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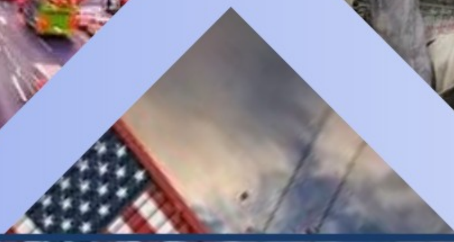

WILL THE CURRENT STIMULUS FIX CHINA'S ECONOMY?

Report on Round Table Discussion

26 OCTOBER 2024

11:00 AM - 12:30 PM

Speaker: Alicia García-Herrero

Chaired by
Suman Bery

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The Panel

Speaker: **Dr. Alicia García-Herrero**, Senior Fellow at Bruegel, Chief Economist, Asia-Pacific, Natixis, Hong Kong

Chair: **Mr. Suman Bery**, Vice Chairperson, NITI Aayog, New Delhi

Participants

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Mr. Dammu Ravi, Secretary (Economic Relations), Ministry of External Affairs, Government of India

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Shri Ashok Bhattacharya, Editorial Director, *The Business Standard*

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Mr. Rahul Bansod, Rapporteur; and, Research Intern, Institute of Chinese Studies, New Delhi

Biographical Note

Dr. Alicia García-Herrero is the Chief Economist for Asia Pacific at Natixis CIB. She also serves as Senior Fellow at the European think-tank BRUEGEL and as a non-resident Senior Follow at the East Asian Institute (EAI) of the National University Singapore (NUS). She is also an Adjunct Professor at the Hong Kong University of Science and Technology (HKUST). Dr. García-Herrero is an independent Board Member of AGEAS insurance group. Finally, she serves as an advisor to the Spanish government on economic affairs, is a Member of the Board of the Center for Asia-Pacific Resilience and Innovation (CAPRI), a member of the Advisory Board of the Berlin-based Mercator Institute for China Studies (MERICS), an advisor to the Hong Kong Monetary Authority's research arm (HKIMR), and a Member of the Council of the Focused Ultrasound Foundation (FUF). Dr. García-Herrero holds a PhD in Economics from George Washington University and has published extensively in refereed journals and books.

Mr. Suman Bery is currently Vice Chairperson, NITI Aayog, in the rank and status of a Cabinet Minister. An experienced policy economist and research administrator, Shri Bery took over as NITI Aayog Vice Chairperson from 1 May 2022. At the time of his appointment, Shri Bery was a Global Fellow in the Asia Programme of the Woodrow Wilson International Centre for Scholars in Washington D.C.; and a non-resident fellow at Bruegel, an economic policy research institution in Brussels. He was also a member of the Board of the Shakti Sustainable Energy Foundation, New Delhi. Shri Bery also served as Director-General (Chief Executive) of the National Council of Applied Economic Research (NCAER) in New Delhi. During his tenure, NCAER greatly extended its global links and was recognised as one of India's leading think tanks by the independent global Think Tank Initiative. In his decade leading NCAER, Shri Bery was at various times member of the Prime Minister's Economic Advisory Council; of India's Statistical Commission; and of the Reserve Bank of India's Technical Advisory Committee on Monetary Policy.

Key Takeaways

The round table discussion explored the recent economic stimulus measures in China, focusing on whether these measures could stabilise and help China's economy grow amid structural challenges. In her opening presentation, Dr. Alicia García-Herrero highlighted the following:

- China's recent economic measures are more of a "financial rescue" than a true growth stimulus, aimed at stabilising financial risks, rather than addressing limitations of China's recent "dual circulation" strategy, due to persistent deflation and underutilised service sectors (and clampdown on sectors like tutoring). The current focus is on managing local government debt and supporting banks and the real estate sector rather than boosting domestic demand.
- This implies that China remains focused on exports rather than domestic markets, building on its success over the last twenty years, when it has become much more central to global value chains in goods, including in other Asian economies.

The discussion that followed can be categorised into two broad areas:

<u>China's Future</u>

- Will Chinese productivity continue to grow? This is based on a slowing urbanisation and inefficient firms, especially state-owned enterprises (SOEs), like Japan's "lost decade". Will the Chinese establishment's suspicion of its private sector limit how much it can grow?
- How long can China continue to depend on exports when growth in advanced economies is slowing down and they are becoming more concerned about trade deficits with China?
- While China seems to be doing well in its chosen high-tech sectors of renewable energy, AI and semiconductors, will the US restrictions on technology transfer slow this process?
- Given that China's demographic transition has been accelerated by the one child policy and birth rates are not rising, how will China respond to this challenge – increasing use of robots, immigration or relocation of firms?

How Should India Respond?

- The first aspect was related to the international arena and India's strategic choices in a multipolar world. Should it support an expansion of BRICS? How should it balance the US and China, given that full economic decoupling of US from China, despite the Inflation Reduction Act and the CHIPS Act, may not be viable? Can it leverage its large imports from China to establish a *modus vivendi*, without risking dependence? Is there a need for India to prioritise economic diplomacy focusing on industrial and technological competitiveness in its international engagements, rather than solely political or security priorities?
- The second aspect was related to the domestic sphere, as to whether India should respond with targeted industrial and trade policy and building domestic champion conglomerates or with greater investment in education and innovation and a more deregulated and competitive environment for the corporate sector.

Dr. García-Herrero's assessment was that domestic demographic and productivity pressures, along with external market and technology restrictions means that Chinese growth is likely to have peaked and will gradually decline. Yet, by the end of 100 years of the Chinese state under the Communist Party of China, in 2049, it will be an upper middle-income country but with inequality levels similar to the United States.

On India, she opined that an excessive reliance on BRICS risked supporting increased Chinese influence within a "Sinocentric" model, which could reshape BRICS as a hub-and-spoke framework, thus diminishing India's role. She added that India has the potential to develop a diversified trade ecosystem by attracting non-US and non-Chinese investments, including in critical minerals, while being mindful of taxation and regulatory challenges.

Report

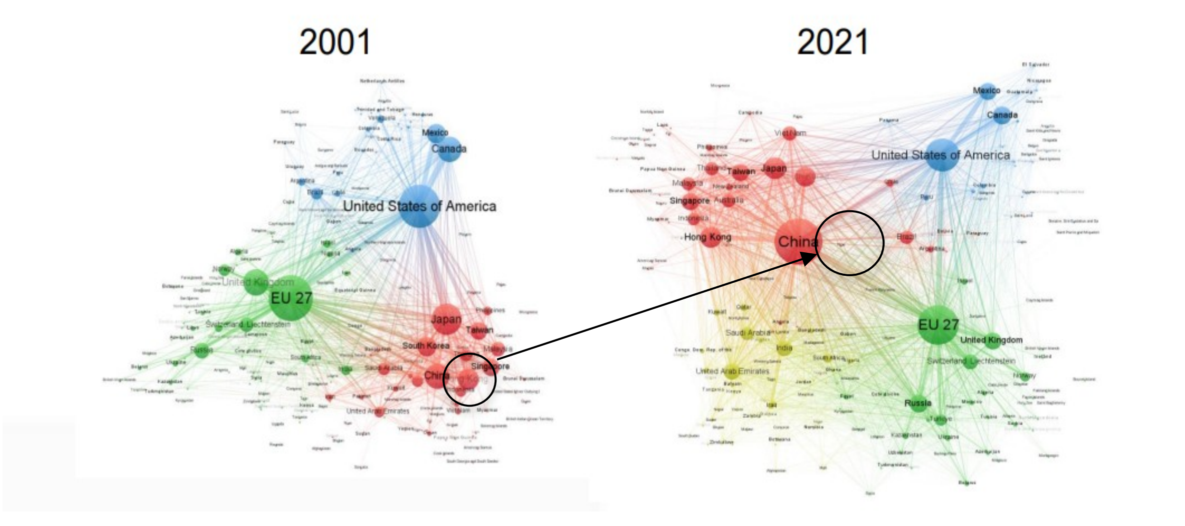
A few stimulus measures have been announced, most recently in September 2024, by the Chinese government. China is systemically important in the global economy with robust global supply chains, and is significant for India from multiple vantage points, notably as a major trade partner. In this context, it is essential to consider whether China will succeed in its recent endeavours and what that means for India's interests. To explore these issues in depth, a roundtable discussion titled, *Will the Current Stimulus Fix China's Economy?*, was held on 26 October 2024. It was organised by the Institute of Chinese Studies (ICS), New Delhi, in collaboration with the India International Centre (IIC), and featured **Dr. Alicia García-Herrero** as the speaker.

Initial Presentation

Dr. García-Herrero began by asking: "Will China manage to push consumption through this stimulus?" and emphasised that China's recent economic stimulus efforts are less about growth and more focused on managing financial risks and stabilising the economy. She noted that China is prioritising stability due to existing fiscal constraints and pressing financial risks, particularly with respect to local government debt. She expressed scepticism regarding a shift toward a consumption-driven economy, indicating that this recent "stimulus" is not aimed at boosting consumption but at preventing systemic collapse. Key measures include cutting rates, injecting liquidity, and preparing a significant recapitalisation package for banks and local governments. She mentioned that exports have suffered due to low global demand, limited domestic consumption, and capital flight. While the government's intervention may curb deflation in the short term, the fundamental challenge remains. Without creating a robust domestic demand, China's recovery relies heavily on international markets and for India, this poses both challenges and opportunities.

Moving on to the next part of the presentation Dr. García-Herrero highlighted that China's latest economic measures, labelled a "stimulus", are more accurately described as a strategic financial rescue operation, as the emphasis is not on fostering consumption but on stabilising the financial system. This approach is a "rescue package" aimed at cleaning up banks, local governments, and the real estate sector. China's focus is still on clean-up which means consumption growth remains sidelined for now. Moreover, she emphasised how this deliberate yet cautious approach to tackling financial risk stems from the deflationary pressures lingering in the economy. The issue parallels Japan's 1990s "zombie company" (a scenario where unprofitable companies struggle to survive, driving down prices across sectors) and over-competition compounds the issue, as the manufacturing sector continues to receive government support, intensifying price suppression. China's reliance on external demand thus grows more pronounced. While many countries, like Germany, became locked into a "manufacturing exports syndrome", China's strategy has resulted in the country becoming much more central in global value chains for goods (see Figure 1). In 2024, for instance, major economies in Asia, including South Korea and ASEAN nations primarily exported to the US, but they still relied on China as a critical import partner. This interdependence lends China influence. She concluded by saying it remains to be seen whether China's approach will yield long-term stability or if it risks a fate similar to Japan or Germany, but for India and the global economy the implications of China's fiscal "clean-up" strategy — and its broader reliance on global trade — are significant. As China navigates this transition, its actions could have ripple effects that impact economies well beyond its borders.

Figure 1: China's Centrality in Goods Global Value Chains



The Chair, **Mr. Suman Bery**, then opened the floor for discussion and comments from other discussants. Dr. García-Herrero's presentation received an enthusiastic response, with participants raising thought-provoking questions and sharing insights that further enriched the discussion in the following ways:

Discussion on Future Scenarios for China

A parallel was drawn between China's current economic strategy and Japan’s approach following the 1985 Plaza Accord, highlighting how Japan’s currency revaluation led to stagflationary pressures and eventually to a liquidity trap, contrasting it with China’s strategic avoidance of currency revaluation. It was noted that, although a stronger currency might benefit the global economy, China has continued with depreciation. In the end, a question was posed about whether this stance reflects a lesson learned from Japan’s economic challenges.

While appreciating the compelling portrayal of China’s economic landscape Dr. García-Herrero’s view on the “most optimistic outcome” for China was sought. Recognising that China remains one of the world’s fastest-growing economies at its per capita income level, it was asked whether there’s a scenario in which China’s economic trajectory could remain sustainably positive, given its history of confounding economic precedents.

Focusing on China’s economic imbalances, particularly its limited success in boosting domestic consumption and reducing industrial overcapacity, questions were raised about the impact of this persistent overproduction driven by global exports on emerging economies like India. Additional inquiries explored the future role of China’s real estate sector, which previously comprised nearly a quarter of its GDP, and whether it could continue as an economic driver. Lastly, China’s long-term growth outlook was examined, considering demographic and structural hurdles, and whether Xi Jinping’s emphasis on innovation-led growth could serve as a viable counter to the risk of Japan-style stagnation.

With regard to questions about China’s economic and social stability, it was noted that a projection of $25,000 per capita income by 2035 juxtaposes an income of $8,000 for the poorer sections of society at given levels of inequality. It was suggested that this one-to-three ratio of per capita income disparity could be acceptable for regime stability, positing that China might manage this level of income inequality without major social unrest. It was also pointed out that China’s high degree of dependence on exports could make it a more manageable international partner for numerous countries. In this context, it was questioned whether, despite a potential slowdown, China might remain internally stable and externally moderate rather than aggressive, and how this scenario would impact India.

Building on Dr. García-Herrero's presentation, an observation was made that certain Chinese policies, while seemingly irrational economically, align with the ideological interests of Xi Jinping and the Communist Party of China, thus serving a critical political purpose. Without recognising this ideological dimension, there is a risk of expecting outcomes in China's policies that may not materialise. For instance, Xi Jinping's stance on real estate, that housing is for living, not for speculation, signals a willingness to absorb market losses for ideological consistency.

Another issue involved examining the intersection of China's economic developments with global implications and India's prospects, focusing on three specific areas. The first concerned global inflation trends, examining the potential gains and losses in various regions resulting from shifts in China. The second area addressed the global labour supply, asking how labour dynamics might evolve in response to China's changes. Lastly, attention was drawn to China's service sector, noted by the Third Plenum in July 2024 as underutilised, with an exploration of how its expansion could reshape expectations among the Chinese populace.

China's urbanisation strategy was examined, with attention granted to potential shifts toward a rental-focused housing model, akin to Germany, where nearly half the population resides in rented homes. This approach was questioned for its ability to support urbanisation goals while alleviating property market pressures. Concerns were also raised about China's productivity slowdown, specifically the deceleration in total factor productivity (TFP), and whether its current innovation-led growth strategy could significantly affect productivity levels and contribute to long-term economic resilience.

China's sustained reliance on an export-led growth model was analysed, with attention to the long-standing practices of managing excess capacity and subsidising local governments. It was noted that China has strategically mitigated risks by fostering dependencies for its exports, initially through products like solar panels, followed by industrial robots, and more recently, AI technology. It was asked if these recent shifts suggest an impending transition in China's growth model or if it would persist in leveraging such dependencies within global markets.

Three observations were made concerning the implications of the clean-up operation in China. The first focused on the anticipated duration of the clean-up operation, questioning how long it might continue and its potential effects on both the stock market and the broader economy. The second observation addressed the issue of growing inequalities in China and its severity of this problem and whether it might worsen as per capita income rises to $25,000 by 2035. The final observation sought to understand the role of technology in shaping economic projections, inquiring about the potential impact of rapid technological changes on the scenarios presented.

Observing China's economic struggles with deflation, highlighted by a consumer price index near zero and a producer price index hovering in the negative for nearly two years, concerns were raised about whether the recent stimulus efforts are geared more towards crisis management. The surge in stock prices across major markets following the stimulus announcement was seen as an indicator of speculative risks. Additionally, attention was drawn to the issue of "zombie companies", particularly state-owned enterprises (SOEs), whose inefficiencies were similarly overlooked during Japan's "lost decade". The query centred on how China is addressing SOE reforms and whether ongoing supply-side adjustments might sufficiently mitigate these inefficiencies.

Contextualising China's economic trajectory within a global framework, comparisons were drawn to India's influence in agriculture, particularly regarding its effect on global terms of trade. A question was posed about China's capacity to continue as a significant source of global savings, invoking historical concepts such as the "savings glut" while contemplating how China's scale and involvement in global capital flows diverge from Japan's experience. Insights were sought on how these shifts are positioning China within the global economy, especially concerning middle-income traps and long-term sustainability.

Response by Dr. Alicia García-Herrero

Dr. Alicia García-Herrero addressed the long-term growth prospects of China and India, emphasising several critical points within a constrained time frame. She argued that the Chinese growth rate has peaked, noting that while it will become a decent middle-income country by 2035, its growth rate is projected to drop to around 1%. This decline could be attributed to negative population growth in rural areas and stagnant labour supply in urban areas. Additionally, she indicated that China's income distribution is less favourable than

Japan's, with a significant portion of the population likely to remain dissatisfied due to disparities. The urbanisation rate in China, currently at 63%, is expected to increase but will eventually plateau, impacting productivity negatively. By 2035, this plateau will contribute to a reduced growth rate as the rural population declines, potentially leading to a growth rate of only 1%. While automation in manufacturing might mitigate some of these issues, the overall trend suggests a challenging economic environment ahead. Dr. García-Herrero also highlighted that while China is becoming a global technological leader, particularly in AI and critical technologies, this does not directly translate to economic growth. The US is restricting technology transfer to China, complicating its ability to innovate. In contrast, she expressed optimism about India's potential to narrow the economic gap with China by 2050. India has a sufficient market size to create its trade ecosystem, distinguishing it from China's strategic dependencies. Its growing import market places India favourably in global trade dynamics. In conclusion, the future trajectories of both economies will significantly differ, with China facing structural challenges while India may leverage its growth to enhance its role in the global economy.

Discussion on Implications for India

Approaching the discussion from an Indian perspective, concerns over India's widening trade gap and the dependency on Chinese imports within the manufacturing sector were highlighted. Moreover, the challenge posed by India's inverted duty structure, which allows for easier access to finished imports than raw materials was also emphasised. A question was raised whether adjusting India's exchange rate, instead of raising tariffs, might offer a sustainable solution, and whether it could serve as an effective strategy to bolster domestic manufacturing in India.

Addressing the implications of China's economic trajectory, it was remarked that the assumptions underpinning India's international relations may need re-evaluation. If China's rise does not slow down, the prevailing notion of an inevitable shift toward a multipolar world which is central to India's foreign policy, might not be sustainable. Additionally, concerns were raised regarding the innovation landscape, suggesting that while it is assumed China is catching up with the United States, recent advancements in AI and other sectors indicate that the US is likely to continue leading in innovation, outpacing its rivals. Furthermore, the belief that India can collaborate with China to enhance its economic position was questioned, particularly in light of China's limited imports and India's inability to boost exports to China. The conclusion that emerged was that India may need to prepare for a world where the US remains dominant, rather than pursuing the notion of a multipolar world involving Russia and China. This shift could necessitate a closer alignment with the US, despite the potential chaos within US politics.

Building on the recent trends in Chinese dominance within global supply chains since 2021, the possibility and/or the feasibility of "decoupling" from China, particularly in light of Western strategies like the Inflation Reduction Act and the CHIPS Act, was questioned. Despite the increased talk of diversification and initiatives like the "China plus one" strategy, the participant suggested that full decoupling may remain challenging given the significant dependence on China. This was seen in the case of countries like India, which, without a free trade agreement, imports over $100 billion from China. Additionally, the expansion of BRICS — now with 34 countries seeking membership — highlights a shifting global alignment toward a non-Western, though not necessarily anti-Western, stance, led predominantly by China. The broader implication is the potential emergence of two distinct global camps, especially considering the muted influence of the WTO and ongoing tariff tensions, which seem likely to persist regardless of future leadership changes.

Reflecting on the strategic implications of India's economic positioning relative to China, considerations were raised regarding the balance of dependency and the broader set of options available to India. While maximising opportunities to reach a comparable economic standing was viewed as a priority, the persistent economic gap with China was acknowledged as unlikely to diminish. The potential for increased imports from China was seen as a temporary opportunity for establishing a *modus vivendi* with China. However, there was caution about the risk of this dependency deepening, which could become a challenge within a larger geoeconomic context over time.

A question was raised regarding the global green transition and its relevance to China's economic trajectory and how the global green transition intersects with China's policies and what implications this holds for international dynamics. The complexity of multipolarity was highlighted, suggesting that it cannot be reduced to a simple narrative of US dominance versus China. The discussant pointed out that the US has struggled to achieve significant military objectives since World War II, and any discussion of multipolarity that ignores these realities, is too simplistic. It was also urged that India must focus on foundational issues, such as stagnant middle consumption, low private investment, and a deteriorating education system. A contrast with China was drawn to illustrate that while China confronts its economic realities, India may be deluding itself about its status. The need for India to re-evaluate its development model was emphasised, suggesting that the current approach favours a few "conglomerates" rather than fostering a broader entrepreneurial environment. Additionally, the notion that India operates as a private sector-led economy was critiqued, and it was argued that state involvement has created significant barriers to private investment. It was also pointed out that India needs to invest in innovation and human capital, both of which are core components of the Chinese development model, stressing that educational reforms are essential for sustainable growth. There is also a need for a critical examination of India's political economy to address these pressing challenges.

A tactical opportunity was noted regarding the India-China relationship, indicating that while structural tensions remain deep-seated, there may be an opening for renewed engagement on political and economic matters. This was attributed to a recent relief in pressures, providing Delhi and Beijing a chance to start discussions after a four-year hiatus on critical issues. Nonetheless, three significant structural constraints were outlined: (1) ongoing and potentially escalating border issues, with China's advanced military infrastructure giving them a strategic edge; (2) a major strategic debate within India concerning Chinese manufacturing, particularly with the $100 billion trade deficit expected to persist; and (3) China's expanding presence in the Indian Ocean and relationships with neighbouring countries, which collectively present long-term challenges. Additionally, there was a critical view of the recent BRICS declaration, describing it as mostly symbolic and performative, similar to the rhetoric of the Non-Aligned Movement. Although BRICS may appear to be forming a coalition to adjust global trade terms, it was suggested that member countries — China, Russia, and possibly India — are individually leveraging the grouping's stance for their bilateral negotiations with Western powers.

In response to these point, China's strategic positioning within BRICS was noted, highlighting its unique approach compared to other multilateral groups, which often take a more political stance. Unlike the Non-Aligned Movement, BRICS appears to be utilised by China to advance economic priorities rather than political agendas. China's objective, as noted, is to expand BRICS significantly, with President Xi Jinping expressing interest in bringing in any nation interested in joining. It was further observed that China's focus within BRICS diverges from other geopolitical matters, with limited concern for conflicts in regions like Ukraine and West Asia. Instead, China's priority lies in enhancing its economic integration with partner countries, driven by economic ambitions rather than political alignment. This economic strategy was identified as a fundamental driving force for China's participation in BRICS.

<u>Response by Dr. Alicia García-Herrero</u>

In her response, Dr. Alicia García-Herrero discussed the concerns vis-à-vis the expansion of BRICS, raising concerns about its implications, especially for India. She questioned the value of an expanded BRICS for India. According to Dr. García-Herrero, the expansion risks turning BRICS into a hub-and-spoke model, potentially dominated by China in alignment with Russia's "de-Westernisation" ambitions. This model could transform BRICS into an economic bloc reinforcing a Sinocentric order, which she found problematic. Dr. García-Herrero candidly acknowledged her outsider perspective, but emphasised that India, as a large and influential country, may not need to attach itself to such blocs. Instead, she argued, India has sufficient influence to act independently on the global stage. She cautioned that the multipolarity BRICS claims to promote might inadvertently support unipolarity under China's influence. Dr. García-Herrero explained that this expansion could sideline other voices within the Global South and restrict India's agency by associating it too closely with a Sinocentric bloc, thus challenging India's status as a key independent player in global politics. She acknowledged China's motivation for creating an economic bloc as part of a broader strategy to establish an alternative to the US-led system. Dr. García-Herrero noted that the US will likely continue pushing for economic bifurcation to protect its hegemony, creating a further incentive for China to develop a self-contained ecosystem of allied economies.

Dr García-Herrero further emphasised the importance of job creation for India as it emerges as a rising power. She highlighted that significant investment is necessary to meet the substantial job demands, particularly after the second term of the current leadership. Despite Europe's declining influence, she pointed out that it remains one of the largest global investors and cautioned against a binary view of economic relationships, suggesting that while complete decoupling from China is not a viable option, India should not become fully dependent upon it. Instead, a balanced approach is essential. To achieve this balance, she recommended attracting investments from Japan, South Korea, and Europe, which could serve as viable alternatives to solely relying on US and Chinese investments. She acknowledged the challenges of engaging with European investors, who often take considerable time to finalise agreements, but stressed that many successful business operations continue without formal agreements. She noted that despite the complexities, these companies are seeking new investment destinations beyond China, suggesting that India could become an attractive option if it provides certainty regarding issues like taxation and regulations. Ultimately, she expressed the hope that India could navigate these dynamics effectively to bolster its economic growth and job creation.

Discussion on Geoeconomics

In light of the recently concluded BRICS Summit, the discussion in the final segment focused on India's approach to geoeconomics, and economic diplomacy. Given initiatives like 'Viksit Bharat', it was asked what changes might be necessary within India's diplomatic structures to emphasise economic diplomacy, setting a foundation for India's future on the global stage.

Drawing a contrast with Japan and China, whose diplomacy increasingly prioritises economic objectives, one issue that was raised was whether India's current diplomatic efforts take adequate account of economic goals. A concern was expressed over India's traditional emphasis on foreign policy through political and security lenses, often sidelining economic priorities. It was highlighted that India needs a strategic, long-term plan to develop its supply chains, not merely through tariffs but by fostering global competitiveness and scale. It was noted that this strategy could be supported by initiatives like the Prime Minister's focus on Mega Industrial Parks and aligning them with educational institutions, ultimately advancing an export-driven model. China's dominance in critical minerals and infrastructure investments across Africa, Latin America, and Central Asia as areas of concern for India was also pointed out. China's economic dependencies with these regions, coupled with its dominance in critical minerals, pose a challenge for India, if it is to secure a foothold in emerging global markets. For India, building strong technological partnerships will be crucial in competing effectively, given the geopolitical and economic shifts shaping the 21st century.

Taking this discussion further, attention was drawn to recent examples that highlight the significant role of private enterprise in economic diplomacy and geoeconomics. Notably, HSBC's participation in China's Interbank Payment System (CIPS) is a sign of the influence of individual banks, in view of the implications of private sector decisions on diplomatic narratives. Japan Metro's IPO was also mentioned, which demonstrates the potential of local companies to attract global investors, and Hyundai's IPO in India was a prime example of international corporate engagement within India. While it may not have performed as expected on its first day, Hyundai's IPO testified to the role of foreign enterprises in India's economic landscape. India's discourse around private enterprise in geo-economics often oscillates between underestimating and overemphasising its role, hence studying the strategies of other nations, such as China, Japan, and even smaller countries, could inform India's approach. Highlighting the influence of global tech giants like Microsoft and Google, whose market capitalisations exceed India's GDP, it was pointed out that the power of private enterprise to shape global norms warrants deeper discussion in India, which could potentially strengthen India's position on the global stage.

Insights were shared on China's evolving economic approach under Xi Jinping and its implications for India. It was highlighted that the China model increasingly co-opts the private sector to serve the strategic goals of the state, marking a departure from a market-oriented growth model. Innovation is thus a central aspect of China's approach. However, it was pointed out that within China's dual circulation strategy, the domestic leg, aimed at boosting internal demand, is struggling. Deflation remains a serious concern, and the reliance on exports as a solution for economic recovery risks creating significant global economic distortions affecting both developed and developing nations. It was emphasised that China's global economic strategy, particularly its pursuit to establish itself as a leader in economic development, demands India's careful and accurate assessment of these strategic changes.

A question was raised regarding the role of non-state companies in China, particularly concerning their global expansion into parts of the Global South. The importance of niche sectors, such as smartphones and similar technologies was highlighted, to understand how these non-state companies align with and fulfil state objectives.

Another participant critiqued India's current development model, contrasting it with China's approach, highlighting how Dr. García-Herrero's presentation effectively integrated political economy with China's development strategy. According to the discussant, India's present development model relies on capital concentration among a few large conglomerates, supported by state resources, which they termed “state capitalism”. Unlike China’s productive, export-driven model, Indian conglomerates are predominantly state-backed and not focused on creating globally competitive products. It was also noted that India’s economic environment, marked by regulatory uncertainty and a convoluted taxation system, has hindered private investments. The country thus risks portraying itself as hostile to private capital. To avoid economic stagnation, India should reduce the capital concentration in conglomerates and focus on the “basics” underpinning China’s growth model, viz., innovation and human capital development. India’s challenges in education were underscored, noting that its GDP expenditure on education is even lower than that of Kazakhstan. Critical introspection and strategic investment was advocated in education and innovation, suggesting that these areas are essential to making India’s economy more resilient and competitive.

Before concluding the discussion, Prof. Chakrabarti thanked Dr. García-Herrero for delivering a stimulating and enlightening presentation as also the participants for attending and contributing their insights and thought-provoking questions which enriched the discussion. Special thanks went to the Chair for his adept and knowledgeable moderation. She further mentioned that Prof. Alka Acharya, Honorary Director, ICS, could not attend due to her travel commitments but sent her regrets. This concluded the formal proceedings.

Image Gallery

Institutional Profile

The **Institute of Chinese Studies (ICS)**, New Delhi is engaged in and committed to interdisciplinary research on China. Apart from the annual All India Conference of China Studies (AICCS), the Institute undertakes various collaborative research programs and multilateral initiatives with prominent institutions in India and abroad, and brings together leading and upcoming scholars through multiple fora. Among its many legacies, it has been conducting the iconic Wednesday Seminar for over 50 years and publishes the *China Report*, a peer-reviewed quarterly journal on China and East Asia, currently in its 59th year of publication.

The **India International Centre (IIC)** is a non-government institution widely regarded as a place where statesmen, diplomats, policymakers, intellectuals, scientists, jurists, writers, artists and members of civil society meet to initiate the exchange of new ideas and knowledge in the spirit of international cooperation. Its purpose, stated in its charter, is 'to promote understanding and amity between the different communities of the world'. In short, the Centre stands for a vision that looks at India as a place where it is possible to initiate dialogues in an atmosphere of amity and understanding.