

# Coupling or Decoupling ?

Decoupling holds that European and Asian economies, especially emerging ones, have broadened and deepened to the point that they no longer depend on the United States for growth, leaving them insulated from a severe slow down there. Faith in the concept has generated strong outperformance for emerging economies stocks outside the United States in the years 2006 & 2007. In January 2008, as fears of recession mounted in the United States, stocks declined heavily. Contrary to what the decouplers would have expected, the Stock Market losses were greater outside the United States, with the worst experienced in emerging markets and developed economies like Germany and Japan. Exports make up especially large portions of economic activity in those places, but that was not supposed to matter anymore in a decoupled world because domestic activity was thought to be so robust.

Emerging markets which were thought to have strong domestic base of growth have also shown sharp stock market declines in the recent market crash and liquidity concerns. However, it seems that not all the emerging markets would continue to be indefinitely impacted by this global melt down.

Emerging markets can be divided into: a) Export-oriented and b) Domestic consumption driven.

In an export oriented emerging economy any downturn or slow down in large developed economies like the US would have direct impact. Exports comprise of consumer goods and durables, textiles, toys, furniture, electronic items etc. As the slow down takes place the citizens of these large developed economies would buy lesser goods hence the companies which export these goods would feel the heat as demand would lessen their volumes will slow down and inventories will go up.

Lets consider the other class of Emerging markets which have strong domestic activity and lesser exposure to exports. These economies are facing a stock market decline just like global scenario but these economies are still growing on the back of domestic consumption. As and when the sanity comes back and

value buying emerges, these markets would make a comeback.

The question to ask ourselves is which category of markets India falls in.

India continues to be a growing economy. There may be some slow down but nevertheless the rate will continue to be healthy as compared to other economies. The growth in our economy will sustain as it is based on fundamental factors such as

1. **Lesser dependence on exports to US:** India's exports to the US account for only 4% of the GDP. (Source: The Economist)
2. **Demographic Advantage:** With only 2.3 per cent of the worlds land area (seventh-largest country), India is the second most populous country in the world with a population of over 1 bn, which is among the youngest in the world. The proportion of population in the working age group of 15 to 64 years is currently around 62.9 per cent and is expected to increase to 70 per cent by 2026. The 'demographic dividend' is expected to extend over the next few decades of this millennium. (Source: equitymaster.com)
3. **Investment-led growth:** In the recent past, the India story has been largely investment led rising 15% YOY basis with the investment GDP ration increasing to 36% of GDP from 25% in FY 2003. (Source: Citi)
4. **Increased equity participation:** The proportion of investments in equities as a percentage of the overall investment basket was merely 0.1% in 2004. This increased to 6.3% in 2007. This shows the confidence of the people in the Indian economy. (Source: Enam Securities)
5. **Increased participation from international community:** India has been receiving large capital inflows, reflecting international confidence in the underlying fundamentals of the performance of the Indian economy. The ratio of net capital inflows to GDP has almost doubled from 1.5 per cent in FY92 to 2.9 per cent in Fy06. (Source: equitymaster.com)