



## China's Society and Foreign Policy

China's transformation is shaping the investing landscape, and its political, economic, and societal systems are very different from the rest of the world. To better understand China's society and foreign policy, it is critical to look beyond the headlines.

### Key Topics:

- What China's society looks like today
  - China's demographics and the related societal implications
  - The Confucian value system
- China's foreign policies and principles
  - The ancient Chinese ideal of "harmony among all nations"
  - The conflict between China and Taiwan

### China's Society Today

With a population of more than 1.4 billion, China's demographics are extremely diverse and defined by a multitude of factors such as age, gender, generational differences, geographic landscape, and varying levels of economic development.

Chinese society also lives by an evolving set of values. And while these values have been influenced by Western culture, the traditional Confucian value system is still the dominant value system in China today, even after thousands of years of practice.

There are five key aspects of the Confucian value system—the doctrine of mean, social order, collectivism, success, and individual virtue—all of which allow this ancient ideology to help maintain governance, stability, and prevent disruptions in Chinese society.



**Sophie Gao, CFA**  
Research Associate  
Global Equity Team

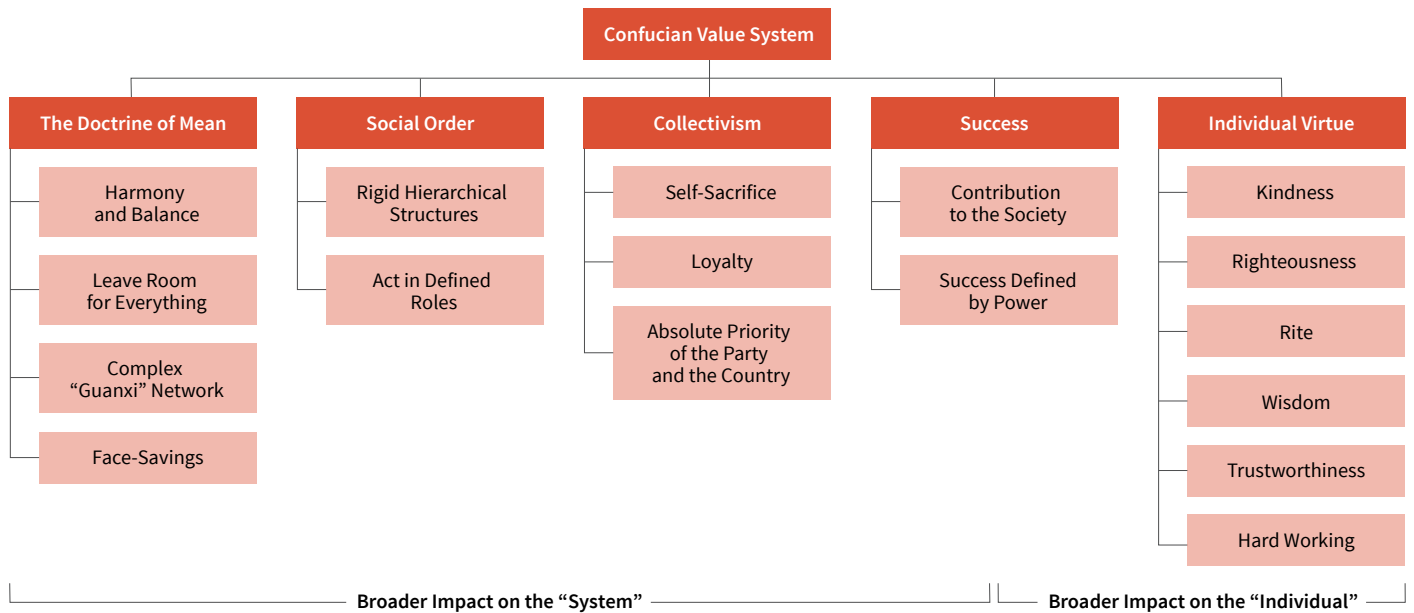
### Earn CE Credits

This is an excerpt from part three of our three-part continuing education series *China: A Deeper Look*.

Eligible CE Credit: 1 hour CIMA, CPWA, RMA, CFP, CFA

Learn more at  
[active.williamblair.com/ce](http://active.williamblair.com/ce)

## Core Principles Guiding the Scope of People's Rights



Source: William Blair.

China's society is also experiencing challenges and developments distinct from the rest of the world.

One of the biggest challenges is what Chinese people have termed "involution." Literally translated to "inward curling," this term is used to express a feeling of burnout, particularly among China's younger generations, as they deal with increasing pressure to succeed in work and in life. In addition, the slowdown of China's economic growth, together with the COVID impact, makes it incrementally harder for young people to secure a good job and establish themselves.

Looking at key developments, China's Generation Z is the country's first generation of digital natives. Because this group has shown it can successfully leverage traffic to influence real-world people and events, the Chinese government is now paying more attention than ever before to the online environment.

Another development is the rise of nationalism, particularly among Generation Z. Their value judgement is increasingly derived from their life experience, which helps amplify their confidence in Chinese culture and values and in the government's actions and policies.

### China's Approach to Foreign Policy

Another ancient way of thinking that guides modern China is the idea of "harmony among all nations."

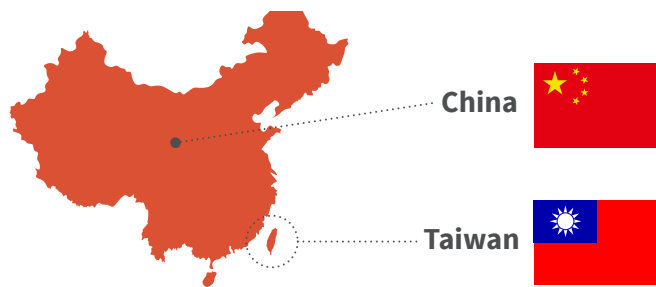
Although there are natural geographic barriers that hinder China's connection with the rest of the world, China has always broadly engaged with other ethnic groups and nations, which began with the creation of the Silk Road during the Han dynasty.

However, China's pursuit of openness and harmony was impacted by the corruption and rigidity of the long-standing feudal system. While feudalism in China eventually ended, it was followed by more than a century of foreign invasion and civil war, exacerbating the modernization gap between China and the West, until the formation of the People's Republic of China (PRC) in 1949. This resulted in the increased importance of national rejuvenation among Chinese people.

Since the founding of the PRC, five guiding principles have emerged in China's foreign policy: mutual respect for each other's integrity and sovereignty; mutual non-aggression; mutual non-interference in each other's internal affairs; equality and cooperation for mutual benefit; and peaceful co-existence.

### The China-Taiwan Conflict

#### China and Taiwan



Source: William Blair.

The conflict between China and Taiwan is a legacy sovereignty issue stemming from the Chinese Civil War. Since then, Taiwan's current government, the Republic of China (ROC), has been governed separately from the PRC.

The PRC's official policy towards Taiwan is composed of two parts:

1. Taiwan is part of China.
2. China will pursue "peaceful reunification" and "One Country, Two Systems" with Taiwan.

In the late 1980s, Taiwan implemented a democratic governance system, leading to a weakened belief of the "One China" policy over time. The conflict was further complicated by the United States' geopolitical interests in the region, its relations with the ROC, and the ideological clashing between the U.S. and China throughout the Cold War and in recent decades.

For the past 40 years, China, Taiwan, and the United States have largely maintained the status quo, but tension has risen between the three parties, driven by the United States' increased hawkish stance toward China, China's reunification mission, and growing pro-independence sentiment in Taiwan.

We believe the probability of a proactive Chinese military invasion of Taiwan remains low in the foreseeable future, but the risk to both Chinese and Taiwanese equities has risen.

“We believe the probability of a proactive Chinese military invasion of Taiwan remains low in the foreseeable future, but the risk to both Chinese and Taiwanese equities has risen.”

Sophie Gao, CFA

### Important Disclosures

This material is provided for information purposes only and is not intended as investment advice, offer, or a recommendation to buy or sell any particular security or product.

This material is not intended to substitute professional advice on an investment in financial products and any investment or strategy mentioned herein may not be appropriate for every investor. Before entering into any transaction each investor should consider the appropriateness of a transaction to his own situation and, the need be, obtain independent professional advice as to risks and consequences of any investment. William Blair will accept no liability for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of this document or its contents.

Any discussion of particular topics is not meant to be complete, accurate, comprehensive, or up-to-date and may be subject to change. Data shown does not represent and is not linked to the performance or characteristics of any William Blair product or strategy. Factual information has been taken from sources we believe to be reliable, but its accuracy, completeness or interpretation cannot be guaranteed. Information and opinions expressed are those of the author and may not reflect the opinions of other investment teams within William Blair. Information is current as of the date appearing in this material only and subject to change without notice. This material may include estimates, outlooks, projections and other forward-looking statements. Due to a variety of factors, actual events may differ significantly from those presented.

**Past performance is not indicative of future results.** Investing involves risks, including the possible loss of principal. Equity securities may decline in value due to both real and perceived general market, economic, and industry conditions. The securities of Chinese companies may be subject to greater volatility and less liquidity than companies in more developed markets. Investment exposure to China may be subject to a greater extent than if investments were made in developed countries, the risks of adverse securities markets, exchange rates and social, political, regulatory, economic, or environmental events and natural disasters that may occur in the China region. References to specific securities and their issuers are for illustrative purposes only and are not intended as recommendations to purchase or sell such securities. William Blair may or may not own any securities of the issuers referenced and, if such securities are owned, no representation is being made that such securities will continue to be held. It should not be assumed that any investment in the securities referenced was or will be profitable.

This material is distributed in the United Kingdom by William Blair International, Ltd., authorized and regulated by the Financial Conduct Authority (FCA), and is only directed at and is only made available to persons falling within articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This material is distributed in the European Economic Area (EEA) by William Blair B.V., authorized and supervised by the Dutch Authority for the Financial Markets (AFM) under license number 14006134 and also supervised by the Dutch Central Bank (DNB), registered at the Dutch Chamber of Commerce under number 82375682 and has its statutory seat in Amsterdam, the Netherlands. This material is only intended for eligible counterparties and professional clients.

This document is distributed in Australia by William Blair Investment Management, LLC (“William Blair”), which is exempt from the requirement to hold an Australian financial services license under Australia’s Corporations Act 2001 (Cth). William Blair is registered as an investment advisor with the U.S. Securities and Exchange Commission (“SEC”) and regulated by the SEC under the U.S. Investment Advisers Act of 1940, which differs from Australian laws. This document is distributed only to wholesale clients as that term is defined under Australia’s Corporations Act 2001 (Cth). This material is distributed in Singapore by William Blair International (Singapore) Pte. Ltd. (Registration Number 201943312R), which is regulated by the Monetary Authority of Singapore under a Capital Markets Services License to conduct fund management activities. This material is intended only for institutional investors and may not be distributed to retail investors.

This material is not intended for distribution, publication, or use in any jurisdiction where such distribution or publication would be unlawful. This document is the property of William Blair and is not intended for distribution or dissemination, directly or indirectly, to any other persons than those to which it has been addressed exclusively for their personal use. It is being supplied to you solely for your information and may not be reproduced, modified, forwarded to any other person or published, in whole or in part, for any purpose without the prior written consent of William Blair.

Copyright ©2023 William Blair. “William Blair” refers to William Blair & Company, L.L.C., William Blair Investment Management, LLC, and affiliates. William Blair is a registered trademark of William Blair & Company, L.L.C.