China 2030

Building a Modern, Harmonious, and Creative Society

The World Bank

Development Research Center of the State Council, the People’s Republic of China
Contents

Foreword ........................................... xiii
Acknowledgments .................................. xv
Background to This Research ................... xix
Executive Summary ................................ xxi
Abbreviations .................................... xxv

Part I Overview
China 2030: Building a Modern, Harmonious, and Creative Society .... 3

1 China’s Path: 1978–2030 ............................ 4
2 A New Development Strategy for 2030 .................. 15
3 Structural Reforms for a Market-Based Economy with Sound Foundations .......... 25
4 Increasing the Pace of Innovation ....................... 34
5 Seizing the Opportunity of Green Development ........... 39
6 Equal Opportunity and Basic Security for All ............. 46
7 Strengthening the Fiscal System and Aligning It with the Evolving Role of Government .......... 55
8 Achieving Mutually Beneficial Relations with the Rest of World .................. 60
9 Overcoming Obstacles to Implementing Reforms ..................... 65
### Part II Supporting Reports

1. **China: Structural Reforms for a Modern, Harmonious, Creative Society**
   - Setting the Stage: China's Past Economic Performance, Key Challenges, and Future Growth Potential .......................................................... 79
   - Promoting Efficiency and Equity through Structural Reform .......................................................... 85
   - Strengthening the Fiscal System .......................................................... 89
   - Enterprise Sector Reforms .......................................................... 103
   - Financial System Reforms .......................................................... 115
   - Land Policies .......................................................... 127
   - Annex 1A Why Did China Grow So Fast? .......................................................... 140
   - Annex 1B China's Industrial Policies: Key Actors and Defining Characteristics .......................................................... 141
   - Annex 1C Unbalanced and Incomplete Financial System .......................................................... 143
   - Annex 1D Experiences of Japan and the Republic of Korea in Financial Liberalization .......................................................... 145
   - Notes .......................................................... 147
   - References .......................................................... 150

2. **China's Growth through Technological Convergence and Innovation** .......................................................... 155
   - Purpose of the Chapter .......................................................... 158
   - Growth Drivers: Betting on TFP .......................................................... 158
   - Building Technological Capacity .......................................................... 162
   - The Road to Innovation .......................................................... 168
   - Defining Policy Priorities .......................................................... 172
   - Emerging Priorities for Innovation .......................................................... 181
   - Concluding Observations .......................................................... 187
   - Annex 2A Annex Tables .......................................................... 188
   - Notes .......................................................... 198
   - References .......................................................... 208

3. **Seizing the Opportunity of Green Development in China** .......................................................... 217
   - Why Green Development? .......................................................... 217
   - Green as a Source of Growth .......................................................... 222
   - Green Improves the Quality of Growth .......................................................... 232
   - Factors Favoring and Impeding Green Development in China .......................................................... 239
   - Addressing Concerns on Green Development .......................................................... 247
   - The Road toward Green Development .......................................................... 249
   - Annex 3A Sequencing Actions and Confiming Results .......................................................... 257
   - Notes .......................................................... 264
   - References .......................................................... 265

4. **Equality of Opportunity and Basic Security for All** .......................................................... 271
   - Challenges for China's Social Development .......................................................... 274
   - Equality of Opportunity with Security: Goals and Principles .......................................................... 280
   - Expanding Opportunities and Deepening Human Capital .......................................................... 287
   - Developing a Flexible and Secure Labor Market .......................................................... 315
3.9 The challenge of China’s water pollution ............................................. 235
3.10 China’s solar photovoltaic (PV) industry ......................................... 241
3.11 International fossil fuel subsidies ...................................................... 244
3.12 A lack of competition has held up China’s shale gas exploration .......... 246
3.13 Energy efficiency and consumer behavior ......................................... 252
3.14 Low-carbon urban development in China ......................................... 255
3A.1 Lessons from international experience on climate policy instruments 261
4.1 Health care coordination in OECD countries ...................................... 309
4.2 Initiatives for public participation in social services .............................. 314
4.3 Lessons from performance-related pay experience for public servants in OECD countries ................................................................. 326
4.4 Recent innovations in hukou reform .................................................. 332
5.1 The Japanese experience with voluntary export restraints ................. 382
5.2 FDI and competition in services ....................................................... 391
5.3 Japan’s transition to a floating exchange rate ..................................... 394
5.4 Lessons of the European experiences with capital account liberalization 399

Figures

O.1 China’s impressive economic performance ...................................... 5
O.2 Savings in China compared to other economies ................................ 11
BO.1.1 Few economies escape the middle-income trap .......................... 12
O.3 China’s economic challenges ............................................................ 13
O.4 Urban land has expanded faster than urban population ................. 31
O.5 The quality of China’s tertiary education system is improving rapidly 37
O.6 Unequal spending on early childhood development across Chinese provinces 51
O.7 Pension coverage rate of the active labor force, various countries, mid-2000s 54
O.8 Local governments: Large expenditure responsibilities, inadequate revenues 58
O.9 The renminbi is increasingly being used as the currency for cross-border trade settlement ............................................................... 63
1.1 Cross-country comparison of government expenditures as a share of GDP 93
1.2 Cross-country comparison of tax rates .............................................. 95
1.3 Cross-country comparison of government revenue ........................... 96
1.4 SOEs have declined in relative importance .................................... 104
1.5 The rate of return for nonstate firms exceeds that of SOEs ........... 105
1.6 Ownership structure of the banking sector, 2005 .............................. 115
1.7 Financial system structure in comparison, 2009 ................................ 116
1C.1 Select indicators of financial sector size/depth, 2009 ...................... 143
1C.2 Funds raised in the financial system (1993–2009) .......................... 145
2.1 China’s communication infrastructure and mobile networks, 2002–12 164
2.2 Shanghai R&D Public Service Platform ............................................. 175
3.1 Emissions of CO₂ from energy, annually and cumulatively ............. 220
3.2 Decoupling economic growth from carbon emissions worldwide .......... 221
3.3 Index of innovation in climate change mitigation technologies (1990 = 1) 223
3.4 Energy intensity of GDP, 1990–2009 .................................................. 224
3.5 No-regrets options for reducing CO₂ emissions in China, 2030 ....... 225
3.6 Estimated energy savings and emissions reduction from installing 79 efficiency technologies in heavy industry, 2005–20 .................. 226
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>B3.4.1</td>
<td>Comparisons of iron and steel energy intensity</td>
<td>227</td>
</tr>
<tr>
<td>3.7</td>
<td>Patent assignee origins for wind power technologies</td>
<td>228</td>
</tr>
<tr>
<td>3.8</td>
<td>Projected annual Chinese exports of green products and services (2030)</td>
<td>229</td>
</tr>
<tr>
<td>3.9</td>
<td>Services, value added, as a share of GDP (2010)</td>
<td>230</td>
</tr>
<tr>
<td>3.10</td>
<td>Environmental and natural resource degradation and depletion, 2008</td>
<td>233</td>
</tr>
<tr>
<td>3.11</td>
<td>Urban air pollution trends in China, 2003–09</td>
<td>234</td>
</tr>
<tr>
<td>3.12</td>
<td>Average annual SO\textsubscript{2} and NO\textsubscript{2} concentrations observed for the 10 largest cities in Japan and China, 1970–2009.</td>
<td>234</td>
</tr>
<tr>
<td>B3.9.1</td>
<td>Wastewater emissions projections (COD), 2005–50</td>
<td>235</td>
</tr>
<tr>
<td>3.13</td>
<td>Vulnerability to sea-level rise and storm surges by country, circa 2000</td>
<td>238</td>
</tr>
<tr>
<td>3.14</td>
<td>Efficiency and CO\textsubscript{2} emissions of coal-fired plants in China and United States</td>
<td>240</td>
</tr>
<tr>
<td>3.15a</td>
<td>What emissions growth path should China's cities take?</td>
<td>242</td>
</tr>
<tr>
<td>3.15b</td>
<td>Which way will China's transport sector efficiency evolve?</td>
<td>242</td>
</tr>
<tr>
<td>3.16</td>
<td>Household water and wastewater tariffs in China's 10 largest cities compared with other major cities, 2008</td>
<td>243</td>
</tr>
<tr>
<td>3.17</td>
<td>Direct CO\textsubscript{2} emission intensities of various Chinese industries, 2007</td>
<td>248</td>
</tr>
<tr>
<td>3A.1</td>
<td>Indicative sequencing of green development reforms</td>
<td>257</td>
</tr>
<tr>
<td>3A.2</td>
<td>CO\textsubscript{2} emissions per capita and per unit of GDP, 1990–2009.</td>
<td>259</td>
</tr>
<tr>
<td>3A.3</td>
<td>China's annual CO\textsubscript{2} emissions under three scenarios, 2010–30</td>
<td>260</td>
</tr>
<tr>
<td>3A.4</td>
<td>Coal consumption trends for China under three scenarios, 2011–30</td>
<td>262</td>
</tr>
<tr>
<td>4.1</td>
<td>Per capita human capital: national, urban, and rural, 1985–2008</td>
<td>274</td>
</tr>
<tr>
<td>4.2</td>
<td>The evolution of income inequality in China since the start of reforms, 1981–2005</td>
<td>275</td>
</tr>
<tr>
<td>4.4</td>
<td>Number and share of population age 60 and over, 1950–2050</td>
<td>277</td>
</tr>
<tr>
<td>4.5</td>
<td>Total population and working age population, 1950–2050</td>
<td>277</td>
</tr>
<tr>
<td>4.6</td>
<td>Number of people with at least one noncommunicable disease, 2010–30</td>
<td>278</td>
</tr>
<tr>
<td>4.7</td>
<td>Projected social spending as a share of GDP</td>
<td>285</td>
</tr>
<tr>
<td>4.8</td>
<td>PISA score differences between students with at least one year of preschool education and students without</td>
<td>288</td>
</tr>
<tr>
<td>4.9</td>
<td>Prevalence of anemia among children under age five</td>
<td>289</td>
</tr>
<tr>
<td>4.10</td>
<td>International comparison of share of children attending nursery school or kindergarten</td>
<td>290</td>
</tr>
<tr>
<td>4.11</td>
<td>Comparative shares of children attending one-year-only early childhood education programs, 2008</td>
<td>291</td>
</tr>
<tr>
<td>4.12</td>
<td>Distribution of educational readiness test scores for four- and five-year-olds in China</td>
<td>291</td>
</tr>
<tr>
<td>4.13</td>
<td>Budgetary and total spending per student on early childhood education, by province, 2009</td>
<td>292</td>
</tr>
<tr>
<td>4.14</td>
<td>Comparison of public expenditure on education by level, 2008</td>
<td>294</td>
</tr>
<tr>
<td>4.16</td>
<td>Type of urban schools attended by various subgroups in five Chinese cities, 2005.</td>
<td>296</td>
</tr>
<tr>
<td>4.15</td>
<td>Spending per capita on education by province, 2000 and 2008</td>
<td>296</td>
</tr>
<tr>
<td>4.17</td>
<td>Official promotion rates from junior high school to academic high school, urban and rural, 1990–2006</td>
<td>297</td>
</tr>
<tr>
<td>4.18</td>
<td>International comparison of annual tuition per student in public high schools, late 2000s</td>
<td>298</td>
</tr>
</tbody>
</table>
4.19 Out-of-pocket and government health spending as share of total health spending, 1997–2010................. 303
4.20 Household health spending as a share of total household income, 2003 and 2008 ...................... 303
4.21 Comparison indicators on density of general practitioners ........................................... 305
4.22 Pyramid of care model .................................................................................. 306
4.23 Roadmap for PHC modernization ................................................................. 307
4.25 Employment rates of older workers by age, gender, and residence, selected years ............. 318
4.26 International comparison of employment rates by age and gender ......................... 319
4.27 Size and composition of informal employment in the urban labor market, various years .......... 320
4.28 Labor supply by age for rural labor force and rural off-farm work, 2010 .................... 321
4.29 Urban minimum wage adjustments, 1995–2009 ................................................ 324
4.30 Tax wedge on average formal sector worker, various countries, 2010 ...................... 328
4.31 Index of hukou conversion restrictions by city against population and per capita GDP, late 2000s .................... 331
4.32 Progressive acquisition of social entitlements for nonlocal workers: An illustrative case ...................... 334
4.33 An indicative trajectory for residence permit expansion and hukou unification .................. 335
4.34 Pension coverage rate of active labor force, various countries, mid-2000s ..................... 337
4.35 Participation rates for pension programs among working-age adults in urban areas, by gender and residence status ...................... 337
4.36 Rural pension participation: total contributors and as share of rural employed ............. 338
4.37 Pension benefits and replacement rates in urban China ........................................ 339
4.38 Potential design of long-term pension system .................................................................. 343
4.39 Long-term care expenditures in OECD, 2008 .................................................... 346
5.1 Growth trends ................................................................................... 370
5.2 Growing share of developing countries in global growth ........................................ 371
5.3 China’s future share in services and historical experiences of other countries .............. 372
5.4 Labor supply growth will vary greatly among countries ........................................ 373
5.5 Capital output ratios will further rise, especially in emerging economies .................... 374
5.6 Land prices in China and India will rise sharply .................................................... 375
5.7 China’s population will have more low-income people in 2030 than the United States does now .............. 378
5.8 China’s share in industrial imports of the world’s 10 largest importers has increased .... 379
5.9 China’s share in imports of 10 most-protected sectors in the 10 largest importers has increased .......... 380
5.10a China has a large trade surplus in industrial goods with the United States and the European Union .............. 380
5.10b China has a large trade surplus in industrial goods with major trading partners .......... 380
5.11 China’s outward FDI is directed more toward mining, compared with advanced countries' FDI. 387
5.12 Carbon emissions will rise in the baseline scenario. 403
5.13 Emissions per capita in developing countries are much lower than in advanced countries. 404
5.14 State-owned banks dominate China’s banking sector. 406
5.15 China’s official finance increased sharply in the past decade. 408

Tables

O.1 China: Projected growth pattern assuming steady reforms and no major shock 9
1.1 China: Projected growth pattern assuming steady reforms and no major shock 84
1.2 Size and composition of public expenditures, cross-country comparisons as a share of GDP 91
1.3 Subnational government finance 92
1.4 Share of subprovincial governments in total government revenues and spending 100
1C.1 Share of banking sector assets by type of bank 144
1C.2 Size of financial sectors or markets as a share of GDP 144
2.1 Sources of growth, 1978–2004 160
2.2 Sources of growth by industrial and services sectors, 1978–2004 160
2A.1 Annual TFP growth rate: Major industries, 1999–2004 188
2A.2 Top USPTO patents by inventor resident in China, 2005–09 188
2A.3 WIPO Patent Cooperation Treaty, share of international patents by sector, 2007–09 189
2A.4 Sector composition of new entrants (legal unit) by established time, Guangdong, Beijing, and Zhejiang, 2008 190
2A.5 Number of patents in force in the high-tech industry, by industrial sector and registration status, 2009 192
2A.6 Innovation inputs and outputs of industrial enterprises in China, by enterprise size, 2009 192
2A.7 Innovation inputs and outputs of industrial enterprises in the high-tech industry in China, by enterprise size, 2009 192
2A.8 Foreign direct investment: capital utilized by industry, 2004–09 193
2A.9 Patent family applications by value and country absolute volume 193
2A.10 Regional and provincial productivity in China 194
2A.11 Domestic patents granted in different provinces in China, 2009 194
2A.12 Innovation inputs and outputs of industrial enterprises in China, 2009 195
2A.13 Distribution of innovation inputs in China, by type of performer, 2009 195
2A.14 Distribution of innovation inputs and outputs in high-tech industry in China, by type of performer, 2009 196
2A.15 Innovation inputs and outputs of industrial enterprises in high-tech industry in China, 2009 196
2A.16 Roles of various entities involved in Nation Innovation System 197
3.1 Getting to a greener China 233
3.2 Direct savings and additional co-benefits of annual reductions in CO₂ emissions, 2030 236
3.3 A comparison of total environmental protection expenditures, 2001–09........237
3.4 China’s unique advantages and challenges in green development ............239
3.5 Comparisons of selected indicators for China and developed countries .........240
3.6 Comparative national investment, savings, and consumption rates.............241
3.7 Total exploitable renewable energy resources in China..........................241
3.8 Key policy packages to achieve green development ............................249
3A.1 Comparison of specific indicators, China vs. high-income OECD ..........259
3A.2 Sector-specific recommendations for achieving green growth in China ....262
4.1 Prevalence of overweight and obesity of students ages 7–18 in urban and rural China, 2005...........................................290
4.2 Hourly wages of migrant and local workers, and share of difference explained by observable characteristics, 2001–10 ..................................323
4.3 Share of migrant and local workers with income above minimum wage by gender, 2001–10 ............................................324
4.4 Minimum wage approach and criteria, various economies, end-2000s ..........327
4.5 Urban social insurance contribution rates in urban China ........................328
4.6 Share of workers with income below minimum SI contribution base (40–60 percent of average wage), 2001–10 .................................329
5.1 Past and future growth trends .........................................................369
5.2 China’s trade with developing East Asia differs from that of Sub-Saharan Africa .................................................................381
5.3 FDI outflows by emerging markets rose sharply in 2000–09 ..................386
5.4 China’s exchange rate was relatively stable during the East Asian crisis ....393