

CHINA IN 2027

— PRELIMINARY STUDY FOR CONSIDERING BUSINESS IN CHINA UNDER XI JINPING'S LONG ADMINISTRATION —

Hideaki Kishida

China & East Asia Dept., Global Economic & Political Studies Div.
Mitsui & Co. Global Strategic Studies Institute

SUMMARY

- The Xi Jinping administration in China, now in its third term, has laid the foundation to become a super-long-term administration. At the same time, however, it is in a tight spot due to worsening mid-to-long-term economic growth prospects resulting from COVID-19 pandemic aftereffects in addition to a range of other factors.
- This report looks at political, economic, social, and technological trends in China up to 2027, the final year of his third term. Despite numerous challenges and risks, China's overall national strength will continue to rise, backed by surging middle-class and urban populations, progress in digital transformation and technological developments, as well as due to the nation's diplomatic efforts. Japanese companies will also continue to expand and diversify their business opportunities in China.
- If readers use this report as a guide when looking ahead to China in 2027 and value seizing business opportunities over avoiding risks, then they must be both bold and calm in their involvement with China, based on the five perspectives described in the summary.

CONFIDENCE AND A SENSE OF IMPENDING CRISIS

1-1. An outlook of worsening growth

The Xi Jinping administration entered its third term in October 2022. His term as general secretary of the Chinese Communist Party (CCP)—and thus de facto president of China—ends in 2027, but with no successor in sight, the administration could develop into a super-long-term administration. In his 2023 New Year's address, President Xi praised China today as a country where dreams become reality, specifically citing the success of the Beijing Olympic and Paralympic Winter Games and the launch of the aircraft carrier Fujian. Then, commenting on the China of tomorrow, he stated that hard work will produce miracles, that unity will produce strength, and that the youth are a source of hope. In addition to confidence in the country's growing strength, his speech also revealed a sense of crisis, as he pointed out that the people—especially the youth—need to put forth more concerted efforts.

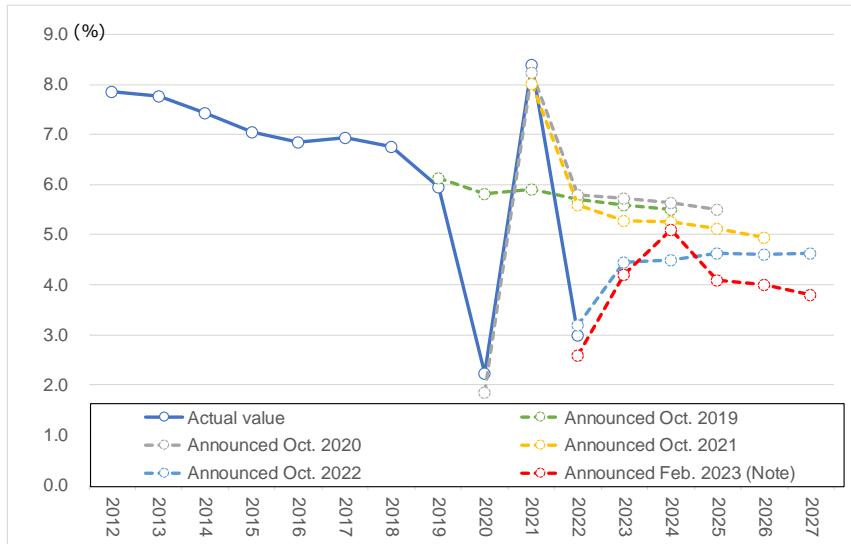
One reason for the sense of crisis is the country's worsening mid-to-long-term growth prospects. Recently, some have begun predicting that the US-China reversal in GDP will no longer occur.¹ It is also becoming

¹This refers to the latest long-term forecast released by the Japan Center for Economic Research in December 2022 ("China's GDP will not surpass that of the US"). The report states that China's nominal GDP exceeding that of the US by 2035 is not the standard scenario (conservative forecast). It further states that China's slow growth will likely continue beyond 2036, and that China is not projected to ever surpass the US. However, this forecast was based on the assumption that the zero-COVID policy will continue until 2024, so this forecast may be subject to revisions in the future.

https://www.jcer.or.jp/jcer_download_log.php?f=eyJwb3N0X2lkIjo5OTUxNSwiZmlsZV9wb3N0X2lkIjoOTk1MjUifQ==&post_id=99515&file_post_id=99525

increasingly uncertain whether the target of doubling the GDP by 2035 set by President Xi in November 2020 will be attainable. An average annual growth rate of 4.8% would be required, but the IMF's most recent forecast shows a lower curve than this (Figure 1).

Figure 1. China's actual GDP growth rate and changes in IMF-projected values



Source: Compiled by MGSSI based on IMF data

Note: The February 2022 forecast is based on the February 3 release of "IMF Executive Board Concludes 2022 Article IV Consultation with the People's Republic of China. China" released on February 3. Other estimates are from various versions of the World Economic Outlook Database.

The downgrading of the forecast is due to (1) socioeconomic factors (declining birthrate and rising debt), (2) policy factors (real estate financing restrictions and the zero-COVID policy), and (3) external factors (e.g., US-China friction). Mitigating these factors will require implementing bold policies while taking a long-term, broad-perspective approach, which will not be easy. On the other hand, one could say that if anyone is capable of achieving this, it is Xi Jinping due to his firmer grip on power and the fact that he is no longer limited by terms of office.² What kind of country will China become under Xi Jinping's third term?

²Some Chinese intellectuals are urging the Xi Jinping administration to take action. For example, Liu Yuanchun, an economist and president of the Shanghai University of Finance and Economics, wrote in an editorial published in the January 2023 issue of *Caixin* magazine that, while there have been many good reform plans in the past, they were hindered by interest groups as a result of trying to progress slowly and were thus fruitless. He argued that now is the time to break through the bottleneck of incremental reforms and achieve real reform.

1-2. The aim of this report

The purpose of this report is to provide Japanese companies that are considering future business in China with guidance by looking at the changes that China will undergo between now and 2027. This report avoids extreme scenarios, such as war between the US and China, and examines key scenarios from political, economic, social, and technological perspectives. Please refer to the timeline in Figure 2 as needed.

Figure 2. Major events and economic, social, and industry-related developments that China will undergo during Xi Jinping's third term

Year	Event	Notes
2022	•20th National Congress of the Communist Party of China (October)	General Secretary Xi Jinping is elected to remain in office and his third term begins.
	•Completion and operation of the Tiangong space station (December)	
	•China becomes a high-income country	China's GDP per capita in 2022 was \$12,741. According to the latest criteria set by the World Bank, a country with a GDP per capita over \$12,695 is defined as a high-income country.
	•The number of university graduates exceeds 10 million for the first time (10.76 million)	11.58 million students are expected to graduate in 2023. The number of graduates will also remain above 10 million for the foreseeable future.
	•Overall population begins to decline	The population was 1.411 billion at the end of 2022. According to UN estimates, China will be overtaken by India in 2023, becoming the world's second largest country.
	•The share of new energy vehicles (NEVs) in new car sales reaches 25.5%	6.87 million NEVs will have been sold (roughly 80% of which are EVs). The government will achieve its target of "roughly 20% by 2025" ahead of schedule.
2023	•Premier Li Keqiang retires and the Li Qiang cabinet is inaugurated (March)	
	•Commercial flights by domestically produced C919 passenger jet airliners begin	Manufactured by Commercial Aircraft Corporation of China, Ltd (COMAC). The first airliner was delivered to China Eastern Airlines in December 2022.
	•China overtakes Japan as the world's largest exporter of automobiles	China's 2022 automobile exports totaled 3,111,000 units (up 54.4% from the previous year), while Japan's totaled 3,813,000 units (down 0.1% from the previous year).
	•The population aged 65 and over exceeds 15% of the total population	China became an aging society (defined as over 14% of the population aged 65 and over) in 2021 at 14.2%.
2024	•China commissions Fujian, its third aircraft carrier	Launched in June 2022. China's third aircraft carrier, following Liaoning and Shandong. Fujian is the first to be equipped with a catapult.
	•Launch and operation of the space telescope Xuntian	Possible launch in 2023. Capable of docking with the Tiangong space station.
	•US presidential election and Taiwan presidential election	
2025	•Middle class population reaches 582 million	From a report released by the State Information Center in December 2021. There are two scenarios, and this figure is based on a rate of 5% average GDP growth from 2021 to 2025. The middle-class population in 2020 was 492 million.
	•Coal use volume peaks out	Projections by the Chinese Industrial Technology Research Institute as of 2022. However, the importance of coal is being reevaluated from the viewpoint of stable energy supply following power shortage issues in 2021, and the peak-out period may be postponed.
	•The proportion of non-fossil energy within primary energy consumption reaches roughly 20%	The target under the 14th five-year modern energy system plan. 16.6% as of 2021.
	•China's national emissions trading scheme (ETS) expands to cover eight industries	The ETS launched in July 2021, aimed at power producers. In 2025, it will expand to cover the steel, building materials, petrochemical, chemical, nonferrous metal, paper, and aviation industries.
	•The Russia-China natural gas pipeline, Power of Siberia, extends to Shanghai	
	•5G accounts for 56% of China's mobile telecommunications connections, surpassing 4G	Projection by the China Academy of Information and Communications Technology (CAICT). 30.3% as of 2022.
	•China achieves production of smart cars capable of "conditional driving automation" to a certain scale	Target stated in the smart car innovation development strategy released in 2020. This refers to Level 3 (conditionally automated driving).
	•The number of fuel cell vehicles (FCVs) reaches 50,000	Target stated in the medium- and long-term plan for the development of the hydrogen energy industry (2021-2035) released in March 2022. The number of vehicles was 8,939 as of 2022.
	•China becomes a world-leading manufacturing power	Target stated in Made in China 2025, an initiative released in 2015. It says that by 2025 China will form international companies and industrial clusters with relatively strong international competitiveness to significantly raise our position in value chains and the international industrial division of labor.
2026	•The 15th Five-Year Plan (2026-2030) launches	
	•The number of high-net-worth individuals (HNWIs) with net financial assets exceeding \$1 million reaches 12.2 million	Projection by Credit Suisse. Nearly double the 2021 figure (6.2 million).
2027	•The 100th anniversary of the founding of the People's Liberation Army (August)	In preparation for this important milestone, the People's Liberation Army is rushing to strengthen its ability to respond to "intelligent warfare" using AI and big data.
	•21st National Congress of the Communist Party of China	General Secretary Xi Jinping's fourth term?
	•China's GDP per capita reaches \$15,700	Projection by Liu Yuanchun, president of the Shanghai University of Finance and Economics (from an editorial published in the January 2023 issue of <i>Caixin</i> magazine).
	•China's GDP exceeds 80% of that of the U.S.	Projection by the EIU (as of February 2023). From 72.0% in 2022, the percentage will rise as far as to 80.8% in 2027.
	•Number of diabetics in China reaches 156 million	From a Topsy Security analyst report released in June 2022. Roughly 140 million patients in 2022, the highest in the world.
	•Domestic renewable energy capacity increases by 1,070 GW from 2022 to 2027	From the IEA report <i>Renewables 2022</i> , released in December 2022. This accounts for 44.5% of the total global increase (2,400 GW) over the same period. 90% of the 1,070 GW is from wind and solar power generation.
	•CO ₂ emissions peak out	Projections by the Chinese Industrial Technology Research Institute as of 2022.

Source: Compiled by MGSSI from various sources (see notes)

CONTINUOUS RISE IN NATIONAL POWER

2-1. Politics and diplomacy

The Xi Jinping administration will continue to focus on policies such as common prosperity, dual circulation, self-reliance, and construction of ecological civilization to ensure the security and development of both the Party and the nation³ (Figure 3). Although the administration adheres to the principle of upholding the absolute

Figure 3. Main policy issues leading up to 2027 as indicated by General Secretary Xi Jinping in His Report to the National Congress of the CPC (October 2022)

Missions and tasks of the CCP within the new era and new course			
The central tasks of the CCP moving forward are to unite and guide all nationalities and peoples across the nation to comprehensively construct a modernized socialist state, to achieve the goal of entering the second 100 years (with the 100th anniversary of the founding of the country in 2049), and to promote a great revival of the Chinese nation through Chinese-style modernization.			
Main policy issues			
Policy issues	Aims, related visions and policies	Commentary	
Toward the construction of a strong, modernized, socialist state	Accelerate the construction of a new development model and focus on promoting high-quality development	To break away from an unsustainable growth model that relies on inefficient investments. The strategy of domestic-international dual circulation, development into a manufacturing powerhouse, the digitization of China, the construction of an ecological civilization , etc.	State-owned enterprise reforms as well as land and capital market reforms are key. Policy adjustments by the Xi Jinping administration, which has been tightening its grip on the market, particularly in regard to private tech companies, will also be a focus of attention.
	Implement the strategy of developing into a prosperous nation through science and education, and enhance and modernize support for human resource development	To hasten the development of human resources in the fields of science and technology in order to break away from reliance on the West for key technologies and products. The principle of self-reliance, development into a human resources powerhouse , etc.	This will become a high-priority initiative for the Xi Jinping administration as US-China high-tech decoupling progresses and developed Western countries become increasingly wary of technology leakage to China.
	Implement people's democracy in all processes and ensure that the people are the masters of the nation	Although China is gradually moving away from democracy in the Western sense of the word, it is presenting itself both domestically and abroad as a country where, in principle, sovereignty lies with the people.	Although democratic reforms in terms of systems and procedures will not take place, the administration will be sensitive to evaluations of itself and its policies from the general public and the market as it seeks to solidify its long-term power.
	Adhere to rule by law in all matters and ensure that China is governed by the rule of law	To strengthen social order and improve administrative efficiency based on laws. In essence, this refers to governance using laws rather than the Western-style 'rule of law.'	While there are advantages such as a certain degree of rules transparency and a reduction in the humanistic nature of administrative procedures (where decisions are made at the whim of those in charge), there is also a risk that free economic activity and the daily lives of the people will be hampered by arbitrary application of laws in the name of the 'rule of law.'
	Raise confidence in culture, engage in improvement, and achieve new glory for socialist culture	To promote ethnic nationalism. The great revival of the ethnic nation, development into a socialist, cultural powerhouse , etc.	There is also the risk that heightened nationalism will lead to social intolerance in which diverse values are not accepted or that it will encourage the administration to harden its stance toward the outside world.
	Promote public welfare and improve people's quality of life	Appeal to citizens from the low-income bracket to the middle class by emphasizing the importance of public welfare. Common prosperity, a healthy China, dynamic zero-COVID , etc.	Attention is on how the principle of common prosperity will be incorporated into specific policies. And who will bear the cost of these reforms? Reforms to the tax system, such as real estate taxes, as well as in the government sector, including state-owned enterprises, will be key.
	Promote green development and harmonious coexistence between people and nature	To steadily promote the shift toward a sustainable development model while presenting an emphasis on the environment both domestically and abroad. The construction of an ecological civilization, a beautiful China, carbon neutrality by 2060 , etc.	Energy conservation, decarbonization, and other long-term goals will remain unchanged, although adjustments will be made as needed based on the current economic situation and the status of energy supply and demand.
	Modernize the national security system and its capabilities to resolutely safeguard national security and social stability	To strengthen the ability to respond to risks that threaten the CCP's ideology as well as to security in various other areas, such as food, energy, and supply chains. A holistic view of national security, the principle of self-reliance , etc.	The administration will intensify efforts to improve related systems and strengthen Party leadership. Foreign invested enterprises will face an increased risk of exclusion from government procurement, but in some cases, contributing to overcoming China's national security challenges (including various social and economic issues) will also provide business opportunities.
	Achieve the goal of 100 years of military development and usher in a new era of modernization for national defense and armed forces	To expand and secure maritime interests, and to improve the ability to achieve the unification of Taiwan. The construction of a strong military, military-civilian fusion , and other policies.	The administration will seek to expand its military capabilities by increasing military spending even if growth slows. It will prepare for intelligent warfare making use of AI and other cutting-edge technologies, and strengthen landing and transportation capabilities in anticipation of an armed unification of Taiwan.
	Maintain and improve the One Country, Two Systems framework and promote reunification of the nation	To maintain the One Country, Two Systems framework in terms of economic and financial system autonomy, without permitting Hong Kong to have political freedom. Governance of Hong Kong (Macao) by patriots, comprehensive strategy for the new era to resolve the Taiwan situation , and other policies.	The administration will continue to emphasize Hong Kong's position as an international financial center. It will not be possible to exercise military force against Taiwan for the foreseeable future, and the administration will continue the use of hybrid warfare, including military threats and cognitive warfare, while monitoring the statuses of Taiwan and the US.
	Promote world peace and development and build a community with a shared future for mankind	To promote China's image as a builder of peace and development. New-style international relations, the One Belt, One Road Initiative , etc.	As adverse conditions continue to mount, including deteriorating relations with Western countries over human rights and security issues and deteriorating finances in emerging and developing countries, China's main partners in the Belt and Road Initiative, Xi Jinping will continue to seek to improve his own international influence and stabilize the international environment while adjusting his strategy accordingly.
	Adhere to comprehensive and rigorous Party rule, and develop and promote the new great project of Party-building for the new era	To enhance the momentum of Xi Jinping's leadership and the Communist Party by strengthening Party discipline.	Through Xi Jinping's anti-corruption campaign (≠ power struggle) implemented over his ten years in office, he has made some progress in suppressing opposition and improving discipline within the party, but he will seek to further tighten up to maintain his momentum.

Source: Compiled by MGSSI based on reports to the National Congress

³The policy of common prosperity aims to reduce disparity through distribution policies and other means; dual circulation (domestic and international dual circulation with the domestic economic cycle playing a leading role) is to boost economic activity by facilitating the movement and trade of production factors such as people, capital, and land; self-reliance is to promote domestic production of key technologies and products; and the construction of an ecological civilization is to create a sustainable development model through initiatives such as decarbonization and recycling.

leadership of the Party, it will make some adjustments to emphasize dialog and the market, in response to certain critics pointing out that authoritarian leadership instead undermines the autonomy of local governments, gives rise to a philosophy of not rocking the boat, and undermines market vitality.

Although the risk of Xi Jinping becoming a dictator continues to rise, he needs public support to maintain momentum, so he is unlikely to dictate extreme policies that the majority would consider irrational. The zero-COVID policy was abruptly terminated at the end of 2022, and although the timing confused those in Chinese society, Xi Jinping and other senior officials are still seen having made a rational decision based on a comprehensive evaluation of the information, including dissatisfaction with the policy among citizens and companies, its negative impact on the economy and financial affairs, and the decreasing virulence of the virus. However, uncertainty about the policy introduction and transition process will continue for some time.

In terms of diplomacy, China is building closer cooperative relationships with developing and emerging countries in preparation for intensifying friction with the US, Japan, and Europe. However, in response to bad debts from past projects and the deteriorating finances of its partner countries under China's Belt and Road Initiative, intergovernmental financing will be curtailed and cooperation will focus on corporate investments and trade. In economic relations with the US, Japan, and Europe, although it will be more difficult to introduce advanced semiconductor technologies, investments (especially acceptance) and trade in other areas will remain active. China still needs US, Japanese, and European companies for the stable operation and development of its economy and industry, so it will leave its doors open, except in some national security-sensitive sectors and markets. The country will continue to employ economic statecraft in which the act of excluding other countries' products from the Chinese market is used as a diplomatic weapon, but it will never become a total shutout. It is unlikely that China will move toward armed unification of Taiwan during the period leading up to 2027. This is because, while military preparations are underway, the country will not be able to prepare in time for the shock of financial sanctions or suspensions of trade with Taiwan or Western countries.⁴ If Taiwan were to make moves toward independence,⁵ then the risk of an emergency would rise dramatically, but the probability of this scenario is low since Taiwanese public opinion is largely in favor of maintaining the status quo.⁶

2-2. Economy

The termination of the zero-COVID policy will improve consumption and return the growth rate to just over 5% in 2023, but aftereffects such as rising household and local government debts and an accelerating decline in the birthrate will linger, leading to a gradual slowdown thereafter.⁷ Nevertheless, the GDP per capita will rise to over \$15,000 in 2027,⁸ and China will remain at the level of a high-income country, which it reached in 2022. China's overall GDP will rise to roughly 80% of that of the US.⁹ Growth will continue in markets related to middle-class expansion, urbanization, digital transformation, aging, low carbon, national trends,¹⁰ and similar themes.

During his third term, Xi Jinping is hastening a shift to a consumption-led growth model. The Chinese economy is highly dependent on investments, and private consumption as a percentage of GDP has barely increased at

⁴As an example, China relies heavily on Taiwan for semiconductor imports and Australia for iron ore and natural gas imports, and it is not actively reducing its dependence in preparation for war. China's imports from Taiwan of electronic equipment and components, including semiconductors, have increased in both monetary value and share, approaching 30% of all imports, even after the Tsai Ing-wen administration, to which China is hostile, took office in Taiwan in 2016.

⁵This refers to a situation in which the Taiwanese administration abolishes the existing Constitution of the Republic of China or declares independence as the nation of Taiwan, but President Tsai Ing-wen has taken the position that Taiwan (officially the Republic of China) is already an independent sovereign nation and denies the need for a new declaration of independence.

⁶According to the latest political opinion poll among Taiwanese people (compiled in December 2022), conducted regularly by the Electoral Research Center at Taiwan's National Chengchi University, 57.2% of respondents prefer maintaining the status quo over independence or unification in Taiwan-China relations. This percentage combines those who want to maintain the status quo for the time being and re-evaluate later (28.7%) and those who want to maintain the status quo in perpetuity (28.5%).

⁷Forecasts of China's real GDP growth for 2027 include "4% or less" by the IMF (as of February 2022) and "3.9%" by the EIU (as of December 2021).

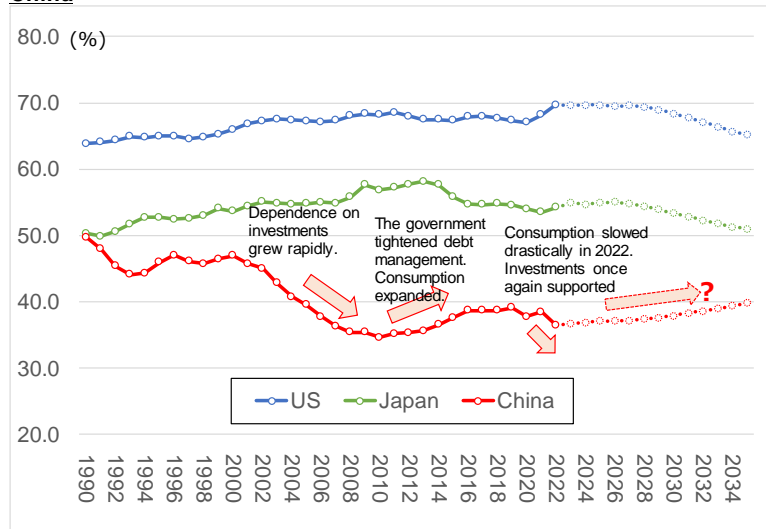
⁸\$12,741 in 2022.

⁹Approx. 70% in 2022.

¹⁰Refers to domestic brand booms.

all over the ten years of Xi Jinping’s two terms in office (Figure 4). The key policy is common prosperity. The policy aims to lift up those in the low-income bracket, but the problem is who bears the cost. It is not possible to increase the burden on the middle class (who shoulder most of the consumption) or small and medium-sized private companies (the main providers of employment), and at the same time, “voluntary” cooperation by a few cash-rich companies and the wealthy will not be sufficient. The question will be whether or not Xi Jinping has the ability to make state-owned enterprises and the government sector share some of this pain as well.

Figure 4. Private consumption as percentage of GDP of US, Japan, and China



Source: Compiled by MGSSI based on EIU data

Note: Figures for 2022 are estimates; figures for 2023 and beyond are forecasts.

The housing market will temporarily emerge from recession, but demand will weaken against the backdrop of both deteriorating consumer sentiment and a declining birthrate, among others. The supply of new housing will not return to pre-pandemic levels, even by 2027. The used and rental markets, on the other hand, will expand. New car market growth will plateau, but production, sales, and exports of new energy vehicles (NEVs), especially EVs, will grow. The share of NEVs in the new car market reached 25.5% in 2022,¹¹ ahead of schedule. The market share could exceed 50% by 2027. Automobile exports are expected to overtake those of Japan in 2023, making China the world’s No. 1 exporter.¹² Environmental measures will be promoted in a way that prioritizes stable energy supply and places emphasis on decarbonization over fossil fuel-free energy. The country will move toward using more efficient coal and continue to introduce renewable energy, and CO₂ emissions will peak out around 2027.

2-3. Society

Trends such as population decline, aging, urbanization, middle-class expansion, higher education, digitalization, and population shift to economically developed areas of the country will continue.

Although both the total population and working-age population will decline, the urban resident population and middle-class population will continue to grow. The urban population will increase from 920 million in 2022 to around 960 million in 2027.¹³ The middle-class population will grow from 492 million in 2020 to 582 million in

¹¹The government’s target under its new energy vehicle industry development plan (2021-2035), issued by the State Council in October 2020, is roughly 20% in 2025. The share of NEVs among passenger cars only is much higher, reaching 27.6% in 2022. In January 2023, the China Passenger Cars Association (CPCA) forecast that China’s NEV (passenger car) sales in 2023 will increase by approx. 50% year-on-year to 8.5 million vehicles, increasing NEV’s share of the passenger car market to 36%.

¹²In 2022, China exported 3.111 million vehicles, a 54.4% increase over the previous year, including 679,000 NEVs, a 2.2-fold increase over the previous year. Japanese exports were down 0.1% to 3,813,000 vehicles.

¹³At the end of 2022, China’s urban population was 65.2% and the total population was 1,411,750,000. Estimates for 2027 assume an urban population of 68% and a total population of 1.4 billion.

2025,¹⁴ and it will exceed 600 million in 2027. Internet penetration will rise to over 80% by 2027.¹⁵ The three trends of population urbanization, middle-class expansion, and digitalization will drive consumption-led growth. The proportion of aged members in society will increase from 14.9% in 2022 to around 19% in 2027.¹⁶

The population is also becoming more highly educated. The number of graduates from universities and the like¹⁷ reached 10.76 million in 2022¹⁸. Over 50 million more students will graduate between 2023 and 2027¹⁹. While these new graduates are the driving force behind industrial structural transformation and innovation in China, they may also pose a risk of social unrest due to the growing employment mismatch, as evidenced by the high youth unemployment rate.²⁰

2-4. Technology

The target year under Made in China 2025²¹ is approaching. Companies with international competitiveness are developing in several²² of the ten key industries,²³ and China will achieve its qualitative goal of becoming a global manufacturing power. On the other hand, some quantitative targets, such as a 70% semiconductor self-sufficiency rate by 2025, will be substantially missed due to insufficient investments in basic research and restrictions on US technology exports.²⁴ While science and technology in China will be at the global forefront in areas such as AI and quantum computing leading up to 2027, a number of bottleneck technologies will remain,²⁵ and the country will continue to develop unevenly.

In the 2010s, the transition to 4G and the proliferation of mobile payments led to an explosive expansion of digital services, drastically changing people's lives and the way business is conducted. Although the same level of change will not occur during the 2020s,²⁶ services will become even more diversified and sophisticated through advances in AI technology, the spread of 5G, and increases in the number of digital natives.

The market for NEVs will not only expand but also progress in terms of technologies and mechanisms, including the mass production of solid-state batteries, the start of mass production of sodium-ion batteries, and the widespread use of battery exchange stations. Various autonomous driving services will also become more

¹⁴From a report released in December 2021 by the State Information Center, a government-affiliated think tank in China. The report estimates an average GDP growth rate of 5% for the period from 2021 to 2025. The middle class is often defined in China as a household of three people with an annual income of between 100,000 and 500,000 yuan (approx. 2 million to 10 million yen).

¹⁵74.4% as of June 2022.

¹⁶The level of Japan in the early 2000s.

¹⁷The number of graduates from universities as well as from other institutions of higher education such as higher vocational schools and technical colleges.

¹⁸The number of university and other graduates in China was only 1.33 million twenty years ago in 2002, and is expected to increase further to 11.58 million in 2023.

¹⁹ However, since around 40% of university graduates in China go on to higher education, the actual number of new graduates with undergraduate degrees in the workforce will be lower than this.

²⁰A survey of unemployment rates among young people between 16 and 24 years old living in cities ranged by month between 15.3 and 19.9% in 2022. In 2019, before the COVID-19 pandemic, it was between 9.9 and 13.9%.

²¹A long-term industrial policy issued by the State Council in July 2015. Although Xi Jinping largely stopped referring to this policy around 2020, partly due to warnings from the US and other countries regarding the self-sufficiency targets he had set for certain technologies and products, he has adhered to the goal and related policy of building China into a manufacturing power with high international competitiveness, while promoting the internalization of key technologies as stated in the policy.

²²Shanghai United Imaging Healthcare Co. Ltd. (No. 2 global market share of CTs) in the high-performance medical equipment field, Shanghai Energy New Materials Technology Co., Ltd. (No. 1 global market share of storage battery separators) in the new energy vehicle field, and BTR New Energy Materials Inc. (No. 1 global market share of storage battery anode materials), among others.

²³Next-generation information technologies, high-end NC machine tools and robotics, aerospace equipment, marine engineering and high-tech ships, advanced railroad equipment, energy-conserving and new energy vehicles, electric power equipment, agricultural equipment, new materials, biopharmaceuticals, and high-performance medical equipment.

²⁴Although there are different ways of viewing self-sufficiency, one example is a forecast by IC Insights, a US research firm, published in May 2022 within *The McClean Report 2022*, in which the firm predicted that, while China's IC self-sufficiency rate was 16.7% in 2021, it will not surpass 21.2% even by 2026. The report discusses China-based IC production and includes ICs produced in China by foreign companies in the self-sufficiency rate.

²⁵Thirty-five key technologies that China has not mastered, as reported in 2018 by *Science Daily*, the official newspaper of China's Ministry of Science and Technology. It includes steppers (semiconductor manufacturing equipment), sensors for robotics, high-end capacitors, materials for fuel cells, and carbon fiber materials.

²⁶In the 2030s and beyond, however, advances in AI and autonomous driving technologies could bring about such changes.

commonplace.²⁷ The utilization of space-related technologies and international cooperation will also continue to progress, which includes the expansion of China's BeiDou GPS services and experiments conducted on the Tiangong space station.

IMPLICATIONS FOR JAPANESE COMPANIES

3-1. China in 2027

Despite various problems, China's overall national strength²⁸ will continue to grow. China will retain its hardline stance toward the outside world, but as mentioned earlier, war is unlikely to break out in the Taiwan Strait before 2027. On this assumption, it can be said that China will continue to develop, and opportunities for foreign firms to do business in China will continue to expand and diversify. The Chinese economy will retain a significant margin for growth in the form of consumer markets. In addition, business needs related to national and social issues, such as decarbonization, energy and food security, and public health, will expand. Supported by policies, the country will continue to implement new technologies in society as well as diversify and increase the sophistication of digital services. At the same time, the risk of doing business in China for companies will become more complex due to increasingly uncertain policy-making processes, rising labor costs and legal compliance costs, as well as intensifying friction between the US and China.

3-2. Five perspectives

Based on the above, the following lists five perspectives that Japanese companies should be aware of when considering future business in China.

(1) China's growth will slow down overall, but there are many individual areas with large growth potential, and the country will continue to introduce various new technologies and systems. (2) With the exception of some sectors and markets, China will continue to actively attract foreign investments. (3) Many of China's national and social issues, such as those related to the environment and health, can be addressed by foreign investors as businesses. (4) The so-called China risks should not be excessively feared. While it is naturally necessary to comply with Japanese and US laws and regulations, as well as with ESG standards, overestimating the various risks will result in many lost opportunities.²⁹ (5) If each company builds good relations with China through its business, it could ultimately contribute to Japan-China relations and stability in East Asia. Leading up to 2027, foreign companies are likely to gradually divide into two groups: those that increase their involvement in China and those that move away. However, if the Xi Jinping administration pursues policies aimed at improving the country's long-term growth prospects, as in the main scenario, the percentage of companies that increase their involvement will likely rise. Japanese companies also need to be both bold and calm in their approach to China.

²⁷Autonomous buses, cabs, and trucks; unmanned delivery robots, etc. However, in the opinion of some experts, China's development of self-driving cars may stall due to US semiconductor export restrictions when the technology reaches Level 5 (fully autonomous driving), which requires high-spec ICs. This is expected to occur sometime in the 2030s or beyond.

²⁸The sum total of China's economic, technological, military, international influence, and others.

²⁹For an analysis of China risks, please see the Mitsui & Co. Global Strategic Studies Institute Report "Changing China Risks – Perspectives and Attitudes Needed to Evaluate China Risks Properly and View Them with Appropriate Caution –" (April 2022). https://www.mitsui.com/mgssi/en/report/detail/_icsFiles/afieldfile/2022/05/30/2204c_kishida_e.pdf