

DEVELOPMENT MANAGEMENT

Progress and Challenges in the PRC

ASIAN DEVELOPMENT BANK

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NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) "Government" refers to the People's Republic of China, the Executive Branch.

CURRENCY EQUIVALENTS

(as of 30 November 2002)

Currency Unit	–	Yuan (CNY)
CNY1.00	=	\$0.1208
\$1.00	=	CNY8.2771

On 1 January 1994, the dual exchange rate system of the People's Republic of China was unified. The exchange rate of the yuan is now determined under a managed floating exchange rate system.

ABBREVIATIONS

ADB	–	Asian Development Bank
CICPA	–	Chinese Institute of Certified Public Accountants
CPA	–	certified public accountant
CPC	–	Communist Party of China
GDP	–	gross domestic product
MOF	–	Ministry of Finance
MOFTEC	–	Ministry of Foreign Trade and Economic Cooperation
NBS	–	National Bureau of Statistics
NGO	–	nongovernment organization
NPC	–	National People's Congress
PRC	–	People's Republic of China
SAT	–	State Administration of Taxation
SDPC	–	State Development Planning Commission
SETC	–	State Economic and Trade Commission
SME	–	small and medium enterprise
SOE	–	state-owned enterprise
UNDP	–	United Nations Development Programme
VAT	–	value-added tax
WTO	–	World Trade Organization

FOREWORD

The People's Republic of China's (PRC) transition to a market economy has put extraordinary demands on the Government to change the fiscal, policy, and regulatory environment into one that is appropriate for managing a modern market economy. Over the past decade the Government has made rapid progress in developing an economic management framework with modern institutions and practices. A series of reforms have improved public administration by reducing the Government's role, increasing the private sector's role, decentralizing power, and making use of market forces to improve productivity and efficiency.

The Asian Development Bank (ADB) has established governance as one of the three pillars of its Poverty Reduction Strategy. ADB's 1995 *Governance: Sound Development Management* policy argued that without good governance, efforts to reduce poverty would not be effective. To address poverty, a country must have a basic foundation of capable institutions and sound governance practices, leading to effective markets.

ADB's governance policy focuses on four principles: transparency of operations, accountability, predictability, and participation. The report recognizes that the PRC has made genuine efforts to improve in many of these areas. I hope that this work will contribute to a better understanding of governance issues and provide concrete direction for action by the PRC. I also hope that it will be a basis for dialogue about further reforms that are needed; priorities and steps to be taken; and accountability for results. If this will result in a greater commitment to better governance, the report will have achieved its purpose.

This report was prepared by a team of ADB staff and international and PRC consultants under the overall direction of the East and Central Asia Department and supported by ADB's PRC Resident Mission. The work was led and supervised by Marilyn Collette, Governance Specialist.

Without the support of the Ministry of Finance, this assessment would not have been possible. This support is gratefully acknowledged and I wish to thank all those who have so generously contributed their knowledge and insights.

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Director General
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The ADB team comprised Marilyn Collette, Governance Specialist, from the East and Central Asia Department (Governance, Finance and Trade Division), who led and administered the work; Min Tang, Principal Economist; and Peng Longyun, Economist from the PRC Resident Mission. The study team received valuable support, insights, and guidance at various stages of the work from Mme. Zhang Yuejiao, former Deputy Director of Programs East Department, Shamshad Akhtar, Director of Governance, Finance and Trade Division of the East and Central Asia Department; and Bruce Murray, PRC Country Director at the Resident Mission in Beijing. The assistance of Alice Faintich in editing and of Aileen Aguilar and Chona Murakami in production is acknowledged with thanks.

Particularly thanks go to Dr. John Burns of the University of Hong Kong, who was the main author of the report. International consultants who contributed substantial sections to the report included Dr. Christine Wong, Associate Director, Henry M. Jackson School of International Studies, University of Washington; Dr. Donald C. Clarke, University of Washington School of Law; Dr. Zhou Zhiren, Deputy Director, School of Government, Peking University; Dr. Zhang Chengfu, Vice Dean, School of Public Administration, Renmin University; Dr. Wang Ming, Director, Nongovernmental Organizations Research Center, School of Public Policy and Management, Tsinghua University; and Dr. Hu Wenan, Researcher, Nongovernmental Organizations Research Center, School of Public Policy and Management, Tsinghua University.

The team wishes to thank colleagues in the PRC at all levels of government and society and representatives from the international development community who contributed their insights. The report has benefited greatly from their comments and suggestions.

BACKGROUND

The Asian Development Bank (ADB)'s Policy on *Governance: Sound Development Management* defines governance as the "manner in which power is exercised in the management of a country's social and economic resources for development."

Studies such as this one, are being undertaken in many countries to respond to ADB's overarching goal of poverty reduction by identifying (i) the improvements to the enabling environment required for effective markets and economic growth, and (ii) the structures and systems that are contributing to poverty reduction and the needs for strengthening and improving them. These studies recognize that the quality of governance has a direct and indirect bearing on increased economic growth, improved systems for human development and access of the poor to social assets. ADB has completed country governance assessments (CGAs) in many DMCs, including Bhutan, Cambodia, Lao People's Democratic Republic (Lao PDR), Thailand, and Viet Nam. CGAs that are in process include those for Bangladesh, Fiji, India, Indonesia, Kazakhstan, Kyrgyz Republic, Federated States of Micronesia, Mongolia, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Tonga and Vanuatu.

In 2001, ADB began working on this report to assess the PRC's economic development management systems, to document progress made, and identify areas where further progress is needed, if the Government's programs and ongoing reforms are to be optimized. The specific objectives of the assessment were (i) to gain a better understanding by taking stock of the reforms to date, (ii) to identify priority issues that need to be addressed, and (iii) to use the assessment as a foundation element underpinning ADB's new Country Strategy and Program 2003-2007 to define the best role for ADB in this area over 5 years.

The report aims to analyze the PRC's development management in the economic context and legal framework where reforms are taking place. It includes an analysis of the changing role of government in moving from a central planning to a market-based economy, and from a command and control approach to public sector management, to a more market-oriented system.

The report combines three methodologies incorporating (i) information from recent documents, books, and articles on the PRC, including ADB technical assistance reports involving significant development management activities; (ii) information derived from in-country interviews and participatory seminars and workshops with key stakeholders; and (iii) description and analysis of sound development management components and strategic areas of interest to ADB and to the PRC. The report concludes with an action plan for the Government, for the development community, and ADB to address areas where more progress is needed.

The approach to the report was participatory and involved consultations with more than 150 representatives from 25 government agencies and with over 100 representatives from the private sector and civil society, including staff of universities, think tanks, research institutions, and nonprofit organizations. Representatives from the most active international development partners in the PRC were also contacted to survey their work and take into account their opinions and commitments.

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