

## Preface

The OECD's Economics Department has been engaged in a constructive dialogue with the Chinese authorities since the late 1990s as part of the Organisation's strategy of reaching out to major non-member countries. The most noticeable milestone was the publication in 2002 of the volume *China in World Economy: The Domestic Policy Challenges*, based on an OECD-wide effort led by the Economics Department. Today, with this first Economic Survey, the OECD extends further its dialogue with China, entering into a relationship that broadens discussions to the full range of domestic economic policies and their interactions.

The major themes of this report are those relevant to ensuring sustainable growth in China: improving the framework for the private sector; labour market reforms; ageing; and reform of the public sector and the financial system. Some of these topics echo concerns shared by many OECD members. Financial sector reform is nowadays less of a prominent issue in most OECD countries, but it is fundamental to the long-term stability and growth of the Chinese economy.

This Survey documents the encouraging extent to which structural reforms in China have triggered a durable process of economic development, at a time when there are many signs that, over the past two decades, this process of economic convergence has stalled or even backtracked in OECD countries.

These reforms have also favoured the emergence of China as a major trading nation and significantly reduced the number of people living in absolute poverty. Extremely bold changes have been introduced in the past five years. Few OECD member governments have embarked on reforms that have restructured or closed hundreds of state enterprises every month over a five-year period – a development that is still continuing – or have ended life-time employment practices and, in the process, stimulated a nation-wide re-allocation of resources.

Private sector dynamism has offset the initial negative impact of the downsizing of public enterprises, with overall employment now rising as a result of the growth of small-and-medium-sized private companies. Indeed over half of national income now originates from the private sector. These original findings, resulting from close collaboration between the authors of the Survey and the Chinese national statistical agency, are one of the main contributions of this study. Based on an analysis of almost a quarter million firms over the five years to 2003, the research documents the rising competitiveness of Chinese enterprises while pointing to the gains that would flow from a more efficient use of labour and capital in the industrial sector.

The report also discusses labour market reforms, adopting a multifaceted approach suited to the Chinese context. It emphasises the need to increase labour market mobility by bringing down the administrative barriers to movement within the country, so helping to reduce income disparities between regions. The Survey also highlights the challenges posed by rapid population ageing, an area where sharing experiences with OECD members can be valuable.

Finally, the report argues for further financial market development and reform. The allocation of capital has been a persistent area of weakness, and better performance in this regard would most

likely allow even faster growth and a higher level of consumption. In general, whether economic performance is ultimately best served by equity or bank finance remains an open question, but in China, considerable progress still has to be made in ensuring that both capital market and bank-provided finance is allocated efficiently.

Not all aspects of the Chinese economy can be covered in this first report nor can some of the topics be dealt with in the depth that they deserve, notably Chinese public expenditure policies, which will be analysed in a forthcoming monograph. The excellent level of co-operation with the Chinese economic agencies in the course of this study is both promising for analytical work and challenging for the targeted policy advice that China asks for with a view to sustain the momentum of growth and further integration with the world economy.



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