INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

# ECONOMIC COMMITTEE

16



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August 18, 1971

Republic of China (Taiwan): Country Program Paper

Attached is the draft Country Program Paper on Republic of China (Taiwan) (EC/O/71-135/1, dated August 16, 1971) which has been prepared by the East Asia and Pacific Department.

2. The Paper will be discussed at a meeting of the Economic Committee scheduled for Tuesday, ~~August 24, at 3:00 p.m. in~~ Conference Room "B", 12th floor, B Building. Postponed.

J. Chaffey
Secretary
Economic Committee

Attachment

Secretary's Department

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August 16, 1971

EC/O/71-135/1

COUNTRY PROGRAM PAPER

REPUBLIC OF CHINA (TAIWAN)

1970 Population: 14.56 million
1970 Per Capita GNP: $375
1970 Population Growth Rate: 2.2%
Current Exchange Rate (NT$/$): 40.0

| IBRD/IDA Lending Program ($ million) | FY 1964-68 | 1969-73 | 1973-77 |
|---|---|---|---|
| IBRD | 106.7 | 363.7 | 350.0 |
| IDA | - | - | - |
| | 106.7 | 363.7 | 350.0 |
| Operations Program | | | 464.0 |
| Annual Average per capita ($) | | | |
| IBRD/IDA | 1.65 | 4.98 | 4.80 |
| IDA | | | |

## A. COUNTRY OBJECTIVES

1. Taiwan has made remarkable economic progress during the last few years. GNP grew at an annual average rate of about 10% in the sixties and per capita GNP more than doubled from $160 in 1960 to $375 in 1970. A progressively diversified industrial sector is now the most important segment of an economy which was predominantly agricultural twenty years ago. Even so, agricultural output has grown at about 4-5% per annum from the mid-fifties onwards and despite serious setbacks from typhoons has continued to produce sufficient rice to feed a population which rose from 8 million in 1950 to 14.6 million in 1970. However, in response to an active family planning program, the rate of population growth fell from 3.3% in 1960 to 2.2% in 1970.

2. Stable political conditions have been a vital ingredient in Taiwan's economic progress. The responsibility for the management of the economy rests with an experienced and pragmatic group. The Nationalist regime appears to be in firm control but the extent of the popular support it enjoys cannot be gauged - the press is heavily censored, opposition to and criticism of the regime is suppressed, no general election to the national legislature has been held since 1946. The "Taiwanese Independence Movement", which envisages relieving the mainlanders of political power, has been promoted by its protagonists in Japan and the U.S.A. However, most political commentators feel that the Taiwanese lack effective political organization to assert their views. Moreover, friction between the Taiwanese and the mainlanders has become less apparent as the two groups have intermingled and the entire population of the island has benefited from the economic prosperity of recent years.

3. Taiwan's international position may be of far greater consequence than the domestic political situation. It has had a number of diplomatic reverses during the past year. Canada, Turkey and Italy extended diplomatic

recognition to the People's Republic; Great Britain is actively pursuing the objective of raising its representation in Peking to the Ambassadorial level. The movement to improve relations with Peking is gaining support in Japan. President Nixon's planned visit to the Mainland has raised a question mark over Taiwan's future international status.

4. The U.N. General Assembly last year resolved to expel Nationalist China and admit Peking by a vote of 51-49 (with 25 abstentions). However, the usual resolution to treat the matter as "an important question", which requires a two-thirds majority, was also narrowly passed. This year, it is expected that the United States will not press the "important question" issue and that in consequence the way will be open for Mainland China to join. Whether it will choose to do so is likely to depend on the achievement of an understanding, explicit or tacit, about Taiwan's membership. In the event that Taiwan was expelled, or decided to withdraw, a shadow would be cast over the island's future, including its continued ability to attract foreign capital and to maintain its rate of export growth. But it is not impossible that a way can be found of accommodating the two Chinas, at least for some time to come, and the present paper is written on the assumption that no radical change in the Bank's assessment of Taiwan's economic prospects is called for on account of these recent events.

## Recent Economic Developments

5. Taiwan's impressive economic progress during the sixties was generated and sustained largely by its successful efforts to develop an export-oriented industrial base. Industrial output increased at a rate of over 18% per annum and the share of manufactures in net domestic product rose from 17% to 23.5% during this 1960-70 period. The exploitation of its comparative advantage in labor-intensive production, especially of processed agricultural and consumer goods, raised exports at a rate of over 24% per annum during 1960-65 and by 44% per annum during 1966-70. Roughly one-third of additional industrial output was exported during the sixties and industrial products accounted for 78% of total merchandise exports in 1970 compared with 34% ten years before.

6. Employment trends have reflected the structural changes which the economy has undergone. Agriculture's share of total employment has fallen from 51% in 1960 to 38% in 1970. Industrial development has generated substantial employment opportunities - employment rose at the rate of 4.6% per annum during 1965-70 - a pace in excess of that at which population of working age increased. Unemployment stood at 4% of the labor force in 1970.

7. Both savings and investment have grown rapidly in recent years. The investment rate increased from 20.1% of GDP in 1960 to 26.3% of GDP in 1970. Over the same period the share of domestic resources in financing investment increased from about 63% to 98%. Consequently, the reliance on external finance has been greatly reduced. The deficit on the goods and non-factor services account declined from 7.5% of GDP in 1960 to 0.6% of GDP in 1970.

8. Despite the large overall increase in investment, public sector investments in some critical areas, such as transport facilities, urban infrastructure and education, were inadequate in the early sixties due partly to the fact that the economy's high growth rate was not foreseen and partly to the rather slow increase in government revenues till the latter part of the decade.

9. The tax system was not sufficiently responsive to changes in national income. With the rapidly growing demand for public services and facilities, the government eventually recognized the need to increase tax revenues. A number of important changes in the tax system and tax administration, the main objective of which was to raise the proportion of direct taxes to total tax revenues and improve tax collection, were introduced in 1968 and 1969. As a result, tax receipts increased by 25% and 34% respectively in FY 1968 and FY 1969 and tax revenues reached 15.7% of GDP in FY 1968 and 18.2 percent in FY 1969. In FY 1970 the increase was only 11 percent because of a number of incidental factors such as tax relief necessitated by extensive damage caused by the typhoon in 1969. Total government revenues were equivalent to 23.9% of GDP in FY 1970 and public savings (including government corporations) reached a level of about 9% of GDP with general government savings at the level of about 4% of GDP.

10. Taiwan's export performance in 1970 once again was outstanding. Merchandise exports rose by 36% to reach $1,465 million and for the first time since the 1964 sugar boom there was a surplus on the trade account ($91 million). As a result, there was a further reduction in the goods and services deficit in the balance of payments from $49 million in 1969 to $4 million in 1970. Direct foreign investment reached a record level of $61 million last year and the net inflow of loan capital rose to $130 million, of which $58 million was medium- and long-term capital. Gross foreign exchange reserves increased from $443 million at the end of 1969 to $620 million in 1970 - the equivalent of 4.3 months of imports.

## Growth Prospects

11. The government's planners are aware that the Fifth Plan (1969-72) has lost much of its significance as the economy has performed well above expectations; for example, the GNP growth rate target was 7% but GNP actually grew at nearly 9% in 1969 and 10% in 1970. A preliminary perspective plan for the 1971-80 period based on an 8.5% annual GNP growth rate was prepared. The economy's potential may still have been underestimated insofar as the next two years are concerned in view of the momentum generated in the infrastructure, industrial and export sectors. The experience of the first few months of 1971 indicates that GNP will grow by about 10% this year. Selected indicators from the perspective plan as adjusted slightly by the economic mission are given below.

Macro-Economic Indicators

| | Unit[a/] | 1970 | 1973 | 1977 | 1973-77 Growth Rate (% per annum) |
|---|---|---|---|---|---|
| GNP | NT$ billion | 217.6 | 285.4 | 394.4 | 8.6 |
| Population | million | 14.6 | 15.5 | 16.8 | 2.1 |
| GNP per capita | $ | 373 | 460 | 586 | 6.5 |
| Exports of goods and services | $ million | 1,730 | 2,705 | 4,333 | 12.9 |
| Imports of goods and services | $ million | 1,734 | 2,842 | 4,555 | 13.2 |
| Gross Capital Formation | NT$ billion | 57.2 | 82.3 | 118.9 | 10.1 |
| (% of GDP) | | (26.3) | (28.8) | (30.0) | |
| Gross Domestic Savings | NT$ billion | 55.9 | 77.3 | 111.8 | 9.8 |
| (% of GDP) | | (25.7) | (27.0) | (28.2) | |
| Resources Gap | NT$ billion | 1.3 | 5.0 | 7.1 | 17.2 |
| (% of GDP) | | (0.6) | (1.7) | (1.8) | |
| Debt-service ratio | | 5.0 | 5.2 | 8.3 | |

a/ At 1970 constant prices

12. The planning authorities' choice of a somewhat slower growth rate in the perspective plan than was recorded in the sixties was made in response to uncertainties in the export field, together with a recognition that the capital-intensity of production will rise. According to the perspective plan, merchandise exports will grow at an average of about 13% per annum during 1973-77, compared with 27% a year during 1966-70. This more conservative view reflects a concern about the prospects for some of Taiwan's major export commodities. Of particular importance are the prospects for exports of textiles, which have been rising at an average rate of nearly 50% a year since 1965 and which now account for over 30% of total exports. Any further tendency towards increased protection beyond the quotas applicable to synthetics recently negotiated with the U.S. Government would further weaken the growth prospects for Taiwan exports.

At the same time, efforts to diversify the export market may be hampered in those countries with which Taiwan has severed diplomatic relations. Taiwan may also face increased competition for markets from South Korea and Hong Kong.

13. The perspective plan places increased emphasis on investments in agriculture, heavy industry and infrastructure development, many of which may be capital-intensive and have a long gestation period. According to the plan the manufacturing sector, for example, will enter a more sophisticated and technologically complex phase. Consideration is being given to the establishment of a steel mill and a machine tools industry, as well as the production of a wider range of intermediate goods, chemicals and basic metals.

14. China's investment requirements during the next few years will be large especially because of the need to rectify deficiencies in infrastructure development which was neglected during most of the sixties. Further, a much greater proportion of investment will be directed towards capital-intensive industries. The bulk of investment requirements would be met from domestic sources. About 94% of the increase in investment during 1973-77 is expected, according to government's projections, to be financed from domestic savings.

15. The economic repercussions of recent political developments were not taken into account when the perspective plan was formulated. The major elements of uncertainty relate to the volume of the inflow of private capital, the prospects for further growth of exports and the likelihood of obtaining finance from official channels. The situation is such that no meaningful forecasts regarding these vital factors can be undertaken at present especially as the government's response to the changing international position, including the effect on the level of defense expenditure, is still being worked out by the Chinese authorities. In the circumstances an assumption has been made that the government will implement the presently conceived investment program and continue to borrow abroad in order to do so. Further, it is intended that a more detailed assessment of the economic impact of the country's changing political situation will be made during the next year.

## B. EXTERNAL FINANCE

16. Based on these assumptions, the deficit on the goods and services account would reach a peak of about $180 million in 1977 and tend to taper off thereafter. As indicated in the following table, a net inflow of about $890 million will be needed during 1973-77 to meet the deficit; an increase of $600 million in foreign exchange reserves would be needed to maintain a level equivalent to 3-4 months imports during the period, and debt amortization is expected to amount to about $790 million. Total foreign exchange requirements will thus be in the order of $2,300 million equivalent.

Projected Foreign Exchange Requirements and Sources
(in million US $)

| | 1966-70 | 1973-77 |
|---|---|---|
| Foreign Exchange Required | 817 | 2,310 |
| Deficit on goods and services | 290 | 892 |
| Increase in reserves | 358 | 625 |
| Amortization | 169 | 793 |
| Foreign Exchange Available | 817 | 2,310 |
| Transfers | 86 | 60 |
| Direct investment | 175 | 300 |
| Short-term capital, etc. (net) | -3 | - |
| Medium and long-term loan capital | 559 | 1,950 |
| Bilateral: Japan | 99.4 | 210 |
| U.S.A. | 89.9 | 210 |
| Multilateral: IBRD/IDA | 84.6 | 334 |
| ADB | 0.4 | 95 |
| Private | 285 | 1,101 |

17. Assuming that the Chinese government's active foreign technical assistance program continues, net transfers from abroad are likely to remain small, in the order of about $12 million. In response to the favorable investment climate, direct investments have grown rapidly in recent years, but in view of the political uncertainties we have assumed that direct investment will remain at the present level of about $60 million a year over the next few years. Consequently, direct investments during 1973-77 may amount to about $300 million. Net short-term capital flows have been negligible over the past five years and are expected to remain so, in view of the tendency of the government to apply restrictions on short-term borrowing for reasons of monetary policy. The bulk of the external capital requirements, almost $2,000 million, would therefore have to be met by the inflow of medium- and long-term loans, to be supplied by private sources (predominantly in the form of suppliers credits), official Japanese and U.S. sources, the ADB and the Bank. Bilateral and multilateral sources may account for one half of this inflow with private sources providing the remainder.

18. Bilateral assistance from the U.S. is expected to be almost entirely in the form of Export-Import Bank loans. Following a recent agreement to extend a $46 million loan for a second nuclear power project, the U.S. Export-Import Bank's undisbursed commitments now total about $160 million. With likely further commitments, especially for nuclear power, disbursements may be about $40 million a year. Japan extended (in 1965) a $150 million line of OECF and Export-Import Bank loans which is now fully committed for specific projects; about $100 million was

disbursed by the end of 1970. A request in 1969 for another $250 million is not expected to be granted because of Japan's desire to retain the option of a possible shift in her China policy. Nevertheless, the Japanese Export-Import Bank's commitments on a project-by-project basis in the order of $40-50 million per annum would appear likely considering the substantial Japanese economic interests in Taiwan. Together with disbursements of past commitments this would ensure a loan capital inflow of at least the same magnitude as the bilateral loans from the U.S.

19. The Asian Development Bank has begun to play an important role in Taiwan. With total commitments of $56 million for seven projects, China is the ADB's second largest borrower. Proposals under consideration by ADB include a further highway loan, a $20 million loan for an aluminum plant, and a $7.5 million loan to the China Development Corporation. Disbursements of ADB loans so far have been negligible but should become substantial during 1973-77 when they would have reached the current level of commitments of $15-20 million per annum. Large increases in ADB commitments are not likely in the next several years, however, as ADB will be under pressure to spread its assistance more evenly among its members than in the past.

### Debt Service

20. China's external debt outstanding at December 31, 1970 was $776 million equivalent. The total debt outstanding in 1977 would be about $1,800 million. Debt service payments are estimated to rise from $88 million in 1970 to $359 million in 1977 and the debt service ratio would go up slightly from 5.0% of foreign exchange receipts last year to 8.3% in 1977. Debt service beyond 1977 should not exceed 10% of foreign exchange earnings.

## C. BANK LENDING STRATEGY

### Past Lending

21. To date China has received fourteen Bank loans and four IDA credits for a total amount of $344.7 million and cancellations to $19.0 million. The bulk of the Bank Group's assistance was for power ($149.5 million), railways ($83.7 million) and industry, channelled through the China Development Corporation ($53 million). Other loans were for fishing vessels, irrigation, water supply and harbor dredging. Disbursements of Bank loans have become sizable in recent years, rising from $10.3 million in FY 1969 to $26.9 million in FY 1970 and to $38.2 million in FY 1971. Disbursement delays were experienced with the first and second railway loans because of cumbersome government procurement procedures. The government has since taken measures to speed up the procurement process and the current railway loans are on schedule. Procurement problems also affected the first telecommunications project; the Bank's procurement guidelines had not been observed in the evaluation of proposals and a major contract had to be retendered, causing a delay of one year and requiring a corresponding extension of the closing date of the loan.

Some delays of the Tachien power project have been experienced because of difficulties encountered in building the foundations of the dam; the contractor is confident that at least some of the time lost will be made in the later stages of construction and current projections will show completion of disbursements prior to the closing date.

Lending Strategy

22. Barring unexpected and sudden shifts in export demand for her manufactured goods and interruptions to the inflow of foreign capital and technology, the prospects for continued rapid growth in Taiwan appear to be good. Even though the tax reform is expected to continue to contribute to a substantial increase in government revenues, the gap between public savings availabilities and investment needs will persist for the time being at least. If adequate foreign support to the public sector is not available during the next few years social sector investments may suffer, for it is these that are likely to be cut back first if the government is faced with a financial squeeze.

23. In support of such an investment program, Mr. McNamara agreed during his visit to Taiwan in May, 1970, that the Bank would aim at a gross lending program of about $100 million per annum during the next few years in order to achieve actual lending of roughly $75 million per annum. The government was informed at the time that the Bank would shift the emphasis of lending from fields such as power, railways and telecommunications, where alternative sources of finance could be tapped, to such areas as agriculture, sewerage and water supply, road and port construction and education which are less likely to attract financing from other sources. It was because of this envisaged shift that the financing of local currency for high priority projects with relatively low foreign exchange components was approved during the review of last year's CPP.

24. It has become apparent during the last year that the shift in Bank lending has been more difficult than envisaged. Project preparation difficulties were largely responsible for this, but are expected to present less of an obstacle as the agencies involved gain greater expertise.

Future Program

25. The proposed 1973-77 program provides for twenty-one operations for a total of $464 million and is expected to result in total lending of $350 million for fifteen projects. About $335 million would be disbursed during 1973-77, so the Bank's share in total gross loan disbursements would average about 17% during the period. In 1977, disbursed Bank loans outstanding would amount to about 24% of China's external debt (7.2% in 1970), while servicing of Bank loans would account for 13.6% of China's total debt service in that year and 9.2% in 1970.

26. The bulk of the Bank's lending would be in the public sector (cf. Attachment 1), especially in transport ($194 million for seven projects) and water supply ($100 million for four projects). The areas for proposed Bank activity, which also include agricultural lending

($50 million for three projects), education ($25 million for two projects), DFC assistance ($40 million for two projects) and a tourism project ($10 million). From the project standpoint, there are good prospects for achieving the lending program through FY 1973 since project preparation for all but one of the projects included in it is either planned or underway. The program beyond FY 1974 consists largely of repeater operations. None of the projects in FY 1975-77 has yet been identified. Consequently, the distribution of the operations and lending program in these years as well as in FY 1974 is notional.

IFC Activities

27. China became a member of IFC in 1969. By June 1970, IFC had committed a total of $7.2 million equivalent for two projects; one to assist the Asia Cement Corporation's expansion program for which a $3 million loan was extended and a $1.2 million equity participation taken. The other project consisted of helping the Oriental Chemical Fiber Corporation, a newly established company engaged in the production of polyester fiber, which received a $3 million loan. Oriental Fiber received further IFC assistance in June 1971 for a project involving the production of polyester filament. This investment consisted of an $875,000 equity participation and a $1.7 million loan. Preliminary consideration is being given to projects for the production of high density polyethylene, polypropylene and acrylic fiber.

## D. ECONOMIC SECTORS

Agriculture

28. While the pace of industrial growth accelerated during the past five years, agricultural growth slowed down. Crop production increased by an average of 5.6% a year in 1960-65 but only by 2.2% a year during 1966-70, largely because of increased off-farm employment of the rural population and shortages of hired farm labor. This drop has been partly made up by the greater output of higher value products, such as livestock and fish, in response to the increased domestic and export demand for more nutritious foods.

29. Agricultural incomes have risen less than non-farm incomes since 1965, while prices of inputs and non-agricultural consumption goods increased about 10% more than prices of farm products. Part-time industrial work is being undertaken by an increasing number of farm workers; this has contributed additional income to farm households.

30. In view of the continuous shift of labor out of agriculture, the government is encouraging farm mechanization. The perspective plan envisages that agricultural production will increase by an average of 3.5% per annum in the seventies (compared with the 4.8% per annum during the 1969-72 plan period). Domestic consumption of agricultural products is expected to grow 4% per annum and Taiwan will become increasingly dependent upon agricultural imports.

31. The raising of farm incomes and agricultural productivity will be helped by pricing policy with regard to agricultural products and inputs. The production of higher value products such as livestock, poultry, vegetables and fruit is to be encouraged.

32. The attempt to make agriculture more capital-intensive will require efficient financial institutions to supply intermediate and long-term credit at reasonable interest rates. Diversification of agricultural production will depend largely on the modernization of marketing facilities, including processing, storage, transportation, wholesale and retail distribution. Proposed Bank lending concentrates on these areas. Agricultural credit projects in FY 1972, 75 and 77 will assist farmers in financing purchases of machinery, livestock and processing equipment while strengthening the existing national and provincial credit institutions. Cold storage facilities for meat, fruit and vegetables will be included in the agricultural credit program for farmers associations; large storage facilities in the country's major ports will be financed in FY 1975. A sum of $70 million is allocated for these four projects.

Manufacturing

33. Manufacturing output is projected to grow at an average annual rate of about 12% during 1973-77 and the share of the industrial sector in the net domestic product to increase from 23.5% in 1970 to over 30% in 1977. The emphasis on industrial exports will continue and their proportion of total commodity exports is expected to grow from 78% in 1970 to near 90% in 1977. The government intends to give special attention to possibilities of vertical integration, particularly in the chemical, metal products and engineering industries, both to reduce dependence on imports and to promote more exports. Exports of intermediate and capital goods should find a growing market in developing countries and reduce Taiwan's reliance on exports of labor-intensive products to a few developed countries which offer limited scope for further expansion.

34. The government has recognized that the existing petrochemical units are too small for competitive efficiency and is planning a new complex on a scale which would allow production of inputs for the synthetic fibers and plastic resin industries at internationally competitive costs. A proposal for an iron and steel plant is being investigated for implementation as an integrated unit or in stages as may be economically feasible. The construction of a machine tool complex is being discussed with Oerlikon of Switzerland. This project should provide a helpful stimulus to the further development of related engineering industries. The Bank, in collaboration with UNDP, is sending an industrial mission to China in November to review the present status, structure, technical efficiency, marketing strategies and economic rationale of plans for the development of the petrochemical, machine tools, engineering and shipbuilding industries. The mission will include Bank staff and consultants; the government has requested UNDP to finance the latter's services.

35. A competitive export position is vital for the realization of the advantages of large-scale production because of the limited size of the domestic market. Industries catering mainly for the domestic market like the automotive industry have enjoyed considerable protection through customs duties, import controls and regulations stipulating domestically produced content of selected products. While these measures have been beneficial and justified for newly created industries, they have also led to high costs and inefficiency. The government is aware of the need to evolve a rational system of protection. Both import controls and the tariff structure have been reviewed in detail in the past year. Import controls on a significant number of industrial inputs and consumer goods have been abolished as a result, with further measures of liberalization are under consideration. The tariff system is being streamlined with the assistance of an IMF consultant with the object of making it a rational tool of protection.

36. The success of the intensified industrial development will require a broadly based modern financial market in which specialized institutions offer industrialists the possibility of raising long-term capital, both equity and loans, and where savers are offered negotiable instruments for investing their funds under varying combinations of risk and return. The government has taken steps to promote investment banking and revitalize the stock exchange; it has also approved the establishment of investment and trust companies on the basis of regulations promulgated last December. IFC sent a mission to Taiwan last March to advise the Government on measures to create suitable capital and money market facilities; the dialogue between IFC and the government on the matter of capital market development is continuing but financial assistance is not considered necessary at this time.

37. The Bank Group has had a close association, over the last ten years, with the China Development Corporation (CDC) which is, apart from the government's Bank of Communications, the only institution providing long-term investment financing. CDC has become a profitable company and has achieved steady, if unspectacular, growth by maintaining a high level of competence in project selection and appraisal. Both the Bank and the government would like to see CDC become more active in the promotional field and CDC is becoming a little more enterprising; CDC's operations program for the coming years indicates a growth rate of operations of almost 20%. Taking into account CDC's efforts to diversify its foreign exchange sources by borrowing from the ADB and possibly from KFW, a continuation of Bank support at two-year intervals in the order of $20 million is expected.

38. No other Bank lending for industry is included in our lending program; however, the forthcoming industrial sector mission may identify some areas in which Bank financing may be appropriate.

Education

39. The high standard of general education in China is reflected in a literacy rate of 90%. Enrollment in primary and secondary schools stands at 100% and 66% of the respective age groups. Population growth and the expansion of the universal education to nine years have led to a doubling of the share of public expenditures on education from 10.4% of total government expenditures in 1960 to 20% in 1970. Public and private education spending amounts to 4% of GNP as against 2.4% in 1960.

40. While the provision of general education is fully adequate, vocational education and related teacher training for industry, agriculture and fisheries have been both qualitatively and quantitatively insufficient to meet the needs of the economy. Increased attention is now being given to technical and vocational education and to establishing closer coordination between the education authorities at the national, provincial and municipal levels on the one hand and industry on the other.

41. The Bank's first education project was designed to upgrade educational planning and to provide a better match of manpower demand and resources in addition to supporting the expansion and improvement of specific training facilities. A second project, recently appraised, envisages providing finance for urgently needed training institutions for fishery and marine engineering. Many private firms in Taiwan have high quality vocational training institutions combining effectively instruction and on-the-job training; the possibility of Bank financing of a selected number of these private schools is being explored at the suggestion of the government and could form the basis for a third loan. Further lending for education is envisaged essentially as a continuation of the program initiated with our first loan.

Energy and Power

42. Taiwan lacks primary energy materials. The major domestic source of energy is coal and it is of poor quality. Production has remained stagnant over the past few years. Natural gas, proven reserves of which are estimated at rough 27 billion cubic meters, is used exclusively for industrial fuel and feed stock for chemicals. Oil reserves on the island itself are negligible. Political and territorial complications constitute obstacles to the granting of offshore exploration concessions. The commercial and industrial demand for energy has risen at about 14% per annum during the past five years. At present, roughly 50% of this is met by imports - largely of crude oil and petroleum products. This trend is expected to continue over the next few years.

43. The Taiwan Power Company (Taipower), a stock corporation almost wholly owned by the national and provincial governments, is responsible for the supply of electric power throughout Taiwan. The rapid growth of industry and per capita incomes coupled with rural electrification has substantially increased the demand for electricity. Actual power sales have risen at an average of nearly 15% per annum since 1963 and are

expected to increase by at least 12½% yearly through the 1970s. Taipower's generating capacity has been increased by over 160% during the last six years (from 1130 MW in 1964 to 2240 MW in 1969) but has barely kept pace with demand. The system operates with practically no reserve capacity and power supply has had to be curtailed occasionally, especially during the dry season. Roughly 70% of total capacity is provided by thermal plants and the remainder by hydroelectric facilities. Most of the island's hydro sites have now been developed.

44. The government has approved a six-year 1971-76 expansion program which envisages a 3500 MW (130%) increase of capacity aimed at meeting the rising demand for electricity and providing a certain amount of reserve capacity. Three Bank loans, totalling about $150 million, have already been made to assist the program's implementation. A recent revised load forecast has led Taipower to make tentative plans for the installation of additional generating capacity during the 1976-80 period. This includes the installation of an additional 500 MW thermal unit and two nuclear units of 800 MW each. Taipower has requested the Bank to assist in financing the 500 MW unit during FY 1973. At our suggestion, Taipower is exploring possibilities of obtaining financing from other sources for the two major turbo-generator and boiler contracts under this project. We have indicated that the Bank would consider lending a maximum of $25 million to finance items for which credit terms offered by suppliers are clearly less attractive than Bank financing. It is intended to consider lending another $20 million in FY 1975 to finance part of the foreign exchange cost under the same arrangements for another thermal power project which has not yet been identified.

Telecommunications

45. The rapid growth and modernization of the economy during the last few years generated a tremendous demand for telephones. During the last ten years subscriber lines increased at an average of 16% per year. Telephone toll calls have increased at an average of at least 16% per year during the last five years. The latest commercial survey made by the government's Directorate General of Telecommunications (DGT) indicates that the annual growth rate of telephone subscribers will be about 20% per annum up to 1975 and taper off to 16% per annum during 1976-80. Toll telephone calls will rise by 15% per annum during 1971-75 and 12% between 1976-80. DGT has formulated a 1973-76 expansion program to meet the growing demand for telephone service. This calls for an estimated US$115 million equivalent expenditure. Of this, it is expected that $15 million will be met from a Japanese yen credit. A project, the total cost of which is estimated at $41 million equivalent, has been submitted for Bank financing; a loan of US$18 million to cover the foreign exchange expenditures has been requested. DGT is an efficient organization and its financial position is strong. It expects to meet over $82 million (nearly 70%) of the 1973-76 expansion program from its own resources. An increase in its revenues over the next few years will probably enable it to meet financing requirements after 1972 from internally generated funds and suppliers' credits.

Transportation

46. The country's remarkable economic development during the sixties saw a substantial growth of traffic. Inalnd freight traffic grew from 2.2 billion tons-kms to 3.8 billion ton-kms between 1959 and 1969 - an average annual increase of 5%. Passenger traffic doubled from 8.0 billion to 15.9 billion passenger-kms during these ten years - a growth rate of over 7% per annum.

47. The government will face difficult decisions on a number of fundamentally important issues affecting transport in the next few years. Among these are the phasing of construction of a freeway running the length of the island from Keelung to Kaohsiung; whether or not to implement the recommendations of a recently completed feasibility study on railway electrification; the question of whether, and if so when, to build a third major sea port about mid-way along the island's western coast; whether or not to construct a new international airport; and what action should be taken to develop an urban transportation system to serve the Greater Taipei area. The projected investment in the sector is substantial and careful, coordinated planning essential to maximize economic returns. A Transportation Planning Board (TPB) was established in August 1970 to strengthen coordinated transport planning. A team of foreign consultants to assist the TPB for the next three years is being financed from the proceeds of a recent Bank loan.

48. Railways - The railways used to enjoy a quasi-monopoly of transportation (e.g. 95% of the island's freight was handled by it in 1952). Competition from highways has, however, been increasing during the last two decades. Rail traffic, in absolute terms, has more than doubled in the last seventeen years; nevertheless, railways' share of freight traffic has dropped to 70% of the total and they now handle only 45% of the passenger traffic.

49. The expansion and modernization of the railway's capacity has been assisted by four Bank loans totalling about $82 million. These projects, in addition to financing physical items, are helping to enable the railways to operate in the increasingly competitive environment. For instance, a Planning Department has been formed and TRA, with the help of consultants, are attempting to develop a cost-based tariff system.

50. A railroad electrification study was completed in May this year and is currently under review. It recommends that electrification be carried out on TRA's western line. The program requires an expenditure of roughly $140 million in foreign exchange during the next seven years. The study's recommendations will be discussed with the government later this year. It is likely that the bulk of the foreign exchange required can be met through suppliers' credits. However, the evolution and implementation of the TRA's expansion program can benefit considerably from the Bank's continued involvement with it. Accordingly, two loans of $20 million each to support the program have been scheduled for FY 1973 and FY 1975 respectively. It is intended that Bank financing would cover

purchases of goods for which suitable terms are not available from other sources.

51. Highways - Taiwan has approximately 15,000 km of road of which 5,400 (35%) are paved and 7,000 (45%) are gravelled. Most of the highways are in sub-standard condition. Actual capital expenditure on highway construction between 1965-69 was only two-thirds of the originally planned amounts. Funds for maintenance have also been insufficient. A comprehensive study of highway requirements and charges levied on road users is to be conducted by TPB to determine optimal levels of taxation and the allocation of these funds between the national, provincial and municipal authorities.

52. Financing is being obtained from the Japanese government and the Asian Development Bank to assit in the construction of a northern portion of the proposed North-South Freeway. The Bank has been requested to finance the 110 km southernmost section. Detailed engineering is scheduled to commence in September this year and it is hoped that two Bank loans, amounting to $34 million and $30 million, will be made in FY 1973 and FY 1975 respectively. A further additional amount of $30 million is budgeted for an unidentified highway project in FY 1976.

53. Ports - Kaohsiung and Keelung are the two most important ports. Kaohsiung handles about 65% of all traffic and Keelung 30%. Port traffic has more than doubled during the past five years. Port investments lagged far behind needs until 1965 when congestion became severe. Capacity was increased considerably by the implementation of the 1965-69 investment program which involved a total expenditure of about US$45 million equivalent. Further investments will be required to cope with growing traffic which is estimated to require a doubling of present port capacity by 1980. About $60 million equivalent is to be spent through 1974 to further expand facilities at existing ports.

54. A feasibility study for the construction of a new port at Wuchi, located mid-way along the western coastline, was completed last year and is being reviewed by the government. The study recommended the construction of the new port at an approximate cost of US$200 million equivalent ($65 million in foreign exchange) in three stages by 1980. The Bank's preliminary comments on the study have been conveyed to the government; the TPB will also scrutinize the study before a decision by the government is taken. Two port projects in the proposed lending program for FY 1974 and FY 1976, although not yet identified, could represent Bank assistance for successive stages of the development of the new port.

## Urbanization

55. One consequence of Taiwan's rapid agricultural and industrial development over the past few years has been a very rapid population increase in urban areas, especially in cities of 100,000 and above. Twenty years ago, 80% of the population was rural; today 60% of the

population is urban and this share is expected to rise to 65% by 1980. The government has begun to focus on urban development. An Urban Housing Development Committee, to which foreign experts financed by UNDP were attached, was established in 1966. Useful work on the legal, financial and land use aspects of urban growth and housing has been done; a sketch for Taipei, Taichung and Kaohsiung has been prepared and tentative regional plans for the development of the northern and central regions of the island, including a proposed new city at Linkou (near Taipei) has also been formulated.

56. Urban water supply and sewerage have suffered greatly from lack of investment. Yet, investment requirements in the next decade will go up substantially as cities are compelled to go to more distant and expensive water sources. The water supply has been especially critical in the Taipei region. An IDA credit was extended in 1961 for the first stage of a water supply scheme in Taipei. A second stage expansion has been inadequate in scope and urgent steps are now being taken to plan and carry out a quick producing third stage. The government is also planning a long-range water supply expansion program for the Taipei region which will require extensive feasibility studies exploring alternative ways of satisfying future water needs. Total investments in the program are tentatively estimated to be in the order of $200 million equivalent. Two water supply projects for lending of $30 million each in FY 1974 and FY 1976 represent projected Bank assistance for this project. The waste water situation in the Taipei area has also deteriorated considerably with the increase of population. A UNDP financed master plan for sewerage disposal has been completed and is being reviewed by the government. Two loans of $20 million each have been earmarked to support the Taipei sewerage program in FY 1973 and FY 1976 respectively.

Tourism

57. Taiwan has maintained a high rate of growth in its tourist sector. Excluding some 32,000 U.S. servicemen, about 472,000 foreign visitors arrived in 1970, an increase of 27% over 1969. Nearly half of these were Japanese. Earnings from foreign tourism (including expenditures of U.S. servicemen) amounted to US$79 million in 1970, of which a relatively high proportion is believed to have gone on locally produced goods and services.

58. Prospects for future growth are considered good, because the country is well placed, both geographically and in terms of the attractions it offers, to tap the rapidly expanding Japanese market for foreign travel. Also its position on major air routes provides opportunities for continued growth in stop-over business. Substantial investments in hotel capacity and other facilities will be needed to meet this growth in demand, some but not all of which would come from private sources. The China Tourist Development Corporation, established by the government in 1969, has provisionally estimated its lending program at some US$30 million between 1971 and 1974. A tourism sector mission is scheduled to visit Taiwan later this year. The mission would review the government's

master plan for tourism development and is expected in the course of this review to identify a tourism project. A $10 million loan for tourism has been included in FY 1974.

Family Planning

59. The population growth rate of Taiwan aided by one of the most active family planning programs has declined from 2.6% in 1965 to 2.2% in 1970. This lower growth rate was achieved by a fall in the birth rate from 31.7 per thousand in 1965 to 27.1 per thousand in 1970, largely as a result of the wide acceptance of family planning methods, chiefly the loop, among married women as well as delayed marriage. The total number of family planning acceptors has increased from about 100,000 in 1965 to about 250,000 in 1970. During the last five years the trend in Taiwan is is clearly for young women to marry later and it is estimated that delayed marriage accounts for a quarter of the decline in birth rate. The general fertility rate (births per 1,000 currently married women), as a result of these demographic changes, has fallen from 225 in 1965 to 203 in 1968.

60. The family planning program is having its greatest impact among married women of over 30 years, while it appears that those under 30 are relatively unaffected by the program. The general fertility rate may soon increase as a result of the fast increase in the number of newly married women (the large number of girls of the post-war baby boom are now reaching marriageable age) and this is likely to increase the crude birth rate in the near future. It is not considered necessary for the Bank to lend for family planning.

Economic Work Program

61. The economic work program, while following closely the course of the economy of China in the context of developing political events, will focus especially on three key aspects of further economic progress. These are:

(a) The structural changes that are likely to be involved in further industrialization (increasing capital and intermediate goods relative to finished products) and the consequent effects on investment requirements and current costs relative to output and on China's international competitive position and export policies.

(b) The effort to achieve a wider variety of investment, especially public investment, in fields of infrastructure and social development.

(c) Progress toward the higher public and other domestic saving targets at which policy is aimed in an effort to finance the increased industrial, infrastructure, and social investment programs without seriously widening the resource gap and external financing requirements.

62. In accordance with this focus of economic work, an industrial sector mission is due to visit Taiwan in November, 1971. The next general economic mission is scheduled for April, 1972. Consideration will be given to postponing this to the fall of 1972 when it may be possible to make some initial assessment of the possible impact of China's changing international position on external trade, the inflow of capital, and government financial and investment policies. This mission will put special emphasis on the broadened investment program of the government and its implementation and also on achievements so far recorded in the effort to expand the rate of public saving. A sewerage and water supply sector mission, which was due to visit Taiwan in June this year, has been postponed indefinitely at the request of the Chinese. The prospects of mounting this mission during FY 1972 and FY 1973 will be discussed with the Chinese during the next few months.

## CONCLUSIONS AND RECOMMENDATIONS

63. China continues to make impressive economic progress. However, its external trade and inflow of capital is heavily dependent upon its international position. Further, the growth of exports which have been a major stimulus to growth in the past will encounter competition from other developing countries in the region and may grow less rapidly in the future on account of trade restrictions imports by Japan and the U.S. It is extremely difficult to quantify the effect of these factors upon the export trade. For the moment it is assumed that no major reverses will be sustained during the next year or so. The situation will be kept under review and will be the focus of the next economic mission. It is intended that the Bank continue to lend roughly $70-$75 million per year to the country for the next two fiscal years to support the government's investment program. However, in the light of recent events, the situation will be closely watched, and next year's CPP will deal with what adjustments, if any, should be made to the lending program in response to changing political circumstances.

64. Last year's CPP envisaged that the Bank would shift the emphasis of lending away from fields such as power, telecommunications, and towards social sectors like urban infrastructure, agriculture and highways for which it is more difficult to secure financing from other sources. This change in direction is proving to be difficult because of project preparation difficulties on the part of the Chinese authorities.

65. It is intended that the government will be informed during the annual meeting that the Bank regards this shift in the direction of its lending as extremely important because part of the rationale for lending the amounts envisaged depend upon the Bank's institution building expertise being employed to help the Chinese rectify past deficiencies in certain crucial areas. Furthermore, the absolute amount of Bank lending will be reduced if projects in the fields in which we wish to lend do not mature as expected and funds on acceptable terms are available in such areas as power and railways. If the latter were not available the Bank would consider lending in these areas again within the above mentioned limits of $70-$75 million a year.

East Asia and Pacific Department

Attachment 1

## REPUBLIC OF CHINA - ACTUAL AND PROPOSED LENDING THROUGH FY 1977

($ million)

Population: 14.6 million
Per Cap. GNP: $373

| | | Through 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | Total 1964-68 | Total 1969-73 | Total 1973-77 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ground Water Development | IDA | 3.7 | | | | | | | | | | | | | | | | | |
| Fisheries I | IBRD | | 7.8 | | | | | | | | | | | | | | | | |
| Fisheries II | IBRD | | | | | 14.4 | | | | | | | | | | | | | |
| Agricultural Warehouses | IBRD | | | | | | | | | | | | | 10.0 | | | | | |
| Agricultural Credit I | IBRD | | | | | | | | | | 20.0 | | | | | | | | |
| Agricultural Credit II | IBRD | | | | | | | | | | | | | 20.0 | | | | | |
| Agricultural Credit III | IBRD | | | | | | | | | | | | | | | 20.0 | | | |
| Telecommunication I | IBRD | | | | | | 17.0 | | | | | | | | | | | | |
| Telecommunication II | IBRD | | | | | | | | | | 22.0 | | | | | | | | |
| DFC (CDC I) | IDA | 5.0 | | | | | | | | | | | | | | | | | |
| DFC (CDC II) | IBRD | | | 15.0 | | | | | | | | | | | | | | | |
| DFC (CDC III) | IBRD | | | | | | 15.0 | | | | | | | | | | | | |
| DFC (CDC IV) | IBRD | | | | | | | | 18.0 | | | | | | | | | | |
| DFC (CDC V) | IBRD | | | | | | | | | | 18.0 | | | | | | | | |
| DFC (CDC VI) | IBRD | | | | | | | | | | | | 20.0 | | | | | | |
| DFC (CDC VII) | IBRD | | | | | | | | | | | | | | 20.0 | | | | |
| Education I | IBRD | | | | | | | | 9.0 | | | | | | | | | | |
| Education II | IBRD | | | | | | | | | | 2.0 | | | | | | | | |
| Education III | IBRD | | | | | | | | | | | | 10.0 | | | | | | |
| Education IV | IBRD | | | | | | | | | | | | | | 15.0 | | | | |
| Tachien Hydroelectric Power | IBRD | | | | | | | 50.0 | | | | | | | | | | | |
| Talin IV Thermal Power | IBRD | | | | | | | | 44.5 | | | | | | | | | | |
| Talin V Thermal Power | IBRD | | | | | | | | | 55.0 | | | | | | | | | |
| Thermal Power | IBRD | | | | | | | | | | | 25.0 | | | | | | | |
| Thermal Power | IBRD | | | | | | | | | | | | | 20.0 | | | | | |
| Tourism | IBRD | | | | | | | | | | | | 10.0 | | | | | | |
| Highways I | IBRD | | | | | | | | | | | 34.0 | | | | | | | |
| Highways II | IBRD | | | | | | | | | | | | | 30.0 | | | | | |
| Highways III | IBRD | | | | | | | | | | | | | | | 30.0 | | | |
| Harbor Dredging | IDA | 2.2 | | | | | | | | | | | | | | | | | |
| Port Development I | IBRD | | | | | | | | | | | | 30.0 | | | | | | |
| Port Development II | IBRD | | | | | | | | | | | | | | 30.0 | | | | |
| Railways I | IBRD | | | 20.0 | | | | | | | | | | | | | | | |
| Railways II | IBRD | | | | | | 17.5 | | | | | | | | | | | | |
| Railways III | IBRD | | | | | | | 31.2 | | | | | | | | | | | |
| Railways IV | IBRD | | | | | | | | | 15.0 | | | | | | | | | |
| Railways V | IBRD | | | | | | | | | | | 20.0 | | | | | | | |
| Railways VI | IBRD | | | | | | | | | | | | | 20.0 | | | | | |
| Water Supply I | IDA | 4.4 | | | | | | | | | | | | | | | | | |
| Water Supply II | IBRD | | | | | | | | | | | | 30.0 | | | | | | |
| Water Supply III | IBRD | | | | | | | | | | | | | | | 30.0 | | | |
| Taipei Sewerage I | IBRD | | | | | | | | | | | 20.0 | | | | | | | |
| Taipei Sewerage II | IBRD | | | | | | | | | | | | | | 20.0 | | | | |
| Operations Program | IBRD | | | | | | | | | | 62.0 | 99.0 | 100.0 | 100.0 | 85.0 | 80.0 | | | 464.0 |
| | No. | | | | | | | | | | 4 | 4 | 5 | 5 | 4 | 3 | | | 21 |
| Lending Program | IBRD | - | 7.8 | 35.0 | - | 14.4 | 49.5 | 81.2 | 71.5 | 70.0 | 62.0 | 79.0 | 75.0 | 75.0 | 60.0 | 60.0 | 106.7 | 363.7 | 349.0 |
| | IDA | 15.3 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Total | 15.3 | 7.8 | 35.0 | - | 14.4 | 49.5 | 81.2 | 71.5 | 70.0 | 62.0 | 79.0 | 75.0 | 75.0 | 60.0 | 60.0 | 106.7 | 363.7 | 349.0 |
| | No. | 4 | 1 | 2 | | 1 | 3 | 2 | 3 | 2 | 4 | 3 | 3 | 4 | 3 | 2 | 7 | 14 | 15 |
| Asian Development Bank | | | | | | | | 22.2 | 22.7 | 131.1 | 27.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | | 113.0 | 100.0 |
| IBRD o/s inc. undisbursed | | - | 6.8 | 39.9 | 39.5 | 52.3 | 95.9 | 167.1 | 230.8 | 296.1 | 351.1 | 421.1 | 484.1 | 543.1 | 583.1 | 619.1 | | | |
| exc. undisbursed | | - | - | 1.9 | 14.7 | 26.4 | 27.9 | 38.2 | 65.1 | 92.4 | 145.4 | 206.4 | 264.4 | 318.4 | 363.4 | 404.4 | | | |
| IBRD - gross disbursements | | - | - | 1.9 | 12.8 | 12.2 | 2.7 | 12.5 | 30.0 | 32.0 | 60.0 | 70.0 | 70.0 | 70.0 | 65.0 | 65.0 | | 204.5 | 340.0 |
| - net disbursements | | - | - | 1.9 | 12.8 | 11.7 | 1.5 | 10.3 | 26.9 | 27.3 | 53.0 | 61.0 | 58.0 | 54.0 | 45.0 | 41.0 | | 178.5 | 312.0 |
| - net transfer | | - | - | 1.9 | 12.4 | 10.4 | -0.3 | 8.1 | 23.3 | 22.8 | 46.0 | 51.0 | 44.0 | 36.0 | 23.0 | 15.0 | | 151.2 | 169.0 |
| IBRD/IDA - gross disbursements | | 4.5 | 4.0 | 5.8 | 13.5 | 12.2 | 2.7 | 12.5 | 30.0 | 32.0 | 60.0 | 70.0 | 70.0 | 70.0 | 65.0 | 65.0 | 38.2 | 204.5 | 340.0 |
| - net disbursements | | 4.5 | 4.0 | 5.8 | 13.5 | 11.7 | 1.5 | 10.3 | 26.8 | 27.2 | 52.9 | 60.9 | 57.9 | 53.9 | 44.9 | 40.9 | 36.5 | 178.1 | 258.5 |
| - net transfer | | 4.4 | 3.9 | 5.7 | 13.0 | 10.3 | -0.4 | 8.0 | 23.1 | 22.6 | 45.8 | 50.8 | 44.4 | 35.8 | 22.8 | 14.8 | 32.5 | 150.3 | 168.6 |

East Asia and Pacific Department
August 16, 1971

CHINA: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

($ millions)

| Project & No. | Amount: - Original - Cancelled - Net | Date: - Approved - Signed - Effective | Closing Date | Forecast Date | FY'66 | FY'67 | FY'68 | FY'69 | FY'70 | FY'71 1 | FY'71 2 | FY'71 3 | FY'71 4 | FY'72 1 | FY'72 2 | FY'72 3 | FY'72 4 | FY'73 | FY'74 | FY'75 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Railway | 20.0 | 4/27/65 | Orig: 12/31/68 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | 2.5 | 4/28/65 | | 9/30/70 | (first) | - | - | - | - | 16.2 | 16.2 | 17.2* | - | - | - | - | - | - | - | - |
| IBRD 409 | 17.5 | 6/25/65 | Rev: 6/30/71 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | 5.2 | 13.9 | 15.7 | 16.2 | 16.4 | 16.5 | 16.5 | 16.9 | 17.4 | | | | | | | |
| Telecommunications | 17.0 | 8/1/67 | Orig: 10/31/72 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | 4.5 | 8/2/67 | | 9/30/70 | (first) | - | - | - | - | 2.0 | 2.8 | 3.9 | 5.2 | 6.6 | 7.9 | 9.1 | 10.2 | 12.2 | 12.5 | - |
| IBRD 506 | 12.5 | 9/29/67 | Rev: 3/31/74 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | .4 | 1.3 | 2.0 | 2.2 | 3.2 | 5.4 | | | | | | | |
| Third CDC | 15.0 | 8/4/67 | Orig: 3/31/71 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 8/7/67 | | 9/30/70 | (first) | - | - | - | - | 12.5 | 14.5 | 15.0 | - | - | - | - | - | - | - | - |
| IBRD 508 | - | 11/2/67 | Rev: 12/31/71 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | 5.3 | 10.6 | 12.5 | 13.6 | 14.5 | 14.6 | | | | | | | |
| Second Railway | 17.5 | 1/11/68 | Orig: 6/30/70 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | .7 | 1/18/68 | | 9/30/70 | (first) | - | - | - | - | 15.0 | 15.4 | 16.8 | - | - | - | - | - | - | - | - |
| IBRD 524 | 16.8 | 3/12/68 | Rev: 3/31/71 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | 2.0 | 14.7 | 15.0 | 15.2 | 16.7 | 16.7 | | | | | | | |
| Tachien Power | 50.0 | 11/26/68 | Orig: 9/30/74 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 12/2/68 | | 9/30/70 | (first) | - | - | - | - | 5.0 | 7.4 | 9.8 | 11.7 | 14.7 | 17.8 | 20.7 | 24.2 | 38.3 | 46.9 | 50.0 |
| IBRD 574 | - | 5/29/69 | Rev: - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | - | 3.3 | 4.2 | 5.1 | 6.4 | 7.2 | | | | | | | |
| Third Railway | 31.2 | 5/27/69 | Orig: 6/30/72 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 5/29/69 | | 9/30/70 | (first) | - | - | - | - | 4.6 | 13.3 | 15.3 | 22.2 | 24.7 | 30.6 | 31.2 | - | - | - | - |
| IBRD 603 | - | 8/22/69 | Rev: - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | - | 3.6 | 6.3 | 13.0 | 14.4 | 16.1 | | | | | | | |
| Fourth CDC | 18.0 | 4/7/70 | Orig: 3/31/73 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 5/16/70 | | 9/30/70 | (first) | - | - | - | - | - | 1.1 | 3.3 | 5.5 | 7.8 | 10.0 | 12.0 | 14.0 | 18.0 | - | - |
| IBRD 670 | - | 7/7/70 | Rev: - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | - | - | - | .2 | .3 | 1.5 | | | | | | | |
| Second Power | 44.5 | 4/21/70 | Orig: 12/31/74 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 5/16/70 | | 9/30/70 | (first) | - | - | - | - | - | 1.5 | 3.0 | 6.9 | 9.4 | 13.7 | 16.2 | 20.4 | 36.9 | 42.2 | 44.5 |
| IBRD 671 | - | 9/8/70 | Rev: - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | Act: - | - | - | - | - | - | - | - | .1 | 2.5 | 3.2 | | | | | | | |
| Education | 9.0 | 6/11/70 | Orig: 3/31/75 | N.A. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Project | - | 6/19/70 | | 9/30/70 | (first) | - | - | - | - | - | - | .1 | .1 | .2 | .2 | 1.5 | 2.9 | 5.9 | 9.0 | - |
| IBRD 691 | - | 2/22/71 | Rev: - | 3/31/71 | - | - | - | - | - | - | - | - | - | .1 | .1 | 1.5 | 2.9 | 5.9 | 9.0 | - |
| | | | Act: - | - | - | - | - | - | - | - | - | - | .1 | | | | | | | |

* Balance indeterminate.

East Asia and Pacific Department
8/16/71

Attachment 3

Last Economic Mission
March 3 - 27, 1971

REPUBLIC OF CHINA

INDICATORS OF DEVELOPMENT

| | Unit | 1951-60 | 1961-65 | 1966-70 | 1971-75 |
|---|---|---|---|---|---|
| I. ECONOMIC & STRUCTURAL INDICATORS | | | | | |
| 1. Gross Domestic Product (in constant prices) | p.a. | 7.8 | 10.1 | 9.6 | 9.1 |
| 2. Manufacturing Output | p.a. | 13.0a/ | 15.0 | 18.7 | 13.8 |
| 3. Agricultural Output | p.a. | 3.9b/ | 6.0 | 4.3 | 3.7 |
| 4. Imports of Goods and NFSd/ | p.a. | 22.9c/ | 15.9 | 22.3 | 15.8 |
| 5. Exports of Goods and NFSd/ | p.a. | 21.1c/ | 24.2 | 26.4 | 12.3 |
| 6. Domestic Price Levele/ | p.a. | 11.1 | 2.3 | 3.8 | |
| | | 1960 | 1965 | 1970 | 1975 |
| 7. Gross National Savings | % GDP | 12.6 | 19.5 | 25.7 | 27.3 |
| 8. Resource Gap | % GDP | 7.5 | 3.3 | 0.6 | 1.8 |
| 9. Net Factor Payments Abroad | % GDP | neg. | 0.2 | 0.1 | 0.3 |
| 10. Gross Domestic Investment | % GDP | 20.1 | 23.0 | 26.3 | 29.4 |
| 11. Debt Service | % exports | | 3.8 | 5.0 | 6.1 |
| 12. Central Govt. Current Revenue | % GDP | 18.7 | 19.9 | 23.9 | |
| 13. Central Govt. Current Surplus (Deficit) | % GDP | -0.8 | -1.9 | -3.6 | |
| 14. Public Exp. on Social Services | % GDP | 1.4 | 1.6 | 2.2 | |
| 15. Military Expenditure | % GDP | | | | |
| 16. Manufacturing Output | % GDP | 17.3 | 20.8 | 25.1 | 27.5 |
| 17. Energy Consumption | million tons | 6.1 | 9.0 | 14.0g/ | |
| 18. Fertilizer Consumptionf/ | '000 tons | 664.8 | 795.3 | 993.2g/ | |
| II. SOCIAL INDICATORS | | | | | |
| 19. Population Growth Rate | % | 3.1 | 2.6 | 2.2 | 2.0 |
| 20. Urban Population Growth Rate | % | 6.0 | 5.6 | 5.0 | 4.9 |
| 21. Birth Rate | Per '000 pop. | 37.5 | 31.7 | 27.1 | 25.7 |
| 22. Family Planning | Acceptors '000s | - | 99 | 247 | |
| 23. Income of: Highest quintileh/ | % total income | - | 41.4 | - | |
| Lowest quintileh/ | % total income | - | 7.9 | - | |
| 25. School enrollment: Primary and Secondary | % school-age pop. | 85.0 | 92.4 | 91.5 | 96.0 |
| 26. Literacy ratei/ | % adult pop. | 69.1 | 71.8 | 76.2j/ | |
| 27. Unemployment rate | % labor force | | 5.2k/ | 4.0 | |
| 28. Population per hospital bed | Number | | 1299 | 667 | |

a/ 1953-60
b/ 1954-60
c/ 1952-60
d/ For 1951-60 and 1961-65 estimate based on national account data. Other periods based on balance of payments data.
e/ GNP deflator
f/ Excluding farm produced fertilizer
g/ 1969
h/ Based on sample survey of personal income in 1966
i/ 12 years and over for 1960 and 1965, and 15 years and over for 1969
j/ 1969
k/ 1966

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## REPUBLIC OF CHINA: Long-Term Public Debt Projections[a]

(Calendar Year; US $ million)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **National Income Accounts[b]** | | | | | | | | | | | | | | | | | | | | | | |
| GNP | 2555 | 2823 | 3138 | 3575 | 4200 | 4770 | 5440 | 5986 | 6551 | 7135 | 7738 | 8391 | 9098 | 9860 | 10684 | 11594 | 12567 | 13570 | 14657 | 15834 | 17117 | 18509 |
| Plus: Net Factor Income Payments | 4 | 7 | 10 | 5 | 10 | 5 | 5 | 4 | 6 | 12 | 19 | 24 | 32 | 45 | 63 | 68 | 85 | 95 | 100 | 103 | 95 | 81 |
| Equals: Gross Domestic Product | 2560 | 2830 | 3148 | 3580 | 4210 | 4775 | 5445 | 5990 | 6557 | 7147 | 7757 | 8415 | 9130 | 9905 | 10747 | 11662 | 12652 | 13665 | 14757 | 15937 | 17212 | 18590 |
| Consumption | 2065 | 2268 | 2460 | 2770 | 3245 | 3628 | 4035 | 4423 | 4803 | 5215 | 5641 | 6091 | 6595 | 7110 | 7646 | 8216 | 9225 | 9317 | 9940 | 10629 | 11365 | 12142 |
| Gross Investment | 490 | 652 | 730 | 900 | 1078 | 1205 | 1430 | 1622 | 1835 | 2057 | 2250 | 2475 | 2710 | 2972 | 3255 | 3567 | 3907 | 4262 | 4633 | 5035 | 5473 | 5950 |
| Gross National Savings | 497 | 5521 | 697 | 830 | 955 | 1157 | 1392 | 1562 | 1747 | 1920 | 2097 | 2300 | 2502 | 2750 | 3037 | 3377 | 3793 | 4252 | 4717 | 5205 | 5752 | 6367 |
| Imports of Goods and NFS | 470 | 612 | 675 | 852 | 1140 | 1330 | 1674 | 2032 | 2380 | 2755 | 3095 | 3485 | 3931 | 4382 | 4865 | 5375 | 5860 | 6387 | 6962 | 7589 | 8271 | 9015 |
| Less: Exports of Goods and NFS | 480 | 520 | 652 | 787 | 1028 | 1287 | 1671 | 1977 | 2300 | 2630 | 2962 | 3335 | 3755 | 4205 | 4711 | 5252 | 5831 | 6472 | 7146 | 7861 | 8647 | 9512 |
| Equals: Resource Gap - Amount[b] | -10 | 92 | 23 | 65 | 112 | 43 | 3 | 55 | 80 | 125 | 133 | 150 | 176 | 177 | 154 | 123 | 29 | -85 | -184 | -272 | -376 | -497 |
| As % of GDP | -0.4% | 3.3% | 0.7% | 1.8% | 2.7% | 0.9% | 0.6% | 0.9% | 1.2% | 1.7% | 1.7% | 1.7% | 1.9% | 1.8% | 1.4% | 1.0% | 0.2% | -0.6% | -1.2% | -1.7% | -2.1% | -2.7% |
| **Finance of Resource Gap** | | | | | | | | | | | | | | | | | | | | | | |
| Bilateral: US: Eximbank | | | | | | | | 13 | 36 | 35 | 40 | 40 | 45 | 45 | | | | | | | | |
| AID[c] | 16.5 | 32.1 | 11.8 | 36.7 | 22.9 | 16.3 | 2.2 | 2 | 2 | 2 | 2 | 1 | | | | | | | | | | |
| Japan | | | 7.7 | 31.1 | 19.7 | 21.0 | 14.9 | 20 | 30 | 40 | 40 | 40 | 45 | 45 | | | | | | | | |
| Other | | 4.6 | | | | 0.4 | | | | | | | | | | | | | | | | |
| Multilateral: IBRD[d] | 0.1 | 9.7 | 17.6 | 6.2 | 7.9 | 24.8 | 28.0 | 33 | 63 | 66 | 68 | 69 | 66 | 65 | | | | | | | | |
| IDA[d] | 4.4 | 1.9 | 0.2 | | | | | | | | | | | | | | | | | | | |
| AsDB | | | | | | 0.1 | 0.3 | 30 | 15 | 15 | 20 | 20 | 20 | 20 | | | | | | | | |
| Private | 13.8 | 20.0 | 36.3 | 59.0 | 27.7 | 88.7 | 74.2 | 50 | 51 | 108 | 138 | 198 | 290 | 367 | | | | | | | | |
| Total: Gross Disbursements | 34.8 | 68.3 | 73.6 | 133.0 | 78.2 | 151.3 | 119.6 | 147 | 197 | 266 | 308 | 368 | 466 | 542 | 600 | 644 | 634 | 594 | 550 | 495 | 395 | 255 |
| Less: Amortization | 14.3 | 14.3 | 20.5 | 20.0 | 24.8 | 38.8 | 62.1 | 78 | 93 | 999 | 115 | 139 | 186 | 254 | 308 | 367 | 426 | 474 | 509 | 530 | 534 | 514 |
| Net Inflow | 20.5 | 54.0 | 53.1 | 113.0 | 53.3 | 112.5 | 57.5 | 69 | 104 | 167 | 191 | 228 | 280 | 288 | 293 | 277 | 208 | 119 | 40 | -35 | -139 | -259 |
| Other Inflow, net[e] | -29.1 | 41.8 | -26.9 | -42.1 | 80.6 | -63.5 | -53.5 | -10 | -18 | -30 | -40 | -54 | -72 | -66 | -76 | -86 | -94 | -109 | -124 | -134 | -142 | -157 |
| Less: Factor Income Payments, net | 0.4 | 4.9 | 2.0 | 8.1 | 11.5 | 6.1 | 1.1 | 4 | 6 | 12 | 19 | 24 | 32 | 45 | 63 | 68 | 85 | 95 | 100 | 103 | 95 | 81 |
| Equals: Resource Gap[b] | -8.2 | 90.9 | 24.2 | 62.8 | 122.4 | 42.9 | 2.9 | 55 | 80 | 125 | 132 | 150 | 176 | 177 | 154 | 123 | 29 | -85 | -184 | -272 | -376 | -497 |
| **Memorandum Items** | | | | | | | | | | | | | | | | | | | | | | |
| Interest on Debt | 4.1 | 6.0 | 7.1 | 10.0 | 14.0 | 23.0 | 25.9 | 30 | 34 | 42 | 54 | 68 | 85 | 105 | 126 | 146 | 165 | 179 | 187 | 190 | 187 | 178 |
| Total Debt Service | 18.4 | 20.3 | 27.6 | 30.0 | 38.8 | 61.8 | 88.0 | 107 | 128 | 141 | 170 | 208 | 271 | 359 | 433 | 513 | 591 | 654 | 670 | 719 | 721 | 692 |
| Average Interest Rate[f] | 1.1% | 2.5% | 2.5% | 2.9% | 3.1% | 4.5% | 3.6% | 3.8% | 4.0% | 4.4% | 4.8% | 5.2% | 5.5% | 5.8% | 6.0% | 6.1% | 6.2% | 6.2% | 6.2% | 6.2% | 6.2% | 6.2% |
| Debt Service Ratio[g] | 3.7% | 3.8% | 4.2% | 3.7% | 3.7% | 4.6% | 5.0% | 5.2% | 5.4% | 5.2% | 5.5% | 6.1% | 7.0% | 8.3% | 8.9% | 9.5% | 9.9% | 9.8% | 9.2% | 8.9% | 8.2% | 7.1% |
| Total Debt Outstanding[h] | 212 | 233 | 287 | 340 | 453 | 506 | 718 | 776 | 845 | 949 | 1116 | 1307 | 1535 | 1815 | 2103 | 2396 | 2668 | 2876 | 2995 | 3035 | 3000 | 2861 |
| IBRD Debt Outstanding[h] | | | | | | | | | | | | | | | | | | | | | | |
| - excluding undisbursed | | 0.1 | 9.8 | 27.1 | 32.3 | 39.1 | 61.1 | 86 | 124 | 182 | 248 | 315 | 380 | 438 | | | | | | | | |
| - including undisbursed | 7.7 | 22.7 | 42.6 | 42.1 | 85.6 | 144.2 | 168.0 | 234 | 303 | 371 | 430 | 474 | 508 | 539 | | | | | | | | |
| IDA Debt Outstanding[h] | 6.6 | 11.0 | 12.9 | 13.1 | 13.1 | 13.1 | 13.1 | 13 | 13 | 13 | 13 | 13 | 13 | 12 | 12 | 12 | 12 | 12 | 12 | 11 | 11 | 11 |
| IBRD Debt Service | | 0.1 | 0.9 | 2.3 | 3.5 | 5.6 | 8.1 | 11 | 15 | 20 | 26 | 35 | 42 | 49 | | | | | | | | |
| IBRD/IDA % Gross Inflow | 12.9% | 17.0% | 24.2% | 4.7% | 10.1% | 16.4% | 23.4% | 30.6% | 32.9% | 28.2% | 25.3% | 21.7% | 16.1% | 13.3% | | | | | | | | |
| % Debt Service | | 0.5% | 3.3% | 7.7% | 9.0% | 9.1% | 9.2% | 10.3% | 11.7% | 14.2% | 15.3% | 16.8% | 15.5% | 13.6% | | | | | | | | |
| IBRD % Debt Outstanding | | 0.4% | 3.4% | 8.0% | 7.1% | 7.7% | 7.2% | 11.1% | 14.7% | 19.2% | 22.2% | 24.1% | 24.7% | 24.1% | | | | | | | | |

a/ 1970 is the base year for projections. The projections are expressed in constant US$ of 1970. Historical data are expressed in current US$.
b/ For historical data, statistical discrepancies in the national income accounts are not shown, which explain largely the differences between the resource gap and the related factor income payment series
c/ Includes Eximbank through 1970.
d/ IBRD/IDA disbursements are consistent with commitment figures in the proposed lending program in Attachment 1.
e/ Includes transfers, direct investment, short-term capital (less than one-year maturity), capital subscriptions, changes in reserves, errors and omissions.
f/ Interest payments as a per cent of debt outstanding at beginning of year.
g/ Total debt service payments as a per cent of exports of goods and services.
h/ Debt outstanding at beginning of the year.

Projection Basis (1971-85)
Average Annual Growth Rate (%)

| | 1971-77 | 1978-85 |
|---|---|---|
| GDP | 8.9 | 8.2 |
| GDP per capita | 6.9 | 6.5 |
| Investment | 11.0 | 9.0 |
| Exports | 13.9 | 10.7 |
| Imports | 14.2 | 9.4 |

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