

# China

The COVID-19 pandemic highlighted weaknesses in the health and social security systems and pushed many households and firms to the brink of bankruptcy. It further widened inequalities between: (i) central provinces that have been hardest hit and the coast; (ii) poorer households that had already been indebted and wealthier households and (iii) the private sector, which has limited access to infrastructure contracts and is hard hit by slackened demand and the state-owned sector. Such divides will need to be addressed to make growth inclusive and sustainable.

## Performance prior to the COVID-19 crisis




Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs). For China employment rate refers to 15 and over.

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for China is 2016.

Environment: A high exposure to air pollution refers to above 10 µg/m<sup>3</sup> of PM<sub>2.5</sub>.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases. When not available, International Labour Organisation for employment rate; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

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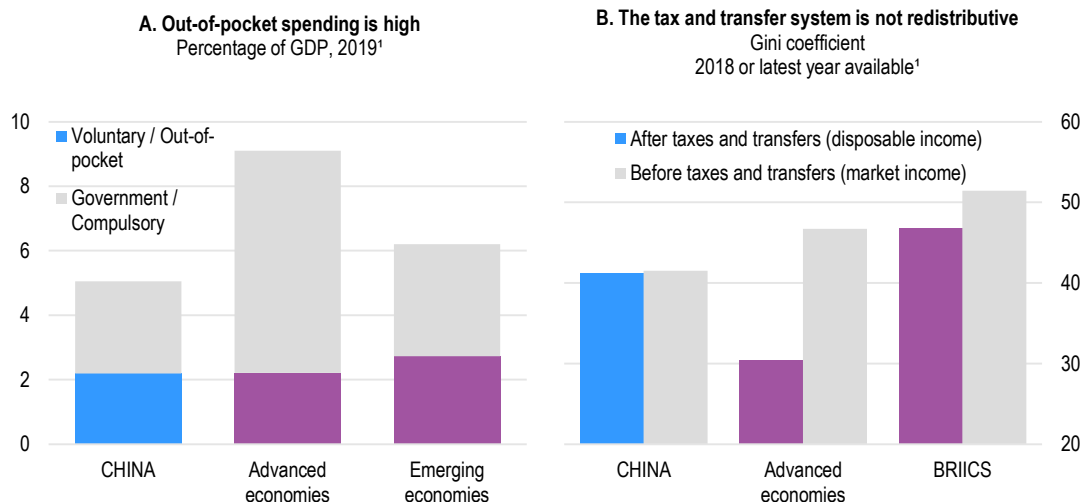
## Bridging divides to better prepare for future challenges

**A stronger social safety net is needed** to reignite consumption and thus make growth more sustainable. Serious illnesses have been recognised as a major factor pushing people into debt and ultimately also poverty. To narrow health outcome inequalities and poverty in general out-of-pocket payments for healthcare costs should be reduced (Panel A). Moreover, lower reimbursement of medical costs outside of the area of residence imposes a heavy burden on migrant workers. Reimbursement rates should be the same, irrespective of the place of treatment. High-quality public health resources, concentrated in the big hospitals of the largest cities should be better distributed, including by requiring longer-term rotation of urban medical staff to remote rural areas.

**The divide between rural and urban workers needs to be reduced.** Income inequalities are high and the tax and transfer system does little to reduce them (Panel B). As they lost their jobs during the pandemic, migrant workers left cities for their hometowns and villages as social security benefits are meagre even for long-time social security contributors. Inequalities are greatest between urban and rural areas. To facilitate reallocation after the pandemic and in light of future challenges related to ageing or digitalisation, matching skills to labour market needs is ever more important. To this end, the coverage of unemployment insurance should be extended to all workers, portability of pension benefits across regions should be made smoother and pension funds should be unified at the national level. In the medium term, pension schemes for private sector and rural workers should be unified to disincentivise savings for old age.

Exploiting the full growth opportunities of a large Chinese market is hampered by many entry barriers, unequal treatment of different players, for instance in the financial sector and restrictions on the business conduct of foreign firms. **Reforms to level the playing field would improve reallocation and boost efficiency in the recovery and beyond.** These should include dismantling administrative monopolies, removing entry barriers, abolishing implicit guarantees for SOEs and public entities as well as requirement for foreign firms to establish joint ventures.

### Vulnerabilities and areas for reform



1. The last available year is 2017 for China.

Source: Panel A: OECD, Health Database; Panel B: OECD, Income Distribution Database and Solt, Frederick, 2019, "The Standardized World Income Inequality Database, Versions 8-9", <https://doi.org/10.7910/DVN/LM4OWF>, Harvard Dataverse, V5.

StatLink  <https://stat.link/moxm8>

The turmoil brought by the pandemic, including the emergence of scarcity and public distribution of certain goods as well as the moving of business transactions online, created opportunities for profiteering and other unlawful behaviour. This makes **safeguarding the rule of law** even more important. Whistle-blowers should be better protected to make officials less willing or less able to indulge in corruption.

COVID-19 has interrupted a shift of the economy to a more sustainable path, including the energy transition to low-emissions. Recent commitments to mitigate climate change are encouraging, but **environmental targets should be made more ambitious and enforcement strengthened**. Fines for violators should be raised to deterring levels and environmental taxation should be used to provide incentives for decarbonisation and pollution reduction. In particular, environmental taxes on fossil fuels should be raised.

## China: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
<b>*Health care: Reduce the share of out-of-pocket payments of healthcare costs to limit the burden on the poor*</b>	
*New priority *	<input type="checkbox"/> Reduce out-of-pocket payments for healthcare costs. <input type="checkbox"/> Apply the same reimbursement rate regardless of the place of treatment. <input type="checkbox"/> Distribute high-quality public health resources more evenly.
<b>Labour market: Facilitate labour mobility and improve skills provision to foster reallocation</b>	
<input checked="" type="checkbox"/> Since 2020, as a result of the COVID-19 outbreak, the settlement of outpatient care costs can now also be done online. <input checked="" type="checkbox"/> Social protection has temporarily been extended starting in 2020. <input checked="" type="checkbox"/> An increasing number of colleges are introducing artificial intelligence (AI), big data and other highly-sought skills as undergraduate majors.	<input type="checkbox"/> Make pension benefits portable across regions and unify pension funds at the national level. <input type="checkbox"/> In the medium term, unify pension schemes across employees in public and private firms. <input type="checkbox"/> Ensure a better match between skills available and those demanded in the market by increasing places in sought-after majors and establishing new majors in newly emerging areas.
<b>Competition and regulation: Strike a better balance between liberalisation and regulation in financial markets and level the playing field.</b>	
<input checked="" type="checkbox"/> In August 2020 the ceiling on private lending interest rate was lowered, making the pricing of risk more difficult and depriving high-risk borrowers from legal sources of funding.	<input type="checkbox"/> Create a single Chinese product market by dismantling administrative monopolies of privileged firms, mostly at the local level. <input type="checkbox"/> Dismantle restrictions on the entry and conduct of foreign firms, in particular requirements to form joint ventures or transfer technology. <input type="checkbox"/> Remove implicit state guarantees to public entities. <input type="checkbox"/> Enhance financial literacy through financial education from an early age. <input type="checkbox"/> Increase disclosure and transparency of all company accounts.
<b>Governance and rule of law: Combat non-compliance with laws and regulations</b>	
<input checked="" type="checkbox"/> The anti-graft campaign initiated in 2012 is advancing. <input checked="" type="checkbox"/> In October 2020, 14 government agencies issued a notice aiming at strengthening the supervision of online sales, which have been expanding even more rapidly since the outbreak. <input checked="" type="checkbox"/> A notice in May 2020 by four government agencies spells out the major areas the Fair Competition Review Mechanism should scrutinise, making operationalising easier.	<input type="checkbox"/> Strengthen protection of whistle-blowers to make officials less willing or less able to indulge in corruption.

2019-2020 Reforms	Recommendations
<b>Environmental policy: Increase ambition and enforcement of environmental policies</b>	
<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> In September 2020 China pledged to become carbon neutral by 2060.</li> <li><input checked="" type="checkbox"/> In May 2019, third party access to pipelines on an equal basis became possible.</li> <li><input checked="" type="checkbox"/> The gas sector has undergone liberalisation. A March 2020 notice encourages private enterprises to enter several segments of the gas sector.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Increase further environmental targets, strengthen enforcement and raise fines for violators to deterring levels.</li> <li><input type="checkbox"/> Address major sources of pollution: continue switching from coal-fired to gas-fired generation, reduce fertiliser use in agriculture and boost the extent of treatment required before releasing wastewater.</li> <li><input type="checkbox"/> Raise energy-related taxes to reduce pollution and strengthen climate change mitigation action.</li> </ul>

### Recent progress on structural reforms

Reform intensity in China remained high across the board, even though the reforms are not equally significant in all areas. The commitment to carbon neutrality by 2060 can be viewed as a strong signal of commitment to mitigating climate change. Opening up the banking sector for foreign entry can bring about a much needed increase in efficiency. Digitalisation of government services has been stepped up as the pandemic created demand for contactless services, and will likely boost productivity.