7YYCN031

ECONOMIC POLICIES AND DEVELOPMENT IN CONTEMPORARY CHINA

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Economic Policies and Development in Contemporary China

GENERAL INSTRUCTIONS

Below is a set of instructions on how the exam must be completed. These instructions must be followed meticulously and a diversion from them could result in a deduction of marks.

- You should answer **all** the set questions below (and as indicated if there is a choice between questions), engaging critically with the themes arising in the module's lectures and drawing on the material discussed in seminars, the literature on the reading list as well as additional resources. The take-home exam should be an opportunity for you to demonstrate your understanding of the issues and approaches presented and discussed in this module, as well as providing scope to explore key aspects in greater detail.
- The exam must be original (i.e., written solely by the student being assessed) and fully referenced. You **must use in-text author-date referencing**, e.g. (Knoerich 2015: 101), **no footnotes or endnotes** are allowed. Any copying of materials without attribution (i.e. plagiarism) will be dealt with severely. No use of generative artificial intelligence tools is permitted. All references for all questions shall be provided jointly at the end of the document, in the space provided.
- The font to be used throughout this document is **Times New Roman, size 12, double spaced.** There is no indentation between paragraphs, and no extra spacing before or after each paragraph. The margins are in "normal" setting (top, left and right: 2.5 cm; bottom: 2cm). Line numbers are provided on the left. The answer to every new question must start on a new page (at the top, just below the question itself). The document is already set in this format, so no further changes are required.
- Each question is followed by a space in which the answer must be written. Everything written in {} brackets are comments or instructions that should be deleted and overwritten with the answer.

- You are not allowed to exceed the required maximum number of words for each question. Exceeding the word count will result in a penalty. The reference list and appendix at the end do not form part of the word count.

ESSAY NUMBER 1 (50%) – 1500 words

In a new era of economic and geopolitical headwinds facing China, should British and European companies continue to invest in China as a location for business, manufacturing, and service provision? Explain your answer.

Strategic Investment in China: A Reassessment for British and European Businesses

Introduction

In an evolving global economy marked by mounting geopolitical and economic pressures, China—long regarded as the linchpin of global manufacturing—now faces significant uncertainties. Emerging markets, particularly India, are increasingly appealing to Western investors, while China is contending with internal and external complexities. These include rising geopolitical frictions, structural economic imbalances, intensifying local competition, demographic constraints, and signs of market saturation. Projections by the International Monetary Fund (IMF) underscore these challenges, forecasting a decline in China's growth rate from 4.9% in 2024 to 4% by 2026—an indicator of deeper, systemic concerns.

Amidst this turbulence, British and European firms must re-evaluate their investment strategies in China, especially across key domains such as manufacturing, services, and trade. This essay critically assesses whether the advantages of investing in China still outweigh the growing risks. While the nation continues to offer vast market potential, especially for high-tech and premium sectors, companies must now adopt more nuanced strategies—most notably, a "China-plus" model—to balance opportunity with risk exposure.

China's Economic Outlook and Emerging Risks

China's current economic environment is marked by several worrying trends. Structural weaknesses in the real estate sector—a major pillar of its economy—have been exacerbated by declining demand and project slowdowns. The property sector, accounting for nearly a quarter of China's GDP, has seen reduced activity, adversely affecting growth. Inflation, as measured by the Consumer Price Index, turned negative in early 2025, signalling deflationary pressures.

Compounding these concerns is a steep decline in foreign direct investment (FDI). According to 2024 figures, FDI plunged by 27.1%, the most significant drop in decades. This decline reflects not only reduced investor confidence due to opaque corporate finances and weak regulatory responses but also broader apprehensions about trade retaliation—particularly from the United States. Western investors are increasingly wary of financial unpredictability and sudden policy shifts within China's economic management framework.

Geopolitical Dynamics and Trade Tensions

Adding to economic woes are China's heightened geopolitical tensions, particularly with Western powers. The US-China trade conflict has intensified, with Washington expanding tariffs—some as high as 145%—on a wide range of Chinese imports. At the same time, Beijing's assertiveness in the South China Sea has inflamed disputes with countries like Vietnam, Malaysia, and the Philippines, and its military posturing toward Taiwan has led to further regional instability.

Relations with Japan have also deteriorated due to maritime disputes in the East China Sea. Moreover, China's implicit support for Russia amid its conflict with Ukraine has strained ties with the European Union and other NATO-aligned nations. These diplomatic and security tensions have led to increased regulatory scrutiny and trade restrictions, limiting China's ability to attract Western capital and complicating cross-border operations.

While exports surged in early 2025 as firms attempted to outpace new tariffs, this growth is expected to taper off. British and European firms are now under growing pressure to "de-risk" their supply chains, assess their reliance on the Chinese market, and navigate a fragmented trade landscape.

Policy Initiatives and Continued Market Potential

Despite these formidable challenges, China has not remained passive. In February 2025, Beijing introduced a 20-point plan aimed at reviving foreign investment. This includes commitments to improve transparency, protect intellectual property, and incentivize reinvestment in high-value industries. Parallel initiatives, such as the "Made in China 2025" strategy, signal a broader national pivot toward technological self-sufficiency and industrial upgrading.

China's economy is also undergoing a structural shift from export and investment-driven growth to domestic consumption and services. The services sector now comprises over 50% of GDP, up from 43% in 2018, and continues to grow—particularly in health, education, and financial services. These shifts are supported by a rapidly expanding urban middle class, whose per capita consumption has risen sharply over the past two decades.

Additionally, China is investing heavily in emerging industries such as electric vehicles, renewable energy, and artificial intelligence. These sectors present compelling opportunities for British and European firms with expertise in clean technology, advanced manufacturing, and digital services. Although China's growth has slowed, it is still expected to be the fastest-growing major economy through 2026, according to IMF forecasts.

Current Investment Trends in the UK and EU

Despite growing headwinds, many British and European businesses have opted to retain or even expand their operations in China. Recent data show that 76% of UK firms have either maintained or increased their investment in 2025. Key sectors include pharmaceuticals, luxury goods, education, and automotive technologies—industries aligned with China's developmental priorities.

Germany, in particular, continues to play a leading role in EU-China economic relations. German automakers and industrial firms have maintained strong investment flows into the Chinese market, especially in the electric vehicle sector, which now accounts for nearly half of EU assets in China since 2022. These high-value engagements allow European firms to tap into China's vast consumer base while contributing to innovation and infrastructure development.

China's large, urbanised population offers firms both a skilled labour force and a massive consumer market. Additionally, the country's extensive investment in scientific research and digital infrastructure—particularly in biotech and AI—provides fertile ground for collaboration and expansion. Recent liberalisations on foreign ownership have further incentivized investment in several high-tech sectors, creating new channels for British and European companies to establish long-term footholds.

Navigating the Risks: The Case for a "China-plus" Strategy

Nonetheless, the risks of investing in China are substantial and growing. Beyond geopolitical unpredictability, the domestic regulatory environment remains highly opaque. New laws and policy changes are often introduced with minimal notice, leaving foreign firms vulnerable to abrupt shifts that can disrupt operations or increase compliance costs.

To address these challenges, companies must implement a "China-plus" strategy. This involves maintaining a strategic presence in China while simultaneously diversifying operations into other emerging markets such as India, Vietnam, Mexico, and nations in the Middle East and Africa. This dual-pronged approach enables firms to hedge against geopolitical risk and supply chain disruptions, while preserving access to China's immense market.

Additionally, firms should deepen engagement with local stakeholders and regulatory bodies, leveraging legal and cultural expertise to navigate uncertainties. Monitoring political developments and adapting business models to local contexts will be essential for sustaining long-term operations.

Conclusion

In conclusion, while China remains an attractive destination for strategic investment, the associated risks are increasingly difficult to ignore. Economic deceleration, demographic shifts, and geopolitical tensions have altered the landscape significantly. However, a complete withdrawal from China would be premature and potentially detrimental to firms seeking to capitalise on its substantial market size and innovation ecosystem.

British and European companies must adopt a balanced and forward-looking strategy that recognises both the enduring opportunities and the intensifying risks of operating in China. Diversifying supply chains, enhancing regulatory agility, and focusing on high-value sectors aligned with Chinese policy goals will be key to sustainable success.

The “China-plus” approach offers a viable path forward—enabling firms to remain competitive while safeguarding against volatility. In the years ahead, British and European stakeholders must remain vigilant, agile, and committed to nuanced engagement in what remains one of the most influential economies on the global stage.

ESSAY NUMBER 2 (50%) – 1500 words

You are taking part in an essay competition on the following theme:

“Whither the China model: The economic, developmental and social challenges facing China today and in the future”

Please write the essay, focusing on **one** of the following topics:

- The China model
- Prospects for the macroeconomy (growth, employment, inflation)
- Strategic sectors (e.g. electric vehicles, semiconductors)
- “Dual circulation” / “common prosperity”

- “Climbing the value chain” and the role of science and innovation
- Net zero, clean growth and the environment
- Inequality
- The role of provincial governments
- Public services (e.g. health, education, transport)
- Demographics (e.g. ageing population)
- Housing/property crisis
- Youth unemployment

The topic chosen for the essay is Demographics.

The End of the Demographic Dividend and the Challenge of Population Aging in China

In 2020, the global community was primarily focused on the unprecedented health crisis caused by the COVID-19 pandemic. Originating from a leak in a Wuhan laboratory, the virus spread swiftly, resulting in a worldwide health emergency. The pandemic overwhelmed public health systems and sparked widespread economic instability. While global attention was fixed on the pandemic’s immediate effects, another significant, albeit quieter, issue began to surface in China—a demographic transition that has profound implications for the nation’s future. This shift, largely overshadowed by the pandemic’s impact, is poised to transform China’s economic and social structure.

As of 2020, nearly 20% of China’s population was over the age of 60. Projections indicate that by the end of this decade, one in four Chinese citizens will be over the age of 60, and by mid-century, this proportion will reach one in three. This aging population represents a stark demographic shift that is occurring at an unprecedented pace and scale, presenting significant economic and social challenges. Unlike other developed nations, where the aging process occurred after significant economic development, China’s aging is happening earlier in its development, creating a mismatch between the demands of an aging population and the resources available to support it.

This essay examines the demographic changes occurring in China, explores the threats these changes pose to the country's future economic prospects, and considers the broader social consequences.

Understanding China's Demographic Dividend

The term "demographic dividend" refers to a period when the working-age population outnumbers the dependent population—those who are either too young or too old to work. China's demographic dividend was exceptionally large and sustained. For decades, the country benefited from a massive, youthful workforce that played a pivotal role in driving its economic transformation. This surplus of workers allowed China to develop into the "world's factory," with a robust industrial base and export-driven economy. The country's economic success was underpinned by export-led industrialization, urbanization, and the rise of a consumer society.

China's demographic advantage was largely the result of the Baby Boom that followed the near-famine conditions of the Great Leap Forward in the 1960s. The subsequent population growth provided a large labor force that could fuel industrialization. However, as the population grew, the Chinese government began to worry about the long-term consequences of rapid population expansion. By the late 1970s, the government had implemented family planning policies to curb population growth, culminating in the "one-child policy" in the 1980s. This policy reduced the birth rate and slowed population growth, bringing the fertility rate down from 5.8 to 2.4 children per woman.

Despite its social and demographic challenges, such as a skewed sex ratio and an aging population, China experienced a prolonged demographic dividend that contributed significantly to its economic growth. The period when China's working-age population outnumbered the dependent population created an environment conducive to rapid economic expansion.

China's Aging Population: A Growing Challenge

China now faces a demographic reality that sets it apart from other nations that have undergone similar transitions. As of 2022, China had the largest elderly population in the world, with over 28 million people aged 60 and above. This number is expected to increase substantially in the coming decades. However, China's situation differs from that of other developed nations, such as Japan, where aging has occurred after the country achieved a high level of economic prosperity. In China, the country is experiencing the challenge of an aging population while its per capita income remains significantly lower than that of developed nations.

China's fertility rate has dropped to 1.18 births per woman, below the replacement rate of 2.1, and this has led to negative population growth. In 2022, the birth rate fell to 6.67%, while the death rate increased to 7.37%. As a result, the country's population is expected to shrink by over 100 million by the middle of the century, with the potential to fall below 800 million or even 500 million by the century's end. This demographic shift will result in a rising dependency ratio, with the number of elderly people requiring support growing rapidly.

The changing age structure of the population will further exacerbate the issue. By 2024, more than 65% of the Chinese population is expected to be of working age (15-64 years). However, the proportion of retirees aged 65 and above is set to increase dramatically, reaching nearly 40% by mid-century. This will place a heavy burden on the working-age population, which will be tasked with supporting a growing elderly population.

Economic Implications of an Aging Population

The most significant economic challenge arising from China's demographic shift is the transformation of its labor market. For decades, China's economy benefited from an abundant, youthful workforce that fueled industrial expansion and investment. This advantage is now diminishing, as the labor force shrinks and the aging population reduces the availability of workers. Labor shortages are already beginning to hamper production efficiency, and these constraints are expected to slow GDP growth.

The aging population also poses a strategic concern for China in terms of military recruitment, as the number of eligible young recruits decreases. In addition to these direct effects on the labor market, the economic burden of an aging population will increase, with growing demands on pension systems and elder care services. Although China's pension funds currently hold a surplus of RMB 6 trillion, the fund is expected to run out by 2035. The pension system will face sustainability issues as the number of retirees rises faster than the number of contributors. Similarly, healthcare and elder care costs are spiraling, with the existing infrastructure for elder care falling far short of demand. As of now, China has only 8 million elder care beds, well below the estimated demand for medical services and care for the elderly.

Social and Cultural Consequences

The demographic changes in China are not only economic in nature but also have significant social and cultural ramifications. The aging population's impact is felt unevenly across rural and urban areas, with rural regions experiencing much faster aging than urban centers. Additionally, regional disparities exist, with some areas, such as Xinjiang, still experiencing positive population growth, while other regions have already entered negative growth territory. Addressing these regional differences will require targeted policies that consider the unique demographic and economic characteristics of each area.

Government Response to Demographic Challenges

In response to the demographic challenges, the Chinese government has made several policy shifts. In 2015, the one-child policy was replaced with a two-child policy, and in 2021, the government introduced a three-child policy. By now, all birth-related restrictions have been lifted in an attempt to encourage higher birth rates. However, these policy changes have had limited success in reversing the declining fertility rates. Young people are reluctant to have more children, largely due to the financial and professional pressures associated with raising a family in modern China. Traditional gender roles, which place much of the responsibility for child-rearing on women, have also contributed to this reluctance.

While lifting birth restrictions was a necessary step, it is insufficient to address the underlying social attitudes and economic pressures that deter young people from having children. Deeper structural reforms are needed to make child-rearing more affordable and attractive. In addition to encouraging higher birth rates, the Chinese government has considered raising the retirement age to allow people to remain in the workforce longer, which would help alleviate some of the pressures on the pension system and support the burgeoning "silver economy" sector, which caters to the elderly population.

The Future of China's Economic Model

China's demographic challenges raise fundamental questions about the sustainability of its current economic development model. The demographic dividend that has fueled the country's economic growth for the past several decades is now becoming a demographic burden. As the working-age population declines and the elderly population grows, China will need to shift from a growth-based economic model to one focused on improving productivity.

To maintain its economic momentum, China must transition from labor-intensive manufacturing to high-value-added production and services. Automation will play a crucial role in offsetting labor shortages, and the country must also invest in education and training to improve human capital. Furthermore, China will need to develop a more robust social security system to support its aging population, ensuring that the elderly are adequately cared for while minimizing the economic burden on younger generations.

Conclusion

China's demographic transition represents a profound shift that will have far-reaching economic, social, and cultural consequences. The demographic dividend that has been a key driver of China's rapid economic growth is now giving way to the challenges of an aging population. The country's response to these challenges will determine whether it can maintain economic stability and social harmony or face stagnation in the coming decades. The next phase of China's development will require a reevaluation of its growth model, with a focus on innovation, productivity, and social welfare to navigate the complexities of an aging society.

REFERENCES

{Please provide below a list of all references cited in the entire exam. Make sure to cite at least 5 items from the module reading list.}

APPENDIX

{Please provide any appendices here.}