

# Discussion Paper

## CHINA, THE MILLENNIUM DEVELOPMENT GOALS, AND THE POST-2015 DEVELOPMENT AGENDA

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## SUMMARY

In 2015, the current Millennium Development Goals (MDGs) will expire and be replaced by a new globally agreed post-2015 development paradigm. China has made enormous progress in meeting the MDGs. Since China has a fifth of the world's population, this means that China's progress has greatly contributed to the achievement of the MDGs globally. Yet between 5-10% of China's population remains in poverty, and China will suffer the effects of climate change and other global issues. As such, the new development paradigm will require China's active support and participation. In addition, China's experience can be shared with other developing countries to help promote sustainable human development for all.

This UNDP China Discussion Paper is largely based on national consultations and workshops on the post-MDGs agenda held in China since 2012. It examines the approaches that China adopted in its attainment of certain MDGs, and identifies the domestic contexts in which such changes took place. It assesses some of the successes and challenges that China encountered in achieving some of the MDGs. While the circumstances that helped China meet some of the MDGs are unlikely to be entirely replicable elsewhere in the world, there are experiences that can be shared from China's development. Based on the lessons learned from the Chinese experience, the final section of this report addresses some issues to consider in developing a new set of global development goals post-2015.

### *The Chinese experience – unprecedented achievements, some challenges*

China has made significant efforts in realizing the MDGs' overall purpose of addressing the multi-dimensional nature of poverty and focusing on sustainable and equitable wellbeing. Statistics show that, over a relatively short time span starting from China's reform and opening-up since late 1970s, China has substantially reduced extreme poverty, infant, child and maternal mortality rates; increased access to primary and secondary education; and made important gains in gender equality and combating HIV/AIDS, malaria, and other diseases. This means that millions of people now have a steady supply of healthy food, safe drinking water, reliable shelter, and sanitation facilities. It also means that boys and girls have equal opportunities to receive education from the primary level to university, which can lead to better jobs and steady income for their families.

A set of three unique circumstances has provided China with the conditions necessary for high economic growth, new social programmes, and infrastructure investment. However, China still faces significant development challenges, especially in the areas of gender and regional inequalities, urbanization, combating HIV/AIDS, ensuring environmental sustainability, addressing water and air pollution. Integrating non-government actors in the development process could also be helpful in addressing these challenges and merits further consideration. A universal and more comprehensive post-2015 agenda could therefore be a useful catalyst for China to address these remaining challenges.

### *Lessons from the Chinese experience – how did China do it?*

- China's rapid economic growth – a key enabling factor to the country's efforts in reaching the MDGs – has been achieved through its gradual but targeted reform and opening up of the economy that began with the shift from a centrally planned economy to a market-based economy. Pilots – such as the special economic zones – were a crucial set of instruments for China to implement its gradual approach of economic reforms.
- Achieving national-level development goals requires the active support of a strong government that focuses on growth and development. It is important for governments to be committed, strategic and forward-looking so as to balance the short-term and long-term interests of the population.

- Progressive domestic resource mobilization, in particular the steady increase in government revenue that have been on pace with economic growth in the past 20 years, was key in allowing sufficient resources to be directed toward sectors within the economy that are instrumental for sustaining growth.
- Economic growth was necessary but not sufficient for poverty reduction. Development was also underpinned by improvements in physical infrastructure as well as human capital formation and investment in livelihoods, which were made easier to achieve by China's declining birth rates, but also guaranteed through relevant law and rules established and enforced by the government (e.g. China's 10-year Rural Poverty Alleviation and Development Outlines).

*Lessons from China suggest that a universal post-2015 development agenda should, inter alia, prioritise:*

- Creating an enabling environment for human capabilities;
- Government commitment and high administrative efficacy and focus at all levels;
- Inclusive policies focused on mitigating inequalities of outcome (e.g. progressive domestic resource mobilization, health, etc.) and opportunity (e.g. enabling employment policies, fair access to the legal system, etc.);
- Universal social protection, including social safety nets;
- Balancing economic growth, poverty reduction, and environmental sustainability.

## PART 1: INTRODUCTION

### The Millennium Development Goals

The MDGs encapsulate the eight international development goals officially established following the 2000 Millennium Summit of the United Nations (UN). In signing the Millennium Declaration, all 189 UN member states at the time committed to a new global partnership to reduce extreme poverty and set out a series of time-bound targets for each goal, with a base year of 1990 and a deadline of 2015.<sup>1</sup> The eight goals consist of: reduce poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and developing a global partnership for development.

Preliminary results have been encouraging. The number of people living in extreme poverty has fallen in every developing region, including sub-Saharan Africa. The proportion of people living on less than \$1.25 per day fell in 2010 to less than half the 1990 rate, and over 2.3 billion people gained access to improved drinking water sources between 1990 and 2012. The share of slum dwellers in urban areas declined from 39.3 percent in 2000 to 32.7 percent in 2012. This drop has improved the lives of at least 100 million people. Other progresses include gains in gender parity in primary education, a decline in levels of child mortality, a downward trend of tuberculosis and global malaria deaths and an expansion of treatment for HIV sufferers.

#### The Millennium Development Goals

## Eight Goals for 2015



However, there are impediments to achieving all the MDGs by 2015. Research shows that recent natural disasters and the global financial crisis have slowed progress. While some data has suggested that income inequality between countries are narrowing, within-country inequality persists and has worsened in some cases.<sup>2</sup> Hunger remains a global challenge. The United Nations Food and Agriculture Organization estimates that 850 million people, or 15.5 percent of the global population, were living in hunger in 2006-2008. Additionally, progress has also been slow in reducing child under-nutrition, with 30 percent of children in Southern Asia deemed underweight in 2012.

### The Post-2015 Development Agenda

The Post-2015 Development Agenda aims to help define the future global development framework that will succeed the MDGs. Launched at the 2010 High-Level Plenary Meeting of the UN General Assembly, the process draws on the values and principles in the Millennium Declaration and on a thorough, broad-based and inclusive review of the MDGs, which should be put in the context of the global development challenges ahead, as the starting point for the discussion of a new development agenda beyond 2015.

The 2011 Annual Report of the Secretary-General *Accelerating progress towards the MDGs: Options for sustained and inclusive growth and issues for advancing the United Nations development agenda beyond 2015* lays out the broad principles of the post-

<sup>1</sup> Except for Goal 7 (Ensure environmental sustainability), which has some target years set in 2010 or 2020.

<sup>2</sup> For more information, please see Lakner and Milanovic (2013)

2015 process.<sup>3</sup> These include the need to foster an inclusive, open and transparent consultation process with multi-stakeholder participation, including civil society, academia, private sector, and government actors, and to use established global, regional and national mechanisms and processes to ensure that such deliberations incorporate the lessons learned and experiences from all stakeholders.

The UN System Task Team was established by the UN Secretary-General to support system-wide preparations for the post-2015 development agenda, in consultation with all stakeholders. The Task Team provided analytical inputs, expertise and outreach to support the multi-stakeholder consultations led by Member States on the post-2015 global development agenda. It also mobilized more than 60 UN entities and agencies, and international organizations.<sup>4</sup>

In July 2012, the Secretary-General appointed a High-level Panel of Eminent Persons on the post-2015 development agenda. In May 2013, the Panel submitted their report, which provided recommendations regarding their vision on the post-2015 development agenda, key principles for reshaping the global partnership for development and strengthening accountability mechanisms.

Also in 2012, the United Nations Conference on Sustainable Development (Rio+20) launched an intergovernmental Open Working Group (OWG) to develop a set of sustainable development goals (SDGs). The Group, consisting of 30 UN member country representatives nominated by different regions, commenced its work in September 2013 and produced an outcome document of 17 Sustainable Development Goals to the General Assembly during its 68th session.

The Rio+20 Conference also mandated the establishment of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) to prepare a report proposing options on an effective financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives. The final report suggested a basket of policy measures encompassing a "tool kit" of policy options, regulations, institutions, programs and instruments, from which governments can choose appropriate combinations. The experts recommended a cohesive, strategic approach based on the principle of country ownership and supported by a strengthened global partnership for sustainable development.

Incorporating the outcomes of various processes on the post-2015 development agenda, the Secretary-General released his synthesis report, titled 'The Road to Dignity by 2030: Ending Poverty, Transforming All Lives and Protecting the Planet' in December 2014 as an input to the intergovernmental negotiations on the post-2015 development agenda. The report re-emphasized the need for the 17 global goals recommended by the Open Working Group on Sustainable Development Goals, while also introducing a set of essential elements as a means to address the challenges of communicating the global framework.

### China's role in the post-2015 process

China's inclusion in the post-2015 agenda is critical to the formulation of a genuinely inclusive and global approach to development after the MDGs. Given China's success in meeting most of the MDGs, its experience as a recipient of development aid, and its growing role as provider of development assistance to other developing countries, China has assumed a more active role in the post-2015 process than it did when the MDGs were formulated in 2000. With UNDP support, national consultations, which adopted a bottom-up, participatory approach with more than 75% of the participants coming from social organizations, were held in Kunming and Beijing in December 2012 and March 2013, respectively. The discussions were wide-ranging and focuses on six key areas: poverty reduction and inclusive growth; environmental and green development policy; global health; women and children; education; and international cooperation. The High Level Panel included a representative from China. In September 2013, China released an official position paper on the post-2015 development agenda, which identified the parameters of China's position. These include:<sup>5</sup>

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<sup>3</sup> This report is available at <http://www.ipc-undp.org/pressroom/files/ipc629.pdf>

<sup>4</sup> For more information about the UN System Task Team, please visit [http://www.un.org/en/development/desa/policy/untaskteam\\_undf/](http://www.un.org/en/development/desa/policy/untaskteam_undf/)

<sup>5</sup> The full text of the position Paper is available at <http://www.china-embassy.org/eng/zgyw/t1078984.htm>

- A focus on poverty reduction, setting realistic goals, and completing the incomplete MDGs.
- While universal, Africa and least developed countries are highlighted as the primary beneficiaries of a post-2015 framework.
- States have “common-but-differentiated responsibilities” to support global development. This is linked to China’s belief that North-South cooperation should continue to serve as the main channel for development financing and act as a complement to South-South cooperation.
- Developing countries must have full ownership over their development agendas and different models of development must be respected.

Perspectives from China on the post-2015 development agenda were also conveyed through the United Nations Development Group (UNDG)’s ‘MY World’ global survey, which collected responses from over 1 million people around the globe. Based on the responses from Chinese participants, top priorities were identified as the following 7 areas: better healthcare, good education, honest and responsive government, protecting environment, access to clean water and sanitation, affordable and nutritious food, better job opportunities.

## PART 2: HOW DID CHINA ACHIEVE SO MANY GOALS?

China has made great progress in achieving the MDGs, as documented in its most recent MDG report<sup>6</sup>. The progress China has made in achieving the MDGs has taken place within a very specific domestic context. China’s economic strength and social setting are two key aspects of China’s success that are unlikely to be entirely replicable elsewhere. China’s success in achieving specific MDGs and performing well overall can be primarily attributed to three related factors: 1) a rapidly expanding but managed economy; 2) a proactive, development-oriented government; and 3) a particular social and demographic setting.

### Rapid Economic Expansion Coupled with Gradual Reforms

Rapid economic growth is, perhaps unsurprisingly, one of the biggest factors that have helped China perform so well in many of the MDG indicators. A large body of research has shown that economic growth is a significant factor in reducing poverty. Provision of public services also tends to improve as the level of economic development progresses.

As shown in Table 1 (below), the per capita nominal income in China increased five-fold between 1990 and 2000, from US\$ 200 to US\$ 1,000. Between 2000 and 2010, per capita income also rose by the same rate, from US\$ 1,000 to 5,000, moving China into the ranks of middle-income countries.<sup>7</sup> Also, during 1990-2005, China lifted 470 million people out of extreme poverty, contributing to 76.09 percent of poverty reduction in the world over the same period of time.<sup>8</sup>

China’s rapid economic growth was achieved through the gradual but targeted reform and opening up of the economy that began with the shift from a centrally planned economy to a market-based economy in 1978. During this time, China re-oriented its development strategy, initially by de-collectivising agriculture, and then by prioritizing export-led growth strategies. In 1980, four “special economic zones” (SEZs) were created in the southern part of the country, which were economic enclaves in which the government could experiment with trade liberalization and other economic policies that included the attraction of foreign direct investment (FDI). Based on the lessons learned from these zones, China gradually opened up other coastal areas, border cities, and the capital cities of inland provinces and autonomous regions to FDI. Economic expansion accelerated dramatically

<sup>6</sup> See <http://www.undg.org/docs/13343/China's-Progress-Towards-the-Millennium-Development-Goals-2013-Report.pdf>

<sup>7</sup> According to the World Bank, China’s GDP per capita (current USD) is \$1,042 in 2001 and \$5,445 in 2011. <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

<sup>8</sup> *China’s Progress Towards the Millennium Development Goals 2013 Report*, prepared by the Ministry of Foreign Affairs of the People’s Republic of China and the United Nations System in China; available at <http://www.cn.undp.org/content/china/en/home/library/mdg/mdgs-report-2013/>

in the 1990s as a result of large-scale privatisation, the opening up of the whole country to FDI, and the initiation of China's "going global" policy, which provided incentives for Chinese State Owned Enterprises (SOEs) to invest overseas.

The gradual approach that China took is crucial to its reforms. There was no clear blueprint or orientation at the beginning of the "reform and opening up" process. A quintessential example of this gradual approach is the introduction of the dual resource allocation and pricing mechanism, which allows the coexistence of the planned and market economic systems at the same time. Before the reform in late 1970s, resources were allocated according to central planning. After the initiation of the reforms, SOEs were allowed to retain 12 percent of their additional profit and use the profit to buy what they wanted, including goods outside the central plan. The firms were also allowed to sell their extra products above the government-mandated quota, which in turn incentivized them to produce more. In addition, they were allowed to engage in production of goods outside the central plan at market-based prices (which were typically higher than the prices of the products in the plan). As such, market-based allocation and pricing thus emerged on both the demand and the supply sides. In the end, the market was finally fully liberalized and set all prices in the early 1990s, except for a few items such as water and electricity. The gradual reform results in considerable success. The SOEs' productivity was enhanced significantly after the reform, increased from its pre-reform levels of 0.5 percent – or even as low as -1.0 percent – to 2.4 percent. On the other hand, the output share of the SOEs in the industry also declined notably, from over 75 percent in 1978, to 25 percent in 2000.<sup>9</sup>

The gradual approach reduced the risk of dramatic changes in the economy, where such risk could lead to bankruptcy of many of the SOEs at that time. While the SOEs were highly inefficient (and still less efficient than that their private counterparts up to this day), they nevertheless played an indispensable role in the country as their products were closely related to people's livelihood or to national security. At the same time, they were also major employers in the country. Their bankruptcy would lead to a large number of workers unemployed, considerably hampering economic growth and creating social tensions.

A crucial set of instruments that China use to implement its gradual reform is the many pilots (such as the SEZs) that the country has been engaging in since the reform and opening up. These pilots allow the central and local governments to experiment unproven policy interventions, before implementing them in large scale. In the case of the special economic zones, they served as a laboratory where different methods aimed at overcoming drawbacks of a central planning system could be developed. New concept and means that originate in a market economy environment could be first tested in the zones. Should these measures prove to be effective and successful in the SEZs, they could then be extended to the rest of the country if feasible.<sup>10</sup> Pilots are still being widely used to this date in China, ranging from the Free Trade Zone at Shanghai – a test ground for full convertibility of China's currency (RMB), a market-based interest rate mechanism, a loosened customary intervention and a wider range of businesses open to overseas investors – to the emissions trading scheme pilots at selected Chinese provinces and cities.

*Table 3. Summary of Economic and Demographic Indicators in China, 1990-2013*

Year	Nominal GDP (100 Million RMB)	Nominal GDP per capita (RMB)	Government Revenue (100 Million RMB)	Government Revenue's Share of GDP(%)	Population (Unit: 10,000)	Number of Births (Unit: 10,000)	CPI (last year = 100)	Real GDP at 1990 prices (100 Million RMB)
1990	18,667.82	1,644.47	2,937.1	15.73	114333	2391	103.1	18,667.82
1991	21,781.50	1,892.76	3,149.48	14.46	115823	2258	103.4	21,065.28
1992	26,923.48	2,311.09	3,483.37	12.94	117171	2119	106.4	24,471.98
1993	35,333.92	2,998.36	4,348.95	12.31	118517	2126	114.7	28,000.53
1994	48,197.86	4,044.00	5,218.1	10.83	119850	2104	124.1	30,777.29

<sup>9</sup> For more details of China's reform process, please refer to Lin (2012).

<sup>10</sup> For more discussions on China's special economic zones and their roles in the reform and opening up process, please refer to Ge (1999).

1995	60,793.73	5,045.73	6,242.2	10.27	121121	2063	117.1	33,151.60
1996	71,176.59	5,845.89	7,407.99	10.41	122389	2067	108.3	35,838.88
1997	78,973.03	6,420.18	8,651.14	10.95	123626	2038	102.8	38,681.47
1998	84,402.28	6,796.03	9,875.95	11.70	124761	1942	99.2	41,674.14
1999	89,677.05	7,158.50	11,444.08	12.76	125786	1834	98.6	44,907.29
2000	99,214.55	7,857.68	13,395.23	13.50	126743	1771	100.4	49,485.42
2001	109,655.17	8,621.71	16,386.04	14.94	127627	1702	100.7	54,312.71
2002	120,332.69	9,398.05	18,903.64	15.71	128453	1647	99.2	60,082.00
2003	135,822.76	10,541.97	21,715.25	15.99	129227	1599	101.2	67,012.03
2004	159,878.34	12,335.58	26,396.47	16.51	129988	1593	103.9	75,919.67
2005	184,937.37	14,185.36	31,649.29	17.11	130756	1617	101.8	86,266.38
2006	216,314.43	16,499.70	38,760.2	17.92	131448	1584	101.5	99,411.43
2007	265,810.31	20,169.46	51,321.78	19.31	132129	1594	104.8	116,563.18
2008	314,045.43	23,707.71	61,330.35	19.53	132802	1608	105.9	130,042.73
2009	340,902.81	25,607.53	68,518.3	20.10	133450	1615	99.3	142,159.19
2010	401,512.80	30,015.05	83,101.51	20.70	134091	1596	103.3	162,085.22
2011	473,104.05	35,197.79	103,874.43	21.96	134735	1604	105.4	181,200.79
2012	519,470.10	38,459.47	117,253.52	22.57	135404	1635	102.6	193,917.33
2013	568,845.21	41,907.59	129,209.64	22.71	136072	N/A	102.6	206,967.81

Source: Data on GDP, Government Revenue & Total Population & CPI from National Bureau of Statistics of China. Retrieved on 1/2/2015 from <http://data.stats.gov.cn/workspace/index?m=hgnd>; Data on Number of Births from China Civil Affairs' Statistical Yearbook 2013

## A Proactive, Development-oriented Government

Based on the notion of a “xiaokang” society (a moderately prosperous society), in which the growth of a prosperous middle class underpins nationwide economic and social development, China’s government has played an active role in planning and managing China’s economic growth. An extensive government apparatus reaching from central to local governments has made the implementation, monitoring, and realization of clearly defined development goals possible.

### National Goal Setting

China has long followed a tradition of national development strategies. Even though the planned economic system was abandoned in the late 1970s, the tradition of national goal setting for development has continued. This allowed the government to regularly make deliberate policy adjustments and reorientations, while moving towards its vision of a *xiaokang* society. It also allowed the government to gradually shift the economy from a mostly growth driven approach to an inclusive growth model, which increased investments in poor regions of the country. The 12<sup>th</sup> Five-year Plan, which will expire in 2015, was formulated in 2010, with the goals of addressing rising inequality and creating an environment for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social safety nets, among others. At the moment, the 13<sup>th</sup> Five-year Plan (for 2016-2020) is being formulated and it is expected that the plan will focus on pushing forward structural reforms, simplifying administrative process to encourage a more vibrant market, advancing technological progress and innovation, facilitating job creation by the public, and further promoting openness, among others. Efficiency, equity, and sustainability are the key development concepts that have been guiding the formulation process, led by the National Development and Reform Commission (NDRC), i.e. China’s influential planning commission.

### *Aligning National Goals with MDGs*

One key reason for China's success in achieving some of the MDGs ahead of schedule is the congruence between many of the MDGs with those of China's national goals, including reducing poverty, eliminating hunger, increasing education and improving health. The Chinese government's accountability to deliver concrete results on its national goals played an important role in reaching the MDGs focused on eradicating poverty, improving basic health conditions, and providing universal education. For example, China's 10-year Rural Poverty Alleviation and Development Outlines – the current one covering the time period of 2011-2020 – identify, among others, the specific objectives of China's poverty reduction efforts in multiple development aspects, target beneficiaries of such efforts, and the basic principles that government agencies should adhere to while engaging in poverty reduction. Accountability for the goals set at the national level falls on officials from every level of government. This has ensured that the process of achieving the MDGs in China is result-oriented, backed up by considerable political will.

Discussion around the MDGs may have also encouraged China to set goals and allocate resources around those areas targeted by the MDGs. Initially, for China, goals such as combating HIV/AIDS, environmental protection, and international aid appeared to be a lesser priority. However, China's economic success strengthens its ability to address challenges in other development areas, where some of them witness worsening conditions since the early years of the reform and opening process. In this light, governments of all levels have been increasingly highlighting the need for equitable development, attention to environmental protection, and support for a smooth-running international trade environment.

### *Progressive Domestic Resource Mobilisation*

An important component of China's efforts to promote poverty reduction through economic growth was the mobilization of domestic resources, including taxes, remittances, and other revenues generated by savings and investments from households and domestic firms in a very progressive manner (i.e. high income households and firms were taxed progressively more as a proportion of their income than lower income households and firms). This created revenues that the government could direct into sectors of the economy targeted for growth. In the first decade of the 21<sup>st</sup> century, government revenue as a share of GDP increased at the same rate as overall GDP growth.<sup>11</sup> Government revenue as a share of GDP rose in the 2000s from mostly below 15 percent to 22 percent. As a result, by 2013, the size of the Chinese government's revenue was almost as large as the total size of China's GDP a decade ago in 2003.

The revenue-to-GDP ratio (and also the shares of central revenue in total government revenue) however was not always on an upward trend. In fact, the ratio decreased in the early years of China's reform and opening up, up to the year 1994. To reverse this downward trend, the government implemented a major tax reform in late 1994, which shifted the model of revenue collection and distribution from a negotiated basis to a mix of rule-based tax assignments and tax sharing; enacted a new value-added tax; and put the State Administration of Taxation in charge of collecting central and shared taxes (shared between central and local governments), while leaving the collection of local taxes as the responsibility of local government agencies. These 1994 reforms moved China toward a more centralized tax revenue collection mechanism, and brought the country's intergovernmental fiscal system closer to international practice.<sup>12</sup>

Another contributing factor to the steady rise of the government revenue since 1995 (and its progressivity) was the minimal adjustment that China made to its income tax law, which remained relatively intact since its creation in 1980. Nominal income brackets and marginal tax rates applied to both wage and non-wage incomes remained largely unchanged over the years. The only major change was that the nominal exemption threshold for wage earners rose at a rate substantially lower than that of nominal income growth. The results of such minimal changes to the income tax schedule were that Chinese income tax revenues, as a share of GDP, increased from less than 0.1 percent in 1986 to about over 1.5 percent in 2005 and 2.5 percent in 2008. The

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<sup>11</sup> See Table 3.

<sup>12</sup> For more discussions on the evolution of China's tax reforms, please refer to Lou and Wang (2008).

fraction of the Chinese population subject to the income tax also increased from less than 0.1 percent in 1986 to about 20 percent by 2008.<sup>13</sup>

Strong domestic resource mobilization has allowed the Chinese government to direct resources and investment, and monitor their use, in line with its own development goals and those of the MDGs. It also led to a series of further progressive policies such as abolishing agricultural taxes (2006), mandating public funding for nine-year compulsory education (2006), establishing the new rural health care insurance scheme (2003)<sup>14</sup>, and establishing the new rural old age pension scheme (2009).<sup>15</sup>

### *Investments in Physical and Social Infrastructures*

The rapid expansion of the government's fiscal capacity allowed for massive investments in physical and social infrastructures, which underpinned the success of China's export-led growth strategy and domestic poverty reduction efforts. Significant investment in physical infrastructure – roads, high-speed railways, airports, energy, communication networks and social infrastructure – education, and social welfare provisions such as health care and pensions – has contributed to more efficient resource allocation, increased economic output, and improvements in the overall wellbeing of the Chinese population. As social infrastructure grew, an increased access to education made primary education a reality for all junior middle school age students (nine-year compulsory education). The Chinese government created an enabling condition for improving access to education through amending the Compulsory Education Law in 2006 (the original law took effect in 1986), which further emphasizes the importance of providing equitable access to school-age children regardless of their gender, ethnicity, etc, confirm the institutional arrangement for funding compulsory education, and establish a monitoring mechanism for compulsory education. Funding responsibilities between the central and local governments are also further clarified to ensure that education funding, particularly for rural areas, was secured.

### **China's Social and Demographic Context**

China's progress in meeting most of the MDGs has also been facilitated by a decrease in population growth, which is a result of deliberate government policies and natural consequence of economic growth and poverty reduction. In the 1980s, China's birth rate level was already below the replacement level of 2.1 children per couple. Since 1990, China has had a consistently low birth rate and the current level is only at 1.58 children per couple. In 2012, the number of annual births was 16.35 million, which is 30 percent fewer than that in 1990 (the 2000 figure was 17.71 million). In addition to impressive economic growth and the strong role of the government, such demographic circumstances have also facilitated China's progress in achieving some of the MDGs. This less observed factor had an influence in China's progress in rates of child mortality, education and employment.

Fewer births have led to a series of rippling effects: fewer birth deliveries, fewer primary school students, and fewer young people entering the job market. In 2008, 50 percent of all Chinese primary schools were closed down, largely due to the drastic decline in student age population. With regards to the MDGs, reducing child mortality and expanding education was therefore achieved sooner with fewer children to support and increased financial resources. In addition, although the main driver for

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<sup>13</sup> For more discussions on China's income tax schedule, please refer to Piketty and Qian (2009). For comparison, the authors show that in the case of India, constant adaptation of exemption levels and income brackets has caused the government revenue to remain around 0.5 percent of GDP, and only 2-3 percent of the Indian population is subject to income tax.

<sup>14</sup> The scheme (xinnonghe) by 2012 increased coverage to almost all rural residents (98 percent), with increased government input (in 2013, 280 RMB per person annually from the government, with individual contribution at 60 RMB). Overall pay-out rate from the insurance scheme is at around 50 percent. Starting 2013, 20 illnesses listed under "catastrophic illnesses" can receive up to 90 percent reimbursement for treatment. Source: National Health and Family Planning Commission, available at <http://www.npfpc.gov.cn/was5/web/search>

<sup>15</sup> Experiment in 10 percent of rural counties began in 2009, with a target of full coverage of eligible rural population nationwide by 2020. This is an individual account system with public subsidy. Currently, individual annual contribution is set with five categories, from 100 RMB to 500 RMB. Cumulative contribution to the system of 15 years makes one eligible for receiving pension, for which the current rate is 55 RMB per month. Source: State Council's report "Guowuyuan Guanyu Kaizhan Xinxing Nongcun Shehui Yanglao Baoxian Shidian de Zhidaoyijian" (State Council's recommendations on implementation of the New Rural Old-age Pension system pilots), 2009. [http://www.gov.cn/zwqk/2009-09/04/content\\_1409216.htm](http://www.gov.cn/zwqk/2009-09/04/content_1409216.htm)

employment opportunities has been China's strong economy, lower birth rates mean that less young people enter the labour market and renders full employment easier to achieve.

China's drop in fertility rates is often attributed to the government's One Child Policy, a set of demographic goals enunciated in 1980 in support of the economic development goals advanced by the Chinese leadership. These goals included a total population of 1.2 billion by 2000 and a population growth rate of zero, supported by concrete measures of restricting 95 percent of urban couples and 90 percent of rural couples to having only one child.<sup>16</sup>

However, one should note that China's fertility rate had already fallen from 5.8 births per woman in 1970 to 2.8 births per woman in 1980, meaning it was more or less halved before the one-child policy took effect. Furthermore, a growing economy naturally tends to create wealthier and more educated people that choose to have fewer children, as such trajectories can be observed across the world.<sup>17</sup> In any case, while the dropping fertility rate may have lessened the strain on social services, it has also created challenges for the Chinese government, including a shrinking labour force, an inversion of the age pyramid that will put a strain on a smaller generation of children and taxpayers, and unbalanced sex ratios at birth.<sup>18</sup> In view of these challenges, the Chinese government announced their plan to relax the One-Child Policy in recent years. A major feature of the reform is that families can have two children if one parent is an only child.

## PART 3: CHINA'S KEY REMAINING DEVELOPMENT CHALLENGES

While China's achievement in reaching the MDGs is commendable in many aspects, it remains a developing country with over 80 million people still living in extreme poverty (exact numbers vary depending on the poverty line used). At the same time, the country is quickly urbanizing, with its population also aging at a rapid pace. On urbanization, 310 million people are expected to move to cities in the next 20 years, creating considerable challenges to sustainable development of cities.<sup>19</sup> In terms of the demographics, the labor force is expected to peak in 2015 and it is estimated that over one-third of the Chinese population will be over 60 by the year 2050, resulting in high dependency rates.<sup>20</sup> However, there are three significant structural challenges that need to be overcome in order to address the above issues of urbanization and aging and to ensure that China's achievements are not reversed. These challenges are mitigating the effects of rapid economic expansion on income and regional inequalities, preventing further environmental degradation, and integrating civil society actors into the development process.

### Inequality

While economic growth is an important means of improving people's livelihood as it creates jobs and opportunities for poor people to support their families and build more stable futures, it is not sufficient as an indicator of poverty reduction. The extent to which growth contributes to poverty reduction depends critically on the distribution of resources and opportunities that growth brings to individuals and households, especially the vulnerable and disadvantaged groups. For instance, while GDP growth rates are a good indicator of the overall development of a country's economy, they do not reflect income inequalities among regions, across the rural-urban spectrum, and between genders.

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<sup>16</sup> For more discussion on the One Child Policy, please refer to Wang, Cai and Gu (2013).

<sup>17</sup> South Korea, for instance, had a fertility rate similar to China's in 1979, at 2.9 children per woman. In 2008, it dropped to 1.2. Thailand's fertility dropped from 3.6 in 1979 to 1.8 now. Brazil's fertility rate was 4.2 in 1979. In 2008, it was 1.9.

<sup>18</sup> Gross, 2014.

<sup>19</sup> Source: Institute for Urban and Environmental Studies of Chinese Academy of Social Sciences and UNDP China. China National Human Development Report 2013: Sustainable and Liveable Cities: Toward Ecological Civilization. <http://hdr.undp.org/en/content/sustainable-and-liveable-cities-toward-ecological-civilization>

<sup>20</sup> Source: United Nations Secretariat, World Population Prospects: 2010 Revision.

In this light, while the official data indicates that China's Gini Coefficient for income inequality is improving from its 2008 peak of 0.491, it still remains at a relatively high level of 0.473 in 2013.<sup>21</sup> It is now expected that the country's income inequality is reaching a somewhat steady state, but comprehensive government interventions, including improvement of primary distribution and redistribution policies, acceleration of household registration reforms, and deepening of rural land reform, among others, will be crucial to move China's Gini Coefficient below the international warning line of 0.4. With respect to wealth inequality, data shows that China's Gini coefficient for wealth distribution was 0.73 in 2013, increased from 0.45 in 1995. The report shows that the top 1 % of Chinese households holds 1/3 of total assets, while the bottom 25% holds only one percent.<sup>22</sup>

This high level of income inequality persists despite the government's effort to reduce inequalities through measures such as progressive taxation and social security systems. Urban inequality – epitomized by the gap between the migrant workers and other urban residents – is particularly severe. Hundreds of millions of rural people have moved into cities with the hopes of improving their lives, but their entitlements to basic social welfare such as health care, old age support, and housing are still in question because of the “hukou” (household registration) issue. Their hardship is increased by the unprecedented rise in urban housing prices, most notable in China's large cities, which has made it difficult for migrant workers to afford decent housing. This reality can render them likely candidates for urban slum dwellings. Urban-rural and regional income inequalities, which are largely a result of China's focus on developing the coastal provinces in the 1980s and 1990s, also contribute to the overall inequality.

In recent year, inequality has rightfully shaped up to be a prominent issue on the Chinese leadership's agenda.<sup>23</sup> It is of utmost importance to address inequality given the increasing evidence based on cross-country analyses that points to the negative correlation between inequality and economic growth, while economic growth – as mentioned earlier – is one of the biggest reason behind China's strong performance in reaching the MDGs.

With respect to non-income well-being dimensions, cross-country regression analyses by UNDP show that income levels and economic growth are not significant drivers of inequalities in education, health, and nutrition outcomes. That is, there is no automatic positive relationship between economic growth and within-country equality in education, health and nutrition outcomes.<sup>24</sup> On the other hand, the same analysis shows that distribution of income between household do appear to have statistically significant impact on equality in education, health and nutrition outcomes, along with other significant drivers, including governance, social spending and social norms. In other words, addressing income inequality is crucial to promoting equality in other dimensions of wellbeing. On the other hand, failure to address income inequality would also risk leading to worsening inequality in other development dimensions, in particular health and education.

## Environmental Issues

Environmental issues, including principally water, soil, and air pollution, and related food safety concerns, are some of the most pressing side effects arising from China's rapid economic growth. China's investment-heavy and export-oriented growth model has relied on the use of massive volumes of energy resources –primarily coal- and raw materials, which has had significantly negative impact on the environment. Since 2000 China alone has accounted for two-thirds of the global growth in carbon-dioxide emissions and is now the world's biggest carbon emitters. It is also estimated that the costs of environmental degradation and resource depletion in China approached 10 % of GDP over the past decade – air pollution accounted for 6.5 %, water pollution 2.1 % and soil degradation 1.1 %.<sup>25</sup>

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<sup>21</sup> National Bureau of Statistics. 20 January 2014. *China's Economy Showed Good Momentum of Steady Growth in the Year of 2013*. [http://www.stats.gov.cn/english/PressRelease/201401/t20140120\\_502079.html](http://www.stats.gov.cn/english/PressRelease/201401/t20140120_502079.html)

<sup>22</sup> Caixin. 4 August 2014. *One Percent Has One Third of China's Wealth, Research Shows*. <http://english.caixin.com/2014-08-04/100712733.html>

<sup>23</sup> The Turning Period of China's Income Distribution: An Impact Assessment on Income Distribution-related Policies in China (2012), China Development Research Foundation.

<sup>24</sup> For more related discussions, please refer to UNDP (2013).

<sup>25</sup> World Bank. 2013. *China 2030: building a modern, harmonious, and creative society*. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2013/03/17494829/china-2030-building-modern-harmonious-creative-society>

The Chinese government is making efforts to combat the negative environmental consequences of its development success. It established the Ministry of Environmental Protection in 2008 (replacing the State Environmental Protection Administration), and in 2012, it adopted a policy of “Ecological Civilization” that aims to promote economic development underpinned by green development, low-carbon development, and to balance industrial development with sustainable development. As a result, China has issued a host of environmental rules and regulations for domestic companies, the implementation of which needs to be strictly enforced. Today it attracts the world’s largest investment in clean energy.<sup>26</sup>

The Decision on Major Issues Concerning Comprehensively Deepening Reform that came out from the 3<sup>rd</sup> Plenum of the 18<sup>th</sup> Central Committee of the Chinese Communist Party in 2013, together with some of the earlier government documents, has reinforced that environmental sustainability is an integral part of China’s new development strategy.<sup>27</sup> A new environmental protection law was put into effect on 1 January 2015, which is considered much stronger than its earlier versions. In particular, the change in performance evaluations for local officials to include environmental and not just economic performance, the potentially substantial increase in fines and punishment for non-compliance, the expansion of citizen and social organizations’ rights to information, consultation and public interest litigation, and environmental impact assessment on plans and policies as well as projects, have all been cited as reason to hope that this new law could have significant impact on halting the degradation of China’s environment. On the other hand, in addition to making substantial investment and significant progress in reforestation and clean energy, China has also established concrete goals and is working to reduce energy consumption per unit of GDP.<sup>28</sup> It should also be noted that in a historical joint announcement with the United States, China pledged in November 2014 to achieve the peaking of the country’s carbon emission around 2030, and increase the proportion of non-fossil fuel energy in the overall mix to 20% by 2030, injecting fresh momentum into the global effort to address climate change.<sup>29</sup>

As China transitions to a more sustainable mode of development, it will require new perspectives on and a comprehensive understanding of interrelationships between economic, social and environmental costs and benefits, including with other countries, so as not to “export” the problem of sustainability to others. Since these three are inextricably linked, responses to them need to be well coordinated.

### Integrating Civil Society Actors

In addition to the aforementioned challenges in inequality and the environment, the integration of previously underemphasized actors could have greater importance in addressing these obstacles looking ahead and presents itself as a challenge on its own. Government – no matter how efficient – still has its own limitations. While the Chinese government has helped China achieve significant progress, government intervention has presented new challenges for Chinese society. In a number of areas, such as combating HIV/AIDS and environmental protection, the government working alone only solves part of the problem. The mobilization and participation of all sectors of the society, including civil society organizations and the direct participation of the population, can be very helpful and effective. For example, public participation can help with agenda and goal setting, and contributes to effective intervention with HIV/AIDS programmes by addressing behavioral changes and social stigmas. It can also help to monitor the progress made in combating HIV/AIDS and to raise the awareness of air pollution and the like. All these exemplify the indispensable role of civil society. Encouragingly, the role of civil society and volunteer-based organizations in this domain has gradually increased over the past decade in China, and they are particularly active in the fields of public education, intervention, treatment and care.

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<sup>26</sup> Source: <http://www.pewtrusts.org/en/research-and-analysis/reports/2014/04/03/whos-winning-the-clean-energy-race-2013>

<sup>27</sup> Full text of The Decision on Major Issues Concerning Comprehensively Deepening Reform is available at [http://www.china.org.cn/china/third\\_plenary\\_session/2014-01/16/content\\_31212602.htm](http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm). China unveils its 12<sup>th</sup> Five-Year Plan (2011-2015) on Environmental Protection, China Briefing, December, 2011. <http://www.china-briefing.com/news/2011/12/23/china-unveils-12th-five-year-plan-on-environmental-protection.html>;

<sup>28</sup> Source: *China Unveils Its 12th Five-year Plan on Environmental Protection*, China Briefing, February, 2013. <http://www.china-briefing.com/news/2013/02/06/china-releases-12th-five-year-plan-for-energy-development.html>

<sup>29</sup> The full text of the joint announcement is available at <http://www.whitehouse.gov/the-press-office/2014/11/11/us-china-joint-announcement-climate-change>

## **PART 4: WHAT CAN OTHER COUNTRIES LEARN FROM CHINA TO INFORM THE POST 2015 DEVELOPMENT AGENDA?**

China and the world are at a new turning point in history. Globally, the achievements in working toward meeting the MDGs have significantly improved the lives of billions of people. Perhaps equally important to the concrete achievements that have been made is the increased global awareness of the agenda, and the pressure generated for national and global leaders to live up to the expectations of the world's citizens. The arrival of the information age has connected all corners of the world more than ever before, opening up debate and mobilizing its citizens to strive for the common good. China's participation and remarkable successes in the MDGs have given indispensable support, both in ideal and in reality, to the historical global project.

Any new global initiative or a set of new global goals after 2015 will require the active support and participation of China, both as a country with the largest share of the world's population, and as the second largest economy in the world (or the largest in purchasing power parity terms). In addition, formulation of the post-2015 goals can draw on China's experiences in development and poverty reduction. This is particularly useful because China straddles developing and developed countries in many ways.

### **Enabling Human Capabilities**

China's success in reducing poverty and working towards achieving the MDGs relied most importantly on the changes within the country that allowed people to unleash their capabilities and to realize their dreams. Likewise, a new set of goals should focus on ways to enable human capabilities both in China and around the world. In this regard, targets to ensure basic health and education, with special attention to gender equality remain important.

### **Government Commitment**

While some of China's previous policies may not be applicable to many other countries, China's political commitment to poverty reduction has meant that strong institutions are in place from the top to the bottom of the political system. Effectively, the Chinese government has publicly committed to improving the wellbeing of its people. In addition, China has a very concrete, predictable national planning process, so it is being held accountable to that goal. The high administrative efficacy and focus that Chinese governments of different levels have displayed in promoting particularly poverty alleviation, primary education and child/maternal health can serve as a good example for other countries.

### **Inclusive Economic Growth and Domestic Resource Mobilization**

China's domestic resource mobilization was strong and highly progressive, and remains a key means to tackle inequality. However, China still has large segments of the population which have been left behind, in terms of health, education, and income. While inequality is not a challenge unique to China, high levels of economic and social inequality constrain sustainable development. They also discourage social participation, threaten political stability, and impede healthy economic growth. Thus, engaging with China on concrete targets to enable human capabilities as well as specific commitments to reduce the level of inequality – especially within countries – would be useful.

### **Universal Social Protection**

Now that China is classified as a middle-income country with a rapidly aging population, it faces the challenging prospect of building an equitable and sustainable social safety net, with universal basic health care, old age pension and other social protection. These areas will become a high priority as well as one of the greatest challenges China faces. Universal social protection should be a global goal, as such protection is lacking not just in the developing world, but also in some of the world's richest places. Achieving such a goal will contribute greatly to enabling human capabilities for all, and for reducing inequality.

## Environmental Sustainability

Environmental sustainability is central to achieving a sustainable future and an environmentally sustainable world has never been more important for China and the rest of the world than now. Some have argued that China has emphasized economic growth over environmental issues.<sup>30</sup> The same can be observed in many of the developing countries as well as developed countries. In the future, countries will need to not only strive to further its efforts in environmental protection, but as pollution and climate change have no national boundaries, be active partners in the making development more sustainable.

## PART 5: CONCLUSION

This report shows that China has considerable success in meeting most of the MDGs largely because China's own goal aimed at building a *xiaokang* society has broadly been in line with the MDGs. China has made significant strides in meeting the MDGs through rapid, export-led economic growth underpinned by a strong, development-oriented government that set clear national development goals and formulated the means to achieve them. The Chinese government has been instrumental in defining these goals in five-year increments, and since 2000, aligning these with the MDGs. It has benefitted from increases in domestic resources including taxes, remittances, investments and savings from household and companies, and directed these resources toward areas of the economy targeted for growth. Key among these areas were physical and social infrastructures, which allowed China to build up its transportation networks and fosters its human capital to utilize these networks for productive means. While China is unlikely to reach all of the MDGs by 2015, it has made remarkable progress in areas including poverty reduction, primary education, and health.

However, despite China's success, it still faces some challenges in full fulfillment of the targets, including full and productive employment and decent work for all, women and young people in particular, universal access to reproductive health, reversing the spread of HIV/AIDS, mitigating a high level of regional, rural-urban and gender inequalities, addressing demographic changes and ensuring environmental sustainability. Integrating non-government actors into the development process will be key to addressing these.

Nevertheless, on the basis of China's past successes, experiences, and the financial and human resources that it has accumulated during its rapid development, China is now poised to move its social development ahead even more rapidly, beyond the original MDG targets and toward more ambitious goals.

Drawing on China's experiences can help to promote a more rapid global development for all and help other countries—both developed and developing—to design and achieve a set of highly effective new global development goals. It is important to learn from China's experience and ensure that one of the most influential global players is fully supportive of post-2015 development agenda.

Finally, although not discussed in detail in this paper, there is a potential for China's well established and appreciated practice of South-South development cooperation frameworks with other developing countries to be expanded in new directions to support these lessons – for instance, around efficiency of government systems, or domestic resource mobilization.

The time is now to learn and move forward together to eradicate poverty once and for all.

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<sup>30</sup> See for example: <http://www.csa.com/discoveryguides/china/review.php>

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