

Current Challenges and Development Prospects of the National Economy of China

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ABSTRACT

China is one of the largest economies in the world, which has come a long way in the transition from a planned economy to a market economy in recent decades. This country is one of the key players in the world arena, participating in international trade, operations in the financial and investment markets. However, in recent years, the pace of economic growth in China has tended to slow down. In this regard, the purpose of this paper is to analyse the characteristics and trends of the development of the national economy of the People's Republic of China (PRC), as well as to assess its current state. The study revealed that the reforms carried out in the country and adherence to the openness policy helped the country move from focusing on domestic consumption to on focusing exports and attracting foreign investment, which became the main driver of increasing the production of goods and services and the expansion of the private sector in the country. Nevertheless, the implementation of the measures considered has led to a few problems – a crisis in the construction of residential and commercial real estate and environmental problems. These pressures are linked in the literature to rising living costs and to declining food security, both of which are associated with lower fertility, and may in the future lead to a shortage in the labour market (Dong et al., 2024; Liang, Gibson, 2017; Cai, Zhong, 2025). The implications of the study include the systemic review of the current challenges of the Chinese economic development in connection with their historic sources, the proof of the evolutionary character of the Chinese economic reforms during the researched period.

Keywords: China, National Economy, Economic Growth, Development Strategy, Investment, Production, International Trade, Consumption.

INTRODUCTION

Since the Chinese government implemented the economic policy of reform and opening up in the 1970s and 1980s, China's economic growth rate has reached unprecedented levels. For example, from 1978 to 2023, the output per person has increased by about 80 times, which has led many experts to declare China's economic growth a "miracle." (World Bank, 2024a).

China, being the second most populous country in the world, significantly influences global economic processes. In the scientific literature on economic issues, more and more studies are appearing devoted to the strengthening of China's economic and political influence on the world stage.

China's rapid economic growth has been made possible by massive fixed capital investment, financed by large domestic savings and foreign investment. According to the World Bank, China's share of the global economy in 2023 was 16.87%. (World Bank, 2024a, 2024b). In addition, high rates of growth in labor productivity played an important role.

As a result, China has taken a leading position in a number of key economic indicators, such as gross domestic product (GDP), industrial output and goods exports, and continues to strengthen its position every year.

However, in recent years, China's economic growth has tended to slow down. In 2024, the International Monetary Fund predicted that China's economy would grow by 5% by the end of the year. Experts believe that in 2025, this figure will drop to 4.5%, and by 2029, China's economic growth rate will slow to 3.3% (IMF, 2024).

Taking into account this slowdown, the Chinese economy now faces several development issues, arising from the economic slowdown and deteriorating growth ratios. The problem field of the article is the interconnectedness of the current growth trends in China and the sources of the socio-economic challenges in the country. In this regard, the study of the characteristics of the national economy of the PRC and the main trends of its development is of particular relevance. The article aims at testing the thesis that the evolutionary economic development of China along with impressive results has led to the necessity to somewhat change the course of actions.

The issues of development of the Chinese economy have been studied by such foreign scientists as Liu Xiaohui (Liu, 2020), Herrero A.G. (Herrero, 2020), Rodrik D. (Rodrik, 2015) and many others. The major findings of Liu Xiaohui indicate the growing interconnection between industrial and rural areas, the formation of radiating industrialization and specific cases of faster development due to experimental reforms. Herrero indicates that despite the positive impact of industrialization on economic development and living standards, the aging population creates challenges for the Chinese economy due to the growing burden on the economically active population of the country. The creation of the so-called "silver economics" is missed out by the author. Among domestic scientists, it is worth highlighting the works of Ostrovsky A.V. (Ostrovsky, 2022), Tsyplakov S.S. (Tsyplakov, 2024), Koledenkova N.N. (Koledenkova, 2024), Erokhina E.A. (Erokhina, 1999) and others. Ostrovsky points out the current goal of the creation of the prosperity society in PRC in order to stimulate the domestic demand, Tsyplakov focuses on the prospects of the Chinese industrial development in underdeveloped regions of the country, Koledenkova and Erokhina try to figure out the systemic interconnections between the economic development of China and industrial processes in the country, to figure out the Chinese specifics of industrialization.

An analysis of the works of domestic and foreign authors showed that the factors of development of the Chinese economy and the assessment of its current state are widely discussed in the world scientific community due to the role that China plays in global politics and economics. At the same time, insufficient attention is paid to the development prospects of individual sectors of the economy, the integration of the country's economy into the global economic context and the socio-economic problems that have arisen in parallel with the development of the country's national economy.

The objective of this work is to analyze the characteristics and trends of the development of the national economy of the PRC, as well as to assess its current state taking into account the previous experience of the country development.

The major methods used in the study encompass the comparative analysis and the statistical analysis. The study aims to give an evolutionary approach to the current development issues and possibilities to overcome them through the analysis of the historical experience of the Chinese economic development through the end of XX-beginning of the XXI century. The significance of the study encompasses the comparison of evolutionary nature of the Chinese development and the necessity of significant changes in socio-economic policies to overcome the current challenges.

The research on the theme is quite numerous, the researched theme is covered from different angles, still one of the significant gaps, which has been researched, but by the authors' opinion not filled is the fragmented description of the formation of development challenges of the Chinese economy.

HISTORICAL ASPECTS OF THE FORMATION OF THE NATIONAL ECONOMY OF THE PRC

The rapid development of the PRC economy over the past 40 years represents the fastest economic growth in history. China's share of global GDP has increased from 1.7% in 1978 to 16.8% in 2023 (World Bank, 2024a, 2024b). During this period of growth, the Chinese government, both central and local, played a significant role in introducing market mechanisms into the national economy. The key role was played by the market participants themselves and the laws of the market economy. But at the same time, the authorities not only provided incentives for market forces, but also mitigated the negative consequences of the abrupt collapse of the old economic system during the economic takeoff.

The foundation of the modern economic system of the PRC was laid by the policy of reform and openness, proclaimed by Deng Xiaoping in December 1978 at the third plenary session of the Central Committee of the Communist Party of China (CPC) of the eleventh convocation. Its main goal was to attract foreign capital for the

economic development of the country. Until 1984, reforms were carried out mainly in agriculture. The replacement of collective farms with family farms and the transformation of communal workshops into collective enterprises made it possible to make individual farms more economically free, as well as those who worked on them. This was due to an increase in agricultural productivity, as well as the opportunity to make long-term investments in cultivated land using the proceeds (Vogel, 2011).

In addition, in 1983, farmers were allowed to do business outside their locality for the first time. The government recognized the need of rural residents to find new markets and alternative employment opportunities. For example, long-distance transportation was allowed. (Fang, 2011).

The second stage of reforms began in 1985 and lasted until 1992. At this stage, the secondary and tertiary sectors of the economy were actively developing. During this period, the number of people employed in the manufacturing industry, construction and energy increased by 25 million people, and in the service sector - by 34 million (Liu, 2020). This situation arose due to the appearance of a new workforce on the labor market after the agrarian reforms. In addition, the growth of agricultural production and the production of consumer goods.

It is important to note that the reforms were carried out quite smoothly and gradually. For example, agrarian reforms were initially carried out as initiatives of local authorities, and then formalized into a single national policy. A similar strategy was implemented in industry, as well as opening the domestic market to the influx of foreign capital. This is what made it possible to mitigate the growth of unemployment during the transition to a market economic system. (Fang et al. 2008).

In the period from 1993 to 2001, heavy and chemical industries began to dominate the PRC economy. This period was characterized by rapid infrastructure development, including in energy, transport and communications. Electric power, ferrous metallurgy, mechanical engineering, automobile manufacturing, shipbuilding, chemical industry, electronics, building materials and other industries became the main driving force of the Chinese economy. The development of these industries stimulated the demand for building materials, steel, non-ferrous metals, and petrochemical products.

Also, the restructuring of the economy during this period occurred due to the influx of foreign capital, the country's involvement in globalization processes and the subsequent increase in the weight of the PRC economy in the world economy. An enormous role in Deng Xiaoping's reform program was played by increasing exports. In 1997, the "Going Out" strategy was adopted, which assumed an increase in national exports and a fourfold increase in GDP by 2020. Thus, if in 1978 the share of exports in the country's GDP was 4.6%, then by 2001 this figure had increased to 23%, or five times. (Hu et al. 2005). The volume of exports of products from labor-intensive sectors of the economy increased rapidly. This contributed to the creation of new jobs and a reduction in poverty.

The country also actively continued the policy of creating special economic zones (SEZs), which began in 1979. SEZs are located in a specific geographical area, characterized by special internal management, as well as separate customs and administrative procedures. Unique advantages also include more lenient legal regulation and economic policy compared to other regions of the country. The first SEZs were created in Shenzhen, Zhuhai and Shantou. In 1980, a SEZ was opened in Xiamen, and in 1988 - in Hainan. Moreover, the formation of economic zones occurred mainly in coastal areas. (Crane et al. 2018).

The neoclassical model of economic growth assumes that poorer regions catch up with richer ones in development. This theory has been confirmed in Western Europe and the United States. However, the predominant distribution of SEZs on the east coast has led to foreign investment being distributed unevenly across regions. By 2000, the eastern provinces of Guangdong, Fujian, Jiangsu and Shandong accounted for approximately 69% of all foreign direct investment (FDI) in China. (Valiullin, Shakirova, 2004). While the Chinese experience of the creation of SEZs differs significantly from the Western countries, it's necessary to point out several important points on the challenges of the use of SEZs for economic development of China at that period. First and foremost, the rapid growth of the SEZs led to the necessity to focus on the dissemination of their economic effects for the country as a whole. In this regard their specialization was introduced so that they attract specialized companies and form "industrial clusters" in neighboring areas, or the areas, tightly connected to the SEZs later on (with the development of the highly efficient transport infrastructure in China). Secondly, the development of SEZs required state regulation of the distribution of the wealth, gained by their residents, among the population of rural areas and workers of the factories in SEZs. Thirdly, the ability of the PRC to support the exports of the country through the control over the renminbi exchange rate allowed to outperform the efficiency of the developed countries' SEZs and industries in general despite the initially poorer quality of goods. All in all, SEZs allowed the Chinese economy to get ready for a more active "opening" policy and test the system of the wealth distribution from the higher developed regions of the country to the lower developed ones. This economic dynamism also carried a distinct social cost: SEZ industries drew millions of rural migrant workers who, under

the household registration (hukou) system, largely retained their rural registration and so lacked full access to urban social insurance, public healthcare and schooling for their children, resulting in precarious working and living conditions alongside the zones' export success (Fang et al., 2008).

The process of reform and "opening" of the Chinese economy was also facilitated by the country's entry into the World Trade Organization (WTO) in 2001 (China, 2025). It can be said that after China's entry into the WTO, the country very quickly became the world's second largest economy and the largest commodity producer (Zhu, Wei, 2022).

In 2014, Chinese President Xi Jinping announced the transition of the country's foreign economic strategy to the "new normal" stage, which included three important points, namely, a reduction in economic growth rates from ultra-high to medium-high (6.5-7%), transformation and modernization of the economic structure, and a transition from investment-based stimulation of economic growth to innovation-based stimulation. This was later reflected in the 13th Five-Year Social and Economic Development Plan (2016–2020). This was due, among other things, to a gradual slowdown in economic growth rates, a trend that continues today (Mozias, 2020).

At the present stage, the economic strategy of the PRC is aimed at achieving socialist modernization by 2035, as well as developing the scientific and technical base. In 2016, the government of the country published the Basic Provisions of the National Strategy for Innovative Development, which set the goal of increasing the share of expenditure on scientific research and design development to 2.5% of GDP. Also in July 2024, the Premier of the State Council of the PRC additionally emphasized the need for an innovative impetus in the development of the country's economy (Key, 2024). It is worth noting that by 2020, the PRC really occupied a leading position in production in many high-tech industries. Thus, in 2020, the country's share in the global production of computer equipment and electronics was 26.8%, the chemical industry - 29.1%, machinery and other equipment - 32%, electrical equipment - 36.1%. (Atkinson, 2024). In 2023, the country's R&D expenditure amounted to 3.33 trillion yuan (48 trillion rubles) or 2.65% of GDP.

The emphasis is also on the development of e-commerce platforms, both in the domestic and foreign markets. A study on the development trend of China's cross-border e-commerce (2024-2029) conducted by the China Business Industry Research Institute shows that the cross-border e-commerce transaction volume will be 16.85 trillion yuan (RUB 242.6 trillion) in 2023, an increase of 7.32% compared with 15.7 trillion yuan (RUB 226.1 trillion) in 2022. The organization's analysts predicted that the cross-border e-commerce market size in China was about to reach 17.66 trillion yuan (RUB 254.3 trillion) in 2024. (China Business, 2024).

The 14th Economic and Social Development Plan for 2021-2025 prioritizes scientific research, education, finance, and technology, with \$1.4 trillion in investment in digital infrastructure. It emphasizes reliance on domestic resources and domestic innovation while maintaining access to overseas markets, technology, capital, and research to achieve China's economic goals. It emphasizes reliance on domestic resources in energy and agriculture.

To stimulate economic growth, the Chinese government is implementing a "dual circulation" policy. Its essence lies in creating additional development impetus in both the domestic and foreign markets. Thus, within the framework of this strategy, in the first five months of 2024, state investment in fixed assets in the manufacturing industry grew by 9.6% compared to the same period in 2023, with investment growth observed in priority sectors: railway, shipping and aerospace manufacturing (growth by 35%), metal products manufacturing (growth by 18%) and information technology (growth by 15%) (Sutter, Sutherland, 2024).

In the transition to the international division of labor, China has achieved great development in industrialization. With the large-scale migration of labor from rural areas, China has begun to show its comparative advantage. In terms of foreign trade, China's trade deficit in the past has turned into a surplus in recent years, and the degree of dependence on foreign trade has increased. The opening-up policy has also promoted market reform. Comprehensive supporting reforms have been carried out in the macro-regulation system. The structure of China's economy has shifted from a domestic consumption-oriented economy to an export-oriented economy.

KEY MACROECONOMIC INDICATORS

In 2023, China's GDP was 126.95 trillion yuan (1968.28 trillion rubles), up 5.2% from 2022. The added value of the primary sector of the economy was 8.97 trillion yuan (140.05 trillion rubles) or 7.1%, the secondary sector - 48.25 trillion yuan (753.34 trillion rubles) or 38.3%, the tertiary sector - 68.82 trillion yuan (1074.5 trillion rubles) or 54.6% (Statistical, 2024).

Quarterly growth of China's GDP has been quite unstable over the past three years (**Table 1**). Fluctuations in the previous year's calculation base also had a significant impact on GDP figures:

Table 1. China's quarterly GDP growth

	1st quarter		2nd quarter		3rd quarter		IV quarter	
	Year to year (%)	Quarter to quarter (%)	Year to year (%)	Quarter to quarter (%)	Year to year (%)	Quarter to quarter (%)	Year to year (%)	Quarter to quarter (%)
2023	+4.5	+2.1	+6.3	+0.6	+4.9	+1.5	+5.2	+1.0
2022	+4.8	+0.6	+0.4	-2.1	+3.9	+2.9	+2.9	+0.6
2021	+18.7	+0.6	+8.3	+1.4	+5.2	+0.6	+4.3	+1.6
2020	-6.9	-10.3	+3.1	+11.5	+4.8	+3.4	+6.4	+2.6

Source: Compiled by the Authors (Statistical, 2024).

In 2023, the main impetus for economic growth was provided by consumption and investment. If in 2022 the contribution of final consumption to the growth of the Chinese economy was 32.8%, and investment - 50.1%, then in 2023 - 82.5% and 28.9%, respectively (Tsyplakov, 2024).

The structure of consumer spending in 2023 remained almost the same as in 2022. The share of spending on food products was 29.8%, on housing - 22.7%. Similar categories in 2022 accounted for 30.5% and 24%, respectively. That is, these categories of expenses in 2022 and 2023 accounted for 54.5% and 52.5% of total consumer spending, respectively (Tsyplakov, 2024).

The GDP per capita in 2023 was 89.3 thousand yuan (1.39 million rubles), up 5.4% from the previous year. The gross national income was 125.1 trillion yuan (1953 trillion rubles), up 5.6% from the previous year. The total labor productivity was 161.6 thousand yuan (2523.09 thousand rubles) per person, up 5.7% from the previous year.

The population in 2023 was 1.409 billion people, 2.08 million less than in 2022. The birth rate was 6.39‰, the death rate was 7.87‰. The natural increase rate was negative and amounted to -1.48‰.

The number of employed population in 2023 was 740.41 million people. Of these, 470 million people, or 63.5%, were urban workers. The number of rural workers was 297.53 million people. The average unemployment rate in cities was 5.2% versus 5.6% in 2022. It is worth noting that the unemployment rate among people aged 16 to 24 is significantly higher than among other age groups. Thus, in mid-2023, this indicator reached 21.3%, after which the National Statistics Office of the PRC temporarily stopped publishing information on this indicator and resumed it excluding students and pupils (Ostrovsky, 2022). After that, the unemployment rate among people aged 16 to 24 decreased to 18.8% in August 2024. This situation was due to the slow pace of economic recovery after the COVID -19 pandemic (Chinas youth, 2024).

The consumer price index in China in 2023 was 0.2%, which was much lower than the target of 3%. The inflation rate in 2022 was 2%. In 2024, prices in the country were expected to grow by 3%. It is worth noting that deflation was observed in some sectors. Thus, the decline in real estate rental prices in 2023 was 0.2%, and in the field of transportation and telecommunications, prices fell by 2.3%. The level of food prices fell by 3.7% compared to 2022. At the same time, prices in the service sector increased by 1% (Price, 2024). The average CPI in OECD economies in 2023 reached 7% (OECD, 2024). The Chinese result clearly demonstrates two tendencies – both the positive socially-oriented changes and the negative overheating of the economy (the deflation is one of the first indicators of economic stagnation).

The volume of merchandise trade in 2023 amounted to USD 5.93 trillion (RUB 640 trillion). At the same time, the volume of merchandise exports amounted to USD 3.37 trillion (RUB 363.96 trillion), and imports - USD 2.55 trillion (RUB 275.4 trillion). The trade balance was positive and amounted to USD 820 billion (RUB 88.5 trillion).

The volume of trade in services in 2023 reached 6.57 trillion yuan (97.94 trillion rubles), which is 10% more than in 2022 - 5.98 trillion yuan (89.15 trillion rubles). At the same time, the volume of exports amounted to 2.68 trillion yuan (39.95 trillion rubles), and imports - 3.88 trillion yuan (57.84 trillion rubles).

China's gold and foreign exchange reserves amounted to USD 3.261 trillion at the end of October 2024.

MAIN SECTORS OF THE PRC ECONOMY

In 2023, the added value of industry amounted to 39.9 trillion yuan (589.9 trillion rubles). Compared with the previous year, this figure increased by 4.2%. In the extractive industry, the added value increased by 2.3%, and in the manufacturing industry - by 5%. It is worth noting that despite all the efforts made by the government to introduce new technologies, the increase in the added value of high-tech production was only 2.7% (Koledenkova, 2024).

Overall, in 2023, the growth in added value compared to the previous year was maintained in 31 of the 41 main industries. Among them, the largest growth was shown by the production of automobiles (20%), smelting and pressing of non-ferrous metals (12.9%), production of electrical machines and apparatus (10.1%), production of computers, communication equipment and other electronic equipment (9.6%). The smallest growth was shown by the processing of food products from agricultural and by-products (0.8%), production of non-metallic mineral products (0.3%), production in the textile industry (1.7%) (Industrial, 2024).

The 2023 demonstrated that the Chinese industrial sector hasn't fully recovered from pandemics, while in 2024 the majority of industries demonstrated better performance. The growth of the automobile industry in PRC in 2024 reached the global and national record of 5.5%, exceeding the pre-pandemic levels of the volume of industry. The EVs were the drivers of the industry growth, leading to the growth of FDI inflows in the sector. It's notable that even for the slowly recovering industries, such as textile industry, the results of growth in 2024 were higher than in 2019 (Mehta, 2024).

It is worth noting that despite measures to stabilize the economy, overall, the industry saw a decline in profits in 2023. The total profit of industrial enterprises in 2023 compared to the previous year decreased by 2.3% and amounted to 7.7 trillion yuan (RUB 113.84 trillion) (The profit, 2024).

The largest increase was shown by ferrous metallurgy (157.3%), non-ferrous metallurgy (28%), and transport equipment (22%). The largest decrease in profit was in the mining industry (400%), non-metallic raw materials production (15.5%), and oil, coal, and other energy resource extraction (25.3%).

At the same time, production volumes are growing in industry. The highest year-on-year growth rates were observed in electricity (6.9%), non-ferrous metals (7.1%), and natural gas (5.6%).

In the first half of 2024, the added value of the service sector increased by 4.6% compared to the same period of the previous year. In particular, the added value of the sphere of information transfer services, software and information technology - by 11.9%, rent and services to the commercial sector - by 9.8%, transportation, storage of goods in warehouses and postal services - by 6.9%, hotel business and catering - by 6.6%, wholesale and retail trade - by 5.7%. (National, 2024).

In June 2024, the service production index increased by 4.7% year-on-year. In the first five months of 2024, the revenue of service enterprises exceeding the set size increased by 8.5% year-on-year. In June, the service business activity index was 50.2%. The expected service business activity index was 57.6%. Among them, the business activity index in such industries as air transportation, postal services, telecommunications, radio broadcasting, television and satellite broadcasting, financial services and insurance were in the range of 55% or higher.

In the first half of 2024, total retail sales of consumer goods reached 23.6 trillion yuan (RUB 348.9 trillion), an increase of 3.7% year on year. It is worth noting that retail sales of consumer goods in urban areas exceeded 20.4 trillion yuan (RUB 301.6 trillion), an increase of 3.6% compared with the same period in 2023, and in rural areas - 3.1 trillion yuan (RUB 45.8 trillion), an increase of 4.5%. Broken down by consumption type, retail sales of goods amounted to 20.9 trillion yuan (RUB 309 trillion), an increase of 3.2% year-on-year, and the revenue of catering enterprises amounted to 2.6 trillion yuan (RUB 38.4 trillion), an increase of 7.9%. The volume of online retail sales reached 7.09 trillion yuan (RUB 104.8 trillion), an increase of 9.8% year-on-year. In addition, in the first half of 2024, the volume of retail services increased by 7.5% year-on-year. It's worth noting that, just as during the pandemics, the households tend to save aggressively, in some regard slowing down the dynamics of the retail development.

The service sector of the Chinese economy demonstrated quite surprising dynamics in tourism – the 13% increase in the outbound travelers to China and the increase by 9% of the domestic tourism demonstrates the possibility to drive up the demand in the Chinese economy (Zipser, 2024).

The main food crops of the PRC include rice, wheat, corn, and soybeans. Rice is mainly grown in the Yangtze River basin, the Pearl River basin, and in the northeast of the country. The gross value of agricultural output in

2023 was 15.85 trillion yuan (RUB 234.3 trillion), which is 6.4 times more than in 2000 (RUB 2.49 trillion or RUB 36.8 trillion).

In the first half of the year, the added value of production in agriculture increased by 4% compared to the same period of the previous year. The total volume of grain production amounted to 149.78 million tons, which is 3.63 million tons more than in the same period of the previous year. The growth of this indicator was 2.5%. In the first half of the year, the production of pork, beef, lamb and poultry amounted to 47.12 million tons, an increase of 0.6% compared to the first half of 2023 (National, 2024).

The Chinese government pays great attention to food security and agricultural development. Thus, in 2023, the Chinese government formulated the main directions of work on rural revitalization, and five of the nine directions are directly related to food security, in particular - grain production, agricultural infrastructure, support for the development of technology and agricultural equipment, high-quality development of rural industry and increasing employment in agriculture.

Since 2006, government measures have also been in place to support wheat production. When market prices fall below the annually set minimum price, the government is obliged to purchase wheat from farmers at the set price, guaranteeing farmers a certain level of income and stimulating further cultivation of the main agricultural crop. This policy has been quite effective: if in 2006 the volume of grain grown was 497.4 million tons, then by 2023 this figure had grown to 695.4 million tons. In addition, China is actively increasing the area of arable land. Thus, if in 2006 the area of land for crops was 152.1 million hectares, then in 2023 this figure reached 171.6 million hectares.

At the same time, China is the world leader in agricultural imports. Thus, in 2022, the country's food imports amounted to USD 98.3 billion. (Dong et al. 2024).

Thus, the PRC economy is one of the largest in the world. The policy of reform and openness over the years of implementation has yielded positive results for both business and citizens. Despite the consequences of the COVID -19 pandemic, the country is demonstrating moderate economic growth and an increase in industrial production. Economic growth is due to large public investments in industry, attracting foreign investment, increasing foreign trade and creating impetus for the development of high-tech industries.

A distinctive feature of the country's national economy is the combination of state planning of economic activity with market mechanisms. Key development goals and planned economic indicators are established within the framework of five-year plans for socio-economic development.

KEY ISSUES OF DEVELOPMENT OF CHINA'S NATIONAL ECONOMY AT THE PRESENT STAGE

Population aging is one of the issues that is in the focus of the Chinese government. According to the World Health Organization, by 2040 the population aged over 60 will be approximately 402 million people, or 28% of the country's population. (Aging and health). In 2023, the population of the PRC over 65 years old was 216.7 million people, or 15.84% of the country's population. For comparison, in 2000, the proportion of the population over 65 years old was 7%.

The decline in birth rates in the 1990s led to a decline in the labor force in the mid-2010s. The impact of ageing is more pronounced in rural areas due to the migration of the working-age population from rural areas to cities. Thus, between 2014 and 2023, the proportion of the urban population increased from 55.75% to 66.16%. Although the population aged 65 and over also moved to urban areas, its proportional increase in cities was comparatively moderate. In fact, the process of urbanization has led to a sharp increase in the labor supply in cities, as children and the elderly have been less inclined to move to urban areas. In fact, despite the slowdown in the growth rate of the total labor force, the size of the urban labor force in China continued to grow between 2010 and 2020 (Herrero, 2024).

According to experts, population aging constrained China's GDP growth by about 1 percentage point annually between 2010 and 2020. Assuming current rates of urbanization continue, continued increases in urban labor supply should contribute to GDP growth of about 0.4% per year. However, between 2035 and 2050, continued population aging and urbanization will constrain GDP growth by 1.36% annually (Herrero, 2024).

The declining birth rates are not only the result of the mentioned demographic changes. All in all, the "single family, single child policy", despite being efficient in the provision of the higher living standards and securing food supply and ability of the Chinese economy to satisfy the basic needs of its society led to the shift in public behavior. In turn the necessity to provide the ever-growing living standards gives a significant pressure on the Chinese economy and makes the task of the fertility growth even harder to maintain. The individuals have higher living

standards being child-free, the ageing population without children in urban areas demonstrates higher living standards than the traditional families in rural areas. The ecological issues have an indirect impact on the issue too – in urbanized areas the higher access to medical support, better public services do not compensate the growing prices on real estate market, the higher level of fertility system illnesses etc (Liang, Gibson, 2017; Cai, Zhong, 2025).

The Chinese government has taken a series of strategic measures to address the issue of population aging, focusing on increasing the birth rate and adapting the economy to an aging society. In 2016, the one-child policy was abolished, with two children officially allowed. In 2021, a three-child policy was introduced to further increase the birth rate. In addition, the government has outlined plans to gradually increase the retirement age, with a long-term goal of using the labor force more efficiently by 2030.

The concept of “silver economy” can’t be missed out when discussing ageing population of the country. The stimulation of economic activity of the most well-of middle-age and elderly citizens allows to boost the domestic demand and to level the growing economic burden on the economically active population. The other important implication of this policy is the stimulation of the development of the new services sectors, namely in healthcare, tourism and merchandise, aimed at the more expensive and less massive demand.

The next major challenge for China's economic development is the uneven development of China's regions. According to the National Bureau of Statistics of the People's Republic of China, in 2023, the GDP of the eastern provinces was 65.2 trillion yuan (94.1 trillion rubles), which is 5.4% more than in 2022. The GDP of the central provinces exceeded 26.9 trillion yuan (389.5 trillion rubles), showing an increase of 4.9% compared to the same period of the previous year. The production volume in the western provinces was 26.9 trillion yuan (389.5 trillion rubles), which is 5.5% more than in the previous year, the GDP of the northeastern provinces was 5.9 trillion yuan (85.4 trillion rubles, +4.8%). It is worth noting that the gross domestic product in the Beijing-Tianjin-Hebei region reached 10.4 trillion yuan (RUB 105.5 trillion, +5.1%), in the Yangtze River Economic Belt [The Yangtze River Economic Belt includes the provinces of Sichuan, Guizhou, Yunnan, Hubei, Hunan, Jiangxi, Anhui, Jiangsu and Zhejiang, as well as the municipalities of Chongqing and Shanghai.] – 58.4 trillion yuan (RUB 845.6 trillion), an increase of 5.5%, in the Yangtze River Delta region – 30.5 trillion yuan (RUB 441.6 trillion, +5.7%) (Statistical, 2024).

It can be concluded that 46% of the country's GDP last year was provided by the Yangtze River Economic Belt. The PRC's socio-economic development plan for 2021-2025 provides for the further development of the Yangtze River Economic Belt, the integration of the Yangtze River Delta region, and the creation of new growth poles and the realization of innovation potential in these areas. (Ge, 2019).

At the same time, it is necessary to note that despite the large differences in the GDP indicators of different regions of the country, their rates of economic growth are quite uniform.

In addition to the GDP indicator, significant differences can be observed between the GDP per capita in urban and rural areas of the eastern and western provinces. Thus, the per capita income in rural areas of the western and central provinces can be almost 30% of the per capita income of urban residents in the eastern provinces. (Xiao, Saidatulakma, 2023). For example, the GDP per capita in the central province of Gansu is approximately 40,000 yuan (553,000 rubles), while the same figure in the coastal province of Jiangsu exceeds 140,000 yuan (1.93 million rubles). The wages of residents of the western regions are approximately 57% of the wages of residents of the eastern regions, and 48% of those in the northeast. In addition, the cost of educating one student in the west is only 60% of the cost per student in the eastern province, and only 16 of the country's top 100 universities are located in the west. (Even, 2024). The low availability of quality higher education and low salaries create additional incentives for citizens to move to the east, which further exacerbates the situation with regional inequality.

The addressing of the inequity issue lies both in the concept of the prosperous society (namely, excluding the possibility to tolerate significant differences in prosperity) and in the concept of supporting the migration from rural to urban areas in case the provision of higher living standards is unavailable in places of migration origins (Giles, Ren, 2024). From one point of view this policy allows to effectively fight poverty, from the other – the education is concentrated in several urban areas, including Beijing, Shanghai, while the availability of public services in China remains highly uneven. Central policy design itself reinforces this divide: fiscal transfers and higher-education funding remain concentrated in a small number of administrative centres, chiefly Beijing and Shanghai, so that budgetary allocation channels a disproportionate share of national education and research spending to these cities, leaving western and rural provinces with persistently underfunded schools and universities despite their larger populations (Xiao, Saidatulakma, 2023; Even, 2024). All in all, these measures need to be adapted to the contemporary needs of shortening the living standards gap.

Environmental issues have been on the agenda of the Chinese government for several years now. According to the Global Air Quality Report 2021, out of 1,374 cities located in East Asia, 143 (or about 11%) had average annual PM_{2.5} particle concentrations seven times higher than the World Health Organization's recommended levels. All of these cities are located in China (The 2023 World, 2023).

China's environmental problems are primarily related to the country's accelerated economic growth. For example, in 2020 on share China accounted for 49.7 % of global coal production, or 3.7 billion tons. In January–November 2022, Chinese companies mined more than 4 billion tons of coal, setting a historical maximum (Coal information, 2020).

Since the 12th Five-Year Plan for Social and Economic Development (2011–2015), the Chinese government has included the carbon intensity reduction indicator in the five-year plans for national economic development. As a result, the carbon intensity of the Chinese economy decreased by 16.3% in 2011–2015 and by 18.8% in the 13th Five-Year Plan (2016–2020).

However, if we look at the statistics, we can see that China, despite all the statements on the environmental agenda, continues to increase coal production. In the period from January to March 2023, 20.45 GW of coal-fired electricity was approved, compared to 8.63 GW for the same period in 2022. In 2021, a total of 18 GW of coal-fired electricity was approved. In addition, the amount of imported coal is growing, especially from Russia. As of September 2021, supplies to China from abroad increased by 76%, and imports from Russia increased by a huge amount - 230% (Statistical review, 2022).

It is important to note that not only do industries have a negative impact on the environment, but also, as a consequence, a polluted environment has a negative effect on the national economy. Thus, water pollution still causes the death of more than 100 thousand people and economic damage in the amount of 1.5 trillion US dollars per year. (NGO, 2021). In 2020, the China Academy of Ecological Planning under the Ministry of Ecology and Environment of the People's Republic of China developed a draft Technical Guidelines for Calculating the Country's Green Gross Domestic Product (hereinafter referred to as GDP).

Green GDP is the result of subtracting from a country's gross domestic product the costs associated with the depletion of natural resources and environmental degradation, and the environmental damage resulting from human misuse of natural resources.

Formula for calculating "green" GDP (1):

$$GGDP = GDP - EnDC - EcDC - EaC, \quad (1)$$

Where GGDP – “green” GDP, GDP – GDP, EnDC – cost of environmental degradation, EcDC – cost of environmental deterioration, EaC – cost of consequences of environmental disasters.

Environmental Degradation Cost (EnDC) – the cost of environmental degradation: includes the costs of degradation of water and land resources, as well as the atmosphere.

The costs of water resource degradation include deterioration of public health due to water pollution and shortage of drinking water, economic losses in agriculture due to water pollution, additional costs for industrial water treatment, and economic losses of the urban population due to pollution.

The costs of air pollution include deterioration in public health, loss of crop yields due to acid rain and sulfur dioxide pollution, shortages of building materials due to acid rain and sulfur dioxide pollution, and increased cleaning costs.

The costs of land degradation include the costs of remediating contaminated soil and the costs associated with the inability to economically use land allocated for the storage of solid waste.

Ecological Deterioration Cost (EcDC) – the cost of environmental degradation. It takes into account the economic damage to the condition of pastures, fields and forests that has arisen as a result of irrational management.

Environmental Accident Cost (EaC) – the cost of consequences of environmental disasters. Losses from environmental emergencies are mainly determined by statistics of local environmental and nature protection agencies.

Each of the listed variables has its own calculation formula.

To illustrate the scale of these costs with the disaggregated data that Chinese authorities have published, one nationwide accounting exercise covering the Environmental Degradation Cost (EnDC) component found that it rose in absolute terms from 511 billion yuan in 2004 to 1,892 billion yuan in 2017, while falling as a share of GDP from 3.05% to 2.23% over the same period, with the provinces of Shandong, Hebei, Jiangsu, Henan and

Guangdong bearing the highest absolute costs (Ma et al., 2020). Comparable itemised year-by-year values for the Ecological Deterioration Cost (EcDC) and Environmental Accident Cost (EaC) components, or for the aggregate "green" GDP figure envisaged by the 2020 draft guidelines, have not yet been officially released by the Chinese authorities.

The construction sector is experiencing a deep crisis. For example, the rate of new construction starts fell by 20.4% in 2023 compared to 2022, with a 39.4% drop in 2022. In addition, the volume of residential real estate sales fell by 8.2%, and commercial real estate by 12%. The cost dynamics were also negative: in 2023, the sales volume fell by 6.5%, and in 2022, the drop was 26.7%.

Not only did the price of homes sold decline, but so did the average price of homes sell. In 2023, total home sales fell by 6.5%, with residential sales down 8.2% compared to 2022 and commercial sales down 9.3%. The decline continued in 2024. According to Goldman Sachs, prices fell 6.8% month-on-month in August 2024 (seasonally adjusted). In July, prices fell 7.6%. (Has Chinas, 2024).

Thus, despite all the successes achieved, the PRC economy faces a number of challenges, each of which is structural in nature. Economic growth, despite stimulation by investments, government spending and increased exports, is gradually slowing down. The problems of uneven regional development and population aging also have a negative impact on the development of the national economy.

CONCLUSION

Having considered the main stages of the development of the PRC economy and having analyzed its state at the current stage, we can conclude that the country's government has gradually reformed the structure of the national economy since 1979. It is worth noting that in connection with the emergence of new economic challenges, the policy of reform and openness continues to promote the adaptation of the national economy of the PRC to modern realities.

The reform and opening-up policy helped the country move from a focus on domestic consumption to a focus on exports and attracting foreign investment, which contributed to the growth of production of goods and services and the development of the private sector of the economy. Today, the Chinese government strives to follow a policy of parallel development of exports and stimulation of domestic production and consumption.

At the same time, despite the successes achieved, a number of structural problems are observed in the country's economy. For example, the crisis in the sphere of construction of residential and commercial real estate creates risks for the national economy. In addition, the accelerated rates of economic growth have caused great damage to the country's ecology, which also affects the potential for further development of the national economy. Environmental problems, namely water and soil pollution, create threats to food security and the need to find additional resources to eliminate them. In addition, the existing economic problems negatively affect the birth rate, which leads to the aging of the population and, as a result, a reduction in the workforce in the country.

The current situation requires a systematic change in socio-economic policy of the country; the most probable scenario is a further concentration on the developing of innovative industries and industries of strategic sovereignty importance. The implication of the "Industry 4.0" technologies in the industrial development leading to the transformation of the labor market of China from labor-intensive to knowledge-intensive could solve the issue of the decline in GDP due to the decline in workforce quantity and growing social expenses for the support of the elderly population. The shift in the production efficiency is expected to become a new driver of the Chinese industrial sector. At the same time more export-oriented service sector can strengthen the Chinese economic development, providing new growth opportunities, just as the industrial sector in the previous years.

Due to the highly hierarchical system of policy-making in PRC it's worth noting, that the major changes in the Chinese economic policy, that can be expected in the current situation in the country will be aimed at the growth of living standards through the redistribution of wealth and revenues of the Chinese enterprises, especially those revenues, exceeding the pre-pandemic levels and windfall revenues from the breakthrough technologies' implementation in industrial development.

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