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DECISION MAKERS, DOERS AND ADVISORS  
– JOINING FORCES TO ENHANCE UTILITY OF INVESTMENTS

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# Project Governance in China

“Change is the only Constant” – with Historical Perspective

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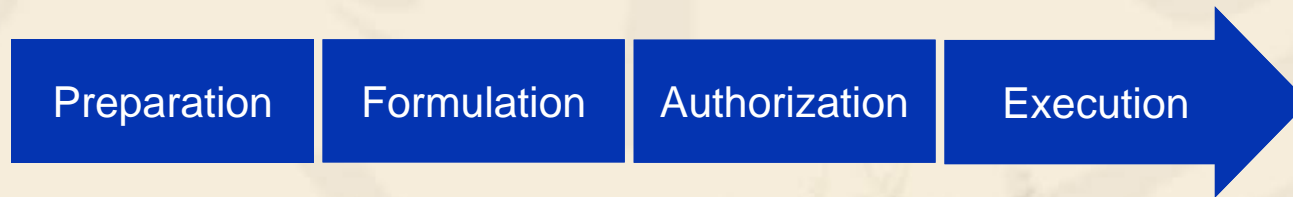


# Agenda

1. Understanding the Driver of All Major Projects — The 5-Year plan
2. Evolution of Project Governance — Changing Investment Paradigm
3. Applying Project Governance — Addressing the Financial Crisis

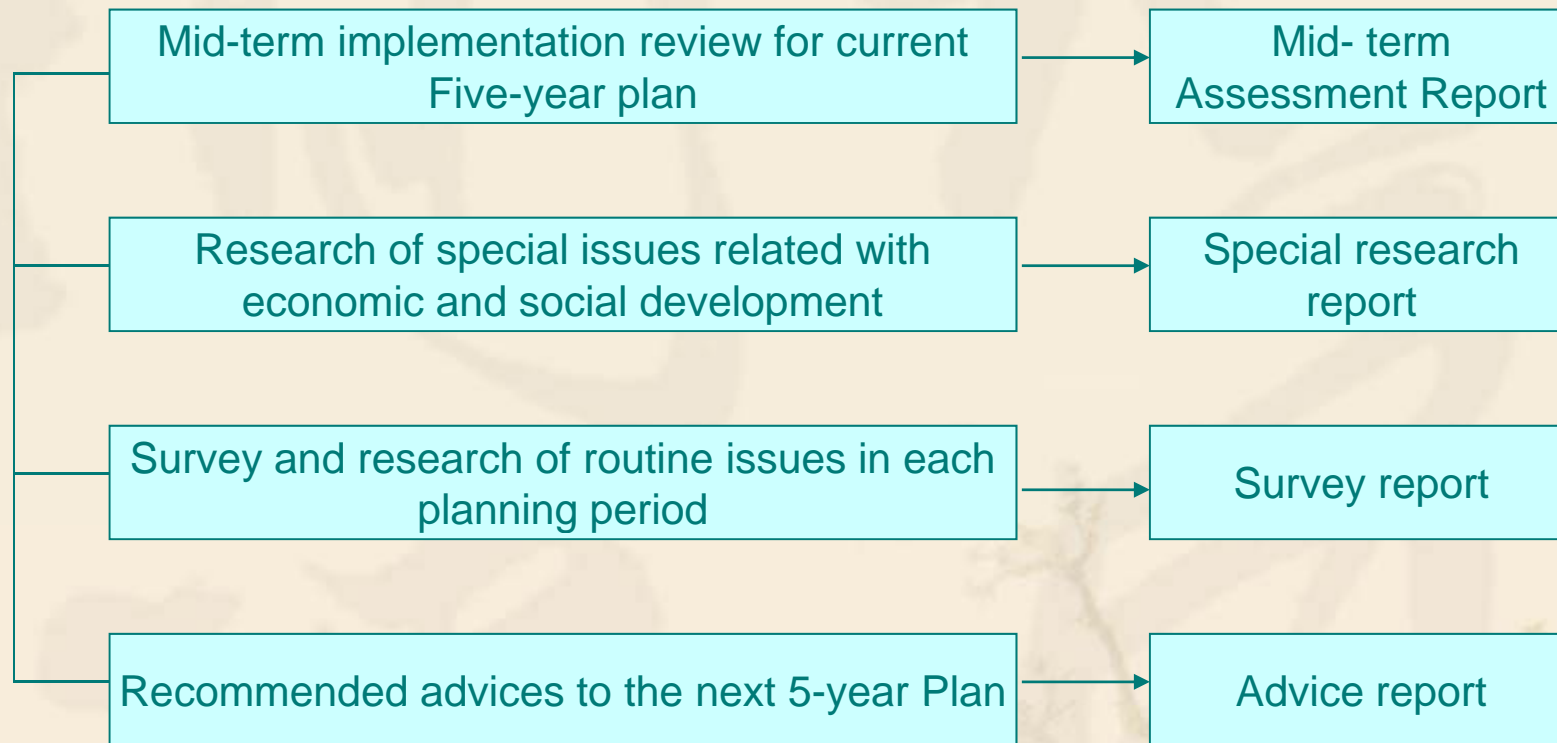
# 1. Five-Year Plan in China

- ❖ Purpose of the 5-year plan – Strategic Clarify & Consensus Building
- ❖ Attributes of the 5-year Plan - Macro, Strategic & Policy in nature
- ❖ Strategic Planning Process of the 5-year Plan:

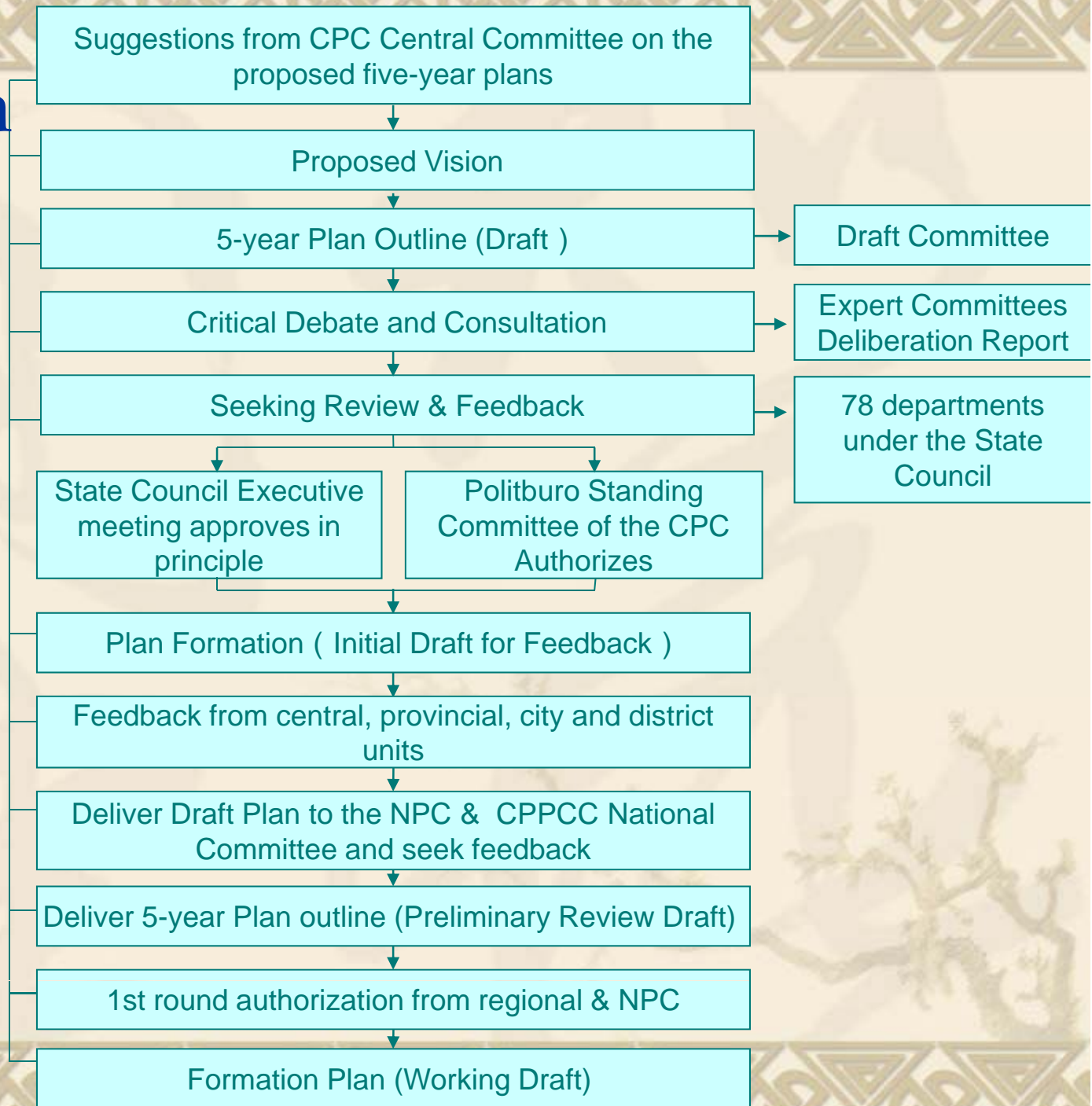


- ❖ Management of the 5-Year Plan
- ❖ Implementation of the 5-Year Plan
- ❖ Reformation of the 5-Year Plan

# Preparation



# Formulation



# Authorization and Execution



# The 5-year Planning since Reform...

As reform deepens, the 5-year Plan becomes both top-down and bottom-up processes and widens participation.

- ❖ Since 2006, 5-year Plan changed from operational planning to strategic planning
- ❖ From the 11<sup>th</sup> 5-year Plan, China instituted the State Planning Expert Committee
- ❖ From the 11<sup>th</sup> 5-year Plan, China adopted public bidding/tendering process for the major issues research, inviting the foreign research institutions
- ❖ From the 11<sup>th</sup> 5-year Plan, China citizens are welcome to provide constructive advices. In the 60-days period, more than 10,000 valid and valued suggestions were collected and examined.



## 2. Changing Investment Paradigm

Over the last 60 year, investment is the enduring driver for growth compared with consumptions and export. Currently, China is still in early stage of industrialization & urbanization, investment in the foreseeable future is still very important.

Retrospective of the changing investment paradigm helps greatly to understand the evolution of the project governance in China.

# Evolution of Investment Nature

- ❖ Investors from unitary (State) to variety
- ❖ Investment is more balanced among manufacturing, agriculture, and service industries
- ❖ Investment goal shifts from industrial to sustainable development 。
- ❖ Investment focus broadens from coastal to national-wide
- ❖ Investment reach extends from domestic to global

# Investment Paradigm's Shift Overtime

1950 – 1978 : Planned Economy...

1979 – 2003 : “Moving from planned to market driven” , “Liberate Productive Factors”

- ☑ “Loan Borrowing replaces budget allocation” as the primary funding mechanism
- ☑ Issue Government Bond and initiate specialized tax as source of developmental funding
- ☑ Formalize commercial banking system and designate People Bank of China as the central bank
- ☑ Set up China International Engineering Consulting Corp. to develop feasibility study for major projects
- ☑ Set up “Office of Key Project Inspectors”, institute Post-mortem analysis mechanism
- ☑ Implement Bidding & Tendering system to ensure project owner’s leading position in the process.

2004 – now : “Enterprise Takes Primary Responsibility” , “Robust market mechanism”

- ☑ Normalize government investment behavior, transition from approval system to registration only , utilize 3rd party assessor in major projects
- ☑ Adhere to “Investor decides, Beneficiary bears risk” Principles to ensure Project Owner’s Primary role
- ☑ Leverage market’s efficiency in resource allocation. Establish enterprise’s Primary role in project investment activities.

### 3. Addressing the Financial Crisis

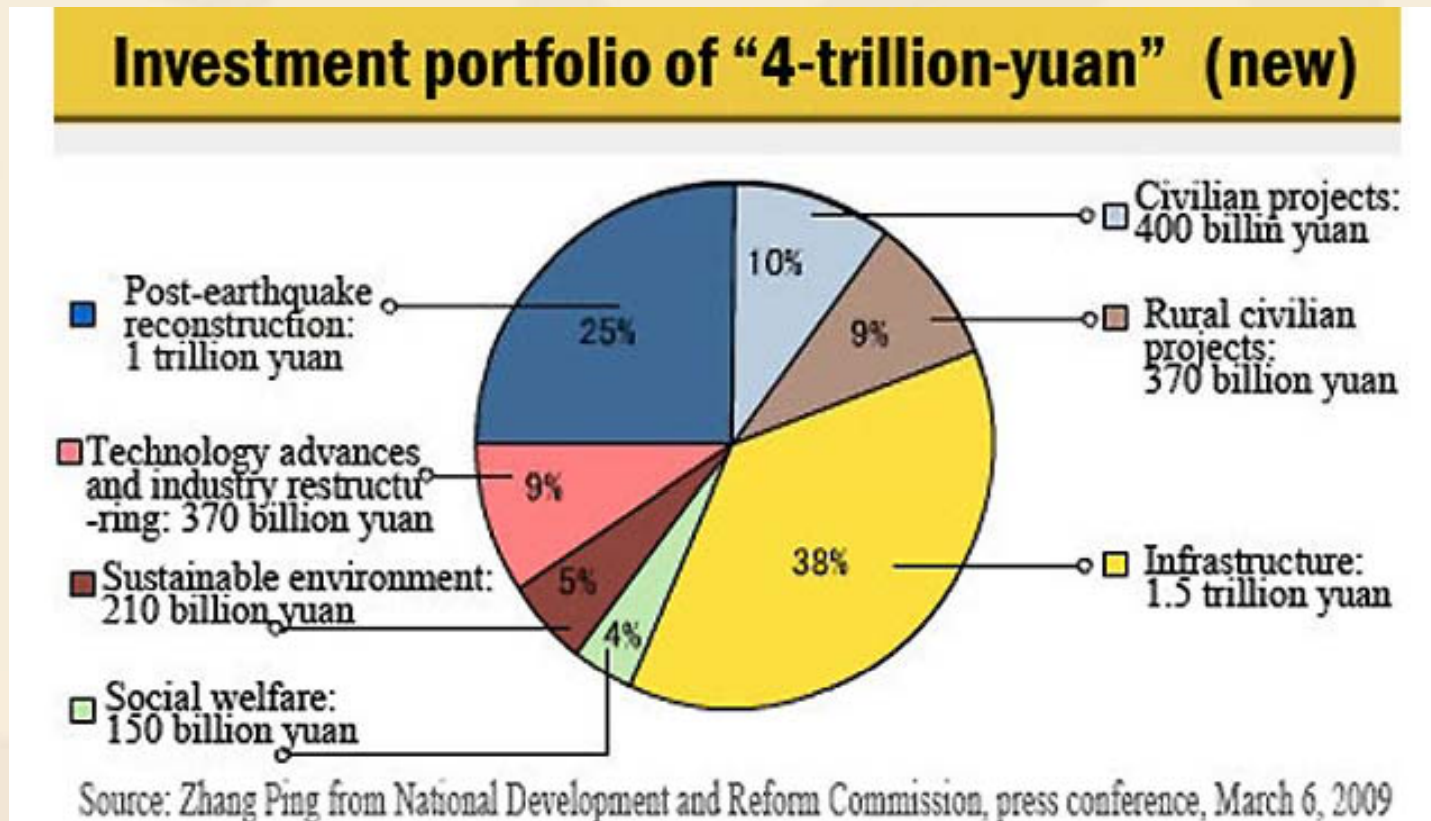
By second half of 2008, the global financial crisis triggered by the U.S. subprime mortgage crisis had spread rapidly into the real economy. China has been seriously affected as well.

In Nov 2008, while challenged by the worsening world economy, the Chinese government, in order to withstand the impact by world economic environment, implemented the proactive fiscal policy and appropriate easing of monetary policy to ensure China's economic stability.

# Policy Response to the financial crisis

- ❖ A Proactive fiscal policy: which means the expansion of fiscal expenditure, with a supplemental income adjustment, tax reduction to stimulate domestic consumption and to spur economic growth;
- ❖ A liberal monetary policy: which means the reduction of interest rate, reduction of bank's reserve requirement, increase the scale of the money supply, to stimulate consumer needs.

# Fiscal Stimulus



- ❖ Among the 4 Trillion Stimulus package, 1.18 Trillion is from government allocation but the remaining 2.8 Trillion is self funding by project owners through various sources.

# The result for the policy actions...

In retrospect, policy has worked. The Chinese economy led the world in recovery; employment & consumption improved, aggregated domestic demand increased, and both industrial & agricultural production stabilized. In 2009, China GDP growth has achieved the 8% goal with a total GDP of 3.5 trillion Yuan.

The stable financial system and improved societal confidence which provide a strong platform for continuing reform & restructuring.

# Lingering Issues...

- ❖ Some marginal projects were approved – most of the projects were taken from the reserve inventory in 11<sup>th</sup> 5-Year plan. However, some projects will deliver more value than others.
- ❖ Increased Overall Capacity in Some Industries – In some sectors, this leaves some tough decisions to be made.
- ❖ Delayed Structural Change - optimization of production capacity delayed 2 years from 2008 to 2010.



# In Conclusion:

Although China has gained some experiences in Project Governance and achieved some noted results, there is still much room for improvement...

- ❖ More scientific and democratic approach to decision-making;
- ❖ Organization and team-formation in projects can be more structured ;
- ❖ Project execution phase lacks strict supervision;
- ❖ Further development of post-mortem analysis is also needed.

We hope to collaborate with the everyone here to move forward!



Thank you.

