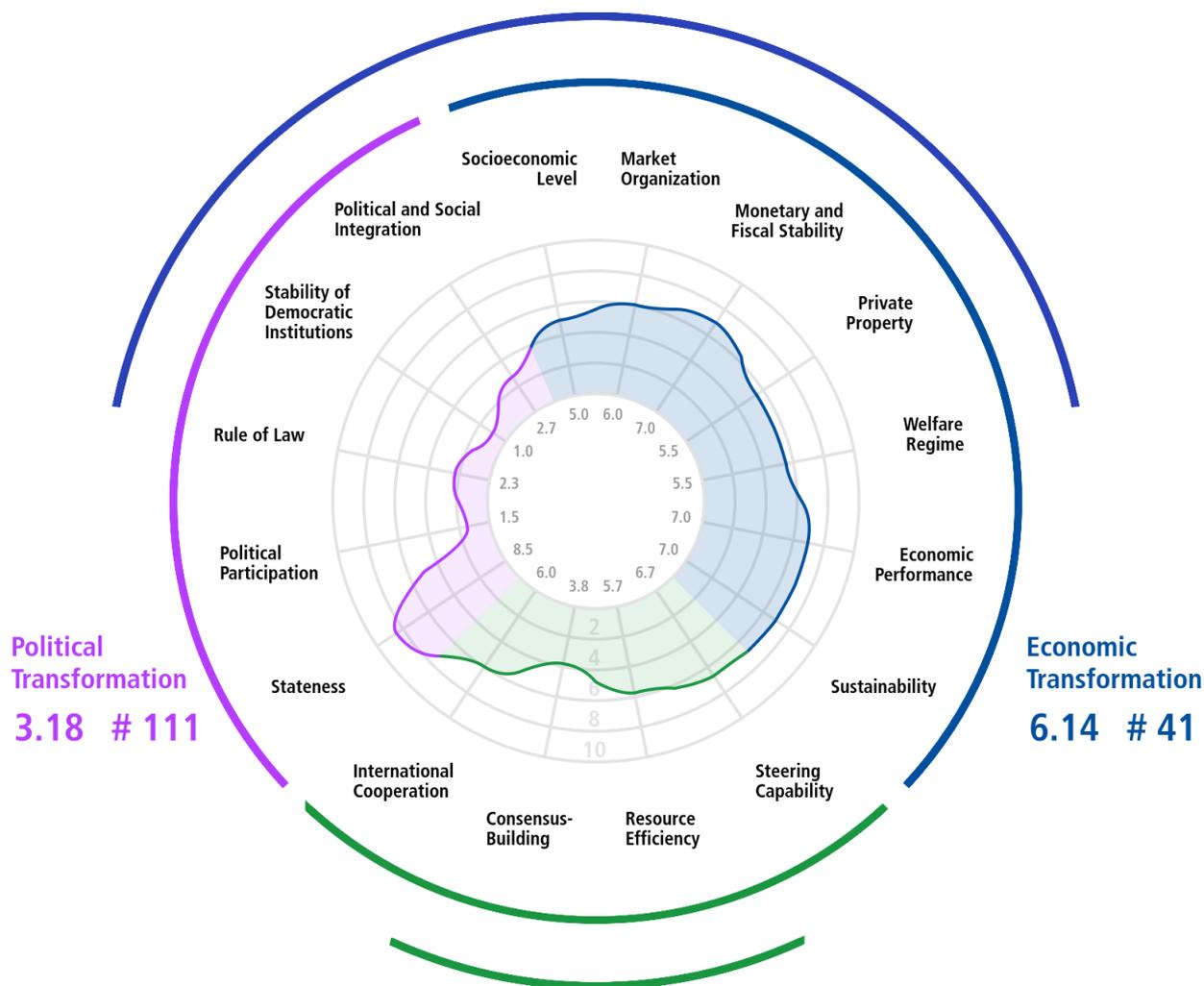


China

Status Index

4.66 # 83

on 1-10 scale out of 137



Governance Index

4.93 # 57

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2026 Country Report – China. Gütersloh: Bertelsmann Stiftung, 2026.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

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

Sebastian Plate

Phone +49 5241 81 81263
sebastian.plate@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	1409.0	HDI	0.797	GDP p.c., PPP \$	27105
Pop. growth ¹	% p.a.	-0.1	HDI rank of 193	78	Gini Index	36.0
Life expectancy	years	78.0	UN Education Index	0.698	Poverty ³	0.0
Urban population	%	65.5	Gender inequality ²	0.132	Aid per capita \$	-0.2

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. 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

During the review period, the Chinese government engaged a delicate balancing act – promoting the private sector while maintaining state control, stimulating investment amid a structural slowdown, and seeking to advance domestic technology despite geopolitical tensions and trade restrictions. These complexities, coupled with weakening public confidence, have made governing China increasingly difficult.

China lifted COVID-19 restrictions in early 2023, but the expected sustained economic rebound failed to materialize. After an initial upward bounce, long-term structural issues in China’s economy resurfaced, including weak domestic demand, deflationary pressure, a real estate crisis, collapsing foreign direct investment (FDI), declining trade volumes and record-high youth unemployment rates. While China officially reported 5% GDP growth in 2024, critics questioned this figure. On the positive side, the year saw record-breaking growth in installed solar and wind capacity, respectively of 45.2% and 18%. In December 2024, China’s exports again rose 10.7% year-over-year. Despite maintaining tight control over key industries and supply chains, China has actively courted FDI as a means of spurring growth.

The government gradually shifted toward more robust economic stimulus, issuing sovereign bonds, long-term government bonds and a \$1.4 trillion local debt package; cutting interest rates; and raising consumer subsidies. However, efforts to restore private sector confidence had limited success, even as the 2024 Third Plenum reaffirmed President Xi Jinping’s party-state economic model. In response to the aging of the population and shrinking of the workforce, China implemented pension reform, raising the retirement age starting in January 2025.

Local governments have struggled to provide public services, triggering protests by hundreds of retired workers over health insurance cuts. Economic uncertainty, job losses and business struggles fueled public skepticism of official growth data during the review period. These conditions have contributed to declining marriage rates and a widespread reluctance to have children, prompting

the government to implement measures to boost birth rates. Rising social tensions led to violent incidents in 2024, including a car attack on a group of people exercising in Zhuhai and xenophobic attacks against Japanese citizens.

Politically, Xi further cemented his power by emphasizing the issue of national security and carrying out purges of the military, including the removal of Defense Minister Li Shangfu and Admiral Miao Hua. At the 2023 National People's Congress (NPC), Xi secured his third term, appointing Li Qiang as premier. The cancellation of the annual press conference at the 2024 NPC continued China's trend of restricting foreign access to government information.

Tensions with the West escalated. The U.S.-China chip war intensified, with the United States tightening semiconductor export restrictions. This slowed China's progress in advanced chips, but helped to accelerate the country's domestic production of essential chips, driven by heavy government support. China tightened exports of key technologies and banned critical mineral exports. At the end of 2024, China launched an antitrust probe into Nvidia, the leading U.S. chipmaker. Meanwhile, China's persistent overcapacity in electric vehicles (EVs) led the European Union to impose tariffs on subsidized Chinese EV imports, following a September 2023 antitrust investigation by the European Commission. The new tariffs created obstacles for China's industry. In response, China further prioritized technological self-sufficiency and deepened ties with the Global South and Russia, raising concerns in the West.

Conflict also intensified in the Taiwan Strait and the South China Sea. The 2024 election of Taiwanese President Lai Ching-te, a supporter of Taiwanese sovereignty, prompted new waves of Chinese military exercises. In the South China Sea, China launched new rounds of aggression against its maritime neighbors, especially the Philippines.

History and Characteristics of Transformation

Economic transformation in China began with 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. A large rural workforce facilitated the recruitment of cheap labor for the emerging industrial sector, and the government expropriated land with little or no compensation, which further kept factor costs low. Despite the existence of a planned economy, the public sector remained relatively limited. Overseas Chinese from Hong Kong and Taiwan were eager to provide scarce capital and managerial know-how once the Chinese leadership began to experiment with foreign direct investment. These specific circumstances significantly facilitated economic development.

Leadership consensus around pursuit of 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 expand 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 leading ranks of the Chinese Communist Party (CCP). Since then, party and state elites have been united in their commitment to limit reforms to the economic sphere 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 reform initiatives from lower administrative levels to be implemented locally through trial and error. If successful, these local initiatives would be adopted as national policies. The leadership’s decision to allow a planned economy and the emerging private sector to coexist has proved most important in maintaining economic stability. During the reform process, both the private sector’s de facto economic importance and policymakers’ recognition of its significance increased steadily.

China’s economic reforms fueled decades of rapid growth, with annual growth rates around 10% paired with relatively restrained inflation, except for two inflationary spikes (1988 – 1989 and 1994 – 1995). Growth rates declined after the global financial crisis and the ensuing global recession. Since then, growth has moderated amid efforts to shift the Chinese economy toward a more sustainable model. Today, China’s economy still relies on investment and exports, and structural challenges such as inequality, excessive debt and overcapacity hinder the transition. The COVID-19 pandemic and the government’s stringent regulation of the private sector since 2021 have worsened these conditions.

Living standards have improved significantly, and the number of people living in conditions of absolute poverty has steadily decreased. This overall success has been clouded by an increasingly uneven distribution of wealth. In China, inequality persists across the urban-rural divide, showing both wealth disparities and regional gaps.

The merely semifunctional legal system and a lack of attention to sustainability concerns in the country’s economic development constitute other serious problems. The deterioration of the environment has generated significant economic and social costs. In addition, the Chinese government is under pressure to fulfill the population’s demands for better public goods such as reliable social security, health care and pension systems, as well as a supportive social framework featuring affordable housing, career opportunities and a more accountable government. The Xi administration has reacted to this pressure through a targeted policy alleviation program, enhanced access to social services, surveillance of public sector employees and stricter environmental standards. The leadership has increasingly strengthened the public security apparatus, implemented a tight system of digital surveillance, and continued to curtail the freedoms of information and expression under the enhanced centralization of political control in the hands of the CCP. Under Xi’s economic governance, retaining the dominance of the state’s presence has been given a top priority, even as rising structural challenges associated with China’s model trigger calls for comprehensive reforms in the fiscal and social spheres.

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 exercises force throughout its territory, though the degree and nature of enforcement vary. 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 make the organization of dissent nearly impossible. Under the guise of fighting terrorism and separatism, the government has installed a system of intense security and forced assimilation. 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 undermined after the Hong Kong National Security Law passed in 2020, further eroding legal principles and freedom of expression. This trend was reinforced by the amendment of Article 23 of Hong Kong's Basic Law in 2024.

China is a multiethnic state with transnational ethnic groups along its borders. While China's population consists of 56 ethnic groups, the Han make up more than 91% of the total population. The constitution and the 1984 Regional Ethnic Autonomy Law guarantee numerous minority rights. Officially, the government allows for conditions of autonomous rule for ethnic minority groups. However, the government's ethnic policies have resulted in increased integration and decreased cultural diversity. There is little incorporation of other ethnic identities in the construction of Chinese identity. The Chinese government systematically denies some minorities their legal rights and arrests members for exercising legally protected freedoms.

While most citizens seem to accept the People's Republic of China as a legitimate sovereign nation-state, non-Han ethnic minorities view China as a state for Han Chinese. Ethnic tensions have emerged as non-Han ethnicities seek to assert their identities and preserve their communities. Job opportunities in ethnic languages are limited, widening the economic gap. Tibetans and Mongolians, in particular, have felt increased pressure to assimilate due to changes in education and heightened surveillance. After 2009, ethnic tensions among Tibetans and Uyghurs intensified.

Question
Score

Monopoly on the
use of force

9



1

State identity

7



1

Since 2009, 159 Tibetans have self-immolated to protest the Chinese government's policies, with two such incidents occurring in 2022. Since 2017, the government has waged an aggressive campaign in Xinjiang, where as many as 1 million Uyghurs and other Turkic Muslims have been subjected to political indoctrination in a network of internment camps and prisons. In November 2022, protests erupted in China against COVID-19 lockdown measures after a deadly apartment fire in Urumqi, the capital of Xinjiang. The protests ultimately ebbed due to police occupation of protest sites and the lifting of lockdown measures.

Under Xi Jinping, China's policies toward minorities have generally continued to move in an aggressively assimilationist direction, a trend accelerated during the pandemic by the deployment of facial recognition software and greater police-state surveillance. While actual expressions of ethnic identity are suppressed, ethnic minority cultures are commodified for tourists under the guise of cultural preservation.

The Chinese state's legal framework and institutional arrangements are based on secular norms. The CCP is officially atheist and recognizes five religions: Buddhism, Catholicism, Daoism, Islam and Protestantism. The CCP's United Front Work Department directs the implementation of religious policy, and the State Administration for Religious Affairs (SARA) carries it out.

According to a government report issued in 2018, China has nearly 200 million believers and more than 380,000 clerical personnel. Authorities closely monitor registered and unregistered groups, and religious organizations must register with state-sanctioned patriotic religious associations, which oversee religious activities and ensure alignment with government policy.

Under Xi Jinping, religious organizations have been increasingly "sinicized" so that they conform to the party's doctrines, and new regulations require religious groups to spread CCP ideology. In September 2023, Order No. 19 took effect, requiring religious venues and their managers to support the CCP's leadership and align with socialist values.

China has established a robust administrative framework capable of delivering basic civil functions. Legal functions, taxation and law enforcement are exercised throughout its territory. China's administrative system comprises four levels: provincial, prefectural, county and township. Below the official administrative system, urban resident committees and rural village committees are constitutionally designated as grassroots mass organizations that are self-managing while still operating under CCP control. Local government agencies carry out administrative enforcement.

Regional disparities and the balance between central control and local autonomy influence the state's reach and effectiveness. Although the administration of communication, transportation and basic infrastructure is guaranteed across the entire country, rural areas still lag behind cities. The hukou system, China's household

No interference of religious dogmas

10



1

Basic administration

8



1

registration mechanism, still determines citizens' access to public services based on their registered urban or rural location. During the reporting period, access to basic water sources and sanitation slightly improved. In 2022, according to the World Bank, 97.6% of the population had access to basic water sources and 95.9% had access to basic sanitation (but only 67.2% had access to safely managed sanitation). As of 2022, 100% of the population had access to electricity.

The bureaucracy is increasingly being streamlined through anti-corruption campaigns. To strengthen the state's capacity to exercise administrative control over the country, the government systematically deploys e-government applications. In February 2023, the government unveiled new guidelines for building a "digital China" at the global forefront of technology, with the associated strategy lasting through 2035.

Steady progress in developing China's rural internet infrastructure was made during the review period. As of June 2024, the internet penetration rate reached more than 63% in rural areas and roughly 85% in urban areas (CEIC data).

2 | Political Participation

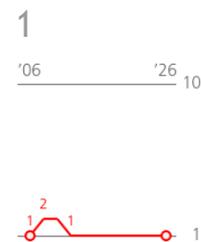
China's electoral system operates under Chinese Communist Party (CCP) leadership. The country does not hold free and competitive national elections. Key leadership positions are determined by the CCP's Organization Department, a key agency of China's Central Committee. While the state president and the members of the State Council are elected by the National People's Congress (NPC), these elections are largely symbolic and predetermined by CCP leadership. Xi Jinping secured a third term as CCP general secretary at the 20th Party Congress in October 2022, paving the way for him to remain in power indefinitely. In March 2023, Xi also secured a third term as state president. Li Qiang, a close ally of Xi, was named premier in March 2023.

Local People's Congresses (LPCs) can elect their heads at their own level and deputies to People's Congresses at the next-higher level. Congresses are directly elected at the township and county levels, but preselected candidates are tied to local CCP committees. Competition within these elections is highly constrained.

Village and urban residents' committees, village leaders and party branch secretaries are directly elected. However, vote-buying, clannism, manipulation and interference by higher-level government and party authorities in the electoral process are common.

Under Xi, the CCP has expanded its authority in rural China to weaken elected village leaders and strengthen the party's organizational power and ideological influence. Village democracy is increasingly seen as an impediment to the party's reform agenda.

Free and fair elections



China's political authorities hold the effective power to govern, but this power is concentrated in the CCP rather than in state institutions. Veto powers do not undermine the political decisions of central leaders, who are not democratically elected. Although delegates to the NPC, China's legislative body, are elected through a multitiered representative electoral system, the personnel selection process is controlled by the CCP.

The party leadership also controls China's military, as mandated by law. Within the Chinese party-state, the fundamental role of the People's Liberation Army (PLA) remains to serve as the CCP's military wing and guarantor of its one-party rule. By purging political rivals in the military, including former Minister of National Defense Li Shangfu in October 2023 and senior PLA Admiral Miao Hua in November 2024, Xi Jinping has increasingly consolidated his authority in the PLA so as to ensure compliance with his political agenda.

The freedoms of speech, assembly, procession and demonstration are guaranteed by China's constitution, but in practice these rights are tightly proscribed. Political organizations competing with the CCP are prohibited.

Civil society and non-governmental organizations (NGOs) lack meaningful autonomy. These organizations have been welcomed to fill gaps where the state lacks the capacity to provide services. NGOs operating in politically sensitive areas, such as migrant workers' rights, have been shut down under government pressure in recent years. Numerous NGO workers have been detained and jailed. The only legal labor union is the government-controlled All-China Federation of Trade Unions (ACFTU), which has long been criticized for failing to defend workers' rights.

In January 2021, there were more than 900,000 registered social organizations in China. When unregistered NGOs are taken into account, the actual number is likely much higher. The Charity Law, in effect since 2016, makes it easier for unregistered organizations to raise funds but increases government supervision. The Overseas NGO Law, in effect since 2017, shifts 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. Concerns over state security have taken priority, and the purpose of the crackdown on NGOs has shifted from punishment to preemptive control. In May 2023, the Beijing LGBTQ+ Center closed because of political pressure. Several LGBTQ+ groups had to shut down their WeChat accounts several months later.

Demonstrations and other forms of protest are illegal without a government permit, which is virtually impossible to obtain. The authorities often tolerate non-political protests. Under Xi Jinping, punishment of protesters has intensified. At the end of 2022, tens of thousands of people demonstrated against China's COVID-19

Effective power to govern

2

'06 _____ '26 10



Association / assembly rights

2

'06 _____ '26 10



measures, marking the largest outpouring of public dissent in decades, in what became known as the “white paper” protests. The authorities have retaliated against people who took part in the demonstrations, including via arrests and harassment. In 2023, more than 1,000 worker protests were recorded, and hundreds of retirees took to the streets in Wuhan and Dalian to protest cuts to medical benefits.

Although China’s constitution guarantees the freedoms of speech and of the 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 jailer of journalists, with 107 writers detained in 2023.

Through the Great Firewall, the government censors the Chinese internet and uses various 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, foreign journalists’ ability to access sources has shrunk. In 2024, China was ranked at 172nd place out of 180 surveyed countries on Reporters Without Borders’ World Press Freedom Index.

Microblogging sites such as Weibo have become primary spaces for netizens to discuss taboo subjects. To skirt restrictions and censorship, internet users have developed a broad range of slang, acronyms, memes and images. The government has tightened control over these technologies or shut down critical websites. The 2017 Cybersecurity Law requires social media platforms to republish news articles from state-approved news media. In July 2023, new rules for the media accounts maintained by independent writers, bloggers and social media celebrities were introduced, including a real-name registration requirement for accounts with more than 500,000 followers. A network of fake social media profiles created by China’s propaganda organs has also begun pushing pro-China narratives on social media. The government is devoting considerable resources toward developing AI and big-data analysis technologies for online content monitoring.

Citizens continue to be charged and sentenced for social media posts perceived as critical of Xi or the CCP. In 2022, the country’s strict zero-COVID policy sparked anger and discontent among online users. In response, authorities strengthened cyberspace regulations. After mid-2023, due to China’s post-COVID-19 economic downturn, the Chinese government stepped up censorship and cracked down on economic dissent, silencing numerous analysts critical of the economy. In 2023, financial analyst Wu Xiaobo was censored on social media for raising concerns about China’s economic problems. In early 2024, Chen Pinlin, an activist filmmaker, was arrested for producing a film about the 2022 “white paper” protest wave.

Freedom of expression



In July 2023, China's revised Anti-Espionage Law took effect. The law redefines espionage and national security, though without clearly defining the latter term, and further limits civil society's freedom of expression while enabling authorities to inspect electronic equipment and citizens' data.

There is a heavy police presence in ethnic minority regions, particularly in Xinjiang. The ability of minority groups to express themselves freely, even in private, has been further undermined in recent years.

3 | Rule of Law

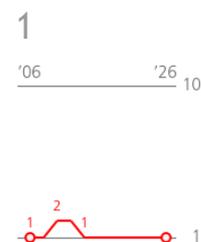
The CCP dominates state and society in China and is committed to maintaining a permanent monopoly on power.

While China's constitution assigns distinct powers to different state organs, it also enshrines the supreme leadership of the CCP. Therefore, China's constitutional framework does not separate powers and lacks checks and balances. Provincial governments can pass their own laws as long as they do not conflict with national laws. Under Xi Jinping, power has been recentralized, and the party has increasingly led the construction of the rule of law.

Democratic principles such as constitutional government and judicial independence are rejected. The NPC exercises many of its constitutional powers only nominally and is not a parliament in the Western sense. The CCP supports rule by law rather than the rule of law, using the legal system as a governance tool. Judicial independence is explicitly denied, with party commissions of politics and law overseeing the police, prosecutors and courts. The Supreme People's Procuratorate is the highest organ for legal prosecution, while the National Supervisory Commission, established in 2018, serves as the anti-corruption agency. Together with the State Council, the Supreme People's Court and the Procuratorate, the National Supervisory Commission answers to the NPC and its Standing Committee.

Xi has pushed for the "integration of the party and the state," asserting CCP leadership over China's legal system. In 2017, an acknowledgment of the party's growing role was added to the CCP charter. In 2018, the presidential term limit was abolished, allowing Xi to rule indefinitely. He was confirmed for a third term as general secretary, president and military leader, effectively positioning him to remain in power for life. In March 2024, the amended Organic Law of the State Council granted the CCP further control over the cabinet, thereby reducing the separation of party and state.

Separation of powers



China does not have a fully independent judiciary. The state's insufficient commitment to the rule of law, a lack of institutional independence and inadequate support hinder the development of such independence. The vast majority of defendants in criminal trials are found guilty.

Xi has advanced judicial reforms that consolidate the CCP's power and tighten control over the legal system rather than enhancing judicial autonomy. Anti-corruption campaigns have targeted corruption and violations within the judiciary, affecting courts, and human rights lawyers are often detained and arrested.

The first Plan on Building the Rule of Law in China (2020 – 2025) envisions a coherent legal system while rejecting judicial independence and the separation of powers. The policies of “socialist rule of law with Chinese characteristics” and “Xi Jinping Thought on the Rule of Law” aim to strengthen CCP control over the state.

In commercial cases, judicial decision-making has improved slightly, but China remains the world leader in the number of death sentences issued. Judicial transparency has declined significantly since 2021, with the Supreme People's Court scaling back access to cases on the China Judgments Online portal, launched in 2013 to increase transparency.

China's prosecutorial and law enforcement processes lack impartiality and judicial independence, and critical reporting on abuses of public office is suppressed and censored.

Xi launched his anti-corruption campaign after the 18th National Congress of the CCP in 2012 to target high-level officials and local civil servants. Although the campaign officially targets corruption, it primarily serves to consolidate Xi's power. In early 2025, the campaign gained renewed focus as Xi labeled corruption the “biggest threat” to the CCP's rule.

The National Supervision Commission (NSC) and the Central Committee for Discipline Inspection (CCDI) lead anti-corruption investigations. The 2018 Supervision Law granted the CCDI authority to investigate officials and to seek international cooperation on extradition. Between 2013 and 2021, more than 4 million officials were prosecuted, including 392 officials at the provincial level and more than 610,000 at the township level. In 2023, about 610,000 party officials were punished for party discipline violations.

Since 2021, the campaign has shifted its focus to financial regulators, with several senior executives under investigation. Key figures include former Bank of China Chairman Liu Liange, who was sentenced to death with a reprieve, and former China Life Insurance Chairman Wang Bin, who was sentenced to life in prison. The campaign also targeted the military, removing nine generals and aerospace executives, including General Li Yuchao, commander of the Rocket Force. In 2024, former Defense Minister Li Shangfu and Gen. Wei Fenghe were expelled from the party, and Admiral Miao Hua was suspended. In June 2025, the Supervision Law was to be amended in order to give anti-corruption agencies more legal tools.

Independent judiciary

2

'06 _____ '26 10



Prosecution of office abuse

5

'06 _____ '26 10



China's constitution guarantees civil liberties such as press freedom and the freedoms of speech, assembly and movement. However, the CCP often interferes with these rights by detaining, torturing and harassing regime critics even after their release.

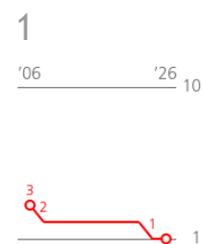
The human rights situation in China deteriorated as human rights lawyers faced arrest, harassment and intimidation for challenging the government. Although the constitution guarantees religious freedom, Chinese law recognizes only five religions. Tibetan Buddhists, Uyghur Muslims and Falun Gong practitioners, 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, Daoism is the least controlled. In 2016, Xi called for the "sinicization" of religions, thereby strengthening state control over religious activities. The State Administration for Religious Affairs (SARA) was incorporated into the CCP's United Front Work Department, centralizing religious affairs under the party's control. In 2020, the Administrative Measures for Religious Groups introduced a requirement of government approval for operations, and in 2021, the Measures on the Management of Religious Clergy subjected clergy to tighter controls. Further restrictions were imposed in September 2023 with the Measures on Religious Activity Venues.

The assimilation and political indoctrination of Muslims in Xinjiang remain ongoing. External observers estimate that more than 1 million people have been held in so-called reeducation camps, enduring torture, forced labor and mistreatment. A 2022 U.N. report confirmed that serious human rights violations were being perpetrated in the region, and although some camps have allegedly been closed, about 500,000 Uyghurs and Turkic Muslims remain imprisoned. Since 2023, the government has promoted tourism to the region, presenting a controlled version of Uyghur culture. In February 2024, amendments to religious regulations in Xinjiang further constrained religious practice.

In Tibet, the freedoms of religion, expression, movement and assembly are restricted, and monks and nuns are under constant surveillance. The residential school system in Tibet was recently used as a state-guided program intended to assimilate Tibetans into the majority Han culture.

The online freedom of expression remains tightly controlled, and discrimination against members of the LGBTQ+ community persists. The revised Law on the Protection of Women's Rights and Interests, enacted in January 2023, aims to address workplace discrimination and sexual harassment, though the degree to which it has been effective remains uncertain. In Hong Kong, the 2020 National Security Law enabled widespread human rights violations, and in March 2024 the Beijing-controlled Legislative Council passed a new security law, further intensifying repression.

Civil rights



4 | Stability of Democratic Institutions

China remains a one-party authoritarian state with little sign of democratization. The CCP oversees policy implementation through the state. Although the State Council is constitutionally overseen by the NPC, it is effectively controlled by the CCP. The March 2024 revision to the State Council Organic Law further strengthens the CCP's authority over China's cabinet.

The formal political system also includes the Chinese People's Political Consultative Conference (CPPCC), a political advisory body in which members from various backgrounds contribute to policy discussions. However, the CPPCC lacks real legislative power.

China introduced direct elections at the village level to encourage more effective local governance, though party officials heavily influence candidate selection and other social constraints hinder true democracy. Under Xi Jinping, the CCP has reinforced its control at the grassroots level, diminishing the extent of rural democracy.

Xi has repeatedly rejected any prospect of judicial independence, focusing instead on restoring the party's central role in governance. In 2018, the government abolished presidential term limits, enabling Xi to rule indefinitely. In 2023, he secured an unprecedented third term as president.

Since 1998, China has endorsed village elections at the lowest administrative level, making cadres more accountable to villagers. However, under Xi Jinping it has become nearly impossible for independent candidates to participate in these elections.

Intellectual debate over China's interpretation of democracy continues. While China is far from a liberal democracy, its leadership claims it practices democracy through "consultative democracy," which incorporates the interests of various social groups. Xi introduced "whole-process democracy" in 2019, allowing citizens to submit opinions to the state, although pro-democracy activists are routinely silenced. Online censorship, which intensified after COVID-19, continues unabated.

The government has expanded official channels for public consultation such as online petition platforms and complaint hotlines. However, its responsiveness remains selective, and critical voices are often censored. In July 2024, the government proposed the introduction of a voluntary network ID for real-name online registration, and opened the idea to public consultation, but censored serious concerns raised by academics and legal experts.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

The Chinese Communist Party (CCP) is the absolute center of power in Chinese politics. Although there are eight other political parties, the CCP requires them to accept its leadership. At the end of 2023, the CCP had more than 99 million members, about 30% of whom were female. The number who are female, have college degrees or who are younger than 40 has risen slightly in recent years. About 30% of CCP members are agricultural or blue-collar workers.

During China's 20th Party Congress, not a single woman was promoted to the Politburo, the executive policymaking body, marking a break with a two-decade tradition. To date, no woman has been elevated to the Standing Committee of the Politburo.

Competing factions within the CCP have traditionally been tolerated. After rising to power in 2012, Xi centralized authority and sought to diminish the influence of other factions. Analytically, Xi has built his own faction while eliminating potential competitors.

China has a large, diverse array of interest groups, but their autonomy has become increasingly restricted, especially since 2016. NGOs have faced difficulties registering and securing overseas funding under the Overseas NGO Law.

Over the past two decades, the number of NGOs has increased, with most focusing on issues such as education, environmental protection, poverty alleviation, community development or health care. Despite greater space for development, the government remains concerned about social instability, and consequently imposes severe restrictions, particularly on politically sensitive issues such as human rights or labor rights. Many non-registered NGOs struggle with limited capacity and funding. China's NGO sector also includes government-organized non-governmental organizations (GONGOs), which are expected to receive funding and contribute expertise the state otherwise finds difficult to access. The COVID-19 pandemic has led to deteriorating finances among small and midsize NGOs. During the reporting period, restrictions on and surveillance of NGOs focused on LGBTQ+ issues increased.

Mass organizations, such as the All-China Federation of Trade Unions and the All-China Women's Federation, are led by the CCP and are state funded. Under Xi, these organizations have become key intermediaries in managing civil society, and in 2022 the CCP officially recognized them as vital to its organizational development.

Homeowners associations (HOAs) – citizen-initiated organizations that expanded during China's property boom – support local governments in mediating citizen disputes in urban neighborhoods. Business associations, operating under varying degrees of state oversight, act as intermediaries between firms and the government.

Party system



Interest groups



Although it is an authoritarian one-party state, the Chinese government calls itself “democratic.” The CCP’s conceptions of democracy directly influence how the Chinese population perceives its government. According to the 2024 Democracy Perception Index (DPI), 79% of China’s population said that China was a democracy, marking a slight decline from 2022. In 2024, more than 10% said there was “not enough democracy” in China. However, ordinary Chinese citizens’ democratic ideals diverge from Western norms, as they define democracy more in terms of consultation and that freedom of speech rather than focusing on competitive elections.

In the Xi-dominated era, public assessments of China’s level of democracy appear to have declined. According to the 2021 DPI, the share of the population that desired more democracy in China had increased slightly during the COVID-19 pandemic. Although studies indicate that previously high levels of trust in the Chinese government might have declined, public perceptions of government accountability remain among the highest in the world. Public trust in local governments declined during the COVID-19 lockdowns.

To date, the quest for a responsible government has not resulted in greater demands for genuine political participation. Individual citizens called for democratic reform during the COVID-19 protests that erupted in many parts of China in November 2022. However, after regulations were relaxed, state control caused the demonstrations to subside.

Levels of interpersonal trust in China remain relatively high, with most people indicating that they trust relatives, friends, neighbors and professionals in social and political organizations. In a March 2022 Ipsos survey, 56% of respondents said that most people could be trusted. In the 2024 Global Social Capital Index, China ranked 43rd out of 191 countries.

However, challenges such as COVID-19 and economic decline have heightened public pessimism about issues of inequality and opportunity. It remains unclear how these factors will come to affect overall social trust.

Levels of trust toward strangers, business people and religious individuals remain low, while nationalist sentiment has surged under Xi. This has been accompanied by xenophobic incidents, especially toward the Japanese. The Social Credit System (SCS) aims to build social trust, but its broader impact is uncertain.

In rural areas, social capital is vital because formal institutions are underdeveloped, and clan associations foster trust. In cities, trust is promoted through residents’ committees and homeowners’ associations, which play a key role in local governance. The pandemic eroded social trust during lockdowns, though self-organized, volunteer-based groups remained important. Additionally, the party-state expanded grassroots social control through the digitalization of grid management systems in urban neighborhoods.

Approval of
democracy

n/a

'06 _____ '26 10

n/a _____ 1

Social capital

5

'06 _____ '26 10



II. Economic Transformation

6 | Level of Socioeconomic Development

China has made significant progress in reducing poverty, officially eradicating extreme poverty – defined by the government as earning less than \$2.30 a day at purchasing power parity – by 2020. In 2023, the share of people living below the \$6.85-a-day poverty line fell to 14.1%, reflecting a decline yet indicating that a substantial share remains economically vulnerable.

Despite this progress, wealth and income inequality continues to fundamentally exclude large segments of the population from economic and social opportunities.

According to the World Inequality Report 2022, China’s private wealth grew from 120% of national income in 1978 to 530% in 2020. The top 1% of the population holds about five times more personal wealth than the bottom 50%. Income inequality, measured by the Gini index, rose sharply during the reform period and began to decline after 2010, reaching a Gini coefficient of 35.7 in 2021. However, the National Bureau of Statistics (NBS) reported a coefficient of 0.468 in 2020, excluding consumption expenditures. Xi Jinping’s “common prosperity” initiative, which has targeted tech-sector businesses, aims to address these disparities. However, policy priorities have shifted toward interregional rather than interclass redistribution due to economic slowdowns.

Structural inequalities further entrench exclusion. Human capital disparities are stark, with rural areas significantly trailing urban regions. In 2021, the illiteracy rate was 3.21% in China overall, 28.98% in Tibet and 0.94% in Beijing. Ethnic minorities, particularly in Xinjiang and Tibet, face social and economic exclusion, contributing to unrest and separatist tensions. The country’s gender inequality score decreased slightly from 0.190 in 2018 to 0.186 in 2022, but the labor force participation rate among women dropped to 60.5% in 2023, compared with 72.1% for men.

Although China’s Human Development Index (HDI) score improved from 0.766 in 2018 to 0.788 in 2022, ranking the country 75th globally, inequality still led to a 16% loss in potential human development.

Labor market inequalities remain a pressing concern, with the youth unemployment rate peaking at 21.3% in June 2023. According to the NBS’ revised methodological approach, the rate declined to 15.7% by December 2024. Structural barriers persist, particularly for rural migrants, who are often unaccounted for in official unemployment statistics.

Question
Score

Socioeconomic
barriers

5

'06 '26 10

5

1

Economic indicators		2021	2022	2023	2024
GDP	\$ M	18201698.7	18316765.0	18270356.7	18743803.2
GDP growth	%	8.6	3.1	5.4	5.0
Inflation (CPI)	%	1.0	2.0	0.2	0.2
Unemployment	%	4.6	5.0	4.7	4.6
Foreign direct investment	% of GDP	1.9	1.0	0.3	0.1
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	352885.8	443374.3	263382.4	423919.2
Public debt	% of GDP	70.1	75.5	82.0	88.3
External debt	\$ M	2724353.7	2448050.1	2420210.8	-
Total debt service	\$ M	337298.0	428695.7	385484.2	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	7.8	7.5	7.6	-
Government consumption	% of GDP	16.4	16.7	17.2	-
Public education spending	% of GDP	-	-	4.0	-
Public health spending	% of GDP	2.9	2.9	-	-
R&D expenditure	% of GDP	2.4	2.6	-	-
Military expenditure	% of GDP	1.6	1.6	1.7	-

Sources (as of December 2025): 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

State ownership remains dominant in China, with state-owned enterprises (SOEs) holding assets equal to 194% of GDP as of 2018, the highest such figure in the world. SOEs operate across all sectors, benefiting from government guarantees, subsidies and monopolies. They also account for most corporate debt because they have easier access to borrowing than do private entities. To improve SOE performance, 119 listed central SOEs had adopted stock option incentives by 2019.

In 2023, China had more than 53 million private firms, accounting for 92.3% of registered companies. These firms account for more than 50% of the country's enterprise taxes, 60% of value added, 70% of technological innovation and 80% of urban employment (2019). Despite facing fewer restrictions than foreign firms, private businesses face challenges, including limited financing and fewer opportunities than SOEs.

The government has acknowledged the barriers facing the private economy, including weak consumer spending and a downturn in business sentiment tied to COVID-19 policies and regulatory crackdowns. The State Council introduced the Fair Competition Review Regulations in June 2024 to level the playing field, though the effectiveness of these measures remains unclear. A new draft law to promote the private economy, released in October 2024, includes provisions to support fair competition and improve the investment environment.

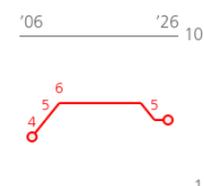
China remains a top destination for FDI, though foreign firms face regulatory barriers and intellectual property concerns. The 2020 Foreign Investment Law reduced restrictions, but FDI fell in 2023. In response, the government approved the Shanghai Pilot Free Trade Zone plan in December 2023 along with a 24-point plan in March 2024 aimed at boosting foreign capital, expanding market access and facilitating cross-border data flows.

China controls cross-border capital flows, limiting foreign investment in capital markets and restricting full convertibility of its currency. However, use of the yuan is promoted in free-trade zones.

The informal sector has grown since the 1990s, accounting for 54.4% of employment in 2013 and rising to a share of 60.2% in urban areas by 2019.

Market
organization

5



China's Anti-Monopoly Law (AML) took effect in 2008, providing a legal framework to address anti-competitive behavior by companies and administrative agencies. In 2021, a national anti-monopoly bureau was established, coinciding with antitrust crackdowns. China has not joined the International Competition Network (ICN).

In October 2024, the Ministry of Justice and the National Development and Reform Commission (NDRC) published a draft law to promote the private economy, with measures to foster fair market competition and improve the investment and financing environment.

Amendments to the AML in 2022 introduced prohibitions on platform companies' use of technology for anti-competitive practices and increased fines for violations. In 2023, the State Administration for Market Regulation (SAMR) issued provisions clarifying enforcement practices related to merger control, anti-competitive agreements and abuse of dominance.

Recent antitrust developments have focused on data monopolies and data-intensive sectors such as platform operators. After significant regulatory crackdowns on major tech firms such as Alibaba, Tencent and Meituan, enforcement eased in 2023. In December 2024, SAMR launched an antitrust investigation into U.S. chipmaker Nvidia, following the imposition of U.S. export restrictions amid the ongoing chip war.

China's reliance on foreign trade has decreased since the global financial crisis, with exports accounting for 20% of GDP in 2021, down from 36% in 2006. Despite this, China remains a major player in global trade, and its goal of "self-reliance," introduced in 2020, reflects a shift toward reducing trade dependency.

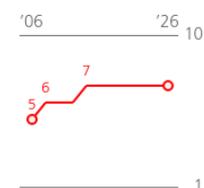
Since joining the WTO, China has reduced import tariffs and liberalized export trade, enabling access to high-quality intermediate goods and allowing firms to expand abroad. The 2004 amendment to the Foreign Trade Law lowered tariffs and removed non-tariff barriers. China's most-favored-nation tariff rate has decreased over time. In 2023, the average applied tariff was 7.5%.

China enforced the Investment and Export Control Laws in 2020. In late 2024, China introduced measures to boost import-export growth, focusing on financial support, e-commerce, green trade and better visa policies. In 2025, it plans to allow foreign financial institutions to operate under the same conditions as domestic institutions in certain free-trade zones.

The U.S.-China trade war and Western sanctions on technology exports have led China to restrict foreign access to key sectors. China updated its export controls in 2023, introducing restrictions on critical materials such as gallium and germanium, drones, and graphite. The 2024 Dual-Use Catalogue, effective in 2025, introduces a unified control system for high-tech sectors, including semiconductors and artificial

Competition policy

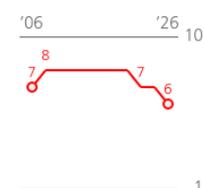
7



1

Liberalization of foreign trade

6



1

intelligence. The 2023 revised Catalogue of Technologies Prohibited or Restricted from Export reduced the number of controlled items but added stricter rules for areas such as laser radar systems. At the end of 2024, China announced new adjustments to import and export tariffs, making imports and exports cheaper and encouraging trade in non-sensitive sectors. The adjustments include reductions in tariffs on raw materials, health care products and green technologies.

China prioritizes multilateral trade systems, notably the Regional Comprehensive Economic Partnership (RCEP). While net exports hurt growth in 2023, exports rose by 11.2% in November 2024. China's reliance on imported inputs has decreased in high-tech sectors, and it surpassed Germany in 2022 to become the world's second-largest car exporter, driven by EV exports.

China's financial system is dominated by state-owned banks, which play a key role in bond and equity markets and provide liquidity for smaller institutions. In 2023, the National Administration of Financial Regulation (NAFR) was established, centralizing financial oversight; and Pan Gongsheng, a well-trained financial technocrat, became the new governor of the People's Bank of China (PBoC), the country's central bank.

China's banking system adheres to international standards and has fully implemented the Basel III framework. Basel III requires a capital adequacy ratio of at least 10.5%; China's ratio was 15.6% in September 2024. However, small and medium-sized institutions remain vulnerable. The share of non-performing loans (NPLs) has declined due to resolution of bad loans, but asset risks have risen, particularly in the property sector. S&P Global Ratings estimates that the non-performing asset ratio in the property market stood at 5.9% in 2024. In response, provincial governments sold a record \$31 billion of capital to regional banks in 2023.

China has continued to reduce the size of its shadow banking sector, with these assets falling to their lowest level since 2013. In 2023, Zhongzhi Enterprise Group, a major player in shadow banking, declared itself insolvent amid the property crisis. Interest rate liberalization, mostly completed in 2015, continues to be influenced by the PBoC, with reforms gradually shifting the focus from the total volume of credit to its cost.

China's economy operates under soft budget constraints, with local governments able to widen their deficits by issuing special-purpose bonds. In 2024, China announced a \$1.4 trillion debt package to stabilize growth, and in 2025, it plans to simplify bond issuance procedures to further spur growth.

Banking system

6

'06 '26 10



1

8 | Monetary and fiscal stability

China's monetary policy has been pragmatic but reactive, prioritizing growth and financial stability rather than strict monetary stabilization.

China's central bank, the People's Bank of China (PBoC), operates independently but remains heavily constrained by the state and is subordinate to the State Council. In July 2023, Pan Gongsheng was appointed governor, and in mid-2024 the PBoC conducted its first trade in treasury bonds in nearly two decades. By early 2025, the central bank announced a shift to more orthodox monetary policy, including market-based interest rate reforms.

The PBoC faced pressure to reflate the economy amid weak consumer spending, a real estate slump and regulatory tightening affecting high-paying industries. Consumer prices rose just 0.2% in FY 2022/23, with economists suggesting that consumer price index (CPI) growth was negative over the past three years. To boost demand, the PBoC cut interest rates several times and encouraged banks to extend more credit to developers.

Since the pandemic, the government has been cautious about engaging in stimulus, aiming instead to shift the economy toward new growth drivers. At the end of 2024, policymakers decided to implement a “moderately loose” monetary policy in 2025, including key reductions in the reserve requirement ratio (RRR) and policy interest rates. A \$1.4 trillion stimulus program was also announced in September 2024 to help local governments manage debt.

The yuan weakened in 2023/24, falling from 6.7 to 7.24 per U.S. dollar. China's real effective exchange rate index decreased from 2021 to 2023, ending at 116.0. While the central bank took measures to combat depreciation, policymakers have debated allowing the yuan to weaken further to support exports.

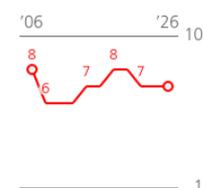
During the review period, China took steps to shift from policies focused on emergency stimulus (2021 – 2022) to more targeted support. However, fiscal risks remain high, and long-term debt sustainability is challenging.

Official statistics show that China's GDP grew by 5.2% in 2023 and 5% in 2024 after a slowdown due to the COVID-19 pandemic. However, with a shrinking property sector, weak consumer spending and struggling local government finances, the real growth rate was likely much lower – for example, the Rhodium Group estimated it at 1.5% in 2023 and between 2.4% and 2.8% in 2024.

To support the economy and local finances, the government has implemented stringent fiscal policies. In mid-2023, China issued \$137 billion in sovereign bonds, allowing local governments to access part of their 2024 bond quota early. Total local-level debt reached \$5.82 trillion by the end of 2023, and fiscal expenditures rose by

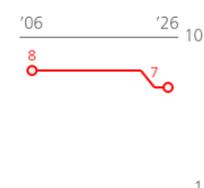
Monetary stability

7



Fiscal stability

7



5.4%. In 2024, China announced a \$1.4 trillion stimulus package to ease financing strains for local governments, counteract “hidden debt” and stabilize growth, a move that will likely worsen government debt.

China’s central and local government debt continued to rise. The budget deficit was initially set at 3% of GDP for 2023, then adjusted to 3.8% and returned to 3% in 2024. For 2025, a 4% deficit and a 5% growth target were announced, signaling a proactive fiscal policy. Total public debt as a percentage of GDP rose from 71.5% in 2021 to 77.4% in 2022 and 84.4% in 2023. More conservative estimates placed total government debt at 142% of GDP in 2022. External debt increased to \$2.7 trillion in 2021 but declined to \$2.3 trillion in 2022. Government consumption rose from 15.8% of GDP in 2021 to 16.1% in 2022.

China’s total reserves grew from \$1.95 trillion in 2008 to \$3.84 trillion in 2014, then declined to \$3.01 trillion in 2016. After a decrease in 2022, reserves rebounded to \$3.3 trillion in 2023. By December 2024, China’s foreign exchange reserves reached \$3.26 trillion, the largest such figure in the world. According to data from the World Bank, China’s current account balance rose to a surplus of \$443.38 billion in 2022, declining to \$252.99 billion in 2023.

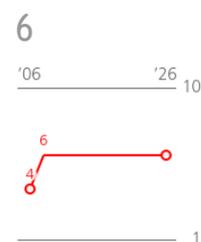
9 | Private Property

In 2007, China’s Property Law was enacted, granting legal protection for private property rights. However, enforcement problems persist because all land in China is owned by the state and local governments, with no private land ownership. Housing was privatized in the 1990s, but households are often forced to vacate buildings for purposes of urban development because they own only the housing structures, not the land it sits on. Farmers’ land rights have been violated because of the collectivized ownership of rural land.

In June 2024, China passed the Rural Collective Economic Organizations Law, effective May 2025, to better protect farmers’ land rights. Since 2013, the government has pledged to strengthen farmers’ rights and create a unified land market. The law grants villagers the right to contract land to operate, though implementation may vary.

Adoption of intellectual property rights (IPR) protections remains contentious, with Chinese firms facing frequent accusations of IPR violations. China has become more protective of its own intellectual property, revising trademark, patent and copyright laws. These changes have reduced the burden of proof in patent cases and increased damages for copyright infringement, leading to more IPR lawsuits. In November 2023, the Apostille Convention took effect, simplifying the recognition of foreign documents in China. The China National Intellectual Property Administration (CNIPA) also introduced measures to address trademark review inefficiencies and released a draft revision of the Trademark Law in 2023 to combat malicious registrations. The revision has not yet been adopted.

Property rights



Since the 1990s, China has gradually privatized firms, although the distinction between the state and private sectors has not always been clear. Since taking power in 2012, Xi Jinping has enhanced the party's ability to monitor and influence large private companies through party cells, viewing state-owned and private enterprises as the “two pillars” of economic success.

Private property rights were first protected in the 2004 constitution. By 2024, China had about 55.54 million private companies and more than 1.25 trillion small businesses, with small and medium-sized enterprises (SMEs) contributing more than 50% of tax revenue, 60% of GDP, 70% of technological innovation and more than 80% of urban employment.

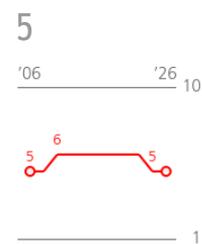
In response to the economic downturn, China moved away from harsh regulation of the private sector, particularly in the technology and real estate industries, aiming to restore confidence. In July 2023, the government released a 31-point set of guidelines to boost the private economy, and in October 2024, it issued a draft law to promote fair competition and innovation and to protect private businesses. The focus was on supporting innovation in strategic areas such as AI, semiconductors and green energy in order to achieve technological independence, though the details of these measures' implementation remain unclear.

10 | Welfare Regime

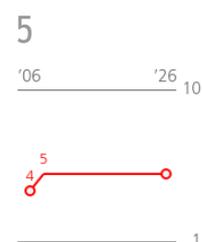
Compared with developed economies' frameworks, China's social welfare system remains relatively weak, although the government has strengthened the safety net in rural areas through initiatives such as the rural cooperative medical system, the establishment of universal nine-year education and the dibao program, which provides a minimum standard of living. Health care, disability, maternity, unemployment and social pension insurance programs are funded jointly by employees, employers and government subsidies.

China's social safety net favors urban white-collar workers, especially full-time employees. Only 200 million workers are covered by unemployment insurance, leaving most low-income laborers without coverage. Fewer than 20% of migrant workers are covered. Unemployment benefits are low. In 2023, the average monthly benefit was \$254, an amount insufficient to cover living costs in major urban areas. An urban hukou (household registration) is required for official employment eligibility. The average monthly pension in 2020 was about \$23.62. In 2024, China expanded its private pension scheme nationwide after a two-year pilot program to address the aging population. Policy changes will raise retirement ages for women in blue-collar work from 50 to 55, for women white-collar workers from 55 to 58 and for men from 60 to 63 in 2025.

Private enterprise



Social safety nets



The basic health insurance system covers 95% of the population and is supplemented by commercial insurance. However, only 22% of migrant workers had basic medical insurance in 2017. In 2018, the National Health Care Security Administration was established to manage health insurance programs, including basic medical insurance for employees and urban and rural resident insurance. The employee program is better funded and offers superior treatments, while the resident program, funded solely by premiums, provides less coverage for rural residents. Life expectancy reached 78.6 years in 2022. In 2023, protests erupted in cities including Wuhan, Guangzhou and Dalian after local governments cut health benefits following the depletion of municipal health insurance funds by anti-COVID measures. Although health expenditure has tripled since 2009, it fell to 2.9% of GDP in 2021, down from 3.1% in 2020. Weak social coverage could further hinder consumer spending.

China experiences significant inequality of opportunity despite constitutional guarantees of equality.

Discrimination persists on the basis of gender, age, hukou (household registration) location, religion, ethnicity and sexuality. Women made up 44.5% of the labor force in 2013, with this share rising to 45.1% in 2023. The National Program for Women's Development (2021 – 2030) aims to maintain this at a share of 45%. Women hold 26.5% of the 2,977 National People's Congress (NPC) seats, a slight increase from the previous term. The 2023 Women's Protection Law strengthened legal safeguards against sexual harassment and gender bias.

Ethnic, religious and linguistic minorities lack equal access to education and employment opportunities and continue to face economic exclusion. Several religious groups face discrimination and persecution, including Uyghur Muslims, Tibetan Buddhists and Falun Gong practitioners. Ethnic minorities benefit from government support, yet employment bias persists. Recent studies suggest that Muslim job seekers are 50% less likely to receive callbacks than Han applicants. Since 2017, Xinjiang's labor policies have become more discriminatory. Ethnic minorities hold 14.8% of NPC seats but are not allowed to discuss sensitive issues such as Xinjiang. Although China's Labor Law prohibits discrimination based on gender, race, religion and ethnicity, it does not protect sexual minorities. Only 5.1% of LGBTQ+ employees are open about their orientation at work due to fear of retaliation.

China's tertiary education system still shows a clear gap between urban and rural areas. Meanwhile, the government has prioritized gender equality in education, with a 2023 Gender Parity Index (GPI) ratio of 1.1 for tertiary enrollment, indicating a slight bias toward women. However, gender disparities remain more pronounced in rural areas. Literacy rates in 2023 were 98% for men and 95% for women. The hukou system limits migrant children's access to education, housing and health care. Financial services have expanded, yet China lags behind advanced economies with regard to financial inclusion.

Equal opportunity

6

'06 _____ '26 10



_____ 1

11 | Economic Performance

China's economic performance has worsened despite the lifting of COVID-19 restrictions. To support post-COVID-19 recovery, the government adopted a more proactive fiscal policy, though remained cautious in 2023. In 2024, China announced supply-driven stimulus measures intended to modernize the industry, science and technology sectors and support the real estate sector.

Officially, GDP grew 5.2% in 2023 and 5% in 2024, but external analysts offer estimates covering a broader range (1.5% – 5%) due to assessed weak performance. The property sector continued to contract in 2023, reducing land sales and contributing to an erosion of investment and consumer confidence. Household consumption grew by 5% – 6% in 2023, while exports fell by 4.6% to \$3.38 trillion and imports dropped by 5.5% to \$2.56 trillion, creating a trade surplus. Automobile exports surged by 69%, driven by EVs. In 2024, weak property and infrastructure investment reduced demand for raw materials. Net exports contributed significantly to growth in 2024 due to China's industrial overcapacity. In 2024, exports rose by 6.7% (January – November 2024), up from 0.6% growth the previous year, while imports grew only 2.4%. The export growth in EVs, industrial robots and 3D printers reflects China's shift toward an innovation-driven trade model.

China's GDP in 2024 reached \$18.8 trillion, and GDP per capita was \$12,621.7 in 2023. World Bank data show that GDP per capita grew by 3% in 2022 and 5.3% in 2023. The CPI inflation rate fell to 0.2% in 2023 amid deflationary pressures.

The official unemployment rates were 5% in 2022 and 4.7% in 2023, but the youth unemployment rate reached 18.8% in August 2024, its highest level since the NBS methodology changes in December 2023.

Foreign direct investment inflows slowed to 0.2% of GDP in 2023. Public debt officially rose to 84.4% of GDP. The true ratio is likely higher, as some local government loans are considered as private debt, and local borrowing may push it higher. Corporate debt reached 123% of GDP in 2024, household debt 61% and tax revenue was 11.3% of GDP (September 2024).

In late 2024, China announced a stimulus intended to boost household consumption, expanding trade-in subsidies for autos and appliances. Without stronger income and wage growth, however, household consumption may face further headwinds in 2025.

Output strength

7



1

12 | Sustainability

Under the Paris Agreement, China aims to reach peak carbon emissions by 2030 and achieve carbon neutrality by 2060.

CO₂ emissions rebounded by 4.7% year-over-year in the third quarter of 2023, mainly due to rising oil demand. In 2023, China emitted 11.9 billion metric tons of CO₂, remaining the world's largest emitter. From 2005 to 2019, greenhouse gas (GHG) emissions rose by 75%, though per capita emissions (227 tons in 2024) remain below the levels seen in either the European Union (682 tons) or the United States (1,570 tons). Coal accounts for 70% of electricity generation, with China responsible for 95% of global new coal power construction in 2023. However, permitting for coal-fired power plants slowed significantly in 2024. Plants totaling only 9 GW in generation capacity received permits in the first half of 2024, an 83% reduction compared with the first half of 2023.

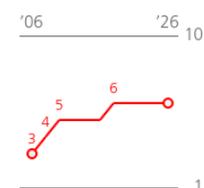
China met its wind and solar target six years early, reaching 1,206 GW in July 2024, with forecasts for 1,310 GW by year's end. A supportive policy environment is driving growth in China's solar and wind capacity. In 2022, total solar photovoltaic (PV) installations matched those in the rest of the world combined. China also boasts a robust hydropower industry. Clean energy accounted for 40% of GDP growth in 2023. Definitions of energy intensity changed in 2023, making targets easier to meet. Since 2020, energy intensity has fallen by 0.6% a year, down from 4% a year in the previous five years. The 2024 target is a 2.5% reduction.

Since 2013, air quality has improved, with PM_{2.5} concentrations in major cities dropping by 21% since 2018. In 2021, Beijing met air pollution targets for the first time. However, water scarcity, pollution and soil contamination remain severe. In 2015, 85% of water in major rivers was undrinkable. The "Beautiful China" initiative emphasizes environmental protection, and 2024 official data indicate improved surface water quality.

China's 2015 Environmental Protection Law (EPT Law) strengthened penalties, but local enforcement remained weak. The 2018 EPT Law replaced pollution discharge fees with a tax. The 14th Five-Year Plan (2021 – 2025) targets a 13.5% reduction in energy intensity and an 18% reduction in emissions intensity by 2025, though progress between 2020 and 2023 was slow. Internationally, China is a party to the United Nations Framework Convention on Climate Change (UNFCCC). The National Climate Change Strategy 2035 prioritizes risk monitoring and aims for a climate-resilient China by 2035. In January 2025, China passed its first national energy law, integrating multiple energy regulations and promoting renewable sources such as hydrogen energy.

Environmental
policy

6



China leads the EV market, producing more than 50% of global EVs in 2023 and pressuring Western automakers to keep up. The Emissions Trading Scheme (ETS) launched in 2021 had little impact, but was strengthened in 2024 with stricter penalties for non-compliance and fraud.

China lacks an absolute economywide peak-emissions target, and the Climate Action Tracker rates its policies as “highly insufficient.” However, because of the country’s rapid expansion of renewables and the decline in coal projects, projections now suggest that China’s emissions will peak before 2025.

China has maintained strong educational institutions and R&D investment, but political control, economic uncertainty and reduced global cooperation have posed challenges.

Since 2013, China’s education spending has hovered around 4% of GDP, which is low by global standards. In 2022, China scored 0.692 on the U.N. Education Index, below Iran, Uzbekistan and Venezuela. However, the literacy rate reached 97% in 2020, and in 2023, the gross primary school enrollment rate was 99.32%.

Educational attainment has steadily improved, with the gross enrollment rate for senior middle school reaching 91.8% in 2023. Rural education quality continues to lag behind urban education.

China’s Tsinghua University and Peking University consistently rank among the world’s top 50 tertiary institutions. In 2023, the university enrollment rate reached 60.2%. Under Xi Jinping, however, universities have been subject to intensified ideological control. In 2022, Renmin University, Nanjing University and Lanzhou University withdrew from international rankings in order to align with China’s strategic goals in tech-driven growth.

Government policy drives China’s R&D expansion through initiatives such as Made in China 2025, China Standard 2035 and the 14th Five-Year Plan (FYP). The 14th FYP set an annual R&D spending growth target of at least 7%, prioritizing AI, semiconductors, biotechnology, clean energy and advanced manufacturing. China’s overall R&D spending grew 35-fold during between 1991 and 2018, reaching 2.4% of GDP in 2021, among the highest such figures globally. In 2024, total R&D spending reached \$500 billion, an 8.3% increase, though growth has slowed for three consecutive years. China has expanded its R&D workforce and encouraged foreign R&D centers. In 2023, foreign R&D investment grew by 4%, driven by the country’s surplus of young engineers and scientists.

China leads in generative AI patents, filing six times as many as the United States. Between 2014 and 2023, 38,000 generative AI patents originated in China, and in 2021/22, 55% of global semiconductor patents were Chinese. However, many of these patents stem from state incentives rather than innovation, leading to lower value. Basic research remains weak, with funding lagging behind that of developed countries. In 2023, Xi Jinping called for a strengthening of the basic research sector, prioritizing AI, quantum information and laser technology. In 2024, China issued its first mid- to long-term space research plan.

Education policy /
R&D

8



1

Governance

I. Level of Difficulty

China faces structural constraints limiting governance performance.

The weak recovery following the zero-COVID policy reflects structural rather than cyclical issues. Growth is constrained by high debt, overbuilding, a real estate slump, high youth unemployment rates, overcapacity, export dependence, supply chain disruptions, weak consumption and the aging of the population. The housing market faces declining demand because of overbuilding and a shrinking population, while indebted local governments must cut infrastructure spending, risking long-term decline. Overproduction became a significant concern during the review period. Subsidy-driven investments in the EV sector have led to a proliferation of EVs and EV batteries in excess of demand, exacerbated by U.S. and EU trade barriers.

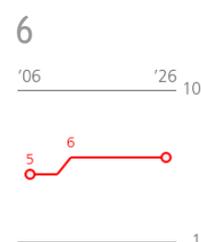
Youth unemployment rates remain high as job availability has failed to meet the expectations of educated workers, worsened by crackdowns on the private sector. Xi's dramatic change in approach toward private companies has been difficult to reconcile with his desire for greater control. Geopolitical tensions, such as U.S. tech restrictions and higher tariffs on Chinese EVs, further strain growth.

China's fertility rate is estimated to have fallen to 1.09 in 2022. During the period from 2022 to 2024, China's population declined for three consecutive years, putting significant pressure on the labor force. In 2024, to counteract this trend, the government raised retirement ages for drawing a public pension. However, the poorly educated rural workforce and the hukou household registration system limit mobility and productivity. Inequality in access to education and health care leaves many employees without the capabilities to excel in high-skill, high-wage jobs.

A surge in the number of retirees is straining childcare and pensions, and China's largest public pension fund is projected to run out by 2035. The government recently began promoting private pensions. Raising the retirement age could worsen childcare shortages, as grandparents typically provide care.

Environmental problems continue to challenge government performance. China remains strongly dependent on coal, despite a pledge to reach net-zero emissions by 2060. Coal's share of energy generation fell to about 50%, yet total coal use continues to rise as demand for electricity grows and coal provides China with a secure energy source. Air pollution, land contamination, deforestation, desertification and water

Structural
constraints



scarcity have displaced populations. Food security is at risk due to the shrinking quantity of arable land and climate-related disasters such as droughts, floods and earthquakes.

China lacks a robust civil society tradition. Traditionally, Chinese society was sustained by local cultures and values, human interactions based on status and authority, and kinship systems focused on the village. Modern civil society began to develop in the early 1990s as the state gradually withdrew from the economic and social arenas. The number of registered civil society organizations (CSOs) rose from 400 in 1986 to more than 901,870 by the end of 2021, with many organizations operating in fields such as education, environmental protection or women's rights. CSOs have been welcomed to fill the gap where the state lacks either the capability or the will to provide services. Since 2016, registration for social organizations has been severely restricted. Under Xi, the autonomy of civil society groups has generally declined.

China lacks irreconcilable social or religious cleavages, yet social resentment has increased.

Daily local protests occur but rarely challenge the regime. Maintaining stability is a top government priority, with violent repression remaining a last resort – except in Xinjiang. The government mitigates grievances through online complaint platforms and petitions. Large-scale protests are rare, and intensifying state coercion has reduced them over two decades.

During the reporting period, economic struggles and the hukou household registration system deepened urban-rural and wealth inequality, fueling resentment. Social cleavages have deepened primarily due to high levels of inequality between urban and rural areas and between affluent and economically underprivileged groups.

China experienced several public attacks in 2024, including a vocational school stabbing in Wuxi, a car attack in Zhuhai, and stabbings in Shanghai and Shandong. It remains unclear whether these incidents represent a trend or copycat behavior, but they sparked discussions about economic hardship, inequality and competition in the job market.

Xenophobia has been linked to attacks on foreigners, including the stabbing of a Japanese boy in Shenzhen and an attack on a school bus carrying Japanese children in Suzhou. Ethnic tensions between Han Chinese, Tibetans and Uyghurs remain high, and Xinjiang is controlled through imprisonment, surveillance, forced labor and birth control.

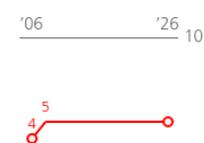
In late 2022, China saw its largest protests since Tiananmen in 1989 – the “white paper” protests against COVID-19 controls. In 2024, the number of protests before the Spring Festival doubled compared to the previous year because of unpaid wages

Civil society traditions



1

Conflict intensity



1

in the construction industry, according to the China Labor Bulletin. Despite rising social resentment, mass mobilization remains unlikely because of the state's strict control over gatherings.

II. Governance Performance

14 | Steering Capability

China's policymaking is based on long-term strategic planning, including five-year plans (FYPs) and medium- to long-term development plans. FYPs are crucial; they outline social and economic goals, growth targets and reforms that reflect China's long-term vision. The National Development and Reform Commission (NDRC) oversees planning, but under Xi Jinping's leadership the CCP's influence has expanded, making reforms dependent on party consensus. While factional rivalries once shaped Chinese politics, Xi has consolidated control, ensuring that new factions remain loyal to him.

China's 14th FYP, which runs through 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. The 2035 development goals envision China as a leading nation in technological advancement, economic development, industrialization, military capabilities and environmentally sustainable lifestyles. China revised the 2035 goals in 2022 to emphasize technological self-reliance.

While China adheres to strategic priorities, it adjusts short-term policies in response to crises. In 2023, it shifted from its zero-COVID policy to a focus on reopening. In 2024, it shifted its economic and monetary policies to stimulate investment and demand, issuing sovereign bonds to subsidize consumer goods and child support – a strategic move aimed at boosting consumption. The country's monetary stance became "moderately loose" for the first time since 2008. Despite structural and cyclical economic issues, the CCP remains focused on long-term sustainability.

At China's Third Plenum (July 2024), the meeting held once every five years to map out the direction of the country's long-term social and economic policies, the decisions made strengthened Xi's vision of high-quality economic growth driven by high-tech and economic self-reliance. However, the final document contains contradictory goals. While it promises to strengthen market mechanisms, it also stipulates that the CCP will determine the direction of market freedom. Although the private sector is to be further supported, private enterprises are also to be increasingly incentivized to channel their potential toward national strategic goals.

Question
Score

Prioritization

7



1

Policy implementation in China is often characterized by conflicts between top-down policymaking and the interests of local governments charged with on-the-ground execution. While the central government is able to push through its political priorities, its effectiveness depends on how closely central and local interests align. In areas where interests diverge, such as environmental protection, implementation gaps frequently prevent policies from being fully realized.

Under Xi Jinping, policy enforcement has tightened, with enhanced oversight of local implementation. The collapse of the zero-COVID policy illustrated that policies from top officials are executed swiftly and efficiently yet lack formal feedback mechanisms from local bureaucracies. This issue was also evident in Xi's recent vocational education reforms aimed at closing the national skills gap. While designed to create a skilled workforce for emerging industries, the reforms have resulted in coercive measures and rigid implementation that ignores the needs of students, parents and educators. In 2024, the government introduced further measures to streamline bureaucracy and improve policy execution at the grassroots level.

China's overall strategic priorities focus on quality- and innovation-led growth, stronger domestic consumption, sustainable development, lower debt, rural economic rejuvenation, green manufacturing, and reduced reliance on Western supply chains. Progress on long-term strategic plans has been partial. While the country's centralized governance and state-controlled industries support effective policy implementation, factors including external dependencies, local resistance, financial burdens and geopolitical pressures pose obstacles.

Compared with the COVID-19 period, when pandemic policies often clashed with economic needs, the government has become more effective at enforcing its policies. Industrial policies in particular have been executed more systematically. However, challenges remain, especially with regard to economic and social policies. Social resistance and local financial struggles still hinder implementation. The youth unemployment rate remains high, suggesting that economic policy adjustments have not translated into labor market improvements. Efforts to curb debt growth have had limited success as local governments have taken on "hidden debt" to meet growth targets. Subsidies for manufacturers in emerging industries have been productive, but financial pressures have slowed economic recovery. Local governments have responded by cutting spending, pensions and health insurance allowances, as well as by delaying salary payments and reducing contract jobs, which has weakened consumer demand. To offset fiscal shortfalls, they have increased non-tax revenue through fines on enterprises, further damaging business confidence.

Implementation

7



1

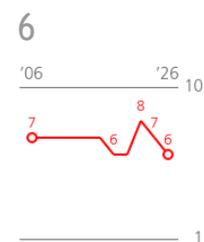
During the review period, China became more flexible in implementing state-driven industrial and trade strategies but more rigid in responding to economic, social and political challenges. Tight political control over academia, media and private businesses limits the ability to engage in institutionalized policy learning.

Despite the country's centralized governance structure, policymaking in China is marked by change, experimentation and ad hoc adjustment. China uses pilot programs and incentivizes local innovation in order to test new policies on a small scale before rolling them out nationwide, thus allowing the government to learn from successes and failures. For example, carbon-trading programs were piloted in specific regions before China launched a nationwide carbon-trading market in 2021. However, pressure on local cadres has increased, and policy experiments have become rarer under Xi Jinping. Strict penalties for non-compliance result in swings between paralysis and overcompliance at the local level, an increasingly unresponsive policy process, and local officials who no longer experiment as they seek to solve local problems.

The government often adjusts policies based on observed outcomes and challenges, and it learns from past crises. At the same time, the leadership rarely acknowledges policy failures and instead formulates new policies to counter existing trends. Reforms in health care and land use have evolved through iterative improvements. The government's abrupt shift in the zero-COVID policy in 2023 and the softening of regulations in the tech sector due to an economic slowdown reflect the government's ability to adapt to new circumstances. China also studies international practices, borrowing successful models from other countries. The design of the carbon-trading market, for instance, integrated insights from the European Union's Emissions Trading System (ETS). China's government learns through political and social feedback. Leaders who wish to maintain social and political stability in their policymaking indirectly consider public opinion and sentiment.

Academics, think tanks, SOE representatives and business associations have traditionally offered input during policy drafting. However, they face increasing pressure under Xi. In the lawmaking process, the leadership has opened possibilities for public consultation on draft laws, but public opinion still has limited practical influence on lawmaking.

Policy learning



15 | Resource Efficiency

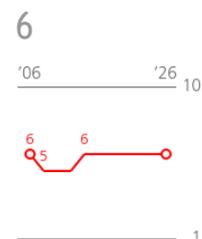
During the period from 2015 to 2021, China's score on the World Bank's Government Effectiveness Index improved steadily to 0.81, then dropped sharply to 0.49 in 2022 due to the zero-COVID policy. In 2023, it rebounded to 0.68. Despite this, China's bureaucracy demonstrated strong capacity to contain the spread of COVID-19.

The government has introduced reforms to improve civil service efficiency, including merit-based promotions, cadre evaluation reforms, anti-corruption measures, enhanced auditing and professional development programs. Xi Jinping's anti-corruption campaign targeted position-related perks such as the use of public funds for banquets. While the campaign reduced the prevalence of local patronage networks, it also led to bureaucratic inertia, as officials became hesitant to pursue economic growth in order to avoid blame or punishment. China has increasingly adopted digital monitoring tools, including facial recognition and movement-tracing apps, in the interest of boosting administrative efficiency. In 2022, the State Council ordered that bureaucratic hurdles across industries be reduced.

Despite these reforms, bureaucratic inefficiencies persist. The performance of local cadres is a key policy tool, but GDP growth targets remain the primary basis for promotions. Party loyalty has taken on greater importance under Xi, particularly at higher levels, often outweighing professional competence. Civil service base salaries have long been low, and in 2025, the government introduced the first pay raise since 2015 with the goal of boosting the economy. Many officials will see a \$68.50 increase in their base wage; among lower-level officials, the average base salary has been just \$212 per month. Local protests often stem from grievances against local officials.

China's budgetary system is highly decentralized, with local governments managing more than 85% of total expenditures. The distribution of fiscal resources depends on political influence and negotiations rather than a uniform system. Faced with soft budget constraints, local governments have borrowed excessively, driving local debt to 70.5% of GDP by 2021. The COVID-19 crisis worsened local debt, and 2024 stimulus measures aimed at addressing "hidden" debt accumulated outside central oversight will further increase it.

Efficient use of assets



Over the long run, policy conflicts are primarily being driven by structural contradictions in China's political economy. These include trade-offs between state control and market reforms, between investment-driven growth and financial stability, and between decentralized economic power versus centralized political authority, for example. Recent crises in China have exposed some of these problems. The crackdown in the real estate sector (2021 – 2023) highlighted the government's push for financial discipline. However, local governments still rely on land sales for their income, leading to inconsistent enforcement and partial policy reversals. While China has invested heavily in AI, semiconductors and green energy, strict political control over private tech firms has slowed innovation and investor confidence.

Conflicting policy objectives often arise from weak horizontal and vertical coordination, as well as from friction between central and local government interests. Institutionalized political and economic incentives rooted in the cadre evaluation system and China's central-local fiscal politics lead local governments to prioritize growth at the expense of long-term objectives. While the center sets the overall direction, local governments often carry the burden of implementation, as exemplified by the fight against COVID-19. The central government mounted a comprehensive intervention, but food shortages and supply problems that emerged during stringent lockdowns were blamed on local mismanagement.

The coordination of specific policies across administrative bodies is carried out by so-called leading small groups (LSGs). Like LSGs, central commissions greatly enhance the central leadership's coordinating power. The Commission for Comprehensively Deepening Reform (CCDR) oversees the drafting of high-priority reform policies within the central party-state. Policy areas lacking a top-level agency progress more slowly.

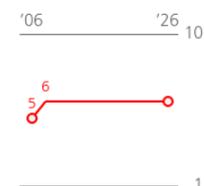
China has strong enforcement tools to punish corruption, but it lacks independent institutions and systemic checks and balances to prevent corruption.

The National Supervisory Commission (NSC) and the Central Commission for Discipline Inspection (CCDI) are the key anti-corruption bodies. The CCDI oversees party discipline, while the remit of the NSC, a state agency, includes all public officials, including non-CCP members. The NSC reports only to the NPC and has the same constitutional status as the State Council, the Supreme People's Court and the Supreme People's Procuratorate. It leads local commissions at all levels.

Xi Jinping's anti-corruption campaign has targeted high-ranking officials ("tigers") and low-level bureaucrats ("flies"), resulting in large-scale prosecutions. While the incidence of extreme corruption has declined, the campaign remains a tool for political control. Xi announced in January 2025 that the crackdown would continue with a renewed focus on the military. In 2023, Defense Minister Li Shangfu was removed from office as part of the purge.

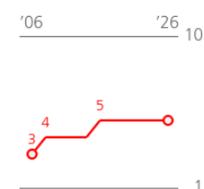
Policy coordination

6



Anti-corruption policy

5



The National Audit Office (NAO), China’s supreme auditing institution, publishes regular reports on state spending, although it remains influenced by political leadership. In 2018, an official audit revealed more than \$2.4 billion in undeclared local government debt, exposing the circumvention of rules in infrastructure financing.

China’s open government policy requires that budgetary statistics be posted on local government websites, and officials receive hundreds of thousands of information requests each year. However, “state secrets” exemptions create loopholes, and citizens have taken the government to court to challenge the government’s refusal to provide access to information. In 2019, China revised its Open Government Information (OGI) Regulations to improve transparency.

Government procurement primarily occurs through public tenders posted on government and bidding websites. While local governments often favor specific providers, the Government Procurement Law (GPL) prohibits favoritism. In July 2024, the State Council issued an action plan to combat discrimination, arbitrary charges, false documents and bid-rigging in procurement.

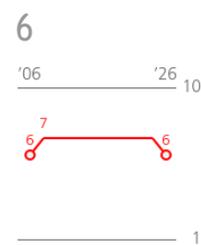
Petty corruption, such as bribing police or paying for licenses, remains common, but has declined because of anti-corruption efforts.

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, for instance with Xi Jinping’s recent slogan of “whole-process democracy” in China, there is consensus among the political leadership that any transformation toward a democracy based on the rule of law must be avoided.

China’s socialist market economy, enshrined in the country’s constitution, has been central to its economic transformation. Although private ownership is tolerated, the leadership remains committed to public ownership as the dominant economic force. China’s political leaders set the balance between market forces and state control, but their long-term positions have varied. Former Premier Li Keqiang (2013 – 2023) promoted entrepreneurship and private sector growth. Ex-PBoC Governor Zhou Xiaochuan (2002 – 2018) favored financial liberalization. Xi Jinping, however, prioritizes state leadership in key industries. Xi was initially supportive of market-oriented reforms, but his policies have leaned toward greater state control since 2015. At the 18th Party Congress (2013), the market’s “decisive role” in resource allocation was emphasized, a stance that was reaffirmed in 2018. However, the 2024 Third Plenum communique shifted the wording to “better leverage the role of the market,” signaling reduced emphasis on market forces. Despite a formal commitment to marketization and private sector growth, more significant party intervention and

Consensus on goals



an expanded role for SOEs are expected in the future. After Xi's crackdown on the tech and real estate sectors in 2021, the government softened its stance in mid-2023 with the aim of stimulating economic growth. In February 2025, Xi sent another strong signal by meeting with private entrepreneurs (including Jack Ma, who disappeared from public life after criticizing the government's financial policy in 2020) and urging them to show "confidence in China's development." A long-standing debate among Chinese economists and academics centers on market dynamics versus state control. Under Xi, political risks have curbed open criticism, but recent research using online databases suggests divergent views on the private sector's role. Party-aligned scholars advocate synergy between the state and the private sector, using private innovation to achieve national goals. Market-oriented experts focus on restoring private sector confidence, but their influence has waned in policy circles under Xi.

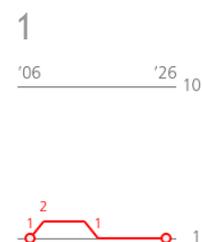
The reshaping of China's leadership is tightly managed to ensure that only those loyal to Xi Jinping are promoted. The party leadership is united in opposition to China becoming a liberal democracy. Organized opposition to the CCP's one-party rule does not exist, because any attempt to question the status quo is met with persecution and lengthy prison sentences. While Xi strongly promotes the "socialist rule of law with Chinese characteristics," this focus on law-based governance should not 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 relying on extralegal and coercive measures.

Cleavages in China exist along ethnic, social and class lines. Ethnic cleavages are visible mainly in tensions and conflicts between Han Chinese and some ethnic minorities, such as Tibetans, Uyghurs and Mongolians. Significant social disparities exist in China, with large income gaps between urban and rural areas and between coastal and interior regions. These disparities led to social unrest and protests throughout the 2010s. Income inequality 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. China's current economic slowdown might aggravate existing cleavages between social classes.

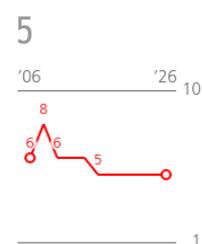
Rather than resolving these conflicts democratically, the government selectively addresses the concerns of specific groups through policy adjustments. To reduce income inequality, for instance, the government implemented a series of policies and initiatives involving public housing, social security and minimum-wage increases. Similarly, the government allocates transfer payments to interior provinces as a means of narrowing interprovincial gaps.

Ethnic cleavages are often managed through repression and assimilation. The unfair treatment of Uyghurs in Xinjiang enables Han people to profit from new economic opportunities, while Uyghurs are subjected to intense and forced labor. These disparities have further exacerbated existing tensions.

Anti-democratic actors



Cleavage / conflict management



The propaganda and censorship apparatus helps moderate conflict by shaping public opinion and suppressing information that could fuel social unrest. China's strong security apparatus uses repression and violence as a means of quelling dissent and maintaining social stability.

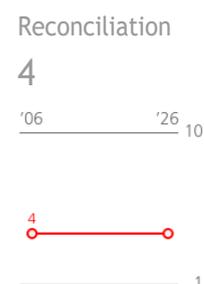
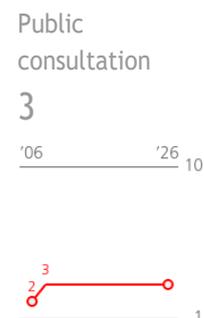
China's concept of "consultative democracy" refers to a party-controlled system in which consultation occurs within strict political boundaries set by the CCP. China prevents independent civil society from influencing policy and only allows controlled participation through state-approved channels. Genuine civil society pluralism, as would be provided by independent labor unions and human rights NGOs, is absent from policymaking. This exclusive approach has led to adverse outcomes for vulnerable citizens and groups.

The Chinese People's Political Consultative Conference (CPPCC) is the primary institutional platform for consultation. It includes representatives from business groups, academia, ethnic minorities and some non-CCP parties. Although members can discuss policies, they have no legislative power.

The party-state officially relies on communication channels that allow citizens to voice demands and influence policymaking via feedback and responses. In 2018, the State Council mandated a 30-day public notice-and-comment process for most government policymaking. The NPC regularly conducts public consultations to collect public opinion on draft laws. However, the effect of public opinion on laws is limited. The government has increasingly used online platforms and social media to gather feedback on policy proposals. Public debates that become too critical of political processes are suppressed, and individuals leading these debates face harassment and even prosecution. Local governments have set up public complaint websites where the public can review citizens' petitions and government responses, with the aim of improving governance. However, participatory online spaces are subject to surveillance and censorship, and only selected opinions are accepted.

At the local level, residents can participate in neighborhood affairs through villagers' or residents' committees and sometimes attend public hearings that allow limited consultation on local issues, such as urban development or environmental issues. However, citizen input has only minor effects on final policy outcomes.

China's leadership has limited capacity – and little political will – to pursue genuine reconciliation between victims and perpetrators of past injustices. The government strictly prohibits any public discussion of human rights abuses and refuses to accept responsibility for past wrongs perpetrated by the CCP regime, such as the Great Famine, the Cultural Revolution and the Tiananmen Square massacre. The government remains resistant to acknowledging human rights abuses against Uyghurs in Xinjiang due to the policy of mass detention and repression, or the persecution of political dissidents.



Some past mistakes are acknowledged in ways that preserve the party’s legitimacy. The Cultural Revolution, for instance, is criticized and officially labeled a “mistake.” Still, the blame is shifted to Mao Zedong rather than to the systemic failures of the party, and no open discussion is allowed. Many purged officials were restored after the Cultural Revolution under Deng Xiaoping, but no institutional accountability was established.

The Chinese government shapes historical narratives by controlling history textbooks, media and official narratives. The government often invokes collective memories of historical injustices committed by Western powers as a means of gaining support for its political agenda. A key element is the emphasis on the country’s “century of humiliation” – the period between the First Opium War in 1839 and the founding of the People’s Republic of China in 1949, when China was repeatedly defeated and humiliated by foreign powers. The “Chinese Dream” mentality promoted under Xi Jinping, which envisions the “great rejuvenation” of the Chinese nation, is closely intertwined with this narrative.

17 | International Cooperation

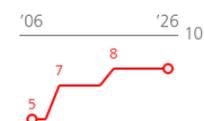
China strategically engages with international partners to advance its long-term development, though in a highly state-controlled manner. It seeks foreign capital, technology and market access while minimizing external dependencies in an environment of tense geopolitical competition. Although still reliant on global markets, China’s strategy is shifting toward a focus on self-sufficiency. China has generally redirected its international partnerships away from the West and toward the Global South and Russia.

International trade and investment have been central to China’s growth. Since joining the WTO in 2001, China has become the “world’s factory,” using FDI to modernize its manufacturing sector and acquiring foreign technology through joint ventures. Infrastructure projects also expand China’s global influence, as seen in the Belt and Road Initiative (BRI), which links more than 150 countries through ports, railways and energy projects. By funding foreign infrastructure, China strengthens economic and political ties but faces criticism for engaging in “debt-trap diplomacy,” offering unsustainable loans to developing nations.

China is deepening ties with the Global South, securing export markets, critical resources, geopolitical support, and influence in global governance institutions. It maintains cooperative relations with multilateral organizations such as the IMF, the World Bank and the United Nations. In 2020, Chinese officials led four of the 15 U.N. specialized agencies. At the same time, China has established alternatives to Western institutions, such as the New Development Bank (NDB) among the BRICS group of countries, the Asian Infrastructure Investment Bank (AIIB), and the Shanghai Cooperation Organization (SCO).

Effective use of support

8



1

China is also expanding free-trade agreements (FTAs) to secure export markets and reduce dependence on U.S.-dominated trade networks, with 24 FTAs under negotiation. However, escalating trade tensions, including U.S. semiconductor restrictions and EU tariffs on Chinese EVs, threaten China's long-term strategy. In response, China is reducing reliance on Western technology, expanding partnerships within the Global South and accelerating domestic innovation.

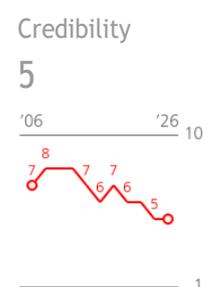
China's global governance priorities align with long-standing strategic aims: limiting criticism of its human rights record, preventing Taiwan from gaining international recognition and defending its sovereignty from external interference – all framed as “internal affairs.” Xi Jinping advocates for a multipolar world order with less U.S. influence over global rules.

Since the end of the Cold War, China's international credibility has strengthened as it has become a key trading partner and taken on a leading role in regional and international organizations. China contributes troops, police and financial support to U.N. peacekeeping operations and is a signatory to the Paris Agreement to reduce greenhouse gases.

Since the 2008 financial crisis, however, China's global reputation has declined. Long-standing trade tensions with the United States and European Union over market access, forced knowledge transfers, and IP violations have intensified. China's Belt and Road-linked infrastructure projects in developing countries have led to accusations of “debt-trap diplomacy” as some nations have struggled to make loan repayments. Under Xi Jinping, “wolf-warrior” diplomacy has further damaged China's global standing.

China's credibility with Western partners has declined amid allegations of unfair trade practices in Western markets. Although China follows WTO trade rules, its industrial subsidies, trade barriers and market access restrictions violate WTO principles. Overcapacity in key industries such as EVs, steel and solar panels has led to a flood of these goods in global markets, raising fears that China is exporting its economic slowdown through these cheap goods. EV export volumes surged by 60% in 2023, prompting the European Union to impose tariffs after an anti-subsidy investigation. While developing nations benefit from these cheap Chinese exports, Western countries view China as an economic competitor and security risk.

The U.S.-China chip war has become a major credibility test for China as a global technology partner. U.S. restrictions on semiconductors and chipmaking tools and the blacklisting of Chinese firms have forced China to accelerate efforts to achieve self-sufficiency, deepen technology ties with non-Western nations (ASEAN, the Middle East), expand its industrial policy and engage in trade retaliation – fueling concerns about China's role in global supply chains.



China's Military-Civil Fusion policy – which integrates technological and military advances – has raised national security concerns, particularly in dual-use space and semiconductor technologies. While China presents itself as a space partner to the Global South and Russia, the United States and its allies increasingly suspect it of pursuing military applications, leading to China's exclusion from international space cooperation.

China's rising defense spending, territorial assertiveness and diplomatic threats have deepened skepticism about its self-proclaimed “peaceful development.” Its deepening partnership with Russia, particularly during the war in Ukraine, has further damaged its trustworthiness in the West. Western nations have sanctioned Chinese companies that supply Russia's military.

The COVID-19 cover-up, repression in Hong Kong and Xinjiang, and military threats to Taiwan have further fueled negative perceptions of China in recent years.

China's relations with its neighbors vary significantly. It has major trade ties with several of its 14 neighboring countries and free-trade agreements with Myanmar, Laos, Vietnam and Pakistan. China is also a key player in regional organizations such as the Shanghai Cooperation Organization (SCO), the BRICS group of states, ASEAN and the Belt and Road Initiative (BRI).

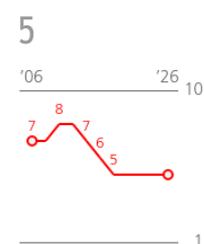
China maintains strong relations with Central Asia and Russia. Following Russia's invasion of Ukraine, China and Russia's “no limits” partnership deepened in terms of political, economic and military cooperation, though the growing power asymmetry favors China due to Russia's stagnation. China has also strengthened cooperation with Central Asia, using the BRI and SCO frameworks to enhance regional security.

Relations with India deteriorated after a bloody border clash in Ladakh in 2020 but began to improve in 2024. A border agreement led to the first meeting between Indian Prime Minister Narendra Modi and Xi since the conflict, held in October 2024.

China's assertiveness in the South China Sea has heightened tensions with Southeast Asian littoral states, especially the Philippines. In June 2024, a collision between Chinese and Philippine vessels near Second Thomas Shoal escalated tensions. Since late 2023, Vietnam has expanded island construction in the disputed waters to strengthen its position.

Taiwan Strait tensions remain high. The Xi administration continues to pressure Taiwan to commit to reunification. In 2024, it increased airspace incursions and employed other harassment tactics including the use of weather balloons, aircraft carriers, cyberwarfare, disinformation and diplomatic pressure. Chinese military aircraft regularly breach the median line and enter Taiwan's Air Defense Identification Zone (ADIZ), fueling invasion fears.

Regional cooperation



China has deepened ties with Cambodia and Laos, becoming a leading partner in trade and investment. In Myanmar, China remains the most influential foreign actor, backing the junta and engaging with ethnic armed groups along the mutual border to prevent unrest.

Strategic Outlook

China is navigating a period of significant economic and political transformation. As Xi Jinping tightens the state's grip on power, the country will need to address prolonged economic difficulties and their impact on social stability, as well as a likelihood of escalating trade tensions with the West.

China's economy faces a structural slowdown, driven by a shrinking workforce, diminishing investment returns and slowing productivity. Geopolitical tensions and lingering social and environmental burdens are complicating the shift toward a consumption- and innovation-driven economy. To sustain long-term economic stability, China will need to implement comprehensive social security, labor market and fiscal policy reforms while also strengthening domestic consumption and improving workforce mobility. Expanding the availability of affordable childcare, improving education and health care, and fostering technological innovation and skills development will be essential tasks in order to ensure resilience and sustainable growth.

As China's ongoing economic stress and rising unemployment rates fuel the risk of social unrest, maintaining public order will likely be a key priority for the CCP in 2025. China should thus prioritize policies that support income and wage growth in order to bolster household consumption, as private sector confidence alone will not be enough to drive economic recovery. Targeted employment policies, wage adjustments and labor market reforms could mitigate economic strain and prevent the emergence of social instability. In addition, with China's policymakers having raised the fiscal deficit target for 2025, further stimulus measures can be expected, but their effectiveness will depend on how well they address core structural issues.

China sees itself at the global forefront in the areas of quantum communications, space and aerospace technologies, AI, clean energy technologies and 5G infrastructure. The country's strong strategic push to lead key industries was underscored in early 2025 when generative AI firm DeepSeek unveiled an advanced reasoning model comparable to top U.S. systems – at a fraction of the cost. Facing trade tensions with the West, China is expected to intensify its focus on innovation-driven industries and on reaching the goal of “self-sufficiency,” again turning its attention to the private tech sector. Despite the tensions, China's innovation capabilities are likely to improve. China's semiconductor production grew by 40% at the beginning of 2024, reaching an output volume of 98.1 billion integrated circuits. However, the strategic expansion of legacy chip production – driven by U.S. trade restrictions on advanced chipmaking equipment – risks overproduction, potentially cementing China's dominance in the global legacy chip market.

With uncertainty over U.S. tariffs under U.S. President Donald Trump and little sign of a reduction of tensions in the U.S.-China trade war, China's trade outlook remains unclear. The country is expected to continue balancing openness and protectionism, tightening export controls on key technologies while lowering tariffs in noncritical sectors, including green technologies, in order to stimulate trade. Further depreciation of the yuan and efforts to diversify export markets may also

play a role in China's trade strategy. Despite the European Union's imposition of tariffs on Chinese EVs, Europe is more likely than the United States to maintain trade with China, which could also foster closer collaboration in areas such as climate protection and space technology. For its part, the European Union should pursue a pragmatic approach to coexistence with China while safeguarding its own values, interests and strategic autonomy, particularly as transatlantic ties weaken under Trump. Amid rising geopolitical competition, it is likely that China will deepen its ties with non-Western partners, including Russia and the Global South. Its expanding space-sector cooperation with these regions already highlights its shift away from Western technology.

Xi Jinping has shown a willingness to purge even loyalists in his anti-corruption campaign, suspending top military figures as a means of enforcing compliance. While this move reinforces his authority, it also raises concerns about instability, and may ultimately foster fear and demoralization within the political leadership and the military.