



**FORTY YEARS OF FISCAL AND
ECONOMIC REFORMS:
CHINESE EXPERIENCE
SUMMARY**

NOVEMBER 2019



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The Chinese Academy of Fiscal Science (CAFS) is a leading think tank under the Ministry of Finance of the People's Republic of China (PRC). The Academy was established in 1956 under the name of the Research Institute for Fiscal Science. In February 2016, it was renamed into the Chinese Academy of Fiscal Sciences. For years, CAFS has been engaged in research on economic, fiscal, tax and tariff policies, budget performance evaluation, accounting and auditing systems, and securities and other financial markets. Based on research findings, CAFS has made policy recommendations on numerous occasions. Today, CAFS aims at establishing close strategic partnerships with foreign universities and think tanks in order to build multicultural environment and increase research opportunities.

The Central Asia Regional Economic Cooperation (CAREC) Institute is an intergovernmental organization dedicated to promoting economic cooperation in the Central Asia and along the Silk Road through knowledge generation and sharing. The Institute is headquartered in Urumqi, Xinjiang Uygur Autonomous Region, the PRC, since 2015. The CAREC Institute is jointly shared, owned, and governed by eleven member countries: Afghanistan, Azerbaijan, the PRC, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. It is a knowledge support arm of the CAREC Program which is a proactive facilitator of practical, results-based

regional projects, and policy initiatives critical to sustainable economic growth and shared prosperity in the region, guided by the overarching vision of “Good Neighbors, Good Partners, and Good Prospects.”

The year 2018 marked the 40th anniversary of the PRC's reform and opening up which started with the economic system restructuring, gradually expanding to cover political, cultural, social and environmental fields. In the past 40 years of remarkable changes, the PRC has made outstanding achievements attracting attention from across the globe. The strategic decisions about reforms and policies constituted a crucial step in changing the PRC's destiny.

In 2018, CAFS and CAREC Institutes undertook a joint work to mark 40 years of the PRC reforms, and share knowledge about the PRC's policies and practices across a range of sectors including: public private partnerships, state owned enterprises, small and medium enterprises, e-commerce, fiscal policies, public sector reform, urbanization and municipal services, poverty alleviation policies, trade policy, and trade facilitation reforms.

The summary volume of English translation describes the context of policy decisions for all mentioned sectors, elaborates on stages of development, and aspects of particular policies. The original version of the book (with the summary and eight subsequent volumes) has been published in Chinese in August 2019.

In this publication, the PRC will be referred to shortly as China.



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Abbreviations

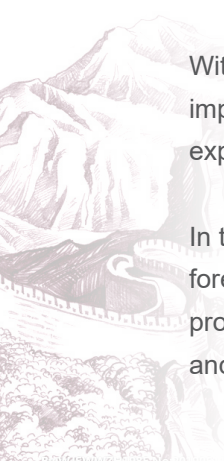
AEO	Authorized Economic Operator
B2C	Business to Customer
BOO	Build Own Operate
BOT	Build Operate Transfer
B2C	Business to Customer
C2C	Customer to Customer
CPC	Communist Party of China
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
KW	kilowatt
MSME	Micro, Small, and Medium Enterprises
NDRC	National Development and Reform Commission
OFDI	Outward Foreign Direct Investment
PPP	Public Private Partnership
R&D	Research and Development
RMB	Renminbi
ROT	Renovate Operate Transfer
SAIC	State Administration for Industry and Commerce
SASAC	State-Owned Assets Supervision and Administration Commission
SDPC	State Development Planning Commission
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
TOT	Transfer Operate Transfer
US	United States
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization



1

Trade Policy and Trade Facilitation

The achievements in foreign trade not only promoted China's modernization drive but also brought huge investment and cooperation opportunities to the world. China has continuously improved its foreign trade policies, optimized trade structure, refined the balance of payments, and strengthened its capabilities to withstand external risks.



With respect to the total trade volume, in 2017, China's total imports accounted for 12.77% of the world's total, while its total exports made 10.21% of the world's total.

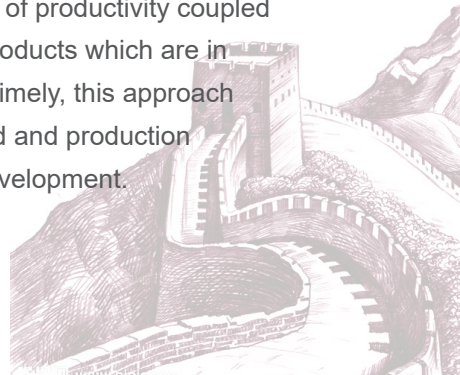
In terms of trade structure, in the early days of the reform, China's foreign trade was dominated by low value-added labor-intensive processing industry. With introduction of the industrial technology and resource reallocation, China's foreign trade structure has

been constantly optimized with the proportion of high value-added goods and services increasing, which has promoted transformation.

The outward foreign direct investment (OFDI) has also witnessed rapid development. While China's outbound investment in leasing and commercial services, wholesale and retail services, as well as mining remained at the top of the list. The cultivation of high-tech industries such as computer services and software, scientific research, technical services, and geological prospecting kept accelerating, and the investment structure has been constantly optimized.

The primary goal of foreign trade policies in China is to promote national economic development and stability. China has always adhered to the development policy of combining foreign trade with economic development and paying equal attention to import and export. At the beginning of the reform, emphasis has been placed on the importance of imports in promoting consumption, adjusting structure, developing the economy, and opening wider to the outside world.

Practice showed that imports of advanced production technologies and production tools promote improvement of productivity coupled with preferential import of resources and products which are in short supply domestically. When imported timely, this approach can facilitate adjustment of internal demand and production structure and promote steady economic development.



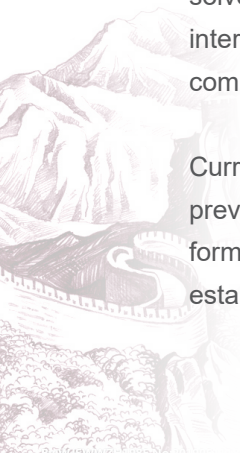
During the past 40 years of reform, the Chinese government has promoted actively foreign trade in key industries, such as agriculture, manufacturing, and services.

Agriculture

During reforms, foreign agricultural trade policies have focused on improving agricultural production efficiency, quality of agricultural products and their international competitiveness. After introduction of the agricultural insurance system, efforts have been made to determine a market price of farm produce and intensify investment in agricultural infrastructure and agricultural scientific research. Imports of products, agricultural materials, and machinery, which were in short supply domestically, helped with enhancement of agricultural competitiveness.

Meanwhile, constant efforts have been made to improve the system of tariff protection for agricultural products, and adjust and optimize domestic support policies. With these policies in place, the structure of China's agricultural industry has been continuously optimized, problems of rural areas have been solved, and the capabilities of Chinese enterprises to cope with international trade risks have been enhanced, thus strengthening competitiveness of China's agricultural products internationally.

Currently, the focus is on fluctuation of international prices and risk prevention. Additionally, China continues active participation in formulation of international agricultural trade rules, and promoting establishment of multilateral international agricultural trade order.



Manufacturing

China's manufacturing industry has started from scratch and has undergone a significant transformation to become massive in scale. China had an advantage of low cost labor, land, and raw materials. It also had a large market.

Today, challenges remain in innovation, and commercialization of scientific and technological achievements. Meanwhile, the supply-side structural contradictions of manufacturing industry, as a core industry, have become increasingly prominent. Factor prices are constantly rising, and institutional transaction costs are on the high side. These factors influence international competitiveness of China's manufacturing industry. Development of high-end manufacturing has become an objective requirement.

With the deepening of trade, and financial and economic ties in the world, China started separating technological R&D from finished product manufacturing, and upgraded market and price competition to brand and service competition, transforming the labor-intensive industry into a capital, technology, and knowledge-intensive industry.

Policy-wise, supporting the development of high-end manufacturing industry has become the main orientation of the Chinese government. Same applies to the industrial policy. Initially, it focused on affordable labor, gradually transitioning to high-end manufacturing technologies, and finally cultivating the R&D and innovation. These development trends impacted



positively a number of institutional, environmental, and capital factors for the transformation of China's manufacturing industry, smoothing the way for upgrade, and enhancement of international competitiveness.

Trade in Services

After 40 years of opening up, China's trade in services has made huge progress not only in terms of volume, but also effected fundamental changes in its structure. In terms of import, the original single pillar of tourism services has been transformed into a multi-pillar structure of financial consulting, tourism, high-tech, logistics, transportation, and infrastructure investment. With respect to exports, by 2017, the tourism services accounted for more than 50% of China's trade in services, becoming the mainstay of China's foreign trade in services.

Meanwhile, trade in financial services, including insurance and securities, which is an important part of the WTO's General Agreement on Trade in Service (GATS), has been gradually increasing. China continues opening up to enable more foreign financial institutions to conduct business operations in China. This approach has also contributed to the constant upgrade of China's domestic financial sector from idea to technology.

In the framework of the Belt and Road Initiative, the Chinese government is making efforts to improve the bilateral and multilateral cooperation mechanism, focus on service resources, build the service system in support of the international



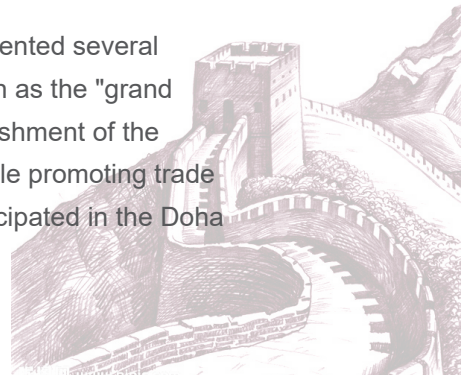
development of the SMEs, deepen exchange and cooperation among the SMEs and countries along the Belt and Road Initiative in the fields of trade and investment, science and technological innovation, production capacity cooperation, and infrastructure construction.

Trade Facilitation

With expansion of globalization, the international trade worldwide has been developing rapidly. Reducing the cost of cross-border trade, improving trade facilitation, and promoting the free flow of goods have become the direction of various countries in the world.

Over the past four decades of reforms, especially after accession to the WTO, China has promoted a series of changes in trade facilitation. The white paper titled China and the World Trade Organization clearly states that China will continue adhering to the basic national policy of opening up, integrate itself into the process of economic globalization more actively, implement high-level trade and investment liberalization, and build a community of shared future with other countries with highly integrated interests and interdependencies.

In the light of the above, China has implemented several reforms in the field of trade facilitation, such as the "grand customs clearance" system and the establishment of the Authorized Economic Operator (AEO). While promoting trade and investment facilitation, China has participated in the Doha



round of negotiations, supported the process of multilateral trade liberalization, took part in WTO discussions, and earnestly implemented the Trade Facilitation Agreement.

China's trade facilitation measures are mainly carried out along the following four dimensions:

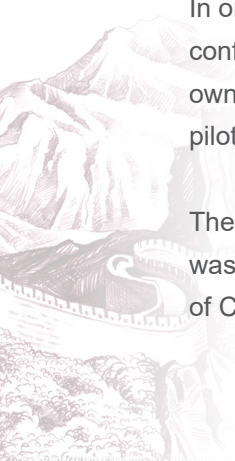
- Transparency
- Simplification
- Harmonization
- Standardization

The five fields where trade facilitation measures are applied cover:

- Trade-related public and administrative policies
- Rules and procedures on imports and exports
- Product standards and consistency
- Trade-related infrastructure and services
- Goods in transit

In order to adapt to the international economic development trend, conform to the new international economic pattern, and promote own economic transformation, China has promoted the innovation pilot projects of the free trade experimental parks.

The China (Shanghai) Pilot Free Trade Zone, the first of its kind, was set up in September 2013. In the same year, the Ministry of Commerce accelerated the implementation of the free trade



zone strategy, actively promoting their construction and gradually improving the overall layout.

The second batch of free trade zones covered Tianjin and Guangdong. In August 2016, seven more provinces and cities were approved as the third batch of free trade zones. In April 2018, it was decided to build the Hainan pilot free trade zone.

In the same period, China signed 16 free trade agreements involving 24 countries in various regions.

In the context of declining external demand and rising trade protectionism, efforts have been made to implement the "inside the territory while outside the

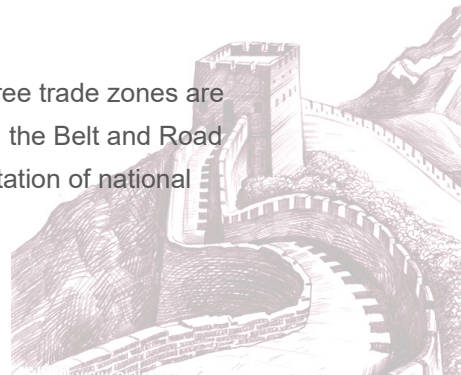


Free trade zones are different from special economic zones in a sense that they don't aim to attract domestic and foreign investment and trade through tax incentives, but mainly aim to streamline administrative approval procedures and promote trade facilitation.

customs" policy, and promote trade contacts between China and its neighboring economies.

China's free trade zones and free trade ports serve the overall goal of innovation. Each free trade zone has its own unique features.

Several free trade zones are responsible for interfacing strategically with the Belt and Road construction projects to promote implementation of national strategies.



The free trade zone is not a tax depression, but a policy highland. The notion of a "negative list" - meaning "doing what is not prohibited by law" - has greatly contributed to the establishment of free trade zones where reform measures can be tested and optimized by means of pilot implementation before they are replicated. In a word, free trade zones provide broader and relatively free space and stage for formulation of trade policies.



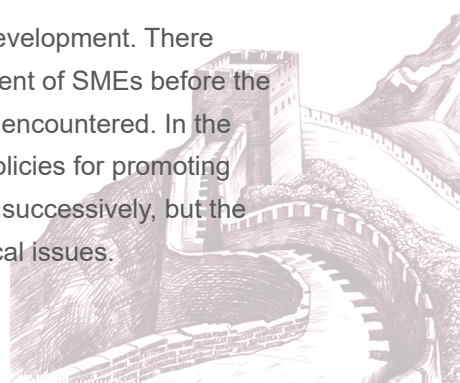


2

China's Policies and Practices for Promoting the Development of SMEs

Before the reform, China classified enterprises by size based on the number of employees and the value of fixed assets. After the reform, China has revised the standard for classification several times. The current standard is titled Provisions on Classification Standard of Small and Medium-sized Enterprises issued by the Ministry of Industry and Information Technology in 2011.

Since 1978, SMEs have witnessed rapid development. There were few policies to promote the development of SMEs before the mid-1990s, however many difficulties were encountered. In the late 1990s and early 2000s, a number of policies for promoting the development of SMEs were introduced successively, but the fragmented policies could not address critical issues.

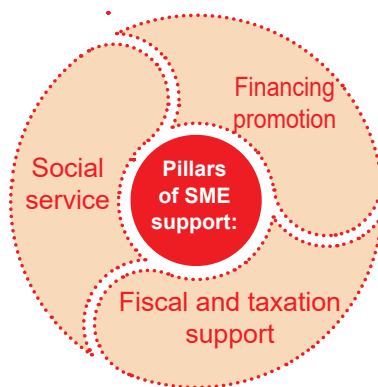


Laws

The introduction and implementation of the Law of the People's Republic of China on the Promotion of Small and Medium-size Enterprises in 2003 put the promotion of China's SME development on the legal track, and the system got established. Subsequently, the national guiding documents for promoting the development of SMEs were issued and implemented one after another, and relevant responsible departments also introduced and implemented supporting sub-policies. The SME policy corpus has been constantly improved that helped it mature. After 15 years of refinement, the Law of the People's Republic of China on Promotion of Small and Medium-size Enterprises was amended in 2017.

Funds

At present, SMEs represent a group with the largest number of enterprises, the strongest economic vitality, the largest number of employees, and the most outstanding innovation capability in



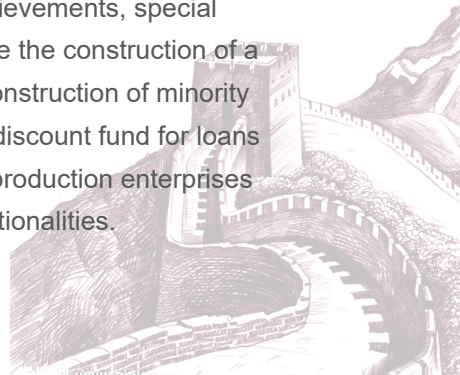
China, playing an irreplaceable role in maintaining social harmony and stability.

Fiscal and taxation support, financing promotion, and social service are the three pillars of the policy system for promoting development of SMEs in China.

Fiscal and taxation support includes six measures:

- arrangement of special funds
- establishment of SME development fund
- use of government procurement
- use of PPP model
- tax preference
- fee reduction

The special fund for SMEs is the financial guarantee for implementing the national policy on promoting SMEs. It includes technology innovation fund for technology-oriented SMEs, international market development fund for SMEs, special subsidy for SME service system, special fund for the development of SMEs, venture capital guidance fund for technology-oriented SMEs, the credit guarantee fund, fund for commercialization of agricultural scientific and technological achievements, special fund for the central government to subsidize the construction of a service platform for local SMEs, network construction of minority nationality trade enterprises, and financial discount fund for loans for technical transformation of designated production enterprises which produce commodities for minority nationalities.



In 2014, all special funds were integrated in the National SME Development Fund. Since 2015, The special funds for the development of SMEs has shifted its supporting focus from the projects to the whole demonstration cities for micro and small business entrepreneurship and innovation.

On September 1, 2015, the National SME Development Fund was officially established. It follows the principle of policy and market orientation. It is mainly used to guide and drive social funds to support SMEs in their start-up stage and promote entrepreneurship and innovation. The National SME Development Fund is funded by the central government with RMB 15 billion from integrated funds. Meanwhile, mechanisms have been designed to attract participants, including private and State-Owned Enterprises (SOEs), financial institutions and local governments, to leverage the development fund to RMB 60 billion.

By establishing the fund of funds, direct investment funds, etc., efforts have been made to support the development of growth-oriented SMEs in the seed and start-up stage with the market-based approaches. The fund operated under the limited



Special funds for SMEs have effectively promoted the development of SMEs in China.

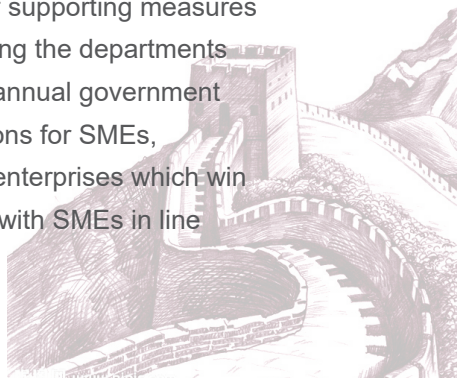
The National SME Development Fund is funded by the central government with RMB 15 billion/annual from integrated funds.

partnership system, and its capital raising, establishment, management, proceeds distribution, exit, and other rules were regulated in line with the market-based principles.

On December 2, 2015, the National Council for SME Development was established. On December 24, 2015, the Council announced that Shenzhen Capital Group Co. Ltd. won the bid to become an operating entity to manage the National Small and Medium Enterprise Development Fund. The SME Development Fund (Shenzhen) LLP, was registered in Shenzhen, Guangdong Province on the following day. The Fund received financial allocations of RMB 1.5 billion from the Ministry of Finance, and RMB 4.5 billion from the Shenzhen municipal government, financial institutions, large private enterprises and other social capital. As of the end of 2017, four fund companies have been set up and put into operation, with a total fund size of RMB 19.5 billion. They have completed 130 investment projects with an investment amount of RMB 3.824 billion.

Government Procurement

The policy on the Interim Measures for Government Procurement to Promote the Development of Small and Medium-sized Enterprises encourages use of a number of supporting measures for development of SMEs, such as mandating the departments to set aside a portion for SMEs in the total annual government procurement budget, offering price deductions for SMEs, encouraging the purchasers to allow large enterprises which win government contracts to sign subcontracts with SMEs in line



with the law, encouraging the purchasers to provide appropriate support to SMEs in terms of performance bond, payment terms, payment methods, etc., and encouraging introduction of the credit guarantee means in government procurement activities.

The PPP Model

There is a huge potential to promote development of SMEs by using the PPP model. In 2015, after the General Office of the State Council has forwarded the Circular Concerning the Guidance on Promoting the Mode of Cooperation between Government and Social Capital in Public Services (the Circular), originally issued by the Ministry of Finance, the National Development and Reform Commission, and the People's Bank of China, the PPP undertakings in China have developed rapidly. Although the Circular specifies to give SMEs more opportunities to participate in the PPP model, due to lack of awareness about specific supporting policies, the SME participation in the PPP model in China is limited. The use of the PPP model can affect the reform of state-owned SMEs and the development of private SMEs.

Taxation

China implemented preferential tax policies for SMEs. These policies can be divided into four periods:

- 1) remediation of "three disorders"
- 2) standardization of enterprise-related administrative fees



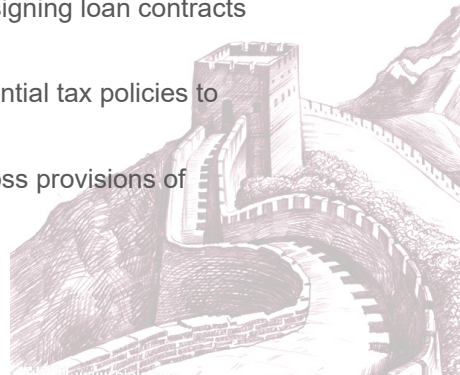
- 3) streamlining administration and delegating power
- 4) universal fee reduction

At the beginning, the base of small-scale taxpayers has been expanded and the threshold of VAT and business tax has been substantially increased. On August 1, 2013, China started exempting small-scale taxpayers from VAT and business tax. On May 1, 2016, the pilot program of transition from business tax to VAT was launched nationwide, and the problem of double taxation in the service industry was solved. The preferential tax rate of small-scale VAT taxpayers is lower than that of general VAT taxpayers.

Additionally, the preferential corporate income tax rate was set lower for small low-profit enterprises in comparison with general taxpayers. On January 1, 2010, a partial collection of the corporate income tax for small low-profit enterprises started, and the scope for identification of small low-profit enterprises has been gradually expanded.

Facilitation of SME financing was granted tax incentives, including:

- exemption from stamp duties when signing loan contracts with financial institutions
- implementation of a series of preferential tax policies to support rural finance
- granting pre-tax deductions for the loss provisions of financial enterprises



- agriculture-related loans and SME loans
- granting pre-tax deduction for relevant provisions of SME credit guarantee institutions
- exemption from the business tax for eligible SME credit guarantee institutions

Tax incentives were granted for facilitating technical innovation in SMEs. They include pre-tax super-deduction for R&D expenses, accelerated depreciation of fixed assets, tax incentives for science and technology business incubators and national university science parks, and inclusion of technology service platforms in the national public service platforms.

To summarize, many policies have been introduced in various periods, and SME burden has been continuously lifted granting the sector more flexibility to innovate and evolve.

Promotion of Financing

The promotion of SME financing included indirect and direct financing. The indirect financing focused on establishing a management and regulatory system in line with the credit characteristics of SMEs, namely banking and financial institutions were advised to focus on establishing and institutionalizing the "six mechanisms" and "four separate principles" while providing loans to SME.

Secondly, the exclusive financial service system formation was encouraged for small enterprises. Strong support was given to

the private capital, foreign capital, and funds from international organizations to participate in restructuring of small and medium-sized financial institutions by making capital investments. Efforts have been made to encourage private capital to set up private banks, financial leasing companies, and consumer finance companies at their own risk.

China has also guided small financial institutions to increase their service outlets and extend their businesses to areas where financial services were weak, such as former revolutionary base areas, areas populated by minority nationalities, frontier and impoverished areas, counties and townships, and areas where small and micro businesses were concentrated, such as wholesale markets and bazaars. In addition, China continued promoting construction of an inclusive financial system and orderly and sound development of the Internet finance.

To optimize the structure of credit financing for SMEs, protective measures were applied, giving prioritized support to small businesses that were in line with national industrial and environmental protection policies, that were conducive to job creation, had willingness and ability for repayment, were commercially sustainable, and represented technological SME.

To strengthen innovation in financing services for SMEs, financial institutions were encouraged to provide basic and comprehensive financial services to small, micro, and medium-sized enterprises, and provide variety of mortgage loans. The credit guarantee system for SMEs has also been established gradually and



improved during four stages of implementation, namely: pilot construction, improvement of supporting policies, preference for small and micro enterprises, and optimization and upgrade.

Lastly, loan guarantee insurance and credit insurance for small and micro businesses have been developed by means of innovating development models, improving service capabilities, and providing enabling policy environment.

Direct financing policy, on the other hand, was manifested through promotion of equity financing. For this purpose, a multi-level capital market consisting of the SME board, the growth enterprise market, the national equities exchange and quotations, and regional equity trading markets have been established. On 5 November 2018, the central government has announced the establishment of Sci-Tech innovation board. Meanwhile, private equity investment, venture capital investment, financial leasing, and other important equity financing channels are encouraged to serve SMEs.

In parallel, the bond financing was promoted through launch of a variety of bonds, including SME collective bonds, collective notes, regional superior notes, private bonds, financial bonds, and credit-enhancement collective bonds.

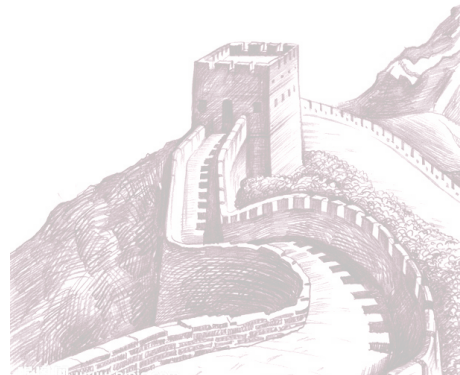
Social Services

The SME social services include seven aspects:



- talent training services
- information services
- entrepreneurship and innovation services
- credit services
- building a public service platform for SMEs
- helping SMEs to explore the market
- reforming the commercial system

To summarize, improvement and coordination of SME policies, adjustment of policies to the characteristics of the Chinese context at different stages of development and ensuring compatibility with the overall economic structure facilitated SME success in China.





3

Boosting the Construction and Development of Infrastructure via PPP Financing

The public private partnerships (PPP) are regarded as a significant innovation in public service due to the fact that they utilize the supply-demand mechanism, and improve the quality and efficiency of public service.

Since 2013, the China State Council and relevant ministries and commissions have issued a number of policy documents to promote and guide the implementation of PPP projects which have been received positively from local governments at all levels. The model addressed the risk of government debts, accelerated the new type of urbanization, improved national governance capacity, and helped build a modern fiscal system.

The PPP experience in China can be roughly divided into the

following stages: preliminary exploration stage, pilot promotion stage, active promotion stage, slow promotion stage, and comprehensive promotion stage. If utilized properly, PPP is expected to enhance solutions to urbanization, aging and other social issues, and form a healthy connection with China's mixed-ownership reform.

The PPP in General

The PPP is regarded as a long-term cooperation between the government and the social capital in the fields of infrastructure and public service. The PPP is not only a new financing model but a management and social governance innovation.

The main stakeholders under the PPP model include government, social capital, financial institutions, beneficiaries, contractors, subcontractors, professional operators, consulting companies, law firms, etc. Government, as a stakeholder, comprises local governments, national and provincial governments, government and social capital cooperation centers, PPP project implementation agencies, etc. The government at the national and provincial level is expected to provide policy and legal guarantees, reduce political and social risks, and provide certain financial support.

The social capital refers to domestic and foreign business entities with a modern enterprise system, solid financing capabilities, as well as corresponding professional capabilities.



Financial institutions refer to banks, insurance companies, securities and trust companies, and similar which play a role of financial support. There are two main channels for financial institutions to participate in PPP projects: direct investment or financial support as a fund provider.

The PPP management in China has three important features:

- Benefit sharing refers to profit sharing between government and the social capital. To avoid situations where the social capital cannot receive return on investment or government default occurs, the government and non-government market entities establish a reasonable profit adjustment mechanism to ensure that the social capital obtains a reasonable return on investment as specified in the agreement.
- Risk sharing refers to the principle that each type of risk is assumed by the partner who is best at dealing with the risk under the PPP model to minimize the overall risk of the project.
- Innovation stimulation suggests that the government is transformed from a manager and provider to a supervisor and collaborator at the macro level.

Depending on project size, the PPP financing can be divided into single and packaged projects.

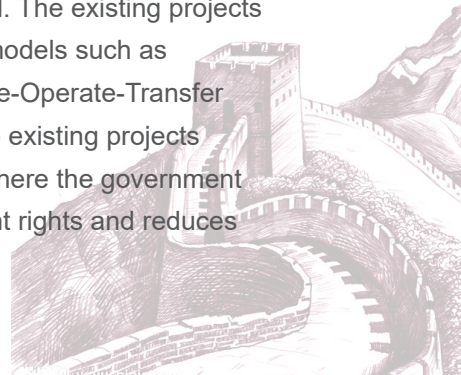
The single project uses the PPP model to attract investments for

one project at a respective location. The advantages include:

- 1) The boundaries are clear, and the cooperation mode, reward and risk allocation mechanisms are easier to define. This helps establish standardized, fair, and transparent operation.
- 2) The threshold for social capital participation is low which can help improve their interest, create effective competition, and reduce costs.
- 3) With limited financial resources, the government can effectively drive regional development.

To address the issues of lack of interest, and waste of resources, a packaged PPP model has been created. For examples, public welfare oriented infrastructure projects which generate no revenue should be packaged in combination with more business-oriented infrastructure projects which enjoy relatively high revenue. The higher profit expectation of the latter is thus used to drive the construction and operation of the former.

Further, projects are categorized into **existing projects** and **new projects** based on their duration. Existing projects include infrastructure projects that have already been completed and those which need to be rebuilt or expanded. The existing projects can be converted through PPP operation models such as Transfer-Operate-Transfer (TOT), Renovate-Operate-Transfer (ROT), etc. The TOT model is applicable to existing projects with a charge compensation mechanism where the government cashes out through transfer of management rights and reduces



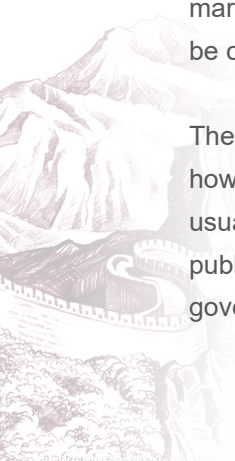
local government debts. The ROT model is suitable for existing projects in need of expansion and reconstruction, which can address the government fund shortage for expansion projects and can integrate with the operation and management of the original construction.

New construction projects start from scratch. Here, BOT (Build-Operate-Transfer) or BOO (Build-Own-Operate) modes are applied. The government has the right to supervise the concession of BOT projects and has the strategic control.

Based on the public product attributes of the projects, they are divided into **operational projects, quasi-operational, and non-operational projects.**

Operational projects normally have an extensive range of investors, including SOEs, private enterprises, or foreign-funded enterprises. Under the guidance of government investment policies, all operational infrastructure projects in line with the national and regional environmental development plans can be financed, designed, constructed, managed and operated with market-based approaches. Therefore, operational projects should be carried out under the premise of positive external benefits.

The quasi-operational projects boast outstanding social benefits, however they are less economically efficient. Such projects are usually directly related to the immediate interests of the general public, and the price of the product or service is decided by the government making the prices deviate from the market cost. As



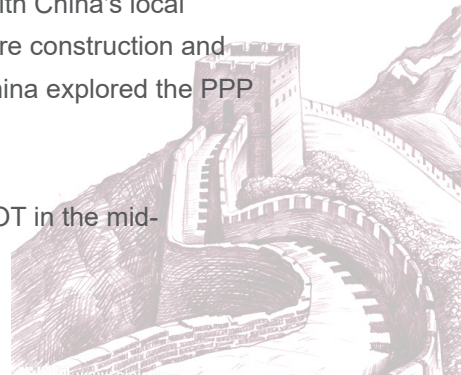
a result, quasi-operational projects can only operate with the financial support from the government. Therefore, the government can alleviate its financial pressure by formulating incentive mechanism and income distribution mechanism, such as granting franchise and subsidies, or provide direct investment and equity participation to attract the private sector to invest in infrastructure construction to share risks and benefits.

The main investor of non-operational projects is the government, and the source of funds mainly depends on the fiscal revenue of the government. Competition is limited in such projects, although the government can still use the bidding mechanism and supervision to ensure generation and distribution of social benefits.

History of PPP in China

The third plenary session of the 13th CPC National Congress which convened in 1978 marked the inception of China's reform and opening up. The Chinese government allowed foreign capital to make investments in China. The government needed to utilize foreign capital to drive economic development. China's development potential attracted a large number of domestic and overseas capital to sign agreements with China's local governments on cooperation in infrastructure construction and operation. From the mid-1980s to 1992, China explored the PPP model.

China carried out the preliminary pilot of BOT in the mid-



1980s. At that stage, China did not have unified laws to regulate such relationship. The example of the 1980s is the Shajiao B Power Plant jointly constructed utilizing the BOT mode by Hong Kong Hopewell Power Co., Ltd. and Shenzhen Electric Power Development Corporation.

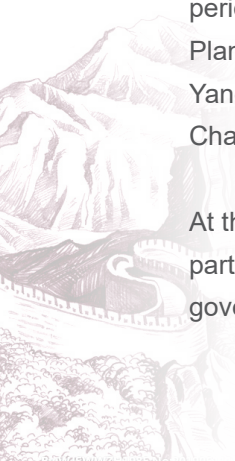
In 1992, the establishment of a socialist market economy system was proposed on the 14th CPC National Congress, and the reform of the investment and financing system was launched. From 1993 to 2008, the PPP projects were piloted.

Since 1995, led by the former State Development Planning Commission (SDPC), China has introduced a series of policies to promote and guide the PPP project development with active involvement of local governments. Projects of this period include Laibin B power plant in Guangxi, No. 6 Water Plant in Chengdu, Dianbai expressway in Guangdong, Junshan Yangtze River Bridge in Wuhan and Wangcheng Power Plant in Changsha.

At this stage, the Chinese government focused on the financing part of the PPP projects, but somewhat neglected the reform of government functions. The policies and regulations issued during



The 1995 PPP projects include Laibin B power plant in Guangxi, No. 6 Water Plant in Chengdu, Dianbai expressway in Guangdong, Junshan Yangtze River Bridge in Wuhan and Wangcheng Power Plant in Changsha.

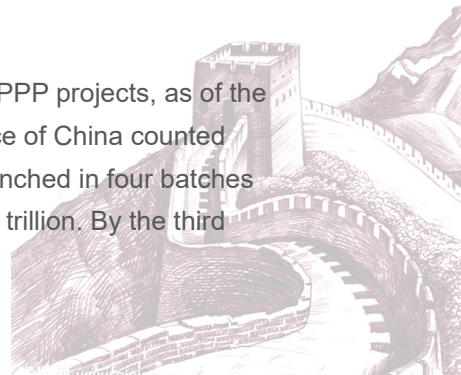


these years by the State Council and relevant ministries and commissions were related to guidance of foreign investments.

From 2009 to 2013, the PPP model started advancing slowly. In 2008, the financial crisis triggered by the US subprime mortgage crisis generated a significant negative impact on China's economy. To cope with the recession risks incurred by declining exports and weak consumer spending, China implemented a proactive fiscal policy. The central government introduced an RMB 4 trillion large-scale economic stimulus plan, which created a crowd-out effect on the private capital to a certain degree. At that stage, China released a series of supportive policies, but the participation of social capital was not very active. The number of PPP projects declined. The most typical case during this period is the Beijing Subway Line 14.

Since 2013, China's economic development has entered a new normal of medium-high growth which determined the medium-low growth of the fiscal revenue, and comprehensive promotion stage of the PPP started. The PPP model enabled reduction of the capital gap in urban infrastructure projects. In parallel, the normative work continued, improvements were introduced into the PPP working mechanism, and policy and institutional guarantees strengthened.

During comprehensive promotion stage of PPP projects, as of the third quarter of 2018, the Ministry of Finance of China counted 990 demonstration projects which were launched in four batches since 2015, with an investment of RMB 2.1 trillion. By the third



quarter of 2018, a total of 865 projects had been implemented, with investment value of RMB 1.9 trillion at the implementation rate of 87.4%. A total of 485 PPP projects with investment of RMB 937.3 billion started, accounting for 56.1% of the total.

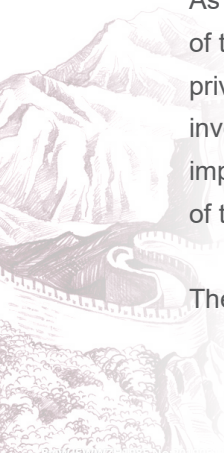
The municipal engineering, transportation, and environmental (urban development) sectors counted 380, 87, and 83 projects with RMB 687.7 billion, RMB 593.7 billion and RMB 218.7 billion respectively. The 1,519 social capital joined the 865 projects, among which the private enterprises accounted for 39.7%. The number of projects involving private capital reached 448 (51.8% of all projects), with a total investment value of RMB 750.9 billion (39.2% of total investment).



By the third quarter of 2018, a total of 865 projects had been implemented, with investment value of RMB 1.9 trillion. The top provinces by number and value of PPP projects included Shandong, Henan, Guizhou, Yunnan, Zhejiang.

As of the third quarter of 2018, the project management database of the comprehensive information platform of the national public private partnerships (PPP) recorded 8,289 PPP projects involving investment of RMB 12.3 trillion. The number of projects in implementation phase stood at 1,860 which accounted for 45.5% of the signed projects and the investment of RMB 2.6 trillion.

The top three provinces engaged in the PPP project



implementation represented Shandong (including Qingdao), Henan, and Guizhou, with 729, 642, and 498 projects respectively. The top three provinces in terms of cumulative investment were Guizhou, Yunnan, and Zhejiang with RMB 972.4 billion, RMB 946.3 billion, and RMB 900.5 billion respectively.

Among the 4,089 projects that have been signed, the 6,753 social capital took part in 4,018 signed projects, and 35.3% of the social capital were private enterprises.

There were 623 user-paid projects with a total investment of RMB 915 billion. The cumulative number of projects with viability gap subsidies (i.e. mixed payment by both the government and the consumers) reached 4,407 with an investment of RMB 8.0 trillion. The 3,259 government-paid projects were launched with an investment value of RMB 3.4 trillion.

The PPP reform has been assessed positively in China. The number and scale of implemented projects witnessed rapid growth with growing coverage of regions and industries. The participation of private enterprises has increased steadily, and the development environment kept improving. Meanwhile, positive progress has been made in construction, publicity and training, fund investment, and management.



4

China's E-Commerce Policies and Practices



The e-commerce refers to business activities carried out via information network technology with the focus on commodity exchange. It can also be deemed as the activity of trading in services by electronic means on the Internet. The e-commerce has enabled traditional business activities to become electronic, network, and IT-based in all aspects. China has become one of the leading countries in global e-commerce, providing many replicable cases for the development of global e-commerce and the innovation of retail industry.

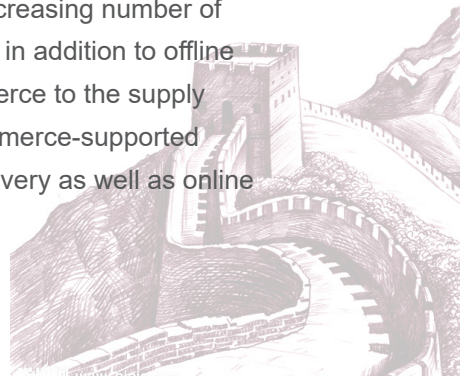
The development process of e-commerce in China is not simply a process of introduction of new technologies, but a process of expansion in terms of tools, channels, infrastructure, even the economic complex.

China's e-commerce development entered an exploratory and initiation period during 1995-1998. At that stage, enterprises and individuals who applied e-commerce used it mainly as a tool to optimize business processes, including information release, search, and email communication. At the end of 1999, when the Internet came to a climax, over 370 B2C Internet companies were established in China. By 2000, the number rose to 700. However, with bursting of the Internet bubble in 2000, Nasdaq fell sharply, which was followed by a rather extended "ice age" of e-commerce. This turning point nurtured the internal power for the rapid development of e-commerce, and its application extended to individuals.



In May 2003, Alibaba Group established Taobao and entered the C2C market.

In May 2003, Alibaba Group established Taobao and entered the C2C market. A series of significant policies introduced by the government have brought far-reaching impacts on the development of e-commerce. With the rapid growth of online transactions, e-commerce has become a new trading channel for many enterprises and individuals. An increasing number of enterprises have launched online channels in addition to offline channels, and gradually extended e-commerce to the supply chain, thus promoting the rise of the e-commerce-supported services, such as logistics and express delivery as well as online payment.



From 2008 to 2013, e-commerce became the infrastructure of economic development. At this stage, the economic transformation, triggered by e-commerce, enabled information to be widely used in economic activities as a key production factor, which has accelerated the penetration of information in commerce, industry, and agriculture.

In 2013, China surpassed the United States to become the world's largest online retail market. The robust development of online retail has promoted the development of producer services, such as broadband, cloud computing, IT outsourcing, online third-party payments, online marketing, online store operations, logistics and express delivery, and consulting services, resulting in a huge e-commerce ecosystem. With the constant refinement of e-commerce infrastructure and the increasing impact of e-commerce



E-commerce has dramatically changed consumer behavior, business models, and ways of value creation in the society, effectively reduced the social transaction cost, promoted the social division of labor and coordination, triggered a wave of social innovation, improved the efficiency of social resource allocation, profoundly influenced the traditional industries, such as retail, manufacturing, and logistics, and became the important infrastructure of the information economy and the new business reality.

on the economy and society, e-commerce has further helped with creating new business ecology and new business scenarios, continued influencing traditional industries to adopt e-commerce, promoted and stimulated the development of overall economic transformation and upgrade. As a result, the e-commerce economic complex began to rise.

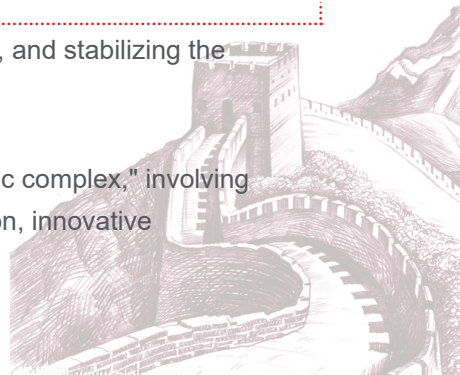
At present, China's e-commerce is playing an important role in leading the digital economy, promoting opening up, deepening reform, boosting the revitalization of rural areas, and promoting entrepreneurship and innovation. It has become the most dynamic part and the focus of the digital economy. E-commerce transactions have maintained rapid growth, and the online retail has become China's largest retail channel. E-commerce in rural regions kept growing fast, and cross-border e-commerce trade volume has also witnessed rapid growth.

In the first half of 2018, Chinese e-commerce enterprises maintained steady and rapid development. The development of online shopping and e-commerce plays a significant role in expanding China's consumption channels, in improving the capabilities of product segmentation and differentiation, and stabilizing the growth trend of consumption.

**China's e-commerce
transactions reached
RMB 29.16
trillion
in 2017**



The e-commerce has become an "economic complex," involving the Internet thinking, distributed organization, innovative



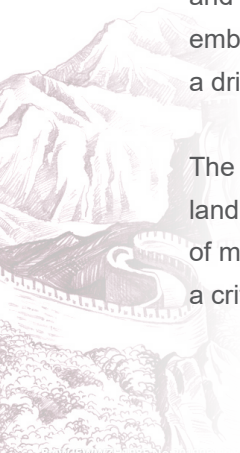
model, the new elements and new resources, the e-commerce "empowerment," the incremental and intensive development, etc. It is a comprehensive reform of the economic development pattern, and is also the systematic integration of new technologies, new products, new formats, and new models.

The E-Commerce System

In terms of the system, launch and development of the e-commerce requires well-developed legal framework, sound development environment, refined infrastructure, highly-efficient factor market, ample development space, fair competition environment, and open areas for expansion.

Constant improvement of the legal framework serves as a critical guarantee for the development of e-commerce. Market economy is a law-based economy, and the economic development concept of the new era is a new development concept based on innovation. The rule of law and innovation has become the binding theme of China's economic and social development. E-commerce not only improves rules, strengthens supervision, and standardizes development in line with the law, but also embraces innovation, breaks through restrictions, and generates a driving force.

The factor market of e-commerce mainly consists of labor, capital, land, technology, and innovation. As an important component of modern economic system, human resources also serve as a critical and most dynamic supporting force for e-commerce.

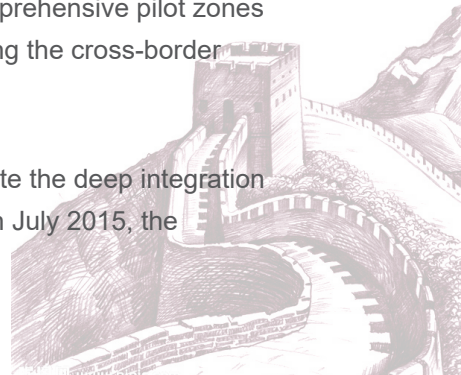


Predominantly, it is micro, small, and medium enterprises (MSMEs) that occupy this sector. They would need support to evolve and innovate.

The big e-commerce system needs adequate guarantees and support with land. The key doesn't lie in the amount of land input, instead, the key is to build properly concentrated and professional e-commerce industrial parks. China has not yet introduced special land policies for e-commerce industrial parks, but by following the rules of industrial development, the government focuses on cultivating leading enterprises and projects, and promoting industrial ecology and industrial clusters.

Further, the development and innovation of information technology has become the key driving force to promote the e-commerce. The technological innovation has been effectively integrated with format innovation, product innovation, and mode innovation to form the basic framework of the national innovation strategy. Additionally, the artificial intelligence is becoming an important factor in development of the e-commerce. The application requirements with artificial intelligence keep expanding, and the international competition becomes increasingly fierce. To enhance e-commerce cooperation, China kept strengthening relevant policies, promoting the construction of comprehensive pilot zones for cross-border e-commerce, and improving the cross-border e-commerce experience.

In China, efforts have been made to promote the deep integration of e-commerce and traditional industries. In July 2015, the



State Council issued the Guidance on Actively Promoting the "Internet +" Initiatives which improved the development space of e-commerce and created conditions for the IT-based transformation and intelligent upgrade of traditional industries. It includes development of rural e-commerce and integration of traditional agriculture, innovating industrial production organization approaches to integrate and enhance the manufacturing industry, and deepening the application of e-commerce to integrate other industries.

Whether e-commerce is information service or commodity sale is the focus of the main contradiction nowadays. Sometimes, this issue even causes direct conflict between e-commerce platform enterprises and authorities. E-commerce platform enterprises believe that what they operate and sell are not commodities in the real sense, instead, this is information. In their opinion, what they guarantee is the security, accuracy, and compatibility of information transmission, rather than the authenticity and security of commodities themselves. On the other hand, in the opinion of government authorities, represented by the State Administration for Industry and Commerce (SAIC), both platform-based e-commerce and vertical e-commerce serve as sales channels, so they should comply with the same laws and regulations, maintain the effective market order, be directly responsible for the consumers' rights and interests, and take responsibilities in the full process from promotion to sale.

Policy Approach

Globally, the development level of a country's e-commerce

has gradually become an important parameter to measure its economic competitiveness and discourse power in economic participation, fully reflecting a country's soft power. Since the turn of this century, China's e-commerce strategy has entered the implementation stage. The e-commerce application of large enterprises has stepped into the collaborative business application phase, and the awareness of SMEs for e-commerce application has witnessed a general improvement. The online shopping volume has expanded rapidly, the specialized e-commerce service system is taking shape, and e-commerce activity has been used more widely in all aspects of the social and economic life.

The past development indicates that the market is the decisive force to promote the development of China's e-commerce economy, but the guiding role of the government is also indispensable. The promotion and coordination of industrial policies; creation of e-commerce environment; fiscal, taxation and financial support; formulation of interconnection standards; provision of public goods which can withstand competition; as well as proactive construction and application of IT-based government administration have become important driving forces for the sound development of e-commerce.

The Chinese government defines e-commerce as the strategic industry, and has kept enacting hundreds of laws and regulations, departmental rules and policies directly or indirectly related to the e-commerce. In addition to promoting the rapid development of e-commerce from multiple levels and perspectives - such as preferential industrial policies, fiscal support and development



incentive measures - the government has removed institutional obstacles, provided fair and safe operating environment, and constantly improved management and service level of the e-commerce economy.

In addition to dealing with the relationship between government and market, the Chinese government attaches great importance to the relationship between safety and development, and reform and stability. It has adopted a series of effective measures to cope with the short-term impact of e-commerce on the economy, strictly adhering to the bottom-line of information security, and closing the digital gap between urban and rural areas.

It is paramount to keep improving the strategy of e-commerce development and providing financial support for promoting entrepreneurship and innovation. A proposal exists to establish a National Innovation System where innovation is understood as a national behavior. Namely, in the network system composed of public and private institutions, the institutional arrangements and interaction among all subjects is set to create, introduce, improve, and pass on knowledge and technology efficiently to enable the nation to achieve better performance in technological innovation. It is a constructive interaction among governments, enterprises, universities, research institutes, and intermediary agencies to seek a series of common social and economic goals, and regard innovation as the key driving force for reform and development.

Another proposal includes establishment of the Digital Economy Development Strategy system. E-commerce economy is a new

type of economic activity that relies on information network. It takes information, knowledge, and technology as key ingredients, and optimizes and reorganizes the whole process of production, consumption and circulation by means of innovation of economic organization to improve efficiency and quality of economic operation.

The Chinese government has adequately anticipated the profound changes brought by the digital economy to the international competition order, the structure of industrial organization, and social life. In line with the transformation, the government has explored the policy mix to refine governance, promote technological innovation, transform economic structure and promote economic development by means of e-commerce.

It is under consideration to establish an inter-departmental coordination mechanism. As the development of the Internet involves a wide range of issues, most of which are comprehensive, intersectional, complex, and diversified, government alone cannot fundamentally cope with all issues. It proves necessary to establish an efficient, systemic, complementary and flexible multi-departmental and multi-level inter-linked management mechanism, and earnestly seek reliable implementation plans at the operational level for implementation.

At the legal level, the government shall strive to improve the legal protection for e-commerce development. In the code of conduct established during the division of labor and cooperation among market players, law plays an important role in protecting the rights

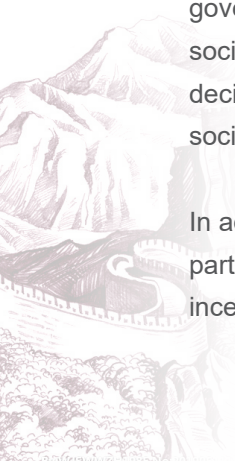


and interests of economic subjects, restraining and punishing illegal infringement behaviors, regulating order of social activities, stabilizing market expectations, and improving social welfare. As the e-commerce is in full swing around the world, a series of new challenges have arisen which impose higher requirements for adjustment of existing international and domestic laws as well as enactment of new ones.

When it comes to governance, a new model of pluralistic co-governance of e-commerce is in order. The emergence of the Internet and the propensity of e-commerce activities gave birth to a network governance which utilizes the network among enterprises through mutual cooperation. The network depends mainly on the non-market transactions and super-contracts in the business ecosystem.

As one of the major players of the pluralistic co-governance, the government continues facilitating cooperation among platform enterprises, industrial associations, the general public and regulators, encourages the platform enterprises to innovate, monitor and assess the effect of the enterprise network governance, and summarize and promote excellence. Meanwhile, social organizations are encouraged to exercise oversight, assist decision-making, improve industry self-discipline, and promote social synergies.

In addition, the government is expected to mobilize the public to participate in economic governance, provide opportunities and incentives for innovation and entrepreneurship for all, popularize



new technologies and knowledge among the general public, improve the quality of basic education and vocational skills training, and establish a sound security system.

Overall, the government's scope includes providing hardware and software support for the development of e-commerce, continuously investing in the related infrastructure, upgrading e-commerce talent training model and capabilities, strengthening urban construction of regional e-commerce nodes and industrial parks, speeding up the IT-based services of the government and regulatory authorities, and actively promoting the development of the downstream ecology and industries of e-commerce.





5

Fiscal Policies for Promoting Development

Over the past four decades of reform and opening up, China has achieved a "miracle of growth" in the history of world economic development, recording an average annual growth rate of 9.6% from 1978 to 2017. Accompanied by remarkable expansion of economic scale, and quality of economic development.

China's vision constituted the following: "the essence of socialism is to liberate productive forces, develop productive forces, eliminate exploitation, remove polarization and achieve common prosperity." At the early stage of reform, the purpose of economic development was to expand the economic scale, and make the pie bigger.

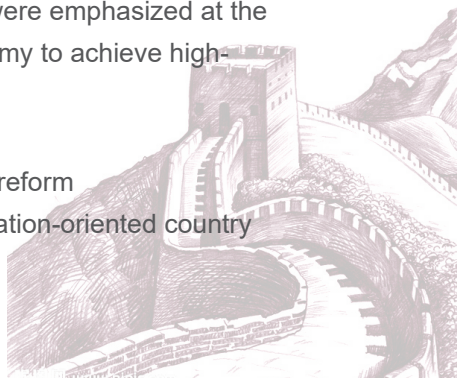
On July 28, 2003, the Chinese leadership put forward the

scientific outlook on development, namely “adhere to the people orientation, establish the comprehensive, coordinated and sustainable outlook on development, and promote the all-around development of economy, society, and the people.” The key was development, the core was people orientation, the basic requirement was comprehensive, balanced, and sustainable development. From this period on, the extensive growth of China's economy has started to gradually shift to intensive growth.

Since the 18th CPC National Congress, China has embarked on a path of comprehensive reform. In October 2015, the fifth plenary session of the 18th CPC Central Committee put forward the five development concepts of “innovation, coordination, greening, opening up and sharing,” attaching more importance to the quality and efficiency of economic development.

In 2016, China put forward the supply-side structural reform to address the prominent challenges in its development, and deployed phased changes to cut overcapacity, reduce excess inventory, deleverage, lower costs and strengthen areas of weakness. According to the report of the 19th CPC National Congress which was convened in October 2017, China's economy has shifted from a stage of high-speed growth to a stage of high-quality development. Six major measures were emphasized at the Congress for facilitating the Chinese economy to achieve high-quality development, namely:

- deepening the supply-side structural reform
- accelerating construction of an innovation-oriented country



- implementing the strategy of rural revitalization
- implementing the strategy of coordinated regional development
- accelerating the improvement of the socialist market economic system
- promoting the formation of a new approach to opening up

To adapt to the evolution of economic development patterns, the Chinese fiscal policy has undergone profound changes, which are mainly reflected in the following shifts:

- from aggregate macro control to structured policy regulation
- from short-term demand-based management to the management of integrated demand and supply
- combining short-term solution with long-term strategy
- from separate fiscal and monetary policies to mutual in-depth communication and coordination between them

Since the founding of the People's Republic of China, the development of fiscal policies can be divided into five stages:

- 1950 - 1978, the planned economy
- 1978 - 1992, the exploration and expansion period of economic system reform
- 1993 - 2008, the socialist market economy
- 2009 - 2012, the period of coping with the global financial crisis
- 2013 onwards after the 18th CPC National Congress, the new stage



The Planned Economy

At this stage, finance has made critical contribution to consolidating the national regime, maintaining social stability, raising funds for construction, and promoting the recovery of national economy. A highly centralized fiscal system of "unified state control over revenue and expenditure" was implemented. There was short-term decentralization, although no significant results were achieved. The central government has always firmly controlled national finance allocation and management. Correspondingly, fiscal regulation policy was characterized the following way: direct intervention policy as the main mode of control, fiscal investment expenditure as the main means of control, and emergency-based passive control.

Exploration and Expansion

At this stage, China's economy experienced three distinct economic cycles, namely 1979-1981, 1982-1986 and 1987-1992.

During the first cycle (1979-1981), the central government put forward the eight-character policy of "adjustment, reform, adjustment, and improvement" to address various issues caused by the overheated economy. The central government further proposed the guidelines for national economic adjustment, namely:

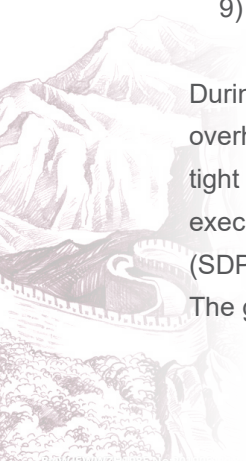
- balancing fiscal revenue and expenditure



- eliminating deficit - achieving balance between credit receipts and payments
- canceling the fiscal currency issuance
- maintaining prices stable, especially prices for daily necessities

The fiscal macro-control policies were characterized by the following main aspects:

- 1) controlling investment demand by reducing fiscal production and construction investment
- 2) strict control of consumer demand
- 3) cutting expenditures
- 4) implementing the system of fiscal responsibility allocation at different levels
- 5) issuing treasury bonds to raise revenue
- 6) coordinating a tight monetary policy by demanding mandatory purchase of treasury bonds by SOEs and collective enterprises
- 7) stabilizing the market and commodity prices
- 8) optimizing the mix of imports and exports
- 9) achieving equilibrium in the balance of payments



During the second cycle (1982-1986), due to recurrence of the overheated economy, the central government implemented tight fiscal and monetary policies in parallel. This change was executed jointly by the State Development Planning Commission (SDPC), the Ministry of Finance, and the People's Bank of China. The government reduced the scale of fiscal capital construction

investment and controlled prices, money supply was reduced, and credit release was also controlled.

During the third cycle (1987-1992), while economy kept experiencing the same malaise, the following fiscal control policies were adopted: significantly reducing investments in fixed assets, strictly controlling consumer demand, standardizing the fiscal order, rigorously implementing law-based tax administration, cutting back on fiscal expenditure of the central government to achieve balance of revenue and expenditure, and separating profits and taxes to adjust distribution between the government and enterprises.

The Socialist Market Economy

The phase I of the social market economy refers to the moderately tight fiscal policy (1993-1997) to address the overheated economy. The key measures included:

- implementing aggregate control
- intensifying efforts to control the aggregate demand, which mainly covers strengthening government revenue collection and management
- strictly controlling the fiscal deficit and strengthening management to control the growth of investment in fixed assets
- strictly controlling institutional purchases
- optimizing the expenditure structure and strengthening support for weak links in the national economy, including



increasing financial support for agricultural development, supporting technological progress of enterprises, and supporting reform of SOEs

Phase II was the period when proactive fiscal policies were adopted to address economic downturn triggered by the Asian Financial Crisis (1998-2004). Policies included:

- issuing additional long-term construction treasury bonds to strengthen infrastructure construction
- adjusting taxation policies to stimulate consumption and investment
- refining the income distribution policy to nurture and expand consumer demand
- intensifying efforts to control arbitrary fees to reduce the tax burdens on residents and enterprises, and increase the investment vitality of enterprises and consumption power of residents
- increasing transfer payments to the central and western regions to promote balanced regional development

Phase III refers to the period of prudent fiscal policy (2005-2008) which included:

- moderately reducing fiscal deficit and controlling the issuance of long-term treasury bonds for construction
- adjusting and optimizing fiscal expenditure structure
- moderately reducing fiscal expenditure in general competitive areas



- increasing fiscal expenditure in public finance
- enhancing the role of fiscal and taxation policies in stabilizing prices

Coping with the Global Financial Crisis

The following measures were taken in the aftermath of the global financial crisis:

- expanding government public investment to stimulate aggregate social demand
- promoting economic structural adjustment and economic growth through structural tax cuts
- combining the flexibility of short-term regulation policies with the stability and sustainability of long-term control policies
- increasing input in the people's livelihoods

The New Stage

China entered the new stage of development in 2013 with new vision and new strategy where China's fiscal policy became more scientific and efficient. It adapted to the new normal of economic development and supported the supply-side structural reform with distinctive Chinese characteristics.

During this period, China's fiscal policies were mainly manifested in the following aspects:

- focus shifted from aggregate issues to more structural ones



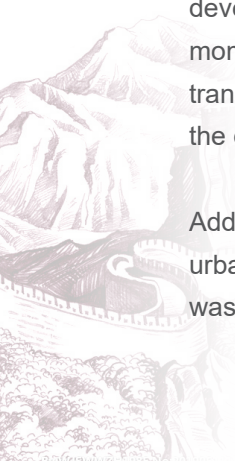
- previous focus on solving economic problems has given way to implementation of a package of initiatives
- focus shifted from deficit, debt, and expenditure scale to optimizing structure of fiscal expenditure
- previous focus on macro-control shifted to public risk management
- more attention was devoted to the use of social capital to improve the quality and efficiency of investment

These policies included five dimensions to promote all-round development:

- economic development
- coordinating harmonious development of regions
- improving people's livelihood
- coordinating harmonious development between man and nature
- opening up to the outside world

Since the reform, China's fiscal policy has focused on the theme of economic construction, and fulfilled its function of economic development by promoting the release of economic development momentum, promoting economic restructuring, facilitating the transformation of economic development mode, and promoting the development of SMEs.

Additionally, regional development was balanced between urban and rural areas and among regions. Resource allocation was optimized, and financial input and support to rural and



less developed areas increased. China continued increasing financial input to improve people's livelihood, and achieve positive results by prioritizing education, housing, poverty eradication, employment, entrepreneurship, and improvements to the social security system.

To harmonize the development of man and nature, financial support for environmental protection gradually increased, energy-saving technical transformation has been carried out in an all-around manner, policy measures - such as fiscal incentives, tax preference and credit support - have been introduced, and energy-saving companies have been actively supported to conduct energy-efficient transformation by means of energy performance contracting.

In order to promote economical and efficient use of resources, the State Council issued the Regulations of the People's Republic of China on Resource Tax (draft) and the Regulations of the People's Republic of China on Salt Tax (draft) on September 18, 1984, and the resource tax was levied from October 1 of the same year. The Provisional Regulations of the People's Republic of China on Resource Tax came into force on January 1, 1994 and was amended in 2011. The Resource Tax Law of the People's Republic of China (draft for soliciting opinions) was issued in November 2017, which clearly stipulated that the resource tax shall be levied on an ad valorem basis. The Environmental Protection Tax Law of the People's Republic of China came into effect on January 1, 2018.



The component of opening up to the outside world included attracting and encouraging foreign investments in China through fiscal and taxation policies. Efforts have been made to improve the export tax rebate policy, adjust and optimize the export of goods and services. The foreign investors were encouraged through profit distribution schemes for resident enterprises in China, deferred tax policy, and waiver on the income tax withholding.

Local governments were encouraged to introduce policies and measures in line with laws and regulations, including financial support, to attract regional headquarters of multinational companies, and efforts have been made to actively participate in the adjustment of global industrial structure to encourage multinational companies to invest in setting up regional headquarters in China. The Ministry of Finance, on behalf of the national government, has led the establishment of the Asian Infrastructure Investment Bank, the



In the face of uneven regional development, the central government has conducted overall planning and scientific deployment. By means of promoting regional development strategies such as the development of the western region, the rise of the central region, the revitalization of the northeast, and the pioneering development of the eastern region, China has achieved coordinated and harmonious development among regions complimented by fiscal policies which provided guarantees for regional development.

New Development Bank and other national organizations as well as domestic institutions such as the Silk Road Fund to strengthen international cooperation and opening up to the outside world.

Since the founding of the People's Republic of China, especially since the reform and opening up 40 years ago, China has accumulated rich experience in the development of fiscal policies. The eastern region has taken the lead in development. The central region has made remarkable achievements in improving the people's livelihoods, and the western region has made outstanding results in coordinating the harmonious development between man and nature.

The Zhejiang province provides an example how fiscal policies can promote economic development, mainly because Zhejiang is located in the forefront of reform. Policy measures in this province included:

- using special financial funds and government industrial funds
- reducing the tax burden on enterprises
- supporting enterprises to enhance their capacity for innovation and development
- adjusting and optimizing fiscal and taxation policies
- customizing policies to specific situations
- implementing the fiscal management mode of "direct management of counties by the provincial government"

Another example is the Henan province which managed to



improve livelihoods of over 100 million people through fiscal policies which included:

- continuing to increase investment in the field of the people's livelihood
- soliciting "ten key practical matters concerning the people's livelihood" from the society by the provincial government
- inviting the general public to offer suggestions and recommendations
- ensuring investment in the people's livelihood through multiple channels
- fully implementing the supplementary medical insurance for serious diseases for people in critical condition
- protecting and supporting rural migrant workers who return to their hometowns to start businesses and college students seeking employment
- strongly supporting improvement of amenities
- actively promoting industrial poverty alleviation
- doing the utmost to ensure and improve people's livelihood based on one's practical capabilities

The Qinghai province, on the other hand, demonstrated good example of natural resource management through policy measures which included:

- optimizing the structure of expenditure
- giving priority to financial support for environmental protection and development
- providing financial guarantee closely following the

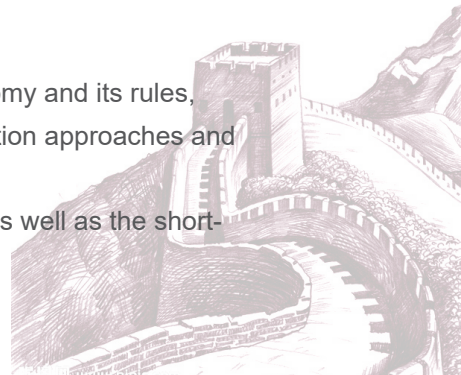


- deployment of ecological protection and construction work
- fully implementing and continuously improving the ecological compensation mechanism of Sanjiangyuan
 - utilizing capacity of fiscal authorities in overall planning and coordination
 - actively supporting and organizing local departments to carry out environmental protection work
 - pursuing the goal of giving preference to the maximum benefit of ecological funds
 - emphasizing systematic management
 - seeking benefit by improving performance
 - promoting improvement by supervision

History shows that as China's economy shifted from planned economy to the socialist market economy, the fiscal policy moved away from the simplistic planning (e.g., investment approval) and developed into a functional fiscal policy system featuring the mutual cooperation between administrative control and market-based approaches and the comprehensive utilization of multiple policy instruments such as: taxation, debts, deficit, expenditure, transfer payments, etc.

Reviewing the transformation process of fiscal policies, the following aspects stand out:

- following and using the market economy and its rules, enriching and improving fiscal regulation approaches and mechanism
- integrating the supply and demand, as well as the short-



term and long-term regulation

- integrating aggregate control with structural adjustment, giving more prominent function to fiscal policies in optimizing the economic structure
- utilizing synergies between fiscal policies and monetary policies under the strategic guidance of structural reform on the supply side
- improving the perspectives of fiscal control policies and stabilizing their expected results, and reducing the phenomenon of "policy depression" (preferential policy area)





6

The Historical Process and Basic Experience of China's Public Sector Reform

The reform of the public sector is not only restructuring of the power and responsibilities within the government system, but also a broad and profound economic and social reform. It is the bidding theme of the whole institutional reform of China, and its most challenging part.

After the founding of the People's Republic of China, due to significant shortage of domestic resources, China established a planned economic system and implemented a highly centralized mode of resource allocation in order to focus on prioritized tasks. The reform brought the following significant changes.

The Objective of China's Public Sector Reform

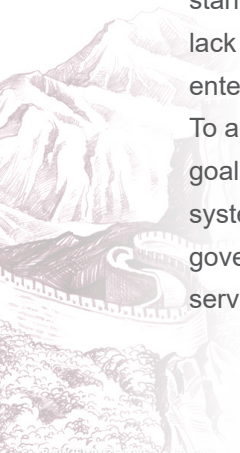
During transformation from planned economy to market economy



and the construction of socialist market economy, China aimed to transform government functions, enhance government capabilities, invigorate SOEs, and improve the efficiency and level of public service supply. Transforming government functions meant transforming the scope of government functions and the way they were performed in line with the requirements of the market economy.

Under the guiding principle of separating government administration from the enterprise management, China has gradually delegated the decision-making power for operation and management to enterprises enabling SOEs to become independent market players. After clarifying the objective of the socialist market economy, with the goal of establishing a modern corporate system, SOEs made endeavors to improve their operation and innovation and build world-class enterprises.

Public institutions, like SOEs, provided public services covering science and technology, education, culture and other aspects, which played an important role in stabilizing the economy, promoting social harmony and improving people's living standards. As reforms started, the issues of unclear functions, lack of division of responsibilities, and confusion about duties of enterprises and public institutions became increasingly apparent. To address these issues, the government has defined the reform goals for public institutions as follows: establish a management system and operational mechanism with clear functions, sound governance, highly efficient operations; and create a public service system with Chinese characteristics featuring priority in



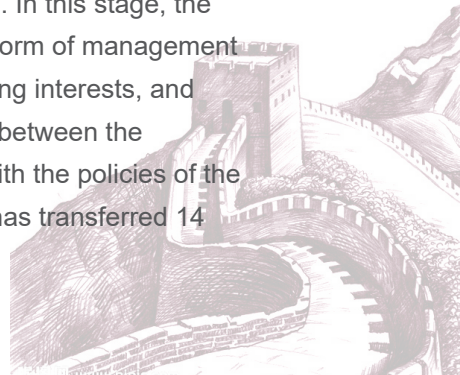
basic services, appropriate level of supply, reasonable distribution structure, as well as fair and just service.

The public sector reform has played a vital role in China's rapid economic and social development. It also laid a foundation for other reforms and improved the operational quality of the national economy and the supply efficiency of public services. Most importantly, the public sector reform has facilitated streamlining of administration, power delegation, transformation of government functions, and established institutional mechanisms which were conducive to the development of the market economy. Furthermore, deepening the market-oriented reform of enterprises was conducive to improving the level of corporate governance of SOEs. The public sector reform has promoted the classified reform of public institutions and improved the efficiency of public service supply.

The SOE Reform

A progressive approach has been applied to the reform of SOEs in China. The reform process can be roughly divided into four stages.


- 1) The first stage was from 1979 to 1986. In this stage, the SOE reform mainly focused on the reform of management rights, i.e. delegating power, transferring interests, and reforming the distribution relationship between the government and enterprises. In line with the policies of the central government, the government has transferred 14



management rights to enterprises, including the decision-making power on production, the right to choose raw materials, the right to use labor and the right to sell products. The transfer of management rights meant that the operators of enterprises got certain control which played a motivational role for operators and producers of enterprises.

In line with the principles that the socialist economy is a planned commodity economy and the ownership and management rights can be properly separated, enterprises were required to become relatively independent economic entities, to become independent, self-sustaining commodity producers and business operators, become a legal entity with certain rights and obligations, and the government no longer directly managed enterprises in principle.

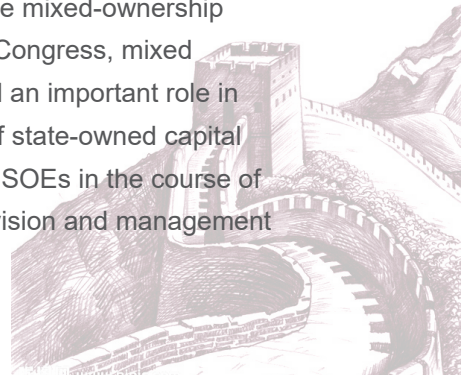
The SOE reform has not only standardized the distribution relationship between the state and SOEs, and reduced uncertainty of the enterprise profit retention system, but proved conducive to the establishment and improvement of the enterprise's economic responsibility system, urged the enterprises to transform their operating mechanism, and enhanced the vitality of enterprises.

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- 2) The second stage was from 1987 to 1992 which was the transition period of SOE reform from management right transfer to ownership. Since the reform involved property relations, one approach was to restrict SOEs in property rights and use enterprise contracting system, another

approach was to implement the stockholding system. The joint-stock system reform represented an important boost to SOE reform at the ownership level, and its fundamental purpose was to change the state-monopolized corporate property system to create a diversified property right structure within SOEs, optimize the internal governance of SOEs, and implement effective incentives and restrictions to shareholders, the board of directors, and the management.

Due to financial limitations and lack of experience, the joint-stock system reform could not meet the expectations.

- 3) The third stage was from 1993 to 2012. It was dominated by the promotion of the modern corporate system establishment. On the third plenary session of the 16th CPC National Congress which convened in October 2003 a decision was adopted proposing establishment of the state-owned assets management and supervision mechanism to improve the corporate governance structure and accelerate the reform of monopoly industries. This marked the beginning of the new stage of China's SOE reform.
- 4) The fourth stage started in 2013 and continues till today. This stage is mainly about implementing the mixed-ownership reform. Since the 18th CPC National Congress, mixed ownership reform of SOEs has played an important role in preserving and increasing the value of state-owned capital and improving the competitiveness of SOEs in the course of China's SOE reform. The SOE supervision and management

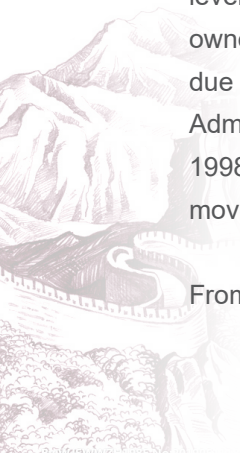


was strengthened with a focus on capital management. In terms of the reform of the administrative system, with the objective of "separating government administration from corporate functions, separating the government from assets, separating government from public institutions, and separating government from social organizations", further efforts have been made to continue power delegation. In brief, the SOE reform has proved successful with the economic benefits of enterprises improved, and the risks being managed effectively.

Reform of State-Owned Assets Management

During 1988 - 1998, the administration of state-owned assets was established where financial and banking authorities, planning commission, and the competent departments of enterprises - all had a role to play. In 1992, at the third plenary session of the 14th CPC National Congress, the decision was adopted which proposed separation of ownership of investors and the property right of business entities. As a result, a relatively unified management system came into existence comprising three levels, namely, Administration of State-Owned Assets, and state-owned assets operating institutions and enterprises. However, due to various factors, this system failed to be realized, the Administration was abolished during the institutional reform in 1998, and the original assets and financial management function moved under the Ministry of Finance.

From 2003 to 2012, when the Ministry of Finance took charge,



the management got split among several authorities, namely: the Organization Department of the CPC Central Committee was responsible for human resources, the Ministry of Labor was in charge of wages, the State Development and Planning Commission was responsible for infrastructure investment, and the Economic and Trade Commission was in charge of investment in technological transformation. The drawbacks of overlapping management were obvious, the accountability framework was missing. In March 2003, the State-Owned Assets Supervision and Administration Commission (SASAC) of the State Council was officially inaugurated, marking the end of the overlapping management, and achieving significant innovation and breakthrough in both theory and practice.

From 2012 till today, the reform focused on strengthening the supervision of state-owned assets, establishing the dominant position of SOEs in the market, and promoting transformation of functions of state-owned assets supervision authorities. On May 10, 2017, the General Office of the State Council forwarded the Program which proposed systemic changes to the mode of supervision of SASAC and its functional transformation.

Government Sector Reform and Functional Transformation

Over the past four decades, China's government departments have been streamlining administration and delegation of power to lower levels. This process can be roughly divided into the following three periods.



- 1) From 1978 to 2002, the focus of the CPC's work was on construction of the socialist modernization. Subsequently, the government sector reform has been gradually rolled out. The transformation from planned economy to market-oriented economy inevitably required adjustments to government departments and their functions. These adjustments took time and continue taking place.
- 2) From 2003 to 2011, since the 16th CPC National Congress, more importance has been attached to the supervision and management of the public sector to improve the efficiency and quality of public services.
- 3) From 2012 till today, the administrative system reform started to further promote separation of government and enterprises, government and assets, government and public institutions, as well as government and social institutions. Additionally, it became necessary to deepen the reform of the administrative examination and approval system, continue to streamline administration and power delegation, and promote transformation of government functions to create a favorable development environment, provide quality public services, and maintain social equity and justice.

Reform of Public Institutions

The reform of public institutions was divided into four periods. The first period was from 1978 to 1992 when China carried out orderly

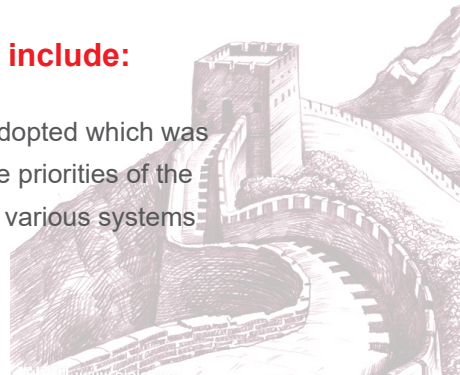


reforms in public institutions of science and technology, education, and public health. The second period was from 1992 to 2002 when the central government proposed that public institutions should separate from the government, meaning reasonable division of responsibilities of the Party and government organs and public institutions, etc. The third period was from 2002 to 2012 when the implementation of the classified reform of public institutions started. During the fourth period after 2012 until today, China published an important guiding document on the reform of public institutions, namely, the Guiding Opinions of the CPC Central Committee and the State Council on Promoting the Reform of Public Institutions in a Classified Manner. The document clarified the guiding ideology, basic principles, and overall objective of the reform, and proposed to standardize, categorize, and segment the existing public institutions. It was also proposed to reform public institutions which undertake administrative functions, engage in production and operations, and deliver public services. Improvement of fiscal policies which supported public welfare programs was also deemed as a priority.

These reforms resulted in the government function optimization, improvements in public service capabilities which ultimately improved people's living standards.

The characteristics of this reform include:

- 1) A progressive reform path has been adopted which was issue-oriented and closely followed the priorities of the reform. It was also a process in which various systems



interacted, influenced, promoted and governed one another. Reform and opening up was an unprecedented new undertaking which hasn't been accomplished by other socialist countries. To reduce the risk of the reform, the path of progressive reform has been chosen, meaning "crossing the river while feeling the stones." The cycle of implementation, reflection, and adjustment has been conducted iteratively. Each improvement was a response to practical issues.

The path of progressive reform meant "crossing the river while feeling the stones"



- 2) The relationship between government, market, and society has been transformed and the public service supply mode has been optimized. The smooth progress of China's public sector reform is closely related to the correct handling of the relationship among the three. The government and the market "merged" in social reproduction and social development and formed numerous relational combinations. Format adjustments were timely, frequent, and adequate to maintain a dynamic balance.
- 3) The transformation from "versatile government" to "service-oriented government" has been promoted, and the reform of power delegation, management and service within the government has been systematically boosted. In other words, service has become the starting point and destination of management, the core concept that the modern government



serves the whole society. This concept has penetrated all governmental departments at all levels.

- 4) The governmental functions have been separated from enterprise management, the modern corporate system has been established, and the function-oriented reform of SOEs has been promoted. The focus was on separating ownership and management rights. To enhance the market vitality of enterprises, the government has adopted the practice of "delegating power and transferring profits." Earlier, when the management right was delegated to enterprises, the ownership was often delegated at the same time. This provided the insiders with an opportunity to take ownership. In case an enterprise went out of control, the government would take the power back. This cyclical process put the SOE reform in a dilemma which was resolved through introduction of a corporate system which provided a feasible institutional arrangement for separating ownership and management rights through the governance structure.
- 5) In the reform of SOEs, China has always attached great importance to preventing corruption, managing risks and improving the quality and efficiency of the development of SOEs. Effective ways were explored to integrate adherence to Party leadership with the corporate governance. The "sunshine" SOEs (with information disclosure obligations, etc.) were built to create a multi-dimensional regulatory model and generate the regulatory synergy. Furthermore, the accountability system for Party management



and governance, including anti-corruption work, was promulgated, and SOEs were continuously strengthened institutionally.

- 6) The reform of the state-owned assets management system has been advanced in an orderly manner, switching from managing assets to managing capital. China's SOE reform first experienced a period of separation of government administration from enterprise management, power delegation and profit transfer, and then went through the reform of separation of government administration from assets, which avoided the direct interference of administrative departments in enterprises. After formation of SASAC, the central government granted it the authority of assets management. The SASAC's management mode and its control of capital investment rights kept the characteristics of the administrative department of the government which gave rise to the concerns. As a result, a paradoxical situation was generated in which the SASAC regulated the market, while the market guided the SASAC. To advance the reform, it became necessary to transform asset management to capital management.
- 7) Government was separated from public institutions, and the latter was separated from enterprises. The related legal corpus was revised and customized. The administrative monopoly was demised giving way to the reasonable division of labor among public institutions and improving the supply efficiency of public services.



- 8) Equal importance has been attached to software and hardware to strengthen the construction of e-government information system which has refined the construction of China's public sector and improved the service efficiency and service levels. Efforts have been made to manage government departments and their coordination with the external network information departments. The work processes were streamlined, and interconnection and information sharing among government information systems was ensured. The network security was strengthened to ensure security and reliability of e-government information. Cooperation among information platforms, such as network companies and public government departments, was actively promoted.





7 Promoting Sustainable Urbanization and Municipal Services

In 1978, the proportion of China's urban population was 17.92%, which increased to 58.52% at the end of 2017. China's urbanization process displayed the following characteristics:

- It developed rapidly on a large scale, and both the urban population and the number of cities witnessed fast growth
- both the urban population and urban construction areas demonstrated rapid expansion; the latter grew faster
- industrial development had a strong pulling effect on the urbanization process
- different provinces varied in their urbanization speed and approaches. Difference evolved from the "north-south " in the early stage of the reform to the current "east-west."

The urbanization development can be roughly divided into the

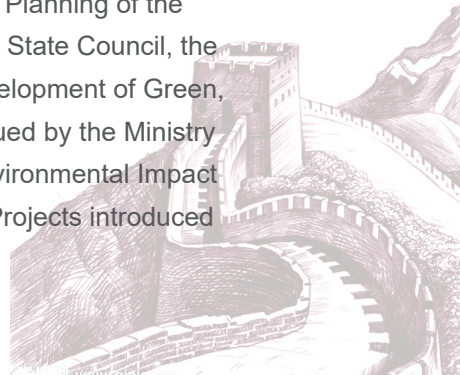
following stages:

- Until 1995, the level of urbanization was lower than 30%, the development was slow, and the expansion of urbanization mainly depended on extensive development.
- From 1996 to 2013, the original extensive development transformed into intensive development, pace became faster.
- From 2014 till now, China has entered the phase of the new-type urbanization construction. In terms of sustainable urban development, the living standards of urban residents in China improved which got reflected in the year-by-year increase of urban residents' income.

In parallel, urban education, medical care, and municipal services improved. The latter involved road traffic, water supply, gas supply, power supply, heating supply (pipe network construction), river embankment, sewage and garbage treatment, landscaping, and other.

Urban Road Traffic

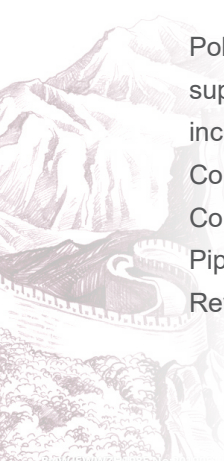
Policies promoting the development of urban road traffic included the Comprehensive Transportation System Planning of the 12th Five-Year Plan Period released by the State Council, the Guiding Principles on Accelerating the Development of Green, Circular on Low-Carbon Transportation issued by the Ministry of Transport, the Circular on Promoting Environmental Impact Assessment of Urban Rail Transportation Projects introduced



by the Ministry of Environmental Protection, the Implementation Program for Promoting Convenient "Internet+" Transportation and Development of Intelligent Transportation released by the National Development and Reform Commission (NDRC) and the Ministry of Transport, as well as the 13th Five-Year Plan for Development of Urban Public Transport promulgated by the Ministry of Transport.

With this set of policies, the government has strengthened the safety risk control in rail transit construction, prioritized the development of public transportation, accelerated the development of low-carbon transportation, and promoted the development of intelligent transportation. Since then, the scale of public buses and trams in China has been increasing year by year, the total volume of urban passenger transport has been rising steadily, and the number of urban bus routes has been extending annually. However, the urban public transport congestion has remained an issue due to poor public transport service, lack of unified planning of public transport infrastructure and network.

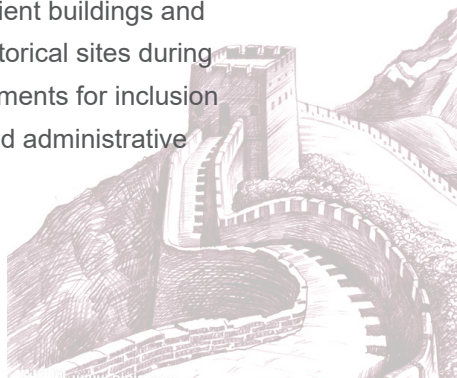
Underground Civil Works



Policies promoting urban water supply, gas supply, electric power supply and heating (pipeline network construction) development included the Opinions on Strengthening Urban Infrastructure Construction issued by the State Council, the Circular on Conducting Pilot Program for Comprehensive Underground Pipeline System Supported by the Central Finance by the State Revenue released by the Ministry of Finance, the Guidelines on

Issuing Special Bonds for the Construction of Comprehensive Urban Underground Pipeline System introduced by the General Office of the NDRC, the Guiding Opinions on Promoting the Construction of Comprehensive Urban Underground Pipeline System released by the State Council, and the Opinions on Promoting Integration of Electric Power Pipelines into Comprehensive Urban Underground Pipeline System jointly promulgated by the Ministry of Housing and Urban-rural Development and the National Energy Administration.

Guided by these policies, constant efforts have been made to strengthen management over the construction of comprehensive urban underground pipeline system. The pilots for comprehensive underground system were supported by the central finance authorities of the central government, and the paid use system has been adopted for the comprehensive urban underground pipeline system to promote the construction of sponge cities. Efforts have also been made to standardize construction of the underground pipeline system, coordinate the construction scale, define the requirements for inclusion into the pipeline, practice the paid use principles, clarify responsibilities for participating parties, broaden the financing approaches and unify the technical standards. The issues that require improvements include information maturity, the contradiction between protection of ancient buildings and promotion of new projects, protection of historical sites during pipeline development, subs-system requirements for inclusion into the comprehensive pipeline system, and administrative regulations related to the pipeline system.



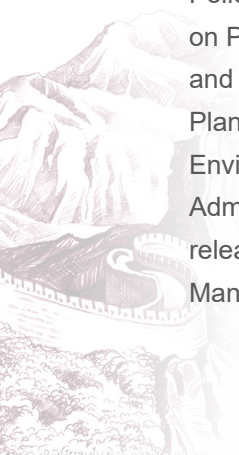
Urban Riverbanks

Policies strengthening the management of urban riverbanks included the Guiding Opinions on Strengthening Management of Rivers and Lakes, the Measures for Supervision and Management of Sewage Discharge Outlets into Rivers, the Interim Measures for the Pilot Reform of Water Resource Tax issued by the Ministry of Water Resources, and the Administrative Regulations of the People's Republic of China on Watercourses released by the State Council.

These policies strengthened the river and lake management. The river chief system and lake chief systems have been implemented. The water resource tax has enabled enterprises to accelerate the pace of energy conservation and environmental protection. The outstanding issues include silt deposition, water pollution, riverbank landscape design issues, and harmful effects on terrestrial and aquatic ecosystems.

Urban Waste Treatment

Policies regulating urban waste treatment included the Opinions on Promoting Industrialized Development of Urban Sewage and Garbage Disposal issued by the State Development and Planning Commission, the Ministry of Construction and the State Environmental Protection Administration, the Regulations on the Administration of Collection and Use of Pollutant Discharge Fee released by the State Council, the Interim Measures on Fund Management of Replacing Subsidies with Awards for Supporting



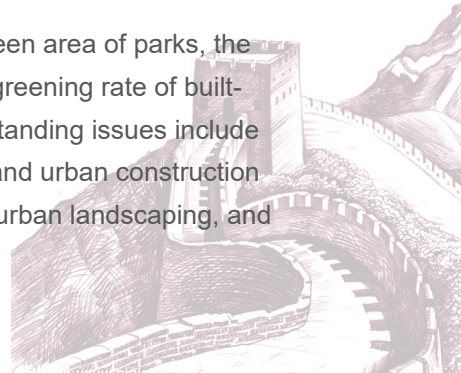
Pipeline Network of Urban Sewage Treatment Facilities and the Law of the People's Republic of China on Environmental Protection Tax, issued by the Ministry of Finance, and the Opinions on Innovation and Improvement of the Price Mechanism for Promoting Green Development released by the National Development and Reform Commission.

The policies enabled outstanding results in waste treatment. The volume of industrial water recycled, the amount of water saved, and the amount of household waste managed have all witnessed increase year by year. The outstanding issues include lack of public awareness about the market price of waste management, and lack of maturity of relevant laws and the administrative system.

Urban Landscaping

Policies promoting the development of urban landscaping included the Regulations on Urban Landscaping issued by the State Council, the Regulations on Urban Landscaping Planning and Construction Indicators, and the Bidding and Tendering Law of the People's Republic of China released by the Ministry of Construction.

Guided by these policies, the per capita green area of parks, the green cover rate of built-up areas and the greening rate of built-up areas increasing year by year. The outstanding issues include lack of coordination between landscaping and urban construction planning, the lack of scientific planning for urban landscaping, and



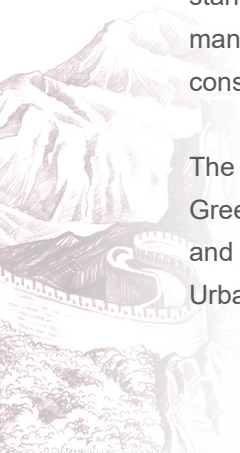
some deviations from the natural law on plant growth in urban landscaping work.

Drainage, Flood Control, and Other Areas

The drainage and flood control policies included the Regulations on Urban Drainage and Sewage Treatment promulgated by the State Council, the Administrative Measures on Approving Discharge of Urban Sewage into Drainage Pipe Network issued by the Ministry of Housing and Urban-rural Development, the Regulations on the Work of Soil and Water Conservation, the Water Law of the People's Republic of China and the Law on Flood Control of the People's Republic of China released by the State Council, and the Guidance on the Safety and Construction of Flood Storage and Retention Areas issued by the Ministry of Water Resources.

Since policy adoption, improvements were noticeable, however outstanding issues remain, such as weak urban flood control and drainage infrastructure, under-developed construction planning regarding flood control and drainage facilities, imperfect technical standards, insufficient early warning capabilities, inconsistent management of urban flood control and drainage system construction, and weaknesses in management.

The lighting policies included the Implementation Plan for China's Green Lighting Projects promulgated by the State Economic and Trade Commission, the Opinions on Strengthening the Urban Lighting Management and Promoting Electrical Energy



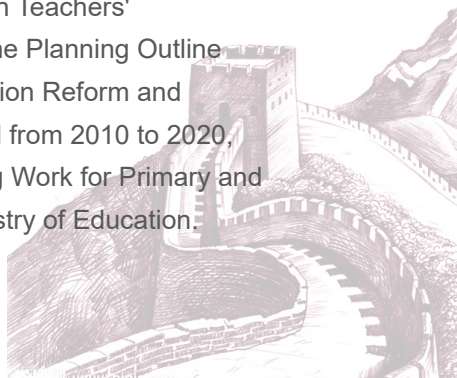
Saving released by the Ministry of Construction, the Decision on Strengthening Energy Conservation Work, and the planning outlines for urban green lighting projects for the 11th and 12th Five-Year Plan period.

These policies also proved successful. The issues that remain to be addressed include lack of programmatic guidance for urban lighting energy saving, uneven level of road lighting, lack of functionality, and lack of night lighting.

Medical Security and Public Education

The policies on medical security included the Decision on the Basic Medical Security System for Urban Employees issued by the State Council, the Decision on Further Strengthening Rural Health Work issued by the CPC Central Committee and the State Council, and the Guiding Opinions on Conducting the Pilot Program of Basic Medical Insurance for Urban Residents issued by the State Council.

While the public education policies included the Opinions on Layout Structure Adjustment of Normal Universities and Colleges, the Teacher Law of the People's Republic of China promulgated by the Ministry of Education, Regulations on Teachers' Qualification issued by the State Council, the Planning Outline for National Medium and Long-term Education Reform and Development released by the State Council from 2010 to 2020, and the Opinions on Strengthening Training Work for Primary and Middle School Teachers issued by the Ministry of Education.

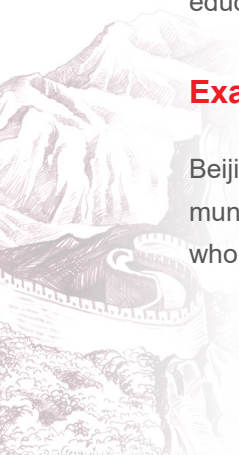


China began implementing the reform of the medical security system in the 1980s, and gradually established a combination of urban medical security system, comprising the social medical insurance, free medical treatment, and the urban medical assistance system. Since then, the number of people participating in urban medical insurance has been increasing. The coverage of the basic medical insurance for urban residents and the new type of rural medical care system has continued to expand.

The urban and rural medical assistance systems and various forms of supplementary medical insurance arrangements have also witnessed solid development. In the past 30 years, China's education has developed rapidly, the achievements in the popularization of compulsory education have been further consolidated. The right of children of migrant workers to receive compulsory education has been guaranteed, vocational education has witnessed rapid development, and the overall quality of teachers has been constantly improved. The outstanding issues include chaotic governance of the medical system, deficient planning, weaknesses in management, unevenness of urban and rural education levels, and lack of attractiveness of vocational education.

Example of Beijing

Beijing has accumulated rich experience in urbanization and municipal construction, which has set a good example for the whole country.

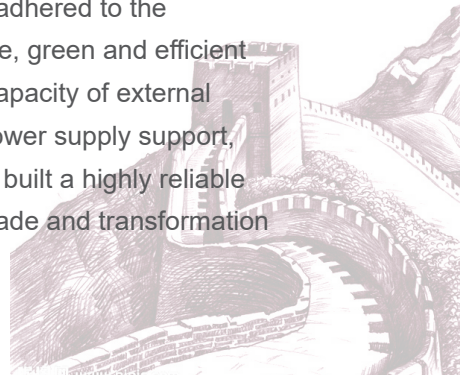


Firstly, Beijing has strengthened effectively its transportation carrying capacity by expanding investment in transportation construction, strictly controlling traffic demand, developing intelligent transportation and building green transportation. It has initially established an efficient and diversified public transportation system and significantly improved the operation and management service levels.

In terms of water supply construction, the city has refined the regulation and policy system for water affairs on the one hand and has constantly innovated and improved the investment and financing mechanism and system for water affairs on the other hand. As a result, the urban and rural water supply security level, sewage treatment and recycled water utilization capabilities have witnessed significant improvement.

As for the gas supply, Beijing has achieved outstanding results by improving the transmission and distribution system, promoting "coal to gas" and other people-benefiting projects, and improving the level of management. The total number of natural gas users and gas consumption is the highest among the major cities in China, and the penetration rate of urban gas reached 100%.

For the power supply construction, Beijing adhered to the development goal of building a safe, reliable, green and efficient smart grid, and the city has improved the capacity of external power supply channels, refined the local power supply support, optimized the structure of main power grid, built a highly reliable distribution network, implemented the upgrade and transformation



of agricultural power grid, and planned for clean energy. So far, it has formed the main grid structure of the 500 KV double-ring network with power transmission in all directions, and the external transmission channel capacity has reached around 35 million KW.

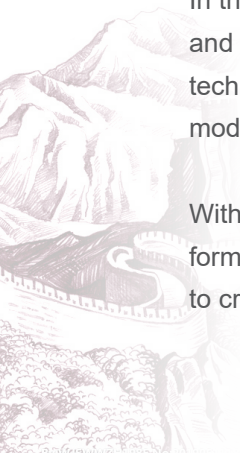
Furthermore, Beijing has created a new heat supply system that is dominated by centralized heating and combined with various energy sources and heating modes, conducted pilot projects in heat fee reform, and applied innovations to the heat supply management.

To improve city appearance and sanitation, urban river courses, landscaping zones, sewage and garbage treatment arrangements were constructed.

In the process of river course construction, Beijing adhered to the thinking of ecological water control, and has strengthened the comprehensive treatment of river courses by integrating the flood control and drainage function, ecological environmental protection function and landscape coordinating function into the process.

In the landscaping construction, Beijing utilized science and technology approach through use of new materials and technologies in landscape design and maintenance to create a model with water-saving, energy-saving, and land-saving features.

With respect to sewage and garbage treatment, Beijing has formulated and refined relevant policies, regulations and standards to create a long-term regulatory mechanism on the one hand,

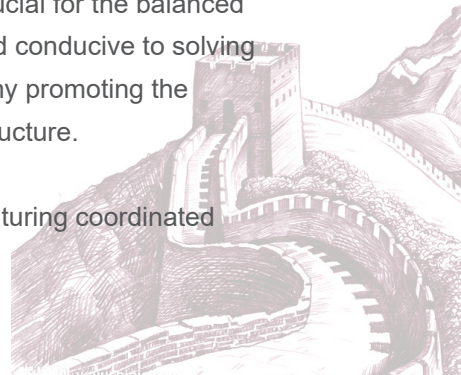


and introduced the market-based mechanism by encouraging the public private partnership (PPP) model, on the other hand. This helped in efficient management of waste treatment and enhanced urban pollution control levels. Furthermore, great importance was attached to the public safety of urban construction. The city has strengthened construction of urban drainage projects and disaster prevention systems and promoted improvements in healthcare and education by means of technical innovation.

Features of Chinese Urbanization

The China's urbanization development experience can be characterized by the following aspects.

- formation of the government-led, market-driven path of urbanization featuring private participation. The three driving forces of urbanization played their respective roles and promoted one another to improve the efficiency. This prevented backward process of urbanization and excessive development to ensure coordinated development of the society and economy.
- following the path of urbanization that was compatible with industrialization. This proved crucial for the balanced development of economy and proved conducive to solving the dichotomy of urban-rural economy promoting the rational development of industrial structure.
- pursuing the path of urbanization featuring coordinated



development of small towns and small, medium, and big cities. The structure of medium-sized and big cities and small towns and small cities was rational in terms of scale, quantity and space locations, gradually forming the network of an urban system. As a result, the economic connections between cities and between urban and rural areas was strengthened driving the development of social economy as a whole.

- taking the path of urbanization with multiple sources of construction funds, including the private capital investment and capital markets.

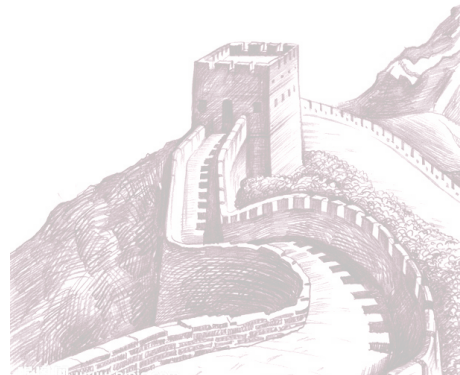
The experience of municipal construction in China included the following.

- importance has been attached to urban planning, which defined the development goals, scale, space, and layout of urban municipal services explicitly. Municipal services have been integrated into the development planning of cities to make the municipal construction proceed in an orderly manner and ensure development of sustainable capabilities of cities.
- efforts have been made to make investment in municipal construction, to ensure that there were adequate sources of funds for municipal construction. Apart from financial support from the government, local governments also set up local investment and financing platforms for urban



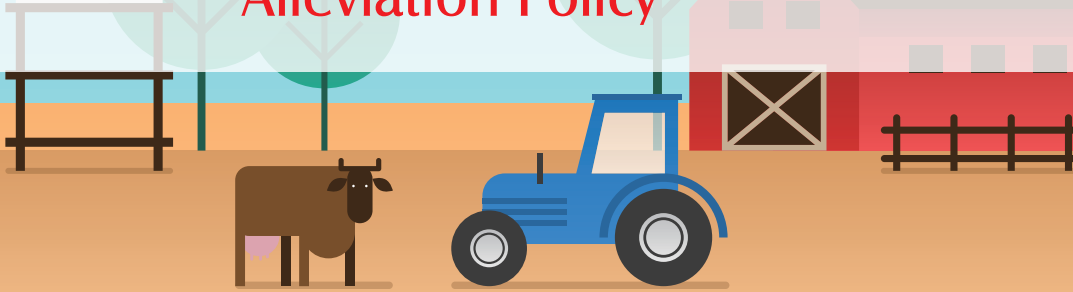
infrastructure financing.

- emphasis has been placed on risk management of municipal facility construction and their operation. Funds were obtained by means of municipal construction supporting fees and choosing the right entity for normal operation of municipal facilities. During construction, quality and safety has been strictly managed, procedures were closely followed.



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China's Poverty Alleviation Policy



With the population of more than 1.4 billion, of which 50% represent rural residents, poverty alleviation remained the top policy priority of the People's Republic of China since its foundation in 1949. The reforms after 1978 have greatly contributed to this goal and China has lifted hundreds of millions out of poverty.

In 2008, the World Bank defined two poverty levels. One for countries with a citizen's daily income of USD 2; the other for the world's 20+ poorest countries with a citizen's daily income of USD 1.25 (which was further raised to USD 1.9 in October 2015).

Before 2000, the poverty level of RMB 206 (defined in 1986) was adopted as the poverty level which was the lowest survival minimum. In 2011, the national poverty level for rural areas was

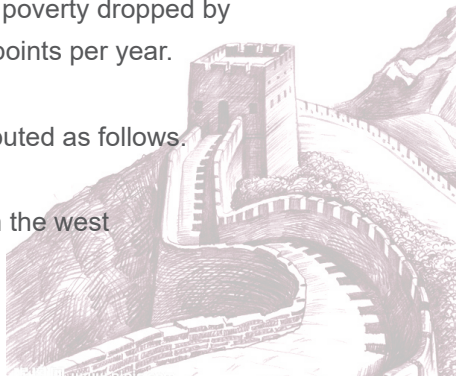
defined at RMB 2,300.

Since the implementation of a series of major measures, such as reform and China's accession to the WTO, China's economy kept growing, and the demand for the labor force kept increasing. This has contributed effectively to poverty reduction in rural areas. China's GDP increased from RMB 459 billion in 1980 to RMB 74,413 billion in 2016, and the incidence of poverty in China continued to decline.

In 2011, China formulated the Outline of Poverty Alleviation and Development in Rural Areas (2011-2020), marking the entry of China's poverty alleviation and development work into a new stage. At this stage, more emphasis has been placed on solving the problem of sustainable development, consolidating the achievements in food and clothing, improving the environment, enhancing capacities for development and narrowing the development gap. Subsequently, the number of the rural impoverished in China in 2010 stood at 166 million, with a poverty incidence of 17.2%. In 2016, the number of the rural poor was 43 million, and the incidence of poverty reduced to 4.5%. Compared with 2010, the number of people living in poverty in rural areas decreased by 122 million in six years, with an average annual reduction of 20.39 million. The incidence of poverty dropped by 12.7 percentage points, or 2.1 percentage points per year.

At present, the China's rural poor are distributed as follows.

- the impoverished are concentrated in the west



- the provinces with poverty are highly heterogenous. There are six provinces with over three million rural poor, and five provinces with over 10% rural poverty incidence.
- the poor are concentrated in minority regions and along the border

The CPC Central Committee and the State Council continue work to remove development bottlenecks in the poverty-stricken areas. In 2012, the incidence of poverty in the poverty-stricken rural areas was 23%, or 13 percentage points higher than the national average in other rural areas. In 2016, the incidence of poverty in the poverty-stricken rural areas dropped to 10%, or 13 percentage points in total, and 3.3 percentage points on average.

After the reform and opening up, thanks to the institutional reforms, China's rural economy has gradually formed a new mode of production and operation centered on the household contract responsibility system, from which China began to implement a large-scale poverty alleviation strategy in a planned way.

Since 1978, China has gone through five stages of poverty alleviation and development, namely:

- 1) From 1978 to 1985 when the poverty alleviation work was promoted through institutional reforms.
- 2) From 1986 to 1993 when large-scale development-oriented poverty alleviation policies were pursued.
- 3) From 1994 to 2000 with the National Seven-Year Priority Poverty Alleviation Program.



- 4) The "county-to-village" period of poverty alleviation during 2001 - 2012.
- 5) From 2013 till now with well-targeted poverty alleviation policies.

For 2020, China aims at the following objectives, as stated at the 13th Five-Year Plan for Poverty Alleviation:

- ensure the rural poor have enough food and clothing under the current standards
- compulsory education, basic medical care, and housing security are guaranteed
- per capita disposable income of farmers in poverty-stricken areas shall double compared with 2010, with a growth rate higher than the national average
- key indicators for basic public services shall be close to the national average
- all rural residents living in poverty must be lifted out of poverty under China's current standards

After the reform and opening up, China has continuously increased financial input in special poverty alleviation programs. The government support was (and remains) the core of China's poverty alleviation policy system. China's poverty alleviation funds include three sources: government financial funds for poverty alleviation, international funds for poverty alleviation, and other funds.

From 2013 to 2017, the central government allocated a total of



RMB 278 billion in special local government subsidies for poverty alleviation, representing an average annual increase of 23%. Specifically, the special funds for poverty alleviation are targeted at three poverty alleviation programs, namely poverty alleviation by relocating to better regions, promotion of poverty alleviation in the whole area, and work relief.

Meanwhile, China has also carried out the industrial poverty alleviation to utilize advantages of various sectors, namely: industry, employment, education, science and technology, infrastructure, health, social security system, income from assets, Internet access, and environmental protection.

Besides, China has engaged numerous players in a fight to eradicate poverty. By the end of 1993, the 81 central government entities, enterprises and public institutions directly under the central government have joined the efforts. After the national conference on targeted poverty alleviation convened in 2002, a total of 272 units were involved in the efforts to support and help 481 designated counties for poverty alleviation in a targeted manner. Furthermore, there was cooperation between eastern and western regions. From 2011 to 2016, the eastern region provided RMB 8.62 billion in aid to the western region, with an average annual growth rate of 49.64%. A total of 1,917 schools were built, registering an average annual growth rate of 86.39%, the 48 health institutions were constructed, with an average annual growth rate of 19.50%. Another approach of poverty alleviation through enterprises, social organizations, and individuals was also entertained.

China's poverty alleviation policies have achieved three major

results:

- 1) the income of rural residents in poor areas kept increasing steadily. The income of rural residents in poverty-stricken areas has maintained rapid growth, which was faster than the national average of rural areas. In 2016, the per capita disposable income of rural residents in poor areas was RMB 8,452, i.e. 1.6 times the level in 2012. The actual level was 1.5 times that of 2012, after adjusting for inflation.
- 2) the consumption levels, quality of live, and living standards in poverty-stricken areas kept rising.
- 3) rural infrastructure and basic public services in poor areas have improved significantly. Since the implementation of the household contract responsibility system, farmers' demand for infrastructure kept increasing, while the government has been increasing financial support to agriculture, rural infrastructure, public services, and farmers to narrow the gap in basic public services between urban and rural areas. Access to four basic services such as water, electricity, gas, roads kept expanding. The educational, cultural and health facilities, as well as production and living conditions have been improved significantly.

The strong economic growth has provided a large number of employment opportunities, which enabled rural residents to become urban residents. Meanwhile, the agriculture has been strengthened creating favorable conditions to feed and clothe the



poor and adjust the economic structure of poverty-stricken areas.

Through extensive mobilization of social participation and strengthening of international cooperation, efforts have been made to organize and coordinate the designated assistance of 272 entities of the CPC Central Committee and the central government, democratic parties, social organizations and large SOEs for 481 key counties.

From 2001 to 2010, a total of RMB 9 billion of funds and materials were invested directly, 3,559 cadres were assigned to work in key counties temporarily, and training of 1.684 million person hours was provided for key counties to cultivate various skillsets. Six eastern provinces, three municipalities directly under the central government and six cities under separate state plans were organized to provide assistance to 11 western provinces, autonomous regions and municipalities. In the same period of time, governments at all levels in eastern provinces and cities provided RMB 4.44 billion of aid to the west, the enterprises invested about RMB 250 billion, and provided training of 226,000 person hours. Non-public sectors of the economy were organized to participate in poverty alleviation efforts, and non-governmental organizations were also fully mobilized to participate. Efforts were made to cooperate with relevant multilateral and bilateral agencies as well as non-governmental organizations at home and abroad to implement poverty alleviation projects jointly. Since 2000, China has made use of USD 560 million of foreign aid in poverty alleviation.

Participation of grassroots organizations was critical. Efforts were

made to mobilize the masses and rely on them, enable the poor to get involved directly in decision-making on development projects and use of funds to improve their capacity for self-development. The government adhered to the policy of development-oriented poverty alleviation and provided assistance to help poor areas develop infrastructure to get access to roads, electricity, postal services, radio and television. Productive capacity of land has been improved through construction of irrigation systems. Meanwhile, assistance was provided to poor farmers to develop farming, breeding industry, and small-scale processing projects.

Balancing of urban and rural areas and promotion of scientific development played an important role. Efforts were made to reduce tax burden in rural areas. The agricultural tax, animal husbandry tax, specialty product tax and other taxes and fees were abolished or reduced. A system of agricultural subsidies was established to encourage agricultural production by providing farmers with direct subsidies for grain, for improved seed varieties, for purchase of farm machinery and tools, and for the means of agricultural production.

Investments in rural infrastructure, such as water, electricity, roads, gas and housing increased, and renovation projects were implemented for dilapidated rural houses. Financial transfer payments to the central and western regions have been intensified, and environmental conditions in western regions has been improved through targeted policy on farmland and grasslands. The government has also reformed the management system for rural compulsory education and medical care.





The Chinese reform experience proved unique; an undertaking never accomplished by other socialist countries. It was a progressive reform path where various systems interacted, influenced, promoted, and governed one another. Metaphorically, the reform journey was compared with “crossing the river while feeling the stones,” meaning that policy makers were engaged in a continuous cycle of learning, reflection, adjustment, and issue-focused targeted implementation. Adjustments were timely and adequate to maintain a dynamic balance.

These reforms resulted in the government function optimization, improvements in public service capabilities which ultimately lifted hundreds of million out of poverty, and improved people's living

standards substantially.

As a result, by 2019, China has graduated as the second largest economy in the world, second largest contributor to the United Nations, and a significant investor around the globe with an estimated half a trillion USD Belt and Road Initiative investment package to facilitate economic cooperation, enhance connectivity, and promote dialogue among cultures.





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