Board Meeting of Tuesday, March 18, 1997
Statement by Joaquim Carvalho

China: Country Assistance Strategy

1. We endorse the proposed CAS as we find it consistent with China’s reform program articulated in its recent Ninth Five Year Plan and the Fifteen Year Perspective Plan. The synergy among the activities of the Bank Group Institutions, as well as those of other development partners is clearly evident in the document, and we encourage replicating this practice in the preparation of other CASs. The five major priorities of the government’s plan, i.e. macro-economic stability, infrastructure, human development, agriculture and rural and environmental protection, clearly indicate China’s strong commitment to poverty reduction. Focusing on policies and programs with less emphasis on quantitative targets confirms the authorities’ resolve to transform the economy into a market oriented one and to attain growth with equity. We, therefore, have no difficulties with the proposed size and sectoral composition of the Bank Group’s lending strategy.

2. China’s performance since 1978 has been quite impressive particularly with respect to the pursuance of policies to arrest the overheating of the economy, notwithstanding the side-effects such as the deteriorating SOE’s performance and unemployment problems. In almost all macro-economic fronts, great strides have been made without sacrificing the momentum of growth. Inflation is now broadly under control, and the tight monetary, fiscal and investment policies have been quite successful in channeling the economy to the proper course. We congratulate the Chinese authorities for these remarkable achievements.

3. The Ninth Five Year Plan lays a solid foundation for shifting expenditure to those areas where the poor can benefit most. Girls’ education, and eliminating disparities between the interior/urban and coastal provinces as well as between agriculture and the rest of the economy are areas where we would like to see more Bank Group involvement.

4. SOEs reform while crucial, is politically and socially sensitive and therefore China’s “cross the river by feeling the stones” approach in this regard is understandable. Transforming a deeply entrenched central planning regime to a market oriented one needs time and a quick-fix approach may be counter-productive. De-linking the social services from the SOEs operations is not a matter that can be tackled just through administrative measures, given the fact that mobility of labor and underemployment in China are closely interlocked with this issue. It is, therefore, our view that when supporting China to speed up its SOE
reform, the Bank Group should pursue a cautious approach that takes the political and social aspects of such an endeavor into consideration.

5. The emphasis put on agriculture and rural development is welcome, as these sectors provide the required underpinnings for food security, reversing environmental degradation, correcting the regional disparities and the overarching objective of poverty reduction. While we broadly endorse the Bank Group strategy for agriculture and rural economy, we wonder whether the proposal in paragraph 43 of lending for an average of just two operations each year will provide a meaningful assistance to this sector. We would expect that more operations will be added by the Bank Group.

6. On the question of China’s membership in the WTO, we believe that China’s sheer size qualifies it to be a major player in the global economy. China has close trade relations with many developing countries and its exclusion from such arrangements will be to the detriment of those countries too. We are hopeful that the on-going talks on China/WTO relations will be finalized before the end of the year. An update from staff on the status of the negotiations hitherto would be greatly appreciated. The Bank’s approach to deal with this issue, as stated in paragraph 68, is appropriate in our view.

7. The broad consensus at all the political levels on the direction and pace of the reforms makes us confident that the Chinese authorities will keep the momentum of the transition process.

8. We commend the staff for the high quality of their work and for their close cooperation and constructive dialogue with the Chinese government.