

High-Quality Development versus Baseline Risks: China's Structural Transformation to 2035 Using a 2023 IO-Updated Dynamic CGE Model

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During the 14th Five-Year Plan period (2021–2025), the world experienced major shocks—including the COVID-19 pandemic, geopolitical conflicts, and rapid AI advancements—which have profoundly reshaped the global economic order. Domestically, China is at a pivotal stage shaped by "threefold pressures": a structural slowdown in growth, adjustment pains associated with economic rebalancing, and the digestion of earlier policy legacies. Against this backdrop of heightened global uncertainty and deep-rooted domestic challenges, this paper asks: How will China's economic structure and key social outcomes evolve up to 2035? Specifically, what differences emerge between a "baseline" trajectory—which internalizes persistent risks and sluggish global growth—and a "high-quality development" pathway driven by proactive reforms and institutional innovation, in terms of growth drivers, demand rebalancing, structural upgrading, inequality reduction, and the low-carbon transition?

To answer these questions, we employ the latest version of the recursive-dynamic computable general equilibrium model for China (DRCCGE), developed by the Development Research Center of the State Council. As an extension of the input–output (IO) framework, the model preserves the economy-wide consistency and inter-industry network structure embedded in IO tables, while adding behavioral responses, price adjustments, factor markets, and institutional accounts. This enables deeper, network-based structural analysis than comparative-static IO multipliers—capturing economy-wide propagation mechanisms, substitution effects, and distributional and environmental linkages under alternative scenarios.

The base year for the analysis is 2023. Model calibration relies on a newly compiled 2023 Social Accounting Matrix (SAM) constructed from China's latest officially released 2023 IO table, complemented by consistent national accounts and relevant structural statistics. The model features 42 production sectors (1 agriculture, 26 industry, and 15 services), two representative household groups (urban and rural), and four primary production factors (capital and low-, medium-, and high-skilled labor).

The novelty of this research is threefold. First, it updates China's dynamic CGE/SAM database to the newest 2023 IO benchmark, improving the timeliness of structural diagnostics for the medium- to long-term horizon. Second, by combining an IO-consistent production network with factor heterogeneity (skills) and household heterogeneity (urban–rural), the framework links structural change to distributional outcomes in a unified, accounting-consistent setting. Third, the scenario design explicitly contrasts a risk-aware baseline with a policy-reform-based high-quality pathway, highlighting how changes in technology and efficiency reshape the IO network and its macro-social consequences.

Simulation results indicate that, relative to the baseline, the high-quality development scenario entails a pronounced shift in growth drivers from primarily capital accumulation to efficiency improvements and technological progress, with a substantially larger contribution from total factor productivity (TFP). Consequently, the economy exhibits stronger growth resilience even as the investment rate declines. On the demand side, domestic demand becomes more central: the share of consumption (including government consumption) rises, reliance on investment falls, and the expenditure structure becomes more balanced. On the supply side, structural change is more coordinated; services continue to expand while manufacturing maintains a reasonable weight, supporting steady employment absorption, and agricultural labor productivity improves markedly. Socially, the urban–rural income gap narrows at a clearly faster pace, consistent with a more inclusive growth profile. Environmentally, energy use and carbon emissions display "strong

decouplingâ€• from economic growth, peaking earlier and declining more rapidly to align with ambitious climate objectives. Overall, the high-quality development pathway improves performance along four dimensionsâ€”growth resilience, structural coordination, shared prosperity, and low-carbon transitionâ€”shifting Chinaâ€™s outlook to 2035 from a trajectory of â€œdeceleration by inertiaâ€• to one of â€œequality-oriented and sustainable upgrading.â€•