

WORLD SCENARIO SERIES



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

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## Section

## 1

# Preface

With one of the fastest growing economies in the world, China is taking on increased strategic importance as an emerging global player. At the same time, the country faces complex economic, political, social and environmental challenges, and stakeholders in China must be prepared for a variety of different futures.

To gain a better understanding of the possible outcomes, along with the key trends and events that might shape them over the next 20 years, the World Economic Forum set out to develop scenarios on the future of China.

The resulting scenarios are the creation of all who took part in the project—they go beyond the assumptions and perspectives held by any individual, interest group or organization.

## What are Scenarios?

Scenarios are stories about the future. Good scenarios are plausible, challenging and rigorously constructed to address the most critical questions that decision-makers need to face. The scenarios presented in this publication were developed over a period of ten months at workshops in Singapore, Washington, London, Shanghai and Beijing. They synthesize the perspectives of senior executives from leading global companies, as well as thought leaders, scenario practitioners and public figures, both within and outside China.

Together, these people identified two critical questions:

- **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?**

Supporting analysis from multiple disciplines including economics, social sciences, geopolitics and environmental studies has added further insights.

For a country as diverse as China, no single set of scenarios can claim to describe all possible futures. Each story that has emerged describes a different, plausible future for China. They are not predictions but possibilities, and intend to provoke readers, challenging their assumptions about what may happen and providing a useful shared basis for discussion.

## How will these Scenarios be used?

Leading global companies often engage in constructing large-scale scenarios to help formulate their business and investment strategies. In particular, scenarios can:

- **Enhance a strategy's robustness** by identifying and challenging underlying assumptions, hence contributing to strong and pre-emptive corporate positioning;
- **Allow better strategic decisions** by discovering and framing uncertainties and enhanced understanding of risks, prior to making substantial, irreversible commitments;
- **Raise awareness of the environment** by helping business communities understand the complex interplay of underlying drivers and critical uncertainties, and increasing sensitivity to weak signals that precede a significant change in direction;
- **Provide impetus for action** by providing users with common languages and concepts for discussing strategies across various businesses in the non-threatening context of possible futures;
- **Increase response speed to unexpected events** by visualizing possible futures and rehearsing responses mentally, thereby raising the state of preparedness and agility.

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. The Forum is impartial, not for-profit and is tied to no political, partisan or national interest. In pursuit of our mission, we work closely with our members, leaders from academia, government, religion, the media, non-governmental organizations and the arts.

As such, the Forum is ideally positioned to convene the high-level, international and diverse group of individuals necessary for forming robust scenarios. The Forum intends to use these scenarios to communicate a shared understanding of China and initiate dialogue and action internationally.

Through interactive sessions at various conferences and workshops held throughout the year, including the Annual Meeting in Davos, member firms will be able to discuss the development of their “China strategies” and communicate their aspirations, as well as their concerns for China’s development, directly with key decision-makers. The media

who take part will disseminate these discussions to other public forums around the world. Additionally, our industry communities may delve deeper into this analysis and draw industry-specific implications.

We hope these scenarios will spur action. The decisions we make today create tomorrow—and these scenarios raise crucial questions about the strategic decisions that will shape the future of China.

We also hope the scenarios will be used widely within and outside China, encouraging people from diverse backgrounds to engage in a productive discussion of their shared vision of the future, helping them to identify risks and opportunities and to develop more robust strategies.



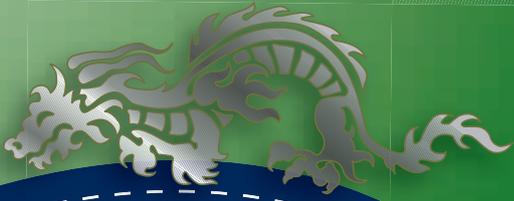
Ged Davis  
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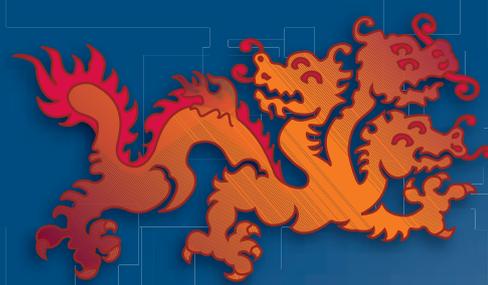
Section

# 2 Executive Summary

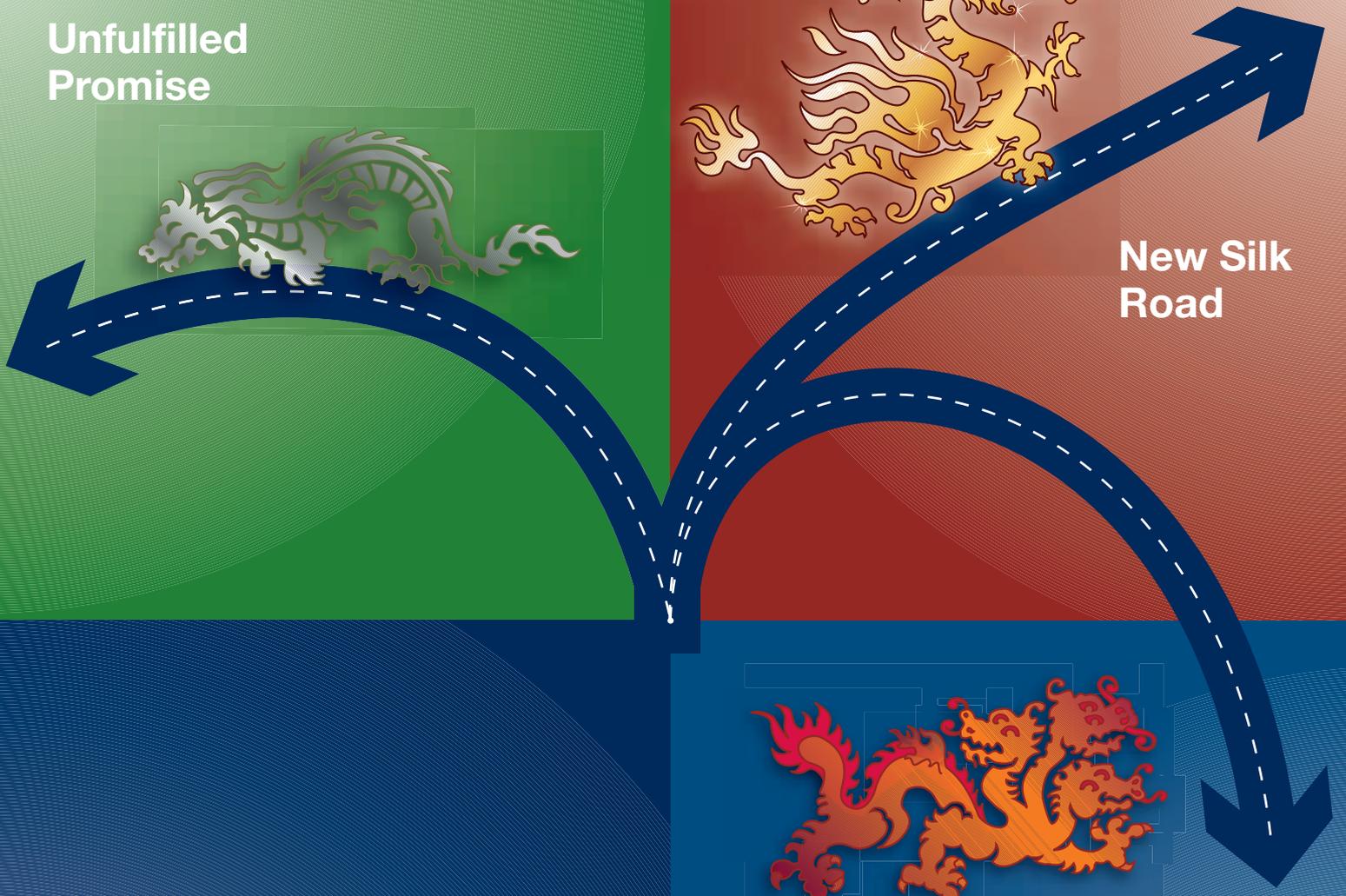
Unfulfilled  
Promise



New Silk  
Road



Regional  
Ties



## Section

## 2

## 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

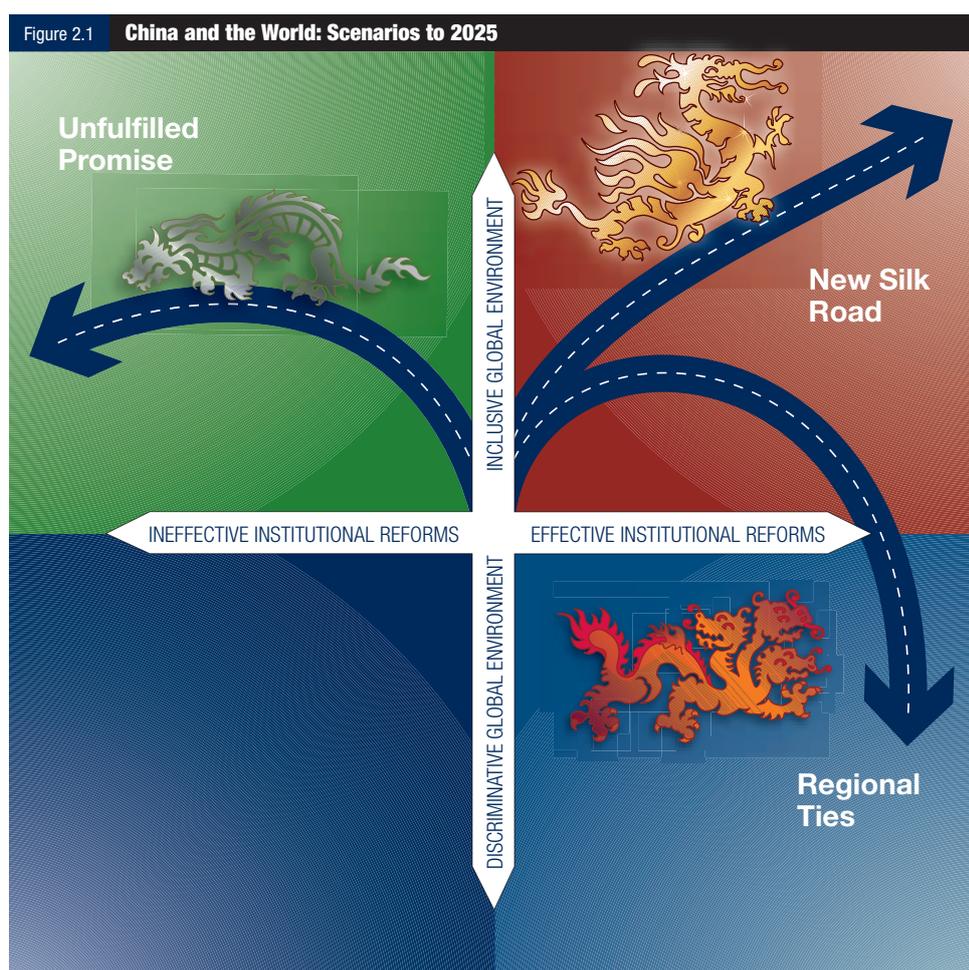
When looking at the future of China, two core questions stand out:

- **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 2.1.



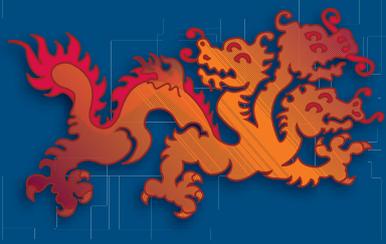
**Regional Ties** is a story that plays out in a global environment where trade is hindered by protectionism. China increasingly turns to the Asian region to provide the motor for its trade and investment and to support it on a path of reform and economic development. In **Unfulfilled Promise**, China 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.

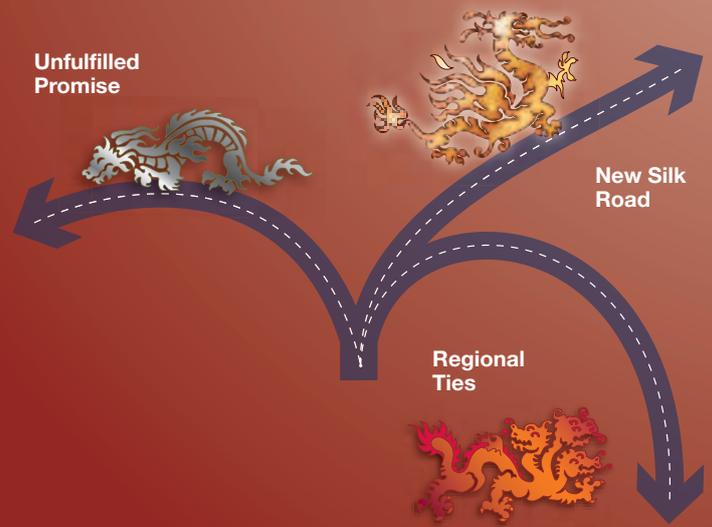
**2021-2025:** The negative economic and social trends become apparent both within and outside of China. The central government seeks to tighten control, worsening the economic situation, in part, as it puts limits on some of the remaining entrepreneurs and initiatives. Nevertheless, there are signs 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>

## Exploring the Future of China and the World

Detailed economic analysis underpins the three scenarios. Boxes on selected topics provide additional supporting analysis. Wild Cards (events that would have a large impact, but have only a very low probability of actually happening) are discussed in the concluding section in order to stimulate the reader’s thinking. They are not, however, the focus of our scenarios.

We now invite you to turn the pages, travel through time, and see for yourself what the future of “China and the World” may be in the next 20 years.

Section

3

# Regional Ties



# Scenario

Section

3

## Regional Ties

### China: Twenty Years of Progress

#### Content

##### Preface

##### Part One: Growing Global Pressure: 2006-2010

- I. Global Challenges
- II. China Seeks Global Harmony

##### Part Two: Building Principles for Regional Harmony: 2011-2020

- I. An Economic Setback for the People's Republic of China
- II. Tensions in Asia
- III. Chinese Economic Development Reoriented
- IV. Asian Potential Understood
- V. Deepening Relations in the Asian Region

##### Part Three: Consolidating Achievements for the Future: 2021-2025

Information Office of the State Council  
of the People's Republic of China  
July 2025, Beijing



## Preface

The world has faced many challenges in the last twenty years and the economic climate has not always been favorable. China, holding high the banners of peace, development and cooperation, continues as a resolute force for safeguarding peace and promoting common development, especially improving ties among Asian countries. The Chinese government appreciates the importance that many countries, particularly in Asia, attach to developing relations with China.

Chinese civilization has a long and influential history. Over the past several thousand years, Chinese culture has exerted a profound influence on the progress of humanity. Vast numbers of Chinese thinkers, scientists, inventors, writers and artists have made great contributions to the development of the planet's common civilization.

The Chinese government and people are committed to continuing and expanding these achievements. In 1978, China gradually stepped onto the road towards establishing a socialist market economy system. Entering the 21st century, it embarked on a new development stage, starting the full-scale construction of a modern and harmonious society by pursuing its policy of reform, opening up and nation building.

"China: Twenty Years of Progress" aims to elaborate on the Chinese government's achievements in developing the country in a well-rounded way. It outlines areas and plans for cooperation and related measures so as to enhance regional Asian collaboration and promote long-term and stable regional development. To help the international community gain a better understanding of the economic, social and international progress that China has made, we present this systematic account of developments over the years 2006-2025.



## Part One: Growing Global Pressure: 2006-2010

### I. Global Challenges

Twenty years ago, the People's Republic of China had already made impressive advances, not least a long period of considerable economic growth. The global community recognized these great strides forward and consequently the International Olympic Committee chose Beijing for the 2008 Olympic Games and Shanghai hosted the World Expo in 2010.

Nevertheless, the Chinese government and people knew that much still had to be done. The arduous task of modernization called for prolonged and persistent hard work, and they recognized the importance of a peaceful, flourishing international environment for their own country. Although the international situation appeared to be stable, there were profound, complex and disturbing changes taking place.

Perhaps the most significant changes were in the global distribution of economic activity. The Chinese people, along with those in other rapidly growing economies, were taking an ever larger share of the world's manufacturing and low-end service provisions. In time, this would have been hugely beneficial for people everywhere, as it would have meant more efficiently produced and affordable products and services. But getting there implied a period of turmoil, as those who had previously performed these functions had to search for new areas of specialization. As the Chinese people well know, making such changes can be very challenging.

With favorable circumstances, this would have been a relatively brief period of adjustment. What should have been a series of straightforward steps became a vicious circle from which European and North American countries were unable to extricate themselves. Part of the problem was the uncertain nature of the global environment, beset by persistent threats to national and international security. These dangers were both traditional and non-traditional and included conflicts, the rise of terrorism, drug and people trafficking, and the spread of infectious diseases.

Instead of working together to tackle these challenges and evolving towards a common approach, countries tended to focus on their individual plans and were suspicious of other nations with different cultures and methods. In such an environment, harmonious relations between countries were hard to achieve.

With China's support international groups continued to meet, but discussions were inconclusive at best. They tended to focus on individual threats, rather than seeking out potential opportunities for shared projects. To the regret of the Chinese government, the World Trade Organization suffered a series of setbacks, with talks on liberalization stalling. This was a serious blow to the global effort to improve welfare for all.

### II. China Seeks Global Harmony

Faced with these developments China could not remain impassive. In 2008 it:

- Sought to reinvigorate the World Trade Organization (WTO) by building a common position with like-minded trading nations in Asia, using the vehicle of ASEAN+3. Although the WTO remained moribund, the initiative showed how Asia's common interests could be identified and promoted with China's support;
- Managed, together with the Republic of Korea (ROK), to broker a successful agreement with the Democratic People's Republic of Korea to stop its nuclear program.



Increasingly, governments and people in Asia perceived that nations work best with those that are close physically and culturally.

In addition, other global economic actors were struggling with their own problems:

- In Europe, governments were confronted with ageing populations, rising unemployment and inflexible labor markets;
- In the United States, the issues were mounting trade and budget deficits. As the country grappled with these challenges, the economy slowed and unemployment rose.

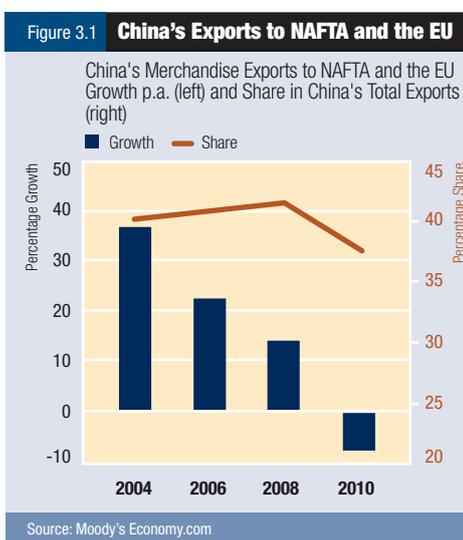
It was with regret that the Chinese government noted a persistent increase in the number of protectionist measures from the European Union and the United States, as both gave in to populist pressures playing on fears of job losses. Initial restrictions in Chinese textile exports were extended to shoes, steel pipes, automotive parts, electronics and automobiles. There was an escalation in disputes concerning intellectual property rights. The Chinese government made great efforts to enforce intellectual property regulations, but still the European Union and the United States used legal pretexts to introduce “retaliatory” measures against Chinese imports.

Starting in 2008 a pattern of discrimination against China emerged. Measures included:

- Intensified pressure for further appreciation of the renminbi;
- Growing barriers against imports from China;
- Regular objections to Chinese investments in North American and European companies;
- Regulations against the sharing of technological or commercial expertise;
- Fewer Chinese students granted visas or accepted into North American and European universities and institutions.

With the regrettable decline of the World Trade Organization as a forum for resolving trade disputes, there was greater recourse to bilateral treaties. Both complex and restrictive, these treaties clogged what had been relatively free flows of labor, capital and knowledge in the name of security and the need to maintain self-sufficiency.

Given the unfriendliness of the external environment, the Chinese government felt that it must proceed with internal reforms at a cautious pace.





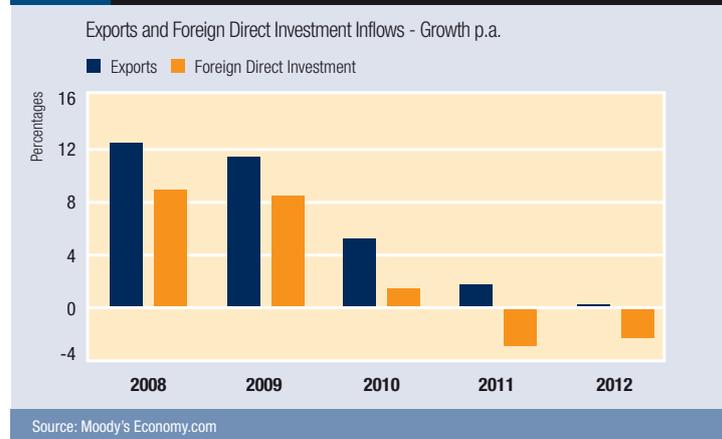
## Part Two: Building Principles for Regional Harmony: 2011-2020

### I. An Economic Setback for the People's Republic of China

The deteriorating international environment had a number of economic consequences for the Chinese people.

- Export growth slowed between 2008 and 2012 and foreign direct investment decreased in 2011 and 2012. Fewer manufacturing plants were built as many investors had only been interested in using China as a base for exports. Indeed, for the first time in 30 years, some foreign-owned firms even divested their share of manufacturing operations, in particular those that made products for export.
- Existing jobs were lost while far fewer new jobs were created, causing anxiety for the people of China. It was not a surprise when, as unemployment grew, a large number of mass incidents occurred.

Figure 3.2 **Foreign Investors Pulled Out as Export Opportunities Worsened**



The Chinese government understood this turn of events: employment has a vital bearing on people's welfare—it is the fundamental prerequisite for people to improve their lives. The Government's 2011 White Paper called "China's New Employment Situation and Policies" (Information Office of the State Council of the People's Republic of China, Beijing) recognized that to solve the employment problem in China, the most populous country in the world, would be "a strenuous, arduous and pressing task". To give a measure of the problem, China's growth rate dropped to 6% in 2012 and urban unemployment rose to over 6%, making the slowdown the biggest economic challenge faced since the beginning of the 1990s.

Adhering to its principle of "putting people first", the Chinese government swiftly set up temporary social security measures for as many of its people as possible, placing priority on ensuring access to shelter, food and work. This was a difficult situation: although the Chinese government had always attached great importance and devoted every effort to establishing and improving the social security system, the country was not yet sufficiently developed to support all these demands.

Fewer exports and higher unemployment were only the beginning. In this more constrained international environment, trust between countries was harder to earn or did not happen at all. Foreign investment flowed less freely. Trade between countries was becoming increasingly difficult.



## II. Tensions in Asia

In addition to the internal challenges, the Chinese government was very concerned with increasing tensions in Asia.

- Japan had decided to expand its military role. The modification of the pacifist wording of the Japanese Constitution, allowing its armed forces to take part in military operations abroad, roused understandable anxiety with the people of China.
- Despite the “one China” rhetoric used by the United States, their continued sales of arms to Taiwan undermined attempts by the government of China to settle the dispute with this province.

The Chinese government could sense an incipient crisis and took decisive action to forestall the problems. Beyond immediate safeguard measures, the government was determined to change the focus of its development strategy by:

- Concentrating on forging new and strengthening old relationships with its neighbors, especially on trade and security issues;
- Ensuring that its plans for economic development did not rely as much on exports and foreign investment, but were built on a broader basis—the government was determined to develop domestic demand more rapidly than previously planned.

Other Asian countries had reached similar conclusions and were interested in further exploring the idea of regional partnership. Given the global security risks and the ways in which international relations were evolving, countries and their governments increasingly recognized the importance of shared values and worldviews as a basis for forming economic and political relationships.

This process was not easy and required considerable foresight. Consider the disintegrative forces that were at work at this time: the tremendous mistrust, in particular towards Japan; the crippling disagreement over the question of which country might end up leading the regional bloc; the disputes over territory and access to energy resources.

Intra-regional trade was already high, prompting some to ask if there was a need for further integration. Other observers just could not see how countries which were so different in size, stage of development, political regimes, and that had no history of joint institutions could ever come together.

## III. Chinese Economic Development Reoriented

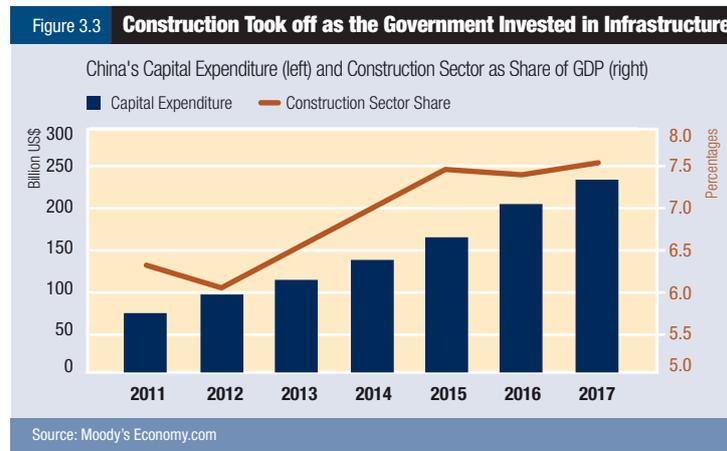
In parallel to the regional considerations, the Chinese government was very active in devising and implementing a clear strategy for its domestic market development. There were many elements to this strategy:

1. The **development of social security**, including the improvement of pensions, the provision of unemployment and education support, and the modernization of and adequate support for healthcare;
2. The **creation of jobs**—large government projects to modernize and develop areas further inland, providing rural migrants with jobs in manufacturing and services;
3. The **continued transition towards a market economy**—privatization with the reform of state-owned enterprises (SOEs) and financial liberalization with the reform of state commercial banks (SCBs) and capital markets;
4. The **modernization of agriculture**—advancing the development, efficiency and preservation of rural areas, reorganizing small farms into larger plantations, modernizing farm equipment;
5. **Improving the efficiency** of resource use, energy, commodities and natural resources like water, and in parallel sustained long-term attention to environmental problems.



The Chinese government recognized that all these reforms could not begin at the same time. It thus started with a minimal social safety net and held back SOE reform so as not to create unnecessary unemployment and anxiety among the Chinese people at a time of stress. The government did however determine the urgent necessity of further reform in the banking sector, inviting financial institutions in Hong Kong as well as others from the Asian region (e.g., Australia) to participate in the process.

To spur the economy and reduce unemployment, the government launched and intensified a series of large-scale infrastructure and construction projects starting in 2011 and continuing for several years. From 2011 to 2017, capital expenditures roughly tripled and were partly financed by government-issued bonds. The target of these large-scale projects was to improve the connections to cities deeper inland where small- and medium-sized manufacturing enterprises could flourish. To further encourage these efforts, preferential tax treatment was made available to all investments in areas inland from the coast.



#### IV. Asian Potential Understood

Slowly but surely, the peaceful and constructive desires of China were better perceived in the region. On the one hand pulled by political will, on the other pushed by practical needs, the understanding of Asia's combined potential spread.

In retrospect, one important contribution was the gradual withdrawal of the United States from the region in response to its continued budgetary over-stretch. This spread the realization that Asia had to take responsibility for maintaining stable relations between countries in the region rather than relying on an outsider to do so.

It was only thanks to the intensive diplomatic efforts of China and other Asian countries that Japan's remilitarization plans were reduced in scale. What was initially a contradictory discussion slowly evolved into constructive dialogue, culminating in the signature of a non-aggression pact between China, ROK and Japan in 2016. This pact formed the foundation of what would later become the Asian Security and Defense Council.



China helped ensure that such practical political moves were strengthened with economic agreements conducted in parallel. It is a source of much pride to the Chinese government and people that they led, through diplomacy and dialogue, the forging of many of these agreements and treaties.

With the guidance of the Chinese government, countries in the region based their negotiations on the “Five Principles of Peaceful Coexistence” developed between China and India back in 1953-54, and added one more. “The Six Principles of Regional Harmony” became the model for most regional alliances. Of course they have evolved over time, but when first formulated they comprised the following:

1. **Mutual respect** for the independence, sovereignty, equality, territorial integrity and national identity of all nations;
2. **The right of every state** to lead its national existence free from external interference, subversion or coercion;
3. **Non-interference** in the internal affairs of one another;
4. **Settlement of differences or disputes** by peaceful means and renunciation of the threat or use of force;
5. **Effective cooperation** among themselves;
6. **Promotion of activities** which benefit the region as a whole.

In addition to this ideological cooperation, relations moved forward on a practical level. In terms of economic integration, the fact that these countries were at different stages of development and specialization turned out to be an asset. Countries gradually adapted their industrial operations and policies so that they established their own competitive advantage within the region. China's trade with the region is shown in figure 3.4 on the next page.

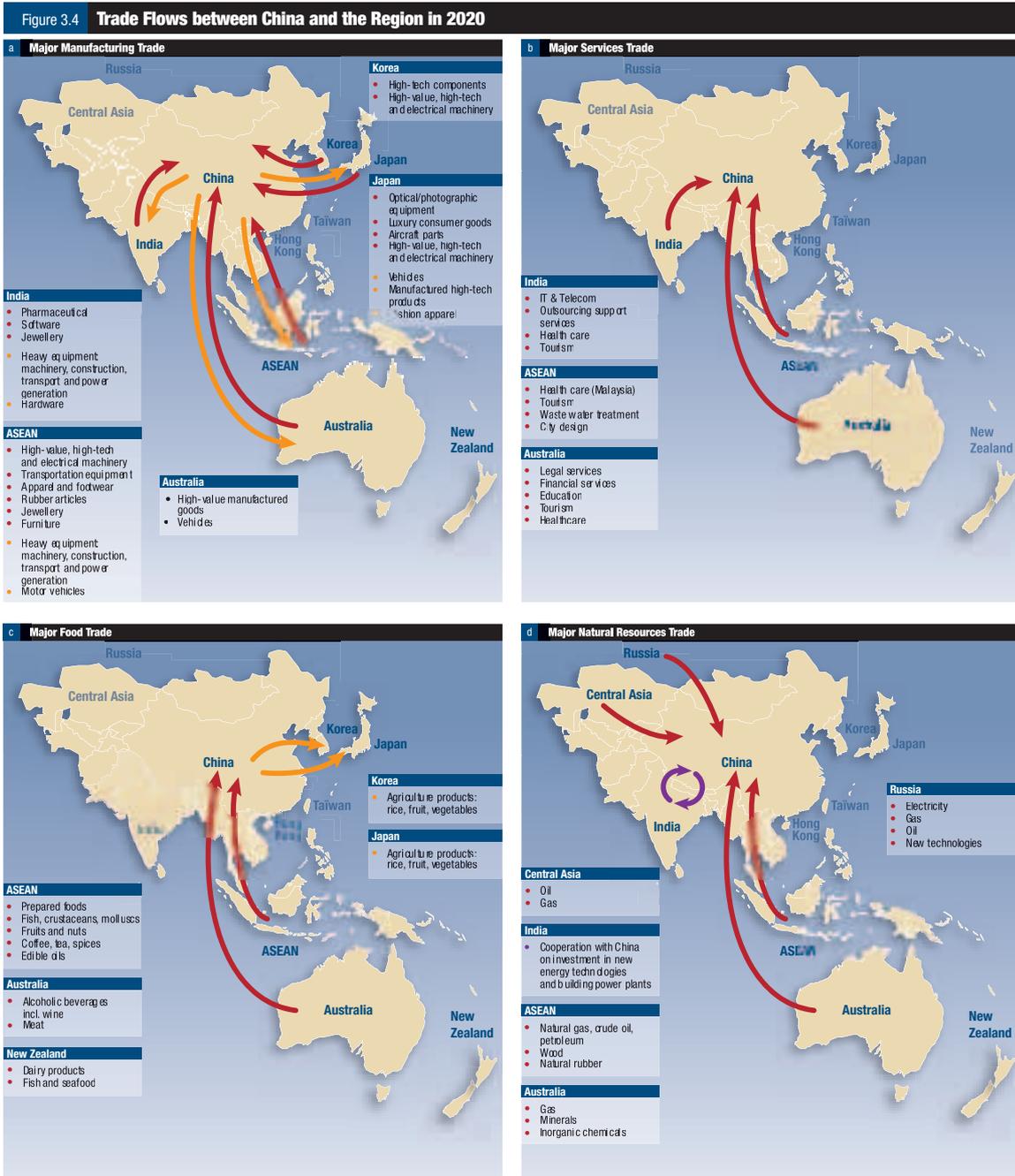
For example, China provided heavy industry equipment to countries at a less advanced stage of development such as Vietnam, Indonesia and Thailand. India in particular was a big market, growing well, undertaking large-scale infrastructure projects and generating a huge demand for heavy industry products, such as machinery, construction products, transport, and power generation equipment. In return, China obtained services and labor-intensive imports from these countries.

At the same time, China could offer more technologically advanced neighbors such as the ROK, Singapore and Japan a useful manufacturing base and a large market for their high-tech products. In turn, China gained production knowledge and access to new technologies and organizational and managerial skills.

The relaxation of agriculture protectionism by Japan and ROK has led to a significant increase of Chinese food exports towards these countries. Chinese food imports from the region have also increased.

Other useful complementarities between Asian countries included demographics and natural resources. For example, ageing populations in Japan and China were balanced by a dynamic young work force in ASEAN member countries and India. In terms of natural resources, Russia, Australia and Central Asian countries were major energy and commodities providers to China.

In addition to working closely with its Asian neighbors, China looked further away for new markets within the constraints of the international environment. The Chinese government sought, with the support of others in Asia, to establish stable trading contacts with Africa, the Middle East and Latin America.





The development of Asian regional policies inspired the Chinese people to find a way through the twists and turns of a difficult period in a relatively harmonious fashion.

### V. Deepening Relations in the Asian Region

The agreement to unify the two parts of the Korean Peninsula in 2017, creating one nation under two sovereignties enjoying tight economic links, was promoted strongly by China and seen by all as a step towards deepening regional relations.

Moreover, as in China, other governments wished to increase the influence of Asia's economic weight in the world and recognized that the creation of common standards would be a good way to achieve this. Hence the importance of the creation of the Asian Economic Region (AER) in 2017, which opened China's growing domestic market to the goods of Asian neighbors as tariff and non-tariff barriers were abolished.<sup>1</sup> As part of the AER agreements several countries, including Japan, dropped their agriculture import restrictions within the region and started sourcing food from neighboring countries.

<sup>1</sup> See box page 22:  
Regional Institutions

China welcomed India's accession to the Asian Economic Region as India brought its advanced areas of information technology software and telephony, science and services, as well as a considerable consumer market. Trade and cross-border investments between India and China continued to increase, reflecting the tremendously attractive dynamic generated by the AER's existence.

The Chinese government was determined to use regional integration as a way of securing energy supply. The creation of joint Asian projects for natural gas liquefaction in the Arabian Gulf cemented a common political interest. This was particularly the case with India, which co-invested with the People's Republic of China in three sites in 2018. Moreover the more advanced territories in the region played an important role in the transfer of technologies and know-how, both in the realm of energy efficiency and for renewable energy sources. The joint anti-piracy missions in the Malacca straits, started in 2018, were an important move towards reinforcing energy and trading security.

In light of the success of the Asian Economic Region, and on the request of the Chinese government, the Asian Monetary Fund was established in 2018. A year later the Asian Free Trade Area (AFTA) was formed to include the members of AER, Australia and New Zealand.

Chinese students have increasingly gone to study in neighboring countries such as Australia, the Philippines and Japan and vice-versa. Regional technological exchanges, along with improved local education and training, have increased the numbers of skilled workers across the region.

During this time, existing regional organizations enjoyed renewed energy and focus. For example, the Shanghai Cooperation Organization, founded back in 2001, became an important forum allowing the Chinese government to convey its views on maintaining a peaceful and cooperative relationship with the countries of Central Asia to other members including Russia.

Fired up by the benefits of regional cooperation, China's growth stabilized at around 7% between 2016 and 2020. This provided the Chinese government with the means to lead the people towards domestic market development and further reform to improve the market economy model.



## “Milestones in the Development of Regional Institutions”

(Extracted from the November 2020 Chinese Government White Paper)

### 2006-2016: ASEAN+3 evolves

- ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar [Burma], Philippines, Singapore, Thailand, Vietnam) plus China, Japan and the Republic of Korea are the original ASEAN+3 group. They focus on trade and economic integration. Members show a strong commitment to pragmatism despite differences in economic and political systems.
- ASEAN +3 expands to include India, becoming ASEAN+4; Indo-China trade and cross-border investments increase significantly. Australia and New Zealand are occasionally invited to attend meetings as well.
- Member countries strengthen their cooperation beyond economic integration. Security, social development and other trans-national issues such as responses to environmental and health problems take a much more prominent place than hitherto had been the case.

### 2017: Asian Economic Region (AER) established

- Convinced of the benefit from improved regional cooperation, China pushes for further integration: the Asian Economic Region is born.
- Members are China, Japan, ROK, India and ASEAN.
- Preferred Trade Partner status is granted to Australia and New Zealand.
- The objectives: sustainable and equitable growth across the region, focusing, among other, on environmental cooperation, access to energy, food sufficiency, and improved education.

### 2018-2020: Three further regional organisations...

Asian Monetary Fund (AMF), established 2018

- Members: all Asian Economic Region member states.
- Objectives: monitoring economic and financial indicators; advice on macroeconomic and financial policy and reforms; lending to assist the member countries experiencing financial difficulties; promoting regional monetary integration and exchange rate stability.

### 2019: Asian Free Trade Area (AFTA) established

- Members: Asian Economic Region as well as Australia and New Zealand.
- Preferred Trade Partners: Russia, Pakistan, Bangladesh and Sri Lanka.
- Special status: Central Asian States as energy suppliers.
- Objective: Free trade in Asia-Pacific.

### 2020: Asian Security and Defence Council established

- Members: all Asian Economic Region member states.
- Objectives: guarantee peace and stability in the region. Facilitates collaboration among member countries on military development and research although no common military force is envisaged.



China thus continued the struggle to improve the situation of the rural population, with the aim of developing its potential both as future workers and as consumers. The Chinese government undertook reforms to:

- Increase productivity in the agriculture sector;
- Upgrade social security programs;
- Improve the quality of daily life in rural areas and for rural migrants in the cities through investment in education and healthcare provisions.

Having ensured greater social stability, China valiantly undertook the further reorganization of SOEs. Recognizing the difficulties involved, and conscious of the social consequences, the reforms came in conjunction with a series of support measures building on those provided in earlier reforms that included vocational training and coaching to help redundant employees find new jobs.

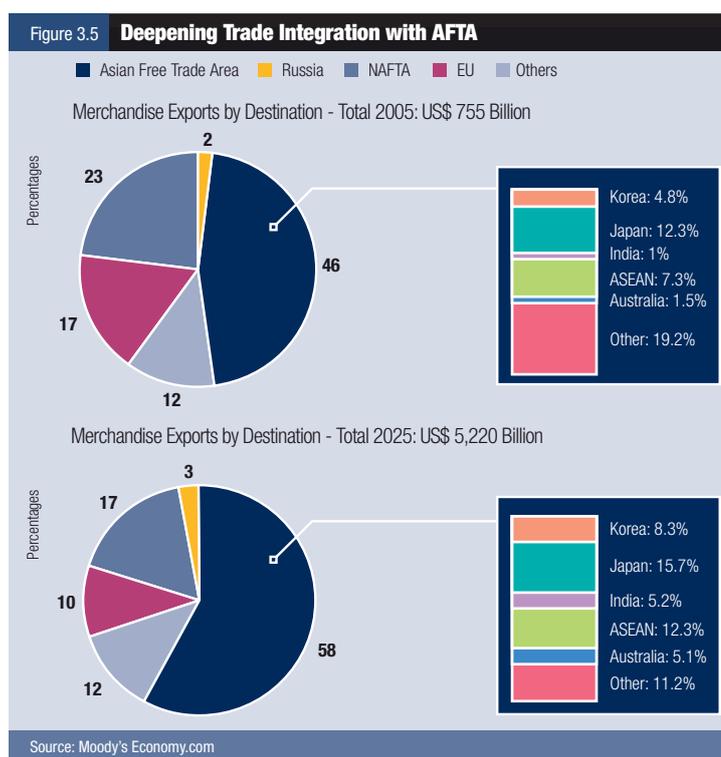
The government's extensive education and training programs and regional technological exchanges helped develop the skills of the Chinese workforce. These developments encouraged further industrial innovation and China's industries moved up the manufacturing scale with more companies creating technologically advanced products.

Alongside these changes, the Chinese government reinforced its existing corporate legal reforms, notably ensuring that minority shareholders (including foreigners) would have the right of redress in case of dispute.

By 2020, it was apparent to all that the Chinese people had a vision of improving not only the future of China, but also Asia as a whole. This vision built on the culture and heritage of the region and its people and was seen, rightly, as a source of pride.

These strides towards working together were driven partly by shared economic interests and partly by security concerns. The mutual confidence-building measures have borne their fruit, and the demarcation of Japan's maritime borders was a particularly welcome step for the government of China, as was the agreement by all interested countries to jointly exploit the energy wealth around the Spratly Islands.

The results of rapprochement became increasingly tangible, reducing tensions in the region. A major step forward was the agreement of a friendly and harmonious reintegration of the province of Taiwan into the People's Republic of China in 2020. In the wake of this, the Asian Security and Defense Council was created.





## Part Three: Consolidating Achievements for the Future: 2021-2025

Over the last five years, the Chinese government has reviewed the results of these domestic and regional policies and started looking to the future.

The achievements of the Chinese government and people are numerous: the nations of the region, from India to Australia, are now moving harmoniously together towards common objectives. Close, cooperative relationships form the basis for how business is conducted in the region. Peace is flourishing.

The Chinese domestic market has significantly developed, providing tremendous opportunities for growth to Chinese and regional companies. In the period 2021 to 2025, private consumption has been a major driver of internal development with growth rates exceeding GDP growth.

Privatization and financial liberalization are well under way. Plans are in hand for legal and judicial reforms. Although the Chinese government recognizes that cases of dishonesty in government exist, it is not causing the kind of shameful obstructions as in the past. China has become the world number two in terms of nominal GDP size, although, in terms of GDP per capita the government is struggling hard for greater improvements.

In the international context these achievements are even more impressive. Regional development in Asia has helped lift millions of people out of poverty. Significant progress has been made on various fronts including the environment through successful regional measures to decrease air pollution.<sup>2</sup>

<sup>2</sup> See box page 25:  
Air pollution

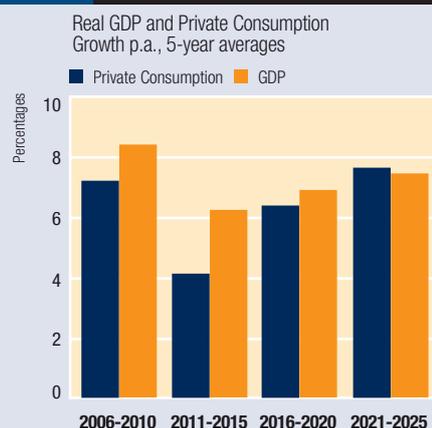
Chinese exports to AFTA have multiplied by nine over the past 20 years, reaching an impressive figure of 3,000 billion dollars in 2025. The more integrated Asian region with its enormous markets and blossoming and varied industries and services is again proving extremely attractive to foreign exporters and investors.

The way ahead may still be long and arduous, but the Chinese government and people will continue to do their utmost to move their country into a well-off society in a harmonious way, thereby helping Asia to progress further.

China recognizes the importance for the countries in the region to continue to work together. For example, as the Chinese population ages and the associated problems increase the Chinese people look forward to receiving young students from other parts of the region. They will be welcomed and well trained in China.

In light of this, and adhering closely to the “Six Principles of Regional Harmony”, China will continue to work closely with its neighbors to further the political, social and economic future of the region.

Figure 3.6 **Private Consumption Fuels Growth**



Source: Moody's Economy.com



## “Air Pollution: Regional Impacts and Solutions”

*(Extracted from the April 2024 Chinese Government White Paper)*

The Chinese government attaches great importance to ecological improvement and environmental protection in the region. Because of the challenges presented by difficult international relations, there have been times when other areas of development have demanded more immediate attention. Nevertheless, over the last 20 years the Chinese government has made tremendous efforts to promote the region’s economic and social growth in a sustainable and ecologically positive fashion.

This paper outlines the great strides China has made in tackling air pollution and its impacts, and the continued focus on this area by leaders and the people of China and the region.

Not only is China’s air quality a significant matter for the Chinese government and people, but it also has a great impact on the countries of the region. For example, back in 2004 China produced approximately half of the acid rain affecting Japan and 40% of the sulfur dioxide affecting the Korean Peninsula. In addition, Japan, the Korean Peninsula and Russia all had experienced severe dust storms emanating from northern China, in particular Inner Mongolia; these dust storms contained pollutants such as lead, magnesium and dioxin from China’s east coast and deposited them abroad.

Within China, the main generators of air pollution have been:

- **Coal burning power stations**—emit toxins such as sulfur dioxide and nitrogen oxides into the atmosphere (90% of sulfur dioxide emissions in China are a result of burning coal);
- **Motor vehicles**—nitrogen oxides released by motor vehicles are the primary source of acid-forming pollutants and are responsible for growing levels of ground-level ozone.

In the past, a number of measures were taken and agreements made to try to reduce air pollution. These were largely in the form of bilateral agreements—between China and Japan, Japan and ROK and China and ROK. Although these agreements were made with good will and strong intentions on both sides, the competing demands of political, economic and social development were often too strong—and they were largely overridden.

Nevertheless, the governments of the region continued to push for cooperation, e.g., the Asia-Pacific Partnership for Clean Development and Climate that was launched back in 2005.

A crucial turning-point came about 12 years ago when the region decided to focus on issues with a direct regional impact rather than global climate change. This agreement has since become the umbrella for innovative achievements in addressing the problem of air pollution. China alone can list the following accomplishments:

- Technological improvements such as coal gasification have been widely implemented across the power industry; responding to the country’s increasing need for energy, China has built an additional 510 TWh of clean coal power plants between 2004-2024 (i.e., seven times the capacity of 2004);
- Toyota has chosen China as the site for its major hybrid car production; the country produces hybrid-powered cars and exports them to the rest of Asia;
- Compared to 2004 when almost two-thirds of China’s cities failed to meet the country’s air quality standards, today only one-third of the cities in China do not meet the air quality standards—despite the fact that they are more stringent.

Moreover, China’s adverse impact on neighboring countries has significantly decreased. For example, acid rain in Japan has been reduced by 25% compared to 2004.

The significant regional environmental successes of the last 12 years are clearly rooted in the remarkable integration that has facilitated unprecedented levels of cooperation and collaboration among the countries in the region. For example, the transfer of groundbreaking technologies has allowed the faster, easier implementation of solutions to a wide range of environmental problems. The region is taking care of itself.



Section

# 4 Unfulfilled Promise





# Scenario

## Section

# 4

## Unfulfilled Promise

### International Affairs: The Online Development Journal

December 2026

#### China's Interesting Times: a review of China's development over the last 20 years

By Marcia Janhai and Ken Limb

#### *"May you live in interesting times"*

This curse is often attributed to the Chinese, although its origins cannot be traced. At first sight it seems benign, even benevolent, but readers will surely agree that it carries a sting—"interesting times" are changeable at best, but at their worst they can signal turmoil, even chaos.

The last 20 years of international relations match this pattern. On the surface, integration between nations has progressed; countries are, for the most part, cooperating. But the basis for this is shifting and unstable. It is a house of cards built on a foundation of sand (pardon the mixed metaphor). How can anyone manage to achieve or maintain a sense of security?

In this context, we aim to expose the lessons learned from China's "unfulfilled promise". As the quarter-century looms, we look back over the last 20 years. In 2005, China seemed set to take on the mantle of a superpower. How and why have those hopes crumbled?

#### 2006-2010

*"Yi fang, jiu luan; yi luan, jiu shou; yi shou, jiu jiao; yi jiao, jiu fang; yi fang, jiu luan."*

This saying dates back to the days of the planned economy in China. It means "Once policy is

relaxed, there is chaos; once there is chaos, policy is tightened; once it is tightened, people complain; once they complain, it is relaxed; once it is relaxed, there is chaos."

An analogy can be made between this cycle—which applied to Chinese policy-making—and the way in which international relations—especially with regard to economic integration—evolved in the years 2006-2010. Having progressively opened borders, many countries were faced with the chaos of competition, which led to domestic job losses, and of illegal trafficking of migrants, terror and drugs. Governments reacted with "tough" measures to protect their borders and reassure their populations. But in doing so, they failed to address the real causes of these problems—which required international cooperation—and annoyed the domestic constituencies which had gained from the opening of borders. As these groups complained, governments looked for ways to open the borders again, thus starting the process all over again.

As the cycle continued, the prevailing attitude increasingly became one of scepticism. Everybody was obsessed by the idea of "security", and the agreements to open borders looked less and less worth the paper they were written on, given the constant backtracking and the need to take "security" into account.

Against this background, the Chinese government continued to pursue an internationally oriented, export-led growth strategy. But despite its eagerness to take its rightful place on the world stage, the Chinese government increasingly struggled.

Simultaneously, to support the changes taking place within the country, it set about implementing a number of much-needed reforms. But the way forward was to prove increasingly rocky.



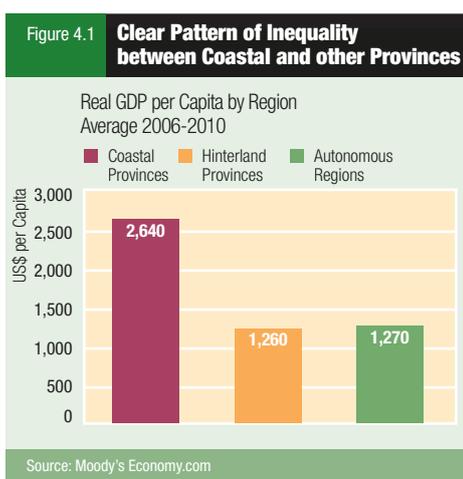
*“We are not one country, but many.”*

One obstructive factor was and still is the sheer size—and complexity—of China. As one government official recently observed after the discovery of another outbreak of bird flu in one of the provinces, “We are not one country, but many—and all with needs...”<sup>3</sup>

From 2006 to 2010 the needs of the “many Chinas” presented the government with a plethora of problems—political, social, economic and environmental—that leached time and resources away from the fulfilment of more comprehensive longer-term reform plans.

The size of China and the complexity of its problems were not a novelty, so why did it create such a significant problem just then? To answer this, we have to realize how problems were gradually building up to reach a threshold. By 2006, despite China’s overall growth, 30% of its 1.3 billion inhabitants were still living in poverty with an income below US\$ 2 a day. Inequality between regions was striking, with per capita GDP at least twice as large in coastal provinces versus the rest of the country.

Pollution and a lack of resource usage efficiency were presenting increasing problems. Two-thirds of China’s 600 cities did not have enough water and, of these, 110 were facing severe shortages. Almost two-thirds of China’s cities failed to meet the country’s air quality standards, making respiratory diseases a major killer. Meanwhile, power and water supply were two of China’s least efficient industrial sub-sectors, with leakages in distribution reaching up to 25%. It was hard to see how China was going to obtain the resources—especially energy and water—to continue to support the growth it needed and the employment for such a sizeable population.



<sup>3</sup> See box pages 30-31: Simulation of an Avian Flu crisis

China’s opening to trade with the rest of the world and the foreign investments that followed without a doubt helped fuel its modernization and development. But the next step really needed to be the growth of its domestic market and private industries. These simple sounding changes needed a complex and careful foundation made up of other crucial reforms, ranging from the provision of social security to the reform of state-owned enterprises (SOEs).

In 2008, Beijing hosted the Olympic Games amid much festivity. Visitors flocked to the cities and commentators continued to discuss China’s amazing boom and meteoric development. Only a few asked awkward questions about the difficulties that might be on the horizon—and even fewer listened. This attitude was not surprising: as investors continued to contribute to China’s growth, it was only natural that they would want to contemplate success.



## **Extract from a transcript of a simulation exercise conducted by the World Pandemic Initiative simulating an Avian Flu crisis in 2009**

### **Actor 1: Reporter:**

2.3 million people have already died since December last year, the majority in Asia. This is more than the Asian Flu in 1957 and the Hong Kong Flu in 1968 together. How could this have happened given the preparation efforts of the international community for this type of pandemic? How is it that we did not see it coming? Everybody is pointing fingers at China, is this fair?

### **Actor 2: Senior Coordinator, World Pandemic Initiative**

The pandemic did indeed start in China. While the country had a national bird flu emergency plan, it has to be pointed out that this plan simply underestimated the level of coordination and joint action that was needed to make it effective. In retrospect, the failure has a lot to do with the particularities of China.

For instance, it is now clear that the virus went through a deadly mutation in the province of Shaanxi, where the reluctance of local officials to slaughter 30 million poultry in the past 12 months led to an extremely virulent spread of the flu in the poultry population. Some farmers had been using vaccines designed for humans on poultry for some time, with the outcome that the virus is much more resistant to the most common medicines and vaccines than originally expected.

Also, as the number of cases started to run into the thousands, it was clear that the large stocks of medicine were taking too long to reach the most critical cities.

Moreover, although big cities and some regions like Beijing, Shanghai and Guangzhou had excellent operational plans, this was not the case for all provinces. And one weak link in the chain was all that was needed. The virus moved from Shaanxi Province to Sichuan Province and once it touched the Yangtze River, it spread to the highly populated coastal areas. Even the most aggressive quarantine measures did not prevent it from moving to neighbouring countries.

### **Actor 1: Reporter:**

As the international community became aware of the outbreak, how is it that so little was done to aid China in stopping the outbreak? The SARS outbreaks back in 2003 showed that international collaboration, especially in the early stages, can prevent a virus from spreading in an uncontrollable way.

### **Actor 2: Senior Coordinator:**

You've mentioned the key word: awareness. Information was made available to the international community at a late stage and China consistently underestimated the scale of the problem. If we think back to the SARS episodes in 2003, information on the virus outbreak was not disseminated



during late 2002 or early 2003. It was only at the end of April 2003 that the Chinese government acknowledged that there were unreported SARS cases. Premier Wen Jiabao ordered all relevant information to be made public and warned governments and health officials of grave sanctions if they did not comply. Both Beijing's deputy mayor and the Chinese health minister were fired as a result of that crisis. Less than two years later similar behaviour was observed: international organizations alerted the world that cooperation with the Chinese government on influenza cases lacked transparency. But these earlier episodes were not anything like the major crisis we have on our hands today.

We believe that the critical first case of human-to-human transmitted avian flu occurred in December 2008. The first cases were quick to become public, but it was not until early March that the government confirmed that the virus was of the human-transmission type, something that was, by then, evident given the scale and speed of infection. To this day, several provinces still claim to be virus free and some others to have successfully eradicated it one day, only to announce a new outbreak a week later.

**Actor 1: Reporter:**

China and a large part of Asia, have suffered significant losses: 18 countries have been touched. In Europe, the avian flu has already started taking its toll and quarantine measures have been in place for three weeks. How far will this go?

**Actor 2: Senior Coordinator:**

Security measures in place worldwide should reduce the spread of the virus, but they will need to be maintained for some time. Hospitals and health providers are working hard to alleviate suffering. We hope that the loss of life will be kept to a minimum, although the death toll is very likely to surpass three million, mainly in Asia.

Moreover, the economic impact will also be severe, given the significant disruption of economic activity resulting from the outbreaks. Other countries will not re-establish normal relationships with China until the virus is no longer actively spreading in the country, and given previous risk underestimations by some Chinese officials, it may take several years to regain the necessary trust. The tensions between countries in their race for vaccines and drugs will not easily be forgotten. People will travel less, foreign products will be avoided, and business will take a long time to rebuild.



### *Fear of “luan”*

In his acclaimed book “Asia’s Destiny”, Asian correspondent and analyst George Yunchang wrote in 2008 about the Chinese cultural fear of luan (chaos). Misunderstood or unknown in the Western world, fear of luan is a crucial aspect of the Chinese mindset—and of Chinese governments. Fear of adverse domestic reactions to reform paralyzes decision-making once the pressure to put on a good show for the world has decreased.

While “luan” played a major role in the mounting problems, at the same time it is not appreciated just how complex the planned reforms were to execute. For every change the government had to confront vested interests, including individuals in key positions of power within the system; hence the machinery of government would not always act appropriately. Indeed, on a technical level it was not always clear what was the right thing to do—measures meant to help one region develop could cause another to overheat.

Take for example the further reform of SOEs. This was fraught with difficulties. Chief among them was the government’s own ambivalence about the privatization process and was rooted in the key question: How far could the state afford to relinquish control? That the government was of two minds was thoroughly understandable—after all, SOEs produced a significant part of government revenue. But what was to be done with the huge number of unemployed people that SOE reform created?

Likewise, consider what happened with China’s banking system. Foreign banks gained further access to China as stipulated in the agreements signed with the World Trade

Organization. This prompted state commercial banks to attempt reorganization.

However, reluctant to create further unemployment and in the face of social unrest, the government continued to subsidize non-performing loans at state commercial banks. Moreover, reform meant taking on those with vested interests who profited strongly from such loans, as well as some local officials who received payment for their involvement. As a result, neither the banking processes nor the way business was conducted improved significantly.

The undue influence of local authorities meant that state enterprises continued to benefit from a big chunk of available capital and resources, while many in Chinese businesses were constrained in their access to capital and had to seek instead alternative financing sources.<sup>4</sup>

Given the better performance of loans granted to private entrepreneurs, banks with foreign partners, and thus with a higher proportion of private loans, performed quite well. This prompted anxiety among the poorly performing state banks—after all they were forced to lend to state-owned industries so how could they possibly perform efficiently? They were particularly frustrated when the government began to demand that they do better while not giving them the means to change.

The Chinese government was also concerned about foreign banks and their “exaggerated success”. In response, subtle regulations were introduced—although nothing that would too blatantly go against international obligations. Instead they used measures that fell outside the scope of legal documents in a way that was reminiscent of the non-tariff barriers that hindered joint ventures in the late 1990s.

<sup>4</sup> See box page 33: Financing private entrepreneurs



**There is a popular saying in China: “Whenever there are policies from the top, the bottom produces counterstrategies” (shangyou zhengce, xiayou duice).**

Back in 2005, self-financing was virtually the only source of finance for private investment since private companies had little or no access to bank loans and other forms of formal finance. Private borrowers received roughly 20 percent of total bank loans, which financed only 10 percent of their investment needs. The state-owned enterprises (SOEs) that held the bulk of the banks’ non-performing loans accounted for the majority of investment credit.

Five years later, not much has changed despite the increased access to China granted to foreign banks, access that many had hoped would help improve matters. In fact, the structural barriers to formal credit have decreased. Some state banks have developed the administrative and technical expertise required for processing individual loan requests.

But state banks continue to be discouraged from extending credit to private businesses. They are pressured to lend to SOEs so that unemployment and instability are minimised. Similarly, centrally and provincially defined policies favour certain industries through so-called policy loans.

This means that the banking system remains institutionally biased toward state lending; persistent interest rate ceilings in China restrain the ability of state banks to structure loans in a commercially viable manner for private borrowers. As a result of this bias, the establishment of sound credit assessment facilities was not a priority and therefore often not undertaken.

The result is that formal credit channels to private businesses remain very limited. At the end of 2010, roughly 25 percent of loans from the entire national banking system are expected to go to the private sector, a slight improvement on the situation in 2005.

In addition, capital markets remain a very limited source of financing on account of the poor performance of China’s stock markets and which provide less than 10 percent of all finance in the country.

Thus it is not surprising that entrepreneurs have created a wide array of non-governmental financing mechanisms and institutions. Private entrepreneurs throughout China have created an intricate system of “back-alley banking” to finance household- and firm-level ventures which do not lead to the creation of effective large private enterprises.

In Wenzhou, a southern coastal district in Zhejiang province, entrepreneurs devised clever ways to circumvent financial regulation. To form a “hang-on household enterprise” (guahu qiye), a small business attaches itself to an SOE by paying to use its name, stationery and account numbers. That allows the owner to evade taxes and obtain state financing.

Other private businesses register as collectives with local committees. These are known as “red-hat” (hong maozi) enterprises, since they wear a collective label to obtain credit and avoid regulation. Ultimately, growth in the informal economy will inevitably be constrained by high transactions costs and other inefficiencies. According to official statistics, this is already happening as private sector growth in China is slowing. Without strong institutions and a rule of law, the private sector in China will surely remain underdeveloped.



As a result, the share of foreign banks in the domestic lending market did not exceed 10% in 2010.

This small brick in the vast edifice of reform that challenged China reflects the range of problems that affected the whole process. We hope it gives our readers an idea of the difficulties and the size of the task confronting China at that time.

*“Distant water will not quench your immediate thirst.”*

We believe that the position of the Chinese government was precisely a result of this complex and challenging situation, which again and again pitted long-term benefits against short-term vested interests and fears of insecurity. Let us try to explain further by offering another example: China’s response to fears of intellectual property rights abuses.

The Trade-Related aspects of Intellectual Property Rights (TRIPS) issued by the World Trade Organization (WTO) demanded that China improve intellectual property protection. Certainly, the Chinese government declared its intention of playing fair in the international game, and parts of the government no doubt meant it. But the long-term gains had to be set against the short-term losses. After all, significant Chinese economic activity was—still is in fact—related to copying and counterfeits. Protecting foreigners inevitably would have meant harming Chinese workers and obstructing the growth of the domestic economy. Hence the “big pushes” announced in 2009 and chiefly comprising national information campaigns as well as putting laws on the books which were not enforced came to nought.

*“Distant water will not put out a fire close at hand.”*

Approaches to environmental reform reveal the same problems. We have already outlined above how China’s air pollution was affecting the health of much of the nation. In addition, it was causing huge problems within the region, in particular in the Korean Peninsula and Japan.

When these countries protested, Chinese leaders appeared to listen, even sympathizing and promising action. But as willing as they seemed, not much happened. Again, we put this down to ambivalence: they did indeed want to take action, but they, or important actors within the system, were unwilling or unable to finance the necessary measures.

Contrast this with the ways in which initiatives related to trade liberalization continued to more or less steadily advance. Certainly there were difficulties— for example trade disputes with the United States, the European Union and other countries around certain manufactured goods—but solutions were found, however imperfect they may have been. On this front, things did move as growth had to continue.

**2011-2020**

*“Loose sand”*

Sun Yatsen famously complained that people in China are like “loose sand”. It’s an interesting image to conjure up as we examine China in these middle years, particularly if we like to think that this loose sand represents the foundation of China’s apparent success during previous periods.

Indeed, China did seem successful. Between 2011 and 2015 economic growth continued, driven by investment and exports.



China continued to build on its international advantage as a reservoir of low-cost labour resources for international manufacturing—even though this reservoir was definitely shrinking.

The government seemed to manage some of the changes needed. Tax advantages for foreign investments in coastal areas were removed as they went against the principle of equal treatment of domestic and foreign investors and these areas were overheating. They were replaced by advantages for projects further inland, for both domestic and foreign investors, in order to reduce pressure on coastal areas and encourage the development of new urbanized zones.

But as discussions continued, decisions were delayed. In this period of rapid transition answers needed immediately were slowed down by internal discussions. The government increasingly found itself in a reactive mode, chasing solutions to problems that had already emerged rather than planning strategies. Many underlying problems ranging from healthcare provision to infrastructure availability were not even seriously tackled.<sup>5</sup>

In the example above, the hoped for development of the hinterland was obstructed by a lack of infrastructure development, notably in the areas of transport and power. Moreover, the persistence of duties and barriers to trade between China's provinces discouraged the movement of investment inland. This encouraged the coastal provinces—which were fearful of seeing investment move inland—to defy the central government and keep the barriers in place.

We see it again in the government's efforts to address the problem of labour mobility. This was not just a question of loosening the household registration system (*hukou*), which was only loosely enforced. Large numbers of

people did move to the coastal areas and big cities. Rather it was a question of providing those moving from the countryside with the certainty that they could sign on for social security in their new home and that they could sell or trade the land they used to have in their old home.

But neither social security nor property rights were easy things to implement, especially as they were the responsibility of the provinces, and the centre would have had to expend considerable political capital to achieve changes. Moreover, any reforms would have had a major impact on the budget. As a result nothing changed and the lack of action led to a growing number of urban poor surviving on the fringes of cities, frequently without proper housing or social security support and with growing feelings of anger and frustration.

Moreover, when reforms were pushed through central government—such as the public procurement rules in 2014—they were at best only partly executed at the local level as the authorities were either distracted by their problems or concentrating on their plans. Inevitably, growth was put as the highest priority—after all, this seemed to everyone to be China's ultimate target. Although other areas were important, nothing was of comparable significance.

In turn, the central government remained reluctant to implement stricter local enforcement, fearing that it might somehow jeopardize political stability or undermine the country's economic growth.

Sun Yatsen's image of loose sand is a good metaphor to describe the loss of social cohesion in China, as it was very hard to hold all the "sand" together. The differences grew—in wealth, resources, and living standards—between the wealthy coastal cities and the hinterland,

<sup>5</sup> See box page 36: Limitations of the Healthcare System



## > “Limitations of the Healthcare System in China”

*In China nowadays, it is better to be an urban resident and in good health...*

In the planned economy period, the Chinese health system made great progress. The central government funded and controlled all hospitals, both in the cities and the countryside. The government invested enormous sums to improve medical treatment, preventive care and public health services. Most of the population's healthcare needs were covered both in urban and rural areas, and China's health system was seen as a model for developing countries.

In the beginning of the 1980s, a major shift took place in China in line with the liberalization movement introduced by Deng Xiaoping: the government applied similar reforms to the healthcare sector by pushing for commercialization and a market-oriented approach in the hope of increasing management efficiency and decreasing costs via competition. In a very short period, the existing healthcare system was dismantled. Funding and responsibilities were delegated to provincial and local authorities, a decision which in practice created an imbalance between rich provinces and poorer ones. Rural cooperative medical systems that were part of the People Community System were abolished, leaving the rural population with virtually no health protection.

As a result, medical service provisions improved in urban areas (in terms of doctors, number of beds, technical equipment, drugs, etc.) compared to the planned economy period, but healthcare coverage, prevention and public health significantly regressed. Today in terms of medical insurance one-quarter of the urban population is covered by the medical security system and only about 10% of the rural population. For the rest of the people, even the most basic health services are not available and must be paid for by out-of-pocket funds that many cannot afford.

In urban areas, the government has rolled out a range of policies, including medical insurance reform and hospital rationalization. A unified medical insurance scheme at the municipal level is being promoted to which employers must contribute. This is increasing coverage and spreading risk. An estimated 100 million people are today covered by the Basic Medical Insurance System for Urban Employees.

Chinese authorities are particularly concerned about the underdeveloped state of the rural healthcare system, which can lead to challenges when dealing with epidemics such as the avian flu. Unlike in urban areas where AIDS and cardiovascular diseases are of concern, rural areas still suffer from diseases associated with unhygienic health conditions. Infectious diseases and endemics, such as tuberculosis and hepatitis—things that were rather controlled in the planned economy—have reappeared.

In rural areas the government is encouraging the development of local cooperative medical schemes providing insurance for members, a system which is not dissimilar to the previous scheme of insurance provision by collectives. The central government allocates a subsidy of 15 RMB per year for each rural resident signed up to the cooperative healthcare system in those areas. Local governments are required to match this sum. The recent reforms are moves in the right direction, but the state should aim for a larger role in the provision of health insurance. In China, the government's share of national health spending is nearly 16%, a low figure when compared with industrialized economies where the government's share is often 70% and above. The resolution of the health issue will be critical in China's growth prospects.

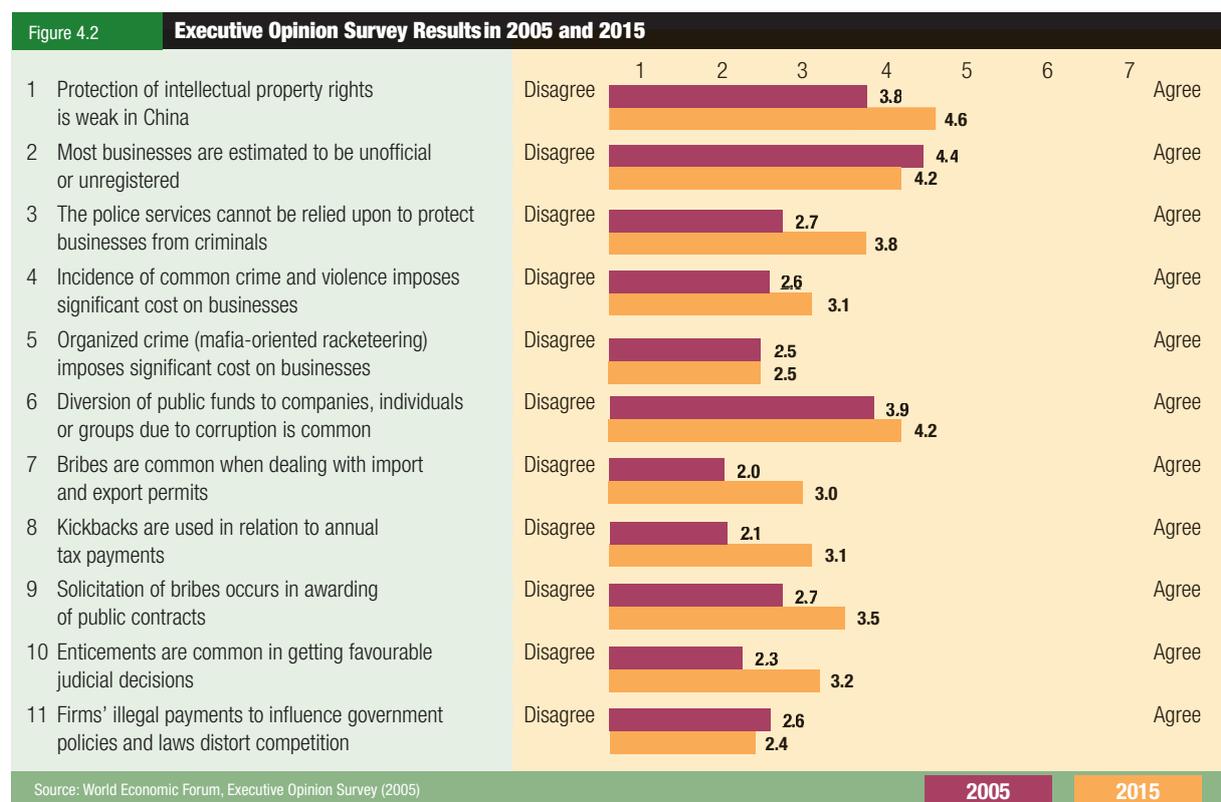


between the growing urban areas and the countryside, between those people whom the economic boom had benefited and those still living in poverty.

From 2015 onwards, the Chinese government announced a reinforced focus on increasing farmers' incomes, improving grain production and promoting rural social stability, for example by introducing tax cuts and subventions in some agricultural provinces.

These reforms worked to a certain extent, but success was limited.

Partly it was just too little since most farmers were facing high costs. At the same time it was hard to guarantee execution at the local level due to corruption and complex administrative bureaucracy. For example, when land was confiscated for government use, the distribution of compensation payments to the deprived farmers was often held up by local authorities.



- The survey sample in 2005 consists of 299 executives representing companies active in various economic sectors (40% Industry, 47% Services and 13% Other) and geographic locations in China.

- "1" means that the respondent strongly disagrees with the statement proposed while "7" means that the respondent strongly agrees with the statement.

- The results presented above are averages across respondents.

- The generally increasing means in 2015 compared to 2005 reflect a worsening of the corruption problem in China as perceived by the business community.



*“An overcrowded chicken farm produces fewer eggs.”*

Meanwhile, land resources were under increasing pressure as development zones and urban infrastructure encroached on farmland. Land expropriation generated flows of rural migrants towards already overcrowded cities. Urbanization is, of course, a natural component of the development process, but the speed at which this was happening in China was extraordinary. Many municipal governments simply found it overwhelming: cities could not develop the infrastructure to sustain their growing populations.

This was particularly true of the new cities mushrooming across China’s interior. Growing unemployment coupled with a variety of shortages, such as insufficient social security provision and inadequate fresh water supplies, fed anger and frustration among the population.<sup>6</sup>

Despite the dreams and ambitions of extensive educational programmes, the reality was different. It was hard to put in place the necessary infrastructure in migrant shanty towns that were now swelling. Even where educational centres existed, they suffered from a lack of qualified staff, meaning that what was offered was poorly adapted to actual needs. Insufficient attention was paid to the development of programmes for retraining the unemployed and manual labourers. A similar gap grew at the management end of the employment spectrum, as China’s shortage of managerial talent remained acute. This partly reflected a continued brain drain as many who studied abroad stayed abroad.

*“Reshape one's foot to try to fit into a new shoe”*

As a result, China’s development over this period was, in effect, quite unmanaged. The talk in official circles had reverted to that of using state enterprises and banks to absorb the unemployed and reduce the dangers posed by the new situation. But in the process, the state sector was sucking up available capital and stifling private initiative. This also prevented the stronger private sector actors from even seeking to expand internationally.

The rest of the world watched China’s increasingly bumpy course with growing anxiety. In the business media, industry leaders who had praised China’s progress only five years before began to describe China’s situation as “discouraging”. The authors note here the conclusion of a piece from that year: “China’s productivity gains over the last 30 years, from trade liberalization, industrialization, agricultural reform and privatization, may have reached their peak. Further growth will need innovation and deeper institutional reforms and these are just not happening.”

By 2019 foreign investment had stalled, partly as outsiders lost confidence and partly as there were few easily accessible places left to invest—a natural result of the prolonged China investment boom.

<sup>6</sup> See box page 39: Access to Water



## > “Special Report on Water Issues in China”

### *Access to water is becoming increasingly difficult in China*

#### The facts

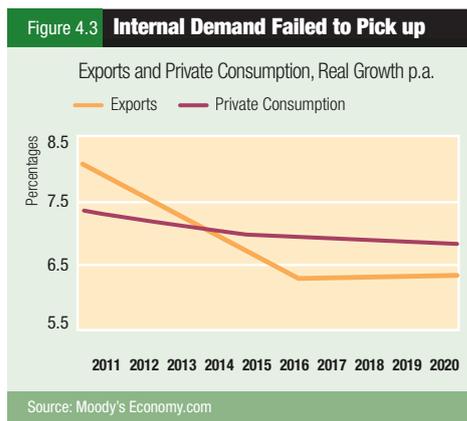
- Demand for water has more or less doubled since the year 2000, reaching roughly 320 billion tons in 2019, with a shortfall of 15%.
- Most demand stems from household and urban consumption, although demand for rural and urban industrial usage is also increasing fast.

#### The problem

- Inefficiency in water use by both rural and urban dwellers stems from the lack of incentives to limit consumption. The price is too low: consumers paid only 40% of its real cost 20 years ago; today they pay about 65%.
- Although Chinese water has become more expensive for the users in the last twenty years, the Chinese government does not dare hike the price further, fearing it may cause social instability.
- Very little investment exists to render the water supply industry more efficient and to lower water loss through pipe leaks (estimated at 20% this year). The bright spot: treated seawater makes up 20% of the water supply in coastal areas and is expected to continue to increase as new treatment facilities are put in place.

#### The consequences

- Lack of water is driving migration as agricultural land loses access to water. By next year, there will be 30 million so called environmental refugees in China, many searching for work in cities.
- The government is diverting more water to meet growing urban area demand: there are now 500 cities in China with more than one million inhabitants. However, the process is slow and shanty towns leave many city dwellers without reliable access to water.
- In the dry season the Yellow River no longer reaches the sea. In order to supply the Sanmenxia and Xiaolangdi reservoirs, as well as the Henan, Shandong and Shanxi provinces, water has to be drawn out, leaving insufficient volume for the river to force a channel. This is an ongoing environmental disaster.
- Tensions are emerging between provinces with water and those without. Plans to divert water in the framework of the South-North Water Diversion Project have been halted, as have projects involving diversion of water from Hubei Province, given heated debates with the local powers.



With exports slackening, the internal market was not ready to act as an alternative growth engine. Instead of improving, private consumption growth was slowly deteriorating over the period 2011-2020.

The critical reforms that would have helped domestic demand develop did not take place, and social security programmes were inadequate to counter the fear of unemployment. Even worse, gender imbalances due to the earlier practice of preferring male children created a substantial group of men who could not even found a family. These factors and others led to new problems, ranging from riots to limited consumer demand.

The cumulative results were that unemployment rose sharply, along with social unrest and criminality. Air and water quality deteriorated; water quality and soil erosion were simply appalling. China continued to acquire the energy it needed through bilateral agreements, but without a longer term view as there were no plans in place to secure technological improvements on coal or renewable energy. In the country, at all levels and in all sectors, corruption continued, hardly restrained.

## 2021-2025

*“A sly rabbit will have three openings to its den.”*

With the economy in a dead end, the richer and better connected provinces on China's coastal strip decided to look for their own way out. Notably they multiplied initiatives for local economic reforms and investment promotion, while imposing ever greater restrictions on migrant labour from the interior. While this was perceived as going against many of the central government's wishes, faced with extensive social unrest, Beijing could not easily challenge popular initiatives taken by provincial leaders.

Moreover, the provinces approached unrest in different ways. For example, in some western provinces where religious and separatist motivations added fuel to the fire, leaders took repressive measures in order to stay in power. In other places, and despite the increased muzzling of national media, local leaders offered increased participation in politics, with Shanghai taking the revolutionary step of establishing a direct mayoral election three years ago.

Nevertheless, thanks to the general mistrust between states at an international level Beijing had a useful lever in its dealings with the richer provinces. Faced with protectionism abroad it made sense to have a single Chinese voice, which held greater bargaining power than any of the richer provinces had on their own.

And there was much to do. Following the slowdown in China, many countries were voicing concern about certain trade behaviour on China's part— for example, claiming that China had excessively lowered export prices and ignored previously agreed quotas so as to maintain output and jobs. While China was unable to persuade the United States



administration of the merits of its case, the fact that many American businesses depended on Chinese production for profits and components did play some role in blocking the Harvey Bill in Congress in 2023, thus saving China from large scale retaliatory measures. It is also possible that the Chinese government's threat to devalue the renminbi versus the US dollar may have played a role. In any case, true to the norm, it was only after tightening had led to pain that relaxation came.

Meanwhile, China increasingly accused the United States of supporting Taiwan and Japan. This tactic was used by the Chinese government to stir up very human nationalistic responses—presumably to keep the Chinese people focussed on a sentiment uniting them—always a useful emotion for a government whose own domestic policies are not popular.

*“The longer the night lasts, the more our dreams will be.”*

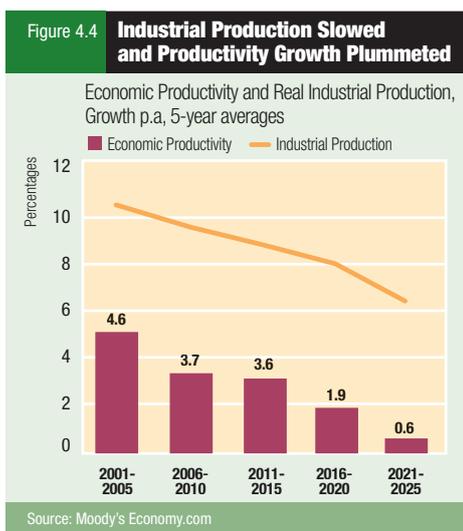
Looking at the situation today, the country's internal divisions are growing fast with the worsening economic situation. Industrial production has clearly slowed over the last five years, and economic productivity has plummeted to less than 1%.

However, it appears that the leadership is determined to buy time in which to rebuild the dream with a new campaign of reforms. This barely reassures international partners who have expressed concern that China's internal fires will spread to ignite serious regional instability.

Moreover, security concerns do not just cover Chinese nationalism: overburdened cities, deprived rural areas without access to adequate education or healthcare and rampant unemployment are leading to illegal emigration,

the growth of international criminal networks and the dangers of a pandemic, as described in the Economist Intelligence Unit in its “Country Survey” for 2024.

When called on to justify its behaviour, Beijing refers to last year's White Paper “Consolidating Progress for the Future” that explained that it had moved too fast. It simply had not found the right balance between centralization and decentralization. It had been unable to outflank the resistance of local interests—and it could not allow this to continue. This may be right: as 2025 approaches, economic growth and job creation in China are slowing and unemployment is increasing. There are clearly indications of worsening internal instability. The question is, has the Chinese government moved in time?





Section

**5**

# New Silk Road





# Scenario

## Section 5

# New Silk Road

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- Introduction
- [Laying the Foundations: 2006-2010](#)
- [Making the Journey: 2011-2020](#)
- [Challenge and Consolidation: 2021-2025](#)
- The “New Silk Road” in Context

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## I. Introduction

The “New Silk Road” describes the flourishing economic and cultural rise of China that has been achieved despite the presence of substantial internal obstacles. It reflects China’s peaceful geopolitical integration and its heavy reliance on foreign trade, investment and ideas.

The foundations of the *New Silk Road* can be found in Deng Xiaoping’s efforts to open China up to the rest of the world and which saw rapid [economic development from 1981 to 2005](#).

### Economic Development from 1981 to 2005

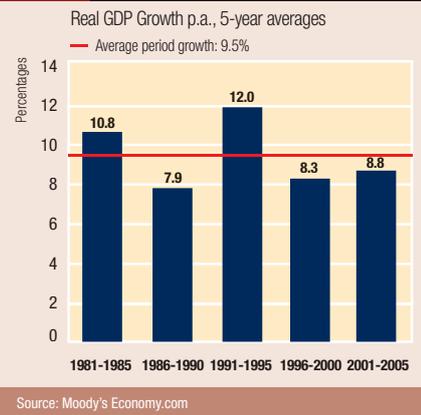
By 2005, China:

- Represented 9.2% of global trade;
- Was the second most sought after destination for foreign direct investment;
- Was the sixth largest country economy in the world in nominal gross domestic product terms.

But in 2005 China had:

- A relatively low per capita income of US\$ 6,300 in purchasing price parity terms;
- Unemployment officially of 4.2% and in reality probably closer to 10%;
- Some 150 million surplus rural workers drifting between villages and cities, many subsisting through part-time, low-paying jobs.

Figure 5.1 Over 25 Years of High Growth in China



While the term *New Silk Road* encompasses an ensemble of factors that have emerged since it was coined in 2006, it hints at the historical role of the [Silk Road](#) of earlier centuries.

### Silk Road

The name “Silk Road” was first used by the nineteenth century German scholar von Richtofen to describe the trade route that developed across central Asia, linking China with the West. Historians usually date the opening of the route to the Chinese Han dynasty, which flourished in the second century Before Common Era (BCE). Zhang Qian, the commander of the guards at the imperial palace gates, was sent on a series of missions across central Asia to form military alliances against the marauding Xiongnu. Over time, diplomatic missions led to trade, spreading beyond central Asia to Rome.

The *Silk Road* was not a single road, nor was it just for transporting silk. Traders took a number of different routes across Central Asia. The Chinese caravans carried furs, ceramics, jade, bronze objects, lacquer and iron, as well as silk. In return, merchants from the West brought gold and other precious metals, ivory, precious stones and glass, rare plants and spices. ...



### Silk Road (continued)

It was not only material goods which moved along this route. The *Silk Road* carried ideas as well, helping to spread new forms of literature, artistic styles and subjects and beliefs. Thousands of manuscripts have been found in grottoes along the routes, written in Sanskrit, Chinese, Tibetan or Uyghur, relating ballads, histories and philosophies. These grottoes are often adorned with frescoes in different styles. Buddhism reached China from India along the routes of the Silk Road probably as early as the second century BCE, during the Han dynasty.

The *Silk Road* continued to flourish under the Mongols, providing their empire with a crucial communications network, but this was its last great era. The spread of Islam, the growing importance of sea trade and the isolationist policies of later Chinese dynasties gradually discouraged overland trade with the West. By the late fifteenth century, the *Silk Road* was falling into disuse.

## II. Laying the Foundations: 2006-2010

In 2006, Chinese academic Jin Zhu published an article entitled “The *New Silk Road* in Europe’s World”. It quickly rose to prominence as it depicted a world in which China became a benign but strong player on the global scene, having undertaken a series of necessary and painful internal reforms.

The article captured the imagination of the Chinese people and media. The latter thus gave the 2007 Government White Paper entitled “China’s Future” the unofficial name of “The Path to the *New Silk Road*”. This White Paper sought to reflect China’s policy orientations for the next two decades. The document was personally introduced by the President and attracted an unusual level of attention as:

1. The domestic barriers to progress were listed comprehensively and in very frank language;
2. China laid out exactly how it intended to engage with the rest of the world, not just economically but geopolitically and in the realm of security;
3. The document started a public process of discussion and consultation on how to mobilize all of China’s resources in the required direction.

The 2007 list of domestic challenges presented by the President included a number of important themes, for instance:

- Institutional—the improvement of central-regional coordination, the reinforcement of the rule of law, and the maintenance of internal stability;
- Economic—reform of state-owned enterprises (SOEs), reorganization of state commercial banks, investment in crucial infrastructure, development of domestic demand and improvement of [access to scarce natural resources](#);
- Social—alleviation of urban unemployment, poverty relief and reduction of the huge and expanding income disparity between rural and urban areas;
- Environmental—air pollution reduction, tackling soil erosion and the steady fall of the water table, especially in the north.

### Access to Scarce Natural Resources

In 2007 worries about potential resources constraints to global growth, and in particular Chinese growth, reached their peak. The increasingly tight markets brought about doomsday prediction of the imminent end of the oil and gas era, and of the inevitable end of metals era soon after. ...



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**Access to Scarce Natural Resources (continued)**

These worries, later proved to be largely unfounded and caused by psychological effects of the market overshooting, had however very strong influence on the political and economic situation at the time.

Prices for certain commodities shot up, partially because of the high energy component in cost, partially because investment in exploration and production failed to anticipate the disruptive increase of demand caused by China's growth.

The short-term reaction of the Chinese government and companies was to secure access to energy and ore mining through acquisition of resource bases in other countries. However, the Chinese Government realized the need for long-term solutions, including improving energy efficiency and recycling as well as developing alternative sources of energy and new technologies in metal production and mining, in particular to extract metals from thin ores.

Externally, China laid out its plans for managing relations both with its neighbours and further afield. It declared a number of basic interests, including:

- Further promotion of economic interdependency, not just for trade in goods and services, but also in commodities and for improved financial flows;
- Greater connectivity of the Chinese people, be it through educational establishments, business or cultural associations with people abroad;
- Increased participation in global and regional security mechanisms, including active participation in UN peace keeping operations and regional confidence-building measures.

It also emphasized the European Union as a “partner with which China must do more” and India as a “partner of the future”. With regard to the United States, it stressed that an excellent trading and investment relationship with the United States was essential for China, listing specific issues of importance such as intellectual property protection and the exchange rate in the economic sphere, and non-proliferation and the war on terror on the security front. The paper served its purpose by provoking a [reaction from international partners](#).

**Reaction from International Partners**

The European Union's (EU) reaction to the government's 2007 White Paper, “China's Future”, was positive and at the 2007 EU-China Joint Commission, a number of new proposals were presented. These included a major expansion of existing EU attempts to leverage public and private investment to finance a “greening” of China's energy needs, and for the expansion of university student and professor exchanges. Newly released documents indicate that for the first time China and the EU engaged in a serious discussion on how to ensure China's access to vital raw materials without it having to prop up undesirable regimes which had such resources.

For the United States, there were concerns that this declaration of China's foreign policy was a “pre-emptive” attempt to place China as one of many “aspirant superpowers” in a “multipolar” world. This caused waves in Washington but was tempered by the economic openings made in Beijing and by the ongoing revaluation of the renminbi against the US dollar.

The White Paper was remarkable in that it explicitly called for a public debate. This was seen at the time as a move by the centre to out-flank continued resistance from regional party barons who had their own agendas and who were increasingly flexing their muscles. By appealing directly to its base, the central government was able to circumvent certain pockets of resistance in the system.



Of course, the parameters of the debate were controlled by the Communist Party of China as the exercise was mainly an intra-party affair involving its own cadres: indeed it was presented as being a part of the continued party “rejuvenation” package. However, representatives from outside business, elected village chiefs, intellectuals, the media, the military and others were given a place in the consultation, often by means of working groups. This debate was remarkable because it gave space for social malcontents to let off steam in a constructive way, feeding their input into the debates. All working groups, and those reporting on them in the media, were required to present only their [recommendations for change](#). By focusing attention only on constructive changes, and having already provided an extensive critique itself, the government was able to ensure that it did not lose face in the exercise.

#### Recommendations for Change

In 2007 numerous lists of recommendations were circulating. By a gradual and transparent process of comparison and compilation, a single list was established. It was clear that many common themes had emerged, some more obvious, some more controversial. For instance:

- Continued economic growth to maintain social stability;
- Promotion of foreign investment to boost capital levels, technology access and management skills;
- Promotion of private enterprises;
- Removal of trade barriers between provinces;
- Measures to promote more investment in the inland provinces;
- Reduction of subsidies to, as well as privatization of, SOEs;
- Further opening of the domestic financial and educational markets to foreigners;
- Twinning of Chinese and foreign towns/regions including exchange of personnel;
- Linking the promotion of party cadres to the fulfilling of green targets, not just economic growth targets;
- Establishing mechanisms for immediate reporting of misgovernment and abuse of power, especially on the local level, to independent investigators.

The so-called *New Silk Road* resolution adopted by the National People’s Congress in December 2008 included many of the recommendations from the consultative process. Perhaps more significantly, people from all tendencies, the provinces and the centre, voted in common. By appealing “over the heads” of those blocking reform, the centre won its gamble and managed to develop a relative consensus on the changes needed. The debates that remained were more over the sequencing than the fundamental measures, and this did not stop the government from pushing its “[Measures for Harmonious Growth](#)”.

#### Measures for Harmonious Growth

Examples of initiatives undertaken in this 2008-2010 package, updating the existing five-year blueprint, include:

- **Reform of the banking system:** the China Banking Regulatory Commission was given increased powers to crack down on banks using non-commercial criteria. This progressively decreased the numbers of non-performing loans, and encouraged non-state commercial banks. Following the listing of the four major banks (Bank of China, Industrial and Commercial Bank, Agricultural Bank of China, and China Construction Bank) on the Stock Exchange of Hong Kong (SEHK), their performance continued to improve, and the international expansion of Bank of China with its purchase of two European banks was seen as a mark of approval of China’s gradual move towards financial health. ...



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## Note

<sup>1</sup> See box page 49: Shanghai World Expo

## Measures for Harmonious Growth (continued)

- **Reform of SOEs:** privatization efforts were increasingly pursued at the national and regional levels in various sectors to promote efficiency and provide Chinese firms with the means to succeed globally.
- **The “Inland Provinces Initiative”:** recognizing that investment in buildings, farms and infrastructure was hindered by the absence of clear property rights, the central government pushed the provinces to establish efficient land registries. The first three provinces to complete the task and provide publicly available documents were granted large subsidies, while provinces who did not meet the deadlines had to pay fines.
- **Rural development:** the government emphasized the need to improve agricultural efficiency and raise rural incomes, for example by creating larger plantations and investing in equipment. It opened the door for local initiatives to set up education and healthcare support in rural areas.
- **China and energy provision:** it implemented long-desired measures to improve efficiency and decrease environmental damage, even though this entailed direct financial costs.

The “WTO Ministerial Conference” of 2010 reflected the growing significance of China. Taking place at the same time as the World Expo in Shanghai, which was proving to be a tremendous cultural showpiece for China, the WTO announced the start of a new trade round to be called the “Shanghai Round”.<sup>1</sup>

Although officially not linked to this new trade round, China announced shortly afterwards a further revaluation of the renminbi against other major currencies.

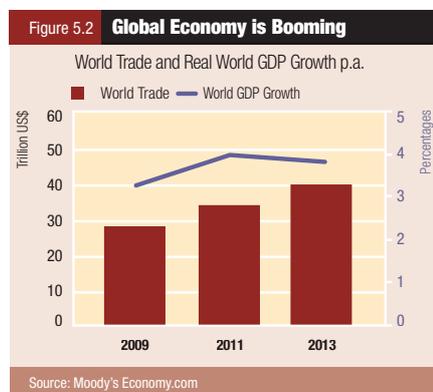
### III. Making the Journey: 2011-2020

As the second decade of the new millennium opened there was a hearty appetite for political and economic cooperation. Trade between countries continued to increase with fewer restrictions on flows of goods, ideas and capital between countries.

A virtuous circle was developing: increased international integration delivered material and cultural benefits, allowing people, businesses and governments to form closer relationships. People felt connected to the less well-off parts of the globe and their willingness to support troubled areas increased. This improved trust, which meant greater preparedness to integrate.

This is not to say that everything went smoothly. Rather, there were the occasional political spats, but these had little influence on trading and investment relationships.

As an example, consider China’s relationship with the United States. The presence of a new president in the White House, who emphasized global democracy and human rights, irritated the Chinese regime. Washington confirmed that it would





By Allen Watson - Shanghai

# Better City, Better Life

*China Shows Off Its Success at Shanghai World Expo 2010*

**Today marks the 20th day of the remarkable 183 day Shanghai World Expo, the world's largest and longest-running exhibition.**

The logo of the Shanghai World Expo 2010 is a combination of the Chinese character "world" and the figure "2010", and most people will see in the symbols an image of China's (three!) genie(s) being let out of the bottle.

The theme, Better City, Better Life, is also of great significance, for on show here are revolutionary new ways of living. As academic research increasingly confirms, the way we have built our cities, with vast sprawling suburbs and some urban monstrosities of concrete, has fed the increased alienation of their inhabitants. It becomes hard to establish any sense of community when there is no focal point, no village square or corner café in which to meet other locals. Moreover, environmental protection becomes an abstract theme when the only greenery to be seen is the odd road-side tree or private gardens to which only the owners have access.

The Expo explores new designs bringing together working, living and commercial spaces, for both new builds and existing cities. Moreover, it has a wide range of environmental features on show ranging

from roof-top gardens and natural internal lighting by means of fiber optic cables for rooms that have no windows to looped water systems that allow the same water to be reused a number of times before being sent to processing stations.

The entire Expo itself is also a model of what it wants to promote. The temperature is regulated by an air conditioning system network powered by alternative energies. Cars with hybrid motors transport goods and people throughout the Expo site. Bicycles are provided for free on special racks. In this way, Shanghai is positioning itself as the "eco-city" of the future.

The Expo itself has also been a "super engine" for the city's economy, generating direct investments of US\$ 3 billion and indirect investments of up to US\$ 30 billion. It also highlights how Shanghai is becoming a powerhouse in fiber optic telecom networks, digital cable television transmissions, multimedia applications for conferences, e-commerce, online government services and automatic personal identification.

For these reasons and many others that participants can discover onsite, the Expo is well worth attending! ■



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maintain its presence in Japan, South Korea and Taiwan. Tensions peaked when in 2011 Washington publicly demanded that China end its links with “rogue states”, publishing extensive dossiers linking senior Chinese officials with corrupt practices in “countries at risk of collapse”, and commenting acidly that China was in breach of her own principles by acting in this way.

While the Chinese leadership initially stated that links to many of the countries listed were necessary for energy security, it became obvious that behind the scenes things were moving. Within a matter of weeks, some of the officials identified in the dossiers were reported as having resigned from their posts and news of a reinforced “Cleanliness and Responsibility Campaign” emerged. In retrospect, it appears that this was used to remove individuals from office on other grounds, but the campaign was much more effective than similar campaigns in the past, as the domestic press published extensive dossiers on individual cases.

China’s subsequent announcement of a China-led initiative within the International Energy Association (IEA), received lots of international attention. China suggested that the [International Energy Cooperation Programme](#) (IECP) would be the best platform for working globally to reduce energy dependency. This initiative proved successful, focusing attention on the causes of China’s insecurity and away from the “rogue states” issue. Most of the developed and emerging countries joined the IECP.

#### International Energy Cooperation Programme

China was fortunate that energy prices remained at around the same level in real terms (despite peaks) in the decade up to 2014, reflecting the coming on line of new supply sources in Africa and improved security in the Middle East. It was, however, already widely recognized that this situation could change rapidly and that the environmental damage resulting from energy use could be considerable.

Hence, the birth of the International Energy Cooperation Programme (IECP), whose charter was officially signed in 2013, building on similar previous initiatives. It has proven to be an effective way of reducing energy intensity. The IECP was designed to develop and share existing technologies for energy generation, transmission and end-user efficiency.

Building on this global momentum, the Chinese government announced in 2014 the [Energy and Environment Initiative](#), which set out to “reinforce the development of the *New Silk Road* by emphasizing the country’s efficiency in energy use and level of environmental protection”.

#### Energy and Environment Initiative

With this initiative, China built on developments of the last decade to:

- Reduce inefficiencies in electricity distribution;
- Work on improving fuel efficiency for road vehicles;
- Encourage public-private partnerships and foreign technology transfers to promote and fund new environmentally friendly technologies.

Alongside questions of energy, the Chinese government recognized the need to act much more vigorously to reduce pollution, not least as environmental problems were visibly hindering economic activity and affecting the health of the population. Indeed pollution-related protests, even riots, were multiplying. In addition, neighbouring countries were becoming increasingly voluble about the effects of China’s attitude towards pollution. ...



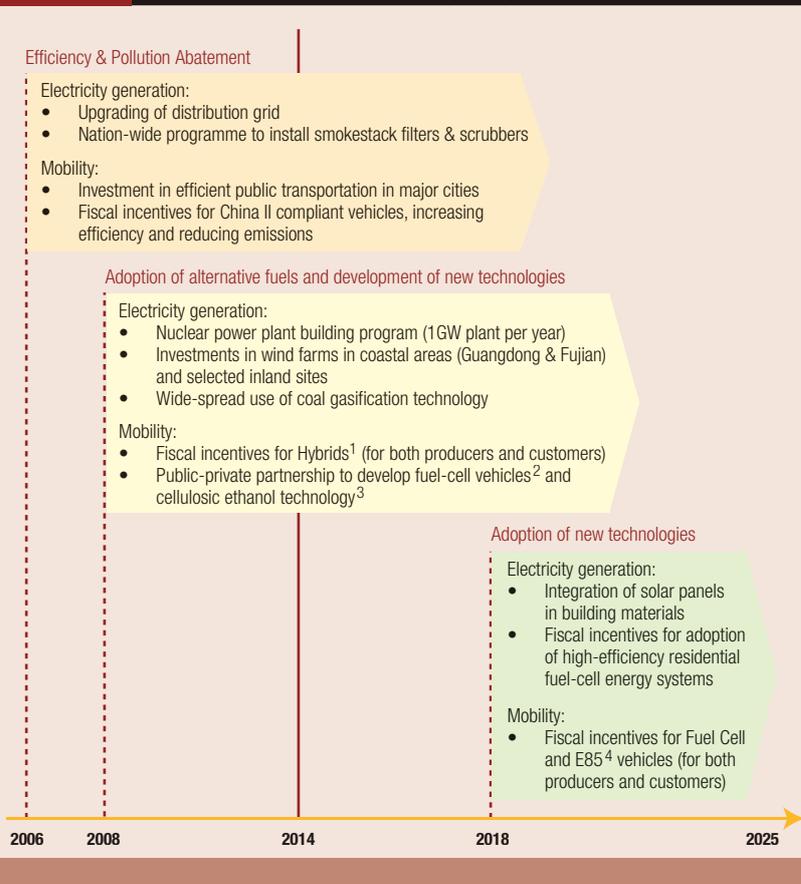
**Energy and Environment Initiative (continued)**

The Chinese government set in motion a number of individual measures, recognising that China:

- Could not ignore its massive coal reserves (the third largest in the world), but it started to use them more carefully, notably introducing carbon sequestration technologies for new power plants and installing better smokestack filters and scrubbers on existing coal-fired power plants;
- Began a nationwide insistence on the use of hybrid engine technology in automobiles;
- Extended the funding for existing improvement projects in biomass technology;
- Encouraged local officials to find the best solution for local needs and conditions;
- Hosted the first of the historic “Future of Energy” summits in Beijing, where it showcased its successes in the development and use of biofuels.

As competition for energy continued and oil and natural gas prices rose, international attention moved to improving renewable technology solutions.

Figure 5.3 **The Chinese Government’s Three-Step Energy Roadmap**



<sup>1</sup> Hybrid cars use a traditional gasoline or diesel powered engine in combination with a battery powered electric engine.

<sup>2</sup> Fuel cells are electro-chemical cells in which the energy of the chemical reaction between liquid hydrogen and liquid oxygen is converted into electricity.

<sup>3</sup> Cellulosic ethanol technology is an emerging technology where the ethanol is generated from agricultural waste.

<sup>4</sup> E85 is a blend of 15% traditional gasoline and 85% ethanol.



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The problem of improving energy efficiency and resources was just one of the challenges that the Chinese government tackled over the years 2011-2020.

For instance, after years of gathering pressure, it became obvious in 2016 that China needed to make more provisions for social security, especially for pensioners whose numbers were growing considerably and often depended on their single child for income support. As township elections returned more and more candidates who had campaigned on a pro-social security platform, the President announced an urgent review, which involved both intra-party consultation and wider public consultation using deliberative polling techniques. In the latter, individuals selected at random throughout the country were exposed to expert input on the options and asked to indicate their preferences. This built on the previous experiments such as the consultative process of 2008, and was termed the “Chinese approach to harmonious popular participation”. Independent observers noted that this was a clever way for the centre to persuade the regions to follow its designs, anchoring the outcome in “popular” consent.

The redistribution of wealth within society was becoming a priority given rising social disruption risks as the poor and displaced were increasingly confronted with the wealth gap. The challenge was tackled by the Chinese government over several years and with mounting success.

In addition to ongoing social security initiatives, the government continued to expand its educational reforms. The sector had already benefited from overseas links with an increasing flow of ideas and individuals. The 2017 Educational Grants Scheme meant that more students from all backgrounds were gaining access to full-time education and the possibilities of higher qualifications. This increased the numbers of people with crucial skills able to man China’s indigenous businesses and lead the country’s industries towards success.

Over time, the nature and content of these education programmes became more flexible and more relevant. A wider range of subjects such as political and social sciences, liberal arts and the law were put on offer. For more specific business training, partnerships developed between local educational institutions and foreign companies, while vocational training programmes were started in rural and urban areas to train workers with few skills.

The impact on the business environment was encouraging: the numbers of small- and medium-sized, efficient Chinese companies springing up in the new hinterland cities grew. Encouraged by tax breaks that were put in place to develop these zones, they were able to tap into funds more easily thanks to the financial reforms. Credit increasingly accrued to the most promising and efficient Chinese companies, with fewer bad loans created and less dependence on foreign investment. The US also posed no obstacles in the path of Chinese companies expanding into its market.

The growth of these privately owned enterprises supported increasing domestic demand. The critical social reforms, especially around healthcare, provided much of the Chinese population with a greater sense of security. The result, in economic terms, was a lower savings’ rate and increased consumption and spending. It meant that when, around 2018, China’s share in world exports more or less stabilized, internal demand had already reached such a level that it kicked in as an alternative engine firing the country’s growth.



With the privatization process well underway, the need for corporate legal reform became increasingly apparent. This was just the latest in over ten years' worth of legal reforms, but the 2019 reforms are to be singled out as the tipping point that decisively transformed China's judicial system and legal environment, markedly reducing the residual room for corruption and making contracts the norm in business and government. This had an impact on the [protection of intellectual property rights](#).

#### Protection of Intellectual Property Rights

The Chinese government is paying markedly more attention to intellectual property rights as the century progresses. The introduction in 2020 of standards comparable to those in the European Union and United States can be attributed to two factors:

- Closer integration between China and the West, allowing for the effective implementation of the TRIPS agreement (Trade-Related Aspects of Intellectual Property Rights) as part of World Trade Organization articles;
- China's advances in domestic innovation and related increases in patent registrations.

With regard to the latter, R&D is still flourishing in China, with the government heavily funding research institutes. This is a sign that educational reforms are paying off.

In tackling intellectual property issues, the Chinese government successfully eliminated one of the few major issues of contention that still remained with Washington. The latter increasingly reconciled itself to the rise of China, in part due to lobbying by its own companies with investments there, and partly due to China's willingness to work with Washington on important matters such as non-proliferation of nuclear weapons.

Although the list of successes of the Chinese people and their leaders over this period is considerable, the process of putting these reforms in motion was far from easy. To keep China on the path of change it needed a leadership with a clear vision and great determination prepared to make the difficult decisions.

## IV. Challenge and Consolidation: 2021-2025

As the events of 2021 demonstrated, continued economic success was bringing its own problems with it. A major issue that came to a head in this year was centre-regional relations. How much the authority of Beijing counted in the various provinces had long been a question. While Chinese presidents had been rebuffed on a number of occasions before, the [Crisis of 2021](#) was one of the biggest in its scale and significance.

#### Crisis of 2021

In 2021, the insubordination of certain provinces started to become a significant problem for the central Chinese administration. Several of the richer and more successful provinces had, for a while, been complaining about having to subsidize their poorer counterparts, protesting that this was seriously holding back their own development, and rightly noting that those poor regions were sources of corruption and many social problems.

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**Crisis of 2021 (continued)**

Events came to a head when it was revealed that the three top officials in a poor hinterland province had embezzled almost 15% of the transfers sent from Beijing over a five-year period. The leaders of the eight richest provinces, responding in part to street demonstrations, dug in their heels and demanded a sharp decrease in the fiscal transfers to poorer regions and for greater autonomy in setting their own agendas.

The central government responded swiftly, arresting the three top officials as well as the leaders of the eight richest provinces who led the rebellion and charging them with corruption. The whole episode made first page coverage in the world press and created much agitation in China.

Interestingly, not all of the reports were critical: a number of commentators pointed out how, although they did not condone the treatment of the local officials who rebelled, they could understand the motivations of those in the central government and admire their resolve. At the same time, the President found an interesting way to head off both provincial insubordination and popular feeling. To reinforce the centre's authority over the regions, the President put into place a new method of direct consultative participation on major policy issues building on the “Chinese approach to harmonious political participation”. This further extended the possibility of non-party member consultation on new policies, most notably to express their support or opposition.

In response to the crisis, the Chinese government has pushed forward its many reform programmes across all social, economic and environmental areas. In addition, encouraged by the country's new leadership, there is clearly a growing appetite for political freedom within China. Controls on media of all kinds have been diminishing; individual rights and civil liberties are increasingly a subject of open discussion. The separation of the judiciary, legislative and executive branches is also openly discussed.

The positive long-term impacts of previous reforms are reinforcing each other. Improvements in education have fuelled innovation; research institutes and R&D centres are multiplying; China now trains world-class scientists, managers, innovators; the number of Chinese-registered patents is growing significantly. As the domestic value of intellectual property increases, regulations concerning intellectual property rights within China increase and are more rigorously enforced. This encourages the deepening involvement of foreign and domestic companies.

Strong international research networks have developed, including private/public partnerships to help fund fundamental research and relationships between industry R&D and research institutes. This has helped prompt the development of a more sophisticated service industry with growth rates jumping to an average 12.6% in the period 2016 to 2025 from an average 9.4% in the previous 10 year period.

Looking forward, Chinese industry can now offer more value-added technology, positioning itself higher up the manufacturing supply chain. Meanwhile, Chinese multinationals have multiplied and are providing serious international competition.

It is clear that China is on its way to achieving balanced development without relinquishing her astounding growth, generating strong domestic demand and continuing to export successfully. China is a “trade partner of choice” and the confirmed growth engine of the region. A buoyant world economy has both supported and been further fuelled by this success, and China is playing an increasingly active role on the world stage and in international organizations.



Chinese leaders recognize that there is still plenty to do. Average incomes remain below those of developed countries. Employment, resources and pollution are all ongoing areas of concern. Problems related to the ageing population need to be addressed. It may be that last year's relaxation of the one-child policy in some provinces may help, or it may be that this will only create population problems for future governments. The Taiwan issue, which has remained unchanged for years, still awaits a more permanent solution.

## V. The "New Silk Road" in Context

The term *New Silk Road* is not only intended to bring to mind the current thriving trade between the East and the West. It is meant to suggest China's renewed stature. When the first *Silk Road* was flourishing, there was little to match the colossal Chinese empire or compete with its achievements. Now China has taken its place in the world community as an equal.

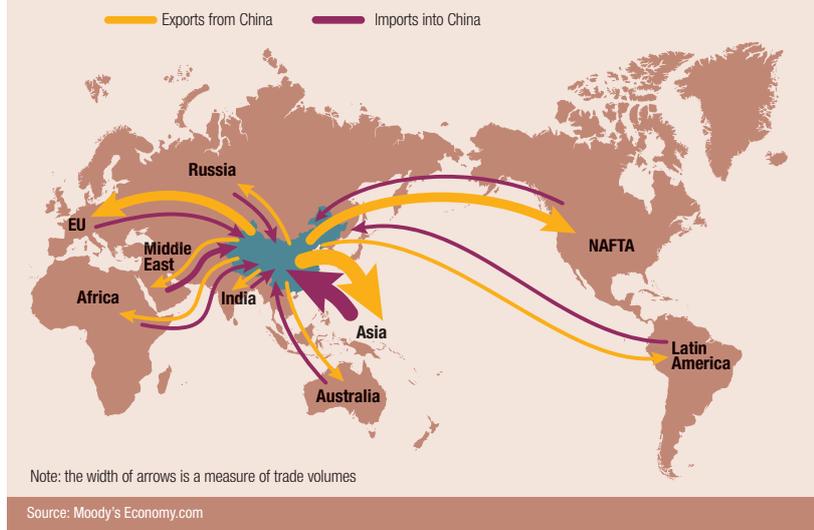
China has captured the attention of many poorer parts of the globe with "all things Chinese". The Chinese model has been widely adopted to represent a whole new way of approaching things, from government policy, to fashion (Chinese designers on the catwalks of haute couture), to film making (Chinese winners of Oscars), to bringing up children.



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Figure 5.5 2025: Trade Flows between China and the World



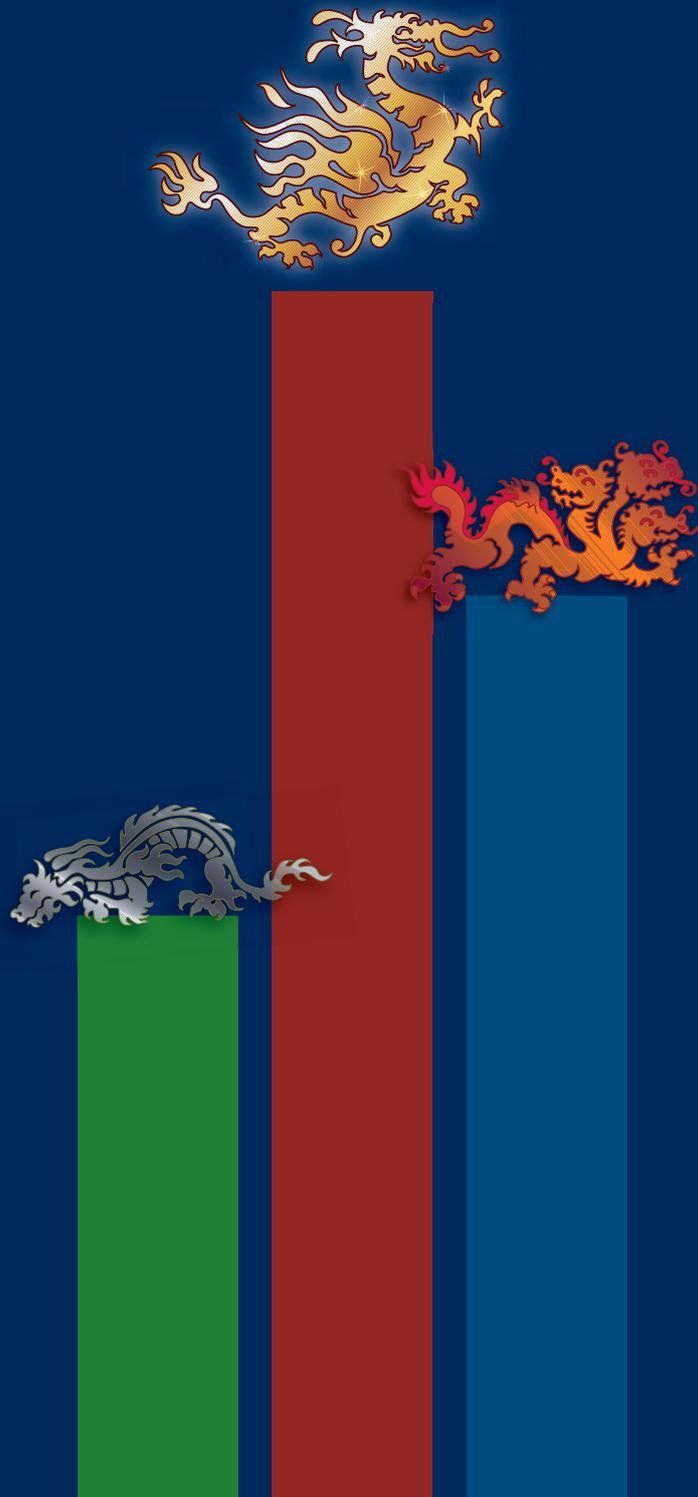
The Chinese model is characterized by a political leadership providing vision and direction complemented by “harmonious popular participation”, deliberate attention to internal redistributive mechanisms both between individuals and regions, and emphasis on a cultural vision that is open to the world. For many countries, the Chinese model is seen as an alternative to that offered by the United States.

In turn, the Chinese people are increasingly showing “global characteristics”: they have a strong sense of their national identity, culture, heritage and history, while remaining open to the world, and playing a role in and sharing responsibility for shaping international events. The remaining question is how they will exercise this new found global citizenship.

Section

# 6

## Comparing the Three Scenarios



## Section

## 6

## 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**

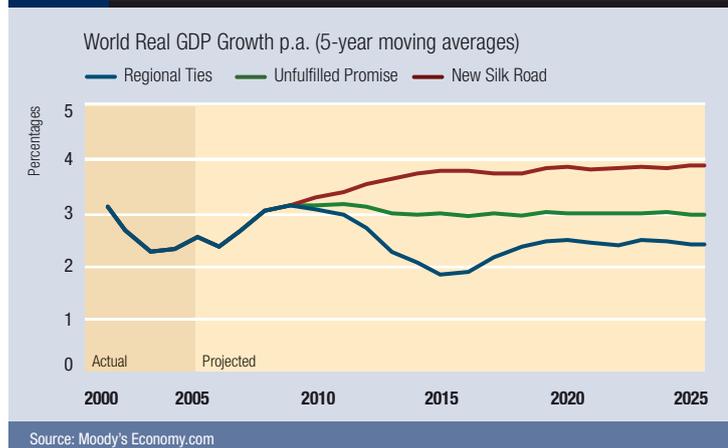
### Using the data

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

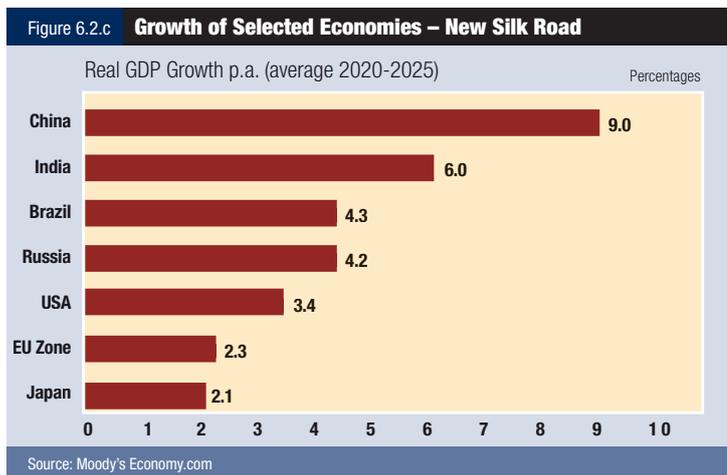
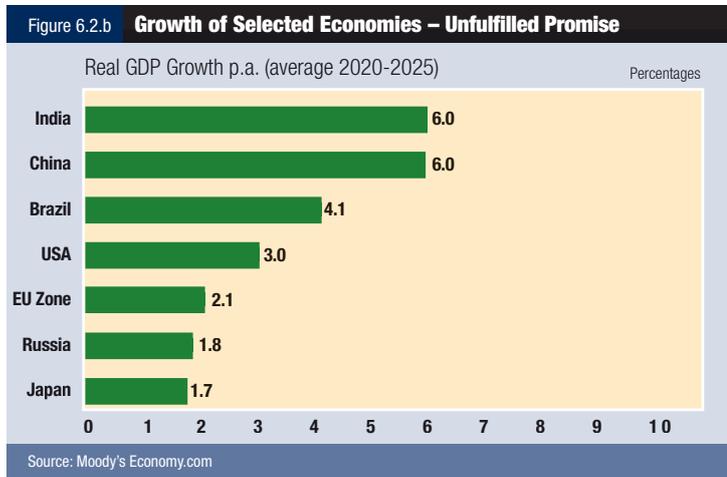
In *New Silk Road*, the global economy benefits from increasing globalization and trade in a harmonious global environment and reaches growth rates of up to 4%. In contrast, in *Regional Ties*, lack of trust undermines international cooperation and trade integration stalls leading to a global recession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

Figure 6.1 World Growth



## 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.



### 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.



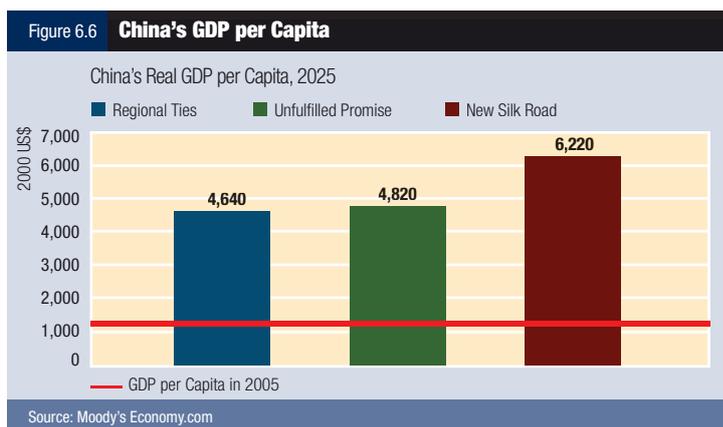
## 5. China's GDP growth

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.



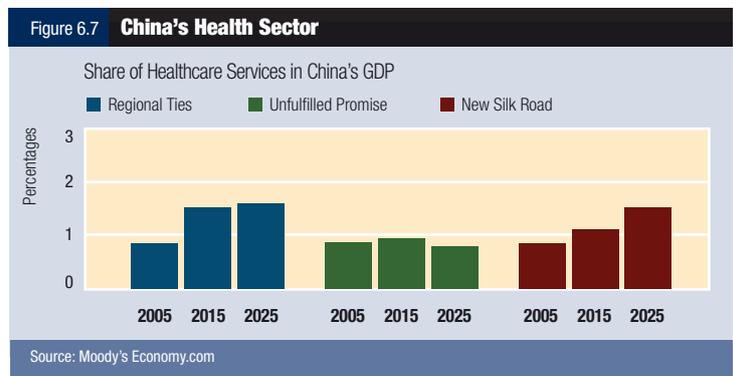
## 6. China's GDP per capita

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.



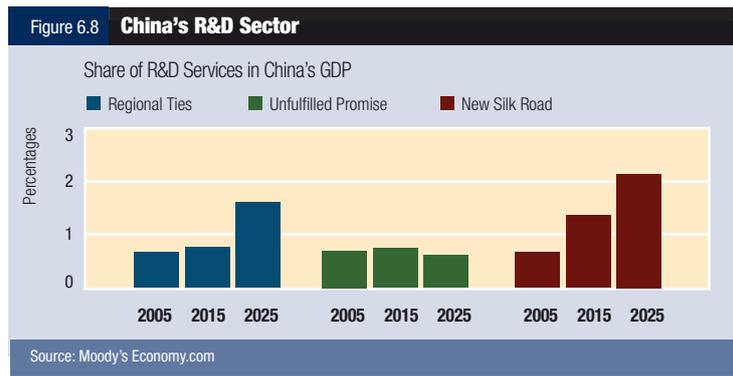
### 7. Development of China's health sector

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.



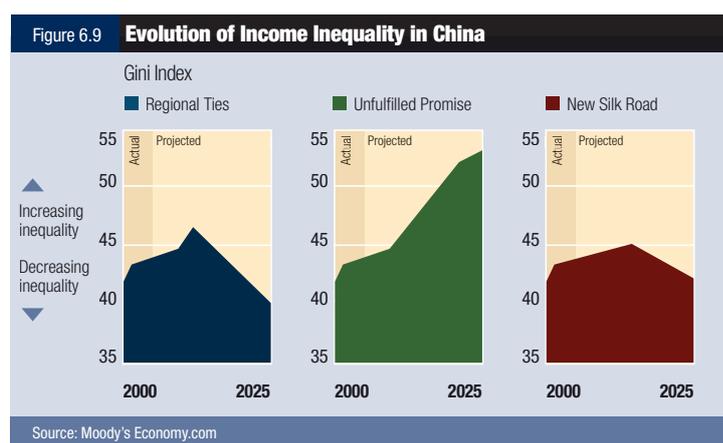
### 8. Development of R&D in China

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

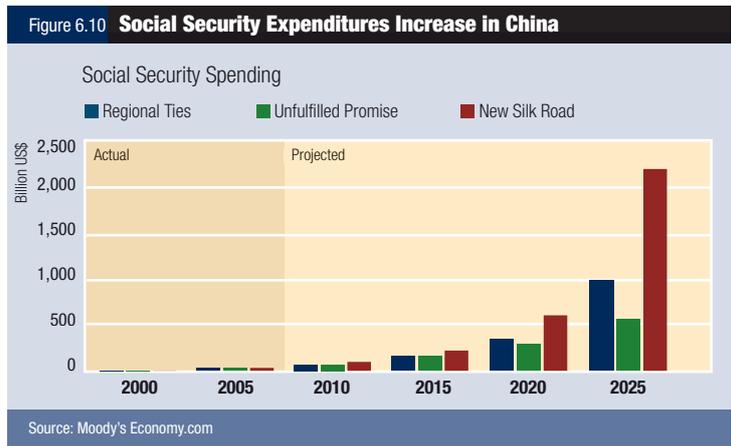
The central government's efforts to reduce inequalities and develop internal demand pay off in **Regional Ties** and **New Silk Road**. In **Regional Ties**, inequality is lower in 2025 compared to 2000 while in **New Silk Road**, the increasing inequality trend observed in the first half of the scenario 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.



Note: Gini index is a measure of dispersion in the income distribution of a population. The index ranges from 0 to 100 where 0 reflects a situation where all individuals have the same income (no inequality) while higher values reflect increasing inequality.

### 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.



Section

7

Conclusion



## Section

## 7

## Conclusion

Given the importance of China today, there can be no doubt that the determination of Chinese leadership to maintain the course of reform will be a decisive factor in the global future. It is equally true that the support of other global players and their preparedness to welcome China in its gradual rise in greatness will have a direct impact on how China emerges. Given the close connection between China and global welfare, these scenarios indicate that outsiders must appreciate the scale of the challenges faced by the government in Beijing, and that those in China need to comprehend the sensitivities of outsiders to its rise.

Raising awareness of differing sensitivities is an important role that scenarios can play. The aim is certainly not to pretend that the scenarios predict the future. One cannot expect any of these scenarios to come true as they stand. Rather the scenarios use available knowledge to sketch the boundaries of the plausible. In so doing, they can help the reader better understand what could happen and how single headlines in the media may reflect more fundamental changes.

Wild cards are low probability events which would have a significant impact if they were to occur. In the case of China they could include:

- **A possible Taiwan conflict:**

How would China react if Taiwan were to declare independence? For many years independence was not an issue as the Kuomintang rulers of Taiwan claimed they were the real government of China and had no interest in relinquishing their claim on sovereignty. But independence has become an issue with the rise of generations born and raised on the island. They have successfully established democratic rule and some do not want to be subject to rule from a distant capital. The implications of any conflict with Taiwan would depend in part on the reaction of the United States.

- **Natural catastrophe:**

What happens if Beijing is hit by a major earthquake? China is located in one of the most active seismic regions of the world and has in the last 30 years been shaken by numerous earthquakes killing at least 750,000 people. There will no doubt be earthquakes in China in the next twenty years but the likelihood of one that disrupts Beijing's ability to function is low. If a severe earthquake were to lead to a temporary power vacuum, or the ensuing damage were not properly cleared up, it could be a source of major instability.

These are just two of many possible wild cards.

Others could include:

- **Health crises and epidemics**, aggravated by the breakdown of the rural health system;
- **Financial crises and bank failures**, aggravated by insufficient transparency and political pressures on those lending money;
- **Mass social unrest** where largely separate demonstrations meld into a single mass protest.

Each of these could have a major impact if they occurred, at least opening new possible futures or ruling out others.

Having read the scenarios, it is possible to ask after each one: "If this world were to come about, what would it mean for me?" By living the future in advance, it is possible for governments, businesses and non-governmental organizations to build robust strategies and policies that would work in all scenarios. Indeed, it is even possible to develop an early warning system on the basis of the scenarios to give advance notice if a trend becomes perceptible, thus gaining a competitive edge.

It is our hope that the scenarios will stimulate an engaged discussion. Making explicit a number of issues may in itself cause change for good.

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- James Chen, Arrow Electronics China Ltd
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  - Thomas E. Schodorf, BMC Software
  - Prof. Hellmut Schutte, INSEAD – Asia Campus
  - Gary Shainberg, British Telecom Plc
  - Prof. Jonathan Story, INSEAD – Europe Campus
  - Cheng-Yaw Sun, Hewlett-Packard
  - Prof. Lijian Sun, Fudan University
  - Gyan Patrick Tamby, GeoPost International Management & Development Holding GmbH
  - Simon S. Tay, Singapore Institute of International Affairs
  - Vineet Toshniwal, Infosys Technologies Ltd
  - Sreedhar Venkiteswaran, Wipro Technologies
  - Prof. Georg von Krogh, University of St Gallen
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  - Prof. Juwei Zhang, Chinese Academy of Social Sciences
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