

## CHINA

GDP per capita has soared over the past five years, rising by close to 50% cumulatively, thereby substantially narrowing the wide gap with OECD countries. As employment rates remain quite high the difference in income per capita essentially reflects lower productivity. A broad range of reforms have occurred in recent years, supporting rapid productivity gains, though progress in the following areas would help to ensure that this continues.

### Priorities supported by indicators

#### **Reduce the importance of the state-owned sector in the economy**

The total factor productivity of state-owned enterprises is lower than that of privately-funded companies, and many state-owned companies are still encountering losses. Relative to OECD countries, the role of state-owned enterprises is high, especially in large parts of the services sector, harming efficiency.

**Actions taken:** The government issued 36 guidelines for supporting and guiding non-public economic development in April 2010, which encouraged private investment in railways, power, telecommunications and rural banks. State-controlled companies are expected to withdraw from some competitive sectors and concentrate on sectors regarded as key, such as coal, petroleum and metals.

**Recommendations:** The formation of large “private equity” firms should no longer have to be approved by the government, in order to increase the funds available for restructuring poorly performing state-owned companies.

#### **Improve educational attainment**

The graduation rates in upper secondary and tertiary education are well below those in OECD countries. Moreover, there are large regional disparities in school attendance.

**Actions taken:** Public spending on education rose from 2.7% to 3.5% of GDP between 2004 and 2008 and may reach 4% in 2012. In April 2010, the government introduced a new long-term strategy designed to improve schooling for students under 6 and over 15. The quality of teacher training will be improved and entrance methods for higher education changed to reduce the weight of memory-based tests.

**Recommendations:** Inequalities in the provision of education need to be reduced both regionally and within urban areas. Quick implementation of the provisions for improving migrant education is important.

#### **Reduce administrative burdens on companies**

The time taken to form companies and obtain regulatory permits is unduly long, deterring the entry of new firms and impairing competition.

**Actions taken:** The threshold beyond which an investment project requires central government permission has been raised.

**Recommendations:** Government institutions should be required to conduct a regulatory impact analysis before introducing new rules, and should progressively review all regulations.

### Other key priorities

#### **Reduce barriers to urbanisation**

Income differentials between rural and urban incomes are very large, a result of significant barriers to migration. Further enabling reallocation of labour to high-productivity sectors of the economy should help boost productivity, as would a reduction in human capital differentials across the country.

**Actions taken:** Comprehensive health insurance and social assistance systems have been introduced in the countryside in 2009, while a new pension scheme is now being rolled out. Pilot studies are underway to reform the length of land use rights and household registration laws, potentially increasing labour mobility.

**Recommendations:** Social expenditure should be further increased to provide broader coverage and a stronger social safety net. Provisions of the 2003 Land Management Law need to be fully implemented to give all farmers full documentation for their rights, thus widening the rental market. The length of the use rights should be extended and household registration laws revised.

#### **Further enhance the rule of law**

The level of protection of IPRs is low by international standards and the efficacy of contract enforcement procedures varies across the country.

**Actions taken:** In June 2008, a new IPR strategy was introduced and has resulted in a new Patent Law and a draft revision to the Trademarks Law. Judicial hearings for IPR violation cases are to be concentrated in selected courts. Enforcement has begun to be stepped up.

**Recommendations:** The effectiveness of enforcement should be enhanced further through the strengthening of the judicial institutions.

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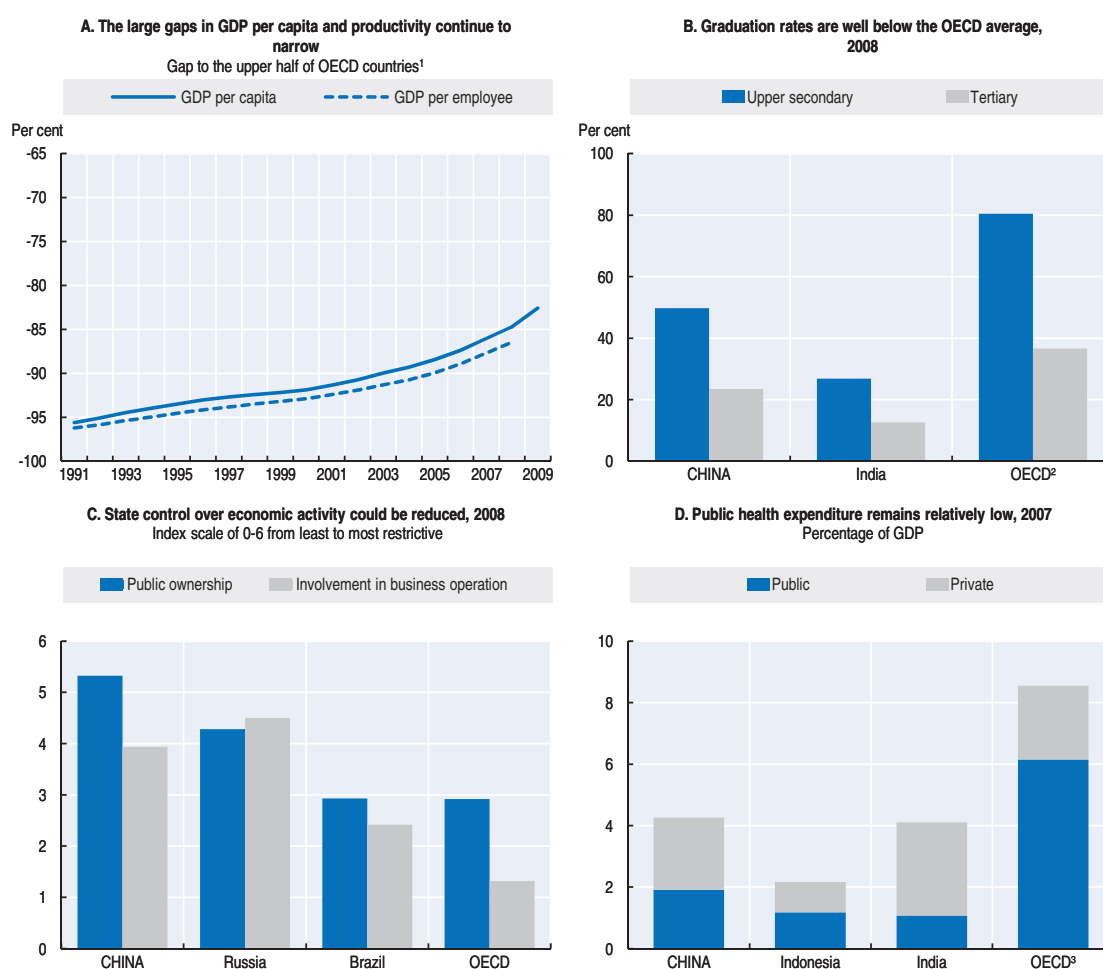
## Structural indicators

Average annual trend growth rates, per cent

	1998-2008	1998-2003	2003-08
GDP per capita	9.4	7.9	10.9
Labour utilisation	..	..	..
of which: Employment rate	0.5	0.5	0.4
Average hours	..	..	..
Labour productivity <sup>1</sup>	8.9	7.4	10.5
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

1. Labour productivity is measured as GDP per employee.

Source: Estimates based on World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*.



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast reforming countries.

1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).
2. For upper secondary education, average of OECD countries excluding Australia, Austria, Belgium, Estonia, France and the Netherlands; for tertiary education, excluding Belgium, Chile, Estonia, France and Korea.
3. Average of OECD countries excluding Chile, Estonia, Israel and Slovenia.

Source: Chart A: World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*; Chart B: OECD (2010), *Education at a Glance*; China Statistical Yearbook and India National Sample Survey (2007/8); Chart C: OECD, *Product Market Regulation Database*; Chart D: World Bank (2010), *World Development Indicators (WDI)*.

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