The New Logic of the Chinese Economy – Insights and Opportunities for India

Mains: *GS III – Economy*

Why in News?

As the global economic landscape faces numerous challenges, China's economic resilience remains a focal point of global attention.

What are the key drivers of china's economic growth?

- **Domestic Consumption –** In 2025, final consumption expenditure contributed *52%* to China's economic growth.
- This shift towards domestic demand reflects *China's increasing focus on consumer spending* as a key driver of economic expansion.
- Contrary to some perceptions, China is not lacking in consumption.
- In fact, the country ranks among the world's top nations in terms of basic consumption.
    - **For instance**, the average Chinese person owns 1.28 mobile phones, the average daily protein intake is 124.6 grams (higher than the U.S. and Japan), and the average annual vegetable consumption is 109.8 kilograms, the highest globally.
- These figures underline the depth of domestic demand and debunk the idea that China's consumption is insufficient.
- **Exports –** China's export sector continues to demonstrate significant resilience, contributing 32.7% to the country's overall economic growth.

> *In 2025**, China's GDP** exceeded 140 trillion yuan (approximately $20 trillion), marking a year-on-year growth of 5%. Contributing about 30% to global economic growth, China's economy continues to showcase robust strength despite external pressures.*

- Despite an unfavorable international trade environment, "Made in China," particularly high-tech products, remain highly competitive in global markets.
- The strength of China's industrial chain and its ongoing investment in innovation have played a key role in this success.
- High-tech product exports, in particular, *grew by 13.2% in 2025*, with stable growth in exports to key markets like ASEAN and the European Union.
- This demonstrates China's ability to adapt to changing market dynamics and continue

expanding its global footprint.

- **Investment –** While investment, or gross capital formation, still contributed *15.3% to China's growth*, the country is clearly undergoing a transition.
- This shift involves moving away from an over-reliance on investment and exports to a more sustainable growth model where domestic consumption plays a leading role, supported by innovation and exports.
- This transition is evident in the advancements made in cutting-edge technologies like AI, quantum computing, and brain-computer interfaces, as well as in the rapid growth of green industries, including renewable electricity and clean energy.
- These emerging sectors are reshaping China's economic landscape, signaling a focus on future growth drivers.
- **China's Export Strategy –** One common misconception about China's exports is the idea of "overcapacity."
- China is not exporting surplus goods but high-quality production capacity and advanced technological solutions that are in demand globally.
- The capacity utilization rate of China's industries stood at *74.4%* in 2025, comparable to the U.S. and EU averages.
- This figure indicates that China's industrial output is in line with global demand, and there is no significant surplus production.
- China's export success is rooted in long-term, high-intensity research and development (R&D), fierce domestic competition, and a comprehensive industrial system.
- Unlike claims of dumping or state subsidies, the global competitiveness of Chinese products is driven by innovation and efficiency.
- Developing countries, in particular, benefit from China's technological exports, using Chinese equipment and solutions to bolster their infrastructure, transition to cleaner energy, and industrialize their economies.
- As economist Jeffrey Sachs aptly pointed out, the Western criticism of Chinese manufacturing is often rooted in "jealousy" rather than economic realities.

What are the prospects of China-India trade?

- **Mitigating the trade deficit –** China-India trade reached a historic high of $155.6 billion in 2025, reflecting the strong economic complementarity between the two nations.
- India imports a significant amount of raw materials and components from China, which are crucial for its own economic development.
- This trade relationship underscores the potential for greater cooperation between the two countries.
- **India's Growing Exports to China –** India's exports to China also showed positive momentum in 2025, reaching $19.7 billion, a year-on-year increase of 9.7%.
- This growth rate was particularly strong in the latter months of 2025, with exports surging by *90% and 67%* in the final two months, respectively.
- This indicates a growing diversification of Indian exports to China and a deeper integration into the Chinese market.
- China, for its part, does not pursue trade surpluses intentionally. The country's trade policy is not based on exploiting imbalances but rather on creating mutual benefits.
- As part of its commitment to global economic integration, China has kept its tariff

levels relatively low, at just 7.3% on average, which is below global norms.

- Additionally, China has continuously reduced the negative list for foreign investments, providing greater access for Indian companies. It is also expanding visa-free policies, making it easier for foreign businesses, including Indian enterprises, to engage with the Chinese market.
- **Expanding Domestic Demand –** One of the most important aspects of China's current economic strategy is its focus on expanding domestic demand.
- The Chinese government has identified this as a top priority for 2026, recognizing the huge potential in catering to its 1.4 billion population, which includes over 400 million middle-income individuals.
- This vast consumer base presents significant opportunities for high-quality Indian products, particularly in sectors such as pharmaceuticals, food, and technology.
- **The Role of Indian Enterprises –** India can benefit from these opportunities by taking proactive steps to tap into the expanding Chinese market.
- Indian enterprises are encouraged to participate in events like the China International Import Expo, which provides a platform for showcasing premium Indian products to a vast Chinese audience.
- By increasing the visibility of Indian products in China, Indian businesses can shift the focus from trade deficits to mutually beneficial trade surpluses.
- India's long-standing trade imbalance with China can be mitigated by increasing the export of value-added goods, rather than just raw materials.
- Indian products, especially in sectors such as IT services, pharmaceuticals, organic food, and handicrafts, are well-positioned to cater to the growing demand for high-quality products in China.
- By focusing on innovation and quality, Indian enterprises can make inroads into China's vast consumer market, helping to balance the trade deficit over time.

What lies ahead?

- The new logic of the Chinese economy highlights the country's resilience and transformation towards a consumption-driven, innovative growth model.
- For India, the growing opportunities in China's expanding market offer a chance to address the trade deficit while fostering deeper economic cooperation.
- By focusing on high-quality exports and leveraging platforms like the China International Import Expo, India can turn the trade imbalance into a win-win situation, benefiting both economies.
- As China continues its economic evolution, India has the opportunity to position itself as a key player in the evolving global economic order, creating shared growth and prosperity for both nations.

Reference

The Hindu| The New Logic of China's Economy

SHANKAR
IAS PARLIAMENT
Information is Empowering