

Reflections on the Development Partnership between China and the World Bank

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The Essential Positives

Background materials: Pieter Bottelier paper (especially ICB; cost-benefit analysis and the project cycle; comprehensive economic work); slide presentation (in particular, linking WB to innovation)

From my viewpoint, I emphasize in addition:

- **China valued Bank's expertise**
 - Economic analysis: watershed reports; e.g. Rajiv Lall report (1994); Vikram Nehru report (*China 2020*, 1997)
 - Technical expertise: interest in innovations – poverty projects; establishment of regulatory bodies

The Essential Positives (cont.)

- **The Bank provided access to the experience of others** – little traction, or even credibility, recommending what China should do, but officials greatly interested in how other countries fared in similar circumstances – what worked; what didn't; why?
- Unlike many clients, **China had its own framework for engaging the Bank** – lending program; ESW/AAA; TA. Eg., lending program review: regular, forward looking, strategic. In mid-1990s, \$3 billion program (IBRD- two-thirds; IDA-one) planned 3 years ahead. MOF and SPC/NDRC proposals for about 15 projects a year.
 - If disagreement, either side could veto – examples
 - Similarly for ESW; mutually agreed priorities -- examples

The Essential Positives (cont.)

- Compared to almost all clients, **China had/has superior ability for physical and technical implementation of projects** – highly developed engineering skills; good capacity in these aspects of project management. Result: largely trouble-free portfolio; removal of major cause of potential friction
- Considerable **flexibility in dealing with unexpected situations** (sometimes quite severe) that threatened to compromise project success. Meant outcomes often proved much better than at times seemed likely (e.g. Grain Distribution)

The Issues

In identifying factors that might have reduced the Bank's catalytic role in contributing to Chinese development, I acknowledge my agreement with the position taken by Chinese officials in many (but not all) cases.

- ***Public Finance/Fiscal Transfers:*** The weak financial situation of the central government combined with an under-developed transfer mechanism meant that, frequently, Bank (meaning IDA) projects failed to benefit the poorest of the poor. As well, the Bank generally was unable to lend IBRD funds for projects benefitting the social sectors, especially in poor provinces. Implications:
 - *Only communities with repayment capacity could participate in some projects*
 - *Allocations to components of some projects (especially poverty projects) provided inadequately for health and education*

The Issues

- **Coordination:** Absence of a CG-type framework for China and fragmentation of responsibilities for dealing with aid agencies (WB-MOF; ADB, IMF-PBC; Bilaterals-MOFTEC) created the possibility for cross-purposes in engagement of multiple agencies in the same sector. Made an issue in the WB's 1997 Country Strategy Paper, but how important was this really?
 - At the time, WB, ADB, Japan (Exim and OECF) together less than \$10 billion a year. Small compared with total Chinese investment, or even FDI
 - SPC played a coordinating role, admittedly sometimes without seeming to endorse the strategic underpinning for foreign aid-givers' involvement

In the event, frequent visits to Manila and Tokyo and across 19th Street to harmonize approaches.

The Issues

- ***Commitment to Policy and Institutional***

Change: World Bank interventions typically included provision for foreign TA to help amend policies, regulations and institutions, thereby to ensure longer-term financial and economic viability of projects.

Understandably – and like many other clients, China objected to spending heavily on foreign consultants, many of whom seemed to provide low value for money. As a result, TA components of projects were often less well implemented than the physical components.

Bank recognized the need for gradual change in China's "software" to conform with longer-term development needs – in the event, tended to take a longer-term view.

Usual outcome, introduction of needed reforms, but with a lag when compared with original time-table of project, TA. Continuity of engagement in a sector (e.g. electricity) contributed markedly to ultimately successful results.

The Issues

- ***Failure to confront sensitive issues:*** The ability of both sides to set aside controversial studies or projects, facilitated by the vastness of the Chinese development program and the almost unlimited opportunities available, probably caused both sides to neglect areas where mutual engagement would have had beneficial results.

Thus, no Bank involvement in Three Gorges or Tibet (clearly rational in light of Western Poverty); no study of Hong Kong's prospects after returning to China; little involvement (at least from project support) for social sectors after the termination of access to IDA.

On the Bank side, possibly premature withdrawal from sectors (gas pipeline; telecommunications) that could attract private financing.

Conclusion: China's extraordinarily successful development over the past three decades means there is plenty of credit to be shared, even with foreign partners. How much of the Chinese experience is replicable elsewhere remains a research issue.