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Economic Committee Papers - Republic of China - Country Economic Brief

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APR 16 1968

Republic of China

COUNTRY ECONOMIC BRIEF

I. QUALITATIVE EVALUATION

A. Summary

- |                          |  |
|--------------------------|--|
| 1. Performance:          | Satisfactory.  |
| 2. Poverty:              | Per capita GNP amounted to US\$251 in 1967.  |
| 3. Creditworthiness:     | In view of low external debt, favorable prospects, relatively large foreign exchange reserves, the Republic is creditworthy for considerable additional loans on conventional terms. |
| 4. Bank/IDA eligibility: | The Republic is eligible for Bank loans, not for IDA credits.  |

B. General Evaluation

There is no sign as yet of a slowdown of the economy's remarkable expansion (almost 9 percent a year on average in real terms during 1951-67). GNP growth in 1967 amounted to 9 percent, and the growth of manufacturing industry, the leading sector of the economy, to 17 percent. Activities closely related to industrialization such as construction, power generation, and transportation are also expanding very fast. Exports consisting of a wide variety of industrial and processed agricultural products are competing very successfully in a large number of markets. Export growth in 1967 amounted to almost 15 percent, the total value of exports reaching \$670 million. An important feature of the economy's post-war growth is the attention paid to agricultural development. Agricultural growth is well ahead of population growth; in 1967 it amounted to over 5 percent.

Soaring capital formation (currently around 25 percent of GNP) has caused capital goods imports to increase rapidly. This is the main cause of a fairly large trade deficit in 1967 (\$156 million) after much smaller deficits during 1963-66. The deficit was financed largely by aid from official sources (Japanese yen credits, declining amounts of US aid, and rapidly growing IBRD disbursements). Direct investment by foreigners has also assumed importance, more because of the introduction of sophisticated technology than the direct balance-of-payments effect. The overall 1967 balance of payments was favorable; foreign exchange reserves rose, although at a somewhat slower rate than goods and services imports.

Economic prospects are favorable, because of the energy and ability of entrepreneurs and workers, and the Government's proven ability and determination to promote development effectively. Large investments in power, transportation, and education are needed to realize the growth potential. Capital needs will also rise because of plans to move gradually into heavy industrial fields such as iron and steel, petrochemicals and machinery (including ship building). Government needs to strengthen its fiscal performance in order to generate more savings for development. But even if this is done, the country will need a sizeable capital inflow for years to come.

At the last Economic Committee meeting on the Republic of China (November 22, 1966) it was concluded that the economy had a demonstrable need for further external financial assistance. In view of its favorable economic prospects and small debt service obligations, it was recommended that the Republic be considered creditworthy for \$130 million of loans during 1967 and 1968. Loans during 1967 and 1968 to date totalled \$63.9 million.



China

Economic Committee

March 1968

CHINA

Conclusions of Economic Committee:

November 22, 1966 meeting: The Committee agreed that China's economic performance and prospects were such that the Bank could prudently consider the proposed \$130 million lending program during 1967-68. It concluded that, subject to continued adequate economic performance, China was creditworthy for the loans then being processed. (Fisheries, telecommunications, and railways totaling about \$50 million.) The Committee would review at a later date its assessment of China's creditworthiness for the balance of the proposed lending program.

II. BASIC DATA

	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>
AREA (1000 sq. km.)					36
EXCHANGE RATE (NT dollars per US\$)/ <u>a</u>	..	..	39.85	40.10	40.10
POPULATION					
Total (millions)	7.6	8.9	10.6	12.4	12.8
Density (inhabitants per sq. km.)	211	247	294	344	356
Urban population (% of total pop.)	54	56	..	..	..
Literacy rate (% of adult pop.)	50 <u>/b</u>	54 <u>/c</u>	..	..	..
GROSS NATIONAL PRODUCT (at current f.c.)					
Total (mil. US\$)	514	926	1,449	2,520	2,706
Per capita (US\$)	68	104	137	203	211
TOTAL RESOURCES (mil. current NT \$s) <u>/d</u>					
By source:	11,077/ <u>e</u>	28,941	67,612	116,211	127,300
gross domestic product (%)	97.6/ <u>e</u>	96.4	92.5	97.6	98.9
net imports of goods & services (%)	0.4/ <u>e</u>	3.6	7.5	2.4	1.1
By use:					
consumption (total) (%)	83.8/ <u>e</u>	85.3	81.4	78.1	78.0
gross domestic investment (%)	16.2	14.7	18.6	21.9	22.0
GROSS NATIONAL SAVING (as % of GNP at market prices)					
	11.7/ <u>e</u>	11.3	12.6	19.0	21.0
TAX REVENUE (as % of National Income)					
	16.4/ <u>e</u>	21.2	18.2	17.8	18.2
GROSS DOMESTIC PRODUCT at current f.c. (%) <u>/d</u>					
Agriculture	..	33.6	31.3	26.0	25.7/ <u>f</u>
Mining	..	1.5	2.3	2.0	2.2/ <u>f</u>
Manufacturing	..	17.6	17.3	19.3	18.5/ <u>f</u>
Construction	..	5.0	4.2	3.8	4.1/ <u>f</u>
Transport & communication	..	4.8	5.0	5.4	4.7/ <u>f</u>
Public administration & defense	..	12.4	11.1	10.7	11.7/ <u>f</u>
Other branches	..	25.1	28.8	32.8	33.1/ <u>f</u>
EXTERNAL PUBLIC DEBT					
Total debt outstanding (US\$ mil.)	..	..	298.9	550.2	593.9
of which: undisbursed	..	..	1.4	158.0	136.5
Total annual debt service (US\$ mil.)	..	..	..	15	..
Debt service ratio (%)	..	..	3.3/ <u>g</u>	2.9	..

/a Principal buying rate.

/b Six years and over.

/c 1956.

/d Data before 1958 are not comparable with those from 1958 on.

/e 1951.

/f Related to net domestic product at factor cost.

/g 1961.

II. BASIC DATA (cont.)

	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>
BALANCE OF PAYMENTS (US\$ mil.)					
Merchandise exports (f.o.b.)	93.1	127.1	164.0	450.8	542.7
Merchandise imports (f.o.b.)	123.9	184.7	286.5	522.8	585.6
Net merchandise (f.o.b.)	-30.8	-57.6	-122.5	-72.0	-42.9
Service receipts (excl. invest. income)	6.4	9.9	29.0	69.4	111.6
Service payments (excl. invest. income)	64.2	23.1	36.0	90.5	89.7
Net services	-57.8	-13.2	-7.0	-21.1	21.9
Net investment income receipts	-1.0	-0.1	-0.5	-8.3	-8.3
Surplus on Current A/C (excl. transfers)	-89.6	-70.9	-130.0	-101.4	-29.3
CONCENTRATION OF MERCHANDISE EXPORTS (%) <u>/a</u>					
FOREIGN TRAVEL RECEIPTS (as % of total exports of goods and services)					
	-	-	1	2	3
EXTERNAL TRADE INDEXES (1959 = 100)					
Export price index	..	122	93	93	92
Import price index	..	112	100	98	99
Terms of trade	..	109	93	95	90
INTERNATIONAL RESERVES					
Total gross reserves (US\$ mil.)	47	87	127	317	356
of which: commercial bank holdings	-	-	10	17	19
Months' imports of goods and services	3.0	5.0	4.7	6.2	6.3
IMF POSITION (US\$ mil.)					
Quota	550	550	550	550	550
Drawings outstanding	-	-	-	-	-

/a Exports are widely diversified.

III. ANNUAL AVERAGE RATES OF CHANGE (%)

	<u>1951-59</u>	<u>1960-65</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
POPULATION (total)	3.3	3.3	3.2	3.0	2.9
GROSS DOMESTIC PRODUCT (real)					
Total	8.2 /a	9.5	13.3	12.6	8.1
Per Capita	4.7 /a	6.0	9.8	9.3	5.1
TOTAL MEANS OF PAYMENT	25.8 /b	24.3	29.0	13.8	24.1
Money	18.7 /b	17.7	31.7	10.5	17.2
Quasi-money	31.1 /b	32.2	26.8	16.6	29.7
BANK CREDIT OUTSTANDING					
To central government (net)	0.9 /c	18.9	20.8	-29.9	-67.7
To private sector	40.4 /c	25.5	26.6	27.3	17.2
PRICES					
Cost of living index	13.0	4.8	-0.7	-	2.0
Wholesale price index	7.0	3.9	2.8	-4.8	1.4
GDP implicit deflator	12.4 /a	4.1	3.4	-1.8	1.0
EXPORTS AND IMPORTS (based on current US\$)					
Exports of goods and services	6.6	19.8	26.0	7.1	25.8
Imports of goods and services	5.2	12.8	20.4	28.2	10.1

/a 1952-1959.

/b 1953-1959.

/c 1954-1959.



IV. SELECTED RELATIONSHIPS - PERCENT OF GROSS DOMESTIC PRODUCT  
(based on values at current market prices)

	<u>1950-59</u>	<u>1960-65</u>	<u>1955</u>	<u>1960</u>	<u>1966</u>
<b>EXPORTS AND IMPORTS</b>					
Exports of goods and services	9.4 /a	15.4	7.6	11.2	19.8
Imports of goods and services	15.6 /a	19.4	11.6	18.6	20.9
<b>INVESTMENT AND SAVING</b>					
Gross domestic investment	16.9 /a	19.6	15.3	20.0	22.3
private fixed investment	6.5 /a	8.6	6.3	8.6	..
public fixed investment	6.7 /a	6.9	6.2	7.8	..
increase in stocks	3.7 /a	4.1	2.8	3.6	..
Deficit on current account	6.2 /a	4.2	4.0	7.4	1.3
net imports of goods and services	6.2 /a	4.0	4.0	7.4	1.1
net factor payments to abroad	* /a	0.2	*	*	0.2
Gross national saving	10.7 /a	15.4	11.3	12.6	21.0
<b>CENTRAL GOVERNMENT OPERATIONS</b>					
Current receipts	19.3 /a	18.8	19.3	18.9	19.5
Current expenditure	20.1 /a	18.9	19.7	19.8	18.2
Saving	-0.8 /a	-0.1	-0.4	-0.8	1.3
Capital receipts	0.7 /a	1.0	0.5	0.7	1.1
Capital expenditure	5.2 /a	4.6	5.7	5.6	5.1
of which: central government capital formation	..	0.2	0.0	0.1	0.2
Overall Budget Surplus	-5.2 /a	-3.7	-5.6	0.6	-2.8
External loans and net grants and transfers received	5.0 /a	2.6	5.7	5.0	1.3
of which: on current account	4.8 /a	1.8	5.5	4.8	0.2
Domestic borrowing (net)	0.3 /a	1.2	0.1	0.5	1.8
Cash balance: increase(-) decrease(+)	0.1 /a	0.1	0.2	-0.1	0.3

/a 1951-1959.



CHINA

V. EXTERNAL FINANCIAL ASSISTANCE

(In US\$ million)

	Past Annual Average <u>(1963-65)</u>	Recent Year <u>(1966)</u>
Net official flow <sup>1/</sup> from DAC countries and multilateral agencies	64	62

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<sup>1/</sup> This information is indicated in the absence of complete data on overall flows of capital.

International Finance Division  
Economics Department  
April 17, 1968

CHINA

VI IBRD AND IDA OPERATIONS

(In millions of \$)

A) <u>Past operations</u> to March 31, 1968	<u>Amount committed</u> /1	<u>Amount disbursed</u>
IBRD	104.3	35.0
IDA	13.1	13.1
Total	117.4	48.1

/1 Net of cancellations

B) <u>Terms of IBRD/IDA operations</u> (January 1, 1961 - March 31, 1968)	Rate of interest (p.a.)	<u>Weighted average</u> Grace period (years)	Repayment period (years)
	5.202%	4.1	21.0

C) <u>Record of IDA commitments</u> to March 31, 1968	<u>Project</u>	<u>Date</u>	<u>Amount</u>
Credit 6	Harbor dredging	8/30/61	2.2
. 7	Ground water development	8/30/61	3.7
. 9	Municipal water supply	9/ 6/61	4.4
. 17	Development of priv. ind.	12/ 1/61	5.0

D) <u>Record of Bank commitments</u> to March 31, 1968	<u>Project</u>	<u>Date</u>	<u>Amount</u>
Loan 356	Fishing vessels	9/27/63	7.8
. 409	Railways	4/28/65	20.0
. 498	Fishing vessels	6/14/67	14.4
. 524	Railways	1/18/68	17.5
. 397	Industry	12/17/64	15.0
. 508	Industry	8/ 7/67	15.0
. 506	Communications	8/ 2/67	17.0

Statistical Services Division  
Economics Department  
April 17, 1968