

China Insights Implications for India

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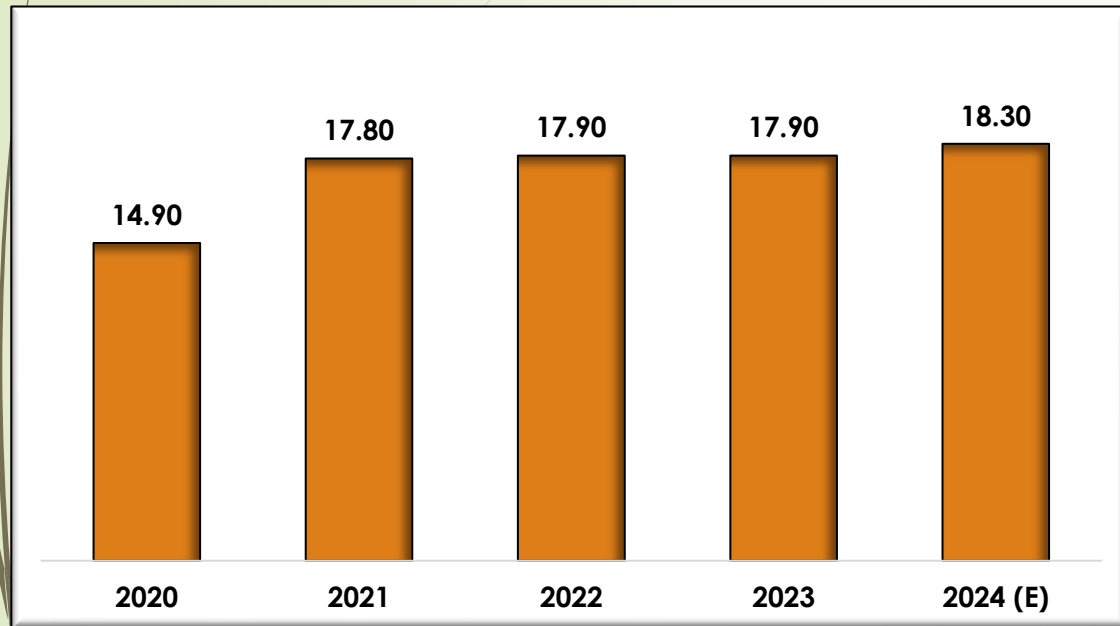
China - Key Economic Indicators

| Indicator | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 (E) | 2025 (F) |
|---|-------|-------|-------|-------|------|----------|----------|
| GDP, current prices (USD Trillion) | 14.34 | 14.9 | 17.8 | 17.9 | 17.9 | 18.3 | 19.03 |
| GDP growth, current prices (%) | 6.0 | 2.2 | 8.4 | 3 | 5.2 | 5.0 | 4.0 |
| GDP per capita, current prices (USD '000) | 10.17 | 10.53 | 12.57 | 12.64 | 12.6 | 12.97 | 13.87 |
| Inflation rate, average consumer prices (%) | 2.9 | 2.5 | 0.9 | 2.0 | 0.2 | 0.4 | 1.7 |
| General government gross debt (% of GDP) | 60.4 | 70.2 | 71.9 | 77.4 | 84.4 | 90.1 | 93.8 |
| Current account balance (% of GDP) | 0.7 | 1.7 | 2 | 2.5 | 1.4 | 1.4 | 1.6 |

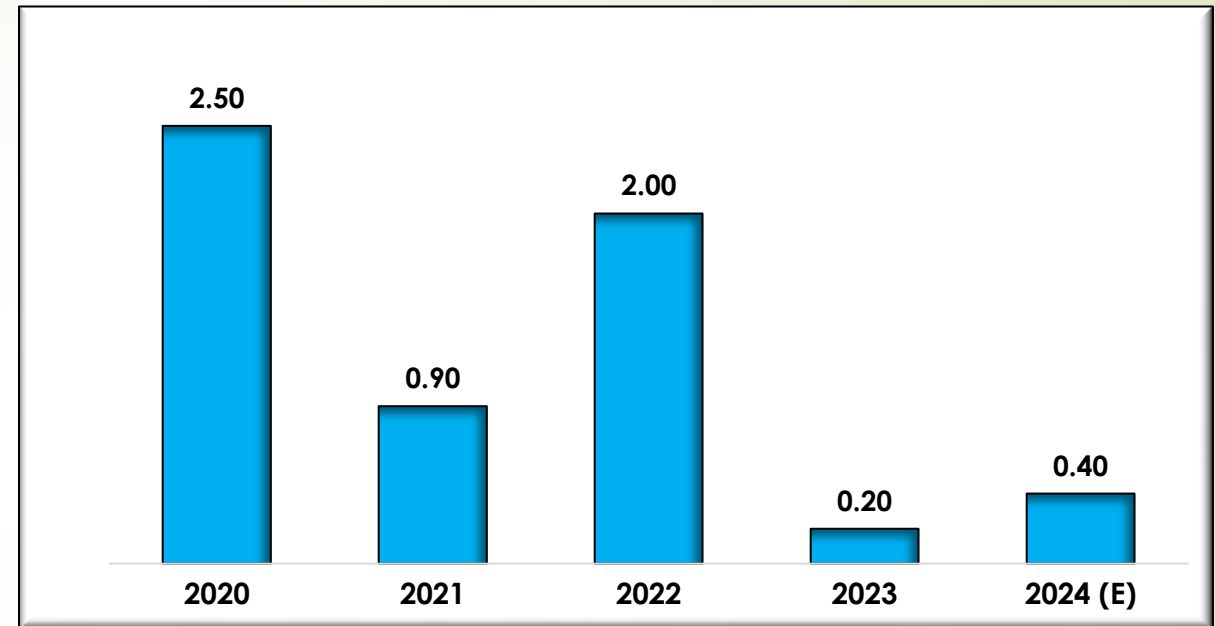
- ❑ **Steady Growth:** China's economy has shown resilience, achieving a 5% GDP growth in 2024, driven by effective stimulus measures and strong manufacturing output.
- ❑ **Deflationary Pressures:** China faces the challenge of controlling deflation, with consumer price inflation falling into negative territory in February 2025, and producer price deflation persisting for over two years.

China's GDP and Inflation

China's GDP at Current Prices (USD Trillion)



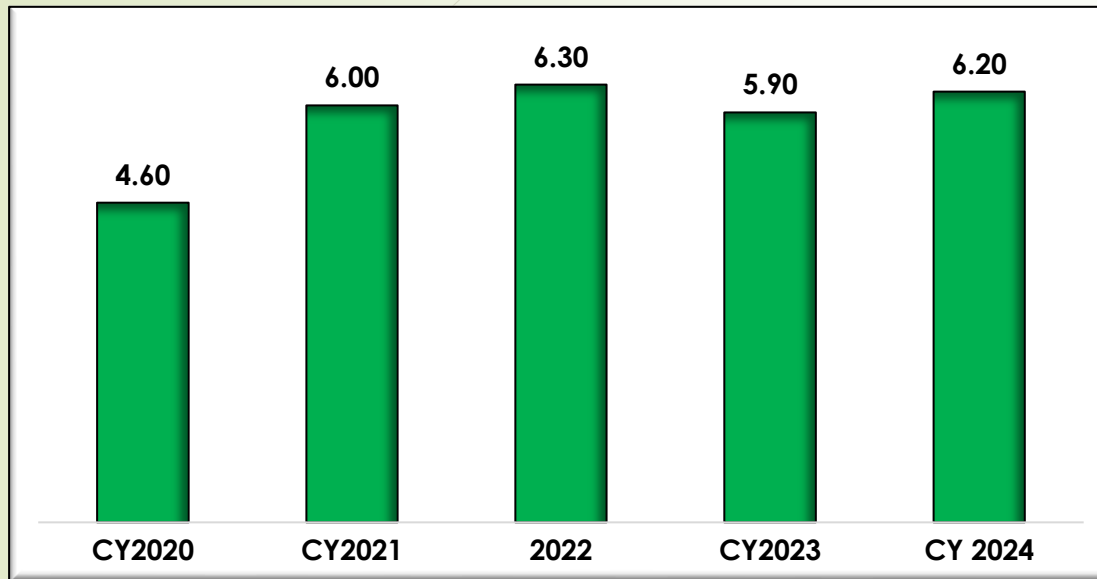
China's avg consumer price Inflation Rate (%)



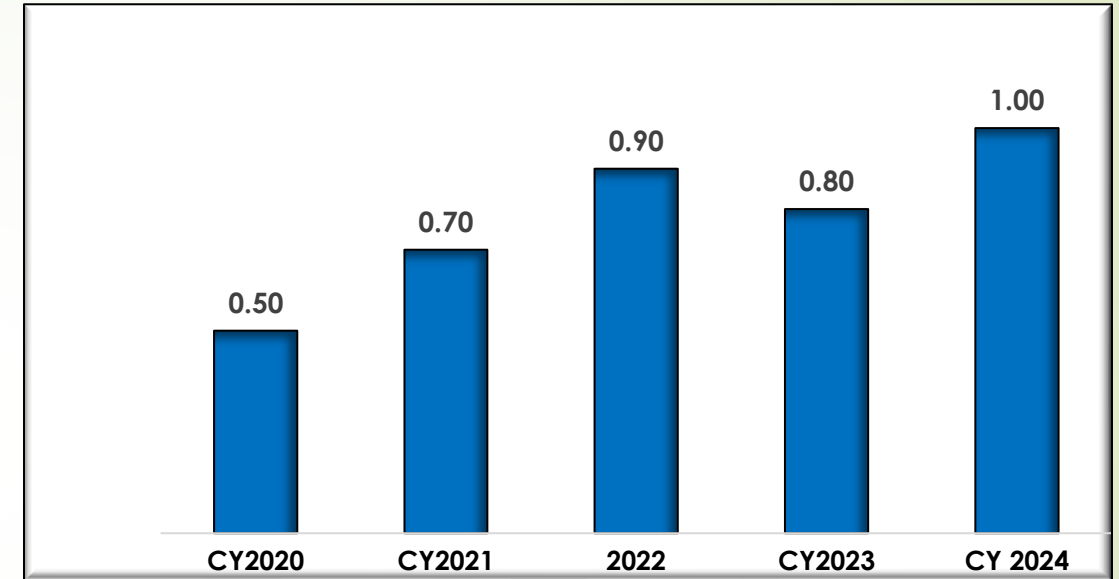
- ❑ In 2024, China's economy experienced a steady growth, achieving a 5% GDP increase, meeting the government's target.
- ❑ China's low CPI inflation in 2023 and 2024 shows excess capacity in manufacturing.
- ❑ They may 'export' this near zero inflation to low tariff markets like India by dumping.

China's Total Trade and Trade Surplus

China's Total Trade (USD Trillion)



China's Trade Surplus (USD Trillion)



- ❑ China's total merchandise trade stood at USD 6.2 trillion in 2024, recording a 7% CAGR from CY2020 to CY2024.
- ❑ The trade surplus doubled over the past five years from USD 0.5 trillion to USD 1 trillion during 2020-24 at 17% CAGR.
- ❑ This makes China the most import player in global value chains.

China's Trade With its Major Trade Partners

| Top Import and Export Destinations of China | | | | | |
|---|---------------|---------------|-------------------|---------------|---------------|
| China Import | | | China Export | | |
| Country | Share in 2020 | Share in 2024 | Country | Share in 2020 | Share in 2024 |
| Taiwan | 10% | 8% | USA | 17% | 15% |
| Republic of Korea | 8% | 7% | Hong Kong | 10% | 8% |
| USA | 7% | 6% | Vietnam | 4% | 5% |
| Japan | 8% | 6% | Japan | 6% | 4% |
| Australia | 6% | 6% | Republic of Korea | 4% | 4% |
| Russia | 3% | 5% | India | 3% | 3% |
| Others | 58% | 62% | Others | 55% | 61% |
| Total | 100% | 100% | Total | 100% | 100% |

- ❑ Dominant Trade Partners: The USA is a key export destination for China, while Taiwan is a key source of imports.
- ❑ Shifting Import Sources: While Taiwan remains a top import partner, there's a slight decrease in its share from 2020 to 2024.
- ❑ Stable Export Destinations: The top export destinations have remained relatively stable, with USA maintaining the largest share.



China Major Traded Commodities

Major Imports by China (% share in total)

| Product | 2020 | 2024 |
|---------------------------------|-------------|-------------|
| Electronic integrated circuits | 17% | 15% |
| Crude oil | 9% | 13% |
| Iron ores and concentrates | 6% | 5% |
| Gold | 1% | 4% |
| Petroleum gases | 2% | 3% |
| Copper ores and concentrates | 2% | 3% |
| Computers and related equipment | 2% | 2% |
| Others | 61% | 55% |
| Total | 100% | 100% |

Major Exports by China (% share in total)

| Product | 2020 | 2024 |
|---------------------------------|-------------|-------------|
| Cellular phones | 9% | 6% |
| Computers and related equipment | 7% | 4% |
| Electronic integrated circuits | 5% | 4% |
| Automobiles | 0% | 3% |
| Electrical energy batteries | 1% | 2% |
| Auto components | 1% | 2% |
| Semiconductor devices | 1% | 1% |
| Others | 76% | 78% |
| Total | 100% | 100% |

- ❑ Electronic integrated circuits and crude oil constitute a significant portion of China's imports.
- ❑ Electronic integrated circuits imports decreased from 17% in 2020 to 15% in 2024, while crude oil imports increased from 9% in 2020 to 13% in 2024.
- ❑ Shift in Exports: While cellular phones were a leading export item in 2020, its share decreased by 2024, indicating a shift in China's export focus.

US - China Trade War: Escalation Matrix

01 February 2025

US imposes 10% tariff on all imports from China

04 February 2025

10% Tariff on China become effective
China imposed new tariff on range of American products
China announces export restriction on critical minerals

10 February 2025

China's tariff on imports from US become effective
15% - Coal & LNG
10% - Crude Oil, Agricultural machinery, Large Engine Cars

04 March 2025

US doubles tariff on China to 20%
China imposes tariff upto 15% on farm imports from US

10 March 2025

China imposes additional 15% tariff on Key US farm products

02 April 2025

US announced additional 34% tariff on Chinese goods.

04 April 2025

China retaliate with additional 34% tariff on US imports

08 April 2025

US imposes 50% additional tariff on most Chinese imports
US triples tariff on low value packages from China

09 April 2025

China slaps 50% more tariffs on US imports w.e.f 10th April
US raised tariff again to total 125%
Total Chinese tariff on US is 84%

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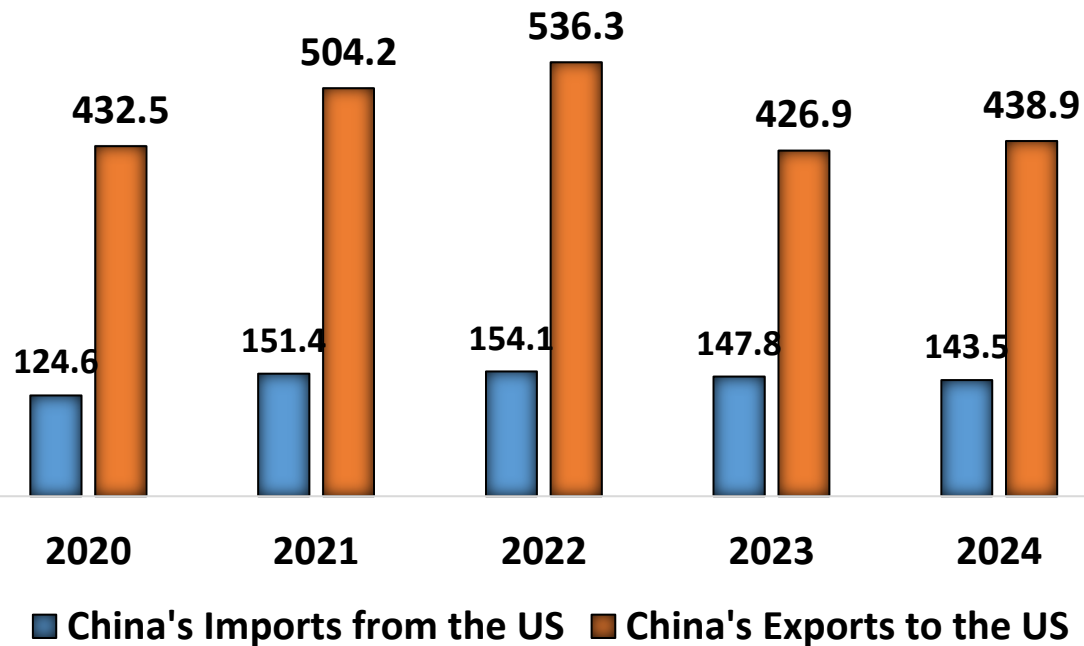
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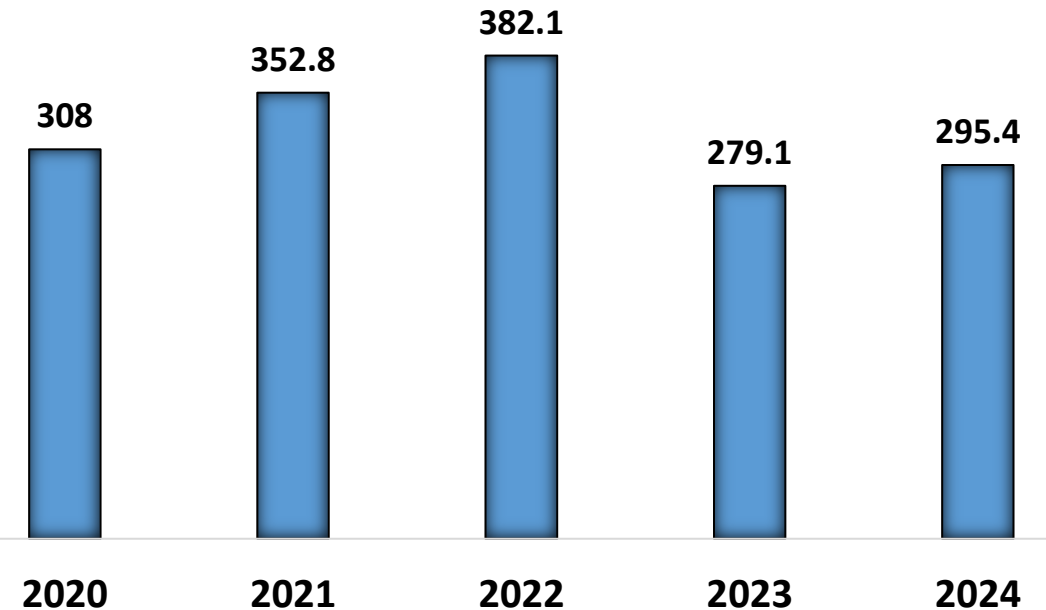
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China Trade with US

China - Import Export with US (\$ Bn)



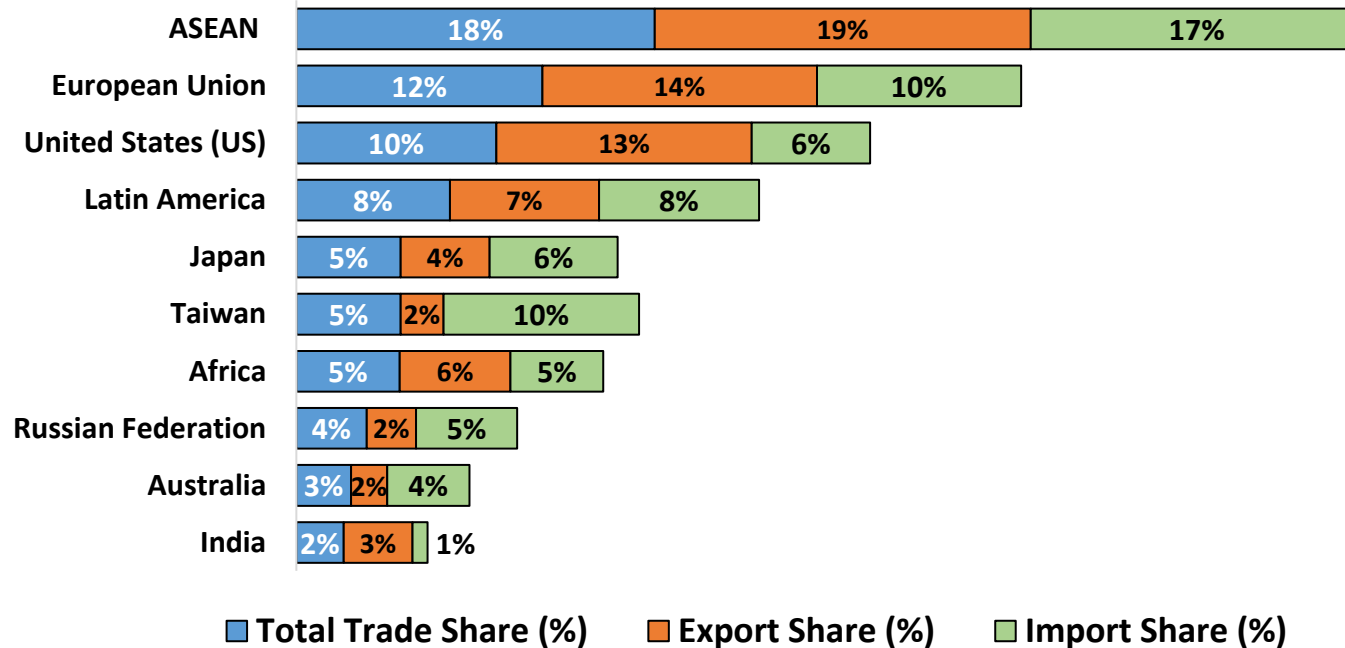
China's Trade Surplus with the US (\$ Bn)



- ❑ Consistent Trade Imbalance: China consistently exports significantly more goods to the US than it imports from the US.
- ❑ China maintains a substantial trade surplus with the US, which has fluctuated between approximately \$279 billion and \$382 billion from 2020 to 2024.

China Trade Snapshot with Major Geographies

China's Trade Partners: Share of Total (Mar '25)



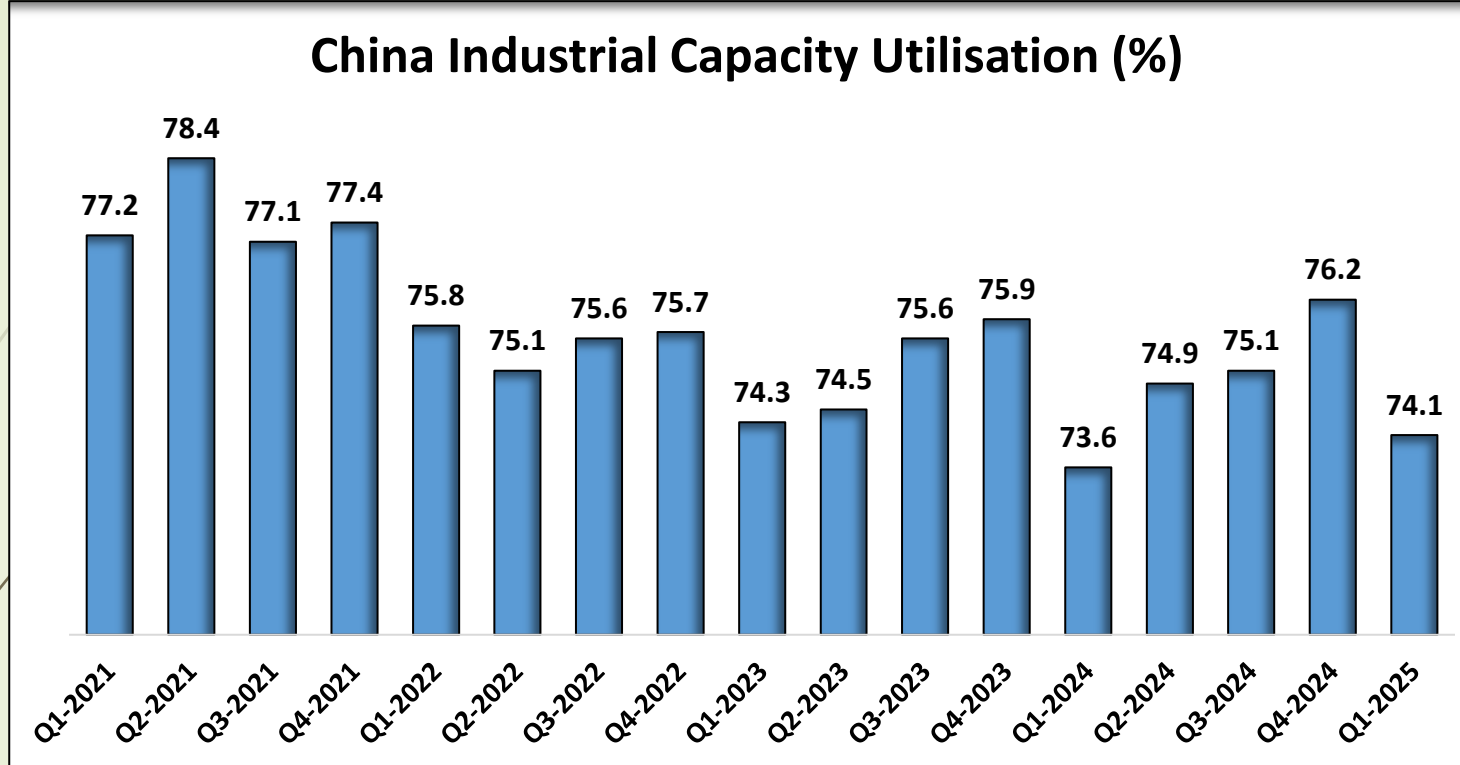
China's Trade Share (Mar'25)

| Total Trade Share (%) | |
|-----------------------|-----|
| RCEP | 32% |
| BRI | 51% |

RCEP: Regional Comprehensive Economic Partnership

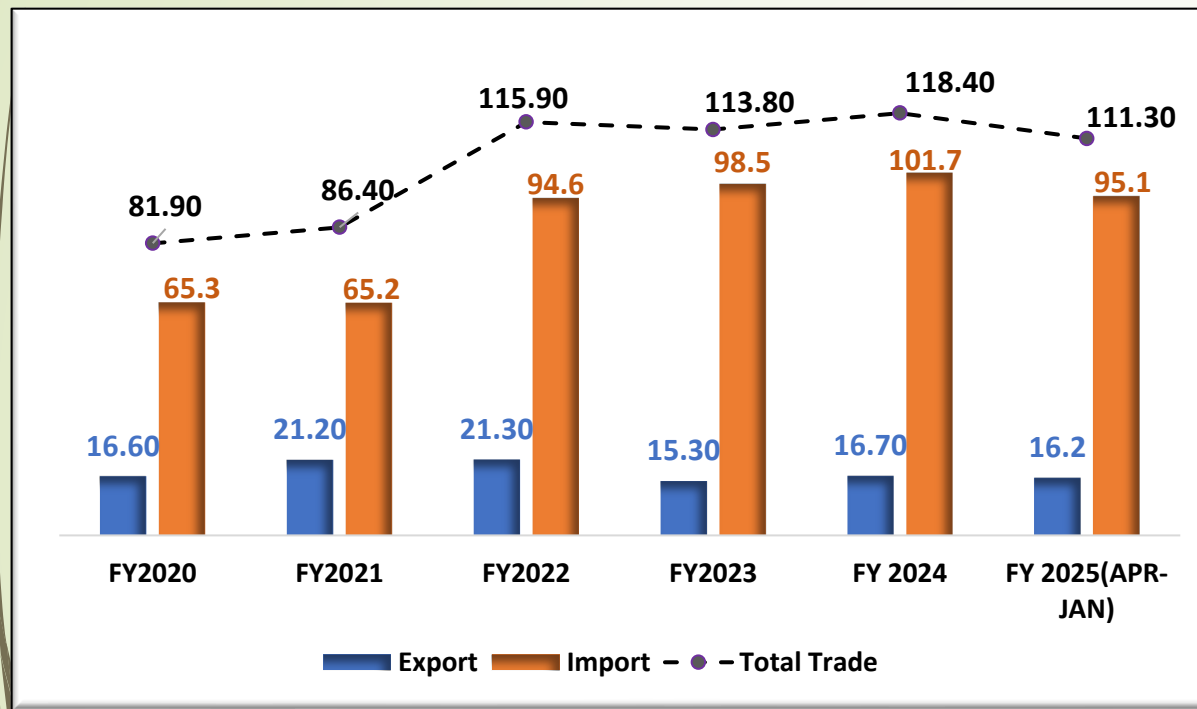
BRI- Belt and Road Initiative

- ❑ Trade between China and ASEAN has grown significantly. In 2024, ASEAN remained China's largest trading partner.
- ❑ Robust trade ties with ASEAN, BRI and RCEP nations offer China alternative markets and supply chains, potentially lessening the impact of US tariffs by diversifying its economic dependencies.

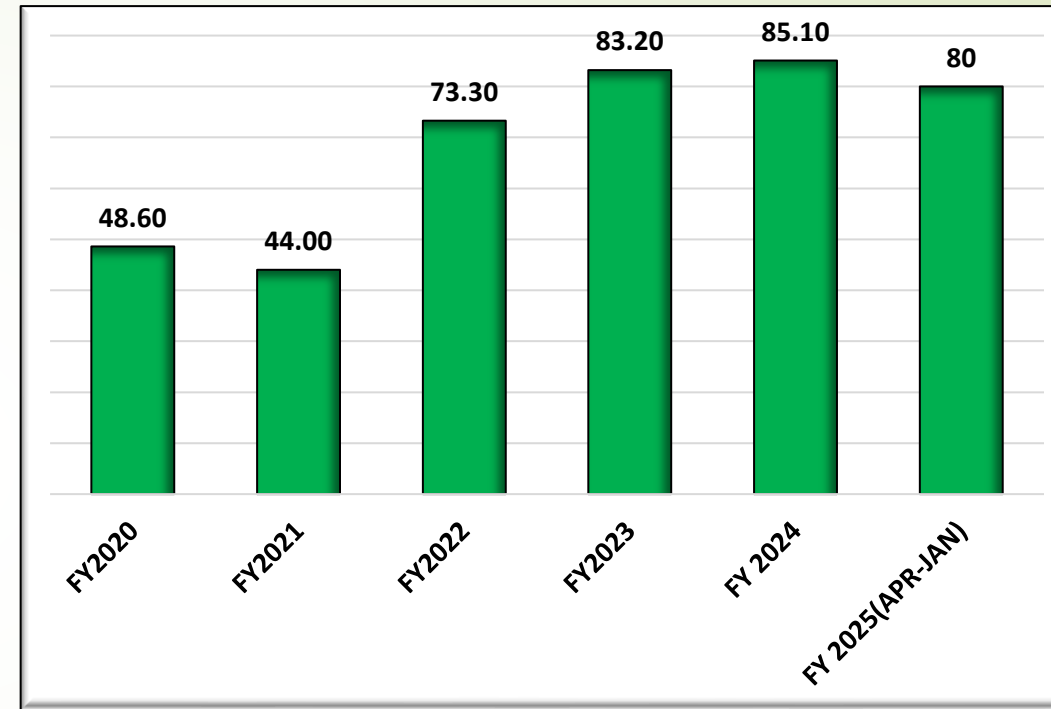


- ❑ Capacity utilization has stagnated at 75% levels a key reason being reduced demand.
- ❑ The deflation in China is attributable to this.
- ❑ However government subsidies and central bank stimulus is being activated to revive demand.
- ❑ China has been focusing on domestic consumption driven growth for some time.

India-China Trade (USD Billion)



India's Trade deficit with China (USD Billion)



- ❑ India's imports from China increased at 11.7% CAGR, crossing USD 100 billion in FY2024.
- ❑ India's trade deficit with China increased nearly 1.7 times during 2020-24 (at 15% CAGR).
- ❑ India's export to China remained constant.

India and China Share in US Imports

| Broad Sectors | US Global Imports (\$ Billion, 2024) | China's share in US Imports (%) | India's Share in US Imports (%) |
|----------------------------------|--------------------------------------|---------------------------------|---------------------------------|
| Machinery | 531.2 | 16.0 | 1.3 |
| Electrical, electronics | 485.9 | 26.1 | 3.0 |
| Textiles | 16.6 | 15.3 | 16.7 |
| Garments | 83.7 | 22.0 | 5.9 |
| Made-Ups | 18.1 | 51.8 | 17.1 |
| Leather & Products | 14.9 | 21.9 | 5.2 |
| Shoes | 28.4 | 36.2 | 1.6 |
| Ceramic & Glass | 28.3 | 23.1 | 6.1 |
| Artificial flowers, Umbrellas | 6.4 | 59.9 | 0.5 |
| Paper & Wood Products | 56.5 | 13.8 | 1.7 |
| Medical Devices, furniture, toys | 272.7 | 26.3 | 1.0 |
| Plastics | 78.2 | 27.5 | 1.7 |
| Total (All Sectors) | 3228.8 | 14.0 | 2.8 |

The high reciprocal tariffs on China offer an opportunity for many sectors of interest to India.



China-India Trade Dynamics

| INDIA-CHINA TRADE, FY2020 AND FY2024 | | | | | |
|---|-----------------|-----------------|---|-----------------|-----------------|
| Major Products Exported by India to China | | | Major Products Imported by India from China | | |
| Product | Share in FY2020 | Share in FY2024 | Product | Share in FY2020 | Share in FY2024 |
| Iron ores and concentrates | 13% | 22% | Electrical apparatus for telephony, including mobile phones | 8% | 6% |
| Petroleum products (excluding crude oil) | 13% | 7% | Electronic integrated circuits and micro assemblies | 5% | 6% |
| Crustaceans | 5% | 5% | Computers and related equipment | 5% | 5% |
| Cotton yarn | 4% | 4% | Semiconductors and related devices (diodes) | 3% | 4% |
| Pepper | 2% | 3% | Heterocyclic compounds with nitrogen | 2% | 3% |
| Processed human hair | 1% | 3% | Electric storage batteries and components | 1% | 2% |
| Vegetable fats and oils | 2% | 3% | Antibiotics | 2% | 2% |
| Ferro alloys | 2% | 3% | Flat panel display modules | NA | 2% |
| Granules, chippings, and powder of stones | 3% | 2% | Electrical transformers, converters, and inductors | 1% | 2% |
| Unwrought aluminium | 0.30% | 2% | Fertilisers | 1% | 1% |
| Others | 54.7% | 46% | Others | 72% | 67% |
| Total | 100% | 100% | Total | 100% | 100% |

- India is heavily dependent on China for electronics, pharma, semi conductor parts, parts for EV manufacturing etc.



Sector-wise share of countries with higher tariff than India in US imports

| Commodity | Share of Countries (Tariff differential > 0) | Top Exporting Countries |
|---|---|--|
| Footwear, Gaiters | 45.5 | China, Vietnam, Indonesia, Italy, Cambodia |
| Apparel Articles & Accessories, Knit or Crochet | 30.2 | China, Vietnam, Cambodia, India, Indonesia |
| Rubber & Articles Thereof | 29.4 | Thailand, Mexico, Canada, China, Japan |
| Apparel Articles & Accessories, Not Knit Etc. | 29.2 | China, Vietnam, India, Indonesia, Mexico |
| Furniture; Bedding | 27.7 | China, Vietnam, Mexico, Canada, Italy |
| Electric Machinery Etc; Sound Equip | 21.9 | China, Mexico, Vietnam, Taiwan, Malaysia |
| Nuclear Reactors, Boilers, Machinery | 20.3 | China, Taiwan, Japan, Germany, Canada |
| Natl Pearls, Prec Etc Stones | 19.6 | Switzerland, India, Canada, Mexico, Italy |
| Toys, Games & Sport Equipment | 13.3 | China, Vietnam, Mexico, Taiwan, Japan |
| Articles Of Iron Or Steel | 12.2 | China, Mexico, Canada, Taiwan, South Korea |

- Tariff Differential Advantage: Higher tariff on major suppliers create a strategic opportunity for India.
- Focus Sector: Footwear: US footwear market where China and Vietnam are dominant presents a significant advantage for India.

Dumping by China: A potential challenge....

China's Exports to US & India

| Commodity | China's share in India's imports | China's share in U.S imports |
|--------------------------------------|----------------------------------|------------------------------|
| Artificial resins, plastic materials | 25.0 | 26.0 |
| Paper and paper board | 19.8 | 13.9 |
| Rubber products | 12.5 | 7.0 |
| Graphite | 48.3 | 59.7 |

- Beyond India's steel sector, industries such as plastics, paper goods, rubber and graphite face a heightened risk of dumping, given that both US and India are significant destinations for Chinese exports.



China Key Developments and Impact

| Key Developments | Impact | | |
|--|-----------|-----------|------------|
| | 1–2 years | 3–5 years | 6–10 years |
| China's 2025 Working Report to steer economic growth for the final year of the 14th Five-Year Plan | High | Medium | Medium |
| China's USD 41.47 billion stimulus to boost consumption and economic growth | High | Medium | Medium |
| Prioritisation of childcare to boost birth rates and consumption | High | Medium | Medium |
| Rural Comprehensive Revitalization Plan (2024-2027) | High | Medium | Medium |
| Approval of the USD 839 billion debt refinancing plan for local governments | High | Medium | Medium |
| China's Zero Tariff Initiative to empower the least developed countries and boost global growth | High | High | Medium |
| Relaxation of foreign investment norms for emerging sectors | High | High | Medium |
| Push toward New Quality Productive Forces (NQPF) to boost innovation and competitiveness | High | High | Medium |
| Belt and Road Initiative (BRI) for connecting countries and driving global growth | High | High | High |
| Export Tax Rebate shift to boost domestic consumption and redefine global competitiveness | High | High | Medium |
| China-Maldives FTA to unlock new trade opportunities and boost bilateral growth | High | High | Medium |



Key Challenges for China

| Key Challenges | 1–2 years | 3–5 years | 6–10 years |
|--|-----------|-----------|------------|
| Navigating the tariffs and economic impact of the US-China trade war | High | High | Medium |
| Global concerns over China's export surge and overcapacity in the wake of rising trade barriers | High | High | Medium |
| The US Biosecure Act's aim to reduce the dependency on China, creating a window of opportunity for India | High | High | Medium |
| China Plus One Strategy posing a growing threat to China's dominance in global manufacturing | High | Medium | Medium |
| China's Ageing Population as a Looming Crisis for Labour Supply and Economic Growth | Low | Medium | High |



| Date | Credit Rating Agency | Outlook |
|--------|----------------------|---|
| Jun-24 | S&P Global Ratings | Affirmation of 'A+' long-term and 'A-1' short-term foreign and local currency sovereign credit ratings with stable outlook. |
| Apr-24 | Fitch Ratings, Inc. | Revised the Outlook on China's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 2 'A+'. |
| Jun-23 | Moody's | Lowered the 'outlook' on China's A1 debt rating to Negative from Stable. |

- IMF in its World Economic Outlook, slashed China's 2025 GDP projection to 4% from 4.6%.

Key Takeaways...

- ❑ Trade diversion: India can increase exports to US due to lower relative tariffs.
- ❑ Manufacturing Hub: India can attract investments as firms pursue China + 1.
- ❑ Sector Focus: electronics, textiles, leather, plastics, footwear, medical devices and toys can focus areas
- ❑ Given high US dependence on China Trump might back down from high tariffs.
- ❑ India has to guard against Chinese dumping especially steel, rubber, artificial resins, paper and graphite
- ❑ Tariff war impact might last for short term and China could recoup in the medium term
- ❑ Federal Reserve would be under pressure to lower Fed fund rate which softens US treasury yields.
- ❑ If dollar weakens INR will appreciate to 84 levels; Gold will also benefit from weak dollar
- ❑ Lower growth in China will soften crude price which will reduce domestic trade deficit.
- ❑ India will continue to face low bond yields which improves treasury profits of banks.



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