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Growing old, getting bold

China's demographic ageing is no reason for Europe to breathe a sigh of relief

China's demographic 'crisis' is on everyone's lips. Reports highlight the immense challenges Beijing faces due to its rapidly ageing population: rising social spending, declining labour force participation, and a slump in consumption. Proponents of the 'peak China' hypothesis argue that, contrary to earlier forecasts, China will never overtake the US as the world's leading economic power. Meanwhile, some suggest that Europe is better equipped to navigate the demographic transition. The Schadenfreude is palpable.

But anyone hoping this will translate into less competition from China is sorely mistaken. Indeed, the opposite is more likely to be true. The ageing population is putting the country's leadership under increasing pressure to restructure the economy and forge ahead with its aggressive industrial policy — with immediate consequences for Europe's industry. China's demographic weakness could then actually become an economic challenge for Europe.

A problem growing in severity

For decades, Beijing's economic model has relied on state-directed investment in the construction industry and export manufacturing — two of the main drivers of Chinese economic growth. Although China's social security system has gradually expanded, it still provides only a limited social safety net that primarily benefits the urban middle class. As many households continue to shoulder much of the cost of education, housing, healthcare, and eldercare through private savings, domestic consumption accounts for a 'mere' 38 per cent of GDP, compared with a global average of 60 per cent.

Although Beijing has long sought to reform its social security system and shift towards a more consumer-driven growth, the legacy of its investment-driven economic model has so far thwarted these efforts. Reliance on its two main growth engines has generated massive overcapacity. At the same time, weakening global demand in the

aftermath of the global financial crisis, compounded by trade conflicts since 2015, has placed additional pressure on Chinese exports. Lastly, the property crisis and persistently high youth unemployment have further exacerbated these economic difficulties.

In 2024, for the first time in decades, the Chinese government raised the statutory retirement age — from 50 to 55 and eventually 58 for women and from 60 to 63 for men.

And while all this is happening, demographic change is limiting Beijing's room for manoeuvre. China is ageing significantly faster than Europe — and it is doing so at a comparatively low level of income. Germany, despite having one of the oldest populations in Europe, has a fertility rate of 1.4 births per woman; in China, it has fallen to just 1.0. Even the introduction of a two-child and, ultimately, three-child policy has failed to reverse this decline. On top of that, China cannot rely on immigration from abroad. The implications for the labour market are considerable: whereas there are currently five workers for every retiree, forecasts indicate that in 25 years, this ratio will have dropped to just 1.6.

Demographic ageing is already placing China's pension and healthcare systems under massive strain. The depletion of funds in the basic pension system for employees has been forecast as early as 2035. In 2024, for the first time in decades, the government raised the statutory retirement age — from 50 to 55 and eventually 58 for women and from 60 to 63 for men. However, it will take some time for these reforms to have any kind of effect. Even then, they will only ease the fiscal pressure, not eliminate it entirely. Compounding these challenges, China faces a high burden of disease: around 91 per cent of deaths in the country are attributable to chronic illnesses (the global average is 74 per cent), which is rapidly driving up both public and private healthcare expenditure. Beijing must therefore channel an increasing share of its resources into social protection and healthcare — resources that would otherwise be available to stimulate economic growth.

Moreover, demographic ageing is further depressing already weak domestic consumption. According to researchers, demographic change accounts for about 50 per cent of the increase in household saving rates in China. The country thus risks slipping into 'secular stagnation' — a prolonged period of economic stagnation characterised by weak consumer spending and high savings rates, which in turn constrain investment. This scenario bears similarities to Japan's economic difficulties. For Beijing, time is therefore running out. The leadership

must keep their industrial production engines running at full throttle before the demographic burden becomes overwhelming. Rather than forcing Beijing to scale back its ambitions, the demographic crisis is therefore driving it to double down on its industrial policy.

Under pressure

To avoid long-term stagnation, Beijing is counting on massive-scale technological upgrading. In the future, industrial robots are expected to maintain production in the face of a shrinking workforce. At the same time, robotics and digital technologies are intended to make eldercare and medical care more efficient and less reliant on human labour. Since 2016, Beijing has been promoting what has become known as the 'silver economy' — the market for products and services tailored to the needs of the older population. This market is forecast to grow to an estimated 30 billion renminbi (about 3.9 billion euros) by 2035, opening up new consumer opportunities.

But these measures can only go so far in easing the pressure. Although the silver economy is growing, there is a risk that it will largely benefit the upper-middle and upper classes. As a result, population ageing could further widen social inequality and exacerbate social tensions. At the same time, automating production will not resolve the country's overcapacity problem. Chinese companies must continue to sell their goods on the global market — if necessary, at dumping prices.

And this is where China's demographic crisis becomes a problem for Europe. Beijing's efforts to stabilise its economy by doubling down on exports are threatening to intensify what has been termed China Shock 2.0. For some time, trade experts have been observing a growing influx of low-cost export products from China. This trend is no longer confined to low-tech goods but increasingly extends to high-tech industries such as automotive manufacturing, renewable energy and industrial robotics.

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This puts European industry under pressure on two fronts. On the one hand, low-priced Chinese products erode the profits of European firms and increase competitive pressure. On the other hand, they make it harder for European companies to invest in digital and green technologies that would strengthen European competitiveness in the long term. Beijing, for its part, is likely to press ahead relentlessly with its industrial policy in an effort to avert economic stagnation and preserve its political legitimacy.

China's ageing population, its industrial policy and the growing competitive pressure on Europe are thus inextricably intertwined.

To respond to this challenge, Europe needs a flexible strategy. Protective tariffs and import restrictions alone are insufficient given the close integration of European and Chinese supply chains. Blanket import restrictions also drive up the cost of intermediate products for European manufacturers. Moreover, they do little to prevent China from redirecting its exports to third-party markets in Southeast Asia and Africa, where European firms are increasingly being squeezed out. The tariffs imposed by the US on Chinese products ultimately had counterproductive consequences, as Beijing retaliated with countermeasures that restricted access to rare earth minerals.

Although de-risking is an important step, it is no panacea. Strategies such as China+1 are needed to reduce long-term dependencies, but they take years to implement and have their limits. China's domestic market is simply too large, and its role in global value chains too important, for Europe to be able to disengage completely. Moreover, China+1 strategies often merely add more intermediate steps to supply chains without alleviating the underlying competitive pressures.

China's ageing population is driving up demand for high-quality medical technologies, healthcare equipment and pharmaceutical products.

European trade and industrial policy must therefore become more flexible, more targeted at specific sectors and, above all, more proactive. Rather than simply reacting to China's export push, Europe should make strategic use of Beijing's predicament. Three approaches could help achieve this:

First, given Beijing's reliance on the European market as an outlet for its overcapacity, Europe should make market access more conditional. This could include requiring Chinese companies to transfer technology and intellectual property or invest in local research and development. This approach would be particularly beneficial in sectors where China has gained a technological lead, such as battery manufacturing and green technologies. This would help ease investment pressures on European firms while strengthening Europe's own technological progress.

Second, China's ageing population is driving up demand for high-quality medical technologies, healthcare equipment and pharmaceutical products. This opens opportunities for cooperation. European firms could tap into this market and capitalise on Beijing's efforts to stimulate consumption in the healthcare sector.

Third, Europe must accelerate its own investment in key technologies such as robotics, AI and automation, while stepping up its implementation of the Draghi Report's recommendations to reduce dependencies in high-tech sectors.

China's demographic ageing is therefore no reason for Europe to breathe a sigh of relief. Quite the opposite, in fact: it is intensifying what is already fierce economic competition. Not despite its ageing population, but precisely because of it, Beijing is doubling down and pursuing a heavily subsidised export offensive that is putting Europe's key industries under mounting pressure. Europe must therefore recognise China's demographic transition for what it is: a geo-economic challenge that calls for a competitive and well-considered strategic response.



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