

# POLICY CHALLENGES IN IMPLEMENTING NATIONAL DEVELOPMENT PLANS China



This Note is an extract from the *Economic Outlook for Southeast Asia, China and India 2015: Strengthening Institutional Capacity*, <http://dx.doi.org/10.1787/saeo-2015-en>.

# China

## A. Medium-term economic outlook (forecast, 2015-19 average)

|                                     |      |
|-------------------------------------|------|
| GDP growth (percentage change):     | 6.8  |
| Current account balance (% of GDP): | 2.6  |
| Fiscal balance (% of GDP):          | -1.2 |

## B. Medium-term plan

Period: 2011-15  
Theme: Rebalancing the economy, ameliorating social inequality, and protecting the environment

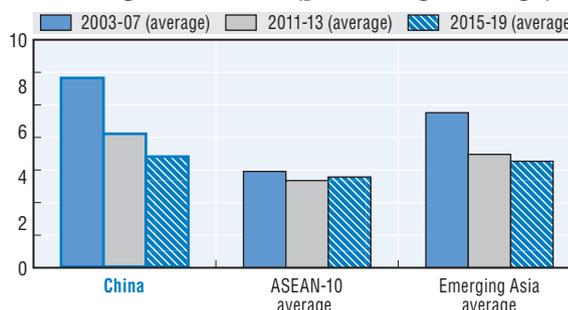
## C. Basic data (in 2013)

|                        |                        |
|------------------------|------------------------|
| Total population:      | 1 361 million*         |
| Population of Beijing: | 19.6 million (in 2010) |
| GDP per capita at PPP: | 9 844 (current USD)**  |

Note: \* Total population data for 2013 are estimates.  
\*\* IMF estimate.

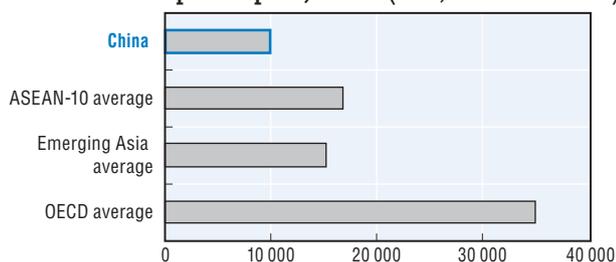
Sources: OECD Development Centre, MPF-2015, national sources and IMF.

## GDP growth rates (percentage change)



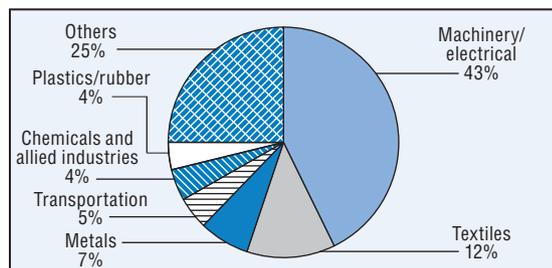
Source: OECD Development Centre, MPF-2015.

## GDP per capita, 2013 (PPP, current USD)



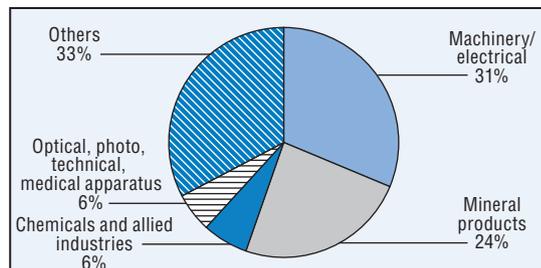
Source: IMF.

## Composition of exports, 2013 (percentage of total exports)



Source: Trademap.

## Composition of imports, 2013 (percentage of total imports)



Source: Trademap.

## Summary of the medium-term development plan

China's 12th Five-Year Plan outlines the government's strategic policies and priorities over the period 2011-15. Its objective is to achieve high-quality, inclusive and sustainable growth. Promoting China's continued shift towards an economic development model driven by domestic consumption rather than exports and investment is therefore a central goal. The Plan also pays particular attention to issues of wealth disparity and inequality, and seeks a more equal distribution of economic benefits, while also addressing environmental concerns by aiming to reduce emissions of major pollutants, increase forest cover and improve energy efficiency.

Improvements in competitiveness are needed to support balanced growth. To that end, the government has identified seven strategic emerging areas as priorities for

development over the Plan's five-year span. They are: new energy; energy conservation and environmental protection; clean energy vehicles, as part of the country's sustainable growth agenda; high-end equipment manufacturing; biotechnology; new information technologies; and moving up the value chain.

As the Eleventh Plan neared completion, China's National Development and Reform Commission (NDRC) started preparing the subsequent plan, determining its objectives and direction. The NDRC drafted proposals for the issues that the plan would address. The draft was then discussed in the Plenary Session of the Central Committee of the Communist Party of China (CPC). Meanwhile, municipal and provincial-level governments also prepared their policy proposals. The final draft of the Twelfth Plan was then drawn up from the CPC's proposal and inputs from provinces and ministries. The NDRC then consulted on the draft plan with a wide range of experts and stakeholders, including entrepreneurs, think tanks, research institutions, universities, local governments and ministries. The draft plan was then submitted to the annual session of the National People's Congress (NPC) to be reviewed and endorsed.

Table 2.7.1. China's key medium-term development targets (2011-15)

|  | Initial status (2010) | Current status (2013)  | Target (2015)               |
|--|-----------------------|--|-----------------------------|
| <b>Economic targets</b>  |                       |  |                             |
| GDP (trillion Yuan)  | 39.8                  | 56.9   | 55.8                        |
| GDP growth (%)   | 10.4                  | 7.7  | 7<br>(annually, on average) |
| Number of new jobs in urban areas  | 0                     | 38<br>(2011-13)  | 45 million                  |
| Registered urban unemployment (%)  | 4.1                   | 4.1  | < 5                         |
| <b>Economic restructuring</b>  |                       |  |                             |
| Service sector value added (% of GDP)  | 43.1                  | 46.1   | 47                          |
| Urbanisation rate (%)  | 47.5                  | 53.73  | 51.5                        |
| <b>Innovation</b>  |                       |  |                             |
| Expenditure on R&D (% of GDP)  | 1.8                   | 2.1  | 2.2                         |
| Invention patents per 10,000 people  | 1.7                   | 4.2<br>(March 2014)  | 3.3                         |
| <b>Environment and clean energy</b>  |                       |  |                             |
| Non-fossil fuel percentage of primary energy consumption (%)                   | 8.3                   | 9.8  | 11.4                        |
| Decrease in water consumption per unit of value-added<br>Industrial output (%) | 0                     | Decreased by 5.7%<br>per 10 000 Yuan<br>of value-added in 2013 | 30                          |
| Decrease in energy consumption per unit of GDP (%)                             | 0                     | 9.03   | 16                          |
| Decrease in carbon dioxide (CO <sub>2</sub> ) emission per unit of GDP (%)     | 0                     | 10.68  | 17                          |
| <b>Total decrease in emissions of major pollutants (% change):</b>             |                       |  |                             |
| Chemical oxygen demand (COD)   | 0                     | 7.8  | 8                           |
| Sulphur dioxide (SO <sub>2</sub> )   | 0                     | 9.9  | 8                           |
| Ammonia nitrogen   | 0                     | 7.1  | 10                          |
| Nitrogen oxides  | 0                     | 2  | 10                          |
| Forest coverage rate (%)   | 20.4                  | 21.6   | 21.7                        |
| Forest stock volume (billion m <sup>3</sup> )                                  | 13.7                  | 15.1   | 14.3                        |
| <b>Agriculture</b>   |                       |  |                             |
| Annual grain production capacity (in million tonnes)                           | 546                   | 601.94   | > 540                       |
| Farmland reserves (no less than 1.818 billion mu)                              | 1.818                 | 1.826<br>(February 2011)                                       | > 1.818                     |
| Water efficiency coefficient in agricultural irrigation                        | 0.4 (2009)            | 0.5 (2010)   | 0.5                         |
| <b>Livelihood</b>  |                       |  |                             |

Table 2.7.1. China's key medium-term development targets (2011-15)

|   |        |   |          |
|---|--------|---|----------|
| Population (billion)  | 1.341  | 1.361   | < 1.39   |
| Life span per person to increase by 1 year  | 73.5   | 75.2  | 74.5     |
|   |        | (2012)  |          |
| Number of urban residents enrolled in basic pension scheme (million people)           | 257    | 322   | 357      |
| Increase in rate of enrolment in basic medical insurance in urban and rural areas (%) | 0      | Medical insurance for non-working urban workers covers 90% of population; Rural cooperative medical care system 99% | 3        |
| Construction and renovation of apartments for low-income families (million units)     | 0      | 24.9  | 36       |
|   |        | (2011-13)   |          |
| Per capita disposable income of urban residents (Yuan)                                | 19 109 | 26 955  | > 26 810 |
| Per capita net income of rural residents (Yuan)                                       | 5 919  | 8 896   | > 8 310  |

Source: OECD Development Centre's compilation based on national sources.

## China's development plan and implementation

### The policy challenges of implementing the national plan in China

- Increase clean energy consumption in response to the serious environmental degradation that persists despite the country's efforts to reduce pollution.
- Increase rural and agricultural development to help improve urban-rural equality.
- Continue reforms and improve education in order to exploit the potential of the service sector to drive future growth.

### Higher-quality growth, a better balanced economy, greater social equality and environmental protection

China has recorded impressive growth over the past decades. Although this has led to sharp reductions in poverty rates, inequality has increased. The country's Gini coefficient increased from about 0.38 in 1996 to 0.47 in 2013. Through its 12th Five-Year Plan, China aims to encourage more inclusive and sustainable growth. It has set a growth target of around 7% for 2015, much lower than the 11.2% average growth actually achieved under the 11th plan. Nonetheless, a number of challenges still need to be addressed to foster continued growth, particularly the improved quality of growth desired.

### Rural and agriculture development is needed to promote urban-rural social equality

The urban-rural divide is a serious issue in the Chinese economy. The differences in income, as well as in quality of life between urban and rural populations, are wide. The 12th Five-Year Plan includes measures to improve incomes – in rural as well as urban areas. China also plans to provide greater access to health services for the rural population, establishing a basic national medical insurance system, especially to cover non-working urban residents and rural households. Improvements have been achieved by, for instance, increasing government subsidies for basic medical insurance and reimbursement rates for hospitalisation and outpatient care. The government has also expanded the rural co-operative medical care system to cover a higher number of rural residents.

Agricultural and rural development, too, is crucial if inequality is to be reduced. Improvements to agricultural productivity are therefore needed to increase production and rural incomes, although the medium-term plan does not set any explicit targets towards these ends. Agricultural modernisation and infrastructure upgrades could help to boost incomes in rural areas, as could widening access to healthcare, education and other services that enhance productivity and well-being.

#### **Environmental degradation remains a major issue despite efforts to reduce pollution**

Industrialisation has grown fast and, with it, energy demand – total energy consumption increased by 2.7% *per annum* between 1990 and 2001, and has climbed by 7.9% *per annum* on average since 2001 (ABB, 2011). China has struggled to balance pollution reduction with rapid growth and the consequently burgeoning energy demand. Addressing environmental challenges has now become a long-term focus. The 12th Five-Year Plan reflects the continuing commitment to addressing the issue of environmental degradation and outlines ambitious targets. It targets reduced emissions of major pollutants – carbon dioxide (CO<sub>2</sub>), chemical oxygen demand (COD), sulphur dioxide (SO<sub>2</sub>), nitrous oxide (NOx) and ammonia nitrogen. The plan also aims to increase forest cover.

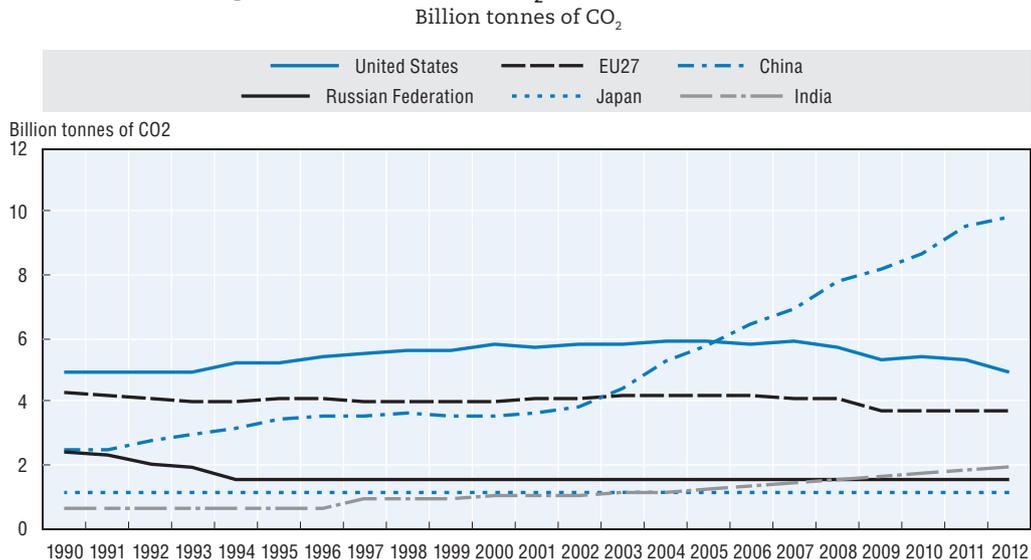
Despite these efforts, pollution remains a major issue. China is still the world's largest emitter of CO<sub>2</sub>, the principal greenhouse gas, with a 29% share of global CO<sub>2</sub> emissions in 2012 – considerably larger than the shares of either the United States (16%), the European Union (11%) or India (6%). China's CO<sub>2</sub> emissions from fossil fuel and cement production increased by 3.3% between 2011 and 2012, although the rise was actually lower than the annual increases of around 10% over the previous decade. Nevertheless, it was still higher than the growth in the European Union (1.3%) (Figure 2.7.1).

The bulk of China's carbon emissions originate in manufacturing, while emissions in most advanced economies are more mixed between manufacturing, transport-related, commercial and residential sources. To curb emissions, China will therefore have to focus on industry and ease the power and manufacturing sectors away from their dependence on coal consumption.

China is also the largest emitter of SO<sub>2</sub> and NOx, pollutants that are generated by coal-fired power plants and cause environmental damage like acid rain (Figure 2.7.2). The country emits more than the United States and the European Union combined (OECD, 2013b).

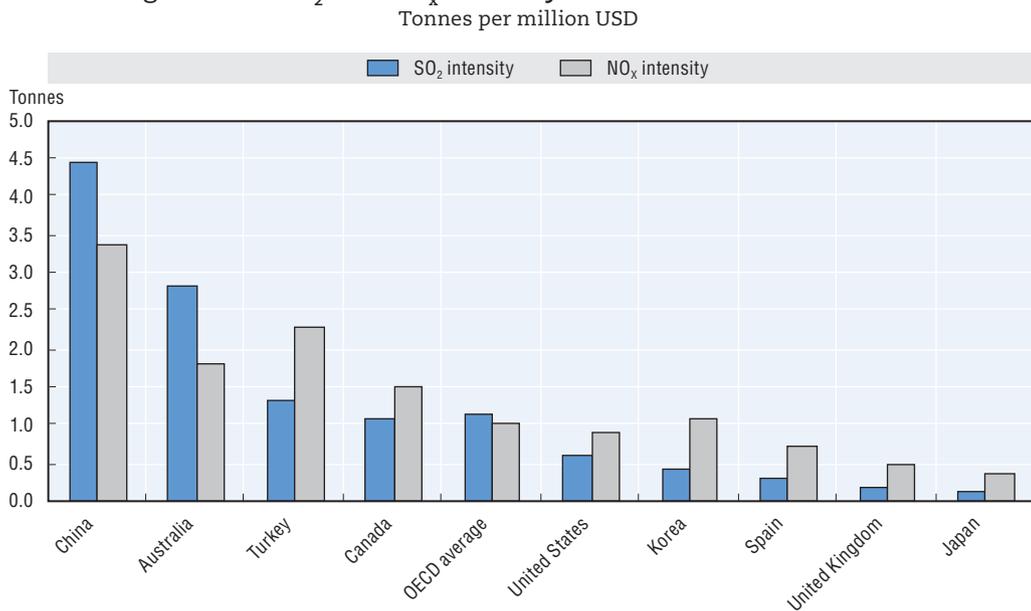
To address its multiple pollution issues effectively, China must promote investment in carbon capture, clean-up technologies and green energy. It also needs to further strengthen the enforcement of environmental law and supervise the environmental authorities more closely. To those ends, co-ordination between central and local government should be improved.

Figure 2.7.1. Trends in CO<sub>2</sub> emissions, 1990-2012



Source: Oliver, J. et al. (2013), *Trends in Global CO<sub>2</sub> Emissions; 2013 Report, Background Studies*, PBL Netherlands Environmental Assessment Agency and European Commission's Joint Research Centre, The Hague.  
 StatLink <http://dx.doi.org/10.1787/888933179751>

Figure 2.7.2. SO<sub>2</sub> and NO<sub>x</sub> intensity in selected OECD countries



Source: OECD (2013b), *OECD Economic Surveys: China*, OECD Publishing, Paris.  
 StatLink <http://dx.doi.org/10.1787/888933179769>

**Further efforts on energy efficiency are required to achieve sustainable development**

In order to achieve its carbon-intensity and energy-intensity targets, China should encourage clean energy use by championing non-fossil fuel and renewable energy, as coal remains the country's main source of energy. Under the 12th Five-Year Plan, China aims to achieve that goal by supporting the development of hydropower construction

and nuclear energy. To achieve sustainable growth, though, China should strive not only to reduce carbon intensity, but to improve energy efficiency, too. Through the 12th plan, it is seeking to reduce energy consumption per unit of GDP.

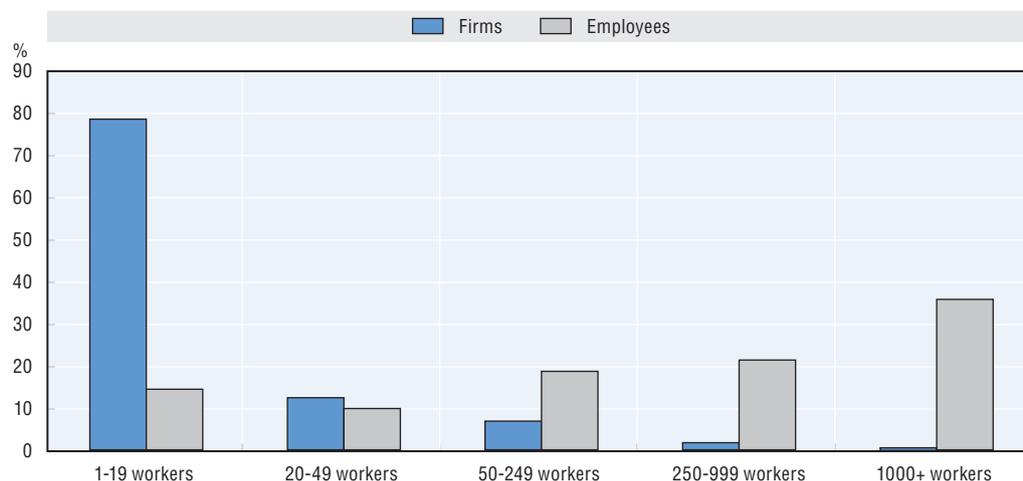
Accordingly, the government has earmarked USD 372 billion for energy conservation and anti-pollution projects. Liberalising energy prices may also contribute to meeting the energy efficiency target. Nevertheless, China is still less energy efficient than most OECD countries and some other large emerging economies. Further encouraging initiatives to improve the energy standards of buildings and consumer goods could help boost energy efficiency.

### Further development of the services sector is important

While it has been eclipsed by the rapid expansion of manufacturing in China, the services sector has great potential to drive future growth. The 12th Plan reflects China's attempts to boost its services sector's share of GDP to 47% as it seeks to restructure the economy. Although the figure would be a major improvement, it is still low compared to other countries (Roach, 2011), since China's services account for a smaller share of national income than in many other developing countries (Liping and Evenett, 2010). China has plenty of room for improvement in developing its services sector. Doing so would support the objective of a greener economy, as the service industry is more environmentally friendly than resource-intensive manufacturing. And it would help absorb the country's labour surplus.

Distributive services, like the wholesale and retail trade, have employment potential and can help absorb the new rural workforce that growing urbanisation draws to the cities. Micro, small and medium-sized firms (MSMEs) with fewer than 250 employees account for 43% of China's employment in services (Figure 2.7.3). SOEs still account for a sizeable share of total firms (20%) and employment (19%) in the services sector, and tend to be larger than their private sector peers, on average. The development of the services sector is therefore likely to benefit from the creation of a business environment supportive of dynamic, innovative SMEs.

Figure 2.7.3. MSMEs make a significant contribution to China's services sector  
Shares of services firms and employment by firm size



Sources: National statistics; OECD Development Centre's calculation.

StatLink  <http://dx.doi.org/10.1787/888933179774>

Greater access to education is needed to support inclusive growth, particularly in the services sector. Modern and high-technology services with the greatest potential to drive future growth – such as telecommunications, financial and business services – require highly-trained workers. To be sure, China has made great advances in education: Shanghai’s students topped the 2012 PISA rankings in mathematics, with a mean score of 613 points – 119 points above the OECD average. Nevertheless, many children and young people in China face barriers in accessing education, particularly among poor and rural households and rural migrants to the cities. In 2010, only 18% of Chinese adults aged between 25 and 64 had reached at least the upper-secondary level, still far below the OECD average of 74%.

#### **A continued emphasis on economic reform can be expected from the government in the future**

The March 2013 Chinese People’s Political Consultative Congress (CPPCC) and National People’s Congress (NPC), the first such meetings held under the premiership of Li Keqiang, highlighted priority areas for reform. While some attention was paid to decentralisation and other limited political reform, the stress was on the need to further liberalise the economy – including the financial sector. Furthermore, government reforms are intended to bolster the market, with fiscal and tax system reforms and the opening of SOEs to mixed-ownership structures planned.

Such plans echoed the outcomes of the Third Plenary Session of the 18th Central committee of the Communist Party of China, held in November 2013. While the plenum stated its commitment to the “dominant role” of public ownership in the economic system, it focused much of its attention on deepening economic reform and allowing market mechanisms to allocate resources efficiently.

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