

CHINA'S ECONOMIC GROWTH: ANALYZING TRENDS

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China remains the main driving force of the global economy. China has exceeded its development targets for 2023 (GDP grew by 5.2% instead of 5%), the growth of the Chinese economy in both percentage and monetary terms was higher than in the United States or the European Union (Fig. 1). Experts at the International Monetary Fund claim that China currently accounts for more than 30% of global growth. Economists forecast that the average growth of China's economy will exceed 5% until 2035.

Forecasts of the Chinese economy growth rate for 2024 now vary from 4.5% to 5.5%, and most experts expect China's GDP growth to be higher than in 2023. The authorship of the most cautious growth forecast of 4.5% belongs to the World Bank, it is shared by the investment group UBS.

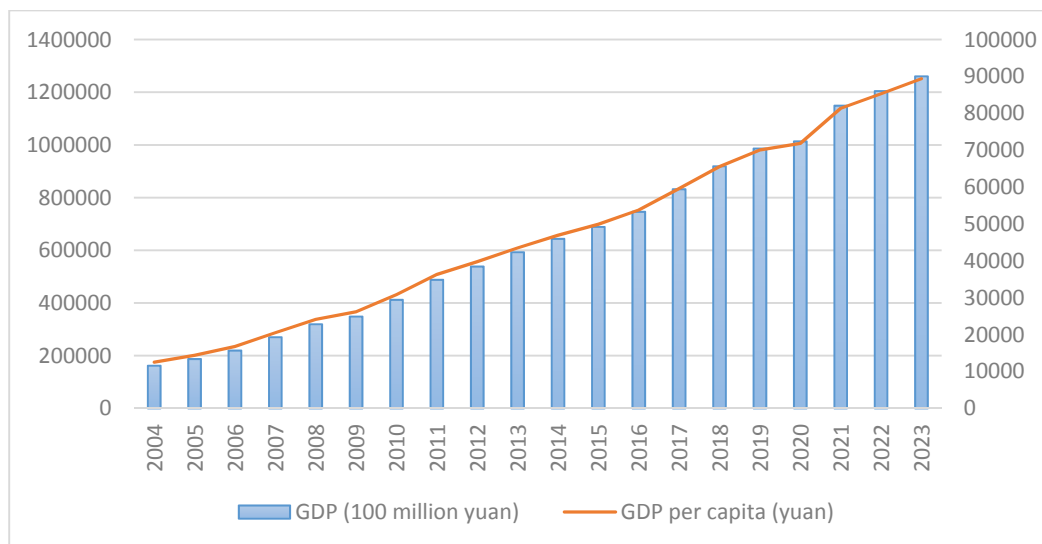


Fig. 1 – Dynamics of China's GDP in monetary and per capita terms in 2004-2023.

In addition, it should be remembered that international economic organizations usually set a lower forecast for China at the beginning of the year, and then revise their forecasts upwards. For example, the same World Bank raised its forecast for the Chinese economy in 2023 twice: in April by 0.8 percentage points (from 4.3% to 5.1%), and in June - by another 0.5 percentage points. We can say with a high degree of confidence that the same situation will be repeated in 2024.

Confidence in the prospects for the Chinese economy is based on four important characteristics of the modern Chinese economy, as Li Qiang, Premier of the State Council of the People's Republic of China, pointed out in his speech at the Davos Forum:

First is sustainability and balance. "We are not chasing short-term explosive growth at the cost of creating long-term risks. We are emphasizing strengthening our economic capacity. The Chinese economy has a strong immune system that can cope with cycles of ups and downs while maintaining a long-term development trend," Li emphasized.

Secondly, it is the ever-growing innovation potential: about 400,000 high-tech enterprises are already operating in China.

Thirdly, these are huge and growing markets: China's middle class currently numbers 400 million people and will double in the next 10 years, which will give a strong impetus to the development of consumption in the country.

Fourth, these are all new opportunities for foreign investors: the rate of return on investment for foreign capital in China is 9%. The country plans to lift all restrictions on foreign investment in the manufacturing sector and will continue to reduce the negative list for foreign investment in other sectors. "Entering the Chinese market is not a risk, but an opportunity," said the head of the Chinese government.

The success of the Chinese economy is largely determined by effective structural reforms, increasing the share of the service sector in the national economy (Fig. 2).

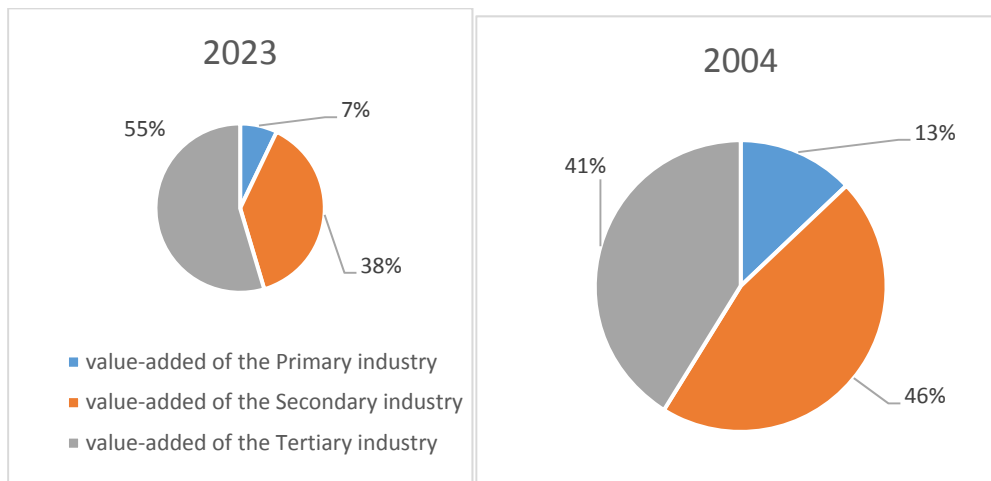


Fig. 2 – Structure of China's GDP at the beginning and the end of the period under analysis

As follows from Figure 2, the service sector grew from 41 to 55% during the analyzed period, while the share of the real sector of the economy, both extractive and manufacturing industries, tended to decrease.

Experts forecast the PRC real estate market to grow. In 2023, the inflow of foreign investment in China's construction sector was "explosive" - the increase amounted to 43.7%. Foreign capital is rushing to gain a foothold in the Chinese real estate market at a time when it is in a period of cyclical subsidence.

Last year, retail trade in China increased by 7.2%. Final consumption accounted for 82.5% of national economic growth. However, in 2024, according to the forecast of Tian Yun, an authoritative expert of the Chinese Institute of Macroeconomics, the growth rate of retail trade will fall to 5%, and final consumption will provide only half of the national economic growth.

That is why the expectation is to maintain high growth rates of investment activity: increased investment will mean new jobs and higher incomes, which will lead to an increase in consumer activity.

The main economic task for 2024 is to restore consumer and business confidence, which the Chinese authorities see as the key to progressive economic development.

The following factors have been identified as important growth points:

First, it is further urbanization: 34% of the PRC's population still lives permanently in rural areas, and the number of labor force migrating to cities is almost 300 million people.

Second, it is an increase in the consumer activity of the population, which is still inclined to save rather than spend: the savings rate in China today reaches 40%.

Third, it is the further development of the huge innovation potential, research and development: currently 40% of Chinese university graduates go into engineering specialties.

According to economists' forecasts, the weighted average growth of the Chinese economy will exceed 5% until 2035. This will more than double the national GDP by 2035 compared to 2020.

List of used literature

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