REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO $35.3 MILLION
AND A PROPOSED CREDIT
IN AN AMOUNT EQUIVALENT TO SDR 41.3 MILLION
TO THE
PEOPLE'S REPUBLIC OF CHINA
FOR A
HEILONGJIANG LAND RECLAMATION PROJECT

March 31, 1983
CURRENCY EQUIVALENTS
(As of June 1982)

Y 1 = $1.75
$1 = Y 0.59

ABBREVIATIONS

CGB - Central General Bureau of State Farms and Land Reclamation
HGB - Heilongjiang General Bureau of State Farms and Land Reclamation
FIMO - Foreign Investment Management Office
MAAF - Ministry of Agriculture, Animal Husbandry and Fisheries

FISCAL YEAR

January 1 to December 31
CHINA

HEILONGJIANG LAND RECLAMATION PROJECT

Loan/Credit Project Summary

**Borrower:** People's Republic of China

**Amount:**
- Loan: $35.3 million (including capitalized front-end fee)
- Credit: SDR 41.3 million ($45.0 million equivalent)

**Terms:**
- Loan: 20 years, including 5 years of grace, with variable interest rate initially at 10.97% p.a.
- Credit: Standard

**Project Description:**
The project would develop some 200,000 ha of virgin land in Heilongjiang Province for the production of food grains and soybean. Principal features of the project would be drainage works; larger and more modern agricultural machinery for full mechanization of farming operations; construction equipment; and provision of roads, housing and supporting infrastructure. Training in equipment operation and maintenance and in construction techniques would be provided together with technical assistance (78 man-months of consultant services) in the fields of planning, training, and seed production. The project would produce more than 440,000 tons of grain and soybean annually, and thereby help reduce China's food grain deficit. It would serve as a large-scale trial and demonstration of techniques applicable to an additional 470,000 ha of uncultivated land and some 2 million ha now cultivated by state farms in Heilongjiang. The project faces no significant technical or administrative risks.
Estimated Cost:

<table>
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<th>Estimated Cost:</th>
<th>Local $ million</th>
<th>Foreign $ million</th>
<th>Total $ million</th>
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<td>Civil works</td>
<td>102.4</td>
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<td>Agricultural machinery</td>
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<td>Construction machinery</td>
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<tr>
<td>Seed processing equipment</td>
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<td>Technical assistance</td>
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<tr>
<td>Administration</td>
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Base Cost 138.4 85.5 223.9

Physical contingencies 12.7 2.2 14.9
Price contingencies 20.8 11.1 31.9
Front-end fee 0.0 0.3 0.3

Total /a 171.9 99.1 271.0

Financing Plan:/a

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<th>Financing Plan:</th>
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<td>Participating Farms</td>
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Total 171.9 99.1 271.0

Estimated Disbursements:

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<td>41.3</td>
<td>63.7</td>
<td>78.1</td>
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Rate of Return: 23%

Staff Appraisal Report: No. 4159-CHA, dated March 31, 1983

/a Import duties are normally levied by the Government on imported equipment and would amount to about Y 40 million. They are excluded from the above cost summary.
1. I submit the following report and recommendation on a proposed loan and credit to the People's Republic of China to help finance a Heilongjiang Land Reclamation Project. The loan, for $35.3 million (including a front-end fee of $0.3 million), would have a term of 20 years, including 5 years of grace, with a variable interest rate initially at 10.97% p.a. The credit, for the amount of SDR 41.3 million ($45.0 million equivalent), would be on standard IDA terms.

PART I - THE ECONOMY

2. An introductory economic report, entitled "China: Socialist Economic Development" (No. 3391-CHA), was distributed to the Executive Directors on June 1, 1981. A country economic memorandum, entitled "China: Recent Economic Trends and Policy Developments" (No. 4072-CHA), is being distributed to the Executive Directors separately. Country data are given in Annex I.

Development Objectives and Performance

3. China's economic system reflects in large measure the institutional changes that took place in the 1950s, including land reform and the eventual establishment of communes in rural areas and the extension of state ownership to cover almost all of the modern sector. But the system has evolved since then and is continuing to change as a result of the Government's program of economic reform. The rural economy consists in the main of people's communes, about 53,000 of them each with about 3,500 households. The commune itself is a multi-level management system with about 30-40 households making up a team, 7-8 teams making up a brigade and 13-15 brigades making up a commune. The division of responsibility for economic and social activities among these levels varies with the locality and is now undergoing major change. But everywhere land remains collectively owned. Enterprises owned by the state make up much of the rest of the economy. Traditionally, such organizations have enjoyed little independence but this is gradually being changed as a result of recent reforms. Urban collectives employ about one-fifth of the urban labor force and the self-employed are a small but rapidly growing part of the Chinese economic system.
4. Development efforts over the past three decades have been directed toward two main objectives: first, industrialization, and in particular development of a heavy industrial base; second, elimination of the worst aspects of poverty. Chinese development strategy has also been shaped by two major constraints: first, an extreme shortage of cultivable land in relation to population; second, a high degree of international isolation.

5. These two constraints have sharpened the conflict between the two objectives. The prospective returns to investment in agriculture (the principal source of income for the poor) have been limited by land scarcity and by the fact that the easiest advances in intensive cultivation have already been made. Similarly the inevitable competition for capital and skilled manpower between industrialization and other means of poverty reduction was for a long period aggravated by reliance entirely on domestic resources and technology.

6. The Chinese response to this dilemma was to approach the two objectives in two different ways. Following an initial phase of institutional change and property redistribution, poverty reduction - mainly through rural development and the provision of basic health and education services - was based largely on local resources and initiative. Industrialization, by contrast, was based mainly on a massive infusion of centrally mobilized resources, with little concern for cost effectiveness, and using largely Soviet technology of the 1950s.

7. Tension between these two approaches contributed to sharp policy oscillations, as has a continuing debate on the role of political criteria in economic decisions and on the most appropriate degree of centralization. The country is only now recovering from the latest political upheavals - the Cultural Revolution (1966-76) - during which extreme leftist views often predominated, and egalitarianism and ideology were emphasized at the expense of economic efficiency.

8. Notwithstanding these policy swings, which have engendered some dramatic economic fluctuations, there has been substantial progress toward the two main objectives. Industrialization has been very rapid, largely as the result of an unusually high rate of investment, virtually all of which has been financed by domestic savings. The share of industry in GDP (around 44%) is currently similar to the average for middle-income developing countries. However, agriculture still accounts for 35% of GDP and over 70% of employment - similar to the average for low-income developing countries. Around 85% of the population still lives in rural areas.

9. Over the whole period 1949-81 the population expanded at a little under 2% a year. Despite the tightly constrained agricultural sector, rapid expansion of industrial output has caused national income per person to grow fairly fast. With adjustments for international comparability, per capita GNP
appears to have grown at an annual rate of 2.0-2.5% in 1957-77 and (because of a spurt in recent years) 2.5-3.0% in 1957-81. Even the former rate is significantly above the average for other low-income developing countries (1.6% in 1960-78) - though the latter is still well below the average for middle-income developing countries (3.7%) and has not been high enough to pull China out of the low-income group.

Strengths and Weaknesses

10. China has clearly displayed an outstanding capacity to mobilize domestic resources - material, human and financial - in pursuit of comparatively well-defined national objectives. Given the shortage of land and initially high yields, agricultural growth since 1949 has been quite impressive. Yields of the major crops are now among the highest in the world though labor productivity remains low. Agricultural growth, at about 3% a year, has, however, been eclipsed by industrial growth at an average rate of more than 10% per year. Although a large minority of the population (around 200 million people) remains very poor, low income groups in China have been made better off in terms of employment, nutrition, health and basic education than their counterparts in most other poor countries. Partly as a result, but also through an intensive political campaign in the 1970s, the population growth rate has been reduced in recent years to a remarkably low level (1.4% in 1981). Life expectancy - whose dependence on many other economic and social variables makes it probably the best single indicator of human welfare in a country - is (at 68 years) outstandingly high for a country at China's per capita income level.

11. The outstanding weakness of China's economy is inefficiency - in converting inputs into outputs, in matching supply with demand, and in investment decision making. This is partly the result of technological backwardness, caused by two decades of international isolation. But it also reflects the virtual absence of medium-term planning from 1958 until recently, the lack of economic criteria in investment analysis, and serious weaknesses in the economic system - in particular, inadequate contact between producers and users, insufficient use of markets and price incentives, inadequate linkage between effort and rewards, and an overstaffed and cumbersome bureaucracy.

Recent Developments

12. To address the underlying weaknesses and imbalances in the economy and ensure rapid growth and improvements in living standards, the Government initiated a program of adjustment and reform in 1979. Structural adjustment is aimed at speeding improvements in living standards. It has involved readjusting the relative shares of consumption and investment in national income, some sectoral and subsectoral readjustments and an emphasis on foreign trade. Economic reform is aimed at improving the overall efficiency of the economic system and involves: (a) restoring and improving the quality of
central planning and policy coordination; (b) devolving more decision-making authority to lower level units in the economic system; (c) establishing more direct links between incomes and the performance of economic units and individuals; and (d) placing more reliance on market mechanisms and economic instruments, less on administrative directives, to influence economic activity. In 1981 problems of inflation and large budgetary and current account deficits resulted in short-term stabilization temporarily receiving the highest priority, but by 1982 the Government was again pushing ahead rapidly with adjustment and reform.

Economic Reform

13. Reforms in the system of economic management have now affected all sectors of the economy and institutions from the central government down to production teams and rural households. A major reorganization of the central government has strengthened the core planning and management agencies (especially the State Planning Commission and the State Economic Commission) and reduced the total number of commissions, ministries and agencies under the State Council from 98 to 52. A reorganization of departments and divisions within ministries and of provincial and local governments is underway. Economic management has also been decentralized: provincial and local planning commissions and banks have been given more autonomy in investment decision-making and there has been an increased use of credit to finance investments; provincial and local governments have been granted greater budgetary flexibility and more incentives to expand revenues and/or economize on expenditures; and the powers of ministries, new territorially based trading companies and, in some cases, enterprises to engage directly in foreign trade have been substantially increased.

14. Reforms of the economic system have been greatest in rural areas. The most important and fundamental change has been the introduction of various types of “production responsibility system” which give lower level collective units, groups and households more autonomy in production and investment decisions and link incomes directly with output. By the end of 1982, 92% of production teams in China had implemented some form of production responsibility system; 78% of teams had implemented some form of household responsibility system, which involves retaining collective ownership of farm land and major equipment but contracting out plots of land to individual households. In many cases households can farm the land as they wish and retain whatever they produce beyond their obligations to the state (in the form of taxes and compulsory deliveries at fixed prices) and to the collective (for welfare and other expenses). These obligations now account on average for about one third of a household’s production. In recent years there has also been an increase in the number and types of rural markets at which households can freely trade commodities.

15. Economic reform has not proceeded as far or as fast in urban areas, but significant systemic changes have still taken place. Management of state
enterprises has been affected by a number of changes and experiments aimed at improving incentives, including the introduction of profit retention schemes and more flexible payment and employment practices. There has been experimentation with different types of state enterprise organization, 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 collective and individual economic activities has also been enlarged.

16. Many economic reforms, especially those in rural areas, have already had a positive impact on efficiency, while others will take longer to have a significant effect. There are also some emerging issues with economic reform that the Government will need to address. In rural areas for example there is the issue of the potential conflict between enhanced economic incentives and equity in income distribution as well as preservation of some of the strengths of the commune system in terms of provision of basic needs and other services and mobilization of labor for construction and maintenance of community infrastructure. In the state enterprise sector, many units still do not have to take full responsibility for their decisions (commercial units buy whatever they produce and there is no risk of being closed down) and are therefore still inclined to overinvest and overproduce. Substantial decentralization of decision making without reforms in the pricing system has also caused lower level units to make some inappropriate investment and production decisions. More use is being made of the market, but information and transport systems are still weak, markets are fragmented and competition is limited. It has also been difficult to develop effective indirect fiscal and monetary policy instruments. During 1982 the Government reviewed such issues and concluded that weaknesses and inconsistencies in reform should be overcome not by backtracking on reform but by carrying out more careful studies and experiments and speeding up the reform process.

Adjustment, Stabilization and Growth

17. During the past four years the Government has followed a strategy of setting relatively modest targets while pushing ahead with economic and administrative measures that would contribute to adjustment and stabilization as well as to economic growth. The various measures have included: major increases in agricultural procurement prices; strict controls on many other prices; rationing and other administrative measures to improve efficiency of resource use; changes in the amount and composition of state capital construction; various fiscal measures designed to limit the budget deficit; increases in and a rationalization of interest rates; moderation of currency and credit expansion; and the introduction of an internal settlement rate for foreign exchange transactions and other measures to encourage exports and economize on imports.

18. These economic and administrative measures have combined with systemic changes to play an important role in the impressive performance of
the Chinese economy in recent years. They have contributed to structural adjustment by helping to reduce the share of investment in net material product (NMP) from 36% in 1978 to 28% in 1981, by stimulating agricultural production and by shifting the emphasis from heavy to light industry. In several ways they have also been critical in restoring economic stability in 1981 and 1982. First they helped to lower the rate of inflation (prices of nonstaple foodstuffs and some other goods have been increasing quite rapidly but the overall level of retail prices rose by only 2.4% in 1981 and an estimated 2% in 1982 compared with 6% in 1980). Second they helped to reduce the budget deficit (adjusted to eliminate financing items) from 7% of NMP in 1979 and 5% in 1980 to less than 2% in 1981 and 1982. Finally they helped to convert the $2.4 billion current account deficit of 1980 into a $2.0 billion surplus in 1981 and an estimated $4.4 billion surplus in 1982. Throughout the period various policy measures and reforms have also been important in ensuring a satisfactory overall rate of economic growth: gross agricultural and industrial output at constant prices has grown by 6.9% per year between 1978 and 1982 and NMP at constant prices by an estimated 5.3%. In the period 1978-81 net investment appears to have stagnated or even declined in real terms while material consumption grew in real terms by over 8% p.a.

19. The combination of structural adjustment, rapid overall economic growth and a low population growth rate (1.3% p.a. between 1978 and 1981) has led to rapid increases in per capita incomes in recent years. In urban areas, general wage increases and higher bonuses have more than offset the increase in the cost of living index, and real per capita incomes increased by 4.8% p.a. between 1978 and 1981. The number of urban unemployed has been reduced dramatically and, with government encouragement, urban self-employment has grown rapidly. Even more impressive, however, has been the increase in rural incomes. After a long period of stagnation, rural per capita incomes increased in money terms by 16-18% p.a. between 1978 and 1981; the real increase in incomes was 10-12% p.a. About 60% of this dramatic increase is due to increased production and the remainder to shifts in the terms of trade in favor of rural producers. While areas and households that were already relatively well off may have benefited the most and income differentials at a local level may have increased, many poor areas and households have apparently enjoyed substantial income improvements. During 1982 there were further increases in real per capita incomes, with rural incomes continuing to grow more rapidly than urban incomes.

20. The high rate of investment in 1978 and the low returns to much of this investment made a cutback in the investment rate a priority for the adjustment program. But achieving such a cutback has proved to be a difficult task. Decentralization of investment decision making and financial resources without accompanying reforms in prices and enterprise responsibility has resulted in a rapid expansion in investment financed from retained earnings or local resources. Some of this investment has gone to priority areas including housing but other investment appears to have been in projects that from a national perspective are of a relatively low priority. The central government has found it difficult to control such investment, even through administrative
regulations. Meanwhile state budget investment has been constrained by the need to restore fiscal stability. As a result most of the cutbacks in investment have had to be in large centrally financed projects and in 1981 even the priority sectors of energy and transportation were affected. Some of these high priority projects were revived later in 1981 and during 1982, but appropriate planning techniques and incentive systems still need to be developed that will ensure a more optimal level and composition of investment.

21. The introduction of "production responsibility systems" in rural areas, the major improvement in the terms of trade for rural producers and reductions in the quantity of grain and other products farmers are obliged to provide to the state at fixed prices have all contributed to a very strong performance of agriculture. Gross agricultural output at constant prices increased by 6.0% p.a. between 1978 and 1982; however real value added in agriculture has not been growing as rapidly. There has been a substantial diversification of the sector, with production of cash crops including oilseeds, cotton and sugar expanding rapidly and large increases in livestock and sideline production (including brigade and team industry). Grain production has also done well, increasing by about 2.8% p.a. during 1978-82 as a result of significant yield improvements (the area planted to grain has actually fallen). However, domestic grain consumption appears to have increased more rapidly, and net imports of grain have risen to about 15 million tons (4% of total domestic consumption). Emphasis is now being placed on providing the incentives (including price incentives) and other assistance that will further stimulate agricultural production and ensure an appropriate balance between grain and nongrain agriculture.

22. The industrial sector has also performed well in recent years: gross output at constant prices has increased by 7.2% p.a. during 1978-82 (heavy industry by 3.3% p.a. and light industry by 11.8% p.a.). Both the overall growth rate and the pattern of industrial production have been affected by the energy situation. Due to the stagnation of energy production and continued exports of energy products, domestic consumption of energy has grown by less than 2% p.a. during 1979-82, while NMP has risen by nearly 5% p.a. This has been possible largely because of the changing structure of industry: heavy industry consumes about four times as much energy per unit of output as light industry and heavy industry grew very slowly in 1980 and actually declined in 1981 before picking up again in 1982. The Government has been stressing the importance of improved efficiency and energy savings within sectors and has been pursuing energy conservation through rationing and other administrative measures as well as a few selected price and tax changes. It is recognized that as economic reforms proceed further, the role of pricing in energy conservation will become more important.

23. The restoration of fiscal stability in 1981 and 1982 has been achieved more through expenditure restraints than through revenue growth. Total domestic revenues have been increasing but at only half the rate of growth of NMP, in part due to the introduction of profit retention schemes and the shift in the composition of industrial output from heavy to light
industry. Among expenditure items, spending on capital construction has fallen in every year since 1978 while subsidies (mainly on daily living necessities) have increased dramatically from 6.6% of total expenditures in 1978 to 26.0% in 1982. However, the issue of subsidies is more a pricing and income distribution issue than a fiscal issue. Because of the Government's concern about open inflation, many of the increases in agricultural procurement prices have been financed by subsidies rather than being passed on to urban consumers, but without such subsidies the Government would probably have been obliged to permit larger wage increases and hence lower profit remittances (which are a major source of government revenue), leaving the fiscal situation largely unaffected.

24. The improvement in the balance of payments in 1981 and 1982 has been much greater than anticipated. The performance of merchandise exports has been very impressive with real growth averaging over 15% p.a. during 1978-82, mainly because of a rapid growth in manufactured exports which has been encouraged by the decentralization of foreign trade and the introduction of the internal settlement rate. However, some of the growth appears to have resulted from excessive competition among provinces and organizations and from exports of basic consumer and producer goods that are in short supply domestically. To address such problems the Government introduced various export quotas and export duties during 1982. The real growth rate of exports has been declining steadily since 1978, reaching an estimated 8% in 1982. Export prices have also declined and the nominal value of exports in 1982 increased by only 3%. Meanwhile the volume of imports declined in both 1981 and 1982, due in part to the lagged effect of contract cancellations and suspensions (which resulted in a 50% drop in the value of imports of complete plants and sets of equipment in 1982), but also to delays in delivery of equipment already ordered and to problems in obtaining high technology goods. A substantial increase in imports is expected in 1983 and 1984 as China endeavors to take advantage of its strong balance of payments position to import more machinery and equipment and expand its investment program, especially in the priority sectors of energy and transport.

25. A major consequence of the Government's conservative trade and balance of payments strategy has been a much reduced need for foreign borrowing. In 1980 and 1981 the Government cut back sharply on interbank borrowing and in 1981 and 1982 took advantage of the unexpectedly strong current account position to repay commercial bank and other loans. In 1981 China's debt service ratio was 7.8%, due in part to accelerated loan repayments. At the end of 1981 total reserves (excluding gold) were $5.0 billion or 3 months of 1981 f.o.b. imports; by the end of the third quarter of 1982 they had increased to $9.4 billion.

Medium Term Prospects

26. During the remainder of the 1980s the Government's efforts to improve the living standards of the Chinese people should be helped considerably by the 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 possibilities for improving efficiency through economic reform. Rapid and equitable economic development is constrained by a number of factors, however, some of long-standing and others of more recent origin. There are serious shortages of skilled manpower and current enrollment in both universities and technical and vocational schools is one quarter of the average for other developing countries. The performance of agriculture in recent years has been very good; but with no possibilities for expanding the cultivated area and with cropping intensities and yields already quite high, the growth rate for agriculture (excluding brigade and team industry) is unlikely to average more than 3-4% p.a. during the 1980s. Efforts also need to be made to ensure that all areas and regions participate in agricultural growth. Energy availability will continue to constrain industrial growth during the remainder of the decade, 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 and reform have resulted in the central government having relatively little control over large parts of the investment program. To address some of these problems and maintain relatively rapid growth and improvements in living standards, further reform and adjustment measures will be required including price reform and greater use of foreign imports and capital.

27. In recognition of these problems and issues the Government’s Sixth Five Year Plan (published in December 1982 but covering the period January 1981 - December 1985) emphasizes continuation of the program of "adjustment, reform, consolidation and improvement of the national economy." The period 1981-85 is essentially viewed as an interim period during which important readjustments and reforms of the economy will occur. These will lay the foundation for more rapid economic development during subsequent plan periods. Modest targets are set for production and income growth (the target growth rates for gross agricultural and industrial output and for NMP are 4%), consumption is expected to grow faster than investment, prices will be kept basically stable, the budget deficit will be kept low and a significant expansion in foreign trade is forecast, with imports growing more rapidly than exports. In all sectors of the economy the priority will be on policy and institutional measures to improve efficiency rather than on maximization of output, but the Government expects that most of the production targets of the Sixth Plan will be surpassed, as they have been in the first two years of the plan.

28. The Government has also announced that, in order to encourage efficiency improvements, reform implementation will be speeded up during the next three years. Rural reforms are to be broadened and strengthened, with production responsibility systems 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, schemes for replacing
profit remittances with taxes will be greatly expanded, the system of industrial administration will be revamped and streamlined and greater efforts will be made to close down inefficient enterprises. Reform of the commercial system will receive special attention during the next three years and the development of collective and individual commerce, particularly in rural areas, will be promoted. In the area of investment planning the Government is emphasizing 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. Of particular importance are measures to introduce formal economic analysis (including use of shadow prices) into investment decisions and to decentralize decision making not just to administrative units but also to producing units which can be made more economically and financially responsible for their decisions through appropriate pricing and incentive schemes. Price reform itself is critical. The Government recognizes this but, in view of the complexities and magnitude of the changes that will be required, has decided that it will not be possible to implement comprehensive price reform until after 1985. However, appropriate upward or downward adjustments in the most distorted prices can and will be made, and the prices of many minor commodities will be allowed to fluctuate according to market conditions. These will be important steps forward in what is likely to be a gradual process of reform that will need to take account of the scope for "unfreezing" of prices and how state determined prices should relate both to domestic costs and to world prices.

29. During the remainder of the 1980s China's development and modernization programs are expected to result in a rapid expansion in imports of capital and intermediate goods. By the late 1980s some imports of energy also appear to be necessary before new production capacity is established. As a result of this expansion in imports China's temporary situation of current account surpluses is expected to change quickly to one of moderate current account deficits and its requirements for foreign capital to finance development and modernization are expected to increase greatly. But the overall rate of import expansion, the size of the current account deficits, and the magnitude of foreign borrowing requirements are very sensitive to assumptions about economic trends (including overall growth rates and the performance of manufactured exports) and the effectiveness of government programs. For example, even a slight acceleration of economic growth without significant improvements in efficiency, especially energy efficiency, could result in large current account deficits and debt management difficulties by the end of the 1980s. In fact, a relatively high rate of economic growth of 6-7% p.a. during the rest of the 1980s (which is the growth rate used in the projections in Annex 1) will probably only be feasible if major improvements in energy efficiency continue to be achieved. In view of the sensitivity of the balance of payments to relatively small changes in key variables, the Government will need to monitor developments closely and remain quite cautious in its import and foreign borrowing strategy.
30. China's access to concessionary capital to finance its development and modernization program is limited: apart from what it might obtain from the Bank Group, concessionary capital is only likely to come from Japan and a few other bilateral donors and will likely average only $500-600 million a year during the 1980s. Quantitative projections show that if China is to maintain a reasonable growth rate while keeping debt service payments at a manageable level it will need to obtain the necessary foreign capital at an average interest rate below the market rate. China also has a strong claim to concessionary lending because it is still one of the poorer countries in the world.

31. For China, as for many other developing countries, the 1980s will be a difficult decade, and one whose problems will be compounded by errors made in the 1960s and early 1970s. But looking further ahead, China's economic prospects appear favorable. By 1990, most new entrants to 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 sufficient foreign exchange for the Government to have more confidence in using foreign capital 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, within a generation or so, to achieve a substantial increase 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 adjustment and reform in the 1980s.

PART II - BANK GROUP OPERATIONS IN CHINA

32. In view of the particular circumstances of China and the economic transition now underway, the Bank's relationship with China should have several broad objectives. Firstly, the Bank should offer China its considerable development experience and institutional knowledge. Moreover, working with the Bank represents one means for China to re-establish its position in the world community after its lengthy isolation. Secondly, the Bank should assist China in removing the major constraints on development - the shortages of energy, transport infrastructure, skilled manpower and modern technology. Even more important, the Bank should help the authorities to use these and other inputs more efficiently, by improving project analysis and investment control, as well as overall economic management and planning. Finally, the Bank should help the Government identify ways of reducing China's remaining poverty. Since the Government has been successful in meeting the basic needs of most of its people, these efforts should concentrate on increasing incomes in the poorest rural areas.
Since China’s change of representation in the Bank Group in May 1980, seven projects involving lending of about $790 million have been approved. Two have been in education (University Development and Agricultural Education and Research), two in energy (Daqing Oilfield Gaotaizi Reservoir Development and Zhongyuan-Wenliu Petroleum), one in agriculture (North China Plain Agriculture), one in transport (Three Ports), and one in industry (Industrial Credit). Annex II contains a summary statement on these loans and credits, as well as notes on the execution of ongoing projects, as of March 31, 1983.

Economic and Sector Work

The Bank’s economic and sector work was initially designed to provide a basis of knowledge on the development and functioning of the Chinese economy. This work resulted in completion of a nine-volume introductory economic report in June 1981. A follow-up country economic memorandum analyzing developments over the past two years is being distributed to the Executive Directors separately. In addition, the Bank is undertaking studies in several areas important for our understanding of the Chinese system, including rural finance and urban planning and management in Shanghai.

Other economic work is designed to assist China in its present effort to promote efficient use of investment resources, and more generally to introduce new methods of economic management and planning. As preparation for the Industrial Credit Project, an appraisal manual has been developed with Bank assistance by the new financial intermediary, the China Investment Bank (CIB). The Bank is now helping to develop a similar manual for the Agricultural Bank of China (ABC). A program of economic research on China’s development problems, aimed at the application of advanced analytical techniques, has begun in collaboration with Chinese economic research institutions in the areas of enterprise incentives and analysis of structural change.

Sector studies will help inter alia to identify and prepare future investments. Some have been included in Bank-financed projects, e.g., agricultural development in Shandong province under the North China Plain Agriculture Project, containerization under the Three Ports Project, and agricultural manpower and research under the Agricultural Education and Research Project. A health sector review is reporting on rural health care delivery systems and health manpower development.

Near-Term Lending

Work has begun on a range of projects, with emphasis on improved management and efficiency as well as on training. Several are in the key sectors of energy and transportation. In energy, the Bank’s efforts will help to increase the supply of fuel and power. Future petroleum projects would, like the first two projects, continue to emphasize introduction of
modern technology, staff training, field management and studies. Other operations are proposed to support hydropower generation in southwest China and the development and management of large underground coal mines in Shanxi province and an open-pit mine in Nei Monggol. Support of transportation began through the modernization of container and coal handling facilities at China's three major ports. The Bank plans to finance further projects in ports where additional capacity is needed and railway projects, particularly to transport coal from mines in Shanxi to the east coast.

38. In view of China's shortages of manpower with higher or technical education, the Bank will continue its support of education, notably the TV university, a pilot program of basic colleges, another university development project, and a second agricultural education project. Support of agriculture will also continue through the proposed project to develop presently uncultivated land in Heilongjiang province for grain production, as well as others to develop rubber cultivation in Guangdong province, provide rural credit in two provinces with emphasis on improved project appraisal and institution-building, provide further assistance in agricultural research, and assist the Government in a forestry project. Besides the Industrial Credit Project, further loans would be made to the China Investment Bank for modernization of light industries and export projects. The Bank may also become involved in technical assistance and investment in support of energy conservation in industry. In health, a project would help improve rural health care services and medical education. Bank assistance is also planned for a water supply project.

PART III - THE AGRICULTURAL SECTOR

39. Agriculture in China, including crops, livestock, forestry and fisheries, provides sustenance to nearly 1 billion people, is the source of income for some 290 million agricultural workers and their dependents, and accounts for about 30% of the country's GDP. China produces about 40% of the world's annual rice harvest, 14% of the wheat, 10% of the maize and 16% of the cotton and the tea. It also accounts for 40% of the world's swine herd. Among the developing economies, China accounts for more than 30% of the total farming population. The production organization for Chinese agriculture includes collective units under the commune system (which account for 89% of cropland and 80% of rural income), state farms (4% and 4%), and private plots assigned to families on communes and state farms (7% and 16%).

40. The agricultural sector is dominated by grain production, which accounts for some 60% of total agricultural output and 80% of cropland. Of the country's 960 million ha, only about 10.4% or 100 million ha are arable lands available for sustained cropping. The ratio of population to arable land is just under 10 persons per ha. Slightly less than half of China's arable land is irrigated. In global terms, China's agricultural sector accounts for less than 8% of the world's arable land but provides enough food
for about 22% of the world's population. This is possible because of the generally high standards of crop production. Paddy yields, at about 4 tons per ha, are nearly 50% higher than the average for all developing countries. Sugarcane yields approach those reported for developed countries. The national average cropping intensity is about 150%.

41. Agriculture has been a high priority sector of the Chinese economy for more than 30 years, with special attention given to grain production in efforts to attain self-sufficiency. Investment in agriculture has averaged only about 20% of total national investment, substantially less in percentage terms than the sector's contribution to GDP, net exports, and employment. This proportion has increased in recent years. In general, China's efforts to develop agriculture have been broadly successful. Growth in food production has more than kept pace with population growth and almost all Chinese now have access to adequate quantities of food. Imports of agricultural products and production inputs have been limited to only about 25% of all imports, and exports of raw and processed agricultural products have contributed about 80% of all foreign exchange earnings.

Sector Development Issues and Strategy

42. A major task in the agricultural sector is to reduce imports of grains and cotton. The gap between domestic supply and demand for food and fiber appears to be widening. At the same time, efforts are needed to raise incomes and living standards in rural areas. Main objectives of recent agricultural policy reforms are to raise the incomes and living standards in rural areas. In the rice-growing areas most of the relatively easy gains in production through irrigation and the use of new high-yielding crop varieties and fertilizers have been achieved. In northern China, where wheat, soybean and corn are the main crops, there are prospects for increased production through drainage, better harvesting techniques and improved seed production. Expansion of the land base and improvement of land productivity are becoming much harder and more expensive with the need to upgrade production in environmentally less favorable areas.

43. To meet these challenges, the Government has begun to implement some new policies aimed at giving farm workers more production incentives. Acreage quotas for particular crops have been relaxed, although minimum grain marketing quotas are still imposed. This gives greater freedom in crop choices and production decisions to the individual brigades and production teams which make up communes and state farms. To encourage specialization in crops having comparative advantage in production in particular regions, the Government has given a guarantee to regions best suited to cash crop production that their basic food needs will be met from government stocks, which are to be supplied through increased surpluses and government purchases in areas specializing in food grain production.

44. The needed increases in food grain production and marketed surpluses are not likely to be forthcoming without particular encouragement and
assistance to areas best suited to grain production. The Government has designated some areas, particularly the Northeast Region, as grain base regions and initiated programs to rapidly increase their grain production and marketable surplus capacities. In mid-1980, the Government decided to concentrate its land development and farm mechanization program in the Northeast, especially Heilongjiang province, where labor-intensive farming is precluded by the long winters which permit cultivation of only a single grain crop. Since a large area of land is needed to support a family, and essential crop operations must be performed in very short time periods, there is, in fact, no alternative to mechanization and both the state farms and the communes in Heilongjiang are highly mechanized.

State Farms

45. State farms now produce only about 2% of China's grain, but with over 35% of it marketed (about double the commune average), they provide over 4% of the marketed surplus. The Government projects that by 1985 they will produce almost 3% of the grain crop and market 45% of production, to account for 9% of all marketing. The 2,400 state farms would account for almost 20% of the 35 million ton annual increase in grain production projected between 1979 and 1985. Because of their location in the drier and colder areas of the country, state farms also tend to be well suited for production of grains that are imported in large amounts, especially wheat. The first state farms were mostly on virgin lands in Heilongjiang province, where the cultivated land has grown from about 30,000 ha in 1949 to about 2 million ha now. As Heilongjiang development proved successful, additional areas on China's borders were opened up as state farms. At present, state farms cover 30 million ha, with 4.5 million ha under cultivation, 4.5% of the nation's cultivated area. There are over 3,000 state farms more than 6,000 farm-managed industrial enterprises employing 3.8 million people.

46. State farms have been established in areas either technically too difficult or geographically too isolated to be developed as traditional farming communities. These border areas comprise about 60% of China's land area, but only a very small percentage of the land suitable for cultivation.

47. In accordance with the Government's plan to increase the marketed crop surplus, major land development programs have been planned by the Central General Bureau of State Farms and Land Reclamation (CGB) for 1981-86. The plans call for the development of 1.1 million ha of currently unused land for field crops, 60,000 ha for tree crops, and 2.2 million ha for improved pasture. The total estimated cost of the programs is Y 7.1 billion ($4.0 billion). Food crops would still account for the major portion of total investment, yet significant emphasis would now be given to livestock and cash crop production, with a view to creating greater opportunities for linkage to industry and also to increasing the meat supply.
48. In addition to their land development tasks, state farms have helped to provide rural wage employment for excess labor from agriculture and other sectors; encouraged and managed settlement of the more economically backward border regions; demonstrated modern farming methods; and provided technical assistance to communes. Until recently their financial performance was poor, but since the return of professional management in 1977 the farms have sharply increased productivity and financial performance. Yields are generally above those on communes in adjacent areas, and per capita incomes on state farms averaged $255 in 1979, compared to the nationwide commune average of $83. The higher incomes on state farms are partly explained by their lower work force per ha, about a third of that of communes (which control virtually all of the land suitable for high production and multiple cropping), and larger quantities of machinery and equipment with which to work. The state farms also benefit from Government efforts to upgrade management and labor skills.

49. Climatic factors in the areas of major concentration for state farms generally preclude the labor-intensive approach to agriculture characteristic of most parts of China. Without heavy mechanization of field operations in areas like Heilongjiang, progress in bringing land into cultivation would have been greatly slowed. The development of these zones has thus been considerably influenced by China's capacity to produce an appropriate volume and range of agricultural equipment and machinery. While much success in this regard has been achieved, the design standards and efficiency of local manufacture still leave considerable room for improvement. The Government is taking steps to upgrade the design and manufacture of farm machinery. Smaller and less efficient producers are being closed down and a higher degree of specialization introduced. Also, advanced technology is being acquired through licensing agreements and joint ventures with foreign farm equipment manufacturers; recent agreements are for diesel engines and combine harvesters. The proposed project would support the Government's objective of modernizing farm mechanization by providing a large number of farm managers, operators and technicians with experience in the use of modern farm machinery.

50. Further improvement in state farm development is also expected from a number of other approaches now being studied and implemented. Among innovations are decentralized decision making with most decisions on management and investment now being left to individual farms, increased mechanization, and an expansion of private plots. Tillage techniques are being revised to reduce soil disturbance, conserve moisture, and promote decay of crop residues. The farms are also seeking to expand sideline processing and manufacturing in order to absorb new labor force entrants and workers released as machinery used in agricultural operations is upgraded. Continued efforts are required to: further increase worker incentives; adjust output mixes and levels to the new price relationships and less restrictive quotas; identify economically appropriate levels and modes of mechanization; improve crop management, particularly through greater use of improved plant varieties and
other modern inputs; and improve training of workers for agriculture and the rapidly expanding sideline industries. The proposed project would help to meet some of these objectives.

Organization and Management

51. Central General Bureau. As one of four general bureaus in the Ministry of Agriculture, Animal Husbandry and Fisheries (MAAF), the Central General Bureau (CGB) has overall responsibility for policy determination, production planning, administration, investment and material supply of the state farms. Some activities in the spheres of planning, research, reporting and education have formally been transferred to separate offices within MAAF. CGB has five subsidiary organizational levels: provincial, sub-provincial, farm, sub-farm and brigade.

52. Heilongjiang General Bureau. In Heilongjiang province, the state farm organization consists of a Heilongjiang Provincial General Bureau of State Farms and Land Reclamation (HGB), 9 sub-bureaus and 109 farms covering about 2 million ha under cultivation. Within the larger farms, sub-farms exist either as free-standing production units or as management links between the brigades and the farm. HGB is technically a part of the provincial government under the authority of its Standing Committee, but is also responsible to CGB. In principle, allocation of personnel, production quotas and sales and working capital are determined by the provincial government. Also, in principle, profits of state farms belong to the provincial government, but in practice HGB has considerable independence in their use. Although total investment funds are determined by the central or provincial governments, their disposition is the responsibility of HGB.

53. Sub-Bureaus. Administrative and agricultural support services are largely concentrated at the sub-bureau level. Sub-bureau headquarters, situated on railheads, are on the scale of market towns. The sub-bureau directors and their staff of engineers, agriculturalists and other technical and management specialists, exercise general supervision over farm management and investment planning and execution by the farms with which they are in day-to-day communication.

54. Farms. Farms over 5,000 ha in the project area are usually divided into sub-farms, with much of the farm management conducted at the lower level. Farms smaller than 5,000 ha are not so subdivided; the brigades answer directly to the farm. Alternatively, on a few farms there are no brigades and the sub-farms are the lowest level of management unit. Farms and their sub-units are run by professional managers, supported by a specialized staff and advised by an elected workers' council. The basic unit of management is the brigade, currently comprising 70-80 families responsible for a cultivated area averaging some 1,000 ha, about 7.3 ha per farm worker.
Financial Management

55. Historically, financial management of the state farms has been highly centralized, with the Government receiving all profits, absorbing losses, and making most financial decisions. However, beginning in 1979 a "work responsibility" program was implemented under which a high degree of financial autonomy was conferred on subordinate organizational units. This program has been fully implemented in Heilongjiang, where HGB retains all of its profits, and the central Government does not automatically absorb its losses. However, the Government continues to provide funding for infrastructure, training and research on state farms.

56. Prior to 1979, the state farms had continuously run at a loss, with about Y 200 million of the annual losses attributable to various quasi-governmental social expenditures and to the support by state farms of large numbers of unemployed youth. The price reforms of 1979 restored a measure of profitability and by 1980, annual after-tax profits of the state farms had reached Y 699 million, of which 55% was attributable to HGB.

Bank Group Lending for Agriculture

57. The Bank's strategy for lending in China's agricultural sector is to support the Government's efforts to raise agricultural production through the more efficient use of land and water resources and improvements in the support services such as research and agricultural education. Projects are also being selected for their demonstration and catalytic impact in addition to immediate income generation. Suitable opportunities are likely to be found among a wide range of activities and locations. The first Bank Group operation in the agricultural sector will provide irrigation and drainage for 200,000 ha of the North China Plain and will be the first large-scale attack on soil salinity and waterlogging in China. A second project will support agricultural education and research. Other projects for possible future Bank Group financing include a rubber project to assist in new planting of about 20,000 ha and replanting of some 15,000 ha with high-yielding clones; a rural credit project to include assistance in agriculture, livestock and poultry, tree crops, and agro-industrial processing and with numerous opportunities for technology transfer, improved project appraisal and employment creation; and a forestry project that might include commercial forestry in northeast China, forestry education and research.

PART IV - THE PROJECT

58. The project was prepared by CGB. A Staff Appraisal Report No. 4159-CHA, dated March 31, 1983, is being distributed separately. Supplementary project data are provided in Annex III. Negotiations were held in Washington from March 7-11, 1983, with a Chinese delegation led by Mr. Ge Fucun, Director, External Finance Department of the Ministry of Finance.
Project Scope and Design

59. The proposed project would be located in Heilongjiang province, the northeastern most province of China. It would develop some 200,000 ha of unused land for production of food grains and soybeans; 182,000 ha are on 25 existing farms in the Sanjiang Plain Region in the northeastern part of the province, and 18,000 ha are on 5 farms in the Lesser Xinganling Region in the northwest (Map IBRD 16545). The lands to be developed consist of 75 individual blocks ranging from 1,000 ha to 10,000 ha. Land development would entail construction of a system of surface drains and access roads. HGB has successfully developed similar lands covering some 900,000 ha in Heilongjiang. The project plan, prepared by HGB, was reviewed by several Bank Group missions and the details of the proposal were refined, particularly the agricultural machinery and construction equipment package, and the technical details of the drainage works. Also, a component was added to provide seed processing and storage equipment.

60. The project would include innovations that are expected to have a significant impact on land already cultivated in the province, as well as on land still to be brought into production. Farm machinery, of a more advanced design than presently used in Heilongjiang, would be introduced to improve techniques for land preparation, planting, cultivating, and harvesting; most of this equipment would be imported. HGB has already pioneered the use of imported machinery on two state farms with considerable success. The project would also introduce improved construction methods, particularly the use of imported hydraulic backhoe excavators, some mounted on amphibious undercarriages, for drain excavation; the present practice of excavation by bulldozers is slow and costly.

Principal Project Features

61. The project would include:

(a) development of 200,000 ha of uncultivated land through drainage and land clearing, including construction and improvement of about 2,100 km of main and branch drains, 7,800 km of lateral and sublateral drains, 370 km of flood embankments, and 24 drainage pumping stations;

(b) construction of about 1,500 km of rural roads and 2,200 km of farm roads;

(c) construction of sub-farm and brigade headquarters, including housing for about 8,000 families, community facilities, offices, workshops, stores and utilities;
(d) construction of drying floors and grain stores;

(e) procurement of agricultural machinery to permit full mechanization of farm operations in the project area;

(f) procurement of earthmoving equipment for drain and dike construction;

(g) procurement of seed processing equipment;

(h) technical assistance in the fields of planning, training, equipment maintenance, construction operations, and seed production; and

(i) overseas training and study tours.

Civil Works

62. Drains would be constructed in nearly all of the 75 blocks of land to be developed. Pumping stations would be required for about half of the project area where gravity flow would be prevented by high river levels in the flood season. Land clearing would involve removing the natural vegetation, mostly reeds and grasses; no land levelling would be required. About 1,500 km of rural roads would be constructed linking the sub-farms and brigades to the state farm headquarters. Farm roads would be constructed along most of the laterals. Housing, community buildings, offices, stores and workshops would be built for the 18 sub-farms and 57 brigades responsible for farming project hectarage. Electricity for the new communities would be supplied in part from power plants owned by the state farm system and in part from the national grid. About 400 km of 6.6 kV distribution line would be built together with seven 1000 kVA substations. The existing telephone network would be expanded by construction of 560 km of line. Drying floors sufficient to permit sun-drying of the entire grain crop and storage facilities for half the crop on project land would also be constructed.

Agricultural Machinery

63. The basic sources of draft power in Heilongjiang at present are 55 to 75 hp crawler tractors. They are used for virtually all plowing, harrowing and planting and also for towing combines. The tractors have a low working speed of less than 4 km/hr and low fuel efficiencies. The combination of these tractors and the rather primitive implements currently used leads to poor land preparation, seeding and cultivation. Most of the combines presently in use are out-of-date and lack special heads for soybeans and maize. As a result, harvesting losses are significant. In general, with their fleets of slow, small units, the farms do not have the capacity to speed up operations
when land preparation or harvesting is delayed by weather conditions. Increasing the numbers of machines would be only a partial solution to these problems and the Government has therefore embarked on a long-term modernization program. Initially, this has to be based on imported equipment since domestic production of more advanced designs is some years away.

64. On the basis of a detailed study of cropping patterns and farming operations, a total of 500 tractors of 125-140 hp would be provided under the project. Imported tractors in this power range have been in service for four years on the Youyi State Farm and have been highly effective. A total of 200 self-propelled combines in the 150-170 hp range with appropriate headers would be provided to ensure timely harvesting along with smaller tractors for transportation, smaller combines, and other farm machinery.

Construction Machinery

65. At present drains and roads are constructed using 75 hp crawler tractors fitted with bulldozer blades, for want of alternative construction machinery. These machines are slow and inefficient, particularly on saturated or flooded land; their use leads to excessive absorption of land by drains and poorly constructed roads. The project would provide backhoe excavators, a portion of which would be mounted on amphibious undercarriages, as well as scrapers, compactors and graders for road construction. This equipment would improve productivity, fuel efficiency, and the standards of drain and road construction.

Seed Processing Equipment

66. To improve seed development and production for Heilongjiang's state farms, HGB has recently established a Seed Company and is carrying out an overhaul of the entire seed research, production and distribution system. The company supervises experiment stations and/or pure strain forms as well as seed multiplication brigades located on each state farm. Under the project, eight seed processing plants would be installed at seed multiplication brigades in or near the project areas. Imported equipment would include seed dryers and cleaners, bagging machines, scales and seed treatment machines. Receiving and surge bins and seed storage bins would be purchased locally. The eight plants would serve the project areas plus an additional 200,000 ha.

Technical Assistance

67. Training. Throughout the HGB system, there are about 35,000 technical personnel, of whom 6,300 have the equivalent of college-level training, and 16,000 have secondary or technical school level training. HGB maintains an extensive educational and training system, including one university, eight postsecondary technical schools, and 275 secondary schools, of which 39 are technical schools. The state farms run an extensive training program during the winter with main emphasis on elementary crop husbandry and machinery
operation and maintenance. In recent years, courses in livestock and agro-industry have been introduced. The project would support and strengthen the training programs by providing 24 man-months of assistance from short-term external experts, and also a series of overseas study tours for selected personnel.

68. **Seed System Development.** The project would support the upgrading of the seed breeding, production and distribution system by providing 24 man-months of consultant assistance in plant breeding and in the organization and management of the seed production and distribution system. Provision would also be made for importation of new seed stock, particularly for maize, and for training of Chinese personnel at foreign universities and research centers.

69. **Equipment Maintenance.** The contracts for the supply of imported farm machinery and construction equipment would provide for training of state farm personnel in equipment maintenance. To be effective, this would have to be integrated into a maintenance system encompassing all farms under the control of HGB. Such a system with ample capacity already exists and standards of equipment maintenance are good, but it would need to be expanded and strengthened to handle a wider variety of equipment including types unfamiliar to the state farms. About 12 man-months of consultant services would be provided to assist HGB to upgrade its equipment maintenance and spare parts control system including training of personnel.

70. **Management and Planning.** The project would provide six man-months of consultant assistance to CGB and HGB and the sub-bureaus in techniques of financial planning, accounting, and economic and financial analysis. Provision would also be made for purchase of computers and computer software and training in their use.

71. **Construction Operations.** Most excavation of drains and construction of roads would involve equipment new to the state farms. Its effective use and the timely completion of project works would require a more systematic approach to construction planning than current practice. About 12 man-months of consultant services would therefore be provided to assist the HGB staff in construction planning.

72. **Consulting Services.** Consultant assignments would be mostly short term and extend over three years from the second half of 1983. Total estimated consultant input is 78 man-months. The estimated overall man-month cost for specialists would be about $13,000 inclusive of salaries, overhead, overseas allowance, travel, and living expenses while in China. Assurances were obtained that all consultants engaged under the project would be employed in accordance with the Bank's Guidelines on Consultants (Development Credit Agreement, Section 3.02).
Project Management and Execution

73. A Deputy Director-General of CGB would be the Project Coordinator. CGB's Planning Office would exercise an oversight function and its Foreign Affairs Office would retain primary responsibility for liaison with the Bank. Primary responsibility for design, procurement and construction supervision would rest with HGB. Project headquarters would be located in Jiamusi, where the Foreign Investment Management Office (FIMO) has been established to manage this and other externally financed projects. The Manager of FIMO reports to the Director-General of HGB. FIMO would be staffed initially by 13 specialists. An assurance was obtained that FIMO would be maintained during project implementation and adequately staffed with experienced and qualified personnel (Development Credit Agreement, Section 3.06).

74. Specialized construction teams responsible to HGB and located in the sub-bureaus where most of the work would be undertaken would be equipped with machinery provided by the project. Together with a special bridge construction team, they would be responsible for major works. Buildings and minor works would be built by each participating state farm. Construction of major works would be supervised by HGB and sub-bureau engineers, who would also review periodically the work of farm engineers in supervising buildings and minor works. Maintenance of drains, pumping stations and roads would be the responsibility of the state farms, supervised by the sub-bureaus and HGB.

Implementation Schedule

75. Detailed drainage studies have been carried out and the capacity and alignment of all major works have been determined and quantity estimates for them prepared. Sublateral drains, roads and buildings would follow standard designs. Technical specifications for farm machinery and construction equipment were finalized in March 1983. The project would be implemented over a four-year period beginning in April 1983. A detailed work plan for the first year has been prepared by HGB. About 20,000 ha of land would be developed in early 1983 in areas with minimum drainage needs, and about 60,000 ha would be developed in each of the following three years. An assurance was obtained from the Government that, by October 31 of each year until project completion, a work program and financing plan for the project for the following year would be prepared for Bank review (Development Credit Agreement, Section 3.05). Procurement actions for imported and local farm machinery would begin in early 1983 with first deliveries in late 1983. Equipment deliveries would be completed by June 1986.

Cost Estimates

76. The total project cost in end-1982 prices is $271.0 million, with a foreign exchange component of $99.1 million or 37% of the total cost. Unit prices for civil works and buildings are based on similar works recently completed near the project area. Prices for local equipment are based on data provided to HGB by local suppliers. For imported equipment, costs are based
on list prices obtained from foreign manufacturers. Import duties are
normally levied by the Government on imported equipment and would amount to
about Y 40 million, but are excluded from the project cost. Physical
contingencies of 15% have been applied to civil works and 10% to buildings.
Expected price increases amount to 13% of the base cost plus physical
contingencies and are based on annual escalation rates for both foreign and
local components (excluding local machinery) of 8% in 1983, 7.5% in 1984, 7%
in 1985, and 6% in 1986. The Government plans to hold prices for farm
machinery at present levels for the next two or three years.

Financing

Bank Group financing of $80.3 million would consist of an IDA
credit of SDR 41.3 million ($45.0 million) and a Bank loan of $35.3 million
(including a front-end fee of $0.3 million), and would cover 30% of project
costs. The balance of $190.7 million, or Y 334 million, would be provided by
a central government grant of Y 130 million, a contribution of Y 86 million
from HGB and Y 118 million from participating state farms. These local
funds would be pooled in a single account not allocated to specific project
components. The proceeds of the loan/credit would be devoted to equipment
procured almost entirely through international competitive bidding (generally
equipment of advanced design not commonly manufactured in China) and the
services of foreign consultants.

Procurement

International competitive bidding in accordance with Bank Group
guidelines would be the procedure followed in the procurement of almost all
the relatively sophisticated equipment to be financed out of the loan and
credit, including: agricultural machinery (total to be financed $63 million),
construction equipment ($12 million) and seed processing equipment ($2 mil-
lion). Items of equipment estimated to cost individually not more than
$100,000 and aggregating not more than $2.5 million would be procured on the
basis of three price quotations under procedures satisfactory to the Bank and
the Association. Domestic manufacturers would receive a margin of preference
of 15% or the customs duty, whichever is lower, in bid evaluation. It is
expected that the agricultural equipment would be procured in four main
contracts, two covering the self-propelled combines and two the tractors and
remaining equipment. Other equipment, such as small tractors and combines,
vehicles and primary tillage implements ($38 million), together with
construction materials used in civil works would be procured under local pro-
cedures which have been reviewed and found acceptable to the Bank. Civil
works ($74 million), buildings ($59 million), and drying floors ($4 million)
would be constructed by units already established in the sub-bureaus and state
farms.
**Disbursements**

79. Disbursements for the list of equipment to be procured through ICB would be at a rate of 100% of the foreign exchange cost of imported equipment or 100% of ex-factory bid price of local equipment; and 100% of total costs for consultant services and overseas training and study tours. No disbursement would be made for civil works, buildings or materials. The loan/credit would be allocated as follows: equipment $74.7 million; technical assistance and overseas training and study tours $2 million; unallocated $3.3 million; and front-end fee $0.3 million. It is estimated that disbursements would be completed by June 1987.

**Accounts and Audits**

80. HGB currently maintains detailed financial accounts from the farm level up covering capital construction and production. There are mandatory cross-checks at each administrative level against parallel accounts maintained within the banking system, and thorough audits are conducted in the event of significant discrepancies. An assurance was obtained that HGB would maintain separate project accounts and that they would be audited annually by independent auditors acceptable to the Bank. Pending the establishment and staffing of a separate audit authority, such an audit is expected to be carried out by the Ministry of Finance. Audited accounts will be submitted to the Bank within six months of the close of each financial year (Development Credit Agreement, Section 4.01).

**Environmental Effects**

81. The swamp lands between the Heilongjiang and the Wusuli rivers are rich in wild life. While reclamation of some swamp lands would reduce the size of the habitat, the Chinese authorities have set aside large areas to remain undeveloped. Five major wildlife reserves encompassing 230,000 ha have been established within and adjacent to the Sanjiang Plain. Areas developed for agriculture many years ago, in the general area of the proposed project, have proved to be environmentally stable. The thick top soils with a high organic content are resistant to wind erosion, and the very flat slopes do not present any erosion problems from rainfall. HGB is aware of the potential environmental hazards from the use of agricultural chemicals, including fertilizers, and seeks to minimize the possible damage through careful selection of chemicals and a program of periodic monitoring of soils and water. Environmental protection officials at both the provincial and national levels have reviewed and approved the project proposal. A program of environmental monitoring would be included in FIMO’s work plan.

**Monitoring and Evaluation (M&E)**

82. Each farm would make monthly progress reports to HGB which would make quarterly in-field inspections. On-site engineering work by state farm staff would be supervised and monitored by sub-bureau and HGB engineers. Crop
statistics and data on the physical and financial progress of the project would be collected from the state farms by FIMO’s M&E staff, who would prepare half-yearly progress reports to be submitted to the Bank within one month of the end of each half-year.

Other Agricultural Support Services

83. Research. HGB maintains an extensive and reasonably well-equipped research network consisting of the Heilongjiang Farming and Land Reclamation Research Institute with broad functions at Jiamusi, seven partially specialized sub-institutes (one at each sub-bureau) and farm level research stations that emphasize the practical aspects of cultivation, seed testing, and chemical fertilizer experiments.

84. Fertilizer and Agrochemicals. Chemical fertilizer use has grown rapidly since 1979. Experimental results for the project area indicate that marginal response rates are high at least for maize and soybeans. In the past HGB has had priority in the supply of fertilizer, and no problem is expected in meeting future project requirements. Pesticides are readily available in the project area. Domestic production would be sufficient to meet project requirements.

Agricultural Production and Yields

85. On lands adjoining the project areas, wheat occupies nearly 60% of the area, soybeans just over 30% and maize around 10%. Wheat is planted in mid-April and harvested in early August. Soybeans and maize are sown in May and harvested in late September or early October. The most common three-year rotation is wheat/wheat/soybean, with a wheat/soybean/maize rotation also practiced to a limited extent. At full development, the area under each crop is expected to be: wheat, 100,000 ha (50%); soybeans 75,000 ha (37.5%); and maize 25,000 ha (12.5%). Yields at full development are expected to be 2.1 ton/ha for wheat, 1.6 ton/ha for soybeans, and 3.9 ton/ha for maize. Average yields on Heilongjiang’s state farms are presently 1.6, 1.3 and 2.5 ton/ha respectively. However, some sub-farms and brigades have consistently exceeded the estimated full development yields. Total project production at full development would be 210,000 tons of wheat, 120,000 tons of soybeans, and 110,000 tons of maize.

Markets, Farm Incomes and Cost Recovery

86. China’s production of the crops grown in the project area is insufficient to meet domestic consumption requirements. Imports of these crops have grown in recent years and are expected to continue at about the same levels throughout the 1980s. The incremental output from the project, 440,000 tons of grains and soybeans at full development, would be easily
absorbed by the market, since it represents only about 3% of current imports required to meet domestic demands.

87. The traditional concept of farm income derived from an individually operated plot is not applicable in the project area, where the land is owned by the state and managed by state farms employing wage labor. The typical basic production unit in the project area would be a production brigade or sub-farm with about 300 workers and staff farming about 4,000 ha of land. This has been taken as the scale for a notional farm budget analysis. At full development, the typical 4,000 ha unit would have an annual before-tax income of about Y 1.3 million. After-tax income would be Y 1.2 million, of which Y 0.7-0.8 million would go to HGB as the unit's contribution to the HGB-administered pool of investment funds and to debt service on the Bank loan. After completion of loan repayments in the year 2000, payments to HGB would fall to Y 0.5 million annually, leaving Y 0.7 million for use by the production unit and its parent state farm. Based on the budgets for a typical unit, estimated after-tax income annually generated by the project and accruing to the participating state farms and HGB would be Y 59 million ($34 million).

88. The staff and workers on a typical 4,000 ha production unit would be drawn from about 160 families, with an average of 4.5 family members and 1.9 persons fully employed. The annual incomes of these families at full development would average Y 2,175: Y 1,175 from wages and bonuses for farm and sideline activity work, Y 350 from private plots and Y 650 in housing and other subsidies provided by the farm. Thus, per capita incomes would be about Y 485 ($275), 31% more than the present average of Y 370 ($210) in the project area.

89. Cost recovery for the project would have two elements. Farms would pay annual agricultural taxes of Y 8.4 million on project lands at full development, and would make payments to the Government through HGB to cover debt service on the loan/credit, averaging Y 8 million annually (at the Y 2.8/$ internal settlement rate). These direct charges would represent 44% of project rents at full development. The Government would contribute Y 130 million of project expenditures and, using a discount rate of 12%, the cost recovery index for this investment plus the loan/credit would be 69%, and the rent recovery index 67%. In addition, the Government would indirectly benefit from low-cost quota procurement of at least 43,000 tons of grain annually, worth Y 7.5 million (using the difference between quota and above-quota prices). The proceeds of the project would more than meet HGB’s debt repayment obligation, except in the years 1983-85 due to taxes and the front-end fee and commitment charges on the loan/credit. However, for 1983-86, HGB and participating farms have budgeted Y 135 million for project investment from reserves and retained earnings, which more than covers the projected deficit.
Benefits, Justification and Risks

90. Wheat, soybean and maize grown on the 200,000 ha of land developed by the project would increase China's annual grain and legume production by 433,000 tons, 90% of which would be a marketable surplus. The cost would be less than $1,400 per ha developed. At full development, about 15,000 new full-time jobs would be created, relieving the unemployment and underemployment within the state farms in Heilongjiang. The project would serve as a large-scale trial and demonstration of up-to-date mechanized farming techniques applicable to both an additional 470,000 ha of uncultivated land and some 2 million ha now cultivated by state farms in Heilongjiang. The seed component would also contribute to a general increase in crop yields on existing farms.

91. The project's main objective is to produce a marketable surplus; therefore, its direct effect on income distribution would be limited. However, it would have two indirect distributive effects which could be significant but cannot be quantified. First, the marketable surplus would reduce procurement at quota prices elsewhere in China, benefiting marginal producers in poorer areas by allowing increased sales at market prices. Second, the improvements in farming practices, seed production and seed quality resulting from the project are likely to carry over to the communes in Heilongjiang province.

92. Assuming a 30-year project life, the project's economic rate of return would be 23%. At a discount rate of 12%, the estimated opportunity cost of capital in China, its net present value is Y 276 million ($158 million). No single assumption proved crucial to the estimated rate of return. Failure of crop yields to surpass the present average for HGB would reduce the rate of return to 16%. Project returns are not very sensitive to assumed yields, crop prices, production cost, or construction cost.

93. The project faces no significant technical or administrative risks. The implementing agency has considerable experience in land development and management of mechanized farming. The innovative features of the project would be the introduction of larger and more modern types of farm machinery and construction equipment than presently used. The basic skills for efficient operation and maintenance of such equipment already exist and would be strengthened through further training.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

94. The draft Development Credit Agreement between the People's Republic of China and the Association, the draft Loan Agreement between the People's Republic of China and the Bank, the Recommendation of the Committee provided
for in Article V, Section 1(d) of the Articles of Agreement of the Association, and the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement of the Bank are being distributed to the Executive Directors separately.

95. Special conditions of the project are listed in Section III of Annex III. A special condition of effectiveness is the approval by China's State Council of the Development Credit and Loan Agreements.

96. I am satisfied that the proposed loan and credit would comply with the Articles of Agreement of the Bank and Association.

PART VI — RECOMMENDATION

97. I recommend that the Executive Directors approve the proposed loan and credit.

A. W. Clausen
President

Attachments

March 31, 1983
Washington, D.C.
TABLE 3A
CHINA. PEOPLE'S REP. OF - SOCIAL INDICATORS DATA SHEET

<table>
<thead>
<tr>
<th>LAND AREA (THOUSAND SQ. KM.)</th>
<th>CHINA</th>
<th>REFERENCE GROUPS (WEIGHTED AVERAGES)</th>
<th>MOST RECENT</th>
<th>MOST RECENT ESTIMATE</th>
<th>LOW INCOME</th>
<th>MIDDLE INCOME</th>
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</thead>
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</table>

|                       | 1960 | 1970 |               |               |            |               |
|                       | PER 100.0 | 261.4 |              |               |            |               |
|                       | 990.1 |       |              |               |            |               |

GDP PER CAPITA (US$)

ENERGY CONSUMPTION PER CAPITA

(KILOGRAMS OF COAL EQUIVALENT)

POPULATION AND VITAL STATISTICS

POPULATION, MID-YEAR (THOUSANDS)

TOTAL 9561.0

AGRICULTURAL 3184.0

MOST RECENT

LOW INCOME

ASIA & PACIFIC

MIDDLE INCOME

ASIA & PACIFIC

|                       | TOTAL | BG |               |               |            |               |
|                       |       |    |              |               |            |               |
|                       |       |    |              |               |            |               |
|                       |       |    |              |               |            |               |
|                       |       |    |              |               |            |               |

YEAR STATIONARY POPULATION IS REACHED

2070

POPULATION DENSITY

PER SQ. KM. AGRICULTURAL LAND

TOTAL 70.4

URBAN 85.3

PER 100.0

158.1

255.9

218.8

233.7

302.9

355.9

1748.0

POPLATION AGE STRUCTURE (PERCENT)

0-14 YRS.

TOTAL 32.3

15-64 YRS.

TOTAL 63.7

65 YRS. AND ABOVE

TOTAL 4.0

POPLATION GROWTH RATE (PERCENT)

TOTAL 2.0

URBAN 2.0

POPLATION AGE STRUCTURE (PERCENT)

TOTAL 2.0

15-64 YRS.

TOTAL 2.0

65 YRS.

AND ABOVE

TOTAL 4.0

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TOTAL 2.0

URBAN 2.0

POPLATION AGE STRUCTURE (PERCENT)

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TOTAL 4.0

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URBAN 2.0

POPLATION AGE STRUCTURE (PERCENT)

TOTAL 2.0

15-64 YRS.

TOTAL 2.0

65 YRS.

AND ABOVE

TOTAL 4.0

POPLATION GROWTH RATE (PERCENT)

TOTAL 2.0

URBAN 2.0

POPLATION AGE STRUCTURE (PERCENT)

TOTAL 2.0

15-64 YRS.
### TABLE 3A

**CHINA, PEOPLE'S REP. OF - SOCIAL INDICATORS DATA SHEET**

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<tr>
<th>EDUCATION</th>
<th>MOST RECENT ESTIMATE</th>
<th>LOW INCOME ASIA &amp; PACIFIC</th>
<th>MIDDLE INCOME ASIA &amp; PACIFIC</th>
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<tr>
<td>RURAL</td>
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<td>51.7</td>
<td>41.1</td>
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</table>

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**NOTES**

* All data exclude Taiwan, China.

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.


/c Country estimate is 644 kilogram of coal equivalent.

/d Latest estimate of annual growth of population is 1.2%.

/e 1957; f Including barefoot doctors; g Bank crude birth and death rate estimates for 1975 were higher than the official data. The official rates have been adjusted accordingly; h Bank demographic analyses utilize a higher estimate of the crude mortality rate than the 6.2 that is officially given. The values of infant and child mortality shown here, based on the Bank's analyses, are thus higher than use of the official figures would indicate; and the estimate here of life expectancy is lower than the official figure of 68.2 years; i Excluding traditional medical doctors.

/1 Including military personnel and those awaiting permanent jobs, most of whom are in temporary jobs; /j 1977.

May, 1982
DESCRIPTORS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be inter-

nationally comparable because of the lack of standardization of definitions and concepts used by different countries in collecting the data. The data are, how-
never, useful to describe the characteristics of magnitude, indicate trends, and highlight differences.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher income status than the country group of the subject country.

Uses: The data are used to compare the economies and social conditions of the two country groups. The data on population (total and per capita) are used to estimate the total number of people in each country group. The data on population (percent of total) are used to estimate the size of the country group that is being compared. The data on per capita income (in US dollars and in local currency) are used to compare the economies of the two country groups. The data on population (percent of total) are used to estimate the size of the country group that is being compared. The data on per capita income (in US dollars and in local currency) are used to compare the economies of the two country groups.

Tips:
- Use the data to compare the economies and social conditions of the two country groups.
- Use the data on population (total and per capita) to estimate the total number of people in each country group.
- Use the data on per capita income (in US dollars and in local currency) to compare the economies of the two country groups.
- Use the data on population (percent of total) to estimate the size of the country group that is being compared.

ANNEX I

Page 3 of 6
### CHINA - ECONOMIC INDICATORS

GNP per capita: US$300 (1981)

#### Annual Growth (%) at Constant Prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Output</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.2</td>
<td>3.4</td>
<td>9.0</td>
<td>8.6</td>
<td>2.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Light industry</td>
<td>8.3</td>
<td>7.8</td>
<td>10.8</td>
<td>9.6</td>
<td>18.4</td>
<td>14.1</td>
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<tr>
<td>Heavy industry</td>
<td>11.6</td>
<td>9.3</td>
<td>15.6</td>
<td>7.7</td>
<td>1.4</td>
<td>-4.7</td>
</tr>
<tr>
<td>Net Material Product (NMP)</td>
<td>5.2</td>
<td>4.8</td>
<td>12.4</td>
<td>7.0</td>
<td>5.2</td>
<td>3.0</td>
</tr>
</tbody>
</table>

#### Prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail price index (1970=100)</td>
<td>92.2</td>
<td>100.0</td>
<td>102.7</td>
<td>103.3</td>
<td>105.4</td>
<td>111.7</td>
<td>114.4</td>
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<tr>
<td>NMP deflator (1970=100)</td>
<td>90.7</td>
<td>100.0</td>
<td>99.1</td>
<td>100.5</td>
<td>104.5</td>
<td>108.7</td>
<td>111.9</td>
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<tr>
<td>Exchange rate (Y/US$)</td>
<td>2.46</td>
<td>2.46</td>
<td>1.86</td>
<td>1.68</td>
<td>1.55</td>
<td>1.50</td>
<td>1.71</td>
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</table>

#### National Accounts

<table>
<thead>
<tr>
<th>Year</th>
<th>1981</th>
<th>Shares of GDP (%)</th>
<th>Average Annual Growth (%) at Constant Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>264.3</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td>Agriculture</td>
<td>91.7</td>
<td>...</td>
<td>32.5</td>
</tr>
<tr>
<td>Industry</td>
<td>111.8</td>
<td>...</td>
<td>43.5</td>
</tr>
<tr>
<td>Other</td>
<td>60.8</td>
<td>...</td>
<td>24.0</td>
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<tr>
<td>Consumption</td>
<td>189.0</td>
<td>76.4</td>
<td>68.4</td>
</tr>
<tr>
<td>Investment</td>
<td>73.6</td>
<td>23.2</td>
<td>32.5</td>
</tr>
<tr>
<td>Exports GNFS</td>
<td>24.4</td>
<td>3.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Imports GNFS</td>
<td>22.7</td>
<td>3.5</td>
<td>6.8</td>
</tr>
<tr>
<td>National savings</td>
<td>75.6</td>
<td>23.6</td>
<td>31.9</td>
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</table>

#### Public Finance

<table>
<thead>
<tr>
<th>Year</th>
<th>1957</th>
<th>1979</th>
<th>1981</th>
<th>As % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current revenues (excluding foreign borrowing)</td>
<td>28.7</td>
<td>27.4</td>
<td>22.6</td>
<td>22.6</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>16.1</td>
<td>17.7</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Surplus (+) or deficit (-)</td>
<td>+12.6</td>
<td>+49.7</td>
<td>+48.0</td>
<td>+48.0</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>11.9</td>
<td>15.1</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Foreign borrowing /d</td>
<td>0.7</td>
<td>0.9</td>
<td>1.6</td>
<td>1.6</td>
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</table>

#### Other Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>1957-79</th>
<th>1979-81</th>
<th>1981-85</th>
<th>1985-90</th>
<th>As % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (%)</td>
<td>5.2</td>
<td>4.0</td>
<td>6.1</td>
<td>7.0</td>
<td>22.6</td>
</tr>
<tr>
<td>GDP per capita growth rate (%)</td>
<td>3.5</td>
<td>2.7</td>
<td>4.8</td>
<td>5.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Energy consumption growth rate (%)</td>
<td>8.3</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>48.0</td>
</tr>
<tr>
<td>ICOR</td>
<td>5.4</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>8.8</td>
</tr>
<tr>
<td>Marginal savings rate</td>
<td>0.42</td>
<td>0.18</td>
<td>0.16</td>
<td>1.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Import elasticity</td>
<td>0.95</td>
<td>2.30</td>
<td>1.69</td>
<td>0.93</td>
<td>22.6</td>
</tr>
</tbody>
</table>

/a NMP basis.
/b Goods only.
/c GDS.
/d Gross.
GNP per capita: US$300 (1981)

CHINA - EXTERNAL TRADE

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Amount (million US$ at current prices)</th>
<th>Annual Growth Rates (%) (at constant 1980 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise exports</td>
<td>22,027</td>
<td>10.1</td>
</tr>
<tr>
<td>Energy</td>
<td>5,054</td>
<td>...</td>
</tr>
<tr>
<td>Other primary</td>
<td>5,306</td>
<td>...</td>
</tr>
<tr>
<td>Manufactures</td>
<td>10,533</td>
<td>...</td>
</tr>
<tr>
<td>Other</td>
<td>1,134</td>
<td>...</td>
</tr>
<tr>
<td>Merchandise imports</td>
<td>20,292</td>
<td>32.6</td>
</tr>
<tr>
<td>Food</td>
<td>5,340</td>
<td>...</td>
</tr>
<tr>
<td>Petroleum</td>
<td>0</td>
<td>...</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>5,317</td>
<td>...</td>
</tr>
<tr>
<td>Other</td>
<td>9,635</td>
<td>...</td>
</tr>
</tbody>
</table>

Prices

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Export price index (1978=100)</td>
<td>100.0</td>
<td>113.3</td>
<td>131.3</td>
<td>134.9</td>
<td>130.0</td>
<td>137.7</td>
<td>152.7</td>
<td>167.7</td>
<td>180.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import price index (1978=100)</td>
<td>100.0</td>
<td>119.4</td>
<td>139.2</td>
<td>145.5</td>
<td>139.1</td>
<td>148.6</td>
<td>164.1</td>
<td>179.1</td>
<td>192.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms of trade index (1978=100)</td>
<td>100.0</td>
<td>95.2</td>
<td>94.3</td>
<td>92.7</td>
<td>93.5</td>
<td>92.7</td>
<td>93.1</td>
<td>93.6</td>
<td>94.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Composition of Merchandise Trade (%)

Direction of Trade

<table>
<thead>
<tr>
<th>Direction of Trade</th>
<th>Share of Trade With Industrial Countries (%)</th>
<th>Share of Trade With Developing Countries (%)</th>
<th>Share of Trade With Countries with Centrally Planned Economies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>37.3</td>
<td>45.9</td>
<td>51.6</td>
</tr>
<tr>
<td>Imports</td>
<td>73.3</td>
<td>76.8</td>
<td>17.5</td>
</tr>
</tbody>
</table>

/a China is expected to become a net importer of petroleum between 1985 and 1990.
/b Includes the Soviet Union, Eastern Europe, Cuba, North Korea and Mongolia.
GNP per capita: US$300 (1981)

**CHINA - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT**

(millions US$ at current prices)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance of Payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>10,606</td>
<td>15,351</td>
<td>20,901</td>
<td>25,157</td>
<td>25,800</td>
<td>37,064</td>
<td>69,551</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Merchandise f.o.b.</td>
<td>9,607</td>
<td>13,658</td>
<td>18,492</td>
<td>22,027</td>
<td>22,812</td>
<td>32,110</td>
<td>59,684</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>11,912</td>
<td>17,582</td>
<td>23,946</td>
<td>23,628</td>
<td>22,031</td>
<td>42,209</td>
<td>86,018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Merchandise c.i.f.</td>
<td>10,745</td>
<td>15,619</td>
<td>21,243</td>
<td>20,292</td>
<td>18,631</td>
<td>37,298</td>
<td>72,684</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net transfers</td>
<td>597</td>
<td>656</td>
<td>640</td>
<td>467</td>
<td>617</td>
<td>767</td>
<td>1,017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance</td>
<td>-705</td>
<td>-1,575</td>
<td>-2,405</td>
<td>1,996</td>
<td>4,386</td>
<td>-4,378</td>
<td>-15,450</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private direct investment</td>
<td>-</td>
<td>-</td>
<td>57</td>
<td>265</td>
<td>315</td>
<td>465</td>
<td>715</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MLT loans (net)</td>
<td>-830</td>
<td>822</td>
<td>1,756</td>
<td>769</td>
<td>1,278</td>
<td>3,913</td>
<td>16,840</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>2,198</td>
<td>3,231</td>
<td>5,546</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>-920</td>
<td>682</td>
<td>11,294</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Other capital</td>
<td>822</td>
<td>1,362</td>
<td>1,082</td>
<td>-787</td>
<td>-1,500</td>
<td>..</td>
<td>..</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net reserves (&quot;-&quot; = increase)</td>
<td>708</td>
<td>-609</td>
<td>-490</td>
<td>-2,243</td>
<td>-4,479</td>
<td>0</td>
<td>-2,105</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International reserves</td>
<td>6,283</td>
<td>6,892</td>
<td>7,382</td>
<td>10,096</td>
<td>14,575</td>
<td>16,842</td>
<td>24,158</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: gold</td>
<td>..</td>
<td>..</td>
<td>5,120</td>
<td>5,120</td>
<td>5,120</td>
<td>5,120</td>
<td>5,120</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves as months imports</td>
<td>6.3</td>
<td>4.7</td>
<td>3.7</td>
<td>5.1</td>
<td>7.9</td>
<td>4.8</td>
<td>3.4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**External Capital and Debt**

| Gross disbursements |             |      |      |      |      |      |      |                |      |      |
|---------------------|-------------|------|------|------|------|------|------|----------------|      |      |
| Concessional loans | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| DAC | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| OPEC | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| IDA | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Other | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Nonconcessional loans | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Official export credits | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| IBRD | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Other multilateral | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Private | .. | .. | .. | .. | .. | .. | .. |             |      |      |

**External debt**

| Debt outstanding and disbursed | .. | .. | 5,441 | 5,696 | .. | .. | .. |             |      |      |
| Official | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Private | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Undisbursed debt | .. | .. | .. | .. | .. | .. | .. |             |      |      |

**Debt service**

| Total service payments | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Interest | .. | .. | .. | .. | .. | .. | .. |             |      |      |
| Payments as % exports GNFS | .. | .. | 5.0 | 7.8 | .. | .. | .. |             |      |      |

**Average interest rate on new loans (%)** | .. | .. | .. | .. | .. | .. | .. |             |      |      |
**Average maturity of new loans (years)** | .. | .. | .. | .. | .. | .. | .. |             |      |      |
### Status of Bank Group Operations in the People’s Republic of China

#### A. Statement of Bank Loans and IDA Credits
(as of March 31, 1983)

<table>
<thead>
<tr>
<th>Loan or Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Amounts ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Bank</td>
</tr>
<tr>
<td>2021 1167</td>
<td>1981</td>
<td>People’s Republic of China</td>
<td>University Development</td>
<td>100.0</td>
</tr>
<tr>
<td>1261 1982</td>
<td></td>
<td>People’s Republic of China</td>
<td>N. China Plain Agric.</td>
<td>-</td>
</tr>
<tr>
<td>2207 1982</td>
<td></td>
<td>People’s Republic of China</td>
<td>Ports</td>
<td>124.0</td>
</tr>
<tr>
<td>1297 1982</td>
<td></td>
<td>People’s Republic of China</td>
<td>Ag. Ed. and Research</td>
<td>-</td>
</tr>
<tr>
<td>2226 /a 1982</td>
<td></td>
<td>People’s Republic of China</td>
<td>Industrial Credit</td>
<td>40.6</td>
</tr>
<tr>
<td>1313 /a</td>
<td></td>
<td>People’s Republic of China</td>
<td>Daqing Petroleum</td>
<td>-</td>
</tr>
<tr>
<td>2231 /a 1983</td>
<td></td>
<td>People’s Republic of China</td>
<td>Zhongyuan Petroleum</td>
<td>100.8</td>
</tr>
<tr>
<td>/b 1983</td>
<td></td>
<td>People’s Republic of China</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>527.8</td>
</tr>
<tr>
<td><strong>Total now held by Bank and IDA</strong></td>
<td></td>
<td></td>
<td></td>
<td>527.8</td>
</tr>
<tr>
<td><strong>Total undisbursed</strong></td>
<td></td>
<td></td>
<td></td>
<td>527.8</td>
</tr>
</tbody>
</table>

#### B. Statement of IFC Investments
(as of March 31, 1983)

None

---

/a Not yet effective.
/b Loan approved on March 29, 1983, but not yet signed.
C. PROJECTS IN EXECUTION /1

Loan No. 2021 University Development Project $100 million loan and $100 million credit of November 4, 1981; Date of Effectiveness: February 4, 1982; Closing Date: June 30, 1986

Good progress has been made in project implementation. Contracts have been signed for about $65 million of equipment and bids are now being received for the second stage of equipment procurement (worth about $50 million). Initial disbursements for technical assistance (about $300,000) have been made and a major contract for about $5 million in expert services has been signed.

Credit No. 1261 North China Plain Agriculture Project $60 million credit of June 23, 1982; Date of Effectiveness: October 7, 1982; Closing Date: December 31, 1987

Project civil works began immediately after credit signature and are well under way. Progress has been especially good on excavation of the drainage system.

Loan No. 2207 Three Ports Project $124 million loan of November 16, 1982; Date of Effectiveness: February 2, 1983; Closing Date: June 30, 1987

Tender documents for container handling equipment have been reviewed by the Bank and are now being finalized.

Credit No. 1297 Agricultural Education and Research Project $75.4 million credit of November 16, 1982; Date of Effectiveness: February 2, 1983; Closing Date: June 30, 1988

Bids have been invited for the first phase of equipment procurement. A contract for language training has been agreed and signed.

Loan No. 2226 Industrial Credit Project $40.6 million loan and $30 million credit of December 28, 1982; Date of Effectiveness: Not yet effective; Closing Date: December 31, 1987

/1 These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.
Loan No. 2231  
Daqing Oilfield Gaotaizi Reservoir Development Project  
$162.4 million loan of March 8, 1983; Date of Effectiveness: Not yet effective; Closing Date: June 30, 1986

Loan No.  
Zhongyuan-Wenliu Petroleum Project $100.8 million loan (not yet signed); Date of Effectiveness: Not yet effective; Closing Date: December 31, 1986
ANNEX III

CHINA
HEILONGJIANG LAND RECLAMATION PROJECT

Supplementary Project Data Sheet

Section I: Timetable of Key Events

(a) Time taken to prepare project : 18 months
(b) Agency which prepared the project : Central General Bureau of State Farms and Land Reclamation
(c) Date of first presentation to Bank, and of first Bank mission : July 1981
(d) Date of departure of appraisal mission : April 1982
(e) Date of completion of negotiations : March 11, 1983
(f) Planned date of effectiveness : August 1983

Section II: Special Bank Implementation Action

Assistance in drafting equipment specifications.

Section III: Special Conditions

Effectiveness:
Approval by State Council of Development Credit and Loan Agreements.

Other:
(a) Project management office to be maintained and adequately staffed (para. 73).
(b) Preparation of work and financing plans for following year by October 31 for Bank review (para. 75).
HEILONGJIANG LAND RECLAMATION PROJECT

- STATE FARMS IN PROJECT
- GENERAL BUREAU HEADQUARTERS
- SUB-BUREAU HEADQUARTERS
- SUB-BUREAU HEADQUARTERS
- ROADS
- RAILROADS
- RIVERS
- PROVINCIAL BOUNDARIES
- INTERNATIONAL BOUNDARIES

CHINA

The map has been prepared by the client's staff according to the conventions of the master and is in full conformity with the data of the World Bank and the International Finance Corporation. The boundaries shown on this map do not imply a recognition of any legal status of any settlement. The names shown do not imply a recognition.