INSTITUTE OF ECONOMIC GROWTH

सत्यमेव परमो धर्मः

INSTITUTE OF ECONOMIC GROWTH

KEC POLICY BRIEF

Kautilya Economic Conclave 2025

4th EDITION

RIPPLE EFFECTS : CHINA'S RECALIBREATION AND IMPLICATION FOR ASIA*

Interactive Session **4B**

Chair: Montek Singh Ahluwalia

Speakers: Eric Berglof ,Trinh Nguyen, Byong-Il Choi, Pramit Pal Chaudhuri and Amita Batra

Date: 04th October 2025 | Time: 16:15-17:45 hrs

Introduction

China's economy, long seen as the driver of global growth, is now at a crucial crossroads. After decades of rapid expansion fueled by exports, infrastructure, and real estate, its growth engine has started to slow down. The country now faces the difficult but necessary task of recalibrating its growth model toward domestic consumption. This shift is not just about China-it has wide-ranging implications for the entire Asian region.

Context

The roots of China's structural problems go back to the 2008 Global Financial Crisis, when the government launched massive stimulus spending on infrastructure and real estate to sustain growth. While this strategy worked for years, it also built up heavy debts, overcapacity, and dependence on construction rather than consumption.

The COVID-19 pandemic intensified these weaknesses. Lockdowns slowed production, disrupted global supply chains, and reduced consumer confidence, dampened household consumption, while a sharp decline in fertility, deepening concerns about an ageing population and a shrinking workforce. This can weaken China's long-term growth potential.

The Challenges of Recalibration

China's attempt to shift toward a consumption-led growth model has been slow and uneven. While policymakers recognize the need to reduce dependence on infrastructure and real estate, the transition has faced resistance from within. The real estate sector, once a pillar of employment and household wealth, is now in deep distress, with major developers facing insolvency and property prices falling. This has weakened household confidence, leading people to save more and spend less.

At the same time, structural inefficiencies persist. State-owned enterprises still dominate key sectors, often crowding out private innovation. Total factor productivity has slowed, and regulatory tightening has discouraged entrepreneurship in new industries such as digital services and education. Demographic

* *Prepared by: Nisha, Monika Jangid and Mrdul Pandita (IES Officer's Trainee 2025 Batch)*

challenge of declining birth rate and an ageing population mean that the labor force is shrinking just when the economy needs more productive workers. This demographic shift increases the burden on public finances and reduces long-term consumption potential, making recalibration even more urgent.

Regional Interdependence and Asymmetries

China's economic links across Asia are complex and uneven. The ASEAN economies, particularly Vietnam, Thailand, and Indonesia, are deeply intertwined with China through trade, investment, and production networks. These economies import significant volumes of Chinese inputs and machinery for their manufacturing industries, making them highly sensitive to changes in China's demand and pricing.

Vietnam has emerged as a standout case. It has successfully positioned itself as an alternative manufacturing hub, benefiting from the gradual diversification of supply chains away from China. Interestingly, Vietnam's success has been supported largely by South Korean FDI, illustrating how regional value chains are evolving within Asia itself.

In contrast, India's economic relationship with China remains limited and asymmetrical. While India imports a vast array of intermediate and capital goods from China, its exports to China are minimal. This has created a large trade deficit. Moreover, India attracts little Chinese investment and tourism compared to ASEAN economies. This limited integration has insulated India from some shocks but also restricted its access to advanced Chinese technology and investment capital.

Deflation and Its Spillover Risks

China's economy is now faced with deflation. This signals weak domestic demand and can lead to lower investment and slower growth. More importantly, it can spill over to other Asian economies. As Chinese firms lower their export prices, they effectively export deflation to trading partners. While cheaper Chinese goods can benefit importing countries in the short run, they can also undercut domestic producers in neighboring economies. This puts pressure on firms in countries like Vietnam, Malaysia, and India that compete with China in manufacturing. Managing these deflationary spillovers will require regional coordination and adaptive trade policies.

Despite these headwinds, China remains a global leader in technology adoption, innovation, and manufacturing scale. The electronics, automobile, and renewable energy industries in Southeast Asia, Japan, and South Korea depend heavily on Chinese intermediate goods. In this way, even a slowing China continues to function as the manufacturing anchor of the region.

Insights on Asia's Path Forward

Speakers in the Panel across Asia emphasize what is what called the 'Asian Dilemma.' It means, Asia must navigate its economic future by balancing relationships with both China and the United States. While China will continue to play its traditional role as the manufacturing hub of the world, the United States remains indispensable for technology, finance, and innovation. China is unlikely to abandon its 'factory mode' anytime soon, and that Asian countries need to work together-particularly through ASEAN frameworks -to address unfair trade practices and maintain stability.

An Indian perspective on China's evolving role was also discussed. In the past, India imported heavily from China without much concern, as bilateral relations were largely stable. However, as India's own economy grew and its ties with the United States deepened, relations with China became more complicated. The 'weaponization of supply chains' and concerns about data security from Chinese technology have added new dimensions to this tension.

Importance of Global Value Chains for ASEAN's development cannot be ignored. ASEAN countries have benefited from integration into China-centered production networks. However, recent US policies such as the CHIPS Act and the Inflation Reduction Act (IRA) aim to reduce dependency on Chinese technology.

Policy Recommendations

- Encourage domestic consumption in China. Strengthen social safety nets, pension systems, and healthcare to reduce precautionary savings and boost household spending.
- Diversify trade partnerships. Asian economies should expand trade within ASEAN, South Asia, and other global partners. Diversified trade partnerships will help reduce overreliance on China.
- Promote regional cooperation. ASEAN and South Asia can create collective mechanisms to ensure fair competition, manage deflationary spillovers, and coordinate green investment strategies.
- Support green technology collaboration. Build joint ventures with China and other countries to leverage low-cost renewable technologies while ensuring knowledge transfer.
- Reform FDI regimes. Encourage transparent and predictable investment environments to attract both Western and Asian investors in manufacturing and technology sectors.
- Enhance digital and data security. Given concerns over data theft and surveillance, countries should develop clear cybersecurity standards and review high-risk technology imports.
- Invest in human capital and innovation. With China's productivity slowing, other Asian economies can capitalize by investing in skills, R&D, and higher education to climb the value chain.
- Monitor financial risks. Regional financial institutions should track China's property-related debt risks to anticipate potential contagion in Asian markets.

- Encourage responsible tourism and services trade. Visa liberalization in China could benefit regional tourism; reciprocal policies could support recovery in both directions.

Conclusion

China's recalibration journey is far from over. The country remains a dominant force in manufacturing, trade, and technology, yet it faces mounting challenges that require structural reform and long-term vision. Its choices will not only determine its own economic fate but also shape the growth paths of its Asian neighbors. strengthening regional collaboration. In this dynamic landscape, adaptability and not dependence will define the future of Asian growth.

References

Notes from Session 4B, Expert Panel discussions on China's economic transition, regional trade linkages, and policy perspectives held on Day2 of Kautilya Economic Conclave 2025.

INSTITUTE OF ECONOMIC GROWTH

University of Delhi Enclave, (North Campus), Delhi- 110007, India

+91-11-27667288/365/424/570/260 & 9810322376, 9810334376

Website: https://iegindia.org/

@iegresearch in.linkedin.com/company/institute-of-economics-growth