Analysing The Chinese Economic Slowdown And Its Indian Imperatives

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Abstract

This research paper delves into the economic landscape of China, the world's second-largest economy and leading exporter. The paper scrutinizes the complex factors contributing to China's current economic challenges, despite anticipations of recovery following a stringent three-year zero-COVID policy. The research paper also depicts the profound implications of China's economic slowdown and its potential repercussions on the global and Indian economies. It offers a comprehensive analysis of the strategic policy measures that India should prioritise to leverage the ongoing economic deceleration in China. The paper outlines India's strategic initiatives, including the *Production-Linked Incentive (PLI) programme* and the *"China plus one" strategy,* positioning India as an attractive alternative for investors seeking stability and growth amidst China's uncertainties. While acknowledging India's ongoing internal challenges, the paper contends that India's proactive measures can position it as a formidable player in the global manufacturing arena. The research offers valuable insights for policymakers, economists, and industry stakeholders, illuminating the transformative potential of India's economic trajectory in the wake of China's deceleration.

Introduction

The second-largest economy in the world and the world's top exporter of goods, China, is on the verge of deflation.[1] The nation's GDP reached an all-time low of US$18.3 trillion in 2022, with 3% YoY growth *(worst on record).*[2] While the government's Zero-Covid policy (A policy which aims to eliminate all reported cases of COVID-19 within its borders through strict containment measures and widespread testing) boosted the economy, it was anticipated that the post-pandemic blues would pass swiftly. However, second-quarter growth in China was less than anticipated. In the April–June quarter of the current fiscal year 2023, China's economy grew at an annual rate of 6.3%, which was less than the 7.3% predicted growth number according to a Reuter survey of economists. In comparison to the first quarter of 2023, the economy expanded 0.8% quarterly. S&P[3] has decreased its earlier prediction of 5.5% GDP growth in China to 5.2% for 2023. China's projection was the first to be downgraded by a major credit rating agency this year, but other agencies have done so, including Goldman Sachs. China's post-Covid economic recovery has recently begun to wane as youth unemployment rose alarmingly to 21.3 percent in June 2023. The Consumer Price Index (CPI) [4]and Producer Price Index

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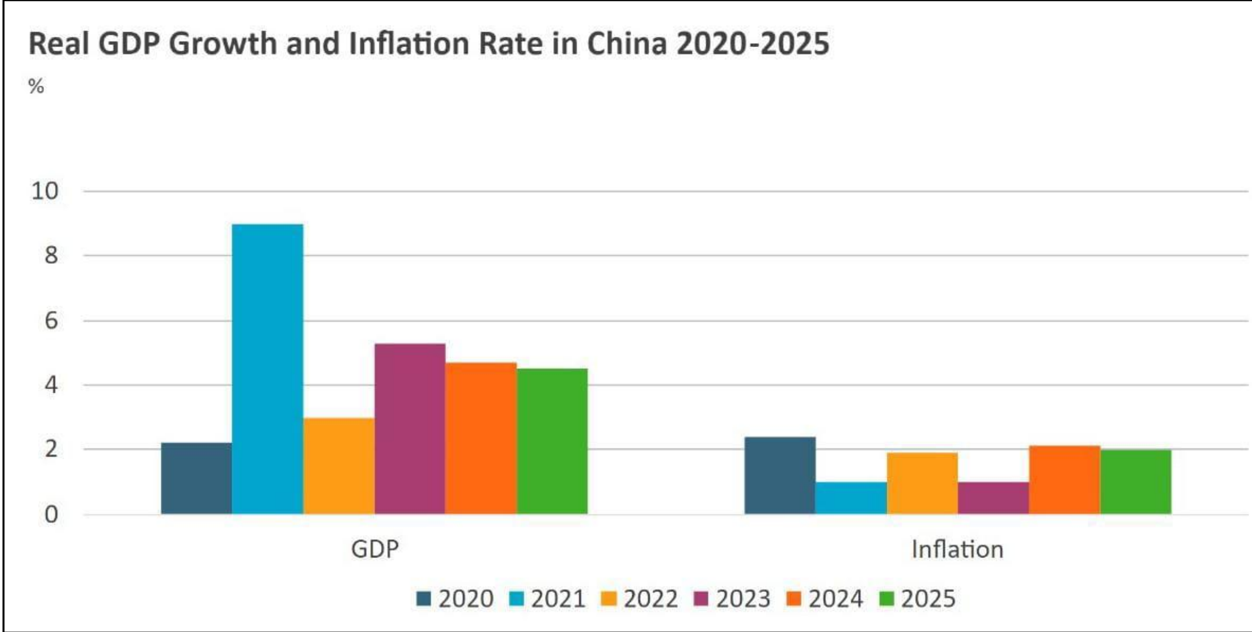
[1] ***Deflation:*** *Deflation is a sustained decrease in the general price level of goods and services in an economy, leading to an increase in the purchasing power of money. This can result in reduced consumer spending and potentially lead to economic stagnation.*

[2] [GDP and Growth Rate of China]

[3] ***S&P:*** *Standard & Poor's (S&P) is a financial services company that provides credit ratings, research, and analysis of various financial instruments and entities.*

[4] ***CPI:*** *It measures the average change in prices of goods and services over time, indicating inflation's impact on purchasing power.*

(PPI)[5] both experienced reductions in China, indicating that the country's economy has been struggling with deflationary forces. The Consumer Price Index (CPI) experienced its first decline since February 2021 in July 2023, when it fell by 0.3 percent year over year. In addition, the PPI dropped for the ninth consecutive month, falling by 4.4 percent instead of the anticipated 4.1 percent. [6]China's anticipated growth rates for 2023 and 2024 are greater than the 3.0% growth the nation experienced in 2022. The economy's pre-pandemic trend, which averaged 7.7% annually from 2010 to 2019, is much lower than the growth rate of roughly 5.0%.



Real GDP Growth Rate and Inflation Rate (Image source)

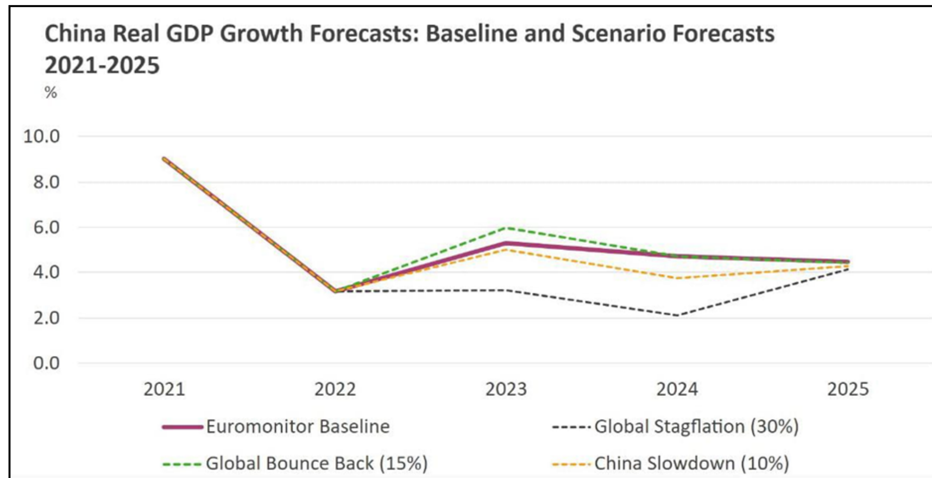
Euromonitor International's China Slowdown scenario captures the outcome of a worsening of China's short-term growth outlook and long-term growth potential and its consequences for China and the global economy. A deeper decline in asset values and a recession in China's real estate market might result in defaults, undermine trust in the financial system, trigger capital flight, currency depreciation, and an increase in unemployment. Meanwhile, China's capacity for long-term growth would be compromised by a greater population drop and a slowdown in productivity growth. This scenario, the first and second years' real GDP growth in China could be reduced by 0.3-1.2 percentage[7] points in comparison to the baseline. Through trade and commodity links, a more pronounced downturn in China, coupled with weaker consumer spending and investment, will have detrimental

[5] ***PPI:*** *It measures the average change in selling prices received by domestic producers for their output, providing insight into inflationary pressures in the production process.*

[6] *Decline in CPI and PPI*

[7] *Baseline and Scenario Forecasts*

spillover effects on the global economies. As such, in Euromonitor International's China Slowdown scenario, global economic growth in 2023–2024 may be 0.1–0.5 percentage points lower than the baseline. A downturn in China will have a greater impact on developing economies, particularly those in nations with substantial trade exposure to China.



China Real GDP Growth Forecasts (Image source)

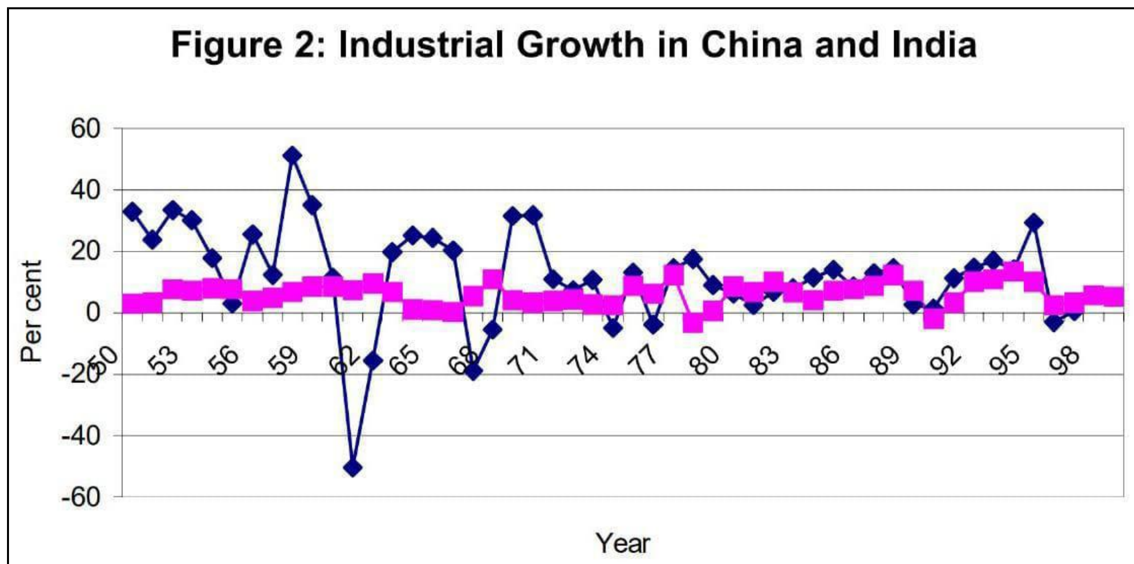
Background

According to credible assessments, China's industrial growth has been almost 1.5 times [8]greater than India's over the past 50 years. India's growth, though, has been significantly more steady. Although it was anticipated that economic reforms in the two nations would correct the heavy industrial bias of the plan era, China's share of capital goods[9] has gradually increased while India's share has remained unchanged since the mid-1980s. The continued development of capital goods may have played a role in China's competitiveness in the export of labor-intensive manufactured goods, among other things. Chinese reforms began with the agricultural sector. Although the land was still controlled by the government, the changes gave individual farmers a reason to produce more than required so they could sell it on the open market *(Raj 1983)*. The reforms granted Chinese peasants rights to residual output, driving them to use their underutilized labor and land resources. This led to increased demand for non-agricultural products as rural incomes rose. China later shifted focus to infrastructure development in southern coastal cities, emphasizing labor-intensive manufacturing for exports. This change encouraged foreign direct investment, particularly from non-resident Chinese in Southeast

[8] *Industrial Growth in China and India*

[9] ***Capital Goods:*** *Capital goods are physical assets used by businesses to produce goods or services, rather than being sold directly to consumers, and include machinery, equipment, and factories.*

Asia, particularly Hong Kong. This collaboration leveraged China's abundant labor and Hong Kong's market-based institutions, commercial organizations, and supply chain networks for success in the global market for light manufacturing. The Chinese reforms gave Hong Kong-based businesses a chance to maintain their competitiveness in the face of rising local labour costs and escalating competition from other Asian nations. Further, the promotion of a dual market system–perhaps similar to dual pricing in India in the 1970s and the 1980s–helped create markets for agricultural and industrial commodities based on price signals *(Yingyi Qian 2002).* A dark realisation for Indians is that the Chinese performance is not 'out of this world' (as it is sometimes portrayed in popular discourse), but rather understandable given its stronger agricultural and export growth. The difference in output growth rates between the two countries has not been reduced by India's gradual reforms over the past 20 years.



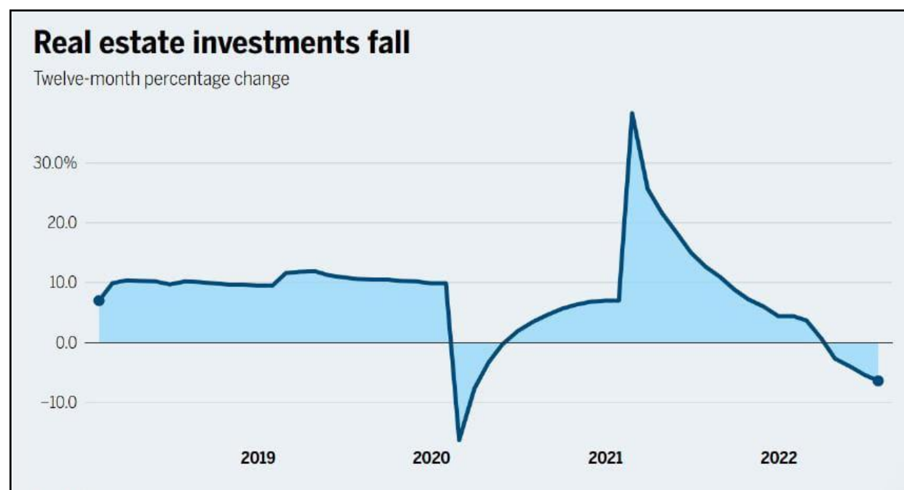
[Industrial Growth in China and India (Image source)]

Causes of China's Economic Slowdown

After three years of a zero-covid policy, it was anticipated that the Chinese economy would recover this year. However, the most recent economic data indicate that the world's second-largest economy has entered a deflationary phase. Let's talk about the reasons for this economic meltdown in detail.

1. ***Collapse of the Property Market:*** China's construction and real estate sectors, vital to the economy, comprise 30% of GDP. In 2022, they made up 13% of output, employing 11% of the

workforce.[10]Between January and July 2023, property investment in China dropped by 8.5%, with new construction projects down by 25% due to a weaker job market affecting home affordability. In July 2023, household loans with heavy mortgages decreased by CNY 200.7 billion according to the People's Bank of China.[11]The Evergrande Group, China's second-largest real estate developer in terms of total sales, went bankrupt in 2021, which is when the current housing crisis began to take off. The conglomerate breached all three debt thresholds in the red lines system (a set of financial regulatory guidelines introduced by the Chinese government in August 2020. It has three main criteria: the liability-to-asset ratio should be below 70%, the debt-to-equity ratio should be below 100%, and the cash-to-short-term debt ratio should be at least 1)[12]and defaulted on its $300 billion debt. Since then, businesses responsible for 40% of Chinese home sales—mostly private property developers—have defaulted. A major real estate developer, Country Garden, missed bond payments and estimated it lost up to $7.6[13] billion in the first half of the year as a symptom of the worsening situation in China's housing market. According to company declarations from earlier this month, Zhongrong Trust (a top trust company), which managed $87 billion worth of funds for corporate clients and wealthy individuals, has failed to repay a series of investment products to at least four companies, worth about $19 million.[14]

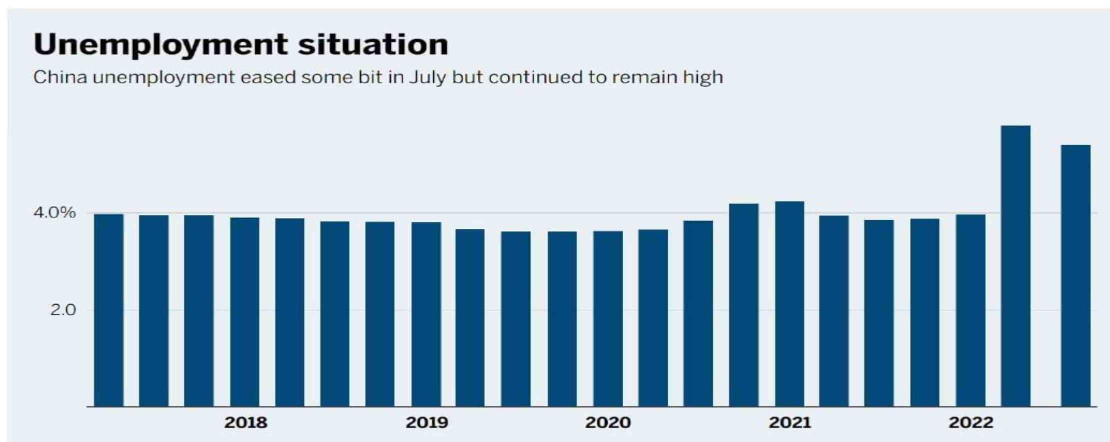


Fall of Real Estate Investments (Image source)

[10] Property Market Contribution in China's Economy
[11] Decrease in Investment in Property Market
[12] Red Lines System
[13] Country Garden Default
[14] Zhongrong Trust Default

2. ***Debt Overhang:*** China's rapid growth relied on heavy borrowing, leading to a substantial increase in debt. Bloomberg reports the debt-to-GDP ratio hit a record 279% in Q1 2023. According to the Bank for International Settlements, total debt, including government and state-owned enterprises, reached nearly 300% of GDP in 2022.[15] Years of excessive investment in infrastructure and real estate, coupled with declining demand and rising prices, have led to this enormous debt. To mitigate the impact of the global financial crisis 15 years ago, Chinese leaders implemented a four trillion yuan ($586 billion) fiscal package.[16] The measures, focused on government-run projects, led to extensive credit expansion and a surge in local government debt. The economy is still grappling with the aftermath.

3. ***Zero Covid Policy:*** 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. Manufacturing relocations were sparked by this, combined with geopolitical concerns, which further slowed down domestic GDP and consumer spending. The value-added industrial output expanded by 3.7%[17] year on year, slowing from the 4.4% growth in June 2023. China's exports fell by 14.5%[18] in July 2023 compared with a year earlier, while imports dropped 12.4%. The youth unemployment rate reached a record high of 21.3% i[19]n June 2023, while the overall unemployment rate increased to 5.3% in July 2023.



[Unemployment Situation (Image source)]

[15] 300% Rise in Debt
[16] Four Trillion Yuan Fiscal Package
[17] Slowed Growth of Industrial production
[18] Fall in Exports and Imports
[19] Increase in Unemployment Rates

4. ***Lost confidence:*** During the global financial crisis of 2008, former Chinese Premier Wen Jiabao succinctly stated, *"In times of economic turmoil, confidence is more precious than gold or currency."* In the present, China is struggling with the effects of declining confidence. The current economic slowdown is typified by businesses' unwillingness to invest and consumers' reluctance to spend. The Small and Medium Enterprises Confidence Index [20]has been on a declining slope for the first half of 2023, according to recent research from Standard Chartered Bank. This pattern accentuates the general pessimism among Chinese businesses over the state of the economy and its future course. Private fixed investment fell by 0.2 percent year over year in the first half of 2023, while private enterprise profits fell by a startling 13.5 percent. Global investors are fleeing China. The country's CSI300 index [21]of blue-chip stocks has tumbled more than 9% in the past two weeks as foreigners pulled $10.73 billion, their longest selling streak since 2015. Everyone feels insecure to the same degree. Young people in China's economic future appear to be in grave peril, as indicated by the country's rising unemployment rate, which stands at a historic 21.3%.

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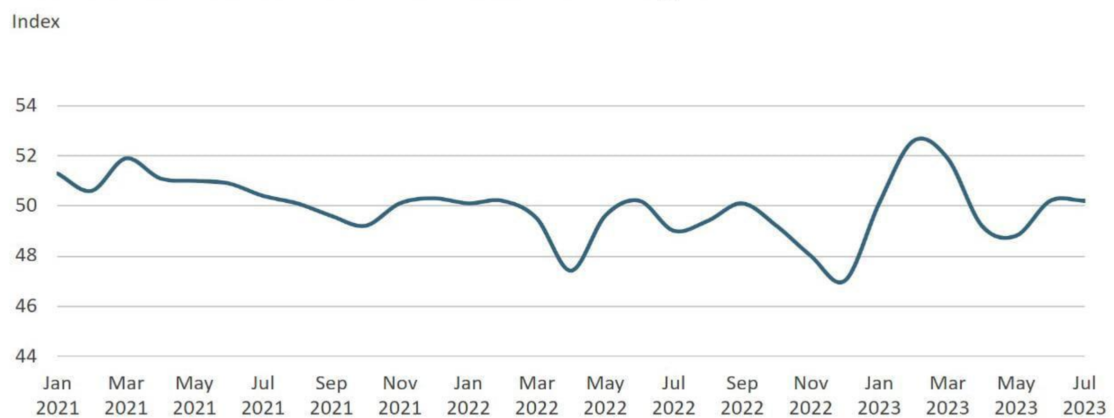


[Business Confidence Index (Image source)]

[20] ***Small and Medium Enterprises Confidence Index:*** *It is a measure of the sentiment and outlook of small and medium-sized businesses regarding their economic prospects and business environment.*

[21] ***CSI 300 Index:*** *It is a stock market index comprised of the top 300 A-share stocks listed on the Shanghai and Shenzhen stock exchanges in China, representing a broad measure of the country's equity market performance.*

[22] *Confidence Crisis in China*

5. ***Geopolitical Tensions:*** Globally rising geopolitical tensions have made international trade and investment precarious. This has resulted in decreased economic activity, which has had a negative effect on China's export-driven economy. Trade conflicts, taxes, and restrictions have resulted from strained relations between the US and China. These elements have hampered the exchange of goods and services between the two economic behemoths, which has hampered 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. The Ukraine war has made the dynamics of the world economy more complex. It has affected China's import costs and overall economic stability by causing disruptions in the commodity markets and rising energy prices.

6. ***Demographic Decline:*** *"China's ageing demographics present significant challenges to its economic growth potential,"* said analysts from Moody's Investors Service in a research report last week. [23]The average number of children a woman will have in her lifetime, the total fertility rate, dropped to a historic low of 1.09 last year from 1.30. As a result, China's fertility rate has surpassed that of Japan, a nation long noted for its ageing population. A broader budget deficit and a greater debt load could result from the fall in the labour force and rising healthcare and social expenses. Additionally, a reduced workforce might reduce domestic savings, raising interest rates and reducing investment. It will also lead to a fall in the housing demand in the long term.

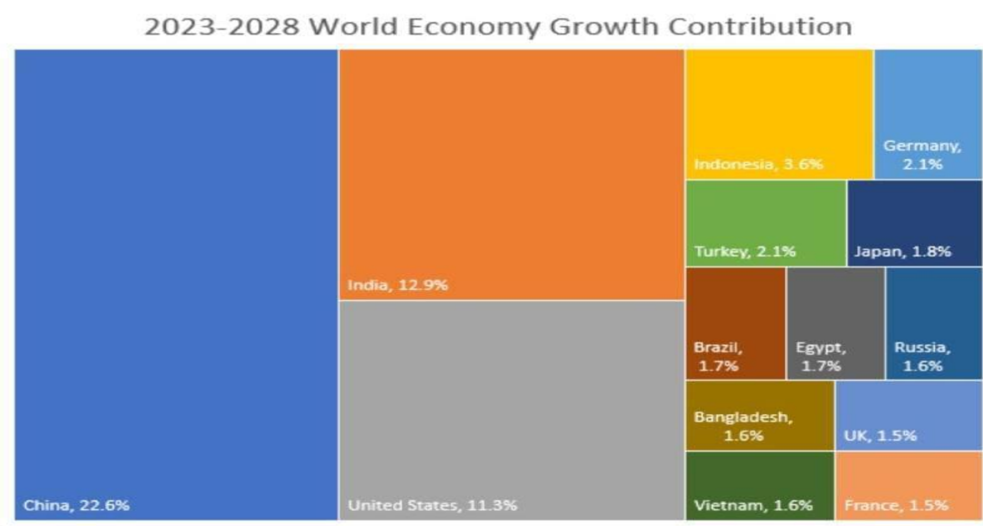
Impact on Global Economies

The second-largest economy, which was expected to provide a third of the growth in the global economy this year, has experienced a sharp downturn in recent months, which has had an impact on economies all over the world. An analysis from the International Monetary Fund (IMF)[24] shows how much is at stake: when China's growth rate rises by 1 percentage point, global expansion is boosted by about 0.3 percentage points. U.S. President Joe Biden called the economic problems a *"ticking time bomb."* [25]Let's look at how the slowdown in China is affecting other countries' economies and financial markets.

[23] *Demographic Decline of China*

[24] ***IMF:*** *It is an international organization that offers financial assistance and policy advice to member countries in need of economic stability and development support.*

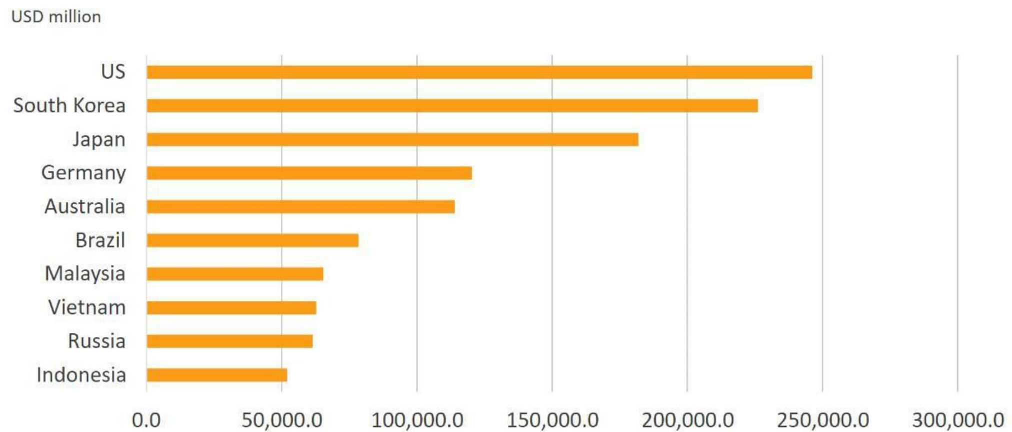
[25] *US President Statement on China Slowdown*



World Economy Growth Contribution (Image source)

1. ***Trade slump:*** China is the largest export market for many nations, particularly those in Asia, for everything from food and metals to electronics and energy. As demand declines from the all-time highs reached during the pandemic, the value of imports from China has decreased for nine of the past ten months. In July, the value of shipments from North America, Asia, and Africa was all lower than it was a year earlier. The value of imports decreased by more than 14%[26] in the first seven months of this year, with the worst-affected regions being Africa and Asia. The value of goods exported to China is being negatively impacted by dropping commodity costs, such as the price of fossil fuels, in addition to a decrease in demand for electronics parts from South Korea and Taiwan. However, if the downturn persists, exports may be hampered, which would have an impact on miners in Australia, South America, and other countries. Slower economic growth in China may also be advantageous for Europe because it will lessen competition in the markets for energy, particularly natural gas, on a worldwide scale. Lower prices can help relieve pressure on energy prices since European nations are particularly susceptible to natural gas price shocks.

26 *Decrease in Value of Imports from China*



[*Largest Exporter to China (Image source)*]

China is one of the largest consumers of machinery, hi-tech goods, and luxury goods. The above data shows us that the slower growth in China will negatively affect commodity exporters, especially Latin American countries and Australia.

2. ***Deflation Pressure:*** The cost of items moved out of China has decreased over the last 10 months as producer prices have decreased. That's good news for everyone who's still dealing with rising inflation [27]around the world. Every month this year, the cost of Chinese imports at American docks has decreased, and this trend is likely to continue until manufacturing costs in China resume their upward trend. According to Wells Fargo & Co[28]. economists, the baseline forecast for US consumer inflation in 2025 would be reduced by 0.7[29] percentage points to 1.4% in the event of a *"hard landing"* in China, which they define as a 12.5% departure from its trend growth.

3. ***Slow Tourism Rebound:*** Chinese consumers spend more on travel and tourism than they do on commodities, but they aren't yet travelling abroad in great numbers. Until recently, the

[27] ***Inflation:*** *It is the sustained increase in the general price level of goods and services in an economy, leading to a decrease in the purchasing power of money.*
[28] ***Wells Fargo & Co. :*** *It is a multinational financial services company based in the United States, offering a wide range of banking, investment, and mortgage services.*
[29] *Deflation Pressure on China*

government had banned group tours to many countries, and there is still a lack of flights, meaning it's much more expensive to travel than it was before the pandemic. In China, the pandemic and sluggish economy have reduced salaries, and the prolonged housing market decline has made homeowners feel less fortunate than they did previously. That means it would take some time for international travel to recover to its pre-pandemic levels, which would hurt Southeast Asian countries like Thailand that rely heavily on tourism.

4. ***Currency Impact:*** The yuan has fallen more than 5% [30]versus the dollar this year as a result of China's economic problems, and this month, it is on the verge of crossing the 7.3 level. In addition to its daily currency fixings, the central bank has intensified its defence of the yuan. According to Bloomberg data, the offshore yuan's devaluation is having a stronger influence on its peers in Asia, Latin America, and the Central and Eastern Europe region due to a rising connection between the Chinese currency and several other currencies. As correlations increase, the weak mood spillover may have an impact on currencies like the Singapore dollar, Thai baht, and Mexican peso. The poorest performance in the Group of 10 basket was the Australian dollar, which has lost more than 3% this quarter.

5. ***Bonds lose appeal:*** Due to China's interest rate reductions this year, fewer international investors are interested in its bonds since they have decreased their market exposure and are searching for alternatives in the rest of the region. According to calculations by Bloomberg, outside holdings of Chinese sovereign notes are at their lowest percentage of the overall market since 2019. [31]The local currency bonds of South Korea and Indonesia have gained increasing support from international funds as their central banks approach the end of their cycles of interest rate increases.

Impact on the Indian Economy

China, which is the second-largest economy in the world, is one of India's main trading partners. The likelihood of a slowdown is worrisome, particularly as the world's largest economy, the United States, faces the possibility of a recession. Let us look at the positive and negative impacts of such a slowdown on the Indian economy.

[30] *Impact on China's Currency*
[31] *Bonds lose appeal*

Positive Effects

1. ***Fall in Commodity Prices:*** As China's economic growth slows down, there is a decrease in demand for commodities, including oil, iron ore, and copper, which are key drivers of economic activities. Investor confidence can drop as a result of worries about China's economy, which may result in a sell-off of commodities and a subsequent decline in their prices. India will be able to reduce its net import expenditure if commodity prices fall globally. It will also ease the pressure on the rupee and give a boost to India's foreign reserves.

2. ***Boosting the Manufacturing Sector:*** The stakes have increased significantly for the US and other Western countries as a result of the conflict in Russia and Ukraine and China's aggressive behaviour towards Taiwan. The West is increasingly seriously considering lessening its reliance on China and broadening its source of supply. India now has a chance to increase its market share. India might expect to become a competing global manufacturing hub for China if it can further develop its manufacturing sector, attracting more foreign investment.

Negative Effects

1. ***Automobile Sector:*** China is the primary source of the raw materials needed for India's vehicle manufacturing industry. In a scenario of a slowdown in China, supply chains are likely to be disrupted. This may therefore cause the cost of parts for the automotive industry to increase. Therefore, these businesses may endure declining margins and profitability just when things for the industry appear to be improving. Below are the top 3 automobile companies in India in terms of market capital:

Name	Value (in crores)
Maruti Suzuki India	Rs 2,54,155
Tata Motors	Rs 1,38,299
Mahindra & Mahindra	Rs 1,62,858

Top 3 Automobile Sector Companies (Image source)

2. ***Steel Sector:*** China is the world's largest producer of steel as well as its biggest consumer. A downturn in the Chinese economy could have a negative impact on the world's demand for steel. Reduced demand will result in reduced steel prices, which could have an adverse effect on India's steel sector. Steel is an essential component needed for manufacturing; therefore, the Indian government's enormous Capex push may encounter difficulties as profitability declines in the steel business. Below are the top 3 steel companies in India in terms of market capital:

Name	Value (in crores)
JSW Steel	Rs 1,81,436
Tata Steel	Rs 1,44,424
Jindal Steel	Rs 59,231

Top 3 Steel Sector Companies (Image source)

3. ***Electronics Sector:*** India's electronics industry is heavily reliant on China. In a recent analysis, Counterpoint, India found that just 14% to 15%[32] of the components used in Indian cell phones were sourced locally, with the remainder coming from China. Therefore, a decline in China's GDP has the potential to have a significant impact on India's electronics industry. This is especially alarming because the electronics industry contributes significantly to employment in the nation. Furthermore, the country's demand for electronic goods has been growing quickly over the years, so a supply shortage could be problematic. Below are the top 3 electronic companies in India in terms of market capital:

Name	Value (in crores)
Havells India	Rs 59,300
ABB India	Rs 60,818
CG Power and Industrial Solutions	Rs 47,049

[32] *Percentage of components used in Indian cell phones sourced locally*

Top 3 Electronics Sector Companies (Image source)

4. ***Pharmaceuticals Sector:*** In recent years, the Indian pharmaceuticals industry has been a beacon of hope for the nation. For instance, according to a Statista article, the nation exported medicines worth $22 billion[33] as of February 2022. However, the industry is still grossly dependent on China to source raw materials such as active pharmaceutical ingredients (APIs). India is heavily reliant on China for the API [34]needed to manufacture these medications, from the production of antibiotics to paracetamols. Therefore, a downturn in Chinese economic activity will negatively impact Indian pharmaceutical production. Below are the top 3 pharmaceutical companies in India in terms of market capital (Data as of 16 Jan 2023)

Name	Value (in crores)
Sun Pharmaceutical Industries	Rs 2,46,687
Divi's Lab	Rs 88,293
Cipla	Rs 85,476

Top 3 Pharmaceuticals Sector Companies (Image source

Policy Suggestions

India is hoping to compete with China as a major player in the global supply chain and as a manufacturing hub. It is anticipated to remain the fastest-growing major economy in the world and a driver of global expansion. With this, experts are sure that India will soon begin a new phase of rapid growth in this decade and join the *"flying geese"* club. Let us look at some of the policy suggestions on which India should focus to gain in this phase of China's economic slowdown.

1. ***Investment in Industrial Corridors:*** India could build new industrial parks in industrial corridors, which are close to important ports and highways. The industrial corridors are likely to lower the cost of logistics, thereby increasing the efficiency of industrial production structures and drawing capital for the growth of industries, which is likely to result in additional jobs being added to the market. India will be able to fulfil its Production-Linked

[33] *India's Export of Medicines*

[34] ***API:*** *These are the biologically active components in a drug that produce the intended therapeutic effect*

Incentive (PLI) Scheme,[35] which will help boost India's manufacturing sector and grab the opportunity in this phase of economic slowdown in China. Some of the important industrial corridors India should currently focus on are:

a) *Delhi-Mumbai Industrial Corridor (DMIC):* A corridor that connects the two largest cities in India and serves as a significant economic and transportation hub. A number of significant ports and highways are also located there. Textiles, electronics, and pharmaceuticals could be the main industries in industrial parks along this corridor.

b) *Vizag-Chennai Industrial Corridor (VCIC):* A corridor that is situated in the significant port city of Visakhapatnam. Textiles, electronics, and shipbuilding could be the main industries in industrial parks along this corridor.

c) *Bengaluru-Chennai Industrial Corridor (BCIC):* A corridor that is located between two major tech hubs, Bengaluru and Chennai. Textiles, electronics, and pharmaceuticals could be the main industries in industrial parks along this corridor.

2. ***Capitalising Opportunities in Indian Industries:*** China's businesses may relocate to India in a variety of industries, especially if they want to diversify their supply chains away from China owing to geopolitical unrest, rising labour prices, and other considerations. For Example:

a) *Electric Vehicles and Batteries:* China is the world's largest manufacturer of batteries and electric vehicles, but it is also experiencing growing competition from other nations, like India. China is a major importer of IT and software services, and India can capitalise on this demand. India has several advantages in this field, such as a sizable domestic market, a developing renewable energy industry, and a young labour population.

b) *Pharmaceuticals:* India is a major producer of generic pharmaceuticals and medical devices, and it has the potential to draw Chinese companies looking to produce more sophisticated, high-margin drugs. China is a growing market for these products, and India can compete with Chinese suppliers on price and quality.

[35] ***PLI Scheme:*** *It is a government initiative in India that offers financial incentives to boost manufacturing and exports in specific industries, aiming to enhance competitiveness and attract investment.*

c) ***Semiconductors:*** China is also a major producer of semiconductors, but the global semiconductor supply chain is highly concentrated and vulnerable to disruptions. The government of India is pursuing a number of initiatives to draw semiconductor manufacturing to the nation, including the India Semiconductor Association, the Semiconductor Mission, and production-linked incentives.

3. ***Diversification of Trade Partners:*** The Indian government should concentrate on enhancing its trade ties and forging closer economic alliances with other nations. India should look into alternate markets and develop closer economic ties with countries outside of China like the US, Australia, and the EU to improve its access to international markets in order to offset any export losses. Additionally, it will support India's China Plus One (C+1) business strategy.[36] For Example:

    a) India and the US should collaborate to create cutting-edge technology and sectors like renewable energy and artificial intelligence. For instance, India and the US could jointly develop a solar energy project in India, where the US could provide financial assistance and technical expertise, while India could provide land and labour. They could also jointly develop a new AI algorithm for healthcare, where the US could provide expertise in AI research and India could provide data and insights from the Indian healthcare system.

    b) India and Australia should work together on initiatives in the Indo-Pacific area, including infrastructure growth and marine security. India and Australia could jointly develop a port in Myanmar, which would help to improve connectivity between India and Southeast Asia, and could conduct joint marine security patrols in the Malacca Strait, which is a major shipping route.

    c) India should work with the EU to establish comprehensive *bilateral foreign trade agreements (FTAs)*[37] that would lower tariffs and other trade restrictions. The EU's large consumer market and industry know-how could potentially be advantageous to

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[36] ***C+1 Strategy:*** *It refers to a business approach where companies diversify their manufacturing or sourcing operations by establishing additional facilities or supply chain partners outside of China, often to mitigate risks and reduce dependency on the Chinese market.*

[37] ***FTA:*** *It is a reciprocal trade pact between two countries aimed at reducing tariffs and trade barriers for mutual economic benefit.*

India. For instance, Indian automotive companies could invest in European factories and produce cars for the European market. This would help them tap into the EU's large consumer market and generate more revenue.

4. ***Launching Education and Skill Development Programmes:*** India has a labour force with the capacity to support economic growth. India should invest in education and skill development programmes to increase the productivity and employability of its workers in order to take advantage. This will promote economic expansion, attract foreign capital, and create job possibilities. For Example:

   a) Establish *"experiential learning hubs"* in major cities where students, particularly those pursuing technical and vocational education, can obtain practical experience in made-up workplaces. To close the gap between theory and practice, these hubs would replicate real-world environments.

   b) Introduce "*mobile learning platforms"* equipped with offline capabilities to reach remote and underserved areas. These systems can provide examinations, skill-building modules, and educational information to people without a dependable internet connection.

   c) Create a "*remote internship platform"* that connects students with distant internship opportunities, especially those from smaller towns and rural locations. This would give them access to real-world employment experiences with businesses in other parts of the nation.

5. ***Stable and conducive business environment:*** The slowing in China's economy has also lessened the appeal of the country to international investors. India can take advantage of this opportunity by providing a stable and welcoming business environment. This would support India's economy by luring in international investment. For Example:

   a) Create specialised *"investment promotion agencies" (IPAs)* that act as one-stop shops for investors in order to promote and facilitate international investments. Adopting laws to outline the functions, authorities, and duties of IPAs in order to give them the legal standing to assist investments. It will be necessary to modify the *Foreign Exchange*

Management Act (FEMA) [38]regulations to recognise IPAs as key entities in facilitating foreign investments, including provisions for expedited approvals, and to add IPAs as authorised mediators or facilitators in investment disputes to the *Arbitration and Conciliation Act.*

[39]

b) Offering "*tax stability agreements*" to international investors, giving them protection from unforeseen changes in tax laws that can negatively impact their interests. To establish the legal framework for *Advance Pricing Agreements (APAs)*[40], allowing for the pre-determination of transfer pricing methodologies, it will be necessary to incorporate provisions into the tax laws. If applicable, it will also be necessary to amend existing *bilateral investment treaties (BITs)*[41] or negotiate new ones to include specific provisions that shield foreign investors from unfavourable changes in tax policy.

Conclusion

China's economy faces serious challenges due to declining domestic demand, hampered private sector investment, and a consumption-investment imbalance. Low household spending worsens the situation. Reports signal a bleak outlook, necessitating fiscal stimulus for the targeted 5% growth. Without intervention, prolonged stagnation is a risk. Rising unemployment burdens consumers and small businesses. Prioritizing household consumption in GDP is crucial for recovery. Leading agencies have downgraded growth expectations for 2023, with deflation emerging as a concern. China's 5% GDP growth target seems uncertain, potentially ending its four-decade growth surge. Housing oversupply delays any property stimulus impact. Population decline and slowed urbanization echo Japan's *"lost decade."* This jeopardizes China's bid to surpass the US as the world's largest economy by the early 2030s. In response, China shifts focus to bolstering its global technological presence, marking a new phase in its economic evolution. India aims to capitalize on China's waning momentum, vying for the title of the world's premier supplier and manufacturing hub. Initiatives like *"Production-Linked Incentive"* underscore India's commitment to bolstering domestic production. The *"China plus one"* strategy stands to gain traction if Chinese exports diminish. India's advantageous position in this shifting landscape offers investors and businesses a stable and growth-oriented alternative. *"China's loss is India's opportunity. India is one of the ones that is not as much impacted by China. India has its own*

[38] ***FEMA:*** *It is an Indian law that regulates foreign exchange transactions and activities in the country.*

[39] ***Arbitration and Conciliation Act:*** *It is an Indian law that governs the resolution of disputes through arbitration and conciliation proceedings.*

[40] ***APAs:*** *These are arrangements between tax authorities and multinational companies to pre-determine the pricing of cross-border transactions*

[41] ***BITs:*** *These are agreements between two countries that promote and protect foreign investments by providing legal protections and guarantees to investors.*

short-term challenges, but the structural problems are unique to China," added Sanger [42](Managing Partner at Geosphere Capital Management). Sanger's optimism extends to India's domestic capital expenditure cycle, driven by robust infrastructure, advanced technology, and a growing consumer base. Since the global economy is currently expanding at only 3.5%, [43]China's exports will also slow down, leaving the market for labor-intensive industries like garments. To capitalize, India must address internal issues and enhance its competitiveness in the global manufacturing market. Unfortunately, this is still a work in progress.

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