CIO View

APAC CIO View

August 22, 2024
Marketing material

China and India Focus on Fiscal Discipline

Ivy-sw Ng
APAC Chief
Investment Officer

Tommy Law
Institutional Product
Specialist Analyst

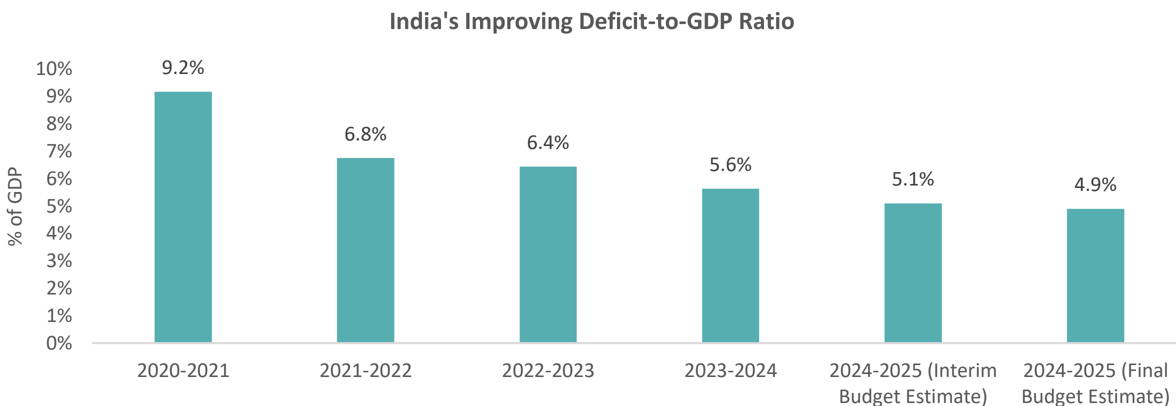
IN A NUTSHELL

- From the Third Plenum in China to the first budget speech under the third term of the Modi government in India, it seems both nations are charting a course focused on curbing excessive spending, which is a notable shift from the more supportive economic approaches we have seen in the past.
- While there are similarities in terms of optimizing tax revenues, curbing speculation and promoting growth in key sectors between China and India, significantly different approaches are adopted to deliver these results.
- Although the cut of large-scale spending might be unpopular in the short term, it could also lay the groundwork for more sustainable and stable economic growth. Only time will tell if this approach pays off for the citizens of these economic powerhouses.

The recent government speeches in China and India have struck a relatively prudent tone when it comes to fiscal policy. From the Third Plenum in China to the first budget speech under the third term of the Modi government in India, it seems both nations are charting a course that starts to focus on fiscal discipline rather than large-scale distribution of funds.

Both the Chinese and Indian governments appear intent on reining in excessive spending and direct handouts to the public. In China, there was little focus on supporting consumption beyond the Renminbi (RMB) 300 billion funds released from the RMB 1 trillion insurance of ultra-long special Central Government Bonds. In India, the government maintained capital expenditure at Rupees (Rs) 11.1 trillion while lowering the estimated budget deficit to 4.9% of GDP down from the 5.1% budgeted in February.

Chart 1: India Budget Deficit-to-GDP Ratio: 2020 – 2025E



Source: DWS, India Budget Estimates, as of July 30, 2024

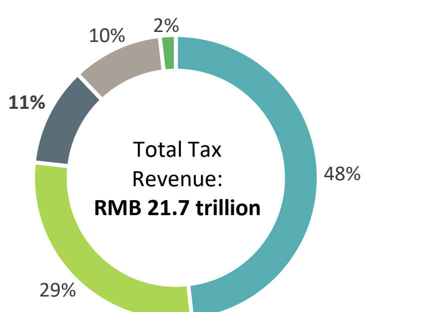
Both countries appear to be prioritizing ways to optimize tax revenue. In China, Securities Times have revealed the potential for new taxes to be levied by local governments to fund local government spending amid falling fiscal income as a result of slowing economy. India also increased capital gains tax on financial assets, raising short-term capital gain tax from 15% to 20% and long-

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH.

term capital gains tax from 10% to 12.5%. However, while China plans to increase consumption tax to improve local government finances, India is providing tax relief to individuals and cutting corporate tax rates. Closely related is China's continued promotion of growth through supply-led policies, such as encouraging private investment in key growth industries like artificial intelligence (AI) and quantum science. In sharp contrast, India is placing its bets on growing the economy through private consumption, although the tax cut does not benefit a significant portion of the population and therefore might have a limited impact on boosting consumption.

Chart 2: China Tax Revenue by Type 2023

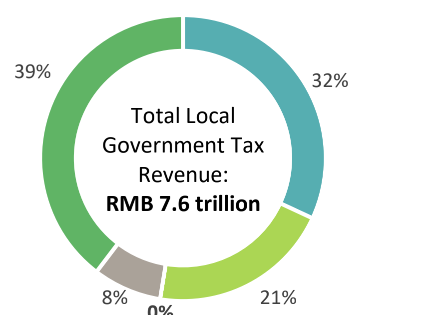
Consumption Tax at the Centre of China Tax Reform



Value-added Tax · Corporate Tax · Consumption Tax · Income Tax · Custom Duties

Chart 3: China Local Government Share of Tax Revenue 2022

Local Government Currently Does not Have a Share of Consumption Tax



Value-added Tax · Corporate Tax · Consumption Tax · Income Tax · Others

Source: National Bureau of Statistics of China, as of July 30, 2024

Speculation, particularly in the property market, is also clearly in the crosshairs. China's consistent reluctance to bail out unsold property inventory and India's move to remove inflation indexation benefits for capital gain tax send a clear message − the days of unbridled real estate speculation may also come to an end in India.

Besides reining in excessive spending and optimizing tax revenue, manufacturing growth is a key priority for both India and China as they have logically thought out their self-reliance strategies. In India, they have lowered import duties for equipment used in solar and specific telecom equipment manufacturing and introduced a credit guarantee scheme targeted at small and medium-sized Enterprises (SMEs). In China, the reform resolution pledged to keep the share of manufacturing stable and lower its cost and tax burden, while promoting high-tech sectors such as new-generation IT, AI, new energy, and new materials.

While there are similarities, there are also differences. China has put more emphasis on the role of local governments and state-owned enterprises (SOEs) in the third plenum. For SOEs, the resolution highlights their role in key sectors related to national security, public welfare, and strategic emerging sectors. Further SOE reforms could happen in energy, rail, telecom, water conservancy, and utility.

The labor market is also in focus in both countries, with an aim to grow the labor force. China has proposed plans to defer retirement. In India, they focus on creating jobs, which was one of the lessons learned from the recent defeat of the Modi government. A series of programs, including handouts to employees, incentives for companies hiring new workers, and skills development programs, have all been proposed in the budget.

Against the backdrop of deglobalization, China and India seem to have taken different approaches. China is laser-focused on strengthening domestic economic capabilities and supply chain resilience. In contrast, by reducing and exempting tariffs on a wider range of goods, India is on a journey to further integrate itself into the global economy. Of course, both countries remain protective of critical local industries.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH.

To be sure, this more austere approach is likely to disappoint those hoping for substantial government incentives. The lack of substantial consumption-boosting measures in these recent policy announcements would sting for many market participants. However, one could argue that by curbing speculative excesses, China could better navigate the time of fiscal stress as economy slows while India could be laying the groundwork for more sustainable, stable economic growth – even if it comes at the expense of some immediate gratification.

Ultimately, the pivotal issue will be whether these policy shifts can strike the right balance between fiscal responsibilities and supporting the livelihoods of their citizens. Only time will tell if this approach pays off for the citizens of these economic powerhouses. Yet at least for the time being, the government bonds in both countries should provide an attractive risk/return trade off under the prudent fiscal policies.

Glossary

Artificial intelligence is the theory and development of computer systems able to perform tasks normally requiring human intelligence.

Central Government bonds are bonds issued by governments.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Shri Narendra Modi is serving as the current Prime Minister of India.

Small and medium enterprises (SME) is a generic term used to describe small scale industrial (SSI) units and medium-scale industrial units in India.

A state-owned enterprise is a legal entity that executes commercial activities on behalf of an owner government.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH.

Important information – EMEA, APAC & LATAM

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness or fairness of such information. All third party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.
DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

For institutional / professional investors in Taiwan:
This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

© 2024 DWS Investment GmbH

Issued in the UK by DWS Investments UK Limited which is authorised and regulated in the UK by the Financial Conduct Authority.
© 2024 DWS Investments UK Limited

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited. The content of this document has not been reviewed by the Securities and Futures Commission.
© 2024 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited. The content of this document has not been reviewed by the Monetary Authority of Singapore.
© 2024 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640). The content of this document has not been reviewed by the Australian Securities and Investments Commission.
© 2024 DWS Investments Australia Limited

as of 7/31/24; 101572_6.2 (08/2024)

Important information – North America

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas Inc. and RREEF America L.L.C., which offer advisory services.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not and is not intended to constitute an offer, recommendation or solicitation to conclude a transaction or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. DWS, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with DWS are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Further-more, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. The terms of an investment may be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the investment and not the summary contained in this document.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this mate-rial. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of DWS. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

For Investors in Canada: No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the information contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.
For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.
© 2024 DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany.
All rights reserved.

as of 7/31/24; 101573_4 (08/2024)