



Technical Assistance Report

Project Number: 48093
Policy and Advisory Technical Assistance (PATA)
April 2014

People's Republic of China: Support for the Thirteenth Five-Year Plan

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 April 2014)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1608
\$1.00	=	CNY6.2181

ABBREVIATIONS

ADB	–	Asian Development Bank
HRD	–	human resource development
NDRC	–	National Development and Reform Commission
PRC	–	People's Republic of China
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Policy and advisory technical assistance (PATA)
Targeting classification	–	General intervention
Sector (subsectors)	–	Multisector (industry and trade sector development, finance sector development, agriculture and rural sector development, technical education and vocational skills training)
Theme (subthemes)	–	Economic growth (promoting economic efficiency and enabling business environment; widening access to markets and economic opportunities; knowledge, science, and technological capacities)
Location (impact)	–	Rural (low), national (high)

NOTE

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

Vice-President	S. Groff, Operations 2
Director General	A. Konishi, East Asia Department (EARD)
Country Director	H. Sharif, People's Republic of China Resident Mission, EARD
Team leader	P. Chang, Principal Country Specialist, EARD
Team members	I. Bain, Social Sector Specialist, EARD
	J. Conrad, Principal Economist, EARD
	Y. Fernandez Lommen, Principal Economist, EARD
	N. Khor, Economist, EARD
	L. Peng, Senior Economics Officer (Alternate Specialist), EARD
	J. Yang, Senior Advisor, EARD

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I. INTRODUCTION

1. During the 2013 country program mission of the Asian Development Bank (ADB) to the People's Republic of China (PRC), the government requested that ADB provide technical assistance (TA) to the National Development and Reform Commission (NDRC) to support the preparation of the Thirteenth Five-Year Plan (13th plan). ADB has included the proposed policy and advisory TA in the 2014 TA pipeline for the PRC.

2. An ADB team met with the NDRC on 9 January 2014 to discuss the direction, objective, key topics to be covered, and timing of the TA. ADB and NDRC initially agreed on (i) the objective of the study, which is to help the PRC avoid the middle-income trap and achieve more inclusive growth and sustainable development; and (ii) the key areas (or challenges) to be covered—industrial transformation, rural–urban transformation, and human resource transformation.¹ The NDRC informed the ADB team that all deliverables of the TA should be submitted to the NDRC by 30 November 2014 for the agency to include the materials as part of its overall submission to the State Council for the 13th plan.

3. A follow-up meeting was conducted with the NDRC on 21 January 2014 to discuss the key issues to be covered, expected outputs, and the next steps. The NDRC reaffirmed the three key areas and suggested three additional areas—the challenge of ecological and environmental degradation and climate change, debt management, and integration of the PRC with the international community. Both sides agreed that this TA will focus on three principal key challenges—industrial transformation, rural–urban transformation, and human resource transformation. ADB will draw on ADB-wide expertise and resources to address the other three challenges in a comprehensive and effective way by building on existing work.

4. An ADB fact-finding mission met with the NDRC on 19 February 2014 to refine the TA design and implementation arrangements. This TA report is based on the understanding reached between the NDRC and ADB regarding the project's impact, outcome, outputs, implementation arrangements, cost and financing plan, and terms of reference for consultants. The design and monitoring framework is in Appendix 1.²

II. ISSUES

5. The economic performance of the PRC has been spectacular over the last 3 decades. Gross domestic product growth has averaged about 9% per year and per capita income has increased by a factor of 13. Rapid growth has led to significant improvement in human well-being and quality of life. From the early 1980s to the late 2000s, the incidence of \$1.25-a-day poverty declined from 85% to about 13%; life expectancy at birth increased from 67 to 73 years; and child mortality under the age of 5 years declined from 65 to 18 deaths per 1,000. Economic expansion has also led to a sharp rise in the country's influence on the global economy. The PRC is now the world's largest exporter and the second largest economy.

6. The PRC's impressive achievements notwithstanding, the country still faces major challenges. With a per capita gross national product of \$6,772 in 2013, the PRC has passed the

¹ International experiences show that, in many countries, growth slowed significantly after they attained middle-income status. They find they were caught in what is increasingly known as the "middle-income trap." On one hand, they could no longer compete with low-income countries because of rising wages. On the other, they were unable to compete with high-income countries because they have not shifted into higher-value production through innovation and industrial upgrading.

² The TA first appeared in the business opportunities section of ADB's website on 10 April 2014.

threshold of upper-middle-income status but still has a long way to go before becoming a high-income country. Given rising wages and population aging, growth will have to be increasingly driven by productivity improvement through innovation and industrial upgrading—the PRC needs to move from a low-cost to a high-value economy. Moreover, rapid growth has exposed several structural problems, in particular economic imbalances, rising inequality, resource constraints, and environmental degradation. These challenges were highlighted at the Third Plenary Session of the 18th Central Committee of the Communist Party of China, and in the Decisions of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform. The latter stated that the market will play a decisive role in resource allocation. To some extent, these challenges are often associated with rapid structural transformation, although incomplete reform is also a major contributing factor. If not addressed, these problems could hinder the PRC's efforts in moving toward a high-value economy, and increase the risk of getting caught in what is increasingly known as the middle-income trap.³

7. The PRC has a long tradition of formulating five-year plans to address development challenges, and promote social and economic development. The plans lay out the strategic objectives of the country, determine work priorities of the government, and provide guidance for market activities. Since the founding of the PRC, the country has formulated a total of 12 plans; each one has had a significant impact on the PRC's development during the plan period. Currently, implementation of the Twelfth Five-Year Plan, 2010–2015 is halfway, and a midterm evaluation has been completed.⁴ Preparation of the Thirteenth Five-Year Plan, 2016–2020 has just started, which is a critical period for the PRC as it aims to establish a comparatively well-off and prosperous society, and make the transition from a middle-income to a high-income country.⁵

8. To avoid the middle-income trap, the 13th plan needs to address six key challenges over the next 5 years: (i) industrial transformation, (ii) rural–urban transformation, (iii) human resource transformation, (iv) the challenge of ecological and environmental degradation and climate change, (v) debt management, and (vi) further integration of the PRC with the international community.

9. The TA aims to assist the PRC in preparing the 13th plan to overcome the middle-income trap and achieve more inclusive growth and sustainable development. The scope of this TA includes a background analysis of the PRC's current development and challenges, socioeconomic structure, growth potential, and internal and external forces that are likely to drive change in the next 5 years. ADB's knowledge contribution toward the PRC's preparation of the 13th plan will be made not only through this TA, but also through other recent, ongoing, and planned ADB knowledge work. This TA will primarily focus on three key challenges.

- (i) **Industrial transformation.** The TA will examine issues such as industrial upgrading, high-quality service sector development, the role of state-owned enterprises and small and medium-sized enterprises, the role of the private sector, the power of the market, and financial sector efficiency. Innovation is also an important driver for industrial transformation. A key focus is how to promote innovation in the PRC, including looking at innovation policies and/or strategies;

³ ADB. 2012. *Growing Beyond the Low-Cost Advantage: How the People's Republic of China can Avoid the Middle-Income Trap*. Manila.

⁴ ADB was also involved in helping PRC prepare the Twelfth Five-Year Plan through several studies, an international conference, and a workshop.

⁵ NDRC's draft proposal for this TA.

institutions, including the role of the market, governance, and capacity within the PRC; and learning from international experience.

- (ii) **Rural–urban transformation.** The TA will examine issues such as balanced rural–urban development (e.g., inclusive development, and rural and urban infrastructure including transport); public service provision and benefits (including migrants); security of land tenure; and equitable benefits from the transfer of operating rights, agricultural modernization, and agribusiness transformation.
- (iii) **Human resource transformation.** The TA will examine issues such as surplus labor, the aging population, human resource development, entrepreneurship, capacity development to support the above transformations, vocational education and training, and the role of knowledge.

10. The TA will analyze the key issues under each of the three areas, and provide policy recommendations. The proposed reforms will be sequenced and linked to the central theme of overcoming the middle-income trap.

11. ADB-wide expertise and resources will be tapped to address the other three challenges, discussed below, in a comprehensive and effective way by building on existing work (“One ADB” approach). A separate report on each of these three other challenges with recommendations will be submitted to the NDRC by 30 November 2014.

- (i) **Challenge of ecological and environmental degradation and climate change.** ADB’s East Asia Department (Environment, Natural Resources and Agriculture Division), and the Regional and Sustainable Development Department will work together to examine key issues relating to ecological and environmental degradation in the PRC.
- (ii) **Debt management.** The absolute amount of local government debt appears manageable at present. However, its rapid expansion—outpacing growth of fiscal revenue—coupled with mounting off-budget liabilities, is worrisome and demands an improved debt management system. ADB’s East Asia Department (Office of the Director General) will lead the preparation of a separate study on debt management.
- (iii) **Integration of the PRC with the international community.** Building on the work of ADB’s Economics and Research Department, Office of Regional Economic Integration, ADB Institute, Office of the General Counsel, and East Asia Department (Public Management, Financial Sector, and Regional Cooperation Division); this division of the East Asia Department will lead the preparation of a separate study covering the key issues in this area.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The impact will be more inclusive growth and sustainable development in the PRC that overcomes the middle-income trap. The performance indicators include an increased share of services in the gross domestic product from the 2015 baseline, and increased rural per capita disposable income from the 2015 baseline.

13. The outcome will be an improved policy and regulatory environment to support industrial transformation based on innovation, rural–urban transformation, and human resource transformation.

B. Methodology and Key Activities

14. The outputs of this TA will comprise (i) reports: one main report (a synthesis of three sub-reports) and three sub-reports on (a) industrial transformation (including innovation), (b) rural–urban transformation, and (c) human resource transformation; (ii) workshops; and (iii) field research and dissemination.⁶ Domestic field research could include visits to provinces with an advanced reform agenda and experience in the PRC, and policy dialogue. International field research could include visits to countries with rich experience in dealing with middle-income trap issues. The visits (including location and number) would depend on the research requirement of the TA. Preference will be given to ADB member countries. Moreover, seminars on middle-income trap issues participated in by policy makers and renowned experts from relevant countries could be conducted to bring in more international experience. In addition, a dissemination event in the form of a press conference will be held in Beijing to disseminate the research results, and senior officials from the NDRC and ADB will attend.

C. Cost and Financing

15. The TA is estimated to cost \$960,000 equivalent, of which \$800,000 equivalent will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff, relevant data and information, assistance in arranging meetings and field visits with relevant government agencies, logistics support, and other in-kind contributions. The value of the government's in-kind contribution is estimated to account for 20% of the total TA cost.

D. Implementation Arrangements

16. The executing and implementing agency will be the Planning Department of the NDRC. A total of 33 person-months of individual consulting services (two international consultants for 9 person-months and four national consultants for a total of 24 person-months) will be provided. The TA will also engage resource persons for workshops and specific technical inputs. The cost estimates and financing plan is in Appendix 2, and the outline terms of reference for consultants are in Appendix 3. The consultants will be engaged in line with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Proceeds of the TA will be disbursed in line with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The TA is expected to commence on 21 April 2014 and be completed by 30 April 2015.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$800,000 on a grant basis to the Government of the PRC for Support for the Thirteenth Five-Year Plan, and hereby reports this action to the Board.

⁶ Workshops include an inception workshop, a midterm review workshop, a final review workshop, and other related workshops and/or presentations on findings of various knowledge work under this TA as necessary. Participants include resource persons (renowned international experts with extensive experience in the PRC and policy makers) from other countries.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact More inclusive growth and sustainable development in the PRC that overcomes the middle-income trap</p>	<p>Increased share of services in gross domestic product from 2015 baseline</p> <p>Increased rural per capita disposable income from 2015 baseline</p>	<p>Government publications</p> <p>Statistical yearbooks</p>	<p>Assumption The government implements the Thirteenth Five-Year Plan efficiently and effectively</p> <p>Risks Ineffective cross-agency coordination delays policy changes and institutional reforms</p> <p>Unexpected global or regional events</p>
<p>Outcome Improved policy and regulatory environment to support industrial transformation based on innovation, rural–urban transformation, and human resource transformation</p>	<p>Incorporation of policy recommendations proposed by this TA into the Thirteenth Five-Year-Plan</p>	<p>Government publications</p> <p>Thirteenth Five-Year Plan</p>	<p>Assumption Policy recommendations under this TA are relevant and reviewed objectively by government agencies</p> <p>Risks Reform changes may be faster than planned, making the TA recommendations less relevant</p> <p>Differences of institutional opinion about reform make it hard to achieve consensus</p> <p>Unexpected shocks to the PRC economy may change the underlying assumptions of the policy recommendations</p>
<p>Outputs 1. Reports (i) One main report (a synthesis of three sub-reports) (ii) Three sub-reports on (a) Industrial</p>	<p>Main report and three sub-reports submitted to NDRC by 30 November 2014</p>	<p>Periodic TA progress reports by consultants</p> <p>Regular consultations with the executing agency</p>	<p>Assumptions Strong support from all relevant stakeholders</p> <p>Highly qualified consultants available for recruitment</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>transformation (including innovation) (b) Rural–urban transformation (c) Human resource transformation</p> <p>2. Workshops</p> <p>3. Field research and dissemination</p>	<p>At least four workshops and about 150 participants</p> <p>One or two international visits and three domestic visits</p> <p>One press conference</p>	<p>Regular updates from the consultant team</p>	<p>Relevant data and information are readily available from government agencies</p> <p>Risks Poor quality of consultant outputs Late delivery of reports</p>
<p>Activities with Milestones</p> <p>1. Reports 1.1 Inception report by April 2014 1.2 Midterm report by July 2014 1.3 Draft final report by 30 September 2014 1.4 Final report to NDRC by 30 November 2014</p> <p>2. Workshops 2.1 Inception workshop by May 2014 2.2 Midterm workshop by July 2014 2.3 Final workshop by October 2014 2.4 Related workshops and/or presentations by November 2014</p> <p>3. Field research and dissemination 3.1 Domestic and international field research 3.2 Dissemination event after submission of the final report</p>			<p>Inputs</p> <p>ADB: \$800,000 (TASF-other sources)</p> <p>The government will provide support in the form of counterpart staff, relevant data and information, assistance in arranging meetings and field visits with relevant government agencies, logistics support, and other in-kind contributions.</p>

ADB = Asian Development Bank, NDRC = National Development and Reform Commission, PRC = People's Republic of China, TA = technical assistance, TASF = Technical Assistance Special Fund.
Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
(i) International consultant (9 person-months)	175
(ii) National consultants (24 person-months)	120
(iii) Resource persons	95
b. International and local travel ^b	50
c. Reports, translation and communications ^c	50
2. Workshops and conferences ^d	75
3. Field research	
a. International field research	50
b. Domestic field research	40
c. Research and survey materials	40
4. Miscellaneous administration and support costs ^e	25
5. Contingencies	80
Total	800

Note: The technical assistance (TA) is estimated to cost \$960,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, relevant data and information, assistance in arranging meetings and field visits with relevant government agencies, logistics support, and other in-kind contributions. The value of the government's in-kind contribution is estimated to account for 20% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

^b Includes travel of international and national consultants.

^c Includes all translation activities, including necessary policy documents for desk review; technical reports for the main TA report, conference report, and executive summary of the TA findings and policy notes; and interpretation at workshops and conferences.

^d Provides at least four workshops.

^e Includes report editing, printing, and dissemination.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. **Senior International Development Economist and Team Leader** (4 person-months, intermittent)

1. The senior international development specialist should have strong expertise and extensive experience in analyzing middle-income trap issues (e.g., industrial upgrading, innovation policy, rural–urban development, and human resource development) in different countries; and in preparing government strategies and plans in countries that are facing or have successfully overcome the middle-income trap. The specialist must have a master's degree or higher qualification in economics with specialization in economic growth, economic development, or related fields. The international development specialist must have at least 15 years of experience in the areas of economic growth and economic development, supported by international publications and affiliation with a prestigious university or research institute, or relevant public or private organization. The specialist will provide overall strategic direction for the technical assistance (TA) project; lead and guide the work of national consultants to ensure that the outputs are consistent with the objectives of the project; bring in international perspectives and experiences; and have overall responsibility for the quality and timely delivery of the TA outputs, including all reports, and completion of relevant TA activities under the guidance of the executing agency and the Asian Development Bank (ADB) project officer.

B. **International Development Specialist and Deputy Team Leader** (5 person-months, intermittent)

2. The international development specialist should have extensive experience in managing complex international projects and a proven track record of successful delivery of projects that are of high quality and within the deadline. The international development specialist should have recognized expertise in one or two issues covered by the TA project. The international development specialist must have a master's degree or higher qualification in economics. The international development specialist must have at least 10 years of experience with a leading international organization or equivalent, and a good track record in working with the PRC government, especially on developing government strategies and/or plans. The international development specialist will assist the task team leader in managing the TA project, including liaising with other team members and coordinating their work activities, and liaising and coordinating with relevant agencies and/or organizations (including the executing agency and ADB) to ensure frequent and comprehensive exchange of ideas; identify and address the research bottlenecks as they first appear; and ensure that the outputs produced and activities carried out are in line with the terms of reference, and are delivered on time. The international development specialist is expected to be heavily involved in undertaking research on one or two issues under the TA project, including preparing the background analysis of the PRC economy (main text para.9), and be responsible for the quality and timely preparation of the reports under the guidance of the team leader.

C. **National Industrial Specialist** (6 person-months, intermittent)

3. The national industrial specialist should be an experienced researcher from a reputable university or research institute, or relevant public or private organization with at least 10 years of experience in analyzing industrial development and policies in the People's Republic of China (PRC) or other similar large countries, industrial upgrading, service sector development, and economics of innovation in the PRC. The specialist should have experience in preparing government strategies and plans in the PRC. The industrial specialist must have a master's

degree or higher qualification in economics with specialization in economic growth, industry economics, or related fields. The specialist must be fluent in English and have strong expertise in the areas of economic growth, industry economics, economic development, economics of innovation, and associated topics. The industrial specialist will lead the preparation of the assigned tasks under the topic of industrial transformation, and be responsible for the quality and timely preparation of the reports under the analytical guidance of the team leader.

D. National Innovation Policy Specialist (6 person-months, intermittent)

4. The national innovation policy specialist should be an experienced researcher from a reputable university or research institute or relevant public or private organization with at least 10 years of experience in analyzing innovation policies and/or strategies; institutions, including the role of the market; governance and capacity; international competitiveness; intellectual property rights; and industry value chains. The national innovation policy specialist must have a master's degree or higher qualification in public policy, intellectual property, business administration, or related fields. The national innovation policy specialist must be fluent in English and have strong expertise in the areas of innovation policies and/or strategies, intellectual property, industry value chains, and associated topics. The national innovation policy specialist will lead the preparation of the specifically assigned tasks under the subtopic of industrial transformation, and timely preparation of the reports under the analytical guidance of the team leader.

E. National Rural–Urban Development Specialist (6 person-months, intermittent)

5. The national rural–urban specialist should be an experienced researcher from a reputable university or research institute, or relevant public or private organization with at least 10 years of experience in analyzing rural sector development, urban sector development, and agricultural modernization, including rapid urbanization. The rural–urban specialist should have experience in preparing government strategies and plans in the PRC. The specialist must have a master's degree or higher qualification in urban planning, rural and social development, or related fields. The rural–urban specialist must be fluent in English and have strong expertise in the areas of rural sector development, urban sector development, agricultural modernization, and associated topics. The rural–urban specialist will lead the preparation of the specifically assigned tasks under the topic of rural–urban transformation, and be responsible for the quality and timely preparation of the reports under the analytical guidance of the team leader.

F. National Human Resource Development Specialist (6 person-months, intermittent)

6. The national human resource development (HRD) specialist should be an experienced researcher from a reputable university or research institute, or relevant public or private organization with at least 10 years of experience in analyzing surplus labor issues, aging population issues, entrepreneurship, vocational education and training, and capacity development. The specialist should have experience in preparing government strategies and plans in the PRC. The specialist must have a master's degree or higher qualification in labor economics, human resource development, education, or related fields. The specialist must be fluent in English and have strong expertise in the areas of labor economics, HRD, vocational education and training, and associated topics. The HRD specialist will lead the preparation of the assigned tasks under the topic of human resource transformation, and be responsible for the quality and timely preparation of the reports under the analytical guidance of the team leader.

G. Resource Persons

7. In addition to the consultants, the TA will engage resource persons to review the accuracy and quality of the reports, provide international perspectives, bring in up-to-date knowledge, and participate in and present at the related workshops. The resource person should be a leading, renowned expert in his or her field from a reputable university or research institute, or relevant public or private organization. The resource persons will also include an economics editor to refine the reports, and research assistants to assist the consultants in conducting surveys and field research. The number of resource persons and the person-months will be determined during TA implementation based on the agreement among the executing agency, the consultants, and ADB.