

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Chinese Yuan (CNY)

#### POPULATION AND GEOGRAPHY

AREA: **9 596 961** km<sup>2</sup>

POPULATION: **1 401.587** million inhabitants (2014), an increase of 0,5% per year (2010-2014)

DENSITY: **146** inhabitants/km<sup>2</sup>

URBAN POPULATION: **55.6%** of national population

CAPITAL CITY: **Beijing** (1.4% of national population)

Sources: WB, UN, ILO

#### ECONOMIC DATA

GDP: **18 017.1** billion (current PPP international dollars) i.e. 12 855 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **289 097** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **46%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.727** (high), rank **90**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>2852</b>	<b>334</b>	<b>31</b>	<b>3217</b>
COUNTRY LEVEL AVERAGE MUNICIPAL SIZE: 491 267 INHABITANTS	PREFECTURAL LEVEL	PROVINCIAL LEVEL	

These statistics cover mainland China only, without the two special administrative regions.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** China is a unitary country. Provincial level includes: Province, autonomous region, municipality, and special administrative region. On the other end of the spectrum, townships and villages are sub-municipal levels of administration, lowest level of administration, known as a sub-district in urban areas of prefectural-level cities, and as a town or township elsewhere. Villages (rural areas) and neighborhoods (urban areas) are units below the township level. They have no official administrative role but serve as a channel of communication to the population.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Intergovernmental changes in China have occurred mostly through economic reform, and not directly through national law that clarifies the functions of each level of local government, nor constitutional or dedicated legal basis for decentralization. The Comprehensive Fiscal Reform (1994), Budget Law (1995), and Tax Sharing System (1994) have helped define the role of subnational governments. In the interest of economic efficiency, most of the public service delivery responsibilities are decentralized to subprovincial governments. Allocation of responsibilities and expenditure assignments to various tiers of sub-national government is uneven and unclear, and vary according to provinces, which have considerable regulatory control over lower levels. Main focus on deconcentration to provinces and larger cities, although lower levels have larger public expenditure role and elements of de facto devolution have emerged in some areas. In practice, multiple levels perform many functions concurrently.

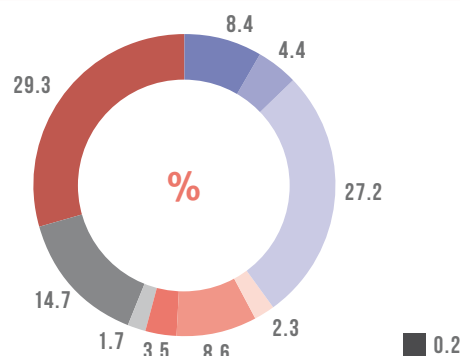
### SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	21.1%	85.4%	100%
CURRENT EXPENDITURE	14.2%	-	67.6%
STAFF EXPENDITURE	-	-	-
INVESTMENT	6.8%	51.6%	32.4%

Over the past decade, the share of spending undertaken by local authorities has increased in particular prefectural and county levels. From 2012 to 2013, local expenditures increased of 11.7%. This reflected a major change in the orientation of public expenditures towards spending in service delivery to people rather than economic services. Yet, the system remains highly centralized and local governments are agents acting on behalf of the State, spending as directed by the central government.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Higher-level governments have been increasingly devolving assignments to lower local levels of government, as it was approved in central budgets by the National People's Congress. Lower-level of governments has been devolved not only pre-determined sub-national responsibilities, such as urban maintenance and construction, but also the incremental part of service provision for education and healthcare spending.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	12.1%	53.4%	100%
TAX REVENUE	9.5%	48.8%	78.1%
GRANTS AND SUBSIDIES	0.8%	-	6.5%
OTHER REVENUES	1.9%	-	15.4%

China has a multi-level government structure that shares national tax revenues through a system of tax sharing and transfers. The current tax system was put in place in 1994. In 2013, local revenues increased of 13% compared to 2012, contributing to a large extent to overall increase of public revenues in China. China subnational funding model is based mostly on taxation, through tax sharing arrangements with the Central State, and on land sales (it constitutes the main part of prefecture-level cities' revenues.). This tends to be a major source of social instability, and whereas local governments' revenues have been increasing steadily for more than a decade, it is expected to slow down in the coming years with the downturn in land sales.

**TAX REVENUE.** In China, local governments have no discretionary power to raise taxation. Local government own taxes are mainly property and land-based taxes: property tax (2.3% of local revenues), urban and township land use tax (2.5%), land appreciation tax (4.8%). A reform of the residential property tax is under consideration to tax the wealthiest part of the population. Residential property taxes would be a significant and transformational reform for local governments, by reducing local governments' reliance on faltering land sales which have hitherto been a key source of revenue. Through shared taxes, Chinese provinces should retain 25% of the added-value tax, 40% of the income tax, and 50% of security and exchange tax. Because of the extensive sharing of the main taxes among subnational levels, the same six taxes top the list of revenue sources for the province, prefecture and county levels. On average, the largest share of all local taxes goes to the prefectural governments. Property and resource taxes, on the other hand, mainly accrue to county and township levels of government.

**GRANTS AND SUBSIDIES.** Most transfers are conditional grants; dominated by social security, wage increase, and fiscal stimulus grants. In China transfers have grown since 1994, to compensate for the amounts spent for public services provided in Chinese cities. The transfer system has three parts: general transfers, which aim to lessen fiscal disparities, earmarked transfers, and compensation transfers to provinces that lost revenue as a result of the 1994 reform.

**OTHER REVENUES.** Sub-national governments have non-tax revenue from fees, levies, penalties and the profit from the sale of land-use rights. In the past, fees were major part of non-tax revenue. Today, sub-national governments raise significant amounts from the sale of land-use rights (most of non-tax revenues) for periods of between 30 and 70 years. The net revenue from land sales is concentrated on the county and prefecture governments, but they are constrained as to the use of such revenues, limited to the creation new physical assets for the government.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	30.4%	59.1%

China NAO defines, as local governments' debt, debt that government has guarantee responsibility for, and debt that government has possible governmental rescue responsibility for. From NAO figures, local debt is increasing. Yet this estimate may be underestimated as in the recent past, as subnational governments (provinces) had more expenditure responsibilities than revenue-raising authority, subnational borrowing and off-budget financing vehicles have been widely used, supported by explicit or implicit guarantees from the central government. In 2013, local debt is split between about 14.4% for the provincial level, about 17.4% for the city (district) level, and about 26.6% for county-level governments, indicating a more remarkable increase among lower-level governments. As a consequence, a new budgetary law passed in January 2015 dedicated to restore local governments finance. With this law, the only way for local governments to access borrowing is through bonds, limited to 1 600 billion CNY per year. A few wealthier municipalities are allowed direct access to capital markets under central government supervision.

A joint- study of:



Sources: China National Audit Office • French Development Agency Office in China Man J. Y. Man, China's Property Tax Reform, Lincoln Institute of Land Policy (2012) • East Asia Decentralizes, Making local government work, World Bank (2005) • Xiao Wang and Richard Herd (2014): "The system of revenue sharing and fiscal transfers in china economics department » By OECD, Working paper No. 1030 • OECD Urban Review – China • 2014 China Statistical Yearbook • Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol.11, No.1, March 2015