

### III. Participating Country Backgrounds

#### 1. Introduction

The Asian Development Bank has 38 developing member countries. In early 2000, seven of these countries were approached and invited to participate in this regional study – all accepted the invitation. The decision to invite this particular group of countries was based on several factors including their willingness to participate, geographical location, involvement in the World Bank CFAA exercise, stage of development, and the extent of the Bank's assistance. It was intended that the participating countries should represent a cross-section of all ADB developing member countries.

This chapter presents background information on the seven countries and provides context for the later chapters in which the financial management and governance arrangements in each country are discussed.

#### 2. Comparative Information

The comparative information presented in Table 3 illustrates the geographical, social and economic differences between the seven participating countries.

Table 3. Comparative Information on the Participating Countries<sup>10</sup>

Indicator	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbek -istan	Viet Nam
<b>GENERAL</b>							
Surface area ( <i>000 km<sup>2</sup></i> )	181	9,597	1,567	796	463	447	330
Population ( <i>millions, 1999</i> )	12	1,255	3	134	4	24	77
Population density ( <i>people per km<sup>2</sup></i> )	65	135	2	174	10	59	251
Urban population ( <i>% of total, 1999</i> )	23	33	63	36	17	42	20
Average annual population growth rate ( <i>%, 1995-99</i> )	3.7	1.0	1.4	2.4	1.7	1.7	1.7

<sup>10</sup> Sources: Asian Development Bank: Country Assistance Plans: 2000–2002. World Bank. 2000. *World Development Report 2000*. Asian Development Bank. 2000. *Key Indicators of Developing Asian and Pacific Countries*. Volume XXXI.

## FINANCIAL MANAGEMENT AND GOVERNANCE ISSUES IN SELECTED DMCS

Indicator	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbek -istan	Viet Nam
<b>SOCIAL</b>							
Under-five mortality rate ( <i>per 1000, 1998</i> )	102	31	50	91	59	22	34
Life expectancy at birth ( <i>years, 1998</i> )	54	70	66	64	58	68	68
Adult Literacy Rate ( <i>15-yr+, %, 1996-99</i> )	71	84	97	47	72	99	93
• Female	61	73	96	35	63	..	91
• Male	83	90	98	59	81	..	96
Human Development Index ( <i>1998</i> )	0.51	0.71	0.63	0.52	0.54	0.69	0.67
<b>ECONOMIC</b>							
<b>Size of the Economy</b>							
Gross National Product (GNP) ( <i>\$ billion, 1998</i> )	2.9	923.6	1.0	61.4	4.1	22.9	26.5
GNP per capita ( <i>\$, 1998</i> )	260	750	380	470	890	950	350
GNP per capita average annual growth rate ( <i>1997-98, %</i> )	-2.3	6.5	3.2	5.0	0.0	1.2	2.8
GNP per capita PPP ( <i>\$, 1998</i> )	1,240	3,220	1,520	1,560	2,700	2,900	1,690
<b>External Accounts</b>							
International Reserves ( <i>\$ million, 1999</i> )	393	161,414	137	2,117	223	1,168	2,098
Months of imports ( <i>1998-99</i> )	4.0	13.4	3.5	2.6	2.3	5.2	2.5
<b>Private Sector</b>							
<b>Finance</b>							
Stock Market Capitalization ( <i>Smillion, 1998</i> )	..	231,322	54	5,418	..	..	..
Domestic Listed Companies ( <i>1997</i> )	..	764	434	781	..	..	..
Interest Rate Spread ( <i>%, 1998</i> )	10.5	2.6	15.7	..	4.0	..	5.3

## PARTICIPATING COUNTRY BACKGROUNDS

Indicator	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbek -istan	Viet Nam
Domestic Credit Provided by the Banking Sector (% of GDP, 1998)	7.7	120.0	13.3	50.9	35.7	..	22.6
<b>Official Development Assistance</b>							
Dollars per capita (1997)	36	2	99	5	78	6	13
Percentage of GNP (1997)	12.1	0.2	26.7	1.0	7.8	0.5	4.1

### 3. Cambodia

Cambodia is situated in the Lower Mekong region between Thailand in the west, Viet Nam in the east, and Lao PDR (People's Democratic Republic) in the north. Its level of per capita GDP makes it one of Asia's poorest countries – one third of Cambodia's people live in poverty. A great deal of the country's infrastructure has been destroyed by decades of conflict.

Since independence in 1953, Cambodia has experienced frequent political and economic instability. Before 1953, Cambodia was a French colony for almost a century.

Economically, the worst period of Cambodia's history was from 1975 to 1979 when the country, then known as Democratic Kampuchea, was under the rule of the Pol Pot regime. The market economy and business activities were completely abolished. There was no private ownership, and no money or trade. The economy was cut off from the rest of the world except China. During the period from 1979 to 1989, the People's Republic of Kampuchea (Cambodia) suffered from international embargoes and enforced isolation. The State ran all enterprises. In 1991 the main Cambodian political factions signed the Paris Peace Accord following which the United Nations organized general elections. A new Constitution was promulgated in 1993 and a slow transition to a market economy began.<sup>11</sup>

In 1999, Cambodia benefited from favorable weather conditions and an improved political climate. Consequently, economic growth was higher in 1999 than in the previous year. Lower inflation, a lower fiscal

<sup>11</sup> Narayan, Francis B. and Ted Godden. 2000. *Financial Management and Governance Issues in Cambodia*. Asian Development Bank.

deficit, and a slightly increased capital account deficit accompanied the improved growth. If the Government can maintain the political stability and reform progress achieved in 1999, economic growth of 6-7 percent per year can be expected over the medium term.<sup>12</sup>

#### **4. China, People's Republic of**

On 1 October 1949, Mao Zedong proclaimed the People's Republic of China (PRC) to an audience of 500,000 in Tiananmen Square. Shortly afterwards, central planning was introduced. Beginning in late 1978, the Chinese leadership began to move the PRC from a centrally planned economy to a more market-oriented economy. To this end the authorities switched to a system of household responsibility in agriculture in place of the old collectivization, increased the authority of local officials and plant managers in industry, permitted a wide variety of small-scale enterprise in services and light manufacturing, and opened the economy to increased foreign trade and investment.

The PRC has made tremendous progress in poverty reduction, particularly over the last two decades. Twenty years ago, it was among the world's poorest countries, with 80 percent of the population living on incomes of less than \$1 a day and only a third of all adults able to read or write. In the 17 years from the launching of the PRC's economic reform program in 1978, the transition from a command to a market-based economy helped fuel a remarkable average growth in GDP of 8 percent a year. Since then, growth has remained relatively strong and incomes have generally continued to rise. Now, only about seven percent of the population between 15 and 25 years old is illiterate, and the PRC's high life expectancy and low infant mortality rates are envied by much richer nations. The PRC has made great strides in improving social welfare. Consumption has more than doubled and the poverty rate has declined, as 200 million Chinese living in absolute poverty have been raised above the minimum poverty line.<sup>13</sup>

Prudent macroeconomic policy aided the PRC in adjusting to the Asian crisis. In 1999, growth slowed slightly and prospects are that a rate lower than the trend in the 1990s can be sustained in the medium term. The challenges will be continuing the reform process of opening the economy, improving efficiency in the state sector, addressing

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<sup>12</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 88.

<sup>13</sup> Narayan, Francis B and Barry Reid. 2000. *Financial Management and Governance Issues in the People's Republic of China*: Asian Development Bank.

unemployment issues, and developing a legal and regulatory framework essential for efficient functioning of a market economy.<sup>14</sup>

## 5. Mongolia

Following independence from China in 1921, Mongolia became the second country after Russia to adopt communism in 1922. It remained closely tied to the Soviet Union until the end of the 1980s. In the period 1990-92, however, Mongolia moved away from a monopoly of political power by the communist party to free multiparty elections, a new constitution, and greater cultural and religious freedom with more emphasis on national Mongol traditions, as well as toward some elements of a market economy. Mongolia's transition to a market economy, which began in 1990, has proceeded satisfactorily, and the private sector is now the main producer of goods and services.

Mongolia's severe climate, scattered population, and wide expanses of unproductive land have constrained economic development. Economic activity traditionally has been based on agriculture and the breeding of livestock. In past years, extensive mineral resources had been developed with Soviet support – total Soviet assistance at its height amounted to 30 percent of GDP, but disappeared almost overnight in 1990-91.<sup>15</sup> Economic growth picked up in 1997 and 1998 after stalling in 1996 due to a series of natural disasters and declines in the world prices of copper and cashmere. Real GDP growth in 1999 was estimated to be 3.5 percent. Mongolia's immediate challenges are reducing poverty and resolving the public sector imbalances that impede growth and promotion of private sector activity.<sup>16</sup>

## 6. Pakistan

Pakistan is an Islamic Republic and its capital is Islamabad. Its assets include a rich cultural heritage, abundant natural and human resources, a large and potentially more productive agricultural sector, and a strategic location for trade. Although Pakistan has been burdened by internal political instability and costly regional conflicts in its first 53 years of independence, it has still managed to achieve substantial economic growth.

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<sup>14</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 61.

<sup>15</sup> Narayan, Francis B. and Barry Reid. 2000. *Financial Management and Governance Issues in Mongolia*. Asian Development Bank.

<sup>16</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 66.

While Pakistan's social welfare indicators have improved over the past two decades, progress remains slow and the challenges daunting. Only 47 percent of the population is literate, compared to the average literacy rate of 49 percent in South Asia and 53 percent in low-income countries worldwide.<sup>17</sup>

The economy has been slowly recovering since the second half of 1999 because of improved agricultural performance. However, the balance of payments remains fragile and economic stagnation hampers the Government's efforts to reduce rampant poverty. Medium-term economic prospects depend on political stability, structural reforms, and capital inflows.<sup>18</sup>

## 7. Papua New Guinea

The island of New Guinea is divided into two countries: Irianjaya (Indonesia) to the west and Papua New Guinea (PNG) to the east. Papua New Guinea consists of the mainland and numerous smaller islands, the largest of which are New Britain, New Ireland, North Solomons and Manus. Much of the terrain is extremely rugged with high mountain ranges and steep valleys with fast flowing rivers. In contrast, along the coast, there is an extensive system of marshes. The country has only a few major roads, and many towns and villages are accessible only by air, foot or boat. The capital city, Port Moresby, lies on the south coast.

Papua New Guinea is noted for its cultural and linguistic variety. Seven hundred languages are spoken. The main language is Melanesian pidgin, which is spoken widely throughout the country, and *hiri-motu*, which is spoken in some parts of the south coast. English is the language of education, administration and commerce.<sup>19</sup>

External shocks and economic mismanagement made 1999 a difficult year. However, following the appointment of a new government, the economic growth rate surpassed expectations to reach 3.9 percent. Future growth will depend upon maintaining good governance and spreading the benefits of development to the poor.<sup>20</sup>

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<sup>17</sup> Narayan, Francis B. and Ted Godden. 2000. *Financial Management and Governance Issues in Pakistan*. Asian Development Bank.

<sup>18</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 143.

<sup>19</sup> Narayan, Francis B. and Ted Godden. 2000. *Financial Management and Governance Issues in Papua New Guinea*. Asian Development Bank.

<sup>20</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 157.

## 8. Uzbekistan

The Republic of Uzbekistan was founded on 31 August 1991 following independence from the Soviet Union. Its capital is Tashkent. Following independence, the Government sought to prop up its Soviet-style command economy with subsidies and tight controls on production and prices. Faced with high rates of inflation, the Government began to reform in mid-1994 by introducing tighter monetary policies, expanding privatization, slightly reducing the State's role in the economy, and improving the environment for foreign investors. Uzbekistan initially responded to the negative external conditions generated by the Asian and Russian financial crises by tightening export and currency controls within its already largely closed economy.

While Uzbekistan's GDP fell by about 20 percent during 1991-1995, the economic contraction was not as severe as that of other Central Asian republics of the former Soviet Union. Uzbekistan resumed moderate growth in 1996 averaging 4.8 percent annually in the two years that followed. Growth has since slowed and this is attributed to persisting needs for additional structural transformation, including large-scale privatization, agricultural liberalization, and capital market development.<sup>21</sup> GDP growth of 4.4 percent in 1999 was maintained, although international prices for Uzbekistan's primary exports continued to be weak. Major structural reforms to sustain macroeconomic stability and growth are necessary, as well as policy measures to soften the short-term social effects of these reforms.<sup>22</sup>

## 9. Viet Nam

Viet Nam is 1,750 kilometers long and has a land area of around 330,000 square kilometers. The east coast and southern tip of Viet Nam border the South China Sea, and the People's Republic of China, the Lao Democratic Republic and Cambodia lie to the north, west and southwest respectively. Two large river systems dominate the north and south of the country. In the north, the Red River flows through Hanoi and the port of Haiphong into the Gulf of Tongkin. In the south, the Mekong River flows through the Mekong delta south of Ho Chi Minh City into the South China Sea.

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<sup>21</sup> Narayan, Francis B. and Barry Reid. 2000. *Financial Management and Governance Issues in Uzbekistan*. Asian Development Bank.

<sup>22</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 82.

Viet Nam's population of 80 million comprises a number of ethnic groups, each with its own culture and language. The national language is Vietnamese. English is emerging as the most readily used and understood language between foreign businesspeople and Vietnamese citizens. French is still widely spoken, and many Vietnamese speak and understand Russian or German.<sup>23</sup> Viet Nam has a well-educated population, with a literacy rate of around 90 percent. With the loss of reform momentum and the economic slowdown over the last two years, the sustainability of past gains on poverty reduction is at stake. Carrying the process of poverty reduction forward in the coming years will require embarking on a second set of reform measures focused on diversifying rural livelihoods.<sup>24</sup>

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<sup>23</sup> Narayan, Francis B and Ted Godden. 2000. *Financial Management and Governance Issues in Viet Nam*. Asian Development Bank.

<sup>24</sup> Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 118.