

## CHINA

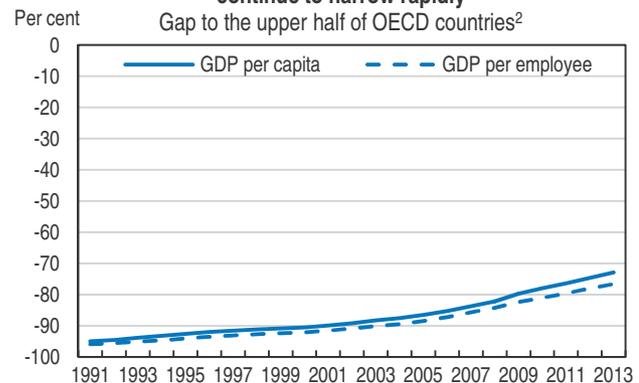
- GDP per capita continued to catch up with that of the upper half of OECD over 2008-13, although it grew at a slower pace than in the preceding five years. The income gap is attributable to lower output per worker as participation rates are above those in OECD countries.
- Progress is visible in all key priority areas. In particular, several sectors have opened up to private investment and foreign investment approval procedures have been simplified. The focus in tertiary education has shifted from quantity to quality and grass-root interest rate liberalisation is allowing savers to earn better returns.
- Further progress is called for in various areas. A level playing field should be created for all enterprises, with less state involvement in business operations. Financial sector reform should address and reduce regulatory arbitrage. Tertiary education curricula and training should be reviewed to better match labour market needs.
- A gradual extension of social services to migrant workers in an increasing number of cities not only would unleash their consumption potential, thereby supporting growth, but is also likely to make growth more balanced and equitable.

### Growth performance indicators

**A. Average annual growth rates**  
Per cent

	2003-08	2008-13
GDP per capita	10.9	8.3
Labour utilisation <sup>1</sup>	-0.1	-0.1
Labour productivity	11.0	8.4

**B. The large gaps in GDP per capita and productivity continue to narrow rapidly**



1. Labour utilisation is defined as the ratio of total employment over population.

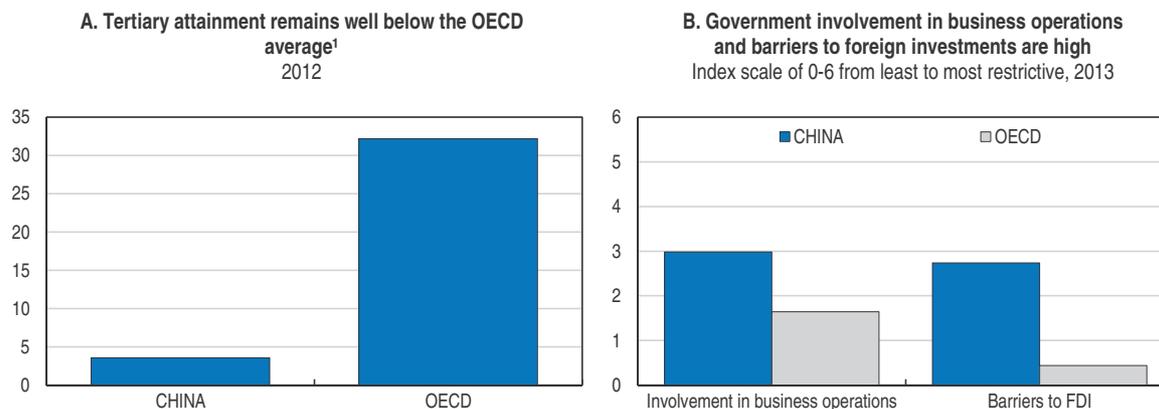
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: World Bank, *World Development Indicators (WDI) Database*; and China Ministry of Human Resources and Social Security.

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## Policy indicators



1. Percentage of adults aged 25-64 who have attained tertiary education.

Source: Panel A: OECD (2014), *Education at a Glance 2014: OECD Indicators*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/eag-2014-en>.

Panel B: OECD, *Product Market Regulation Database*, [www.oecd.org/economy/pmr](http://www.oecd.org/economy/pmr).

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## Going for Growth 2015 priorities

**Priorities supported by indicators****Reduce state involvement in business operations and encourage private entry.**

Government policies often override market principles and several sectors are closed to private and foreign firms, reducing efficiency.

**Actions taken:** The Third Plenum of the Chinese Communist Party in November 2013 emphasised that markets should be given a greater role in all areas of economic activity. At the National People's Congress in March 2014, a number of sectors (such as railways and small financial institutions) were announced to open up to private investment. At the same time, the Shanghai Free Trade Zone adopted a “negative list”, i.e. a list of sectors where participation of foreign capital is prohibited, on a trial basis. Between May 2013 and July 2014, around one fourth of administrative requirements (e.g. firms' registration and licensing) were removed or delegated to sub-national governments, making the regulatory approval system more efficient and transparent.

**Recommendations:** Replace price controls with market-based mechanisms and reduce regulatory barriers to the entry of new competitors while adopting regulation that creates a level playing field, ensures product safety and protects consumer interests.

**Ensure a better match between skills available and those demanded in the labour market.** Tertiary graduation rates are still relatively low, though increasing, but many graduates cannot find a job.

**Actions taken:** The Ministry of Education announced in early 2014 that greater emphasis will be put on applied skills versus academic education in universities run by sub-national governments. In June 2014, a decision on strengthening vocational education was adopted by the ministry. Its measures include reconverting many universities at the province level to vocational colleges with a view to better match labour market needs.

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**Recommendations:** Improve the matching between the skills acquired through the tertiary education system and those sought by the labour market: introduce new programmes and review curricula, textbooks as well as criteria for establishing the number of students that can be admitted to existing programmes. Make vocational education more attractive at all levels by hiring qualified teachers and establishing good reputation for such programmes.

**Strike a better balance between liberalisation and regulation in financial markets.** The banking sector is subject to stringent control, while grassroots liberalisation brought to life numerous competitors exempt from such regulations.

**Actions taken:** Following the removal of the floor on lending rates on 20 July 2013, the agenda for interest rate liberalisation has been set with clear timelines for the first time and measures to rein in off-balance sheet lending have borne fruit. An additional group of sub-national governments have been authorised to issue bonds by a decree from the Ministry of Finance on May 2014, thereby reducing their demand for bank financing. The revised Budget Law allows for debt issuance by province-level governments for welfare-related capital spending subject to a quota approved by the National People's Congress.

**Recommendations:** Remove implicit state guarantees to enhance risk pricing by financial markets. Ensure that sub-national governments or real estate developer investment plans do not crowd out other borrowers, in particular small- and medium-size enterprises.

#### **Other key priorities**

**Reduce barriers to labour mobility.** The stringent household registration system continues to hinder labour mobility, hence the allocation of resources to where they would be most productive.

**Actions taken:** Education services have been progressively extended to migrant families: a growing number of cities are granting free access to compulsory education to migrants' children; some cities are allowing them to attend high school and sit for the college entrance exam. Health care services have been extended to migrant workers to varying degrees in cities across the country, albeit the private contribution rates are higher when migrants use the service in cities where they are not registered.

**Recommendations:** Ensure equal access to education for all, regardless of registration status. Unify healthcare insurance at the national level so that services can be obtained country-wide.

**Further enhance the rule of law.** Non-compliance with laws and regulations is widespread and a lack of transparency in many aspects of business provides room for discretionary decisions.

**Actions taken:** Since the new leadership took power in March 2013, non-compliers have been subject to more investigations and fines. Large-scale corruption cases have been publicised to deter potential abuse of power. The Fourth Plenum of the Chinese Communist Party in October 2014 has given priority to enhancing the rule of law, including by strengthening the independence of the judicial system.

**Recommendations:** Identify non-compliers in a more rigorous manner to enhance the perception of fairness. Increase transparency in business operations to reduce the scope for bribery.

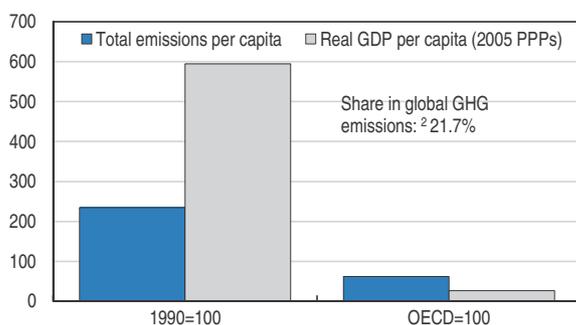
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Reform areas no longer considered a priority in *Going for Growth*

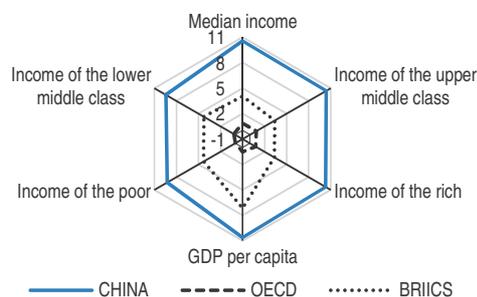
For China, all priority areas from the 2013 issue of *Going for Growth* are maintained.

## Beyond GDP per capita: Other policy objectives

A. Emissions per capita have risen by much less than GDP since 1990  
2010<sup>1</sup>



B. Growth in real household income has been strong and equally distributed across the distribution<sup>3</sup>  
Average annual growth rate in real household income, 2005-11<sup>4</sup>



1. Total GHG emissions in CO<sub>2</sub> equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys on consumption expenditures and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data and generally an underestimation of inequality compared to measures based on income. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-10 for China.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and United Nations Framework Convention on Climate Change (UNFCCC) Database. Panel B: World Bank, *World Development Indicators (WDI) Database*.

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