

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Country Files: China - Correspondence 03

Folder ID: 1774660

Date: 2/1/1982 – 10/31/1984

ISAD(G) Reference Code: WB IBRD/IDA EXC-09-3965S

Series: Country files

Sub-Fonds: Records of President A. W. Clausen

Fonds: Records of the Office of the President

Digitized: 5/14/2018

To cite materials from this archival folder, please follow the following format:

[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

**DECLASSIFIED
WITH RESTRICTIONS**
WBG Archives



1774660

A1990-013 Other #: 6

209489B

Country Files: China - Correspondence 03

Orig. to Mr. Shadane
10/11

Ministry of Finance, the People's Republic of China

October 11, 1983

Beijing, China

1401
Mr. A. W. Clausen
President, the World Bank
1818 H Street, N.W.
Washington, D.C. 20433



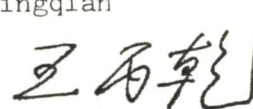
Dear Mr. Clausen:

I hereby inform you that Mr. Wang liansheng, Executive Director for China, has been appointed to a new post by the Chinese Government and will leave his present post at the end of October, 1983.

Therefore, I have elected Mr. Xu Naijiong to a term of service as Executive Director for China. Mr. Xu will assume office on November 1st, 1983.

Yours sincerely,

Wang Bingqian



Governor

the 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

世界银行行长

A. W. 克劳森先生:

世界银行中国执行董事王连生先生因中国政府另有任用, 将于一九八三年十月底离任回国。现决定选任许乃炯先生为世界银行中国执行董事, 一九八三年十一月一日起任职。特此奉告。

中国理事

王丙乾

一九八三年十月十一日于北京

OFFICE MEMORANDUM

DATE January 11, 1984

TO Files

FROM Caio Koch-Weser, Chief, AEADF

EXTENSION 72565

SUBJECT Mr. Clausen's meeting with Premier Zhao Ziyang
Washington, January 11, 1984

Present: Premier Zhao Ziyang
Ambassador Zhang Wenjin
Gan Ziyu, Vice Chairman, State Planning Commission
Xu Naijiong, Chinese Executive Director, World Bank
Messrs. Clausen
Karaosmanoglu
Koch-Weser

In introducing the meeting, Premier Zhao said that he was happy to meet with Mr. Clausen again. Mr. Clausen replied that since their meeting last May in Beijing, the cooperation between China and the Bank had grown further and the relationship continued to be good. The Premier agreed. His Government was satisfied with the role the Bank plays in China's development and he hoped that cooperation would continue to expand.

Mr. Clausen said that he was very pleased with the continued economic progress in China and the emphasis the Government is placing on reform of the economic system. In this context, the use of price reform as a tool was very important. The Bank was anxious to be of help in this area through its economic analysis and policy dialogue. He thanked the Premier for the strong support his Government had lent to the preparations for the next major economic mission. The Premier said that China had always welcomed the suggestions and advice of the Bank on issues of economic development. The first economic report had been very useful and he expected that the second report would also make a major contribution. In carrying out its work for the report, the Bank should not hesitate to ask for whatever support was needed from the Government. Mr. Clausen expressed his confidence that it would be a good report. He hoped that it would be helpful to China; it would certainly be of great importance for the Bank in developing its cooperation with China. The more the Bank learned about China, the better partner it could be. The Premier was also confident that it would be a good report and mentioned that if some parts of the analysis did not reflect properly the reality of China, his Government would not mind.

Mr. Clausen then turned to the IDA situation. He explained that the deputies were meeting in Washington this week and had to face enormous problems. The best the Bank could hope for was a replenishment level of \$9 billion, but many donors were dissatisfied with such a low replenishment and it might be possible to persuade them to contribute additional funds under a special fund or special account arrangement. He remarked that all donors, with the exception of the US, had agreed in the past to support a replenishment level of up to \$12 billion. However, the German and Japanese Governments now argued

that they will join and support a special fund arrangement only if the US also contributes to this scheme. In his view, it would not be possible to convince the US to support such a scheme, at least not in the near future. He would like to ask the Premier for his help in securing supplementary contributions to IDA from Germany and Japan. To the extent that IDA resources were seriously constrained, the allocation of these resources for the various recipient countries would be a very difficult process, and it was needless to say that China therefore had self-interest in this matter.

Premier Zhao said that last May, Mr. Clausen had asked him to talk to US officials and to argue that the US should not reduce its contribution to the seventh replenishment of IDA. He had conveyed the views of the Chinese Government through the Embassy in Washington to the US administration. Yesterday he had told President Reagan that the United States, as the largest developed country, had a leadership role to play vis-a-vis the Third World. The Bank had an important role to play in the development of Third World countries but its resources were seriously constrained. If the US reduced its contribution to IDA, this would harm its image and relations with the Third World. President Reagan had answered that he was not aware of any reduction in the US contribution to IDA, but he would check the numbers again. As far as Japan was concerned, the Premier said he would try his best to persuade Premier Nakasone during his forthcoming visit to China to lend strong support to IDA; Prime Minister Kohl of Germany might also be visiting China sometime this year. However, he was not too sure that his help would be effective, because after all China was not a donor country. Mr. Clausen said that all countries had a strong interest in China's development; therefore China's support was of great importance and he was grateful for the Premier's efforts. The Premier concluded that China and the Bank will be standing together on this issue.

Mr. Clausen said that China could count on the Bank's help wherever the Bank could make a contribution to the country's development. In order to enable the Bank to play an even more useful role, the Government and the Bank should now develop a longer term program of cooperation. At present the agreed lending program extended only 12 to 18 months into the future. The Premier agreed that such an effort should be made.

In parting, Mr. Clausen wished the Premier a successful visit to other parts of the US and to Canada.

cc: Mr. Clausen's Office
Messrs. Stern (SVPOP), Qureshi (SVPFI), Benjenk (VPE),
Karaosmanoglu (AENVP), Jaycox (AEADR).

CKoch-Weser/hk

OFFICE MEMORANDUM

DATE: January 9, 1984

TO: Mr. A. W. Clausen
Thru: Mr. Ernest Stern, SVPOPFROM: Attila Karaosmanoglu, Vice President, AEN *AK.*

EXTENSION: 72582

SUBJECT: Briefing Note: Meeting with Premier Zhao Ziyang
Wednesday, January 11, 1984,
at 11:45, Madison Hotel

1. Premier Zhao is visiting Washington January 10 and 11. When you meet him he will already have met President Reagan and Secretaries Shultz and Weinberger as well as Congressional Leaders, while after your meeting, he is scheduled to meet Secretaries Baldrige and Regan. We are advised that the Premier can see you for about 15 minutes. Mr. Koch-Weser and I will accompany you.

2. When you met the Premier in Beijing on May 26, 1983, you discussed China's economic reforms, the proposed 1984 economic mission, a proposed seminar on the 1983 World Development Report, the IDA situation and the expanding cooperation with the Bank. The Premier welcomed both the economic mission and discussion of economic reforms with the Bank as well as a WDR seminar, and spoke warmly of the growing relationship with the Bank. You informed him of the Bank's expectation of lending \$0.9-1.0 billion in FY84 and about \$1.5 billion in FY85 and \$2 billion in FY86, but also mentioned IDA's serious difficulties.

3. We recommend that you spend most of the meeting discussing the IDA 7 situation along the lines in paragraphs 4-7 below. In your introduction, you should say that we are very pleased with progress in arranging the economic mission, the first part of which will take place in February. We are also arranging for Mrs. Krueger to lead the WDR seminar in late February. You should also mention two other points:

(1) Pricing and price reform. You should mention that you appreciate that price reform is a key component of China's general economic reforms. Pricing is also a topic that is beginning to have an impact on our operations in China, in particular in the energy sector (coal prices are particularly low in relation to international levels, which affects the financial returns to important projects). The Bank therefore is willing to help in this important area through its project and economic work;

(2) Planning horizon. We remain pleased with progress on the lending program and are proceeding along the lines you mentioned to the Premier in May. However, we have not yet been able to agree with the Government on projects for the lending program for FY86 or beyond, i.e. beyond the next 18 months. This is due mostly to uncertainty over IDA and the status of the Government's own planning. You should say that, with IDA prospects becoming clearer and the advance of the Government's

Seventh Five Year Plan (1986-90), we hope we can progressively extend the planning horizon for the lending program. This is important if we are to reach the target lending levels because of the time required to prepare projects.

IDA 7

4. The Bank's objective has been to secure a new IDA replenishment which is sufficient to provide substantial resources to both the pure IDA countries and those (like China) whose economic positions make them eligible for both IDA credits and IBRD loans. For this reason, management recommended a volume of \$16 billion for IDA 7. Throughout the negotiations of the last year, the position of the United States has been inflexible and aimed at a replenishment size of \$9 billion, a 25 percent reduction in nominal terms, a 40 percent reduction in real terms, and a 70 percent reduction in real per capita terms, compared with the \$12 billion replenishment level negotiated for IDA 6. The U.S. share would be 25 percent of the total replenishment, or \$2.25 billion over 3 years. No effort has been spared in attempting to get the U.S. to reconsider its position. At this point in time, however, it would take a Presidential decision to alter the U.S. position.

5. You should thank the Premier for China's efforts hitherto in lobbying the major donors for a large replenishment. You should ask him whether he had the opportunity to raise this issue with Mr. Reagan, and ask him to raise it in forthcoming meetings if possible.

6. In the event that \$9 billion is the most we can achieve as the normal IDA 7 Replenishment, management will attempt to gain support for supplemental contributions. This is critical especially for the blend countries like China, because donor governments have made it clear that "pure IDA" borrowers (Sub-Saharan Africa in particular) are the highest priority and shifts in country lending should be gradual, and because a \$9 billion IDA 7 is totally inadequate to meet the Association's lending goals. In this connection, the role of Japan becomes critical while Japan was earlier fully supportive and indicated that it would take a leadership role in raising the resource volume of IDA 7, we are now receiving confusing signals.

7. You should mention to the Premier that the Bank may need to request China's good offices again in securing supplementary contributions to IDA, especially given its good relations with Japan and the other major donors.

cc: Messrs. Qureshi (SVPFI); Kirmani (AENVF); Benjenk, Stanton (VPE);
Jaycox (AEADR); Turnham (AEPDR); Koch-Weser, Lim (AEADF);
Mistry (SVPFI); Leipziger (FPA)

DBerk:cw

October 19, 1983

Dear Mr. Wang:

Thank you very much for your letter of October 11, 1983, informing me that Mr. Wang Liansheng will terminate his service as an Executive Director of The World Bank on October 31, 1983 and that you have designated Mr. Xu Naijiong to succeed Mr. Wang. The Vice President and Secretary, Mr. Thahane, is taking appropriate steps to ensure that Mr. Xu can assume his duties on November 1.

I would like to take this opportunity to place on record my appreciation for the invaluable contribution that Mr. Wang has made to the development of the strong relations that exist between China and The World Bank. Mr. Wang had the unique task of explaining the Chinese Government policies and administration to our staff, as well as the Bank's policies to the Chinese officials. Today, the quality of our policy dialogue with China is excellent thanks to your and Mr. Wang's efforts.

My colleagues on the Board and I wish Mr. Wang well in his new position in the Chinese Government and look forward to working closely with his successor, Mr. Xu.

Sincerely,


(Signed) A. W. Clausen

His Excellency
Wang Bingqian
State Counsellor and
Minister of Finance
Beijing
People's Republic of China

eto
ETSanidad:TTThahane:raa

THE WORLD BANK

ROUTING SLIP			Date Oct. 11
OFFICE OF THE PRESIDENT			
Name			Room No.
Mr. Thahane			A1241
	To Handle		Note and File
	Appropriate Disposition	XX	Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation
Remarks			
<p><i>Choi</i> <i>Could you coordinate</i> <i>with Estella or</i> <i>Mark & Roy Southworth</i> <i>Prep we reply.</i> <i>Jim</i></p> <p style="text-align: right;"><i>A</i></p>			
From			

Original to Mr. Shabane
10/11

Ministry of Finance, the People's Republic of China

October 11, 1983

Beijing, China

1401
Mr. A. W. Clausen
President, the World Bank
1818 H Street, N.W.
Washington, D.C. 20433

A

Dear Mr. Clausen:

I hereby inform you that Mr. Wang liansheng, Executive Director for China, has been appointed to a new post by the Chinese Government and will leave his present post at the end of October, 1983.

Therefore, I have elected Mr. Xu Naijiong to a term of service as Executive Director for China. Mr. Xu will assume office on November 1st, 1983.

Yours sincerely,

Wang Bingqian

王秉乾

Governor

the People's Republic of China

1983 OCT 11 PM 13:02

RECEIVED

1983 OCT 11 PM 12:05

OFFICE OF THE PRESIDENT

The President, Republic of China
Government

3033

Dear Sir:

1983 1083

Enclosed for the President are two copies of a letter on November 1, 1983, from the President of the United States to the President of the Republic of China.

The letter is dated October 31, 1983, and is addressed to the President of the Republic of China. It is a copy of a letter from the President of the United States to the President of the Republic of China.

Very truly yours,

Donald Rumsfeld

Director, Office of the President

Enclosure

cc: Mr. [Name]

1083 1083

October 11, 1983

The President, 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

世界银行行长

A. W. 克劳森先生:

世界银行中国执行董事王连生先生因中国政府另有任用, 将于一九八三年十月底离任回国。现决定选任许乃炯先生为世界银行中国执行董事, 一九八三年十一月一日起任职。特此奉告。

中国理事

王乃乾

一九八三年十月十一日于北京

1203 OCT 11 AM 15: 02

4011

RECEIVED

1983 OCT 11 PM 12: 05

OFFICE OF THE PRESIDENT

中華民國八十三年九月十一日

陸 彭 王

中國圖書

一。請參閱。原封裝日一

民一十年三八六一。李登輝總統府中行政果

世狀中央陳武許治政與失展。國回對商漁

民十年三八六一。李登輝總統府中行政果

國主與主新王李登輝總統府中行政果

：主政權恢復。W.A.

牙牙牙牙牙

中華民國政府：FIVE MIN BEPINS

中國圖書

海施烟國味共月人學中

China
copy to: A. Karason
C. Koch-Weser

1030

**THE PEOPLE'S GOVERNMENT
OF
THE SHANGHAI MUNICIPALITY**

July 16, 1983

President A.W. Clausen
President of The World Bank
Washington D.C. 20433
U. S. A.

7-31-83
★

Dear Mr. President,

I am very glad to have received your letter. I fully share your desire to continue the close cooperation between our two sides. I would also like to take this opportunity to thank you for the kind assistance which your bank has provided to our city in the fields of city construction, port, education, housing upgrading and personnel training. I am sure that under the unified planning of the State Council of our country, our city will continue to receive your assistance in our industrial infrastructure, technical transformation and other fields.

Looking forward to your visiting Shanghai again.

With best wishes.

Yours sincerely,

Wang Daohan

Wang Daohan
Mayor of Shanghai

RECEIVED

1983 JUL 25 PM 4: 27

OFFICE OF THE PRESIDENT

MEMORANDUM FOR THE PRESIDENT

1983 JUL 25

MEMORANDUM FOR THE PRESIDENT

RE: [illegible]

1. [illegible]

2. [illegible]

3. [illegible]

4. [illegible]

5. [illegible]

6. [illegible]

7. [illegible]

1983 JUL 25

June 14, 1983

Mayor Wang Daohan
Mayor of Shanghai
Shanghai, People's Republic of China


Dear Mr. Mayor:

Thank you again for your warm hospitality during my recent visit to China. The program of site visits which you kindly arranged enabled us to see firsthand the Bank's activities in your city. The visits to Fudan University, which is being assisted under the University Development Project, to an EDI course at the Shanghai Institute of Economic Management and to the housing upgrading works were most informative and useful.

It was very interesting to learn of your plans for the future development of Shanghai through work in industry, infrastructure and the social sectors. The World Bank has so far played a role in Shanghai's development efforts through several of its loans to the central government - the Three Ports Project, University Development Project and China Investment Bank Project - and through other activities, such as EDI courses and technical cooperation, that complement our project work. In the future, Bank involvement in Shanghai will come through the proposed Polytechnic/TV University Project and an industrial project that would provide lending for the machine tools industry in Shanghai. However, given the recent decision to give Shanghai greater authority to pursue technology imports and foreign borrowing, the Bank looks forward to an even closer association with the Municipality in its development efforts.

It was indeed a pleasure to visit Shanghai for the first time. I look forward to returning and to a continuation of the relationship between the Bank and your city.

Sincerely,


A.W. Clausen

bc: Mr. Ge (MOF)

Messrs. Wang, Karaosmanoglu, Jaycox, Koch-Weser

THE PEOPLE'S GOVERNMENT
OF
THE SHANGHAI MUNICIPALITY



President A.W. Clausen,
President of The World Bank,
Washington D.C. 20433
U. S. A.

RECEIVED

1983 JUL 25 AM 11: 47

MAIL UNIT

F5

DA

INTERNATIONAL MONETARY FUND

china

TO :

FROM:

Dear Mr. Clausen,

Very pleased to be able to
see you again.

I am leaving Washington, D.C for
home this afternoon. Should you have
messages for Minister Wang Bingjian,
I should be glad to convey it for you.

Best regards,

to rpf

Shang Ming
11/Feb/83

International Bank for Reconstruction and Development

R1

FOR OFFICIAL USE ONLY

DECLASSIFIED

MAR 17 2017

WBG ARCHIVES

FROM: Vice President and Secretary

SecM83-515

May 24, 1983

CHINA: Differences Between Total Social Product (TSP)
and Gross National Product (GNP)

The attached memorandum from Mr. Fei Lizhi on the above subject is being circulated at his request.

Distribution:

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



Record Removal Notice



File Title Country Files: China - Correspondence 03		Barcode No. 1774660		
Document Date May 23, 1983	Document Type Memorandum			
Correspondents / Participants To; Mr. Timothy T. Thahane, Vice President & Secretary From: Fei Lizhi, Alt ED for China				
Subject / Title Differences Between Total Social Product (TSP) and Gross National Product (GNP)				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 17-Mar-17</td></tr></table>	Withdrawn by Shiri Alon	Date 17-Mar-17
Withdrawn by Shiri Alon	Date 17-Mar-17			

OFFICE MEMORANDUM

TO: Addressees

FROM: Jean Baneth, EPDDR

SUBJECT: CHINA: Per Capita GNP

DATE: May 16, 1983



The attached press clippings are self-explanatory. China seems to have come out, for the first time, with official GNP estimates. Converted into dollars, they yield a per capita GNP of \$500 equivalent in 1982. This has obvious implications for IDA eligibility.

I believe that EPD and the Regional Office should jointly evaluate the Chinese National Accounts and the proper conversion rate, to ensure that the Bank is prepared to deal with this issue before it comes up in the context of the IDA replenishment.

To: Mrs. Krueger
Mr. Waide
Mrs. Hughes
Mr. Vogl
Mr. Mistry
Mr. Koch-Weser
Mr. Singh
Mr. Chander
Mr. Lee

JB:tk

DE M. MITTERRAND

Les résultats de l'économie chinoise pour 1982 révèlent une progression record des investissements

De notre correspondant

Pékin. — Les Chinois seraient-ils fâchés avec la planification ? L'écart est tel entre les prévisions qui avaient été faites pour le développement économique en 1982 et les résultats effectifs, rendus publics le vendredi 29 avril, qu'on doit sérieusement se poser la question. D'autant que la planification, dans ce pays, connaît depuis vingt-cinq ans bien des vicissitudes.

Modeste dans ses ambitions, le plan prévoyait en 1982 une croissance économique sage, comparable, dans ses grandes masses, à celle de 1981. Le mot d'ordre était : assurer 4 % d'augmentation, essayer d'atteindre 5 %. Cette prudence a été bousculée par un dynamisme de l'appareil productif qu'on est tenté de qualifier d'impétueux. Dans les faits, la valeur de la production industrielle et agricole a progressé, en termes comparables, de 8,7 % par rapport à 1981. Le bond est spectaculaire dans l'agriculture : + 11 % (le plan prévoyait + 4 %). Il l'est moins dans l'industrie : + 7,7 %, mais il n'en approche pas moins un doublement : de l'objectif fixé (+ 4 %). Le revenu national, quant à lui, a augmenté de 7,4 %.

Ces chiffres ne laissent pas de surprendre. D'abord par leur ampleur ; ensuite parce que, au début du mois d'avril, un responsable de la commission économique d'État en avait annoncé de sensiblement différents. Le bureau des statistiques aurait-il procédé dans le courant du mois dernier à d'ultimes vérifications ? Toujours est-il qu'à l'époque il avait été indiqué que la valeur de la production industrielle et agricole en 1982 avait augmenté de 7,3 % par rapport à 1981 et le revenu national de 6,3 %. Pour la récolte de céréales, un chiffre de 344,3 millions de tonnes

avait été donné. Or le chiffre définitif s'établit au niveau record de 353,4 millions de tonnes, soit une vingtaine de millions de tonnes au-dessus du précédent record, datant de 1979.

Autre sujet de perplexité : pour la première fois, le communiqué du plan se réfère à la notion de produit national brut (1), dont il est dit qu'en dehors des secteurs productifs il inclurait les services commerciaux, et pour lequel est avancée une valeur de 989,4 milliards de yuans. Rapporté au chiffre de la population (un milliard quinze millions de personnes à la fin de 1982), ce chiffre donnerait un P.N.B. par tête supérieur à 500 dollars. Or les estimations, généralement retenues, de la Banque mondiale font état, pour 1980, d'un P.N.B. par tête de 290 dollars. La progression, en deux ans, aurait donc été supérieure à 70 %, ce qui, *a priori*, laisse rêveur, compte tenu des résultats médiocres de l'année 1981.

Anomalies

Ces points d'interrogation, voire ces anomalies, attirent une fois de plus l'attention sur la relative fragilité des statistiques chinoises. Le bureau des statistiques a eu beau s'étouffer ces dernières années, son appareil reste encore très réduit (environ quatre cents personnes) par rapport à l'ampleur de la tâche. A cela s'ajoute le phénomène bien connu consistant pour les entreprises à présenter des résultats qui *« penchent dans le sens du vent »*. Cette habitude aboutit à amplifier les os-

cillations de la politique économique.

Ces faiblesses structurelles ne sont, toutefois, que partiellement responsables de l'emballement de la machine économique l'an dernier. En se fixant des objectifs volontairement modérés, tout en admettant à demi-mot la nécessité d'une certaine relance après deux ans de politique déflationniste, les dirigeants chinois avaient créé eux-mêmes les conditions d'une telle situation. Sans doute faut-il comprendre aussi que, dans ces circonstances, ils n'aient pas pu ou pas vraiment voulu résister à la poussée productiviste venant de la base. Comment expliquer autrement la véritable explosion des investissements, en progression de plus de 25 % par rapport à 1981, alors qu'en principe les sommes consacrées aux seuls investissements de base auraient dû initialement diminuer. Trente-huit milliards de yuans (2) étaient prévus à l'origine à cet effet, alors que le montant des investissements nouveaux avait été de 42,8 milliards en 1981. Assez vite, le chiffre de 38 milliards, pourtant avancé au mois de mai, alors que l'année était déjà bien entamée, avait été révisé et porté à 44,5 milliards. Il a été en réalité de 55,5 milliards de yuans.

Un dépassement supérieur à 10 milliards de yuans de l'objectif fixé pour les investissements dans les secteurs de base ne s'était produit, auparavant, que trois fois depuis 1949. Les investissements couverts par le budget de l'État, au lieu d'être de 18,6 milliards, se sont élevés à 27,7 milliards de yuans, représentant la moitié du total. Si l'on tient compte des 29 milliards consacrés en principe — mais il y aurait beaucoup à dire à ce sujet — à la modernisation des entreprises (+ 29 % par rapport à 1981), on arrive à un total d'investissements record de 84,5 milliards de yuans.

Une telle évolution d'ensemble ne pouvait que favoriser l'industrie lourde. C'est effectivement ce qui s'est passé. En recul de près de 5 % en 1981, celle-ci progresse de près de 10 %, tandis que l'industrie légère, dont le taux moyen de croissance de 1979 à 1981 s'était établi à environ 14 %, voit sa production augmenter de seulement 5,7 %. Selon des chiffres récents, la valeur de

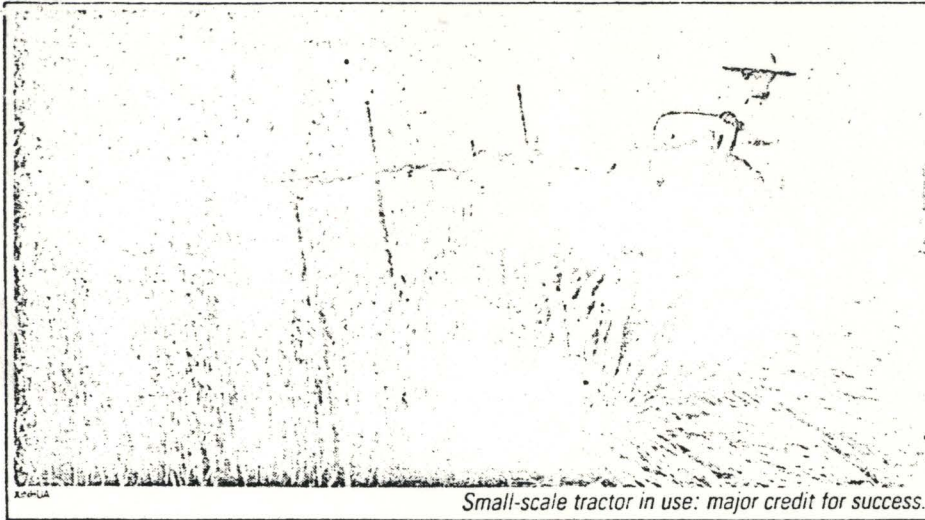
la production dans ce dernier secteur, ainsi que dans les textiles, pendant le premier trimestre de 1983 serait encore en diminution de 1,8 % par rapport au premier trimestre de 1982. Pour la même période, la production d'acier et celle de l'industrie mécanique seraient, en revanche, en forte hausse.

Logiquement, une telle orientation aurait dû entraîner un relèvement du taux d'investissement. Celui-ci était tombé à 28,3 % du revenu national en 1981, contre 36 % en 1978. Le responsable du bureau des statistiques a affirmé que le chiffre de 1982 n'était *« pas encore disponible »* — ce qui paraît tout fait étonnant — mais qu'il devra être comparable à celui de 1981, qui n'est pas moins surprenant.

Faible croissance de la productivité

Le développement extensif sur l'an dernier pose, en outre, aux responsables politiques, une fois plus, le problème de l'efficacité de l'appareil économique. Sur quarante moyens et grands projets prioritaires, et dont la conclusion était attendue pour la fin 1982, trente-trois n'ont pas pu être achevés à temps. Autre phénomène paradoxal : en raison de la voracité de l'industrie mécanique et sidérurgique — la production d'acier a été de 37 millions de tonnes au lieu de 34 millions prévus — et de l'effort en matière de construction de logements (un quart des investissements de base), la part relative de secteurs pourtant considérés comme essentiels — tels que l'énergie ou la recherche scientifique — tend à diminuer. La proportion d'investissements énergétiques rapportée au total des investissements est passée de 20,6 % en 1981 à 18,3 % en 1982. La basse efficacité de l'appareil économique est reflétée aussi par la faible augmentation de la productivité dans les entreprises industrielles d'État (+ 2,3 %). À titre d'exemple de cette efficacité insuffisante, le communiqué officiel indique que le coût de production de produits comparables n'a baissé d'une année sur l'autre que de 0,04 %. Autre indice négatif : 100 yuans de valeur de production industrielle, l'État n'a touché, en forme de taxes ou de versements, que 24,6 yuans au lieu de 25,5 yuans en 1981.

According to this, latest plan document implies per capita GNP of \$500 in 1982.



Small-scale tractor in use: major credit for success.

ECONOMIES

Pulling up the blinds

China is revealing more of its vital economic statistics — and drawing some self-critical conclusions

By Robert Delfs

Hongkong: The world's window on the Chinese economy becomes less opaque year by year as the nation's leaders accept the need to provide detailed, reliable data and the State Statistical Bureau, decimated during the Cultural Revolution, recovers its ability to provide them. A communique on China's 1982 national economic plan issued on April 29 improves on previous annual reports in the level of detail and specificity.

And, despite the dramatic successes recorded in agricultural production, the document is notably critical of the failure to control investment and lukewarm progress on industrial quality-control and productivity.

The communique includes for the first time a figure identified as "total product of society" or gross national product, Rmb 989.4 billion (US\$524.3 billion), which nominally grew 9% from 1981. The figure is double the unofficial estimate derived from national income figures according to a scheme used internally by the World Bank and the International Monetary Fund, though it is within the range of estimates by foreign intelligence services.

Without a more detailed explanation of the accounting method used to generate this new aggregate figure, it is not clear whether it truly corresponds to conventional definitions of GNP. An explanatory note in the body of the communique explains that both national income and GNP are derived from the output value of industry, agriculture, construction, communications, transport, commerce and public catering.

National income represents the net output value of all sectors whereas GNP is defined as the total output value of all sectors. This suggests that the new figure is larger than national income because of du-

plicate counting of the value of raw materials and intermediate value added. IMF and World Bank methods derive China's GNP by adding to national income estimates for service-industry output and depreciation.

Caution is necessary in using Chinese GNP figures for comparative purposes in any event, since China's domestic prices vary widely from international norms. China's per capita GNP — whether calculated at US\$255 by the old method or US\$516 by the new — is of limited utility in determining standards of living or material income relative to other countries. If the new aggregate is taken as an accurate representation of GNP, moreover, it could have the effect of restricting China's access to concessionary assistance. Per capita GNP is one of the criteria used to determine eligibility for aid from the World Bank's soft-loan window, the International Development Agency.

More important is the highly detailed chapter describing investment in fixed assets which replaces the relatively vague section on capital construction in the 1981 communique. Capital construction investment is broken out for the first time as a proportion of total investment in fixed assets by state-owned units, and other new data clarify various aspects of China's complex investment structure.

The communique harshly criticises excessive investment in 1982. "Financial resources for capital construction were not used in a concentrated manner," the report said, and "control of funds not covered by the national budget was inadequate while construction funds for some key departments were not guaranteed." Capital construction investment by state-owned units exceeded the plan target by

32.8% largely because of uncontrolled spending by local administrative units using funds they control independently. Uncontrolled local investment put a serious strain on government finances in 1980 following measures to loosen strict central control of spending by enterprises and localities.

Figures of agricultural production have been marked up even higher from the preliminary estimates released in February (REVIEW, Feb. 10). Grain production in 1982 was officially 353.4 million tonnes, 8.7% more than in 1981 and 6.4% above the 1979 record. This was despite the steady diversion of land from grain to cash crops, which also showed record yields: cotton output increased 21.3% to 3.6 million tonnes, production of oil-bearing seeds grew 15.8% and sugar-bearing crops 21%. The stimulus of rural reforms is given major credit for the success though the amelioration of drought in northern China and the lack of any major disaster on the scale of the Sichuan floods in 1981 undoubtedly played a role. So did increased applications of chemical fertiliser (up 13.4% to 15.1 million tonnes) and better use of small-scale farming machines such as walking tractors.

Industrial output value totalled Rmb 550.6 billion, an increase of 7.7% — almost double the planned target of 4%, but this is not necessarily good news. Heavy industrial output grew 9.9% to Rmb 274 billion after a 5% drop in 1981 while light industrial output fell to 5.7% after three years of double-digit growth. The problem is that heavy industry consumes much more energy and transport capacity per unit of output value than does light industry, so the resurgence of heavy industry places greater strains on the still hard-pressed energy and transport sectors.

Renewed warnings that growth of heavy industry must be strictly controlled have appeared recently in the Chinese press following a high-level conference on industrial policy in March. But the surprising appearance in recent weeks of articles in the party journal *Red Flag* and the Peking daily *Guangming Ribao* reasserting the primacy of heavy industry and the need for faster heavy industrial growth indicates that a debate is still under way among planning circles.

The pro-heavy industry group argues in favour of coordinating output with the needs of other sectors and improving product quality rather than attempting to impose a rigid ceiling on overall growth of heavy industry. They may find support in the communique which shows that growth in this sector last year was led by the energy and transport-equipment sectors, indicating a much-needed realignment of priorities to address the key bottlenecks constraining industrial growth.

Other product areas with rapid gains were cement and plate glass, both needed to ease shortages resulting from a two-year boom in housing construction, and walking tractors, which are playing a key role in agricultural reforms as the family replaces the commune brigade as the basic rural economic unit. □

File

OFFICE MEMORANDUM

TO: Addressees

DATE: May 17, 1983

FROM: Jean Baneth, EPDDR

SUBJECT: CHINA: Per Capita GNP

Further to my memorandum of May 16, Mr. Park of EPD and Mr. Wood of the China Division believe that both the French and Chinese journalists must have misunderstood the nature of the aggregate to which the new Chinese statistics refer. They both think this is the gross output of all sectors (as distinct from the value added aggregate in National Accounts). Consequently, the new Chinese number may not be inconsistent with the World Bank's estimate of per capita GNP of China. I believe this is what we should reply if we have any outside queries.

To: Mrs. Krueger
Mr. Waide
Mrs. Hughes
✓ Mr. Vogl
Mr. Mistry
Mr. Koch-Weser, Mr. Wood
Mr. Singh
Mr. Chander
Mr. Lee, Mr. Park

JB:tk

OFFICE MEMORANDUM

HR. Cullen
to circulate FW

TO: Mr. Jean Baneth, EPDDR

DATE: May 18, 1983

FROM: J. Richard Bumgarner, Acting Chief, AEADF

SUBJECT: China's per Capita GNP

1. With reference to your memoranda of May 16 and 17, we would like to confirm that the new data recently quoted in the press are entirely consistent with the Bank's existing estimates of China's per capita GNP.

2. The contrary view - that China's per capita GNP has suddenly been revealed to be much higher than the Bank and others had estimated - has arisen as the unfortunate result of mistranslation of part of the State Statistical Bureau's recent communique on economic results in 1982. For the first time, the SSB has estimated and published the total gross value of material production -- i.e. the sum of the gross (of intermediate inputs) output value of agriculture, industry, construction, transport and commerce. Previously, they had published the total net product of these sectors (Net Material Product, which they call "national income", and which we adjust to derive GNP), but gross production only for agriculture and industry. This newly calculated aggregate, which the Chinese call "total product of society", was apparently translated as "gross national product" both at an SSB press conference and at one place in an English version of the communique.

3. The Chinese ED's office is aware of the problem and is circulating an official explanation to other EDs. We do not feel that the Bank needs to publish any additional explanation, although we would not oppose such a suggestion.

Distribution:

Messrs. Hasan (AENVP), Mistry (SVPFI), Waide (CPD), Vogl (IPA),
S. Singh, R. Chander, S.E. Lee, Park (EPD),
Lim, Tidrick, Porter, Byrd (AEADF)

Mses. Kreuger (VPERS), Hughes (EPD)

AWood:hk

OFFICE MEMORANDUM

TO: Files

DATE: May 5, 1983

FROM: Caio Koch-Weser, AEAD 

SUBJECT: CHINA: Mr. Clausen's Meeting with Vice-Minister of Finance Li Peng,
Washington, April 26, 1983

Present: Messrs. Li Peng

Wang Weicai (Bank of China)

Chen Jiguang (Ministry of Foreign Affairs, Member
of the Development Committee Delegation)

Wang Liansheng

Fei Lizhi

Lin Zhiying (Embassy of the People's Republic of China)

Yang Jiusheng (Ministry of Finance)

Li Miao (Ministry of Finance)

A.W. Clausen

E. Stern

A. Karaosmanoglu

C. Koch-Weser

1. Vice-Minister Li Peng explained that Minister Wang Bingqian was unable to attend the Development Committee Meeting because he had to accompany Vice-Premier Yao Yilin on a visit to Japan. The Minister had asked him to convey two points to Mr. Clausen: First, he was looking forward to Mr. Clausen's visit to China next month; he would like to know Mr. Clausen's plans and preferences for his visit, so that the program could be organized accordingly. Mr. Clausen said that this would be his sixth visit to China, but he expected it to be the most interesting because he would have an opportunity to see the countryside. He was looking forward to visiting Bank projects and learning about the Government's plans for future cooperation with the Bank. In his view, the capacity of the Government and the Bank to develop projects together was not a constraint for future development of the program. The constraint was, rather, the availability of financial resources from the Bank.

2. Mr. Li Peng said that the second point the Minister had asked him to convey to Mr. Clausen related to the size of the lending program. China considered the Bank a storehouse of experience in economic management and a major source of technical assistance. Work had already started on the Seventh Five-Year Plan, and it was important for the Government to know what amounts of financial assistance could be provided by the Bank during that Plan period. Government policies in recent years had led to a surplus in the country's current account, but the investment program would now be expanded and China would have to borrow increasing amounts in the future. For example, the financing of offshore oil development would require substantial foreign borrowing. In referring to press reports on China's increasing foreign exchange reserves, Mr. Li Peng said that these reserves only amounted to \$10 per person, and that China's rapidly expanding foreign trade required increasing amounts of "working capital".

3. Mr. Clausen explained the difficult situation of IDA 7. No amounts had yet been agreed. He hoped that a world-wide economic recovery over the coming year would relieve budget pressures in the developed countries, which

would in turn make it easier to agree on a larger IDA 7 replenishment than presently expected. However, one could not be optimistic about the prospects for IDA. He hoped that a replenishment level of \$16 billion could be agreed. China's FY84 IDA allocation should be larger than past allocations and China would participate fully in IDA 7. Mr. Stern added that for purposes of preparing the Seventh Plan, the Government should agree with the Bank on the total amount to be lent by the Bank and the number of projects to be prepared. The Bank would provide the best possible blend of IDA and IBRD resources, but would only be able to give firm numbers in about a year's time.

4. Mr. Li Peng said that in January his Government had presented the Bank with a list of project proposals, some of which reached beyond the Sixth Plan period. Very large investment projects, such as diverting water from the Yangtze to the north, the Three Gorges hydropower project and coal mining and railways projects, were presently under consideration. The Government's economic readjustment policies were proceeding well and had enabled the Government to expand capital construction again earlier than anticipated. However, economic efficiency was still too low and further development would be severely constrained in the 1980s. Therefore, access to concessional borrowing abroad was of vital importance, and an indication of the amounts obtainable on concessional terms was needed to prepare future plans.

5. Mr. Clausen mentioned again that the amount of IDA funds available for China under the seventh replenishment could not be determined before early 1984. In the meantime, as Mr. Stern had suggested, the pipeline of projects for future lending should be further developed based on an agreed total amount of lending. Mr. Karaosmanoglu added that lending in FY83 amounted to \$610 million, and that the lending targets discussed with the Government for FY84, FY85 and FY86 were about \$0.9-1.0 billion, \$1.5 billion, and \$2.0 billion, respectively.

6. Commenting on his recent trip to Europe, Mr. Clausen observed that the message clearly coming across in his meetings with the heads of government in the U.K., Germany, the Netherlands and Italy was the increased emphasis on the effectiveness of aid (in the 1970s, aid often seemed to have been given for aid's sake). The European leaders had also emphasized that they considered the Bank to be the most efficient aid agency.

7. Finally, Mr. Li Peng enquired how China could best help in securing a large IDA 7 replenishment. Mr. Clausen replied that China should impress upon its friends in Japan, the U.S. and Europe the importance of concessional flows. The message should be that concessional aid has made a major contribution to LDC development and that China would use the resources it obtains effectively. This message should be conveyed to heads of state and ministers of finance of the major donor countries. China should also convey its message to members of the U.S. Congress. Mr. Li Peng said that Minister Wang had talked to Secretary Shultz about IDA earlier this year and the Secretary had responded favorably. Recently his Government had also briefed a delegation of Congressmen led by Congressman Patterson. Mr. Clausen observed that he had also talked to Speaker O'Neill before the Speaker's recent visit to China.

CKW:caa

cc: Messrs. Stern, Karaosmanoglu, Jaycox

OFFICE MEMORANDUM

TO: Mr. A.W. Clausen
THRU: Mr. Ernest Stern (SVPOP)
FROM: Attila Karaosmanoglu (AENVP) *AK*

DATE: April 25, 1983

SUBJECT: CHINA - Your Meeting with Senior Vice Minister
of Finance Li Peng
Tuesday, April 26, at 3:00 p.m.

1. Vice Minister Li Peng is leading the Chinese delegation to the meeting of the Development Committee. He has met with Mr. Qureshi to learn about the status of IDA 7 negotiations, and with me to discuss our work and lending program. Mr. Li has indicated that in view of your forthcoming discussions with Chinese leaders in Beijing, he would expect his meeting with you to be brief.

Topics Expected to be Raised by the Vice Minister

2. IDA. We understand that Vice Minister Li intends to raise the question of the status of IDA 7 negotiations. He plans to meet with many Part I delegations to the Development Committee meeting and would like to hear your assessment of the positions taken by donor governments, the future timetable of negotiations, and the likely outcome. While he will emphasize again the importance China attributes to obtaining an equitable share of new IDA funds in FY84 and of IDA 7 resources, we do not expect him to pursue this matter any further at this point.

3. In his meeting with the Vice Minister, Mr. Qureshi pointed to the lack of strong support for China's claims on IDA funds at the January deputies meeting. He emphasized the importance of an IDA 7 replenishment level of \$16 billion, urging the Chinese to approach the heads of state of IDA donor countries, particularly Japan, and to impress on them more forcefully than in the past the importance the Chinese Government attributes to a high replenishment level and an equitable share for China. With regard to China's shares of FY84 and IDA 7 IDA resources, you indicated to Minister Wang in December that because of the prevailing uncertainties, the amounts China might obtain in FY84 and under IDA 7 could not yet be established, but that China would receive reasonable shares and the difference between China's and India's share of IDA 7 would have to be as small as reasonably possible. Our internal planning numbers for China are \$350 million IDA in FY84, and an IDA 7 allocation of \$2,863 million (19.1% of an assumed \$15 billion replenishment level), with China's share increasing over the IDA 7 period.

4. In briefing Vice Minister Li on the status of IDA 7, you should point out that ensuring a satisfactory outcome of the IDA 7 negotiations has to be a cooperative effort. It is vital that China convey the importance it attributes to that replenishment to the heads of state of donor countries before the Williamsburg summit and the July deputies meeting.

Topics You Should Raise

5. Lending Program. The FY83 lending program (\$610 million for six projects) was completed with approval by the Board of an agriculture project (Heilongjiang Land Reclamation) last week. Also, an updating economic report on recent developments and future trends was distributed to the Board recently. Total lending since 1981 has amounted to \$870 million (\$560 million IBRD and \$310 million IDA) for eight projects, with two projects in agriculture, two in education, two in petroleum, one in transport, and one in industry. For FY84, we plan another major increase in lending.
6. You should express your satisfaction with the rapid build-up of operations and the successful processing of the FY83 program, drawing on the figures given above.
7. Your Visit to China. You will visit China from May 24-31. You will hold discussions with Chinese leaders in Beijing for two days, and then travel to the remote and poor rural areas of Northern Shaanxi Province (Yenan), Xian (capital of Shaanxi), the North China Plain to visit the Bank's first agricultural project (Shandong Province), and Shanghai.
8. You should say that you are looking forward to your first visit to China in your present capacity, to learn more about the remarkably successful reform and adjustment policies of recent years, the Government's development priorities under the Sixth Five-Year Plan and beyond, the program of cooperation between China and the Bank, and the Government's plans for future cooperation with the Bank.

THE WORLD BANK

ROUTING SLIP		DATE: March 24, 1983	
NAME		ROOM NO.	
Mr. R. Southworth			
	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: This is the brief we have prepared for Mr. O'Neil's delegation going to China, on the Bank's relationship with China and the two projects they might visit. We have also given these briefing sheets to Congressman Patterson who leaves for China tomorrow.			
FROM: C. Koch-Weser		ROOM NO.: R-655	EXTENSION: 61020

China

Development of the Bank-China Relationship

- Initial Steps:** In April 1980, Mr. McNamara, former President of the World Bank, visited China to discuss China's change of representation. The People's Republic of China assumed China's representation in the World Bank in May 1980. China is now the Bank's sixth largest shareholder, with a voting share of 4.61%.
- Objectives:** Objectives in establishing the Bank-China relationship have been to facilitate China's re-entry into the world community after 30 years of isolation; remove major constraints on development - energy, transport, other infrastructure, skilled manpower and modern technology; and help to reduce remaining poverty.
- Economic Work:** An economic mission, comprising almost 30 staff, spent over two months in China in late 1980 to gather data for the Bank's Basic Economic Report on China. The main text of the report reviewed the performance of the Chinese economy since 1949 and the Government's priorities and constraints, as well as providing a framework for conducting the Bank's operational work and for formulating a medium-term country assistance strategy. Annexes to the main report presented information on developments in the major sectors. The report was presented to the Bank's Board of Executive Directors in June 1981.
- The Bank has followed up on the Basic Economic Report by preparing sector reviews (e.g. in agricultural credit and rural health) and an updating economic memorandum to reflect changes due to China's current program of economic reform and adjustment. A program of collaborative research has been developed to allow Chinese staff to work with the Bank and familiarize themselves with techniques and methodology for economic analysis.
- Approved Projects:** University Development Project (\$100 million IDA Credit, \$100 million IBRD Loan) to help strengthen higher education and research at 26 of China's top universities.
- North China Plain Agriculture Project (\$60 million IDA Credit) to mount a major attack on salinity and water logging of 200,000 ha of the North China Plain.
- Three Ports Project (\$124 million IBRD Loan) to provide container handling equipment at the three major ports of Shanghai, Tianjin and Huangpu, and coal handling equipment at Huangpu.
- Agricultural Education and Research Project (\$75.4 million IDA Credit) to help improve the quality and increase the output of agricultural education and research activities.

- * Industrial Credit Project (\$40.6 million IBRD Loan and \$30 million IDA Credit) to provide investment loans for small and medium size projects in the light industrial sector.
- * Daqing Oilfield Gaotaizi Reservoir Development Project (\$162.4 million IBRD Loan) to increase production from the Daqing field, as well as introducing modern technologies in equipment and oilfield practices.
- ** Zhongyuan-Wenliu Petroleum Project (\$100.8 million IBRD loan) to develop oil production, explore new fields, and recover LPG from associated gas.
- ** Heilongjiang Land Reclamation Project (\$35.3 million IBRD loan and \$45.0 million IDA credit) to develop 200,000 ha of virgin land for the production of food grains and soybean.

Future Projects: The Bank plans to continue its support of projects in China's priority sectors. In energy, it will support additional petroleum projects, as well as hydropower and coal development. In transport, the Bank will continue to emphasize the port subsector, but also expects to begin operations in railways. In education, support for education at the postsecondary level and for agricultural education and research will continue. In agriculture, projects are planned to develop production capacity for grain and rubber, as well as to provide credit for rural areas. The Bank expects to continue its support for industry through direct lending as well as indirectly by further provision of industrial credit.

Economic Development Institute (EDI): To support the Bank's lending operations, EDI began organizing a program of training given in China for technical staff. EDI's FY83 training activities, organized jointly with the Shanghai Institute for International Economic Management, will total six courses each having an average of 40 participants and observers. Courses have provided training, inter alia, in national economic planning, general project planning and specific sector-related topics.

* Project approved, but loan/credit not yet effective.

** Project due to be presented to the Bank's Board by the end of April.

THREE PORTS PROJECT
(IBRD Loan of \$124 million)

Sector Constraints: A major constraint in the ports subsector has been the inadequacy of China's major ports to handle containerized cargo. Little attention has been given to intermodal planning of transport developments generally. This has led to congestion in China's major ports. Access to all major ports is restricted by channel depths. Port operations could be improved by introduction of better management techniques.

Key Data on Project Ports: Shanghai is one the world's largest ports, with a total of 95 berths. The port handled 85 million tons of cargo, about 40% of the cargo handled by China's major ports in 1980. The port serves China's main industrial center.

Huangpu handled about 12 million tons of cargo in 1980, about 40% of which was foreign trade. The port has historically been important for handling coal traffic.

Tianjin port serves both Tianjin and Beijing, which together make up the second largest concentration of economic activity in China. The port handled about 12 million tons of cargo in 1980.

Project Objective: The project will provide container handling equipment at the three major ports of Shanghai, Tianjin and Huangpu, and coal handling equipment at Huangpu to increase the capacity and reduce the cost of cargo handling at these ports. As part of the project, the Government will carry out a containerization study of the hinterlands of the three ports, which should lead to longer term improvements and efficiency in cargo transport.

Status: Procurement of all major equipment items will be through international competitive bidding. The Bank has already reviewed the tender documents for container handling equipment and these are now being finalized. Civil works are well advanced. Civil works and equipment installation are expected to be completed by the end of 1986.

Future Port Projects: Future operations are expected to support further development of facilities at the ports of Tianjin and Huangpu, as well as providing assistance for management and operational improvements. Financing might also be provided for the Dalian port grain terminal.

UNIVERSITY DEVELOPMENT PROJECT

(IBRD Loan of \$100 million, IDA Credit of \$100 million)

- Sector Constraints:** The Government views education as the key to its modernization, because the lack of trained manpower is a serious constraint on the country's economic development. The shortage stems from the disruption of higher education during the decade-long Cultural Revolution, when radical policies caused the closure of schools and universities. The enrollment ratio for formal higher education is low in China at about 2%, compared to 4-5% in other developing countries.
- Government Strategy:** The Government's priority is now to improve the quality and quantity of higher education, by supporting top quality education at regular universities and colleges, as well as two other, less costly forms of postsecondary education, the TV University and a system of polytechnics. China plans to increase enrollment at each of these forms of education to 2 million by the end of the century.
- Project Objective:** The project will help increase the output and quality of education and research in the disciplines of science and engineering by support for 26 of China's top universities and institutes. (Three institutes in Shanghai - Fudan University, Shanghai Jiaotong University and the East China Normal University - will be provided with such items as laboratory equipment, computers and analysis instruments under the project.) The project also aims to improve management at the universities and increase the capacity for monitoring, evaluation and planning at the Ministry of Education level. The project will provide civil works, furniture, equipment, specialist services, fellowships and other related inputs to achieve these objectives.
- Status:** Contracts have been signed for equipment purchases totalling \$65 million; in value terms, half went to US companies. Contracts with Honeywell Inc., worth over \$20 million, were signed in February 1983. A major contract for expert services, worth \$5 million, has also just been signed. Bids are now being received for the second stage of equipment procurement, worth about \$50 million.
- Future Education Projects:** Future operations are expected to continue support for the Government's higher education strategy, with one project likely to assist the TV University and polytechnic system, and a second following up on the University Development Project. The Bank has also approved an Agricultural Education and Research Project and expects to continue its support in this area.

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

A. W. CLAUSEN
President

December 23, 1982

Dear Mr. Minister:

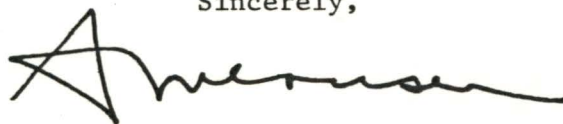
It was indeed a pleasure to meet with you again recently and to have the opportunity to discuss matters of mutual interest to The World Bank and the People's Republic of China. We anticipate continued progress in the future.

Thank you for the copy of the Statistical Yearbook of China for 1981 which Mr. Wang kindly passed along to me. I'm sure it will be a valuable reference source for us.

As you know, Mrs. Clausen and I are planning to visit China in May. We are very much looking forward to this and I hope to see you again at that time.

Warm regards.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. W. Clausen', with a stylized initial 'A'.

His Excellency
Wang Bingqian
Minister of Finance
Beijing, People's Republic of China

OFFICE MEMORANDUM

TO: Mr. A.W. Clausen
 through Mr. Ernest Stern (SVPOP) *ES*,
 FROM: S. Shahid Husain (AENVP) *SH*

DATE: December 9, 1982

SUBJECT: CHINA - Your Meeting with Minister of Finance Wang Bingqian
Thursday, December 16, at 3:00 p.m.

Introduction

1. Minister Wang is visiting Washington for the meeting of the U.S. - China Joint Economic Committee. We understand that he intends to raise the subject of IDA in his talks with Secretary Regan. The Treasury Department has also arranged for OPIC to hold a seminar for the Chinese delegation with leading investment bankers to promote further cooperation between China and the private banking sector.
2. Mr. Karaosmanoglu will have met Minister Wang at lunch with Mr. Husain. However, you should add a few words of introduction and mention that he will make a first visit to China in January. You should continue by recalling Minister Wang's invitation to you to visit China in 1983, and confirm that you intend to visit China tentatively from May 21 to 28 if that is convenient (we have informally agreed this timing with the Ministry of Finance); and mention you are looking forward to your first trip in your present capacity.

Recent Developments in China

3. At the Chinese Communist Party Congress in September, the moderate wing of the Party under Vice-Chairman Deng Xiaoping further entrenched itself in power. However, a strengthening of the position of the People's Liberation Army, a harder line on Taiwan and recent moves toward a mild rapprochement with the Soviet Union indicate that they have had to make some concessions to other groups, particularly in foreign policy. Nevertheless, the general direction of China's domestic and international economic policies has been maintained. The reorganization and reduction in size of central government entities under the State Council has been essentially completed.
4. At the National People's Congress (Chinese equivalent of the parliament) which opened on November 26, a revised Constitution and the long-delayed Sixth Five-Year Plan (1981-85) have been approved. The Plan provided for continued moderate growth with a renewed emphasis on key infrastructure sectors like energy and transport. Significant improvements in living standards will continue, though at a somewhat lower rate than in 1978-81. Rather high and probably unrealistic targets for economic development by the year 2000 have also been set (quadrupling of agricultural and industrial output).

December 9, 1982

Topics Expected to be Raised by the Chinese

5. We understand Minister Wang intends to emphasize again the importance of the Bank for China, especially during the middle and later 1980s when external borrowing needs--for the Sixth and Seventh Plan periods--are expected to be large. He may also mention the contribution EDI is making. You will recall that Mr. Benjenk visited China in October and discussed EDI's activities which have become their largest country program. Minister Wang may also mention the Government's interest in exploring possibilities for cooperation with IFC. Mr. Wuttke has been invited to visit China in early 1983.

6. IDA. Minister Wang is likely to raise the question of the status of IDA 7 negotiations and China's likely allocations in FY84 and in IDA 7. At Mr. Stern's allocation meeting on November 29, the FY84 decision was \$350 million IDA, with a possibility of eventually increasing this to \$400 million. We have recently told the Government that "We hope that at least \$350 million of IDA funds would be available for lending to China in FY84."

7. You should begin by reminding the Minister, as in Toronto, that China will receive its full \$400 million in the IDA 6 period, with a portion (\$100 million) spilling over into FY84. Next, you should repeat your Toronto agreement with him that China should get a fair share of new IDA funds in FY84. You should be aware that the Chinese interpret this to mean the same share as they should receive of IDA 7, viz. only slightly less than India's. You should point out the continuing uncertainty about IDA funding, including the likely U.S. contributions. However, you should confirm that China will be able to receive \$350 million in FY84 with the possibility of some increase if the IDA situation improves.

8. Up to now, with neither Plan approval nor knowledge of IDA 7 amounts for China, we have only been able to work on operations through FY84. For the longer term, Mr. Stern's November 29 meeting decided a \$4,730 million FY83-87 IBRD allocation and, based on a replenishment level of \$15 billion, a total IDA 7 allocation for China of \$2,863 million. The overall IDA share would thus be 19.1%, but with a buildup from 17% in FY85 to 22% in FY87 when it would reach parity with India's. We have recently told the Government that assuming "average annual lending of about \$2 billion in FY85 and FY86 still appears reasonably accurate for planning purposes; lending in FY87 should be even higher."

9. You should explain the outcome of the recent IDA Deputies' meeting, the continuing uncertainties and the future timetable. However, it is important that you be as explicit as possible with the Minister. Now that the Sixth Plan has been approved, some knowledge of approximate IDA 7 planning figures for China is key to our securing agreement on a work program covering the IDA 7 years. You should therefore tell the Minister, as you did in Toronto, that we agree that any difference between China's and India's shares of IDA 7 should not be large. You should further tell him that the Bank's Management plans that total lending to China should rise progressively from FY85 to FY87 and average just over \$2 billion per annum. We hope the IDA portion would be around \$300 million per annum, on the assumptions of a \$15 billion replenishment and protection of Africa.

d) while you can say that we expect our lending program to reach \$2 billion per year - provided projects are available and the policy dialogue is broadened - the composition of that sum between Bank and IDA can only be speculative. However we agree that there should not be a large difference with India

Tom -
This is much too detailed on the numbers. You should
a) reaffirm the \$400m in IDA 7
b) indicate China will get a reasonable share of the special '84 money
c) stress that our present planning assumption still has considerable downside risk and therefore no figure can be considered firm for FY '84.

10. In this connection you should also point out to Minister Wang that a country's claims on IDA resources are based essentially on its development needs. In the international community, however, there is still insufficient understanding of China's economic situation. We can only justify the very large share of IDA 7 being proposed for China (and India), if there are frequent and comprehensive Bank reports on the Chinese economy. The Bank also needs to be able to underpin the proposed large lending with the sector and project information routinely provided by other member countries.

Topics You Should Raise

11. Background. The FY83 lending program is developing well, with two projects approved (Ports, and Agricultural Education and Research), a third to be considered by the Board on December 21 (China Investment Bank), and one in agriculture (Heilongjiang Grain) and two in petroleum (Daqing and Zhongyuan) to come. The year's program should thus total six projects for \$610 million, of which \$470 million IBRD and \$140 million IDA. For FY84 we plan 9 projects for nearly \$1.2 billion, but the program is less strong with some projects yet to be prepared. In January, Mr. Karaosmanoglu will wrap up Regional discussions with the Government of both an updating country economic memorandum and the proposed role and work program for the Bank in China through the IDA 7 period.

12. You should express your satisfaction with the rapid buildup of operations now taking place, drawing on the figures given above. For the future, you should stress two points:

- (a) The need to agree on and commence shortly a work program extending through as much as possible of the IDA 7 period, given the need to strengthen the project pipeline and the long lead time involved in preparing projects; and
- (b) The need for the Bank to become involved early in identifying promising areas for lending and specific projects, and providing useful advice on their design.

DBerk/WByrd/CKoch-Weser:cb

RECEIVED BY THE SECRETARY

DEC 10 AM 1:18

UNCLASSIFIED

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

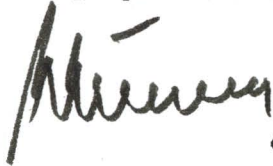
DATE: December 15, 1982

FROM: Hans A. Wuttke

SUBJECT: Brief for December 16 meeting with Mr. Wang Liansheng, Executive
Director for China

In my meeting with H.E. Wang Bingqian, Minister of Finance, in Toronto last September, I received an invitation to visit China to discuss IFC's role in China's development program.

The invitation was recently confirmed through Mr. Liansheng. Based on discussions with him, my visit is now tentatively scheduled for the second half of April. We have also agreed that a three-man advance team headed by Mr. Torstein Stephansen, Director, Asia, will visit China in the last week of February to prepare for this visit.



CMTan/JParmar:bs

RECEIVED

1982 DEC 16 AM 11:18

OFFICE OF THE PRESIDENT

MEMORANDUM

WASH DC

TO : THE PRESIDENT

FROM : [illegible]

SUBJECT: [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

OFFICE OF THE PRESIDENT

WASHINGTON, D.C. 20503

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

11/11/82



With the compliments of
James B. Burnham
U.S. Executive Director

Mr. A.W. Clausen

477-2776

Done \longrightarrow
11/12/82
mw

11-11-82
 R. E. Starn
 Shouldn't
 and/or
 Starn
 answer?
 R



Record Removal Notice



File Title Country Files: China - Correspondence 03		Barcode No. 1774660
Document Date November 10, 1982	Document Type Letter	
Correspondents / Participants To: The Honorable John P. East, US Senate From: James B. Burnham, US Executive Director, The World Bank		
Subject / Title East's letter of October 22 (and Tom Clausen's reply) concerning the Bank's lending activity in China.		
Exception(s) Communications of Governors and/or Executive Directors' Offices		
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 17-Mar-17</td></tr></table>
Withdrawn by Shiri Alon	Date 17-Mar-17	



Record Removal Notice



File Title Country Files: China - Correspondence 03		Barcode No. 1774660
Document Date November 4, 1982	Document Type Letter	
Correspondents / Participants To: The Honorable John P. East, US Senate From: Tom Clausen		
Subject / Title Concerning the Bank's lending activity in China.		
Exception(s) Communications of Governors and/or Executive Directors' Offices		
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 17-Mar-17</td></tr></table>
Withdrawn by Shiri Alon	Date 17-Mar-17	

5039
United States Senate

WASHINGTON, D.C. 20510

October 22, 1982

Mr. A.W. Clausen, President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Clausen:

I was greatly disturbed to read in the Washington Post this week that the World Bank is considering loans to finance twenty projects in Communist China.

I appreciate the circumstances surrounding these possible loans. The Post article made clear that Red China, as a new member of the World Bank, has lately been insisting on receiving a major increase in soft loans.

Nevertheless, in view of the fact that the United States is the largest contributor to the World Bank, I feel it is my duty to investigate this matter. I am deeply concerned about the ends to which indirect American economic assistance of this kind is being used. You may be aware that as Chairman of the Subcommittee on Separation of Powers I am already looking into the Polish debt question.

I should appreciate having a summary from you on the nature of these twenty projects at your earliest convenience. Thank you for your cooperation. ↙

Sincerely yours,

John P. East

John P. East
United States Senator

JPE:hgv

November 5, 1982

Dear Mr. Ambassador:

It was very thoughtful of you to send us the photograph taken at the embassy reception a few weeks ago. I think it is an excellent picture of all of us!

Mrs. Clausen and I are pleased to have this as a memento not only of a very pleasant evening, but also of our friendship with the People's Republic of China.

*Sent to
scrapbook*

Warm regards.

Sincerely,



A. W. Clausen

His Excellency
Chai Zemin
Ambassador of the People's
Republic of China
2300 Connecticut Avenue, N. W.
Washington, D. C. 20008

5101
THE EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA

2300 Connecticut Avenue, N.W.

Washington, D.C. 20008

Oct. 28, 1982

Mr. A.W. Clausen
The President
Room E 1227
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. A.W. Clausen,

I have the honor of sending you, as a souvenir, a photograph we took at the reception I gave in celebration of the 33rd anniversary of the founding of the People's Republic of China.

With kind regards.

Sincerely,



Chai Zemin
Chinese Ambassador

EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA

1985 NOV -11 PM 5:01

RECEIVED

RECEIVED

1982 NOV -4 PM 4: 01

OFFICE OF THE PRESIDENT

Chinese Ambassador

Chen Xuebin



Sincerely,

With kind regards,

Chairman of the People's Republic of China,
Kao in celebration of the 33rd anniversary of the
People's Republic we took at the reception.

I have the honor of sending you as a gift

Dear Mr. A. H. Clausen,

Washington, D.C. 20533
1418 N. 24th St., N.W.
The People's Republic
Room 1331
The President
Mr. A. H. Clausen

094 38 1000

Washington, D.C. 20008

5300 Connecticut Avenue, N.W.

THE EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA



Record Removal Notice



File Title Country Files: China - Correspondence 03		Barcode No. 1774660		
Document Date September 6, 1982	Document Type Minutes			
Correspondents / Participants To: Memorandum for the Record From: Dan Morrow (Loan Officer, AEA)				
Subject / Title CHINA -- Meeting Between Mr. Clausen and Mr. Wang Bingqian, Minister of Finance, China, September 3, 1982 - Annual meetings, Toronto, Canada				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date 17-Mar-17</td></tr></table>	Withdrawn by Shiri Alon	Date 17-Mar-17
Withdrawn by Shiri Alon	Date 17-Mar-17			

THE WORLD BANK

ROUTING SLIP

Date
Sept. 3/82

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Benjenk	
Mr. Vojanovich	
Mr. Southworth	

	To Handle		Note and File
XX	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

Remarks

Roy Southworth

From

FROM: SVENSKA HANDELSBANKEN, STOCKHOLM

02SEP82 16:37:06

OUR CABLE REF: 230795

ATT. MURIEL LEE

WOULD IT BE POSSIBLE FOR YOU TO SHIP ME A COPY
OF THE ENTIRE ECONOMIC REPORT ON CHINA. I WILL
OF COURSE PAY FOR AIR MAIL POSTAGE OR FREIGHT
CHARGES.

BEST REGARDS,

ANDERS LJUNGH

SVENSKA HANDELSBANKEN

STOCKHOLM

NNNN

☒

WORLDBANK440098

11090 HANDST S

*Need clearance
from CIA & SV
SW 10/1
authorize reports
to be sent
(if relevant)*

2820

中國銀行
Bank of China
Head Office, Beijing

Ref. HO-1/82/0530

April 15, 1982

Mr. A.W. Clausen
President
The World Bank

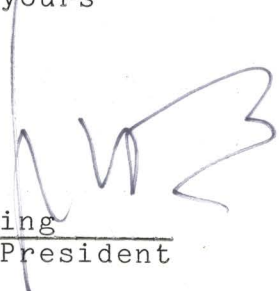


Dear Mr. Clausen,

During my trip to your country for the purpose of presiding over the official opening ceremony of our New York Branch, I was much pleased to have the opportunity of meeting you again in Washington. In the years when you were President of the Bank of America, you made repeated visits to our country and contributed much to the friendly relations between our two peoples and the business cooperation between the Bank of America and the Bank of China. You are now President of the World Bank and the responsibility you are thus shouldering is indeed heavy. I sincerely hope that under your leadership the World Bank will make new contributions to the economic expansion of the developing countries.

I look forward to meeting you again in Beijing.

Truly yours



Bu Ming
Chairman & President

OFFICE OF THE AMERICAN
1982 APR 15 PM 11
RECEIVED

cct/wkh/wu

RECEIVED

1982 APR 22 PM 4: 11

OFFICE OF THE PRESIDENT

86 • 92 • 95 263829

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: March 31, 1982

FROM: Caio Koch-Weser, *Ch* Chief, AEADFSUBJECT: CHINA: Mr. Clausen's Meeting with Mr. Bu Ming, President of Bank of China, March 17, 1982

Present: Messrs. Bu Ming, President, Bank of China
Zhang Xiuyao, General Manager, Bank of China
Branch in New York
Ding Chaozong, Deputy Manager, International
Department, Bank of China
Bai Shizhen, Deputy General Manager,
Exchange and Fund Department, Bank of China
Liu Daoxin, Interpreter
Wang Liansheng, Executive Director
A. W. Clausen
S. Husain
C. Koch-Weser

1. Mr. Clausen said he was delighted to meet Mr. Bu Ming again after they had last met in San Francisco. He congratulated him on the opening of the New York Branch of the Bank of China. This was an important step and would facilitate the bank's operations in that important market and worldwide. It would strengthen China's international ties. In recent years China had made great strides in opening up its economy. Good cooperation and dialogue had been developed between China and the World Bank. The Bank's Senior Vice President, Mr. Stern, had just visited China.

2. Mr. Bu Ming thanked Mr. Clausen for his remarks. During his visit to the U.S. in 1980, the U.S. Government and his delegation had agreed that the Bank of China should open offices in the U.S., and U.S. banks should open offices in China. Since then, three U.S. banks had opened offices in Beijing: The Bank of America, The First National of Chicago, and Chase Manhattan. Now the Bank of China was opening an office in New York. He was grateful to his U.S. banking friends for valuable suggestions in setting up that office, and for the help in obtaining approval from the Federal Government. In 1980 one of his important tasks had been to discuss with the IMF and the Bank the issue of China's change of representation on their Boards. Mr. McNamara had been very helpful and the development of the relationship had been smooth. When he last visited the Bank, Mr. McNamara had asked him to introduce the Chinese economy to the Executive Directors; now Messrs. Wang and Chen were members of that group.

3. Mr. Clausen said that the Bank was presently analyzing a number of sectors of the Chinese economy for future project lending. Mr. Husain added that \$200 million had been lent for the University Development Project; the Three Ports Project was presently being negotiated, and two agriculture projects in irrigation/drainage and training and research would reach that

March 31, 1982

stage soon. For lending in the coming years, twenty projects were at different stages of preparation. Mr. Stern's visit to China, including his meeting with Prime Minister Zhao Ziyang, had gone extremely well.

4. Mr. Bu said he had read the Economic Report, which provided an accurate assessment of China's present economic situation and which had received favorable reactions in China. The development of energy and transportation was of basic importance for future growth of the economy and should be a priority in the Bank's program of cooperation. Pointing to the fact that the IBRD interest rate had been increased from 8.5% to 11.6%, he asked Mr. Clausen whether the Bank was encountering difficulty in raising funds.

5. Mr. Clausen explained that since July 1, 1981, the Bank had borrowed \$6 billion at a cost of 11% in order to fund previous commitments at rates of less than 8%. Because of resulting downward pressure on profits the interest rate had to be raised. This year the Bank had a very substantial lending program in yen, deutschmarks, swiss francs, and U.S. dollars. As long as the present very high interest rates prevailed in the U.S., the Bank would largely try to stay out of that market. The Bank's borrowing program was coordinated by Mr. Rotberg who had visited China in December, giving seminars on techniques of borrowing in the international marketplace to Mr. Bu's colleagues. He hoped that this had been helpful.

6. Mr. Bu enquired about the scope for future IDA lending to China in support of the country's four modernizations. Interest rates in international capital markets were presently too high for China to borrow substantial amounts at market rates.

7. Mr. Clausen agreed that interest rates were presently by far too high and had to come down. However, IDA was also in difficulty. At the time of the negotiations for the Sixth IDA Replenishment, China was not a member of the Bank and was therefore not included. China's participation in IDA 6 is thus limited to the amount of the profit transfer to IDA from IBRD. The first loan to China carried a blend of \$100 million IDA and \$100 million IBRD funds, resulting in a cost of less than 5%. He then explained the present problems IDA 6 was encountering due to lagging U.S. contributions and the insistence of other donors on a pro-rata approach. Instead of the planned \$4.1 billion, IDA could only lend \$2.6 billion this year, and IDA 6 might have to be stretched over four years. On April 5 and 6 the IDA deputies would meet to review the IDA 6 situation and to discuss when IDA 7 negotiations should start. IDA 7 would of course include China.

8. In response to a question by Mr. Bu, Mr. Clausen said that IBRD would borrow \$8.4 billion this year; the Bank was the single largest bond market taker in every market it borrowed--except governments. In the coming fiscal year the Bank would have to borrow \$9.5 billion and in FY84, \$10.5 billion. As the availability of these long-term funds shrank, the Bank's "appetite" grew; at some point, "the lines must cross." Therefore it was important to "wring out" inflationary pressures and expectations all over the world. The present high interest rates were a particularly heavy burden for the poorer countries.

March 31, 1982

9. Mr. Bu said that the OECD inflation rate was presently at 9-10%, whereas China had reduced its inflation rate to 2-3%. China's centrally planned economy showed that control of prices was possible. Also, the budget deficit had been reduced from Y 17 billion in 1979 to only Y 2.7 billion in 1981, and it would remain at the 1981 level in 1982. Government had issued Y 4 billion in bonds in order to balance its books. In its foreign trade, China was affected by the financial situation of the world markets. In deciding on the use of foreign funds, the Government departed from the objective of keeping the debt service ratio below 15%. At present, this ratio was much lower. It was proving difficult to make use of foreign funds. For example, the World Bank supported the Three Ports Project, but the Government had to provide a substantial amount of information and conduct extensive feasibility studies; this delayed use of the funds. Mr. Clausen agreed that the disbursement of Bank funds took a long time, particularly in the area of large infrastructure development projects.

10. Mr. Clausen said that the Bank reported on the external debt situation of member countries and that he would hope that the Chinese figures could be included under that reporting system. The information would of course be kept confidential and particularly the micro-data would not be divulged. Mr. Bu responded that statistics on China's external debt were compiled by the Statistical Bureau and periodically released. The People's Bank put out figures on the country's gold reserves. Executive Director Wang had brought back data for the Bank from his recent trip. Mr. Husain added that the Bank was slowly making progress in improving its data base for China.

11. Mr. Bu thanked Mr. Clausen for receiving him and presented him with a silver coin commemorating the 70th anniversary of the Bank of China.

cc: Messrs. Husain, Jaycox

CKoch-Weser:dce

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: March 15, 1982

FROM: Edward V.K. Jaycox, Director, AEA

SUBJECT: CHINA - Your Meeting with Mr. Bu Ming, President, Bank of China

1. Mr. Bu Ming will call on you on Wednesday, March 17, at 11.00 a.m. Messrs. Husain and Koch-Weser will attend the meeting.

2. This will be a courtesy call. Mr. Bu is making his second visit to the U.S., to inaugurate the Bank of China branch in New York around March 24. He will visit Washington for three or four days and also meet Mr. de Larosiere, Secretary Regan, EXIM Bank and Chairman Volcker, also for courtesy calls.

3. Mr. Bu was born in Jiangsu province (east central China, on the coast) in 1916. He worked in economic planning in Zhejiang province (slightly south of Jiangsu) and in the Ministry of Economic Relations with Foreign Countries in the early 1970s. He was appointed Vice Chairman and General Manager of the Bank in 1976. In 1978, he became Director of the General Administration of Exchange Control, a body which sets regulations and rates for foreign exchange. Later that year, he suffered a heart attack and resigned his position as General Manager. He received his current appointment to the Bank in December 1980. He attended a number of UNIDO conferences (Vienna, Lima) and has headed banking delegations to Western Europe (UK, Germany, Belgium, Switzerland), Canada, Japan, Mexico and Pakistan.

4. The Bank of China is the Government's international banking instrumentality, with offices in Hong Kong, Macao, Singapore, London, and Luxembourg, and now New York. It handles all external transactions of the economy, including reserves management, implements the foreign exchange plans and makes a small volume of foreign exchange loans on market terms to Chinese enterprises, primarily for export-oriented textile and light industry projects. The Bank of China will be involved in the arrangements for disbursement and repayment of Bank/IDA loans/credits to China, but probably no more. It has little direct voice in making policy but remains under the leadership of the People's Bank of China, which is the central bank.

5. You may wish to:

- (a) thank Mr. Bu for the Bank of China's cooperation in our economic work and project-related data gathering to date, and hope to strengthen this relationship in future (two Bank economists will go on an updating mission, linked to an IMF mission, later this month);
- (b) mention the positive reaction abroad to China's 1981 decision to release publicly data on its foreign exchange position, and hope the policy will be extended progressively to other data; and
- (c) mention in particular the importance of external debt information to the Bank's work and to other lenders, our arrangements to preserve any necessary confidentiality of debt information provided to the Bank, and our hope to fully include China in our debt reporting system (we are just beginning to discuss proposals to cooperate on debt reporting and possibly aspects of debt management).

cc: Mr. Husain

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: February 10, 1982

FROM: Heinz Vergin, Director, PAB

SUBJECT: China CPP: Country Program Issues

1. The first Country Program Paper for China raises major issues of strategy which have an important bearing on the Bank's overall posture for the 1980s. In our view, the following are critical to the management and deployment of the Bank's resources:

- o What are the limiting considerations affecting the size of IBRD lending to China?

~~China's creditworthiness is not in question at this time;~~ we agree with the CPP that with a low debt service ratio (5%) and strong liquidity and balance of payments positions, the short run picture is satisfactory. For the longer term, the CPP projects that by 1990 debt service payments will under the "base case" rise to just over 15% of exports and 1% of GDP. However, the Region emphasizes the considerable downside risks with respect to the projected growth of nontraditional manufactured exports, energy conservation, and gradual improvements in overall economic management, and we agree that ~~China's creditworthiness needs to be closely monitored.~~ Nevertheless, as a very large economy, China's range of adjustment options is extensive and its room for maneuver considerable.

~~In the circumstances, the limits to the level of IBRD lending to China derive from Bank portfolio considerations.~~ The proposed IBRD lending program of \$3200 million for FY82-86, which is the same as that approved at the last Bankwide lending program review, would result in a portfolio share of 5% by FY91 and 8% by FY96, on the assumption that beyond FY86 IBRD lending to China in real terms will be maintained at the level reached in FY86 in the context of an overall IBRD lending program which is also assumed to stabilize in real terms at the FY86 level. However, if IBRD lending does not level off but follows the scenario implicit in the base case projection (an increase of about 21% p.a. in real terms during the period FY86-FY90), ~~this could lead to a portfolio share for China well above 10% by the mid-1990s, especially if the long term overall expansion of IBRD lending were to fall below a 5% real growth path.~~ Given the need to avoid undue concentration in the IBRD portfolio, the build-up of IBRD lending in the mid-1980s by the CPP needs to be kept under close review with reference to IBRD's overall lending plans.

★ Specialized Fund
★ Should be maintained
★ This 100% year
★ 100% 7-10
★ Summary
★ India?

- o What should be the limiting considerations governing the allocation of IDA resources to China?

The CPP proposes the allocation of \$2600 million and \$3870 million of IDA credits during FY82-86 and FY83-87 respectively, noting that on grounds of low per capita income, the continued existence of large pockets of poverty as well as potentially limited creditworthiness, "China has a strong claim on IDA resources" (para. 43).

~~We agree that China would have a strong claim on IDA resources if its population, per capita income, and poverty level were the only factors that needed to be taken into account; however, the Chinese economy, like that of India, is already structurally far more developed and diversified than those of other low income countries and therefore offers options in developmental strategies and policies not available to IDA-only countries. Moreover, China's claim to significant amounts of IDA resources also cannot be strongly justified in terms of its need for concessional capital to keep the country's debt structure within its debt servicing capacity: even if disregarding IBRD portfolio constraints the proposed IDA lending to China were fully substituted with IBRD lending, the debt service ratio by 1990 would only be marginally affected and by 1995 would be increased only by about 1-2 percentage points.~~

~~In our view, if the Bank's efforts to meaningfully address the escalating requirements of the economically weaker countries in Africa and Asia are to be safeguarded, allocations for the large, continental-type economies of China and India will need to be treated as residuals unless present expectations regarding IDA availability change very materially for the better.~~ Furthermore, in allocating the very limited IDA resources, which on this basis will be available, between China and India the willingness of the Government to use these funds for projects which are clearly designed to pioneer institutional developments and/or policy changes which are of strategic importance in the countries' development effort should be a major consideration. Of course, care needs to be taken to select projects in fields in which the Bank has a proven comparative advantage in rendering the required advice and assistance.

- o In view of the uncertainties about the overall level of IDA resources, what should be the size of the operations program for FY83-86 on which the China work program should be based?

Under the IDA-6 Contingency Plan for FY83 and FY84, the China allocation would be about \$150 million. Even with relatively optimistic assumptions about the size of the seventh IDA replenishment and about the attitude of donor countries toward including China as a full-fledged IDA recipient, a China allocation of the size envisaged by the Region is not likely to be feasible. Under these circumstances the size of the combined IBRD/IDA lending program crucially depends on the willingness of the Chinese Government to relent in its insistence upon a 50/50 blend in order to retain the momentum of the Bank's evolving assistance effort. In the face of these uncertainties, we suggest that lending work in FY83 be programmed on the basis of the following planning assumptions: 1/

	<u>IDA</u>	<u>IBRD</u>	<u>Total</u>
FY82	50	135	185
FY83	75	260	335
FY84	75	550	625
FY85	650	950	1600
FY86	650	1300	1950
	<u>1500</u>	<u>3195</u>	<u>4695</u>

SPC 1000
1500 100 } 1600
1500 450 } 1950

To the extent that it cannot be taken for granted that the Chinese Government will accept the much harder blend implicit in the above scenario (IDA 30%, IBRD 70%), these planning assumptions already provide, in our view, for a sufficient margin of overprogramming. An FY83 lending work program based on an even larger FY82-86 lending program would, in our view, run the risk of prematurely developing an over-sized project pipeline.

Recommendations

We recommend:

- o Confirmation for planning purposes of the IBRD lending program of \$3200 million for FY82-86 proposed in the CPP and approved at the last Bankwide lending program review.

1/ Overall, this retains the IBRD program proposed by the Region. As regards IDA-6 it uses the FY83/84 Contingency Plan; for IDA-7 it assumes an allocation pattern which safeguards the current shares of the least developed countries with the residual shared between India and China.

- o Confirmation of the IDA allocation for China proposed in the IDA Contingency Plan for FY83-84.
- o Adoption of the principle that for IDA-7 lending to China should be residual after provision for the least developed countries has been made with the allocation of the residual amount between China and India on the basis of high priority projects which meet the requirements set out above.
- o Adoption for programming and budgeting in FY83 of the planning assumptions set out above.

Annex 1 compares the IBRD lending program proposed for China in this CPP with programs approved earlier.

The Country Program Review Meeting is scheduled for Friday, February 12, 1982 at 11:00 a.m. in Room E-1227.

Attendance:

Messrs. Clausen
Stern
Qureshi
Wuttke
Baum
Chenery
Gabriel
Haq
Horsley
Vergin

LaFourcade
Landell-Mills
Robless

East Asia & Pacific Regional Office:

Messrs. Husain, RVP
Hasan, Chief Economist
Jaycox, Director, Programs
Wyss, Asst. Director, Projects
Koch-Weser, Division Chief
Lim, Sr. Economist
Berk, Sr. Loan Officer

cc: Paijmans

CHINA

Annex 1

		<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY81-85</u>	<u>FY82-86</u>	<u>FY83-87</u>
<u>Operations Program (No.)</u>											
Std. Table IVa, Nov. 1981		1	2	6	7	11	6	..	27	32	..
Proposed, Dec. 1981		1	4	6	7	10	10	8	28	37	41
<u>Lending Program (No.)</u>											
Std. Table IVa, Nov. 1981		1	2	5	7	10	10	..	25	34	..
Proposed, Dec. 1981		1	3	4	7	8	9	11	23	31	39
<u>Lending Program (Cur. \$m)</u>											
Std. Table IVa, Nov. 1981	IBRD	100	98	202	523	940	1380	..	1863	3143	..
	IDA	100	98	202	427	760	1120	..	1587	2607	..
	Total	200	196	404	950	1700	2500	..	3450	5750	..
Proposed, Dec. 1981	IBRD	100	135	165	550	950	1400	1900	1900	3200	4965
	IDA	100	130	170	450	750	1100	1400	1600	2600	3870
	Total	200	265	335	1000	1700	2500	3300	3500	5800	8835
<u>Lending Program (Const. FY82 \$m)</u>											
Std. Table IVa, Nov. 1981	IBRD	107.1	98.0	189.5	462.0	783.3	1084.9	..	1639.9	2617.7	..
	IDA	107.1	98.0	189.5	377.2	633.3	880.5	..	1405.1	2178.5	..
	Total	214.1	196.0	379.0	839.2	1416.7	1965.4	..	3045.0	4796.3	..
Proposed, December 1981	IBRD	107.1	135.0	154.8	485.9	791.7	1100.6	1408.5	1674.5	2668.0	3941.5
	IDA	107.1	130.0	159.5	397.5	625.0	864.8	1037.8	1419.1	2176.8	3084.6
	Total	214.1	265.0	314.3	883.4	1416.7	1965.4	2446.3	3093.5	4844.8	7026.1
Commitment Deflator (FY82 = 100)		93.4	100.0	106.6	113.2	120.0	127.2	134.9			

Note: September 1981 Review Group Decisions: FY82-86: IBRD \$3200 million (FY82-83: \$300 million)
IDA \$2600 million (FY82-83: \$300 million)