This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.


This work is licensed under a Creative Commons Attribution 4.0 International License.

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner
Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann
Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sabine Steinkamp
Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de
### Key Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1412.2 M</td>
</tr>
<tr>
<td>HDI</td>
<td>0.768</td>
</tr>
<tr>
<td>GDP p.c., PPP</td>
<td>$21476</td>
</tr>
<tr>
<td>Pop. growth(^1)</td>
<td>0.0 % p.a.</td>
</tr>
<tr>
<td>HDI rank of 189</td>
<td>79</td>
</tr>
<tr>
<td>Gini Index</td>
<td>37.1</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>78.2 years</td>
</tr>
<tr>
<td>UN Education Index</td>
<td>0.649</td>
</tr>
<tr>
<td>Poverty(^3)</td>
<td>2.0 %</td>
</tr>
<tr>
<td>Urban population</td>
<td>63.6 %</td>
</tr>
<tr>
<td>Gender inequality(^2)</td>
<td>0.192</td>
</tr>
<tr>
<td>Aid per capita</td>
<td>$-0.4</td>
</tr>
</tbody>
</table>

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.65 a day at 2017 international prices.

### Executive Summary

Chinese politics, economics and foreign policy have undergone significant shifts during the review period. This period was characterized by Xi Jinping’s consolidation of power, China’s isolation from the world due to government-imposed lockdowns and substantial pressures on the economy.

Following the outbreaks of more contagious COVID-19 variants, and a resulting string of lockdowns and travel restrictions, the government switched to a “dynamic zero-COVID-19 policy” in August 2021. The ongoing lockdowns and shutdowns of several locations across the country, including industrial centers, have exacerbated the difficulty of balancing COVID-19 mitigation and stabilizing economic growth. The continuation of China’s strict COVID-19 policy sparked social protests in various cities in late 2022, reflecting a growing level of unhappiness about Xi Jinping’s policy approach. China lifted most of its COVID-19 restrictions and gradually reopened the country at the beginning of 2023, which led to a rapid surge in infections and strained the health care system.

The ongoing COVID-19 lockdowns exacerbated downward pressures on the economy. After a strong rebound in the first half of 2021, economic activity cooled in the second half of the year, finally reaching 8.1% of annual growth. In 2022, the growth target set at 5.5% in March was missed, and annual growth stood at only 3% at the end of the year. The pandemic dampened consumer confidence in China and slowed global demand for Chinese exports. As the country reopened, the economy was projected to recover the following year.

The economy has also been shaken by China’s real estate crisis, which became apparent in September 2021. A campaign to reduce leverage and other risks in the sector led to financial stress among property developers, resulting in a slowdown in real estate investment. The central government’s policy agenda has been implemented gradually. As the crisis in the real estate sector heavily impacted the economy and sparked fears of contagion, policymakers began to increase support for the sector in the second half of 2022. However, Beijing’s zero-COVID-19 strategy continued to negatively impact the sector, despite government efforts to defuse the crisis.
Internationally, China became increasingly estranged from the West. Since Russia’s invasion of Ukraine in February 2022, China has performed a diplomatic balancing act. While China has not condemned Russia’s invasion of Ukraine, the country has increasingly tried to position itself as a mediator in the war. So far, the partnership with Russia has been too important for China to abandon its alliance with Russia. U.S.-China relations have tightened, especially after Nancy Pelosi visited Taiwan and China increased military activity in the region, which has led to mounting tensions over Taiwan.

The 20th National Congress of the Chinese Communist Party (CCP), held in October 2022, consolidated Xi Jinping’s hold over power. With Xi securing a third leadership term and loyalists assuming positions previously held by potential rivals within the top governing bodies, the Congress marked a victory for Xi. However, substantial challenges for Xi have emerged, with frustration growing over his zero-COVID-19 policy and the continued slowing of economic growth.

**History and Characteristics of Transformation**

Economic transformation in China was initiated through the “Opening and Reform” policy introduced in 1978. After the upheaval of the Cultural Revolution, the Chinese leadership emphasized economic and political consolidation. Despite initial structural deficiencies, economic reforms benefited from preconditions seldom found in developing countries – the large rural workforce facilitated the recruitment of cheap labor for the emerging industrial sector, and the government expropriated land at low or no compensation, which further served to keep factor costs low. Despite the existence of a planned economy, the public sector remained rather limited. Overseas Chinese from Hong Kong and Taiwan were eager to provide scarce capital and managerial know-how as soon as the Chinese leadership decided to experiment with foreign direct investment. These specific circumstances considerably facilitated economic development.

Consensus among the leadership to determinedly follow the Opening and Reform policy drove economic reforms. However, since the Tiananmen massacre in 1989, when the People’s Liberation Army (PLA) violently cracked down on a pro-democracy movement led by students, there have been no attempts to increase political competition or initiate a transition to liberal democracy. In the aftermath of the “incident” – which remains a taboo topic in China – political reformers were purged from the CCP leadership. Since then, party and state elites have been united in their commitment to limit reforms to the economic area and allow political reforms only in the administrative sector, enhancing governance but not democracy.

Economic reforms and decentralization have proceeded gradually and have been subject to experimentation. In this way, China has avoided the transformational “shocks” that occurred in the Russian Federation. Absent a detailed road map, the Chinese leadership allowed for reform initiatives from lower administrative levels to be implemented locally and by way of trial and error. If successful, these local initiatives would be adopted as national policies. The leadership’s
decision to let a planned economy and the emerging private sector coexist has proven most important in maintaining economic stability. During the reform process, the de facto economic importance, as well as the political appreciation, of the private sector increased steadily.

Economic reforms were accompanied by yearly GDP growth rates of about 10% from 1978 to 2010 and, except for two spikes in 1988/1989 (18%) and 1994/1995 (24%), relatively low levels of inflation. Growth rates have declined after the global financial crisis from 2008 to 2010 and the ensuing global recession. Living standards have improved significantly, and the number of absolute poor has steadily decreased. This overall success is clouded by the increasingly uneven spread of wealth. Urban incomes today are more than three times those of rural incomes, and the Gini index (officially 0.474, and by some measures even as high as 0.61) reveals that, even compared to other emerging markets (for example, countries in Latin America or South Africa), China now has one of the most unequal societies in the world.

A semi-functional legal system, lack of sustainability in economic development and corruption constitute other serious problems. The deterioration of the environment is causing significant economic and social costs. In addition, the Chinese government is increasingly under pressure to fulfill the demands of the population for better public goods – reliable social security, health care, and pension systems, a working infrastructure – affordable housing, career opportunities, and a more accountable government. The Xi administration reacts to this pressure by means of a targeted policy alleviation program, enhanced access to social services, an improvement of working conditions, the surveillance of public sector employees and stricter environmental standards.

At the same time, the government has strengthened the public security apparatus, implemented a tight system of electronic surveillance, and continues to curtail freedoms of information and expression. The COVID-19 pandemic accelerated these trends.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Chinese state’s monopoly on the use of force virtually covers the entire territory. In the autonomous regions of Xinjiang and Tibet, secessionist movements have challenged the state’s monopoly on the use of force, but police surveillance and repression in both regions have intensified. Under the guise of fighting terrorism and separatism, the government has installed a system of intense security and forced assimilation, which makes the organization of dissent nearly impossible. In Hong Kong, the region’s status as a special administrative zone does not limit the government’s monopoly on violence. The region’s autonomy was further undermined after the Hong Kong National Security Law was passed in 2020.

According to the constitution, the People’s Republic of China is a unified multiethnic state founded by Chinese people belonging to various ethnic groups. China’s population consists of 56 ethnic groups, with the Han making up more than 91% of the total population. The constitution and the 1984 Regional Ethnic Autonomy Law guarantee numerous rights to China’s minorities. However, in practice, the Chinese government systematically denies some minorities their legal rights and arrests members for exercising legally protected freedoms.

Although most citizens seem to accept the People’s Republic of China as a legitimate sovereign nation-state, China is perceived by non-Han ethnic minorities as a state for Han Chinese. Ethnic tensions emerge as non-Han ethnicities seek to assert their own identities and preserve their own ethnic communities. While significant resources are given to minority education, job opportunities in ethnic languages are very limited. Different levels of freedom apply to different ethnicities in China, with the Uyghurs and Tibetans offered the least freedom. Tibetans and Mongolians have felt increased pressure to assimilate through changes in education and increased surveillance. After 2009, ethnic tensions among Tibetans and Uyghurs intensified. Since 2009, 159 Tibetans have self-immolated, with two cases occurring in 2022. Since 2017, the government has waged an aggressive campaign in Xinjiang, where as many as one
The state’s legal framework and institutional arrangements are based on secular norms in China. The CCP is officially atheist and recognizes only five religions: Buddhism, Catholicism, Daoism, Islam and Protestantism. According to a government report issued in 2018, China has nearly 200 million believers and more than 380,000 clerical personnel. The authorities tightly monitor registered and unregistered groups, and religious organizations must register with state-sanctioned patriotic religious associations, which are supervised by the State Administration for Religious Affairs (SARA). Tibetan Buddhists, Uyghur Muslims and Falun Gong practitioners in particular have been arrested, detained and subjected to ill-treatment and torture. In addition, Christians have been subjected to various forms of discrimination and persecution. Among the officially recognized religions, Taoism is the least controlled. Under Xi Jinping, religions are increasingly “sinicized” to conform to the doctrines of the party. Since 2020, new regulations even require religious groups to spread CCP ideology.

In practice, China’s administrative system reaches across four levels, including the provincial, prefectural, county and township levels, and across the territory. In rural villages and urban communities, although resident and village committees are constitutionally designated as grassroots self-managed mass organizations, they operate under the tight control of the CCP apparatus. Administrative enforcement in China is largely carried out by local government agencies. The administrative structures of the state provide most basic public services throughout China, and jurisdiction, taxation and law enforcement are exercised across the territory. Although the administration of communication, transport and basic infrastructure is guaranteed across the whole country, rural areas still lag behind cities. In 2020, 94.3% of the population had access to basic water sources, and 100% of the population had access to electricity. However, only 69.7% had access to safely managed sanitation. The bureaucracy is increasingly streamlined and institutionalized through anti-corruption campaigns and the systemic installment of e-government. Digital transformation is a top priority of the PRC’s 14th Five-Year Plan (FYP). Steady progress has been made in developing China’s rural internet infrastructure. As of June 2022, the internet penetration rate in rural areas increased to more than 58%, while it reached more than 82% in urban regions. The digitalization of public administration and services, including health care, has accelerated since the COVID-19 outbreak.
2 | Political Participation

China does not hold free and competitive elections at the national level. Instead, senior leaders are selected by the Organization Department of the Chinese Communist Party, one of the key agencies of China’s Central Committee. While the president of the state and the state council are elected by the National People’s Congress (NPC), Local People’s Congresses (LPC) can elect their heads at the same level and deputies to People’s Congresses at the next level up. Township and county congresses are directly elected in popular elections, but pre-selected candidates in the LPC elections are often tied to the local CCP committees. In general, the competitive nature of elections is highly constrained.

Village and urban residents’ committees, as well as village leaders and party branch secretaries, are directly elected. For instance, according to a nationwide survey in 2017, more than 98% of villagers’ committees are directly elected by villagers. However, vote buying, clannism, manipulation and interference from higher-level government and party authorities in the electoral process are common.

China’s political authorities have the effective power to govern, and central leaders are not democratically elected. Veto powers do not undermine their political decisions. Delegates to the NPC, China’s legislative body, are elected via a multi-tiered representative electoral system, but the personal selection process of existing elections is controlled by the CCP.

China’s military is under the control of the party leadership, which is asserted by law. Within the Chinese party-state, the fundamental role of the PLA is still to act as the military wing of the CCP and guarantor of its one-party rule.

Although freedom of speech, assembly, procession and demonstration are guaranteed by China’s constitution, these rights are tightly proscribed. Political organizations competing with the CCP are prohibited.

Civil society and non-governmental organizations (NGOs) have been welcomed to fill gaps where the state lacks the capability to provide services. Examples of civil society actions include responses to the earthquakes in Sichuan Province in May 2008, when tens of thousands of people organized relief support efforts. China’s social organizations are not allowed to operate independently.

In January 2021, there were over 900,000 registered social organizations in China. Taking unregistered NGOs into consideration, the real number is likely much higher. The Charity Law, in effect since 2016, makes it easier for non-registered organizations to raise funds but increases government supervision. The Overseas NGO Law, in effect since 2017, shifted responsibility for supervising foreign NGOs from the Ministry of Civil Affairs to the Ministry of Public Security. Non-Chinese NGOs can support Chinese NGOs and individuals only if they have previously registered with the Ministry of Public Security.
The government is likely to subject NGOs identified as threatening the party-state’s authority to outright repression. Affected by the COVID-19 pandemic, the number of social organization registrations dropped significantly. Concerns over state security have generally taken priority, and the purpose of a crackdown on NGOs has moved from punishment to pre-emptive control. Between 2011 and 2021, the number of grassroots party organizations rose from 4.01 million in 2011 to around 4.94 million in late 2021.

Without a government permit, which is virtually impossible to obtain, demonstrations and other protest forms are illegal. Non-political protests are often tolerated by the authorities. Under Xi Jinping, the punishment of protesters has increased. In November 2022, tens of thousands of people took to the streets of major cities to demonstrate against China’s COVID-19 measures. The authorities have retaliated against people who took part in the protests.

Although China’s constitution guarantees freedom of speech and press, the government infringes on these rights.

China has one of the world’s most restrictive media environments, relying on censorship to control information in the news, online and on social media. China’s major media groups are state-owned and directly controlled by the authorities. China is the world’s largest captor of journalists, with more than 100 currently detained. Through the Great Firewall, the government censors the Chinese internet and deploys a diverse range of methods to induce journalists to censor themselves. The government blocks many foreign websites, including Facebook, Instagram and some Google services. China also requires foreign correspondents to obtain permission before reporting in the country. Under Xi Jinping, the ability of foreign journalists to access sources has shrunk. In 2022, China ranked 175th in the World Press Freedom Index out of 180 surveyed countries.

Chinese citizens make use of social media and other mass communication channels to voice their opinions. Microblogging sites such as Weibo have become primary spaces for netizens to discuss taboo subjects. To skirt restrictions and censors, internet users have developed an extensive series of slang, acronyms, memes and images. The government has tightened control over these technologies or shut down critical websites. A network of fake social media profiles created by China’s propaganda organs has also started to push pro-China narratives on social media and attempted to discredit opponents of the government. As the pandemic started to spread, China spread disinformation about the source of COVID-19 and its successful containment of the pandemic.

In 2022, the country’s strict zero-COVID-19 policy sparked discontent and anger among many online users. In response, the authorities strengthened cyberspace regulations. In December 2022, new regulations concerning social media and streaming sites went into effect. The update of the 2017 Regulations on the Administration of Internet Post Comment Services aims to better regulate posts and
comments online, clarify the responsibilities of internet service providers, and maintain national security. For the first time, even “likes” of public posts are regulated.

3 | Rule of Law

The CCP dominates the state and society in China and is committed to maintaining a permanent monopoly on power.

Provincial governments are responsible for the lion’s share of the country’s expenditure and are empowered to pass their own laws and regulations as long as they do not conflict with national laws. Under the leadership of Xi Jinping, power has been recentralized, and the construction of the rule of law has increasingly been led by the party. China’s constitutional framework does not establish the separation of powers, and a system of checks and balances does not exist.

The NPC exercises many of its constitutional powers in name only and is by no means a parliament in the Western sense. The party is widely perceived to support the rule by law, using law as a tool for governance, but not the rule of law. It also explicitly denies judicial independence, insisting that Party Commissions of Politics and Law oversee the work of the police, the prosecutor’s office and the courts. The Supreme People’s Procuratorate is the highest state organ for legal persecution and investigation. In 2018, the National Supervisory Commission was established as the state’s chief anti-corruption agency. The State Council, the Supreme People’s Court, the Supreme People’s Procuratorate and the National Supervisory Commission are responsible for the NPC and its Standing Committee.

Xi Jinping has increasingly pushed for the “integration of the party and the state.” In 2017, the growing role of the party was integrated into the CCP’s charter. In 2018, the two-term presidential limit was removed, enabling Xi Jinping to rule indefinitely. Xi repeatedly stressed the importance of the CCP’s leadership over China’s legal system and was confirmed for a third term as general secretary of the CCP, president of the country and leader of the military in 2022.

The main problems that continue to impair the development of an independent judiciary are an insufficient commitment to the rule of law, and a lack of institutional independence and material support for the judiciary.

Xi Jinping has been pushing judicial reforms to consolidate the power of the CCP and assert tighter control over the legal system. Successive anti-corruption campaigns have targeted judicial corruption and disciplinary violations, with the effects rippling through Chinese courts. Human rights lawyers are often detained and arrested.
China’s judicial reforms have only achieved very limited results in enhancing judicial autonomy. In its first Plan on Building the Rule of Law in China (2020 – 2025), the leadership set out its vision for a coherent Chinese legal system, firmly rejecting an independent judiciary and the principle of the separation of powers. The “socialist rule of law with Chinese characteristics” and “Xi Jinping Thought on the Rule of Law” policies aim to strengthen the CCP’s centralized leadership over the state.

In commercial cases, the quality of judicial decision-making has slightly improved. In terms of death penalties, China is still considered the country with the highest number of death sentences in the world.

China’s prosecution and law enforcement processes lack impartiality and judicial independence. Critical reporting by the media and civil society on abuse of public office is suppressed and censored.

Xi Jinping’s far-reaching anti-corruption campaign began following the conclusion of the 18th National Congress of the CCP in 2012. Upon taking office, Xi vowed to crack down on high-level officials and local civil servants. Most officials were subsequently removed from office and faced accusations of bribery and abuse of power.

Anti-corruption investigations are carried out by the National Supervision Commission (NSC) and the Central Committee for Discipline Inspection (CCDI). Official statistics show that over four million officials were prosecuted on corruption charges between 2013 and 2021, which includes 392 officials at or above the provincial level, 17,000 at the county level and over 616,000 at the township level. In 2018, China’s Supervision Law went into force, giving the CCDI the power to investigate officials for corruption and to seek international cooperation to extradite individuals. Since 2021, the anti-corruption campaign has largely focused on the financial sector, turning its attention to financial regulators and those involved in inspecting banks, stock exchanges, insurance regulators and asset management companies. In 2022, Xi Jinping announced victory in the anti-corruption campaign, warning the CCP to not let its guard down in the struggle. Before the 20th Party Congress, in September 2022, the court of Changchun sentenced former Justice Minister Fu Zhenghua to death with a two-year reprieve. At the beginning of 2023, Xi explicitly called for a crackdown on “political crooks,” well-connected officials who are able to advance the careers of others for business favors and money.
By law, the Chinese constitution guarantees civil liberties for its citizens, including freedom of speech, press, assembly, procession, association, demonstration and movement. In practice, the CCP often interferes with these rights. Regime critics are detained, tortured and harassed even after their release.

The deteriorating human rights situation in China continued between 2021 and 2023. Human rights lawyers are often arrested, harassed and intimidated. Although China’s constitution guarantees freedom of religious belief, Chinese law allows only five officially recognized religions in officially approved premises. In 2016, Xi called for the “sinicization” of religions, further strengthening state control. In February 2020, the Administrative Measures for Religious Groups went into effect, requiring religious groups to obtain government permissions for nearly every aspect of their operations. In 2021, the State Administration for Religious Affairs (SARA) issued the Measures on the Management of Religious Clergy, which subjected the clergy of the five state-sanctioned religious groups to tighter control and surveillance.

The campaign of political indoctrination, mass detention and cultural assimilation against Muslims in Xinjiang has continued. Access to the region was further constrained due to COVID-19 movement restrictions. It is estimated that more than one million people have been held in so-called re-education camps, suffering physical and psychological torture, and ill-treatment. In August 2022, the United Nations Office of the High Commissioner for Human Rights (OHCHR) released a report on the situation in Xinjiang, concluding that serious human rights violations have been committed in the region. In Tibet, authorities continue to restrict freedom of religion, expression, movement and assembly. In 2021, there was a surge in the reporting of Tibetans for alleged online offenses that, according to a 2020 announcement, undermined national unity.

Tight controls and restrictions on online freedom of expression as well as discrimination against LGBTQ+ rights continued, and the space for lesbian, gay, bisexual, transgender and women’s rights has shrunk further since 2021. Authorities have continued to detain people for criticizing the government’s handling of the COVID-19 pandemic. In Hong Kong, the 2020 National Security Law enabled the violation of human rights unprecedented since the establishment of the Special Administrative Region.
4 | Stability of Democratic Institutions

China remains a single-party authoritarian state with few signs of democratization. The CCP entrusts the implementation of its policies to the institution of the state, headed by the State Council. According to China’s constitution, the NPC oversees the State Council, but, in fact, the NPC is controlled by the CCP. The formal political system also includes the Chinese People’s Political Consultative Conference (CPPCC), which serves as a political advisory body where, in theory, members of all political parties (including the “democratic parties”) and diverse backgrounds contribute to policy discussions. However, the CPPCC lacks real legislative power.

To create incentives for more effective local governance, China introduced limited direct elections for leaders at the village level, an administrative unit outside the formal administrative hierarchy. Apart from the fact that village party officials mostly determine who stands for election, several constraints and social forces impede democratic rule.

Xi Jinping has not called for an independent judiciary but rather has worked to restore the party’s central role in the state and in society. In 2018, the government abolished presidential term limits, effectively allowing Xi to rule for life. During the 20th Party Congress in October 2022, Xi was confirmed as China’s top leader for a third term.

China’s political leaders have endorsed village elections at the lowest level of the administrative hierarchy since 1998. Those elections made cadres more accountable to villagers. Under Xi Jinping, it has become virtually impossible for independent candidates to play a role in the process.

There has been intense discussion in intellectual circles about the interpretation of democracy in China. Although China is the opposite of a liberal democracy by international standards, the leadership states that the country is democratic. China has framed its democracy as one that is effective in addressing people’s needs in a “people-oriented” manner. Through its label as a “consultative democracy,” the CCP formally incorporates the interests of various social groups. Xi Jinping coined the term “whole-process democracy” in 2019, which formally allows citizens to exercise their will by submitting opinions to the state. At the same time, Chinese activists calling for democracy are routinely silenced, harassed and jailed.

The Chinese government has expanded the availability of official channels for public consultation, incorporating online petition platforms and complaint hotlines. However, the government’s responsiveness to citizens’ opinions remains selective. In addition, China has introduced public consultation on draft laws of the NPC to enable ordinary people to participate in lawmaking. During the drafting of the 20th NPC report in 2022, individuals were able to submit opinions online for consideration. However, only proposed tweaks to existing government policy were accepted, rather than challenges.
5 | Political and Social Integration

The CCP is the absolute center of power in China’s politics. Although there are eight political parties other than the CCP, the CCP requires them to accept its leadership. As of 2022, the CCP had more than 96 million members of whom over 70% are men. The number of female members, members with college degrees and members younger than 40 has grown in recent years. About 30% of CCP members are currently made up of agricultural and blue-collar workers. During China’s 20th Party Congress, not a single woman was promoted to the politburo, the executive policymaking body, which constitutes a break with a two-decade tradition. So far, a woman has never been elevated to the Standing Committee.

Competing factions inside the CCP have traditionally been allowed. After Xi Jinping’s rise to power in 2012, he centralized power and tried to diminish the influence of other factions. Analytically, Xi Jinping has developed his own faction and eliminated potential competitors.

Other so-called democratic parties are required to accept the primacy of the CCP in order to exist and pledge loyalty to the party. There is a large but heterogenous spectrum of interest groups in China, although their autonomy is limited. Especially after 2016, NGOs dedicated to safeguarding and promoting rights have frequently been denied registration. Due to the Overseas NGO Law, it has become increasingly difficult for these organizations to receive overseas funding.

Mass organizations are typically funded by the state and operate under the leadership of the CCP. Such organizations include the All-China Federation of Trade Unions, the All-China Women’s Federation, the China Youth League, and the All-China Federation of Industry and Commerce.

China’s NGO community is composed of NGOs and government-organized non-governmental organizations (GONGOs). GONGOs are also funded by the state and are expected to receive expertise and funding that the government finds hard to access. The number of NGOs has increased dramatically over the past two decades. Most organizations work in areas such as education, poverty alleviation, community development, environment, and health care, and provide services such as legal aid and consumer protection support. Recently, some have also begun to look for opportunities overseas. Although there is more space for an autonomous NGO sector to develop, the government harbors anxieties about social instability. The government imposes severe restrictions on NGO activities and bans the formation of any autonomous organization in politically sensitive issue areas, such as human rights and the free movement of labor, which results in a strong limitation of represented interests.
A large number of non-registered associations operate in China in areas such as environmental protection, but they often lack organizational capacity and funding. The interests of well-off groups in society are represented by homeowners’ and business associations, among other groups.

While being an authoritarian single-party state, the Chinese government calls itself “democratic.” The CCP’s own conceptions of democracy have directly influenced how the Chinese population perceives its own government. According to the Democracy Perception Index 2022 (DPI), more than 80% of China’s population state that China is a democracy, while 91% state that democracy is important to them. In the era of Xi Jinping, the assessment of China’s democratic level by the general population seems to have declined. According to the DPI 2021, the share of the population who desires more democracy in China slightly increased during the COVID-19 pandemic. The understanding of democracy of the majority of Chinese, however, differs widely from that of people living in liberal democracies. So far, the quest for a responsible government has not led to greater demands for real political participation. Nevertheless, individual citizens recently called for democratic reform during the protests that erupted in many parts of China in November 2022. After China relaxed its COVID-19 regulations, the full weight of state control has led to the demonstrations fizzling out.

According to the 2018 World Values Survey, 95% of Chinese citizens said that they have a great deal of trust or a lot of trust in the national government. Recent studies, however, indicate that the previously high levels of trust in the Chinese government might have declined, though the findings are tentative and more definite results would require more data.

Interpersonal trust in China is generally higher than in most other countries. According to a survey conducted by Ipsos in March 2022, 56% of survey respondents stated that most people can be trusted.

Particularly parochial trust, including trust in family members and relatives, is and remains high in China. Civic trust is generally growing, as citizens affected by problems such as environmental degradation, corruption or human rights violations organize self-help.

Rural villages have great potential for social capital, as clan association and shared lineage continue to play an important role in the development of interpersonal trust. In urban areas, social trust has been fostered through residents’ committees (RCs), which are defined as grassroots organizations of self-government. The Social Credit System (SCS) reflects a government attempt to build social capital by enhancing the trustworthiness of citizens and organizations.

Whether and how the COVID-19 pandemic impacted interpersonal trust in China remains unclear due to the scarcity of data. On the one hand, during the lockdowns, citizens often reported each other to the authorities in cases of positive infections or violations of regulations. On the other hand, during the lockdown in Wuhan, self-
organization in the form of civil society and volunteer-based organizations was an important social force. During lockdowns, citizens sometimes organized online tools for self-help, and associations collected medical resources from abroad and delivered them to hospitals.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the World Inequality Report 2022, private wealth in China amounted to just over 120% of national income in 1978. By 2020, it had reached 530%. The wealthiest 10% of the population own almost 70% of total national wealth, which is higher than the levels found in India. Income inequality, as measured by the Gini index, is still comparatively high in China. In 2021, China’s Gini coefficient was 0.466, and the wealthiest 10% of the population captured 42% of total national income, although official data most likely understates the problem. Human capital inequality exists due to large gaps between urban and rural areas. In 2021, China’s illiteracy rate was 3.21%. In Tibet, 34.27% of the population were illiterate, while the rate was only 0.79% in Beijing.

According to the Gender Inequality Index (GII), gender inequality in China decreased from 0.206 in 2018 to 0.192 in 2021. However, China’s female labor share has declined since the 1990s, reaching 33% in 2019, as reported in the World Inequality Report 2022. This decrease can be attributed to the downsizing of state-owned enterprises (SOEs) and the relaxation of the one-child policy at the end of 2013. Furthermore, in 2019, women accounted for just 24.9% of the seats in the NPC.

Ethnic minorities face significant social and economic exclusion and marginalization. In the Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region, the political and cultural dominance of Han Chinese, along with unequal employment prospects, has triggered violent resistance and separatist movements. In response, the Chinese government has implemented strict countermeasures, including the internment of millions of Uyghurs in “re-education” camps.

Xi Jinping has made “common prosperity” a core goal since 2021. The most significant policy changes have targeted private businesses, notably consumer technology companies. In 2020, China eradicated extreme poverty, defined as earning less than $2.30 a day at purchasing power parity. For China’s upper-middle-income category, the World Bank suggests a poverty line of $5.50 per day. In 2021, approximately 13% of China’s population still fell below that line. Between 2017 and 2021, China’s Human Development Index (HDI) score increased from 0.747 to 0.768, with the country ranking 79th out of 191 countries. According to official figures, China’s unemployment rate was 4.8% in 2021, but the data does not account for rural migrants.
### Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (§ M)</td>
<td>14279968.5</td>
<td>14687743.6</td>
<td>17820459.3</td>
<td>17963170.5</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>6.0</td>
<td>2.2</td>
<td>8.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Inflation (CPI) (%)</td>
<td>2.9</td>
<td>2.4</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>4.6</td>
<td>5.0</td>
<td>4.6</td>
<td>4.9</td>
</tr>
<tr>
<td>Foreign direct investment (% of GDP)</td>
<td>1.3</td>
<td>1.7</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Export growth (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Import growth (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Current account balance (§ M)</td>
<td>102909.9</td>
<td>248835.6</td>
<td>352885.8</td>
<td>401855.4</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>60.4</td>
<td>70.1</td>
<td>71.8</td>
<td>77.0</td>
</tr>
<tr>
<td>External debt (§ M)</td>
<td>2114162.0</td>
<td>2326751.3</td>
<td>2702504.7</td>
<td>-</td>
</tr>
<tr>
<td>Total debt service (§ M)</td>
<td>275788.5</td>
<td>273275.3</td>
<td>336771.7</td>
<td>-</td>
</tr>
<tr>
<td>Net lending/borrowing (% of GDP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax revenue (% of GDP)</td>
<td>8.5</td>
<td>8.1</td>
<td>8.0</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption (% of GDP)</td>
<td>16.8</td>
<td>17.1</td>
<td>15.8</td>
<td>-</td>
</tr>
<tr>
<td>Public education spending (% of GDP)</td>
<td>3.5</td>
<td>3.6</td>
<td>3.3</td>
<td>-</td>
</tr>
<tr>
<td>Public health spending (% of GDP)</td>
<td>3.0</td>
<td>3.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure (% of GDP)</td>
<td>2.2</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure (% of GDP)</td>
<td>1.7</td>
<td>1.8</td>
<td>1.6</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

### 7 | Organization of the Market and Competition

Even though an increasing number of private players have entered the Chinese market, state ownership remains dominant. Since the 1990s, the size of China’s informal sector has grown. According to a 2018 report from the International Labor Organization (ILO), the proportion of informal employment in total employment was 54.4% in 2013.

Private firms provided more than 50% of enterprise taxes, more than 60% of value added, more than 70% of technological innovation outputs, more than 80% of urban employment, and constituted more than 90% of firms in 2019. Unlike foreign firms, which commonly face entry barriers such as forced technology transfers, intellectual
property infringement, restrictions on foreign investment and ownership limits, private firms do not face restrictions in most sectors. China’s Foreign Investment Law, which came into effect in 2020, reduced legal and regulatory restrictions for foreign firms. State-owned enterprises (SOEs) still enjoy implicit government guarantees, benefit from subsidies and are the main beneficiaries of administrative monopolies. SOEs owe most of China’s corporate debt, given their easier access to borrowing. To improve the performance of SOEs, stock option incentive schemes had been adopted by 119 listed central SOEs as of 2019.

In 2016, the central government established the Fair Competition Review Mechanism (FCRM), but its effectiveness varies widely. Some network industries, such as electricity and gas, have recently accelerated their opening. As the power generation segment is liberalized with traditional and renewable generators, the electricity sector is no longer fully vertically integrated. A more level playing field would enable stronger competition, which could be achieved by dismantling administrative monopolies granted by current regulations.

China is a favored destination for foreign direct investment (FDI), but regulations still limit the operation of foreign firms. Among the broad industries, real estate is the most liberalized industry category. China’s 2019 Foreign Investment Law prohibited forced technology transfers. Stronger protection of intellectual property rights and the abolition of forced technology transfer will likely lead foreign firms to bring more advanced technology.

During the COVID-19 crisis, the playing field became less even, impacting small private businesses particularly hard. Foreign firms have experienced disruptions in value chains and sluggish demand. State-owned enterprises (SOEs) were the primary beneficiaries of the recovery, as they provided emergency support to the government. The removal of COVID-19 regulations in January 2023 will help rebuild foreign investor confidence in the market. In general, investment in “new infrastructure” (e.g., 5G, smart cities and new energy development) risks widening the gap between the public and private sectors. Private companies’ investments will depend on their prospects for long-term financial gains and supportive government policies. However, China plans to channel significant portions of the investments through central SOEs between 2021 and 2025 in order to boost the economy.

The Chinese government maintains control over cross-border capital flows. Full currency convertibility is restricted. However, the government promotes the free use of the yuan through trial projects in free trade zones. Prices in China are not primarily determined by market forces, as the government continues to control or influence the price of key factors of production, including land, labor, energy and capital.
In 2008, China’s Anti-Monopoly Law (AML) went into effect, providing the legal framework to address anti-competitive behavior by companies and administrative agencies. In 2021, a national anti-monopoly bureau was established, coinciding with a series of antitrust crackdowns. To date, China has not become a member of the International Competition Network (ICN).

In 2021, the State Administration for Market Regulation (SAMR) announced 43 antitrust infringements committed by tech giants, such as Alibaba, Baidu and Didi, in an attempt to better control the rapidly expanding digital sector and reduce the wealth gap. In 2022, new amendments were made to China’s AML, including prohibitions on the use of technology by platform companies and increased fines for violations. Supporting provisions were also released, including provisions on the prohibition of monopoly agreements and the abuse of dominant market positions. Despite the gradual easing of the tech crackdown in 2022, the amended AML indicates that the government will continue to closely monitor the activity of large companies, particularly platform companies. Xi Jinping has called on officials to improve antitrust work.

China’s reliance on foreign trade has decreased since the global financial crisis, as companies have shifted their focus toward the domestic market. In 2006, exports accounted for 36% of China’s GDP, but they only made up 20% by 2021. Similarly, imports were 28.4% of GDP in 2006, compared to 17.4% in 2021. Despite this decrease, China maintains a significant presence in global trade. In 2021, the European Union, the United States and China had the highest trade in goods values worldwide. China’s “self-reliance” concept, introduced in November 2020, aligns with this trend of reducing trade dependency.

Since China’s accession to the WTO, import tariffs have been reduced, enabling domestic companies to purchase high-quality intermediate goods. Export trade has been liberalized, allowing Chinese firms to expand their foreign markets. In 2004, China made amendments to its Foreign Trade Law to implement specific market access commitments, including reducing tariff rates and eliminating nontariff barriers. China’s most-favored-nation tariff rate has generally decreased over the long run. In 2010, the mean rate was 9.7%, while it was 7.6% in 2020 and 7.1% in 2021.

Between 2018 and 2020, China implemented reforms to enhance the business environment for foreign investors. In 2018, the State Administration for Market Regulation (SAMR) was established. In 2019, the Anti-Unfair Competition Law (AUCL) was revised to strengthen the protection of trade secrets. In 2020, the new Foreign Investment Law and the new Export Control Law were enforced. Additionally, China introduced its dual circulation strategy, which aims to stimulate domestic demand while also catering to export markets. China assigns significant importance to the multilateral trading system and regional trade agreements (RTAs). In January 2022, the Regional Comprehensive Economic Partnership (RCEP) Agreement, involving the 10 member states of the Association of Southeast Asian
Nations (ASEAN) and its five FTA partners (Australia, China, Japan, New Zealand and the Republic of Korea), came into effect, establishing the world’s largest free trade area. In September 2021, China applied for membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), another major FTA in the region.

Due to the zero-COVID-19 policy, firms that rely on global value chains (GVCs) found themselves at the mercy of supply chain disruptions originating in China, and China’s exports and imports contracted massively in November 2022. In response to the pandemic, several relief measures have recently been announced for foreign investors. The State Council has also announced new adjustments to China’s import-export tariffs. Starting on January 1, 2023, 1,020 items will be subject to provisional import tariff rates. According to the 2022 Central Economic Work Conference (CEWC), China will endeavor to expand domestic consumption and attract foreign capital to boost growth in 2023.

China’s financial system is dominated by bank lending. State-owned banks are important players in bond and equity markets, and significant sources of liquidity for smaller banks and nonbank financial institutions.

China’s banking system is oriented toward international standards and has fully implemented the standards set by Basel III. While Basel III dictates a capital adequacy ratio of at least 10.5%, China’s capital adequacy ratio was 17.34% in the first quarter of 2022 and remains the highest among state banks. Particularly, small and medium-sized institutions are vulnerable to stress. China’s capital-to-assets ratio rose slightly from 7.1% to 7.5% between 2017 and 2020. The share of nonperforming loans increased from 1.7% to 1.8%, although the ratio is higher for small banks that are less profitable and have weaker ties to the central government. According to Fitch, the share of nonperforming loans for state banks was 1.35% in the first quarter of 2022 and 3.37% for rural commercial banks. During the COVID-19 pandemic, the risk increased, particularly for joint-stock commercial banks and rural commercial banks.

China has continued to clamp down on shadow banking in order to reduce financial systemic risk, leading to a contraction in the sector. Small-to-medium-sized enterprises (SMEs) have been particularly impacted, as shadow banking constitutes a significant funding source for them. According to Moody’s, shadow banking assets as a share of nominal GDP fell to 51.5% in 2021, the lowest level since 2013. However, given the current problems in the real estate sector and the linkages of collateral values to land and real estate, there are still risks of a resurgence.

China’s de jure liberalization of interest rates was mostly completed in 2015, but China’s central bank has stated that additional progress is necessary before deposit and lending rates can be established without government direction. In 2019, loan prime-rate reform was initiated, and several measures were implemented to relax constraints on ownership and licenses for foreign financial institutions. Nonetheless, these institutions still encounter operational challenges.
Furthermore, China’s economy operates under soft budget constraints. The constraints might harden in the future due to the development of the local government bond market. In support of the economy during the pandemic, budget deficits of local governments continued to widen through the issuance of special-purpose bonds.

8 | Monetary and fiscal stability

China’s inflation has remained at low levels and even declined during the review period. After consumer prices increased 2.9% between 2018 and 2019, and 2.4% between 2019 and 2020, they only rose 1% between 2020 and 2021. While inflation in most other emerging-market economies rose during the COVID-19 pandemic, China currently faces the risk of deflation due to its lockdowns. After reaching a low point in 2020 in the early stages of the pandemic, the yuan has steadily gained strength throughout 2021. In 2021, the currency has strengthened more than 2% against the U.S. dollar, outperforming other emerging-market currencies. However, in 2022, the currency depreciated against the U.S. dollar, reaching its lowest levels since 2011 under the weight of COVID-19 lockdowns. The exchange rate of the yuan against the U.S. dollar was 6.9 in December 2022 compared to below 6.4 at the beginning of the year. Although China’s real effective exchange rate index has fluctuated in recent years, it increased between 2011 and 2021, ending at 127.3 in 2021.

In 2021, China recorded the world’s largest current account surplus, reaching $317.3 billion. Exports rose from $2.6 trillion in 2020 to $3.4 trillion in 2021. Imports also showed an increasing trend, rising from $2 trillion in 2020 to $2.7 trillion in 2021. Measured in U.S. dollars, exports further jumped 7% in 2022, while imports increased 1.1%, leading to a trade surplus of $877.6 billion. China’s foreign exchange reserves remained relatively stable.

On the operational level, China’s central bank, the People’s Bank of China (PBC), is independent, although its decision-making power is strongly influenced by the central government. Despite attempts to enhance the independence of China’s monetary policy, the PBC remains subordinate to the State Council. The central bank utilized monetary tools to support the economy during the pandemic, but monetary policy generally tightened in 2021 compared to the previous year. In 2022, new measures were implemented to inject liquidity into the economy as part of a stimulus, which included cuts in interest rates and the reserve requirement ratio.
Macroeconomic and fiscal stability have remained the principal goals of the Chinese government. After economic growth slowed from 6% in 2019 to only 2.2% in 2020 due to the COVID-19 pandemic, the government introduced a number of fiscal policies to counteract the slowdown. Growth rates jumped to 8.1% in 2021 and were followed by a strong decline to 3% in 2022 due to sliding property prices and COVID-19 lockdowns. China has pursued an expansionary and proactive fiscal policy to support slowing economic growth during the review period.

To alleviate the impact of the pandemic, the government has implemented several fiscal policies, such as government purchases, infrastructure investment, consumption stimulus, income subsidies and industrial support. To aid businesses and individuals, the government has implemented preferential tax policies and fee reductions. Infrastructure investments have been financed through the issuance of local government special-purpose bonds (SPBs). In 2021, the government established an annual SPB quota of $547.5 billion and subsequently released an additional $218.5 billion in late December 2021 in response to the economic slowdown in the second half of the year.

The government’s strict COVID-19 policy and a slowing real estate market have intensified fiscal stability risks. The implementation of tax rebates has placed increasing pressure on government incomes, particularly at the local level. China’s budget deficit for all levels of government has reached an estimated $980 billion in October 2022 due to robust fiscal spending, marking a record high for any comparable period. According to official statistics, public debt as a percentage of GDP rose from 57.2% in 2019 to 68.1% in 2020 to 71.5% in 2021, while China’s external debt increased to $2.3 trillion in 2020. Government consumption accounted for 17.1% of GDP in 2020. Both total reserves and China’s current account balance rose during the review period, reaching $3.25 trillion and $317.3 billion in 2021, respectively. From 2008 to 2014, China’s total reserves consistently grew from $1.95 trillion in 2008 to $3.84 trillion in 2014, and then declined to $3.01 trillion in 2016.

9 | Private Property

In 2007, China’s Property Law was passed by the NPC, finally granting legal protection to private property rights. While the state upholds the principal role of public ownership in the nation’s economy, public ownership is nevertheless placed in a uniquely prominent position.

Problems have emerged in the enforcement of housing rights, highlighting issues in the field of law. While housing was privatized in the 1990s, land ownership remains under the control of the state. Households have been compelled to vacate their buildings to make way for urban development, as they possess the housing but not the land it sits on. The interests of farmers have been significantly violated due to land takings, as rural land is collectively owned. In 2013, the government pledged to
enhance the protection of farmers’ property rights and establish a unified land market for both urban and rural construction. It also proposed allowing farmland contractors to transfer their rights to manage and contract land. The primary objective of this reform is to modernize and scale up agriculture in China, while increasing productivity. The most recent version of China’s Land Administration Law came into effect in January 2020.

The adoption of formal intellectual property rights remains a contentious issue. Chinese firms and institutions have frequently faced accusations of violating intellectual property rights (IPR). In recent years, China has also become more protective of its own intellectual property rights. From 2019 to 2020, the Chinese government revised IP-related regulations, including trademark, patent and copyright laws. The burden of proof for defendants in patent law cases was reduced and maximum damages for copyright infringement were increased, leading to a surge in IP-related lawsuits in China. In 2021, the China National IP Protection Administration (CNIPA) released new regulations for trademark use in China, which took effect in January 2022. Additionally, in 2019, amendments to the AUCL broadened the definition and consequences for trade secret infringement, resulting in higher monetary penalties.

Privatization was implemented through a gradual transition from state control to private ownership of firms. To date, the distinction between the state and private sectors has not always been straightforward.

Private property rights were first protected through the 2004 constitution. At the end of 2017, there were 65.79 million individually owned businesses and 27.26 million private enterprises in China, which together employed approximately 340 million people. In 2018, the private sector contributed 87% of urban employment, 88% of exports and 65% of fixed asset investments. A wave of regulatory restrictions on private sector businesses in 2021, including regulation of internet platforms, tech and finance, and real estate, revealed the widespread role of state-owned enterprises (SOEs) in the economy. The share of private firms fell for the first time since 2014.

Among China’s top 100 listed companies by market capitalization, 49 were privately owned.

After a two-year crackdown on China’s private companies, regulations are starting to change again. In December 2022, Xi Jinping publicly stated his support for private enterprises. Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, announced that the heavy-handed crackdown on China’s tech giants will end this year.
10 | Welfare Regime

On paper, China has a comprehensive system of social welfare. Health care, disability, maternity, unemployment and social pension insurances are co-funded by employees, employers and government subsidies. Although the welfare regime is largely public, individuals can purchase additional insurance from private companies. While the social insurance system is supposed to cover all workers, including rural migrant workers, official data published by the National Bureau of Statistics show that, in 2020, the state’s basic pension plan covered only 71% of the urban workforce, while only 47% had unemployment insurance.

In 2021, approximately 1.36 billion individuals had basic health insurance, representing a significant improvement compared to only 38 million insured individuals in 2000. However, according to estimates, the proportion of migrant workers with basic medical insurance was 22% in 2017. Furthermore, the benefits provided to insured individuals are very limited and clearly inadequate. Rural residents, women in informal employment and migrant workers are placed at a disadvantage or left without any support at all.

Regarding unemployment insurance, the benefits paid out are low. In 2020, the monthly average unemployment benefit amounted to CNY 1,506 per person, far below the cost of living in major urban areas.

China’s central government has pursued a multi-pronged effort to strengthen the social safety net in rural areas through measures such as the rural cooperative medical system, the expansion of free universal nine-year education and the minimum living standard guarantee or dibao program. In response to the spread of the COVID-19 virus, the government adopted a range of special social security measures, which included expanding the coverage of employee benefits and enhancing the accessibility of e-services provided by social insurance agencies.

Despite significant progress, China still faces significant inequality in opportunities.

In terms of employment, discrimination persists based on gender, household registration, ethnicity and sexuality. China’s economic achievements have been accompanied by a widening gender gap in labor force participation and earnings. In 2011, the female labor force accounted for 44.1% of the total labor force, increasing to 44.8% in 2019, and then declining to 44.5% in 2021.

Labor discrimination based on ethnicity and sexuality persists. The Chinese government has implemented various measures for ethnic minorities, such as allocating development funds to minority areas and relaxing family planning rules. However, these efforts have not effectively eliminated employment bias. Since the launch of China’s “de-extremification” campaign in Xinjiang in 2017, labor policies...
in the region have become increasingly prejudiced, particularly within the service sector. Discrimination rooted in sexuality continues implicitly, as homosexual employees risk retaliation if their sexual orientation becomes known. Currently, only 24.9% of representatives to the NPC are women, representing a 1.5% increase from the previous NPC. Ethnic minorities occupy 14.5% of seats, but they are unable to engage in discussions regarding sensitive topics, such as Xinjiang.

In 2010, the distribution of tertiary education was more unequal in China compared to other emerging and advanced economies. Regarding gender disparities, China stands out as one of the most egalitarian Asian countries. In 2021, China’s Gender Parity Index (GPI) for gross enrollment in tertiary education was 1.2, indicating a slight bias in favor of women. In 2020, female students comprised nearly 42% of doctorate enrollment. In 2018, Chinese women had a higher literacy rate (98.5%) compared to men (96.8%). China’s hukou system continues to impose obstacles to accessing housing, health care and education for the children of migrant workers.

Ethnic, religious and linguistic minorities in China lack equal access to education and employment opportunities, and they continue to encounter social discrimination and economic exclusion. The availability of financial services has improved in terms of internet and mobile-based payments. Nonetheless, China still falls behind major advanced economies in significant aspects of financial inclusion.

11 | Economic Performance

China’s economic performance remained strong compared to other emerging-market economies during the review period, although it dramatically worsened in 2022 due to recurring waves of lockdowns. After experiencing a strong rebound in 2021, with growth rates surging to over 8%, GDP growth decelerated to 3% in 2022. However, the growth target of 5.5% set in March 2022 was not met.

In 2021, China’s GDP reached $17.73 trillion. GDP per capita increased from $10,408.7 in 2020 to $12,556.3 in 2021. The annual GDP per capita growth rate rose from 2% in 2020 to 8% in 2021. Consumer price inflation remained low and continued to decline, decreasing from 2.4% in 2020 to 1.0% in 2021. Although total unemployment was not significantly affected by COVID-19 and even slightly decreased to 4.8% in 2021 compared to the previous year, China’s youth unemployment reached record levels in 2022, reaching 19.9% in July.

Public debt increased from 68.1% in 2020 to 71% in 2021. However, it is likely to be even higher, as some local government loans are considered private debt. Corporate debt levels continue to be high, reaching 150% of GDP in 2021. Government tax revenue contracted to 8.1% of GDP in 2020. Foreign direct investment remained stable, accounting for 1.3% of GDP in 2019 and 1.7% of GDP in 2020.
The default of the Evergrande Real Estate Group in late 2021, coupled with the ensuing COVID-19 lockdowns, significantly weakened real estate investment and consumer confidence in China’s residential property market. Housing prices have continued to decline since the second half of 2021, negatively affecting incomes from land transactions and putting pressure on local government revenue. As the real estate market is an important growth engine, the cooling of the sector still has the potential to create a liquidity crisis and rapid economic downturn.

In 2022, the government attempted to boost the real estate sector by strengthening infrastructure development, lowering interest rates, offering tax rebates, expediting loan approvals and relaxing local purchase restrictions. Credit expansion further supported the Chinese economy during the COVID-19 outbreak, but demand for loans has weakened due to the economic downturn at the end of 2022.

After China’s re-opening in early 2023, the government plans to step up policy adjustments to stabilize the faltering economy and implement a proactive fiscal and monetary policy in the next year.

The economic impact of Russia’s invasion of Ukraine has been limited so far, as China bought Russian oil and gas at discounted prices.

12 | Sustainability

Between 2005 and 2019, China’s greenhouse gas (GHG) emissions surged by 75%. In 2021 alone, China emitted 14.3 billion tons of carbon dioxide equivalent, establishing its position as the world’s largest contributor to pollution. Nonetheless, per capita emissions remain lower than those of developed nations such as the United States, Australia, Canada and South Korea. From June to April 2022, China experienced an 8% decrease in emissions compared to the previous year, attributed to a sluggish economy and diminished electricity demand. However, it is improbable that this decline will be sustained.

China’s energy consumption is growing too rapidly to meet climate goals. In 2021, coal accounted for 54.7% of China’s energy use, and there was a 55% increase in absolute coal consumption due to rising energy demand. The share of renewable energy sources (RES) rose from 5.5% to 15% between 2005 and 2021. China boasts a robust wind power industry, and hydropower also plays a significant role in its energy system. As the COP27 conference approaches in 2022, China has put forth a proposal for a global clean energy partnership to integrate clean energy supply chains.

China faces severe problems in terms of air pollution. Its carbon-intensive industries have caused environmental challenges, including water scarcity and soil contamination. Surface water pollution, groundwater depletion, wastewater irrigation and the consumption of noncompliant water are also serious problems. The Chinese
government is making significant investments to combat pollution. Since 2015, China’s sulfur dioxide emissions have been decreasing annually. Between 2013 and 2018, the level of sulfur dioxide emissions dropped by 68%.

Proper implementation and compliance with environmental regulations have often impeded progress. In 2015, China’s amended Environmental Protection Law came into force, but enforcement was hindered at the local level. The amended law removed limits on fines for polluting factories and strengthened information disclosure. In response to implementation problems, the government has begun rewarding local leaders for environmental improvements, in addition to emphasizing GDP growth. In 2018, China enacted the Environmental Protection Tax Law (EPT Law), effectively abolishing the previous system of pollution discharge fees. Under the EPT Law, enterprises that emit pollutants are subject to the Environmental Protection Tax (EPT).

Internationally, China is a party to the United Nations Framework Convention on Climate Change (UNFCCC) and has ratified the Paris Agreement. China pledges to achieve carbon neutrality before 2060 and to achieve peak carbon dioxide emissions before 2030. These targets are supported by China’s Action Plan for Carbon Dioxide Peaking before 2030 and the Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality, both issued in 2021, as well as the 14th FYP. In 2022, China issued the National Climate Change Adaptation Strategy 2035, which prioritizes monitoring and assessing climate risks and envisions China becoming “climate-resilient” by 2035. The strategy includes a target to reduce water intensity by 16% from 2021 to 2025.

In 2021, however, annual coal production reached its highest level ever. In October 2022, President Xi Jinping re-emphasized China’s plans to promote its energy revolution, although no new headline policy updates were delivered. The Climate Action Tracker rates China’s climate policy as “highly insufficient.” In the wake of the Russian invasion of Ukraine, China is likely to further prioritize energy security, including the development of increased (discounted) energy cooperation with Russia.

China’s 13th FYP (2015 – 2020) established an ambitious goal of allocating 2.5% of GDP to R&D by 2020. The goal was only marginally missed. According to China’s official statistics, R&D investment reached 2.44% of GDP in 2021. Additionally, the number of Chinese researchers in the R&D sector has consistently increased. However, R&D investment in China continues to be primarily driven by foreign companies. In January 2023, the government encouraged foreign investment in the establishment of R&D centers and called on financial institutions to provide support. While the number of Chinese patent applications has increased since 2000, these applications are often motivated by subsidies and pressure mechanisms aimed at meeting official targets, resulting in lower patent values. Moreover, the proportion of resources allocated to basic research has declined and is trailing behind the levels seen in developed countries.
The China Standard 2035, issued in 2018, as well as the 14th FYP (2021 – 2025) enhanced the focus on R&D in the transformation of China’s growth model. Whole-sector capacities – particularly in critical and emerging industries such as artificial intelligence (AI), quantum computing and biotechnology – will strengthen China’s R&D ecosystem. According to the plans, R&D spending will be increased by more than 7% annually from 2021 to 2025.

China’s public expenditure on education as a percentage of GDP was 3.6% in 2020, indicating a slight increase compared to previous years but a decline over the long run. China’s U.N. Education Index score was 0.649 in 2021, which is still lower than that of Iran, Uzbekistan and Venezuela. The literacy rate in China was 96.8% in 2018. Tsinghua University and Peking University are two higher education institutions in China that have consistently ranked among the top 50 universities worldwide. Generally, teaching quality in rural areas significantly lags behind that in urban areas. Another challenge arises from the hukou system, as many migrant children face difficulties in accessing adequate education.
Governance

I. Level of Difficulty

China faces several structural constraints that limit governance performance. The COVID-19 pandemic has likely sharpened these constraints.

Persistent inequality poses a threat to the achievement of China’s development goals. Inequality in access to education and health care leads to many employees lacking the capabilities needed to excel in high-skilled, high-wage jobs. A rising number of workers enter the less secure informal economy. Increasing automation further reduces employment opportunities for large parts of the workforce. Especially in rural and ethnic minority areas, the quality of schools and education is lagging.

China is experiencing a large demographic shift. Since 2016, China’s birth rate has declined, reaching 6.77 births per 1,000 inhabitants in 2022. In the same year, deaths outnumbered births for the first time in six decades. The diminishing pool of working-age individuals implies rising wages for laborers, which would make the production of output more costly and reduce tax contributions for an already stretched pension system. China’s leaders have taken several steps to slow the decline of births, including relaxing the one-child policy in 2016 and raising the allowed number of children to three in 2021. However, these measures have not stabilized the birth rate. China’s strict COVID-19 policy has likely sharpened the trend.

Environmental problems continue to pose a threat to the CCP’s position, with coal alone covering 60% of electricity demand. To restore the economy to pre-pandemic levels, the Chinese government ordered factories to increase their production capacity, which led to a sharp rise in carbon dioxide emissions. Air pollution, the contamination of land with heavy metals, land degradation, deforestation, desertification and water scarcity have led to greater migration and displacement. Moreover, the issue of food security is a cause for concern, as arable land resources shrink. China is prone to regular droughts, floods and earthquakes, which – in addition to causing human casualties and economic losses – further strains food security.

Rising labor costs impact international investment in China, as foreign companies have relocated their manufacturing facilities to countries such as Vietnam and India. China’s infrastructure- and investment-led growth model, accompanied by growing public and private debt levels, faces the challenge of diminishing returns and slowing
contributions to productivity. The Chinese government addresses these challenges by strengthening domestic consumption and by promoting innovation as well as the digital economy. A lack of intellectual property protections, a shortage of skilled workers and limited access to funding by startup businesses pose obstacles to these goals.

The COVID-19 pandemic has significantly impacted the economy due to disruptions in global supply chains, reductions in international trade and a decline in domestic demand. The sudden rise in infection numbers in early 2023 overwhelmed hospitals and led to a shortage of medical supplies, revealing – and exacerbating – existing problems in China’s health care system, such as regional disparities in medical resource provision and funding shortfalls.

China lacks a robust civil society tradition, as traditionally Chinese society was sustained by local cultures and values, patterns of human interactions based on status and authority, and traditional kinship systems focused on the village. The emergence of a relatively independent civil society is a product of modern China, as the state gradually withdrew from the economic and social arenas. When local officials sought strategies to achieve policy goals with less funding, they partnered with civil society groups. There has been phenomenal, steady growth in the number of civil society groups, especially business, professional and academic associations. According to official statistics, the total number of social organizations in China passed 800,000 in 2019. However, since 2016, registration for social organizations has been restricted, as organizations need to find government units to act as guarantors. Under Xi Jinping, the autonomy of civil society groups has been increasingly restricted.

China has witnessed a large number of social conflicts in recent decades. Over the last two decades, social protests have gradually declined, primarily due to a reduction in conflicts and an increase in the use of coercion. The government has tried to prevent the accumulation of grievances by responding to citizens via communication channels such as online complaint websites, through which blame is often shifted to local governments. While protests by Chinese citizens occur frequently, most of them are small. Large-scale contentious actions that are more threatening to the regime have been rare.

In November 2022, a series of protests against COVID-19 lockdowns started when people took to the streets following a fire that killed at least 10 people in a tower block in Urumqi, the capital of Xinjiang. This wave of protests is unprecedented since Xi Jinping came to power, as the protests occurred across China and involved clashes with the police. Some protesters demanded Xi Jinping step down and voiced their concerns about human rights. Police cracked down on protesters by subjecting them to intense surveillance technologies, which were fine-tuned during the pandemic.

There are no irreconcilable social or religious cleavages in China. Ethnic relations between Han Chinese and Tibetan and Uyghur minorities remain tense. Control over minorities in Xinjiang is maintained through a large network of “re-education” camps, widespread surveillance, and forced labor and birth control. Social cleavages
and divisions have deepened primarily due to high levels of inequality between rural and urban areas, and between affluent and economically underprivileged groups. The urban-rural dichotomy and the divide between formal and informal sectors have created an unequal welfare system. Despite these divisions, mass egalitarian mobilizations are unlikely.

II. Governance Performance

14 | Steering Capability

Policymaking in China is characterized by long-term strategic planning targets. During the review period, the capability to realize planning objectives has been weakened due to COVID-19 dynamics, the geopolitical environment and a looming global recession. With a more powerful Xi Jinping having secured a historic third term at the top of the CCP, policy objectives and larger reforms are more likely to be realized against political resistance within the party.

Strategic planning documents, especially five-year plans, are vital for policymaking as they reflect the country’s strategic goals. They may also be issued at local levels, with the details tailored to match local conditions. The CCP plays a leading role in planning. Five-year plans contain social and economic development initiatives and strategies, growth targets and reform initiatives. Among the specified targets, certain ones are quantified and obligatory, while others are non-quantified and focus on results that local governments should aim to attain. Policy objectives that take longer to achieve are set down in plans for the next 10 to 15 years.

China’s 14th FYP (2021 – 2025) prioritizes the quality rather than the quantity of growth, the achievement of “common prosperity,” the gradual liberalization of the business environment, the drive toward a low-carbon economy and the country’s transformation into a self-reliant technological powerhouse. Development goals for 2035 envision China as a leading nation in terms of technological advancement, economic development, industrialization, military capabilities and environmentally sustainable lifestyles. To further emphasize the role of advanced technology and technological self-reliance, China revised the 2035 goals in 2022. While the leadership has been successful in realizing less structurally ingrained targets, structural problems such as wealth distribution, capital account realization and the advancement of the Chinese yuan (CNY) have proven more difficult to solve.

The economic downturn in 2022 has reduced the leadership’s flexibility and capacity to realize planned reforms, as regional authorities were constrained by limited finances due to the substantial costs of containing COVID-19.
Policy implementation in China is characterized by conflicts between the authoritative decisions of policymakers and the interests of local governments responsible for implementation on the ground. The central government is able to realize its political priorities, but its capacity relies on the level of divergence between central and local interests. Especially in areas such as environmental regulation and industrial policy, where central and local interests diverge, implementation gaps hinder the effective realization of strategic policies. In times of crisis, central leaders rely on local innovation and initiative to govern routine affairs.

The capacity to implement policies has increased under Xi Jinping, and supervision over local policy implementation has been strengthened. This has curtailed the autonomy of local governments, led to paralysis and weakened innovation, as policy failures often result in the dismissal of local leaders. Under a framework of top-level design, SOE, technology and industrial policy reforms have become increasingly centralized. A stricter disciplinary regime helps ensure that public officials act within the confines of the law. However, it does not mean the subjugation of the CCP to the law. In addition, the social credit system plays a key role in law enforcement, while public feedback channels help central leaders to identify implementation gaps.

The COVID-19 crisis has weakened the effective implementation of policies. In response to the protests that erupted in November 2022, China’s central health authorities blamed local governments, which were facing significant cash shortfalls and financial pressures, for mishandling coronavirus outbreaks. According to media reports, some local governments were unable to pay for COVID-19 tests. In March 2022, China’s Organic Law of the Local People’s Congresses and Local People’s Governments was revised, enhancing oversight and decision-making at the local level.

China’s governance techniques are marked by a conception of policymaking as a process of change, experimentation and ad hoc adjustment. China has proven to be capable of surviving unanticipated crises in the past (including the Asian financial crisis in 1997, the SARS epidemic in 2003 and the global financial crisis in 2008).

In the drafting of new policies, China looks to other countries for policies that appear more successful and studies examples. Debates about social insurance system reform are informed by exchanges with scholars and politicians from Europe. Academics, specialists, and representatives of SOEs and business associations may provide suggestions during the policy-drafting process. Public opinions and sentiment are indirectly taken into consideration by leaders who wish to maintain social and political stability. Especially in lawmaking, the leadership opened up possibilities for public consultation on draft laws. However, the influence of public opinion remains limited. Digital technologies (e.g., big data analytics, facial recognition, artificial intelligence and cloud computing) are now used to improve policy outcomes.
Central authorities learn from experiences on the ground through policy experimentation. Trial implementation of risky reforms within specific domains regularly precedes the enactment of national laws, with only locally proven policies transformed into national law, while unsuccessful ones are rejected. This approach has been increasingly restricted under Xi Jinping, and policy experiments have become rarer.

The leadership very rarely acknowledges policy failures. Rather than conceding a mistake, new policies are formulated to counter existing trends. The leadership has acknowledged that the focus on unlimited growth has created problems such as social conflict, wealth inequality and environmental degradation. Consequently, current strategic goals focus on ensuring the quality and sustainability of growth. However, the reforms face opposition from special interest groups, including large SOEs that benefit from unequal access to resources.

While Xi Jinping has not explicitly acknowledged the mistakes of China’s draconian zero-COVID-19 policy, blame for the policy’s failure has been shifted to local governments rather than focusing on the policy itself. The abrupt removal of most COVID-19 restrictions led to a rapid increase in infections within a brief time period. Nevertheless, the COVID-19 pandemic has stimulated institutional learning in the fields of e-government, crisis management, organization and deployment, and propaganda.

15 | Resource Efficiency

The Chinese government has implemented a number of reforms to improve the efficiency of the civil service, including efforts to increase merit-based promotions, reduce corruption and improve the professional development of civil servants. China’s government effectiveness score has constantly risen since 2015 and was reported to be 0.84 in 2021. To improve administrative efficiency, China increasingly makes use of information and communications technologies (ICTs). Between 2018 and 2020, China’s ranking on the United Nations’ E-Government Development Index (EGDI) increased by 20 places to 45th globally. The COVID-19 crisis has allowed China to test its already extensive digital monitoring. In addition to facial recognition, movement-tracing apps, disease prediction and resource management in the health care sector were embraced.

Some problems that undermine the efficiency of China’s bureaucracy remain. The sale of government positions undermines the notion of promotion based on meritocratic principles and loyalty sometimes trumps professional competence. Many local protests are responses to the improper actions of local officials. Xi Jinping’s anti-corruption campaign led to many local officials becoming highly risk-averse, which stamped out innovation. In addition, the base salary for civil servants is low in China. In 2015, after the first pay raise in nine years, the salaries for the
lowest-level officials jumped to CNY 1,320 ($212) per month. The worsening condition of local government finances has recently led to new rounds of reductions in civil servant salaries.

China’s budgetary system is highly decentralized, with local governments responsible for more than 85% of total government expenditures. Fiscal resources are not distributed according to an equally implemented scheme but are influenced by the respective provincial leader’s political weight and negotiating skills. The nation’s broad fiscal deficit, which amalgamates deficits for both the central and local governments, hit CNY 6.66 trillion ($944 billion) in the first 10 months of 2022, nearly tripling from a year ago. After the global financial crisis, local government debt levels rose, accounting for up to 60% of GDP in 2017. COVID-19-related spending surged by about 50% annually during the past three years. The government also increased the issuance of local government bonds to spur the economy. In September 2021, local bonds stood at CNY 28.6 trillion ($4.5 trillion). In addition, local governments in China rely on the issuance of “hidden” debt. At the end of 2020, local hidden debts reached CNY 45 trillion ($7 trillion), according to estimates.

Conflicting policy objectives frequently emerge due to a lack of horizontal and vertical coordination, as well as friction between central and local government interests. Institutionalized political and economic incentives stemming from the cadre evaluation system and China’s central-local fiscal politics induce local governments to favor promoting economic growth at the expense of long-term objectives.

The task of coordinating work on specific policies, complex issues or events across administrative bodies is assumed by so-called leading small groups (LSGs). Similar to LSGs, central commissions greatly enhance the central leadership’s coordinating (and controlling) power. As the core executive organ for Xi’s approach to steering policymaking, the Commission for Comprehensively Deepening Reform (CCDR) is responsible for supervising the drafting of priority reform policies within the central party-state. In recent years, work on priority policies seems to have accelerated, although policy areas that lack a top-level agency are more prone to experiencing slow progress.

In the fight against COVID-19, China’s government responded through a comprehensive intervention. However, the crisis laid bare some of China’s coordination and planning problems. Although the strict zero-COVID-19 policy was legitimized by central leaders, food shortages and supply problems during the extended lockdown in Shanghai in 2022 were blamed on local mismanagement.
China’s supreme auditing institution is the National Audit Office (NAO), which publishes regular reports on state spending and is a functional department of the State Council. Regional government audit offices are internal departments of regional governments at various levels. The NAO is not independent of the government and is heavily influenced by the political considerations of the top leadership. This influence affects the selection of audit tasks and the disclosure of results. In 2015, the central government began to strengthen vertical supervision over lower-level audit institutions. In 2018, China’s official audit report exposed over CNY 15 billion ($2.4 billion) in undeclared local government debt, revealing that local governments were working around the rules to fund infrastructure projects. Although it has increasingly focused on extra-budgetary operations, the NAO still faces difficulties in fully uncovering the opaque and off-balance-sheet financial activities of local governments. The efficiency of local audits in mitigating municipal debt risk depends on the legal environment and provincial government bureaucracies.

In line with China’s open government information policy, statistics on budgetary revenues and expenditures are published on local government websites. Government departments receive hundreds of thousands of open government information requests annually. Information containing “state secrets” is exempt from these requests, which provides officials with a loophole. However, citizens have taken the government to court to challenge their refusal to provide access to information. In 2019, China revised its Open Government Information (OGI) Regulations to further strengthen transparency.

Public tenders are the main method of government procurement, and tenders are published on government and specialized bidding websites. Local governments can issue their own implementation measures, which often seek to benefit local development. Although the Government Procurement Law (GPL) explicitly prohibits giving preference to a specific service provider, tendering documents are sometimes designed to favor particular providers.

Xi Jinping has carried out a sweeping anti-corruption campaign. The crackdown has led to large-scale prosecutions across all levels of bureaucracy, ranging from senior leaders in central government to grassroots bureaucrats. At the end of 2022, Xi Jinping stated that the campaign would continue for several more years with a focus on law enforcement and finance. The NSC is China’s highest anti-corruption agency. It reports solely to the NPC and has the same constitutional status as the State Council, the Supreme People’s Court and the Supreme People’s Procuratorate. The NSC leads local commissions at the provincial, city and county levels. Owing to its centralized nature, the NSC strengthens the central party’s power over local authorities and enhances the political control of the CCP’s central leadership.

Petty corruption is widespread in Chinese society. Examples include bribing traffic police to avoid fines or paying bribes to obtain licenses or other official documents. China has taken several measures to reduce petty corruption, involving greater transparency and accountability in government, and the publishing of information about budgets and officials’ assets online.
16 | Consensus-Building

The CCP regime is predicated on maintaining the party’s power and rejecting Western-style democracy at all costs. While the government constantly adjusts its own versions of democracy, there is consensus among members of the political leadership and regime coalition that any transformation toward a democracy based on the rule of law must be avoided.

China’s socialist market economy has been at the heart of the country’s economic transformation. While private ownership is tolerated, the leadership is determined to uphold public ownership as a leading force in the economy and maintain state dominance over the major means of production, including land, raw materials, capital and data. China’s political leaders still have the authority to define the degree and scope of what constitutes a market economy in China. During China’s 18th Party Congress in 2013, the role of the market in allocating resources was enhanced. The 19th Party Congress once again declared the decisive role of the market. In 2020, Xi Jinping stressed his support of SOEs as the core of the economy. As was reaffirmed at the 20th Party Congress in October 2022, market-oriented reforms, and the promotion of trade and investment liberalization will be supported by a strong state-controlled sector. Among China’s elites, a fundamental debate persists about the extent to which the CCP should permit market dynamics versus state control. Some experts and entrepreneurs fear that Xi Jinping’s crackdown on the private digital economy might lead to a return to a planned economy. China’s influential agricultural economist Wen Tiejun recently proposed a model with a stronger focus on rural development through collective farms. Others, such as Ren Zeping, former chief economist at real estate giant Evergrande, express concerns about too much state control. The uncertainty among experts stems in part from the necessity for Xi to strike a balance within the party between proponents of a market-oriented economy and proponents of a state-oriented economy. In October 2022, Xi reiterated that both state-owned and private businesses were vital, and that the party should show “unswerving” support for the latter.

The party leadership is united in their opposition to China becoming a liberal democracy. Organized opposition to the CCP’s one-party rule does not exist. Any attempt to question the status quo is met with persecution and long prison sentences. While Xi Jinping strongly promotes the “socialist rule of law with Chinese characteristics,” the focus on law-based governance is not to be mistaken for a move toward a Western-style democratic system. Instead, the party maintains a dual legal system in which party leaders remain above the law, while also relying on extra-legal and coercive measures.
Cleavages exist in China along ethnic, social and class lines. Ethnic cleavages have become visible mainly through tensions and conflicts between Han Chinese and some ethnic minorities, such as Tibetans, Uyghurs and Mongolians. There are significant social disparities in China, with a large income gap between urban and rural areas, and between coastal and interior regions, which has led to social unrest and protests throughout the 2010s. The growing income inequality in China has given rise to class cleavages, with a small group of wealthy individuals and business owners at the top, and many workers and farmers at the bottom.

To moderate cleavage-based conflict, the government selectively responds to the concerns of specific groups via policy adjustments. To reduce income inequality, for example, the government implemented a series of policies and initiatives related to public housing, social security and minimum wage increases. The effectiveness of these initiatives is questionable, as the inequality gap in China remains one of the largest among major economies in the world. Similarly, the government allocates transfer payments to interior provinces to narrow inter-provincial gaps. The propaganda and censorship apparatus helps to moderate conflict by shaping public opinion and suppressing information that could fuel social unrest. China’s strong security apparatus enables the use of repression and violence to quell dissent and maintain social stability.

Ethnic, social and class cleavages persist. The unfair treatment of Uyghurs in Xinjiang is evident in the fact that Han people predominantly profit from new economic opportunities, while Uyghurs are subjected to intense surveillance in “re-education” camps and forced labor. These disparities have further exacerbated tensions.

Decision-making power in China is retained by the party-state and not shared with other entities, except through informal consultations. The exclusive approach has led to negative outcomes for vulnerable citizens and groups.

The CCP relies on communication channels through which citizens can voice their demands and influence the policymaking process through feedback and responses. In some governance areas, such as environmental governance, the government welcomes active participation in managing conflicts of interest and securing accurate information. In addition, the party and the government have strengthened the integration of expert advice from think tanks and individual academics in formulating policy. The government has also emphasized public consultation, especially in the realm of lawmaking. The NPC regularly conducts public consultations to collect public opinions on draft laws. Citizens are allowed to participate in local-level decision-making through mechanisms such as public hearings and public opinion surveys. The government has increasingly used online platforms and social media to gather feedback on policy proposals. In 2018, the State Council mandated a 30-day public notice-and-comment process for most government policymaking. Although these consultative mechanisms supplement the current authoritarian system, they are under the control of the party-state and only selected opinions are accepted.
The involvement of civil society in policymaking is limited. The lack of formal power-sharing in the participatory mechanism suggests that the government aims to mobilize participation in an incomplete manner, without granting citizens the right to impose substantial constraints on the authorities. Participatory online spaces are subject to surveillance and censorship. Public debates that become too critical of political processes are suppressed, and individuals leading these debates face harassment and even prosecution.

Although only selectively implemented, central government regulations state that citizens and experts can participate in evaluating the performance of local officials and administrative departments. However, these evaluations are heavily influenced by the CCP. During the pandemic, citizens were involved in some aspects of the implementation of the COVID-19 policy. Some citizens have, for example, been appointed as community health care workers to help provide information to their neighbors.

To gain support for its political agenda and promote national unity, the Chinese government frequently refers to collective memories of historical injustices committed by Western powers. These collective memories are heavily influenced by the government’s official historical narrative, and its emphasis on certain events and figures. One key aspect is the emphasis on the country’s “century of humiliation,” referring to the period between the First Opium War in 1839 and the founding of the People’s Republic of China in 1949, during which China was repeatedly defeated and humiliated by foreign powers. The period is seen as a time of national weakness and suffering, and it is often used to justify the government’s strong stance on national sovereignty and territorial integrity today. Within the “Chinese Dream” mentality evoked during the leadership of Xi Jinping, which is closely intertwined with this narrative, the “great rejuvenation” of the Chinese nation and elevation of China’s international influence are envisioned. In his speech on the CCP’s 100th anniversary, Xi Jinping reminded the audience of the country’s sufferings following the Opium Wars and intense humiliation.

At the same time, the government strictly prohibits any public discussion of human rights abuses and refuses to accept responsibility for past wrongs committed by the CCP regime, such as the Great Famine, the Cultural Revolution and the Tiananmen Square massacre.
17 | International Cooperation

China’s political leadership recognizes the importance of international partnerships in supporting its long-term strategy of development. Examples include the Belt and Road Initiative (BRI), the Asian Infrastructure Investment Bank (AIIB) and the engagement in international free trade agreements (FTAs). China maintains cooperative ties with multilateral institutions, such as the IMF, the World Bank and the United Nations, as well as with foreign governments.

China has increasingly transformed from a recipient country to a donor country and has emerged as a key official creditor to developing countries rivaling traditional Western donors. According to estimates by the China Africa Research Initiative (SAIS-CARI), the country is believed to have signed 1,141 loan commitments with African partners worth $153 billion between 2009 and 2019. In 2018, China established the China International Development Cooperation Agency (CIDCA) to better coordinate China’s aid programs.

Several of the priorities Beijing promotes in global governance reflect long-standing Chinese aims. These aims include suppressing criticism of China’s human rights practices, preventing Taiwan from assuming an independent role in international institutions and protecting Beijing from compromising its sovereignty – all of which China refers to as “internal affairs.” Xi Jinping has called for more shared control of global governance with a smaller U.S. role in setting international rules. Today, Chinese officials lead four of the 15 U.N. specialized agencies.

China initiated new mechanisms in parallel with existing multilateral bodies, such as the creation of the New Development Bank by BRICS member states and the Asian Infrastructure Investment Bank (AIIB). China also plays a leading role in the Shanghai Cooperation Organization (SCO), a Eurasian political, economic, international security and defense organization led by a group of authoritarian states. The SCO has gradually become the main mechanism for China’s policy in Central Asia and provides a framework for cooperation in combating terrorism and separatism.

Since the end of the Cold War, China’s international credibility has consolidated, as China has become a vital trading partner for many countries. China has taken on a leading role in regional and international organizations, and it has initiated trade partnerships such as the BRI and the AIIB. China makes significant contributions to U.N. peacekeeping, both financially, and by contributing troops and police. The country is a signatory to the Paris Agreement to reduce greenhouse gases.

Since the 2008 financial crisis, China’s international credibility has suffered. Traditional sources of conflict with Western countries have persisted and, in some cases, intensified. Both the United States and the European Union complain about trade deficits, restrictions on market access, forced knowledge transfers and rampant
violations of intellectual property rights. In the context of the BRI, China has financed infrastructure projects in developing countries. A number of countries have not been able to repay these loans, leading to accusations of China pursuing “debt trap diplomacy.”

China’s double-digit growth rates in defense spending, its more assertive behavior in regional territorial disputes, and occasional use of diplomatic threats have raised concerns about whether China will maintain its self-proclaimed “peaceful development.” Two Canadian citizens, who were arrested on vague charges of “endangering national security” in December 2018, were held incommunicado for more than two years.

Influenced by Russia’s invasion of Ukraine, the cover-up of the initial COVID-19 outbreak, brutal repression in Hong Kong and Xinjiang, and military threats to Taiwan, negative views of China have reached unprecedented levels. In August 2022, the U.N. Human Rights Office accused China of human rights violations in Xinjiang due to the systematic attack on Uyghurs, including mass detention, torture and cultural persecution. Under Xi Jinping, China’s “wolf warrior” diplomacy has soured global views. At the same time, China’s soft power has declined. China has not engaged in international or multilateral efforts to coordinate COVID-19 responses and was recently criticized for not sharing accurate data on COVID-19 infections with the World Health Organization (WHO).

Relations between India and China have worsened, despite military-level talks. India’s construction of a new road to a high-altitude air base is seen as one of the main triggers for a deadly 2020 clash with Chinese troops. Another face-off in January 2021 and one in December 2022 left troops on both sides injured.

China maintains good relations with Central Asian countries as well as Russia. After Russia’s invasion of Ukraine, China and Russia strengthened political, economic and military ties, although the relationship is becoming ever more imbalanced. Russia is now a less reliable partner given the uncertainties over the longevity of President Vladimir Putin’s regime, while China’s rhetorical support of Moscow has heightened European concerns.

The situation in the East China Sea (Diaoyudao/Senkaku Islands) and the South China Sea (Spratly Islands, Scarborough Shoal) remains volatile. In 2020, Indonesia sent warships to the Natunas. In December 2022, Vietnam and Indonesia reached an agreement on the boundaries of their exclusive economic zones (EEZs). China recently increased its military presence in the region.

Tensions persist in the Taiwan Strait. The Xi administration continues to pressure Taiwan, which the government regards as an inalienable part of the PRC, to commit to reunification with the mainland. In late 2022, China staged one of its biggest incursions in the seas and airspace around Taiwan. A total of 71 Chinese air force aircraft, including fighter jets and drones, entered Taiwan’s air defense identification
zone. Following a visit by a U.S. trade delegation to Taipei at the beginning of 2023, the People’s Liberation Army carried out two large-scale military exercises, involving 16 aircraft and three warships, in the vicinity of Taiwan.

In southeast Asia, the Chinese government deepened economic ties with Myanmar, offsetting the country’s fallout with parts of the international community due to its role in the Rohingya crisis of 2017. As a reaction to the civil war that erupted in 2021, China ramped up its support for the junta, which entrenched a growing split between the world’s autocracies and democracies. Relations with Vietnam remain volatile. In April 2019, a Chinese vessel sank a Vietnamese fishing boat. In November 2022, new trade deals between the two countries were signed.
Strategic Outlook

Under the consolidated leadership of Xi Jinping, China’s political economy was severely impacted by three years of government-imposed lockdowns. Although an economic recovery can be expected in the near future, several urgent domestic and international challenges need to be addressed in the years ahead.

Most importantly, under Xi Jinping’s further consolidation of power, any blame for the challenges China faces might point directly to Xi Jinping himself. As the loyalty of China’s leaders to Xi has become more important than competence and Xi has again installed allies in China’s most powerful leadership body, Xi faces the danger of being insulated from unbiased information. Because this suppresses real debate, China will face difficulties in overcoming pressing challenges. The focus on national security as a new source of legitimacy, as revealed by the 20th Party Congress, is likely a reaction to this trend.

China made expanding domestic demand its top policy goal for 2022. As such, the rebound in spending in early 2023, after the government abruptly eased restrictions, indicates that the measures have been effective. China is considering widening its budget deficit and setting a record quota for local government bonds, both of which are likely to support infrastructure spending. With inflation remaining low, there is room for further interest rate cuts. Given the rise in unemployment in China, particularly among young people, increasing service sector jobs, and supporting small and medium-sized enterprises could help counteract this trend. The pressures on China’s health care system caused by the rapid rise in COVID-19 infections in 2023 are expected to ease after the first wave of infections has passed.

The global recession and geopolitics are expected to further dampen the economy. It will be important for China to stabilize supply chains by improving the business environment given the current geopolitical backdrop. The pandemic has hindered the structural rebalancing from investment to consumption, from manufacturing to services, and from rural to urban migration. The investment-driven recovery has kept investment efficiency low, and corporate debt has climbed to pre-pandemic highs. Therefore, it will be necessary to refocus on structural reforms to achieve a more balanced, inclusive and sustainable growth trajectory.

Geopolitical tensions with China increased during the review period, and there is growing disillusionment in the West regarding what can be expected from China as a responsible participant in the global order. It is reasonable to anticipate that China’s leaders will respond to domestic challenges by attempting to calm their external environment. However, Xi Jinping’s tightened domestic control has unsettled the international situation, leading to a rejection of previous assumptions in the West that China would become more politically liberal. U.S.-China relations remained volatile during the review period, with the trade war ongoing. While Western leaders are divided on the future of their relations with China, there appears to be a consensus on maintaining economic ties. In the long term, the West will need to decide whether to redefine its
overarching strategy regarding its relationship with China. This should not imply a refusal to cooperate in areas of mutual interest, but rather that leading democracies might explore partnerships with a broader range of countries willing to uphold core democratic values. This is particularly relevant as China continues to strengthen its ties with Russia and other authoritarian states.