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Sub-Fonds: Records of President Barber B. Conable

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China

Note - from SS outbox 8/27

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	8/26/91

SUBJECT:

Document From: Mr. Qureshi
To: BBC
Dated: 8/26/91 Reference No.: EXC910826013

Topic: Forwarding Mr. Burki's draft statement to the Board on the Bank's strategy for China

ACTION INSTRUCTIONS:	DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION 8/26/91
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: _____
_____
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BBC OK'd. Change in last para communicated to SJ Burki
AK/8/28

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: August 26, 1991

TO: Mr. Moeen A. Qureshi

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 82332

SUBJECT: CHINA COUNTRY STRATEGY

Attached is the draft of my statement to the Board on our strategy for China.

cc & cw: Attila Karaosmanoglu (ASIVP)

DRAFT
PMCadario:pmc
August 26, 1991

MR. CHAIRMAN AND MEMBERS OF THE BOARD,

IN PRESENTING THE TARIM BASIN PROJECT TO YOU THIS MORNING, I WOULD LIKE TO REVIEW SOME OF THE KEY COUNTRY ASSISTANCE STRATEGY ISSUES THAT WE PLAN TO ADDRESS DURING THE NEXT 18-24 MONTHS AS PART OF OUR OPERATIONAL DIALOGUE WITH CHINA AND OUR LENDING TO THE COUNTRY. THERE HAVE BEEN MANY DEVELOPMENTS IN CHINA SINCE YOU LAST CONSIDERED OUR COUNTRY STRATEGY IN JULY 1990: WE HAVE TRIED TO ADDRESS THEM IN THE FIRST PART OF THE MEMORANDUM OF THE PRESIDENT, AND THE ECONOMIC DEVELOPMENTS ARE NOW BEING ANALYZED BY THE MISSION THAT VISITED CHINA IN MAY AND JUNE TO PREPARE A NEW COUNTRY ECONOMIC MEMORANDUM.

IN MID-1988, CHINA HAD TO CONTEND WITH A PERIOD OF MACRO-ECONOMIC INSTABILITY MORE SEVERE THAN THE TWO EXPERIENCED EARLIER DURING ITS DECADE OF REFORM. THIS PERIOD WAS CHARACTERIZED BY URBAN INFLATION CLOSE TO 90% ON AN ANNUALIZED BASIS AND DECLINING RATES OF INVESTMENT IN AGRICULTURE AND OTHER ECONOMIC INFRASTRUCTURE. PLANS TO DECONTROL THE PRICES OF MOST MAJOR COMMODITIES IN 1989 WERE ALMOST IMMEDIATELY SHELVED AND, BY NOVEMBER 1988, REPLACED BY AN ECONOMIC RETRENCHMENT AND STABILIZATION PROGRAM. SINCE THEN, CHINA'S LEADERS HAVE BEEN ALMOST WHOLLY PREOCCUPIED WITH EFFORTS TO RESTORE AND MAINTAIN ECONOMIC, POLITICAL AND SOCIAL STABILITY.

BY EARLY 1990, THE ECONOMY HAD LARGELY STABILIZED, THANKS TO THE DRAMATIC EFFECTIVENESS OF THE STEPS TAKEN, MAINLY ADMINISTRATIVE MEASURES ACCOMPANIED BY HIGHER INTEREST RATES AND EFFORTS BY CHINA'S CENTRAL BANK, PEOPLE'S BANK OF CHINA, TO USE INDIRECT LEVERS FOR MACROECONOMIC MANAGEMENT. CHINA'S DECADE-

LONG COMMITMENT TO OVERALL REFORM, NOT SERIOUSLY IN DOUBT UNTIL 1988, HAS BEEN RE-AFFIRMED ON MANY OCCASIONS OVER THE LAST TWO YEARS. HOWEVER, THE AUTHORITIES WERE OBLIGED TO DELAY THE IMPLEMENTATION OF SOME REFORMS IN THE INTERESTS OF MACROECONOMIC AND POLITICAL STABILITY. ALTHOUGH ON THE SURFACE, AND TAKING A SHORT-TERM PERSPECTIVE, ECONOMIC PERFORMANCE OVER THE LAST THREE YEARS HAS BEEN SATISFACTORY, DEEP-SEATED STRUCTURAL PROBLEMS REMAIN.

BECAUSE OF THE EVENTS OF 1989, INCLUDING AN EIGHT-MONTH HIATUS IN BANK/IDA LENDING, THE PRINCIPAL OBJECTIVES OF THE BANK'S COUNTRY ASSISTANCE STRATEGY HAVE CHANGED SIGNIFICANTLY. TO INTENSIFY OUR SUPPORT FOR CHINA'S REFORM PROCESS, THE BANK HAS BEGUN TO ADDRESS EXPLICITLY REFORM ISSUES NOT ONLY IN ITS SECTORAL DIALOGUE BUT ALSO IN FORMULATING INDIVIDUAL INVESTMENT OPERATIONS. THERE IS NO DOUBT ABOUT CHINA'S CONTINUED INTEREST IN A SIGNIFICANT BANK ROLE IN ITS DEVELOPMENT EFFORTS, AND THEIR PERCEPTION OF THE BANK, NOT ONLY AS A NEUTRAL AND OBJECTIVE SOURCE OF ECONOMIC ADVICE AND CONCESSIONAL FUNDS, BUT ALSO AS THE IMPLICIT LEADER AMONG COMMERCIAL BANK AND OFFICIAL AID AGENCIES INVOLVED IN CHINA.

CHINA'S LONG-TERM DEVELOPMENT STRATEGY REMAINS TO INCREASE THE ROLE OF THE MARKET FOR RESOURCE ALLOCATION PURPOSES WHILE MAINTAINING PUBLIC OWNERSHIP AS THE DOMINANT FORM OF ASSET CONTROL. ALSO IN PLACE IS THE GOAL OF DOUBLING PER CAPITA INCOME AGAIN BY 2000 AND ACHIEVING MIDDLE-INCOME STATUS BY THE MIDDLE OF THE 21ST CENTURY. DESPITE IMPRESSIVE PROGRESS OVER THE LAST DECADE IN MOVING TOWARD MARKET MANAGEMENT, THE CHALLENGE FOR CHINA IS TO MAKE FURTHER PROGRESS TOWARD MARKET MANAGEMENT

WITHOUT SLIPPING ON SOCIAL DEVELOPMENT. THIS IS IMPORTANT SINCE CHINA REMAINS A POOR COUNTRY, WITH AN ANNUAL PER CAPITA INCOME OF $350 AND POCKETS OF HARD-CORE POVERTY COVERING 70-100 MILLION PEOPLE, GENERALLY IN REMOTE AND RESOURCE-POOR AREAS SUCH AS THE ZONE THAT WILL BENEFIT FROM THE PROJECT BEFORE YOU TODAY. SUSTAINED, BROAD-BASED ECONOMIC GROWTH WILL BE NEEDED OVER THE 1990S, THE EIGHTH AND NINTH FIVE YEAR PLAN PERIODS, TO GENERATE PRODUCTIVE EMPLOYMENT FOR A GROWING, INCREASINGLY URBAN WORKFORCE. BUILDING ON THE LESSONS OF THE 1980S, CHINA WILL NEED TO DEVELOP STRATEGIES TO ENCOURAGE NON-INFLATIONARY GROWTH WHILE AVOIDING THE STOP-GO CYCLES OF THE LAST DECADE. TO ACHIEVE THIS, CHINA WILL HAVE TO MAKE CONTINUOUS PROGRESS IN A NUMBER OF AREAS.

THREE POLICY AREAS SUBSUME THE RECENTLY-APPROVED EIGHTH FIVE YEAR PLAN GOALS TO ENCOURAGE STABILITY, DEVELOPMENT AND REFORM. THESE ARE FISCAL AND FINANCIAL REFORMS, PRICE REFORM AND TRADE REFORM. ALL THREE WOULD, IN PARTICULAR, HAVE ONE PRE-EMINENT GOAL: THE STRUCTURAL ADJUSTMENT OF THE INDUSTRIAL SECTOR AND, IN PARTICULAR, OF THE LARGE- AND MEDIUM-SIZED STATE-OWNED ENTERPRISES, WHICH REMAIN AS THE KEY CHALLENGES DURING THE 1990S. HOWEVER, NO REAL SUCCESS CAN BE ACHIEVED WITHOUT IMPROVEMENTS IN THE PERFORMANCE OF SOES BOTH AT THE CENTRAL AND PROVINCIAL LEVELS AND CHANGES IN THE ENVIRONMENT IN WHICH THEY OPERATE. THIS MEANS ADDRESSING THE PRICING AND PLANNING SYSTEMS THEY FACE, THE BURDEN OF SOCIAL WELFARE SERVICES THEY CURRENTLY PROVIDE, THE RIGOR OF FINANCIAL DISCIPLINE EXERTED BY BANKS, AND COMPETITION FROM NON-STATE ENTERPRISES AND IMPORTS. IF THESE REFORMS CAN BE PROMOTED WITHIN THE CONTEXT OF A SOUND MACROECONOMIC ENVIRONMENT, A

REASONABLY OPTIMISTIC VIEW OF THE FUTURE OF CHINA'S ECONOMY IN THE NEXT DECADE CAN BE ADOPTED.

CHINA HAD BEGUN TO ADDRESS THE QUESTION OF PRICE REFORM IN A SERIOUS WAY BEFORE THE HEATING UP OF THE ECONOMY IN 1988. SINCE THEN, THE MOVE TOWARD PRICE LIBERALIZATION SLOWED DOWN BUT RECENT MAJOR CHANGES IN GRAIN AND EDIBLE OIL PRICES AND UPWARD ADJUSTMENTS IN RAILWAY FREIGHT CHARGES AND FARES SUGGEST THAT PRICE REFORM IS BACK ON THE LEADERSHIP'S AGENDA. PRICE REFORM IS CALLED FOR BY THE NEED TO IMPROVE ECONOMIC EFFICIENCY AND TO CONTAIN THE BUDGET DEFICIT. UNTIL MARKET SIGNALS ARE CLEARLY ESTABLISHED, THE SCOPE FOR RESOURCE MISALLOCATION WILL REMAIN SIGNIFICANT. PRICE <u>REFORM</u> MUST MEAN MORE THAN ADJUSTING PRESENT ADMINISTERED PRICES, NECESSARY AS THIS MAY BE AS A FIRST STEP. IT SHOULD ALSO INCLUDE NEW METHODS OF PRICE FORMULATION VIA THE MARKET, AND THE CREATION OF APPROPRIATE MARKET INFRASTRUCTURE. THIS IS AN AREA WHERE MORE URGENT ATTENTION IS NEEDED. IF PRICE REFORM CAN BE COMBINED WITH SOUND MACROECONOMIC POLICIES, EXCESSIVE INFLATION CAN BE AVOIDED, ALTHOUGH COMPENSATION FOR SOME OF THE LOSERS IN SUCH REFORMS MAY BE NEEDED.

RECENT ADJUSTMENTS IN THE EXCHANGE RATE AND REDUCTION IN EXPORT SUBSIDIES ARE BOUND TO IMPROVE THE LONG-TERM EFFICIENCY OF THE SECTORS OF THE ECONOMY WITH STRONG EXTERNAL LINKS. A LIBERALIZATION OF THE TRADE REGIME, BY REMOVAL OF CURRENT ADMINISTRATIVE RESTRICTIONS ON IMPORTS, COULD CONTRIBUTE TO SUSTAINING MACROECONOMIC BALANCE IN THE DOMESTIC ECONOMY AND MITIGATE THE STOP-GO SWINGS IN DEMAND MANAGEMENT. MORE IMPORTANTLY, OVER THE LONG-RUN THE STIMULUS OF COMPETITION FROM IMPORTS HAS THE POTENTIAL TO SPUR GREATER EFFICIENCY IN CHINA'S

INDUSTRIAL SECTOR AND TO PROMOTE THE HIGHER PRODUCT QUALITY INCREASINGLY NEEDED FOR CONTINUED GROWTH IN EXPORT VALUE.

THE BALANCE BETWEEN STABILITY AND REFORM, BETWEEN INCENTIVES AND A REASONABLY EGALITARIAN INCOME DISTRIBUTION, BETWEEN STATE AND NON-STATE ENTERPRISES AND PRIVATE ENTREPRENEURS IN PRODUCTION, AND BETWEEN INDIVIDUAL RESPONSIBILITY AND COLLECTIVE PROVISION OF SOCIAL GOODS, ARE ALL DIFFICULT ISSUES. HOWEVER, IT IS TOO SIMPLE TO VIEW ALL POLICY OPTIONS AS CHOICES BETWEEN "REFORM" ON THE ONE HAND, AND "REACTION" OR "CENTRAL PLANNING" ON THE OTHER. THE REAL ISSUES HAVE TO DO WITH ACHIEVING APPROPRIATE BALANCES OF AUTHORITY BETWEEN CENTRAL AGENCIES, PROVINCIAL AND LOCAL GOVERNMENTS AND ECONOMIC UNITS (INDUSTRIAL ENTERPRISES, BANKS AND OTHER FINANCIAL INSTITUTIONS, FAMILY FARMS, ETC.) AND--RELATED TO THIS--BETWEEN ADMINISTRATIVE MEASURES AND MARKET SIGNALS IN A VERY LARGE AND COMPLEX ECONOMY IN TRANSITION. THE BANK'S BASIC APPROACH ENCOMPASSES SUPPORTING THE IMPLEMENTATION OF REFORMS, HELPING PRODUCTIVE SECTOR MODERNIZATION AND RATIONALIZATION; AND INFRASTRUCTURE DEVELOPMENT. BUT ADJUSTMENTS MAY BE NECESSARY, DEPENDING ON CHINA'S OVERALL ECONOMIC PERFORMANCE AND PACE AND DIRECTION OF REFORM.

MAINTAINING STABILITY AND PUBLIC SUPPORT FOR THE NEXT STEPS OF REFORM WILL REQUIRE GREATER ATTENTION TO THE RELATIONSHIPS BETWEEN ACTIONS IN VARIOUS SECTORS. THE KEY NEXUS SEEMS TO BE ENTERPRISE REFORM, INCLUDING HOUSING AND SOCIAL SECURITY, AND LIBERALIZATION OF FACTOR MARKETS, INCLUDING LAND AND LABOR. FINANCIAL SECTOR DEVELOPMENT REMAINS PIVOTAL TO IMPROVING CHINA'S MACROECONOMIC MANAGEMENT AND TO DEEPENING ENTERPRISE, HOUSING AND RURAL SECTOR REFORMS.

To provide more specific advice to China, the Bank intends to maintain a strong ESW program. It is inspired by a number of objectives and concerns that we share with the authorities. Success at achieving short-term goals--to maintain the economy on a non-inflationary growth path, narrow the budget deficit and preserve healthy external accounts--will contribute to China's longer term objective of maximizing productive efficiency by strengthening mechanisms that enhance allocative efficiency. These goals establish four main themes that are central to our ESW program: industrial restructuring to see that China's capital and human resources are put to the best possible use; sustaining resource mobilization and an adequate flow of funds through fiscal channels at all levels; institutional reforms promoting market competition through a freer flow of goods and factors, and greater reliance on market-determined prices; and increasing interprovincial market integration to contain regional income inequality.

Consistent with its Eighth Plan development priorities, China is expected to continue to turn to the Bank for intellectual and financial support for its economic reforms, for infrastructure development (transport and energy), for modernization of its agriculture, for alleviating its bad environmental situation and for helping it sustain its past remarkable performance in the social sectors. The argument for a continued strong Bank presence in agriculture is sustained both by important sector-wide issues that the authorities now seem willing to address and by possibilities for institutional strengthening, poverty alleviation and environmental protection.

THE PROJECT BEFORE YOU TODAY REFLECTS THIS APPROACH. CHINA'S INTEREST IN CONTINUED BANK LENDING FOR INDUSTRY, IN APPROPRIATE SUBSECTORS AND LOCATIONS WHERE REFORMS CAN BE PRESSED FORWARD, WILL DEPEND ON THE DEVELOPMENT OF MORE AUTONOMOUS FINANCIAL INTERMEDIARIES, AND ON CHINA'S TAKING STEPS TOWARD A MORE ENABLING ENVIRONMENT FOR SERVICES AND FOR NON-STATE DOMESTIC AND FOREIGN INVESTMENT IN SECTORS WHERE BANK LENDING IS UNLIKELY. TRANSPORT AND ENERGY PROJECTS, SUPPORTING SYSTEM REFORM IMPROVEMENTS IN SECTOR PLANNING AND PRICING, WILL HELP REMOVE INFRASTRUCTURE BOTTLENECKS.

A GROWING LENDING PROGRAM INCORPORATING BALANCED SECTORAL ALLOCATION OF BANK/IDA LENDING, AT A HARDENING BLEND, REMAINS BROADLY APPROPRIATE IN HELPING CHINA'S TRANSITION FROM A PLANNED ECONOMY TO ONE BASED ON GREATER MARKET COMPETITION. SPECIFIC INVESTMENT OPERATIONS WITH INCREASING REFORM CONTENT WILL REMAIN THE MAIN LENDING INSTRUMENT, WITH OCCASIONAL SECTOR INVESTMENT OPERATIONS WHERE POLICY REFORMS, PRICING AND INVESTMENT PLANNING DEVELOP SATISFACTORILY.

ALTHOUGH CHINA'S EXTERNAL TRADE IS SUBJECT TO SOME UNCERTAINTY, ITS PRUDENT PAST LEVEL OF BORROWING AND IMPROVING DEBT MANAGEMENT AND CONTROL MAKE IT UNLIKELY THAT THE COUNTRY POSES ANY CREDITWORTHINESS OR EXPOSURE CONCERNS TO THE BANK, OR IMPOSES RELATED CONSTRAINTS TO THE GROWTH OF CHINA'S IBRD BORROWING.

THE RURAL REFORMS OF THE LAST DECADE HAVE DRAMATICALLY CHANGED THE STRUCTURE OF AGRICULTURE FROM ONE DOMINATED BY COLLECTIVE UNITS (COMMUNES) TO ONE WHERE INDIVIDUAL HOUSEHOLDS, ENJOYING A DEGREE OF TENURED SECURITY TO WELL-DEFINED PLOTS OF

LAND, ACCOUNTED FOR MORE THAN 90% OF OUTPUT. THE INITIAL RESULT OF THESE MARKET-ORIENTED REFORMS WAS TO STIMULATE A RAPID UPSURGE IN OUTPUT AND PRODUCTIVITY AND THIS GROWTH--INCLUDING SUBSTANTIAL PRODUCT DIVERSIFICATION IN LINE WITH REGIONAL COMPARATIVE ADVANTAGE--HAD MUCH TO DO WITH THE DECLINE IN ABSOLUTE RURAL POVERTY OBSERVED DURING THE DECADE. AGRICULTURAL EXPANSION HAS ALSO CONTRIBUTED GREATLY--BY WAY OF FINANCE, LABOR, RAW MATERIALS AND MARKETS--TO THE RAPID GROWTH IN RURAL ENTERPRISE ACTIVITY OVER THE PERIOD.

THE PROPOSED PROJECT AIMS TO IMPROVE THE PRODUCTIVITY AND INCOMES OF 137,000 FARM FAMILIES IN AN AREA WITH AGRICULTURE POTENTIAL LIMITED TO SOIL SALINITY, LOW FERTILITY SOILS, INEFFICIENT IRRIGATION AND DRAINAGE SYSTEMS AND INCOMPLETE AGRICULTURE AND LIVESTOCK SUPPORT SERVICES. THE AREA DOES HAVE HUMAN, LAND AND WATER RESOURCES, WHOSE PRODUCTIVITY WILL BE INCREASED. PROPER MANAGEMENT OF WATER RESOURCES WILL HELP IMPROVE THE PROJECT AREA'S ENVIRONMENTAL CONDITIONS. AMONG THE PROJECT'S SEVERAL INNOVATIVE FEATURES, THE ECOSYSTEM RESTORATION COMPONENT--ONE OF THE FIRST OF ITS KIND IN CHINA--WOULD HELP SET UP AN ENVIRONMENTAL BASIN MANAGEMENT INSTITUTION FOR THE TARIM RIVER. ON THE BASIS OF ITS MONITORING OF THE BASIN'S FLORA, AND THEIR RELATIONSHIP WITH DESERT EXPANSION, THE INSTITUTION WOULD PLAN ENGINEERING AND OTHER MEASURES TO ENSURE PROPER FLOW OF WATER ALONG THE BASIN, AND THEREBY CHECK THE EXPANSION OF THE DESERT. THE PROJECT COULD HAVE A SIGNIFICANT IMPACT BEYOND THE PROJECT AREA AS A MODEL FOR ERADICATING POVERTY IN ARID ZONES. THE INTEGRATION OF WATER RESOURCES DEVELOPMENT WITH ENVIRONMENTAL PROTECTION AND ENHANCEMENT IS A KEY FOCUS FOR SUSTAINABLE GROWTH

UNDER THE PROJECT. IT ALSO PROVIDES INTEGRATED, STRENGTHENED TECHNICAL SUPPORT BODIES, MARKET-ORIENTED INCENTIVES AND INTEGRATED LIVESTOCK PRODUCTION WITH CROP FARMING. LIKE OTHER IDA-ASSISTED AGRICULTURE PROJECTS IN CHINA, THE TARIM BASIN PROJECT WOULD CONTINUE TO HELP THE GOVERNMENT SUBSTITUTE MARKET FOR COMMAND MECHANISMS. IT WOULD ELIMINATE INPUT SUBSIDIES AND PROVIDE PRODUCERS WITH ATTRACTIVE PRICES INCENTIVES. ALL INCREMENTAL GRAIN PRODUCTION WOULD BE SOLD AT MARKET PRICES; COTTON PRICES WOULD BE ADJUSTED TO PROVIDE MAXIMUM PRODUCTION INCENTIVES FOR FARMERS, AND POWER [AND IRRIGATION] TARIFFS WOULD BE SET TO PROVIDE COMPLETE COST RECOVER AND FINANCE A PORTION OF NEW INVESTMENTS.

ALTHOUGH THE REFORM PATH IN CHINA REMAINS LONG, AND DIFFICULT, WE ARE CONFIDENT THAT REFORM HAS ACHIEVED AN IRREVERSIBLE MOMENTUM, BEYOND THE PERSONALITIES THAT LEAD CHINA, AND BEYOND THE SHORT-TERM EXTERNAL ECONOMIC DIFFICULTIES THAT THE COUNTRY HAS FACED. THE PACE OF REFORM REMAINS A QUESTION, ONE IN WHICH THE BANK WILL CONTINUE TO BE HEAVILY INVOLVED IN THE COMING YEARS.

THE CHINESE HAVE INDICATED THAT IN VIEW OF THEIR SOUND CREDITWORTHINESS AND THE INTENTION TO PURSUE REFORMS AT AN ACCELERATED PACE, THEY WISH THE BANK TO ~~RESUME NORMAL~~ increase the volume LENDING. THEY ARE PARTICULARLY KEEN FOR THE BANK'S INVOLVEMENT IN THE SECTORS OF AGRICULTURE, HUMAN RESOURCE DEVELOPMENT, ENVIRONMENT, TRANSPORT, ENERGY AND INDUSTRIAL RESTRUCTURING. ACCORDINGLY, FOR THE FIRST TIME SINCE IT RESUMED ITS MEMBERSHIP IN THE INSTITUTION IN 1980, CHINA'S DEMAND FOR BANK/IDA RESOURCES MAY EXCEED OUR ABILITY TO SUPPLY THEM. THANK YOU.

Mr. A. Khanna

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 24, 1990

TO: Files

FROM: Attila Sönmez, AS3CH AS.

SUBJECT: CHINA: Mr. Conable's Meeting with The Chinese Delegation - September 21, 1990

1. Mr. Conable met with the Chinese delegation headed by State Councillor and Minister of Finance, Mr. Wang Binqian. Delegation included Vice Minister Xiang Huaicheng, and Messrs. Wang Liansheng, Zhang Shengman -- all from the Ministry of Finance -- and Chen Yuan, Deputy Governor, Peoples Bank of China. From the Bank side, Messrs. Qureshi, Karaosmanoglu, Burki and myself attended.

2. The Minister informed Mr. Conable that Mr. Han Xu, the former Ambassador of China to the U.S., met with President Bush on September 17 and made the following two requests: first, that high level contacts between the two Governments be revived and the existing high level cooperation commissions dealing with finance, commerce, science and technology should meet and, second, that full-scale lending by the World Bank be resumed. The Minister said that he expected to meet Secretary Brady during this trip.

3. Mr. Conable said that he shared the Minister's view that the U.S. opposition to the Bank resuming full-scale lending would soon ease, but he also felt that President Bush seemed to attach somewhat greater importance to maintaining the Most Favored Nation treatment for China. As a result, in order to protect this treatment, Mr. Bush may consider it prudent to wait before signalling Unite States' support for the normalization of World Bank lending to China.

4. After the Minister had explained that a vigorous economic recovery was underway in China, Messrs. Conable and Qureshi urged that the window of opportunity thus presented should be utilized to accelerate some of the highly needed systemic reforms. Mr. Qureshi reminded the Minister that he urged the senior leaders of China, in April of this year, to reform macroeconomic management. This was also the theme of the recent country economic memorandum prepared by the Bank. In response, Minister Wang elaborated on the preparation for the Five-Year Plan (1991-94) where 8 areas of reforms will receive emphasis: Planning Mechanism, Public Finance, Financial Sector, Foreign Trade, Price System, Enterprise Reform, Investment System and Marketing System.

5. According to the Minister, China has now passed the stage of discussing the principle of reforms. The issue is now how to actually implement them in an efficient and practical way. He said that three basic principles will underpin the reform effort: (a) How to combine planning with the market? In the past the emphasis has been on production to the neglect of marketing. Also there is an urgent need to define how and to what precise extent the ownership of enterprises needs to be separated from their management. Before this issue is clearly resolved, it will be difficult to introduce price reforms; (b) How to ensure that decisions at all levels are

made democratically and pragmatically; (c) How to ensure that reforms are undertaken not for their own sake but for ensuring a steady and sustainable growth in the economy.

6. The Minister said that China expects a prolonged period of World peace and given her poverty and a growing population (expected to reach 1.28 billion by the year 2000), it cannot afford to miss the opportunity afforded by this change in the global situation. Accordingly, China will concentrate its energies on raising the standard of living of its people.

7. In this context, the Minister had three requests to make to the World Bank management. He asked that the management:

- Implement a 3-year $7.5 billion lending program, as agreed previously. China needs the Bank's resources and can use them efficiently;

- Give China her due share of IDA from the eighth as well as the ninth replenishments;

- Barring insurmountable difficulties, present to the Board the SPARK Project first. China would like to break out of the current straitjacket, but will listen to Bank management's advice on this.

8. The Minister said China was sympathetic to the difficulties encountered by the countries hit by rising oil prices. However, any additional assistance for them should come from additional resources and not from a reallocation of existing funds.

9. Mr. Conable concluded the meeting by emphasizing that there was now an urgent need to return to normalcy in the Bank's relations with China. However, it would not be wise to concentrate on any particular sequence of Board presentation of China projects. In fact, it was his view that we should proceed immediately with the presentation of the Rural Credit project to be followed, a few weeks later, by the circulation to the Board of the SPARK project.

10. Mr. Conable also praised the work done by Mr. Zhang Junyi while serving as China's representative on the World Bank's Board. He said that he found Mr. Zhang to be patient, firm, decent and wise -- necessary attributes for the ambassador of a country that was faced with such difficulties. Mr. Conable also accepted Mr. Wang Bingqian's invitation to visit Chine sometime in 1991.

cc: Mr. Conable's Office
Messrs. Qureshi, Karaosmanoglu, Yenal
Abe, Sison
Mesdames Okonjo-Iweala, Schaeffer
China Management Group
Asia Files

ASonmez:fvf

The World Bank

From the
Vice President and Secretary

January 15, 1991

Mr. Sandstrom
E-1229

Sven:

Attached is the Briefing for Mr. Conable's meeting with the President of Mongolia. The useful points to note are on Page 2.

TIMOTHY T. THAHANE

MONGOLIA - BRIEFING FOR MR. CONABLE

1. The Mongolian People's Republic applied for membership in the Fund, Bank, IDA and IFC in June 1990.

2. Mongolia has accepted a proposed quota in the Fund of SDR 25 million.

3. Mongolia has also accepted proposed capital subscriptions in the Bank, IDA and IFC as follows:

BANK

	No. of Shares	1974 SDR	AMOUNTS TO BE PAID-IN: Amount payable in US Dollars	AMOUNTS TO BE PAID-IN: Amount payable in Local Currency (US Dollar Equiv.)
Obligatory:	216	21,600,000	228,000.15	2,052,001.35
Optional:				
Membership	250	25,000,000	(No amounts due at time of subscription)	
1988 GCI	364	36,400,000	131,733.42	1,185,600.78

IDA

	US Dollars	AMOUNTS TO BE PAID-IN: Amount payable in US Dollars	AMOUNTS TO BE PAID-IN: Amount payable in Local Currency (US Dollar Equiv.)
Obligatory:	277,461	27,746.10	249,714.90
Optional:			
IDA 3,4,5,6,7,8	35,684	0.00	35,684.00
IDA 9	6,450	0.00	6,450.00

IFC

	No. of Shares	US Dollars	AMOUNTS TO BE PAID IN US Dollars
Obligatory:	144	144,000	144,000.00
Optional:	176	176,000	176,000.00

4. On January 9, 1991, the Executive Directors of the Bank and IDA and the Directors of IFC recommended that draft membership resolutions be submitted to the Boards of Governors for a vote without meeting. The draft resolutions were mailed to Governors on January 10, 1991 with the expectation that they will be adopted on or about February 13, 1991, the terminal date for voting by Governors. The terminal date for voting by Fund Governors is January 29, 1991.

5. Assuming that the Governors' membership resolutions are adopted on February 13, 1991, Mongolia can sign the Bank, IDA and IFC Articles any time after that date provided that capital subscription payments and membership documentation (enabling legislation, memorandum of Law, full powers, instrument of acceptance) are completed.

6. On January 10, 1991, a telex was sent to Mongolia from Secretary's outlining all required action to be taken to complete membership formalities.

7. Mongolia will have to wait until the 1992 regular election of Executive Directors to be formally represented on the Board of Executive Directors. Prior to the 1992 election, Mongolia will have to make arrangements to be informally represented on the Board. At this time, it is not clear which constituency will informally represent Mongolia.

8. The following representatives from Mongolia attended the 1990 Annual Meetings as Special Guests:

- Mr. Aiurzanyn Bazarkhuu, Minister of Finance

- Mr. Dolgormaagiin Buyantogtokh, Executive Director, Monetary Department, Ministry of Finance

- H.E. Gendengiin Nyamdoo, Ambassador to the United States

SS 1/23
5:30

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	1/18/91

SUBJECT:

Document From: Basil Kavalsky (ES)
To: bbc
Dated: 1/18/91 Reference No.: EXC910118008

Topic: BRIEFING: meeting with President Orchirbat of the Mongolian Pepole's Republic on Wednesday, Jan. 23, 1991 @ 5:30 pm.

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: SS/JWS

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

1-16-C
1-18-91

DATE: January 18, 1991

TO: Barber B. Conable, President

THROUGH: Ernest Stern, FINSV

FROM: Basil Kavalsky, Director, FRM

EXTENSION: 80523

SUBJECT: Your Meeting with President Orchirbat of the Mongolian People's Republic, 5:30 pm, Wednesday, January 23, 1991

1. We understand that this is President Orchirbat's first visit to the U.S., and his main purpose in visiting the Bank is to make your acquaintance. Mongolia applied for membership in the Bank in June 1990, and their membership in IBRD, IDA, and IFC is expected after the February 13th terminal date for voting by the Governors.[1] The Secretary's staff has prepared a briefing for you outlining further details of the process, as well as the status of IMF membership. Mongolia is a member of the U.N. and other international organizations and expects to join the Asian Development Bank (ADB) in the near future.[2]

2. Mongolia's proposed IMF quota of SDR 25 million will result in an IBRD allocation of 830 shares, which can be accommodated from existing unallocated IBRD shares. Mongolia would then have 0.07 percent of potential voting power in IBRD, ranking 116th, between Niger and Liberia. Since the membership process is being completed after the recent elections for Executive Directors, official Board representation for Mongolia will have to wait until 1992.

3. Mongolia's main concerns are now likely to be the kind of cooperation which can be expected from the Bank. Asia regional staff have recently completed a mission to Mongolia and will brief you separately. The IMF membership report on Mongolia, issued in November 1990, estimates 1989 GDP per capita income at $522, below the operational cutoff for IDA. For your information, the 1990 Lending Program Review resulted in an IDA allocation of SDR 20 million (approximately $28.3 million at current exchange rates) in FY92-94 for Mongolia.

JKirby-Zaki
cleared with and cc: Mr. Katz, Acting Chief Officer, FRMRO
cc: Messrs. Wood, Yurukoglu; Mmes. Yap (o/r), Annez
Mr. Karaosmanoglu

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[1] Mongolia has indicated it will consider joining MIGA and ICSID at a later date, but not now.

[2] Mongolia joined the U.N. in 1961, and there is a UNDP office in Ulaan Baatar and a representative of WHO. Mongolia is also a member of FAO, IAEA, UNIDO, UNFPA, UNICEF, and UNESCO. Membership in the ADB is expected in January 1991. Also, Mongolia is a member of the CMEA.

SS

BLACK MARKET COPY (COURTESY MR. BURKI)

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: January 22, 1991

TO: Mr. Barber B. Conable

THROUGH: Mr. W.A. Wapenhans, Acting Senior Vice President, OPN

FROM: Attila Karaosmanoglu, ASIVP AK.

EXT: 81430

SUBJECT: MONGOLIA: Meeting with President P. Ochirbat - Background Brief

1. You are scheduled to meet the President of the Mongolian People's Republic, Mr. Punsalmaagiin Ochirbat, at 5:30 p.m. on Wednesday, January 23 at Blair House.

2. This memorandum provides background on President Ochirbat, indicates the initial steps already taken and planned to establish the Bank's operational dialogue with Mongolia, and suggests some speaking points. You will find attached to this memorandum a background note briefly summarizing the main parameters of Mongolia's economy and reform process and prospects.

Background

3. President Ochirbat was born in 1942. Following his graduation (B.S. Technical Sciences) from a Mining Institute in the Soviet Union in 1965 and five years as Chief Engineer, Sharyn Gol mine, he became Deputy Minister (1972) and then Minister (1976) of Power, Energy and Geology. In 1985, he was appointed Chairman, Committee for Foreign Economic Relations and later, in 1987, Minister of Foreign Trade and Supply. In March 1990, during the political reforms that led to Mongolia's first multi-party elections on July 29, he became Chairman of the Presidium of the People's Great Hural (Mongolia's legislature) and, in September 1990, he was elected President (by the Great Hural) for a five-year term. He is married, with two children.

4. In his nationally-televised inauguration speech last September 4, President Ochirbat urged the nation 'to construct a market-oriented economy'. While stressing his country's need 'to move away from excessive involvement with the neighbouring Soviet Union and to pursue a non-aligned foreign policy, focussing on stronger ties with the Asia-Pacific nations', he noted that relations with the USSR and China were particularly significant to Mongolia. [President Ochirbat's four-day goodwill visit to Beijing last May - the first high-level talks with China in 28 years - marked the full normalization of relations between the two countries.]

Bank Relations with Mongolia

5. Simultaneously with its application to the IMF, Mongolia formally applied for membership in the Bank, IDA and IFC last July. Thereafter, an IMF staff mission visited Ulaan Baatar from August 13-27, 1990 to collect the information necessary for the membership process; and, the Mongolian Minister

of Finance and one of his officials attended the Bank/Fund Annual Meetings as observers in September. During his meetings with Mr. Karaosmanoglu and me at that time, the Minister invited a mission to visit Mongolia before the end of calendar 1990, to be followed by an economic mission during the first half of 1991. Accordingly, a four person mission visited Ulaan Baatar from November 26-December 3, 1991: to establish initial contacts with Mongolia's principal economic ministries and development institutions; to exchange views with the authorities regarding the government's expectations and priorities for Bank Group activities in the short-term; and to agree on a preliminary work program for FY91-92.

6. Against this background, the key next steps are, first, the preparation of a Country Economic Memorandum (CEM), preparations for which are now being initiated. Specifically, we plan to send an economic mission to Mongolia next June, to discuss its draft report in October/November, and to circulate a CEM to the Executive Directors by the end of calendar 1991. Second, based on the interest in reform-related technical assistance expressed by the authorities to our first mission, we plan to begin immediate preparation of a modest first Technical Assistance Project which, subject to further internal review, could be ready for presentation at the same time. Third, we hope to enlist EDI support for a number of in-country and overseas training activities required for key government officials during the next few months. Finally, during visits to Mongolia during the next few months in connection with both the CEM and the proposed Technical Assistance project, we plan to explore in greater depth the prospects for a broader-based country assistance program consistent with Mongolia's development priorities, the activities of other external agencies and our own comparative advantage.

Speaking Points

7. During your meeting with President Ochirbat, we suggest that you indicate to him the Bank's willingness to provide technical assistance to his country in the areas of immediate need: central banking, financial sector reform, legal reforms and macroeconomic reforms. Also you may wish to solicit his views in two main areas: first, his government's priorities for economic reform during the next three years; and, second, his priorities for World Bank Group activities, in support of the reform program, during this period.

cc: Messrs: Qureshi o/r (OPNSV); Stern (FINSV); Thahane (SECGE)
Burki (AS3DR); Salman (LEGAS)

DPearce:jd

ATTACHMENT

MONGOLIAN PEOPLE'S REPUBLIC (MPR)

Background Note

Introduction

1. Bordered by the USSR to the north and China to the east, west and south, Mongolia is a vast (about 1.6 million sq. kms.) but sparsely populated (2.1 million) country, about half the size of India and four times that of Japan. It is divided into three main topographical areas: mountains, mainly in the north and west; the intermountain basins; and the steppes (including the semidesert and desert area of the Gobi), which cover three quarters of the territory. Its high altitude, averaging 1,600 meters above sea-level, exacerbates the semiarid climate, resulting in long, cold winters, with average temperatures falling below freezing for about six months of the year (October-March).

2. Mongolia has abundant agricultural land, of which about 80 percent is suitable for extensive animal husbandry (mainly cattle, horses, camels, goats and sheep), but intensive crop cultivation is limited by the short growing season and extreme temperature fluctuations. It is also rich in mineral resources, including coal, iron, tin, copper, gold, silver, tungsten, zinc, fluorspar and molybdenum as well as semiprecious stones. Thermal power, produced from indigenous coal and imported diesel oil, and traditional biomass sources of fuel are supplemented by electricity imports from the Soviet grid. While about 20 percent of the population, mainly in the rural areas, remains without electricity, the significant hydro- and wind-generated electricity potential has not yet been tapped and petroleum exploration is just being initiated.

3. Although Mongolia's natural rate of population growth has recently increased (estimated at 2.5 percent in 1989), average population density remains low, about 1.3 persons per sq. km. About half the population is under 20 years of age. Migration from the rural areas has accelerated during the past twenty years, with the urban population having risen from about 44 percent in 1969 to about 58 percent in 1989. While Ulaan Baatar, the capital, accounts for about 25 percent of total population and about half of national production, internal markets remain thin and fragmented. Inadequate internal transportation and communications have also hindered regional integration and development.

Recent Political and Economic Reforms

4. After some fifty years of a centrally planned command economy, characterized by close relations with the USSR and, until the mid-1960s, only limited international recognition of Mongolia's independence, modest steps to improve economic management and reduce central control were initiated in early 1985 - facilitated by similar changes that were beginning to take place within the USSR. By 1987, the policy of political openness (il tod) had been formally established, Mongolia had significantly expanded its international relations and, in 1989, the USSR began a two-year phased withdrawal of its

forces. However, political change in the USSR and economic reforms in China during the 1980s outpaced Mongolia's initial reform efforts and it was not until March, 1990 that a new, reformist government, headed by Mr. P. Ochirbat, the current President, was established, following student protests and a threatened national strike. By mid-1990, freedom of religious expression had been restored and, on July 29, Mongolia's first multi-party elections, contested by six parties, were held. The ruling Mongolian People's Revolutionary Party (MPRP) obtained a majority in both parliamentary bodies, winning 84 per cent of the deputies to the upper house and 60 per cent of those to the lower house. In September 1990, Mr. P. Ochirbat was elected President for a five-year term, and the leader of one of the main opposition parties was appointed Vice President and Chairman of the lower house. Members of opposition parties have also been appointed to senior positions in the new administration, which is thus effectively a coalition dominated by the "reformed" MPRP majority.

5. Turning to economic reforms, Mongolia's new strategy of economic restructuring, based on the Soviet policy of 'perestroika', was first initiated in 1987. The role of state planning was limited to setting overall investment policy, with the ministries and state committees responsible for its implementation. Similarly, state enterprises were accorded increased autonomy, although production, distribution and profits remained centrally planned. By 1988-89, the pace of reform had quickened and, although its impact on economic performance was masked by a sustained drought in 1988-89, adversely affecting crops and livestock, real economic growth averaged 5 per cent annually during 1986-89.

6. Although reliable economic data are not yet available, Mongolia's economic situation deteriorated in 1990, owing partly to the incomplete nature of the internal reform process and partly to external factors beyond the country's control. Among the latter are the rapid political and economic changes that have taken place in Mongolia's principal trading partners (the USSR and Eastern Europe) that have interrupted the flow of imports. Thus, industries are facing shortages of key imported inputs and electricity outages have occurred because of the lack of spare parts and intermittent deliveries of petroleum products. In addition, as import prices have increased without an accompanying rise in wholesale prices, budgetary revenues have fallen and government capital expenditures have been cut, adversely affecting employment, particularly in the construction sector. Finally, with trade between erstwhile CMEA countries to be valued at world market prices and settlement to be made in convertible currencies commencing 1991, Mongolia's terms of trade are expected to worsen, although the extent of the impact will depend crucially on the future world price of petroleum.

Reform Prospects

7. The government formed last April embarked on a comprehensive program of economic reform aimed at expanding the role of the private sector; diversifying the economic base; promoting exports to, and increasing trade with the convertible currency area; and introducing new and strengthening existing institutions of indirect economic management. As a first step, all restrictions on private ownership of livestock herds were eliminated and

farmgate prices were scheduled to increase effective from January, 1991. Selected retail prices were allowed to be freely determined within a set range, private sector enterprises and cooperatives are being actively promoted, and access to bank credit is to be facilitated. To encourage foreign private sector investment, including that for the exploitation of mineral resources, a Foreign Investment Law has been promulgated. Last July, the tugrik was devalued from Tg. 3 to Tg 5.63 per US dollar and adjusted thereafter on a monthly basis. During 1990, negotiations for most-favored-nation (MFN) status were concluded with Japan and are expected to be completed soon with Korea and the United States. In August, the Council of Ministers approved the development of two-tiered banking and in September two commercial banks were formed.

8. The new government elected last July and formed last September has confirmed its intention to sustain and deepen the process of economic reform, with the principal measures to be introduced during the next three years (1991-94). The main priorities are to improve rural living standards and reduce employment. Planned privatization measures include the return of state livestock herds, and the sale or lease of some state enterprises and private sector equity participation in others. However, the scope for privatization is limited by the low per capita income, estimated (by the Fund) at US$522 in 1989, and by the limited amount of private financial savings, estimated at about $40 per person. Laws to protect private ownership rights and their transfer are being drafted; a phased program of price liberalization is expected to be implemented commencing January, 1991; the government structure has been streamlined, with a drastic reduction in the number of ministries and state committees; tax reforms, aimed at expanding the tax base and improving the tax system's elasticity, are to be initiated this year; and, financial sector reforms will focus on separating the commercial and central banking functions of the State Bank, the introduction of independent bank supervision, and the development of indirect monetary policy instruments.

9. Implementation of these ambitious and wide-ranging reforms, while at the same time maintaining macroeconomic stability, will require inter alia significant improvements in the quality of economic data available, increased familiarity on the part of senior government officials with the indirect tools of macroeconomic management and, in general, a major strengthening of the country's human (administrative and managerial) resources. In this connection, the authorities are already receiving (limited) external technical assistance from UNDP and the Fund, and have expressed strong interest in similar assistance from the World Bank Group.

4/26
5:00 pm

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	4/24/91

SUBJECT:

Document From: Mr. Cheetham (MAQ)
To: bbc
Dated: 4/23/91 Reference No.: EXC910424003

Topic: BRIEFING: visit of Vice-Minister Liu Jibin, Ministry of Finance (China) on Friday, April 26, 1991 at 5:00 pm (E-1227)

ACTION INSTRUCTIONS: | DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: AK/SS
_____
_____

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: April 23, 1991

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: Russell Cheetham, Acting Vice President, Asia Region

EXTENSION: 82332

SUBJECT: CHINA - Visit of Vice-Minister Liu Jibin, Ministry of Finance

1. You have agreed to receive Vice-Minister Liu, who is visiting for the Development Committee, at 5:00 pm on Friday, April 26 in your office. Vice-Minister Liu transferred to the Ministry of Finance two years ago from one of the industry ministries. He is in charge of education, culture and health, and his duties do not normally involve the Bank. We understand that there are no issues he wishes to raise during this brief courtesy call.

2. You may wish to underline the need to incorporate solid elements of reform in the identification and design of our upcoming projects. This will help ensure that the Bank is able to respond to China's wish for higher levels of Bank/IDA lending and for continued strong Bank presence in China's reform efforts in the 1990s. It would further secure China's claims on IDA resources, particularly if environmental, poverty and human resource/WID concerns can be embodied in the agriculture, industry and transport projects that China will be seeking from us. It would greatly facilitate these joint efforts, particularly in the social, non-revenue earning sectors that Mr. Liu oversees in MOF, if China resolved long-standing systemic problems such as on-lending procedures and terms and counterpart funding.

3. If Vice-Minister Liu expresses frustration over what China perceives as the slow pace of normalization of Bank lending, it would be useful to confirm that we are working actively to expand our operations program and our program of economic and sector work, without mentioning any specific numbers. It would also be useful to note that the surest approach for China would be to demonstrate, through the design of projects for Bank financing and continued improvements in project implementation, that the Eighth Five Year Plan investment program is being used as a key tool in China's reform process.

cc: Attila Karaosmanoglu (o/r), Attila Sonmez, David Pearce

PMCadario/SJBurki:pmc

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MAR 2 4 2017

WBG ARCHIVES

CONFIDENTIAL

Points made by MOF Vice Minister Liu Jiben during his meeting with Mr. Qureshi
April 24, 1991, 4:00-5:30 pm

Bank: Messrs. Qureshi, Burki, Cadario, Mrs. Okonjo-Iweala
China: Vice Minister Liu, Wang Liansheng, Zhang Shangman, Zhang Yuebin, Ms. Liu

- China hoped Bank lending would be restored as soon as possible to the level discussed in late 1988 for the FY89-91 lending program, viz, $7.5 billion for the period, since China had so far been lent only $3 billion, and only $800 million of IDA

- with one project per month this would not be possible

- with only two months to go in FY91, China therefore hoped that the outstanding projects would be presented as soon as possible

- China's reforms would continue, in the following framework

  - reform should not be too hasty, but tailored to China's actual situation, and experiments should be undertaken first

  - reforms should be closely related to the stability of the country

  - reforms should be comprehensive, with the necessary complementary measures

On the Ertan Project (which China knows is now scheduled for July 2),

- Premier Li Peng had underlined to the recent EDs' delegation the importance China attached to an early start on the project, since energy shortages were an obstacle to development in southeast China

- China had spent considerable effort so far on ICB, and further delay in the award of contracts would no doubt lead to substantial losses to the [foreign] contractors

PMCadario:pmc
April 24, 1991

ROUTING SLIP	Date 4/26/91
NAME	ROOM NO.
3) Mr. Conable	
2) SS	
1) AK	
4) CA/ME – Country File	

	URGENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE:

REMARKS

Re: 5 o'clock Meeting with Chinese Vice Minister of Finance

I thought you would be interested in the points he made during his meeting on Wednesday with Mr. Qureshi.

From	Room No.	Ext.
Shahid Javed Burki		

P-1862

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

July 25, 1991

His Royal Highness
Prince Norodom Sihanouk
15 Don Jiao Min Xang
Beijing
People's Republic of China

Dear Prince Sihanouk:

I would like to thank you for your letter of June 24, 1991, which I am today communicating to the Executive Directors of the Bank. I would also like to congratulate you on your recent appointment as President of the Supreme National Council of Cambodia.

We in the Bank welcome the important steps that have been taken to bring peace to your country and look forward to further developments in this regard.

We would be pleased to hear from you about further progress relating to the Supreme National Council and to discuss with you the actions needed to be taken for your country to resume membership activities in the Bank and the International Development Association.

Sincerely,

Barber Conable

The World Bank
Washington, D.C. 20433
U.S.A.

TIMOTHY T. THAHANE
Vice President & Secretary

July 25, 1991

Mr. Conable

Barber:

Re: Cambodia/Kampuchea

As you may be aware, there have been some significant developments on Cambodia in the past month. The warring factions have joined together to endorse a UN sponsored peace plan and last week agreed in Beijing that Prince Sihanouk should be President of the Supreme National Council (SNC) of Cambodia. SNC is intended to function with UN assistance as a transition government until elections occur and a government replacing the one in Phnom Penh and the resistance factions is established. In the last few days Japan, Australia and ASEAN countries have formally recognized the SNC as representing Cambodia and the UN is dealing with it.

Prince Sihanouk has written to you and to Mr. Camdessus asking that Cambodia be "readmitted" to both organizations, where it is still a member but has had no dealings since 1978. We propose that you send the attached letter to Prince Sihanouk, which has been cleared with Mr. Karaosmanoglu and Legal. In your lunch with Mr. Camdessus this subject may come up.

The Fund is owed about $37 million by Cambodia (the Bank never lent) and because of the upcoming Annual Meetings, the Fund's Secretary's Department appears to wish to proceed rather cautiously at this point until the SNC is fully functioning. In view of the recent developments we and the Region feel a more positive response is warranted.

Jim

cc: Mr. Karaosmanoglu

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. Thahane (D-11-067)	7/11/91

SUBJECT:

Document From: Norodom Sihanouk
To: bbc
Dated: 6/24/91 Reference No.: EXC910709001

Topic: Final Communique of the Meeting of the Supreme National Counci of Cambodia, June 24-26, 1991

ACTION INSTRUCTIONS:	DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
__XXX__ PREPARE RESPONSE FOR _BBC'S SIGNATURE 7/16/91
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: Messrs. Qureshi, Stern, Thalwitz, Shihata, Sandstrom

URGENT

Pattaya, le 24 Juin 1991

Monsieur le Président,

En ma qualité de Président de la réunion du Conseil National Suprême du Cambodge tenue le 24 Juin 1991 à Pattaya (Thaïlande), j'ai l'honneur de vous informer que le Conseil National Suprême a décidé de demander la réadmission du Cambodge au sein de la Banque Mondiale dans les plus brefs délais.

Je vous prie de bien vouloir considérer favorablement cette demande.

Veuillez agréer, Monsieur le Président, les assurances de ma plus haute considération.

NORODOM SIHANOUK

Monsieur Barber Conable
Président de la Banque Mondiale
WASHINGTON

[Typed copy - as received]

FINAL COMMUNIQUE
OF THE MEETING OF THE SUPREME NATIONAL COUNCIL
OF CAMBODIA
IN PATTAYA (THAILAND) JUNE 24-26, 1991

*****

I. The Supreme National Council (SNC) of Cambodia held a meeting in Pattaya (Thailand) from 24 to 26 June 1991, under the very high chairmanship of HRH Samdech NORODOM SIHANOUK, with the participation of the representatives of the two Co-Chairmen of the Paris International Conference on Cambodia (PICC) and the Special Representative of the Secretary-General of the United Nations, and has come to unanimous agreements as set out in successive SNC communiques already issued. These agreements are as follows :

1/- To grant to HRH Samdech NORODOM SIHANOUK the task of convoking the SNC of Cambodia and presiding over its future meetings.

2/- To adopt the Flag and Anthem of the SNC of Cambodia, as mentioned in the proposal of HRH Samdech NORODOM SIHANOUK dated June 22, 1991. The flags and anthems of the different parties are maintained until the general elections.

3/- To implement the unlimited ceasefire and to undertake to stop receiving foreign military aid as from the 24th of June 1991. The modalities of control of the United Nations will be examined during the course of further sessions of the SNC.

4/- To send a delegation of the SNC, headed by HRH Samdech NORODOM SIHANOUK, to the next session of the UN General Assembly.

5/- To request HRH Samdech NORODOM SIHANOUK to write on behalf of the SNC :

a- To the UN Secretary-General requesting the inscription of the Monuments of Angkor in the UNESCO World Heritage List;

b- To the Executive Agent of the Mekong Committee requesting the resumption of membership of Cambodia in the Mekong Committee;

c- To the World Bank and the International Monetary Fund for the sending of a SNC delegation to attend the next meeting of the World Bank and IMF in Bangkok (Thailand);

d- To the UN Secretary-General asking for humanitarian assistance and for the vocational training of Cambodians.

6/- To set up a SNC Secretariat.

7/- To set up the headquarters of the SNC in Phnom Penh, with the following facilities and guarantees :

- Members of the SNC from each party have their own residences, protected by that party's forces. The forces of members of the SNC ensure the security within the compound of their residence, while the forces of the host party ensure the security outside the compound;
- The representatives of the two Co-Chairmen of the PICC have their permanent missions accredited to the SNC;
- The Special Representative of the UN Secretary-General or his representative has his own permanent mission to the SNC;
- The representatives of countries participating in the PICC or the representatives of the five permanent members of the UN Security Council, as well as the representatives of the ASEAN countries, have their permanent missions accredited to the SNC.

8/- Pending the setting up of the SNC Headquarters in Phnom Penh, to hold the next meeting of the SNC at the former Embassy of Cambodia in Bangkok (Thailand).

9/- To request HRH Samdech NORODOM SIHANOUK to write to the UN Secretary-General to inform him of the Flag and Anthem of the SNC of Cambodia.

10/- To set up Working Groups to study the following items :

- Rules of procedure of the SNC;
- Electoral laws;
- Principles of the new Constitution of Cambodia.

II. This achievement of outstanding significance cannot be reached without the wisdom, tact and moral influence that HRH Samdech NORODOM SIHANOUK has once again conspicuously displayed during the deliberations of the SNC meeting and without his Peace Plan of June 22, 1991. This fact clearly and unquestionably confirms the spirit of national reconciliation among all Cambodians within the framework of an independent, neutral and sovereign Cambodia.

III. The remaining issues will be discussed in the next meetings of the SNC.

IV. The SNC wishes to take this propitious opportunity to express its warmest gratitude to His Majesty the King and Her Majesty the Queen of the Kingdom of Thailand, H.E. Mr. ANAND PANYARACHUN, Prime Minister of the Royal Thai Government, and all other Thai officials, without whose generous assistance and hospitality this SNC meeting could not have been crowned with this success. The Cambodian nation and people remain profoundly indebted to the Kingdom of Thailand for her generosity, compassion and tremendous efforts she has made for the Cambodian national cause.

V. The SNC also expresses its gratitude to all friendly countries and governments the world over who have unfailingly contributed to the search for the settlement of the Cambodian conflict over the last 12 years. The results achieved at this

current meeting of the SNC cannot be separated from their long and persistent endeavours.

The SNC also addresses its gratitude to the two Co-Chairmen of the PICC and the UN Secretary-General, as well as to their representatives, for their co-operation.

The SNC expresses its gratitude to the five permanent members of the UN Security Council, for all the efforts and initiatives and to all countries participating in the PICC for their continuing concern over the plight of the Cambodian nation and people.

Done in Pattaya (Thailand), on June 26, 1991

The 12 Members
of the Supreme National Council of Cambodia

HRH Samdech NORODOM SIHANOUK
H.E. Mr. DITH MUNTY
H.E. Mr. HOR NAMHONG
H.E. Mr. HUN SEN
H.E. Mr. IENG MOULY
H.E. Mr. IM CHHUN LIM
H.E. Mr. KHIEU SAMPHAN
HRH Prince NORODOM RANARIDDH
H.E. Mr. SIN SEN
H.E. Mr. SON SANN
H.E. Mr. SON SEN
H.E. Mr. TEA BANH

NY 4/8

Pattaya, le 24 Juin 1991

Monsieur le Directeur Général,

En ma qualité de Président de la réunion du Conseil National Suprême du Cambodge tenue le 24 Juin 1991, à Pattaya (Thailande), j'ai l'honneur de vous informer que le Conseil National Suprême a décidé de demander la réadmission du Cambodge au sein du Fonds Monétaire International dans les plus brefs délais.

Je vous prie de bien vouloir considérer favorablement cette demande .

Veuillez agréer , Monsieur le Directeur Général, les assurances de ma plus haute considération.

NORODOM SIHANOUK

Monsieur Michel Camdessus
Directeur Général
du Fonds Monétaire International
Washington
U.S.A.

[redacted] 5/14

THE WORLD BANK

August 26, 1991

Mr. Conable

Please see pages 6, 7, and the last para. on page 9.

MOEEN A. QURESHI
Senior Vice President, Operations

file

China —

Ertan

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: January 19, 1991

TO: Mr Shahid Javed Burki, Director AS3

FROM: Yves Albouy, AS3IE

EXTENSION: Ext: 82440

SUBJECT: CHINA: Ertan Hydroelectric Project

1. Per your request, this memorandum is to summarize the major contributions of the Ertan project to the policy reforms in Sichuan; these contributions belong in the three key areas of sustainable growth, investment system and energy pricing reform.

2. Sustainable growth. Sichuan is one of the few very populated provinces where hydropower should and could play a major role in the energy supply. Its coal has a high sulfur content, reserves are small and mining costs are high. Transporting better coal from other provinces is very difficult and expensive. By contrast Sichuan hydro is among the cheapest energy source in the world and one with benign resettlement problems and a positive environmental impact; Ertan, and Tongzilin and Jinping which are to be developed next on the Yalong river, would displace annually 25 million tons of coal and reduce emissions of pollutants and greenhouse gases on a large scale at a zero (or negative) cost premium with respect to alternatives, including energy conservation. Ertan alone will substitute 8 million tons of local coal; without the project, electricity supply is likely to limit economic growth to some 3% p.a. starting in 1997 even with the best feasible combination of offsetting measures on the demand and supply sides.

3. Investment system. The recently created Ertan Hydro Development Corporation (EHDC) is chartered to develop and operate large scale hydro in Sichuan as an independent generator selling to the power grid. Its effectiveness derives from its specialization in this field and its special status making it possible to reinvest a large share of its net earnings in financing new projects: the covenanted self-financing ratio is 35% in the long run, among the highest in Bank-financed power operations.

4. Energy pricing. Through the above financial target and a special pricing covenant, EHDC is to sell its output according to a tariff structure and level that reflects the Long Run Marginal Cost of electricity supply to the provincial grid. This is a major step forward; pricing policies for independent generator according to the cost "avoided' by grid-owning utilities was not introduced in the USA until the PURPA rules signed by President Carter in 1976 to promote demand and supply side efficiency in the midst of the first energy crisis. The project also supports the formulation of a reform action plan for tariffs applicable to smaller non-utility generators and all power customers in the province. The implementation of such a plan would be discussed in the third year of the project prior to the appraisal of the next power loan for Sichuan.

cc: Messrs. R. Stern, V. Mastilovic, Ms S. Shum.

DRAFT

CHINA

ERTAN HYDROELECTRIC PROJECT

Resettlement and Environmental Summary

In regard the resettlement and environmental aspects of the Ertan Hydroelectric Project their current status is summarized below:

1. Resettlement. During project preparation a comprehensive human resettlement and rehabilitation plan has been prepared with the help of worldwide prominent human resettlement experts. The main objective of the plan is to provide the affected people (about 30,000) with a better standard of living than before the project. Considering its large size and annual output (3,300 MW and 17 billion kWh/p.a.), the project has exceptionally good human resettlement indices, much better than any other hydropower project in China (about 2,000 people per billion kWh as against 10,000 - 15,000 in other areas in China or elsewhere). Implementation of the resettlement plan and the achievement of its physical objectives will be monitored continuously during project supervision. A staff development and training program for resettlement has also been prepared. The local staff and officials, who have responsibilities in the resettlement process, will participate in workshops and study tours of other resettlement operations in China and abroad.

2. Detailed development plans and layouts have been formulated for all affected population, including the construction of new houses, public infrastructure, land irrigation, schools, clinics, factories, and so fort. All households have been surveyed, their properties assessed, and prospects of future enhancements discussed. The project has been under consideration for implementation since late 1950's and the affected rural population (about two thirds of the total) have anticipated the relocation when the construction of the project starts. Also, this discourage economic and social development in the reservoir area planned to be inundated. The remaining population living in two townships hastily built in connection with mining activities needed for strategic purposes (large special steel works). These settlement have not been properly planned and developed, and therefore need major improvements, including relocation to better locations. Regarding long term development opportunities, these plans were examined carefully and reviewed thoroughly with local officials and representatives of the settlers. The plans indicate that livelihoods and income levels of both the resettled population and the host population will be substantially improved when compared with the pre-project levels.

3. Environment. An environmental impact assessment has been completed for the project following the internationally accepted practices and standards. During the project design particular attention was given to all environmental aspects of the project bearing in mind the need to balance environmental, economical and other concerns. More than hundred documents have been prepared, including detailed maps, settlement designs, housing plans, and development programs for all affected areas. The feasibility of preparing the reservoir area prior to inundation has been ascertained. Like other hydroelectric projects, the Ertan Project has relatively benign environmental impacts when compared to thermal alternatives. Its development will avoid the mining and use of about 7-8 million tons a year of coal and associated pollution problems. Thus the project would play an important role in combating the rapid increase in atmospheric pollution in China. In Sichuan province where the project would be located the pollution level is the highest in China (SOx - 220ugr/cum, TPS- 720ugr/cum, NOx-60% above national average, PH-over 5.6). Although the China's now produces less than 10% of all greenhouse gases, its share of emissions is expected to double in 20 years and building projects like the Ertan Hydro is an efficient way to reduce and mitigate global atmospheric pollution.

4. The Ertan Hydroelectric Development Corporation (EHDC) as the owner of the project is in the process of developing necessary environmental capacity through hiring competent staff, extensive training, and consultancy services. An in-house environmental unit with adequate budget and professional staffing has been established to ensure proper monitoring and evaluation of potential environmental problems, and timely implementation of mitigatory measures. The project includes an environmental science station for monitoring the reservoir and catchment areas, including meteorological, hydrological, water quality, sedimentation, biotic, sanitary and human health conditions. Also, an environmental panel (not required for projects appraised before 1989), will be made of foreign and Chinese experts in accordance with the Bank's Environmental Policy for Dam and Reservoir Projects to advise the owner on environmental matters of the project. Information received from competent Chinese authorities and institutions, including the Ministry of Energy, National Environmental Authority, and Academia Sinica, indicates that in the case of hydroelectric projects the Chinese are paying adequate attention to resettlement and environmental matters. China has environmentally sound policies on maters which affect hydroelectric projects with large reservoirs.

January 1991

Env.sum

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

R. Stern

DATE: January 17, 1991

TO: Mr. Willi Wapenhans, Acting SVP, Operations

FROM: Shahid Javed Burki, Director, AS3DR

EXT: 82332

SUBJECT: CHINA: Ertan Hydroelectric Project

Shortly before his departure on mission, Mr. Qureshi requested that I report to you about the ongoing discussions with the EDs on the Ertan Hydroelectric project. I told Mr. Qureshi that I would like his approval to negotiate the project when I am in Beijing starting January 29, 1991. Insofar as my discussions with the EDs are concerned, the following positions have been taken by them.

- Germany - Negotiations are the prerogative of management and do not require the Board's concurrence. As far as the timing of Board presentation of Ertan is concerned, the Germans would like to wait for the appointment of the new minister of Economic Cooperation in the German Cabinet before they can indicate their position to us.

- France - They would like to see the project go forward in this financial year.

- Italy - They would like to see the project go forward in this financial year.

- U.K. - They are in favor of normalizing World Bank lending to China as long as the total remains within a reasonable limit. They would like to look at the substance of the projects when they are formally presented to the Board for its approval.

- Canada - They are likely to look very carefully at all hydroelectric projects because of the Canadian NGOs active campaign against projects involving resettlement. However, they have no particular view with respect to Ertan.

In view of the above, I recommended to Mr. Qureshi that we should complete the negotiations of Ertan without promising any Board date to the Chinese. Attila agrees with this recommendation. May I have your approval before I go on mission to China on January 23?

cc: Messrs. Qureshi (o/r)
Karaosmanoglu (o/r)
Asanuma

THE WORLD BANK / IFC / M.I.G.A.

ROUTING SLIP	**DATE:** January 18, 1991

NAME	**ROOM NO.**
Mr. Willi Wapenhans	

	U R G E N T		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE	X	FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN

RE: CHINA: Ertan Hydroelectric Project

REMARKS:

Further to Mr. Burki's memorandum of January 17, attached is the Loan and Project Summary for the above project.

FROM: Richard Stern	ROOM NO.: A-8099	EXTENSION: 82381

CHINA

ERTAN HYDROELECTRIC PROJECT

STAFF APPRAISAL REPORT

Loan and Project Summary

Borrower:	The People's Republic of China
Beneficiary:	Ertan Hydroelectric Development Corporation (EHDC)
Amount:	US$380.0 million
Terms:	20 years, including a nine-year grace period, at the standard variable interest rate. The proceeds of the loan would be onlent from the Government to EHDC under a subsidiary loan agreement with a 20-year term, including nine years grace and at a fixed interest rate of 8.5% p.a. or the standard variable Bank loan rate. The foreign exchange risk and commitment charges would be borne by EHDC.
Project Objectives:	The main objectives of the project are to: (i) provide additional generation capacity to the power system in Sichuan province (3,300 MW and 17 TWh p.a.) in order to alleviate an acute shortage of electricity; (ii) assist in the transfer of modern power technology and in the introduction of efficient dam construction methods to reduce the prevailing long gestation periods of hydropower projects; (iii) contribute to further improvements in the analysis of environmental and ecological impacts of hydroelectric resources; (iv) enhance the institutional development of EHDC by strengthening its organization through a modern management training program and introducing principles of economic efficiency and pricing; and (v) provide technical assistance in project design and implementation, and for the promotion of the optimal operation of the power system, prudent financial management, and manpower development.
Project Description:	The proposed project would include: (i) preparatory works; (ii) construction of a parabolic, double-curvature arch dam (240 m high) across the Yalong River together with an underground powerhouse complex, a log conveyance system, and appurtenant works and structures; (iii) provision and installation of six 550-MW generating units and associated equipment; (iv) resettlement of about 30,000 people; (v) an environmental management program and science station; (vi) construction management and engineering services; (vii) studies of power pricing and power plant and reservoir operation; and (viii) strengthening EHDC's organization, technical assistance and staff training, together with related equipment and accessories.

Benefits: This very large project, based on renewable and nonpolluting cost-effective hydropower, would greatly increase the generating capability of the power system. According to economic analyses, the project is 40% less expensive than its best hydro/thermal alternatives in meeting future power demand. The development of the project also would enhance industrial and agricultural production in nearby undeveloped areas. The project would help to improve the subsector's institutional development, system operations, and management and staffing. The internal economic rate of return is estimated at 18%.

Risks: Construction risks are within reasonable limits and would be manageable with the continuous supervision arrangements by foreign and Chinese consultants who have been retained for the construction phase. A Special Board of Consultants is already involved in reviewing possible physical risks and it is proposing means and procedures for their avoidance and mitigation. To minimize potential risks associated with implementation of the resettlement program, assurances would be sought from the Government to ensure an adequate and timely flow of funds, and to establish and maintain effective project implementation management. No major environmental problems are expected under this project and the implementation of the proposed environmental management program (including a monitoring process) would enhance the environmental quality in the nearby areas.

Estimated Costs:	Local	Foreign	Total
		US$ million	
Preparatory works	99.9	0.0	99.9
Resettlement	82.9	0.0	82.9
Land acquisition	7.0	0.0	7.0
Arch dam (lot no. 1)	220.7	255.1	475.8
Powerhouse (lot no. 2)	162.2	182.9	345.1
E&M equipment	54.8	133.4	188.2
Transformers	15.4	1.7	17.1
Gates/hoists, etc.	39.0	6.7	45.7
Contract administration	26.6	2.0	28.6
Engineering and technical assistance	25.3	16.5	41.9
Training	0.6	0.7	1.4
Environmental protection	1.6	0.3	1.9
Studies	0.6	1.0	1.6
Base Cost (end-1989 prices)	736.5	600.4	1,336.9
Contingencies:			
Physical	83.0	73.8	156.8
Price	158.2	158.4	316.6
Taxes and duties	74.5	25.4	99.9
Total Project Cost	1,052.2	858.0	1,910.2
Interest during construction	337.8	223.7	561.5
Total Financing Required	1,390.0	1,081.7	2,471.7
Project Financing Plan			
IBRD loan	-	380.0	380.0
IDA (TCC) /a	-	3.2	3.2
GOC (through SEIC)	695.0	124.6	819.6
Sichuan Province (through ETIC)	695.0	124.6	819.6
Other Financing (including possible second Bank Loan)	-	449.3	449.3
Total	1,390.0	1,081.7	2,471.7

Estimated Disbursements

IBRD FY	1991	1992	1993	1994
		US$ million		
Annual	110.0	103.0	73.0	94.0
Cumulative	110.0	213.0	286.0	380.0

Economic Rate of Return: 18%

/a Credit 1664-CHA (US$2 million used in 1989 and US$1.2 million to be used in 1990 for engineering and technical assistance).

CHINA

ERTAN HYDROELECTRIC PROJECT

1. Project Objectives and Description. The proposed project aims at promoting hydroelectric resources development and raising the standard of living in Sichuan Province. The project would include the construction of an arch dam (240 m high) and a hydroelectric plant (3,300 MW, 17 billion kWh p.a.). The total costs of the project are estimated to be US$1,910 million, of which US$858 million is foreign exchange. Two stage financing of the project is envisaged. The foreign exchange requirements in the first stage (1990-94) are estimated at about US$400 million. Appraisal work for a proposed loan of US$380 million has been completed. The technical discussions with the Chinese delegation were held in June 1990 but formal loan negotiations are still pending. Converting the technical discussions into full-fledged negotiations would greatly facilitate the needed high level government clearance for possible bridge financing for the project. Timing has now become critical; ideally construction should begin in May. This date cannot slip beyond early August, otherwise the project will be further delayed by another year as the river diversion target will again be missed. The revenues from one full year generation are estimated at about US$1 billion. Furthermore, the project output would avoid burning some 8 million tons of coal a year and associated heavy pollution problems.

2. Status of Procurement. The main items to be procured internationally are: (a) civil construction works; (b) electrical and mechanical equipment; and (c) consulting services. Preparatory works for the project have been finished, and the main civil construction works could start as soon as project financing is secured.

(a) Civil Construction Works. Procurement of the main civil construction works (total value of about US$1.1 billion), through ICB, has been divided in two lots, one for the dam and the other for the underground powerhouse and tunnels. These lots are planned to be partially financed by the proposed Bank loan. Bidding documents for the main civil works were reviewed and endorsed by the Bank, and prequalification of bidders for these works was carried out in consultation with the Bank. Bids for the main civil works were opened on October 25, 1989. The bid evaluation report were prepared in March 1990 and submitted to the Bank. The lowest evaluated responsive bidders are:

(i) Lot I (Dam). Impregilo/Dumez (Italy/France). The value of about US$630 million equivalent.

(ii) Lot II (Underground Works). P. Holzman (Germany). The value of about US$480 million equivalent.

While the above bids are from Europe, it should also be noted that the winning bidders have indicated in their bids that they intend to purchase about US$100 million of heavy construction equipment from Caterpillar of USA as soon as the contracts are signed. Bid

bonds have been extended to the end of July 1991 and the formal contract signing is awaiting the Bank loan approval.

(b) Electrical and Mechanical Equipment. Electrical and mechanical equipment of an estimated value of US$400 million would be procured through ICB. Chinese manufacturers cannot produce this large and technologically advanced power generating equipment. The main suppliers of this equipment are USA, Canada, and Japan. Procurement for electrical and mechanical equipment will be initiated in late 1991. We plan to pick up the financing of this component in a second loan (and cofinancing) to be made in about 4 years from now.

(c) Consulting Services. These services are estimated to cost about US$50 million and include, inter alia, project construction management. Basic design for the main civil construction works was provided by the joint venture of Harza/AGN (USA/Norway). The Chinese plan to retain the same consultants throughout the project implementation period for construction management.

VMastilovic:dps
file: c:\wp50\ertaneg\bcon2.doc

2/15

Chris 2/14

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	2/12/91

SUBJECT:

Document From: Mr. Asanuma (MAQ)
To: bbc
Dated: 2/08/91 Reference No.: EXC910212021

Topic: BRIEFING: luncheon with Mr. Wang Liansheng on Friday, Feb. 15, 1991

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: AK/SS

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: February 8, 1991

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi, OPNSV

FROM: Shinji Asanuma, Acting Vice President, Asia Region

EXTENSION: 80415

SUBJECT: CHINA - Your Lunch with Wang Liansheng

1. Following his return to Washington last November for a second assignment as Executive Director for China, Mr. Wang Liansheng has invited you for lunch on ~~Friday, February 15~~. He will be accompanied by his alternate, Mr. Jin Liqun. They have have also invited Mr. Qureshi for lunch on Monday, February 11.

THURSDAY 14TH

2. While intended to be largely an informal, social occasion, there are two broad issues relating to the gradual `normalization' of Bank/IDA lending relations with China that Mr. Wang may raise with you and Mr. Qureshi, namely: the amount of lending to China during the next 3-5 years covering the period of China's upcoming 8th Five Year Plan (1991-95); and, in this context, its sectoral composition, specifically the prospects for the resumption of lending for energy and transport (highways, railways and ports). The background to Mr. Wang's current interest in these two questions is that Premier Li Peng reportedly asked the Ministry of Finance last month to brief him on these two issues. [China's 8th Five Year Plan is currently being finalized for formal presentation to the annual plenary session of the National People's Congress in late March].

3. Regarding the amount of lending, you will recall that, in the Region's business plan, the China "base case" program for FY92-94 is $8.2 billion, implying an annual average of about $2.7 billion. Against this background and your current assessment of the prospects for achieving a "normal" rate of lending during the balance of FY91 and early FY92, you may wish to reassure Mr. Wang that our current work program and pipeline remains based on the assumption of planned lending in the range $7.5-8.5 billion over three years, in line with previous understandings. Similarly, regarding future lending for energy and transport, which until mid-1989 accounted for over 40 per cent of our commitments, you should reaffirm the importance we attach to these two sectors in terms of China's development priorities and our intention to resume lending as soon as practicable. [Mr. Burki has reported from Shanghai that, while in Beijing last week, he received proposals for large new loans for railways and inland waterways].

4. However, in providing these reassurances, we suggest you also make two points concerning both the amount and sectoral composition of future Bank/IDA lending. First, although residual G-7 pressure for lending restricted to "basic human needs" appears to be subsiding, it will be important that all future operations - but particularly those for

energy, industry and transport - demonstrate explicit and visible linkages to, and support for, specific reforms; and, in the case of IDA-financed projects, for human resource development, the environment and poverty alleviation. Second, and perhaps referring to the general observations made by some G-7 Directors during the discussion of the Shanghai Industrial Development Project last month, the overall macro-policy and reform framework remains a very important consideration and context for our operations - and, in the minds of some G-7 countries at least, a significant determinant of an appropriate level of Bank/IDA lending. In this connection, they and we in the Bank are looking forward to some clear signals in the forthcoming 8th Five Year Plan. [Our next economic (CEM) mission is now scheduled for May].

5. Finally, Mr. Wang may ask you when we plan formally to invite negotiations for, and to present the Ertan Hydroelectric project. In regretting the continued delay, you might reiterate the suggestion made by Mr. Burki to SPC Chairman Zou Jiahoua last summer, namely that initial project expenditures be funded from China's own foreign exchange resources -for financing retroactively from the proposed loan at a later date.

cc: Attila Karaosmanolgu, Shahid Javed Burki

PMCadario/DPearce:pmc

Chron Feb. 12 2:00 pm

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	2/12/91

SUBJECT:

Document From: M. Qureshi (A. Karaosmanoglu & S. Burki)
To: bbc
Dated: 2/12/91 Reference No.: EXC910212020

Topic: CHINA: FY91 Lending Program - brief for meeting on TUESDAY, Feb. 12 @ 2:00 pm.

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: BBC (original), Sandstrom, Khanna

URGENT

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 12, 1991

TO: Mr. Moeen A. Qureshi
THRU: Mr. Attila Karaosamanoglu
FROM: Shahid Javed Burki, Director, AS3

EXT: 82332

SUBJECT: CHINA: FY91 Lending Program

1. Following your request to Mr. Karaosmanoglu that we limit the China program for the remaining months of FY91 to one project per month, I have now drawn up the following schedule of Board presentations. Also attached is a brief comment on the way the proposed projects are likely to advance economic reforms in China.

Project	Proposed Board Date	Amounts ($ million) IDA	IBRD	Total
1. Key Studies Development	2/26/91	120	-	120
2. Liaoning Urban	3/21/91	70	-	70
3. Jiangsu Provincial Transport	4/09/91	50	100	150
4. Henan Agriculture Development	5/14/91	120	-	-
5. Irrigated Agriculture Intensification	6/11/91	200	135	335
Sub Total		560.0	235	795
Five projects already approved		417.3	354.4	771.7
Total for FY91		977.3	589.4	1566.7

2. As indicated above, the projects scheduled for the rest of the year along with those already approved would amount to a total lending of $1.57 billion with IDA of $977 million.

3. I should remind you, though, that the Chinese are expecting us to fulfill our promise of one project a month or 12 in all for FY91. If that were to happen, we could present to the Board two out of the following four we should have ready during the year:

1. Shanghai Metropolitan Transport	$ 60 million
2. Daguangba Hydro	$ 67 million
3. Tarim Basin	$125 million
4. Beijing Environment	$100 million

Attachment

Key Studies Development Project

Contributions to Chinese "Reform" effort:

1. The project enhances our earlier efforts to improve the interface between Chinese scholars and their counterparts in rest of the world.

- o The project will provide technical assistance funds for collaborative research (bringing foreign scientists to laboratories in China and sending Chinese scholars abroad) and visits by university scientists to give lectures and review graduate education programs, seminars, workshops and attendance of Chinese scientists at international conferences (SAR p.16).

- o The project establishes an "Advisory Group" composed of Chinese and foreign scientists to assist implementing agencies in the development of scientific research and graduate education in key research laboratories in China (SAR p.23).

2. The project will help the eventual delinking of the job assignment process from the line ministries which control most of the research institutes and the universities so that graduate degree holders will not be directly assigned to teaching and/or research assignments for life! The project is also encouraging the concept of "open laboratories" that open their facilities to outside researchers (SAR p.4).

3. By promoting well equipped and managed laboratories, the project will provide the necessary incentives to retain highly qualified scientists and attract young Chinese scientists abroad. This may in turn help improve prospects for advances not only in science and technology but reforms as well.

CHINA: Liaoning Urban Infrastructure Project
Brief Description of Scope of Institutional Work in Project

1. Liaoning, a province with one of the highest urban growth rates in China, is facing pressing need to improve efficiency of urban services and quality of the environment. The general focus of IDA's assistance would be to: (a) introduce tools that define investment priorities; (b) utilize existing facilities more effectively; (c) improve sector planning and management to be more demand-responsive; (d) encourage greater cost recovery from users of public utilities services; and (e) operationalize environmental resource management in urban areas.

2. Major areas where institutional reforms are expected to be brought about by the Liaoning Urban Infrastructure Project include:

a. Better long term water resource planning to include optimization of investments for water resource development and water pollution control, and improving designs, operation and management of surface and groundwater systems to achieve greater efficiency..

b. Appropriate water resource pricing to encourage more efficient utilization of the scarce water resources.

c. Strengthening of environmental protection policies, organizations and enforcement of pollution control.

d. Strengthening of management and operational practices of water supply companies, including introduction of long term planning, water demand management, pricing reform and autonomous financial management.

e. Strengthening of management and maintenance practices in urban transport, including better coordination between traffic engineering and enforcement agencies, road safety practices, preventive maintenance and the streamlining of operations of the bus and trolley-bus companies.

CHINA: Jiangsu Provincial Transport Project

Contributions to Chinese "Reform" effort:

1. The project supports the devolution of responsibility for development planning and investment from central government agencies to the provinces by establishing a more direct relationship with Jiangsu province.

2. Strengthens capacity at the provincial and county level for investment planning, budgeting and management of transport works.

3. Assists in the introduction of competitive bidding for all civil works in the future within the province.

4. Assists in the conversion of Jiangsu's city and county construction units into independent, self-sustaining units that could operate in an environment of competitive bidding in the longer run.

5. Contains a large component of secondary roads rehabilitation (first such project in China), in areas of intensive agricultural and rural industries activities, whose own reform success depends to a significant degree on improved transportation.

CHINA: Shanghai Metropolitan Transport Project

The project will contribute to the Chinese reform effort by:

1. Examining ways in which the institutional process of transport planning can be strengthened, in particular evaluating the case for a Metropolitan Transport Institute to coordinate the efforts of the many agencies currently involved;

2. Strengthening the technical capability for transport planning in order to match development goals, including procedures for the establishment of appropriate priorities for transport investments;

3. Supporting the rationalization of the operations and finances of the Shanghai Transit Company, the largest public transport carrier in the Municipality;

4. Supporting and strengthening the municipality's resettlement program and its overall housing program;

5. Strengthening the institutional capability to supervise the construction of major transport investments;

6. Supporting the technical capability to plan and manage road maintenance activities.

11 Feb. 1991

Reform Aspects of Agriculture Projects

Irrigated Agriculture Intensification Project

This project, whose objective is to increase foodcrop production and farmers' incomes in three provinces, would include two important improvements to the marketing of crops. For the first time in a Bank project, the Government will be asked to provide a commitment that it will not increase the quotas for compulsory procurement of grain and oilseed crops from farmers in the project area. That is, farmers will be able to sell their incremental grain and oil crop production as they wish. To monitor this arrangement, the Government would report annually to the Bank on the quantities sold under quota requirements. For cotton, farmers nationwide are obliged to sell all their production to the Government. To protect farmers in the project area, the three provincial governments will be asked to make an annual analysis of the adequacy of prices and incentives to cotton farmers; to recommend appropriate changes to the national price-setting authorities, and to report to the Bank on their findings.

Henan Agricultural Development Project

This project would support crop, livestock and fish production in 20 poor counties in Henan. As in the Irrigated Agriculture Intensification Project, the provincial government would annually review the state-set prices and incentives for cotton production and make recommendations to the national authorities. Fertilizer provided under the project would be sold at a price covering its full cost, rather than at the highly subsidized price charged for government-provided fertilizer. This project would also introduce an important reform in the management of the province's water resources. For the first time, the Government will be asked to prepare a long-term, province-wide plan for the sustainable management of water resources, and to ensure that future investments are consistent with the plan.

AS3AG

China

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	2/11/91

SUBJECT:

Document From: Pho Ba Quan
To: bbc
Dated: 2/08/91 Reference No.: EXC910211003

Topic: IFC CHINA BRIEF: For Mtg. with Mr. Wang on THURSDAY, FEB. 14 @ 1:15 (luncheon).

ACTION INSTRUCTIONS:	DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: Messrs. Sandstrom, Khanna
J. Volk (FF)

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: February 8, 1991

NAME	ROOM NO.
Ms. Jennifer Anne Volk	E-1227

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

IFC CHINA BRIEF

Attached is a note for Mr. Conable's meeting with Mr. Wang on February 14.

FROM:	ROOM NO.:	EXTENSION:
Pho Ba Quan	I-11-179	30601

February 8, 1991

BRIEFING NOTE

IFC's Activities in China

1. IFC has to-date made five investments in China with US$44 million in total commitments. Since June 1989, there has been no new investments. We have, however, continued project preparation and technical assistance work and expect to hit a "running start" once the decision is made to resume investment activities. IFC has had frequent meetings with Mr. Wang who is apprised of the situation. We are also is close touch with the Finance Ministry.

2. IFC's continuing work include:

- staff visit to Zhejiang Province to evaluate prospects for upgrading silk farming and fisheries. Further work by specialists is being recommended;

- dialogue between FIAS and the Ministry of Foreign Economic Relations and Trade (MOFERT) on foreign direct investment flows following from previous FIAS assignments; and

- project preparation work, viz:

    - o a US$62 million project sponsored by Siemens to produce telephone switching equipment in Beijing;

    - o expansion of Guangzhou Peugeot (an existing IFC investment) from 15,000 to 30,000 cars/year pursuant to a commitment to IFC, the Company is planning to go public shortly by issuing 10% of its shares to the public in connection with the proposed expansion, GPAC implemented a 33% rights issue, at par, to which other shareholders have subscribed in December 1989. Recognizing IFC's difficulty, GPAC has granted IFC an extension until June 1991 to take up its rights amounting to approximately US$1.3 million. Non-subscription by IFC would result in a dilution of value of approximately US$0.9 million.

    - o a US$54 million propylene oxide project in Ningpo sponsored by Dow Chemical.

Sponsors of these projects have indicated an understanding of IFC's situation and are prepared to wait for IFC, but obviously with time limitations.

3. Potential foreign investors in China have continued to approach IFC. Other prospective projects include a General Motors sponsored a casting plant for engines in Beijing, an ARCO liquified natural gas plant on Hainan Island, and a pineapple project also on Hainan Island.

4. In addition, IFC's Capital Markets Department (CMD), whose operations in China are at a nascent stage, expect to play a fairly major role in providing technical assistance. Specifically, CMD will be reviewing the laws and regulations for the security industry and will be working with the Shanghai Stock Exchange. Most of CMD's investment activities are likely to be focused on the promotion of basic financing institutions such as leasing companies. Preliminary discussions have also started on the establishment of an enterprise restructuring fund.

5. On a related matter, at a meeting in the U.S. ED's office, Mr. G. Folsom, Assistant Undersecretary of the Treasury, informed IFC staff that notwithstanding the activities of other bilateral and multilateral institutions, including the World Bank, the U.S. Chair continues to oppose a resumption of investment activities by IFC.

1761A

THE WORLD BANK

December 17, 1990

3) Mr. Conable:

For information.

2) SS

1) AK

MOEEN A. QURESHI
Senior Vice President, Operations

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

901213004

cc: Messrs. Bock
Grilli
Hyms

DATE: December 11, 1990

TO: Mr. Attila Karaosmanoglu

FROM: Shahid Javed Burki, Director, AS3DR

EXT: 82332

SUBJECT: CHINA: Visit on November 29-December 9, 1990

Pl send to Mr. Condliffe for info:

1. I returned from my most recent visit to China convinced about the emphasis the senior leaders are placing on economic reform. The Chinese authorities also attach great significance to their country's relations with the World Bank, not only for getting finance for development but also for obtaining policy advice and technical assistance. In this context, I was told that your summary of the discussions at Hangzhou (Bashan II seminar) was read very carefully by the senior leaders. All this notwithstanding, I detected a sense of nervousness about the future, particularly with respect to the central government's relations with the provinces.

I. The present economic situation and reform

2. I was presented an excellent analysis of the current economic situation in four meetings with some of the more senior leaders. I met with Governor Li Guixian of the People's Bank for nearly two hours and was impressed not only with the knowledge that he has gained of his own sector (our last meeting with him was in April when Moeen Qureshi and I saw him) but of his fear that China may be about to slip back into a period of rapid inflation. A very rapid increase in cash and credit supply; a sharp increase in household savings, thereby adding to liquidity and savings overhang; the government's inability to reduce the budgetary deficit; and the determination of the provinces to pursue their narrow interests were cited as some of the factors that could (perhaps would) ignite inflation. In light of all this he was determined to pursue the policy of "double tight policy": tight money and fiscal policies.

3. I spent two and half hours with Mr. Chen Jinhua, Chairman, System Reform Commission. This was the World Bank's first meeting with him; he apologized having missed you when you passed through Beijing in late October. Chen made three points, picking up on some of the things I had said in my statement. He said: a) China was satisfied that it had begun the process of economic reform with agriculture and the rural economy. This had resulted in an abundant supply of food and consumer goods, b) China did not feel that it

should pursue something like the "500 day reform formula" adopted by its neighbor. [I said, in response, that China had already pursued reform for 4000 days. It was important not to lose the reform momentum.] c) China wanted to give priority to enterprise reform, price reform and financial sector reform. In doing so, it would continue with the approach of "starting with experimentation, undertaking careful evaluation, and finally, promoting implementation nation wide." China has practiced this approach successfully in the past.

4. My meeting with Zhang Pan, Ma Hong's deputy in the Development Research Center also lasted for 2-1/2 hours. I was originally to see Ma Hong but I was told that he had been summoned to an unscheduled meeting called by Premier Li Peng. Zhang reminded me of the statement you had made at a dinner you had with him during your visit to Beijing. You had said that "reforms in China are like a black hole: nobody knows what's going on inside." He said that this view was shared by people working in China. However, the confusion was the result of uncertainty: "we are moving along an unchartered course," he said. He also said that, at present, experts in China were a) evaluating the experience with reforms since 1979 and b) formulating a reform agenda for the 1990-2000 period. The future effort will emphasis two areas: a) division of responsibility between the centre and the provinces, and b) greater role for the market without disowning socialism.

5. An hour long meeting with Mayor Chen Xitong of Beijing left me with the strong impression that even the more conservative leaders were deeply involved with reforms. Mayor Chen identified housing and social security reform deserving of special attention. He said that experiments had already begun in several cities, including his own, to improve both the quality of housing and to increase owner-occupancy. The intention was to have the majority of China's urban population living in the houses they owned or rented from other owners.

6. The Mayor is extremely keen to receive funding from the Bank for cleaning up the city's environment. I told him that we were working hard to include the project in our FY91 program. Since this will be our first "stand alone" operation dealing with urban environment I said that we wanted to develop a model project which could be replicated in other cities.

II. <u>China and the Bank</u>

7. The Chinese were obviously delighted with the approval of the "SPARK" project by our Board. However, they are now anxious that we return to normal lending, especially since Japan and the European Economic Community have restored full economic relations with China. They said that further procrastination by the Bank would be viewed as unwarranted interference by "one influential shareholder".

8. I had a series of meetings with the Ministry of Finance (MOF) and the State Planning Commission (SPC) to discuss the next three year rolling

program. At a wrap-up meeting with Senior Vice Minister Chi Haibin (MOF) and Vice Chairman Gan Ziyu (SPC) we agreed on the following parameters for the FY91-93 program.

- We will prepare a plan of $7.5 billion to cover 42 projects; $5.0 billion IBRD, $2.5 billion IDA. [The FY92-94 program authorized by OPNSV is $5.4 billion IBRD and SDR $1.95 billion.]

- We will aim to reach a blend ratio of 67:33 between IBRD and IDA for the entire period. However, because of the problem with lending to China in recent months, a circumstance over which the country had little control, a softer blend (perhaps 50:50) would be allowed for FY91.

- An "IDA program" will be prepared as a separate component of the three year program. This will have a blend ratio of 80:20 in favor of IDA with IDA lending concentrated among three sectors: agriculture (55%), social sectors (30%) and environment (15%). Social sectors will be defined broadly to include health, education, urban development, social security, housing and women in development while forestry and irrigation will be subsumed under agriculture.

These parameters were suggested by me in my opening meetings with SPC and MOF. A program incorporating them will be discussed and finalized in Washington in a meeting with SPC and MOF. This will be the first senior level visit by the SPC to the Bank. As I discussed with you on the phone, the SPC representative will brief you at that time on the priorities of the 8th five year plan and the policy framework within which the plan will be implemented.

9. I also agreed with the MOF that a series of short issues papers will be prepared by the China Department to help the Chinese with the preparation of the three year lending program. The papers will be on the following subjects:

- Project size: Bank's experience in other large countries;

- On-lending arrangements between the centre and the provinces with focus on the requirement of social sectors;

- Management of foreign exchange by the MOF;

- Possibility of sector lending to support housing and social security reform.

10. The Chinese also welcomed our recent focus on the preparation of short and focused think pieces on the Chinese economy covering a number of areas of mutual interest. The new FY92-94 three year program for ESW will be discussed with the Chinese in July.

III. China: centre and the provinces

11. The delay in convening the seventh plenum of the 13th Party Congress is the consequence of the senior leaders not being able to reach a consensus on Beijing's economic role. Beijing wants to reestablish the centre's control over monetary and fiscal policies: it wishes to strengthen the role of the People's Bank as a central bank and narrow the budgetary deficit by increasing the central government's share in total revenues. The party meeting is scheduled to take place in the third week of December. To prepare it, some significant personnel changes have been made: Shen Zhu Lun the governor of Zhejiang whom you met recently has been removed and Ye Xuanping, the governor of Guangdong, is reported to have been given the top party job in his province. In a number of speeches, senior officials from Beijing have declared their opposition to protectionist policies being followed by some of the provinces. On November 11, the State Council issued a circular calling on the provinces to "break down regional trade barriers" involving practices such as discriminatory taxes against enterprises using "imported" material, higher bank rates charged for lending to enterprises selling goods obtained from other provinces, etc.

12. The provincial and city bosses, on their part, continue to resist pressures from Beijing to exert more economic control over them. This resistance is most obvious in the 14 reform cities and the four special economic zones. Both sides are watching the developments in the Soviet Union: Beijing is fearful that it may also experience a crumbling of authority while the coastal provinces, reform cities and the special economic zones believe that they can use the developments in the Soviet Union and Eastern Europe to argue for further devolution of power. The two sides will have to compromise before the plenum is called into session.

cc: Mr. Qureshi (o/r)
China Management Group

wp50\burki\btonov90\fvf

File
China

ROUTING SLIP	Date 4/26/91
NAME	ROOM NO.
3) Mr. Conable	
2) SS	
1) AK	
4) CF/ME – Country File	

	URGENT		For Action/Comment		Per Your Request
	Appropriate Disposition		Information/Discard		Returned
	Approval/Clearance		Note And Return		See My E-Mail
	File		Per Our Conversation		Signature/Initial

RE:

REMARKS

Re: 5 o'clock Meeting with Chinese Vice Minister of Finance

I thought you would be interested in the points he made during his meeting on Wednesday with Mr. Qureshi.

From	Room No.	Ext.
Shahid Javed Burki		

P-1862

DECLASSIFIED

MAR 24 2017

WBG ARCHIVES

CONFIDENTIAL

Points made by MOF Vice Minister Liu Jiben during his meeting with Mr. Qureshi
April 24, 1991, 4:00-5:30 pm

Bank: Messrs. Qureshi, Burki, Cadario, Mrs. Okonjo-Iweala
China: Vice Minister Liu, Wang Liansheng, Zhang Shangman, Zhang Yuebin, Ms. Liu

- China hoped Bank lending would be restored as soon as possible to the level discussed in late 1988 for the FY89-91 lending program, viz, $7.5 billion for the period, since China had so far been lent only $3 billion, and only $800 million of IDA

- with one project per month this would not be possible

- with only two months to go in FY91, China therefore hoped that the outstanding projects would be presented as soon as possible

- China's reforms would continue, in the following framework

  - reform should not be too hasty, but tailored to China's actual situation, and experiments should be undertaken first

  - reforms should be closely related to the stability of the country

  - reforms should be comprehensive, with the necessary complementary measures

On the Ertan Project (which China knows is now scheduled for July 2),

- Premier Li Peng had underlined to the recent EDs' delegation the importance China attached to an early start on the project, since energy shortages were an obstacle to development in southeast China

- China had spent considerable effort so far on ICB, and further delay in the award of contracts would no doubt lead to substantial losses to the [foreign] contractors

PMCadario:pmc
April 24, 1991

SS 4/26
5pm

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	4/24/91

SUBJECT:

Document From: Mr. Cheetham (MAQ)
To: bbc
Dated: 4/23/91 Reference No.: EXC910424003

Topic: BRIEFING: visit of Vice-Minister Liu Jibin, Ministry of Finance (China) on Friday, April 26, 1991 at 5:00 pm (E-1227)

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
__XXX__ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: AK/SS

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

DATE: April 23, 1991

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: Russell Cheetham, Acting Vice President, Asia Region

EXTENSION: 82332

SUBJECT: CHINA - Visit of Vice-Minister Liu Jibin, Ministry of Finance

1. You have agreed to receive Vice-Minister Liu, who is visiting for the Development Committee, at 5:00 pm on Friday, April 26 in your office. Vice-Minister Liu transferred to the Ministry of Finance two years ago from one of the industry ministries. He is in charge of education, culture and health, and his duties do not normally involve the Bank. We understand that there are no issues he wishes to raise during this brief courtesy call.

2. You may wish to underline the need to incorporate solid elements of reform in the identification and design of our upcoming projects. This will help ensure that the Bank is able to respond to China's wish for higher levels of Bank/IDA lending and for continued strong Bank presence in China's reform efforts in the 1990s. It would further secure China's claims on IDA resources, particularly if environmental, poverty and human resource/WID concerns can be embodied in the agriculture, industry and transport projects that China will be seeking from us. It would greatly facilitate these joint efforts, particularly in the social, non-revenue earning sectors that Mr. Liu oversees in MOF, if China resolved long-standing systemic problems such as on-lending procedures and terms and counterpart funding.

3. If Vice-Minister Liu expresses frustration over what China perceives as the slow pace of normalization of Bank lending, it would be useful to confirm that we are working actively to expand our operations program and our program of economic and sector work, without mentioning any specific numbers. It would also be useful to note that the surest approach for China would be to demonstrate, through the design of projects for Bank financing and continued improvements in project implementation, that the Eighth Five Year Plan investment program is being used as a key tool in China's reform process.

cc: Attila Karaosmanoglu (o/r), Attila Sonmez, David Pearce

PMCadario/SJBurki:pmc

Feb. 12
2:00 pm

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

File
China

TO:	DATE:
Mr. B. Conable (E-1227)	2/12/91

SUBJECT:

Document From: M. Qureshi (A. Karaosmanoglu & S. Burki)
To: bbc
Dated: 2/12/91
Reference No.: EXC910212020

Topic: CHINA: FY91 Lending Program - brief for meeting on TUESDAY, Feb. 12 @ 2:00 pm.

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: BBC (original), Sandstrom, Khanna

URGENT

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 12, 1991

TO: Mr. Moeen A. Qureshi

THRU: Mr. Attila Karaosamanoglu

FROM: Shahid Javed Burki, Director, AS3

EXT: 82332

SUBJECT: CHINA: FY91 Lending Program

1. Following your request to Mr. Karaosmanoglu that we limit the China program for the remaining months of FY91 to one project per month, I have now drawn up the following schedule of Board presentations. Also attached is a brief comment on the way the proposed projects are likely to advance economic reforms in China.

Project	Proposed Board Date	Amounts ($ million) IDA	IBRD	Total
1. Key Studies Development	2/26/91	120	-	120
2. Liaoning Urban	3/21/91	70	-	70
3. Jiangsu Provincial Transport	4/09/91	50	100	150
4. Henan Agriculture Development	5/14/91	120	-	-
5. Irrigated Agriculture Intensification	6/11/91	200	135	335
Sub Total		560.0	235	795
Five projects already approved		417.3	354.4	771.7
Total for FY91		977.3	589.4	1566.7

2. As indicated above, the projects scheduled for the rest of the year along with those already approved would amount to a total lending of $1.57 billion with IDA of $977 million.

3. I should remind you, though, that the Chinese are expecting us to fulfill our promise of one project a month or 12 in all for FY91. If that were to happen, we could present to the Board two out of the following four we should have ready during the year:

1. Shanghai Metropolitan Transport	$ 60 million
2. Daguangba Hydro	$ 67 million
3. Tarim Basin	$125 million
4. Beijing Environment	$100 million

Attachment

Key Studies Development Project

Contributions to Chinese "Reform" effort:

1. The project enhances our earlier efforts to improve the interface between Chinese scholars and their counterparts in rest of the world.

   - The project will provide technical assistance funds for collaborative research (bringing foreign scientists to laboratories in China and sending Chinese scholars abroad) and visits by university scientists to give lectures and review graduate education programs, seminars, workshops and attendance of Chinese scientists at international conferences (SAR p.16).

   - The project establishes an "Advisory Group" composed of Chinese and foreign scientists to assist implementing agencies in the development of scientific research and graduate education in key research laboratories in China (SAR p.23).

2. The project will help the eventual delinking of the job assignment process from the line ministries which control most of the research institutes and the universities so that graduate degree holders will not be directly assigned to teaching and/or research assignments for life! The project is also encouraging the concept of "open laboratories" that open their facilities to outside researchers (SAR p.4).

3. By promoting well equipped and managed laboratories, the project will provide the necessary incentives to retain highly qualified scientists and attract young Chinese scientists abroad. This may in turn help improve prospects for advances not only in science and technology but reforms as well.

CHINA: Liaoning Urban Infrastructure Project
Brief Description of Scope of Institutional Work in Project

1. Liaoning, a province with one of the highest urban growth rates in China, is facing pressing need to improve efficiency of urban services and quality of the environment. The general focus of IDA's assistance would be to: (a) introduce tools that define investment priorities; (b) utilize existing facilities more effectively; (c) improve sector planning and management to be more demand-responsive; (d) encourage greater cost recovery from users of public utilities services; and (e) operationalize environmental resource management in urban areas.

2. Major areas where institutional reforms are expected to be brought about by the Liaoning Urban Infrastructure Project include:

a. Better long term water resource planning to include optimization of investments for water resource development and water pollution control, and improving designs, operation and management of surface and groundwater systems to achieve greater efficiency..

b. Appropriate water resource pricing to encourage more efficient utilization of the scarce water resources.

c. Strengthening of environmental protection policies, organizations and enforcement of pollution control.

d. Strengthening of management and operational practices of water supply companies, including introduction of long term planning, water demand management, pricing reform and autonomous financial management.

e. Strengthening of management and maintenance practices in urban transport, including better coordination between traffic engineering and enforcement agencies, road safety practices, preventive maintenance and the streamlining of operations of the bus and trolley-bus companies.

CHINA: Jiangsu Provincial Transport Project

Contributions to Chinese "Reform" effort:

1. The project supports the devolution of responsibility for development planning and investment from central government agencies to the provinces by establishing a more direct relationship with Jiangsu province.

2. Strengthens capacity at the provincial and county level for investment planning, budgeting and management of transport works.

3. Assists in the introduction of competitive bidding for all civil works in the future within the province.

4. Assists in the conversion of Jiangsu's city and county construction units into independent, self-sustaining units that could operate in an environment of competitive bidding in the longer run.

5. Contains a large component of secondary roads rehabilitation (first such project in China), in areas of intensive agricultural and rural industries activities, whose own reform success depends to a significant degree on improved transportation.

11 Feb. 1991

Reform Aspects of Agriculture Projects

Irrigated Agriculture Intensification Project

This project, whose objective is to increase foodcrop production and farmers' incomes in three provinces, would include two important improvements to the marketing of crops. For the first time in a Bank project, the Government will be asked to provide a commitment that it will not increase the quotas for compulsory procurement of grain and oilseed crops from farmers in the project area. That is, farmers will be able to sell their incremental grain and oil crop production as they wish. To monitor this arrangement, the Government would report annually to the Bank on the quantities sold under quota requirements. For cotton, farmers nationwide are obliged to sell all their production to the Government. To protect farmers in the project area, the three provincial governments will be asked to make an annual analysis of the adequacy of prices and incentives to cotton farmers; to recommend appropriate changes to the national price-setting authorities, and to report to the Bank on their findings.

Henan Agricultural Development Project

This project would support crop, livestock and fish production in 20 poor counties in Henan. As in the Irrigated Agriculture Intensification Project, the provincial government would annually review the state-set prices and incentives for cotton production and make recommendations to the national authorities. Fertilizer provided under the project would be sold at a price covering its full cost, rather than at the highly subsidized price charged for government-provided fertilizer. This project would also introduce an important reform in the management of the province's water resources. For the first time, the Government will be asked to prepare a long-term, province-wide plan for the sustainable management of water resources, and to ensure that future investments are consistent with the plan.

AS3AG

CHINA: Shanghai Metropolitan Transport Project

The project will contribute to the Chinese reform effort by:

1. Examining ways in which the institutional process of transport planning can be strengthened, in particular evaluating the case for a Metropolitan Transport Institute to coordinate the efforts of the many agencies currently involved;

2. Strengthening the technical capability for transport planning in order to match development goals, including procedures for the establishment of appropriate priorities for transport investments;

3. Supporting the rationalization of the operations and finances of the Shanghai Transit Company, the largest public transport carrier in the Municipality;

4. Supporting and strengthening the municipality's resettlement program and its overall housing program;

5. Strengthening the institutional capability to supervise the construction of major transport investments;

6. Supporting the technical capability to plan and manage road maintenance activities.

File
China

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	2/11/91

SUBJECT:

Document From: Pho Ba Quan
To: bbc
Dated: 2/08/91 Reference No.: EXC910211003

Topic: IFC CHINA BRIEF: For Mtg. with Mr. Wang on THURSDAY, FEB. 14 @ 1:15 (luncheon).

ACTION INSTRUCTIONS: | DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: Messrs. Sandstrom, Khanna
J. Volk (FF)

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: February 8, 1991

NAME	ROOM NO.
Ms. Jennifer Anne Volk	E-1227

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

IFC CHINA BRIEF

Attached is a note for Mr. Conable's meeting with Mr. Wang on February 14.

FROM:	ROOM NO.:	EXTENSION:
Pho Ba Quan	I-11-179	30601

February 8, 1991

BRIEFING NOTE

IFC's Activities in China

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2. IFC's continuing work include:

- staff visit to Zhejiang Province to evaluate prospects for upgrading silk farming and fisheries. Further work by specialists is being recommended;

- dialogue between FIAS and the Ministry of Foreign Economic Relations and Trade (MOFERT) on foreign direct investment flows following from previous FIAS assignments; and

- project preparation work, viz:

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  - o a US$54 million propylene oxide project in Ningpo sponsored by Dow Chemical.

Sponsors of these projects have indicated an understanding of IFC's situation and are prepared to wait for IFC, but obviously with time limitations.

3. Potential foreign investors in China have continued to approach IFC. Other prospective projects include a General Motors sponsored a casting plant for engines in Beijing, an ARCO liquified natural gas plant on Hainan Island, and a pineapple project also on Hainan Island.

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1761A

Feb. 12
2:00 pm

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO:	DATE:
Mr. B. Conable (E-1227)	2/12/91

SUBJECT:

Document From: M. Qureshi (A. Karaosmanoglu & S. Burki)
To: bbc
Dated: 2/12/91 Reference No.: EXC910212020

Topic: CHINA: FY91 Lending Program - brief for meeting on TUESDAY, Feb. 12 @ 2:00 pm.

ACTION INSTRUCTIONS: DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: BBC (original), Sandstrom, Khanna

URGENT

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 12, 1991

TO: Mr. Moeen A. Qureshi
THRU: Mr. Attila Karaosamanoglu
FROM: Shahid Javed Burki, Director, AS3

EXT: 82332

SUBJECT: CHINA: FY91 Lending Program

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2. Daguangba Hydro	$ 67 million
3. Tarim Basin	$125 million
4. Beijing Environment	$100 million

Attachment

Key Studies Development Project

Contributions to Chinese "Reform" effort:

1. The project enhances our earlier efforts to improve the interface between Chinese scholars and their counterparts in rest of the world.

   - o The project will provide technical assistance funds for collaborative research (bringing foreign scientists to laboratories in China and sending Chinese scholars abroad) and visits by university scientists to give lectures and review graduate education programs, seminars, workshops and attendance of Chinese scientists at international conferences (SAR p.16).

   - o The project establishes an "Advisory Group" composed of Chinese and foreign scientists to assist implementing agencies in the development of scientific research and graduate education in key research laboratories in China (SAR p.23).

2. The project will help the eventual delinking of the job assignment process from the line ministries which control most of the research institutes and the universities so that graduate degree holders will not be directly assigned to teaching and/or research assignments for life! The project is also encouraging the concept of "open laboratories" that open their facilities to outside researchers (SAR p.4).

3. By promoting well equipped and managed laboratories, the project will provide the necessary incentives to retain highly qualified scientists and attract young Chinese scientists abroad. This may in turn help improve prospects for advances not only in science and technology but reforms as well.

CHINA: Liaoning Urban Infrastructure Project
Brief Description of Scope of Institutional Work in Project

1. Liaoning, a province with one of the highest urban growth rates in China, is facing pressing need to improve efficiency of urban services and quality of the environment. The general focus of IDA's assistance would be to: (a) introduce tools that define investment priorities; (b) utilize existing facilities more effectively; (c) improve sector planning and management to be more demand-responsive; (d) encourage greater cost recovery from users of public utilities services; and (e) operationalize environmental resource management in urban areas.

2. Major areas where institutional reforms are expected to be brought about by the Liaoning Urban Infrastructure Project include:

a. Better long term water resource planning to include optimization of investments for water resource development and water pollution control, and improving designs, operation and management of surface and groundwater systems to achieve greater efficiency..

b. Appropriate water resource pricing to encourage more efficient utilization of the scarce water resources.

c. Strengthening of environmental protection policies, organizations and enforcement of pollution control.

d. Strengthening of management and operational practices of water supply companies, including introduction of long term planning, water demand management, pricing reform and autonomous financial management.

e. Strengthening of management and maintenance practices in urban transport, including better coordination between traffic engineering and enforcement agencies, road safety practices, preventive maintenance and the streamlining of operations of the bus and trolley-bus companies.

11 Feb. 1991

Reform Aspects of Agriculture Projects

6/4

Irrigated Agriculture Intensification Project

This project, whose objective is to increase foodcrop production and farmers' incomes in three provinces, would include two important improvements to the marketing of crops. For the first time in a Bank project, the Government will be asked to provide a commitment that it will not increase the quotas for compulsory procurement of grain and oilseed crops from farmers in the project area. That is, farmers will be able to sell their incremental grain and oil crop production as they wish. To monitor this arrangement, the Government would report annually to the Bank on the quantities sold under quota requirements. For cotton, farmers nationwide are obliged to sell all their production to the Government. To protect farmers in the project area, the three provincial governments will be asked to make an annual analysis of the adequacy of prices and incentives to cotton farmers; to recommend appropriate changes to the national price-setting authorities, and to report to the Bank on their findings.

Henan Agricultural Development Project

5/14

This project would support crop, livestock and fish production in 20 poor counties in Henan. As in the Irrigated Agriculture Intensification Project, the provincial government would annually review the state-set prices and incentives for cotton production and make recommendations to the national authorities. Fertilizer provided under the project would be sold at a price covering its full cost, rather than at the highly subsidized price charged for government-provided fertilizer. This project would also introduce an important reform in the management of the province's water resources. For the first time, the Government will be asked to prepare a long-term, province-wide plan for the sustainable management of water resources, and to ensure that future investments are consistent with the plan.

AS3AG

THE WORLD BANK

October 13, 1990

Mr. Conable:

I have asked the Region to work on a base case program of $1.5 billion for this fiscal year and hold another $0.5-0.6 billion in reserve, and in readiness, to be brought forward if the Chinese move more rapidly on a reform program. However, we shall, for the time being, continue to work on a project-by-project basis for the Board each month, in close discussion with you.

MOEEN A. QURESHI
Senior Vice President, Operations

901009003
1

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DECLASSIFIED

MAR 2 4 2017

WBG ARCHIVES

CONFIDENTIAL

DATE: October 9, 1990

TO: Mr. Moeen A. Qureshi, OPNSV

THROUGH: Mr. Attila Karaosmanoglu, ASIVP

FROM: Shahid Javed Burki, AS3DR

EXTENSION: 72571

SUBJECT: CHINA: FY91 Bank/IDA Lending

Mr. Conable: I have asked the Regions to work on a loan case program of $1.5 billion for this fiscal year and hold another 0.5 - 0.6 billion in reserve (and in readiness) to be brought forward if the Chinese move more rapidly on a reform program. We shall, however, continue to work on a project by project basis for the time being, consulting each month, in close discussion with you. Moeen. J

1. Following the recent Bank/Fund Annual Meetings and the discussion that Mr. Karaosmanoglu and I had with you on Friday, October 5, 1990, I believe we should try to establish a realistic "base case" scenario for the gradual normalization of Bank/IDA lending to China during FY91. This is also needed as a basis for preparing the upcoming FY92-94 Business Plan.

2. Accordingly, we have prepared a possible calendar of Board presentations for the balance of FY91 that would gradually diversify Bank/IDA lending beyond the 'basic human needs' projects approved since February, 1990 to those that, in the language of the Houston Summit Political Declaration, support economic reforms, including the environment. The Department's recommended timetable is attached herewith for your information. Subject to your guidance, it assumes for the time being only one Board presentation per month commencing with the proposed $275 million Rural Credit IV project already scheduled for October 30.

3. Briefly, our proposal comprises ten operations totalling about $1.5 billion. Six operations amounting to about $959 million (four in agriculture and one each in health and rural water supply/sanitation) satisfy even a narrow basic human needs definition and all include explicit poverty alleviation, environmental health and/or human resource development goals. One was approved last August (Mid-Yangtze Agr. Dev.), the second (Rural Credit IV) is currently scheduled for presentation October 30, and the remaining four, not yet negotiated, are expected to be ready for presentation between March-June, 1991. The balance of four operations totalling about $540 million (two in industry, one urban and one education & research) are all unambiguously supportive of economic reforms, both in overall macro- and in project-specific terms. These four are all negotiated (three already in FY89) and would thus be presented between November-February.

4. There is also an urban environmental project in Beijing planned for appraisal in January, 1991 that may be ready for presentation by the end of FY91. Depending upon its progress, I may propose that it be added to the attached timetable later. Similarly, the proposed Ertan Hydro and Jiangsu Transport projects would be priority candidates for presentation later in the fiscal year if, as we hope, normalization proceeds satisfactorily.

5. I recommend that, for current planning purposes, you approve the attached FY91 "base case" scenario.

Attachment

cc: China Management Group

DPearce:jd

ATTACHMENT

CHINA: FY91 LENDING

BASE CASE

	Amount $Million	Current Status	Planned Board Date
Mid-Yangtze Agr. Dev	64	Approved	08/90
Rural Credit IV	275	Scheduled for presentation	10/90
Rural Ind. Tech (SPARK)	110	Negotiated	11/90
Med. Sized Cities	160	Negotiated	12/90
Shanghai Ind'l. Dev.	150	Negotiated	01/91
Key Studies Dev.	120	Negotiated	02/91
Henan Agr. Dev.	110	APR 10/91	03/91
Agr. Intensification	300	Appraised	04/91
Infectious Diseases	100	APR 01/91	05/91
Rural Water Supply	110	APR 01/91	06/91
TOTAL:	1,499		

Beijing Environment	100	APR 01/91	TBD
Ertan Hydro	380	Negotiated	TBD
Jiangsu Transport	150	Negotiated	TBD
	630		

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 8, 1990

Dear Mr. Minister:

I have learned of your reappointment to a third term as Governor for China on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will again be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to continue working with you to make the Bank Group even more effective during the coming years. Congratulations on your reappointment and thank you for your willingness to take on this additional responsibility.

I look forward to seeing you during the Annual Meetings, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

His Excellency
Wang Bingqian
State Councilor and
Minister of Finance
Ministry of Finance
South Sanlihe Street
Fuxingmenwai
Beijing, China

cc: Mr. Zhang
Mr. Burki
Mr. Quan

ETSanidad:jlk

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

O F F I C E M E M O R A N D U M

Date : July 26, 1990

To : Mr. T. T. Thahane, Vice President and Secretary

From : Zhang Junyi, Executive Director, China

Extension : 80058

Subject : CHINA - GOVERNOR

I am instructed by my authorities to inform you that the Chinese Government shall reappoint Mr. Wang Bingqian, State Councilor and Minister of Finance, as Governor for China on the Board of Governors of the World Bank after his appointment expires on August 28, 1990.

Thank you.

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90 JUL 27 AM 10:18
AND SECRETARY

cc: ETSanidad,SEC

DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

County file ~~(1)~~ 1/13

China

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/05/03 DUE DATE : 00/00/00
LOG NUMBER : 900503017 FROM : E. Stern
SUBJECT : Use of IDA Funds and China.

OFFICE ASSIGNED TO FOR ACTION : (2) Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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__✓__ FOR YOUR REVIEW AND RECOMMENDATION
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_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
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_____ RETURN TO (3) CP

COMMENTS : cc: Messrs. Thalwitz, Shakow
JV (Dvlp. Cte.)

May 3, 1990

Messrs. Conable
Qureshi
Karaosmanoglu o/r

Use of IDA Funds and China

As background for the visit of the Chinese delegation for the Development Committee, we have reviewed how the likely shortfall in IDA commitments might be handled in terms of presentation at the end of the IDA-8 period. As you know, China is concerned that it will "lose" its IDA-8 resources as a result of the interruption of lending.

Of course, it would not be wise to give too specific assurances on the subject, since the political situation remains uncertain and the Chinese economic performance, including its reform program, is a less satisfactory basis than it has been. However, if we treat the use of IDA funds as shown below, we have the commitment capacity to deal with the shortfall in the future years without any special "public" actions.

On the assumption that only approximately a further SDR 200 million of IDA credits for China are approved this fiscal year, FY90 commitments would be SDR 4.2 billion, very close to the planned SDR 4.4 billion total. We would deem donor funds to have been committed first. On that basis, the distribution for the IDA-8 period looks as follows:

	IDA-8 Period		
	Donor	Reflows	Total
China	9.7	18.0	10.4
India	16.9	7.0	16.1
Africa	50.1	46.0	49.8
Others	23.3	29.0	23.7
TOTAL	100.0	100.0	100.0

This is a perfectly reasonable distribution which

- allows us to conclude IDA-8 on June 30;
- shows a decline in China's share of the IDA-8 donor contributions, which the major donors know they have created;
- avoid any IDA-8 "carry over" which is likely to be highly controversial.

On the other hand, we will have committed only SDR 929 million of reflows instead of the planned SDR 1.2 billion Including annual allocations). The difference would simply be available for commitments in future years. It provides the capacity to add to China's IDA lending next year beyond the resources available from IDA-9 plus planned reflows, to the extent warranted without disturbing the IDA-9 agreed allocation of donor funds.

Please note that we would not plan to use this table as shown anywhere; only the IDA-8 donor fund distribution. Moreover, it is also important to remember that the table does not reflect how projects were actually funded in the course of the year. The approach is not sensitive to the amount of commitments assumed to be made in FY90; it would be valid regardless of the actuals.

Ernest Stern

file - China

SEC: CHOI 5/24/90

CHINA

Project	DOC #	original date	Approved
Jiangxi Agricultural Development Project	IDA/R89-67, 67/1	6/9/89	2/27/90
Yanshi Thermal Power Project	R89-109	6/13/89	
Vocational and Technical Education Project	IDA/R89-71, 71/1	6/13/89	3/27/90
Medium-Sized Cities Development Project	R89-126;IDA/R89-79	6/22/89	
Shanghai Industrial Development Project	R89-134	6/29/89	
Jiangsu Provincial Transport Project	R89-132, 132/1	6/28/89	RESCHEDULED TO 3/27/9 RESCHEDULED TO 5/29/9
Third Technical Cooperation Project	IDA/R89-88	6/28/89	
N China Earthquake Reconstruction Project	IDA/R90-10	2/8/90	2/8/90
National Afforestation Project	IDA/R90-77	5/29/90	scheduled for 5/29/90

~~Att~~

File: China C.F.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/03/14 DUE DATE : 90/03/19
LOG NUMBER : 900315003 FROM : Frank Potter
SUBJECT : Writing about the recent events surrounding the Bank's relationship with China, the management and EDs.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. ~~Qureshi~~ Qureshi (E-1241)

Cmable

ACTION:

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COMMENTS :

log changed CP 3/20

EXPEDITE

CAP - 3/20/90 per MH - no response necessary - if Cotter's office calls re. a response, refer they call to me. ~~Mr Cromble~~ ~~Let me know if response was necessary.~~

The World Bank
Washington, D.C. 20433
U.S.A.

FRANK POTTER
Executive Director

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March 14, 1990

Dear Mr. Conable:

I am writing about recent events surrounding the Bank's relationship with China, the way in which the Jiangsu project has been presented to the board, and in a wider sense how management's behaviour has made this more difficult than it need have been.

To start with the China relationship: last fall you quite properly started to canvas external opinion on the issue of re-establishing a lending programme. Never, however, was the board consulted. Shareholders were informed mainly by what they read in the newspapers and there was no attempt to engage the board in an objective examination of institutional choices. By negotiating publicly the Bank's management encouraged public responses which served various individual audiences but not the broader interests of the Bank and its membership. The result was predictable: the issue became needlessly polarised and the Bank ran out of time and room.

If that affair were unusual, we could all regret it and carry on. It isn't. It typifies the relationship between the managers and the owners of this institution.

I regret to say that you seem to have allowed yourself to have been persuaded by the views of some of your management colleagues. Their premise is that the board is political, that it advocates only narrow and selfish interests, and that only the management can be trusted to protect the institution. The board is to be endured or tolerated.

Let me turn to the Jiangsu project.

Board rules require projects to be made available to directors thirteen working days before being scheduled. This project was distributed in the evening of March 7th for discussion on the 20th. That allows eight.

When one asks why the shorter notice, one is told that the documents were distributed nine months ago, ergo the rules have been amply satisfied. Never mind that this is a project which directors will need to handle with considerable care and one which may well require more rather than less consultation. No, management prefers to rely on legal sophistry and watch the board squirm. It is a tactic which lacks grace or generosity. It is designed to confront.

And why was the project not shown on the board schedule which is on-line in all the directors' offices? It requires faith to believe that it was an oversight.

Why, too, should I learn from Ottawa that management has briefed congressional staffers on the Bank's lending programme to China which one is told will be $1 billion by the end of June? Who decided? Was the board or any executive director consulted or told? Do you think it reasonable that a director should hear from his capital how the Bank plans to respond to a major policy issue?

This kind of conduct may be clever in the short-term but it may not be without cost. If shareholders conclude that they have little or no voice in setting Bank policy, that ownership apparently counts for nothing, and that management regards the board as a nuisance, then one of two reactions is likely. Either they will slacken in their commitment to the World Bank, preferring to direct resources to avenues where their efforts are accompanied by some measure of influence (there were signs of it in IDA IX) or there will be a confrontation. Neither is necessary and neither is in the interests of the Bank.

This is not an isolated issue. It is symptomatic of a worsening state of affairs between the management and the board which unless corrected will hurt the Bank's performance and ultimately the welfare of its borrowing members. We should be thinking carefully about what can be done.

Sincerely,

Frank Potter

Mr. Barber B. Conable
President
The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

A90-17

FROM: Vice President and Secretary March 14, 1990

NOTICE OF MEETING

A meeting of the Executive Directors of the Bank and IDA will be held on Tuesday, March 20, 1990 at 10:00 a.m. in the Board Room. The agenda is as follows:

AGENDA

1. Minutes of Previous Meetings (M90-10[IDA/M90-10], M90-11[IDA/M90-11], M90-12[IDA/M90-12])

2. World Bank Programs and FY90 Budgets - Midyear Review (R90-40[IDA/R90-30])

3. Proposed Loan - Korea (Juam Regional Water Supply Project)
   President's Memorandum and Recommendation (R90-35, 7920-KO)

4. Proposed Loan and Credit - China (Jiangsu Provincial Transport Project)
   President's Memorandum and Recommendation (R89-132[IDA/R89-87]; R89-132/1[IDA/R89-87/1], 7483-CHA, SecM89-1532)

5. Proposed Credit - Burundi (Transport Sector Project)
   President's Memorandum and Recommendation (IDA/R90-26, 6754-BU)

6. Proposed Credit - Madagascar (Financial Sector and Private Enterprise Development [APEX] Project)
   President's Memorandum and Recommendation (IDA/R90-25, 5996-MAG)

7. Proposed Credit - Guinea (National Rural Infrastructure Project)
   President's Memorandum and Recommendation (IDA/R90-27, 4690-GUI)

8. Proposed Loan - Cameroon (National Agricultural Extension and Training Project)
   President's Memorandum and Recommendation (R90-36, 6395-CM)
   -- SPECIAL PROCEDURE --

9. Other Business

10. Date of Next Meeting

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC
Secretary, IMF

Mr. Conable

Mr. Liu might raise with you the possibility of bringing forward the Forestry Loan (now set for $300 million) on the 29th. We shall have the loan ready in case you wish to do so but at this stage I would not like you to commit yourself to anything. The loan is very large and I am concerned about testing the waters with such a large amount. Moreover, it may invite a turndown of Jiangsu.

Please say, you would welcome the views and preferences of the Chinese but that you will decide close to the 9th of May, when documents have to be issued.

Moeen Qureshi
4/30/90

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/04/27 DUE DATE : 00/00/00
LOG NUMBER : 900501001 FROM : M. Qureshi
SUBJECT : CHINA: Courtesy call with Vice Minister of Finance, Mr. LIU Zhongli on Wednesday, May 2, 11:30 am.
OFFICE ASSIGNED TO FOR ACTION : (1) Mr. B. Conable (E-1227)

ACTION:

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_____ PLEASE HANDLE
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_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
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COMMENTS :cc: M. Haug, A. Khanna, JV (original for FF) (2)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 27, 1990

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi, OPNSV

FROM: Attila Karaosmanoglu AK.

EXTENSION: 72283

SUBJECT: Visit of China's Vice Minister of Finance, Mr. LIU Zhongli

Mr. Conable

Mr. Liu might raise with you the possibility of bringing forward the Forestry Loan (now set for $300 million) on the 29th. We shall have the loan ready in case you wish to do so but at this stage I would not like you to commit yourself to anything. The loan is very large and I am concerned about testing the waters with such a large amount. Moreover, it may invite a Tiananmen. Please say, you would welcome the views and preferences of the Chinese but that you will decide close to the 9th of May, when documents have to be issued. AK 4/30

1. You have agreed to a courtesy call from Vice Minister Liu on Wednesday, May 2 at 11:30 am. He is likely to be accompanied by Mr. Wang Liansheng, Director of the World Bank Department of the Ministry of Finance (whom you have met), and staff from the Chinese Executive Director's office. Mr. Burki will join you.

2. Vice Minister Liu, who is representing China at the Development Committee, was born in Zhejiang Province in 1934. A college economics graduate, he has worked as Chairman of the Economic Planning Commission of Heilongjiang Province, and then Deputy Governor, before becoming Vice Minister of Finance. His normal duties do not include the Bank.

3. Mr. Jin, Alternate Executive Director, informs us that Vice Minister Liu will raise two issues: resumption of Bank lending to China, including its IDA 8 allocation, and measures to improve China's relations with the Bank. On resumption of Bank lending, you should confirm your intention to present Jiangsu Transport along with one other loan for consideration of the Executive Directors on May 29, after they have had time to review the Country Economic Memorandum. The draft CEM was recently discussed in China by Mr. Qureshi and China Department staff. Assuming that there are no problems, taking into account Executive Directors' comments on China's economic performance, and given the pressure of other Board business in June, as many as four other China operations might also be considered before the end of FY90. Linked to this, and to possible measures to further improve China's relations with the Bank, as Mr. Qureshi suggested during his recent mission, it would be in China's interest to remove any doubts among China's many friends about the pace and progress of reform. It would be helpful, in particular, to take advantage of the success in stabilizing the economy to move decisively--and fairly soon--on price and other reforms that would firmly establish conditions for China's continued economic growth and social development during the 1990s.

Cleared with and cc: Mr. Burki

cc: Ms. Haug

PMCadario:pmc

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

~~Mr. Conable~~
~~Mr. Conable~~

DATE: April 24, 1990

TO: Files

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: Mr. Qureshi's visit to China, March 31-April 8, 1990

1. Mr. Qureshi spent nine days in China visiting Chongqing and Chengdu in Sichuan province, Nanjing in Jiangsu province, Shanghai and Beijing. During the first part of his trip, he visited four townships and village enterprises (two in Chongqing and two in Nanjing), and rural farms in Guanghan county in Sichuan. A list of the senior leaders met by Mr. Qureshi is contained in Annex 1.

2. This note provides a brief overview of the messages received from the senior Chinese leadership and the messages given to them by Mr. Qureshi during more than 35 hours of meetings with them. It also provides a brief assessment of the current economic situation in China, including the World Bank staffs' assessment of the country's economic prospects. Mr. Edwin Lim and I accompanied Mr. Qureshi on all the field visits and attended all the meetings held by him. We were joined by Oktay Yenal and Shahid Yusuf for the meetings in Beijing.

I. China's Current Economic Situation

3. In 1988, China's economy experienced serious overheating. Led by the industrial sector, its gross domestic product increased by 11% - in Jiangsu, industrial expansion was of the order of 27% - and inflation increased by 18.5%. In August 1988, people greeted the leadership's announced plans for major price adjustments in 1989 with panic buying. The buying spree produced long queues of consumers in all major cities. Unlike most socialist countries, this was a new phenomenon for China. The leadership reacted by postponing further price liberalization and by launching a program aimed at "economic rectification and deepening of economic reforms". This program was ratified by the Fifth Plenum of the 13th Central Committee in November 1989.

4. The leaders consider the program a success. Inflation has been brought down - on an annualized basis, the consumer price index is estimated to have increased at the rate of only 6.5%

during the first quarter of 1990. Price stability was achieved with a combination of demand restraining administrative measures. Emphasis was on reduction in investment brought about by administrative fiat as well as a sharp credit squeeze. Workers' wages and bonuses were also controlled. Compared to the management of previous cycles, the People's Bank of China played a more prominent role in restraining demand this time by successfully restricting credit over a sustained period. Adjustment in interest rates for bank deposits and the introduction of an indexing mechanism for protecting the value of deposits helped to further reduce consumption.

5. On the supply side, a bumper grain harvest - 407.9 million tons which is a record for China - also helped to moderate the increase in prices as did the decision to allow more generous imports in the first half of 1989.

6. While imports were constrained in the second half of 1989, exports increased significantly and in the first quarter of 1990, China had a small visible trade surplus. In 1989, foreign reserves increased by about 1 billion dollars and the net increase in external debt outstanding is about $1.3 billion. In December 1989 the Chinese Yuan (RMB) was devalued by 20%.

7. Price stability was not achieved without cost and the economy's landing was harder than planned. In the first quarter of 1990, industrial output is estimated to have declined by over one percent. There is a considerable increase in urban unemployment, estimated to have gone up from 2.5 to 4.0% of the labor force.

II. Economic Policies: The Political Economy of Economic Management

8. In the area of overall economic policy, there seems now to be consensus among the senior leaders in Beijing on a number of important issues. For instance:

- o There is consensus that inflation of the type experienced in 1988-89 cannot but have serious economic, social and political consequences. Moderating the increase in prices, therefore, deserves the regime's full attention. In this respect as well, the Jiang Zemin/Li Peng political alliance is considerably less tolerant of inflation than Zhao Ziyang. In Zhao's dinner with Barber Conable in March 1989, he said that he was prepared to tolerate double digit inflation to achieve double digit rates of growth. Jiang and Li have settled for a much more moderate expansion in GDP. It was pointed out to Mr. Qureshi that, having seen the GDP increased by 120% in 1980-90, an increase of 80% in 1990-2000 would still

achieve its quadrupling in twenty years. This arithmetic implies a growth rate of 5.7% a year.

o There was repeated reaffirmation of the Government's continued commitment to reforms and to maintaining an open economy. The commitment to these two objectives is clearly more than just political rhetoric meant to please critics outside China. The leaders of China frequently point to the benefits obtained by China in the form of increased agriculture and industrial productivity and economic well being as a result of the reforms, in particular the increased reliance on the market. Instructions have been sent to the economic ministries in Beijing and to the provinces and municipalities to start drawing up an agenda of reform which will become a part of its 8th Five Year Plan (1991-1995). More than anything else, openness would provide China with new technology and help to modernize its antiquated industrial capital. The commitment to openness has taken the form of <u>further encouragement to the existing special economic zones, Hainan province, and 14 special cities</u>. (Chongqing, one of the 5 cities visited by Mr. Qureshi is an "open" city.) While we were not able to obtain many details about what is intended, it was announced to us that the provinces of Fujian, Guangdong, and Shanghai would also be allowed special privileges aimed at attracting direct foreign investment. Mayor Zhu Rongji said to Mr. Qureshi that the pace of change and opening to outside world would be "rapid, decisive and, for some people who remain skeptical, quite unexpected." Pudong, a district east of Shanghai city, already inhabited by a million people, will be developed rapidly. Foreigners would be invited to establish, if need be, fully owned industries. This will be facilitated by the passage of a joint venture law by the March 1990 meeting of the National People's Congress. Mayor Zhu also said that the scope of operation of foreign banks would be expanded. Currently, foreign banks are limited to opening representative offices; it is expected that they will be allowed to conduct certain types of banking business in large cities such as Shanghai. Chen Yuan, Vice Governor of the People's Bank, announced through the press while we were in Beijing that China was planning a rapid

modernization and internationalization of its financial sector. This emphasis on openness appears to have resulted in some revival in the interest of foreign investors. Anecdotal evidence collected by our Resident Mission in China seems to indicate that while new applications for investment approvals declined in 1989 by 75% compared to 1988, the record for 1990 seems somewhat better compared to 1989.

o There appears to be a consensus that while planning is integrated with market forces, public ownership should continue to occupy an important place in the economic structure. Collective and private forms of ownership will continue to be allowed -- and even encouraged in the more advanced provinces such as Jiangsu -- but the present leadership in Beijing seems quite determined to reserve a dominant role for the public sector in certain areas. In fact, they are anxious that China's commitment to reform and openness should not be interpreted by observers outside China as a commitment to an extensive conversion of public to private ownership.

o Economic management continues to be extremely decentralized in most areas. The central leadership seems fully prepared to accept provincial autonomy as long as the provincial leaders accept broad guidance from Beijing. Indeed the process of decentralization has gone so far that only general guidance and broad policy direction on economic issues from Beijing appears feasible. This formula is acceptable to the local leaders as well who consider rapid expansion and inflation as destabilizing factors but are interested to let the tightening be done from Beijing. In this way, the governors and mayors are able to ward off the pressures exerted by locally powerful groups -- workers, peasants and enterprise managers.

o In the present international environment, there is heightened concern and sensitivity on the part of the Chinese about excessive dependence on the outside world. As a result, worried by structural imbalances in the economy, the leadership seems inclined to divert additional resources into sectors deemed to have "priority", or where there are scarcities and/or structural imbalances. Coal, energy, transport, and agriculture were identified as the sectors that require special state attention. Thus, for example, China's

historical preoccupation with attaining food self-sufficiency, and avoiding dependence on food imports, has resurfaced in full force.

9. While there appears to be political consensus on the five issues identified above, agreement has yet to evolve in two other important areas: the relative weight to be placed on planning in economic management as distinguished from reliance on the free market, and the precise timing for instituting the next phase of reform. In Beijing, some leaders said that, in the process of integrating market with planning, planning will continue to have the dominant role; and a number of other influential leaders -- including Prime Minister Li Peng and Governor of Jiangsu -- said that the success of an economic system should not be measured by the proportion of output that was subject to planning as against the forces of the market place. On the other hand, the indication in the provinces that Mr. Qureshi visited was that the administrations were very conscious of the benefits that had accrued from competition and the free interplay of market forces and that they were continuing to move in that direction.

10. On the timing of new reforms, a number of different dates were mentioned. Ma Hong talked about developing the new reform agenda in the first two years of the 8th Five Year Plan, while Zou Jiahua said that a new phase of reforms should coincide with the launching of the plan in 1991. The mayors of Shanghai and Chongqing and the Governor of Jiangsu left us with the strong impression that reforms were already under way. They cited the new joint venture law, the decision to continue with housing reform and the reform of the social security system as evidence of reforms being a continuous effort rather than something that needs to be introduced in phases.

III. The Bank's Policy Advice: The Qureshi Mission and the Country Economic Memorandum Under Preparation

11. In his wide-ranging discussions with the senior leaders, Mr. Qureshi emphasized a number of issues of importance not only for China but also for the Bank's work in the country. For instance:

- o While noting the recessionary signs in the economy and the concern of the authorities at the falling industrial output and growing unemployment, he counselled against a large injection of credit into the economy at this stage. He urged the authorities to move quickly toward the stated goal of achieving fiscal balance and to continue to restrain monetary expansion. It was important for China to break out of the stop and go cycles which had characterized its economic performance since

reforms began in 1978 and to adopt a consistent set of policies to achieve a sustainable rate of economic growth.

- o He emphasized that allowing public ownership the dominant role in the economy should not necessarily lead to the conclusion that planning had to be the dominant mode of economic decision-making. Market forces function effectively in any economic system. They provide signals which lead to a more efficient allocation of resources and more efficient utilization of installed capacity.

- o He felt that it was particularly necessary for China to institute further reforms in the economy. A modest expansion of credit judiciously applied to support further reforms both in agriculture and industry would be the most effective way of countering the economic recession and creating sound conditions for sustained growth. Ad hoc or selective injections of credit in "problem" areas would not be conducive to sound economic renewal. Thus the current slow down provided a window of opportunity the Chinese would do well to use. The prevailing near recession in the industrial sector should be allowed to trigger the exit of inefficient firms and the admission of new ones. Without institutional and legal frameworks that permitted firms to exist and enter, China would find it difficult to achieve its goal of industrial modernization. Similarly in the rural areas, the development of grain and "land-use" markets, the expansion of special economic zones, and support for TVE's would further strengthen agricultural production, exports and rural incomes.

- o He thought that, in line with its objective of maintaining an open economy, China should continue to strengthen its trade and payments position and further increase its presence in international markets by maintaining sound domestic finances coupled with a competitive exchange rate. Such policy had been used successfully by China's neighbors in East Asia. There was no reason why such an approach could not be followed with great benefit to China as well.

- o He identified a number of areas requiring further reforms. These include rationalizing the

structure of prices; improving the financial system; strengthening the People's Bank of China by making it possible to regulate and supervise financial institutions and use indirect levers for controlling the supply of credit; improving enterprise management by separating management from ownership; establishing rural land markets and financial institutions to support them; improving the flow of goods and factors of production across provincial boundaries; and, putting into place a national social security and unemployment insurance system.

12. Mr. Qureshi told the senior leaders that a number of these areas were covered in the draft country economic report which was being discussed in Beijing by Messrs. Yenal and Yusuf.

IV. The Bank's Strategy in China

13. All the senior leaders we met thanked the Bank for the important role it had played in China since the country resumed its membership in 1980. They pointed to the economic advice the Bank had provided, the technical assistance it had given in improving and modernizing management practices and technology, and the financial resources it had placed at China's disposal for implementing a number of important projects as some of the important elements in the Bank's work in China. "The Bank is careful in what it does", Prime Minister Li Peng told Mr. Qureshi. "Although it takes a long time to prepare projects once launched the projects are implemented very well". Mr. Qureshi was told that China looked to the Bank to provide the same kind of support in the future. However, the leaders said that for the Bank to remain effective in China, it must be seen to act independently, basing its directions on the professional judgments of its highly competent staff rather than reacting to political pressures. They feel that the Bank's independent image had been eroded as a result of the repeated postponement of discussions in its Board of China projects.

14. Mr. Qureshi agreed that we should provide technical assistance in the form of "free standing" technical cooperation credits and loans. In this context, he offered help to the People's Bank of China for both hardware and software. He would also like to see the EDI continue its training efforts in China on a scale in line with its past programs.

15. Finally, in a wrap-up meeting with Edwin Lim and myself, Mr. Qureshi said that in our Board presentation on May 29 we should ensure that our future lending and non-lending activities

should be more explicitly linked with poverty alleviation on the one hand and the pursuit of reforms by China on the other. He would like the China Department to bear this in mind in preparing its next three year rolling program for discussion in China in the fall of 1990. Areas to be covered, explicitly and implicitly, should include those identified by him in his discussions with China's leaders (see paragraph 11 above). He would also like us to take cognizance of the fact that, initially, some reform efforts are likely to be concentrated in such coastal areas as Fujian, Guangdong and Shanghai and in the island of Hainan. It, would, therefore be appropriate to concentrate some of our operations in these provinces.

16. Given the authorities' continued receptivity to the Bank's significant involvement in China and their continuing need for policy advice, Mr. Qureshi felt that we should focus our economic and sector work on the areas of reform. This should be the guiding principle for the China Department when it discusses the next three year ESW program with the Chinese authorities in June 1990.

cc: Messrs. Conable
Qureshi
Karaosmanoglu
Yenal
Golan (see para. 14)

China Management Group

Attachment

SJBurki/MAQureshi:fvf

ANNEX 1

Senior Leaders Met by Mr. Qureshi During His Visit to China
(March 31 - April 8, 1990)

1.	Jiang Zemin:	Secretary General of the Communist Party and Chairman of the Military Commission
2.	Li Peng:	Prime Minister
3.	Wang Bingqian:	Finance Minister and State Councillor
4.	Li Guiian:	Governor of the People's Bank of China and State Councillor
5.	Zou Jiahua:	Chairman State Planning Commission and State Councillor
6.	He Kang :	Minister of Agriculture
7.	Chen Huanyou:	Governor of Jiangsu province
8.	Zhu Rongji :	Mayor of Shanghai
9.	Sun Tongchuan:	Mayor of Chungqing
10.	Xie Shijie:	Vice Governor of Sichuan province.
11.	Ma Hong:	Director of the Development Research Center.
12.	Gao Shangquan:	Vice Chairman of the System Planning Commission

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

1) ~~BBC~~

~~2) MH~~

3) file - China

DATE: March 26, 1990

TO: Mr. Barber B. Conable, EXC

FROM: Harry K. Nicholas, EXTDR

EXTENSION: 74541

SUBJECT: Eximbank Activity in China

1. US Eximbank has taken action on six projects in china since the Tiananmen Square events. They are extension of US$23.2 Million of credits to General Railway Signal and other suppliers for Shanghai Metro and five new commitments of credit or guarantees for oil exploration, petroleum coker plant, nuclear power management, hydroelectric engineering services and turbine power plant; total $148.9 Million. Details are on attached sheet.

2. Eximbank total exposure in China as of March 1 was $509.2 Million. This is comprised of:

$ 253.4 Million in Outstanding offers,
75.8 Million in Pending applications,
105.2 Million in Preliminary commitments and
69.6 Million in Final authorizations.

3. The International Development and Finance Act of 1989 prohibited financing of US business activities with China, but permitted the President to waive the prohibitions on the basis of national interest. He did so on December 19, 1989 in order to preserve "a level playing field for US business."

4. In policy statements Eximbank maintains it is operating at a reduced level in China, on a case-by-case basis. Its approvals are limited to medium and long-term offers or commitments only where project decisions are imminent, the bidding condition requires an offer or the US bidder would be excluded from consideration without it. Consultation with other government agencies is required. Still in place are suspension of exports of military goods and services and deferral of liberalized controls on high technology exports. In regard to the latter condition, Eximbank states that licensing of satellites for China was a normal commercial transaction for civilian purposes to benefit Australia and other friendly countries.

HKNicholas/mjv

China

March 20, 1990

1. What is Eximbank's present position on China?

Since June, Eximbank has operated at a reduced level of activity in China.

Eximbank has limited itself to making new medium- and long-term offers only where project decisions are imminent; where it is clear that an active bidding situation requires an offer, or the U.S. bidder would be excluded from consideration by the buyer; and only after Eximbank has consulted with other U.S. Government agencies. Financing offers approved under the above criteria are also being converted into final commitments.

Exim exposure as of February 28, 1990 was $509.2 million.

Exim currently has outstanding offers totalling $253.4 million (loan value). The outstanding offers include support for projects in the electric power and petrochemical sector.

Exim currently has pending applications totalling $75.8 million (loan and guarantee value). The pending applications are for projects in the electric power, plastics, glass, and food processing sectors.

Four preliminary commitment offers totalling $105.2 million (loan value) have been approved since June 1989.

Three final medium- and long-term authorizations since June 1989 to the present total $23.18 million (loan/grant value) and $46.41 million (guarantee value) for a total of both of $69.59 million.

THE WHITE HOUSE

Office of the Press Secretary

STATEMENT BY THE PRESS SECRETARY

For Immediate Release December 19, 1989

Today, in signing the International Development and Finance Act of 1989, H.R. 2494, the President decided to exercise provisions provided for in the bill which would waive prohibitions on the Export-Import Bank's financing of U.S. business activities with the People's Republic of China.

The President waived the prohibitions on the grounds of national interest. This does not return the Export-Import Bank's activity to business as usual with China. Since June Ex-Im has limited itself to providing preliminary financing commitments where project decisions are imminent. This reduced level of activity closely approximates that of our competitors. The waiver, by maintaining the status quo, preserves a level playing field for U.S. business. Additional business activity with China will be considered on a case-by-case basis as part of a continuing review process.

# # # #

China

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

March 13

BBC-

Pat Coady called me in yesterday to talk about the attitudes on the Hill toward lending to China. He was concerned about what Secretary Brady might face at the hearing of the Obey Subcommittee tomorrow. I hear that both Obey and Edwards will raise questions about it.

Generally I told him that attitudes were mixed but that there was still some strong opposition. I said the Sunday NY Times story (copy enclosed) reporting that Bush was disappointed and frustrated by the failure of the Chinese to respond to his efforts at reconciliation would likely encourage further questioning on the subject.

Coady noted that attitudes at the White House had clearly hardened because his instructions were now for a tougher stance. He thought the "human needs" approach to lending was sound and sustainable, but the highway project put on the schedule for next week departed from this tactic and seemed to be certain to produce a confrontation with the G-7 members. He was disappointed by that.

HKN

March 14

BBC-- Re Lending to China

A full report on today's hearing of Secretary Nicholas Brady before the House Foreign Operations Subcommittee is being written by Judy Maguire, but I want to advise you immediately of Chairman Obey's blunt, direct warning to the Secretary on lending to China. Obey said if the World Bank resumes lending to China on "a business-as-usual basis", he would regard that as "an extremely unfortunate judgment." If the Administration wants approval of the US contribution to the new IDA increase this year, it will be impossible if the World Bank resumes normal lending to China, Obey declared. An attitude adjustment is required (presumably by China), Obey said. With all due respect to the President, he continued, he is going down the wrong road, sending the wrong message.

Secretary Brady had explained earlier that the US supported "human needs" loans but remained opposed to lending for projects or structural adjustent, a position he believed is shared by the other G-7 nations.

During their questioning of the Secretary, both Congressmen Mickey Edwards and Jerry Lewis raised questions about US policy on lending to China. They said they supported the position outlined by Secretary Brady.

HKN

China file

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 12, 1989

TO: Mr. Barber B. Conable, President

FROM: Mr. Harry K. Nicholas, EXTDR HKN

EXTENSION: 74542

SUBJECT: **Lending to China**

As recent reports have indicated, there has been strong criticism in the US Congress of the Bush Administration's action of sending high-ranking officials to meet with leaders of the People's Republic of China. This was to be expected in view of the tough legislative action regarding relations with China taken by Congress in the recent session and the Opposition's eagerness to confront the President. This memo is written to assure that you are familiar with just how extensive is the legislation in this area; it includes provisions in three bills: Foreign Operation Appropriation Act, Authorization for Export-Import Bank, Etc., and State Department Authorization Act.

The Foreign Operations Appropriations Act holds up the release of $115 Million of IDA funds until January 1, 1990 pending findings of the President. The $115 Million can be released only if the President finds that no loans to China have been approved before that date and that if such loans are provided the United States Government believes the loans will support the process of increasing individual freedoms and improving human rights in China.

The Export-Import Bank Authorization Act provides that the Ex-Im Bank shall not "finance any trade with, nor extend any loan, credit, credit guarantee, insurance or reinsurance to the People's Republic of China", except for food or agriculture commodities. To waive these restrictions the President must find that progress has been made on political reform and that it would be in US interest to resume these relations.

The most comprehensive restrictions are included in the State Department authorization bill which the President vetoed for reasons unrelated to China. The House repassed the measure but the Senate declined approval on yet another issue; it will be reconsidered in the next session. Largely at the insistence of the Senate, this bill would enact into law the many prohibitions placed in effect after the Tienemen Square suppression and require extensive Presidential findings in order to remove them.

It includes the following suspensions, to be lifted only upon the Presidential findings:

1) all financial support or assistance by Overseas Private Investment Corporation;

2) any assistance through the Trade and Development Program;

3) issuance of licenses for export of defense items;

4) issuance of licenses to export crime control and detection instruments;

5) export of satellites;

6) license for export of nuclear production material, technology or facilities;

7) any liberalization of controls on exports of goods and technology.

In order to terminate these suspensions the President must report to Congress that the People's Republic has made progress on political reform throughout the country, including:

a) lifting of martial law;

b) halting of executions and other reprisals against persons for the nonviolent expression of political beliefs;

c) release of political prisoners;

d) increased respect for internationally recognized human rights, including freedom of expression, press, assembly and association;

e) permitting freer flow of information, including Voice of America and access of foreign journalists.

As alternative, the President may find that termination of any suspension is in the basic national interest of the US. An initial report on these matters is to be made to the Congress within 60 days of enactment.

File - China

OIC
BBC

DRAFT
Karaosmanoglu/Burki
Aguirre-Sacassa/Vogl
Cadario/Chamberlin
January 18, 1990
3:45 p.m.

CHINA OP-ED

In a few days the World Bank's Board of Directors will consider two loans to the People's Republic of China. If the Board acts favorably, these two projects, one for earthquake reconstruction and the other for agricultural development in a very poor province, will mark the resumption of World Bank lending to China after nearly an eight month hiatus. No decision I have taken as President of the World Bank has aroused as much interest and debate among our member countries as this one. Although this step is sure to be criticized, we believe that the resumption of lending to China is fully justified and a further delay unwarranted.

The incident last June at Tiananmen Square plunged China into controversy. At the World Bank, our charter required us to focus our response ~~was necessarily focussed~~ on economic considerations. Could China continue to implement ongoing World Bank projects? Would expatriate technical personnel be willing and available to work there? Would China continue to pursue policies consistent with prudent economic management, and did conditions exist for a resumption of high quality project lending?

Our concern with economic and management issues is not a recent shift in policy of the World Bank, but at the heart of the institution's character and mission since its founding over forty years ago. The World Bank's Articles of Agreement are quite explicit. In our mandate to assist in raising productivity and reducing poverty in our developing member countries "the Bank and its officers shall not interfere in the political affairs of any member;

nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve these purposes".

In a world that is politically volatile and compelling, the World Bank must strive to be non-political. Soon after the events at Tienanmen Square, the World Bank postponed consideration of new lending owing to the insecure conditions in the country that threatened to affect our staff and projects. At the same time, international public opinion coalesced around the idea of international sanctions, and many expressed views at technical and political levels that the Bank should not lend to China. In a context of intense international concern, we then methodically set out to assess economic conditions and policies in China. Our first visits were followed up by more detailed economic and sectoral missions both to examine existing projects and to evaluate the environment for new lending and policy reform. This process, carried out over the summer and into the fall, yielded abundant evidence that, on economic grounds, World Bank assistance in support of China's urgent developmental needs was ~~clearly~~ still warranted. Let me review our findings.

First is the question of the quality of China's management of its economy at the macro level. China's economic growth performance through most of the 1980's has been unmatched in the developing world, averaging over 10 percent annually and achieving substantial reductions in the level of poverty. In the last two years, China's economy has been beset by overheated, inflationary conditions which were undermining the stability that is essential for economic growth and improvements in the standard of living. Faced with these difficulties that have proved so damaging elsewhere in the developing world,

China managed a remarkable correction. By November, inflation had been brought down to a 7-8 percent annualized rate, compared to over 25 percent a year ago. Unrestrained credit and runaway investment rates, which were fanning the inflationary fires, have been reduced and refocused on high priority infrastructure and productive investments. China's external debt, currently about $43 billion, increased by only $1 billion during 1989, with foreign exchange reserves growing by about $2 billion from their mid-year low. China's external debt is less than half the average burden for developing countries and is serviced without difficulty. In mid-December China devalued its currency in order to further contain unnecessary imports and spur competitive export industries. These are policies and achievements which the World Bank has recomended and supported not only in China, but in other countries experiencing similar macroeconomic problems.

Second, despite some slow-downs and reversals, China's economic reform program has continued substantially on course in several key areas which the World Bank has supported, notably in social security, agriculture, housing and taxation. The overall framework of economic liberalization which has unfolded in China over the past ten years continues in rural and suburban areas where private businesses and village enterprises continue to operate in a competitive environment. The agenda for reform, however, remains a long one. A major issue is the decontrol of prices, which began to loose momentum well before last June, and is now stalled. In addition, the state productive sector which still is too heavy a drain on the economy, will have to undergo management and financial restructuring. On balance, however, we believe that China's economy retains many openings for further progress in reform and liberalization, and that encouragement rather than isolation is in the interests of the Chinese people.

Third, the government's social and poverty related programs, which have done so much to improve the basic welfare of over 1 billion people, continue to require and deserve the World Bank's project support. Living standards have improved markedly during the 1980's, but China is still one of the poorest countries in the world with average per capita incomes below $1 per day. Education will have to be modernized and upgraded in quality. Agriculture and rural development will need to focus on the poor, most remote regions of China. The health system will have to cope with an aging population exposed to environmental hazards, and the escalating problems of air and water pollution in China's large cities will need to be addressed urgently.

We are working with China on economic policies and public investments that will support these reforms. Under current circumstances, it is easy to be concerned that the government will undertake less reform than it could and should. Left alone, isolated from the forces of the international economy, without the experience and advice of other countries, and lacking international investment and technology, less reform surely will be the outcome in China. The World Bank has been, and will continue to be, a force for integrating China's economy with the rest of the world.

The concerns of the World Bank are, therefore, three-fold. Further posponement of our lending to China will inflict economic hardships on China and most importantly on its people; it will further isolate this country at a sensitive stage in its economic reform program; and it will jeopardize the economic character and mission of the World Bank. Those are high costs, and they explain why I have recommended the resumption of lending to China.

January 26, 1990

Mr. Conable

The votes to override President Bush's veto of the Chinese students visa legislation (Pelosi bill) passed the House, 390-25, on January 24 but failed in the Senate, 62-37, (4 short), on January 25. Voting to override were all Democrats (1 absent) and 8 Republicans: Armstrong, Boschwitz, Cohen, Gorton, Helms, Kasten, Pressler, and Wilson. The central argument of the overriders was that the President was backing the wrong team in China, a team that was responsible for the massacre at Tiananmen Square and is on the way out. Both the NY Times and Washington Post (copies attached) editorialized for override, writing that the US should not appear to accommodate to the severe civil rights violations of the Chinese. The papers can be expected to take a similar position on resumption of Bank lending.

What will be the effect of this outcome in Congress?

It is my thought that it will be beneficial because the President is seen to prevail and he advocates a more flexible policy toward the Chinese government. Thus if the Bank decides to proceed gradually with a resumption of lending to China, the US Administration will not criticize that course though some in Congress will. Bill Stanton and some others express a different view: that the outcome is detrimental to the Bank. Though the Presidential veto was not overriden, it drew a heavy negative vote. As a result, Stanton and others believe the Democrats will seek another opportunity to repudiate the President's China policy. That could be with a bill or resolution affecting the Bank, they fear.

Harry K. Nicholas

The Washington Post
AN INDEPENDENT NEWSPAPER

Overriding the China Veto

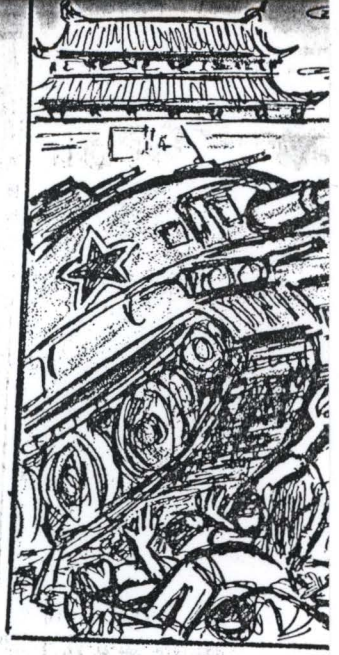
TODAY THE House is expected to override President Bush's veto of the Chinese student visa bill. The Senate vote, which will follow, will probably be closer, and the White House has put pressure on Republicans there to stand by the president. They should hold their ground.

The bill, introduced by Rep. Nancy Pelosi (D-Calif.) in the aftermath of the Tiananmen Square massacre, would waive for four years a provision of the immigration law that requires most of the 40,000 Chinese now studying in this country to return home as soon as their studies are completed. Many, especially those who participated in demonstrations here, are quite reasonably afraid to return. The measure was passed by the House 403 to 0 and by the Senate on a voice vote, but President Bush, citing his concern for the future of the Chinese cultural exchange program, vetoed it. But aware of the pressure from Congress, he took administrative actions to provide the same protections to students who are now here. Proponents of the bill say, nevertheless, that a statute is necessary: it is more permanent and less likely to be challenged in court.

We believe there is a more persuasive argument in favor of an override. The president's actions—including this veto—since the demonstrations in China have sent confusing signals about American reaction to the violence. An override would make it clear that this country does not bow to threats of official retaliation against the exchange program and does not forget or minimize what happened in Beijing last spring.

Winston Lord, ambassador to China in the Reagan years, made the case clearly to the Senate Judiciary Committee yesterday. "[F]airly or unfairly", he said, "the vote on this issue will be interpreted abroad and at home not just as a decision on how best to protect Chinese students in America, but more fundamentally as a referendum on our posture toward the current Chinese regime. . . . If the veto and accompanying administrative instructions were carried out in the context of a firm, balanced policy of condemnation and connection, the president's position would probably not be misconstrued. But in the wake of the misguided Scowcroft missions and other unilateral American steps, defeat of this legislation would be assessed by both Beijing and the world as one more step toward unrequited normalization."

Many Americans have been shocked by recent Bush administration overtures to the hard-liners in Beijing, and they reject the implication that memories of Tiananmen Square are fading fast. Congress can correct any misconceptions by overriding this veto.



Entrapment?

YOU DO NOT have to be a member of the "Re-elect Marion Barry Mayor" campaign to have some heavy, nagging doubts about he manner of Mayor Barry's investigation and rosecution. Not only were his conduct of office nd his personal life the object of intense, probing fficial scrutiny for years—long past the time that dry-hole investigation of someone else might have een dropped. The actual circumstances of his rrest, when it finally came, involved an almost mbarrassingly abundant measure of federal artfulss and contrivance, not to say a troublesome ement of a trap. On the latter score, some of the ayor's sympathizers believe he has a good legal fense of entrapment to the charge of drug ssession. Others, including many with no brief the mayor, speak in more general terms of ckery, disproportionality and unfairness; they are easy about the overbearing, almost obsessive y the authorities pursued him for what turns out be only an alleged misdemeanor.

The particular legal question is easily disposed Unless the sworn statements of witnesses are and the videotape has been rigged, Mr. Barry cifically asked for drugs, paid for them and dence information concerning his character and earlier conduct. We note that Mr. Barry's attorney has played down the possibility that the entrapment defense would be successful.

But that does not dispose of the possibility that prosecutorial zeal verged onto imbalance and overkill. It still must be asked if there was cause for the government to go after the mayor in the particular way it did. On consideration, we think there was.

Law enforcement authorities always prosecute selectively. They must, since they do not have the resources to go after every drug user in the city. It would be unfair if their choices were based on arbitrary or biased grounds such as race, sex or political affiliation. But in this instance, U.S. Attorney Jay Stephens had good reason to suspect the mayor was involved in a long-standing pattern of criminal behavior: Mr. Barry had personal relationships with at least two known drug dealers, of whom one had told investigators he used drugs with the mayor. The prosecutor had further to consider that he was dealing not with an ordinary citizen but with the official who was in charge of the city's police and who possessed much power over

LETTE

It is unfortunate that Marion Bar has gotten himself into yet anoth mess involving illegal drugs. The i sue is not his obvious problem wi this terrible substance, which seem to have consumed his life. The issue can he govern a city that is torn at it seams with the crime associated wit this dehumanizing problem.

It is my opinion that he lost th ability to lead the city in its effort t deal with drug abuse when his person al life became the No. 1 issue and tha life was also under suspicion of drug abuse.

The only honorable thing left for Mr. Barry to do is to step down. The District of Columbia is in a state of siege by this awful scourge, and we must have leadership that is beyond reproach—especially when it comes to the sale or use of illegal drugs.

way. But how much pain that causes them depends on how much the economy grows between now and then. Future taxpayers won't mind the tax burden if they feel well-off. The best way to guarantee that is for the nation to invest in education and capital equipment.

The big danger of the Moynihan tax-cut proposal is that it threatens such investment. Tax cuts drive up the deficit, siphoning private savings away from productive investment. The economy could shrivel, making future tax burdens unbearable.

even bigger deficit and more pain for the next generation.

A better outcome would be for Congress to redistribute unfair tax burdens away from the poor without raising the deficit. But the best outcome of all would be to protect lower-income people now and also reduce the deficit. That would insure higher incomes when the Social Security bills come due. If that happens, Senator Moynihan's "hand grenade" will have done enormous good.

On China, Trust Is Not Enough

Congress now has an excellent opportunity to show Beijing, and President Bush, how the American people feel about the backward-looking policies of China's fading leaders, and the Administration's shameful apologetics on their behalf. It can do so by voting this week to override Mr. Bush's veto of a measure that could help guarantee Chinese students in this country a chance to stay.

The bill, originally sponsored by Representative Nancy Pelosi, California Democrat, passed both houses overwhelmingly. But the President, heeding Chinese demands, vetoed it last month, just as he sent his high-level aides off to China. For Congress to override would clearly signal that the American people are not yet ready for business as usual with the butchers of Beijing.

Any Administration is entitled to considerable leeway from Congress in the routine conduct of foreign relations. And the Administration notes, correctly, that it has, by executive action, granted students the same right to apply for renewal of their visas without first returning home. But that just makes the veto look like a transparent attempt to appease Beijing.

China is anything but a routine foreign policy issue. Sino-American relations directly affect more than a billion people. They touch on a wide range of issues, including America's human rights standards, military cooperation between two nuclear powers and attitudes toward the murderous Khmer Rouge in Cambodia.

The right way for a President to handle such questions cannot be simply to say: Trust me, I'm an old China hand. Since the surprise December mission to Beijing, Americans have made plain their deep distrust of the President's China initiatives — even before the Administration admitted earlier high-level contacts with Chinese leaders. Can Congress now trust the permanence of executive remedies for the student visa problem?

By overriding the veto, Congress can nudge America's China policies back toward decency.

Back to the Past in Haiti

Haiti's nightmare continues. There is no justification for Gen. Prosper Avril's crackdown on Haiti's moderate opposition. The promise of democracy raised by the overthrow of Jean-Claude Duvalier in February 1986 keeps receding ever further. Washington's sharp, prompt signal of disapproval is the right response.

There's a bitter lesson here for Panama. Shipping a dictator out of the country is only the first step. The roots of dictatorship have to be dug up.

Late Saturday, General Avril decreed a one-month state of siege, in order, he said, "to protect democratic accomplishments." There are shamefully few such accomplishments to show for four years of post-Duvalier rule, and the latest round of official intimidation does nothing to protect them.

Political activists report dozens of arrests and beatings. Those deported include Dr. Louis Roy, main author of Haiti's 1987 democratic Constitution, and Hubert de Ronceray, a moderate and a likely presidential candidate. Silvio Claude, another likely centrist candidate, has prudently gone into hiding. On Monday, three radio stations were attacked.

General Avril previously served both Duvaliers, Papa Doc and Baby Doc. He also collaborated with Gen. Henri Namphy, the military leader who let thugs shoot up one set of elections in 1987 and who rigged another in 1988. Still, when General Avril ousted the Namphy regime 16 months ago, many hoped his pledges of democracy were sincere.

So long as General Avril seemed bent on a fair election, he deserved the benefit of the doubt. But episodes of repression and intimidation have multiplied. Duvalierists inside and outside the Government seem determined to block any possibility of a reform administration.

The Bush Administration was once inclined to give General Avril that benefit of the doubt. Now, mincing no words, Washington promptly warns that the general has "put at risk the democratic process in Haiti" and undermined "the confidence of the international community in Haiti's commitment to that process." It asks that the latest measures be quickly rescinded.

Such bluntness could have a useful effect. If General Avril means to become yet another dictator, he must know he will get no help from the U.S. Meanwhile, the Haitian people suffer on.

Special Counsel, Special Care

Topics of The Times

Mayor Dinkins of New York, dogged by charges of ethical lapses during his campaign, shows welcome sensitivity. He has asked for a [illegible] inquiry by the De-

consider the wrinkles it has built into new rules on the franking privilege, the right to send free mail.

The House and Senate moved last fall to curb the soaring costs of the franking privilege. It is an important reform. The urge to communicate [illegible] election years, discriminating

It Takes Astron To Retrieve Sa

To the Editor:

The naysayers to th humans living and wor must be disconcerted shuttle Columbia's su trieval of the scientific ailing and falling Long D sure Facility (news artic

This achievement co been carried out by rob technology of robotics a sufficiently in the nea term future to allow a ment such as this.

The recapture of the cal to our knowledge b sign of the space sta and the subsequent Mi Earth. The experienc great value to the ne maintenance of the Telescope and for kee tific instrument in its p

However remote the rain of fiery debris Duration Exposure have been, it has chance. The Canadian to this effect; the odds that a satellite falling land on their soil. But

This event should a extent of our commit station, space astron exploration and n space and other huma

The astronauts o Aeronautics and Sp tion well deserve the of the scientific com also of all of those been in the path of trophe. Lou

Public Service Sat Washir

Voting Prop

To the Editor:

"How much longe City elections rema moded manual prone to breakdow Voting Booth Stall Times, Jan. 7).

The commissione Elections are fully necessity of choos system. However, which it is estima city $40 million to not be made where questions remaini ing, feasibility, per plementation.

Even the "exha by the special

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/12/07 DUE DATE : 00/00/00
LOG NUMBER : 891207002 FROM : Mr. Stern
SUBJECT : China Lending

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
__✓__ FOR YOUR INFORMATION
__✓__ FOR YOUR REVIEW ~~AND RECOMMENDATION~~
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

December 7, 1989

Mr. Conable

Barber -

China Lending

I want to set out once again the schedule I believe we must adhere to, if the process I have worked out with the Treasury is to succeed.

(1) The Treasury expects to be able to get the certification to the President around December 31, for signature on January 2. But, we should not confuse intentions with the deed. We are monitoring the progress of the certification and we must not commit ourselves publicly to a schedule which assumes no slippage.

(2) Assuming the President signs the certification on January 2, it will go to the Congress where it must lie for 15 days. Congress is in recess so no action is possible. During that period we (i.e., you and Bill) need to make some contacts on the Hill, to make sure our subsequent action does not catch any of the relevant people off base.

(3) On this schedule, we should be able to circulate the documents for the Earthquake credit on January 15. Routine consultations by Thahane would permit Board consideration on January 29 or February 1.

(4) Should the certification be in process but delayed, we should review the matter. If the delay is one of days only, we should delay the circulation of documents. It is only if we judge the delay to be substantial that we should proceed.

(5) The reason I urge that we not quibble about days is that the consequences are substantial. We have to keep in mind that:

- It is not in our interest, nor that of the PRC, to risk anywhere from $115 million to $460 million of IDA resources for FY90, over the question of whether the Earthquake credit gets to the Board at the end of January or early February.

- The situation on the Hill, while no doubt manageable is unsettled. Proceeding with lending without prior consultation could be costly.

- o The U.S. GCI subscription is contingent on legislative action this Spring. We surely wish to avoid having that become a vehicle for retributive action.

- o Proceeding with lending if a certification is in sight will, in addition to risking the funds, complicate the appropriation of IDA-9 funds because arrears will have to be dealt with.

I recognize the PRC has been patient and that you want to move. I agree that we should not allow ourselves to be held hostage to U.S. legislative edicts. But, neither should we risk a substantial loss of funds and major future problems, over a matter of days.

If you do not agree with this approach, which we have discussed before, you need to let me know so I can correct my understanding with the Treasury.

Ernest Stern

cc: Mrs. Haug

cc: * MH
JWS

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/11/21 DUE DATE : 00/00/00
LOG NUMBER : 891121001 FROM : Mr. Stern
SUBJECT : China Limitation

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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_____ * ✓ FOR YOUR REVIEW ~~AND RECOMMENDATION~~ with BBC
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

***IMPORTANT**

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CONFIDENTIAL

November 21, 1989

Mr. Conable

Barber -

China Limitations

The Congressional language on China is attached. It is important that we are clear about the issue and our tactics.

The language provides that $115 million of the IDA appropriation cannot be released before January 1, 1990.

After January 1, 1990, it can be released only if the President certifies that:

either (a) no loans were made to China since June 27, 1989;

or (b) that if such loans have been made, they support the process of increasing individual freedoms and improving human rights.

What this means is that if we have made no IDA credits to China, the President could, shortly after January 1, certify this to the Congressional committees. With a 15-day delay, Treasury could then release the $115 million to us. As a practical matter, we cannot expect any of the $958 million much before then, anyway. At the earliest, the vetoed aid bill will not pass again before the end of this month.

If Treasury were to agree to this approach, and allowing for the lead time on the paper work for Presidential certifications, we might get such a certification by January 15. All IDA funds could then be notified to us as available for commitment by February, and we could get Board approval for the loans.

What is essential to this scenario is Treasury agreement. They know that loans are pending and that we are expediting an "earthquake" loan. If they do not accept that we should lend to China, they can hold up the certification. Obviously, much will depend on whether the President believes it is desirable for us to start lending.

Of course, if this scenario is agreed, we will need to inform some of the relevant Congressmen that we intend to proceed shortly after the expiration of the 15-day notice period.

The alternative scenario is for us to commit IDA credits in January. If we do, the President can then only certify (B). There is very general agreement that he would not. In that case, the $115 million will not be usable in FY90.

There are several consequences to this. Financially, a temporary loss of $115 million is unpleasant but not crucial. It remains an obligation of the U.S., and we would expect the funds to be made available in future years. However, that will mean an IDA appropriation for FY91 of $1060 plus $115 million, which will be difficult under the best of circumstances. If the full amount is not appropriated, IDA will face several years of arrears by the U.S. In addition, the amount carried forward will impinge on the rest of the already tight MDB budget, including the IFC's plans. And there is the risk that some in Congress will react to having their views ignored and take that out on IDA-9 appropriations, either by writing tighter restrictions on China (if that is still an issue) or in general (to teach us a lesson). You are in a better position than I am to judge this latter factor.

Attached is the list of pending IDA credits to China. The "earthquake" credit is additional. It is not obvious to me that we would not be best served by trying the first scenario. It may appear more satisfactory for us to demonstrate our independence by going ahead with the loans, but the fact of the matter is that we are likely to have more freedom in the future if we can circumvent the problem. I realize that the PRC is pressing for action, but there is no great substantive urgency. You can test the feasibility of the first scenario easily with Messrs. Brady, Baker and Scowcroft, and decide on the second only if it is clear that they do not intend to deliver a Presidential certification in January.

I recommend, as the next step, that you explore with them their willingness to have the President make the certification in early January.

Ernest Stern

cc: Mr. Stanton

CONTRIBUTION TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION

For payment to the International Development Association by the Secretary of the Treasury, $958,333,333, for the United States contribution to the replenishment, to remain available until expended: *Provided*, That $115,000,000 of the funds made available under this heading shall be withheld from obligation until January 1, 1990: *Provided further*, That such funds withheld from obligation may be obligated after January 1, 1990, only if the President certifies: (1) that the International Development Association has not provided any new loans to China since June 27, 1989, or (2) that, if such loans have been provided, the United States Government believes that such loans will support the process of increasing individual freedoms and improving human rights in China: *Provided further*, That fifteen days prior to any obligation of funds for the International Development Association, the President shall report his certification to the Committees on Appropriations of the House and Senate, and the Committee on Banking, Finance and Urban Affairs of the

House of Representatives and the Committee on Foreign Relations of the Senate:

PENDING OPERATIONS IN CHINA

	$ Millions	
	IDA	IBRD
Jiangx Agriculture	60	0
Jiangsu Transport I	50	100
Vocational Technical Education	50	0
Yanshi Thermal	0	180
Third Technical Cooperation Credit	30	0
Medium-Sized Cities	80.8	79.4
Shanghai Industrial Development	0	150
	270.8	509.4

Country: CHINA
September 21 at 10:45 a.m.

Delegation: WANG, Bingqian, Minister of Finance
XIANG, Huaichen, Vice Min. of Finance
WANG, Liansheng, World Bank Dept., MOF

BACKGROUND

- There has been some recent easing of austerity measures in place since late 1988.
- Eighth Five-Year Plan (1991-95) is under preparation and is expected to include a "reform plan". Will be presented to the National Peoples' Congress in March 1991.

POINTS TO MAKE TO DELEGATION

1. **Status of the Economy and Reform Program**. You should invite the Minister to inform you about:
   (a) current state of the economy and prospects for 1991 and beyond;
   (b) the timetable for further economic reform;
   (c) main features of the Eighth Five-Year Plan.

2. **Reiterate Key Messages of the Bank's Country Economic Memorandum** particularly:
   (a) Urgent need to strengthen capacity at the center for macroeconomic policy including the refinement of indirect policy instruments.
   (b) Opportunity now for phased decontrol of prices for agricultural procurement, retail food and industrial materials.
   (c) Importance of deepening industrial and enterprise reforms.
   (d) Rationalize planning of infrastructure investment, ensure adequate financing and develop appropriate pricing policy for services provided.

IF THE DELEGATION MENTIONS:

1. **Timetable for resumption of normal lending to China**

   YOU SHOULD REITERATE the Bank management's and your own strong personal desire to see our normal lending relationship reestablished as quickly as possible, especially in support of economic reform you expect China to continue pursuing. Keen that this process be smooth without any setbacks.

   The Houston Summit's political declaration, in your view, provides a basis to generate adequate Board support, but the US position, influenced mainly by Congressional considerations, still remains highly restrictive. Could create problems with negative impact on China and the Bank.

   Nonetheless, you intend to circulate the proposed Rural Industrial Technology (SPARK) project to the board in mid-October. Meanwhile, you understand the Rural Credit project has been successfully negotiated and you expect that it can be circulated soon after the Annual Meetings in early October.

   You would encourage China to persevere in its own efforts with major shareholders, particularly the G-7.

2. **IDA lending and their expectation of receiving $1.1 billion**

   YOU SHOULD INDICATE that the Bank will do its best, but the Chinese will have to be realistic. There are many demands on IDA this year, especially in view of the Gulf crisis which should have boosted oil revenues for China.

   Also, you would like to see use of both IBRD and IDA resources for projects (e.g., environment, rural sector) where they have traditionally only sought IDA.

FY90 Commitments: $590m
Disbursements: $1,125m

Estimated GDP Growth: 1.5% p.a. (1989)
Lending Program (FY91-92): $4.1 billion

1990 ANNUAL MEETINGS BRIEF

CHINA September 21, 1990 at 10:45 am

Meeting with: WANG Bingqian, Minister of Finance
XIANG Huaicheng, Vice Minister of Finance
WANG Liansheng, Director, World Bank Department, MOF

Population: 1100.1 m (1989); **Estimated Growth Rate:** 1.5% (1989);

GNP per capita: $ 336 (1988)

	(US$ million)		(US$ million)
Total Commitments to FY90:	9,207.50	**FY90** Commitments:	590.00
of which:		Disbursements:	1,125.16
Bank (50 operations)	5,280.20	Amortization:	85.40
IDA (33 operations)	3,927.30		
Total Undisbursed:	4,423.20		
Lending Program FY91-92:	4,149.20		

Summary Data	Average 1985-89	Projection 1990
GDP growth	8.4	3.0
Export growth	23.5	7.3
Import growth	16.5	1.0
Current Acc. Balance % GDP	-1.8	-0.5
Gross Debt Service Ratio	9.4	9.2
Annual Inflation Rate	11.7	14.0

Aid Group Meeting: n.a.
Last Meeting: n.a.
IMF Status as of: 8/90
No Standby in place.
Art. IV consultation scheduled for 11/90

Background: Having succeeded at controlling inflation and imports through the use of mainly direct controls, China should take advantage of price stability and a comfortable BOP to define and launch new phases of price and other reforms.

Issues likely to be raised by the Delegation:

1. Timetable for resumption of normal lending to China.

Issues to be raised by Bank Management:

1. Status of reform program and timetable for next steps.

Attachments:

FIVE YEAR LENDING PROGRAM: FY90-93 (FY90 actual)

Biographical Information

Issues likely to be Raised by the Delegation

1. Timetable for resumption of normal lending to China. Finance Minister Wang Bingqian will doubtless seek your current assessment of prospects for normalizing Bank/IDA lending to China, following the G-7 Houston Summit last July. [For your information, we have 11 negotiated projects ready for Board presentation, including 5 still outstanding from FY89, and, in addition, 5 appraised projects now effectively ready for negotiations] In reply, you may wish to note (a) that the Houston Summit Political Declaration (a compromise) appears to provide the basis for gradually diversifying Bank/IDA lending beyond 'basic human needs' projects to those that "support economic reforms, including the environment"; (b) that there is recent, albeit not yet conclusive, evidence of a desire by some (European) countries to relax the hitherto tight G-7 consensus, but that the United States position, influenced partly by Congressional consideration of IDA-9, remains highly restrictive; and (c) that you intend to exploit these still evolving circumstances as soon as possible - e.g. by presenting the proposed Rural Industrialization & Technology project (the so-called SPARK project) to the Board at an early date (hopefully in October). You should also emphasize the need for China to make its own diplomatic *demarches* to the G-7 - including during the current Bank/Fund Annual Meetings - and enquire what steps the Chinese authorities have taken since July, in addition to those already taken vis-a-vis Japan.

Issues to be Raised by Bank Management

2. Status of Reform Program and Timetable for Next Steps. The 7th Plenum of the Party's Central Committee is expected to convene in mid-September and, following the Asian Games in Beijing (September 22 - October 7), we expect the authorities to be preoccupied for the rest of calendar 1990 and the early months of 1991 with preparation of the 8th Five Year Plan (1991-95) which will be presented, together with the 1991 Budget, to the National People's Congress (China's legislature) next March/April. We understand that the Plan, in addition to stating China's economic and social development objectives, may include a "reform plan". In any event, it will provide some indication of the prospects for continued reforms.

3. Against this background, including the effectiveness of the austerity measures in place since late 1988/early 1989, you should invite Minister Wang (who, we understand, has been briefed accordingly) to address the following inter-related issues: (a) the current state of, and prospects, for China's economy in 1991 and beyond; (b) the timetable for continued implementation of economic reforms; and (b) the main expected highlights of the 8th Five Year Plan. Drawing attention to our recent Country Economic Memorandum (CEM), you may wish to reiterate some of its key messages: the urgent need to strengthen the capacity of the central agencies responsible for macroeconomic policy, including the refinement of indirect policy instruments; the opportunity that the current economic environment provides for proceeding with a plan for the phased decontrol of agricultural procurement prices, retail food prices, and prices of industrial materials; the need for continued progress in industrial and enterprise reforms; and, the desirability of actions needed to rationalize infrastructure investment planning, to ensure its financing, and to develop appropriate pricing policies for the public services provided.

4. Finally, you may wish to signal that future Bank/IDA lending and economic and sector work will need to be linked, more explicitly and visibly than before, to support of China's economic reform policies. This is appropriate in terms of China's development priorities, in our view; desirable in terms of securing Board support for the Bank's China program overall; and necessary in terms of ensuring China's continued access to IDA resources under IDA-9.

CHINA: FY90-93
FOUR-YEAR LENDING PROGRAM

(US$ Million)

AGRICULTURE	FY90	FY91	FY92	FY93
1 Jiangxi Ag. Dev.	60.0 *			
2 National Afforestation	300.0			
3 Hebei Ag. Dev.	150.0			
4 Rural Cr. IV		277.5		
5 Mid-Yangtze Ag. Dev.		64.0		
6 Henan Ag. Dev.		110.0		
7 Irr. Ag. Intensification		300.0		
8 Ag. Support Services			125.0	
9 Guangdong Ag. Dev.			150.0	
10 (S) Tarim Basin			125.0	
11 Xiaolangdi Multipurpose				350.0
12 Hexi Corridor				150.0
13 (S) Sichuan ADP				120.0
SUBTOTAL AGRICULTURE	510.0	751.5	400.0	620.0
No. of Projects	3	4	3	3

INDUSTRY & ENERGY	FY90	FY91	FY92	FY93
1 Rural Ind. Tech. & Serv.		110.0		
2 Yanshi Thermal		180.0 *		
3 Shanghai Ind'l Dev.		150.0 *		
4 Ertan Hydro		380.0		
5 Zouxian Thermal Power			300.0	
6 Jiangsu Chemical			100.0	
7 So. Jiangsu Env.				150.0
8 (S) FIDL				300.0
SUBTOTAL IND. & ENER.		820.0	400.0	450.0
No. of Projects		4	2	2

TRANSPORT	FY90	FY91	FY92	FY93
1 Jiangsu Prov. Transp.		150.0 *		
2 Railways V			350.0	
3 Zhejiang Transport			350.0	
4 Guangdong Prov. Transp.				400.0
5 (S) Shanghai Metro. Trpt.				80.0
SUBTOTAL TRANSPORT		150.0	700.0	480.0
No. of Projects		1	2	2

ENVIRONMENT,HUMAN RESOURCES	FY90	FY91	FY92	FY93
1 Vocational Education	50.0 *			
2 Liaoning Urban		70.0		
3 Key Studies Dev.		120.0		
4 Med. Size Cities		160.2 *		
5 Environment I (Beijing)			150.0	
6 Rural W.S. & Sanitation			120.0	
7 (S) Prov. Education			150.0	
8 (S) Infectious Disease			100.0	
9 Liaoning Env.				100.0
10 Health IV				100.0
11 Zhejiang Urban				150.0
12 (S) Tianjin Urban				100.0
SUBTOTAL ENVIRONMENT	50.0	350.2	520.0	450.0
No. of Projects	1	3	4	4

COUNTRY OPERATIONS	FY90	FY91	FY92	FY93
1 North China Earthquake	30.0			
2 Financial Sector TA			50.0	
3 Tech. Coop. (TCC III)				30.0 *
SUBTOTAL COD	30.0		50.0	30.0
No. of Projects	1		1	1

	FY90	FY91	FY92	FY93	4 YR TOTAL
TOTAL ALL SECTORS	590.0	2,071.7	2,070.0	2,030.0	6,761.7
OF WHICH IBRD	0.0	1,234.4	1,033.0	1,175.0	3,442.4
IDA	590.0	837.3	1,037.0	855.0	3,319.3
No. of Projects	5	12	12	12	41

* One of five remaining FY89 projects deferred for Board presentation.

AS3CO/8/16/90

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

WANG Bingqian - Minister of Finance (Minister Wang)
XIANG Huaicheng - Vice Minister of Finance
WANG Liansheng - Director, World Bank Department, Ministry of Finance (Director Wang)

Biographical Sketches

WANG Bingqian: Born in 1925 in Hebei Province. From 1949-62 he held a variety of managerial posts in the Ministry of Finance. Following the Cultural Revolution, he was appointed Vice Minister of Finance and since 1980 has been Minister. He met with Messrs. Conable and Qureshi during their respective visits to China in March/April 1988 and September 1987.

XIANG Huaicheng: Born in 1939. After graduating in economics from Shandong University in 1961, Vice Minister Xiang joined the Ministry of Finance. During his career, he served in the Tax Bureau and the Budget Department. Before his elevation to Vice Minister in June 1986, he was Deputy Director of MOF's Comprehensive Department. His normal duties do not include the Bank or Fund.

WANG Liansheng: Born in 1931 in Hebei Province. Following his assignment as the World Bank's Executive Director for China from 1980 to 1984, Mr. Wang was appointed Director of the External Finance Department of the Ministry of Finance (MOF). His department was reorganized into the World Bank Operations Department, which he continues to head. In addition, he participates for China in UN bodies responsible for budget questions. After the Annual Meetings, he is expected to replace Mr. Zhang Junyi as China's Executive Director.

1990 ANNUAL MEETINGS BRIEF - IFC

CHINA

(Member Since 1980)

1. Meeting Time and Place: 10:45 (9/21)

"Courtesy call" - Friday, September 21, 1990, Chinese ED's office *confirmed

2. Representing China:

Mr. Wang Liangsheng: Director for World Bank Department, Ministry of Finance

3. Representing IFC:

Messrs Parmar, Quan, Lee, Kupasrimonkol

4. Topics to be Raised by IFC:

- o Emphasize IFC's continuing commitment to assist China, e.g. by providing technical assistance, such as for the silk project in Zhejiang Province, FIAS's work and CMD work with the Shanghai Stock exchange.
- o IFC staff visit to China in November.

5. Topics to be Raised by the Chinese:

- o The Chinese Director has objected to Mr. Conable to IFC's mention of a "still uncertain country environment" in the Committee of the Whole paper dated March 22, 1990. In view of this, it is possible that higher ranking Chinese officials may ask to meet with Mr. Ryrie to discuss this issue. We should also expect the Chinese side will inquire about the resumption of IFC business in China.

6. Attachments:

Annex 1. IFC Country Strategy.
Annex 2. Statement of IFC's Investments in China.
Annex 3. IBRD Annual Meetings Brief.
Annex 4. Biographical Information.

6544A

CHINA

IFC COUNTRY STRATEGY

SUMMARY

- In view of the Bank Group's position on new investments in China, no new IFC commitment was made in FY90. However, IFC completed an appraisal of the US$62 million Beijing Information Systems Project, and pre-appraised the Dow Chemical project in Ningpo and the expansion of Guangzhou Peugeot. These projects are presently on hold; the respective sponsors have been apprised of IFC's position and they have reacted positively and with understanding. As of June 30, 1990, IFC's commitment in five projects in China totalled US$44.3 million (Annex II).

- IFC continues to work actively on new project prospects and over the past year two promotion visits to China, and one to Taiwan, China (to identify potential investors), were undertaken by Investment Department staff.

- Technical assistance work is also progressing, and include:

  - In progress, is technical assistance for a feasibility study of a linen expansion project in Liaoning, using trust funds;

  - A visit by Mr. Ducksoo Lee to Zhejiang Province to evaluate the silk industry and fishery ventures. This is to be followed this fiscal year by further assistance work involving specialists, to help modernize the industries;

  - FIAS is continuing its work with the Ministry of Foreign Economic Relations and Trade (MOFERT) on attracting foreign direct investment. FIAS is presently undertaking a survey of foreign investors in China and abroad to evaluate the existing obstacles and impediments to possible increased flow of FDI to China. This work should serve as a basis for developing a program of advisory assistance to MOFERT to strengthen China's investment environment;

  - Following the successful series of seminars in China orgainized by CMD and the EDI in March 1988 and May 1989, CMD is discussing with the Shanghai authorities possisible assistance for the Shanghai Stock Exchange. In addition, CMD is discussing with potential investors to establish a leasing company.

A. BUSINESS ENVIRONMENT

- In the aftermath of June 1989, the political and economic climate in China became highly uncertain. Confidence of foreign investors was badly shaken, and foreign banks ceased lending. Over the last few months, however, foreign banks and foreign investors, especially those with major and long-term commitments to the China market, have taken cautious steps to reactivate their China operations. One positive aspect is the generally more flexible and realistic attitude of the Chinese authorities.

- Inflation reached a peak prior to June 1989 and appears now to have been arrested. However, this has been achieved at the cost of a severe austerity program, resulting in a very tight credit situation and production dislocations. In an attempt to improve the balance of payments, the RMB was devalued from RMB3.7 to RMB4.7 to the US dollar. The full impact of the devaluation has yet to be seen, but tourism is beginning to increase again, for the first time since June 1989. The authorities realize that economic liberalization has brought significant benefits to the country, through increased capital formation, technology transfers and foreign direct investment flows. Accordingly, we expect the Government to continue its policies of economic reform, albeit at a more conservative pace.

- Overall, the Government appears to have established stronger control over economic and political matters. However, apart from the austerity program, a clear economic direction and focused set of policies have yet to emerge. Thus, although there has been a return to stability, expectations remain uncertain, and there continues to be concern over what will happen when Deng Xiao Ping leaves the scene.

- Given the above situation, the Government has indicated its anxiousness that IFC play a bigger role in attracting foreign investments into China. On the part of foreign investors, they also see a greater need for the IFC umbrella and funding. The potential exists, therefore, for an expanded IFC role.

B. IFC FOCUS AND STRATEGY

- IFC's short term approach to China will be in a holding pattern. However it is important to show the Government IFC's desire to continue to be active in China, particularly in providing technical assistance and processing the longer gestation type projects to lay the groundwork for IFC's program to take off at the appropriate time.

- IFC's longer-term strategy will reflect the need for an expanded IFC role noted above. Investment department promotional efforts will be conducted:

- with strong emphasis on the coastal cities and special economic zones, where most of the froreign investments are still being made, e.g Dalian, Tianjin, Shenzhen, Xiamen, Hainan, etc.

- and targetting of high probability foreign investor communities, such as Taiwanese and South Korean businesses, both of which continue to exhibit strong interest in and comfort levels with investing in China.

o IFC's focus will continue to be on the joint-venture sector. Although previously a number of Chinese private groups had been identified as potential partners for IFC investment, the changed conditions have made these no longer viable propositions, at least in the short term. Sectors of specific interest to IFC include labor-intensive export industries (e.g. electronics), minerals, chemicals (in which the World Bank has done condsiderable work), automobile and machinery components.

C. NEW BUSINESS

o Beijing Information Switching Systems. $62 million project to produce digital telephone switching systems. Sponsored by Siemens AG and Beijing Wire Communications Company. Appraisal was completed in October 1989, but there was a delay in getting COCOM approval of the technology transfer elements. Approval has now been received.

o Guangzhou Peugeot Expansion. Expansion from 15,000 to 30,000 vehicles per year has been under discussion for some times. Feasibility study was completed in July, 1990 with changes in project scope.

o Dow Chemical Project. $54 million, 20,000 mtpy propylene oxide plant. Joint venture between Dow and Government. IFC appraisal was scheduled for September 1990.

(IFC processing of the above projects are on hold. The sponsors have be apprised of the Bank Group's position and have reacted well under the circumstances. They remain keen to have IFC participation and have requested IFC to advise them as soon as IFC can resume making commitments.)

o Joint Venture Commercial Bank. Appraisal of this joint-venture in Xiamen has been completed. Participants include Agricultural Bank of China, Rabobank, DG Bank, DBS of Singapore and Yasuda Trust. Proposed IFC investment: $7.5 million for 12.5% of equity. Project on hold as Government is unwilling to permit the bank to take deposits or lend in local currency.

D. PORTFOLIO

- IFC has five portfolio projects in China as shown in Annex II. There are no problem projects, although the two investments noted below require close monitoring.

- JF China Investment Co. $23 million fund for investment in China projects. Company has made slow progress in realizing its investment program. Its net asset value has declined from US$23 million to about US$20 million due to losses from projects and other investments IFC is initiating a review of the Company's strategy/focus as well as its operational shortcomings. IFC's investment: $3.0 million in subordinated loan.

- Shenzhen-Chronar Solar Energy. $10.2 million project to manufacture photovoltaic panels, principally for export. IFC has disbursed its $1 million equity (20% shareholding) but has not disbursed the $2 million loan. Project is on hold and is being reassessed because of financial difficulties of the technology partner, Chronar USA. Sponsors are restructuring the project to reduce dependence on Chronar for its technical and marketing needs.

ANNEX 2

STATEMENT OF IFC INVESTMENTS IN CHINA

(As of June 30, 1990)
(US$' 000)

Fiscal Year	Obligor	Type of Business	Original Commitments			Total Held by IFC	Undisbursed including Participants' Portion
			Loan	Equity	Total		
1986	Peugeot	Motor Vehicles & Accessories	15,000	3,225	18,225	17,287	-
1988	China Bicycles	Bicycles	5,000		5,000	4,167	-
1988	JFM	Project Promotion	3,000	36	3,036	3,036	-
1989	Crown Electronics	Electronics	15,000		15,000	15,000	-
1989	Shenzhen Chronar	Solar energy	2,000	1,000	3,000	3,000	2,000
	TOTAL		40,000	4,261	44,261	42,490	2,000

1990 ANNUAL MEETINGS BRIEF

CHINA September 21, 1990 at 10:45 am

Meeting with: WANG Bingqian, Minister of Finance
XIANG Huaicheng, Vice Minister of Finance
WANG Liansheng, Director, World Bank Department, MOF

Population: 1100.1 m (1989); **Estimated Growth Rate:** 1.5% (1989);

GNP per capita: $ 336 (1988)

	(US$ million)		(US$ million)
Total Commitments to FY90:	9,207.50	**FY90** Commitments:	590.00
of which:		Disbursements:	1,125.16
Bank (50 operations)	5,280.20	Amortization:	85.40
IDA (33 operations)	3,927.30		
Total Undisbursed:	4,423.20		
Lending Program FY91-92:	4,149.20		

Summary Data	Average 1985-89	Projection 1990	
GDP growth	8.4	3.0	Aid Group Meeting: n.a.
Export growth	23.5	7.3	Last Meeting: n.a.
Import growth	16.5	1.0	IMF Status as of: 8/90
Current Acc. Balance % GDP	-1.8	-0.5	No Standby in place.
Gross Debt Service Ratio	9.4	9.2	Art. IV consultation
Annual Inflation Rate	11.7	14.0	scheduled for 11/90

Background: Having succeeded at controlling inflation and imports through the use of mainly direct controls, China should take advantage of price stability and a comfortable BOP to define and launch new phases of price and other reforms.

Issues likely to be raised by the Delegation:

1. Timetable for resumption of normal lending to China.

Issues to be raised by Bank Management:

1. Status of reform program and timetable for next steps.

Attachments:

FIVE YEAR LENDING PROGRAM: FY90-93 (FY90 actual)

Biographical Information

Issues likely to be Raised by the Delegation

1. Timetable for resumption of normal lending to China. Finance Minister Wang Bingqian will doubtless seek your current assessment of prospects for normalizing Bank/IDA lending to China, following the G-7 Houston Summit last July. [For your information, we have 11 negotiated projects ready for Board presentation, including 5 still outstanding from FY89, and, in addition, 5 appraised projects now effectively ready for negotiations] In reply, you may wish to note (a) that the Houston Summit Political Declaration (a compromise) appears to provide the basis for gradually diversifying Bank/IDA lending beyond 'basic human needs' projects to those that "support economic reforms, including the environment"; (b) that there is recent, albeit not yet conclusive, evidence of a desire by some (European) countries to relax the hitherto tight G-7 consensus, but that the United States position, influenced partly by Congressional consideration of IDA-9, remains highly restrictive; and (c) that you intend to exploit these still evolving circumstances as soon as possible - e.g. by presenting the proposed Rural Industrialization & Technology project (the so-called SPARK project) to the Board at an early date (hopefully in October). You should also emphasize the need for China to make its own diplomatic *demarches* to the G-7 - including during the current Bank/Fund Annual Meetings - and enquire what steps the Chinese authorities have taken since July, in addition to those already taken vis-a-vis Japan.

Issues to be Raised by Bank Management

2. Status of Reform Program and Timetable for Next Steps. The 7th Plenum of the Party's Central Committee is expected to convene in mid-September and, following the Asian Games in Beijing (September 22 - October 7), we expect the authorities to be preoccupied for the rest of calendar 1990 and the early months of 1991 with preparation of the 8th Five Year Plan (1991-95) which will be presented, together with the 1991 Budget, to the National People's Congress (China's legislature) next March/April. We understand that the Plan, in addition to stating China's economic and social development objectives, may include a "reform plan". In any event, it will provide some indication of the prospects for continued reforms.

3. Against this background, including the effectiveness of the austerity measures in place since late 1988/early 1989, you should invite Minister Wang (who, we understand, has been briefed accordingly) to address the following inter-related issues: (a) the current state of, and prospects, for China's economy in 1991 and beyond; (b) the timetable for continued implementation of economic reforms; and (b) the main expected highlights of the 8th Five Year Plan. Drawing attention to our recent Country Economic Memorandum (CEM), you may wish to reiterate some of its key messages: the urgent need to strengthen the capacity of the central agencies responsible for macroeconomic policy, including the refinement of indirect policy instruments; the opportunity that the current economic environment provides for proceeding with a plan for the phased decontrol of agricultural procurement prices, retail food prices, and prices of industrial materials; the need for continued progress in industrial and enterprise reforms; and, the desirability of actions needed to rationalize infrastructure investment planning, to ensure its financing, and to develop appropriate pricing policies for the public services provided.

4. Finally, you may wish to signal that future Bank/IDA lending and economic and sector work will need to be linked, more explicitly and visibly than before, to support of China's economic reform policies. This is appropriate in terms of China's development priorities, in our view; desirable in terms of securing Board support for the Bank's China program overall; and necessary in terms of ensuring China's continued access to IDA resources under IDA-9.

CHINA: FY90-93
FOUR-YEAR LENDING PROGRAM
(US$ Million)

AGRICULTURE	FY90	FY91	FY92	FY93
1 Jiangxi Ag. Dev.	80.0 •			
2 National Afforestation	300.0			
3 Hebei Ag. Dev.	150.0			
4 Rural Cr. IV		277.5		
5 Mid-Yangtze Ag. Dev.		84.0		
6 Henan Ag. Dev.		110.0		
7 Irr. Ag. Intensification		300.0		
8 Ag. Support Services			125.0	
9 Guangdong Ag. Dev.			150.0	
10 (S) Tarim Basin			125.0	
11 Xiaolangdi Multipurpose				350.0
12 Hexi Corridor				150.0
13 (S) Sichuan ADP				120.0
SUBTOTAL AGRICULTURE	510.0	781.5	400.0	620.0
No. of Projects	3	4	3	3

INDUSTRY & ENERGY	FY90	FY91	FY92	FY93
1 Rural Ind. Tech. & Serv.		110.0		
2 Yanshi Thermal		180.0 •		
3 Shanghai Ind'l Dev.		150.0 •		
4 Ertan Hydro		380.0		
5 Zouxian Thermal Power			300.0	
6 Jiangsu Chemical			100.0	
7 So. Jiangsu Env.				150.0
8 (S) FIDL				300.0
SUBTOTAL IND. & ENER.		820.0	400.0	450.0
No. of Projects		4	2	2

TRANSPORT	FY90	FY91	FY92	FY93
1 Jiangsu Prov. Transp.		150.0 •		
2 Railways V			350.0	
3 Zhejiang Transport			350.0	
4 Guangdong Prov. Transp.				400.0
5 (S) Shanghai Metro. Trpt.				80.0
SUBTOTAL TRANSPORT		150.0	700.0	480.0
No. of Projects		1	2	2

ENVIRONMENT, HUMAN RESOURCES	FY90	FY91	FY92	FY93
1 Vocational Education	50.0 •			
2 Liaoning Urban		70.0		
3 Key Studies Dev.		120.0		
4 Med. Size Cities		160.2 •		
5 Environment I (Beijing)			130.0	
6 Rural W.S. & Sanitation			120.0	
7 (S) Prov. Education			150.0	
8 (S) Infectious Disease			100.0	
9 Liaoning Env.				100.0
10 Health IV				100.0
11 Zhejiang Urban				150.0
12 (S) Tianjin Urban				100.0
SUBTOTAL ENVIRONMENT	50.0	350.2	520.0	450.0
No. of Projects	1	3	4	4

COUNTRY OPERATIONS	FY90	FY91	FY92	FY93
1 North China Earthquake	30.0			
2 Financial Sector TA			50.0	
3 Tech. Coop. (TCC III)				30.0 •
SUBTOTAL COD	30.0		50.0	30.0
No. of Projects	1		1	1

	FY90	FY91	FY92	FY93	4 YR TOTAL
TOTAL ALL SECTORS	590.0	2,071.7	2,070.0	2,030.0	6,761.7
OF WHICH IBRD	0.0	1,234.4	1,033.0	1,175.0	3,442.4
IDA	590.0	837.3	1,037.0	855.0	3,319.3
No. of Projects	5	12	12	12	41

• One of five remaining FY89 projects deferred for Board presentation.

AS3CO/8/16/90

ANNEX 4

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

Although a meeting with Mr. WANG Liansheng is expected, the biodata of Mr. CHI Haibin, Senior Vice Minister of Finance, has been included in case he requests a meeting with IFC.

Biographical Sketches

CHI Haibin: Mr. Chi has been Vice Minister of Finance since 1982. In 1984, he was appointed council member of the People's Bank of China and deputy head of the State Council's Leading Group for General Survey in China's Industry. Since 1985, he has also been a Managing Director of People's Bank. Vice Minister Chi oversees China's relations with the Bank.

WANG Liansheng: Born in 1931 in Hebei Province. Following his assignment as the World Bank's Executive Director for China from 1980 to 1984, Mr. Wang was appointed Director of the External Finance Department of the Ministry of Finance (MOF). His department was subsequently reorganized into the present World Bank Operations Department, which he heads. In addition, he participates for China in UN bodies responsible for budget questions.

CHINA

MIGA - ANNUAL MEETINGS BRIEFS

The following issues related to MIGA, which you may wish to raise in your meetings with delegations. In summary:

(a) Non-member countries would be encouraged to sign and/or ratify the MIGA Convention;

(b) Some countries would be asked to complete their subscription payments promptly; and

(c) Other countries would be asked to give favorable considerations to facilitate MIGA operations.

China

Investment activity in China has been suspended for some time, but investors' interest is reviving. MIGA has received a lot of inquiries and presently there are six applications registered.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
September 20, 1990	Memorandum	

Correspondents / Participants
To: Mr. Wilfried P. Thalwitz, PRESV
From: Ibrahim F. I. Shihata, LEGVP

Subject / Title
AVRDC and China

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
September 19, 1990	Memorandum	

Correspondents / Participants
To: Ibrahim F. I. Shihata, LEGVP
From: Andrew N. Vorkink

Subject / Title
China - Taiwan

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

~~Sept~~

China

file

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/02/05 DUE DATE : 00/00/00
LOG NUMBER : 900205007 FROM : Mr. Stern
SUBJECT : Note - G-7 consensus on China

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
__✓__ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

DECLASSIFIED
MAR 24 2017
WBG ARCHIVES

CONFIDENTIAL

February 5, 1990

Mr. Conable

Barber -

I am told that the G-7 consensus on China is still intact. Certainly, the US is deploying a great effort to achieve their objective. As of Friday, I understand that three of the other six G-7 members had given their EDs' written instructions to go along with the US' position. Two others have made oral commitments and their instructions may since have arrived.

The G-7 cohesion is crucial. If all G-7 votes are firm, that constitutes a majority of the Board. In that case, I would suggest that you:

- Tell the Board that you have been told by EDs constituting a majority that they will not approve the Agricultural Loan on February 8. They would, however, do so later.

- In view of this, you will not proceed with the discussion on February 8 but will reschedule it. There is no point in needlessly polarizing the Board by a vote.

- Should the EDs be able to present you with a different view of the current position, you would consider the matter further.

To back off now has a high cost in terms of your credibility. To minimize the damage, you should draw the line between your intention and the lack of a majority in the Board.

Ernest Stern

cc: Ms. Haug

1) ~~LM/MM~~

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/02/01 DUE DATE : 90/02/09
LOG NUMBER : 900202003 FROM : Mr. Shihata
SUBJECT : CHINA: Signature of the ICSID Convention

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

file - China

2)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

URGENT

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 1, 1990

TO: Mr. Barber B. Conable

FROM: Ibrahim F.I. Shihata

EXTENSION: 74945

SUBJECT: China - Signature of the ICSID Convention

Arrangements have been made for the signature by China of the ICSID Convention on February 9, 1990 at 2 p.m.

This is a major step for ICSID as China has accounted for the largest share of recent flows of direct foreign investment to developing countries (21% in the period 1984-87).

In a trip to Beijing in January 1985, I discussed with the Chinese authorities the benefits of joining ICSID and supporting MIGA and have since pursued the matter with them. China became a founding member of MIGA and will be the 99th signatory of the ICSID Convention.

cc: Messrs. Qureshi
Karaosmanoglu
Burki

900126090 LM/MH

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

C.F. (China)

RECEIVED
90 JAN 26 PM 2:09
SVPOP

CORRESPONDENCE DATE : 90/01/26 DUE DATE : 00/00/00
LOG NUMBER : 900126003 FROM : Sec. Brady
SUBJECT : Concerns regarding World Bank Lending to China

OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241) BBC

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____✓ FOR YOUR REVIEW AND RECOMMENDATION
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_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :cc: MH
Hand delivered today - 1/26/90

URGENT

C-Bug -
per MH, events make it unnecessary to respond.
Gls. log + file
Filed in log.
2/7
CP

THE SECRETARY OF THE TREASURY
WASHINGTON

January 26, 1990

The Honorable Barber B. Conable
President
International Bank for Reconstruction
and Development
Washington, D.C. 20433

Dear Barber:

I am writing to raise with you concerns regarding World Bank lending to China. As you know, the Administration has carefully reviewed its position on this issue. I know that Pat Coady and Charles Dallara have already outlined the position to you, but I wanted to reiterate a few key points.

First, we continue to discourage any general resumption of World Bank lending to China. We would not oppose, however, a very gradual and moderated resumption of lending to China solely for basic human needs (BHN) purposes. We believe it is critical, however, that such lending be measured and very carefully paced.

In that connection, I would underscore two points: the importance of not circulating documents for the Earthquake Credit before January 30, and the need to put this credit to the Board independent of any other China loan. In our view, the Earthquake Credit should not be considered in the Board before February 13, and a second loan for basic human needs (the Jiangxi Agricultural Credit), should not be considered before the end of February or early March. This position has not only received full support within this Administration but by the G-7 as well. Any faster pace regarding the circulation of documents or consideration of these loans could be highly counterproductive.

I am sure you understand the sensitivity of this issue. I believe that a more accelerated approach would pose grave risks to IDA and World Bank funding this year.

I appreciate your cooperation in this matter.

Sincerely,

Nick

Nicholas F. Brady

~~IWS~~
~~IMF~~

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

China - file

CORRESPONDENCE DATE : 90/01/16 DUE DATE : 00/00/00
LOG NUMBER : 900117004 FROM : Mr. Attila K (MAQ)
SUBJECT : Proposed Op-ed on China

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
__✓___ FOR YOUR REVIEW ~~AND RECOMMENDATION~~
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

January 17, 1990

Mr. Conable ✓
Mr. Stanton

I would be grateful if you would take a look at this. I believe this would be useful as an Op-ed piece, although it could go either under your or someone else's signature. In any event it is useful, as Attila says, in setting out our position.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 16, 1990

TO: Moeen A. Qureshi

FROM: Attila Karaosmanoglu AK

EXTENSION: 72283

SUBJECT: Proposed Op-ed on China

1. Attached, as we discussed, is a draft op-ed explaining the Bank's decision to proceed with the China lending program. As currently written, it would be authored by Mr. Conable, and timed to precede the Board's decision.

2. Three issues frame the structure of this piece. The first is explicit, that is the emphasis on the economic character of the Bank leaving us little choice but to resume lending. The second issue is more implicit, that is the political reasons for the 8 month long suspension. In paragraph 4, we have attempted to imply this in a way that will not portray the Bank as willingly responding to political pressures. The third issue is largely absent, that is a strong poverty/basic human needs rationale for the resumption. If the argument were to be phrased this way, it would place an unwanted restriction on the lending program.

3. Whether Mr. Conable decides to go forward with an op-ed or not, this statement with any further revisions could serve as general guidance to Bank staff in dealing with external audiences and the press, thereby assuring a common Bank response to inquiries. As an op-ed, we feel it will serve the purpose of asserting our position in terms favorable to the Bank and provide a public rationale with which those sympathetic to the Bank can identify. Such a statement certainly will not deter members of the US Congress in their efforts to extend and amplify sanctions, but it will portray the Bank as principled and determined, important assets in a very public, politicized debate.

cc: Messrs./Mdms. Burki, Johansen, Aguirre-Sacasa, Vogl, Maguire, Sison

9001.6017 1.

Mr. Conable
Mr. Stanton : I would be grateful if you would take a look at this. I believe this would be useful as an oped piece, although it could go either under your or someone else's signature. In any event it is useful, as Attila says, in setting out our position.

MAQ. 1/17

DRAFT
Karaosmanoglu/Burki
Cadario/Chamberlin
January 16, 1990

CHINA OP-ED

In a few days the World Bank's Board of Directors will consider two loans to the People's Republic of China. If the Board acts favorably, these two projects, one for earthquake reconstruction and the other for agricultural development in a poverty stricken province, will mark the resumption of World Bank lending to China after nearly an eight month suspension. No decision I have taken as President of the World Bank has aroused as much interest and debate among our member countries as this one. Although this step is sure to be criticized, we believe that a resumption of lending is long overdue and a further suspension unjustified.

The incident last June at Tiananmen Square plunged China into controversy. At the World Bank, our response was necessarily focussed on economic considerations. Could China continue to implement ongoing World Bank projects? Would technical personnel be willing and available to work there? Would China pursue policies consistent with prudent economic management, and would opportunities and demand for high quality project lending be clearly apparent? Our narrow concern with economic and management issues is not a recent shift in policy of the World Bank, but at the heart of the institution's character and mission since its founding over forty years ago.

The Articles of Agreement are quite explicit. In our mandate to assist in raising productivity and reducing poverty in our developing member countries "[t]he Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political

character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the[se] purposes".

In a world that is politically volatile and vital, the World Bank must strive to be non-political. Soon after the Tiananmen incident, international opinion coalesced around a program of international sanctions, and many expressed views at political and technical levels that the Bank should not lend to China. Concurrently, the World Bank had suspended new lending strictly due to the insecure conditions that would affect our staff and projects. In a context of intense international concern, the World Bank then methodically set out to assess economic conditions and policies in China. Our initial visits were followed up by detailed sectoral missions both to examine existing projects and to evaluate the environment for new lending and policy reform. This process, carried out over the summer and into the fall, yielded abundant evidence that, on economic grounds, the World Bank could no longer justify a cut-off of our support for China's urgent developmental needs. Let me review this evidence.

First, China's management of its economy at the macro level has made significant and laudable progress in reestablishing the conditions of stability that are essential for economic growth and progress. Beset by overheated, inflationary economic conditions since late 1988, China has managed a remarkable reversal. Inflation has been brought down to a 7-8 percent annual rate, compared to over 25 percent a year ago. Runaway investment rates which were fanning the inflationary fires have been reduced

and refocused on high priority infrastructure and productive investments. China's external debt, which had doubled from 1986 to 1988, increased by only $1 billion during 1989, with foreign exchange reserves growing by about $2 billion from their mid-year low after the Tiananmen incident. China's external debt is less than half the average burden for developing countries and is serviced without difficulty. In mid-December China devalued its currency in order to further contain unnecessary imports and spur competitive export industries. These are policies and achievements which the World Bank has recommended and supported not only in China, but in other countries experiencing similar macroeconomic problems.

Second, despite some slow-downs and reversals, China's economic reform program has continued substantially on course in several key areas which the World Bank has supported, notably social security, agriculture, housing and taxes. The overall framework of economic liberalization which has unfolded in China over the past ten years continues in rural and suburban areas where private businesses and enterprises continue to operate in a competitive environment. The agenda for reform, however, remains a long one. A major issue is the decontrol of prices, which began to loose momentum well before last June, and is now stalled. In addition, the state productive sector which still is too heavy a drain on the economy, will have to undergo management and financial restructuring. On balance, however, we believe that China's economy retains many openings for further progress in reform and liberalization.

Third, the government's social and poverty related programs, which have done so much to improve the basic welfare of over 1 billion people, continue to

require and deserve the World Bank's project support. Further strengthening of the social security system will have to be undertaken. Education will have to be modernized and upgraded in quality. The health system will have to cope with an aging population exposed to environmental hazards, and the escalating problems of air and water pollution in China's large cities will need to be addressed urgently.

We are working with China on economic policies and public investments that will support these reforms. Under current circumstances, it is easy to be concerned that the government will do less reform than it could and should. Left alone, isolated from the forces of the international economy, without the experience and advice of other countries, and lacking international investment and technology, less reform surely will be the outcome in China. The World Bank has and will continue to be a force for integrating China's economy with the rest of the world.

The concerns of the World Bank are, therefore, three fold. Further suspension of our lending to China will inflict economic hardships on China and most importantly on its people; further isolate this country at a most sensitive stage in its economic reform program; and jeopardize the economic character and mission of the World Bank. Those are high costs, and they explain why I have recommended the resumption of lending to China.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/02/08 DUE DATE : 00/00/00
LOG NUMBER : 900208012 FROM : Mr. Burki (RC)
SUBJECT : Briefing: luncheon with the Chinese Ambassador Zhu Qizhen on Friday, Feb. 9, 1990 at 12:30
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
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_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 8, 1990

TO: Mr. Barber B. Conable, President

THROUGH: Mr. Russell Cheetham, Acting Vice President, ASI

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: Briefing - Your Luncheon with Ambassador Zhu Qizhen, February 9, 1990

1. Ambassador Zhu is a career diplomat, having graduated in Political Science from St. John's University, Shanghai, in the 1940s. During his foreign service career, he has served in a variety of overseas posts in Africa, the Middle East, Eastern Europe and also Australia. Before coming to Washington last October, he was the Vice Minister of the Ministry of Foreign Affairs, responsible for North America.

2. During your luncheon tomorrow, Ambassador Zhu may raise three concerns about our decision to resume lending to China today. First, China regards today's approval of the earthquake project as a resumption of our normal lending relations. Accordingly, the authorities hope that the seven loans outstanding from FY89 and the pipeline of projects already appraised can be processed as soon as possible. Second, the Chinese authorities are concerned about the prospect of explicit linkage (of the kind suggested by the US this morning) between the resumption of "normal" lending and the distribution of the forthcoming Country Economic Memorandum (CEM). They are likely to be particularly concerned about a Board discussion of Chinese economic policy and the Bank's lending strategy. Third, China is unwilling to accept the introduction of new, non-economic criteria by, e.g. the United States, in judging the eligibility of projects suitable for Bank lending and hopes that Bank management will continue to ensure that its Statutes are adhered to.

3. I suggest that you reassure Ambassador Zhu on all three points along the lines of your introductory remarks to the Board this morning.

cc: Mr. M. Qureshi, OPNSV
Mr. A. Karaosmanoglu (o/r), ASIVP

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

3605 MH
copied to JWS
China

CORRESPONDENCE DATE : 89/12/07 DUE DATE : 00/00/00
LOG NUMBER : 891207002 FROM : Mr. Stern
SUBJECT : China Lending

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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__✓__ FOR YOUR REVIEW ~~AND RECOMMENDATION~~
_____ FOR THE FILES
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_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

December 7, 1989

Mr. Conable

Barber -

China Lending

I want to set out once again the schedule I believe we must adhere to, if the process I have worked out with the Treasury is to succeed.

(1) The Treasury expects to be able to get the certification to the President around December 31, for signature on January 2. But, we should not confuse intentions with the deed. We are monitoring the progress of the certification and we must not commit ourselves publicly to a schedule which assumes no slippage.

(2) Assuming the President signs the certification on January 2, it will go to the Congress where it must lie for 15 days. Congress is in recess so no action is possible. During that period we (i.e., you and Bill) need to make some contacts on the Hill, to make sure our subsequent action does not catch any of the relevant people off base.

(3) On this schedule, we should be able to circulate the documents for the Earthquake credit on January 15. Routine consultations by Thahane would permit Board consideration on January 29 or February 1.

(4) Should the certification be in process but delayed, we should review the matter. If the delay is one of days only, we should delay the circulation of documents. It is only if we judge the delay to be substantial that we should proceed.

(5) The reason I urge that we not quibble about days is that the consequences are substantial. We have to keep in mind that:

- It is not in our interest, nor that of the PRC, to risk anywhere from $115 million to $460 million of IDA resources for FY90, over the question of whether the Earthquake credit gets to the Board at the end of January or early February.

- The situation on the Hill, while no doubt manageable is unsettled. Proceeding with lending without prior consultation could be costly.

- o The U.S. GCI subscription is contingent on legislative action this Spring. We surely wish to avoid having that become a vehicle for retributive action.

- o Proceeding with lending if a certification is in sight will, in addition to risking the funds, complicate the appropriation of IDA-9 funds because arrears will have to be dealt with.

I recognize the PRC has been patient and that you want to move. I agree that we should not allow ourselves to be held hostage to U.S. legislative edicts. But, neither should we risk a substantial loss of funds and major future problems, over a matter of days.

If you do not agree with this approach, which we have discussed before, you need to let me know so I can correct my understanding with the Treasury.

Ernest Stern

cc: Mrs. Haug

China BBC
cc: MH

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 7, 1989

TO: Mr. B. Conable, President

THROUGH: Mr. Attila Karaosmanoglu, Vice President, ASI

FROM: Mr. Shahid Javed Burki, Director, AS3DR

EXTENSION: 72571

SUBJECT: **Briefing for your meeting with Mr. Zhang Junyi, Chinese Executive Director**
December 11, 1989, Monday, 12:30 p.m. at Mr. Conable's Office

1. You will be meeting with Mr. Zhang Junyi, the Chinese Executive Director, on Monday, December 11, 1989, at 12:30 p.m. Mr. Joseph Goldberg, Acting Director, China Department, will also be attending the meeting.

2. The purpose of your meeting will be to discuss the proposed resumption of lending to China beginning in January 1990, including the presentation of the seven delayed FY89 projects to the Board.

3. You should make the following points:

- The World Bank expects to resume Board consideration of China projects some time in January 1990. The precise dates remain to be fixed, and the Executive Director's Office will be notified in early January. Errata sheets updating the Staff Appraisal reports for the seven projects already circulated to the Board will be distributed at the same time.

- The choice of a date for the first Board presentation depends on your travel schedule, as you wish to chair the Board meeting at which lending to China is resumed.

- Among the first projects to be proposed for Board consideration will be the Earthquake Rehabilitation project. The Bank expects to issue an invitation to negotiate this project as soon as the documents have been approved by Bank management. The project documents for this loan/credit will be circulated to the Board on January 2, 1990.

- In addition to the seven projects held over from FY89, the China Department is preparing a program of 11-12 projects for the FY90 lending program.

- Mr. Burki, Director China Department, is presently in China, leading discussions on the Bank's new three-year lending program (FY90-92). Mr. Burki will brief you on his return on the outcome of these discussions and the agreed lending program.

CWallich:cw
disk 15

cc: Mrs Hau file
country file

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 16, 1990

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WBG ARCHIVES

TO: Mr. Moeen A. Qureshi

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: CHINA: Lending Program

As requested, attached are two tables. Table 1 gives three scenarios for FY90 program. As requested by you, I have hardened the blend in the case of scenario 1 for FY90: 8 projects, with 52% for IDA. Table 2 gives the program originally conceived for FY90 which includes 7 projects from FY89 and 13 new projects including 2 standbys. The total amount for the original program was $2.5 billion with IDA of 1.061 billion.

Attachments

cc: Mr. Karaosmanoglu (o/r)

Table 1

CHINA:- FY90 LENDING PROPOSAL

Project Name	Prop. Board Date	Scenario I $ Million Bank	Scenario I $ Million IDA	Scenario I $ Million Total	Scenario II $ Million Bank	Scenario II $ Million IDA	Scenario II $ Million Total	Scenario III $ Million Bank	Scenario III $ Million IDA	Scenario III $ Million Total
N. China Earthquake Recons.	02/08/90A		30.0	30.0		30.0	30.0		30.0	30.0
Jiangxi Agric. Dev.	02/27/90		60.0	60.0		60.0	60.0		60.0	60.0
Jiangsu Prov. Tsp.	03/20/90	100.0	50.0	150.0	100.0	50.0	150.0	100.0	50.0	150.0
Medium Size Cities	04/10/90	79.4	80.8	160.2	79.4	80.8	160.2	79.4	80.8	160.2
Yanshi Thermal	04/26/90	180.0		180.0	180.0		180.0	180.0		180.0
Rural Ind'l. Tech.	05/15/90	50.0	60.0	110.0	50.0	60.0	110.0	50.0	60.0	110.0
Liaoning Ubran Infra.	05/29/90	72.5		72.5	72.5		72.5	72.5		72.5
Forestry	06/19/90		250.0	250.0		200.0	200.0		200.0	200.0
Total	(8)	481.9	530.8	1012.7						
Tech. Coop. Cr. III	03/27/90					30.0	30.0		30.0	30.0
Mid Yangtze Ag. Dev.	04/17/90					64.0	64.0		64.0	64.0
Shanghai Ind'l.Dev.	04/17/90					150.0	150.0		150.0	150.0
Rural Credit IV (ABC)	05/29/90					275.0	275.0		275.0	275.0
Total					(12) 481.9	999.8	1481.7			
Vocat./Tech. Training	03/13/90								50.0	50.0
Hebei Agric. Devt.	05/29/90								150.0	150.0
Total								(14) 481.9	1199.8	1681.7

Table 2

ASIA REGION
COUNTRY DEPARTMENT III - CHINA
FY90 PROJECT PROCESSING SCHEDULE
BY SECTOR 1/

Division/Project	No.	Loan Amt.($m)	Credit Amt.($m)	SDR Amount	Initial EPS	Initial PB	Preapp. Review	Final EPS/PB	Appraisal Dep.	YC	Documents to RVP	Negotn.	Board
COD-Tech.Coop.(TCC)III 2/ 3/			$30.0	23.1 *	03/10/89 A		03/17/89 A	04/05/89 A	04/05/89 A	04/26/89 A	05/08/89 A	05/17/89 A	
COD-Earthquake Recons.			$30.0	22.9	11/14/89 A		11/14/89 A	11/16/89 A	11/27/89 A	12/10/89 A	12/12/89 A	12/15/89 A	
Subtotal	2	$0.0	$60.0	$46.0									[redacted]
AGR-Jiangxi Agric.Dev. 3/			$60.0	46.2 *	06/16/88 A		12/15/88 A	12/27/88 A	01/14/89 A	03/15/89 A	03/31/89 A	05/01/89 A	TBD
AGR-Mid-Yangtze Agr. Dev.			$64.0	48.8	11/30/87 A		04/27/89 A	05/01/89 A	05/14/89 A	07/19/89 A	08/22/89 A	02/19/90 •	03/27/90
AGR-Hebei Agr. Dev.			$150.0	114.3	09/09/88 A		10/16/89 A	10/27/89 A	11/14/89 A	03/01/90	03/15/90	04/16/90	05/29/90
Balancing → AGR-Rural Credit IV		$19.0	$181.0	137.9	09/08/88 A		10/19/89 A	10/27/89 A	11/10/89 A	02/09/90	02/27/90	04/09/90	05/29/90
AGR-Forestry Sector I			$150.0	114.3	09/21/88 A		01/25/90 A	01/31/90	02/12/90	03/23/90	04/05/90	05/07/90	06/26/90
Subtotal	5	$19.0	$605.0	461.4									
IAE-Shanghai Ind'l Dev. 3/		$150.0			05/31/88 A		02/02/89 A	02/06/89 A	02/17/89 A	04/04/89 A	04/17/89 A	05/15/89 A	TBD
IAE-Rural Ind.Tech & Serv		$110.0			02/03/87 A	N/A	04/30/88 A	05/31/88 A	06/17/88 A	11/03/88 A	01/18/89 A	02/05/90 •	03/27/90
IAE-Cement		$80.9			12/20/88 A		05/04/89 A	05/09/89 A	05/29/89 A	12/21/89 A	02/05/90	03/05/90 •	04/24/90
IAE-Yanshi Thermal 3/		$180.0			09/09/86 A	09/09/87 A	10/07/87 A	10/15/87 A	09/19/88 A	01/18/89 A	02/06/89 A	05/08/89 A	TBD
IAE-Daguangba-Hainan		$30.0	$37.0	28.2	10/29/86 A		01/26/89 A	02/03/89 A	04/11/89 A	06/30/89 A	07/21/89 A	02/05/90 •	04/24/90
Subtotal	5	$550.9	$37.0	28.2									
TRP-Jiangsu Prov. Transp. 3/		$100.0	$50.0	38.5 *	05/27/88 A	06/10/88 A	12/13/88 A	12/30/88 A	01/15/89 A	04/05/89 A	04/15/89 A	05/08/89 A	TBD
TRP-Shanghai Metro.Trpt.			$58.0	44.2	06/22/88 A		05/25/89 A	05/29/89 A	09/18/89 A	02/28/90	03/15/90	04/27/90	06/21/90
Subtotal	2	$100.0	$108.0	$82.7									
EAH-Voc./Tech. Educ. 3/			$50.0	38.5 *	11/28/86 A	08/03/87 A	11/30/88 A	12/23/88 A	01/20/89 A	03/17/89 A	04/05/89 A	05/01/89 A	TBD
EAH-Med.Siz.Cities 3/		79.4	$80.8	62.2 *	06/12/87 A	04/15/88 A	11/03/88 A	11/16/88 A	12/01/88 A	03/22/89 A	04/06/89 A	05/08/89 A	TBD
EAH-Key Studies Dev.			$120.0	91.4	04/20/87 A	04/10/89 A	05/08/89 A	06/09/89 A	09/07/89 A	11/27/89 A	01/16/90 A	04/15/90 •	06/12/90
EAH-Liaoning Urban		$72.5			08/04/88 A		06/15/89 A	06/28/89 A	08/28/89 A	12/27/89 A	01/31/90 A	03/05/90 •	04/24/90
Subtotal	4	$151.9	$250.8	192.1									
TOTAL FY90L:	18	$821.8	$1,060.8	810.4									
TOTAL FY90L IBRD + IDA:		$1,882.6											
FY91 STAND-BY PROJECTS													
IAE-Ertan Hydro		$300.0			02/03/87 A	05/18/87 A	10/27/89 A	11/06/89 A	11/28/89 A	02/05/90	03/06/90	04/23/90	06/26/90
TRP-Railways V		$350.0			09/22/88 A		12/14/89 A	12/20/89 A	01/05/90 A	03/09/90	03/30/90	04/23/90	05/29/90
TOTAL FY91S	2	$650.0	$0.0	0.0									
TOTAL FY91S IBRD + IDA:		$650.0											
TOTAL FY90L + FY91S:		$1,471.8	$1,060.8	810.4									
TOTALFY90L/FY91S IBRD + FY90L/FY91S IDA:		20	$2,532.6										

1/ BASED ON JANUARY 1990 LENDING PROGRAM UPDATE.
• SUBJECT TO SR. MANAGEMENT APPROVAL.

2/ SPECIAL PROCEDURE.

3/ PROJECTS PROCESSED IN FY89; BOARD DATE PENDING DECISION BY MR. CONABLE.

PLEASE NOTE: WHERE TIMETABLES DO NOT SPECIFY DATES FOR APPRAISAL DEPARTURE, NEGOTIATIONS OR BOARD, (E.G. 10/00/88 OR 03/00/89), THE 15TH OF THE RESPECTIVE MONTH HAS BEEN PUT IN, SO THAT THE LOTUS PROGRAM CAN SORT PROPERLY.

[illegible] PER THE BLUE SHEET 01/23/90 (= 1.31257) *.* BY THE SDR AMOUNT INDICATES NEGOTIATED PROJECT, RATE LOCKED IN.

01/25/90
89-91SEC/TO

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

China

CORRESPONDENCE DATE : 90/02/26 DUE DATE : 00/00/00
LOG NUMBER : 900226006 FROM : Mr. Burki
SUBJECT : BRIEFING: meeting with Mr. Wang Liansheng, Director, World Bank Department, Ministry of Finance on Feb. 27, 1990 at 5:00 p
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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_____ RETURN TO _____

COMMENTS :
cc: Mrs. Haug

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 26, 1990

TO: Mr. Barber B. Conable

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: CHINA Briefing: Your Meeting with Mr. Wang Liansheng

Mr. Wang Liansheng, Director, World Bank Department, Ministry of Finance, is visiting Washington and is scheduled to meet with you tomorrow, February 27, at 5:00 p.m.

Mr. Wang has already met with Messrs. Qureshi, Karaosmanoglu, and myself. As he puts it, he has brought with him only one message to the World Bank Management from Mr. Wang Bingqian, Minister of Finance. China's senior leaders are concerned that at the pace of lending indicated by you to their Ambassador in Washington -- one project every three to four weeks for the rest of FY90 -- it would not be possible for the country to use up the entire allocation of IDA for FYs89-90. Bringing forward the amount of IDA included in the seven projects held over from FY89 and combining it with the share of China in IDA for FY90 means IDA availability of some $1060 million for the current financial year. Mr. Wang has suggested the attached lending program in FY90 in order to make use of these IDA resources. We have informed him that it is virtually impossible to do a program of this size in FY90 and that a program no larger than US$1 billion with a blend of 50:50 between IDA and IBRD seems more likely.

cc: Messrs. Qureshi
Karaosmanoglu

Attachments

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

February 22, 1990

Mr. Shahid Javed Burki
Director
China Department
The World Bank

Dear Mr. Burki:

With reference to FY90 lending operations to China I would like to make the following summaries:

(1) The Chinese government has always been attaching great importance to the cooperation with the World Bank, and will continue to make great efforts to ensure that the lending operations in pipeline be proceeding smoothly for this fiscal year and beyond.

(2) As an eligible IDA recipient country, China has legitimate rights to a fair share of IDA resources, and therefore the Chinese Government strongly requests that all the IDA resources allocated to China for FY90 and the carry-over from FY89 be allocated to China in this fiscal year.

(3) Having given due considerations for all the factors related to World Bank's lending operations to China, we propose the following program which we believe is appropriate for this fiscal year.

I hope that the attached proposed program could be a solid basis for our joint efforts toward reaching the lending goal for FY90 and look forward to your comment.

Sincerely yours,

Wang Liansheng
Director
World Bank Department
Ministry of Finance
People's Republic of China

Enclosure

FY 90 Program

US$ Million

Projects	IDA	IBRD	Board Dates
Earthquake Reconstruction	30		02/08/90
Jiangxi Agriculture	60		02/27/90
Jiangsu Transport	50	100	03/13/90
Medium Cities	81	79	03/27/90
Mid-Yangtze Agriculture	64		04/10/90
Rural Industrial Technology (Spark)	60	50	04/10/90
Liaoning Urban Dev	30	70	04/24/90
Cement		81	04/24/90
Hebei Agriculture	150		05/15/90
Yanshi Power		180	05/15/90
Vocational Education	50		05/22/90
Forestry Dev	250		05/29/90
Key Studies	120		05/29/90
Shanghai Industry		150	06/19/90
Ertan Power		350	06/26/90
Shanghai Metro Transport	100		06/26/90
Total:	1045	1060	

Standby projects

Railway V		350	
ABC	275		
Daguangba	37	30	
TCC III	30		

a: Mrs Hang

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

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DATE: February 16, 1990 CONFIDENTIAL

TO: Mr. Moeen A. Qureshi

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: CHINA: Lending Program

As requested, attached are two tables. Table 1 gives three scenarios for FY90 program. As requested by you, I have hardened the blend in the case of scenario 1 for FY90: 8 projects, with 52% for IDA. Table 2 gives the program originally conceived for FY90 which includes 7 projects from FY89 and 13 new projects including 2 standbys. The total amount for the original program was $2.5 billion with IDA of 1.061 billion.

Attachments

cc: Mr. Karaosmanoglu (o/r)

Table 1

CHINA:- FY90 LENDING PROPOSAL

Project Name	Prop. Board Date	Scenario I $ Million			Scenario II $ Million			Scenario III $ Million		
		Bank	IDA	Total	Bank	IDA	Total	Bank	IDA	Total
N. China Earthquake Recons.	02/08/90A		30.0	30.0		30.0	30.0		30.0	30.0
Jiangxi Agric. Dev.	02/27/90		60.0	60.0		60.0	60.0		60.0	60.0
Jiangsu Prov. Tsp.	03/20/90	100.0	50.0	150.0	100.0	50.0	150.0	100.0	50.0	150.0
Medium Size Cities	04/10/90	79.4	80.8	160.2	79.4	80.8	160.2	79.4	80.8	160.2
Yanshi Thermal	04/26/90	180.0		180.0	180.0		180.0	180.0		180.0
Rural Ind'l. Tech.	05/15/90	50.0	60.0	110.0	50.0	60.0	110.0	50.0	60.0	110.0
Liaoning Ubran Infra.	05/29/90	72.5		72.5	72.5		72.5	72.5		72.5
Forestry	06/19/90		250.0	250.0		200.0	200.0		200.0	200.0
Total	(8)	481.9	530.8	1012.7						
Tech. Coop. Cr. III	03/27/90					30.0	30.0		30.0	30.0
Mid Yangtze Ag. Dev.	04/17/90					64.0	64.0		64.0	64.0
Shanghai Ind'l.Dev.	04/17/90					150.0	150.0		150.0	150.0
Rural Credit IV (ABC)	05/29/90					275.0	275.0		275.0	275.0
Total					(12)	481.9	999.8	1481.7		
Vocat./Tech. Training	03/13/90								50.0	50.0
Hebei Agric. Devt.	05/29/90								150.0	150.0
Total								(14)	481.9	1199.8	1681.7

Table 2

ASIA REGION
COUNTRY DEPARTMENT III - CHINA
FY90 PROJECT PROCESSING SCHEDULE
BY SECTOR 1/

Division/Project	No.	Loan Amt.($m)	Credit Amt.($m)	SDR Amount	Initial EPS	Initial PB	Preapp. Review	Final EPS/PB	Appraisal Dep.	YC	Documents to RVP	Negotn.	Board
COD-Tech.Coop.(TCC)III 2/ 3/			$30.0	23.1 +	03/10/89 A		03/17/89 A	04/05/89 A	04/05/89 A	04/26/89 A	05/08/89 A	05/17/90 A	
COD-Earthquake Recons.			$30.0	22.9	11/14/89 A		11/14/89 A	11/18/89 A	11/27/89 A	12/10/89 A	12/12/89 A	12/15/89 A	
Subtotal	2	$0.0	$60.0	$46.0									
AGR-Jiangxi Agric.Dev. 3/			$60.0	46.2 +	06/16/88 A		12/15/88 A	12/27/88 A	01/14/89 A	03/15/89 A	03/31/89 A	05/01/89 A	
AGR-Mid-Yangtze Agr. Dev.			$64.0	48.8	11/30/87 A		04/27/89 A	05/01/89 A	05/14/89 A	07/19/89 A	08/22/89 A	02/19/90 •	[redacted]
AGR-Hebei Agr. Dev.			$150.0	114.3	09/09/88 A		10/16/89 A	10/27/89 A	11/14/89 A	03/01/90	03/15/90	04/16/90	[redacted]
Balancing → AGR-Rural Credit IV		$19.0	$181.0	137.9	09/08/88 A		10/19/89 A	10/27/89 A	11/10/89 A	02/09/90	02/27/90	04/09/90	[redacted]
AGR-Forestry Sector I			$150.0	114.3	09/21/88 A		01/25/90 A	01/31/90	02/12/90	03/23/90	04/05/90	05/07/90	[redacted]
Subtotal	5	$19.0	$605.0	461.4									
I&E-Shanghai Ind'l Dev. 3/		$150.0			05/31/88 A		02/02/89 A	02/06/89 A	02/17/89 A	04/04/89 A	04/17/89 A	05/15/89 A	TBD
I&E-Rural Ind.Tech & Serv		$110.0			02/03/87 A	N/A	04/30/88 A	05/31/88 A	06/17/88 A	11/03/88 A	01/18/89 A	02/05/90 •	03/27/90
I&E-Cement		$80.9			12/20/88 A		05/04/89 A	05/09/89 A	05/29/89 A	12/21/89 A	02/05/90	03/05/90 •	04/24/90
I&E-Yanshi Thermal 3/		$180.0			09/09/86 A	09/09/87 A	10/07/87 A	10/15/87 A	09/19/88 A	01/18/89 A	02/06/89 A	05/08/89 A	TBD
I&E-Daguangba-Hainan		$30.0	$37.0	28.2	10/29/86 A		01/26/89 A	02/03/89 A	04/11/89 A	06/30/89 A	07/21/89 A	02/05/90 •	04/24/90
Subtotal	5	$550.9	$37.0	28.2									
TRP-Jiangsu Prov. Transp. 3/		$100.0	$50.0	38.5 +	05/27/88 A	06/10/88 A	12/13/88 A	12/30/88 A	01/15/89 A	04/05/89 A	04/15/89 A	05/08/89 A	TBD
TRP-Shanghai Metro.Trpt.			$58.0	44.2	06/22/88 A		05/25/89 A	05/29/89 A	09/18/89 A	02/28/90	03/15/90	04/27/90	06/21/90
Subtotal	2	$100.0	$108.0	$82.7									
E&H-Voc./Tech. Educ. 3/			$50.0	38.5 +	11/28/86 A	08/03/87 A	11/30/88 A	12/23/88 A	01/20/89 A	03/17/89 A	04/05/89 A	05/01/89 A	TBD
E&H-Med.Siz.Cities 3/		79.4	$80.8	62.2 +	06/12/87 A	04/15/88 A	11/03/88 A	11/16/88 A	12/01/88 A	03/22/89 A	04/06/89 A	05/08/89 A	TBD
E&H-Key Studies Dev.			$120.0	91.4	04/20/87 A	04/10/89 A	05/08/89 A	08/09/89 A	09/07/89 A	11/27/89 A	01/16/90 A	04/15/90 •	06/12/90
E&H-Liaoning Urban		$72.5			08/04/88 A		06/15/89 A	06/28/89 A	08/28/89 A	12/27/89 A	01/31/90 A	03/05/90 •	04/24/90
Subtotal	4	$151.9	$250.8	192.1									
TOTAL FY90L:	18	$821.8	$1,060.8	810.4									
TOTAL FY90L IBRD + IDA:		$1,882.6											
FY91 STAND-BY PROJECTS													
I&E-Ertan Hydro		$300.0			02/03/87 A	05/18/87 A	10/27/89 A	11/06/89 A	11/26/89 A	02/05/90	03/06/90	04/23/90	06/26/90
TRP-Railways V		$350.0			09/22/88 A		12/14/89 A	12/20/89 A	01/05/90 A	03/09/90	03/30/90	04/23/90	05/29/90
TOTAL FY91S	2	$650.0	$0.0	0.0									
TOTAL FY91S IBRD + IDA:		$650.0											
TOTAL FY90L + FY91S:		$1,471.8	$1,060.8	810.4									
TOTALFY90L/FY91S IBRD + FY90L/FY91S IDA:		20	$2,532.6										

1/ BASED ON JANUARY 1990 LENDING PROGRAM UPDATE.
• SUBJECT TO SR. MANAGEMENT APPROVAL.

2/ SPECIAL PROCEDURE.

3/ PROJECTS PROCESSED IN FY89; BOARD DATE PENDING DECISION BY MR. CONABLE.

PLEASE NOTE WHERE TIMETABLES DO NOT SPECIFY DATES FOR APPRAISAL DEPARTURE, NEGOTIATIONS OR BOARD, (E.G. 10/00/88 OR 03/00/89), THE 15TH OF THE RESPECTIVE MONTH HAS BEEN PUT IN, SO THAT THE LOTUS PROGRAM CAN SORT PROPERLY.

[illegible] PER THE BLUE SHEET 01/23/90 (= 1.31257) *.* BY THE SDR AMOUNT INDICATES NEGOTIATED PROJECT, RATE LOCKED IN.

01/25/90
89-91SEC/TO

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

8909150311

Mr. Conable:

I believe it is appropriate for us to go ahead and issue invitations to negotiate. It will also constitute a testing of the waters. MHQ.

9/15.

DATE: September 14, 1989

TO: Mr. Moeen Qureshi, OPNSV

THROUGH: Attila Karaosmanoglu, ASIVP AK.

FROM: Shahid Javed Burki, AS3DR SJB.

EXTENSION: 72571

SUBJECT: CHINA: Invitation for Loan Negotiation

We have three operations for which the internal processing of documents have been completed:

Mid-Yangtze Agriculture Development:	$64 m IDA
Rural Industrial Technology (SPARK):	$110 m IBRD
Daguangba Power Project:	$67 m IDA/IBRD

We have been withholding issuance of invitation to negotiation because of the current China situation. These negotiations should be held around middle of October in order to permit presentation to the Board in the middle of December. Any further delay in holding negotiation would result in slipping of the projects into the third quarter. We, therefore, request your approval to proceed with the issuance of invitation to negotiate these loans. We expect the first negotiation to take place around October 16, 1989, by which time we hope that the first of the seven loans held over from FY89 would have been approved by the Board.

cc: China Management Group

DAhmad:to

RECEIVED
89 SEP 15 PM 3:50
OFFICE OF THE
SVP/OP

MH | JWS | BBC

NANCY PELOSI
5TH DISTRICT, CALIFORNIA

1005 LONGWORTH BUILDING
WASHINGTON, DC 20515-0505
(202) 225-4965

DISTRICT OFFICE:
FEDERAL BUILDING
450 GOLDEN GATE AVENUE
SAN FRANCISCO, CA 94102-3460
(415) 556-4862

Congress of the United States
House of Representatives
Washington, DC 20515-0505

COMMITTEES:
BANKING, FINANCE
AND URBAN AFFAIRS
GOVERNMENT OPERATIONS
NORTHERN CALIFORNIA
ZONE WHIP
DEMOCRATIC STUDY GROUP
EXECUTIVE COMMITTEE

cc for info: BBC
file - China

February 7, 1990

Honorable Nicholas Brady
Secretary
Department of the Treasury
Washington, D.C.

Dear Secretary Brady:

We are writing to request your immediate action regarding the resumption of World Bank lending to the Peoples Republic of China. It is our understanding that the Board of Directors of the World Bank will soon vote on two loans to China.

We strongly urge you to instruct the United States Executive Director of the World Bank to oppose any resumption of loans to China at this time. Our concerns are both economic and political.

Since the June 4 massacre of unarmed dissenters in Tiananmen Square, there has been no evidence that the Beijing leadership intends to move in the direction of a more open, market-oriented economy. On the contrary, conservative elements of the leadership who support a rollback of economic reforms have consolidated their positions. There is thus no economic justification for a reversal of the U.S. policy of opposing resumed lending to China.

Secondly, the fact that economic decisions have significant political repercussions is certainly not lost on the Beijing leadership. The resumption of World Bank lending will provide the regime with an opportunity to publicize the "success" of its policy of repression and denial. It will portray this reversal of lending policy as a signal that the world community has accepted its meaningless gestures of goodwill such as the lifting of martial law and the reintroduction of Voice of America broadcasts. A resumption of World Bank lending will adversely affect efforts to promote democracy in China.

Third, because money is fungible, any effort to distinguish between types of loans, such as between loans for "human needs" and loans for infrastructure, are virtually meaningless. Lending in one category frees up government funds for another category. Lending in any category means money in the pockets of the Chinese government.

We do not believe it is sound U.S. policy to cooperate with the government in Beijing on "basic human needs" while the regime continues to grossly violate "basic human rights." It would be a sad irony if, less than two weeks before the State Department is expected to release a report strongly condemning the Beijing government for continued human rights abuses, the Treasury Department would support a resumption of World Bank lending to China.

Based on these arguments, we ask you to withhold support for all multilateral development bank (MDB) loans to China until Beijing takes significant steps to reduce its ironclad grip on dissenters.

Such steps should include:

- Release of all political prisoners arrested in connection with the pro-democracy movement;
- Relaxation of laws governing non-violent expression of dissent.

We also request that you inform the Banking Committee of the House of Representatives of any intention to support MDB loans to China and to specify what steps the Chinese government has taken to warrant such a renewal of financial support.

Sincerely,

Nancy Pelosi
NANCY PELOSI, M.C.

Charles E. Schumer
CHARLES SCHUMER, M.C.

Jim Bunning
JIM BUNNING, M.C.

Barney Frank
BARNEY FRANK, M.C.

cc: Patrick E. Coady
U.S. Executive Director to the World Bank

Barber Conable
President, World Bank

Congress of the United States
House of Representatives
Washington, DC 20515

OFFICIAL BUSINESS

Nancy Pelosi
M.C.

Mr. Barber Conable
President
World Bank

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

February 15, 1990

Mr. Wang Bingqian
Minister of Finance
Ministry of Finance
Beijing
People's Republic of China

Dear Minister Wang:

Thank you for your letter of January 27, 1990 conveying your authorities' concern about the resumption of World Bank lending to China.

As you know, the Executive Directors have now approved US$30 million for the North China Earthquake Reconstruction project, signaling the resumption of Bank lending to China. In addition, Jiangxi Agricultural Development project, one of seven loans outstanding from last year, is now firmly scheduled for consideration on February 27, 1990.

I was pleased to learn that Mr. Wang Liansheng will be visiting Washington shortly to discuss the scope of planned lending to China during FY90 and beyond. I look forward to meeting with him at that time to discuss how best to strengthen the Bank's financial and technical cooperation with China, taking into account the impact of recent developments. In this connection, you will know that we are currently preparing an updated Country Economic Memorandum, which I plan to distribute to the Executive Directors in mid-May. This report will be of particular significance and interest to the international agencies involved in China and I attach great importance to the forthcoming discussion of the report with your authorities in early April. Your personal interest in and attention to the Bank's economic work is highly appreciated.

With my highest regards,

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Cleared w/cc: Mr. Shahid Javed Burki, Director, AS3

cc: Mr. M. Qureshi, Mr. Karaosmanoglu

DPearce:jd

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

~~2/9/90~~

CORRESPONDENCE DATE : 90/01/29 DUE DATE : ~~90/02/06~~
LOG NUMBER : 900130002 FROM : Mr. Bingqian
SUBJECT : CHINA: Urging BBC to continue seeking support from G-7 on loans to China
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

Nicola Cheeley - 2/13

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
__✓__ PLEASE PREPARE RESPONSE FOR BBC's. SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :Letter hand-delivered by Mr. Zhang.

[TRANSLATED FROM CHINESE]

January 27, 1990

Mr. Barber Conable
President
The World Bank
1818 H Street N.W.
Washington, D.C. 20433

Dear Mr. Conable:

I have been informed that you decided to bring two China projects to the Board of Executive Directors for its approval on February 8, 1990 and that the G-7 members would only agree to discuss the North China Earthquake Reconstruction Project, with the rest of the projects remaining postponed. In view of this circumstance, I hope that you will continue to seek support from the members concerned. The Chinese Government has expressed its position to the governments concerned through respective diplomatic channels. I think that, ever since the legitimate seat of China was restored in the World Bank, China and World Bank have established a very good cooperative relationship and made great progress in terms of financial and technical cooperation. Both China and the World Bank have on many occasions expressed the commitment to further developing this cooperative relationship.

However, following China's suppression of riots in June last year, the World Bank's Executive Board suspended its consideration of seven project loans which had completed negotiations. And the negotiations on the new post-appraisal projects were also postponed. This has not only caused damage to the good cooperative relationship forged between us, but also run counter to the purposes of the World Bank. This has also hurt the feelings of the Chinese people and tarnished the reputation of the World Bank in the developing countries.

The World Bank is an international financial institution devoted to the economic development of its developing member countries. The Articles of Agreement signed by the governments of the member countries stipulates that the World Bank shall not interfere in the political affairs of any member, nor shall it be influenced in its decisions by the political character of its member or members concerned. Only economic considerations should be relevant to its decisions. Strict adherence to all the provisions in the Articles of Agreement is undoubtedly a solemn international obligation of each member country.

Mr. President, we believe that under your leadership, the World Bank will be bound to operate on the basis of its objectives and principles, and that, with your rich experience and prestige, you will overcome external interference and resume full-scale lending to China so that the cooperation between us will continue to develop.

With my highest regards,

Yours sincerely,

/signed/

Wang Bingqian

file - China

not used, but keep in case needed.

CHINA OP-ED

In a few days the World Bank's Board of Executive Directors will consider two lending operations to the People's Republic of China. If the Board acts favorably, these two projects --one for earthquake reconstruction and the other for agricultural development in a very poor province-- will mark the resumption of World Bank lending to China after nearly an eight-month hiatus. No decision I have taken as President of the World Bank has aroused as much interest and debate among our member countries as this one. Although this step is sure to be criticized by some, I believe that the resumption of lending to China is fully justified and a further delay unwarranted.

The events last June at Tiananmen Square plunged China into political turmoil. At the World Bank, our charter required us to focus our response on economic considerations. Could China continue to implement ongoing World Bank projects? Would expatriate technical personnel be willing and available to work there? Would China continue to pursue policies consistent with prudent economic management, and did conditions exist for a resumption of high quality project lending?

Our focus on economic and management issues is not a recent shift in policy of the World Bank. Instead, it reflects the essence of the institution's character and mission since its founding over forty years ago. The World Bank's Articles of Agreement are explicit. In our mandate to assist in raising productivity and reducing poverty

in our developing member countries, our Articles state that "the Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve these purposes."

In a world that is politically volatile and compelling, the World Bank must strive to be non-political. Immediately after the events at Tiananmen Square, the World Bank postponed consideration of new lending owing to the insecure conditions in the country, which threatened to affect our staff and the implementation of Bank-financed projects. At the same time, international public opinion coalesced around the idea of international sanctions, and many expressed views at technical and political levels that the Bank should not lend to China. In a context of intense international concern, we methodically set out to assess economic conditions and policies in China. The first visits of Bank staff were followed up by more detailed economic and sectoral missions both to examine existing projects and to evaluate the environment for new lending and policy reform. This process, carried out over the summer and into the fall, yielded abundant evidence that, on economic grounds, World Bank assistance in support of China's urgent developmental needs was still warranted. Let me review our findings.

First is the question of the quality of China's management of its economy at the macro level. China's economic growth performance through most of the 1980s has been unmatched in the developing world,

averaging over 10 percent annually and achieving substantial reductions in the level of poverty. In the last two years, China's economy has been beset by overheated, inflationary conditions which were undermining the stability that is essential for economic growth and improvements in the standard of living. Faced with these difficulties, that have proved so damaging elsewhere in the developing world, China managed a remarkable correction. By November, inflation had been brought down to a 7-8 percent annualized rate, compared to over 25 percent a year ago. Unrestrained credit and runaway investment rates, which were fanning the inflationary fires, have been reduced and refocused on high priority infrastructure and productive investments. China's external debt, currently about $43 billion, increased by only $1 billion during 1989, with foreign exchange reserves growing by about $2 billion from their mid-year low. China's external debt is less than half the average burden for developing countries and is serviced without difficulty. In mid-December China devalued its currency in order to further contain unnecessary imports and spur competitive export industries. These are policies and achievements which the World Bank has recommended and supported not only in China, but in other countries experiencing similar macroeconomic problems.

Second, despite some slow-downs and reversals, China's economic reform program has continued substantially on course in several key areas in which the World Bank is working, notably in social security, agriculture, housing and taxation. The overall framework of economic liberalization which has unfolded in China over the past ten years continues in rural and suburban areas where private

businesses and village enterprises continue to operate in a competitive environment. The agenda for reform, however, remains a long one. A major issue is the decontrol of prices, which began to lose momentum well before last June, and is now stalled. In addition, the state productive sector, which is still a heavy a drain on the economy, will have to undergo management and financial restructuring. On balance, however, we believe that China's economy retains many openings for further progress in reform and liberalization, and that encouragement rather than isolation is in the interests of the Chinese people.

Third, the government's social and poverty related programs, which have done so much to improve the basic welfare of over 1 billion people, continue to require and deserve the World Bank's project support. Living standards have improved markedly during the 1980s, but China is still one of the poorest countries in the world with average per capita incomes below $1 per day. Education will have to be modernized and upgraded in quality. Agriculture and rural development will need to focus on the poorest, most remote regions of China. The health system will have to cope with an aging population exposed to environmental hazards, and the escalating problems of air and water pollution in China's largest cities will need to be addressed urgently.

The World Bank is working with China on economic policies and public investments that will support these reforms. Under current circumstances, it is easy to be concerned that the government will

undertake less reform than it could and should. Left alone, isolated from the forces of the international economy, without the experience and advice of other countries, and lacking international investment and technology, less reform surely will be the outcome in China. The World Bank has been, and will continue to be, a force for advancing economic reforms and integrating China's economy with that of the rest of the world.

The concerns of the World Bank were, therefore, three-fold. Postponement of our lending to China would inflict economic hardships on the Chinese people; it would further isolate China at a sensitive stage in its economic reform program; and it would jeopardize the economic character of the World Bank and its mission, which is to help promote development and reduce poverty. These are high costs, and they explain why I have recommended the resumption of lending to China to our Executive Directors.

[TRANSLATED FROM CHINESE]

January 27, 1990

Mr. Barber Conable
President
The World Bank
1818 H Street N.W.
Washington, D.C. 20433

Dear Mr. Conable:

I have been informed that you decided to bring two China projects to the Board of Executive Directors for its approval on February 8, 1990 and that the G-7 members would only agree to discuss the North China Earthquake Reconstruction Project, with the rest of the projects remaining postponed. In view of this circumstance, I hope that you will continue to seek support from the members concerned. The Chinese Government has expressed its position to the governments concerned through respective diplomatic channels. I think that, ever since the legitimate seat of China was restored in the World Bank, China and World Bank have established a very good cooperative relationship and made great progress in terms of financial and technical cooperation. Both China and the World Bank have on many occasions expressed the commitment to further developing this cooperative relationship.

However, following China's suppression of riots in June last year, the World Bank's Executive Board suspended its consideration of seven project loans which had completed negotiations. And the negotiations on the new post-appraisal projects were also postponed. This has not only caused damage to the good cooperative relationship forged between us, but also run counter to the purposes of the World Bank. This has also hurt the feelings of the Chinese people and tarnished the reputation of the World Bank in the developing countries.

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Mr. President, we believe that under your leadership, the World Bank will be bound to operate on the basis of its objectives and principles, and that, with your rich experience and prestige, you will overcome external interference and resume full-scale lending to China so that the cooperation between us will continue to develop.

With my highest regards,

Yours sincerely,

/signed/

Wang Bingqian

1. Jiangxi Agricultural Development Project. The project area is one of China's less-developed provinces, where typical rural per capita incomes are currently about US$116 - below national averages or the estimated "critical consumption level" of US$135. The major objective of the operation is to support expansion of the activities of "specialized households (SHs)", rural families who operate small private commercial operations raising pigs, poultry or fish and who function very largely outside the official State distribution system. Women play an important role in these household enterprises and it has been agreed that at least a quarter of the trainees in project-supported SH training courses will be female. The operation will also support afforestation programs, which will help combat soil erosion of hillsides and slopes, in turn improving the quality of water in local rivers and lakes. In parallel with the project, and with assistance from the World Wildlife Fund and the Asian Wetlands Bureau, the province is carrying out an environmental management study for Lake Poyang, the largest freshwater lake in the country, whose findings will be shared with the Association.

2. Jiangsu Provincial Transport Project. The project will be implemented in one of China's most outwardly-oriented provinces, whose dynamic local non-government enterprise sector recently surpassed State industries in its output value (for the first time in any province), but where business growth is pressing upon contraints in the public provision of transport and energy infrastructure. In contrast to State enterprises, which are primarily served by the railway system, non-State producers rely heavily on road and water transport, where private operators are also assuming increasing importance. The project, which will be carried out entirely at provincial, city and county level, will help relieve bottlenecks on crucial road and waterway transport links running through Jiangsu (traffic speeds on the province's main highway currently average about 20 miles per hour). It will also support a multi-year program to rehabilitate priority local roads, many of them serving densely populated rural areas. Institutional strengthening components will include encouraging the development of independent, self-sustaining construction units, an essential condition for introducing greater competition in the sector. Highway design standards under the project will allow greater separation of motorized traffic from pedestrians, bicycles and handcarts, permitting reduction of accident rates which are currently among the highest in the world. Safety standards will also improve on the waterways, and increasing water flows through the historic Grand Canal will help to improve water quality, which at present is highly polluted.

3. Third Technical Co-operation Project. Like its two predecessors, whose implementation has been generally successful, the project will enable Chinese institutions to take advantage of the expertise of international specialists in project design and implementation, and in conducting sector studies, in circumstances where no UNDP or other suitable grant funds are readily available. Activities supported under the two previous credits include the preparation of a rural health project, projects in agriculture, forestry and fisheries, and a component to promote higher quality standards of pharmaceuticals for use in the health system. A feature of the present project is that increased flexibility in the terms on which assistance is provided to beneficiaries will facilitate greater use in the social sectors and poorer provinces. Among the subprojects tentatively identified for support under this operation are preparation of a project involving a foreign NGO in poverty alleviation work in Yunnan province, one of the poorest in China. Studies to be financed under the project include teacher training, health, rural roads, agriculture and irrigation.

4. The Medium-Sized Cities Development Project supports an innovative approach to institutional strengthening of three rapidly growing cities of China. It will continue China's promotion of increasing self-reliance on the part of municipal governments. Project activities by the cities will apply the clear mandate which they have to assume responsibility for urban development in all its aspects, including social infrastructure and the promotion of local economic development. Improved planning and financing ability resulting through the project will enhance local autonomy and self-determination. Project components include new approaches to provision and stimulation of home ownership, pollution control by industry and improved efficiency in the use of existing resources. To compliment a wide range of policy measures for improved urban management, the project provides for investments, technical assistance and training to improve the provision of education, public health services, clean water, improved sanitation and public transportation.

5. The Technical/Vocational Education (TVE) Project is designed to strengthen and modernize technical and vocational education in China. It has several goals in common with the previous six education projects in China: to modernize the curriculum for both students and faculty training by exposing key educators to the best practices of other countries, through overseas training fellowships and secondments, and visits of foreign specialists to China; to support decentralization of the education system by strengthening the capacity of provincial and local authorities to plan and implement educational change; and to bring the benefits of educational reform and progress to disadvantaged groups, including women and rural inhabitants. In addition the TVE project has the specific objectives of making technical and vocational education more responsive to labor market demands and supporting the freeing up of rigid labor markets to allow easier movement of workers among enterprises.

COUNTRY: CHINA

DELEGATION:
Mr. CHI ("chir") Haibin, Senior Vice Min. of Fin.
Mr. WANG Liansheng, Director, WB Oper. Dept. MOF

Friday, 9/22 @ 11:00 a.m.

BACKGROUND

- May-June political events have undoubtedly complicated the economic situation and prospects for reform program. Too early to judge full impact.
- Economic difficulties go back over a year; an austerity program was announced in 1988 to curb growth and investment. Inflation reached unprecedented levels in 1988.
- 1989 current account deficit expected to triple 1988 level ($2.4 bn).
- Other concerns: Budget deficit and slow-down in new foreign investment.
- Intense debate occured at highest political levels on future of economic reform; conservatives are presently on top. A high level meeting in October will review and draw up a three-year (1990-92) program.

POINTS TO BE MADE TO THE DELEGATION

Economic Situation and Reform Prospects: Begin by enquiring about:

- Progress of efforts to stabilize economy especially the austerity program.
- What about trade and balance of payments?
- Understand the government proposes to continue with economic reform. What are the specific issues before the conference planned for October? What adjustments in content or timing are being contemplated?

Bank Support for Further Reform: The Bank attaches great importance to continued trade liberalization, control of external borrowing, further enterprise reforms, and improved agricultural productivity.

- Also note our concern over the balance of payments impact on China's creditworthiness.
- State that Bank expects to continue its excellent cooperation with China.

IF DELEGATION MENTIONS...

Seven Postponed FY89 Projects

YOU SHOULD INDICATE our appreciation of their understanding of the benefits to both sides of postponing Board consideration.

- Plan to go forward at an appropriate time as soon as possible without jeopardizing our common long-term interest.

Three Year (FY89-91) Lending Program to confirm level ($6.5 bn.) indicated earlier.

YOU SHOULD INDICATE that the Bank is also working with this figure.

- Given recent uncertainties, hope they can confirm continuation of reform policies that justify a China program of this size.

China's Share of IDA-9:

YOU MAY NOTE that IDA-9 negotiations are still underway. If China's economic performance, commitment to reform and openness to outside remain strong, China's case for reasonable levels of IDA is stronger.

- Also, China should continue its efforts with the IDA deputies.

FY89 Commitments: $1,348.4 million
Disbursements : $1,233.9 million
Amortization : $ 41.4 million

GDP Growth: 9.3% (1989) 10.5% (84-88)
Lending Program (FY90-91): $4,540 m.
(excluding 7 postponed payments)

1989 ANNUAL MEETINGS BRIEF

CHINA Friday, September 22, 1989 11:00 am

Meeting with: CHI ["chir"] Haibin, Senior Vice Minister of Finance
WANG Liansheng, Director, World Bank Operations Department, MOF

Population: 1096.0 m (1988); **Estimated Growth Rate:** 1.4% (1988)

GNP per capita: $299 (1987)

	(US$ million)		(US$ million)
Total Commitments to date:	8,617.5	**FY89** Commitments:	1,348.4
of which:		Disbursements:	1,233.9
Bank (50 operations)	5,280.2	Amortization:	41.4
IDA (28 operations)	3,337.3		
Total Undisbursed:	4,918.0		
Lending Program FY90-91:	4,540.0*		
(*plus 7 postponed FY89 Projects	780.4)		

Summary Data	Average 1984-88	Projection 1989	
GDP growth	10.5	9.3	Aid Group Meeting: na
Export growth	16.1	5.8	Last Meeting: na
Import growth	22.5	13.9	Next Meeting: na
Current Acc. Balance % GDP	-1.4	-1.6	IMF Status: no program;
Gross Debt Service Ratio	6.3	6.9	next Art. IV consultation
Annual Inflation Rate	11.1	20.0	Oct/Nov 1989

Background: Recent political events and their aftermath will undoubtedly complicate efforts to contain inflation and proceed with the complex series of reforms under way since 1979. China looks to the Bank for support: projects and ESW bring progress and signal return to normalcy.

Issues likely to be raised by Delegation

- Timing of Board consideration of 7 postponed FY89 projects
- Confirmation of China's interest in borrowing $6.5 billion during FY89-91 period
- China's share of IDA 9

Issues to be raised by Bank Management

- Economic situation and status of of economic reforms, in light of 1988-89 austerity program and more recent political events
- Bank's continued commitment to provide intellectual and financial support for reform program, while working to improve quality of current, upcoming projects

Attachments

Five Year Lending Program: FY89-93 (FY89 actual)
Biographical Information

Issues likely to be raised by the Delegation

1. Timing of Postponed FY89 Projects. The Delegation will enquire about the timing of Board consideration of the seven projects postponed from June 1989. They will probably express appreciation for the actions of Management and staff since June 4, and their confidence in our judgment about the best way to proceed under the circumstances, but complain about the politicization of the institution by its major Part I shareholders, including specifically the United States. After thanking them for their understanding of the benefits to China and the Bank of postponing consideration until a more auspicious time, you should indicate that you plan to go forward in October with all seven projects. While we expect that Board reaction will be positive, given the important demonstration effect of Bank-assisted projects and their visibility within China and to China's foreign partners, you might mention that it will be particularly important in the immediate future that China and Bank staff work even harder to improve their quality. We count on the authorities' active efforts to this end.

2. Confirmation of FY89-91 $6.5 Billion Program. The delegation will likely confirm China's interest in borrowing about $6.5 billion over the 1989-91 three year period. This implies overall totals in each of FY90 and FY91 of around $2.6 billion (i.e. for FY90, around $1.8 billion plus the $780 million postponed from FY89). You may wish to indicate in reply that we are also working under this operating framework, pointing out that given the uncertainties created by recent events we hope that they can confirm that the reform policies that would justify a China program of this size and scope will continue.

3. China's Share of IDA 9. The Delegation will mention the 30 percent allocation of IDA 8 for India and China and their view that China's poverty and performance fully justify parity status with India starting from the Ninth Replenishment. You may wish to mention that the the IDA 9 negotiations are still under way, but that if China's economic performance and commitment to reform remain visibly strong, and its foreign partners remain reassured about China's openness to the outside world, China's case for continued reasonable levels of IDA will likely succeed. China should continue its efforts with the IDA Deputies.

Issues to be raised by Bank management

4. Economic Situation and the Progress of Reform. You should begin by enquiring about the progress of efforts to stabilize the economy so far this year and the status of China's reform program. For background, the austerity program announced in late 1988 included restrictions on State investment, increased lending and deposit rates, and a cutback of credit, in particular to township and village enterprises (which for some time have been the most dynamic part of the economy, and the main engine for absorption of excess labor in rural areas). Motivated primarily by the wish to curb overall growth and thus contain increasing political and social tensions over inflation, particularly affecting urban foodstuffs, it seems to have had some effect. The annualized rate of increase of urban prices fell from 27% in the second half of 1988 to 15% in June-July 1989. Foreign reserves fell from around $19 bn at the beginning of the year to around $15 bn at the end of June, and the trade gap for the first half of 1989 was around $5.6 bn owing to a surge of imports and stagnation of exports. Meanwhile, internal debate at the highest political levels about the speed and substance of economic reforms intensified. The conservatives (who now appear in control) argued that a slower pace and even reversal were preferable

to the increases in prices for which, they argued, the reforms (and the reformers) were to blame. Following the political crisis in June, preliminary evidence is that new foreign investment commitments--which until May had reached a level almost as great as was achieved in all of 1988-- have slowed to a trickle, official aid has been curtailed or postponed and China's contacts--economic and otherwise--with the West have been severely hampered, at least temporarily. While Japanese and other business people are now returning, it is too early to say what the impact of the austerity program and the political uncertainties will be on China's growth prospects. We project that China's current account deficit for 1989 will be between $6.3 billion and $7.9 billion, depending on the effectiveness of measures taken to control the trade deficit. (Other press estimates range up to $9 billion.) The 1988 current account deficit was $2.4 billion.

5. Should the delegation reply with generalities reaffirming China's openness to the outside world, commitment to reform, etc., you should enquire about specific measures they have in mind, and how the Bank can help, noting our concern over the balance of payments impact on China's creditworthiness. You might particularly underline the importance the Bank attaches to continued trade liberalization, control of external borrowing, further enterprise reforms, and improved agricultural productivity. You might also note that continued excellent cooperation with the Bank and heavy Bank involvement in the analysis of the very complex adjustment measures China decides to implement would confirm to outside observers China's determination and continued commitment to openness and reform.

CHINA: FY89-92
FIVE-YEAR LENDING PROGRAM
(US$ Million)

AGRICULTURE	FY89	FY90	FY91	FY92
1 Shaanxi Prov. Agr	106			
2 Shandong Ag Dev	109			
3 Jiangxi Ag Dev		60 *		
4 Mid-Yangtze Ag Dev		64		
5 Rural Cr. IV		222.1		
6 Forestry Sector I		150		
7 Hebei Ag Dev		150		
8 Irr.Ag Intensification		300		
9 Guangdong Ag Dev			160	
10 Tarim Basin			120	
11 Henan Ag Dev			110	
12 Yellow River Basin				350
Ag Support Services				50
(S)Forestry Sector II				200
SUBTOTAL AGRICULTURE	215	946.1	390	600
No. of Projects	2	6	3	3

TRANSPORT & ENERGY				
1 Ningbo/Shangh.Ports	76.4			
2 Xiamen Port	36			
3 Hwy V--Shandong	110			
4 Hwy VI--Jiangxi	61			
5 Rwy--Inner Mongolia	150			
6 Jiangsu Prov. Transp.		150 *		
7 Yanshi Thermal		180 *		
8 Zouxian Thermal Power		300		
9 Daguangba-Hainan		67		
10 Ertan Hydro		300		
11 Railways V		400		
12 Henan Highway			150	
13 Zhejiang Prov.Highw			240	
14 Shuikou II			200	
15 (S) Jiangsu Transport II			150	
16 (S) Shanghai Port			150	
17 Anhui Prov.Transp				240.5
18 Railways VI				294.3
19 (S) Highways VII				200
20 (S) Longtan Hydro				250
21 (S) Power Distribution				150
SUBTOTAL TRANS.& ENER.	433.4	1397	890	1134.8
No. of Projects	5	6	5	5

INDUSTRY & FINANCE	FY89	FY90	FY91	FY92
1 CIB V	300			
2 Tianjin Light Ind.	154			
3 Phosphate II (Hubei)	137			
4 Shanghai Ind. Dev		150 *		
5 Rural Ind.Tech & Serv		110		
6 Cement		85		
7 Finance I		350		
8 Jiangsu Chemical		100		
9 Tianjin Ind II			100	
10 Phosphate III (Guangdong)			100	
11 Shanghai Ind Eff.			150	
12 (S) CIB VI			300	
13 (S) Fertilizer Machinery			100	
14 Electronics I				100
15 Petrochemicals				120
16 (S) Shenyang Ind/N Mach.Tool				200
17 (S) Southern Jiangsu Env.				150
SUBTOTAL IND. & FIN.	591	795	750	570
No. of Projects	3	5	5	4

SOCIAL SECTORS				
1 Textbook Dev.	57			
2 Reg Health Services	52			
3 Med.-Sized Cities		160.2 *		
4 Vocational Euc.		50 *		
5 Shanghai Metro. Transport		58		
6 Key Studies Dev		120		
7 Liaoning Urban		85		
8 Tianjin Urban			100	
9 Zhejiang Multi.			150	
10 Beijing Environment			100	
11 (S) Rural WS/Health IV			100	
12 (S) Teacher Training II			100	
13 (S) Changchun Water Supply			85	
14 Health IV				100
15 (S) Provl. Educ.				75
SUBTOTAL SOCIAL SECTORS	109	473.2	635	175
No. of Projects	2	5	6	2
TECHNICAL ASSISTANCE				
Tech. Coop. (TCC III)		30 *		
Tech. Coop. (TCC IV)				50

	FY89	FY90**	FY91	FY92	4yr TOT
TOTAL ALL SECTORS	1348.4	2861.1	2665	2529.8	9404.3
of which IBRD	833.4	2060	1845	1644.3	6382.7
IDA	515	801.1	820	885.5	3021.6
No. of Projects	12	23	19	15	69

* One of seven FY89 projects deferred for Board presentation in FY90.
Total deferred: $780.2
Of which IBRD: $509.4 million/
IDA: 270.8

** Totals include seven FY89 deferred projects.

AS3CO/8/31/89

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

CHI Haibin - Senior Vice Minister of Finance
WANG Liansheng - Director, World Bank Operations Department, Ministry of Finance

Biographical Sketches

CHI Haibin: Mr. Chi has been Vice Minister of Finance since 1982. In 1984, he was appointed council member of the People's Bank of China and deputy head of the State Council's Leading Group for General Survey in China's Industry. Since 1985, he has also been a Managing Director of People's Bank. Vice Minister Chi oversees China's relations with the Bank.

WANG Liansheng: Born in 1931 in Hebei Province. Following his assignment as the World Bank's Executive Director for China from 1980 to 1984, Mr. Wang was appointed Director of the External Finance Department of the Ministry of Finance (MOF). His department was reorganized as part of the recent Government reorganization into the World Bank Operations Department, which he continues to head. In addition, he participates for China in UN bodies responsible for budget questions.

Messrs. Conable and Qureshi met Vice-Minister Chi and Director Wang during visits to China, and at last year's Annual Meeting. This year, the Chinese Delegation to the Annual Meetings is led by the Governor of People's Bank, Li Guixian, who is IMF Governor.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

89091503 T

Mr. Conable:

I believe it is appropriate for us to go ahead and issue invitations to negotiate. It will also constitute a testing of the waters. MTB.

9/15.

DATE: September 14, 1989

TO: Mr. Moeen Qureshi, OPNSV

THROUGH: Attila Karaosmanoglu, ASIVP AK.

FROM: Shahid Javed Burki, AS3DR SJB.

EXTENSION: 72571

SUBJECT: CHINA: Invitation for Loan Negotiation

We have three operations for which the internal processing of documents have been completed:

Mid-Yangtze Agriculture Development:	$64 m IDA
Rural Industrial Technology (SPARK):	$110 m IBRD
Daguangba Power Project:	$67 m IDA/IBRD

We have been withholding issuance of invitation to negotiation because of the current China situation. These negotiations should be held around middle of October in order to permit presentation to the Board in the middle of December. Any further delay in holding negotiation would result in slipping of the projects into the third quarter. We, therefore, request your approval to proceed with the issuance of invitation to negotiate these loans. We expect the first negotiation to take place around October 16, 1989, by which time we hope that the first of the seven loans held over from FY89 would have been approved by the Board.

cc: China Management Group

DAhmad:to

Moeen -

Please do not send an invitation to negotiate before the Annual Meetings. I do not worry about these loans going over to the 3rd quarter, when getting the June loans through in the 2nd quarter is going to be so difficult. Let's discuss again after I've polled the Finance Ministers at the A.M.

B.C.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
September 22, 1989	Memorandum	

Correspondents / Participants
To: Mr. Moeen A. Qureshi, OPNSV
From: Ibrahim F.I. Shihata, LEGVP

Subject / Title
Taiwan Cofinancing Operations with the World Bank

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

BBC (copied to MH)

DATE: October 3, 1989

TO: Files

FROM: Mr. Edwin R. Lim, Chief, AS3CH

SUBJECT: Mr. Conable's Meeting with China Delegation: September 22, 1989

Present: Mr. Chi Haibin, Senior Vice-Minister, Ministry of Finance
Mr. Wang Liansheng, Director, World Bank Department
Mr. Zhang Junyi, Executive Director for China
Mr. Jin Liqun, Alt. Executive Director for China
Mr. Zhang Shengman, Chief, World Bank Department, MOF

Messrs. Conable, Qureshi, Karaosmanoglu, Burki, Khanna, Lim
Ms. Haug

Mr. Conable opened the discussion by noting that he understood that the Chinese authorities were planning a high level economic conference in October and he would be interested in having Vice-Minister Chi's assessment of the current economic situation as well as the main issues to be discussed at the conference. Vice-Minister Chi responded that China had initiated a program of economic stabilization and readjustment one year ago and some initial results have been achieved. Investment by the state sector had declined by 5% and inflation, which had been 24.7% over the past 12 months was reduced to 7.4% over the first half of 1989. External debt amounted to $40 billion at the end of 1988 and debt service will rise to somewhat below 20% of exports over the next few years. Although the economic situation was improving, the fundamental problems of excess aggregate demand, distorted prices and irrational industrial structure remained. The forthcoming meeting of the Central Committee of the Communist Party will be discussing a three year (1989-91) program of economic readjustment aimed primarily at bringing down the rate of inflation. Price reforms and industrial restructuring would be longer term objectives.

Responding to questions from Mr. Conable, Vice-Minister said that he expected the GNP growth rate in 1989 to be near the planned target of 7.5%, though significantly below the 11.2% achieved last year. In agriculture, the summer harvest reached the previous historical high but the main fall harvest was expected to fall short because of drought in the North. Further reforms in agriculture would be in the direction of larger-scale production in regions with more favorable land/labor ratio. Greater incentives for investment in rural infrastructure were also required.

Turning to Bank lending, Vice-Minister said that the Government wished total lending for the three years 1989-91 to remain at $6.5 billion as previously agreed. Mr. Conable replied that this should be based on continued reform in China. While he was pleased that Vice-Minister Chi in his meetings with Mr. Burki and Mr. Karaosmanoglu has confirmed the Government's continued commitment to reform, it was difficult to assess statements coming out from China. Vice-Minister Chi pointed out that Chinese leaders such as Secretary-General Jiang Zheming and Premier Li Peng have repeatedly stated China's commitment to economic reform and opening to the outside world. Some economists in China may have expressed different opinions but the government had been unambiguous on this point. Reform over the past decade had brought about great progress and Chinese leaders considered this policy to be fundamental to China's future. Policies such as coastal development and New Economic Zones would remain unchanged. Even though foreign investment in these areas have fallen policies would remain unchanged.

Responding to Mr. Qureshi's questions on what the Government meant by continued reforms, especially in areas such as industrial policy, pricing, interest and exchange rates, Vice-Minister Chi explained that without further reform, the economy could not progress smoothly and market mechanism could not be established. If we don't press on, we would be aborting our efforts of the past decade. China's objective was to create a combined planned and market economy. In the past we may have over-emphasized the role of the market. Experience of even large western countries showed that China can not rely only on markets in developing basic industries. By planning, we mean coordination of production, not a return to the old system. In agriculture we should increase investment. But we also need to rationalize the development of township and village industries and ensure their steady development consistent with availability of energy and raw materials. For state enterprises, we would continue to give more autonomy to managers, introduce uniform polices and improve the contractual responsibility system including a reduction of the income tax rates to 30%. Price reforms however would only be introduced gradually.

Thanking the Minister for his presentation on the economic situation, Mr. Conable said that we need to have a strategy for the resumption of Bank lending to China. He was grateful for China's understanding over the current situation. Lending to China had not yet been resumed not because of concerns over Bank-China relationship, but because he wanted to be sure there was no obstacle in the Board. Although the Bank was still uncertain when lending can be resumed, he had authorized the China Department to resume operational missions, not just supervision. It was our intention to

implement our lending plan even if delayed. He intended to use the Annual Meetings as the occasion to discuss with important member countries on how to handle the delayed loans. China was a valued client and the Minister's explanations on the economic situation would be useful when the Bank resumed lending. It would be counterproductive for China as well as the Bank to proceed on this basis of a political patchwork on the Board. These loans would not be postponed forever but he would like to present them to the Board only when there is a strong consensus of support.

Vice-Minister Chi thanked Mr. Conable for his positive attitude. Cooperation between the Bank and China had been good and the Bank had handled the recent difficult situation prudently. China very much regretted the political interference of some of its member countries over lending to China and would hope that Bank management would continue to urge all its member governments to respect the charter of the Bank and allow the Bank to operate strictly on economic considerations.

cc: Mr. Conable's Office
Messrs. Qureshi, Karaosmanoglu, Fischer, Vergin, Yenal, Wiehen, Gouveia, Kikuchi, Sison
Mmes. Haug, Schaeffer
China Management Group
Asia Files

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DR1030020 filed.

Mr. Conable: For your information. I have asked the Region to proceed with the preparation of the loan. DMD. 11/2.

DATE: October 30, 1989

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

THROUGH: Mr. Attila Karaosmanoglu, Vice President, Asia Region

FROM: David Pearce, Acting Director, AS3

EXTENSION: 72639

SUBJECT: CHINA: Earthquake in China

You asked for a note about the recent earthquake in northwest China.

Background

1. On the night of October 18, an earthquake measuring 6.1 on the Richter Scale struck the boundary area of Hebei and Shanxi Provinces and the Inner Mongolia Autonomous Region. The epicenter was near the city of Datong (around 220 km northwest of Beijing), which is a medium-sized industrial city and the site of ancient Buddhist caves, a tourist attraction of considerable cultural importance. Aftershocks over 5 on the Richter Scale were recorded the next morning. News from the scene, however, remains very sketchy. Initial information from the Ministry of Civil Affairs, relayed by UNDRO and UNDP Beijing on October 20, gave a preliminary assessment of damage at 15 deaths, 140 injured, the collapse of some 11,000 units of rural housing and about 50,000 people homeless.

Current Status

2. At UNDP's suggestion, the Chinese wrote late last week to the donors that they "[would be] prepared to accept donor assistance." While much prompter than such requests after more serious natural disasters last year (floods in Szechuan and in Jiangsu and Zhejiang), this formulation is low key. It may reflect the fact that the damage affects not one political jurisdiction, but three, and the probability that, from the Chinese national perspective, this is a relatively minor, local occurrence. According to UNDP, the Beijing representatives of the European Community have decided that they will not act individually, but as a group, and only if the Commission entrusts the effort to a European NGO, of which, to our knowledge, there are none currently operating in the country. For the time being, the UN System plans to hold back, unless the Chinese come forward with more information.

3. During meetings with Mr. Wang Liansheng, Director, World Bank Department, Ministry of Finance and Finance Minister Wang Bingqian last week, Mr. Burki was given an updated assessment of damage; namely that the first earthquake destroyed 39,000 houses, severely damaged a further 76,000, and, that more than 82,000 people have been rendered homeless. He was also told informally that, if offered, the authorities would accept IDA

assistance for rehabilitation and reconstruction. While this is not an explicit request for international assistance, a Bank initiative might generate interest from other agencies - not only for earthquake rehabilitation, but also for the resumption of official aid more generally. It can be assumed that this latter possibility has also occurred to Messrs. Wang Bingqian and Wang Liansheng. However, given the uncertain attitude of the principal bilateral donors concerned, we may wish to consult informally with some of them before initiating any formal action.

Possible Next Steps

4. Given the dearth of reliable information about specific needs, it is difficult at this stage to estimate what might be involved in terms of a possible emergency earthquake rehabilitation operation. If a decision to proceed were made soon, and assuming expedited processing (e.g. Board presentation by about mid-January, 1990) of a modest (e.g. US$20-25 million) IDA credit, the Department could mobilize a four-person mission - comprising the Project Advisor, the Principal Country Officer, an earthquake rehabilitation specialist and a lawyer - to visit China during the first half of November. The mission's mandate would be to identify, appraise and negotiate in the field a suitable package of items to be financed. Upon return to headquarters by, say, early December, draft credit documents could be prepared for management approval and submission to the Executive Directors by early January, 1990.

Attachments

cc: Messrs. Burki (c/o AS3CH); Lim (AS3CH); Ahmad (o/r)(AS3DR)

PMCadario/DPearce:eh,em

WORLDBANK TMSS

Attachment 1

ZCZC RDRP0376 WUI622
SPRIE
.TCP SD
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* SPRIE *
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WUI622
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 28148T UNDP CH
94528148

248423:UNDRO 89/2171=UNDRO 89/2171/ WORLDBANK
ATTN:INTL BANK FOR RECONSTRUCTION
AND DEVELOPMENT (IBRD)
WASHINGTON, D.C.
MICHAEL CARTER
BT
UNDRO 89/2171

TO: UNDRO LISTS 1 AND 5D PLUS MISSION OF CHINA AND UNDP/BEIJING.

CHINA - EARTHQUAKE -
UNDRO INFORMATION REPORT NO. 1 - 20 OCTOBER 1989

1. AT NIGHT OF 18 OCTOBER LOCAL TIME, EARTHQUAKE MESURING 6.1 ON RICHTER SCALE OCCURRED IN THE AREA OF JUNCTION OF HEBEI, SHANXI PROVINCES AND INNER MONGOLIA AUTONOMOUS REGION 220 KM NORTHWEST OF BEIJING. FOUR TREMORS OVER 5 ON RICHTER SCALE RECORDED TOWARDS NEXT MORNING.

2. ACCORDING TO VERBAL INFORMATION FROM MINISTRY OF CIVIL AFFAIRS, PRELIMINARY ASSESSMENT OF DAMAGE AS FOLLOWS:

- 15 DEAD, 140 INJURED, 50,000 PEOPLE MADE HOMELESS
- 11,000 HOUSES COLLAPSED

3. UNDP/UNDRO RESIDENT REPRESENTATIVE INDICATES THAT FIGURES LIKELY TO INCREASE.

4. RESCUE TEAM HAS BEEN SENT TO AFFECTED AREA FOR RESCUE OPETATIONS.

= ESSAAFI UNDRO GENEVA 28148 /

DPR 310 CHA

Attachment 2

Strong Tremors Hit Rural Northern China

Associated Press

BEIJING, Oct. 19—A severe earthquake rumbled across rural north China early today, destroying about 8,000 homes, killing at least 29 people and injuring 34, according to New China News Agency and other official reports.

The agency said in a brief report that aftershocks continued.

State Seismological Bureau officials said there was no evidence that this earthquake and the one that hit the San Francisco area were linked.

The bureau said an initial quake hit at 10:57 p.m. Wednesday (10:57 a.m. EDT Wedneday) and measured 5.7 on the open-ended Richter scale. At least four others registering 5 or above hit in the next six hours, including a quake of 6 on the scale at about 1 a.m. today.

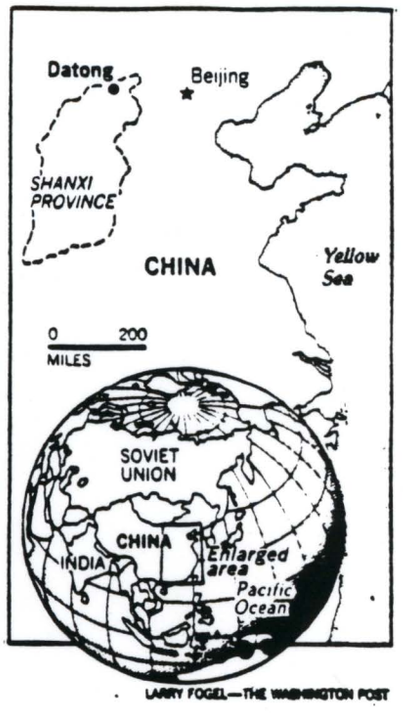
An aftershock measuring 5.1 hit at 6:29 p.m., Xinhua said. More than 300 lesser aftershocks were recorded.

The quake was centered about 135 miles west of Beijing on the border of Shanxi and Hebei provinces.

Residents of Beijing felt the tremors, but no reports of damage surfaced and the bureau said there was no need to take safety measures in the capital.

The epicenter was near Datong, famous for its Yungang Caves that hold thousands of Buddhist paintings and statues dating to the 5th century.

Xinhua earlier quoted Seismological Bureau sources as reporting another earthquake early today in China's far west region of Xinjiang and Gansu. However, bureau officials later said they had not confirmed any tremors in the sparsely populated desert area.



Almost no details were available from the government or official media about the extent of damage.

China's prime-time national news program gave extensive attention to Premier Li Peng inspecting a stadium, but failed to mention the killer earthquake that was felt in Beijing.

It takes days for the details of many major disasters to be reported, and many are still ignored by the official press.

Washington Post 10/20/89

OFFICE MEMORANDUM

8909136S1

DATE: September 14, 1989

TO: Mr. Moeen Qureshi, OPNSV

THROUGH: Attila Karaosmanoglu, ASIVP AK.

FROM: Shahid Javed Burki, AS3DR SJB.

EXTENSION: 72571

SUBJECT: CHINA: Invitation for Loan Negotiation

Mr. Conable:

I believe it is appropriate for us to go ahead and issue invitations to negotiate. It will also constitute a testing of the waters. MBA.

9/15.

We have three operations for which the internal processing of documents have been completed:

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B.C.

AK MH

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/09/11 DUE DATE : 00/00/00
LOG NUMBER : 890911012 FROM : Mr. Burki (AK)
SUBJECT : China: China Program

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
__✓__ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :

Any action needed?

(cp)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 11, 1989

CONFIDENTIAL

TO: Mr. Barber B. Conable and Mr. Moeen Qureshi, OPNSV

THROUGH: Attila Karaosmanoglu, ASIVP

FROM: Shahid Javed Burki, AS3DR

EXTENSION: 72571

DECLASSIFIED
MAR 24 2017
WBG ARCHIVES

SUBJECT: CHINA: China Program

1. In my memorandum of July 14, I reviewed briefly the situation in China and the Department's plans for the gradual resumption of activities, including a proposed timetable for Board consideration of seven FY89 projects originally planned for presentation last June. The purpose of this memorandum is:

(a) to update you on recent developments;

(b) to report on the progress of our activities since mid-July; and

(c) against this background, to recommend that we proceed with presentation of the seven projects outstanding in October, i.e. immediately following the Bank/Fund Annual Meetings.

Recent Developments

2. Since the June 3-4 events in Beijing, there has obviously been a significant degree of uncertainty, within China and outside, about their impact - in both the short- and medium-term - on the country's economic position. Questions have also been raised about their potential consequences for China's ambitious reform policies. These uncertainties and questions remain and, unfortunately, they will probably continue for some time.

3. As far as the economy is concerned, you will recall that the basic factors underlying the most recent uncertainties have been present for well over a year. These were documented in some detail in the last Country Economic Memorandum (CEM) dated June 12, 1989 that was distributed to the Executive Directors on June 22, 1989. Since then, preliminary trade and payments data have become available, which indicate that the trade imbalance already evident in 1988 persisted during the first five months of 1989; with export growth of only about 5% and imports up by about 25%, the deficit widened to about -US$5.5 billion, six times larger than the same period in 1988. However, the planned decline in the rate of GNP growth (to an estimated 6% in 1989) and an expected good harvest, combined with administrative controls, will probably contain the rapid growth in imports during the second half of 1989. While no data have been released, unofficial estimates suggest that reserves have probably declined from US$17.6 billion at end-1988 to

about US$15 billion by mid-1989. For the whole of 1989, we currently project a current account deficit in the range of -US$6.3 billion to -US$7.9 billion, or 1.5-2.0% of GNP. It appears that there will be some resort to commercial borrowing to cover the gap. We expect a further modest decline in reserves to about US$13.9 billion (assuming net financing of US$4 billion), equivalent to more than three months imports. To summarize, the trade and payments situation, although a worsening from 1988, cannot be said at this stage, on the basis of mid-year data, to show major difficulty.

4. Turning to China's economic reform policies, the Government has indicated publicly that it plans to review progress during the past two years (i.e. since the 13th Party Congress in October, 1987) with a view to drawing lessons from experience and, presumably, re-ordering priorities for the short- and medium-term. Finance Minister Wang Bingqian informed me in our meting last month that a high-level meeting was being convened in October to draw up a three-year plan for "economic rectification and stabilization." This plan will cover the period 1990-92. In the circumstances, we should not be surprised if the authorities decide to make perhaps significant adjustments to the economic reform program, particularly to the timetable for its implementation. This could, in turn, have implications for the scope and content of Bank activities in China at a later date (i.e. in FY91 and beyond). However, it is still too early, in the Department's view, to make an informed judgement on the economic or developmental impact of the June 3-4 events or, given the vigorous internal debate that is clearly underway, any reasonable prognosis of the prospects for reform. That said, we do not expect China to give up on its open-door policy.

5. Notwithstanding these very real uncertainties and with the limited perspective of only three months, I believe that, for the Bank as an economic development institution, we should assess recent developments as follows:

(a) there is so far no cause for serious concern about China's economy or basic creditworthiness;

(b) there is no reason as yet to doubt the Chinese leadership's fundamental commitment to the basic objectives of the economic modernization and reform effort initiated now over ten years ago; and

(c) as expressed to me by Vice Premier Yao Yilin in June and Vice Premier Tian Jiyun and Finance Minister Wang Bingqian last month, there is no ambiguity about the Government's stated intention to continue - indeed to strengthen - its cooperation with the Bank.

Evidence of any change in these circumstances that might affect the Bank's longer-term role, or basic rationale for involvement in China - if indeed that should come to pass - will only become clear later. In this connection, one principal task of the upcoming economic mission to China planned for November will be to attempt such an initial appraisal.

Meanwhile, it is our view that there is no current economic or developmental basis for continued delay in presenting the seven outstanding projects to the Executive Directors.

Current Status of Bank Activities

6. Since the gradual resumption of limited operational activities, specifically visiting missions, at the end of July, we have reviewed the progress of 24 projects, about one third of the total portfolio, of which 15 were supervised in full, eight on a limited basis or in the context of new operations under preparation, and one with particular reference to a pre-existing and persistent funding and procurement problem. In addition, seven project preparation missions have visited China, two appraisals are now in progress and a third will leave headquarters later this month. Finally, five economic and sector missions are underway. Overall, some 94 Bank staff and/or consultants have been to China since mid-July, including four departmental managers and myself.

7. I have also held discussions in New York and London to ascertain the views of some of the major financial institutions active in China. In London, I also met with Mr. Timothy Lancaster, Permanent Secretary of the U.K. Overseas Development Administration, and Andrew Crockett, Executive Director, Bank of England.

8. During this period, our principal concerns have been twofold: first, the progress of projects under implementation, specifically of international procurement activities in progress during the last six months; and second, the status of the seven projects awaiting Board presentation. With a few minor exceptions, relating to brief delays in the issuance or receipt of bid documentation by foreign contractors during June/July, Bank staff are satisfied that the physical implementation of all Bank-financed projects in China is proceeding on schedule. In fact, they reported that the progress of most Bank-financed projects, particularly those outside Beijing and the main urban centers, was largely unaffected throughout this period. In the few instances where specific problems arose - e.g. at key points in the international procurement process, or as a result of foreign consultants leaving the country temporarily - the project implementing agencies concerned have in all cases taken remedial action, in accordance with Bank policies and procedures. The disbursement of Bank loan and IDA credit proceeds has also continued uninterrupted and is in line with staff estimates for the period on a project-specific basis. Overall, therefore, China's exemplary record of project implementation remains intact.

9. Regarding the seven projects outstanding from FY89, Bank staff have now consulted directly with the agencies responsible for their financing, management and implementation. In all cases, they have confirmed, and are fully satisfied, that the circumstances described in the documents distributed to the Executive Directors last June remain substantially unchanged. Indeed, to the extent that there have been changes, these are all positive - in the sense that the project

implementing agencies concerned have proceeded with final preparations for initial implementation virtually without interruption.

Recommendation

10. Based on the foregoing considerations, namely our preliminary assessment of the current economic and reform situation, our recent review of the progress of projects underway, and our view (shared by the Chinese authorities) that the circumstances in which all seven outstanding projects were prepared, appraised and negotiated remain valid, I recommend that they be presented to the Executive Directors for consideration in October.

China Management Group

DPearce/SJBurki:eh

THE WORLD BANK

August 28, 1989

Mr. Conable:

For information.

MOEEN A. QURESHI
Senior Vice President, Operations

August 21, 1989

Mr. Moeen A. Qureshi

I met with Mr. Conable on July 31, the day before I left for my mission, and discussed the message I should pass on to the senior leaders of China on behalf of the Bank Management. Mr. Conable wished me to underscore the following in my discussions with the Chinese:

- He (Mr. Conable) remained committed to proceeding with the presentation of the seven China projects held over from FY89 as soon as possible. He expected these to begin in mid-September, following the return of a number of supervision missions scheduled for August. He understood that I had discussed a schedule of Board presentation with the ED's office and the Chinese authorities. They were happy with our proposals.

- However, I was to explain to the Chinese authorities that an additional complication had arisen in light of action on Capitol Hill concerning the U.S. IDA appropriation for FY90. The House had already passed a resolution, the essential effect of which would be to create an escrow account of US$115 million to be released in January, 1990 following satisfactory findings by the U.S. President on human rights conditions in China. Reconciliation of the House and Senate versions of this resolution was not expected to take place before October 1. In view of this development, it may be prudent for the Bank's Board to consider the China projects after the Bank/IMF Annual Meetings.

- We remain committed to an active presence in China. I was to discuss proposals for project preparation and appraisal for FY90 and FY91 and we were to press on with our economic and sector work program. Mr. Conable was pleased to learn that the Chinese have agreed to our suggestion for advancing the preparation of the next Country Economic Memorandum.

- Mr. Conable also indicated that we could sign the projects already approved by the Board as and when authorizations were received by the Chinese authorities. He wants the signing ceremonies in a low key manner.

I have passed on Mr. Conable's message to Chi Haibin, Sr. Vice Minister Finance whom I saw upon my arrival in Beijing on August 15. I will repeat this message when I see Deputy Premier Tian Jiyun and Finance Minister Wang Bingqian tomorrow. Mr. Chi's response was encouraging. He said that the Chinese leadership attached a great deal of importance to the country's relationship with the Bank and they had full trust and confidence in the judgment of the Bank's management concerning the schedule of Board presentation. He was also pleased that we have resumed our project preparation work in earnest. He said that if in the judgment of the Bank managers it was necessary to postpone Board discussion of FY89 projects to sometime after the annual meetings, the Chinese authorities would be happy to go along with that decision.

I have also had meetings with the US, German and Canadian Ambassadors to China and the Japanese Economic Minister in Beijing. The underlying message in these meetings is that they are awaiting for the World Bank to start lending once again before they themselves can move.

I thought you may want to pass on these reactions to Mr. Conable. I believe you were trying to reach me last Friday, August 18, in Beijing. I was travelling at that time and I am now back in Beijing and can be reached at the Shangrila Hotel until August 22.

Shahid Javed Burki
(Dictated but not read)

cc: Messrs. Karaosmanoglu
Pearce

SJBurki:fvf

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 9/18/89
NAME	ROOM NO.
R. W. Stanton	E1227

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
X	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

= Mtg minutes (E-427)

82- Annual

83-84-85

86-87-88

89

(7)

FROM:	ROOM NO.:	EXTENSION:
SHAHID JAVED BURKI	C9005	73572

China file

1989 ANNUAL MEETING BRIEF

CHINA

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REGIONAL BRIEFING PAPER

Issues Likely to be Raised by the Delegation

(i) Board consideration of the seven postponed FY89 projects, and politicization of the Bank's relations with China

(ii) Confirmation of China's interest in borrowing $6.5 billion from Bank/IDA in FY89-91 period.

(iii) China's share of IDA 9

Issues to be Raised by Management

(i) Economic Situation and Status of Reforms

(ii) Need to improve quality of Bank-financed operations (see (i) and (ii) above)

(iii) Programs of Special Emphasis (Environment, Human Resource Development)

ANNEXES

I. Senior Management Brief (with FY89-93 Lending Program and Biographical Information)

II. Memorandum on recent developments in China's trade and payments situation

Meetings

With Messrs. Conable and Qureshi: Friday, September 22 at 11 am
With Messrs. Karaosmanoglu and Burki: Thursday, September 21 at 3 pm

Issues likely to be raised by the Delegation

1. Timing of Board consideration of FY89 operations. You should confirm that we intend to go forward with the seven postponed operations in October, probably in three batches, as indicated in the Senior Management Brief. The projects will probably be presented in three groups: Third Technical Cooperation, Jiangxi Agriculture and Jiangsu Provincial Transport; Vocational and Technical Education and Yanshi Thermal Power; and Medium Cities Urban Development and Shanghai Industrial Development. We expect that the delegation will complain about the politicization of the Bank's relations with China by its major shareholders, specifically the United States.

2. FY89-91 Borrowing. The delegation will likely confirm China's interest in borrowing about $6.5 billion over the 1989-91 three year period, as agreed during last November's lending program discussions. This implies overall totals in each of FY90 and FY91 of around $2.6 billion (i.e. for FY90, around $1.8 billion plus the $780 million postponed from FY89). Except for a minor reduction of SDR27 million owing to the impact of exchange rate changes on donors' contributions, China's IDA 8 allocation remains unchanged. The FY90 program is now well advanced and, for the first time, we have four healthy standby projects. This gives us a real prospect to debunch the program in future years, and both sides should strive to take advantage of this happy circumstance. China's likely borrowing levels from the Bank beyond FY91 depend on decisions to be taken on the Eighth Plan, and continued efforts to maintain its creditworthiness for IBRD borrowing. You should underline, however, that the resources available to the China Department are likely to remain relatively fixed for lending and the ESW needed to respond to China's wishes and back up the projects with good sectoral analysis. This implies a larger average project size and a careful selection of those priority Eighth Plan projects which China presents to us for analysis and consideration.

3. China's Share of IDA 9. While it is too early to predict China's prospective share of IDA 9, the delegation will likely underline its view that China should receive an appropriate share of the next IDA Replenishment, and specifically parity with India. While noting China's low per capita income and good past performance, both in economic management and project implementation, you should indicate that it will be particularly important that China's commitment to reforms and openness to the outside world remain visible to its foreign partners (and the IDA contributors) so as to strengthen China's case. China's own efforts with the IDA Deputies should continue to make the point, and China's actions on reforms, economic management and Bank project implementation as the negotiations proceed to their conclusion will be particularly important.

Issues to be raised by Regional Management

4. Economic Situation and Status of Reforms. You should enquire about the progress of efforts undertaken since the last quarter of 1988 to stabilize the economy and, specifically, what China plans in the coming months in the various areas of reform, taking into account the uncertainties created by the events of June 3-4 in Beijing. The attached memorandum gives our most recent assessment of the trade and payments situation: a deterioration of the trade balance (which was not particularly healthy up to May, despite the austerity program) and a modest rundown of reserves. The advice we gave last year to monitor and control external borrowing is still pertinent, and you may wish to ask about progress in this area. We have agreed to advance the preparation of the next CEM, and to continue with the economic and sector work program approved last

April. You should impress on the delegation that it would be in China's interest to be as specific and forward looking on reforms as possible, since China's many friends are looking for reassurance that their collaboration is welcome and can proceed as smoothly as before.

5. Quality of Bank Projects. During the discussion of China's borrowing from the Bank and its share of IDA 9, you may wish to note that while we expect these projects to be well received, there may be a number of questions on their detailed features, and their adherence to Bank policies on cost recovery, pricing, procurement, use of consultants, etc. These are areas in which the transitional nature of China's economic reforms, and the innovative nature of some projects, had in the eyes of some Board members led to more flexible consideration of China's peculiar circumstances. The possibility of renewed scrutiny will call on all of us to be particularly careful to embody "best practice" in the design of upcoming operations, and see that on-going projects observe rules about procurement and use of consultants carefully. During upcoming lending program discussions (November 1989), the China Department plans to propose a number of areas for action to ensure more smoothly prepared and better implemented projects. These areas for discussion and early agreement on how to improve project design and performance include: the foreign exchange onlending and repayment system; the timely provision of adequate local counterpart funds; and procurement and use of ICB (which the preparation of standard bid documents, already underway, should greatly improve). For background, MOF may now be starting to share our concern over foreign exchange adjustment centers and the distorting impact this may have on our projects.

6. Programs of Special Emphasis. Discussions with the National Environmental Protection Administration (NEPA) on environmental policies and regulation have proceeded well, and we look forward to the first free-standing environmental projects (in Jiangsu and Beijing), together with technical assistance financed under the Japan Grant Facility and as components of Bank and IDA projects. You may wish to note that the Bank wishes to give greater priority to other areas: Poverty Reduction, Financial Intermediation, Forestry, and Human Resource Development, including WID. On Human Resource Development, for example, you may wish to note the establishment in MOF's World Bank Department of a division responsible for technical assistance and training. We would like to work closely with this unit, not only to see that the training and technical assistance components of our projects are better designed and implemented, but also to identify and prepare projects which address this issue and need more directly. This implies a willingness by China to devote more of its borrowing from the Bank for these purposes, without the artificial restriction of foreign exchange repayment and onlending rates acting as a disincentive for incorporating important institutional development goals more effectively in our projects. Also, the availability of bilateral grants for this purpose may be limited in the short term. You might also mention that the Department proposes to send a mission in early CY90 to explore with relevant agencies in China, including Ministries, academic bodies and the All-China Women's Federation how the Bank's program might better support China's efforts to improve women's contribution to development.

AS3CO
8-SEP-89

1989 ANNUAL MEETINGS BRIEF

CHINA Friday, September 22, 1989 11:00 am

Meeting with: CHI ["chir"] Haibin, Senior Vice Minister of Finance
WANG Liansheng, Director, World Bank Operations Department, MOF

Population: 1096.0 m (1988); **Estimated Growth Rate:** 1.4% (1988)

GNP per capita: $299 (1987)

	(US$ million)		(US$ million)
Total Commitments to date:	8,617.5	**FY89** Commitments:	1,348.4
of which:		Disbursements:	1,233.9
Bank (50 operations)	5,280.2	Amortization:	41.4
IDA (28 operations)	3,337.3		
Total Undisbursed:	4,918.0		
Lending Program FY90-91:	4,540.0*		
(*plus 7 postponed FY89 Projects	780.4)		

Summary Data	Average 1984-88	Projection 1989	
GDP growth	10.5	9.3	Aid Group Meeting: na
Export growth	16.1	5.8	Last Meeting: na
Import growth	22.5	13.9	Next Meeting: na
Current Acc. Balance % GDP	-1.4	-1.6	IMF Status: no program;
Gross Debt Service Ratio	6.3	6.9	next Art. IV consultation
Annual Inflation Rate	11.1	20.0	Oct/Nov 1989

Background: Recent political events and their aftermath will undoubtedly complicate efforts to contain inflation and proceed with the complex series of reforms under way since 1979. China looks to the Bank for support: projects and ESW bring progress and signal return to normalcy.

Issues likely to be raised by Delegation

- Timing of Board consideration of 7 postponed FY89 projects
- Confirmation of China's interest in borrowing $6.5 billion during FY89-91 period
- China's share of IDA 9

Issues to be raised by Bank Management

- Economic situation and status of of economic reforms, in light of 1988-89 austerity program and more recent political events
- Bank's continued commitment to provide intellectual and financial support for reform program, while working to improve quality of current, upcoming projects

Attachments

Five Year Lending Program: FY89-93 (FY89 actual)
Biographical Information

Issues likely to be raised by the Delegation

1. Timing of Postponed FY89 Projects. The Delegation will enquire about the timing of Board consideration of the seven projects postponed from June 1989. They will probably express appreciation for the actions of Management and staff since June 4, and their confidence in our judgment about the best way to proceed under the circumstances, but complain about the politicization of the institution by its major Part I shareholders, including specifically the United States. After thanking them for their understanding of the benefits to China and the Bank of postponing consideration until a more auspicious time, you should indicate that you plan to go forward in October with all seven projects. While we expect that Board reaction will be positive, given the important demonstration effect of Bank-assisted projects and their visibility within China and to China's foreign partners, you might mention that it will be particularly important in the immediate future that China and Bank staff work even harder to improve their quality. We count on the authorities' active efforts to this end.

2. Confirmation of FY89-91 $6.5 Billion Program. The delegation will likely confirm China's interest in borrowing about $6.5 billion over the 1989-91 three year period. This implies overall totals in each of FY90 and FY91 of around $2.6 billion (i.e. for FY90, around $1.8 billion plus the $780 million postponed from FY89). You may wish to indicate in reply that we are also working under this operating framework, pointing out that given the uncertainties created by recent events we hope that they can confirm that the reform policies that would justify a China program of this size and scope will continue.

3. China's Share of IDA 9. The Delegation will mention the 30 percent allocation of IDA 8 for India and China and their view that China's poverty and performance fully justify parity status with India starting from the Ninth Replenishment. You may wish to mention that the the IDA 9 negotiations are still under way, but that if China's economic performance and commitment to reform remain visibly strong, and its foreign partners remain reassured about China's openness to the outside world, China's case for continued reasonable levels of IDA will likely succeed. China should continue its efforts with the IDA Deputies.

Issues to be raised by Bank management

4. Economic Situation and the Progress of Reform. You should begin by enquiring about the progress of efforts to stabilize the economy so far this year and the status of China's reform program. For background, the austerity program announced in late 1988 included restrictions on State investment, increased lending and deposit rates, and a cutback of credit, in particular to township and village enterprises (which for some time have been the most dynamic part of the economy, and the main engine for absorption of excess labor in rural areas). Motivated primarily by the wish to curb overall growth and thus contain increasing political and social tensions over inflation, particularly affecting urban foodstuffs, it seems to have had some effect. The annualized rate of increase of urban prices fell from 27% in the second half of 1988 to 15% in June-July 1989. Foreign reserves fell from around $19 bn at the beginning of the year to around $15 bn at the end of June, and the trade gap for the first half of 1989 was around $5.6 bn owing to a surge of imports and stagnation of exports. Meanwhile, internal debate at the highest political levels about the speed and substance of economic reforms intensified. The conservatives (who now appear in control) argued that a slower pace and even reversal were preferable

to the increases in prices for which, they argued, the reforms (and the reformers) were to blame. Following the political crisis in June, preliminary evidence is that new foreign investment commitments--which until May had reached a level almost as great as was achieved in all of 1988-- have slowed to a trickle, official aid has been curtailed or postponed and China's contacts--economic and otherwise--with the West have been severely hampered, at least temporarily. While Japanese and other business people are now returning, it is too early to say what the impact of the austerity program and the political uncertainties will be on China's growth prospects. We project that China's current account deficit for 1989 will be between $6.3 billion and $7.9 billion, depending on the effectiveness of measures taken to control the trade deficit. (Other press estimates range up to $9 billion.) The 1988 current account deficit was $2.4 billion.

5. Should the delegation reply with generalities reaffirming China's openness to the outside world, commitment to reform, etc., you should enquire about specific measures they have in mind, and how the Bank can help, noting our concern over the balance of payments impact on China's creditworthiness. You might particularly underline the importance the Bank attaches to continued trade liberalization, control of external borrowing, further enterprise reforms, and improved agricultural productivity. You might also note that continued excellent cooperation with the Bank and heavy Bank involvement in the analysis of the very complex adjustment measures China decides to implement would confirm to outside observers China's determination and continued commitment to openness and reform.

CHINA: FY89-92
FIVE-YEAR LENDING PROGRAM
(US$ Million)

AGRICULTURE	FY89	FY90	FY91	FY92
1 Shaanxi Prov. Agr	106			
2 Shandong Ag Dev	109			
3 Jiangxi Ag Dev		60 *		
4 Mid-Yangtze Ag Dev		64		
5 Rural Cr. IV		222.1		
6 Forestry Sector I		150		
7 Hebei Ag Dev		150		
8 Irr.Ag Intensification		300		
9 Guangdong Ag Dev			160	
10 Tarim Basin			120	
11 Henan Ag Dev			110	
12 Yellow River Basin				350
13 Ag Support Services				50
14 (S)Forestry Sector II				200
SUBTOTAL AGRICULTURE	215	946.1	390	600
No. of Projects	2	6	3	3

TRANSPORT & ENERGY				
1 Ningbo/Shangh.Ports	76.4			
2 Xiamen Port	36			
3 Hwy V--Shandong	110			
4 Hwy VI--Jiangxi	61			
5 Rwy--Inner Mongolia	150			
6 Jiangsu Prov. Transp.		150 *		
7 Yanshi Thermal		180 *		
8 Zouxian Thermal Power		300		
9 Daguangba-Hainan		67		
10 Ertan Hydro		300		
11 Railways V		400		
12 Henan Highway			150	
13 Zhejiang Prov.Highw			240	
14 Shuikou II			200	
15 (S) Jiangsu Transport II			150	
16 (S) Shanghai Port			150	
17 Anhui Prov.Transp				240.5
18 Railways VI				294.3
19 (S) Highways VII				200
20 (S) Longtan Hydro				250
21 (S) Power Distribution				150
SUBTOTAL TRANS.& ENER.	433.4	1397	890	1134.8
No. of Projects	5	6	5	5

INDUSTRY & FINANCE	FY89	FY90	FY91	FY92
1 CIB V	300			
2 Tianjin Light Ind.	154			
3 Phosphate II (Hubei)	137			
4 Shanghai Ind. Dev		150 *		
5 Rural Ind.Tech & Serv		110		
6 Cement		85		
7 Finance I		350		
8 Jiangsu Chemical		100		
9 Tianjin Ind II			100	
10 Phosphate III (Guangdong)			100	
11 Shanghai Ind Eff.			150	
12 (S) CIB VI			300	
13 (S) Fertilizer Machinery			100	
14 Electronics I				100
15 Petrochemicals				120
16 (S) Shenyang Ind/N Mach.Tool				200
17 (S) Southern Jiangsu Env.				150
SUBTOTAL IND. & FIN.	591	795	750	570
No. of Projects	3	5	5	4

SOCIAL SECTORS				
1 Textbook Dev.	57			
2 Reg Health Services	52			
3 Med.-Sized Cities		160.2 *		
4 Vocational Euc.		50 *		
5 Shanghai Metro. Transport		58		
6 Key Studies Dev		120		
7 Liaoning Urban		85		
8 Tianjin Urban			100	
9 Zhejiang Multi.			150	
10 Beijing Environment			100	
11 (S) Rural WS/Health IV			100	
12 (S) Teacher Training II			100	
13 (S) Changchun Water Supply			85	
14 Health IV				100
15 (S) Provl. Educ.				75
SUBTOTAL SOCIAL SECTORS	109	473.2	635	175
No. of Projects	2	5	6	2

TECHNICAL ASSISTANCE				
Tech. Coop. (TCC III)		30 *		
Tech. Coop. (TCC IV)				50

	FY89	FY90**	FY91	FY92	4yr TOT
TOTAL ALL SECTORS	1348.4	2861.1	2665	2529.8	9404.3
of which IBRD	833.4	2060	1845	1644.3	6382.7
IDA	515	801.1	820	885.5	3021.6
No. of Projects	12	23	19	15	69

* One of seven FY89 projects deferred for Board presentation in FY90.
Total deferred: $780.2
Of which IBRD: $509.4 million/
IDA: 270.8

** Totals include seven FY89 deferred projects.

AS3CO/8/31/89

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

CHI Haibin - Senior Vice Minister of Finance
WANG Liansheng - Director, World Bank Operations Department, Ministry of Finance

Biographical Sketches

CHI Haibin: Mr. Chi has been Vice Minister of Finance since 1982. In 1984, he was appointed council member of the People's Bank of China and deputy head of the State Council's Leading Group for General Survey in China's Industry. Since 1985, he has also been a Managing Director of People's Bank. Vice Minister Chi oversees China's relations with the Bank.

WANG Liansheng: Born in 1931 in Hebei Province. Following his assignment as the World Bank's Executive Director for China from 1980 to 1984, Mr. Wang was appointed Director of the External Finance Department of the Ministry of Finance (MOF). His department was reorganized as part of the recent Government reorganization into the World Bank Operations Department, which he continues to head. In addition, he participates for China in UN bodies responsible for budget questions.

Messrs. Conable and Qureshi met Vice-Minister Chi and Director Wang during visits to China, and at last year's Annual Meeting. This year, the Chinese Delegation to the Annual Meetings is led by the Governor of People's Bank, Li Guixian, who is IMF Governor.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Annex II

DATE: August 18, 1989

TO: Mr. Oktay Yenal, Chief Economist, ASIVP

FROM: Christine Wallich, Sr. Economist, AS3CO

EXTENSION: 73670

SUBJECT: **China: Recent Developments in the Trade and Payments Situation**

1. This is in response to your request for a brief update on China's trade and payments situation in light of recent developments and conflicting press reports regarding the BOP and foreign debt. This year, the Chinese have been slow in releasing statistics and those provided have been less complete. For example, official statistics on the final current account outcome for 1988 are still unavailable; we have data only for exports, imports and the trade balance. The partial availability of data holds equally (perhaps a fortiori) for the first half of 1989. With this caveat, the best information we have at this stage -- a combination of official data and estimates (as indicated) -- are shown below for the trade and payments situation.

Official Chinese Data

($ billions)

	1988	1989 Jan-May a/	Notes
Exports (fob)	$47.5	$18.0	customs statistics
Imports (cif)	$55.2	$22.7	customs statistics
Trade Balance	-$ 7.7	-$ 4.7	customs statistics
Net Services	--	--	n.a.
Current Account	--	--	
Reserves	$17.6	$15.0	semi-official estimate
External Debt	--	--	China has not officially reported debt data.

a/ 1989 Jan-June trade balance announced as $-5.5 billion. Export and import data are not available as of this writing. According to MOFERT data for the first half of 1989 the merchandise exports are $22.25 billion (6.45% over the same period last year), imports are $28.04 billion (26.71% over the same period last year) and the trade deficit is $5.78 billion (China Daily 7/11/89). MOFERT data are not strictly comparable to customs statistics.

2. The trade balance moved into serious deficit in the latter half of 1988, explained by the growing difficulties in export supply and increasing imports of raw materials such as steel aluminium and grain. The trade imbalance persisted during the first half of 1989. For the first 5 months, exports grew only 4.7% over the same period in 1988, while imports were up 24.7% over the same period. The deficit appears to be widening, with a deficit in the first 5 months of 1989, six times as large as the first months of 1988. However, the sharp decline in economic growth and a good harvest could contain the rapid growth in imports in the second half of the year.

3. Reserves in 1988 ($17.6 billion) were up $2.4 billion over 1987. Data for the first half of 1989 have not been released, but there is every indication that reserves have declined (unofficial estimates suggest a level of $15 billion at mid-year). They may be drawn down further, should China encounter some difficulty in refinancing its debt and in order to cover a part of the current account deficit.

World Bank Estimates

($ billions)

	1988	1989 Jan-Jun a/	Notes
Exports (fob)	$47.5	$22.8	(IBRD est)
Imports (fob)	$50.4	$28.3	(IBRD est)
Trade Balance	-$ 2.9	-$ 5.5	actual
Net Factor Ser.	+$ .687	-	(IBRD est)
Net Non-F. Ser.	-$ .650	-	(IBRD est)
Net Transfers	+$ .453	-	
Current Account	-$ 2.4	-$ 5.4	estimate
Reserves	$17.6	$15.0	semi-official estimate
External Debt	$35.9	-	IBRD debt estimate.

a/ First half of 1989 calculated from actuals and (unseasonalized) projected 1989 data. (see pg. 3).

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4. Our estimates of China's current account for end 1988 show a deficit of -$2.4. This is in line with estimates of the IMF which have placed it at -$2.4 billion; estimates from the US Embassy in Beijing place it slightly lower, at -$1.3 billion.

5. Our estimate of China's end 1988 external debt (MLT and short term) is $ 35.9 billion. This is the figure shown in the 1988 World Debt Tables. Other estimates of China's debt are much higher. Specifically, a

Japanese source (a private bank) has estimated debt at $44 billion; the US Embassy in Beijing reports it at $38 billion. In the absence of official data, or further in-depth work by the Bank, it is difficult to be more precise. The fact that the Chinese authorities (SAEC) have requested creditors to report their debt to the PBC suggests that there is some concern on the part of the Chinese themselves about the debt levels and their grip on data.

The Outlook for 1989

6. The following shows a range of projections for the external situation in 1989. The IBRD "high" projection reflects the fact that China has successfully controlled its trade balance in the past. On this basis, a significant worsening of the trade balance in the second half of 1989 will be avoided, and the current account could be about -$6.3 billion. On the other hand, if the authorities are slower to take necessary action, the outcome could be somewhat worsened, (see "low" case), with a current account deficit of some $7.9 billion.

($ billions)

	IBRD/RMSM* high	IBRD/RMSM* low	IMF-BOP basis (as of May)	US Embassy (as of May)	Economist Intell. Unit a
Exports (fob)	$49.5	$49.6	$44.5 a/	$52.8	$54.5
Imports (fob)	$55.9	$57.6	$52.0(cif)	$60.1	$64.7
Trade Balance	-$ 6.4	-$ 8.0	-$ 7.5	-$ 7.3	-$10.2
Net Services & Transfers	+$ 0.1	+$ 0.1	+$ 0.5	+$ 2.0	+$ 1.2
Current Account	-$ 6.3	-$ 7.9	-$ 7.0	-$ 5.3	-$ 9.0
Reserves b/	$15.3	$13.9	--	$16.0	--
External Debt	$42.8	$42.8		$46.0.	--

a/ IMF data are not directly comparable, as it includes adjustments made to customs data, inter alia, for reexports. EIU data from July 11, 1989 Report.

b/ Estimate assuming net financing of $4.0 billion in 1989. Reserves would be correspondingly lower if financing is unavailable.

* Assumes that GNP growth in 1989 will be 6%. A rate of 5.6% has been reported for the first half.

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7. Evidence is that net services will be significantly affected by the decline in tourism. Tourism receipts were expected to be $+2.5 billion in 1989. They are likely to be down to the extent of $1.0 billion net. Service income is therefore down some $1.0 billion from the $1.2 billion originally estimated.

8. Direct investment also appears to be affected. 1988 PDI showed a peak of $2.6, as a result of large commitments early in 1988. For 1989, PDI is expected to be well below 1988 levels.

Conclusions

In sum, the BOP deficit and payments situation, although a worsening from 1988, cannot at this stage, and on the basis of mid-year data, be said to show major difficulty. Administrative controls in the past have prevented the emergence of untoward outcomes. The current accounts projected remain in the range of about 1.5%-2.0% of GNP, while reserves remain above the equivalent of 3 months imports.

cc: Messrs. Burki (o/r), Ahmad (o/r), Pearce (o/r), Stern, Goldberg (o/r), Montfort, Ecevit, Lim, Harrold (RMC)
AS3 HL Staff

CWallich:cw/ef
[OY trade and pmts sit.(CDW# 47)]

E-1227

Mr. Stanton

Thank you for your willingness to listen and to help. Attached is correspondence which sets out most of the details. If you have any suggestions of additional steps we can take to facilitate Rotary not putting the grant to reconsideration by the Trustees please let me know.

Richard Bumgarner
ext. 75777

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
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U.S.A.

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Cable Address: INTBAFRAD
Cable Address: INDEVAS

September 15, 1989

Dr. Sarah Cook
Manager
Department of Humanitarian Programs
Rotary Foundation, Rotary International
1 Rotary Center
1560 Sherman Avenue
Evanston, Illinois 60201

Dear Dr. Cook,

Further to my letter of August 31, I would like to keep you advised of the latest progress on the China vaccine project and to seek your help in moving forward.

Next week two senior scientists from China will arrive in the Netherlands to review with the RIVM details of the vero cell technology which will be provided to China. On September 25 in Beijing, contract negotiations will begin between the Chinese Government and the two Dutch firms (RIVM and the DHV engineering firm). These negotiations are scheduled to conclude on October 6. World Bank review and approval of the negotiated contract will take place immediately thereafter.

I am sure you will agree that these developments make it imperative that Rotary and the Bank promptly finalize our legal arrangements for administering the Rotary grant. The Chinese Government and the selected Dutch firms need to know the full amount of available project funding when they sit down to negotiate their contract on September 25. The Bank cannot permit the Government, as its borrower, to negotiate and sign a contract in reliance on earlier representations of full funding if there is even a small possibility that a substantial part of that funding may be withdrawn.

Since you notified me only informally of the possibility of Board of Trustees reconsideration of the Foundation's grant, I have thus far not passed on this news to the Government. The most recent information they received on this matter was the Foundation's August reaffirmation of the grant which had originally been approved in April. (I relayed the reaffirmation to the Government immediately after I received it in my telephone conversation with your Mr. Trainer and Mr. Carlin). The Government has been proceeding, and continues to proceed, on that basis.

As I indicated to you on the phone, it is my professional judgement that even the most diplomatic imparting of the news of potential withdrawal of Rotary's grant at this late date would have serious consequences. My sincere hope is that Rotary can decide that reconsideration is not necessary and can therefore promptly finalize its grant approval internally, so that the potential for withdrawal of the grant need not be raised with the Government.

May I please request you to discuss this matter with Dr. Cadman, Mr. Archer and Mr. Lindsey on an urgent basis, and inform us of the your decision. If Rotary decides that, in light of all factors and progress to date on the project, Board reconsideration will not be necessary and that grant approval can be promptly finalized, will you please review the attached draft letter of agreement between Rotary and the World Bank and furnish us with your comments. If you decide that Board reconsideration will be necessary, will you please so notify me in writing so that I may relay this decision to the Chinese Government in terms which are the least damaging.

Sincerely yours,

J. Richard Bumgarner
Senior Project Officer
Population, Human Resources, Urban
Development & Water Supply Division
China Department

cc:
Dr. Edward F. Cadman
Chairman, Board of Trustees
Rotary Foundation
225 19th Street, N.E., #24
East Wanatchee, WA 98802

Mr. Hugh W. Archer
President
Rotary International
1 Rotary Center
1560 Sherman Avenue
Evanston, Illinois 60201

Mr. Philip H. Lindsey
General Secretary
Rotary International
1 Rotary Center
1560 Sherman Avenue
Evanston, Illinois 60201

Ms. Janet Halstead
Manager
Rotary Foundation Division
Rotary International
1 Rotary Center
1560 Sherman Avenue
Evanston, Illinois 60201

D R A F T - 3/21/89

_____, 1989

Mr. _____

Rotary International

Dear Mr. _____,

Letter of Agreement among Rotary International, the International Bank for Reconstruction and Development and International Development Association Concerning the Co-financing of the Oral Polio Vaccine Plant under Rural Health and Preventive Medicine Project (Credit 1713/Loan 2723) in the People's Republic of China

I am pleased to acknowledge on behalf of the International Bank for Reconstruction and Development and the International Development Association (collectively, the Bank) the intention of Rotary International (Rotary) to make available to the Bank, in the capacity of administrator on behalf of Rotary, the sum of US$ _____ as a grant (the Grant) for the purpose of co-financing foreign exchange costs of building an Oral Polio Vaccine Plant (the Plant) under the Rural Health and Preventive Medicine Project (Credit 1713/Loan 2723)(the Project) in the People's Republic of China (China).

Promptly following confirmation of this letter by you, Rotary will deposit US$ _____ of the Grant in Account "T" of the International Development Association maintained with the Federal Reserve Bank of New York (the Account). Thereafter, Rotary will make deposit into the Account out of the Grant in accordance with a schedule satisfactory to the Bank. The Bank will, in the capacity of administrator of the Grant, conclude a grant agreement (the Grant Agreement) with China pursuant to which the Grant funds will be made available for the Plant. The Grant funds may be

commingled with other trust fund assets maintained in the Account. The Grant funds in the Account may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

The Bank may enter into such other agreements and do any and all such acts and things as may be necessary or appropriate to accomplish the foregoing.

In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank with respect to the Grant, the Bank may invest the Grant funds pending their disbursement and retain for its own account the income from any such investment.

The Bank will exercise the same care in the discharge of the functions described in this letter as it exercises with respect to the administration and management of its own affairs and shall have no further liability to Rotary in respect thereof.

The administration and enforcement of any provisions of the Grant Agreement or any other agreement entered into between the Bank and China will be the responsibility solely of the Bank and will be carried out in accordance with its normal procedures, including the Bank's guidelines for procurement.

The Bank will maintain separate records and ledger accounts in respect of the Grant funds in the Account and disbursements made therefrom for the Plant. At the completion of each fiscal year of the Bank during which any Grant funds remain in the Account, the Bank will prepare a financial statement with respect to the Grant funds and forward a copy to Rotary. The Bank will cause such records and accounts to be audited by the Bank's external auditors for each fiscal year of the Bank and will forward a copy of each such auditors' report to Rotary. Except as Rotary and the Bank may otherwise agree, any Grant funds remaining in the Account following the completion of disbursements pursuant to the Grant Agreement will be returned to Rotary.

The Bank will be responsible for the supervision of the Project including the construction of the Plant and will keep Rotary informed of the progress of the Project, and, at the request of Rotary and with the consent of China, allow Rotary's representatives to join its own

If an extraordinary situation arises which makes it unlikely that the purposes of the Oral Polio Vaccine component of the project can be carried out, the arrangement set forth herein may be terminated at the initiative of either party on ninety days (90 days) notice in writing to the other party. Upon such termination, unless the parties agree on another course of action, the Grant Agreement and any other agreement entered into by the Bank, as

administrator on behalf of Rotary, shall be transferred to Rotary, and Grant funds held by the Bank shall be transferred to Rotary, and the Bank's obligations hereunder shall be considered terminated.

The office in the Bank responsible for coordination of all matters related to the implementation of the Project is:

_____ Division
China Department
Asia Region
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

I propose that this letter shall, upon your confirmation in the manner indicated below, constitute an agreement between Rotary and the Bank.

Sincerely yours,

_____
Director
Asia Region

Confirmed and Agreed
ROTARY INTERNATIONAL

_____
Name:

Date:

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
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August 31, 1989

Dr. Sarah Cook
Manager, Department of
Humanitarian Programs
Rotary Foundation
Rotary International
1 Rotary Center
1560 Sherman Avenue
Evanston, Illinois 60201

Dear Dr. Cook:

Ref: Rural Health and Preventive Medicine Project - Vaccines Component

In your telephone call of August 28 you conveyed the expressions of concerns of Dr. Cadman, Chairman of the Board of Trustees of the Rotary Foundation, about recent developments in China, especially as they may affect this project. I would like to share with Rotary news of the latest progress on the project component to improve China's childhood immunization programs. As Rotary is a major cofinancier of this important project for China's future health system I trust that all concerned will be interested in these developments.

As you know China received funding from the World Bank Group under the Rural Health and Preventive Medicine Project (Loan and Credit Numbers 2723-CHA and 1713-CHA, approved January 15, 1987) for a number of different investments, including the establishment of three new vaccine production facilities to improve the quality and efficacy of basic childhood vaccines to meet WHO standards. Plants at Shanghai and Lanzhou will each produce diphtheria, pertussis, tetanus and measles vaccines. The facility located at the Kunming Institute of Medical Biology will produce liquid trivalent Oral Poliomyelitis Vaccine (OPV). At the end of April, 1989, we and Government were delighted to learn that the Rotary Foundation Trustees had approved a grant to China for up to $15 million to finance the foreign exchange costs of the Kunming facility in the framework of Rotary's Polio Plus Program.

The Ministry of Public Health, as project owner, solicited proposals from leading engineering management firms which, in association with one or more leading vaccine manufacturers, would be responsible for design, construction, transfer of technology, training and start up of the three vaccine facilities. Three firms - from Italy, France and the Netherlands - submitted proposals. These proposals were translated into Chinese and during July a technical evaluation committee of Chinese specialists reviewed these proposals, together with international consultants. The technical committee recommended on July 27 to the Government's National Evaluation Committee to award the contract to the DHV Consulting Engineers (the Netherlands) and their associated vaccine production firm, RIVM, the Dutch Government's National Institute of Public Health and Environmental Hygiene.

On August 16, the World Bank received Government's detailed report and recommendation for contract award and has completed review of the report. Complete copies of the evaluation report and its annexes are enclosed herewith for Rotary's interest and records. Please keep these materials restricted to review by Rotary's management and the Trustees. The Bank has found the proposed award of contract to be in accordance with the conditions of the Invitation, the Loan and Credit Agreements and the Bank's Guidelines (a copy of which is also enclosed for your records). We have officially notified Government that we have no objection to their inviting the DHV Consulting Engineers to begin negotiation of a contract. DHV and the Dutch Government have also been informed.

The vaccine component of this project remains one of the most important elements in any strategy for China to control mortality and morbidity from the main infectious childhood diseases from now through the first quarter of the next century. China's progress over the last 30 years on this front has been amongst the best of all developing countries but it must be maintained and extended so that polio, measles, tetanus, pertussis, and diphtheria are brought fully under control. Rotary's Polio Plus program has already made a major contribution to this objective for many other developing nations. Its support to China for production of OPV will certainly benefit China's children for many years to come. Combined Rotary/World Bank support for these three facilities will be approximately $60 million. The Government has already budgeted an equivalent amount in local currency to complete its share of the investments. The project has high visibility in China and Rotary's contribution has already been warmly, albeit still unofficially, recognized at the State Council level. Rotary's funding for the Kunming facility provide an essential 25% of the foreign exchange costs of the entire vaccine component.

The Chinese Government's contract negotiations with the selected Dutch firms are tentatively scheduled to commence in late September and to conclude about ten days later. The resulting contract will then be subject to prompt approval by the Chinese authorities and the World Bank. It would of course be preferable that financing arrangements for the Rotary grant (a funds-in-trust arrangement through the World Bank) be firmly in place prior to those negotiations. If that is not possible such arrangements would definitely have to be concluded before the negotiated contract can be approved. In view of the concerns expressed by Dr. Cadman, the importance of this project, its advanced stage, and the high level of commitment and visibility within the Chinese Government for this project, I am copying this letter directly to Dr. Cadman and to the other officials of Rotary who have earlier been closely associated with considering the merits and arrangements for Rotary's support to China's polio program.

I understand the concerns expressed about the events of early June and subsequent actions. The World Bank has of course been carefully monitoring recent developments in China. Our concerns have been to reconfirm that conditions remain suitable for projects to be effectively implemented, that benefits expected from the projects can still be expected to be achieved, and that Government's overall economic policies are such that development can proceed. We have had a number of visits to China by both staff and management and Chinese leaders have given reassurance that fundamental development policies will remain unchanged. As of June 30, 1989, we have an active portfolio of 70 projects encompassing loans and credits of $8.1 billion under implementation by the Government. Performance on this portfolio has remained satisfactory during the summer months. For the health sector projects, satisfactory audit reports have been received, procurement of goods and services is continuing on schedule, visits abroad by Chinese scientists and scholars are proceeding on schedule and technical assistance visits to China by foreign experts have been productive. The Rural Health and Preventive Medicine Project, of which the vaccine facilities are a part, will be the subject of a supervision mission to China by our technical staff and consultants in mid-September. Overall, our missions have been able to carry out their work in China unimpeded by the events of early June. The progress on the vaccine project, as reported above, is a good example of the continuing efforts by our counterparts in Government to ensure that progress on development projects is not threatened.

I hope this information is helpful to Rotary managers and trustees. We will need to be further in contact with you very soon to work out the details for handling of Rotary's grant. If you require any further information, or if I can do anything to assist you, please do not hesitate to call me.

Sincerely yours,

J. Richard Bumgarner
Senior Project Officer
Population, Human Resources, Urban Development & Water Supply Division
China Department

Dr. Edward F. Cadman
Chairman, Board of Trustees
Rotary Foundation
225 19th Street, N.E., #24
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H2

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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March 3, 1989

Mr. Herbert A. Pigman
Director, Rotary International
Immunization Task Force
One Rotary Center
1560 Sherman Avenue
Evanston, IL 60201

Dear Mr. Pigman:

I understand that you recently have met in China with Mr. Richard Bumgarner of our staff to discuss details of possible cooperation by Rotary in helping to finance the new Oral Polio Vaccine (OPV) plant at Kunming. In this regard I had also received a message from Professor Chen Minzhang, Minister of Public Health, China (copy attached).

I am pleased to confirm to you that if it would be helpful in this case and subject, of course, to the formal agreement of the Chinese Government, the Bank would be happy to provide a channel for Rotary financing of this plant in the broader context of the Rural Health and Preventive Medicine Project. In the legal framework of this Project, the Government has agreed to undertake a number of high priority development investments, in part with financing provided by the World Bank Group. One of the most important of these investments is the construction of the OPV plant at Kunming. As financing for the vaccine production component of the project has remained a problem for the last several years, news of potential interest by Rotary to provide financing for OPV is indeed welcomed.

I realize that the Rotary interest in financing the OPV plant is still subject to consideration by the Trustees of "The Rotary Foundation." In their consideration of this proposal, the Trustees may wish to take note of the following:

a. The Bank is prepared to handle Rotary's contribution under a Funds in Trust Agreement with you and will apply the same reporting, disbursement, contracting and other administrative procedures and conditions in acting as Trustee for the Funds as it normally does in other such cases. We would be pleased to discuss with your representative details of a Funds in Trust Agreement;

b. the Bank does not ask a government to name or earmark projects so as to indicate that they have been financed in part by the Bank Group. We would have no objection to Rotary publicizing or otherwise recognizing Rotary's financial grant to China for OPV. We would, of

course, be pleased to acknowledge publicly Rotary's contribution to the financing of this project and the eradication of polio.

I would like to add a personal note to encourage and commend Rotary for its interest in this important project. It would be one of the largest and most important examples of World Bank cooperation with a non-governmental organization to support economic development. The Bank's President, Mr. Barber Conable, is himself a former Rotary member and is delighted to learn of Rotary's interest in aiding China in this way.

We would be pleased to provide you any further information which may help Rotary's Board and Trustees in considering this matter.

Sincerely,

A. Karaosmanoglu
Vice President
Asia Regional Office

Attachment

Cleared w/ in substance & bcc:
Messrs. Tanaka (EXC); Wiehen (ASIVP); Beckman (SPRIE); Tanaka (LEGAS); Lau (LOATF)
Mss. Hwang (LOAAS); Handwerger (PPRSV)
cc: Messrs. Burki, Ahmad (AS3DR); Pearce (AS3CO); Ecevit (AS3PW)
Asia/Division Files

RBumgarner:srm

Attachment

Mr. A. Karaosmanoglu
Vice President
The World Bank

During the recent Beijing visit of Mr. Richard Bumgarner, Senior Project Officer of Health, Education and Urban Division, China Department, the World Bank, he mentioned that Rotary International may be interested in giving support to the OPV facility under the Health II Vaccine Production Component through the World Bank, and introduced Mr. Herbert Pigman, Director of the Immunization Task Force, Rotary International, to visit China and meet with me in his personal capacity.

China has responded to the WHO's Expanded Program on Immunization, and committed itself to reaching 85% average immunization coverage for the six diseases set by the WHO, and eradicating polio. The reported number of polio cases dropped below 1,000 in 1987, and it is estimated to decline to the level of 700 cases in 1988. Although good progress has been made, experience has shown that it will not be easy to eradicate polio. One of the important reasons concerns the availability of top quality of polio vaccine.

The World Bank's support to upgrade vaccine facilities under the Health II is an effort to reach the goal of polio eradication. As part of the vaccine project, the new plant that we plan to establish in Kunming Institute of Medical Biology under the Chinese Academy of Medical Sciences, which produces 100 million polio doses per year, will be the world's largest. Once the new OPV plant is completed, China will be able to produce polio vaccines which will meet or exceed all WHO standards, and will benefit children in China.

At present, we are making efforts to start the new plant at an earliest possible date. The World Bank has provided funds for the vaccine project, but which are limited and a shortfall of funds remains a major obstacle in implementing the project. Owing to the fact that certain political obstacles remain to be removed, it may not be appropriate for us to have direct relationship with Rotary International. However, the Ministry of Public Health would appreciate it greatly if Rotary International, with great concerns for all children's health in the world, can provide financial support to the new OPV facility through the World Bank who will provide supervision and guidance for the project. It is also highly appreciated if the World Bank can facilitate through appropriate arrangements the co-financing of the new OPV facility with Rotary International. Accomplishing the above objectives will help us reach the target of polio eradication by 1995.

Best wishes,

Chen Minzhang, Professor
Minister, Ministry of Public Health

TRANSLATION

Attachment

Mr. A. Karaosmanoglu
Vice President
The World Bank

During the recent Beijing visit of Mr. Richard Bumgarner, Senior Project Officer of Health, Education and Urban Division, China Department, the World Bank, he mentioned that Rotary International may be interested in giving support to the OPV facility under the Health II Vaccine Production Component through the World Bank, and introduced Mr. Herbert Pigman, Director of the Immunization Task Force, Rotary International, to visit China and meet with me in his personal capacity.

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Best wishes,

Chen Minzhang, Professor
Minister, Ministry of Public Health

AS3PW

DEC 30 1988

REC'D

中华人民共和国卫生部

cc. Burki, Ecevit
Bumgarner

TO:0012024776391

FROM:MOPH,PRC.

FAX MESSAGE TO MR.A.KARAOSMANOGLU,
VICE PRESIDENT,THE WORLD BANK.

C.C:MR.S.J.BURKI,DIRECTOR,CHT . COUNTRY DEPARTMENT.

MR.E.ECEVIT,CHIEF,AS3PW.

MR.R.BUMGARNER,AS3PW.

FROM.PROF.CHEN MINZHANG.

MINISTER OF HEALTH ,PRC.

DATE.DEC.24,1988.

RE:POSSIBLE COFINANCING WITH ROTARY INTERNATIONAL FOR THE VACCINE PRODUCTION COMPONENT OF HEALTH PROJECT II.

中华人民共和国卫生部

MINISTRY OF PUBLIC HEALTH, PEOPLE'S REPUBLIC OF CHINA

世界银行副行长
卡劳斯曼诺古先生

卡劳斯曼诺古先生：

在贵行高级项目官员彭加纳先生不久前访问北京期间，曾向我提及扶轮社国际有意通过贵行资助我部的第二个卫生项目的疫苗生产线之一小儿麻痹疫苗生产线的建设，并介绍该社国际免疫专题组主任匹克曼先生以私人身份访华，并与我会面。

中国响应世界卫生组织扩大免疫规划的号召，致力于1990年底前使世界卫生组织规定的六种疾病的疫苗接种覆盖率达到85%，并提出了消灭小儿麻痹的目标。1987年中国小儿麻痹病例已降至1000例以下，1988年预计可降至700例。虽然在降低小儿麻痹发病率方面已取得巨大进展，但要达到消灭这一疾病的目标决非易事，其中关键是要获得高质量的疫苗。

1986年由贵行贷款支持的第二个卫生项目疫苗生产线的建设正是基于上述目标。作为项目的一个

中国北京后海北沿44号
44 Houhai Beiyan, Beijing, China
电话(Tel)：440531
电传(Telex)：22193 MINIH CN

组成部分，我们计划在位于昆明的中国医学科学院医学生物研究所建立的年产小儿麻痹疫苗1亿人份的新生产线是世界上最大的同类项目。该生产线一旦建成，中国就能生产出符合或超过世界卫生组织标准的小儿麻痹疫苗，以造福于我国的儿童。

目前，我们正为早日实施疫苗生产线的建设而努力。虽然得到了贵行的贷款，但资金不足仍然是实施项目的一大障碍。鉴于某些政治障碍尚未消除，目前我们尚不拟与扶轮社国际建立直接的关系。扶轮社国际如果出于对全世界儿童健康的关心，愿意通过贵行资助我国小儿麻痹疫苗的生产线的建设，并由世界银行对项目提供管理、监督和指导，我对此表示赞赏。我希望贵行能作出妥善安排，以便来源于扶轮社国际的资助款成为贵行对我国小儿麻痹疫苗生产线建设项目经费的一个部分，以利于1995年前在我国消灭小儿麻痹的计划。

顺致敬意

中华人民共和国卫生部部长

陈敏章教授

一九八八年十二月二十日于北京

BBC/NH
(both have seen)

September 22, 1989

Mr. Conable

Barber -

China and Taiwan

I am aware of contacts with David Hopper and Mr. Wong, a local Taiwanese representative, on funding. David called me and I alerted him to the problem---although the discussion seemed to have focussed on the CGIAR, which may be in somewhat different category in the Bank. I then talked to Mr. Wong to see what it was he had in mind. He was very vague, and had no specific proposals, except to indicate that Taiwan was mounting a billion-dollar aid program. There was no discussion on IDA. To the extent we understood, the amounts he had in mind for possible coordinated effort with the Bank were small, were for technical assistance, and were envisaged to be used in some form of cofinancing arrangement.

Ernest Stern

WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

For info to Mr. Conable

DATE: September 21, 1989

URGENT AND CONFIDENTIAL

TO: Mr. Moeen A. Qureshi

FROM: Shahid Javed Burki, Director, AS3

EXTENSION: 72571

SUBJECT: China and Taiwan

DECLASSIFIED
MAR 2 4 2017
WBG ARCHIVES

I have just had a visit from Mr. Wang Liansheng to communicate to me the following:

The Chinese believe that some official contacts are going on between the World Bank and Taiwan on possible funding by Taiwan for Bank/IDA operations. I was also told that the Government of the People's Republic of China takes a dim view of such contacts and that under no circumstances would it agree to any official arrangement between the Bank and Taiwan on any sort of funding including contributions to IDA. It is the fear of the Government of China that the Taiwanese may be working on introducing an ADB-type of arrangement in order to regain reentry into the Bank Group. Such an arrangement is not acceptable to Beijing. I thought I should bring this to your attention.

Cleared in substance and cc: Mr. Karaoasmanoglu

WDIAL
.AS3CO
OINFO

-SUBJECT: CONGRATULATORY TELEX
-DRAFTED BY: B. MERGHOUB, CHIEF - AS3CO EXT:72489
-FILENAME: LI PENG
-AUTHORIZED BY: B. B. CONABLE, EXC
-CC: MESSRS. KARAOSMANOGLU, BURKI, QURESHI (O/R)
---
716 22486 =
-MINISTRY OF FINANCE
-BEIJING, CHINA
-FOR MR. LI PENG
IBRDBEI
-INTBAFRAD
-BEIJING, CHINA
-COPY TO ED LIM - FOR INFORMATION
BT
WASHINGTON, DC - <16-MAY-88>
EYE WAS VERY PLEASED TO HEAR OF YOUR NEW RESPONSIBILITIES WITH THE ECONOMIC AND FINANCE COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS. PLEASE ACCEPT MY BEST WISHES, AND THOSE OF CHINA'S MANY FRIENDS AT THE BANK, FOR EVERY SUCCESS IN YOUR NEW AND CHALLENGING ASSIGNMENT.
WE ARE MOST GRATEFUL FOR YOUR EFFORTS OVER THE YEARS TO BUILD THE COOPERATIVE WORKING RELATIONSHIP BETWEEN YOUR GOVERNMENT AND THE WORLD BANK AND ARE LOOKING FORWARD TO EXPANDING FURTHER OUR COLLABORATION WITH THE PEOPLE'S REPUBLIC OF CHINA. SINCERELY,
BARBER B. CONABLE, PRESIDENT, THE WORLD BANK

Barber B. Conable

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 88/05/09 DUE DATE : ~~88/05/16~~ 5/20/88
LOG NUMBER : 880509007 FROM : Li Peng
SUBJECT : Informing BBC that he has retired from the MOF of China a few days ago.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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__V__ PLEASE PREPARE RESPONSE FOR BBC's SIGNATURE
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COMMENTS :

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REF : TCP FCA
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* EXC - EXECUTIVE OFFICES *
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QN INSWBK
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22486 MFPRC CN
BEIJING, CHINA
MAY 9,1988
MR. BARBER CONABLE
PRESIDENT
WORLD BANK
WASHINGTON D.C.
U.S.A.

DEAR SIR:

I RETIRED FROM THE MINISTRY OF FINANCE A FEW DAYS AGO AND WILL BE WORKING FROM NOW ON WITH THE ECONOMIC AND FINANCE COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS.

IN THE PAST WHEN WORKING IN THE MINISTRY OF FINANCE,I BENEFITED MUCH FROM YOUR SUPPORT IN OUR ENDEAVOUR TO DEVELOP THE COOPERATIVE RELATIONSHIP BETWEEN CHINA AND THE WORLD BANK.I AM DEEPLY IMPRESSED BY THE EFFORTS YOU MADE AND THE COOPERATIVE SPIRIT YOU DEMONSTRATED IN THE PROCESS.

I AM CONFIDENT THAT WITH JOINT EFFORT OF BOTH YOURS AND MY SUCCESSOR'S,THE COOPERATION BETWEEN CHINA AND THE WORLD BANK IS BOUND
TO EXPAND FURTHER.

WISH YOU ALL THE SUCCESS.

LI PENG
PEOPLE'S REPUBLIC OF CHINA
22486 MFPRC CNKKKKK

=05090528

NNNN

~~MH~~
China

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/07/14 DUE DATE : 00/00/00
LOG NUMBER : 890714011 FROM : Mr. Burki (AK)
SUBJECT : China Program

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS : copied to MH

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 14, 1989

TO: Mr. Barber B. Conable

THROUGH: Mr. Attila Karaosmanoglu, Vice President, Asia Region AK.

FROM: Shahid Javed Burki, Director, AS3 SJB.

EXTENSION: 72571

SUBJECT: China Program

1. The China Management Group met on July 12 to review our activities in China, including the timetable for rescheduling seven FY89 projects originally planned for consideration by the Executive Directors last month.

2. Update on the Situation in China. Although portfolio performance has always set China among our better clients and we have no reason to believe that this will change, we plan to review the progress of at least 12 projects between now and early September, and the first three supervision missions (two oil and gas projects, Shanghai Port and two technical assistance projects) will arrive in China next week. The Project Advisor, the COD Chief and one SOD Chief will travel to Beijing and Shanghai in early August to take stock more generally. Other senior staff from headquarters and RMC will participate in these discussions. The COD Chief will also discuss the scope, timing and work program for a short, updating Country Economic Memorandum which we will prepare for circulation to the Board in early CY90: we plan to collaborate with the Fund on this document. The findings and impressions of these missions, and of a short visit I plan to make to Beijing in mid-August, will be synthesized into a formal statement I would plan to make to the Board at the first meeting to consider China projects. Given this preparatory work, the earliest opportunity presented by the Board schedule for considering China projects would be in the second week of September (see para. 4 below).

3. During my briefings of Executive Directors recently, three European chairs told me informally that they would be prepared to help us with their colleagues if projects were scheduled after their summer recess. We also understand that you may be approached by officials you will be meeting in Europe--and specifically by Mr. Ruding--with similar views.

4. Board Consideration of FY89 Projects. Following the criteria that you indicated, we propose that the remaining seven FY89 projects be considered soon after the Board's summer recess, in three batches. The first three on **September 12**, Jiangxi Agriculture, Jiangsu Transport, and Third Technical Cooperation, do not in our view raise any controversial project issues. We would then follow on **September 19** with Yanshi Thermal Power and Vocational and Technical Education (the latter if cofinancing by the Federal Republic of Germany has been confirmed). Lastly, we would submit Shanghai Industrial Development and Medium Cities Urban Development on **September 21**. I have checked with the Chinese authorities and they are happy with this schedule.

5. As you know, we have scheduled the signing of the fifth Loan to China Investment Bank next Friday, July 21. This date was cleared by Mr. Qureshi before he left for Europe. Two FY90 appraisal departures are planned: Liaoning Urban Infrastructure on August 20 and Shanghai Metropolitan Transport on September 24. Four other FY90 projects have already been appraised, and once internal processing is completed, we plan to invite negotiations for two projects in September: Rural Industrial Technology (SPARK), and Daguangba-Hainan Multipurpose. Both operations have characteristics that fit well with the criteria you suggested: the former supports township and village enterprise development in rural areas of three provinces (and as such will test the Government's announcements on reform) and the latter includes irrigation and agriculture development for resettled poor rural residents, as well as a power plant to meet energy shortages in an area designated for private foreign investment.

6. FY90 Program. We are reviewing the FY90 program internally, and will explore redeployment of resources to give greater attention to the Programs of Special Emphasis. We will be discussing the program with Mr. Qureshi on his return.

cc: Mr. Qureshi (o/r)
China Management Group

PMCadario:pmc

MH
China

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/06/26 DUE DATE : 00/00/00
LOG NUMBER : 890626009 FROM : Mr. Shihata
SUBJECT : Legal Aspects of Postponing Board Consideration of Loans to China

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS :for discussion at the Executive Session -- June 27, 1989.

URGENT

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
June 26, 1989	Memorandum	

Correspondents / Participants
To: Mr. Barber B. Conable
From: Ibrahim F. I. Shihata, LEGVP

Subject / Title
Legal Aspects of Postponing Board Consideration of Loans to China

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	April 07, 2017

(1) MH

China

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/06/22 DUE DATE : 00/00/00
LOG NUMBER : 890623004 FROM : Mr. Burki (AK)
SUBJECT : The Impact of the Current Situation in China on WB Operations

OFFICE ASSIGNED TO FOR ACTION : (2) Mr. B. Conable (E-1227)

ACTION:

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COMMENTS : NOTE: This package was faxed by Mr. Burki to the WB today. (CP)

cc: M. Klaus

Mr. Conable

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

01 01/10

Date: June 22, 1989

To: Barber Conable and Moeen Qureshi

Through: Attila Karaosmanoglu

From: Shahid Javed Burki, Director, AS3

Subject: The Impact of the Current Situation in China on World Bank Operations

Introduction

1. Since the unfortunate events which occurred in China at the beginning of June, several proposed projects were scheduled to be presented to the Board. With the consent of the Government, these presentations were postponed in order to give the Bank time to form its own judgement of the situation. To that end, I visited China last week and held a series of consultations with the Government of China. I met with a number of senior officials, including: Yao Yilin, Vice Premier and member of the Standing Committee of the Poliburo, Li Tieying, State Councillor and Chairman of the State Education Commission, Wang Bingqian, State Councillor and Minister of Finance, Zhu Rongji, Shanghai Mayor, Qiu Qing, Deputy Governor of the People's Bank (Central Bank), as well as Minister of Agriculture, Communications and Trade.

2. The purpose of these consultations was to put the Bank in a position to address four key questions:

(a) What is the impact of the current situation on the portfolio of ongoing projects financed by the Bank?

(b) What are the prospects for further economic reform in China?

(c) What is the impact on future relations between China and the World Bank?

(d) What can be said about the likely impact on the Chinese economy?

I. The Impact on Ongoing Projects

3. The World Bank has 77 projects in the course of implementation in China, with total commitments of $8.5 billion. It is important to note that these are spread throughout China, and for many projects the financial and implementation responsibility rests with provincial authorities rather than the central government.

4. The first question regarding the implementation of these projects is the stability of government. Despite the recent unsettling events in China, and their deep complexities, two clear points can be made. Firstly, the organs of government remain in place and intact. There have been no significant changes in personnel at any level of government, and the machinery of government continues to operate as before. Moreover, it now appears that the political situation has stabilized, which permits Government to function normally.

5. Although the disturbances did spill over into other cities, the main events, including the imposition of martial law, occurred in Beijing, and it is in Beijing that the after-effects will be felt most deeply. The countryside, where 80% of the population live, was unaffected. Moreover, advanced provinces such as Guangdong and Fujian in the south, which are very open to the outside world, saw little disruption. In China's largest city, Shanghai, many demonstrations were held, but were handled in ways that avoided the unfortunate consequences that were seen in Beijing. This is of particular importance to the implementation of Bank projects, since, as noted, most of our projects are implemented outside Beijing.

6. Overall, therefore, I would conclude that sufficient stability has returned to the organs of Government to permit them to proceed with the implementation of projects already approved. For instance, I was assured by the Ministers of Communications and Agriculture, the two main sectors of Bank operations, that all projects being implemented by their Ministries have not been affected by recent events.

7. Nevertheless, disruption to the program has occurred, and needs to be addressed, and Government appears ready to do so. As you will be aware, all travel to China was suspended, and it was necessary to evacuate all Bank staff and consultants who were in China at the time of these events. Many representatives of foreign companies and consultants were also evacuated. The ban on travel and on resident staff and dependents has now been lifted by the United Nations Secretary General. Moreover, internal transport and communication have returned essentially to normal, and the Government has assured the Bank on its willingness to receive visiting staff and consultants, and to guarantee their safety. Bank staff should be able to travel freely and without danger throughout China as before. Vice Premier Yao Yilin said to me that the law and order situation today was better than ever before.

8. Similarly, Government is ready and willing to receive consultants and contractors as before. Many of these consultants and contractors have faced demobilization costs and will now face remobilization costs. Government accepts that these should be eligible for coverage under standard 'force majeure' clauses of contracts, and the Government has committed itself to resolve such claims expeditiously.

9. The departure of many foreign company representatives from China has affected their ability to compete for tenders under international competitive bidding for projects, financed by the Bank. The Government accepts that this would have an impact on the outcome of the bidding process, and has already

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postponed by two weeks bid opening and closing dates. Moreover, it has stated its willingness to receive complaints or objections from tenders and resolve such disputes in a reasonable way. The three main tendering companies have been instructed to take necessary actions to ensure adequate competition under Bank financed projects. The Chinese Government takes the ICB process seriously, and values its benefits.

10. The final area where assurances were obtained relates to training activities. There are many fears that China will seek to limit the opportunities for Chinese citizens to go overseas. However, Government has assured us that Bank financed training activities, such as fellowships, training courses and study tours, will go ahead as scheduled.

11. Overall, therefore, the Government is maintaining a 'business as usual' posture with regard to all Bank-related activities, whilst acknowledging that disruptions have occurred which must be addressed in a reasonable way.

II. The Impact on Economic Reform and Opening to the Outside World

12. The World Bank has actively supported the economic reform process in China, though its economic work, technical assistance and lending. Indeed, the economic reform and modernization process provides the underlying rationale for the Bank's presence in China. Certainly, it has been our judgement that only by the continued deepening of reform can China's longer term economic goals be achieved. In this way, any serious reversal, or even failure to move forward, would cause concern about the policy framework within which the Bank operates, and raise questions about the appropriate level of future lending.

13. It was constantly and firmly stated by all Chinese officials with whom we met that the overall reform directions will be maintained, together with the policy of opening to the outside world. This derives from the very clear statements to this effect made in the speech by senior leader Deng Xiaoping on June 9th. The Deng statement defines current thinking. In particular he said that "our basic proposals, ... including reforms and openness are correct. If there is any inadequacy to talk about, then I should say our reforms and openness have not proceeded far enough." Further he said that "perhaps this bad thing will enable us to go ahead with reform and the open-door policy with a more steady and better-even a faster-pace." Mr. Deng is best known for his pioneering of economic reforms, and he has thus clearly stated his determination to see these preserved and continued. He seems to be firmly in charge of the Party and this is the main reason to expect that reform will be continued.

14. This said, there can be expected to be some changes in individual reform strategies, and at present there is much attention being given to summing up the experience of the last decade. These changes would be in order to "correct those things which did not work out, but protect those things that were correct." Renewed emphasis would be placed on improving macromanagement, but in doing so, said the Minister of Finance, "care would be taken not to return to the old ways, for that would trample the economy to death."

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15. Let me turn briefly to five areas of economic reform. Price reform remains for many people the real key to fundamental economic reform in china. Since the middle of last year, price reform has been on hold, because of rising inflation due to the overheated economy. Moreover, China has a half-reformed price system, with a two-tier pricing system operating for many commodities. It is also important to note that it is undoubtedly the case that the two-tier price system has led to corruption. This is likely to be amended. However, it can be expected that in certain key areas, such as the raw materials, energy and transportation sectors, it will be replaced by adjusted prices for these goods and services. This has already been clearly indicated in the case of coal and railways, for example.

16. Enterprise reform is the second important reform area, particularly the contract responsibility system for state enterprises. Enterprise reform will likely continue, but with less emphasis on this system. In particular, it is likely that as contracts mature, the tax provisions of the contracts will be removed, with enterprises thus becoming increasingly subject to a level playing field with respect to taxation. Emphasis will be placed on mergers to achieve rational size and greater efficiency, and experiments with shareholding system are likely to continue. One of the projects pending approval, the Shanghai Industry Project, is designed to support these latter types of reform, and we have been assured that if the project goes ahead, the enterprise reform components will be pursued with vigor.

17. Macroeconomic management reform in general, and financial sector reform in particular, will receive renewed attention, and become the key focus of much reform activity. The inflation of 1988-89 is seen to have generated considerable urban dissatisfaction. It is recognized that macromanagement ability remains far too weak in two areas: fiscal policy and monetary control. The expected reforms in this area appear to be very much in line with a recent Bank report to Government, and this report will shortly be submitted to you.

18. Many of the macro reforms can be expected to focus on monetary policy, for money growth has been far too excessive in recent years, averaging over 30%. In effect, these reforms can be expected to create greater independence for the Central Bank in determining and managing monetary policy, and greater freedom for (parts of) the banking system in making lending decisions. These reforms have long been advocated by the Bank.

19. Trade reform has gone a long way in China in the last 2-3 years. There are no signs of any reversal in this area, as the decentralization of trading decisions has generated rapid growth in exports. China continues to seek advanced technology imports, and knows that exports must continue to grow to finance them. This requires, it is recognized, adequate incentives and efficient arrangements, and so continued emphasis on decentralized trade arrangements and on adequate exchange rate incentives can be assumed. However, there is unlikely to be any deep reform in arrangements for trade in basic materials and food, whose supply in the domestic economy the government is likely to seek to control. The Government will continue to seek to resume its seat in the GATT and to proceed with those negotiations, which are already quite well advanced.

20. A final area of key interest to the Bank is the future of rural reforms. Great emphasis will be placed on agricultural development, and in particular on grain. This will certainly involve higher levels of state investment in agriculture and probable higher state procurement prices, but seems unlikely at this stage to offer the prospect of radical reform of the grain marketing system. Efforts will continue in the area of land consolidation to create larger farmer units. One key area of interest relates to rural industry which is seen by many in the upper echelons of government being responsible for much of the overheating. It is likely that efforts will continue to restrain access of such enterprises to government credit, but it is recognized that price reform is the key to solving any problem in this sector. No serious program of administrative interference seems likely at present.

21. In the near term, however, it can be expected that there will continue to be a difficult balance between continued reform efforts and the challenges of macroeconomic stabilization. Indeed, these same conflicts have been present for most of the last year in China, given fears about the destabilizing effects of inflation.

22. However, although commitment to reform and to the policy of opening to the outside world remains unambiguous, much will also depend on restoration and maintenance of relationship with major trading partners conducive to a continuation of the policy of opening to the outside world, and increased participation in the international division of labor.

23. The Bank will continue to monitor policy developments in the coming months. Moreover, as requested by the Government, the Bank would continue to support reform programs actively, through economic advice, sharing of international experience and technical assistance.

III. Bank-China Relations

24. These discussions inevitably led to the future of Bank-China relations. It is clear that the Government remains committed to pursuing and developing its relationship with the Bank. Officials at all levels that I met expressed how highly they valued China's relationship with the World Bank. They stressed their appreciation not only for lending, but also for the Bank's economic advice, technical assistance and training, and hope that future support in all these aspects will continue.

25. In April, we held discussions with Government on the proposed three-year economic and sector work program. This program was recently approved by the State Council and Government has indicated its desire to go ahead with this has planned. This includes studies on such basic reform topics as financial reform, housing reform, and wage and labor market reform, as well as important sector studies such as a railways sector investment study, and a provincial education study. One agreement I reached with Government in the light of recent events was to advance the preparation of the next country economic report which will now be completed during the next fiscal year and presented to the Board before June 1990. This would include an assessment of China's economic prospects and credit worthiness.

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26. Government has stated clearly that it wishes to stick to the three-year lending envelope of US$6.5 billion agreed in November 1988. This does not mean, however, that there will be no changes in the lending program, for Government has indicated that they would wish to see greater emphasis on projects in basic industries, transport and agriculture. Indeed, this was indicated in Deng Xiaoping's speech, where he called for more investment in raw materials, transportation and energy "even if it involves heavy debts." One of our recent achievements has been the introduction of a three-year lending program framework, and Government indicated that they would like to proceed with the next rollover of this program in November as scheduled.

27. The other area of our cooperation that we have valued highly has been technical assistance in support of the economic reform effort, through such mechanisms as training, oversea visits and high-level policy seminars. Government has stated its clear desire for these activities to continue as scheduled. Activities that are scheduled in this area include a conference on the financing on education, a workshop on housing reform, provision of advice on the design of reform experiment with joint stock companies and a symposium on future reform strategies. We were asked to proceed with arrangements for these activities with as small a delay as possible.

28. All this indicates a willingness and strong desire of the Government to continue its relationship with the World Bank very much as before.

IV. Economic Situation

29. Whilst it is somewhat premature, a few words on the likely impact of the recent events on the economic situation seem warranted. Before the recent events occurred, the economy was already in some difficulties, with inflation over 20%, in response to excess aggregate demand fuelled of late by cost push factors. The austerity measures introduced last fall were beginning to have some impact in terms of cooling the growth rate which has fallen to 11% for the industrial sector compared to 17% last year. However, inflationary pressures were continuing, with the price level at end-May 1989 28% over last year's level. It is difficult to project what will happen, but these two trends - of output-cooling but with continued inflationary pressures - seem likely to increase. In turn, this is likely to show up in balance of payment pressures, given the difficulties both in export procurement and in reducing essential raw materials imports. A difficult economic situation requiring strong macroeconomic management is likely, therefore, to be present for some time.

30. However, it seems unlikely that this would threaten China's short-term credit worthiness. China's total external debt was about US$38 billion at the end of 1988, which is about 70% of exports of goods and services. Moreover, with a reasonable maturity and interest structure, the ratio of debt service to exports earnings remains well below 10%, and is unlikely to rise above 15%. China has foreign exchange reserves of US$19 billion, equal to four months' imports. More particularly, reserves are more than three times annual debt service requirements. Overall, therefore, while the recent events will certainly have a negative impact on China's balance of payments - particularly

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because of reduced tourism earning and foreign investment blows - there is no reason to expect that this would lead to difficulties in servicing China's

(a) macroeconomic prospects for the next five years [illegible] of:

(i) the external trade and balance of payment position;

(ii) the fiscal outlook;

(iii) prospects for sectoral growth and development, especially in agriculture; and

(iv) inflation and monetary control.

(b) Major policy developments, especially in the key reform areas of price, enterprise, finance, fiscal and rural reforms, as well as in policies relating to the external sector.

This would permit the Bank to form a sound judgement of the economic framework within which future operations would be made, as well as a detailed assessment of China's creditworthiness.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 22, 1989

TO Files

FROM Peter Harrold, Senior Economist, AS3CH

EXTENSION

SUBJECT CHINA: Meeting of Shahid Javed Burki with Chairman of the State Planning Commission and Deputy Premier Yao Yilin: Beijing, June 21, 3:30pm

Those present:

Government

Yao Yilin, Chairman, SPC
Chi Haibin, Vice-Minister, MOF
Gan Siyu, Vice-Minister, SPC
Chen Junshuo, Deputy Director, World Bank Dept.
Zhang Shengman, Chief, Programs Division, World Bank Dept.
Zou Jiayi, Assistant Economist, MOF

World Bank

Shahid Javed Burki, Director, AS3
Edwin R. Lim, Chief, AS3CH
Peter Harrold, Senior Economist, AS3CH

1. Mr. Burki began by explaining the current status of the Bank's lending program, and the seven projects totalling US$770 million which were pending Board approval. He was pleased to have been able to reach agreement with Government on an approach to this problem which avoided an embarrassing situation at the Board. He went on to explain the purpose of his visit and the report that he would submit to the Board, as described earlier to Vice-Minister Chi Haibin. He also went on to explain the position of the G7 with respect to lending to China.

2. Vice Premier Yao Yilin then presented to Mr. Burki his explanation of the circumstances lending to and the events of June 3-4. (Not recorded here.)

3. Yao Yilin then turned to the policies of opening and reform, and affirmed that these policies would not change. Reforms would continue, at the same time as pressing forward with adjustment and rectification to overcome inflation. He confirmed that China would fulfill contracts signed with the World Bank and other countries. There had been problems in export supply deriving from excess domestic demand, and this was to be solved by overcoming inflation and increasing supply. Agriculture also had a bad year in 1988. But these problems had nothing to do with reform.

01 01/18

4. Perhaps price reform had gone too fast last year, and would be somewhat slower this year, hoping to reduce inflation below last year's level. But the 2 months' disturbance did affect output and revenue and they are now trying to make up for the loss. They did not know yet whether these losses could be made up.

5. The third question related to whether China could fulfill its contracts. He affirmed that it could, and that since their action of June 3-4, stability and returned. Moreover, only Beijing had been seriously affected and only in Beijing had martial law been imposed. After Beijing had stabilized so too did the rest of the country. The situation now was very stable. But martial law had not been lifted or complete success achieved as many "criminals" and "thugs" were still at large.

6. Mr. Burki then asked about foreign investment and any efforts to rebuild business confidence. Mr. Yao said there would be no change in policies, and remarked that many investors were "understandably" adopting a "wait and see" attitude. Some countries officially discouraged their businessmen from returning, but they still do, and indeed have official approval to do so. He believed they would come back in the end, but there would be some time lost.

7. Mr. Burki also noted that in his report he would be stating that he had received assurances from MOF that it was now safe for Bank staff to travel all over the country. Yao Yilin confirmed this, and said that it was "perhaps even safer than before as many criminals had been arrested."

8. Finally Yao Yilin noted, in response to Mr. Burki's final statement, that China understood the current difficulties facing the Bank, and would leave it to the judgement of Bank management as to when to present the pending projects to the Board.

Conrtle

[redacted], Senior Economist, AS3CH

Subject: CHINA: Meeting of Shahid Javed Burki with Minister of Finance Wang Bingqian, June 20, 5pm

Those Present: Ministry of Finance

Wang Bingqian, Minister
Chi Haibin, Vice Minister
Chen Junshuo, Deputy Director, World Bank Dept.
Zhang Shengman, Chief, Programs Division, World Bank Dept.
Zou Jiayi, Assistant Economist, Programs Division, World Bank Dept.

World Bank

Shahid Javed Burki, Director, AS3DR
Edwin R. Lim, Chief, AS3CH
Peter Harrold, Senior Economist, AS3CH

1. Minister Wang welcomed Mr. Burki to China to examine the current situation for himself, and he understood the Burki's concern over the present situation. Mr. Burki explained the recent decision to delay Board presentation of four projects. He would return to Washington at the end of this week and would report to the Board next Tuesday, after which he hoped that Board presentations could resume. He then went over the three areas that the report to the Board would cover, as explained earlier that day to Vice Minister Chi Haibin. Mr. Burki considered this his most important of the 8 or 9 visits he had made to China. He noted the agreement with Vice Minister Chi on the advancing of the next country economic report on China.

2. Minister Wang explained that the "counter-revolutionary rebellion" had been put down and the situation - both political and economic - was essentially stable. However, other problems remained to be solved. This included the need to explain the reasons behind both the rebellion and its mode of being put down, both throughout the Party and the people. Unified thinking was important to generate a uniform approach. The second thing to be done was to arrest the "ruffians" and leaders of the illegal organizations to ensure that there would be no recurrence, and try them according to law. For participants in demonstrations there would be only education. There would be no large scale purges, as rumored in the foreign press. The second level of problem was within the Party itself, including those at the highest level. But a change in a few individuals would not result in a change of policies adopted since the 11th CCP.

3. Minister Wang then turned to the economic situation. The economy had been affected but not to a major extent, because the problem was largely in Beijing and a few major cities, but the rest of the country was largely unaffected. From January to May, the growth rate had been 11%, and while June and July would be affected, the growth target of 8% for the year would be easily

01 01/20

fulfilled. In agriculture, a bumper summer harvest was forecast, similar to that of 1984. Barring natural disasters, there should be no problem with plan fulfillment in agriculture, although MOA seemed perhaps overoptimistic. In foreign trade, there may be some problems, but not too substantial. There would be no expansion of imports above the plan level, but some necessary imports may be postponed, especially if there are problems on the export side.

4. On the financial situation, the increase in money supply would not be as large as that of 1988. The fiscal situation remained tight, and efforts were being made to keep the deficit within the planned level. Overall, the Government was trying to fulfill the plan and execute the budget as adopted at the 2nd session of the 7th NPC.

5. Minister Wang also stressed the continuation of the policies of reform and opening to the outside world. They were hoping to stick to their original plans in this regard. Although some countries are holding back at the present time, the Government expects that most projects will go ahead. Thus, except for a few loans, foreign exchange should not be a problem, and debt service will remain under control. The Government will maintain loan repayments, even at the expense of national uses of such funds. He noted that foreigners were starting to come back to China, and the Government would ensure their safety.

6. As for domestic policies, these would continue as laid down, but with some being accelerated and others slowed down. The policy of the planned commodity economy would continue, but with different emphasis on the market and the plan at different times. Much attention had been paid to micromanagement in the past, and in the future more attention would be paid to macromanagement. But in improving macromanagement care would be taken not to return to the old ways, which would stifle the economy. As the past is summed up, they would "correct what had not worked, protect what had proved correct, and improve on that which required improvement".

7. Cooperation between China and the Bank had been very satisfactory. The State Council had recently approved the 3-year ESW program, and there was no change in the overall size of the 3-year lending program. If some projects have to change, they would rather adjust the other sources of finance and retain the World Bank funds. He reiterated that China would leave it to the Bank when and in what way to take up the seven outstanding projects.

8. Mr. Burki noted that there could be a significant reduction in foreign direct investment in China, and wondered whether the Government was considering any measures to encourage foreign investment. With regard to macromanagement, Mr. Burki asked what specific measures were being contemplated. Finally he asked about inflation and price reform, and the Minister's views on these.

9. Minister Wang agreed that foreign investment would suffer, but considered that political stability, economic development and no change in economic policies were the best way to bring back the investors. With respect to macromanagement, some measures would be taken to adjust the fiscal contractingr system, as this had left central government with inadequate resourses to fulfill its tasks. Some initial success had been achieved in controlling investment and consumption, but more would be done. In the financial sector, there was also too much decentralization along administrative lines. One problem being addressed was overdue loans, which had caused a

slowdown in credit. TVEs needed some controls with regard to their size, growth and direction. They should be useful complements to the state sector. In some cases, state property rights had been "inappropriately reduced" through the use of auctions, leases and shareholding. The time is not yet ripe for a nationwide extension of the shareholding system, although some experiments would continue.

10. With respect to inflation, which was 18.5% last year, the goal was to reduce it noticeably, and this may be difficult - although not if compared with the end of last year. To bring down inflation, two problems must be addressed: the contract responsibility system encouraged inflation, and the number of middlemen added needlessly to prices. For example coal cost Y25-30 a ton in Shanxi but only Y300-400 on the market of Jiangsu and Guangdong. Thus coal would be addressed first in this regard.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

ZL
Confidential

DATE June 22, 1989

0101/2

TO Files

FROM T. James Goering, RMC

EXTENSION

SUBJECT Mr. Burki's Meeting with the People's Bank of China

1. Present at today's meeting were:

People's Bank

Madam Qiu Qing, Vice-Governor
Messrs. Yin Jieyan, Director, Department of Foreign Affairs, PBC
Chang Fengmin, Division Chief, "
Lu Xiaoping, Deputy Division Chief, "
Luo Ping, Interpreter

Ministry of Finance

Ms. Zou Jiayi

World Bank

Messrs. Burki, Goering

2. Following pleasantries by Madam Qiu, Mr. Burki explained that the objectives of his visit to China were to assess: (i) the effects of the current situation on implementation of on-going World Bank-supported projects; (ii) the future of China's economic reforms; and (iii) the likely short-term impact of recent events on the country's economic development, with a particular focus on balance of payments and foreign exchange reserves. This evaluation would be provided to Bank management and Executive Directors.

3. Madam Qiu noted that recent events had affected the financial sector to some extent--several city branches reported declines in both RMB deposits and foreign exchange holdings in the 2-3 days immediately following the disturbances. Within a week the situation had calmed and RMB deposits have more or less returned to projected growth rates. Some increase in forex holdings have been reported subsequently. Recent events have had no significant effect on agriculture and little impact on industry. Foreign exchange earnings have been adversely affected with the drying up of the tourist trade, although tourism typically accounts for only 5-6% of such earnings in China. This negative factor might operate for the next 1-2 months.

4. The V-Governor expressed the view that China's debt repayment capacity and credit worthiness would not be substantially affected. Centrally-managed commercial borrowings and borrowings from international institutions had been carefully planned within the plan and overall credit limits. Provision for repayment was therefore reasonably assured. Short-term foreign borrowings by local entities in the recent past "were out of control" (a point Madam Qiu later retracted) and the current situation may help to correct this problem. In response to Mr. Burki's question of how this correction would be effected, Madam Qiu referred to "education" of would-be borrowers and lenders and a strengthened program of registration and monitoring of such borrowings. Mr. Burki noted that the Bank had been in dialogue with the Government on these matters and expressed the view that more rigorous registration and control procedures were required. Madam Qiu indicated that concrete steps to monitor and control foreign borrowings in recent years had been taken but, given the China's size and economic diversity, further control measures by SAEC were required.

5. Madam Qiu offered the view that the foreign media had "blown recent events out of proportion to their significance" and that the international perspective of China's essential credit worthiness would be restored once the "true situation regarding events" were known. She spoke of China's tradition of fiscal responsibility and timely repayment of foreign obligations. Mr. Burki noted that this point was fully appreciated by the World Bank, but pointed out that the confidence of the foreign financial community and investors had been shaken by recent events. In response to the question of how this confidence was to be restored, Madam Qiu noted: (i) efforts would be made to "tell the true story" behind these events; (ii) financial sector reforms would continue, aimed at increasing efficiency in the use of financial resources; and (iii) the negative impact of recent events would be short-lived--China was a large economy with attractive investment opportunities and the Government was prepared to wait for the return of investors in search of those opportunities.

6. In response to questions by Messrs. Burki and Goering, Madam Qiu stated:

(i) there had been no significant very recent change in foreign exchange holdings [although see point (iv) below] and reserves were adequate to meet all external obligations;

(ii) gross value of industrial output in Jan-Mar 1989 was up 11% over 1988, with output of state enterprises up 5.7%, collective output up 17.5% and TVE production up 24.1%;

(iii) [quoting information in the June 16 edition of the Economic Daily (?)], foreign investment during the first four months of 1989 of $4.5 billion contracted and $2.8 billion committed was 47% and 30% higher, respectively, than in the same period of 1988;

(iv) the gross value of exports in January-May 1989 at $15.6 billion was essentially unchanged from year-earlier levels, while imports at $14.0 billion were 14.5% above the same period in 1988.

Distribution

Messrs. Burki (AS3DR); Lim, van der Lugt, Harrold (RMC)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Conable

01/01/25

DATE June 20, 1989

TO Files

FROM Peter Harrold, Senior Economist, AS3CH

EXTENSION

SUBJECT **CHINA: Meeting of Mr. Shahid Javed Burki with Vice Minister of Finance Chi Haibin Beijing, June 20, 9:00am**

Those present:

Ministry of Finance

Chi Haibin, Vice-Minister
Chen Junshuo, Deputy Director, World Bank Dept.
Zhang Shengman, Chief, Programs Division, World Bank Dept.
Yang Jinglin, Officer, Division I, World Bank Dept.

World Bank

Shahid Javed Burki, Director, AS3
Edwin R. Lim, Chief, AS3CH
Peter Harrold, Senior Economist, AS3CH

1. The Vice-Minister noted that they had prepared for Mr. Burki's visit with a view to "enhancing the further cooperation between China and the World Bank." He stressed the successful cooperation of the past, which China particularly valued. He noted that recent unfortunate events in China had created sentiments that could create unfavorable attitudes in the world towards China. One such attitude was uncertainty as to whether reform and opening to the outside world would continue. Deng Xiaoping in his June 9 speech had emphasized continued adherence to these policies.

2. The Vice-Minister noted two periods of economic stability in New China's history: the period of the 1st FYP to 1957; and the second since the 1979 initiation of reform and opening policies, during which GNP grew by about 10% a year, and this was the superior of the two periods. All of society had benefitted from higher standards of living during the reform era. As the reforms had been successful, there was no need to reverse them, or indeed any possibility of reversing them. Of course, this did not mean that any specific measure of reform would not be subject to change or adjustment, for some had proved unfeasible. These included the two-tier pricing system, tax contracting in enterprises, fiscal contracting with provinces, and engagement of non-commercial units (such as Government) in trading. This latter phenomenon had led to corruption, which inturn had created some of the recent problems, and this included 'profiteering' which was opposed by many people. Some state companies - "official profiteers" - are being called in for audits, and the audit results will be made public.

0101/2B

3. His overall point was therefore that reform and opening would continue, with amendments and adjustments where necessary, and that was a re-emphasis on the policies of improvement, rectification and deepening adopted since last year. The recent incident would permit thus permit a summing-up of ten-years' experience and more smooth progress.

4. Mr. Burki noted the difficulties of the past two weeks and thanked the Government for their cooperation in recent days. The first step of the Bank had been to ensure that there would not be an embarrassing situation at the Bank's Board, so the projects scheduled for early June Board presentation had been postponed. There are seven projects pending approval. Mr. Burki would make a statement to the Board after this week's discussions in China. He wished to write this statement while in Beijing and discuss it with the Vice-Minister before leaving on Friday morning, so that an understanding could be reached between China and the Bank. The statement would have three components:

(a) An assessment of the impact of the current situation on the implementation of the portfolio of 75 ongoing projects. The Board had been assured in the past of Bank staff's positive views on China's implementation capacity. In this regard, he would need to be able to address several questions. Can Bank staff travel freely in the country? What is the situation of foreign consultants and contractors? Claims for de- and re-mobilization would be submitted by such contractors, and these should be dealt with expeditiously. Thirdly, there were questions about the maintenance of schedules for training outside China, such as the program of training under the Railways Investment Study. He would like to be able to give specific assurrances on that issue. He would also like to be able to assure the Board on the extension of bid closing dates, to permit fair competition under ICB. Similarly, was there any mechanism in MOF to resolve any procurement problems that may arise?

(b) Mr. Burki was reassured about the general direction of reform, but would like to make that statement more specific. There were four or five areas of particularly importance: price reform; enterprise reform, which was critical for the Shanghai Industry project; reform of the financial system; trade reform, and external relations in general, given the need to assess questions of credit-worthiness; and fifthly, the rural reform, which had been supported by the Bank's RSAL, and on which the Board had already requested a statement.

(c) The third area was the future of World Bank - China cooperation. He was pleased to note State Council approval of the three-year ESW program, and he would welcome any comments for changes in priorities in this program as a result of recent events. Mr. Burki thought that the next Country Economic Report may need to be advanced so that a report was presented to the Board in June 1990. Similarly, he hoped that progress could still be made on the new three-year lending program for 1990-92, on which discussions were scheduled for November 1989.

5. Finally, Mr. Burki noted a serious drop in morale in the China Department of the World Bank, and he hoped that no time would be lost, following this visit, in rebuilding this confidence. He hoped the statement to the Board would assist in reviving the confidence of the international community in building China's economic development.

6. The Vice-Minister expected that Mr. Burki's visit would serve to clarify international views on recent developments and serve to restore confidence in China. If there had not been disagreements at the top of the Party and Government, things could have turned out different, and "this refered specifically to Mr. Zhao". This had led to the paralysis of the Party and Government. The economic order had now returned to normal. Beijing had been worst affected and it had spilled over into other cities. Once Beijing was stable, so were these other cities. The Vice-Minister was convinced that a situation did exist for the satisfactory implementation of Bank projects, and the Government was working to put in effect the recommendations of the second CIR of November 1988.

7. Bank staff could travel throughout China as they did before, and this applied also to contractors of all types. As for training, including courses and study tours, these should all go ahead as planned. As long as projects are not changed, these plan should not be changed. Regarding ICB and procurement, schedules would be adjusted as and when it became necessary to take account of the recent difficulties. MOF is always ready to address individual case as they arise.

8. With regard to reform, price reform was critical to the overall effort, but had proved very difficult. But it was necessary to persevere if the irrational economic structure was to be corrected. For example, the coal and oil exploration sectors were losing money, because of low prices for basic materials. Other basic industries would lose money if not for the free market component of sales. The irrational price structure gives wrong signals to both consumers and producers. They had hoped to move faster on this, but had had to slow down price reform last year after inflation rose to 18.5%. This level could not be borne by the people, and thus the Government had adopted last year's adjustments in policy. The inflation rate for January-May is about 7% compared to the end of 1988, so people now feel less strongly about inflation. China will proceed with price reform, but at a slower pace, although it had not been possible to reexamine these policies in recent days.

9. For enterprise reform, this must continue to be deepened. Enterprises must become independent producers responsible for their own profits and losses. One approach being developed is to lower the enterprises tax rate from 55% to 35%, making loan repayments payable after tax. Most contracts expire in 1990, so little can be done before then. Changing contracts now would be very harmful. Before the "rebellion" there had been a plan to select a few cities to experiment with the above reform. Further, enterprises have not fully exploited their possibilities, so the Government has advocated voluntary formation of enterprise groups - without coercion by Government via administrative means, for that could threaten a return to old ways of doing things.

0101/28

10. China's external economic policy remained unchanged, even though there were some temporary difficulties. China would continue to "participate actively in the international division of labor." While China should be self-reliant, this should not mean autarky. China's policy is and has been to maintain an excellent position with regard to foreign loan repayments. China should make good use of foreign capital, in line with its balance of payments position. There is no problem of repayment, and China will maintain its debt servicing capacity. Discussion on trade, finance and rural reform would be arranged with relevant Ministries. The government attached major importance to agriculture, which was the basis for the stability of the entire economy.

11. With regard to future cooperation, and ESW in particular, it would be possible to advance the country economic report if the Bank found it necessary. The three-year lending program discussions would be held as scheduled.

12. Mr. Chen expanded on these points. With respect to the implementation of projects, this was unimpaired. For example, the Beijing-Tianjin-Tanggu expressway had continued to be constructed as scheduled. The seven 'problem projects' of the November CIR had all seen various degrees of improvement. A circular had been issued requesting implementation and disbursement plans of project entities for FY90. With respect to contractors and consultants, MOF hads noted the problems of communications and transport in a few major cities. Some extensions for ICB deadlines would be made to ensure fair competition. For example, bid opening for the Shanxi Highways Project had been moved from June 14 to June 30, and the bid submission date for the Daxinganling Project had also been postponed for two weeks. A meeting was recently held with the three tendering companies, and they were instructed to take actions to ensure adequate competition in ICB.

13. Existing contracts should contain 'force majeure' clauses, and parties will have to reach agreement within the context of those contracts. Work on training and study tours will continue and MOF has made efforts to improve administration to make these activities more appropriate for the projects.

14. For the future, they have come to realize that more cooperation is called for in raw materials, transport and agriculture. For example, the Railways V project was to be used only for lines and the Suzhou terminal, but now it may be appropriate to use more World Bank funds to cover system-wide components, raising the project to the level of $450 million (as had been suggested by the recent Bank mission). In particular, this could ease the problems of counterpart funding for railway projects, thus speeding up ongoing railway projects. Repayment would not be a problem, since higher railway tariffs would generate local funds for this, while the state would be responsible for foreign exchange repayment. The Vice-Minister had written to Vice-Minister of SPC Gan Siyu on this topic. Finally, he emphasized his willingness to collaborate in the preparation of Mr. Burki's Statement to the Board.

Record Removal Notice

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File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
June 9, 1989	Memorandum	

Correspondents / Participants
To: Mr. Moeen A. Qureshi
From: Ibrahim F.I. Shihata

Subject / Title
China Projects and the Board

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/03/09 DUE DATE : 00/00/00
LOG NUMBER : 890309007 FROM : Mr. Burki (AK)
SUBJECT : BRIEFING: China - Proposed Longtan Hydroelectric Project. Meeting with Mr. Howard Baker on Friday, March 10, 1989 at 11:45 a.m.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :cc: Mrs. Haug, JV (follow file)
BBC has his copy

follow up? more

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 9, 1989

TO: Mr. Barber B. Conable, President
THROUGH: Mr. Attila Karaosmanoglu, Vice-President, Asia Region
FROM: Shahid Javed Burki, Director, China Country Department

EXTENSION: 72571

SUBJECT: CHINA: Proposed Longtan Hydroelectric Project/Your Meeting with Mr. Howard Baker on Friday, March 10, 1989 11:45

1. In response to your inquiry, please find below information for your meeting with Senator Howard Baker.

2. The proposed Longtan Hydroelectric Project has not yet been submitted by the Government of China to us for possible financing. Bank staff recently discussed with Mr. David Andrew of Mr. Baker's office most of what we know at this very preliminary stage about the project (see Attachment).

3. If the Government requests Bank financing, they will probably request two IBRD loans of about US$300 million each over what will likely be at least a ten year construction period, which will be similar to the two-phased approach for the existing Shuikou Hydroelectric Project and the forthcoming Ertan Hydroelectric Project. The Longtan Project is of sufficient size, that there could well be room for possible co-financing, particularly in regard to the turbines and generators. However, since the Government has not yet approached us on this project, we do not know if there is a financing gap. In the past, they have preferred to fill any foreign exchange financing gaps under Bank projects from their own internal foreign exchange resources rather than through co-financing. They have obtained large amounts of external assistance for the power sector, from both official bilateral and supplier credits, but have preferred to allocate each source of funds to a discrete project, rather than combining or mixing sources of financing on any single project. As recently as the Annual Meeting in Berlin, the Government indicated it still preferred this approach rather than the "traditional" Bank co-financing route.

4. Mr. Baker's office queried whether the Chinese have considered using MIGA for this type of project. While a signatory to MIGA, the Government has not yet initiated any inquiries to MIGA regarding possible operations. We have previously tried interesting the Chinese with "B" loan arrangements, but without much success. Perhaps Mr. Inakage's trip to China end-April might result in some rethinking on their part, but the one attempt they made to do commercial co-financing with us under the Beilungang Thermal Power Project in 1986 did not succeed when the bids they received were not on any more favorable terms than what they had been getting on their own under other power projects. They did not, therefore, go forward with the commercial financing.

5. The Bank staff who spoke with Mr. Baker's office perceived a rather rudimentary knowledge by that office of how the World Bank operates; therefore, they spent time describing the Bank's international competitive bidding requirements, as well as how procurement and consulting arrangements are handled under co-financing arrangements. It should be noted that the Chinese apparently have already obtained French and Canadian consultant assistance in the early stages of the dam design work.

Attachment
NA:lgv
cc: Messrs. Qureshi, Inakage, Weisenfeld (MIGLC)

CHINA - LONGTAN HYDROELECTRIC PROJECT

March 9, 1989

Probable Cost:	Not yet defined, in the order of US$3.5 billion
Proposed IBRD Financial:	Project is not in official 3-year Lending Program agreed with Bank in October, 1988.
Financing Plan:	Not yet defined. State Energy Investment Corporation and Guangxi Province are expected to cover local costs; Cofinancing/Other financing for the balance of foreign costs may be needed including possibly $300 million IBRD loan, with a second IBRD loan during second phase of construction.

1. Background. The Longtan hydropower project will have an installed capacity of 5,000 MW and a dam over 200 m high. It will mark a new level in construction of hydropower projects in China. The design of this project is in progress.

The project is located on the Hongshui River, the main course of the Pearl River. The total installed capacity of the planned cascade hydropower projects on the Hongshui River is more than 12,000 MW. The Hongshui River basin is one of the ten large hydropower development bases in China and an important electric power source in South China. The government has attached great importance to exploitation of this river basin and given priority to it. It is a major hydropower scheme to be developed before the year 2,000. The Longtan hydropower project with a huge reservoir will have 18.5 TWh of yearly energy output and 1,740 MW of firm capacity, and by regulation will increase the yearly energy output as well as the firm capacity of the downstream cascade hydropower projects by 6,200 GWh and 1,720 MW respectively. It will also provide 7.0×10^9 m^3 of flood storage for the downstream projects and play an important role in alleviating flood calamity. The selection of the dam site was examined and approved by the government in 1981 and the feasibility study report of the project was completed in 1984. The topographical features and the geological conditions make it possible to build a high dam and a large reservoir. At present, the Central-South Hydroelectric Investigation and Design Institute of the Ministry of Energy is undertaking the preliminary design of the Project. It is also carrying out selection design of the dam type in cooperation with Canada and France.

2. Project Objectives. The main objectives of the project would be to: (i) provide additional generation capacity (5,000 MW) in order to alleviate the acute shortage of electricity in Guangxi and nearby provinces; (ii) encourage the integration of the power system as needed to tap economies of scale; (iii) assist in the transfer of modern technologies and introduction of efficient construction methods; (iv) enhance the institutional development of the beneficiary; (v) encourage financial and tariff structure reforms; and (vi) provide technical assistance and training.

3. Project Description. The project would include: (i) construction of a dam (about 220 m high with the crest length of 850 m) across the Hongshui river with an underground powerhouse complex, a ship lift, and appurtenant works and structures; (ii) provision and installation of 10 x 500 MW generating units; (iii) 500 kV transmission network; (iv) resettlement of about 60,000 people; and (v) technical assistance, system and operations planning studies and staff training.

4. Issues and Actions. It is too early to forecast project related issues, which are likely to focus on project design (type of dam and plant layout), procurement and construction arrangements, human resettlement, regional coordination and agreements between provinces affected by the project, river basin development and project multipurpose uses. Bank phased financing is likely to be sought. Government has still to decide on the inclusion of the project in the Bank lending program for China.

5. Benefits. This very large project, based on the use of renewable energy, could greatly increase the generating capacity of the power system in order to meet future power demand in its region. The project could also play an important role in preventing flood calamities and in increasing river transport. Furthermore, it could help improve the subsector's investment planning, institutional development, system operations, and management and staffing.

6. Risks. Project risks appear to be within reasonable limits and should be manageable. Appropriate measures would have to be taken to minimize potential risks and avoid environmentally undesirable consequences.

7. Timing of Preparatory Activity. The detailed schedule for the preparation of the project is unknown at present. Assistance to the Government in preparing the project and establishing its preparation and implementation timetable would be required.

11:45

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 9, 1989

TO: Mr. Barber B. Conable, President
THROUGH: Mr. Attila Karaosmanoglu, Vice-President, Asia Region
FROM: Shahid Javed Burki, Director, China Country Department

EXTENSION: 72571

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2. The proposed Longtan Hydroelectric Project has not yet been submitted by the Government of China to us for possible financing. Bank staff recently discussed with Mr. David Andrew of Mr. Baker's office most of what we know at this very preliminary stage about the project (see Attachment).

3. If the Government requests Bank financing, they will probably request two IBRD loans of about US$300 million each over what will likely be at least a ten year construction period, which will be similar to the two-phased approach for the existing Shuikou Hydroelectric Project and the forthcoming Ertan Hydroelectric Project. The Longtan Project is of sufficient size, that there could well be room for possible co-financing, particularly in regard to the turbines and generators. However, since the Government has not yet approached us on this project, we do not know if there is a financing gap. In the past, they have preferred to fill any foreign exchange financing gaps under Bank projects from their own internal foreign exchange resources rather than through co-financing. They have obtained large amounts of external assistance for the power sector, from both official bilateral and supplier credits, but have preferred to allocate each source of funds to a discrete project, rather than combining or mixing sources of financing on any single project. As recently as the Annual Meeting in Berlin, the Government indicated it still preferred this approach rather than the "traditional" Bank co-financing route.

4. Mr. Baker's office queried whether the Chinese have considered using MIGA for this type of project. While a signatory to MIGA, the Government has not yet initiated any inquiries to MIGA regarding possible operations. We have previously tried interesting the Chinese with "B" loan arrangements, but without much success. Perhaps Mr. Inakage's trip to China end-April might result in some rethinking on their part, but the one attempt they made to do commercial co-financing with us under the Beilungang Thermal Power Project in 1986 did not succeed when the bids they received were not on any more favorable terms than what they had been getting on their own under other power projects. They did not, therefore, go forward with the commercial financing.

5. The Bank staff who spoke with Mr. Baker's office perceived a rather rudimentary knowledge by that office of how the World Bank operates; therefore, they spent time describing the Bank's international competitive bidding requirements, as well as how procurement and consulting arrangements are handled under co-financing arrangements. It should be noted that the Chinese apparently have already obtained French and Canadian consultant assistance in the early stages of the dam design work.

Attachment
NA:lgv
cc: Messrs. Qureshi, Inakage, Weisenfeld (MIGLC)

CHINA - LONGTAN HYDROELECTRIC PROJECT

March 9, 1989

Probable Cost:	Not yet defined, in the order of US$3.5 billion
Proposed IBRD Financial:	Project is not in official 3-year Lending Program agreed with Bank in October, 1988.
Financing Plan:	Not yet defined. State Energy Investment Corporation and Guangxi Province are expected to cover local costs; Cofinancing/Other financing for the balance of foreign costs may be needed including possibly $300 million IBRD loan, with a second IBRD loan during second phase of construction.

1. Background. The Longtan hydropower project will have an installed capacity of 5,000 MW and a dam over 200 m high. It will mark a new level in construction of hydropower projects in China. The design of this project is in progress.
The project is located on the Hongshui River, the main course of the Pearl River. The total installed capacity of the planned cascade hydropower projects on the Hongshui River is more than 12,000 MW. The Hongshui River basin is one of the ten large hydropower development bases in China and an important electric power source in South China. The government has attached great importance to exploitation of this river basin and given priority to it. It is a major hydropower scheme to be developed before the year 2,000. The Longtan hydropower project with a huge reservoir will have 18.5 TWh of yearly energy output and 1,740 MW of firm capacity, and by regulation will increase the yearly energy output as well as the firm capacity of the downstream cascade hydropower projects by 6,200 GWh and 1,720 MW respectively. It will also provide 7.0×10^9 m^3 of flood storage for the downstream projects and play an important role in alleviating flood calamity. The selection of the dam site was examined and approved by the government in 1981 and the feasibility study report of the project was completed in 1984. The topographical features and the geological conditions make it possible to build a high dam and a large reservoir. At present, the Central-South Hydroelectric Investigation and Design Institute of the Ministry of Energy is undertaking the preliminary design of the Project. It is also carrying out selection design of the dam type in cooperation with Canada and France.

2. Project Objectives. The main objectives of the project would be to: (i) provide additional generation capacity (5,000 MW) in order to alleviate the acute shortage of electricity in Guangxi and nearby provinces; (ii) encourage the integration of the power system as needed to tap economies of scale; (iii) assist in the transfer of modern technologies and introduction of efficient construction methods; (iv) enhance the institutional development of the beneficiary; (v) encourage financial and tariff structure reforms; and (vi) provide technical assistance and training.

3. Project Description. The project would include: (i) construction of a dam (about 220 m high with the crest length of 850 m) across the Hongshui river with an underground powerhouse complex, a ship lift, and appurtenant works and structures; (ii) provision and installation of 10 x 500 MW generating units; (iii) 500 kV transmission network; (iv) resettlement of about 60,000 people; and (v) technical assistance, system and operations planning studies and staff training.

4. Issues and Actions. It is too early to forecast project related issues, which are likely to focus on project design (type of dam and plant layout), procurement and construction arrangements, human resettlement, regional coordination and agreements between provinces affected by the project, river basin development and project multipurpose uses. Bank phased financing is likely to be sought. Government has still to decide on the inclusion of the project in the Bank lending program for China.

5. Benefits. This very large project, based on the use of renewable energy, could greatly increase the generating capacity of the power system in order to meet future power demand in its region. The project could also play an important role in preventing flood calamities and in increasing river transport. Furthermore, it could help improve the subsector's investment planning, institutional development, system operations, and management and staffing.

6. Risks. Project risks appear to be within reasonable limits and should be manageable. Appropriate measures would have to be taken to minimize potential risks and avoid environmentally undesirable consequences.

7. Timing of Preparatory Activity. The detailed schedule for the preparation of the project is unknown at present. Assistance to the Government in preparing the project and establishing its preparation and implementation timetable would be required.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 23, 1989

TO: Files

FROM: Kurshid Ahmed, LOAAS

EXTENSION: 72271

SUBJECT: CHINA: Loan 2541 CHA and Telex from Bank of China, Dalian to Mr. Conable

In response to a telex from Bank of China, Dalian dated January 16, 1989, we sent our telex (copy attached) the next day. As will be seen from our reply, we made a payment in June 1988 to Bank of China in Hefei instead of Bank of China in Dalian. This came about because of the incorrect payment instructions we received from Bank of China, New York.

As is evident from the attachment, the matter has been satisfactorily resolved.

cc: Messrs. Conable, Jennings
Mrs. Hwang

WORLDBANK TMSS

ZCZC LOSC0256 LOSS0354
WDIAL
REF : LOAAS
OINFO

-SUBJECT: LN 2541 CHA G 40
-DRAFTED BY: NCHWANG/AKHALIFA
-EXT: 74045
-AUTHORIZED BY: NANCY C. HWANG
-CC: MRS. LEDESMA
---
716 86163 =
-BANK OF CHINA
-DALIAN, CHINA
BT
WASHINGTON DC - JANUARY 17, 1989
REURTLX JAN. 16 URREF BP81883002 LO:AN 2541 CHA SPECIAL COMMITMENT NO. 40 COVERING ELCEE A-74457/A URCLAIM FOR USDOLLARS 120,439. AAA ON JUNE 30, 1988, WE PAID USDOLLARS 126,120.19 AGAINST ABOVE ELCEE TO BANK OF CHINA, HEFEI ON THE BASIS OF A TELEX CLAIM DATED JUNE 30 RELAYED THRU BANK OF CHINA, NEW YORK UNDER REFERENCE BP78813320. UPON OUR INQUIRY, BANK OF CHINA, NEW YORK INDICATED THAT AN ERROR WAS MADE IN ROUTING THIS TELEX TO US. WE ARE, THEREFORE, SEEKING A REFUND FROM BANK OF CHINA, HEFEI. BBB WE ARE PROCESSING PAYMENT OF USDOLLARS 112,716.20 TO YOUR ACCOUNT BY JAN. 23. REGRET INCONVENIENCE CAUSED. REGARDS, NANCY HWANG, ASIA DISBURSEMENTS DIVISION, INTBAFRAD.

=01171630

IN DROPCOPY OF:LOSR

NNNN

1988 ANNUAL MEETINGS BRIEF

CHINA

September 25, 1988

Meeting with: Wang Bingqian, Minister of Finance
Chi Haibin, Senior Vice Minister of Finance
Wang Liansheng, Director, External Finance Department, Ministry of Finance

Population: 1068.8 m (1987)
GNP per capita: $298.7 (1986)
Estimated Growth Rate: 1.4% (1987)

	US$ million
Total Commitments to date:	7269.10
of which:	
Bank (43 operations)	4446.80
IDA (23 operations)	2822.30
Total Undisbursed:	4676.50
Lending Program FY89-90:	4168.80

FY88	US$ million
Commitments:	1693.60
Disbursements:	701.47
Amortization:	109.79

Summary Data	Average 1983-87	Projection 1988
GDP Growth	10.9	7.6
Export growth	18.3	7.4
Import growth	14.8	8.7
Current Account Deficit % GDP	0.9	0.2
Gross Debt Service Ratio	7.1	6.4
Annual Inflation Rate	7.1	8.0

Aid Group Mtg: None
Last Meeting: n/a
IMF Status as of August 1988: Article IV consultation planned for end October 1988; 1 year Stand-by approved 10/86, expired 11/87. No EFF or other lending planned.

Background: China's market-oriented reforms are proceeding, despite rising inflation and some reported hoarding in anticipation of a devaluation of the Renminbi. Experiments in land, price and market reforms, supported in some areas by the recently-approved Rural Sector Adjustment Loan, continue with success. Enterprise reforms are beginning in urban areas, with some emphasis on establishing the framework for the enterprises to function efficiently.

Issues likely to be raised by Delegation:

We have been advised by the Ministry of Finance that the delegation has no particular issues to raise; however, China is becoming more interested in more sector and policy-based lending, a subject that may come up.

Issues to be raised by Bank Management:

1. Macroeconomic situation.
2. Need for sound management of external debt and up-to-date reporting.
3. Better management of the Bank's portfolio.

Attachments:
Five-Year Lending Program (FY88 actual)
Biographical Information

China

Mr. K:

I thought the following four points, underscored by Vice Minister Xiang Huaicheng in his meeting with you this afternoon, may be of interest to Messrs. Conable and Qureshi:

- There is a great flurry of political activity in Beijing these days - the enlarged Politburo met in August, the State Council in September and the 3rd Plenary of the Central Committee of the 13th Party Congress is in session now. The senior party leaders have decided to go ahead with price and wage reforms -"there won't be any turning back on that", said Minister Xiang - but not at the expense of accelerating inflation. The leaders will attempt to bring inflation down to 10-11 % per year compared to 15 % in the first eight months of 1988.

- The senior leaders greatly value the econonmic work done in recent years by the Bank and look forward to the contribution it can make in the area of price, enterprise and social security reform.

- The work on formulating a three year rolling lending program begun after Mr. Conables' visit to China this year should help to stabilize the rate of growth in Bank's lending.

- China is aware of the importance of portfolio management and accept the Bank's view that one way of curbing inflation is to complete on-going projects. Issues pertaining to the lending program and implementation of Bank financed projects will be taken up during Mr. K's forthcoming visit to China.

Javed Burki
Sept. 24, 1988

Meeting: 09/29 at 18:30

COUNTRY: **CHINA**

DELEGATION: Mr. Wang Bingqian, Minister of Finance
Mr. Xiang, Vice Minister of Finance
Mr. Wang Liansheng, Ext. Finance Dept., Ministry of Finance

You may start by acknowledging the complexity of the inflation issue, and by emphasizing that the resolution of this issue should not be at the cost of economic reforms, particularly price reform, implemented to date. You should stress that careful fiscal and monetary policies should be used instead of administrative constraints. You may mention that the Bank is working on macro management issues and looks forward to high level discussions later this year. You may ask what is the status of economic reform, and the pace and priorities of the Government, particularly in price reform.

You may then wish to ask and emphasize the following points:

(a) Rapid growth of Bank/IDA portfolio and increasing number of benefitting agencies require continuous review of project implementation and improvement of technical assistance effectiveness. You may underline importance of Country Implementation Review to be held in Beijing at the end of October.

(b) After acknowledging receipt of summary 1987 debt data, you may wish to ask what is the status of China's external debt management and monitoring capacity. You may mention need to strengthen such capacity and Bank readiness to provide assistance.

(c) You may express concern over the slow disbursements of our growing portfolio. Appropriate steps should be taken to speed procurement decisions and signing and effectiveness.

FY88 Commitments: $ 1.7 billion
Disbursements : $ .7 billion
Amortization : $ .1 billion

GDP Growth: 7.6% (88) 10.9%/yr. (83-87)
Lending Program (FY88-92): $ 11 billion

CHINA

1988 ANNUAL MEETINGS

UPDATE

Change in Delegation Composition

1. Vice Minister of Finance XIANG Huai Cheng will replace Senior Vice Minister Chi Haibin as second-ranking member of the delegation. Since the Central Committee of the Party will hold an important meeting on the economic situation during Minister Wang's absence at the Annual Meetings, it was decided that his second-in-command, Senior Vice Minister Chi, should remain in Beijing rather than travel to Berlin with the Minister. Vice Minister Xiang is around 45, from Heilonjiang, and has had contacts with the Bank in the past, generally through the EDI program in economic management.

External Debt

2. On September 15 we received the attached summary data on 1987 commitments, with the undertaking to supply the required detailed forms to the Bank by end-October. This would satisfy China's reporting obligations to the Bank. Senior managment might wish to thank the delegation for this debt data, while continuing to underline the need to strengthen debt monitoring and reporting, not only so that China would be able to comply on a regular basis with their reporting obligations to the Bank, but also so that it would have better management of its foreign borrowings.

Disbursements

3. We remain concerned over the slow disbursements on our growing portfolion. We hope that MOF and project implementing agencies will take appropriate steps to speed procurement decisions, and, further upstream, move more quickly to signing and effectiveness.

AS3CO
September 16, 1988

446/2

Mr. David Pearce, Deputy
Chief of Resident Mission,

Beijing, China
September 15, 1988

Dear Mr. Pearce,

I take pleawure in informing you that for the convenience of the Annual Conference of World Bank and IMF, now we first present to you a simple table of our national indebtedness by the end of 1987.

As for the whole set of the complete form , we shall send to you by the end of October according to our decision.

Herein is the simple table .

Best Regards.

Yours Sincerely

梅家謨

Mei Jiamuo
Division Chief of
Debt Management of
the General Planning
Department

FROM IBRD BEIJING 09/16/88 18:41 P. 3

National External Indebtness by the End of 1987

type of credit / type of borrower	government or public agency	international organization	private or other financial institutions	export	bond	others	total
central government	357,824.13	263,922.58	3,110.45		17,889.00	96,244.00	738,990.16
local government			9,636.36				9,636.36
central bank		110,033.58					110,033.58
official development bank	143,747.37		571,904.31		398,929.27	477,337.99	1,591,918.94
mixed enterprise	85.16		94,979.97	13,799.33		13,294.86	122,159.32
public corporation			120,395.50	77,603.23		246,788.42	444,787.15
others			1,083.08	1,393.51		461.06	2,937.65
total	501,656.66	373,956.16	801,109.67	92,796.07	416,818.27	834,126.33	3,020,463.16

Note,Natonal Balance of External Indebtedness by the end of 1987 is 30.2 bittion U.S.dottars, of which long term indetedness is 24.48 billion; short term indebtedness is 5.72 bittion U.S.dottars.New borrowing in 1987 is 9.21 billion U.S.dottars.

5/936

1988 ANNUAL MEETINGS BRIEF

CHINA September 25, 1988

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Chi Haibin, Senior Vice Minister of Finance
Wang Liansheng, Director, External Finance Department, Ministry of Finance

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	US$ million
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Last Meeting: n/a
IMF Status as of August 1988: Article IV consultation planned for end October 1988; 1 year Stand-by approved 10/86, expired 11/87. No EFF or other lending planned.

Background: China's market-oriented reforms are proceeding, despite rising inflation and some reported hoarding in anticipation of a devaluation of the Renminbi. Experiments in land, price and market reforms, supported in some areas by the recently-approved Rural Sector Adjustment Loan, continue with success. Enterprise reforms are beginning in urban areas, with some emphasis on establishing the framework for the enterprises to function efficiently.

Issues likely to be raised by Delegation:

We have been advised by the Ministry of Finance that the delegation has no particular issues to raise; however, China is becoming more interested in more sector and policy-based lending, a subject that may come up.

Issues to be raised by Bank Management:

1. Macroeconomic situation.
2. Need for sound management of external debt and up-to-date reporting.
3. Better management of the Bank's portfolio.

Attachments:
Five-Year Lending Program (FY88 actual)
Biographical Information

1. **Background.** Over the medium-term, we expect China to continue a high rate of GDP growth, around 7-8 percent annually, with exports rising at around 8 percent. To maintain such growth, efforts to promote exports of agricultural products, textiles and machinery will have to be successful. Continuing reforms in the external sector, and especially the gradual shift from import licensing toward use of the exchange rate and demand management policies, are expected to lead to increased imports. After a bigger initial increase, imports are therefore projected to grow at slightly more than 10 percent annually, split between increased imports of capital goods essential for China's modernization program, and additional consumer goods. A small but sustainable current account deficit is likely to persist. Appropriate interest rate and credit policies are expected to contribute to a modest fall in investment from 39 percent of GDP to 36 percent, while the increased supply of domestic and imported consumer goods will lead to a decline in gross domestic savings from 39 to 34 percent of GDP. This outlook is consistent with China's stated external borrowing policy, under which China intends to borrow US$5-7 billion annually.

2. For a country that had become accustomed to virtually stable prices but which still harbors memories of a damaging hyperinflation during the 1940s, recent trends have aroused public concern, renewed qualms over reforms and ignited a considerable debate over causes. Preliminary analysis suggests that high aggregate investment outlay generated by enterprises subject to soft budget constraints, has been reinforced by the surge in consumer demand traceable to indexed urban incomes and rapidly expanding household savings balances. As total credit has grown at the average annual rate of over 30 percent for the past 28 months, there is now probably an excess of liquidity in the system. The situation has not been helped by relative scarcity of meat and vegetables and some consumer durables, and shifting consumer expectations that are beginning to induce spending. The leadership's response in 1987 was to put on hold proposed major price adjustments and restrict growth of M2 in the second half of the year. The former was detrimental to overall reform and the latter created problems for enterprises, now highly dependent on bank credit for their working capital.

3. As the costs of slower industrial growth are clearly seen to be higher than the pain inflicted by moderate inflation, the Chinese leadership once again loosened the credit strings in the first quarter of 1988 and has resumed price reforms. Prices of certain food items have been raised in some cities with the intention of introducing countrywide changes in coming months. Simultaneously, agricultural subsidies are being withdrawn, but income supplements to households will leave budgetary costs undiminished. If investment spending buttressed by credit availability proceeds unchecked and price adjustments combined with compensating payments to wage earners are gradually introduced, inflation might well accelerate further. Recently there has been growing speculation over devaluation and further price decontrol, leading to reports in the international press of runs on shops and banks.

Issues likely to be raised by the Delegation

We have been advised by the Ministry of Finance that the delegation has no particular issues to raise.

Issues to be raised by Bank Management

4. **Macroeconomic management.** You may wish to inquire about the status of economic reform and what pace and priorities the Government has set for its program over the coming year, in particular on price reform. You could also note some of the emerging difficulties, described above, which are giving rise to increasing complexity, and underline the importance of careful and well-coordinated macroeconomic management. Our on-going economic work addresses many of these topics, including fiscal and monetary policy, tax management and inflation. You might indicate that we look forward to high level discussions once the reports are ready later this year.

5. **External Debt.** You may wish to inquire about the status of arrangements to manage and monitor China's external debt. You should indicate that we stand prepared to provide technical assistance for debt management through on-going projects, not only to help improve the timeliness and coverage of information provided to the Bank (so as not to delay the approval and signing of new operations) but also to help the agencies responsible maintain a better overview of borrowing by provincial bodies and other residents. For background, we understand that debate continues at the highest levels of government over the share of responsibilities between Ministry of Finance and People's Bank.

6. **Portfolio Management**. The recent rapid growth of the Bank/IDA portfolio and the proliferation of benefitting agencies, some of them inexperienced in Bank procedures and procurement rules, reinforce the need for more continuous review of project implementation. In addition to project-specific issues of procurement and disbursement performance, we plan to devote more attention to improving the use and effectiveness of consultants and other technical assistance activities. You might underline the importance we are attaching to the Country Implementation Review, high level meetings to be held in Beijing October 26 to 28.

CHINA: FY89-93
FIVE-YEAR LENDING PROGRAM

(US$ Million)

AGRICULTURE	FY88	FY89	FY90	FY91	FY92
1 Northern Irrig.	103				
2 Coastal Dev	100				
3 Rural Credit III	170				
4 Daxing An Ling For.	57				
5 Rural Sector Adj. Ln	300				
6 Shaanxi Prov. Agr.		106			
7 Shandong Agri. Dev		115			
8 Middle Yangtze			75		
9 Rural Sec. Adj. II			300		
10 (S) Jiangxi Agr Dev			75		
11 (S) Rural Cr. IV				200	
12 Agr. Sup. Serv.				106	
13 (S) Costal II				140	
14 (S) Fores. Sect. I				110	
15 (S) Hebei Agri				100	
16 Yellow River Basin					150
17 Xinjiang Irrig.					120
18 Rural Sec. Adj. III					300
19 Sichuan Agr Dev.					121
SUBTOTAL AGRICULTURE	730	221	450	656	691
No. of Projects	5	2	3	5	4

INDUSTRIAL & FINANCE	FY88	FY89	FY90	FY91	FY92
1 Pharmaceuticals	127				
2 Phosphate I	63				
3 CIB V		400			
4 Tianjin Light Ind		156			
5 Rural Ind Tech		111			
6 Phosphate II (Hubei)		137			
7 Shanghai Prov.			150		
8 Yunnan Ind. Sect.			120		
9 (S) Jiangsu Prov			125		
10 Fin. Sec. Dev. I			250		
11 Tianjin II				175	
12 Petrochemicals				125	
13 Rur. Ind. Tech II				175	
14 CIB VI					400
15 Jiangsu II					150
16 (S) Shanghai II					150
SUBTOTAL IND.& FIN.	190	804	645	475	700
No. of Projects	2	4	4	3	3

TRANSPORT & ENERGY	FY88	FY89	FY90	FY91	FY92
1 Huangpu Port	88				
2 Dalian Port	96				
3 Hwy III-Sichuan	125				
4 Railway IV	200				
5 Hwy IV-Shaanxi	50				
6 Beilungang II	165				
7 N,X & S Ports		133			
8 Jiangsu Multimodal		150			
9 Hwy V-Shandong		120			
10 Hwy VI-Jiangxi		62			
11 Rwy-Inner Mongol		150			
12 Yanshi Thermal		151			
13 (S) Railway V			200		
14 Ertan Hydro			246		
15 N. China Thermal			200		
16 Daguangba-Hainan			50		
17 Shanghai Port				180	
18 Longtan Hydro				275	
19 (S) Rwy VI				250	
20 Jiangsu Tr.				130	
21 Shuikou II				175	
22 Inland Waterways					150
23 (S) Ertan II					200
24 Power Distr.					150
25 Hwys. VII					200
26 Rwys VII					175
SUBTOTAL TRANSP & ENE.	724	766	696	1,010	875
No. of Projects	6	6	4	5	5

SOCIAL SECTORS	FY88	FY89	FY90	FY91	FY92
1 Teacher Training	50				
2 Integr. Health		110			
3 Textbook Dev.		55			
4 (S) Tech. Educ.			50		
5 Liaoning Urban			180		
6 (S) Med-Size Cities			120		
7 Shanghai Transp.			93		
8 (S) Zhejiang Multi				120	
9 (S) Key Studies				100	
10 (S) Tianjin Urban				100	
11 (S) Voc. Educ.					100
12 Beijing Water					150
13 (S) Mgmt. Educ.					100
14 (S) Rur. Health					100
SUBTOTAL SOC. SECTORS	50	165	443	320	450
No. of Projects	1	2	4	3	4

	FY88	FY89	FY90	FY91	FY92	5yr TOT
TOTAL ALL SECTORS	1,694	1,956	2,234	2,461	2,716	11,061
of which IBRD	1,053	1,319	1,546	1,625	1,825	7,143
of which IDA	640	637	688	836	891	3,826

08/30/88
AS3CO

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

WANG Bingqian - Minister of Finance (Minister Wang)
CHI Haibin - Senior Vice Minister of Finance
WANG Liansheng - Director, World Bank Operations Department, Ministry of Finance (Director Wang)

Biographical Sketches

WANG Bingqian: Born in 1925 in Hebei Province. From 1949-62 he held a variety of managerial posts in the Minstry of Finance. Following the Cultural Revolution, he was appointed Vice Minister of Finance and since 1980 has been Minister. He met with Messrs. Conable and Qureshi during their respective visits to China in March/April 1988 and September 1987.

CHI Haibin: Mr. Chi has been Vice Minister of Finance since 1982. In 1984, he was appointed council member of the People's Bank of China and deputy head of the State Council's Leading Group for General Survey in China's Industry. Since 1985, he has been Managing Director of People's Bank.

WANG Liansheng: Born in 1931 in Hebei Province. Following his assignment as the World Bank's Executive Director for China from 1980 to 1984, Mr. Wang was appointed Director of the External Finance Department of the Ministry of Finance (MOF). In the recent Government reorganization, Mr. Wang was selected to be Director of MOF's World Bank Operations Department.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 00/00/00 DUE DATE : 00/00/00
LOG NUMBER : 880831004 FROM : S. Burki (thru AK)
SUBJECT : CHINA: Brief for mtg. with Zhejiang Province, Mr. Shen Zulun on Thursday, September 1 at 5:00 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :M. Haug, J. Volk (FF)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 31, 1988

TO: Mr. Barber B. Conable

THROUGH: Mr. Attila Karaosmanoglu AK.

FROM: Shahid Javed Burki SJB.

EXTENSION: 72571

SUBJECT: CHINA: Visit of Governor of Zhejiang Province, Mr. Shen Zulun

1. You have agreed to receive Mr. Shen Zulun, Governor of Zhejiang Province, on September 1 at 5:00 p.m. Governor Shen wishes to present a small gift to the World Bank, probably an embroidered handicraft for which Zhejiang is well known, on behalf of the People's Republic of China.

2. Around 55 years old, Governor Shen has had a career of over 30 years in the provincial administration. After one year as acting Governor, last spring's National People's Congress elected him Governor of the province. Bank staff contacts with him during preparation of the recently-approved Coastal Lands Development Project (agriculture) and the Zhejiang Multi-Cities Project (urban) on which preparation is proceeding, have demonstrated his dynamism and enthusiasm for working with the Bank. He is likely to ask for expanded contacts to this prosperous coastal province, including possibly provincial lending. Should this request be made, you might indicate that we would be prepared to expand the candidates for provincial lending at the request of the Ministry of Finance, once we have evaluated the experience with this instrument in Shanghai and Jiangsu, where we expect to complete processing of the first provincial operations during CY89.

3. For background, we understand that Mr. Xu Naijiong will become an advisor to Governor Shen on his return to China in the fall when he relinquishes his duties as China's Executive Director.

cc: Mr. Qureshi
Ms. Haug

PMCadario:pmc

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

8/16 Mr. Tanaka: Josue - could you handle? Thanks

DATE: August 15, 1988

TO: Mr. Sven Burmester, Deputy Secretary

FROM: Zhang Junyi, Alternate Executive Director

Zhang Junyi

EXTENSION: 76693

SUBJECT: Arrangements for Presentation of Gift to the World Bank from Mr. Shen Zulun, Governor of Zhejiang Province, China

Mr. Shen Zulun, Governor of Zhejiang Province, China, will visit the World Bank on Thursday, September 1, 1988 and would like to present a gift to the World Bank. It would be very much appreciated if your department could kindly arrange a time for Mr. Shen to meet with either Mr. Conable or Mr. Qureshi on the afternoon of September 1 to present the gift. It would also be much appreciated if you could arrange a photographer to take pictures.

5pm. on 9/1

(2) Mr. Conable E-1227 JMS (for info)
(1) ~~IMF~~
(3) IMF file 5

WORLD BANK
INTEROFFICE MEMORANDUM

DATE: September 26, 1988

TO: Memorandum for the Record

FROM: Shahid Javed Burki, AS3DR

SUBJECT: CHINA - Delegation Meeting with Mr. Conable
September 25, 1988: West Berlin

1. The Chinese delegation to the Annual Meetings led by Finance Minister Wang Bingqian met Mr. Conable on September 25, 1988 at 6:30 p.m. The delegation included Messrs.

Xiang Huaicheng, Vice Minister of Finance
Wang Liansheng, Director, World Bank Operations Dept., Ministry of Finance
Xu Naijiong, World Bank Executive Director
Zhang Junyi, World Bank Alternate Executive Director
Jin Xiangyun, Adviser to the ED, World Bank
Zhang Shengman, Ministry of Finance
Jin Ligun, Ministry of Finance

Mr. Conable was assisted by Messrs. Karaosmanoglu, Fischer, Burki, Vergin and Ms. Haug.

2. After welcoming the Chinese delegation to Berlin and to the Annual Meetings, Mr. Conable went on to say that:

- He was confident that the senior leaders of China will press on with their reform program which had already borne significant results. He is aware of the leadership's concern with a sharp increase in inflation but expects that good macro-economic management would help the country tide over this problem.

- He was very pleased with the World Bank's program in China and looks forward to a further strengthening of relations with the country. "It is exciting to be associated with China and its reform efforts," he said.

- He expected that Mr. Karaosmanoglu's forthcoming visit to China would result in the development of medium-term lending, economic and technical assistance programs. The work on these programs has already begun at the staff level. He also expects that the Country Implementation Review to be held in Beijing in early November, and in which Mr. Karaosmanoglu will participate, will help to resolve some of the project implementation problems which have now begun to beset the Bank's China portfolio. He hoped that the government's decision to reduce the level of investment would not slow down disbursements from the World Bank.

6

- He wanted to be briefed about the status of the external debt management review that had been initiated as a part of administrative reforms.

3. In responding to Mr. Conable's comments and questions, Minister Wang made the following observations:

- He said that shortly before leaving Beijing, he had met with Messrs. Li Peng and Yao Yilin who had asked him to carry their warm greetings to Mr. Conable. Both leaders look forward to an even deeper association with the Bank and would like to obtain more financial and technical assistance from the institution.

- He said that the recently concluded meeting of the Party Central Committee had decided to press ahead with price and enterprise reform while curbing excess demand. The present rate of growth is recognized to be excessive (estimated at 15-16 % for 1988). The leadership goal is to bring it down to a rate of 7-8 % per year. There will be a cut in investments in non-productive projects. Whatever actions are taken will not affect Chinese relations with the World Bank, however.

- He said that the question of appropriate debt management was still under review. The main objective is to curtail decentralized borrowing and to exert greater central control over the utilisation of borrowed resources.

- He expressed the hope that China would continue to recieve a fair share in IDA during the ninth replenishment period.

- He, finally, requested for World Bank's assistance in improving macro-economic management in China. "We have undertaken many reforms at the micro-level the impact of which we would like to understand and control at the macro-level", he said.

4. Mr. Conable concluded the meeting by saying that China's share in the ninth replenishment of IDA would be determined by consultations between donors which were beginning informally at the Berlin meetings. He said that the Bank would be happy to assist China in improving its macro-economic management. He suggested that Mr. Stanley Fischer, who was to visit China after the conclusion of Mr. Karaosmanoglu's mission, should hold discussions in Beijing on macroeconomic management.

cc: Mr. Conable's Office
Messrs. Qureshi, Karaosmanoglu, Fischer, Vergin
Yenal, Wiehen, Gouveia, Kikuchi, Sison
Mss. Haug, Schaeffer
China Management Group

THE WORLD BANK

May 2, 1988

Mr. Conable:

Please see Javed's and Attila's notes. I have also discussed this issue with Mr. Xu. Despite noting your statement, he said that he had briefed the Chinese authorities that there had been no change in the Bank's position re allocations to China, namely that in FY90 China would come very close to India. He understands that India would be very slightly ahead and that the issue can be taken up again in IDA9.

MOEEN A. QURESHI
Senior Vice President, Operations

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr. Conable
Please see Javed's notes. I have also discussed this issue with Mr. Xu. Despite noting your statement, he said that he had briefed the Chinese authorities that there had been no change in the Bank's position re allocations to China, namely that in FY 9. China would come very close to India. He understands that India would be very slightly ahead. and that the issue can be taken up again in IDA 9. OMA 5/2

Date: April 11, 1988

To: Mr. Moeen Qureshi

From: Shahid Javed Burki, AS3DR

Ext: 72571

Subject: IDA Allocation to China

This is in response to your question about Mr. Conable's discussion with the Beijing authorities regarding IDA allocation. Mr. Conable mentioned a few times that it is our intention to have China become the major recipient of IDA resources. This statement was fully in line with the position that you and I have taken with the Chinese which is that allocation to China will be close but not equal to that of India by the end of the current replenishment period. It is not the expectation of the Chinese that they will draw parallel to India during the 8th replenishment period. When Mr. Conable made these statements it did not occur to me that a different interpretation could be drawn from them. I have rechecked again with the Chinese about their expectation and it still remains that they will get close to India in terms of the proportion of IDA allocated to them but that their share will not be exactly equal to that of India. Mr. Conable's statement did not change their expectation.

cc: Mr. Karaosmanoglu (o/r)

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SVPOP

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1. 2.

April 8, 1988

Mr. Qureshi:

I have been asked to comment on Mr. Conrow's letter on IDA 8 allocations between India and China.

You will remember that when I complained in a recent meeting that I was not consulted on the allocation of IDA funds between India and China you sympathized with my complaint but reminded me that the final decision on the allocation would be made by Mr. Conable.

I now see that Mr. Conable made that decision and announced to the Chinese in his meeting with Vice Premier Yao Yilin. According to David Pearce memo to files dated April 4, 1988: "Regarding IDA specifically, Mr. Conable said that China would be its largest recipient by 1990." In the light of this statement the issue seems to have been closed. In any case the differentials involved as a ratio to capital flows to both countries or in relation to the total outstanding undisbursed IDA funds are so small that the whole question has only a symbolic value. Below are some tables which show the IDA allocations between India and China.

Table I

IDA 7 FY85-87 Actual
(SDR million)

China	%	India	%	Total IDA
1,300	14.8	1,838	21.0	8,768

Table II

IDA 8 FY88-90
(SDR million)

	China	%	India	%	Total IDA VIII Assumption
88	465	14.5	535	16.7	3,200
89	490	13.6	575	16.0	3,600
90	575	14.7	585	15.0	3,900
Total IDA 8 Allocation*	1530	14.3	1695	15.8	10,700

* Agreed with SVPOP 11/87

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SVPOP

Table III

IDA 8 China/India Proportions

	Total IDA 8 China + India (SDR million)	% of which China	India
FY88	1,000	46.5	53.5
FY89	1,065	46.0	54.0
FY90	1,160	49.6	50.4
Total IDA 8	3,225	47.4	52.6
IDA 7	3,138	41.4	58.6

You might also find relevant the following information:

IDA Committed and Undisbursed
As of December 31, 1987 ($ m)

India	5,010.15
China	1,494.69

AK.

Attila Karaosmanoglu

88040701 1.

DEPARTMENT OF THE TREASURY
WASHINGTON

April 6, 1988

Dear Moeen:

I have recently reviewed the status of IDA VIII operations and would like to commend the Bank's on-going efforts to allocate 50 percent of IDA VIII resources to Sub-Saharan Africa. This is clearly a priority concern and the IDA financing, together with other components of the Special Program of Assistance for low-income countries, will hopefully play a decisive role in getting reforming African countries back on a sustainable growth path.

I am concerned, however, at the division of the IDA VIII allocation between India and China, specifically the apparent movement towards parity. Our preliminary projections for FY 1988 indicate a 16.7 percent share for India and a 14.5 percent for China; an allocation which would suggest that India is bearing a disproportionate amount of the reduction in the combined shares of the two countries. If this trend were to continue, parity between the two borrowers could be achieved as early as FY 1990.

Although IDA Deputies did not specify the individual country allocations for India and China, we believe there was an implicit understanding that India should continue to receive more IDA resources than China. The October 1985 Mid-Term Review stated that changes in India and China allocations should be "modest" and "gradual"; also the IDA VIII report emphasized the importance of "individual country circumstances." In my discussions during the IDA VIII meeting, I found broad agreement with the United States' position that on a comparative basis of both poverty and creditworthiness standards, India should continue to receive a larger share of IDA resources than China.

I would be grateful if you give this matter your serious attention and clarify how you see the issue evolving.

Sincerely,

James W. Conrow
Deputy Assistant Secretary
(Developing Nations)

Mr. Moeen Qureshi
Senior Vice President
International Bank for Reconstruction
and Development
Washington, D.C. 20433

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SVPOP

COPY

April 28, 1988

Dear Professor Chen:

Thank you for your letter of April 7th, expressing appreciation for the World Bank's sponsorship of the Talloires meeting of The Task Force for Child Survival. We in turn are appreciative of your endorsement in principle of the draft Talloires Declaration.

China's own record of achievement in improving child survival has set an important example for the rest of the world to emulate and, therefore, your support for the Talloires Declaration is especially significant. It is our privilege to work jointly with you for better child health globally.

With warm regards,

Sincerely,

(Signed) Barber B. Conable

Professor Chen Minzhang
Minister of Public Health
Beijing
People's Republic of China

Cleared with and cc: Messrs. Hopper, Rajagopalan (SVPPR)

cc: Mrs. Hamilton
Messrs. Jamison, Liese, Measham

HBarnum/am

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

April 28, 1988

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With warm regards,

Sincerely,

Barber Conable

Professor Chen Minzhang
Minister of Public Health
Beijing
People's Republic of China

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

(2) Mr. Conable cc: Mrs. Conable
(1) MH
(3) CP - file

Date: April 5, 1988

To: Mr. Attila Karaosmanoglu, Vice President, ASI

From: Shahid Javed Burki, AS3DR SJB

Ext: 72571

Subject: **Mr. Conable's Visit to China, March 23-30, 1988**

While in Beijing, Mr. Conable met with three of the five members of the Standing Committee of China's Politburo (Messrs. Zhao Ziyang, Secretary General of the Party; Li Peng, Prime Minister; Yao Yilin, Deputy Prime Minister and Chairman of the State Planning Commission); with Li Tieying, Chairman of the Systems Reform Commission and the youngest member of the Politburo; with Finance Minister Wang Bingqian, with Zhu Rongji, Mayor of Shanghai; and with Jia Zhijie, the Governor of Gansu. He and his party then travelled to Xian, Shaanxi where Mr. Conable met with the Vice Governor of the province. Lanzhou, Gansu was the next stop where Mr. and Mrs. Conable saw the implementation of the World Bank's Provincial Development Project. In Lanzhou, there was a wide-ranging discussion with the Party Secretary and two Vice Governors of the Province. At Wuxi in Jiangsu province, the Conables visited a township and saw small factories, schools and farmers houses. The Bank's growing program in the province was discussed with the Vice Governor of Jiangsu and Mayor of Wuxi. In Shanghai, the Conables saw the Suzhou Creek which is being treated under the Bank's Sewerage Project. They also visited a section of the city that is earmarked for a possible housing project. In addition, the Conables visited a township, outside the city proper, which they had seen in 1979 when it was a commune. This site visit in particular provided the Conables with a sense of change in China since their last visit in 1981. There were discussions with the Shanghai officials on the use of resources being provided by the Bank in the form of a three-year provincial development loan. Mr. Conable's last day in China took him to Guangzhou, where he met with the Vice Governor of Guangdong and to Shenzhen where there was a brief meeting with the Deputy Mayor.

This memorandum focuses on three subjects:

- a brief overview of how China's senior leaders see the evolution of the Chinese economy;
- a brief assessment of the senior leaders' view of the World Bank's work in China; and
- the actions we are required to take as a result of the visit.

I. Chinese economic prospects:

Mr. Conable held more than ten hours of discussions with the senior leaders of China. The following are some of the impressions gathered from the meetings.

The role of reforms in China's economic development: Contrary to the conclusions reached by a number of recent articles in the western press, we got the impression of total consensus among China's top leadership about the direction and pace of reform. "Deepening of reforms and emancipation of our minds are the basic objectives of 1988," said Finance Minister Wang. The reform effort will affect the following areas:

- Improvements in fiscal management and constraint on government expenditure to reduce budgetary deficits. Rationalization of tax rates will ensure the same incidence of taxation for all enterprises -- government owned, foreign or privately owned.

- Greater role for the market and expansion in the role of the private sector. Labor, technology, real estate and housing are some of the sectors to be so affected.

- For the financial year beginning January 1, 1988, "aggregate supply will be increased but growth in consumption and investment will be kept in check in order to provide a better macro-economic balance," according to Wang.

The problem of inflation: The Chinese leaders showed concern about inflation, some of which was suppressed and therefore not fully reflected in official statistics. However, in the words of Secretary General Zhao Ziyang, "we are prepared to tolerate even double digit inflation as long as rapid growth can be sustained." Zhao requested the Bank to undertake analytical work that would help China to reconcile growth and inflation.

Coastal regions as the engines of growth: China is abandoning the balanced growth approach of recent years in favor of a big push to come from the coastal regions. The regions will not only bring China into the modern world but will also pull up the poorer parts of the country. Once again, Secretary General Zhao sought the Bank's help in developing the coastal areas and requested that the Bank explore the possibility of a policy-based loan for promotion of exports.

Future prospects: The Chinese leaders are confident that a 7-8 percent annual growth rate can be sustained in their economy through the year 2000. They regard the agenda of reforms announced at the 13th Party Congress and the administrative changes introduced by the 7th National People's Congress as having set the stage for the progressive modernization of the country's economy.

II. The Bank's role in China:

The subject of the Bank's role in China was covered at length by Prime Minister Li Peng. He made the following points:

- The Bank is well known in China and has a reputation for doing high quality projects and economic work.
- Projects by the Bank have been successful because they were prepared with great care. "They took time but then their execution was smooth."
- The Bank could also assist in providing training and managerial expertise to the new investment corporations that were being set up. The Bank could support development of Chinese civil servants and public sector managers by providing fixed-term employment.
- China needs external resources for undertaking "socialist reconstruction". The Bank can assist in making available such resources.
- One important pre-requisite for opening to the outside world is to obtain new technology and management practices. Once again, the Bank can help.
- China will put special emphasis on the development of agriculture, water conservation, irrigation, energy and transport infrastructure. The Bank could assist in these sectors.

The question of the volume of Bank lending was raised in most meetings. In the meeting with Zhao, Mr. Conable indicated that the Bank was gearing itself to achieve $12 billion of lending over the next five years. The Secretary General responded by saying he had all along been in favor of a rapid increase in Bank lending "but his friends in the bureaucracy had proved to be such chickens".

III. Actions required:

The Conable visit resulted in a number of informal agreements which will require actions by the Bank. They include the following:

- The Bank will prepare a three-year rolling lending program to be discussed with the Chinese authorities in October/November 1988. The first iteration of the program will be for the period FY89-91. The Bank will prepare a paper suggesting the sectors in which it would want to concentrate its resources, the projects it would like to finance, the instruments of

lending it would use, and the type of technical assistance it could provide. The rolling plan will be linked directly with the 8th Five Year Plan.

- The IBRD/IDA blend in our lending will harden over the three year period to reach 70:30 by FY91.

- The Bank will examine the possibility of lending for the development of several important sectors and sub-sectors. Forestry, irrigation and export development are some of the possible candidates.

- The Bank will begin work on a series of development loans for Jiangsu province and Shanghai municipality. The total amount of these two series is expected to be $1.2 billion over three years. The series will address requirements in the urban development and industry sectors. Projects to be financed by the two loans will be within sectoral priorities to be agreed between the Bank and the provincial authorities. It was the Bank's expectation that in FY89 it will finance infrastructure projects in Jiangsu and undertake industrial modernization in Shanghai.

- As follow-up to on-going work in Gansu province, the Bank will consider financing the development of irrigation in the Hexi corridor.

- The Bank will prepare a study on the development problems and prospects of another poor province (perhaps Guizhou) in China. The methodology to be followed will be the one used for the Gansu provincial study.

- The Bank's ESW for CY89 will include a study of Jiangsu province's development prospects.

- The Bank will propose a study on poverty alleviation in Guangdong province in the three-year ESW program to be discussed later this year.

- The Bank was hoping to increase both career and fixed-term employees from China and, in this context, its Vice President, Personnel planned to visit China later in the year.

Attached are the detailed notes on Mr. Conable's meetings in Beijing.

Attachments

cc: Mr. Conable
Mesdames Conable, Haug
Messrs. Qureshi, Vergin, Dubey, Ducksoo Lee
Messrs. Alisbah, Asanuma, Cheetham, Kaji, Golan, Wiehen, Yenal, Kabir Ahmed (o/r)
Messrs. Merghoub, Ecevit, Goldberg, Montfort, Stern, Tidrick, D. Ahmad
Messrs. Lim, Pearce, RMC

SJBurki:fvf

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 4, 1988

TO Files

FROM David Pearce, AS3CH

EXTENSION

SUBJECT Mr. Conable's Meeting with Minister Wang Bingqian

1. Mr. Conable met with Mr. Wang Bingqian, Minister of Finance at 9:00 a.m. on Thursday, March 24, 1988 at the Great Hall of the People, Beijing. There were present: Messrs. Li Peng, Vice Minister, MOF; Gan Ziyu, Vice Chairman, SPC; Wang Liansheng, Director, External Finance, MOF; Liu Zhentao, Deputy Director, External Loans Bureau, SPC; Xu Naijiong, Executive Director, IBRD; and, accompanying Mr. Conable, Messrs. Burki, Lim, Nicholas and Pearce.

2. Referring to the major changes that had taken place in China since his two previous trips in 1979 and 1981, Mr. Conable outlined the main purposes of his first visit as World Bank President. The Bank was proud to be associated with China's development and reform efforts and hoped that their already fine partnership would become even more rewarding in the future.

3. Minister Wang, welcoming Mr. Conable, said that China's economic and social development in 1987 had been generally satisfactory. Its main economic performance targets had been achieved, indeed some (e.g. industrial output, retail sales and foreign trade) had been exceeded. GNP, at Y1,092 billion, had increased by 9.4% over 1986, with the output value of agriculture and industry (excluding village rural industries) up by 4.7% and 14.6% respectively. Retail sales had expanded by 9.6% in real terms and the foreign trade deficit had declined significantly from over $12 billion to $3.7 billion on total volume of $83 billion (up 12%). The budget deficit had been reduced by keeping the growth of expenditures to 3%, compared to over 20% the previous year. Fixed asset investment, at Y352 billion, had increased 16.5% - about the same as in 1986, but lower than in 1985. There had been progress with enterprise, financial sector and materials allocation reforms; for example, the proportion of steel, cement and timber allocated under the unified plan had been reduced further. In short, the economy's performance had been good, although China's overall economic situation remained stringent. The principal problem was inflation, an issue that would doubtless be discussed at the National People's Congress (NPC) commencing the next day. Retail prices had increased 7.3%, of which about two-thirds was accounted for by basic food items, e.g. pork, poultry and eggs (+ 16.5%) and vegetables (+ 17.7%). The authorities were considering measures to minimise the impact of inflation on basic living standards, e.g. consumer subsidies linked to the retail price index. They realized that the old methods

(administered prices) would not work and that solutions would have to be found through the use of market instruments, based on the laws of supply and demand.

4. Turning to the annual budget and plan to be presented to the NPC, Minister Wang said that the Government's priority in 1988 was to implement the decisions of the 13th Party Congress. Thus, the goal of accelerating and deepening the reform process would guide its work. Specific policy objectives were to increase supply, control excessive investment, and contain consumption. Macroeconomic growth targets for 1988 included: GNP + 7.5%, with the output value of agriculture and industry increasing by 4% and 8% respectively; retail sales and foreign trade were both planned to grow by about 13%. Fixed asset investment, at Y320 billion, would be about 10% less than last year, of which state-owned enterprises would account for about Y220 billion. State revenues were estimated at Y243 billion (Y224 billion in 1987) and state expenditures at Y251 billion (Y232 billion in 1987); the Y8 billion deficit would, as last year, be financed by treasury bonds, of which Y9 billion were planned to be issued (Y6 billion in 1987). Specific reform objectives in 1988, in addition to enterprise management, included the reorganization of the planning and investment, materials allocation, fiscal, housing and foreign trade systems.

5. Regarding budget reforms, Minister Wang said that the central government's financial relationships with local government authorities were not yet fully rationalized. However, new fiscal arrangements, which would include revised revenue retention formuale comprising revenue targets and incentives, still needed to be worked out for 14 out of 39 local government units (provinces, cities and SEZs). Specific tax reform measures under consideration included: the unification of domestic enterprise tax rates; the rationalization of tax rates applicable to joint ventures, co-production companies and wholly-owned foreign enterprises (no increase in tax rates was envisaged); and, the question whether tax rates for enterprises engaged in both domestic and foreign business should be unified. In any event, there was a need to increase state revenues and reduce expenditures. The Government also needed to plan for the rapid development of the coastal areas outlined by Secretary Zhao Ziyang - a strategy that was intended to catalyze growth in the inland (central and western) areas as well. The further development of basic infrastructure (energy and transport), and also of agriculture, rural sideline industries, textiles and other consumer goods industries, remained of high priority.

6. Concluding his presentation, Minister Wang said that, under the upcoming reorganization of the central government, MOF itself would be strengthened: the General Bureau of Taxation would be upgraded to departmental status under the direct supervision of a Vice Minister; a Department of State Assets Administration with corresponding units in provincial and other finance bureaus would be set up, also under a Vice Minister, to manage the disposition (transfer and purchase) of state properties; and, a new Department of State Debt Administration would be established with responsibi-

lity for both domestic and external debt. [Total domestic debt outstanding was currently about Y34 billion; external debt contracted totalled about $27 billion and debt outstanding (disbursed) about $17 billion].

7. Thanking Minister Wang for his comprehensive review of the domestic economic and financial situation, Mr. Conable asked him to address China's external prospects and the Bank's role in China.

8. Minister Wang replied that Bank/China relations were excellent. The Bank was one of China's main sources of foreign capital. To date, almost $6 billion had been committed and $2 billion disbursed; disbursements were rather slow. China hoped to increase its borrowing from the Bank Group to $2 billion annually. Minister Wang said that he appreciated the Bank's efforts to increase slightly China's share of IDA (to the same level as India by 1990); he also agreed that the Bank/IDA blend should be 'hardened' gradually from 60/40 to 70/30 (by the same date). As far as FY1988 borrowing was concerned, it might not in the event be possible to achieve the $1.8 billion level originally planned. He had urged the officials concerned to try to resolve outstanding problems with a view to reaching $1.7 billion, perhaps slightly more. Regarding FY1989, MOF and SPC were actively working together on the program, which should be appropriately balanced.

9. Mr. Conable, noting that Bank/China relations were becoming more sophisticated, said that a diversified range of lending modalities - attuned to China's rapidly changing needs - was required, such as policy-based, sector and provincial operations, in addition to individual project loans. Moreover, in order to improve its efficiency and responsiveness, the Bank wished to develop a more explicit understanding with the Government on the size, content and objectives of a 'rolling' medium-term (3-5 years) lending program, which should incorporate China's developmental priorities and be an integral part of its overall external borrowing requirements. Finally, referring to its international aid coordination role which had become increasingly significant in recent years, Mr. Conable said that the Bank would be happy to collaborate with other multi- and bilateral agencies, such as Japan, that were planning to expand their lending to China substantially.

10. Minister Wang, agreeing with Mr. Conable, said that different lending approaches in China were desirable. He also agreed that a 3-5 year 'rolling' lending program was necessary and said that MOF officials would work with Bank staff towards that end. In this connection, they were starting to think about the 8th Five Year Plan (1991-96). Noting that a national conference to review ongoing Bank operations in China organized by MOF last January had had a very positive outcome, Minister Wang said that Bank/China cooperation should be expanded in all respects.

11. Mr. Conable said that the Bank, with more than 40 years of development experience, had a highly skilled staff; he hoped China would continue to exploit these resources to the fullest possible extent. Drawing attention to the recently appraised Daxing Forestry Rehabiliation project, Mr. Conable

said he understood there might be mutual interest in a large forestry sector operation. The Bank also continued to attach high priority to poverty-alleviating programs of the kind he planned to visit in Gansu. Finally, Bank staff were always open to MOF's specific suggestions about ways in which its operations, including the pace of loan/credit disbursements, could be improved.

12. Minister Wang said that China was indeed interested in future Bank assistance for forestry.

13. Replying to Mr. Conable's remark that Mr. Xu, the Executive Director for China, was playing an important and productive role on the Bank's Board, Minister Wang said that China was also very pleased with the work of the Bank's representative in China.

14. Concluding the meeting, Minister Wang said that the Chinese authorities appreciated Mr. Conable's leadership of the effort to restore growth in the developing world. He hoped that his visit would be an interesting and enjoyable one.

[mbcwangbingqian: 03301988]

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE **April 4, 1988**

TO **Files**

FROM **David Pearce, AS3CH**

EXTENSION

SUBJECT **Mr. Conable's Meeting with Acting Premier Li Peng**

1. Mr. Conable met with Acting Premier Li Peng at 5:00 p.m. on Thursday, March 24, 1988 at the Great Hall of the People, Beijing. There were present: Messrs. Wang Bingqian, Minister of Finance; Li Peng, Vice Minister, MOF; Gan Ziyu, Vice Chairman, SPC; Wang Liansheng, Director External Finance, MOF; Xu Naijiong, Executive Director, IBRD; and, accompanying Mr. Conable, Messrs. Burki, Lim, Nicholas and Pearce.

2. Welcoming Mr. Conable to Beijing, Premier Li said that the Bank was now well known throughout China and Bank/China cooperation was very fruitful. He had read several of the Bank's economic reports and they were of high quality.

3. Mr. Conable said that Bank/China relations had developed very significantly in recent years and, in his view, were excellent. The Bank's sole objective in China was to support the country's economic and social development and the scope and nature of its activities should be determined entirely by China's own development and reform priorities. He hoped that the Government, and Premier Li himself, would regard the Bank as a neutral, independent source of advice and assistance. Having committed over $6 billion to date, the Bank expected its lending to China to reach $2 billion annually next year. The recent agreement to almost double the Bank's capital base would greatly facilitate its ability to serve the needs of its member countries, including China.

4. Premier Li said that China needed large amounts of financial resources for its development, the bulk of which would have to be generated internally. However, it also required significant external capital to help implement its "open door" policy and, specifically, to obtain technology and management skills and experience from abroad, including the Bank. In this connection, he wanted to address two main issues: China's key development priorities during the next few years; and, related to this, the scope of future cooperation with the Bank.

5. Premier Li, citing four priorities for development during the next 3-5 years (agriculture, water conservation, energy & transport, and basic infrastructure), said first that agriculture was the foundation of China's economy. In this connection, the Government's principal concern was to maintain, if not expand, the supply of foodgrains, currently averaging 400 kgs. per capita. However, with only 1.5 mu of arable land per capita, this would not be easy. For example, with an estimated population of 1.2 billion by the end of the century, annual output would have to increase to 500

million tons (from 400 million tons at present) simply to maintain foodgrain supply at the current 400 kgs. per capita level. Thus, a major effort to expand production would be needed, for which inter alia improved seed varieties, modern technology, and expanded supplies of high quality fertilizers were necessary. Premier Li said that he hoped the Bank could assist in expanding the production of basic agricultural inputs such as chemical fertilizers, pesticides and plastic sheeting.

6. Second, regarding water conservation, Premier Li said that China's three great rivers were both an asset (e.g. for irrigation and electric power generation) and a liability (i.e. their susceptibility to flooding). Flood control on the Yellow River in Henan Province was a high priority and a very large reservoir near Zhengzhou was planned for this purpose. Third, Premier Li said that the Bank was already knowledgeable about and involved in China's energy and transport priorities; he hoped that this would continue and he would not, therefore, go into any detail. Finally, the fourth main priority was basic infrastructure.

7. Turning to Bank/China cooperation more specifically, Premier Li said that the progress of the Bank-financed projects already underway had in general been successful, thanks to their thorough preparation. He hoped that the high quality of the Bank's feasibility studies and of its project preparation and appraisal work could continue in the future. As far as Bank/IDA lending overall was concerned, he did not propose to discuss the (Bank/IDA) blend question. However, he had been advised that the lack of adequate counterpart (RMB) funds was constraining the rate of growth of Bank/IDA lending. He was thus interested in the possibility of Bank/IDA financing of counterpart funds (i.e. local cost financing) and, specifically, whether future policy-based loans could be considered for this purpose. Regarding procurement, Premier Li said that China was importing large quantities of foreign equipment with Bank/IDA financing and, given its enormous needs, this would necessarily continue for some time. However, the Government's long-term strategy was to promote the domestic manufacture and supply of equipment and goods and, in the short-term, to increase the local value-added of joint venture operations, particularly equipment producers. He therefore hoped that the Bank could accord preference to Chinese suppliers of equipment (under Bank-financed projects).

8. Finallly, Premier Li said that the Government was interested in Bank assistance not only for 'hardware' but 'software' as well. Five new corporations were to be established in the near future to manage state investment programs, one each covering agriculture, energy, iron & steel, light & textile industries, and transport. The Government wanted to learn from the Bank how to set up and operate these investment corporations in the following two ways: through a program of training courses and seminars conducted in China; and, by sending young Chinese professional staff to the Bank (e.g. on fixed-term assignments) to receive on-the-job training and experience. [English language capability had previously been an obstacle in considering such cooperation but was no longer such a major problem].

9. Mr. Conable said that he welcomed the specificity of Premier Li's comments. Replying to the points raised, he said that one approach to the

problem of counterpart funding could be to associate the financial resources of bilateral agencies active in China with Bank/IDA financing of individual projects. The Bank's co-financing and aid coordinating role was becoming increasingly important. With respect to procurement, qualified Chinese suppliers were eligible to receive the standard preference given to local manufacturers and suppliers under international competitive bidding in accordance with the Bank's guidelines. In general, he hoped that Chinese enterprises would be able to participate increasingly in international competitive bidding under Bank-financed projects, not only in China but overseas as well. Regarding technical assistance for the five new investment corporations, Mr. Conable said that China was under-represented on the Bank's staff. The Bank was hoping to increase both career and fixed-term employees from China and its Vice President, Personnel planned to visit China later in the year.

10. Regarding China's medium-term development priorities, Mr. Conable said that he was sure the Bank could be responsive. He agreed that agriculture was of the highest priority; the focus of the Bank's first policy-based loan to China would be rural reform. He also agreed on the importance of water conservation and, from what Premier Li had said, it seemed there was strong potential for an irrigation sector operation linked to food grain production. The Bank, for its part, was interested in further involvement in the forestry sector (mainly in South China), if this fit into the Government's priorities.

11. Premier Li said that he fully endorsed Mr. Conable's views regarding both forestry and irrigation, which were also important in China's western inland provinces. Concluding, Premier Li said that the Government appreciated the very useful role being played by the Bank's Resident Representative in Beijing. Mr. Conable agreed, adding that he had great confidence in both Messrs. Burki and Lim, the former as the Director of Bank's China Country Department and the latter as the Chief of the Resident Mission.

[mbclipeng:03311988]

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 4, 1988

TO Files

FROM David Pearce, AS3CH

EXTENSION

SUBJECT Mr. Conable's Meeting with Vice Premier Yao Yilin

1. Mr. Conable met with Vice Premier Yao Yilin, Chairman, State Planning Commission (SPC), at 6:00 p.m. on Thursday, March 24, 1988 at the Great Hall of the People, Beijing. There were present: Messrs. Wang Bingqian, Minister of Finance; Li Peng, Vice Minister, MOF; Gan Ziyu, Vice Chairman, SPC; Wang Liansheng, Director, External Finance, MOF; Liu Zhentao, Deputy Director, External Loans, SPC; Xu Naijiong, Executive Director, IBRD; and, accompanying Mr. Conable, Messrs. Burki, Lim, Nicholas and Pearce.

2. Vice Premier Yao, welcoming Mr. Conable, said that Bank/China relations were very good, indeed they were excellent. Citing the the Bank's two basic economic reports and its lending in support of China's capital investment program, Vice Premier Yao said that the only issue was how to continue to strengthen further our relationship.

3. Mr. Conable, agreeing with Vice Premier Yao, said that the Bank wanted to have a more explicit understanding with the Government on the size, content and objectives of a medium-term (3-5 year) 'rolling' lending program, linked directly to China's 8th Five Year Plan priorities and integrated into its overall external borrowing requirements. Such an understanding, in addition to being a more orderly way of managing our lending relationship, would permit SPC to prepare the 8th Plan on the basis of an assured source of foreign capital and enable the Bank to strengthen the programming of its budgetary and staff resources (for the China program). In this connection, the Bank was developing new lending approaches designed to respond to China's rapidly evolving circumstances and needs: policy-based lending, such as the proposed Rural Sector Adjustment Loan (RSAL) now under preparation; sector-wide operations, e.g. for forestry and irrigation; and, provincial loans, initially in Jiangsu, Shanghai and Tianjin.

4. Mr. Conable said that, following the 8th Replenishment of IDA last year and the recent agreement on a General Capital Increase (GCI), the Bank could now contemplate a significant expansion of its lending to China and to other developing countries. The Bank's overall aid coordination effort was also assuming greater importance and it would be pleased to collaborate with bilateral agencies, such as Japan, that were planning to increase their lending to China. Regarding IDA specifically, Mr. Conable said that China would be its largest recipient by 1990; in this connection, we were aiming to 'harden' the existing Bank/IDA blend to about 65/35 this year and to 70/30 by the same date.

5. Replying to Mr. Conable's remarks, Vice Premier Yao said he agreed that a five-year 'rolling' lending program was a good idea; it would facilitate forward planning by both sides. In addition to establishing quantitative lending objectives, such a medium-term plan should also incorporate agreed understandings with respect to, for example, the Bank/IDA blend, an appropriate balance between policy-based, sector, provincial and conventional project lending, and sectoral priorities and composition.

6. Vice Premier Yao said that more policy-based loans were desirable. They had several advantages: they permitted focussed single sector involvement or comprehensive multi-sector coverage, according to the circumstances; their proceeds could be utilized indirectly to finance the completion of ongoing projects without the necessity for Bank re-appraisal; and, the proceeds of policy-based loans could, in general, be used more flexibly. Vice Premier Yao commented at this point that China would borrow only as much as it could repay. He was concerned about a possible peak in its debt service payments commencing in 1992 and had begun to make plans to meet these payments.

7. Finally, regarding cofinancing and coordinating the use of foreign capital in general, Vice Premier agreed that this question should be considered further.

[mbcyaoyilin: 03311988]

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 4, 1988

TO Files

FROM David Pearce, AS3CH

EXTENSION

SUBJECT Mr. Conable's Meeting with Minister Li Teiying

1. Mr. Conable met with Mr. Li Teiying, Chairman, System Reform Commission (SRC) and concurrently Minister of Electronic Industries at 11:30 a.m. on Friday, March 25, 1988 at the Diaoyutai State Guest House. There were present: Messrs. Gao Shangquan, Vice Minister, SRC; Li Peng, Vice Minister, MOF; Gan Ziyu, Vice Chairman, SPC; Wang Liansheng, Director, External Finance, MOF; Xu Naijiong, Executive Director, IBRD; and, accompanying Mr. Conable, Messrs. Burki, Lim, Nicholas and Pearce.

2. Welcoming Mr. Conable, Minister Li said that the progress achieved during the past eight years had created a favorable environment for the further restructuring of the economic system. The 13th Party Congress last October had set the stage for accelerating and deepening the reform process during the next five years. Outlining SRC's functions, which were to advise the Government on reform during the transition from the old, centrally-planned system to the new, socialist market economy and to initiate and monitor the results of experimental reforms, Minister Li said that SRC appreciated its cooperation with the Bank. He was personally interested that it should continue and hoped that SRC's relationship with the Bank would strengthen. Noting that economic reform was now a fundamental trend not only in China but also in almost all socialist countries, Minister Li said that reform would be a predominant feature of all the Government's work. The main task ahead was to institutionalize the process, in which connection SRC, which was responsible directly to the State Council, had established system reform units in each ministry at the central level and in each provincial government.

3. In his introductory remarks, Mr. Conable said that the Bank valued highly its relationship with the SRC. Referring to the Bank's own recent reorganization, he said that the main objective had been to make the institution more responsive to the rapidly changing needs of its members, including China. In this connection, there was a relatively recent trend towards policy-based loans, the first example of which in China - in support of the second stage of rural reforms - was now under preparation. In addition to Minister Li's views on reform, he was interested in his advice on the potential for, including the objectives of, additional policy-based lending in China.

4. Replying that Vice Minister Gao would answer Mr. Conable's question more specifically later, Minister Li then reviewed briefly the background to, and history of the reform process to date. Describing the current status of enterprise reform in some detail, Minister Li said that the main problem

being addressed in this respect was the inefficiency and low technological standards of state enterprises which, because they lacked financial and managerial autonomy, had no incentive to improve their performance. Until appropriate self-regulating (market) mechanisms had been devised to guide their behaviour, they would continue to "eat from the same big pot" and be a drain on state revenues. Thus, one key element of enterprise reform was the separation of their management and ownership functions and responsibilities through, for example, leasing, share-holding and contracting. Other aspects of reform currently being tried out included: the development of alternative means of providing social security and financing the cost of welfare services (e.g.health and education) currently provided by state enterprises; the application of performance criteria ("each according to his work") in the administration of their profit-sharing and wage and benefit systems; and, as the next step, the commercialization of housing. Enterprise reform would need to take into account the diversified patterns of ownership already prevalent in China (e.g. state, collective, and private enterprises and joint ventures).

5. Referring to the coastal areas development strategy, Minister Li said that, in addition to the 14 "open" port cities and 4 Special Economic Zones (SEZs), comprehensive reform measures were to be introduced in six pilot areas (Guangdong, Fujian, Zhejiang and Jiangsu provinces and the Shandong and Liaoning peninsulas). The basic goal of this strategy was to develop an export-oriented economy, which would not only accelerate growth in the coastal provinces themselves but also catalyze the development of the central and western regions.

6. Minister Li said that science, technology and education would have to be expanded; and, their organization and management systems needed further reform to ensure that they served the needs of China's rapidly changing economy. Finally, the structure of the central government itself would be rationalized, commencing with the State Council, and individual ministries would be reorganized. The objectives of these administrative reforms were to develop a structure that reflected the Government's changing functions and responsibilities, and to improve efficiency. Reforms in various cultural and social institutions consistent with economic reforms were also envisaged.

7. Mr. Conable, replying to Minister Li's presentation, said that these were exciting times to be living in China! It was clear from the Minister's remarks that the reform process was pervasive and would impact on all aspects of the economy and society. Some reforms would obviously proceed faster than others and he wondered which were the priorities?

8. Minister Li said that the main priorities for reform in 1988 were: enterprise management; the investment, planning and financial systems (the latter including tax reform); the materials supply and allocation system; and, the foreign trade system. In addition, emphasis would be given to improving the macro-management of the economy, including price stabilization, and the coastal areas development strategy.

9. Vice Minister Gao, referring to Bank/SRC cooperation, said that General Secretary Zhao Ziyang had recently re-affirmed the importance he

attached to SRC's relationship with the Bank. Premier Li Peng's pending appointment as Chairman of the SRC also underlined the significance of the Bank's cooperation with SRC. He hoped that Mr. Lim and other staff of the Resident Mission would continue to work closely with SRC. The Bank's future assistance should focus on two areas: comparative experiences of economic system reform in other countries of relevance and interest to China, through the organization of symposia and visits by international experts; and, strengthening SRC and the basic infrastructural framework for the entire reform process, including staff development and training and the development of domestic and international information networks.

10. Mr. Conable, responding to Vice Minister Gao, said that what was happening in China might be unique. He was not sure there were precedents or that similar examples existed, although there might be some parallels in other countries. However, he was confident that Messrs. Burki and Lim, the China Department and Resident Mission managers respectively, would continue their cooperation with SRC. For his part, he would try to ensure that, as long as the present good cooperation continued, adequate Bank resources were available to support China's reform and development efforts. Minister Li could be assured that the Bank's management at headquarters paid special attention to the China program.

11. Concluding, Minister Li said he could like to see a high-level Bank-SRC meeting held every year to review Bank-China cooperation in the area of reform, similar to that held with MOF/SPC on lending operations.

[mbcliteiying: 03311988]

FROM IBRD BEIJING

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 4, 1988

TO Files

FROM David Pearce, AS3CH

EXTENSION

SUBJECT Mr. Conable's Meeting with Secretary General Zhao

1. Mr. Conable met with Mr. Zhao Ziyang, Secretary General of the Chinese Communist Party at 6:30 p.m. on Friday, March 25, 1988 at the Diaoyutai State Guest House. There were present: Messrs. Wang Bingqian, Minister of Finance; Li Peng, Vice Minister, MOF; Gan Ziyu, Vice Chairman, SPC; Wang Liansheng, Director, External Finance, MOF; Xu Naijiong, Executive Director, IBRD; and, accompanying Mr. Conable, Messrs. Burki, Lim, Nicholas and Pearce. The meeting was followed by an informal dinner, which continued until 9:30 p.m.

2. Warmly welcoming Mr. Conable, Secretary Zhao said that Bank/China relations were excellent and that the Chinese authorities were very satisfied with Bank/China cooperation. Bank staff, including Mr. Lim, the resident representative, had done an outstanding job in China. He attached great importance to the relationship. He had met Messrs. McNamara and Clausen and he appreciated the opportunity to get to know Mr. Conable this evening.

3. Reciprocating, Mr. Conable said that 1987 had been a good year for the Bank as well as for China. The 8th Replenishment of IDA resources and the Bank's General Capital Increase (GCI) had been successfully negotiated and the Multilateral Investment Guarantee Agency (MIGA) had been established. Noting that these developments would all help the Bank Group to help its customers, including China, better, Mr. Conable thanked Secretary Zhao for China's support. He then asked Secretary Zhao to outline China's development priorities and his views on the Bank's role in that context.

4. Secretary Zhao said that China's economic performance in 1987 had been basically satisfactory. While there were problems, there had also been good progress with reform. The balance of payments had improved significantly and several key projects had been completed. Although the growth rate was high, it was healthy, balanced growth - unlike 1985, when the economy had been over-heated. There were good prospects that China was about to embark upon a lengthy period of sustained economic growth, with GNP increasing at an annual average rate of 7-8% Some destablizing factors existed, but these were improving. The main sectoral priorities continued to be: basic infrastructure, energy and transport.

5. Secretary Zhao said that the principal preoccupation of the population at large was inflation, which would doubtless be an issue at the National People's Congress (NPC) that had convened earlier that day. With continued high rates of growth, double-digit inflation was possible, perhaps even inevitable; but, if the people's real incomes and standards of living

improved, inflation need not necessarily be a major problem. In any event, it was not possible to revert to the old system of administered prices and a solution would have to be found through the use of market instruments and the laws of demand and supply. This meant that, if agricultural output, for example, was to expand, the price of food would have to be adjusted. The same was true for industrial goods, whose prices must relect the true costs of production. Secretary Zhao said that, although some people favored tighter economic policies to contain inflation, this might result in slower economic growth, which would create its own set of problems; he hoped that price stability could be achieved along with a fairly rapid rate of growth, as well as an acceleration and deepening of reforms. The relationship between growth and inflation could be an interesting subject for collaborative (Bank/China) study and research: specifically, the question whether, in circumstances of rapid economic growth, inflation was inevitable.

6. Turning to Bank/China cooperation, Secretary Zhao said that, in addition to project financing, Chinese agencies and the Bank's staff had undertaken several collaborative economic and sector studies. These studies had produced useful results and he hoped they would continue. As far as financial cooperation was concerned, the Bank and the Government had agreed on a goal of $2 billion annually some time ago. He was aware that policy-based lending would be initiated this year, with the proposed rural sector adjustment loan (RSAL), and that a financial sector operation was under consideration. There had been very good progress in this respect.

7. Concluding, Secretary Zhao said that the Government's coastal areas development strategy would benefit not only China; it could also help other countries as well. Owing to increasing labor costs, some advanced countries had been readjusting their industrial structures and moving labor-intensive industries to places where labor costs were low. In this context, China's coastal areas were attractive to foreign investors because their labor costs were low and export prices would thus be internationally competitive. The development of an export-oriented economy in these areas would facilitate the further "opening" of the economy as a whole; it would not involve trade protection measures. Secretary Zhao enquired whether the Bank would be able to support China's coastal development strategy through a policy- based loan.

8. Mr. Conable, replying to Secretary Zhao's comments, said that, based on his experience as a former United States Congressman, the issue of growth and/or inflation was essentially a political one. However, he would be glad to have Bank staff study the question together with the Chinese officials concerned. The Bank's role was to alleviate poverty and one thing was certain: that poverty could only be eradicated in the context of economic growth, not stagnation. In his view, it should be possible to minimise inflation and still have growth.

9. Mr. Conable said that the Bank attached high priority to collaborative economic and sector studies and they would continue in the future. Following the GCI, the Bank intended to expand its lending world-wide at an average rate of about 10% annually. In this context, he hoped that Bank/IDA lending to China during the five year period FY1988-92 would total about $12 billion which, assuming that China was interested in borrowing of this

magnitude, implied annual commitments of at least $2 billion annually. Bank/IDA lending during the current year (FY1988) was currently estimated to reach $1.7-1.8 billion. [Vice Chairman Gan noted at this point that $12 billion over five years implied an average of $2.4 billion annually; in practice, it would require a gradual increase from the current level of $1.7-1.8 billion to about $3 billion annually by 1992]. Mr. Conable said that, in addition to committing Bank/IDA resources, the Bank could help in coordinating official external aid from other sources. It could also assist in encouraging foreign investment in China.

10. Pointing out that most, if not all, of the $5.5 billion committed to date had financed individual projects, Mr. Conable said that the time was now ripe for more sophisticated forms of lending such as policy-based, sector and provincial loans. In this connection, the Bank had already made several policy-based loans for export promotion and development in other countries; the question of such an operation in China, in connection with the export-oriented development strategy of the coastal areas, could certainly be considered. It would be prepared to undertake the necessary studies required, which might take some time, and be an active partner in bringing them to fruition. In conclusion, Mr. Conable said that the Bank would like to develop a medium-term (3-5 year) "rolling" plan for Bank/IDA lending.

11. Secretary Zhao, agreeing that a medium-term plan for Bank/IDA lending was a good idea, said that it should be possible to develop one with the agencies concerned. He appreciated Mr. Conable's very positive attitude, repeating that Bank/China cooperation was of great significance. China was the largest developing country and, if the Bank's activities were successful in the long-term, it would have contributed to the well-being over 1 billion people - a goal that was consistent with the Bank's mission and for which purpose it existed. By that stage, China's experience, and the Bank's experience of development in China, could then be shared with other developing countries.

[mbczhao: 04011988]

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The World Bank
OPERATIONS COMMITTEE

CONFIDENTIAL

Minutes of the Operations Committee to Consider
CHINA - Rural Sector Adjustment Loan -
Initiating Memorandum

Held on February 17, 1988 in Conference Room E-1244

A. Present

Committee		Others	
Messrs.	M. Qureshi (Chairman)	Messrs.	T. Baudon (SVPOP)
	D. Goldberg (VPLEG)		R. Burcroff (AS3AG)
	P. Isenman (AFRVP)		S.J. Burki (AS3DR)
	A. Karaosmanoglu (ASIVP)		S. Burmester (SEC)
	V. Rajagopalan (VPPRE)		V. Dubey (EAS)
	D.C. Rao (VPFPR)		A. Golan (ASTDR)
	W. Thalwitz (EMNVP)		J. Goldberg (AS3AG)
	H. Vergin (SVPOP)		R. Liebenthal (SPR)
			E. Lim (Res. Rep.)
			B. Merghoub (AS3CO)
			G. Pohl (EAS)
			C. Robless (SVPOP)
			W. Schwermer (COD)
			A. Tanaka (LEG)
			G. Tidrick (AS3CO)
			M. Wiehen (ASIVP)
			O. Yenal (ASIVP)

B. Issues

1. The meeting was called to discuss the Initiating Memorandum (IM) for a proposed Rural Sector Adjustment Loan to China in the amount of $300 million of which $100 million equivalent would be from IDA. The discussion covered the issues raised in the EAS's agenda, dated February 12, 1988. The main focus was on how to make performance targets more transparent and monitorable and the adequacy of the macro-economic environment, including credit policy and budgetary subsidies. The meeting also discussed the loan amount and tranching.

C. Discussion

2. The Chairman expressed his view that the proposed rural reform program was impressive, but China was now entering into a more difficult phase in the reform process. There were three main issues: (a) how to make the policy matrix more objectively monitorable; (b) are we satisfied with the macro-economic environment; and (c) can we link steps in the reform program with measures in the macro-economic program, e.g. grain subsidies?

3. The Region responded to (a) that the appraisal mission will seek to agree with the Chinese authorities on specific monitorable benchmarks with respect to program implementation. With respect to the macro-economic framework, there was no question that credit had expanded too rapidly in recent years, and that Chinese leaders were concerned about the situation and credit growth had been more restrained in recent months. The Region proposes to address these issues through economic work and possibly through a financial sector operation. As long as the present macro-economic imbalances last, the Chinese are unlikely to introduce major price adjustments. The Region also stated that in its view the progress on many of the proposed rural reform measures would not be affected by the macro-economic situation, except with regard to grain price adjustments. It was also pointed out that exports have increased substantially and that imports have been controlled successfully - albeit by administrative controls.

4. One committee member questioned whether policy change has always to be supported with quick disbursing lending operations and suggested that the proposed measures in the policy matrix be made more specific and monitorable. Otherwise, such a precedent could undercut the Bank's negotiation position in countries that have similar problems but are not equally committed to reforms as China. Other members seconded that view. One member asked why our strategy in China, which had addressed policy and institutional reform issues through CESW and project lending, now required policy-based lending. It was also pointed out that it is not very clear from the policy matrix which measures had already been implemented, and what are the priorities among the proposed measures.

5. The Region responded that it was not possible to be involved in the design and implementation of the rural reform program through economic and sector work alone. The working relationship has become much closer over the past few years and the government has invited us to participate more directly in policy formulation. It was also pointed out that budgetary constraints will not permit us to lend in the volume desired by the government through project lending alone, especially since it is essential to include innovative smaller projects. Also, the letter of development policy will have to be discussed by the State Council and thus elevates our policy dialogue to the highest level of the government.

6. The Chairman concluded the discussion by saying that a clear statement of the rationale for our involvement was needed. We should emphasize the need to be more closely involved in policy formulation. The implications for our lending strategies should be explained. It is essential that the policy matrix be made much more transparent and monitorable. It is also important to introduce links to measures with respect to pricing, budgetary subsidies and taxation. This loan needs to be presented with a clear statement of the government's broader strategy in the letter of development policy. As to the loan amount, an increase beyond $300 million cannot be justified at the present time without tranching.

February 24, 1988

GPOh1:pl

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

of the President

February 29, 1988

Messrs. Moeen Qureshi & Attila Karaosmanoglu

Moeen/Attila:

Mr. Conable would like to be briefed on the China--Rural Sector Adjustment Loan. In addition to general briefing on the agricultural sector, the extent of the reform program, the strength of Chinese commitment and steps envisaged to monitor progress, he wishes to discuss:

(i) the likely implications of a first fast-disbursing loan in China on the structure of our lending program in China and relations to the various ministries involved; and

(ii) proposed conditionality for this loan in comparison with the approach the Bank has taken in other countries; and

(iii) the impact of this loan on our dialogue and program in India.

Marianne Haug

cc: Messrs. Shihata, Fischer & Burki

CHINA

Activities in the Forestry Sector

1. Bank Group involvement in China's forestry sector is on the verge of rapid expansion. The basis of such involvement was laid in 1985 with approval of the Forestry Development Project (Credit 1605-CH) which includes plantation establishment and improvement on 92 State Forest Farms in the far north (Heilongjiang), far south (Guangdong), and west (Sichuan). It also covers provision of equipment and roads for improved exploitation (logging) in those areas as well as wood-based industrial investments, and infrastructure for forest management and fire-fighting. Finally, forestry research programs are being upgraded in four provinces (Guangdong, Shaanxi, Sichuan, and Guangxi) and pilot extension programs are being implemented in ten provinces.

2. In May/June 1987 a catastrophic forest fire occurred in the northwestern portion of Heilongjiang Province[1] and adjacent areas of Siberia, severely damaging nearly one million ha of prime virgin forest in China and twice that area in the Soviet Union. The fire, the worst in the world in recent decades and possibly the worst in Chinese history, obviously affected China's already limited forestry potential to an incomparably greater extent than the Soviet Union. A Bank mission sent to the region in October/November 1987 essentially to design an effective fire protection service for the entire 22 million ha Da Xing An Ling area, discovered that the Chinese approach to salvaging the enormous volumes of timber which had been killed but not destroyed, was totally inadequate.[2] The mission proposed an accelerated program of harvesting to save $1 billion worth of commercial timber in two years, and a tight organizational structure, equipment logistics plan, and technical assistance program required to achieve this goal. At this point, the Chinese have essentially implemented all mission recommendations, and an emergency project aimed at both fire protection for northern China's virgin forests and salvage of burned timber has been formulated, appraised, and is being rapidly processed for Board presentation by May 1988.

3. Perhaps due to our effective response in Da Xing An Ling, the Ministries of Finance and of Forestry have indicated to us their interest in Bank participation in a major new nationwide afforestation program designed to achieve sustained yield equilibrium in China's timber

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1/ The fire did not occur in areas covered by the Forestry Development Project (in eastern Heilongjiang) which are under provincial jurisdiction. It occurred in the Da Xing An Ling virgin forest, which is under direct central MFO jurisdiction perhaps because of its size and border location.

2/ The Chinese had been effective in resettling the 60,000 people rendered homeless by the fire, which also killed nearly 200 people.

production by the year 2000. The program (the largest afforestation effort in the world) would include well-selected plantings of fast-growing and high-yielding species in areas with good growth potential and high environmental and employment benefits, chiefly in southern and central China. The Forestry Sector Loan being proposed (at over $300 million) would cover the initiation and first three years of implementation of the program, in six major mountainous regions in ten provinces, and would provide us the opportunity and challenge of making key technical and organizational contributions to the future of forestry in China. The only obstacle to this involvement at present is the desire of some elements in the State Planning Commission to restrict Bank agricultural lending to provincial operations, in line with current policy to decentralize authority and investment programs to provinces from central line ministries. We are working to accommodate provincial investment and borrowing authority within the concept of a national forestry sector operation.

February 29, 1988

S. J. Burki

China: Agriculture Fact Sheet

	1982	1983	1984	1985	1986	1987 (Est.)
Annual % Charge						
Real GNP	8.8	10.2	14.5	12.7	7.9	9.0
Real Agriculture Output	11.7	8.5	13.0	1.7	3.7	3.8
Agriculture Procurement Prices	2.2	4.4	4.0	8.6	6.4	
Ratio to GNP (%)						
Industry	39	38	37	38	38	39
Agriculture	34	34	33	30	29	28
Grain Output (million Tons)	355	387	407	379	392	397
Employment (millions)						
Agriculture	320	325	325	312	313	N/A

OFFICE MEMORANDUM

DATE : February 12, 1988

TO : Operations Committee

FROM : Vinod Dubey, Director, EAS

SUBJECT: China: Rural Sector Adjustment Loan - Initiating Memorandum - OC Meeting Agenda.

1. The Operations Committee will meet on Wednesday, February 17 at 4:00 p.m. in Room E-1244 to discuss the Initiating Memorandum on a proposed Rural Sector Adjustment Loan (RSAL) to China for a total amount of $300 million, of which $100 million equivalent would be from IDA.

2. The proposed operation would be in support of further reform measures in the rural economy, including increased scope of market transactions, reduction in reliance on administered pricing, clarification of land use rights, development of rural industry, devolution of responsibility for rural infrastructure investment, and further development of rural financial institutions. This would be the first adjustment operation in China. Policy-based operations to assist with the restructuring of other economic sectors are now also under discussion.

3. The Committee may wish to discuss the following:

a) While the rural economic reform program to be supported by the proposed operation is comprehensive, the policy matrix remains vague with respect to measures to be taken, e.g. "further reduce interprovincial marketing restrictions" or "begin to phase out contract grain purchases". Very few specific and monitorable performance targets are given. In the absence of specific "monitorable" measures, how does the Region propose to monitor "progress"?

b) The lack of a viable macro-economic framework is probably the greatest risk for the proposed reform program. Low (virtually zero) inflation is seen by the Party and the public as one of the most important achievements of the past thirty years. But during the past four years the government has been unable to limit credit expansion to a rate that is consistent with low price inflation (credit expansion has averaged 30% p.a. for the past four years). Rather than condoning double-digit inflation rates, the government has recently rolled back already announced price reform measures (grain and edible oil) that are closely related to the success of the proposed rural economic reform program.

How can the program succeed without a stronger commitment by the government to bring down credit expansion?

c) Grain subsidies. About 30% of the state budget (or 8% of GDP) is now allocated to subsidize the difference between grain sales and procurement prices. These massive subsidies are one of the most important obstacles to further

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marketization of the economy and fiscal reform. Could the program be strengthened to include quantitative objectives to reduce grain subsidies?

d) Loan Amount/Tranching. The Region proposes a total loan/credit amount of $300 million, that may be increased to $350 million to respond to the Government's request of $400 million. The lower loan amount has apparently been adopted to avoid tranching which in turn is closely related to the absence of specific and monitorable program targets.

Can such a large loan amount be justified without tranching?

cc: D. Lee, COD; A. Shakow, SPR; J. Holsen, CEC; D.C. Rao, FRS; J. Baneth, IEC; Thahane, Burmester, SEC; R. Liebenthal, SPR; A. Steer, FRS; T. Baudon, SVPOP; O. Yenal, ASIVP; S.J. Burki, AS3DR; J. Goldberg, R. Burcroff, AS3AG; B. Merghoub, G. Tidrick, AS3CO.

For Information Only:

D. Bock, DFA; S. Fischer, VPDEC; R. Frank, J. Parmar, IFC; D. Hopper, PPR; M. Haug, EXC; D. Goldberg, VPLEG;

GPohl:pl

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

put on my agenda

DATE : February 9, 1988

TO : Operations Committee

FROM : Vinod Dubey, Director, EAS

SUBJECT : China: Rural Sector Adjustment Loan - Initiating Memorandum

A meeting to discuss the China Rural Sector Adjustment Loan -Initiating Memorandum- will take place on Wednesday, February 17, at 4:00 p.m. in Room E-1244. An agenda will be issued shortly.

cc: D. Lee, COD; A. Shakow, SPR; J. Holsen, CEC; D.C. Rao, FRS; J. Baneth, IEC; Thahane, Burmester, SEC; R. Liebenthal, SPR; A. Steer, FRS; T. Baudon, SVPOP; O. Yenal, ASIVP; S.J. Burki, AS3DR; J. Goldberg, R. Burcroff, AS3AG; B. Merghoub, G. Tidrick, AS3CO.

For Information Only:

D. Bock, DFA; S. Fischer, VPDEC; R. Frank, J. Parmar, IFC; D. Hopper, PPR; M. Haug, EXC; D. Goldberg, VPLEG;

GPohl:pl

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 9, 1988

TO: Mr. Moeen A. Qureshi, Senior Vice President, SVPOP

FROM: Attila Karaosmanoglu, Vice President, ASIVP /AK

EXTENSION: 72283

SUBJECT: CHINA: Rural Sector Adjustment (FY88L) - Initiating Memorandum

1. Attached for your review and comment please find an Initiating Memorandum for the China - Rural Sector Adjustment Loan (RSAL). A meeting of the Operations Committee to review this operation has been scheduled for February 17, 1988. The Government of China's new program to deepen and accelerate rural reform is sound and its commitment is firm. Thorough preparations have been made in response to staff requests and suggestions, whose advice has been sought on a number of issues. We therefore believe that the RSAL is ready for Bank appraisal and so recommend.

2. This operation is likely to be the first of a series of RSALs. The proposed loan/credit amount is $300 million, of which $100 million equivalent would draw from IDA. Depending on the progress made during appraisal and the content of the policy letter, we may propose increasing the loan amount to $350 million to respond more nearly to the Government request of $400 million. The loan/credit will not be tranched but the conditions will be supported by the prospect or denial of repeater operations.

Attachment

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cc: Operations Committee Members

Messs. S. Husain (LACVP); E. Jaycox (AFRVP); W. Thalwitz (EMNVP); V. Rajagopalan (VPPRE); I. Shihata (VPLEG); D. Wood (VPFPR); H. Vergin (SVPOP)

Other Attendance

S. Fischer (VPDEC); T. Thahane (VPS); D.S. Lee (CODDR); V. Dubey (2)(EAS); A. Shakow (2)(SPRDR); J. Holsen (3)CDR); D.C. Rao (2)S); J. Baneth (IECDR); R. Liebenthal (SPRPA); A. Steer (FPS); T. Baudon (SVPOP); S.J. Burki (AS3DR); J. Goldberg, R. Burcroff (AS3AG), B. Merghoub, G. Tidrick (AS3CO), E. Lim (C-9013)

Information

D. Hopper (SVPOP); M. Haug (EXC); D. Bock (DFA); R. Frank (CFPVP); J. Parmar (CIOVP); D. Goldberg (VPLEG); R. Agarwala (AFRVP); O. Yenal, M. Wiehen (ASIVP); S. Asanuma (AS1DR); Kaji (AS2DR); B. Alisbah (AS4DR); R. Cheetham (AS5DR); A. Golan (ASTDR); R. Stern (AS3IF); R. Deshpande (AS3AG); S. Yusuf, P. Cadario (AS3CO); T.J. Goering (AS3CH), A. Vorkink (LEGAS); V. Vyas (AGRDR); A. Braverman (AGRAP); M. Long (CECFP), Szapary (IMF)

Asia Files
Div. Black Book

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INITIATING MEMORANDUM

Operation: China - Rural Sector Adjustment Loan (RSAL-FY88)
Type: SECAL
Loan Amount: US$200 million
Credit: US$100 million equivalent
Resp Unit: AS3AG
Status: Preparation/Preappraisal

Introduction

1. In 1980, China embarked on a far-reaching program of economic reform. Beginning with the rural sector, this program has developed rapidly in both depth and scope, now touching virtually all aspects of social, economic and political life in the country. It has achieved in many areas spectacular success and gained widespread international attention. The Bank has been an active partner in this process. At the request of senior Chinese leaders, we have contributed to the formulation of reform policies through our economic and sector work, through advisory missions and through intensive dialogue with senior policymakers.

2. The Government has now requested that the Bank extend its role in the reform process by providing technical and financial support for the reforms. The proposed operation is the first of what we plan to be a series of operations to support further reform of the rural economy. Policy-based operations to assist with the restructuring of other economic sectors are also under discussion. The proposed RSAL is being processed as an FY88 operation. The reception of previous Bank missions for this loan [1/] has been quite good, for which thorough preparations were made.

Country Situation: An Overview

3. Almost ten years have elapsed since China's 11th Party Congress took the landmark decision during its Third Plenary Session to "readjust and restructure" the economy. Armed with this mandate, the Chinese leadership embarked on the first phase of what promises to be a far-reaching program of administrative decentralization and market mediated development. The positive signs are the pace at which GNP has increased--by 10% p.a. over the reform period as a whole; the extraordinary responsiveness of savings to rising incomes; the strength of investment; the growth of commodity exports and their changing composition which by 1987 had nudged the share of manufactures to over 64%; near equilibrium in the BOP; reserves equivalent to six months of imports (in 1987); and a comfortable debt situation with a DSR of 9.5%.

4. But easing the controls on publicly-owned enterprises, with access to subsidies to cover their poor marketing and production decisions, has

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1/ An Identification Mission visited China in September 1987, which was followed by a Preparation Mission in November 1987.

uncovered an investment hunger which is held in check only through great vigilance on the part of the central authorities. Partial price reform has led to an escalation of subsidies to enterprises and urban consumers (about 30% of the state budget in 1987), while profit retention by firms operating under the new incentive regime has eaten into government revenues. Although the tax/GNP ratio is still a respectable 23% (1987), the fiscal maneuverability has been reduced and the authorities have to contend with a budget deficit equal to 2.7% of GDP. In recent years, decentralization of the financial system by allowing credit to expand by 20-30% p.a. has given a further twist to aggregate demand pressures. The result has been inflation of nearly 20% in free markets and 7.5% of p.a. increase in the nationwide retail price index during 1986-87.

5. The reforms and their impact have been most pronounced in the rural sector, which continues to account for the main livelihood of over 800 million people. Since 1979 the introduction of the Household Responsibility System, dismantling of communes, and the separation (at the local level) of political decision-making from economic management have profoundly restructured rural economic activity. Beginning in 1979, in recognition that the benefits from collectivized management had run their course, land use rights were progressively transferred to farm households, pricing and markets were increasingly liberalized, and a policy environment was adopted to encourage decentralized management in the rural segments of secondary and tertiary industries. The result has been a literal explosion of growth in rural manufacturing and services over the past decade (22% p.a.), and a very high rate of growth in the agricultural sector (6.6% p.a.). Perhaps the most significant achievement, however, has been the massive shift of 80 million farm laborers which occurred between 1979-1986, from the unproductive make-work environment that characterized China's agricultural sector prior to decollectivization, to the dynamic rural non-farm sectors characterized by autonomous production units above the level of the small family farm. In parallel, agriculture has been revitalized. Since 1980, the sector has witnessed a rapid expansion of cash cropping, non-staple food production and agricultural foreign trade. Reforms, abetted by substantial increases in producer prices, the progressive removal of restrictions on most commodity markets and--increasingly--on input distribution activity, and by three successive years of good weather, not only yielded record harvests with grain production peaking in 1984, but also made China for the first time a net exporter of foodstuffs.

6. After 1984, the Chinese policymakers began to tackle the more difficult hurdle which involved extending the reforms to the urban-based industrial sector and using profit incentives, enterprise autonomy and the dismantling of some price controls to coax forth the dynamism that has transformed the rural economy. The economic decision-makers also found that each round of liberalization had triggered an upwelling of investment, with a consequent strain on the BOP, and that increased consumer demand backed by a sizeable growth in household incomes became a threat to both price stability and the trade balance. Since 1985, additional measures have been taken to rein in the current account deficit, which in 1985 had swelled to -4.2% of GDP, largely through imports of consumer goods and equipment.

7. The very success of the first phase reforms, particularly in the rural sector where performance exceeded expectations, has introduced second-generation problems that the authorities are now moving to address. Ahead looms the problem of unemployment as market-driven productivity increases challenge the pervasive and long-standing overstaffing in factories, farms and state agencies. The Government estimates that jobs will need to be found for some 100 million rural workers by the year 2000. Employment generation and rising living standards call for continued rapid growth. High rates of overall growth could be achieved with investment levels closer to 30% of GNP, comparable to the other East Asian NICs whose higher productivity and export-led growth strategy China seems moving to adopt. Crucially important to China's leaders, public expectations about the continued success of economic reforms make the second, coming phase of particular importance.

8. The Chinese Government is committed to reform in nearly every aspect of the economy, including prices, the tax system, trade, the financial system, wages and employment, and enterprise autonomy. Domestic credit targets under the IMF's 1986-87 stand-by arrangement were exceeded, but the government moved to restrict credit in the second half of 1987. Recent pronouncements have stressed government intentions to limit credit expansion and aggregate investment. Growth of credit in 1988 is intended to be well below last years actual (28%), but slightly higher than the 1987 IMF benchmark (18%). Major steps on enterprise reform are also contemplated. In March a new enterprise law will be enacted making state-owned enterprises (SOEs) more accountable for losses.

9. General price reform is recognized to be an essential element to the overall reform effort. But decontrolling urban and state sector pricing has proved a most sensitive undertaking, and the Government in 1987 partially reversed some earlier liberalization measures. The Chinese authorities argue that delay in general price reform is merely a matter of sequencing. In order not to discredit the whole reform process,[2/] however, price reform must proceed cautiously. Prerequisite is further progress on public enterprise reform, viz. the SOEs must be subjected to a hard budget constraint including the genuine threat of bankruptcy before they will be responsive to price changes.

Deepening the Rural Reform

10. The objectives of the new reform efforts in the countryside were announced in the Politburo's Document No. 5 of January 1987 "Deepening the Rural Reform" and elaborated upon by Secretary General Zhao Ziyang in his speech to the 13th Party Congress in October 1987. These are to reinforce the momentum that had resulted from improved incentives provided during the first phase of reform; to formulate new sets of policies, and to establish new

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2/ Because of the hyperinflation of the 1940s, the Party, Government and citizens alike are extremely sensitive to the price increases that occurred after some administrative controls were relaxed. General inflation resulting from monetary and credit expansion therefore poses a significant risk to the overall reform in that improperly sequenced price reforms will be blamed, even if incorrectly, which could undermine confidence in the reform process.

institutions to provide a firmer base for continued growth throughout the economy in the 1990s. By bringing land transfers, factors of production, and a higher proportion of products into the expanding market system, allocative efficiency would be more easily achieved. Price- and market-related reforms to foster further development of autonomous rural production units (commercial farming, private rural manufacturing and service firms, and cooperative financial institutions) would be complemented by refining the regulatory and contractual infrastructure required for the market system in which they operate.

11. Rationale and thrust of the new reform program. The Government's new program of reform has been designed to strengthen at the sectoral and subsectoral level the policy and institutional underpinnings needed for stability and the continued rapid expansion of product, factor, assets and rural financial markets that developed largely in response to local initiative during the past decade. A policy reform matrix is attached. This program consists of (a) a package of reforms to deepen on-going initiatives, which can be implemented without further refinement; and (b) an approach--through the mechanism of pretesting at the regional level--for extending the reform effort into new policy areas. There is a strong likelihood that the new Program will result in a sustainable growth in production, further commercialization of agriculture and its diversification into higher valued cash crops and specialized lines, a sounder framework for the continued expansion of rural industrial activities, additional exporting and higher rural household incomes. There also is good reason to believe that viable means will be identified for reducing the financial burden of China's grain production/sales system, for increasing both the buoyancy and equity of agricultural taxation, and for improving the intermediation of rural household savings. At Government's request, the Bank is now substantially advising on the shape of the reforms.

12. The overall thrust of the new program represent utterly profound innovations in China's system of political economy.

(a) Firstly these reforms entail a fundamental shift in economic decision-making away from governmental and Party officials and towards individual farmers, artisans, entrepreneurs, savers, investors and merchants, or voluntary combinations of such economic actors, coordinated primarily by market forces. Much more than a policy change is involved: the economic institutions and factor markets that would carry out this policy change must be created, refined and strengthened in a political-bureaucratic environment hitherto somewhat hostile to them.

(b) The rural reform process in China was initiated and continues in an atmosphere of pragmatism. Just as the first phase reforms justified themselves and their subsequent nationwide generalization by success, some of the second phase reforms will have to undergo a similar pragmatic testing process. This testing by involving a population totalling 30 million people, will be broad in scope. Demonstrating that reform initiatives in new policy areas can improve and not harm the basic food supply and general economic livelihood of masses of

people at the local level, without causing harmful political and economic instability is an essential part of concensus building in China for their subsequent generalization nationwide.

13. Main features of the new program. The following six are the main features of the new program.

(a) Markets and marketing - to promote the development of well functioning internal and export markets for agricultural commodities; develop and encourage appropriate marketing chains, including vertically integrated systems for specialized items; reduce or remove barriers to interprovincial trade; improve the efficiency and competitiveness of marketing systems; and liberalize marketing channels for the commercial distribution of inputs.

(b) Pricing/subsidies and taxation - to further reduce reliance on administered pricing and thus permit a rural pricing system to evolve that can better reflect local scarcities and international trade opportunities; progressively reduce generalized urban consumption subsidies with improved targetting on the poorest groups in both urban and rural areas; and improve tax buoyancy and equity by removing input subsidies and replacing the output tax implicit in below-market price quota obligations by a transparent tax based on the value of agricultural land.

(c) Land system - to improve the security of land use rights by formalizing relationships which govern land use under the Household Production Responsibility System; provide incentives through agricultural land taxation for more efficient land use; and create agricultural leasehold markets with land as collateral for financial and other transactions, secure from local government interference, to foster land use specialization and--where conditions warrant--to reduce land fragmentation.

(d) Rural industry - to provide equal treatment for all industrial enterprises regardless of type of ownership; support and reinforce the development of township/village enterprises and private firms (TVEs) whose growth is providing off-farm income and employment opportunities for increasing numbers of rural people; provide internal management and institutional support, in terms of useful organization models and management systems, and a more secure and less arbitrary external commercial environment; clarify regulations governing their operations and transactions; and strengthen institutional support (industrial extension, financial policies, etc.).

(e) Rural investment - to improve the organization and management of public investment programs and maintenance of rural infrastructure; extend the reform of public enterprises to SOEs operating in the rural sector; delimit policy frameworks to encourage private investment; and reduce the risks attendant with investment which must be faced in China's present rural business environment.

(f) Credit and finance - to promote development of a rural financial system which will efficiently mobilize rural households savings and intermediate funds for private agricultural and rural nonagricultural investments.

14. The main features are being implemented in the following way: in the area of markets and marketing, the new program will reduce local government fees, simplify their administration, and eliminate licensing and other "non-tariff" barriers to internal trade. The Government is developing at the regional level programs in Shangzhi County of Heilongjiang Province, Fuyang Prefecture of Anhui Province, and Shunyi County in the environs of Beijing general purpose agricultural marketing channels and integrated chains for specialized lines. Support is being provided by (locally financed) price equalization funds and member-owned financial service companies, while various organizational forms are being permitted, with emphasis on voluntary cooperatives, but also partnership and joint stock ventures. In parallel, "industrial" associations are being developed at the regional level while steps are being taken to improve marketing facilities and market access in the main urban areas for perishables and other high-valued commodities being distributed outside of official channels. To facilitate exporting, authority will be given to 8 provinces to directly manage export marketing, and to establish more flexible trade regimes, foreign exchange allocation systems, and export/import marketing organizations. The Government intends to take stock of progress under these programs over the next year or so, refine the designs and, for the regional initiatives, generalize these for nationwide implementation. The Bank will monitor the implementation of this program.

15. To deepen the rural pricing reforms,[3/] the Government is putting together packages which will simultaneously reduce producer and retail

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3/ Recent pricing reforms were designed to complement (a) the very large producer price increases for grains and other primary agricultural products that were introduced during the early 1980s; (b) the markedly restricted scope of administered pricing (from 90% of agricultural production value in 1979 to 40% in 1985); and (c) a phase-down of consumer subsidies on processed grain products. By end 1987, nearly all producer price controls had been removed except for 12 basic or strategic commodities. The latter were partially liberalized after a two-tiered system was set up in 1985, consisting of contract (quota) sales at administered prices and above-quota sales at market or negotiated prices. For grains, the quota price has been set at 70% of the negotiated price. In 1987, 50% of all sales (equivalent to 15% of total production) were at negotiated prices. To encourage rural industrialization, TVP prices have been set free as matter of policy unless the enterprise sells to or distributes on behalf of SOEs still subject to administered pricing. To foster better pricing for farm inputs, a two-track system has been introduced for fertilizers produced above Plan, though retail subsidies were reestablished in 1985 to encourage farmers to accept grain delivery quotas. In 1985/86, subsidies for meat, poultry, eggs, aquatic products and vegetables were substantially reduced or eliminated in most urban areas. However, efforts to raise urban grain and edible oils prices were rolled back in the face of urban wage creep.

subsidies and improve agricultural taxation.[4/] Beginning April 1988, it plans to implement at the regional level a program to phase out contract grain purchases, eliminate fertilizer retail subsidies, further reduce urban sales subsidies by limiting eligibility and by increasing sales prices, increase the agricultural land use tax and realign bases for assessment. Implementation will begin in Xinxiang, Hebei (grain surplus area). A similar effort will be designed during 1988 for implementation in Yulin, Guangxi (a grain deficit area). Implementation of these programs will be monitored, and general programs to phase out urban grain subsidies, eliminate retail inputs subsidies, and improve land taxation policies will be designed for subsequent implementation nationwide. After this stage has been reached (in about two years from now), a phasing in of the subsidies reduction program for urban grains sales will begin, starting with smaller and medium-sized cities, then moving to large cities. The phasing in of generalized agricultural land taxation policies would begin with more developed zones.

16. The transfer of land use rights to farm households under the Production Responsibility System was a key instrument behind the rapid growth of agricultural production and productivity during the past decade. On the other hand, the new land system has also resulted in very small holdings (average farm size = 0.61 ha) and extreme fragmentation (average of 9.2 plots/farms). Between 1978-1986 the cropped area declined by about 3%, largely in response to land loss from rural construction and urbanization. Rigidities in the present land system are inhibiting the realignment of farms to facilitate investment and crop diversification. To facilitate security of tenure, the Government in 1984 permitted the use of inheritable term leases (15-30 years) on lands growing annual and tree crops. To facilitate creation of agricultural leasehold markets, regulations were drafted in 1987 and a regional program was designed to implement these in Meitan, Guizhou beginning 1988. Regional programs are also underway in labor-deficit zones to reduce land fragmentation, convert micro-farming units to mini-sized farms (up to 2 ha), and facilitate limited small-scale mechanization (sites: Southern Jiangsu; Nanhai, Guangdong and Shunyi County, Beijing). In 1988, at the Bank's insistence, the Government intends to relieve farmers of grain quota obligations in one of the three land consolidation counties of Southern Jiangsu and monitor the impact this will have on land use. In parallel, the National Land Administration intends to clarify the allocation of land rental and tax collection rights amongst local levels of government, strengthen the land registry system, and clarify recent policies governing the conversion of farmland to non-agricultural use. After refining the successful components of these reforms, the Government, about two years from now, intends to introduce national policies to facilitate sale/transfer of agricultural leaseholds.

17. Between 1979-87, 80 million off-farm jobs were created. The bulk of these were in rural industries, which proliferated with unprecedented speed. The Government is targeting 100 million more by the year 2000 to absorb the growing rural workforce and reduce redundancy in farming activities. Under the new program, the Government will emphasize rural industrialization, principally the TVEs (but also SOEs) for which broad-based reforms are being

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4/ Current direct taxation of agriculture yields only 2-3 percent of GVO and discriminates against grain farmers.

implemented. Recent steps include the granting of permission to rural localities to rapidly develop nonagricultural activities under all forms of ownership; sharp increases in the provision of credit and other resources to TVEs; the enunciation of policies which stimulated contracting, leasing and sale of numerous community-owned TVEs to private individuals and groups; a gradual removal of previous tax exemptions for many TVEs, and the removal of limits on size of private firms. In addition, regional initiatives were designed in 1987 for Fuyang, Anhui to introduce company law and bankruptcy regulations for TVEs; improve the provision of various support services to TVEs, partly through encouraging TVEs to relocate in "industrial parks" now being established; and to shift the role of local government agencies from supervision to provision of needed services and training. Implementation is now underway. The Government will evaluate the Fuyang program, refine the rules and procedures tested in the regional program and extend these initiatives throughout China.

18. Major policy initiatives were announced in 1987 which could significantly influence the pace and effectiveness of rural investment.[5/] Arrangements for the devolution of public investment responsibilities to the provincial level were reviewed and planning begun to set-up four investment corporations that would administer the state budget, and coordinate and monitor transfers to provinces. In parallel, the State Planning Commission (SPC) is being reorganized and its role redefined. Regional programs to resuscitate rural works on the basis of off-season labor were announced in 1987 by 8 provinces. At enterprise level, SOE managements were made personally accountable (through signed contracts) for enterprise investment decisions and financial performance, while the previously informal policy of "encouraging" rural private investment was made into official state policy.

19. On the Government's near-term agenda, details of the devolution and the reorganization of SPC are to be worked out, formalized and implemented in 1988 and 1989. It is expected that the four investment corporations will be formally established, while the planning system for rural works is to be revamped and designs of works programs at provincial and local levels are to be finalized for implementation during 1988. Bankruptcy and restructuring regulations for SOEs are expected to be formalized in 1988 for implementation, while regional programs will implement trial regulations and enactments to define business personality for TVEs, commercial farmers and marketing/service cooperatives, define and delimit asset ownership, transfer and disposal, and regularize contractual rights and obligations (Fuyang, Anhui; Meitan, Guizhou; Shunyi, Beijing; Nanhai, Guangdong; Wenzhou City; Southern Jiangsu and

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5/ Agriculture's share of the total capital construction budget fell from 10.5% in 1976-1980 to 3.3% in 1986. This has resulted in a slow but steady deterioration of rural infrastructure, e.g., the effectively irrigated area in 1986 was about 2% lower than in 1978. On the other hand, private on-farm investment in water control measures appears to have increased. Tree planting has expanded significantly, and a more appropriate mechanization is occuring: in 1986, 90% of purchases of walking tractors and a rapidly expanding share of truck purchases were by individual farmers.

Shangzhi, Heilongjiang). These reforms will be evaluated and refined between 1988-1990. Thereafter, it is expected that the regional programs also will become national policy.

20. Most of the rural credit reforms have centered on the formal system, though recent initiatives also deal with China's burgeoning informal financial markets. Recent reforms include: increases in interest rates and somewhat more flexible rate-setting for local bank branches, and partial institutional separation of the Rural Credit Cooperatives from the Agricultural Bank of China. In addition, incipient competition among banks has been permitted in certain localities, while the legalization and encouragement of informal credit markets has been authorized in a few areas (most notably Wenzhou City; Fuyang, Anhui; and Shangzhi, Heilongjiang). Late in 1987, the Government created the China Rural Investment & Trust Corp. (CRITC) to provide financial services to the informal sector. In the years ahead, the Government intends to develop the CRITC organization, procedures and staffing, and start-up its operations in areas where the informal and cooperative credit movements are strong. The Government may also form subsidiary investment corporations, under the wing of CRITC. It intends to monitor the operation of informal credit markets (Fuyang, Anhui; Shangzhi, Heilongjiang; Wenzhou City), provide official sanction of their existence and operations as well as rules and procedures to regulate accounting and accountability, and define their relationship to formal financial institutions. Policies for the longer-term are less well-defined, though the Government might integrate CRITC, its subsidiaries, and the informal rural credit institutions into the formal financial sector as wings operating on the basis of market-determined returns from lending, and paying competitive rates for deposits, borrowings and other resources.

21. The RCRD. An important role has been assigned to the State Council's rural policy arm--known as the Research Center for Rural Development (RCRD). RCRD has for several years been charged with advising the Politburo of the Party and the State Council on the effectiveness of the general reforms and proposing modifications where needed. In 1987, it was also given specific responsibility for finalizing the regional programs in collaboration with the core agencies, state and provincial technical agencies, for vetting these on behalf of the State Council, and for supervising implementation. With a staff of 50 persons, and supported by policy-research institutes and a network of equivalent agencies at the provincial and prefectural levels, the RCRD has proved itself to be both capable and suitably positioned to carry out its responsibilities. The RCRD would serve as a principal Bank counterpart under the proposed loan.

Bank's Role and Rationale

22. The Bank has assisted reform efforts in China by undertaking analytical work that ranges from the 1985 study of the China economy (China: Long Term Issues and Options) to indepth study of sectoral and subsectoral issues. These studies have had a profound impact on the scope and pace of the Chinese reform effort and were carried out at the invitation of the senior leaders of the country and often in collaboration with institutions in China. The Chinese authorities have now invited the World Bank to assist them in the

design and implementation of the regional reform Programs as well as in the development of the national policy programs that will result from the regional efforts.

23. The senior leaders of the Government have come to view the Bank as their window on international experience. They have sought and accepted Bank advice on several reform initiatives in the non-rural sector and feel that Bank involvement would contribute to China's rural reform effort. Thus Bank assistance in designing the new program of reform has been sought. Staff are contributing to both aspects of the Program, but especially to designs of the regional initiatives. Past experience suggests that many of the regional reforms, if well conceived, will be emulated by other areas and may be generalized quickly. Continuous dialogue through a series of rural sector adjustment operations will provide a mechanism for sustained interaction with senior policy makers in a rapidly evolving policy environment.

Loan Formatting

24. In view of the scope of the reform effort that has already been launched, the RSAL would not be tranched. Rather, progress monitoring would be effectuated through the process of preparing repeater RSALs, and the following measures will be incorporated into the design of the proposed loan:

(a) assist the Chinese authorities in the design of regional programs. (The Bank has already made some input. See para. 23);

(b) help monitor and supervise the implementation of the regional reform programs; and

(c) collaborate with the Chinese authorities in the development of the national program of policy reform based on the results of the regional efforts.

25. Borrower . The foreign exchange risk problem and assumption of the repayment obligation is not expected to affect the design of this operation, unlike most Bank agricultural loans to China. The Preparation Mission was advised that special arrangements will be made for the State to assume both of these obligations. These arrangements will be reviewed by the Appraisal Mission.

26. Disbursements of the proceeds of the loan/credit to the Government would be made against general imports subject to a list of ineligible items.

Potential Issues

27. The appraisal mission would:

(a) reach agreement on the context of a Statement of Development and Rural Reform Policies to be submitted to the Bank, before negotiations by the Ministry of Finance. A draft outline is attached;

(b) agree on a tentative loan and credit amount. Our plan is for a loan/credit amount of $300 million ($200 million IBRD, $100 million IDA). Depending on the progress made during appraisal and the content of the policy letter, we may propose increasing this loan amount to $350 million to respond more nearly to the Government request of $400 million.

(c) establish monitoring benchmarks to track the spread of the new program through the rural economy;

(d) arrange for a formal progress review, one year after the loan is signed, and semiannual progress reporting to commence in January 1989.

Next Steps

28. Appraisal for the proposed loan is scheduled to commence mid-February 1988, for Board Presentation in June 1988. To facilitate appraisal, detailed supplementary data and information requests were handed to Government before the Preparation Mission departed from China. The RCRD will coordinate the Government's effort, and hopes to convey the requested materials to the Resident Mission by February 10, 1988. If authority to appraise is granted, a Bank appraisal team would commence work in China about February 20, 1988.

Attachments:
1. Key Macroecomic Indicators
2. Matrix of Rural Reforms
3. Current Timetable
4. Outline: Statement of Development and Rural Reform Policies

Attachment 1
Table 1

CHINA

RURAL SECTOR ADJUSTMENT LOAN

Key Macroeconomic Indicators

	Actual					Prelim.	Projected				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GDP growth rate	8.8	10.2	14.5	12.7	7.9	7.1	7.3	7.4	7.4	7.4	7.4
GDY growth rate	9.8	10.6	14.4	11.1	7.0	7.1	7.2	7.2	7.3	7.4	7.5
GNY/capita growth rate /a	7.3	8.9	13.4	11.6	6.3	6.2	6.2	6.1	6.5	6.4	6.4
Private consumption/capita growth rate /b	8.5	8.7	8.1	2.6	1.9	-1.2	6.3	7.6	8.6	8.6	8.6
Debt service (US$ millions)	2,800	1,500	1,100	2,100	2,400	2,580	2,648	2,784	2,948	3,138	3,260
Debt service/XGS	11.3	6.1	3.9	7.2	7.8	7.3	6.6	6.2	6.0	5.9	5.6
Debt service/GDP	1.1	0.6	0.4	0.8	0.9	0.9	0.8	0.7	0.6	0.5	0.5
Gross investment/GDY /c	29.1	29.6	32.2	38.8	38.8	39.6	39.8	39.3	38.3	37.3	36.3
Domestic saving/GDY /c	31.0	30.5	32.3	34.3	36.0	39.6	39.5	38.9	38.0	37.0	36.1
National saving/GNY /c	31.3	31.2	33.0	34.6	36.1	39.7	39.6	39.0	38.1	37.2	36.2
Marginal national saving rate	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	0.4	0.3	0.3	0.2	0.2
Government revenues/GDP	28.0	28.3	27.1	27.5	25.6	}					
Government expenditures/GDP	29.4	30.0	28.7	28.0	27.5	} Not projected					
Deficit (-) or surplus (+)/GDP	1.4	1.7	1.6	0.5	1.9	}					
Export growth rate /d	-3.8	-1.5	14.0	5.4	5.0	16.4	12.6	11.6	9.1	9.4	9.4
Exports/GDP	7.4	7.3	7.2	8.5	8.7	11.2	11.3	11.3	11.4	11.4	11.5
Import growth rate /d	-19.6	9.6	26.8	55.1	-8.8	-7.2	14.8	13.8	7.7	8.9	8.9
Imports/GDP	6.5	7.5	8.1	12.1	9.7	11.4	11.6	11.6	11.7	11.7	11.7
Current account (US$ million)	5,823	4,487	2,509	-11,811	-7,448	127	-548	-1,380	-756	-577	-336
Current account/GDP	2.2	1.6	0.9	-4.2	-2.7	0.0	-1.6	-3.3	-1.5	-1.0	-0.5

/a Real GDP/capita growth rate for 1982-86.
/b Real.
/c Ratio to GDP for 1982-86.
/b US$ value in current prices.

CHINA

RURAL SECTOR ADJUSTMENT LOAN

Attachment 1
Table 2

Balance of Payments
(US$ millions at current prices)

	Actual					Prelim.	Projected				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
A. Exports of goods and NFS	23,786	23,433	26,716	28,163	29,583	34,449	38,855	43,361	47,290	51,718	56,566
1. Merchandise (FOB)	21,125	20,707	23,905	25,108	25,756	30,100	33,794	37,600	41,093	44,944	49,163
2. Nonfactor services	2,661	2,726	2,811	3,055	3,827	4,399	5,061	5,761	6,197	6,774	7,403
B. Imports of goods and NFS	18,900	20,711	26,269	40,755	37,172	34,502	39,619	45,073	48,536	52,873	57,604
1. Merchandise (FOB)	16,876	18,717	23,891	38,231	34,896	30,900	35,541	40,459	43,601	47,510	5,830
2. Nonfactor services	2,024	1,994	2,378	2,524	2,276	3,602	4,078	4,614	4,935	5,363	51,774
C. Resource balance	4,886	2,722	447	-12,592	-7,589	-3	-764	-1,712	-1,246	-1,155	-1,037
D. Net factor income	451	1,254	1,620	538	-238	403	-152	-37	121	210	333
1. Factor receipts	1,092	1,549	2,008	1,478	986	1,001	1,251	1,376	1,506	1,588	1,691
2. Factor payments	641	295	388	940	1,224	598	1,403	1,413	1,385	1,378	1,358
E. Net current transfers	486	511	442	243	379	300	368	368	368	368	368
1. Current receipts	672	620	596	439	516	505	505	505	505	505	505
a. workers remittances	541	446	317	180	266	126	125	125	125	125	125
b. other current transfers	131	174	279	259	250	379	380	380	380	380	380
2. Current payments	186	109	154	196	137	205	137	137	137	137	137
F. Current account balance	5,823	4,487	2,509	-11,811	-7,448	127	-548	-1,380	-756	-577	-336
G. Long-term capital inflow	1,559	1,172	1,608	3,571	5,796	1,400	1,877	2,029	2,199	2,331	2,465
1. Direct investment	474	636	1,258	1,658	1,875	1,400	1,331	1,331	1,331	1,331	1,331
2. Official capital grants	-	-	-	-	-	-	-	-	-	-	-
3. Net LT loans (DRS data)	803	820	734	3,148	4,545	1,351	546	698	868	1,000	1,134
a. Disbursements	1,032										
b. Repayments	229										
4. Other LT inflows (net)	282	-284	-384	-1,235	-624	-1,351	-	-	-	-	-
H. Total other items (net)	-1,057	-888	-2,301	4,404	-339	1,300	344	1,083	-353	-380	-635
1. Net short term capital	-1,052	-522	-1,369	4,021	-1,532	1,300	344	1,083	-353	-380	-635
2. Capital flows NEI	-	-	-	764	1,193	0	0	0	0	0	0
3. Errors and omissions	-5	-366	-932	-1,145	0	0	0	0	0	0	0
I. Change in net reserves	-6,325	-4,771	-1,816	4,609	1,991	-3,100	-1,675	-1,732	-1,089	-1,373	-1,493
1. Net credit from the IMF	-27	-482	-	-	731	0	0	0	0	0	0
2. Other reserve changes (- indicates increase)	-6,325	-4,771	-1,816	4,609	1,991	-3,100	-1,673	-1,732	-1,089	-1,373	-1,493
Shares of GDP (current US$)											
1. Resource balance	1.8	1.0	0.2	-4.5	-2.7	-0.0	-0.2	-0.4	-0.3	-0.2	-0.2
2. Current account balance	2.2	1.6	0.9	-4.2	-2.7	0.0	-0.2	-0.3	-0.2	-0.1	-0.0
3. Net credit from the IMF	0.0	-0.2	-	-	0.3	-	-	-	-	-	-
Memorandum Item											
GDP (US$ million)	266,200	284,800	291,400	282,800	271,700	298,300	352,193	415,897	491,223	580,310	685,689
Foreign Exchange Reserves											
1. International reserves	11,135	14,476	16,705	11,913	10,514	16,000	17,673	19,405	20,494	21,867	23,360
2. Gold /a	5,236	5,887	5,120	4,419	5,123	6,484					
3. Gross reserves incl. gold	16,371	20,363	21,825	16,332	15,637	22,484					
4. Gross reserves in months imports	10.1	11.6	9.8	4.7	4.9	7.7					
Exchange Rate											
1. Nominal official exchange rate	1.8925	1.9757	2.3200	2.9367	3.4528	3.7221					

/a Valued at London price.

CHINA

RURAL SECTOR ADJUSTMENT LOAN

Matrix of Rural Reforms

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Markets and Marketing	Promote the development of well functioning internal and export markets for agricultural commodities. Develop and encourage appropriate marketing chains, including vertically integrated systems for specialized items. Reduce or remove barriers to interregional trade. Improve the efficiency and competitiveness of marketing systems. Liberalize marketing channels for the commercial distribution of inputs.	- Restrictions on interprovincial transportation and marketing relaxed. - Travel to and temporary residence within urban areas for business purposes permitted. - Private and collectively owned marketing companies allowed to compete with SOEs, financing from banking system authorized. - Policies announced to reduce proliferation of local government fees and surcharges. - Supply and marketing cooperatives created to broaden retail inputs distribution networks. Inputs manufacturers not owned by State permitted to establish own distribution systems. - Above-quota sales in free market authorized for commodities and inputs subject to two-track pricing.	- Reduce local government fees, further reduce interprovincial marketing restrictions. - Develop general purpose agricultural marketing channels and integrated chains for specialized lines with support from (locally financed) price equalization funds and member-owned financial service companies. Various organizational forms permitted: emphasis on voluntary cooperatives, but also partnership and joint stock ventures. Develop "industrial" associations along commodity lines, and improve marketing facilities and market access in the main urban areas for perishables and other high-valued commodities being distributed outside of official channels (Shangzhi County, Fuyang Prefecture and Shunyi County).
		B. 1987	B. Longer-Term Program
		- Designs for regional reform programs to stimulate market development finalized and approved by State Council for implementation (sites: Shangzhi County of Heilongjiang Province; Fuyang Prefecture of Anhui Province; and Shunyi County in the environs of Beijing). - Devolution of authority to manage export marketing, establish more flexible trade regime and foreign exchange allocation systems, and export/import marketing organizations to 8 of China's 30 provinces, municipalities and autonomous zones.	Take stock of progress under near-term action programs, develop generalized policy framework and implement nationwide.

Policy area	Objectives	Recent actions	Intended actions
Pricing/Subsidies/Taxation Note: These reforms would complement the very large producer price increases for grains and other primary agricultural products introduced during the early 1980s, reduced scope of administered pricing (from 90% of agricultural production value in 1979 to 40% in 1985), and the phase-out of consumer subsidies on processed grain products.	Further reduce reliance on administered pricing to permit a rural price structure to develop which can reflect local scarcities and international trade opportunities. Progressively reduce generalized urban consumption subsidies with improved targeting on the poorest groups in both urban and rural areas. Improve tax buoyancy and equity by removing input subsidies and replacing the output tax implicit in below-market price quota obligations by an explicit tax based on the value of agricultural land. (Direct agricultural taxation yields only 2-3% of GVO, and discriminates against grain farmers.)	A. 1984-86 - Nearly all producer price controls removed except for 12 basic or strategic commodities. Latter, partially liberalized after two-tiered system adopted in 1985, consists of "contract" (quota) sales at administered prices and above-quota sales at market or negotiated prices. - TVP prices set free as matter of policy unless TVP sells to or distributes on behalf of SOEs, subject to administered pricing. - Two-track system introduced for fertilizers produced "above plan," though retail subsidies introduced in 1985 to encourage farmers to accept grain delivery quotas. - In 1985/86, subsidies for meat, poultry, eggs, aquatic products and vegetables substantially reduced or eliminated in most urban areas. Efforts to raise urban grain and edible oils prices rolled back due to wage creep. About 30% state budget now allocated to subsidize difference between grain sales and procurement prices. B. 1987 - For grains, quota price set at 70% of negotiated price. In 1987, 50% of all grain sales (equivalent to 15% of total production) were at negotiated prices.	A. 1988-89 - Begin to phase out contract grain purchases, eliminate fertilizer retail subsidy, reduce urban sales subsidies by limiting eligibility and increasing sales prices, increase the agricultural land use tax and realign bases for assessment. [Implementation beginning 04/88 in Xinxiang, Hebei (grain surplus area). Similar effort to be designed during 1988 for testing in Yulin, Guangxi (grain deficit area).] Monitor. - Design general program to phase out urban grain sales subsidies, eliminate retail inputs subsidies. - Develop land taxation policies for subsequent implementation nationwide. B. Longer-Term Program - Subsidies reduction program for urban grains sales to be phased in, starting with smaller and medium-sized cities, then moving to large cities. - Agricultural land taxation policies to be implemented nationwide, beginning with more developed zones.

Policy area	Objectives	Recent actions	Intended actions
Land System Note: Average agricultural holding = 0.61 ha; divided into 9.2 plots.	Improve the security of land use rights by formalizing relationships which govern land use under the household production responsibility system. Improve agricultural land taxation to provide incentives for more efficient land use. Create agricultural leasehold markets with land as collateral for financial and other transactions, secure from local government interference, to foster land use specialization and--where conditions warrant--to reduce land fragmentation.	A. 1984-86 - Inheritable term leases of 15-30 years permitted (1984) for growing annual and tree crops. B. 1987 - National Land Administration Law brought into force, January 1, 1987, to distinguish ownership from land use rights, define land rental and taxation obligations, mandate land recording systems at the county level, and set forth general policy to govern conversion of agriculture land to other uses. - Regulations drafted for testing agricultural leasehold system (Meitan, Guizhou). - Programs underway in labor-deficit zones to reduce land fragmentation, convert micro-size farming units into mini-farms (up to 2 ha), small-scale mechanization, emphasis on grain (sites: Southern Jiangsu; Nanhai County, Guangdong; and Shunyi County, Beijing).	A. 1988-89 - Leasehold regulations to be finalized and implemented during 1988 (Meitan, Guizhou). Government also intends to relieve farmers of grain quota obligation for one of Jiangsu's 3 land consolidation counties during 1988. - Clarify provisions in National Land Administration Law governing land ownership, rights to receive farmer rentals and taxes, and conversion of farmland to nonagricultural uses. - Monitor programs. Refine successful components. B. Longer-Term Program Introduce regional/national policies based on initial experience to facilitate general administration of agricultural land, sale/transfer of agricultural leaseholds, regulate farmers' rental and tax obligations.

Policy area	Objectives	Recent actions	Intended actions
Rural Industry Note: Between 1979-87, 80 million off-farm jobs created. Government is targeting 100 million more by the year 2000 to absorb growing rural workforce and reduce redundancy in farming.	Long-term objective is to provide equal treatment for all industrial enterprises regardless of type of ownership. More immediate objectives for rural industry are to support and reinforce the development of TVE firms and industries whose growth is providing off-farm income and employment opportunities for increasing numbers of rural people. Provide internal management and institutional support, in terms of useful organizational models and management systems, a more secure and less arbitrary external commercial environment. Clarify regulations governing their operations and transactions, and strengthen institutional support (industrial extension, financial policies, etc.).	A. 1984-86 - Formal authority given to rural localities to rapidly develop nonagricultural activities under all forms of ownership. - Sharp increases in credit and other resources to TVEs. - Contracting, leasing and sale of numerous community-owned TVEs to private individuals and groups. - Gradual removal of previous tax exemptions for many TVEs. B. 1987 - Removal of limits on size of private TVEs. - Designs for new phase regional reforms (TVEs) finalized and approved by State Council (site: Fuyang Prefecture, Anhui Province).	A. 1988-89 - In Fuyang, Anhui, introduce companies law for TVEs (possibly also separate regulations for private enterprises); bankruptcy regulations for TVEs; improved provision of various support services to TVEs, partly through encouraging TVEs to relocate in "industrial parks" now being established; and shift role of local government agencies from supervision to provision of needed services and training. - Monitor programs, refine rules and procedures for extension to other regions. B. Longer-Term Program Nationwide implementation of successful components.

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Rural Investment	Improve the organization and management of public investment programs, improve maintenance of rural infrastructure. Delimit policy framework to encourage private investment, reduce the risks attendant with investment which must be faced in China's present rural business environment.	- Informal policy of "encouraging" rural private investment confirmed by the Politburo (1984), made into official state policy. B. 1987 - Devolution of public investment responsibilities to the provincial level announced. Program announced to reorganize SPC, form investment corporations to administer state budget, coordinate and monitor transfers to provinces. - Programs to resuscitate rural works on basis of off-season labor announced by 8 provinces. - At enterprise level, SOE managements made personally accountable (through signed contracts) for enterprise investment decisions and financial performance. - Draft law for SOE ownership, organization, rights and responsibilities publicized for comment.	- Details of SPC reorganization and devolution to be worked out, formalized and implemented in 1988 and 1989. - Planning system for rural works to be revamped; designs of works programs at provincial and local levels to be finalized for implementation during 1988. - Draft SOE law, bankruptcy and restructuring regulations to be formalized in 1988 for implementation. - Trial regulations and enactments to define business personality for TVEs, commercial farmers and marketing/service cooperatives, define and delimit asset ownership, transfer and disposal, and regularize contractual rights and obligations (Fuyang, Anhui; Meitan, Guizhou; Shunyi, Beijing; Nanhai, Guangdong; Wenzhou city; Southern Jiangsu; Shangzhi, Heilongjiang). - Monitor effects of devolution policies, rural works program designs and SOE regulations (1988-90). Refine as needed to accommodate regional differences. - Monitor impact of trial regulations for TVEs, commercial farmers and marketing/service cooperatives (1988/89), refine and prepare policy and regulatory frameworks for nationwide implementation. B. Longer-Term Program - Refine devolution policies and SOE regulations. Nationwide implementation of rural works program, tailored to regional needs. - Implement policy and regulatory frameworks for TVEs, etc. nationwide.

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Credit and Finance	Promote development of a rural financial system which will efficiently mobilize rural households savings and intermediate funds for private agricultural and rural nonagricultural investments.	- Increases in interest rates and somewhat more flexible rate-setting for local bank branches. - Partial institutional separation of Rural Credit Cooperatives from the Agricultural Bank of China. - Partial restoration of "cooperative" nature of former. - Incipient competition among banks permitted in certain localities.	- Develop CRITC organization, procedures and staffing, start-up operations in areas where informal and cooperative credit movement strong. Monitor. Form subsidiary investment corporations, under wing of CRITC. - Monitor operation of informal credit markets (Fuyang, Anhui; Shangzhi, Heilongjiang; Wenzhou City). Provide official sanction of their existence and operations as well as rules and procedures to regulate accounting and accountability, define relationship to formal financial institutions.
		B. 1987	B. Longer-Term Program
		- Legalization and encouragement of informal credit markets in a few areas (most notably Wenzhou City; Fuyang, Anhui; and Shangzhi, Heilongjiang). - Creation of the China Rural Investment & Trust Corp. (CRITC) to provide financial services to the informal sector.	Integrate the CRITC, its subsidiaries, and the informal rural credit institutions into the formal financial sector as wings operating on the basis of market-determined returns from lending, and paying competitive rates for deposits, borrowings and other resources.

Attachment 3

LEN670: LENDING OPERATIONS TIMETABLE-AS OF END DECEMBER 1988 RUN DATE: 01/05/88

COUNTRY: CHINA
PROJECT: 4CHAPA107-RURAL SECTOR ADJ. LOAN
MANAGING OFFICER: BURCROFF
BORROWER: PRC
IMPLEMENTING AGENCY: RCRD, OTHERS-TBD
LENDING INSTRUMENT TYPE: SAD LOAN TYPE:
LEAD ADVISOR: KOHL
MAJOR COMPONENT: AA Z100 OTHER COMP.: 1. ZO 2. ZO 3. ZO 4. ZO

FY AND STATUS : 89S
LEND ID:
MANAGING DIVISION : 255/20
PROBABILITY RATING: B
B-LOAN TYPE:

---------- PROJECT OBJECTIVES AND DESCRIPTION ----------
TO FINANCE GENERAL ~~[illegible]~~ IMPORTS~~& [illegible]~~ ~~[illegible]~~ IN SUPPORT OF GOVT'S SECOND PHASE PROGRAM FOR RURAL REFORM.

LOAN/CREDIT AMOUNT US$M			TOTAL FINANCING PLAN US$M		
IBRD - A	~~150.0~~	200.0	LOAN/CREDIT AMOUNT	~~300.0~~	300.0
IBRD - B	.0		COFINANCING CONF.	.0	
IDA	~~150.0~~	100.0	LOCAL CONTRIBUTION	.0	
IDA(SDR)	106.6		FINANCE GAP	.0	300.0
SFA	.0		TOTAL PROJECT COST	~~300.0~~	
SFA(SDR)	.0		(OF WHICH LOCAL)	.0	

COFINANCING PROSPECTS (Y/N): N

CORE STEPS	LAST MONTH	THIS MONTH
INIT EPS	11/30/87A	11/30/87A
PREAP. REV.MTG	01/19/88	1/20/88A
EPS/IM TO LC	01/27/88	
APPR.DEP	02/14/88	Same
YELLOW COVER	04/04/88	
DOCS TO RVP/LC	04/18/88	
START NEGS.	05/11/88	
BOARD APPRV.	06/28/88	

LOCAL STEPS		
LOCAL STEP NAME	LAST MONTH	THIS MONTH
PREPN. MISSION	11/16/87A	11/16/87A
BTO	01/13/88	01/[illegible]/88A
DRAFT IM	01/11/88	01/[illegible]/88A

---------- REASONS FOR REVISIONS / COMMENTS ----------
~~SCHEDULE WILL BE REVIEWED UPON RETURN OF NOV'87 PREPARATION MISSION.~~
Project on schedule.

CONSULTING SERVICES (IN STAFFWEEKS) PROJECT MAY REQUIRE: None.
~~38~~
ACTION ON PROCUREMENT (MILLIONS OF DOLLARS OF ICBS ANTICIPATED):
~~$300M~~ (SAL PROCEDURES)

$300.0 M

MANPOWER COST SUMMARY (IN STAFFWEEKS)

	TOTAL	OF WHICH DIV M.L.	DIV ASST.	DIV CONS.	VP-OTHER	OTHER
ACTUAL TO FY88	.0	.0	.0	.0	.0	.0
FY88 ORIG PLAN	.0	.0	.0	.0	.0	.0
FY88 REV PLAN	179.0	43.0	.0	87.0	37.0	12.0
FY88 ACTUAL	18.1	9.1	.0	3.6	5.4	.0
AFTER FY88(RP)	230.0	.0	.0	.0	.0	230.0

EXPECTED TOTAL STAFFWEEK COST: .0 ACT.PLAN: .00

DOLLAR COST SUMMARY (IN THOUSANDS OF $)

	TOTAL	OF WHICH STAFF	CONSULTANT	TRAVEL
ACTUAL TO FY88	.0	.0	.0	.0
FY88 ORIG PLAN	.0	.0	.0	.0
FY88 REV PLAN	.0	.0	.0	.0
FY88 ACTUAL	.0	.0	.0	.0

SIGNATURES

Joseph Goldberg 1/21/88 — MANAGING DIVISION CHIEF — MM / DD / YY

Richard Burcroff for 1/21/88 — MANAGING OFFICER — MM / DD / YY

DRAFT
February 5, 1988

Statement of Development and Rural Reform Policies

(to be approved by State Council and transmitted under covering letter signed by Minister of Finance)

I. Economic Development Strategy

Strategic Objectives for 1990s and the early 21st Century
Three Main Elements:

- Education, Science and Technology
- Balanced Development
- Opening to the Outside World

II. Overall Objectives of Economic Reforms

Principles of Chinese Socialism
Basic Objectives of Reforms:

- Enterprise Reforms
- Promoting Horizontal Ties
- Market System Reforms
- Reforms of Macromanagement
- Diversifying Ownership Structure
- Alternative Forms of Income Distribution

III. Rural Reform Program

1. Price Reform

Measures taken to date:
price adjustment, price decontrol of agricultural commodities

Situation in early 1988: remaining areas of control; issues.
Medium-term program for decontrol of grain pricing to be undertaken in three steps:

- selective decontrol by end-use
- price adjustment, reduction of procurement by state
- complete decontrol, eliminate price subsidies, wage adjustment, introduce low-income subsidies

Actions to be taken in 1988 and 1989

- implement at the regional level a program to phase out contract grain purchases, eliminate fertilizer retail subsidies, further reduce urban sales subsidies by limiting eligibility and by increasing sales prices and increase the agricultural land use tax and realign bases for assessment.

- implementation will begin in Xinxiang, Hebei (grain surplus area). A similar effort will be designed during 1988 for implementation in Yulin, Guangxi (a grain deficit area).

2. Development of Rural Market Economy

Measures taken to date:

- abolition of compulsory procurement system

- removal of restrictions on marketing outside state sector

- diversification of distribution and marketing systems

Medium-term program for further reforms of marketing and distribution system

- removal of internal trade barriers

- policies for development of non-state agricultural marketing channels

- promotion of service companies and diversified forms of trading companies

Actions to be taken in 1988 and 1989

Reforms to be introduced in Shangzhi County of Heilongjiang Province, Fuyang Prefecture of Anhui Province, and Shunyi County in the environs of Beijing. National programs to be designed on the basis of these regional experiences.

3. Land Use System

Dismantling of commune system, evolution of household responsibility system

Recent measures to transfer land use rights to households and ensure security

Current problems of land use system

Medium and long-term program for further reforms of land use system

Actions to be taken in 1988 and 1989

- introduce regulations on transfer of land use rights
- introduce new land policies in Meitan, Guizhou
- regional program in labor-deficit zones to reduce land fragmentation, convert micro-farming units to mini-sized farms (up to 2 ha) and facilitate limited small-scale mechanization (sites: Southern Jiangsu; Nanhai County, Guangdong and Shunyi County, Beijing)
- relieve farmers of grain quota obligations in one of the three land consolidation counties of Southern Jiangsu and monitor the impact this will have on land use
- the National Land Administration to clarify recent policies governing the conversion of farmland to non-agricultural use
- design national policies to facilitate sale/transfer of agricultural leaseholds and improve efficiency of land use

4. Production Support System

Development of two-tier production system

- household production
- collective support system

Medium-term program to develop collective system for farm land development, irrigation development, construction and maintenance of rural roads and infrastructure, development of agricultural support services.

5. Rural Industrial Policies

Recent policies to promote rural industrial development

Achievements

Actions to be taken in 1988 and 1989

- formulate state enterprise laws, and township and village enterprise laws to ensure property rights, management autonomy, etc.
- SPARK program to ugprade rural technology
- introduce laws to define business environment for private enterprises and regulate internal management structure
- comprehensive pilot industrial policy reforms to be introduced in Fuyang, Anhui and other regions including company law and bankruptcy regulations for TVEs, etc., improve the provision of various support services to TVEs,

partly through encouraging TVEs to relocate in "industrial parks" now being established and shift role of local government agencies from supervision to provision of needed services and training.

- The Government will monitor the Fuyang program, refine the rules and procedures and announce national policies to extend these initiatives throughout China.

6. Rural Investment and Financial Systems

Developments since 1985 in rural investment and financial system

Nationwide reforms to be introduced in 1988/89, featuring

- Reorganization of planning organs
- Establishment of investment companies
- Main features of reformed investment and financial system

Concomitant reforms in rural investment and financial system to be introduced in 1988 and 1989

- Establishment of CRITC
- Legalization and regulation of non-official credit channels in selected localities as pilot

IV. Achievements and Performance Prospects

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
December 21, 1984	Letter w/attachment	

Correspondents / Participants
To: Mr. Xu Naijiong, Executive Director
From: A.W. Clausen

Subject / Title
Letter from Minister Wang Bingqian

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

(3/82)

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

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PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: AEACH

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

MINISTER WANG WEI, STATE FAMILY PLANNING COMMISSION,

44 HOUHAI BEIYAN, GULOU XI DAJIE, BEIJING, CHINA

THANK YOU FOR YOUR TELEX AND KIND REMARKS. THE WORLD BANK STAFF VISITING CHINA IN OCTOBER/NOVEMBER WILL REQUEST ARRANGEMENTS TO MEET WITH THE STATE FAMILY PLANNING COMMISSION STAFF. REGARDS,

A.W. CLAUSEN, INTBAFRAD

END OF TEXT

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CLASS OF SERVICE: CAble

TELEX NO.:

DATE: Oct. 2, 1984

SUBJECT: CHINA - October mission (mtg. w/SPC)

DRAFTED BY: JRBumgarner:mac

EXTENSION: 75463

CLEARANCES AND COPY DISTRIBUTION:

Cleared w/and cc: Mr. Koch-Weser (AEA)
Ms. Husain (PHN)

cc: Messrs. Karaosmanoglu (AENVP)
Kaji (AEA), Kirmani (AEP)
North (PHN)

AUTHORIZED BY (Name and Signature): A.W. Clausen

DEPARTMENT: President

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FORM NO. 89
(7-81)

THE WORLD BANK

ROUTING SLIP	Date
	Sept. 26, 1984

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Karaosmanoglu	A-613
cc: Mr. North	

	To Handle		Note and File
	Appropriate Disposition	XX	Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

Remarks

Would you please prepare a reply for Mr. Clausen's signature by October 3?

Roy Southworth

From

#2084

ZCZC DIST2894 RCA1016
DIST
REF : TCP D.S.
MR. CLAUSEN

RCA1016
248423 WORLDBANK
WWTQW BOOTH CN
TELEX:
023
24833
248423
WASHINGTON DC
MR. CLAUSEN
PRESIDENT OF WORLD BANK
PLEASED MEET YOU AT MEXICO CONFERENCE AND APPRECIATE YOUR IDEA
TO INCREASE POPULATION PROJECT ASSISTANCE EXPRESSED IN YOUR SPEACH
MY COLLEAGUES HAD FRIENDLY TALK WITH YOUR REPRESENTATIVES ON
BILATERAL COOPERATION DURING CONFERENCE WE'D LIKE MEETING AND
DISCUSSINF WITH WORLD MISSION VISITING CHINA OCTOBER REGARDS
WANG WEI MINISTER STATE FAMILY PLANNING COMMISSION

248423 WORLDBANK

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1984 SEP 26 AM 1:28
OFFICE OF THE PRESIDENT
THE WORLD BANK

RECEIVED
1984 SEP 26 PM 1:29
OFFICE OF THE PRESIDENT

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PAGE 1 OF 3

OFFICIAL DEPT/DIV ABBREVIATION: SVPFI

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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HIS EXCELLENCY, PREMIER ZHAO ZIYANG, BEIJING, PEOPLES REPUBLIC OF CHINA

DEAR PREMIER ZHAO ZIYANG,

AS YOU MAY KNOW, OUR BOARD OF EXECUTIVE DIRECTORS HAS NOW APPROVED RESOLUTIONS AUTHORIZING A SELECTIVE CAPITAL INCREASE OF $8.4 BILLION FOR THE WORLD BANK AND A SEVENTH REPLENISHMENT OF $9 BILLION FOR THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA).

NOW THAT THIS IMPORTANT STEP HAS BEEN TAKEN, THE MANAGEMENT OF IDA IS RENEWING ITS EFFORTS TO RAISE SUPPLEMENTARY RESOURCES FOR THE ASSOCIATION IN ADDITION TO THOSE PROVIDED UNDER IDA7. IN THIS CONNECTION

I RECOLLECT THAT YOU HAD, DURING YOUR VISIT TO WASHINGTON, OFFERED YOUR GOOD OFFICES TO LET THE MAJOR DONOR COUNTRIES KNOW ABOUT CHINA'S CONCERN THAT IDA BE PROVIDED WITH AN ADEQUATE LEVEL OF RESOURCES FOR THE NEXT THREE YEARS IN ORDER TO ACCOMMODATE BOTH OLD AND NEW MEMBERS.

I AM INFORMED THAT THE MATTER OF SUPPLEMENTARY FINANCING ARRANGEMENTS FOR IDA WILL BE BROUGHT UP DURING

END OF TEXT

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CLASS OF SERVICE: TELEX	TELEX NO.:	DATE: May 31, 1984	
SUBJECT: IDA7		DRAFTED BY: PSMistry:rraf	EXTENSION: 75464
CLEARANCES AND COPY DISTRIBUTION: cc: Messrs. Xu Naijiong, Fei Lizhi; cleared with and cc: Mr. Karaosmanoglu		AUTHORIZED BY (Name and Signature): A. W. Clausen	
		DEPARTMENT: President	
		SECTION BELOW FOR USE OF CABLE SECTION	
		CHECKED FOR DISPATCH	

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PAGE 2 OF 3

OFFICIAL DEPT/DIV ABBREVIATION: SVPFI

MESSAGE NUMBER

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THE FORTHCOMING SUMMIT MEETING TO BE HELD IN LONDON NEXT WEEK.

I BELIEVE THAT YOUR INTERVENTION WITH JAPAN BEFORE THE SUMMIT MEETING ON THIS ISSUE COULD SIGNIFICANTLY FACILITATE ITS RESOLUTION. THE MAIN OBSTACLE AT THE PRESENT TIME TO SUPPLEMENTARY FINANCING IS THE POSITION TAKEN BY THE JAPANESE AND GERMAN GOVERNMENTS. WHILE ALL OTHER DONOR COUNTRIES ARE PREPARED TO PROCEED, THESE TWO GOVERNMENTS ARE UNWILLING TO DO SO UNLESS THE U.S. ALSO AGREES TO PARTICIPATE. IN MY VIEW, IT IS UNREALISTIC TO EXPECT THE U.S. TO CHANGE, ANY TIME SOON, THE POSITION IT HAS TAKEN ON IDA7. INITIATIVES HAVE RECENTLY BEEN TAKEN IN THE U.S. SENATE WHICH MAY MAKE IT POSSIBLE FOR THE U.S. TO DO MORE LATER ON, PERHAPS NEXT YEAR. THE PROSPECTS OF SUCH INITIATIVES SUCCEEDING WILL BE MUCH GREATER IF OTHER DONORS CAN DEMONSTRATE BY THEIR ACTIONS THAT THEY ARE PREPARED TO GO AHEAD NOW EVEN WITHOUT THE U.S. MY FEAR IS THAT IF JAPAN AND GERMANY ADHERE TO THEIR PRESENT POSITIONS, ANY HOPES FOR

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CLASS OF SERVICE:	TELEX NO.:	DATE:
SUBJECT:	DRAFTED BY:	EXTENSION:
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PAGE 3 OF 3

OFFICIAL DEPT/DIV ABBREVIATION: SVPFI

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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SUPPLEMENTAL FUNDING WILL NOT MATERIALIZE. IDA WILL THEREFORE LOSE NOT ONLY THE CONTRIBUTIONS OF THESE TWO COUNTRIES BUT OF OTHER DONORS AS WELL.

FOR THIS REASON I BELIEVE IT WOULD BE MOST HELPFUL IF, PRIOR TO THAT MEETING, YOU COULD SEND A MESSAGE TO PRIME MINISTER NAKASONE OF JAPAN APPRISING HIM OF YOUR CONCERNS AND URGING THAT JAPAN JOIN ALL DONORS OTHER THAN THE UNITED STATES IN A SUPPLEMENTARY FUNDING ARRANGEMENT. YOUR REPRESENTATIONS TO JAPAN HAVE BEEN EXTREMELY EFFECTIVE IN THE PAST AND I AM SURE THAT THEY WILL PLAY A KEY ROLE ON THIS OCCASION AS WELL. I HAVE ALREADY ASKED MR. FEI LIZHI, WHO REPRESENTS CHINA AS ALTERNATE EXECUTIVE DIRECTOR ON OUR BOARD, TO LET YOUR GOVERNMENT KNOW ABOUT THIS REQUEST TO YOU.

LET ME THANK YOU IN ADVANCE FOR YOUR HELP IN THIS MATTER AND FOR THE VERY CONSTRUCTIVE ROLE THAT YOU AND YOUR GOVERNMENT HAVE PLAYED IN SUPPORTING THE BANK AND IDA.

MY WARMEST REGARDS.

SINCERELY, A. W. CLAUSEN, THE WORLD BANK.

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CLASS OF SERVICE:	TELEX NO.:	DATE:
SUBJECT:	DRAFTED BY:	EXTENSION:
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): A. W. Clausen	
	DEPARTMENT:	
	SECTION BELOW FOR USE OF CABLE SECTION	
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China's Treatment Under Prior IBRD Capital Increases

1. The normal practice of parallelism has never applied in the determination of China's subscription in the IBRD.

- Initial Subscriptions. China took a larger initial subscription in the Bank (6,000 shares, valued at 600 million of 1944 dollars) than in the Fund (550 million of 1944 dollars). Only two other members (United States and Canada) were similarly treated.

- 1960 Adjustment. All members other than China accepted a doubling in their IBRD subscriptions. Having decided not to participate in the first general increases in Fund quotas (proposed in 1959) but to participate in the first general increase in Bank capital (also proposed in 1959), China sold back 2,250 shares to the Bank in 1960, so that it would have similar relative positions in the two institutions after its subscription under the general capital increase. No other country's subscription to Bank capital has been adjusted on account of not participating in a general quota increase.

- No subscription adjustment in 1961-1979. There was no adjustment to China's subscription in the Bank and the Fund for two decades. In particular, quota increase proposals of the Fifth and Sixth General Reviews of Fund Quotas contained no increase for China. China's Fund quota remained at the initial level of SDR550 million while successive general increases raised the quotas of most of original Fund members at least 2.45 fold from the initial levels. China's subscription to Bank capital stayed at 7,500 shares, which resulted from its participation in the first GCI after the 1960 adjustment.

- Non-parallel selective increases in 1980. In 1980, China received an ad hoc quota increase of 118.18% (from SDR550 million to SDR1,200 million). The accompanying special capital increase in the Bank was 60% (from 7,500 shares to 12,000 shares). This was the only exception to the practice of the Bank to follow a selective increase in amember's Fund quota with a proportionate capital increase for the same member.

2. Thus, the record of share allocation to China reveals the exceptional way it has been treated over the years.

February 7, 1984

Dear Mr. Ambassador:

Once again, let me thank you for the excellent dinner last Friday evening. Mrs. Clausen and I thoroughly enjoyed the evening and the good company. It was very kind of you to invite us.

Warm regards.

Sincerely,

A. W. Clausen

His Excellency
Zhang Wenjin
Ambassador of the People's
Republic of China
2300 Connecticut Avenue, N. W.
Washington, D. C. 20008

MH

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

To: Mr. A. W. Clausen

January 30, 1984

From: Ernest Stern ES.

Subject: China

I understand that you will have lunch with Mr. Xu on Tuesday. Mr. Karaosmanoglu and Mr. Benjenk are scheduled to attend.

No doubt the IDA allocation to China will come up. Mr. Xu has, in several conversations with Mr. Karaosmanoglu, referred to his expectation that the allocation would be in line with what you told his authorities in Beijing. I am not sure what he means by that. In any event, it is very important that you do not mention numbers at this time. We should, of course, express our gratitude for their political support. As to the lending program, we should limit ourselves to the following general points:

- A $9 billion IDA inevitably means changes in plans and relative allocations.

- Since we are still hopeful of raising supplementary resources, uncertainty will remain about availabilities over the FY85-87 period.

- Blends for blend countries will harden. This is particularly true for those with considerable borrowing (creditworthiness) capacity.

- It remains true that the India share will continue to decline, while the China share will continue to rise. However, the substantial shortfall in IDA availability necessarily affects these rates of change too.

- We will have in mind in our allocation the maximum possible protection of the poorest countries and an equitable treatment of the other IDA borrowers.

Whether you wish to make the next to last point will depend on how the conversation goes and how far Mr. Xu pushes for information.

ES:n

Mr. Jr, Mr. Lawrenceville
Mr. Bojak 103

Mr Clausen (4)

APPETIZERS

Navy Bean Soup	-	Chicken Broth with Noodles	$0.90
Fruit Juices	-	Tropical Fruit Cup	$0.85
Celeri-Rave Remoulade	-	Antipasto	$1.45
Herring Salad	-	Prosciutto and Melon	$1.55

ENTREES

CREPES PROVENCALE $4.30
(Zucchini & Eggplant)

ESCALOPE DE VEAU MARSALA $6.75
(Sauteed Veal Cutlet)

CHOUCROUTE GARNIE ALSACIENNE $6.00
(Ham-Sausage-Sauerkraut)

PAUPIETTE DE SOLE MARINIERE $6.50
(Filet of Sole w/Minced Mushrooms)

FROM THE GRILL - COOKED TO ORDER R( ) M( ) W( )
RIBEYE STEAK $7.35
TWO BROILED LAMB CHOPS $7.25
LOW CALORIE: CHOPPED SIRLOIN STEAK W/MUSHROOMS $5.15

••• FILET MIGNON, SAUCE BEARNAISE $9.00 •••

Please Indicate if Desired: SALAD

VEGETABLES - CHOICE OF TWO

Stuffed Baked Potato — Fried Zucchini — Belgium Carrots

***

COLD PLATES AND SANDWICHES

POACHED SALMON GARNIE $4.70 — FRUIT PLATE W/COTTAGE CHEESE $4.70
CHICKEN SALAD SANDWICH $4.30

DESSERTS

Sherbert	- Ice Cream			$1.00
Pear Belle Helene	-	Peach Melba		$1.20
Assorted Pastries	-	Tartlets	- Cakes	$1.45
Cheese and Crackers	-	~~Fresh Fruit~~		$1.40

APERITIFS - BEVERAGES

Sherry Sweet or Dry $0.85 — Dubonnet $0.85
Coke $0.70 — Ginger Ale $0.70 — Milk $0.35
Perrier $1.10 — Decaffeinated Coffee $0.35
Coffee $0.35 — Tea $0.35 — ~~Espresso $0.55~~

Tuesday — January 31, 1984
3

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of the President

February 29, 1988

Messrs. Moeen Qureshi & Attila Karaosmanoglu

Moeen/Attila:

Mr. Conable would like to be briefed on the China--Rural Sector Adjustment Loan. In addition to general briefing on the agricultural sector, the extent of the reform program, the strength of Chinese commitment and steps envisaged to monitor progress, he wishes to discuss:

(i) the likely implications of a first fast-disbursing loan in China on the structure of our lending program in China and relations to the various ministries involved; and

(ii) proposed conditionality for this loan in comparison with the approach the Bank has taken in other countries; and

(iii) the impact of this loan on our dialogue and program in India.

Marianne Haug

cc: Messrs. Shihata, Fischer & Burki

The World Bank
OPERATIONS COMMITTEE

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Minutes of the Operations Committee to Consider
CHINA - Rural Sector Adjustment Loan -
Initiating Memorandum

CONFIDENTIAL

Held on February 17, 1988 in Conference Room E-1244

A. Present

Committee		Others	
Messrs.	M. Qureshi (Chairman)	Messrs.	T. Baudon (SVPOP)
	D. Goldberg (VPLEG)		R. Burcroff (AS3AG)
	P. Isenman (AFRVP)		S.J. Burki (AS3DR)
	A. Karaosmanoglu (ASIVP)		S. Burmester (SEC)
	V. Rajagopalan (VPPRE)		V. Dubey (EAS)
	D.C. Rao (VPFPR)		A. Golan (ASTDR)
	W. Thalwitz (EMNVP)		J. Goldberg (AS3AG)
	H. Vergin (SVPOP)		R. Liebenthal (SPR)
			E. Lim (Res. Rep.)
			B. Merghoub (AS3CO)
			G. Pohl (EAS)
			C. Robless (SVPOP)
			W. Schwermer (COD)
			A. Tanaka (LEG)
			G. Tidrick (AS3CO)
			M. Wiehen (ASIVP)
			O. Yenal (ASIVP)

B. Issues

1. The meeting was called to discuss the Initiating Memorandum (IM) for a proposed Rural Sector Adjustment Loan to China in the amount of $300 million of which $100 million equivalent would be from IDA. The discussion covered the issues raised in the EAS's agenda, dated February 12, 1988. The main focus was on how to make performance targets more transparent and monitorable and the adequacy of the macro-economic environment, including credit policy and budgetary subsidies. The meeting also discussed the loan amount and tranching.

C. Discussion

2. The Chairman expressed his view that the proposed rural reform program was impressive, but China was now entering into a more difficult phase in the reform process. There were three main issues: (a) how to make the policy matrix more objectively monitorable; (b) are we satisfied with the macro-economic environment; and (c) can we link steps in the reform program with measures in the macro-economic program, e.g. grain subsidies?

3. The Region responded to (a) that the appraisal mission will seek to agree with the Chinese authorities on specific monitorable benchmarks with respect to program implementation. With respect to the macro-economic framework, there was no question that credit had expanded too rapidly in recent years, and that Chinese leaders were concerned about the situation and credit growth had been more restrained in recent months. The Region proposes to address these issues through economic work and possibly through a financial sector operation. As long as the present macro-economic imbalances last, the Chinese are unlikely to introduce major price adjustments. The Region also stated that in its view the progress on many of the proposed rural reform measures would not be affected by the macro-economic situation, except with regard to grain price adjustments. It was also pointed out that exports have increased substantially and that imports have been controlled successfully - albeit by administrative controls.

4. One committee member questioned whether policy change has always to be supported with quick disbursing lending operations and suggested that the proposed measures in the policy matrix be made more specific and monitorable. Otherwise, such a precedent could undercut the Bank's negotiation position in countries that have similar problems but are not equally committed to reforms as China. Other members seconded that view. One member asked why our strategy in China, which had addressed policy and institutional reform issues through CESW and project lending, now required policy-based lending. It was also pointed out that it is not very clear from the policy matrix which measures had already been implemented, and what are the priorities among the proposed measures.

5. The Region responded that it was not possible to be involved in the design and implementation of the rural reform program through economic and sector work alone. The working relationship has become much closer over the past few years and the government has invited us to participate more directly in policy formulation. It was also pointed out that budgetary constraints will not permit us to lend in the volume desired by the government through project lending alone, especially since it is essential to include innovative smaller projects. Also, the letter of development policy will have to be discussed by the State Council and thus elevates our policy dialogue to the highest level of the government.

6. The Chairman concluded the discussion by saying that a clear statement of the rationale for our involvement was needed. We should emphasize the need to be more closely involved in policy formulation. The implications for our lending strategies should be explained. It is essential that the policy matrix be made much more transparent and monitorable. It is also important to introduce links to measures with respect to pricing, budgetary subsidies and taxation. This loan needs to be presented with a clear statement of the government's broader strategy in the letter of development policy. As to the loan amount, an increase beyond $300 million cannot be justified at the present time without tranching.

February 24, 1988

GPohl:pl

THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

Tanaka
Introduced for
~~Today~~ Feb. 29

DATE : February 12, 1988

TO : Operations Committee

FROM : Vinod Dubey, Director, EAS

SUBJECT: China: Rural Sector Adjustment Loan - Initiating Memorandum - OC Meeting Agenda.

1. The Operations Committee will meet on Wednesday, February 17 at 4:00 p.m. in Room E-1244 to discuss the Initiating Memorandum on a proposed Rural Sector Adjustment Loan (RSAL) to China for a total amount of $300 million, of which $100 million equivalent would be from IDA.

2. The proposed operation would be in support of further reform measures in the rural economy, including increased scope of market transactions, reduction in reliance on administered pricing, clarification of land use rights, development of rural industry, devolution of responsibility for rural infrastructure investment, and further development of rural financial institutions. This would be the first adjustment operation in China. Policy-based operations to assist with the restructuring of other economic sectors are now also under discussion.

3. The Committee may wish to discuss the following:

a) While the rural economic reform program to be supported by the proposed operation is comprehensive, the policy matrix remains vague with respect to measures to be taken, e.g. "further reduce interprovincial marketing restrictions" or "begin to phase out contract grain purchases". Very few specific and monitorable performance targets are given. In the absence of specific "monitorable" measures, how does the Region propose to monitor "progress"?

b) The lack of a viable macro-economic framework is probably the greatest risk for the proposed reform program. Low (virtually zero) inflation is seen by the Party and the public as one of the most important achievements of the past thirty years. But during the past four years the government has been unable to limit credit expansion to a rate that is consistent with low price inflation (credit expansion has averaged 30% p.a. for the past four years). Rather than condoning double-digit inflation rates, the government has recently rolled back already announced price reform measures (grain and edible oil) that are closely related to the success of the proposed rural economic reform program.

How can the program succeed without a stronger commitment by the government to bring down credit expansion?

c) Grain subsidies. About 30% of the state budget (or 8% of GDP) is now allocated to subsidize the difference between grain sales and procurement prices. These massive subsidies are one of the most important obstacles to further

marketization of the economy and fiscal reform. Could the program be strengthened to include quantitative objectives to reduce grain subsidies?

d) Loan Amount/Tranching. The Region proposes a total loan/credit amount of $300 million, that may be increased to $350 million to respond to the Government's request of $400 million. The lower loan amount has apparently been adopted to avoid tranching which in turn is closely related to the absence of specific and monitorable program targets.

Can such a large loan amount be justified without tranching?

cc: D. Lee, COD; A. Shakow, SPR; J. Holsen, CEC; D.C. Rao, FRS; J. Baneth, IEC; Thahane, Burmester, SEC; R. Liebenthal, SPR; A. Steer, FRS; T. Baudon, SVPOP; O. Yenal, ASIVP; S.J. Burki, AS3DR; J. Goldberg, R. Burcroff, AS3AG; B. Merghoub, G. Tidrick, AS3CO.

For Information Only:

D. Bock, DFA; S. Fischer, VPDEC; R. Frank, J. Parmar, IFC; D. Hopper, PPR; M. Haug, EXC; D. Goldberg, VPLEG;

GPohl:pl

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

put on mtg agenda

DATE : February 9, 1988

TO : Operations Committee

FROM : Vinod Dubey, Director, EAS

SUBJECT : China: Rural Sector Adjustment Loan - Initiating Memorandum

A meeting to discuss the China Rural Sector Adjustment Loan -Initiating Memorandum- will take place on Wednesday, February 17, at 4:00 p.m. in Room E-1244. An agenda will be issued shortly.

cc: D. Lee, COD; A. Shakow, SPR; J. Holsen, CEC; D.C. Rao, FRS; J. Baneth, IEC; Thahane, Burmester, SEC; R. Liebenthal, SPR; A. Steer, FRS; T. Baudon, SVPOP; O. Yenal, ASIVP; S.J. Burki, AS3DR; J. Goldberg, R. Burcroff, AS3AG; B. Merghoub, G. Tidrick, AS3CO.

For Information Only:

D. Bock, DFA; S. Fischer, VPDEC; R. Frank, J. Parmar, IFC; D. Hopper, PPR; M. Haug, EXC; D. Goldberg, VPLEG;

GPohl:pl

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 9, 1988

TO: Mr. Moeen A. Qureshi, Senior Vice President, SVPOP

FROM: Attila Karaosmanoglu, Vice President, ASIVP

EXTENSION: 72283

SUBJECT: CHINA: Rural Sector Adjustment (FY88L) - Initiating Memorandum

1. Attached for your review and comment please find an Initiating Memorandum for the China - Rural Sector Adjustment Loan (RSAL). A meeting of the Operations Committee to review this operation has been scheduled for February 17, 1988. The Government of China's new program to deepen and accelerate rural reform is sound and its commitment is firm. Thorough preparations have been made in response to staff requests and suggestions, whose advice has been sought on a number of issues. We therefore believe that the RSAL is ready for Bank appraisal and so recommend.

2. This operation is likely to be the first of a series of RSALs. The proposed loan/credit amount is $300 million, of which $100 million equivalent would draw from IDA. Depending on the progress made during appraisal and the content of the policy letter, we may propose increasing the loan amount to $350 million to respond more nearly to the Government request of $400 million. The loan/credit will not be tranched but the conditions will be supported by the prospect or denial of repeater operations.

Attachment

cc: Operations Committee Members

Messs. S. Husain (LACVP); E. Jaycox (AFRVP); W. Thalwitz (EMNVP); V. Rajagopalan (VPPRE); I. Shihata (VPLEG); D. Wood (VPFPR); H. Vergin (SVPOP)

Other Attendance

S. Fischer (VPDEC); T. Thahane (VPS); D.S. Lee (CODDR); V. Dubey (2)(EAS); A. Shakow (2)(SPRDR); J. Holsen (3)CDR); D.C. Rao (2)S); J. Baneth (IECDR); R. Liebenthal (SPRPA); A. Steer (FPS); T. Baudon (SVPOP); S.J. Burki (AS3DR); J. Goldberg, R. Burcroff (AS3AG), B. Merghoub, G. Tidrick (AS3CO), E. Lim (C-9013)

Information

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INITIATING MEMORANDUM

Operation: China - Rural Sector Adjustment Loan (RSAL-FY88)
Type: SECAL
Loan Amount: US$200 million
Credit: US$100 million equivalent
Resp Unit: AS3AG
Status: Preparation/Preappraisal

Introduction

1. In 1980, China embarked on a far-reaching program of economic reform. Beginning with the rural sector, this program has developed rapidly in both depth and scope, now touching virtually all aspects of social, economic and political life in the country. It has achieved in many areas spectacular success and gained widespread international attention. The Bank has been an active partner in this process. At the request of senior Chinese leaders, we have contributed to the formulation of reform policies through our economic and sector work, through advisory missions and through intensive dialogue with senior policymakers.

2. The Government has now requested that the Bank extend its role in the reform process by providing technical and financial support for the reforms. The proposed operation is the first of what we plan to be a series of operations to support further reform of the rural economy. Policy-based operations to assist with the restructuring of other economic sectors are also under discussion. The proposed RSAL is being processed as an FY88 operation. The reception of previous Bank missions for this loan [1/] has been quite good, for which thorough preparations were made.

Country Situation: An Overview

3. Almost ten years have elapsed since China's 11th Party Congress took the landmark decision during its Third Plenary Session to "readjust and restructure" the economy. Armed with this mandate, the Chinese leadership embarked on the first phase of what promises to be a far-reaching program of administrative decentralization and market mediated development. The positive signs are the pace at which GNP has increased--by 10% p.a. over the reform period as a whole; the extraordinary responsiveness of savings to rising incomes; the strength of investment; the growth of commodity exports and their changing composition which by 1987 had nudged the share of manufactures to over 64%; near equilibrium in the BOP; reserves equivalent to six months of imports (in 1987); and a comfortable debt situation with a DSR of 9.5%.

4. But easing the controls on publicly-owned enterprises, with access to subsidies to cover their poor marketing and production decisions, has

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1/ An Identification Mission visited China in September 1987, which was followed by a Preparation Mission in November 1987.

uncovered an investment hunger which is held in check only through great vigilance on the part of the central authorities. Partial price reform has led to an escalation of subsidies to enterprises and urban consumers (about 30% of the state budget in 1987), while profit retention by firms operating under the new incentive regime has eaten into government revenues. Although the tax/GNP ratio is still a respectable 23% (1987), the fiscal maneuverability has been reduced and the authorities have to contend with a budget deficit equal to 2.7% of GDP. In recent years, decentralization of the financial system by allowing credit to expand by 20-30% p.a. has given a further twist to aggregate demand pressures. The result has been inflation of nearly 20% in free markets and 7.5% of p.a. increase in the nationwide retail price index during 1986-87.

5. The reforms and their impact have been most pronounced in the rural sector, which continues to account for the main livelihood of over 800 million people. Since 1979 the introduction of the Household Responsibility System, dismantling of communes, and the separation (at the local level) of political decision-making from economic management have profoundly restructured rural economic activity. Beginning in 1979, in recognition that the benefits from collectivized management had run their course, land use rights were progressively transferred to farm households, pricing and markets were increasingly liberalized, and a policy environment was adopted to encourage decentralized management in the rural segments of secondary and tertiary industries. The result has been a literal explosion of growth in rural manufacturing and services over the past decade (22% p.a.), and a very high rate of growth in the agricultural sector (6.6% p.a.). Perhaps the most significant achievement, however, has been the massive shift of 80 million farm laborers which occurred between 1979-1986, from the unproductive make-work environment that characterized China's agricultural sector prior to decollectivization, to the dynamic rural non-farm sectors characterized by autonomous production units above the level of the small family farm. In parallel, agriculture has been revitalized. Since 1980, the sector has witnessed a rapid expansion of cash cropping, non-staple food production and agricultural foreign trade. Reforms, abetted by substantial increases in producer prices, the progressive removal of restrictions on most commodity markets and--increasingly--on input distribution activity, and by three successive years of good weather, not only yielded record harvests with grain production peaking in 1984, but also made China for the first time a net exporter of foodstuffs.

6. After 1984, the Chinese policymakers began to tackle the more difficult hurdle which involved extending the reforms to the urban-based industrial sector and using profit incentives, enterprise autonomy and the dismantling of some price controls to coax forth the dynamism that has transformed the rural economy. The economic decision-makers also found that each round of liberalization had triggered an upwelling of investment, with a consequent strain on the BOP, and that increased consumer demand backed by a sizeable growth in household incomes became a threat to both price stability and the trade balance. Since 1985, additional measures have been taken to rein in the current account deficit, which in 1985 had swelled to -4.2% of GDP, largely through imports of consumer goods and equipment.

7. The very success of the first phase reforms, particularly in the rural sector where performance exceeded expectations, has introduced second-generation problems that the authorities are now moving to address. Ahead looms the problem of unemployment as market-driven productivity increases challenge the pervasive and long-standing overstaffing in factories, farms and state agencies. The Government estimates that jobs will need to be found for some 100 million rural workers by the year 2000. Employment generation and rising living standards call for continued rapid growth. High rates of overall growth could be achieved with investment levels closer to 30% of GNP, comparable to the other East Asian NICs whose higher productivity and export-led growth strategy China seems moving to adopt. Crucially important to China's leaders, public expectations about the continued success of economic reforms make the second, coming phase of particular importance.

8. The Chinese Government is committed to reform in nearly every aspect of the economy, including prices, the tax system, trade, the financial system, wages and employment, and enterprise autonomy. Domestic credit targets under the IMF's 1986-87 stand-by arrangement were exceeded, but the government moved to restrict credit in the second half of 1987. Recent pronouncements have stressed government intentions to limit credit expansion and aggregate investment. Growth of credit in 1988 is intended to be well below last years actual (28%), but slightly higher than the 1987 IMF benchmark (18%). Major steps on enterprise reform are also contemplated. In March a new enterprise law will be enacted making state-owned enterprises (SOEs) more accountable for losses.

9. General price reform is recognized to be an essential element to the overall reform effort. But decontrolling urban and state sector pricing has proved a most sensitive undertaking, and the Government in 1987 partially reversed some earlier liberalization measures. The Chinese authorities argue that delay in general price reform is merely a matter of sequencing. In order not to discredit the whole reform process,[2/] however, price reform must proceed cautiously. Prerequisite is further progress on public enterprise reform, viz. the SOEs must be subjected to a hard budget constraint including the genuine threat of bankruptcy before they will be responsive to price changes.

Deepening the Rural Reform

10. The objectives of the new reform efforts in the countryside were announced in the Politburo's Document No. 5 of January 1987 "Deepening the Rural Reform" and elaborated upon by Secretary General Zhao Ziyang in his speech to the 13th Party Congress in October 1987. These are to reinforce the momentum that had resulted from improved incentives provided during the first phase of reform; to formulate new sets of policies, and to establish new

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2/ Because of the hyperinflation of the 1940s, the Party, Government and citizens alike are extremely sensitive to the price increases that occurred after some administrative controls were relaxed. General inflation resulting from monetary and credit expansion therefore poses a significant risk to the overall reform in that improperly sequenced price reforms will be blamed, even if incorrectly, which could undermine confidence in the reform process.

institutions to provide a firmer base for continued growth throughout the economy in the 1990s. By bringing land transfers, factors of production, and a higher proportion of products into the expanding market system, allocative efficiency would be more easily achieved. Price- and market-related reforms to foster further development of autonomous rural production units (commercial farming, private rural manufacturing and service firms, and cooperative financial institutions) would be complemented by refining the regulatory and contractual infrastructure required for the market system in which they operate.

11. Rationale and thrust of the new reform program. The Government's new program of reform has been designed to strengthen at the sectoral and subsectoral level the policy and institutional underpinnings needed for stability and the continued rapid expansion of product, factor, assets and rural financial markets that developed largely in response to local initiative during the past decade. A policy reform matrix is attached. This program consists of (a) a package of reforms to deepen on-going initiatives, which can be implemented without further refinement; and (b) an approach--through the mechanism of pretesting at the regional level--for extending the reform effort into new policy areas. There is a strong likelihood that the new Program will result in a sustainable growth in production, further commercialization of agriculture and its diversification into higher valued cash crops and specialized lines, a sounder framework for the continued expansion of rural industrial activities, additional exporting and higher rural household incomes. There also is good reason to believe that viable means will be identified for reducing the financial burden of China's grain production/sales system, for increasing both the buoyancy and equity of agricultural taxation, and for improving the intermediation of rural household savings. At Government's request, the Bank is now substantially advising on the shape of the reforms.

12. The overall thrust of the new program represent utterly profound innovations in China's system of political economy.

(a) Firstly these reforms entail a fundamental shift in economic decision-making away from governmental and Party officials and towards individual farmers, artisans, entrepreneurs, savers, investors and merchants, or voluntary combinations of such economic actors, coordinated primarily by market forces. Much more than a policy change is involved: the economic institutions and factor markets that would carry out this policy change must be created, refined and strengthened in a political-bureaucratic environment hitherto somewhat hostile to them.

(b) The rural reform process in China was initiated and continues in an atmosphere of pragmatism. Just as the first phase reforms justified themselves and their subsequent nationwide generalization by success, some of the second phase reforms will have to undergo a similar pragmatic testing process. This testing by involving a population totalling 30 million people, will be broad in scope. Demonstrating that reform initiatives in new policy areas can improve and not harm the basic food supply and general economic livelihood of masses of

people at the local level, without causing harmful political and economic instability is an essential part of concensus building in China for their subsequent generalization nationwide.

13. Main features of the new program. The following six are the main features of the new program.

(a) Markets and marketing - to promote the development of well functioning internal and export markets for agricultural commodities; develop and encourage appropriate marketing chains, including vertically integrated systems for specialized items; reduce or remove barriers to interprovincial trade; improve the efficiency and competitiveness of marketing systems; and liberalize marketing channels for the commercial distribution of inputs.

(b) Pricing/subsidies and taxation - to further reduce reliance on administered pricing and thus permit a rural pricing system to evolve that can better reflect local scarcities and international trade opportunities; progressively reduce generalized urban consumption subsidies with improved targetting on the poorest groups in both urban and rural areas; and improve tax buoyancy and equity by removing input subsidies and replacing the output tax implicit in below-market price quota obligations by a transparent tax based on the value of agricultural land.

(c) Land system - to improve the security of land use rights by formalizing relationships which govern land use under the Household Production Responsibility System; provide incentives through agricultural land taxation for more efficient land use; and create agricultural leasehold markets with land as collateral for financial and other transactions, secure from local government interference, to foster land use specialization and--where conditions warrant--to reduce land fragmentation.

(d) Rural industry - to provide equal treatment for all industrial enterprises regardless of type of ownership; support and reinforce the development of township/village enterprises and private firms (TVEs) whose growth is providing off-farm income and employment opportunities for increasing numbers of rural people; provide internal management and institutional support, in terms of useful organization models and management systems, and a more secure and less arbitrary external commercial environment; clarify regulations governing their operations and transactions; and strengthen institutional support (industrial extension, financial policies, etc.).

(e) Rural investment - to improve the organization and management of public investment programs and maintenance of rural infrastructure; extend the reform of public enterprises to SOEs operating in the rural sector; delimit policy frameworks to encourage private investment; and reduce the risks attendant with investment which must be faced in China's present rural business environment.

(f) Credit and finance - to promote development of a rural financial system which will efficiently mobilize rural households savings and intermediate funds for private agricultural and rural nonagricultural investments.

14. The main features are being implemented in the following way: in the area of markets and marketing, the new program will reduce local government fees, simplify their administration, and eliminate licensing and other "non-tariff" barriers to internal trade. The Government is developing at the regional level programs in Shangzhi County of Heilongjiang Province, Fuyang Prefecture of Anhui Province, and Shunyi County in the environs of Beijing general purpose agricultural marketing channels and integrated chains for specialized lines. Support is being provided by (locally financed) price equalization funds and member-owned financial service companies, while various organizational forms are being permitted, with emphasis on voluntary cooperatives, but also partnership and joint stock ventures. In parallel, "industrial" associations are being developed at the regional level while steps are being taken to improve marketing facilities and market access in the main urban areas for perishables and other high-valued commodities being distributed outside of official channels. To facilitate exporting, authority will be given to 8 provinces to directly manage export marketing, and to establish more flexible trade regimes, foreign exchange allocation systems, and export/import marketing organizations. The Government intends to take stock of progress under these programs over the next year or so, refine the designs and, for the regional initiatives, generalize these for nationwide implementation. The Bank will monitor the implementation of this program.

15. To deepen the rural pricing reforms,[3/] the Government is putting together packages which will simultaneously reduce producer and retail

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3/ Recent pricing reforms were designed to complement (a) the very large producer price increases for grains and other primary agricultural products that were introduced during the early 1980s; (b) the markedly restricted scope of administered pricing (from 90% of agricultural production value in 1979 to 40% in 1985); and (c) a phase-down of consumer subsidies on processed grain products. By end 1987, nearly all producer price controls had been removed except for 12 basic or strategic commodities. The latter were partially liberalized after a two-tiered system was set up in 1985, consisting of contract (quota) sales at administered prices and above-quota sales at market or negotiated prices. For grains, the quota price has been set at 70% of the negotiated price. In 1987, 50% of all sales (equivalent to 15% of total production) were at negotiated prices. To encourage rural industrialization, TVP prices have been set free as matter of policy unless the enterprise sells to or distributes on behalf of SOEs still subject to administered pricing. To foster better pricing for farm inputs, a two-track system has been introduced for fertilizers produced above Plan, though retail subsidies were reestablished in 1985 to encourage farmers to accept grain delivery quotas. In 1985/86, subsidies for meat, poultry, eggs, aquatic products and vegetables were substantially reduced or eliminated in most urban areas. However, efforts to raise urban grain and edible oils prices were rolled back in the face of urban wage creep.

subsidies and improve agricultural taxation.[4/] Beginning April 1988, it plans to implement at the regional level a program to phase out contract grain purchases, eliminate fertilizer retail subsidies, further reduce urban sales subsidies by limiting eligibility and by increasing sales prices, increase the agricultural land use tax and realign bases for assessment. Implementation will begin in Xinxiang, Hebei (grain surplus area). A similar effort will be designed during 1988 for implementation in Yulin, Guangxi (a grain deficit area). Implementation of these programs will be monitored, and general programs to phase out urban grain subsidies, eliminate retail inputs subsidies, and improve land taxation policies will be designed for subsequent implementation nationwide. After this stage has been reached (in about two years from now), a phasing in of the subsidies reduction program for urban grains sales will begin, starting with smaller and medium-sized cities, then moving to large cities. The phasing in of generalized agricultural land taxation policies would begin with more developed zones.

16. The transfer of land use rights to farm households under the Production Responsibility System was a key instrument behind the rapid growth of agricultural production and productivity during the past decade. On the other hand, the new land system has also resulted in very small holdings (average farm size = 0.61 ha) and extreme fragmentation (average of 9.2 plots/farms). Between 1978-1986 the cropped area declined by about 3%, largely in response to land loss from rural construction and urbanization. Rigidities in the present land system are inhibiting the realignment of farms to facilitate investment and crop diversification. To facilitate security of tenure, the Government in 1984 permitted the use of inheritable term leases (15-30 years) on lands growing annual and tree crops. To facilitate creation of agricultural leasehold markets, regulations were drafted in 1987 and a regional program was designed to implement these in Meitan, Guizhou beginning 1988. Regional programs are also underway in labor-deficit zones to reduce land fragmentation, convert micro-farming units to mini-sized farms (up to 2 ha), and facilitate limited small-scale mechanization (sites: Southern Jiangsu; Nanhai, Guangdong and Shunyi County, Beijing). In 1988, at the Bank's insistence, the Government intends to relieve farmers of grain quota obligations in one of the three land consolidation counties of Southern Jiangsu and monitor the impact this will have on land use. In parallel, the National Land Administration intends to clarify the allocation of land rental and tax collection rights amongst local levels of government, strengthen the land registry system, and clarify recent policies governing the conversion of farmland to non-agricultural use. After refining the successful components of these reforms, the Government, about two years from now, intends to introduce national policies to facilitate sale/transfer of agricultural leaseholds.

17. Between 1979-87, 80 million off-farm jobs were created. The bulk of these were in rural industries, which proliferated with unprecedented speed. The Government is targeting 100 million more by the year 2000 to absorb the growing rural workforce and reduce redundancy in farming activities. Under the new program, the Government will emphasize rural industrialization, principally the TVEs (but also SOEs) for which broad-based reforms are being

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4/ Current direct taxation of agriculture yields only 2-3 percent of GVO and discriminates against grain farmers.

implemented. Recent steps include the granting of permission to rural localities to rapidly develop nonagricultural activities under all forms of ownership; sharp increases in the provision of credit and other resources to TVEs; the enunciation of policies which stimulated contracting, leasing and sale of numerous community-owned TVEs to private individuals and groups; a gradual removal of previous tax exemptions for many TVEs, and the removal of limits on size of private firms. In addition, regional initiatives were designed in 1987 for Fuyang, Anhui to introduce company law and bankruptcy regulations for TVEs; improve the provision of various support services to TVEs, partly through encouraging TVEs to relocate in "industrial parks" now being established; and to shift the role of local government agencies from supervision to provision of needed services and training. Implementation is now underway. The Government will evaluate the Fuyang program, refine the rules and procedures tested in the regional program and extend these initiatives throughout China.

18. Major policy initiatives were announced in 1987 which could significantly influence the pace and effectiveness of rural investment.[5/] Arrangements for the devolution of public investment responsibilities to the provincial level were reviewed and planning begun to set-up four investment corporations that would administer the state budget, and coordinate and monitor transfers to provinces. In parallel, the State Planning Commission (SPC) is being reorganized and its role redefined. Regional programs to resuscitate rural works on the basis of off-season labor were announced in 1987 by 8 provinces. At enterprise level, SOE managements were made personally accountable (through signed contracts) for enterprise investment decisions and financial performance, while the previously informal policy of "encouraging" rural private investment was made into official state policy.

19. On the Government's near-term agenda, details of the devolution and the reorganization of SPC are to be worked out, formalized and implemented in 1988 and 1989. It is expected that the four investment corporations will be formally established, while the planning system for rural works is to be revamped and designs of works programs at provincial and local levels are to be finalized for implementation during 1988. Bankruptcy and restructuring regulations for SOEs are expected to be formalized in 1988 for implementation, while regional programs will implement trial regulations and enactments to define business personality for TVEs, commercial farmers and marketing/service cooperatives, define and delimit asset ownership, transfer and disposal, and regularize contractual rights and obligations (Fuyang, Anhui; Meitan, Guizhou; Shunyi, Beijing; Nanhai, Guangdong; Wenzhou City; Southern Jiangsu and

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5/ Agriculture's share of the total capital construction budget fell from 10.5% in 1976-1980 to 3.3% in 1986. This has resulted in a slow but steady deterioration of rural infrastructure, e.g., the effectively irrigated area in 1986 was about 2% lower than in 1978. On the other hand, private on-farm investment in water control measures appears to have increased. Tree planting has expanded significantly, and a more appropriate mechanization is occuring: in 1986, 90% of purchases of walking tractors and a rapidly expanding share of truck purchases were by individual farmers.

Shangzhi, Heilongjiang). These reforms will be evaluated and refined between 1988-1990. Thereafter, it is expected that the regional programs also will become national policy.

20. Most of the rural credit reforms have centered on the formal system, though recent initiatives also deal with China's burgeoning informal financial markets. Recent reforms include: increases in interest rates and somewhat more flexible rate-setting for local bank branches, and partial institutional separation of the Rural Credit Cooperatives from the Agricultural Bank of China. In addition, incipient competition among banks has been permitted in certain localities, while the legalization and encouragement of informal credit markets has been authorized in a few areas (most notably Wenzhou City; Fuyang, Anhui; and Shangzhi, Heilongjiang). Late in 1987, the Government created the China Rural Investment & Trust Corp. (CRITC) to provide financial services to the informal sector. In the years ahead, the Government intends to develop the CRITC organization, procedures and staffing, and start-up its operations in areas where the informal and cooperative credit movements are strong. The Government may also form subsidiary investment corporations, under the wing of CRITC. It intends to monitor the operation of informal credit markets (Fuyang, Anhui; Shangzhi, Heilongjiang; Wenzhou City), provide official sanction of their existence and operations as well as rules and procedures to regulate accounting and accountability, and define their relationship to formal financial institutions. Policies for the longer-term are less well-defined, though the Government might integrate CRITC, its subsidiaries, and the informal rural credit institutions into the formal financial sector as wings operating on the basis of market-determined returns from lending, and paying competitive rates for deposits, borrowings and other resources.

21. The RCRD. An important role has been assigned to the State Council's rural policy arm--known as the Research Center for Rural Development (RCRD). RCRD has for several years been charged with advising the Politburo of the Party and the State Council on the effectiveness of the general reforms and proposing modifications where needed. In 1987, it was also given specific responsibility for finalizing the regional programs in collaboration with the core agencies, state and provincial technical agencies, for vetting these on behalf of the State Council, and for supervising implementation. With a staff of 50 persons, and supported by policy-research institutes and a network of equivalent agencies at the provincial and prefectural levels, the RCRD has proved itself to be both capable and suitably positioned to carry out its responsibilities. The RCRD would serve as a principal Bank counterpart under the proposed loan.

Bank's Role and Rationale

22. The Bank has assisted reform efforts in China by undertaking analytical work that ranges from the 1985 study of the China economy (China: Long Term Issues and Options) to indepth study of sectoral and subsectoral issues. These studies have had a profound impact on the scope and pace of the Chinese reform effort and were carried out at the invitation of the senior leaders of the country and often in collaboration with institutions in China. The Chinese authorities have now invited the World Bank to assist them in the

design and implementation of the regional reform Programs as well as in the development of the national policy programs that will result from the regional efforts.

23. The senior leaders of the Government have come to view the Bank as their window on international experience. They have sought and accepted Bank advice on several reform initiatives in the non-rural sector and feel that Bank involvement would contribute to China's rural reform effort. Thus Bank assistance in designing the new program of reform has been sought. Staff are contributing to both aspects of the Program, but especially to designs of the regional initiatives. Past experience suggests that many of the regional reforms, if well conceived, will be emulated by other areas and may be generalized quickly. Continuous dialogue through a series of rural sector adjustment operations will provide a mechanism for sustained interaction with senior policy makers in a rapidly evolving policy environment.

Loan Formatting

24. In view of the scope of the reform effort that has already been launched, the RSAL would not be tranched. Rather, progress monitoring would be effectuated through the process of preparing repeater RSALs, and the following measures will be incorporated into the design of the proposed loan:

(a) assist the Chinese authorities in the design of regional programs. (The Bank has already made some input. See para. 23);

(b) help monitor and supervise the implementation of the regional reform programs; and

(c) collaborate with the Chinese authorities in the development of the national program of policy reform based on the results of the regional efforts.

25. Borrower. The foreign exchange risk problem and assumption of the repayment obligation is not expected to affect the design of this operation, unlike most Bank agricultural loans to China. The Preparation Mission was advised that special arrangements will be made for the State to assume both of these obligations. These arrangements will be reviewed by the Appraisal Mission.

26. Disbursements of the proceeds of the loan/credit to the Government would be made against general imports subject to a list of ineligible items.

Potential Issues

27. The appraisal mission would:

(a) reach agreement on the context of a Statement of Development and Rural Reform Policies to be submitted to the Bank, before negotiations by the Ministry of Finance. A draft outline is attached;

(b) agree on a tentative loan and credit amount. Our plan is for a loan/credit amount of $300 million ($200 million IBRD, $100 million IDA). Depending on the progress made during appraisal and the content of the policy letter, we may propose increasing this loan amount to $350 million to respond more nearly to the Government request of $400 million.

(c) establish monitoring benchmarks to track the spread of the new program through the rural economy;

(d) arrange for a formal progress review, one year after the loan is signed, and semiannual progress reporting to commence in January 1989.

Next Steps

28. Appraisal for the proposed loan is scheduled to commence mid-February 1988, for Board Presentation in June 1988. To facilitate appraisal, detailed supplementary data and information requests were handed to Government before the Preparation Mission departed from China. The RCRD will coordinate the Government's effort, and hopes to convey the requested materials to the Resident Mission by February 10, 1988. If authority to appraise is granted, a Bank appraisal team would commence work in China about February 20, 1988.

Attachments:
1. Key Macroecomic Indicators
2. Matrix of Rural Reforms
3. Current Timetable
4. Outline: Statement of Development and Rural Reform Policies

Attachment 1
Table 1

CHINA

RURAL SECTOR ADJUSTMENT LOAN

Key Macroeconomic Indicators

	Actual					Prelim.	Projected				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GDP growth rate	8.8	10.2	14.5	12.7	7.9	7.1	7.3	7.4	7.4	7.4	7.4
GDY growth rate	9.8	10.6	14.4	11.1	7.0	7.1	7.2	7.2	7.3	7.4	7.5
GNY/capita growth rate /a	7.3	8.9	13.4	11.6	6.3	6.2	6.2	6.1	6.5	6.4	6.4
Private consumption/capita growth rate /b	8.5	8.7	8.1	2.6	1.9	-1.2	6.3	7.6	8.6	8.6	8.6
Debt service (US$ millions)	2,800	1,500	1,100	2,100	2,400	2,580	2,648	2,784	2,948	3,138	3,260
Debt service/XGS	11.3	6.1	3.9	7.2	7.8	7.3	6.6	6.2	6.0	5.9	5.6
Debt service/GDP	1.1	0.6	0.4	0.8	0.9	0.9	0.8	0.7	0.6	0.5	0.5
Gross investment/GDY /c	29.1	29.6	32.2	38.8	38.8	39.6	39.8	39.3	38.3	37.3	36.3
Domestic saving/GDY /c	31.0	30.5	32.3	34.3	36.0	39.6	39.5	38.9	38.0	37.0	36.1
National saving/GNY /c	31.3	31.2	33.0	34.6	36.1	39.7	39.6	39.0	38.1	37.2	36.2
Marginal national saving rate	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	0.4	0.3	0.3	0.2	0.2
Government revenues/GDP	28.0	28.3	27.1	27.5	25.6	}					
Government expenditures/GDP	29.4	30.0	28.7	28.0	27.5	} Not projected					
Deficit (-) or surplus (+)/GDP	1.4	1.7	1.6	0.5	1.9	}					
Export growth rate /d	-3.8	-1.5	14.0	5.4	5.0	16.4	12.6	11.6	9.1	9.4	9.4
Exports/GDP	7.4	7.3	7.2	8.5	8.7	11.2	11.3	11.3	11.4	11.4	11.5
Import growth rate /d	-19.6	9.6	26.8	55.1	-8.8	-7.2	14.8	13.8	7.7	8.9	8.9
Imports/GDP	6.5	7.5	8.1	12.1	9.7	11.4	11.6	11.6	11.7	11.7	11.7
Current account (US$ million)	5,823	4,487	2,509	-11,811	-7,448	127	-548	-1,380	-756	-577	-336
Current account/GDP	2.2	1.6	0.9	-4.2	-2.7	0.0	-1.6	-3.3	-1.5	-1.0	-0.5

/a Real GDP/capita growth rate for 1982-86.
/b Real.
/c Ratio to GDP for 1982-86.
/b US$ value in current prices.

CHINA

RURAL SECTOR ADJUSTMENT LOAN

Attachment 1
Table 2

Balance of Payments
(US$ millions at current prices)

	Actual					Prelim.	Projected				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
A. Exports of goods and NFS	23,786	23,433	26,716	28,163	29,583	34,449	38,855	43,361	47,290	51,718	56,566
1. Merchandise (FOB)	21,125	20,707	23,905	25,108	25,756	30,100	33,794	37,600	41,093	44,944	49,163
2. Nonfactor services	2,661	2,726	2,811	3,055	3,827	4,399	5,061	5,761	6,197	6,774	7,403
B. Imports of goods and NFS	18,900	20,711	26,269	40,755	37,172	34,502	39,619	45,073	48,536	52,873	57,604
1. Merchandise (FOB)	16,876	18,717	23,891	38,231	34,896	30,900	35,541	40,459	43,601	47,510	5,830
2. Nonfactor services	2,024	1,994	2,378	2,524	2,276	3,602	4,078	4,614	4,935	5,363	51,774
C. Resource balance	4,886	2,722	447	-12,592	-7,589	-3	-764	-1,712	-1,246	-1,155	-1,037
D. Net factor income	451	1,254	1,620	538	-238	403	-152	-37	121	210	333
1. Factor receipts	1,092	1,549	2,008	1,478	986	1,001	1,251	1,376	1,506	1,588	1,691
2. Factor payments	641	295	388	940	1,224	598	1,403	1,413	1,385	1,378	1,358
E. Net current transfers	486	511	442	243	379	300	368	368	368	368	368
1. Current receipts	672	620	596	439	516	505	505	505	505	505	505
a. workers remittances	541	446	317	180	266	126	125	125	125	125	125
b. other current transfers	131	174	279	259	250	379	380	380	380	380	380
2. Current payments	186	109	154	196	137	205	137	137	137	137	137
F. Current account balance	5,823	4,487	2,509	-11,811	-7,448	127	-548	-1,380	-756	-577	-336
G. Long-term capital inflow	1,559	1,172	1,608	3,571	5,796	1,400	1,877	2,029	2,199	2,331	2,465
1. Direct investment	474	636	1,258	1,658	1,875	1,400	1,331	1,331	1,331	1,331	1,331
2. Official capital grants	-	-	-	-	-	-	-	-	-	-	-
3. Net LT loans (DRS data)	803	820	734	3,148	4,545	1,351	546	698	868	1,000	1,134
a. Disbursements	1,032										
b. Repayments	229										
4. Other LT inflows (net)	282	-284	-384	-1,235	-624	-1,351	-	-	-	-	-
H. Total other items (net)	-1,057	-888	-2,301	4,404	-339	1,300	344	1,083	-353	-380	-635
1. Net short term capital	-1,052	-522	-1,369	4,021	-1,532	1,300	344	1,083	-353	-380	-635
2. Capital flows NEI	-	-	-	764	1,193	0	0	0	0	0	0
3. Errors and omissions	-5	-366	-932	-1,145	0	0	0	0	0	0	0
I. Change in net reserves	-6,325	-4,771	-1,816	4,609	1,991	-3,100	-1,675	-1,732	-1,089	-1,373	-1,493
1. Net credit from the IMF	-27	-482	-	-	731	0	0	0	0	0	0
2. Other reserve changes (- indicates increase)	-6,325	-4,771	-1,816	4,609	1,991	-3,100	-1,673	-1,732	-1,089	-1,373	-1,493
Shares of GDP (current US$)											
1. Resource balance	1.8	1.0	0.2	-4.5	-2.7	-0.0	-0.2	-0.4	-0.3	-0.2	-0.2
2. Current account balance	2.2	1.6	0.9	-4.2	-2.7	0.0	-0.2	-0.3	-0.2	-0.1	-0.0
3. Net credit from the IMF	-0.0	-0.2	-	-	0.3	-	-	-	-	-	-
Memorandum Item											
GDP (US$ million)	266,200	284,800	291,400	282,800	271,700	298,300	352,193	415,897	491,223	580,310	685,689
Foreign Exchange Reserves											
1. International reserves	11,135	14,476	16,705	11,913	10,514	16,000	17,673	19,405	20,494	21,867	23,360
2. Gold /a	5,236	5,887	5,120	4,419	5,123	6,484					
3. Gross reserves incl. gold	16,371	20,363	21,825	16,332	15,637	22,484					
4. Gross reserves in months imports	10.1	11.6	9.8	4.7	4.9	7.7					
Exchange Rate											
1. Nominal official exchange rate	1.8925	1.9757	2.3200	2.9367	3.4528	3.7221					

/a Valued at London price.

CHINA

RURAL SECTOR ADJUSTMENT LOAN

Matrix of Rural Reforms

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Markets and Marketing	Promote the development of well functioning internal and export markets for agricultural commodities. Develop and encourage appropriate marketing chains, including vertically integrated systems for specialized items. Reduce or remove barriers to interregional trade. Improve the efficiency and competitiveness of marketing systems. Liberalize marketing channels for the commercial distribution of inputs.	- Restrictions on interprovincial transportation and marketing relaxed. - Travel to and temporary residence within urban areas for business purposes permitted. - Private and collectively owned marketing companies allowed to compete with SOEs, financing from banking system authorized. - Policies announced to reduce proliferation of local government fees and surcharges. - Supply and marketing cooperatives created to broaden retail inputs distribution networks. Inputs manufacturers not owned by State permitted to establish own distribution systems. - Above-quota sales in free market authorized for commodities and inputs subject to two-track pricing.	- Reduce local government fees, further reduce interprovincial marketing restrictions. - Develop general purpose agricultural marketing channels and integrated chains for specialized lines with support from (locally financed) price equalization funds and member-owned financial service companies. Various organizational forms permitted: emphasis on voluntary cooperatives, but also partnership and joint stock ventures. Develop "industrial" associations along commodity lines, and improve marketing facilities and market access in the main urban areas for perishables and other high-valued commodities being distributed outside of official channels (Shangzhi County, Fuyang Prefecture and Shunyi County).
		B. 1987	B. Longer-Term Program
		- Designs for regional reform programs to stimulate market development finalized and approved by State Council for implementation (sites: Shangzhi County of Heilongjiang Province; Fuyang Prefecture of Anhui Province; and Shunyi County in the environs of Beijing). - Devolution of authority to manage export marketing, establish more flexible trade regime and foreign exchange allocation systems, and export/import marketing organizations to 8 of China's 30 provinces, municipalities and autonomous zones.	Take stock of progress under near-term action programs, develop generalized policy framework and implement nationwide.

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Pricing/Subsidies/Taxation Note: These reforms would complement the very large producer price increases for grains and other primary agricultural products introduced during the early 1980s, reduced scope of administered pricing (from 90% of agricultural production value in 1979 to 40% in 1985), and the phase-out of consumer subsidies on processed grain products.	Further reduce reliance on administered pricing to permit a rural price structure to develop which can reflect local scarcities and international trade opportunities. Progressively reduce generalized urban consumption subsidies with improved targeting on the poorest groups in both urban and rural areas. Improve tax buoyancy and equity by removing input subsidies and replacing the output tax implicit in below-market price quota obligations by an explicit tax based on the value of agricultural land. (Direct agricultural taxation yields only 2-3% of GVO, and discriminates against grain farmers.)	- Nearly all producer price controls removed except for 12 basic or strategic commodities. Latter, partially liberalized after two-tiered system adopted in 1985, consists of "contract" (quota) sales at administered prices and above-quota sales at market or negotiated prices. - TVP prices set free as matter of policy unless TVP sells to or distributes on behalf of SOEs, subject to administered pricing. - Two-track system introduced for fertilizers produced "above plan," though retail subsidies introduced in 1985 to encourage farmers to accept grain delivery quotas. - In 1985/86, subsidies for meat, poultry, eggs, aquatic products and vegetables substantially reduced or eliminated in most urban areas. Efforts to raise urban grain and edible oils prices rolled back due to wage creep. About 30% state budget now allocated to subsidize difference between grain sales and procurement prices.	- Begin to phase out contract grain purchases, eliminate fertilizer retail subsidy, reduce urban sales subsidies by limiting eligibility and increasing sales prices, increase the agricultural land use tax and realign bases for assessment. [Implementation beginning 04/88 in Xinxiang, Hebei (grain surplus area). Similar effort to be designed during 1988 for testing in Yulin, Guangxi (grain deficit area).] Monitor. - Design general program to phase out urban grain sales subsidies, eliminate retail inputs subsidies. - Develop land taxation policies for subsequent implementation nationwide.
		B. 1987	B. Longer-Term Program
		- For grains, quota price set at 70% of negotiated price. In 1987, 50% of all grain sales (equivalent to 15% of total production) were at negotiated prices.	- Subsidies reduction program for urban grains sales to be phased in, starting with smaller and medium-sized cities, then moving to large cities. - Agricultural land taxation policies to be implemented nationwide, beginning with more developed zones.

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Land System Note: Average agricultural holding = 0.61 ha; divided into 9.2 plots.	Improve the security of land use rights by formalizing relationships which govern land use under the household production responsibility system. Improve agricultural land taxation to provide incentives for more efficient land use. Create agricultural leasehold markets with land as collateral for financial and other transactions, secure from local government interference, to foster land use specialization and--where conditions warrant--to reduce land fragmentation.	- Inheritable term leases of 15-30 years permitted (1984) for growing annual and tree crops. B. 1987 - National Land Administration Law brought into force, January 1, 1987, to distinguish ownership from land use rights, define land rental and taxation obligations, mandate land recording systems at the county level, and set forth general policy to govern conversion of agriculture land to other uses. - Regulations drafted for testing agricultural leasehold system (Meitan, Guizhou). - Programs underway in labor-deficit zones to reduce land fragmentation, convert micro-size farming units into mini-farms (up to 2 ha), small-scale mechanization, emphasis on grain (sites: Southern Jiangsu; Nanhai County, Guangdong; and Shunyi County, Beijing).	- Leasehold regulations to be finalized and implemented during 1988 (Meitan, Guizhou). Government also intends to relieve farmers of grain quota obligation for one of Jiangsu's 3 land consolidation counties during 1988. - Clarify provisions in National Land Administration Law governing land ownership, rights to receive farmer rentals and taxes, and conversion of farmland to nonagricultural uses. - Monitor programs. Refine successful components. B. Longer-Term Program Introduce regional/national policies based on initial experience to facilitate general administration of agricultural land, sale/transfer of agricultural leaseholds, regulate farmers' rental and tax obligations.

Policy area	Objectives	Recent actions	Intended actions
Rural Industry Note: Between 1979-87, 80 million off-farm jobs created. Government is targeting 100 million more by the year 2000 to absorb growing rural workforce and reduce redundancy in farming.	Long-term objective is to provide equal treatment for all industrial enterprises regardless of type of ownership. More immediate objectives for rural industry are to support and reinforce the development of TVE firms and industries whose growth is providing off-farm income and employment opportunities for increasing numbers of rural people. Provide internal management and institutional support, in terms of useful organizational models and management systems, a more secure and less arbitrary external commercial environment. Clarify regulations governing their operations and transactions, and strengthen institutional support (industrial extension, financial policies, etc.).	A. 1984-86 - Formal authority given to rural localities to rapidly develop nonagricultural activities under all forms of ownership. - Sharp increases in credit and other resources to TVEs. - Contracting, leasing and sale of numerous community-owned TVEs to private individuals and groups. - Gradual removal of previous tax exemptions for many TVEs. B. 1987 - Removal of limits on size of private TVEs. - Designs for new phase regional reforms (TVEs) finalized and approved by State Council (site: Fuyang Prefecture, Anhui Province).	A. 1988-89 - In Fuyang, Anhui, introduce companies law for TVEs (possibly also separate regulations for private enterprises); bankruptcy regulations for TVEs; improved provision of various support services to TVEs, partly through encouraging TVEs to relocate in "industrial parks" now being established; and shift role of local government agencies from supervision to provision of needed services and training. - Monitor programs, refine rules and procedures for extension to other regions. B. Longer-Term Program Nationwide implementation of successful components.

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Rural Investment	Improve the organization and management of public investment programs, improve maintenance of rural infrastructure. Delimit policy framework to encourage private investment, reduce the risks attendant with investment which must be faced in China's present rural business environment.	- Informal policy of "encouraging" rural private investment confirmed by the Politburo (1984), made into official state policy. B. 1987 - Devolution of public investment responsibilities to the provincial level announced. Program announced to reorganize SPC, form investment corporations to administer state budget, coordinate and monitor transfers to provinces. - Programs to resuscitate rural works on basis of off-season labor announced by 8 provinces. - At enterprise level, SOE managements made personally accountable (through signed contracts) for enterprise investment decisions and financial performance. - Draft law for SOE ownership, organization, rights and responsibilities publicized for comment.	- Details of SPC reorganization and devolution to be worked out, formalized and implemented in 1988 and 1989. - Planning system for rural works to be revamped; designs of works programs at provincial and local levels to be finalized for implementation during 1988. - Draft SOE law, bankruptcy and restructuring regulations to be formalized in 1988 for implementation. - Trial regulations and enactments to define business personality for TVEs, commercial farmers and marketing/service cooperatives, define and delimit asset ownership, transfer and disposal, and regularize contractual rights and obligations (Fuyang, Anhui; Meitan, Guizhou; Shunyi, Beijing; Nanhai, Guangdong; Wenzhou city; Southern Jiangsu; Shangzhi, Heilongjiang). - Monitor effects of devolution policies, rural works program designs and SOE regulations (1988-90). Refine as needed to accommodate regional differences. - Monitor impact of trial regulations for TVEs, commercial farmers and marketing/service cooperatives (1988/89), refine and prepare policy and regulatory frameworks for nationwide implementation. B. Longer-Term Program - Refine devolution policies and SOE regulations. Nationwide implementation of rural works program, tailored to regional needs. - Implement policy and regulatory frameworks for TVEs, etc. nationwide.

Policy area	Objectives	Recent actions	Intended actions
		A. 1984-86	A. 1988-89
Credit and Finance	Promote development of a rural financial system which will efficiently mobilize rural households savings and intermediate funds for private agricultural and rural nonagricultural investments.	- Increases in interest rates and somewhat more flexible rate-setting for local bank branches. - Partial institutional separation of Rural Credit Cooperatives from the Agricultural Bank of China. - Partial restoration of "cooperative" nature of former. - Incipient competition among banks permitted in certain localities.	- Develop CRITC organization, procedures and staffing, start-up operations in areas where informal and cooperative credit movement strong. Monitor. Form subsidiary investment corporations, under wing of CRITC. - Monitor operation of informal credit markets (Fuyang, Anhui; Shangzhi, Heilongjiang; Wenzhou City). Provide official sanction of their existence and operations as well as rules and procedures to regulate accounting and accountability, define relationship to formal financial institutions.
		B. 1987	B. Longer-Term Program
		- Legalization and encouragement of informal credit markets in a few areas (most notably Wenzhou City; Fuyang, Anhui; and Shangzhi, Heilongjiang). - Creation of the China Rural Investment & Trust Corp. (CRITC) to provide financial services to the informal sector.	Integrate the CRITC, its subsidiaries, and the informal rural credit institutions into the formal financial sector as wings operating on the basis of market-determined returns from lending, and paying competitive rates for deposits, borrowings and other resources.

Attachment 3

LEN670: LENDING OPERATIONS TIMETABLE-AS OF END DECEMBER 1988 RUN DATE: 01/05/88

COUNTRY: CHINA
PROJECT: 4CHAPA107-RURAL SECTOR ADJ. LOAN
MANAGING OFFICER: BURCROFF
BORROWER: PRC
IMPLEMENTING AGENCY: RCRD, OTHERS-TBD
LENDING INSTRUMENT TYPE: SAB LOAN TYPE:
LEAD ADVISOR: KOHL
MAJOR COMPONENT: AA Z100 OTHER COMP.: 1. ZO 2. ZO 3. ZO 4. ZO

FY AND STATUS : 89S
LEND ID:
MANAGING DIVISION : 233/20
PROBABILITY RATING: B
B-LOAN TYPE:

PROJECT OBJECTIVES AND DESCRIPTION

~~TO FINANCE GENERAL [illegible] IMPORTS~~ IN SUPPORT OF GOVT'S SECOND PHASE PROGRAM FOR RURAL REFORM.

LOAN/CREDIT AMOUNT US$M			TOTAL FINANCING PLAN US$M		
IBRD - A	~~150.0~~	200.0	LOAN/CREDIT AMOUNT:	~~300.0~~	300.0
IBRD - B	.0		COFINANCING CONF.	.0	
IDA	~~50.0~~	100.0	LOCAL CONTRIBUTION:	.0	300.0
IDA(SDR)	106.6		FINANCE GAP	.0	
SFA	.0		TOTAL PROJECT COST:	~~300.0~~	
SFA(SDR)	.0		(OF WHICH LOCAL):	.0	

COFINANCING PROSPECTS (Y/N): N

CORE STEPS	LAST MONTH	THIS MONTH
INIT EPS	11/30/87A	11/30/87A
PREAP. REV.MTG	01/19/88	11/20/87A
EPS/IN TO LC	01/27/88	
APPR.DEP	02/14/88	Same
YELLOW COVER	04/04/88	
DOCS TO RVP/LC	04/18/88	
START NEGS.	05/11/88	
BOARD APPRV.	06/28/88	

LOCAL STEPS		
LOCAL STEP NAME	LAST MONTH	THIS MONTH
PREPN. MISSION	11/16/87A	11/16/87A
BTO	01/13/88	01/[illegible]/87A
DRAFT IN	01/11/88	01/[illegible]/87A

REASONS FOR REVISIONS / COMMENTS

~~SCHEDULE WILL BE REVIEWED UPON RETURN OF NOV'87 PREPARATION MISSION.~~

Project on schedule.

CONSULTING SERVICES (IN STAFFWEEKS) PROJECT MAY REQUIRE: None.

ACTION ON PROCUREMENT (MILLIONS OF DOLLARS OF ICBS ANTICIPATED):
~~$300M~~ (SAL PROCEDURES)

$300.0 M

MANPOWER COST SUMMARY (IN STAFFWEEKS)

	TOTAL	OF WHICH DIV M.L.	DIV ASST.	DIV CONS.	VP-OTHER	OTHER
ACTUAL TO FY88	.0	.0	.0	.0	.0	.0
FY88 ORIG PLAN	.0	.0	.0	.0	.0	.0
FY88 REV PLAN	179.0	43.0	.0	87.0	37.0	12.0
FY88 ACTUAL	18.1	9.1	.0	3.6	5.4	.0
AFTER FY88(RP)	230.0	.0	.0	.0	.0	230.0

EXPECTED TOTAL STAFFWEEK COST: .0 ACT.PLAN: .00

DOLLAR COST SUMMARY (IN THOUSANDS OF $)

	TOTAL	OF WHICH STAFF	CONSULTANT	TRAVEL
ACTUAL TO FY88	.0	.0	.0	.0
FY88 ORIG PLAN	.0	.0	.0	.0
FY88 REV PLAN	.0	.0	.0	.0
FY88 ACTUAL	.0	.0	.0	.0

SIGNATURES

Joseph Goldstein 1/21/88 — MANAGING DIVISION CHIEF — MM / DD / YY

Richard Burcroff 1/21/88 — MANAGING OFFICER — MM / DD / YY

DRAFT
February 5, 1988

Statement of Development and Rural Reform Policies

(to be approved by State Council and transmitted under covering letter signed by Minister of Finance)

I. Economic Development Strategy

Strategic Objectives for 1990s and the early 21st Century
Three Main Elements:

- Education, Science and Technology
- Balanced Development
- Opening to the Outside World

II. Overall Objectives of Economic Reforms

Principles of Chinese Socialism
Basic Objectives of Reforms:

- Enterprise Reforms
- Promoting Horizontal Ties
- Market System Reforms
- Reforms of Macromanagement
- Diversifying Ownership Structure
- Alternative Forms of Income Distribution

III. Rural Reform Program

1. Price Reform

Measures taken to date:
price adjustment, price decontrol of agricultural commodities

Situation in early 1988: remaining areas of control; issues.
Medium-term program for decontrol of grain pricing to be undertaken in three steps:

- selective decontrol by end-use
- price adjustment, reduction of procurement by state
- complete decontrol, eliminate price subsidies, wage adjustment, introduce low-income subsidies

Actions to be taken in 1988 and 1989

- implement at the regional level a program to phase out contract grain purchases, eliminate fertilizer retail subsidies, further reduce urban sales subsidies by limiting eligibility and by increasing sales prices and increase the agricultural land use tax and realign bases for assessment.

- implementation will begin in Xinxiang, Hebei (grain surplus area). A similar effort will be designed during 1988 for implementation in Yulin, Guangxi (a grain deficit area).

2. Development of Rural Market Economy

Measures taken to date:

- abolition of compulsory procurement system

- removal of restrictions on marketing outside state sector

- diversification of distribution and marketing systems

Medium-term program for further reforms of marketing and distribution system

- removal of internal trade barriers

- policies for development of non-state agricultural marketing channels

- promotion of service companies and diversified forms of trading companies

Actions to be taken in 1988 and 1989

Reforms to be introduced in Shangzhi County of Heilongjiang Province, Fuyang Prefecture of Anhui Province, and Shunyi County in the environs of Beijing. National programs to be designed on the basis of these regional experiences.

3. Land Use System

Dismantling of commune system, evolution of household responsibility system

Recent measures to transfer land use rights to households and ensure security

Current problems of land use system

Medium and long-term program for further reforms of land use system

Actions to be taken in 1988 and 1989

- introduce regulations on transfer of land use rights
- introduce new land policies in Meitan, Guizhou
- regional program in labor-deficit zones to reduce land fragmentation, convert micro-farming units to mini-sized farms (up to 2 ha) and facilitate limited small-scale mechanization (sites: Southern Jiangsu; Nanhai County, Guangdong and Shunyi County, Beijing)
- relieve farmers of grain quota obligations in one of the three land consolidation counties of Southern Jiangsu and monitor the impact this will have on land use
- the National Land Administration to clarify recent policies governing the conversion of farmland to non-agricultural use
- design national policies to facilitate sale/transfer of agricultural leaseholds and improve efficiency of land use

4. Production Support System

Development of two-tier production system

- household production
- collective support system

Medium-term program to develop collective system for farm land development, irrigation development, construction and maintenance of rural roads and infrastructure, development of agricultural support services.

5. Rural Industrial Policies

Recent policies to promote rural industrial development

Achievements

Actions to be taken in 1988 and 1989

- formulate state enterprise laws, and township and village enterprise laws to ensure property rights, management autonomy, etc.
- SPARK program to ugprade rural technology
- introduce laws to define business environment for private enterprises and regulate internal management structure
- comprehensive pilot industrial policy reforms to be introduced in Fuyang, Anhui and other regions including company law and bankruptcy regulations for TVEs, etc., improve the provision of various support services to TVEs,

partly through encouraging TVEs to relocate in "industrial parks" now being established and shift role of local government agencies from supervision to provision of needed services and training.

- The Government will monitor the Fuyang program, refine the rules and procedures and announce national policies to extend these initiatives throughout China.

6. Rural Investment and Financial Systems

Developments since 1985 in rural investment and financial system

Nationwide reforms to be introduced in 1988/89, featuring

- Reorganization of planning organs
- Establishment of investment companies
- Main features of reformed investment and financial system

Concomitant reforms in rural investment and financial system to be introduced in 1988 and 1989

- Establishment of CRITC
- Legalization and regulation of non-official credit channels in selected localities as pilot

IV. Achievements and Performance Prospects

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 25, 1987

TO: Files

FROM: Baelhadj Merghoub, Acting Director, ASB

EXTENSION: 72639

SUBJECT: Meeting with Finance Minister Wang Bingqian
November 19, 1987, 2:45 p.m.

1. A delegation led by Finance Minister Wang Bingqian paid a courtesy visit to Mr. Conable at the Bank on November 19. The Delegation included Vice Minister of Finance Li Peng, Messrs. Zhao Xiaoyu, Deputy Division Chief, Foreign Affairs Department, Ministry of Finance, and Zhu Xian, Official, External Finance Department. Messrs. Xu Naijiong (EDS), Qureshi, Karaosmanoglu and I also attended.

2. Mr. Conable welcomed the Minister and his Delegation and expressed his pleasure to meet once again with the Minister and Vice Minister. He recalled the excellent meetings they had at the Annual Meetings last year and the generous courtesy extended to the Bank Delegation by the Minister. Mr. Wang told the President how pleased he was to meet him again and conveyed his Government's gratitude for the fruitful and close cooperation between the Bank and China. He said the Bank's assistance is highly valued and its advice is being followed to address critical issues in China's development efforts. Mr. Wang was also pleased to meet Mr. Qureshi for the first time and regretted not having met him during his September visit to China. He said State Planning Commission Chairman Yao Yilin has received Mr. Qureshi's letter and will be responding soon through the office of Mr. Xu.

3. Mr. Conable said the Bank fully supports the economic reforms launched so far in China and is ready to increase assistance at the pace set by the Government for a sustained economic development. He remarked that Bank-financed investments are still constrained by problems of foreign exchange repayment and counterpart funding and hoped measures would be taken soon to resolve these issues. Mr. Qureshi expressed appreciation for the hospitality extended to him in China and for the stimulating discussions of the reform plans of China's leadership and, in particular, prospects for adjustment borrowing in the rural and financial sectors. He said he returned from China with much enthusiasm to move forward with the Bank lending program but has recently become concerned over indications that the lending program is facing difficulties which must be addressed soon to avoid serious delays and shortfall. Mr. Qureshi noted that Mr. Xu who has been briefed on details of these issues might wish to convey them directly to the respective authorities in China.

4. The Minister said he would try to address the concerns of Messrs. Conable and Qureshi on the lending program and then proposed to briefly discuss China's present economic situation. According to Mr. Wang, the economy is quite healthy this year. Annual industrial output is expected to grow by about 13%, grain production could reach 400 million tons, foreign trade will show a surplus greater than planned, and foreign exchange reserves will increase substantially. There are, however, some other areas that need further Government attention: the budget deficit may surpass 8 billion Yuan; money supply is growing faster than expected; and investment and consumption expenditures are running above the Plan targets.

5. Mr. Wang said the Government in 1988 will need to adopt a more careful approach by reducing the industrial growth target to 8%, and continuing to emphasize grain and meat production to overcome the deficit in per capita consumption. The Government is also aiming for higher export growth and tighter fiscal and monetary policies. The volume of public investments is therefore expected to remain at the 1987 level. Nonetheless, China will face significant shortages of local and foreign funds to sustain the current level of investment. The Government will need to borrow domestically and abroad and will continue to rely on World Bank assistance, which last year amounted to about US$1.4 billion. Mr. Wang said this year China will borrow about the same volume (US$1.4-1.5 billion), including financing of policy-based operations. He expects the volume of China's Bank borrowing to increase steadily over the next few years and said the project pipeline is large enough to provide sufficient flexibility so that the agreed lending targets are met. The Minister gave assurances that upon return to Beijing he would apprise his colleagues of the issues raised by the Bank on the lending program.

6. Mr. Conable thanked the Minister for his remarks and noted that a strong and dedicated team of managers has been formed to look after the important assistance program of the Bank in China. He said he hoped the Bank has done everything possible to strengthen its side of the equation. The President told the Minister he is looking forward to his visit next March, which will be his third trip to China. Mr. Wang asked Mr. Conable to advise him of the people he would like to see in China, and the President replied he is looking forward to meeting the new and younger leadership that has emerged. The Minister thanked Mr. Conable for his warm remarks and good wishes and said he hoped to see him in March in Beijing.

cc: Messrs. Conable, Qureshi, Karaosmanoglu, Burki, Merghoub, Lim, Ahmad, Goldberg, Montfort, Stern, Ecevit, Tidrick.

BMerghoub:hk/em

FORM NO. 75
(6–82)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: Nov. 17, 1987

NAME	ROOM NO.
Mr. Conable (cc: MH)	
(through Mr. Qureshi)	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL	X	NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

FROM:	ROOM NO.:	EXTENSION:
A. Karaosmanoglu AK		72283

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 17, 1987

TO: Mr. Barber Conable, President

THROUGH: Mr. Moeen Qureshi, SVPOP

FROM: Attila Karaosmanoglu, ASIVP

EXTENSION: 7-2283

SUBJECT: China: Meeting with Finance Minister Wang Bingqian on November 19, 1987 at 2:45 P.M.

Further to my note of November 13, 1987, Mr. Xu's office has informed us that the following officers will accompany Mr. Wang Bingqian, State Councilor and Minister of Finance, to the courtesy call to you on Thursday, November 19, at 2:45 P.M.:

Mr. Li Peng	Vice-Minister of Finance
Ms. Li Shu-rong	Dep. Dir., Foreign Affairs Dept, MOF
Mr. Zhang Yuan-Zhong	Dep. Dir., Office of the Min., MOF
Mr. Zhao Xiao-yu	Dep. Div. Chf., Foreign Aff. Dept.,MOF
Mr. Zhu Xian	Official, External Finance Dept., MOF

Mr. Xu will be attending as well.

BM:lgv
cc: Mr. Burki-o/r

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/11/13 DUE DATE : 00/00/00
LOG NUMBER : 871116026 FROM : A. Karaosmanoglu (th
SUBJECT : BRIEF FOR: China Meeting with MOF Wang Bingqian on Thursday, November 19 at 2:45 p.m.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
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COMMENTS : Jenny - original for BBC's follow file.
cc: Marianne for information.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 13, 1987

TO: Mr. Barber Conable, President

THROUGH: Mr. Moeen Qureshi, SVPOP

FROM: Attila Karaosmanoglu, ASIVP

EXTENSION: 72283

SUBJECT: China--Meeting with Finance Minister Wang Bingqian
November 19, 1987, 2:45 p.m.

1. Minister Wang will be visiting the United States for bilateral discussions and is taking this opportunity to make a courtesy call. He will be accompanied by Vice Minister Li Peng and Mr. Gao Shangquan, Vice-Minister of the State Economic System Reform Commission. We are not aware of any issues or specific matters which he intends to address. You met both Minister Wang and Vice-Minister Li Peng during the 1986 Annual Meetings. They did not attend this year's Annual Meetings since China's representation is rotated between the Ministry of Finance and the People's Bank of China (whose Governor Mme. Chen Muhua led the Chinese delegation).

2. You may wish to take this opportunity to: (a) indicate the Bank's awareness of the renewed thrust of economic reforms emanating from the recently concluded 13th National Party Congress and (b) reiterate the Bank's readiness to continue to support the reform efforts of the government through joint economic and sector work (ESW) and development of a strong lending program.

3. Economic and Sector Work (ESW). We are about to complete the ESW program of 13 studies agreed upon with the government in 1985. We have prepared a proposal for a second round of studies to be done over a 3-year period extending from early 1988 to 1990. Mr. Burki is planning to discuss the proposal of 21 studies with the officials of the Ministry of Finance, the State Planning Commission and State Economic System Reform Commission in early December 1987 in Beijing. The proposed studies will assist the government articulate and implement its reform policies and modernization program. To start this ESW program early in 1988 we need to obtain the government's early concurrence with its content. The program will constitute the center of our future policy dialogue and will provide the necessary underpinnings to our overall assistance to China.

4. Lending Program. In our previous discussions at the highest levels of government (Zhao Ziyang), it was agreed that both parties will work towards reaching a lending target of U.S. $2 billion as soon as possible and up to U.S. $3 billion by the start of the 8th Five Year Plan in 1991. As discussed at the Annual Meetings, progress in development of the lending program is seriously constrained by the problem of foreign exchange repayment required from the beneficiaries of Bank loans and more recently by problems of counterpart funding. These issues which have become acute with the budgetary decentralization process currently taking place in China, are deeply affecting the processing of our FY88 lending program. Appraisal and negotiations of a number of important, well prepared projects are being delayed. You may wish to stress the need to resolve expeditiously these internal financial arrangements so that the agreed lending target of U.S. $1.6 - 1.7 billion for 1988 is achieved.

cc: Mr. Burki o/r

BMerghoub/RAnderson:hk

Attachment

Minister Wang Bingqian

A veteran finance officer, Wang Bingqian had served as a vice minister of finance for seven years before he was named Minister in 1981. Born in Hebei Province in 1925, Wang joined the Chinese Communist Party in 1940. Since 1946, his career has been associated with financial work. After 1949 he served in the Ministry of Finance successively as section head, division head, deputy director and the director of a department, before becoming a vice minister. Since he was appointed in August 1980, the Minister has been forceful in conducting a dialogue with the Bank.

Vice Minister Li Peng

Vice Minister Li was born in 1921 in Jiangsu Province. He is a graduate of South-West China University. He understands some English but speaks only a few words. He has made his career in the Ministry of Finance, rising to become the senior vice minister in mid-1982. He was deputy head of the delegation to the 1986 Annual Meetings and has visited the US also on other occasions.

Vice Minister Gao Shangquan

Curently Mr. Gao Shangquan is Vice Minister of the State Commission for Restructuring the Economic System, a post to which he was appointed in June, 1985.

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Washington, D.C. 20431

November 17, 1987

Madam Chen Muhua
State Councillor
People's Republic of China and
Governor
People's Bank of China
San Li Ha
Beijing, China

Dear Madam Chen:

Thank you for your letter dated September 16, 1987, in which you presented on behalf of the Government of the People's Republic of China an official offer to host the 1994 IMF/IBRD Annual Meetings in Beijing. We warmly welcome this gracious offer, which honors our institutions and further demonstrates the spirit of cooperation that has marked China's membership in them.

Please convey to your Government our appreciation for its kind invitation, which will in due course formally be brought to the attention of the Executive Directors of the Fund and Bank. The Executive Boards will at that time make a recommendation to the Boards of Governors on the venue for the 1994 Annual Meetings.

The Secretaries of the institutions will remain in contact with the Executive Directors of the People's Republic of China regarding the detailed procedures for the selection of meeting sites. Please be assured that we will keep fully in mind the expressed desire of the People's Republic of China to host annual meetings of the Fund and Bank at the earliest opportunity.

Very truly yours,

Barber Conable
President
International Bank for
Reconstruction and Development

Michel Camdessus
Managing Director
International Monetary Fund

M-359

001133

RECEIVED
1987 OCT 23 PM 2:35
OFFICE OF THE VICE PRESIDENT
AND SECRETARY

中國人民銀行

THE PEOPLE'S BANK OF CHINA
HEAD OFFICE

Address: San Li He
Beijing, China
Telex: 22612 PBCHO

ORIG: SEC
CC: MD
DMD
MR. DAI
MR. GIANVITI
MR. H. SIMPSON
MR. THAHANE
MR. CALLIS

September 16, 1987

Mr. Michel Camdessus
Managing Director
International Monetary Fund

Mr. Barber Conable
President
International Bank for Reconstruction
and Development

Dear sirs:

On behalf of the Government of the People's Republic of China, I take pleasure in presenting an official offer to the IMF and the World Bank to host the 1994 IMF/IBRD Annual Meetings in Beijing. As you are aware, security can be guaranteed for the annual meetings, since China enjoys social order and stability. In addition, we expect to be able to satisfy all the requirements of the meetings in hotel accomodation, communication, and meeting place and facilities. It is my sincere hope that this application will meet your favourable consideration.

With best regards.

RECEIVED
INTERNATIONAL
MONETARY FUND
1987 OCT 22 PM 2:32
COMMUNICATIONS
DIVISION

Very truly yours,

陈慕华

Chen Muhua
State Councillor
People's Republic of China and
Governor
People's Bank of China

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/09/16 DUE DATE : 87/11/16
LOG NUMBER : 871008016 FROM : Chen Muhua
SUBJECT : Presenting an official offer to the IMF and WB to host the 1994 IMF/IBRD Annual Meetings in Beijing, China.
OFFICE ASSIGNED TO FOR ACTION : Mr. Thahane (D1130)

ACTION:

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COMMENTS : Note: This letter was hand-delivered to EXC on Oct. 8.

JV

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/05/01 DUE DATE : 00/00/00
LOG NUMBER : 870501011 FROM : A. KARAOSMANOGLU
SUBJECT : MR. RONG YIREN

OFFICE ASSIGNED TO FOR ACTION : MR. BARBER CONABLE E1227

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
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COMMENTS : COPY GIVEN TO ISAAC FOR INFO.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 30, 1987

TO: Mr. Barber Conable

THRU: Mr. Ernest Stern, SVPOP

FROM: Attila Karaosmanoglu, AENVP

EXTENSION: 61978

SUBJECT: CHINA--Your Meeting with Mr. Rong Yiren

1. You are scheduled to meet with Mr. Rong Yiren at 12:15 p.m. on Monday, May 4, 1987. Mr. Rong is the Vice Chairman of the Standing Committee of the Sixth National People's Congress and Chairman of the China International Trust and Investment Corporation (CITIC). Further details of Mr. Rong's varied accomplishments are given in his biography which is attached.

2. Mr. Rong is visiting Washington to participate in meetings with the IFC as a member of its Business Advisory Council. We understand that he is taking the opportunity of this visit to pay a courtesy call on you. As head of CITIC, Mr. Rong's main operational contact with the World Bank Group is IFC. He is not involved with Bank activities in China and consequently is not expected to raise any issues on Bank operations. We understand IFC will be providing you with a separate brief on their activities with CITIC.

3. As a member of the Standing Committee of the Sixth National People's Congress, Mr. Rong is an influential political figure and an accomplished business and banking professional whose friendship and support the Bank would like to nurture for its activities in China. Consequently, you may wish to express our satisfaction with the good relations that has developed between China and the Bank and our commitment to assist the Government with its economic reforms through lending and collaborative economic and sector work.

4. As you may already know, Mr. Xu is hosting a lunch in Mr. Rong's honor on May 4. In addition to your participation, others who have been invited are the Chinese Ambassador Han Xu, Sir Ryrie, Mr. Thahane, Mr. Stanton and myself.

Attachment

KAhmed/BMerghoub:cw

Rong Yiren (Jung Yi-jen) 荣毅仁

Posts held

NPC
Member of the Standing Committee of the 5th NPC
Deputy for Shanghai Municipality to the 5th NPC

Others
Vice-president of the 5th CPPCC
Chairman of the Board of Directors, China International Trust and Investment Corporation
Vice-chairman of the Executive Committee of the Federation of Industrialists and Businessmen
Managing director of the Bank of China

Rong was born in 1916 in Jiangsu Province. When Shanghai was occupied by the Communists in spring 1949 he was deputy director of Sangsong Cotton Mills and Fuxin Flour Company which were both owned by his family.

1950, Mar Appointed member of the Financial and Economic Committee in the East China Military and Administrative Council (until Dec 1952)
Dec Elected council member of the Shanghai People's Government (until Feb 1955)
1952, Oct Appointed director of the Administrative Council of Sangsong Cotton Mills
Dec Appointed member of the Financial and Economic Committee in the East China Administrative Council (until 1954)
1953, Oct Appointed vice-chairman of the newly established Federation of Industry and Commerce
1954, Aug Elected deputy for Shanghai Municipality to the 1st NPC and vice-chairman, Shanghai Section of the Federation of Industry and Commerce
1955, Feb Elected member of the People's Council of Shanghai
1956, Mar Delegate at the special session of the World Peace Council in Stockholm
1957, Apr Elected deputy mayor of Shanghai Municipality (until Cultural Revolution)
1959, Apr Elected member of the Standing Committee, CPPCC (until Cultural Revolution)
Sep Appointed vice-minister of textile industry (until Cultural Revolution)
1961, Jan Member of a friendship delegation led by Zhou Enlai to Burma
1966 Rong disappears during the Cultural Revolution
1972, Jan Reactivated after the Cultural Revolution
Mar Identified as member of the Standing Committee of the CPPCC
1973, Apr Member of a delegation of the Sino-Japanese Friendship Association to Japan
1975, Jan Elected member of the Standing Committee by the 4th NPC (confirmed in 1978 by the 5th NPC)
1978, Feb Elected deputy for Shanghai Municipality to the 5th NPC
Mar Elected vice-president of the 5th CPPCC
1979, Jan Identified as vice-chairman of the Federation of Industry and Commerce (until Oct 1979)
Apr Head of a delegation to the Hanover Fair (Federal Republic of Germany) and to Switzerland and France; identified as managing director of the Bank of China
Jun Member of the Draft Law Committee at the 2nd Session of the 5th NPC
Oct Head of an investment delegation to the U.S.A.; appointed chairman of the Board of Directors and president of the China International Trust and Investment Corporation; elected vice-chairman of the Executive Committee of the Federation of Industrialists and Businessmen

Rong is married to Yang Jianqing (born 1917).

JV

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

~~A. PARMAR~~

CORRESPONDANCE DATE : 87/04/30 DUE DATE : 00/00/00
LOG NUMBER : 870501012 FROM : ~~A. KARAOSMANOGLU~~ KUPASRIMONKOL (IFC)
SUBJECT : CHINA: YOUR MEETING WITH MR. RONG YIREN

OFFICE ASSIGNED TO FOR ACTION : MR. BARBER CONABLE E1227

ACTION:

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COMMENTS : COPY GIVEN TO ~~ISAAC.~~ VIVEK

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MR. PARMAR will attend meeting.

DATE: May 1, 1987

TO: Mr. Barber B. Conable

FROM: Bing Shen (through Mr. Sak Kupasrimonkol, Acting Director, CS1)

EXTENSION: 69789

THIS IS THE FAMILY NAME.

SUBJECT: Mr. Rong Yiren

This note is being prepared for your meeting with Mr. Rong Yiren on Monday, May 4. Mr. Rong is the Chairman of the Board and Chief Executive Officer of China International Trust and Investment Corporation (CITIC), as well as the Vice Chairman of the National Committee of Chinese People's Political Consultative Conference. Mr. Rong is a member of the IFC Business Advisory Council and will be attending the Council's first meeting to be held on May 7-8.

CITIC was established by the Chinese Government in 1979 to promote and invest in Chinese/foreign joint-ventures in China. It has since broadened its activities to include investing overseas, commercial banking, leasing, and providing consultancy and legal services. CITIC's total assets as of December 31, 1985 were US$1.4 billion equivalent.

In 1985, IFC and CITIC jointly provided financing for the $79.5 million Guangzhou Peugeot Automobile Co. Ltd. (GPAC) project to produce 15,000 light trucks per year. CITIC is a 20% shareholder while IFC is committed to subscribe to 8% of the equity and to provide a US$15 million loan. The project is still under implementation but as envisaged the Company is in advanced stage of preparing an expansion to double capacity. In addition to GPAC, IFC is working with CITIC and Colomer Group of Spain to form a project promotion and investment company for upgrading of several goat/sheepskin tanneries in China. IFC is also presently appraising a venture capital company, to be based in Hong Kong, for purposes of promoting and investing in small/medium joint-venture projects in China. The sponsor is Jardine Fleming Group of Hong Kong and CITIC is also considering a participation.

Mr. Rong is 71 years old. His father was a leading industrialist in early 20th century China. In the 1950s and '60s, he had served as Vice-Mayor of Shanghai and Vice-Minister of the Ministry of Textile Industry. Mr. Rong has good command of English although he prefers to speak through an interpreter at official occasions.

cc: Messrs. Ryrie
Parmar
Stephansen (o/r)
Merghoub/Ahmed

Shen:er

5/4

VISIT OF MR. RONG YIREN, VICE CHAIRMAN,
STANDING COMMITTEE OF THE NATIONAL
PEOPLE CONGRESS OF CHINA

Delegation List

Mr. Rong Yiren, Vice Chairman of the Standing Committee of the National People's Congress of China (N.P.C.)

Mr. Yang Jianqing, wife of Mr. Rong, Member of the Chinese People's Political Consultative Conference, Council Member of the All China Women's Federation

Mr. You Lin, Deputy Secretary-General, the Standing Committee of the National People's Congress, Advisor

Mr. Yao Jinrong, Director of the General Office of China International Trust & Investment Corporation (CITIC), secretary to Chairman Rong

Mr. Luo Yuan, Deputy Division Chief, Office of the Foreign Affairs Committee, N.P.C.

Mr. Liu Linfei, staff member, Research Department of the General Office, the Standing Committee, N.P.C.

Dr. Ding Chen, Member of the Board of Directors, CITIC, CITIC Representative in New York

4/27/87

Linda McLaughlin

Linda

(1) Mr Xu is requesting a 15 Minutes Courtesy 12:15 pm 5/4 Call on Mr. Conable for Mr. Rong Yiren. ~~And~~ He would also like to invite Mr. Conable for Lunch ~~not~~ either on Monday or Tuesday, May 4 or 5, respectively, or May 3rd outside The Bank. BANK ONLY Evening If Mr Conable can make the lunch the courtesy call can ~~take~~ place just before the lunch.

(2) Mr. Rong's ~~is~~ schedule is apparently very tight. He is meeting Vice President Bush, Secretary Schultz and leaders in Congress. ~~Any~~ An early reply would be welcome.

(3) Mr. Rong is also a member of the IFC Advisory Committee, ~~P~~lease let me know as soon as possible.

Tim Thahan

In honor of Mr. Rong Yiren, Vice Chairman, Standing Committee of the National People's Congress of China

Xu Naijiong

Executive Director for China

requests the pleasure of the company of

Mr. Barber Conable

at a luncheon

on Monday, May 4

at 12:30 p.m. o'clock

E-Dining Room 1

Jen - 5/4

on calendar

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 20, 1987

TO: Mr. Barber Conable

THRU: Mr. Ernest Stern

FROM: S.M.L. van der Meer, Acting Vice President, AEN

EXTENSION: 61978

SUBJECT: Your Meeting with Chinese Delegation to the Development Committee Meeting

1. You are scheduled to meet with the Chinese Delegation from the Ministry of Finance at 4:15 p.m. on Tuesday, April 7th. The Delegation members are Vice Minister Li Peng, Director Wang Liansheng and Ms. Li Shurong of External Finance Department. Vice Minister Li Peng is in charge of World Bank matters in the Ministry of Finance and has been one of our main interlocators from the early days of Bank involvement in China. Mr. Wang Liansheng is a former Executive Director of the Bank and the first from the People's Republic of China. You have met Vice Minister Li Peng once before, during the occasion of the Bank's Annual Meeting in Washington last fall. The Delegation will be accompanied by Mr. Karaosmanoglu and Mr. Ahmed from the Region.

2. We do not expect the Delegation to raise any issues of substance as the request to meet with you, we understand, is in the nature of a courtesy visit. However, we would like to use the occasion of this meeting to follow up on the matters listed below:

- the Government's interest in pursuing a financial sector loan from the Bank.
- current status of and near term outlook for economic reforms.
- need for the Government to develop a three-year rolling plan of its borrowing requirements from the Bank.
- your proposed visit to China.

Financial Sector Loan

3. During Mr. Karaosmanoglu's visit to China in mid-January, the Chinese authorities indicated that the emphasis in the next phase of economic reforms would be in the area of finance and enterprise management. Significant price reforms were introduced in 1985 and 1986, but price reforms of key commodities which had been much publicized for 1987 have been put on hold in the face of higher than anticipated inflation (8.8% and 6.6% in 1985 and 1986 respectively compared to 3% in previous years) and mounting criticism from the conservative faction of the political establishment. In informal discussions of our recent economic work on the financial sector (Finance and Investment Study to be distributed to the Board by June 1987*), the Chinese authorities have shown

*Formal Discussions of the Green Cover Report with the Government are scheduled for the week of April 12 with a wrap-up meeting with Vice Minister Li Peng on April 20.

interest in seeking Bank support for their financial sector reforms in the form of a financial sector loan. The officials from the People's Bank who are responsible for implementing financial reforms agreed to prepare background papers and their proposals for the Bank's review before we start formal discussions on a possible financial sector loan. We would like you to enquire of the Delegation if there has been any progress in this matter since their discussions with Mr. Karaosmanoglu.

Status of Economic Reforms

4. Subsequent to Mr. Karaosmanoglu's discussions there have been several changes in high government and party positions in the wake of the student demonstrations. The international press has reported widely on these developments in China. There has also been much conjecture regarding the implications for further economic reforms. We would like you to seek the Delegation's views on the current status of reforms and the prospects for further initiatives by the Government in the coming months.

Three-Year Rolling Plan

5. As you know, the Chinese Government has indicated to us its intentions to seek a higher level of borrowing from the Bank. It is our understanding that they wish to increase annual commitment of Bank/IDA funds to around $2 billion in the near future and up to as much as $3 billion by the end of the 7th Five Year Plan: i.e. by end 1990. We are, however, constrained in our ability to adequately plan for a gradual build up to such commitment levels primarily because of the Chinese authorities' inability to discuss with us a pipeline of projects to be prepared and financed over a three year period. We have succeeded over the years to establish lending pipeline reviews on a yearly basis but in view of the level of lending commitments sought by the Chinese and its impact on our budgeting and programming exercise we need to develop jointly with the Government a three-year rolling plan of its borrowing needs from the Bank. In that context we could work with the Government to identify a pipeline of an adequate number of projects for Bank financing. You might wish to emphasize this point to the Delegation.

6. Your Visit. Finally, you may wish to inquire of the Delegation a suitable time for your proposed visit to China.

cc: Mr. Karaosmanoglu (o/r) (AENVP)

KAhmed:cw

(3/82)

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PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: AEACH

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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MR. WANG BINGQIAN, STATE COUNCILOR AND MINISTER OF FINANCE OF THE PEOPLE'S REPUBLIC OF CHINA, GOVERNOR OF THE WORLD BANK FOR CHINA, BEIJING, CHINA

I WOULD LIKE TO EXPRESS MY SINCERE THANKS FOR YOUR KIND MESSAGE OF JULY 1. I AM PLEASED TO BE UNDERTAKING THIS POSITION, AND I KNOW THAT WE WILL BE FACING MANY CHALLENGES IN THE YEARS AHEAD, PARTICULARLY GIVEN THE VERY COMPLEX GLOBAL ECONOMIC SITUATION. THE COOPERATION WHICH HAS DEVELOPED OVER THE PAST SIX YEARS BETWEEN THE WORLD BANK AND CHINA HAS INDEED BEEN QUITE REMARKABLE, AND WE LOOK FORWARD TO CONTINUED GROWTH IN OUR RELATIONSHIP DURING THE PERIOD OF ECONOMIC DEVELOPMENT UNDER CHINA'S SEVENTH FIVE YEAR PLAN. I VERY MUCH LOOK FORWARD TO SEEING YOU IN WASHINGTON ON THE OCCASION OF THE ANNUAL MEETINGS.

BEST REGARDS, BARBER S. CONABLE, PRESIDENT, THE WORLD BANK/IFC

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX | TELEX NO.: 22486 MFPRC | DATE: 7/28/86

SUBJECT: China: Minister Wang Bingqian

DRAFTED BY: TBassler:hk

EXTENSION: 73900

CLEARANCES AND COPY DISTRIBUTION:
cc: Mr. Xu Naijiong, EDS
Mr. Edwin Lim, RMC
Cleared with and cc: Mr. Kaji (AEADR)

AUTHORIZED BY (Name and Signature): Barber B. Conable

DEPARTMENT: EXC

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RCA3672
248423 WORLDBANK
WWRIY MFPRC CN
BEIJING, JULY 1, 1986
MR. BARBER B. CONABLE
PRESIDENT OF THE WORLD BANK
WASHINGTON D.C. U.S.A.
COPY TO XU NAIJIONG, E.D. FOR CHINA TO THE WORLD BANK
ON THE OCCASION WHEN YOU ASSUME YOUR OFFICE AS PRESIDENT
OF THE WORLD BANK, PLEASE ALLOW ME, ON BEHALF OF THE
GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND IN MY OWN
NAME, TO EXTEND TO YOU OUR WARMEST CONGRATULATIONS.
I SINCERELY WISH YOU EVERY SUCCESS IN YOUR WORK.
THE WORLD BANK, AS A DEVELOPMENT INSTITUTION WHICH PROVIDES
AID TO THE THIRD WORLD COUNTRIES,HAS DONE A LOT IN ASSISTING
THE DEVELOPING COUNTRIES IN THEIR ECONOMIC DEVELOPMENT AND
ALLEVIATION OF POVERTY. ALL OF THESE HAVE BEEN APPRECIATED.
I BELIEVE, DURING YOUR TERM OF OFFICE, THE WORLD BANKWILL
, IN ACCORDANCE WITH ITS OBJECTIVES AND PURPOSES, CONTINUE
TO MAKE NEW CONTRIBUTIONS .
EVER SINCE THE RESUMPTION OF CHINA'S SEAT IN THE WORLD BANK,
THE COOPERATION BETWEEN CHINA AND THE WORLD BANK HAS BEEN
DEVELOPED SMOOTHLY. CHINA HAS NOW ENTERED INTO THE CONSTRUCTION
PERIOD OF ITS SEVENTH FIVE-YEAR PLAN AND AN IMPORTANT PERIOD
OF ITS ECONOMIC STRUCTURAL REFORM. I AM EXPECTING TO SEE
FURTHER DEVELOPMENT OF THE COOPERATION BETWEEN CHINA AND THE WORLD
BANK.
I ONCE AGAIN WISH YOU EVERY SUCCESS IN YOUR WORK.

WANG BINGQIAN
STATE COUNCILOR AND MINISTER OF FINANCE OF THE PEOPLE'S
REBUBLIC OF CHINA
GOVERNOR OF THE WORLD BANK FOR CHINA

22486 MFPRC CN
248423 WORLDBANK
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ALT RTD FROM:EXCM

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OFFICE OF THE PRESIDENT
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FORM NO. 27 - OCR
(3/82)

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MESSAGE NUMBER:

TEST NUMBER (FOR CASHIER'S USE ONLY):

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THE HONORABLE MR. SONG PING, STATE COUNCILLOR AND CHAIRMAN, STATE PLANNING COMMISSION, SAN LI HE, BEIJING, CHINA

I HAVE NOTED THE RECENT ENACTMENT BY THE NATIONAL PEOPLES CONGRESS OF NEW LAWS RELATING TO FOREIGN INVESTMENT. IN THIS CONNECTION, I AM PARTICULARLY PLEASED THAT IFC HAS BEEN GIVING TOP PRIORITY TO YOUR REQUEST FOR COUNSEL ON ATTRACTING, SCREENING AND REGULATING FOREIGN PRIVATE INVESTMENT. IFC'S EXPERIENCE IN THESE MATTERS, IN OVER 80 COUNTRIES DURING THE LAST 30 YEARS, HELPS THEM TO UNDERSTAND IN A VERY PRACTICAL WAY WHAT KINDS OF POLICIES WORK BEST IN PARTICULAR SITUATIONS. I HOPE THAT THE SEMINAR YOU PLAN WITH THEM STARTING JULY 10 WILL BE ONLY THE BEGINNING OF A VALUABLE TWO-WAY FLOW OF INFORMATION. WITH KIND REGARDS, A. W. CLAUSEN, PRESIDENT, WORLD BANK/INTERNATIONAL FINANCE CORPORATION.

END OF TEXT

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CLASS OF SERVICE: TELEX

TELEX NO.: 22552 SEC CN

DATE: 6/23/86

SUBJECT: CHINA FOREIGN PRIVATE INVESTMENT

DRAFTED BY: DNW FOR RRICHARDSON/RSO

EXTENSION: 60400

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CLEARED WITH AND CC: MR. RYRIE
MR. KARAOSMANOGLU
CC: MR. XU

AUTHORIZED BY (Name and Signature): A. W. CLAUSEN

DEPARTMENT: OFFICE OF THE PRESIDENT

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BOOK OF THREE

1) MR. SONG PING, STATE COUNCILLOR AND CHAIRMAN, STATE PLANNING COMMISSION, SAN LI HE, BEIJING, CHINA

TELEX 22552 SEC CN

2) MR. GAN ZIYU, VICE CHAIRMAN, THE STATE PLANNING COMMISSION SAN LI HE, BEIJING CHINA

TELEX 22552 SEC CN

3) MR. WANG YI PING, DIRECTOR, BUREAU OF FOREIGN ECONOMIC RELATIONS, STATE PLANNING COMMISSION, BEIJING, CHINA

TELEX 22064 CCSPC CNOOA

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

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THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

May 20, 1986

Dear Vice Minister Yao:

I am writing to thank you for the delightful dinner you hosted here in Washington last week. Not only was the meal excellent but so was the company. I was also pleased to have a more personal exchange of views with you the next day on matters of mutual concern to the Bank and to the PROC as well.

One of the most satisfying aspects of my term as President of The World Bank has been my association with the People's Republic of China. I will miss my frequent contacts with your colleagues and hope that from time to time our paths will cross again.

Warm regards.

Sincerely,

His Excellency Yao Yilin
Vice Premier of the State Council
People's Republic of China
Beijing, People's Republic of China

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

May 20, 1986

Dear Mr. Ambassador:

Just a note to tell you how much I enjoyed dinner with you and Vice Premier Yao Yilin last week. I have also written him but since you had a major part in organizing the evening, I wanted you to know how much I appreciated that.

It was good to have an opportunity for a more personal visit with the Vice Premier the following day and I am grateful that you could also be with us.

Every good wish to you.

Sincerely,

His Excellency Xu Han
Ambassador of the
People's Republic of China
Embassy of the People's
Republic of China
2300 Connecticut Avenue, N. W.
Washington, D. C. 20008

ACTION

Letter to Ambassador Chai Zemin requesting

Mr

Yao Yilin

Vice Premier of the State Council

People's Republic of China

requests the honour of your presence

at a Dinner at

The Chinese Embassy

on Thursday, May fifteenth

Nineteen hundred and eighty-six

at seven o'clock

~~Reception~~ ~~6:30 PM~~ ~~at 6 PM - 50 for~~ ~~100 optional for~~ ~~Mr.~~

R.s.v.p. before May 10th.
Tel. (202) 328-2520

2300 Connecticut Avenue, N.W.
Washington, D.C.

accepted Nov 12/86

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

May 2, 1986

Dear Vice Minister Li:

We have just returned from Europe and the Middle East to find your beautiful gift awaiting us.

The cloisonne vases are very elegant and certainly are representative of the excellent craftsmanship of the Chinese people. Mrs. Clausen and I are extremely pleased to have them but we especially appreciate the thought which prompted your gift.

It has been my great pleasure to know and work with you and Minister Wang. All of us at The World Bank appreciate your strong support of our objectives and look forward to its continuing in the years ahead.

I, too, look forward to another opportunity to visit China and, at such time, I will certainly be in touch with you or Minister Wang.

Again, our thanks for your thoughtfulness.

Warm regards.

Sincerely,

Mr. Li Peng
Vice Minister of Finance
Ministry of Finance
Beijing
People's Republic of China

Washington, D.C.
April 10, 1986

Mr. A.W. Clausen
President
The World Bank
1818 H Street, NW
Washington, D.C. 20433

Dear Mr. Clausen,

It is a great pleasure for me to meet you again in Washington on the occasion of the Spring Meetings.

Minister Wang Bingqian and I appreciate very much the contribution you have made during the past five years towards the the strengthening of the cooperation and friendship between China and the World Bank. You can imagine how regretful we feel now that you are leaving the Bank. Herewith as a personal gift are a pair of Chinese cloisonne vases for your keepsake for the close cooperation and friendship between us.

I look forward to welcoming your future visits to China. Please inform either Minister Wang or myself whenever you intend to do so. We would both be delighted to hear from you.

I wish you all success in the future.

Sincerely yours,

Li Peng
Vice Minister of Finance
People's Republic of China

April 8, 1986

Dear Vice Minister Li:

Just a note to thank you for hosting the delightful dinner on Friday evening. I know all of us enjoyed the excellent meal, not to mention the good company!

It was most thoughtful of you to honor Caio Koch-Weser and me in this way. My association with the People's Republic of China has been one of the most satisfying aspects of my term as President of the Bank -- and I'm sure Caio shares the same feeling.

Again, my warmest thanks to you for your kindness.

Sincerely,

A. W. Clausen

Mr. Li Peng
Vice Minister of Finance
Ministry of Finance
Beijing
People's Republic of China

MH

Copy to Caio Koch-Weser

April 8, 1986

Dear Mr. Xu:

Just a note to tell you how much I enjoyed Friday evening's dinner. I've written to Vice Minister Li to thank him, but I also wanted to thank you for your part in organizing the evening. Caio and I were both honored and touched by this most thoughtful gesture.

Warm regards.

Sincerely,

A. W. Clausen

Mr. Xu Naijiong
Executive Director
The World Bank
Room D 1304

MH

Copy to Caio Koch-Weser

Guests attending the Xu/Peng dinner
Friday, April 4, 1982 - 7:00 p.m.
Hunan Rose Restaurant - 2020 K St.

Moeen Qureshi

Tim Thahane

Teruyuki Ohuchi

Ibrahim Shihata (?)

Gautam Kaji

Letter to Hua. Xu

Thanks!

Xu Naijiong

Executive Director for China

requests the pleasure of the company of

Mr. A. W. Clausen

at a dinner

on Friday, April 4

at 7:00 PM ~~o'clock~~

at Hunan Rose Restaurant
2020 K Street N.W
Wash. D.C.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 3, 1986

TO Mr. A. W. Clausen

FROM Gautam S. Kaji, Acting Vice President, AEN

EXTENSION 72103

SUBJECT CHINA: Note for Your Dinner with Vice Minister Li Peng on Friday, April 4, 1986

1. Vice Minister Li Peng will head the Chinese delegation to the Development Committee meetings and will host a dinner tomorrow evening in your honor. You last met with the Vice Minister at the 1985 Annual Meetings where he raised the issues of the IDA allocation for China and the resulting blend of IBRD/IDA funds in the lending program. He also expressed his view that price reform has become the most difficult issue for policy-makers in China.

Recent Economic Developments

2. China's economy continued to grow rapidly in 1985 (about 12% in real terms). Excessive credit expansion beginning in the second half of 1984, however, resulted in an acceleration of inflation and a sharp deterioration of the external accounts. Consumer prices rose at an overall rate of 8.8% in 1985, but over 12% in the cities (7% in rural areas). The rapid expansion of imports, and a slowdown of export growth led to a current account deficit of about US$11 billion in 1985, compared to a $2 billion surplus in 1984. The deficit was financed principally by short-term borrowing and the drawdown of international reserves. Direct controls have been tightened on credit and imports, and there does not appear to be any immediate danger of a balance-of-payments crisis. Falling oil prices and increased protectionism have further weakened export prospects, however, and longer-term adjustment measures may be needed. A comprehensive debt monitoring system and external borrowing strategy are also needed.

3. China's Seventh Five Year Plan (covering 1986-90) has been drafted and is now under discussion in the National People's Congress. The proposals call for steady growth at 7% p.a., and focus on building the foundation for future growth through relieving major bottlenecks in the energy, transport and raw materials sectors, technological modernization, greater reliance on foreign capital, and continuation of economic reform (particularly in price corrections and the financial system, following a period of consolidation in 1986). Total investment during the Seventh Plan period is expected to be about 1 1/2 times the level undertaken during the Sixth Plan.

Status of the Bank's Program in China

4. As follow-up to the well-received second economic report, economic and sector work is ongoing in several areas. Of particular importance is a mission to study reform of the investment finance system, which has just returned and is preparing its report for discussion with the Government later this year. A mission to study the foreign trade and investment regimes is

scheduled for the fall. Major sector studies are also underway or soon to be undertaken in, among other areas, transport, electric power pricing, coal utilization; the fertilizer sector, and urban health delivery and financing.

5. To date the Bank has approved lending for 34 projects in China for a total of US$3.3 billion. Of that total, slightly more than 40% was IDA funding. The priority sectors have been energy and transport. Total lending for FY86 is expected to be $1.15 billion for 11 operations. We anticipate major expansion in our lending program. However, we have not yet been able to agree with the Government on a specific strategy for a longer-term lending program that would link Bank borrowing with the overall plan for foreign borrowing and the investment program under the Seventh Plan.

Issue likely to be raised by the Vice Minister

6. The concern most likely to be raised by the Vice Minister is the status of IDA-8 negotiations and the question of China's access to IDA funds over the coming years. We have conveyed to the Government that there is a strong feeling among donors that the nominal amounts allocated to the large blend countries (India and China) under the current replenishment should not increase under IDA-8. China received $400 million in IDA funds in FY85 and $450 million in FY86. We anticipate an allocation of roughly $400 million in FY87.

Issues that you should raise

7. You should convey your satisfaction with the development of the Bank-China relationship, mentioning the development of the lending program so far and China's impressive recent performance in project implementation. You should also say how pleased you are with the growing cooperation in economic and sector work, particularly the very successful recent economic mission on investment and finance, which you hope will contribute to the Government's effort in financial system reform. You should also express appreciation for the Government's support and assistance in establishing the Resident Mission in Beijing, which is now fully staffed and operational.

8. You should recall Mr. Stern's discussions with Premier Zhao Ziyang and Minister Wang Bingqian last October, which indicated an expanded role for the Bank in China. You should stress that we expect in the near future to more closely link our longer-term lending program with the Government's foreign borrowing strategy and investment program under the Seventh Plan. You should emphasize that if the Government indeed intends to expand borrowing, then we would need to move quickly to reach agreement on the sectoral priorities and firm up the longer-term project pipeline. Mr. Kaji will lead a mission in June for further discussions aimed at reaching such an agreement.

9. You should say that in order to deliver an expanded program, both the Bank and the Government will need to streamline and better synchronize their project processing procedures as well as strengthen staffing. The Bank has taken a major step in this direction with the establishment of the Resident Mission in Beijing. You should express the Bank's willingess to support the Government's efforts to strengthen its own staffing, particularly in the core agencies.

10. You should mention the Bank's involvement in the proposed Three Gorges Project. Further to Mr. Stern's discussions in October with Finance Minister Wang, the Bank has recently been asked to assist in undertaking a comprehensive investment study of the project, focusing on its economic justification in the context of China's plans for energy sector development. We will also help to bring together a panel of international experts to advise the Government and oversee the study to be carried out by a consultant.

11. Three Gorges remains highly controversial among Chinese officials, because of the enormous potential costs ($10 billion plus) and impact on the environment and population residing in the proposed project site. The project has attracted the involvement of many bilaterals, including Canada, the U.S., Sweden and Italy. In fact, one problem we face is that the Chinese Government has asked the Canadians to undertake a study virtually identical to the one we are planning. Carrying out two such similar studies would not only cause unnecessary duplication of effort and resources but would also be impractical, for the Chinese in terms of counterpart staffing. The State Council needs to be presented with recommendations on the proposed project by the end of 1987 in order to make a final decision on whether to go ahead with the project.

12. In discussing Three Gorges, you should say that we are looking forward to assisting the Government in bringing in foreign expertise to undertake the careful analysis of the economic justification for the project. The Government would have to ensure that there is no duplication of assistance provided by the Bank and bilateral donors. You should also mention that we hope to finance the pre-investment work under the existing Technical Cooperation Credit so that work can proceed quickly.

Caio Koch-Weser

Caio is Brazilian, age 42, and has been in the Bank for twelve and a half years. He joined in 1973 through the YP Program, and for 3 years, between 1977-80, was Personal Assistant to the President of the Bank. Following that assignment, he has for the last 5½ years been Chief of the China Programs Division.

Personnel report that Caio is well regarded for his intellectual leadership and diplomatic skills. He has an excellent understanding of world economic issues and a keen sensitivity to international politics. The quality of his work and personal contribution are of the highest quality.

His Director, Gautam Kaji, reports that Caio's stewardship of the China Division coincides with China's resumption of its seat in the Bank. Apart from his major role in assembling a top notch team to staff the Division, he has played a critical role in explaining the Bank to the Chinese as we started dealing not only with the core agencies, but with the provincial organizations and other line agencies. Equally, he had an important role in interpreting China to the Bank. Though the Chinese deserve full credit for the speed and smoothness of the build up of our program, Caio's contribution to this effort, and in particular in the diversity of our operations, was quite remarkable.

Caio is to be promoted to Director, Western Africa Country Programs Department I (which includes Nigeria, Ghana and Mali). (P.S. Caio will not be the Bank's youngest Director).

April 4, 1986

Hand carried by Mr. Kanzomanoglu
Copy to Mr. Kut + Mr. Stern

R1

中华人民共和国财政部

中国北京三里河
电报挂号：FINANMIN, BEIJING

290

Feb 18, 1985

Dear Mr. A.W. Clausen:

I acknowledge receipt of your letter dated Jan 30 and I am very happy to learn that you have appointed Mr. Edwin R. Lim to be Chief of the World Bank's Resident Mission in China. Mr. Lim is an old friend of ours. Ever since the restoration of representation by the People's Republic of China in the World Bank, Mr. Lim has been involved in the World Bank's operations in China and has played a very important role in preparing first and second economic reports on China. We welcome Mr. Lim, in his capacity as representative of the World Bank, to take charge of its Resident Mission on July 1, 1985.

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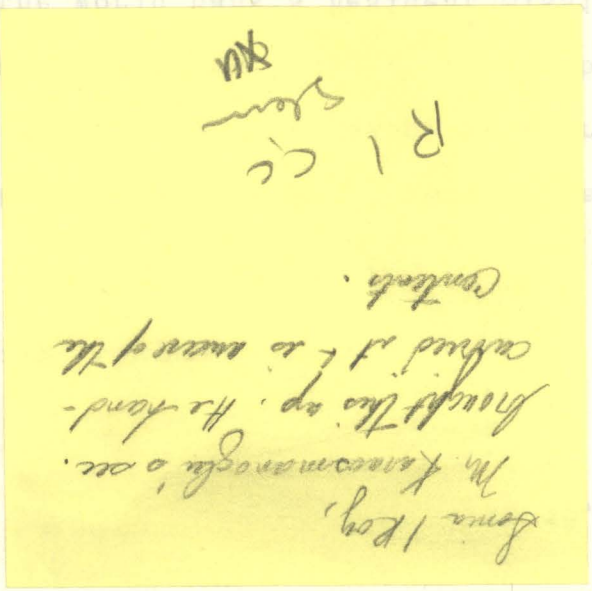
1985 MAR 11 PM 3:12
OFFICE OF THE PRESIDENT



中华人民共和国财政部
MINISTRY OF FINANCE, PEOPLE'S REPUBLIC OF CHINA

中华人民共和国财政部

中国北京三里河
电报挂号：FINANMIN, BEIJING

With the ever growing co-operation between China and the World Bank, we believe that the communications and contacts between us will continue to increase. We sincerely wish the Resident Mission under Mr. Lim every success.

Warm regards.

Sincerely Yours

王丙乾

(Wang Bingqian)

Minister
Ministry of Finance
The People's Republic
of China

Mr. A. W. Clausen

President
International Bank for
Reconstruction and Development &
International Finance Corperation
1818 H. Street N.W.
Washington D.C. 20433
U.S.A.

世界银行行长

克劳森先生：

您一月三十日的来信已经收到。

我很高兴地获悉您已任命林重庚先生担任世界银行驻京办事处的代表。林先生是我们的老朋友。自从中华人民共和国在世界银行的代表席位得到恢复以后，林重庚先生就参加了世行在中国的工作，他在两次经济考察工作中都起了很好的作用。我们欢迎林重庚先生于七月一日代表世界银行来华主持办事处的工作。

随着我国和世界银行合作的扩大，我们之间的联系和往来也一定会日益频繁。我们衷心地希望林重庚先生和他所主管的驻京办事处的工作取得更大的成效。

致以热情的问候！

中华人民共和国财政部长

王　丙　乾

一九八五年二月十八日

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

January 30, 1985

Dear Mr. Minister:

Thank you for your letter of December 15, 1984, which I have just received, conveying your Government's agreement to the establishment of a World Bank Resident Mission in China. The rapid expansion of Bank operations in China since 1980 has been a source of great satisfaction to all of us here at the Bank. In view of the scope and volume of activities we have now achieved, and the continued growth we expect in the coming years, it certainly seems timely that the Bank has an office in Beijing to facilitate our operations. I am convinced - as I know you are - that the Mission will play an important role in promoting further cooperation between China and the World Bank.

I am pleased to inform you that I have decided to appoint Edwin R. Lim, a Filipino national, to be Chief of the Resident Mission. As you probably know, Mr. Lim has been involved in the Bank's work on China from its initiation and is well known to your officials. He has managed the economic work and had major responsibility for both the first economic report on China and the one now being completed, which will review long-term economic issues and options. Although his responsibility in Beijing will be different than his current one, we hope Mr. Lim's assignment in Beijing will provide continuity and strengthen the excellent relationship that now exists between Chinese officials and Bank staff at all levels.

If your Government has no objection to his appointment, Mr. Lim will take up his assignment on approximately July 1, 1985. We hope that the Resident Mission, which will initially comprise five professionals from Headquarters, will be fully established by about September 1985.

Warm regards.

Sincerely,

His Excellency Wang Bingqian
Minister of Finance
Sanlihe, Beijing
The People's Republic of China

bcc: Mr. Xu

Edwin Roca Lim

Mr. Lim was born in Zamboanga, Philippines, on February 11, 1941 and received his primary and secondary education in the Philippines. Subsequently he received his B.A. from Princeton University in the United States and his Ph.D. in Economics from Harvard University. From 1965 to 1969 he was Lecturer in Economics at the University of Hong Kong.

Mr. Lim joined the Bank in 1970 through the Young Professionals Program. Upon graduating from the Program in 1971, he was assigned as an Economist in the Western Africa Country Programs Department, where he worked on Nigeria. In 1973 he transferred to the Resident Mission in Lagos, Nigeria. Upon returning to Headquarters in 1976, he was assigned to the East Asia & Pacific Country Programs Department, Southeast Asia Division, as Senior Economist. In July 1980 he was promoted to Senior Departmental Economist with responsibility for managing the economic work on China.

FORM NO. 09
(2–83)

THE WORLD BANK

ROUTING SLIP	Date Jan. 29, 1985

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Koch-Weser	
cc: Mr. Karaosmanoglu	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Would you please prepare a reply for Mr. Clausen's signature - if possible, by February 5?

Roy Southworth

From

中华人民共和国财政部

中国北京三里河
电报挂号：FINANMIN, BEIJING

117

December 15, 1984

Dear Mr. A.W. Clausen:

I am writing to formally inform you that the Government of the People's Republic of China has agreed that The World Bank open a Resident Office in Beijing. I believe that this Resident Office of The World Bank in Beijing will surely play an active role in promoting the cooperation between The World Bank and China.

Best regards.

Sincerely Yours

王丙乾

Wang Bingqian
Minister
Ministry of Finance
The People's Republic of China

Mr. A.W. Clausen
President
International Bank for
Reconstruction and Development &
International Finance Corperation
1818 H. Street N.W.
Washington D.C. 20433
U.S.A.

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Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
January 28, 1985	Letter w/attacahment	

Correspondents / Participants
To: Distribution
From: A.W. Clausen, President

Subject / Title
Staff Announcement - appointment of Mr. Francisco Javier Alejo

Exception(s)
Personal Information

Information Restricted Under Separate Disclosure Regimes and Other Investigative Information: Independent Evaluation Group (IFC)

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

7/10

The Chinese ED's office called to extend an invitation on behalf of the President of China, Mr. Li, to a dinner hosted by him at the Chinese Embassy on Wednesday, July 24 at 7:30 p.m. The invitation is for both you and Mrs. Clausen and the dinner is Black Tie. Vice President and Mrs. Bush will also be attending.

Right now, you are free that evening, although we have more or less offered it to the DuBains for dinner (along with lunch on the same day). But we can probably get out of that.

MH

yes / accepted MH 7/10

Call Mr. Zhao - 76695 Will send reminder card

July 22, 1985

Mr. A. W. Clausen, President
THRU Mr. Ernest Stern, Senior Vice President, SVPOP
S.S. Kirmani, Acting Regional Vice President, AENVP

74258

Note for Your Dinner with Li Xiannian, President of the People's Republic of China, on July 24, 1985

1. You will be the first senior Bank official to meet the President, who has been in office since June 1983 (biography attached). We suggest that you:

(a) say how pleased you are with the cooperation that has developed between China and the Bank, noting the recent completion of the second fiscal year with more than $1.0 billion in approved lending to China and the very positive discussions of the Bank's country economic report on China with senior Government officials in March;

(b) communicate your appreciation of the challenge and complexity China faces in its broad system reform effort;

(c) express the Bank's willingness to continue to support China in its efforts to implement the reforms, achieve economic growth and acquire modern technology;

(d) also, express the Bank's willingness to increase IBRD lending under the 7th Five Year Plan, with support for a larger number of projects.

2. Vice Premier Li Peng will also be present (brief biography attached). It would be appropriate to acknowledge his recent appointment to serve as Minister of the new State Education Commission, an agency that will direct reform of the education system. The Commission will subsume the functions of the existing Ministry of Education.

Attachment

TBassler:hk

Li Xiannian

Li Xiannian is the President of the PRC. Serving as Minister of Finance and Vice Premier from 1954 until 1975, Li emerged as a leading economic spokesman.

He was born in Hubei Province in 1907, comes from a poor peasant background and is not known to have had a university education. In 1927, he was active in organizing the Communist Oyuwan Soviet (Hubei-Henan-Anhui provinces), second in importance only to the Jiangxi Soviet led by Mao Zedong. He was a participant in the Long March (1934-35), joining ranks with units in the far west that traveled some 2,000 miles farther than the main body of Communist forces. In 1939, he returned to his home region to organize resistance against the Japanese.

In 1945, he was elected to the Central Committee, and was subsequently active as a military leader in the Civil War. From 1949 to 1954, he held top Party and administrative posts in Hubei Province, including provincial governor, mayor of Wuhan, political commissar and commander of the Hubei Military District, and ranking secretary of the Hubei Committee of the Chinese Communist Party.

In the course of his activities in Wuhan, Li began to specialize in economic affairs. He relinquished his regional post in 1954, when he was transferred to Beijing. Li replaced Deng Xiaoping as Minister of Finance and served as Vice Chairman of the Government Administration Council's Finance and Economic Commission. This office was reorganized that year as the Fifth Staff Office, responsible for financial and trade affairs within the State Council headed by Zhou Enlai. In October 1962, he was given further responsibilities in the economic sector when he was appointed Vice Chairman of the State Planning Commission.

In 1956, Li was elected for the first time to the Politburo and has played a significant public role in the Chinese leadership ever since. Li has traveled abroad and has met numerous foreign visitors to China. He was elected president in 1983. The presidency had been abolished during the Cultural Revolution; Li is the first to serve in the restored position.

Li Peng

Li Peng was born in Chengdu (Sichuan Province) in 1928. He joined the Chinese Communist Party in 1945. After 1946, he was a technician at the Shanxi-Qahai-Hebei Electric Company and later studied at the Moscow Power Institute. Between 1955-66 he held positions as chief engineer, deputy director and director of various power stations, plants and administrations in the northeastern provinces. From 1966-79, he assumed leadership positions in the Beijing Electric Power Administration. After 1979, he served successively as Vice Minister and then Minister of Power Industry and later First Vice Minister of Water Resources and Electric Power. He became a Vice Premier in June 1983. Recently (June 18, 1985), as part of the reform of the education management system in China, Li Peng was concurrently appointed Minister in charge of the newly-established State Education Commission.

Please respond to

The Social Secretary

The Chinese Embassy

at your earliest convenience

---

(202) 328-2555

To remind

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 22, 1985

TO Mr. A. W. Clausen, President

THRU Mr. Ernest Stern, Senior Vice President, SVPOP

FROM S.S. Kirmani, Acting Regional Vice President, AENVP

EXTENSION 74258

SUBJECT Note for Your Dinner with Li Xiannian, President of the People's Republic of China, on July 24, 1985

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Attachment

Note. The Ambassador's name is Han Xu.

TBassler:hk

P-1866

Attachment

Li Xiannian

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Lunch for Chinese Ambassador, Han Xu
Monday, June 24, 1985 - 1 p.m.
Dining Room #6 - E Building

A.W. Clausen - Host

Ernie Stern

Attila Karaosmanoglu

Tim Thahane

Caio Koch-Weser

Xu Naijiong

Yang Guanghui

H.E. Han Xu - Ambassador

H.E. Wang Bingqian - Min. of Finance

Luo Qing - Dep. Dir., External Finance Dept., Min. of Finance

Ji Chongwei - Exec. Dir., Econ. Research Center, State Council

An Dong - Minister-Counselor, Commercial Affairs - Embassy

Ms. Li Shurong - Interpreter, Deputy Div. Chief, World Bank Div. I, Ministry of Finance

Lunch for Amb. Han Xu of the People's Republic of China - Monday, June 24, 1985
1:00 p.m. - Dining Room #6, E Building*

A.W. Clausen - Host
Ernie Stern
Attila Karaosmanoglu
Tim Thahane
Caio Koch-Weser
Xu Naijiong
Yang Guanghui
H.E. Han Xu - Ambassador

H.E. Wang Bingqian - Minister of Finance

Zhang Zai - Min., Chinese Embassy

Liu Suinan - Vice Chrmn., State Plan. Comm.

Shang Ming - Advisor, People's Bank of China

Gao Shangquan - Vice Chrmn., State Comm. for Restructuring Economic System

Ji Chongwei - Exec. Dir., Econ. Research Center, State Council

*NOTE: We are having this lunch in Dining Rm. #6 because there are too many people (14) to seat them at the table in your dining room. However, Mr. Koch-Weser thinks this number may drop, and if it does, we will move the lunch into your dining room.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 20, 1985

TO Mr. A. W. Clausen, President

Thru: Mr. Ernest Stern, SVPOP

FROM Attila Karaosmanoglu, Vice President, AENVP

EXTENSION 74503

SUBJECT **CHINA - Note for your luncheon with Ambassador Han Xu and the Minister of Finance, Mr. Wang Bingqian (Governor for the Bank)**

1. On Monday, June 24, you will host a luncheon in honor of the newly appointed Chinese Ambassador to the U.S., Han Xu (you last met with him in Beijing in 1983 when he served as Vice Minister of Foreign Affairs). The Minister of Finance, Mr. Wang Bingqian, is also expected to attend, although this will not be confirmed until his arrival in Washington this weekend. Other Chinese guests at the luncheon will be:

Mr. Zhang Zai	Minister, Chinese Embassy to U.S.
*Mr. Liu Suinan	Vice Chairman, State Planning Commission
*Mr. Shang Ming	Advisor (with the status of Vice President), People's Bank of China
*Mr. Gao Shangquan	Vice Chairman, State Commmittee for Restructuring the Economic System
*Mr. Ji Chongwei	Executive Director, Economic Research Center, State Council
Mr. Xu Naijiong	Executive Director for China
Mr. Yang Guanghui	Alternative Executive Director for China

2. The Minister and members of his delegation (denoted by * in list above) will be visiting Washington to attend meetings of the U.S.-China Joint Economic Committee. The Committee was formed by President Carter and Vice Premier Deng Xiaoping in 1979 and meets once a year (in Beijing on alternating years). Discussions in the first two annual meetings centered on bilateral issues such as tax treaties and other specific agreements. This year, as in more recent years, the meetings will also focus more broadly on the U.S. and Chinese economic policies and particularly on Chinese economic reforms. Meetings will take place from June 24-26 and will be chaired by U.S. Treasury Secretary James A. Baker. The Deputy Secretary of the Treasury and Assistant Secretaries for Domestic Finance and Economic Policy will also participate. In addition to Treasury officials, the Chinese delegation will meet with representatives from the U.S. Trade Representative's office, National Security Council, State Department, Commerce Department, Office of Management and Budget, USAID and OPIC.

3. Points to be raised during the luncheon:

(a) You should say that we are pleased with the progress in cooperation between the Bank and China and mention that in March Mr. Karaosmanoglu had excellent discussions on the economic report with Chinese leaders (Premier Zhao Ziyang, the Finance Minister, and Chairman Song Ping of the State Planning Commission). The discussions have helped provide the Bank with further insight in its understanding of the ongoing economic reforms. You should convey to the Minister the Bank's willingness to collaborate with the Government in addressing issues of development and further reform of the system of economic management and in particular to study jointly the question of how best to develop a socialist financial system. Both Premier Zhao and the Minister expressed interest in the topic during their meetings with Mr. Karaosmanoglu.

(b) You should note that cumulative lending to China has now reached about $3 billion ($1.8 billion IBRD and $1.2 billion IDA). Lending operations for FY85 have been completed with a $1.1 billion program consisting of 12 projects that will support development in key sectors such as energy, transport and industry. In view of China's ambitious development plans for the coming years, the Bank looks forward to expanding cooperation further to help provide needed foreign technology and capital. For your information, China's foreign exchange reserves (excluding gold) dropped from $16.9 billion to $13 billion between October 1984 and February 1985. And there is indication that the Government is considering substantial foreign borrowing under the Seventh Five-Year Plan for 1986-90.

60/40

(c) You should convey to the Ambassador and Minister that the Bank is pleased to open a Resident Mission in Beijing in the near future and hopes that the Mission will contribute to further strengthening cooperation. Mr. Stern will formally open the Mission during his visit to China in October.

4. You may be asked about the general prospects for IDA and the amount of IDA funds available to China in coming years. In the years covered by IDA-7, China is expected to receive $400-450 million each year. There remains the issue of whether China will commit to a substantially harder blend of IBRD/IDA assistance in the near future.

Attachment

KOgawa:cw

Attachment

Biographical Information

Ambassador Han Xu

Ambassador Han Xu was born in Jiangsu Province in 1924. He is a career official in the Ministry of Foreign Affairs (MOFA) whose assignments have included:

-- Section Chief, and later Assistant Director of the Protocol Department, MOFA;
-- First Secretary, and later Counselor of the Embassy of the PRC in the Soviet Union;
-- Director of the Protocol Department, MOFA;
-- Deputy Chief (Ambassadorial Rank) of the Liaison Office of the PRC in the U.S. (1973-79);
-- Director of the Department of the American and Oceanian Affairs, MOFA (1979-82) and Vice Minister of Foreign Affairs (1982-85)

Minister Wang Bingqian

A veteran finance officer, Wang Bingqian had served as a vice minister of finance for seven years before he was named Minister in 1981. Born in Hebei Province in 1925, Wang joined the Chinese Communist Party in 1940. Since 1946, his career has been associated with financial work. After 1949 he served in the Ministry of Finance successively as section head, division head, deputy director and the director of a department, before becoming a vice minister. Since he was appointed in August 1980, the Minister has been forceful in conducting a dialogue with the Bank.

Mr. Wang last met with a senior Bank official in March 1985 when Mr. Karaosmanoglu visited China. At that meeting, the Minister emphasized the importance of proceeding with wage and price reforms and invigorating state enterprises. He also expressed the need to develop China's tertiary sector and construction industry.

Riviera

MR clausen 12 ?

100

APPETIZERS

Chilled Vichyssoise	- Cream of Tomato	$0.90
Fruit Juices	- Fruit Cup	$0.85
Asparagus Vinaigrette $1.90	- Melon	$1.45
Marinated Herring $2.75	- Poached Salmon, Sauce Remoulade	$3.75

ENTREES

OEUFS POCHES JARDINIERE $4.45
(Vegetable Plate with Poached Egg)
FRICASSEE DE POULET A L'INDIENNE $5.75
(Curried Chicken in Pastry Shell)
ESCALOPE DE VEAU A LA FRANCAISE $6.75 white wine sauce w/ butter + lemon
(Medallions of Veal)
FILET DE SOLE PROVENCALE $6.50

FROM THE GRILL - COOKED TO ORDER R() M() W()

LOW CALORIE: SIRLOIN STRIP STEAK $7.35
TWO BROILED LAMB CHOPS $7.25
CHOPPED SIRLOIN STEAK W/MUSHROOM SAUCE $5.15
••• FILET MIGNON, SAUCE BEARNAISE $9.00 •••

Please Indicate if Desired: SALAD

VEGETABLES - CHOICE OF TWO
Parsley Potatoes
Buttered Beets
Broccoli Hollandaise

***

COLD PLATES AND SANDWICHES

ROAST BEEF PLATE GARNIE $4.70
FRUIT PLATE W/COTTAGE CHEESE $4.70
PASTRAMI SANDWICH $4.30

DESSERTS

Sherbert	- Ice Cream	$1.00
Chocolate Mousse	- Fresh Strawberries with Whipping Cream	$2.75
Assorted Pastries	- Tartlets - Cakes	$1.45
Cheese and Crackers	- Fresh Fruit	$1.40

APERITIFS - BEVERAGES

Sherry Sweet or Dry $0.85 Dubonnet $0.85
Coke $0.70 Ginger Ale $0.70 - Milk $0.35
Perrier $1.10 Tea $0.35
Coffee $0.35 Decaffeinated Coffee $0.35 Espresso $0.55

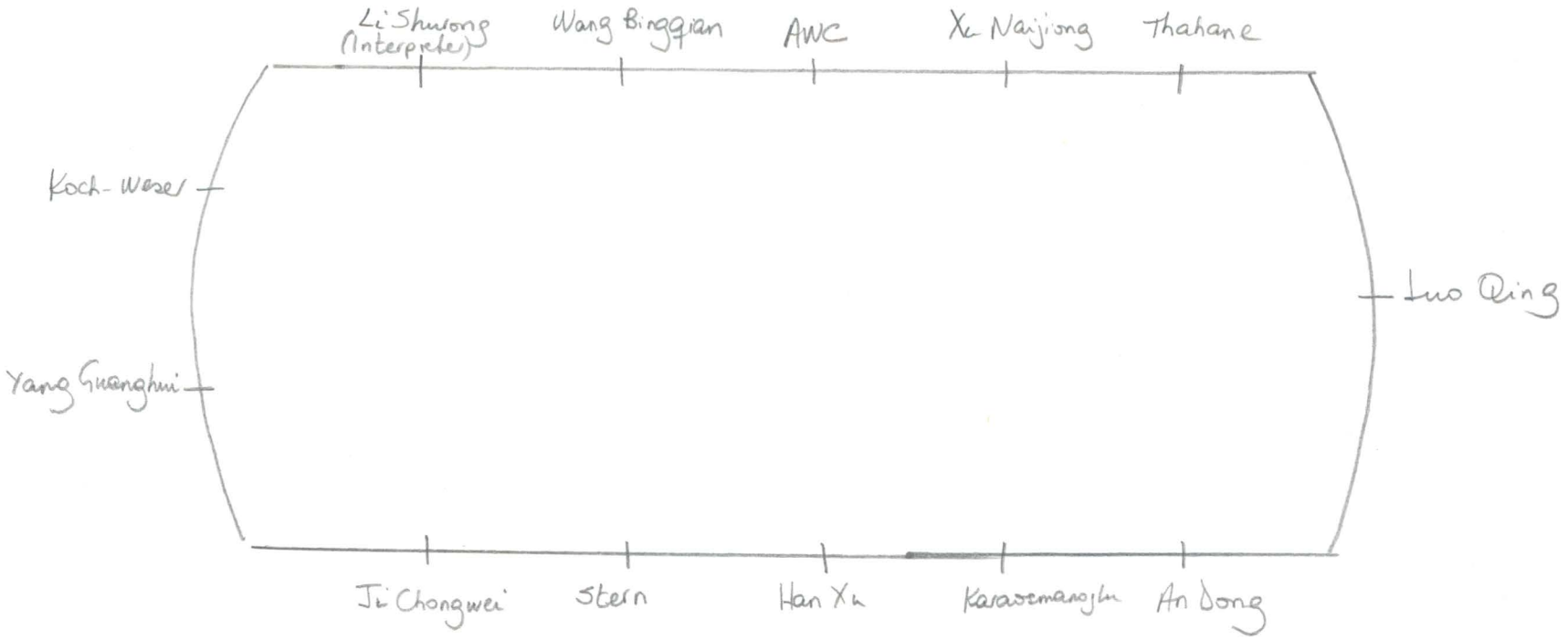
Monday
3

June 24, 1985

Wine — Freemark Abbey

HOPEFULLY

Dining Room No. 6.



5/29

Torstein Stephansen, IFC's Director for Asia, will join your meeting with Mr. Rong this morning at 10 a.m.

MH

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 23, 1985

TO: Mr. A. W. Clausen

FROM: Mr. Torstein Stephansen (through Mr. William Ryrie)

EXTENSION: 60601

SUBJECT: CHINA: Background Note on China International Trust and Investment Corporation (CITIC) and Mr. Rong Yiren

Introduction

1. A CITIC delegation, led by Mr. Rong Yiren, Chairman of the Board (with the rank of Minister in China's State Council--Cabinet), will be visiting IFC on May 29, 1985. Mr. Rong will also pay a courtesy call on you. He will be accompanied by Mr. Ma Yi, (Vice Minister, State Economic Commission and Senior Advisor to the delegation) and Mr. Xu Naijong. Mr. Rong's biographical sketch is attached.

CITIC

2. CITIC was established in 1979 by China's State Council for the purpose of facilitating the introduction of private foreign investment and foreign technology into China. CITIC is empowered to raise funds from foreign sources, to invest in joint-ventures in China or abroad, to provide consultancy and legal services to Chinese and foreign clients, and to act as agent for foreign businesses. As of the end of 1983, CITIC had made investments in five joint-ventures in China, one joint-venture in Hong Kong, and one joint-venture in Macao. Since then, CITIC is reported to have entered into several more joint-ventures. CITIC had also provided foreign currency financing for 35 Chinese enterprises. In addition, CITIC had a wholly-owned consultancy subsidiary (China International Economic Consultants, Inc. - CIEC) and two affiliated leasing firms.

3. CITIC also actively look for opportunities to invest abroad, principally to secure raw material supplies needed by China, e.g. wood products and metals. It has invested in timberland in Washington State to obtain wood for export to China.

Relationship with IFC

4. CITIC's relationship with IFC has been excellent. It first brought to IFC's attention the Guangzhou Peugeot Automobile Company, Ltd. (GPAC) project. The proposed IFC investment, consisting of a loan of US$15 million and an equity subscription of US$2.02 million equivalent, is scheduled for Board consideration in mid-June. CITIC will be a 20% shareholder in GPAC.

5. In addition to project work, CITIC and IFC jointly sponsored a seminar in Beijing in October, 1983 on the subject of joint-ventures.

Attachment

cc: Mr. Parmar

Kupasrimonkol:er

Mr. Rong Yiren
Biographical Sketch

Mr. Rong was born in 1916 in Wuxi City, approximately 150 km from Shanghai. His father was a leading industrialist in early 20th century China and the Rong family was particularly prominent in the textile (reportedly controlling over 600,000 spindles and a large number of weaving/finishing facilities) and flour-milling industries.

Mr. Rong is a graduate of St. John's University of Shanghai, a school founded by British missionaries. He spent his early career with various family enterprises. After the establishment of the People's Republic of China in 1949, he had served, among others, as a Deputy to the National People's Congress, Vice-Mayor of Shanghai, and Vice-Minister of the Ministry of Textile Industry. At present, in addition to his position at CITIC, Mr. Rong is a Vice Chairman of the National Committee of Chinese People's Political Consultative Conference.

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

March 11, 1985

Dear Mr. Ambassador:

Thank you for inviting Mrs. Clausen and me to your farewell reception on March 26. We look forward to joining you for a brief time at least since we do have a dinner engagement that evening.

On the eve of your departure from Washington, let me express my sincere appreciation for the interest you have shown in the issues of international development and the support you have given to The World Bank. Your involvement has been most helpful to us and we will certainly miss your presence here.

As you know, my colleagues and I regard the association between China and The World Bank as extremely important. We are very pleased that over the last few years, we have established a fruitful working relationship and are grateful for the role you have played in strengthening it. We are confident that cooperation between the bank and your government will continue to grow and deepen in the years to come.

Given your vast experience in international diplomacy and your distinguished record as an ambassador and in the United Nations, there is no doubt that you will continue to provide invaluable service to your government and to the cause of multilateral development.

My colleagues here at the Bank join me in extending our very best wishes to you for all your future endeavors.

Warm regards.

Sincerely,

His Excellency Zhang Wenjin
Ambassador of the People's
Republic of China
2300 Connecticut Avenue, N. W.
Washington, D. C. 20008

CC: Mr. Xu Naijiong
Executive Director

BC: Mr. M. Qureshi

CHINA: THREE GORGES PROJECT

CHINA: THREE GORGES PROJECT

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: January 30, 1985

NAME	ROOM NO.
Mr. A. Clausen	
cc: Mr. E. Stern	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS: You asked us to prepare a reply to Minister Wang's letter of December 15, 1984 (which you just received). Meanwhile we have been informed that the Chinese Government would like to have formal advice of Mr. Lim's appointment, including a brief biography.

We have prepared for your signature the attached which covers both points. It will be handcarried to China by Mr. Koch-Weser.

FROM:	ROOM NO.:	EXTENSION:
A. Karaosmanoglu	A-613	74503

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

May 27, 1986

Dear Mr. Williams:

Thank you for your letter of May 20 with reference to the Three Gorges Project in China.

Hugh Foster is the acting Executive Director for the United States on our Board and represents U. S. interests. Therefore, I am referring your letter to him for an appropriate response to your inquiry.

Sincerely,

Mr. Larry Williams
Washington Representative
International Programs
Sierra Club
330 Pennsylvania Avenue, S. E.
Washington, D. C. 20003

CC: H. Foster

BC: E. Stern

SIERRA CLUB

330 Pennsylvania Avenue, S.E., Washington, D.C. 20003 (202) 547-1141

May 20, 1986

The Hon. A.W. Clausen
President
The World Bank
1818 H Street N.W.
Washington, D.C. 20433

Dear Mr. Clausen:

Attached is a copy of a letter we recently received from U.S. Treasury Deputy Assistant Secretary James Conrow regarding the World Bank's involvement in China's proposed Three Gorges Dam project. As the U.S. Director had assured us, in his letter of February 19, 1986, that the World Bank had "no plans to finance any portion of this project," we were very disappointed to learn otherwise from Mr. Conrow.

I am sure you are aware that this project is estimated to cost $9 billion. On the basis of our study and understanding we have reached the conclusion that this project would have enormous environmental and human impacts. We believe that those impacts far out-weigh the expected power generation benefits. For example, this project would require the resettlement of some 3.3 million people whose homes would be flooded by the dam's reservoir.

While we understand that the Bank has only been asked to prepare the "terms of reference," we are nevertheless concerned that the Bank's involvement, even in this small way, will help to legitimize this proposal and tie the World Bank to continued involvement in the project.

Given our reservations about this project, I do want to say, however, that we were pleased to learn from Mr. Conrow's letter that the "terms of reference" would encompass "a range of technical, economic and environmental issues, including resettlement, fisheries, seismic activity, navigation, archeological sites, tourism and aesthetic aspects." If this wide range of social and environmental concerns are properly addressed it should be very helpful to the Chinese authorities in reaching decisions consistent with sustainable development strategies for the country.

As you know a number of environmental groups, including the Sierra Club, have strong reservations concerning other World Bank hydroelectric projects, such as the Narmada River Basin Development Program in India and the Tarbla Dam project in Pakistan. We hope that any planning for the Three Gorges Dam project will deal effectively with the similar problems encountered in these other hydroelectric projects. If the issues in Mr. Conrow's letter are properly addressed we will be in a position to view the World Bank involvement as a positive contribution toward environmental planning in the Third World.

I trust that Mr. Conrow's letter is an accurate reflection of the environmental and social issues the Bank is committed to identifying in its "terms of reference" document. We would very much appreciate a meeting with you to learn how the "terms of reference" have been accepted and elaborated by the Chinese authorities.

Sincerely,

Larry Williams
Washington Representative
International Programs

cc: The Hon. Xu Naikiong, Executive Director
for the Peoples Republic of China
The Hon. Hugh W. Foster, Alternate
U.S. Executive Director
The Hon. James W. Conrow
Ms. Karen M. Fant
Enclosure

DEPARTMENT OF THE TREASURY
WASHINGTON

May 13, 1986

Dear Larry:

Thank you for your March 10 letter on the Three Gorges Project in China.

Apparently, the situation in regard to this project has changed in the World Bank in the past two months. The Bank has been asked by the Government of the Peoples' Republic of China to prepare "terms of reference" for a feasibility study of the project. The "terms of reference" are to identify the issues that are to be investigated.

The Bank has proposed to the Government a team of eight consultants plus selected Bank staff to travel to China to prepare the "terms of reference." We have confirmed that the concept of the "terms of reference" would encompass a range of technical, economic and environmental issues, including resettlement, fisheries, seismic activity, navigation, archeological sites, tourism and aesthetic aspects. If the Government accepts the Bank proposal, the team should leave shortly and would require twenty-five to thirty days in the country before completing its work.

The Bank surmises that the feasibility study itself may be completed within one year after the "terms of reference" are established.

I should stress that the Bank has only been asked to prepare the "terms of reference," not the feasibility study itself. My understanding is that several governments, including the United States, have offered to finance such a feasibility study and that private firms have indicated an interest in performing the work. The Bank would also be able to finance the study, if the Government of China so desired.

Sincerely,

James W. Conrow
Deputy Assistant Secretary
for Developing Nations

Mr. Larry Williams
Washington Representative
International Programs
Sierra Club
330 Pennsylvania Ave., S.E.
Washington, D.C. 20003

May 15, 1986

The Honorable
Michael H. Wilson
Minister of Finance
Ministry of Finance
Ottawa, CANADA

Dear Mr. Minister:

I received the telex transcript of your letter on the Three Gorges Project in China through Mr. Potter on May 5, 1986. It is correct that the Bank has been officially requested by the Chinese Government to assist in the feasibility study of the project. We are now arranging a first visit of the panel of experts who, together with their Chinese colleagues, are expected to finalize the terms of reference and, later, supervise the feasibility study. This visit will take place later this month. As requested by China, the Bank is also making arrangements to provide advice and assistance from our own staff throughout the study process.

Regarding the conduct of the feasibility study itself, our advice to the Chinese Government has been to retain consultants via a selection based on submissions from the various qualified groups, which is the approach we recommend in all such cases. To the extent necessary, we are also prepared to offer finance for the services of such consultants. Our concern -- which I am sure you will share -- is that the selection should be from among those most qualified to undertake this enormously challenging assignment.

Apparently the Chinese Government has yet to determine the procedure it will follow for retaining the consultants, that is, whether it will be through competitive bidding or direct negotiations. We will, of course, be willing to assist the Government in any manner (coordination, technical assistance, supervision of study, et. al.) it requires of us. We hope to review and agree upon some of these issues during the forthcoming Bank mission.

For their information I am copying this letter to the Minister of Finance and the Minister of Water Resources and Electric Power, People's Republic of China.

Warm regards,

Sincerely,

A. W. Clausen

cc: Mr. Wang Bingqian
Minister of Finance
Beijing, China

Mme. Qian Zhengying
Minister of Water Resources and Electric Power
Beijing, China

bcc: Messrs. Potter (EDS), Stern (SVPOP), Karaosmanoglu (AEN), Kaji, Koch-Weser (AEA), Kirmani, Turnham, Nayyar (AEP).

YKimura/DTurnham:hk

FORM NO. 89
(2–83)

THE WORLD BANK

ROUTING SLIP	Date May 5

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Karaosmanoglu o/r	A 613
cc: Mr. Stern	E 1227

	To Handle		Note and File
	Appropriate Disposition	XX	Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

I would be grateful if you could prepare a reply for Mr. Clausen's signature by May 14.

Nigel Roberts

From

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
May 5, 1986	Letter	

Correspondents / Participants
To: Mr. N. F. Potter, Executive Director
From: A.W. Clausen, President

Subject / Title
Sending telex transcript of Mike Wilson's letter

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	March 24, 2017

OFFICE MEMORANDUM

DATE May 5, 1986

TO Mr. A. W. Clausen

FROM N. F. Potter

EXTENSION 7-6361

SUBJECT THREE GORGES PROJECT IN CHINA

Following is the telex transcript of a letter regarding the above project which you will receive from Michael Wilson shortly.

Quote: Dear President Clausen:

My colleague, the Minister responsible for the Canadian aid program, has brought to my attention a question with respect to the relative interests of Canada and the World Bank in the Three Gorges Project in China. On April 16, Minister Qian confirmed that China is prepared to accept Canada's offer to prepare a feasibility study provided that the World Bank will participate on the Steering Committee. Canada's interest in the Three Gorges' development originated in discussions between Premier Zhao Ziyang and our Prime Minister in January 1984. Premier Zhao asked Canada to become involved in the project because of our expertise in this area. Since that time both the Canadian International Development Agency (CIDA) and the Department of External Affairs, Ottawa, have had extensive consultations with the Ministry of Water Resources and Electric Power. Our current Three Gorges Technical Assistance Cooperation Program was arranged in 1985 with the Ministry of Water Resources and Electric Power's Yangtze Valley Planning Office. Canada is now providing dollars 1.6 million in support of the ongoing preliminary design activities for the project. Moreover, at the request of Minister Qian Zhengzing, we have made a formal offer to fund a feasibility study through CIDA's bilateral grant program.

As you know, Canada has put forward a consortium composed of LAVALIN, SNC, Acres, Hydro Quebec International and BC Hydro. This consortium has all of the required expertise, depth of experience and relevant capabilities to carry out the study.

Since the beginning of the discussions with the Chinese on this proposal, Canada has taken the position that the Bank's views and comments should be sought on the scope of work prior to initiation of the studies. Moreover, CIDA recommended that the World Bank be invited to participate in a Steering Committee which the Chinese would chair to review progress and guide the direction of the work. As late as December 1985, in discussions between the officials of CIDA, the Department of External Affairs and the IBRD, it was clear that the Bank was not planning to become active in this project. However, I now understand that, at China's request you are considering whether to provide technical assistance to carry out the same feasibility study.

I note that the World Bank has already proposed a list of nominees for a panel of experts which would establish the terms of reference and supervise the feasibility study if it is financed by the World Bank. Given the size and importance of the potential Three Gorges' development, I would hope that you would be willing to provide the same level of technical assistance if requested by the Chinese to oversee a bilaterally financed study. As this is apparently the only impediment to the Chinese acceptance of the Canadian offer, I would appreciate your early consideration of this request.

Yours sincerely,

Michael H. Wilson

Unquote.

Minister of Finance | Ministre des Finances

CANADA

APR 25 1986

Mr. A.W. Clausen
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C.
U.S.A.
20433

Dear President Clausen:

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.../2

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Yours sincerely,

Michael Wilson

Michael H. Wilson

RECEIVED
1986 MAY 14 PM 4:36
OFFICE OF THE PRESIDENT

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Country Files: China (Three Gorges Project) - Correspondence 01	1779645

Document Date	Document Type	
May 5, 1986	Letter	

Correspondents / Participants
To: Mr. N. F. Potter, Executive Director
From: A.W. Clausen

Subject / Title
Sending telex transcript of Mike Wilson's letter

Exception(s)

Additional Comments
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Withdrawn by	Date
Shiri Alon	March 24, 2017

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

107

DATE May 5, 1986

TO Mr. A. W. Clausen

FROM N. F. Potter

EXTENSION 7-6361

SUBJECT THREE GORGES PROJECT IN CHINA

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My colleague, the Minister responsible for the Canadian aid program, has brought to my attention a question with respect to the relative interests of Canada and the World Bank in the Three Gorges Project in China. On April 16, Minister Qian confirmed that China is prepared to accept Canada's offer to prepare a feasibility study provided that the World Bank will participate on the Steering Committee. Canada's interest in the Three Gorges' development originated in discussions between Premier Zhao Ziyang and our Prime Minister in January 1984. Premier Zhao asked Canada to become involved in the project because of our expertise in this area. Since that time both the Canadian International Development Agency (CIDA) and the Department of External Affairs, Ottawa, have had extensive consultations with the Ministry of Water Resources and Electric Power. Our current Three Gorges Technical Assistance Cooperation Program was arranged in 1985 with the Ministry of Water Resources and Electric Power's Yangtze Valley Planning Office. Canada is now providing dollars 1.6 million in support of the ongoing preliminary design activities for the project. Moreover, at the request of Minister Qian Zhengzing, we have made a formal offer to fund a feasibility study through CIDA's bilateral grant program.

As you know, Canada has put forward a consortium composed of LAVALIN, SNC, Acres, Hydro Quebec International and BC Hydro. This consortium has all of the required expertise, depth of experience and relevant capabilities to carry out the study.

Since the beginning of the discussions with the Chinese on this proposal, Canada has taken the position that the Bank's views and comments should be sought on the scope of work prior to initiation of the studies. Moreover, CIDA recommended that the World Bank be invited to participate in a Steering Committee which the Chinese would chair to review progress and guide the direction of the work. As late as December 1985, in discussions between the officials of CIDA, the Department of External Affairs and the IBRD, it was clear that the Bank was not planning to become active in this project. However, I now understand that, at China's request you are considering whether to provide technical assistance to carry out the same feasibility study.

I note that the World Bank has already proposed a list of nominees for a panel of experts which would establish the terms of reference and supervise the feasibility study if it is financed by the World Bank. Given the size and importance of the potential Three Gorges' development, I would hope that you would be willing to provide the same level of technical assistance if requested by the Chinese to oversee a bilaterally financed study. As this is apparently the only impediment to the Chinese acceptance of the Canadian offer, I would appreciate your early consideration of this request.

Yours sincerely,

Michael H. Wilson

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