

OECD Centres

Germany

Berlin (49-30) 288 8353

Japan

Tokyo (81-3) 5532-0021

Mexico

Mexico (52-55) 5281 3810

United States

Washington (1-202) 785 6323

AUSTRALIA · AUSTRIA · BELGIUM · CANADA · CZECH REPUBLIC · DENMARK · FINLAND · FRANCE · GERMANY · GREECE  
HUNGARY · ICELAND · IRELAND · ITALY · JAPAN · KOREA · LUXEMBOURG · MEXICO · NETHERLANDS · NEW ZEALAND  
NORWAY · POLAND · PORTUGAL · SLOVAK REPUBLIC · SPAIN · SWEDEN · SWITZERLAND · TURKEY · UNITED KINGDOM · UNITED STATES

PAC/COM/PUB(2005)16

Paris, 16 September 2005

## China could become world's largest exporter by 2010

China could overtake the US and Germany to become the largest exporter in the world in the next five years. By then, Chinese goods and services could represent as much as 10% of global trade compared with 6% at present, according to the OECD.

In its first **Economic Survey of China**, the OECD says the current pace of economic growth – averaging more than 9% annually over the past two decades – shows no sign of slowing. But although economic dynamism has helped reduce the number of Chinese living in absolute poverty, income levels are still low and inequality is on the rise, not only between the cities and rural regions – average incomes in the countryside are only one third of those in the cities – but also within the more prosperous coastal provinces.

To reduce the gap in incomes, the government should make it easier for people to move from the country to the cities, but urbanisation should be carefully managed, the survey says. Legal restrictions to migration will need to be reduced and land law reformed. The funding of different levels of government will also have to be adapted to meet the health and education needs of a growing urban population as local authorities' responsibilities are not always matched by their ability to raise revenues. In addition, anti-pollution laws will need to be enforced more effectively.

As a result of profound shifts in government policies, the private sector is now driving China's remarkable economic growth. Well over half of China's GDP is produced by privately-controlled enterprises. But more needs to be done to improve the business environment, the survey says. For instance, the amount of capital required to start a company is relatively high. Priorities in this area should be to revise company law, pass a new bankruptcy code and provide stronger protection for property rights.

China's market economy also requires further reform of a financial system still dominated by banks, virtually all of which are government-controlled. The cost to the government budget of recent reforms to remove the burden of bad loans accumulated by the banks will be high but should be manageable, says the survey, especially as economic growth has reduced this debt to under 30% of GDP from nearly 50% in 1999. But the survey warns that without greater private sector control the future health of the banking system remains uncertain.

The survey points out that improving the allocation of capital is a key to sustained growth. Companies need to have easier access to stock and bond markets in order to raise funds. Making government-owned shares completely tradeable would improve the governance of listed companies, while the corporate bond market, presently representing less than 1% of GDP, would also benefit from less government control.

JT00189539

**OECD Media Relations**

**General Inquiries:** Tel. (33) 1 45 24 97 00 - Fax. (33) 1 45 24 80 03/94 37 · **Research & Documentation:** Tel. (33) 1 45 24 80 88/80 89  
[www.oecd.org/media](http://www.oecd.org/media) · **E-mail:** [news.contact@oecd.org](mailto:news.contact@oecd.org)

Organisation for Economic Co-operation and Development, 2 rue André-Pascal, 75775 Paris Cedex 16, France · Tel. (33) 1 45 24 82 00 - Fax. (33) 1 45 24 85 00  
[www.oecd.org](http://www.oecd.org)

The report argues that a more flexible exchange rate for the Chinese currency would reduce price volatility and provide a more stable macroeconomic environment. The July 2005 decision to revalue the Renminbi and move the exchange rate system away from a US dollar peg toward one where limited fluctuations are allowed around a central rate set by a basket of currencies, was a step in the right direction.

China's public finances are in good shape, with a budget deficit below 1% of GDP in 2004 and public debt stable at around 23%. But public spending on health and education is low and should be increased. The pension system also requires further reform as the next two decades will see a rapid increase in the proportion of elderly people in China. Among the survey's recommendations are raising the retirement age, extending coverage of the system and making pension rights transferable across the country.

A summary of the OECD Economic Survey of China can be found at [www.oecd.org/eco/surveys/china](http://www.oecd.org/eco/surveys/china). Information in Chinese is available on the OECD's Chinese website at [www.oecdchina.org](http://www.oecdchina.org).

For further information or to obtain a copy of the survey, journalists are invited to contact the OECD's Media Relations Division (tel: +33 1 4524 9700 or <mailto:news.contact@oecd.org>)