



# Country Partnership Strategy

May 2012

People's Republic of China  
2011-2015

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 4 May 2012)

Currency Unit	–	yuan (CNY)
CNY1.00	=	\$0.1589
\$1.00	=	CNY6.2918

## ABBREVIATIONS

ADB	–	Asian Development Bank
CAPE	–	country assistance program evaluation
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
CDTA	–	capacity development technical assistance
DMC	–	developing member country
EA	–	executing agency
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
IA	–	implementing agency
KPS	–	knowledge products and services
MDG	–	Millennium Development Goal
MOF	–	Ministry of Finance
OCR	–	ordinary capital resources
PATA	–	policy advisory technical assistance
PPTA	–	project preparatory technical assistance
PRC	–	People's Republic of China
RCI	–	regional cooperation and integration
SME	–	small and medium-sized enterprise
TA	–	technical assistance
TVET	–	technical and vocational education and training

## NOTE

In this report, "\$" refers to US dollars.

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## COUNTRY AT A GLANCE

<b>Economic<sup>a,b</sup></b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
GDP (current prices, CNY billion)	26,581.0	31,404.5	34,090.3	40,151.3	47,156.4
GDP per capita (\$, current prices)	2,652.5	3,413.6	3,748.7	4,433.9	5,431.8
GDP growth (% , in constant prices)	14.2	9.6	9.2	10.4	9.2
Agriculture	3.7	5.4	4.2	4.3	4.5
Industry	15.1	9.9	9.9	12.3	10.6
Services	16.0	10.4	9.6	9.8	8.9
Gross domestic investment (% of GDP)	41.7	44.0	48.2	48.2	47.8
Gross domestic saving (% of GDP)	50.5	51.5	51.1	53.0	54.0
Consumer price index (annual % change)	4.8	5.9	(0.7)	3.3	5.4
Liquidity (M2) (annual % change)	16.7	17.8	27.7	19.7	13.6
Overall fiscal surplus (deficit) (% of GDP)	0.6	(0.4)	(2.9)	(2.1)	(1.8)
Growth in Merchandise Exports (% US\$ terms)	25.8	17.6	(16.2)	31.4	20.4
Current account balance (% of GDP)	10.1	9.1	5.2	5.1	2.8
External debt service (% of exports of goods and services)	2.4	2.2	3.1	2.9	...
External debt (% of GDP)	11.1	8.6	8.6	9.3	...
<b>Poverty and Social<sup>a</sup></b>	<b>1990</b>	<b>Latest</b>	<b>Year</b>		
Population (million)	1,143.3	1,374.4	2011		
Population growth (annual % change)	1.4	0.5	2011		
Maternal mortality ratio (per 100,000 live births)	88.9	34.2	2009		
Infant mortality rate (below 1 year/per 1,000 live births)	38.0	18.0	2008		
Life expectancy at birth (years)	68.6	73.0	2005		
Adult literacy (%)	84.1	95.9	2010		
Primary school gross enrollment (%)	97.8	99.4	2009		
Child malnutrition (% below 5 years old)	17.4	1.9	2008		
Population below the poverty line (million)	85.0	122.4	2011		
Population with access to safe water (%)	71.0	89.0	2008		
Population with access to sanitation (%)	35.5	55.0	2008		
<b>Environment</b>		<b>Latest</b>	<b>Year</b>		
Carbon dioxide emissions (million tons)		6,831.6	2009		
Carbon dioxide emissions per capita (tons)		5.1	2009		
Forest area (million hectares) <sup>a</sup>		195.5	2009		
Urban population (% of total population) <sup>a</sup>		51.3	2011		
<b>ADB Portfolio</b> (sovereign loans, as of 31 December 2011)		<b>OCR</b>	<b>ADF</b>	<b>Total</b>	
Total number of loans		181	...	181	
Net loan amount (\$ million, cumulative)		10,441.8	...	10,441.8	
Disbursements					
Total funds available for withdrawal (\$ million)		10,517.7	...	10,517.7	
Disbursed amount (\$ million, cumulative)		5,939.7	...	5,939.7	
Percentage disbursed (disbursed amount/total available)		56.5	...	56.5	

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, and OCR = ordinary capital resources.

<sup>a</sup> Various years of the *China Statistical Yearbook*.

<sup>b</sup> All GDP-related data are based on the production approach. Saving and investment, government finance, and external debt service data are from the Asian Development Outlook database.

Sources: Unless otherwise indicated, data are from the Asian Development Bank and various publications of the International Energy Agency and United Nations.

## I. DEVELOPMENT TRENDS AND ISSUES

### A. Country Background

1. The People's Republic of China (PRC) has achieved very rapid economic growth and development after initiating reforms over three decades ago that have significantly reduced poverty and improved living standards. The country's economy has grown by more than 9% per annum since 1978, quickly transforming itself from low-income to middle-income status. However, numerous development challenges remain despite the significant progress. Chief among these is the need to reorient the growth pattern toward domestic consumption and services to address the PRC's social, environmental and economic imbalances, enhance innovation-led growth to facilitate the middle-income transition, and deepen reforms to further improve the enabling environment for private business activity. In this context, rebalancing growth by accelerating development of the lesser-developed central, western and northeastern regions is critically important. Growing urban-rural inequality also needs to be addressed, and there are significant environmental and energy efficiency issues due to the large demand on resources from the country's rapid development. Further, a more inclusive growth pattern is required to improve livelihoods and help the still large number of people below the poverty line.

2. **Poverty.** Rapid economic growth has lifted the majority of the population out of absolute poverty. The number of rural poor was reduced from roughly 250 million in 1978 to fewer than 15 million some three decades later using the same poverty measure.<sup>1</sup> The Millennium Development Goal (MDG) of reducing poverty has already been far exceeded and most other MDGs have been or are likely to be achieved. Nevertheless, poverty persists in many parts of the country while millions remain vulnerable to slipping back into poverty. For example, about 100 million people have been reclassified as poor under the government's new poverty line of CNY2,300 announced in November 2011. Although poverty primarily affects rural households, an upsurge in rural-to-urban migration has contributed to a rise in urban poverty. The estimated 225 million migrant workers are particularly vulnerable as many work in the informal sector and are excluded from urban social security programs. There is also a strong link between the environment and poverty as most of the 592 counties identified as requiring special attention under the China Rural Poverty Alleviation and Development Outline for 2011-2020 are located in fragile ecological zones.

3. **Inequality.** The poverty situation in the PRC has also been exacerbated by rising inequality, which is now among the highest in the Asia and Pacific region. The Gini coefficient, a common measure of inequality, has increased from moderate inequality of 0.35 in 1990 to high inequality estimated by ADB at 0.46 in 2008.<sup>2</sup> The main determinant of widening inequality has been the growing income gap between rural and urban areas as well as within cities. The ratio of average urban to rural incomes has increased from 1.86 in 1985 to 3.33 in 2009. Inequality also has a strong regional dimension, with the coastal areas developing much faster than the interior, and there are widening disparities in access to physical infrastructure, finance, and social services. Rapid rural-to-urban migration is a reflection of these disparities.<sup>3</sup> Further, there is a gender dimension to inequality as women's labor force participation, wage rates and representation in senior positions and decision-making bodies lag behind those of men.<sup>4</sup>

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<sup>1</sup> National Bureau of Statistics of China. 2011. *China Statistical Abstract 2011*. Beijing. China Statistics Press.

<sup>2</sup> G. Wan and J. Zhuang. 2012. *The Threat of Inequality and the Move to Inclusive Growth*. Manila: ADB.

<sup>3</sup> The PRC's urban population rose from 172 million in 1978 to 691 million in 2011.

<sup>4</sup> For example, average female wages are 66% of the average rate paid to men.

4. **Environmental strains.** The PRC's rapid economic growth has exerted enormous pressure on the environment. More than 40% of land in the western region is degraded, and close to a third of the PRC's total land area shows some signs of desertification. Many of the PRC's 500 largest cities do not meet the air quality standards recommended by the World Health Organization and seven cities are ranked among the world's ten most polluted. Water demand is now outstripping available supply; some river basins and groundwater sources are already over-exploited in many heavily populated urban areas; and water quality has fallen below safety standards.

5. **Climate change.** Addressing climate change is one of the most significant development challenges that the PRC faces. The PRC's carbon dioxide emissions accounted for about 24% of the world's total in 2009, and is directly related to a largely coal-based energy sector and heavy industry's reliance on fossil fuels. Climate change already poses a serious threat to the natural environment—the country is experiencing rising temperatures and sea levels, shrinking glaciers and permafrost, and more frequent extreme weather events—and the government has placed equal emphasis on adaptation. For example, during the 11th Five-Year Plan (11th plan) period covering 2006-2010, the government provided CNY190 billion for flood prevention. The government has also targeted reducing carbon dioxide emissions by 40-45% per unit of gross domestic product (GDP) by 2020 from the 2005 level. To meet this objective, Premier Wen Jiabao indicated in his 2011 annual work report that the government invested about CNY2 trillion during 2006-2010 in energy efficiency and emissions reduction projects. As a result, energy consumption per unit of GDP fell by 19.1% and sulfur dioxide emissions by 14.3% during the 11th plan period compared to their respective targets of 20% and 10%.

## **B. Economic Assessment and Outlook**

6. Growth of GDP moderated to 9.2% in 2011, down from 10.4% in 2010, mainly as a result of tighter monetary policy and softer external demand. Monetary tightening in particular slowed investment in infrastructure-related sectors while public investment in infrastructure moderated as the impact of the fiscal stimulus policies implemented during 2008-2010 waned. External trade flows slowed as a result of weaker than expected demand from Europe and the United States and supply-chain disruptions from the March 2011 earthquake in Japan. Inflation picked up further during the first half of 2011, peaking at a three-year high of 6.5% year-on-year in July due to rising food costs, but by December had fallen back to 4.1%. Fiscal policy nevertheless remained supportive of growth in 2011 as illustrated by the continued rapid rise in government spending with an increased focus on social expenditures. The government's annual work report for 2012 targets GDP growth and inflation at 7.5% and 4.0%, respectively, signaling the expectation of a further economic slowdown in 2012.

7. The main policy directions for further economic reform for the period 2011-2015 are in the 12th Five-Year Plan (12th plan) approved in early 2011. Critical among the plan's objectives is changing the growth pattern toward a more services and domestic consumption-driven model away from the past emphasis on industrial production, capital investment and exports, which is necessary to address the PRC's social, environmental and external imbalances. Economic rebalancing was already a key objective of the previous 11th plan, and some progress was achieved in specific areas (e.g., see paragraph 5 above), but there has been limited progress on the overall rebalancing targets. For example, consumption has lagged substantially behind investment while services have remained at a relatively low level of GDP. The need to transform the economic growth pattern is stronger under the 12th plan than it was under the previous plan, in part because the external imbalances have become more pronounced, and the continued subdued external economic outlook highlights the risks of the export-led growth model.

### C. Highlights of Previous ADB Country Strategy

8. The key strategic directions of the Country Partnership Strategy (CPS) 2008-2010 were: (i) inclusive growth and balanced development by focusing operations on the lesser-developed interior regions and promoting integrated rural and urban development; (ii) resource efficiency and environmental sustainability by promoting efficient infrastructure and energy and helping to strengthen environmental management; (iii) regional cooperation and public goods by using the Asian Development Bank's (ADB) regional cooperation and integration (RCI) programs to enhance infrastructure connectivity, facilitate trade and investment, and promote regional public health, environmental quality, and financial stability; and (iv) fostering an environment conducive for private sector development, by promoting public-private partnerships and private participation in infrastructure finance and helping to further develop the finance sector.

9. The indicative resource envelope for sovereign lending during 2008-2010 averaged about \$1.5 billion per annum of ordinary capital resources (OCR) and \$15-20 million for technical assistance (TA). Actual program implementation was broadly in line with the indicative resource figures,<sup>5</sup> while significant additional TA resources were mobilized from ADB-administered trust funds in view of the program's strong focus on environmental protection and climate change and actual annual approvals ranged between \$19-25 million. Nonsovereign operations averaged around \$500 million annually during the previous CPS period.

10. Significant repositioning of ADB assistance was initiated during the CPS 2008-2010 period. This included steps to green the portfolio, further promote innovation and value addition, respond to natural disasters, mainstream knowledge sharing and expand knowledge partnerships, focus TA and knowledge products and services (KPS) on sector reforms and priorities, sharply expand nonsovereign operations, and strengthen the social dimensions and RCI orientation of the country program. For example, large-scale lending to the transport sector was phased down with a corresponding rise in support for energy conservation and clean energy, urban development, and natural resources and agriculture. Further, within transport, the focus began to shift toward smaller projects to promote sustainable and green transport. The government's strong ownership of the country program was vital to effective repositioning of ADB's operations and also resulted in a steady improvement in portfolio performance.

11. **Performance and lessons.** The Country Assistance Program Evaluation (CAPE) concluded that ADB's assistance to the PRC had been successful and that its strategy and operations were coherent and closely aligned with the government's priorities.<sup>6</sup> The main lesson noted was that assistance programs can succeed if the client demonstrates strong ownership, effective capacity and sound policies. The CAPE recommended that ADB: (i) strengthen the quality of nonlending operations for innovation and knowledge transfer, (ii) diversify the lending program to protect the environment and support economic growth, (iii) increase nonsovereign operations and build synergy with public sector operations, (iv) increase responsiveness to client concerns, and (v) deepen regional cooperation initiatives.

12. **Portfolio performance.** The PRC is ADB's second largest sovereign borrower and largest nonsovereign client and TA recipient in terms of cumulative assistance provided.<sup>7</sup> ADB's

<sup>5</sup> Actual sovereign lending was \$1.53 billion in 2008, \$1.76 billion in 2009, and \$1.32 billion in 2010.

<sup>6</sup> ADB. 2007. *People's Republic of China Country Assistance Program Evaluation: Success Drives Demand for More Innovative and Responsive Services*. See also CPS 2008-2010 Final Review, Linked Document No. 16.

<sup>7</sup> ADB had provided 181 public sector loans to the PRC totaling \$24.9 billion in commitments from 1986 to end-2011. ADB had also provided about \$3.0 billion for 35 nonsovereign operations and a total of \$380 million in grants for 665 TA projects over the same period.

project portfolio has traditionally performed strongly in the PRC with just one project at risk each year during 2008-2010, facilitated in part by delegating increased portfolio management responsibilities to ADB's resident mission in the PRC. Further, all projects completed during this period were rated satisfactory or better and the disbursement ratio was 22.6% in 2008, 22.3% in 2009, and 21.7% in 2010 in line with ADB-wide averages.

## II. THE COUNTRY STRATEGY

### A. Government National Strategy

13. **The PRC's 12th plan** supports the government's long-term goal of building a harmonious and moderately prosperous (*xiaokang*) society through livelihood improvement, and regionally balanced and environmentally sustainable growth. Reforms will be carried out to stem rising income inequality, address structural imbalances, and further open up the economy. Public expenditure will be geared toward livelihood improvement, and strong support will be provided to education, healthcare, social security and public housing. Infrastructure remains a high priority with an emphasis on promoting rural development and emerging strategic industries, in particular modern clean energy and environment-friendly technologies, while piloting development of green and low-carbon cities. Resource conservation is also emphasized to combat climate change and improve natural resource management.

14. The 12th plan targets GDP growth at 7% per annum to reflect the transition to a low-carbon and more inclusive growth model. Quantitative targets have also been set for energy conservation, renewable energy, research and development, and rural income generation, among other indicators. Some specific targets for 2015 relative to an end-2010 baseline include (i) increasing the share of services in GDP from 43% to 47%; (ii) creating 45 million new urban jobs; (iii) building 36 million units of affordable housing; (iv) reducing energy consumption per unit of GDP by 16%; (v) raising the share of nonfossil fuel energy in primary energy consumption to 11.4%; (vi) boosting rural incomes by at least 7% per annum; (vii) reducing carbon dioxide emissions per unit of GDP by 17%; (viii) reducing sulfur dioxide and chemical oxygen emissions by 8%; (ix) increasing forest coverage by 1.3% to 21.7% of the total land area; and (x) boosting total spending on research and development from 1.8% to 2.2% of GDP.

15. **Intersection with Strategy 2020.** ADB's Strategy 2020<sup>8</sup> priorities of inclusive and environmentally sustainable growth are consistent with the main priorities of the 12th plan. In particular, ADB's focus on innovation and knowledge cooperation is consistent with the PRC's scientific approach to development, while the emphasis on environmental protection and addressing the impacts of climate change is consistent with the government's approach to environmentally sustainable development. Both sides also share the goal of strengthening RCI, private sector development and South-South cooperation for knowledge sharing.

16. **Relevance of the CAPE.** The findings and recommendations of the last CAPE as described in paragraph 11 above remain highly relevant to the preparation of the new CPS given the high degree of continuity between the government's 11th and 12th plans. In particular, the new CPS' focus on environmental sustainability and inclusive development will reinforce the PRC government's ongoing emphasis on developing the green economy and fostering social cohesion in the 12th plan. Further, a longer time period is required to implement fully the strategic repositioning initiated under the previous CPS period as recommended in the CAPE.

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<sup>8</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008-2020*. Manila.

17. **Coordination of ADB's assistance.** The Ministry of Finance (MOF) coordinates ADB's development assistance to the PRC. ADB consults regularly with relevant line ministries and local government agencies, and maintains regular contact with development partners and civil society groups to exchange information and foster cooperation in areas of common interest. ADB also works with private sponsors, state-owned enterprises and domestic financial institutions on issues related to private sector development. Under the government's leadership, ADB also coordinates with other development partners through regular direct consultations.

## **B. ADB Country Strategy**

### **1. Goals, Objectives, and Assistance Approach**

18. The CPS 2011-2015 seeks to adapt to the PRC's rapidly changing circumstances and set a new foundation for the continuously evolving ADB-PRC partnership. Three decades of successful reforms have transformed the PRC into the world's second largest economy and facilitated a swift transition from a low-income to middle-income country. In line with its growing economic strength and international status, the PRC has come to play an increasing role in promoting global public goods, sharing knowledge, and providing development assistance both bilaterally as well as through multilateral finance institutions. As such, the PRC has contributed to the Asian Development Fund and established an ADB-administered trust fund for regional cooperation and poverty reduction.

19. However, the PRC still faces complex development challenges, including significant poverty, rising income inequality, and widening regional disparities. In addition, the PRC's economy is highly carbon-intensive, which places it at the center of the global climate change challenge. Further, failure to decisively implement the economic rebalancing reform agenda would jeopardize the PRC's long-term growth prospects. Thus there remains important and challenging development work for ADB to undertake in the PRC, which continues to rely on external financing and TA to complement its own financing and expertise to catalyze policy reform, introduce innovation, access new technology, and adopt international best practices.

20. The new CPS therefore seeks to position ADB to continue playing a catalytic role in the PRC's development process through an enhanced operational focus on innovation and value addition and a further shift toward generating knowledge, sharing best practices, building capacity, and fostering regional cooperation. Lending will be primarily for smaller demonstration and pilot-type projects for scaling-up through domestic financing (the average loan size has fallen significantly in recent years). This, in turn, would facilitate knowledge sharing among executing agencies and with other developing member countries (DMCs) through South-South cooperation, and foster a stronger strategic focus on inclusive and environmentally sustainable growth as well as RCI. Further, ADB has significantly enhanced its capacity to respond with knowledge solutions on emerging issues, including for the first time providing TA on the formulation of the 12th plan as well as preparation of influential policy notes on key issues.

21. **CPS strategic framework.** The new CPS is accordingly aligned with the priorities of the 12th plan that intersect with those of Strategy 2020 and focused on ADB's core areas of competence and country-specific comparative advantages. ADB will endeavor to carry the knowledge partnership forward by mainstreaming knowledge sharing in all priority sectors, and by expanding RCI opportunities to encompass wider South-South cooperation. Synergies between the lending, TA, and KPS programs will be strengthened as will the complementarity between public sector and nonsovereign operations by mainstreaming private sector development across the full range of operations. Further, other drivers of change such as

knowledge solutions, good governance and capacity development, and gender equity will be actively pursued to maximize development impacts.

22. **Pillar 1: inclusive growth.** Inclusive growth to foster balanced and equitable development will be supported by promoting integrated rural and urban development in ways that expand livelihood opportunities for the poor. Improving access to microfinance and small and medium-sized enterprise (SME) finance, and management of natural resources that also boosts rural livelihoods, will be a goal of rural development support. In urban areas, ADB will assist the development of small and medium-sized cities in lesser-developed regions through promotion of low-carbon development, integrated urban planning, and comprehensive provision of municipal and social services. Improved transport connectivity will boost access to employment and other services. Support for the PRC's twinning initiatives whereby more prosperous provinces and municipalities provide assistance to lesser-developed interior regions, fiscal reform and developing municipal finance are also an integral part of the inclusive growth strategy. Further, ADB's operations will continue to focus on the interior regions.

23. **Pillar 2: environmentally sustainable growth.** All ADB assistance will be viewed through an environmental lens to further green the portfolio and mainstream climate change considerations into future operations. ADB will in particular support the government's efforts to foster a cleaner and more sustainable growth process by strengthening capacity of environmental management and pilot testing cutting-edge clean energy and energy efficiency technologies; supporting the development of low-carbon transport systems, particularly in public transport; strengthening protection and sustainable use of land, water and forest resources; helping to develop model livable and low-carbon cities; and promoting the development and institutionalization of green financing instruments.

24. **Pillar 3: regional cooperation and integration.** The regional orientation of the country program will be further strengthened to complement ADB's support for regional cooperation programs, particularly the Central Asia Regional Economic Cooperation (CAREC) and Greater Mekong Subregion (GMS) programs. ADB in this context will continue to work closely with the government to support RCI through country projects and TA, with a focus on transport connectivity, development of corridor cities, and trade facilitation to promote economic corridors for regionally inclusive development. ADB will also strengthen capacity and strategy development support for government agencies and provinces and autonomous regions involved in the CAREC and GMS programs. Support for RCI will also continue to reinforce the country program's efforts to reduce regional imbalances. Further, ADB will strengthen efforts to promote knowledge sharing between the PRC and other DMCs for expanded South-South cooperation.

## 2. Drivers of Change

25. **Knowledge solutions.** Knowledge sharing will be more actively promoted in all the priority sectors to promote best practices and scaling up of successful demonstration projects. Capacity development and policy advisory technical assistance (CD/PATA) will continue to be complemented by KPS to enhance ADB's responsiveness to government requests for policy advice on a wider range of issues. ADB will also actively promote knowledge sharing among executing and implementing agencies (EAs/IAs) for showcasing innovative projects, developing capacity, and encouraging institutional reform. Further, broader support for South-South cooperation for knowledge sharing will be a key feature of the new CPS, including expanded cooperation with the PRC's centers of excellence that includes building on the urban knowledge hub already established with Tongji University, and the Asia-Pacific Center for Water Security jointly established with Peking and Tsinghua universities. To this end, a regional knowledge

sharing initiative is moving forward that aims to establish a long-term platform for South-South cooperation through knowledge sharing.

26. **Private sector development.** Economic rebalancing would benefit from greater private sector participation in the economy, as private companies generate the largest share of GDP growth and employment. ADB's public sector operations will therefore seek to strengthen the enabling environment for private sector development by financing infrastructure, supporting policy and regulatory reforms, and improving access to finance. ADB's nonsovereign operations will continue to finance catalytic projects, focusing on innovative financing solutions (i.e. microfinance, SMEs, green finance and trade finance), demonstration projects, improved financial and logistical services, and public-private partnerships for infrastructure investment, particularly in clean energy, urban environmental protection and social infrastructure.

27. **Good governance and capacity development.** ADB will support the government's efforts to strengthen the policy, legal, fiduciary and regulatory frameworks and practices to (i) improve delivery and management of infrastructure and public services, and (ii) promote the enabling environment for private sector development. ADB will also provide support for non-government organizations, public-private partnerships, formulation of urban and provincial development strategies, reform of tariffs and cost-recovery policies for sustainable development of clean energy and municipal services, and adoption of regulations and market-based solutions to encourage natural resource conservation. Further, ADB will expand its support for capacity development and sharing of good practices, including from its nonsovereign operations.

28. **Gender equity.** Gender components will be proactively incorporated in loans and TA. Project preparatory technical assistance (PPTA) will identify ways in which gender can be mainstreamed and gender action plans will be prepared during project formulation and included in the project administration manual. Gender performance targets, indicators and benchmarks will also be included in the design and monitoring frameworks of relevant projects as appropriate. Where feasible, gender-disaggregated data will be identified and collected as part of project monitoring and evaluation, and included in gender action plans.

### 3. Strategic Focus in the Priority Sectors of ADB Support

29. The four priority sectors indicated below reflect ADB's comparative strengths and expertise through its longstanding operations in these areas and their potential to contribute to inclusive and environmentally sustainable development. Compared to the previous CPS, operations within each priority sector will be more selective in line with the joint emphasis on innovation and value addition to facilitate further sector repositioning. All ADB lending and TA will accordingly be carefully screened to ensure value addition, a green or social development orientation, and enhanced synergies with RCI programs in line with the proposed strategic pillars. Although finance is no longer a priority sector as in the previous CPS, support for innovative financing solutions and access to finance in the priority sectors remains an important operational objective. In particular, ADB will continue to support microfinance, SME finance, green finance, and municipal finance.

30. **Natural resources and agriculture.** Increasing water scarcity and weather volatility threaten the PRC's efforts to meet its food security, rural livelihood and natural resource management objectives. ADB will support demonstration projects that contribute to sound land, water and natural resources management and climate change initiatives that also support rural livelihood improvement through contract farming schemes and other market-driven opportunities. Sector priorities include: (i) rural land and environment protection, and ecosystem

management; (ii) water use efficiency and management, including lakes, wetlands, and irrigation facilities, flood control, and control of non-point source pollution in rural areas; (iii) reforestation, rural renewable energy development, and waste management to strengthen climate change adaptation and mitigation; and (iv) rural social and financial services, particularly rural pension reform, microfinance and SME finance to enhance rural livelihood opportunities. Technical assistance and KPS will support policy, legislative and institutional reforms, including eco-compensation legislation and preparation of ecosystem protection demonstration projects.

31. **Energy.** Ambitious targets have been set in the 12th plan to improve energy efficiency, reduce carbon emissions and encourage development of clean energy resources. ADB's support to the energy sector will seek to play a leadership role in introducing cutting-edge technologies for high-impact climate change mitigation, particularly to reduce coal dependence. ADB will provide support in five areas: (i) energy efficiency and conservation through innovative finance, development of energy service companies, and application of smart grid technologies; (ii) renewable energy, including wind, concentrated solar, biomass, geothermal and small hydropower; (iii) cleaner and lower carbon fossil fuel technologies and carbon capture and storage; (iv) urban energy efficiency and environmental improvement; and (v) development of regional power trading arrangements. Knowledge products, TA, and grant resources will support innovative demonstration projects and the development of carbon trading systems. The scaling up of low carbon technologies, particularly in clean energy, hinges on securing financing on attractive terms. Mobilizing low-cost financing will therefore be an integral part of the strategy.

32. **Transport.** The 12th plan prioritizes efforts to make transport more sustainable, similar to ADB's Sustainable Transport Initiative, which is adjusting ADB-wide transport operations to focus on developing transport systems that are accessible, affordable, environment-friendly and safe. ADB's support will increase the role of lower carbon and safer transport modes, improve the management and maintenance of transport assets, encourage efficient delivery of public transport services, and contribute to regional connectivity and trade facilitation, particularly through efforts to integrate safety considerations, foster multimodal services, improve asset management and maintenance, and incorporate intelligent system design technologies. Key areas of support include: (i) road network rehabilitation, rural roads, more effective road maintenance systems, and road safety; (ii) efficient and safe railways with strong regional dimensions and facilitation of containerization; (iii) urban public transport, non-motorized transport, multimodal passenger hubs, and traffic demand management; (iv) inland waterways and inland ports; and (v) multimodal logistics centers, logistics services, and intelligent transport systems. Technical assistance and KPS will complement lending by supporting key reforms, including strengthening asset management and road maintenance, improving the efficiency and safety of transport services, and facilitating more effective urban transport planning.

33. **Urban development.** The PRC is becoming increasingly urbanized and the 12th plan emphasizes the need for balanced urbanization to develop cities that are livable, resource conserving, and inclusive. ADB will continue to support integrated interventions guided by well-conceived urban development plans and environmental initiatives. ADB will pay particular attention to cities in provinces and autonomous regions involved in the CAREC and GMS programs to support subregional economic corridor initiatives. ADB's assistance will emphasize demonstration effects, encourage public-private partnerships and private sector participation, explore advanced urban planning and management approaches, and pilot-test various models of sustainable urbanization in the interior regions. ADB will provide policy advice and capacity building support through TA and KPS to address emerging issues such as urban and regional planning, climate change resilience, inter-governmental fiscal relations, and local government

financial management; and promote technical and vocational education and training (TVET) and other basic social services to help upgrade labor skills and enhance inclusiveness.

### III. STRATEGY IMPLEMENTATION

#### A. Indicative Resource Parameters

34. The PRC is a Group C country in ADB's country classification system and is eligible for OCR financing only. According to the Work Program and Budget Framework 2012-2014, the indicative sovereign lending level is about \$1.44 billion per annum during 2012-2014, below the \$1.54 billion average annual lending in the previous CPS period, 2008-2010 (see paragraph 9).<sup>9</sup> The annual sovereign lending level beyond that point would continue to be formulated in the context of the annual Work Program and Budget Framework exercise. Looking further ahead, it is anticipated that the ADB-PRC partnership would continue to evolve toward an engagement and relationship based primarily on the development and sharing of innovation, knowledge, management experience, and international best practices and technology. ADB will continue to mobilize grant resources from ADB-administered and global trust funds, such as the Global Environment Facility, for activities related to prevention of land degradation, promotion of clean energy and clean coal technologies, and other climate-change related issues. Nonsovereign operations will follow ADB's prudential exposure limits and continue to mobilize commercial financing and private participation in ADB-financed projects.

35. The revised cost-sharing and financing parameters for the PRC were approved in March 2011 for the new CPS period. ADB's financing share for individual projects is expected to remain well below the approved 99% level, with much lower financing shares in the transport sector (less than 50%) than in other sectors. Further, reimbursement of eligible project expenditures should accelerate under the new cost-sharing arrangements that allow financing of domestic taxes on project outlays.

#### B. Program Overview

36. For 2012–2014, innovation and value addition have been further strengthened by inclusion in the lending program of a concentrated solar thermal power plant project that will pilot test leading-edge clean energy technology. The social dimensions have also been enhanced with the inclusion of two TVET projects that could also potentially have a RCI dimension through promotion of knowledge sharing among GMS countries. Further, ADB will address environment and climate change issues by supporting land protection; water resources conservation; integrated urban development; and sustainable urban transport with safety, intermodal and logistics features. Moreover, more than 90% of programmed lending operations are focused on the lesser-developed interior regions to support for inclusive development.

37. Given the rapidly changing development context, CDTA and PATA will generally be planned and programmed on a two-year rolling basis, and updated in consultation with the government through the annual country programming exercise. The CDTA and PATA program for 2012-2013 reflects the shared emphasis on supporting major policy and sector reforms, environment and climate change-related initiatives, social protection and related legislative reforms, municipal finance, eco-compensation, and road safety and logistics development. Many of the TA proposals will reinforce the lending program through strengthening the knowledge base and policy environment for sector operations. The approval of TA to establish partnerships for South-South cooperation in 2011 will further broaden experience sharing

<sup>9</sup> Actual lending was \$1.34 billion in 2011.

between the PRC and other DMCs.<sup>10</sup> The East Asia Department will work closely with all of ADB's knowledge-support departments to strengthen coordination of TA and KPS activities.

38. The East Asia Department and the Private Sector Operations Department will work closely to create further synergies between public and nonsovereign sector operations. Nonsovereign operations will continue to be responsive to the strategic priorities of the government. Where appropriate, TA will be provided as part of nonsovereign operations to facilitate infrastructure development, address barriers to entry by the private sector, accelerate financial market development, improve corporate governance, and assist with capacity development, including advisory support to suitable projects for public-private partnerships.

39. Quality assurance is essential to maximizing the program's development effectiveness. ADB will strive to sustain high quality standards by: (i) strengthening upstream consultation for joint initiation of projects and TA; (ii) improving project conceptualization and design; (iii) delegating greater project administration responsibilities to ADB's resident mission in the PRC; and (vi) expanding capacity development of EAs/IAs in various aspects of project management, including safeguards and the design and use of results frameworks. Consultation workshops will be used to share best practices in project management, discuss initial project and TA concepts, and encourage scaling up of innovative projects for wider replication.

#### **IV. RESULTS MANAGEMENT**

##### **A. Monitoring**

40. ADB and government will use the CPS country and sector results frameworks to track progress toward achieving the targeted results, including on knowledge-related indicators (Appendix 1). The CPS results framework will be updated annually during preparation of the country operations business plans. The sector outcome data will be gathered and analyzed together with the government as part of regular updates of project design and monitoring frameworks. Progress reports on 12th plan achievements will also be used to track development results, while project reviews and completion reports will focus on ADB's contribution to these results. The strategic priorities will be revisited through regular consultations to ensure that the country program is responsive to the PRC's rapidly evolving economic and social context.

##### **B. Risks**

41. ADB's program in the PRC faces fewer risks than in many other DMCs given the strong ownership by the government. There are, however, risks as lending becomes more innovative and oriented toward demonstration-type projects. These risks have been mitigated by (i) integrating TA and KPS activities with lending operations, (ii) promoting a more consultative country programming process to jointly identify projects and thus to ensure continued strong government ownership, and (iii) upfront capacity building for less-experienced EAs/IAs. Efforts to strengthen the PRC resident mission—by outpostting of staff from the Central Operations Services Office and Private Sector Operations Department—have also helped to reduce risks. Further, the program has evolved to operations that are multi-sectoral in nature, requiring considerable coordination within government and ADB. Building capacity to manage and coordinate innovative projects takes time and will require concerted efforts to foster interagency coordination within government. A stronger team-based approach will be encouraged in ADB to provide project-based support that is more seamlessly multi-sectoral.

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<sup>10</sup> ADB. 2011. *Technical Assistance to the People's Republic of China for Promoting Partnerships for South-South Cooperation*. Manila.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Goals</b>			
<ol style="list-style-type: none"> <li>1. Achieve GDP growth of at least 7% per annum during 2011-2015.</li> <li>2. Eliminate absolute poverty by 2020.</li> <li>3. Increase rural incomes by at least 7% per annum during 2011-2015.</li> <li>4. Increase the share of the services sector in GDP to 47% by 2015.</li> <li>5. Reduce carbon dioxide emissions per unit of GDP by 17% from the 2010 level by 2015.</li> <li>6. Reduce energy consumption per unit of GDP by 16% from the 2010 level by 2015.</li> <li>7. Reduce sulfur dioxide and chemical oxygen demand emissions by 8% from 2010 levels by 2015.</li> <li>8. Increase coverage of public pension schemes to all rural residents by 2015.</li> <li>9. Increase the urbanization ratio by 4 percentage points from the 2010 level by 2015.</li> <li>10. Create more than 45 million jobs in urban areas during 2011-2015.</li> <li>11. Maintain urban registered unemployment at 5% or less through 2015.</li> </ol>			
<b>Sectors Selected for ADB Support</b>			
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Areas of Intervention (including lending, TA and KPS)</b>	<b>ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities<sup>11</sup></b>
<b>1. Natural Resources and Agriculture (Strategy 2020 Core Area 1: Infrastructure, and Core Area 2: Environment)</b>			
Improved rural livelihoods resulting from increased and more efficient use of land, water, and natural resources; and improved service delivery.	<p>Improved rural livelihoods, and quality and management of water and natural resources, including reduced water pollution.</p> <p>Irrigation efficiency improved from 50% in 2010 to 53% by 2015.</p> <p>Forest cover increased from 20.4% in 2008 to 21.7% by 2015.</p> <p>Non-point source pollution control and eco-compensation ordinance endorsed; and a knowledge sharing hub established.</p> <p>ADB contributes through innovative pilot projects that combine farmer and community participation in natural resource management with income generation to improve rural livelihoods.</p>	Land rehabilitation, forest and biodiversity conservation, river basin and flood management, rural energy generation, rural infrastructure development, natural resource management reform, microfinance, small and medium-sized enterprise finance, and climate change mitigation and adaptation.	\$1.05 billion or 18% of total 2012-2015 lending, of which: ENV: 100% GEN/EGM: 59% PSD: 17% RCI: 0%
<b>2. Energy (Strategy 2020 Core Area 1: Infrastructure, and Core Area 2: Environment)</b>			
An energy sector that meets growing demand, fosters energy conservation and efficiency improvement, encourages diversity in the energy mix, promotes clean coal and low carbon technology utilization, and encourages	<p>Improved energy efficiency and reduced emissions.</p> <p>Carbon intensity reduced by 17% from the 2010 level by 2015.</p> <p>Energy consumption per unit of GDP reduced by 16% from the 2010 level by 2015.</p> <p>Share of non-fossil fuels in primary energy consumption rises from 8.3% in 2010 to 11.4% by 2015.</p> <p>An energy regulation system and low-carbon development strategies developed; and carbon</p>	Clean energy development (renewable, natural gas, and clean coal), smart grid development, energy efficiency improvement, regional cooperation in energy trading, and support for green finance and carbon trading.	\$0.58 billion or 10% of total 2012-2015 lending, of which: ENV: 100% GEN/EGM: 26% PSD: 26% RCI: 0%

<sup>11</sup> Includes the firm 2012-2014 project pipeline as well as 2014 standby projects.

regional energy cooperation.	trading platforms established.  ADB projects will develop a minimum of 450 MW of pioneering new renewable energy and clean coal power generation facilities. Projects will support and scale-up energy efficiency and emissions control in at least four provinces by 2015.		
<b>3. Transport (Strategy 2020 Core Area 1: Infrastructure, and Core Area 2: Environment)</b>			
A more efficient, safe, green, and sustainable transport system is in place to support increased, more efficient, safer and more sustainable movement of people and goods.	Improved and more accessible low carbon transport development.  Rail traffic for freight grows by 5% per annum, reaching 3,488 billion ton-km by 2015.  Inland waterway traffic for freight grows by 1% per annum, reaching 455 billion ton-km by 2015.  Public transport ridership grows by 5% per annum during 2011-2015 for cities above 1 million inhabitants.  Sustainable transport best practices disseminated; and a transport knowledge hub established.  ADB projects contribute to greater use of low carbon transport modes.	Road, rail, inland waterway, and urban public transport; transport and trade facilitation; logistics; road maintenance and asset management; transport policy reform; and regional transport development (through CAREC and GMS).	\$2.35 billion or 40% of total 2012-2015 lending, of which: ENV: 65% GEN/EGM: 21% PSD: 46% RCI: 40%
<b>4. Urban Development (Strategy 2020 Core Area 1: Infrastructure, and Core Area 2: Environment)</b>			
Fostering urbanization to contribute to inclusive growth and balanced regional development by supporting cities and city clusters that are greener, and more inclusive and sustainable.	Access to municipal and social services improved.  Wastewater treatment ratio in all cities increased from 82% in 2010 to 85% by 2015.  Urban population with access to piped water supply increased from 96% (2009) to 98% (2015).  Number of enrolled students at secondary vocational schools increased from 21.79 million in 2009 to 22.5 million by 2015, and at post-secondary vocational schools from 12.8 million in 2009 to 13.9 million by 2015.  A national urban development strategy and provincial TVET strategies formulated; and monitoring framework for urban and rural subsistence scheme introduced.  ADB contributes through policy advice and multisector project interventions.	Urban multisector development, municipal financial management, and provision of social services; and utilization of reclaimed water.	\$1.90 billion or 32% of total 2012-2015 lending, of which: ENV: 88% GEN/EGM: 82% PSD: 55% RCI: 34%

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CPS = country partnership strategy, ENV = environmental sustainability, GDP = gross domestic product, EGM = effective gender mainstreaming, GEN = gender equity, GHG = green house gas emissions, GMS = Greater Mekong Subregion, KPS = knowledge products and services, PSD = private sector development, RCI = regional cooperation and integration, TA = technical assistance, and TVET = technical and vocational education and training.  
Source: The Government of the PRC and ADB staff estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=PRC-2011>

1. Economic Analysis (Summary): Asian Development Outlook (People's Republic of China)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Natural Resources and Agriculture
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Transport
9. Sector Assessment (Summary): Urban Development
10. Risk Assessment and Risk Management Plan (Summary)
11. Country and Portfolio Indicators
12. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
13. Country Partnership Strategy Formulation
14. Country Partnership Strategy 2008-2010 Final Review
15. Country Operations Business Plan 2011-2013
16. Country Assistance Program Evaluation