China: Country Assistance Strategy

The Chinese authorities deserve high marks for their continued outstanding portfolio performance. Their excellence creates ideal conditions for deepening the collaboration with the World Bank Group in the key development areas listed in chapter 2 of the document.

1. The reform of state-owned enterprises should be given an even higher priority than in the previous CAS, since their situation has further deteriorated since then. The Bank is making commendable efforts to strengthen its involvement in the sector—probably more than in many other countries at a similar early stage of enterprise reform—but the nature and volume of its assistance is clearly constrained by the gradual approach to reform followed by the Government.

While the risk analysis in section 4D correctly observes that a balance needs to be maintained between the pace of reforms and their social consequences, it might also have paid more attention to the consequences of a too slow pace of reform. These consequences are already showing up in the form of unprecedented levels of open unemployment in China’s cities. The Government has still sufficient fiscal headroom to absorb the costs of enterprise and financial sector restructuring now, before they become so high as to put a prolonged burden on the budget and crowd out more relevant development priorities. In sum, we fully respect China’s choice for gradualism, but also believe that faster reform should from now on be seriously taken into consideration as the less costly option.

2. I fully support the Bank’s continued strong support to China’s infrastructure development. Welcome though it would be, even the more intensive reliance on private participation in infrastructure seems unlikely to fulfill the enormous needs which China is suffering in this area. Efforts by the Bank to increase its leverage on PPIs through its partial guarantee instrument appear to meet with little enthusiasm, due to the reluctance of the Chinese authorities to extend sovereign counterguarantees for private projects. In this respect, their
position is not different from that of many other governments. Beyond the potential for private participation, it seems realistic to anticipate that the public sector will maintain an important role in infrastructure development.

I hope that the forthcoming review of the Bank Group's guarantee instruments and the discussion of infrastructure financing, which is announced for later this year, will lead to new approaches for assisting countries with the implementation of their infrastructure development agenda. As the Chinese case illustrates, this is clearly an area in which the complementarities between multilateral, regional and bilateral agencies should be fully explored; and it is an area in which solutions should be prepared on the basis of thorough client surveys.

3. I agree with the general directions of China's Human Development Agenda and with the assistance committed by IDA to help the authorities achieve that agenda. I look forward to the further clarification of a number of challenges which the authorities and the Bank are facing in connection with the country's poverty agenda.

According to the CAS-document, the "8-7 National Poverty Reduction Program" is designed to eliminate poverty by 2000. It is not clear to me how this ambitious goal should be interpreted, in view of the large number of people still living in absolute poverty, especially if one takes into account international norms. Does it imply that, after 2000, the increase of investments in basic human development is expected to slow down? The government's commitment to spend 40 percent more each year for human development between now and the year 2000, represents of course a major catching-up effort, but the fact that even such a steep increase will not suffice to raise the level of human development investment to 1 percent of GDP also indicates that the effort was started from a very low basis.

Little explanation is given for the reasons why the National Poverty Reduction Program has been underfunded since its inception in 1993. The Bank will address the issue with complementary financing, but what actions will the authorities themselves take to deal with the problem? Is there a joint strategy?

A major challenge for the Bank's involvement in China's poverty reduction program is looming in connection with the country's prospective graduation from IDA. Like other countries, China is reluctant to borrow large sums from the IBRD for the development of its social sectors, an issue to be taken into account when we consider the pricing of the Bank's products. Par. 49 explains that in addition, the Chinese authorities require that all loans be repaid by the beneficiary, thereby restricting IBRD lending in the social sectors to projects with satisfactory repayment capacity or to cases where the provincial entity can repay. We
are concerned that this policy stance does not necessarily channel IBRD-loans to those type of projects which would have the strongest impact on poverty reduction. We would therefore like to see a more intensive policy dialogue between the government and the Bank on the establishment of internal resource transfer mechanisms, enabling IBRD-loans to be incorporated in a wider domestic strategy for rechanneling resources to the poorest regions.

4. All in all, it is clear that the Chinese are mastering themselves their development and reform agenda and have the firm intention to continue to do so in the future. The role of the World Bank is to be supportive. This distribution of labor is to be applauded and probably explains to a large extent the success of the Bank’s portfolio in China.

We look forward to the further extension and deepening of this productive relationship in future CASs. As the country’s development agenda is bound to become more complex, it will be all the more important for the Bank to channel its assistance to those sectors in which it can support the government’s strategy most effectively. The Board would be in a better position to participate in that process, if future CASs on China would include a more comprehensive discussion of China’s own development budgets and their allocation to different sectors and priorities.