constant in 2020 before registering a huge uptick in 2021. On the other hand, India's figures have steadily increased from US$1.64 trillion in 2018 to US$2.10 trillion in 2022.

Thirdly, the year 2022 has emerged as a year of contrast for the two countries. In 2022, while China recorded a decline in its numbers in both aggregate (US$6.6 trillion compared to US$6.8 trillion) and per-capita (US$4730 compared to US$4809), India witnessed marginal growth in both categories. Nevertheless, the difference in the expenditure between the two countries has widened from US$ 3.8 trillion in 2018 to more than US$4.5 trillion in 2022. Finally, in terms of PFCE ratio, India has closed the gap with China from ~3.3 to ~3.1. The significance of India closing the gap in terms of ratio here needs to be underlined. Usually, with a country like China that is operating on a huge base, even a marginal growth rate could inflate the aggregate numbers manifold. This would be true even if India, on the other hand, were adding expenditure at a relatively higher growth rate than China. But to beat China in terms of ratio would have required India to grow at a significantly higher rate than China. This is what happened in 2022 when India outpaced China's PFCE growth rate by a massive ~12.5 percentage points. In terms of per capita PFCE, while the values mirror aggregate numbers, there is one exception. Even as India closed the gap in aggregate terms, China widened the per capita PFCE marginally from ~3.0 times of India in 2018 to ~3.1 in 2022. This could be explained by China's negative population growth in 2022.

Comparing the nominal PFCE numbers alone isn't enough to gauge the consumption market of two differing countries as it could sometimes lead to distortion of reality. This is because the nominal figures do not take into account the discrepancies between the cost of living that might exist. A particular product with the exact same features can have a significant cost differential in two different countries. This might mean that for the same amount of spending, a consumer in a country with a cheaper cost of living can consume more goods and services than in a country with a relatively expensive cost of living. Consumption is not just about consumed value but also consumed volume. And nominal figures only give an idea of total consumption value — might not give an idea of the volume of goods and services consumed. Thus, to account for consumption by value, a comparison in PPP figures becomes imperative as it integrates both the aspects - value and volume - of consumption.

On comparing the PFCE (PPP) numbers, the gap between the consumption expenditure further closes down. In PPP terms, China's PFCE is ~1.5 times that of India. To put this in context, China's GDP (PPP) is ~2.5 times of India's. The relative gap between China and India widened from ~1.58 in 2018 to ~1.66 in 2020 and 2021, but 2022 witnessed India closing the gap to ~1.55. This is because China had a bad year in 2022 from a consumption point of view. This is evident in its decline in PFCE (nominal) figures which saw a drop of ~US$ 0.2 tn.



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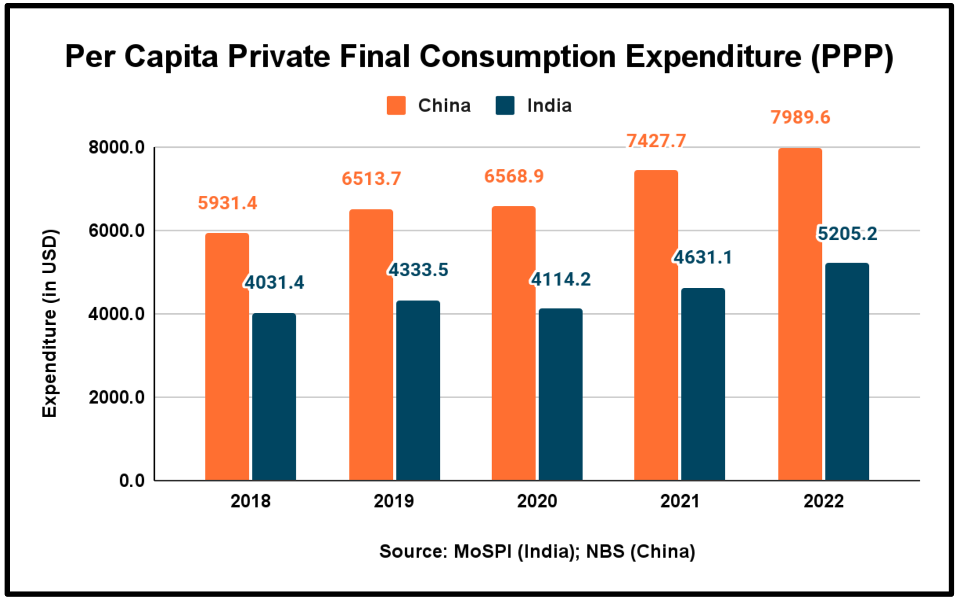
However, in PPP terms, China witnessed a marginal increase of ~US$0.7 trillion owing to improved yuan-dollar PPP exchange rates.



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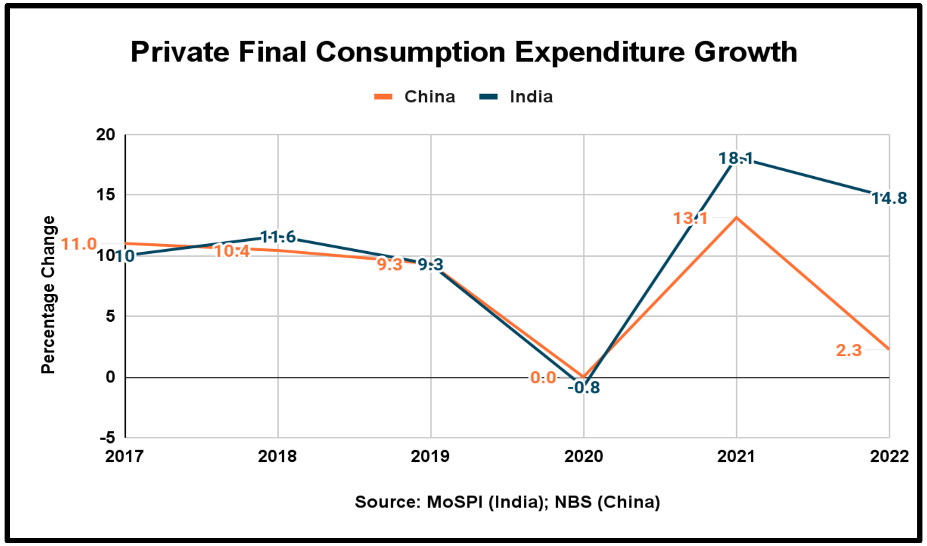
On the other hand, India added a trillion dollars to its consumption expenditure (PPP) in 2022 despite a worsening exchange rate.

The next two graphs compare the PFCE (aggregate and per capita) growth rate recorded by the two countries over the years. In aggregate terms, India's growth figures have largely traced China's numbers between 2017 and 2020. A breakaway is however observed in 2021 when growth in India outpaces that of China by five percentage points. Chinese PFCE growth decelerated by a significant amount in 2022 by almost nine percentage points.

Growth rate (%) is measured on current prices in respective domestic currencies.



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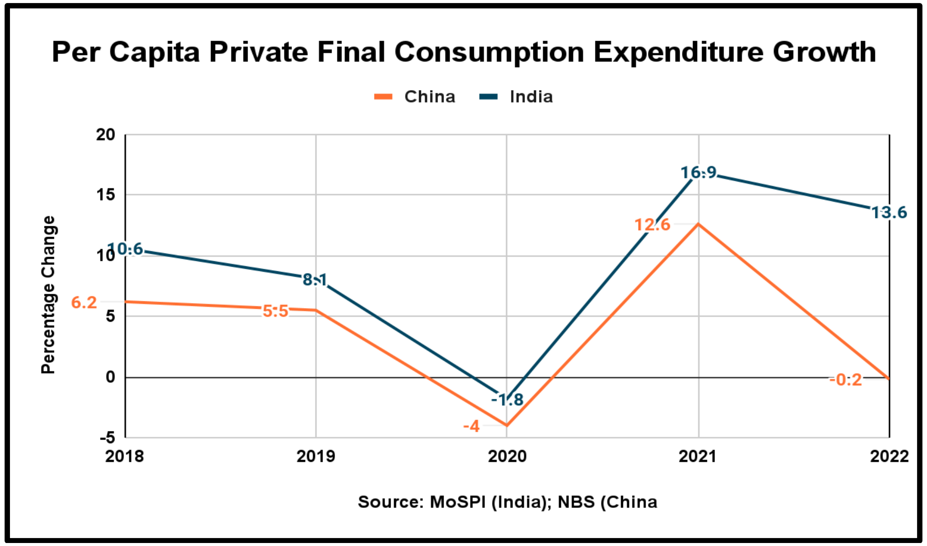

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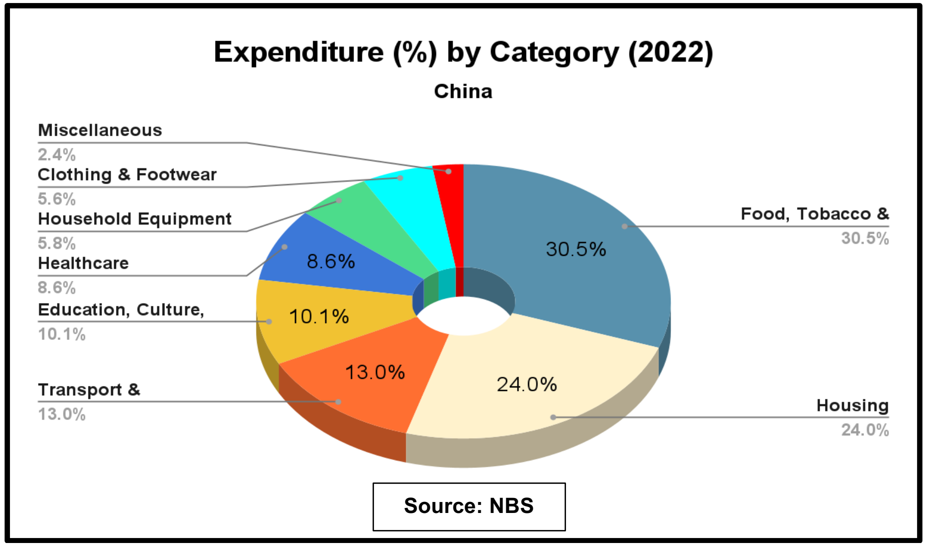
Consumption Expenditure (PFCE) by Categories

A cross-comparison of the consumption expenditure of India and China sourced from MoSPI and NBS respectively,[27] shows that not only do the two countries spend the most on food and beverages (alcoholic and non-alcoholic) but they also spend a similar proportion of their total expenditure on food, i.e. ~30%. In fact, Indians spend a little more than the Chinese in this segment. When it comes to housing, China spends almost a quarter of its total expenditure on it while India spends around 13%. China also spends more on housing equipment (~6%) as a percentage of its total expenditure compared to India's ~3.5. Not surprisingly, India also lags significantly behind China in terms of spending on education and healthcare as a percentage of its total expenditure. The expenditure on clothing and footwear is comparable in the two countries ranging between 5.5-6%. Interestingly, India spends more on telecommunications and communications than China in percentage terms. While China spends ~13% of its total expenditure on transport and communications combined, India spends 17-18% on transport alone and another ~2.6% on communications. Lastly, India's percentage expenditure on miscellaneous goods and services exceeds China's by a significant margin.



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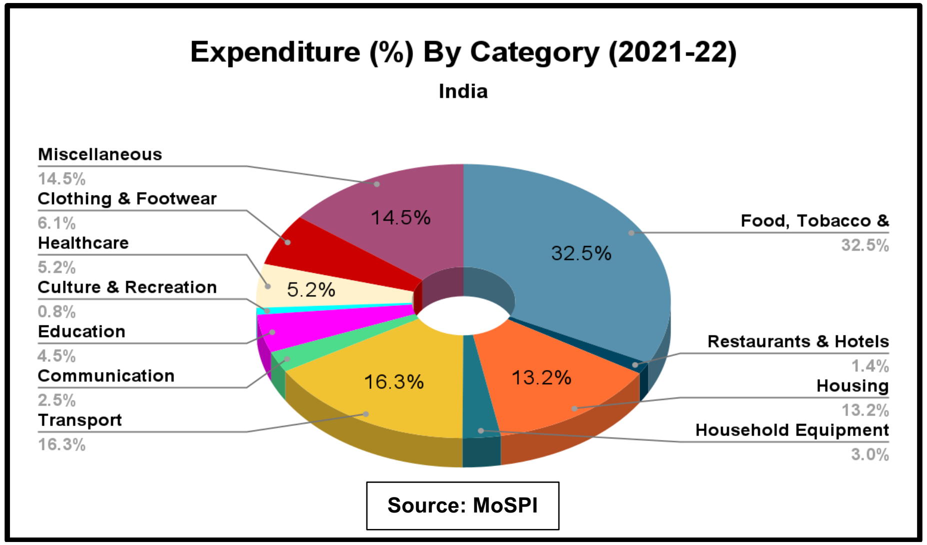

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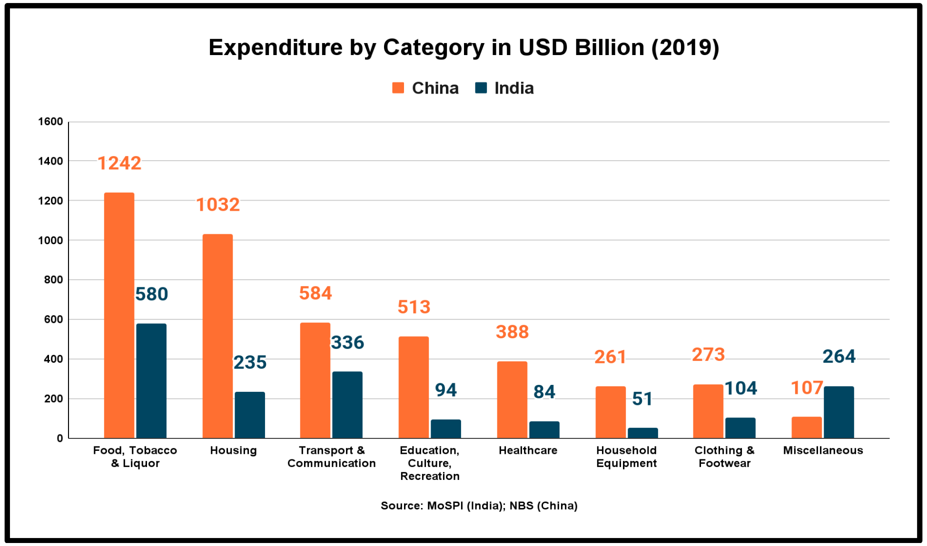
Thus, India's consumption expenditure is characterised by higher spending on food, clothing, footwear, and transport and low spending on education, culture, recreation, and healthcare — typical of an underdeveloped or developing market. China's consumption basket, on the other hand, represents a relatively developed market. Even as food and beverages constitute the biggest chunk of China's consumption, it is declining as a percentage of its total consumption expenditure – a sign of a maturing market. Additionally, it spends a substantially higher percentage of its expenditure on housing, white goods, recreation, education, and healthcare than India. To put things in context, advanced economies like the US, Japan, EU, Germany, the UK, and France spend a lot less on food as a proportion of their total expenditure.

In aggregate terms, India spends around half of what China spends on food, transport and communication, and clothing and footwear. For India, which is a fifth of the Chinese economy and spends almost the same percentage (of the total expenditure) as China on these three sectors, the fact that its total expenditure in the above three categories is around half of China is quite significant. In fact, India spends a little over 50% of what China spends on transport and communication. (*It is important to note here that while the latest data for China is available from 2022, the same is only available from 2021 for India.*)



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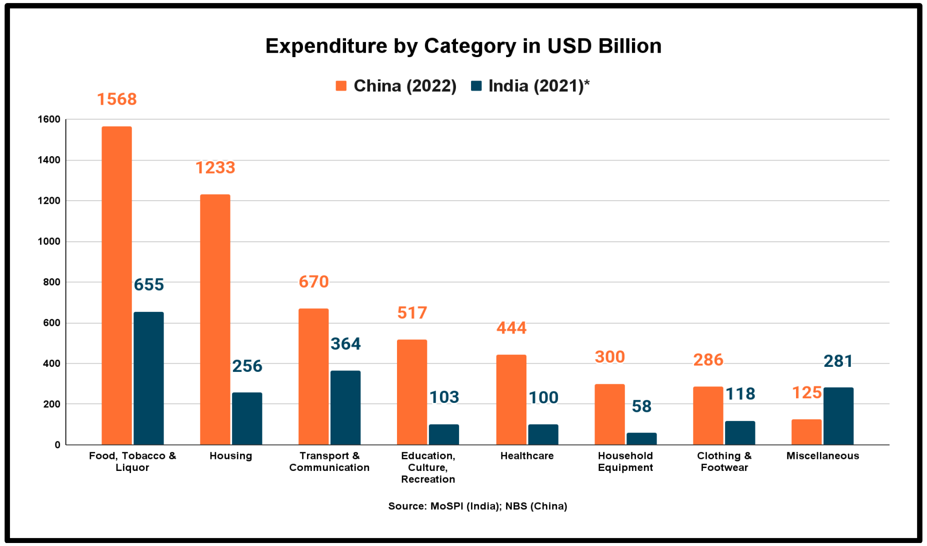

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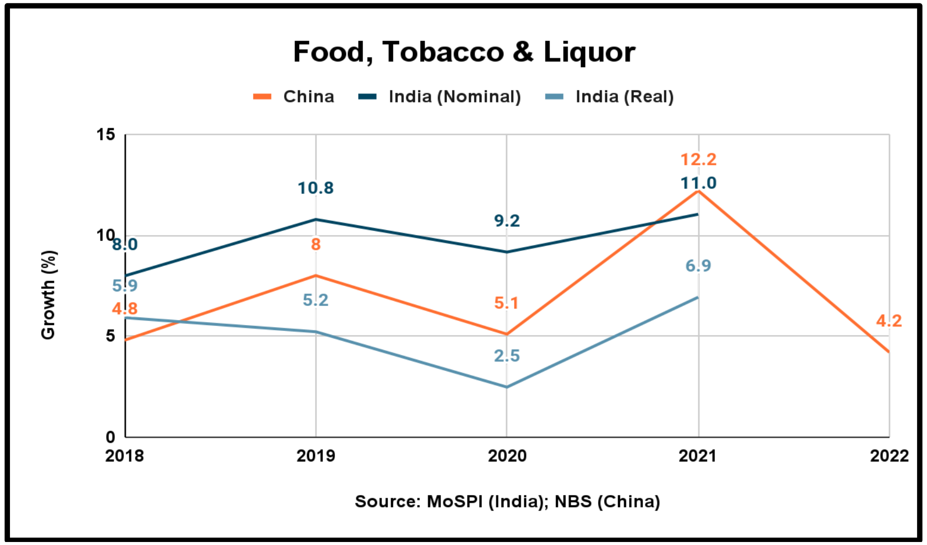
To get a better picture of the consumption story of the two countries, a mere look at the aggregate data isn't enough. It needs to be supplemented with the growth rates of respective categories within the consumption basket. But before deep-diving into the category-wise specifics, some key trends become apparent over the last few years in the context of both countries that are worth highlighting:

a) 2018 proved to be a great year from India's perspective where its annual growth rate beat China in every category, except for Housing. It is worth noting that of the seven categories, India's ***real*** growth rate outpaced China's ***nominal*** growth rate in five except for Housing and Healthcare.
b) In 2019, India's consumption expenditure witnessed massive deceleration across all categories, except for food and beverages (which saw an increase) and healthcare where the deceleration was marginal (~1.3%). China had a mixed year, as food and education (culture and recreation) registered an increased growth rate; Clothing & Footwear and Transport & Communications held on to their previous year's numbers (remained stagnant); Housing, Household, and Healthcare recorded steep declines.
c) The year 2020 was equally bad for both countries owing to the pandemic, as every category either witnessed a deceleration or degrowth

d) 2021 was the year of rebound as both countries compensated for the deceleration or degrowth by registering steep increases in growth rates and thereby correcting the base effect
e) The year 2022 was a terrible year for China, as annual growth rates plunged significantly. It witnessed either massive deceleration or negative growth across all sectors. Of the seven categories (excluding Miscellaneous), two recorded negative growth, two saw a growth rate of less than 1%, while the growth in the other three categories ranged from 1.6 - 4.3%. India's numbers for the year 2022 are yet to be published and hence are not plotted on the graph.
f) Even though India's growth rates are recorded at a relatively low base (China's at a much larger base and a lower growth rate will still add more expenditure than India's will), a substantially high growth rate is a cause for optimism. This means, India is closing the gap with China every year.
g) Lastly, for India, the real growth rate has more or less closely tracked the high nominal growth rate in consumption expenditure. Thus, there has been substantial real growth in expenditure as well which is significant.

Having reflected on the overall growth trend in the past few years, let's look at the category-wise growth trend. The graphs listed below compare the nominal growth witnessed in the two countries by expenditure categories. While data on nominal growth was available for both countries, real growth rates were only available for India. Nevertheless, the figures for India's real growth rate have been plotted in the following graphs to offer additional insights.

The cross-comparison of the consumption expenditure on Food, Tobacco, and Liquor reveals that India's nominal growth in this category has largely exceeded that of China except for in 2021. However, China's 12.2% growth rate in 2021 as against India's 11%, came on the back of a strong base effect as in 2020, the drop in China's growth rate in this segment was steeper (2.9 percentage points) than India's (1.6 percentage points).



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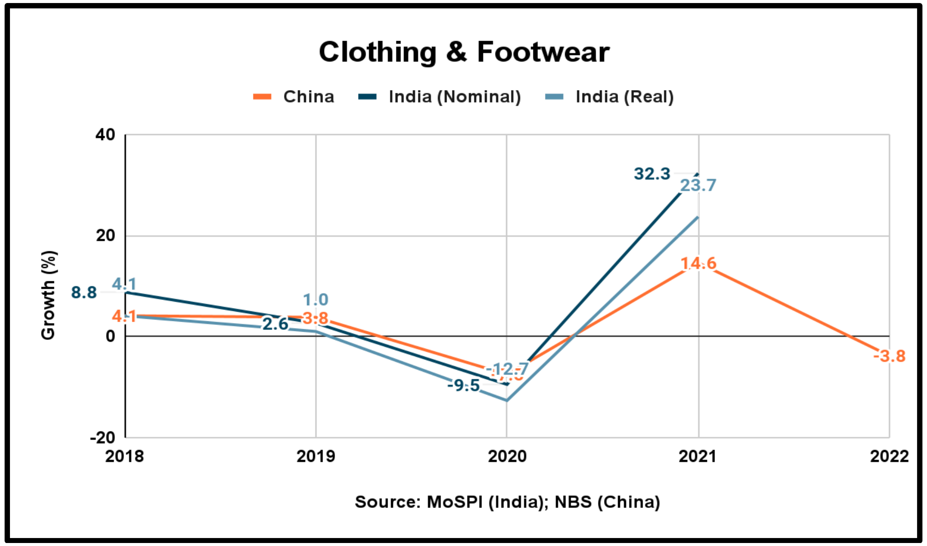

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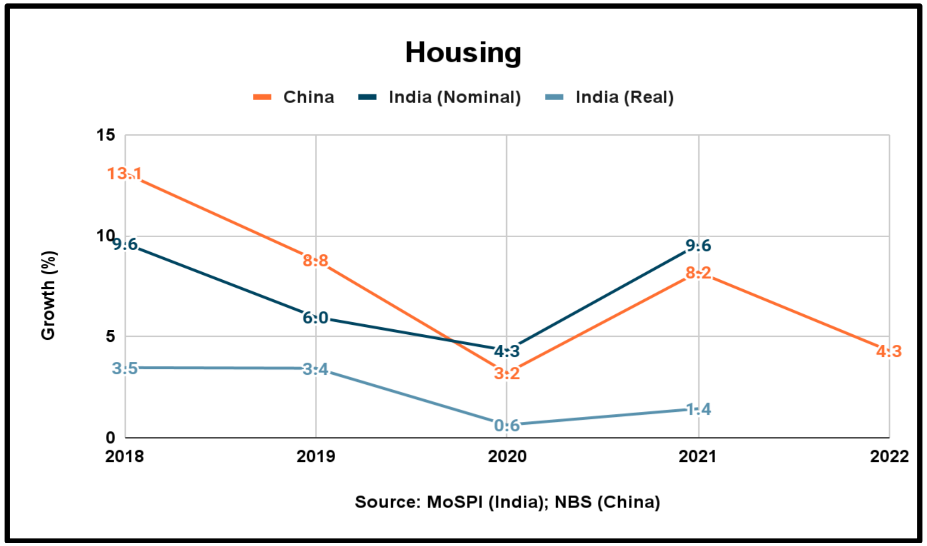
In terms of expenditure on Clothing and Footwear, India's real growth at 4.1% in 2018 was the same as China's nominal growth rate. However, India's figures recorded a significant decline in 2019, while China nearly held on to its previous year's numbers. In 2020, both China and India witnessed a negative growth rate of -7.5% and -9.5%, respectively. The year 2021 saw the clothing and footwear segment rebounding with astounding growth rates. A note, however, needs to be made of the fact that not only India's nominal growth rate was twice as China's but even its real growth rate outpaced China by 9 percentage points.

China's annual expenditure on housing and household equipment has already been declining since 2018. This decline continued till 2020, the year of the pandemic, before sharply rebounding in 2021.



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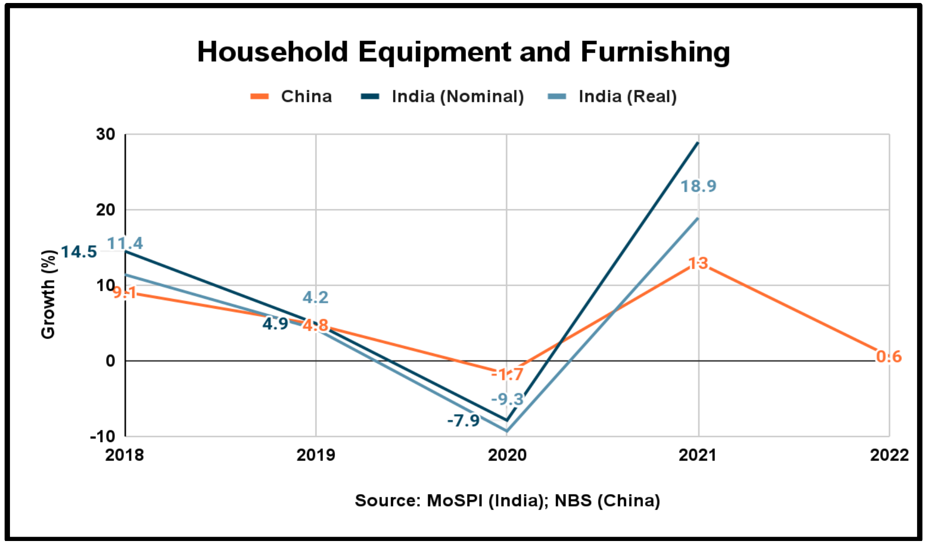
As is the case for other sectors, the consumption expenditure in both housing and household equipment categories has seen a significant drop in 2022. As for India, its yearly expenditure growth in both categories has remained behind China historically.

But in 2020, India outgrew China in the housing segment for the first time and maintained the lead in 2021. In the household equipment and furnishing segment, India's *real* growth rate was higher than China's *nominal* growth rate in 2018. The figures for the two countries were more or less the same in 2019 but the pandemic seemed to have a more debilitating effect on India's expenditure in this category than China. However, both countries corrected for their negative growth rates by registering massive growth in 2021. China's expenditure in this category, however, grew just 0.6 percent in 2022.



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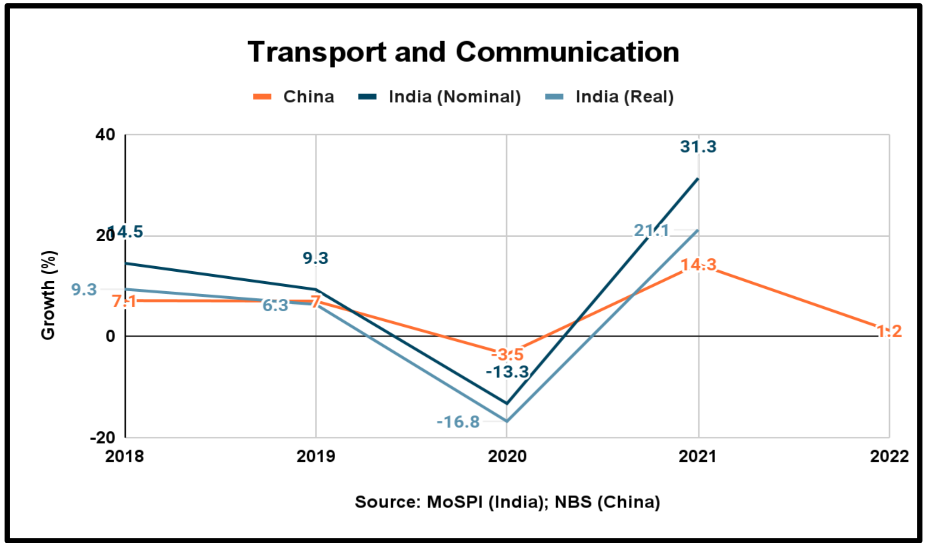
The annual growth rate in expenditure on Transport and Communications has been much higher in India compared to China. In 2018, India's nominal growth rate (14.5%) in this segment was twice China's (7.1%), and even its real growth rate (9.3%) exceeded China's nominal by more than two percentage points. The following year, the growth witnessed a decline (9.3%) but beat China's numbers which held on to its previous year's growth rate at 7%. During the pandemic year, India’s expenditure witnessed massive de-growth (-13.3% in nominal terms and -16.8% in real terms) as against China’s marginal (-3.5%) nominal degrowth.



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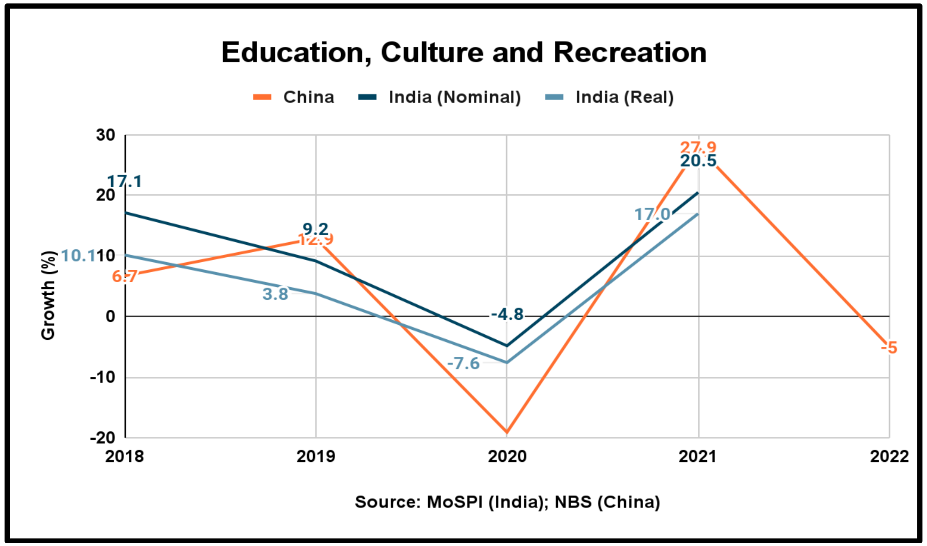
In the year 2021, both countries clocked enormous growth rates compensating for the previous year and correcting the base effect. In keeping with the pattern across all sectors, China’s expenditure massively decelerated in 2022 to 1.2%.

China’s expenditure on Education (culture & recreation) recorded strong growth in 2019 at 12.9% compared to 6.7% in 2018 before sharply declining in 2020. The more-than-usual decline for China in this segment could be attributed to the leadership crackdown on the Ed-tech sector during this period. The numbers, however, skyrocketed to 27.9% in 2021 before registering a negative growth of 5% in 2022.



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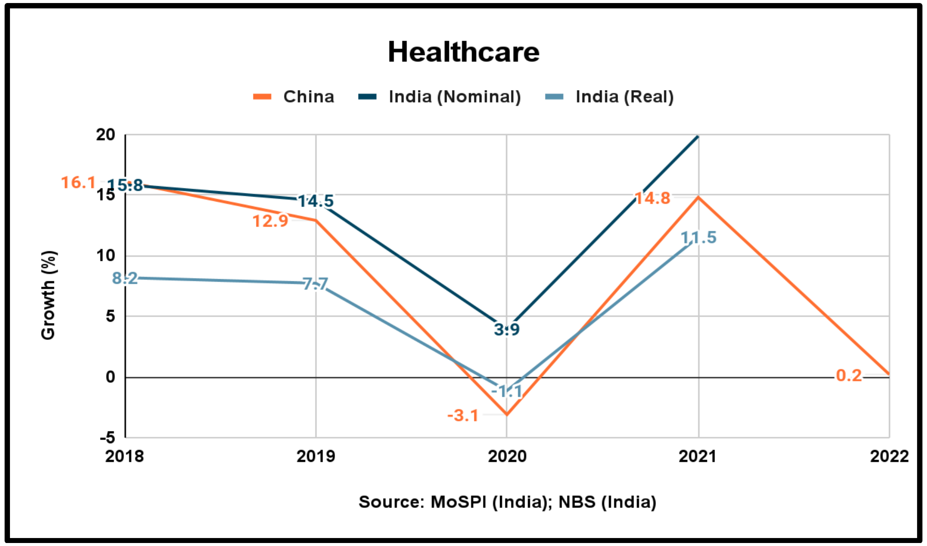
Lastly, India's expenditure on healthcare grew 15.8% in 2018 as compared to 14.3% in 2019. In the corresponding years, China's expenditure grew by 16.1% and 12.9%, respectively. China witnessed a degrowth in 2020 while India's numbers remained in the positive. China's healthcare sector was yet another category that witnessed almost no growth (0.2%) in 2022.



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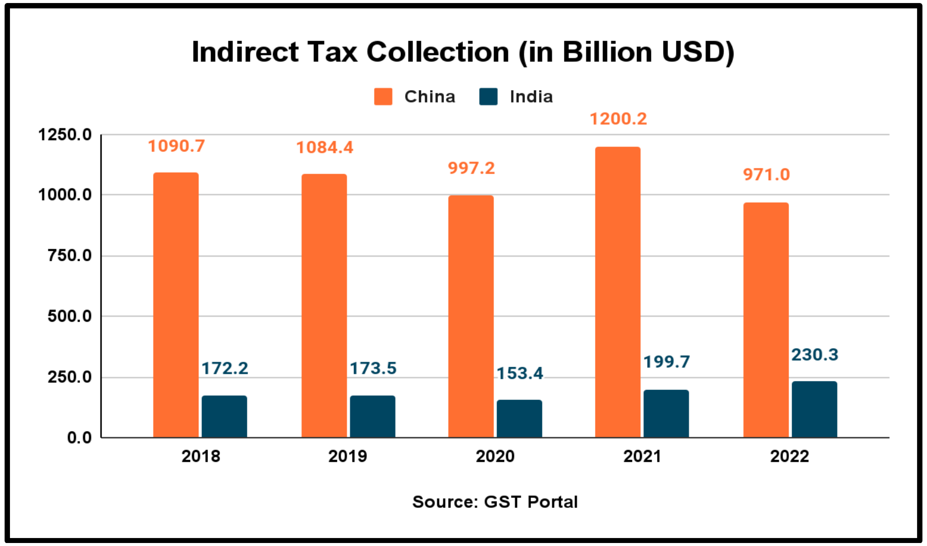
IV. Miscellaneous Indicators of Consumer Market Strength

This sections seeks to compare China and India on two important indicators, namely Indirect Tax Collection and Consumer Confidence Index. Both indicators provide real time insights into the state of the evolving consumer market and sentiment. While an increasing Indirect Tax Collection signifies a growing market and increasing spending power, the Consumer Confidence Index is a marker of the confidence in the market.

Indirect Tax Collection

Indirect Tax Collection is another useful metric to adjudge the strength of the domestic consumer market.[28] A look at the respective figures for the two countries tells contrasting stories. For China, the indirect tax collection witnessed a steady decline from US$1090 billion to US$997 billion between 2018-2020. While the decline in 2020 is explicable owing to the strict lockdown during the pandemic, collection in 2019 also shrunk in US$ terms (even though it registered a marginal increase in yuan). In 2021, China's collection sharply rebounded and stood at US$ 1200 Billion.

Since the two countries use different tax measures, for India, GST was taken as a reference and for China, the sum of domestic VAT and domestic consumption tax was used.



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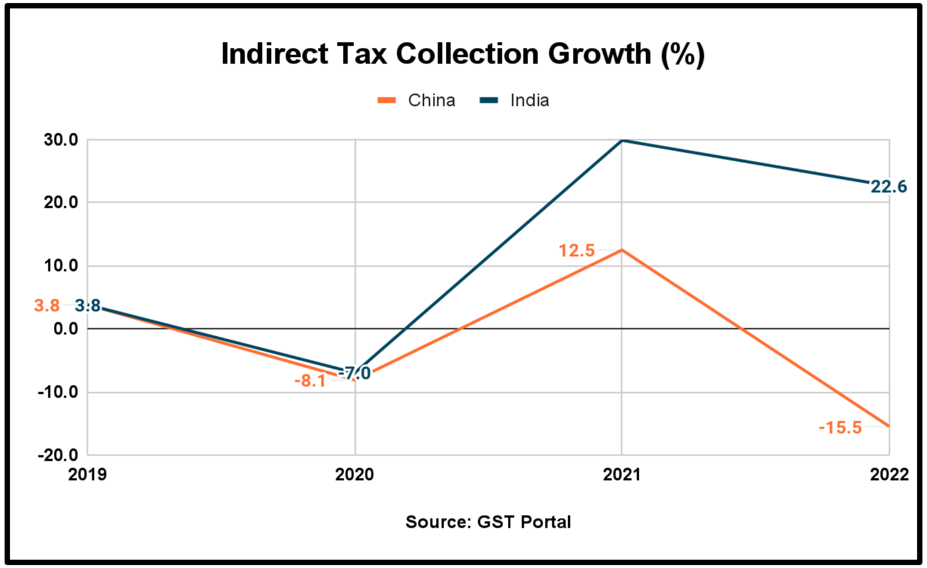

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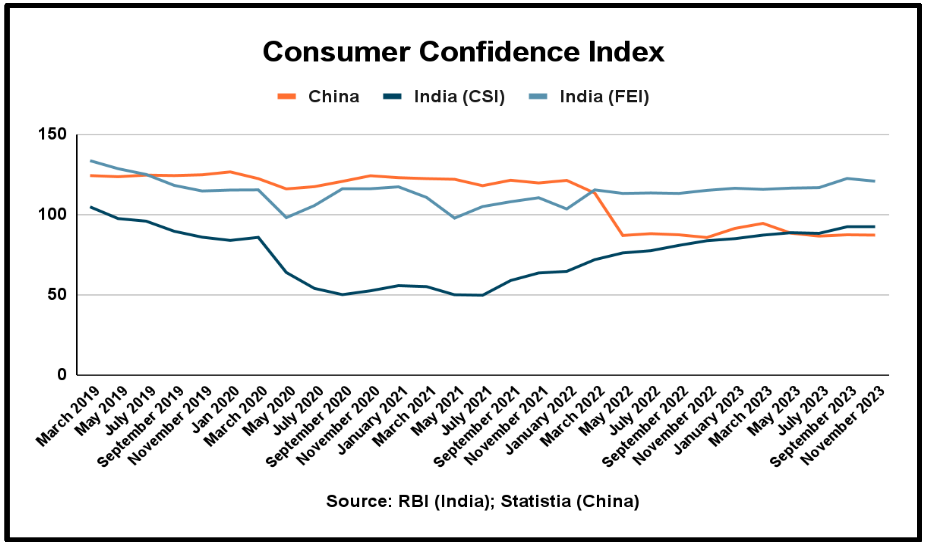
For reference, in 2021, China added as many dollars to its total tally of indirect taxes, as was India's gross GST collection. In the following year, however, the gains were completely diminished as China's numbers fell even below the pandemic-stricken year of 2020. India on the other hand, introduced indirect tax reforms in 2017 thereby resulting in erratic collection initially before stabilising. Yet, year-on-year, India clocked steady growth in its overall collection since 2018 except for the year 2020. The two successive years (2021 and 2022) saw strong growth rates. Between 2018 and 2022, India's indirect tax collection has grown by 54% in rupee terms and 34% in US$ terms.

Consumer Confidence

Consumer Confidence Index (CCI), as the term suggests, is the confidence reposed by the consumers in the economy. A number higher than 100 indicates optimism while a number below hundred indicates pessimism in the market. China's CCI has consistently been around the 120 mark for the past many years. But in 2022 it recorded a steep decline and fell below 100 for the first time in the recent history.[29] China's CCI has fallen by around 30 units in the last 18 months. The Reserve Bank of India releases CCI consisting of two indices — the Current Situation Index (CSI) and the Future Expectation Index (FEI).[30] The former fell below 100 in 2019 and continued to decline until May 2021 before steadily recovering. By the end of 2023, the figure had improved to 92, beating China for the first time.



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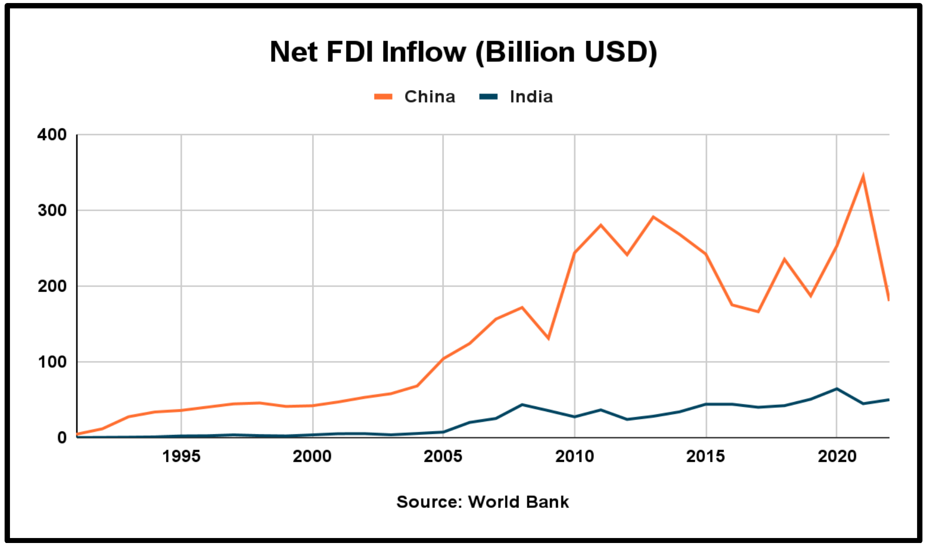
The two data sets further confirm that 2022 proved to be a bad year for China from the consumption point of view. The data show that while nothing unusual occurred in India's case as it sustained the growth momentum from previous years, China recorded a significant decline on both the parameters.

V. Leveraging the Numbers

The trends confirm that China will retain its position as the world's largest consumer market for the foreseeable future. But given India consumes a lot more than China for the size of its economy, it is likely to remain a very attractive destination. To contextualise, India's consumption at US$10 trillion will be similar to China's current consumption at US$18 trillion. Furthermore, not only India's consumption is rising faster than China's, but the latter's numbers are decelerating as well. Thus, the existing gap is expected to narrow down faster owing to these three factors. The aggregate numbers indicate that even though India lags far behind China at the moment, it is the only country capable of equalling and even surpassing China's consumer market (both in volume and value), thereby conferring upon it an unparalleled advantage not shared by any other country.

Along with this unique geoeconomic advantage, the geopolitical currents also seem to be aligning in India's favour. The deepening of the US-China rivalry has contributed to the bolstering of the narrative around the need for decoupling and derisking from China given its overriding dominance in the global supply chain in the last two years. The supply shock during the COVID and China's securitisation of its economy has forced businesses to diversify and achieve supply chain resilience. The scepticism among existing businesses in China has increased compared to pre-COVID times. Newer investments in China are proving to be more difficult as is evident from the FDI statistics. Amidst these developments, India has emerged as a contender among others including Vietnam, Thailand, Malaysia and Mexico as alternative destinations for diversification of global supply chains.

The question arises whether India's large consumer market can help its candidature against the other competitors in contention. Currently, India is seventh-largest country by final consumption expenditure behind the US, China, Japan, Germany and the UK. But long term trends show that aggregate consumption for Japan, Germany and the UK has been relatively stagnant compared to the US, China or India.[31] However, the hope that a burgeoning consumer class will enable India to attract foreign businesses and become a leading destination for foreign investment, a position held by China for more than two decades, is overstated and exaggerated. A large consumer market is a *third-order factor* in influencing inbound investments. Had it not been so, India being a large consumer market would have historically attracted higher net FDI inflows.



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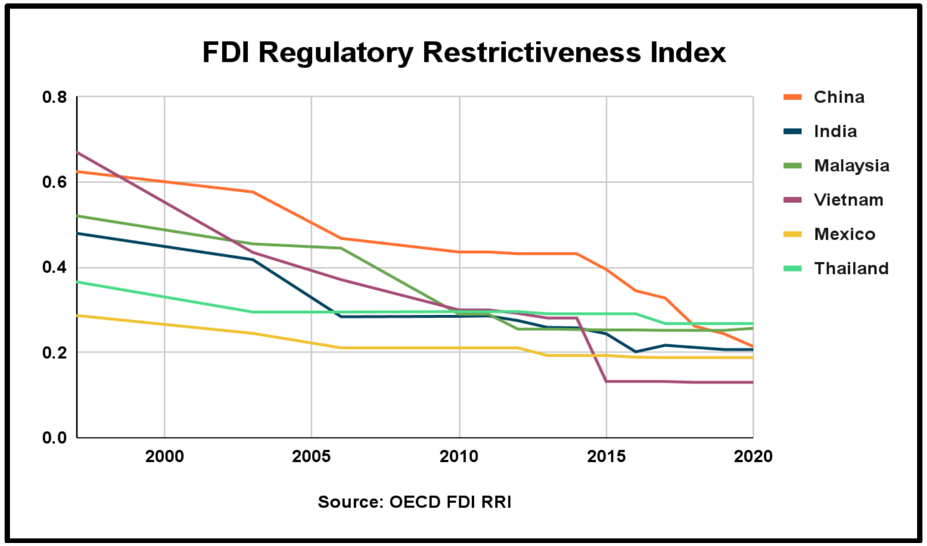
On the contrary, countries (and regions) with much smaller consumer markets have attracted significantly higher foreign investments as a percentage of their GDP. Examples include Singapore, Vietnam, Malaysia, Thailand, and Hong Kong.[32] Of late, even the countries competing with India for 'China+1' such as Vietnam, Malaysia, Thailand and Mexico, aren't as big a market as India. Except for Mexico, none of them figure amongst the top ten markets. And yet, India is finding it difficult to outcompete these countries. This explains that a large consumer market is not the primary requisite to attract foreign capital.

The pre-eminent requirement entails openness to foreign investment. The OECD's FDI Regulatory Restrictiveness Index is a valuable metric that assesses a country's openness to FDI on four broad parameters and assigns values between 0 and 1, where the former signifies 'open' while the latter denotes 'closed.'[33]



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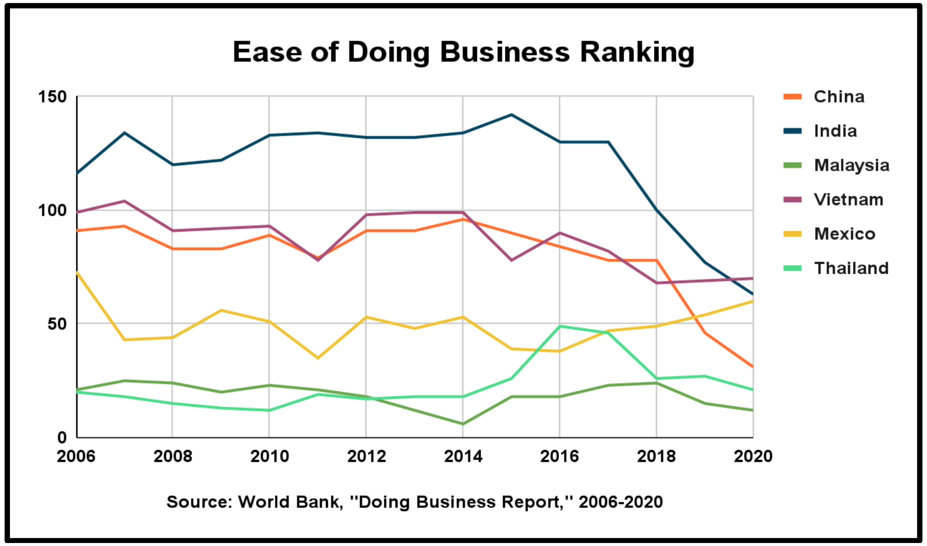
However, a subsequent but complementary factor in the form of 'ease of doing business' which follows investment is equally important to make FDI openness relevant. In this regard, the World Bank's *Doing Business Report* serves as a useful tool to asses countries.[34] It scores countries based on ten indicators to rank them on ease of doing business. The significance of the ease of doing business in attracting foreign capital rises as countries become increasingly open to inbound investments. Both factors are necessary conditions to enable a higher FDI-to-GDP ratio.



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Countries with better scores on FDI RRI and EoDB have historically attracted higher FDI as a percentage of GDP. While India has done better than most on the first metric, it has fallen far behind the others on the second. And this explains India's poor record on FDI to GDP ratio.

The existence of a large consumer market as a factor only becomes relevant to sufficiently influencing inbound investment if the first and second-order factor ceases to be a differentiator among the competing countries. A look at the data suggests that while regulatory restrictiveness is no longer a determining factor among the above-mentioned countries, the ease of doing business continues to be a significant one between India and the others. The economic logic dictates that if the first and second-order factors remain constant, market size can play a vital role in directing capital. This explains why a large market hasn't necessarily translated into a higher FDI (as % of GDP) in India in the past. Even in China's case, its front-line indicators outperformed India to enable it to leverage its large consumer base in the competition with other markets.

But while a large consumer market is a third-order factor, it can act as a factor of exponential order capable of catapulting the investment figures by a disproportionate margin vis-a-vis other competitors given the first and second-order factors remain constant among them. In this sense, a large consumer market plays the role of an amplifier or catalyst rather than a receiver or initiator of reaction. Accordingly, if India has to leverage its status as the second largest consumer market in the world vis-a-vis others in the ensuing 'China+1' competition and make the most of the geopolitical moment, it has to equal its competitors on front-line indicators if not surpass them.

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