

GEOPOLITICAL RISK OBSERVATORY

China

An overview

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GRO Country Profile: China

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

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Summary

- China is a one-party socialist state led by the Chinese Communist Party (CCP), with political power highly centralised under President Xi Jinping. The political system provides strong policy continuity and administrative capacity, but limited political pluralism, weak institutional checks, and extensive state control over society and the economy remain structural governance concerns. The leadership continues to prioritise national security, technological self-reliance, and tighter Party control, while maintaining a strong focus on long-term economic and industrial policy.
- The economy remains the world's second largest and a major driver of global growth, supported by advanced manufacturing, exports, infrastructure, and increasingly high-tech sectors including electric vehicles, renewable energy, semiconductors, and artificial intelligence. Growth remained resilient at 5% in 2025, while the IMF projects 4.5% growth in 2026. However, weak domestic demand, the prolonged property downturn, high debt, demographic pressures, and increasing reliance on exports create structural constraints on the traditional growth model.
- Key business challenges include elevated geopolitical risks from tensions with the US and regional disputes, increasing regulatory complexity in data, technology, national security and foreign investment, and structural economic weaknesses linked to property, demographics and subdued domestic demand. Growing strategic competition with the US and Europe, including export controls, sanctions and restrictions on critical technologies, further increases compliance and supply-chain risks for international businesses.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	25,777.2	41,259.8 (2025)
Population (mn)	1,411.1	1,406.6 (2025)
Population under 25 (%)	29.5%	27.0% (2025)
Population over 65 (%)	12.6%	14.9% (2025)
Urban population (%)	63.5%	66.3%
Unemployment rate (%)	5.0%	4.6% (2025)
Youth unemployment 15–24 (%)	12.7%	15.8%
CPI inflation (% annual average)	2.5%	0.0%
General government debt (% of GDP)	69.0%	96.3% (2025)
FDI inward flows (USD mn)	149,342	116,238 (2024)

Sources: IMF – *World Economic Outlook, Oct 2025* (CPI inflation, both 2020 and latest values); World Bank – *World Development Indicators* (GDP PPP, population, urban population, unemployment rate and population structure, both 2020 and latest values); ILO – *ILOSTAT* (youth unemployment, both 2020 and latest values); UNCTAD – *World Investment Report 2025* (FDI inward flows, both 2020 and latest values); IMF – *Fiscal Monitor, Oct 2025* (general government debt, both 2020 and latest values).

Historical context

China emerged from the Second World War after decades of political fragmentation, Japanese occupation, and civil conflict between the Chinese Communist Party (CCP) and the Nationalist Kuomintang (KMT). The Communist victory in 1949 established the People's Republic of China under Mao Zedong, while the Nationalist government retreated to Taiwan, officially the Republic of China (ROC). The first decades of Communist rule were characterised by the consolidation of a centrally planned economy and major political campaigns, culminating in the Great Leap Forward (1958–1962) and the Cultural Revolution (1966–1976), which generated severe economic

disruption, social upheaval, and political repression. Mao's death in 1976 and the subsequent rise of Deng Xiaoping marked a decisive change in direction.

From 1978, Deng launched the "reform and opening-up" programme, progressively introducing market mechanisms, decentralising economic decision-making, and opening China to foreign trade and investment. Special Economic Zones became key platforms for export-led industrialisation, while agricultural and state-owned enterprise reforms accelerated productivity and private-sector development. The 1989 Tiananmen crackdown temporarily halted the pace of reform and increased China's international isolation, but Deng's 1992 Southern Tour revived economic liberalisation. The leadership subsequently formalised the objective of developing a "socialist market economy", combining market mechanisms with continued Communist Party control over strategic sectors. China joined the World Trade Organization in December 2001, accelerating its integration into global trade and supply chains.

The following two decades transformed China into a global economic and geopolitical power. Rapid industrialisation, urbanisation, infrastructure investment and export growth produced sustained high growth and lifted hundreds of millions of people out of poverty. After the 2008 global financial crisis, China increasingly relied on infrastructure and credit-driven investment, contributing to rising corporate and local-government debt. Xi Jinping's accession as CCP General Secretary in 2012 marked a further shift towards centralised political control, stronger Party oversight of the economy and society, and a greater emphasis on national security and technological self-reliance. Since 2018, the US–China trade and technology conflict, the COVID-19 pandemic, and the prolonged property-sector downturn have challenged China's previous growth model. China nonetheless recorded 5.0% GDP growth in 2025, although the IMF expects growth to slow to 4.5% in 2026 amid weak domestic demand, property-sector weakness, demographic pressures and continuing trade uncertainty.

Institutional Set-Up and Structural Challenges

China is a unitary one-party socialist state in which the Chinese Communist Party (CCP) constitutes the central political authority. The formal state structure includes the President, the State Council, the National People's Congress (NPC), the judiciary and local governments, but these institutions operate within the overarching leadership of the CCP. The NPC is formally the highest organ of state power and elects the President and other senior state officials, while the State Council functions as the highest state administrative body under the Premier. In practice, major political and strategic decisions are determined within the CCP leadership, particularly the Politburo and its seven-member Standing Committee headed by Xi Jinping. Xi has consolidated political authority since becoming General Secretary in 2012 and secured a third term as Party leader in 2022, breaking with the previous two-term leadership convention. His leadership has

been characterised by a stronger centralisation of decision-making, a greater emphasis on national security and ideological cohesion, and a more assertive approach to China's strategic interests both domestically and internationally.

Governance stability is high in terms of policy continuity and the state's administrative capacity, but institutional checks and political accountability remain limited. The CCP maintains extensive control over the bureaucracy, media, civil society, universities and businesses, while politically sensitive areas remain subject to strong state and Party oversight. Freedom House classifies China as "Not Free", awarding it 9/100 in its 2026 assessment and noting the absence of meaningful political competition and the increasing concentration of authority under Xi. The judicial system is formally established through the Supreme People's Court and lower courts, but courts operate under Party political-legal oversight, limiting judicial independence in politically sensitive cases.

From a governance and security perspective, the Taiwan issue represents one of the most significant long-term strategic challenges for China and a major source of potential geopolitical instability. Beijing considers Taiwan an integral part of its territory under the "One China Principle" and has consistently reaffirmed its objective of achieving national reunification. Xi Jinping has repeatedly identified reunification with Taiwan as a key element of China's broader national rejuvenation strategy, while maintaining that peaceful reunification remains the preferred approach but that the use of force cannot be ruled out. Although Chinese authorities have not established a fixed timeline for achieving this objective, the issue remains central to China's domestic legitimacy and foreign policy agenda.

Tensions surrounding Taiwan have increased in recent years, with the People's Liberation Army (PLA) conducting increasingly frequent and large-scale military exercises in the Taiwan Strait and surrounding areas, including drills involving naval, air and missile capabilities. These activities are intended by Beijing to demonstrate military readiness and deter what it considers moves towards formal Taiwanese independence, but they have also increased concerns over the risk of miscalculation or accidental escalation. The Taiwan Strait has therefore become one of the most sensitive geopolitical flashpoints in the Asia-Pacific region, particularly due to the involvement of the United States, which maintains a longstanding security commitment to Taiwan despite the absence of formal diplomatic relations. Recent statements by U.S. officials have highlighted that a conflict over Taiwan would have severe consequences not only for regional security but also for the global economy, given Taiwan's central role in semiconductor production and international supply chains.

Economically, China has transitioned from a predominantly state-planned system into a large, globally integrated mixed economy in which private firms coexist with powerful state-owned enterprises and extensive state direction of strategic sectors. Manufacturing, exports, infrastructure, technology and increasingly high-value industrial sectors remain central to the growth model. Official data show that GDP grew by 5.0% in 2025, with manufacturing value added increasing by 6.1%. However, structural weaknesses are becoming more pronounced: the

prolonged property-sector adjustment, high levels of debt, weak household demand, deflationary pressures and declining population are weighing on medium-term growth. China's population fell by 3.39 million in 2025, while people aged 60 and above accounted for 23% of the population. The IMF identifies the property downturn, local-government debt, demographic ageing and excessive reliance on exports as key structural risks to the economic outlook.

China's international positioning combines deep integration into global trade with increasing strategic competition with the United States and other advanced economies. Its dependence on international markets remains a major source of economic strength but also creates exposure to tariffs, export controls, sanctions and restrictions on access to advanced technologies. The intensifying rivalry with Washington has increasingly extended beyond trade into areas such as semiconductors, artificial intelligence, critical technologies, data governance and strategic infrastructure. At the same time, China's growing emphasis on national security, technological self-reliance and industrial policy has increased regulatory intervention across strategic sectors.

The Taiwan issue represents an additional layer of uncertainty for China's international economic environment. A potential escalation in the Taiwan Strait would carry significant consequences for global trade flows, financial markets and technology supply chains, particularly due to Taiwan's strategic role in semiconductor manufacturing. For international businesses operating in or with China, rising geopolitical tensions may translate into increased exposure to export restrictions, sanctions, supply chain disruptions and regulatory uncertainty. While a direct military confrontation remains a low-probability but high-impact scenario, continued military pressure around Taiwan, alongside broader U.S.-China strategic competition, represents a key factor shaping China's long-term political and economic risk profile.

For international businesses, China's strong infrastructure, manufacturing base and large domestic market remain major advantages, but political centralisation, regulatory unpredictability, limited judicial independence, state intervention, demographic pressures and geopolitical tensions create significant long-term operating and compliance challenges.

Business implications

Opportunities

China offers major business opportunities due to the size of its domestic market, the depth of its industrial base and the government's continued commitment to strategic sectors. The most attractive areas are those aligned with Beijing's policy priorities: advanced manufacturing, green transition, renewable energy, batteries, electric mobility, industrial automation, healthcare, life sciences, environmental technologies, agri-food quality, luxury and premium consumer goods.

The 15th Five-Year Plan reinforces opportunities in technology upgrading, energy transition, industrial modernisation and domestic consumption. European companies with high-value technology, recognised brands, industrial expertise or specialised services can find space in market segments where quality, know-how and reliability remain differentiating factors. China also remains a critical market for companies with global supply chains. Its manufacturing clusters, logistics infrastructure and supplier networks are difficult to replicate at comparable scale. For businesses able to manage regulatory complexity, China can continue to function as a production base, innovation hub and commercial market.

Challenges

- *Security challenges:*

China presents a moderate but complex security risk for foreign businesses. There is no domestic insurgency or widespread political violence affecting commercial operations, and ordinary business activity in major urban and industrial centers is generally secure. The principal risks are geopolitical and state-security related. The Taiwan Strait remains the most significant flashpoint: China considers Taiwan part of its territory under the One China Principle and has continued to reaffirm its objective of achieving national reunification, a goal strongly associated with Xi Jinping's broader national strategy. In recent years, Beijing has intensified military, maritime and air activities around Taiwan, including large-scale military exercises and patrols in the Taiwan Strait and surrounding areas, raising concerns over the risk of miscalculation or unintended escalation. The United States and regional partners have responded by strengthening deterrence measures and contingency planning, making Taiwan one of the main areas of strategic competition between Washington and Beijing. While a large-scale military confrontation over Taiwan remains unlikely in the short to medium term, continued tensions represent a significant source of uncertainty for international businesses. Any escalation would have direct implications for shipping routes, semiconductor supply chains, sanctions exposure, insurance costs and business continuity planning.

The South China Sea is an additional area of persistent tension, particularly around maritime claims, coast guard activity, energy exploration and freedom of navigation. Cybersecurity and espionage-related risks are also material: foreign companies may face heightened scrutiny in sectors considered sensitive, including technology, finance, consulting, data, healthcare, critical infrastructure and advanced manufacturing. Although day-to-day physical security risks remain contained, geopolitical deterioration or a Taiwan-related crisis would rapidly change the operating environment for multinational companies.

China's security risk is assessed as Band 2 (low-to-medium challenges).

- *Regulatory challenges:* China's regulatory environment is highly developed but remains difficult to navigate for foreign businesses. The legal framework is increasingly shaped by national security, data sovereignty, industrial policy and technological self-reliance. Data compliance is one of the most significant operational challenges: the Cybersecurity Law, Data Security Law, Personal Information Protection Law and related cross-border data transfer rules impose complex obligations on companies handling personal information, important data or China-based datasets. Recent measures have introduced partial clarification, but implementation remains demanding and can vary by sector and locality. Foreign companies also face market access restrictions, licensing requirements, public procurement barriers, localisation pressure and uneven enforcement. Strategic sectors such as digital services, cloud, telecommunications, financial services, medical data, mobility, energy and advanced manufacturing are subject to particularly close scrutiny. EU institutions and business groups continue to identify China's cybersecurity framework, cross-border data restrictions, insufficient intellectual property enforcement, technology-transfer pressures and broad national security concepts as key obstacles to a predictable business environment. Regulatory engagement is therefore essential, but it does not eliminate exposure to abrupt policy shifts or politically driven enforcement.

China's regulatory risk is assessed as Band 4 (high challenges).

- *Governance challenges:* Governance represents one of the most persistent challenges for foreign companies operating in China. Although the state has strong administrative capacity and can deliver infrastructure, industrial policy and regulatory implementation at scale, the institutional environment remains opaque and politically centralised. The Communist Party's role across state institutions, courts, regulators, state-owned enterprises and strategic private companies limits the separation between commercial and political decision-making. Judicial independence is limited, and contract enforcement can be more uncertain when disputes involve local governments, state-linked entities or politically sensitive sectors. Anti-corruption enforcement is extensive, but it is also politically embedded and can be unpredictable for foreign firms and local partners. Public procurement and licensing decisions may favour domestic champions or companies aligned with local industrial priorities. Partner due diligence is essential because ownership structures, state links and political exposure are not always transparent. Foreign companies must also manage reputational and compliance risks linked to sanctions, forced-labour allegations, export controls, human rights scrutiny, supply-chain transparency and anti-bribery obligations under home-country regimes. The result is not a weak governance environment, but one in which legal, political and commercial risks are deeply intertwined.

- *China's governance risk is assessed as Band 4 (high challenges).*

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