

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Country Files: China - Correspondence 04

Folder ID: 1774661

Date: 7/1/1982 – 1/31/1984

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

Clausen's: China

Vol 4



**DECLASSIFIED
WITH RESTRICTIONS
WBG Archives**

 **Archives** **1774661**
A1990-013 Other #: 6 209489B
Country Files: China - Correspondence 04

CHINESE DELEGATION

Wang Bingqian - State Counselor &
Minister of Finance

Wang Liansheng - Deputy Dir, Minister
of Finance (also former ED)

Li Shurong - Section Chief, World Bank
Division

Jin Liqun - Interpreter & Section Chief,
World Bank Division

Zhang Yuanshong - Minister's Personal
Assistant

Xu Naijiong

Fei Lizhi



From the Bank

Ernie Stern
Attila Karaosmanoglu
Gautam Kaji
Caio Koch-Weser

China



Multilateral Investment Guarantee Agency

In Board discussions previous to that held in July, China has been skeptical about MIGA. However, in the July seminar, while China remained uncommitted, it welcomed the new proposal and expressed interest in its discussion. China is presently trying seriously to attract foreign direct investment. You might emphasize the importance of the MIGA initiative in view of the increased need world-wide for such investment, which is presently declining, and request support for the initiative. The proposed MIGA is more attractive to LDCs than previously discussed schemes in that it would operate separately from the Bank, would have its own capital resources, would be controlled equally by developing and developed countries and would pay particular attention to the promotion of investments and trade among LDCs. There appears to be firm support for this new scheme in the Middle Eastern countries, some African countries, the United States and some European countries, and you could note the importance of rapid progress to maintain the political momentum.

August 24, 1984

ANNUAL MEETINGS BRIEF

PEOPLE'S REPUBLIC OF CHINA

| | |
|-----------------------------|----------------------------|
| Population: | 1,008.2 million (mid-1982) |
| GNP per capita: | US\$ 310 (1982) |
| Total Bank/IDA Commitments: | US\$ 1,913.0 million |
| FY1984: Commitments: | US\$ 1,039.5 million |
| Disbursements: | US\$ 131.1 million |
| Amortization: | nil |
| Lending Program: FY1985-86 | US\$ 2,513.0 |

Background:

1. The Chinese economy continues to perform well at a time that is difficult for many other nations. Overall growth in 1983 of about 9% allowed real per capita incomes to grow by 4% in urban areas and 13% in rural areas. The pace of economic reform in rural areas has been rapid, and some significant changes are now also discernible in the urban sector. Important new initiatives have been introduced in areas such as loan financing of investment, taxation, banking, and enterprise autonomy.

2. Both Government and Party have recently reaffirmed that China will continue opening up to the rest of the world. Expanded bilateral diplomacy and trade continue to be very high on China's agenda, and the Reagan-Zhou visits in early 1984 eased the tensions between the US and China. China's debt service ratio remains very low and the balance of payments position continues to be favorable. As further growth and investment occur, we expect China to become a major borrower in world capital markets, and the pace of new investment in capital imports should eventually reverse the positive trade balance.

3. Our relationship with China continues to evolve in ways that are encouraging for the future: the quality and usefulness of our economic work are clearly appreciated and a second major report is now under preparation; the Planning Commission has been increasingly open to more upstream, informal cooperation and exchange of views with our staff, and core agencies are seeking our help on issues not previously discussed with the Bank; four years of experience with the Bank's project preparation and appraisal methodology have convinced many of its merits; and the initial experience with cofinancing has encouraged the Government to seek other cofinancing possibilities. ICB for civil works was completed successfully for the first time in China under a

Bank project; the Government is now considering much wider use of bidding for civil construction. The Bank is now lending more than \$1 billion p.a. to China and expects this figure to increase to around \$1.5 billion over the next two years.

4. Some problems remain, however. The Government has been reluctant to move on price reform, which has delayed processing of some projects. We believe, however, that the difference in view between the Government and the Bank on price reform relates more to strategy and timing than substance. We continue to have some difficulty in making the linkages between economic and sector work and the project pipeline; the latter remains focussed on the short term. M

5. Country Subscription Action. As of the end of June, China holds 23,482 shares (SDR 2,348,200,000 equivalent). China voted in favor of the SCI under which it would be eligible to subscribe for 1,160 additional shares (SDR 116,000,000 equivalent). While no formal action has yet been taken to subscribe for these shares, we expect that China will do so.

Issues likely to be raised by the delegation:

6. IDA Allocation. The Government continues to be concerned about its access to a fair share of IDA resources and, while not so important as in the past, this issue continues to affect the overall dialogue. The Government's position is that China's allocation should move more quickly toward parity with India. (In the last Bank-wide lending allocation review, China was allocated \$450 million, \$510 million and \$610 million for FY85, FY86, and FY87, respectively, assuming a \$10.5 billion IDA VII replenishment level; allocations under a \$9 billion replenishment were then set at \$430 million per year.) Willingness to borrow from IBRD remains linked in part to the perception of fairness in the IDA allocation. This is gradually changing and we expect that in the next few years our Ministry of Finance counterparts will play an increasingly important role in determining overall borrowing; their understanding of the Bank and its role will ease some of the ideological and conceptual problems that have hindered IBRD borrowing thus far.

7. You should brief the Minister about the status of IDA VII and express thanks for China's continued support for IDA, most recently through its intervention with the Governments of Germany and Japan. You should reiterate the considerations in determining the China allocation within IDA VII. You should express the Bank's view that China can afford to borrow substantially more from all sources; in particular it should take advantage of IBRD funds that are available. N.B.

8. Resident Office. Bank staff have had some initial discussions with government representatives on the possibility of the Bank opening a resident office in China. The functions and responsibilities of such an office have been discussed, as well as the appropriate timing for its establishment. While a resident office would increase the cost of China operations, it could be useful in deepening and broadening our relationship and in improving the management of our expanding operations. Even if the Bank does set up an office in China, the responsibilities of the sections of core agencies dealing with the Bank will doubtless increase, which highlights the urgent need for the Government to strengthen the staffs of these agencies.

Bank project; the Government is now considering much wider use of bidding for civil construction. The Bank is now lending more than \$1 billion per year. China and expects this figure to increase to around \$1.5 billion over the next two years.

4. Some problems remain, however. The Government has been reluctant to move on price reform, which has delayed processing of some projects. We believe, however, that the difference in view between the Government and the Bank on price reform relates more to strategy and timing than substance. We continue to have some difficulty in making the linkages between economic and sector work and the project pipeline; the latter remains focused on the short term.

5. Country Subscription Action. As of the end of June, China holds 23,482 shares (SDR 1,348,200,000 equivalent). China voted in favor of the 1991 under which it would be eligible to subscribe for 1,180 additional shares (SDR 116,000,000 equivalent). While no formal action has yet been taken to subscribe for these shares, we expect that China will do so.

Issue likely to be raised by the delegation:

6. IDA Allocation. The Government continues to be concerned about its access to a fair share of IDA resources and, while not so important as in the past, this issue continues to affect the overall dialogue. The Government's position is that China's allocation should move more quickly toward parity with India. In the last bank-wide lending allocation review, China was allocated \$450 million, \$210 million and \$10.5 billion (IDA VII replenishment level, FY84), respectively, assuming a \$10.5 billion replenishment level. The allocations under a \$5 billion replenishment level were \$450 million per year. Willingness to borrow from IDA has been linked in part to the progress of fairness in the IDA allocation. This is gradually changing and we expect that in the next few years our Ministry of Finance counterparts will play an increasingly important role in determining overall borrowing; their understanding of the Bank's role will ease some of the ideological and conceptual problems that have hindered IDA borrowing thus far.

Handwritten note: 1-11-84

7. You should bring to the Minister about the status of IDA VII and express thanks for China's continued support for IDA, most recently through its intervention with the governments of Germany and Japan. You should refer to the considerations in determining the China allocation within IDA VII. You should express the Bank's view that China can afford to borrow substantially more from all sources; in particular, it should take advantage of IDA funds that are available.

8. Resident Office. Bank staff have had some initial discussions with government representatives on the possibility of the Bank opening a resident office in China. The functions and responsibilities of such an office have been discussed, as well as the appropriate timing for its establishment. While a resident office would increase the cost of China operations, it could be useful in deepening and broadening our relationships and in improving the management of our expanded operations. Even if the Bank does not open an office in China, the responsibilities of the resident office are being transferred to the Bank staff in Beijing, which highlights the urgent need for the Government to strengthen the staff of those agencies.

9. If this issue is raised, you should respond positively to a suggestion that the Bank establish an office in Beijing, but mention that we need to study this idea further before making a final decision. We hope that staff of the Regional Office will have further discussions with the delegation on this matter.

Issues to be raised by management:

10. Lending Program. You should mention our satisfaction with the progress made in FY84 - lending of \$1.04 billion or about \$1 per capita. This is excellent progress after just 4 years. Although some progress has been made, work on our lending program continues to be hampered by an extremely short project pipeline. In this connection, you should stress the need for strengthening the core agencies and for closer cooperation in formulating a longer term framework and list of projects for the lending program. You should note that one consequence of the current short-term planning horizon is that it intensifies the bunching of projects. The bulk of this year's lending program for China is now scheduled to go the Board in the last four months of the fiscal year. This leaves little room for unexpected developments. The Minister will be aware from China's own Executive Director that the Board has repeatedly complained about the bunching problem.

You should also mention that China's initial experience with cofinancing has been good and that the scope for China to use commercial and export credits more extensively could perhaps be pursued in the context of cofinancing with the Bank, particularly for extremely large projects in industry, mining, energy and transportation.

11. Economic Report. During your visit to China last year, you will recall that an agreement was reached for the Bank to conduct in 1984 a major review of China's development issues over the next 15-20 years, i.e. to the year 2000. Following extensive consultation and preparation, an economic mission visited China in April/May 1984. The mission, which comprised sector teams in agriculture, energy, industrial technology and education as well as general economists, met with a large number of Chinese agencies and undertook intensive field work in three provinces. The mission's report is scheduled to be sent to China soon after these Annual Meetings; we expect it to be discussed in China towards the end of this year. You should thank the Minister for the excellent cooperation we have received from the Government, especially the Ministry of Finance. You should also mention our hope that the report will be thoroughly discussed, to ensure that we correctly understand the Government's views and can provide maximum contribution to Government through our analysis and suggestions.

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

WANG Bingqian - Minister of Finance (Governor, Bank)
WANG Liangsheng - Deputy Director, Ministry of Finance

Biographical Sketches

WANG Bingqian: Mr. Wang Bingqian was born in 1925 in Hebei Province. He has made his career in the Ministry of Finance, rising eventually to become Minister in 1980, when he was China's youngest minister. In 1983 he became a State Councillor giving him a status equivalent to a Deputy Prime Minister.

WANG Liangsheng: Born in 1931 in Hebei Province. Formerly Executive Director, World Bank, and currently Deputy Director in the Ministry of Finance.

CHINA: FY84-RR LENDING PROGRAM
(US\$ million)

| | FY84 | FY85 | FY86 | FY87 | FY88 | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Agriculture | | | | | | |
| Rubber Development | (100.0) | - | - | - | - | |
| Rural Credit I | (50.0) | - | - | - | - | |
| Seeds I | - | (60.0) | - | - | - | |
| Agric. Research II | - | (25.0) | - | - | - | |
| Forestry | - | (45.0) | - | - | - | |
| Rural Credit II | - | - | (100.0) | - | - | |
| Aquaculture | - | - | (70.0) | - | - | |
| Pi Shi Mang Area | - | - | (90.0) | - | - | |
| N. China Plain II | - | - | - | (100.0) | - | |
| Rural Dev. North-West | - | - | - | (100.0) | - | |
| Yangze Diversion | - | - | - | (70.0) | - | |
| Rural Credit III | - | - | - | - | (150.0) | |
| Agric. Research III | - | - | - | - | (80.0) | |
| Forestry II | - | - | - | - | (100.0) | |
| Subtotal | (150.0) | (130.0) | (260.0) | (270.0) | (330.0) | 1,140.0 |
| | | | | | | 14 |
| Education | | | | | | |
| Polytechnic/TV Univ. | (85.0) | - | - | - | - | |
| Agricultural Education II | 45.3 | - | - | - | - | |
| | (23.5) | - | - | - | - | |
| University Dev. II | - | (150.0) | - | - | - | |
| Teacher Education | - | - | (100.0) | - | - | |
| Voc.Sec/Educ.Mat. Prod | - | - | - | (190.0) | - | |
| Education (Unident.) | - | - | - | - | (138.0) | |
| Education (Unident.) | - | - | - | - | (100.0) | |
| Subtotal | (108.5) | (150.0) | (100.0) | (190.0) | (238.0) | 831.8 |
| | 45.3 | | | | | 7 |
| Industry | | | | | | |
| China Investment Bank (CIB) II | 105.0 | - | - | - | - | |
| | (70.0) | - | - | - | - | |
| Fertilizer Indus. Rationalization | - | 135.0 | - | - | - | |
| CIB III | - | - | 250.0 | - | - | |
| Shanghai Mach. Tool | - | - | 135.0 | - | - | |
| Cement | - | - | - | 150.0 | - | |
| Industry IV | - | - | - | 150.0 | - | |
| CIB IV | - | - | - | - | 200.0 | |
| Industry V | - | - | - | - | 200.0 | |
| Subtotal | 105.0 | 135.0 | 385.0 | 300.0 | 400.0 | 1,395.0 |
| | (70.0) | | | | | 8 |
| Transportation | | | | | | |
| Railways I | 220.0 | - | - | - | - | |
| Ports II | - | 60.0 | - | - | - | |
| Railways II | - | 160.0 | - | - | - | |
| | - | (92.0) | - | - | - | |
| Roads I | - | - | 150.0 | - | - | |
| Roads II | - | - | 200.0 | - | - | |
| Ports III | - | - | - | 200.0 | - | |
| Railways III | - | - | - | 300.0 | - | |
| Roads III | - | - | - | - | 250.0 | |
| Railways IV | - | - | - | - | 250.0 | |
| Subtotal | 220.0 | 220.0 | 350.0 | 500.0 | 500.0 | 1,882.0 |
| | | (92.0) | | | | 9 |
| Energy | | | | | | |
| Power I (Lubuge) | 145.4 | - | - | - | - | |
| Petroleum III (Karamay) | 100.3 | - | - | - | - | |
| Power II | - | 125.0 | - | - | - | |
| Gas I | - | 60.0 | - | - | - | |
| Coal I | - | 120.0 | - | - | - | |
| Coal II | - | - | 165.0 | - | - | |
| Power III | - | - | - | 220.0 | - | |
| Petroleum V | - | - | - | 170.0 | - | |
| Coal III | - | - | - | 250.0 | - | |
| Power IV | - | - | - | - | 200.0 | |
| Gas II | - | - | - | - | 200.0 | |
| Coal IV | - | - | - | - | 232.0 | |
| Subtotal | 245.7 | 305.0 | 165.0 | 640.0 | 632.0 | 1,987.7 |
| | | | | | | 12 |
| Urban/Water Supply and Health | | | | | | |
| Rural Health and Med. Ed. | (85.0) | - | - | - | - | |
| Rural Water Supply I | - | (70.0) | - | - | - | |
| Shanghai Urban Dev. | - | - | (66.0) | - | - | |
| Health II | - | - | (85.0) | - | - | |
| Rural Water Supply II | - | - | - | (150.0) | - | |
| Urban II | - | - | - | - | (100.0) | |
| Subtotal | (85.0) | (70.0) | (151.0) | (150.0) | (100.0) | 556.0 |
| | | | | | | 6 |
| Technical Assistance | | | | | | |
| Technical Cooperation | (10.0) | - | - | - | - | 10.0 |
| | | | | | | 1 |
| TOTAL (IBRD/IDA) | 1,039.5 | 1,102.0 | 1,411.0 | 2,050.0 | 2,200.0 | 7,802.5 |
| | | | | | | 57 |

Note: Figures in parenthesis indicate IDA credits.

OFFICE MEMORANDUM

DATE September 12, 1984

TO Mr. A.W. Clausen
(Through: Mr. Ernest Stern) *ES*
FROM Attila Karaosmanoglu *AK*

EXTENSION 74503

SUBJECT CHINA - Visit of Messrs. Tang Ke and Du Xingyuan

1. Minister of Petroleum Industry and State Councillor, Tang Ke, and Secretary General of the State Council, Du Xingyuan, are visiting Washington from September 12 to 14 as official guests of the U.S. Secretary of Commerce, Malcolm Baldrige. The main subjects of their discussions will be offshore oil contracts and enhanced oil recovery.

2. The Chinese delegation will also discuss these subjects with Mr. Hodel (Secretary of Energy), Mr. Bohn (Vice Chairman of the U.S. EXIM Bank), management of the U.S. Geological Survey, and representatives of some 40 private firms (international oil companies, equipment manufacturers, engineering companies and commercial banks). Mr. Cyrus Vance and his law firm are helping to arrange meetings with the private firms in Washington. The Chinese delegation will stay 31 days in the U.S., and will visit enhanced oil recovery project sites (steam injection in California, chemical treatment in Oklahoma, carbon dioxide injection in New Mexico, etc.) and the U.S. Government's research center (NIPER) in Oklahoma.

3. We have arranged your meeting with the Chinese delegation at 4:00 p.m. on Friday, September 14. The Region and the Energy Department will also have a meeting with the delegation at 2:30 p.m. Mr. Xu Naijiong (Executive Director) is planning to attend your meeting.

Background

4. China's achievements in the petroleum sector over the last three decades have been remarkable. However, oil production fell from 106 million tons in 1980 to 101 million tons in 1981 as the major existing oilfields passed their peak. Remedial measures have since been instituted to arrest the production decline, at least temporarily (oil output rose again to 106 million tons in 1983). Government targets for oil output in 1990 and 2000 are 130 and 200 million tons respectively. Meeting these targets will be a tremendous challenge, because production from existing facilities is expected to decline significantly, and the balance has to come from new reserves yet to be discovered and developed. The forthcoming economic report will look at the challenge implied by the government targets, which could be attained if major constraints can be overcome and would allow China to maintain self-sufficiency in oil through the remainder of the century. China's petroleum industry must make a major transition in terms of sophistication of technology, management, and planning. Onshore exploration efforts must be dramatically stepped up. Future outlays for the petroleum sector will have to double or even triple recent levels. ||

5. China's regional companies are being required to undertake onshore exploration and production under increasingly difficult and complex conditions, but they are hampered by the lack of both appropriate technology and relevant

equipment. Many onshore oilfields that could now be developed are far inland and in a hostile physical environment, which gives rise to logistical problems and infrastructure constraints. To help overcome these constraints, China has sought the collaboration of international oil companies (IOCs), but has had little success. Offshore areas, where extensive geophysical surveys can be carried out at a lower cost, are more attractive for the IOCs (the IOCs are now in fact heavily committed to work in offshore areas for the near term). In these circumstances, the Government has decided to leave offshore areas for joint venture exploration and development, and to request Bank assistance for difficult (but critical) onshore projects.

6. Our strategy in the petroleum sector has been to introduce policy measures that affect technical and managerial aspects of the country's petroleum operations, beginning with project-specific strategies and procedures; introduction of new technology; and pursuing a catalytic role in promoting cofinancing (the latter role could be expanded in the future to include joint ventures with IOCs or service industries). Three petroleum projects have been approved so far. The first operation focused on enhanced oil recovery and in-fill drilling at the Daqing oilfield, which has reached its peak. The second operation provided assistance in the exploration and development of the Zhongyuan oilfield, a relatively new field with difficult drilling conditions. Finally, the third operation was directed at exploration and heavy oil thermal recovery at the Karamay oilfield, which is situated in a hostile environment of the northwestern territory. Despite a slow start to procurement, in part due to Chinese inexperience and inadequate coordination, the three ongoing projects are progressing satisfactorily.

7. The Government wishes for continued Bank support for onshore oil exploration and development and has also expressed interest in Bank support for natural gas development. However, justification for our continued involvement in China's oil and gas sector will need to be reassessed in light of the "Draft Guidelines for Oil and Gas Lending" currently under review in the Bank. As China's petroleum sector is so diverse - geographically, administratively and technologically - it would be difficult to formulate a set of general policy conditions applicable nationwide for all Bank petroleum projects. Adjustments in policies and strategies could only be introduced gradually through a variety of projects. We believe that the Bank's continued involvement in China's oil and gas sector must recognize the special circumstances of China (especially the dominance of the public sector in the economy and only recent acceptance of foreign investment) and require that we apply any general guidelines flexibly and pragmatically.

Items to be Raised by the Bank

8. Development Program. You should express our satisfaction with the Bank's past operations and thank the Minister for the excellent cooperation we have received from the Ministry of Petroleum Industry (MOPI) and various oilfields. You should ask about the Government's future development strategy for the oil and gas sector: Will China seek foreign investment for development of onshore areas? What role does the Government wish the Bank to play?

Should the Bank actively seek opportunities for arranging cofinancing or setting up joint ventures with IOCs? Should the Bank focus on providing technical assistance and training, and facilitating transfer of technology? The Bank has already identified several areas that it believes warrant emphasis: helping the Government in developing a gas investment strategy, strengthening the infrastructure support to current offshore activity, and meeting the continuing need for technical assistance and training in all facets of petroleum technology. These areas of potential Bank assistance are discussed in more detail below.

9. Gas Development and Utilization. Even though China has a long history of utilizing natural gas, optimization of gas usage seems to have been neglected. In order to focus the Government's attention on optimal gas use, the Bank recently held a gas seminar in China. Further, under the Karamay Project, provision was made for a study on utilizing gas from the South China Sea where ARCO has made a sizable gas find. The study would rank gas uses in terms of priority, relate the end uses with the source of supply, and compare the economic advantages of utilizing gas domestically rather than exporting it. Similar studies are urgently needed for optimal gas use in regions with recent gas discoveries (e.g. Zhongyuan) or oil discoveries with abundant associated gas (e.g. Bohai). You should mention that the Bank would be pleased to assist the Government in such studies and in the formulation of a gas development strategy. In addition, the Bank could also provide assistance in gas development such as transmission systems and LPG recovery.

10. Service Industry. In the light of increased offshore activity, there is an urgent need to develop an effective support service industry. To this end, China has recently entered into a number of joint venture arrangements with international petroleum service companies. However, there is still much room for improvement in technology and coordination of support services. You should ascertain whether the Government has any interest in the Bank providing assistance to strengthen China's petroleum service industry.

11. Training. Training can assist the Chinese petroleum industry in overcoming technological constraints and is thus a very important component of all Bank-financed projects. Although Bank assistance in training has so far been directed toward individual oilfields, the Bank can also assist in training at the regional or national level. This could include a systematic and comprehensive assessment of the regional/national training needs for both onshore and offshore operations and encompass a wide spectrum of activities, from planning and design to production, management and services. You should ask if the Government has any interest in borrowing for a full-scale training project.

Cleared with & cc: Mr. Rovani (Acting VP, EIS)

cc: Messrs. Dherse, Kaji, Kirmani, Bourcier, Turnham, Koch-Weser, McCarthy

YKimura/CKoch-Weser:hk

OFFICE MEMORANDUM

DATE: April 11, 1984

TO: Mr. A. W. Clausen
 Mr. Ernest Stern, SVPOP *es*
 FROM: Edward V. K. Jaycox, Acting Vice President, AEN

EXTENSION: 72103

SUBJECT: CHINA - Briefing note for your forthcoming conversation with Vice-Minister Li Peng during Development Committee functions

1. Vice-Minister Li Peng will head the Chinese delegation to the Development Committee meeting and has requested a meeting with you. You have instead agreed to spend some time with him during the period of the Development Committee meetings. He probably will raise the subject of IDA and China's allocation, in light of Mr. Karaosmanoglu's discussions with the Government in Beijing in early March.

2. Biodata. Vice-Minister Li was born in 1921 in Jiangsu province. He is a graduate of South-West China University. He understands some English but speaks only a few words. He has made his career in the Ministry of Finance, rising to become the senior vice-minister in mid-1982. He was deputy head of the delegation to the 1981 Annual Meeting and has visited the US also on other occasions.

3. IDA. In Mr. Karaosmanoglu's meeting with him on March 5, Finance Minister Wang Bingqian outlined the Government's position as follows. The Government would help wherever it could to secure IDA funds. As for allocations, he was aware that the Bank's management had to take many considerations into account. China's investment needs for the Seventh Five-Year Plan (1986-90) would be large, to develop energy and transportation, upgrade technology in industry and support system reform. China's own reserve build-up had come in years of adjustment; the major portion must be accounted working balances to finance trade; and the many large projects now starting would rapidly deplete these reserves. All forms of foreign capital inflow were therefore being considered. As for IDA, with a \$9 billion replenishment the combined share of China and India should be 36-38%. He understood the need for a transitional period because India's share could not be reduced too fast; however, one also had to bear in mind that India had enjoyed access to IDA for a long time and China had large requirements too. The Government's position was that in the last year of IDA 7 China's share should reach that of India. Thus under two scenarios for the combined share the percentages year-by-year should be as follows:

| | <u>Combined Share</u> | | <u>FY85</u> | <u>FY86</u> | <u>FY87</u> |
|---|-----------------------|-------|-------------|-------------|-------------|
| <i>This is the PRC view. We cannot accede to the parity concept in 3 yrs; based on any known criteria China's need for IDA is less. Its credit limits are much higher; it has no b/p deficit. (2)</i> | 38% | China | 17 | 18 | 19 |
| | | India | 21 | 20 | 19 |
| | 36% | China | 16 | 17 | 18 |
| | | India | 20 | 19 | 18 |

April 11, 1984

As for total lending from the Bank Group, the Minister reiterated that the overall blend should be 40/60 IDA/IBRD, but added that the Government would consider whether it could make use of more IBRD funds. The Government and the Bank should aim at total lending of \$4-5 billion over the three years of IDA 7.

1470
4. Mr. Karaosmanoglu explained the situation regarding IDA 7, the Bank's Special Capital Increase, and the prospects for supplementary contributions to IDA. As for allocations, he made the plea that the Government should not insist on strict allocation decisions, because this would help the Bank's management to keep some flexibility and eventually to obtain more; but it was of course important to have some guidelines. India and China together would receive approximately 36%. Under a \$9 billion scenario, India's share would be 21-22%, down from an average of 34% under IDA 6 and 31-32% in its last year. Despite the constraints, China would be the only country with an increase from IDA 6. Under a \$9 billion scenario, it would receive at least \$400 million, possibly about \$415 million, per annum. Under a \$10.5 billion scenario, China would probably be able to receive the following annual allocations: for FY85, \$425 million; for FY86, \$475 million; and for FY87, \$575 million. However, no decisions had yet been made and these were only tentative numbers. Finally, the Bank was confident of China's present and future creditworthiness; China was not constrained by IBRD portfolio considerations (unlike India), and if the Government desired to increase borrowing from IBRD, the Bank would be able to lend more.

Recommendation

5. You should bring the Vice-Minister up to date on the status of the IDA 7/SCI and supplementary contributions negotiations; restate the principal points on IDA 7 allocations; but avoid any commitment to specific numbers. ✓

cc: Messrs. Karaosmanoglu, Kirmani, Turnham

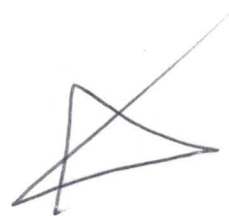
DBerk:cw

2.97 ¹⁴⁷⁰ 400
29
110
108

APRIL 1982

DEVELOPMENT PROFILE - PEOPLE'S REPUBLIC OF CHINA

| | |
|-------------------------------------|---------------|
| Land Area (in square kilometers): | 9.6 million |
| Population (mid-1982): | 1,008 million |
| Annual population growth rate: | 1.5% |
| Gross National Product, per capita: | U.S.\$300 |
| Life expectancy at birth: | 67.2 years |
| Adult literacy rate: | 69.0% |



The Economy of China

Over the past three decades, China's development efforts have been directed toward two main objectives:

- o Industrialization, with emphasis on developing a heavy industrial base, and
- o Elimination of the worst aspects of poverty.

China has made substantial progress toward achieving these objectives. Industrial growth since 1949 has averaged more than 12 percent per year, compared with under 5 percent for agriculture. In terms of three key aspects of human development--basic education, nutrition and health--China's population is better off than its counterparts in other low-income countries. Despite the progress made, however, China remains a very poor country, with a GNP per capita of only \$300 in 1982. About 200 million people, or 20 percent of the population have unacceptably low incomes.

In 1979, the Government initiated a program of reform and adjustment, aimed at improving the efficiency of the economic system. The reforms have affected all sectors of the economy and institutions from the central government down to rural households. Economic management has been decentralized, and provincial and local authorities have been given more autonomy in investment decision making.

Reforms have been most far reaching in rural areas, where introduction of various types of "production responsibility system" has given small groups and households more autonomy in production and investment decisions and has linked incomes directly with output. Economic reform has not proceeded as far or as fast in urban areas, but significant changes have occurred.

Reforms in the management of state enterprises have aimed at improving incentives through profit retention schemes and more flexible payment and employment practices. There have also been experimental changes in the organization of state enterprises, a greater variety of marketing channels, some price flexibility and adjustment of relative prices, and greater autonomy for state enterprises in production decisions. The scope for cooperative and individual economic activities has also been enlarged.

Over the past four years, the Government has followed a strategy of setting relatively modest targets, at the same time implementing economic and administrative measures that contribute to adjustment and stabilization as well as to economic growth. These measures have included:

- Major increases in prices of agricultural products procured by state-managed agencies, and strict controls on many other prices;
- Rationing and other administrative measures to improve efficiency of resource use;
- Cutbacks in state capital construction investment;
- Fiscal measures to limit the budget deficit;
- Increases in interest rates and moderation of currency and credit expansion.

These economic and administrative measures, combined with more flexibility in the economic system, have played an important role in the impressive performance of the Chinese economy in recent years. Gross agricultural and industrial output at constant prices grew by 7.3 percent per year between 1978 and 1982 -- agriculture by 7.5 percent and industry by 7.2 percent (heavy industry by 3.4 percent and light industry by 11.8 percent). Structural adjustment and rapid economic growth, combined with a low population growth rate, have led to rapid increases in per capita incomes. Real per capita incomes in urban areas increased by 4.8 percent a year between 1978 and 1982; in rural areas, the real increase in per capita incomes was about 12 percent.

China's external position has also changed greatly in recent years; the current account deficit of \$3.4 billion in 1980 was converted into a \$5.6 billion surplus in 1982 and an estimated \$4.6 billion surplus in 1983, an improvement far greater than anticipated. The real growth of merchandise exports has been very impressive, averaging over 15% p.a. during 1978-82, mainly because of rapid growth in manufactured exports. The growth rate has been declining steadily, however. Meanwhile the volume of imports declined in both 1981 and 1982, due in part to the lagged effect of contract cancellations and suspensions, but also to delays in equipment

deliveries and to problems in obtaining high technology goods. A substantial increase in imports is expected in 1984 and 1985 as China expands its investment program and imports more machinery and equipment.

During the remainder of the 1980s, the Government's efforts to improve living standards should be helped considerably by continuation of a relatively low population growth rate; by opportunities to make greater and more efficient use of foreign technology and capital; and by the potential for improving efficiency through economic reform. Rapid and equitable economic development is constrained by a number of factors, however. There are serious shortages of skilled manpower (current enrollment in universities and technical and vocational schools is one quarter of the average rate for other developing countries). With limited possibilities for expanding the cultivated area and with cropping intensities and yields already quite high, the growth rate for agriculture is unlikely to average more than 3-4% p.a. during the 1980s. Energy availability will continue to constrain industrial growth, and there are capacity constraints in the transport and commercial sectors. Large investments will be required in energy and transport at a time when competing demands from other sectors, especially housing, are very great, domestic revenues have not been growing rapidly, and decentralization has weakened government control over investment.

Reform implementation will continue during the next few years. Rural reforms will be broadened and strengthened, with the production responsibility system extended to new spheres of activity, new types of organization (including joint ventures between rural and urban units) encouraged, and the administrative functions of communes separated from their economic functions. In state-owned industry, taxation will fully replace profit remittance as the primary means of raising government revenue, industrial administration will be streamlined, and more inefficient enterprises will be closed down. The commercial system will be reformed and cooperative and individual commerce, particularly in rural areas, will be promoted. In investment planning, the Government is striving for more effective implementation of existing administrative regulations, but improving the structure and efficiency of investment will be a long and difficult process, dependent very much on progress on other aspects of reform. Measures to introduce formal economic analysis (including use of shadow prices) into investment decisions and to make producing units more economically and financially responsible for their decisions through appropriate pricing and incentive schemes are especially important. Price reform itself is recognized as being crucial, but in view of the complexities and magnitude of the changes required, the Government has decided that it cannot implement comprehensive price reform until after 1985. However, appropriate upward or downward adjustments in some of the most distorted prices are being made, and the prices of many minor commodities are being allowed to fluctuate according to market conditions.

China has a strong claim to concessionary lending because it is still one of the poorer countries in the world. However, access to concessionary capital to finance its development and modernization program is limited:

apart from Bank Group funds, a significant amount of concessionary capital is likely to come only from Japan and a few other bilateral donors and will probably average only \$500-600 million a year during the 1980s.

For China, as for many other developing countries, the 1980s will be a difficult decade. But looking further ahead, China's economic prospects appear favorable. By 1990, most new entrants into the labor force will have received some secondary education, and the skilled manpower deficit will have been reduced. Further progress will have been made in tapping China's large energy potential and in using it more efficiently. Continuation of recent manufactured export trends should generate additional foreign exchange, enabling the Government to use foreign capital more freely and be less concerned about its terms. If the country's immense wealth of human talent, effort and discipline can be combined with policies that increase the efficiency of resource use, China will be able to achieve continuing substantial increases in the living standards of its people. Whether this potential can be realized, however, will depend crucially on the success of the Government's program of reform and adjustment in the 1980s.

The World Bank and China

The People's Republic of China assumed China's representation at the World Bank in May 1980. The Bank's lending to China is aimed at helping to remove the major constraints on development in the areas of energy, agriculture, transport infrastructure, skilled manpower and modern technology. Equally important is the Bank's role -- through economic, sector and project work -- in promoting more efficient use of resources by improving project analysis, investment selection and overall economic management and planning. The Bank also aims to help China in identifying ways of reducing its remaining poverty.

The World Bank consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The Bank has one central purpose: to promote economic and social progress in developing nations by helping raise productivity so that their people may live a better and fuller life. As of end-March 1984, World Bank lending to China totaled approximately \$1,434 million for 13 operations; of this amount, \$928.5 million were IBRD loans and \$505.4 million were IDA credits.

China is also a member of the International Finance Corporation (IFC), a World Bank affiliate whose function is to assist the economic development of less-developed countries by promoting growth in their private sector and helping to mobilize domestic and foreign capital for this purpose. IFC has appraised, and is at present considering, an investment in an oil palm project in China. The China National Import and Export Corporation is providing technical assistance and equipment in an IFC-assisted project in the Philippines which will produce printing and writing paper utilizing rice straw.

Economic Study

In 1980/81, the World Bank undertook a comprehensive review of China's economy, the first such attempt by an agency outside China. The report of that study, which includes an analysis of general economic issues as well as in-depth reviews of all major economic and social sectors, has now been published in three volumes under the title: "China: Socialist Economic Development". A Chinese version has also been published in China.

Since 1981 the Bank staff has continued to monitor, and has reported to the Board of Executive Directors and member government, recent economic trends and policy developments. A number of studies on specific issues and sectors have also been completed.

A second major review by the World Bank of China's economy will take place in 1984. Unlike the 1981 report, which was retrospective and attempted mainly to evaluate China's past development and current situation, the forthcoming study will attempt to analyze China's development issues and options over the next two decades, focussing on inter-sectoral linkages and economy-wide issues as well as examining possibilities and problems in the key sectors of agriculture, industry, energy, transport and education.

Agriculture

The main source of livelihood for China's rural population of nearly 800 million is agriculture. Only about 100 million hectares of the land area of 960 million hectares are arable, and a major task will be to meet the food and raw material requirements occasioned by further population growth and gains in per capita income. The land constraint requires steady increases in yields from already cropped areas; jobs also have to be created for surplus rural labor.

In furtherance of the World Bank's strategy to assist China in priority areas of agricultural development, a \$60 million IDA credit is supporting a project to provide drainage and irrigation facilities in the North China Plain to help overcome soil salinity, waterlogging and surface flooding. Agricultural inputs, rural electrification, rural roads and other facilities, as well as technical assistance and training, are being provided. In Heilongjiang province, in northeast China, both IDA (a \$45 million credit) and the IBRD (a \$35.3 million loan) are assisting a land reclamation project that will develop about 200,000 hectares of virgin land. More than 440,000 tons of grain and soybeans are expected to be produced each year as a result of this project.

In Guandong province, IDA funds totaling \$100 million will support a rubber development project that is expected to increase China's rubber production by 72,000 tons annually. Technology introduced by this project is expected to be adaptable to other rubber-growing areas in China.

Energy

China is the world's fourth largest producer of commercial energy, and its achievements in developing energy resources over the past three decades have been impressive. However, future prospects remain uncertain. To reach the planned rate of growth over the next two decades, the government has projected that it needs not only to double the supply of commercial energy, but also to achieve major improvements in the efficiency of energy use.

China's major oilfields, which together account for 90 percent of oil production, have peaked and are on a declining phase; no new discoveries have been made of a magnitude to offset this decline. With respect to other energy sources, rapid expansion of China's coal industry is hindered by intractable problems attending investment, location and transportation. Further, a sizeable increase in hydropower's share of energy production in this decade is not foreseen, due to the remoteness of potentially major hydro sites from centers of consumption and the long gestation period of hydro projects.

The Bank's lending in the energy sector has so far involved two petroleum projects. In this subsector the Bank has three basic objectives: (1) to develop known hydrocarbon bearing structures in order to partially offset the anticipated decline in oil production; (2) to introduce modern technology to the Chinese oil industry, and (3) to train and upgrade the skills of China's oil industry personnel in current oilfield practices.

In the petroleum sub-sector, an IBRD loan of \$162.4 million is helping to develop a new reservoir in the Daqing oilfield, China's largest, which lies mainly in Heilongjiang province in northeastern China. A second petroleum project which is receiving an IBRD loan of \$100.8 million will help to develop the oil production potential of the South and East Wenliu fields, which lie in the Zhongyuan basin about 500 kilometers south of Beijing. Modern oilfield equipment, computer and training centers, laboratories and technical assistance are being provided under both projects.

With a loan of \$145.4 million, IBRD is contributing to an \$811.7 million hydroelectric project in Lubuge, Yunnan Province. The Lubuge hydroelectric complex has been designed to meet the peaking and energy requirements of the Yunnan power system when it becomes operational by the end of 1989. The project components consist of major civil works, equipment, consultant services and training. This is the first China project co-financed with several donors -- UNDP, Australia, Norway, and Canada -- and is also the first project where the concept of international competitive bidding for procurement of civil works has been used in China.

Education

The World Bank is supporting China's efforts to alleviate the shortage of people with higher or technical education and to increase access to higher education. In this sector, the Government's strategy is to: expand existing conventional universities, (2) expand the Television University (TVU) system, which is primarily aimed at upgrading the skills of currently employed workers, and (3) establish a system of polytechnics to produce middle-level technicians.

An IDA credit of \$100 million and IBRD loan of \$100 million are helping to finance the initial phase of a program to strengthen higher education and research activities in science and engineering. The project is expected to improve the quality of graduates and research work at 26 leading universities, and strengthen management at the universities and the Ministry of Education.

Another IDA operation, an \$85 million credit, is supporting a project that would establish a new system of postsecondary education through polytechnics, and expand the television university system. These systems are faster and offer a less costly means of expanding postsecondary education than conventional universities. Seventeen polytechnics will be set up in major urban centers, the forerunners of a nationwide system.

A \$75.4 million IDA credit is also supporting the Government's program to strengthen higher education and research in the agricultural sciences. The project is providing assistance to 11 agricultural colleges, six research institutes and a new National Rice Research Institute.

Transportation

The congestion and delays experienced in some of China's leading ports have demonstrated the need for substantial further investment directed mainly at construction of terminal facilities, including equipment for handling of containers and of bulk materials.

An IBRD loan of \$124 million is helping to finance a project designed to modernize container and coal terminals at China's three major ports--Shanghai, Huangpu (Guangzhou), and Tianjin. The project will help to increase capacity and reduce the cost of cargo handling in the three ports. It also aims to reduce unproductive ship turn-around time by providing additional berths and high productivity cargo handling equipment. More efficient operation of the ports would be promoted through training. Longer term improvements and efficiency would be sought through a containerization study including intake to the ports' hinterlands.

An IBRD loan of \$220 million is helping to support the development of China's regional railway network. The project aims to remove some existing capacity constraints, particularly in linking the mines of Shanxi province to major industrial centers and ports in Eastern China. The infrastructure component will cover two railway lines -- Xianxiang to Yanzhou and Datong to Taiyuan -- and will include: laying of single and double track; line electrification; construction of bridge, connections to other lines and yards, and additional crossing stations; lengthening of existing stations; and other upgrading work. The project will also assist the Ministry of Railways in expanding and improving electric locomotive production, through provision of equipment, technical assistance and training.

Industrial Credit

The need for a financial intermediary for industrial lending involving import of equipment and technology was identified by the World Bank's first economic mission to China in November 1980. In November 1982, World Bank financing (an IBRD loan of \$40.6 million and an IDA credit of \$30 million) was approved for the establishment of a new institution, the China Investment Bank (CIB). The project was intended to help fill a gap in foreign exchange industrial finance and address some of the central issues in improving industrial investment efficiency by: (1) helping to organize the transfer of foreign technology to investing enterprises, and (2) improving project design, appraisal and selection criteria. CIB will provide investment loans for small and medium-sized industries located in about seven provinces and municipalities. Training of CIB staff and technical assistance are included. As preparation for this industrial credit project, an appraisal manual has been developed with World Bank assistance by CIB.

Technical Cooperation

Many of the changes now underway in China are linked to the objective of establishing conditions under which China can become a technologically progressive and dynamic economy. The Government is taking advantage of opportunities to introduce modern technology in key sectors of the economy. The focus for much of this effort is an expanding network of joint agreements and technical cooperation with the international private sector (in offshore petroleum, for example); another part involves investment-linked advisory services and technical assistance through government-to-government cooperation and in association with multilateral agencies, including the World Bank.

An IDA-supported project is expected to finance approximately 25 subprojects involving technical assistance and training for government institutions, mainly for project preparation. Subprojects likely to be financed under the \$10 million IDA credit include feasibility studies, reviews of other studies, and project preparation work involving expert panels, individual specialists, study tours, and limited amounts of equipment. The project will also finance institution-building assistance to agencies involved with World Bank operations.

China and the World Bank's Economic Development Institute

For more than 27 years, the Economic Development Institute (EDI) has been concerned with the training of senior officials of developing countries that are members of the Bank. EDI's primary advantage in the training field is that it is able to draw on the working experience, policy analysis, studies of comparative development, and other empirical research of the Bank.

Until fiscal year 1981, EDI training had been available in English, French and Spanish only; in that year, the first courses were developed for China, partly in Chinese. At the Shanghai Institute of International Economic Management, in cooperation with its staff, EDI gave five courses in fiscal year 1983. Lasting from four to eight weeks, the courses covered national economic management, the preparation and implementation of transportation and urban projects, general projects planning and regional development planning.

In March 1983, the United Nations Development Programme agreed to provide support for an expanded training program in economic management and project planning. The Bank acts as Executing Agency. Held at the Central Institute of Finance and Banking in Beijing, the two courses given by EDI in fiscal 1983 were on development banking and project financial management.

WORLD BANK
Information and Public Affairs Department
Public Affairs Division
April 1984

OFFICE MEMORANDUM

10
DATE January 11, 1984

TO Files

FROM Caio Koch-Weser, Chief, AEADE *OKW*

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

January 9, 1984

DATE:

Mr. A. W. Clausen

TO: Thru: Mr. Ernest Stern, SVPOP *ES*

FROM:

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

15

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 (AENVP); Benjenk, Stanton (VPE); Jaycox (AEADR); Turnham (AEPDR); Koch-Weser, Lim (AEADF); Mistry (SVPFI); Leipziger (FPA)

DBerk:cw



Record Removal Notice



| | | | | |
|---|------------------------------------|--|-----------------------------------|-------------------------------|
| File Title Country Files: China - Correspondence 04 | | Barcode No. 1774661 | | |
| Document Date January 3, 1984 | Document Type Memorandum | | | |
| Correspondents / Participants To: Mr. Xu Naijiong, EDS From: A.W. Clausen | | | | |
| Subject / Title IDA 7 Status | | | | |
| Exception(s) | | | | |
| Additional Comments Declassification review of this record may be initiated upon request. | | The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. | | |
| | | <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date March 24, 2017</td></tr></table> | Withdrawn by Shiri Alon | Date March 24, 2017 |
| Withdrawn by Shiri Alon | Date March 24, 2017 | | | |

World Bank seeks to triple loans to China

By Steven K. Beckner
WASHINGTON TIMES STAFF

The World Bank will triple its development lending to China to \$2 billion per year, bank officials said yesterday, making it the global agency's second-largest debtor.

David W. Berk, acting chief of the bank's China Program Division, said Peking has a substantial balance of payments surplus and foreign exchange reserves. But Mr. Berk said these assets are not adequate for the world's most populous nation to buy the foreign technology and equipment it needs for development.

Mr. Berk told reporters the bank plans to lend China \$1 billion in 1984 — up from \$600 million in 1983.

Edwin R. Lim, senior economist for the bank's East Asia and Pacific Country Programs Department, said the institution is "working toward a target of \$2 billion per year in the late '80s."

Since the communist nation of 1 billion people became eligible in 1980, the World Bank and its affiliated International Development Association have lent China \$1.068 billion. Nearly half came from IDA, which makes 50-year loans at no interest other than an 0.75 percent annual service fee.

Bigger loans to China could lead to reduced World Bank assistance for other borrowing nations, includ-

ing India, which last year received over \$2 billion — half from IDA.

The bank's proposal to increase lending to China will intensify pressure on the United States and other industrial nations to boost their contributions to IDA when they meet again next week.

The United States has supported an IDA "capital replenishment" of

China's Premier Zhao Ziyang departs tomorrow for a visit with President Reagan. Page 7A.

\$9 billion. IDA's 32 other donor nations have called for a \$12 billion fund — the same amount as the current funding cycle, which expires in July.

"We would like the total level of IDA to be larger, because China has a strong case for IDA funds," Mr. Berk said.

Mr. Lim, a Chinese government representative, said Peking "would like as much concessionary (IDA) capital as they can get; after that, as much (World Bank) capital as they can get; and only after that will they resort to commercial lending."

Mr. Lim defended China's unwillingness to borrow commercially. Pointing to a reported \$300 per capita GNP, he said a quarter of China's people live below the "absolute poverty level."

But China has an international trade surplus of about \$6 billion and foreign exchange reserves of at least \$10 billion. China needs a low 7.8 percent of its export earnings to pay foreign debts.

Mr. Lim said China's positive "balance of payments situation is temporary." Because China's "need for capital is enormous . . . we feel the balance of payments over the long term indicates a substantial deficit."

Mr. Berk said China's goal of quadrupling output by the year 2000 (7 percent annual growth until then) implies "very large capital needs." But he said China has to be cautious about borrowing.

China has been undertaking "adjustments" and "reforms," Mr. Berk said.

A bank document said Peking "has given small groups and households more autonomy in production and investment decisions and has linked incomes directly with output." State enterprises

"have aimed at improving incentives through profit retention schemes and more flexible payment and employment practices."

Mr. Lim said the World Bank wants to encourage such changes.

Asked if funds would be reduced if China reverts to more totalitarian methods, Mr. Lim replied: "If there is a drastic change in policy, such as the Cultural Revolution, there would be no issue. China would not turn toward an external institution."

"I do not see any such evidence," Mr. Lim said. "We are quite encouraged by what is going on in China."

World Bank to Boost China Loans

By HELEN ERICSON
Journal of Commerce Staff

WASHINGTON — Pointing out that China's access to concessionary loans is limited and that its economic needs are enormous, the World Bank announced plans to substantially increase lending to that country.

At a press briefing Thursday, bank officials said they hoped to lend about \$1 billion to China this year. Of that about \$400 million would come from the bank's soft lending agency, the International Development Association, they said.

Total World Bank lending to China as of January 1984, (China joined in May 1980) is \$1.68 billion. Last year, it amounted to \$600 million.

Starting in 1985, and through the rest of the decade, about \$2 billion a year in World Bank lending to China is the goal, the officials said.

What portion of that will come from IDA depends on the outcome of meetings that continue next week between the United States and other donor nations on the amounts they will contribute, the spokesmen added.

The announcement of increased lending comes at a time when the Reagan administration is insisting on \$750 million a year over three years for the U.S. contribution to a new IDA replenishment.

Unless other nations substantially increase their contributions the total would be about \$9 billion. World Bank officials are pressing for a \$16 billion fund.

The U.S. Treasury contends China does not need so much IDA support because it benefits from large trade surpluses and a low debt service ratio.

David W. Berk, acting division chief, China programs division, East Asia and Pacific regional office, told reporters that for the first 10 months of 1983, China's trade surplus was \$4 billion — \$22 billion in exports against \$18 billion in imports.

But Mr. Berk said he expects the trade surplus to be only temporary.

A World Bank study of economic development issues in China predicts a rapid growth of imports of capital and intermediate goods during the rest of the 1980s. China's temporary current account surpluses are expected to change into deficits during this period.

And unlike the administration, which contends that China could borrow more heavily from commercial sources, the World Bank maintains that China's access to easy loans to finance development programs is limited.

In addition to World Bank funds, Japan is the only other major lender, the officials said, and during the 1980s only \$500 million to \$600 million a year may come from Japan and smaller bilateral donors.

"If China is to maintain a reasonable growth rate and manageable debt service payments, it will need to obtain the necessary additional foreign capital at an average interest rate below the market rate," the bank said.

Mr. Berk related that energy and transportation projects would receive the largest loan packages. Next in

line will be loans for education, industry and agriculture, he continued.

Barriers to development in China include scarcity of energy supplies, an almost completely undeveloped road system, shortage of trained manpower, scarcity of agricultural land and a low and inefficient level of technology, Mr. Berk said.

Asked how the World Bank sees itself in relation to the private sector when it comes to energy lending

projects, Mr. Berk said bank financing is essential because "the needs are simply enormous," and beyond the capability of private lending resources.

Edwin R. Lim, senior economist, East Asia and Pacific country programs department, expressed approval of China's program for economic reform started in 1979.

The program goal is for a 7 percent annual growth rate. It includes fiscal measures to limit the budget deficit, increases in interest rates and moderation of currency and credit expansion.

"I think the economic growth will continue," the bank economist stated.

Mr. Lim reported that the bank plans missions to China in February and in April this year to gather information on development options with a 20-year time frame in mind.

Mr. Lim pointed out that one quarter of China's rural population, about 200 million people, is below what this country would label the poverty level. China is aiming at reducing the worst aspects of poverty and at developing a heavy industrial base, he said.

Mr. Berk concluded that the bank sees its lending policy as "promising very high economic returns" for China.

New Nigerian Leader Asks Creditors Not to Press Hard

By CLIFFORD D. MAY

Special to The New York Times

LAGOS, Nigeria, Jan. 5 — The leader of Nigeria's new military Government, Maj. Gen. Mohammed Buhari, said today that he hoped international lenders would help "in bailing us out of our ailing economy."

The Nigerian leader, in his first news conference since the sudden and smoothly executed coup that overthrew the elected Government of President Shehu Shagari on Saturday, said the basic preoccupation of his Government would be "to revive the Nigerian economy."

As part of that effort, the general said, the new Government would continue its discussions with the International Monetary Fund, the World Bank and corporate creditors.

"We trust that these institutions will cooperate with us fully and assist in bailing us out of our ailing economy," he said.

Economic Problems

General Buhari reiterated his reasons for the coup, pledging that "basic freedoms are to be maintained," and spoke at length of Nigeria's economic problems and the new Government's approach to them.

That approach, several Western and Nigerian analysts here remarked later, appears to differ little from the program espoused by Mr. Shagari in the three months between his most recent inauguration and the coup.

"There just aren't any other rational economic options," one senior Western diplomat said.

Said Dr. Pat Utomi, a political scientist who served as a special assistant to the President on political affairs in the final six weeks of the Shagari Administration: "It's basically the same policy. Of course, maybe the military will do a better job of implementing them. That remains to be seen."

For months before the coup, Nigeria had been trying to shore up its economy, which has become increasingly shaky because of a foreign debt estimated at \$14 billion. Nigeria, which is dependent on oil for 90 percent of its foreign income, had 1983 oil revenues estimated at \$10 billion, less than half its oil revenues for 1980. The drop was attributed to slack demand and dropping oil prices worldwide.

Fatigues and Black Beret

General Buhari, wearing khaki fatigues and a black beret, appeared before more than 200 local and foreign journalists. The 41-year-old former armored brigade commander began the news conference by reading a prepared statement detailing Nigeria's weakening economic position since 1979, the year the previous military Government handed over power to Mr. Shagari's civilian Government.

He then answered questions from the floor, responding to most of them directly and without hesitation.

He said the Shagari Administration had "failed to provide even the minimum of good government" and had been "unwilling or unable" to deal with such widespread problems as corruption, indiscipline, smuggling and armed robbery.

He said the armed forces had "a duty to intervene to clean up the economic mess and set this country once again on the path of sanity." He called his military Government "an offshoot" of the military Government that ruled Nigeria between 1966 and 1979.

Move to Self-Sufficiency

Outlining the policies of the Federal Military Government, he said that an attempt would be made to end misallocation and mismanagement of resources. Expenditures would be cut, he said, while the production of food and essential raw materials would be in-

creased. In this way, he said, Nigeria will "move away from our stance as an import-oriented economy and a consuming nation to self-sufficiency and self-reliance."

General Buhari said the level of Nigeria's external commitments made it necessary for the Government to continue loan negotiations with the International Monetary Fund, the World Bank and its corporate creditors.

A Western economist said: "Basically the Government needs to roll over its debt until the middle or late part of 1986, by which time they hope to be in better shape."

General Buhari said oil-dependent Nigeria does not currently plan to withdraw from the Organization of Petroleum Exporting Countries. "Whatever we do will be in the interests of Nigeria," he said about OPEC. "We will not make imprudent decisions."

Devaluation Possibility

None of these policies differs radically from the policies advocated by Mr. Shagari during his final days in office. The only possible point of departure concerned devaluation of Nigeria's currency, the naira.

Mr. Shagari consistently rejected proposals for a devaluation, though some of his aides had said privately that he in fact recognized the naira would eventually have to fall to a more realistic rate of exchange. The naira's official value is no less than three times its current market value.

In answer to a question today, General Buhari said that devaluation was "a touchy point," but added that "Nigeria is such in a vulnerable position now vis-à-vis the banks and other creditors that we may have to accept some unpleasant terms."

Concerning the possibility of Nigeria's returning to a democratic system, General Buhari said that the question had not yet been discussed in the Supreme Military Council, which he heads. "When we do, you will be informed," he added.

Loans to China Said Far Short Of Its Needs

By James L. Rowe Jr.
Washington Post Staff Writer

World Bank officials said yesterday the billions of dollars it plans to lend the Peoples Republic of China over the next few years will not be nearly enough to meet the country's massive economic development needs through the balance of the century.

The World Bank, the largest of the multilateral development institutions, has loaned the world's most populous country more than \$1 billion during the four years that China has been a member and expects to loan the country about \$2 billion a year during the final few years of the decade, officials told reporters yesterday.

Officials, who asked not to be identified by name, said China needs to "upgrade technology" in nearly every sector of its economy. World Bank lending to China is concentrated in five areas: agriculture, education, energy, transportation and industry. "The consensus is that China is 10 to 15 years behind [major industrial countries] in technology," one official said.

Since taking over the bank seat that used to belong to Taiwan, China has made major adjustments and reforms in its economy—changes that make the World Bank and its sister institution, the International Monetary Fund—more comfortable. "China is in transition," an official said.

The country, whose population exceeds 1 billion, has eased its central control of the economy, relying more on indirect incentives to induce production, and also has tried to link employe incomes more directly to output. China also backed off on its investment in heavy industry in an

attempt to raise living standards, focusing on light industry and agriculture in recent years.

As a result of the shift away from investment in heavy industry, China also was able to cut back substantially its imports of expensive technology. The nation has run a balance-of-payments surplus as a result and now has international reserves of about \$10 billion, officials said.

Nevertheless, the World Bank executives said, as China begins to shift its attention back to modernization of industry, its balance-of-payments surpluses will vanish as it begins to import high-cost technologies. But the country, by its nature wary of foreign investments and forewarned by the world debt crisis, is reluctant to take on more foreign debt than it can service, the World Bank officials said.

As a result, Chinese leaders want as many low-rate loans as they can obtain from the World Bank's affiliate International Development Association. The IDA provides what is called concessional assistance, loans with long payback periods and negligible interest rates. Interest charges on standard World Bank loans are made at rates close to market, although the payback period is far longer than it would be if the loan were from a commercial bank.

But the U.S. government has resisted substantially boosting funds available through IDA and the World Bank has concluded that sub-Saharan Africa, probably the world's most impoverished region, should get first call on IDA money. As a result, the officials said, China may have to take out more high-cost World Bank loans that it wants to.


Of the \$1 billion in World Bank loans China already has taken out, the officials said, about \$500 million are from the IDA.

Chinese Premier Zhao Ziyang, in Washington next week for an official U.S. visit, will meet with World Bank President A. W. Clausen.

OFFICE MEMORANDUM

DATE: October 4, 1983

TO: Files

FROM: Caio Koch-Weser, Division Chief, AEADF 

EXTENSION: 72565

SUBJECT: CHINA - Mr. Clausen's Meeting with Finance Minister Wang Bingqian,
at Annual Meetings, Washington, September 30, 1983

Present: Messrs. Wang Bingqian
 Ge Fucun (Director, External Finance Department,
 Ministry of Finance)
 Wang Liansheng (Executive Director)
 Fei Lizhi (Alternate Executive Director)
 Kong Fannong (Ministry of Foreign Affairs)
 Yang Guanghui (Ministry of Finance)
 Jin Liqun (Ministry of Finance)
 A.W. Clausen
 E. Stern
 M. Benjenk
 A. Karaosmanoglu
 E.V.K. Jaycox
 C. Koch-Weser

1. Minister Wang and Mr. Clausen agreed that progress had been made on a number of issues at the Annual Meetings but that many problems remained. Mr. Clausen said that both the Chinese Government and the Bank had to make their best efforts to get IDA 7 agreed and the selective capital increase in place.
2. Mr. Clausen said that during his recent trip to China, he had been very impressed with his visit to several Chinese provinces and with the projects on which China and the Bank are cooperating. He had left the country through Shanghai and had therefore been unable to thank the Minister again for the excellent arrangements made for his visit. Since their last discussions in Beijing, the Bank had begun work on the second major economic report. Extensive cooperation between the two sides was needed to make this a good report. The conclusions of the report would form the basis for planning the Bank's longer-term program of cooperation, which was expected to expand substantially. Last year's lending had amounted to \$600 million and this year the Bank expected to lend about \$1 billion. To develop such a large program, a good dialogue on longer-term sectoral objectives and planning for a longer-term project pipeline were of critical importance.
3. The Minister said that he was very satisfied with the progress of the relationship between China and the Bank. Recently a Bank mission had held discussions in Beijing on arrangements for work on the second economic report. The first large mission would take place in February and the Government would cooperate fully. He did not expect any problems to arise, because Messrs. Deng Xiaoping and Zhao Ziyang had promised the Government's full support. His ministry had asked line ministries to collaborate. He expected the report to become not only the basis for longer-term cooperation with the Bank, but also a useful reference point for the Government's economic development work.

4. With regard to the lending program, the Minister said that a longer-term planning horizon was clearly needed and the Planning Commission was presently working on this. As to near-term lending targets, he had in the past pointed out that the FY84 IDA allocation to China of \$350 million was too low. He understood that U.S. contributions to IDA had been received in recent months and that the Bank could now allocate \$400 million to China in FY84. Mr. Clausen said that indeed there had been some recent improvements in the IDA situation and that the Bank was therefore now in a position to raise China's share for this year to \$400 million. As the Minister was aware, the IDA 7 situation was still uncertain but would hopefully be resolved in the next few months. He welcomed the Government's efforts to extend the planning horizon for the Bank's lending program. This would help to ensure sound project preparation, which in turn would produce high-quality projects with high economic rates of return.

5. Minister Wang reported that in discussions with representatives of IDA donor countries in Beijing, his Government had pointed to the difficulties faced by the developing countries and to the importance of a successful conclusion of the IDA 7 negotiations. In his view, all donors accepted China's eligibility for IDA. Here in Washington, he had met this week with Secretary Regan and Congressman Patterson and he would see Vice President Bush this afternoon. He had pointed to the responsibility of the U.S. vis-a-vis the poor countries and also to the political benefits to the U.S. arising from its IDA contributions. He had urged that the U.S. Government not be so inflexible on the level of the IDA 7 replenishment. He had emphasized that the level of replenishment should be agreed before the end of the year, so that donor governments could take account of the amounts to be contributed in their budgetary cycles. In his Government's view, the IDA 7 replenishment should at least amount to the level of IDA 6 in real terms. Mr. Clausen said that the IDA 7 replenishment level should be at least \$13 billion. Minister Wang said that Congressman Patterson had told him that a large number of Congressmen considered an annual U.S. contribution of \$750 million too small; the minimum contribution should be \$900 million. Secretary Regan had not said what the total size of IDA 7 should be. Mr. Clausen said that these comments indicated some progress. Mr. Stern said that the U.S. contribution should be at least \$1 billion.

6. Minister Wang said that he had also discussed China's eligibility for IDA funds with Secretary Regan. He had told the Secretary that a low replenishment level might well lead to a low share for China and that his Government would consider this an action directed against China, which would make it a political problem. Secretary Regan had responded that his Government's position was that China should get a fair share; what such a share would amount to would depend on the size of the replenishment. Mr. Stern remarked that this statement by the Secretary was progress too. The Minister said that he also told Secretary Regan that President Reagan, in his speech at the Annual Meetings, had promised to be fully committed to the work of the World Bank and the IMF. It was now up to the U.S. Administration and Congress to act on this commitment.

7. Finally, Minister Wang raised the issue of China's position in a selective IBRD capital increase. He hoped that a selective increase would leave China in its present position as the Bank's sixth largest subscriber. He knew that Saudi Arabia was not opposed to this, and he appreciated the work done by Bank management on this matter. Mr. Clausen replied that he was aware of China's position on this issue. The Bank's discussions with the eight major shareholders indicated that their views were not inconsistent with the Chinese Government's position. If China is to remain the Bank's sixth largest shareholder, it would have to be allocated some additional shares, but the big five shareholders as well as Saudi Arabia and Canada did not seem to oppose this approach. The Bank's management would pay careful attention to this matter.

8. In concluding the meeting Mr. Clausen congratulated the Minister, who has recently been elevated to the position of State Councillor.

CKW:caa

cc: Messrs. Clausen, Stern, Qureshi, Benjenk, Karaosmanoglu,
Jaycox, Kirmani, Turnham

1983 ANNUAL MEETINGS BRIEFING PAPER

CHINA

CGIAR

Background

1. Impressions of Your Visit. Since you left China via Shanghai, you should tell the Finance Minister your impressions of your visit. You should mention (as you did to Ambassador Zhang at your lunch June 28) that you were impressed by China's achievements in recent years, including implementation of its reform program, by China's growth performance at a time of global malaise, by the practical approach adopted by China's leaders in dealing with economic issues, and by China's plans for dealing with its development constraints over the longer term. You should say you found especially useful and interesting your visits to poor communes in Shaanxi, the North China Plain project in Shandong (the impressive increases in productivity in the pilot areas and the potential for future development), and a university and housing rehabilitation in Shanghai. You should congratulate the Minister on his recent elevation to the State Council as part of leadership changes which should further strengthen economic management in China.

2. China-Bank Cooperation. You reviewed in May the first three years of China-Bank cooperation: the introductory economic report and other economic work, and the beginning of the big upswing in lending in FY83, with six projects for \$613.5 million versus one project in each of the two previous years. You also agreed on the Bank's proposed second major economic report, which will try to look ahead to the year 2000 and explore the major issues likely to affect China's development performance over that period, and which we hope will help the Government's planning. You also discussed with the Government lending levels of \$0.9-1.0 billion in FY84, about \$1.5 billion in FY85, and about \$2 billion in FY86.

3. You should raise:

(i) Work has begun on the economic report, and we hope we can continue to count on the Government's full cooperation;

(ii) Planning such a big lending program, and maximizing the Bank's contribution, requires moving to at least a three-year and preferably a five-year planning horizon (which we hope to do before the end of this year as China's next plan is firmed up) and involving the Bank early in the project cycle.

Issues

4. We have been advised that the delegation may raise China's FY84 IDA allocation, and that it will raise China's IDA 7 allocation and its capital subscription and position in the Bank.

5. FY84 IDA Allocation. During your May visit, the Finance Minister requested \$500 million: \$400 million in new funds and \$100 million "left over from IDA 6". The latter phrase is a reference to the Bank's original agreement to provide \$400 million during IDA 6, compared with actual IDA lending of \$310 million in FY81-83. You told the Minister the Bank's hope in light of present realities was to provide a floor of \$350 million in FY84; additional amounts would depend on developments during the year. You should be as forthcoming as you can on what China may expect to receive.

6. China's IDA 7 Allocation. You should brief the Minister on the latest status of the IDA 7 discussions, and in particular on the related subject of the donors' views as to what China's allocation should be. You should repeat the Bank Management's commitment to securing a fair share of IDA 7 for China. You should also thank the Minister for the efforts China has been making and intends to make vis-a-vis donor countries to secure a larger IDA for the benefit of all the Part II countries -- talking to world leaders like Prime Minister Nakasone, lobbying the major donors in Beijing and in their capitals, and planning to raise the subject again when Foreign Minister Wu Xueqian visits the US in October and with Secretary Regan at the October 1983 US-China bilateral economic commission meeting.

7. China's Capital Subscription and Position in the Bank. (Depending on progress made in the next few weeks, further briefing on this subject may be provided before the Annual Meeting). EDs are currently considering informally alternative proposals for a Selective Capital Increase under some of which China would fall from sixth largest subscriber perhaps to eighth, being overtaken by Saudi Arabia and Canada. The former has declared it will not request a Board seat if this could only be at the expense of other LDCs; the latter has not indicated any intention to seek a seat. The Chinese ED met you in early summer to express his Government's concern that once it is no longer sixth, another member could claim a seat and cause China to lose its own. China's position is that it should remain the sixth largest subscriber. The concern persists and may be raised by the delegation despite assurances that the Board seat and sixth position are not linked and the fact that other candidates under the proposals now being considered are not pressing their claims. You should reassure the Minister that Management will keep China's concern in mind.

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

Delegation

| | |
|---------------|--|
| WANG Bingqian | Minister of Finance (Governor, Bank) |
| GE Fucun | Director, External Finance, Ministry of Finance (Temporary Alt. Governor, Bank) |
| LU Peijian | President, People's Bank of China (Governor, Fund) |
| SHANG Ming | Vice President, Bank of China (Temporary Alt. Governor, Fund) |

Biographical Sketches

WANG Bingqian -- Mr. Wang Binqian was born in 1925 in Hebei Province. He has made his career in the Ministry of Finance, rising eventually to become Minister in 1980, when he was China's youngest minister. In 1983 he became a State Councillor giving him a status above that of line ministers to emphasize the important role of Finance.

GE Fucun -- Head of Department responsible for relationship with World Bank Group.

LU Peijian -- Born in 1928 in Jiangsu Province. Career in Ministry of Finance, including General Office and the Industry, Communications, Commerce and Finance Department. Rose to Vice-Minister. Appointed to present position 1982.

SHANG Ming - Vice President and formerly Director of the Planning Bureau of the People's Bank of China. He has attended previous Annual Meetings as a temporary Alternate Governor.

CHINA - Lending Program FY83-86
(\$ Million)

| | FYs | | | | Total |
|-------------------------------------|-----------------|---------|---------------------------------|---------|--------------|
| | 83 | 84 | 85 | 86 | |
| <u>Agriculture</u> | | | | | |
| Heilongjiang Land Reclamation | 35.3 (45.0)* | | | | 35.3 45.0 |
| Rubber Development | | (100.0) | | | 100.0 |
| Rural Credit I | | (70.0) | | | 70.0 |
| Agric. Research II | | | (80.0) | | 80.0 |
| Forestry | | | (90.0) | | 90.0 |
| Rural Credit II | | | | 100.0 | 100.0 |
| Seeds I | | | | (200.0) | 200.0 |
| Irrigation I | | | | (150.0) | 150.0 |
| Sub-total | 80.3 | 170.0 | 170.0 | 650.0 | 1,070.3 |
| <u>Education</u> | | | | | |
| Agricultural Education and Research | (75.4) | | | | 75.4 |
| Polytechnic/TV Univ. | | (85.0) | | | 85.0 |
| Agricultural Educ. II | | | (80.0) | | 80.0 |
| University Develop. II | | | | (150.0) | 150.0 |
| Secondary Education I | | | | (200.0) | 200.0 |
| Sub-total | 75.4 | 85.0 | 80.0 | 350.0 | 590.4 |
| <u>Energy</u> | | | | | |
| Petroleum I (Daqing) | 162.4 | | | | 162.4 |
| Petroleum II (Zhongyuan) | 100.8 | | | | 100.8 |
| Power I (Lubuge Hydro) | | | 150.0 | | 150.0 |
| Coal I (Luan/Jincheng) | | | 180 240.0 | | 240.0 |
| Power II | | | (60.0) | 200.0 | 200.0 |
| Petroleum III (Junggar) | | | <u>120</u> | 150.0 | 150.0 |
| Coal II | | | | 250.0 | 250.0 |
| Power III | | | | 150.0 | 150.0 |
| Petroleum IV | | | | 200.0 | 200.0 |
| Coal III | | | | 250.0 | 250.0 |
| Sub-total | 263.2 | 390.0 | 600.0 | 600.0 | 1,853.2 |
| <u>Industry</u> | | | | | |
| China Investment Bank I | 40.6 (30.0) | | | | 40.6 30.0 |
| China Investment Bank II | | | (200.0) | | 200.0 |
| Fertilizer | | | 100.0 | | 100.0 |
| Shanghai Machine Tools | | | | 100.0 | 100.0 |
| Sub-total | 70.6 | | 300.0 | 100.0 | 470.6 |

*Amounts in parenthesis indicate IDA credit

CHINA - Lending Program FY83-86
(\$ Million)

| | FYs | | | | Total |
|---------------------------------|-------|---------|---------|---------|---------|
| | 83 | 84 | 85 | 86 | |
| <u>Health</u> | | | | | |
| Rural Health/Med. Educ. | | 85.0 | | | 85.0 |
| <u>Technical Assistance</u> | | | | | |
| Technical Cooperation Credit | | (10.0) | | | 10.0 |
| <u>Transport Assistance</u> | | | | | |
| Ports (Three Ports) | 124.0 | | | | 124.0 |
| Railways I | | 220.0 | | | 220.0 |
| Ports II | | | 150.0 | | 150.0 |
| Railways II | | | 50.0 | | 50.0 |
| | | | (150.0) | | 150.0 |
| Roads I | | | | 100.0 | 100.0 |
| Ports III | | | | 150.0 | 150.0 |
| Railways III | | | | 150.0 | 150.0 |
| Sub-total | 124.0 | 220.0 | 350.0 | 400.0 | 1,094.0 |
| <u>Urban & Water Supply</u> | | | | | |
| Water Supply I | | | (100.0) | | 100.0 |
| Shanghai Urban Develop. | | | | (100.0) | 100.0 |
| Sub-total | | | 100.0 | 100.0 | 200.0 |
| TOTAL | 613.5 | 960.0 | 1,600.0 | 2,200.0 | 5,373.5 |

*Amounts in parenthesis indicate IDA credit

OFFICE MEMORANDUM

DATE: September 16, 1983

TO: Mr. R. Southworth (EXC)

FROM: Caio Koch-Weser (Chief, AEADF)

EXTENSION: 75463

SUBJECT: China: Meeting with Mr. Clausen
September 30, Friday, 12:00, Room 4041, Sheraton Hotel

1. The following members of the Chinese Delegation are expected to attend the above-mentioned meeting with Mr. Clausen.

| | |
|--------------------|---|
| H.E. WANG Bingqian | Minister of Finance, Governor of Bank |
| Mr. LU Peijian | Governor, People's Bank of China, Governor of IMF |
| Mr. GE Fucun | Director, External Finance Dept., Ministry of Finance (Temporary Alt. Governor, Bank) |
| Mr. WANG Liansheng | Executive Director, World Bank |
| Mr. FEI Lizhi | Alternate Executive Director, World Bank |
| Mr. YANG Guanghui | Chief, World Bank Division, Ministry of Finance |
| Mr. KONG Fannong | Deputy Division Chief, Dept. of International Organizations and Conferences, Ministry of Foreign Affairs, Adviser |

2. Biographical information on all of the above is attached. Those attending from the Region will be Messrs. Karaosmanoglu, Jaycox and myself.

Attachment

cc: Messrs. Stern (SVPOP), Karaosmanoglu (AENVV), Jaycox (AEADR)
Kirmani (AEPDR), Bumgarner (AEADF)
Mes. Prasarnphanich (AENVV), Pontanilla (AEADR)

Biographical Sketches

- WANG Bingqian -- Mr. Wang Binqian was born in 1925 in Hebei Province. He has made his career in the Ministry of Finance, rising eventually to become Minister in 1980, when he was China's youngest minister. In 1983 he became a State Councillor giving him a status above that of line ministers to emphasize the important role of Finance.
- GE Fucun -- Head of Department responsible for relationship with World Bank Group.
- LU Peijian -- Born in 1928 in Jiangsu Province. Career in Ministry of Finance, including General Office and the Industry, Communications, Commerce and Finance Department. Rose to Vice-Minister. Appointed to present position 1982.
- WANG Liansheng -- Executive Director, World Bank
- FEI Lizhi -- Alternate Executive Director, World Bank
- KONG Fannong -- Deputy Division Chief, Dept. of International Organizations and Conferences, Ministry of Foreign Affairs, Adviser
- YANG Guanghui -- Chief, World Bank Division, Ministry of Finance

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: September 27, 1983

TO: Mr. Ernest Stern

FROM: Attila Karaosmanoglu *AK*

EXTENSION: 74503

SUBJECT: China - Annual Meeting Brief

1. This note updates Mr. Clausen's Annual Meeting brief for China in order to reflect the latest developments on two issues: FY84 IDA allocation and lending program, and China's position in IBRD under a Selective Capital Increase. Both points might be raised by Minister Wang.
2. FY84 IDA Allocation and Lending Program. We have agreed with the Ministry of Finance that the additional \$50 million IDA which we have now been able to allocate to China for FY84 (bringing the total allocated to \$400 million IDA) will lead to a corresponding increase in IBRD lending and to the inclusion of the Petroleum III project under this year's program. In revising the lending program, we have increased total lending in FY84 from \$960 million to \$1,070 billion (Attachment I).
3. Selective Capital Increase. In order to take account of the Government's concern that China should remain the sixth largest subscriber under the proposed Selective Capital Increase, management has tested the reaction of major shareholders to an approach which would give China a special allocation of shares under an intermediate scale selective capital increase and thus enable it to stay number six (Attachment II). The Executive Directors of the five largest shareholders have voiced no objections. Saudi Arabia has agreed to such an approach.

Cleared with and cc: Mr. J. Wood

CKW:em

CHINA - Lending Program FY83-86
(\$ Million)

| | FYs | | | | Total |
|-------------------------------------|-----------------|-----------------|---------|------------------|----------------|
| | 83 | 84 | 85 | 86 | |
| <u>Agriculture</u> | | | | | |
| Heilongjiang Land Reclamation | 35.3 (45.0)* | | | | 35.3 45.0 |
| Rubber Development | | (100.0) | | | 100.0 |
| Rural Credit I | | (70.0) | | | 70.0 |
| Agric. Research II | | | (80.0) | | 80.0 |
| Forestry | | | (90.0) | | 90.0 |
| Rural Credit II | | | | 100.0 (200.0) | 100.0 200.0 |
| Seeds I | | | | (150.0) | 150.0 |
| Irrigation I | | | | (200.0) | 200.0 |
| Sub-total | 80.3 | 170.0 | 170.0 | 650.0 | 1,070.3 |
| <u>Education</u> | | | | | |
| Agricultural Education and Research | (75.4) | | | | 75.4 |
| Polytechnic/TV Univ. | | (85.0) | | | 85.0 |
| Agricultural Educ. II | | | (80.0) | | 80.0 |
| University Develop. II | | | | (150.0) | 150.0 |
| Secondary Education I | | | | (200.0) | 200.0 |
| Sub-total | 75.4 | 85.0 | 80.0 | 350.0 | 590.4 |
| <u>Energy</u> | | | | | |
| Petroleum I (Daqing) | 162.4 | | | | 162.4 |
| Petroleum II (Zhongyuan) | 100.8 | | | | 100.8 |
| Power I (Lubuge Hydro) | | 150.0 | | | 150.0 |
| Coal I (Luan/Jincheng) | | 180.0 (60.0) | | | 240.0 |
| Power II | | | 200.0 | | 200.0 |
| Petroleum III | | 120.0 | | | 120.0 |
| Coal II | | | 250.0 | | 250.0 |
| Power III | | | | 150.0 | 150.0 |
| Petroleum IV | | | | 200.0 | 200.0 |
| Coal III | | | | 250.0 | 250.0 |
| Sub-total | 263.2 | 510.0 | 450.0 | 600.0 | 1,823.2 |
| <u>Industry</u> | | | | | |
| China Investment Bank I | 40.6 (30.0) | | | | 40.6 30.0 |
| China Investment Bank II | | | (150.0) | | 150.0 |
| Fertilizer | | | 100.0 | | 100.0 |
| Shanghai Machine Tools | | | 100.0 | | 100.0 |
| Industry III (Cement) | | | | 100.0 | 100.0 |
| Sub-total | 70.6 | | 350.0 | 100.0 | 520.6 |

*Amounts in parenthesis indicate IDA credit

CHINA - Lending Program FY83-86
(\$ Million)

| | FYs | | | | Total |
|---------------------------------|-------|---------|---------|---------|---------|
| | 83 | 84 | 85 | 86 | |
| <u>Health</u> | | | | | |
| Rural Health/Med. Educ. | | (75.0) | | | 75.0 |
| <u>Technical Assistance</u> | | | | | |
| Technical Cooperation Credit | | (10.0) | | | 10.0 |
| <u>Transport Assistance</u> | | | | | |
| Ports (Three Ports) | 124.0 | | | | 124.0 |
| Railways I | | 220.0 | | | 220.0 |
| Ports II | | | 150.0 | | 150.0 |
| Railways II | | | 50.0 | | 50.0 |
| | | | (150.0) | | 150.0 |
| Roads I | | | | 100.0 | 100.0 |
| Ports III | | | | 150.0 | 150.0 |
| Railways III | | | | 150.0 | 150.0 |
| Sub-total | 124.0 | 220.0 | 350.0 | 400.0 | 1,094.0 |
| <u>Urban & Water Supply</u> | | | | | |
| Water Supply I | | | (100.0) | | 100.0 |
| Shanghai Urban Develop. | | | | (100.0) | 100.0 |
| Sub-total | | | 100.0 | 100.0 | 200.0 |
| TOTAL | 613.5 | 1,070.0 | 1,500.0 | 2,200.0 | 5,383.5 |

*Amounts in parenthesis indicate IDA credit

INTERMEDIATE SCALE SCI

Scaling factor: 50%

| | <u>Authorized</u> | <u>Allocated</u> |
|---|-------------------|------------------|
| Number of SCI shares | 70,000 | 69,074 |
| Value at SDR100,000 a share (\$m) ^{a/} | 7,350 | 7,253 |
| at US\$120,635 a share (\$m) | 8,444 | 8,333 |

| | <u>SCI Allocation</u> | | | <u>Post-SCI Position</u> | | |
|--------------------------------|-----------------------|----------------|--------------|----------------------------|---|----------------|
| | <u>Regular</u> | <u>Special</u> | <u>Total</u> | <u>Potential Votes</u> | <u>Potential Voting Power (%)</u> | <u>Ranking</u> |
| 1 United States | 12,453 | 0 | 12,453 | 164,679 | 20.01 | 1 |
| 4 United Kingdom ^{b/} | 2,984 | -2,455 | 529 | 39,197 | 4.76 | 4-5 |
| 3 Germany | 6,285 | 0 | 6,285 | 40,882 | 4.97 | 3 |
| 4 France | 4,687 | 0 | 4,687 | 39,197 | 4.76 | 4-5 |
| 2 Japan | 6,624 | 0 | 6,624 | 41,080 | 4.99 | 2 |
| 6 China ^{c/} | 1,022 | 638 | 1,660 | 25,392 | 3.09 | 6 |
| 9 India | 602 | 0 | 602 | 23,854 | 2.90 | 9 |
| 7 Saudi Arabia | 2,757 | 0 | 2,757 | 25,390 | 3.09 | 7 |
| 8 Canada | 1,976 | 0 | 1,976 | 24,008 | 2.92 | 8 |
| 10 Italy | 2,754 | 0 | 2,754 | 22,846 | 2.78 | 10 |
| Part II Countries | 21,939 | 638 | 22,577 | 340,689 | 41.40 | |
| Unallocated | 0 | 926 | 926 | 2,128 | 0.26 | |
| Total | 70,891 | -891 | 70,000 | 823,000 | 100.00 | |

^{a/} At the current exchange rate of \$1.05 per SDR.^{b/} Assumed to take up part of SCI shares to stay equal to France.^{c/} Assumed to take up special allocation required to stay #6.FPAFA
08/29/83

China and the CGIAR
Briefing Note for Mr. Clausen
Annual Meeting of the Bank & Fund •
September 1983

Background. China is not a donor member of the CGIAR but several of the international centers have been in close contact with the Chinese Academy of Agricultural Sciences since 1974. Relations are excellent, particularly with IRRI (rice), CIMMYT (wheat and maize) and CIP (potatoes).

On several occasions during the last two years we have raised the question of China joining the CGIAR as a donor member. In April 1983, Mr. Baum talked with the Minister of Agriculture when he attended the ceremony in Beijing at which IRRI was awarded the Third World Prize. You advanced the matter further during your visit in May.

Suggestions. We are advised that it could be counter-productive to push the issue too hard since such matters take time to decide. We have however issued an invitation for the Minister of Agriculture at least to send an observer to International Centers Week in October, and preferably to come as a donor. Should the opportunity arise we would be grateful if you could endorse the hope that China will join the CGIAR.

China and the CGIAR
Briefing Note for Mr. Clausen
Annual Meeting of the Bank & Fund
September 1983

Background China is not a member of the CGIAR but several of the
international centers have been in close contact with the Chinese Academy of
Agricultural Sciences since 1974. Relations are excellent particularly

*consultation or election
to state Council*

On several occasions during the last two years we have visited the
country of China. In April 1982, Mr. [Name] was a member of the
delegation which visited the Institute of Agricultural Sciences when he attended the ceremony in
Beijing at which the [Name] award was presented. You received the award
further during your visit in 1982.

Suggestions. We are advised that it would be most productive to push the
issue too hard since such matters take time to decide. We have however received
an invitation for the Minister of Agriculture to visit to some extent to

International Center Week in October, and preferably to come as a donor.
Should the opportunity arise we would be grateful if you could advise the
hope that China will join the CGIAR.

OFFICE MEMORANDUM

TO: Mr. A.W. Clausen
 THRU: Mr. Ernest Stern (SVPOP) *ES*
 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.

1232
OFFICE MEMORANDUM

TO: Mr. A.W. Clausen (o/r)
FROM: Ernest Stern *ES*
SUBJECT: Outstanding Chinese Bonds

DATE: January 13, 1983

You had asked some time ago that we consider the issue of outstanding Chinese bonds. The attached memorandum from Mr. Scott discusses this issue in detail and was used as the basis for a meeting with him and his colleagues and the Region.

Under our policy, it is encumbant on the institution to take action in cases of appropriation or default regardless of whether the issue is raised by Executive Directors. The fact that these bonds are old does not change that situation. Moreover, the recent court decision in the US Federal Court in Alabama makes the issue current. As you know, the issue is highly sensitive and very complex, and we must proceed carefully.

We agreed that, as a first step, Mr. Koch Weser, the Division Chief who is now in Beijing, would seek to ascertain the reasons why China did not intervene in the court case and whether the PRC intends to appeal. He will also leave with them the statement of our policy and indicate that while we do not have any specific views on the issue of Chinese bonds, we have in the past, and are currently, withholding loans from countries which have expropriated property. We have an obvious obligation to treat all members equally. It is, therefore, important that we be able to respond to enquiries about the Chinese debt indicating that some of it is acknowledged and that a process for settlement is envisioned. Only the PRC can provide us with the necessary information. Mr. Koch Weser has been asked to tell them our inability to respond will leave us in a much more precarious situation. Upon his return we will assess the situation in light of whatever information he may have received. We will then advise you further and we may also wish to discuss this in the Managing Committee.

Attachment

cc: Mr. Hugh N. Scott, LEG

ES:ls

RECEIVED

1983 JAN 14 AM 10:28

OFFICE OF THE PRESIDENT



Record Removal Notice



| | | | | |
|---|------------------------------------|---|-----------------------------------|-------------------------------|
| File Title Country Files: China - Correspondence 04 | | Barcode No. 1774661 | | |
| Document Date January 5, 1983 | Document Type Memorandum | | | |
| Correspondents / Participants To: Mr. A.W. Clausen From: Hugh N. Scott | | | | |
| Subject / Title China - Default on External Debt | | | | |
| Exception(s) Attorney-Client Privilege | | | | |
| Additional Comments | | <p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date March 24, 2017</td></tr></table> | Withdrawn by Shiri Alon | Date March 24, 2017 |
| Withdrawn by Shiri Alon | Date March 24, 2017 | | | |

DECLASSIFIED

MAR 24 2017

WBG ARCHIVES

CONFIDENTIAL

SLC/O/61-27

June 16, 1961

STAFF LOAN COMMITTEE

Memorandum from Department of Operations - Far East

China - IDA Operations

1. During the last Annual Meeting eight projects were presented by the Minister of Finance of China for IDA financing when its operations started. Four of these projects were selected as suitable for a start of operations in Taiwan. These were:

- (a) Ground Water Resources Development
- (b) Harbor dredging
- (c) Taipei water supply
- (d) Industrial credit through China Development Corporation

2. An IDA mission which was in Taiwan in February and March made a study of the economic situation and policies and appraised the four projects.

3. The Economic Reports on Taiwan and appraisal reports on Ground Water and Dredge projects are attached. Appraisal reports on Taipei Water Supply and Industrial Credit projects will be sent to SLC shortly.

4. For fifty years until 1945 Taiwan was governed by Japan. The Japanese left behind a self-dependent and energetic farming community; good roads, railroads and harbours; adequate power facilities; and the beginnings of industry. In 1945 Taiwan reverted to being a province of China.

5. In 1949 the National Government was driven out of the mainland and moved to Taiwan. Since then the Nationalist Government and the Provincial Government have existed side by side. The economy of the island had to start supporting two million additional people who came from the mainland, and to bear a very heavy defense burden. In almost every year there have been deficits in the budget and these have been increased from time to time as a result of crises in the relations with mainland China. Throughout this period there has been continuing inflation. Despite these facts, and despite the fact that the population has been growing at 3.5% a year, the annual increase in real per capita income has averaged about 3%.

6. To a large extent this progress has been due to the basic strength of the island's economy. However, considerable credit must be given to economic and development policies followed by the Nationalist Government and to the many skills which the mainland Chinese brought with them. Soon after its arrival the Nationalist Government carried out a most successful land reform and has followed

progressive policies, both fiscal and social, aimed at bringing about an equitable distribution of the increase in national wealth.

7. Despite the heavy defense expenditures domestic savings have amounted in recent years to about 10% of GNP and domestic capital formation to 17% of GNP, the difference being made up of U.S. aid. U.S. economic aid is about .90 billion a year which is small compared to the amount of aid being given to Korea and Vietnam. Military expenditures have been running at 10% of GNP. The Government has recently announced that it intends to keep the absolute amount of military expenditures at the present level; if it were successful in this the cost of defense would in a few years fall to a percentage of GNP that could not be considered abnormal and a larger proportion of national income could be diverted to capital formation. This would in turn reduce the dependence of Taiwan on U.S. economic aid. However, the tendency in the past has been for defense expenditures to grow at about the same rate as GNP and one should not be too sanguine about the success the Government might have in keeping the cost of defense down. In any event, if the rate of growth is to be maintained it is clear that for a number of years Taiwan will continue to be dependent on external aid, and there is every reason to believe that aid from the U.S. will continue at least at the level of recent years.

8. The anomalous international position of Nationalist China is well known. The National Government's authority runs only in the province of Taiwan and the islands of Quemoy and Matsu. It has nonetheless continued in the United Nations and in U.N. agencies to represent the whole country. This position has been repeatedly challenged in the U.N. but so far has not been put to a vote as there has been sufficient support for Nationalist China in the General Assembly. A number of countries have established diplomatic relations with the People's Republic of China while others have established relations with the Nationalist Government in Taiwan. There is now some doubt whether those countries opposed to the admission of the People's Republic to the United Nations can much longer succeed in preventing its entry; and it is difficult to predict, if that were to happen, how the international position of the Nationalist Government would be affected. However, it is reasonable to presume that Taiwan will not be taken over by Red China and that the obligations it would undertake under the terms of any IDA credits would be discharged.

9. The internal political situation is almost as uncertain. The President, the National Assembly and the Legislative Yuan elected in 1947 on the mainland have continued in office. The Kuomintang has been the major political party and effective opposition to it has been discouraged. Local elections have been held from time to time and a few independent candidates have won against Kuomintang candidates; but in the absence of a free press or free speech, it is difficult to make any estimate of the size of the opposition. For like reasons it is impossible to say to what extent friction exists between the nine million Taiwanese and the two million mainland Chinese. Furthermore, it must be remembered that final political authority is wielded almost exclusively by the President who is now 73 years' old.

10. A major consideration that must be taken into account in considering credits to China is that China is formally in default on about \$430 million of external debt. These fall into three categories:

(a) Pre-World War II Debt

Of the \$430 million of debt in default about \$240 million is in

respect of debt incurred before the last war and of this amount \$135 million was incurred before 1914. Between 1914 and 1927 when the Kuomintang came into power a further debt was incurred of which \$38 million is still outstanding. The balance of the \$240 million is in respect of debt incurred between 1928 and 1938.

- (b) During World War II the U.K. and the U.S.S.R. made loans of which \$54 million is still outstanding and is not being serviced.
- (c) After the war Canada and the U.S. made loans to China while the Nationalist Government was still on the mainland. These have not been serviced since 1947 and \$204 million is outstanding.

11. None of the creditors who lent money to China before the First World War have been pressing their claims. The U.K. and the U.S.S.R. have recognized Red China and are not likely to discuss this matter with the Nationalist Government in Taiwan. With regard to the post-war loans from Canada and the U.S. the Nationalist Government has taken the position that since these were for the purchase of equipment most of which had to be abandoned on the mainland, it can only service such part of the loans related to equipment that was brought to Taiwan. At present informal discussions are being conducted by the Chinese with the U.S. to see whether some arrangements can be made to settle the Ex-Im Bank loans. Canada did press for settlement of the \$58 million outstanding on its loan at one time, but in recent years has not raised the matter. All debts contracted after the move to Taiwan have been regularly serviced. The Chinese have expressed their willingness to discuss arrangements with the creditors, the discussions with Ex-Im Bank being the first step of this kind.

12. IDA financing of the four projects would contribute to economic development in Taiwan. This contribution would be enhanced by the fact that it would familiarize the country with the methods of operation and policies of international financial institutions and may lead, at a later date to more conventional financing by the Bank.

13. It is recommended that:

- (a) IDA agree in principle to extend credits totalling about \$16 million for the four projects mentioned above;
- (b) Any more IDA operations in Taiwan should depend on further review of the fiscal and financial trends;
- (c) Chinese representatives be invited forthwith to negotiate development credits for the Ground Water and Dredge projects.

I.P.H. Cargill
Director

Attachments

May 18, 1981

Mr. Chen Hui
Alternate Executive Director
for China
Washington, D. C.

Dear Mr. Chen:

During their recent stay in Washington, Mr. Li Peng, Vice Minister for Finance, and Mr. Zhang Jian, Vice Minister for Education gave me the great honor of a visit and, in the course of this visit, of an exchange of views on questions relating to China's association with the Bank.

In the course of our conversation I mentioned the problem of the alleged default of China to meet some of its financial commitments made prior to 1949. As I told your Ministers, the Bank has not been in a position to ascertain whether the allegations of default on such financial commitments are well-founded or not. The fact is that one or two of our member governments have raised the issue with the World Bank and have now made known their determination to refer to this issue during the discussion in the Board of Executive Directors of the Bank of the first lending operation with China. In this connection I want to recall that the Operation Manual of the Bank - which, as you know, describes all policies and procedures that apply to our lending operations - contains specific instructions with regard to disputes over defaults on external debts.

This letter is just a reminder of our conversation so that you may be prepared to deal with this issue if and when it would be raised in the Board.

Yours sincerely,

Signed
H. Golsong
H. Golsong

cc: Mr. Anson, Executive Director



Record Removal Notice



| | | | |
|--|------------------------------------|--|-------------------------------|
| File Title Country Files: China - Correspondence 04 | | Barcode No. 1774661 | |
| Document Date June 15, 1981 | Document Type Memorandum | | |
| Correspondents / Participants To: Mr. T. Thahane, Vice President and Secretary From: Mr. Wang Liansheng, ED for China | | | |
| Subject / Title China's policy on foreign claims | | | |
| Exception(s) | | | |
| Additional Comments Declassification review of this record may be initiated upon request. | | The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. | |
| | | Withdrawn by Shiri Alon | Date March 24, 2017 |

Thatcher
ANNEX D
Info.
Chen
11/11

"BARRON'S"

EDITORIAL COMMENTARY

Look Before You Leap

Red China's Credit Has Suffered Another Blow

FOR DEDICATED China-watchers' (as well as all those, from the White House and elsewhere, who watch China-watchers), November promises to be a busy month indeed. For the first time since the deep ideological split erupted between the Chinese Communists and their Russian comrades 20 years ago, the People's Republic on Saturday chose to begin the year—with a reception and "cultural performance" in Peking's Great Hall of the People, subtitled "cultural performance" by private screenings for the party bigwigs of the year—a major observance of the anniversary of the Russian Revolution. Twenty-eight hours earlier, a key Democratic member of the House Banking Committee, accompanied by his wife, secretly boarded a military jet for a tour of the mainland and a first-hand look at its development needs. To complete the busy week, the board of directors of the World Bank (on Election Day, by happenstance) unanimously voted to approve nearly \$200 million in credits, notably a loan for the "modernization of existing ports and provision of modern facilities to meet short-term requirements of increasing container traffic at Shanghai, Tianjin and Huangpu."

* * *

While scarcely a state secret—under new management, the World Bank these days is more forthcoming—the \$200 million deal, which once might have made headlines or raised eyebrows, was handled routinely, if not rubber-stamped. Well it might be. After all, since the great statesman (and former Vice President) Walter Mondale made his epic-making journey to the ends of the earth a few years back, China has rejoined the family of nations. Since 1980, the People's Republic has been a member in good standing of both the World Bank and the International Monetary Fund, with all the rights and privileges such exalted status confers.

In particular, Red China has begun to draw on its credit with the bank and the latter's soft-loan (interest-free, half a

century to pay, rescheduling on demand) affiliate, the International Development Association. Including last week's transactions, Peking has borrowed upwards of \$400 million for various purposes. Sheer routine—indeed, in an office memorandum, one bank official, five days before the board of directors met to weigh the loans, casually observed: "With next week's announcement of board approval of new projects, we can expect some flak from the press."

If the bank's bigwigs have their way, moreover, the new credits will doubtless be just the forerunner of a great leap forward in such lending. At the annual dinner of the Asia Society last June, A.W. Clausen, who succeeded Robert S. McNamara as head of the bank, was laudatory: "China's accomplishments over the last generation in reducing poverty—on a vast scale—are without precedent. . . . Our information on the Chinese economy has improved dramatically in the last few years. We have learned, for example, that China's per capita income seems to have been going up even a bit faster than the average for the middle-income countries along Asia's Pacific rim!" Early last month, Munir P. Benjenk, vice president, external relations, assured his listeners that a generous flow of funds will soon be forthcoming. Once the next replenishment of IDA's resources is assured—a top-level meeting of donor countries is scheduled for later this month—"it is certain that China's needs will be taken fully into account in future planning."

Flak from the press? Not a lot. True, conservative columnist Patrick J. Buchanan was predictably outraged. Despite Clausen's high praise, he pointed out, a generation after the Revolution, mainland China's national income runs to a paltry \$280 per head. "This is not because the Chinese people are inefficient or lazy or unproductive or backward or stupid. In the U.S., Chinese-Americans, despite a century of discrim-

ination, are among the most productive and successful citizens. On Taiwan, which started on a par with Peking, per capita income is four, five, six times what it is on the mainland. As the flight of capital from Hong Kong and the sudden drop in property values—following hints that Peking may demand political control—demonstrate, communism or socialism, whether of Chairman Mao's or Deng Xiaoping's design, is economic death."

Powerful arguments, but not likely to persuade those wonderful folk who brought you the economic ruin of Tanzania or helped to trigger the collectivization of private farms in Vietnam and the subsequent flight of the boat people. "Internal affairs," one can hear the mutterings from what remains of McNamara's band, and old hat to boot, in the realm of international lending, however, one thing lately has changed. Two months ago a judge of the U.S. District Court, in a class action suit brought by holders of long-defaulted Chinese Imperial government bonds, ruled that Peking was liable for the obligations and, under penalty of seizure of its property in this country, must repay. Peking, in turn, has rejected U.S. jurisdiction and stubbornly remains in default. That won't bother the World Bank, of course, but it should give pause to those who have been called upon to replenish IDA's coffers. Nobody prospers by throwing good money after bad.

Which is what the World Bank does best. In the 12 months ended June 30, 1982, its loan volume, covering 150 projects in 43 countries, surged to \$10.3 billion, from \$8.8 billion in the previous fiscal year. IDA credit, which went to 97 projects and programs in 42 countries in fiscal '82, totaled nearly \$2.7 billion, off from \$3.5 billion in the previous fiscal year, a decline which may soon be reversed. (Fiscal '82 also witnessed another milestone: Belize, Bhutan and Vanuatu joined the Bank, bringing the

grand total of members to 142.) On Nov. 22, at the Assistant Secretary level, negotiations will get underway among the donors on the so-called seventh replenishment for IDA. The Bank is seeking a three-year commitment of \$18 billion, \$6 billion of which, as suggested above, would be earmarked for Red China, with over \$4 billion coming from the U.S. taxpayer.

Once the scratch, in whatever amount, ultimately surfaces, it won't lack for places to go. Right now both IDA and the bank have eight projects, totaling nearly \$1 billion, on the drawing board, including loans for irrigation and drainage facilities, oil exploration and development, hydroelectric projects and underground coal mines. Naturally, there'll be some fall-out for American industry. As one bank official memoed another: "It looks as if some large contracts, involving some \$60 million, under the Bank/IDA first operation in China in support of higher education in science and engineering will go to U.S. companies. Perhaps some of this information on the mutual benefits of Bank/IDA lending should be passed on to some of our 'conservative friends.'" According to deep thinkers in the U.S. Treasury (which insisted that the U.S. directors give the nod to last week's transactions), such credits, presumably including one in which the bulk of the proceeds will go for earthworks piled up by hand by members of communes, are essential to bring China into the twentieth century (just in time for the twenty-first?).

We trust that even the newly constituted 98th Congress, despite its more liberal cast, will balk at buying such claims. Despite some gains in recent years—when you start from a very low base, after all, improvement comes easy—Red China's economy remains in deep trouble. U.S. businessmen who flocked there in recent years with excessively high hopes have returned empty-handed. Grandiose projects have been cancelled left and right, while in mid-

April, on a page in the Dines Letter discreetly headed Notices, we learned that "Mr. Dines has officially resigned as a director and Vice-Chairman of China Trade Corporation as part of our general redirection of energies towards more immediately profitable areas." Back in July 1980, when Dines, on the company's behalf, addressed the New York Society of Security Analysts, a package of two common shares and one warrant sold for \$15; last week they were quoted at roughly 2½. For capitalist roaders, the road has been hard.

* * *

That's especially true of those who hold the Imperial Chinese Government 5% Hukuang Railways Sinking Fund Gold Loan of 1911, timely interest payments on which were made until Dec. 15, 1930 (after which only two half-payments were made in 1937-8 and not one red cent since). Pursuant to the Foreign Sovereignities Immunity Act, which sharply curtailed claims of immunity by governments involved in commercial transactions abroad, bondholders several years ago brought suit against the People's Republic of China. Defendant chose to ignore the action; in early September, a federal judge found for plaintiffs and entered a default judgment totalling \$41.3 million on their behalf.

"If the Chinese fail to respond," Dr. Hubert Park Beck, who frequently has taken up the cudgels for foreign bondholders, was jubilantly quoted as saying, "there will be a showdown. In a legal way, we will padlock their buildings. Federal marshals will put tire locks on the limousines outside the Chinese mission, get a wrecker and tow them away." Perhaps and perhaps not—the fortune cookie-pushers in the State Department may demur. In any case, a precedent has been set and a blow struck for sanctity of contract. Outside the World Bank, that should count for something.

—Robert M. Bleiberg

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Boards of Governors • 1982 Annual Meetings • Toronto, Ontario, Canada

TO : Memorandum for the Record

FROM : Dan Morrow (Loan Officer, AEA) DATE: September 6, 1982
SUBJECT : CHINA — Meeting Between Mr. Clausen and Mr. Wang Bingqian,
Minister of Finance, China, September 3, 1982
Annual Meetings, Toronto, Canada

Prior to August 9, 1982

Mail Address
JOINT SECRETARIAT
IMF—WORLD BANK
WASHINGTON, D. C. 20431 U.S.A.

Cable Address
INTERMEET
WASHINGTONDC (USA)

Telex Addresses
(RCA) 248331 IMF UR
(ITT) 440040 FUND UI
(WUI) 64111 INTERFUND
(TRT) 197677 FUND UT

After August 9, 1982

Mail Address:
JOINT SECRETARIAT
IMF—WORLD BANK
P.O. BOX No. 4217
STATION A
TORONTO, ONT. M5W 1V9
CANADA

Cable Address:
INTERMEET
TORONTO
CANADA

Telex Address:
06-218811
INTERMEET TOR

1. A meeting was held between Mr. Clausen and Mr. Wang Bingqian, Minister of Finance, China, on September 3, 1982, at the Sheraton Centre, Toronto, Canada. Among those present were Messrs. Wang Liansheng, Executive Director, Bank; Chen Hui, Alternate Executive Director, Bank; Fei Lizhi, Chief, World Bank Division, Ministry of Finance; Li Miao, Section Chief, World Bank Division, Ministry of Finance; Stern, Husain, Benjenk, Jaycox, Morrow and Humphrey.
2. Minister Wang made five major points:
 - (a) China agreed with Mr. Clausen's assessment that the world economic situation was grim. China will support the Bank's effort to play a positive role in helping the developing countries through this difficult period.
 - (b) Relations between China and the Bank are very good. Minister Wang appreciated the great efforts made by the Vice Presidents and their colleagues working on China. He hopes that the relationship between China and the Bank will be long, stable, and co-operative, and they approach it in that spirit. Although there will occasionally be arguments, this will not affect the long-term relationship.
 - (c) The Twelfth Congress of the Chinese Communist Party is now setting goals for the next 20 years. China hopes to raise its industrial and agricultural output so that per capita GNP reaches about \$1,000 by the end of the century. This implies an average annual growth of 7.2%. For the sixth and seventh five-year plans, the growth target for per capita GNP is 4-5% per year, and for the decade of the 1990s, 10% per year. To achieve this, China will require substantial resources, including both hard and soft loans from the Bank. They especially need Bank assistance during the remainder of the 1980s, when they hope the Bank will provide "coal during a snowstorm."

- (d) China is not taking any IDA 6 funds. It hopes that the \$400 million of IDA promised to be provided during FY81-83 from Bank profits will be given, even though China "may not be able to use it all during this period" and may use part in FY84. Although \$400 million is not large and China could make do with less, China's leaders have planned on this amount and any change would damage the trust and confidence which China has in the Bank. As the Minister indicated to Mr. Clausen in Helsinki, China regards FY84 as a special, transitory year for IDA. China should get its fair share of any new IDA funds made available in FY84 in addition to that part of the \$400 million which slips into FY84.
- (e) IDA 7 will be the beginning of China's full participation in IDA. Although China has not mentioned a specific figure, it expects a fair and reasonable share. China should get about the same allocation as India. Considering China's population and low per capita income and recognizing that India has already enjoyed substantial IDA assistance, this is not an excessive demand. It is now China's turn to get more from IDA. On this matter, Minister Wang had already spoken to Sir Geoffrey Howe.

3. Mr. Clausen responded to the above points as follows:

- (i) He agreed that the relationship between the Bank and China was off to a good start. We, too, view the relationship as a long-term one, and the Bank is trying to gear up to enlarge the flow of funds to China. To assist in this effort, the Bank needs more information to support our economic and sector work. The Bank will be fair and reasonable in its requests for information.
- (ii) Regarding the \$400 million of IDA, the Bank must maintain its reputation for being equitable and, in view of the cutbacks in IDA, it would not have been equitable to provide the full \$400 million during FY81-83. Therefore, the Bank appreciates the Minister's implicit statement that he understands that the \$400 million will spill over into FY84.

- (iii) Concerning other IDA funds for FY84, the Bank agrees that China should get a fair share and we will be sensitive to China's needs. But we do not yet know how much might be available.
- (iv) The IDA deputies are planning to meet in November to discuss IDA 7. At present we do not have any concrete ideas about shares, but China's share must be significant so that the lending program can grow substantially from present levels. We agree that any difference between China's and India's shares should not be large.

4. Minister Wang formally invited Mr. Clausen to visit China next year. Mr. Clausen expressed his appreciation for the invitation and said he would consult his calendar.

cc: Messrs. Clausen
Stern
Husain
Benjenk
Jaycox
Kirmani
Hasan
Koch-Weser

DMorrow:bce

*Complete
Draft for
9-24
statement*

IDA?

1982 ANNUAL MEETINGS BRIEFING PAPER
CHINA

Key Points

You should express the Bank's appreciation for the Government's continuing efforts to build a sound relationship and point to the achievements of the first two years of cooperation. Although only the North China Plain Agriculture Project (IDA Credit of \$60 million equivalent) was approved by the Board in FY82, considerable work has already been done in processing the six proposed FY83 projects, and work is under way on a pipeline of some 20 projects. For your information, some background on other Bank activities in China over the past year is given below in paras. 1-3. The only issue that the delegation is likely to raise with you is the availability of IDA funds for China, on which the Government has very strong views (see paras. 4-7). It may also renew its invitation to you to visit China soon; we recommend that you accept the Government's invitation and visit China in the first half of 1983.

N.B.

China Visit

Background

1. Despite the Government's continued general reluctance to provide broad sector information (which recently delayed processing of the Ports project), sector work in preparation for the China Investment Bank project proceeded well and included the writing of a handbook on project analysis; a rural finance study has been completed and discussed with the Agricultural Bank, preceding a rural credit project; and a review of medical education and rural primary health care will be carried out shortly.
2. The Bank completed an updating Country Economic Memorandum based on information gathered during a joint Bank/IMF mission. Although the Bank has had some difficulty in securing data (particularly on the Government's investment program and energy conservation), we hope that when the report is discussed with the Government within the next few months, more information will be forthcoming. The Bank arranged a successful seminar in China that allowed an evaluation of the East European experience of economic reforms and its relevance for China's reform process. The Bank has also begun a large program of collaborative economic research with researchers from the Chinese Academy of Social Sciences.
3. Other Bank activities in China have included a cofinancing seminar held recently in Beijing, which has contributed to a better understanding of the procedures and the benefits cofinancing offers; we hope that some upcoming projects will give the Government practical experience of cofinancing. The EDI program of courses in China has been expanded and is proceeding well.

we are satisfied by the start

*H
more
could*

Issues

4. IDA 6. China feels strongly that it was promised an IDA 6 allocation of \$400 million (and \$800 million total lending) for FY81-83. The IDA allocation was reduced to \$300 million and rephased over four years in January 1982 (when a general adjustment was made in IDA allocations); subsequent decisions on

individual projects have increased that amount to \$340 million for FY81-84 (with IBRD lending of \$1,585 million planned over the same period). Our IDA lending so far has involved \$100 million in FY81 and \$60 million during FY82; the latest approved lending program provides IDA commitments of \$105 million in FY83, dropping to only \$75 million in FY84. (These figures reflect a very much harder blend than the 50/50 blend China expected for the IDA 6 period. Although such a blend is not acceptable to the Government, recent discussions did indicate that China is, in fact, willing to accept a considerably harder blend than originally requested). Senior Chinese Ministers have continued to request in very strong terms that the originally "promised" IDA allocation of \$400 million be provided for FY81-83 (most recently when the Minister of Finance hosted Mr. Qureshi); moreover, if special IDA arrangements are made for FY84, China would like to receive a fair share of any new money (i.e. that year should not simply be treated as an extension of IDA 6 arrangements, which took no account of China).

IBRD
IDA

| | |
|-----|-----|
| 100 | '81 |
| 60 | '82 |
| 105 | '83 |
| 75 | '84 |

340

5. You should say that IDA 6 came out very differently than we originally anticipated. Deep cuts had to be made in the amounts allocated and the Bank had to protect countries that had the least alternative sources of funding open to them. These changes inevitably affected the time over which the \$400 million could be lent to China, as indeed it affected the lending period for the base amount of \$12 billion. However, the prospects for IDA have improved substantially since late last year when we had to cut the FY82 program from \$4 billion to \$2.6 billion. As the Government is aware from papers recently circulated, the Bank might now be able to obtain most of the IDA 6 contributions originally promised, except those from the U.S. In this case, the Bank will be able to make the \$400 million available to China over four years plus a portion of the special contributions the Bank hopes to obtain for FY84.

ADVICE!

6. IDA 7. The Government expects China to receive an equitable allocation under IDA 7. It has accepted that priority in allocations must be given to the Sub-Saharan African countries. However, it believes its share should be as large as India's, given that its population is so much larger and India has benefited greatly from IDA in the past. From the notional planning figures for FY85-86 IDA shares of South Asia and East Asia contained in an FY83 budget paper, it deduced that the share allocated to India must be considerably larger than China's. It has expressed serious reservations about this.

7. To answer the Chinese Government's concerns, you should reassure the Chinese delegation that IDA 7 allocations will be made according to the Bank's normal criteria of poverty and a country's creditworthiness to obtain funds from other sources. Thus China will receive a fair IDA 7 allocation.

111

DELEGATION/BIOGRAPHICAL SKETCHES - CHINA

The Delegation

| | |
|---------------|--|
| WANG Bingqian | Minister of Finance (Governor, Bank) |
| SHANG Ming | People's Bank of China (attending as Governor of the Fund) |
| WANG Weicai | Vice-President of the Bank of China (Alt. Governor, Fund) |

Biographical Sketches

WANG Bingqian

Mr. Wang Bingqian was born in 1925 in Hebei Province. In 1980, he replaced Mr. Wu Bo as the Minister of Finance and Governor of the Bank. His former positions in the Ministry were Section Chief, Deputy Division Chief, Division Chief and Vice-Minister.

SHANG Ming

Mr. Shang Ming is the Director of the Planning Bureau of the People's Bank of China. He has attended previous Annual Meetings as a temporary Deputy Governor.

WANG Weicai

Mr. Wang Weicai was born in 1919 in Zhejiang Province. He has had many years of experience in international financial transactions. His former positions have included: Deputy Department Chief, Vice-President of a branch office, and Vice-Department Chief of the People's Bank of China; Deputy President of the Shanghai Institute of Finance and Economics; Vice-Chairman of the Shanghai Price Committee; and Manager of the London Branch of the Bank of China. In addition to his present position with the Bank of China, he is currently the Deputy Director General of the State General Administration of Exchange Control.

CHINA
Approved Lending Program, FY83/84
(\$ million)

| | | FY83 | FY84 | Total FY83/84 |
|-----------------------------------|-------|------------|--------------|------------------|
| <u>Agriculture</u> | | <u>80</u> | <u>100</u> | <u>180</u> |
| State Farms I (Heilongjiang) | IBRD | 80 | | |
| Rural Credit I | IBRD | | 100 | |
| <u>Industry</u> | | <u>70</u> | | <u>70</u> |
| China Investment Bank | (IBRD | 40 | | |
| | (IDA | 30 | | |
| <u>Education</u> | | <u>75</u> | <u>150</u> | <u>225</u> |
| Agricultural Education & Research | IDA | 75 | | |
| Education II (Postsecondary Ed.) | (IBRD | | 75 | |
| | (IDA | | 75 | |
| <u>Energy</u> | | <u>280</u> | <u>536</u> | <u>816</u> |
| Petroleum I (Daqing) | IBRD | 160 | | |
| Petroleum II (Dongpu I) | IBRD | 120 | | |
| Power I (Lubuge) | IBRD | | 150 | |
| Coal I | IBRD | | 236 | |
| Petroleum III (Dongpu II) | IBRD | | 150 | |
| <u>Transportation</u> | | <u>124</u> | <u>250</u> | <u>374</u> |
| Ports I | IBRD | 124 | | |
| Ports II | IBRD | | 100 | |
| Rail I | IBRD | | 150 | |
| <u>Total</u> | | <u>629</u> | <u>1,036</u> | <u>1,665</u> |
| IBRD | | 524 | 961 | 1,485 |
| IDA | | 105 | 75 | 180 |

Fy81 *Fy82*
100 *60*
100 *60*
200 *120*
629 *1036* *1665*

OFFICE MEMORANDUM

LEG/MC82-16

for PRC
Briefing

TO: Members of the Managing Committee

FROM: H. Golsong

SUBJECT: Taiwan - Procurement Rules

DATE: July 23, 1982

1. The Taiwan issue has come up again. You may recall that at our meeting on June 21, I expressed the fear of seeing the People's Republic of China raise the reference to Taiwan in our procurement rules if and when we accede to their request to the deletion of all references to Taiwan in the WDR.

This has now been done.

Mr. Wang, the Chinese Executive Director, called me on July 21 with reference to the following sentence in the President's Report on a Second Structural Adjustment Operation for Kenya (R-82/188/IDA-R82-85, page 43):

"Procurement would be limited to goods from Bank member countries, Switzerland and Taiwan."

A note on my telephone conversation with Mr. Wang is attached hereto, including the reference to a meeting with the Chinese Deputy Minister of Finance this Friday, July 23.

At the initiative of Mr. Wang, the meeting was cancelled this morning. The explanation given to me was the need for further consultation with the PRC Embassy in Washington, D.C. He added that his Minister might want to review the issue with me during the Annual Meeting.

2. In the meantime, I have carefully reviewed the understanding reached on this point during the negotiations in Beijing in April 1980, and all subsequent discussions and records of the issue. It is my considered opinion that our present arrangements, as endorsed by the Executive Directors on July 28, 1980, are in line with the understanding reached in Beijing. Furthermore, they are part of our understanding with the Taiwanese authorities in connection with their willingness to continue the service of debts arising out of loans from the IBRD contracted on behalf of "China."

3. I suggest that we discuss the matter prior to Toronto, in the light of a more complete picture which I am ready to present orally.

Enclosure

In Aug 23 OK

HGolsong:ds



Record Removal Notice



| | | | | |
|--|------------------------------------|--|-----------------------------------|-------------------------------|
| File Title Country Files: China - Correspondence 04 | | Barcode No. 1774661 | | |
| Document Date July 21, 1982 | Document Type Memorandum | | | |
| Correspondents / Participants To: Legal Information Center From: H. Golsong | | | | |
| Subject / Title Taiwan | | | | |
| Exception(s) Attorney-Client Privilege | | | | |
| Additional Comments | | The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. | | |
| | | <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table> | Withdrawn by Shiri Alon | Date April 07, 2017 |
| Withdrawn by Shiri Alon | Date April 07, 2017 | | | |