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CIGI Papers No. 356 – June 2026

China's Economy Ambition and Challenges

Mark Kruger



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About the Author

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Executive Summary

The dislocation caused by the Trump administration has led world leaders to recalibrate their policies toward China. While China has set the ambitious goal of doubling its per capita income from 2020 levels by 2035, it faces three significant challenges: rising debt, a shrinking labour force and growing protectionist pressures. Thus, understanding the extent to which China can mitigate these challenges by implementing policies that enhance macroeconomic resilience is increasingly of global significance.

China's debt has risen to nearly 300 percent of GDP, the fourth highest among Group of Twenty (G20) countries. While debt is mostly renminbi-denominated and domestically held, risks have already materialized in China's property sector. While the most straightforward way for China to stabilize its indebtedness is to refrain from excessive borrowing, there are additional policies it could consider that would act as less of a restraint on growth. These include expanding equity finance and attracting more foreign investment.

China's working-age population is expected to decline by 0.8 percent annually through 2035 and even faster in subsequent years. The Chinese government's "new quality productive forces" emphasizes labour-saving productivity gains from new technologies to which the Chinese public appears unusually receptive.

China can respond to protectionist pressures by implementing the classic outsourcing model. It can invest in manufacturing in foreign markets, retaining up- and downstream activities at home while preserving market access. China's success depends, in part, on foreign countries' willingness to engage it pragmatically — despite its unique language, culture and form of government — a process the United States appears to be abetting.

Introduction

Prime Minister Mark Carney's January 2026 visit to Beijing — the first by a Canadian prime minister since 2017 — signalled Canada's pragmatic recalibration of relations with China. This outreach

underscores Canada's efforts to diversify trade and investment by positioning China as a key partner in a shifting global order. Canada's prime minister was one of many world leaders who sought to reset relations with China in the aftermath of the chaos caused by the Trump administration's policies (Bernes 2026). This re-engagement occurs against a backdrop of questions concerning the sustainability of China's economic trajectory. China now targets moderately developed country status by 2035 but faces three key challenges: high levels of debt, unfavourable demographics, and pressures from trade barriers and supply-chain reshoring that could lead to deglobalization.¹

This paper examines whether these structural headwinds threaten China's ascent and what measures policy makers can implement to enhance macroeconomic resilience. As Canada and other countries bet on renewed ties, understanding China's macroeconomic viability becomes essential for an informed partnership in an era of geopolitical rupture.

Becoming a Moderately Developed Country

For close to 40 years, China's key development objective was the creation of a *moderately prosperous society* (小康社会). On July 1, 2021, President Xi Jinping declared that, with the elimination of absolute poverty, a moderately prosperous society had been established and China's first centenary goal had been reached (State Council 2021). The authorities would now focus on the second goal: establishing a powerful, modern socialist country (社会主义现代化强国) by 2049.

The Chinese Communist Party's Central Committee had, in October 2020, set the interim objective of China's per capita GDP reaching that of moderately developed countries (中等发达国家水平) by 2035 (*Global Times* 2020). Five years later, the Central Committee added some precision. In adopting the

¹ Using a linear interpolation for real GDP between 2025 and 2035, growth would have to remain in the 4.5–5.0 percent range for the next three years before slowing gradually to 3.5 percent as the target is reached. Even this terminal rate would exceed expectations for growth in the United States, the euro zone and Japan (Organisation for Economic Co-operation and Development [OECD] 2025).

recommendations for formulating the Fifteenth Five-Year Plan, it operationally defined its objective as entering the International Monetary Fund's (IMF's) group of advanced countries (Xinhua 2025a).

The IMF's country classification is not based on strict criteria, "economic or otherwise" (IMF 2026, 96), and it has evolved over time. The classification is designed to facilitate analysis by providing a "reasonably meaningful method of organizing data" (ibid.). Having high-per-capita GDP definitely seems to matter, but Kuwait and Saudi Arabia are not considered advanced countries, even though they are richer than Greece and Spain. While small island economies such as Barbados and St. Kitts and Nevis have per capita GDPs that exceed that of Latvia (the poorest member of the advanced country group), they too are considered emerging market countries.

In view of this ambiguity, the Central Committee targets achieving a per capita income of US\$20,000, in 2020 dollars, by 2035. This target implies a doubling of per capita GDP from 2020 levels and average annual GDP growth of 4.17 percent over the Fifteenth and Sixteenth Five-Year Plan periods (Xinhua 2025b).

It is difficult to join the IMF's advanced country group. Currently, only 43 of its 197 members are considered advanced countries. Moreover, in the last 20 years, only 13 emerging market countries graduated to advanced country status, and six of these were very small economies, including Andorra, Malta and San Marino.

For many aspiring countries, the middle-income trap continues to bind. The term "middle-income trap" was first coined in 2007 by World Bank economists Indermit Gill and Homi Kharas (2007). In their book, *An East Asian Renaissance: Ideas for Economic Growth*, Gill and Kharas (ibid.) reflected on the transformations that East Asian countries had made in order to maintain rapid development. Countries in Latin America and the Middle East that were unable to affect this transformation became caught in the middle-income trap.

The Central Committee's objective of 4.17 percent average annual growth between 2025 and 2035 represents a marked slowing from the 5.6 percent recorded over the previous 10 years. Still, attaining this goal will be challenging as the Chinese economy will have to surmount three major challenges: rising debt, unfavourable demographics and accelerating pressures for deglobalization.

Debt

China's economy-wide debt — combining the liabilities of households, non-financial corporations and governments — has grown relatively rapidly in recent years. By this metric, China was the twelfth most indebted of the G20 countries in 2003 (see Figure 1). However, by the third quarter of 2025, its debt level had risen to close to 300 percent of GDP, ranking it fourth behind Japan (357 percent), France (325 percent) and Canada (314 percent).

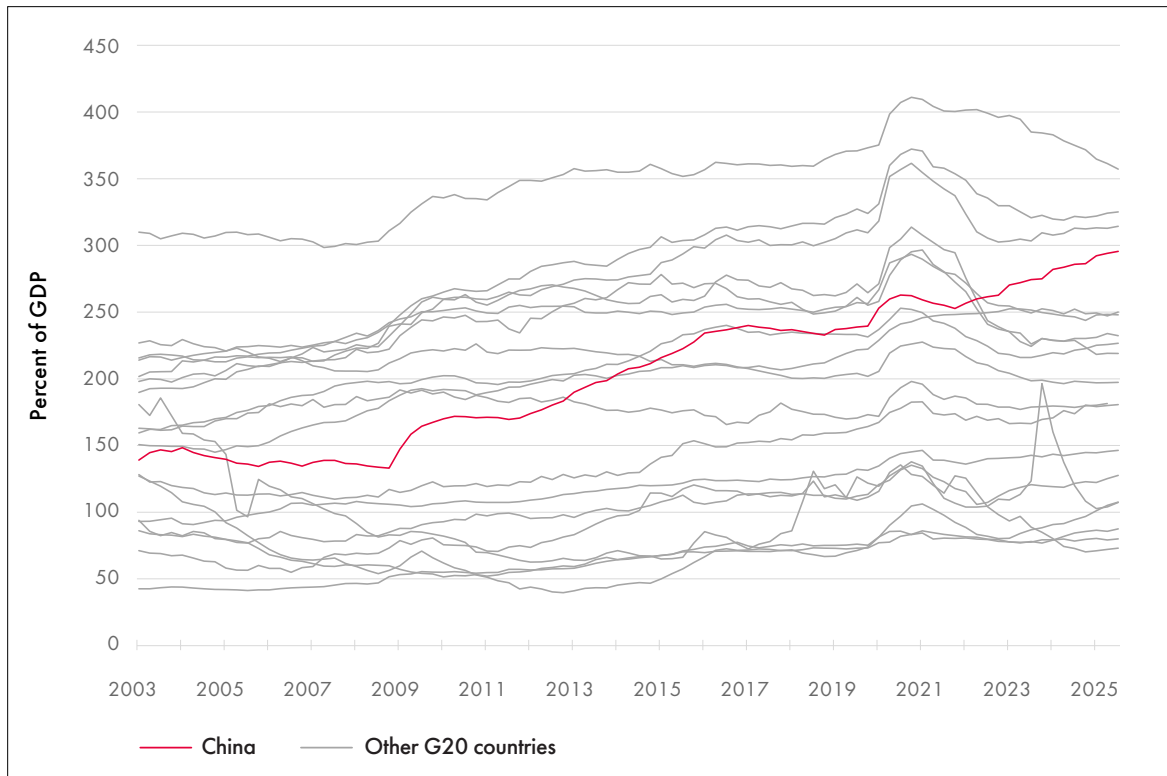
While it is true that the size of a country's debt is less important than its ability to access financing, high debt levels pose a risk to economic development by raising the likelihood of insolvency and increasing financial fragility.² This risk has partially materialized. China's property developers are among the most indebted of its firms. At least 60 developers, including Evergrande, Country Garden and Vanke, have defaulted or entered restructuring following the meltdown in the property market (Mark 2026).

China's indebtedness has evolved in three distinct phases (see Figure 2). Between December 2007 and December 2015, it rose by more than 90 percentage points of GDP. About two-thirds of this increase was accumulated by non-financial corporations. Initially, most of these liabilities were incurred as part of the government's ¥4 trillion spending plan, which was designed to counter the depressive effects of the financial crisis. In subsequent years, financial innovation offered a wider variety of firms access to credit, as China's shadow-banking system grew in importance. In addition, the borrowing constraints on local governments were loosened. They were allowed to create local government financing vehicles (LGFVs) — firms that were able to access credit and undertake infrastructure projects (Hendy, Ryan and Taylor 2024).

As the economy recovered from the crisis, policy makers increasingly focused on the financial risks posed by growing leverage. By 2017, addressing financial stability risks became a key priority — one of the "three tough battles" — along with alleviating poverty and tackling pollution (Xinhua 2017).

2 The Chinese government retains excellent market access. On April 24, 2026, the Ministry of Finance sold ¥85 billion in 30-year notes at an average yield of 2.2 percent. This was the lowest yield across the six auctions of 30-year notes since November, when they were sold at 2.14 percent (Bloomberg News 2026).

Figure 1: Credit to the Non-Financial Sector



Source: Author, with data from www.ceicdata.com/en.

During this second phase, between December 2015 and December 2019, the debt of the non-financial corporate sector declined by 23 percentage points of GDP. Households and governments accounted for all the increase in indebtedness during this consolidation phase. Most of the increase in household debt was in the form of new mortgages, as the property market boomed.

The third phase of indebtedness began with efforts to extricate the economy from the slump caused by the COVID-19 pandemic. In the first six months of 2020, overall indebtedness rose by 20 percentage points of GDP, or more than it had over the previous four years.

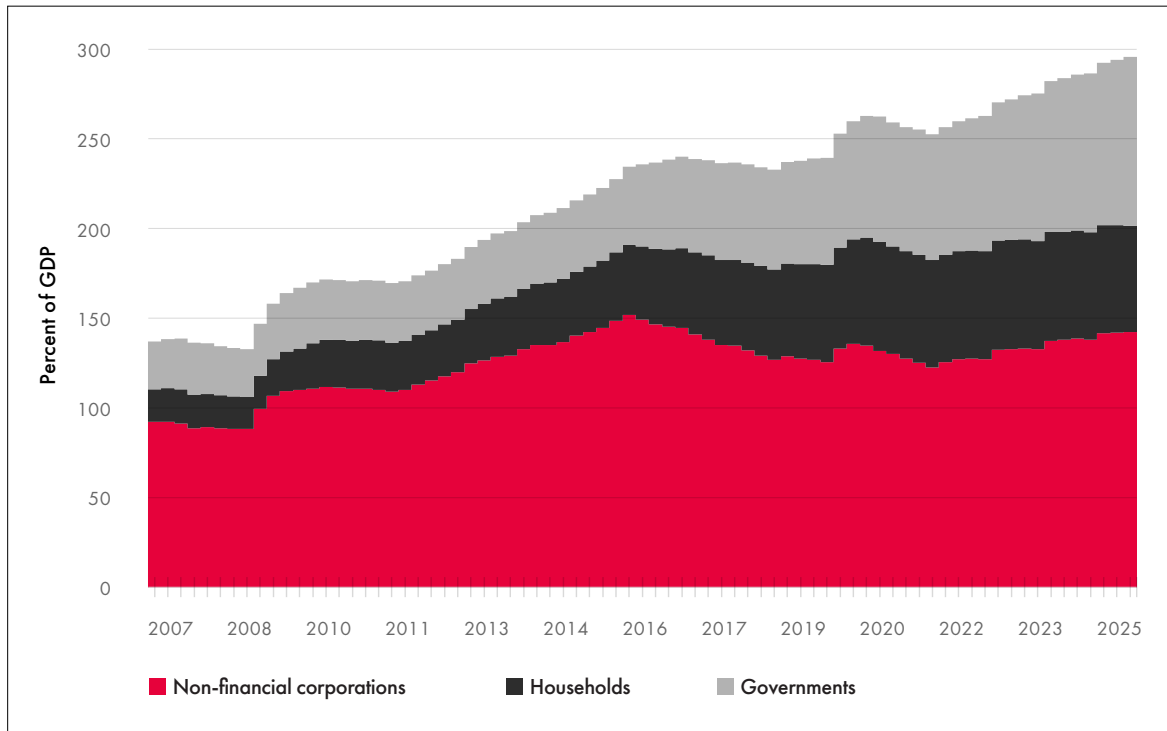
China's government accounted for more than 60 percent of the increase in indebtedness between December 2019 and September 2025. Some of this was in the form of macroeconomic support for the economy, allowing it to emerge from the pandemic and then manage the effects of the tariffs imposed by the United States.

The central government also allowed local governments to issue bonds, pay down the

debts of their LGFVs and close those that were unviable. According to Pan Gongsheng, governor of the People's Bank of China, the number of LGFVs fell by 71 percent between March 2023 and October 2025. The value of their liabilities fell by 62 percent over the same period (Y. Chen 2025). In terms of Figure 2, this would represent a reduction in the debt of non-financial corporations and an increase in government debt.

While China's debt-to-GDP ratio is high for a major economy, there are some factors that mitigate its riskiness. First, it is mostly held by domestic residents and it is denominated in renminbi, which reduces the currency risk of Chinese borrowers. Second, much of it is backed by physical assets. Third, borrowing costs are below the four-five percent growth of nominal GDP: the 10-year government bond yield is 1.8 percent, the five-year loan prime rate is 3.5 percent and the interest rate on new mortgages is 3.1 percent. This suggests there is room to expand indebtedness modestly while engineering a reduction in the debt-to-GDP ratio.

Figure 2: Credit to Non-Financial Corporations, Households and Governments



Source: Author, with data from www.ceicdata.com/en.

While the most straightforward way for China to stabilize or reduce its debt-to-GDP ratio is to refrain from excessive borrowing, there are additional policies it could consider, which would act as less of a restraint on GDP growth.

First, China could encourage greater equity finance since funding through stock markets reduces the risk associated with bank loans and bonds. China's stock market capitalization is low compared to those of other major countries (see Figure 3). Its relatively modest use of equity finance has been partially due to the capital structure of state-owned enterprises. Only a small portion of these firms' equity is sold on the markets. The majority is not traded but held by the central or local governments.

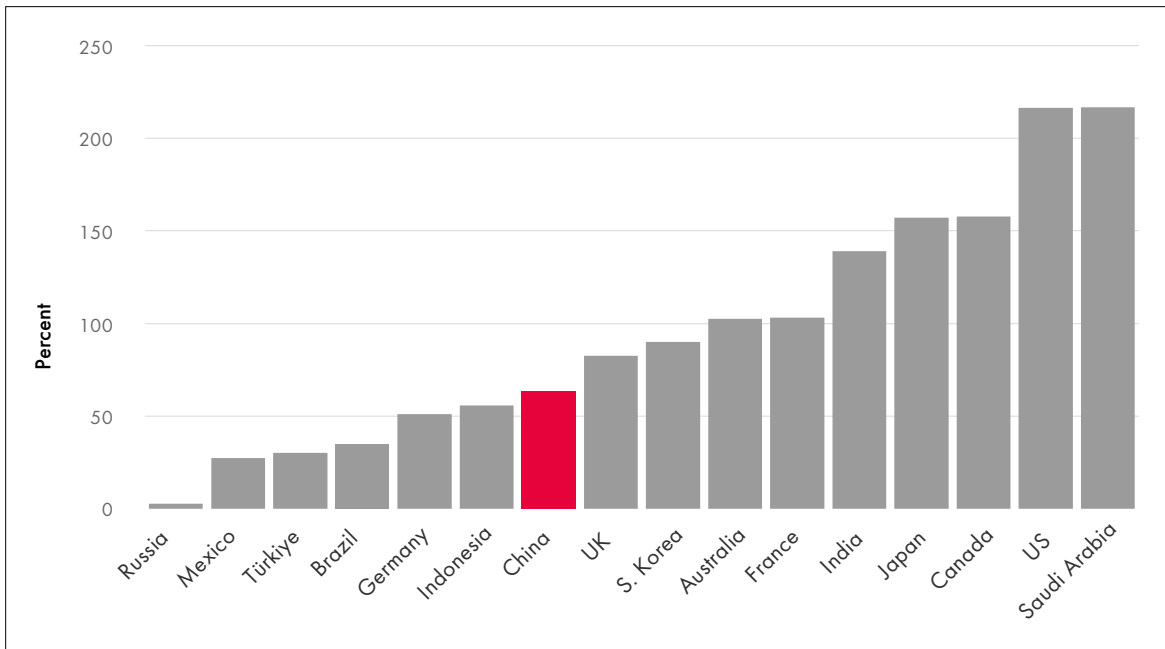
In addition, Chinese regulators have traditionally taken a conservative approach to listing requirements. Until 2023, companies that sought initial public offerings (IPOs) needed the approval of the China Securities Regulatory Commission (CSRC), which prioritized consumer protection by only allowing large, profitable companies to sell shares. The IPO process was long and arduous and led to a significant backlog of firms waiting for permission to list. Chinese regulators' approach

was one reason why many domestic firms chose to list in Hong Kong or the United States rather than on the mainland. By choosing these markets, these firms also benefited from a larger pool of investors and a lower cost of capital. In mid-2023, China moved to a registration-based system under which the exchanges themselves assess whether a company looking to list meets its stock issuance criteria and information disclosure requirements (Huld 2023). The CSRC has retained a supervisory role and approves the IPO applications based on the stock exchange's recommendations.

While the main Shanghai and Shenzhen boards have retained significant thresholds for profitability and market capitalization, this reform led to a fall in the IPO backlog from 962 firms in mid-2023 to 312 firms at the end of 2025 (KPMG 2025). Moreover, IPO activity nearly doubled in 2025: 115 companies raised ¥128 billion (US\$18.3 billion) on the Beijing, Shanghai and Shenzhen exchanges, up from ¥67.4 billion in 2024 (Zhang and Ao 2026).

In 2024, revisions to the Company Law lowered the threshold for minority shareholders to submit proposals to the corporate board from three to one percent (Wang 2025a). Subsequently, the CSRC's

Figure 3: Stock Market Capitalization-to-GDP Ratio (2024)



Source: Author, with data from www.ceicdata.com/en.

2025 changes to the Code of Corporate Governance for Listed Companies strengthened the framework governing directors, senior management and influential shareholders (Wang 2025b). While these are meaningful steps in the right direction, shareholders in advanced markets benefit from more aggressive activism tools, greater board independence and higher transparency standards. Closing this gap will support China's long-term financial resilience. Improved legal and regulatory predictability would also encourage greater foreign participation in Chinese equity markets.

Indeed, another strategy China could employ to reduce the risk of its debt is to promote greater foreign investment. At 37 percent, its ratio of foreign liabilities-to-GDP is among the lowest in the G20 (see Figure 4). China's debt is elevated, in part, because of its high investment rate and the accumulation of significant physical assets. Selling a modest amount of these assets to foreigners could improve China's debt profile and reduce the risk to its financial system.

China has significantly liberalized its policy toward foreign investment in recent years. Traditionally, there had been restrictions on foreign participation in various sectors of its manufacturing industry. Some sectors were closed entirely to foreign participation. Investment in

others required foreign firms to establish joint ventures with domestic partners. Beginning in 2016, these restrictions were progressively removed (Hong and Zhao 2024). By late 2024, all sectors of China's manufacturing industry were fully opened to foreign investment, and foreign firms can expect to receive full national treatment.

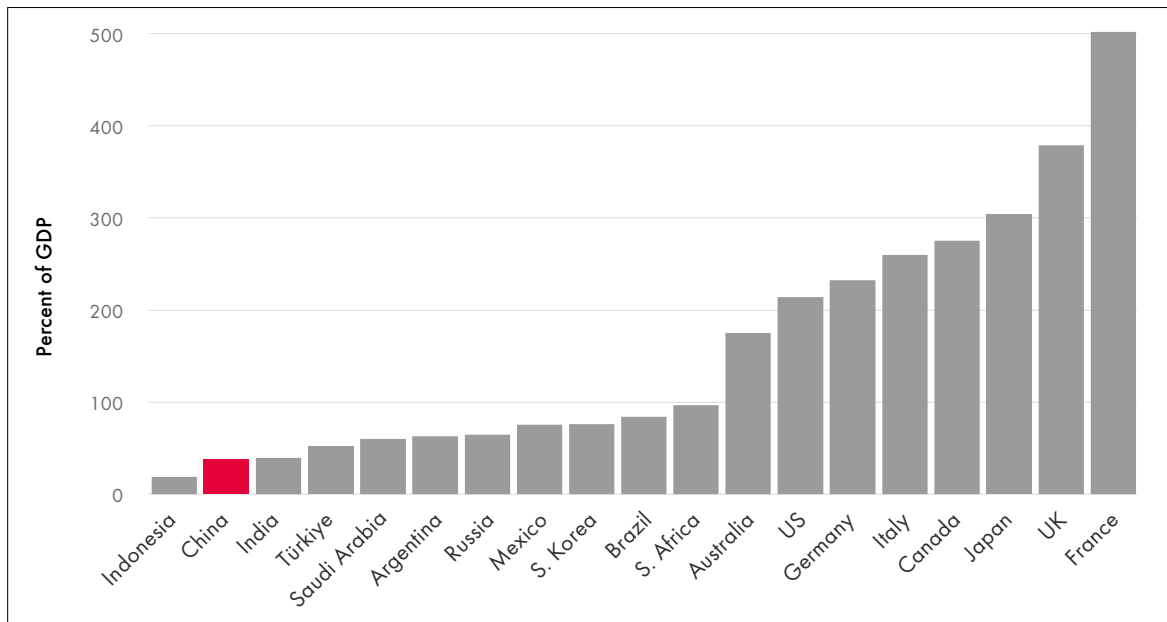
Demographics

China's population peaked in 2021. According to UN population projections, it will fall by 155 million, or 11 percent, between 2025 and 2050.³ The decline in China's working-age population will be even more dramatic. As a result, dependency rates will increase. These factors will impact macroeconomic performance by reducing both national savings and labour input.

There is substantial economic research linking a country's current account position to demographic factors, including population aging, rising old-age dependency ratios and declining fertility (Dao and Jones 2018). Countries that run current account surpluses — those whose savings exceed their investment needs — tend to be

³ See <https://population.un.org/dataportal/home?df=7458b59e-d711-4249-bf2d-3151fb433cd8>.

Figure 4: Foreign Liabilities



Source: Author, with data from www.ceicdata.com/en.

the ones that face the greatest demographic pressure. Across the G20 countries, two-thirds of the variation in countries' current account balances is explained by demographic prospects (see Figure 5). This makes sense from a life-cycle perspective. When a country runs a current account surplus, it accumulates IOUs from the rest of the world, which can be used — when dependency is high — to fund consumption.

It is likely that China's high savings and investment rates will fall in tandem as demographic decline accelerates. Since China's investment represents an unusually high share of its GDP, it has a large margin for adjustment before it finds itself with current account deficits that are difficult to finance.

The effect that the decline in the working-age population could have on China's GDP growth over the next 10 years can be estimated. First, as a baseline, it can be assumed that China is successful in achieving the Central Committee's target of growing at an average annual rate of 4.17 percent between 2025 and 2035. Second, the UN projection that China's working-age population will decline by 0.8 percent per year over this period can be used.

Using these assumptions, base-case productivity in terms of GDP per working-age person can be derived. To assess the effect of demographic decline, a counterfactual is constructed in

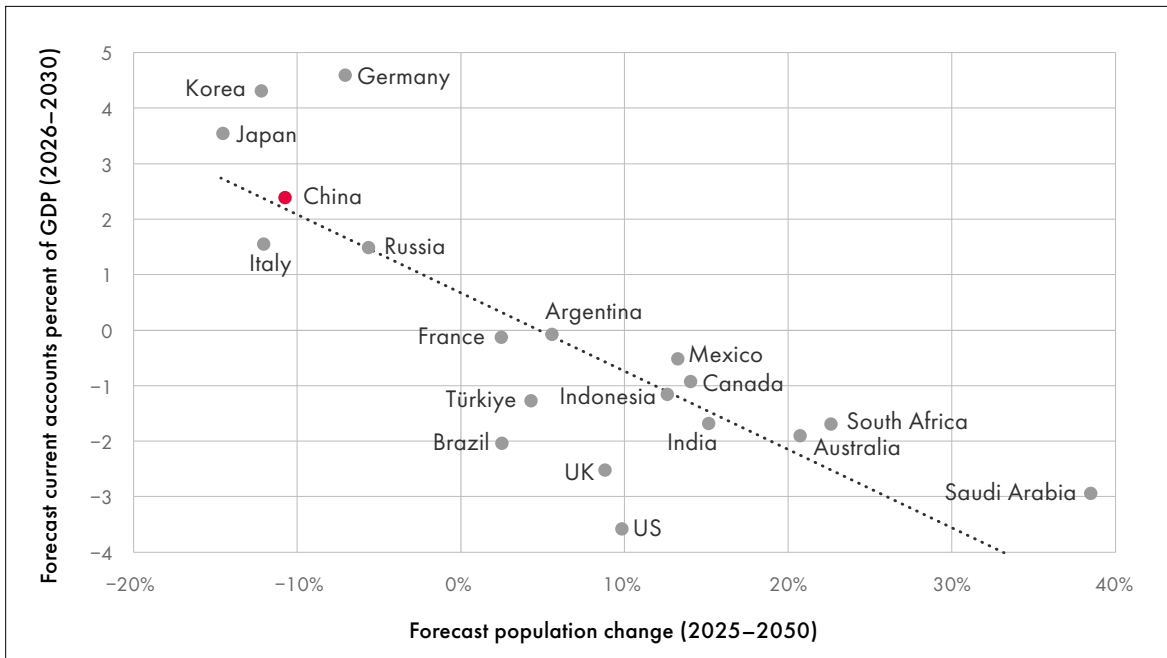
which this productivity profile is applied to a constant working-age population.

Under the base case, GDP would grow by 50 percent between 2025 and 2035. If the working-age population were to remain constant, the level of GDP in 2035 would be 11 percent higher (see Figure 6). This exercise suggests that, in the face of demographic challenges, China's standard of living will continue to increase over the next 10 years, albeit somewhat more slowly than under a neutral demographic scenario.⁴

China's demographic challenge will become increasingly acute over time. It is relatively easy for productivity growth to offset the effect of the 0.8 percent annual decline in the working-age population over 2025–2035. However, between 2045 and 2055, the annual decline in the working-age population will rise to 2.1 percent (see Figure 7). Moreover, as China approaches the international frontier, it is likely that its productivity growth will slow further. Thus, there is a real risk that living standards could stagnate in this period.

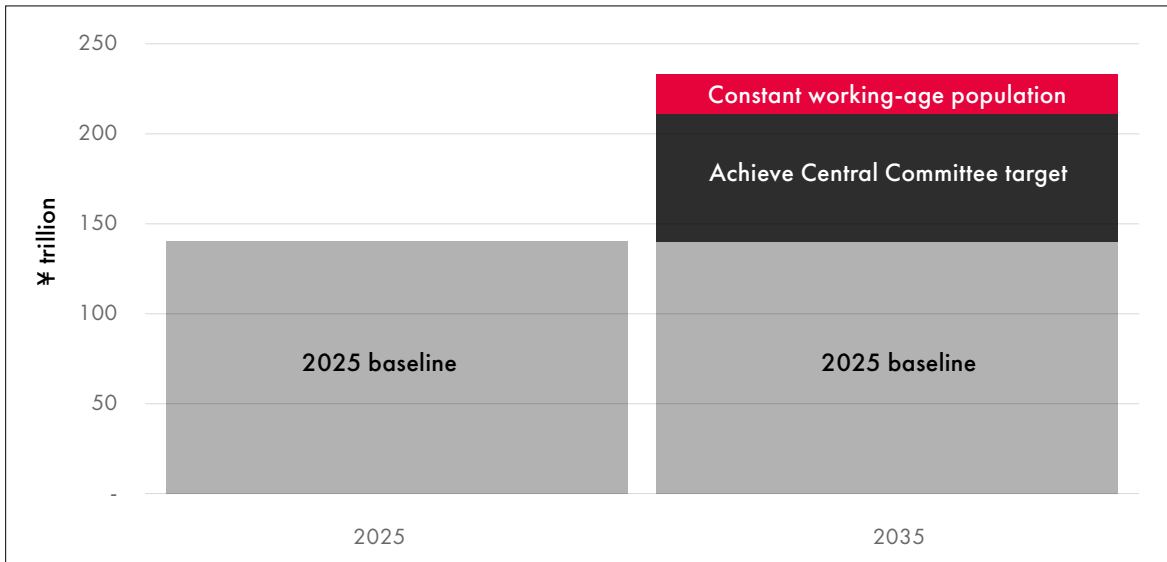
4 Note that the 11 percent of GDP lost to fewer workers is the maximum effect. That is because it is assumed that the productivity paths are the same in both scenarios. However, economic theory suggests that the percent change in output should be smaller than the percent change in the number of workers (the marginal product of labour is less than one). This implies that the productivity path for the constant working-age scenario could be somewhat slower than the one in which the number of workers declines.

Figure 5: Demographics and Current Accounts



Source: Author, with data from <https://population.un.org/dataportal/home?df=7458b59e-d711-4249-bf2d-3151fb433cd8> and IMF (2026).

Figure 6: Effect of Fewer Workers

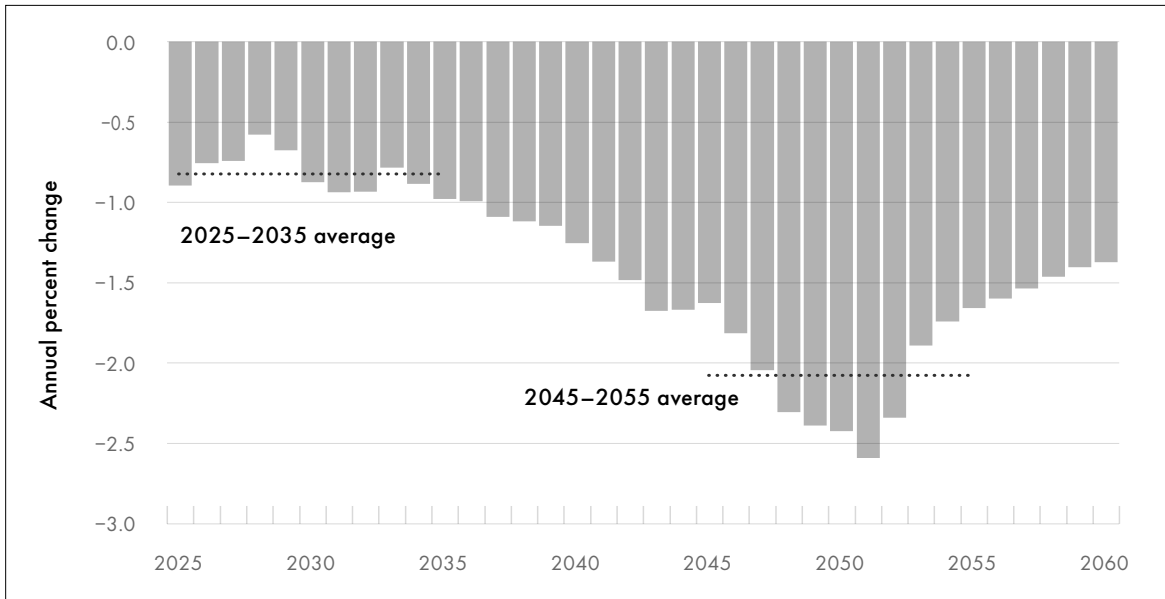


Source: Author, with data from <https://population.un.org/dataportal/home?df=7458b59e-d711-4249-bf2d-3151fb433cd8> and www.ceicdata.com/en.

China's demographic decline is a result of falling fertility. Understanding why women are having fewer children is the first step in designing remedial policies.

Reduced fertility is not simply a Chinese phenomenon. Globally, the fertility rate has fallen from 3.7 children per woman in 1980 to 2.7 in 1990

Figure 7: China's Working-Age Population



Source: Author, with data from <https://population.un.org/dataportal/home?df=7458b59e-d711-4249-bf2d-3151fb433cd8>.

and 2.3 in 2023.⁵ Still, the problem seems to be more acute in China, where women are bearing, on average, just one child each. While China's fertility rate is low relative to both its history and that of other countries, it is not an outlier (see Figure 8).

The one-child policy, which was in effect from 1979 to 2016, is often blamed for China's demographic difficulties. But childbearing trends on the mainland seem to follow those elsewhere in Greater China, where the one-child policy was not in effect. Fertility in Hong Kong fell to one child per woman in 2000. Ten years later, fertility in Taiwan dropped to the same level. And now, the mainland has followed suit.

Research by Hongbin Li and Xinzheng Shi (2025) used a natural experiment to assess the extent to which the one-child policy affected fertility in China. Their strategy was based on the fact that the one-child policy did not apply to minority (non-Han) women. By comparing the decline in fertility between the two groups of women, they estimated that 38 percent of the drop in the probability of a woman having a second child between 1982 and 1990 was due to the one-child policy and 62 percent was due to socio-economic factors (*ibid.*, 1). They found that fertility fell more rapidly for educated women and for those in urban areas. This suggests

that opportunity cost, in terms of foregone wages, was an important factor in having fewer children.

Women in China resemble those in other Asian countries in preferring smaller families. As shown in Figure 8, women in Japan and South Korea also have fewer children than those in most other G20 countries.

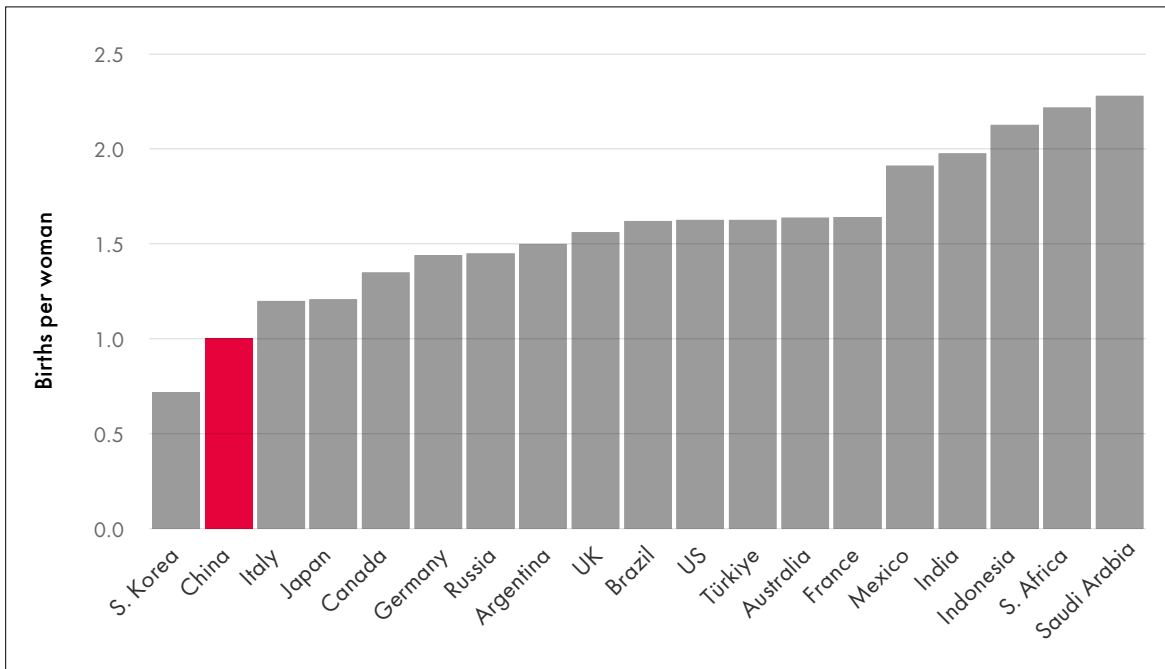
Innovative research suggests that cultural factors could be at work (Cai and Morgan 2019). Compared to white American women, Chinese, Japanese and South Korean women living in the United States

tended to postpone childbearing and have fewer children over their lifetimes. Their preference for fewer children was not due to their better education. At all levels of educational attainment, Asian women had lower fertility rates than those of their white counterparts. Moreover, Asian women's preference for small families runs deep. Women of Chinese, Japanese and South Korean ethnicity born in the United States had fertility rates that mirrored those in their countries of origin.

If the decline in Chinese women's fertility is a rational choice or a cultural proclivity, it may be very difficult and expensive for policy to reverse. An alternative approach is implementing policies that mitigate the effect of a smaller labour force on output. This is where China is headed.

5 See <https://ourworldindata.org/fertility-rate>.

Figure 8: Births per Woman (2023)



Source: Author, with data from <https://ourworldindata.org/>.

Offsetting the effects of demographic decline on living standards is one rationale for developing new quality productive forces (新质生产力). This policy aims to increase productivity by encouraging innovation, investing in leading-edge sectors and promoting efficient, high-quality output (National Development and Reform Commission 2024). Like hockey player Wayne Gretzky skating to “where the puck is going to be,” new quality productive forces looks to capitalize on the industries of the future as key growth drivers. In short, it means employing scarce workers in those industries in which they can create the highest value-added products.⁶

Ultimately, the solution to China’s demographic challenges may lie more in robotics, driverless cars and artificial intelligence (AI) than in increasing daycare spaces.

One practical implementation of new quality productive forces is the way machines are replacing people on China’s factory floors. China has accounted for more than half of the world’s

installations of industrial robots in recent years (see Figure 9). Moreover, the share of the robots installed that were produced domestically rose from 30 percent in 2020 to 58 percent in 2024 (International Federation of Robotics 2025).

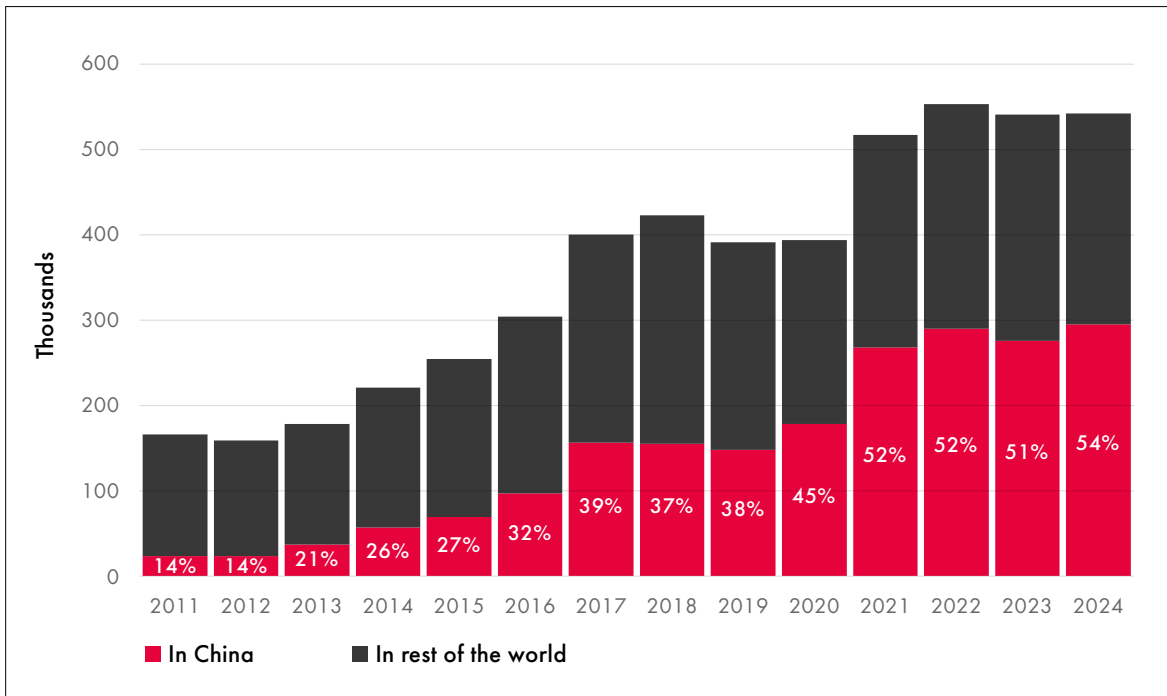
The adoption of self-driving cars provides another illustration of how technology can substitute for labour. According to a survey by Tsinghua University, four million of China’s 13 million taxi and ride-hailing drivers will retire between 2021 and 2035. The rapid adoption of self-driving taxis will be helpful in filling this labour gap. There are around 4,000 driverless taxis operating in 30 Chinese cities. Goldman Sachs estimates that 1.9 million driverless taxis will be on the road by 2035 and will account for about one-quarter of the country’s taxi/ride-hailing fleet (Chang et al. 2025). China’s rapid adoption of driverless cars is driven by supportive policy and a public that is relatively willing to adopt this new technology (see Figure 10).

The Chinese government’s AI+ initiative (人工智能+) is a national strategy to integrate AI across the economy and society as a whole. It emphasizes the application, diffusion and commercialization of AI to increase productivity (State Council 2025).

While it is, perhaps, too early to tell what potential AI has to act as a labour-saving technology, it

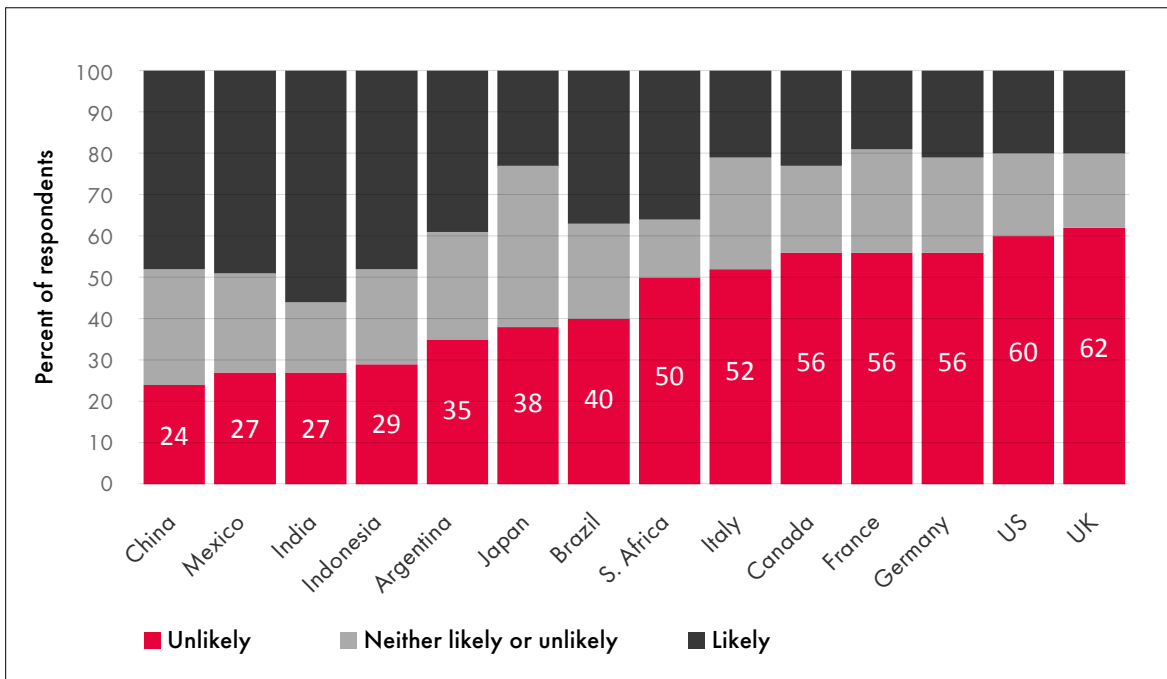
⁶ It is often argued that China’s high domestic savings point to structurally weak private consumption and that sustainable growth requires a rebalancing of demand from investment to consumption. In contrast, Yu Yongding, an academician at the Chinese Academy of Social Sciences, argued that there is no “consumption-driven” growth model (quoted in Jia and Zhu 2026). He emphasized that long-run growth is supply-side driven, with capital, labour and technological progress forming its basis (ibid.).

Figure 9: Installations of Industrial Robots (2011–2024)



Source: International Federation of Robotics (2025).

Figure 10: How Likely Are You to Take a Self-Driving Taxi?



Source: Loewen et al. (2024).

appears that the Chinese public is much more prepared to give it a try than its peers in other G20 countries. The *Artificial Intelligence Index Report 2025* presented polling done by Ipsos in 2024 across a large number of countries (Maslej et al. 2025, chapter 8). People in China were shown to be less fearful of AI and more optimistic about the effects it will have on the economy (see Figure 11). This suggests that implementing AI in everyday life could face much less resistance in China than in other countries.

Deglobalization

The logic of globalization is illustrated by the “smiling curve” (OECD 2013, 214) proposed by Stan Shih, the founder of Acer, which shows how value added is distributed unevenly across different production stages (see Figure 12). In the pre-production stages (the left arm of the smile) are high-value-added activities such as research and development (R&D), design and intellectual property creation. In the middle is manufacturing, which includes commoditized, low-value-added activities. The post-production stages — marketing, sales, distribution and after-sales support — are also high value added because they are

consumer-facing and can benefit from network effects or switching costs.

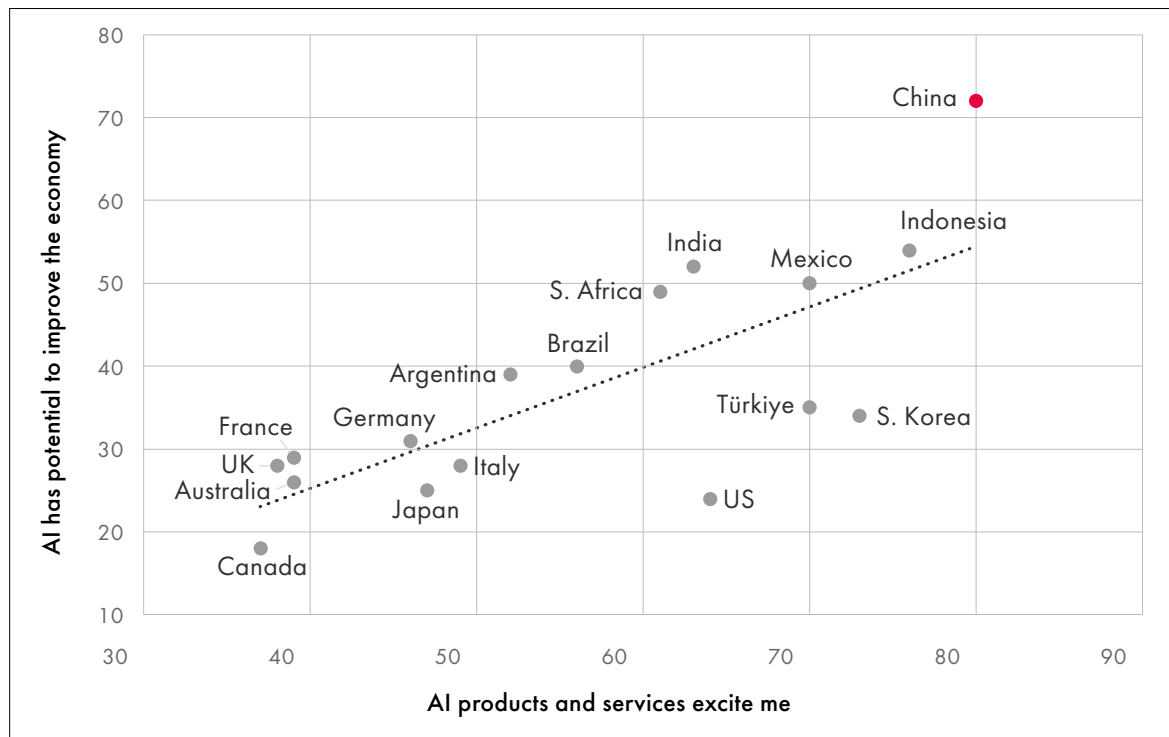
The smiling curve provides an explanation of why profit-maximizing advanced-country firms outsourced manufacturing to emerging-market countries such as China, while retaining the high-value-added upstream and downstream undertakings domestically.

For many years, the specialization of production across national borders was seen as a win-win as it allowed countries to focus on their comparative advantages. According to economists at the OECD, countries that more fully participated in global value chains had relatively stronger productivity growth (Gal and Witheridge 2019).

China has clearly benefited from globalization. It lifted its share of global manufacturing value added from nine percent in 2004 to 28 percent in 2024, while its share of merchandise exports rose from six to 14 percent over the same period (see Figure 13).

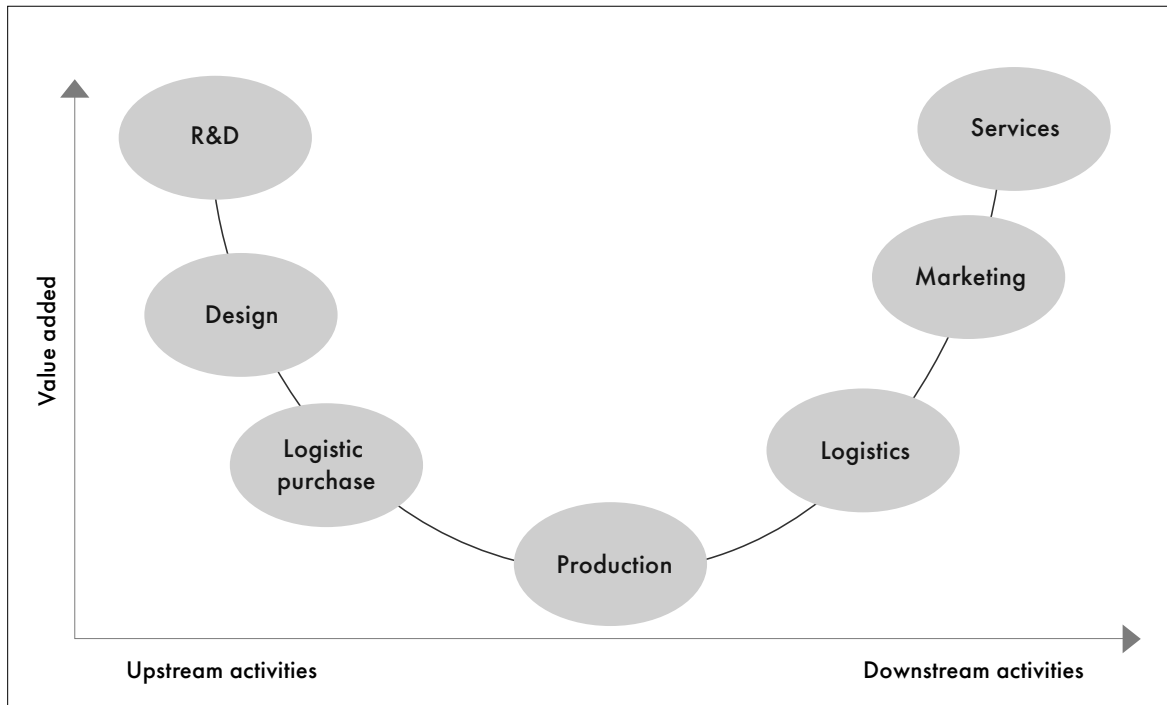
In recent years, we have observed a backlash against globalization in advanced countries. On the one hand, it appears that the benefits

Figure 11: Attitudes Toward AI (Percentage Agreeing)



Source: Maslej et al. (2025, chapter 8); author’s calculations.

Figure 12: The Smiling Curve



Source: OECD (2013, 214).

of the international division of labour were not widely shared domestically and income inequality increased. On the other, geopolitical concerns about supply-chain security have led to calls to reshore, or friend-shore, production.

China, in an effort to avoid the middle-income trap, has self-consciously tried to undertake more high-value-added activities at home. As a result, it has become a leader in patent applications (World Intellectual Property Organization 2025), and its brands have become more valuable internationally (Zhou 2025).

At the same time, China's large scale of production and generous government support have led to fears of increased industrial hollowing out among its trading partners. This culminated in the United States imposing both tariffs and trade restrictions on China and the European Union's more targeted measures against Chinese electric vehicles (EVs), steel and other industrial goods. These actions are likely some of the reasons why China's share of global merchandise exports has stagnated in recent years.

While the actions of the Trump administration have cast a chill over international economic

relations, it would be premature to conclude that the world is deglobalizing.⁷

Even if globalization is proceeding, China still must manage relations with other countries in the face of strong protectionist sentiment. Perhaps the most sustainable way to do this is to make use of the same smiley curve but reverse the investment flows: from east to west. This strategy not only binds China's interests more tightly with Europe's and the United States', but it also alleviates China's shrinking labour force problem.

Japan and South Korea were both highly successful in establishing local production facilities in Europe and the United States to mitigate trade barriers and preserve market access. Traditionally, China has not made large direct investments overseas (see Figure 14). Its stock of foreign direct investment, as a percent of GDP, is less than one-half of South Korea's and less than one-third of Japan's.

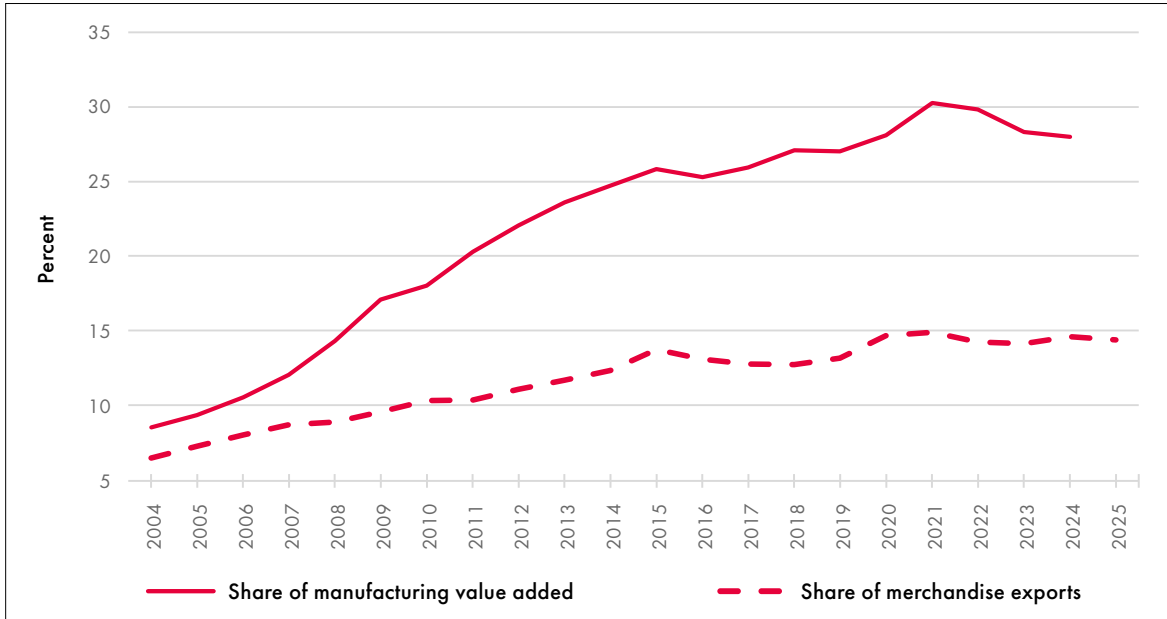
Yao Yang, a renowned Chinese economist, believes that protectionism has prompted Chinese companies to accelerate their overseas expansion

⁷ Data from the KOF Swiss Economic Institute (2025) shows that both de facto trade and financial globalization have not only recovered from the pandemic but have also reached new highs.

(Wang 2025). In a sign of what could be an important future trend, BYD is building EVs in Hungary (Cofino 2026); CATL has battery plants

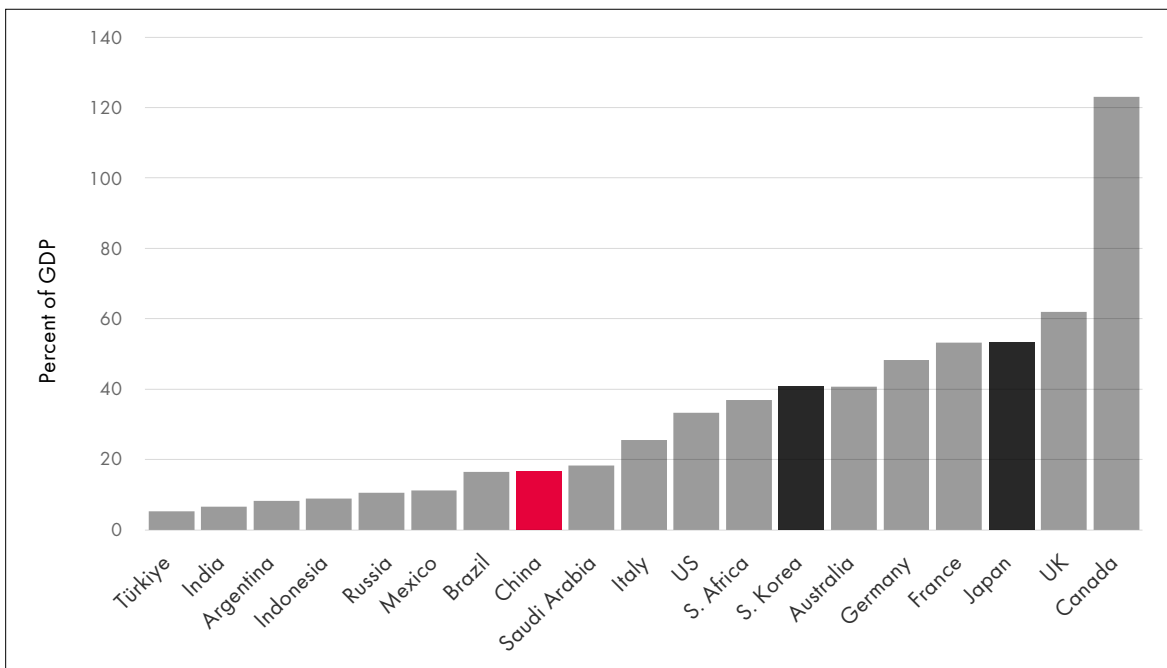
in Germany and Hungary (Westerheide 2025); and Chery is producing EVs in Spain (Waldersee and Fuss 2026). A number of Chinese firms have built

Figure 13: China's Share of Global Production and Exports



Source: Author, with data from <https://unctadstat.unctad.org/EN/Index.html> and <https://data.worldbank.org/indicator/NV.IND.MANF.CD>.

Figure 14: Outward Direct Investment Stocks



Source: Author, with data from <https://unctadstat.unctad.org/EN/Index.html>.

car assembly plants in various European locations. While fewer investments have been made in the United States, Gotion has a battery plant in Illinois (ATI News Team 2025) and other Chinese battery makers are considering US projects (F. Chen 2025).

supported by significant growth in leverage, with overall indebtedness rising by 73 percentage points of GDP. A similar increase in the next 10 years would be unlikely, as it could raise the risk of financial fragility to unacceptably high levels. Equity finance and inward foreign investment are likely to become more important sources of funding.

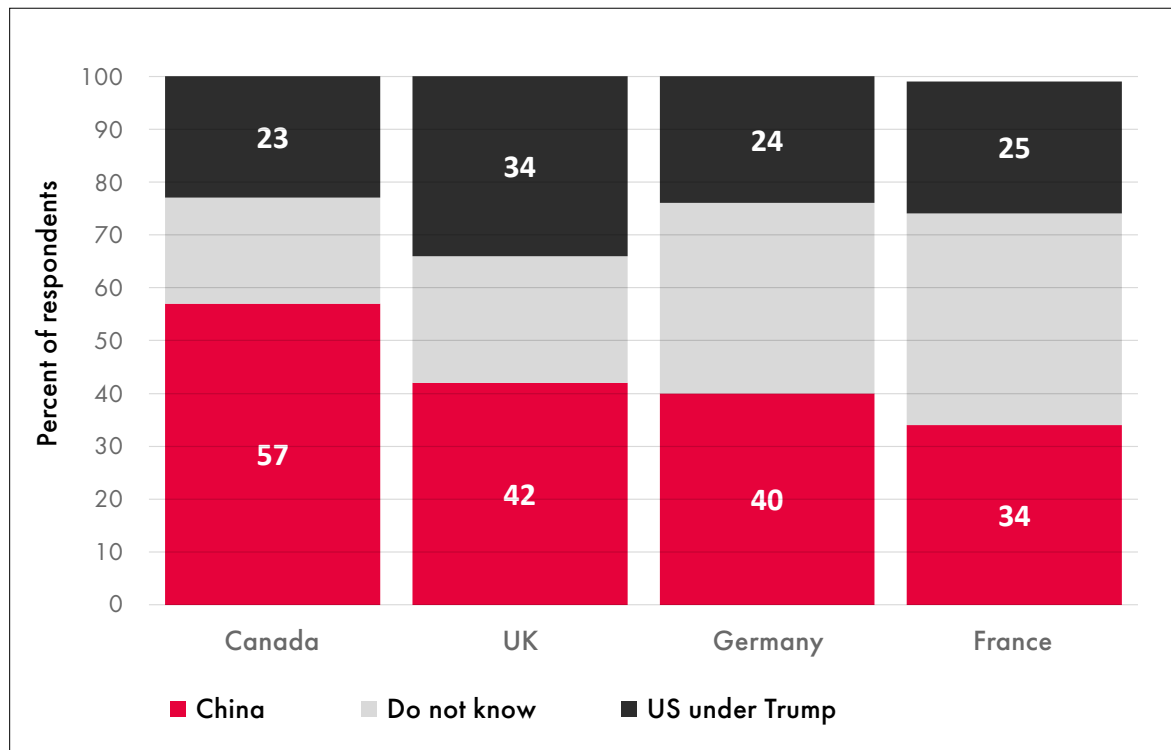
Conclusion

China has set the ambitious objective of joining the IMF's group of advanced countries by 2035. This is an arbitrary measure of success. China has already proven itself to be innovative and a world leader in many technologies. Nevertheless, emerging from the middle-income trap will give China's unique economic model a certain degree of credibility both at home and abroad.

It will, however, be a challenging 10 years. The GDP trajectory that China has set for itself only represents a modest slowing from post-pandemic rates. Over the past 10 years, the economy was

A shrinking working-age population will be a drag on growth. In the near term, productivity gains should be able to offset unfavourable demographics and ensure that living standards continue to rise. Over the longer run, the decline in the working-age population will accelerate and growth will increasingly depend on adopting innovative technologies. Robotics, self-driving cars and AI are ways of economizing on labour while keeping output high. The West has been shocked by Anthropic CEO Dario Amodei (2026) predicting that AI could displace half of all entry-level white-collar jobs in the next one-five years. In China, the public appears to be relatively receptive to these new technologies, suggesting that their implementation could be quite rapid.

Figure 15: Is It Better to Depend on China or the United States Under Trump?



Source: Author, with data from <https://unctadstat.unctad.org/EN/Index.html>.

International trade and investment have reached new peaks, and the world does not appear to be deglobalizing. Nevertheless, China faces strong protectionist pressures as its trading partners are fearful its industrial might could jeopardize employment. China can, to some extent, assuage this fear by taking a page from the West's playbook: outsourcing manufacturing while keeping up- and downstream activities at home. Such investments would bring jobs and know-how to trading partners while allowing China to optimize its workforce by concentrating on high-value-added undertakings.

China, with its unique language, culture and form of government, has traditionally been regarded with some suspicion by the West. Having rapidly become the world's most formidable manufacturing power, it is increasingly feared. How much of a rapprochement, then, can we expect between it and the rest of the world?

Chinese pragmatism holds that we need not see eye-to-eye in order to move forward together. In *The Analects*, Confucius famously stated that the gentleman accommodates while respecting differences (君子和而不同).

This ancient view is echoed by Finnish President Alexander Stubb's *value-based realism*, which he describes as "a way to hold our liberal values while working humbly and respectfully with those who do not share them" (quoted in Wihtol 2026). It is also very close to what Carney called his "principled and pragmatic" approach: engaging with open eyes and "taking on the world" as it is rather than as we wished it to be (Prime Minister of Canada 2026).

The Trump administration's "America First" policies are inadvertently facilitating China's efforts to reintegrate itself with the rest of the world (see Figure 15). Recent polling by *Politico* showed that in Canada, France, Germany and the United Kingdom, the public found China a more dependable partner than the United States under Trump (Kline and Dahl 2026).⁸ Indeed, it is this shift in sentiment that brought world leaders to Beijing earlier this year in an effort to recalibrate relations with the Middle Kingdom.

⁸ The polling was conducted from February 6 to 9, 2026, before the United States and Israel attacked Iran.

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