



A PARTNERSHIP TRANSFORMED

Three Decades of Cooperation between the
Asian Development Bank and the People's Republic of China
in Support of Reform and Opening Up

Robert Wihtol

ADB

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ISBN 978-92-9261-342-6 (print), 978-92-9261-343-3 (electronic)
Publication Stock No. TCS189263-2
DOI: <http://dx.doi.org/10.22617/TCS189263-2>

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On the front cover:

A concentrated solar thermal power plant in the city of Delingha, Qinghai Province. The 50-megawatt power plant was financed under an ADB project and will generate 217 gigawatt-hours of clean energy annually, reducing about 195,000 tons of carbon emissions each year. Photo by CGN Delingha Solar Energy, Co. Ltd.

Inside photos:

Author’s photo by Kuvatapio; ADB photo library; ADB Records and Archives; ADB. 2016. *30 Years of ADB-PRC Partnership*. <https://www.adb.org/countries/prc/30-years-adb-prc-partnership>; ADB and the Government of the People’s Republic of China, Ministry of Finance. 2002. *Building the Future Together: Fifteen Years of PRC-ADB Cooperation, 1986–2001*; People’s Bank of China and ADB. 1997. *China-ADB: A Decade of Cooperation*. China Financial Publishing House.

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FOREWORD

When the People's Republic of China (PRC) joined the Asian Development Bank (ADB) in March 1986, it was a low-income country seeking financial, technical, and knowledge support for its development efforts. In 1986, ADB was still a young institution, providing project finance in a region that was short of capital and still shaking off the shackles of poverty. As the bank's then President, Masao Fujioka, noted, having the Asia and Pacific region's largest and most populous country as a member significantly expanded ADB's role and importance.

In the more than 3 decades that have passed, both the PRC and ADB have evolved remarkably. The PRC has grown at breathtaking speed to become the world's second-largest economy, with close to \$9,000 in gross domestic product per capita; from a country reliant on external financing and knowledge to a major source of international development finance. ADB has evolved from a financier of development projects into a broad-based development institution. ADB currently offers tailor-made financial, policy, and knowledge solutions to help its members address a multitude of challenges. In 2016, ADB celebrated its 50th anniversary.

I am delighted to bring out this book, which celebrates the PRC's 40th anniversary of reforms and opening up. This book reviews the evolution of the ADB-PRC partnership over the past 3 decades. The partnership has been remarkably successful. This book examines the factors behind the success. Some are similar to success factors in other countries, while others are unique to the PRC. A key element in the formula has been working together to innovate and try new approaches before implementing them on a larger scale.

I have spoken on several occasions about eight conditions for economic development, inspired largely by the PRC's truly remarkable economic success. These are: (i) investment in infrastructure; (ii) investment in education and health; (iii) sound macroeconomic management; (iv) an open investment and trade regime; (v) good governance and strong delivery of public services; (vi) social inclusiveness; (vii) a clear vision for the future; and (viii) security, political stability, and friendship with other countries.

The PRC is a model for these eight conditions. It has devoted a larger part of its gross domestic product to infrastructure than other developing countries, with impressive results. Investment in human capital has helped the PRC to realize the potential of its large population. Since the 1990s, the PRC has been a model of prudent macroeconomic management.

It has shown unwavering determination to adopt market systems and open its trade and investment regimes. Through a combination of top-down guidance and bottom-up initiatives, it has delivered public services and ensured their inclusiveness. Its five-year plans provide long-term strategic vision.

* * * *

I am proud of ADB's association with the PRC's rapid economic transformation. In total, ADB has approved \$39.1 billion in financing for the PRC, comprising \$34.8 billion for sovereign operations, \$4.1 billion for private sector operations, and \$85.0 million in investment grants. About 46% of total assistance has gone to the transport sector; 18% to the energy sector; 15% to water and other urban infrastructure; 14% to agriculture, natural resources, and rural development; and the remaining 7% to education, finance, and trade and industry. Initially, ADB provided support mainly to the PRC's eastern coastal region, for finance and industry. With the country's rapid economic development, the focus shifted to the central, northeast, and western regions, placing greater emphasis on reducing poverty, promoting regionally balanced growth, protecting the environment, and supporting the PRC's fight against climate change.

I believe that combining ADB's project financing with knowledge has been a truly effective way of assisting the PRC's development. In November 2016, when I visited Shanghai, I was pleased to witness how ADB's earlier projects for the Nanpu and Yangpu Bridges and the cleanup of Suzhou Creek have been greatly appreciated. Shanghai officials still remember these projects because they left important lessons for the design and implementation of projects. Such experiences from our partnership are a valuable resource for other ADB developing member countries and we are happy to collaborate with the PRC in sharing them.

ADB has provided \$501 million in technical assistance for project preparation, capacity development, and regulatory and institutional reforms essential to the PRC's transition from a predominantly centrally planned economy in the early 1980s to a socialist market economy. ADB extended significant support for the PRC's accession to the World Trade Organization. Through our knowledge cooperation, ADB has also supported the PRC's preparation of its five-year plans since the mid-2000s. ADB is participating in the PRC's midterm review of its Thirteenth Five-Year Plan for 2016–2020, and will provide technical assistance for the preparation of the next five-year plan covering 2021–2025.

Since the new millennium, promoting South–South cooperation for knowledge sharing has become another priority of the partnership. In 2012, ADB and the PRC jointly launched a Regional Knowledge Sharing Initiative with an office in ADB’s PRC Resident Mission. Many ADB-supported projects in the PRC help to pilot innovative development ideas and approaches. Experiences from projects can enrich knowledge sharing between the PRC and ADB’s other developing member countries.

At the same time, the PRC has significantly expanded its role in ADB and the partnership has become two-way. In 2005, the PRC for the first time pledged a contribution to ADB’s concessional window, the Asian Development Fund. The same year, it set up the PRC Poverty Reduction and Regional Cooperation Fund (PRCF), a trust fund to finance technical assistance projects implemented by ADB. From 2005 to 2017, the PRCF has financed 77 projects throughout the region, for a total of \$38.6 million. The fund was the first of its kind set up by a developing member country, and a major milestone in the PRC’s transition to a donor country. In total, the PRC has contributed \$210 million to the Asian Development Fund and \$90 million to the PRCF. The PRC has taken significant steps to strengthen its role as a global development partner.

* * * *

Looking ahead, ADB and the PRC are well-positioned to build on past achievements and continue to address the PRC’s development challenges. These include the PRC’s persistent inequality and regional disparity, environmental degradation and climate change, and the social challenges posed by a rapidly aging population.

To help tackle inequality and achieve inclusiveness, ADB is supporting skills and job training for rural migrant workers, especially in areas where development is lagging. The projects focus on gender equality, small and medium-sized enterprises, and capacity building through microfinance.

To help protect the environment, ADB is supporting a multisector program to improve air quality and reduce carbon dioxide emissions in the Greater Beijing–Tianjin–Hebei area. Three loans for a total of \$1.3 billion were approved during 2015–2017. They comprised a variety of financial, policy, and knowledge measures carefully designed to match the complex problems they address. ADB plans to provide further financing of \$1.5 billion for the air quality improvement program over the next 3 years. ADB is also supporting the PRC’s Yangtze River Economic Belt initiative with

planned assistance of \$2 billion for 2017–2020, following the concept of ecological civilization.

To help address the challenge of an aging population, ADB has been supporting the PRC's reform of its rural social security system, strengthening health and pension administration, and building age-friendly cities. In Hubei and Hebei, ADB is supporting elderly care services provided by local authorities in partnership with the private sector. ADB and the PRC will continue to explore new ways to work together on these challenges.

Robert Wihtol, a former ADB staff member who served as country director for the PRC, director general of the Pacific Department, and director general of the East Asia Department, was commissioned to write this book. Without his enthusiasm and dedication, this book would not have become a reality. He was provided with strong support by a secretariat of ADB staff and consultants. This book also benefited from comments and inputs by numerous people, including former ADB staff and PRC government officials. I would like to thank the author, the secretariat, and all collaborators.

This book examines one of ADB's most important country partnerships. Not only was the ADB–PRC partnership uniquely successful, it also underwent a rapid transition from a lender–borrower relationship to a two-way partnership. As Asian economies mature in coming years, this transition is likely to be relevant to a growing number of ADB members. It is my sincere hope that this book will help others to learn from the ADB–PRC experience.



Takehiko Nakao

President and Chair of the Board of Directors
Asian Development Bank

ACKNOWLEDGMENTS

Many people have contributed to this book. Director-General Chen Shixin and Deputy Director-General Liu Weihua of the Ministry of Finance of the People's Republic of China (PRC) provided overall guidance. Asian Development Bank (ADB) Vice-President Stephen Groff and Director General Amy S.P. Leung of the East Asia Department (EARD) provided valuable inputs and guidance. Former EARD Director General Indu Bhushan guided the process during the early stages.

Many current and former government officials and ADB staff gave valuable suggestions. The staff of the International Financial Cooperation Department of the Ministry of Finance, and the government officials who participated in the consultation workshop held in Beijing on 7 June 2018 provided helpful comments and suggestions. Numerous ADB staff commented on the draft and provided valuable inputs, in particular Ayumi Konishi, special senior advisor to the President; Xianbin Yao, special senior advisor to the President; Juzhong Zhuang, senior economic advisor in the Economic Research and Regional Cooperation Department; Risa Zhijia Teng, director general, Procurement, Portfolio and Financial Management Department; M. Teresa Kho, deputy director general, EARD; and Niny Khor, senior advisor to the President.

Earlier versions of the draft were peer-reviewed by Yolanda Fernandez Lommen, country director for Mongolia; Peter McCawley, former dean of the ADB Institute; and Pan Yuanyuan, research fellow at the Chinese Academy of Social Sciences. The Regional Management Team of EARD, in particular Sangay Penjor, director, Urban and Social Sectors Division; Ying Qian, director, Public Management, Financial Sector and Regional Cooperation Division; and Qingfeng Zhang, director, Environment, Natural Resources, and Agriculture Division, also reviewed the draft.

The following former colleagues were particularly generous in sharing their time and insights, and deserve special mention: Bruce Murray, former director general of the Independent Evaluation Department and former country director for the PRC; Weimin Yang, former director general of the Agriculture and Social Sectors Department (East); Benhua Wei, former alternate executive director representing the PRC; Edgar Cua, former deputy director general of EARD; Yue Fei, former director of the Urban Development and Water Division in the South Asia Department; and Xiaoyan Ye, former principal urban development specialist in the South Asia Department.

The book was produced to a very tight deadline. This would not have been possible without the hard work and dedication of a secretariat of ADB staff and consultants. The secretariat provided highly capable research assistance and coordinated all stages of the preparation of the report. The team included Jeffrey Liang, principal economist in the Economic Research and Regional Cooperation Department as task manager; Marga Domingo-Morales, senior results management officer in EARD; Marissa Wenceslao, coordinator; Imelda Baleta, researcher; and Zhang Qun, research assistant. Staff of the PRC resident mission—Xinning Jia (former deputy country director), Cui Feng and Kan Lei—provided valuable support and assistance. Ma. Theresa Mercado provided capable editorial assistance and helped to tighten the presentation and sharpen the content. The Department of Communications, with support from Anna Sherwood, Cynthia Hidalgo, and April Marie Gallega supervised the book production. Anthony Victoria helped design the book cover.

A large number of colleagues supported the preparation of this study with remarkable commitment. However, the views set out in this study are my own. They are not the official views of ADB. Mistakes and errors of judgment that readers may identify are mine.



Robert Wihito

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ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
ASEAN	Association of Southeast Asian Nations
BFA	Boao Forum for Asia
BRICS	Brazil, Russia, India, China, and South Africa
CAPE	country assistance program evaluation
CAREC	Central Asia Regional Economic Cooperation
CDF	China Development Fund
CIB	China Investment Bank
CMI	Chiang Mai Initiative
CMIM	CMI Multilateralization
CNY	Chinese yuan
CPC	Communist Party of China
CPS	country partnership strategy
CSP	country strategy and program
EARD	East Asia Department
GDP	gross domestic product
GMS	Greater Mekong Subregion
IFI	international financial institution
MOF	Ministry of Finance
O&S	Observations and Suggestions
PBOC	People's Bank of China
PPP	public–private partnership
PRC	People's Republic of China
PRCF	PRC Poverty Reduction and Regional Cooperation Fund
SOE	state-owned enterprise
TA	technical assistance
TVET	technical and vocational education and training
WTO	World Trade Organization

Classification Systems and Abbreviations Used in Charts and Tables

Throughout the book, the charts on operational approvals follow ADB's sector classification system, with sector names abbreviated as follows:

- Agriculture, Natural Resources and Rural Development =
Agriculture and Natural Resources
- Water and Other Urban Infrastructure and Services =
Water and Urban

Multisector projects are classified based on the primary sector.

The regional classification of projects is based on the government's classification, as indicated in Chapter 3, footnote 13. Projects covering more than one region have been broken down by region. Projects classified as multiregional have broad national coverage.

ADB recognizes its members by their official designations as indicated in <https://www.adb.org/about/members>. However, some variations to these designations may be found in this publication for reasons of historical accuracy.

EXECUTIVE SUMMARY

In the past 3 decades, the partnership between the Asian Development Bank (ADB) and the People's Republic of China (PRC) has undergone a radical transformation. In this brief span of time, the PRC has evolved from being a low-income and predominantly agrarian economy, a net importer of both capital and technology, to an upper-middle-income manufacturing and services powerhouse and leading international provider of financial, technical, and knowledge cooperation. This historically unprecedented transformation has shaped every aspect of the partnership.

From a predominantly one-way relationship, with ADB providing financing and other forms of support, the PRC is now working closely with the bank to provide financial, policy, and knowledge solutions to address its own challenges and those of and other countries in the Asia and Pacific region. The transformation provides important lessons for the PRC, ADB, and other countries and development partners in the region and beyond.

This study examines two important aspects of the ADB–PRC partnership. First, it explores the role played by the partnership in supporting the PRC's reform and opening up. In December 1978, the PRC's leader Deng Xiaoping initiated a process of reform that would span the next 4 decades. Following a remarkable period of rapid economic development, at the 19th National Congress of the Communist Party of China (CPC) held in October 2017, General Secretary Xi Jinping signaled the PRC's willingness to offer its successful experience in economic development for other countries to emulate. At the Congress, Xi Jinping also mapped out the steps required for the PRC to achieve full modernization by the middle of the 21st century.

Second, this study explores the reasons for the success of the relationship. From 1986 to 2017, ADB provided the PRC with \$34.8 billion in sovereign loans, \$4.1 billion of nonsovereign loans, equity investments, and guarantees mainly for private sector projects, and \$85 million of investment grants, in most major sectors of the economy. The total financing of \$39.1 billion, for 324 projects, makes the PRC the bank's second-largest borrower. ADB also provided the PRC with \$501 million in technical assistance (TA) grants for 862 individual projects. Equally important, ADB and the PRC have become strong partners in policy development, capacity building, and knowledge sharing. Initially, ADB provided the PRC's central and local government agencies with financing, capacity building, and policy and knowledge support. Since the early 2000s, the PRC has itself evolved into a major development partner.

Opening up and Joining ADB (1978–1986)

The PRC's participation in the work of the international financial institutions can be traced back to two series of events—the opening of the PRC's economy and the expansion of its diplomatic relations. The Third Plenary of the 11th Session of the Central Committee of the CPC held in December 1978 heralded the opening of the PRC's economy. The plenary established new priorities and set in motion a process of reform that opened the PRC to foreign direct investment and other external economic and financial relationships. The assumption by the PRC of its seat in the United Nations, again, paved the way for the PRC to expand its diplomatic relations, including participating in the work of international organizations. The PRC assumed its lawful seat in the International Monetary Fund and World Bank in 1980, and became a member of ADB in 1986.

Working Together (1986–1991)

Initially, both ADB and the PRC needed to establish the organizational arrangements to manage the relationship, engage experienced staff, and become familiar with each other's various procedures. In ADB, responsibility for relations with the PRC was with a programs division. On the PRC side, negotiations for membership had been led by the People's Bank of China (PBOC), which assumed responsibility for the relationship and established the ADB Operations Division. The PRC played an active role from the outset and hosted the ADB annual meeting in Beijing in 1989. ADB and the Government of the PRC prepared priority loans for approval in 1987–1988, and an initial operating strategy. Lending focused on the eastern coastal region, and on industry and trade, finance, and infrastructure.

Revitalized Reform (1992–1997)

The early 1990s marked a revitalization of the PRC's economic reforms, which had slowed down in the late 1980s. In January–February 1992, Deng Xiaoping undertook a widely publicized Southern Tour and reaffirmed the importance of economic reform and opening up. In October 1992, the 14th National Congress of the CPC formally adopted Deng's theory of building “socialism with Chinese characteristics” and called for specific measures to establish a “socialist market economy.” The next year,

in November 1993, the Third Plenary of the 14th Party Congress announced a comprehensive package of reforms, including the fiscal and taxation, financial, and foreign exchange control systems, and the management of state-owned enterprises.

ADB finalized its first operational strategy for the PRC in 1991, with the broad objective “to help the PRC to achieve an economy that would generate efficient, sustainable and equitable growth (ADB 1991a).” The strategy confirmed three priority sectors: industry, transport, and energy. In the context of a major reorganization of government agencies, in 1998, responsibility for cooperation with ADB was transferred to the Ministry of Finance. During this period, lending started to shift to the northeastern, western and central regions, with a strong focus on transport and energy. The TA program supported project preparation, building the capacities of government agencies, and policy reform and innovation.

Regional Balancing and the Environment (1998–2002)

The late 1990s were overshadowed by the Asian financial crisis, which unfolded with the collapse of the Thai baht in July 1997. The crisis most directly affected Southeast Asia and the Republic of Korea, but had a ripple effect throughout the region. The PRC, which was already closely linked to the global economy, was also impacted. Exports to Asia and foreign direct investment inflows from Asia declined sharply. However, with a combination of fiscal stimulus and expansionary monetary policy, the PRC managed to contain the impact of the crisis. The turn of the millennium was marked by a further opening of the PRC’s economy, culminating in accession to the World Trade Organization in 2001. It was also marked by the PRC’s growing attention to less developed inland provinces, signaled by the announcement of its strategy for the large-scale development of the western region in 2000, and to growing environmental degradation.

During this period, the PRC became increasingly open to dialogue with the global community. In 2000, the PRC convened the China Development Forum for the first time, and in 2001, the Boao Forum for Asia. The same year, ADB also established the PRC Resident Mission in Beijing, as part of a broader effort to bring the bank closer to its client countries. The PRC’s economy performed well, as did ADB’s lending portfolio in the PRC. ADB’s first country assistance performance evaluation (CAPE) gave the PRC portfolio a midpoint rating for 1987–1990 and an above

midpoint rating for 1991–1997. It also noted that the government’s focus on repayment capacity has precluded ADB’s involvement in education, health, and poverty reduction. Lending shifted mainly to the western and central regions, with transport and water and urban development accounting for 78% of the portfolio.

Globalization and Regional Cooperation (2003–2007)

In the new millennium, the PRC intensified its participation in the global economy, while renewing its domestic efforts to address regional inequalities. In the wake of the Asian financial crisis, the PRC also continued to strengthen its financial sector, and participated proactively in regional financial initiatives. The strategy for the large-scale development of the western region was followed by a plan to revitalize the country’s northeastern industrial base, reflecting a growing concern that economic growth had disproportionately benefited the eastern coastal region. By 2006, the PRC’s foreign exchange reserves reached \$1.1 trillion, significantly broadening the scope for international cooperation and allowing the PRC to establish its own sovereign wealth fund.

The period marked the PRC’s emergence as a leader of South–South cooperation. In 2002, the PRC hosted the ADB annual meeting in Shanghai. In 2003–2004, it participated for the first time in negotiations for replenishment of ADB’s concessional window, the Asian Development Fund (ADF), pledging \$30 million to ADF IX. In 2005, the PRC established its own trust fund with ADB, the PRC Fund for Poverty Reduction and Regional Cooperation (PRCF), with an initial contribution of \$20 million. The PRC participated proactively in regional cooperation initiatives, including the Chiang Mai Initiative, the Asian Bond Markets Initiative, and the ADB-facilitated Greater Mekong Subregion and Central Asia Regional Economic Cooperation programs.

The PRC’s economy continued its strong performance. The ADB’s second CAPE noted that “the PRC portfolio is one of the best among client countries, rating highly when compared with ADB averages and other large country programs (ADB 2007).” Lending remained focused on the western and central regions, with 70% for the transport sector.

Stimulus and Redistribution (2008–2012)

The global financial crisis of 2008–2009 was the defining economic event at the close of the first decade of the 21st century. The immediate turmoil was mainly in industrial economies, but the resulting economic slowdown had implications throughout the world, including Asia. The PRC’s response was rapid, large, and well-designed. In September 2008, the PRC announced a massive stimulus package. Alongside monetary easing, the government took firm steps to contain the housing market. At the same time, the Eleventh Five-Year Plan (2006–2010) helped to keep the government focused on ensuring the equitable distribution of the benefits of growth.

During this period, the two-way partnership between ADB and the PRC expanded quickly, with the PRC stepping up its financial contribution to ADB and sharing its development experience with the rest of the world. In 2009, the PRC pledged \$35 million to ADF X, and in 2013 a further \$45 million to ADF XI. Following 7 years of successful performance, the PRC also committed to replenish the PRCF by \$20 million. ADB’s lending to the PRC continued to focus on the west and central regions. Transport remained the leading sector, at 49%, while agriculture and natural resources and energy increased. The role of nonsovereign and private sector operations also started to expand.

Global Partnership (2013–2017)

The 18th National Congress of the CPC in November 2012 marked a deepening of economic reforms, and of the PRC’s global partnerships. The following year, the government took steps to strengthen the PRC’s international economic and financial cooperation. These included the announcement of an “economic belt along the Silk Road,” which would become the Belt and Road Initiative (Xi Jinping 2013b), and the establishment of two new international financial institutions led by emerging economies. The New Development Bank was established in 2014, and the Asian Infrastructure Investment Bank the following year.

Xi Jinping’s report to the 19th National Congress of the CPC in October 2017 sets out a two-stage plan for the PRC to achieve full modernization by its centennial. The report describes the measures needed to build “socialism with Chinese characteristics in the new era (Xi Jinping 2017).” The report also maps out a comprehensive approach

to international economic and financial cooperation. In 2017, the PRC pledged \$100 million to ADF 12, a significant increase over previous replenishments. It also replenished the PRCF by \$50 million.

The third CAPE of the PRC program acknowledged the significant transformation that has taken place in the ADB–PRC relationship, the ways that ADB can benefit from lessons in the PRC, and the role that ADB can play in sharing this experience with other countries. At the same time, the CAPE noted that the PRC’s environmental challenges are affecting public well-being, and have global and regional implications. Poverty and inequality are also major challenges. Lending continued to focus on the western and central regions, with agriculture and natural resources, energy, and water and urban development dominating the portfolio.

A Success Story

In 3 decades, the ADB–PRC partnership has evolved from a lender–borrower relationship to a two-way development partnership. The rapid change was driven by the PRC’s fast-paced economic and social development, and by ADB’s ability to respond.

From the start of the partnership, ADB has worked closely with the government to support its policy of reform and opening up. The partnership has been successful in conventional terms. ADB has provided loans and grants relevant to the PRC’s development challenges. The projects were efficiently and effectively implemented and had a significant impact. However, the relationship has also been successful in a broader sense. ADB has helped build the capacities of key ministries and agencies, supported the establishment of public sector management policies and practices, helped PRC companies build their capacity to compete internationally, and responded to the PRC’s need for policy advice and knowledge. Since the turn of the millennium, ADB has supported the PRC’s efforts to expand its role as a source of South–South cooperation.

What are the key factors behind this success? Some—such as having clearly defined plans and policies, and focusing on efficiency—are similar to those behind success stories in other countries. However, others are unique to the PRC and offer valuable lessons. The PRC has developed quickly. At the same time, its approach to economic development is gradualist and experimental, often referred to as “crossing the river by feeling the stones.” New approaches are initially piloted in a few selected localities. Once

successful, or once sufficient experience has been gained, the innovations are replicated in other parts of the country. The PRC has effectively applied this approach to its cooperation with ADB.

Looking Ahead

In the past 3 decades, the ADB–PRC partnership has evolved faster than ADB’s relationship with any of its other developing member countries. There is no reason to expect the pace to slow. On the contrary, the global and regional environments are changing fast, and the PRC has ambitious plans to achieve socialist modernization by 2035 and full modernization by the middle of the 21st century. The government and ADB will need to work closely together to ensure that their partnership remains responsive to these evolving needs.

In further modernizing its economy, the PRC stands to benefit from cooperation with ADB in the following key areas: (i) strengthening policy cooperation to support the PRC’s transition from an economic growth model driven by exports and investment to consumption- and services-led growth; (ii) continuing to address the PRC’s enormous environmental challenge; (iii) continuing to address the PRC’s urban challenge; (iv) vitalizing rural areas that have been left behind; (v) addressing the far-reaching consequences of the rapidly changing technological and demographic landscape; (vi) fostering regional cooperation and integration in the context of ADB-facilitated programs; and (vii) taking advantage of new opportunities for knowledge sharing and financial partnerships.

CHAPTER 1

Introduction

“The journey of a thousand miles starts with a single step.”

– Laozi

In the past 3 decades, the partnership between the Asian Development Bank (ADB) and the People’s Republic of China (PRC) has undergone a radical transformation. In this brief span of time, the PRC has evolved from being a low-income and predominantly agrarian economy, a net importer of both capital and technology, to an upper middle-income manufacturing and services powerhouse and leading international provider of financial, technical, and knowledge cooperation. This historically unprecedented transformation has shaped every aspect of the partnership.

When the PRC joined ADB in 1986, it had a gross domestic product (GDP) per capita of \$282 and foreign exchange reserves of \$2.1 billion. Just 25% of the population lived in urban areas. As a low-income country, the PRC joined ADB to increase its opportunities to tap into the global market for financing, technical expertise, and knowledge, in support of its own economic development.

By 2017, just 3 decades later, this situation had changed completely. The PRC’s GDP per capita had increased to \$8,849, and its foreign exchange reserves, at \$3.1 trillion, were the world’s largest. In purchasing power parity terms, the PRC’s GDP per capita in 2017 was \$16,624. Because of rapid urbanization, the proportion of the population living in cities had more than doubled, to 59%. Most importantly, as an upper middle-income country with major concentrations of industrial and technological expertise, the PRC had transformed itself into a major international source of financing, technology, and knowledge, for both developing and developed countries.

The PRC’s transformation has had major implications for its relationship with ADB. From a predominantly one-way relationship, with ADB

providing financing and other forms of support, the PRC is now working closely with the bank to provide financial, policy, and knowledge solutions to address its own challenges and those of other countries in the Asia and Pacific region. The transformation provides important lessons for the PRC, ADB, and other countries and development partners in the region and beyond.

Supporting the PRC's Reform and Opening Up

This study examines two important aspects of the ADB–PRC partnership. First, it explores the role played by the partnership in supporting the PRC's reform and opening up. In December 1978, the PRC's leader Deng Xiaoping initiated a process of reform that would span the next 4 decades. Following a remarkable period of rapid economic development, at the 19th National Congress of the Communist Party of China held in October 2017, General Secretary Xi Jinping signaled the PRC's willingness to offer its successful experience in economic development for other countries to emulate. At the Congress, Xi Jinping mapped out the steps the PRC should take to achieve full modernization by the middle of the 21st century.¹

The PRC's reform and opening up was implemented in stages. Starting in 1979, the PRC opened itself to foreign trade and investment. The initial stage also saw significant changes in domestic economic policies, and the opening of markets in rural areas, townships, and villages. These laid the foundations for industrialization and urbanization. The early 1990s witnessed a revitalization of reforms and a confirmation of the institutions needed to build a socialist market economy. Comprehensive reforms were introduced in fiscal management, banking, foreign exchange, trade and investment, and the management of state-owned enterprises. The turn of the millennium marked a growing recognition by the PRC of the need to focus on the country's less developed regions. The PRC opened the economy further to international partnerships. It joined the World Trade Organization (WTO) in 2001, participated proactively in regional cooperation, and laid the foundations for its current role as a global development partner.

¹ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 24.

From the outset, ADB has worked closely with the PRC to support its reform and opening up. Initially, ADB's lending focused on strengthening the financial sector and key state-owned enterprises. In the 1990s, lending shifted to addressing infrastructure bottlenecks in transport and energy, in support of economic growth. To address the government's growing concern with urbanization and the environment, lending for urban development, water, and natural resource management gradually increased since the mid-1990s. Many projects piloted new approaches. In the past decade, the PRC's progression from a low-middle-income to an upper-middle-income economy and demographic transition have ushered in new challenges. These have led to further shifts in the partnership. Since 2015, ADB has also provided financing for skills training and elderly care.

Alongside lending operations, ADB's technical assistance (TA) grants and knowledge cooperation have supported a wide range of economic, social, and environmental reforms. Initially, TA grants focused on strengthening the capacity of government agencies and building up a lending program. In the 1990s, ADB undertook studies in key areas of reform. ADB projects piloted user charges for bridges and highways, helped introduce water and wastewater tariffs, and supported reforms in most major sectors of the economy. In the past decade, ADB's policy and knowledge work has focused on the environment and helped the PRC to strengthen its South-South cooperation. The book provides a detailed review of ADB's support for the PRC's reforms.

What Are the Success Factors?

This study also explores the reasons for the success of the relationship. From 1986 to 2017, ADB provided the PRC with \$34.8 billion of sovereign loans, \$4.1 billion of nonsovereign loans, equity investments, and guarantees mainly for private sector projects, and \$85 million of investment grants, in most major sectors of the economy. The total financing of \$39.1 billion, for 324 projects, makes the PRC the bank's second largest borrower. ADB has also provided the PRC with \$501 million in TA grants for 862 individual project preparatory, capacity development, policy, and knowledge projects. At least equally important, ADB and the PRC have become strong partners in policy development, capacity building, and knowledge sharing. Initially, ADB provided the PRC's central and local government agencies with financing, capacity building, and policy and knowledge support. Since the early 2000s, the PRC has itself evolved into a major development partner.

ADB's partnership with the PRC has been successful in conventional terms. ADB has provided loans and grants relevant to the PRC's development challenges. The projects were efficiently and effectively implemented and had a significant impact. However, the relationship has also been successful in a broader sense. ADB has helped to build the capacities of key ministries and agencies, supported the establishment of a wide range of public sector management policies and practices, and responded to the PRC's need for policy advice and knowledge. Since the turn of the millennium, ADB has supported the PRC's efforts to expand its role as a source of South–South cooperation.

What are the key factors behind this success? Some—such as having clearly defined plans and policies, and focusing on efficiency—are similar to those behind success stories in other countries. However, others are unique to the PRC and offer valuable lessons. The PRC has developed quickly. At the same time, its approach to economic development is gradualist and experimental, often referred to as “crossing the river by feeling the stones.” New approaches are initially piloted in a few selected localities. Once successful, or once sufficient experience had been gained, the innovations are replicated in other parts of the country.

The PRC has effectively applied this approach to its cooperation with ADB and other international financial institutions (IFIs).² ADB-financed projects have frequently been used to pilot new approaches. Subsequently these were disseminated and replicated. The study looks at the role that this approach has played in the success of the ADB–PRC partnership, and the lessons it offers for others to emulate.

* * *

In 2016, the PRC and ADB celebrated 30 years of partnership. This year, 2018, marks the 40th anniversary of the opening of the PRC's economy to reforms, including opening up to cooperation with IFIs. The timing is opportune to review the evolution of the relationship, draw lessons from the cooperation to date, and consider where it should go from here.

The following chapters tell the story of the remarkable transformation in ADB's partnership with the PRC. The chapters are organized chronologically into periods that broadly correspond with shifts in

² Zheng (ed.), 2010, *Innovation and Development. Collection of Good Practice Papers on Management of Projects Financed by International Financial Institutions*, i–iii.

the PRC's economic policies and the PRC's responses to events in the regional and global environment. Chapters 2 to 8 reflect the key stages of the evolution of the ADB–PRC relationship. The narrative is guided by several threads. In addition to the evolution of the PRC's policy of reform and opening up, and ADB's response, the study considers major shifts in ADB's policies and priorities, and organizational changes in ADB and the Government of the PRC. Chapter 9 reviews distinguishing features in the partnership that help to account for its success. The final chapter provides some reflections on the future.

CHAPTER 2

Opening Up and Joining ADB (1978–1986)

“1986 has also witnessed a major event in the expanding role and growing importance of the ADB. I refer to the admission of the People’s Republic of China to the bank. As the country with the largest area and the largest population in our region, the membership of China greatly enhances the scope, geographical coverage and operational importance of our institution.”

– Masao Fujioka, Address at the ADB Annual Meeting, 1986

The participation of the People’s Republic of China (PRC) in the work of the international financial institutions (IFIs) can be traced back to two series of events—the opening of the PRC’s economy and the expansion of its diplomatic relations. The Third Plenary of the 11th Session of the Central Committee of the Communist Party of China held in December 1978 heralded the opening of the PRC’s economy. The plenary established new priorities and set in motion a process of reform that opened the PRC to foreign direct investment and other external economic and financial relationships. The assumption by the PRC of its seat in the United Nations in 1971, again, paved the way for the PRC to expand its diplomatic relations, including participating in the work of the IFIs, which started in the 1980s.

The PRC Initiates Reforms

Deng Xiaoping’s speech at the Central Working Conference in December 1978, which also served as the keynote address of the Third Plenary, is generally seen as having triggered the opening up of the PRC’s economy. The speech highlighted the importance of the “four modernizations,” of agriculture, industry, national defense, and science and technology, and set in motion a process of reform and opening up that would last 4 decades.¹

¹ Deng, 1978, “Emancipate the Mind, Seek Truth from Facts and Unite as One in Looking to the Future.”

The reforms initiated by the Third Plenary were carefully implemented in phases. The first stage introduced the Open Door Policy, with reform in foreign trade and investment and the passing of a law on joint venture companies. The joint ventures would in the coming years play a catalytic role in promoting exports, employment, and economic growth. In 1979, the government introduced the “dual track” system, which allowed state-owned industries to sell products exceeding their planned targets. This allowed for the gradual emergence of a market track.²

The first stage of reforms also introduced the “household responsibility system” and freed markets in rural areas, which allowed farmers to benefit more directly from their own work.³ Under this system, farmers were able to sell produce on the informal market, which led to a rapid increase in rural incomes. The system was complemented by the establishment of township and village enterprises, which played a key role in boosting employment and accelerating industrialization and urbanization.⁴

These initial reforms were followed in 1980 by the establishment of special economic zones in the coastal cities of Shantou, Shenzhen, and Zhuhai in Guangdong province, and Xiamen in Fujian province. After a pilot period, the PRC opened 14 more coastal cities to overseas investment in 1984, followed by a further expansion the next year. In 1980, the government established the principle of “eating from separate kitchens,” which significantly strengthened the management of fiscal relations between government agencies. In 1984, the government officially allowed the establishment of private enterprises with fewer than eight employees, and reformed the taxation of the profits of state-owned enterprises.⁵

The PRC also took initial steps to liberalize the financial sector. To provide financing under the reforms and to distinguish clearly between central and commercial banking, in 1979 the government formed three banks separately from its central bank, the People’s Bank of China (PBOC). These were the Agricultural Bank of China, the Bank of China, and the People’s Construction Bank of China. In 1984, the government established the fourth large state-owned bank, the Industrial and Commercial Bank of China, to handle industrial and commercial credit and savings previously

² Wu, 2015, *Understanding and Interpreting Chinese Economic Reforms*, 64–68.

³ Du, 2006, *The Course of China’s Rural Reform*, 7.

⁴ Wu, 2015, *Understanding and Interpreting Chinese Economic Reforms*, 111–114.

⁵ Hofman and Wu, 2009, *Explaining China’s Development and Reforms*, 26–27.

handled by PBOC.⁶ Initially only PBOC was allowed to conduct business in foreign currency, but in 1986 this right was extended to all domestic banks.

In the context of these reforms, the government expected investment from more advanced economies to play a significant role in providing the PRC with financing and technology, and strengthening the country's managerial capabilities. In his December 1978 speech, Deng highlighted the role of foreign expertise, noting that "if we ourselves don't know about advanced methods of management, we should learn from those who do, either at home or abroad," and that "these methods should be applied not only in the operation of enterprises with newly imported technology and equipment, but also in the technical transformation of existing enterprises."⁷ The PRC was thus opening its economy to external financial and technological cooperation, including participating in the work of the IFIs.

The PRC Joins ADB

In 1971, the UN General Assembly restored the lawful rights of the PRC.⁸ This paved the way for the PRC to expand its diplomatic relations and assume its seat in UN-affiliated international agencies. It also paved the way for the PRC to open up relations beyond the UN system.

The formal establishment of diplomatic relations in 1979 between the Governments of the PRC and the United States was a major milestone in the PRC's participation in the work of the IFIs. After the ratification of a trade agreement between the PRC and the United States in February 1980, the PRC government indicated that it would seek membership in the International Monetary Fund and the World Bank. As both organizations came under the umbrella of the UN, discussions were brief and straightforward. In April 1980, the PRC assumed its lawful seat in the International Monetary Fund, and in May 1980 in the World Bank.⁹ The same year, the PRC also became a member of the International Fund for Agricultural Development.

⁶ Industrial and Commercial Bank of China, 2014, "ICBC History (1984–2014)." <http://www.icbc-ltd.com/icbc/td/about%20us/icbc%20history/>.

⁷ Deng, 1978, "Emancipate the Mind, Seek Truth from Facts and Unite as One in Looking to the Future."

⁸ United Nations, 1971, General Assembly Session 26 Resolution 2758. *Restoration of the Lawful Rights of the People's Republic of China in the United Nations A/RES/2758 (XXVI)* 25 October. [http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/2758\(XXVI\)](http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/2758(XXVI)).

⁹ Salda, 1997, *Historical Dictionary of the World Bank*, 51.

In February 1983, the PRC approached the ADB management to express its interest in joining the bank. Following detailed negotiations, in November 1985, ADB and the PRC reached agreement on all major issues, paving the way for the PRC to submit an official application to join ADB.¹⁰ In the final stages of negotiations, state councilor and concurrently governor of the PBOC Chen Muhua led the PRC's team. The designation of such a senior and well-regarded official to lead the discussions with ADB was a clear sign of the importance attached to the membership question by the Government of the PRC.

In January 1986, the ADB Board of Directors approved the PRC's membership application, and in February 1986, the ADB Board of Governors passed the Resolution to approve the PRC's accession. On 10 March 1986, the PRC completed its domestic procedures and officially became a member of ADB.

¹⁰ Fujioka, 1986, *ADB President's Diary*, Chapter 4.

CHAPTER 3

Working Together (1986–1991)

“The Chinese Government and people are willing to further strengthen its cooperation with the Asian Development Bank and its members and work for the overall development and prosperity of the Asia-Pacific region, international peace and sustained growth of the world economy.”

– Yang Shangkun, Address at the ADB Annual Meeting, 1989

Once the People’s Republic of China (PRC) became a member of the Asian Development Bank (ADB), the two sides faced a number of challenging tasks. First, both ADB and the PRC needed to establish the necessary organizational arrangements to manage the relationship, including the planning and implementation of a lending program. Second, they had to engage experienced staff, including staff with the necessary language skills. Third, they needed to take steps to familiarize their staff with each other’s various procedures. In the initial years, both parties focused on establishing organizational structures, strengthening staff capabilities, establishing an initial lending program, and learning to work together.

Organizational Arrangements for Cooperation

On the ADB side, initial responsibility for cooperation with the PRC was with the Country Department, which was responsible for relations with borrowers, formulation of country strategies, and the programming of lending resources. Within the department, responsibility for the initial economic work and the formulation of an operational strategy and lending program for the PRC was assigned to a division handling operations in only two countries, the PRC and the Philippines. To manage the new country portfolio, ADB assigned several staff to the division with prior experience in the PRC and Chinese-language skills.

The following year, in 1987, ADB reorganized its operations along geographical lines into two regions, East and West. This was considered

necessary to address the bank's increasing workload, and to bring the bank closer to its client countries. The division responsible for the PRC shifted to the Programs Department (East), which coordinated closely with two technical departments responsible for sector policy work and the processing and administration of loan projects. This arrangement remained largely unchanged until ADB's next major reorganization, in 2002.

On the PRC side, negotiations for membership had been led by the People's Bank of China (PBOC). Once the negotiations were completed, responsibility for relations with ADB was assigned to the International Cooperation Department of the PBOC, which established the ADB Operations Division to handle day-to-day cooperation with the bank. To ensure that the PBOC could support the membership, staff with suitable technical experience and skills and a good knowledge of English were assigned to the division from within PBOC and from other government agencies.

A major initial challenge was the need to familiarize PRC officials in the PBOC and the borrowing agencies with international lending practices and the workings of ADB, including its operational policies and procedures. In 1986, ADB organized the first orientation seminar for senior PBOC officials at its headquarters in Manila.¹ The following year, ADB approved a technical assistance (TA) grant to strengthen the capacity of the PBOC.

The initial training programs were appreciated by staff of PBOC and other government agencies, who generally had limited exposure to international financial and technical cooperation. One former PBOC staff member described them as "an eye-opener."² In subsequent years, ADB organized numerous seminars and workshops to help build the capacity of PRC officials, and strengthen the familiarity of ADB staff with the policies and procedures of the Government of the PRC.

The PRC Plays an Active Role

From the start of its membership, the PRC played an active role in ADB. In the PRC's first statement at an ADB annual meeting, in May 1986, just 2 months after joining the bank, the ADB governor for the PRC,

¹ ADB and the PRC Ministry of Finance, 2002, *Building the Future Together: Fifteen Years of PRC-ADB Cooperation 1986–2001*, 31.

² Interview with former PBOC staff (March 2018). Author's archives.

Chen Muhua, drew attention to the widening gap between developed and developing countries, and to the wide range of economic challenges facing the region's economies.

In remarks that would prove to be prescient in light of the PRC's rapidly evolving role in ADB, Chen reminded the annual meeting that developed and developing economies were interdependent, and that their cooperation was a two-way process:

“Each country, large or small, has its strengths and weaknesses, and therefore needs to learn from others’ strong points so as to offset its own weaknesses in the process of economic development. No countries, not even those highly developed ones, can afford to isolate themselves from the outside world and expect to develop all alone without economic contacts and cooperation with other countries. Self-reliance is indispensable to development, and so is international cooperation. While developing countries need to develop, developed countries need development as well. Consequently, developing countries need to cooperate with developed countries and vice versa. In fact, economic growth in the developed world is subject to insurmountable constraints if the developing economies remain stagnant. Therefore, the increase of economic strength of developing countries is, not only in their own interests, but also conducive to the cooperation between developing and developed countries, as well as to the economic prosperity of the world as a whole. In this respect, we believe, there is much to be accomplished under the auspices of the Bank.”³

As ADB's third-largest shareholder with voting rights of 6.15%,⁴ the PRC was entitled to a constituency of its own on the ADB Board of Directors. This required the regional member countries to reach agreement on a realignment of their Board constituencies, which took some time. As a result, it was only in July 1987 that the PRC's first executive director on the Board of Directors, Kong Fannong, was able to assume office and begin to participate actively in the activities of ADB's Board. Kong served on the Board until June 1989, and was followed by Che Peiqin, who served for 6 years until July 1995.

³ ADB, *Summary Proceedings of ADB Annual Meetings, 1986*, p. 55.

⁴ ADB, 2016, *ADB through the Decades, ADB's Second Decade (1977–1986)*, 4.

The ADB Annual Meeting Is Held in Beijing

Working closely with ADB's management and Board of Directors, the government took advantage of the PRC being a new member to host the bank's annual meeting in Beijing in May 1989. It was one of the first major international meetings hosted by the PRC. The opening session was held at the PRC's most auspicious venue, the Great Hall of the People. The other sessions were held at the Great Wall Sheraton Hotel.⁵

In his opening address to the annual meeting, the President of the PRC, Yang Shangkun, reminded the participants that the gap between the north and south continued to widen and of the interdependent nature of global problems. Taking stock of the rapid expansion of the PRC's economy over the past decade, he observed:

“Today, the gross industrial and agricultural output of China is twice as much as that in the early 1980s. Looking over the road that we have taken, we cannot help but attribute our success to the policy of reform and opening to the outside world and also to the stable political, economic and social environment. The successful experience and lessons drawn from our mistakes have convinced us that without reform and opening to the outside world, the economic development would be out of the question.”⁶

President Yang went on to reiterate the firm commitment of the PRC to the pursuit of a policy of reform and opening up. The opening address was complemented by that of the ADB Governor for the PRC, PBOC Governor Li Guixian, who highlighted the importance of cooperation among countries within the region, and more widely with other regions of the world. Anticipating challenges that would preoccupy ADB in the coming decades, he also drew attention to the importance of eliminating poverty, and to the world's growing environmental problems.⁷

An Interim Operational Strategy

To initiate lending operations, ADB immediately started working with the government to prepare a number of priority loans for approval in

⁵ McCawley, 2017, *Banking on the Future of Asia and the Pacific*, 176.

⁶ ADB, *Summary Proceedings of ADB Annual Meetings, 1989*, 9.

⁷ ADB, *Summary Proceedings of ADB Annual Meetings, 1989*, 13.

1987–1988. At the same time, to provide the underpinnings for a long-term lending program, ADB initiated the economic and sector analytical work for its first country program for the PRC, covering 1989–1992. The first country program also served as the bank’s interim operational strategy.⁸ In framing its initial operating strategy, ADB considered the size of the PRC, its development objectives and constraints, and the government’s borrowing policies, which included ensuring that borrowing agencies had the capacity to repay their loans. It also took into account the bank’s own financial and staff limitations.

The strategy indicated that ADB operations would initially focus on the eastern coastal region, the country’s economic heartland, which was spearheading the PRC’s modernization program. It described the constraints facing the coastal heartland as follows:

“...for the region to materialize as a growth corridor and the center for technological diffusion to other regions, existing industries still operating with outmoded technology must be rehabilitated and the key infrastructure constraints, such as energy shortages and inadequate transport facilities, must be resolved.”⁹

The strategy identified three major sectors, industry (including industrial raw material supply), energy, and transportation, which contained major bottlenecks to the economy.¹⁰ In the industrial sector, the bank would support efforts to raise productivity by improving management systems and replacing outmoded plants with more advanced technology. In the energy sector, ADB would help to enhance efficiency in production, transmission, and utilization, and promote the use of new energy resources. In the transport sector, initial support would focus on overcoming transport bottlenecks by expanding the capacity of ports and railways and establishing a better coordinated transport network.

In addition, the interim strategy proposed to support government efforts to shift from direct control of the economy to a variety of indirect controls and macroeconomic instruments. Given the bank’s resource constraints, the strategy proposed that ADB and the PRC gain initial experience working together in a few selected provinces.¹¹

⁸ ADB, 1998, *Country Assistance Program Evaluation in the People’s Republic of China*, v.

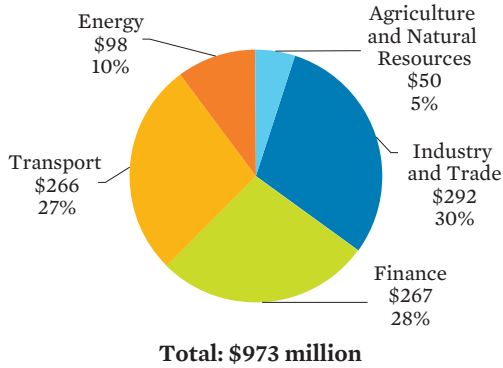
⁹ ADB, 1989, *People’s Republic of China, Country Program Paper (1989–1991)*, xviii.

¹⁰ ADB, 1989, *People’s Republic of China, Country Program Paper (1989–1992)*, xvii.

¹¹ ADB, 1989, *People’s Republic of China, Country Program Paper (1989–1992)*, xvii–xviii.

Operational Summary

Figure 3.1: Operational Approvals to the PRC by Sector, 1986–1991
(\$ million, %)

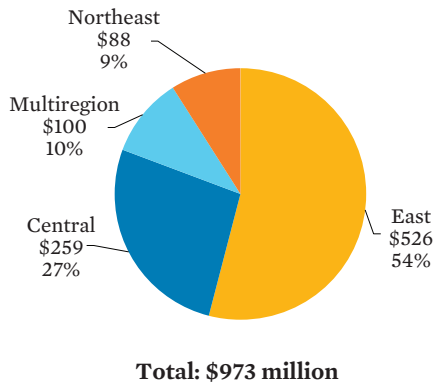


PRC = People's Republic of China.

Note: Includes loans and equity investments.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Figure 3.2: Operational Approvals to the PRC by Geographical Region, 1986–1991
(\$ million, %)



PRC = People's Republic of China.

Note: Includes loans and equity investments.

Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

In the early years of operations, from 1987 to 1991, ADB lent mainly to large state-owned banks and state-owned enterprises (SOEs), which had the capacity to make use of the foreign exchange provided by ADB for financially and economically well-justified projects, and to generate the revenue to repay the loans (Figure 3.1).

Approved in 1987, ADB's first loan to the PRC, provided a \$100 million credit line to the China Investment Bank (CIB), to help finance the foreign exchange requirements of state-owned and collectively owned small and medium-sized enterprises "to modernize, expand and upgrade their production facilities in the industrial sector through import of technologically advanced equipment and services"¹² (Box 3.1). In what was to become an established practice in the early stages of lending to the PRC, the loan was accompanied by a TA grant to build up CIB's institutional capacity.

The loan to CIB was followed in 1988–1991 by loans to the Shanghai Investment and Trust Corporation, the Agricultural Bank of China, and the Industrial and Commercial Bank of China. ADB provided SOEs with financing in such areas as tire manufacture, acrylic fiber production, and the construction of a pulp mill. At the same time, ADB started to support the diversification of the banking system. In 1991, ADB made an equity investment of \$10.3 million in Xiamen International Bank, the first PRC-foreign joint venture commercial bank.

In the early 1990s, in recognition of the key role played by infrastructure in opening the PRC's economy, the emphasis in lending shifted from SOEs to infrastructure projects, mainly expressways, bridges, and railways. In 1991, ADB approved financing for the Nanpu Bridge in Shanghai, which Deng Xiaoping visited the same year. The bridge played a vital role in linking the western side of central Shanghai with the Pudong New Zone on the eastern side of the Huangpu River, which was formally established in 1990 as a center of international finance, trade, and shipping. To this day, the Nanpu Bridge remains one of the city's best-known landmarks. It was followed in 1992 by a loan for its sister bridge, the Yangpu Bridge (Box 3.2).

The TA grant program in 1987–1991 focused on building the capacity of the PBOC and other partner institutions, and on carrying out the feasibility work for the lending program. This established a pattern for the use of TA funds for project preparation, on the one hand, and capacity development,

¹² ADB, 1987, *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the People's Republic of China for the China Investment Bank*, p. 1.

Box 3.1: First Loan to the PRC—China Investment Bank

The Asian Development Bank (ADB) approved its first loan to the People's Republic of China (PRC) in October 1987, a \$100 million credit line to the China Investment Bank (CIB), a national development finance institution under the supervision of the Ministry of Finance. The objectives of the project were twofold: to help modernize the industrial sector and promote technological upgrading by financing high-priority small and medium-sized enterprises (SMEs); and to support the institutional development of the CIB, so that it could serve as a model development finance institution in the country.

The credit line to the CIB was intended to finance the foreign exchange needed by SMEs to import machinery and equipment for their modernization. The loan was accompanied by a \$400,000 technical assistance grant to strengthen the CIB's "expertise in project evaluation, project supervision and financial management, including upgrading its manually-operated accounting system."

The project was successful, setting the standard for what would become one of ADB's best-performing country portfolios. The CIB provided subloans for 66 projects to a wide range of SMEs engaged in textile manufacture, chemical production, printing, metallurgy, and other areas of light industry. The loans were used mainly for technological enhancement, leading to more efficient use of resources and raising productivity in the borrowing SMEs.

Sources: ADB. 1987. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the People's Republic of China for the China Investment Bank*. Manila; ADB. 1996. *Project Completion Report on the China Investment Bank Project in the People's Republic of China*. Manila.

sector strategy, and policy work, on the other, which has endured to the current day. During this phase, loans and TA grants focused on Shanghai, Beijing, and a few other relatively advanced areas with high capacity, mainly in the eastern coastal region (Figure 3.2). ADB also financed a railway project and a power project in Shanxi province in the central region.¹³

¹³ For the charts in this book, the four major regions are defined as the eastern coastal region (comprising the provinces or municipalities of Beijing, Fujian, Guangdong, Hainan, Hebei, Jiangsu, Shandong, Shanghai, Tianjin, and Zhejiang), which is the PRC's economic heartland; the central region (Anhui, Henan, Hubei, Hunan, Jiangxi, and Shanxi); the northeastern region (Heilongjiang, Jilin, and Liaoning); and the western region, which comprises the country's least developed, remote, and mountainous provinces and administrative regions (Chongqing, Gansu, Guangxi Zhuang Autonomous Region, Guizhou, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Qinghai, Shaanxi, Sichuan, Tibet Autonomous Region, Xinjiang Uygur Autonomous Region, and Yunnan).

Box 3.2: Two Bridges in Shanghai

In the early 1990s, the Asian Development Bank (ADB) helped construct two bridges that linked central Shanghai to the eastern side of the Huangpu River, helping to transform the Pudong New Area into a major business and financial district. ADB financed \$155 million of the total cost of about \$494 million.

Nanpu Bridge. The project helped to expand Shanghai's economic base by supporting the construction of the first bridge across the Huangpu River. The bridge was opened in December 1991, 2 years ahead of schedule. Traffic grew quickly. During the first month, around 12,000 vehicles crossed the toll bridge daily. This rose to 17,000 the following month. A decade later, about 120,000 vehicles were passing over the Nanpu Bridge each day.

Yangpu Bridge. The Yangpu Bridge, the sister bridge to the Nanpu Bridge, was opened in 1993. With a total length of more than 8,000 meters, it is one of the longest cable-stayed bridges in the world. Use of the facility grew rapidly. By 2000, around 100,000 vehicles were crossing the Yangpu Bridge each day.

Both the Nanpu and Yangpu bridges were showcases for technological achievements in Shanghai. The Nanpu Bridge, made of high-strength materials, was designed by the Shanghai Municipal Engineering Design Institute and was modeled after the Alex Fraser Bridge in Vancouver. To promote the adoption of lessons from the experience, ADB provided a technical assistance grant. Learning from this experience, Chinese technicians took charge of the construction of the Yangpu Bridge.

Sources: ADB. 1999. *Project Performance Audit Report: Shanghai-Nanpu Bridge Project*. Manila; Gill. 2011. "Bridges Bring Boom," in *Impact Stories from the People's Republic of China*. Manila: ADB. pp. 4–6. <https://www.adb.org/sites/default/files/publication/28883/pre-impact-stories.pdf>.

CHAPTER 4

Revitalized Reform (1992–1997)

“We should be bolder than before in conducting reform and opening to the outside and have the courage to experiment. ... Once we are sure that something should be done, we should dare to experiment and break a new path.”

– Deng Xiaoping, on his Southern Tour, 1992

The early 1990s marked a revitalization of the economic reforms in the People’s Republic of China (PRC), which had slowed down in the late 1980s. In January–February 1992, Deng Xiaoping undertook a widely publicized Southern Tour, visiting key southern and coastal cities including Guangzhou, Shanghai, and the special economic zones of Shenzhen and Zhuhai. During the tour, Deng reaffirmed the importance of economic development, and of revitalizing the processes of reform and opening up.¹ In October 1992, the 14th National Congress of the Communist Party of China (CPC) endorsed the view that the market system was not incompatible with the ideals of socialism, formally adopted Deng’s theory of building “socialism with Chinese characteristics,” and called for specific measures to establish a “socialist market economy.”²

Deng Xiaoping’s Southern Tour and the decisions of the 14th CPC Congress set the stage for Party General Secretary Jiang Zemin to initiate wide-ranging economic reforms over the following decade. The next year, in November 1993, the Third Plenary of the 14th Party Congress announced the comprehensive reforms needed to establish a socialist market economy. These included the establishment of a new fiscal and taxation system; reform of the financial system; reforming the foreign exchange control

¹ Deng, 1994, Excerpts from Talks Given in Wuchang, Shenzhen, Zhuhai and Shanghai, in *Selected Works of Deng Xiaoping*, Volume 3.

² Jiang, 1992, “Accelerating the Reform, the Opening to the Outside World and the Drive for Modernization, so as to Achieve Greater Successes in Building Socialism with Chinese Characteristics.”

system; reform of the management of state-owned enterprises (SOEs); and establishment of a new social security system.³

In the following years, steps were taken to implement the reforms. In 1994, the government made the Chinese yuan (CNY) convertible for current account transactions and reformed the tax sharing system between local authorities and the central government. It also established three policy banks to help draw a clear line between commercial and policy banking: the Agricultural Development Bank of China, China Development Bank, and the Export-Import Bank of China. In 1995, the PRC enacted the Central Bank Law, Law on Commercial Banking, and Budget Law, and confirmed plans for wide-ranging reform of the SOEs.⁴ The new reform agenda provided the backdrop for significant shifts in the government's cooperation with Asian Development Bank (ADB).

ADB's First Operational Strategy

In the late 1980s, ADB operations in the PRC were guided by an interim operational strategy designed to address a few key sectors and priority development bottlenecks. Based on the experience gained from these initial projects, it became a matter of increasing priority for ADB and the PRC to formulate a comprehensive strategy to guide their cooperation. To prepare its first fully fledged operational strategy, ADB conducted extensive dialogue with senior officials in the People's Bank of China (PBOC) and a wide range of other government agencies throughout 1990.

The result of this dialogue was ADB's first operational strategy for the PRC, which was finalized in 1991. The strategy's broad objective was "to help the PRC to achieve an economy that would generate efficient, sustainable and equitable growth." It included three objectives that cut across sectors and were intended to provide a broad basis for a medium-term operational strategy in the PRC: improving the efficiency of the economy, poverty alleviation, and environment protection and natural resource conservation. The strategy stressed that in pursuing these objectives, ADB "will focus on the most efficient projects in terms of financial and economic returns."⁵

Consistent with the priorities of the earlier interim strategy, the new strategy confirmed the same three priority sectors: industry, transport, and energy. The industry sector suffered from outdated technology,

³ Wu, 2015, *Understanding and Interpreting Chinese Economic Reforms*, 75–77.

⁴ Hofman and Wu, 2009, *Explaining China's Development and Reforms*, 18

⁵ ADB, 1991, *Bank Operational Strategy for the People's Republic of China*, i–v.

deficiencies in product quality and design, and inadequate management and market techniques including problems with export credit financing. ADB could help to increase efficiency by improving technology and raising industrial standards. In transport infrastructure, the bank would help the government to overcome weaknesses by addressing vital bottlenecks. These were particularly apparent in railways, highways, and ports. In the energy sector, ADB would help to address shortcomings in power generation, transmission, and distribution.⁶

The strategy also highlighted the role the bank could play by providing technical assistance (TA) grants to help the government to develop institutional capabilities in these sectors, supporting sector planning, and encouraging the government to adopt appropriate policies. Consistent with the government's focus on efficiency, the strategy stressed that projects would generally be expected to provide for greater fiscal discipline and improved management practices.⁷

Lending Terms and Borrowing Policies

The 1991 operational strategy for the PRC highlighted the constraining role of ADB's financing terms on the one hand and the government's borrowing policies on the other. From the outset, ADB could provide the PRC with loans only on "hard" ordinary capital resources terms, supported by some TA grant funding. The World Bank started to lend to the PRC in 1981, at an early stage of its economic reforms, and was from the outset able to complement its ordinary lending with limited International Development Association (IDA) financing on concessional terms.⁸ ADB started to lend 6 years later, when the PRC's reforms were already taking root. At that time, its relatively modest concessional Asian Development Fund resources provided no leeway for "soft" lending to the PRC.

The government's borrowing policies required that the central and provincial borrowing agencies should have the capacity to repay loans in foreign currency. This meant that ADB involvement in any sector would depend on the foreign exchange earning capacity of the executing agency. However, projects in the infrastructure and energy sectors in particular did not generate direct foreign exchange revenue. This made it difficult for ADB to diversify its loan portfolio to include these sectors. Following lengthy discussions, the government agreed to exercise flexibility and

⁶ ADB, 1991, *Bank Operational Strategy for the People's Republic of China*, ii–iii.

⁷ ADB, 1991, *Bank Operational Strategy for the People's Republic of China*, iii.

⁸ Salda, 1997, *Historical Dictionary of the World Bank*, 52.

allow provincial governments with adequate foreign exchange repayment capacity to borrow from the bank for these sectors.⁹

The government also had a clear policy of using only concessional loan funds and grants for the agriculture and social sectors. The principle of not using “hard” funds for “soft” sectors meant that education and health projects were excluded from the lending program. In the agriculture sector, the government made an exception for selected ADB projects with good prospects for revenue generation.¹⁰

Responsibility for ADB Shifts to the Ministry of Finance

In the mid-1990s, the PRC undertook a major reorganization of government agencies. As a result, in 1998 the government transferred responsibility for cooperation with ADB from the PBOC to the Ministry of Finance (MOF).

The transfer aligned the PRC’s partnership with ADB and its cooperation with the World Bank. Sovereign loans were included in the state budget, which was the responsibility of the MOF. There was also a practical reason. The MOF was responsible for managing fiscal relations with local governments, including the collection of the recently reformed value-added tax. Given this close fiscal relationship, it was more practical for the MOF to ensure that local governments met their obligations under the government’s strict requirements for the repayment of ADB loans by the end borrower.¹¹ Shifting responsibility for cooperation with ADB to the MOF also made it easier for the ministry to work closely with ADB on economic policy reforms.

To handle the new responsibility, the International Department in the MOF established a separate division responsible for relations with ADB. In addition to assigning well-qualified MOF staff to the division, experienced staff were transferred there from the PBOC. The ADB Division coordinated the planning, programming, and approval of ADB loans and project preparatory TA grants, and supported project implementation. The MOF’s Technical Assistance Division¹² coordinated with ADB in programming TA resources for capacity development, policy, and knowledge development.

⁹ ADB, 1989, *People’s Republic of China, Country Program Papers (1989–1992)*, 23.

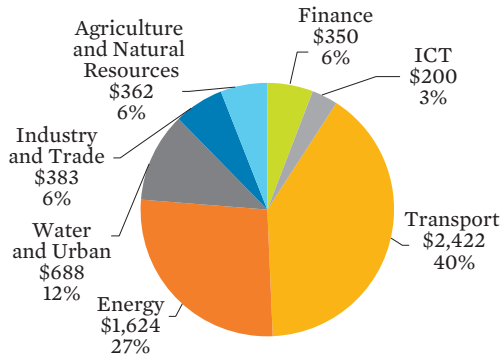
¹⁰ ADB, 1991, *Bank Operational Strategy for the People’s Republic of China*, iii–iv, 109 and 117.

¹¹ Interviews with former PBOC and MOF staff (March 2018). Author’s archives.

¹² In connection with an internal reorganization in the MOF, in 2015, the Technical Assistance Division was renamed the Knowledge Cooperation and Technical Assistance Division.

Operational Summary

Figure 4.1: Operational Approvals to the PRC by Sector, 1992–1997
(\$ million, %)

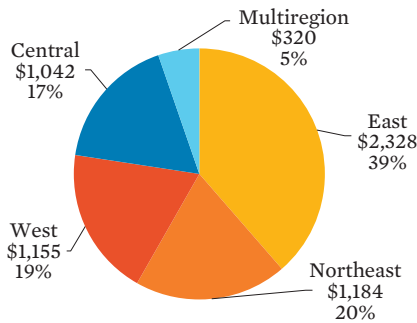


Total: \$6,029 million

ICT = information and communication technology, PRC = People's Republic of China.
Note: Includes loans and equity investments.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Figure 4.2: Operational Approvals to the PRC by Geographical Region, 1992–1997
(\$ million, %)



Total: \$6,029 million

PRC = People's Republic of China.
Note: Includes loans and equity investments.

Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

During this period, cooperation between ADB and the PRC matured. Annual lending expanded rapidly from an average of \$137 million in the 1980s to over \$1 billion in 1993. It remained at this level until the early 2000s.

The new operational strategy, which was closely aligned with the government's revitalized reforms, led to two major shifts in ADB's lending program in 1992–1997. First, lending shifted from state-owned banks and SOEs to the financing of infrastructure projects, mainly in transport and energy (Figure 4.1). Second, the geographical focus shifted from the eastern coastal region to the central, northeastern, and western regions (Figure 4.2). Reflecting the strategy's concern with natural resource and environmental issues, the period also witnessed the start of lending for water resource and urban projects. As a result, ADB's lending for financial institutions and industry declined from 58% of the portfolio in 1986–1991 to only 12% in 1992–1997.

In 1992–1997, transport and energy projects accounted for 67% of the ADB loan portfolio, and water resource and urban projects accounted for 12%. Financing for the transport sector included 10 expressway projects, 5 major railway projects, and the improvement of port facilities in the cities of Fangcheng, Yantai, and Xiamen.

ADB also financed the construction of the Yangpu Bridge in Shanghai, the second major bridge to link the eastern and western parts of the city, which remains a major landmark to this day (Box 3.2). At the time, Shanghai was starting its rapid expansion, and the large-scale and highly visible projects helped to establish ADB's reputation as a key development partner for the PRC. When ADB President Takehiko Nakao visited Shanghai in November 2016 to attend the commemoration of 30 years of partnership between ADB and the PRC, he was impressed by the comment of a long-standing senior official in the municipal government. The official remarked that ADB's projects had been, and still were, vital to the development of the city because they combined finance with new technologies and expertise on the ground.¹³

Energy sector lending focused on power generation, and included several hydropower projects, a thermal energy and environmental improvement project, and the Ping Hu Oil and Gas project, which helped to develop nontraditional energy sources. The priority placed on natural resource

¹³ McCawley, 2017, *Banking on the Future of Asia and the Pacific*, 175.

management and the environment was reflected in projects that directly addressed environmental concerns, including the Qingdao Environmental Improvement Project (1992), the Tangshan and Chengde Environmental Improvement Project (1993), and the Beijing Environmental Improvement Project (1994), and the inclusion of an environmental aspect in several industry and energy projects.

Starting in 1993, ADB also financed water supply and wastewater treatment projects, including two projects in Anhui province, to mitigate industrial pollution and treat municipal wastewater (1996). The government's economic reform program required water supply projects to be financially sustainable and capable of full cost recovery. The Dalian Water Supply Project (1994) was the first to include loan covenants requiring the borrowing agency to increase water tariffs.¹⁴ This marked the start of a close policy dialogue with the PRC to ensure that water and wastewater projects were financially and environmentally sustainable.

In the agriculture sector, the government asked ADB to finance selected projects with high potential for revenue generation, including the Guangdong Tropical Crops Development Project (1992), the Yunnan–Simao Forestation and Sustainable Wood Utilization Project (1994), and the Fujian Soil Conservation and Rural Development Project (1995). The government's growing concern with environmental degradation was reflected in the inclusion of an environmental aspect in several industry and energy projects.

From a geographical perspective, lending gradually shifted to the central region, including Anhui, Hunan, and Jiangxi provinces; and the northeastern provinces of Heilongjiang, Jilin, and Liaoning. The portfolio also included expressway projects in the western provinces of Yunnan (1994) and Chongqing (1996), and an environmental improvement project in Xi'an, Shaanxi province (1997).

The Technical Assistance Portfolio Builds Capacity

Hand-in-hand with the rapid expansion of lending, the TA portfolio grew quickly, to an annual average of \$16.4 million. About 25% of the TA resources were used for project preparation, to carry out the feasibility

¹⁴ ADB, 1994, *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Dalian Water Supply Project*, 6.

work and due diligence for loan projects (Appendix 3, Figure A3.5). The PRC and the bank were still learning how to work together. The project preparatory TAs played an important role in ensuring that the feasibility work for the projects was in line with ADB's procedural requirements and social and environmental safeguards.

There were also significant gaps between government policies and the requirements of the emerging socialist market economy, including fiscal discipline, cost recovery, and management practices more generally. Alongside project preparation, the TA program played a significant role in building the capacities of central and provincial borrowing agencies, supporting policy reforms, and financing sector studies. About 75% of TA resources in the 1990s were used for capacity building, sector strategic planning, and policy work (Appendix 3, Figure A3.6).

Early in the ADB–PRC relationship, a large number of TA grants were used to organize seminars and training programs for government officials involved in ADB-financed projects. In addition to the PBOC, TA grants supported staff training programs for the State Planning Commission,¹⁵ numerous state-owned banks and central government agencies,¹⁶ and a large number of executing and implementing agencies at the provincial level. Over the years, ADB has trained thousands of officials throughout the PRC in essential project management skills, including financial management and procurement. The bank also financed strategic studies on rural energy development, town and village enterprise development, strategic options for the water sector, and several TA grants for the financial sector.

Consistent with the government's efforts to reform and streamline major SOEs, ADB provided TA grants for a public enterprise reform study (1993), state enterprise restructuring (1994) including insolvent state enterprises (1997), and several TA grants to support sector- or SOE-specific reforms. The approval of five TA grants for the education sector in 1993–1995 helped ADB to establish initial cooperation in the social sectors. However, due to

¹⁵ The State Planning Commission was renamed the State Development Planning Commission in 1998 and merged with the State Commission for Restructuring the Economic System in 2003 to form the National Development and Reform Commission (NDRC).

¹⁶ These included the Agricultural Bank of China, CIB, China Everbright Bank, the State Development Bank of China, the State Education Commission, the Department of Ethnic Minority Education, the National Academy for Educational Administration, the Ministry of Agriculture, the Ministry of Railways, the State Environmental Protection Administration, and the China Banking Regulatory Commission.

the government's borrowing policies it would be 2 decades before the PRC started to borrow for education projects.

Technical Assistance Grants Also Support Innovation

The TA projects also quickly proved their value in helping to promote policy change and provide the government with fresh ideas. In connection with the Nanpu Bridge project in Shanghai, ADB provided a TA grant to help the municipal government establish toll collection on the newly built bridge.¹⁷ The collection of user charges for infrastructure was new to the PRC and had encountered considerable resistance in both government and academic circles. As a result, the pilot project was followed closely.

The project rapidly demonstrated that the tolls were acceptable to users, generated substantial revenue and helped to ensure the smooth flow of traffic across the bridge. At the same time, the bridge contributed to easing ferry traffic across the Huangpu River. Based on this successful demonstration project, the concept of user charges caught on quickly and was applied to bridges and many highways.¹⁸ By helping to establish the viability of user charges, the TA project played a role in paving the way for many successful and sustainable infrastructure investments in years to come.

In 1992, ADB provided the State Oceanic Administration with a grant for fisheries and coastal marine resources management in the waters west of the PRC.¹⁹ The local authorities in Zhejiang province were concerned about the virtual extinction of a major local species and had turned to ADB for assistance. The TA grant provided a solution not only for the local government, but in many coastal areas in the PRC (Box 4.1).

¹⁷ ADB, 1991, *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to the People's Republic of China for the Shanghai-Nanpu Bridge Project*.

¹⁸ Interview with former PBOC staff (March 2018). Author's files.

¹⁹ ADB, 1992, TA 1760-PRC.

Box 4.1: Saving the Yellow Croaker

In the early 1990s, the local authorities in Zhejiang province were concerned about overfishing in the Zhoushan Archipelago, which had led to the near extinction of one of the region's most prevalent marine species, the yellow croaker. The government was looking for a solution.

In response, the Asian Development Bank provided a technical assistance grant that was given high priority and implemented quickly. After careful review, the international consultants recommended implementing a two-month fishing moratorium every summer. The local fisherfolk were taken aback and wondered how they could make a living if fishing was banned in the off-season. The experts explained that based on international experience, the increased fishing harvest after the off-season would more than compensate for the loss caused by the moratorium.

The local government agreed, albeit skeptically, to implement the moratorium in a limited area in the archipelago. Despite these low expectations, the trial proved that not only the quantity but also the size of the fish increased significantly after the moratorium.

The success of the trial led the State Council in 1995 to issue a national decree setting a summer fishing moratorium. This was enforced in almost all marine areas west of the PRC. Ultimately, the technical assistance grant played a much more significant role in helping to manage marine resources than had been expected.

Sources: ADB. 1992. TA 1760-PRC. Manila; Interview with former PBOC staff (March 2018). Author's files.

CHAPTER 5

Regional Balancing and the Environment (1998–2002)

“First and foremost, there is the challenge of poverty. Despite significant improvements, the quality of life in many Asian economies is still among the lowest in the world. Asia is still home to most of the world’s poor: almost one billion Asians, or roughly one-third of the region’s total population, live in absolute poverty.”

– *Tadao Chino, Address at the ADB Annual Meeting, 1999*

The late 1990s were overshadowed by the Asian financial crisis, which unfolded in Thailand with the collapse of the Thai baht in July 1997. The crisis affected Southeast Asia and the Republic of Korea most directly, but had a ripple effect throughout the region.

The impact of the crisis was felt most severely in Indonesia, the Republic of Korea, and Thailand. All three suffered massive currency devaluations and required large bailouts led by the International Monetary Fund (IMF). The financial turmoil also spread beyond these three countries, in particular to the Philippines, which drew on funding from the IMF, the World Bank, and the Asian Development Bank (ADB), and to Malaysia. A period of austerity and restructuring in the affected countries followed, in many instances at a high social cost. Millions of people lost their jobs, and large numbers of vulnerable households slipped back into poverty. However, by 1999 recovery in the impacted countries was well under way.¹

As the effects of the crisis swept across the region, the People’s Republic of China (PRC), which was already closely linked to the global economy, was also impacted. Exports to Asia and foreign direct investment inflows from Asia declined sharply, contributing to an economic slowdown. From pre-crisis annual GDP growth of 10%, the PRC’s gross domestic product (GDP) growth slowed to 7.8% in 1998 and 7.6% in 1999 following the crisis, before picking up again in 2000. However, with a combination

¹ McCawley, 2017, *Banking on the Future of Asia and the Pacific*, 207–213.

of fiscal stimulus, mainly through stepped-up investment in infrastructure, and expansionary monetary policy, the PRC managed to contain the impact of the crisis.²

The crisis also jolted the region's economies out of their complacency and heightened their awareness of the need for more proactive macroeconomic management, better financial sector management, and stronger financial and economic cooperation within the region. This would have significant implications for both national policies and regional cooperation arrangements in the following years.

The turn of the millennium was marked by a further opening of the PRC's economy, culminating in its accession to the World Trade Organization in 2001. It was also marked by the PRC's growing attention to less developed inland provinces, signaled by the announcement of its strategy for the large-scale development of the western region in 2000, and to growing environmental degradation.

These concerns were consistent with the priorities of the international community, reflected in the Millennium Development Goals, which were adopted by world leaders in September 2000. They were also in line with the priorities of ADB. Concerned that despite Asia's having returned to solid growth performance, major pockets of poverty remained, in late 1999, President Tadao Chino announced poverty reduction as ADB's overarching objective.³ (The turn of the millennium is also discussed in Chapter 6.)

The PRC Establishes Global Forums

As the PRC reformed further, it became increasingly open to dialogue with the global community. In 2000, the Development Research Center of the State Council organized the China Development Forum (CDF) for the first time. With the objective of “engaging with the world for common prosperity,” the CDF has evolved into the PRC's preeminent forum for the PRC's leaders and scholars to engage with leading global representatives of business, international organizations, and academia.⁴

The CDF is held every year in March, immediately after the annual sessions of the National People's Congress and the Chinese People's Political Consultative Committee, at the Diaoyutai State Guest House

² Wu, 2015, *Understanding and Interpreting Chinese Economic Reform*, 389–395.

³ ADB, *Annual Report 1999*, 2–3.

⁴ China Development Forum website. <http://cdf-en.cdrf.org.cn/>.

complex. The forum regularly attracts chief executive officers and other senior executives of major global corporations and well-known academics, usually including at least one or two Nobel economics laureates. ADB Presidents Tadao Chino and Haruhiko Kuroda became regular speakers at the CDF, a practice enthusiastically embraced since 2014 by President Takehiko Nakao.

In 2001, Asian leaders and the PRC jointly established the Boao Forum for Asia (BFA), a nonprofit organization modeled on the World Economic Forum held annually in Davos, Switzerland. The BFA hosts an annual conference in the eponymous town in the PRC's southern island province of Hainan. Over the years the BFA has also evolved into a dynamic platform for regional and world leaders to discuss key issues related to economics, integration, and the environment.⁵

ADB Establishes the PRC Resident Mission

In addition to putting poverty reduction at the center of the ADB's agenda, President Chino initiated wide-ranging organizational changes intended to move the bank closer to its member countries.⁶ The changes started with ADB establishing offices in borrowing countries, known as resident missions. Beginning with Bangladesh in 1982, ADB had gradually set up resident missions in countries with large and complex loan portfolios, mainly to support project administration. However, given the strong performance of ADB's portfolio in the PRC, at the time establishing a resident mission in the PRC was not given priority.

This would change in January 2000 with the approval by the ADB Board of Directors of a new resident mission policy, which significantly expanded the role and functions of the resident missions. The new policy had a broader ambition—to bring ADB closer to its client countries. Accordingly, it set out a more comprehensive role for the resident missions, including promoting the achievement of ADB's overarching goal of poverty reduction, enhancing policy dialogue and providing advice, and creating strong partnerships with the government and other stakeholders including the private sector and civil society.⁷

The following month, the Board of Directors approved the establishment of the PRC Resident Mission in Beijing, to “deepen ADB's partnership with

⁵ Boao Forum for Asia. <http://english.boaoforum.org>.

⁶ McCawley, 2017, *Banking on the Future of Asia and the Pacific*, 258–260.

⁷ ADB, 2000, *Resident Mission Policy*.

the PRC and allow ADB to provide better services and be more responsive to the PRC's needs by bringing its operations closer to its client."⁸ The resident mission was inaugurated in June 2000 by Finance Minister Xiang Huaicheng and ADB President Tadao Chino in a ceremony held at the Great Hall of the People. At first, the resident mission was based in the Diaoyutai Hotel next to the State Guest House complex bearing the same name. Once the office had been fitted out, in May 2000, the resident mission moved into its first official premises, on West Chang'an Avenue near Beijing's financial district.⁹

The PRC Resident Mission was the first to be set up under the new policy. In addition to providing support for the administration of the expanding loan portfolio, the resident mission had staff that would carry out country economic, strategy, and programming work. The establishment of the resident mission allowed ADB to engage more directly with the Ministry of Finance (MOF) and other government agencies on project implementation, planning of the lending program, and a range of other issues. Once the resident mission was established, the division at ADB's headquarters that had been handling the PRC was disbanded. A liaison function was maintained, to help the resident mission to coordinate and communicate with ADB headquarters (Box 5.1).

ADB Enhances Policy Dialogue

Having a sizable resident mission allowed ADB to engage more directly with the government on a wide range of policy issues, and to respond directly to government requests. In 2004, resident mission staff started to prepare policy notes for the government on priority issues. In 2005–2006, ADB provided inputs to the preparation of the (Eleventh) Five-Year Plan for the first time.¹⁰

ADB's policy notes were generally provided to the MOF. In selected instances, summaries of the notes made their way to the desk of the minister of finance, or to the State Council. Initially, the papers, known as Observation and Suggestion (O&S) policy notes, were prepared in Chinese, with a rough translation in English. Over the years, their format evolved and their scope expanded, with notes on specialized topics prepared by

⁸ ADB, 2000, *Establishment of a Resident Mission in the People's Republic of China*, 1.

⁹ In January 2011, to accommodate the expansion of its staff, the resident mission moved into its current, larger premises in China World Tower 3 in Beijing's central business district.

¹⁰ ADB, 2005, *Technical Assistance to the People's Republic of China for Support for the Preparation of the 11th Five-Year Plan*.

Box 5.1: The Evolution of the PRC Resident Mission

Under a revised policy to broaden the mandate of its resident missions and strengthen relations with client countries, in June 2000, the Asian Development Bank (ADB) established the People's Republic of China (PRC) Resident Mission in Beijing.

When it was established, the resident mission had a staff of 35, including 6 international staff, 11 national officers, and 18 administrative staff. Compared with ADB's early resident missions, which focused on project administration, the PRC Resident Mission had international staff responsible for country economic work, country programming, and project administration, as well as an urban sector specialist. This allowed ADB to transfer economic and country programming from headquarters to the resident mission. In addition to improving the efficiency of loan portfolio management, the resident mission made country programming consultations with the Government of the PRC faster and smoother. In direct response to the government's needs, the resident mission also initiated a series of policy notes.

Over the years, the role of the resident mission was expanded and deepened. By 2017, its staff had nearly tripled, to 95, including 17 international staff, 36 national officers, 27 administrative staff, and 15 contractual staff and consultants. With a much larger loan portfolio than in 2000, the resident mission is currently responsible for administering about 50% of ADB's portfolio in the PRC and handles all loan disbursements. To work directly with line ministries and agencies, the PRC Resident Mission has national officers in all major sectors of operations. In addition to its initial tasks, it now also has a private sector operations team of nine staff, a team of three staff supporting the Regional Knowledge Sharing Initiative, and international specialists in the financial sector, procurement, infrastructure, and urban development.

Source: ADB.

staff from both the resident mission and ADB headquarters. The policy notes currently cover a wide range of topics, and are printed in both English and Chinese. A full list of O&S notes prepared over the years is in Appendix 3, Table 3.2.

The role of the O&S policy notes has varied. In most cases, they provided government officials with background information and examples from other countries that were relevant to matters under consideration. In a few cases the notes had a direct impact. For example, the policy note "Implementing Rural Free Compulsory Education to Relieve the Burden

of Farmers” submitted to MOF in 2004 played an important role in the government’s decision to ensure that the first 9 years of education were free, a decision that had a direct impact on the lives of a large number of low-income households.

ADB Establishes Regional Departments

In 2002, in the next stage of the reforms implemented by President Chino, ADB undertook an internal reorganization. This consolidated the work that had previously been carried out by separate program and project departments, East and West, into “one-stop-shop” regional departments responsible for all ADB activities in their assigned countries. The reorganization was intended to enhance ADB’s responsiveness to individual country needs.¹¹

With the reorganization, responsibility for the operational strategy and projects in the PRC came under the East and Central Asia Department, which was also responsible for Azerbaijan, the five Central Asian countries,¹² the Republic of Korea, and Mongolia. The East and Central Asia Department initially comprised a division that provided support to the resident missions in country strategy and planning, and four sector divisions responsible for projects.

The Economy and Portfolio Perform Well

In the mid-1990s, ADB prepared its second operational strategy for the PRC, to provide a framework for operations through to the turn of the millennium. The operational strategy started with a positive assessment of the PRC’s economic performance:

“The PRC’s macroeconomic performance has been outstanding. The average annual real growth rate of GDP was one of the highest in the world. There have been huge inflows of foreign direct investment, the trade and current accounts have been in balance, domestic savings have been maintained at high levels, foreign reserves have increased and the debt service capacity is high. The rapid economic growth has been accompanied by rapid structural transformation with many of the distortions under the former planning economy being eliminated

¹¹ ADB, 2001, *Reorganization of the Asian Development Bank*.

¹² Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

or reduced. Economic agents have increasingly been allowed to make decisions based on market signals. A vibrant non-state sector, now accounting for more than half of industrial output and two-thirds of GDP, has emerged to provide competition for the state sector. The economy has become more open and integrated with the rest of the world through rapidly rising trade and investment.”¹³

However, the strategy also noted that despite the significant achievements, major challenges remained, reflecting the partial nature of the reforms. These included (i) creating a stable and efficient macroeconomic environment; (ii) reallocating resources to priority areas, including infrastructure, environmental protection, human resource development, and poverty alleviation; and (iii) ensuring that growth is broad-based and its benefits relatively equally distributed between urban and rural areas and between the coastal and interior provinces. The Ninth Five-Year Plan (1996–2000) provided a sound strategy to address these issues.

The ADB assessment also highlighted the high performance of the PRC in managing its loan portfolio over the first 9 years of its membership in ADB:

“The Bank’s operational experience in the PRC has shown that the country’s absorptive capacity and implementation capability are of a high order. The Bank’s PRC portfolio is performing well in all sectors. Projects are being implemented on or ahead of schedule and the three projects that have been post-evaluated have been evaluated as having achieved their objectives and as being generally successful. Project quality is the Government’s paramount consideration in the selection of projects for Bank assistance.”¹⁴

The highly rated performance of the PRC loan portfolio was the result of a combination of factors. The PRC screened projects rigorously before they were submitted to ADB. In addition, the PRC routinely ensured that the capabilities of the executing agencies were strong; substantial progress in project planning and design was made before the bank approved the loan; counterpart funds were in place; both the central and local government had strong ownership; there was clear accountability for project implementation; and that there was a strong financial commitment for repayment. Typically, ADB financing covered only one-third of project costs, with two-thirds coming from domestic sources, which helped

¹³ ADB, 1996, *Country Operational Strategy Study. People’s Republic of China*, i.

¹⁴ ADB, 1996, *Country Operational Strategy Study. People’s Republic of China*, ii.

to ensure the government's strong commitment to the project.¹⁵ Taken together, the PRC's sound economic performance and well-managed loan portfolio provided a solid justification for an increase in ADB's lending to the PRC.

ADB's Second Operational Strategy

In line with its assessment of the economy and the priorities of the Ninth Five-Year Plan, the second operational strategy emphasized three broad objectives: improving economic efficiency, promoting balanced regional development, and enhancing environmental protection and natural resource management. Addressing these objectives “will help alleviate infrastructure bottlenecks, create employment, eliminate remaining factor or market distortions and structural rigidities, and address market failures of rapid growth by spreading the benefits of growth more evenly and addressing environmental degradation.”¹⁶

To achieve this, ADB's operations would focus on (i) strengthening macroeconomic management to support continued market-oriented reforms and (ii) lending in three areas—physical infrastructure, finance and industry, and agriculture and rural development.

ADB's principal tools for addressing macroeconomic management were economic and sector work and technical assistance (TA) grants. The strategy envisaged that these would focus on assisting the PRC to develop more expertise in the use of fiscal and monetary policy tools, establish efficient financial markets, accelerate reform of SOEs, and strengthen the legal and regulatory framework for reforms.

In the energy sector, ADB would continue to focus on the power subsector. However, the strategy also mentioned a number of priorities related to improving efficiency and addressing environmental concerns. These included renovating and retrofitting existing facilities to improve efficiency and reduce emissions; developing cleaner energy sources including gas, hydropower, and clean-coal technologies; promoting demand and supply side management; and promoting the corporatization and commercialization of power utilities.

¹⁵ ADB, 1996, *Country Operational Strategy Study. People's Republic of China*, ii.

¹⁶ ADB, 1996, *Country Operational Strategy Study. People's Republic of China*, ii.

In transport and communications, the strategy envisaged that the focus would be on the national trunk highway system and strategic provincial highways; selective expansion and modernization of the railway system; and ports and inland waterways. In water supply and sanitation, ADB would focus on rapidly expanding urban centers with executing agencies that have strong repayment capacity. To address concerns of equality and sustainability, the strategy emphasized that water supply projects would need to focus on cost recovery, financial capacity, and the management of water resources.

The First Country Assistance Program Evaluation

In 1998, ADB's then Post-Evaluation Office¹⁷ undertook a country assistance program evaluation (CAPE) of the bank's assistance program in the PRC. The study was the first of its kind. It was generally favorable, highlighting a number of important success factors in the ADB-PRC partnership. At the same time, it drew attention to several areas that required strengthening.

The CAPE gave the ADB program in the PRC a midpoint rating for the first years (1987-1990) and an above medium-level performance rating for the subsequent years (1991-1997). The study drew attention to both project successes and some shortcomings. It noted that of the completed projects approved in the 1990s, those in infrastructure and energy were all generally successful, while the performance of projects in the agriculture, industry, and finance sectors was mixed, with the majority rated partially successful.¹⁸

The evaluation noted that the PRC's planning and approval procedures for externally funded investments required executing agencies to prepare detailed feasibility studies that are subject to rigorous internal review before the project is proposed to a funding agency. As a result, most design issues are decided before the funding agency gets involved. The system contributes to project ownership and quality, but at the same time limits the role of the external financier. The CAPE noted that the high level of ownership had a positive impact on implementation.¹⁹

¹⁷ The Post-Evaluation Office was renamed the Operations Evaluation Department in 2000 and the Independent Evaluation Department in 2009.

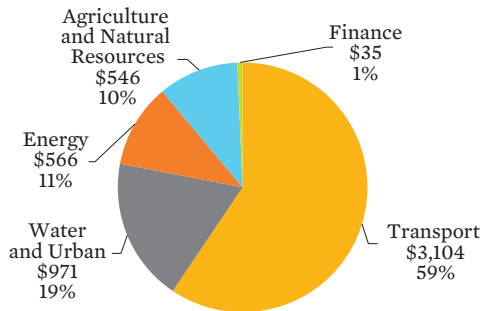
¹⁸ ADB, 1998, *Country Assistance Program Evaluation in the People's Republic of China*, v.

¹⁹ ADB, 1998, *Country Assistance Program Evaluation in the People's Republic of China*, iv-v.

The evaluation also raised several concerns. It noted that the government's focus on the repayment capacity of the executing agencies had limited ADB's sectors of operations and precluded bank involvement in education, health, and poverty reduction. The evaluation also found that the TA program, which provided grants to a diverse range of government agencies, lacked focus.²⁰ At the same time, the report commended the quality of partnership and policy dialogue that had evolved between the bank and the government. As an example, it noted that while the government was initially unwilling to borrow ordinary capital resources for water supply and wastewater projects, since the mid-1990s a significant project pipeline had been built up in this sector.

Operational Summary

Figure 5.1: Operational Approvals to the PRC by Sector, 1998–2002
(\$ million, %)



Total: \$5,222 million

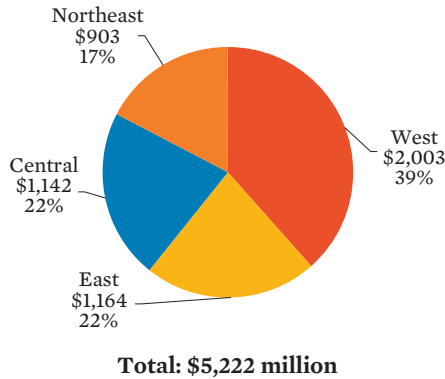
PRC = People's Republic of China.

Note: Includes loans, grants, and equity investments.

Source: ADB loan, technical assistance, grant, and equity approvals database.

²⁰ ADB, 1998, *Country Assistance Program Evaluation in the People's Republic of China*, iv–vii.

**Figure 5.2: Operational Approvals to the PRC
by Geographical Region, 1998–2002**
(\$ million, %)



PRC = People's Republic of China.

Notes: Includes loans, grants, and equity investments. \$10 million for multiregion is negligible in percentage terms and is not shown.

Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents

In 1998–2002, ADB's lending to the PRC remained stable at an annual average of slightly over \$1 billion, supported by TA grants averaging \$17 million a year. Lending was marked by three trends: a strong increase in transport and water supply and wastewater projects, which together accounted for 78% of the portfolio (Figure 5.1); a further shift in geographical emphasis toward the central, northeast, and western regions (Figure 5.2); and a sharp increase in the environmental focus of the portfolio.

Consistent with the second country strategy, the lion's share of lending was for transport (59%), followed by water supply and urban development (19%), and energy (11%) projects. Lending for agriculture and natural resources increased slightly (to 10%), while loans for the financial sector declined to just 1% of the portfolio.

Of the 32 loans approved in 1998–2002, 12 were for expressway and road projects, mainly in the central, northeastern, and western regions. These included the Chengdu–Nanchong expressway (1998) in the west, the Changchun–Harbin expressway (1998) linking the northeastern provinces

of Heilongjiang and Jilin, and an expressway linking Chongqing and Guizhou (2000), as well as road projects in Shanxi and Sichuan provinces (2002).

The PRC's rapid urbanization in the 1980s and 1990s had created enormous demand for clean water and wastewater treatment in major cities. Reflecting this need, urban water supply and wastewater treatment comprised the second-largest sector of operations, including major projects in the cities of Fuzhou (1998) and Tianjin (2000), and key urban centers in Hebei province (2002). In 1999, in response to major flooding in the northeast, ADB approved loans totaling \$330 million for flood damage rehabilitation in Inner Mongolia Autonomous Region and the provinces of Heilongjiang and Jilin.

The high demand for clean water, and the enabling policy environment created by ADB's policy work on tariffs also provided the bank with an opportunity to promote private sector solutions. In 1997, ADB provided transaction advisory services for the Chengdu Water Supply Project, the PRC's first public-private partnership (PPP) project. Once the contract was awarded to a consortium of sponsors from France and Japan, ADB arranged for project finance of \$26.5 million and syndication of a further \$21.5 million. Although it would be several years before further PPP projects were approved in the PRC, the project was instrumental in demonstrating the viability of PPPs (Appendix 4).

Reflecting the priority attached by the government to the less developed inland provinces, the geographical focus of lending had by now shifted firmly away from the coastal region. However, in 1999 ADB approved the Suzhou Creek Rehabilitation Project in Shanghai, to pilot addressing urban pollution through a combination of wastewater treatment and environmental improvement (Box 5.2). In this period, ADB also approved several loans with a direct environmental focus, including projects for Acid Rain Control and Environmental Improvement (2001) and Efficient Utilization of Agricultural Wastes (2002).

The TA portfolio continued to support project preparation, capacity development, and sector and policy work. In size, the TA portfolio increased only slightly, to an annual average of \$17.2 million compared with \$16.4 million in 1992-1997.

TA grants continued to be used to support economic reforms, in particular, in the public and financial sectors. Financial sector TA grants were provided to strengthen risk management in the Agricultural Bank of China (1998),

Box 5.2: Rehabilitating Suzhou Creek

In the 1970s–1980s, the Suzhou Creek—a major natural waterway that links Taihu lake to the Huangpu River, which flows through Shanghai—was highly polluted. Pollution from industries, commercial establishments, and residential areas was discharged directly into the creek and its tributary waterways without treatment, causing pollution of water resources and a public health hazard. In 1999, this changed with the Suzhou Creek Rehabilitation Project, partly financed by a \$300 million loan from the Asian Development Bank.

Completed in 2005, the project was implemented in several components. It established a vast system of sewers to intercept wastewater before it reaches the creek; constructed a sewage treatment plant with a daily capacity of 400,000 cubic meters; and installed flow control structures, including locks and gates that prevent pollution from its 60-odd tributaries from entering the creek.

The project removed discolored and foul-smelling waste flows. It relocated or dismantled factories and night soil collection wharves, and restricted river traffic, once open to all, to essential craft. It also changed the task of keeping the river clean. At project completion, garbage was being collected mechanically by special barges instead of being scooped out of the river manually. Upgrading the embankments helped control floods and improve the environment.

The project successfully cleaned the creek and enhanced flood management, benefiting people living along the creek by eliminating a public health hazard and providing a better living environment. It was also the first project in the People’s Republic of China to successfully combine wastewater treatment and environment improvement.

Sources: ADB. 2005. *Completion Report: Suzhou Creek Rehabilitation Project in the People’s Republic of China*. Manila; Government of the People’s Republic of China, Ministry of Finance. 2007. *Achievements and Prospects: 20 Years of PRC-ADB Partnership 1986–2006*. Beijing; I. Gill. 2011. “Reviving a Historic Waterway,” in *Impact Stories from the People’s Republic of China*. Manila: ADB.

as well as banking supervision (1998), and to build up regulatory capacities for the insurance sector and capital markets (1999). ADB also supported institutional strengthening of the recently established China Development Bank, which would go on to become one of the PRC’s largest international policy lenders. In the public sector, ADB provided TA grants to strengthen the government auditing system (1998), develop economic laws (1999),

strengthen public debt management (2000), deepen fiscal reforms (2000), and for a wide range of issues at the provincial level.

ADB also supported policy reforms in priority sectors. Water and wastewater tariffs are a case in point. In the PRC's rapidly expanding cities, tariffs were too low to sustain the investments required to meet growing demand for clean water. As ADB's lending for water and wastewater expanded, increasing tariff levels to sustain the investments became a matter of priority. Initially, the issue was addressed at the project level, starting with the Dalian Water Supply Project in 1994. However, as the number of investments increased, it became clear that a national policy framework was needed.

To help the government to establish such a policy framework, in 1997–2001 ADB provided a series of three TA grants on water and wastewater tariffs (Box 5.3). These efforts at the national level were complemented by measures by the provinces or municipalities to increase tariffs in specific localities. Together, these measures helped to ensure that investments in the sector were financially and environmentally sustainable.

The PRC Becomes a Major Supplier of Goods and Services

When the PRC joined ADB, it was mainly to import technology, goods, and services under ADB-financed projects. Less attention was paid to the fact that ADB membership provided firms from the PRC with eligibility to bid for bank-financed contracts for civil works, goods, and services throughout the Asia and Pacific region, and a vehicle for expanding their exports. Initially, firms from the PRC played a minor role in ADB-financed projects. However, as their technological level and export capacity improved, externally financed contracts gained importance in their business model, adding an important new dimension to the ADB–PRC partnership.

From modest beginnings, by the late 1990s, firms from the PRC were regularly being awarded over \$500 million a year in bank-financed contracts. A decade later, this figure had risen to \$1.5 billion annually. Since 2014, firms from the PRC have consistently been awarded contracts worth over \$2 billion annually, accounting for about 25% of all contracts awarded and making the PRC the largest single supplier of goods and services under ADB projects (Appendix 3, Figure A3.7).

Box 5.3: Technical Assistance for Water and Wastewater Tariffs

The People's Republic of China (PRC) has urbanized rapidly since the 1980s, putting pressure on the country's overstretched and often poorly developed urban infrastructure. To provide urban dwellers with clean water and adequate sanitation, cities and municipalities extensively invested in water supply and wastewater treatment. To ensure that these were financially sustainable, cost recovery and tariff reform became priorities.

Three successive technical assistance (TA) projects approved by the Asian Development Bank (ADB) in 1997, 1999, and 2001 were designed to support water and wastewater tariff reforms in the PRC. The projects helped the then Ministry of Construction to pilot market-oriented national guidelines on water and wastewater tariffs, and to strengthen the financial sustainability of municipal water supply and wastewater treatment companies.

The first two TA projects developed model regulations for local water tariffs and piloted their implementation. The projects recommended financial regulations for water supply companies and conducted nationwide training programs. As a result, the Regulation for Urban Water Tariff Management was promulgated in September 1998, the first such regulation on public utilities pricing in the PRC. The regulation provides a legal basis for tariff reform, increasing water tariffs, and including wastewater treatment in the water tariff.

The cities of Chengdu, Fuzhou, and Zhangjiakou implemented pilot programs using the new tariff regulations. The experience gained was disseminated widely to other cities through conferences and the media. With national guidelines in place, the third TA project helped establish the first local implementation regulations in Zhangjiakou.

By establishing the basic regulations for setting water tariffs and piloting their use, the TA grants helped to set the stage for sustainable water and wastewater management throughout the PRC. They provided a framework for ADB-financed water and wastewater projects and public and private investments more broadly, helping to ensure their financial and environmental sustainability.

Sources: ADB. 1999. *Technical Assistance Completion Report: Water Tariff Study in the People's Republic of China*. Manila; ADB. 2002. *Technical Assistance Completion Report: Water Tariff Study II in the People's Republic of China*. Manila; ADB. 2003. *Technical Assistance Completion Report: Preparing the National Guidelines for Urban Wastewater Tariffs and Management Study in the People's Republic of China*. Manila.



The PRC formally applies for ADB membership, November 1985.



Chen Muhua, State Councilor, Governor of the People's Bank of China and the PRC Governor for ADB, attending ADB's 19th Annual Meeting in Manila, May 1986.

State Councilor and
People's Bank of China
Governor Chen Muhua
presenting a gift to ADB
after the 19th Annual
Meeting in Manila,
May 1986.



PRC President
Yang Shangkun
opening ADB's
22nd Annual Meeting
in Beijing, May 1989.

ADB President
Masao Fujioka (center)
and Governor of the
People's Bank of China
Li Guixian (right) at
ADB's 22nd Annual
Meeting in Beijing,
May 1989.





The opening of ADB's 22nd Annual Meeting at the Great Hall of the People in Beijing, May 1989.

Projects for the development of the Nanpu and Yangpu bridges in Shanghai were approved in 1991 and 1992. Photo taken in November 2010 shows a view of the Nanpu Bridge.



Deng Xiaoping, chief architect of the reform and opening up of the PRC's economy, inspecting the Nanpu Bridge in Shanghai, November 1991.

Li Guixian, State Councilor and Governor of the People's Bank of China, and Kimimasa Tarumizu, ADB President, signing the loan agreement for the Industrial and Commercial Bank of China Project, October 1991.



The Jing-Jiu Railway Technical Enhancement Project was approved in 1994. The project installed high-quality rails on a 600-kilometer section of the Jing-Jiu railway, doubling its capacity and improving efficiency and safety.

PRC Premier Zhu Rongji (right) meeting ADB President Tadao Aono in 2000.





Former ADB Executive Directors for the PRC at the PRC Resident Mission in Beijing, 2001. From left: Zhao Xiaoyu, Kong Fannong, Che Peiqin, Li Ruogu.

The Coal Mine Methane Development Project was approved in 2004. It offered an innovative solution to capturing potent methane gas as a source of clean energy. Photo shows a collecting station in Jincheng, Shanxi province, February 2014.



ADB President Haruhiko Kuroda and PRC Vice Minister of Finance Li Yong at the 10th anniversary and opening of the new office of the ADB Resident Mission in the PRC, Beijing, January 2011.

The Wind Power Development Project in Turpan, Xinjiang Uygur Autonomous Region, June 2011. The project was approved in 2000.



ADB President Takehiko Nakao visiting Luoyangou village in Northwest Hebei Province and speaking with villagers, August 2013. The Hebei Small Cities and Towns Development and Demonstration Project was approved in 2009.

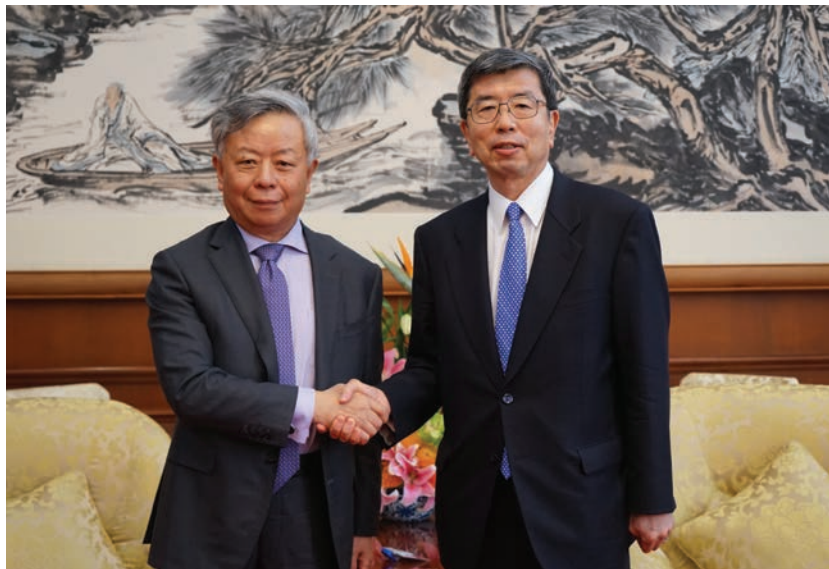
The Tianjin Integrated Gasification Combined Cycle Power Plant Project was approved in 2010. The project introduced clean coal technology that has substantially reduced pollution, September 2014.





The Guizhou Vocational Education Development Program, approved in 2015, is raising the skill levels of young people and improving their job prospects.

President Jin Liqun of the Asian Infrastructure Investment Bank (left) with ADB President Takehiko Nakao at the China Development Forum, Beijing, March 2016.



Farmers using organic biogas slurry to fertilize early bamboo, May 2016. The Integrated Renewable Biomass Energy Development Sector Project was approved in 2010.

The Hubei–Yichang Sustainable Urban Transport Project was approved in 2013. Roofing in the bus rapid transit stations protects passengers during wet weather, May 2016.



ADB President Takehiko Nakao visiting the Xinjiang Tacheng Border Cities and Counties Development Project in the Xinjiang Uygur Autonomous Region, September 2017.

ADB President Takehiko Nakao (left) with the PRC State Councilor (then Finance Minister and ADB Governor) Xiao Jie at the inauguration of the CAREC Institute in Urumqi, September 2017.



CHAPTER 6

Globalization and Regional Cooperation (2003–2007)

“Economic globalization, while generating development opportunities, has added uncertainties to world economic environment and made it harder for the developing economies within the region to restructure and fend off the external shocks. ... In order to seize the opportunities, meet the challenges, and accelerate development, Asian countries should step up their own efforts and work in closer regional cooperation with Asian characteristics.”

– Jiang Zemin, Address at the ADB Annual Meeting, 2002

In the first years of the new millennium, the People’s Republic of China (PRC) intensified its participation in the global economy, while renewing domestic efforts to address regional inequalities. In the wake of the Asian financial crisis, the PRC also continued to strengthen its financial sector, and participated proactively in regional financial initiatives.

In 2000, the State Council had announced the launching of the strategy for the large-scale development of the western region. This was followed in October 2003 by the announcement of a plan to revitalize the country’s northeastern industrial base. Both initiatives reflected a concern that rapid economic growth had disproportionately benefited the eastern coastal region while leaving other parts of the PRC behind.

The focus on less developed regions was supported by specific policy measures. In 2005, the PRC abolished the agricultural tax to ease the tax burden on farmers. A year later, in 2006, the government introduced the New Socialist Countryside Construction Initiative, which provided a range of measures to develop rural and urban areas in a balanced manner and boost rural incomes.

The PRC’s accession to the World Trade Organization (WTO) in 2001 was an important international milestone and marked the PRC’s growing integration into the global economy. By 2002, the PRC was the world’s

sixth-largest trading country and largest recipient of foreign direct investment. Its foreign exchange reserves expanded quickly, from \$403 billion in 2003 to \$1.1 trillion in 2006, significantly broadening the scope for international cooperation. In 2007, given these substantial reserves, the PRC established its own sovereign wealth fund, the China Investment Corporation, with an initial registered capital of \$200 billion. These developments provided the backdrop for Asian Development Bank (ADB) operations in the PRC for much of the following decade.

The ADB Annual Meeting Is Held in Shanghai

In May 2002, the PRC once again hosted the ADB annual meeting, this time in the country's most dynamic coastal city, Shanghai. The meeting was held at the International Convention Center, located in the Pudong area, the newly developed economic hub on the eastern side of the Huangpu River. Many delegates crossed the river using the ADB-financed Nanpu and Yangpu bridges.

In his opening address, President Jiang Zemin heralded the start of a new stage in the PRC's relations with the rest of the world. He highlighted the PRC's renewed vitality, the significance of international economic cooperation, and the growing contribution that the PRC expected to make to the prosperity of its neighbors:

“China’s recent accession to the World Trade Organization marks the beginning of a new stage in the country’s reform and opening up to the outside world. It will participate more broadly and more intensively in international economic competition and cooperation, open still wider to the rest of Asia and the world at large. Strictly honoring its commitments, China will gradually expand its openness, constantly improve its legal system and create a market environment that is more fair and transparent. China’s WTO membership will inject fresh vitality into growth momentum of China, Asia and the world. The Chinese people will be better off because of it. So will the people living in the rest of Asia and around the world.”¹

In a clear reference to the Asian financial crisis, President Jiang reminded the participants that uncertainties in the economic environment made it harder for the developing economies to fend off external shocks. Signaling

¹ ADB, *Summary Proceedings of ADB Annual Meetings, 2002*, 12.

the PRC's support for the Chiang Mai Initiative (CMI) and other emerging regional initiatives, Jiang urged Asian countries to “step up their own efforts and work in closer regional cooperation with Asian characteristics.”²

President Jiang's opening address was complemented by the statement of Finance Minister Xiang Huaicheng, who drew the participants' attention to four challenges: poverty reduction, achieving sustainable growth, globalization, and protecting the environment. Underscoring the significance of the environmental challenge, just before the opening of the annual meeting, the government and ADB showed participants a video clip on their cooperation in environmental protection.³

The PRC Expands South–South Cooperation

The early years of the decade were marked by a number of measures to expand the PRC's regional and international role. Held 8 months before the Shanghai annual meeting, the Asia-Pacific Economic Cooperation Finance Ministers' Meeting, hosted by the PRC's finance minister in September 2001 in Suzhou, was an important milestone. A key outcome of the meeting was the establishment of the Asia-Pacific Finance and Development Program under the aegis of the Shanghai National Accounting Institute. Following a successful pilot phase, this became the Asia-Pacific Finance and Development Center, which was further upgraded in 2014 to become the Asia-Pacific Finance and Development Institute. Today, it cooperates closely with ADB, the World Bank and other international development partners, and offers both short-term and degree programs to finance officials and students from other countries.

This period also marked the emergence of the PRC as a leader of South–South cooperation. In 2003–2004, the PRC participated for the first time in the replenishment negotiations for ADB's concessional lending window, the Asian Development Fund (ADF), that provides financing to the region's poorest countries. In 2005, the PRC pledged a contribution of \$30 million to the ADF's eighth replenishment (ADF IX).

In 2005, the PRC also signed a channel funding agreement with ADB to establish its own trust fund, the PRC Fund for Poverty Reduction and Regional Cooperation (PRCF), with an initial contribution of \$20 million. The PRCF was the first trust fund established by the PRC with a multilateral

² ADB, *Summary Proceedings of ADB Annual Meetings, 2002*, 10.

³ ADB, *Summary Proceedings of ADB Annual Meetings, 2002*, 18.

bank. It was also the first trust fund established by a developing member country with ADB.

The agreement specified that the PRCF would promote “innovation and learning by both ADB and its developing member countries and facilitating the process of addressing poverty reduction, *inter alia*, from a regional cooperation perspective.” It further specified that the PRCF would “provide much needed support to ADB in achieving its overarching objective of poverty reduction ... of which regional cooperation is one of the key cross-cutting themes.”⁴ In its first decade of operations, the PRCF was used mainly to support capacity development and training activities under two of ADB’s principal regional cooperation programs, the Greater Mekong Subregion (GMS) and the Central Asia Regional Economic Cooperation (CAREC). A full list of projects funded by the PRCF is in Appendix 3, Table A3.7.

Within ADB, a realignment of regional departments in 2006 led to the establishment of the East Asia Department (EARD), responsible for only two borrowing countries, Mongolia and the PRC.⁵ The realignment allowed the bank to focus on cooperating with the PRC, and to increase the number of staff working on the PRC. In 2003, Vice Finance Minister Jin Liqun was appointed vice-president of ADB, the first national of the PRC to be appointed to the bank’s senior management.

Deepening Regional Cooperation

Sensitized by the Asian financial crisis to the importance of the region being able to withstand external shocks, the PRC deepened its participation in regional initiatives to strengthen economic and financial cooperation. At the ADB annual meeting in Chiang Mai in 2000, regional cooperation featured prominently on the agenda. On the sidelines of the meeting, the finance ministers of the Association of Southeast Asian Nations (ASEAN) and Japan, the PRC, and the Republic of Korea, collectively known as ASEAN+3, agreed on a joint agenda to help ensure the financial stability of the region.

⁴ ADB and Government of the PRC, 2005, Channel Funding Agreement between the Government of the People’s Republic of China and the Asian Development Bank Establishing the People’s Republic of China Poverty Reduction and Regional Cooperation Fund.

⁵ ADB, 2006, *Realignment of Regional Departments*.

Specifically, they agreed to establish the CMI, a network of bilateral currency swaps between the central banks of the “plus three” countries and the ASEAN countries. The swaps could be invoked by the ASEAN countries in times of financial distress. In 2009, the various bilateral swap agreements were merged, under the CMI Multilateralization (CMIM) agreement, and in 2012 the size of the CMIM was doubled.⁶

In 2002, the ASEAN+3 countries also established the Asian Bond Markets Initiative to strengthen the resilience of the region’s financial system by developing local currency bond markets. ADB served as the secretariat for the Asian Bond Markets Initiative, which in 2010 established a credit guarantee and investment facility as a trust fund of the bank. The initial capital of the facility was \$700 million, with Japan and the PRC contributing equal shares of \$200 million.⁷ The PRC’s proactive participation in these regional arrangements reflected its growing willingness to play a leading role in maintaining the region’s financial stability.

The PRC had also participated from the outset in two major regional initiatives of the bank, GMS, which was initiated in 1992, and CAREC, which was formally established in 2001. The PRC has been a proactive participant in both initiatives (Box 6.1).

The PRC’s cooperation with the five other GMS countries initially focused on Yunnan province, and in 2014 expanded to include the Guangxi Zhuang Autonomous Region. Under the GMS, the PRC has invested in roads and railways in the context of subregional transport corridors, improved infrastructure in border cities and towns, and strengthened the logistics for cross-border trade. In 2005, the PRC hosted the Second Summit Meeting of GMS heads of government, which was held in Kunming, in Yunnan province. The meeting approved the Kunming Declaration, which set out the guiding principles for GMS cooperation and highlighted key areas in which cooperation would be deepened.⁸

In CAREC, the PRC has helped develop cooperation strategies in transport, energy, trade facilitation, and trade policy. The PRC also hosts

⁶ Siregar and Chabchitrchaidol, 2014, Enhancing the Effectiveness of CMIM and AMRO: Challenges and Tasks, in Kawai, Morgan and Rana, 2014, *New Global Economic Architecture. The Asian Perspective*.

⁷ ADB, 2017, *The Asian Bond Markets Initiative, Policy Maker Achievements and Challenges*.

⁸ ADB, 2005, *Joint Summit Declaration: 2nd GMS Summit of Leaders*.

Box 6.1: The PRC and Regional Cooperation

The Asian Development Bank (ADB) initiated regional and subregional cooperation programs in the 1990s. These included the Greater Mekong Subregion (GMS), which was set up in 1992, and the Central Asia Regional Economic Cooperation (CAREC) program, which was established in 2001. Recognizing the importance of cooperating closely with neighboring countries, the People's Republic of China (PRC) participated actively in both programs from the outset.

As of December 2017, ADB lending to the PRC in the context of the GMS and CAREC programs comprised 26 projects for \$4.4 billion. The projects built transport infrastructure, developed economic corridors, improved border crossings, improved customs clearance, and facilitated cross-border trade. The programs also developed cooperation in “softer” areas, including education, health and tourism development.

The Greater Mekong Subregion

The GMS program was established to promote economic and social development in the six Mekong countries: Cambodia, the Lao People's Democratic Republic, Myanmar, the PRC, Thailand, and Viet Nam. The PRC joined the program as a founding member, with an initial geographical focus on Yunnan province. In 2014, this was expanded to include the Guangxi Zhuang Autonomous Region.

In the early years, the PRC worked closely with the other GMS countries to develop a framework for cooperation and sector-specific initiatives. With support from ADB, the PRC designed and implemented the first investment project under GMS. The Yunnan Expressway project was approved in 1994 to develop a key portion of the Kunming–Bangkok transport corridor. By 2002, ADB had provided the PRC with three loans to build expressways under the GMS transport corridors. Subsequent projects built roads and railways in the context of the GMS transport corridors, improved infrastructure in border cities and towns, and provided better logistics, such as cold chain facilities, for cross-border trade.

The PRC hosted the Second GMS Leaders' Summit in 2005 in the city of Kunming. It has also hosted several GMS ministerial meetings. In 2005, the PRC hosted the first-ever GMS Environment Ministers' Meeting, which endorsed the GMS core environment program and the establishment of biodiversity corridors. In 2007, the PRC hosted the first GMS Agriculture Ministers' Meeting.

continued on next page

Box 6.1 *continued***The Central Asia Regional Economic Cooperation Program**

In 1997, the PRC, together with Kazakhstan, the Kyrgyz Republic, and Uzbekistan, participated in an ADB-led regional technical assistance project to strengthen regional cooperation in Central Asia. The regional study led to the establishment in 2001 of the CAREC program, which over time evolved into a partnership of 11 countries and numerous development partners.

The PRC has played an active role in formulating strategies and plans in CAREC's key areas, transport, energy, trade facilitation, and trade policy. The PRC proactively led the pilot-testing with its neighbors of joint customs control and the control of transboundary animal diseases. It has also aligned bilateral infrastructure investments in several CAREC countries with the program, helping to enhance the effectiveness of CAREC's transport corridors.

In 2006, the PRC hosted the Fifth CAREC Ministerial Conference, in Urumqi. In 2012, it hosted the Eleventh Ministerial Conference in Wuhan. The PRC has also played a lead role in promoting knowledge sharing among the CAREC countries. With strong support from ADB, the PRC initiated the physical establishment of the CAREC Institute, to conduct research, run capacity building programs, and promote knowledge sharing among the CAREC countries. The institute was launched in 2017 and is based in Urumqi.

Source: ADB.

the CAREC Institute, a regional think tank, in Urumqi in the Xinjiang Uygur Autonomous Region.

Strong Performance and New Challenges

ADB's next country strategy and program (CSP), for 2004–2006, started with an assessment of the PRC's economic performance. Consistent with the bank's assessment in 1996, this remained highly positive:

“The PRC's macroeconomic performance has been exceptionally good. Five consecutive years of proactive fiscal policy, prudent monetary policy, continued opening up to the global economy, and market reforms enabled the country to contain the adverse effects of the 1997–1998 Asian crisis and the 2001–2002 global slowdown.

GDP grew by an average 8.1% per annum and per capita GDP increased by 44% from \$671 in 1996 to \$964 in 2002. The PRC was the world's sixth largest trading nation and became the world's largest recipient of foreign direct investment in 2002. Ambitious and wide-reaching reforms have been undertaken in all sectors. WTO accession will increase the PRC's participation in the global economy and will help the Government deepen a wide range of structural reforms.”⁹

The assessment also noted that the PRC was ahead of schedule in achieving many of the Millennium Development Goals, and had more than halved poverty, from 31.3% in 1990 to 11.5% of the rural population in 2000. However, it also pointed to areas for improvement. These included providing safe drinking water to the rural population, reducing child mortality, controlling HIV/AIDS, and improving environmental indicators.

The most important observation concerned the distribution of the benefits of rapid economic growth. The CSP described the situation as follows:

“Almost all major economic and social indicators have improved during the past two decades except for income distribution. While some deterioration in income distribution is inevitable as PRC moves from a centrally planned to a market economy, the speed of the growing inequality is worrying. There are three dimensions to the rising inequality: (i) the growing gap between the wealthy coastal provinces and the poorer interior provinces; (ii) urban incomes have grown faster than rural incomes; and (iii) increasing inequality within both the rural and urban populations. If inequality continues to grow and a large proportion of the population do not benefit from economic growth, the impetus for continued reform could be undermined.”¹⁰

A Revitalized Country Strategy and Program

The new CSP, for 2004–2006, focused on four challenges: (i) promoting inclusive economic growth, (ii) building an enabling environment for the private sector and strengthening public sector governance, (iii) fostering regional cooperation to help integrate the PRC into the global economy, and (iv) promoting environmental sustainability.

⁹ ADB, 2003, *Country Strategy and Program (2004–2006). People's Republic of China*, i.

¹⁰ ADB, 2003, *Country Strategy and Program (2004–2006). People's Republic of China*, ii.

The CSP differed from previous strategies in several respects. It stressed the importance of ensuring that economic growth is equitable, and the role of the education and health sectors. It highlighted the part ADB could play in supporting the private sector. Most significantly, it underscored the challenges related to globalization, and the many potential areas for cooperation as the PRC becomes increasingly integrated in the global economy.

To address the four challenges, the CSP envisaged three changes. First, in 2004–2006 ADB’s annual lending to the PRC would increase to about \$1.5 billion, compared with an average of about \$1 billion in 1999–2003. It considered the PRC’s absorptive capacity and good portfolio performance more than adequate to justify the increase. Second, to support pro-poor economic growth and reduce regional inequalities, ADB would allocate most of its lending assistance to the less developed interior regions. Lending for the eastern coastal region would be mainly for poverty reduction, the environment, and urban infrastructure. Third, the CSP mapped out a shift in sector priorities. Infrastructure was expected to account for 61% of lending, the environment for 27%, and agriculture and rural development for 12%.

The program would continue to be dominated by infrastructure lending, which was a government priority and an area of comparative advantage for ADB. However, the CSP emphasized not only the link between infrastructure, economic growth, and the environment, but the fact that most ADB projects “will have an indirect but significant impact on poverty, such as improving the access of the poor to markets, increasing opportunities, and improving the living environment of the poor.”¹¹

Environmental projects would focus on water supply and wastewater, clean energy, and improving the urban environment. Agriculture and rural development lending would continue to focus on environmental projects including land degradation, soil and water management, and renewable energy targeted at the rural poor.

In addition, the CSP pointed to three areas for exploration and expansion. First, ADB would explore ways to become engaged in education, health, and poverty. Second, ADB would explore ways to expand its private sector operations in the PRC, including the possibility of issuing

¹¹ ADB, 2003, *Country Strategy and Program (2004–2006)*. People’s Republic of China, iv.

CNY-denominated bonds and helping borrowers to raise local currency debt funds. Private sector operations would focus on infrastructure, the financial sector, and the environment.

Third, ADB's role as development lender would increasingly be complemented by the provision of knowledge resources. To this end, and reflecting concerns raised in the 1998 country assistance program evaluation (CAPE), the bank's technical assistance (TA) grants and economics work would be more targeted and forward-looking to cover emerging topics, and better managed to improve their impact. The CSP expected ADB to tap into the work of a wide range of departments as well as the Tokyo-based ADB Institute.

The Second Country Assistance Program Evaluation

In 2007, ADB's then Operations Evaluation Department published its second evaluation of the bank's country program in the PRC, covering 1998–2005. The report assessed the overall performance of the lending program as very solid, noting that “the PRC portfolio is one of the best among client countries, rating highly when compared with ADB averages and other large country programs.”¹²

Given the strong performance of the portfolio, the CAPE focused on broader strategic and institutional aspects of operations in the PRC. Overall, the CAPE rated the portfolio as successful. Due to the strong role of the government in shaping the program and its close alignment with government priorities, particularly through its focus on transport infrastructure and the interior provinces, the CAPE considered the alignment and positioning of the program “successful bordering on highly successful.” The CAPE also rated the program as successful in terms of the value added by ADB and the sectoral positioning of operations. Most lending and TA was considered highly relevant and efficient. Only rural development and natural resource projects, which are complex, were less efficient. Among several areas for improvement, the CAPE noted the very high concentration of lending for transport infrastructure, and suggested that the objectives of both the PRC and ADB might be achieved through a more diverse program.¹³

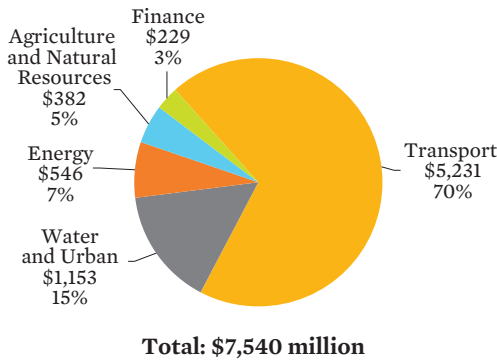
¹² ADB, 2007, *Country Assistance Program Evaluation for the People's Republic of China*, iii.

¹³ ADB, 2007, *Country Assistance Program Evaluation for the People's Republic of China*, vi–vii.

The CAPE noted several features that set the program in the PRC apart from those in other borrowing countries. “Strong government ownership,” the report noted, “is the main reason for the high quality of ADB’s program in the PRC.” The government’s requirement that borrowing agencies should ultimately be responsible for loan repayment “might be the primary factor differentiating the PRC’s strong project performance from other [developing member countries].” However, the report also noted that this principle restricts project selection and may discourage the use of loan financing for social and targeted poverty programs.¹⁴

Operational Summary

Figure 6.1: Operational Approvals to the PRC by Sector, 2003–2007
(\$ million, %)



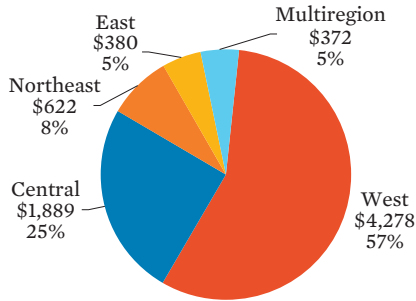
PRC = People’s Republic of China.

Notes: Includes loans, grants, equity investments, and guarantees. Numbers may not add up to the total due to rounding.

Source: ADB loan, technical assistance, grant, and equity approvals database.

¹⁴ ADB, 2007, *Country Assistance Program Evaluation for the People’s Republic of China*, viii.

**Figure 6.2: Operational Approvals to the PRC
by Geographical Region, 2003–2007**
(\$ million, %)



Total: \$7,540 million

PRC = People's Republic of China.

Notes: Includes loans, grants, equity investments, and guarantees. Numbers may not add up to the total due to rounding.

Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

Consistent with the CSP, lending in 2003–2007 increased significantly, to an annual average of \$1.4 billion (Figure 6.1). The geographical focus shifted further to the western and central regions, which together accounted for 82% of lending, while lending to the eastern coastal region declined to 5% (Figure 6.2).

During this period, lending for transport reached its peak, accounting for 70% of the portfolio. Transport was followed by water supply, wastewater and urban development (15%), energy (7%), and agriculture and natural resources (5%). Projects were increasingly designed to be innovative, to pilot new approaches and serve as models for replication in other parts of the country.

The transport portfolio comprised road and railway projects, and one loan for urban transport, almost entirely in the central and western regions. From building expressways in the 1990s, in the 2000s the focus shifted to the construction or rehabilitation of provincial and county roads. ADB approved projects for road construction and rehabilitation in Heilongjiang, Gansu, Guangxi Zhuang Autonomous Region, Ningxia Hui Autonomous

Box 6.2: ADB Support for Roads and Railways

From 1986 to 2017, the Asian Development Bank (ADB) has lent the People's Republic of China a total of \$16.3 billion for 65 road projects and 23 railway projects. The initial emphasis was on constructing road and railway infrastructure and ensuring sustainable maintenance. More recently, ADB's focus has shifted to urban transport, intermodal transport, and road maintenance. The total length of roads built or upgraded and railways built is shown below.

Expressways built	6,082 km
Ordinary roads built or upgraded	13,313 km
Rural roads built or upgraded	13,458 km
Total roads built or upgraded	32,853 km
Total railways built	7,072 km

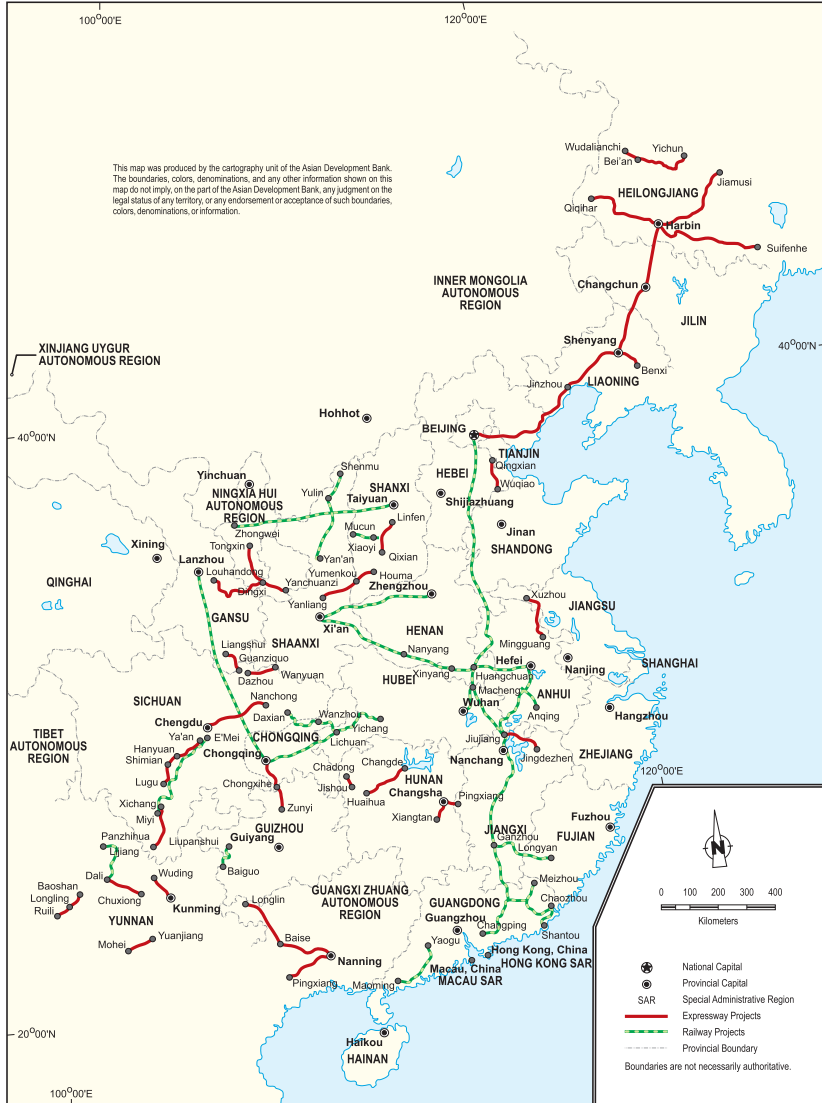
km = kilometer.
Source: ADB.

Region, Sichuan, Xinjiang Uygur Autonomous Region, and Yunnan. Transport lending also included three major railway links, and a loan to enhance railway safety. In terms of the actual physical infrastructure created, transport has had a larger impact than any other sector (Box 6.2 and Figure 6.3), although its share of the portfolio would gradually decline in future years.

Water supply, wastewater, and urban development was the second-largest sector, with a focus on the northeastern, central, and western regions. ADB provided financing for water supply projects in the cities of Harbin, Jilin, and Kunming, for wastewater management in Wuhan, and for wastewater management and urban environmental improvement projects in Jilin and Nanning.

In the Songhua River Basin, which straddles the provinces of Heilongjiang, Jilin, and Liaoning, and the Inner Mongolia Autonomous Region, ADB developed a comprehensive approach comprising a master plan for water pollution control and four loan projects (Box 6.3). Other projects addressed river basin pollution control and wetlands and flood management. The Sanjiang wetlands project in Heilongjiang province was particularly successful in restoring a fragile ecosystem (Box 6.4).

Figure 6.3: ADB-Financed Expressway and Railway Projects in the People's Republic of China, 1989–2017



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Note: The Xinjiang Regional Road Improvement Project (Korla–Kuşa section) is not shown on this map due to space constraints.

Box 6.3: Pollution Control in the Songhua River Basin

The Songhua River is the third longest in the People's Republic of China. The river basin straddles the northeastern "rustbelt" provinces of Heilongjiang, Jilin, and Liaoning, and the Inner Mongolia Autonomous Region. For many years, the river served as the source of drinking water for Harbin, a city of over 5 million people, and several other major cities. As a result of industrial and urban development and the widespread introduction of chemical fertilizers, by the early 2000s the river was heavily polluted and unfit to serve as a safe source of drinking water.

Given the scope of the problem, the government and the Asian Development Bank (ADB) agreed to adopt a comprehensive approach comprising several sovereign loan projects, a master plan for pollution control in the river basin and the creation of an enabling environment for private sector investment in water and wastewater. In 2003, ADB approved a loan of \$100 million for the Harbin Water Supply Project, to provide Harbin with an alternative source of drinking water, the Lalin River. The project was completed ahead of schedule and today provides 900,000 cubic meters of potable water a day to the people of Harbin.

In 2005, ADB approved a second loan of \$100 million, for the Jilin Water Supply and Sewerage Development Project. In parallel, ADB provided technical assistance grant support to assist in the preparation of a comprehensive River Basin Water Pollution Master Plan, which was approved by the State Council in 2006. This was followed in 2007 by the Jilin Urban Environment Improvement Project for \$100 million. In 2008, ADB approved a fourth loan, of \$200 million, for a comprehensive range of measures to increase the supply of potable water, expand wastewater treatment, and improve solid waste management in Heilongjiang and Jilin provinces.

The master plan and approval of national regulations on water and wastewater tariffs provided the environment needed for private sector participation, and allowed ADB to approve a \$141 million facility to support private participation in wastewater treatment.

Source: ADB.

Box 6.4: Saving a Vital Wetlands Ecosystem

Before 2005, the Sanjiang Plain wetland ecosystem was in danger of dying. Eighty percent of the wetlands and surrounding forests had disappeared. Flocks of once plentiful ducks and geese had thinned. Deforestation and the building of drainage channels and dikes by farmers had destroyed 4.3 million hectares of natural marshes and water meadows.

The Sanjiang Plain Wetlands Protection Project has reversed the damage. The project was financed by a \$15 million Asian Development Bank loan, a \$12.14 million grant from the Global Environment Facility, and provincial and local governments. Completed in 2013, the project restored thousands of hectares to their natural state, and ensured that the standard of living of those directly affected by farmland reclamation would be sustained or improved.

The project undertook restoration work that provided a model for replication. It reconverted 3,441 hectares of farmland into wetlands; established 10,090 hectares of new forestry plantation; and set in motion the treatment and maintenance of 39,769 hectares of existing young trees. Awareness campaigns helped generate community support, and wetland protection became a part of the curriculum in many schools.

The project piloted best practices in alternative eco-agriculture. These reduced the farming areas in the nature reserves without reducing farmers' incomes. For example, greenhouses were built and leased to farmers who can now earn up to 40 times what they would from traditional farming.

Monitoring of birds in the six nature reserves showed an increase of 34% from 2008 to 2011. Numbers of rare species increased significantly, including storks, red-crowned cranes, and white-naped cranes.

Sources: ADB. 2013. *Completion Report: Sanjiang Plain Wetlands Protection Project in the People's Republic of China*. Manila; ADB. 2014. "People's Republic of China: Saving a Vital Ecosystem," in *Together We Deliver: 10 Stories from ADB-Supported Projects with Clear Development Impacts*. Manila.

In the energy sector, projects had a deepening environmental focus, and included clean energy and hydropower projects in Gansu province. The coal mine methane project in Shanxi province built one of the largest methane-fired power plants in the world, and piloted an approach that could be replicated elsewhere in the PRC (Box 6.5).

In 2003–2007, annual TA funding provided by ADB remained stable at about \$16.4 million. The distribution of TA funds by sector showed closer alignment with the lending program. The combined share of TA grants for public sector management and the financial sector, which generally supported broader government reforms, declined from 30% in 1998–2002 to 21%, while TA grants for the sectors receiving the most loans (transport, water and wastewater, energy, and agriculture and natural resources) increased from 59% to 70%. Significantly, the combined share of TA grants for education and health rose from 2% to 7%, indicating the start of background work for an eventual lending program.

Reflecting the PRC and ADB's shared concern for the environment, more TA financing was provided for the agriculture and natural resources; water, wastewater, and urban development; clean energy; and environmental issues related to the transport sector. The bank provided grants to build capacities for combating land degradation, for the national soil and water strategy, to review environmental policies related to water investments, and for the institutional development of the State Environmental Protection Administration.¹⁵ Several TA grants addressed health concerns, including a \$2 million grant to combat the outbreak of the severe acute health respiratory syndrome (SARS) in the western region in 2003.

¹⁵ In 2008, in a move strongly supported by ADB, the State Environmental Protection Administration was upgraded to the Ministry of Environmental Protection. In 2018, it became the Ministry of Ecological Environment.

Box 6.5: Clean Energy from Deadly Gas

The People's Republic of China (PRC) accounts for about 40% of global emissions of methane, a highly potent greenhouse gas. Methane emissions are caused, among other things, by the mining of coal, which provides over 60% of the energy generated in the PRC. In addition to contributing to climate change, methane is a major cause of underground explosions that kill coal miners each year. It needs to be drained during mining. When captured, methane is a clean energy source.

The Coal Mine Methane Development Project was intended to pilot and demonstrate the efficient use of methane applying the latest technologies. It was also intended to improve coal mine safety and reduce methane emissions. Approved in 2004, the project was implemented in Jincheng, one of the major “coal cities” in Shanxi Province. The Asian Development Bank provided a loan of \$117.4 million to cover half the cost of constructing a 120-megawatt methane-fired power plant. The plant has been operational since 2011 and is expected to provide 50 million tons of carbon dioxide reduction during its economic life.

Serving as a model for other coal mines, the project demonstrated how new technologies can increase the production of methane. The project improved coal mine safety by demonstrating methane capture technologies on a large scale. It also converted the captured methane to a clean form of energy for use in nearby communities.

The project provided a reliable gas supply for commercial and industrial establishments, increasing energy efficiency and improving businesses in the area. It also enabled the local government to require the use of gas in taxis and other forms of public transport, which resulted in cleaner air. Poor households were connected to the gas pipes for free, and also pay a lower monthly rate. At the same time, the sale of carbon credits generated significant revenue, which helped to offset the cost of the power plant.

Sources: Kan Lei. 2011. “From Pollution to Solution,” in *Impact Stories from the People's Republic of China*. Manila: ADB; ADB. 2012. *Completion Report: Coal Mine Methane Development Project in the People's Republic of China*. Manila; ADB. 2014. *Together We Deliver: 10 Stories from ADB-Supported Projects with Clear Development Impacts*. Manila.

CHAPTER 7

Stimulus and Redistribution (2008–2012)

“In an era of deepening economic globalization, if we want to ensure sustained global economic growth and effectively tackle the risks and challenges faced by the world economy, all economies and regions must strengthen exchanges and cooperation and work together to address the underlying, structural issues in economic development.”

– Hu Jintao, *APEC Human Resources Development Ministerial Meeting, 2010*

“The global economic crisis presented developing Asia and the Pacific with the most challenging year since the 1997–1998 Asian financial crisis. ... Asia is leading the world’s recovery, with regional growth expected to rebound to over 7% in 2010. ... Increasing resilience to future shocks, especially by building domestic and regional demand, will be essential to produce the high rate of growth needed to reduce poverty in the long term.”

– Haruhiko Kuroda, *ADB Annual Report, 2009*

The global financial crisis of 2008–2009 was the defining economic event at the close of the first decade of the 21st century. The crisis built up gradually, with the decline of North American stock markets in late 2007. As financial institutions worldwide woke up to the extent of their exposure to the subprime mortgage market, they started to write down their assets. Subsequently, the crisis unfolded quickly, culminating in September 2008 in the bankruptcy of Lehman Brothers, a pillar of the United States financial establishment. The immediate turmoil was mainly in industrial economies, but the resulting economic slowdown had implications throughout the world. Many Asian economies were hit hard, and responded with economic stimulus measures. Several required bailout financing.¹

The leadership of the People’s Republic of China (PRC) was fully aware of the economy’s dependence on exports and its vulnerability to a global economic

¹ McCawley, 2017, *Banking on the Future of Asia and the Pacific*, 291–293.

recession. As a result, its response to the crisis was rapid, large, and well-designed. As early as September 2008, the PRC announced a massive stimulus package of CNY4 trillion (\$586 billion at the prevailing exchange rate), with the goal of spending CNY100 billion in the first quarter of 2009. Alongside monetary easing, the government took firm steps to contain the overheating housing market.² Demonstrating significant solidarity with the region's economies, the PRC refrained from devaluing the yuan, which would have stimulated the PRC's exports, but at a high cost to its Asian neighbors.

Global trade in 2008–2009 dropped sharply, but the PRC's stimulus largely offset the impact of this drop on the economy. As a result, economic growth declined only modestly, from an average of 11.7% in 2003–2007 to 9.7% in 2008 and 9.4% in 2009. At the same time, the Eleventh Five-Year Plan (2006–2010), which aimed to build a harmonious and moderately prosperous (*xiao kang*) society, helped to keep the government focused on ensuring the equitable distribution of the benefits of growth.

In August 2008, the PRC successfully hosted the Olympic Games, and in December it celebrated the 30th anniversary of its economic opening. However, the year was also marked by great tragedy. In May 2008, a massive earthquake struck Sichuan province. The earthquake, whose epicenter was in Wenchuan county, claimed over 69,000 lives and caused damage estimated at \$150 billion. The government quickly approved funding of CNY1 trillion (\$146.5 billion) for reconstruction of earthquake-ravaged areas in Gansu, Qinghai, and Sichuan provinces. The Asian Development Bank (ADB), the World Bank, and other development partners also provided emergency financial support.

The Two-Way Partnership Expands Quickly

In 2008–2012, the two-way partnership between ADB and the PRC developed rapidly, with the PRC stepping up its financial contribution to ADB and sharing its development experience with the rest of the world.

The PRC participated in the negotiations for the ninth replenishment of the Asian Development Fund (ADF X) and in 2009 pledged a contribution of \$35 million (0.76% of the total). In the ADF XI negotiations, the PRC's share remained at the same level, and in 2013 it pledged a further \$45 million (0.77% of the total). Following 7 years of successful performance by the PRC Poverty Reduction and Regional Cooperation Fund, in 2012 the PRC also committed to replenish the trust fund by \$20 million.

² Lardy, 2012, *Sustaining China's Economic Growth after the Global Financial Crisis*, 5–9.

There were also significant developments on the knowledge front. The PRC organized a number of knowledge-sharing events for African countries together with the World Bank, and developed a series of knowledge-sharing events for Asian countries together with ADB. The seminars and workshops were organized in cooperation with the Asia-Pacific Finance and Development Center and several local universities. In 2012, the Ministry of Finance (MOF) and ADB formalized this arrangement by establishing the Regional Knowledge Sharing Initiative. The initiative provided a structured framework for ADB and the government to organize knowledge-sharing events, with three staff based in the PRC Resident Mission.

By 2008, the resident mission had expanded significantly and was one of ADB's largest, with a total of nearly 80 staff. It had established separate units for economics and knowledge work, country strategy and program development, and portfolio management and loan administration, comprising both international and national staff. The resident mission also hosted a growing number of specialists outposted from ADB's headquarters in Manila to support operations in key areas, including private sector operations, the bank's legal work in the PRC, climate change, and urban development.

At the same time, in response to the growing demand from the MOF and other government agencies, ADB stepped up the provision of policy advice. The series of policy notes, in both English and Chinese, was upgraded and expanded to cover topics ranging from housing finance, earthquake insurance, and migrant workers to air pollution and macroeconomic management. Starting in 2008, ADB deepened its involvement in the PRC's five-year planning process. The bank supported the preparatory work for the Twelfth Five-Year Plan, including the preparation of background papers and organizing a major workshop with the National Development and Reform Commission.

In 2012, the PRC hosted the 11th ministerial meeting of the Central Asia Regional Economic Cooperation program countries in Wuhan. The meeting approved the Wuhan Action Plan. Among other things, the plan paved the way for the physical establishment in Urumqi, the capital of the Xinjiang Uygur Autonomous Region, of the Central Asia Regional Economic Cooperation Institute, a think tank dedicated to Central Asian regional issues.³

³ ADB, 2012, *Joint Ministerial Statement, 11th Ministerial Conference on Central Asian Regional Economic Cooperation*.

Nonsovereign and Private Sector Operations Also Expand

From the start of its partnership with the PRC, ADB supported nonsovereign and private sector operations alongside its sovereign lending. The bank's private sector operations complement its sovereign operations and have allowed for synergies to evolve between the two. The ADB–PRC policy dialogue and technical assistance operations in such areas as financial sector reform, cost recovery, and tariff reform in many instances helped to provide an enabling environment for its private sector operations.

From 1986 to 2017, ADB has approved a total of \$4.1 billion of nonsovereign and private sector loans, equity investments, and guarantees for the PRC. Initially, in the 1990s and early 2000s, these operations were modest. Since 2007, they have picked up significantly, with \$3.3 billion (80%) of the investments made in 2008–2017. Nonsovereign and private sector operations have focused on financial institutions; infrastructure, mainly for clean energy and urban water supply; and agribusiness. They are described in detail in Appendix 4.

Initially, ADB supported the diversification of the financial sector, with equity investments in Xiamen International Bank in 1991 and China Everbright Bank, a national commercial bank, in 1996. These were followed by equity investments in 2005 in the Bank of China, at the time the second-largest state-owned bank, and in 2006 in Hangzhou City Commercial Bank.⁴ More recently, ADB has focused on supporting nonbank financial institutions, particularly leasing companies financing green transport and rural healthcare, and microfinance companies serving women.

Subsequently, the focus shifted to urban infrastructure and energy. In 1997, ADB provided transaction advisory services and helped arrange financing for the Chengdu Water Supply Project, the PRC's first public–private partnership project. In 2002, the government approved a circular opening up urban utilities to market competition, and in 2004 it approved administrative rules on concession agreements for public utilities. These paved the way for private sector operations to focus on environmental infrastructure and renewable energy. In the following years, ADB invested in numerous innovative projects including wind power, small-scale hydropower, natural gas distribution, and waste-to-energy in small cities and counties. Recent investments in municipal water utilities have helped to bring clean and safe water to millions of inhabitants in second- and third-tier cities (Box 7.1).

⁴ Hangzhou City Commercial Bank was renamed the Bank of Hangzhou in 1996.

Box 7.1: Private Sector Participation Brings Clean Water to Millions

Since 1978, over 500 million people throughout the People’s Republic of China have moved from the countryside to cities in search of a better life. As a result, cities have needed massive investments to ensure that they can provide basic services to residents.

Water distribution has traditionally been the responsibility of municipality-owned utilities, which are often financially difficult to sustain. The utilities’ losses are a drain on local government budgets, and have held back the investments needed to ensure a reliable and safe water supply. At the same time, the government recognizes that water supply facilities can be upgraded effectively with private sector participation.

In response to this challenge, the Asian Development Bank has supported private sector participation in water distribution. One such operation was the Municipal Water Distribution Infrastructure Development Project approved in 2011. The project is being undertaken by the China Water Affairs Group Limited, a private company listed on the stock exchange of Hong Kong, China.

The project upgraded water treatment plants and water piping systems in second- and third-tier cities. It brought in the private sector under concessions or similar arrangements; improved service efficiency, quality, and coverage; and improved financial viability. By 2015, the project had supported municipal water supply utilities in 23 cities, bringing clean and affordable water to millions of urban dwellers.

Sources: ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the Municipal Water Distribution Infrastructure Development Project in the People’s Republic of China*. Manila; ADB. 2014. *Together We Deliver: 10 Stories from ADB-Supported Projects with Clear Development Impacts*. Manila.

The Asian financial crisis led to a sharp decline in the values of many Asian currencies, and to a crisis in foreign currency-denominated debt. A key lesson for firms was the importance of avoiding mismatches between the currency in which debt is incurred and that of servicing and repayment. To allow ADB to lend in yuan to companies with limited foreign exchange earnings, in 2005, ADB issued its first renminbi-denominated “panda bonds” on the PRC’s domestic market. These were followed in 2010 by the issuance of global yuan “dim sum bonds” in Hong Kong, China.⁵ The proceeds from the panda and dim sum bonds were used to finance

⁵ Erquiaga, 2016, *A History of Financial Management at the Asian Development Bank: Engineering Financial Innovation and Impact on an Emerging Asia*, Manila: ADB, 63.

selected ADB private sector operations in the PRC and addressed the problem of currency mismatch. They also helped to diversify the local bond market.

The Ministry of Finance: International Financial Institutions Foster Innovation

Following 3 decades of cooperation with international financial institutions (IFIs), in 2010 the International Department⁶ of the MOF published a compendium of good practice papers on the management of IFI-financed projects. The study, which included projects financed by ADB, the World Bank, and International Fund for Agricultural Development, highlighted the government's strategic approach of using IFI projects to pilot and disseminate new ideas:

“Throughout the years, innovation and development remain the theme of the PRC-IFI cooperation: innovations could promote development and development in turn leads to more innovations. By innovation, we mean introducing new ideas, new approaches and new policies through utilizing IFI loans. From the project level, we are making earnest efforts in bringing in international best practices, coming up with innovative project designs, carrying out pilot projects, improving project management and replicating good practices to other parts of the country. From the project level, we have formulated a scientific and standardized system for managing IFI-funded projects through absorbing innovative experiences gained in IFI loan utilization, and many practices are being applied to domestically funded projects.”⁷

The study also recognized the role played by IFI-financed projects in providing professionals in the PRC with operational knowledge and experience:

“Meanwhile, a generation of professionals with sound IFI knowledge has been brought up through the project implementation: these professionals are the true practitioners of such innovation.”⁸

⁶ In 2016, the International Department was split into two departments, the Department for International Financial Cooperation and the Department for International Economic Cooperation.

⁷ Zheng (ed.), 2010, *Innovation and Development, Collection of Good Practice Papers on Management of Projects Financed by International Financial Institutions*, i.

⁸ Zheng (ed.), 2010, *Innovation and Development, Collection of Good Practice Papers on Management of Projects Financed by International Financial Institutions*, i.

The MOF study compared project management practices in numerous provinces and municipalities, focusing on good practices that had contributed to successful implementation. The framework for this success was provided by prudent provincial-level policies and practices for the management of foreign debt; careful review of the end borrower's debt repayment capacity; detailed due diligence and preparatory work to ensure timely start-up; and efficient management of the various aspects of project implementation. Provinces and large municipalities had clear guidelines for the management of foreign debt, which comprised only a small fraction of their overall debt. They also had well-established procedures for staff training, procurement, financial management, and project implementation, all of which contributed to the PRC's successful track record.⁹

The study noted that as the PRC's economy grew stronger, the role of IFI financing was declining. However, at the same time, the IFIs' role as a source of knowledge was growing. As a result, the government placed increasing emphasis on the IFIs' role of "promoting knowledge transfer and enhancing institutional and policy cooperation," and the added value of IFI funds "to achieve optimal and maximum project benefits."¹⁰

A New Partnership Strategy

The country partnership strategy (CPS) for 2008–2010 started with an acknowledgment of the substantial progress made by the PRC in reforming and opening its economy, noting that it "had grown faster than any other in the world, averaging more than 9% growth annually." It also commended the PRC for achieving the Millennium Development Goal of cutting poverty in half and being on track to meet the other Millennium Development Goals. With significant foreign exchange reserves and an investment-grade sovereign credit rating, the lack of foreign exchange was no longer seen as a development constraint.¹¹ Notwithstanding these positive developments, the CPS noted that:

"... the PRC is still a lower-middle-income country, with many millions of people living on less than \$1 a day. Reducing poverty remains a daunting challenge, as does raising the welfare of millions

⁹ Zheng (ed.), 2010, *Innovation and Development. Collection of Good Practice Papers on Management of Projects Financed by International Financial Institutions.*

¹⁰ Zheng (ed.), 2010, *Innovation and Development. Collection of Good Practice Papers on Management of Projects Financed by International Financial Institutions*, i–ii.

¹¹ ADB, 2008, *People's Republic of China: Country Partnership Strategy 2008–2010*, i–1.

living just above poverty. Sustaining growth will be vital for this, and will not be possible without addressing environmental degradation, growing inequality, and the strain on resources. Technologies and practices will need to be improved to international standards. Multilateral development assistance can continue to play a useful role in addressing these challenges through partnership with the PRC.¹²

In response to the economic and social challenges in the PRC, and guided by government priorities, the underlying theme of the CPS was “enhanced value addition through emphasis on knowledge, innovation and governance.” The CPS identified four key thrusts for ADB support:

- (i) inclusive growth and balanced development—by focusing operations on poorer provinces and by promoting integrated rural and urban development;
- (ii) resource efficiency and environmental sustainability—by promoting efficient infrastructure and energy and by helping to strengthen environmental management;
- (iii) regional cooperation and public goods—by using ADB’s regional cooperation programs to enhance infrastructure connectivity, facilitate trade and investment, and promote regional public health, environmental quality, and financial stability; and
- (iv) an environment conducive to private sector development—by promoting public–private partnerships in infrastructure finance and helping to strengthen development of the finance sector.

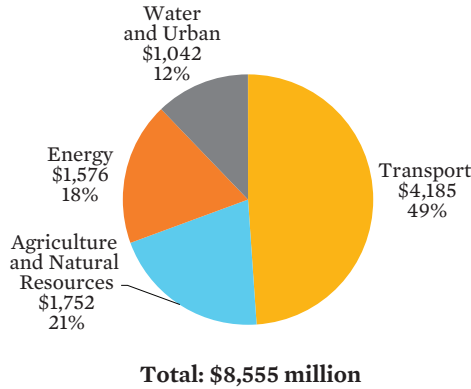
The CPS highlighted two further priorities. First, all support would be viewed from an environmental perspective, to achieve a greener portfolio. Second, consistent with government priorities, all projects would aim to enhance inclusiveness through balanced development, and by focusing on the rural and poorer regions.¹³

¹² ADB, 2008, *People’s Republic of China: Country Partnership Strategy 2008–2010*, i.

¹³ ADB, 2008, *People’s Republic of China: Country Partnership Strategy 2008–2010*, i–iii.

Operational Summary

Figure 7.1: Operational Approvals to the PRC by Sector, 2008–2012
(\$ million, %)

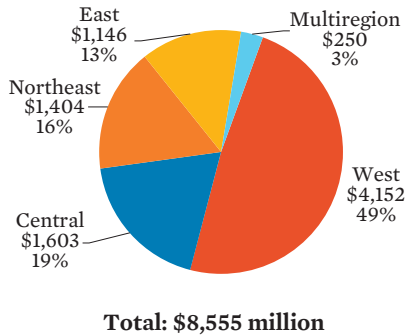


PRC = People's Republic of China.

Note: Includes loans, grants, and equity investments.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Figure 7.2: Operational Approvals to the PRC by Geographical Region, 2008–2012
(\$ million, %)



PRC = People's Republic of China.

Note: Includes loans, grants, and equity investments.

Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

Consistent with the CPS, in 2008–2012 ADB's sovereign lending to the PRC remained stable at an annual average of \$1.5 billion.

Transport declined somewhat but remained the dominant sector with a share of 49%, while lending increased for agriculture and natural resources (21%) and energy projects (18%) reflecting the growing priority given to environmental and water resources management and clean energy (Figure 7.1). Geographically, operations continued to focus on the western, central, and northeastern regions, which together accounted for 84% of sovereign and nonsovereign operations (Figure 7.2).

During this period, there were several major shifts within sectors. Transport projects continued to support provincial and county roads, but emphasis shifted to urban transport, logistics and transport hubs, and border facilities to facilitate the movement of cross-border traffic with neighboring countries. They addressed environmental concerns, and introduced new approaches such as bus rapid transit (Box 7.2). ADB financed two railway links, and also provided financing of \$650 million in three tranches to support energy efficiency and safety enhancement in railways. The bank also provided \$400 million in loans, supported by several technical assistance (TA) grants, for the rehabilitation of transport infrastructure and schools in Sichuan and Gansu provinces damaged by the 2008 Wenchuan earthquake.

Energy lending expanded significantly, with a strong focus on energy efficiency, renewable energy, and innovation. ADB financed integrated reusable biomass development projects in Heilongjiang, Henan, Jiangxi, and Shandong provinces (2010); energy efficiency and emissions reduction projects in Hebei (2011), Shandong (2011), and Shanxi (2012); and a district heating project in Heilongjiang (2012). In addition, the bank financed the Tianjin Integrated Gasification Combined Cycle Power Plant (2010), the first project to pioneer this clean coal technology in the Asia and Pacific region (Box 7.3).

Lending for agriculture and natural resources also increased, with projects focusing on water resources, biodiversity, and ecosystem management and sustainable agriculture. In Anhui province, the bank approved a \$250 million loan for the environmental rehabilitation of the highly polluted Chao Lake (2012). In the water and urban sector, ADB gradually shifted from large-scale water supply and wastewater projects in major cities to financing integrated packages of urban infrastructure in smaller cities,

Box 7.2: Bus Rapid Transit Alleviates Urban Congestion

The expansion of the road network in the People's Republic of China (PRC) has been accompanied by tremendous growth in the number of motor vehicles, which in turn had increased traffic congestion and pollution. To alleviate congestion and reduce pollutant emissions in cities, since 2010 the Asian Development Bank (ADB) has been working with the government to introduce bus rapid transit (BRT), the establishment of dedicated bus lanes, and other measures to enhance the efficiency of bus transport.

The Lanzhou Sustainable Urban Transport Project, approved in 2009, is the first ADB project in the PRC to include BRT. The city of Lanzhou wanted to reduce the negative effects of urban sprawl by developing a second city center. The city's expansion plan evolved from urban road expansion into a sustainable urban transport project, with a BRT system at its center. This was complemented by support for nonmotorized transport, tree preservation, and traffic and parking management. Since starting operations in 2013, the BRT has improved mobility, reduced traffic congestion, and preserved the environment.

Other BRT projects funded by ADB include the Jiangxi Fuzhou Urban Integrated Infrastructure Improvement Project (2012), the Hubei-Yichang Sustainable Urban Transport Project (2013), the Jiangxi Ji'an Sustainable Urban Transport Project (2014), and the Shandong Spring City Green Modern Trolley Bus Demonstration Project (2017). To date, ADB has provided a total of \$670 million in funding for BRT projects.

Source: Kim, K. J. 2014. *Lanzhou's Bus Rapid Transit System Brings Quick Relief to Busy City*. Manila: ADB. <https://www.adb.org/publications/lanzhou-bus-rapid-transit-system-brings-quick-relief-busy-city>

such as the Hebei Small Cities and Towns Development demonstration project. Private sector projects played a growing role in providing clean water for the PRC's city dwellers (Box 7.1).

The TA portfolio increased to an annual average of \$22.7 million, reflecting the growing attention paid by the bank to knowledge work. The distribution of funds by sector remained aligned with lending priorities. Compared with those in 2003–2007, TA grants for specific sectors (transport, water and wastewater, energy, and agriculture and natural resources) declined from 70% to 61%, while TA grants classified as multisector increased, reflecting

Box 7.3: Breathing Easier with Clean Coal Power

The Tianjin Integrated Gasification Combined Cycle (IGCC) Power Plant Project was approved in 2010. The Asian Development Bank provided a loan of \$135 million and a \$5 million grant from its Climate Change Fund to support the project, which introduced IGCC technology, one of the most efficient and least polluting advanced clean coal technologies available. The IGCC power plant was the first of its kind in the People's Republic of China, and in the Asia and Pacific region.

The project represents a major technological shift from conventional coal-fired power to gasification of the coal before combustion. This process turns coal into a synthesis gas, removing impurities and particulates in a highly efficient combined cycle gas turbine. Moreover, IGCC provides a low-cost means to accommodate carbon capture and storage.

The 250-megawatt IGCC power plant successfully entered operation in December 2012 and has since produced about 1,325 gigawatt-hours of additional clean energy annually. The project achieved its immediate objective of providing additional electricity generation capacity using less coal, thereby avoiding harmful emissions. The project is expected to provide 4 million tons of carbon dioxide reduction during its economic life. It has also achieved significant reductions in sulfur dioxide, nitrogen oxide, and particulate matter.

Most significantly, the project demonstrated the effectiveness of new and environmentally friendly clean coal technology in reducing emissions.

Sources: ADB. 2016. *Project Result/Case Study: PRC's Tianjin Breathing Easier with Cleaner Coal Power*. Manila; ADB. 2017. *Completion Report: Tianjin Integrated Gasification Combined Cycle Power Plant Project in the People's Republic of China*. Manila.

ADB's integrated approach in sectors such as urban development, where projects frequently combined environmental management, transport, and energy components.

A growing number of TA projects addressed environmental and clean energy issues, including energy conservation, smart grid technology, and emissions trading systems. The bank also provided over \$5 million in grants for demonstration projects on carbon capture and storage.

CHAPTER 8

Global Partnership (2013–2017)

“China has actively developed global partnerships and expanded the convergence of interests with other countries. ... China will increase assistance to other developing countries, especially the least developed countries, and do its part to reduce the North–South development gap.”

– Xi Jinping, Address at the 19th National Congress of the Communist Party of China, 2017

The appointment of Xi Jinping as general secretary of the Communist Party of China (CPC) in November 2012 marked a deepening of economic reforms, and of the global partnerships of the People’s Republic of China (PRC). The following month, in December 2012, Xi visited the southern province of Guangdong to confirm his commitment to economic reform and a renewal of efforts to shift the PRC from investments and exports to a consumption- and services-driven growth model. In 2013, Xi took decisive steps to strengthen the PRC’s international economic and financial cooperation.

On a state visit to Kazakhstan in September 2013, in a speech delivered at Nazarbayev University in the capital city of Astana, Xi Jinping for the first time announced the PRC’s proposal to expand the development space of the Eurasian region and, jointly with the countries of the region, build an “economic belt along the Silk Road.”¹ The proposal would evolve into the Belt and Road Initiative, an ambitious plan to build physical and economic infrastructure along a land belt through Central Asia and the Middle East and a maritime road through Southeast and South Asia to Europe and Africa.

The PRC also pioneered initiatives to establish international financial institutions (IFIs) led by emerging economies. In March 2013, at a meeting

¹ Xi, 2013, “Promote Friendship between Our People and Work Together to Build a Bright Future.”

of the leaders of Brazil, the Russian Federation, India, the PRC, and South Africa, collectively known as the BRICS countries, Xi Jinping indicated his support for a BRICS development bank.² The following October, pointing to the region's shortage of infrastructure, Xi informed an Asia-Pacific Economic Cooperation chief executive officer summit in Bali, Indonesia, of the PRC's proposal "to establish an Asian infrastructure investment bank to help fund the infrastructure development of [Association of Southeast Asian Nations] countries and other developing countries in the region."³

The IFI initiatives were quick to materialize. The BRICS countries' New Development Bank was established in July 2014 and became operational the following year, with its headquarters in Shanghai. In 2014 the Government of the PRC also launched negotiations for the Asian Infrastructure Investment Bank, which was formally established the following year, headquartered in Beijing. From 57 founding members, the Asian Infrastructure Investment Bank currently has 87 member countries. It started lending in 2016, including joint financing with the Asian Development Bank (ADB), the World Bank, and several other IFIs.

The 19th National Congress of the Communist Party of China

In October 2017, at the conclusion of his first term in office, Xi Jinping addressed the 19th National Congress of the CPC. His report sets out a two-stage plan for the PRC to achieve full modernization by its centennial, and for the coordinated measures this would require. The report describes the measures needed to build "socialism with Chinese characteristics in the new era." These include a comprehensive deepening of the reform and opening up, and continuing to modernize the PRC's governance systems.⁴ The report underscores environmental concerns and the acceleration of reforms to turn the PRC into an ecological civilization. It also highlights measures to improve the people's well-being and develop new approaches to social governance. Specific measures include strengthening education, further developing vocational education and training, strengthening the social security system, and improving healthcare services and elderly care.⁵

² Xi, 2013, "Work Hand in Hand for Common Development."

³ Xi, 2013, "Deepen Reform and Opening up and Work Together for a Better Asia Pacific."

⁴ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 15–18.

⁵ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 40–47.

Xi Jinping also maps out a more comprehensive approach to international economic and financial cooperation:

“China has actively developed global partnerships and expanded the convergence of interests with other countries. China will promote coordination and cooperation with other major countries and work to build a framework for major country relations featuring overall stability and balanced development. China will deepen relations with its neighbors in accordance with the principle of amity, sincerity, mutual benefit, and inclusiveness and the policy of forging friendship and partnership with its neighbors.

“China will actively promote international cooperation through the Belt and Road Initiative. In doing so, we hope to achieve policy, infrastructure, trade, financial and people-to-people connectivity and thus build a new platform for international cooperation and create new drivers of shared development.

“China will increase assistance to other developing countries, especially the least developed countries, and do its part to reduce the North–South development gap.”⁶

The PRC’s contribution to development cooperation through ADB also expanded significantly. The PRC participated actively in the 11th replenishment of the Asian Development Fund (ADF 12) negotiations and in 2017 pledged a contribution of \$100 million (3.26% of the total), a significantly larger share than in previous replenishments. In 2017, the PRC also approved a \$50 million replenishment of the PRC Poverty Reduction and Regional Cooperation Fund, which would allow the trust fund to substantially increase its annual funding level.

Managing the Middle-Income Transition

By 2010, most countries in the Asia and Pacific region had successfully transitioned from low-income to middle-income status, with the few remaining low-income countries catching up quickly. The transition from upper-middle-income to high-income status, however, has proved more elusive. Many countries that benefited competitively from low-cost labor encountered difficulty competing in areas that require higher levels of human resources, technology, and innovation. Malaysia and Thailand

⁶ Xi, 2017, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era,” 53–54.

are often cited as economies trapped in middle-income status by human-resource constraints.

At the same time, it was becoming clear that several of the PRC's more advanced cities and provinces were encountering challenges related to the middle-income transition. Living standards and wages were rising fast, in many instances leaving education and skill levels behind and reducing companies' competitive edge. As the issue gained prominence on the government's agenda, the PRC sought advice from ADB and other development partners.

In the early 2010s, ADB provided MOF with several Observation and Suggestion policy notes of relevance to the PRC's economic transition. In 2015, ADB published a broader study on the topic, *Managing the Middle-Income Transition: Challenges Facing the PRC*.⁷ The study was published in Chinese the following year, and was well received by decision makers, academics, and the broader development community in the PRC. In 2015, ADB published a special edition of the *Asian Development Review* on development challenges in the PRC.⁸

ADB has also provided the PRC with loans and technical assistance (TA) grants to help address the PRC's transition to higher income levels. In 2011–2017, ADB provided a total of \$8.2 million in grants to review technical and vocational education and training (TVET) policies, implement demonstration projects and prepare a lending program. Since 2013, ADB has also lent the PRC \$550 million for TVET projects, to pilot new approaches to skill and labor market development.

Alongside human resources development, population aging is a key aspect of the ongoing transition, and one that is expected to have major implications for the PRC. Since 2012, ADB has provided the PRC with about \$5 million to review policies for elderly care, carry out demonstration projects, and prepare a lending program. In 2016, the bank provided its first elderly care loan.

⁷ Zhuang, Vandenberg, and Huang (eds.), 2015. *Managing the Middle-Income Transition: Challenges Facing the PRC*.

⁸ ADB, 2015, *Asian Development Review*, Volume 32, Number 1.

A Country Partnership Strategy for Two-Way Partnership

To bring ADB's country strategic planning more closely in line with that of the government, starting in 2011, the country partnership strategies (CPSs) were aligned with the PRC's five-year plans in terms of both timing and content. In 2010–2011, to support the preparation of the Twelfth Five-Year Plan (2011–2015), ADB provided TA grant financing for the preparation of policy notes and organization of a workshop, as inputs to the National Development and Reform Commission's planning process. Since 2011, ADB operations in the PRC have been covered by two partnership strategies, the first (2011–2015) with a catalytic focus, and the second (2016–2020) with a transformative focus.

Consistent with past practice, the CPS (2011–2015) started with an assessment of the PRC's economy and its principal challenges. Growth had come down slightly, from 10.4% in 2010 to 9.2% in 2011, underscoring the importance of transforming the economic growth pattern. In addition, the introduction to the CPS highlighted four challenges.⁹

First was the poverty challenge. Rapid growth had lifted the majority of the population out of absolute poverty. The Millennium Development Goal of reducing poverty had already been far exceeded, while most other Millennium Development Goals were likely to be achieved. However, poverty persisted in many parts of the country and millions remained vulnerable to slipping back into poverty. In 2011, the PRC revised its poverty line to CNY2,300 (\$356 at the prevailing exchange rate), which resulted in about 100 million people being reclassified as poor.

Second, poverty had been exacerbated by rising inequality, which was among the highest in Asia. Based on ADB estimates, the PRC's Gini coefficient had increased from moderate inequality at 0.35 in 1990 to high inequality at 0.46 in 2008.¹⁰ There was a growing income gap between rural and urban areas, within cities, and between the fast-growing coastal regions and the rest of the country.

Third, rapid economic growth had exerted enormous pressure on the PRC's environment. This included high levels of land degradation; air quality standards in many of the PRC's 500 largest cities that were below those recommended by the World Health Organization, including 7 cities that

⁹ ADB, 2012, *Country Partnership Strategy, People's Republic of China 2011–2015*, 1–2.

¹⁰ Wan and Zhuang, 2012, *The Threat of Inequality and the Move to Inclusive Growth*.

ranked among the world's 10 most polluted; and overexploited and heavily polluted water resources in some areas.

Fourth, with rising temperatures and sea levels, and more frequent extreme weather events, climate change was a growing challenge. In 2009, the PRC accounted for about 24% of global carbon dioxide emissions.

The CPS highlighted the rapidly changing roles of the PRC and ADB:

“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.

“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.”¹¹

The CPS identified three operational pillars. Inclusive growth to foster balanced and equitable development would be supported by integrated rural and urban development, to expand livelihood opportunities for the poor. Environmentally sustainable growth would entail ADB viewing all assistance through an environmental lens to further green the portfolio and mainstream climate change in its operations. The regional orientation of country operations would be strengthened to complement ADB's regional cooperation programs, in particular the Central Asia Regional Economic Cooperation program and the Greater Mekong Subregion.

The Third Country Assistance Program Evaluation

To provide inputs to the preparation of ADB's most recent strategy, in 2015 the Independent Evaluation Department undertook its third evaluation of the country assistance program in the PRC. The country assistance program evaluation (CAPE) started by examining the rationale for ADB's continued development cooperation with the PRC. It highlighted two reasons. First, it acknowledged the transformation that has taken place in the ADB–PRC

¹¹ ADB, 2012, *Country Partnership Strategy, People's Republic of China 2011–2015*, 5.

relationship, the ways that ADB can benefit from lessons learned in the PRC, and the role that ADB can play in sharing this experience with other countries:

“Just as a strengthened knowledge role by ADB would be useful to the PRC, the experience that ADB gathers in the PRC in the coming years can be used by ADB in the support it offers to other countries in the Asia and Pacific region. ADB can share with these countries its experience in facilitating and brokering regional cooperation, supporting environmental protection, addressing climate change, and providing development support to lagging areas where poverty is most prevalent.

“ADB’s role as an honest broker in fostering regional cooperation is likely to gain in importance as the PRC pursues its ambitious South–South cooperation agenda, which extends beyond ADB’s borrower countries. Neighboring countries are likely to value ADB’s involvement in their dealings with a strong economy such as the PRC.”¹²

Second, the CAPE noted that the PRC still faces major challenges in which cooperation with ADB would be beneficial. The PRC’s enormous environmental challenges are affecting public well-being in myriad ways, with global and regional implications. The international community will benefit from ADB’s support to the PRC in addressing these spillovers. In addition, the CAPE noted that in about 2010 there were still more than 150 million people in the PRC living below the poverty line of \$1.25 per day. Helping to address the underlying disparities, the CAPE notes, “falls squarely within the ADB agenda.”¹³

The CAPE evaluated the ADB portfolio in the PRC as successful. The program was considered relevant, reflecting the government’s ownership. It was effective, as many projects achieved their targets and provided value addition. It was efficient, but with some implementation delays. Almost all ADB projects achieved required rates of economic returns. The program was considered likely sustainable, due to the government’s commitment to reforms in public financial management, although the fiscal situation of some provincial and municipal governments remained a concern. Development impacts were also rated satisfactory, as the objectives and priorities of the CPS were being achieved.

¹² ADB, 2015, *Country Assistance Program Evaluation. People’s Republic of China*, xi.

¹³ ADB, 2015, *Country Assistance Program Evaluation. People’s Republic of China*, xii.

The CAPE highlighted some particular strengths of the program. The government and ADB worked closely together to achieve the objectives of the CPS. ADB had sharpened its focus on knowledge and innovation, and offered a wide range of knowledge services. However, their impact on policy processes was difficult to monitor.

The CAPE's recommendations were prefaced with the observation that the PRC was now an Asian Development Fund donor, had set up the PRC Poverty Reduction and Regional Cooperation Fund, had established a large bilateral financing program, and had the world's largest foreign exchange reserves. Despite these developments, both the PRC and ADB can continue to benefit from the relationship.¹⁴ Looking ahead, the CAPE suggested that ADB could (i) strengthen its role as an honest broker in fostering cooperation with the Central Asia Regional Economic Cooperation and the Greater Mekong Subregion, and in the PRC's relations with other ADB members; (ii) vastly increase support for addressing climate change and protecting the environment; (iii) focus on addressing social inequalities and poverty; and (iv) continue to support the private sector, and engage the government in policy dialogue.¹⁵

A Country Partnership Strategy for Transformation

The most recent Country Partnership Strategy (CPS), covering 2016–2020, is aligned with the Thirteenth Five-Year Plan, which covers the same period. As with the Twelfth Five-Year Plan, ADB provided the National Development and Reform Commission with background papers, as inputs to the preparation of the Thirteenth Five-Year Plan. From 2011 to 2015, economic growth continued to decline, from 9.5% to 6.9%, highlighting the need for the PRC to adjust its growth strategy. In addition, major economic, social, and environmental challenges persisted. Consistent with these developments, the CPS outlined several major challenges.¹⁶

The PRC's principal economic challenge lay in rebalancing the economy. Consumption had risen to become the largest contributor to gross domestic product (GDP) growth (51.4% of GDP), and the share of services has also risen (48.1% of GDP). However both figures remained low compared with other countries at similar or higher income levels.

¹⁴ ADB, 2015, *Country Assistance Program Evaluation. People's Republic of China*, xvii.

¹⁵ ADB, 2015, *Country Assistance Program Evaluation. People's Republic of China*, xviii-xix.

¹⁶ ADB, 2016, *Country Partnership Strategy. Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020*, 1–2.

As in previous years, the social challenges centered around poverty. In 2014, 70 million people still lived below the poverty line of CNY2,300 per annum, and the Gini coefficient, at 0.469 indicated a slight decrease in inequality over 2008. A large gap remained between rural and urban incomes.

The environmental and climate change challenges persisted, with an estimated cost to the country's GDP of 6%–9%.¹⁷ Air quality in most major cities remained below World Health Organization standards. Water demand outstripped available supply; soil was significantly contaminated despite efforts to diversify; and at 66%, the energy mix remained coal-dominant.

By 2015, the relationship between ADB and the PRC had almost completed its evolution, and was described in the CPS as follows:

“ADB’s relationship with the PRC has evolved into a full partnership. The PRC is an important client, collaborator, and contributor to ADB. The PRC was the second largest borrower, and ADB’s private sector financing in the PRC expanded substantially during the CPS 2011–2015 period. ADB issued a series of off-shore local currency bonds to support some of its private sector operations. The PRC is also an important collaborator in the area of knowledge, such as policy research, capacity development, innovation and value addition, and development experience. Moreover, the PRC is collaborating with ADB in jointly supporting South–South knowledge cooperation. The PRC is an active participant in and important contributor to ADB’s [regional cooperation and integration] programs.”¹⁸

In the context of this changed relationship, the CPS indicated that ADB would put knowledge at the center of its operations. ADB could still add value by (i) helping to translate innovative ideas into actual projects and programs for implementation, (ii) supporting demonstration projects that can be replicated and scaled up, (iii) supporting institutional reform, and (iv) supporting private sector participation. Emphasizing the two-way nature of the partnership, the CPS noted that ADB can apply the successful experiences in the PRC to other developing member countries facing similar challenges.¹⁹

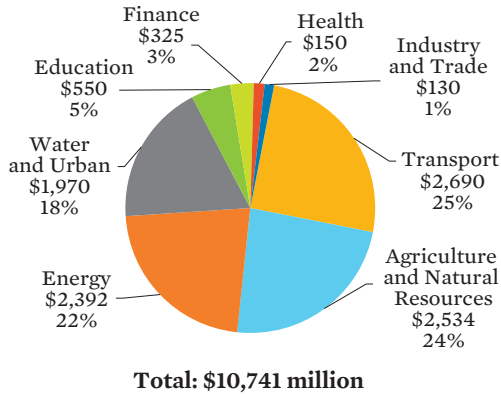
¹⁷ ADB, 2012, *Toward an Environmentally Sustainable Future: Country Environmental Analysis of the People’s Republic of China*.

¹⁸ ADB, 2016, *Country Partnership Strategy: Transforming Partnership—People’s Republic of China and Asian Development Bank, 2016–2020*, 4.

¹⁹ ADB, 2016, *Country Partnership Strategy: Transforming Partnership—People’s Republic of China and Asian Development Bank, 2016–2020*, 5–10.

Operational Summary

Figure 8.1: Operational Approvals to the PRC by Sector, 2013–2017
(\$ million, %)

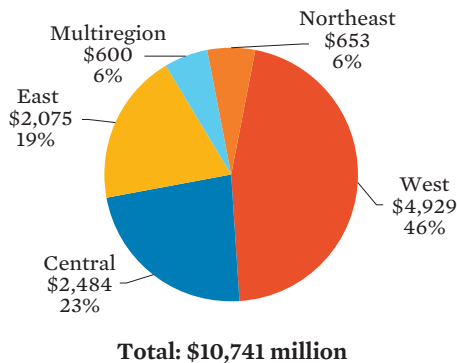


PRC = People's Republic of China.

Note: Includes loans, grants, and equity investments.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Figure 8.2: Operational Approvals to the PRC by Geographical Region, 2013–2017
(\$ million, %)



PRC = People's Republic of China.

Note: Includes loans, grants, and equity investments.

Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

Annual average lending in 2013–2017 increased to \$1.7 billion, from \$1.5 billion in 2008–2012. Reflecting the changing priorities of the government, the sector focus of lending also shifted. Transport, which was the largest sector for 2 decades from the early 1990s, declined from 49% in 2008–2012 to 25% in 2013–2017 (Figure 8.1). Reflecting a significant increase in environmentally focused lending, agriculture and natural resources (24%), energy (22%), and water and urban development (18%) increased, together accounting for 64% of loan approvals. In 2013, the PRC also started to borrow for education (5%) and in 2016, for health (2%).

Geographically, lending remained focused on the west (46%) and central (23%) regions, which together accounted for over two-thirds of lending (Figure 8.2). The increase in lending to the eastern coastal region (19%) is accounted for by large-scale projects for clean air and energy.

Major changes included increased lending for water resources and urban development. Energy sector lending focused on clean and environmentally friendly approaches, including Qinghai Concentrated Solar Thermal Power Project (2013) and smart low-carbon district energy in Qingdao (2015). In addition, the bank provided a total of \$1.3 billion of financing over 3 years (2015–2017) for air quality improvement in the highly polluted Beijing–Tianjin–Hebei area. The program pioneered several new approaches. It included ADB’s first policy-based loan to the PRC, to support policy and regulatory reforms in Hebei province, and innovative financing mechanisms to reduce air pollution (Box 8.1).

The period also marked the government’s growing recognition of the need to address labor market and skill issues linked to the PRC’s transition to higher-income levels. In 2013, following nearly 2 decades of dialogue, the government started to borrow for education. In 2013–2017, ADB approved five loans for TVET, three in the southern border of Guangxi Zhuang Autonomous Region, which has close cross-border economic ties with Viet Nam, and one each in Hunan and Guizhou provinces (Box 8.2). The education projects also helped the bank to pilot results-based lending, an innovative approach that allows funds to be disbursed for results achieved rather than being linked to expenditure. In 2016, ADB approved its first loan to support the development of elderly care (Box 8.3).

Box 8.1: Improving Air Quality in the Beijing–Tianjin–Hebei Region

The area encompassing Beijing, Tianjin, and the province of Hebei (BTH) is home to about 109 million people and accounts for 10% of the gross domestic product of the People's Republic of China (PRC). The BTH region suffers from serious air pollution caused by industrial and urban development. The high concentrations of inhalable particulate matter of less than 2.5 micrometers (PM_{2.5}) has become a major cause for concern for residents and neighboring countries.

To improve air quality in the BTH region, in 2015–2017, the Asian Development Bank (ADB) approved three loans totaling \$1.3 billion for a multisector support program. The first loan, a policy-based loan (\$300 million approved in 2015) focused on strengthening policies and regulation in Hebei province. The policy actions will help reduce Hebei's annual coal consumption by 12.4 million tons, or about 4%. They will also help to cut air pollutants and greenhouse gas emissions.

The second loan (\$499.6 million approved in 2016) will improve small and medium-sized enterprises' access to finance and help them scale up investments in pollution-reduction projects. It is also helping the PRC to mobilize domestic financing across sectors, including energy, transport, urban development, and agriculture, to improve air quality in the BTH region.

The third loan (\$499 million approved in 2017) will establish a regional emission-reduction and pollution-control facility to demonstrate advanced technologies. These include hydrogen-based low-emission transport, geothermal-based district heating, biogas and organic fertilizer production, and smart micro-grids. The facility is expected to help reduce 5 million tons of carbon dioxide emissions annually.

About \$1.5 billion of further financing is planned for 2018–2020 for the greater BTH region including parts of Henan, Liaoning, Shandong, and Shanxi provinces, and the Inner Mongolia Autonomous Region.

Sources: ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Beijing–Tianjin–Hebei Region Air Quality Improvement Hebei Policy Reforms Program*. Manila; ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for Air Quality Improvement in the Greater Beijing–Tianjin–Hebei Region—China National Investment and Guaranty Corporation's Green Financing Platform Project*. Manila; ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for Air Quality improvement in the Greater Beijing–Tianjin–Hebei Region—Regional Emission-Reduction and Pollution Control Facility*. Manila.

Box 8.2: Reforming Skills Training in Hunan

The People's Republic of China (PRC) is currently transitioning from investment and exports to consumption-led growth, and to higher value-added industries. In pursuing this transition, many provinces are experiencing skill and labor shortages. Since 2007, the province of Hunan has been reforming its technical and vocational education and training (TVET) system to help meet the human resource needs of its rapidly modernizing manufacturing industries.

To support these reforms, in 2013 the Asian Development Bank (ADB) approved a \$50 million loan to improve the province's TVET system, upgrade facilities and learning environments, and strengthen links with industry. The project is ADB's first stand-alone education loan to the PRC and is expected to play a demonstration role for the development of TVET in other parts of the country.

The project will benefit over 86,000 full-time students in certificate and diploma courses closely aligned to the needs of employers. The program will also upgrade the skills of 2,000 teachers and 500 managers. Companies will benefit from improved skill levels that are linked to better workplace productivity, product quality, and service standards. This, in turn, will benefit the provincial economy. Community and industry confidence in the TVET system is also expected to increase.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Hunan Technical and Vocational Education and Training Demonstration Project*. Manila.

Box 8.3: Developing Elderly Care

The most significant demographic challenge facing the People's Republic of China (PRC) is its aging population, which has widespread social and economic implications. To address the challenge, the PRC's Twelfth Five-Year Plan (2011–2015) supports the creation of a three-tiered elderly care system with home-based care as the base, supported by community care, and supplemented by residential care.

To support the government's efforts, ADB provided two loans to help develop elderly care services. The first, approved in 2016, was a \$50 million results-based loan to help Yichang city in Hubei province pilot integrated residential, community, and home-based elderly care services together with the private sector. The program will help Yichang to establish public–private partnerships for elderly care. Private care providers will enter into concession agreements with the municipal government to deliver innovative, elderly-friendly, and quality services.

The second loan, approved in 2017 for \$100 million, will help develop the elderly care system in Hebei province. The project will pilot innovative approaches, and upgrade five long-term care facilities. These will be run by public and private sector providers, and will serve as hubs to develop home- and community-based services. The project will also set up an elderly care training center and develop courses in caregiving and nursing, information and communication technology for elderly care, occupational therapy, and geriatric psychology.

Sources: ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan to the People's Republic of China for the Public-Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei*. Manila; ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the People's Republic of China for the Hebei Elderly Care Development Project*. Manila.

CHAPTER 9

A Success Story

“ADB’s relationship with the PRC has evolved into a full partnership. The PRC is an important client, collaborator and contributor to ADB.”

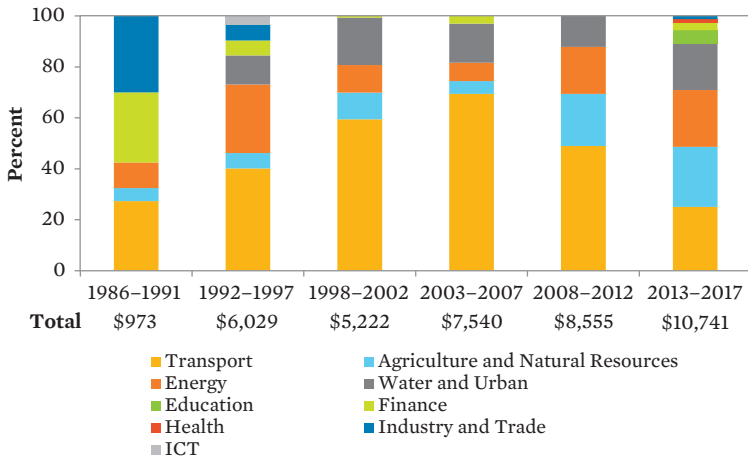
*– Asian Development Bank–People’s Republic of China
Country Partnership Strategy, 2016*

The evolution of the partnership between the Asian Development Bank (ADB) and the People’s Republic of China (PRC) over the past 3 decades offers a unique example of transformation. In this brief period, the partnership has evolved from a lender–borrower relationship to a two-way development partnership. The rapid change in the relationship was driven by the PRC’s fast-paced economic and social development, and by ADB’s ability to respond.

Support for Reform and Opening Up

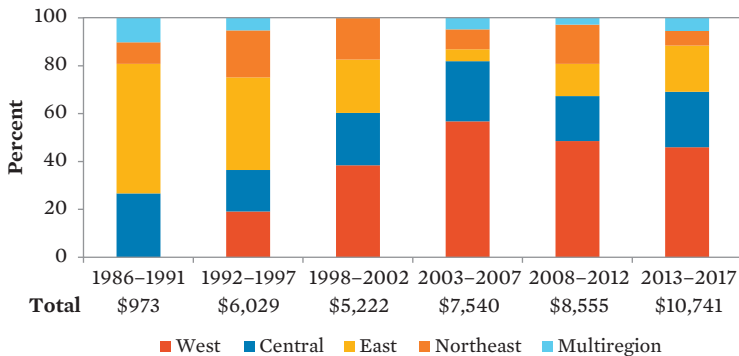
From the start of the partnership, ADB has worked closely with the government to support its policy of reform and opening up. ADB-financed loans in 1986–2017 have focused on four major sectors: transport (46%); energy (18%); water, wastewater, and urban development (15%); and agriculture and natural resources (14%) (Appendix 3, Figure 3.2). There have been significant shifts over time. Initial lending focused on finance and state-owned enterprises. In the 1990s, ADB provided financial and technical support to help address priority infrastructure investment needs in the eastern coastal region. Subsequently the focus gradually shifted to water, urban development, and natural resources, and to the lower-income northeastern, central, and western regions. These shifts are described in Figures 9.1 and 9.2. In terms of government policies and priorities, lending has supported economic reforms; economic growth; poverty reduction, particularly in the country’s less developed regions; urban development; and the environment.

Figure 9.1: Operational Approvals to the PRC by Sector and Period, 1986–2017
(\$ million, %)



ICT = information and communication technology, PRC = People's Republic of China.
 Note: Includes loans, grants, equity investments, and guarantees.
 Source: ADB loan, technical assistance, grant, and equity approvals database.

Figure 9.2: Operational Approvals to the PRC by Region and Period, 1986–2017
(\$ million, %)



PRC = People's Republic of China.
 Note: Includes loans, grants, equity investments, and guarantees.
 Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

The performance of the ADB program in the PRC has improved over time, to its current high level. The first country assistance program evaluation (CAPE), which covered the first decade of cooperation, gave the program a midpoint rating for the first years (1987–1990) and an above medium-level performance rating for the subsequent years (1991–1997).¹ Reviews during project implementation and at completion both place the performance of the PRC portfolio above bankwide averages. Of the projects implemented in the PRC in 2011–2017, the performance of 94% was satisfactory, compared with the ADB-wide rating of 92%. Of the 89 loans to the PRC reviewed on completion in 2004–2017, 85 (96%) were either highly successful or successful.

The impact of the partnership is reflected in the results. ADB loans have helped to finance the construction or upgrading of significant lengths of expressway, road, and railway infrastructure (Box 6.2); upgrade water supply, wastewater treatment, and other infrastructure in a large number of cities; introduce clean, renewable, and innovative energy solutions; and preserve and restore the country’s natural resources. Most projects generated the proposed economic and financial returns and had a positive impact on people’s daily lives.

Policy reform. Alongside its lending operations, ADB has worked closely with the government to establish an appropriate policy environment for reform and opening up. In the 1980s and 1990s, ADB’s technical assistance (TA) grants and knowledge cooperation program supported banking reform and financial sector regulation, and a wide range of other public sector reforms. ADB provided TA grants to support such issues as SOE reform and the establishment of user charges for transport infrastructure. In the mid- and late-1990s, the emphasis of policy support shifted to environmental issues and urbanization. A comprehensive series of TA grants supported the establishment of water and wastewater tariffs, and a sound policy environment to encourage private investment in water.

ADB has provided support for the preparation of the Twelfth, Thirteenth, and Fourteenth five-year plans. Since 2004, ADB has also provided the government with policy notes on a wide range of topics including the middle-income transition, population aging, low-income housing, tax reform, and carbon capture and storage. Since the turn of the millennium, policy and knowledge work has focused on the PRC’s progression from

¹ ADB, 1998, *Country Assistance Program Evaluation in the People’s Republic of China*, v.

low-cost manufacturing to the generation of higher value-addition, the country's demographic transition, and the environment.

Institutional reform. ADB has worked closely with the government to strengthen numerous ministries and agencies, including the People's Bank of China, the Ministry of Finance (MOF), and key line ministries. It has also supported important institutional reforms, including the upgrading of the State Environmental Protection Administration to a ministry.

Operational policies. ADB has worked with the central and local governments to establish suitable policies and practices for the financial, economic, environmental, and social due diligence on investment projects, and to establish procedures for their implementation. The bank's procurement procedures in particular were appreciated by the executing agencies as an effective mechanism for ensuring quality standards while obtaining the most competitive price.

Supporting private sector participation. In addition to helping to improve the efficiency of the public sector, numerous reforms helped to create a policy environment conducive to private sector participation. The introduction of user charges for infrastructure services and the strengthening of policy and regulatory frameworks played an important role in helping to attract private investment.

Helping PRC companies to compete internationally. ADB-financed projects have provided companies from the PRC with business opportunities throughout the Asia and Pacific region. As the PRC's firms have developed their capacity to export goods and services, they have gained a growing share of contracts financed under ADB projects. This has helped them to learn international good practices and build their capacity to compete internationally. It has also generated a significant return flow of financing from ADB to the PRC (Appendix 3, Figure A3.7).

Human capacity development. The partnership has also helped to develop the PRC's human resources. ADB has provided training for thousands of central and local government officials in international financial cooperation, financial sector management, project management, procurement, and many other fields for over 3 decades. ADB has also served as a training ground for staff from the PRC to gain valuable knowledge and experience. Nationals of the PRC have served capably in ADB in a wide range of positions. Many alumni have also moved on to senior positions

within the government, the financial sector, and, most recently, the newly established international financial institutions.

Success Factors

Several factors have made ADB's cooperation with the PRC uniquely successful. They also offer important lessons for other countries. Looking back over the past 3 decades, five factors stand out on the PRC side.

First, the government has articulated strategic priorities for its cooperation with ADB. Projects have been formulated in the context of national five-year plans and, in many instances, provincial development strategies. From the outset, as ADB's first country assistance program evaluation pointed out, the government undertook a significant part of the due diligence work itself before submitting project proposals to ADB.² As the partnership evolved, country program and project formulation have become more consultative. The government has consistently approached the partnership with clear priorities.

Second, the government has clearly defined policies for its borrowing from ADB. The policies governing the PRC's external borrowing were established prior to the PRC joining ADB, and have only changed gradually. They included ensuring that the borrowing agency or province had the capacity and was responsible for repaying the loan. They also included not borrowing "hard" funds for "soft" sectors, in other words not borrowing ordinary capital resources for agriculture, education, and health projects. Selected exceptions were made for agriculture projects with the capacity to generate revenue.

Generally, the PRC borrowed only about a third of the financing required for a project from ADB, with the balance coming from domestic sources and government counterpart funding. These policies helped to ensure that projects were financially sound, with a high degree of ownership by the end borrower and responsible provincial government. They also contributed to efficient implementation. The downside was that for many years, the policies precluded borrowing for education and health projects, despite the obvious economic and social returns that such loans would have generated.

² ADB, 1998, *Country Assistance Program Evaluation in the People's Republic of China*, iv–v.

Third, the government prioritizes working efficiently with ADB. The government was strongly committed to the partnership from the start, including establishing the necessary institutional arrangements and working with ADB to develop the capabilities of its staff. As the bank's second operational strategy for the PRC pointed out, the government routinely ensured that the executing agencies were capable; the projects were substantially planned and designed before being submitted to ADB; counterpart funds were in place; there was strong ownership; there was clear accountability; and there was a strong financial commitment for repayment.³ As a result, projects performed well and were generally delivered efficiently and on time. The ADB's loan portfolio in the PRC is among the bank's top performers.

Fourth, the government and ADB have well-established mechanisms for cooperation. The MOF and other government agencies have systematic mechanisms for programming the PRC's cooperation with ADB, and for working with the borrowing agencies at the provincial and local levels. The MOF, the National Development and Reform Commission, and other government agencies hold regular annual consultations with ADB on the programming of loan and technical assistance (TA) grant resources, and undertake regular joint reviews of the implementation of the loan portfolio. The government uses these effectively to solve problems and build consensus with borrowing agencies and ADB.

Fifth, and perhaps most important, the government works closely with ADB to "cross the river by feeling the stones." At the start of the partnership, the PRC was a low-income country, but it was clear that it was not borrowing from ADB simply to fill a revenue gap. Initially, the PRC borrowed to upgrade the technology of selected SOEs, and for infrastructure that required foreign exchange and external expertise. Subsequently, borrowing shifted to urban development, natural resource and environmental management, transport management, and clean energy, often with a focus on developing new approaches. Most recently it has shifted to education and elderly care.

From the outset, piloting, replication, and dissemination of successful outcomes were key elements of the partnership. The approach is an integral part of the PRC's development model. Initially, the PRC pilots and develops new approaches in a few selected locations. Once innovations have been

³ ADB, 1996, *Country Operational Strategy Study, People's Republic of China*, ii.

successfully piloted and refined, in the next stage they are disseminated widely. In its study on cooperation with international financial institutions, MOF also clearly articulated its approach of using international financial institution financing to innovate, carry out pilot projects, and replicate good practices in other parts of the country.⁴ This gradualist and experimental approach to innovation is unique to the PRC and offers a model for other countries to emulate.

Many of the examples cited in the preceding pages show how the government has made effective use of ADB loans and grants to pilot and experiment with new approaches, and, once they are successful, disseminate and replicate the results. In the early 1990s, ADB-financed TA grants successfully piloted the use of tolls on the Nanpu bridge in Shanghai and a fishing moratorium in the Zhoushan Archipelago. The government applied the results of both pilot projects widely. Subsequently, there have been many examples of piloting followed by dissemination, from water and wastewater tariffs, and urban transport management to environmentally-friendly energy, including the coal mine methane project in Shanxi province, piloting integrated gasification combined cycle in Tianjin, and cleaning the air in Beijing. To address the PRC's transition to a higher-income level and population aging, ADB is currently working with the government to develop new approaches to technical and vocational education and training and elderly care.

ADB was likewise strongly committed to the relationship from the start, established necessary institutional arrangements, and assigned capable staff to handle its cooperation with the PRC. In 2000, this commitment was strengthened with the establishment of the PRC Resident Mission, which is currently one of the bank's largest field offices. Over the years, ADB has demonstrated a high degree of responsiveness to the needs of the PRC. It has provided loans and TA grants to support priority government projects in a wide range of areas. It has also supported capacity development, policy and knowledge work. More recently it has supported the PRC in its expanding role as a leader of South–South cooperation.

⁴ Zheng (ed.), 2010, *Innovation and Development, Collection of Good Practice Projects on Management of Projects Financed by International Financial Institutions*, i.

CHAPTER 10

Looking Ahead

“Yet, large challenges remain, and new ones are emerging. There is still persistent poverty. We must address rising inequality, growing environmental pressures, and rapid urbanization. Aging in some countries and an increasing youth population in others present opportunities as well as challenges.”

– Takehiko Nakao, Address at the ADB Annual Meeting, 2018

The People’s Republic of China (PRC) joined the Asian Development Bank (ADB) more than 3 decades ago, on 10 March 1986. At the time it was a low-income country in need of support for its own economic development. The partnership with ADB provided the PRC with financial, technical, and knowledge support. In the ensuing decades, the relationship would evolve into a full-fledged partnership. In many ways the relationship has evolved faster than ADB’s relationship with any of its other developing member countries.

Moreover, there is no reason to expect the pace to slow. On the contrary, the global and regional environments are changing fast, and the PRC has set ambitious targets for itself. At the 19th National Congress of the Communist Party of China in October 2017, General Secretary Xi Jinping mapped out a two-stage development plan for the PRC to achieve socialist modernization, by 2035, achieve full modernization, and become a great modern socialist country by the middle of the 21st century.¹ The Government of the PRC and ADB will need to work closely together to ensure that their partnership remains responsive to these evolving needs as the PRC strives to fulfill these ambitions.

¹ Xi, 2017, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era,” 23–25.

The countries of the Asia and Pacific region recovered quickly from the Asian financial crisis, weathered the global financial crisis, and are well-positioned to continue on their fast-paced development trajectory. However, the region's major economies, including the PRC, also face a long list of challenges. As Peter McCawley points out in his history of the ADB, Asia's rise is not preordained.²

The overarching challenge is for ADB and the PRC to work together to address the next stage of the PRC's reform and opening up. Xi Jinping's report to the 19th National Congress of the Communist Party of China sets out an ambitious agenda for the construction of "socialism with Chinese characteristics in the new era." Xi's report envisages a comprehensive deepening of the reforms and the continued modernization of governance systems.³ It also maps out a new vision for modernizing the economy. This includes structural reforms, stepped up innovation, rural vitalization, coordinated regional development, and a range of measures to improve the socialist market economy.⁴

* * *

In his speech at the China Development Forum in March 2018, ADB President Takehiko Nakao highlighted three major challenges the PRC will face in the new era. The first is inclusiveness. The PRC needs to ensure that the entire population can enjoy the fruits of growth. The PRC has lifted millions out of poverty, but growing inequality remains a concern. The second challenge is to tackle climate change and promote a cleaner environment. In many ways, the PRC already champions a green economy and is a crucial player in global efforts to mitigate climate change. Third, President Nakao noted the challenge posed by the PRC's rapidly aging population. As a result, the working-age population started to decline in 2014, while the dependency ratio is expected to increase from its current level of 16% to over 30% by the mid-2030s.⁵

² McCawley, 2017, *Banking on the Future of Asia and the Pacific*, 358.

³ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 15–18.

⁴ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 25–31.

⁵ Nakao, 2018, "China's Achievements over the Past 40 Years and Challenges in the New Era."

In further modernizing its economy, the PRC stands to benefit from cooperation with ADB in several key areas. First, there is the policy agenda. The PRC is currently undergoing a transition from an economic growth model driven by exports and investment to consumption- and services-led growth, and from low-cost manufacturing to technology-driven production with higher value-addition. This provides scope for significant policy cooperation with ADB in the coming years.

Second is the environmental challenge. Xi Jinping's report highlights environmental concerns and the measures needed to turn the PRC into an ecological society. These include promoting green development, solving prominent environmental problems, intensifying the protection of ecosystems, and reforming environmental regulation.⁶ ADB and the PRC have been working together on urban development, water supply and wastewater, natural resources management, clean energy, and climate change since the 1990s. Building on past cooperation and addressing new environmental priorities provide scope for cooperation for many years to come.

Third, the PRC faces a major urban challenge. At 59%, the PRC's degree of urbanization is still modest compared with developed economies. The PRC's cities are expected to continue to expand for several decades, which will put enormous strain on infrastructure and the environment. The government is addressing the challenge by developing large urban clusters that require consolidated planning and large-scale infrastructure and environmental investments. ADB is currently investing in air quality improvement in the Greater Beijing–Tianjin–Hebei region, and has worked with the government since 2015 on planning large-scale support for the Yangtze River Economic Belt.

Fourth, vitalizing rural areas is a major challenge. Despite the PRC's impressive achievements in reducing poverty over the past 4 decades, large disparities remain between urban and rural areas, many of which have been left behind. About 41% of the population lives in rural areas, mainly in small villages that lack sanitation and offer limited prospects for employment and income generation. The problem is acknowledged in Xi Jinping's report, which also maps out a strategy for rural vitalization.

⁶ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 45–47.

ADB and the government are discussing ways of working together to implement the strategy.

Fifth, the rapidly changing technological and demographic landscape is giving rise to new challenges. The fourth industrial revolution is taking shape quickly and will have far-reaching consequences for production technology, communication, labor markets, and jobs. The digital economy, new technologies and automation, including the rapidly expanding role of artificial intelligence and robotics, will create many new jobs but will also make millions of workers redundant. This will put pressure on the PRC's labor market, education and skills training system, and the related government policies and programs. Rapid population aging, again, will put pressure on the PRC's social protection systems.

The new challenges are acknowledged in Xi Jinping's report, which describes measures to improve people's well-being and develop new approaches to social governance. These include improving education, further developing technical and vocational education and training, strengthening of the social security system, and improving healthcare services and elderly care.⁷ The theme of ADB's *Asian Development Outlook 2018* is the impact of technology on employment. The report is generally optimistic that new technologies will improve productivity, lower production costs, and raise demand. However, it notes that this will require policy makers to pursue education reforms, maintain labor market flexibility, strengthen social protection systems, and reduce income inequality.⁸ ADB and the PRC are already cooperating in several of these areas.

Sixth, regional cooperation and integration mechanisms offer significant scope for continued partnership. ADB's recently published Strategy 2030 sets the course for the bank to address the region's changing needs in the coming decade, and identifies regional cooperation and integration as one of seven key operational priorities.⁹ The PRC has participated proactively in existing ADB-led programs, in particular the Central Asia Regional Economic Cooperation program and the Greater Mekong Subregion. This cooperation will continue to evolve.

⁷ Xi, 2017, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," 40–45.

⁸ ADB, 2018, *Asian Development Outlook 2018: How Technology Affects Jobs*.

⁹ ADB, 2018, *Strategy 2030. Achieving a Prosperous, Inclusive, Resilient and Sustainable Asia and the Pacific*.

Finally, the rapidly changing global landscape offers new opportunities for knowledge sharing and financial partnerships. Many countries in the region are facing challenges. International cooperation and exchange of experience on these issues can bring significant added value to all concerned. The PRC has amassed a wealth of experience that it can share, and will continue to benefit from lessons from others. ADB and other international financial institutions can continue to play an important catalytic role.

The evolving Asian financial architecture provides an opportunity to explore new ways of working together. The rapidly expanding Belt and Road Initiative offers scope for the PRC and ADB to cooperate. The recently established Asian Infrastructure Investment Bank and New Development Bank also provide significant potential for new partnerships. With its wealth of experience in the region, ADB is already working closely with the new institutions, to the mutual benefit of all parties.

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APPENDIXES

1. Milestones in ADB–PRC Cooperation, 1985–2017

2. People’s Republic of China Overview Charts

- Figure A2.1 Gross Domestic Product Annual Growth Rate, 1986–2017
- Figure A2.2 Gross Domestic Product per Capita, 1986–2017
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3. Asian Development Bank and the People’s Republic of China: Charts and Tables

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**4. ADB's Nonsovereign and Private Sector Operations
in the People's Republic of China**

Table A4.1 ADB's Nonsovereign Operations in the PRC by Sector
and Period, 1988–2017

Figure A4.1 ADB's Nonsovereign Operations in the PRC by Year,
1988–2017

Figure A4.2 ADB's Nonsovereign Operations in the PRC by Sector,
1998–2017

1. Milestones in ADB–PRC Cooperation, 1985–2017

Date		Event
1985	November	The PRC formally applies to become a member of ADB
1986	January	ADB Board of Directors approves the PRC's membership application
	February	ADB Board of Governors approves a resolution on the accession of the PRC
	March	The PRC completes its domestic procedures and officially becomes a member of ADB
1987	September	ADB Board of Directors approves the first loan to the PRC, a credit line to China Investment Bank
	July	The PRC's first executive director, Kong Fannong, assumes office
1989	April	ADB finalizes its first country program for the PRC
	May	The PRC hosts the ADB Annual Meeting in Beijing
1991	February	ADB finalizes its first operational strategy for the PRC
1998		Responsibility for relations with ADB shifts from PBOC to MOF
2000	February	ADB approves the establishment of the PRC Resident Mission in Beijing
	May	At the ADB annual meeting, the PRC joins the other ASEAN+3 countries in signing the Chiang Mai declaration, which leads to the establishment of the Chiang Mai Initiative (later the Chiang Mai Initiative Multilateralization)
2001	September	The PRC hosts the APEC Finance Ministers' meeting in Suzhou, which leads to the establishment of the Asia-Pacific Finance and Development Program (later the Asia-Pacific Finance and Development Institute)

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Table *continued*

Date		Event
2002	May	The PRC hosts the ADB Annual Meeting in Shanghai
2003	August	The PRC Vice Minister of Finance Jin Liqun is appointed vice-president in ADB, the first national of the PRC to hold a senior management position in ADB
	September	The PRC hosts the GMS Ministerial Conference in Dali, Yunnan
2005	March	The PRC establishes the PRCF with an initial contribution of \$20 million
	April	The PRC pledges \$30 million to ADF IX
	July	The PRC hosts the GMS Summit in Kunming, which leads to “Kunming Declaration”
2006	October	The PRC hosts the CAREC Ministerial Conference in Urumqi
2008	September	The Export–Import Bank of China Vice-President Zhao Xiaoyu is appointed ADB vice-president, succeeding Jin Liqun whose term ended in July 2008
2009	March	The PRC pledges \$35 million to ADF X
	November	Shanghai hosts the first of three South–South cooperation knowledge sharing events, a workshop on sustainable urbanization
2012	March	The PRC replenishes the PRCF by \$20 million
	August	The ADB–PRC Regional Knowledge Sharing Initiative is launched in Beijing
	October	The PRC hosts the CAREC Ministerial Conference in Wuhan, which adopted the “Wuhan Action Plan”
	December	The PRC hosts the GMS Ministerial Conference in Nanning

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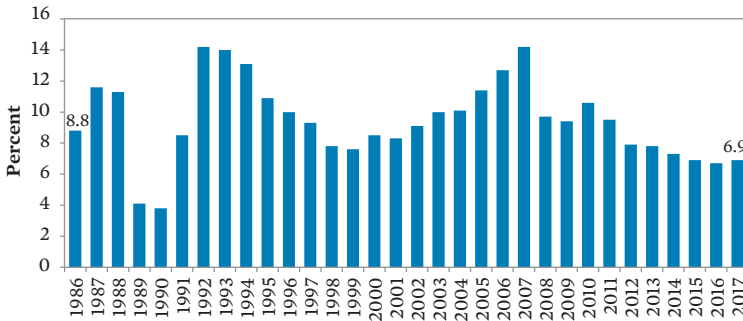
Table *continued*

Date		Event
2013	March	The PRC pledges \$45 million to ADF XI
	December	The PRC Ministry of Finance Director General Zhang Wencai is appointed ADB vice-president, succeeding Zhao Xiaoyu whose term ended in December 2013
2017	March	The PRC pledges \$100 million to ADF 12
	July	The PRC replenishes the PRCF by \$50 million
	September	The PRC hosts the launching of the CAREC Institute in Urumqi

ADB = Asian Development Bank; ADF = Asian Development Fund; APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN members + Japan, the People's Republic of China, and the Republic of Korea; CAREC = Central Asia Regional Economic Cooperation; GMS = Greater Mekong Subregion; MOF = Ministry of Finance (of the PRC); PBOC = People's Bank of China; PRC = People's Republic of China; PRCF = PRC Poverty Reduction and Regional Cooperation Fund. Sources: ADB. <https://www.adb.org/>; CAREC. <https://www.carecprogram.org/>; ADB. GMS. <https://adb.org/countries/gms/main>.

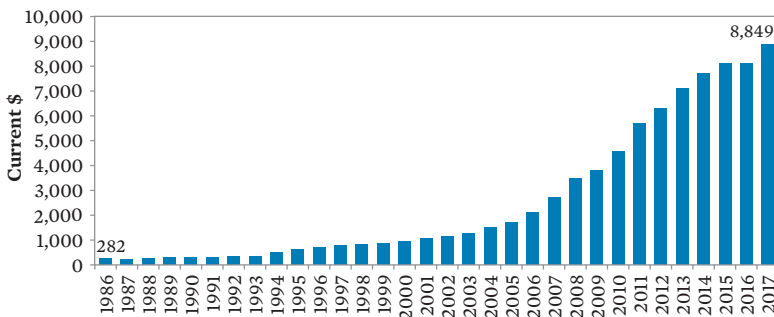
2. People's Republic of China Overview Charts

Figure A2.1: Gross Domestic Product Annual Growth Rate, 1986–2017 (%)



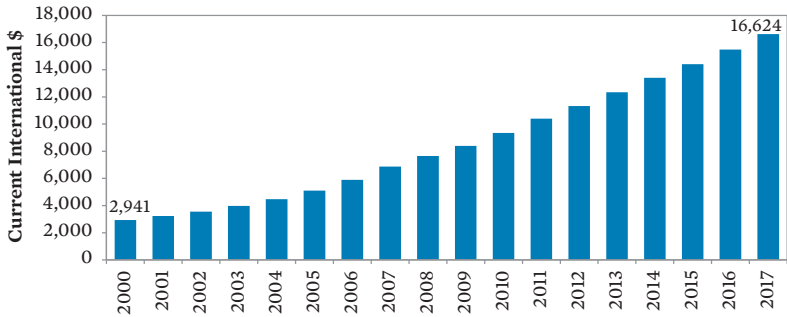
Sources: ADB Statistical Database System. <https://sdbs.adb.org/sdbs> (accessed 31 January 2018); *Asian Development Outlook 2018*.

Figure A2.2: Gross Domestic Product per Capita, 1986–2017 (Current \$)



Sources: ADB. *Asian Development Outlook 2018*. Manila; World Bank, *World Development Indicators* online database, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN> (accessed 31 January 2018).

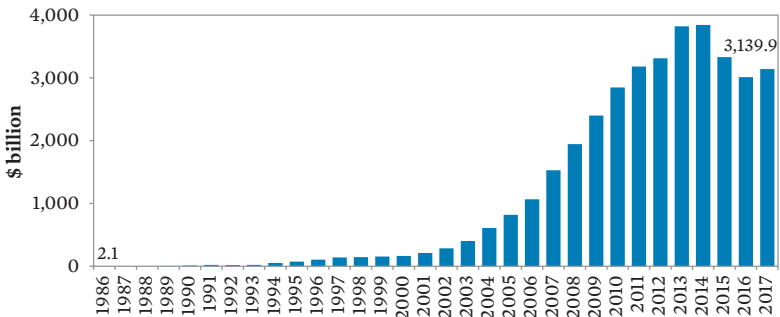
Figure A2.3: Gross Domestic Product per Capita, PPP, 2000–2017
(Current international \$)



PPP = purchasing power parity.

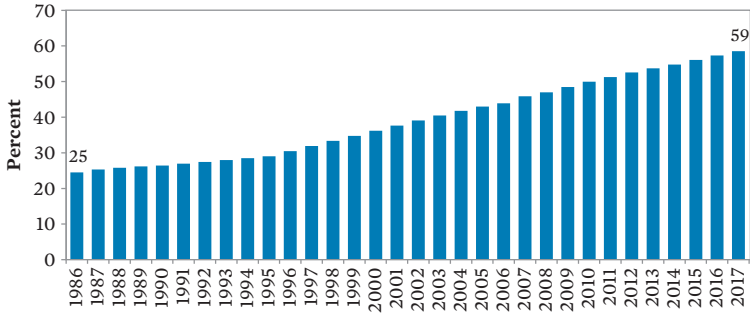
Sources: ADB Statistical Database System. <https://sdfs.adb.org/sdfs> (accessed 31 January 2018). World Bank. *World Economic Outlook 2017* estimate. <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx>.

Figure A2.4: Foreign Exchange Reserves, 1986–2017
(\$ billion)



Source: Government of the People's Republic of China, State Administration of Foreign Exchange. <https://www.safe.gov.cn/en/> (accessed 28 February 2018).

Figure A2.5: Population Living in Urban Areas, 1986–2017
(%)



Sources: ADB Statistical Database System. <https://sdfs.adb.org/sdfs> (accessed 1 February 2018); CEIC. <https://www.ceicdata.com> (accessed 20 April 2018).

3. Asian Development Bank and the People's Republic of China: Charts and Tables

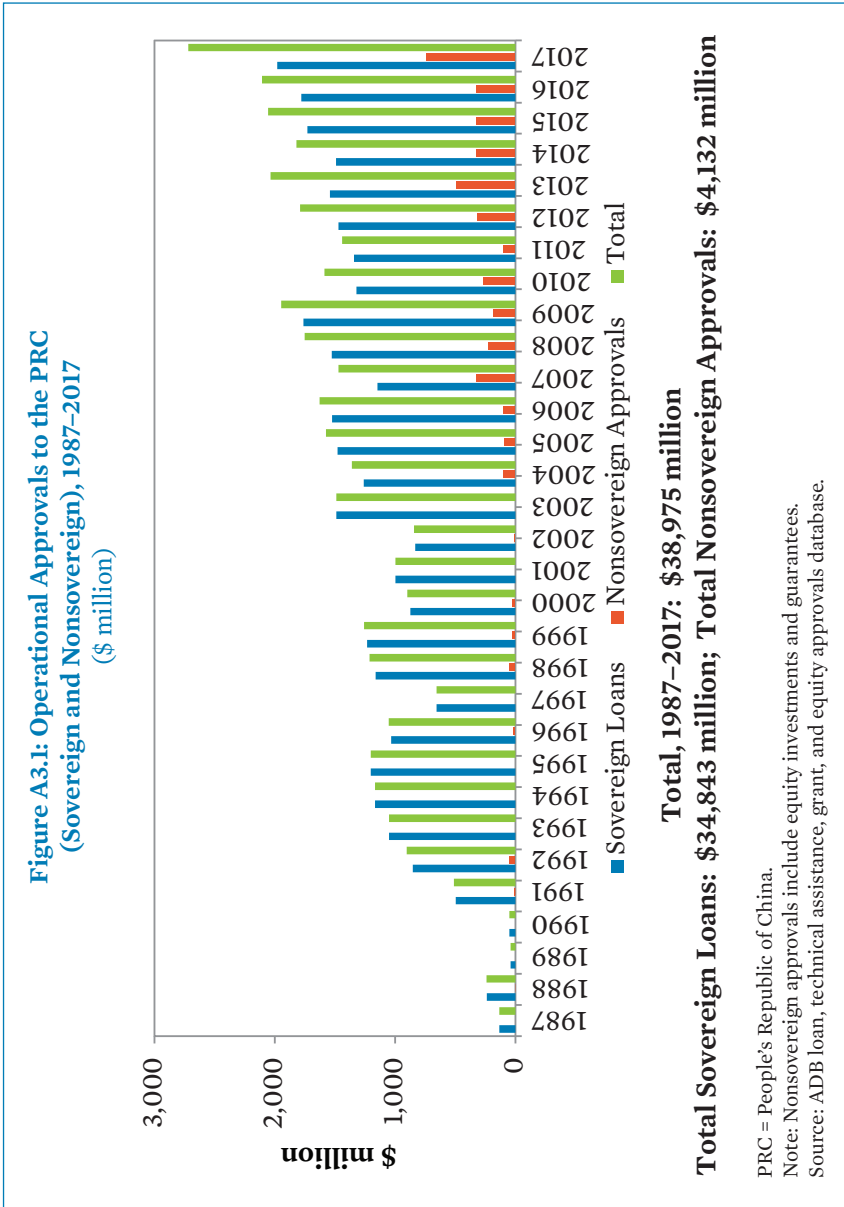
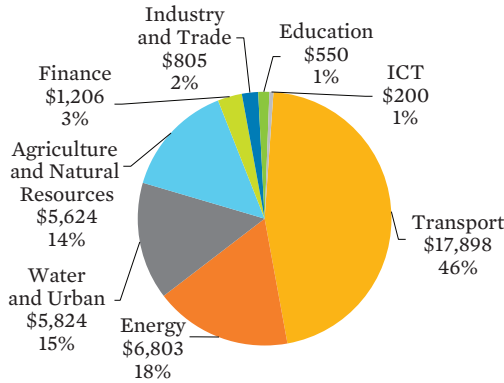


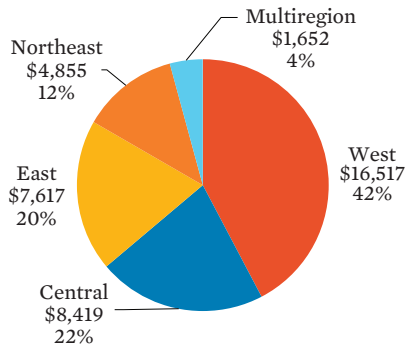
Figure A3.2: Operational Approvals to the PRC by Sector, 1986–2017
(\$ million, %)



Total, 1986–2017: \$39,060 million

ICT = information and communication technology, PRC = People's Republic of China.
Notes: Operational approvals include loans, grants, equity investments, and guarantees.
Negligible share of health (\$150 million) not shown in chart.
Source: ADB loan, technical assistance, grant, and equity approvals database.

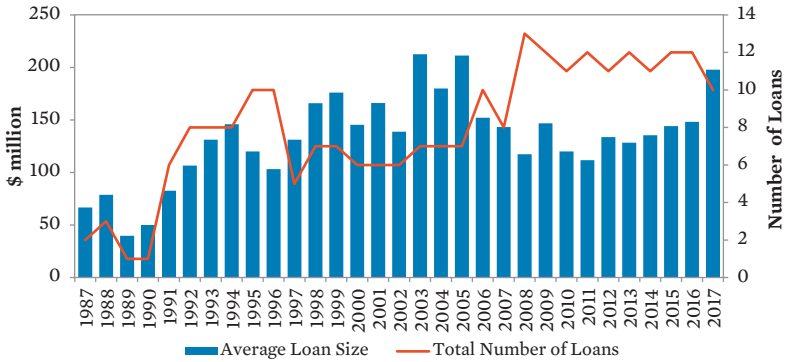
Figure A3.3: Operational Approvals to the PRC by Geographical Region, 1986–2017
(\$ million, %)



Total, 1986–2017: \$39,060 million

PRC = People's Republic of China.
Note: Operational approvals include loans, grants, equity investments, and guarantees.
Sources: ADB loan, technical assistance, grant, and equity approvals database; project documents.

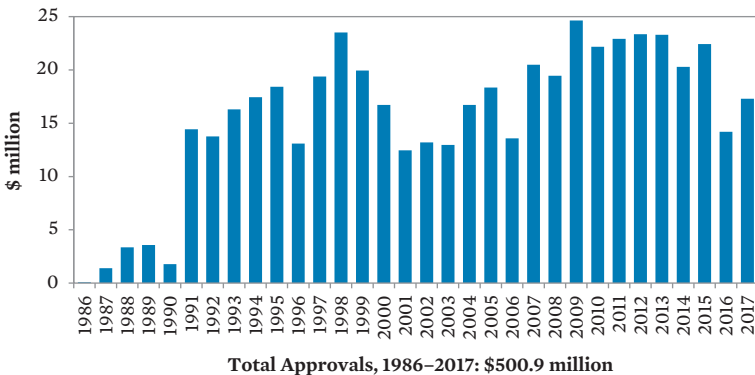
Figure A3.4: Average Size of Sovereign Loans to the PRC by Year, 1987–2017



PRC = People's Republic of China.

Source: ADB loan, technical assistance, grant, and equity approvals database.

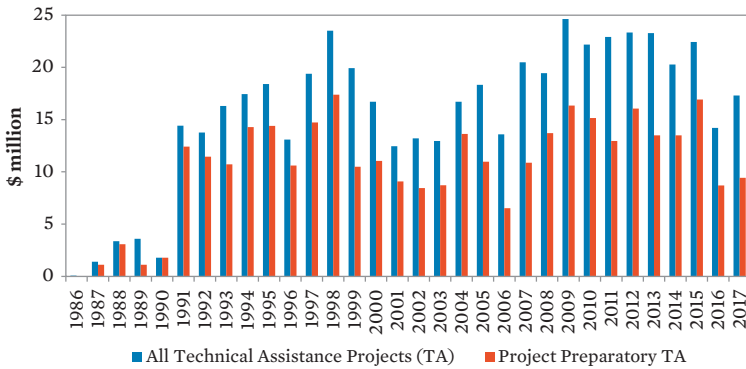
Figure A3.5: Technical Assistance Approvals to the PRC, 1986–2017 (\$ million)



PRC = People's Republic of China.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Figure A3.6: Technical Assistance for Projects and Project Preparation Approvals to the PRC, 1986–2017
(\$ million)

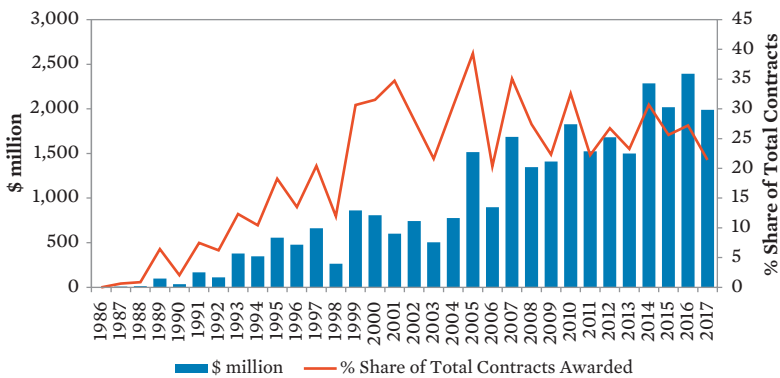


Total Approvals, 1986–2017: \$500.9 million

PRC = People's Republic of China.

Source: ADB loan, TA, grant, and equity approvals database.

Figure A3.7: Contracts Awarded to Firms from the PRC, 1986–2017
(\$ million, share of total contracts awarded)



Total: PRC = \$29,498 million

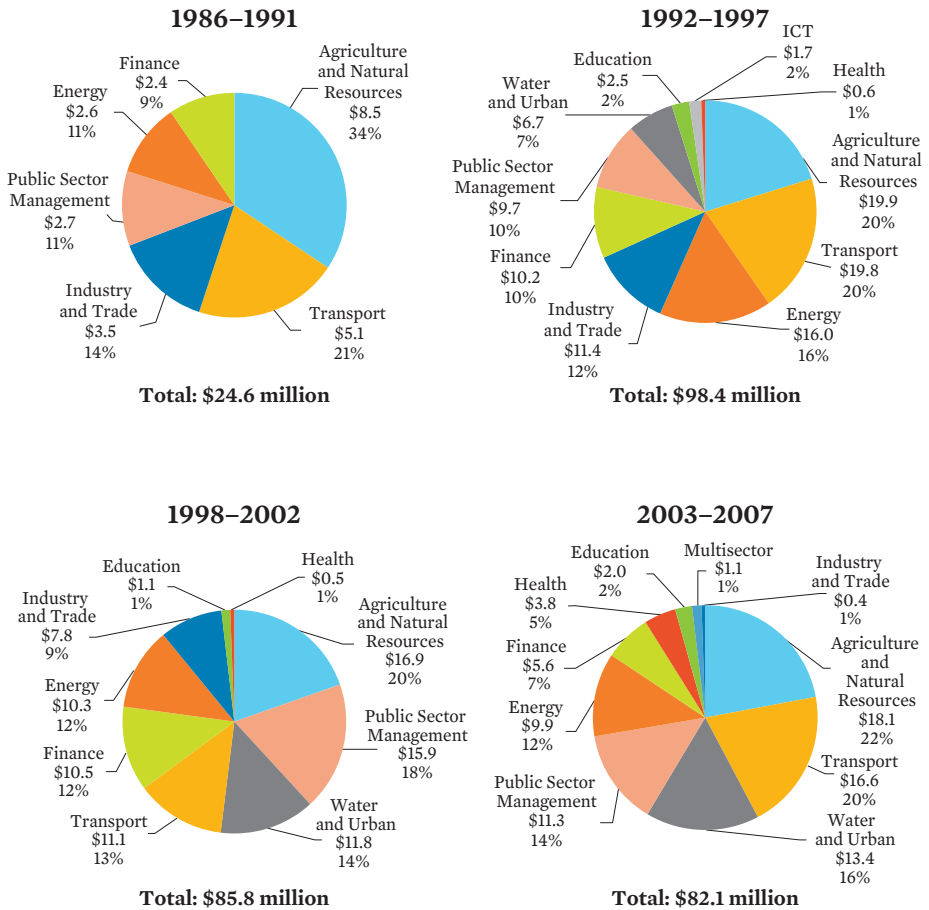
ADB = \$127,761 million

ADB = Asian Development Bank, PRC = People's Republic of China.

Note: Excludes policy-based lending.

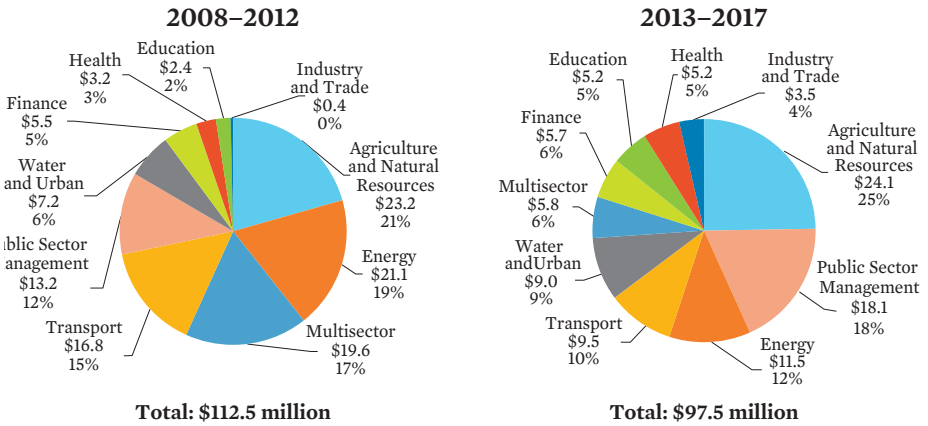
Source: ADB Procurement, Portfolio and Financial Management Department.

Figure A3.8: Technical Assistance Approvals to the PRC by Sector, 1986–2017
(\$ million and %)



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Figure A3.8 *continued*



ICT = information and communication technology, PRC = People's Republic of China.
 Source: ADB loan, technical assistance, grant, and equity approvals database.

Table A3.1: ADB Operational Approvals to the PRC, by Year of Approval and Amount, 1986–2017

Year/Project Title	Amount (\$ million)
1987	133.3
China Investment Bank	100.0
Fuel Conversion Project	33.3
1988	239.4
Qingdao Tire Development Project	86.8
Shanghai Investment and Trust Corporation Project	100.0
Hexian Pulp Mill Project	49.6
Shanghai Investment and Trust Corporation Shanghai SITCO Enterprise Co. Ltd.	3.0
1989	39.7
Shanxi–Xiaoliu Railway Project	39.7
1990	50.0
Agricultural Bank of China	50.0
1991	510.6
Shanghai–Nanpu Bridge Project	70.0
Yaogu–Maoming Railway Project	67.5
Shanxi–Liulin Thermal Power Project	65.0
Industrial and Commercial Bank of China	100.0
Anqing Acrylic Fiber Project	105.0
Ports Development Project	88.8
Xiamen International Bank (XIB)	10.3
China Assets (Holdings) Ltd., Hong Kong, China	4.0
1992	903.0
Lai-Wu Iron and Steel Mill Modernization and Expansion Project	133.0
Guang–Mei–Shan Railway Project	200.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Shenyang–Benxi Highway Project	50.0
Guangdong Tropical Crops Development Project	55.0
Industrial Energy Conservation and Environment Improvement Project	107.0
Shanghai Yangpu Bridge Project	85.0
Qingdao Environmental Improvement Project	103.0
Industrial Technology Finance Project	120.0
Guangzhou Pearl River Power Co., Ltd.	50.0
1993	1,050.0
Hefei–Jiujiang Railway Project	110.0
Guangzhou Pumped Storage Stage II Project	200.0
Telecommunications Project	100.0
Fertilizer Industry Restructuring (Sector) Project	250.0
Hunan Expressway Project	74.0
Jilin Expressway Project	126.0
Tangshan and Chengde Environmental Improvement Project	140.0
China Agribusiness Development Trust and Investment Corporation Project	50.0
1994	1,167.0
Yunnan–Simao Forestation and Sustainable Wood Utilization Project	77.0
Jing-Jiu Railway Technical Enhancement Project	200.0
Dalian Water Supply Project	160.0
Hunan Lingjintan Hydropower Project	116.0
Heilongjiang Expressway Project	142.0
Yunnan Expressway Project	150.0
Qitaihe Thermal Energy and Environmental Improvement Project	165.0
Beijing Environmental Improvement Project	157.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
1995	1,201.0
Second Agricultural Bank of China Project	100.0
Hainan Agriculture and Natural Resources Development Project	53.0
Second Telecommunications Project	100.0
Fujian Soil Conservation and Rural Development Project	65.0
Hebei Expressway Project	220.0
Liaoning Expressway Project	100.0
Henan Power Project	200.0
Second Yantai Port Project	63.0
Fujian Mianhuatan Hydropower Project	170.0
Ping Hu Oil and Gas Development Project	130.0
1996	1,052.0
Fangcheng Port Project	52.0
Second Industrial Energy Efficiency and Environment Improvement Project	178.0
Daxian–Wanxian Railway Project	100.0
Anhui Fuyang Engineering Technical Assistance Project	2.0
Chongqing Expressway Project	150.0
Everbright Bank of China Project	80.0
Shenyang–Jinzhou Expressway Project	200.0
Jiangxi Expressway Project	150.0
Anhui Environmental Improvement Project for Municipal Wastewater Treatment	28.0
Anhui Environmental Improvement Project for Industrial Pollution Abatement	112.0
1997	656.0
Xi'an–Xianyang–Tongchuan Environment Improvement Project	156.0
Zhejiang–Shanxi Water Supply Project (Phase I)	100.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Shenmu–Yanan Railway Project	200.0
Northeast Power Transmission Project	150.0
Xiamen Port Project	50.0
1998	1,212.0
Hebei Roads Development Project	180.0
Guizhou–Shuibai Railway Project	140.0
Fuzhou Water Supply and Wastewater Treatment Project	102.0
Chengdu–Nanchong Expressway Project	250.0
Changchun–Harbin Expressway Project: Hashuang Expressway	170.0
Changchun–Harbin Expressway Project: Changyu Expressway	220.0
Yunnan Dachaoshan Power Transmission Project	100.0
Fujian Pacific Electric Co. Ltd.	50.0
1999	1,258.5
Northeast Flood Damage Rehabilitation Project: Inner Mongolia Autonomous Region	110.0
Northeast Flood Damage Rehabilitation Project: Heilongjiang Province	110.0
Northeast Flood Damage Rehabilitation Project: Jilin Province	110.0
Southern Yunnan Road Development Project	250.0
Suzhou Creek Rehabilitation Project	300.0
Shanxi Road Development Project	250.0
Shanxi Environment Improvement Project	102.0
Chengdu Generale Des Eaux-Marubeni Waterworks Co. Ltd	26.5
2000	903.3
Hefei–Xi'an Railway Project	300.0
Chongqing–Guizhou Roads Development Project (Leichong Expressway)	120.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Chongqing–Guizhou Roads Development Project (Chongzun Expressway)	200.0
Tianjin Wastewater Treatment and Water Resources Protection Project	130.0
West Henan Agricultural Development Project	64.3
Wind Power Development Project	58.0
Wind Power Development Project (Grant)	6.0
Liberty New World China Enterprises Investments, Limited Partnership	25.0
2001	998.3
Yellow River Flood Management (Sector) Project	150.0
Shaanxi Roads Development Project	250.0
Ganzhou–Longyan Railway Project	200.0
Guangxi Roads Development Project	150.0
Acid Rain Control and Environmental Improvement Project	147.0
Shen-Da Power Transmission and Grid Rehabilitation Project	100.0
Flood Forecasting and Early Warning System in the Yellow River Project (Grant)	0.3
Innovations for Participatory Flood Control by the Poor Along the Yellow River Project (Grant)	1.0
2002	849.8
Southern Sichuan Roads Development Project	300.0
Songhua River Flood Management Sector Project	150.0
Hebei Zhanghewan Pumped Storage Project	144.0
Efficient Utilization of Agricultural Wastes Project	33.1
Shanxi Road Development II Project	124.0
Hebei Province Wastewater Management Project	82.4
Efficient Utilization of Agricultural Wastes Project (Grant)	6.4
China Environment Fund 2002, LP	3.0
China Environment Fund 2004, LP	7.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
2003	1,488.0
Harbin Water Supply Project	100.0
Wuhan Wastewater Management Project	83.0
Ningxia Roads Development Project	250.0
Western Yunnan Roads Development Project	250.0
Xi'an Urban Transport Project	270.0
Gansu Clean Energy Development Project	35.0
Yichang–Wanzhou Railway Project	500.0
2004	1,367.6
Fujian Soil Conservation and Rural Development II Project	80.0
Hunan Roads Development II Project	312.5
Guangxi Roads Development II Project	200.0
Liaoning Environmental Improvement Project	70.0
Dali–Lijiang Railway Project	180.0
Gansu Roads Development Project	300.0
Coal Mine Methane Development Project	117.4
Capacity Building to Combat Land Degradation Project (Grant)	7.7
Yangtze Special Situations Fund	45.0
Credit Oriented Group Ltd.	10.0
Actis China Fund 2 LP	45.0
2005	1,586.7
Sanjiang Plain Wetlands Protection Project	15.0
Jilin Water Supply and Sewerage Development Project	100.0
Fuzhou Environmental Improvement Project	55.8
Central Sichuan Roads Development Project	600.0
Zhengzhou–Xi'an Railway Project	400.0
Henan Wastewater Management and Water Supply Sector Project	100.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Hunan Roads Development III Project	208.0
Sanjiang Plain Wetlands Protection Project (Grant)	12.1
Bank of China	75.0
Business Development Bank Limited	20.7
2006	1,627.0
Shandong Hai River Basin Pollution Control Project	80.0
Guangxi Nanning Urban Environmental Upgrading Project	100.0
Wuhan Wastewater and Stormwater Management Project	100.0
Hunan Flood Management Sector Project	200.0
Heilongjiang Road Network Development Project	200.0
Inner Mongolia Autonomous Region Environment Improvement Project	120.0
Taiyuan–Zhongwei Railway Project	300.0
Southern Gansu Roads Development Project	300.0
Gansu Heihe Rural Hydropower Development Investment Program – Tranche 1: Erlongshan Hydropower Project	22.0
Nanjing Qinhuai River Environmental Improvement Project	100.0
Hangzhou City Commercial Bank Co., Ltd.	30.0
Municipal Natural Gas Infrastructure Development Project	105.0
2007	1,470.7
Anhui Hefei Urban Environment Improvement Project	150.0
Eastern Sichuan Roads Development Project	200.0
Western Guangxi Roads Development Project	300.0
Jilin Urban Environmental Improvement Project	100.0
Kunming Qingshuihai Water Supply Project	80.0
Railway Safety Enhancement Project	100.0
Xinjiang Regional Road Improvement Project (Korla–Kuqa Section)	150.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Henan Sustainable Agriculture and Productivity Improvement Project	66.7
Credit Orientwise Group Limited	3.0
Energy Efficiency Multi-Project Financing Program	107.0
Asia Training and Research Initiative on Urban Management Project Development Facility	4.0
Central and Western Airports Development Project	210.0
2008	1,755.8
Gansu Baiyin Urban Development Project	80.0
Gansu Heihe Rural Hydropower Development Investment Program – Tranche 2: Dagushan Hydropower Project	28.0
Xinjiang Municipal Infrastructure and Environmental Improvement Project	105.0
Guangdong Energy Efficiency and Environment Improvement Investment Program – Tranche 1	35.0
Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin Project	100.0
Ningxia Integrated Ecosystem and Agricultural Development Project	100.0
Central Yunnan Roads Development Project	200.0
Lanzhou–Chongqing Railway Development Project	300.0
Dryland Sustainable Agriculture Project	83.0
Chongqing–Lichuan Railway Development Project	150.0
Songhua River Basin Water Pollution Control and Management Project	200.0
Guangxi Wuzhou Urban Development Project	100.0
Qingdao Water Resources and Wetland Protection Project	45.0
Capacity Building for Energy Efficiency Implementation (Grant)	0.8
Ningxia Integrated Ecosystem and Agricultural Development Project (Grant)	4.6

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Dryland Sustainable Agriculture Project (Grant)	0.4
Municipal District Energy Infrastructure Development Project	200.0
Inner Mongolia Wind Power Project	24.1
2009	1,955.5
Emergency Assistance for Wenchuan Earthquake Reconstruction Project	400.0
Xinjiang Urban Transport and Environmental Improvement Project	100.0
Liaoning Small Cities and Towns Development Demonstration Sector Project	100.0
Shaanxi Qinling Biodiversity Conservation and Demonstration Project	40.0
Guiyang Integrated Water Resource Management (Sector) Project	150.0
Hebei Small Cities and Towns Development Demonstration Sector Project	100.0
Anhui Integrated Transport Sector Improvement Project	200.0
Lanzhou Sustainable Urban Transport Project	150.0
Railway Energy Efficiency and Safety Enhancement Investment Program – Tranche 1	300.0
Shanxi Small Cities and Towns Development Demonstration Sector Project	100.0
Shanxi Integrated Agricultural Development Project	100.0
Guangdong Energy Efficiency and Environment Improvement Investment Program – Tranche 2	22.1
Capacity Building for Energy Efficiency Implementation (Supplementary) (Grant)	1.2
Liaoning Small Cities and Towns Development Demonstration Sector Project (Grant)	0.3
Shaanxi Qinling Biodiversity Conservation and Demonstration Project (Grant)	4.3

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin Project (Grant)	3.0
Hebei Small Cities and Towns Development Demonstration Sector Project (Grant)	0.3
Climate Change Adaptation through Groundwater Management Project (Grant)	0.5
Women's Economic Empowerment Pilot Project (Grant)	0.2
Shanxi Small Cities and Towns Development Demonstration Sector Project (Grant)	0.3
Small Hydropower Development Project	83.6
Municipal Waste-to-Energy Project	100.0
2010	1,605.7
Tianjin Integrated Gasification Combined Cycle Power Plant Project	135.0
Second Heilongjiang Road Network Development Project	200.0
Integrated Renewable Biomass Energy Development Sector Project	66.1
Wuhan Urban Environmental Improvement Project	100.0
Chongqing Urban-Rural Infrastructure Development Demonstration Project	100.0
Guangxi Southwestern Cities Development Project	150.0
Inner Mongolia Autonomous Region Environment Improvement Project (Phase II)	150.0
Jiangxi Sustainable Forest Ecosystem Development Project	40.0
Risk Mitigation and Strengthening of Endangered Reservoirs in Shandong Province Project	29.8
Yunnan Integrated Road Network Development Project	250.0
Railway Energy Efficiency and Safety Enhancement Investment Program – Tranche 2	100.0
Tianjin Integrated Gasification Combined Cycle Power Plant Project (Grant)	5.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Integrated Renewable Biomass Energy Development Sector Project (Grant)	12.2
Jiangxi Sustainable Forest Ecosystem Development Project (Grant)	1.0
Songhua River Basin Water Pollution Control and Management Project Private Sector Facility	46.6
Municipal Natural Gas Infrastructure Development Project (Phase 2)	100.0
Jilin Wind Power Project	120.0
2011	1,444.9
Qinghai Rural Water Resources Management Project	60.0
Forestry and Ecological Restoration in Three Northwest Provinces Project	100.0
Xinjiang Altay Urban Infrastructure and Environment Improvement Project	100.0
Gansu Tianshui Urban Infrastructure Development Project	100.0
Railway Energy Efficiency and Safety Enhancement Investment Program – Tranche 3	250.0
Shandong Energy Efficiency and Emission Reduction Project	100.0
Guangdong Energy Efficiency and Environment Improvement Investment Program – Tranche 3	42.9
Xi'an Urban Road Network Improvement Project	150.0
Guangxi Beibu Gulf Cities Development Project	200.0
Hai River Estuary Area Pollution Control and Ecosystem Rehabilitation Project	100.0
Hebei Energy Efficiency Improvement and Emission Reduction Project	100.0
Jiangsu Yancheng Wetlands Protection Project	36.9
Forestry and Ecological Restoration Project in Three Northwest Provinces (Grant)	5.1
Municipal Water Distribution Infrastructure Development Project	100.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
2012	1,793.3
Shanxi Energy Efficiency and Environment Improvement Project	100.0
Heilongjiang Energy Efficient District Heating Project	150.0
Integrated Development of Key Townships in Central Liaoning Project	150.0
Gansu Urban Infrastructure Development and Wetland Protection Project	100.0
Jiangxi Fuzhou Urban Integrated Infrastructure Improvement Project	100.0
Hubei Huangshi Urban Pollution Control and Environmental Management Project	100.0
Anhui Chao Lake Environmental Rehabilitation Project	250.0
Comprehensive Agricultural Development Project	200.0
Hunan Xiangjiang Inland Waterway Transport Project	150.0
Ningxia Irrigated Agriculture and Water Conservation Demonstration Project	70.0
Shaanxi Weinan Luyang Integrated Saline Land Management Project	100.0
Jiangsu Yancheng Wetlands Protection Project (Grant)	2.3
Shaanxi Weinan Luyang Integrated Saline Land Management Project (Grant)	2.0
Tianjin Cold Chain Logistics Facility Development Project	24.0
Agricultural and Municipal Waste-to-Energy Project	100.0
Songhua River Basin Water Pollution Control and Management Project Private Sector Facility (Phase II)	95.0
Dynagreen Waste-to-Energy Project	100.0
2013	2,038.7
Gansu Jiuquan Integrated Urban Environment Improvement Project	100.0
Hunan Technical and Vocational Education and Training Demonstration Project	50.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Hubei–Yichang Sustainable Urban Transport Project	150.0
Xinjiang Integrated Urban Development Project	200.0
Chongqing Urban–Rural Infrastructure Development Demonstration II Project	150.0
Guangxi Baise Integrated Urban Environment Improvement Project	80.0
Inner Mongolia Road Development Project	200.0
Anhui Huainan Urban Water Systems Integrated Rehabilitation Project	150.0
Yunnan Sustainable Road Maintenance (Sector) Project	80.0
Qinghai Delingha Concentrated Solar Thermal Power Project	150.0
Railway Energy Efficiency and Safety Enhancement Investment Program – Tranche 4	180.0
Guangxi Nanning Vocational Education Development Project	50.0
Hebei Energy Efficiency Improvement and Emission Reduction Project – Additional Financing to Loan 2835 (Grant)	3.7
Loan Program for Clean Bus Leasing	275.0
Wastewater Treatment and Reuse Project	120.0
Urban and Rural Integration Water Distribution Project	100.0
2014	1,825.1
Railway Energy Efficiency and Safety Enhancement Investment Program – Tranche 5	170.0
Anhui Intermodal Sustainable Transport Project	200.0
Guangdong Chaonan Water Resources Development and Protection Demonstration Project	100.0
Yunnan Chuxiong Urban Environment Improvement Project	150.0
Hubei Huanggang Urban Environment Improvement Project	100.0
Gansu Baiyin Integrated Urban Development Project	100.0
Jilin Urban Development Project	150.0
Guangxi Baise Vocational Education Development Project	50.0
Jiangxi Ji'an Sustainable Urban Transport Project	120.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Yunnan Pu'er Regional Integrated Road Network Development Project	200.0
Low-Carbon District Heating in Hohhot in Inner Mongolia Autonomous Region Project	150.0
Jiangxi Fuzhou Urban Integrated Infrastructure Improvement Project– Additional Financing (Grant)	2.6
Jiangxi Ji'an Sustainable Urban Transport Project (Grant)	2.6
Rural Smart Wastewater Treatment Project	100.0
Natural Gas for Land and River Transportation Project	150.0
Greenhouse Agricultural Development Project	80.0
2015	2,054.0
Xinjiang Akesu Integrated Urban Development and Environment Improvement Project	150.0
Xinjiang Tacheng Border Cities and Counties Development Project	150.0
Hubei Enshi Qing River Upstream Environment Rehabilitation Project	100.0
Jiangxi Pingxiang Integrated Rural–Urban Infrastructure Development Project	150.0
Shaanxi Mountain Road Safety Demonstration Project	200.0
Henan Sustainable Livestock Farming and Product Safety Demonstration Project	69.0
Chemical Industry Energy Efficiency and Emission Reduction Project	100.0
Gansu Featured Agriculture and Financial Services System Development Project	100.0
Hunan Dongjiang Lake Integrated Environmental Protection and Management Project	130.0
Guizhou Vocational Education Development Program	150.0
Beijing–Tianjin–Hebei Air Quality Improvement – Hebei Policy Reforms Program	300.0
Qingdao Smart Low-Carbon District Energy Project	130.0

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Yingda International Leasing for Healthcare Finance in Underdeveloped Regions	75.0
Western Counties Water and Wastewater Management Project	150.0
Small and Medium-Sized Enterprise Industrial Wastewater and Sludge Treatment Project	100.0
2016	2,104.6
Shandong Groundwater Protection Project	150.0
Henan Hebei Qihe River Environmental Improvement and Ecological Conservation Project	150.0
Qinghai Haidong Urban–Rural Eco Development Project	150.0
Ningxia Liupanshan Poverty Reduction Rural Road Development Project	100.0
Fujian Farmland Sustainable Utilization and Demonstration Project	100.0
Chongqing Integrated Logistics Demonstration Project	150.0
Shaanxi Accelerated Energy Efficiency and Environment Improvement Financing	150.0
Jiangxi Xinyu Kongmu River Watershed Flood Control and Environmental Improvement Project	150.0
Guangxi Regional Cooperation and Integration Promotion Investment Program – Tranche 1	66.4
Air Quality Improvement in the Greater Beijing–Tianjin– Hebei Region – China National Investment and Guaranty Corporation’s Green Financing Platform	499.6
Public–Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei	50.0
Guangxi Regional Cooperation and Integration Promotion Investment Program – Tranche 1	63.6
CFPA Microfinance Management (Microfinance in Poverty-Stricken Counties)	50.0
Sustainable Dairy Farming and Milk Safety Project	62.5

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Table A3.1 *continued*

Year/Project Title	Amount (\$ million)
Integrated Wastewater Management Project	150.0
Inclusive and Sustainable Livestock Farming Project	62.5
2017	2,719.0
Hebei Elderly Care Development Project	100.0
Mountain Railway Safety Enhancement Project	180.0
Shanxi Urban–Rural Water Source Protection and Environmental Demonstration Project	100.0
Guizhou Rocky Desertification Area Water Management Project	150.0
Guangxi Modern Technical and Vocational Education and Training Development Program	250.0
Shanxi Inclusive Agricultural Value Chain Development Project	90.0
Xinjiang Changji Integrated Urban–Rural Infrastructure Demonstration Project	150.0
Shandong Spring City Green Modern Trolley Bus Demonstration Project	150.0
Heilongjiang Green Urban and Economic Revitalization Project	310.0
Air Quality Improvement in the Greater Beijing–Tianjin–Hebei Region—Regional Emission-Reduction and Pollution- Control Facility	499.0
China Everbright Greentech Limited (China Everbright Renewable Energy)	10.0
Minsheng Financial Leasing Co. Ltd. (Green Transport Finance)	200.0
Kingenta: Environmentally Sustainable Agricultural Input Distribution Project	80.0
Integrated Urban Water Management Project	200.0
Geothermal District Heating Project	250.0

ADB = Asian Development Bank, PRC = People's Republic of China.

Notes: Includes sovereign loans, grants, equity investments, and guarantees. Numbers may not add up to the total due to rounding.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Table A3.2: Policy Notes Submitted by ADB to the PRC, 2004–2017

	Title	Date Submitted
1.	Establishing a Minimum Social Security System in Rural Areas	February 2004
2.	Analysis of 2005 Macro-Economy and Policy Recommendations	December 2004
3.	Recommendations on Implementation of Pro-Stringent Neutral Fiscal Policies	December 2004
4.	Implementing Rural Free Compulsory Education to Further Release the Burden of Farmers	December 2004
5.	Accelerating Coalbed Gas Development and Utilization to Improve Coal Mining Safety	February 2005
6.	Opinions of Foreign Research Institutes Study on 2005 Economic Trend in the PRC and the Implications	April 2005
7.	Developing Efficiency Power Plant and Easing Pressure on Power Supply	May 2005
8.	New Challenges High Oil Prices Pose for Asia and the PRC	September 2005
9.	Rational View on Rapid Tax Revenue Growth	March 2006
10.	Strengthen the Role of Financial Services in Promoting Rural Development	March 2006
11.	Opinions of Foreign Research Institutes Study on 2006 Economic Trend in the PRC and the Implications	April 2006
12.	Closer Attention Needed to Underemployment and Informal Employment Issues	April 2006
13.	Comments on Recent Policy Measures Related to Housing in the PRC	June 2006
14.	Food Safety Suggestions	November 2006
15.	Inclusive Growth toward a Harmonious Society in the PRC	December 2007
16.	A New Era for Rural Poverty Reduction in the PRC: Suggestions on Aligning Safety Net and Development-Based Poverty Policies	March 2008

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Table A3.2 *continued*

	Title	Date Submitted
17.	Recommendations for Dealing with the Transition from Disaster Response to Recovery	May 2008
18.	Policy Responses to Rising Food Prices in the PRC	June 2008
19.	Earthquake Insurance: Lessons from International Experience and Key Issues for Developing Earthquake Insurance in the PRC	June 2008
20.	International Experiences and Suggestions on Post-Disaster Rehabilitation and Reconstruction	June 2008
21.	Low-Income Housing Policies: Lessons from International Experience	February 2009
22.	Managing International Capital Flows in the People's Republic of China	February 2009
23.	Improving Environmental Management in the PRC: Environmental Impact Assessment of Development Plans	March 2009
24.	Social Protection for Migrant Workers Displaced by the Economic Downturn: Providing a Safety Net and Foundation for a Strong Recovery	March 2009
25.	Rebalancing Growth in the PRC: Macroeconomic Policy Recommendations	April 2009
26.	Implications of Slowing Economic Growth on Social Services	June 2009
27.	Rebalancing Growth in the PRC: Services Sector Development	September 2009
28.	The Socioeconomic Implications of Population Aging in the PRC	January 2010
29.	Anchoring Inflationary Expectations in the PRC	February 2010
30.	Population Aging and Long-Term Health Care in the PRC	June 2010
31.	Rebalancing Growth in PRC: The Role of Fiscal Policy	July 2010
32.	Toward Universal Social Security Coverage in the PRC	January 2011

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Table A3.2 *continued*

	Title	Date Submitted
33.	Natural Resource Taxation in the PRC	February 2011
34.	The Challenges of Middle-Income Transition	March 2011
35.	The 12th Five-Year Plan: Overview and Policy Recommendations	April 2011
36.	Electricity Sector Challenges and Future Policy Direction in the PRC	August 2011
37.	The Determinants of Long-term Growth in the PRC	November 2011
38.	The Case for Conditional Cash Transfers in the PRC	March 2012
39.	Accelerating Reform of Local Treasury Cash Management in the PRC	April 2012
40.	Financing Low-Cost Rental Housing in the PRC	December 2012
41.	Fostering Farmer Cooperative in Poor Western Communities of the PRC	January 2013
42.	Rising Wages and Competitiveness of the PRC	February 2013
43.	Reforming Inequality in the PRC through Fiscal Reform	March 2013
44.	Addressing Beijing Air Pollution	April 2013
45.	Property Taxation in the PRC	February 2014
46.	Tariff Suggestions to Stimulate Concentrated Power Development	May 2014
47.	Challenges and Opportunities of Population Aging in the PRC	June 2014
48.	Carbon Capture and Storage Policy	December 2014
49.	Fiscal Decentralization in the PRC	January 2015
50.	Promoting Carbon Capture Utilization and Storage in the PRC	December 2015
51.	Labor Market Rigidities and Macroeconomic Performance in the PRC	May 2016
52.	How to Tackle Capital Outflows and Manage Reserves	May 2017
53.	How to Tackle Corporate Debt	May 2017

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Table A3.2 *continued*

	Title	Date Submitted
54.	What Needs to be Done to Reform the Personal Income Tax System	August 2017
55.	How to Improve the Business Environment for Foreign Investors	August 2017
56.	How to Assess the Risk of a “Minsky Moment” in the PRC	December 2017

ADB = Asian Development Bank, PRC = People’s Republic of China.

Source: ADB.

Table A3.3: The PRC’s Contributions to the PRC Poverty Reduction and Regional Cooperation Fund and the Asian Development Fund, 2005–2017

Contributions to PRCF		
PRCF	Amount (\$ million)	Date of Approval
Initial contribution	20	March 2005
Replenishment	20	March 2012
Replenishment	<u>50</u>	July 2017
Total	90	

Contributions to ADF				
ADF	Amount (\$ million)	% of Total ADF	Period Covered	Year PRC’s Instrument of Contribution Provided to ADB
ADF IX	30	0.89	2005–2008	2005
ADF X	35	0.76	2009–2012	2009
ADF XI	45	0.77	2013–2016	2013
ADF 12	<u>100</u>	3.26	2017–2020	2017
Total	210			

ADB = Asian Development Bank, ADF = Asian Development Fund, PRC = People’s Republic of China, PRCF = PRC Poverty Reduction and Regional Cooperation Fund.

Source: ADB, Office of Cofinancing Operations.

**Table A3.4: ADB–PRC Key Appointments:
Executive Directors Representing the PRC**

Name	Start	End
Kong Fannong	July 1987	June 1989
Che Peiqin	July 1989	May 1995
Li Ruogu	March 1995	February 1999
Zhao Xiaoyu	March 1999	September 2002
Ju Kuilin	September 2002	January 2005
Zheng Xiaosong	February 2005	April 2007
Zhang Wencai	April 2007	September 2009
Yang Yingming	September 2009	October 2012
Wang Zhongjing	October 2012	January 2017
Cheng Zhijun	January 2017	Present

ADB = Asian Development Bank, PRC = People's Republic of China.
Source: ADB e-Board.

**Table A3.5: ADB–PRC Key Appointments:
Vice-Presidents from the PRC**

Name	Start	End
Jin Liquan	August 2003	July 2008
Zhao Xiaoyu	September 2008	December 2013
Zhang Wencai	December 2013	Present

ADB = Asian Development Bank, PRC = People's Republic of China.
Source: ADB Annual Reports.

Table A3.6: ADB–PRC Key Appointments: ADB Country Directors

Name	Start	End
Bruce Murray	June 2000	October 2004
Toru Shibuichi	December 2004	March 2008
Robert Wihtol	March 2008	April 2010
Paul Heytens	April 2010	June 2012
Hamid Sharif	July 2012	June 2016
Benedict Bingham	October 2016	Present

ADB = Asian Development Bank, PRC = People's Republic of China.
Source: ADB.

Table A3.7: Projects Funded by the PRC Poverty Reduction and Regional Cooperation Fund, 2005–2017

Project Title	Amount (\$'000)
2005	
Support to Trade Facilitation and Capacity Building in the Greater Mekong Subregion (GMS)	400
Development Study of GMS Economic Corridors	400
Implementation of the GMS Cross-Border Transport Agreement	400
Enhancing the Business Environment of the GMS	200
GMS Phnom Penh Plan for Development Management II (Supplementary)	500
Capacity Building for Regional Cooperation in Central Asia	400
Partnership on Persistent Organic Pollutants Pesticides Management for Agricultural Production in Central Asian Countries	400
Technical Training and Capacity Building for Select ASEAN+3 Countries on Regional Economic and Financial Monitoring	500
Strengthening Carbon Financing for Regional Grassland Management in Northeast Asia	400
Expansion of Subregional Cooperation in Agriculture in the GMS	250
Human Resources Development for Trade in the GMS	250
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Support Preparations for the Central Asia Regional Economic Cooperation (CAREC) Business Development Forum	200
Enhancement of Subregional Cooperation in BIMP-EAGA and IMT-GT	250
Expansion of Subregional Cooperation in Agriculture in the GMS (Supplementary)	350
Capacity Building for Designing, Negotiating and Implementing Free Trade Agreements in Selected Asian Developing Member Countries	500
ASEAN+3 Regional Guarantee and Investment Mechanism—Phase 2	300
Second ASEAN+3 Seminar on Poverty Reduction	70

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Table A3.7 *continued*

Project Title	Amount (\$'000)
Capacity Development for Regional Cooperation in CAREC Participating Countries, Phase 1	500
Transboundary Animal Disease Control for Poverty Reduction in the GMS, Phase II	300
CAREC Members Electricity Regulators Forum	500
2007	
Strengthening CAREC, 2007–2011	500
Capacity Building and Institutional Strengthening of the ASEAN Free Trade Area Units of Selected ASEAN Member Countries (Phase 1)	500
Enhancing the Development Effectiveness of the GMS Economic Cooperation Program (Supplementary)	500
GMS Core Environment Program and Biodiversity Conservation Corridors Initiative (Phase 1, Supplementary)	500
GMS Public Health Forum on Regional Cooperation in Communicable Disease Control and Health Systems Development (Supplementary)	22
Capacity Building for Monitoring and Evaluation in Participating Countries	500
GMS Phnom Penh Plan for Development Management Phase III (Supplementary)	500
CAREC Institute 2009–2012	500
Supporting Boao Forum for Asia	500
2008	
Enhancing Transport and Trade Facilitation in the GMS	500
Transboundary Animal Disease Control for Poverty Reduction in the GMS (Supplementary)	200
Mongolia: Developing a Computable General Equilibrium Modeling Framework for Analyzing the Impact of Power Trading between Mongolia and the PRC	150
Development Study of GMS Economic Corridors (Supplementary)	400

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Table A3.7 *continued*

Project Title	Amount (\$'000)
Regional Knowledge and Partnership Networks for Poverty Reduction and Inclusive Growth	500
Capacity Development for National Economic Policy Analysis and Development Management Phase III	500
Capacity Development for Monitoring and Evaluation	500
Implementing the GMS Human Resource Development Strategy Framework and Action Plan 2009–2011	500
Accelerating the Implementation of the Core Agriculture Support Program	500
Deposit Insurance Establishment	500
2009	
CAREC: Working with the Private Sector in Trade Facilitation	500
Asia-Pacific Procurement Partnership Initiative	500
Strengthening CAREC, 2007–2011 (Supplementary)	500
GMS Phnom Penh Plan for Development Management, Phase IV (Supplementary)	500
2010	
Supporting the Boao Forum for Asia in Regional Economic Integration and Partnership Dialogues	500
Strengthening the Coordination of the GMS Program	500
2011	
Regional Program for Research and Capacity Development on Water Security	500
Poverty Reduction and Inclusive Growth Network in Asia Pacific (Supplementary)	400
Support for the Pan-Beibu Gulf Economic Cooperation ^a	400
2012	
Provision of Knowledge Products and Services to DMCs through Systematic Knowledge	500
GMS Phnom Penh Plan for Development Management, Phase V (Supplementary)	500

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Table A3.7 *continued*

Project Title	Amount (\$'000)
Supporting Capacity Development Needs of CAREC 2020 (Supplementary)	400
CAREC Trade Facilitation Program: Promoting Cooperation in Sanitary and Phytosanitary Measures	500
Technical Training and Capacity Building for Selected Asian Countries on Regional Economic and Financial Monitoring – Phase II	400
2013	
South Asia Subregional Economic Cooperation (SASEC) Power System Expansion	500
Second GMS Corridor Towns Development Project	500
Promoting Regional Knowledge Sharing Partnerships	600
Design of e-Governance Master Plan and Review of ICT Capacity in Academic Institutions	500
Developing Local Currency Bonds for Infrastructure Finance in ASEAN+3	225
Implementing the GMS Human Resource Development Strategy Framework and Action Plan Phase II	500
Asia-Pacific Community of Practice on Managing for Development Results – Strengthening Knowledge Partnerships on MfDR	500
2014	
Core Environment Program and Biodiversity Conservation Corridors Initiative in the GMS, Phase 2 (Supplementary)	500
Study for a Power Sector Financing Road Map within CAREC	500
CAREC: Working with the Private Sector in Trade Facilitation (Phase 2)	500
CAREC Knowledge Sharing and Services in Transport and Transport Facilitation	400
Harmonizing the GMS Power Systems to Facilitate Regional Power Trade	500
Infrastructure Public–Private Partnership Pipeline Development Support	750

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Table A3.7 *continued*

Project Title	Amount (\$'000)
Building Capacity for Enhanced Connectivity in Southeast Asia (Supplementary)	250
GMS Integrated Urban Development to Support Cross-Border Economic Zones	400
2015	
Strategy for Northeast Asia Power System Interconnection	500
Supporting the Asian Exim Banks Forum	500
Provision of Knowledge Products and Services to Developing Member Countries through Systematic Knowledge Sharing (Supplementary)	225
Universal Health Coverage for Inclusive Growth Supporting the Implementation of the Operational Plan for Health 2015–2020 (Supplementary)	500
Capturing the Opportunities and Addressing the Risks (Supplementary)	200
Promoting Regional Knowledge Sharing Partnerships (Supplementary)	500
Regional Evaluation Capacity Development II	500
Connecting the Railways of the GMS	500
Support for Project Implementation of the Nepal Earthquake Rehabilitation and Reconstruction Program (Supplementary)	600
2016	
Strengthening Water Security in the Aral Sea Basin	500
Policy Coordination and Planning of Border Economic Zones of the PRC and Viet Nam	400
Energy Supply Improvement Investment Program (MFF Tranche 2)	1,000
Strengthening Knowledge Management in Central and West Asia	650
Advancing Regional Cooperation and Integration through BIMP-EAGA and IMT-GT (Supplementary)	700
Supporting Capacity Development Needs of CAREC 2020 (Supplementary)	500

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Table A3.7 *continued*

Project Title	Amount (\$'000)
Promoting Green Local Currency Denominated Bonds for Infrastructure Development ASEAN+3	500
Promoting Low-Carbon Development in CAREC Program Cities	700
2017	
Revitalizing the Ecosystem of Ravi River Basin	550
Water and Sanitation Strategy Development and Capacity Building	800
Enhancing Regional Knowledge Sharing Partnership	750
Modernizing Sanitary and Phytosanitary Measures to Facilitate Trade	800
Capacity Building Support for Asia-Pacific Economic Cooperation Financial Regulators Training	600
Strengthening Asia's Financial Safety Nets and Resolution Mechanisms	125
Strengthening Compliance Review and Accountability to Project Affected Persons of Financial Intermediaries	225
Water Supply Scheme for Tete Settlement	800
Strengthening Institutions for Localizing Agenda 2030 for Sustainable Development (Supplementary)	500
Total PRCF-Funded Projects, 2005–2017^b	\$43,192

ASEAN = Association of Southeast Asian Nations, ASEAN+3 = ASEAN + Japan, the People's Republic of China, and the Republic of Korea, BIMP-EAGA = Brunei Darussalam-Indonesia-Malaysia-Philippines-East Asian Growth Area, DMC = developing member country, ICT = information and communication technology, IMT-GT = Indonesia-Malaysia Third Growth Triangle, MfDR = managing for development results, MFF = multitranches financing facility, PRC = People's Republic of China, PRCF = PRC Poverty Reduction and Regional Cooperation Fund.

^a Includes partial cancellation of \$100,000 on 4 July 2014.

^b Of the 85 projects covered by the 94 applications listed (\$43.2 million), 77 (\$38.6 million) have been approved by ADB as of 31 December 2017.

Sources: ADB. 2018. *People's Republic of China Poverty Reduction and Regional Cooperation Fund 2017 Annual Report*. November; ADB loan, technical assistance, grant, and equity approvals database.

4. ADB's Nonsovereign and Private Sector Operations in the People's Republic of China

From the start of its partnership with the People's Republic of China (PRC), the Asian Development Bank (ADB) supported nonsovereign and private sector operations alongside its sovereign lending. ADB's private sector operations complement its sovereign operations and have allowed for synergies to evolve between the two. The bank's policy dialogue with the government and technical assistance (TA) operations in such areas as financial sector reform, cost recovery, and tariff reform in many instances helped to provide an enabling environment for its private sector operations.

From 1986 to 2017, ADB provided the PRC with a total of \$4.1 billion of nonsovereign and private sector loans, equity investments, and guarantees. In the 1990s and early 2000s, these operations were modest. Since 2007 they picked up significantly, with \$3.3 billion (80%) of the investments made in 2008–2017 (Table A4.1). The bank's nonsovereign and private sector operations have focused on financial institutions; infrastructure, mainly for clean energy and urban water supply; and agribusiness. In addition, ADB has supported private equity funds to help deepen and diversify capital markets.

a. Financial Institutions and Private Equity

The bank has actively supported the development of the PRC's financial sector through its private sector operations. Following the establishment of four specialized banking institutions alongside the People's Bank of China in the early 1980s, banking reforms in the PRC were gradual, with only a small number of banking institutions serving the market.

To support the diversification of the banking system, in 1991, ADB made an equity investment of \$10.3 million in Xiamen International Bank, the first PRC-foreign joint-venture commercial bank. This was followed in 1996 by an equity investment of \$20 million in the China Everbright Bank, which was established in 1992 as a national commercial bank. At that time, most commercial banks in the PRC were wholly state-owned and functioned largely as a conduit for government grants. The commercialization of the banking system was essential to deepening financial reforms. ADB's equity investment in the China Everbright Bank received special approval from the State Council as the first foreign investment in a domestic commercial bank. It served as an example for other domestic banks and helped set the stage for similar investments by foreign investors.

To continue supporting the reforms, in 2005, ADB made an equity investment of \$75 million in the Bank of China, at the time the second-largest state-owned commercial bank. The investment enhanced the Bank of China's corporate governance and safeguard capacities, helped to introduce international best practices in lending policies and risk management, and increased investor confidence in an eventual initial public offering. To support banking reform at the city level, in 2006, ADB made an equity investment of \$30 million in the Hangzhou City Commercial Bank.¹ At the time, the government had just launched its Eleventh Five-Year Plan, which included reform of city commercial banks as a priority. ADB invested alongside the Commonwealth Bank of Australia to assist in turning the Hangzhou City Commercial Bank into a modern and competitive commercial bank.

More recently, ADB has focused on nonbank financial institutions, which remain underdeveloped and have limited access to long-term finance. In 2012, the bank approved a \$275 million loan program to support the nascent clean bus leasing industry. The entire amount was disbursed over the next 3 years to Far East Horizon, Industrial Bank Financial Leasing and Everbright Financial Leasing, three top-tier leasing companies. The program has financed over 5,000 clean buses and is on track to meet the target of overall savings in greenhouse gas emissions of 1.3 million tons by 2019. The program combined commercial lease financing with government subsidies to bus operators, providing an innovative public-private cofinancing modality, to help achieve sustainable transport targets.

ADB has also worked with nonbank financial institution partners to support healthcare and microfinance in the PRC's less developed regions. In 2015, the bank lent \$75 million to Yingda International Leasing (now called State Grid International Leasing) to finance healthcare facilities in the central and western regions of the PRC. The focus was on public county hospitals, which serve the rural population. In 2016, ADB lent \$50 million for microfinance in poor areas, mainly to women.

The bank's Trade Finance Program fills market gaps by providing guarantees and loans through partner banks. As of 2017, the program had supported nearly 2,500 export and import transactions between the PRC and developing Asia, mainly in Bangladesh, Mongolia, Pakistan, Sri Lanka, and Viet Nam. ADB's Supply Chain Finance Program works with corporate

¹ Hangzhou City Commercial Bank was renamed The Bank of Hangzhou in 2008.

and financial institutions to enhance small and medium-sized enterprises' (SMEs') access to working capital. It was launched in the PRC in 2015 by offering guarantees on post-shipment and post-acceptance transactions.

To help mobilize equity investments for SMEs, ADB has supported private equity funds active in the PRC and other regions. In addition to the PRC-focused Clean Environment Fund III, the bank has also invested in several Asia-wide private equity funds with significant investment activity in the PRC. ADB's equity investment in OrbiMed Asia Partners has benefited hospitals in the PRC including the Wuhan Aige Eye Hospital, which has performed more than 30,000 eye operations free of charge for low-income people.

b. Infrastructure

To attract capital investment and ensure that the country's infrastructure is efficient and financially sustainable, since the early 1990s the government has gradually reformed regulations governing pricing and ownership. ADB has consistently supported these initiatives through private sector advisory and investment operations. The bank has prioritized financing new infrastructure business models and advanced technologies that support sustainable development.

To help promote private sector solutions for water supply in the PRC's rapidly expanding cities, in 1997, ADB provided transaction advisory services for the Chengdu Water Supply Project, the country's first public-private partnership (PPP) project. ADB advisory supported the selection of bidders, recommended improvements to the PRC's build-operate-transfer guidelines and helped develop national water tariff guidelines. Once the contract was awarded to a consortium of sponsors from France and Japan, the bank arranged project finance of \$26.5 million and syndication of a further \$21.5 million. Although it would be several years before further PPP projects were approved in the PRC, the project was instrumental in demonstrating the viability of PPPs in the PRC.

In 2002, the government approved a "Circular on Accelerating Marketization of Urban Utilities," followed in 2004 by "Administrative Rules on Concession of Public Utilities." The new policies included standard templates of concession agreements for municipal infrastructure and provided the backbone for decentralized PPP development. They also paved the way for ADB to focus its private sector operations on municipal-level environmental infrastructure and renewable energy.

In the following years, the bank financed the PRC's first private sector district heating project, a PRC–Japan wind power joint venture, and numerous municipal-level natural gas distribution and waste-to-energy projects based on PPPs.

As ADB's private sector portfolio expanded, it became increasingly important to help enterprises with limited foreign exchange earnings to reduce the risk related to external financing. In October 2005, the bank issued its first renminbi-denominated “panda bonds” in the domestic capital market of the PRC. From 2007 onward ADB's private sector infrastructure financing increased significantly (Table A4.1).

In the past decade, the bank also actively sought to finance private sector projects in rural areas and promote basic human needs. As a result, ADB financed projects in greenhouse agriculture development, integrated urban–rural water supply networks, and a number of water, wastewater treatment, small-scale hydropower and waste-to-energy projects in small cities and counties. To support these projects, in 2010, the bank issued its first global yuan “dim sum bonds” in Hong Kong, China.

In 2015, the government further revised the PPP guidelines and templates, which allowed multiple interlocking infrastructure services to be tendered under single contracts. ADB took advantage of this new opportunity to support integrated PPPs in areas such as river and lake rehabilitation and urban water resource management.

The bank also sought new ways to address environmental challenges. To catalyze commercial cofinancing, in 2016 ADB arranged its first on-shore syndication with 10 commercial banks and doubled the size of a loan to support waste-to-energy projects in small cities. The bank supported a cross-border transaction for Viet Nam's first municipal PPP project using a model established in the PRC. In 2017, ADB also approved \$250 million for PPPs to replace coal-based boilers with geothermal energy by expanding a successful joint venture.

c. Agribusiness

Private sector operations have helped to promote food safety and environmental protection in the agriculture sector. In 2012, ADB provided \$20 million equivalent in CNY for a cold-chain logistics facility that would help to improve the quality of perishable goods and food safety. In 2014, the bank supported the development of modern, climate-resilient

greenhouses with a \$30 million direct loan for the production of fresh and nutritious vegetables. The project enhanced productivity, food safety and quality standards, and strengthened climate and disaster resilience.

ADB's private sector operations also supported the role of private companies in the agriculture sector, in support of the government's efforts to modernize agriculture. In 2016, the bank approved a direct loan of \$62.5 million equivalent in CNY and a complementary loan of the same size for modern dairy farming, with a focus on environmental sustainability. ADB also approved a project to expand breeder farms in rural areas, with major benefits for the environment, animal health and food safety. Most recently, in 2017, ADB approved a loan and equity investment for the provision of high-efficiency fertilizers and other environmentally sustainable inputs. The investment is expected to benefit over 3 million smallholder farmers.

**Table A4.1: ADB Nonsovereign Operations in the PRC
by Sector and Period, 1988–2017**
(\$ million)

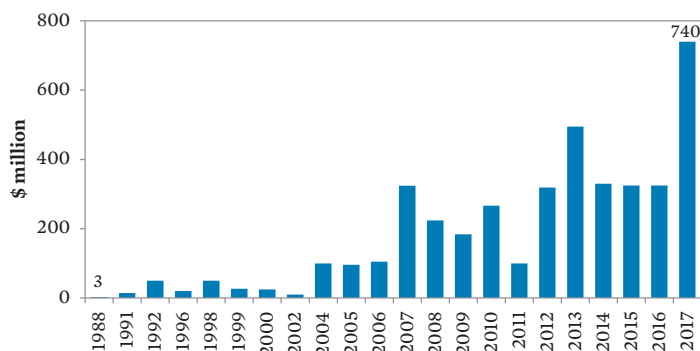
Sector	1986– 1991	1992– 1997	1998– 2002	2003– 2007	2008– 2012	2013– 2017
Energy	0.0	50.0	50.0	182.0	627.6	410.0
Finance	17.3	20.0	35.0	228.7	0.0	325.0
Transport	0.0	0.0	0.0	210.0	0.0	275.0
Water and Urban	0.0	0.0	26.5	4.0	441.6	670.0
Agriculture and Natural Resources	0.0	0.0	0.0	0.0	24.0	535.0
Total	17.3	70.0	111.5	624.7	1,093.2	2,215.0
					Grand Total: \$4,131.7	

PRC = People's Republic of China.

Note: Includes ordinary capital resources loans, equity investments, and guarantees.

Sources: ADB loan, technical assistance, grant, and equity approvals database; Private Sector Operations Department.

**Figure A4.1: ADB Nonsovereign Operations in the PRC by Year,
1988–2017**
(\$ million)

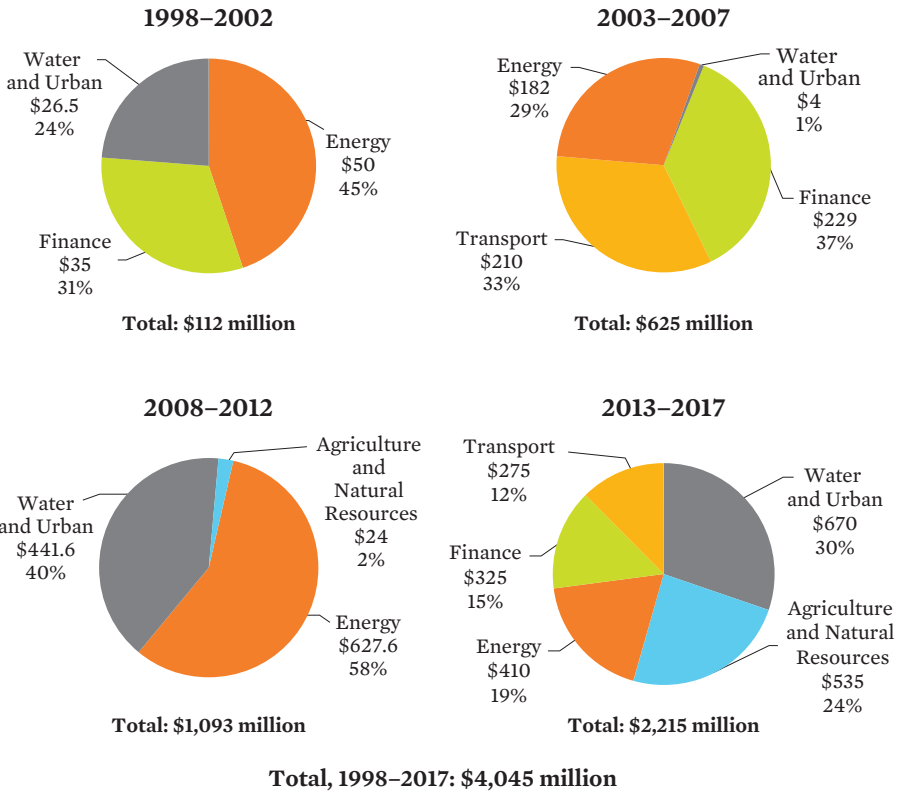


PRC = People's Republic of China.

Note: Excludes B loans.

Sources: ADB loan, technical assistance, grant and equity approvals database; Private Sector Operations Department.

Figure A4.2: ADB's Nonsovereign Operations in the PRC by Sector, 1998–2017
(\$ million, %)



Note: Excludes B loans.

Sources: ADB loan, technical assistance, grant and equity approvals database; Private Sector Operations Department.

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A Partnership Transformed

Three Decades of Cooperation between the Asian Development Bank and the People's Republic of China in Support of Reform and Opening Up

This book is a history of the partnership between the Asian Development Bank (ADB) and the People's Republic of China (PRC) spanning three decades. Since joining ADB in 1986, the PRC has evolved from being a poor and predominantly agrarian economy to an upper-middle-income manufacturing and services powerhouse that has become a leading international source of financial, technical, and knowledge cooperation. This historically unprecedented transformation has shaped every aspect of the ADB-PRC relationship. The successful partnership owes much to the PRC's unique approach to developing its economy, and offers valuable lessons for other countries and development partners.

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