

**THE WORLD BANK OPERATIONS EVALUATION
DEPARTMENT**



**Evaluation of the Effectiveness of the
World Bank's Analytical and Advisory
Services to China since 1990**

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**ENHANCING DEVELOPMENT EFFECTIVENESS THROUGH EXCELLENCE
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Acronyms

GDP	Gross Domestic Product
MOF	Ministry of Finance
SETC	State Economic and Trade Commission
SOE	State-owned Enterprises
SDPC	State Development Planning Commission
TVE	township and village enterprises
WBI	World Bank Institute
WTO	World Trade Organization

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1. Background

1.1 This background report reviews the World Bank's involvement in China's reform and economic development, and its contribution to policy research in that regard. An evaluation on the Bank's present role in China and existing problems will follow.

1.2 The World Bank began its activities in China in 1982. During the two decades since then, it has taken part in China's economic and social development through project investment; at the same time it deeply influenced the Chinese government in the policy-making process through the Bank sponsored research and consultation activities. The Bank reports on China in the 1980s have been highly appraised.

1.3 However, the World Bank's position in China's policy-making is on a down slope since the mid-1990s after reaching the peak of its reputation in the 1980s. No doubt that over the years China has accumulated its own expertise, while The World Bank seems to have been relaxing its high-level connection with China's policy makers. The Bank never changed its objectives in promoting China's reform and economic and social development, but its influence in China today is disproportionate to its reputed funding and manpower, to its superiority in development research.

2. The Role of the World Bank in China's Reform and Development Processes

2.1 Towards the end of the 1970s, China started the transformation from the planned economy to a market economy and from the rural and agricultural society to an urban and industrial society. In this process, there has been no such international organization as the World Bank that has generated such great influence with its stature as a knowledge bank.

2.2 In the 1980s, ideological debates still hindered the Chinese Government's policy-making. In 1982 the government directly controlled the prices of almost all industrial inputs, more than 90% of agricultural produce and most industrial consumer products. It also controlled distribution by using the planned allocation approach and a variety of coupons and certificates. The Chinese Government adopted the guideline of "incremental reform", namely by keeping the original planned allocation and interest structure unchanged while the incremental portion went into the market system, with the price decided by the market and producers getting the lion's share of revenues. Meanwhile, the government enforced the local finance decentralization system and the two-tiered pricing system, as well as the rural household production responsibility system and the urban SOE contractual responsibility system, which delegated the operational right to producers. This has, in turn, promoted the rapid growth of the economy and the development of the market economy.

2.3 In this step-by-step reform march, the World Bank's advantages in terms of its philosophy in relation to the market economy, its understanding of the expertise available from countries around the world and its analysis of China's situation has made it possible for the World Bank to put forward important opinions of the nature of guidelines and thus laid down the foundation for its unique position in the field of policy research on China.

2.4 The report entitled *China: Long-Term Development Issues and Options*, released in 1985, is the World Bank's single most important and influential country report for China. The report made a forecast of China's economic growth and affirmed the possibility of rapid growth. It also provided excellent analysis of, and crucial recommendations on, the major issues pertaining to structural adjustments, system reform and social policies in the course of economic growth. On the issue of economic development, the report mentioned the importance of developing infrastructure and the service industries like education, agriculture, energy and transportation. The urbanization of China was also involved. On the reform issue, the report discussed such key issues as transforming SOEs by the share-holding system, constructing and improving the accounting and legal systems, and conducting the pricing reform. In regard to social policies, the report explored the issues of social security, housing, social services, population, rural poverty, and so on. This report outlined China's reform priorities, affirmed the Chinese Government's "step-by-step" reform approach in all the fields mentioned, and came up with crucial policy recommendations.

2.5 The World Bank's report attracted great attention from the Chinese Government. Recommendations concerning economic development were directly adopted. For instance, it became the government policy that some infrastructure sectors, such as agriculture, education, energy and transportation, should be developed as a priority. Some recommendations contained in the World Bank's report, such as share-holding reform of SOEs and social security reform, failed to get the attention of the Chinese Government then or to become policies immediately. However, in the 1990s, as the need gradually became pressing, these recommendations were put onto the government agenda one by one. Even when we read this report nowadays, we can't help admiring the insight and foresight of World Bank experts.¹

2.6 The task of the Chinese economic system reform changed dramatically in the 1990s. The total value of China's GDP doubled in the 1980s, which meant that, with the growth of the economy, the market economy had accounted for quite a large share of incremental output. The Chinese Government had to face a two-fold task: 1) to reform the government's macro-economic management, particularly on fiscal, taxation, foreign exchange and pricing, in

¹ The previous Premier, Mr. Zhao Ziyang, accepted the World Bank proposals in his government working report. He greatly admired the World Bank report to such an extent that the seventh Five-year plan drafted by the State Planning Commission was rejected. And the State Economic Restructuring Commission was later required to work out a seventh Five-year plan on the basis of the World Bank report.

order to integrate the two-tiered economy; and 2) to reform the state-owned economy which had increasingly exposed their low efficiency in the course of competition.

2.7 Since the 1990s, China has achieved progress in its macro-economic management, the reform of the state-owned economy, and the reconstruction of social policies.

2.8 In connection with its macro-economic management, the government began with a fight against inflation from 1992 to 1996 and realized a “soft landing” of the Chinese economy. While taming inflation, towards the end of the year 1993, the government unveiled its macro-economic management system reform package, by changing the local public finance contractual responsibility into the tax revenue sharing system between the central and local authorities, reforming the structure and system of system of taxation, launching a series of pricing system reforms like those on foreign exchange rates and product prices, and reforming the central bank’s management system.

2.9 The Asian financial crisis starting from 1997 was a litmus test for the Chinese Government’s macro-economic management ability. The Chinese Government adopted pro-active fiscal policy that stimulated the national economy and maintained rapid growth. Accession to the World Trade Organization (WTO) was a decision by the Chinese Government to expand the opening up drive and deepen the economic reform. China’s WTO membership was achieved in 2001.

2.10 Although the Chinese Government has made efforts in the state economy reform, due to ideological restrictions and concerns about social stability, this reform has not progressed very smoothly. The majority of small SOEs have been transformed into privately owned or operated ones, but due to the lack of uniform rules and government regulation, there has been a low level of transparency in the process of ownership transformation, and a lot of social contradictions have emerged. Large SOEs have undergone the corporatization reform and been de-linked from central government ministries/commissions, with which such enterprises used to be affiliated, but the government still lacks an effective mechanism for the supervision and regulation of these large companies. In order to introduce competition, the government has turned to the approach of breaking up state monopolies in the sectors of petrochemicals, telecommunications, electric power and civil aviation.

2.11 In relation to the rural economy, the government has used measures of extending the land contract period by another thirty years, stabilizing grain purchasing prices and reforming the rural tax/fee system, but the farmers’ income has increased slowly, and the income gaps between the urban and rural areas and those between regions have widened.

2.12 With regard to social policies, the government began the reform of the social security system in 1994 and, after selected tests, decided on the “three-pillar” model and the management mode with relative concentration. However, most pension insurance individual accounts are unfunded, and the coverage of social security is limited to cities.

2.13 The government has achieved a great success in poverty alleviation in rural areas, and the poverty-stricken population has dropped to 30 million, down from 80 million in the 1990s.

2.14 The World Bank has played a positive role in China's reform and development in the 1990s. It had made greater contributions in some fields than in some others, but its overall influence has been on the decline. The reasons are to be identified through the following case analysis.

3. Macro-economic Management

3.1 The World Bank played an important role in the Chinese Government's macro-economic management in the first half of the 1990s.

3.2 China's reform came to a halt after the political turmoil of 1989. In the spring of 1992, Deng Xiaoping toured and spoke in South China, as a result of which a new wave of reform was ushered in. Along with this wave came high-speed economic growth, overheated investment and inflation. Should the government adopt resolute measures and continue to rein in the overheated economy, or should it bow to pressures from various quarters and relax monetary and fiscal policy so as to maintain rapid economic growth?

3.3 From the perspective of a sober observer, the World Bank supported the view of controlling the overheated economy. Such support was crucial for Mr. Zhu Rongji, then Vice Premier who had just taken over the economic portfolio in the State Council. Mr. E. C. Hwa, Senior Economist with the World Bank Office Beijing, analyzed the economic situation in China and wrote an internal working report on a quarterly basis. In his report dated November 1993, he pointed out that the Chinese Government's measures on stabilizing the economy were achieving good results, and that inflation would come again if monetary policy were to be relaxed at that time. This report was recommended to then Vice Premier Zhu Rongji. After reading the report, Premier Zhu instructed the *People's Daily* newspaper to publish the full report and lots of attention was attracted from various circles in China. Based on Mr. E. C. Hwa's background as a World Bank expert and the Bank's powerful position in China, this report strongly supported Vice Premier Zhu Rongji's viewpoint in China's heated debate about its macro-economist policy. In the author's interviews, the report has often been mentioned whenever the interviewees talk about the World Bank's contribution to China's reform.

3.4 Another event very crucial to China's macro reform was the international workshop on "China's Macro-economic Reform" co-sponsored by the World Bank and China's State Economic System Reform Committee and held in the Chinese city of Dalian in June 1993. It was convened three months after Zhu Rongji assumed the post of Vice Premier responsible for economic policy in the newly formed administration. He was then confronted with 2-digit inflation rate and under pressure from Deng Xiaoping and the general public for greater efforts to push ahead with the reform drive. The workshop convened at such a time in moment has generally been regarded as extremely timely and important.

3.5 The workshop was relatively small in scale and attended by 14 foreign scholars and World Bank officers as well as 24 Chinese Government officials. The economic situation and short and medium-term policy options were discussed. Both Chinese and foreign participants agreed unanimously to the need to push ahead with the economic reform to curtail inflation and at the same time maintain steady economic growth. On behalf of the World Bank and foreign scholars, Mr. Shahid Burki, Director of China and Mongolia Bureau of the WB made suggestions to the Chinese Government in his concluding remarks. The short-term countermeasure was to increase the interest rate while rectifying the financial system, controlling investments, unifying the fixed official and market exchange rates, and speeding up price reform, especially in such fields as energy. The medium-term option was to reform the People's Bank of China by, inter alia, abandoning non-central banking business operations and retaining independence from local governments; to reform the fiscal system by reforming the fiscal revenue structure, expanding the tax base by means of levying the property and land tax, the individual income tax and the value-added tax, implementing the tax sharing system, and altering the public finance distribution relationship between the central and local authorities. There were also a series of practical suggestions on issues of the income gap widening between regions and individuals.

3.6 There were seven Chinese reports presented to the meeting, respectively on macro-economic management, monetary policy, the fiscal system, the taxation reform, the distribution system, industrial policy and state-owned assets management. The World Bank officers and other foreign experts offered comments on these reports and, by way of discussions, presented their views and recommendations. These comments, discussions and suggestions enriched the reform thoughts. Thanks to the support from the WB based on its rich international experience and knowledge, uncertainties and risks caused by the reform were reduced. That made it easier for the Chinese Government to approve a resolution on the reform. That meeting turned out to be a lever in the reform resolution formation of the Fourth Plenary Session of the 13rd CPC Central Committee and in the Chinese Government reform practices at the end of 1993 on macro managerial systems in fields like fiscal, taxation, foreign exchange and pricing.

3.7 It is worth mentioning here that the participants on the Chinese side were four ministerial and twenty directorial officials. Now, nine of the twenty have been promoted to vice minister or minister. Right timing and the right participants may magnify the policy effects on the basis of relatively small inputs.

3.8 The Chinese Government attaches great importance to the World Bank's economic forecasts and analysis as the basis for its macro-economic decision-making. At the end of each year, the Chinese Government convenes a national economic working conference to deploy the next year's work, and at such a conference the World Bank's data have often been quoted by national and ministerial leaders.

3.9 Technical assistance is yet another contribution of the World Bank to China's macro-economic management. In the design of the value-added tax, the Bank provided help and

suggestions back in 1993. Under the Fiscal Reform TA and related economic and sector work, the World Bank has provided extensive advice and capacity building assistance on almost the entire range of fiscal systems, fiscal management and fiscal policy issues, culminating in two incisive reports on a central problem of the public finance system of China—intergovernmental fiscal relations. In the new round of the fiscal system reform starting in 2002, the Bank is also providing TA in budget compilation, state treasury management and so on. In the taxation reform, Chinese State Administration of Taxation has put forward the idea of building up the “Golden Tax Project” with an electronic network, which has also got the Bank’s TA. In addition, the People’s Bank of China has obtained help from the World Bank in connection with the research into the foreign debt statistics system, bond issue, interest rate marketization and so forth.

3.10 Furthermore, the World Bank has cooperated with China’s State Development Planning Commission (SDPC) and put forward recommendations concerning the formulation of China’s five-year and annual plans. It produced a series of 21 technical papers on Tenth Plan challenges, which were then tabled by then Vice Premier Wen Jiabao at the January 2000 conference to design the Plan. These recommendations have served as an important basis for the decision-making process of the SDPC.

3.11 During the latter half of the 1990s, the World Bank released several country reports, among which the most important one was *China 2020* published in 1997. It put forward the idea that there should be a sound institutional foundation for the operation of the market economy and that it is necessary to build a society with competition and full of care. It also touched upon the need to ensure moderate grain supply, environment protection, integration into the global economy, and so on. The Bank depicted two scenarios for China’s future. And there were good proposals on how to realize a harmonious development of the economy, society and environment in China and how to achieve a situation of sharing the prosperity between China and the world. That report got lots of attention from Chinese researchers, but failed to attract the kind of government reaction as the one back in 1985.

3.12 One of the reasons was due to the Asian Financial Crisis in 1997, which absorbed the full attention of the Chinese Government. The second one was that the increased hardship of reform and a smaller room for maneuver reduced Chinese leaders’ willingness to speed up the reform process and restricted their ability to manage such a process. Thirdly, the report pointed out China’s weaknesses and reform objectives, but it had no in-depth analysis on China’s existing situation and no elaboration on the approach needed to achieve these reform goals. Chinese leaders were inclined to believe that weaknesses and objectives had already been clear and that situational analysis and methodological research were what they really needed. Fourthly, in 1998 when China was fighting both against the Asian Financial Crisis and the domestic catastrophic flood, the World Bank decided to terminate its soft loan to China. Undoubtedly, that timing was the worst although such a decision would not be welcome at any time. That event was also thought of as a negative factor for the Bank in its influence with the Chinese Government.

3.13 The World Bank has published a number of national reports on China after 1997; however all are with relatively insignificant impact. At the time the whole world was facing the Asian financial crisis and worldwide deflation, which are new topics to the Bank as well. It takes time to relate the problems to international experience and to build theoretical models, therefore is difficult to produce predictions and policy recommendations.

3.14 Since 1998, the World Bank has continued its research focus on both macro and micro issues. It works on more than 10 subjects annually, mostly in response to Government Department requests. Also, since 1999 it has integrated standard operational analysis through economic and sector work, with research done by the Bank's research complex, and training and capacity building delivered through WBI. Much of the work has shifted to the less visible "engineering" aspects of economic reform that are less visible to casual observers, rather than the simpler "liberalization" measures that characterized the early stage of involvement with China. There has also been an increase in rapid response policy notes, but not at the cost of more detailed strategic pieces on rural poverty, urbanization, education, knowledge economy, public finance, corporate management, financial sector reform, etc. The advantage of this practical set-up is to quickly convert research findings into policies, which was welcomed by the government departments, while at the same time it risks losing perspective on overall and long-term issues, hence the position of shedding significant impact on decisions with nation-wide importance.

4. State-owned Enterprise Reform

4.1 SOE reform is still a difficulty in China. SOEs enjoy a large quantity of assets and new investments, but their share of output is declining.

4.2 SOE reform in China can be divided into two phases. From 1978 to 1992, the emphasis was to shift power to enterprises, including the distribution incentive schemes in the form of an enterprise retaining profits as adopted in the early stage and the "contractual responsibility system" as used in the later stage. In 1993 the Third Plenary Session of the 14th CPC Central Committee set up the reform objective of establishing a modern enterprise system in the corporate form. In the meantime, the state-owned small enterprises were allowed to lease or sell out to groups or individuals. The formally issued SOE guideline, in 1995, was called "Focusing on the Big and Letting Go the Small" whereby large SOEs were to be corporatized and small ones transformed through reorganization, union, mergers and acquisitions.

4.3 SOE reform is also the World Bank's emphasis for research and policy recommendations. As this reform involves a range of complex issues like ideology, political system, enterprise's external environment, enterprise's internal incentives, staff employment and social welfare, the World Bank's contribution in this regard is mainly its longer-term effect that has been realized through Chinese scholars and officials.

4.4 China's SOE reform is finally on the track of "corporatization". Although it was proposed by some Chinese scholars before 1985, it was not formally stated in the international

community until the World Bank released a report in 1985. Improved and publicized by such Chinese scholars as Wu Jinglian, the Bank's recommendation in that report was accepted by the Chinese Government in 1993 and included in the official document of the Third Plenary Session of the 14th CPC Central Committee in November 1993. It was a turning point where China's SOE reform changed from lowering taxes to making transformation in corporate form.

4.5 In order to propel the SOE corporatization reform, the World Bank has made quite a lot of efforts by presenting research reports and holding seminars.

4.6 In June 1995, the World Bank, China's State Economic and Trade Commission (SETC) and the Chinese Ministry of Finance (MOF) co-sponsored the "International Workshop on Chinese SOE Reform Policy Alternatives". The World Bank Private Sector Development Department provided a research report based on international experience, in which three instruments of the SOE reform were mentioned: 1) corporatization and reorganization; 2) bankruptcy; and 3) privatization. However, the corporatization reform makes it necessary to solve three issues: the policy framework, internal governance and external incentives.

4.7 One project team of the People's Bank of China funded by a World Bank grant presented a research report on Chinese SOE debts to banks. Headed by Wu Xiaoling, the team conducted surveys in four cities. They mastered the situation of SOE operation and liabilities, classified the SOE liability issues, and proposed solutions.

4.8 Summarizing the research in the two fields as mentioned above, one of the key achievements of the seminar was the change in the original thoughts of "all SOEs should be kept in good shape" by recognizing that mergers and bankruptcies were also SOE reform means. After the meeting, the State Council formulated a regulation on enterprise mergers and bankruptcies designed to direct the SOE reform nationwide.

4.9 On the Chinese SOE reform, the World Bank has written several excellent research reports, among which the *Chinese Enterprise Assets Management: State as Shareholder* published in June 1997 was one representative study. The report was based on its surveys in China from 1994 to 1996. In the report there was analysis on the SOE reform situation and twenty-three detailed and practical suggestions respectively on four aspects of the Economic Legal Framework and SOE Property Rights, the Reform of Organizational Structures, Corporate Governance, as well as the Financial Accounting System and Controls.

4.10 Although some of those suggestions were adopted, the Chinese Premier Zhu Rongji issued in 1998 a new round of SOE reform guidelines called "controlling one aspect, managing another aspect and stabilizing a third aspect", which were to control repetitive investments, strengthen supervision on SOE managers, and stabilize staff. Those practical short-term guidelines were evidently of no use to the fundamental problems facing Chinese SOEs. The World Bank's suggestions might be reconsidered by the government after a time lag.

4.11 In the World Bank reports, the experience and lessons of SOE privatization worldwide were often mentioned, but they kept avoiding this in their suggestions to the Chinese

Government. In 1998 the 15th CPC National Party Congress released “focusing on the big and letting go the small”, i.e. to continue the corporate governance reform on the large SOEs and in the meantime to implement the property right system reform on the small ones through reorganization, union, mergers and joint-stock company transformation. By the end of 2000, 81% of the 634.9 thousand small SOEs had finished the transformation process from state-owned to non-state-owned. Owing to the lack of national policy research and direction, that process was not up to the standard. Many transfers were up to the individual negotiations between the local government and private owners. Because the State interest was harmed and the staff felt insecure, there were many contradictions and conflicts. There were some descriptions in World Bank research reports, but no further research was forthcoming, either by the Bank staff or by funding the Chinese side. It has been a great pity.

4.12 One of the priorities on the part of the Chinese Government in recent years is the state sector reform of monopolized industries. The World Bank has presented important research reports on the reforms of electricity and petrochemical sectors and offered suggestions on how to stimulate the intra-industry competition, how to separate the government’s social functions from its ownership status and how to implement effective supervision on the market. The WB has played an important role in the reform of the above-mentioned sectors.

5. Social Security System Reform

5.1 The Social security reform is one of the World Bank’s significant contributions to China’s social reform.

5.2 Even in its report of 1985, the World Bank had already pointed out the need to reform the system whereby enterprises had to shoulder the burden of social security. In 1993, at the Fourth Plenary Session of the 13rd CPC Central Committee, the reform target was set up of “combining social pooling with individual accounts”, which was put into action in March 1995.

5.3 The pension system reform is also typical of the Chinese reform style referred to as “crossing the river by touching stones”. Before the World Bank’s report, the Chinese Government merely had a framework in principle on the pension system reform. During the reform initiated in March 1995 no agreement could be reached among various departments, so the State Council issued two different sets of concrete operation programs for local governments to choose freely from and make revisions.

5.4 In 1994, the World Bank released *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, in which the multi-pillar pension system scheme was stated. In August 1995 the World Bank investigation team came to China and released the report entitled *China: Pension System Reform* in September 1996.

5.5 In that report the three-pillar pension system scheme was elaborated in detail, the implicit debts of Shenyang and Shanghai, two Chinese cities, were estimated, all the possible outcomes brought by the three-pillar scheme were simulated, and feasible proposals were given

on fund-raising and management of the pension system. All those were extremely important to the Chinese Government, which was short of experience and hindered by local and sector interests.

5.6 In 1997 the Chinese Government promulgated the *State Council Decision on Establishing a Uniform Social Security System for Enterprise Staff*. The three-pillar model was introduced and the World Bank's suggestions, such as the fund coming under the management and allocation of city-level and provincial governments, were accepted. Nevertheless, there still existed quite a few problems in fund-raising, fund operation and social security system management.

5.7 Thereafter China held some international workshops discussing some headaches like implicit debt that had emerged in the reform process. World Bank experts made presentations on reform experience all over the world and relevant research done by the Bank.

5.8 One relatively important workshop was the "China Development Forum on Social Security Reform" held in August 2000 sponsored by the Development Research Center of the State Council. World Bank experts presented three research reports. Chinese Premier Zhu Rongji met with some participants. He listened to their suggestions, including those from World Bank experts and asked five questions over which he was also pondering. His questions included "Whether China should give up individual accounts and fund accumulation and go back to the pay-as-you-go scheme". In response to those questions, World Bank experts Louise Fox and Mark Dorfman wrote two proposals respectively. At that time there was a saying from some Chinese experts who were just back from a European tour that the pay-as-you-go model in Europe was still going well and that China was incapable of handling individual accounts. They believed that China should go back to the pay-as-you-go scheme. That was thought of as the background for Premier Zhu's questions. Premier Zhu read these two proposals seriously and mentioned them at one time when he met with some foreign experts by saying that these two proposals were written quite well and that he read them till late night.

5.9 Banking on its knowledge reserve, the World Bank was able to meet the Chinese Government requirements of responding to its consultation, which on the one hand prevented a possible step backward in the social security reform and on the other hand strengthened the Chinese Government's decision to collect foreign experts' suggestions on this issue. In the second half of the year 2000, after top Chinese leaders discussed the pilot scheme of enhancing the social security reform in Liaoning Province, Premier Zhu once again gave the instruction to invite foreign experts, including those from the World Bank, to come to China for comments. Some revisions were made in the scheme based on the opinions from foreign experts. It is rarely seen that a reform proposal would directly be given to foreigners for discussions in China. This has happened to a large extent because of the expertise, experience and contributions to China's reform on the part of foreign experts, in particular those from the World Bank.

6. Analysis and Recommendations

6.1 The three cases mentioned above are just quoted for analytical purposes. The World Bank's policy research coverage is much more extensive, with research reports of far-reaching impacts involving environmental protection, poverty reduction, housing reform and so on. In the gradual reform process over the twenty plus years, China has had persistent support and assistance from the World Bank, whose contributions to China's reform and development have won the recognition and respect from the Chinese Government and various circles. With regard to policy research and advice, the World Bank ranks the top in China among all the international organizations. To some extent China's progress and success can be taken as the World Bank's success.

6.2 The success of the World Bank in its policy research on and advice to China can be attributed to the following reasons:

6.3 Sticking to the market economy while respecting China's national situation and supporting the gradual reform model. All the World Bank's studies and recommendations were to encourage China to persist in the market economy orientation in its reform process. Especially during the two stagnant years after 1989, the World Bank was one of the few voices that could be heard standing for China's market economy reform. Hence it's great value. On the other hand, the World Bank has persisted in supporting China's gradual reform option in order to maintain stability in the transitional period.

6.4 Cooperating with, instead of imposing its views on, the Chinese Government. When Chinese Government officials talk about their experience with World Bank officers, they usually describe such mutual respect as one of the important reasons behind the Bank's success in China. Since 1989, even though China has been encountering international criticisms and World Bank officers have been under various kinds of pressures from the Board of Directors, the Bank has never changed in its cooperative attitude toward the Chinese Government, which has added to the sincerity and value of the Bank proposals to an even greater extent.

6.5 The World Bank possesses a sound knowledge base and continuity in its China observation and research. As a result, the Bank's suggestions are based both on economic theory and international experience as well as in light of the situation in China. This characteristic is found across a wide spectrum of WB recommendations in relation to China's reforms of the fiscal system, SOEs and the social security system. As a consequence, such recommendations have attracted attention from the Chinese Government.

6.6 A good sense of the right timing. The year 1993 was a crucial year for the Chinese Government when it was facing inflationary pressures and hoping to make full use of all sorts of resources to push ahead with the reform process. At such an important juncture came recommendations and comments from the World Bank, and such timing could attract the spotlight. In addition, owing to the gradual nature of China's reform process, many policies are

made within a short period of time and thus characterized by their temporary and exploratory nature. On the basis of its research reports, the World Bank can change report conclusions into concise policy recommendations and make them available to the Chinese leadership on a timely basis, should it become apparent that there are clearly-defined policy needs from the Chinese Government. For instance, the Bank's proposal on China's social security system reform has achieved good effects.

6.7 Participating in policy research and putting forward recommendations by a variety of means. It can be concluded on the basis of the successful examples cited earlier in this paper that influence on China's decision-makers can take the form of research reports, policy notes or even papers for and speeches at seminars. Nevertheless, considering the tight schedule of government decision-makers, short suggestions may do a better job.

6.8 Channels for information transmission. In the 1980s, the chief representatives of the World Bank Beijing Office had friendly personal relations with the leaders of Chinese State Council and many key ministries and commissions. In this case, it was much easier for them to communicate with each other. In the 1990s some crucial researchers who had always had good working relationships with the Bank had been promoted to ministers or department directors in the government. They became an important communication medium.

6.9 However, in the late 1990s the influence of the World Bank in its China policy research was diminishing. A lot of resources were devoted to research reports, but they failed to get attention from the Chinese side primarily because of three reasons: the progress of Chinese researchers, difficulties in the reform process, and the problems associated with the Bank itself.

6.10 First of all, the fact that the influence of World Bank research and advice was declining in the 1990s reflected the progress of China in regard to theoretical and policy research. During the early 1980s, the knowledge gap between World Bank and Chinese experts was just like that between a university professor and a primary school student. Along with China's opening-up and the maturity of its experts, the two sides could communicate with each other on an equal knowledge footing in the 1990s.

6.11 Secondly, unlike the 1980s, the reform process in the 1990s became much more difficult in China. Despite the strengthening of the Chinese economy, the current reform was different from the incremental reform that China had engaged in earlier that had very little to do with any changes in vested interests. The current reform would necessarily change the distribution of interests, harm the interests of some groups and thus lead to much fiercer conflicts than in the 1980s. As such, the government would have much fewer options in its efforts to push ahead with the reform process. Under such circumstances, the suggestions from World Bank experts are correct in many cases, but the Chinese Government finds it very hard to adopt them because of various constraints. Some issues, like protection of the private property rights, are matters of political will and beyond the reach of World Bank policy research and technical assistance.

6.12 The World Bank has been highly successful in a number of its policy research projects. The key factors accounting for past success seem to be no longer consciously taken advantage

of by the Bank, which undoubtedly has contributed to the waning of the Bank's influence in China.

6.13 Publication and broadcasting of research findings. I would like to refer to the World Bank as a "bank of knowledge". Yet the Chinese readers of the World Bank reports seem to not be well taken into consideration in the format in which the reports are published. There are very limited Chinese readers of the lengthy reports in English; the long lag in publication of the Chinese versions with a lack of continuity also cut down the number of readers. Presently the only one regularly published periodical is the *Economic Situation Analysis* with limited space, therefore many good recommendations and research findings do not find a channel to reach potential readers.

6.14 Lack of perspective on long-term development issues. Since the 1990s, the World Bank seems to have been overly interested in the SOEs in China. Its focus has shifted away from urbanization, education, transportation (within the cities) etc., which are considered as long run and inclusive for China in the foreseeable future. It is the World Bank's own stated principle to respond to the urgent needs of the countries in transition when planning research projects. However, as a matter of fact, the potential and really important issues of the target countries often differ from what is articulated officially. It is the World Bank's job to identify and pick up the vital important issues by its own expertise; otherwise the power of the Bank's influence will erode if the key and long-term issues are missed.

6.15 The World Bank may need to put regular efforts into updating its connections with the Chinese policy-making communities, and to widen its broadcasting channel. When the time comes for cooperating senior researchers to retire or to be transferred and/or promoted, the World Bank did not take enough follow-up actions to update its network in China. Then over time its connections with the Chinese counterpart narrows down.

6.16 The World Bank is endowed with a large number of distinguished researchers with extensive international experience and rich knowledge. However, in order to make full use of these resources, some adjustments must be made in China on topic selection, expression form, and building of a cooperation network and transmission channel. Some basic principles could be learnt from corporate marketing. The following are a number of recommendations:

6.17 Paying attention to potential needs. Such needs cannot be articulated by a single Chinese Government agency. The World Bank has recently undertaken a useful experiment to identify the fields of actual needs through questionnaires among Chinese researchers. Another method is to hold small workshops by inviting Chinese researchers specializing in the same field for a brainstorming session in order to develop a clear understanding about the progress of a particular research area and the existing problems. World Bank experts may either join such a brainstorming session or entrust Chinese experts with the task of convening such a meeting and producing a summary.

6.18 Setting up a Chinese expert advisory team. The World Bank China Resident Mission may set up such a team composed of 5-7 Chinese experts. Their responsibilities are: 1)

clarifying the actual needs and making suggestions on the key research fields; and 2) assessing the World Bank's China research reports from the perspective of Chinese experts as a reference for the World Bank's performance evaluation.

6.19 Formulating a specific output format. World Bank reports are really good products, but they need packaging and advertising. The Bank's country reports and research reports are already famous, but it is better to draw out important and concise information for the purpose of drafting recommendations. The structure of these recommendations may be different from that for executive summary; rather it should focus one or two most important findings, with the paper no more than 3,000 Chinese words. In order to achieve a stable expectation, these proposals could be released separately and periodically, possibly 20 issues per year and circulated within a small range of the Chinese Government.

6.20 Expanding the network of contacts. Various forms could be used to make this expansion, such as mailing materials and co-hosting seminars.

6.21 Strengthening the investigations into, and studies on, China's fundamental conditions. In cooperation with Chinese experts, the World Bank conducted several very meaningful basic surveys during the late 1980s and early 1990s, such as the TVE (township and village enterprises) issue and social security issue. These activities have contributed to a clear understanding about the actual conditions of a rapidly changing Chinese economy and society. In the days to come, it is believed that joint efforts made by World Bank and Chinese experts on some topics could be resumed to conduct systematic investigations and studies. Once the fact is grasped, it will be easier to make policy decisions.

6.22 Upgrading the training of Chinese researchers. Policy researchers in China can be divided into two groups: those within and outside of government agencies. The former refer to those researchers working for the research bureaus of government ministries or the research offices/centers funded by the government. The latter include those researchers working at institutions of higher learning and other research institutes. Given the fact that the degree of democracy and transparency in Chinese policy-making process still needs to be further improved, the researches from governmental organs have far greater and more direct impacts than from outside. So far, there have appeared many new faces within governmental research organs. The World Bank should maintain its efforts to provide support and assistance to the capacity building effort of Chinese research institutions by offering personnel training and short-term study tours. The Bank did such things in the past and it is still essential to continue.

6.23 The two aspects of the World Bank's business operations in China, namely project loans and policy research, are closely interrelated. With the elimination of soft loans and the reduction in project loans to China, a critical item on the agenda of the World Bank is whether expenditure on policy research is going to decrease accordingly. If China can be taken as one of the World Bank's most successful examples of project loans and policy advice, and if the World Bank would like to keep its influence on China's future reform and development march, it may be very necessary for the Bank to make appropriate adjustments on its fund, staff and management systems.

* During the process of writing this background report, the author interviewed over ten Chinese Government officials and famous scholars, like Mr. Lou Jiwei (Vice Minister of Finance), Ms. Wu Xiaoling (Deputy Governor of the People's Bank of China (PBC)), Mr. Guo Shuqing (Deputy Governor of PBC; Director-General of State Foreign Exchange Administration), Mr. Yi Gang (Deputy Secretary General of Monetary Policy Committee of PBC), Mr. Li Jiange (Vice Minister, Deputy Director of Economic Restructuring Office of the State Council), Mr. Liu He (Vice Minister, Deputy Director of Information Industry Office of the State Council), Mr. Wang Mengkui (Minister, President of the Development Research Center of the State Council (DRC)), Mr. Chen Qingtai (Minister, Vice President of DRC), as well as Mr. Wu Jinglian, Ms. Li Boxi and Ms. Li Shantong (Senior Research Fellows of DRC). Although this report is based on these interviews, the author himself is responsible for all the views and quotations.