Understanding China's Resilience In the 2025 Turbulences

LI Yao

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Questions

- What is going on?

  Performance in turbulences

- What has Happened?

  Dynamics in the past

- What can we do?

  Big v.s. Small

Main takeaways

- China's economic performance: Resilient but not enough
  - ✓Growth continues
  - ✓Difficulties on multiple fronts
- Past efforts pay off
  - ✓Short-term: Diversification and riding the tide
  - ✓Long-term transition: Go green and digitalization
- We can also ride the tide, but with caution.

A discussion outline

- Headwinds in 2025

  External tensions

  Domestic structural problems

- China’s economic performance

  Growth and its components

  Government’s efforts

- China’s preparations

  Trade Diversifications

  Supply chain shift

  Institutional development

External Tensions: Reciprocal Tariff

April 02 (so call "liberation day"), President Trump announced his reciprocal tariff to ROW, imposing a **34%** additional tariff on China;

China quickly retaliated and become the only country confronting the US;

Both countries quickly escalated the tariff to a prohibitive level: **145%) from the US and 125%) from China**;

The US "blinked" : both countries agreed to reduce tariffs after April 02 to **10%** in Geneva meeting on May 12 even though China is the only retaliating country.

US's Total Tariff on China

Phase One Trade Deal (Jan 2020)

19.5%

10%+10%

Fentanyl Tariff (February and March, 2025)

Reciprocal Tariff (Temporarily, till Nov 10, 2025)

10%

2%

Section 232/301

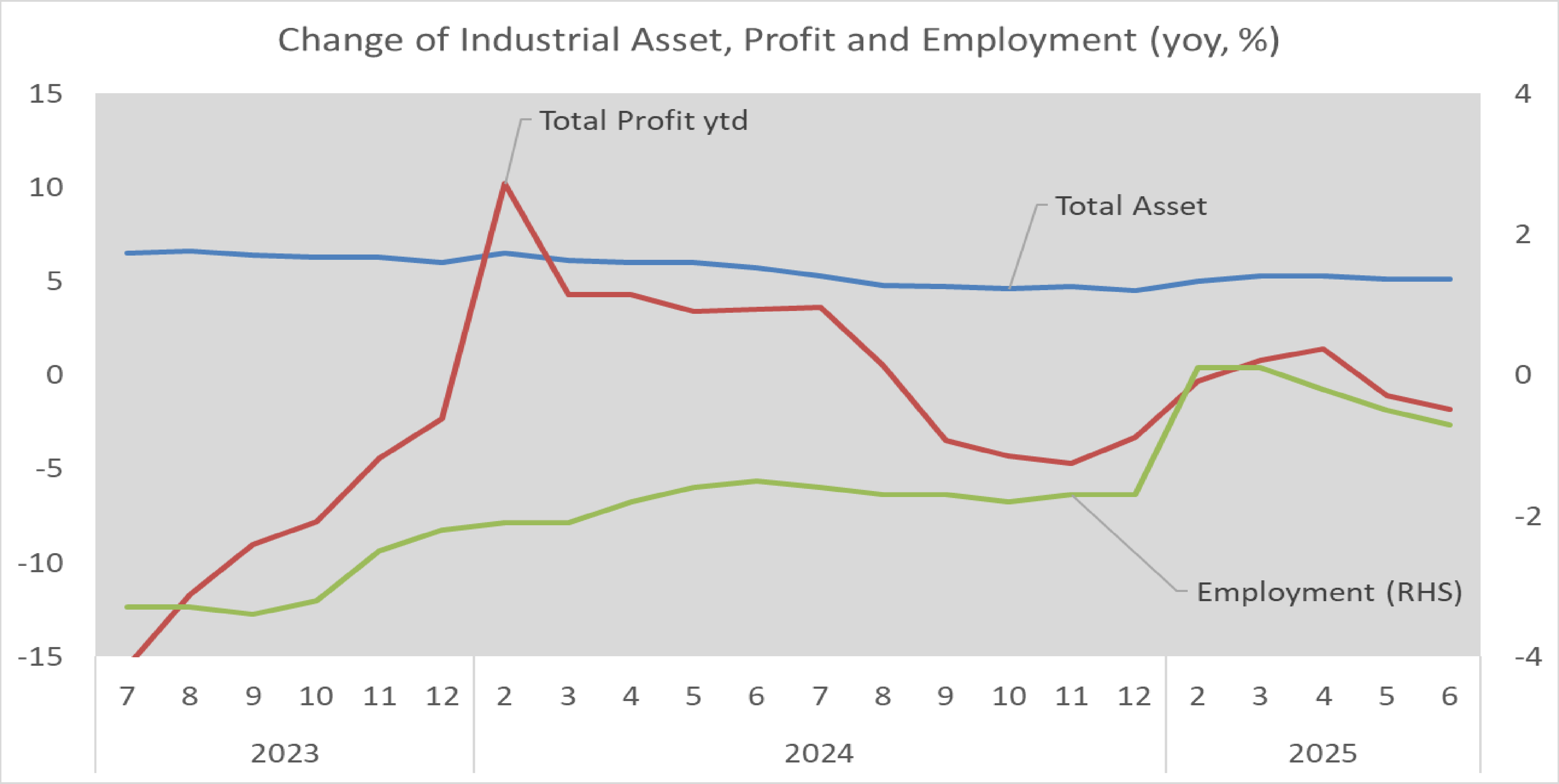
Total: about 51.5%

Top Reciprocal Tariffs

	COUNTRY / TERRITORY	TARIFF RATE		COUNTRY / TERRITORY	TARIFF RATE
1	Syria	41%	11	Brunei	25%
2	Laos	40%	12	India	25%
3	Myanmar	40%	13	Kazakhstan	25%
4	Switzerland	39%	14	Moldova	25%
5	Bosnia and Herzegovina	35%	15	Tunisia	25%
6	Iraq	35%	16	Bangladesh	20%
7	Serbia	35%	17	Sri Lanka	20%
8	Algeria	30%	18	Taiwan	20%
9	Libya	30%	19	Vietnam	20%
10	South Africa	30%	20	Thailand	19%

Source: https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/?utm_source=chatgpt.com

Overcapacity: Profit declines and employment suffers



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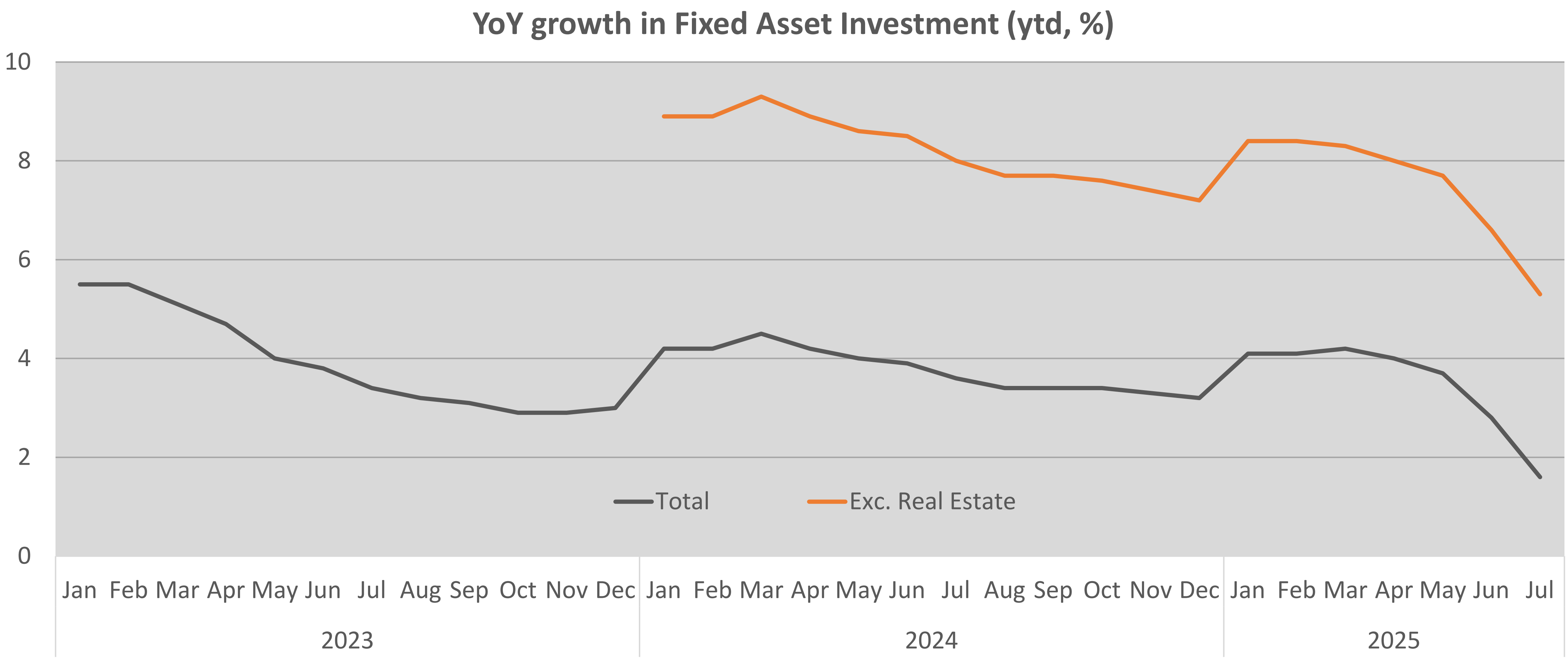
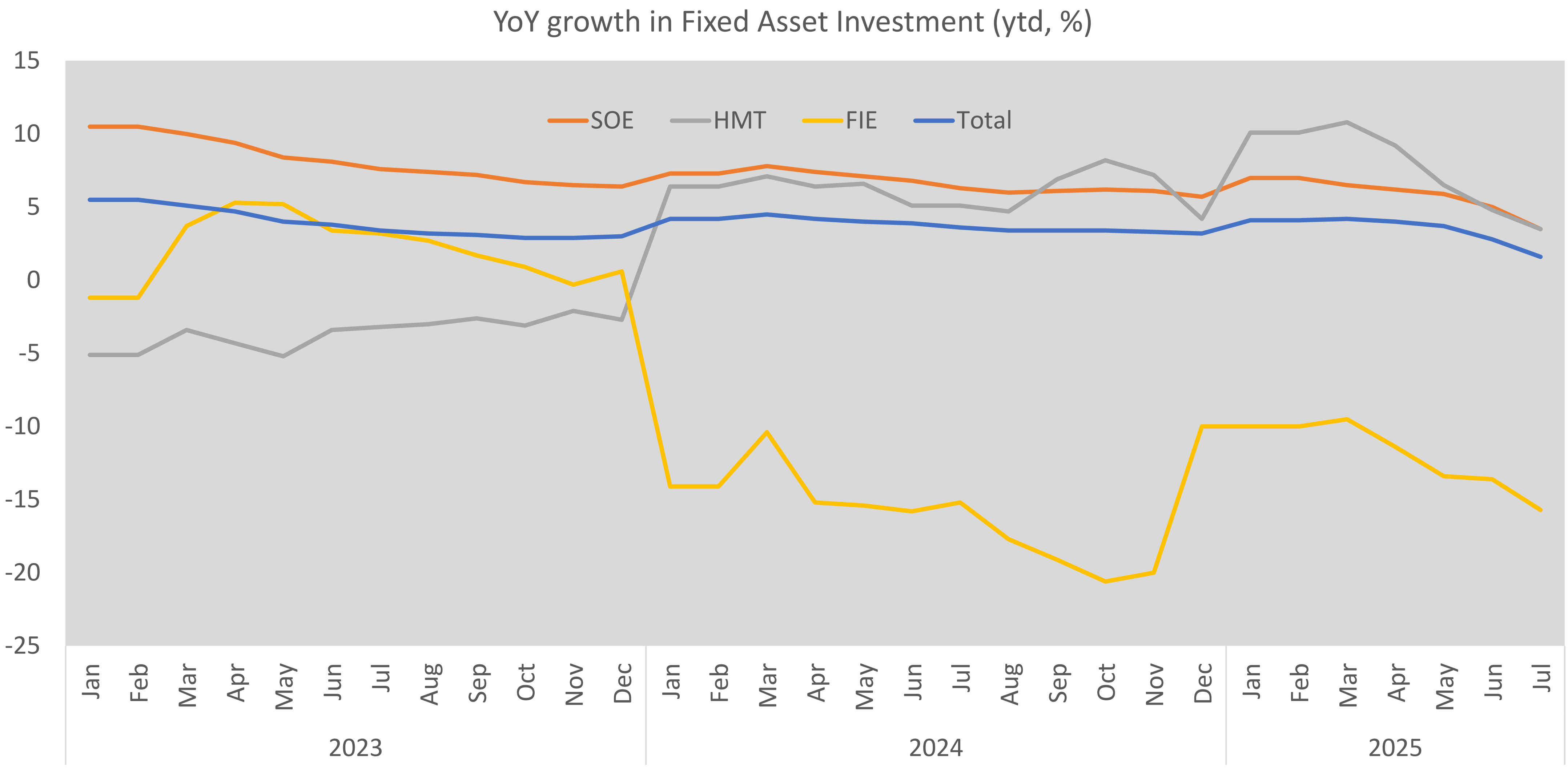
FAI out-paced GDP growth, if excluding real estate, but has slowed down more sharply than in 2024



FAI by “foreign firms” is declining significantly



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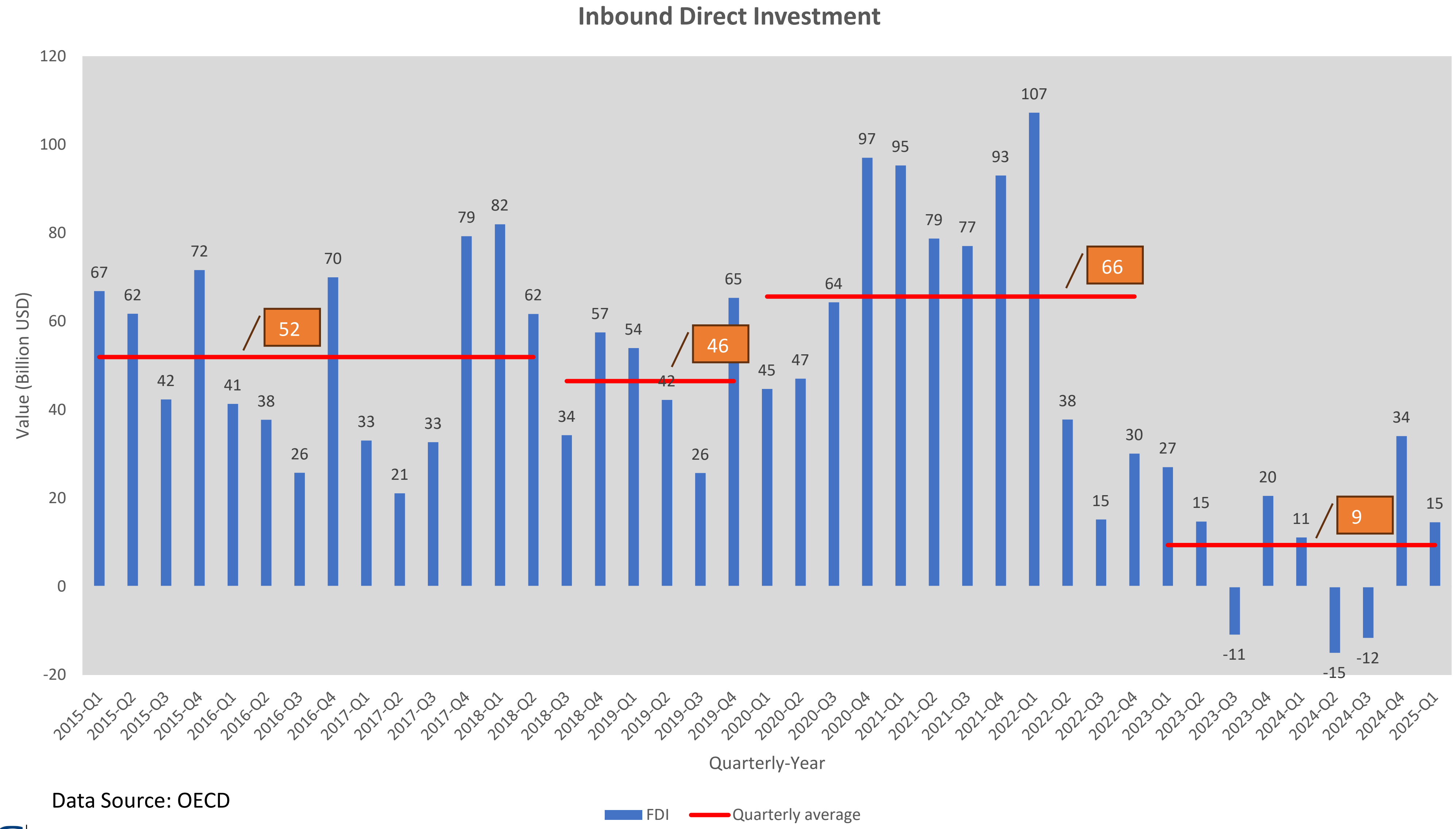
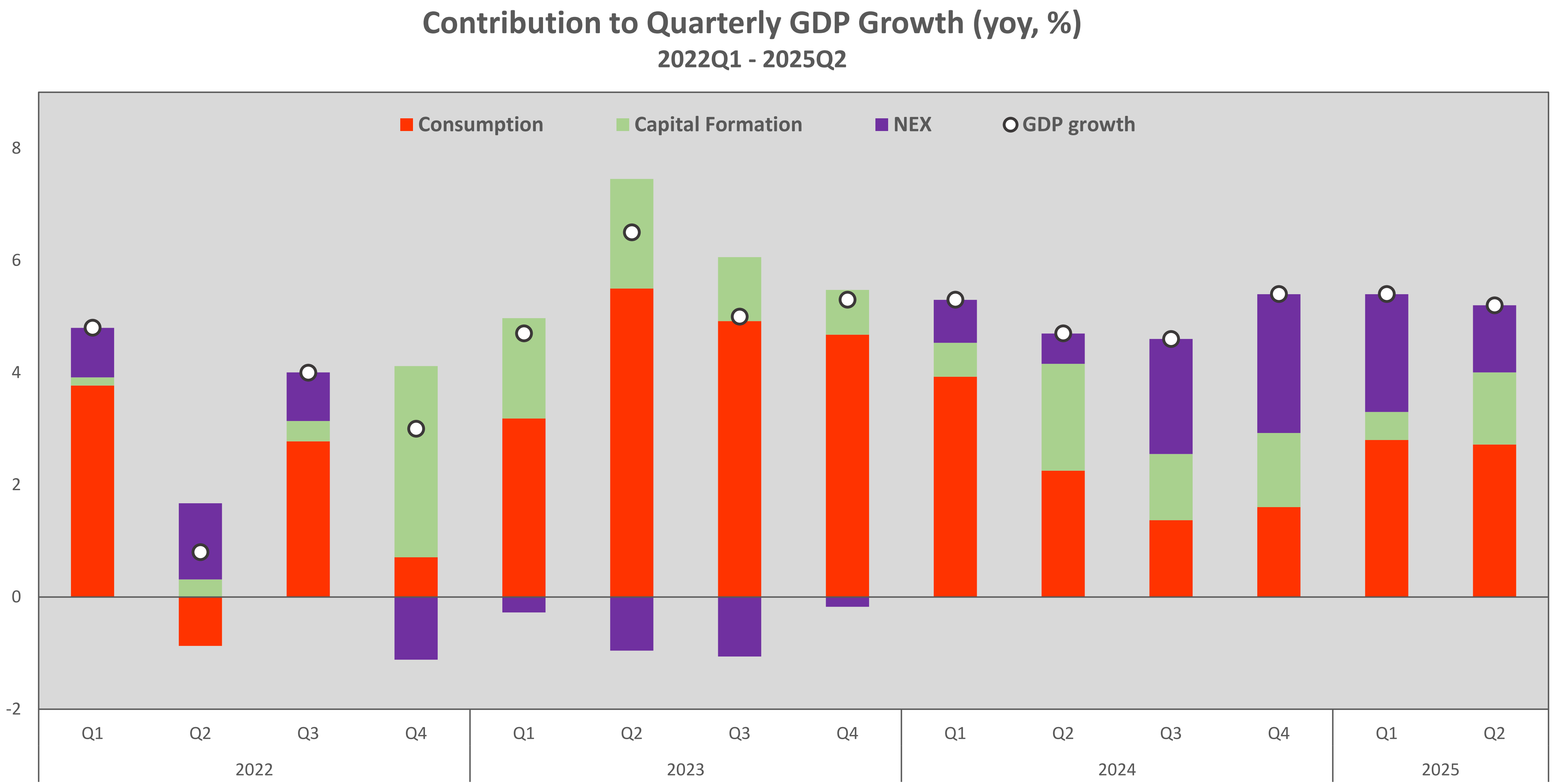
The Impact on Cross-Border Investment



Data Source: OECD

Growth continues but weakened in Q2



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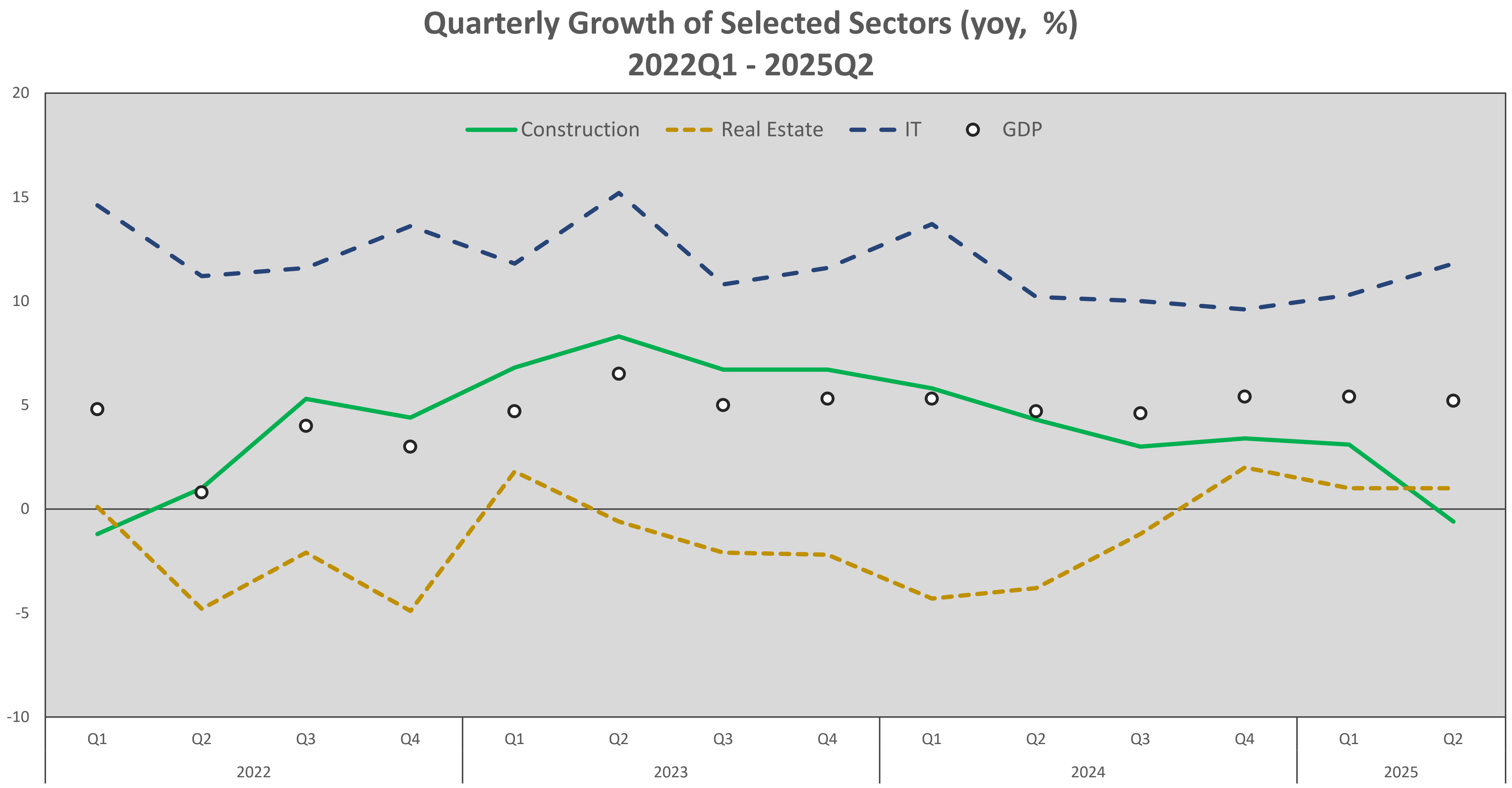
IT related activities outperformed



China’s Trade Performance

Export Resilience

China’ s export exhibits somewhat surprising resilience, with positive global growth regardless of the heavy tariffs;

The ASEAN Market

ASEAN proved pivotal, effectively absorbing US market shock.

Export Destination	2025-01	2025-02	2025-03	2025-04	2025-05	2025-06	2025-07
The United States	47,795	27,764	40,061	33,024	28,819	38,170	35,827
	(12.11%)	(-9.82%)	(9.09%)	(-21.03%)	(-34.52%)	(-16.13%)	(-21.67%)
ASEAN	50,994	36,200	58,982	60,352	58,374	58,235	54,626
	(3.15%)	(8.76%)	(11.55%)	(20.80%)	(14.84%)	(16.92%)	(16.59%)
The EU	48,654	30,390	43,057	46,715	49,502	49,220	50,000
	(10.83%)	(-11.55%)	(10.30%)	(8.27%)	(12.02%)	(7.59%)	(9.24%)
Japan and Korea	26,206	18,423	26,812	26,010	25,713	25,698	24,833
	(-0.78%)	(-1.06%)	(2.90%)	(3.67%)	(2.42%)	(-0.16%)	(3.52%)
Canada and Mexico	12,113	8,021	11,422	11,776	12,548	11,732	12,320
	(5.60%)	(-12.70%)	(10.02%)	(5.60%)	(5.18%)	(-7.75%)	(-0.07%)
World	324,314	214,822	313,271	315,229	315,803	325,140	321,784
	(5.91%)	(-3.08%)	(12.23%)	(8.06%)	(4.71%)	(5.83%)	(7.18%)

Data Source: Customs General of China via CEIC

Note: data in brackets are yoy per cent changes

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Government's Efforts

Macroeconomic policies led to mixed outcome

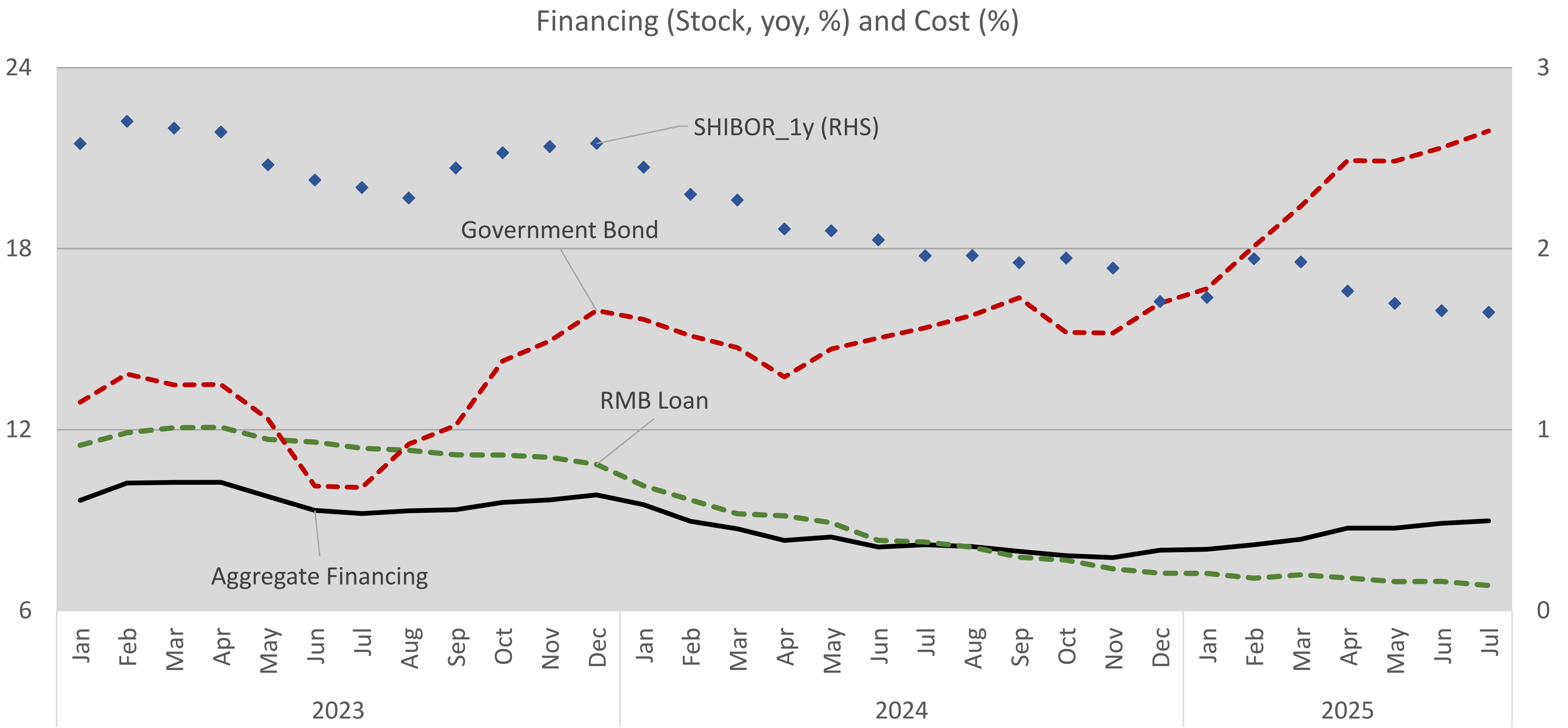
- Monetary: targeted support, lower financing cost
- Fiscal policies:
  - ✓Consumption: trade-in programs; support for tourism, services, housing
  - ✓Investment: Two New and Two Important
  - ✓Real estate: Urban Renewal Actions

Government's Efforts

Macroeconomic policies led to mixed outcome

- To improve business environment:
  - ✓Anti-involution
  - ✓Economic opening: shortening of the negative list, Visa free, Hainan FTP, RCEP and FTAs, Financial Opening, <u>tighter screening in sensitive sectors</u>

Limited monetary policy effectiveness:



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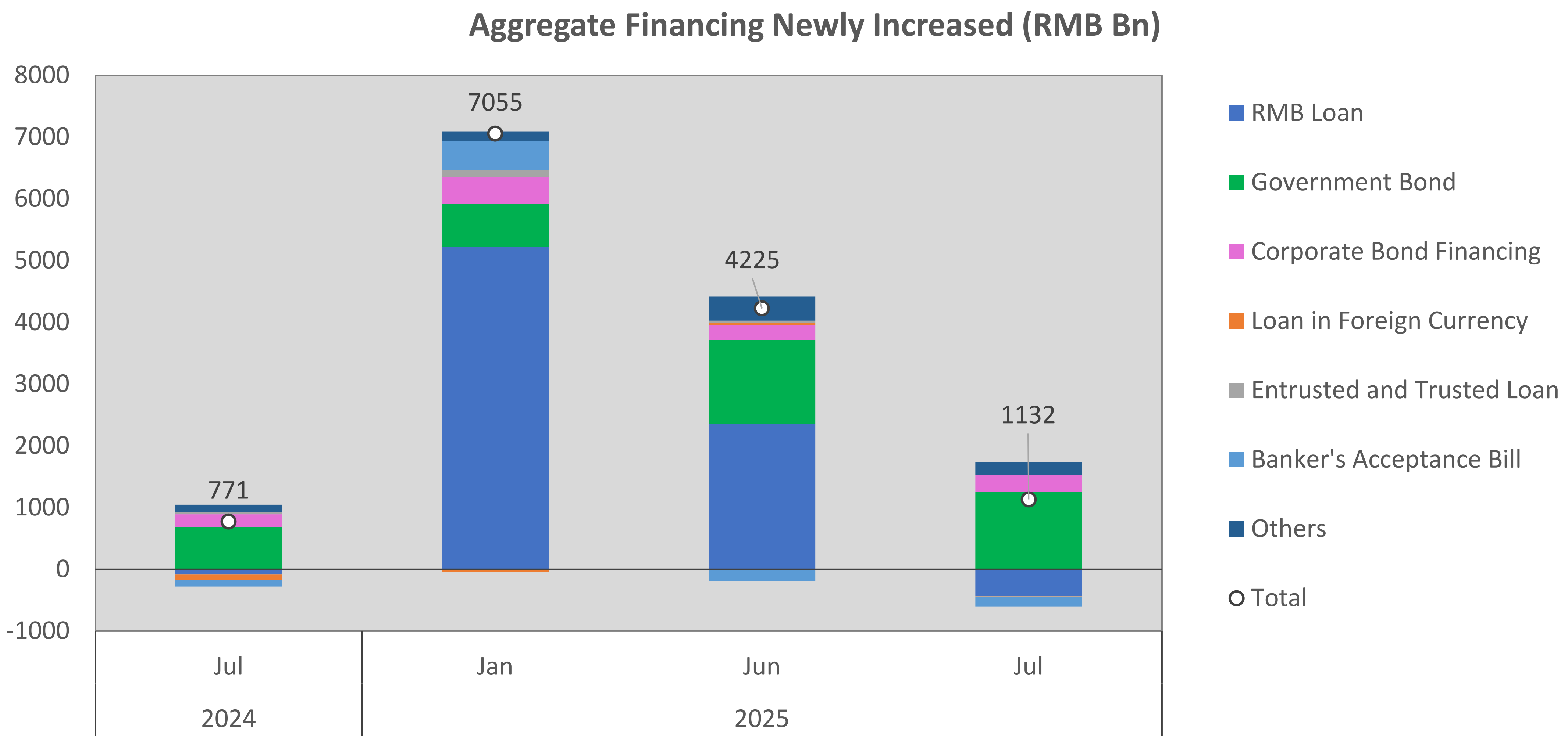
Government is making a strong push



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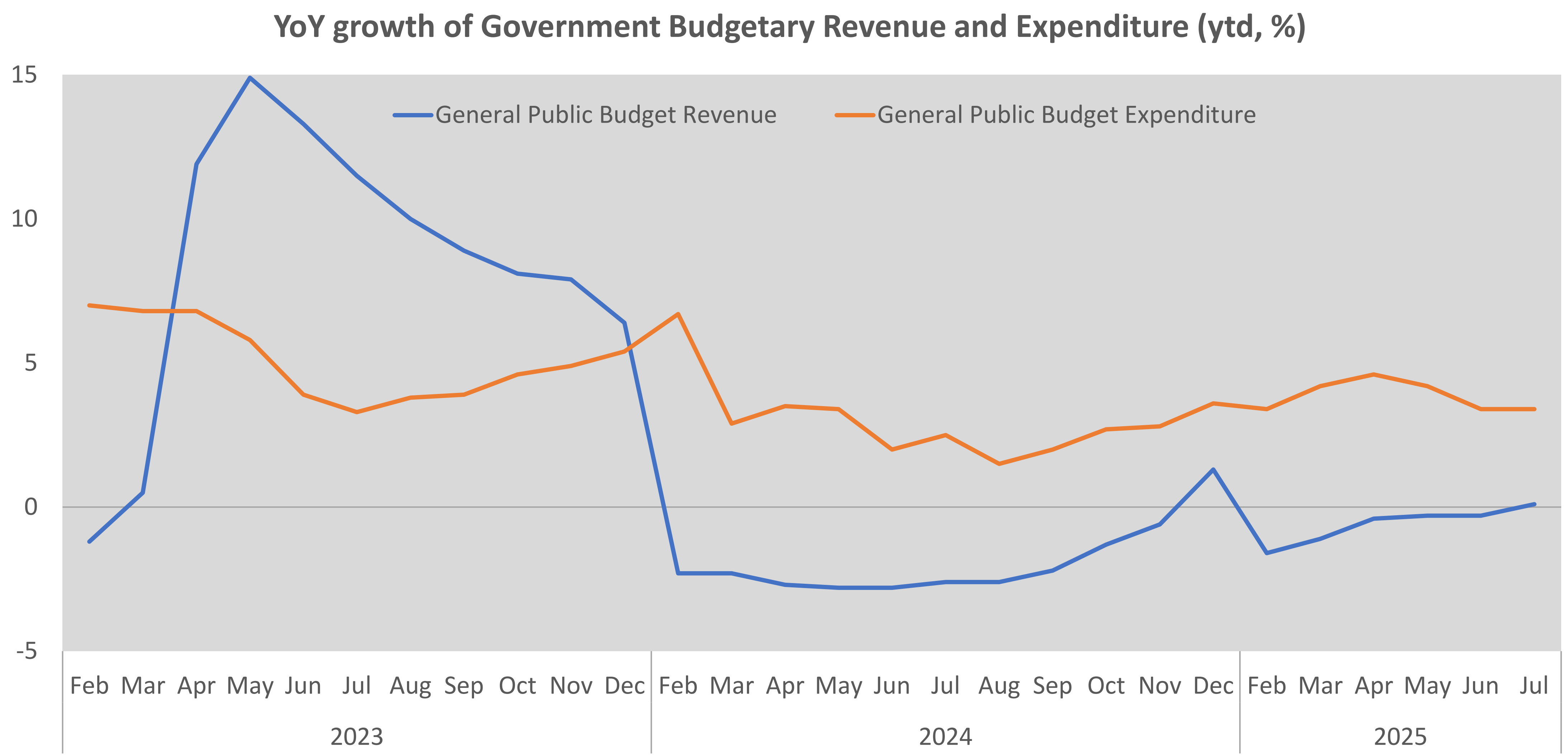
Government debt continues to increase:



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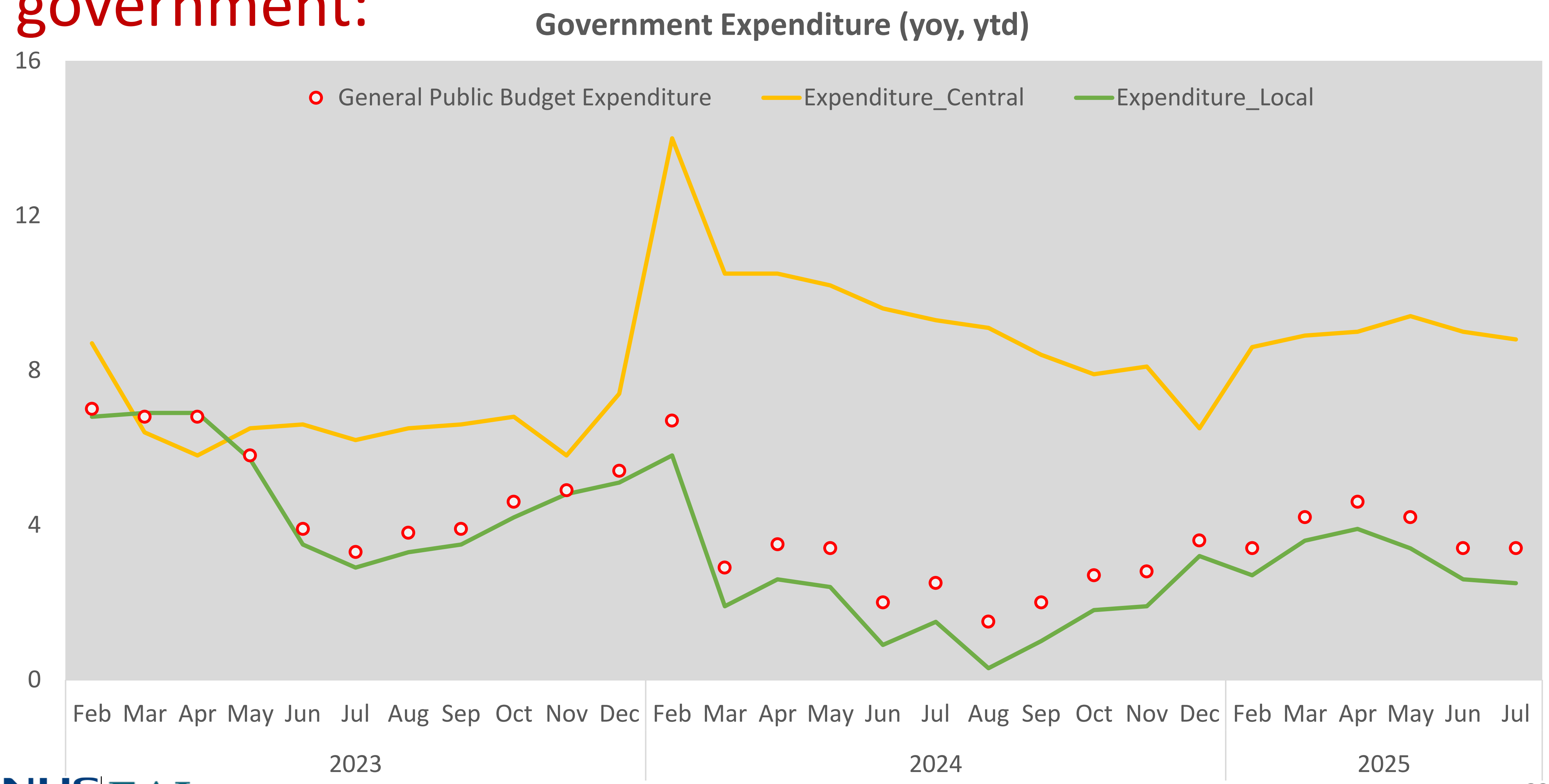
Higher expenditure expansion by the central government:



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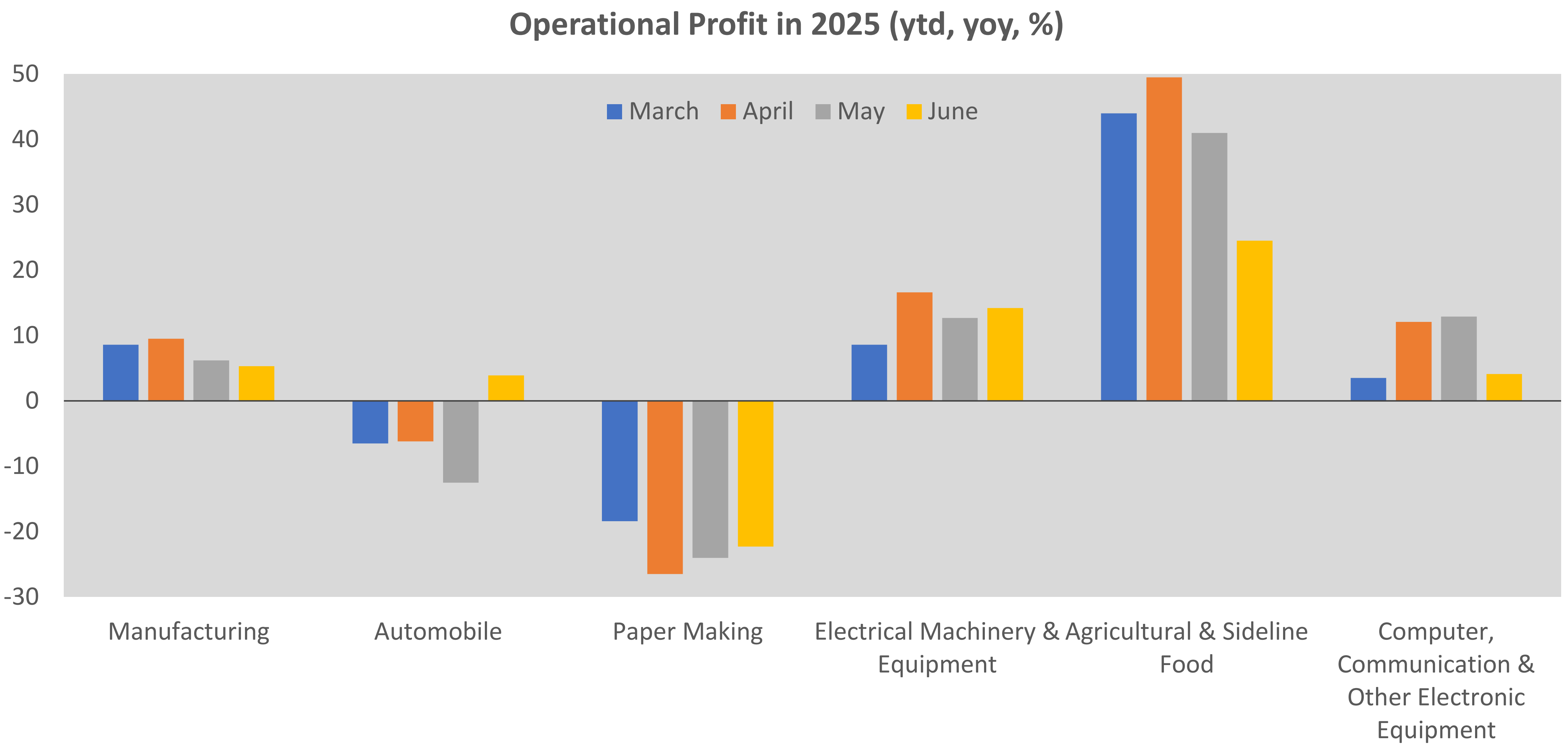
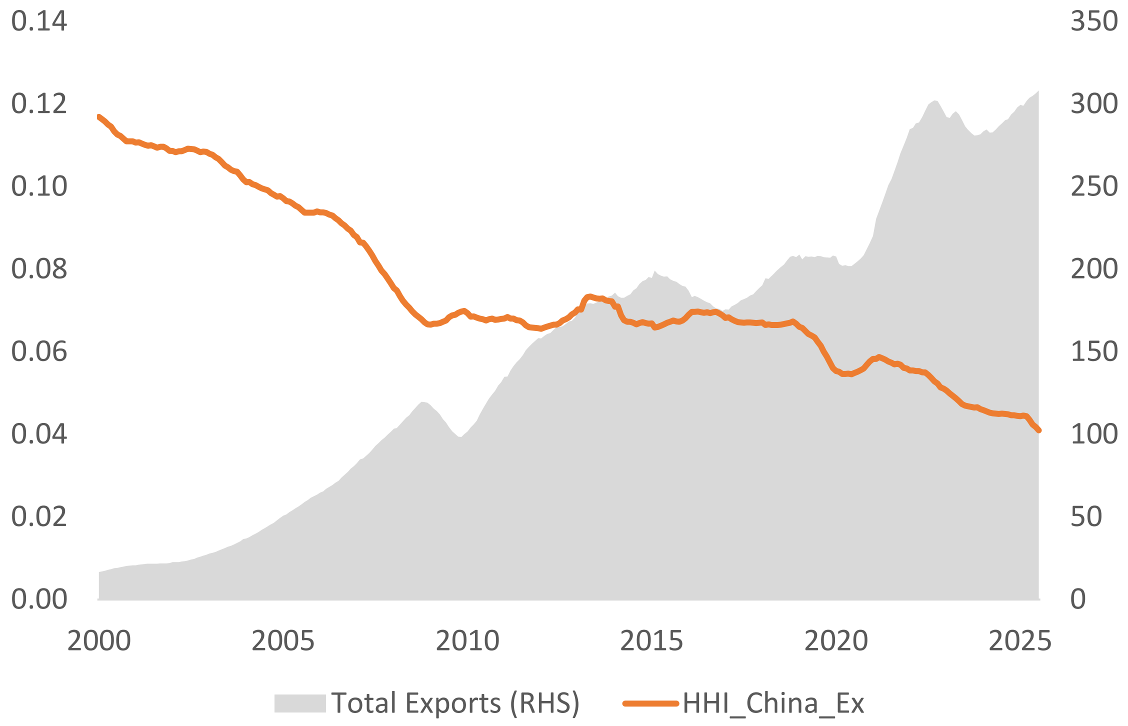
YoY growth in General Budgetary Expenditure: Jan-July 2025, %

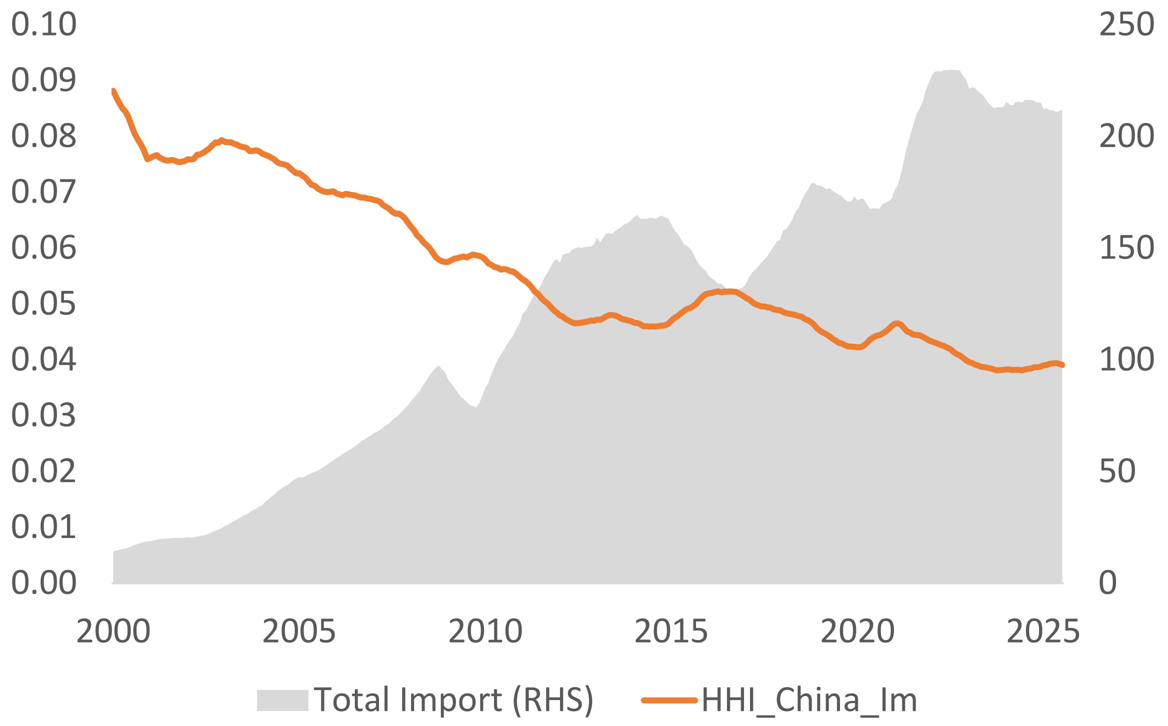
General Public Budget Expenditure	**3.4**
Expenditure: Central	8.8
Expenditure: Local	2.5
Social Security & Employment	9.8
Interest Payment for Debt	6.4
Education	5.7
Health	5.3
Culture, Sport & Media	5.3
Environment Protection	4.3
Science & Technology	3.2
Transportation	-3.3
Urban & Rural Community Affairs	-3.5
Affairs of Agriculture, Forest & Irrigation	-7.7

Impacts on manufacturing mixed:

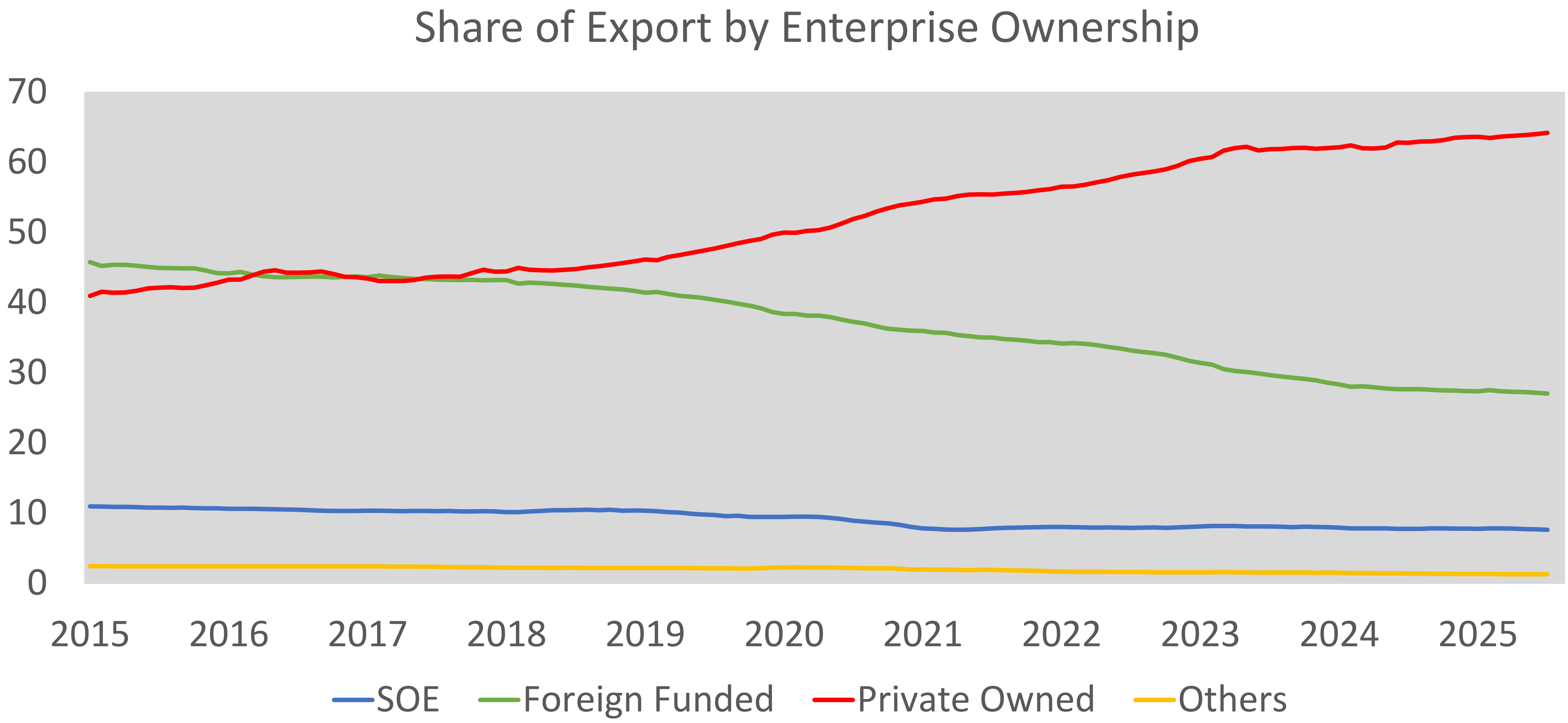


Trade Diversification

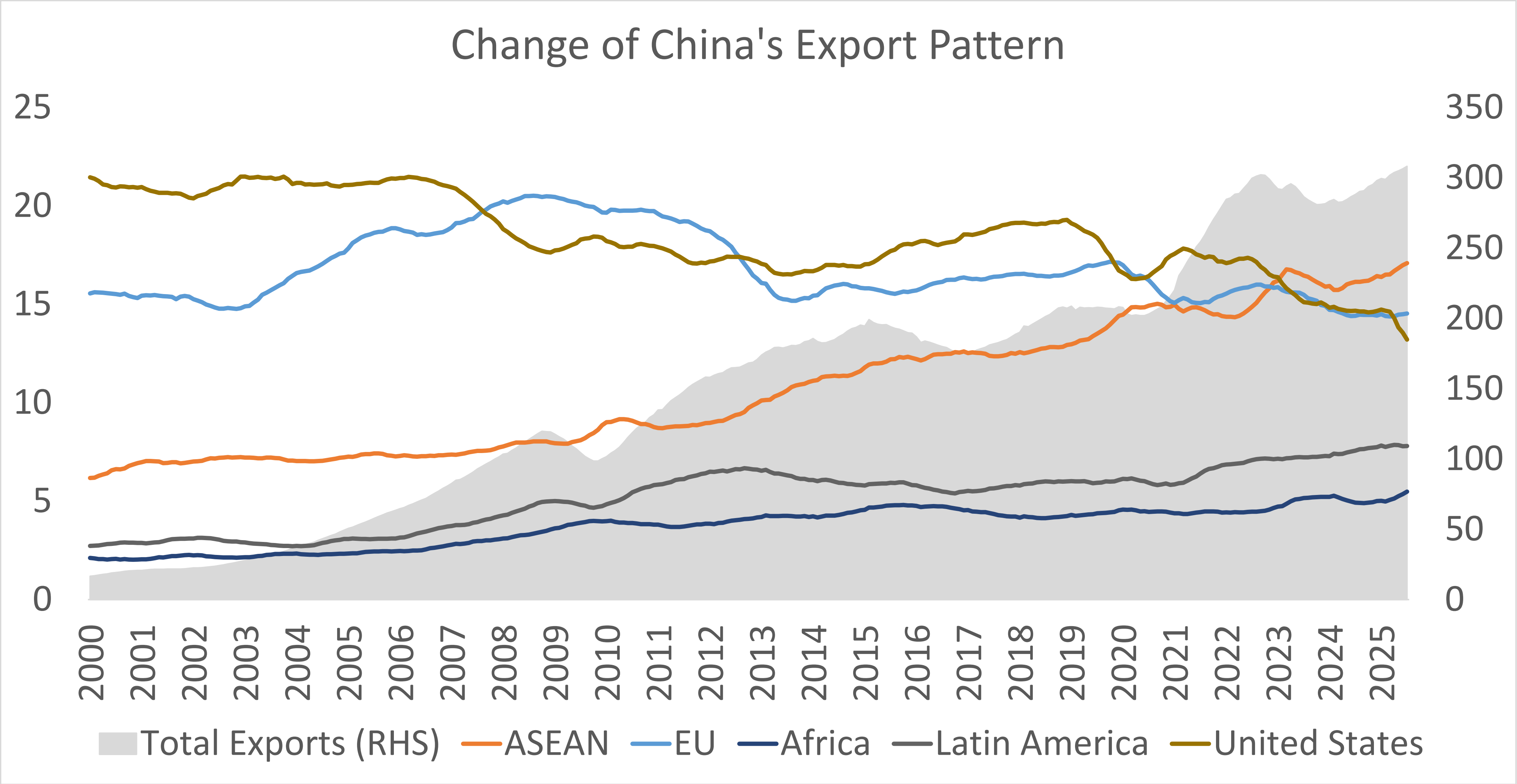




Profit driven diversification



Trade Diversification under Geopolitical Strains



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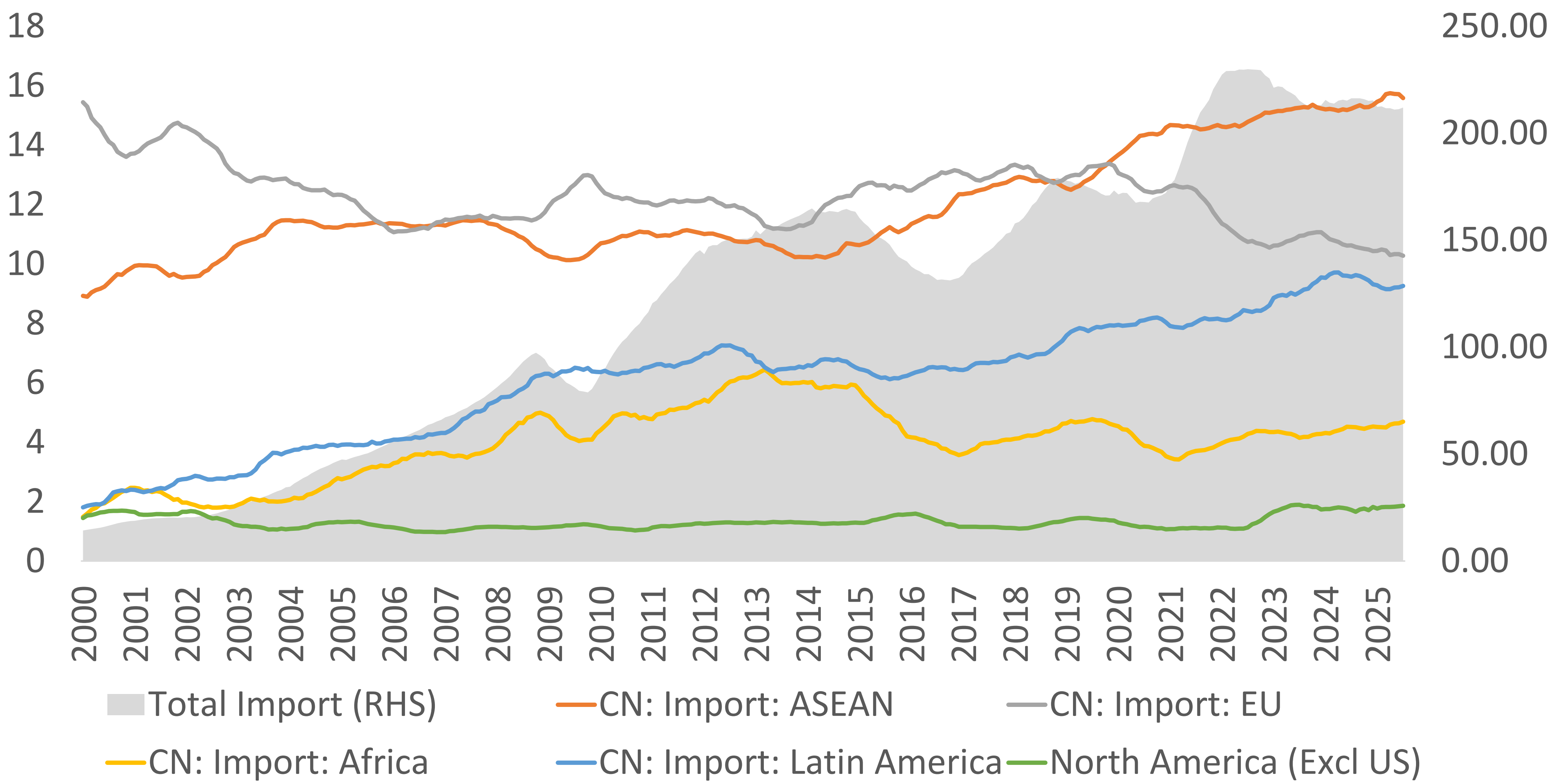
Trade Diversification &Supply Chain Shift



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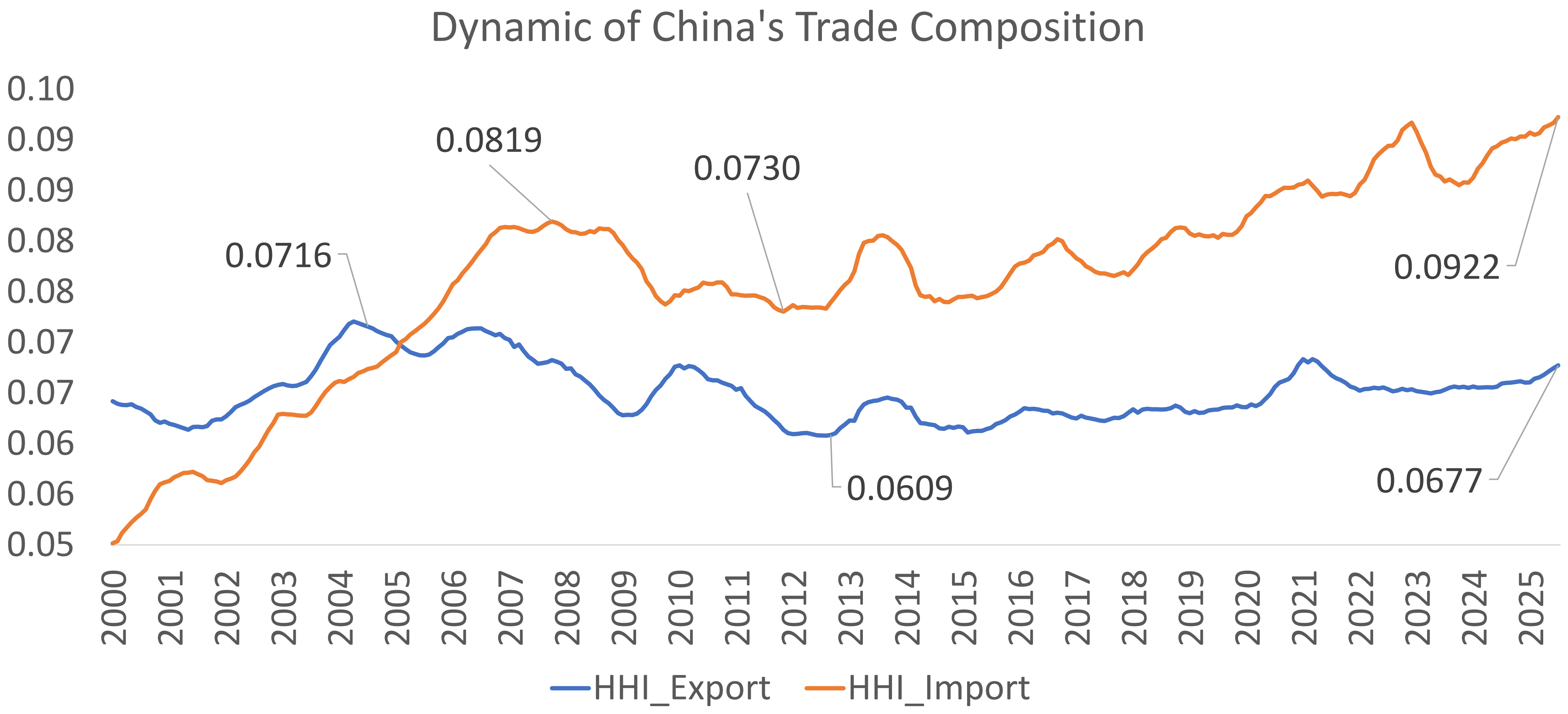
Climbing the Supply Chain



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Riding the Tide: Supply Chain Shift

Export Sector	2000		2016		2024		2025	
	Rank	Share	Rank	Share	Rank	Share	Rank	Share
Apparel and Clothing Accessory	1	14%	4	8%	7	5%	7	5%
Electrical Machinery, Apparatus & Appliances, & Part	2	10%	2	13%	1	18%	1	18%
Misc Manufactured Article	3	9%	5	7%	3	7%	4	7%
Telecom & Sound Recording & Reproducing Apparatus & Equipment	4	8%	1	13%	2	9%	2	9%
Office and ADP Machine	5	7%	3	8%	5	6%	6	6%
Textile Yarn, Fabric, Made-Up Article & Related Product	6	6%	6	5%	9	4%	9	4%
Footwear	7	4%	13	2%	18	1%	19	1%
Manufacture of Metal	8	3%	8	4%	8	4%	8	4%
Road Vehicle, Air-Cushion Vehicle	9	3%	9	3%	4	7%	3	7%
General Industry Machinery and Equipment & Machine Part	10	2%	7	5%	6	6%	5	6%

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Riding the Tide: Supply Chain Shift

Import Sector	2000		2011		2016		2024		2025	
	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share
Electrical Machinery, Apparatus & Appliances & Part	1	16%	1	17%	1	23%	1	22%	1	22%
Petroleum & Related Material	2	8%	2	14%	2	9%	2	15%	2	14%
Textile Yarn, Fabric & Related Product	3	6%	20	1%	24	1%	37	0%	36	0%
Telecom & Sound Recording & Reproducing Apparatus & Equipment	4	6%	12	3%	6	4%	15	2%	13	2%
Plastic in Primary Form	5	5%	10	3%	8	3%	16	2%	15	2%
Office and ADP Machine	6	5%	7	3%	7	3%	5	3%	4	4%
Machinery Specialized for Particular Industry	7	5%	9	3%	13	2%	7	3%	7	3%
Iron and Steel	8	4%	15	2%	22	1%	17	1%	17	1%
Organic Chemical	9	4%	6	4%	9	3%	13	2%	10	2%
General Industry Machinery, nes and Equipment & Parts	10	3%	11	3%	10	3%	14	2%	14	2%

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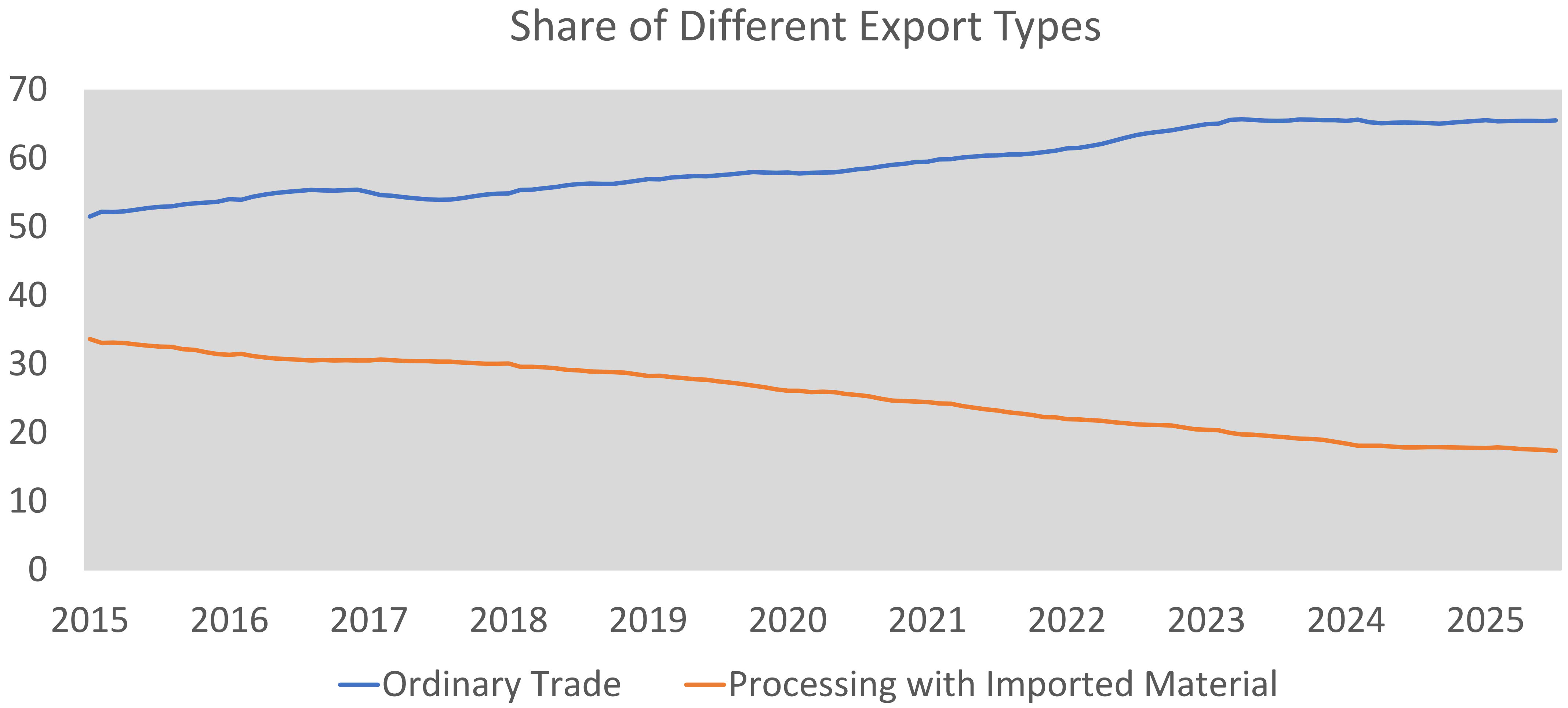
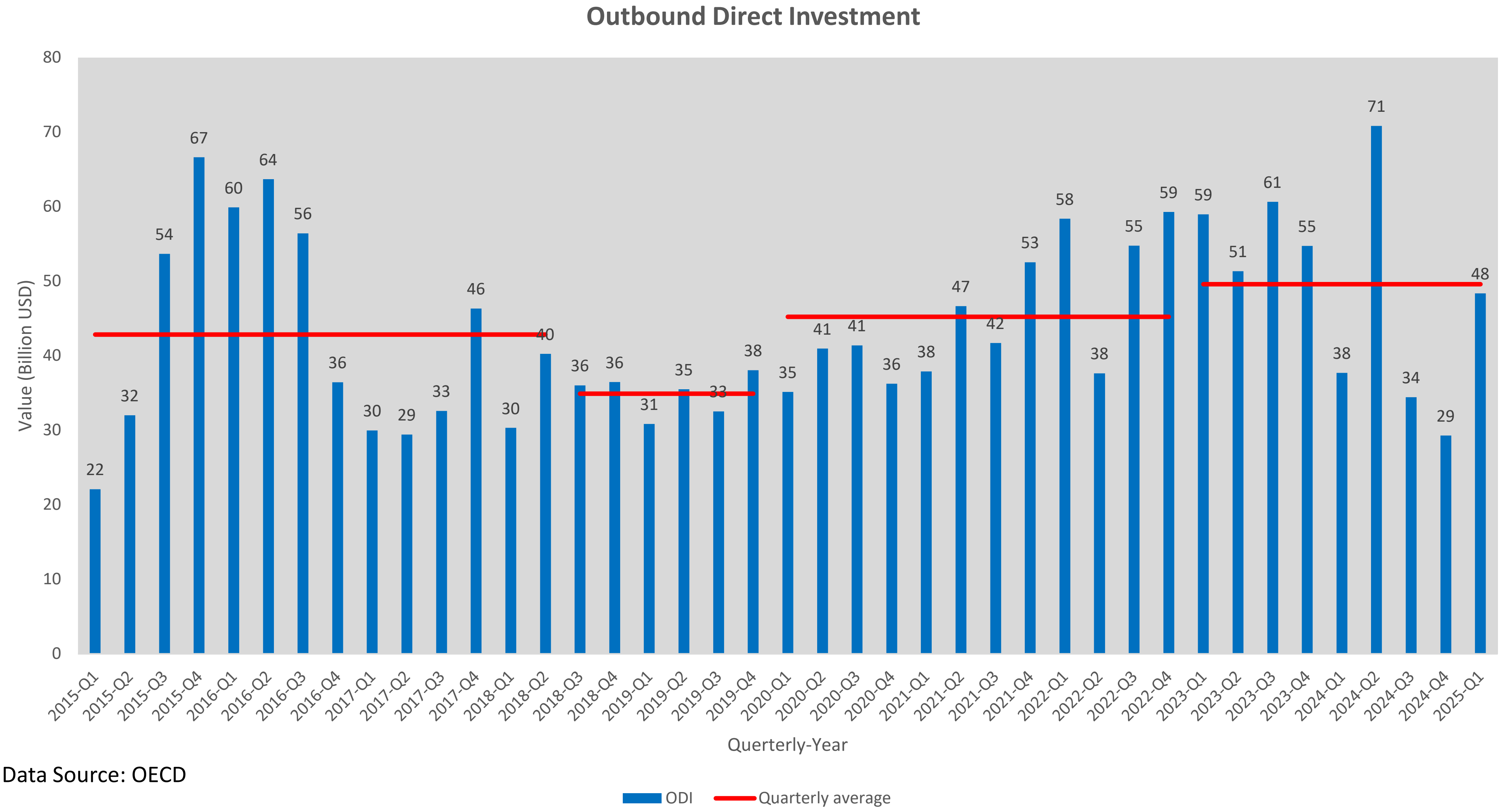
Riding the Tide: Supply Chain Shift



The Impact on Cross-Border Investment (Cont'd)



Data Source: OECD

China's Oversea Industrial Parks

- **Motivations**
  - To counter the impact of trade protectionism
  - To transfer overcapacity
  - To strengthen bilateral relationships
  - To promote economic development of host nations
- **Something Different recently**
  - Supply chain related: emphasize more on development of ecosystem and cluster of industries
  - From trade replacement to Supplement of trade:
  - More SMEs: going abroad together

==> more in RCEP region

OETCZs in ASEAN

- ASEAN region is the largest host region
- Since 2020, ASEAN become even more important

Region	1992-2024Sep		Since 2020	
	Number	Share, %	Number	Share, %
Africa	61	24.2	6	22.2
Europe (Exclu. Russia)	24	9.5	4	14.8
Russia	50	19.8	1	3.7
Asia	108	42.9	15	55.6
Southeast Asia	69	27.4	13	48.1
North America	4	1.6	0	0.0
Lartin America	4	1.6	1	3.7
South Pacific	1	0.4	0	0.0
	252	100	27	100

OETCZs in ASEAN: Capical Source

ASEAN v.s. other regions: More from eastern China, shift of overcapacity

Sub-Regions	1992-2024Sep				Since 2020			
	All		ASEAN		All		ASEAN	
	Number	Share, %	Number	Share, %	Number	Share, %	Number	Share, %
East	116	46.0	43	62.3	11	40.7	9	69.2
West	34	13.5	12	17.4	1	3.7	1	7.7
Northeast	49	19.4	2	2.9	1	3.7	0	0.0
Middle	53	21.0	12	17.4	14	51.9	3	23.1
Total	252	100	69	100	27	100.0	13.0	100.0

China’s Oversea Industrial Parks

Types of OETCZs	All		ASEAN Countries	
	Number	Share, %	Number	Share, %
Agriculture	75	29.8	11	15.9
Business and Logistics	28	11.1	5	7.2
High-Tech	17	6.7	4	5.8
Manufacturing	106	42.1	33	47.8
Mining Resource	26	10.3	16	23.2
Total	252	100	69	100

Source: Various online information and the 2022 Report on China's Foreign Investment and Cooperation Development.

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Institutional Development

- Capital flow regulation: AML/CFT compliance.
- Investment regulation: IPO oversight, investor protection.
- Dispute resolution: Arbitration, mediation, and litigation.
- Institutional milestones: CICC, MOUs, BITs.
  - By the end of January 2025, China has signed 148 BITs with 109 in force (Cambodia, Laos, Malaysia, Myanmar, Philippines, Thailand, Viet Nam). And 30 Investment Related Instruments in force, including China - ASEAN - China Framework Agreement (2002), Singapore FTA (2008), ASEAN - China Investment Agreement (2009), RCEP (2020)
  - ASEAN as a group, has 14 Treaties with Investment Provisions (TIPs) in force.

Progress of Judicial Cooperation

- Institutional convergence through MOUs and regional platforms.
  - Over 20 MOUs signed between Chinese authorities (PBoC, CSRC, SPC) and ASEAN regulators/courts.
  - Platforms used: ASEAN Law Association (ALA); RCEP legal committees; APG/FATF for AML compliance
  - Key MOUs: CSRC–MAS (securities enforcement); SPC–Supreme Court of Singapore (judgment enforcement);ASEAN+3 Macroeconomic Research Offi

Key Bilateral MOUs Between China and ASEAN Counterparts

MOU Type	Counterpart	Year Signed
Licensing	PBoC–MAS	2015
Securities Enforcement	CSRC–MAS	2015
Judgment Enforcement	SPC–Singapore Supreme Court	2021
AML/Compliance	PBoC–AMRO/APG	2018

Case Studies

- Indonesia–China Power Project Dispute arbitrated by the China International Economic and Trade Arbitration Commission (CIETAC), 2022 and 2025.

- **Background:** Two major disputes arose from long-term Indonesia–China power infrastructure projects under the Belt and Road Initiative, triggered by currency risks (2022) and evolving project expectations (2025).
- Both arbitrated by CIETAC with multinational legal teams and international experts handling extensive technical, legal, and factual issues.
- **Case 2022:** Spanning 15 years, involved 353 GB of documents, over 100,000 pages of English-language evidence, 159 disputed issues, and participation from 65 lawyers and 14 witnesses across five countries.
- **Outcome:** The arbitral tribunal issued a clear award, largely upholding the claimant's position and clarifying construction timelines and stakeholder responsibilities.
- **Significance:** These cases mark landmark examples of BRI-related dispute resolution, with the 2025 case pioneering the use of the UK SCL's "Retrospective Longest Path Analysis" method in resolving complex international project delays.

Case Studies

Thai arbitration award enforced in Dongguan (2023).

Parties: Amita Technology (Thailand) vs. Dongguan X Yu Automatic Equipment Co., Ltd. in a sales contract.

Arbitration: Conducted in Thailand under local arbitration rules.

Outcome: Dongguan court enforced the arbitral award under the **New York Convention**.

Significance: Reinforces credibility of ASEAN-based arbitral awards within Chinese jurisdiction.

Challenges to Ride the Tide

- **Constraints within ASEAN**
  - ✓Low RCEP take-up & compliance capacity.
  - ✓Regulatory fragmentation
  - ✓Finance gaps for transitions
  - ✓Spillovers of conflict within or between members.
- **Geopolitical & external pressures**
  - ✓US–China rivalry & tariff uncertainty
  - ✓South China Sea tensions
- **Regional/structural challenges in the China–ASEAN interface.**
  - ✓Overcapacity & trade-remedy headwinds
  - ✓Data/tech governance frictions
  - ✓Debt sustainability in smaller economies

Thank you for your attention!