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# Collapse of China's Economic Model and What It Means for Us in the West



A Chinese investor gestures in front of a screen showing stock market movements at a securities firm in Hangzhou, eastern China's Zhejiang province, in a file photo. (STR/AFP via Getty Images)



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### Commentary

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In WW2, the Nazis bombed British factories and manufacturing towns. The idea was to cripple British industry, demoralize the population, and weaken the war effort. The Allies later reciprocated by destroying German manufacturing centres and industrial infrastructure.

If an enemy were to attack Western industry now, where would the bombs fall? Not on anywhere in the West, because that wouldn't do enough damage. Ironically, the West has already curtailed its domestic industrial capacity through outsourcing and offshoring. And so, an enemy trying to harm Western industry would have more success by attacking China, since that's where most of the West's manufacturing is done.

If that sounds crazy, think of what we went through in the early days of the COVID-19 pandemic. Supply chains broke down, factories closed, and our main sources of drugs, personal protective equipment (PPE), and other essential goods dried up because all those things were imported from China. One of the world's main sources of N-95 mask was a factory in Wuhan, believe it or not. So we in the West were forced to revive at least some of our old manufacturing capacity, especially when it came to things like masks, gloves, and disinfectants. This was a good start.

But we need to prepare for a manufacturing revival on a much larger scale. Outsourcing to China is becoming increasingly unviable, and may soon be impossible. There are two reasons for this.

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The first is China's unfavourable demographics. The Chinese are ageing faster than any population in modern history—faster even than Japan. By 2050, 39 percent of the total population will be over the age of retirement, and the working-age population will fall back to what it was in the mid-1990s. Falling birth rates are another part of demographic woes. In 2021, births per woman were down to 1.3; and in 2022, the overall population fell by about 850,000 down to 1.4 billion. We can expect China to keep shrinking, and some estimates predict that the population will be halved by the end of this century.

The second reason is that offshoring to China is no longer as reliable and profitable as it once was. Draconian lockdowns may be over, but the theft of intellectual property continues, and the Chinese regime has become overtly **hostile** to foreign businesses. Detentions of CEOs, arbitrary cyber-security audits, raids, and surprise visits to offices have all made business leaders and investors reconsider China. The surest sign of the problem is the steady decline in foreign investment. In 2011, foreign direct investment was 4 percent of the Chinese GDP: now it is 1 percent. It has fallen from \$300 billion down to \$200 billion. And if we restrict ourselves to investment just from the G7 countries, there was a huge decline from \$35.3 billion in 2014 to \$16.3 billion in 2020—about a 50-percent drop. Notably, this decline began before both American tariffs and COVID-19, but then it accelerated and is showing no signs of reversing itself.

And yet, Western trade with China remains vigorous. American trade with China in particular hit an **all-time high** in 2022. But if

China's workforce is shrinking, its population declining, and it is no longer a competitive destination for manufacturing, our relationship with it is going to have to change.

China's demographic and economic woes are the main ingredients for instability. Since the 1990s, Chinese internal tensions have been papered over by ever-increasing prosperity and rising living standards. But this couldn't last forever, and now that economic growth is slowing, troubles are rising to the surface. We can understand Xi Jinping's increasingly autocratic character and the promotion of Han nationalism as efforts to hold society together in the absence of common prosperity.

Will those efforts be successful? In one scenario, a much-diminished China will hold together, and implement an automated manufacturing strategy to replace the absent workforce. But this will be a much less prosperous and dynamic China obliged to care for a growing elderly cohort. In another scenario, the Communist Party, having failed to assure economic growth, will have its authority further challenged from multiple angles. This would be a positive outcome for those suffering from the atrocities of the communist regime inside and outside China, while the chaos that ensues in the final days of the Party would lead to more uncertainty for businesses.

The West has nothing to gain, and much to lose, for continuing its reliance on China. The sooner we rebuild our manufacturing and self-sufficiency, the better.

*Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.*

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