Section 3 China in search of new growth models

In this section, we first show that China has achieved rapid economic growth and is expanding its presence globally. Next, we point out that the various conditions that have supported China's rapid growth are now starting to change. Finally, we look at structural problems and challenges that China will need to overcome in order to achieve further growth.

<u>1.</u> China's expanding presence

China is expanding its presence in the global economy in terms of GDP, exports and imports and foreign currency reserves due to its high economic growth.

(1) **GDP**

In the late 1970s, China embarked on the policy of economic reforms and opening up and started to shift to a market economy and accept foreign investment, and in 2001, China acceded to the World Trade Organization (WTO). For more than 30 years, China maintained an average annual economic growth rate of around 10% in real terms (Figure II-1-3-1).

As a result, China's dollar-based nominal GDP surpassed major European countries' in the late 2000s and Japan's in 2010, making China the second largest economy in the world after the United States (Figure II-1-3-2). In particular, in the five-year period following the global economic crisis (from 2008 to 2013), China's dollar-based nominal GDP nearly doubled due to additional effects of the appreciation of the yuan, the Chinese currency, even while advanced countries' GDP remained sluggish.

Moreover, the economic size of some Chinese provinces has grown so large as to equal the size of a major Asian country, so China is gaining an economic influence over neighboring countries through trade (Figure II-1-3-3).



Figure II-1-3-1 Trends in China's average annual economic growth rate





Figure II-1-3-3 Total value of production by Chinese provinces and municipalities and major Asian countries and regions (2013)



Notes: 1. Figures for China and Japan are broken down by province/prefecture; all others are for the whole country/region.
2. Total local production in China's provinces and municipalities and Japan's prefectures has been converted into dollars at the annual average exchange rate.
3. Actual figures for 2010 have been used for the prefectural statistics for Japan only.
Source: WEO, April 2014 (IMF), Annual Report on Prefectural Accounts (Cabinet Office of Japan), CEIC Database, National Bureau of Statistics of China.

(2) Exports

China's trade has also expanded markedly. Since the collapse of the IT bubble in the United States in the early 2000s, both Chinese exports and imports have almost consistently been growing at an annual rate of higher than 20% (Figure II-1-3-4). In particular, as the growth in exports has been more prominent, China has been recording a large trade surplus since the mid-2000s. In 2008, the trade surplus hit a record high of 297.4 billion dollars (equivalent to 6.6% of GDP), and in 2013, the surplus came to 261.4 billion dollars (2.8% of GDP)¹⁰³.

A look at countries' shares of global exports shows that China's share has been rapidly growing while the shares of Japan and the United States have been moderately declining¹⁰⁴ (Figure II-1-3-5).

By product item, China's share has been growing not only with regard to light industrial products such as clothing, footwear and furniture but also with regard to machinery, including general machinery (personal computers, etc.) and electrical machinery (mobile phones, etc.)¹⁰⁵ (Figure II-1-3-6).

¹⁰³ Although the value of China's trade surplus in 2013 was not much different from 2008, the ratio of the trade surplus to GDP declined steeply because the dollar-based nominal GDP nearly doubled. The ratio of the trade surplus to GDP peaked at 7.5% in 2007.

¹⁰⁴ The value of global trade was cited from U.N. Comtrade data obtained through the World Bank's WITS system.

¹⁰⁵Nearly half of the imports and exports of China are conducted by foreign companies (in 2013, foreign companies accounted for 47.3% of exports and 44.9% of imports).



Figure II-1-3-4 Trends in China's trade





Notes: Shows the top 10 countries by exports in 2012. Source: World Bank, WITS; United Nations, Comtrade.



Figure II-1-3-6 Share of major Chinese export goods in global exports

Notes: Top 10 export items in 2012 by HS 2-digit classification (accounting for approximately 67% of the total value of China's exports). However, the share for apparel has been calculated based on the total for HS61 and HS62. Source: World Bank, WITS; United Nations, Comtrade.

(3) Imports

In addition to exports, imports by China have been increasing, expanding China's presence as an export destination for countries around the world. In particular, in 2009, when exports to the United States and Europe declined steeply in terms of value (a year-on-year fall of 25%) just after the global economic crisis, exports to China dropped only slightly (year-on-year fall of 6%), resulting in an increase in China's share as an export destination (Figure II-1-3-7).

A breakdown of exports to China by country shows that in neighboring countries such as Indonesia, Malaysia and Thailand, the share of exports to China in overall exports has continuously been growing since before the global economic crisis. A similar trend is seen in the United States (Figure II-1-3-8). In resource-producing countries such as Australia and Brazil, the share of exports to China has been expanding at an accelerated rate since the global economic crisis. In particular, as both Australia and Brazil depend heavily on specific items such as crude oil, coal and iron ore, China's share as an export destination has increased rapidly, making these countries' economic structures prone to be affected by the Chinese economy (Figure II-1-3-9).



Figure II-1-3-7 Trends in the shares of major export destinations worldwide



Figure II-1-3-8 Trends in the shares of destinations for the exports of major countries



2004 2005 2006 2007 2008 2009

 1996
 1997
 1998
 1999
 2000
 2001
 2002
 2003
 2004
 2005
 2006
 2007
 2008
 2009
 2011
 2012

 Source: World Bank, WITS; United Nations, Comtrade.
 (Year)

Source: World Bank, WITS; United Nations, Comtrade.

1998 1999 2000 2001 2002 2003

0

1997



2010 2011 2012

(Year)











Figure II-1-3-9 Major exports of Australia and Brazil and the destinations thereof

(4) Foreign currency reserves

China's foreign currency reserves increased rapidly in the 2000s. In line with the increase in foreign currency reserves, the value of U.S. government securities held by China as investment assets also grew rapidly, and at the end of 2008, China surpassed Japan to become the largest holder of U.S. government securities in the world (Figure II-1-3-10).



Figure II-1-3-10 Trends in the value of China's foreign exchange reserves and the value of its U.S. Government bond holdings

Notes: The lines showing the U.S. government bond holdings indicate the shares of the value of such holdings by foreign nationals accounted for by both countries. Source: CEIC Database, People's Bank of China, U.S. Department of the Treasury.

2. Changes in the various conditions that have supported China's high growth and the distortions of growth

Above, we looked at China's expanding presence. However, the various conditions that have supported China's high growth are now starting to change, and distortions of growth are becoming apparent.

(1) Loss of demographic dividends

Until now, the working-age population in China has been growing, and this has had favorable effects on expansion of production activity (so-called demographic dividends). However, in the future, the aging of society is expected to proceed because of the effects of China's one-child policy. According to a projection by the United Nations, China's working-age population will gradually decline after peaking in 2010 (Figure II-13-11). The ratio of the working-age population to the overall population is also projected to decline from 2010 onwards, while the ratio of the elderly population is projected to increase. Therefore, how to deal with a slowdown of the economic growth, the aging of society, and social security have become issues that cannot be avoided. Against this backdrop, China

has relaxed the one-child policy. However, it will take a long period of time before the effects of the relaxation of the one-child policy on the population structure appear.



Figure II-1-3-11 Trends in China's demographic structure

(2) A decline in surplus rural labor force (Lewisian Turning Point¹⁰⁶)

At the same time as the peaking-out of the overall working-age population, a change is also starting to occur with regard to the movement of the working-age population by region and industry. Until now, inland regions have been supplying a surplus rural labor force to coastal urban regions as migrant workers, but the surplus labor force has been dwindling. While it is difficult to statistically identify the surplus rural labor force, the job opening to application ratio in urban regions rose close to 1.0 immediately before the global economic crisis, and although the ratio fell temporarily after the global economic crisis, it later exceeded 1.0 and has risen further (Figure II-1-3-12).

¹⁰⁶ The Lewisian Turning Point theory, proposed by British economist Arthur Lewis, maintains that when a surplus labor force in the agricultural sector is depleted as a result of a labor shift to the industrial sector during the process of industrialization, wages rise due to a tightening of the labor supply-demand balance.



Figure II-1-3-12 Trends in China's ratio of job openings to applications (urban areas)

(3) Wage rise

Amid the tightening of the labor-supply balance in urban regions, there is upward pressure on wages. Furthermore, the government of China supports a wage rise for the sake of raising the people's living standards and increasing consumption, so wages in China, the low level of which was previously regarded as an advantage for the country, have risen to almost the same level as wages in Thailand and Malaysia (Figures II-1-3-13 and II-1-3-14).

Figure II-1-3-13 Trends in the average wage in China (manufacturing industry)





Figure II-1-3-14 Monthly base salary at Japanese companies overseas (worker, manufacturing)

Source: Survey on Business Conditions of Japanese-Affiliated Firms in Asia and Oceania (2013 survey) (JETRO).

(4) Yuan's appreciation

As was mentioned earlier, China has been recording a large trade surplus. However, the exchange rate of the yuan remained pegged to the dollar, so other countries started to call for correcting the situation. Since 2005, China has shifted to a managed floating system, and as a result, the yuan has been rising against the dollar moderately, eliciting voices of concern over a deterioration of export competitiveness, mainly from exporting companies in coastal regions (Figure II-1-3-15).





(5) Dependence on other countries' economies through exports

Looked at from another angle, the rapid expansion of China's exports may be viewed as an increasing dependence on other countries through exports. China's ratio of exports to GDP peaked (at 35.7%) in 2006 (Figure II-1-3-16). A breakdown of Chinese exports by destination country shows that the ratio of U.S.-bound exports to GDP peaked at 7.5% (2006) and the ratio of EU-bound exports to GDP peaked at 7.0% (2007). In Japan's case, the ratio of exports worldwide to GDP peaked at 16.3% (2007), while the ratio of U.S. bound exports to GDP peaked at 4.8% (1985). Thus, China's export-to-GDP ratio peaked at a higher level than Japan's export ratio (Figure II-1-3-17). Although China's export-to-GDP ratio declined after the global economic crisis, a slowdown of the Chinese economy is apt to affect other countries, and at the same time, China itself has become prone to be affected by other countries.



Figure II-1-3-16 Trends in China's exports as a proportion of GDP





1962 1964 1966 1968 1970 1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 (Year) Source: World Bank, WITS; United Nations, Comtrade; Cabinet Office, CEIC Database.

(6) Trend in inward direct investment

Under the policy of opening up, direct investments by foreign companies have been contributing to economic growth, mainly in coastal regions. It has been pointed out that foreign direct investments have not only contributed to economic growth through an expansion of production but also promoted spillover of technologies and knowhow through the integration of related industries from within and outside China. For China to improve the quality of its economic growth in the future through sophistication of industries and creation of high value added, direct investments are expected to play an important role. However, in recent years, growth in direct investments has stalled (Figure II-1-3-18). Although Japan is a major investor and maintains a high share of foreign direct investments in China, the value of its direct investments has recently been declining and the growth rate (on a year-on-year basis) of direct investments has remained negative¹⁰⁷ (Figures II-1-3-19 and II-1-3-20).

¹⁰⁷ There is a discrepancy between the direct investment data included in Japan's international balance of payments statistics (published by the Ministry of Finance and the Bank of Japan) and China's direct investment statistics (published by the Ministry of Commerce). Here, we used Japan's international balance of payments statistics.



Figure II-1-3-18 Trends in foreign direct investment in China

(Billion dollars)

Notes: "Other" includes the Virgin Islands and the Cayman Islands. Source: Chinese Ministry of Commerce, CEIC Database.

Figure II-1-3-19 Foreign direct investment in China (2013)



Notes: "Other" includes the Virgin Islands and the Cayman Islands. Source: Chinese Ministry of Commerce, CEIC Database.



Figure II-1-3-20 Trends in Japanese direct investment in China

(7) Widening income inequality

During the process of remarkable economic development, distortions of growth have become apparent. A typical example of such distortion is the widening income inequality, and the Gini coefficient, a major indicator of inequality, rose. Although it has recently declined somewhat, the Gini coefficient has still stayed above 0.4, which is viewed as a warning level (Figure II-1-3-21). Although China's Gini coefficient is lower than Brazil's, it is higher than the coefficients of other Asian countries such as India, Indonesia, the Philippines and Thailand. The Gini coefficient of China (Figure II-1-3-22).

Although inequality between provinces and between urban and rural regions is narrowing, it is still wide. For example, a comparison of per-capita GDP in 31 provinces, cities and autonomous regions shows that there is a difference of a factor of almost 5 between the highest and lowest per-capita GDP areas (Figure II-1-3-23). In coastal regions, there are many high-income areas which have achieved development mainly because of export industries, while income is relatively low in central and western provinces, where industrial foundation is weak (Figure II-1-3-24).

Income inequality between urban and rural regions is also still wide. In the 2000s, the income growth rate in rural regions gradually accelerated and has recently stayed above the income growth rate in urban areas. Even so, the value of income in urban regions is around three times as high as that in rural regions (Figure II-1-3-25). It should be noted that under a family registration system, there are restrictions on the free movement of people from rural to urban regions.



Figure II-1-3-21 Trends in China's Gini coefficient

Notes: Data to 2004 are IMF calculations (IMF, WEO, October 2007), while data since 2003 are figures announced by the National Bureau of Statistics of China. Source: WEO, October 2007 (IMF), National Bureau of Statistics of China.



Figure II-1-3-22 Comparison of the Gini coefficient in major countries

Notes & source:

National Bureau of Statistics of China (for China); World Bank, WDI (for emerging economies); Ministry of Health, Labour and Welfare, Survey on the Redistribution of Income (for Japan); OECD Database (for advanced economies other than Japan).
 The most recent data in each database have been used, but there are differences between countries in the year used, due to limitations in those data.

(Year)



Figure II-1-3-23 China's GDP per capita by region (2012)

Source: Data obtained from the National Bureau of Statistics of China and the CEIC Database.





Notes: Map shows a summary.

Source: National Bureau of Statistics of China, CEIC Database.



Figure II-1-3-25 Trends in income per capita in China's urban and rural areas

3. Structural problems and challenges

As shown above, the various conditions that have supported China's high growth are starting to change, and distortions of growth are becoming apparent. China's economic growth rate has declined from more than 10% to the 7-8% range. Under these circumstances, there is awareness of the need for structural reform essential for China to maintain economic growth in the future.

In particular, in relation to problems such as excess production capacity, which is an adverse side effect of a 4-trillion-yuan economic package¹⁰⁸, plans to promote structural reforms in a wide range of fields were announced at the third Plenary Session of the Central Committee of the Communist Party of China¹⁰⁹ (third PSCCCPC) last year and the National People's Congress¹¹⁰ (NPC) this year. However, there are many challenges that must be overcome before the implementation of the reforms,

¹⁰⁹ The third Plenary Session of the 18th Central Committee of the Communist Party of China. This was the third plenary session of the Central Committee since the 18th National Congress of the Communist Party of China (2012) at which the current leadership team was elected. As the national congress of the Communist Party of China is held every five years, a plenary session of the Central Committee works as the party's highest decision-making body in the interim period.

¹¹⁰ The National People's Congress is equivalent to the Diet of Japan and is convened around March each year.

¹⁰⁸ The 4-trillion-yuan economic package was equivalent to around 12% of China's GDP in 2009 and was larger in amount than the annual revenues of the central government of China, which stood at 3.6 trillion yuan. The 4-trillion-yen economic package was implemented over two years, 2009 and 2010, and local governments were also required to bear expenditures. The implementation of the massive fiscal expenditures resulted in an economic recovery but also created problems.

so a careful watch needs to be kept on future developments.

Although these issues are closely related to each other, we look at them separately along broad themes for convenience's sake while making references to relevant matters as necessary.

(1) Excess production capacity

As a result of excess production equipment capacity relative to demand, inventories are increasing, prices are falling, and capacity utilization rates are dropping. China has remained unable to exit the production adjustment phase because production tends to expand rapidly at a small sign of a demand recovery. While this problem has existed for some time, it has deepened after the completion of the 4-trillion-yuan economic package. The problem has become particularly notable in such sectors as steel, cement and glass. Among the background factors are problems relating to an investment-led economic growth model and state-owned enterprises (SOEs).

A look at changes in contributions to China's real GDP growth rate by demand component shows that gross capital formation has played a significant role in China's growth in the 2000s (Figure II-1-3-26). In 2008, when the global economic crisis occurred, the GDP growth rate fell steeply, and in 2009, net exports made considerable negative contributions to the growth rate. However, the government of China limited the slowdown of the growth rate by considerably expanding capital formation through the 4-trillion-yuan economic package. While the economic package itself mainly comprised public works projects, capital investments were made by the manufacturing industry, which supplied necessary equipment (Figure II-1-3-27). As a result, following the completion of the economic package, the problem of excess production capacity has emerged.

As for the trends in inventories and prices, both inventories and producer prices maintained high growth until 2010, when the economic package was in effect. However, the growth started to slow down from late 2011. In particular, producer prices recorded negative year-on-year growth for around two years from 2012 (Figures II-1-3-28 and II-1-3-29). Consequently, the capacity utilization rate has remained at a low level (Table II-1-3-30). A comparison of long-term production trends between China and major countries shows that China's expansion of production of steel has been outstanding (Figure II-1-3-31).

Among the background factors of the tendency toward excess production capacity are local governments' stance of placing priority on economic growth and the fact that SOEs find it easy to make low-efficiency investments. Macro-economic factors to increase investment easily include low share of labor income and high saving propensity.

In this situation, the central government has announced a policy toward resolving excess production capacity. For example, regarding five designated sectors – steel, cement, aluminum, sheet glass and shipbuilding — the government of China announced in October 2013 a policy of prohibiting an expansion of production, promoting the disposal of obsolete production equipment and industrial realignments, expanding exports and improving technological capability. For the steel sector, the government set the goal of reducing production capacity by 80 million tons. When implementing the policy, doing coordination work with local governments concerned about a slowdown of their regional economies will be a challenge.



Figure II-1-3-26 Trends in contribution to China's GDP growth rate

Figure II-1-3-27 Trends in contribution to China's growth rate of fixed asset investment by industry



Notes: Figures for fixed asset investment exclude household investment in rural areas. Source: National Bureau of Statistics of China, CEIC Database.

Figure II-1-3-28 Trends in growth rate of inventories of major products in China (compared with the same period of the previous year)



Figure II-1-3-29 Trends in rate of producer price increases in China (compared with the same period of the previous year)



Notes: Up to 2011, figures for motor vehicles include transportation equipment, while figures from 2012 onward include only motor vehicles. Source: National Bureau of Statistics of China, CEIC Database.

Table II-1-3-30 China's capacity utilization rate

				(%)
Steel	Cement	Aluminum	Flat glass	Ships
72.0	73.3	71.9	73.1	75.0

Source: Guiding Opinion on Resolving the Problem of Serious Excess Production Capacity (October 2014) (State Council).

Figure II-1-3-31 Trends in the volume of steel and motor vehicle production in major countries





(2) Shift from the investment-led growth model

Excess investment is related to China's investment-led growth model. As was mentioned earlier, gross capital formation has played an important role in China's economic growth in the 2000s, and economic measures taken at the time of recession included investments. A look at changes in the shares of investments and consumption in China's GDP shows that the share of investments continued to rise throughout the 2000s, while the share of private consumption continued to decline. The share of investments in China's GDP is much higher than the peak shares of investments in the GDP of Japan and ROK during the periods of high economic growth (Figure II-1-3-32).

Macro-economic factors behind the investment-led growth include the tendencies of funds being used for investment, rather than for consumption. For example, the domestic savings rate in China has been rising, and the high saving rate is underpinning investments through indirect finance (Figure II-1-3-33)¹¹¹. As a background factor of the high saving rate, it has been pointed out that because social security systems have not been adequately developed, consumption is curbed and money is saved due to concerns over living security in old age.

The high saving rate is also related to labor's low share of income in China. Labor's share of income in China dropped nearly 10 percentage points in the 2000s, by the time of the global economic crisis (from 2000 to 2007). Although it recovered after dropping further in 2008, labor's share of income in China has recently been in the 40-50% range, lower than the 60-70% range of labor's share of income in major Western countries (Figure II-1-3-34).

The government has set forth a policy of shifting from investment-led growth to a growth well balanced between investment, consumption and export. However, the shift will involve the promotion of a market mechanism that encourages efficient investment behavior, an increase in and redistribution of income that leads to an expansion of consumption, and the development social security systems. It is necessary to tackle a broad range of challenges, including coordination with local governments and vested interest groups and funding.

¹¹¹However, the savings rate may decline in the future due to the aging of society.



Figure II-1-3-32 Trends in China's GDP component ratio

Share of GDP accounted for by capital formation

	Peak	Year
Japan	36.4%	1973
ROK	38.0%	1991
Taiwan	30.9%	1980

Source: National Bureau of Statistics of China, Cabinet Office of Japan, Bank of Korea, Taiwanese Directorate-General of Budget, Accounting and Statistics, CEIC Database.









Labor share (2	2012)
----------------	-------

China	43.9
Japan	60.6
the U.S.	63.7
UK	70.5
Germany	68.5
France	69.0

Notes: 1. Figures for China have been calculated by adding together the data for employee income as a proportion of GDP in each of China's 31 provinces and municipalities.

2. In the figures for major countries, the Japanese and U.S. figures are for 2011.

Source: National Bureau of Statistics of China, CEIC Database, the OECD.

(3) Problems related to SOEs

In China, reforms such as privatization of SOEs have been carried out during the process of the shift to a market economy. Although the number of SOEs and their share in terms of total assets have declined as a result, the decline has moderated since the mid-2000s (Figure II-1-3-35). In particular, it is said that most of the orders related to the 4-trillion-yuan economic package were received by SOEs, and the situation was called "the state advances, the private sector retreats."

SOEs have continued to have monopoly or oligopoly in specific industrial sectors. For example, in the industrial and mining industry, SOEs hold large shares in the extraction of natural resources, including coal, oil and natural gas, as well as electricity, gas, waterworks, steel and nonferrous metals (Figure II-1-3-36). In other industries, SOEs have dominant shares in finance, transportation, communications, etc.

One problem with SOEs is their low efficiency. For example, a look at the return on assets by company type shows that the return for SOEs has stayed below the return for private companies, and

since the global economic crisis, the gap between the two types has been widening further (Figure II-1-3-37). As was mentioned earlier, among the background factors of excess production capacity is the fact that SOEs find it easy to make low-efficiency investments.

The government's policy is promoting the development of private companies while upholding the independence of SOEs. It has been decided at the third PSCCCPC that: SOEs will be separated from politics; their reforms will be promoted, including the opening of some businesses to the private sector and information disclosure; their ratio of contributions to public finance will be raised to 30%; and potential entry barriers will be abolished to allow in private companies. However, a careful watch needs to be kept on the implementation of these measures.

Figure II-1-3-35 Trends in shares of all corporate assets in China's mining and manufacturing industry



Notes: The mining and manufacturing industry includes mining, manufacturing, and the supply of electricity, gas and water. Source: National Bureau of Statistics of China, CEIC Database.



Figure II-1-3-36 Shares of corporate business income in China's mining and manufacturing industry (2012)

Figure II-1-3-37 Trends in return on total assets in China's mining and manufacturing industry



Notes: 1. The mining and manufacturing industry includes mining, manufacturing, and the supply of electricity, gas and water. 2. The return on total assets has been calculated as the total profit of state-owned, private, and foreign enterprises/total assets. Source: National Bureau of Statistics of China, CEIC Database.

(4) Sophistication of industries

At a time when China's working-age population is set to decline, it is a critical challenge to increase productivity and create high value added while advancing the industrial structure. As for China's industrial structure, the secondary industry (industrial sector) and the tertiary industry (services sector) have continued to expand their shares of GDP, while the primary industry (agricultural sector) still has a large share in terms of the number of workers (Figure II-1-3-38). As a result, the per-capita production value remains low in the primary industry. Regarding industries' shares of GDP, the secondary industry has accounted for around half of GDP, underpinning China's economic growth, and the tertiary industry has steadily increased its share of GDP, surpassing the secondary industry for the first time in 2013. Although the tertiary industry's share of GDP is still low in China compared with advanced countries, a shift to service businesses is gradually proceeding in China as well. As the tertiary industry has high employment capacity, its share in terms of the number of workers has stayed higher than the secondary industry since the mid-1990s. Among specific sectors of the tertiary industry, a broad range of sectors, from public services, education, and health and social services to finance, real estate and business services, have seen an increase in jobs (Table II-1-3-39)¹¹². The government has set forth a policy of improving agriculture and promoting service businesses with high employment capacity (under the 12th Five-Year Plan, the goal is to raise the services industry's share of GDP to 47% by 2015; the share was 46.1% in 2013).

Research and development (R&D) activities also play an important role in improving industrial productivity and creating high value added. As R&D activities are rapidly expanding, both the amount of R&D expenditures and the ratio of R&D expenditures to GDP have been increasing. A comparison of the ratio of R&D expenditures to GDP with major countries shows that although China lags behind Japan and the United States, it is already ahead of the United Kingdom (Figure II-1-3-40).

As a result, the number of patent (invention) applications has been increasing (Figure II-1-3-41). According to data published by the World Intellectual Property Organization, China surpassed Germany in terms of the number of international patent applications in 2013, becoming No. 3 in the world (Figure II-1-3-42). By company, among the top 10 in terms of international patent applications were three Japanese companies, including No. 1, and two Chinese ones, No. 2 and No. 3 (Figure II-1-3-43). As shown above, there are companies actively engaging in technology development and aiming to obtain patents.

¹¹² Because of data constraints, the number of workers by business sector was estimated from the number of workers in urban regions in recent years.







Notes: 2013 statistics for the number of people in employment have not been published. Source: National Bureau of Statistics of China, Chinese Ministry of Human Resources and Social Security, CEIC Database.

				, 	
_				(Ten t	housand people, %)
		2003	2012	Increase in	Growth rate
		2003	2012	number of people	(Annual average)
All	industry	10,970	15,236	4,267	3.7
Pri	nary	485	339	▲ 146	▲ 3.9
	Agriculture, forestry & fisheries	485	339	▲ 146	▲ 3.9
Sec	ondary	4,600	7,248	2,648	5.2
	Manufacturing	2,981	4,262	1,282	4.1
	Construction	834	2,010	1,177	10.3
	Mining	488	631	143	2.9
	Electricity, gas & water supply	298	345	47	1.6
Ter	tiary	5,885	7,650	1,764	3.0
	Public service	1,171	1,542	371	3.1
	Education	1,443	1,653	211	1.5
	Public health & social services	486	719	234	4.5
	Wholesale & retail	628	712	84	1.4
	Transport & postal	637	668	31	0.5
	Finance	353	528	175	4.6
	Research & development	222	331	109	4.5
	Services to businesses	184	292	109	5.3
	Real estate	120	274	154	9.6
	Accommodation & food services	172	265	93	4.9
	Irrigation, environment & public facility management	173	244	71	3.9
	Information & communications	117	223	106	7.4
	Culture, sport & entertainment	128	138	10	0.8
	Services to individuals	53	62	9	1.8

Table II-1-3-39 Employed persons by industry in China's urban areas

(Excluding private enterprises and self-employed individuals)

Notes:

1. Consistent statistics began to be published in 2003.

2. Listed in descending order of the number of employed persons in 2012.

Source: China Statistical Yearbook (National Bureau of Statistics of China).

(Private enterprises and self-employed individuals)

	(Ten thousand people, %)					
		2008	2012	Increase in number of people	Growth rate (Annual average)	
All in	dustry	1stry 8,733 13,200 4,467		10.9		
Seco	ndary					
	Manufacturing	1,901	2,358	457	5.5	
	Construction	384	600	216	11.8	
Tertiary						
	Wholesale & retail	3,540	5,407	1,867	11.2	
	Services to businesses	495	923	429	16.9	
	Accommodation & food services	596	838	243	8.9	
	Services to individuals	533	807	274	10.9	
	Transport & postal	296	574	278	18.0	

Notes:

1. Comprehensive figures for all categories of business are not available, so totals for individual industries do not add up to the total for all industry.

2. Consistent statistics began to be published in 2008.

3. Listed in descending order of the number of employed persons in 2012.

Source: China Statistical Yearbook (National Bureau of Statistics of China).



Figure II-1-3-40 Trends in China's research and development expenditure

Source: National Bureau of Statistics of China, CEIC Database, Main Science and Technology Indicators (OECD).

Figure II-1-3-41 Trends in the number of patents, etc. in China



Source: China Statistical Yearbook (National Bureau of Statistics of China).



Figure II-1-3-42 Top 10 countries by number of international patent applications

Notes: Top 10 countries by number of international applications under the Patent Cooperation Treaty. Figures for 2013 are estimates. Source: WIPO website.

Figure II-1-3-43 Nationalities of the top 10 companies by number of international patent applications

Nationality	Number of companies	Industry type
Japan	3	Electrical machinery (1st, 6th), motor vehicles (8th)
the U.S.	2	Electrical machinery (4th, 5th)
China	2	Electrical machinery (2nd, 3rd)
Germany	1	Motor vehicles (7th)
Sweden	1	Electrical machinery (9th)
Netherlands	1	Electrical machinery (10th)

Notes: Top 10 companies by number of international applications under the Patent Cooperation Treaty. Source: WIPO website.

(5) Urbanization

Urbanization is presumed to contribute to the sophistication of the industrial structure. On the production front, urbanization leads to a shift of labor force from the primary industry with low productivity to the secondary and tertiary industries, which have relatively higher productivity. On the demand front, urbanization is presumed to promote economic growth by inducing investments in housing and urban infrastructure, including transportation networks, as well as demand for consumer goods such as household appliances and various services, including entertainment, healthcare and education. In China, urbanization proceeded as the population in urban regions continued to grow throughout the 2000s and the population in rural regions continued to decline at the same time (Figure II-1-3-44). Recently, the urbanization rate has exceeded 50%.

The government aims to increase the urbanization rate to 60% by 2020 and to 65-70% by 2030. To that end, it is necessary to reform the family registry system so as to eliminate discriminatory

treatment of people based on whether they are registered in urban and rural regions, improve the living environment: including public services and housing, reform the land management system so as to acquire land at appropriate prices and tackle fiscal problems of local governments.



Figure II-1-3-44 Trends in China's urbanization

(6) Deregulation and market opening

There still remain strict regulations on private companies and foreign companies, including restrictions on entry into specific sectors, such as service businesses. The government has set forth a policy of gradually implementing deregulation. In particular, in the China (Shanghai) Pilot Free-Trade Zone, liberalization of yuan conversion for capital account transactions and deregulation concerning entry into services such as finance and distributions (shift to a negative-list system) were carried out on a pilot trial basis, and the government intends to consider extending the deregulation initiative nationwide based on the results in the pilot free trade zone (Table II-1-3-45). Although the deregulation initiative may provide an opportunity for new entry and business expansion, the current negative list concerning investment remains little changed from the previous one, so a careful watch needs to be kept on future developments.

Table II-1-3-45 Overview of the China (Shanghai) Pilot Free Trade Zone

(i) Date of launch: September 2013.

(ii) Areas covered: Shanghai's Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area, and Pudong Airport Comprehensive Free Trade Zone.

(iii) Purpose: To use the zone as a testing ground for reforms and efforts to open up to world markets, and to consider rolling these measures out nationwide on the basis of the results of this trial.

(iv) Policies expected to be implemented ahead of other areas:

It is envisaged that the following measures will be implemented; the specific details are expected to be disclosed in due course.

- Prior examination and approval of foreign investment will not be required in fields that are not on a negative list (shift to a notification-based system).

- Sectors in the service industry will be opened up to world markets, including such fields as finance, transportation, trade and commerce, professional services (legal practice, etc.), and culture.

- The liberalization of the renminbi, the deregulation of interest rates, and cross-border trade in the renminbi will be implemented on a trial basis. Etc.

Source: Materials published by JETRO, etc.

(7) Social security systems

In China, SOEs were responsible for social security for employees in the era of the socialist planned economy. However, in line with the shift to a market economy, this arrangement was replaced by one under which the government manages pension, healthcare insurance and other systems. In recent years, the rate of enrollment with pension and healthcare insurance plans in urban cities has been rising, but nearly 40% of workers are still not enrolled with a pension plan and nearly 50% are not enrolled with a healthcare insurance plan (Figures II-1-3-46 and II-1-3-47). There are also problems such as that migrant workers living in urban regions cannot receive social security services because of the division of people registered in urban and rural regions under the system and that premiums already paid by workers are not portable when they move to other regions because there is not a nationwide universal system. Although the government has set forth a policy of improving social security systems through measures such as promoting enrollment with pension plans, reform of the family registration system and funding for social security continue to be challenges.



Figure II-1-3-46 Trends in the number of subscribers to China's basic pension insurance for urban employees

Figure II-1-3-47 Trends in the number of subscribers to China's basic medical insurance for urban employees



(8) Flexibilization and liberalization of the foreign exchange market

The yuan shifted to a managed floating system in July 2005. After returning to a dollar-peg system temporarily, the managed floating system was reinstated and progress was made in flexibilizing the yuan's exchange rate, with the floating range gradually expanded from the initial range of plus or minus 0.3% (Figure II-1-3-48).



Figure II-1-3-48 Trends in the Chinese Yuan Renminbi Exchange Rate System

Source: China Foreign Exchange Trade System, CEIC Database.

(9) Interest rate regulation and shadow banking

In China, banks' interest rate levels have been subject to regulation. Since 2004, interest rate levels have been controlled through the setting of the floor for loan interest rates and the ceiling for deposit interest rates. This system, while assuring a certain interest margin for banks, often resulted in an effective negative interest rate, which refers to a state of the inflation rate exceeding the interest rate. This became a background factor for shadow banking, which will be explained later. Interest rate liberalization was gradually implemented, and the regulation on loan interest rates was abolished in June 2013. But deposit interest rates remain subject to regulation although their ceiling was raised (1.1 times as high as the standard interest rate) in June 2012 (Figure II-1-3-49).

However, interest rate liberalization will intensify competition among financial institutions, thereby raising the possibility that weak financial institutions will face management difficulties, so it is necessary to establish a system to prepare for failure of financial institutions.

Against the backdrop of the needs of lenders and borrowers created by the government's regulation on deposit interest rates and banks' lending stance of giving precedence to SOEs, funding activities not controlled by the authorities (shadow banking) have been expanding. While there is not a strict definition of shadow banking, it roughly refers to funding activities other than bank loans. Since 2009, the difference between the amount of aggregate financing to the real economy and the balance of outstanding bank loans has been widening rapidly (Figure II-1-3-50).

On one hand, shadow banking makes it possible to provide funds to small and medium-size companies that cannot take out bank loans, but on the other hand, it may cause confusion at the time of default or may undermine the effectiveness of the authorities' monetary policy measures because it is not covered by the supervision of the government.

Although the government is trying to curb loans for real estate transactions and local governments' infrastructure building projects as a countermeasure against such problems as real estate price

increases and local governments' debts, funds are presumed to be flowing to these sectors through shadow banking.

Meanwhile, in the second half of 2013, the growth in the money supply and total societal finance slowed down, indicating an intention of the government to withdraw surplus funds (Figures II-1-3-51 and II-1-3-52). However, when the government tries to shrink the money supply in order to withdraw surplus funds, financial markets display instability, such as an excessive reaction of interest rates, so the government has to engage in a delicate balancing act (Figure II-1-3-53).

There are no precise statistics concerning the size of shadow banking, but the size is generally presumed to be equivalent to 40 to 60% of GDP.

Although the level of shadow banking activities in China is not necessarily high by international standards¹¹³, they have been rapidly growing and it is difficult to predict their effects because of a lack of transparency over their actual state.

The government has set forth a policy of requiring banks to report on wealth management products and placing shadow banking under its control. In the meantime, a default on a corporate bond was reported in March 2014. The government has indicated a stance of tolerating default in some cases depending on the specific circumstances of the cases and a policy of strengthening supervision and exercises control over shadow banking.

Under the current financial system, funds do not flow to small and medium-size enterprises smoothly. In addition to strengthening the control of shadow banking, it is necessary to facilitate financing for small and medium-size enterprises.

¹¹³ In a report titled "Global Shadow Banking Monitoring Report 2013" by the Financial Stability Board (November 14, 2013), shadow banking is defined as credit intermediation involving entities and activities (fully or partially) outside the regular banking system, or non-bank credit intermediation in short. The size of shadow banking as a proportion of GDP is 165.9% in the United States, 354.4% in the United Kingdom, 72.4% in Germany, 96.2% in France and 64.4% in Japan. In China's case, wealth management products handled by banks are not included according to the definition of shadow banking as non-bank credit intermediation, so China puts the size of shadow banking in its territory at 20% of GDP. Even if the size of shadow banking is to be estimated at 40-60% of GDP, it is not necessarily high compared with in major countries.



Figure II-1-3-49 Trends in China's bank rate and regulation of interest rates





Notes: 1. For the sake of convenience, the stock of total social lending has been calculated as the cumulative total of total social lending (value of increase), figures for which have been published since 2002, added to bank loan balances as of December 2001. 2. There are issues such as overlap between categories in these calculations, so the difference between the two values cannot be simply regarded as the scale of shadow banking.

Figure II-1-3-51 Growth rates of China's money supply and Aggregate Financing to the Real Economy (AFRE)



Figure II-1-3-52 Trends in China's Aggregate Financing to the Real Economy (AFRE) (breakdown)





Figure II-1-3-53 Trends in China's interbank offered rate (SHIBOR)

Source: CEIC Database.

(10) Local government debts

Local governments, which provide public services directly relating to the people's everyday lives, such as education and healthcare services, face a chronic fund shortage and are unable to cover expenditures with a fund transfer from the central government alone¹¹⁴ (Figure II-1-3-54). In particular, their revenue shortage has become more serious than before as a result of the 4-trillion-yuan economic package¹¹⁵.

As local government themselves are not allowed to borrow funds or issue local government bonds, they have established local government financing vehicles as separate corporations, which raise funds through bank loans and debt issuance, and they have used the funds to implement public works and real estate development projects. There is the risk that the release of land holdings and real estate development implemented in this process may become a cause of a housing price rise, while a real estate price plunge may aggravate the problem of local government debts through the balance sheet of local government financing vehicles.

There was a lack of transparency over the actual status of debts related to local government financing vehicles. However, as concerns over local government financing vehicles grew, the National Audit Office of the People's Republic of China (equivalent to the Board of Audit of Japan) published in the summer of 2011 survey results which showed that local government debts, including debts of local government financing vehicles, at the end of 2010 came to 10.7 trillion yuan (equivalent to

¹¹⁴ Since the introduction of the separate tax system in 1994 (tax system reform concerning national and local taxes), local governments have faced a chronic revenue shortage.

¹¹⁵ Of the expenditures of the 4-trillion-yuan economic package, the central government bore around 1.2 trillion yuan, with local governments, etc. required to come up with funds to cover the rest of the expenditures.

26.6% of GDP). Although the central government ordered local governments to consolidate local government financing vehicles and reduce debts, local government debts expanded from 10.7 trillion yuan at the end of 2010 to 17.9 trillion yuan at the end of June in 2013, which translates into an annualized growth of 20%, despite the central government's efforts to curb the debts, according to the survey results published by the National Audit Office of the People's Republic of China at the end of last year (Table II-1-3-55 and Figure II-1-3-56). As fund-raising methods have been diversified further, the actual status of debts has become difficult to see.

The government of China has announced a policy of expanding general transfer expenditures for local governments (equivalent to tax grants to local governments in Japan), adjusting the division of powers and expenditures between the central and local governments and allowing local government to issue bonds while monitoring fiscal discipline.



Figure II-1-3-54 Trends in China's local government finances

Table II-1-3-55 China's Government debt

(Trillion yuan, %								
			Continge	nt liabilities				
Period	Government	Payment responsibility	Guarante e responsibility	Possible rescue responsibility	Total debt responsibility including contingent liabilities	As share of GDP		
End of 2010	Local government	6.7	2.3	1.7	10.7	26.6		
End of 2012	Central government	9.4	0.3	2.2	11.9	22.9		
	Local government	9.6	2.5	3.8	15,9	30.6		
	Total	19.1	2.8	5.9	27.8	53.5		
End of June 2013	Central government	9.8	0.3	2.3	12.4	-		
	Local government	10.9	2.7	4.3	179	-		
	Total	20.7	2.9	6.7	30.3	-		

Notes: Figures for share of GDP are the value of total debt obligations including contingent liabilities as a share of the value of annual GDP. Source: An announcement by China's National Audit Office.



Figure II-1-3-56 China's local government debt obligations and financing methods

Source: An announcement by China's National Audit Office.



4. Government's response

The government of China's basic policy concerning structural problems was set forth at the third PSCCCPC last year and the NPC this year.

(1) Third PSCCCPC

In November 2013, the Communist Party of China deliberated and adopted the Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform at the third PSCCCPC. It set forth the direction of reform —

deepening the reform comprehensively in six fields including the economy (economy, politics, culture, society, the environment, and national defense/military). In the field of economy, while upholding public ownership as the primary system, the decision stated that the market plays the "decisive role" in allocating resources and emphasized the promotion of a shift to a market system in such specific fields as fiscal management, finance, state-owned enterprises and opening up (Table II-1-3-57).

Table II-1-3-57 Overview of the decision at the third plenum

- 1. General outline
 - (I) Comprehensive deepening of reforms

China must comprehensively deepen reform. Reform of the economic system will be the main focus of reforms. The relationship between the market and the government will be put in order, ensuring that the market has a decisive function in resource allocation, and giving better rein to the function of government.

- 2. Details
 - (1) Economy
 - (II) Basic economic system

As well as maintaining the dominant position of the public economy with public ownership at the center, encourage the development of the non-public economy (private enterprises) as an important component part that ranks alongside the public economy. Keep state-owned enterprises separate from politics, promote the reform of state-owned enterprises by opening some operations up to the market and disclosing information, raise the proportion of income from state-owned capital turned over to public finance to 30% by 2020, eliminate unreasonable provisions affecting the non-public economy and hidden barriers to entry, etc.

(III) Completing a modern market system

Implement unified market access systems based on negative lists, perfect mechanisms in which prices are mainly determined by markets, enhance the secondary market for rural construction land, perfect mechanisms for the formation of renminbi exchange marketization, accelerate the marketization of interest rates, and promote openness for capital flows, etc.

(IV) Transformation of government functions

Abolish the government approval system for enterprise investment programs, reform assessment and appraisal systems for achievements (switching from economic growth to targets focused on the environment, safety and civil government), eliminate the examination and approval system, devolve responsibility to local governments, etc.

(V) Fiscal and tax system

Establish a government debt management mechanism, focus on increasing general transfer payments from the center to the localities, further rationalize the allocation of income between the center and the localities, progressively establish an individual income tax system, accelerate real estate tax legislation, etc.

(VI) Integrated urban and rural development

Endow farmers with property rights over their land, establish mechanisms for farmers to become urban residents, relax restrictions on farmers settling in towns and small cities (strictly control the size of the population in large cities), accept former residents of rural areas who have settled in cities into urban housing and social security systems, etc. (VII) Building new, more open economic structures

Move forward with the orderly opening up of finance, education, culture, healthcare and other service areas, establish the China (Shanghai) Pilot Free Trade Zone, accelerate negotiations on environmental protection, investment protection, government procurement, electronic commerce and other such new topics, move forward with the construction of the Silk Road economic belt and the Sea Silk Road, etc.

- (2) Politics
 - (VIII)-(X) Democratic socialist government system, China under the rule of law, supervision of power

Reforms of the judicial system, anti-corruption measures, etc.

(3) Culture

(XI) Cultural system

Strengthen national cultural soft power (establish sound mechanisms for shaping public opinion, etc.)

- (4) Society
 - (XII) Social services

Income allocation structures (improve labor remuneration, expand the functions of tax in adjusting income), fairer and more sustainable social security systems (integrate old-age insurance systems and health insurance systems for urban and rural residents, consider raising the retirement age), relax the one-child policy, etc.

(XIII) Social governance

Innovate social governance systems.

- (5) Environment
 - (XIV) Ecological civilization

Protection of water resources, compensation system, lifelong responsibility system, ecological and environmental protection systems, etc.

- (6) Defense and the armed forces
 - (XV) Defense and army reform

Build a modern military system.

3. CPC's leadership

(XVI) CPC's leadership

Establish the Central Reform Leading Group.

Notes: 1. Summary of key points, with a primary focus on reforms of the economic structure. 2. Numerals (I) to (XVI) are the numbering used in the original text of the decision. Other numbers have been added for the sake of convenience.

of convenience. Source: The Decision on Major Issues Concerning Comprehensively Deepening Reforms, etc (Third Plenum).

At a session of the NPC In March 2014, Premier Li Keqiang announced the major economic goals

for 2014 in the Report on the Work of the Government and a policy of maintaining a lower limit to ensure stable growth and employment and an upper limit to keep a cap on inflation and continuing to implement a proactive fiscal policy and a prudent monetary policy. (Table II-1-3-58). Describing the reform as bringing the greatest benefits, as a priority policy in 2014, Premier Li indicated the stance of actively pursuing reforms in a wide range of fields, including breaking the barrier of vested interests and ensuring that the market plays the decisive role in allocating resources (Table II-1-3-59).

As shown above, China has announced a policy of promoting structural reforms in a wide range of fields. When implementing the reforms, China is required to tackle many interrelated challenges, so a careful watch needs to be kept on future developments.

	2014	20	13	
	Target	Target	Actual	
GDP growth rate (real)	Around 7.5%	Around 7.5%	7.7%	
Consumer price index	Around 3.5%	Around 3.5%	2.6%	
Total fixed asset investment (nominal)	17.5%	18.0%	19.3%	
Total value of retail sales of consumer goods (nominal)	14.5%	14.5%	13.1%	
Total imports and exports	Around 7.5%	Around 8%	7.6%	
Budget deficit	1.35 trillion yuan	1.20 trillion yuan	1.20 trillion yuan	
Money supply (M2)	Around 13%	Around 13%	13.6%	
Number of newly employed people in urban areas	At least 10 million	At least 9 million	13.1 million	
Urban registered unemployment rate	4.6% or less	4.6% or less	4.1%	

 Table II-1-3-58
 China's main economic targets for 2014

Table II-1-3-59Key structural reform activities in 2014 (from the Report on the Work of theGovernment delivered at the National People's Congress)

OAdministrative systems

Streamlining administration and delegating more power to lower-level governments. Deepening reform of the system of review and approval for investment projects, eliminating or streamlining procedures requiring such prior review and approval, ensuring autonomy of investment for enterprises, and making investment and entrepreneurship more convenient. Establishing a detailed list of matters requiring administrative review and approval and completely prohibiting the review and approval of matters other than those on this list.

 \bigcirc Public finance and taxation

Implementing an open and transparent budget system. Adjusting authority and responsibility for expenditure between the central government and local governments, establishing a financing mechanism based on loans to local governments, incorporating local government debt into budget management, implementing a system of comprehensive government financial reports, and guarding against risks arising from debt.

OFinance

Moving forward with the marketization of interest rates. Broadening the margin of fluctuation in the renminbi exchange rate and increasing the convertibility of the renminbi in the capital account. Establishing a deposit insurance system and developing mechanisms for

addressing financial institution risks.

OState-owned enterprises

Enhancing systems for managing state-owned assets and increasing the proportion of earnings transferred to the public finance budget. Formulating rules for the inclusion of non-state-owned capital in the investment projects of state-owned enterprises, and devising numerous investment projects aimed at injecting non-state-owned capital into the fields of finance, petroleum, electricity, railways, telecommunications, resource development, and other public utilities.

Openness

Promoting greater openness in the service industry, ensuring that Chinese companies and foreign companies receive equal treatment, and maintaining a market environment in which they can compete fairly. Developing and managing the China (Shanghai) Pilot Free Trade Zone. Promoting negotiations concerning the Agreement on Trade in Services, the Agreement on Government Procurement, and the Information Technology Agreement.

OIncreasing domestic demand

Emphasizing consumption above all in efforts to increase domestic demand. Enhancing the ability to consume by increasing people's incomes. Increasing the consumption of services.

OPromoting urbanization

Promoting orderly efforts to establish migrants from agriculture as urban residents. Promoting the reform of the *hukou* (residency registration) system and implementing a selective relocation policy that differentiates between the numbers accepted according to the scale of each city. Progressively granting permanent urban residence to former farmers who have been employed or involved in trade in urban areas for many years. Enabling the children of migrant workers in urban areas to attend school in their place of residence.

Optimizing the economic structure and making it more advanced

Promoting simultaneous enhancement and reduction in efforts to adjust the industrial structure. Enhancement policies will focus on developing the producer service industry as a priority. Reduction policies will adhere to the "survival of the fittest" approach through market competition, encouraging enterprises to merge or restructure. Strengthening environmental protection, energy consumption, and technological standards for industries with a serious excess production capacity problem, putting together various preferential measures, disposing of some existing production capacity, and strictly regulating new expansion.

OMedical care and public health

Restructuring and unifying the basic medical insurance system for both urban and rural residents. Permitting a second child for couples, where either the husband or the wife is an only child.

○Social security

Establishing a unified basic old age insurance system for both urban and rural residents.

OEnvironmental problems

Devoting considerable energy to efforts to bolster environmental measures. Fitting desulfurization and denitrification equipment and dust collectors in coal-fired thermal power stations.

Etc.

Notes: Summary of the Report on the Work of the Government, with a primary focus on matters concerning structural reforms. The order in which they are shown here follows the order in which they appear in the report.

Source: Report on the Work of the Government delivered at the National People's Congress.