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SLOWING ECONOMY HAS PROMPTED CHINA'S CONCILIATORY POSTURE TOWARDS INDIA

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The Chinese leadership has stepped up efforts for unfettered access to the large, and as yet untapped, Indian market since last year. This has come amid the incremental decline in imports from China by the US and EU and growing tension between the US and China. While China has not altered its aggressive policy towards Japan, the Philippines and Taiwan, it has tactically adopted a more accommodative tone towards the US and India. The tensions have aggravated the Chinese leadership's concerns caused by its failure to arrest the steady decline of the Chinese economy.

In implicit acknowledgement that the economy was continuing to slide, Chinese President Xi Jinping finally approved a stimulus package. The Chinese Communist Party (CCP)'s Third Plenum held in July this year had indicated that some measures would be taken to help the economy. China's leadership and the official media have also been highlighting China's importance in the global supply chain and asserted it will encourage and facilitate investments by foreign financial entities and businesses. Earlier, to offset the sliding economy and drop in imports from China by the US and Europe, the CCP leadership authorised the over production of solar panels and steel for export in disregard of international trade norms.

For example, China's Economic Observer disclosed on August 17, that the price of lithium carbonate plummeted from above 120,000 yuan/ton, to below 70,000 yuan/ton. It said "Since 2024, the price of lithium carbonate has been experiencing a "Waterloo"." Stating that the main lithium carbonate contract LC2411 of the Guangzhou Futures Exchange has fallen by more than 40% in the past year, it mentioned that Lithium carbonate is a core raw material for new energy vehicles and energy storage. The newspaper added that in the past two years, due to the continuous relaxation of production capacity, the oversupply of lithium carbonate in China has continued to intensify. In August alone the price of lithium carbonate fell by more than 10% in just half a month. It said on August 15, the price of lithium carbonate LC2411 hit a new historical low, reaching 71,800 yuan/ton which is a new low in more than three years. Pointing out that the price of lithium carbonate has fallen sharply, it said many industry insiders remain pessimistic about the future market: the situation where lithium carbonate supply exceeds demand is difficult to alleviate, and the downward trend is expected to continue in the short term.

As China sought to explore ways to access the large Indian market, its Ambassador and diplomatic missions in India commenced actively propagating that Indian industry needed Chinese equipment and technicians if the economy is to grow. In discussions Chinese interlocutors bluntly said that: India needs to ease restrictions on visas and travel by Chinese

nationals, permit imports of Chinese goods, resume air flights, and allow the posting of journalists. That China has only the limited tactical interest of gaining access to India's market is evident from its actions on the border where there has been no let-up in military activity, indicating that there is no likelihood of China restoring the status quo of April 2020.

The Chinese leadership has also as yet taken no substantive steps to repair the relationship. In addition to continuing efforts to exert pressure on India in international forums and financial institutions, the PLA continues to build border defences and induct new weaponry and additional personnel along the LAC. This includes building a bridge at Pangong Tso opposite Chushul, and defences at Depsang, Demchok and Rudok. Leaders of the Tibet Autonomous Region (TAR) have also in the last few weeks been visiting the counties bordering India. In the last month TAR leaders, for example, visited: Tsada Dzong, Ngari (Ali), which borders India's Himachal Pradesh in the west, Uttarakhand in the south, and Ladakh to the northwest; the Border Defence Company and villages of Tashigang in Demchok village; Nedong Dzong (Ch: Naidong), Gonggar Dzong, (Tsona), Lhodrak (Ch: Lhozhag) Dzong and Nagarze Dzong (Ch: Langkazi) of Shannan. During their inspection they exhorted the troops on the borders to strengthen defences. They also explained the extent of China's borders to the residents and urged those residing in the 'Xiaokang' model border defence villages to put down roots in the county.

At the same time, the parlous state of China's economy and spreading dissatisfaction among the populace, which has the potential to spark widespread unrest, has been causing serious concern to the Chinese leadership. This is reflected in the rise in public security expenditure which in the past two years has again exceeded the national defence budget. The Governor of the People's Bank of China (PBoC) Pan Gongsheng announced the long awaited stimulus package on September 24. In a noticeable departure from past practice, this time the CCP Politburo, which should have met earlier to discuss the economy and approve the stimulus, most unusually met only on September 26 -- two days after Pan Gongsheng's announcement. Since 2018, Politburo meetings to discuss the economy have usually been held in April, July and December. There was also no 'study' session where an expert briefed the Politburo members. The State Council too met after announcement of the stimulus package.

Pan Gongsheng unveiled a strong stimulus package aiming to take the economy closer to its growth target in 2024. The package included a raft of monetary stimulus, property market support and capital market strengthening measures to boost the country's 'high-quality economic development'. Key measures include accelerating investment projects of about 200 billion yuan, focussing on revitalising cities, and infrastructure. It proposed that the government will continue to issue ultra-long special treasury bonds and encourage local governments to make all efforts to use special bonds for project construction. To support the enhancement of domestic consumption, the upgrade of electrical appliances and automobile trade-in and purchase was strengthened. The government also promised to ensure strict regulation of business enforcement and stated that it would adopt "inclusive, prudent, and flexible" approaches. This aims to avoid unlawful practices such as arbitrary fines and excess inspections, making the environment friendlier for business. The measures promptly saw a rebound in car and home appliance sales. The stock market registered an immediate 10 percent rise with share prices of most registered companies going up.

Pan Gongsheng said, "The new policy, which is conducive to further reducing borrowers' mortgage interest expenses, is expected to benefit 50 million households, or a population of 150 million". This move is expected to reduce the total interest expenses for households by approximately 150 billion yuan per year on average, which will help boost consumption and investment. Earlier in May, the People's Bank of China (PBoC) issued three major new real estate policies, including reducing down payments to 15%. The down payment ratio for the first and second homes was lowered to no less than 15% and 25% respectively.

China's official Economic Observer, quoting Chinese analysts and observers however, suggested that the present stimulus is inadequate and that share prices will crash by early 2025. It said the interest rate of existing mortgage loans should be lowered again in one step. It pointed out that new home buyers in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, especially those who bought homes between October 8, 2019 and May 14, 2022, did not enjoy the policy dividends and still stood at a high interest rate, becoming the "sandwich layer" of the policy. Most of these people are born in the 1980s and 1990s, who are starting families and raising children. They have become the backbone of society and the main consumer group. Taking Beijing as an example, although the loan market benchmark rate (LPR) has been lowered many times, the first mortgage rate for this group is still as high as 4.75% (five-year LPR + 55 basis points), while the latest first mortgage rate floor in Beijing is 3.4% (five-year LPR - 45 basis points). In other words, the interest rate spread between new and old mortgages has reached 1.35 percentage points.

Though Chinese officials expressed confidence in reaching the annual goal of around 5 per cent growth, there have been a series of indicators of the difficulties confronting China's economy. On September 15, China's National Bureau of Statistics (NBS) published data which showed that China's industrial value-added, retail and real estate sector had further weakened and that China's economy continued to be sluggish in August. This prompted observers to ask whether the Chinese government will introduce bolder stimulus measures in the 4th quarter.

On September 27, the Chinese financial magazine Caixin Global disclosed that China's construction industry is reeling from a wave of defaults and financial turmoil as delayed payments and rising bad debts cascade through the sector. It said once fuelled by a booming real estate market, construction firms are now struggling with unpaid bills and shrinking liquidity. It identified Xi'an Construction Engineering Group Co. Ltd., a state-owned construction company in Northwest China, as the latest victim of this crisis after defaulting on a 263-million-yuan (US\$ 37 million) bond in August after a series of credit downgrades over the previous six months.

Chinese provincial authorities have also been struggling with reduced revenues following the central ban on land sales which accounted for nearly one-third of their revenues. Consequently, wages of provincial government employees have been slashed by at least 25 percent and bonuses withdrawn. Added to this, Caixin (September 27) citing government data revealed that more than half of the 31 provincial-level regions in China lagged behind their annual fiscal revenue growth targets in the first seven months of the year, sending worrying signs for the fiscal health of local governments. During this period, 16 provincial-level regions failed to keep up with their annual targets for general public budget revenue growth. Only six

surpassed their targets, while data for the other nine regions were incomplete. The six who surpassed their targets were: Chongqing, Fujian, Liaoning, Hubei, Xinjiang and Shandong. Each surpassed the target by between 0-5 percent. Last year too, most provinces had failed to achieve their growth targets. The special report submitted to the National People's Congress (NPC) on September 10, also revealed that by the end of 2023, the government's debt exceeded 70 trillion RMB, or 56.1% of GDP.

The provincial governments independently took intermediate relief measures without waiting for the stimulus package. China's official Securities Daily (October 9) reported that Shaanxi, Jiangsu, Zhejiang, Shandong and other provinces had announced measures to support high-growth technology-based small and medium sized enterprises working in fields like biotechnology and artificial intelligence. Called "gazelle enterprises", they were offered financial aid, like subsidies for R&D, to promote their expansion. The Shaanxi Provincial Department of Science and Technology, for example, recognized 305 enterprises as 'gazelle' enterprises and 57 others as potential gazelle enterprises and announced an R&D subsidy of 300,000 yuan (US\$ 42,129.51) for these enterprises.

The economic difficulties faced by the people and the real potential for discontent sparking protests saw the central authorities taking direct remedial measures. The People's Daily (September 25) announced that the State Council, the Ministry of Civil Affairs and the Ministry of Finance had jointly issued a "one-time living allowance to extremely poor people, orphans and other needy people on the occasion of the 75th anniversary of the founding of New China". It said the Ministry of Civil Affairs and the Ministry of Finance directed concerned departments to attach great importance to the issuance of this one-time living allowance and ensure that the one-time living allowance is issued to the needy before October 1, and to promptly convey the Party and government's care and concern for the needy. Reuters reported that China would issue Bonds which will "provide a monthly allowance of about 800 yuan (\$114) per child to all households with two or more children, excluding the 1st child".

The slowing economic growth coupled with enforcement of the stringent anti-corruption laws, which also felled those not ideologically or politically aligned with Chinese President Xi Jinping, has resulted in a drop in public confidence. Quoting data supplied by the United Nations High Commissioner for Refugees, Nikkei Asia (October 2) said the number of Chinese citizens seeking political asylum overseas climbed to 120,000 in 2021, a more than twelvefold increase since the time of Xi Jinping's predecessor, Hu Jintao. The U.S. border patrol separately registered 24,314 Chinese citizens entering the borders of southern California and Texas illegally in 2023, and the number climbed to 35,399 in the first seven months of 2024. These numbers represent a 15-24 times increase from a meagre 1,500 during the Hu Jintao era. The Voice of America (September 2) reported that UN data showed that since Xi Jinping came to power the number of Chinese applying for asylum in the UK citing political and social freedoms as the reason rose from 798 in 2012 to 2,384 in 2023. Nikkei Asia also added that according to an estimate from the Council on Foreign Relations, despite capital controls, the amount of private capital that has left China through legal and illegal means has risen significantly to a staggering \$738 billion in the third quarter of 2022.

Other indicators suggest that notwithstanding a number of international companies like IBM and Apple shifting operations to other countries, China has continued to toughen social

controls and surveillance. A Bloomberg report of September 12, said that the CCP is increasing its supervision of the country's 8,700 investment bankers and many securities firms require investment bankers to hand in their passports, apply for permission for all travel plans, and obtain approval for resignations. China's official media regularly reports the detention on charges of corruption of officials in banking and financial organisations.

With the economy in such poor shape China, which is an export-led economy, cannot afford to lose access to the world's largest untapped market, namely India. Persistent efforts were, therefore, initiated by the Chinese Ambassador and Chinese diplomatic missions in India and China's United Front to activate business and other pro-China lobbies in India. These efforts were reinforced by official and other Chinese interlocutors at Track 1.5 and Track 2 meetings. Chinese businesses including automobile companies, the majority of who receive subsidies between 60 and 93 percent, have also sought to penetrate the Indian market. Chinese-made cars like MG and BYD are now available in India and competing with Indian companies. Similarly Chinese-made consumer products like umbrellas, lamp shades, lighting and figurines, for example, occupy a large percentage of the Indian market because of their lower prices made possible by subsidies etc. Till the situation on the borders is completely resolved, it is essential for India to deal with trade and other issues cautiously.

While the meeting between Prime Minister Modi and Chinese President Xi Jinping is a sign of Beijing's maturity, it is equally an indication that China needs to keep its southwestern border relatively quiet at this time. China's posture and recent agreement on the border negotiations reached on the side-lines of BRICS must be viewed as tactical. They hold no promise that Beijing will not revive its territorial claims. Until China takes steps to rebuild trust and disengage, de-escalate and de-induct on the ground it will remain a threat. From present indications it seems unlikely that Xi Jinping will restore the status quo of April 2020. China's media too has been cautious in its comments regarding the agreement.

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