

# **China and the World:** Scenarios to 2025

## Executive Summary

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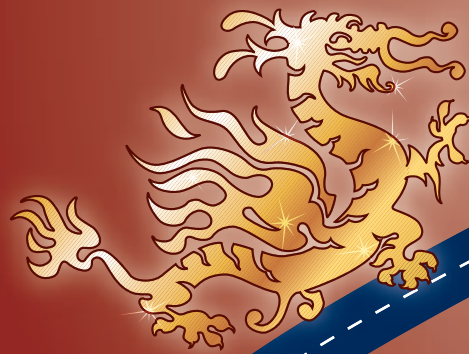
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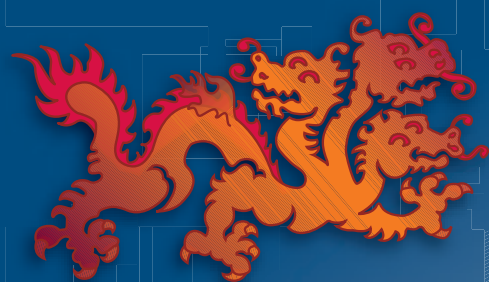
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# Executive Summary

Unfulfilled  
Promise



New Silk  
Road



Regional  
Ties

# Executive Summary

China's economic development over the past two decades has surprised both her critics and supporters. Since 1978 when China launched its "Four Modernizations" reform process under the leadership of Deng Xiaoping, growth has averaged 9.5% annually. As a result, China has climbed in world rankings to become the sixth largest economy in terms of nominal gross domestic product.

Thus in the last few years China has become the focus of much attention. Some parts of business, academia, government and civil society are more highly engaged in China than ever before. All need to think about what could happen next. But China's future is not merely of interest for experts. China's impact on global growth, resource allocation, trade and investment, as well as geopolitical balance has direct consequences for every part of the planet.

## Key Questions for the Scenarios

When looking at the future of China, two core questions stand out:

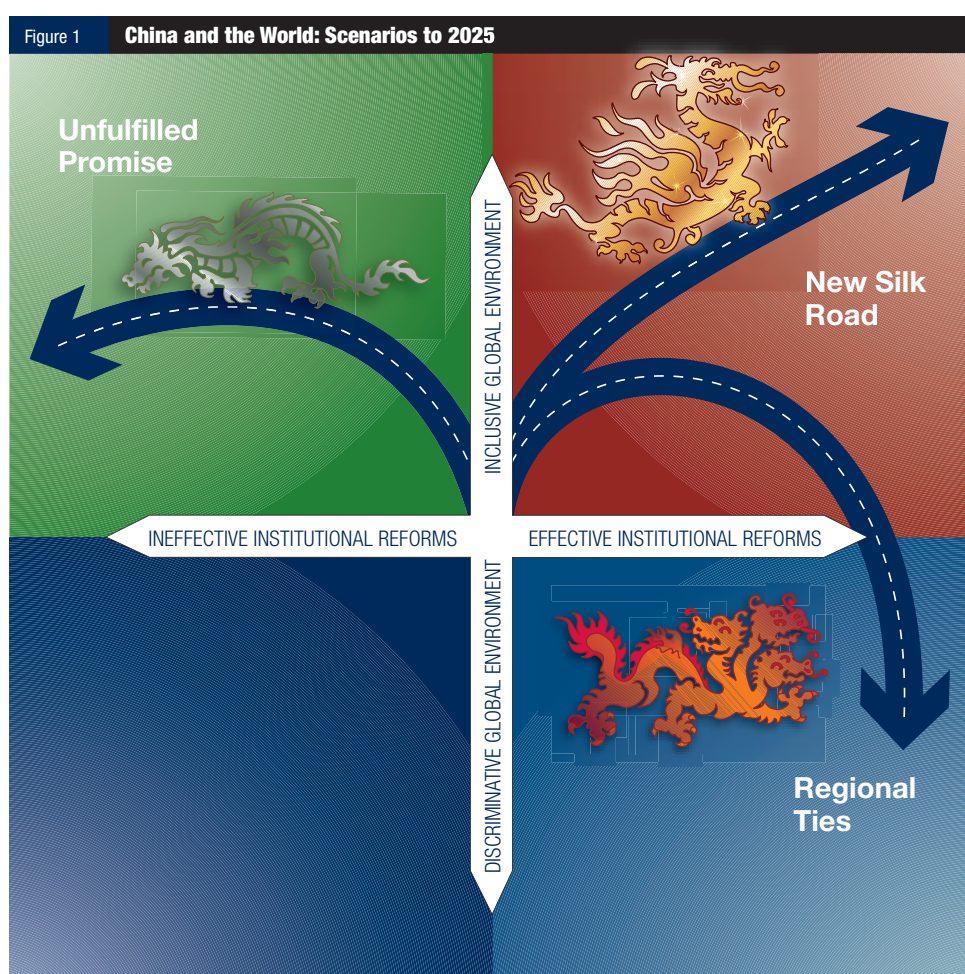
- **Can China implement internal reforms to further its development?**
- **How will China's relationship with the rest of the world affect its development and shape the global context?**

A number of factors will influence how these questions are answered in the next two decades:

- The intent of China's leadership and its ability to sustain the implementation of decisions made;
- The economic policy choices made, including the degree of liberalization and openness;
- The extent to which social stability can be maintained and popular expectations managed;
- The reaction of other global actors to China's rise, and the broader geopolitical situation.

Based on these factors and core questions, three scenarios emerge for "China and the World" over the next 20 years. The different paths for China through to 2025 are represented in figure 1.





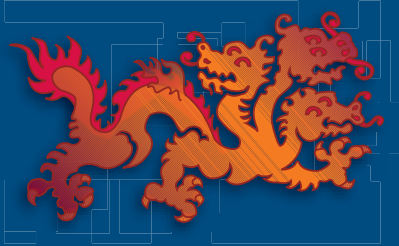
**Regional Ties** is a story that plays out in a global environment where trade is hindered by protectionism. China increasingly turns to the Asian region to provide the motor for its trade and investment and to support it on a path of reform and economic development. In **Unfulfilled Promise**, China struggles to implement tough reforms. This has negative consequences for its economic, social and ecological development. There is continued economic integration globally, but it is tempered

by security concerns. **New Silk Road** describes a China which is well on its way to achieving balanced development. This success is driven by strong and inclusive global economic growth, with an emphasis on trade integration and cross-border flows. It is backed up in China by well executed financial, legal and administrative reforms, and the progressive emergence of a middle class and internal market.

## Regional Ties

**Regional Ties** describes how China continues on the path of reform despite an international environment that becomes increasingly difficult. Chinese leadership and vision facilitate the forging of regional ties that help overcome historical enmities and restore prosperity in Asia.

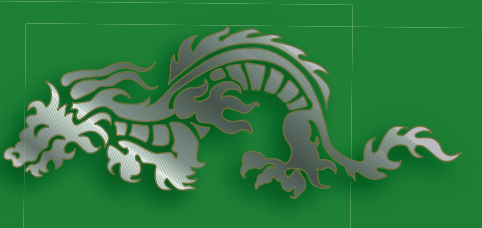
The scenario is written as a Government White Paper, reflecting on 20 years of progress in China, a medium often used by the Chinese government to communicate to the public-at-large on a major issue, to lay out its policy or to reflect on the past.



## Unfulfilled Promise

**Unfulfilled Promise** describes a China where the desire for economic development is not supported by the necessary structural reforms. The name reflects the general sentiment among the Chinese people that the promise made to them in terms of inclusive economic development has been largely unfulfilled.

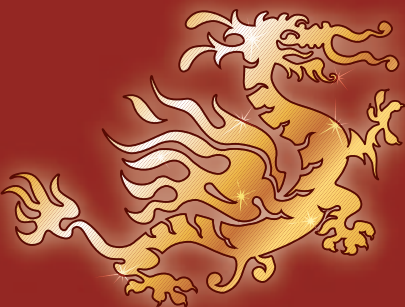
The story is told as an article in a Western online journal and reviews China's development over the period 2006-2025.



## New Silk Road

**New Silk Road** describes the flourishing economic and cultural rise of China, a feat achieved despite the presence of substantial internal obstacles. The scenario reflects China's peaceful geopolitical integration and its sizeable role in the exchange of goods, services, investments and ideas. In this way it recreates the original Silk Road.

The scenario is told using the Online Encyclopaedia of the World and provides a factual account of what China has achieved over a 20-year period.



**2006-2010:** Governments in Europe and North America, suffering from growing economic demands and domestic pressures, eye China's impressive economic growth and its emergence as an increasingly significant actor on the world stage with increasing concern. A pattern of protectionist behaviour surfaces, blocking attempts by Chinese corporations to invest and trade and restricting the free flow of technology and ideas.

**2011-2020:** As the global economy slows, several multinational corporations sell their manufacturing operations in China. When exports weaken so does growth, creating social discontent. The Chinese government reacts by creating social safety nets, focusing on the development of its domestic market and improving its relationships with

neighbours in Asia. Formalization of these regional relationships leads to the establishment of an Asian Economic Region, allowing the free movement of goods, capital and labour.

**2021-2025:** Despite a relatively depressed global economic outlook, China succeeds in maintaining social cohesion and sustaining economic development by building on its regional ties. A multi-polar world emerges with China guiding an Asian sphere of influence.

**2006-2010:** Transition towards a free market economy continues, but the central government is reluctant to push through too much change for fear of social unrest. In some cases, faced with powerful local vested interests and prevailing corruption of local authorities, it is also unable to enforce reforms. This undermines the country's economic growth.

**2011-2020:** Global trade and economic integration are shaped by security concerns that hinder knowledge sharing, innovation and labour and capital mobility. China's international competitiveness gradually falls and levels of foreign investment drop significantly as intellectual property protection and enforcement remain inadequate and innovation is limited. By 2020, China's economic growth slows significantly, accentuating social unrest.

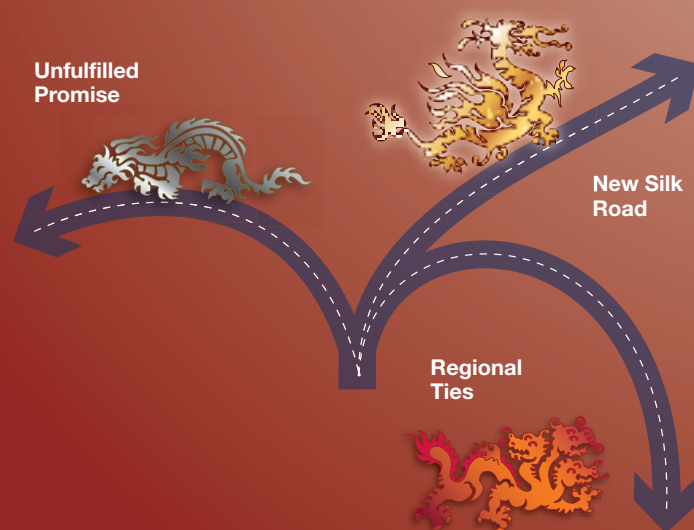
**2021-2025:** The negative economic and social trends become apparent both within and outside of China. The central government seeks to tighten control, worsening the economic situation, in part, as it puts limits on some of the remaining entrepreneurs and initiatives. Nevertheless, there are signs of change. Richer provinces try to implement their own reforms, and Beijing is determined to try again with its own projects. But is this too little, too late?

**2006-2010:** The focus remains on expanding exports, attracting foreign investment and creating jobs to manage the rural-urban transition. The Chinese government is not distracted by fear of unrest and resolutely stays on the path of reform. Problems concerning state-owned enterprises (SOEs), the banking sector, the environment and rule of law are all addressed. Moreover, Beijing undertakes direct public consultation as a means of legitimizing its initiatives and disciplining recalcitrant local barons.

**2011-2020:** China actively engages with the world. It plays a constructive role by helping with peacekeeping, seeking to reduce the dangers of conflict in Asia, and even taking important steps with the international community to improve climate security and reduce the global environmental footprint of energy use. At the same time,

domestic reforms and a growing middle class provide the building blocks to develop the Chinese market. This allows for a measure of social security and resource redistribution within the country.

**2021-2025:** A growing appetite for political freedom emerges as media controls diminish, individual rights and civil liberties improve and the separation of the judicial, legislative and executive branches is openly discussed. Some challenges remain as average incomes are still below those of developed countries and the problems related to an ageing population need addressing. However, it is clear that by 2025 China is on its way to achieving balanced development and sustained high growth, and is a respected global actor.



## Comparing the Three Scenarios

The table below provides a comparison of some of the most important aspects of the scenarios

	Regional Ties	Unfulfilled Promise	New Silk Road
<b>Leadership &amp; governance</b>	<ul style="list-style-type: none"> <li>• Strong one-party leadership</li> <li>• Strategic vision helps to weather the economic crisis</li> </ul>	<ul style="list-style-type: none"> <li>• Reactive leadership—lacking in long-term vision</li> <li>• Fear of dissent within the ranks hinders local reform enforcement</li> </ul>	<ul style="list-style-type: none"> <li>• Next generation leadership more open to individual rights and social liberties</li> <li>• Foundations are laid for the separation of judicial, legislative and executive powers</li> </ul>
<b>Economic performance</b>	<ul style="list-style-type: none"> <li>• Global slowdown affects exports to Europe and North America, triggering a focus on domestic and Asian markets</li> </ul>	<ul style="list-style-type: none"> <li>• Growth eventually slows as export weakens and domestic market demand does not significantly increase</li> </ul>	<ul style="list-style-type: none"> <li>• Balanced growth based on both external and domestic market development</li> <li>• High growth continues</li> </ul>
<b>Social development</b>	<ul style="list-style-type: none"> <li>• China succeeds in maintaining social stability and cohesion despite a depressed global environment</li> <li>• Emphasis is placed on social inclusion and the development of social systems</li> </ul>	<ul style="list-style-type: none"> <li>• Unbalanced development driven by coastal areas</li> <li>• High disparities across regions and classes</li> </ul>	<ul style="list-style-type: none"> <li>• Reforms of SOEs and accelerated urbanisation combined with an insufficient social safety net cause some initial concerns</li> <li>• Inequality is tackled in earnest as of 2015</li> </ul>
<b>External relationships</b>	<ul style="list-style-type: none"> <li>• Successful regional ties fuel growth and prosperity in the region after the Western countries shift attention away from the region</li> </ul>	<ul style="list-style-type: none"> <li>• Aspiration to be a major global player not fulfilled</li> <li>• Lagging reforms affect relations and trade</li> </ul>	<ul style="list-style-type: none"> <li>• China plays an increasingly active role on the world stage and in international organisations</li> </ul>



## Annex: Comparing the Three Scenarios

This section provides an overview of how selected economic and social indicators in China and the world may evolve over time. The various futures described in the scenarios have been quantified using macroeconomic modelling to ensure plausibility and internal consistency.

The comparative analysis of the three scenarios focuses on the following indicators:

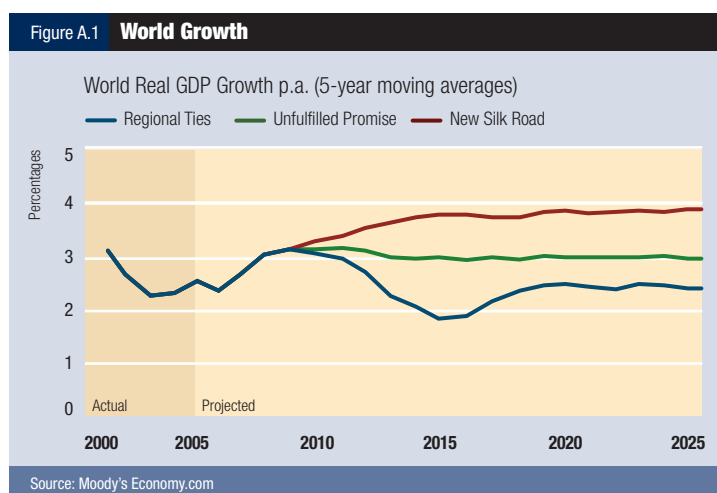
1. **World Gross Domestic Product (GDP) growth**
2. **GDP growth of major economies**
3. **China's share of world trade**
4. **Foreign direct investment in China**
5. **China's GDP growth**
6. **China's GDP per capita**
7. **Development of China's health sector**
8. **Development of R&D in China**
9. **Evolution of income inequality in China**
10. **Social security expenditures in China**

### Using the data

The data could be used for developing leading indicators to determine which of the three scenarios is actually unfolding. Users should bear in mind that the scenarios and related analysis are descriptions of only a set of possible futures as seen from the current perspective. They should not be seen as predictions or forecasts. Hence the data provided serves only as a guide and should be applied and monitored with careful judgement.

### 1. World Gross Domestic Product (GDP) growth

In *New Silk Road*, the global economy benefits from increasing globalization and trade in a harmonious global environment and reaches growth rates of up to 4%. In contrast, in *Regional Ties*, lack of trust undermines international cooperation and trade integration stalls leading to a global recession in 2010–2014. In *Unfulfilled Promise*, although global integration progresses, scepticism prevails, preventing the global economy from reaching the full benefits of globalization.



## 2. GDP growth of major economies

In the last five years of the scenario period, China becomes the fastest growing among the large economies in the world in two scenarios:

**New Silk Road** and **Regional Ties**. Only in **Unfulfilled Promise** is it overtaken—albeit by a narrow margin—by India. In general, in all three scenarios, emerging markets continue to catch up with developed economies.

Figure A.2.a **Growth of Selected Economies – Regional Ties**

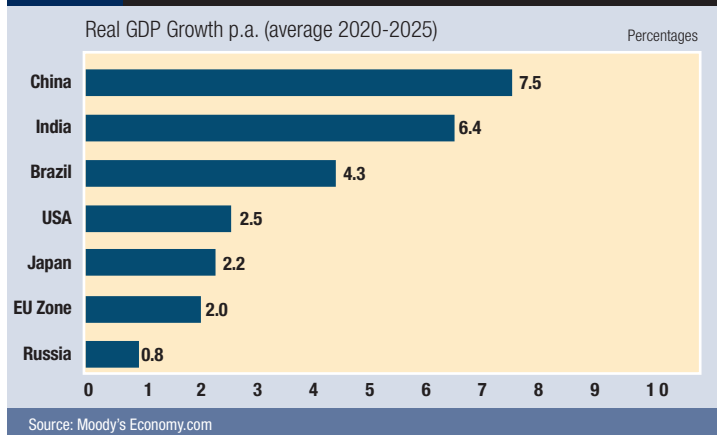


Figure A.2.b **Growth of Selected Economies – Unfulfilled Promise**

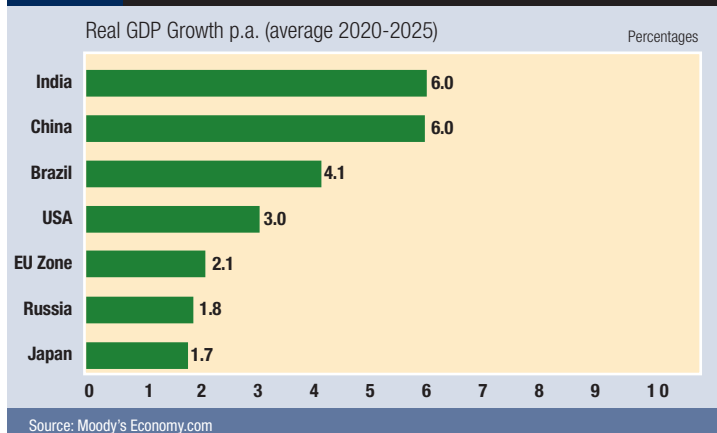
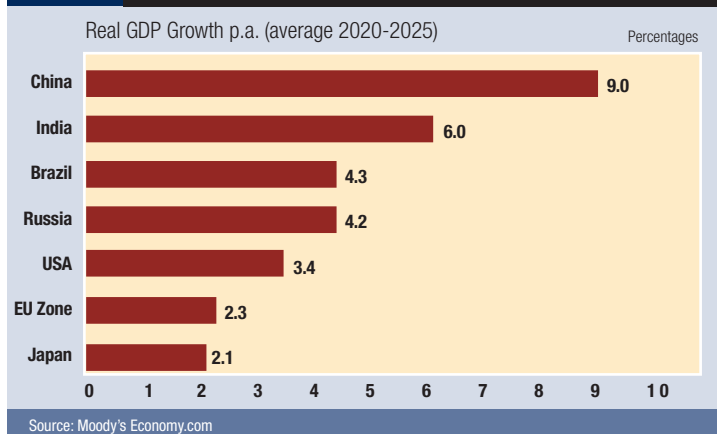


Figure A.2.c **Growth of Selected Economies – New Silk Road**



### 3. China's share of world trade

China's share of world trade will grow considerably in all three scenarios. A protectionist backlash in **Regional Ties** reduces the growth rate considerably around 2012. In **Unfulfilled Promise**, China is not able to maintain its share by 2025.



### 4. Foreign direct investment in China

As the developed world closes its doors to China in **Regional Ties**, foreign direct investment (FDI) inflow stalls for a few years before it picks up again once closer economic relations with neighbouring Asian countries are developed. In **Unfulfilled Promise** the Chinese economy is feeling the results of reform failure as of 2020 when a significant drop in FDI inflows occurs.



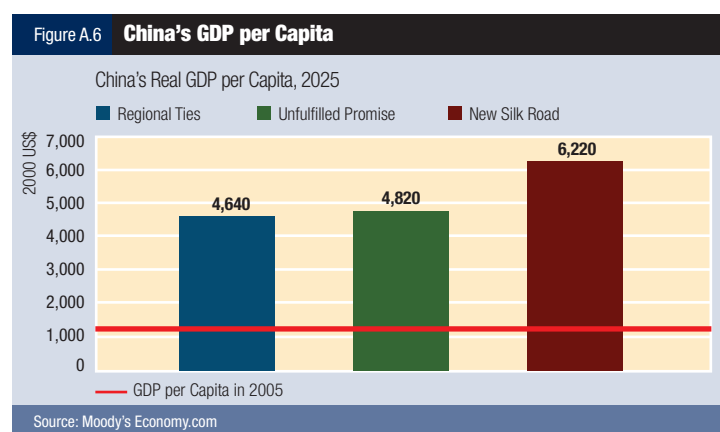
## 5. China's GDP growth

In **Unfulfilled Promise**, the inability to implement reforms reduces the benefits of international integration and seriously slows economic growth in China. In **New Silk Road**, China reforms internally and manages to make the rate sustainable by tackling the side effects of growth. In **Regional Ties**, China suffers a slowdown in 2012 before it successfully establishes trade links with neighbouring countries and boosts domestic consumption.



## 6. China's GDP per capita

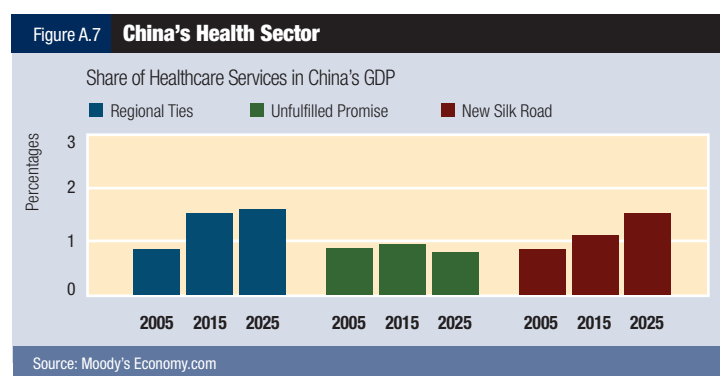
All three alternative futures witness at least a quadrupling of per capita GDP over the scenario period. The growth is highest in **New Silk Road**, where real GDP per capita reaches US\$ 6,220 in 2025. In **Regional Ties**, GDP per capita stays behind **Unfulfilled Promise** due to the impact of the 2012 recession but it almost catches up towards the end of the scenario.





## 7. Development of China's health sector

The health sector's share of GDP increases towards the end of **New Silk Road** compared to **Unfulfilled Promise**, where limited healthcare reforms are undertaken. In **Regional Ties**, China invests in health services after the crisis of 2012, leading to visible improvements in 2015.



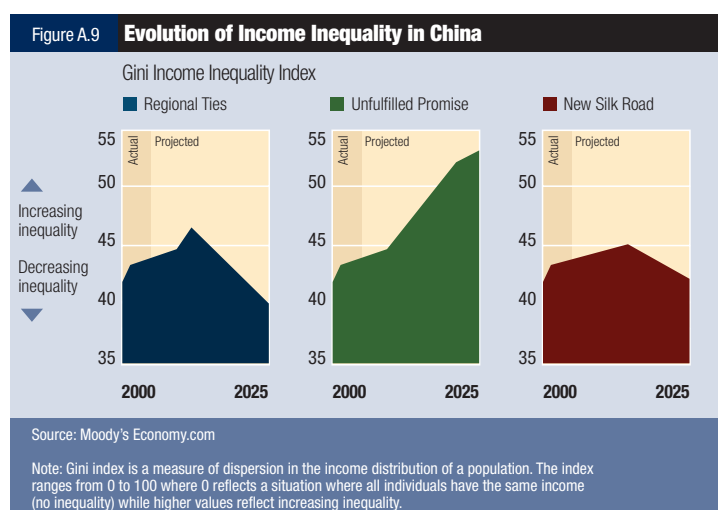
## 8. Development of R&D in China

In **New Silk Road**, the government recognizes that a future-oriented economy needs to invest in research and development—knowledge based sectors develop increasingly and China becomes a key destination for outsourcing of research activities. Thanks to increased educational spending in **Regional Ties** and to close interactions with countries in the region, research also develops significantly. But, R&D remains relatively unimportant in **Unfulfilled Promise** as the right incentives are not put in place, and funding remains limited.



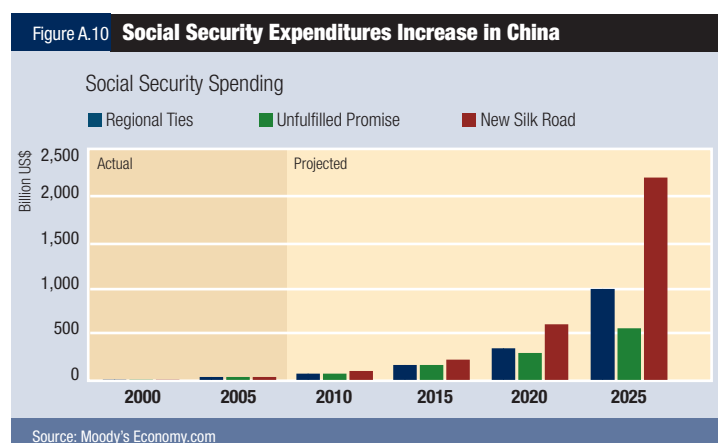
## 9. Evolution of income inequality in China

The central government's efforts to reduce inequalities and develop internal demand pay off in **Regional Ties** and **New Silk Road**. In **Regional Ties**, inequality is lower in 2025 compared to 2000 while in **New Silk Road**, the increasing inequality trend observed in the first half of the scenario is later reversed to go back to roughly the same Gini index level in 2025 as in 2000. On the other hand, wealth created in the **Unfulfilled Promise** scenario benefits only a limited part of the population, with inequality soaring in the second half of the scenario.



## 10. Social security expenditures in China

Social security expenditures increase markedly in all three scenarios over the 20-year period. In terms of level, the expenditures are highest in **New Silk Road**, reaching roughly 2,300 billion dollars in 2025. On the other hand, **Regional Ties** has the highest share of social security spending in GDP in 2025. **Unfulfilled Promise** lags behind with only half the **Regional Ties** social security spending in 2025, reflecting the limited social reforms undertaken in that scenario.







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