UK 2351-CHA.

Document of

The World Bank

FOR OFFICIAL USE ONLY

Report No. P-5950-CHA

MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A PROPOSED CREDIT

OF SDR 79.3 MILLION

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR A

RURAL HEALTH WORKERS DEVELOPMENT PROJECT

July 12, 1993

CURRENCY EQUIVALENTS
(as of February 28, 1993)

Currency Name	= Renminbi (RMB)
Currency Unit	= Yuan (Y)
US$1.00	= Y 5.74
Y 1.00	= US$0.174

WEIGHTS AND MEASURES

1 square meter (m^2)	= 1.2 square yards
1 kilometer (km)	= 0.62 miles

ABBREVIATIONS AND ACRONYMS

CEM	-	Country Economic Memorandum
CIB	-	China Investment Bank
CIR-4	-	Fourth Country Implementation Review
DOD	-	Debt Outstanding and Disbursed
GATT	-	General Agreement on Tariffs and Trade
FDI	-	Foreign Direct Investment
FLO	-	Foreign Loan Office of the MOPH
ICB	-	International Competitive Bidding
LCB	-	Local Competitive Bidding
MCH	-	Maternal and Child Health
MFN	-	Most Favored Nation
MOF	-	Ministry of Finance
MOPH	-	Ministry of Public Health
NBFI	-	Non-Bank Financial Institution
NEPA	-	National Environmental Protection Agency
NPC	-	National People's Congress
PBC	-	People's Bank of China
PCR	-	Project Completion Report
PIO	-	Project Implementation Office
PPAR	-	Project Performance Audit Report
RPI	-	Retail Price Index
RMC	-	Resident Mission in China
SOE	-	State-Owned Enterprise
TA	-	Technical Assistance
UEM	-	Updating Economic Memorandum

FISCAL YEAR

January 1 to December 31

CHINA

RURAL HEALTH WORKERS DEVELOPMENT PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: People's Republic of China

Beneficiaries: Six provinces (Anhui, Fujian, Guizhou, Hebei, Henan, Shanxi) and the Ministry of Public Health

Credit Amount: SDR 79.3 million (US$110 million equivalent).

Terms of Credit: Standard, with 35 years maturity.

Financing Plan:	Local	Foreign	Total
	--------	(US$ Million)	-------
Provinces	3.9	0.4	4.3
Prefectures	14.1	2.3	16.4
Counties	49.1	6.1	55.2
Central Government	0.1	0.0	0.1
IDA	89.0	21.0	110.0
Total	156.2	29.8	186.0

Rate of Return: Not applicable

Staff Appraisal Report: Report No. 11404-CHA

Map: IBRD No. 24460

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE DIRECTORS ON A PROPOSED DEVELOPMENT CREDIT TO THE PEOPLE'S REPUBLIC OF CHINA FOR A RURAL HEALTH WORKERS DEVELOPMENT PROJECT

1. I submit for your approval the following memorandum and recommendation on a proposed development credit to the People's Republic of China for SDR 79.3 million, the equivalent of US$110 million, on standard IDA terms with a maturity of 35 years to help finance a project for training rural health workers.

PART I: COUNTRY POLICIES AND BANK GROUP'S ASSISTANCE STRATEGY

2. Part I discusses China's economic record and prospects, the main challenges and reform priorities at the macroeconomic and sector levels, the Government's policy approach and the Bank Group's assistance strategy. An Updating Economic Memorandum (UEM), "China: Managing Rapid Growth and Transition," (No. 11932-CHA, June 30, 1993), based on a mission to China in April 1993, has been distributed to the Executive Directors.

A. Performance and Key Challenges

3. Since China's reforms commenced in 1978, the economy has sustained real GDP growth at an average 9 percent per annum. Average consumption levels have more than doubled and over 170 million of the 270 million Chinese living in absolute poverty in 1978 have been raised above the poverty threshold. High levels of savings and investment (approaching 40 percent of GDP) have been a characteristic feature of the Chinese economy, both before and after 1978: the basic difference in outcome is that the reforms have increasingly replaced an almost exclusively extensive, capital accumulation-based model by intensive development, exemplified by productivity growth at annual rates of 3-4 percent.

4. The reforms have been characterized by several distinctive elements, including a pragmatic, incremental reform style and substantial administrative decentralization. From a longer-term perspective, however, the most powerful unifying principle has been the cumulative marketization of the Chinese economy: the progressive exposure of an increasing and, by now, very large share of economic activity and decisions to meaningful domestic and/or international market forces. Three fields in which marketization is already far advanced have provided the most dramatic gains to date:

(a) Agricultural Reforms. The replacement of rural communes by family farms in the early 1980s, together with the phased removal of state controls over the pricing and marketing of all but the basic staple crops (primarily grain), unleashed a period of agricultural growth at close to 10 percent per annum (and subsequent expansion at a very strong 3-4 percent per annum);

(b) Nonstate Sector Development. Operating in an almost entirely marketized environment, the expansion of the domestic nonstate sector, especially in rural areas (and under a combination of private and local collective ownership), has proved a powerful generator of employment, output and export growth: the nonstate share of industrial output, in particular, increased from 22 percent to 52 percent over 1978-92; and

(c) The "Open Door." Although trade liberalization remains incomplete, especially on the import side, and constitutes an important focus of our policy dialogue, reforms to eliminate earlier antitrade biases have already transformed both sides of the trade account, with exports experiencing average annual growth over 1979-92 of 16.9 percent, and imports 16.1 percent. In parallel, the open door to foreign direct investment (FDI) has made China one of the most attractive international destinations for FDI (with actual flows in 1992 estimated at approximately $10 billion) and, though initially focused on manufacturing and the coastal provinces, this openness is now being actively extended to interior regions and other sectors (para. 26).

More broadly, the elimination of administrative involvement in the functioning of domestic product markets reduced the coverage of official price controls from an estimated 97 percent of retail sales value in 1978 to about 10 percent by 1992.

5. Despite these achievements, China's reforms have yet to put in place a complete or fully consistent alternative to the earlier centrally planned model. A selective listing of key remaining challenges (longer-term and more immediate) needs to include:

(a) Intensifying the marketization of those domestic producers of tradable goods still significantly shielded from market forces, i.e., China's state-owned enterprises (SOEs): a process that needs to move in parallel with the further development of domestic factor markets (including financial and labor market reforms);

(b) Continuing to address perennial constraints to growth in the domestic nontradable sectors: principally energy, transport and communications infrastructure bottlenecks;

(c) Developing effective responses to the plight of the 100 million Chinese poor still largely bypassed by reform-induced development; and

(d) Further strengthening indirect instruments of macroeconomic demand management consistent with an increasingly marketized economy and, as the highest and most urgent priority of short-term policy, making effective use of them to achieve a "soft landing" from the pressures of overheating that have recently emerged.

6. State-Owned Enterprises. China's 100,000 SOEs have continued to operate in an environment characterized by significant administrative involvement in economic decision-making and to be sheltered from the ultimate discipline of "hard budget constraints." The relatively cautious pace of SOE

marketization hitherto can be largely attributed to concerns over the potential social impact of fundamental restructuring on the SOEs' workforce, over 70 million strong and, together with dependents, covering the bulk of the population in the main cities. The SOE workers' vulnerability, in turn, has reflected patterns of social security provision designed in the context of traditional lifetime employment, including dependence on the employing enterprise for subsidized housing, unfunded and nontransferable pension rights and medical insurance, together with the absence, until very recently, of formal systems of unemployment compensation or meaningful urban labor markets. A variety of mechanisms have served, in practice, to soften SOE budget constraints so as to avoid redundancies or bankruptcy, including--in addition to explicit budgetary subsidies--concessional pricing on Plan allocations of energy and raw materials; ad hoc local negotiation of corporate income tax bills; and preferential access to directed credit, often on favorable terms, from the state banking system. Beyond this, SOE managers have continued to be subject to extensive involvement in business decisions by government agencies: the organization of these bureaus, both centrally and locally, along narrow, subsector-specific lines has served, inter alia, to inhibit diversification strategies and, to a considerable degree, to "freeze" the pattern of SOE investment and output.

7. A certain amount of progress has already been made in the marketization of the SOE sector. Final output markets, as noted earlier, are far less subject to state control and have also been increasingly influenced by competitive pressure from nonstate entrants; the financing of industrial investment has been largely shifted from the budget to the banks and retained earnings; and energy supplies and raw materials are now subject to multiple-tier pricing, with at least out-of-Plan supplies at the margin at generally realistic market prices. In addition, "contract management system" reforms from the mid-1980s, which converted SOEs' formal objectives from gross output to profit maximization, provided managers substantially enhanced autonomy over the allocation of resources (including labor) <u>within</u> the individual enterprise: Bank-supported studies have identified a resulting upward trend in SOE productivity. At the same time, the earlier phase of reforms fell short of a more fundamental restructuring involving cross-enterprise or cross-sectoral resource reallocation; the SOEs continue to show slower growth in productivity or output than nonstate enterprises; SOEs still absorb a disproportionate share of formal credit (approximately four fifths) and of the best-qualified entrants to the workforce; and visible SOE losses (generally considered understated as a result of weak accounting standards) are equivalent to 4-5 percent of GDP, or close to double the total budget deficit. Broader ramifications of the SOEs' protected status include obstacles to relaxing continued government dominance over the allocation of bank lending (as well as to placing the taxation system on a more transparent basis). As such, SOE reform is needed not merely as an end in itself, but also as a means toward freeing-up markets (including the capital market) in order to permit greater responsiveness to demand from the <u>nonstate</u> sector. The Chinese authorities' recently reinforced commitment to more fundamental marketization of the SOEs is discussed in greater detail in Section C below.

8. <u>Infrastructure</u>. Basic infrastructure bottlenecks have played a part in choking off growth in each of the recent episodes of overheating, including 1985 and 1988/89, and reports of power shortages and congestion on the railways and at the ports have again surfaced in recent months. Investment in transport and energy has been constrained from two sides--

erosion of the budgetary funds that were the traditional sources, and low controlled prices for nontradable services, which inhibited self-financing (while also stimulating wasteful consumption). Bank-supported price reforms, which have accelerated over the past two years, have gone a long way toward removing past distortions: recently increased rail tariffs are expected to permit the self-financing of about 80 percent of planned sectoral investments, while average consumer electricity tariffs are now estimated to be in excess of 90 percent of long-run marginal cost. Even in these sectors, however, backlogs and unevenness in regional coverage remain. Meanwhile, efforts to develop a more balanced transport system, in particular a modern highway network, continue to be hampered by the absence of robust road financing mechanisms, while telecommunications coverage, despite rapid recent expansion, remains at comparatively low levels, in part reflecting quasi-monopolistic traditions and past resistance to competitive entry. Recent policy initiatives in the infrastructure area are also reviewed in Section C.

9. Poverty. A major Bank report published during the last year (No. 10409-CHA) indicates that, while the first five years of reform lifted some 170 million Chinese out of absolute poverty, the population remaining in poverty (close to 100 million) has shown no clear further reduction over the last decade. Absolute poverty in China today is almost exclusively rural; it affects whole communities rather than individuals; and it is heavily concentrated on a regional basis--affecting villages in remote, resource-poor (and often environmentally degraded) areas, primarily in the northwestern and southwestern interior. The challenge of alleviating this remaining hardcore poverty is a multidimensional one. In at least some of the poorest regions, technological packages now exist that are capable, with the necessary investment support, of yielding substantially improved agricultural incomes, on an environmentally sustainable basis, for at least part of the current population. Other sources of employment, however, such as small-scale industry, are widely constrained by infrastructure deficiencies and poor market access (although some border areas, in particular, should benefit from the recent expansion of the open-door policies). For some of the poor, outward migration may be the most promising option: this, though, is a field where earlier policy restrictions are only gradually yielding to pressures from below.

10. Low incomes in these regions are compounded by marked weaknesses in the provision of social services, and resulting indicators of health and education status strikingly below national averages. Women's health and girls' education are frequently the most severely affected. Central policy has traditionally stressed self-sufficiency by rural communities in social service financing and, although fiscal arrangements have long redistributed revenues to the poorest provinces (and, since the mid-1980s, also to the poorest counties), there is little indication that effective mechanisms yet exist to achieve sustained social improvements at the level of the poorest villages where the worst conditions are found. With no easy solutions, the plight of China's poor continues to challenge the best efforts both of the Chinese authorities and of the international development community (paras. 43-44).

11. Macroeconomic Management. The cyclical nature of Chinese growth since 1978 has been widely discussed. By many international standards, the troughs have been neither particularly deep nor especially prolonged: the most recent cycle, at its lowest point, witnessed real GDP growth of

3.8 percent in 1990, with recovery to 7.2 percent in 1991. There is, nonetheless, legitimate cause for concern over the stresses created by very rapid deceleration, as well as over the extent to which, in past episodes, the pursuit of marketization reforms has become subordinated to the imperative of regaining control of aggregate demand, in turn achieved largely through administrative mechanisms and quantitative controls. The prevalence of such direct levers to date can be traced to several causes. The tax system, based largely on multiple-year contracts negotiated between the different layers of government, has not lent itself to demand fine-tuning (though Beijing has shown some inventiveness in introducing new taxes), so that deflationary fiscal policy has primarily comprised direct cutbacks in public investment (imposed administratively by the center). On the monetary side, although interest rate changes played a more important role in the most recent (1988/89) period, direct quantitative credit controls remained the principal instrument, reflecting partly the limited capability and experience of the central bank (People's Bank of China, PBC) in the use of indirect policy tools (and relatively thin, undiversified domestic money markets), but also reservations over the likely responsiveness of SOE credit demand to the interest rate changes then considered feasible.

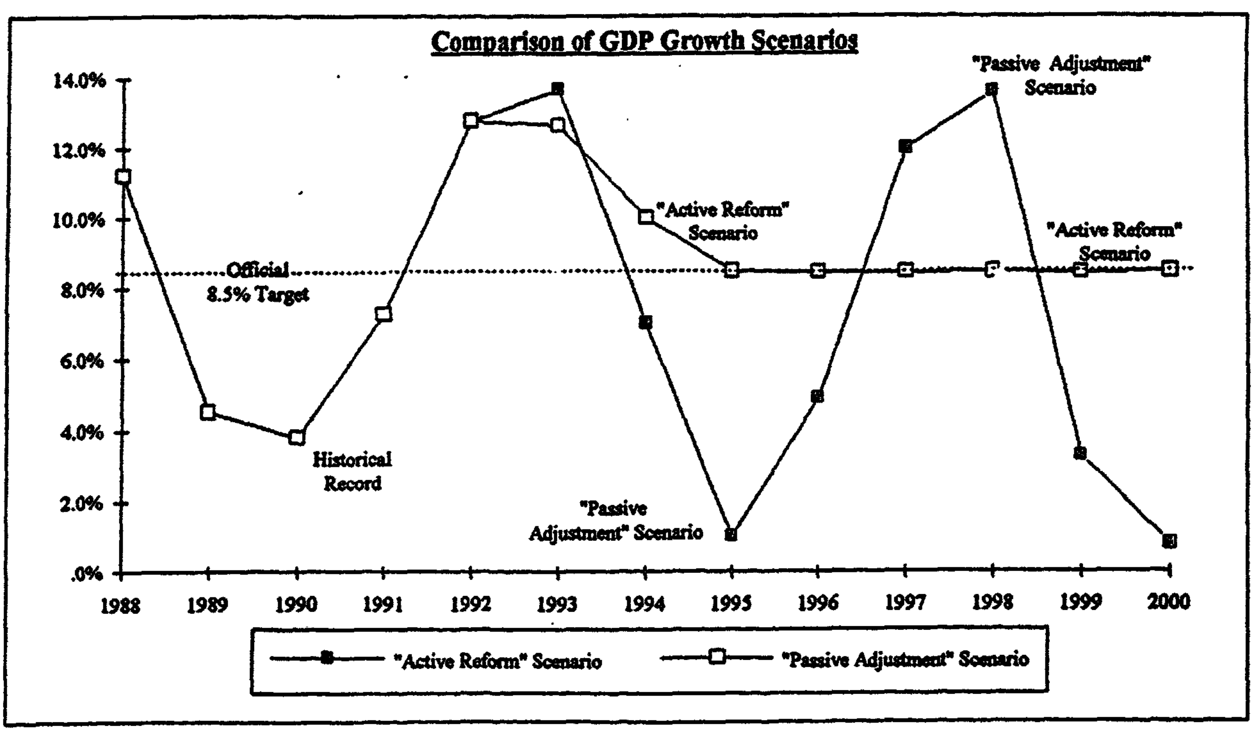
12. The 1988/89 episode had specific features not likely to be repeated, including an abortive preannounced "big bang" attempt at price reform, which sparked a rapid upswing in consumer demand and complicated the design of an effective policy response. Beyond this, the earlier experience has itself served to increase the sensitivity of policymakers to the disruptive potential of overheating, and thus to improve the likelihood of a more timely response on subsequent occasions. Signs of the need for concern at the present time have indeed been building over recent months. Real GDP growth over 1992 proved close to 13 percent, significantly above the 8-9 percent level judged consistent, on a sustained basis, with noninflationary growth by the 1992 CEM (and subsequently adopted as the official target). At the same time, however, the trade and inflation results for 1992 were, in overall terms, still relatively comforting, with export growth (nominal) at 18.2 percent (though imports grew faster, at 26.2 percent), and the retail price index (RPI) up by only 5.4 percent (though here, too, more worrying signals were visible in some of the disaggregated indices, including a rise of 15 percent in the "means of production" measure of raw materials prices).

13. Data for early 1993 eliminated ambiguity over the overall macroeconomic trend. The turnaround in the trade balance was particularly striking, with export growth slowed in the first six months to 4.4 percent, while import expansion maintained its pace at 23.4 percent, resulting in the first trade deficit since 1989 ($3.5 billion for the the year through June). This was accompanied by substantial further widening of the divergence between the official exchange rate and that in the parallel market. Price data confirmed the trend. Though the general RPI rate of increase was still in single figures, the cost of living in the major cities stood in May at 16.7 percent above the previous year, while production materials prices had risen by more than 50 percent over the same period. With the official budget deficit relatively stable in the internationally unexceptionable range of 2-3 percent of GDP, the monetary sector has provided most of the fuel for the rapid expansion in demand. Much of it, however, was "quasi-fiscal" in nature and absorbed by SOEs. Growth in broad money during 1992 reached 31.3 percent and, on top of perennial difficulties in containing lending by local branches

of the state banks, a distinctive contribution has on this occasion originated from rapidly expanding nonbank financial institutions (NBFIs), to date effectively covered neither by PBC's traditional quantitative controls nor by the newer style of prudential regulation the central bank is attempting to introduce into the sector.

14. Starting in mid-May, and in line with warnings contained in the Bank's UEM, the central authorities signaled their recognition of the need for immediate measures to avoid further deterioration in the macroeconomic balance. The initial package announced was fully consistent with Bank advice. It included increases in officially administered interest rates for bank deposits and loans, as well as on Government bonds; proposals to stiffen enforcement of the authorization process for capital market issues; and measures to curb the erosion of the fiscal revenue base by local governments via the multiplication of "development zones" conveying tax concessions. Earlier restrictions on the parallel market for foreign exchange were also reversed. The People's Bank of China intends to tighten credit further, including more effective regulation of the NBFI sector. Such credit tightening is the key to cooling the economy in the short term, and avoiding a "hard landing" later. While these actions are both welcome and timely, the Bank has suggested that the initially announced interest rate changes would be insufficient to achieve the desired results, and has also expressed concern over the fact that deposit rates have been raised significantly more than lending rates, with adverse implications predictable for financial sector viability. In addition, the Bank has drawn attention to the role which further trade liberalization and exchange rate reforms could play, in addition to their longer-term contribution to improved resource allocation, in helping to absorb the more immediate demand pressures. We expect to maintain a close dialogue on short-term macromanagement issues, in close collaboration with the IMF, in addition to our more traditional work on the longer-term reform agenda.

15. Alternative macroeconomic scenarios for the domestic economy are presented in greater detail in the recent UEM and illustrated in the attached chart. The Bank considers the Government's official medium-term GDP growth



target of about 8.5 percent per annum a realistic reflection of the economy's underlying capacity for sustained noninflationary growth. The alternative scenarios we have considered, which are intended to bracket the likely range of outcomes, diverge depending on whether the authorities are able successfully to manage a relatively "soft landing," which could return growth to its trend path over the next 18 months or so, or whether--alternatively--an inadequate response at the present stage, followed by a sharper contraction later on, is assumed to lead to further broad cyclical swings. Our analysis of the external side of the economy is outlined in Section B below.

B. External Environment

16. During recent years, with the relative isolation suffered during 1989/90 now largely dissipated, China has benefited from a generally favorable external environment, which permitted trade growth over 1989-92 of 15-20 percent per annum. In 1992, in particular, FDI rose to around $10 billion. China has also continued to enjoy relatively easy access to international financial markets, made easier of late by the partial opening of China's internal financial markets to overseas portfolio investors.

17. In trade, there are three key external issues. First, China's application to resume its seat at the GATT, which was filed in 1986, is still pending (and subject to ongoing negotiations, which may take at least one more year to conclude). If completed satisfactorily, this would add a degree of certainty to China's external economic environment that has for some years been lacking. Second, on May 28, 1993, the U.S. administration endorsed the extension of China's MFN status for another year, linking subsequent renewal to human rights, but explicitly excluding bilateral trade and arms export issues. This approach helps to remove doubts about China's export markets in the most immediate future. Third, China would stand to benefit more than many others from a successful conclusion to the Uruguay Round, in view of its economy's dependence on garment and footwear exports, which would be liberalized relatively more than other commodities.

18. China's investment climate continued to improve during 1992, as reflected in the doubling of FDI. The country has benefitted in this regard from the growing role of other Asian economies such as Japan, Taiwan (China) and Korea as overseas investors, supplementing China's original investment partners in Hong Kong. If this is sustained, FDI can be expected to make a significant and increasing contribution, both in established manufacturing sectors and also in new areas for FDI (such as services and infrastructure). The financial markets look favorably on Chinese instruments. Bonds and syndications are issued with ease, especially on Asian financial markets, and at very favorable rates. China's excellent repayment record and absence of rescheduling requests combine to make the country a very desirable sovereign borrower. We expect China to continue to enjoy a strong credit-worthiness position. Although, as noted, the current account has reverted to a deficit after several years of surpluses, all previous experience indicates that this can be expected to be contained within moderate bounds (detailed forecasts are provided in the recent UEM). Total debt outstanding stood at only 16.0 percent of GDP in 1992 and this is projected to fall gradually over the balance of the decade. The associated debt service level is also expected to remain healthy, declining further from its already modest level of 9.7 percent of export earnings in 1992 to about 7 percent in the second half of the decade. China's IBRD debt outstanding and disbursed (DOD) as a share of the

Bank total stood at below 4 percent at the end of FY93, and future lending levels will be designed to be consistent with Bank exposure policies (para. 52).

19. On the downside, some uncertainties remain. First, trading arrangements are ad hoc, as noted, and subject to arbitrary change pending conclusion of ongoing negotiations. Secondly, China's export growth has been highly concentrated in terms of markets and products (notably in garments, toys and footwear for the US market) and some of these niches may be approaching saturation. Finally, political tensions continue to affect relations with Hong Kong and Taiwan (China), which reduce the achievement of potential synergies from the much-discussed "fourth growth pole." These aspects will therefore continue to demand attention and monitoring.

C. Country Assistance Strategy

Development Objectives and Policies

20. China's continuing pursuit of marketization reforms and international openness is motivated by the objectives of strengthening and modernizing the economy, achieving rapid sustainable growth in general income levels and further advancing earlier achievements against poverty in a country which, despite recent growth and the large absolute size of its population (and, hence, aggregate GDP), remains characterized by relatively low per capita income levels. The reform era's original, apparently ambitious target of quadrupling GDP over 1980-2000 has, in the event, proved conservative. With the progressive abandonment of the centrally planned model, explicit quantitative targets of this kind in any case carry less weight than in the past. As noted earlier, however, the authorities have adopted an overall growth rate of 8-9 percent for indicative purposes, while recognizing that some regions will be capable of sustaining a more rapid pace. Despite some concern over differences in provincial growth rates, the reform years have yielded significant real income growth for the great bulk of the population, with the sole exception of relatively restricted areas of hardcore poverty (paras. 9-10). Nonetheless, compared to the earlier explicit focus on a "coastal development" strategy, the latest indicative Plan points to greater concern to achieve more balanced regional development, and the recent extension of the open-door policies has already been noted.

21. At the political and policy-making levels, the past year has witnessed developments of considerable importance, which have served to cement the policy consensus around further acceleration of China's marketization reforms. The key events were the meeting, in October 1992, of the fourteenth Party Congress, whose decisions set the overall policy direction for the next five years, and the subsequent inaugural session (March 1993) of the newly elected National People's Congress (NPC), China's legislature. In addition to confirming leadership appointments, and other, more detailed policy decisions, the two bodies took the critical symbolic steps of writing into party policy and the constitution, respectively, a redefinition of official economic philosophy that replaced the earlier formula of "a planned economy on the basis of socialist public ownership" by "a socialist market economy." In keeping with Chinese tradition, the latter concept does not readily lend itself to a precise or static legalistic definition. It may, however, be read (particularly taken together with an earlier reinterpretation of "socialist public ownership" to include not only SOEs but also local collectives) as an

explicit downgrading of the weight attached to any specific ownership model, as well as a powerful public assertion of the central role further marketization is designed to play in future economic strategy. In summary, we see these steps as symbolizing the authoritative removal of residual ideological constraints to the ongoing marketization process. The socialist nature of the Chinese economic model, in turn, is likely in future to be manifested primarily by concern to protect basic social service provision and avoid extreme inequities in economic welfare and, more specifically, a continuing commitment to the eradication of China's remaining absolute poverty. The Congresses' removal of remaining uncertainties over the philosophical basis for public policy has in turn made possible an upsurge in the discussion, proposal and introduction of specific reform measures, at both central and local levels, in many of the most important reform areas. The current policy climate is reviewed in greater detail in the UEM, but key features are outlined below.

22. It is clear that, over coming months, maintaining a very close dialogue on short-term macromanagement issues will need to absorb a considerable proportion of our efforts. On present showing, it is an area in which the central Government is both eager to receive, and responsive to, the Bank's advice. The discussions of the UEM (and those at a timely recent conference in China on macroeconomic management) indicated a very high degree of responsiveness to our message at both the working level and the very top. Given China's experience over recent years, and the increased sophistication of its policy analysts, our message on the potential dangers of a hard landing (renewed cycles, possible interruption of reform momentum) is one that has by now been well internalized. Some of our Chinese counterparts were, indeed, at pains to stress that, if indirect policy instruments should need to be supplemented by administrative restrictions, these should be concentrated precisely on the least market-oriented sectors (SOEs, local government), rather than being applied in blanket fashion to the economy as a whole. This is itself an indication of how far things have changed since 1988/89. At the same time, it serves to accentuate that the crucial test at this stage is less one of intellectual appreciation than of political will. While stressing the need for appropriate short-term measures, we will also continue to emphasize the need to deepen economic reforms, which would reduce the likelihood of a recurrence of the present difficulties.

23. SOE Reform. The central thrust of official policy is now the aggressive promotion of corporatization and marketization reforms in the SOE sector. New regulations (July 1992) seek to improve the definition and protection of management autonomy over major business decisions. The center is, in addition, encouraging the conversion of SOEs into shareholding companies, with the ownership function exercised by Boards of Directors rather than government bureaus: this step will also help open the door to further ownership diversification. In parallel, a government reorganization has been announced, designed over several years to reduce the overall size of the bureaucracy and to reorient the work of ministries and bureaus away from their past micro-interventionist traditions. Meanwhile, bankruptcy provisions and mergers are being increasingly applied to SOEs. Official sanction has been extended for the sale or leasing of at least some of the smaller SOEs to collectives or private enterprises. A cautious approach is currently being taken, however, to the expansion of stock exchange listings (not inappropriate at this stage, given the gaps still to be filled in securities market

regulations, as well as the generally weak state of enterprise accounts, an area where the Government has recently launched an urgent nationwide upgrading program).

24. Labor Market (Housing and Social Security) Reform. As noted earlier, this is a crucial corollary of SOE reform, and one in which the basic lines of official policy have by now been in place for about two years. The scope of fixed-term labor contracts for SOE workers (replacing lifetime guarantees) is being expanded. In housing, the center has established a timetable for previously nominal rents to increase to cover management, maintenance, depreciation, interest and property taxes by the end of the decade. In parallel, enterprise housing units are to be transferred to commercial housing corporations. As rents rise, the second prong of official policy, encouraging wider owner-occupation, should also come into play. Pension rights are being pooled across enterprises: similar reforms for health insurance are at a more experimental stage. Finally, unemployment insurance schemes are under development and introduction. It should be stressed, however, that the detailed implementation responsibility for the above reforms lies almost entirely at local (usually municipality) level, and this is where practical models are having to be worked out.

25. Financial and Capital Market Reforms. Following several years without fundamental policy movement, this area is now receiving reinforced attention. The Government has committed itself in principle to converting the bulk of the existing State banking system into genuinely commercial banks, with the autonomy over lending this would imply. Remaining directed "policy lending" is to be segregated from commercial banking--initially on an accounting basis, but subsequently through the formation (probably by restructuring) of one or more institutions dedicated to the provision of policy loans. Banks' accounting practices are to be standardized as part of the basis for more sophisticated methods of monetary control and bank regulation. Consistent with these changes, gradual deregulation of interest rates is projected. On the capital market side, meanwhile, new regulatory bodies have been established for the securities exchanges, and foreign investors permitted to purchase certain categories of Chinese equity shares. Finally, there is active discussion of the need for a reorganization of PBC, to strengthen its ability to concentrate exclusively and more effectively on its central banking functions. Agreement has yet to be reached, however, on all aspects of the new design (including the key issue of whether to reverse the current system of organizing PBC on a provincial branch basis, which has diluted central control in the past).

26. Fiscal Reform. This is an area where progress has long been complicated by conflicts of interest between the center and the lower-level administrations that actually carry out the assessment and collection of the great bulk of China's tax revenue. Initiatives under way include efforts to standardize the taxation of corporate income (another area where improved accounting standards are crucial), as well as the gradual diversification of the revenue base, including phased introduction of a value added tax. Despite Beijing's desire to regularize its fiscal relationship with lower levels, however, and experiments with "tax-sharing systems," we have yet to see significant progress in this politically difficult area. We will continue to encourage the government to put fiscal reform at the heart of the policy agenda.

27. Private Sector Development. In overall terms, the further development of the private sector is projected to continue to take place in parallel with the corporatization and marketization of the SOEs, rather than through efforts at a mass privatization of the existing public sector. The central authorities have undertaken to simplify further the registration of new private firms, and to ease restrictions over such firms' scope of business. Lower levels, meanwhile, are increasingly active in promoting new joint venture subsidiaries between Chinese enterprises (including both SOEs and local collectives) and foreign partners (even if some represent in part a response to advantageous tax treatment of joint ventures). Such activity is likely to increase further following recent announcements expanding the scope of the open door for FDI both geographically (to cover interior regions) and sectorally (to encompass an increasing range of tertiary activities, including retailing, distribution and financial services). The center has also extended its blessing in principle to increased FDI in infrastructure sectors, though details of the new policy direction have yet to be fully spelled out. There are already examples of private Hong Kong investment in toll highways, other transport facilities and a 200 MW thermal power station in neighboring Guangdong province, as well as a recent Hong Kong-Chinese joint-venture agreement to develop Shanghai's container port. Assessing the potential for wider replication is now an area of active interest for IFC (paras. 48-49) and the Bank Group as a whole.

28. Legal Reform. The authorities recognize that further marketization calls for traditional reliance on administrative mechanisms to give way, across wide areas of the economy, to transparent rules-based systems and a more comprehensive framework of economic law. Given the many areas in which the current legal framework is either clearly deficient or nonexistent, as well as the numerous fields in which, as discussed above, new reform proposals are under active development, something close to a flood of draft legislation is at present circulating in Beijing. The authorities have indicated potential interest in Bank advice and assistance in helping to develop the legal framework in an effective and internally consistent manner: exploring possible modalities for such support will provide a new focus for our proposed assistance strategy (para. 33).

Main Objectives and IBRD/IDA Program of Assistance

29. Lending and Portfolio. Combined IBRD/IDA commitments to China were just over $2.5 billion in FY92 and exceeded $3.0 billion in FY93. The cumulative project portfolio is a balanced one, both geographically and sectorally, within which 26 percent of committed lending has gone to support agricultural development, 24 percent for transport, 18 percent to energy and 15 percent for industry, while the balance (17 percent) has supported social sectors, the environment and cross-sectoral programs of technical assistance (TA).

30. Despite modest changes in average supervision ratings from the exceptional levels of five years ago (see table), to be expected in a growing and maturing program, the overall implementation status of the Bank portfolio in China, currently comprising approximately 100 active investment projects, has continued to be robust, fundamentally reflecting a combination of strong local administrative capability and the powerful sense of borrower ownership that has consistently characterized the Bank-supported program in China. There are no major implementation problems identified as generic to a

CHINA: PORTFOLIO PERFORMANCE, FY89-93

	FY89	FY90	FY91	FY92	FY93 /a
No. of Projects					
China	77	78	83	93	98
Asia	557	538	527	594	593
Bank	1,908	1,890	1,845	1,852	1,863
Average Performance Rating					
China	1.22	1.44	1.38	1.43	1.50
Asia	1.68	1.73	1.73	1.75	1.80
Bank	1.82	1.90	1.97	1.96	1.96

/a As of April 30, 1993.

significant number of operations, and at any one time there are seldom more than 3-4 specific operations rated as having significant implementation difficulties (while the Government's responsiveness to concerns raised by the Bank is such that projects do not generally remain in this category very long). The fourth joint country implementation review (CIR-4), held in Beijing in February 1993, drew on both the China-specific record and the broader lessons of the Portfolio Management Task Force report and concentrated on measures to enhance performance still further in five main areas: the quality of projects on entry; the role of the Government in implementation supervision; resettlement planning, funding and monitoring; the implementation of TA and institutional development components; and procurement and contract administration. As on previous occasions, the CIR-4 discussions were constructive and resulted in agreement on specific action programs in the selected areas of focus. The action program carried out following CIR-3 (1991) and the CIR-4 program now being implemented are summarized in the box below.

CIR-3 and CIR-4 Action Programs

CIR-3: Model Documents for major procurement activities prepared in Chinese and introduced in a series of workshops. Domestic process for approving procurement contracts clarified.

Project management and line ministry staff strengthened under Bank-supported technical assistance projects, among others.

Project for potential Bank support formulated to enhance technology transfer; information on technology transfer gathered by Bank made available to relevant ministries.

Computerized accounting system developed and introduced.

Involvement of core agencies in project implementation increased.

<u>CIR-3 and CIR-4 Action Programs (cont'd)</u>

<u>CIR-4:</u> Prepare and introduce guidelines for project-related resettlement, responsive to Government and Bank directives; hold seminar on resettlement monitoring/evaluation in China.
Finalize and issue Environmental Assessment Guidelines in Chinese, responsive to Government and Bank directives.
Further expand core agency participation in all phases of project cycle.
Government methodologies for project costing and budgeting to be further improved to international standards.
Formulate potential project for Bank support for development of local consulting industry.
Strengthen government capacity for ex post evaluation of projects.
Further strengthen local procurement capabilities.
Hold Government-Bank Implementation Reviews for key provinces in alternate years with CIR.

31. <u>Country Dialogue and ESW</u>. The policy dialogue between China and the Bank is exceptionally strong, reflecting Chinese decisionmakers' trust in the objectivity and relevance of Bank ESW, respect for the quality of the Bank's investment project work across a broad range of sectors and regions, and recognition of the consistency of the institution's support of China's reforms and development throughout the past decade. Formal ESW reports are studied seriously both by the most senior decisionmakers and by officials in the relevant sectors: the Government has supported the Bank's international publication of the principal ESW reports, and they are also published in translation within China. Major studies in recent years have contributed to evaluation of reform implementation issues in areas including the financial and fiscal sectors, housing and social security reform, the development of urban land markets and grain market liberalization, as well as providing comprehensive overviews of issues relating to poverty and the environment. A major report on China's foreign trade policy was finalized recently (No. 11568-CHA). Planned future topics are summarized in the box below.

<u>CHINA: PROPOSED MAIN AREAS OF ESW FOR FY94</u>

<u>Studies</u>:	Country Economic Memorandum
	Budgetary Policy and Intergovernmental Fiscal Relations
	Domestic Market Regulation and Development
	State-Owned Enterprise Reform
	Municipal Finance
	Quasi-Fiscal Deficit
	GNP/National Accounts
	Regional Patterns of Development
	Agricultural Marketing
	Water Resources Planning
	Provincial/Municipal Environmental Management
	Higher Education Efficiency
	Health Finance Reform
<u>Strategy Papers</u>:	Financial Sector
	Industrial Policy and Restructuring
	Power Sector
	Transport Sector
	Ports Subsector
	Highways Subsector

32. Need for Innovation. The Bank's program in China over much of the past decade largely comprised the two products discussed above: formal ESW reports, prepared after intensive research and providing comprehensive coverage of issues in specific sectors or policy areas; and solid, well-prepared investment projects supporting technological modernization and institutional development objectives, as well as selected, well-defined sector reform objectives, such as tariff reform in the principal infrastructure sectors. This combination helped to meet specific country needs and demands for technology transfer and institutional modernization during a period when China was still emerging from its earlier international isolation. It was also broadly compatible with the relatively deliberate approach to reform during much of the decade. What is now apparent, however, is that the earlier product range will no longer serve fully to meet the requirements and demands for assistance being generated by the recently accelerated pace of reform, across a wide front, discussed earlier in this report. Without abandoning its established vehicles, therefore, the Bank is now being challenged to develop new approaches and incorporate additional flexibility into the country assistance program, and this is a challenge our proposed strategy will seek to meet.

33. One clearly identified demand is for the ability to provide prompt feedback and advice to decisionmakers on reform implementation alternatives in specific areas through succinct analytical papers, based more upon synthesis than on extensive original research, and produced on a more flexible schedule than formal ESW. During the past year, informal strategy papers of this kind have been provided to the Government in areas including SOE reform, financial sector strategy and short-term macroeconomic management issues: to help reinforce our capacity to respond to additional requests of this type, we are currently restructuring the staffing of the Resident Mission in China (RMC), to put considerably greater emphasis on macro and sector policy analysis skills. Under a second model, the Bank has to date provided intensive assistance, through international workshops and follow-up staff input, to two of China's most important coastal cities (Shanghai and Tianjin) with the design of city-level "reform action plans", intended to serve as "living documents" capable of guiding reform implementation on a multi-year basis and underpinning Bank lending: we plan in the near future to start adapting this model to the needs of selected inland cities.

34. In some of the key reform areas, the demand for external assistance with policy analysis and reform implementation issues will clearly go beyond what the Bank can provide from its own resources (in view of the extent of the support needed and/or the specialized skills involved). We thus expect to make increasing use of sector-specific TA operations in future. The first example was provided by the Financial Sector Technical Assistance Project (Cr. 2423-CHA), designed largely to help strengthen the capability of PBC, and approved by the Executive Directors in September 1992. We are discussing with the Government the potential for additional operations of this type, in such areas as economic law reform, further strengthening of financial and capital markets, and the development of support services for newly marketized enterprises.

35. A further area where we are introducing innovative products might be described as reform implementation support operations. In many areas where reform plans are now active, effective reform implementation will itself call for significant investments in building new or modified institutions,

imparting new skills and creating supporting infrastructure, not only at the center but throughout China's provinces and municipalities. One example concerns the marketization of China's hitherto tightly planned grain distribution system. This reform will not only require development of new institutions and skills (commodities exchanges, commercial trading corporations, etc.), but will also open up new possibilities for more economically rational domestic and international trading patterns that, however, without supporting physical investment, could be frustrated by infrastructure bottlenecks: a reform implementation support operation in this area was approved during FY93 (Ln. 3624-CHA/Cr. 2518-CHA) A second area is housing and social security reform, where the city-level administrations charged with implementation require assistance with the creation of viable models of commercial housing corporations, housing finance institutions, etc. and here preparation is at an advanced stage. A third example, where we are working actively, relates to labor redeployment issues raised by SOE reform. Existing vocational/technical training models in China focus heavily on preservice training: new approaches will be needed to meet the retraining requirements of older workers called on to change jobs.

36. IDA Replenishment. An additional challenge in the management of the country assistance program, on both the Bank and Government sides, is raised by the decline in availability of IDA resources for China. In this connection we are working with the Chinese authorities to seek to maintain existing levels of Bank support for the social sectors, for the development of the poorest regions and for environmental protection and the amelioration of pollution, and this will be a continuing priority of our overall strategy.

37. Proposed Operational Program. The Bank's willingness both to provide advice on overall policy questions and to support a substantial program of operational involvement with development problems at the provincial and sectoral grassroots has served, cumulatively over the past decade, to strengthen immeasurably its credibility in China. The experience of the first decade confirms, in addition, the lesson that policy change occurs most effectively in China when Chinese decisionmakers are themselves fully persuaded that it is both appropriate and timely: the lesson, in short, of ownership. As earlier discussion has sought to demonstrate, the central policy stance has by now evolved to provide an enabling environment for rapid further marketization reforms. Certain key policy areas will continue of necessity to be addressed primarily through dialogue at the center--e.g., monetary and financial sector aspects, and fiscal and trade reform--though in these areas also we will explore all possible vehicles for Bank support, including the types of innovative products outlined above. In most other areas, however, reform progress will depend largely on developments at the level of individual sectors, provinces and municipalities, and it is at these levels that we propose to continue to concentrate the bulk of our future lending.

38. The first Bank operations in industry focused primarily on supporting the technological modernization of Chinese firms (primarily SOEs) in a selected number of subsectors, itself an important contribution given that prevailing standards were often decades behind international best-practice. Expectations today, however, are pitched much higher, and future involvement in this sector must clearly be designed with the primary objectives of fully supporting and advancing the processes of marketization and transformation now endorsed at the central level. In recent discussions

with the Chinese authorities, understandings were therefore reached that future Bank support in the industrial sector (at both the regional and sectoral levels) would need to be provided within specific frameworks fully consistent with marketization and transformation objectives, including:

(a) separation of state firms from government bureaus through restructured corporate forms (including transparent ownership mechanisms);

(b) promotion of ownership diversification;

(c) corporate income tax reform;

(d) accompanying social and labor market reforms (housing, social security, etc.);

(e) competitive market policies, including promoting freedom of entry and exit for both public and private producers; and

(f) satisfactory guarantees of access by nonstate enterprises to Bank support.

39. We are committed to experimenting with the design of industrial investment operations meeting the above objectives at the provincial/municipal level in several regions (including inland as well as more traditional coastal locations), and are also exploring the possibility of applying them in selected subsectors on a cross-provincial basis. One ongoing operation, the Rural Industrial Technology (Spark) Project (Ln. 3274-CHA, Cr. 2186-CHA) seeks to provide support exclusively to the domestic nonstate sector, and we will consider possible further operations with a similar focus. We will also review the possibility to make use of the innovative product models discussed earlier to support industrial enterprise marketization and restructuring.

40. In the financial sector, the Bank's initial goal was to help introduce modern investment evaluation approaches through the development of a new industrial DFC, the China Investment Bank, CIB (and parallel support, in rural areas, to the Agricultural Bank). Recent years have witnessed a shift in focus to the imperative of strengthening the overall sector policy framework and the institutional capability of PBC, an approach whose operationalization was launched with the recently approved TA project (para. 33). We expect our next financial sector operation to continue and broaden the focus on the sector-wide framework and infrastructure pioneered by the TA project. Given the expected pace of change in this sector, however, attention to the strengthening of PBC and other sector-level agencies is expected soon to need to be supplemented by a focus on the transformation and restructuring of the operating institutions in the sector, including the commercialization of China's state banks. This is thus a sector in which our operational involvement may need to be intensified rather rapidly, and it is a sector in which finding innovative models for reform implementation support will be a central challenge for our assistance strategy.

41. China's infrastructure sectors (primarily power and--within transport--rail, roads and ports) have together absorbed over 40 percent of cumulative Bank lending to China. As discussed earlier (para. 8), these have been the key bottleneck sectors, with heavy absolute investment requirements,

and the development of effective new mechanisms of domestic resource mobilization (fundamentally through tariff reform) has inevitably been a gradual process. As also discussed, however, it is a process now paying off, with the railways and the power sector, in particular, now far better placed for internal resource-generation (para. 8) and the ports undergoing rapid commercialization, including experimentation with the introduction of FDI (para. 26).

42. These changes are now prompting a reevaluation of the future role of the Bank in the infrastructure sectors. We recently submitted a strategy paper on the railways sector to the Executive Directors (No. 10592-CHA), and plan similar papers on ports, highways and electric power, respectively, as well as a strategy document for the transport sector as a whole. With major progress in tariff reform already, greater attention is now called for within our policy goals, in the case of the natural monopolies, to promoting corporatization accompanied by more transparent systems of regulation reflecting the lessons of international best-practice. In subsectors where competitive market structures are a realistic possibility, meanwhile, including ports and--potentially--telecommunications (an area where the Bank has yet to lend but where possible operational involvement is being actively pursued), our priority will be to promote the dual objectives of commercialization and subsectoral policy frameworks conducive to competition and the introduction of private capital, including FDI.

43. By contrast to the directly revenue-earning subsectors, there has been no comparable breakthrough in the case of China's highways. Our analytical work has highlighted the severe modal imbalance of the Chinese transport system (in which almost 60 percent of freight, and close to half the passenger traffic, is still carried by the railways). A modern highway system is urgently needed both to support the further development of marketized production activities and also as a key to greater domestic market integration and more balanced regional development. Within the overall transport system, this is the mode where future capital requirements are likely to be greatest. Our recent intermodal transport study of Guangdong province (Bank Discussion Paper No. 151), for example, recommended that some three quarters of future transport investment in the province should be directed to highway development. It is also, however, the field where domestic resource mobilization is currently least well-developed. Within our own infrastructure program, therefore, we plan a further increase in the relative weight given to highway development, and will be taking the study of, and support for, new models of resource mobilization as our leading sector policy objective.

44. In agriculture and the social sectors, the pursuit of poverty alleviation is our highest priority objective. In several of the regions of concentrated absolute poverty, including much of the northwest as well as the "red soils" areas found in much of the southeast, we consider that farming models already in existence (developed in part through earlier Bank projects) have proven their worth, and we are now preparing successor operations to promote their replication on a larger scale. Rural income generation in the most resource-poor areas of the southwest, by contrast, has less in the way of proven farm technology packages to build on. As an outgrowth of our recent poverty study (paras. 9-10), we plan very shortly to launch the identification of a poverty alleviation project in the southwest: given the difficult local conditions, innovative approaches (possibly including a multisectoral strategy) are likely to be required.

45. In the social sectors, similarly, operations recently approved or in the active pipeline exemplify the priority now being given to the problems of the poorest areas (para. 10), including basic education for girls and maternal health care priorities. The Education Development in Poor Provinces Project (Cr. 2339-CHA), which seeks to strengthen basic education provision in six of China's poorest provinces, is expected to be followed by a successor operation extending the approach to additional poor regions. Work is also under way on a Maternal and Child Health Project, similarly targeted at poor rural areas. The present project represents an integral component of this strategy, and includes provisions intended to help assess experiments with new financing mechanisms for rural health care which, if successful, could provide the basis for wider replication.

46. Beyond the primary goal of poverty alleviation, there are additional areas in agriculture and the social sectors where Bank assistance has an important role to play. Our support for the marketization of China's grain sector has already been noted (para. 34), as have our efforts, within the social sectors, in vocational retraining (para. 34) and health finance reform (Box attached to para. 30). In addition, strengthened water resource planning is a vital priority for China, both for agricultural and other end-uses, and in both the water-scarce north of the country and flood-prone areas further south. Despite well-established domestic capability in irrigation development, particularly at the local level, water-use planning on a regional or cross-regional basis tends to strain both the older generation of planning models currently in use within China and established mechanisms for interprovincial coordination. In addition, while a recent Bank review (No. 11641-CHA) has confirmed that Chinese mechanisms for planning and implementation of resettlement have generally produced very satisfactory results in recent years, it is also clear that it is the larger water development projects that are most likely to put pressure on these mechanisms. This sector will therefore continue to be an area of active involvement for the Bank.

47. Our first comprehensive strategy paper on China's environment (No. 9669-CHA) was completed in April 1992 and its recommendations were summarized in last year's country assistance strategy statement. These recommendations provide the basis for what has become the fastest-growing area of concentration in our lending program. Three investment operations addressing the amelioration of environmental conditions, especially in the field of water pollution, and located in--respectively--Southern Jiangsu, Zhejiang and Changchun, were approved by the Executive Directors during FY93 (Ln. 3582-CHA; Credits 2475-CHA and 2457-CHA). Work is under way on a pipeline of further investment projects in additional priority cities and provinces: as in the earlier operations, each will include significant TA for strengthening local environmental management agencies and will also promote the corporatization of local public utilities such as water supply and sewage treatment, to ensure that their operations are placed on a financially sustainable basis. In addition, we propose to follow the earlier overall strategy paper with a new phase of environmental ESW that will focus in greater depth on environmental management issues as seen from the provincial and municipal levels. The first Bank-supported Environmental Technical Assistance Project was approved during FY93 (Cr. 2522-CHA), intended to help strengthen further the institutional capability of China's National Environmental Protection Agency (NEPA) and other key sector agencies, as well as to support focused studies in priority areas of sector policy.

48. Cooperation with Other Multilateral and Bilateral Institutions. China has not drawn on IMF resources since a standby agreement reached in 1986. The Bank maintains close liaison with the Fund on macroeconomic matters, including through cooperation in the staffing of key missions. The Fund is also supporting the implementation of the Bank-assisted Financial Sector TA Project, as well as a separate Bank-funded TA subproject to strengthen China's tax administration. The Asian Development Bank (ADB) is, together with the Bank, the other leading source of multilateral development assistance, and the two institutions maintain ongoing liaison on policy objectives and operational priorities. Close contact is also maintained, in the TA area, with the United Nations Development Program (UNDP): the Bank is either executing or cooperating agency for some seven UNDP subprojects currently under implementation. In addition, the Bank holds regular consultations with the principal bilateral agencies active in China (including Japanese agencies, which together provide the largest bilateral program, and those of a number of other OECD nations): bilateral sources have to date helped to finance TA subcomponents in about 20 Bank-supported projects in China. Chinese administrative mechanisms for financing development projects have generally not, in the past, been conducive to cofinancing on a larger scale. There have, however, been recent indications of possible interest in experimenting with more extensive use of cofinancing: in addition, the Government's expressed intention to encourage greater private investment in the infrastructure sectors (para. 26) may open new possibilities in this area, and we intend to explore potential vehicles over the coming year.

49. IFC and MIGA. IFC's country assistance strategy for China focuses on three principal objectives: (i) promotion of a more favorable foreign investment framework, (ii) serving as a catalyst to the expansion of private sector investment, and (iii) acceleration and deepening of financial and capital markets. To respond effectively to the rapid development of the Chinese economy in the context of a continued move towards a market economy, IFC opened its first representative office in Beijing in October 1992. IFC's active participation is being sought by the authorities in China, particularly as the economy is moving towards a more market-based system, with an increasing emphasis on private sector led growth.

50. IFC's operations in China have so far concentrated on supporting joint ventures between foreign investors and Chinese enterprises. IFC plays an important advisory role in China in helping to structure these transactions and in arranging finance on a project risk basis without guarantees from government banks. Work in the capital markets area includes the establishment of a joint venture bank, and technical assistance to the new Securities Regulatory Commission, which will focus on the adequacy and regulations for the rapidly expanding stock markets in China. IFC has also encountered lively interest in infrastructure projects, where the scope for private investment is substantial, as China recently announced new policies to encourage foreign participation in infrastructure development. IFC's progress in infrastructure projects in the near future will depend on stronger efforts by the Chinese government to develop a suitable environment for private investments, including the legal and regulatory framework, as well as the institutional infrastructure, for private business operations. In FY93 IFC approved financing for three projects in China, in the areas of banking, cement and manufacturing, totaling $39.5 million, which brought IFC's accumulated total investments in China to $100.1 million. As of June 30, 1993, MIGA had approved one investment guarantee in China, with a package of additional guarantees expected to be submitted for approval very shortly.

51. Proposed Bank Lending Program. As discussed in Section B above, China's external position has been generally strong in recent years, with substantial inflows of FDI, especially into export-oriented manufacturing, and--until the recent reversal--surpluses on the trade account. Capital transfer is not the primary objective or determining principle of the level of Bank lending which, even at current and proposed levels, accounts for only a relatively minor share of China's total resource requirements. Rather, we see our operational program as a mechanism for helping to provide vital support for the nationwide implementation of the ongoing reforms, as well as the crucial objectives of poverty alleviation and environmental protection, discussed earlier in this paper. In the latter connection, and in keeping with the philosophy underlying IDA-10, we have explained to the Chinese authorities that future IDA flows will be concentrated on supporting IDA objectives in the areas of poverty alleviation, the environment and the social sectors, and will not be available to finance investment operations in other sectors. Beyond this, it is an objective of our strategy to protect the Bank's current involvement in these areas in the face of expected future reductions in IDA availability (para. 35).

52. The composition of our future lending program is proposed to continue to be broad-based in both geographical and sectoral terms, in view of the operational agenda outlined above (paras. 36-46). In several sectors, as noted earlier (para. 43), social objectives have already prompted an increased emphasis on China's interior provinces, and similar relative shifts of geographical focus are envisaged in several others, including industry and highways. More broadly, we recognize the need for additional flexibility in the development of the lending program, including the ability to bring forward innovative operations on a fairly tight timetable as warranted by reform implementation needs, but equally the freedom to drop earlier proposals no longer seen as responsive to rapidly changing conditions.

53. On the above basis, the projected level of new lending to China is planned to take account both of the progressively hardening IBRD-IDA blend and of the longer term imperative of consistency with IBRD country exposure policies. Combined IBRD-IDA lending is projected to continue at average annual levels approximately similar to the actual level achieved in FY93.

54. Summary of Program Objectives. The following matrix summarizes, on a selective basis, the main areas of focus of the Bank's country assistance strategy in China. Within each area, the matrix highlights the principal objectives we will seek, through an appropriate combination of formal and informal ESW, TA and lending operations, to promote and support.

CHINA: SUMMARY OF BANK PROGRAM OBJECTIVES

Policy Area/Sector	**Principal Objectives**
Short-term Macro-management:	Co-ordinated and effective use of monetary, fiscal and external sector measures, consistent with marketisation strategy, to return growth to trend path through "soft landing".
State Enterprise Reform	Corporatisation of SOEs through: clarification of management autonomy and responsibility; separation of enterprises from Government bureaucracy, and exercise of ownership function though transparent mechanisms (shareholding forms; Boards of Directors). Support for ownership diversification, including development of domestic "institutional investors". Strengthening of accounting standards and of business support services. (See also subsequent areas).
Urban Labor Market Reform (Housing & Social Security)	Separation of social functions from productive enterprises, as aid to SOE reform and labor market development. In housing, rents to move expeditiously to fully commercial market levels; rental housing to be supplied by competitive housing corporations; and owner-occupation promoted through self-sustaining housing finance systems. In pensions and (urban) medical insurance, basic standards of coverage (mandated nationally) to be provided on a fully portable basis. Unemployment compensation schemes to include coverage for workers declared redundant, and be complemented by effective job retraining and labor market information services.
Price and Market Reform	Swift elimination of controls over products sold in competitive markets: rapid progress to unify remaining "multiple-tier" prices at market-based levels, including liberalisation of grain markets. For monopolies, realistic (unsubsidised) pricing to be patrolled by new, arms-length regulatory systems. Development of new regulatory mechanisms to promote greater competition in domestic markets (combatting restrictive practices and provincial protectionism). Stronger framework of economic law.
Financial Sector Reform	Clear segregation and progressive phasing-out of mandated "policy lending". Promotion, including through institutional restructuring, of a competitive commercial banking system with full lending autonomy, but subject to prudential regulation and supervision, in keeping with international standards, by a strengthened central bank. In this context, phased deregulation of interest rates, and conduct of monetary policies through indirect mechanisms. In line with development of regulatory capacity, further diversification of money and capital markets, non-bank financial institutions, etc.
Private Sector Development	Level playing field for domestic private sector in access to capital, factors of production, materials and markets, and support services; and in tax and regulatory treatment. Streamlined, transparent procedures and legal framework for FDI.
Tax and Fiscal Reform	Standardisation of corporate income tax rates (including elimination of deduction on loan principal repayments). Broadening of tax base, including through expansion of VAT (with streamlining of rate structures). Strengthening of budgetary control mechanisms, including consolidation of "off-budget" accounts into budgets. Regularisation of center-local fiscal relations, e.g. through clear tax/expenditure allocation and placing redistributive element on more transparent basis.
Trade Reforms	Accelerated measures to render trade regime fully transparent with any remaining import protection provided through tariffs at relatively low and standardized levels. Freedom for importers and exporters to choose preferred institutional channels for trade (competing trade corporations, direct trading). Subject to safeguards on capital account, unification of exchange rate at market-determined parity (i.e. current account convertibility).

CHINA: SUMMARY OF BANK PROGRAM OBJECTIVES (cont'd)

Policy Area/Sector	Principal Objectives
Infrastructure Sectors	Completion of tariff reforms. Corporatization and arms-length regulation in e.g. power and railways. Promotion of commercialisation, competition and private investment in e.g. ports and telecommunications. Major strengthening of capacity to plan, finance and implement highways development.
Agriculture and Rural	Development and/or diffusion of technology packages for sustainable agriculture and forestry, especially in poorest and most environmentally vulnerable areas. Support for other sources of income generation for the poor (nonagricultural enterprise development, labor mobility). Continued commercialisation of agriculture sector, including through grain market reform. Strengthening of planning, co-ordination and resettlement arrangements for major (cross-provincial) water development schemes.
Education	Upgrading provision, financing and efficiency of basic education, especially in the poorest regions (and with particular emphasis on girls' access): universal coverage a key goal. Rationalisation of tertiary sector as basis for subsequent expansion. Support for development of new models of vocational retraining.
Health	Upgrading provision, financing and efficiency of basic health services, especially in the poorest regions (and with particular emphasis on maternal and child health care). Strengthened focus on preventive programs. Support for development of new models of health financing consistent with universal access and cost-effective provision.
Environment and Urban	Continued strengthening of institutional capacity for environmental protection at central, regional, provincial and lower levels. Further analysis of policy and implementation issues at grassroots level. In municipalities, support for new, market-friendly systems of urban planning; expansion of urban land markets. Local public services (sewage, etc.) to be placed on financially self-supporting basis (corporatization under appropriate regulatory framework).

55. <u>Issues for Board Consideration</u>. Board endorsement is sought for the program objectives and the proposed assistance strategy discussed above.

PART II: THE PROJECT

56. <u>Background</u>. Starting from a relatively low stage of economic development, China has successfully improved the health status of its people during the past four decades largely due to a sound policy of putting prevention first. Infant mortality has fallen from over 200 deaths per thousand live births before 1949 to about 30 now. Child mortality has been falling consistently since the mid-1970s. Childhood immunization, family planning, improved nutrition, better sanitation and housing, and accessible primary health care all contributed to these remarkable mortality reductions. Life expectancy of 70 years compares favorably with middle- and high-income developing countries and with many developed countries. However, benefits are not shared equally among the population and preventable health problems persist in poor rural areas. Moreover, the burden of noncommunicable diseases is increasing. Largely as a consequence of economic reforms and associated decentralization in the functions of government, poorer counties, constrained by their limited resources, are short of appropriately trained health health workers, of basic equipment and supplies, of adequate facilities and of sufficient operating funds. At the same time, the cost of health care at the township and village levels has been shifted during the 1980s from the public to the private payor.

57. About 70 percent of current health workers at the township and village levels have not received formal clinical training. The curricula in training institutions are not based on community health problems and are theoretical in content. The teaching tends to be ex cathedra. Supervision of the preventive and clinical work of health personnel is lacking, and a rich opportunity is missed to provide continuing education. These problems are exacerbated in the poorer counties. Furthermore, despite their limited training, rural doctors prescribe and sell drugs for profit, with more than half of their income coming from drug sales that are often medically unnecessary or inappropriate.

58. The Government has made rural health a national priority. In order to reach the goal of "Health for All by the Year 2000", Government strategy is to increase investment in the health sector and strengthen primary health care in rural areas. Concrete goals are to increase the number of health workers per thousand population from 0.6 to 0.8. Priority in health worker development is to train health professionals for rural health care.

59. Lessons from Previous IDA-assisted Operations. A number of lessons have been learned from the implementation of four health projects financed by the Association. They include the need to: (a) provide the health sector better trained personnel; (b) decentralize some operations such as training down to the prefecture and county levels; (c) strengthen the capability at the central level to monitor and evaluate project performance; and (d) ensure sustainability by carefully planning recurrent and other financial costs. These lessons are of particular relevance because the proposed project would be implemented in six provinces that have not benefitted from previous IDA credits for health improvement. Precautions have therefore been taken in the project design by: (a) using the prefecture and not the county as the planning unit for county schools with sharing of training services among counties; (b) stressing inservice training over preservice training; (c) incorporating a clearly defined central component to monitor and evaluate project performance, and to extract lessons for use in future programs; (d) ensuring inclusion of technical assistance for key activities; and (e) carefully planning the financing of recurrent costs.

60. Rationale for IDA Involvement. The proposed project builds on the Bank Group's earlier operations in the health sector. It also meshes well with both the Bank's sector study findings and the Government's health sector development strategy of favoring rural health care to reduce the rural-urban gap in access to health care services and emphasizing preventive care. The shortage of public funds for upgrading the quality of rural health personnel became more apparent in the process of decentralization, particularly in poor areas. Using its previous experience with the health sector, the Bank is in a position to help the Government in its efforts to adjust its rural health system. The project design stresses community-based health care and emphasizes disease prevention in training programs partially based on the Bank's experience in other countries. The project would develop a methodology that could be replicated in other counties within project provinces and in other provinces in China.

61. As in previous health projects, there is a strong anti-poverty focus of the project which gives it a priority for IDA's attention. Criteria for selecting prefectures in participating provinces target those with infant and maternal mortality rates, and illiteracy rates above provincial averages and those below the provincial average on per capita income.

62. Project Objectives. The goal of the project is to improve the quality of rural health workers, thereby contributing to better quality health services and an improved health status of the rural population in the project area. To achieve this goal, the project would: (a) strengthen health personnel planning in the six provinces and at the national level; (b) retrain and train better qualified teachers, health workers and managers by reorienting the training process through curriculum reform, a wider variety of teaching and learning methods, and better and more supervised practicums; (c) develop alternative means for mobilizing financial resources to support rural health care delivery, and compensating and providing incentives to the rural health workers to emphasize preventive care; (d) upgrade the physical conditions of training institutions and of health services facilities, improve inter-institutional coordination, and develop training networks with defined roles for each training institution; and (e) strengthen the national capability for carrying out work force planning and manpower policy formulation, for providing assistance to the project provinces and for evaluating the project activities and results in order to disseminate the experience gained to the rest of the country.

63. Project Description. The project has four components. The Health Workers Planning component (US$3.8 million base cost) will strengthen the planning capability at the national, provincial and local levels. This component will define the tasks to be done to solve health problems and will identify the demand, the requirements and the utilization for all health worker categories. The Health Workers Training component (US$123.8 million base cost) will retrain large numbers of minimally trained rural health workers, train additional workers for underserved areas, and strengthen the training capability at the provincial, prefectural and county levels. Technical assistance would be provided for developing and implementing community oriented curricula, new teaching and learning methods, teacher training in pedagogy, integration of theory and practice, and evaluation of changes and innovations. The Rural Health Services Management component (US$24 million base cost) will improve the working conditions of rural health workers, develop alternative means for mobilizing financial resources to support rural health care delivery, for organizing and managing rural health services, and for compensating and stimulating rural health workers to emphasize preventive care; and provide support systems for supervising these workers effectively. A small Central Component (US$1 million) will augment the institutional capacity of the Ministry of Public Health (MOPH) for coordinating and supporting project implementation activities. It will strengthen MOPH's capability to carry out its national mandate in planning and policy formulation, provide technical assistance to the project provinces, and evaluate project activities in order to disseminate the experience gained to the rest of the country.

64. Project Implementation. The project would be implemented over a six year period. Project management at the central level would be led by the Foreign Loan Office (FLO) of MOPH, which has experience in implementing six previous IDA projects. In each participating province, a Project Implementation Office has been established. The estimated total project cost is US$186 million equivalent, with a foreign exchange component of US$30 million (16%). The credit of US$110 million equivalent would finance about 59% of total project costs. To ensure the timely implementation of training and technical assistance, needed for a rapid start-up of the project, eligible expenditures made after October 31, 1992 and procured in accordance with IDA's Guidelines would be retroactively financed by the Association. Total retroactive financing would not exceed US$10 million equivalent. A breakdown of costs and the financing plan are shown in Schedule A. Amounts and methods

of procurement and disbursements, and the disbursement schedule are shown in Schedule B. A timetable of key processing events and the status of Bank Group operations in the country are given in Schedules C and D, respectively. A map is attached. The Staff Appraisal Report, No. 11404-CHA, dated July 12, 1993 is being distributed separately.

65. Project Sustainability. The proposed investment can be easily amortized by the beneficiaries as the expense for each province would be less than seven percent of their annual operating health budgets. Expenditures on operations and maintenance would be financed by local governments. The investment in enhanced quality of services may also generate additional revenue through increased utilization of health care services.

66. Actions Agreed. During negotiations, agreements were reached with the Government to: (a) establish an Equipment Selection Committee by June 30, 1994 applying equipment selection criteria acceptable to the Association; (b) make the proceeds of the Credit available to the project provinces in foreign and/or local currency repayable over 15 years, including a six year grace period. Project provinces would have a choice whether to borrow from the Government in foreign exchange or in RMB. The interest rate for onlending would be a dual rate: 1.5 percent for foreign currency expenditures and 3 percent for local currency expenditures. Project provinces would bear the foreign exchange risk where applicable; (c) ensure that the provinces make the credit proceeds available to prefectural and/or county governments on the same terms and conditions or on more concessional terms if warranted by the poverty level of the county or prefecture concerned; and (d) employ through completion of the project a full-time project manager in MOPH's Department of Education and a full-time project coordinator in MOPH's Department of Medical Administration for the purposes of coordinating project activities and supporting dissemination and replication of project findings.

67. Assurances were also obtained that provinces will: (a) make the credit proceeds available to project townships and villages without obligation of repayment by such townships and villages; (b) provide amounts satisfactory to the Association from provincial annual budgets as counterpart funds sufficient to carry out the project; (c) provide the counterpart funds for local governments in the poorest areas in case the contributions of these less developed areas should prove insufficient; (d) carry out the project in accordance with a performance plan with performance indicators acceptable to the Association; and (e) participate in a midterm review of the progress of project implementation by no later than November 30, 1996.

68. Program Objective Categories. This project aims to achieve two gender-specific outcomes: a substantial increase in the number of villages with female doctors and also of villages with female doctors trained and equipped to deliver basic maternal and child health care (MCH), obstetric care and family planning services. In order to reach these objectives, prefectures and counties have agreed to increase the proportion of female students entering secondary or county health schools and to ensure that women have opportunity to be enrolled. The provinces therefore would train more female rural doctors who will be better suited to handle the MCH and family planning aspects of the rural doctor's practice. The project would not adversely impact the physical environment. Poverty indicators were applied to select participating provinces and prefectures.

69. Project Benefits. At the end of project implementation, rural health care delivery in the project provinces will have been strengthened, and alternative means for mobilizing local financial resources and for compensating rural health workers will have been developed. Village clinics in the project area will be staffed by a trained village doctor and most villages will have two village doctors, one of whom will be female. Health personnel at the township level will be able to solve a broader range of health problems. Health care facilities at the township level will be repaired and equipped with appropriate medical technology. County and prefecture schools for training and retraining health workers will have been rehabilitated and expanded, and will have adopted a practice-oriented curriculum reflecting community health needs. The project's emphasis on the poor and its attention to maternal and child health problems will have reduced maternal mortality ratios in project areas. Project outcomes would also be relevant to the prefectures of the project provinces not included in the project and would be disseminated to other provinces in the country.

70. Project Risks. The project would change the way rural health workers are trained. Reforming established training patterns involves important conceptual and attitudinal changes on the part of provincial authorities, school administrators, teachers and managers, which are difficult to accomplish and difficult to measure. Training new students offers different incentives to schools than retraining existing personnel. Onlending of credit proceeds by the Borrower to the beneficiary provinces at higher interest rates and a shorter maturity may selectively induce some provinces to invest in counties that are more able to repay the loan, thereby potentially decreasing the intended full participation of the poorest counties. Implementing the study results on alternative ways of mobilizing local funds and paying providers would need government support for adoption on a large scale. However, the Government is keenly aware of the need for change in rural health care delivery and strongly supports the project's goals and objectives. Careful project planning, supervision, and monitoring as well as government assurances, would alleviate these risks.

71. Recommendation. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed credit.

Ernest Stern
Acting President

Attachments

Washington, D.C.
July 12, 1993

Mid-1991 Population (mils.): 1149.5
1991 Per Capita GNP in US$: 370.0

	A. Shares of Gross Domestic Product (from current price data)						B. Growth Rates (% per annum) (from constant price data)				
	1965	1973	1980	1990	1991	1992	1965-73	1973-80	1980-92	1991	1992
Gross Domestic Product, m.p.	100.0	100.0	100.0	100.0	100.0	100.0	8.5	5.6	9.2	7.2	12.8
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	38.2	32.3	30.4	28.4	26.6	24.2	2.8	2.0	5.4	2.4	3.7
Industry	35.0	40.7	44.7	38.8	40.7	42.3	12.1	8.5	11.1	12.4	20.8
(of which Manufacturing)	27.7	31.1	40.1	36.7	38.5	40.0	9.4	12.1	11.2	12.4	20.8
Services	26.8	27.0	24.9	32.8	32.7	33.5	20.3	7.0	10.5	4.4	4.0
Resource Balance	0.8	0.8	0.0	3.2	2.9	1.8	..	..	..	..	..
Exports of GNFS	4.2	4.6	6.7	17.6	20.1	20.4	2.1	4.1	11.2	14.4	14.7
Imports of GNFS	3.4	3.8	6.7	14.4	17.2	18.6	1.6	11.6	9.6	17.9	23.6
Total Expenditures	99.2	99.2	100.0	96.8	97.1	98.2	8.7	6.4	9.0	7.4	13.7
Total Consumption	75.2	70.2	67.8	59.7	61.5	64.2	7.4	5.3	7.7	10.3	17.0
Private Consumption	67.6	62.7	59.5	50.7	52.1	54.4	7.4	5.1	7.3	9.8	16.5
General Government	7.6	7.5	8.3	9.0	9.4	9.8	7.0	7.3	10.7	13.8	20.6
Gross Domestic Investment	24.0	29.0	32.2	37.1	35.5	34.0	12.9	8.9	11.4	2.8	7.9
Fixed Investment	..	..	24.0	25.1	27.9	31.7	..	..	11.9	18.8	28.2
Changes in Stock	..	..	8.2	12.0	7.7	2.3	..	..	..	-31.1	-65.7
Gross Domestic Savings	24.8	29.8	32.2	40.3	38.5	35.8	12.4	8.1	11.4	1.9	5.4
Net Factor Income	0.0	-3.3	0.1	0.0	0.4	-0.3	..	..	..	..	..
Net Current Transfers	0.0	0.0	0.2	0.1	0.1	0.1	..	..	..	..	..
Gross National Savings	24.8	26.5	32.5	40.3	39.0	35.7	12.7	8.7	11.3	3.5	3.3
In billions of LCU's (at constant 1987 prices)											
Gross Domestic Product	217	404	581	1367	1466	1654	8.5	5.6	9.2	7.2	12.8
Capacity to Import	34	45	85	217	245	281	2.8	9.5	9.7	..	..
Terms of Trade Adjustment	-7	-4	13	-1	-4	-8	..	..	..	..	..
Gross Domestic Income	210	399	594	1367	1462	1646	8.7	6.2	9.0	7.0	12.6
Gross National Product	217	404	581	1367	1472	1650	8.5	5.6	9.2	7.7	12.0
Gross National Income	210	399	594	1366	1468	1641	8.7	6.2	9.0	7.4	11.8

C. Price Indices	(1987=100)						Inflation Rates (% p.a.)				
	1980	1986	1988	1990	1991	1992	1965-73	1973-80	1980-92	1991	1992
Consumer Prices (IFS 64)	70.0	91.9	120.7	142.2	..	..	0.0	1.7	8.0	..	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	..	..
Implicit GDP Deflator	76.1	95.0	111.8	129.4	134.9	144.7	-1.6	1.5	6.1	4.2	7.3
Implicit Expenditure Deflator	74.5	95.3	112.6	126.7	132.3	143.0	-1.8	8.0	6.2	4.4	8.1

D. Other Indicators	1965-73	1973-80	1980-92		
Growth Rates (% p.a.)					
Population	2.7	1.5	1.5		
Labor Force	2.4	2.5	2.1		
Gross National Income p.c.	5.8	4.6	7.4		
Private Consumption p.c.	4.6	3.5	5.7		
Import Elasticity:					
Imports (G+NFS) / GDP(mp)	0.2	2.1	1.0		
Marginal Savings Rates:					
Gross National Savings	30.9	42.1	37.6		
Gross Domestic Savings	35.9	37.3	37.8		
ICOR (period averages)	..	..	3.3		
Share of Total Labor Force in:	1965	1973	1980	1990	1992
Agriculture	80.8	77.0	74.2	..	..
Industry	8.2	11.3	14.0	..	..
Services	11.0	11.6	11.8	..	..
Total	100.0	100.0	100.0	..	..

E. Merchandise Exports	Volume Index (1987=100)						Value at current prices (mill. US$)					
	1980	1988	1989	1990	1991	1992	1980	1988	1989	1990	1991	1992
X.FUEL	53.1	110.1	100.4	92.9	105.6	103.0	4273	3950	4321	5225	4821	4692
X.FOOD	42.7	104.0	116.7	137.3	157.4	196.0	3138	6200	6545	7095	7906	9214
	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..
Manufactures	42.6	117.8	134.2	156.6	184.9	216.2	9051	33110	37460	46206	55698	67948
Residual	35.9	114.9	113.8	94.6	94.1	96.3	1726	4258	4212	3537	3485	3144
Total Exports FOB	43.2	114.9	126.2	141.1	163.9	189.5	18188	47518	52537	62063	71910	84998
F. Merchandise Imports												
Food	72.0	115.9	154.9	142.8	122.1	137.1	3211	4191	5269	4474	3718	3910
Fuel and energy	21.2	184.8	323.4	190.7	390.2	660.8	203	787	1650	1272	2114	3570
Other consumer goods	38.5	93.9	100.5	104.5	125.1	194.5	544	1757	1866	2051	2507	4065
Other intermed. goods	78.3	130.0	131.1	97.1	120.3	164.4	10639	23391	23415	18327	23189	33064
Capital goods	31.3	111.1	119.8	114.6	133.0	142.2	5353	25150	26940	27225	32264	36000
Total Imports CIF	52.6	119.0	128.4	110.3	130.2	159.1	19950	55275	59140	53350	63791	80610

G. Merchandise Terms of Trade						
Merch. Exports Price Index	106.7	104.9	105.6	111.5	111.3	113.7
Merch. Imports Price Index	87.8	107.5	106.6	111.9	113.4	117.3
Merch. Terms of Trade	121.6	97.6	99.1	99.7	98.1	97.0

H. Balance of Payments	US$ millions (at current prices)					
	1980	1988	1989	1990	1991	1992
Exports of Goods & NFS	20085	51744	55693	65146	74713	88367
Merchandise (FOB)	18188	47518	52537	62063	71911	84998
Non-factor services	1897	4226	3156	3083	2802	3369
Imports of Goods & NFS	19950	55275	59140	53350	63791	80610
Merchandise (FOB)	17808	46367	49428	43021	51157	64645
Non-factor services	2142	8908	9712	10329	12634	15965
Resource Balance	135	-3531	-3447	11796	10922	7757
Net Factor Income	195	-690	-1251	-73	1519	-1129
(interest per DRS)	318	2194	3198	3142	3677	3676
Net Current Transfers	640	416	238	222	704	526
(workers remittances)	640	129	76	124	372	256
Curr A/C Bal before Off. Grants	970	-3805	-4460	11945	13144	7154
Net Official Transfers	-70	3	143	52	128	526
Curr A/C Bal after Off. Grants	900	-3802	-4317	11997	13272	7680
Long Term Capital Inflow	1984	9088	8625	8929	9122	13042
Direct Investment	57	2344	2613	2660	3453	9000
Net LT Loans (DRS data)	1927	6744	6012	6269	5669	4042
Other LT inflows (Net)	0	0	0	0	0	0
Total Other Items (Net)	-2216	-3623	-6038	-9356	-8295	-17148
Net Short-term Capital	0	585	-1899	-141	3534	546
Capital Flows N.E.I.	-3734	-3114	-4184	-6002	-12850	-10594
Errors and Omissions	1671	-1094	45	-3213	1021	-7100
Changes in Net Reserves	-667	-1663	1730	-11570	-14099	-3574
Net Credit from IMF	0	-83	-79	-490	-409	0
Other Reserve Changes	-667	-1580	1809	-11080	-13690	-3574
As share of GDP:						
Resource Balance	0.0	-0.9	-0.8	3.2	2.9	1.8
Interest Payments	0.1	0.6	0.8	0.8	1.0	0.7
Current Account Balance	0.3	-1.0	-1.0	3.2	3.5	1.6
Memorandum items:						
Reserves excl. Gold (mil. US$)	2545	18541	17960	29586	43674	47900
Reserves incl. Gold (mil. US$)	10091	24093	22802	34457	48274	51739
Official X-Rate (LCU/US$)	1.50	3.72	3.77	4.78	5.32	5.51
Index Real eff. X-R Base 1980	100.00	43.71	50.67	37.31	32.43	30.97
GDP (millions,current US$)	298120	378660	426020	370020	371450	434050

I. Government Finance	Share of GDP (%) 1980	1988	1989	1990	1991	1992	Growth Rates (%) 1980-89	1989	1990	1991	1992
Current Receipts	29.5	19.9	20.3	19.9	18.4	16.6	11.3	16.4	7.8	3.7	8.8
Current Expenditures	22.2	16.9	18.0	17.3	16.7	15.1	12.6	21.5	6.3	7.6	9.6
Current Budget Balance	7.3	3.0	2.4	2.5	1.7	1.5	..	..	..	..	..
Capital Receipts	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..	..	..
Capital Expenditures	10.6	5.4	4.7	4.6	4.2	3.9	9.5	-0.7	7.9	1.8	12.8
Overall Deficit	-3.3	-2.4	-2.4	-2.1	-2.5	-2.5	..	..	..	..	..
Offical Capital Grants	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..	..	..
External Borrowing (net)	0.5	0.8	0.7	0.7	0.6	0.6	..	..	..	..	..
Dom. Non-Bank Borrowing	0.0	0.7	2.1	0.4	1.1	1.0	14.7	220.0	-81.3	27.0	0.0
Domestic Bank Financing	2.8	0.8	-0.5	1.0	0.8	1.0	..	..	..	-29.3	0.0

J. External Capital Flows, Debt & Debt Burden Ratios	Net Disbursements (US$ mill.) 1980	1988	1989	1990	1991	1992	Debt Outstanding & Disbursed (US$ mill.) 1980	1988	1989	1990	1991	1992
Public & Publicly Guaranteed LT	1927	6744	6012	6269	5669	4042	4504	32544	36976	45284	50502	58476
Official Creditors	195	1355	2256	1705	2062	2239	447	10533	12015	14466	17041	19910
Multilateral	0	1083	1086	926	1302	1285	0	3753	4761	6076	7527	11495
of which IBRD	0	514	543	376	538	357	0	1832	2330	2865	3494	3752
of which IDA	0	557	486	495	599	778	0	1819	2275	2981	3623	4286
Bilateral	195	272	1170	780	760	954	447	6780	7254	8390	9514	8415
Private Creditors	1732	5389	3756	4564	3608	1803	4057	22010	24961	30818	33461	38566
Suppliers	..	..	..	..	..	..	..	..	..	..	..	..
Financial Markets	..	..	..	..	..	..	..	..	..	..	..	..
Private Non-Guaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total Long Term Debt	1927	6744	6012	6269	5669	4042	4504	32544	36976	45284	50502	58476
IMF Credit	0	-83	-79	-490	-451	0	0	1013	908	469	0	0
Net Short-Term Capital	0	0	0	0	0	0	0	8806	6907	6766	10300	10846
Total incl. IMF & Net ST	1927	6660	5933	5780	5218	4042	4504	42362	44791	52519	60802	69322

Bank and IDA ratios:	1980	1988	1989	1990	1991	1992
Share of Total LT DOD						
1. IBRD as % of Total	0.00	5.63	6.30	6.33	6.92	6.42
2. IDA as % of Total	0.00	5.59	6.15	6.58	7.17	7.33
3. IBRD+IDA as % of Total	0.00	11.22	12.45	12.91	14.09	13.75
Share of Total LT DSR						
1. IBRD as % of Total	0.00	4.16	4.55	7.05	4.92	5.67
2. IDA as % of Total	0.00	0.38	0.28	0.31	0.32	0.37
3. IBRD+IDA as % of Total	0.00	4.55	4.83	7.36	5.23	6.05
DOD to Exports Ratios:						
1. Long-Term Debt/Exports	21.21	60.97	64.07	66.26	62.91	64.14
2. IMF Credit/Exports	0.00	1.90	1.57	6.90	0.00	0.00
3. Short-Term Debt/Exports	0.00	16.50	11.97	9.90	12.83	11.90
4. LT+IMF+ST/Exports	21.21	79.36	77.61	76.85	75.74	76.04
DOD to GDP Ratios:						
1. Long-Term Debt/GDP	1.51	8.59	8.68	12.24	13.60	13.47
2. IMF Credit/GDP	0.00	0.27	0.21	0.13	0.00	0.00
3. Short-Term Debt/GDP	0.00	2.33	1.62	1.83	2.77	2.50
4. LT+IMF+ST/GDP	1.51	11.19	10.51	14.19	16.37	15.97
Debt Service/Exports:						
1. Public & Guaranteed LT	4.38	7.41	8.49	8.63	9.05	8.89
2. Private Non-Guaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00
3. Total LT Debt Service	4.38	7.41	8.49	8.63	9.05	8.89
4. IMF Repurchases + Srv Chg	0.00	0.25	0.25	0.81	0.59	0.00
5. Interest only on ST Debt	0.00	1.00	1.09	0.80	0.88	0.79
6. Total (LT+IMF+ST Int.)	4.38	8.67	9.83	10.24	10.53	9.68

Notes:

Data on Economic Indicators tables should follow the definitions and the concepts of the Standard Tables and Standard Attachments. The indicators should include data through the most recently completed calender year (or fiscal year in the case of fiscal year countries). Staff estimates may be used if final or preliminary actuals are not yet available. The use of estimates and preliminary figures should be indicated by:

e = estimated data
p = preliminary data

Schedule A

CHINA

RURAL HEALTH WORKERS DEVELOPMENT PROJECT

ESTIMATED COSTS AND FINANCING PLAN

Estimated Cost:	Local	Foreign	Total
	-------- (US$ Million) -------		
Manpower Planning	2.1	1.7	3.8
Manpower Training	106.3	17.5	123.8
Manpower Management	19.1	4.9	24.0
Project Management	2.2	1.1	3.3
Central Component	0.3	0.6	0.9
Total Base Cost	130.0	25.8	155.8
Physical Contingencies	4.5	1.0	5.5
Price Contingencies	21.7	3.0	24.7
Total Project Cost[1]	156.2	29.8	186.0

Financing Plan:			
Provinces	3.9	0.4	4.3
Prefectures	14.1	2.3	16.4
Counties	49.1	6.1	55.2
Central Government	0.1	0.0	0.1
IDA	89.0	21.0	110.0
Total	156.2	29.8	186.0

1/ Project-financed goods are exempted from duties and taxes.

CHINA

RURAL HEALTH WORKERS DEVELOPMENT PROJECT

PROCUREMENT AND DISBURSEMENTS

Procurement
(US$ Million)

Project Elements	Procurement Methods ICB	LCB	Other[a]	NIF	Total
Civil Works		18.1 (4.5)	22.2 (5.5)		40.3 (10.0)
Equipment	15.5 (12.6)	11.7 (8.8)	5.0 (3.8)		32.2 (25.2)
Vehicles				2.9 (0.0)	2.9 (0.0)
Furniture				4.3 (0.0)	4.3 (0.0)
Training			86.5 (61.4)		86.5 (61.4)
Technical Assistance			5.4 (5.4)		5.4 (5.4)
Research			8.0 (8.0)		8.0 (8.0)
Maintenance Cost				2.5 (0.0)	2.5 (0.0)
Operational Cost				3.9 (0.0)	3.9 (0.0)
TOTAL	15.5 (12.6)	29.8 (13.3)	127.1 (84.1)	13.6 (0.0)	186.0 (110.0)

Note: Figures in parentheses are the respective amounts financed by IDA.
NIF: Not IDA financed
a. Other methods include direct purchases and local shopping.

Disbursements
(US$ Million)

Category	Amount	% of Expenditure to be Financed
Civil Works	10.1	20%
Goods	25.1	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
Consultant' services, studies and overseas training	16.4	100%
Local training	58.4	70% of local expenditures
TOTAL	110.0	

Estimated Disbursements:

IDA FY	1994	1995	1996	1997	1998	1999	2000
	(US$ Million)						
Annual	16.2	22.1	28.1	21.5	14.3	5.7	2.1
Cumulative	16.2	38.3	66.4	87.9	102.2	107.9	110.0

Schedule C

CHINA

RURAL HEALTH WORKERS DEVELOPMENT PROJECT

TIMETABLE OF KEY PROJECT PROCESSING EVENTS

(a)	Time taken to prepare the project:	27 months
(b)	Project prepared by:	The Ministry of Public Health and six provinces
(c)	First Bank Mission:	June 1990
(d)	Appraisal Mission Departure:	October 1992
(e)	Negotiations:	March 1993
(f)	Planned Date of Effectiveness:	September 1993
(g)	List of relevant PCRs and PPARs:	None

The report is based on the findings of an appraisal mission which visited China in October 1992. Appraisal team members included Mr. W. De Geyndt (Task Manager and Senior Public Health Specialist), Ms. Xiyan Zhao (Human Resources Economist), Mr. A. Andonyadis (Architect) and consultants W. Hsiao, J. Johnstone, F. Moore and S. Sung. Consultants K. Cox, T. Hall and V. Wong participated in earlier missions. Peer reviewers were Mmes. H. Martinez (Educator), M. Young (Public Health Physician) and D. Vaillancourt (PHN Specialist). The Division Chief is Mr. Zafer Ecevit. The Department Director is Mr. Shahid Javed Burki.

STATUS OF BANK GROUP OPERATIONS IN THE PEOPLE'S REPUBLIC OF CHINA

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(As of June 30, 1993)

Loan/ Credit Number	FY	Bor-rower	Purpose	Amount (US$ million) (net of cancellations) Bank	IDA	Undisb.(a)
19 loans and 33 credits have been fully disbursed.				1660.4	1997.6	-
Of which SECAL:						
2967/1932	88	PRC	Rural Sector Adj.	200.0	93.2	-

2501	85	PRC	Changcun (Luan) Coal Mining	79.5	-	16.5
2540	85	PRC	Railway II	220.0	-	15.3
1664	86	PRC	Technical Cooperation Credit II	-	20.0	8.8
2678/1680	86	PRC	Third Railway	160.0	(70.0)(b)	60.2
2689	86	PRC	Tianjin Port	130.0	-	35.3
2706	86	PRC	Beilungang Thermal Power	225.0	-	6.7
2707	86	PRC	Yantan Hydroelectric	52.0	-	2.1
2723/1713	86	PRC	Rural Health & Preventive Med.	15.0	65.0	31.1
2775	87	PRC	Shuikou Hydroelectric	140.0	-	0.0
2783/1763	87	PRC	Industrial Credit IV (CIB IV)	250.0	50.0	16.6
2784	87	PRC	Shanghai Machine Tools	100.0	-	9.2
1764	87	PRC	Xinjiang Agricultural Dev.	-	70.0	5.8
2794/1779	87	PRC	Shanghai Sewerage	45.0	100.0	54.5
2811/1792	87	PRC	Beijing-Tianjin-Tanggu Expressway	25.0	125.0	21.0
2812/1793	87	PRC	Gansu Provincial Dev.	20.0	150.5	52.3
1835	87	PRC	Planning Support & Special Studies	-	20.7	8.8
2838	87	PRC	Fertilizer Rationalization	97.4	-	6.1
2852	87	PRC	Wujing Thermal Power	190.0	-	28.2
1871	88	PRC	Rural Credit III	-	170.0	5.8
2877/1845	88	PRC	Huangpu Port	63.0	25.0	52.0
2907/1875	88	PRC	Dalian Port	71.0	25.0	9.8
1885	88	PRC	Northern Irrigation	-	103.0	28.2
2924/1887	88	PRC	Coastal Lands Dev.	40.0	(60.0)(b)	4.9
1908	88	PRC	Teacher Training	-	50.0	2.0
2943	88	PRC	Pharmaceuticals	127.0	-	7.1
2951/1917	88	PRC	Sichuan Highway	75.0	(50.0)(b)	58.2
2952	88	PRC	Shaanxi Highway	50.0	-	4.0
1918	88	PRC	Daxing An Ling Forestry	-	56.2	3.9
2955	88	PRC	Beilungang II	165.0	-	28.3
2958	88	PRC	Phosphate Dev.	62.7	-	26.5
2968	88	PRC	Railway IV	200.0	-	72.2
1984	89	PRC	Jiangxi Provincial Highway	-	61.0	19.5
1997	89	PRC	Shaanxi Agricultural Dev.	-	106.0	49.0
2006	89	PRC	Textbook Development	-	57.0	2.1
2009	89	PRC	Integrated Reg. Health	-	52.0	25.0
3006	89	PRC	Ningbo & Shanghai Ports	76.4	-	22.8
3007	89	PRC	Xiamen Port	36.0	-	19.0
3022	89	PRC	Tianjin Light Industry	154.0	-	101.6
3060/2014	89	PRC	Inner Mongolia Railway	70.0	(80.0)(b)	32.5
2097	89	PRC	Shandong Agriculture Dev.	-	109.0	21.2
3066	89	PRC	Hubei Phosphate	137.0	-	111.5
3073/2025	89	PRC	Shandong Prov. Highway	60.0	(50.0)(b)	40.2
3075	89	PRC	Fifth Industrial Credit	300.0	-	154.4
2097	90	PRC	Jiangxi Agric. Dev.	-	60.0	22.4
2114	90	PRC	Vocational & Tech. Educ.	-	50.0	24.5
2145	90	PRC	National Afforestation	-	300.0	185.9
2159	90	PRC	Hebei Agricultural Dev.	-	150.0	79.9
2172	91	PRC	Mid-Yangtze Agricultural Dev.	-	64.0	30.6
3265/2182	91	PRC	Rural Credit IV	75.0	200.0	101.6
3274/2186	91	PRC	Rural Indust Tech (SPARK)	50.0	64.3	90.7
3286/2201	91	PRC	Medium-Sized Cities Dev.	79.4	89.0	110.4

Loan/ Credit Number	FY	Bor-rower	Purpose	Amount (US$ million) (net of cancellations) Bank	IDA	Undisb.(a)
3288	91	PRC	Shanghai Industrial Dev.	150.0	-	147.9
2210	91	PRC	Key Studies Development	-	131.2	93.7
2219	91	PRC	Liaoning Urban Infrastructure	-	77.8	26.3
3316/2226	91	PRC	Jiangsu Provl. Transport	100.0	(53.6)(b)	81.6
2242	91	PRC	Henan Agricul. Dev.	-	110.0	88.0
3337/2256	91	PRC	Irrig. Agricul. Intensif.	147.1	187.9	218.1
3387	92	PRC	Ertan Hydroelectric	380.0		136.5
2294	92	PRC	Tarim Basin	-	125.0	101.1
2296	92	PRC	Shanghai Metro Transport	-	60.0	47.5
3406	92	PRC	Railways V	330.0	-	287.0
3412/2305	92	PRC	Daguangba Multipurpose	30.0	37.0	53.9
2307	92	PRC	Guangdong ADP	-	162.0	146.2
3415/2312	92	PRC	Beijing Environment	45.0	80.0	108.9
2317	92	PRC	Infectious and Endemic Disease Cont	-	129.6	109.1
3433	92	PRC	Yanshi Thermal Power	180.0	-	141.8
2336	92	PRC	Rural Water Supply and Sanitation	-	110.0	103.4
2339	92	PRC	Educ. Development in Poor Provs.	-	130.0	108.1
3443	92	PRC	Regional Cement Industry	82.7	-	81.6
3462	92	PRC	Zouxian Thermal Power	310.0	-	289.4
3471	92	PRC	Zhejiang Provincial Highway	220.0	-	186.3
2387	92	PRC	Tianjin Urban Devt. & Envir.	-	100.0	99.3
2391	92	PRC	Ship Waste Disposal	-	15.0	15.4
2411	93	PRC	Sichuan Agricultural Devt.	-	147.0	129.3
3515	93	PRC	Shuikou Hydroelectric II	100.0	-	93.7
2423	93	PRC	Financial Sector Tech.Assist.(c)	-	60.0	58.8
3530	93	PRC	Guangdong Provincial Transport	240.0	-	228.0
3531	93	PRC	Henan Provincial Transport	120.0	-	106.7
2447	93	PRC	Ref. Inst'l and Preinvest.	-	50.0	45.6
3552	93	PRC	Shanghai Port Rest. and Devt.	150.0	-	150.0
2457	93	PRC	Changchun Water Supply & Env. (c)	-	120.0	121.0
2462	93	PRC	Agriculture Support Services (c)	-	115.0	116.9
3560/2463	93	PRC	Taihu Basin Flood Control (c)	100.0	100.0	201.7
2471	93	PRC	Effective Teaching Services (c)	-	100.0	100.7
3572	93	PRC	Tianjin Industry II (c)	150.0	-	150.0
3582	93	PRC	South Jiangsu Envir. Prot. (c)	250.0	-	250.0
2475	93	PRC	Zhejiang Multicities Devt. (c)	-	110.0	110.8
3581	93	PRC	Railway VI (c)	420.0	-	420.0
3606	93	PRC	Tianhuangping Hydroelectric (c)	300.0	-	300.0
3624/2518	93	PRC	Grain Distribution (c)	325.0	165.0	491.1
2522	93	PRC	Environmental Tech. Assist. (c)	-	50.0	49.3
			Total	9430.6	6862.8	7720.1
			of which has been repaid	677.1	3.7	
			Total now held by Bank and IDA	8753.5	6859.1	
			Amount sold: Of which repaid	-	-	-
			Total Undisbursed	4898.7	2821.4	7720.1

(a) As credits are denominated in SDRs (since IDA Replenishment VI), undisbursed SDR credit balances are converted to dollars at the current exchange rate between the dollar and the SDR. In some cases, therefore, the undisbursed balance indicates a dollar amount greater than the original principal credit amount expressed in dollars.
(b) Credit fully disbursed.
(c) Not yet effective.

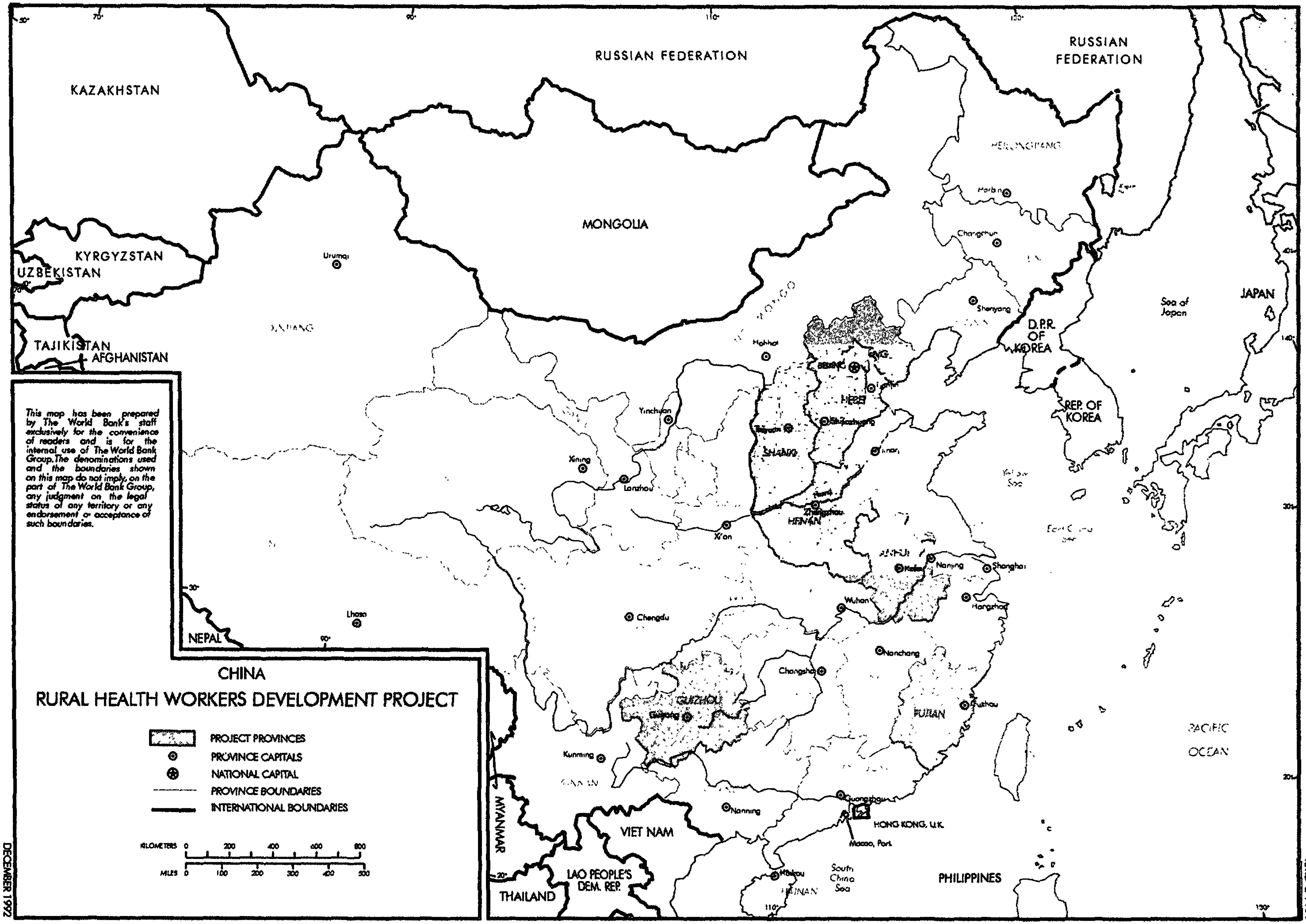
Schedule D
Page 3 of 3

B. STATEMENT OF IFC INVESTMENTS
(As of June 30, 1993)

Investment No.	FY	Borrower	Type of Business	Loan	Equity	Total
				------ (US$ Million)		-------
813/2178	85/91	Guangzhou and Peugeot	Automobile	15.0	4.6	19.6
974	87	China Investment Co.	Investment	3.0	0.0	3.0
1020	87	Shenzhen China Bicycles Co. Ltd.	Bicycle Manufacture	17.5	2.5	20.0
1066	88	Crown Electronics	Electronics	15.0	-	15.0
1119	89	Shenzhen Chronar Solar Energy	Solar (a) Energy	2.0	1.0	3.0
3423	93	Shenzhen PCCP	Manufacturing	4.0	1.0	5.0
Not yet signed	93	JV Commercial Bank	Banking	-	3.8	3.8
Not yet signed	93	Yantai Cement	Cement	28.7	2.0	30.7
		Total Gross Commitments		85.2	14.9	100.1
		Less cancellations, terminations repayment and sales		2.0	-	2.0
		Total Commitments now Held by IFC		83.2	14.9	98.1
		Total Undisbursed		28.7	5.8	34.5

(a) Loan subsequently cancelled.

MAP SECTION



DECEMBER 1992

IBRD 24460