India's Gains in the Face of China's Economic Slowdown

This editorial is based on **China is slowing. What does it mean for India?** which was published in The Hindu Businessline on 20/08/2023. It talks about the slowing down of China's Economic growth and the potential opportunities for India arising from this situation.

For Prelims: PLI (Production Linked Incentive), Inflation, GDP, India's trade agreements, GST, Foreign Direct Investment (FDI),

For Mains: China's Economic Slowdown and opportunities for India, Steps taken by India present itself as an alternative to China

The Chinese Economy was expected to rebound this year after three years of zero-Covid policy. But the latest economic data show that the world's second largest economy has slipped into deflationary mode. Both retail sales and industrial production fell short of the predicted expectations. The most worrying aspect is shrinking domestic demand. The prices of apartments and a range of goods and services have fallen, with the dropping **Consumer Price Index-based inflation.**

What are the Causes behind this Slowdown?

- **Zero Covid Strategy:** China's policy of eliminating **Covid-19** cases within its borders led to frequent lockdowns, travel restrictions, and mass testing. It created global supply-chain upheavals as well. These, along with geopolitical tensions, triggered manufacturing relocations, weakening domestic growth and consumer spending further.
    - **Decline in Industrial Output:** The value-added industrial output expanded by 3.7% y-o-y, slowing from the 4.4% growth in June.
    - **Falling Exports:** China's exports fell by 14.5% in July 2023 compared with a year earlier, while imports dropped 12.4%.
    - **Rising Unemployment:** While overall **unemployment** rate had risen to 5.3% in July 2023, the Youth unemployment hit a record 21.3% in June.
- **Collapse of Housing Sector:** The Chinese economy is currently facing a crisis of confidence. A confluence of factors has led to this. The major one is the near collapse of the decades-long debt-fuelled housing sector, which contributes to about 30% of China's **GDP**.
- **Debt Overhang:** China's rapid economic growth was fueled, in part, by heavy borrowing. This has led to a significant buildup of debt in the economy, which could potentially hinder future growth if not managed carefully.
    - China's debt is now estimated at 282% of **GDP,** which is more that of the US.
- **Clampdown on Tech Industry Sparked Economic Turmoil:** The Chinese government began cracking down on its vibrant tech sector — video gaming, edtech, e-commerce — on the grounds that the tech companies were getting too big and powerful. This has resulted in huge losses of revenues and jobs, as many of these firms had to downsize or shut shop.
- **Decline in Investment and Consumer spending:** Amidst the declining and uncertain economic

environment, Chinese investors and households are cutting back on spending, leading to a deflationary situation.
    - According to the China's National Bureau of Statistics (NBS), retail sales in July 2023 grew 2.5% year-on-year, compared to a 3.1% in June.
- **Structural shift:** China has been trying to shift its economy from a reliance on exports and investment to a more balanced model that emphasizes domestic consumption and innovation. This transition has been challenging and has resulted in lower growth rates, as well as increased debt and financial risks.
- Trade War **with the US:** The trade tensions between China and the US have escalated since 2018, resulting in tariffs, sanctions, and decoupling measures that have hurt both sides. The trade war has reduced China's exports, investment, and access to key technologies and markets.
    - It has also weakened the confidence of consumers and businesses, as well as the value of the Chinese currency.

Why are Global Markets worried about the Slowdown?

- The **IMF** had previously forecast that China would account for 35% of global growth this year, but that's looking far-fetched now.
- The latest data suggests that China may struggle to achieve the growth target of around 5% set for the year.
    - A slowdown in China will affect global demand.
    - Not only is **China the world's largest manufacturing economy,** but it is also the largest consumer of key commodities.
        - It accounts for almost half of the world's metal consumption.

What are the Opportunities for India?

- **Diversifying global supply chains:** Many countries and companies are looking for alternatives to China as a source of raw materials, intermediate goods, and finished products, especially in sectors such as electronics, pharmaceuticals, textiles, and automobiles.
    - India has the potential to become a preferred destination for these industries, given its large domestic market, skilled workforce, low labor costs, and improving infrastructure.
    - India can also leverage its existing **trade agreements** and strategic partnerships with countries such as the US, Japan, Australia, and the EU to enhance its access to global markets.
- **Attracting foreign investment:** China's economic slowdown has also reduced its attractiveness as an investment destination for foreign capital. **India can capitalize on this opportunity by offering a stable and conducive business environment, easing regulatory hurdles, providing tax incentives, and facilitating land acquisition and labor reforms.**
    - India can also **showcase its strengths in sectors such as IT, digital services, renewable energy, biotechnology, and defense production** to attract foreign investors.
- **Boosting innovation and R&D**: China's economic slowdown has also exposed its vulnerabilities in terms of innovation and R&D, especially in areas such as semiconductors, artificial intelligence, biotechnology, and aerospace.
    - India can seize this opportunity **by investing more in its own innovation and R&D ecosystem**, fostering collaboration between academia, industry, and government, and creating a culture of entrepreneurship and risk-taking.
    - India can also leverage its talent pool of engineers, scientists, and researchers to develop cutting-edge technologies and solutions that can compete with China on the global stage.
- **Benefits for India's Manufacturers:** Commodity markets are very sensitive to Chinese demand. If China begins exporting base metals and other commodities at reduced prices, due to slowing demand, it could benefit our manufacturers.

What has India done to take Advantage of China's Slowdown?

- **Diversifying Exports:** Increasing its exports to other countries, especially in sectors where China is losing its competitiveness. For example, India's exports of engineering goods, chemicals, pharmaceuticals, and textiles have grown significantly in the last few months.

- **Attracting** Foreign Direct Investment (FDI): Attracting more **FDI** from companies that are looking for alternative destinations to China. India has eased its **FDI** norms, offered incentives, and improved its ease of doing business ranking to lure more investors.
  - To Attract investment India has also introduced reforms in electricity (e.g., Electricity (Amendment) Rules, 2023), land (e.g., **Land Bank**) and labor (codifying labor codes).
- **Promoting Domestic Manufacturing and Consumption**: Boosting its domestic manufacturing and consumption through various schemes and policies, such as the Production Linked Incentive (PLI) scheme**, the** Atmanirbhar Bharat Abhiyan**, and the** GST **reforms**. These initiatives aim to make India more self-reliant and resilient to external shocks.
- **Building Economic and Strategic Alliances:** Enhancing its strategic and economic ties with other countries, especially in the Indo-Pacific region, to counter China's influence and aggression. India has participated in various multilateral forums and dialogues, such as the **Quad**, and the **BRICS** to promote regional cooperation and stability.

Conclusion

India is hoping to compete with China as a major player in the global supply chain and as a manufacturing hub. It has unveiled schemes like **PLI (Production Linked Incentive)** to boost domestic manufacturing. India's **'China plus one'** strategy can get a boost if Chinese exports taper down.

Drishti Mains Question:

China, the world's second-largest economy, is currently grappling with an economic slowdown. In this context, analyze the potential opportunities available for India and elucidate the measures that India has undertaken to leverage these opportunities.
