

Multilateral Institutions in China's Agricultural Production and Trade

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China and its Trading Partners

China's growth and industrialization has had three effects on industrial economies. First, they experience a more rapid demand for capital goods and knowledge intensive industries as well as for primary including particularly agricultural products. The World Bank projects an 8 percent annual growth in exports to China with increase in their overall export growth by 0.5 percent, from 2 percent to 2.5 percent due to the Chinese growth. Also relative prices of capital and knowledge intensive industries will increase vis a vis those of labor intensive goods leading perhaps to structural adjustment in industrial countries towards relatively greater production of capital and knowledge good products and services as well as to primary products in which land extensiveness permits some industrial and advanced developing countries comparative advantage, for example in the production of such items as fertilizers, seeds, wheat, corn, soybeans and edible oils and certain types of fruit, vegetables and meats.

World Bank Lending to China

The World Bank's lending strategy has been to assist China on several fronts discussed above through three interrelated instruments: (1) Economic and sector analysis; (2) investment lending; and (3) technical assistance, training and institutional development.

China's large size and global importance, its well demonstrated and sustained political commitment to reforms and a proven track record of economic and social performance has resulted in the China country department being able to attract some of the best talent in the World Bank.

Economic analysis has involved bringing to bear in-house World Bank expertise combined with expertise on China in universities in industrial countries in close collaboration with Chinese government officials and research and educational institutions. The purpose of economic and sector work has been to provide objective analysis of the state of the Chinese economy and its major sectors, the impact of its policies, institutions and investments and areas needing further reforms. It would be fair to say that the World Bank's professional knowledge, access to the highest levels of the government and objective analysis has helped to articulate pros and cons of important macroeconomic and sectoral policy issues, provided quantitative, intellectual support to the reformers in China in a transparent manner and perhaps helped speed up the reforms and their implementation where there already was considerable internal segment of opinion in favor of such reforms. Examples include fiscal and tariff reforms, grain price increases, liberalization of commodity markets and reform of the state enterprises.

Investment lending provides financial and technical assistance to major sectors of the Chinese economy. Although China has become the World Bank's biggest borrower, the Bank's financial commitments dwarf in relation to both the level of domestic savings and

external private capital flows reported earlier. That is part of the reason why the World Bank has had a strong and healthy partnership with China with its lending playing an important catalytic role, in several cases developing important "models" which could be replicated elsewhere, once they were demonstrated to be successful on a small scale.

As of 1997 the World Bank (IBRD and IDA) had committed \$28 billion to China. (loan table). Of the total \$18.75 billion were on IBRD terms and \$9.2 billion on concessional IDA terms. Forty three percent of the total

IBRD and IDA lending went to energy and transportation sectors particularly in the early years of collaboration when private investment was less active, and another 37 percent to agricultural and industrial sectors. With \$7.7 billion of Bank and IDA lending agriculture received 27 percent of the lending and has been the largest sector for World Bank loans and credits. As Table shows agricultural projects have ranged from agricultural research, seed production, rural credit, irrigation, flood control, soil conservation, afforestation, area development, rural resettlements, fisheries and poverty reduction. Fifty four percent of the concessional \$9.2 billion IDA lending went to agriculture followed by education, health, transportation, water supply, urban development, etc. They are the so-called softer sectors, where public sector involvement is crucial to alleviate poverty and create social capital and where returns are long term and benefits, while substantial, are difficult to capture for private investors.

Environment has been a beneficiary beginning the decade of the 90s with nearly \$1 billion of World Bank commitments.

The Bank has also provided technical assistance and training through self standing technical assistance projects for developing project planning and implementing capacity.

Again agriculture dominated in technical assistance projects. But their emphasis has shifted to policy and institutional reforms in the 1990s to such areas as financial, legal and fiscal reforms. Technical assistance credits have amounted to only a quarter of a billion dollars but perhaps have had a very high rate of return. In addition, informally through its staff involved in economic and sector analysis and lending, the World Bank offers considerable assistance for human and institutional development in such areas as project preparation and implementation, economic, social and environmental assessment, procurement and disbursements.

An important part of the World Bank assistance has been in bringing a range of new technologies and ensuring their rapid dissemination. Examples include cotton varieties from the U.S. and citrus from Spain, tubewell irrigation in the semi arid North China Plain which was one of the most successful World Bank projects as well as methods of watershed management, flood control and soil conservation, river basin management, afforestation and reform of the state enterprises.

Another important part of the World Bank's role has been in the areas of formulating strategies, planning and implementation, e.g., in the health sector, improving the location

and financing of health sector interventions with greater focus on investments outside the main urban centers, planning and implementation of rural resettlements, and poverty reduction through developing grassroots approaches. Rural resettlement projects have either been components of other projects or self standing projects, some involving resettlement of close to 200,000 households. Compared to other developing countries, China has a good record in resettling populations and creating viable livelihoods.

The World Bank funded poverty projects have not only targeted the remote resource poor regions of China, bypassed by the economic reforms, but also demonstrated how.

Through well conceived projects using existing local institutions, targeting the poorest households within these poor regions, can enable reaching households effectively through such interventions as primary education, health, assistance with labor migration, small scale industrialization, rural water supply and agricultural innovations. Prior to designing these projects, the World Bank was able to work with the concerned Chinese authorities in developing a national strategy for poverty alleviation and in bringing it to the attention of the highest policymakers for their endorsement. Bank financed projects have been viewed by the Chinese government as providing important models on decentralized planning and implementation which are being replicated elsewhere in China. The lessons learnt offer considerable potential to increase the efficiency of the nearly \$2 billion spent on poverty reduction by the Chinese authorities. In a country where the use of successful models works well, the World Bank has often played an important catalytic role in many sectors, for possible replication elsewhere by the Chinese. In that sense the World Bank's substantive contribution has been larger than suggested by the financial transfers. A recent internal Quality Assessment Review of these poverty projects gave them high marks for effectiveness both due to the innovative work done by the World Bank's task managers and the strong commitment to poverty reduction shown by the Chinese officials at the national, provincial, county and village level leading to highly effective planning and implementation.

Challenges of Shifting From IDA credits to Bank Lending

Unlike in other developing countries the Chinese Ministry of Finance expects the entities borrowing credits and loans from the World Bank to be directly responsible for paying back the debt, including bearing foreign exchange risks. Such decentralized responsibility and accountability and emphasis on early cashflow explains why World Bank funded Chinese projects perform well and generate high rates of return. Even at the lowest level in China there is considerable appreciation of the importance of making good use of World Bank resources and to ensure quick and high payoff. However, as China graduates from being an IDA country, the borrowing entities and the finance ministry are less inclined to borrow from the World Bank at commercial rates to assist the "softer" sectors, including agricultural research, poverty alleviation, health, education and rural water supply, the returns for which are long term and difficult to capture in immediate revenues. The government will on the other hand be willing to borrow for investment in water management, irrigation, production of high value activities such as meat, poultry, fisheries, fruits and vegetables as well as the major grains. Yet it is clear that the

opportunity to wrestle with difficult issues with long term payoffs through the development of models which IDA lending provided will be lost with the loss of IDA to China.

Lessons from the World Bank-China Partnership

A less well recognized role (even within the World Bank) is in learning lessons and broadly disseminating the successful experience of Chinese economic development and China-World Bank partnership to the rest of the developing world, in much the same way that the Chinese replicate successful models of development initiated at the local level in other parts of China. What value can the World Bank add to the economic performance of a country such as China? China has a strong commitment to grow and to eradicate poverty. It has one of the highest savings rates and the highest inflows of international capital, mostly from the Chinese Diaspora. It has liberalized its economy pragmatically and consistently. It has a strong domestic economic management capacity and a large base of trained human capital. Most importantly, China has shown a strong capacity to learn from its own mistakes and the mistakes of others, and to adapt the knowledge and experience gained skillfully to its own circumstances. China's internal stability and continuity in the government including low turnover of government officials as well as a significant share of idealism and nationalism has created a context for development. An important question is how replicable are these in other parts of the developing world.

The \$28 billion of World Bank loans and credits, while small in overall terms, have not been insignificant in a country whose financial capital needs are considerable. But it is the nonfinancial services the World Bank has provided including its economic and sector analysis, the innovativeness of its projects, contribution to the internal dialogue on policy and institutional reforms, and the bringing in of new technology and know-how on large and myriad small issues in which the World Bank's contribution has been significant. Involvement in project lending allows the Bank the hands-on experience, and China's commitment to development enables it to attract the best talent in the world to help address China's challenging problems. Let us hope that this successful partnership can be replicated on a wider scale in the developing world.

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