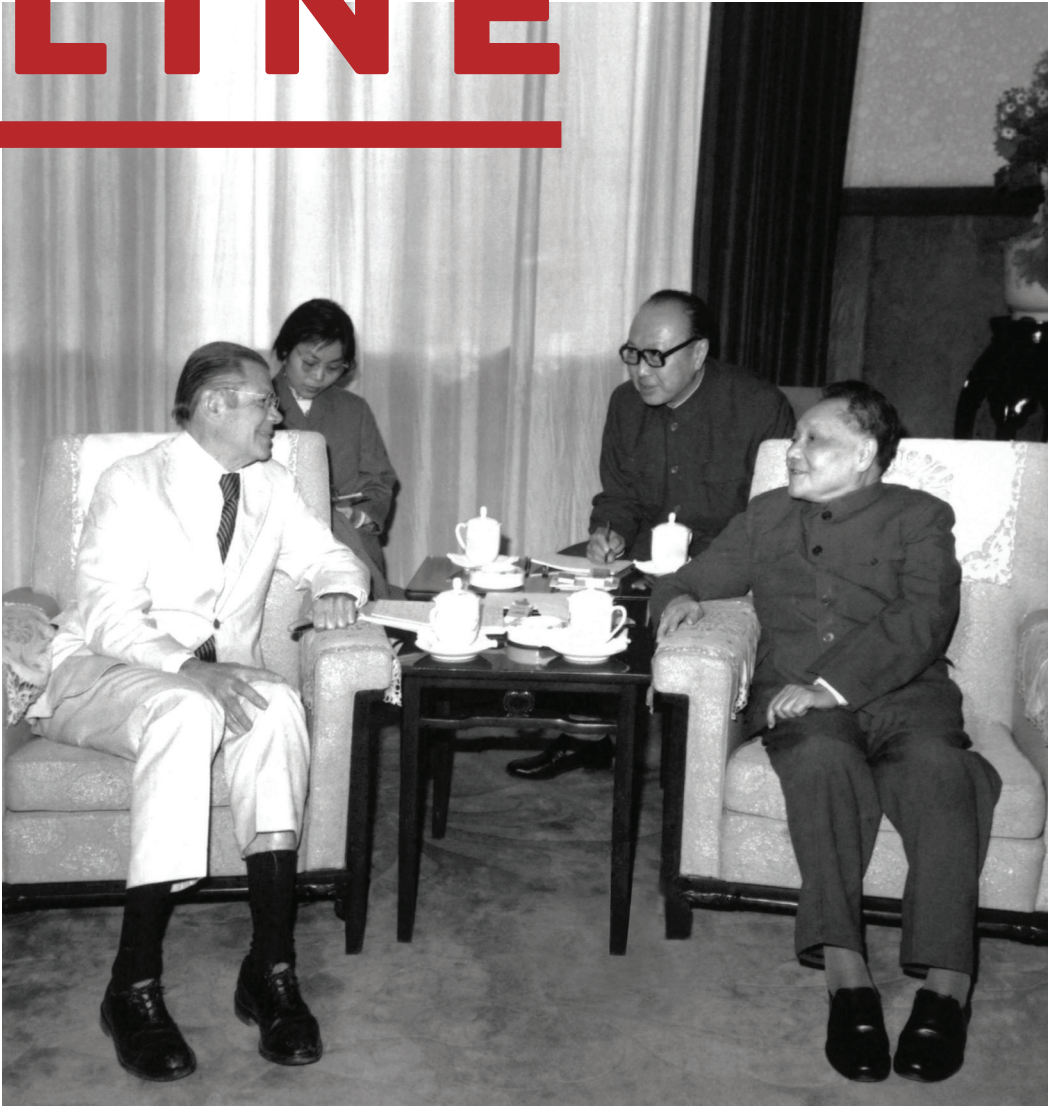


# AT THE FRONT

# LINE

**1980  
— 2020**



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REFLECTIONS ON  
THE BANK'S WORK  
WITH CHINA OVER  
**FORTY YEARS**

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# AT THE FRONT LINE

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REFLECTIONS ON THE BANK'S WORK  
WITH CHINA OVER **FORTY YEARS**  
1980 — 2020



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# AXEL VAN TROTSENBURG<sup>1</sup>

China's economic and social development transformation over the past forty years has been a remarkable achievement, with huge global significance. Since joining the World Bank in 1980, China developed from an IDA recipient to an Upper Middle-Income IBRD borrower, an important contributing partner to IDA, and a critical contributor to global public goods. The scale and pace of China's transformation have shaped the unique partnership between the China and the World Bank, including continuous adaptation. The partnership has also become a valued source of inspiration and lessons for many other World Bank clients.

This collection of essays brings together reflections from partners and friends who contributed, participated, and witnessed four decades of partnership between China and the World Bank Group. It shows how opportunities have been maximized and obstacles turned into steppingstones. The Bank is proud to be part of China's development success. As Deng Xiaoping famously said to President Robert McNamara in 1980, "We are determined to modernize and develop our economy. We can do it without the World Bank, but we can do it quicker and better with you." Deng's words have been a continuous source of motivation to all of us in the World Bank Group.

In my experience, several aspects of the partnership between China and the World Bank stand out. One of these is knowledge and mutual learning, which have long been at the core of the relationship. The Bank produced the first detailed analysis of the Chinese economy in the early 1980s and since then knowledge work has been at the center of our engagement. But we have also learned from China. We learned about the value of policy experiments, of second-best pragmatic solutions, and of the importance of delivery and the ability to execute. As China has grown wealthier, it has become an important contributor to the WBG and became the sixth largest donor to IDA19. Looking ahead, China's global economic and financial heft make it a critical partner in addressing the world's most pressing challenges. From climate change to pandemic resilience, debt distress, regional integration and sustainable development, our partnership with China will remain key to finding solutions.

As a Chinese saying goes, *Sishi Buhuo*—at the age of forty, one is no longer perplexed. After forty years, we should be even more clear-eyed about the future of our partnership. What should the Bank do in China? What should China do at the Bank? And what can China and the Bank do together in promoting global development? In a constantly changing environment, the 40th anniversary of partnership offers an opportunity to take a fresh look at these important questions to steer our partnership forward.

May the personal histories contained in these pages serve as an inspiration.

<sup>1</sup> • Axel van Trotsenburg is the World Bank's Managing Director for Operations. Prior to that he served in various senior positions in the World Bank, including as Vice President for East Asia and the Pacific between 2014-2017, during which he oversaw a substantial increase in lending to China targeting greater climate action and key domestic reform challenges.

# ZOU JIAYI<sup>2</sup>

This year marks the fortieth anniversary of China reassuming its membership and representation in the World Bank and also my own thirty-second year of career associated with the China–World Bank partnership.

The 40th anniversary celebration, on which the collection of contributions in this book is based, was very much a family event. It was a great reunion of many old friends, and although it was held virtually, our friendship is concrete and down to earth thanks to four decades of successful joint work. Over the decades, we worked together on a common dream of a world free of poverty and of shared prosperity. Today we can be very proud of ourselves, for setting a good example of practice in multilateralism and of a win-win development partnership. I want to highlight three areas of this partnership.

**Together, we have pioneered a partnership for reform.** Mr. Deng Xiaoping, the man who initiated China’s reform and opening up, also kicked off China’s cooperation with the World Bank. In the early eighties of the last century, World Bank visited China and carried out two macroeconomic studies. China and the World Bank co-sponsored two famous conferences, the Moganshan Conference and the Bashan Boat Conference, which played a big role in consensus building on China’s market-oriented reform.<sup>3</sup> Over the past four decades, the World Bank has provided more than 500 analytical reports on China’s reform and development. In recent years, our two sides have also completed a series of flagship reports, including China 2030, Urban China, and Innovative China. These research products have not only provided substantially valuable policy advice for China, but also presented insights and proposals to address complicated development issues for the world.

**Together, we have achieved a partnership for poverty reduction and economic transformation.** By the end of fiscal year 2020, IBRD and IDA have committed over US\$64.4 billion in loans, supporting 434 projects in almost all the provinces of China. These projects transferred not only financial resources, but also intellectual resources, and contributed to and witnessed China’s progression from a low-income developing country to an emerging economy, from an IDA recipient to an IDA donor. Through these projects, managerial and institutional innovations have been introduced in China, such as international competitive bidding, project supervision, and a pollution charge system. Those innovations have been widely adopted throughout the country and become standards today.

**Together, we have conducted a partnership for international development.** In the past four decades, the role of China in the World Bank has been transformed from a major borrower into a multidimensional development partner, including as a major shareholder, a major borrower, and also an emerging donor. China has taken an active part in the internal governance of the World Bank. As a former Executive Director of the Board, I was personally engaged in a lot of internal governance issues within the World Bank. China also established the China–World Bank Partnership Facility. We became a donor for IDA and continuously increased our IDA contribution. China and the World Bank jointly hosted the Shanghai Global Conference on Scaling Up Poverty Reduction and the Investing in Africa Forum, actively promoting tripartite and multipartite cooperation. These efforts enriched the World Bank’s relationship with its members and broadened the space of development cooperation.

2 • Zou Jiayi is the Vice Minister of Finance of the People’s Republic of China.

3 • See the essays of Caio Koch-Weser and Edwin Lim in this volume for details.

Over the past 40 years, our cooperation also came across difficulties, but when there is a will, there is a way. Thanks to the persistence and efforts of generations of colleagues, we always stepped over the difficulties by bringing our relationship to a new level. Here, I would like to pay high tribute to all the partners and colleagues who participated and are participating in the cooperation between China and the World Bank.

*A rapidly changing global environment—a rapidly evolving partnership*

The world is going through profound changes unprecedented in a century. Confronting the COVID-19 outbreak, China has been actively coordinating epidemic control and the resumption of work and economic activity. With painstaking efforts, China was able to record positive growth in 2020, the only major economy to do so. The Chinese market has demonstrated dynamism and resilience. We are committed to fostering a new development pattern with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. This brings new opportunities for cooperation between China and the World Bank. We hope that we can pivot our partnership from a strategic and long-term perspective and promote constructive cooperation with a new vision. I want to name three areas where I see such opportunities.

Firstly, partnership in high-quality development. World Bank's engagement in China should stick to the consensus reflected in the Country Partnership Framework for China for FY2020 to 2025 and maintain a relatively stable level of lending cooperation. Meanwhile, the World Bank could support China in tackling the new challenges of relative poverty, an aging society, and imbalanced urban and rural development, and facilitate the high-quality development of China's economy.

Secondly, partnership in a new generation of reform and opening up. World Bank can introduce good international practices and policy advice in creating rule-based competitive domestic markets, improving the business environment, and modernizing rules and standards, so as to facilitate the institutional integration of China into the global economy.

Thirdly, partnership in global public goods. Our cooperation could include climate change, marine plastics, COVID-19 vaccine procurement, and so on. China has committed that it will treat its domestically developed vaccines as global public goods, and has already provided significant volumes of vaccines to other developing countries on a priority basis.

This year marks the beginning of China's 14th five-year program period. We look forward to the World Bank continuing to be with us. Our past 40 years' experience of cooperation represents the power of multilateralism and the success of a win-win development partnership. We believe by sticking to such cooperation, we will be on the right side of history.

**INDUSTRIAL  
ELECTRONICS**

## MARTIN RAISER<sup>4</sup>

This volume contains written contributions from some of the key actors involved on both the Chinese and the World Bank sides in the past four decades of partnership. The contributions are based on a set of oral remarks delivered during an online seminar on the occasion of the fortieth anniversary of the partnership in late October, 2020. They have been considerably revised and expanded in several cases to provide a rich, personal testimony of a remarkable period in China's recent history and an exciting partnership with the World Bank, which at times was an influential adviser and convenor of international ideas and experience for the Chinese leadership.

As China has developed, the role of the World Bank in the country has shifted. Nonetheless, the relationship retains considerable importance for both sides. The personal reflections of Country Directors on the World Bank side, Director-Generals in the Ministry of Finance, and Executive Directors on World Bank's Board on the Chinese side demonstrate the deep marks the partnership has left on their careers and the sense of satisfaction with what has been achieved.

The essays should be read as personal reflections and not as an official history of World Bank–China relations or indeed a road map for the future. A general disclaimer thus applies to all essays from both the World Bank and Chinese sides. The contributions are anecdotal and selective, reflecting the episodes that most resonated with the authors many years, and sometimes decades, after they occurred. Some of the authors have contributed to the debate on Chinese economic development and reform, both during their time at the World Bank and in subsequent research. This book makes no attempt to summarize this literature or indeed to provide an overview of China's economic reforms. Nor does the book attempt to capture comprehensively World Bank's evolving program in and with China. Once again, key events were selected by the authors based on their own recollection of their significance. A more comprehensive repository of World Bank's work with China is being prepared in parallel to this book and will be made available through a dedicated and interactive website. An interpretation and valuation of World Bank's relationship with China is best left to historians.

Nonetheless, an overall narrative emerges from these pages. It is clear that the World Bank from the very beginning provided honest and evidence-based advice to China, but China was always in the driver's seat in structuring the relationship and in determining what to do (and what not to do). Knowledge was prominent throughout, but particularly at the beginning of the partnership, while lending grew rapidly and then declined in importance. Periodically, the World Bank engaged in national policy debates, during the Bashan Boat Conference, at Dalian, then with the China 2020 and China 2030 reports, and the subsequent series of flagships produced jointly with the Development Research Center under the State Council. For much of the time, however, World Bank's impact was at the local level through demonstration projects and reform pilots that China studied, adapted, and later scaled. The attempt to go directly to scale, through a new cohort of program for results (PforR) operations, characterizes the latest shift in World Bank's approach and a renewed attempt to strengthen policy engagement at the national level. Finally, an increasingly important theme of the partnership in the last decade concerns World Bank's cooperation with China globally, through IDA, South-South learning, and ongoing discussions over good practices in international development finance. As China's global economic and financial heft continues to grow, this theme is likely to become increasingly important and require further adaptation on both sides.

<sup>4</sup> • Martin Raiser is the Country Director for China and Mongolia, and Director for Korea at the World Bank. He took over his current position from Bert Hofman. Prior to coming to China, Martin Raiser worked as a Country Director in various regions of the World Bank, and early during his career worked on economic transformation in eastern Europe and the former Soviet Union at the European Bank for Reconstruction and Development.



During the October 2020 event, the Chinese side was represented by several additional contributors, who were unable to provide written inputs for this book. This is reflected in the organization of the essays in this book. Following the introductory remarks by Vice Minister of Finance, Zou Jiayi for China, and Managing Director of Operations, Axel van Trotsenburg for the World Bank, the first part contains the contributions of World Bank Country Directors in chronological order by decade: Caio Koch-Weser, Edwin Lim for the 1980s; Javed Burki, Pieter Bottelier, and Nick Hope for the 1990s; Yukon Huang and David Dollar for the 2000s; and Klaus Rohland and Bert Hofman for the 2010s. The start of each new decade is marked with a few illustrations representing milestone events during the period, as well as summaries of the country's main economic developments and the evolution of World Bank's program. The second part of this book contains the contributions of the Chinese authors, which are organized by themes. This part starts with an essay by Yang Shaolin reflecting on the partnership from the vantage point of a current member of World Bank's senior management team, a former Executive Director, and Director General in the Ministry of Finance. The second contribution is by Zhang Wencai, currently Vice President at the Agriculture Development Bank of China, reflecting on lessons from China's integrated rural development experience. The third essay by Chen Shixin, Vice President at the Asian Development Bank, speaks to the shift in World Bank's program to support China's climate action following the Paris Agreement, with lessons that are highly relevant for the future evolution of the partnership. The fourth contribution is from Yang Yingming, former Executive Director for China at the World Bank, and now back with the Ministry of Finance, and reflects on the interaction between World Bank's knowledge and financial cooperation with China, drawing lessons for other countries and for the future of the partnership. Concluding remarks are offered by Wang Zhongjing, former General Director at the Ministry of Finance; Chang Junhong, Executive Director; and Victoria Kwakwa, Regional Vice President, East Asia Pacific, of the World Bank.





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April 15, 1980, World Bank President Robert McNamara led the World Bank's first official mission to China. The photo captures his meeting with Vice Chairman Deng Xiaoping.

# REPORT ON

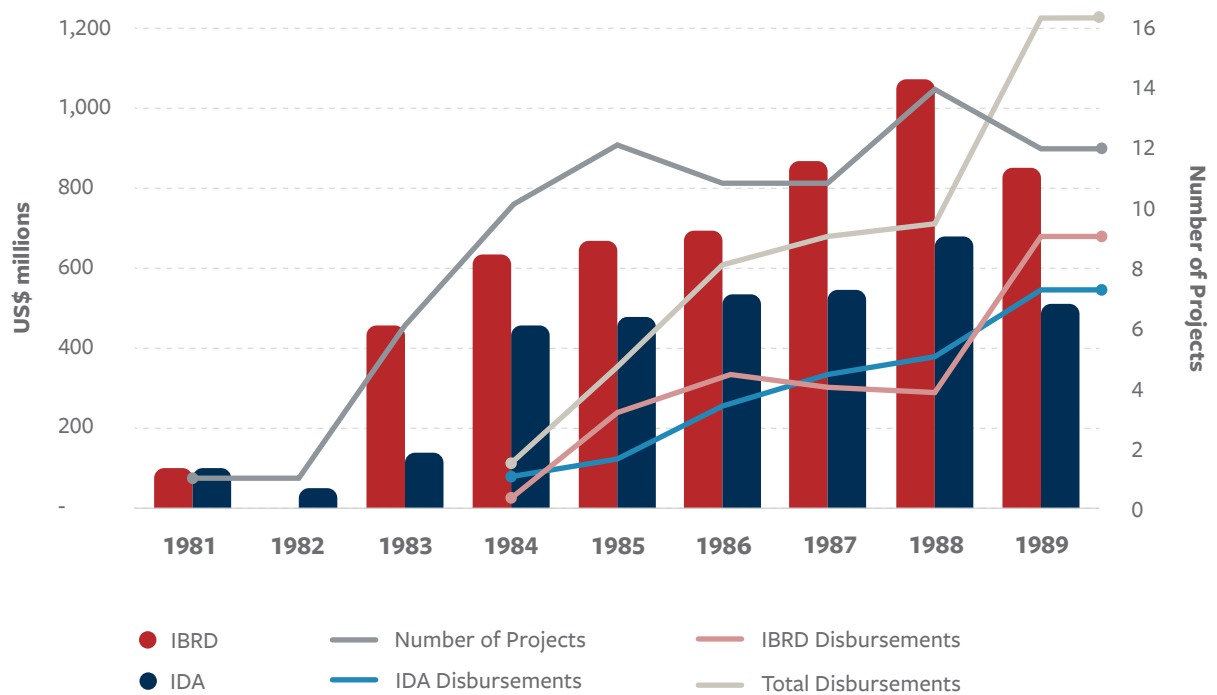
# CHINA—WORLD BANK PARTNERSHIP THROUGH THE DECADES

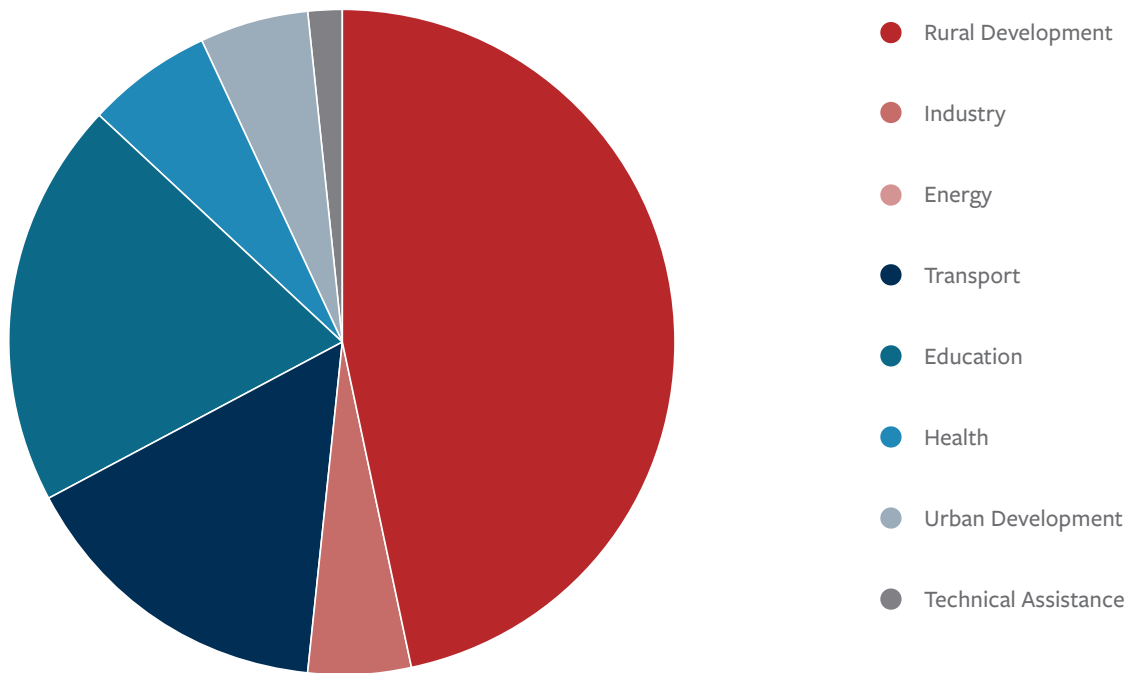
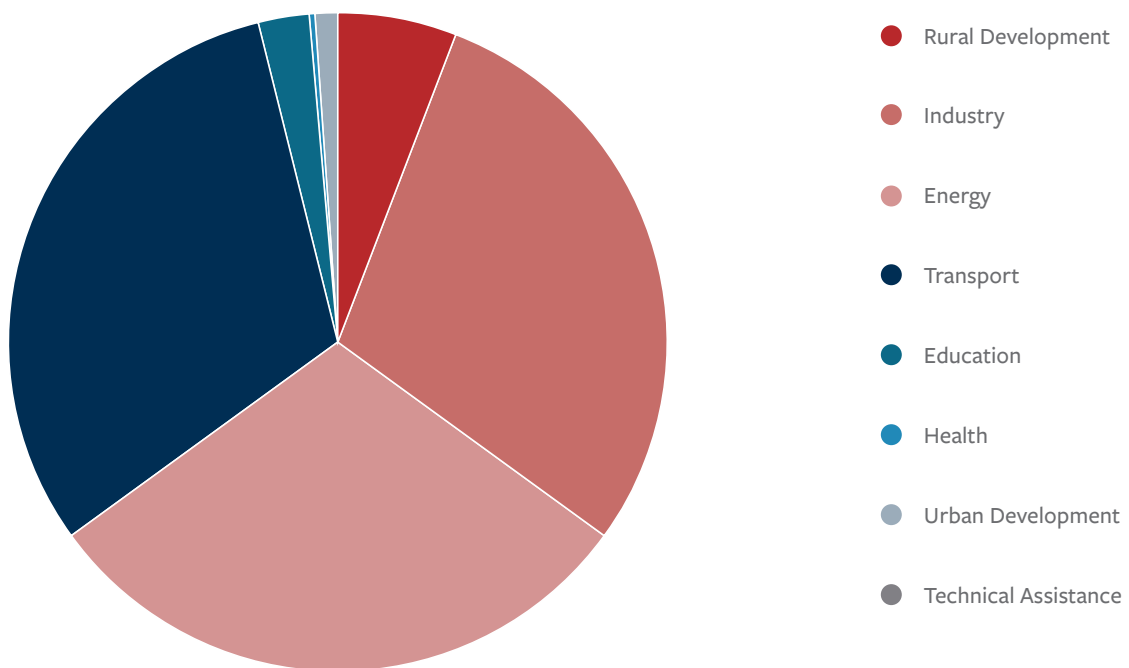
## HOW IT ALL BEGAN: THE 1980s

### Key Knowledge Work in the 1980s

- China: Socialist Economic Development (1981)
- China: Shanghai Sector Study (1982)
- China: The Health Sector (1984)
- China: Long-Term Development Issues and Options (1985)
- China: Management and Finance of Higher Education (1986)
- China: Transport Sector Paper (1987)
- Rural Reform, Nonfarm Development, and Rural Modernization in China (1988)

**FIGURE 1** World Bank — Supported Projects, by Fiscal Year 1980s



**FIGURE 2** World Bank — Supported Projects, by Sector (IDA Loan) 1980s**FIGURE 3** World Bank — Supported Projects, by Sector (IBRD Loan) 1980s

# HOW IT ALL BEGAN: CHINA RESUMING MEMBERSHIP IN THE WORLD BANK

By **CAIO KOCH-WESER**<sup>5</sup>

This essay covers the resumption of membership in 1980 and the first years of collaboration between the Chinese government and the World Bank (WB); the first official contact in February 1980 and President Robert McNamara's visit and meeting with Vice Chairman Deng Xiaoping in April 1980; the delivery of the first project and first economic report only one year later; the buildup of a large and diversified lending, technical cooperation, and training program; and in response to the special request of the leaders, the close cooperation on a twenty-year outlook on the key development issues China might face, leading to the second World Bank report in 1985.

I will argue that the relationship was a remarkable success from the outset, due to a number of factors. China's resumption of membership was very much in the interest of both sides. On the Chinese side, the country was coming out of decades of isolation and the World Bank was a key source of international development experience and ideas. For Robert McNamara and his transformation of the World Bank into a global development institution focused on poverty alleviation, China's reentry with one-fifth of the world's population made the institution truly global. Both sides had incentives to move quickly.

Deng Xiaoping and his group of reformers were moving fast, against residual opposition, in modernizing China and putting the country on a new development path. The early trust the Chinese leadership put in the World Bank, and the openness and access to data and institutions it provided, were unique. McNamara was also keen to move fast, in spite of some opposition in the Board, because of US presidential elections later in the year and his plans to retire in 1981. On the World Bank side, the ability to quickly respond and mobilize high-quality teams drawn from all parts of the institution and internationally was critical. The World Bank's focus from the beginning on knowledge transfer—training courses, skills transfer, and working closely with counterpart teams was met by the Chinese counterparts' remarkable capacity for fast learning, absorption of knowledge and innovation, and disciplined implementation and delivery of results.

There were, of course, many initial obstacles to overcome, not the least of which were language barriers, and the very limited availability of the soft IDA funding China requested. And then there was ignorance on both sides: on the one hand, the Chinese counterparts lacked familiarity, after decades of isolation, with international concepts of economic, business, and financial management; on the other hand, there was the World Bank's ignorance of the Chinese economy, sectors and institutions, past performance, and future plans. These were major initial obstacles, but at the same time golden opportunities for building a productive relationship. Not without reason we often liked to call the China–World Bank relationship “a marriage made in heaven.”

I will deal with the first years of the relationship in three parts: The first months leading to China's formal resumption of membership in May 1980; the first year of learning, collaboration, and fast delivery of major results stretching to June 1981; and the maturing relationship in the following five years. This covers the period of my association with the China program, initially as McNamara's Personal Assistant and then as China Division Chief, in close partnership with Edwin Lim as Lead Economist for China.

<sup>5</sup> • Caio Koch-Weser served as Personal Assistant to World Bank Group President Robert McNamara from 1977 to 1980 and the first Division Chief for China from 1980 to 1986. He was later appointed as Vice President and eventually Managing Director of the World Bank. In 1999, he returned to Germany to serve as Deputy Minister of Finance.

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## McNamara's Meeting with Deng and the Resumption of Membership

On February 11, 1980, the Chinese Ambassador in Washington asked to see McNamara and invited him to visit China as soon as possible in order to meet with Chinese leaders and initiate the process of China resuming its membership in the World Bank. He asked about access to soft IDA credits, and the issues related to representation of China shifting from Taiwan to the People's Republic of China (PRC). McNamara pointed out that resumption of membership in the International Monetary Fund (IMF) had to come first, as the Ambassador was not planning to see the IMF and was unaware of its location in Washington. McNamara expressed his delight with China's intention to rejoin and underlined the high priority he would give to this historic request and the invitation for an early visit to Beijing.

### *Preparing for the Visit*

Although there had been the expectation on McNamara's part for some time that China would eventually return to the Bretton Woods institutions, a view reinforced by his exchanges with Henry Kissinger and Secretary W. Michael Blumenthal, the invitation came as a surprise. There had been no official communications since the Annual Meeting in Nairobi in 1973. But there had been a few informal contacts, and awareness that in 1979 a team led by the research department of the Bank of China was studying the feasibility of rejoining. McNamara immediately moved on preparing for his visit.

He alerted IMF Managing Director Jacques de Larosiere who was willing to move fast, once officially approached. He held a confidential meeting to inform the Board. And he asked the Legal Department under Heribert Golsong to begin preparing the legal documents for resumption of membership, and the East Asia Region under Shahid Husain to prepare the briefs for the trip on China's economy and potential eligibility for concessional lending. At the working level, Edwin Lim, economist in the Asia Region with China knowledge, prepared the briefs, and I helped coordinate the planning of the trip.

The main issues that came up during the following weeks were related to withdrawal of Taiwan, IMF membership, IDA, attitudes in the US Congress, and timing of negotiations. Following the United Nations (UN) precedent, the change of representation was accepted by Taiwan. However, China's resumption of World Bank membership remained controversial and faced significant resistance in the US Congress, motivating calls to move slowly. The night before McNamara's departure to China on April 8, 1980, US Treasury Secretary G. William Miller and Secretary of State Cyrus Vance put fierce pressure on him in several meetings to delay his trip, to make the visit only exploratory, and to delay resumption of membership at least until September 1981. In an act of determined leadership, McNamara argued that he followed an invitation from the highest level, and that it was not for World Bank management, but for the US bilaterally to convey its wish for a long postponement. He also asked in these acrimonious meetings how the US administration would be able to hold the line for a year and a half, politically and publicly, against the expressed wish of China. He prevailed with his plan and left for China the next day, accompanied by Moeen Qureshi (Senior Vice President, Finance), Heribert Golsong, Shahid Husain, and myself.



### *The Talks in Beijing*

The five days of extensive discussions in Beijing proved to be very well prepared on both sides, motivated by the joint intention to move quickly toward change of representation. Our visit was hosted by the Bank of China, a state-owned commercial bank, to our initial surprise. The Bank of China had chaired an internal review in preparation for a resumption of membership. The program included meetings with the Ministry of Agriculture (including a visit to a commune that had introduced the household responsibility system), Ministries of Foreign Affairs and Finance, Peoples Bank of China, Vice Premier Gu Mu, and Vice Chairman Deng Xiaoping. It included visits to the Forbidden City and Great Wall, and left ample room for additional meetings, if necessary, which McNamara welcomed. Other than originally envisaged, and in light of the progress of the discussions with the IMF, the focus of discussions turned quickly to PRC representation in the World Bank and future World Bank operations. In order to progress as fast as possible, the World Bank had prepared draft documents and letters on the representation of China since 1945, and on resuming membership.



McNamara's delegation received by Deng Xiaoping in Beijing. The author of this essay is standing directly behind Robert McNamara (in white). The delegation also included Moeen Qureshi (one to the right of Deng), Shahid Husain (second from the left) and Heribert Golsong (fourth from the right).  
© Caio Koch-Weser

The Chinese interministerial team, led by Vice President Yang Yanqing of the Bank of China, proved very well prepared and engaged in technical discussions of the documents immediately. The tenor of the meetings was amicable, focused,

and with a shared objective of proceeding and concluding rapidly. All meetings were substantive and long. At the end of the intensive five days, there was agreement on most key issues of resuming membership. Some key issues such as access to IDA, World Bank access to data, and representation in the Board were left for the meetings with Vice Premier Gu Mu and possibly Vice Chairman Deng.

The extensive meeting with Vice Premier Gu Mu gave us an overview of the economic situation and modernization plans. He had been asked by Deng in 1978 to lead a large delegation to several European countries to study the successful experiences of capitalist countries. His report had led, among others, to the creation of Special Economic Zones in Guangdong. The Vice Premier emphasized the backward state of the economy, particularly in the agricultural sector, the emphasis on independence and self-reliant development, but at the same time the need for external expertise and financing for the ambitious modernization plans. World Bank financing should focus on agriculture, light industry, energy, and transport. World Bank's procedures and data requirements were discussed, and Gu Mu reported on the initial experience with Japanese aid. It was agreed that Shahid Husain and his team would return in a few months to agree on future operational priorities and a pipeline of projects.

Vice Chairman Deng was well briefed on the discussions when we met at the Great Hall. At the outset he asked about World Bank lending to other countries, and pointed to China being a backward developing country that should receive concessional assistance from the World Bank. Like in the past, the country would rely on its own efforts to achieve the ambitious modernization goals in four areas by the end of the century. But foreign expertise and World Bank assistance would be of great help, and to be successful China needed 20 years of peace. Here the greatest danger came from the Soviet Union and its expansionary policies in the direction of the Indian Ocean via Afghanistan, outflanking the North Atlantic Treaty Organization (NATO). This turned into a lengthy geopolitical discussion.

Toward the end of the conversation, they agreed that the relationship should be of a long-lasting nature over the 20 years of the Vice Chairman's modernization vision. While the foundation of China's development was self-reliance, it wished to draw also on foreign technical expertise and financial support. McNamara postulated that while World Bank's data requirements and procedures were at times burdensome and it presently faced financial constraints, in 10 years the World Bank should be the largest single source of economic and technical assistance to China. Deng concluded that in the long term strong economic growth in China would also serve as a big factor in promoting stability in the world. He was aware that there were concerns by others about potential downsides of development in China and that China was a communist country. But there were many definitions of communism. China was a socialist country and would always be part of the Third World.

McNamara left China convinced that with the agreements reached, and the sense of urgency displayed by the Chinese leaders, he could prevail in convincing World Bank's members to move quickly. On May 15, 1980, in a Board Executive Session the PRC was accepted as the representative of China in the World Bank Group, preceded by action on the IMF side. The US was now fully supportive and the US Director praised McNamara's wisdom, foresight, and leadership.

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## Learning Together and Building a Strong Relationship

### *Fast Delivery of First Results*

After China resumed membership within only three months, and following the strong endorsement by Vice Chairman Deng of a significant and close long-term relationship to be developed, the strategy came to deliver initial major results within the first year, and before McNamara's departure from the World Bank in mid-1981. On the internal front, Shahid Husain had already announced to the Chinese leaders during the visit that he would establish a China Division in the Programs Department, which would be responsible for all aspects of World Bank's work in China. He asked me to head that division after leaving the President's Office after the Annual Meetings in 1980, and he asked Edwin Lim to become the Lead Economist for China.

It was decided that a large special budget allocation would be made to the division that could be used quickly and flexibly to attract the best talent in the World Bank and externally, without the usual bureaucratic and budgetary rigidities. This gave Edwin Lim and I the necessary tools to move quickly and seek the best expertise for our economic and project work. It quickly turned out that the interest was great on the part of internal and international experts to work with us, and thereby have access to China.

On the Chinese side, the responsibility for the relationship was assigned to the Ministry of Finance and a team was quickly established. After remaining issues of subscriptions and representation in IBRD, IDA, and the International Finance Corporation (IFC) had been sorted out, China obtained its own chair in the Board and Wang Liansheng from the Ministry of Finance became the first Executive Director. He had been a member of the Bank of China task team studying the feasibility of rejoining the World Bank.

As agreed during the McNamara visit, a team headed by Shahid Husain and consisting of the Directors for Programs and Projects, Edward Jaycox and Syed Kirmani, the Transport Division Chief Curt Carnemark, the Energy Division Chief Jack Beach, Edwin Lim, and myself visited China in July 1980. The Chinese teams received us with great warmth and were very well prepared. We met with a large number of sector ministries, particularly in energy, transport, agriculture, and education, for extensive briefings on their sectors, operations, and plans. This was a fascinating introduction into the unknown Chinese economy. The technical planning, design, and implementation capacity impressed us as uniformly high, but there was neither strong central planning nor market mechanisms. The reforms in the agriculture sector were the most advanced. All were keen to engage quickly in project development and finance, and initial possibilities were identified. At the end of the mission, we were received by soon-to-be Premier Zhao Ziyang who talked about the reform agenda and his leading role in the first agricultural liberalization experiments in Sichuan. We visited reforming communities in Sichuan at the end of the trip. Syed Kirmani explained at length the project development steps and procedures of the World Bank, in particular, also the need for international competitive bidding (ICB). Initial training requirements were identified.



(October-December 1980 Thirty-two WB staff carried out the first economic mission to China. The mission conducted an extensive survey of the Chinese economy, and produced a report entitled *China: Development of the Socialist Economy*. This was the first report that presented a systematic view of the state of the economy of China, jointly produced by international and Chinese experts.)

The following strategy and work program emerged for the first year. First, we would work on a pipeline of five projects in education, infrastructure, and agriculture, with the aim of delivering the first project to the Board by the end of Fiscal Year 1981. Second, a large economic and sector mission, led by Parvez Hasan, Chief Economist for East Asia, and Edwin Lim would visit before the end of the year, and by spring, would produce a thorough assessment of China's economic development since 1949. The findings of the report would also be a prerequisite for World Bank lending and for establishing IDA eligibility. Third, a number of technical missions in areas such as procurement, project analysis, and disbursements were agreed. Determination of the size of an initial lending program, and its composition of IDA credits and IBRD loans, was left for after the Annual Meetings in October, because World Bank management had not yet been able to achieve consensus in the Board on the funding side.

An immediate major problem in the collaboration was the language barrier. On the World Bank side we had only a few Chinese speakers in all the teams, and on the side of Chinese ministries the same was true with regard to the English language. The Ministry of Finance recruited a number of English language graduates from local universities to help. Some of them later advanced to senior positions. The most prominent example is Jin Liqun, now President of the Asia Infrastructure Investment Bank (AIIB). However, misunderstandings based on faulty translation often made the early work cumbersome.



June 23, 1981. World Bank's Board of Directors approved its **first US\$200 million loan** to China for the **University Development Project**. The project financed equipment and materials to upgrade 26 major universities in China and a large number of scholarships to send students to study abroad.

The speed of the work of the Chinese teams frequently exceeded our expectations. It later often occurred to us when visiting project sites that the works were more advanced than

foreseen in the project timetable, contrary to many other countries where implementation was usually delayed. This made my life easy in delivering a fast-growing lending program always in time.

The first World Bank Economic Report turned out to be a great success. A large team of about 30 experts was assembled immediately after the July 1980 preparatory mission and comprised subteams on general economics, agriculture, energy, industry, and transport. The visit to China took place between October and November 1980, with each of the subteams rotating through China for about a month. The team visited Gansu, Hubei, Jiangsu, Beijing, and Shanghai as representative parts of the highly diversified country. The final report covered general economics, statistics, and nine sectors and was submitted to the government in March 1981 and to the Board in June.

The first project, a University Development Loan, was prepared. It covered the Science Departments (Physics, Chemistry, Computer Sciences) in 25 universities and financed laboratory equipment, computers, and short-term study assignments for scientists abroad. Higher education had badly suffered





### A Broad Spectrum of Close Collaboration

Based on the success of the first year and a deepening familiarity and relationship at all levels, the Chinese demand for World Bank support was growing fast. Our evolving strategy was based on three closely linked pillars: the economic and sector work, the lending program, and training and technical assistance, particularly through World Bank's Economic Development Institute (EDI). Beyond capacity constraints, the main limiting factor proved to be the availability of soft IDA resources, particularly during IDA VI.

As China was eligible for both IDA and IBRD lending, we aimed to convince the State Planning Commission (SPC) to accept an increasingly harder blend of IDA and IBRD loan terms. The SPC simply passed on to the ministries and provinces the terms offered by the World Bank Group in individual project loans, rather than pooling all funding obtained from the World Bank, and determining a common on-lending rate to all ministries and provinces (as India had done). This led to tedious negotiations between individual ministries, the SPC, and the China division. At my semiannual lending program reviews—together with Hans Wyss and later David Turnham from the East Asia Projects Department—with SPC Vice Chairman Gan Ziyu, this consistently turned out to be the most difficult issue, as the sector composition and project pipeline were readily agreed, and implementation was excellent across sectors. It was overall a very productive and pleasant collaboration with Gan Ziyu, and at the State Economic Commission (SEC), Vice Chairman Zhu Rongji took an active interest in discussing the lending pipeline.

An early strategic priority that paid rich dividends was the very large EDI training program in areas such as project analysis and procurement, initially in Washington, DC, and later on a large scale in China. The number of Chinese officials and technical staff trained exceeded 1,000 within the early years. It was a privilege for the selected individuals to participate in these courses, and they were obliged to train many others upon return—a most impressive multiplier effect that greatly benefited our collaboration.

The next two projects were for desalination through better drainage systems in irrigated agriculture in lower Yellow River areas, and for the first large container terminals in the Ports of Guangzhou, Huangpu/Shanghai, and Tianjin. They were followed by a large pipeline of projects

during the Cultural Revolution. For example, the laboratories at Wuhan University that I visited were a scene of destruction. We felt that introducing World Bank financial support in China with a project in the education sector was also symbolically the right choice. We allocated US\$100 million from IBRD surplus to this first IDA credit and added an IBRD loan of US\$100 million for this large project. It was also presented to the Board in June 1981.

The State Key Laboratory of Information Engineering in Surveying, Mapping, and Remote Sensing, Wuhan University, was one of the seven tracking demonstration laboratories of the World Bank in China.  
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all over China in many sectors. A few examples are the Lubuge hydroelectric dam in Yunnan, inland fish farms, advanced railway signaling equipment, rural development in the very poor areas of the Loess Plateau in Gansu, state farms' rehabilitation in Heilongjiang, and Hainan rubber plantations. The program reached a magnitude of US\$1 billion after a few years.

With regards to analytical economic and sector work, a highlight became the suggestion by Deng Xiaoping and Zhao Ziyang, during a visit by then President Clausen in 1983, to work on a second major economic report—this time to explore possible growth paths for the country and the feasibility of quadrupling the value of industrial and agricultural production by the year 2000. This became a massive exercise, led by Edwin Lim, covering many sectors, external trade, population, employment, and social issues, including income disparities. Produced with senior counterpart teams and presented to the government in 1985, it became a key document in further reform discussions, including the Bashan Lun Conference on a Yangtse river boat with prominent international economists. (This will be discussed in greater details in the next essay by Edwin Lim.)

By 1985 the relationship had become so deep and diverse, and the work program so large and comprehensive, that we decided to establish a Resident Mission in Beijing, headed by Edwin Lim—a move very much welcomed by the Chinese authorities.

**When I look back 40 years later on how it all began, leading over the decades to one of the most fruitful partnerships and country programs in the World Bank’s history, a few success factors stand out:**

The fundamental meeting of interests on both sides in collaborating closely at the outset, the initial welcome and support of Deng matched by decisive leadership by McNamara, the Chinese counterparts’ openness and ability to absorb and execute, and the quality and speed of World Bank’s response. A most important ingredient has been the level of trust and friendship developed and shared by the large teams on both sides.









# FROM PLAN TO MARKET: COLLABORATIVE ECONOMIC WORK AT THE START OF THE PARTNERSHIP

By **EDWIN LIM**<sup>6</sup>

As outlined by Caio Koch-Weser in his essay, the partnership between China and the World Bank grew rapidly, following the visit to Beijing by then World Bank President, Robert McNamara, to meet Deng Xiaoping in April 1980. It became a far-reaching partnership, covering all aspects of investment in development—technical preparation, feasibility analysis, and financing—as well as training of staff and introducing China to international practices such as International Competitive Bidding. In addition, China and the World Bank engaged in collaborative economic work from the start. This essay will focus on the economic work, as this was my main responsibility as Lead Economist and later the Chief of Mission in China, together with Adrian Wood, the Principal Economist for China, during the early years of the partnership.

The World Bank's economic activities in China during the 1980s shared three key characteristics:

- *The major activities responded to specific Chinese requests for support and advice.* There were, of course, studies that were required to support World Bank's operational work, such as the first economic report that was needed by the World Bank to initiate lending to the country and determine the country's eligibility for IDA borrowing. Many studies of specific sectors were also conducted to support lending operations in those sectors. However, from the start of the partnership, the World Bank was seen by the Chinese leadership as a major source of foreign knowledge and experience; thus, most of the economic work was designed to answer their specific policy questions.
- *Chinese officials and economists participated fully in these economic studies.* This tradition started out of necessity with preparation of the first economic report. After decades of isolation, the idea of a team of foreign experts traveling all over the country to study the economic situation in China was quite daunting to the Chinese officials who had to receive and work with the World Bank team. To establish trust between the Chinese officials and the World Bank team, we agreed that the Chinese side would appoint a counterpart team to work with us. The Chinese counterparts would attend every meeting, receive all data and information we were given, see every draft we wrote, and participate substantively as much as possible. This method of jointly working with a counterpart team turned out to be very successful and greatly benefited both parties. Most Chinese officials and economists welcomed the opportunity to work with a team of international experts. For instance, one Chinese economist who volunteered to work with the first economic team was Zhu Rongji, who later became China's Premier from 1998 to 2003.<sup>7</sup>
- *The World Bank complemented its own staff resources with external expertise in order to respond to China's areas of concern.* At the time, the World Bank could claim to have expertise in development well beyond any other institution, but the 1980s was a period of much exploration and innovation in Chinese economic thinking. Many of the Chinese's areas of interest extended beyond the experience of World Bank staff, such as the lessons from reform experience in the Soviet Union and Eastern Europe, or how to manage the transition from a planned to a market economy. The World Bank was able to respond to such requests by recruiting experts from around the world, including from countries that were not active members of the World Bank Group then. The World Bank truly functioned as a global "knowledge bank" with access to intellectual resources beyond institutional and national boundaries.

<sup>6</sup> Edwin Lim was the World Bank's Lead Economist for China between 1980 and 1985 and the China Mission Chief in Beijing from 1985 to 1990. He later became the World Bank Director for India and Western Africa. In the mid-1990s, while on leave from the World Bank, he founded China's first international investment bank, China International Capital Corporation, and served as its CEO.

<sup>7</sup> As the contributions from Yang Yingming, David Dollar, and Klaus Rohland illustrate, this approach to joint knowledge work still characterized the knowledge partnership in later years. It seems this is one lesson that endured over four decades.

These characteristics are well illustrated by the three major economic activities that took place in the 1980s, namely:

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### The Moganshan Conference on Reforms in the Former Soviet Union and Eastern Europe (July 1982)

The Former Soviet Union/Eastern European (FSU/EE) economies were similar to China in ideological orientation, as well as in their centrally planned systems at the beginning of the reform process in China. Thus, it was natural that China's initial opening to foreign economic ideas was directed to the FSU/EE countries and their reform experience. This effort was led by the Chinese Academy of Social Sciences (CASS), particularly the Institute of Economics, many of whose leading economists had been trained in the FSU. Soon after the first economic report of the World Bank was issued, Liu Guoguang, then Deputy Director of the Institute, and Wu Jinglian, one of China's preeminent economists, proposed that the World Bank invite a number of EE economists, with theoretical and practical reform experiences, to a conference in China on FSU/EE economic reforms. In response to this request, we organized the Moganshan Conference in July 1982, which took place at a summer resort on the Mogan Mountain in Zhejiang Province.




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July 11–16, 1982. Group photo of *Moganshan Conference* near Hangzhou, Zhejiang province. Front row from left: Kende, Struminsky, Wood (behind Struminsky), Liao, Lim, Brus, Xue, Kosta, Liu, and Granick.

© Edwin Lim

The Eastern European team we assembled for the conference was led by Włodzimierz Brus, who, together with Oskar Lange and Michał Kalecki, had attempted to introduce market socialism in Poland in the 1950s. Brus had given a series of lectures in China in December 1979, which had already had an impact on Chinese thinking. The EE team at the conference included Julius Struminsky, former Director of the Polish Price Commission; Jiri Kosta, a Czech economist who was a deputy to Vice Premier Ota Sik; and Peter Kende, a Hungarian reform economist. We also invited David Granick, an American professor at the University of Wisconsin specializing in FSU/EE economic reforms.

The Chinese participants were led by Xue Muqiao (Director General, Economic Research Center of the State Council), Liao Jili (Deputy Director General, Economic Research Center of the State Council and Vice Chairman, System Reform Commission), and Liu Zhoufu (Director General, State Price Administration). From the report they submitted to the State Council after the conference, we could see that the discussions that took place on the Moganshan Mountain had a significant impact on their thinking.

First, the EE reform economists introduced the use of modern economics to the analysis of the problems faced by the Soviet planning system. They demonstrated to their Chinese counterparts that the dysfunctional characteristics of the centrally planned system were systemic. Chinese policy makers and economists came to realize that many of the economic problems, which they had attributed to policy mistakes, were actually inherent and unavoidable defects of the centrally planned economic system and could only be overcome through a fundamental reform of the economy.

Second, the deeper understanding of reform experiences in EE led to an increased pessimism as to the feasibility of EE-type economic reforms in China. The Chinese economists were rightly skeptical about the then predominant reform solutions being considered in EE and the Soviet Union—particularly about the feasibility of bringing in high-end technology, such as the use of high-speed computers—to solve systemic problems in the economy. In fact, once they began to understand the conditions of the Chinese economy, the EE economists themselves came to the conclusion that EE reform experiences had little relevance for China. The Chinese economic system of the time, with strict rationing of essential consumer goods, very limited labor mobility, and strict state control over all aspects of economic life, was an extreme form of the “command economy.” Even in EE, with more developed market mechanisms, greater autonomy at the enterprise and household levels, and more sophisticated information and management systems, all reform attempts had failed. What was there for China to learn from this, except to seek another way to reform?

At the Moganshan Conference, we discussed the options of either reforming all sectors at once (the one-package approach) or through a step-by-step approach. All the EE experts initially recommended the one-package approach. After the conference, the EE experts visited several cities in China, after which they sent back the message that they had changed their minds. In light of China’s particular circumstances, such as huge regional disparities, and still being a low-income developing country that could not afford to make mistakes, they recommended the prudent step-by-step approach. As a result, they came to the conclusion that China’s reform needed first to be cast within an overall plan with clear reform objectives, and then be implemented step-by-step. Thus, in the end, the EE experts, Adrian Wood, myself from the World Bank, and the Chinese economists attending the conference reached consensus on the need for gradual reform in China.

Overall, all participants in the Moganshan Conference were encouraged about the prospects for Chinese reform, despite the reform failures in Eastern Europe. The reason was the success already achieved in rural reforms, which provided impetus for overall economic growth that no EE country had ever experienced in their own reform attempts. Because of the success of rural reforms, we believed in the irreversibility of the Chinese reform process despite the difficulties anticipated in urban reforms.

Thus, by the early 1980s, Chinese economic thinking and the actual reform process were no longer considering reform of the central planning system, but instead were converging on the need to build a market economy.

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### **The Second Economic Report: Long-Term Development Issues and Options (1984/1985)**

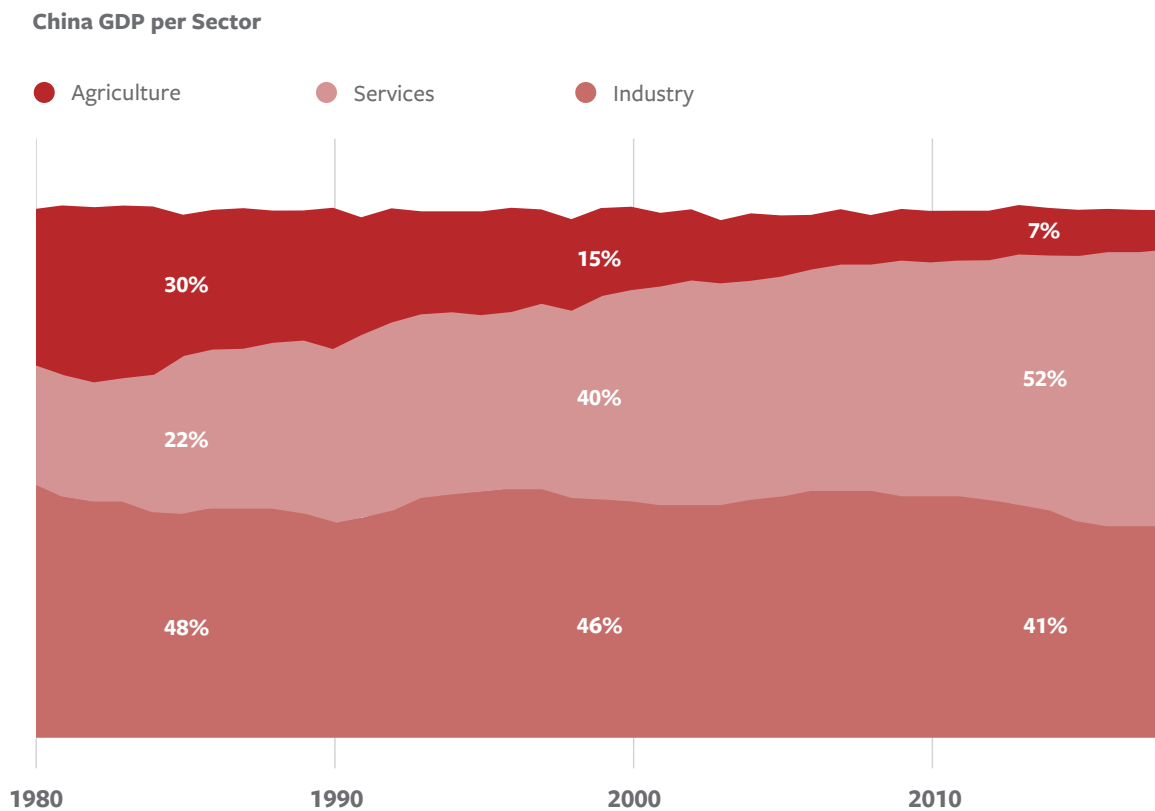
As mentioned in Cao Koch-Weser's essay, the first World Bank report on the Chinese economy (China: Socialist Economic Development) was a requirement for China's access to World Bank loans and was completed in 1981.<sup>8</sup> The second (China: Long-Term Development Issues and Options), however, was at the specific request of the Chinese leadership and addressed both issues of reforming the economic system, as well as challenges of rapid growth.

On May 26, 1983, Deng Xiaoping and Premier Zhao Ziyang met with a World Bank delegation led by President A. W. Clausen (who succeeded President McNamara in 1981). The Chinese leaders explained to the delegation their perspective on China's development and the long-term objective. China had just decided to launch a development program aimed at quadrupling the gross value of industrial and agricultural output for the 1980–2000 period. They had found the first report of the World Bank interesting and useful. Therefore, they proposed that the World Bank should undertake another study to address some of the key development issues China might face over the next 20 years, especially to provide some alternative options based on international experience, for China to achieve its development goal, and carry out some studies on the feasibility of achieving that goal.

Thus, a second major World Bank economic study was launched in 1984. The study team visited China twice for nine weeks, and similar to the first study, it visited Gansu, Hubei, and Jiangsu, as well as Beijing and Shanghai. Many Chinese economists and institutions participated in the study, most notably the several economic research institutions under the State Council which were later merged into what is now the Development Research Center. In February 1985, the draft of the main report, including six annexes (on education, agriculture, energy, economic models and projections, China's economic structure in international perspective, and transport), was sent to the government for comments. The main authors of the report, Adrian Wood and I, visited Beijing again in March to discuss the draft report with the Chinese counterpart team, and meet with the leaders from the Central Government and the Ministry of Finance.

The 1985 report, entitled "Long-Term Development Issues and Options," was more ambitious than the first report of 1981. It attempted to project possible growth paths for the country, partly based on a multisector model, and endorsed the possibility of rapid future economic growth and the feasibility of quadrupling the gross value of industrial and agricultural production over 20 years. However, it also identified alternative development paths, particularly one based both on greater emphasis on services and on more efficient resource use, which would achieve a better balance in the economy while still achieving growth as fast as that based mainly on rapid industrialization. The report also included detailed analysis of emerging issues in agriculture, energy, technology, transport, industrial location, internal and external trade, population, education, and employment, as well as social issues including income disparities, social security, housing, and social services.

<sup>8</sup> As stated in the Summary and Conclusion of the report, the purpose of the study was: "In recent years, within and outside China, two related questions have been debated: how well has China's economic development since the 1949 revolution served the Chinese people? And, what have been the respective roles of (a) factors outside the government's control, (b) the policies followed, and (c) the system of economic management itself?" This first World Bank report on the Chinese economy was primarily an attempt to address these questions in the context of experience in other developing countries, and to discuss some of their fundamental implications for future policies.

**FIGURE 4** China's Economic Transformation from Agriculture to Industry and Service

(Source: World Development Indicators, The World Bank <http://wdi.worldbank.org/table/4.2>)

The 1985 World Bank report had a significant impact on the state of economic analysis in China. The report demonstrated the possibility of scientific and objective economic analyses, free from the grip of ideology. The analysis was based on logical theory, statistical evidence, and the lessons of other countries. It did not seek to define or change China's objectives, but simply to suggest how these economic development objectives might be achieved at faster speeds and lower costs. One obvious example is the goal of quadrupling China's gross value of industrial and agricultural production, which was regarded as unrealistic by many people both in China and abroad.

The report was widely distributed among Chinese planners and economists and had a significant impact on the 7th Five-Year Plan (FYP) then under preparation.<sup>9</sup> Unfortunately, the alternative growth path, based on faster growth of services and consumption and reduced reliance on industry and investment, was never fully discussed, or to my knowledge, considered by Chinese policy makers. Indeed, this issue, as well as many others discussed in the report, have remained unresolved even after China achieved middle-income status.

### **The Bashan Lun Conference (September 1985)**

By the mid-1980s, Chinese leaders were determined to break through the limitation of a centrally planned system, but there was still relatively little understanding of how a market economy would work in China. In particular, there were concerns that a market economy would involve blind competition and undirected growth, and would be inevitably associated with booms and busts, periods of rapid growth followed by sharp depression. These concerns of the Chinese leadership led to the Bashan Lun Conference of September 1985.

<sup>9</sup> This was recognized by many economists. In 2018, in a special issue on the fortieth anniversary of reform (issue no. 98), the *Economic Journal Bijao* (Comparative Studies) republished the Summary and Conclusion of the 1985 World Bank report with a retrospective introduction by Adrian Wood. At the Caixin Summit on Nov. 18, 2018, the 1985 summary and Adrian's introduction were presented and discussed in a session entitled, "Retrospective Causerie: 40 Years of Reform and Opening Up," chaired by ex-Finance Minister Lou Jiwei.



In early 1985, I had a meeting with Liao Jili, who was Vice Chairman of the System Reform Commission, who told me that the Premier, who was also Chairman of the System Reform Commission, would like to suggest that the World Bank and the Commission jointly organize an international conference to discuss the following topics:

- How to manage a market economy;
- Issues related to the transition from a centrally planned economy to a market economy; and
- International experiences in integrating plan and market.

The conference took place in September 1985. The World Bank was responsible for inviting the international participants who assembled in Beijing at the end of August and, together with some of the Chinese participants, had a meeting with Premier Zhao Ziyang on August 31. The participants then flew to Chongqing and the conference itself was held on one of the Yangtze River tourist boats called the Bashan. The participants boarded the boat in Chongqing on September 2 and disembarked on September 9 in Wuhan where the Conference ended. Thus, the conference officially entitled International Conference on Macroeconomic Management is commonly known as the “Bashan Lun (Boat) Conference.”



September 2-7, 1985 Group photo of *Bashan Lun (Boat) Conference*.  
© Edwin Lim

We were fortunate to be able to successfully invite three international experts who had extensive theoretical and practical experience in the management of a market economy: (1) Jim Tobin (US) who had won the Nobel Prize in Economics a few years earlier for his work on financial markets and their relation to consumption and investment decisions, production, employment, and prices; (2) Sir Alec Cairncross (UK), a distinguished government official, international public servant, and renowned academic in the

field of economic policy; and (3) Otmar Emminger (Germany), a prominent international economist specializing in monetary policy, who was for many years the head of Germany's central bank, the Deutsche Bundesbank, the most independent of central banks in developed countries. In addition, Cairncross and Emminger had managed the decontrol of prices and liberalization of markets in the UK and Germany, respectively, immediately after the World War II and therefore, had direct experience in counter-inflationary measures and price decontrol under conditions of shortages.

The other international participants were Michel Albert (France), former head of the Planning Office in France; Alexander Baijt (Yugoslavia), a member of the Yugoslavia Stabilization Commission and the Government's Economic Reform Commission; and Leroy Jones (US), an economist specializing in the Korean economy, who had worked in the Korean planning ministry (for political

reasons, we could not invite anyone from South Korea to attend the conference). We also invited W. Brus (Poland) and J. Kornai (Hungary) to talk mainly about issues related to the transition from a centrally planned economy to a market economy.

Chinese participants included economists from government ministries involved in policy making, as well as economists from research institutions. The purpose of the conference was not only to invite international experts to give lectures, but also to provide an opportunity for in-depth exchanges between the Chinese and international participants. That is the reason for the unusual choice of a boat as the venue. It provided the opportunity for continuous and intensive discussions between the foreign and Chinese participants. At the conference we had plenary sessions and small group discussions, as well as private conversations which lasted into the night.

The greatest constraint of having a conference on a boat was the extremely limited space. As a result, the number of Chinese participants was very small. In the circumstances it was agreed that the Chinese participants should represent different age groups and institutions. It turned out to be a very wise decision. Not only did the Chinese delegation include some of China's most senior and influential economists, it also included some young Chinese participants who subsequently played very important roles in the reform process over the following few decades. The Chinese delegation was a combination of three age groups, namely the old, the middle-aged, and the young. The senior participants included An Zhiwen, Xue Muqiao, Ma Hong, Liu Guoguang, and Tong Dalin; the middle-aged participants included Gao Shangquan, Wu Jinglian, Xiang Huaicheng, and Zhao Renwei; while the young participants included Guo Shuqing and Lou Jiwei.

Many Chinese participants have written about their impressions of the conference and its significance in the Chinese reform and opening process. An important achievement was the understanding of how the theory and practice of macromanagement had moved from the laissez-faire approach of the 1920s and 1930s, to the aggregate demand management and activist macroeconomic policies of the 1980s. Most of the discussions were on the indirect control of the market economy through management of aggregate demand by the combined use of fiscal, monetary, and income policies. Today, the Bashan Lun Conference is widely regarded as having been a key event in the history of China's economic system reform, a milestone in China's growing confidence in its ability to manage a market economy.

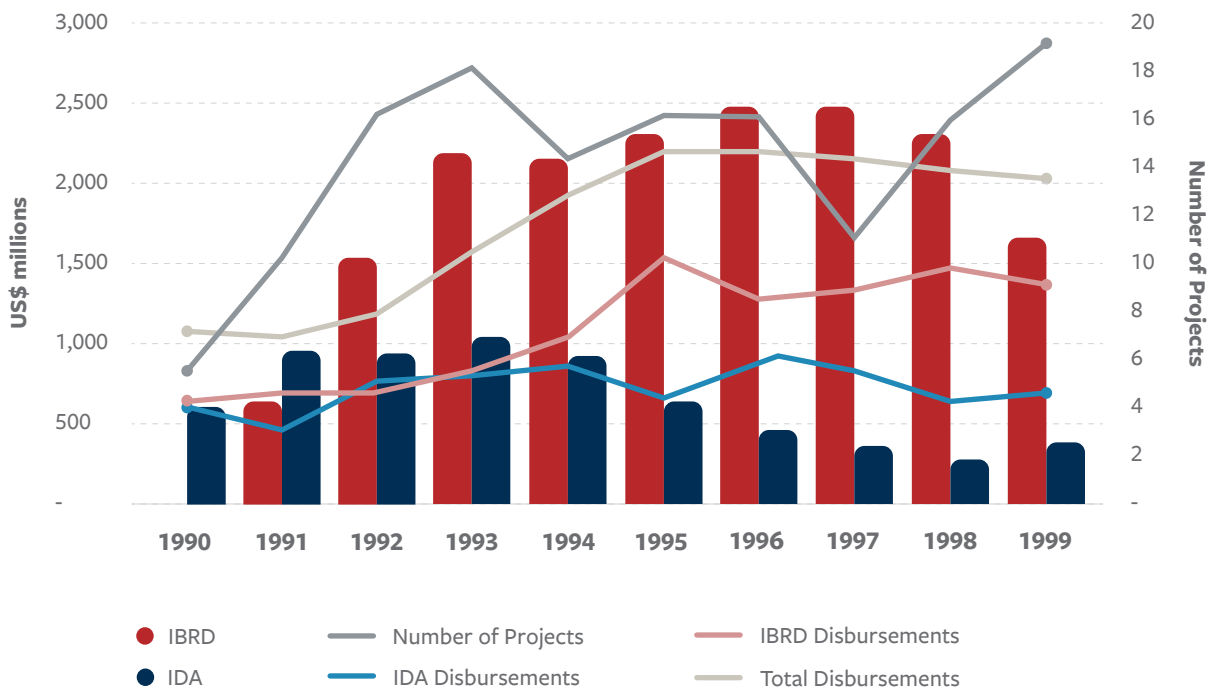
The initiation of World Bank activities in China coincided with the beginning of the country's reform and opening process. This was not an accident. The partnership with the World Bank was an integral part of China's reform and opening. This was particularly true for economic work which, reflecting the rapid progress in China's economic thinking, went in a few short years from issues related to the Soviet planning system to prerequisites for building the infrastructure of a market economy and creating the condition for rapid growth. The activities were demand-driven, they were conducted collaboratively, and drew on knowledge and experience from both inside and outside the World Bank.

# DEEPENING REFORMS: THE 1990s

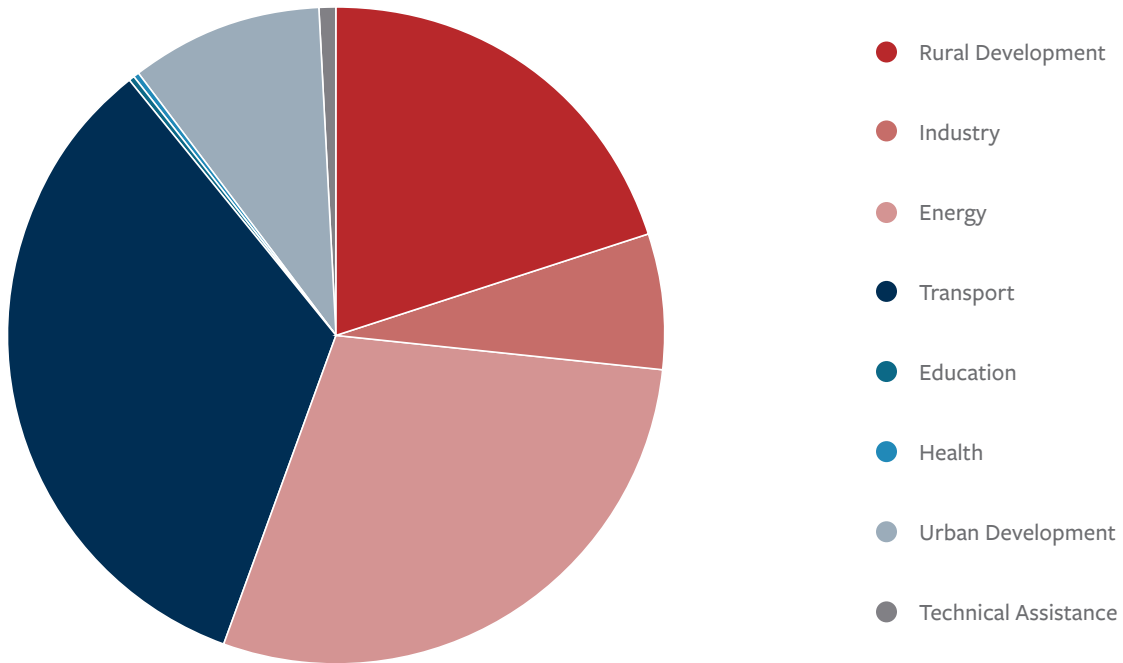
## Key Knowledge Work in the 1990s

- China: Macro-Economic Stability and Industrial Growth Under Decentralized Socialism (1990)
- China: Revenue Mobilization and Tax Policy Development (1990)
- China: Managing an Agricultural Transformation—Grain Sector Review (1991)
- China: Strategies for Reducing Poverty in the 1990s (1992)
- China: Environmental Strategy Paper (1992)
- China’s Railway Strategy (1993)
- China: Macroeconomic Stability in a Decentralized Economy (1995)
- China: Power Sector Reform: Toward Competition and Improved Performance (1997)
- China: Higher Education Reform (1997)
- China 2020 (1997):
  - Development Challenges in the New Century
  - Sharing Rising Incomes: Disparities in China
  - China Engaged: Integration with the Global Economy
  - Old Age Security: Pension System Reform in China
  - Financing Health Care: Issues and Options in China
  - Clear Water, Blue Skies: China’s Environment in the New Century
  - At China’s Table: Food Security Options
- Accelerating China’s Rural Transformation (1999)
- China: Weathering the Storm and Learning the Lessons (1999)
- Strategic Goals for Chinese Education in the 21st Century (1999)

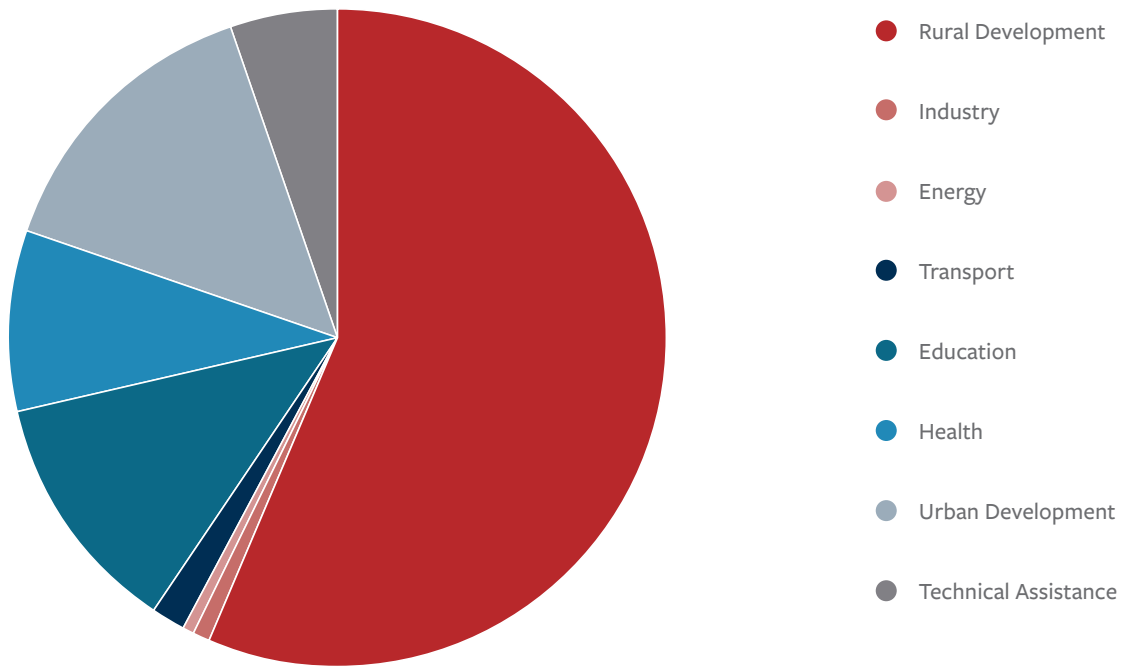
**FIGURE 5** World Bank — Supported Projects, by Fiscal Year 1990s



**FIGURE 6** World Bank — Supported Projects, by Sector (IBRD Loan) 1990s



**FIGURE 7** World Bank — Supported Projects, by Sector (IDA Loan) 1990s



# SUSTAINING THE PARTNERSHIP AT THE TURN OF ITS FIRST DECADE: 1987-1994

By **JAVED BURKI**<sup>10</sup>

My first visit to China was in the summer of 1965. During this visit, I found China to be a poor country and it looked that way. I was then a member of a three-man group that was sent by the government of Pakistan in the summer of 1965 to study the system of communes. This was done at the invitation of China's Prime Minister Zhou Enlai. The Chinese leadership was troubled by the very negative coverage by the western press of the system of communes they had introduced in the country. Unlike the Soviet Union, the Chinese did not create giant state farms. They left about one-fifth of the land in the possession of the families who had farmed it but not owned it. The move by the Chinese Communist Party, therefore, hurt the large landowners but helped the poor peasantry by having them become owners of small plots of land.

I brought back with me a lot of data from the 13 communes we visited. What we found and included in the report was that the productivity of the family-owned plots was measurably higher than that of the communally managed land. The government was not pleased with that conclusion. It was only accepted after Mao Zedong died and Deng Xiaoping became the Supreme Leader. A couple of years later, when doing graduate studies at Harvard, I showed the data I had collected to Professor Dwight Perkins, who convinced me to write a book to present what we had found.<sup>11</sup>

While at Harvard, I came to know and became good friends with Subramaniam Swamy, who taught mathematical economics at the university. Using the data I was given by the Ministry of Agriculture in Beijing, he and I collaborated on an article in which we estimated the quantity of grain China had produced in the period 1958 to 1965.<sup>12</sup> China suspended the publication of grain production data after the 1958 fiasco in which they suggested that the country had produced a record output when, in fact, there was a severe shortage that resulted in famine and deaths from hunger. As these examples show, I was working on analyzing China's economy and using evidence to make the case for reform long before I even started working for the World Bank.

Since then, I have visited China at least 40 times and got to see all but one of the country's provinces. Tibet was the only province I did not visit during my tenure as China Director. Having seen this country develop the way it has since then and having been associated with this progress in various incarnations, but most importantly during my time as Country Director for the World Bank, is one of my most satisfying professional memories. I am glad for the opportunity to share some highlights in this short article.

<sup>10</sup> · Javed Burki was the Country Director for China in the World Bank between 1987 and 1994 when he became Vice President for the Latin America Region. His relationship with China goes back to the 1960s when he researched agricultural production on behalf of the Pakistani government.

<sup>11</sup> · Shahid Javed Burki, *A Study of Chinese Communes, 1965*, Harvard University Press, 1969.

<sup>12</sup> · Subramaniam Swamy and Shahid Javed Burki, "Foodgrain output in China for the period 1958-65," *China Quarterly*, No. 41, January-March 1970.

*Expanding the relationship: the creation of the China Department in 1987*

When I took over the China job, it was a division in a large department responsible for all of East Asia. Then, as a result of the massive reorganization in the World Bank in 1987, it became a one-country department. There were three such one-country departments at the time: Brazil, China, and India, reflecting the importance of World Bank's program in each of them. I was asked to become department director for China, which I did on July 1, 1987, and I remained in that position for seven and a half years. I think this still makes me the longest serving director responsible for China.<sup>13</sup> At one point the President of the World Bank asked me whether I would like to be promoted and appointed Vice President. "But," he said, "I am told that you don't want to leave China. You want to retire as Director for China 20 years from now." So, my association with China was very deep.

Edwin Lim and I worked together very well, and we were responsible for a number of things. It was amazing how receptive China was to our advice on a variety of issues. On my first visit to China as Director, Edwin Lim and I went to see the then Mayor of Shanghai, Zhu Rongji. The mayor said to me that they wanted to develop Pudong. He asked the World Bank to finance the infrastructure needed for the area's development. At that time, Pudong was largely empty, except for a few fishermen's dwellings. Zhu invited me to sit on the floor with him and look at a map of Pudong. I also had a map of the area and so, we sat on the floor comparing maps and discussing what is it that we would like to do. The World Bank technical staff was skeptical about our deep involvement in helping to develop the Pudong area. They were skeptical that the Chinese ambitions for the area could be realized without spending resources that the government of China and the World Bank could put to other uses. Ed Lim and I decided to accept the Chinese demand for World Bank's participation.

But there were other occasions when the technical staff's advice was valuable and appreciated by the Chinese. One example is the way we handled our involvement in aiding China with the Three Gorges Project on the Yangtze River. When I took over as China Director, I also became the chairman of a three-person committee that was looking at the feasibility report of this massive undertaking. A Chinese official from the State Planning Commission and a Canadian official from their foreign aid agency were the other two members. At the first meeting of the committee, the Chinese made a detailed presentation of the feasibility document they had prepared for the project. Our technical experts said that they needed more time to react to their report. Accordingly, a second meeting was planned, this time in Montreal at the invitation of the Canadians. Given the size of the engineering work that was needed and the experience the Canadians had in the area, they were very interested in winning some consulting contracts related to the implementation of the giant scheme. Before I went to Montreal, I was advised by the technical people in the World

13 · Yukon Huang also served for seven years between 1997 and 2004.

Bank that we should not endorse the feasibility report unless the Chinese presented a viable plan for resettling the 1.1 million people who would be displaced by the project. I made that point at the Montreal meeting which, to my surprise, was appreciated by the Chinese member of the committee. He said that World Bank's position would strengthen the hands of those in China who also wanted to have a program for resettlement included in the feasibility report. They wanted to delay our response to the project by six months during which they would produce the resettlement plan. They also told me that they would not ask for World Bank's finance for the project knowing that it was controversial. Although we ended up not financing the dam, the Chinese came up with a resettlement plan that was acceptable to the World Bank.

Our involvement with the Pudong development was the start of my association with Zhu Rongji, with whom I developed a deep relationship. This became very important when Zhu became Deputy Prime Minister and later Prime Minister and the main driver of China's reform efforts during the 1990s. My relationship with Zhu Rongji continued even after I had left the World Bank. When Zhu was Prime Minister, I briefly became Finance Minister of Pakistan. And at that point we were in urgent need of financial assistance, and Prime Minister Zhu was very helpful in quickly arranging China's support.

In early December 1996, I flew over to Beijing from Islamabad at Zhu's invitation and had two meetings with him over two days. The second one was over dinner at the Doyutai guesthouse. He was aware of the financial stress Pakistan then was experiencing and asked me how he could help. I said I needed a quick infusion of funds into our reserves. In the second meeting he said that he had discussed the Pakistani financial situation with President Jiang Zemin whom I also knew from his days as the mayor of Shanghai. "We have decided to place \$500 million in Pakistan's account at the Federal Reserve Bank in New York. If you have the account number the amount will be transferred by the time this dinner is over," he said to my great relief. I had the account number with me which I handed over to him and he passed it on to an assistant. The indicated amount was in our account that evening. The Chinese help saved us from default to such "preferred creditors" as the IMF and the World Bank.

When I recruited managers for the department, I looked for people with experience of doing work in the world's poorer countries. I persuaded Zafer Ecevit, an economist of Turkish origin, who was then working on India to assume control of the division in the China department that was responsible for both developing social sector projects as well as doing analytical work in the poverty alleviation area. He agreed to join me and went to work on some of the difficult problems the country needed to deal with. Zafer and his team were able to advance even in sensitive areas by carefully marshalling evidence to support their case. For example, to persuade the Chinese to limit smoking in public places such as trains, buses, and airplanes, Zafer's staff did an elaborate study estimating the health effects of smoking and the cost to the economy of the ill effects of smoke in the lungs. The evidence presented to the authorities persuaded them to ban smoking in these public areas.

### *The Tiananmen Square Incident*

I was traveling in central China in the late spring of 1989 when, in a telephone call, my wife told me that the American television news channels were reporting that large crowds had gathered in Tiananmen Square in Beijing and were demanding major changes in the country's economic, social, and political systems. The demonstrations were led by students who wanted the systems to be inclusive rather than continue to be dominated by the Communist Party. I checked with my hosts in the city in which I was at that time and was told that they had no knowledge of what my wife had described. I decided, nevertheless, to cut short my trip and return to Washington via Hawaii. While in Honolulu, I got a call from Barber Conable, the World Bank President at that time, who asked me if I knew that the Chinese government had used military force to drive the assembled protesters from Tiananmen Square. He told me to get back to Washington quickly and deal with the developing situation.

Once in Washington, I laid out three criteria that I felt should guide our engagement with China, including our lending program, going forward: that China had the creditworthiness to borrow from us; that it was responsive to our policy advice; and that the projects we were financing were being implemented to our satisfaction. In the meantime, the Group of Seven (G7) had opined that all multilateral lending to China should be suspended and related this demand to President Conable. Following further discussions with me, Conable related my three criteria to President Bush, who asked that I travel to China immediately to verify whether the conditions were satisfied. I traveled to China on June 7, 1989, three days after the Tiananmen Square incident which the western press called a "massacre." Since at that time there were no direct flights between China and the United States, I switched planes in Tokyo and traveled in an almost empty plane to Beijing. Together with Ed Lim, we carefully reviewed our existing portfolio, spoke to our counterparts, including Zhu Rongji and his team in Shanghai, and came to the conclusion that our three conditions had been satisfied.

### *Resuming Bank lending to China*

At that time we had seven projects waiting to be approved by the board. It was our judgement that presenting the projects to the board could result in their rejection if the G7 representatives voted against them. If that happened it would be the first time in the institution's history that a project presented by the staff was rejected by the board. I persuaded the Chinese authorities to write to the board requesting that the presentation of the seven projects should be postponed. After some hesitation, Beijing agreed and asked me to draft their request to the board. This was done and bought us some time.

In the meantime, we were looking to find a project which G7 Executive Directors would be unable to oppose. A few months later, I learned that an earthquake had hit some northern areas in China with fairly extensive damage. I asked Daud Ahmad, my Project Adviser, to go to China and develop an earthquake relief project. He did that and we took it to the board. It was approved; we soon followed with the seven projects that were waiting to be presented. They too won the board's approval.



### Deepening reforms in the early 1990s

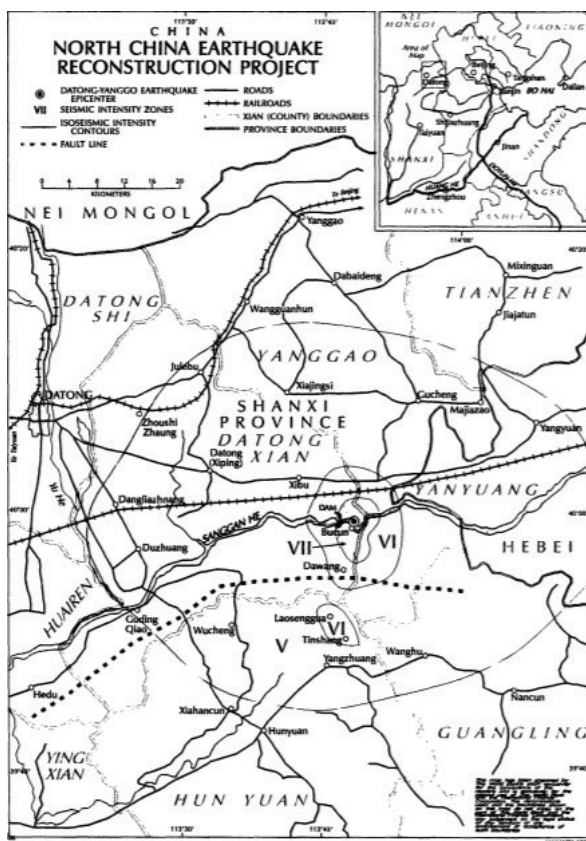
The decision to keep the bridge to China open was the right decision. Following Deng Xiaoping's now famous Southern Tour in early 1992, the reform momentum was regained and the World Bank placed in an important position to advise the government.

I want to cover three topics to illustrate the range of World Bank's advice on reform. The first is housing reform. The Chinese authorities were very reluctant to let go of housing, which was fully state owned, with households allocated apartments through their work unit (the danwei). We convinced the Chinese authorities that if they wanted to really bring the private sector as an important player into the economic system, housing needed to be privatized. After a lot of reluctance, a lot of analytical work from our side, they decided that they would pilot the housing

reform we had suggested in the municipality of Qingdao, in Shandong province. Qingdao is the place where beer was practically invented in China, and I remember having quite a lot of the local beer for breakfast. But much more importantly, the Qingdao pilot laid the foundation for the privatization of China's housing stock, which was largely complete by the late 1990s.<sup>14</sup> This was a critical element in reforming labor markets, thereby laying the foundation for the restructuring of state enterprises around the same time, when many millions of people were made redundant and absorbed by the rapidly growing private sector. Relatedly, the World Bank was involved very deeply in the conversion of Township and Village Enterprises (TVEs) into joint stock companies, which in some cases were even able to attract foreign investment. Some of these TVEs then went on to become major industrial enterprises and drivers of China's growing economic competitiveness.

Another initiative that we took was the reform of the agricultural sector. As I had analyzed during my first visit to China in the mid-1960s, after the Chinese had transferred land to communal ownership, agricultural productivity had really fallen behind. Following the pilot reforms introduced in the late 1970s and early 1980s with the household responsibility system, China sought World Bank's advice on how to sustain the gains in rural incomes and livelihoods. This was the start of discussions on integrated rural development, an approach that

tried to combine the introduction of new production methods with investments in processing facilities, as well as improvements in skills and in rural infrastructure. The article by Zhang Wencai in this book, who at the time was a junior official in the Ministry of Finance's World Bank department, elaborates on this approach which remains relevant to China's efforts at poverty reduction and rural revitalization to this day.



North China Earthquake Reconstruction Project (Jan 1990) for Datong-Yanggao earthquake (Dec 1989).  
Source: World Bank Map IBRD 22045

14 · Pieter Bottelier's article in this volume relates the role the Resident Mission in China (RCM) played in piloting the reform of labor markets with its own staff and shows how this was closely linked to housing reform. So, the World Bank was not just an advisor. It was often key to the design of reform pilots, in this case even becoming a pilot itself.

The third topic I want to briefly cover is monetary and financial sector reform. Pieter Bottelier and Nick Hope—the latter succeeded me as Country Director for China – have more details on this in their articles, but I want to mention the Dalian Conference in 1993, after which the foundations of the modernization of China’s financial sector were laid. By then Zhu Rongji was Deputy Prime Minister and in charge of economic reforms. One of the issues he was grappling with was how to recentralize monetary control and turn the People’s Bank of China into a proper central bank; PBC then worked as a commercial bank. I invited some very seasoned central bankers to the Dalian conference, and based on the discussions there we wrote a proposal. I wrote it by hand; it was a six- or seven-page long list of ideas. We then met with Zhu Rongji to present these proposals and he accepted them. That was a wonderful experience and illustrates the important role the World Bank played at this critical juncture of China’s macroeconomic reforms, and importantly the strong trust that had been built between Zhu and the World Bank team.

***“The most important contribution: competitive bidding”***

When I started out, total lending to China was around US\$1.1 billion annually, of which around one-third was in IDA credits. By the time I left, IBRD and IDA jointly lent around US\$3 billion annually, with IDA’s share remaining roughly the same. As President Robert McNamara had rightly predicted during his initial visit to China (see Caio Koch-Weser’s article in this volume), China had become the World Bank’s largest borrower. Seven years later, China graduated from the IDA and another seven years afterwards went on to become an IDA donor. But the size of World Bank’s program was never the most important part of the relationship. Let me illustrate this point with a closing anecdote. When I went to see Prime Minister Li Peng during my farewell visit, he said to me: “Look, Mr. Burki, you did a lot for China. But one thing I want to point out to you was a singular contribution that the World Bank made, and that was the introduction of competitive bidding to us.”

So, it was a remarkable period in my professional life. I don’t know how many more years I have, but my years in China are something that I will always remember. China was extremely receptive to what we were doing and eager to learn, and this made our partnership an altogether unforgettable experience.

# WORKING IN THE WORLD BANK'S MISSION IN CHINA IN THE MID-1990S

By **PIETER BOTTELIER**<sup>15</sup>

I was Chief of the World Bank's Resident Mission in China (RMC) from 1993 to 1997. This essay will focus on some of the main Chinese counterparts I worked with, the significance of the Dalian Conference in 1993, and how the RMC contributed to the reform of China's system for recruitment and employment of local Chinese staff by foreign agencies.

Of all my assignments since I joined the World Bank (WB) in 1970, the China job was the most interesting, rewarding, and demanding. It was a life-changing experience. I was impressed by the quality of my Chinese counterparts in government agencies and by the economic reform momentum under the leadership of Zhu Rongji, China's "economic Czar" during the 1990s and early 2000s, as Vice Premier (1991–1998) and as Premier (1998–2003). The Chinese partners I worked with were remarkably open-minded and curious about the development experience of other countries. They used the World Bank well and the World Bank responded well to China's needs. A real partnership developed from the early 1980s.

In the 1990s, the WB's program in China was World Bank's largest and one of its most successful. New commitments rose to over US\$3 billion per year in the mid-1990s, while well over one hundred WB-supported projects were under implementation and dozens of new projects under preparation. Disbursements amounted to almost US\$10 million on an average workday. The WB supported projects in almost every part of China. The Chinese government took the World Bank very seriously and was keen to absorb World Bank's economic analysis and opinion as it tried to ensure that World Bank-supported projects were implemented smoothly. For that purpose, many thousands of civil servants were employed (mostly by local governments). Similarly, the World Bank's analytical program for China (studies, conferences, seminars) was large and diverse.

My wife Grace, a professional concert pianist, was invited to perform in various parts of China with the help of the Soong Ching-ling Foundation (SCLF). This brought us together with many interesting personalities across China, which I otherwise would not have met. In addition, Grace and I often hosted dinner parties for Chinese officials at the end of which she'd play some piano music in our apartment. Jin Liqun, then the Deputy Director of the World Bank Department in the Ministry of Finance (MOF) and now President of the Asian Infrastructure Investment Bank (AIIB) was a frequent guest. He loved classical piano music and correctly identified the pieces played by Grace.

The World Bank office in China was originally located in Building #5 of the government's beautiful Diaoyutai guesthouse complex in western Beijing. As World Bank operations in China expanded, total RMC staff grew from 25 in early 1993 to 65 in August 1997 when I returned to headquarters, after the Hong Kong transfer from the United Kingdom (UK) to the People's Republic of China on July 1, 1997. During the same time, International Finance Corporation (IFC) (which started operations in China in 1985) opened a separate office in Beijing.

Our counterpart agency in the Chinese government, was the MOF, which for that purpose used to have a special World Bank Department. The deputy director of that department for most of my tenure, Jin Liqun, was my main counterpart. I was afforded ambassador status in China and had relatively easy access to very senior officials, a privilege that I was careful not to abuse. Although World Bank lending accounted for only a small part of total investment in China, World Bank's China program was a massive operation by World Bank standards.

<sup>15</sup> · Pieter Bottelier was the Chief of the World Bank Mission from 1993–1997. During his 28 years in the World Bank, he held numerous other positions such as Director for Latin America and North Africa and Senior Advisor to the Vice President for Asia during the Asian Financial Crisis. After his retirement from the World Bank, he taught courses on China's economy and reforms at various United States (US) universities for almost 20 years.

### *Building relationships with key counterparts*

As mentioned, my main counterpart in the Government was **Jin Liqun**, deputy director of MOF's World Bank Department during most of my tenure. I first met him in Washington DC when I was preparing for my China assignment and he served as Alternate Executive Director for China on the World Bank's Board. Later, Jin became executive Vice President of the Asian Development Bank in Manila, Chairman of China's investment bank CICC, member of the central bank's Monetary Policy Committee, Vice Minister of Finance and (since 2016) the first President of the AIIB, a multilateral investment bank located in Beijing. Few officials have done more for China's development and reforms than Jin Liqun.

Of the many Chinese economists I interacted with, I will only mention a few (in bold). The most important was Prof. **Wu Jinglian** (widely regarded as China's most senior and most influential economist). He is now in his early 90s and still associated with the State Council's Development Research Centre (DRC). Prof. Wu was a key advisor to Zhu Rongji. He was also teacher and mentor of many younger economists and author of many books and articles on China's economic development and reforms. He has been involved in development research since the 1950s when he was a member of Sun Yefang's famous Institute of Economics of the China Academy of Sciences (CAS) which raised critical questions about some of Mao Zedong's economic policies.

Another important economist for China's economic reforms and collaboration with the World Bank was **Wu Xiaoling**. She was a deputy director of China's central bank (PBOC) when I first met her and later became a very influential Vice Governor of PBOC and Vice Chairman of the NPC's Finance and Economic Committee. **Zhou Xiaochuan** was Vice President of the Bank of China (BOC) when I first met him. Before he became Governor of PBOC in 2002, he also served as Chairman of China's Securities Regulatory Commission, President of China Construction Bank (CCB), and head of the State Administration of Foreign Exchange. He retired as Governor of PBOC in 2018 and was replaced by **Yi Gang**, whom I got to know as one of PBOC's leading Vice Governors. Of all the Chinese economists I interacted with, Zhou Xiaochuan was probably the most important practical reformer, especially in banking and finance. In 1993, around the time of the Dalian conference when he was Vice President of BOC, he and Wu Jinglian co-authored a very important article "A Comprehensive Design for the Near- and Medium-Term Reform of the Economic System," which became a blueprint for many of China's economic reforms in the 1990s and beyond.

Nearly all Chinese economists I interacted with were associated in one way or another with Zhu Rongji. They included the already mentioned Wu Jinglian, Wu Xiaoling, and Zhou Xiaochuan, as well as **Wang Qishan, Fan Gang, Lou Jiwei, Guo Shuqing, Gao Shangquan, Li Jiange, Chen Xiwen, Lu Mai, Xie Ping, Lin Yifu** and **Liu He**. The latter, now Vice PM and advisor to President Xi Jinping, was director of the State Planning Commission's (SPC) Industrial Policy Department when I first met him. (In 2003, SPC was converted into the National Development and Reform Commission (NDRC). I got to know Lin Yifu (who later became the WB's Chief Economist and Sr. Vice President) when he started the WB-supported China Center for Economic Research (CCER) at Peking University in 1994. Lu Mai was a Sr. economist with the State Council's DRC and later became Director General of the DRC Foundation. Chen Xiwen was China's leading expert on rural development.

Lou Jiwei and Guo Shuqing, two highly trained international economists and committed reformers, had similar career paths. Guo followed Lou as head of the Macroeconomic Department of the (Economic) System Reform Commission (SRC), which had been created by PM Zhao Ziyang in the early 1980s to help guide the country's economic reforms. Guo also followed Lou as Deputy

Governor of Guizhou province. Lou later became Chairman of China's sovereign wealth fund, Finance Minister, and administrator of China's Social Security Fund. Guo became Chairman of China Construction Bank (CCB), one of the world's largest commercial banks, head of the China Banking Regulatory Commission, Governor of Shandong province, and Chairman of PBOC. Xie Ping was division chief of PBOC's Finance Department when I first met him. He became the first director of PBOC's Financial Stability Department, which was established after the Asian Financial Crisis of 1997/98. Li Jiange was the only important government economist I interacted with who did not speak English. Fan Gang was not in government but led a private economic research organization.

Gao Shangquan has been deeply involved in reform policy making since he joined the SRC in the early 1980s; in 1995 he was appointed President of the Government's China Institute of Reform and Development (CIRD) in Haikou, Hainan Province, where he organized many international conferences on China's economic development and reforms. In 1998, he conducted research at the World Bank in Washington DC as a visiting scholar. (SRC was discontinued as a separate government agency and integrated into NDRC in 2003). I met Wang Qishan only once, in 1993, when he was President of CCB. I discussed with him the possibility of a World Bank project to help reform CCB. Wang declined our tentative offer on the ground that World Bank loans were too expensive in his view. Wang Qishan was one of China's main reform economists in the 1980s. He was a member of Zhu Rongji's team in the 1990s and is currently China's Vice President.

The contacts with so many eminent Chinese economists provided us with great insights, but also helped to build trust and friendships and opened many doors for the World Bank and its advice at the highest level in the decades to come.

### ***The Dalian Conference of 1993 and its significance for the reform of China's macroeconomic policies and institutions***

Like the famous Bashan-Lun conference of 1985 and many other international conferences, the Dalian conference was focused on macroeconomic management and was co-sponsored by the WB and SRC. It had been planned as a follow-up to the 14th Party Congress of October 1992, when it was decided to establish a "socialist market economy." The Dalian conference took place in June 1993, when inflation was raging. To appreciate the significance of this conference, it is necessary to understand the factors underlying the high inflation at that time.

After the events in Tiananmen Square of June 1989, China's economy slowed sharply. Although important reform decisions continued to be taken, such as, the opening of the Shanghai and Shenzhen stock exchanges and the building of Pudong being authorized, the reform "momentum" suffered. Within the government, there was intense disagreement on national economic priorities. While the reformers wanted to push ahead with economic reforms, others felt that reforms had already gone too far.

The economy started to revive in 1991, and following Deng's Southern Tour in early 1992, investment exploded. Deng's Southern Tour encouraged local governments and entrepreneurs to invest. This they did with gusto, often financing investments with bank loans authorized by local bank branches, which were then essentially under the control of local politicians. The investment drive led to a rapid expansion of the money supply and consequently, rising inflation, which reached 20 percent in 1993.



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China and Mongolia Department

# Macroeconomic Management in China

Proceedings of a Conference  
in Dalian, June 1993

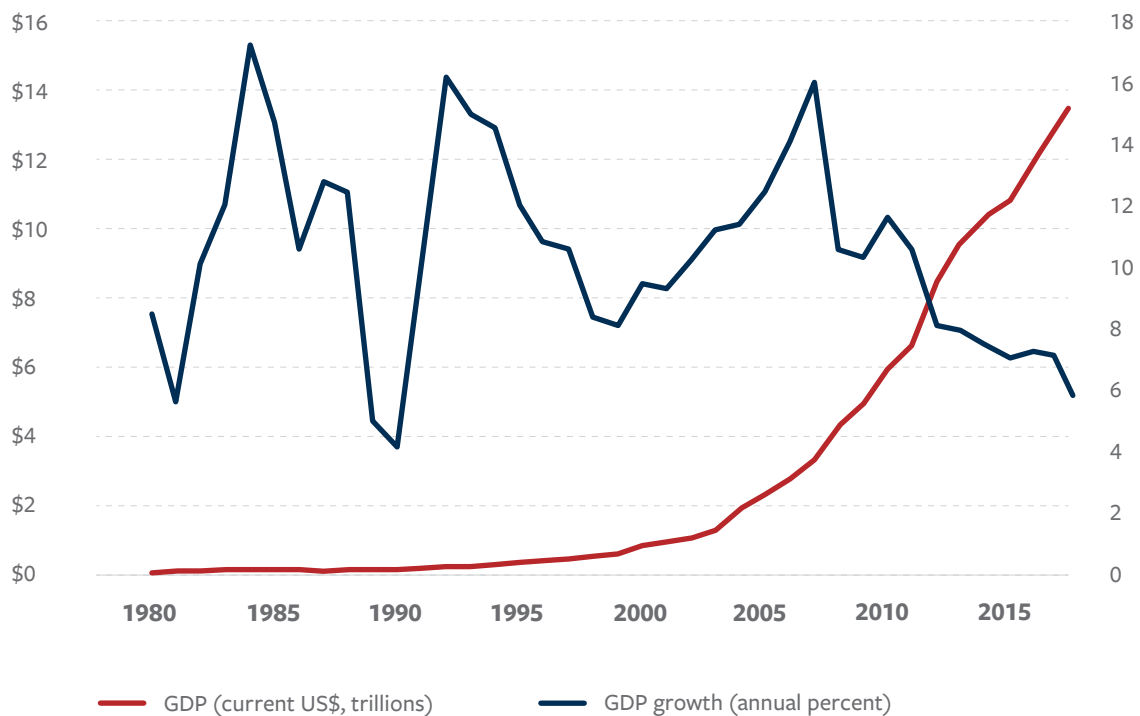
Edited by  
Peter Harrold  
E. C. Hwa  
Lou Jiwei

June 1993. Dalian Conference on Economic Re-Centralization and the Emergence of Modern Macroeconomic Management.

Knowing from experience that high inflation was bad for stability and economic growth, political leaders were worried and anxious to reduce “overheating” but didn’t agree on what to do. The Chinese were essentially divided into two groups. One (comprising mostly Russian-trained economists and officials) argued that inflation indicated a shortage of goods, which suggested the need to increase supply and hence to invest more. The second group (of mostly western-trained economists) argued that inflation was a monetary phenomenon, suggesting the need to slow down investment and money creation. This debate took place while investment - following Deng’s “Southern Tour”—was already sky high and gross domestic product (GDP) growth was running at 14 percent.

**FIGURE 8** China’s Growth Was Volatile Until the Mid-1990s

### China GDP and Growth



(Source: Data from database: World Development Indicators.)

The Dalian conference brought together a group of leading Chinese reform economists, foreign scholars, and World Bank staff. It dealt both with measures to address short-term challenges facing the economy as well as reforms to overcome structural issues. Papers were presented by the Chinese participants on topics such as financial sector reform, fiscal policy, the role of industrial policy, and state asset management. The foreign participants prepared comments on these papers, and the meetings concluded with a clear set of recommendations, which were submitted to the Chinese leadership. At the core of these recommendations was the need to centralize control over money supply and fiscal policy. In essence, the monetary view of inflation prevailed.

Following the Dalian conference, Zhu Rongji set in motion a series of measures aimed at slowing investment and controlling money supply. Zhu started with a 16-point macro-stabilization program in July (which included a politically painful re-centralization of control over the banking system) and prepared for major fiscal, financial system, and monetary policy changes in 1994, including exchange rate unification and abolishment of the Foreign Exchange Certificate (FEC), a special currency for foreigners, introduced by Mao in the 1950s. China succeeded in gradually achieving a “soft landing” (reducing inflation to a nonthreatening level by 1996), and many of the reforms inspired by the Dalian conference, though modified over time, are still essentially in place.

### ***Reforms of China’s system for the recruitment of local Chinese staff by foreign agencies***

I was impressed by the quality and the dedication of the local Chinese staff in the World Bank office. However, I was surprised to find that RMC’s local Chinese staff were not really World Bank staff, but that professional officers (agricultural experts, highway engineers, etc.) were seconded to the World Bank by government agencies (through the MOF), while support staff (secretaries, drivers, cleaning personnel, etc.) were seconded to us by the Diplomatic Service Bureau, DSB. Therefore, all local staff were on the payroll of a government agency. The World Bank reimbursed those agencies through MOF and paid some small cash allowances directly to the staff concerned. The (very modest) compensation of our local Chinese staff was one of the first major challenges I had to deal with.

When I started my job in Beijing, I was informed that there was an (unwritten) agreement between the World Bank and the Chinese government that RMC would be used on a trial basis to open up a small segment of China’s labor market. In practice, this meant that I should begin to experiment with something that was called “direct recruitment” of Chinese staff, whenever a vacancy arose. However, I was not allowed to advertise vacancies in the local press. Therefore, everything had to be done by “word-of-mouth.”

In my efforts to move to a “direct recruitment” system, I soon found out how tightly controlled the Chinese system for employing and housing local staff was and how little room for maneuvering I had to experiment with reforms. I was permitted to identify potential new local staff quietly but could initially only employ them on the basis of a long-term consultancy contract (maximum six months). Existing local professional RMC staff were offered the opportunity to convert to long-term consultancy contract status. However, RMC couldn’t offer housing to local staff because we didn’t own apartments; and it was well before a commercial housing market in urban China emerged. Moreover, RMC was not recognized as a “work unit” (danwei) of the state that could hold the personal file of Chinese workers, as was required under the old system. These limitations turned out to be critical. “Work units” typically held the personal file of their Chinese workers and



assigned them a state-owned apartment. For the housing of newly recruited local staff and the holding of their personal file, RMC was dependent on a special agency of Beijing Municipality, a solution that was negotiated on RMC's behalf by MOF.

Since we didn't have a salary scale for local staff on a long-term consultancy contract, I had to create one and link the contract amount to the qualifications of candidates (including education and practical work experience). That presented new challenges, because at the time there was no private labor market in Beijing to guide the development of a salary scale and associated grading system. Another complication was that during most of the Cultural Revolution many universities and institutes of higher learning were closed, so that Chinese professionals of a certain age group typically had no academic degree to determine their place in the salary scale. Hence, the simple sounding "direct recruitment" of local staff became quite a challenge. Nonetheless, we did it and RMC's "direct recruitment" system became the model for all foreign agencies in China, including embassies.

When the head of the United Nations Development Programme (UNDP) in China found out how much progress RMC was making with "direct recruitment," he wrote a letter to his boss in New York, the Egyptian UN Secretary General Boutros Boutros Ghali, suggesting that he write to China's PM Li Peng, requesting the same privileges for all UN agencies in China. When Li Peng received Boutros Boutros Ghali's letter, he is reported to have been very surprised. Soon thereafter, I received a letter from MOF requesting me to undo the personnel changes within three months.

Thus, I had to try to get all those Chinese local staff members who were already on a long-term consultancy contract reabsorbed by their original danwei. It worked in some cases, but not in others—sometimes the relevant danwei refused to cooperate (possibly because they had no apartment available for the person in question). It led to many complications and a lot of acrimony.

In the end Jin Liqun agreed with me privately that RMC couldn't fully implement the rollback instructions. From then on, we went ahead full steam, getting as many local staff members on the new direct recruitment system as possible. Most or all professional officers and many DSB support staff were converted to direct employment by the World Bank and entitled to World Bank benefits such as health insurance and pensions after my departure from China in 1997. My successor in Beijing, Yukon Huang, resolved an unforeseen problem when he succeeded in persuading the World Bank in Washington to recognize the period that local staff had worked for RMC on secondment from a government agency, for the calculation of World Bank pension rights.

After the privatization of urban housing in China (1998–2003), the housing problem facing foreign agencies in China was also resolved. From then on, the Chinese could buy or rent their apartment without involvement of their danwei, and foreigners could choose their own residence.



# THE WORLD BANK AND CHINA'S REFORMS: 1994 - 1997

By **NICHOLAS HOPE**<sup>16</sup>

I was first introduced to China during 1983–87 in my capacity as Chief of the World Bank's External Debt Division and subsequently as the Chief of the East Asia Industrial Development Finance Division. After secondment to Jakarta during 1990–1994 (where I directed the resident staff in Indonesia), I was appointed World Bank Country Director for China, a position that was based in Washington as was the usual practice at that time. Prior to my formal appointment, I joined the former Country Director, Javed Burki, on his farewell tour, during which he very generously introduced me to many of the important contacts. One meeting that I attended without him was with officials of the World Bank Department of the Ministry of Finance (MOF), at which Mr. Li Yong (who later became Vice Minister) bluntly stated that I should clearly understand that my job was not to tell China how to run its economy. I agreed with him, with the rejoinder that my job was to ensure that not a penny of World Bank money was lent for projects that had little chance of successfully achieving their objectives. All participants seemed satisfied with the outcome.

My first three months back in Washington were the most intensive learning experience of my World Bank (WB) career. During these early months, as much time as I could spare from absorbing information about World Bank's China program, I devoted to understanding more of what was implied by the decision of the third plenary session of the 14th party Congress (3/14) in November 1993 (hereafter, the Decision) on measures to be adopted to establish a "socialist market economic structure."

My arrival coincided with the completion of the 1994 economic report that pointed to the need to re-establish control of the macroeconomic aggregates by the central government after earlier efforts to spur decentralization of decision-making. In addition, strenuous ongoing efforts were underway to complete the US\$3 billion lending program that was a legacy from Javed, as well as to prepare for a similarly sized program for fiscal year (FY)95 and subsequent years. The process of deciding the composition of the lending program was impressive, with intensive consultations ensuring that the jointly agreed projects contributed to China's development objectives as well as World Bank's desire to support reforms of policies for the macroeconomy and specific sectors. The geographical dispersion of projects was carefully considered too.

Furthermore, negotiations for an International Development Association (IDA) replenishment began, with some senior World Bank managers in favor of graduating China, which, at least some believed, would facilitate the negotiation. As discussion proceeded, the Chinese preference for participating in the replenishment as a borrower was supported strongly by some members of the World Bank Board (in particular France and Japan), although at a level one-third of that in the previous replenishment. The clear expectation was that China would graduate from IDA thereafter, with a further expectation that, shortly after graduation, China would become a financial contributor. The department's three-billion-dollar annual lending program for China for FY97–99 included around US\$330 million of IDA funding in each of those years, down from one-third of the US\$3 billion of total WB lending to China in each of FY94–96.

The following sections of this essay will focus on China's overriding macroeconomic policy concerns preceding, during, and following my all-too-brief period as Country Director, namely the control of boom-and-bust cycles, implementing the socialist market economy according to the 3/14 Decision, and negotiating China's accession to the World Trade Organization (WTO). The World Bank played an important part in supporting Chinese actions to achieve objectives in all these areas. The essay will conclude with some reflections on contributions of World Bank's lending program to Chinese reforms as well as preparation for the Hong Kong Annual meetings, including the China 2020 report and China's management of the East Asia Financial Crisis.

<sup>16</sup> · Nicholas Hope was the China Country Director at the World Bank from 1994 to 1997. Following his retirement from the World Bank in 2000, he was deputy director, then director of the Stanford Center for International Development, where he continued to maintain close links to China, including by hosting numerous Chinese government officials, who conducted research on Chinese policy reform.

### *Controlling the boom-bust cycle.*

As I soon learned, China's successful market reforms during the first 15 years of reform had outstripped the development of effective tools to ensure macroeconomic stability, which still depended on administrative measures. Direct credit and investment controls remained the chief instruments of macroeconomic management, and they proved insufficient to quell periods of economic instability. Rapid inflation accompanied growth spurts and unsustainable booms, which were followed by (comparative) busts in a distressingly familiar pattern. The surge in inflation (to more than 20 percent a year) that followed Deng Xiaoping's southern tour in early 1992 clearly exposed the systemic weaknesses accompanying ad hoc reforms.

After extensive economic investigations (with assistance from the international financial institutions [IFIs]) by many excellent Chinese economists (some of whom remain active in the economy in 2021) under the inspirational leadership of Vice Premier, Zhu Rongji, a consensus emerged within the Party to enact reforms that would stabilize the economy and introduce rule-based macroeconomic and regulatory mechanisms. The requirements comprised the substance of the Decision. However, before many of the essential reforms could take effect, Vice Premier Zhu and his colleagues used multiple measures during 1993–95, including direct control of lending and spending, to contain inflation without an undesirable fall in growth.

Many of World Bank's contributions to the deliberations on how inflation could be curbed without excessive loss of growth, and what policies were needed to establish a mature market economy, preceded my tenure as country director (see the contributions of my predecessors), but I arrived as the finishing touches were being applied to an economic report, the chief message of which was that the main macroeconomic policy decisions had to be reclaimed by the central government as a precondition for allowing individual economic agents to make independent decisions. Frequently, the most important of those agents were provincial and municipal party secretaries, governors, and mayors, whose priorities for economic development in their own regions led to fallacies of composition at the national level. Local authorities made liberal use of widespread expansion of credit from the local branches of the State Commercial Banks (SCBs) to finance investment, frequently of dubious value. Their actions were facilitated by the influence they could exert on the local branches of the People's Bank of China (PBC) in each province/autonomous region.

### *Implementing the Decision*

The Decision envisaged a comprehensive program of reforms that would influence Chinese society broadly, but the main measures to impact the economy comprised: the unification of the exchange rate (brilliantly implemented in January 1994) and attention to more effective management of external commerce; liberalization of domestic and international trade; far-reaching amendments to the public finances, with the introduction of a value added tax and national and local tax bureaus; the reform of the arrangements for monetary management with more independence for the PBC at the expense of local governments; initial efforts to provide social safety nets (pensions, health insurance, unemployment benefits); and (still unfinished) transformation of the finance and enterprise sectors.

Successful completion of the program required coordinated reforms in most of the areas mentioned. The goal of fiscal reform was to replace revenue contracting arrangements by establishing a national tax bureau and local tax bureaus with separate jurisdictions over assigned central and

subnational sources of revenue. These tax reforms, anchored by the introduction of a value added tax, quelled the erosion of revenues accruing to the central government that was a result of earlier fiscal decentralization. Fiscal discipline was to be ensured by the Budget Law of 1995, which prohibited borrowing by the central government from the PBC. Deficits were to be financed only by issuing public debt. Similar restraint was imposed on subnational governments. Through a Fiscal Technical Assistance Project, the World Bank assisted the government to establish the institutional arrangements for the new tax regime, including the acquisition of the computers needed to register taxpayers and monitor transactions related to the tax on value added. The International Monetary Fund (IMF) was a partner in these endeavors.

Monetary centralization and some important financial reforms contributed to more effective control of credit and curbed inflation. Independent monetary authority was given to the PBC, and the four large SCBs were to be more substantially exposed to commercial principles. In 1993 the PBC severed the personnel link between the management of its branches and the local governments; subsequently, the central bank law of 1995 gave the PBC the sole mandate for monetary policy to the exclusion of local governments. Further institutional change followed when the provincial branches of the PBC were replaced by nine regional branches, a configuration clearly influenced by the Federal Reserve System of the United States.

To allow the large SCBs to operate in greater accordance with commercial principles, three policy banks were created early in 1994 (the China Development Bank, the Export Import Bank of China, and the China Agricultural Development Bank). The objective was to free the SCBs from the obligation to make policy loans. That this objective, at least initially, was less than fully embraced was illustrated by continued pressure on the branches of the SCBs to support investments initiated at the subnational level. In addition, loans made by the three policy banks were financed by the issuance of bonds, most of which were required to be purchased by the SCBs. Deposits in the SCBs were still to provide funding for policy-directed projects; the new arrangements only made the funding indirect.<sup>17</sup>

World Bank's support for the reforms proposed to establish the socialist market economy under the Decision was multifaceted, and most of the economic work of the department and many of the policy and institution-building components of projects were designed to contribute to economic reform.

One such supporting activity was the seminar in 1995 on state-owned enterprise (SOE) reform organized by the World Bank and several agencies of the Chinese government, including the State Economic and Trade Commission, MOF, the State Planning Commission (SPC) and others, including regulatory authorities and representatives of the SOEs. Papers were presented that had been prepared by several distinguished Chinese authors with input from foreign experts hired by the World Bank. A broad consensus emerged from the seminar on how reform should proceed.

Despite the agreement on the blueprint for enterprise reform that emerged from the seminar, the reform measures that followed were geographically widespread, experimental, and halting. At very senior levels there seemed to be a lack of consensus on the role the SOEs would play. Some progress was made, especially for smaller enterprises, many of which were privatized, merged, or wound up. An ambiguity of views about relations between SOEs and the government remains until this day.

17 · A further illustration of the difficulty in removing the burden of policy lending from the SCBs is a conversation I had in 1995 with Mr. Wang Qishan, the head of the China Construction Bank (CCB), with whom we were preparing a substantial loan (never made) to support the reform of his bank. I asked Mr. Wang what proportion of CCB's lending was determined by the credit plan and what was free for decision by the bank's lending officers. He replied that the proportions were half and half, but the central authorities were pushing for 60 percent of lending to be prescribed by the credit plan, leaving the remainder for decisions within the CCB. I suggested that a possible condition for our loan should be that the shares change to 40 percent credit plan, and 60 percent independent lending. Mr. Wang reacted very negatively and explained that the quality of the projects he received for funding from the State Planning Commission was vastly superior to that of the projects he received from his branch managers. The conversation served to emphasize the undesirable consequences of decentralized decision-making when commercial principles did not govern lending decisions.

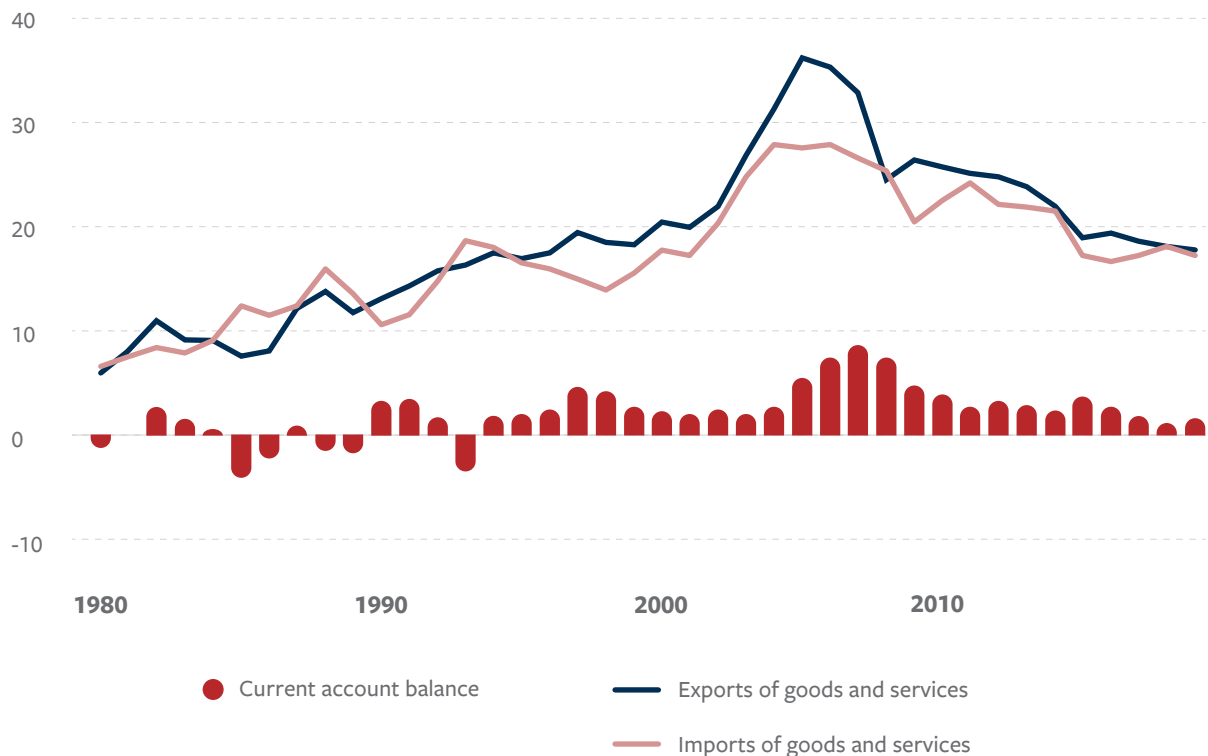
### Accession to the WTO

Much of World Bank's detailed analysis of Chinese accession to the WTO occurred after my tenure, but in the mid-1990s the World Bank endeavored to contribute around the fringes of the long-lived negotiations. China aspired to be a founding member of the WTO at its inception in 1995, and the World Bank supported that aspiration. World Bank staff members met Chinese negotiators, especially Mr. Long Yongtu, periodically to see if and how the World Bank could help.

In one such meeting, World Bank's regional management team met with State Councilor Wu Yi, and she observed that China was eager to join the WTO, but not on excessively unfavorable terms. She likened the negotiations to a volleyball game in which one side (we inferred she meant the US) was endeavoring to reduce the size of its court, while requiring that China play on a court of regulation size. My personal sympathies were with the Chinese position during the negotiations as, seemingly, every time China acceded to demands, further demands emerged. My sense was that both sides would benefit by getting China inside the tent as quickly as possible, after which the WTO's dispute resolution procedures could arbitrate disagreements as they emerged.

**FIGURE 9** China's Trade Took Off After WTO Accession in 2001

#### China Exports and Imports (percent of GDP)



(Source: Data from database: World Development Indicators.)

A subsequent meeting took place in Washington with a senior official of the Clinton White House at which World Bank's regional team endeavored to advance China's cause. We were told that China misinterpreted US objections as politically motivated. The actual situation, the official said,

resulted from the constraints imposed on President Clinton by the commercial interests of American enterprises, which were determined to maximize access to the Chinese market as a condition for Chinese accession. Moreover, he went on to say, the Europeans were happy for the US to serve as “bad cop” but, as soon as the US expressed its satisfaction with the negotiation, China could expect the Europeans to present their own separate demands. In the end, several more years and very substantial further concessions by China preceded its eventual accession in December 2001.

### *Contributions from the Lending Program*

The quality of World Bank’s project portfolio in China was a source of great pride to World Bank’s China Department. One colleague I would like to pay tribute to in this context is Austin Hu, who for a decade between the mid-1990s and mid-2000s served as the Deputy Chief of Mission and subsequently Deputy Country Director for China and Mongolia.<sup>18</sup> Lending was around US\$3 billion each fiscal year in FY94–97, of which IDA provided US\$1 billion in concessional funds in the first three years before falling to around US\$300 million in FY97 (under IDA 12). The IBRD loans at market rates contributed the amounts required to round out the program at US\$3 billion. Typically, 15 projects with an average size of about US\$200 million were approved by World Bank’s board each year, with the individual projects ranging in size from US\$50 million to as much as US\$400 million.

As well, China was eager to claim its fair share of the funds made available under the Global Environment Facility (GEF) and the Montreal Protocol (MP). These were smaller loans, but not necessarily less costly in terms of the departmental resources expended for their preparation. Despite pressures on the budget, there was an appreciation in the department for how GEF and MP projects contributed to the growing awareness in China of the urgency of environmental recovery. The MP projects proved highly effective in rapidly replacing ozone-depleting chemicals with more benign alternatives. One factory that had produced undesirable chemical products was converted into a karaoke bar.

For the most part, the extensive discussions held between the MOF and our departments, in many cases after consultation with the SPC, ensured agreement on joint priorities in the project pipeline. The large projects mainly comprised those to support electricity generation, to build multipurpose dams, and to supply transport infrastructure, especially highways. The quality of Chinese engineering input into these projects was a revelation when compared with what was available in other borrowers. In all the projects, efforts were made to improve associated policies and institutions, for example, in tariff-setting in power projects; in resettling displaced populations in dam projects; and for compensating people yielding right of way in highway projects; as well as ensuring that appropriate attention was given to rural road construction to link villages to the new highway network.

Many of the urban projects had begun to emphasize environmental components. Water supply and sewerage were common priorities. An innovative housing project aimed to contribute to replacing SOEs as the main suppliers of workers’ housing, as it sought ways to transfer ownership of housing to occupants. An ever present concern in municipal projects was to promote ways to communicate better options more effectively to party secretaries and mayors, and thereby leverage the impact of projects that were otherwise almost insignificant in terms of the numbers of beneficiaries.

18 · Many others to whom I owe big debts of gratitude have been mentioned in Pieter Bottelier’s essay.

Some smaller projects had great meaning for me. For example, after a visit to some small villages in the hills of Guizhou, where cretinism was still prevalent, a project supporting the production of iodized salt had outsize priority. A comparatively small project in Heilongjiang to provide credit to agricultural enterprises was of considerable satisfaction, as it responded to a directive to provincial officials from Vice Premier Zhu to seek a project with the World Bank to accelerate their lagging reforms. Additional support to environmental rehabilitation was provided through forestry projects, the Huaihe cleanup project, and an intervention in Chongqing that began as an industrial restructuring project and morphed into a project to relocate two polluting steel mills, thus eliminating their discharge into the Yangtze and what was to become the reservoir behind the Three Gorges Dam.

As part of the government's decision to eliminate absolute poverty, with a challenging intermediate target established for the year 2000, the World Bank assisted in the preparation of complex poverty alleviation projects. The Southwest Poverty Project was the pilot; among its many components was an initiative to assist migrant workers to find occupations in cities. Remittances from the migrants would contribute to a better life for relatives remaining in locations that seemed ill-suited to supporting sustained rising living standards over the longer term.

Of course, there were disagreements and sometimes difficult negotiations during project preparation. I recall a couple of testy meetings with Vice Chairman Gan Ziyu at the SPC over our insistence that, in the Southwest Poverty Project, a substantial part of World Bank's share of financing, especially IDA money, should support education and health services in the command areas. The Planning Commission's preference was to use borrowed funds for directly productive activities. Procurement frequently led to debates, both before and after loan approval, as World Bank's requirement to ensure international competitive bidding for equipment and works contended with China's desire to source as much as possible of the required inputs locally.

The sense in the China Department was that industrial restructuring projects had been disappointing in their contributions to reforming the enterprise sector; they were phased out of the lending program. Elsewhere, as in two postponed railway projects, the lack of ambition in reforms associated with the projects—especially, as with railways, where a comprehensive strategy for reform had been prepared—meant that the World Bank felt it could not proceed until a specific plan of action to implement the strategy was agreed. Notwithstanding the infrequent missteps, the well-developed pipeline of projects meant that another could be advanced to replace one that had to be delayed.

Few things gave me more pleasure than to visit World Bank projects during their implementation phase. The demonstrable evidence of the concrete nature of World Bank's contributions to the rising quality of life of the Chinese people was extremely gratifying. Gratifying also was the reaction of (now late) President Wolfensohn on his first visit to China after taking up his appointment. He greatly enjoyed his travels to visit projects across the breadth of China. He was particularly impressed by the project to restore vibrant agricultural activities in the Loess Plateau. He marveled at the regreening of an "area the size of Switzerland" and the evident improvements in well-being of the people of the area, before the project some of China's poorest.

He was so impressed that he made it a show piece in his meeting with President Jiang Zemin in Zhongnanhai later in his visit. During an exceptionally cordial meeting, President Wolfensohn also described other projects, notably the Xiaolangdi dam and an irrigation project in Gansu, as the discussion ranged across many topics, including the two presidents sporting prowess and love of music. A little later, our MOF colleagues, including Minister Liu Zongli and Vice Minister Liu Jibin, were clearly delighted in informing us that President Jiang had requested that they send him details of the projects that Mr. Wolfensohn had praised so fulsomely.





The first Loess Plateau Watershed Rehabilitation Projects, approved in 1994.

***Preparations for the Hong Kong Annual Meetings:  
China 2020 report and the East Asia crisis***

Toward the end of my tenure and in the midst of a fundamental reorganization at the World Bank, the China Department determined that a special effort was warranted in FY97 to acknowledge the importance of the return of Hong Kong from British to Chinese control, albeit with provisions for considerable political and economic autonomy for Hong Kong as a separate administrative region within China. The significance of the event received recognition in the staging of the 1997 IMF/World Bank Annual Meetings in Hong Kong in September 1997. I saw this as a “coming out party,” presaging a new era for China and for the world.

An ambitious project to compile a comprehensive study of the outlook for China in 2020 formed the core of the department’s preparation for the annual meetings. A small team was assembled, headed by Vikram Nehru and under the direction of Klaus Rohland. This team set out to chart how China might evolve by the end of the first two decades of the twenty-first century. My notion was to follow the model of the World Development Reports, though the tight budget meant that nothing too grandiose could be envisaged. Ultimately, I authorized a budget overrun of US\$200,000 to support the Nehru team.

To complement the activities of the core team and showcase the collaborative efforts of World Bank economists and their Chinese counterparts during the preceding two years, the finished project would comprise the new 2020 report, plus several annexes that were revised versions of recent economic studies, all of which aimed to assist the Chinese government to progress in its implementation of the Decision.



In the first annex, the authors responded to China's environmental deterioration, which was an undesired consequence of rapid growth. It assessed options to deal urgently with the pollution of air and waterways, and how best to ameliorate the damage caused by uncontrolled disposal of waste. As China's commitment to repairing the environment became an increasingly important priority, World Bank's economic work was complemented by a growing number of projects (some described above) designed to overcome environmental problems.

In the second annex, another World Bank team assisted Chinese officials to identify measures to raise the productivity of agriculture with the view to achieving longer-term, sustainable food security. One notable finding was that farmers could receive higher prices at the farm gate and consumers could see lower prices in the markets by introducing some straightforward reforms to raise efficiency in the distribution of staple foods.

Economists from many World Bank units investigated the scope for achieving substantial efficiencies in delivering health services in a study comprising the third annex. Although officials in China's Ministry of Health and World Bank staff members agreed on the desirability of spending a larger share of gross domestic product (GDP) on delivering health services, the reality of severely constrained fiscal resources dictated that a principal focus of the study was to identify inefficiencies in China's existing health spending and suggest ways to reallocate resources to achieve better outcomes.

The fourth and fifth annexes took up issues central to the welfare implications of rapid growth. In the fourth, the authors pondered the implications of the income inequality resulting from the wide disparities in the allocation of benefits from faster growth. The fifth considered the implications of demographic change and the need to create a social security system that could provide secure and adequate pensions for the aged.

The final sixth annex reported the results of a study prepared by World Bank's central economics staff that examined the rapidly increasing integration of the Chinese economy into the global economy. China was emerging rapidly as a major international economy, a trend that accelerated greatly after China acceded to the WTO in December 2001.

In the wake of the Hong Kong Annual Meeting, the East Asian crisis was at the forefront of regional concerns. Only later was the constructive role played by China fully recognized—in the policies it adopted internally to sustain economic growth, and thereby help to stabilize regional demand; and in disregarding advice from some foreign "experts" to devalue its currency. In so doing, China demonstrated to neighboring countries undergoing severe economic strains that its concern for their situation was factored into its own decisions, which were not determined solely by self-interest.

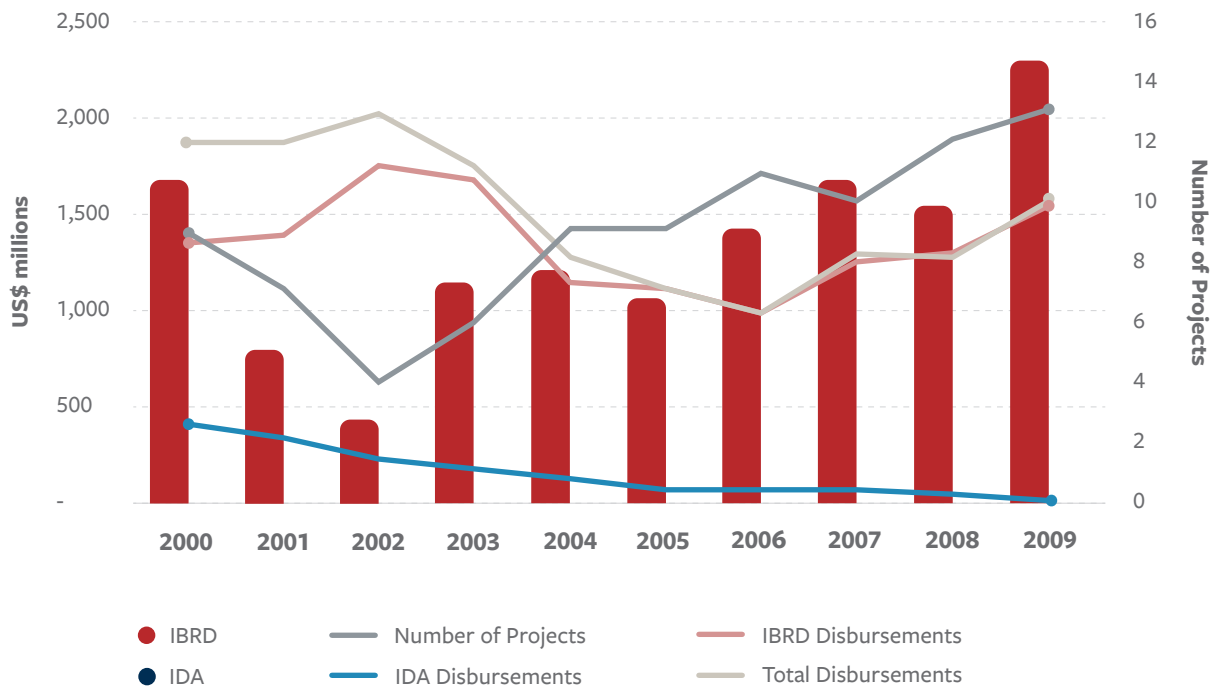
Unfortunately, my time as country director ended in June 1997, when medical problems contributed to an interruption in my service to the World Bank. I was succeeded by Yukon Huang, who became the first China country director to serve from Resident Mission China (RMC). It fell to him to oversee the completion of the 2020 study and represent the China Department in Hong Kong in September.

# ADDRESSING SOCIAL AND ENVIRONMENTAL CONSEQUENCES OF RAPID GROWTH: THE 2000s

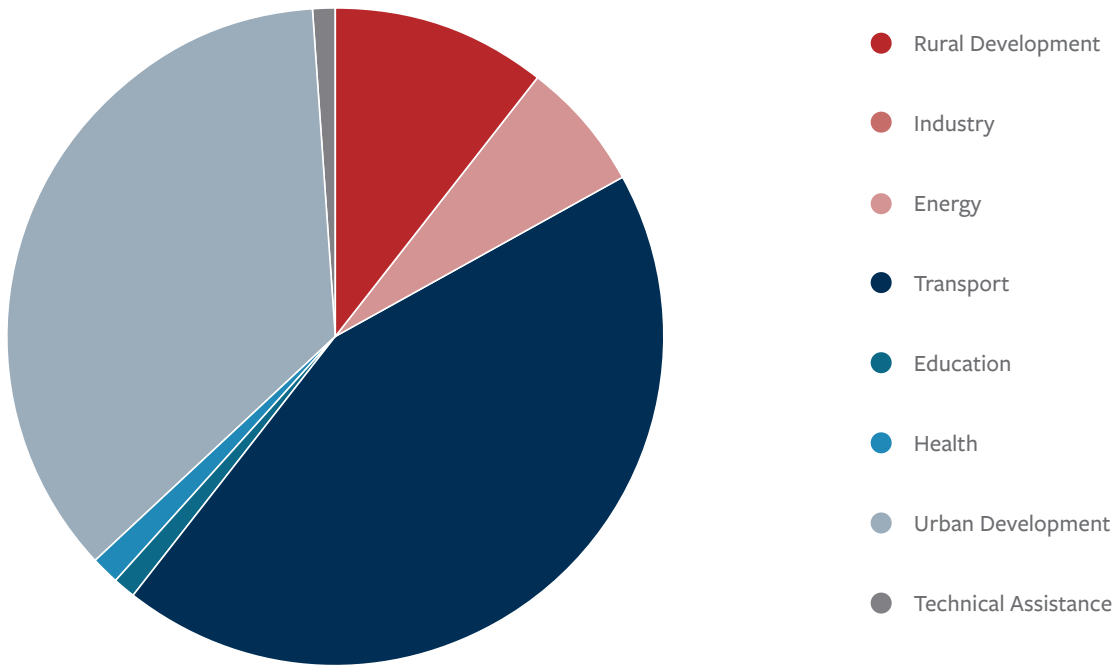
## Key Knowledge Work in the 2000s

- China: Air, Land, and Water: Environmental Priorities for a New Millennium (2001)
- China: Overcoming Rural Poverty (2001)
- China Country Economic Memorandum: Promoting Growth with Equity (2003)
- Private Participation in Infrastructure in China: Issues and Recommendations for the Road, Water, and Power Sectors (2003)
- China and the WTO: Accession, Policy Reform, and Poverty Reduction Strategies (2004)
- China’s Compliance with Food Safety Requirements for Fruits and Vegetables (2006)
- Cost of Pollution in China: economic estimates of physical damages (2007)
- Financing energy efficiency: lessons from Brazil, China, India, and beyond (2008)
- Public finance in China: reform and growth for a harmonious society (2008)
- Strengthening China’s Environmental Protection Administrative System: Analysis and Recommendations (2009)
- From Poor Areas to Poor People: China’s Evolving Poverty Reduction Agenda (2009)

**FIGURE 10** World Bank — Supported Projects, by Fiscal Year 2000s



**FIGURE 11** World Bank — Supported Projects, by Fiscal Year (IBRD Loan) 2000s



# CHINA'S POVERTY ALLEVIATION STRATEGY AND SUPPORT FROM THE WORLD BANK 1997–2004<sup>19</sup>

By YUKON HUANG<sup>20</sup>

## *Context—Adapting to a rapidly changing China*

My assignment as the first Beijing-based Country Director occurred during a period (1997–2004) when China evolved from a relatively poor developing country to a dynamic middle-income power. Those years were marked by several notable events—beginning with the Asian Financial Crisis, followed by the government's game changing actions to begin reforming its banking and enterprise sectors, and finally capitalizing on its success in joining World Trade Organization (WTO) membership in 2001 to become the world's largest trading nation. China's ability to adapt to a rapidly changing environment both at home and abroad allowed it to achieve sustained double-digit growth and implement programs to bring hundreds of millions out of absolute poverty. The latter was celebrated in the 2004 international poverty conference in Shanghai, which coincided with the end of my tenure as country director for China.

The 1997 World Bank–IMF Annual Meetings held in Hong Kong introduced me to the China program. The occasion was intended to display the dynamism of East Asia and China's emergence as a significant economic player. The political significance of the event was vividly on display as China's leadership celebrated the return of Hong Kong to the mainland, marking the end of a century of unequal treaties and perceived indignities.

The annual meetings was an opportunity to highlight the country's confidence about its future. For me, that came in the form of then Vice Premier Zhu Rongji's press conference, which was a rare, unscripted session that allowed him to deal with a range of questions in an unusually frank manner. Zhu Rongji was elevated to the premiership six months later, and his pathbreaking reforms played a historic role in China's economic transformation. The World Bank had an up-front seat in working with and observing the actions of this visionary technocrat. Even as the premier, he continued to show a keen personal interest in the analytical foundations of the reforms being debated and a knack in doing what was practical at a time when ideological pressures still limited the options for change.

<sup>19</sup> · During my assignment as Country Director, I benefited greatly from the collaboration with too many to list dedicated MOF and other officials both in Beijing and in Washington, including several that are contributors to this book. Some of my direct contacts eventually became Ministry of Finance (MOF) Vice Ministers, including Jin Liqun, now President of Asia Infrastructure Investment Bank (AIIB), Li Yong, now Director-General of United Nations Industrial Development Organization (UNIDO), Zhu Guangyao and Zou Jiayi. To all of them, I owe many thanks for supporting my work on China.

<sup>20</sup> · Yukon Huang was the World Bank's Country Director for China from 1997–2004 and earlier the World Bank's Director for Russia and the Former Soviet Union Republics. He was the principal adviser for the joint Chinese Government–World Bank “China 2030” report. He is now a senior fellow at the Carnegie Endowment for International Peace, with research focuses on China's economy and its regional and global impact.

The euphoria in Hong Kong was tempered by the collapse of the Thai baht in July of 1997. In the ensuing months, slumping stock markets and asset prices throughout East Asia triggered what became known as the Asian Financial Crisis. The contagion effect threatened the region with many experts concerned about whether China would succumb to external financial pressures and devalue the renminbi given the other collapsing Asian currencies. China's steadfastness in maintaining its peg to the US dollar was widely commended, notably by then U.S. Deputy Treasury Secretary Larry Summers. Senior MOF officials recognized that Beijing's actions to help restore regional stability was an early manifestation of the nation's role in global economic affairs.

But the crisis also drew attention to China's huge backlog of accumulated nonperforming loans, the poor financial performance of its state-owned enterprises (SOEs), and weaknesses in its decentralized fiscal system. These were the subjects of numerous World Bank reports and advisory services in the late 1990s involving interactions with several key officials who were marked as Zhu Rongji's disciples. Most notable were Zhou Xiaochuan on financial issues, Lou Jiwei on fiscal reforms, and Guo Shuqin on systemic reforms. I still remember having a young Liu He, now President Xi's economic czar, at my apartment for dinner to discuss economic issues with World Bank missions.



September 23, 1997. The WB/IMF Annual Conference was held in Hong Kong SAR, China. The WB launched a seven volume set of *China 2020* which examined China's recent history, its status quo, and the path it should follow during the first two decades of the 21st century.

World Bank's analytical work fed into the government's financial restructuring program involving the creation of asset management companies to buy up nonperforming loans and a strategy of "grasping the large and letting go of the small" to shed poorly performing state-owned enterprises. Perhaps more significant were the many studies that facilitated China's preparations for the trade reforms that led to WTO membership in 2001. Membership in WTO was seen by Premier Zhu as his most important achievement, and together with the financial and enterprise reforms, these actions set the stage for China's rapid growth over the subsequent decade.

Less glamorous but high on the government’s list of the most valued contributions from the World Bank during this period, were the benefits of World Bank’s project-related, core financial services. The transfer of the responsibilities for procurement and disbursement activities to the Beijing office as part of World Bank’s decentralization process during my tenure was widely appreciated by the Ministry of Finance and provincial officials responsible for project implementation. This helped strengthen the government’s capacity to manage public expenditures and was a major reason for the high quality of World Bank’s portfolio in China.

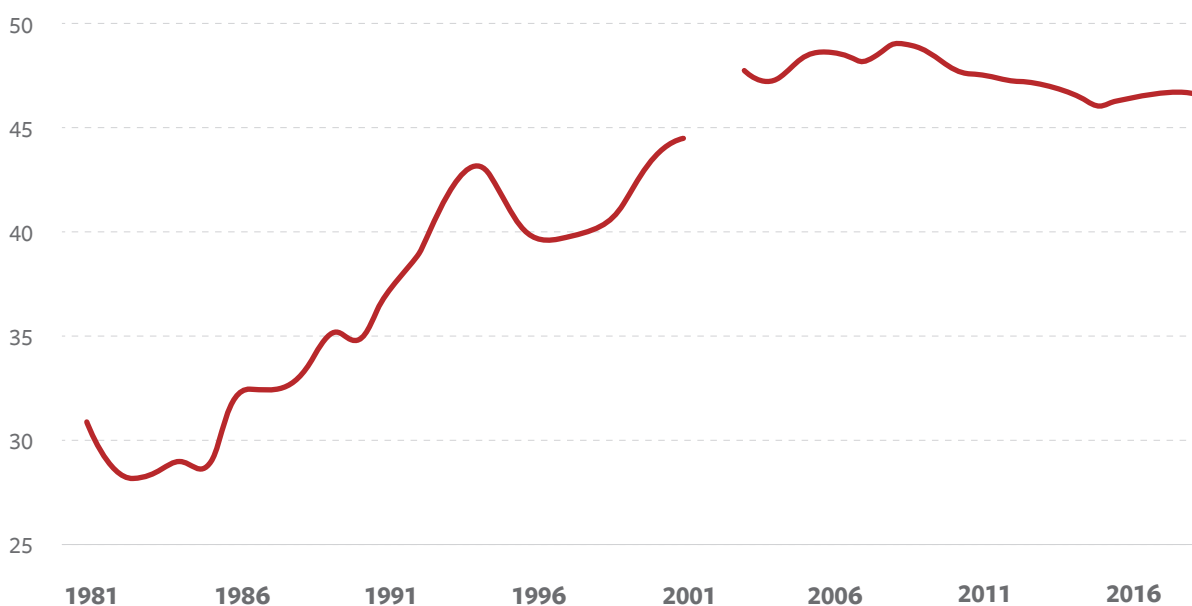
In the following, I want to focus on the increasing concern in China with growing inequality and the resulting growing prominence of poverty reduction in the World Bank’s China program.

### *Disparities and poverty reduction programs*

China’s exceptional growth experience helped uplift hundreds of millions out of poverty by generating a steady stream of jobs in manufacturing and modern services. But the growth process was unusual for being so spatially “unbalanced” in concentrating production along the coast to support exports. The competitive edge that this provided put the country on a rapid growth trajectory, but it also fostered an unusually sharp increase in income disparities.

**FIGURE 12** China’s Inequality Increased Sharply After Reform and Opening Up

#### Gini Coefficient



(Source: Author’s compilation based on Ravallion and Chen (2007) for 1981-2001 and National Bureau of Statistics for 2003-2019.)

The Gini coefficient, an indicator of inequality, rose quickly from 0.30 in the early 1980s to around 0.45 in the late 1990s before leveling off. China’s worsening income inequality has been largely geographic in nature. This is the result of widening income differentials between the coastal and inland provinces and between urban and rural areas. By the early 2000s, the ratio of urban to rural per-capita incomes had increased to over three, and per-capita gross domestic product (GDP) in the coastal region was more than twice that in the western region.



Although poverty reduction was a priority from the very beginning of China's opening up process, these efforts assumed an even greater urgency during my years as Country Director. My transfer to the Beijing office began with a field trip, accompanied by Zhu Xian, then MOF's General Director of the International Department and in charge of World Bank's program in China, to underscore the importance that the government gave to poverty alleviation. Our annual lending program discussions with MOF and the National Development and Reform Commission (NDRC) focused on channeling more lending to the lagging interior regions. This effort was given a big boost with the government's highly publicized Develop the West Program launched in 1999.

Ecological conditions militated against higher agriculture productivity in the western region, and its lower level of urbanization and isolated communities raised the cost of providing public services. World Bank lending was increasingly concentrated in interior provinces such as Sichuan, Gansu, Ningxia, Guangxi, Yunnan, and Xinjiang. In many of these provinces, farmers were fighting a losing battle because of unreliable irrigation services, desertification, degraded soils, and inhospitable environments.

Many of our projects were integrated rural development programs with components for improving agricultural practices and promoting crop diversification as exemplified in the Qinba Mountains Poverty Reduction, State Farms Commercialization, and Integrated Agriculture Intensification projects. These projects were complemented with others that helped construct multipurpose dams and develop or rehabilitate irrigation systems such as Tarim Basin and Xiaolangdi Multipurpose. World Bank support, beginning in the mid-1990s, that introduced terracing and new farming practices for the Loess Plateau, drew considerable attention for its effectiveness in improving livelihoods in a formerly desolate area. Where appropriate, World Bank's rural development projects included components for relocating farming households to locations with better resource endowments and irrigation services. These programs were recognized as having high economic and social benefits as exemplified by the Southwest Poverty Project, which was commended by a visiting mission of executive directors.

Addressing these systemic issues required sustained collaboration between dedicated World Bank staff and officials both in Beijing and in the provinces. Some of World Bank's most knowledgeable sector specialists devoted a decade or more of their careers to building close relationships with their government counterparts exemplified by Alan Piazza with the Leading Group for Poverty Alleviation, Daniel Gunaratnam with the Ministry of Water, and Juergen Voegele with the Loess Plateau projects.

World Bank's production-oriented projects were also complemented by social projects addressing regional disparities in education and health indicators. As in agriculture, senior World Bank staff, such as Halsey Beemer, spent more than a decade interacting with the Ministry of Education in preparing a series of education projects. Other World Bank specialists thrived in developing programs to improve health services and tackling issues like Severe Acute Respiratory Syndrome (SARS) and eradication of tuberculosis.

Unfortunately, World Bank's support for poverty alleviation during this period was clouded by a controversy over Tibetan sensitive concerns in the Western Poverty Reduction Project. This project was subjected to an inspection panel review in 1999 for an alleged violation of World Bank's indigenous people and social guidelines in supporting the relocation within Qinghai province of some 58,000 farmers, including several ethnic minority groups. Those were the darkest days

during my assignment in China, with countless weeks spent in consultation with MOF officials, notably Zhu Guangyao and Jin Liqun, in trying to resolve the crisis. Eventually, the controversy led to the withdrawal and self-financing of the Qinghai component and continuing separately with the other components in Gansu and Inner Mongolia. The incident was a painful experience for both the government—in raising concerns about external political factors influencing project-related considerations and whether China was being treated differently compared to other borrowers in the application of World Bank’s safeguard policies and for the World Bank—in limiting its operations in sensitive localities. While World Bank’s relationship with China was severely tested during this episode, efforts on both sides eventually led to the resumption of normal activities.

### *Infrastructure and urbanization and poverty reduction*

Often overlooked in terms of its poverty reducing impact during this period was World Bank’s lending for infrastructure. At that time, there was considerable debate within the development community and among World Bank’s major shareholders about the extent that infrastructure investment contributed to poverty alleviation. China was a major proponent for the view that strong infrastructure services (highways, railways, inland water transports, communication, and energy) were essential in this regard.

World Bank staff working on China often found themselves trying to justify to World Bank’s Board of Executive Directors the large share of the lending program allocated to infrastructure. China was spending over 5 percent of GDP annually on transport investments during my tenure, which was unprecedented by global standards. World Bank lending for the national highway system, rural feeder roads, railways, and both coastal and inland ports played a major role in improving connectivity between lagging regions and the coastal commercial centers. These investments narrowed the large regional differences in wages and prices previously nurtured by artificial provincial boundaries and vast distances. By cutting transport costs as a percent of the final price of traded goods, this brought the labor force in the poorer interior regions into the production for global markets. China’s success with infrastructure investments helped to change the development community’s thinking about the role of infrastructure in reducing poverty. This also supported the rationale for establishing the AIIB several years later.

Successful rural development programs along with infrastructure investments facilitated rapid urbanization. This was supported by World Bank’s many urban development projects supporting municipal services, from Chongqing in the west to Shanghai and Guangzhou. This supported the movement and effective utilization of a 150–200 million migrant labor population which flowed across provincial boundaries. World Bank studies on the economic and social implications of the migrant labor force provided support for the government’s long-term efforts to reform hukou and residency policies. The movement of surplus rural workers to more productive urban jobs led not only to higher incomes for the migrant workers but also freed up resources for those who remained in the rural areas.

A rapidly changing China meant that World Bank’s program needed to adapt to evolving needs, ranging from rural poverty and social development to infrastructure and urban development. The net impact of all of these efforts in moderating inequalities is exemplified in the narrowing of regional differences in growth rates. While the coastal provinces were growing much faster than the western and central provinces in the first half of the 1990s, by 2005, regional growth rates had largely equalized.



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World Bank President, James D. Wolfensohn, speaking at the Global Conference on Scaling Up Poverty Reduction in Shanghai, May 2004.

### *Shanghai Conference on Poverty Reduction*

China's success in reducing poverty and the World Bank's collaborative role was highlighted in a major international conference in May 2004 chaired by World Bank's president James Wolfensohn. The Shanghai Conference on Poverty Reduction was designed to showcase China's success in "scaling up" its efforts so that hundreds of millions were uplifted from poverty over the past several decades. More than 1,000 participants, mostly from developing countries, including several heads of state, government officials, and representatives from the private sector and civil society, attended the event. Participants analyzed more than 100 case studies, sharing knowledge and practical experiences into "what works, what does not, and why" in implementing large-scale poverty reduction programs. The conference was a celebration of the decades of collaboration between the World Bank and China. It was also a fitting tribute to Mr. Wolfensohn's presidency (1995–2005), which was notable for having restored poverty alleviation as the primary objective for the World Bank, and a nice way to conclude my assignment in China.

# ADDRESSING CHINA'S DAUNTING ENVIRONMENTAL CHALLENGES<sup>21</sup>

By **DAVID DOLLAR**<sup>22</sup>

China's success with growth and poverty reduction brought with it a host of environmental problems. I moved to Beijing as Country Director in the summer of 2004, but I had been fortunate to have prior teaching and research experience in China. I taught economics in Beijing and Chongqing in Spring 1986 and Spring 1988, respectively. Both postings provided opportunities to travel extensively including to rural parts of Yunnan and Sichuan. When I worked in the research department of the World Bank (1995–2004), I led a major project that surveyed 10,000 firms in 100 Chinese cities and also joined a study group to the Loess Plateau around 2000.

These experiences gave me first-hand knowledge of key environmental challenges in China. Riding my “flying pigeon” bike around Beijing in 1986, I confronted terrible sandstorms that came from hundreds of kilometers west, the result of deforestation and desertification. Other air pollution was seasonal, with northern cities blanketed by smoke in the winter as low-quality coal was used to heat houses. Many rivers and lakes became seriously polluted. An overnight barge trip along the Grand Canal in 1986 was a pungent experience. Similarly, the Pearl River in Guangdong Province was essentially a sewer filled with untreated waste.

By the time I started as Country Director, China was taking strong measures to clean up the environment, and there was already measurable progress (for example, increased forest coverage nationwide, reduced air pollution in major cities like Beijing between the mid-1990s, and the mid-2000s). But environmental challenges remained severe, and there was growing public awareness of the human and economic costs of air and water pollution. Central and local governments asked for our assistance, and this was a good area for World Bank focus because most of the environmental solutions involved a mix of investment and policy reform. Hence the combination of demonstration projects, often with policy reform and analytical work was the right medicine. The World Bank assistance program was able to contribute to progress in three specific areas: reforestation, cleaning up rivers and lakes, and reducing air pollution.

<sup>21</sup> · I thank Li Li, John Liu, Jostein Nygard, and Mara Warwick for helpful inputs.

<sup>22</sup> · David Dollar was the World Bank Country Director in China from 2004 to 2009. He held numerous other World Bank positions, including Director of Development Policy in the Development Economics Department. After leaving the World Bank, he became the U.S. Treasury's Economic and Financial Emissary to China (2009–2013). Today, he is a Senior Fellow at the Brookings Institution focusing on China's economy and US–China economic relations.

### *Loess Plateau*

The World Bank implemented two Loess Plateau projects. These were approved before my time (among the last International Development Association [IDA] projects carried out in China), and I can praise them objectively. The Loess Plateau is an ecologically fragile region covering several provinces west of Beijing. Over time it had become denuded of trees and most vegetation, and my reaction on a first visit around 2000 was that it looked like the moon. I was able to visit periodically over the next decade and saw a remarkable transformation from brown to green. The region was home to tens of millions of people trying to eke out a living, mostly from animal husbandry and farming. The World Bank projects were complicated and multifaceted. There was support for voluntary out-migration because the population was simply too large to live sustainably in this environment. Large sections of land were set aside for “ecological purposes,” meaning that there could no longer be grazing by sheep and goats (who ate any green shoot that appeared). As a substitute, pig farming was introduced. One woman in each village was trained in the basics and given an initial small herd, on the condition that she would seed the other households. On later visits I realized that the highways built through the region under other projects were key to making the pig farming work, as feed was imported into the region and mature pigs were exported. I remember one woman showing me how she checked pork prices on her cell phone to make sure that the middlemen were not cheating her. Families had also grown grain traditionally, a water-intensive crop not suited to this environment. The project financed the shift to less water-intensive tree crops.

These projects were very successful in terms of reducing poverty and ecological restoration. Cities to the East, such as Beijing, experienced far fewer sandstorms as the re-greening progressed. Based on this success we worked with local governments in Sichuan and along the Yangzi watershed on similar ecological restoration projects. Bottom line: forest coverage increased 33 percent between 1990 and 2015. We also partnered with filmmaker John Liu to document the success and publicize it internationally. Several copycat projects have been developed in parts of Africa that have fragile ecologies similar to the Loess Plateau.

### *Cleaning up rivers and lakes*

During my time as Country Director our whole 100+ office of staff went on retreat together to Guilin. The social part of the retreat was a boat ride down the famous Li River through spectacular scenery. We had a tour guide giving us the usual spiel, when one of our national staff took over the microphone. She explained that the Li River had become like a sewer and was cleaned up under a World Bank project. The basic recipe in the water projects was regulation to outlaw the dumping of untreated waste, investment in wastewater treatment plants, and pricing reform to charge for the use of water as well as wastewater removal so that these plants could be sustainable.

Pricing reform was very controversial as water had traditionally been a free good in China. But China is a water-scarce country. Furthermore, water is not divided evenly among regions. China's population is divided almost perfectly in half between north of the Yangzi and south of the Yangzi. However, the South has 80 percent of the renewable water resources. So, the northern half of the country meets the definition of extreme scarcity. This was driven home to me on our first family vacation after moving to China as Country Director. We wanted to visit the cradle of Chinese civilization along the Yellow River in Henan and Shaanxi. Our itinerary included a “boat trip” on the Yellow River. I put that in quotes because it turned out to be a hovercraft trip across mud flats; there was not enough water in the river to support a boat.



In this water-scarce environment, it makes sense to price water economically in order to encourage efficient use, reduce waste, and provide resources for treatment so that the water that is available is fit for human use. (As of 1999, 40 percent of rivers and lakes in China were rated class V pollution or above, meaning not fit for any human use.) There is always a legitimate concern about the impact on the poor. But this can be addressed through income support (first best) or a pricing scheme in which a basic amount of water is charged at a very low price while additional water use is charged at the economic price (acceptable second best). When all water use is subsidized through a low price, most of the benefit goes to the better off (as documented in a number of World Bank studies). While World Bank projects included covenants on pricing, we were always pragmatic: in reality prices rose significantly but still did not reach full economic cost. During my time, in China's large cities water charges typically ranged from 1 to 3 yuan per cubic meter, compared to the 1990s norm of charges below 1 yuan. This was a small step forward as the charges covered operating costs, but they were not sufficient to service the debt that financed the capital costs, leaving the sector a drag on local public finances. China was also good at “Build Back Better” before that was a global slogan. After the Wenchuan earthquake, our rehabilitation project included water treatment plants even for small cities that had never had them.

### *Costs of Pollution*

One of the most controversial activities during my tenure was our study on *Costs of Pollution*. Everyone was aware of the problems of pollution, but there was an ongoing debate about what were the losses associated with this pollution, or to turn it around: what amount of resources would it make sense to spend to control pollution. To contribute to this debate we put together a team of leading experts, who worked hand-in-hand with China researchers. The latter approach was quite critical in order to address such a controversial issue. There were off-the-shelf estimates of the impact of air and water pollution on health, including premature death. But there were no health studies using Chinese data at that time. Because of the extreme level of air pollution in some Chinese cities, it was questionable how relevant the existing studies would be. So, a key input into the analysis was the first estimates using Chinese data of the morbidity and mortality from air and water pollution.

A second key input into the study was an estimate of the economic cost of morbidity and mortality, another sensitive area. One traditional approach, the human capital approach, essentially estimated the lost wages resulting from morbidity and mortality. But, of course, people are more than just their jobs and their incomes. So the team carried out an innovative willingness-to-pay survey in Shanghai, Nanning, and Jiujiang to get estimates of how much China's urban population would be willing to pay for extra longevity arising from pollution reduction. It turns out that people are willing to pay quite a lot. With that as an input, the team concluded that water and air pollution were costing China the equivalent of 7.5 percent of gross domestic product (GDP) per year. Most of the loss comes from air pollution (equal to 5.3 percent of GDP) as people can mitigate water problems by drinking bottled water, at modest cost, whereas there is no way to escape the damage caused by air pollution.

The draft report was very controversial when discussed with government ministries. The mean estimate of annual excess deaths came to 350,000 for air pollution and 50,000 for water pollution. And the economic cost of 7.5 percent of GDP was vastly more than all levels of government were spending on environmental issues. Conclusion: it would be welfare enhancing to tighten

regulations and spend much more public money on water and air pollution. Our World Bank team waited to see if the government would agree to publish the report. A key here was that the work had been done collaboratively with Chinese scientists. They carried the water, so to speak, in arguing for publication and they won the day. So, the report is out there on the web, still, and has been a steppingstone to a further analysis of this important issue.<sup>23</sup>

This analysis provided important justification for what the World Bank was doing on water management and pollution. But during my tenure, we did not really have any projects specifically aimed at air pollution, just generic urban transport projects that typically promoted public transportation. However, the report laid a foundation for later World Bank work that specifically worked with cities to reduce air pollution, both through lending into Hebei and the overall Jing Jin Ji region, and through developing the planning models for cost-effective air quality management within airsheds where China is now leading the way.

### **Lessons**

From these experiences I take four general lessons, all of which should be obvious, but which are too easily forgotten in the press of day-to-day work. First, it is critical to work hand-in-hand with the client. There may have been a time when it was useful for the World Bank to simply deliver a product onto the shelf, but that time was long gone by 2004. Some of my best memories are working with local governments on their challenges and helping them think through and try out new solutions. Or, working closely with Chinese experts on an analysis, which would inform internal debates. (As a Brookings scholar I'm still doing this: I recently co-authored the book *China 2049* on some of China's economic challenges with economists from Peking University and Brookings.<sup>24</sup>)

Second, the World Bank is small in China (and in most middle-income countries). The direct effect of all of the World Bank activities together will be minor. So, success has to come via demonstration projects and new analyses and ideas. The reforestation and water projects are great examples of demonstrating the effectiveness of new approaches, which can then be scaled up and replicated without further World Bank involvement. Similarly, the *Costs of Pollution* study had a significant effect on the policy makers and researchers grappling with this issue. In general, the World Bank under-invests in disseminating the successes with which it is associated. We made a small contribution in the other direction with several activities that were unusual for the World Bank: I mentioned our partnership with John Liu to produce a film on the Loess Plateau. Also, when the *Costs of Pollution* report came out, we partnered with China's environmental agency and the government of Norway on a cultural event to publicize the issue. Aside from airing John Liu's film, the program included a Chinese version of the Henrik Ibsen play, *An Enemy of the People* (commemorating the 100th anniversary of Ibsen's death Norway was sponsoring cultural events around the world). This version was set in a Chinese town, where the local doctor discovers that the polluting industrial plant is killing people, so he organizes people to close it down. But faced with joblessness and lack of income, the people then turn on the doctor as the "enemy of the people." It is a powerful story about the real tradeoffs that often exist between the environment and the economy, and the government made good use of the program to raise awareness of environmental issues by showing it multiple times on national TV.

23 · See World Bank. 2007. *Cost of Pollution in China: Economic Estimates of Physical Damages*. The report can be accessed here: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/782171468027560055/cost-of-pollution-in-china-economic-estimates-of-physical-damages>.

24 · David Dollar, Yiping Huang, and Yang Yao (eds). 2020. *China 2049: Economic Challenges of a Rising Global Power*, Brookings Institution Press.



A third lesson is the importance of working with civil society. The Women's Association played an important role in implementing the Loess Plateau projects. As the World Bank deepened its involvement in environmental issues in the 2000s, we sponsored two China Development Marketplaces in which we raised grant money from different sources and then funded innovative small projects from civil society. In environmental and social areas there are a growing number of such nongovernmental organizations (NGOs) in China. I have fond memories of visiting one of the winning NGOs in rural Sichuan where their project linked up "left-behind children" with college students who came on weekends to help them with schoolwork and computers that their grandparents were unfamiliar with.

Finally, it is natural to think of "environment" mostly in terms of nature: forest coverage, clean rivers and lakes, breathable air. But cultural environment is also important. It was never a centerpiece of our work, but many of our large urban water projects included small components for cultural heritage preservation. In diverse cities from Chongqing to Lijiang to the Yangzi Delta, lovely cultural heritage has been preserved as part of larger urban environment projects. And toward the end of my time we developed freestanding cultural heritage preservation projects for Gansu and Guizhou, two very poor provinces of China that could benefit from sustainable tourism if they maintain their natural and cultural heritage.









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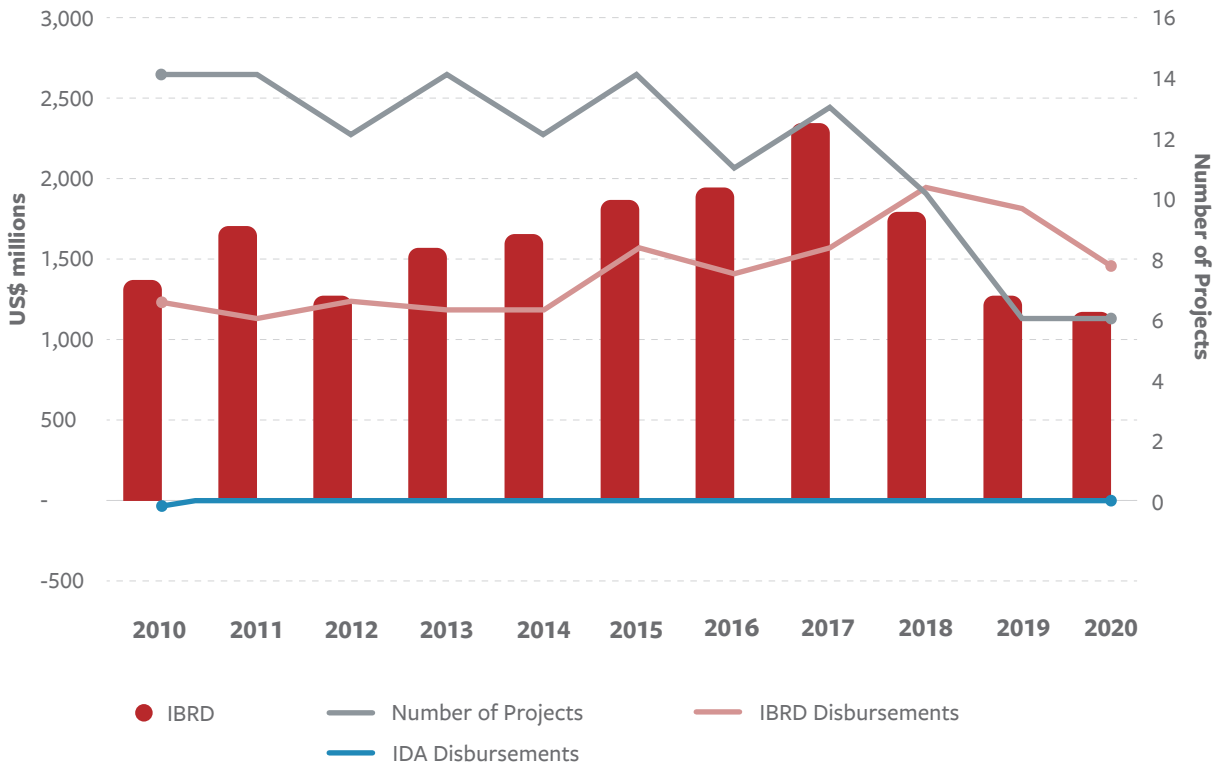


# CHINA AND THE WORLD: THE 2010s

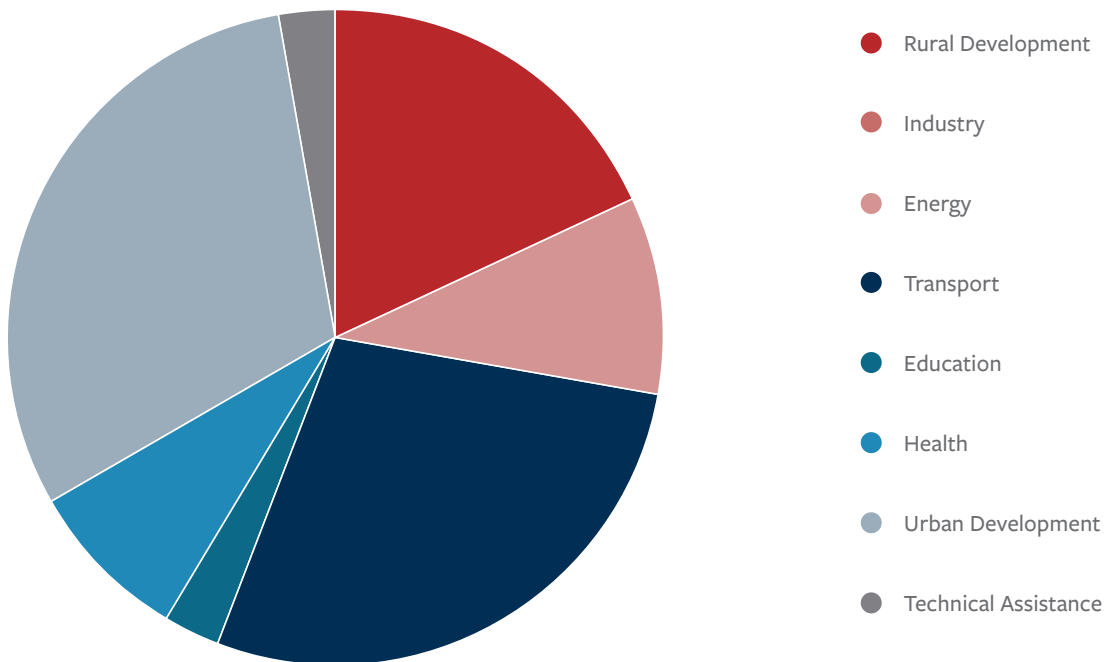
## Key Knowledge Work in the 2010s

- Forest Policy—Deepening the Transition, Broadening the Relationship (2010)
- Market-Based Railway Pricing Policies (2010)
- Reforming China's Rural Health System (2010)
- Rural Pension and SSN (2010)
- Social Protection and Labor Market Programmatic AAA (2012)
- China's Challenge: Building a Modern, Harmonious, and Creative High-income Society (China 2030) (2013)
- Early Childhood Development (2014)
- China: Efficient, Inclusive and Sustainable Urbanization Study (2014)
- Smart Transport and Energy Efficiency (2016)
- China–World Bank Transport Transformation and Innovation Knowledge Platform (2017)
- China Systematic Country Diagnostic: towards a more inclusive and sustainable development (2018)
- Healthy China: Deepening Health Sector Reform in China: Building High Quality and Value-based Service Delivery (2018)
- China's New Drivers of Growth: Innovation and Private Sector Development (2019)
- China Water Governance Study (2019)

**FIGURE 13** World Bank — Supported Projects, by Fiscal Year 2010s



**FIGURE 14** World Bank — Supported Projects, by Fiscal Year (IBRD Loan) 2010s



# CHINA AND THE WORLD BANK GROUP 2010 TO 2014: FROM DEVELOPMENT COOPERATION TO A COMPREHENSIVE GLOBAL PARTNERSHIP

By **KLAUS ROHLAND**<sup>25</sup>

In the aftermath of the financial crisis of 2008, China emerged largely unscathed from the ripple effects of the slowdown in growth in developed economies. China maintained high growth rates supported by China's integration into the global economy after its World Trade Organization (WTO) accession in 2001. In November 2008, at the height of the financial crisis, growth was substantially boosted by the swift mobilization of a massive stimulus package amounting to renminbi (RMB) 4 trillion, equivalent to 13 percent of the country's gross domestic product (GDP). This was the largest stimulus in China's history and is around twice the size of the stimulus enacted to respond to the COVID-19 pandemic. It decisively helped to avoid an economic downturn in China, but it was also a major factor in stabilizing the global economy and counterbalancing the global downturn and sluggish growth in the advanced economies. When I arrived in Beijing in winter 2010, the mood had already changed, and China's economic policy makers were cautiously optimistic of their ability to overcome short-term macroeconomic shocks and growth slowdowns.

In this paper I will reflect on key developments in the World Bank–China partnership during my tenure as Country Director in China from 2010 to 2014. While the World Bank continued to maintain a flourishing lending program in China, China's growing global role and the joint work on key reports on China's domestic reforms especially shaped my tenure as Country Director and will be the focus of this piece.

<sup>25</sup> Klaus Rohland was the World Bank Country Director for China, Mongolia and Director for Korea from 2010 to 2014. He held numerous other positions in the World Bank previous to this appointment, including Country Director for Vietnam and Russia. As World Bank Country Director for the Pacific Islands he was also responsible for the international efforts on reconstruction in East Timor.

### *China's growing global role*

China emerged from the financial crisis stronger than before. As early as 2010, China moved to second place in the global economy, progressing rapidly to high-middle-income status, which was obtained by 2015. Policy makers realized that China needed to engage more proactively in global economic policy and redefine its relations to other world powers. The belief previously held by Chinese officials that China was still a developing country with limited responsibility and only slowly emerging as a global stakeholder gave way to a much more proactive policy. This was translated, for example, in making China's voice heard in international fora while extending its bilateral assistance to developing countries. Assuming a more explicit role for China in the Bretton Woods institutions and the World Economy emerged as a priority of China's foreign and foreign economic policy.

China moved quickly in this regard with wide ranging global and regional initiatives. Their implementation continued well beyond my tenure as Country Director upon my retirement in October 2014. My successor as Country Director, Bert Hofman, managed the program thereafter and his contribution covers developments under his leadership from 2014 to 2019.

One of the early areas of focus of China's expanding global role was Africa. The China-Africa Summit, first held in 2000 in Beijing, became a regular event for China and African States to discuss development cooperation. At the same time, China's own development banks, CDB and EXIM, sharply increased loans and concessional credits to partner countries in the developing world. The one Belt one Road Initiative (BRI) launched in 2013 was a highly ambitious financing initiative promoting infrastructure development in more than one hundred countries, connecting Asia with developing countries in Western Europe and Asia through roads and railways, and maritime Asia through major seaports along the waterways of Asia. Within a few years, China had moved fast to establish its global role as a global financial and economic partner on par with the Group of Seven (G7) countries. While China's foreign policy makers had reason to be pleased with the success of their efforts, the fast and largely uncoordinated growth of China's global investment footprint became an increasing source of geopolitical tensions during the second half of the 2010s. The World Bank Group initially strongly supported China's growing role as a global player, aiming to leverage synergies and complementarities with the traditional International Financial Institutions. More recently this support has been qualified with concerns over lack of transparency and poorly motivated, designed, or executed projects in low-income countries, leaving potentially unsustainable debt burdens in their wake.

### *China 2030 Report*

Strengthening China's own economy and laying the foundations for a continuation of China's growth path were natural complements to these global initiatives. When I arrived in Beijing, domestic policy makers worried about China's own economic development. They realized that structural reforms were needed to avoid a slowdown of China's economy. Without such reforms, the mere introduction of macroeconomic measures to stimulate the economy would become ever more ineffective. It would be the wrong medicine and ultimately lead to slower growth and even stagnation. Chinese policy makers were mindful that over the last 50 years only a handful of middle-income countries had risen to high-income status. Most had failed in their endeavors and were caught in the "middle income trap," a term coined by World Bank economists Indermit



Gill and Homi Kharas in their monograph “East Asian Renaissance” in 2007. China was resolved to avoid such a trap. The old strategy was in need of an overhaul and the focus shifted toward structural reforms as the order of the day.

It was against this background that, in 2010, the 30-year anniversary of China–World Bank cooperation took place. To commemorate this milestone, World Bank President Robert Zoellick suggested, and Chinese leaders agreed, that a joint team of Chinese and World Bank experts embark on a comprehensive study drawing on Chinese and international best practice to identify the way forward for China and develop a long-term vision toward *China 2030*. The leaders of the Ministry of Finance, the Development Research Center of the State Council (DRC) and World Bank Senior management guided the overall task. The Vice Minister of the DRC, Liu Shijin, and the Vice Minister of Finance (MOF), Li Yong, together with myself as the World Bank Country Director and the World Bank’s Regional Chief Economist for East Asia, Vikram Nehru, were charged with organizing the report at the working level.

The joint working group convened several times between November 2010 and September 2012 and discussed intensively, often in workshops over weekends, how to achieve China’s stated vision to become a “modern, harmonious, and creative society by 2030.” The first session in November 2010 took place at Fragrant Hills, where the teams from DRC, MOF, and the World Bank coalesced into a joint team and where what was later known as “the spirit of Fragrant Hills” originated. Discussions were intense during the preparation of the report, but the joint team never broke down in factions according to institutional alignments. A conference edition of the report was presented in February 2012, which was followed by the final version in September 2013.

*China 2030* follows the medium-term trajectory of China’s economic and social development. It argues that after more than 30 years of rapid growth, China had reached another turning point to respond to new challenges and avoid the middle-income trap. Seven messages framed the argument:

1. To implement structural reforms to strengthen the foundations for a market economy; government should refrain from direct interventions and focus on creating a solid framework to enhance the functioning of the economy through rules and policies, increasing competition, promoting efficiency, specialization, and protecting the environment;
2. To accelerate the pace of innovation and to increase the quality of research and development, with a special focus on increasing the technical and cognitive skills of university graduates and building world class universities with network links to industries;
3. To “Go green” through a mix of market incentives, regulations, public investments, industrial policies, and institutional development;
4. To expand opportunities and promote social security for all by facilitating equal access to jobs, finance, quality social services, and portable social security since China’s relatively high social and economic inequality stems in large part from significant urban rural differences in these areas;
5. To provide better quality public services to underserved rural areas in education from early childhood to tertiary education, from primary health care to care for the aged;
6. To strengthen the fiscal system by mobilizing adequate resources, reallocating spending toward social and environmental objectives and ensuring that the provisions of budgetary resources are commensurate with expenditure responsibilities at each level of government; and
7. To become a proactive stakeholder in the global economy by playing a greater role in multilateral institutions. To this end, China must play an active role in engaging its partners in multilateral settings to help shape, and not just react to, the global agenda on financial stability, climate change, and the environment.

*China 2030* received widespread global media attention and was discussed intensively, sometimes heatedly in China's internet fora, especially with regard to sensitive issues such as state-owned enterprise (SOE) or hukou reforms. As a joint report of MOF, DRC and the World Bank, it represented a shared view of Chinese and international experts and served as a major input into the discussions of the 12th Five-Year Plan (FYP) in 2011, and the 13th FYP approved in 2016. While acknowledging risks, *China 2030* restates that the reform path toward a market economy is the only way for China's economy to achieve sustainable growth and safeguarding a stable society in a peaceful global environment.

Looking back to the report eight years after its publication in 2012, much of its economic and social analysis and recommendations have been validated and supported over the course of time. A large number of the reforms foreshadowed in *China 2030* have since been pursued and implemented in China, even at a time when the headwinds of the global economic and political environment made reform and global cooperation more difficult. At the same time, it is clear that the reform agenda outlined by *China 2030* remains relevant in many respects and more work needs to be done to put its recommendations into practice.

### ***Urban China Report***

In the *China 2030* report, the joint team had already recommended that another set of cooperative research between the World Bank Group and DRC should be considered to build on the experience of *China 2030* and develop its themes and the recommended structural reforms further. Work on *Urban China* was an obvious candidate for such an undertaking, and preparations started in November 2012. The organizational setup followed the proven structure of *China 2030*; the new Chief Economist Bert Hofman replaced Vikram Nehru after Vikram's retirement. The urban-rural fringe serves as a magnifying glass to highlight the issues of urbanization: the need for a new financing model away from excessive land conversion and related financing through windfall profits, barriers to migration, lower incomes for migrants resulting in exacerbated urban rural inequality, and unequal access to services (whether education or health) among citizens with or without hukou. The large influx of migrants put strains on urban services, and rural-urban land conversion often triggered social unrest in the rural areas to be converted. Also, the speed of land conversion from rural (farm) land reduced available farmland so that it came close to the "red line" of 120 million hectares (ha) that defines the minimum agricultural land necessary for food security in China.

Against this background *Urban China* presents six priority areas for reform:

1. Amending land management institutions to foster more efficient land use, denser cities, modernized agriculture, and more equitable wealth distribution;
2. Adjusting the hukou system to increase labor mobility and provide urban migrant workers with equal access to a common standard of public services;
3. Placing urban financing on a more sustainable footing, while fostering financial discipline among local governments;
4. Improving urban planning to enhance connectivity and encourage scale and agglomeration economies;
5. Reducing environmental pressures through more efficient resource management; and
6. Improving governance at the local level.

*Urban China* was released in September 2014 and widely read as the overall discussion on the strategy for urbanization intensified. Its recommendations found entry into the discussions of the implementation of the 12th FYP and during the preparation of the 13th FYP spanning 2017 to 2022. In terms of social safety nets, the 13th FYP, as its immediate predecessor, has a strong focus on facilitating the change in household registration (“hukou”) for migrant workers, and easing access to residency permits with a view to granting urban residency to an additional 100 million migrant workers. In practical terms, hukou reform has proceeded gradually and China’s biggest and most attractive cities have so far remained outside the reform.

### ***Healthy China Report***

At the end of my tenure in summer 2014, the string of joint Chinese World Bank reports was to be complemented by *Healthy China*, a report jointly written by the World Bank, World Health Organization (WHO), and the Ministry of Health, China. While I witnessed its early preparations, Bert Hofman who was appointed Country Director upon my retirement took charge of the drafting process. *Healthy China* reiterates that China should maintain its health reform, but shift its focus from hospital-centered care toward improving the quality of basic health services and primary care. It alerts the public to the shift toward noncommunicable diseases resulting in more than 80 percent of the 10.3 million deaths every year. The policy summary of the report was published after my tenure, in July 2016, and the full report was published in 2019. Many of the recommendations of *Healthy China* were included in the 13th FYP, but the intended relative shift toward greater attention on the quality of primary care and the better integration of all three levels of care remains a work in progress.

### ***Success factors of the joint reports***

As my tenure ended in 2014, I will restrict my concluding personal observations on success factors for the *China 2030* and *Urban China* reports. Both reports were joint World Bank, DRC, and MOF documents based on collective efforts and released together by the three partner institutions. The reports were written jointly from scratch and text and recommendations had to be agreed among all three institutions. We agreed that we would focus on the emerging policy recommendations and would avoid getting stuck in word-by-word reviews, which, if at all, should be relegated to the working groups for each chapter. This pragmatic approach secured a smooth completion of the tasks. Of course, sensitive issues, such as SOEs, land, and hukou reforms, needed to be elevated early on in the process to the leaders of the working groups, where they could be solved in an agreeable and flexible way. During the preparation of both reports, discussions were intense and highly focused, but never acrimonious. The outcome of such discussions was based on evidence and the merits of the respective arguments. To maintain such an academic atmosphere was a major achievement of the DRC/MOF and World Bank teams and the key ingredient for success. Constant face-to-face interactions in the meetings of the working groups (quite often during weekend retreats) led to better understanding between the partners and were another key factor for success. I consider myself lucky to have been part of the team. Finally, the willingness to find a common language among economists, social scientists, engineers, and development practitioners facilitated the writing and completion of the reports.

I left China with a deep sense of fulfillment, satisfaction and, to some extent, pride for what we have achieved together in our cooperation, and I am deeply grateful to have been part of this journey.

# REFLECTIONS ON THE CHINA–WORLD BANK PARTNERSHIP 2014–19

By **BERT HOFMAN**<sup>26</sup>

When I returned to the China program as country director in September 2014, it was like coming home. This was almost literally, as I lived in the same apartment block as I had done in 2004–8 as head of the economics unit—just that the market price of the apartment had risen tenfold. But it was also figuratively: my first assignment in the World Bank was working on China, and the experience that I had gained and the relationships that I had built then, during 2004–8 as lead economist and during my time as Chief Economist of the East Asia Region (based in Singapore) enabled me to hit the ground running. And running was what was required to do the job: between 2008 and 2014, China had made a jump in its development, in its presence on the world stage, and in its relationship with the World Bank. The biggest challenge during my time as country director therefore was not so much to develop and manage a program that maintained World Bank’s relevance for China, but more one of balancing the continued or even increased demand that China put on the World Bank with the changing perception of China the World Bank’s other shareholders held and the views they had on the role of the World Bank in China.

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### *The Belt and Road Initiative*

China under Xi Jinping has taken a different view on its international engagement from the one that prevailed under his predecessors. Whereas Deng Xiaoping in the early 1990s had declared that “bide your time, hide your capabilities, never take the lead” should be China’s guide in the international arena, Xi Jinping took a different direction. The first concrete manifestation of this was the “One Belt One Road” (一帶一路.Yi Dai Yi Lu) initiative, later to be translated as “Belt and Road Initiative” (BRI)<sup>27</sup> The World Bank and other multilateral development banks were heavily invested in the countries spanned by the initiative—on some counts, the World Bank had some \$80 billion in commitments in countries along the Belt and Road. Deeper engagement was therefore warranted. This came in three forms: (1) high level attendance to the Belt and Road Forum in 2017 and 2019; (2) a study on the economics of the Belt and Road; and (iii) coordination efforts among multilateral development banks (MDBs) and China.

By the time of the first Belt and Road Summit in 2017, the initiative had become a play ball of geopolitics. Several major shareholders of the World Bank saw it as China’s strategy for geostrategic dominance rather than a means for closer economic integration and growth. Though the World Bank is an apolitical organization by statute, this does not mean that no politics happen in its corridors, and so it took a considerable amount of courage for then World Bank President Jim Kim to attend the summit, alongside some 30 heads of state and over 100 country delegations. He spoke right after Xi Jinping, and his emphasis on the potential development benefits of the BRI was very well received.

Meanwhile, despite the lofty goals of the BRI, little was done to assess the economic benefits and costs of the enormous undertaking. The World Bank agreed to take on the challenging task of doing just that. Because the Belt and Road was very much a moving target, without a grand design, or a list of priority projects, the **Report** that the World Bank produced focused on the economics of a limited set of identified Belt and Road projects, with investments amounting to some \$400 billion. The overall conclusion of the report was:

*“The Belt and Road transport corridors could substantially improve trade, foreign investment, and living conditions for citizens in participating countries—but only if China and corridor economies adopt deeper policy reforms that increase transparency, expand trade, improve debt sustainability, and mitigate environmental, social, and corruption risks.”*

27 · The “Silk Road Economic Belt” was proposed at Xi Jinping’s visit to Kazakhstan in September 2013, and the “21st Century Maritime Silk Road” was proposed initiative was announced during Xi Jinping’s visit to Indonesia. The idea of revamping the traditional trade ties between Asia and Europe was not new. It had been raised by US Secretaries of State Condoleezza Rice and Hilary Clinton before. But their initiatives lacked the determination and ambition that China brought to the idea.

A key finding was that, due to network effects, it was not just the corridor countries that gained: “BRI transport projects are estimated to increase trade by between 2.8 and 9.7 percent for corridor economies and between 1.7 and 6.2 percent for the world.” Moreover, “Increased trade is expected to increase global real income by 0.7 to 2.9 percent, not including the cost of infrastructure investment. The largest gains are expected for corridor economies, with real income gains between 1.2 and 3.4 percent,” the report concluded.

In other words, if done right, the investments needed for better infrastructure would pay back through increases in income, trade, and investment. Gains would be larger with accompanying policy reforms in corridor countries. But to do things right, host countries needed support—in investment planning, meeting environmental and social standards, structuring finance, optimizing procurement, and fighting corruption. These are key areas where coordinated efforts by China, host countries, and multilateral organizations could play a crucial role in making the most of BRI investments. This was the context in which China suggested the creation of a Multilateral Center for Development Finance (MCDF), aiming at better coordination and cooperation among MDBs and bilateral finance partners. The World Bank became a signatory of the Memorandum of Understanding setting up the MCDF, although to date it has not become an implementing partner.

### *Asian Infrastructure Investment*

The idea of a China-supported bank for infrastructure had been floated by China ever since 2009. In the aftermath of the Global Financial Crisis, the Group of 20 (G20), including China, had pledged to make infrastructure a leading source of demand to pull the world economy out of the crisis. Multilateral development banks were to play a major role in financing this infrastructure and for that the capital of these banks would be increased. However, the capital increases received were relatively modest in the eyes of China’s policy makers and policy makers in other Asian countries. Asia needed some US\$800 billion a year in infrastructure to keep up with growth, and less than half of that was financed at the time. However, reluctance to grant emerging economies, and China in particular, more say in existing MDBs derailed the capital increases.

Against this background, the Asian Infrastructure Investment Bank (AIIB) was conceived. The AIIB was announced in October 2013. The initiative took off in earnest in my first months as Country Director, when China convened a meeting of Negotiation Partners to move from idea to implementation. At that time, 21 countries<sup>28</sup> signed a *Memorandum of Understanding* to initiate a series of meetings that led to the ultimate establishment of the World Bank in December 2015. Fifty-seven countries became founding members in the end.

The AIIB was careful to adopt governance, operational procedures, and environmental, social, and procurement standards in line with global best practices. I take great pride in having been a small part in helping conceive and operationalize the AIIB and support its early operations, alongside East Asia and Pacific Vice President, Axel van Trotsenburg. From the start, World Bank President Jim Kim left no doubt that we would support the AIIB, and his endorsement empowered us to mobilize expertise from inside and outside the World Bank for advice on matters as diverse as the Articles of Agreement to Procurement Standards to Social and Environmental Safeguards, to matters as mundane as layout of the office, information technology (IT) arrangements and support for hosting of the first annual meetings. World Bank retirees, notably David Dollar, Natalie Liechtenstein, Stephen Lintner, and Ian Nightingale, were mobilized to provide their expert support as were many current World Bank staff in treasury, accounting, procurement, safeguards, and

28 · Bangladesh, Brunei, Cambodia, China, India, Indonesia, Kazakhstan, Kuwait, Lao People’s Democratic Republic, Malaysia, Myanmar, Mongolia, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan, and Vietnam.

more, through literally dozens of video conferences and visits. Elaine Sun, a former World Bank colleague, who had been operations manager for the China program in the 2000s, was a key link between the AIIB and the people in the World Bank, and me in particular.

Helping create a new development bank was an exciting assignment. I participated in numerous sessions expertly led by now-President Jin Liqun, on key issues such as the overall governance of the bank, its capital structure, funding strategy and cooperation principles. Jin Liqun was one of the first Chinese officials I had met back in 1992, when he was Director General of the World Bank Department in the Ministry of Finance. He had gone on to work at the CICC, a Chinese investment bank, and at the Asian Development Bank (ADB) as Vice President. By the time he took the helm at the AIIB, he had become an outstanding financial diplomat with a keen understanding of development finance—and a scholarly knowledge of Shakespeare from his days as an English graduate. The result of his leadership was that AIIB was and became operational in record time, with broad support from developed and developing countries alike. By June 2015, nine months into negotiations, the Articles of Agreement were ready to sign and by December 2015 the statutory minimum required signatories were obtained and the bank became operational. In 2016, the World Bank and others did the first joint operations with the AIIB, and by 2017 the AIIB issued its first bond, rated AAA by international rating agencies.

The establishment of the AIIB was of tremendous importance to China and the world, and I was very pleased the World Bank was a strong partner in the process of establishing it. This was the first truly international organization that China initiated. Its success shows that China can indeed help shape a world order as a responsible stakeholder, which augments rather than displaces the old, accepts the rules where they make sense, and innovates where time has overtaken old structures. In my personal view though, the AIIB may never be the largest development bank; its lean management structure and strong backers allow it to be an innovator in development finance, and the world and the World Bank should benefit from its creation.

### *Lending for reform priorities*

Even as China sought a bigger role in international development finance, it also wanted to borrow more from the World Bank for its own development objectives. A couple of months into my term as Country Director, we discussed scaling up lending for the first time with the Ministry of Finance (MOF), led by Deputy DG Yang Yingming, who would soon after become Executive Director for China at the World Bank Group. The idea was to scale up lending for three years and use the scale-up to solve some of the pressing issues in China, while introducing new lending instruments.

At the Third Plenum of the Central Committee of the 18th Party Congress of the Chinese Communist Party in November 2013 (The Plenum), China's government set out an ambitious program of 15 key reform areas covering 60 economic and social reforms, with the overarching objective to give "the market a decisive role in resource allocation" and to improve the efficiency of government. China's ambition on various issues had been raised. In that context, China and the World Bank agreed to focus on larger transformational and programmatic operations to address key cross-sectoral development challenges, including air pollution, energy efficiency, water scarcity, and health delivery systems. It was also agreed that new financing instruments were applied such as the Program for Results (PforR) instrument, which had not been used in China yet, and also to consider Policy Based Lending (PBL), for the very first time in China. These instruments lent themselves well to address the more systemic issues that China was facing at the time.



One of the first priorities for this new approach was in addressing air pollution, which had reached crises levels, and was a leading cause of premature deaths and sickness and disability. After a six week episode in early 2013, when China's northern provinces had been shrouded in a thick fog of pollution, Premier Li Keqiang had declared an all-out effort to control it. To kick-start preparation, World Bank experts, some of whom had been engaged with China on this issue for two decades, and international experts from Europe and the United States were mobilized for a two-day conference during which international experience was reviewed. At the end of the conference, discussions with several provinces and the central authorities decided on the focus for World Bank operations: Energy Efficiency and Pollution Monitoring and Control. Two PforRs were prepared, which went to the Board in early 2016. The operations, despite being the first PforRs in China, became a resounding success and contributed to the country's efforts to overcome pollution.

A second application of this new approach was in poverty reduction. The "China Rural Poverty Alleviation and Development Plan 2011–2020" made the eradication of extreme poverty by 2020 a national goal, and President Xi Jinping made this one of his three "decisive battles" (the other two being pollution control and financial stability). The World Bank provided the Leading Group on Poverty Reduction and the Leading Group on Economics and Finance technical advice on poverty targeting and proxy-means testing, which helped the authorities in establishing a 70 million people database of poor individuals, including information on why they were poor. On the basis of that database, China's government at all levels initiated a plethora of programs to alleviate poverty. The issue for many governments at the county level—the level that most directly interfaced with the poor—was not lack of funding, but a rational use of the money available.

In this context, the World Bank was asked to work with Guangxi Province, one of the poorest provinces in China, to develop a PforR that would support local governments in optimizing their poverty alleviation efforts. The Guangxi Poverty Reduction PforR supported the government's Final Mile in extreme poverty eradication. It supported two important institutional innovations: The first was accurately targeting poverty households and villages through the establishment of the National Poverty Registration System (NPRS). The second was improved planning, budgeting, and monitoring systems for poverty programs. The PforR helped consolidate a large number of earmarked poverty reduction funds into a program-based budgeting system tailored to poverty reduction in the local context. The experience from the Guangxi program can provide lessons to similar complex settings globally and will help the World Bank Group (WBG) in supporting other countries to eradicate extreme poverty.

The third area where the World Bank aimed to achieve results at scale was in health. Following a joint flagship study on China's health sector, done together with the World Health Organization (WHO), China's Health Commission, and the Ministry of Finance, we were invited to support China's health reforms in two provinces—Fujian and Anhui. One of the key challenges in China's health system was the weak first tier: few wanted to use township clinics or even secondary hospitals for care, as they distrusted the quality of care given. As a result, the city tertiary hospitals often became the first point of entry, and were heavily overcrowded. Human resources complicated the matter: because de facto health personnel were paid in part according to the procedures delivered, they had every incentive to over treat, and little incentive to go out and work in health clinics in rural areas. Consequently, the health system was heading for a cost explosion as China's population was aging. Against this background, Sanming prefecture (三明市) in Fujian Province had piloted a single purchaser model for health services, which could serve as the basis to better

integrate health services at primary, secondary, and tertiary levels. The World Bank–financed program for results complemented the Sanming pilot with models of integrated care, and with human resource (HR) incentives to get more personnel, and quality services, into the countryside.

### *China in the World Bank*

During my time as country director, China became far more prominent in the World Bank itself, financially as well as in terms of its intellectual contribution to development thinking and practice. Already since the early 2000s, China’s economic footprint around the world had been growing rapidly, and its presence was especially felt in Africa. By the mid-2010s, China was looking at an impact beyond trade and investment. Under Xi Jinping, it saw itself increasingly as a model for other developing countries, as Xi made clear during his speech to the United Nations in September 2015. In the speech, he announced the creation of the Center for Knowledge on Development (a future partner of the World Bank) and pledged US\$2 billion for a South-South Cooperation Assistance fund to support countries in implementing the Sustainable Development Goal (SDG) agenda. Meanwhile, the China Development Bank and the EXIM Bank had become major players in international development finance. The former, the largest development bank in the world, now has an overseas portfolio that is larger than that of the World Bank, although recently new commitments have been scaled back. With the rapid expansion of its aid, China moved to set up the China International Development Cooperation Agency (CIDCA) in 2017, with some support from the World Bank and other development partners.

Within this broader context, MOF had already started to discuss a China Trust Fund with the World Bank under Klaus Rohland, and the grant agreement was signed in a meeting between President Jim Kim and Finance Minister Lou Jiwei in July 2015. The initial grant amount was small (US\$50 million) but highly significant, as it allowed teams from across the World Bank to deepen their engagement with Chinese agencies and development experience and with the World Bank teams in China, and apply lessons learned in other countries. Projects as diverse as studies on multi-sector poverty projects, health care, water management, and special economic zones were supported from the trust fund. The trust fund also supported infrastructure development by means of a transfer to the Global Infrastructure Facility that had been set up by then. A mid-term review of the project acknowledged the contributions of the trust fund, but noted that activities should be more strategic, and go beyond South-South exchanges, useful as these may be. A key lesson from China’s experience is that much of development depends on implementation, thus lessons from that experience can best be drawn in project implementation.

China increased its contribution to the WBG resources in other ways as well. The two International Development Association (IDA) replenishments during my time as country director made China one of the more substantial contributors, from less than US\$200 million in IDA-16 to US\$600 million in IDA-18 (and US\$1,200 million in IDA-19 already during the tenure of my successor). In addition, China contributed by speeding up its IDA credit repayments and through voluntary credit prepayments in IDA-16 (which added US\$1.3 billion and US\$1 billion of additional resources, respectively), and through a Concessional Partner Loan (CPL) of US\$1 billion in IDA17. In IDA18, for the first time, China’s contribution was made in *renminbi* (RMB), which was included in the Special Drawing Rights (SDR) basket in 2016.<sup>29</sup> By IDA-19, China had become the sixth largest contributor, although its contribution remains well below its “burden share” calculated by IDA staff for each

29 · A challenge for IDA borrowers was that, with the inclusion of the RMB into the SDR, they (and IDA) suddenly faced RMB risk. This risk was neutralized by a swap facility offered by the People’s Bank of China.

country. Building on its own experience, China introduced a special theme of transformation and jobs in IDA-18, powered by deep analysis of its own experience done by an expert group led by Lin Yifu, the former Chief Economist of the World Bank.

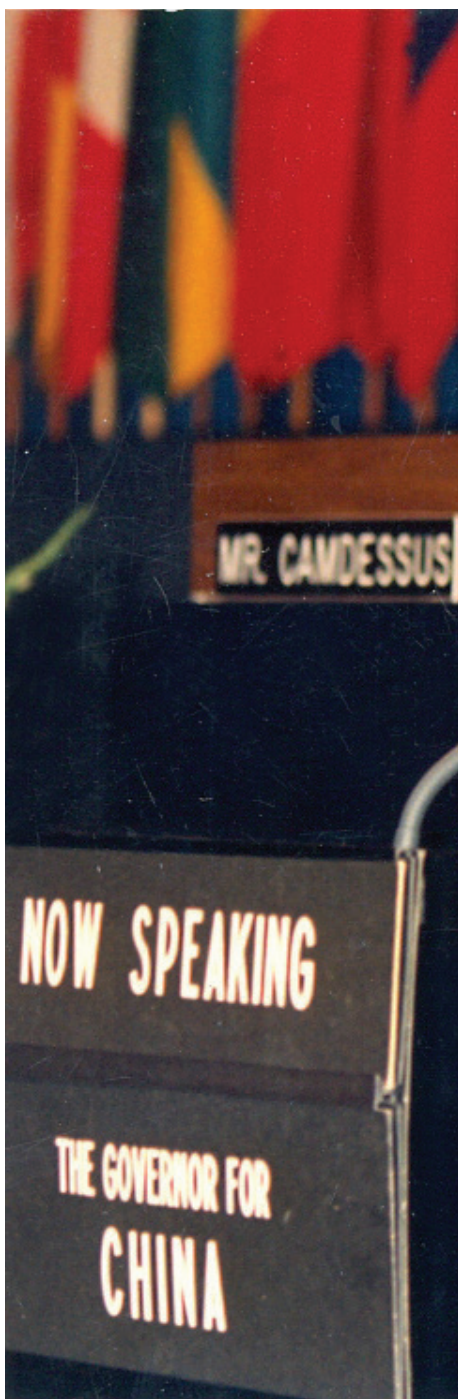
China also contributed to the World Bank's 2018 capital increase during my time as Country Director, though by considerably less than China had hoped for. When the People's Republic of China (PRC) resumed its seat on the World Bank Board, China had a shareholding of about 2.8 percent, which was far below the 7.0 percent share the country held at the founding of the World Bank back in 1944. The Republic of China had passed on several general and specific capital increases, and as a consequence China's share had dwindled. At the 2009 London G20, a more equitable "voice" of developing countries was promised, but even after the (modest) capital increase of 2010, China's share was just a bit over 4 percent. Meanwhile, its share in the world economy had grown dramatically, and was by 2015 some 15 percent in current dollars, and 18 percent in purchasing power parity terms. This was the context in which World Bank Group management embarked on a new round of discussions for a capital increase.

As in any corporation, increasing the relative strength of one shareholder comes at the expense of diluting the strength of others, in this case mainly Japan and Europe. This made the discussions highly complex, even though demand for World Bank Group financing was fast outstripping its ability to lend. As a first step, during the 2016 Peru Annual Meetings, it was agreed that shareholdings should be driven by a *dynamic formula*, which not only counted a country's share in the world economy, but also its past contribution to IDA. According to this agreed formula and using 2015 data, China's notional share of the International Bank for Reconstruction and Development (IBRD) would have been 12 percent. This was not acceptable to other shareholders, and thus China was asked to agree to a significantly lower share, as well as to other conditions that would gradually shift the amount of resources allocated to upper-middle-income countries. China did agree and thereby helped pass a historic capital increase that should keep the World Bank strong for decades to come.

As China's global economic weight continues to grow, the question of its voice and role in the Bretton Woods institutions will remain on the table. Meanwhile, China's economic success means it will influence development thinking irrespectively. China's own experience in development was determined by its own particular historic and political context, and as such it is hard to speak of a "China Model" that can be applied elsewhere. But the right lessons from China's diverse experience are without a doubt of great value to other countries that aspire to high growth and rapid poverty reduction. China should welcome the in-depth study of its experience by allowing access to data and files that can shed light on this experience.

The World Bank Group should embrace China's contribution and help its clients learn from it. The great strength of the World Bank in its partnership with China has been the absence of ideology in its approach. Instead, the World Bank took a practical approach, and worked with China on the problems and challenges at hand, which evolved over time. Indeed, Deng Xiaoping's guide to reforms and opening up back in 1978 remains as true for development today as it was then: "Seek truth from facts and emancipate the mind."

# PART TWO





# CHINESE REFLECTIONS



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October 1, 1980. Chinese delegation first joined the World Bank and IMF Annual Meetings.

# TRANSFORMATION TOWARD A HIGHER LEVEL OF COOPERATION

By **YANG SHAOLIN**<sup>30</sup>

The turn of the first decade of the twenty-first century, in 2010, marked an important milestone in China–World Bank relations, as China became the third largest shareholder. It demonstrated the increasing contribution of China to the World Bank Group, after China had become an International Development Association (IDA) contributor in late 2007. As such the 2010 capital increase epitomized our evolving partnership and China’s impressive transformation from an IDA recipient country, to the second largest economy in the world, and an important provider of development finance and knowledge and significant IDA donor and World Bank Group shareholder.



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April 25, 2010. China became the third largest shareholder of the World Bank.

Over the past 30 years, I have been honored to be involved in and witness this evolution. As a current member of the senior management team, this is my third time working in the World Bank. Previously, I served as Advisor to the Chinese Executive Director (ED) in the 1990s, and as Chinese ED from 2009–2013. In this short article, I want to reflect on the lessons I take away from the partnership, as I have seen it evolve through my various assignments both for the government of China and for the World Bank Group.

<sup>30</sup> Yang Shaolin is Managing Director at the World Bank. Prior to his current appointment, he was Director General of the International Department in the Ministry of Finance and served as Executive Director on the World Bank Group Board between 2009–2013.

### *A mutually beneficial and evolving partnership*

What has impressed me the most through all these years is that both the World Bank and the Chinese government share a strong desire to strengthen their mutual partnership. Through the World Bank platform, China has promoted domestic reform and opening up, and at the same time enriched the cooperation between the World Bank and its clients with development experience and resources. For the Chinese government, greater leverage from its contributions to—and co-investments with—the World Bank has further optimized resources from both public and private sectors and therefore significantly improved development efficiency and effectiveness. Let me offer a few salient points that in my view capture the nature of our cooperation and its evolution over time.

- China has cooperated with all members of the World Bank Group, with the nature of cooperation and the weights across its different arms shifting over time. China's cooperation with World Bank began with IDA in the early 1980s. Later, in the mid-1980s when China was categorized as a middle-income country, it switched to the International Bank for Reconstruction and Development (IBRD) as its main borrower. The IBRD portfolio grew quickly until it peaked in the mid-1990s. In the early 2000s, we started to see the International Finance Corporation's (IFC's) business in China expand, a trend that continues to this day. This evolution is consistent with the process of China's economic reform and opening up, including the rapidly developing private sector and the growing role of a competitive market. IFC's expansion in China also helps to balance its own portfolio in terms of risk and return.
- Over the recent decade, thanks to its "Going Global" policy, China's cooperation with the Multilateral Investment Guarantee Agency (MIGA) has become increasingly close. In recent years, the International Centre for Settlement of Investment Disputes' (ICSID's) caseload related to Chinese investors rose gradually, which is an inevitable result of China's growing outward investment. Chinese companies are among the strongest competitors in World Bank project procurement bidding, which proves their growing capacity in manufacturing and infrastructure construction.
- The cooperation benefits both sides. The World Bank not only provides financial support for China's economic development, but also passes on cross-country experience, global knowledge, management know-how, and expertise. China's engagement with the World Bank through financing and knowledge in turn helps maintain the financial sustainability and enriches World Bank's knowledge work and repository of development experience.
- Through cooperation with the World Bank, China has not only promoted its own development but is also giving back to the international community. In this regard, the IDA-15 Replenishment in 2007 holds particular importance, and I was truly honored to participate in the closing meeting in Dublin as China's first IDA Deputy and, on behalf of the Chinese government pledge, China's first contribution to IDA. Since then China has substantially increased its contribution in each replenishment. Last year, for example, China pledged to contribute US\$1.2 billion to IDA-19, doubling its contribution from the level in IDA-18.



### *Cooperation rooted in knowledge exchange*

From the very beginning, our cooperation has been rooted in the exchange of knowledge. My former Ministry of Finance (MOF) colleague, Yang Yingming, focuses his contribution in this volume on the future of the knowledge partnership. I just want to underline the extent to which the partnership from the very beginning was based on knowledge cooperation. The Bashan River Cruise Conference in 1985 and the Dalian Conference in 1993 were early milestones in knowledge cooperation and deeply influential in shaping China's subsequent reform trajectory. *China 2030*, a major joint report examining China's economic opportunities and challenges to the year 2030, drew on this tradition and has informed economic policy making over the past decade. I was the Chinese ED for the World Bank when this report was launched in February 2012. The report lays out recommendations for a development growth path for the medium term, helping China make the transition to becoming a high-income society.

Based on the approach of *China 2030*, the two sides have jointly carried out many successful knowledge projects in recent years, including on urbanization, health reform, and new drivers of growth, among others. Klaus Rohland describes these and the main recommendations resulting from them in his contribution, and I will not repeat this here. With the development of the Chinese economy, the cooperation between the World Bank and China has broken through to become a two-way exchange. The practice and experience of China's reform and opening up have enriched World Bank's development theory and practice. The strengthening of pragmatic cooperation between the World Bank and China in the past years has been a win-win for both sides.

### *Flexibility and customization*

Lastly, I would like to emphasize that one of the most important factors contributing to World Bank's success in China and other developing countries has been its dedication and ability to swiftly adapt and customize its programs to the local conditions. One of the best examples to illustrate this is the Wenchuan Earthquake Recovery Project (WERP).

- At that time when the earthquake occurred in May 2008, as the head of the Chinese delegation, I was participating in the "Three-Year Rolling Program Negotiation" with the World Bank in Washington, DC. When we learnt the news on the first afternoon, we immediately stopped the regular negotiation and worked together with the World Bank, the ED office, and the Ministry to adjust the original lending pipeline to support disaster relief and reconstruction. Only a couple of weeks later, WERP was officially launched with a total commitment amount of US\$710 million.
- The project lasted eight years, and its results were very successful in what was one of the largest and most complicated post-disaster reconstruction projects financed by World Bank. WERP also established an innovative post-disaster reconstruction model, integrating restoration and reconstruction with revitalization and development, considering the local context and development objectives.
- The swift response and timely support of the World Bank proves the proverb "A friend in need is a friend indeed."

In my experience, both China and the World Bank are full of dedicated and passionate people who want to make a difference. And as a member of the World Bank Group's senior management team, I have come to appreciate even more the dedication of the World Bank Group staff. The success of our partnership should be attributed to the dedication and efforts of all the colleagues involved, many of whom are contributors to this volume. It is the passion and commitment of all colleagues which makes the institution and the partnership great, which pushes us forward toward greater efficiency and agility in service of supporting our clients.

I want to close my contribution with a word of gratitude to all the former and current leadership and staff from both sides. It is upon their knowledge, accomplishments, and legacy that we all stand. I am confident that the World Bank–China relationship will continue to evolve, will continue to be rooted in knowledge and characterized by flexibility and adaptation, and will continue to contribute to China's development and to the repository of global development experience through financial and knowledge cooperation, and through a growing role of China as a stakeholder and shareholder in the World Bank Group.



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February 2009. World Bank provided US\$710 million emergency financing to the Wenchuan Earthquake Recovery Project.

# INTEGRATED RURAL DEVELOPMENT: LESSONS FROM WORLD BANK OPERATIONS FOR CHINA'S RURAL REVITALIZATION STRATEGY TODAY AND FOR DEVELOPING COUNTRIES IN GENERAL

By **ZHANG WENCAI**<sup>31</sup>

The past 40 years of partnership between the World Bank (WB) and China have brought astonishing achievements. Reflecting upon my career path, I have dedicated the past 31 years to foster and strengthen this cooperation, since working at the Ministry of Finance's World Bank Department in 1989. My work in different positions as project officer, division director, adviser to the Chinese Executive Director, Deputy Director General, and Director General, and my working experience in various sectors from energy, agriculture, and technical assistance to policy and country programming, have lent me insight into this changing but constructive partnership that the WB and China have successfully nurtured. I have personally developed deep bonds with the WB and will always remember its address of the "1818 H Street, Northwest, Washington DC, zip code 20433" as I have visited the place so many times.

Of course, just like many other things in life, this collaboration also had its ups and downs. With the evolution of the relationship and the growing influence of China in the WB and at the global level, it is understandable that different perspectives and views on the bilateral cooperation would emerge. The challenges facing the bilateral relationship as a result include, but are not limited to, the amount and type of lending given to China, but perhaps more importantly relate to how China should play its increasingly important role in the WB. This is not to deny the great accomplishments thus far. Indeed, generally speaking, the collaboration has been very successful and mutually beneficial. For China, the WB is more than a financial partner, as its knowledge support and policy advice have benefited China a lot. For the WB, China is not just a borrower or an International Development Association (IDA) contributor, but an important development partner with a diverse set of experiences from which to learn.

Having stressed my personal affiliations with the World Bank, I will now dive deeper into the role that China played and the cooperation with the WB during the 2000s. Subsequently, I will focus my attention on rural development, which is at the core of the mandate of the institution I now serve and connect my experiences with the WB with my work today.

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### *The China–World Bank partnership in the 2000s*

Several events occurred during the first 10 years of this century that changed the relationship quite dramatically. Before fiscal year (FY) 2000, China was a recipient of IDA and received both International Bank for Reconstruction and Development (IBRD) loans and IDA credits. From the beginning of FY 2000, China graduated from IDA (no longer had access to any new IDA credits) and indeed started to contribute to IDA's replenishments from 2007. As the weight of China and other developing economies in the global economy grew substantially during this decade, their voices and representation were increased with the 2010 capital increase through a reform of the internal governance structure of the World Bank Group. As of 2010, China became the third largest shareholder in the World Bank after an increase of its voting power. China's growing international role was also epitomized by the issuance of the first ever Panda bond, supported by the International Finance Corporation (IFC) in 2005. These developments are covered in more detail in the contributions from Yang Shaolin, Klaus Rohland, and Bert Hofman, so I will not elaborate. In summary, China's role in international finance and global development gradually started to change during the decade, assuming greater importance and bringing with it greater responsibility. This transformation was also reflected in the nature of the cooperation between the WB and China, which moved from a focus on the transfer of financial resources to emphasize both the transfer of knowledge and finance, and from a focus on infrastructure development to greater emphasis on environmentally sustainable and inclusive growth.

### *The approach to integrated rural development*

I would like to spend the rest of this contribution taking a closer look at the development of the agricultural sector, reflecting both my current position at the Agricultural Development Bank of China (ADBC) and my exposure to the sector in previous roles including while working on the World Bank portfolio.

In the 1990s, I worked for the agriculture sector for some time at the WB department in the Ministry of Finance. During that period, we collaborated with the WB intensively on carrying out a lot of comprehensive agricultural development projects. These projects were very large in geographical scope and detailed in depth of reach. From what I recall, these projects ranged from plantation (seed growing, rice and cotton production), animal raising (fish and cattle), agricultural processing, and supporting service systems, to rural infrastructure building. From the 1990s and particularly in the 2000s, the Chinese government adopted a targeted approach to eliminate poverty in specific provincial regions with the objective to make growth much more inclusive and equitable (see also Yukon Huang's essay in this volume). Of course, with the "hardware" in place, we also wanted to promote the "software," namely the people. We not only used the WB's money to support primary and vocational education, and address public health issues, but also provided financial support for forestry, clean energy, natural resource management, and environmental protection projects in impoverished areas.

By combining the physical construction of infrastructure and the development of local industries with investments in human resources and in the improvement of rural livelihoods, we strived for a comprehensive and sustainable rural development path. I was proud of what we had achieved and glad to see the evolution of our poverty reduction programs financed by the WB, from one single sector to multiple sectors in an integrated approach; from infrastructure to social sectors like education, health, human capital, and environmental protection; and from rural development to

rural-urban integration, aiming to leverage better connectivity to enhance business opportunities in rural areas through integrated value chains. The WB-financed pilot projects provided invaluable lessons of experience, and we used this knowledge during the 2000s as China stepped up its efforts on poverty reduction. More recently, our joint efforts with the WB have included consolidating the various budget lines for rural revitalization under one program, allowing World Bank's support to be structured in the form of a results-based operation, achieving significantly more leverage and rolling out successful experiences province wide. Bert Hofman's essay in this volume describes the approach taken in this regard with the Guangxi Rural Poverty Reduction Program for Results (PforR) operation.

My current work at the ADBC continues my endeavor to achieve integrated rural development. We, too, have very much focused on poverty reduction in China over the last decades, in particular through focusing on the support of "agriculture, rural areas, and the rural people." ADBC's outstanding loan portfolio for poverty reduction is approximately 1.5 trillion renminbi (RMB), which makes us the largest bank in China supporting rural poverty alleviation. In part due to the valuable lessons learned from the WB, ADBC has also adopted an integrated approach to enhance rural and agricultural modernization: ranging from an emphasis on infrastructure and industry development, to the improvement of education, health, and the environment as well as rural-urban integration. With China's growing technological capabilities, we are able to increasingly leverage modern and state-of-the-art technology in land management, seed production, and agricultural cultivation and processing to achieve higher productivity and rising incomes for rural households.

In 2020, China successfully completed the task of absolute poverty alleviation, and the country has now moved on to comprehensively promote *rural revitalization*. There is definitely still a long way to go and it will be crucial to consolidate and expand the achievements already made while launching and implementing the rural revitalization program. It will not be easy to have a smooth transition between these strategies, but the core still lies in taking an integrated approach to rural development that builds on physical as well as human capital investments and that leverages the improved connectivity between rural and urban areas to attract investments and jobs into China's rural areas and thereby continues to close the still large gap in living standards.

At ADBC, we would like to forge a strong partnership with the WB and other multilateral development banks (MDBs). As we will provide more green financing to support green development and fight against climate change, the assistance of the WB on how to design projects with strong adaptation or mitigation effects would be highly appreciated. The Yellow River and Yangtze River basin protection and revitalization programs of the government are areas for potential mutually beneficial cooperation. And to achieve the goals of rural revitalization, the World Bank can work with us to provide assistance in ecological and environmental protection in the rural areas of China. By partnering with institutions like ADBC, the WB can ensure its knowledge and experience is put to maximum use and its small financial contribution leveraged to achieve results at scale.

ADBC would also like to work with the WB to help disseminate the Chinese experience on rural poverty reduction and development to other developing countries through the WB platform. This collaboration could eventually spur trilateral or multilateral efforts, and weave a network of partners working together to eradicate regional and global poverty. Indeed, I am pleased to note that rural and agricultural development is one area where the World Bank and China have already

developed a strong and successful knowledge sharing partnership with other World Bank clients in Africa, Central Asia, South Asia, and the Middle East and North Africa, including under the auspices of the China World Bank Partnership Facility set up in 2015 with this objective.

Last but not least, being an upper-middle-income developing country, China still has its challenges. In order to achieve its long-term development goals set respectively for 2035 and the middle of this century when the People's Republic of China will celebrate its one-hundredth anniversary, China will need higher quality growth, more efficient growth, and more equitable and sustainable growth. I am confident that the WB can continue to make a great contribution to this process. I am also confident that as its economy grows further, China can also contribute more to WB's endeavors and to regional and global development.









# SUPPORTING CHINA'S CONTRIBUTION TO GREENHOUSE GAS EMISSION REDUCTIONS UNDER THE 2015 PARIS AGREEMENT

By **CHEN SHIXIN**<sup>32</sup>

One of the toughest development challenges the world is facing today is how to make the aspirations of rising living standards in the many low- and middle-income countries compatible with a sustained reduction in greenhouse gas emissions to avoid catastrophic climate change. China's role in this is crucial, as China's rapid technological progress makes it possible to leapfrog the carbon intensive development path of the advanced countries and thus set an example for many other emerging market economies. Nevertheless, China requires the support of the international community in its green development path, and the World Bank Group (WBG) continues to play an important role here.

I was the Executive Director on the World Bank's Board between 2013 and 2016. The Paris Agreement on climate change in 2015 and the WBG–International Monetary Fund (IMF) Annual Meetings in Lima in 2016, when the WBG made the commitment that by 2020, at least 28 percent of its lending should have climate co-benefits, fell within my tenure at the Board. Against this background, my contribution focuses on China's climate commitments and the role of the International Financial Institutions (IFIs) in supporting of China's green development path.

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### *The significance of China's climate commitments*

China's climate commitments, as formulated in its National Development Contribution (NDC), made a critical contribution to the Paris Agreement and the international efforts to fight climate change.

In supporting discussions at the Paris Conference, China promised in its 2015 NDC that CO<sub>2</sub> emissions would peak by 2030, and that CO<sub>2</sub> emissions per unit of gross domestic product (GDP) should fall by 60–65 percent compared to 2005 level. By 2030, non-fossil energy should account for about 20 percent of primary energy consumption. This commitment strongly supported the successful conclusion of the Paris Agreement.

More recently, on September 22, 2020, Chinese President Xi Jinping pledged at the United Nations General Assembly (UNGA) that China will reach an emissions peak before 2030 and achieve carbon neutrality before 2060. And on December 12, 2020,<sup>33</sup> President Xi at the Climate Ambition Summit announced further commitments for 2030 and specifically pledged that China will lower its CO<sub>2</sub> emissions per unit of GDP by over 65 percent from the 2005 level, increase the share of non-fossil fuels in primary energy consumption to around 25 percent, increase the forest stock volume by 6 billion cubic meters from the 2005 level, and bring its total installed capacity of wind and solar power to over 1.2 billion kilowatts.

A strong signal has thus been sent that China is taking its responsibility in terms of combating climate change and the implementation of the Paris Agreement. China's proactive announcements have been broadly welcomed by the international community. Indeed, some have called this announcement a "Game changer" in the fight against climate change. China is fully committed to implement this pledge and will continue to target green, sustainable, and socially inclusive development as a core objective of its policies and the partnership between China and the IFIs.

### *The challenge of implementation*

As is now well understood, traditional development models will not lead to a solution of achieving both economic growth and a reduction in CO<sub>2</sub> emissions. A transformational change is necessary which emphasizes high-quality development over the objective of maximizing growth under the traditional focus on quantitative development targets. This will require new plans and strategies to be formulated that encapsulate the qualitative dimensions of development, and perhaps even more it will require regulatory reforms, public awareness campaigns, and consistent implementation, monitoring, and evaluation of policies at all levels of governments and in all climate-related sectors, especially in energy supply and consumption.

The transformation that is needed cannot be contemplated without addressing how it can be financed. According to China's National Center for Climate Strategy and International Cooperation under the Ministry of Ecology and Environment, the total capital demand for achieving carbon neutrality by 2060 will reach about 139 trillion yuan, with an annual average of about 3.5 trillion yuan (roughly 3.5 percent of GDP), accounting for roughly 6 percent of total investment in fixed assets in the whole country. This requires a comprehensive climate financing plan to mobilize public and private resources and ensure the conditions are in place to attract investment to the right areas.

33 · The Climate Ambition Summit was held after this virtual event of the 40 Years of Partnership between China and the World Bank Group. Given the importance and consistency of China's position on climate change, this paragraph is added here as reference.



At the same time, government capacity for monitoring and enforcement of climate action needs to be further improved, especially at the local level and in rural areas. Indeed, taking into account that the poorest regions in China have an average per capita income comparable to the lower end of the range of middle-income economies, specific support to help them adopt cleaner technologies may be required. Clean technology is still too costly. Green energy, like solar and wind power, while increasingly competitive with fossil fuels, suffers from intermittency issues and requires more up-front investment than conventional fossil-fuel power supply. Other clean technologies such as hydrogen production, carbon capture, and storage are not yet commercially viable. High costs discourage enterprises and local governments from switching decisively to clean energy and other clean technologies.

These challenges have been compounded by the COVID-19 pandemic. With all the dramatic economic consequences of the pandemic, we have seen only an 8 percent reduction in global carbon emissions, barely enough to keep the world on the trajectory needed to keep global warming to 1.5 degrees Celsius. As economies start to recover, emissions are likely to increase again. Therefore, it is all the more imperative that in the COVID-19 recovery more weight is put on green growth strategies to overcome the negative impact of the pandemic on public and corporate balance sheets, and hence on the resources available for climate financing.

### *The role of the IFIs*

China and the WBG have a long-lasting partnership in tackling climate change. In-depth cooperation started earlier than the Lima Annual Meetings. For instance, in 1992, WBG provided a technical assistance project for China to develop an industrial Greenhouse Gas (GHG) inventory and relevant mitigation policies. In 2012, the International Finance Corporation (IFC) funded the CHUEE program to leverage private sector participation in energy efficiency investments. In 2014, the WBG and the Development Research Center (DRC) under the State Council published a flagship report on China's urbanization including detailed recommendations on urban green growth.

The Lima Annual Meetings marked a milestone of climate change cooperation between China and the WBG. The Board of Governors of the WBG endorsed the WBG Climate Action Plan 2016–2020 targeting an increase in climate co-benefits of WBG operations from 21 percent to 28 percent by 2020, and requested the WBG to help countries shape national policies and leverage private sector investment to support greater climate action. Consistent with this, China has worked closely with the WBG to shift the lending portfolio toward targeting climate impacts. For instance, in 2016, the WBG approved two Program for Results (PforR) programs, totaling US\$1 billion: the Jing-Jin-Ji air pollution control program, and the Hebei air pollution prevention and control program, focused on investing in energy efficiency, renewable energy and emission control (see also Bert Hofman's essay in this volume). Together, both operations have contributed to reducing PM<sub>2.5</sub> concentrations in the Jing Jin Ji area by 35 percent between 2013 and 2019, well above the government target of 25 percent. The Jing Jin Ji operation, which is still under implementation, has already exceeded its CO<sub>2</sub> emission reduction target of 2.4 million tons annually by 15 percent with one-third of the loan still undisbursed.

It is encouraging that the WBG Country Partnership Framework (CPF) for 2020–2025 aims to strategically support China in achieving greener development by identifying five engagement areas: transitioning to a low carbon energy path; reducing air, water, soil, and ocean plastics pollution; supporting sustainable agriculture; improving natural resource management; and supporting low carbon transport and cities.

In Asian Development Bank's (ADB's) new Country Partnership Strategy (CPS) for 2021–2025<sup>34</sup> climate change adaptation and mitigation will be one of the strategic pillars of the CPS. I anticipate that in coming years, IFIs will continue supporting China in its efforts to achieve its ambitious climate targets and “low carbon” and/or “net zero carbon” will become key words of all IFIs' support to China.

As the world emerges slowly from the COVID-19 pandemic, I think the IFIs have a critical role to help China and other developing countries to build back better and invest for the future. The crisis has led to a sharp fall in investment, and hence public investment has an important role to play in kick-starting the recovery (in China this already happened during 2020). With increased public investment, there is a “window of opportunity” to use this investment to accelerate the transition to clean energy. The accelerating digitalization of economies can also encourage innovation, bring high efficiency gains and thus catalyze low carbon industry development.

There has been a concern that shifting toward green growth may lead to fewer job opportunities. This concern now seems unfounded. According to ADB's recent analysis, compared with fossil fuels, investing in renewable energy can create 2.8 times more jobs; investing in nature-based solutions can create 14.7 times more jobs. IFIs can help countries realize these new job opportunities by bringing in the knowledge and know-how.

More specifically, going forward, I think the IFIs can help China achieve its ambitious climate goals in the following areas:

First, knowledge cooperation. IFIs benefit from top-level experts and have accumulated numerous project-related experiences in addressing climate change. They are uniquely placed to make policy suggestions to the developing world and provide how-to guidance. Although China has seen rapid technological progress and is indeed a global leader in some green technologies, there are still many areas where China could benefit from global knowledge dissemination, such as how to reduce the carbon footprint of buildings and plan green cities, how to deliver low carbon mobility, how to develop the green finance market, how to make agriculture more sustainable, and how to plan energy systems so they can integrate intermittent renewable power more efficiently. IFIs can also support sharing China's rich practices with other countries. For instance, the Investing in Africa Forum, jointly organized by China, the WBG, and African countries, has become an important platform for sharing knowledge and investment opportunities on clean energy development between China and African countries.

Second, institutional and human capacity building. Capacity building has been prioritized by the Chinese government including in the context of China's NDC. IFIs have a comparative advantage in capacity building through technical assistance. In China, the institutional capacity on environmental protection and climate change still needs to improve. The commercialization and system integration of renewable energy, the building of integrated data systems, the strengthening of monitoring and quality control, and the development of a domestic carbon market could be valuable areas in which IFIs can provide assistance. Throughout the past 40 years of partnership, access to training and capacity building opportunities has continued to contribute to China's development progress. It remains valuable today to help China deliver its global climate ambition.

Third, new and emerging technology investment. New and emerging technologies will play a decisive role in fighting climate change. These technologies often need large, up-front investments, or are subject to significant risks. IFIs can play a unique role in supporting China to accelerate

34 · ADB's Country Partnership Strategy of PRC—Toward High-Quality, Green Development, 2021–2025 was endorsed by the ADB Board on March 9, 2021.

the adoption of new and emerging technologies by providing long-term financing to overcome the high initial investment costs and mitigate investment risks that commercial funders would be unwilling to take.

Fourth, more direct investment support to rural areas and small cities. As the government's "Beautiful Village Development Program" and "Rural Revitalization Program" progress, rural areas and small cities of China are likely to attract more investments. This includes more infrastructure investment, such as in energy supply, connectivity, and environmental and municipal services. These investments will play a key role in helping China achieve its new climate target. For this they need to target greening, in line with the build back better agenda. In this regard, IFIs could prioritize support for rural areas and small cities of China aiming at low carbon and/or net zero carbon rural development.

Fifth, enhance international cooperation with other developing countries. Effectively protecting the climate will require all countries to be engaged and to take bolder and more ambitious actions. Inspired by the new Chinese commitment, there are greater expectations for international cooperation between China and other countries to enhance global efforts to mitigate climate change. IFIs can play a critical role to support this effort to ensure the delivery of CO<sub>2</sub> reduction outcomes. The WBG specifically has the convening power to invite the joint efforts of other IFIs to enhance South-South Cooperation and leverage regional and global initiatives such as the Belt and Road Initiative (BRI), Central Asia Regional Economic Cooperation (CAREC), the Greater Mekong Subregion (GMS) Program Initiative and the Multilateral Center for Development Finance (MCDF).

To this end, let me conclude by suggesting IFIs further strengthen their strategy with a long-term vision. They should set up comprehensive action plans, like the WBG 2016–2020 climate change action plan, scale up their financial resources and knowledge capacity. And they should broaden their engagement with multiple stakeholders including city governments, rural areas, large companies, and micro, small, and medium enterprises, as well as global supply chains to address climate impacts comprehensively.



# CHINA – WORLD BANK KNOWLEDGE PARTNERSHIP: EXPERIENCE AND THE WAY FORWARD

By YANG YINGMING AND YE YU<sup>35</sup>

## *The World Bank's evolution toward a knowledge bank*

The World Bank has long been a major intellectual actor in international development, at least since 1978 when it started to publish the World Development Report (WDR). It was only in the late 1990s during the presidency of James D. Wolfensohn, however, that the World Bank explicitly envisaged the establishment of a “knowledge bank.”<sup>36</sup> This was a vital element of the comprehensive reform efforts the World Bank took in response to the severe criticism about its structural adjustment approach in dealing with the indebted countries in the 1980s. In its new vision, the World Bank intended to re-position itself as a much more responsive and flexible “knowledge broker” for its member countries. Decentralization and other organizational restructuring measures were implemented to improve World Bank’s knowledge management networks and to facilitate knowledge creation, capturing, dissemination, and sharing. In countries where policy frameworks were poor, the World Bank was advised to concentrate on providing knowledge and technical assistance rather than lending.<sup>37</sup> It was considered that effective and efficient knowledge sharing should be the single most important indicator of the World Bank’s success.<sup>38</sup>

The “knowledge bank” mission has been carried on ever since. Mr. Robert Zoellick initiated the Open Knowledge program during his presidency in the late 2010s, while Mr. Jim Yong Kim coined a new vision of “solutions bank” with a focus on harnessing and delivering high-quality tailored-made knowledge.<sup>39</sup> Another round of organizational reshuffling was carried out to build the “One World Bank Group” for a more effective knowledge delivery function.

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<sup>36</sup> • “The Challenge of Inclusion,” 1997 Annual Meetings Address by James D. Wolfensohn, President of the World Bank, Hong Kong SAR, China, September 23, 1997.

<sup>37</sup> • Christopher Gilbert, Andrew Powell, and David Vines, “Positioning the World Bank,” *Economic Journal*, November 1999, Vol.109(459), pp.598–633.

<sup>38</sup> • World Bank, “World Bank Knowledge Sharing and Reuse Incentive Framework,” World Bank, 2019, <https://openknowledge.worldbank.org/handle/10986/32624>.

<sup>39</sup> • “Delivering on Development: Harnessing Knowledge to Build Prosperity and End Poverty,” World Bank Group President Jim Yong Kim Keynote Speech to World Knowledge Forum Seoul, Korea, Oct. 9, 2012, <https://www.worldbank.org/en/news/speech/2012/10/08/delivering-development-harnessing-knowledge-build-prosperity-end-poverty>.

In this contribution, we focus on World Bank's knowledge partnership with China. This is for two reasons: first, knowledge has been at the center of the partnership since its beginning—as the earlier contributions in this book amply illustrate. Second, the term of one of the authors of this chapter, Yang Yingming, as Executive Director for China at the World Bank Group, coincided with the finalization of a new Country Partnership Framework (CPF) for FY20–25, which envisions the evolution of the partnership toward a greater emphasis on knowledge sharing, including the sharing of China's development experiences with the rest of the world.

### *China–World Bank partnership exemplifying the art of learning and teaching*

Development knowledge sharing is easier said than done. Since China joined the World Bank 40 years ago, China and the World Bank have created one of the most successful knowledge partnerships beneficial to both sides, which has epitomized and encouraged other countries' endeavors. This widely documented success story was underpinned by three fine balances.

#### **A. External assistance vs. internal needs**

It is well recognized that the focuses of foreign assistance (external) need to be consistent with the changing priorities of the clients' needs (internal). Priorities for the knowledge partnership should reflect not only the topics considered urgent by the World Bank but also the client's demands, which guarantees internal ownership and is key to success. Otherwise, clients may be forced to adopt policies that are perfectly correct in theory but hardly implementable in practice, or promising in the long run but simply impracticable under their current conditions. Luckily, the China–World Bank partnership has been guided by four principles and practices: respecting each other, listening to each other, learning from each other, and benefiting each other. The World Bank served as an external knowledge provider for China to address bottlenecks in reforms of key areas where China had strong internal ownership.

#### **B. Hard cycle vs. soft cycle**

The World Bank–China partnership started with joint knowledge building and relatively simple projects. Over time, projects became larger and more complex and aimed to catalyze reforms through experimentation.<sup>40</sup> The result has been the development of a so-called “four-in-one” model integrating loan projects (hard) cycle and knowledge (soft) cycle: (1) knowledge products as precursors to find options for addressing bottlenecks in reforms; (2) loan projects as means to pilot the identified and agreed options; (3) innovative experience accumulated from the implementation of investment projects; and (4) innovations to be scaled up for greater development impacts. Maximizing the synergies between the two cycles required a mentality change, namely to put innovation at the center of the cooperation. Physical loan projects are still indispensable, but less for their financing and more for the effective leverage over borrowers, encouraging them to innovate. Loan projects have thus become platforms to encourage borrowers to experiment with new ideas and achieve concrete results.

#### **C. Top design vs. grassroots experience**

Is there a best model of poverty reduction? Does it need top design, or first-hand experience from the bottom? The Global Conference on Poverty Reduction in Shanghai co-organized by the World Bank and China in 2004 tried to answer the question. Rather than treating development as a quasi-science, the Conference presented it as an art in which the heroes are resourceful managers implementing programs. It featured bottom-up case studies presented by practitioners from developing countries. The outcomes of the Conference reinforced the belief that successful poverty

40 • Pieter Bottelier, “China and the World Bank: how a partnership was built,” *Journal of Contemporary China*, Vol. 16, Issue 51, 2007, pp. 239–258.

reduction needs both top design and grassroots experience, and that case studies from the field would help enrich development thinking and lead to situation-specific solutions. In view of this, the World Bank needs to carry out more case studies in China and other developing countries to identify useful practices from success stories. This is a simple way to find convincing examples for South-South learning, and it will also benefit the China–World Bank partnership. Of course this needs to be complemented with a data-driven analysis of the enabling environment that made success cases possible.

### *The World Bank as an important player in sharing Chinese experience with the world*

The China–World Bank knowledge partnership has always been a mutual learning process instead of a one-way mentoring relationship. This has greatly helped Chinese knowledge sharing with the world. The Global Conference on Poverty Reduction in 2004 was a great knowledge sharing process, covering case study development, virtual learning, field trips, and physical conferences, with Chinese experience playing a significant role.

There are many platforms for sharing Chinese development knowledge, but the World Bank is indisputably a very important one. It was among the first to introduce to the world the widely known Chinese experience in Special Economic Zones (SEZs), the essence of which is to pilot first and then roll out. From our own experience, pilot projects are effective platforms for synergizing financial and knowledge transfer for gradual and steady policy reforms and capacity building. By piloting first and then rolling out, World Bank, China, and the international community can work together to broaden policy space for borrowers so that they can avoid dogmatic application of international experience, adopt a country-specific approach to development, and focus on their existing binding constraints. Two characteristics of China’s approach to piloting are worth mentioning. First, China is a large country with great variance in different areas, which creates both the space and the need for piloting. Second, China always adapts the piloting to local conditions and is willing to assess results and abandon pilots that do not work. This pragmatic approach is vital and often neglected.

### *The way forward*

Marching into a new era of global and Chinese development, we need to continue to “learn by doing” in order to overcome new challenges and grasp new opportunities. To make the knowledge partnership more effective, we suggest that the following ingredients are crucial:

**First, mutual trust is the key to building truly equal partnerships for development.** Trust is the single most important factor for any knowledge sharing as it depends on people-to-people communication. As mentioned in many of the previous contributions, the successful China–World Bank partnership started with mutual trust. It enabled the two sides to jointly deal with many development challenges, and with tremendous successes. In the new international environment, the two sides need to maintain this valuable mutual trust. Similarly, trust is indispensable for all other development partners and stakeholders involved in the partnership. In this way, Chinese development experience can be objectively collected, analyzed, and disseminated, and the World Bank can continue to help China identify priorities and lay out recommendations to tackle the emerging challenges with a keen eye to their historical context and global significance.

**Second, a comprehensive approach is needed to make peer learning more effective.** Here, World Bank's structured approach to various forms of knowledge activities can help. The World Bank can do more case studies as well as a data-driven analysis of China's development experience and theorize them into "explicit knowledge" for global public use. China has a vital role to play here by helping with data collection and improving the "feedback loop." More staff exchanges between the World Bank and developing countries can be promoted for the interchange of the "tacit knowledge" accumulated by World Bank staff and the practitioners of developing countries. At the same time, the knowledge embedded in World Bank's policies, procedures, and practices should better reflect experience from developing countries as well. A country-specific approach should be enhanced to encourage borrowers to "learn by doing." China and the World Bank could also cofinance projects that embody the experimentation approach so critical to China's success, so that client countries can learn to pilot first and roll out later, and innovate development thinking with changing situations.

**Third, World Bank's access to first-hand Chinese experience is still needed for effective mutual learning and for the provision of global public goods.** World Bank should continue to provide knowledge assistance and lending services to higher-income countries like China so that the World Bank can continuously accumulate first-hand experience and data from them. These countries can also continue to benefit from the partnership by becoming more innovative and in turn provide more global public goods. For this purpose, new World Bank loan instruments, such as the program for results (PforR) introduced into China in 2016, should be deployed more effectively to scale up innovative ideas for impact on the ground. Furthermore, in addition to the well-publicized long-term joint flagship studies, which are discussed at length by other contributors in this book, the World Bank could expand its role in providing much-needed short-term studies to address immediate issues. This can help decision-makers to act in a timely manner and, as a result, increases the attractiveness of World Bank's knowledge support.

**Last but not least, the World Bank needs to improve its internal incentive system to better encourage knowledge sharing activities.** As a global public good, knowledge sharing is a challenging work that requires both capabilities and willingness of staff. For capabilities, it is particularly important for World Bank's staff to use the technique of "scaffolding," i.e., building on what the host country already knows, and using their culture and knowledge to shape the learning process, rather than imposing a one-size-fits-all plan from the outside.<sup>41</sup> Institutional culture is also important. A recent World Bank survey found that more than 80 percent of its staff believed that there were a series of structural barriers constraining their knowledge sharing functions, such as the lack of formal training opportunities and social norms, irrelevance to performance evaluation and hence lack of visibility, personal ownership and peer pressure, and limit of time.<sup>42</sup> Continuous efforts need to be made by the World Bank to encourage and enable staff to prioritize knowledge sharing for development effectiveness.

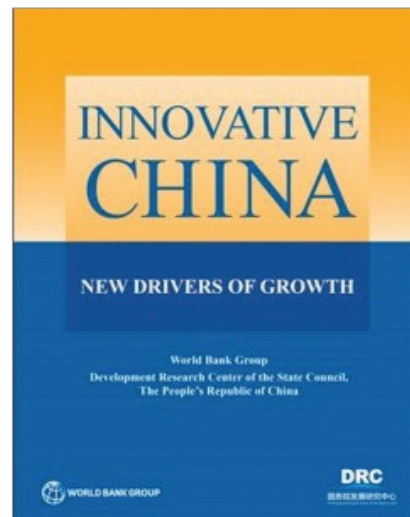
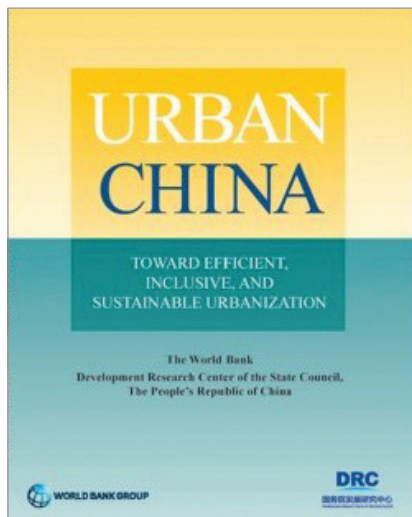
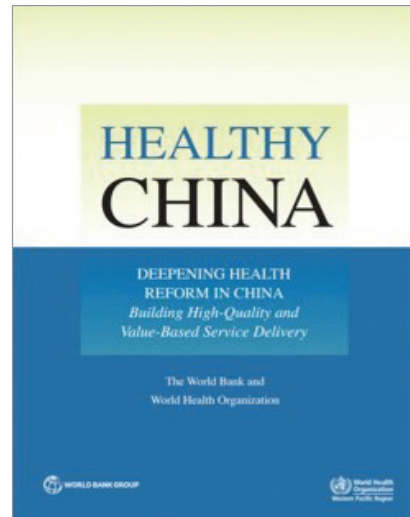
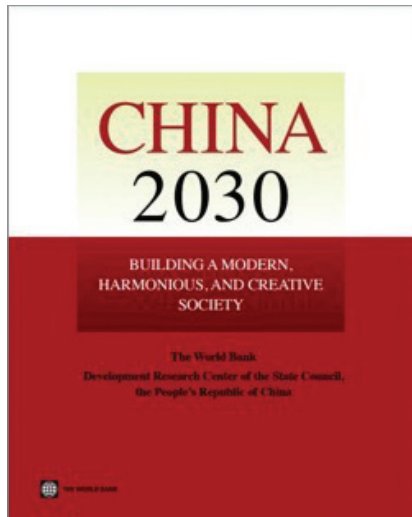
41 · Don Cohen and Bruno Laporte, "The Evolution of the Knowledge Bank," *KM Magazine*, March 2004 issue, [www.kmmagazine.com](http://www.kmmagazine.com).

42 · World Bank, "World Bank Knowledge Sharing and Reuse Incentive Framework," World Bank, 2019, <https://openknowledge.worldbank.org/handle/10986/32624>.





# CONCLUDING REMARKS



From 2012–2019, the World Bank produced four flagship studies on key issues on China's development.

## WANG ZHONGJING:<sup>43</sup> CLOSING REFLECTIONS ON 40 YEARS OF PARTNERSHIP

I am honored to be asked to share some closing reflections on the 40 years of partnership between China and the World Bank Group. The past 40 years not only witnessed the fruitful cooperation between China and the World Bank, but also the growth of China from a low-income developing country to an upper-middle-income country and the second largest economy in the world. This extraordinary achievement has marked our professional careers. Many of the contributors in this book regard their work in the World Bank–China partnership as among the most satisfying moments in their careers. This commitment and passion speaks from all the essays in this book. May it be an inspiration for us going forward.

I would like to offer three closing reflections on lessons from the past 40 years for the future of the partnership.

First, our cooperation should remain aligned with China’s national development strategies, as it has been over the past four decades. As mentioned by several authors in these pages, the reason for our successful cooperation is that the World Bank customized its priorities and programs to China’s local contexts and circumstances. Because of strong ownership and commitment from the Chinese government, the cooperation progressed from a focus on “hardware” at the project level to an emphasis on the “software” of development at the level of institutional reforms. However, China is still the largest developing country in the world, and it still has weak capacity in achieving high-quality development. Therefore, the World Bank can continue to play a constructive role, and the experience it gains from this cooperation will continue to be of global significance. This is why China attaches great importance to maintaining a certain volume of lending as agreed in the Country Partnership Framework adopted in late 2019. Meanwhile, both sides should make efforts to constantly improve the value added of World Bank–financed projects, in ways that innovate and demonstrate new approaches and solutions to China’s remaining development challenges.

Second, our partnership should leverage the experience of China and contribute to global development through knowledge cooperation. Over the past 40 years China has benefited tremendously from our access to the World Bank as a truly global knowledge bank, as several essays in this book attest. We hope World Bank can continue to play this critical role in sharing international development experience and continue to provide a reference for China in its reforms, particularly in complex frontier areas. On the other hand, World Bank is also welcome to draw on China’s good practices in poverty reduction and business environment improvements, for example, to provide a point of reference for other developing countries. In this regard, we highlight the importance of continuing our joint efforts in other continents, in particular in Africa. We want to continue our cooperation in the Investing in Africa Forum to introduce China’s experience and Chinese investors to help African countries in poverty alleviation and economic development.

Third, our partnership should remain dynamic, resilient and robust. As colleagues have mentioned, there’s always ups and downs. But I believe as Klaus Rohland remarks in his essay, if we do it together, we can do it much better. Over the past forty years, in spite of obstacles and pressures, China and the World Bank handled tensions wisely and calmly and we were able to keep our cooperation trustful and smooth. At present, the world economy is in recession due to the COVID-19 pandemic, and the land-

<sup>43</sup> Wang Zhongjing is the CEO of the Multilateral Center for Development Finance. He was at the time of the Conference celebrating 40 years of partnership as the Director General of the International Department in the Ministry of Finance.

scapes of international economics and politics are undergoing profound adjustments. But the pandemic has shown that the world needs international cooperation more than ever. China remains committed to multilateralism and to working with the International Financial Institutions as an important platform for consensus building and the implementation of cooperative solutions. Reflecting this commitment, China's economy will open up further. China aims at fostering a new development pattern with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. This will create more space for China's economic development to add impetus to global economic recovery and growth. We hope that, through joint efforts of both sides, China and the World Bank can continue to work together to make our contribution to global economic recovery and international development cooperation.

At the time of writing in early 2021, China is finalizing the development of its 14th Five-Year Plan, which together with our vision for the year 2035 will guide China's economic and social development in the near and medium future. We welcome the World Bank to continue to deepen the relationship with China built over the past 40 years, in line with our national development strategies and in the spirit of partnership and cooperation, and contribute to the dual goals of eliminating poverty and sharing prosperity.

## CHANG JUNHONG:<sup>44</sup> AFTER 40 YEARS OF PARTNERSHIP — A BRIEF LOOK AHEAD

I am truly honored and excited to share my reflections on the occasion of the 40 years' partnership between China and the World Bank Group (WBG). The contributions in this book are important records of history. They are also a reflection of all that has made the partnership between the WBG and China special. It is the great diligence and dedication of generation after generation of colleagues on both sides that has delivered our important achievements and built up a strong and truly mutually beneficial partnership between us. My first thought therefore is one of the highest respects to all my World Bank colleagues and Ministry of Finance predecessors who have jointly created the history of cooperation between China and the WBG in the past 40 years.

The world is evolving fast, and we are facing a different global landscape than 40 years ago. It is time for us to review and forge our partnership within a broader framework toward a new type of strategic partnership for China and the World Bank Group. Let me elaborate from two fronts.

*One, shape our strategic partnership in a broader global context.* Looking forward, China and the WBG will need each other, not less but more than ever before. China will continuously need to leverage the WBG's knowledge and financing to establish a "dual circulation" development pattern and pursue its high-quality development. The WBG will also need to leverage China's development practice and experience to enrich its knowledge pool. In my view, the WBG would lose legitimacy and relevance in the eyes of many clients, if it were not able to address the development challenges faced by China, the largest developing country in the world. China, on the other side is willing to shoulder larger responsibility in the WBG, as its role is evolving from that of a borrower to a major shareholder, an emerging donor and an important source of knowledge on development. China will play an increasing role in global development through the delivery of public goods and its contribution to development thinking.

<sup>44</sup> Junhong Chang is the Executive Director for China at the World Bank Group. She assumed this position in August 2020 and has previously held a variety of senior positions in the Ministry of Finance, most recently as Deputy Director General.

*Two, innovate in the choice of areas and instruments of cooperation to enrich our strategic partnership.* Conventional areas and instruments are insufficient. As outlined in the WBG's FY20–25 Country Partnership Framework, our collaboration aims at advancing greener, equitable, and inclusive development and promoting market and institutional reforms. An appropriate level of lending is still necessary to achieve these objectives by supporting innovative pilot projects that can demonstrate new successful reforms. In addition, new forms of cooperation may be needed to take impacts to scale. These include cofinancing and multiparty cooperation, and new financing instruments, such as the issuance of green bonds and other credit enhancement methods. Finding ways to cooperate with limited financial resources but large-scale impacts would help the WBG's relationship with other middle-income countries as well.

Let me acknowledge that our partnership today faces some headwinds. Some WBG shareholders would like to see a faster decline in lending in the context of a constrained capital base. Others are uncomfortable with China's growing global role. As the essays in this volume testify, controversies, including political or geopolitical ones, are not new in our partnership. I am convinced that the record of effective cooperation in the past 40 years will help us overcome these obstacles, and I have confidence that working together, we can charter a new course of strategic partnership and usher in a brighter future.

## **VICTORIA KWAKWA:<sup>45</sup> LEARNING FROM 40 YEARS OF PARTNERSHIP: KEY TAKE-AWAYS**

The essays in this book offer a rich collection of personal memories and reflections on what is and will remain one of the world's most remarkable development experiences: China's transformation from a poor, largely rural, centrally planned but badly managed economy, to an industrial power house and the second largest economy globally, whose policies and actions have important consequences for the rest of the world. I want to share a few brief take-aways from my reading of these essays. But before I do that I want to pay tribute to all that have made the World Bank–China relationship over the past 40 years so special and to all the authors who have generously shared their stories with us and with a wider public in this book.

### *An evolving and adaptable partnership*

The essays clearly illustrate how the focus of World Bank's dialogue with China has shifted, and with it, how our partnership has evolved. It started from the early days in the 1980s when the World Bank was instrumental in reconnecting China with the outside world. The *Bashanlun* (Bashan Boat) conference described in Edwin Lim's essay stands out as an early manifestation of World Bank's role in facilitating discussion and bringing international experience to bear on some of the key reform challenges facing China. The Dalian conference related in the contributions of Javed Burki, Pieter Bottelier, and Nick Hope really motivated the macroeconomic reforms, the unification of the exchange rates, and introduced modern economic management. But these essays also illustrate how World Bank's operational program exploded during these years, with annual lending rising tenfold between the mid-1980s and the early 1990s. Javed's essay mentions the importance of international competitive bidding, introduced through

<sup>45</sup> Victoria Kwakwa is the Regional Vice President for East Asia and the Pacific at the World Bank. Prior to taking up this assignment, she was the Country Director for Vietnam and served in several other leadership positions in the World Bank.

World Bank-financed projects, in helping modernize China's own project management capabilities. By the 2000s, World Bank started to highlight and work on issues such as inequality and environmental degradation, the side-effects of China's fast economic growth. David Dollar's essay mentions the Loess Plateau project which has set an example for many other countries in managing the challenge of irrigated agriculture in semi-arid regions and in ensuring soil restoration and conservation with associated positive impacts on air quality through large-scale reforestation. Yukon Huang relates how infrastructure was leveraged to pull up lagging regions in China. In the last decade, the partnership has increasingly focused on China's global impact and role, and sharing China's knowledge including through the World Bank–China Partnership Facility.

World Bank's ability to adjust its program to changing circumstances has allowed it to remain relevant. The closing reflections from my colleagues Wang Zhongjing and Chang Junhong eloquently testify to the fact that China continues to look to the World Bank as a partner to address domestic reform challenges and development constraints and as a platform to help share China's experience with the rest of the world. At the same time, China's rising income means that World Bank's financial resources are less needed today than in the past and should be leveraged significantly in order to achieve impact at scale. Bert Hofman's essay describes well how the program consequently evolved in the mid-2010s from the focus on ring-fenced pilots and demonstration projects to include new instruments, such as program for results (PforR) loans, aimed at the most important development challenges—pollution control, poverty reduction, scaling up health reforms—and leveraging sizeable budget funds and social capital. This trend has continued with the new Country Partnership Framework FY20–25, which includes a strong focus on global public goods, with ongoing and planned new engagements to support China in accelerating the transition to a low carbon economy, in addressing marine plastics and water pollution, in improving food safety and stemming the risk of emerging infectious diseases, and in preserving its biodiversity and rich eco-systems. This shift is well aligned with China's own emphasis on the quality of growth. As a result, the China program is now undergoing yet another transformation, not less challenging than previous ones, but arguably as consequential and with rich lessons for both sides.

### ***A partnership built on trust and respect***

While our partnership has evolved, three elements have remained constant: mutual trust and respect, the willingness to learn from each other, and a commitment to finding practical solutions based on evidence and experimentation. As described in several contributions, on some occasions financial engagements were discontinued either because no agreement could be reached on priorities or on the application of World Bank rules. But our mutual trust and respect has carried us through these difficulties.

This does not mean that we can be complacent. The latest shift in our lending program toward global public goods remains a work in progress. We still need to build more support among local governments, who traditionally have been the main implementation partners for World Bank projects. We also need to remember the huge variation across China and adjust project designs to local conditions. And we need to make further progress in leveraging China's own budgetary resources to scale up impact across the country. Globally, there are a number of issues, from debt transparency, to the application of sound environmental and social practices in development finance, where more work is needed to build consensus between our two sides.

These issues will require us to nurture the mutual trust and respect built over the years and to maintain regular and frank dialogue to forge a strong partnership to move forward. In this regard, I want to highlight the role that World Bank staff and Ministry of Finance officials have played at critical junctures to

move our partnership forward. Without their efforts, courage and ingenuity, we would not be where we are today. The collective effort based on many individual connections and friendships is what made everything possible. I want to express by deepest thanks to all those—past and present—involved in this truly exciting journey.

***A partnership for global cooperation***

As we reflect on the enormous challenges facing our world today as result of the COVID-19 pandemic, we know our journey together must continue. It is clear that without a strong role of China in the global multilateral system, we cannot hope to deal with climate change, with the risk of future pandemics, or with the problems of debt and slow global economic growth facing so many of our client countries. It is also clear that China's weight makes its continued successful development toward high income and sustainability of key interest not just to Chinese citizens, but to all of us. The World Bank Group will continue to be dedicated to this cause.

Let me close with a Chinese idiom—*Ji Wang Kai Lai* [*“carry forward the cause pioneered by our predecessors and forge ahead into the future”*]. Let's build on our 40 years of experience and the many wise words from our speakers today, and let our partnership continue to flourish.











# BIOGRAPHICAL ANNEX

## Foreword

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### **Axel van Trotsenburg**

Axel van Trotsenburg is World Bank's Managing Director for Operations. Prior to that he served in various senior positions in the World Bank, including as Vice President for East Asia and the Pacific between 2014–2017, during which he oversaw a substantial increase in lending to China targeting greater climate action and key domestic reform challenges.



### **Zou Jiayi**

Zou Jiayi is the Vice Minister of Finance of the People's Republic of China since 2018. During 2009–2015, Zou was Director General of Ministry of Finance's Department of International Economic Relations and was promoted to Assistant Minister in 2015. Zou also served as Executive Director for China at the World Bank Group from 2005–2009; Alternate Chinese Executive Director from 1999–2000; and Adviser to Chinese Executive Director from 1996–1999.



## **Martin Raiser**

Martin Raiser is the Country Director for China and Mongolia, and Director for Korea at the World Bank. He took over his current position from Bert Hofman. Prior to coming to China, Martin Raiser worked as a Country Director in various regions of the World Bank and early during his career worked on economic transformation in Eastern Europe and the former Soviet Union at the European Bank for Reconstruction and Development.

## **Part 1: China World Bank Partnership Through the Decades**

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## **Caio Koch-Weser**

Caio Koch-Weser served as Personal Assistant to World Bank Group President Robert McNamara from 1977 to 1980 and the first Division Chief for China from 1980 to 1986. He was later appointed as Vice President and eventually Managing Director of the World Bank. In 1999, he returned to Germany to serve as Deputy Minister of Finance.



### **Edwin Lim**

Edwin Lim was World Bank's Lead Economist for China between 1980 and 1985 and the China Mission Chief in Beijing from 1985 to 1990. He later became the World Bank Director for India and Western Africa. In the mid-1990s, while on leave from the World Bank, he founded China's first international investment bank, China International Capital Corporation, and served as its CEO.



### **Javed Burki**

Javed Burki was the Country Director for China in the World Bank between 1987 and 1994 when he became Vice President for the Latin America Region. His relationship with China goes back to the 1960s when he researched agricultural production on behalf of the Pakistani government.



### **Pieter Bottelier**

Pieter Bottelier was the Chief of the World Bank Mission from 1993–1997. During his 28 years at the World Bank, he held numerous other positions such as Director for Latin America and North Africa and Senior Adviser to the Vice President for Asia during the Asian Financial Crisis. After his retirement from the World Bank, he taught courses on China's economy and reforms at various US universities for almost 20 years.



### **Nicholas Hope**

Nicholas Hope was the China Country Director at the World Bank from 1994 to 1997. Following his retirement from the World Bank in 2000, he was deputy director, then director of the Stanford Center for International Development, where he continued to maintain close links to China, including by hosting numerous Chinese government officials who conducted research on Chinese policy reform.



### **Yukon Huang**

Yukon Huang was World Bank's Country Director for China from 1997–2004 and earlier the World Bank's Director for Russia and the former Soviet Union Republics. He was the principal adviser for the joint Chinese Government–World Bank “China 2030” report. He is now a senior fellow at the Carnegie Endowment for International Peace, with research focuses on China's economy and its regional and global impact.



### **David Dollar**

David Dollar was the World Bank Country Director in China from 2004 to 2009. He held numerous other World Bank positions, including Director of Development Policy in the Development Economics Department. After leaving the World Bank, he became the US Treasury's Economic and Financial Emissary to China (2009-2013). Today, he is a Senior Fellow at the Brookings Institution focusing on China's economy and US–China economic relations.





### **Klaus Rohland**

Klaus Rohland was the World Bank Country Director for China and Mongolia, and Director for Korea from 2010 to 2014. He held numerous other positions in the World Bank previous to this appointment, including Country Director for Vietnam and Russia.



### **Bert Hofman**

Bert Hofman is the Director of the East Asia Institute, National University of Singapore. He was World Bank's Country Director for China, Mongolia, and Korea between 2014 and 2019.

## **Part 2: Chinese Reflections**

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### **Yang Shaolin**

Yang Shaolin is Managing Director at the World Bank. Prior to his current appointment he was Director General of the International Department in the Ministry of Finance and served as Executive Director on the World Bank Group Board between 2009–2013.



## Zhang Wencai

Zhang Wencai is the Vice President at the Agricultural Development Bank of China. He was the Director General of the Department of International Economic & Financial Cooperation of the Ministry of Finance until June 2020, and prior to that held a variety of senior positions in MOF, as well as International Financial Institutions, including as the Executive Director for China and Vice President at the Asian Development Bank.



## Chen Shixin

Chen Shixin was the Executive Director for China at the World Bank Board of Directors between 2013 and 2016. He previously held a variety of positions in China's Ministry of Finance, and is currently Vice President (Operations 1) at the Asian Development Bank in Manila



## Yang Yingming

Yang Yingming is currently Director General, Department of International Economic Relations, Ministry of Finance, China. He was a former Executive Director from June 2016 to July 2020 and Alternate Executive Director from August 2007 to August 2009 at the World Bank Group. He also served as Executive Director in the Asian Development Bank from September 2009 to October 2012.

## Concluding Remarks

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### **Wang Zhongjing**

Wang Zhongjing is the CEO of the Multilateral Center for Development Finance. He was, at the time of the conference celebrating 40 years of partnership, the Director General of Center for Evaluation of the World Bank Loan Projects.



### **Chang Junhong**

Chang Junhong is the Executive Director for China at the World Bank Group. She assumed this position in August 2020 and previously held a variety of senior positions in the Ministry of Finance, most recently as Deputy Director General.



### **Victoria Kwakwa**

Victoria Kwakwa is the Regional Vice President for East Asia and the Pacific at the World Bank. Prior to taking up this assignment, she was the Country Director for Vietnam and served in several other leadership positions in the World Bank.



# ANNEX LENDING PROJECTS

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
<b>1981</b>					
University Development	100.00	100.00	200.00	06/23/81	06/30/86
<b>Subtotal</b>	<b>100.00</b>	<b>100.00</b>	<b>200.00</b>		
<b>1982</b>					
North China Plain Agriculture		60.00	60.00	06/15/82	12/31/87
<b>Subtotal</b>		<b>60.00</b>	<b>60.00</b>		
<b>1983</b>					
Three Ports	124.00		124.00	11/02/82	06/30/88
Agricultural Education & Research		75.40	75.40	11/02/82	03/31/89
Industrial Credit	40.60	30.00	70.60	12/21/82	12/31/88
Petroleum (Daqing)	162.40		162.40	1/25/83	06/30/90
Petroleum (Zhongyuan-Weniu)	100.80		100.80	03/29/83	12/31/90
State Farms	35.30	45.00	80.30	04/19/83	03/31/89
<b>Subtotal</b>	<b>463.10</b>	<b>150.40</b>	<b>613.50</b>		
<b>1984</b>					
Polytechnic & TV University		85.00	85.00	09/13/83	06/30/92
Technical Cooperation		10.00	10.00	09/13/83	12/31/88
Rubber Development		100.00	100.00	11/29/83	12/31/90
Lubuge Hydroelectric	145.40		145.40	02/21/84	06/30/92
Railway I	220.00		220.00	03/27/84	12/31/90



Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Rural Credit I		50.00	50.00	04/24/84	06/30/89
Rural Health & Medical Education		85.00	85.00	05/08/84	12/31/91
Petroleum III (Karamay)	100.30		100.30	05/29/84	03/31/91
Industrial Credit II	105.00	70.00	175.00	06/05/84	06/30/90
Agricultural Education II	45.30	23.50	68.80	06/14/84	06/30/92
<b>Subtotal</b>	<b>616.00</b>	<b>423.50</b>	<b>1039.50</b>		
<b>1985</b>					
Agriculture Research II		25.00	25.00	09/11/84	06/30/92
Power II	117.00		117.00	02/19/85	06/30/92
University Development II		145.00	145.00	02/26/85	12/31/92
Changcun Coal Mining	126.00		126.00	03/14/85	12/31/93
Seeds		40.00	40.00	04/11/85	12/31/90
Rural Water Supply		80.00	80.00	04/11/85	12/31/91
Highway I	42.60	30.00	72.60	05/14/85	06/30/91
Railway II	235.00		235.00	05/14/85	06/30/94
Fertilizer Rehabilitation & Energy Saving	97.00		97.00	05/14/85	12/31/90
Forestry Development		47.30	47.30	06/11/85	12/31/91
Pishihang-Chaohu Area Development	17.00	75.00	92.00	06/11/85	06/30/92
Weiyuan Gas Technical Assistance	25.00		25.00	06/11/85	06/30/92
<b>Subtotal</b>	<b>659.60</b>	<b>442.30</b>	<b>1101.90</b>		

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
<b>1986</b>					
Rural Credit II		90.00	90.00	12/17/85	12/31/91
Industrial Credit III	75.00	25.00	100.00	03/04/86	06/30/91
Technical Cooperation Credit II		20.00	20.00	03/04/86	06/30/94
Provincial Universities		120.00	120.00	03/25/86	12/31/92
Railway III	160.00	70.00	230.00	04/15/86	06/30/95
Tianjin Port	130.00		130.00	05/06/86	10/31/94
Aquaculture Project		60.00	60.00	05/06/86	06/30/92
Beilungang Thermal Power	225.00		225.00	05/29/86	06/30/94
Yantan Hydroelectric	52.00		52.00	05/29/86	06/30/94
Liaodong Bay Petroleum Appraisal & Technical Assistance	30.00		30.00	05/29/86	12/31/89
Rural Health and Preventive Medicine	15.00	65.00	80.00	06/19/86	06/30/96
<b>Subtotal</b>	<b>687.00</b>	<b>450.00</b>	<b>1137.00</b>		
<b>1987</b>					
Red Soils		40.00	40.00	09/09/86	06/30/92
Shuikou Hydroelectric	140.00		140.00	01/06/87	06/30/93
Industrial Credit IV	250.00	50.00	300.00	03/03/87	06/30/93
Shanghai Machine Tool	100.00		100.00	03/03/87	12/31/93
Xinjiang Agricultural Development		70.00	70.00	03/03/87	12/31/94
Shanghai Sewerage	45.00	100.00	145.00	04/14/87	12/31/95
Beijing-Tianjin-Tanggu Expressway	25.00	125.00	150.00	05/12/87	12/31/95
Gansu Provincial Development	20.00	150.50	170.50	05/12/87	06/30/96

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Fertilizer Rationalization	97.40		97.40	06/16/87	06/30/94
Wujing Thermal Power	190.00		190.00	06/23/87	06/30/95
Planning Support & Special Study		20.70	20.70	06/30/87	12/31/94
<b>Subtotal</b>	<b>867.40</b>	<b>556.20</b>	<b>1423.60</b>		
<b>1988</b>					
Huangpu Port	63.00	25.00	88.00	10/06/87	12/31/94
Rural Credit III		170.00	170.00	01/26/88	06/30/94
Dalian Port	71.00	25.00	96.00	02/09/88	12/31/93
Northern Irrigation		103.00	103.00	03/22/88	12/31/97
Coastal Lands Development	40.00	60.00	100.00	03/29/88	06/30/94
Teacher Training		50.00	50.00	05/24/88	12/31/93
Pharmaceuticals	127.00		127.00	05/24/88	12/31/94
Sichuan Highway	75.00	50.00	125.00	06/09/88	12/31/96
Shaanxi Highway	50.00		50.00	06/09/88	12/31/94
Daxing An Ling Forestry		56.90	56.90	06/09/88	03/31/94
Beilungang II	165.00		165.00	06/14/88	06/30/95
Phosphate Development	62.70		62.70	06/15/88	12/31/95
Rural Sector Adjustment Loan	200.00	100.00	300.00	06/23/88	07/31/90
Railway IV	200.00		200.00	06/23/88	06/30/98
<b>Subtotal</b>	<b>1053.70</b>	<b>639.90</b>	<b>1693.60</b>		
<b>1989</b>					
Ningbo and Shanghai Ports	76.40		76.40	12/13/88	12/31/95

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Xiamen Port	36.00		36.00	12/13/88	03/31/95
Jiangxi Provincial Highway		61.00	61.00	02/07/89	12/31/95
Tianjin Light Industry	154.00		154.00	02/21/89	06/30/97
Shaanxi Agricultural Development		106.00	106.00	03/28/89	06/30/97
Textbook Development		57.00	57.00	04/18/89	06/30/95
Integrated Regional Health Development		52.00	52.00	05/02/89	12/31/97
Inner Mongolia Railway	70.00	80.00	150.00	05/12/89	12/31/96
Shandong Agricultural Development		109.00	109.00	05/16/89	12/31/94
Hubei Phosphate	137.00		137.00	05/23/89	03/31/97
Shandong Provincial Highway	60.00	50.00	110.00	05/25/89	06/30/97
Industrial Credit V	300.00		300.00	05/30/89	12/31/94
<b>Subtotal</b>	<b>833.40</b>	<b>515.00</b>	<b>1348.40</b>		
<b>1990</b>					
North China Earthquake Reconstruction		30.00	30.00	02/08/90	12/31/92
Jiangxi Agriculture Development		60.00	60.00	02/27/90	12/31/95
Vocational and Technological Education		50.00	50.00	03/27/90	12/31/96
National Afforestation		300.00	300.00	05/29/90	12/31/97
Hebei Agricultural Development		150.00	150.00	06/14/90	06/30/98
<b>Subtotal</b>		<b>590.00</b>	<b>590.00</b>		
<b>1991</b>					
Mid-Yangtze Agricultural Development		64.00	64.00	08/09/90	12/31/96
Rural Credit IV	75.00	200.00	275.00	10/30/90	12/31/96

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Rural Industrial Technology (Spark)	50.00	64.30	114.30	12/04/90	09/30/97
Medium Sized Cities Development	79.40	89.00	168.40	01/08/91	06/30/97
Shanghai Industrial Development	150.00		150.00	01/29/91	06/30/96
Key Studies Development		131.20	131.20	02/26/91	12/31/98
Liaoning Urban Infrastructure		77.80	77.80	03/21/91	03/31/97
Jiangsu Province Transport	100.00	53.60	153.60	04/09/91	06/30/96
Henan Agriculture Development		110.00	110.00	05/14/91	12/31/98
Irrigated Agriculture Intensification	147.10	187.90	335.00	06/04/91	03/31/98
<b>Subtotal</b>	<b>601.50</b>	<b>977.80</b>	<b>1579.30</b>		
<b>1992</b>					
Ertan Hydroelectric	380.00		380.00	07/02/91	12/31/96
Tarim Basin		125.00	125.00	08/29/91	12/31/97
Shanghai Metropolitan Transport		60.00	60.00	09/10/91	06/30/99
Railway V	330.00		330.00	09/24/91	12/31/98
Daguangba Multipurpose	30.00	37.00	67.00	10/31/91	12/31/98
Guangdong Agricultural Development		162.00	162.00	11/05/91	12/31/98
Beijing Environment	45.00	80.00	125.00	11/19/91	06/30/99
Infectious & Endemic Disease Control		129.60	129.60	12/12/91	06/30/02
Yanshi Thermal Power	180.00		180.00	01/14/92	12/31/97
Rural Water Supply and Sanitation		110.00	110.00	02/11/92	12/31/98
Education Development In Poor Provinces		130.00	130.00	03/10/92	12/31/99
Regional Cement Industry	82.70		82.70	03/17/92	12/31/97



Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Zouxian Thermal Power	310.00		310.00	04/21/92	06/30/99
Zhejiang Provincial Transport	220.00		220.00	05/19/92	06/30/00
Tianjin Urban Development and Environment		100.00	100.00	06/17/92	12/31/00
Ship Waste Disposal		15.00	15.00	06/17/92	06/30/97
<b>Subtotal</b>	<b>1577.70</b>	<b>948.60</b>	<b>2526.30</b>		
<b>1993</b>					
Sichuan Agricultural Development		147.00	147.00	07/07/92	04/30/00
Shuikou Hydroelectric II	100.00		100.00	09/01/92	12/31/97
Financial Sector Technical Assistance		60.00	60.00	09/29/92	09/30/02
Guandong Provincial Highway	240.00		240.00	11/17/92	06/30/00
Henan Highway	120.00		120.00	11/17/92	06/30/00
Reform Institutional Support and Preinvestment		50.00	50.00	12/15/92	12/31/03
Shanghai Port Restructure and Development	150.00		150.00	12/22/92	06/30/99
Changchun Water Supply and Environment		120.00	120.00	02/09/93	06/30/99
Agricultural Support Services		115.00	115.00	02/23/93	06/30/01
Taihu Basin Flood Control	100.00	100.00	200.00	02/23/93	12/31/01
Effective Teaching Services		100.00	100.00	03/16/93	12/31/99
Tianjin Industry II	150.00		150.00	03/16/93	06/30/00
Zhejiang Multi-cities Development		110.00	110.00	03/25/93	03/31/03
Railway VI	420.00		420.00	03/25/93	06/30/01
South Jiangsu Environmental Protection	250.00		250.00	03/25/93	06/30/01

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Tianhuangping Hydroelectric	300.00		300.00	05/18/93	06/30/02
Grain Distribution & Marketing	325.00	165.00	490.00	06/17/93	12/31/02
Environmental Technical Assistance		50.00	50.00	06/22/93	12/31/05
<b>Subtotal</b>	<b>2155.00</b>	<b>1017.00</b>	<b>3172.00</b>		
<b>1994</b>					
Rural Health Workers Development		110.00	110.00	08/03/93	03/31/01
Shanghai Metropolitan Transport II	150.00		150.00	10/14/93	12/31/00
Fujian Provincial Highways	140.00		140.00	12/14/93	12/31/03
Telecommunications	250.00		250.00	12/21/93	06/30/00
Second Red Soils Area Development		150.00	150.00	02/03/94	05/31/03
Songliao Plain Agriculture Development		205.00	205.00	02/24/94	06/30/02
Shanghai Environment	160.00		160.00	03/08/94	12/31/02
Sichuan Gas Development and Conservation	255.00		255.00	03/17/94	06/30/03
Yangzhou Thermal Power	350.00		350.00	03/22/94	12/31/02
Xiaolangdi Multipurpose	460.00		460.00	04/14/94	12/31/00
Xiaolangdi Resettlement		110.00	110.00	04/14/94	12/31/03
Loess Plateau Watershed Rehabilitation		150.00	150.00	05/26/94	12/31/05
Forest Resource Development and Protection		200.00	200.00	06/07/94	12/31/01
National Highway	380.00		380.00	06/07/94	06/30/00
<b>Subtotal</b>	<b>2145.00</b>	<b>925.00</b>	<b>3070.00</b>		

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
<b>1995</b>					
Enterprise Housing and Social Sector Reform	275.00	75.00	350.00	07/05/94	12/31/04
Liaoning Environment	110.00		110.00	07/26/94	12/31/03
Xinjiang Provincial Highways	150.00		150.00	08/30/94	12/31/00
Basic Education in Poor and Minority Areas		100.00	100.00	09/06/94	12/31/00
Shenyang Industrial Reform	175.00		175.00	09/06/94	06/30/03
Economic Law Reform		10.00	10.00	10/18/94	06/30/04
Comprehensive Maternal and Child Health		90.00	90.00	10/18/94	06/30/02
Zhejiang Power Development	400.00		400.00	02/28/95	12/31/03
Technology Development	200.00		200.00	02/28/95	12/31/02
Sichuan Transmission	270.00		270.00	02/28/95	01/31/04
Fiscal Technical Assistance	25.00	25.00	50.00	04/25/95	12/31/02
Yangtze Basin Water Resources	100.00	110.00	210.00	04/25/95	12/31/05
Railway VII	400.00		400.00	06/01/95	09/30/04
Southwest Poverty Reduction	47.50	200.00	247.50	06/15/95	12/31/05
Inland Waterways	210.00		210.00	06/20/95	06/30/01
Iodine Deficiency Disorders Control	7.00	20.00	27.00	06/28/95	12/31/00
<b>Subtotal</b>	<b>2369.50</b>	<b>630.00</b>	<b>2999.50</b>		
<b>1996</b>					
Shanghai-Zhejiang Highway	260.00		260.00	08/01/95	12/31/01
Ertan II Hydroelectric	400.00		400.00	08/22/95	12/31/01
Disease Prevention		100.00	100.00	12/12/95	06/30/04

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Labor Market Development	10.00	20.00	30.00	12/19/95	12/31/05
Hubei Urban Environment	125.00	25.00	150.00	12/19/95	04/30/05
Henan (Qinbei) Thermal Power	440.00		440.00	02/27/96	06/30/03
Third Basic Education		100.00	100.00	03/21/96	12/31/01
Second Shaanxi Provincial Highway	210.00		210.00	03/21/96	12/31/02
Second Shanghai Sewerage	250.00		250.00	03/21/96	06/30/04
Shanxi Poverty Reduction		100.00	100.00	03/26/96	12/31/03
Animal Feed	150.00		150.00	04/16/96	12/31/01
Second Henan Provincial Highway	210.00		210.00	05/30/96	12/31/04
Gansu Hexi Corridor	60.00	90.00	150.00	05/30/96	12/31/06
Chongqing Industrial Pollution Control	170.00		170.00	06/18/96	06/30/03
Seed Sector Commercialization	80.00	20.00	100.00	06/18/96	06/30/03
Yunnan Environment	125.00	25.00	150.00	06/25/96	12/31/04
<b>Subtotal</b>	<b>2490.00</b>	<b>480.00</b>	<b>2970.00</b>		
<b>1997</b>					
Vocational Education Reform	10.00	20.00	30.00	07/02/96	12/31/02
Xinjiang Highway II	300.00		300.00	10/10/96	12/31/03
Hunan Guangdong Highway	400.00		400.00	12/17/96	12/31/04
Heilongjiang Agricultural Development	120.00		120.00	05/13/97	06/30/04
Tuoketuo Thermal Power	400.00		400.00	05/27/97	12/31/05
Fourth Basic Education		85.00	85.00	05/27/97	09/30/03

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Wanjiashai Water Transfer	400.00		400.00	06/03/97	06/30/07
Qinba Mountains Poverty Reduction	30.00	150.00	180.00	06/10/97	12/31/04
National Rural Water III		70.00	70.00	06/23/97	12/31/06
Waigaoqiao Thermal Power	400.00		400.00	06/24/97	12/31/06
Xiaolangdi Multipurpose II	430.00		430.00	06/24/97	12/31/03
<b>Subtotal</b>	<b>2490.00</b>	<b>325.00</b>	<b>2815.00</b>		
<b>1998</b>					
Shandong Environment	95.00		95.00	10/28/97	12/31/05
Energy Conservation	63.00		63.00	03/26/98	06/30/06
East China (Jiangsu) Transmission	250.00		250.00	03/26/98	03/31/06
State Farms Commercialization	150.00		150.00	03/31/98	12/31/03
Basic Health Services		85.00	85.00	05/19/98	06/30/07
Sustainable Coastal Resources Development	100.00		100.00	05/19/98	12/31/06
Forestry Development in Poor Areas	100.00	100.00	200.00	05/21/98	01/01/06
Hebei Earthquake Reconstruction		28.40	28.40	05/28/98	12/31/00
Guangzhou City Center Transport	200.00		200.00	05/28/98	12/31/06
Inland Waterways II	123.00		123.00	05/28/98	12/31/06
National Highway III	250.00		250.00	05/28/98	12/31/04
Tarim Basin II	90.00	60.00	150.00	06/09/98	12/31/04
Guangxi Urban Environment	72.00	20.00	92.00	06/16/98	12/31/07
Hunan Power Development	300.00		300.00	06/18/98	12/31/05



Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Irrigated Agriculture Intensification II	300.00		300.00	06/18/98	06/30/05
Tri-Provincial Highway	230.00		230.00	06/23/98	06/30/07
<b>Subtotal</b>	<b>2323.00</b>	<b>293.40</b>	<b>2616.40</b>		
<b>1999</b>					
Anhui Provincial Highway	200.00		200.00	12/15/98	08/31/05
Anning Valley Agricultural Development	90.00	30.00	120.00	01/21/99	12/31/06
Yangtze Flood Emergency Rehabilitation	40.00	40.00	80.00	02/09/99	06/30/02
Accounting Reform and Development	27.40	5.60	33.00	02/23/99	12/31/07
Container Transport	71.00		71.00	03/16/99	06/30/05
Liaoning Urban Transport	150.00		150.00	03/30/99	12/31/05
Health IX	10.00	50.00	60.00	05/05/99	06/30/08
Technical Cooperation Credit IV	10.00	35.00	45.00	05/18/99	10/31/07
Higher Education Reform	20.00	50.00	70.00	05/18/99	09/30/05
Guanzhong Irrigation Improvement	80.00	20.00	100.00	05/25/99	06/30/06
Second Loess Plateau Watershed Rehabilitation	100.00	50.00	150.00	05/25/99	06/30/05
Fourth Rural Water Supply and Sanitation	16.00	30.00	46.00	06/03/99	12/31/06
Pension Reform		5.00	5.00	06/04/99	12/31/05
Renewable Energy	100.00		100.00	06/08/99	06/30/07
Fourth National Highway	350.00		350.00	06/17/99	06/30/06
Sichuan Urban Environment	150.00	2.00	152.00	06/17/99	01/31/07
Gansu and Inner Mongolia Poverty Reduction	60.00	100.00	160.00	06/24/99	06/30/06

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Fujian Highway II	200.00		200.00	06/24/99	06/30/07
Enterprise Reform		5.00	5.00	06/29/99	12/31/05
<b>Subtotal</b>	<b>1674.40</b>	<b>422.60</b>	<b>2097.00</b>		
<b>2000</b>					
Smallholder Cattle Development	93.50		93.50	12/22/99	12/31/05
Tongbai Pumped Storage	320.00		320.00	12/22/99	12/31/07
Guangxi Highway	200.00		200.00	03/28/00	06/30/07
Third Henan Highway	150.00		150.00	05/16/00	12/31/06
Chongqing Urban Environment	200.00		200.00	06/15/00	12/31/08
Beijing Environment II	349.00		349.00	06/20/00	03/31/09
Hebei Urban Environment	150.00		150.00	06/27/00	06/30/08
Yangtze Dike Strengthening	210.00		210.00	06/27/00	06/30/08
<b>Subtotal</b>	<b>1672.50</b>		<b>1672.50</b>		
<b>2001</b>					
Supplement Financial Sector Technical Assistance	8.00		8.00	08/01/00	
Water Conservation	74.00		74.00	12/19/00	06/30/06
Urumqi Urban Transport Improvement	100.00		100.00	12/19/00	12/31/07
Huai River Pollution Control	105.50		105.50	03/22/01	06/30/07
Shijiazhuang Urban Transport	100.00		100.00	03/27/01	12/31/08
Second Jiangxi Highway	200.00		200.00	06/05/01	12/31/06
Liao River Basin	100.00		100.00	06/19/01	12/31/07
Third Inland Waterways	100.00		100.00	06/21/01	12/31/07
<b>Subtotal</b>	<b>787.50</b>		<b>787.50</b>		

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
<b>2002</b>					
National Railway	160.00		160.00	01/29/02	12/31/07
Tuberculosis Control	104.00		104.00	03/21/02	03/15/10
Sustainable Forestry Development	93.90		93.90	04/16/02	08/31/09
Inner Mongolia Highway	100.00		100.00	06/06/02	03/31/08
<b>Subtotal</b>	<b>457.90</b>		<b>457.90</b>		
<b>2003</b>					
Third Xinjiang Highway	150.00		150.00	09/17/02	12/31/07
Hubei Xiaogan-Xiangfan Highway	250.00		250.00	09/05/02	12/31/07
Yixing Pumped Storage	145.00		145.00	03/20/03	12/31/10
Second Tianjin Urban Development and Environment	150.00		150.00	05/20/03	06/30/12
Shanghai Urban Environment	200.00		200.00	06/17/03	03/31/10
Anhui Provincial Highway II	250.00		250.00	06/24/03	06/30/09
<b>Subtotal</b>	<b>1145.00</b>		<b>1145.00</b>		
<b>2004</b>					
Basic Education in Western Areas	100.00		100.00	09/09/03	06/30/09
Gansu and Xinjiang Pastoral Development	66.27		66.27	09/09/03	06/30/10
Jiangxi Integrated Agricultural Modernization	100.00		100.00	11/20/03	06/30/10
Zhejiang Urban Environment	133.00		133.00	01/29/04	06/30/11
Wuhan Urban Transport	200.00		200.00	03/09/04	06/30/10
Fourth Inland Waterways	91.00		91.00	03/25/04	06/30/11
Guangdong Pearl River Delta Urban Environment	128.00		128.00	06/09/04	12/31/11

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Second National Railways	200.00		200.00	06/25/04	01/31/08
Hubei Shiman Highway	200.00		200.00	06/25/04	12/31/09
<b>Subtotal</b>	<b>1218.27</b>		<b>1218.27</b>		
<b>2005</b>					
Tai Basin Urban Environment	61.00		61.00	08/03/04	06/30/10
Hunan Urban Development	172.00		172.00	09/16/04	10/31/12
Inner Mongolia Transport and Trade Corridor	100.00		100.00	02/16/05	06/30/10
Ningbo Water and Environment Management	130.00		130.00	03/18/05	12/31/10
Agricultural Technology Transfer	100.00		100.00	04/28/05	12/31/10
Liuzhou Environment Management	100.00		100.00	05/25/05	06/30/11
Renewable Energy Scale-up Program	87.00		87.00	06/17/05	09/30/10
Poor Rural Communities Development	100.00		100.00	06/21/05	06/30/11
Chongqing Small Cities Infrastructure Improvement	180.00		180.00	06/21/05	06/30/12
<b>Subtotal</b>	<b>1030.00</b>		<b>1030.00</b>		
<b>2006</b>					
Shanghai Urban Environment APL Phase II	180.00		180.00	07/05/05	03/31/15
Irrigated Agriculture Intensification Loan III	200.00		200.00	10/11/05	12/31/10
Fifth Inland Waterways	100.00		100.00	10/11/05	06/30/11
Fuzhou Nantai Peri-Urban Development	100.00		100.00	12/15/05	05/31/13
Heilongjiang Dairy	100.00		100.00	01/24/06	12/31/11
Follow Up to Renewable Energy Scale-Up Program Phase I	86.33		86.33	02/07/06	09/30/10
Economic Reform Implementation	20.00		20.00	04/11/06	12/31/13

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Third Jiangxi Highway	200.00		200.00	06/27/06	12/31/10
Liaoning Medium Cities Infrastructure	218.00		218.00	06/27/06	10/31/13
Henan Towns Water Supply and Sanitation	150.00		150.00	06/27/06	06/30/13
Changjiang and Pearl River Watershed Rehabilitation	100.00		100.00	06/27/06	06/30/12
<b>Subtotal</b>	<b>1454.33</b>		<b>1454.33</b>		
<b>2007</b>					
Sichuan Urban Environment	180.00		180.00	09/07/06	12/31/13
Fujian Highway Sector Investment	320.00		320.00	10/12/06	06/30/15
Guangxi Integrated Forestry Development and Conservation	100.00		100.00	12/14/06	12/31/12
Third National Railway	200.00		200.00	01/23/07	06/30/13
Second Shandong Environment	147.00		147.00	02/27/07	12/31/13
Shaanxi Ankang Road Development	300.00		300.00	03/13/07	06/30/12
Second Guangdong Pearl River Delta Urban Environment	96.00		96.00	03/21/07	12/31/13
Micro and Small Enterprise Finance	100.00		100.00	06/19/07	06/30/11
Second Liaoning Medium Cities Infrastructure	173.00		173.00	06/26/07	12/31/13
Western Provinces Rural Water Supply, Sanitation and Hygiene Promotion	25.00		25.00	06/26/07	09/30/12
<b>Subtotal</b>	<b>1641.00</b>		<b>1641.00</b>		
<b>2008</b>					
Guiyang Transport	100.00		100.00	01/08/08	12/31/13
Bengbu Integrated Environment Improvement	100.00		100.00	03/11/08	06/30/15
Gansu Cultural and Natural Heritage Protection and Development	38.40		38.40	03/20/08	12/31/13
Anhui Highway Rehabilitation and Improvement	200.00		200.00	04/22/08	06/30/12

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Han River Urban Environment Improvement	84.00		84.00	04/29/08	06/30/15
Energy Efficiency Financing	200.00		200.00	05/27/08	12/31/16
Shandong Flue Gas Desulfurization	50.00		50.00	05/27/08	06/30/12
Liaoning Third Medium Cities Infrastructure	191.00		191.00	05/27/08	06/30/16
Rural Health	50.00		50.00	06/24/08	12/31/14
Rural Migrant Skills Development and Employment	50.00		50.00	06/24/08	02/28/15
Xi'an Sustainable Urban Transport	150.00		150.00	06/24/08	03/31/17
ShiZheng Railway	300.00		300.00	06/24/08	11/30/15
<b>Subtotal</b>	<b>1513.40</b>		<b>1513.40</b>		
<b>2009</b>					
Jiangxi Shihutang Navigation and Hydropower Complex	100.00		100.00	09/25/08	06/30/14
Eco-Farming	120.00		120.00	12/02/08	06/30/14
Wenchuan Earthquake Recovery	710.00		710.00	02/12/09	05/31/16
Hubei Yiba Highway	150.00		150.00	03/31/09	12/31/15
GuiGuang Railway	300.00		300.00	04/16/09	12/31/15
Guizhou Cultural and Natural Heritage Protection and Development	60.00		60.00	05/05/09	06/30/17
Yunnan Urban Environmental	90.00		90.00	05/05/09	06/30/16
Coal Bed Methane Development and Utilization	80.00		80.00	05/19/09	06/30/17
Jiangsu Water and Wastewater	130.00		130.00	06/02/09	12/31/15
Xining Flood and Watershed Management	100.00		100.00	06/02/09	12/31/15
Technical and Vocational Education and Training	20.00		20.00	06/02/09	12/31/14



Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
NanGuang Railway	300.00		300.00	06/24/09	12/31/14
Shanghai Urban Environment APL Phase III	200.00		200.00	06/25/09	06/30/17
<b>Subtotal</b>	<b>2360.00</b>		<b>2360.00</b>		
<b>2010</b>					
Ningbo New Countryside Development	50.00		50.00	02/25/10	03/31/16
Wuhan Second Urban Transport	100.00		100.00	03/30/10	12/31/15
Shandong Ecological Afforestation	60.00		60.00	05/06/10	07/31/16
Jilin Agricultural Product Safety and Quality	100.00		100.00	05/13/10	06/30/17
Ningxia Highway	250.00		250.00	05/13/10	06/30/15
Anhui Medium Cities Urban Transport	100.00		100.00	05/20/10	12/31/17
Henan Ecological Livestock	80.00		80.00	05/27/10	12/31/15
Liaoning and Shandong Technical and Vocational Education and Training	40.00		40.00	06/01/10	12/31/15
Nanning Urban Environment	100.00		100.00	06/01/10	12/31/15
Chongqing Urban-Rural Integration	84.00		84.00	06/03/10	06/30/17
Taiyuan Urban Transport	150.00		150.00	06/10/10	07/15/14
Sustainable Development in Poor Rural Areas	100.00		100.00	06/10/10	12/31/15
Xinjiang Turfan Water Conservation	100.00		100.00	06/17/10	03/31/17
Energy Efficiency Financing II	100.00		100.00	06/22/10	12/31/16
<b>Subtotal</b>	<b>1414.00</b>		<b>1414.00</b>		
<b>2011</b>					
Integrated Forestry Development	100.00		100.00	07/06/10	12/31/16
Huai River Basin Flood Management and Drainage Improvement	200.00		200.00	07/06/10	12/31/16

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Yunnan Urban Environment-Phase II Additional Financing	60.00		60.00	07/06/10	04/30/17
Zhejiang Qiantang River Basin Small Town Environment	100.00		100.00	01/20/11	12/31/16
Liuzhou Environment Management Phase II	150.00		150.00	03/10/11	05/31/18
Anhui Shaying River Channel Improvement	100.00		100.00	04/12/11	12/31/17
Sichuan Small Towns Development	100.00		100.00	05/10/11	12/31/16
Kunming Urban Rail	300.00		300.00	05/10/11	06/30/18
Urumqi District Heating	100.00		100.00	05/17/11	12/31/15
Fujian Highway Sector Investment Additional Financing	50.00		50.00	05/19/11	06/30/15
Shandong Confucius and Mencius Culture Heritage Conservation and Development	50.00		50.00	05/24/11	12/31/16
Bayannaoer Water Comprehensive Environment Management	80.00		80.00	05/24/11	12/31/18
JiTuHun Railway	200.00		200.00	05/24/11	12/31/16
Shandong Energy Efficiency	150.00		150.00	06/09/11	03/31/18
<b>Subtotal</b>	<b>1740.00</b>		<b>1740.00</b>		
<b>2012</b>					
China Energy Efficiency Financing III	100.00		100.00	10/27/11	12/31/16
Sichuan Wudu Irrigated Agriculture Development	100.00		100.00	02/28/12	10/31/19
ZhangHu Railway	200.00		200.00	03/15/12	06/30/20
Changzhi Sustainable Urban Transport	100.00		100.00	03/22/12	12/31/17
Hubei Xiangyang Urban Transport	100.00		100.00	04/26/12	01/31/19
Water Conservation Project II	80.00		80.00	05/10/12	06/30/17
Yunnan Technical and Vocational Education and Training	50.00		50.00	05/15/12	12/31/17

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Ningxia Desertification Control and Ecological Protection	80.00		80.00	05/17/12	01/31/20
Integrated Economic Development of Small Towns	150.00		150.00	05/24/12	12/31/18
Xinjiang Yining Urban Transport Improvement	100.00		100.00	05/29/12	12/31/17
Gansu Qingyang Urban Infrastructure Improvement	100.00		100.00	05/31/12	11/30/19
Chongqing Urban Rural Integration Project II-Health	100.00		100.00	06/14/12	08/31/20
<b>Subtotal</b>	<b>1260.00</b>		<b>1260.00</b>		
<b>2013</b>					
Hunan Forest Restoration and Development	80.00		80.00	01/17/13	03/31/19
Fujian Meizhou Bay Navigation Improvement	50.00		50.00	02/28/13	06/30/19
Jiangxi Wuxikou Integrated Flood Management	100.00		100.00	03/20/13	06/30/20
Liaoning Coastal Economic Zone Urban Infrastructure and Environmental Management	150.00		150.00	03/20/13	09/30/19
Beijing Rooftop Solar Photovoltaic Scale-Up (Sunshine Schools)	120.00		120.00	03/20/13	12/31/19
Jiangxi Shangrao Sanqingshan Airport	50.00		50.00	05/13/13	12/31/18
Guangxi Laibin Water Environment	80.00		80.00	05/31/13	01/31/20
Ningbo Municipal Solid Waste Minimization and Recycling	80.00		80.00	05/31/13	03/31/20
Ma'anshan Cihu River Basin Improvement	100.00		100.00	06/04/13	07/31/20
Nanchang Urban Rail	250.00		250.00	06/20/13	12/31/19
Anhui Xuancheng Infrastructure for Industry Relocation	150.00		150.00	06/20/13	08/31/20
Guangdong Social Security Integration and Rural Worker Training	80.00		80.00	06/20/13	10/31/20
<b>Subtotal</b>	<b>1540.00</b>		<b>1540.00</b>		
<b>2014</b>					
Integrated Modern Agriculture Development	200.00		200.00	12/27/13	12/31/20

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Guangdong Agricultural Pollution Control	100.00		100.00	12/27/13	
Yellow Mountain New Countryside Demonstration	100.00		100.00	12/27/13	06/30/20
Qinghai Xining Urban Transport	120.00		120.00	12/27/13	
Guiyang Rural Roads	150.00		150.00	03/06/14	12/31/20
Heilongjiang Cold Weather Smart Public Transport System	200.00		200.00	03/28/14	
HaJia Railway	300.00		300.00	03/28/14	12/31/20
Shanxi Gas Utilization	100.00		100.00	03/28/14	
Jiaozuo Green Transport and Safety Improvement	100.00		100.00	05/15/14	
Yunnan Honghe Prefecture Diannan Center Urban Transport	150.00		150.00	05/15/14	
Economic Transformation and Institutional Capacity Building	35.00		35.00	05/22/14	
Fujian Fishing Ports	60.00		60.00	06/03/14	
<b>Subtotal</b>	<b>1615.00</b>		<b>1615.00</b>		
<b>2015</b>					
Qinghai Xining Water Environment Management	150.00		150.00	09/25/14	
Shaani Small Towns Infrastructure	150.00		150.00	09/25/14	12/31/20
Zhejiang Rural Water Supply and Sanitation	200.00		200.00	09/25/14	
Guizhou Rural Development	100.00		100.00	09/30/14	
Zhengzhou Urban Rail	250.00		250.00	12/23/14	
Chongqing Small Towns Water Environment	100.00		100.00	12/23/14	
Guilin Integrated Environment Management	100.00		100.00	02/02/15	
Hebei Rural Renewable Energy Development	71.50		71.50	03/13/15	

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Sichuan Chongqing Cooperation: Guang'an Demonstration Area Infrastructure Development	100.00		100.00	03/16/15	
Gansu Rural-Urban Integration	150.00		150.00	03/31/15	
Yunnan Highway Asset Management	150.00		150.00	03/31/15	
Huainan Mining Area Rehabilitation	100.00		100.00	05/11/15	
Xinjiang Technical and Vocational Education and Training	50.00		50.00	05/29/15	04/30/20
Poverty Alleviation and Agriculture-based Industry Pilot and Demonstration in Poor Areas	150.00		150.00	06/23/15	
<b>Subtotal</b>	<b>1821.50</b>		<b>1821.50</b>		
<b>2016</b>					
Guizhou Tongren Rural Transport	150.00		150.00	09/25/15	
Tianjin Urban Transport Improvement	100.00		100.00	12/21/15	
Urumqi Urban Transport II	140.00		140.00	12/21/15	
Hebei Clean Heating	100.00		100.00	01/19/16	
Hubei Jingzhou Historic Town Conservation	100.00		100.00	01/19/16	
Wuhan Integrated Transport Development	120.00		120.00	02/26/16	
Innovative Financing for Air Pollution Control in Jing-Jin-Ji	500.00		500.00	03/22/16	
Zhuzhou Brownfield Remediation	150.00		150.00	03/31/16	
Hubei Xiaogan Logistics Infrastructure	100.00		100.00	04/29/16	
Building a Modern Fiscal System Technical Assistance	22.00		22.00	04/29/16	
Hebei Air Pollution Prevention and Control Program	500.00		500.00	06/06/16	12/31/19
<b>Subtotal</b>	<b>1982.00</b>		<b>1982.00</b>		
<b>2017</b>					
Ningbo Sustainable Urbanization	150.00		150.00	07/15/16	
Lushan Earthquake Reconstruction and Risk Reduction	300.00		300.00	10/13/16	

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Yunnan Early Childhood Education Innovation	50.00		50.00	12/09/16	
Guangxi Rural Poverty Alleviation Pilot	100.00		100.00	12/21/16	
Hunan Fiscal Sustainability Development Policy Financing	200.00		200.00	01/10/17	12/31/17
Chongqing-Dadukou District Fiscal Sustainability Development Policy Financing	200.00		200.00	01/10/17	12/31/17
Shaanxi Poor Rural Areas Community Development	100.00		100.00	02/09/17	
Anhui Road Maintenance Innovation and Demonstration	150.00		150.00	02/21/17	
Second Gansu Cultural and Natural Heritage Protection and Development	100.00		100.00	02/24/17	
Poyang Lake Basin Town Water Environment Management	150.00		150.00	03/16/17	
Gansu Technical and Vocational Education and Training	120.00		120.00	03/31/17	
Health Reform Program-for-Results	600.00		600.00	05/09/17	
Three Gorges Modern Logistics Center	200.00		200.00	06/30/17	
<b>Subtotal</b>	<b>2420.00</b>		<b>2420.00</b>		
<b>2018</b>					
Hunan Integrated Management of Agricultural Land Pollution	100.00		100.00	08/22/17	
Guangdong Compulsory Education	120.00		120.00	10/31/17	
Jiangxi Farm Produce Distribution System Development	150.00		150.00	12/15/17	
Hubei Inland Waterway Improvement	150.00		150.00	05/08/18	
Zhejiang Qiandao Lake and Xin'an River Basin Water Resources and Ecological Environment Protection	150.00		150.00	06/06/18	
Jiangxi Integrated Rural and Urban Water Supply and Wastewater Management	200.00		200.00	06/06/18	
Liaoning Safe and Sustainable Urban Water Supply	250.00		250.00	06/06/18	
Hezhou Urban Water Infrastructure and Environment Improvement	150.00		150.00	06/13/18	



Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
Anhui Aged Care System Demonstration	118.00		118.00	06/19/18	
Guangxi Poverty Reduction Program-for-Results	400.00		400.00	06/22/18	
<b>Subtotal</b>	<b>1788.00</b>		<b>1788.00</b>		
<b>2019</b>					
Anhui Rural Road Resilience P for R	200.00		200.00	09/27/18	
Guizhou Aged Care System Development	350.00		350.00	03/21/19	
Green Urban Financing and Innovation	200.00		200.00	05/21/19	
Shaanxi Sustainable Towns Development	100.00		100.00	05/28/19	
Gansu Revitalization and Innovation	180.00		180.00	06/04/19	
China Renewable Energy and Battery Storage Promotion	300.00		300.00	06/11/19	
<b>Subtotal</b>	<b>1330.00</b>		<b>1330.00</b>		
<b>2020</b>					
Forest Ecosystem Improvement in the Upper Reaches of Yangzi River Basin Program	150.00		150.00	12/19/19	
Sichuan Water Supply and Sanitation PPP Project	100.00		100.00	03/03/20	
Henan Green Agriculture Fund Project	300.00		300.00	03/26/20	
Hubei Smart and Sustainable Agriculture Project	150.00		150.00	05/21/20	
China: Jiangxi Eco-industrial Parks Project	200.00		200.00	06/18/20	
Emerging Infectious Diseases Prevention, Preparedness and Response Project	300.00		300.00	06/18/20	
<b>Subtotal</b>	<b>1200.00</b>		<b>1200.00</b>		
<b>Grand Total</b>	<b>54496.70</b>	<b>9946.70</b>	<b>64443.40</b>		

Project Name	Unit: US\$ million			Approval Date	Closing Date
	IBRD	IDA	Total		
<b>Partial Guarantees:</b>					
94 Yangzhou Thermal Power	\$90m plus \$30m equivalent in Japanese Yen				
95 Zhejiang Power Development	\$100m plus \$50m equivalent in Japanese Yen				
96 Ertan II Hydroelectric	\$100m plus \$50m equivalent in DM				
<b>Emergency Programs:</b>					
1997 Earthquake Reconstruction			\$ 67.3m		
2001 Snowstorm Emergency Recovery			\$10.2m		
2003 SARS & Infectious Diseases Response			\$11.5m		
<b>Note:</b>					
1. The amounts of loans & credits of the projects are based on commitments.					
2. All the emergency programs are financed through a reallocation, using savings from other projects.					

# ANNEX KNOWLEDGE PROJECTS

Reports
<b>1982</b>
China: Shanghai Sector Study
China: Rural Finance: a Sector Study
<b>1983</b>
China: Socialist Economic Development (in three volumes)
China: Recent Economic Trends and Policy Development
<b>1984</b>
China: The Health Sector
China: Transport Sector Paper
<b>1985</b>
China: Long-term Development Issues and Options (with six annexes on education, agriculture, energy, economic model, economic structure, and transportation)
<b>1986</b>
China: Growth and Development in Gansu Province
China: Management and Finance of Higher Education
<b>1987</b>
China's Industrial Reform
China: Zhejiang: Challenges of Rapid Urbanization
China: Technical & Vocational Education for China's Development
China: Textbook Development
China: The Livestock Sector
China: Cement Machinery Manufacturing Subsector Study
China: Water Transport Sector Study
<b>1988</b>
Rural Reform, Nonfarm Development, and Rural Modernization in China
China: External Trade and Capital
China: Finance and Investment

## Reports

China: Economic Prices for Project Evaluation

China: East China Power Pricing Study

### 1989

China: Enterprises Management Reform : Issues and Options

China: Coal Pricing Study

China: Rural Industry: Overview, Issues, and Prospects

### 1990

China's Rural Industry: Structure, Development and Reform

China: Macro-Economic Stability and Industrial Growth Under Decentralized Socialism

China: Between Plan and Market

China: Reforming Social Security in a Socialist Economy

China: Revenue Mobilization and Tax Policy Development

China: Financial Sector Policies and Institutional Development

China: Electronics Sector Report

China: Industrial policies for an Economy in Transition

### 1991

China: Provincial Development in Hainan

China: Economic Development in Jiangsu Province

China: Provincial Education Planning and Finance (in two volumes)

China: Efficiency and Environmental Impact of Coal Use

China: Reforming Intergovernmental Fiscal Relations

China: Managing an Agricultural Transformation - Grain Sector Review

China: Options for Reform in the Grain Sector

China: Guangdong Province Comprehensive Transport Study (in two volumes)

### 1992

Chinese Industrial Firms under Reform

Case Studies of Chinese Economic Reform

China: Reform and the Role of the Plan in 1990s

China: Statistical System in Transition

China: Implementation Options for Urban Housing Reform

China: Reforming the Urban Employment and Wage System

China: Strategies for Reducing Poverty in the 1990s

China: Environmental Strategy Paper (in two volumes)

## Reports

China: Industrial Restructuring: a Tale of Three Cities

China: Telecommunications Sector Study: Survey, Assessment, and Strategy Recommendations

China: Railway Investment Study

China: Long-Term Issues and Options in the Health Transition (in two volumes)

### 1993

China: Managing Rapid Growth and Transition

China: The Achievement and Challenge of Price Reform

China: Urban Land Management in an Emerging Market Economy

China: New Skill for Economic Development - The Employment and Training Implication of Enterprise Reform

China: Involuntary Resettlement

China: Internal Market development and Regulation

China: Budgetary Policy and Intergovernmental Fiscal Relations (in two volumes)

China: Animal Feed Sector Study

China: Energy Conservation Study

China: Machine Tool Sector Report

China: Industrial Organization and Efficiency Case Study: the Automotive Sector

China's Railway Strategy

China: Southeast Coastal Region: Strategic Issues in Ports and Shipping Development

### 1994

China: GNP per Capital

China: Foreign Trade Reform

China: Financial Sector Reforms: Current Status and Issues

China: Impact evaluation Report: North China Plain Agriculture Project (Credit 1261-CHA)

China: Agro-industrial Crop Marketing

China: Power Sector Reform: Toward Competition and Improved Performance

China: Highway Development and Management Issues, Options, and Strategies

### 1995

China: Macroeconomic Stability in a Decentralized Economy

China: Urban Environmental Service Management

China: The Emerging Capital Market (in two volumes)

China: Public Investment and Finance

China: Investment Strategies for China's Coal and Electricity Delivery System

China: Strategies for Road Freight Development

## Reports

### 1996

China: Container Transport Services and Trade: Framework for an Efficient Container Transport System

The Chinese Economy: Fighting Inflation, Deepening Reform

China: Reform of State-Owned Enterprises

China: Higher Education Reform

China: Fruit and Vegetable Marketing Performance

China: Renewable Energy for Electric Power

### 1997

China's Management of Enterprise Assets : the State as Shareholder

China 2020: Development Challenges in the New Century

China 2020: Sharing Rising Incomes: Disparities in China

China 2020: China Engaged: Integration with the Global Economy

China 2020: Old Age Security: Pension System Reform in China

China 2020: Financing Health Care: Issues and Options in China

China 2020: Clear Water, Blue Skies: China's Environment in the New Century

China 2020: At China's Table: Food Security Options

### 1998

China: Forward with One Spirit: a Strategy for the Transport Sector

### 1999

Enterprise Reform in China: Ownership, Transition, and Performance

Accelerating China's Rural Transformation

China: Weathering the Storm and Learning the Lessons

Strategic Goals for Chinese Education in the 21st Century

Rural China: Transition and Development

Transport in China: an Evaluation of World Bank Assistance

### 2000

Roads Improvement for Poverty Alleviation in China

Workshop on China's Urbanization Strategy Opportunities, Issues & Policy Options

Cultural Heritage Management and Urban Development: Challenge and Opportunity:  
International Conference Proceedings

China's Emerging Private Enterprises: Prospects for the New Century

China: Managing Public Expenditures for Better Results



## Reports

### 2001

Shanghai International Urban Environment and Sustainable Development Conference Proceedings

Bankruptcy of State Enterprises in China: a Case and Agenda for Reforming the Insolvency System

China and the Knowledge Economy: Seizing the 21st Century

China: Air, Land, and Water: Environmental Priorities for a New Millennium

China: Overcoming Rural Poverty

China: Agenda for Water Sector Strategy for North China

Modernizing China's Oil and Gas Sector Structure Reform and Regulation

Workshop Summary - China Oil and Gas Sector Regulatory Reform

### 2002

International Forum on Chinese Forestry Policy

Corporate Governance and Enterprise Reform in China: Building the Institutions of Modern Markets

China Country Gender Review

China: National Development and Sub-National Finance : a Review of Provincial Expenditures

Implementing the Natural Forest Protection Program and the Sloping Land Conversion Program: Lessons and Policy Recommendations

China: Economic Regulation of Long-Distance Transmission

Streamlining and Advancing Power Sector Reforms in China

Establishment of a State Electricity Regulatory Commission in China a Suggested 'Roadmap'

### 2003

Improving City Competitiveness through the Investment Climate: Ranking 23 Chinese Cities

Developing Institutional Investors in the People's Republic of China

China Country Economic Memorandum: Promoting Growth with Equity

Management of China's State-Owned Enterprises Portfolio: Lessons from International Experience

Participatory Irrigation Management by Farmers: Local Incentives for Self-Financing Irrigation and Drainage Districts in China

Private Participation in Infrastructure in China: Issues and Recommendations for the Road, Water, and Power Sectors

Exercising Ownership Rights in State Owned Enterprise Groups: What China Can Learn from International Experience

Improving the Investment Climate in China

Heat Metering and Billing: Technical Options, Policies and Regulations--Chinese Demonstration Projects and International Experiences

Workshop Summary for China's Downstream Gas Sector Regulatory Framework

### 2004

Investment Climate for Small and Medium Enterprises in Southwest China

China: An Evaluation of World Bank Assistance

## Reports

China and the WTO: Accession, Policy Reform, and Poverty Reduction Strategies

Clean Development Mechanism in China

Study on Korea's Corporate Bond Market and Its Implications on China's Bond Market Development

### 2005

China: Integration of National Products and Factor Markets: Economic Benefits and Policy Recommendations

China: Deepening Public Service Unit Reform to Improve Service Delivery

China's Tax Rules for Not-for-Profit Organizations

### 2006

Evaluation of Liaoning Social Security Pilot

Implementation Guidelines for Poverty and Environment Work in Southwest China

Integrated Village Poverty Reduction Planning and Ecological Environment Protection

Environmental Concerns in Poverty Alleviation Projects - the Guidebook for Poverty Reduction Staff

Guide Book of Integrating Environment Consideration into Poverty Alleviation Program

An Assessment of Development and Environment Linkage in Village Based Integrated Poverty Alleviation Project in Yunan Province, P.R.China

Foreign Capital Utilization in China: Prospects and Future Strategy

Building Institutions for Sustainable Urban Transport

Waste Management in China: Issues and Recommendations

China - Farmers Professional Associations: Review and Policy Recommendations

China's Compliance with food Safety Requirements for Fruits and Vegetables

Revitalizing the Northeast Towards A Development Strategy

Facilitating Investment and Innovation: A Market-Oriented Approach to Northeast Revitalization

SOE Dividends: How Much and to Whom?

### 2007

Enhancing China's Competitiveness through Lifelong Learning

China's Information Revolution: Managing the Economic and Social Transformation

Sustainable Energy in China: The Closing Window of Opportunity

China: Research Report on Gender Gaps and Poverty Reduction

Study of Capacity Building of the Electricity Regulatory Agency (SERC), P.R. china

Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120 Cities in China

China - Farmers Professional Associations: Review and Policy Recommendations

China's Development Priorities

North China Water Quality Management Study: Summary Report

China: Managing the Economic Interfaces in Multi-operator Railway Environments

China Water Quality Management: Policy and Institutional Considerations

## Reports

### 2008

China: Public Services for Building the New Socialist Countryside

China urbanizes : consequences, strategies, and policies

Financing energy efficiency : lessons from Brazil, China, India, and beyond

Public finance in China : reform and growth for a harmonious society

### 2009

Outsourcing Social Services to CSOs: Lessons from Abroad

Mechanism to Benefit Local Communities for Natural Resources Exploitation in Minority Areas in China

China Road Traffic Safety

Tracks from the Past, Transport for the Future: China's Railway Industry 1990-2008 and its Future Plans and Possibilities

Chongqing Urban-Rural Linkages Study

Urban Rail Development in China: Prospects, Issues and Options

Public Services in Rural Areas

Food Safety in China

Sustainable Development of Inland Waterway Transport in China

Sino-Singapore Tianjin Eco-City

Improving the Market Borrowing Practices of Urban Development Investment Corporations

Clean Development Mechanism in China: Five Years of Experience (2004-2009)

Meeting the unprecedented challenge for wind power scale-up in China: Strategic guidance for offshore and large scale wind power

Strengthening China's Environmental Protection Administrative System: Analysis and Recommendations

National Investment Policy for Railway Construction

Forest Policy--Deepening the Transition, Broadening the Relationship

Developing a circular economy in China : highlights and recommendations

Labor Mobility Provisions in Regional Trade Agreements: Lessons for China

Environment Provisions in Regional Trade Agreements: Lessons for China

Competition Provisions in Regional Trade Agreements: Lessons for China

Issues Paper: Tourism and Economic Stimulus in China

Growth through Innovation - An Industrial Strategy for Shanghai An Industrial Strategy for Shanghai

Promoting Enterprise-Led Innovation in China

From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda

Mid-Term Evaluation of the implementation of China's 11th Five Year Plan

Addressing China's Water Scarcity: Recommendations for Selected Water Resource Management Issues

Economically, socially, and environmentally sustainable coal mining sector in China

## Reports

Water Supply Pricing in China: Economic Efficiency, Environment, and Social Affordability

China and the World Bank: A Partnership for Innovation

### 2010

Access to Finance FY10

Adapting Agricultural Production System to Climate Change

China ROSC Accounting and Auditing Review

Compulsory Education for Migrant Children in Guangdong

Energy Intensity Strategy

Forest Policy Dialogue

Health Policy Notes

Macro-Fiscal Policy Notes

Market-Based Railway Pricing Policies

Policy Notes on Higher Education

Rural Compulsory Education Reform (formerly Promoting Basis Education)

Reforming China's Rural Health System

Rural Pension and SSN

Rural to Urban Migration Social Policies

Social Assistance in Rural China: Tackling Poverty Through Rural Dibao

SOE Dividend Policy

### 2011

Access to Finance FY11

China PSD Program

Early Childhood Development

Ensuring Financial Stability FY 10

FSAP China

Integrated Flood Risk Management: Key Lessons

Land Transfer and Registration TA

Local Government Finance and Debt

Macro-Fiscal Policy Notes FY11

Ningbo: China Climate Resilient City Program

Non-Communicable Diseases TA

Policy and Institutional Reforms for the 12th Five Year Plan

Reaping Benefits of FDI in Shanghai

Rural Wastewater Management Study

## Reports

Study on State-owned Financial Assets Administration System in China

Water Pricing & Water User Associations Sustainability

### 2012

China's Challenge: Building a Modern, Harmonious, and Creative High-income Society (China 2030)

Country Water Resources Partnership Strategy

Design of Water Consumption-based Water Rights Administration System for Turpan Prefecture

Development Impacts of Climate-Induced Changes in China's Water Resources

Economic, Financial, and Commercial Review of Urban Water Supply Utilities

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Water and Wastewater Sector from Middle Income Country to High Income Country

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Heat Regulation Phase II

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Sustainable Financing Mechanism for Small Town Infrastructure Development

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Options for Aged Care in China

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