

# *Policy Directions*



# 1 The macroeconomy

The Western Region now lags behind the rest of the People's Republic of China (PRC) in economic development, and could lag even farther behind.

	Issues	Policy Directions
<b>Strategic considerations</b>	<p>The potential for rapid growth in gross domestic product (GDP) is limited.</p> <p>The Western Region does not have a rich factor endowment.</p> <p>Urban-rural income disparities are very large and have been widening.</p> <p>The Western Region has suffered from price subsidies.</p> <p>Inferior factor productivity is the main reason for the slower economic growth in the Western Region.</p> <p>The Western Region does not participate significantly in international trade.</p> <p>Promoting opportunity—by stimulating economic growth and removing access barriers—is fundamental to reducing poverty.</p>	<p>Give more emphasis to social development rather than economic growth.</p> <p>Increase the Western Region's share of national fiscal resources.</p> <p>Identify the barriers to the integration of the urban and rural economies and the regional economies.</p> <p>Remove the remaining government price controls and dismantle monopolies.</p> <p>Implement microeconomic reform, competition policy, and institutional innovations to improve the allocation of resources.</p> <p>Remove subsidies and incentives to exporters.</p> <p>Focus on the remaining barriers to market operations.</p>
<b>Institutional reform</b>	<p>In the PRC, macroeconomic management is synonymous with public administration and the functions of government.</p> <p>In the Western Region, unlike the rest of the economy, state-owned enterprises (SOEs) still dominate economic growth.</p>	<p>Commit to protect private property rights.</p> <p>Implement the Protection Against Unfair Competition Law of 1993 more strictly.</p> <p>Phase out preferential policies for SOEs and WFOEs so that firms compete on an equal basis irrespective of ownership.</p> <p>Extend foreign trading rights to more enterprises.</p> <p>Reduce the minimum registered capital requirements for forming limited-liability companies.</p> <p>Erase the distinction between a <i>getihu</i> and a private firm.</p> <p>Take steps to assist disadvantaged groups, including women, the poor, and minorities.</p>

## 2 The fiscal system

This section considers ways to strengthen the fiscal system so that governments have adequate revenues to support the development of the Western Region.

	Issues	Policy Directions
<b>Fairness of taxation system</b>		
<ul style="list-style-type: none"> <li>• Tax evasion</li> </ul>	<p>There is widespread evasion and avoidance of the company income tax.</p> <p>There is widespread evasion and avoidance of the personal income tax.</p>	<p>Encourage bank transfers for company transactions.</p> <p>Introduce a withholding system for personal income tax and encourage bank-transfer transactions.</p>
<ul style="list-style-type: none"> <li>• Lack of equity in treatment</li> </ul>	<p>The tax system must be made more transparent and applied more equitably across firms. Arbitrary interpretations of tax laws and regulations should be avoided.</p> <p>Local governments are not allowed to adjust the rate of local taxes or create new taxes to meet their needs. This has encouraged the imposition of arbitrary and nontransparent fees. As a result, the burden on firms is uneven, in terms of size as well as location.</p>	<p>Prohibit all forms of rent-seeking behavior by government officials and departments. Make rules simple and easy to enforce. Clarify or eliminate vague provisions in laws that provide opportunities for government to interfere in private economic activities.</p> <p>Decentralize some taxation powers and rights to revenue, where appropriate, and make policies more consistent across locations.</p>
<ul style="list-style-type: none"> <li>• Treatment of Western Region</li> </ul>	<p>The Government has introduced a preferential tax policy to leverage the development of the Western Region, as summarized in the Circular of the State Council on Policies and Measures Pertaining to the Development of the Western Region.<sup>1</sup></p>	<p>Introduce a system of direct lump-sum subsidy (instead of the preferential tax system), proportional to the total investment volume.</p>
<ul style="list-style-type: none"> <li>• Reform of tax system to increase tax revenues</li> </ul>	<p>Production-based value-added tax (VAT) disallows the offsetting of VAT for the purchase of fixed assets and imported capital goods. This discourages capital-intensive enterprises in the Western Region from investing in fixed assets and importing high-tech capital goods.</p> <p>Small enterprises (retailers with an annual turnover of less than 1 million yuan, or wholesalers with an annual turnover of less than 1.8 million yuan) are not eligible to use the designated VAT invoice. This makes it hard for small enterprises to deal with enterprises that are eligible to use the designated VAT invoice.</p> <p>Enterprises can only claim a 10% offset for VAT on the purchase of transport services. This increases the tax burden of enterprises in the Western Region that rely more on transport services.</p>	<p>Switch to a consumption-based VAT, consistent with the depreciation of fixed assets.</p> <p>Introduce a VAT number to replace the eligibility test for using the designated VAT invoice. Encourage the development of a recording and processing system based on e-commerce.</p> <p>Streamline the VAT rate to make it neutral to goods and services transactions.</p>

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<sup>1</sup> See note 5 in Chapter 2 of the Draft Final Report for relevant extracts.

The resource tax rate is too low to reflect the negative externality of using natural resources, and the tax base is too narrow. These lead to wasteful use of resources and lower tax revenues for local governments.

The business tax on tertiary industry encourages local governments to enter the tertiary industries, and distorts the rational choice of industrial structure. Because of the underdeveloped state of tertiary industry, local governments in the Western Region collect less tax than their counterparts in the Eastern Region.

The tax base for sumptuary goods is too narrow and the tax rate is too low.

Increase the resources tax rate to (i) reflect the opportunity costs of using resources (including the adverse effects on the ecological system); and (ii) increase the tax revenues of local governments.

Widen the tax base to include the use of forest, grassland, and water resources.

Merge the business tax with the value-added tax and the company income tax.

Widen the tax base to include more sumptuary goods and increase the tax rate for goods with significant externality and having “demonstration effects.”

- Reduction of the tax burden on farmers

There is a need to reduce the tax burden on poor farmers, many of whom live in the Western Region.

Abolish the township and village levies, phase out corvee labor, and raise state agricultural taxes.<sup>2</sup>

### Government transfer payments

While the tax system is not an ideal vehicle to remedy regional imbalances because of the distortions it creates in the market system, a transparent and accountable lump-sum subsidy system is both desirable and feasible.

It could be justified on the grounds that: (i) it would meet the minimum funds requirement of local governments for performing their normal functions; and (ii) it would help equalize access to public services for people from different regions, avoiding excessive differences in public service delivery.

Maximize lump-sum transfer payments.

Merge the five channels of government transfer payment into regular transfer payment, which consists of tax returns, institutional subsidy, transitional transfer payment, and special subsidy (special project subsidy and end-of-balance subsidy).

Use regular transfer payments to balance regional fiscal capabilities.

Special subsidy is embodied mainly in industry-specific policies intended to correct market failure. Examples are money and in-kind subsidy for people in absolute poverty, and subsidy for natural disasters.

Design a fair and effective system of regular transfer payments to fill the gaps in fiscal capacity among regions, and also incorporate incentives for local government.

Avoid moral hazard<sup>3</sup> while making transfer payments.

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<sup>2</sup> The Government has announced its intention to carry out these measures. According to the Report on the Outline of the Tenth Five-Year Plan for National and Economic and Social Development, delivered by Zhu Rongji, Premier of the State Council, at the Fourth Session of the Ninth National People's Congress on 5 March 2001:

The system of administrative fees and taxes in rural areas needs to be reformed by abolishing all administrative fees imposed exclusively on farmers, such as contributions to township and village public accumulation funds, and at the same time by raising the current rates of agricultural tax and special agricultural product tax where it is appropriate. This is a sound policy for safeguarding the legitimate rights and interests of farmers and reducing their burden.

<sup>3</sup> The *Oxford Dictionary of Economics* defines moral hazard as, “the danger that if a contract promises people payments on certain conditions, they will change their conduct so as to make these conditions more likely to occur. For example, moral hazard suggests that if possessions are fully insured, their owners are likely to take less good care of them than if they were uninsured, or even to connive at their theft or destruction.”

	Issues	Policy Directions
<b>Government bond financing</b>	While it seems feasible to use government bonds to finance major projects, the ways of assessing the costs, benefits, and risks are major concerns.	<p>Improve the regulation of investment in public debt projects, and strengthen control over the quality of the projects and the management of funds.</p> <p>Ensure that enough complementary funds are in place when needed to ensure timely project construction.</p>
<b>Other sources of public finance</b>	The purchase ratio of lotteries is rather small, leaving much room for expansion.	Allow local governments in the Western Region to use lotteries.

# 3 The financial system

The financial system of the PRC has developed more slowly than the economy and is particularly backward in the Western Region. This section suggests ways to address that imbalance.

	Issues	Policy Directions
<b>Inefficiencies in the financial system</b>	Banks have little incentive to lend to firms in the Western Region, where risks and unit transaction costs are perceived to be high. The inflexible interest rate scheme makes banks even less eager to finance projects in the Western Region.	Establish a level playing field for SOEs and the private sector. Allow state commercial banks to decide on loan applications and determine interest rates according to the financial risks involved. Introduce incentives to encourage system innovation, more activity by financial institutions, and better performance of financial services.
<b>Diversification of the financial system</b>	The insurance industry is backward and the overall supply of and demand for insurance is low. The scale of lending in the Western Region is small.  Policy banks have been competing against commercial banks.  There are no foreign banks in the Western Region.	Facilitate the entry of foreign insurance companies.  The central bank should support the development of commercial financing in the Western Region. It could set different legal reserve requirements for small and medium cooperatives or joint-stock financial institutions in the Western Region. That would facilitate its own operations and increase the funds available for use in the Western Region. Coordinate policy-oriented financing and commercial financing. The policy banks should take the lead in increasing investment in the Western Region but should stick to their core functions. Facilitate the entry of foreign banks.
<b>Improvement of access to bank finance for private enterprises</b>	Small and medium enterprises (SMEs) have difficulty obtaining external financing not only because risks and unit transaction costs are high, but also because state policy is somewhat biased against lending to SMEs.	Allow the entry of private financial institutions. Monitor the impact of financial sector consolidation on SME access to bank finance. Further liberalize interest rates. Allow banks to charge transaction and administration fees. Improve incentives in credit guarantee schemes and management of risks.
<b>Strengthening of capital market functions</b>	Equity finance has been small in percentage terms and narrow in range of application, and the capital market is slow to grow. Attention should also be paid to the ratio of loan financing and equity financing. To provide increased capital for enterprises through equity financing, the equity markets must be developed.	Promote the development of a financial center in the Western Region. Relax listing requirements. Broaden and strengthen the range of exit mechanisms. Simplify share buybacks.

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Issues		Policy Directions
<b>RCCs, postal savings, and other informal markets</b>	<p>The accumulation of bad loans has reduced the incentive of rural credit cooperatives (RCCs) to lend to the agriculture sector. Excess reserves imply inefficient use of savings.</p> <p>The Western Region lacks an informal financial market.</p>	<p>Establish a legal framework for private equity markets.</p> <p>Ensure adequate venture capital flows.</p> <p>Encourage the establishment of an insurance industry.</p> <p>Further regulate the RCC market and use “interest subsidy” to encourage RCCs to finance projects in the Western Region.</p> <p>Establish a postal savings bank to fully utilize the postal savings infrastructure.</p> <p>Demonstrate the institutional innovations of the Eastern Region in the Western Region and further regulate the informal financial market.</p>
<b>Inducement of international financing</b>	<p>International concessional development assistance is limited.</p> <p>International investment has underpinned the growth of the PRC economy.</p>	<p>Make better use of concessional assistance through careful selection of projects and better administration.</p> <p>Open up more sectors of the economy to foreign direct investment (FDI).</p> <p>Use the restructuring of SOEs in the Western Region to attract FDI. Invite foreign companies to participate in bids for SOE mergers and acquisitions.</p>

# 4... Agriculture and natural resources

This section considers ways of making agriculture and forestry more sustainable, and protecting the natural resources of the Western Region.

Issues		Policy Directions
<b>Natural resources</b>		
• Reduction of pollution	Acid rain seriously affects plant growth in the southwest. Industrial and urban pollution affects the quality of irrigation water.	Reformulate pollution standards to match international best practice in technology, and set a timetable for implementation. Develop a system of licensing whereby industries pay a fee based on the actual load and toxicity of pollutants they produce. Authorize local governments to enter into pollution reduction contracts with industry. Implement a program of cleaner production, with incentives for industry to adopt voluntary environmental audits, seek certification of compliance with international performance standards, and continuously improve their environmental performance.
• Improvement of grassland management	Rehabilitation of grasslands is essential both for livelihoods and for environmental protection. Grassland management through administrative measures to enforce carrying capacities has either not worked well or been unduly expensive.	Apply science and technology to improve the management of grasslands. Develop model husbandry practices appropriate to the resources, climate, and geography. Review the Grassland Law of 1985 with a view to strengthening the role of villages in grassland management and reducing the role of government in direct operations. Adjust the focus of animal husbandry, from the function of maximizing animal populations, to incorporate the protection of ecological environments. Give up the objective of grain self-sufficiency and allow the development of an animal feed industry.
• Biodiversity conservation	Despite the effects of centuries of habitation and loss of natural ecosystems, the PRC and its Western Region remain one of the world's main centers of biological diversity. Forests are the most important ecosystems in the PRC in terms of the diversity of the species that they harbor. Loss or degradation of habitat poses the main threat to loss of species, but other factors, including weak <i>ex situ</i> measures to protect biodiversity, are also significant.	Introduce new or improved laws dealing with access to genetic resources, intellectual property rights relating to biological resources, conservation of ecosystems, and species conservation. Introduce a program for local governments to prepare biodiversity policies and action plans (especially for protected areas) within the framework of State Environment Protection Agency (SEPA) guidelines. Introduce a system of natural resource accounting and amend resource taxes.

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	Issues	Policy Directions
<ul style="list-style-type: none"> <li>Planting of forests</li> </ul>	<p>The PRC ratified the Convention on Biological Diversity in 1993. It prepared a National Strategy and Action Plan for Biodiversity Conservation in accordance with the Convention, but has made slow progress in implementing the Plan.</p> <p>Even at the higher planting rate planned, degraded lands needing rehabilitation would take more than 50 years to restore. The rate of planting must be increased, particularly on degraded sites where water or wind erosion continues to cause costly damage.</p>	<p>Establish more national nature reserves in the Western Region.</p> <p>Set up seed nurseries for pharmaceutical plants. Establish or improve botanical gardens to collect and protect local plant resources.</p> <p>Introduce a greenhouse tax and establish a Greenhouse Gas Abatement Fund to provide low-interest loans for reforestation. The Fund will be based on a tax levied on dominant sources of greenhouse gas emissions, and will be administered by a bank assigned or established to administer all financial aspects, within the framework of government policy.</p>
<p><b>Techniques and technology</b></p>	<p>Productivity per hectare is low. There are ecological, economic, and social imperatives for improving agricultural techniques.</p>	<p>Increase investment in science and technology in the major research centers.</p> <p>Promote green agriculture and the production of green food.</p> <p>Publicize and enforce intellectual property rights for agricultural technology.</p> <p>Build a network of adult education for peasants and herdsmen.</p> <p>Revitalize agricultural extension programs. Concentrate extension efforts in poor areas, leaving other areas to the private sector (through such means as input marketing).</p> <p>Improve the adult education program in rural areas.</p> <p>Encourage the industrialization model of “leading company + agencies + peasants.”</p> <p>Open up the agriculture sector to foreign investment.</p> <p>Allow areas to specialize according to their comparative advantage and increase the proportion of production entering the market.</p> <p>Encourage foreign investment in pesticides by progressively banning highly toxic products.</p>
<p><b>Land tenure and institutional reform</b></p>	<p>The Land Administration Law of 1998 left many matters for future determination. There is still much scope for progressive reforms in institutions and land tenure.</p>	<p>Improve the contract system for grasslands and promote the raising of animals according to the quantity of pasture. Clarify the ownership and usufruct of grasslands, and hand out certificates of use and ownership.</p> <p>Forbid the improper use and destruction of grasslands through legal means. Adjust the frequency and intensity of grassland use, and enforce the proper use of pasture.</p> <p>Allow peasants and herdsmen to buy shares in exchange for their land ownership and the usufruct of land.</p> <p>Give compensation for the increment of land in the ecological protection region.</p>

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Improve and regularize the operation of the land rental system in the Western Region.

Introduce a legal system for the transfer of land rights.

Build financial systems to support the development of agriculture and husbandry. Try to find a way that is both convenient to the peasants and safe to financial institutions.

Reform the tax on agriculture and husbandry in the Western Region by passing new regulations on permissible taxes and fees, and by transferring township fiscal powers to the counties.

Change the mode of compensation from the circulate stage to the production stage.

Standardize the allocation of land proceeds among the state, the collective, and the farmers.

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### Infrastructure

Very low use of machinery indicates lack of electricity. Low productivity also indicates infrastructure constraints.

Increase rural power supply and distribution, rural roads, and rural water supply.

Avoid further extension of irrigation in the northwest, but continue to invest in more efficient use of water for irrigation.

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## 5 Social conditions

The Government has had considerable success in reducing poverty. Much of the residual poverty is concentrated in the rural areas of the Western Region.

	Issues	Policy Directions
<b>Incidence and nature of poverty</b>		
<ul style="list-style-type: none"> <li>Urban poverty</li> </ul>	<p>The poorest 5 percent of urban households enjoy a standard of living that is improving gradually but not as rapidly as that of the rest of the urban population.</p>	<p>Progressively expand social assistance programs (under the Ministry of Civil Affairs).</p>
<ul style="list-style-type: none"> <li>Rural poverty</li> </ul>	<p>Using the Government's definition of poverty (income of 625 yuan per day), the incidence of poverty declined from about 70 million in 1994 to 34.1 million in 1999. Of the 34.1 million, 48.2 percent lived in the Western Region proper (excluding Inner Mongolia and Guangxi). However, there are reasons for reconsidering the poverty county system:</p> <ul style="list-style-type: none"> <li>The falling incidence of poverty means that it is becoming harder to identify areas of mass poverty, and money spent on area programs could benefit many people who are not in need.</li> <li>The falling incidence of mass poverty is leading to a closer correlation between poverty and the onset of old age, disability, natural disasters, disease, and other conditions.</li> <li>The mixed results of poverty county programs, the long duration of poverty county designations, the large number of very poor counties that have not been designated as poverty counties, and the lack of improvement in average incomes in Xinjiang poverty counties are all</li> <li>The combination of targeting areas and targeting people leads to "double dipping" by beneficiaries (for example, veterans' families benefit both from the poverty county programs and from the social assistance programs for veterans' families).</li> <li>There are substantial inequities in health expenditures, and health expenditures are very low in parts of the Western Region while at the same time the burden of disease is very high.</li> <li>There are similarly inequities in social assistance expenditures, and levels of social assistance are also very low in the Western Region.</li> </ul>	<p>Progressively move away from targeting poor areas (poverty counties) toward targeting poor people.</p> <p>Progressively cut programs and concessions for poverty counties.</p>

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	Issues	Policy Directions
<b>Self-reliance</b>	<p>The poor in the Western Region are generally much better off than the poor in South Asia, and with the gradual emergence of a market economy there is much more potential for self-help than previously.</p> <p>The private sector is now the most dynamic sector of the economy.</p> <p>NGOs are increasing their activities without a supportive institutional framework.</p>	<p>Encourage the emergence of a civil society in which self-help is a more practicable proposition. Encourage mobility within the labor markets. Increase the choices of the poor by making information more readily available through information technology.</p> <p>Allow the market to work effectively to the benefit of the poor, by removing obstacles to the development of SMEs and other means. Develop an appropriate institutional framework for micro-credit.</p> <p>Create the necessary legal and institutional framework to encourage the growth of NGOs.</p>
<b>Social welfare programs</b>	<p>The coverage of social welfare programs is small relative to the extent of need. The distribution of beneficiaries across the PRC does not match the distribution of need.</p>	<p>Progressively increase the coverage of “livelihood guaranteed in five aspects” programs to reach all the poor.</p> <p>Coordinate food-for-work programs with social assistance programs of the Ministry of Civil Affairs.</p>
<b>Health programs</b>	<p>Mortality, morbidity, and disability rates are all higher in the Western Region than in the rest of the PRC, and are major causes of poverty. The incidence of risk factors such as malnutrition, poor water supply, and accidents is generally higher in the Western Region, partly explaining the lower level of health.</p>	<p>Concentrate government health expenditures on free or subsidized services to the poor. Progressively reduce out-of-pocket payments for health care at the time of service.</p>

# 6 Transport policies

**An effective transport system is crucial to economic development. It provides access to resources and markets, facilitates trade, allows economies of scale, lowers costs and prices, and widens production choices.**

	Issues	Policy Directions
<b>Intermodal transport system</b>	With GDP growth, demand for transport will continue to grow. However, experience with market economies suggests that the demand will diversify and focus on quality. Shippers will want speed and reliability, shorter waiting times, minimal damage to goods, and the ability to move small loads efficiently. There will be more demand for specialized services, such as refrigerated, containerized, and express parcel transport. Road transport better satisfies these types of demand, at least over short and intermediate distances, and is likely to account for much of the traffic growth, assuming that regulation does not constrain growth. The railways will continue to carry bulk cargoes over long distances; an efficient rail system could expand its role in long-distance container haulage.	Promote competition in the market for intermodal transport services. Increase the number, capacity, and facilities of inland container terminals. Eliminate bottlenecks in the inland movement of containers by rail.
<b>Financing of investments</b>	Investments in transport infrastructure have had a beneficial impact on economic growth in the PRC. However, despite rapid infrastructure development, the isolation of the Western Region remains an obstacle to its development. The Government has inadequate fiscal resources to finance the necessary investments.  Some national development projects have no immediate financial or economic return. Cross-subsidies risk making long-distance traffic uneconomic, further isolating the Western Region.	Increase cost recovery from beneficiaries of investments in transport infrastructure. Modify the role of government from providing transport to creating a stable environment for operators, and regulating operations where there is market failure (where there is evidence of anticompetitive behavior by service providers). Separate railways and national highways from government by creating state-owned enterprises to build, own, and operate transport networks. Allow free entry into transport markets to ensure that shippers receive the types of service they require at the lowest possible price. After undertaking careful social and environmental analysis, use direct government grants or subsidies, rather than a cross-subsidy from freight shippers, to fund projects without a financial justification.
<b>Cross-border trade links</b> <ul style="list-style-type: none"><li>• Transport links with Central Asia</li></ul>	Like the Western Region, the Central Asian republics are landlocked, and their exports and imports must be shipped through a third country. International cooperation is essential. The physical condition of the road and rail transport links to the major cities of Central Asia is poor and the routes are often indirect.	Give priority to rehabilitating existing links while planning new rail and road links for construction in the medium term. Ensure that key regional arteries meet modern standards so that they can carry the projected loads.

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	Issues	Policy Directions
<ul style="list-style-type: none"><li>• Transport links with South Asia</li></ul>	Despite a long common border with South Asia, the Western Region has very poor or very roundabout transport links with the latter. South Asia is likely to become an increasingly important trading partner of the PRC.	Investigate options for railways linking Kunming (Yunnan) with the ports of Chittagong or Yangon or both, and road links through Myanmar to Bangladesh and northeast India.

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# 7... Energy policies

**The PRC is the second-largest energy consumer after the United States. Rising demand for energy is a significant factor in the economic development of the PRC, especially its Western Region.**

	Issues	Policy Directions
<b>Pollution control</b>	The use of fossil fuels is a major source of pollution in the PRC. The pollution load varies widely from fuel to fuel, as well as from one type of coal to another.	Calculate taxes for dirty energy sources: the dirtier the fuel, the higher the tax. Impose these taxes on the sale of energy.
<b>Renewable energy</b>	The Western Region is rich in renewable energy sources, including wind power, solar energy, and biomass. However, renewable energy use is at a very low level.	Introduce renewable energy quotas and encourage trading in them. Introduce regulations to support the policy goals for renewable energy. Rationalize the pricing rules for wind power. Increase public awareness of the benefits of renewable energy. Introduce new renewable energy technologies through international cooperation.
<b>Energy conservation</b>	Energy generation is a capital-intensive industry. Therefore, national energy conservation is likely to be of substantial indirect benefit to the Western Region.	Invest the proceeds of the tax on dirty energy consumption in energy and environment conservation.
<b>Institutional reform</b>	The PRC still has two pricing systems for natural gas: a planned (government-subsidized and hence lower) gas price and a market price.	Link the subsidy with the social security system and abolish the price subsidy to firms.
<b>Improvement of efficiencies</b>	Small and inefficient coal-fired power plants and coalmines must be replaced with highly efficient power plants and coalmines. Time-of-use tariffs are good for the economic operation of the power system, the promotion of demand-side management, and hydropower development, but are not in much use. Combined-cycle technology with gas turbines is state-of-the-art for power generation and has the advantages of using less land per megawatt than coal power, easy installation in load centers, little negative environmental impact, high efficiency, and short installation period. The northwest has substantial space heating requirements. An integrated combined-cycle gas turbine with co-generation technology should be the best thermal power technology.	Set up independent agencies to monitor and regulate efficiency and safety issues in power plants and coalmines. Extend the use of time-of-use tariffs with the development of power sector reform.  Promote the use of combined-cycle technology with gas turbines for power generation.  Promote the use of co-generation technologies in the northwest.

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**Issues****Policy Directions****Increased security of energy supply**

Coal liquefaction and gasification technologies may help revive the coal industry, especially if international oil prices stay high.

It is important to diversify oil import sources and bring the PRC's oil companies up to international standards.

Generally, PRC oil and gas companies do not have the capability to make major investments in Central Asia.

The Government should make special policies, such as a tax-free policy, to promote coal liquefaction and gasification technologies.

Abolish the current oil import quota management system, and allow national oil companies to decide channels, time, types, and quantities of oil imports.

Support the overseas development of oil companies with special incentives.

# 8... Technology policy

**The Government attaches great importance to the role of science and technology in the development of the Western Region.**

	Issues	Policy Directions
<b>Protection of intellectual property rights</b>	Economic growth needs inflows of new technologies and innovations. Foreign firms hesitate to transfer advanced technologies to a country whose record in protecting intellectual property rights they regard as poor.	Improve the protection of intellectual property rights, and policing and enforcement systems.
<b>Productivity of research and development</b>	Research and development (R&D) output in the Western Region is proportionally lower than R&D input. This indicates lower productivity in transferring input to output and a lack of ability to market technological innovations.	Create and maintain an environment favorable to SMEs that use new and a high level of technology. SMEs are more flexible in meeting the market demand for new technology and can therefore spur rapid growth. Speed up the transformation of “military” enterprises to “civil” enterprises, and provide incentives for them to commercialize their technological innovations. Transform state-owned R&D institutes into private-owned, independent R&D enterprises. Encourage universities to establish commercial arms to market technological innovations. Take a more liberal view of universities’ involvement in R&D.
<b>Encouragement of R&amp;D</b>	The social rates of return on R&D are the highest among all public investment, exceeding the return on infrastructure, health, education, and irrigation in the Western Region.	Increase investment in R&D projects.  Establish a project-oriented R&D fund to bring R&D capacities of the Eastern Region to the Western Region. Reform the VAT to encourage enterprises in the Western Region to invest in high-tech equipment. Allow enterprises to deduct (or even over-deduct) R&D inputs from company income tax. For example, enterprises could be encouraged to establish a strategic alliance between industries and universities, or they could be allowed to deduct 150% of R&D funds invested in a university from company income.
<b>Information and communications technology</b>	Information and communications technology (ICT) exhibits strong economies of scale in its basic infrastructure component and significant network externality. Public finance could be justified on the basis of natural monopoly and positive externality.	Improve communication capacity in the Western Region. Options include pure public finance, public subsidy, public-private mix, and other forms of private sector participation in providing public utilities.

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Introduce a policy of free access to remove any barriers to access and thus encourage private sector investment and private ownership. Allow the private sector to pay a market-competitive price to share state-owned resources (such as a land-based copper line, a microwave tower, telephone exchange facilities, satellites).

### Biotechnology

Biotechnology research and use is not region-specific, and the Western Region does not necessarily have competitive advantage in R&D capability. However, the Western Region could benefit most from the outcomes of biotechnology R&D, especially in animal husbandry, crops, and fruit, and it has several research initiatives that are very significant in the field.

Encourage research in areas important to the Western Region, namely:

- Molecule breeding techniques for trees and crops: improving genes to enable trees and crops to resist diseases and insects and to improve quality
- Animal breeding techniques
- New pesticide marking techniques: fast-acting bio-pesticides, pesticides that promote plant growth and carry informosomes, bionics pesticides, microbial pesticides that help promote plant growth

## 9... Competition policy

**In the European Union and the United States, the purpose of competition policy is to limit monopoly powers and monopolization by large firms. In the PRC, however, the purpose of competition policy should be to reduce the monopoly power of governments.**

	Issues	Policy Directions
<b>Anticompetition practices of local governments</b>	Most industries and enterprises are operating in a fairly competitive market after 20 years of economic reform. Monopoly and market power is mainly the privilege of large SOEs and the infrastructure sector. For these protected industries, monopoly powers were strengthened by the decentralization of public administration in 1994.	Organize a capacity-building campaign to increase awareness that the Competition Law should be independent of government administration and therefore the legislative power of the Competition Law should be extended to include government administration.
<b>Lack of regulatory framework</b>	The PRC does not have a complete set of laws or decrees necessary to support competition policy. Instead, it has proceeded through administrative measures and by negotiation. In many cases, a negotiated compromise was the only feasible outcome. Yet the relevant parties have often failed to honor the compromises. Therefore, the PRC faces the challenge of implementing radical reforms that would establish a coherent competitive regime. Although there is no equivalent competition law or antitrust law, there is certainly much academic interest and plenty of government interaction. This follows a reform model one could call “cross the river by holding stones,” a sort of “act after trials” strategy.	Invite international donor organizations to support the drafting of a Competition Law. Enact a comprehensive Competition Law that outlaws not only the monopolizing behavior of the private sector, but also government monopoly on the control of market access. The Competition Law should set no barriers to <i>ex ante</i> free-market entry but should emphasize <i>ex post</i> consumer protection after the entry. Establish a national regulatory body under the National People’s Congress (NPC) and independent of the Government (the State Council) to interpret and oversee the implementation of the Competition Law. Abolish administrative powers that should be left to the market. The Government (the State Council) should also change the procedure and make it more consistent with the proposed Competition Law, and gradually hand over the reform of public administration to the NPC.
<b>Administrative obstacles to competition</b>	The unfinished administrative decentralization might be the major obstacle to competition. The PRC inherited a public administrative system with powers well beyond the scope of providing public goods. Importantly the previous third round and the current fourth round of public administrative decentralization only “redistributed” (but did not “abolish”) administrative duties from the central Government to local governments. This “stuck in the middle” system results in a complex scenario in which the central Government has lost its control over the issues that need nationwide cooperation, but some local governments have abused the power to the extent that they restrict products from entering other provinces and set barriers on products entering into their own jurisdictions.	Reform SOEs to break the linkage with all levels of government. Mergers and acquisitions should be approved by the proposed regulatory body and managed by the companies involved, not by any central or local government. Further simplify the local taxation system and make duties more accountable and transparent. Introduce overlapping jurisdictions to promote competition and reduce corruption, that is, give public officials overlapping domain for duties that must be managed by the governments. Multiple offices should be established to manage a single duty, such as the issuing of construction permits. Even better, let several private companies bid for the management of a public duty.

# 10 Industry policy

**Industrial structure is the outcome of resource allocation. The adjustment of industrial structure is the process of relocating resources through entry and exit. There is a need for industry policies to facilitate the evolution of the private sector, especially SMEs.**

	Issues	Policy Directions
<b>Active industry policy to promote new markets</b>	<p>There is lack of information and coordination in the following industries:</p> <ul style="list-style-type: none"><li>• High-value-added industries</li><li>• Infrastructure</li><li>• Education</li><li>• High-tech industry (including e-commerce)</li><li>• Tertiary industry</li></ul>	<p>Improve investment coordination and marketing coordination in those industries that the Government is retaining in public ownership.</p>
<b>Passive industry policy to correct market failure</b>	<p>A natural monopoly exists in the following industries:</p> <ul style="list-style-type: none"><li>• Resource industries in gas, electricity, and water</li><li>• Large-scale SOEs</li><li>• Infrastructure construction</li></ul>	<p>Corporatize operations under direct government management (such as railways and national highways). Unbundle industry into competitive components and noncompetitive components, and then regulate the noncompetitive component.</p>
<b>Industry policy to support the evolution of industrial structure in the private sector</b>	<p>Institutional rigidity preventing the private sector from renovating its industrial structure manifests itself in the following:</p> <ul style="list-style-type: none"><li>• Lack of incentives for SOEs</li><li>• Local protectionism and other artificial barriers to entry</li><li>• Lack of bankruptcy laws and regulations</li></ul>	<p>Remove barriers to market entry and increase flexibility for the private sector to upgrade the industrial structure. Set up a regulatory body independent of the administration, like the Department of Justice in the US and the Australian Consumer and Competition Commission, to identify and prosecute sources of market failure.</p>

# 11 Human resources

**There is not enough demand for labor in the Western Region to absorb all the new entrants into the workforce and laid-off workers. Therefore, policies should seek to improve the skills and knowledge of the workforce and increase labor mobility.**

	Issues	Policy Directions
<p><b>Restrictions on labor mobility</b></p>	<p>The labor market is segmented according to enterprise ownership and residence registration (urban and rural labor markets are separate in many respects). Impediments to labor mobility prevent access to urban employment among the rural population, slow the acquisition of labor skills, and lead to inefficient use of labor resources.</p> <p>Labor service exports account for only 1.3 percent of the PRC's exports, far lower than the figures for India, Bangladesh, and Pakistan. The PRC accounts for only 0.3 percent of the international labor market. The Western Region's share of the market is very small.</p>	<p>Encourage mobility into and out of the SOE sector by reducing reliance on transfers to fill vacancies.</p> <p>Reform the household registration system to facilitate labor mobility, especially in respect of migration to the major cities.</p> <p>Support and monitor the development of the informal sector.</p> <p>Remove impediments to entry into the international labor market by individuals and enterprises.</p> <p>Simplify procedures and encourage and facilitate applications by enterprises (irrespective of ownership) for the right to engage in overseas contracting.</p>
<p><b>Levels of skills, knowledge, and experience</b></p>	<p>Earnings differentials in the labor market indicate that a shortage of higher-education graduates is developing. The Western Region does not have a big pool of graduates and unless the output of higher-education graduates increases it could find itself very short of these.</p> <p>Likewise, the labor market is increasingly demanding better levels of education in the workforce generally. With a large population of school age or less, the Western Region faces the prospect of having workers in excess of the needs of the economy.</p>	<p>Achieve universal primary education by using vouchers, grants, stipends, or other demand-side measures.</p> <p>Expand secondary education, and establish secondary facilities in more centers.</p> <p>Finance the necessary expansion of higher education as far as possible through tuition fees and student loans.</p> <p>Concentrate free adult education services on giving adults functional literacy.</p> <p>Establish a comprehensive and multilevel vocational education system.</p>
<p><b>Social security system</b></p>	<p>The Central and Eastern Regions together dominate the PRC's social security system, accounting for 84.5 percent of social security expenditure in 1999.</p>	<p>Continue the emphasis on expanding the coverage of unemployment insurance.</p> <p>Remove restrictions that now prevent rural migrants to cities from paying personal contributions to unemployment insurance funds.</p> <p>Progressively move toward a national unemployment insurance system, funded by a social security payroll tax.</p>

# 12... Women

**The Constitution provides for equality of rights for women in economic and social life. Various laws protect women's rights, but there have been shortcomings in the enforcement of these laws.**

	Issues	Policy Directions
<b>Participation of women in the labor force</b>	<p>The participation of women in the labor force is unsatisfactory on several grounds:</p> <ul style="list-style-type: none"><li>• Women are more dependent on traditional rural activities than men.</li><li>• On average, in urban areas women's incomes are 70 percent of male incomes.</li><li>• The official retirement age is less for women and women are encouraged to retire earlier.</li><li>• There is discrimination against women in filling vacancies.</li><li>• In SOEs whose operations are being downsized or rationalized, women workers are typically laid off before men.</li></ul>	<p>Diversify the occupations that women take up, in particular to encourage them to move into jobs having a higher technology and science content, especially off-farm jobs.</p> <p>Expand the employment opportunities for older women in a manner that reduces the pressure for them to retire early and hence allows them to provide for their own pensions and also deal more effectively with menopause.</p> <p>Improve job opportunities for women in areas where clients would prefer to have access to female expertise, for example, in the provision of physical and mental health care.</p> <p>Improve access to technical training programs so that women improve their knowledge of better farming practices and develop self-confidence.</p> <p>Increase investment in education programs that reduce female illiteracy and semiliteracy, prolong the years of schooling for girls, and ensure that more women enter tertiary education.</p> <p>Improve the health infrastructure in a way that caters to the special needs of women and children, for example, in ensuring more effective modern contraception.</p> <p>Increase budgetary allocations for education, training, physical health, mental health, and employment programs in order to improve employment opportunities for women in the Western Region.</p> <p>Ensure better integration between the Women's Federation and central, provincial, county, township, and village planning efforts, and channel more resources such as micro-credit through their agency.</p> <p>Maintain and expand measures to inform the women of the Western Region about their rights so that they develop the strength and determination to claim the benefits of development funds such as micro-credit.</p>
<b>Social security and welfare</b>	<p>There is discrimination against women in social security.</p> <p>Infant mortality among women is higher than normal.</p> <p>In rural areas women's health suffers from inadequate water supply.</p>	<p>Ensure better integration between the Women's Federation and central, provincial, county, township, and village planning efforts, and channel more resources such as micro-credit.</p> <p>Reform and expand mental health services in the Western Region to contain the rural suicide rate among women.</p>

# 13 Minorities

**The Constitution and the Law on Regional National Autonomy of 2001 extend significant privileges and entitlements to ethnic minorities. However, the Government has generally not succeeded in accelerating the economic and social development of areas where ethnic minorities live.**

	Issues	Policy Directions
<b>Minority representation and participation</b>	Affirmative action programs have not been very successful.	Develop appropriate benchmarks to assess the involvement of minorities in the decision-making processes of government. Accelerate the promotion of minority leaders to top levels in the national institutions, including the PRC's highest decision-making process. Accelerate the promotion of minority leaders to the top levels of local government. Accelerate training programs for leadership roles by minorities. Accelerate language training for minorities to increase their Chinese and English language competencies.
<b>Diversification of employment</b>	The accelerated education of minorities is urgently needed if the transition to a service economy is to be realized. In the past it was simply assumed that preferential policies would deliver the right results. This has not always been the case.	Increase government investment in education, in particular where it is most likely to improve the educational mobility of minorities. Draw up policies to ensure that minorities are not the first to be made redundant when SOEs are downsized. In provinces where new migrants and cadres are building up new industries, ensure that local people, and not merely the migrant workers, are given jobs. Introduce a system for monitoring employment and educational opportunities for minorities to permit more systematic study of the issues with a view to making policy adjustments. Establish a dialogue between the Government, local governments, and minority communities on how best to promote Chinese language competency without threatening the cultural value of minority languages. Develop an integrated information technology (IT) policy to disseminate information about opportunities for employment, education, and language initiatives to small towns and villages that are remote from the large urban centers. In the case of Xinjiang, reform the Production and Construction Corps to make it more responsive to market forces and create employment opportunities for minorities.
<b>Language policies</b>	There is a major language dilemma. On the one hand, the official language is Chinese. On the other hand, in deference to minority cultures, the Government and legal institutions recognize the need to respect and promote minority languages. This bilingual policy leads to some paradoxical results because of the importance of competence in Chinese.	Establish a dialogue on the language question by bringing together all the relevant stakeholders from the minorities, beginning with the Uyghur community of Xinjiang. Mount a national campaign through the State Ethnic Affairs Commission to promote multiculturalism in order to break down language and racial stereotypes, and begin the campaign with university students on student exchange programs between the eastern and western provinces.

# 14 Cross-border cooperation

Cross-border trade and economic cooperation is well below its potential.

	Issues	Policy Directions
<b>Management of border towns</b>	Spontaneous urban development has taken place at all but the minor border crossings. With trade growing faster than GDP, the border towns have the potential to continue growing rapidly. Most of them are on flat, flood-free sites that are suitable for urban development.	Ensure the provision of appropriate facilities and infrastructure, including roads and, in a few places, airports.
<b>Cross-border cultural and social links</b>	Per capita GDP is higher in counties with border crossings. Similar ethnic communities exist on both sides of many borders in the Western Region.	Provide more border crossings and improve infrastructure and facilities at existing ones. Provide local markets. Relax restrictions on the movement of vehicles across borders.
<b>Special development zones</b>	Governments have established special development zones at appropriate locations but these have not fulfilled expectations. The tax concessions that the Government permits are complex. The Border Economic Cooperation Zones have not been particularly successful.	Progressively abolish preferential tax policies and concentrate efforts on promoting regional economic cooperation and facilitating cross-border traffic and trade. Continue to open up the economy to the private sector. Remove institutional obstacles to the participation of SMEs in cross-border trade.
<b>Regional economic cooperation</b>	ADB and international organizations have promoted informal regional cooperation among groups of countries, including the Greater Mekong Subregion (GMS) and the Central Asian subregion. These groups differ from ASEAN or other regional groupings in that they are informal and pragmatic: the participants agree to plan and implement projects to their mutual benefit. From the perspective of the Western Region, their limitation is that they do not cover important trading partners outside the subregion, for example, India in the case of the GMS, and the Russian Federation in the case of Central Asia. The GMS also does not include Sichuan and Guizhou, provinces that are likely to have significant trading relationships with GMS countries.	Supplement these regional cooperation programs with programs that focus on specific trade links and trade routes, particularly those between the Western Region and South Asia, and between the Western Region and Russia. Consider replacing informal regional cooperation with formal World Trade Organization (WTO) working groups.

# 15 Local government

The performance of local governments at all levels is crucial to the success of programs to develop the Western Region.

	Issues	Policy Directions
<b>Interregional cooperation</b>	The distribution of economic activities across the PRC does not reflect regional specialization according to the principle of comparative advantage.	Progressively separate business from government by transferring responsibilities to Financial Bureaus or to asset management corporations.
<b>Over-concentration in provincial capitals</b>	There is an over-concentration of economic activity in the provincial capitals.	Devolve local government functions to third-level cities. Develop additional higher-education facilities in third-level cities.
<b>Competitive cities</b>	A property market needs a legal framework that clearly establishes land rights.	Develop a regulatory framework for private sector development in cities, consistent with the objectives of competition in the real estate market, ease and safety in transactions in land rights, clarity of real estate tax regimes, and environmental performance standards.
<b>Allocation of government functions</b>	There is little statutory distribution of local government functions between the different levels of government.	Distribute local government functions and taxes between levels of government.

# 16 Water resources management

**With rapidly increasing water demand and finite water resources, the improvement of water resources management is vital.**

	Issues	Policy Directions
<b>Lack of unified water administration and management</b>	<p>The Water Law of 1988 calls for unified water administration and management. However, the number of agencies involved, the size of the river basins, and the seriousness of the water shortage make this objective difficult to achieve. (After the research for this report was completed, the Water Law was amended in 2002.)</p>	<p>Reconstitute the River Basin Committees as statutory authorities. Strengthen and clarify the powers of provincial Water Resource Bureaus to implement their water administration mandates. Separate the role of regulation from that of supply.</p>
<b>Inadequate funding</b>	<p>Class A projects comprise both national or interprovincial projects and local government projects. There is a tendency to look to the Government to substantially fund most Class A projects. However, this should not imply that water will not be paid for. Until payment becomes normal, it is unlikely that the water sector can attract foreign investment. The need for multiple approvals from different government agencies and the lack of consistency in approval requirements also discourage foreign investment.</p> <p>The Government intends Class B projects ultimately to be financed with operating income from user fees. Capital investment funds can take the form of borrowings in financial markets or equity investment.</p> <p>In water-scarce areas of the Western Region, water pricing should reflect the real costs of production and delivery, except under very special circumstances. Irrigation is not a good cause to subsidize; the capital cost of rural water supply to poor communities is a much better cause.</p>	<p>Provide financial incentives to promote specific reforms by local governments when funding Class A projects. Review and simplify the approval procedures.</p> <p>Promote the formation of water user associations to manage irrigation schemes. Separate the finances of headworks and operating regions. Formalize the relationship between multipurpose and service entities to promote transparency and accountability. Draw a clear distinction between public-good projects and commercial projects (not all public-good projects are Class A). Restrict subsidies to public-good projects and social (poverty alleviation) works. Explore options for public-private partnerships.</p>
<b>Escalating flood damage</b>	<p>The incidence of floods is above the national average in the southwest, but below it in the northwest. With economic growth, the cost of flood damage will increase even if the incidence of flooding does not.</p>	<p>Improve the management of flood risks by avoiding high-value development in high-risk areas, improving technical scrutiny of structural flood mitigation measures, and strengthening catchment management.</p>
<b>Water scarcity and inefficient use</b>	<p>There is little effective control over water allocation to users in the Western Region except that Category A projects would be subject to some degree of control by funding approvals. Such approvals are unlikely to be tightly linked to</p>	<p>Promote use of water-saving technology in agriculture. Increase prices for water use. Review the allocation of water for agriculture to ensure adequate supply for industrial and urban development.</p>

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## Issues

In true market economies, water would be allocated between users according to price and willingness to pay. In general, the allocation is managed through a system of licensing consumers, with close monitoring of the resource and of usage.

In the Western Region, farmers generally pay only 30 percent of the cost of water. This policy puts industries and city dwellers at a competitive disadvantage and may lead to suboptimal outcomes (industries can produce more output per cubic meter of water and provide more employment).

## Policy Directions

Improve licensing and enforcement systems.  
Upgrade measurement and reporting systems.

# 17 ■ Environmental conservation and pollution control

**Economic development will increase the need for pollution control and environmental conservation.**

	Issues	Policy Directions
<b>Information, monitoring, and reporting</b>	<p>Effective environmental management depends on reliable information about pollution from industry and the quality of the ambient environment, but monitoring results are unreliable in many Western Region counties because of the following:</p> <ul style="list-style-type: none"> <li>• old and inadequate monitoring equipment</li> <li>• little opportunity for technical development among the monitoring staff</li> <li>• minimal quality assurance and quality control</li> </ul>	<p>Introduce a program of regular, structured, state-of-the-environment reporting by each province, with county-level data.</p>
<b>Environmental planning</b>	<p>The potential effects of major development proposals require more comprehensive assessment, over a wider area and over a longer time. Regional planning can require a still higher level of environmental impact assessment. The impact assessment process then must provide for full assessment of the costs and benefits, including environmental costs and benefits, of each development option.</p>	<p>Adopt a model for preparing regional development plans and environmental assessment of plans in stages, with concurrent and complementary activity by Planning Commissions and Environmental Bureaus.</p>
<b>Pollution control</b>	<p>Levels of air and water pollution indicate the inadequacy of pollution control arrangements.</p>	<p>After revising pollution control standards, introduce the negotiation of contracts between local governments and polluters covering financial commitment for plant upgrades, short-term targets, and community representation to monitor implementation.</p>
<b>Nature reserve management</b>	<p>There are major deficiencies in nature reserve management. Some reserves really exist only on paper. There is no cohesive system of administration and management. There are few arrangements for the provision of specialist scientific and management advice.</p>	<p>Consolidate the management of nature reserves under Forest Bureaus (in the short term). Establish a new national agency for nature reserves with corresponding agencies at the local government level (in the medium term).</p>
<b>Human resource development</b>	<p>Local Environmental Protection Bureaus and Forest Bureaus are taking on new responsibilities in areas of rapid technical advances.</p>	<p>Upgrade training programs.</p>

# 18 Urban development

The level of urbanization may be low, but not all parts of the Western Region are equally suitable for urban development (the City Planning Law does not permit new urban development except in areas with ample water resources). The low level of urbanization is a consequence of past macroeconomic policies, not failures in urban development policies. Good urban management can promote sustainable urban development and improve the quality of urban environments.

	Issues	Policy Directions
<b>Urban land management</b>	<p>With the transition to a market economy and the rapid expansion of cities, the urban planning system is facing severe challenges. These challenges include:</p> <ul style="list-style-type: none"> <li>• Providing a mix of land use zonings and density controls that are consistent with market demand</li> <li>• Matching infrastructure to development needs</li> <li>• Controlling the conversion of rural to urban uses</li> <li>• Accommodating the redevelopment of industrial sites</li> <li>• Coordinating different interest groups</li> <li>• Managing the informal sector</li> </ul>	<p>Increase public participation so that there is a wider appreciation of the contents of plans and so that public support can strengthen plans (the City Planning Law provides for this, but unfortunately local governments do not adequately follow the law). Rationalize the law on change of use (the City Planning Law does not cover change of use). Separate the regulatory functions of local governments from management and development functions.</p>
<b>Urban infrastructure</b>	<p>On a per capita basis urban infrastructure is much less developed in the Western Region than in the Eastern Region.</p>	<p>Concentrate government efforts on infrastructure development rather than investment in buildings. Progressively increase charges for water supply, sewerage, heat supply, and solid waste management.</p>
<b>Housing</b>	<p>Urban housing construction has been expanding at an annual rate of between 5 percent and 18 percent since 1995. The main drivers of this increase are higher incomes and expanding urban populations. Higher incomes lead to a demand for bigger homes. As homes are still quite small (an average of 9.8 square meters net living space per person), the level of urbanization still low, and housing expenditure only 4.2 percent of total living expenditures, the expansion of the housing construction industry will require many years.</p>	<p>Ensure a steady supply of serviced sites for private sector and self-build development. Consolidate the supply and management of public housing in the hands of Municipal Housing Bureaus, and encourage work units to give up the provision of housing to employees.</p>
<b>Promotion of urban development</b>	<p>City governments in the Western Region have very low fiscal revenues per capita compared with cities in the Eastern Region. Since there is already an infrastructure backlog, it will be difficult for many cities in the Western Region to develop as fast as cities in the Eastern Region.</p>	<p>Avoid government investment in urban development other than in response to market demands; rely on market-led urban development.</p> <p>Treat tertiary and secondary industries on an equitable basis in respect of fiscal and financial policies so that the tertiary sector can create more urban employment.</p>

# 19 ■ Rural development

Whatever the Government's development strategies over the next 20 years, many people in the Western Region will still live in rural areas. Poverty will remain largely a rural phenomenon, albeit less so than now. Therefore, local governments should vigorously pursue rural development.

	Issues	Policy Directions
<b>Rural infrastructure</b>	Research indicates that agriculture R&D has contributed the most to poverty reduction and agriculture GDP growth in the Western Region. Many villages in the Western Region still lack essential infrastructure. At the end of 1999, 11.1 percent had no electricity, 24.9 percent no post offices, 80.8 percent no telephones, 20.7 percent no roads, 80.9 percent no tap water, and 10.1 percent no health units.	Strongly promote R&D and extension work in agriculture and forestry.  Complete infrastructure connections to those villages that economic analysis confirms as having long-term economic viability.
<b>Food-for-work programs</b>	International experience supports the use of food-for-work programs for rural development, as long as they are well managed and their use is appropriate to local needs and priorities.	Continue with food-for-work programs and concentrate expenditure on completing basic infrastructure connections to villages and poverty villages.
<b>Rural credit</b>	Research has shown that poverty loans are not effective in reducing poverty.	Progressively reduce the roles of government and government-owned banks in poverty loans and micro-credit, and encourage the development of rural credit cooperatives.

