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Folder Title: 673-14 Collaborative Research with China - Phase II - 1v

Folder ID: 1315007

Dates: 11/11/1982 – 06/16/1987

ISAD Reference Code: WB IBRD/IDA DEC-03-75

Series: Research Project Files Maintained in the Office of the Vice President, Development Policy (VPD) and the Office of the Vice President, Economics and Research (VPERS)

Sub-Fonds: Records of the Office of the Vice President, Development Economics and Chief Economist and later Senior Vice President, Development Economics and Chief Economist (DECVP)

Fonds: Records of the Office of the Chief Economist

Digitized: 05/31/2018

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Washington, D.C.

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Washington DC 20433
Telephone: 202-473-1000
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~~Collaborative Research
With China - Phase II~~

673-14

The World Bank Group
Archives



1315007

R1995-144 Other #: 12

106245B

673-14 Collaborative Research with China - Phase II - 1v

**DECLASSIFIED
WITH RESTRICTIONS**
WBG Archives

OFFICE MEMORANDUM

DATE: June 16, 1987

file with respective RPOs

TO: Mr. Dennis de Tray, Research Administrator, VPERS

FROM: Javad Khalilzadeh-Shirazi, Division Chief, CPDRM
JKS

EXT: 60183/4

SUBJECT: RPOs 672-82, 673-01, 673-13 and 673-14RPO 673-01: Foreign Borrowing Strategies

1. Further to Mr. D. Lal's memorandum to Mr. V. Dubey of April 8, we have examined all expenditures incurred by the project during its entire lifetime. The results of these calculations (attached), which were carried out by Ms. B. Eltezam, Administrative Officer in this department, on the basis of CIS reports, show that the project closed with a surplus of \$10,693. These calculations have been shared with Ms. Plesch and Ms. Mataac who have indicated that the project closed with a small deficit. Ms. Plesch has indicated that the deficit will be waived. Hence, no transfer of funds is due from this department.

RPO 673-13: Analysis of the Tax System in Developing Countries
--Applications to Pakistan and Mexico

2. Mr. Lal's memorandum indicates that the project is overrun by \$49,300. A reconstruction of all expenditures (attached) by Ms. Eltezam shows the overrun to be \$47,010. However, since the discrepancy between the two figures is not large, we are accepting REPAC's figures.

3. A large portion of this overrun is accounted for by a supplementary budget authorization of \$23,200 which was evidently not transferred to the project. This was made up of \$11,600 from the Mexico division and a matching \$11,600 from REPAC (see attached correspondence). We have requested the Mexico division to make the transfer and this has recently been done (copy of budget transfer attached). On netting out the matching commitment from REPAC, the overrun amounts to \$26,100 (49,300 less \$23,200). Agreement had been reached in principle on sharing the remaining overrun between CPD, where the principal supervisor of the project is located, and DRD, which is the department officially responsible for the project. However, since neither department is officially in existence and the two have "merged", we are transferring \$26,100 to REPAC.

RPO 672-82: Agricultural Household Models
RPO 673-14: Collaborative Research with China

4. We are transferring \$5,600 and \$4,600, respectively, to REPAC, this being the overruns for the above projects, as indicated by your records.

5. It is our understanding that all CPD RPO-related overruns are now settled.

Attachments

cleared in substance with/cc: Mr. Holsen
 cc w/o attachments: Messrs. Tidrick, Mitra (CPD); Ingram (DRD), Lowther (OED); Kharas (AEA); Squire (WAN); Ms. Eltezam, CPD



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date June 16, 1987	Document Type Form			
Correspondents / Participants To: Thru Pat Evans, OPSVP From: Javad Khalilzadeh-Shirazi				
Subject / Title The World Bank/IFC Budget Transfer Request				
Exception(s) Corporate Administrative Matters				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			

Pradeep

27-Apr-87

Pradeep:

RE: RPO 673-01

These pages show ALL the expenses I can find from CIS Reports going back to FY83. There may be a slight discrepancy of \$3-4,000 in accruals disbursed since I am missing a clear breakdown of FY84, but no more than that. Based on actual amounts paid out, I can find nothing to show that the project is over-spent, even when the External Computing costs for FY86 are included.

Betty

RPO 67301

FY83	Actual Expenses	\$5,022
FY84	Actual Expenses	\$105,153
FY85	Actual Expenses	\$184,123
FY86	Actual Expenses	\$89,324
FY87	Actual Expenses	\$5,685
	TOTAL	\$389,307
	BUDGET	\$400,000
	BALANCE	\$10,693

cc: Mr. Dubey



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date April 27, 1987	Document Type Report			
Correspondents / Participants				
Subject / Title RPO 673-01: Accounts FY83 through FY87				
Exception(s) Personal Information Corporate Administrative Matters				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			

Pradeep:

April 14, 1987

5 pm

I have now added in the missing consultants from FY84. These totals include EVERYTHING I could find in the CIS Reports where payments were actually made.

The commitment amounts are distorted because DRD was not on MIS and CPD was, so many of the commitments (those with CF commitment numbers) were added by ACT.

Betty

TOTAL ACTUAL EXPENSES	

FY83	\$8,192
FY84*	\$86,518
FY85	\$132,806
FY86	\$95,494
FY87	\$73,999
TOTAL	\$397,010
ORIGINAL BUDGET	\$350,000
SUPPLEMENT	\$26,200
TOTAL BUDGET	----- \$376,200
AMOUNT OVERRUN	(\$20,810)



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date April 14, 1987	Document Type Report			
Correspondents / Participants				
Subject / Title RPO 673-01: Total Project Costs (Payments Made) FY83-FY87 from CIS data				
Exception(s) Personal Information Corporate Administrative Matters				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date May 27, 1987	Document Type Form			
Correspondents / Participants From: Lynn M. Tveskov				
Subject / Title Inter-Divisional Budget Transfer Input Form				
Exception(s) Personal Information Corporate Administrative Matters				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			

OFFICE MEMORANDUM

File
673-14

DATE: May 20, 1987

TO: Mr. Gene Tidrick, CPDDR

FROM: Baelhadj Merghoub, Chief, AEACH

EXTENSION: 60121

SUBJECT: RPO 673-14 Overrun

B
7

With reference to the memorandum of May 12, 1987 from Mr. Ingram to you, we agree with DRD's proposal for resolving the apparent \$8,700 cost overrun for this project. In particular, we agree that AEACH is responsible for \$4,100 of this amount. AEACH transferred \$2,200 to this project on June 25, 1986 (copy of transfer request attached), and we will immediately transfer the remaining \$1,900.

The earlier transfer of \$2,200 was apparently not accepted by Accounting, and we are taking up the matter with them.

cc: Messrs. Ingram, Lowther (DRD); Calderisi, Levy, Byrd (AEA);
Msses. Plesch, Mataac (DRD); Monaghan (AEA)

WByrd:em

K. Hassan
J. Katti

RUN TIME: 08/28/86 AT 11.28.10
*** SVP TRANSFERS ***
EAST ASIA & PACIFIC REGIONAL OFFICE
AUDIT TRAIL REPORT ON FYS& BUDGET TRANSFERS
=====

DEPDIV	TRANS NO	DATE	UNIT	ACCOUNT	UNIT	ACCOUNT	AMOUNT(\$)
17360	100000	86/04/29	17360	EA	30620	XA	10,000

REASONS FOR TRANSFER :
GANS& SECTOR COMPUTING CHARGES INCURRED BY PHND2.
REQ.KOCH-WESER 4/23/86

DEPDIV	TRANS NO	DATE	UNIT	ACCOUNT	UNIT	ACCOUNT	AMOUNT(\$)
17360	100001	86/06/25	17360	EA	67314	EA	2,220

REASONS FOR TRANSFER :
REQ 6.17 FROM K. AHMED RE BUDGET FOR COLLABORATIVE RESEARCH PROJECT

DEPDIV	TRANS NO	DATE	UNIT	ACCOUNT	UNIT	ACCOUNT	AMOUNT(\$)
17360	100002	86/06/17	17360	EA	82030	EB	1,248

REASONS FOR TRANSFER :
REQUEST 6.11.86 FROM C.KOCH-WESER FOR FRENCH TRAINING

- not over
- exceed by 10%
- implementation finished Aug 21



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date May 21, 1987	Document Type Form			
Correspondents / Participants To: Lourdes G. de Vera, Budget Control & Systems Division From: B. Merghoub- AEACH Div. Chf.				
Subject / Title The World Bank/IFC - Budget Transfer Request				
Exception(s) Personal Information Corporate Administrative Matters				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			

File

OFFICE MEMORANDUM

DATE May 12, 1987
TO Mr. Gene Tidrick, CPDDR
FROM Gregory K. Ingram, DRDDR
EXTENSION 33786
SUBJECT RPO 673-14 Overrun

1. With reference to your April 7, 1987 memorandum to myself and Mr. Merghoub, and further to our telephone conversation of April 21, DRD proposes the following to resolve the apparent 8.7 cost overrun on Research Project 673-14:

a. DRD pay for 4.6 in computer charges. This is comprised of the additional computing charges beyond the agreed 5.0 that were charged by DRD to the project (approximately 2.4 in FY 86 expenses, 0.9 in FY86 accrual charges; and 1.3 in FY87 expenses). For your information, we have certified that the computer usercode is no longer valid; there should therefore be no additional computer charges.

b. The China Division pay the 3.4 for the Adrian Wood 'relocation' charges. These charges were clearly not related to the RPO and are not DRD's responsibility. For your information, REPAC records show no transfers having been made to offset any of this overrun.

c. China Division reimburse an additional .7 to REPAC for the remainder of the 8.7 overrun. Your memorandum of November 21, 1986 indicated 1.5 for Kornai fees were included in the 46.6 FY86 expenditures. However REPAC has indicated the 1.5 was not part of the 46.6 in the end-June report as there had been no disbursement then; their figure of 46.6 was reflective only of recorded expenses to date.

2. Please advise if you have any problems with these suggested solutions.

cc: Messrs. Fred Levy, Jack Lowther, B. Merghoub
Mmes. Edna Monaghan, Phi Anh Plesch, Vilma Mataac
:HSioris

OFFICE MEMORANDUM

DATE April 8, 1987

TO Mr. Vinod Dubey, Director, CPD

FROM Deepak Lal, Research Administrator, VPERS 

EXTENSION 33481

SUBJECT Reimbursement of Unauthorized Expenditures from RSB-Funded Research Projects

1. According to VPERS records, based on PBD's Reports on Expenses and Budgets, a number of centrally-funded research projects under your Department's responsibility have incurred overexpenditures defined as those that have exceeded the total project authorizations from the Research Support Budget.

2. Under the rules established by the Research Policy Council (RPC), VPERS is responsible for seeking reimbursement of all unauthorized expenditures incurred by these projects, whether they have been closed or are still ongoing. These rules were part of a system of budgetary control approved by the RPC in September 1984 and designed to permit tighter management of the aggregate research budget, as well as of individual research projects which have been centrally funded. They specifically stipulated that "the responsibility for adherence to project total funding authorizations will be with project supervisors and their departments." Departments are therefore required to reimburse any unauthorized expenditures incurred by projects under their responsibility and supervision.

3. Enclosed is the list of your Department's research projects which have overspent their total RSB authorizations. The most egregious case is Mr. Mitra's project (673-13) whose cost overrun amounts so far to \$49,300. To avoid further expenditure charge to this project, I have decided to close its account effective immediately.

4. For the purpose of reimbursement, I suggest that you make a budget transfer (Form 1524) from your Department's budget account to the Research Support Budget's account whose code is 671-99. One copy of any such budget transfer should be submitted to my office for appropriate recording. Ms. Vilma Mataac from my office (extn. 33487) will be available to answer any questions from your staff regarding the financial records of the research project(s) concerned.

Attachment

cc: Messrs. L. Squire , H. Kharas, P. Mitra, G. Tidrick, B. Fitzgerald

OFFICE MEMORANDUM

~~Vilma~~
File

DATE April 7, 1987

TO Messrs. G. Ingram (DRDDR) and B. Merghoub (AEACH)

FROM Gene Tidrick, ^{G.T.}CPDDR

EXTENSION 61078

SUBJECT Budget for China Collaborative Research Project (673-14)

With reference to my memo of November 21, 1986, about this project, I have received a follow-up request to clear the cost overruns. In the earlier memo (attached for convenience) I noted that there was an overrun of \$7.8 thousand, but that some of those charges should be reduced when previous transfers and adjustments had cleared the system. The latest project status document of March 12, 1987 (also attached) shows an overrun of \$8.7 thousand. This means that no transfers and adjustments have been made. Moreover, computer costs are still being charged to the project code, even though the project has been completed and no further work is being done on it.

Could we please meet to discuss how to resolve this? Please let me know when it would be convenient to meet.

cc: Fred Levy, Jack Lowther
Edna Monaghan, Phi Anh Plesch ✓



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date March 12, 1987	Document Type Report			
Correspondents / Participants G. Tidrick, Budget Officer				
Subject / Title External Research Program System - Project Status Document for Research Projects				
Exception(s) Personal Information Corporate Administrative Matters				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			

BBILIOO

DIRECTOR, EXTERNAL RESEARCH-IV
DETAIL OF INTERNAL INFORMATION PROCESSING
CHARGES BY APPLICATION - OCTOBER, 1986

DATE RUN 11/11/86
TIME RUN 07:48 PM
USER REPORT 2
INTERNAL

CHARGES IN \$

INTERNAL INFORMATION PROCESSING (XA)

THIS MONTH FY-TO-DATE

DIVISION: COLLABORATIVE RESEARCH CHINA-II 673/14

CODE APPLICATION NAME

RPOZ : CHINA RESEARCH PHASE II

 ELECTRONIC PRINTING

8.64

 BURROUGHS BFCO

273.71

 BFCO PUBLIC PACK

882.44

 BFCO CONNECT TIME

87.90

 BFCO ACTUAL PRNTD LINES

1.00

APPLICATION TOTAL

0.00

1,253.69

DIVISION TOTAL - INTERNAL INFORMATION PROCESSING

0.00

1,253.69



Record Removal Notice



File Title 673-14 Collaborative Research with China - Phase II - 1v		Barcode No. 1315007		
Document Date November 21, 1986	Document Type Memorandum			
Correspondents / Participants To: Messrs. G. Ingram (DRDDR) and B. Merghoub (AEACH) From: Gene Tidrick				
Subject / Title Budget for China Collaborative Research Project (673-14)				
Exception(s) Personal Information Corporate Administrative Matters				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date April 07, 2017</td></tr></table>	Withdrawn by Shiri Alon	Date April 07, 2017
Withdrawn by Shiri Alon	Date April 07, 2017			

OFFICE MEMORANDUM

Attachment 1

DATE: June 6, 1986
TO: Mr. Caio Koch-Weser
FROM: Gene Tidrick^{GT}
EXT: 61078

SUBJECT: Budget for Collaborative Research Project (673/14)

As you know, China Division is responsible for cost overruns for the collaborative research project. I believe you had set aside about \$5,000 in your FY86 budget for this purpose. According to my calculations, the project overrun will be \$2,218.25. This might change slightly. The latest project account figures due out in a few days may give a better indicator. Any money due can be transferred to the research project budget (673/14) from either your FY86 or FY87 budget. You may wish to transfer \$2,218.25 from this year's budget. Any additional overruns could then be charged to the FY87 budget.

cc: Mrs. Edna Monaghan
Mr. Gregory Ingram

OFFICE MEMORANDUM

DATE June 11, 1985

TO Mr. Gregory K. Ingram, DRDDR

FROM Gene Tidrick, AEACH ^{G.T.}

EXTENSION 72749

SUBJECT CHINA - Collaborative Research Project Budget (RPO 673-14)

This is to summarize my understanding of what was agreed in the meeting on June 5 attended by Messrs. Lim and Van Der Gaag and you and me.

- (1) We will fund from the research budget about \$5,000 of computer expenses needed to complete Mr. Urata's work.
- (2) The rest of the research budget will be used to fund expenses of the enterprise guidance conference and editing. If there are savings, these will be applied to item (3). If there is an overrun, this would have to be borne by China Division (assuming that supplementary research funds are not available).
- (3) Mr. Urata will go to China to discuss his work on structural change after all his papers have been distributed. DRD will pay for his trip unless there are savings in the research budget.

Please let me know if your understanding is different on any of the above points.

cc: Messrs. Lim, Van Der Gaag, Lowther

GTidrick:mac

OFFICE MEMORANDUM

DATE June 17, 1985

TO Mr. Gene Tidrick, ~~AEACH~~

FROM Gregory K. Ingram, ~~DRDDR~~

EXTENSION 61002

SUBJECT China - Collaborative Research Project Budget (RPO 673-14)

Your memo of June 11 reflects my understanding of what was agreed on at our meeting of June 5 with Messrs. Lim, van der Gaag, you and me on the above subject.

cc: Messrs. Lim, van der Gaag, Lowther
:gm

1 - IE
 63 - EXTERNAL RESEARCH
 673 - EXTERNAL RESEARCH-IV
 14 - COLLABORATIVE RESEARCH CHINA-II

WORLD BANK
 ADMINISTRATIVE BUDGET SYSTEM - BUD
 REPORT ON EXPENSES AND BUDGETS
 AS OF 06/83 (WITH ACCRUALS)

RUN D. - 07/26/83
 RUN TIME 1226
 PAGE NO 762

	REVISED BUDGET	CUR MONTH EXPENSES	YTD PAID EXPENSES	ACCRUALS	BUDGET BALANCE	YTD AS % BUD
FY 83						
**** POSITIONS						
PROFESSIONAL ASSISTANT						0.0
SEC/CLERICAL						0.0
TOTAL						0.0
LOCAL STAFF						0.0
SPEC. POSITIONS						0.0
**** MANYEARS						
PROFESSIONAL ASSISTANT						0.0
SEC/CLERICAL						0.0
TOTAL						0.0
LOCAL STAFF						0.0
SPEC. POSITIONS						0.0
**** DISCRET'Y COSTS						
REG. SALARIES	.0	.0	.0	.0	.0	0.0
TEMPORARY	.0	1.6	1.6	.0	-1.6	0.0
OVERTIME	.0*	.0	.0	.0	.0	0.0
STAFF TRAVEL	.0	.0	.0	4.9	-4.9	0.0
CONS. TRAVEL	.0	.0	.0	17.5	-17.5	0.0
REPRESENTATION	.0	.0	.0	.0	.0	0.0
HOSPITALITY	.0	.0	.0	.0	.0	0.0
CONSULTANT FEES	40.0*	.0	.0	4.5	35.5	11.3
CONT. SERVICES	.0	.0	.0	.0	.0	0.0
DIR. COMM.	.0	.0	.0	.0	.0	0.0
INT. COMP. COSTS	.0	.0	.0	.0	.0	0.0
SUB TOTAL	40.0	1.6	1.6	26.9	11.5	71.2
**** DIRECT COSTS						
LOCAL STAFF COSTS	.0	.0	.0	.0	.0	0.0
POST ALLOWANCES	.0	.0	.0	.0	.0	0.0
STAFF BENEFITS	.0	.0	.0	.0	.0	0.0
OTHER TRAVEL	.0	.0	.0	.0	.0	0.0
OFFICE OCCU.	.0	.0	.0	.0	.0	0.0
EQUIPMENT	.0	.0	.0	.0	.0	0.0
EQUIP. DEPRECIATION	.0	.0	.0	.0	.0	0.0
SUPPLIES	.0	.0	.0	.0	.0	0.0
OTHER MISC.	.0	.0	.0	.0	.0	0.0
SUB TOTAL	.0	.0	.0	.0	.0	0.0
TOTAL NON-ALLOC.	40.0	1.6	1.6	26.9	11.5	71.2
**** ALLOCATED COSTS						
BENEFITS	.0	.0	.0	.0	.0	0.0
OVERHEAD	.0	.0	.0	.0	.0	0.0
**** TOTAL COSTS	40.0	1.6	1.6	26.9	11.5	71.2
**** OTHER ITEMS						
CONTINGENCY	.0	.0	.0	.0	.0	0.0
GROSS TOTAL	40.0	1.6	1.6	26.9	11.5	71.2
LESS: IFC FEES	.0	.0	.0	.0	.0	0.0
REIMBURS.	.0	.0	.0	.0	.0	0.0
NET TOTAL	40.0	1.6	1.6	26.9	11.5	71.2

26/83

1 - IB
 63 - EXTERNAL RESEARCH
 673 - EXTERNAL RESEARCH-IV
 14 - COLLABORATIVE RESEARCH CHINA-II

WORLD BANK

ADMINISTRATIVE BUDGET SYSTEM - BUD
 REPORT ON EXPENSES AND BUDGETS
 AS OF 06/84

RUN DATE - 07/23/84
 RUN TIME 1020
 PAGE NO 784

	REVISED BUDGET	CUR MONTH EXPENSES	FY 84 YTD EXP & FY84 ACCRL	FY84 ACCRL	
**** POSITIONS					
PROFESSIONAL ASSISTANT SEC/CLERICAL TOTAL					
LOCAL STAFF SPEC. POSITIONS					
**** MANYEARS					
PROFESSIONAL ASSISTANT SEC/CLERICAL TOTAL					0.0
LOCAL STAFF SPEC. POSITIONS					0.0
**** DISCRET'Y COSTS					0.0
REG. SALARIES	.0	.0	-1.2	.0	0.0
TEMPORARY	.0	2.4	9.5	.0	0.0
OVERTIME	.0	.0	.0	.0	0.0
STAFF TRAVEL	.0	1.2	8.5	.0	0.0
CONS. TRAVEL	.0	1.5	10.9	1.5	0.0
REPRESENTATION	.0	.0	.0	.0	0.0
HOSPITALITY	.0	.0	.0	.0	0.0
CONSULTANT FEES	171.5*	24.8	60.0	11.6	0.0
CONT. SERVICES	.0	.0	.3	.0	0.0
DIR. COMM.	.0	.0	.0	.0	0.0
INT. COMP. COSTS	.0	.6	7.8	.0	0.0
SUB TOTAL	171.5	30.5	95.9	13.1	0.0
**** DIRECT COSTS					
LOCAL STAFF COSTS	.0	.0	.0	.0	0.0
POST ALLOWANCES	.0	.0	.0	.0	0.0
STAFF BENEFITS	.0	.0	.0	.0	0.0
OTHER TRAVEL	.0	.0	.0	.0	0.0
OFFICE OCCU.	.0	.0	.0	.0	0.0
EQUIPMENT	.0	.0	3.8	.0	0.0
EQUIP. DEPRECIATION	.0	.0	.0	.0	0.0
SUPPLIES	.0	.0	.0	.0	0.0
OTHER MISC.	.0	.0	.0	.0	0.0
SUB TOTAL	.0	.0	3.8	.0	0.0
TOTAL NON-ALLOC.	171.5	30.5	99.7	13.1	0.0
**** ALLOCATED COSTS					
BENEFITS	.0	.0	.0	.0	0.0
OVERHEAD	.0	.0	.0	.0	0.0
**** TOTAL COSTS	171.5	30.5	99.7	13.1	0.0
**** OTHER ITEMS					
CONTINGENCY	.0	.0	.0	.0	0.0
GROSS TOTAL	171.5	30.5	99.7	13.1	0.0
LESS: IFC FEES	.0	.0	.0	.0	0.0
REIMBURS.	.0	.0	.0	.0	0.0
NET TOTAL	171.5	30.5	99.7	13.1	0.0

1 - IP
 63 - EXTERNAL RESEARCH
 673 - EXTERNAL RESEARCH-IV
 14 - COLLABORATIVE RESEARCH CHINA-II

WORLD BANK
 ADMINISTRATIVE BUDGET SYSTEM - BUD
 REPORT ON EXPENSES AND BUDGETS
 AS OF 06/85

RUN L 07/16/85
 RUN TIME 1948
 PAGE NO 742

	REVISED BUDGET	MTH EXP & ACCRLS	FY 85 YTD EXP & ACCRLS	FY85 ACCRUALS	
**** POSITIONS					
PROFESSIONAL					
ASSISTANT					
SEC/CLERICAL					
TOTAL					
LOCAL STAFF					
SPEC. POSITIONS					
**** MANYEARS					
PROFESSIONAL					0.0
ASSISTANT					0.0
SEC/CLERICAL					0.0
TOTAL					0.0
LOCAL STAFF					0.0
SPEC. POSITIONS					0.0
**** DISCRET'Y COSTS					0.0
REG. SALARIES	.0	.0	.0	.0	0.0
TEMPORARY	.0	.0	5.4	.0	0.0
OVERTIME	.0	.0	.0	.0	0.0
STAFF TRAVEL	.0	.0	.5	.0	0.0
CONS. TRAVEL	.0	2.7	19.3	2.7	0.0
REPRESENTATION	.0	.0	.0	.0	0.0
HOSPITALITY	.0	.0	.0	.0	0.0
CONSULTANT FEES	116.8	13.0	28.6	3.7	0.0
CONT. SERVICES	.0	.0	15.2	.0	0.0
DIR. COMM.	.0	.0	.0	.0	0.0
INT. COMP. COSTS	.0	1.2	7.7	.0	0.0
SUB TOTAL	116.8	16.9	76.6	6.4	0.0
**** DIRECT COSTS					
LOCAL STAFF COSTS	.0	.0	.0	.0	0.0
POST ALLOWANCES	.0	.0	.0	.0	0.0
STAFF BENEFITS	.0	.0	.0	.0	0.0
OTHER TRAVEL	.0	.0	.0	.0	0.0
OFFICE OCCU.	.0	.0	.0	.0	0.0
EQUIPMENT	.0*	.0	.1	.0	0.0
EQUIP. DEPRECIATION	.0	.0	.0	.0	0.0
SUPPLIES	.0	.0	.0	.0	0.0
OTHER MISC.	.0	.0	.0	.0	0.0
SUB TOTAL	.0	.0	.1	.0	0.0
TOTAL NON-ALLOC.	116.8	16.9	76.7	6.4	0.0
**** ALLOCATED COSTS					
BENEFITS	.0	.0	.0	.0	0.0
OVERHEAD	.0	.0	.0	.0	0.0
**** TOTAL COSTS	116.8	16.9	76.7	6.4	0.0
**** OTHER ITEMS					
CONTINGENCY	.0	.0	.0	.0	0.0
GROSS TOTAL	116.8	16.9	76.7	6.4	0.0
LESS: IFC FEES	.0	.0	.0	.0	0.0
REIMBURS.	.0	.0	.0	.0	0.0
NET TOTAL	116.8	16.9	76.7	6.4	0.0

1 - I
 63 - EXTERNAL RESEARCH
 673 - EXTERNAL RESEARCH-IV
 14 - COLLABORATIVE RESEARCH CHINA-II

WORLD BANK

ADMINISTRATIVE BUDGET SYSTEM - BUD
 REPORT ON EXPENSES AND BUDGETS
 AS OF 06/86

RUN DATE 07/17/86
 RUN TIME 1552
 PAGE NO 755

	REVISED BUDGET	FY 86		FY86 ACCRUALS	
		MTH EXP & ACCRLS	YTD EXP & ACCRLS		
**** POSITIONS					
PROFESSIONAL ASSISTANT SEC/CLERICAL TOTAL					
LOCAL STAFF SPEC. POSITIONS					
**** MANYEARS					
PROFESSIONAL ASSISTANT SEC/CLERICAL TOTAL					0.0
LOCAL STAFF SPEC. POSITIONS					0.0
**** DISCRET'Y COSTS					0.0
REG. SALARIES	.0	.0	.0	.0	0.0
TEMPORARY	.0	.0	.0	.0	0.0
OVERTIME	.0	.0	.0	.0	0.0
STAFF TRAVEL	.0	3.4	16.3	.0	0.0
CONS. TRAVEL	.0	.0	13.5	.0	0.0
REPRESENTATION	.0	.0	.0	.0	0.0
HOSPITALITY	.0	.0	.0	.0	0.0
CONSULTANT FEES	40.1	.0	-5.7	.0	0.0
CONT. SERVICES	.0	.0	15.0	.0	0.0
DIR. COMM.	.0	.0	.0	.0	0.0
INT. COMP. COSTS	.0	.9	7.4	.0	0.0
LANGUAGE SERVICES	.0	.0	.0	.0	0.0
**** DIRECT COSTS					
LOCAL STAFF COSTS	.0	.0	.0	.0	0.0
POST ALLOWANCES	.0	.0	.0	.0	0.0
STAFF BENEFITS	.0	.0	.0	.0	0.0
OTHER TRAVEL	.0	.0	.0	.0	0.0
OFFICE OCCU.	.0	.0	.0	.0	0.0
EQUIPMENT	.0	.0	.0	.0	0.0
EQUIP. DEPRECIATION	.0	.0	.0	.0	0.0
SUPPLIES	.0	.0	.0	.0	0.0
OTHER MISC.	.0	.0	.0	.0	0.0
TOTAL DISCR. & DIR.	40.1	4.3	46.6	.0	0.0
**** ALLOCATED COSTS					
BENEFITS	.0	.0	.0	.0	0.0
OVERHEAD	.0	.0	.0	.0	0.0
**** TOTAL COSTS	40.1	4.3	46.6	.0	0.0
**** OTHER ITEMS					
CONTINGENCY	.0	.0	.0	.0	0.0
GROSS TOTAL	40.1	4.3	46.6	.0	0.0
LESS: IFC FEES	.0	.0	.0	.0	0.0
REIMBURS.	.0	.0	.0	.0	0.0
NET TOTAL	40.1	4.3	46.6	.0	0.0

673-14

additional expenses reflected on
will be reflected in FY87

1,500	-	outstanding consultant fees	
925.99	-	internal computing account	
<u>1,253.69</u>	-	"	" FY87
3,679.68	-	FY87 over	
<u>6,465.38</u>	-	FY86 over expenditure	
<u>10,145.06</u>	-	<u>total over expenditure</u>	

11/11/86 / sm

COMMITMENT/EXPENSE REPORT FOR 673-14 EXTERNAL RESEARCH-IV

- COLLABORATIVE RESEARCH CHINA-II

FISCAL YEAR SUMMARY BY EXPENSE CATEGORY

EXPENSE CATEGORY	BUDGET	COMMITMENTS	EXPENSES	OUTSTANDING COMMITMENTS	AVAILABLE BUDGET
CA - STAFF OPERATIONAL TRAVEL	0.00	16,295.87	16,294.46	1.41	16,295.87-
CB - CONSULT. OPERATIONAL TVL	0.00	13,551.06	13,509.79	157.27	13,667.06-
EA - CONSULTANT FEES	40,100.00	4,181.15-	5,681.15-	1,500.00	44,281.15
EB - CONTRACTUAL SERVICES - MI	0.00	15,000.00	15,000.00	0.00	15,000.00-
XA - INTERNAL COMPUTING COSTS	0.00	6,555.51	7,442.28	0.00	7,442.28-
TOTALS	40,100.00	47,221.29	46,565.38	1,658.68	8,124.06-

1,500 - consultant fee (Jana Kurnai)

REPORT OF EXPENDITURES AGAINST ACCRUALS

UNIT : 673 - 14 EXTERNAL RESEARCH-IV

- COLLABORATIVE RESEARCH CHINA-II

COMMITMENT NUMBER	NAME OR DESCRIPTION	I.D.	EXPENDITURES	VCHR	DATE
----------------------	---------------------	------	--------------	------	------

EXPENSE CATEGORY: XA - INTERNAL COMPUTING COSTS

673J14	INTERNAL COMPUTING (IRMD)	(A)	925.99	CBO265	08/04
		TOTAL (A)	925.99		

TOTALS BY EXPENSE CATEGORY

XA - INTERNAL COMPUTING COSTS

GRAND TOTALS

EXPENDITURES
925.99
925.99

A = BASIC AMOUNT (IF TRAVEL = TRANSPORTATION)
 B = SUBSISTENCE (TRAVEL ONLY)
 C = OTHER AMOUNTS (LIMITED USE)

COMMITMENT/EXPENSE REPORT FOR 673-14 EXTERNAL RESEARCH-IV

- COLLABORATIVE RESEARCH CHINA-II

DETAILS OF COMMITMENTS AND EXPENSES

NUMBER	NAME	I.D.	COMMITMENTS	EXPENSES	VCHR	DATE	BALANCE
NON-ALLOCATED ITEMS							
EXPENSE CATEGORY: XA - INTERNAL COMPUTING COSTS							
* 673J14	NOT SPECIFIED	(A)	1,253.69	704.82	CB0273	9/02	
	INTERNAL COMPUTING (IRMD)			535.83	CB0277	9/25	
				13.04	CB0281	10/22	
			TOTAL (A)	1,253.69			

SUMMARY FOR NON-ALLOCATED ITEMS:

EXPENSE CATEGORY	NON-ALLOCATED BUDGET	COMMITMENTS	EXPENSES	OUTSTANDING COMMITMENTS	AVAILABLE FUNDS
EA - CONSULTANT FEES	7,400.00	0.00	0.00	0.00	7,400.00
XA - INTERNAL COMPUTING COSTS	0.00	1,253.69	1,253.69	0.00	1,253.69
TOTALS	7,400.00	1,253.69	1,253.69	0.00	6,146.31

* = "OPEN" ITEM. PLEASE ADVISE IF ANY SUCH ITEM SHOULD BE REVISED OR CLOSED.

A = BASIC AMOUNT (FOR TRAVEL = TRANSPORTATION)
 B = SUBSISTENCE (TRAVEL COMMITMENTS ONLY)
 C = OTHER AMOUNTS (LIMITED USE)

WORLD BANK RESEARCH PROGRAM
COMPLETION REPORT

PROJECT'S CLOSING DATE:
08/31/86

DATE OF SUBMISSION OF NOV 11 1986
COMPLETION REPORT: 09/02/86

I. PROJECT IDENTIFICATION

1. TITLE: Collaborative Research with China - Phase II.
PREPARED BY: Gene Tidrick

2. PROJECT NUMBER: 673-14
3. DEPARTMENT: CPD
4. DIVISION: DR

5. STAFF PARTICIPATION:
(a) Principal Supervisors: E. Lim, E. Stoutjesdijk, G. Ingram (replaced Stoutjesdijk 09/15/83)
(b) Others Responsible: G. Tidrick, J. van der Gaag, S. Urata
(c) Administrative/Budgeting Officer: G. Tidrick

6. DEPARTMENTAL APPROVAL

DIVISION CHIEF'S NAME (Please type): Baelhadj Merghoub, AEACH
SIGNATURE: [Signature]
DATE: October 24, 1986
DEPARTMENT DIRECTOR'S NAME (Please type): Gregory K. Ingram, DRDDR
Gautam S. Kaji, AEADR
SIGNATURE: [Signature]
DATE: Nov. 6, 1986
10/30/86

II. OUTPUT AND DISSEMINATION

1. REPORTS - Publications and reports from project (specify author(s), title, date):**

See separate attachment for Parts II and V-VIII.

2. DISSEMINATION - Seminars, Conferences, Training Sessions (topic, date, location and participation):

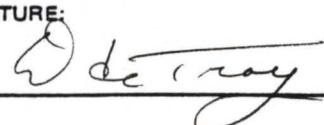
* If changed indicate dates.
** Indicate with asterisk the report(s) to be circulated to the Evaluation Panel and provide this office (S-9135) with 10 copies or indicate how they can be obtained.

III. FUNDING ('000)

FISCAL YEAR	ORIGINAL REQUEST (1)	REPAC AUTHORIZATIONS			BANK		OUTSIDE AMOUNT (7)	TOTAL (4)+(6)+(7)
		Initial (2)	Supplementary (3)	Total (4)=(2)+(3)	Department (5)	Amount (6)		
FY 83		40		40	AEA DRD	50 10		100
FY 84		160		160	AEA DRD	40 10		210
FY 85		45		45				45
FY								
FY								
FY								
FY								
TOTAL		245				110		355

IV. FINANCIAL EXPENDITURES ('000) AND STAFF TIME

FISCAL YEAR	ACTUAL EXPENDITURES			STAFF TIME						TOTAL COSTS (3+5+7+9)**
	RPO (1)	(Other) (2)	Total (3)	Professional		Consultant*		Assistant		
				Years** (4)	Costs*** (5)	Years** (6)	Costs*** (7)	Years** (8)	Costs*** (9)	
FY 83	28.5	59.5	88.0	0.91		0.27		0.36		
FY 84	99.7	32.8	132.5	0.95		0.18		0.32		
FY 85	76.7	31.1	107.8	1.75		0.04		0.87		
FY 86	46.6	5.7	52.3	0.58				0.29		
FY 87	3.7									
FY										
FY										
TOTAL	251.5	129.1	380.6	4.19		0.49		1.84		

APPROVED BY RESEARCH ADMINISTRATOR (print name): Deepak Lal SIGNATURE:  DATE: 11/12/86

*Consultants paid for by departmental budgets ONLY.
 **Staff years (staff weeks ÷ 52) should be entered here.
 ***For REPAC use ONLY.

7/5/87

10.2 consultant 10/26/86

Narratives in the following sections summarize the results of the project in relation to its objectives and describe the design, organization, and dissemination strategy adopted. The categories and topics are intended to correspond closely to those of the "Guidelines for Evaluation of Completed Research Projects." Using additional space as necessary, the principal supervisor should give particular attention to the points listed.

V. OBJECTIVES, STRATEGY, AND RESULTS

1. What general questions did the study seek to answer? What answers did it find? How significant are these answers for
a) Development policy in general? b) Bank operations?
2. To what extent did the study fulfill its objectives? Did the objectives change as the study was undertaken? If yes, why?
3. Who are the intended beneficiaries? (Bank staff; planning authorities and decision makers in developing countries; other researchers; general development community).
4. Has the project assisted in developing research or other analytical capacity in the countries under study?
5. Were efforts made to coordinate work with other studies underway in the Bank or outside, to enhance the comparability of results or avoid duplication?

VI. DESIGN

1. Was a specific methodology essential for the success of this project? If so, were theoretical approaches and the methodology employed in the study appropriate to its stated purposes? Were difficulties encountered in applying the methodology? If so, how were they overcome?
2. Did the project make the best and careful use of available data? Did it involve collecting primary data e.g. through surveys. If so, were such surveys properly designed and carried out, and their results adequately incorporated in the research?

VII. ORGANIZATION

1. Did the research tasks follow a logical sequence? Were there opportunities to review progress at intermediate stages?
2. How effective were the consultants or consulting firms employed? How open were the channels of communication between Bank staff and consultants?
3. Was the extent of Bank staff involvement in design, implementation, and supervision adequate to meet the study's objectives?
4. What was the nature and extent of awareness, support, or participation among:
 - Bank operating departments, including regional departments?
 - Local research institutes?
 - Government agencies?
5. Main reasons for overruns or savings in cost and time.

VIII. DISSEMINATION

1. Did the research project yield any publishable output for the World Bank Economic Review?
2. By what other means have findings been communicated to the intended beneficiaries?

II. Output and Dissemination.

1. Reports

- X a) **Ahluwalia, Isher Judge, "Economic Growth and Structural Change in the Indian Economy 1959-60 to 1973-74", 1985.
- b) **Byrd, William. The Shenyang Smelter: A Case Study of Problems and Reforms in China's Nonferrous Metals Industry, World Bank Staff Working Paper No. 766, 1985.
- c) **Byrd, William; Tidrick, Gene; Chen Jiyuan; Xu Lu; Tang Zongkun; and Chen Lantong, Recent Chinese Economic Reform: Studies of Two Industrial Enterprises, World Bank Staff Working Paper No. 652, 1984.
- X d) **Moshe Syrquin, "Patterns of Development Since 1960: A Comparison for China", 1985.
- X e) **Tidrick, Gene and Chen Jiyuan (eds.), China's Industrial Reforms, Oxford University Press, forthcoming.
- f) **Urata, Shujiro, Economic Growth and Structural Change in the Soviet Economy: 1959-1972, World Bank, Development Research Department Discussion Paper DRD 109, 1984.
- g) **Urata, Shujiro, "Sources of Economic Growth and Structural Change in China: 1956-81", forthcoming in the Journal of Comparative Economics, Academy Press, the Japanese translation with substantial extension appeared in Sekai Keizai Hyoron (Journal of World Economy), August and September issues, 1986, Sekaikeizaikenkyukai, Tokyo, Japan.
- h) **van der Gaag, Jacques. Private Household Consumption in China: A Study of People's Livelihood, World Bank Staff Working Paper No. 701, 1984.

i) **van der Gaag, Jacques; Li Xuezheng; Yang Shengming; He Juhuang, The Structure of China's Domestic Consumption: Analyses and Preliminary Forecasts, World Bank Staff Working Paper No. 755, 1985.

2. Dissemination

Reports a, c, d, f, g, h and i were presented at seminars inside the World Bank during 1983 and 1984.

All of the papers in report e were presented at a conference in Beijing in August, 1985, attended by World Bank staff, Chinese scholars and government officials, and scholars from India, Hungary, and the U.S.

Report c was presented at faculty-student seminars at the Johns Hopkins School of Advanced International Studies in Washington in April, 1984, and at Columbia University, in New York, in February, 1985.

Report g was presented at seminars at Keio University in Tokyo and the Institute of Developing Economics in Tokyo in 1986.

Several training workshops and seminars were given at the Chinese Academy of Social Sciences in Beijing in 1983 and 1984 on economic research on consumption, the use of input-output tables, and comparisons of development patterns.

V. Objectives, Strategy and Results

This research project had two components: (i) enterprise guidance in state industry and (ii) structural change. The structural change component, in turn, included a consumption study and a study of the sources of growth. Enterprise guidance was intended and turned out to be the major component.

Collaboration between the World Bank and the Chinese Academy of Social Sciences (CASS) was itself an important objective of this research

project, quite apart from the specific questions being researched. A collaborative relationship was sought, both for the additional insights it would give and to provide technical assistance for institution building for research in China. The individual components of the research project had separate objectives. The objective of the enterprise guidance study was to enhance understanding both within and outside China of how the Chinese enterprise guidance system worked. The issues were important because the enterprise guidance system was a major area of Chinese economic reform and there had been virtually no research done on the industrial policy since the early 1960s. Enterprise guidance was defined to include internal management issues, relations among enterprises, and relations between enterprises and the state. The main emphasis was on analyzing the response of enterprises to incentives and planning directives set by higher authorities.

The broad aim of the structural change component was to gain a better understanding of the structure of the Chinese economy, both as it had evolved over time and in comparison to other large countries. The objectives of the consumption study were to analyze the effects of income, location and other variables on Chinese consumption patterns; to estimate price elasticities if data availability permitted; to forecast the composition of demand over the medium term; and, thereby, to provide a better basis for matching consumption and production. The objective of the sources of growth study was to analyze similarities and differences in the patterns and sources of development for large (in terms of population) countries. In particular, the project sought to compare China with other large countries. The study intended to apply the methodologies used in an

earlier project titled "Sources of Growth and Structural Change" (RPO 671-32) to China and other large countries.

The research topics were of considerable interest to Chinese scholars and policy-makers, to the World Bank and to foreign scholars of development policy and comparative systems. Much of the interest derived from the focus on China, a country with unique structural and policy features which had long been closed to outside view and which was believed to be an important source of lessons for other developing countries. Almost no systematic research could be done on the Chinese economy by either foreign or Chinese scholars during 1966-78. Although the situation had improved since 1978 there were still few relevant statistics and little but anecdotes available about continuing far-reaching changes in economic policy and structure. Chinese scholars were interested in the research project largely for the opportunity it afforded to become familiar with Western analytical techniques and to view the Chinese economy in international perspective. Chinese policy-makers were interested in obtaining an independent assessment of the effects of reforms begun in 1978 and in recommendations for further reforms. Finally, the World Bank hoped to obtain knowledge about the structure of China's economy and the functioning of the Chinese economic system as a basis for Bank assistance and policy dialogue.

The results of the enterprise guidance component exceeded expectations. Access to information was excellent. In the view of Professor David Granick, consultant to the project and author of a study of enterprise guidance in Eastern Europe, the information base for the enterprise research was better than that for any other study of industrial

planning and incentive systems in a socialist economy. Collaboration between the World Bank and CASS teams was close throughout and a consensus emerged on major points of analysis and policy recommendations.

A major finding of the enterprise guidance research was that the market, not the plan, has been the dominant influence on enterprise decisions for the past several years. The increased role of the market partly reflects reforms in profit retention, marketing, investment finance, and other areas, and is partly due to changes in market conditions from excess demand to rough balance or excess supply. But because reforms have been uneven and uncoordinated, because the planning and financial incentive systems are manipulable, and because enterprise objectives are more complex than simple profit maximization, the reform process has led to some loss of macroeconomic control and other problems. The research suggests directions for the future course of reforms which will alleviate these problems. These directions and a summary of common themes and unresolved issues are given in the manuscript of China's Industrial Reform, chapter 1, pp. 12-14.

Reviewers of an earlier draft of the manuscript of China's Industrial Reform generally felt that the enterprise guidance research made an important contribution to understanding the Chinese economy. One reviewer (attachment 3) stated that "The manuscript provides an invaluable window on what has to be one of the most complex forms of modern social organization at a time when it is undergoing a permutation of gigantic proportion, which is literally affecting tens of millions of people. Interestingly, it presents a perspective from the inside as well as from the outside." Another reviewer (attachment 2) felt that "The volume will be of considerable interest to students of the Chinese economy and perhaps

of even more interest to those concerned with research in comparative systems." A third reviewer (attachment 4) stressed its "urgent topical interest" because of the analysis and recommendations on price reform. The project's policy recommendations on the future direction of reforms have also been widely discussed in China (see, for example, the reference to the views of the research conference on page 18 of attachment 7 from the Beijing Review of August 18, 1986). Moreover, there is widespread agreement at the highest policy-making levels of the need to inject into the reform process three critical elements which the research project had identified as missing: (1) price reform to give better signals to decentralized decision-making; (2) accountability to assess responsibility for loss as well as profits; and (3) increased competition to promote buyer's markets.

The structural change component was less successful in achieving its objectives. The consumption study was severely hampered by data limitations. Household level data that exist in China and that were expected to be made available for the study were never released. All work had to be based on aggregated data, presented in tabular form. Consequently, the study never rose above the level of an exploratory pilot study. Although some of the data and projections provided useful inputs into the Bank's economic report, the projections have to be considered as indicative.

The sources of growth study was also unable to meet all its objectives because of lack of data. Two methodologies were originally intended for the analysis; demand side sources of growth approach and a dynamic input-output model. The first approach was successfully applied,

and it was found that structural changes observed in China since the mid-1950s were substantial. Especially the structural change after 1975 was so drastic that only Korea appeared to have experienced a greater change in the post WWII period.

The second approach had to be abandoned because of a lack of data necessary for the analysis. Lack of data availability slowed the speed of progress of the research even for the part of the project that could be carried out eventually. In an effort to build a reliable and most up-to-date base (a series of input-output tables), the researchers (from DRD) worked closely with a number of relevant institutions including the China division of the Bank, UNIDO, U.S. Bureau of Census, and Institute of Developing Economies in Japan. Unfortunately, they could not get much assistance from CASS, the collaborative institution, because of objections raised by parts of the Chinese government. In spite of these obstacles, the research yielded results on structural change in China and other large countries which permitted comparisons to be made with the sources of growth for small and medium sized countries studied under the earlier project on "Sources of Economic Growth and Structural Change."

Collaboration was a mixed success, both in terms of giving access and insights to World Bank researchers and in terms of providing technical assistance in developing research and analytical capacity in China. As noted above, access to information was excellent for the enterprise guidance component and disappointing for the structural change component, though this was due more to political sensitivities in some parts of the Chinese government than to unwillingness on the part of CASS to collaborate. The success in gaining access to enterprises also reflected

the strong interest of CASS in the research and the close rapport established between the CASS and World Bank teams.

Despite the lack of access to data for the structural change component, there was considerable transfer of methodology. Indeed this may be in some ways the most important output of this project component. Several seminars were conducted by Bank staff for CASS researchers on recent developments in economic research on household consumption, on the use of input-output tables, and on comparisons of development patterns. Several talented and receptive young researchers should benefit a great deal from this exposure to new methodology. Collaboration on the enterprise guidance component also clearly enhanced Chinese capacity to undertake research using interview and quantitative survey techniques. As noted in paragraph 4 of attachment 1, some of the papers by the CASS team were analytically weak and appear to have been little influenced by the empirical methodological approach. But the project has had a big impact on many young researchers in China. One of the junior researchers of the CASS team was made a division chief in CASS in part because his experience on the project was considered to be so valuable. He is now associated with a follow-up "Collaboration Research Project on Chinese Collective Industry" which has a young and empirically-oriented team of Chinese economists. In addition a new Economic System Reform Research Institute under the State System Reform Commission has been carrying out enterprise surveys modeled on the enterprise guidance component.

A special feature of the collaborative aspect of the research was to provide the Chinese team with information about the latest research outside China on relevant topics. The Chinese team, in turn, provided the

World Bank side with information about other studies in China. On structural change issues this was accomplished through the previously mentioned seminars given in China by World Bank staff. In the case of enterprise guidance, CASS team members traveled to Washington to meet with Bank researchers engaged in research on public enterprise management. They also visited several U.S. and Japanese enterprises and met with scholars engaged in enterprise management research. From the beginning of the project an effort was made to provide a comparative socialist perspective by bringing in David Granick, an expert on the Soviet Union and Eastern Europe, as a consultant and participant in the research. Midway through the project Martin Schrenk, a Bank staff member with extensive experience in Yugoslavia, also joined the research team. Finally, the conference on enterprise management issues held in Beijing in August 1985 brought in scholars from Hungary, India, and the U.S. to present papers on experience in other socialist countries and in public enterprise management reform in mixed economies. The benefits of exposure to U.S. and Japanese enterprises and to public enterprise issues in mixed economies are difficult to assess. Little explicit use of information on these issues was made in the analysis of Chinese enterprise guidance. However, information on reform in other socialist countries was extremely valuable for the research on China.

VI & VII. Design and Organization

The design and organization of the research project are discussed in detail in a project Progress Report (attachment 8). The methodology for the enterprise guidance component is also elaborated in the Preface to China's Industrial Reform.

Very briefly, the enterprise guidance research relied mainly on in-depth interviews in twenty enterprises and their supervisory organizations. The information from interviews was supplemented by data obtained from a quantitative questionnaire completed by each enterprise. The quantitative information could not be used for sophisticated statistical analysis because of problems of coverage and comparability, but taken together with interview reports, it provided a rich base of case studies for analysis of major enterprise guidance issues. The research was staged, beginning with two collaborative pilot studies which were written up as case studies and used to formulate hypotheses and revise the quantitative questionnaire for interviews in the remaining eighteen enterprises. The World Bank team was able to participate in more reinterviews than initially contemplated and provided a list of specific questions for enterprises in other reinterviews conducted by the CASS team. The principal consultant provided valuable advice on research design, formulation of hypotheses, and reinterview questions. The core World Bank research team was comprised of three members of the China Division and staff members from CPD also participated in interviews. On the Chinese side, the State Economic Commission provided valuable assistance in the research and there was a high level of awareness of the project in other parts of the Chinese government and research community. The 1985 conference included participants from several government departments and research institutes. Because availability of information was so good for this component of the research, more resources were devoted to it than originally estimated. Some of the resources used for enterprise guidance were offset by savings on the structural change component.

As noted in section V and attachment 8, household level data were never made available for the consumption study. Thus, the cross-section study of consumption patterns had to rely on tabular data. Historical data were also more limited than originally thought so that the time series analysis of consumption was not as elaborate as planned. In view of these limitations fewer resources were devoted to the consumption study than planned.

The sources of growth study also encountered difficulty in getting reliable data on the Chinese economy (see section V above). Because of this it was necessary to spend a substantial amount of time estimating the necessary information with the help of not only Chinese economists but also experts on the Chinese economy outside China. In the process the research team worked closely with the economists in the China division of the Bank. In order to perform meaningful comparison between China and other countries, the research team employed consultants ranging from experts on China to specialists in the overall pattern of development in general. The information and work they provided were useful in carrying out the project. The main output that was produced from the project was the work put into the preparation of the China economic report. Specifically, estimation of input-output tables of China and comparisons of the Chinese economy with other economies reported in that report incorporated substantially the work done by the project. Due to the fact that it was not possible to carry out the second part of the intended objective (dynamic input-output model), the study used fewer staff resources than anticipated.

The total financial cost of the project was \$380.6 thousand compared to \$355 thousand budgeted. Most of the additional cost has already been covered by the sponsoring Bank departments. The project used somewhat less staff time than originally projected (308 staff weeks actual versus 339 staff weeks projected). As noted above, resources were shifted from the structural change component to the enterprise guidance component, but because of the large fixed cost element for travel, financial resources proved less fungible than staff time, thus leading to a cost overrun.

VIII. Dissemination

The main means of dissemination of the research findings are summarized in section II. No articles have been submitted to the World Bank Economic Review, but this may be done later.

The main point which should be added to the summary in section II is that the research findings are being widely disseminated in China. China's Industrial Reform will be simultaneously published in Chinese by the China Economic Publishing House. The conference held in Beijing in August 1985, was widely publicized in the Chinese press and on national television. Attachment 9 shows two newspaper articles from the English language China Daily. Similar articles were published in the Peoples Daily and other Chinese language newspapers. A translation of two long articles in the Economic Daily is shown in attachment 10.

OFFICE MEMORANDUM

ATTACHMENT 1.

DATE October 8, 1985

TO Mr. Goddard W. Winterbottom, Chief, PUBEP

FROM Attila Sönmez, Acting Director, AEADR *AS*

EXTENSION 72433

SUBJECT Submission of Manuscript for Publication

1. Enclosed are six copies of a manuscript entitled, Chinese Industrial Reform in International Perspective for consideration for publication by the Bank through Oxford University Press.
2. The manuscript consists of 14 papers presented at a conference on Chinese industrial enterprise management in Beijing August 27-30, 1985. The conference was held to discuss the results of a three-year collaborative research project (RPO673-14) between the World Bank and the Chinese Academy of Social Sciences (CASS). Most of the papers were based on the results of interviews conducted in 20 Chinese state industrial enterprises under the project. Additional papers were presented by invited outside scholars on industrial reform in other socialist countries and on management of public enterprises in other developing countries.
3. The manuscript is not in final form. The papers will be revised by the authors in the light of comments received at the conference. They will be further edited by Gene Tidrick of the World Bank and Chen Jiyuan of CASS. The editors will also write an introduction which will outline recent Chinese industrial reforms, discuss the design and methodology of the research project, and briefly analyze the main characteristics of the sample enterprises and their relationship to general reforms. The introduction will also discuss connections among the individual papers with special attention to the lessons for China of other countries' experience. We have chosen to submit the manuscript in its present form in order to speed review. Early publication is desirable because industrial reforms are still proceeding in China and these studies are based on interviews completed in 1984.
4. The volume should be of interest not only to China specialists but also to general economists and students wanting to know something about recent Chinese reforms and to scholars of comparative economic systems. The papers are of a generally high standard, but the question may arise whether one or two of them should be excluded from the volume. Because of the collaborative nature of the research project, this would present great difficulties. We have agreed with CASS that the volume will be published in both English and Chinese and it would be difficult to modify the understanding reached that both the English and Chinese volumes will carry the full set of conference papers. We would ask, therefore, that the volume be judged on its overall merits. All papers will be revised, and we believe these revisions will meet many of the

criticisms which might arise. The editors would also entertain suggestions for improvement. We believe too that in the case of any Chinese papers which might be deemed weak by Western scholarly standards there will still be widespread interest in first-hand Chinese views of industrial reform. In view of the timeliness of the topic and the overall quality of the papers, many by well-known international scholars, we feel the volume is well-suited to publication by Oxford University Press.

cc: Messrs. Koch-Weser, Levy, Tidrick (AEACH), Lal (DDR), Yenai (AENVP)

GTidrick:mac

CHINESE INDUSTRIAL REFORM IN INTERNATIONAL PERSPECTIVE

Table of Contents

"Introduction", (Not yet available)
Gene Tidrick and Chen Jiyuan

Part I. Overview

1. "Questions on Increasing the Vitality of Enterprises under the System of Ownership by the Whole People"
Dong Fureng
2. "Factor Allocation in Chinese Industry"
William Byrd and Gene Tidrick
3. "Comparison of the Chinese and CMEA Industrial Enterprise Environment"
David Granick
4. "Reform of China's Planning and Pricing System"
Gao Shangquan

Part II. Planning, Supply, and Marketing

5. "A Study of the State Industrial Enterprise Planning System"
Chen Jiyuan
6. "Planning and Supply in Chinese State-Owned Industry"
Gene Tidrick
7. "The Supply and Marketing System for State Industrial Enterprises in China"
Tang Zongkun
8. "The Role and Impact of Markets"
William Byrd

Part III. Enterprise Organization

9. "System Reform and Industrial Corporations"
Xu Lu
10. "An Inquiry into Reform of the Leadership System in China's State-Owned Industrial Enterprises"
Zheng Guangliang

Part IV. Lessons from Other Countries

11. "The Dual Dependence of the State Owned Firm: Hungarian Experience"
Janos Kornai

12. "The Self-Managed Firm in Yugoslavia, Income and Transfer Price Accounting"
Martin Schrenk
13. "Performance Evaluation for Public Enterprises"
Leroy Jones
14. "The Public Sector in India: An Appraisal"
Prem Shankar Jha

OFFICE MEMORANDUM

ATTACHMENT 2.

DATE: January 17, 1986

TO: Mr. Goddard Winterbottom

FROM: Reader # 1

SUBJECT: Comments on "Chinese Industrial Reform in International Perspective"

1. I have not been able to review more than half of the papers in the volume and my comments should be weighted accordingly. The volume will be of considerable interest to students of the Chinese economy and perhaps of even more interest to those concerned with research in comparative systems. It captures a system which is undergoing remarkable shifts and documents the tensions and uncertainties of the transition process. The portrait that emerges is of a clear general direction of change, but with different sectors, regions and enterprises proceeding at quite different speeds. This seems to run counter to the Kornai approach of related packages of reform measures which apply across-the-board. The difference doubtless reflects the countries - China and Hungary - but it does make clear the difficulties of generalising about socialist economic reform.
2. Let me evaluate the manuscript according to your three criteria. With regard to professional quality it is variable. It ranges from insightful studies from some of the experts in the field which are well worth publishing; to competent descriptions of the changes in the Chinese system by Bank economists which will probably be the most useful parts of the document for outside scholars; to contributions by Chinese scholars which are alas written with a rather different purpose in mind than a scholarly manuscript. These last come across as appeals by the Chinese authors to a local audience to continue with the direction and momentum of change. They are thinly supported either empirically or analytically and are often organised through concepts or logic which a non-Chinese reader would have difficulty in interpreting. Thus for example one entire paper is written around the idea of how can we increase the "vitality" of enterprises? The term is vaguely understandable, but never rigorously defined and sits uneasily between concepts such as x-efficiency and allocative efficiency. The interest of these papers is in their style rather than their content. It is often fascinating to see what the Chinese author feels is necessary to say to his readers, the points on which he is defensive and the anecdotes with which he supports his arguments. The ambivalence of their position - we want change, but we must maintain control of the process of change - comes across strikingly.
3. The relevance of the paper to the concerns of the Bank is probably fairly limited. The paper doesn't, at least in the sections I read, draw clear conclusions about the appropriate path of industrial reform, either in China or other socialist countries. It is perhaps useful background reading for staff working on these issues, but similar material is either available in a more condensed form, or can and should be made available by condensing the existing document. The manuscript is mainly of interest to the two groups I referred to in para. 1.

4. The decision on publication should probably rest on criterion (c), its contribution to the literature in the field. In this respect there is little doubt about the usefulness of the manuscript. Even more than as a subject for immediate study this is going to be a valuable historical source for those who document the Chinese economic reform in the future. If you ask me whether the Bank should have undertaken long-term research in the first place if this was to be its primary value, I would answer no. If you ask whether having undertaken the research we should spend the marginal amount needed to provide access to it to outside scholars, the answer becomes yes.

5. With one proviso. What the manuscript lacks at the moment is a good overview chapter near the beginning. The introduction is a strange animal, half devoted to a description of Chinese economic reform and half to the characteristics of the sample enterprises studied. The document would be immeasurably improved by an overview chapter which drew the main conclusions and related the different chapters to one another. At present the individual pieces often seem to overlap and it is unclear why the particular topics were selected. A good overview piece would lend coherence, guide the reader on how to use the document as a whole and enable him or her to select those sections which merit further reading. It would also bring to the surface some of the important points which are buried in the middle of chapters. Thus for example Bill Byrd's paper no.9 on "The Role and Impact of Markets" documents the surprising degree to which China is no longer a shortage economy, i.e. the emergence of buyer's markets for 90 percent of the enterprises studied. Or the important issue of the increasing "Yugoslavisation" of the Chinese economy, i.e. the fragmentation of markets along regional lines, which is referred to in passing in a number of papers. Points like these need to be brought up front.

6. The document as a whole makes surprisingly little use of formal analysis of what I assume was a rather comprehensive data set. It may be useful to provide scholars with a good statistical appendix, and the section on the characteristics of the sample could then be moved to a lead-in for the appendix.

7. I would advise that a final decision on publication should be taken only after an overview piece has been written. This could then be sent to reviewers and allow a much better-informed reaction. I have some comments on individual pieces, but they seem beside the point and would simply reflect the comments made earlier. Incidentally the translators and editors of the Chinese contributions to the volume seem to have done an excellent job in rendering these transparent and understandable, without too much cosmetic surgery for non-Chinese audiences.

cc. Messrs. Tidrick and Schrenk.

OFFICE MEMORANDUM

ATTACHMENT 3.

DATE February 6, 1986

TO Goddard W. Winterbottom, Chief, PUBEP

FROM

Reader #2

EXTENSION

SUBJECT Manuscript on Chinese Industrial Reform

In response to your December 23, 1986, memorandum and to the Editorial Subcommittee's request, I have reviewed the above manuscript and prepared the following comments and suggestions.

The manuscript provides an invaluable window on what has to be one of the most complex forms of modern social organization at a time when it is undergoing a permutation of gigantic proportion, which is literally affecting tens of millions of people. Interestingly, it presents a perspective from the inside as well as from the outside. The juxtaposition contributes to enrich the material by requiring the reader to shift continually from one frame of reference to the other, thus stimulating him/her to reflect not only on the idiosyncracies of the Chinese system--warts and all--but also on what it can teach us. For instance, the Chinese enterprises' pervasive preoccupation with the welfare of the workers and their dependents, the "strong egalitarian ethos" and the managers' reluctance to award themselves large bonuses, all open new vistas about patterns of human motivation and behavior that cannot but influence our perceptions about the Western way of life. No doubt, some of these values may be eroded as part of the reforms; the mere fact that they became as widespread as they did is of utmost interest.

Another contribution of the manuscript is to lay bare the enormous complexity of the state industrial sector in China and the extreme diversity of organizational forms that make up its landscape. The description of the dense web of relationships among administrative units and state enterprises and among enterprises themselves should caution outside "experts" against the feeling that they fully understand the system and are able to offer ready-made recipes to cure its "ills." In fact, it challenges both insiders and outsiders to think of ways to preserve the worthwhile features of the system, while improving the rest.

Chinese readers who are well acquainted with their own system will probably stand to gain less from the manuscript. The intricacies of semi-loosely integrated enterprises carrying out "Three No Changes" and "Four Unifications" and playing "both the role of the back-bone and the role of a 'handle-bar'" may not

captivate them to the same extent. However, the comparative experience of the USSR, Hungary, Yugoslavia and India, would certainly be of interest to them, unless it is already accessible to them from a different source--a point for which we must rely on the advice of our Chinese counterparts. (I assume that two versions of the manuscript will be published, one in English and one in Chinese). Whether the international (meaning non-Chinese) experience should be published in an English version of the manuscript is debatable, as it is less likely to represent an original contribution to the literature. Kornai's piece on the Hungarian experience may be an exception, and I would also preserve the section on the Comparative Experience of the Chinese and CMEA Industrial Environment, as it genuinely attempts to highlight the differences between the two systems.

This brings me to my main suggestions for making the text more accessible to prospective readers.

First of all there is the question of the length of the manuscript. It may be possible to reduce the number of papers included in the text by eliminating, merging and/or condensing some of them. Deleting most of Part IV (Lessons from Other Countries) at least from the English version, would result in rather substantial savings in space. Moreover, would it be possible to merge Part II-7 (Planning and Supply in Chinese State-Owned Industry) and Part II-9 (The Role and Impact of Markets)?

One might also recommend merging a couple of the papers contributed by Chinese scholars/officials, e.g., Dong Fureng's paper on Increasing the Vitality of Enterprises and part of Xu Lu's paper on System Reform and Industrial Corporations, but that might raise insurmountable protocol problems vis-a-vis the authors and their organizations. I would not, however, pursue the issue too vigorously, as even papers that appear less informative than others often contain real gems. For instance, Gao Shanquan's story about the sudden build-up of stocks of drugs against gastric disorders is a beautiful illustration of the pitfalls of too much administrative planning: pharmaceutical enterprises were simply fulfilling their plan targets, and it took time to notice that in the course of rural reform people had shifted from sweet potatoes to a more healthy diet, thus requiring less medication!

Still in the spirit of making the manuscript more accessible, it would be useful in the Introduction to take the reader on a guided tour of its content in a way that would highlight the main issues covered and the interlinkages between the various papers. Moreover, I would also suggest that each paper begin by an abstract of, say, 200 words, so that the reader would know what to expect and find it easier to grasp the substance.

Further, identifying the contributors would be of great value to the readers. This is particularly important for the

Chinese contributors, as one would wish to have a feel of their position and function and the role they and/or their organization are apt to play in orienting the course of the reforms. In this connection, would it be possible to say something about the proceedings of the conference at which the various papers were presented. Who attended? What kind of debate took place? What were the main points on which people focused their attention? What were the conclusions?

Regarding the title of the book, I confess I feel uneasy about it, since it seems to promise more than the manuscript is able to deliver. The book consists of a series of papers presented at a conference and does not purport to give an analysis of the reform of China's industrial sector. It is more narrow in scope and deals basically with China's industrial state enterprises in a period of reform. Whether the mention of the "International Perspective" should be kept in the text depends on the decision about whether to retain the bulk of Part IV or not. What about a title such as "Chinese Industrial State Enterprises: Reform and Modernization in the early 1980s." (That should translate fairly easily into Chinese).

I also wonder whether it would not be a good idea to review the sequence in which the various papers are presented. In particular, I felt that the distinction between Parts I, II and III was somewhat artificial. In my view, the "Overview" (Part I) and the section on "Enterprise Organization" (Part II) would gain from being merged into one. The two papers by Xu Lu and Zheng Guanliang in Part III seemed indispensable to me for a better understanding of the internal dynamics of the enterprises, and I wished I didn't have to wait that long before I got to them. In order to avoid that the merged Part I and III looks unbalanced in relation to Part II, David Granick's paper might conveniently be slipped into Part II.

Let me make two more suggestions concerning detailed points of presentation. One would be to reduce the number of cross-references, especially to articles by the authors themselves. If the information is worth mentioning, why couldn't they summarize it for the readers? Otherwise, one gets the feeling that the argument is incomplete and that one is missing something important. See, for example, Part I-3, pages 12 and 15. If a reference is needed, then the information should at least be encapsulated in a brief footnote.

Greater use of summary tables to present comparative information about enterprises may also save space. What I have in mind is something along the lines of table 1 on page 32 of Part II-7: it summarizes the main constraints on production of 20 sample enterprises, and thus makes it possible to shorten the narrative descriptive part, while synthesizing the information in a more interesting way. I admit that I was surprised not to find more comparative tables of this kind throughout the text.

In sum, I strongly support the publication of the manuscript. It provides a unique view of the Chinese industrial sector during a period of transition, based on first-hand information that is not otherwise available. There is little doubt about its relevance to the concern of the Bank and its member nations with development. While the authors dwell more on the diagnosis of the issues than on the identification of solutions, this only reflects the enormous complexity of the problem of moving toward a more efficient system of industrial management while preserving some of the achievements of the past. The reader is drawn into the heart of the debate and will emerge both better informed and intellectually enriched.

cc: Messrs. Yenai, Kirmani, Turnham, Koch-Weser, Lim, Levy, Tidrick, Byrd

February 18, 1986

Reader #3

Mr. Goddard W. Winterbottom
Chief, Editorial and Production Division
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Winterbottom:

With reference to your letters dated December 23, 1985 and January 21, 1986, I give below my opinion as a reader of the manuscript Chinese Industrial Reform in International Perspective edited by Gene Tidrick and Chen Jiyuan.

1. The manuscript certainly is not only worthy of publication, but because its inferences especially about the price system reform, is of urgent topical interest therefore it should be speedily published. However, while the material is good, some rewriting to sharpen the focus of the chapters is necessary.

2. In the introductory chapter by Tidrick and Chen, before the sentence beginning "And since 1974,...", a paragraph needs to be inserted to explain in brief why if China has done so well in rates of industrial growth, diversified production, and expanded employment while under autarky without reform, it is now necessary for it to reform an apparently functioning system. What was apparent and what was real? Then the "broad outline of Chinese industrial reform since 1979..." beginning page 2 will read sequentially more cogent.

The term "once-for-all increase" and "total demand (for what?)" in line 12 on page 4 are not clear in the context. Further a short explanation is necessary for the statement "but even these growth targets were consistently exceeded" (line 20) especially as to why this was so.. was it a failure of the planning machinery or due to local autonomy in decision-making?

The phrase "In general increases in financial autonomy have outpaced the increases in the cost of capital" (last two lines, p.8) needs to be clarified. If the authors mean that the extent of decentralization has not led to sharp increases in the cost of capital due to tax reliefs provided, it should be so stated (or in similar words). As it stands, financial autonomy is not a quantity, while cost of capital is.

The statement (line 1 on page 9) that "financial reforms may have weakened rather than strengthened financial discipline" is an important and original view of the Chinese reforms, and therefore it may be stated with emphasis.

Similarly, the opinion that "factory managers have less authority than in the 1950s" is very interesting in the context of decentralization in the current reforms.

3. The chapter on factor allocation by Byrd and Tidrick is most interesting and well written. However, the paper is mostly on the institutional environment in enterprise decision-making on factor allocation.

However, either by drawing on the earlier Tidrick work or by fresh calculations, the statement (page 1, first line on second para) that "Total factor productivity in Chinese industry has been essentially stagnant for 25 years", needs to be expanded in greater detail.

4. With regard to the chapters by Dong Fu reng, Gao Shangquan, Chen Ji yuan, Tang Zongkun, Xu Lu, and Zheng Guangliang, I found them interesting and worthy of the volume. I have no serious comments to make in light of the guidelines contained in the latter part of para 4 of the Office Memorandum from Mr. Attila Sonmez to you dated October 8, 1985.

5. The chapters by Tidrick (Planning and Supply in Chinese State Owned Industry) and by Byrd (The Role and Impact of Markets) are good and can be published as is.

6. Of the rest of the chapters, the chapter on performance evaluation by Leroy Jones is a general one dealing with the conceptual part. There is a post script on China. On the whole the chapter is a useful introduction.

7. I have nothing to add to the chapters on Hungary, Yugoslavia and CMEA. My knowledge of these countries is quite limited. However I found the chapter by Granick informative and useful for the student of China.

8. The Chapter by Jha on The Public Sector in India needs to be rewritten for the following reasons:

(a) He has got most of his dates wrong. For example, he states that (on page 5) the India's second five year plan began in April 1966. Jha is off by a decade. The same line he says that "The 1984 resolution...". There was no 1984 resolution on industrial policy. On page 48, para 121, I assume that 1974075 means 1974 or 1975.

(b) He should make clear his concepts. What does he mean by "basic" in para 8, page 4, "true" in para 47 of page 20, \bar{r} in the ERP equation in para 59 of page 23; and which year's exchange rates of the rupee to the dollar he is using.

(c) His tables are quite shoddy, and require professional reassembly. As a rule amongst economists, tables should be complete in themselves, and capable of being understood without reference to the text. Jha's tables are not only not so, but sometimes incomprehensible.

(i) Thus table on page 4 needs to be properly presented.

(ii) The table on page 10 is confusing; column (2) is incomprehensible. If Rs million is for column (1), then how can steel be 100% of the total capital employed?

(iii) Why is there no entry for 1979-80 in the table on page 12 in the row of figures for the public sector?

(iv) Some of the conclusions drawn from tables are not valid. For example, how can the conclusion on page 11 on the trend in the share of steel in capital employed be drawn from "the above table" when the figures in that table are for only one year?

(v) Some of the statements made are too sweeping. For example, on page 11, para 28 it is stated that about the public sector, "leaves no doubt that by 1965,...".

(d) The typing errors and gaps in the manuscript are galore. For example, in para 13 of page 6, line 10, the figure for steel output is missing. The caption to the table on page 20 is missing.

(e) And finally, there is no comparison of any kind with China in Jha's manuscript.

As it stands, the Jha manuscript is not in keeping with Bank's standard. Mr. Jha is, however, a person of ability, and obviously he has written the chapter in a mighty hurry.

As a general comment on the manuscript as a whole, I would like to say that the international perspective is the weakest part. Except for Granick, the other chapters are about their respective countries, and do not deal with China. Even the Tidrick and Chen introductory chapter is deficient on this score. Perhaps the editors may consider rectifying this lack of integration of the separate countries' experience with the main chapters of the manuscript.

But as far as the matter collected together on the Chinese industrial reform, it is truly original and worthy of the Bank's reputation.

Sincerely yours,

Reader #4

ATTACHMENT 5.

March 3, 1986

Mr. Goddard W. Winterbottom
Chief
Editorial and Production Division
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Winterbottom:

I enclose my report on Chinese Industrial Reform in International Perspective. The manuscript needs a few major revisions and some editorial changes before it can be published. If you have any questions, please feel free to write to me.

Would you like me to return the material to you?

Yours sincerely,

Encl.

Referee's Report
on
CHINESE INDUSTRIAL REFORM IN INTERNATIONAL PERSPECTIVE

This report is written keeping in view the implicit instruction that none of the essays can be deleted.

The overall impression is the uneven quality of the essays. Some of the papers are first-rate; they are scholarly, well-researched, full of analytical insights and details and well-organized. Among them are the introduction by Tidrick and Jiyuan, and the essays by Byrd and Tidrick (3), Granick (4), Tidrick (7), Byrd (9), Kornai (12) and Schrenk and Jiyuan(6). The same cannot be said of the remaining pieces.

Next, the purpose of the volume is to analyse Chinese industrial reform in an international perspective. While (3), (7) and (9), in addition to the pieces by the Chinese contributors, deal directly with Chinese enterprises, the essay by Granick is the only one in the volume which systematically compares and contrasts several aspects of the Chinese and CMEA, especially Soviet, enterprises. The two pieces by Kornai and Schrenk are self-contained, the former dealing with the Hungarian and the latter, with the Yugoslav enterprises without drawing any contrasts or comparisons with the Chinese experience.

This raises a critical problem with the collection- were the contributors instructed to draw such contrasts and comparisons with the Chinese enterprises? Otherwise, there is no point in including the Hungarian, Yugoslav and Indian experiences in the collection. If the individual authors cannot undertake this comparative analysis, then it should be done by the editors in the introduction. While Tidrick and Jiyuan have written an excellent introduction, it does not connect the experience of China with that of the other countries included in the volume. Almost all the references from the volume in this introduction relate to the Chinese case. There is only a single-line reference on p. 12 to the fact of the Chinese industrial reforms not being comparable "in extent or form" to those of Yugoslavia though they can be compared with reforms in Hungary. I think the editors should instruct the authors to relate their country findings to the Chinese case or do it themselves; otherwise, I do not see any point in including the other country studies with the exception of Granick who does succeed in comparing and contrasting the Chinese case with the CMEA experience in depth.

A word also about the pieces by Jones (14) and Jha (15). Jones works up an analytical framework of performance evaluation criteria for public sector enterprises and then has a postscript on China where the Chinese performance is presumably assessed

in terms of these criteria. I am afraid I was not convinced by this "applicability exercise". In a volume where most of the pieces on China are authentic, this one is the least authentic of them all. It is just tagged on and really does not draw on the specific facts and realities of the Chinese experience which are relevant for a convincing application of the performance criteria.

Jha's essay on the Indian enterprises is elaborately written and has a good historical account of the multi-faceted development of the Indian public sector enterprises. However, the piece is not scholarly, needs documentation and more to the point, does not draw any comparisons or contrasts with the problems and performance of Chinese enterprises. My chief reservation is the author's acceptance of ERP as a social cost-benefit criterion. There was certainly a time when this was believed to be correct. But after the work done by Bhagwati and Srinivasan in JPE and several related articles, it is clear that ERP will not do the trick. DRCs, using socially-adjusted factor prices, are called for, particularly if Jha believes (as I think he does) that prices are distorted. He has to examine the entire section, starting p. 21, and rewrite it to emphasise that he is talking about incentives, and not social returns. Actually, some of this is discussed in the Bhagwati-Desai book he cites on p. 11 where Dr. Panchmukhi has calculated a few ERPs. There is also a book by Anne Krueger, published by Minnesota Press, on DRCs in Indian industry. Jha needs to study and reference these well-known works adequately if his piece is to be scholarly.

Finally, I must comment on the essays by the Chinese contributors. The essay by Chen Jiyuan is lucidly written, very detailed and knowledgeable. Indeed, it is the centerpiece in the subset. Keeping that in view, a duplication of ideas or facts or details should be avoided. For example, Chen Jiyuan has a comprehensive statement and description of the Chinese planned system. Some of the same material is repeated in Shangquan and Zongkun. I think the editors have their work cut out for them: duplication here should be carefully pruned; cross-referencing, wherever possible, should be introduced within the subset and indeed, across all the essays so that the theme is continuing and interconnected.

I am refraining from making stylistic or editorial changes. What I have in mind is careful editing which I illustrate with respect to the Jha paper:

1. The introduction does not indicate what is going to be covered and how. For a paper this long, it is important to have a guidemap set up at the outset. Incidentally, such an introductory guidemap is necessary for all the essays.

2. There should correspondingly be some sort of overview. I could not get a proper sense of what exactly was the central thrust and message of the paper, and also as it bore on the Chinese economy's potential problems with enterprise management. (This is a point I have raised earlier also with regard to the Kornai and Schrenk papers.) A little more thought on this might help improve the focus of the paper.

3. The author does not cite references fully and properly. E.g. seminars are referred to but not referenced (cf. paragraph 83 on p. 33). These deficiencies must be removed.

OFFICE MEMORANDUM

ATTACHMENT 6.

Date: March 14, 1986

To: Goddard W. Winterbottom, PUB

From: Gene Tidrick, ^{GT}CPDDR

Ext.: 61078

Subject: Readers' Comments on "Chinese Industrial Reform in International Perspective"

1. Thank you for sending me reviewers' reports on the above manuscript. I was delighted that all four readers recommended publication. The purpose of this note is to explain how we intend to deal with their criticisms and suggestions.

Reader Criticisms and Suggestions

2. There were two main criticisms of the manuscript.

- (a) More introductory material is needed to provide guidance to the reader, link the individual papers, and draw out common themes. Readers 1, 2, and 4 all made this point.
- (b) The international perspective is weak. Reader 2 questioned whether the international papers, with the exception of those by Granick and Kornai, should be published in the English version. Reader 3 recommended that the editors rectify the lack of integration of foreign and Chinese experience. Reader 4 asked that either the authors or editors draw more comparisons between international and Chinese experience, or that some of the international papers be excluded. Readers 3 and 4 were both particularly critical of the paper by Jha and Reader 3 was also critical of the Jones' paper.

3. In addition, there were a number of specific suggestions by individual readers. The most important of the general or editorial points were the following:

- (a) Analysis of characteristics of the sample enterprises should be separated from the other introductory material and used as a lead-in for a good statistical appendix. More formal analysis of the data should be undertaken. (Reader 1).
- (b) Consideration might be given to merging some papers (Reader 2), or eliminating duplication of ideas, facts, or details. (Reader 4).
- (c) An abstract should be provided for each paper. (Reader 2).
- (d) Contributors should be identified. (Reader 2).

- (e) The title should be changed, especially if some of the international papers are omitted. (Reader 2).
- (f) The sequence of the papers should be reviewed in order to introduce some of the main institutional features of the Chinese economy sooner. (Reader 2). Reader 1 would address this problem by strengthening the introduction.
- (g) A summary of the main points of the conference debate should be provided. (Reader 2).
- (h) Greater use should be made of summary tables to present comparative information. (Reader 2).
- (i) Some references are incomplete. (Reader 4).

Intended Response

4. I have written an additional 40 pages of introductory material which summarizes the main themes of each paper, relates the papers to each other, makes comparisons of international and Chinese experience, and summarizes the main themes and unresolved issues of the papers and conference discussion. Several colleagues (including a professional editor) have reviewed this additional material and made suggestions. They all feel that it provides the overview and linkages called for by several of the readers. The main material is now being reviewed by the co-editor, Chen Jiyuan. Subject to his approval and suggestions, I propose to organize the introductory material, including both the introduction seen by the readers and the new material which they have not seen, as follows:

- (a) A preface will describe the origins of the research and its methodology, and give a brief overview of the papers, their relationship to each other, and the structure of the book.
- (b) A chapter called "Essence of the Industrial Reforms" will summarize the reforms in China and discuss the "common themes and unresolved issues" raised by the papers and the conference discussion.
- (c) A chapter called "Characteristics of the Twenty Firms" will compare the sample enterprises with other state industrial enterprises and introduce an expanded statistical appendix.
- (d) Separate introductions for each of the four parts of the book will summarize each paper, discuss similarities and differences among papers, and, in the case of the international papers, draw implications of international experience for China. Each section introduction will be about six to ten pages (double-spaced).

5. As noted above, I have written additional material comparing international and Chinese experience. Jha has also revised and improved his paper and we have agreed on additional changes which I could make. I believe these changes would meet most of the concerns expressed by reviewers.

Nevertheless, my view is that dropping the papers by Jha and Jones on management of public enterprises in non-socialist countries would improve the focus of the book and I am going to propose this to Chen Jiyuan. I would not like to exclude either of the papers on Hungary or Yugoslavia because the experience of other socialist countries is highly relevant to China, the papers are intrinsically good and of interest to other scholars, and the inclusion of Kornai's paper will help sell the book.

6. Most of the editorial suggestions are acceptable and many have already been adopted. It will not be possible to merge papers by the Chinese scholars or change their sequence (see 3.b and 3.f above), but overlap can be reduced and I believe the new introductory material will meet the objective which changing the sequence was intended to achieve. An experienced Bank editor, Bruce Ross-Larson, is working on the manuscript. He will help shorten the book, eliminate duplication, ensure consistency of style, and make suggestions on organization.

Price Reform Essential to Growth

by Liu Guoguang*

In its effort to modernize, China is faced with the double task of reforming both its economic structure and its economic system. But attempts to do this are inevitably restricted by the nation's irrational pricing system. If this is left unchanged, China's economic modernization would be seriously handicapped. Price reform is, therefore, vital to the growth of the national economy and to the reform of China's economic structure.

China's former prices were not soundly based. The price structure was seriously distorted, and prices reflected neither the true value of goods nor the relation between their supply and demand. Price management was also over centralized, a fact which left the price formation mechanism inflexible.

Reasons for the Reform

The following problems were evidence of a serious distortion in China's price structure:

1. The purchasing prices for farm and side-line products were unduly low. Between 1966 and 1978, state purchasing prices for these increased slightly, while those for grains remained virtually unchanged. As a result, grain farmers had higher costs with stationary incomes.

2. Prices of manufactured goods were out of all proportion to one another, while some prices were low, others were high. For example, the 1979 profits of state-owned plants supplying raw materials and semi-finished products at county and higher levels were as follows: 2.1 percent for coal, 1.6 percent for iron ore, 4.4 percent for cement, 3.2 percent for

chemicals and 4.8 percent for timber. However, profits in the processing industries were markedly higher: 44.9 percent for rubber processing, 38.4 percent for dyes and paints, 61.1 percent for watches, 39.8 percent for bicycles and 33.1 percent for chemical products and pharmaceuticals.

The former price mechanism hindered the rational use of social resources and prevented the development of the national economy in a proportionate and coordinated way.

3. The price of housing construction materials were too low. Before 1980 construction costs equalled prices, and no profit was made in the industry. Rents were also inordinately low. Until 1980, the rent collected in the nation's 273 cities only amounted to one quarter of management and maintenance costs.

4. Charges for transportation, communications, urban public utilities and services were also unduly low.

5. Price subsidies were too high, and were used mainly to offset the difference between the compara-

tively high purchasing prices of food grain and edible oil and their low selling prices. Between 1971 and 1980, the state spent 190.89 billion yuan on subsidies, 22 percent of the state's total revenue for that decade.

The outdated pricing mechanism had the following problems: 1. Pricing power was concentrated in the hands of the government, especially the central government. Enterprises had no powers. 2. Planned, fixed prices dominated. 3. Prices were strictly controlled. Once a price was set, it was unlikely to be adjusted. A change in the price of any product, if needed, would take between three and five years.

The former price mechanism was an essential part of China's original highly centralized economic structure, characterized by the administrative coordination and management of materials and equipment. The main function of prices were limited to serving 1. as a statistical means of measuring the use value of a product; 2. as a tool for the redistribution of national income that is concentrating the country's financial resources on its most needed projects through the use of price ratios and differentials. No thought was given to the use of prices as measures of economic results, as stimuli to technical advancement or as means to direct the allocation of resources. Thi

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made it impossible to evaluate correctly the economic performances of enterprises and other organizations. Rather, it hindered the rational use of social resources and prevented the development of the national economy in a proportionate and co-ordinated way. This is one of the chief reasons why China's socialist economy has not developed as was desired over the past two or three decades.

The Goals

China's price reform began in 1979. Since then it has two main aims. The reform of China's economic structure began with an extension of the decision-making powers of enterprises. But in granting businesses greater autonomy, the irrational price struc-

The two goals of the reform are: First, to redress the price imbalance so that each enterprise can make profits at about the same rate; second, to enable prices to reflect and regulate supply and demand.

ture meant more profits for some but less or even none for others. The primary purpose of the price reform is to redress this imbalance so that each enterprise can make profits at about the same rate.

However, as the reform in the countryside goes deeper and urban reform also spreads to all fields of economic activities, adjustments possible to the state's fixed prices will be restricted by its own financial resources and by what society can bear. Moreover, price adjustments have failed to keep abreast of changes in the relationships of supply to demand

in the market place. Therefore, changing the pricing mechanism to enable prices to reflect and regulate supply and demand had become the second goal of the price reform.

There have been six principal changes to the price structure. (1) In 1979 the purchase prices of farm and side-line products were raised by a big margin and additional price rises were set for above-quota purchases of the major farm products. Compared with 1978, the purchase prices of farm products had increased by 47.7 percent in 1983. (2) Again in 1979, the sale prices of eight non-staple foods were raised by 30 percent in the cities, and city dwellers were subsidized accordingly. (3) Since 1979 the producer prices of fuel, and certain raw and semi-finished materials have been increased. Coal prices jumped 30.5 percent, pig iron 33 percent and rolled steel 20 percent. (4) In 1981 prices for terylene-cotton fabric were marked down, while those for cigarettes, beer and liquor went up. (5) In 1983 prices for synthetic fabrics dropped, while those of cotton textiles rose. (6) In 1984 charges for railway and water transportation for both passengers and freight cargoes were raised. Last year saw a further rise in short-distance railway fares. These six changes have improved the prices structure in part, but not entirely.

The price control system has also undergone initial reform with an increase in the powers of local governments to control prices. This in turn has meant enterprises themselves can set prices for certain goods. The state's role in determining prices has narrowed, while that of market has grown. As a result, a comprehensive price system has gradually taken shape. By the end of last year, the prices of most farm and side-line products were decontrolled, with the exception of the grain, cotton and edible oil purchased by the

state under contracts. As for industrial consumer goods, the prices of small commodities have all been completely decontrolled. Light industrial products such as textiles and electrical equipment were tagged with floating prices. A "double-track" prices system, a combination of planned readjustment and market regulation, has been gradually adopted for fixing the prices of energy and raw materials.

The Shape of the Reform

What is now known as a "block-double-track" system of pricing has come into being, unique to China. This means that each product has a "block" or a group of prices assigned to it, a planned fixed price, a floating price and a

Fixed prices will coexist with floating and free market prices. As to which of the three should be the principal lever for setting prices in China, there are three schools of thought.

free market price. "Double-track" means that the planned production quota of a commodity is subject to a fixed price, while above-quota production is subject to market prices. Beginning in 1984, the "Double-track" pattern of both planned price fixing and the market regulation of prices was first applied to the means of production. With its introduction, China has moved a step further towards the realization of the two aims of the price reform.

The past seven years have seen the energetic development of

agriculture, changing China from an importer of farm products into a country self-sufficient in grain and with a surplus of cotton. The price reform has also boosted the production of consumer goods. As a result, the supply of many daily necessities now meets demand.

Because China's economy needs room to grow, the pricing structure is by no means perfect yet. Fixed prices for energy, transport, telecommunications and some basic raw and semi-finished materials are still too low, and their market prices are inordinately high. Low rents, low retail prices of food grains and edible oil and the low charges for some public utilities have to be made up for with large government subsidies. Again, the prices of too many commodities still come under state control, which is

If the price reform advances gradually and if the resulting price rises are spread out over a number of years, they are likely to be found acceptable to the state and by enterprises and individuals.

inflexible, and still covers nearly half of total industrial and agricultural output. Even for commodities placed on the "double-track" system, planned fixed prices cover a greater proportion of output than that ceiling at market prices, making it hardly possible for the system to truly reflect changes in supply and demand. Moreover, because of the extremely large differences between planned prices and market prices, some goods intended to be sold at fixed prices are now sold at the high

market prices, much to the benefit of speculators.

Finally, in order to move from a centralized to a planned commodity economy, China needs to address the following three tasks in the Seventh Five-Year Plan period (1986-90): 1. cutting fresh life into factories, 2. developing the market system and 3. changing the state's direct control over enterprises into indirect control. The price reform is at the heart of all three tasks.

Ends and Means

Currently, China's pricing system is being reformed so that fixed prices coexist with floating and free market prices. As to which of the three should be the principal lever for setting prices in China, there are three schools of thought.

The first believes that planned pricing should be the principal method, with floating prices playing a supporting role and market pricing a subsidiary one. This existing pattern has not, however, managed to make a real break with the traditional fixed prices system.

The second view proposes that floating prices should take the lead, supported by market prices, with state fixed prices following behind. The problem with this pattern of things is that setting a base price and a floating margin for the floating price cannot alone compensate for the inadequacies inherent in the fixed price system.

The third school of thought suggests market prices should play the principal role, while both floating and planned prices take a subsidiary role. Of the three, this last pattern conforms best to the nation's long-term plan for economic reform. The final goal of the economic reform is to establish a system based on market regulation, embracing both planned guidance and macro-

economic control. In this system, pricing should no longer be only an accounting tool or an instrument for the distribution of national income, but a measure of economic efficiency, stimulating technical advance, and a gauge of both supply and demand to guide the allocation of natural resources. Neither planned prices nor floating prices can do these things. Only market prices can perform these functions, but under certain conditions. Those conditions are: 1) Both parties involved in commodity exchanges have independent economic interests; 2) No factors tending towards monopoly exist; 3) The market is a buyer's one, where supply slightly exceeds demand; 4) There is a workable channel for monetary circulation and an efficient circulation organization. The new economic system that will take shape after the reform is completed is expected to provide these conditions for the operation of a market pricing system.

The system of market pricing however, has its defects. In particular it is susceptible to abrupt changes in supply or demand, which can lead to the disruption of a balanced economy and which it is not possible to offset regulations made afterwards. The introduction of fixed prices and floating prices in certain spheres may compensate for the shortcomings of the market system, limit price fluctuations and regulate changes in price levels.

Regardless which form it may adopt, the price reform must above all seek a rational improvement of the price structure. Which form is most rational remains a controversial issue. One opinion holds that a reasonable price is one that simply reflects the relation between supply and demand, and that no other standard is required. Another view holds that because the

basis for price is value, a correct price should reflect both the relation between supply and demand and the value of a product.

The second view seems more adaptable to China's reality and is, therefore, preferable to the first. Taking value as the basis for rational pricing may ensure a roughly equal rate of profit for all trades. Also, if prices are decided by the relations between supply and demand alone, they will become unreasonable when the gap between price and value is widened artificially by monopoly situations, by profiteering, or even by subjective factors in relations between suppliers and purchasers. Furthermore, proper pricing arrangements must also take account of state policies, which should not only aim to eliminate monopolies and profiteering, but make it clear what relations of

Most Chinese economists would like to see changes made to the prices of energy, raw materials and other basic products, and transport costs.

supply and demand are to be encouraged and which discouraged: State policies should also introduce different economic and administrative measures such as taxes and subsidies to modify the relations of supply and demand determined spontaneously by the market in order to promote the formation of consumption patterns suited to Chinese conditions. Obviously all this cannot be accomplished in one stroke but the reform will proceed step by step.

Restraining Price Rises

Experience has shown it is unrealistic to expect there to be no price increases in the course of the reform. Without them there could be no reform, which is aimed at boosting the prices of some important commodities that have been kept artificially low in the past. Most of these are agricultural and mineral products, and the irrational differentials between the prices of these low-priced basic products and those of processed products arose over many years. There will therefore have to be substantial price increases in cases where the factories that produce final products cannot be expected to absorb on their own. This being so there will inevitably be an increase in the general level of commodity prices. Nevertheless, if price rises and the required increase in the money supply are held within reasonable limits, and there are no other pressures, overall price rises can be contained and will not be too high. If the price reform advances gradually and if the resulting price rises are spread out over a number of years, they are likely to be found acceptable to the state, enterprises and individuals.

The disadvantage of evening out and therefore delaying price increases is that the negative effects of existing irrational prices on the national economy will drag on. However, to ensure steady growth and social stability, this is the best way of going about the reform.

The general level of price rises—a factor directly related to society's capacity to bear them—is an important restraint on the price reform. For if the reform is accompanied by inflation, the general level of commodity prices will be raised further and this will eventually force the pace of the reform to slacken. However, if an

appropriate amount of money is kept in circulation, the price index should not be greatly affected and the reform can proceed.

Next Stage of the Reform

Most Chinese economists would like to see changes made to the prices of the means of production, that is, of energy, raw materials and other basic products, and transport costs. Their main reasons are the following: 1) Any changes in the prices of basic products directly or indirectly affect all other prices. Hence a rational price structure for the economy as a whole must begin in this area.

2) As most of the enterprises that produce basic products are the larger state-owned enterprises, increases in prices for their products will invigorate them and enable them to boost production.

3) Given the serious mismatches between supply and demand for basic products, correcting prices may encourage better results and expedite the creation of a price signalling system appropriate to a socialist market. It would also help in making the necessary adjustments to the country's investment patterns.

4) Beginning the reform with basic products will allow enterprises turning out finished products to absorb the price rises. It is estimated that if prices of basic products were to rise an average of 10 percent a year, the cost of machinery and light industrial products would only rise 4 or 5 percent a year, the remainder being absorbed by the processing industry.

5) Changes in the prices of basic products have a comparatively minor effect on the prices of consumer goods.

It is proposed that this should be the strategy for price reform during the Seventh Five-Year Plan period, and that changes to all other prices, for example, the purchase prices of farm products should fit in with it. It is also felt that the low prices for grain and oil and low rents should be dealt with in conjunction with a wage reform.

Transitional Price System

The reform of prices for energy, raw materials and other basic means of production, should be carried out by changing from the proposed "double-track" system — with different prices for quota and above-quota production — to a single-track

The current practice of setting two prices for the same kind of capital goods — quota and above-quota price — is the special feature of China's step-by-step reform.

system through the complete decontrol of prices.

The current practice of setting two prices for the same kind of capital good — quota and above-quota prices — is the special feature of China's step-by-step reform. If there is an acute shortage of materials for which state prices are comparatively low and which cannot be adjusted in time, above-quota market prices will prevail. This is the effect of the coexistence of the old and the new

economic structures as the old gradually replaces the new.

The plan is to relax state control over the prices of some products and let them enter the market by increasing the proportion of above-quota production. This should bring down excessively high market prices while gradually jacking up the prices for quota products. Eventually, it is hoped, the two prices will merge.

The advantages and disadvantages of the double-track price system in relation to the means of production are clear. The advantages are: 1) Double tracking may stimulate the production of above-quota products; 2) It may help areas overlooked by the state plan; 3) The high prices for above-quota products may encourage economy and curb low-efficiency consumption; 4) The system is flexible and may, through regulating the proportion of the products distributed and allocated by the state and the products circulated freely on the market, control the general level of commodity prices, making the planned distribution of capital goods serve as a means of economic regulation.

The disadvantages of the system are: 1) It is likely to disturb the state plan, and affect material supplies for key construction projects and the key departments of the state; 2) It will result in the disruption of commodity circulation and increase the difficulties of market management; 3) It will disrupt the functions and role of money as a universal means of exchange; 4) The practice of one product having two or more prices will complicate enterprises' accounting procedures. In addition, the wide gap between quota and above-quota prices may lead to profiteering.

Considering the many problems created by the double-track system, some economists suggest its abolishment at the earliest

opportunity. At an international symposium on economic management held last September, most of the Chinese and foreign delegates felt that the double-track system may be appropriate to China but that it should change over to a single-track system as soon as possible.

To achieve all this, an overall balance between supply and demand must first be attained. But while China's economic strategy is still in the process of changing from a speed-oriented one to an efficiency-oriented one, there are bound to be persistent imbalances in the national economy. This being the case, the transitional "double-track" system may last throughout the whole period of the economic reform. We must therefore accept the inevitability of the double-track system, make use of its advantages, try to adopt effective measures to limit its various disadvantages, and gradually create the conditions for a single-track system. ■



OFFICE MEMORANDUM

ATTACHMENT 8.

DATE February 7, 1984

TO Messrs. John H. Duloy, VPERS, and Anthony A. Churchill, WUD

FROM Greg Ingram, DRD; and Edwin Lim, AEADR

EXTENSION 61002 and 74753

SUBJECT Collaborative Research Project with China
Progress Report

1. In approving funding for the above research project on March 31, 1983 the Research Committee requested that we submit a progress report, with particular emphasis on the enterprise management component, by the end of the year.
2. In fact, the enterprise management component has progressed very satisfactorily. Attached is a report prepared by Gene Tidrick (who is in charge of this component) outlining, in some detail, methodological development, collaboration procedures with our Chinese counterparts, and research findings to date.
3. The structural change component has progressed slower, and in a more fragmentary manner. For this component, attached is a progress report. Although no publishable result is expected of this component in the immediate future, interim results have been immensely useful in the preparation of the second major economic report on China. In particular, the work on China's SAM, on comparative analysis of China's economic structure, and on consumption analysis will be incorporated into the forthcoming economic report.
4. In summary, we feel that the project is developing in two very encouraging directions. First, notwithstanding considerable uncertainty initially, the research is being conducted with active participation of our Chinese counterparts in research design, implementation and reporting. The project is therefore truly collaborative and will serve as technical assistance and contribute to institution building for economic research in China. Second, the research is providing the Bank with insights into the functioning of the Chinese economic system which are normally not available to any outside researchers nor even for our operational economic work, and with access to unpublished data. Thus the research project is contributing to our operational work and will also add significantly to the stock of knowledge about the structure of China's economy and the functioning of the Chinese economic system as well as, more generally, the functioning of a socialist economic system.

5. Management of the project has remained unchanged, except that Greg Ingram has replaced Ardy Stoutjesdijk as co-manager of the overall project. Ben King continues as the adviser to the project; Gene Tidrick as manager of the research on enterprise guidance; Shujiro Urata on "Sources of Growth: Large Country Archetype" and Jacques Van Der Gaag on "Analysis of Consumption Structure".

Attachment

cc: Messrs. King, Urata, Van Der Gaag, Tidrick ✓

) ERLim:em

Progress Report for 1983 on the Enterprise Guidance Component of
Collaborative Research with China - Phase II (Ref. No. 673/14)

Background

Little is known about how the Chinese industrial planning system works. Almost no systematic research could be done on the Chinese economy by either foreign or Chinese scholars during 1966-78. Since then, the situation has improved, but there are still few relevant statistics and little but anecdotes available about continuing far-reaching changes in industrial planning and enterprise incentives. The objective of this study is to enhance understanding both within and outside China of how Chinese enterprise guidance works. Enterprise guidance is defined to include internal management issues, relations among enterprises, and relations between enterprises and the state. Emphasis will be placed upon the response of enterprises to incentives and planning directives set by higher authorities.

The main source of information will be in-depth interviews with key personnel in 20 enterprises and related organizations. This method was chosen largely because of its successful application by David Granick in his comparative study of four socialist countries, entitled, Enterprise Guidance in Eastern Europe. This is generally regarded as the most illuminating analysis of enterprise guidance in socialist countries and it provides a basis for comparing China to other quite diverse socialist economies. In China, even more than in Eastern Europe, neither macro nor micro data are available which could be used to test hypotheses about the effect of the planning and incentive system on enterprise behavior. Case studies of enterprise decisions are the only way to obtain detailed knowledge of the formal and informal workings of the system required to analyze most enterprise guidance issues.

It was agreed that our research collaborator, the Chinese Academy of Social Sciences (CASS), would take primary responsibility for the collection of information in China while the World Bank would provide information on enterprise guidance in other countries in order to bring a comparative perspective to the research. Methodology would be developed jointly, analysis would be done by both sides, and the results of the research would be published jointly. The research strategy was first to conduct joint pilot interviews in two enterprises, write separate case studies analyzing the results, and then to agree on a revised questionnaire incorporating the issues and hypotheses to be covered by CASS in the remaining 18 interviews. The remainder of this memo reports the progress made thus far in implementing the research program and summarizes the interim research results.

Progress in 1983

A draft memo dated November 11, 1982, has served as an informal memorandum of understanding between CASS and the World Bank for planning purposes (Attachment 1). A formal memorandum of understanding was not drawn up because, under Chinese government procedures, this would have made the research procedure and timetable less flexible.

At our request, the original list of enterprises and organizations to be interviewed was amended. The aim was to select a broad range of enterprises varying in size, location, extent and type of reform, source of control (central vs. local), and industry (including producers of standardized and differentiated products in both producer and consumer goods industries). The sample was made up of "representative" rather than randomly selected enterprises and organizations. The revised list contains a disproportionate number of experimental reformed enterprises, but this is probably desirable given the focus of the research. We believe that the revised list (see Attachment 2) provides a good sample of enterprises for the research project.

The research program during the first six months of 1983 closely followed the tentative timetable in Attachment 1. In January 1983, the Bank and CASS teams conducted 10 days of interviews with officials of the Chongqing Clock and Watch Company (CCWC) and its superior organizations. The Bank team, consisting of Gene Tidrick, Bill Byrd, Josephine Woo, and David Granick (consultant), took the lead in interviewing, but the CASS team, consisting of the four principal researchers (Chen Jiyuan, Chen Lantong, Tang Zongkun, and Xu Lu) plus the Deputy Director of the Institute of Economic Research (Dong Fureng) and several other CASS staff, also participated. The Bank and CASS teams met frequently to discuss interviewing strategy and interpretation of the results. The Bank had specifically requested that CCWC be used for a pilot interview (it was not on the original list) because of its reputation as a model reformed enterprise as well as its status as a producer of consumer durables, output of which has been increasing during the past several years. It proved to be a good choice. CCWC's performance had deteriorated--a fact never mentioned in the articles holding it up as a model--and the management was quite candid about its problems and cooperative in providing statistics.

After returning to Washington in February, the Bank team wrote a report on the interviews while the CASS team conducted a week of interviews in a second enterprise, the Qingdao Forging Machinery Plant (QFMP). CASS also wrote a report on the QFMP interviews. These reports were intended to be very detailed so that researchers who were not there could understand what went on in the interviews. Detailed reports will be critical in the remaining 18 interviews conducted entirely by CASS, for these reports will provide the raw research material for the Bank team. The reports on the pilot interviews were not completely successful. The Bank report was a slightly condensed transcript of individual questions and answers. It was about 200 single-spaced pages long and, because of the need to cross-check each other's notes, took 3 people 4 full weeks to produce. Clearly, this could not be used as a model for remaining reports. It would take too long to translate and read as well as to write. The CASS interview report on the other hand erred in

the opposite direction. Their report was one-fifth as long and organized by topic rather than by source of information. This obscured the insights that might result from one of the most basic interview techniques we were trying to establish: asking the same question to different people in order to spot contradictory accounts and ensure that we find out how the actual system differs from the official textbook model. In fact, we discovered during the reinterviews that the story of how the QFMP material supply system works differed substantially from the first account. In future interview reports, CASS will summarize the discussion in each interview, rather than by topic.

In late March and early April the Bank team returned to China for joint reinterviews in the two enterprises and their associated organizations. The same Bank team as before was joined by Bevan Waide for most of the mission. The interviews lasted 3 days in CCWC and 5 days in QFMP. Reinterviews are an essential part of the project. They enable the researchers to clarify inconsistencies and test hypotheses developed after reflection on the original interviews. And they are critical for a collaborative research project since they enable researchers who did not participate in the first interview to cover issues missed previously and to cross-check and supplement information which appeared dubious or insufficient. These reinterviews were very successful from all points of view. They filled in several gaps in our information and confirmed that the collaborative interview technique could work. With the exception noted above, we found that the CASS interview report provided an accurate picture of the areas covered and no more new information turned up in the QFMP reinterviews than in those in CCWC. With the agreed change in CASS interview reports (see above), and the proposed method of reinterviewing (see below), we believe that interviews will provide adequate information for analysis by both CASS and the Bank.

During April and May, the World Bank team (Byrd and Tidrick) prepared a case study of CCWC while the four principal CASS researchers wrote studies of both CCWC and QFMP. Professor Granick also wrote a paper on "Hypotheses Drawn from the First Two Case Studies and Intended for Further Research". This was supplemented by other papers on hypotheses by Bill Byrd and by Barry Naughton, a Yale graduate student who was a summer intern. The Bank team also rewrote the interview questionnaire based on these and other hypotheses. In June, the CASS team came to Washington for 3 weeks to discuss the case studies, review the lessons from the pilot interviews, and prepare for the remaining 18 interviews.

The Bank case study was analytical, focusing on CCWC's behavior in response to market conditions and the incentives created by reforms. The CASS studies were largely theoretical and prescriptive, concentrating on overall evaluation of the particular reforms introduced in the two enterprises. It was evident from their case studies and discussions of hypotheses that CASS was not accustomed to using models or hypotheses to guide analysis. We were able to agree, however, that it would be useful to have an explicit set of hypotheses--many of which would be rejected or modified in the course of our research--to guide interviews and analysis. Our discussions were helped

enormously by the presence of Wu Jinglian, a senior CASS researcher on leave at Yale, who acted as a bridge between differing concepts of research. As a result, we were able to focus discussion on alternative hypotheses and the kind of information needed to test them.

During the CASS visit, we held two Bank-wide seminars; the first on project research methodology and the second on brief papers the CASS team had written on various aspects of reform in China. The main questions and criticisms raised in the seminar on methodology were: (1) Will the small size of the sample enable us to test all of the hypotheses? (2) Can we assess the level of technology and analyze its effect on enterprise performance? (3) Can we collect more data on production costs in order to have a concrete measure of enterprise performance over time and in comparison to other countries? The discussion resolved some, but not all, of these issues. The sample size will be too small if all of the dimensions of size, location, industry, etc. turn out to be important or if there is significant interaction among them. The sample is large enough to permit comparisons of pairs or even groups of three of the most important variables, but not all. The findings will undoubtedly leave some issues unresolved and generate additional hypotheses for further research. With respect to assessment of technology, there was general agreement that this would be desirable, but expensive. One of the CASS researchers is an engineer, but proper assessment would require employing a specialist consultant engineer for each industry. However, it was suggested that IFC or IND engineers might read the interview reports with a view to proposing supplementary questions in the reinterviews. The prospect for getting more production cost data appears more hopeful. Although the government is very sensitive about cost data, we had in fact been able to get more than anticipated in the pilot interviews. The revised questionnaire includes a set of questions on production costs, but we will probably only be able to get information on trends and relative levels within China rather than data which would permit international comparisons.

During the CASS visit, several agreements were reached. Based on suggestions at the methodology seminar, more time was allowed in the schedule for completing the remaining 18 interviews. Revised quantitative and interview questionnaires were completed. The latter contains a checklist of issues and hypotheses rather than a specific set of questions common to all enterprises. Discussion with several Bank staff engaged in related research was helpful in preparing the questionnaire. We agreed that the Bank team will participate directly in 3 or 4 reinterviews and that CASS will conduct the remaining reinterviews based on jointly agreed questions and issues. We would not, in any case, have the resources to conduct more joint reinterviews and this arrangement should ensure that the Bank team has sufficient information for its analysis. Each team will write separate papers for a conference at the end of the project. Outside scholars will also be invited to the conference to present papers on selected aspects of enterprise guidance in other countries. Finally, we agreed that we would publish the Bank's CCWC case study and CASS's QFMP case study together in a Bank Staff Working Paper. Both papers were to be revised before publication. CASS team members subsequently published two short articles in Chinese journals on CCWC based on the January interviews.

During the remainder of the year, CASS conducted additional interviews while the Bank team mostly did other economic and operational work. Both teams have also revised their respective case studies which will be forthcoming as a Staff Working Paper. Barry Naughton also wrote a background paper on "Lessons and Legacies: Antecedents to China's Current Reform Process". CASS has completed interviews in 14 enterprises and will finish the remaining 4 by the end of March 1984. Unfortunately, we have not yet received any interview reports though several have been written and are being typed. The delay may also be due to clearance procedures by the Chinese government, though we have been assured that there will be no problem in obtaining the reports. Since the reports will average approximately 125 double-spaced pages, translation and review by the Bank team will take at least three months. We currently expect to be able to meet with CASS again in Washington about June 1984, to discuss the reports and plan reinterviews. We hope to complete reinterviews by fall 1984, and hold the conference in early summer 1985, about 4 months later than originally planned.

Interim Research Results

Here we will simply list the main conclusions derived from the case studies along with some of the principal hypotheses developed for further research. These are based mainly on the World Bank case study of CCWC (which contains some comparisons of the two enterprises included in the pilot interviews), the background papers on hypotheses, and the revised enterprise questionnaire. These and other project papers listed in Attachment 3 are available to anyone interested. In most cases, the conclusions and hypotheses are those of the World Bank team. The CASS team mostly agrees with these, but on a few issues (such as the nature of the objective function), CASS has an alternative hypothesis. Members of the World Bank team also differ on several hypotheses. This diversity of views should enrich the research.

The main conclusions of the CCWC case study are as follows:

1. The market, not the plan, has been the dominant influence on enterprise decisions for the past several years in both CCWC and QFMP. The reform giving enterprises some responsibility for sales has also been the most important change in the enterprise guidance system. But this reform may only have a significant effect in combination with changes in market conditions from excess demand to rough balance or excess supply.
2. Both the planning and financial incentive systems are manipulable. Planning targets are therefore slack and financial sanctions weak. The enterprise expends a great deal of effort in bargaining with its superior organizations to change the rules of the game in its favor.
3. The unreformed labor allocation system distorts enterprise behavior, especially when combined with reforms granting more enterprise autonomy in other spheres. Constraints on hiring caused CCWC to undertake mergers of dubious long-term benefit. Constraints on firing have caused both enterprises to channel excess labor into auxiliary activities and product diversifications which often earn low returns.

4. The increased use of investment financing through bank loans has generally loosened rather than strengthened financial discipline.

5. The enterprise objective function is not maximization of profits, average value added per worker, managerial incomes or any of the other maximands normally assumed in analyzing capitalist or other socialist economies. The objective appears to be to maximize total family income and benefits of workers which, under the incentives and constraints operating at CCWC, led to behavior best modeled by positing a maximand of total net product. (CASS believes that the main motivation of managers is to comply with the wishes of their superiors in the ministerial and local government hierarchies.)

All of these conclusions are tentative and form hypotheses to be tested and refined in the remaining interviews. A sample of other important hypotheses are:

1. Approved annual plan targets play only a minor role in determining current operations.

2. The link between material allocation and plan targets, which is important in many other centrally-planned economies, is weak because of pricing flexibility and formal and informal arrangements for trading materials.

3. Production planning in the sense of detailed simultaneous control of input allocation and output targets is stronger at the provincial level, in industries with important forward linkages, and in industries which produce output in chronically short supply.

4. Investment planning is more tightly controlled than production planning. However, local authorities may have different investment plans from central authorities.

5. Local authorities and locally-controlled enterprises are allied and protect their interests against higher-level authorities. Enterprises controlled by provincial or central authorities will find themselves in conflict with local authorities in the areas in which they are located.

6. Control by higher authorities over use of enterprise retained profits has been weak.

7. An unreformed enterprise would always like to hire more workers, but is restrained from doing so by hiring quotas. Reforms which make the enterprise responsible for profit and loss or which significantly expand profit retention may restrain enterprise demand for labor (other than for hiring dependents of workers).

Collaborative Research: Enterprise Management

The Research Institute of Economics of the Chinese Academy of Social Sciences and the World Bank, after many mutual visits and discussions, agree to conduct collaborative research on the management system of state industrial enterprises.

Research objectives and mutual responsibilities

The main objectives of the research are to analyze the existing system of enterprise management and its evolution over time, to compare the Chinese system with what is known about systems of management of state enterprises in other countries, and to make recommendations for improvement of the management system. The research will cover management within enterprises, the relationships among enterprises, and the relationship between the state (including central and local governments) and the enterprises.

The Chinese Academy of Social Sciences (CASS) will take main responsibility for the collection of information regarding management in Chinese enterprises. The World Bank will take main responsibility for providing information on management in other countries in order to help bring a comparative perspective to the research. (The World Bank research team will include World Bank staff and experts on enterprise management hired as consultants.) CASS and the World Bank will jointly develop the research methodology and analyze the results. The results of the research will be published jointly.

Research procedure

The core of the research will be in-depth interviews with key personnel in twenty enterprises and organizations. The enterprises and organizations selected (see Attachment A) represent a wide range of sectors, regions, levels of organization, and experience with changes in management systems. The interviews will require about one week in each enterprise and will primarily be conducted by CASS. Prior to the main set of interviews, the CASS and World Bank teams will conduct a pilot study of two enterprises. Following the main set of interviews, the two teams will discuss the results and will conduct joint supplementary interviews in some enterprises where outstanding questions remain.

The main issues which will be investigated are:

1. Internal enterprise management

- (1) Basic system of leadership
- (2) Planning management (both current production and investment planning)
- (3) Financial management
- (4) Materials management
- (5) Labor and wage management

2. Relationships among enterprises

- (1) Supply of equipment and raw materials needed by enterprise
- (2) Sales of products
- (3) Cooperation between factories and management of economic contracts
- (4) Role of industrial companies in coordinating activities.
- (5) Financial relationships among enterprises and between banks and enterprises

3. Relationship between state and enterprise

- (1) Basis for determining whether enterprises will be under central or local state control. Relationship between central state industrial enterprise and local authorities where it is situated. Relationship between local state industrial enterprises and relevant central departments.
- (2) What rights and responsibilities do supervising departments (planning, finance, materials and goods, labor) of government (central or local) have toward industrial enterprises, and what responsibilities and rights do enterprises have in relation to state supervising departments. Role of each level in plan formulation.
- (3) What are the chief contents of the several major changes in the relationship between state and enterprise.
- (4) What problems exist now in the relationship between the state and the enterprise. What improvements are needed.

A summary of the work procedure and tentative timetable for each step is given below.

(1) November-December 1982 Each side will prepare a draft questionnaire to be used in the enterprise interviews. The questionnaire will cover some quantitative aspects of enterprise management and performance which can be provided by the enterprises in written form prior to the interviews. However, the questionnaire will mainly outline a set of issues and questions to be covered orally during the in-depth interviews. The World Bank will send a copy of its draft questionnaire to China by mid-December 1982, and the CASS side will provide a copy of its draft questionnaire by the end of December 1982.

(2) January 1983 The two research teams will meet in China to discuss the questionnaire and the interview procedure. They will then jointly interview one enterprise and discuss the results and their implications for future interviews.

(3) February to mid-March 1983 The CASS team will conduct a pilot interview in a second enterprise and write up the results so they can be used for discussion and analysis by both sides. The World Bank team will write a preliminary report on the first interview and draft a revised questionnaire.

(4) March-April 1983 The two teams will again meet in China to review progress and to conduct reinterviews in both pilot enterprises in order to clarify unanswered questions.

(5) April-May 1983 Each side will write reports analyzing the two pilot interviews.

(6) June 1983 The CASS side will visit Washington to discuss the reports, put the questionnaire into final form, and prepare for the main set of interviews.

(7) July-September 1983 Interviews in the remaining 18 enterprises and organizations will be conducted by the CASS research team.

(8) October-December 1983 Research staff on the CASS side will compile information collected from the interviews and provide it to the World Bank.

(9) February 1984 The two sides will meet in Washington to begin to process and analyze the interview results. During this time, World Bank staff and international experts will conduct seminars and provide material on management systems in state enterprises in several countries.

(10) March-April 1984 The two sides will meet in China to conduct joint supplementary interviews in some enterprises to clarify outstanding questions. They will also agree on the division of responsibility for writing up the research results and other papers.

(11) May-August 1984 Each side will separately prepare draft reports on results of the research. The two sides will exchange draft reports by the end of August.

(12) September-December 1984 The draft reports will be translated. Each side will comment on the other's report. The reports will then be revised and translated for the symposium.

(13) January 1985 An international symposium on state industrial enterprises will be convened. In addition to relevant people from China and the World Bank, economists from several countries will be invited. Reports on the results of the research will be presented for each side along with papers from invited participants.

Following the symposium, papers will be revised in preparation for joint or separate publication. The form of publication will be agreed.

Manpower

The World Bank will provide the equivalent of 2-3 full-time researchers to the project and the CASS side will provide the equivalent of full-time researchers.

List of Enterprises and Organizations to be Interviewed

1. Capital Iron and Steel Company
2. Beijing Railway Bureau
3. Beijing Qinghe Woolen Textile Mill
4. Anshan Iron and Steel Company
5. Tianjin Textile Industry Company
6. Jilin Sanchaze Forestry Bureau
7. Shenyang Refining Plant
8. Daqing Oil Field
9. Shanghai No. 17 Cotton Mill
10. Shanghai High-Tension Oil Pump Plant
11. Nanjing Jinling Petroleum Industry Company
12. Mindong Electric Machinery Plant
13. Qingdao Forging Machinery Plant
14. Jiangmen Nanfang Foodstuff Factory
15. Guangdong Provincial Qingyuan County Economic Commission
16. Nanning Silk Spinning Factory
17. Chengdu Locomotive and Carriage Plant
18. No. 2 Automobile Plant
19. Guiyang Yonghong Instruments Factory
20. Northwest No. 1 Cotton Mill

Names of Enterprises

1. Beijing Qinghe Woollen Textile Mill, Beijing
2. Anshan Iron and Steel Corporation, Liaoning
3. Tianjin Color Textiles Company, Tianjin
4. Jilin Sanchazi Forestry Bureau, Jilin
5. Shenyang Smelting Factory, Liaoning
6. Shanghai No. 17 State Cotton Mill, Shanghai
7. Shanghai High-Pressure Oil Pump Factory, Shanghai
8. Nanjing Jinling Petro Chemical General Corp., Jiangsu
9. Mindong Electric Machinery Factory, Fujian
10. Qingdao Forging Machinery Factory, Shandong
11. Jiangmen Nanfang Foodstuff Factory, Guangdong
12. Qingyuan County Economic Commission, Guangdong
13. Nanning Silk Spinning Factory, Guangxi
14. Chengdu Locomotive and Rolling Stock Factory, Sichuan
15. No. 2 Automobile Plant, Hubei
16. Chongqing Clock and Watch Company, Sichuan
17. Northwest No. 1 State Cotton Mill, Shaanxi
18. North China Petroleum Administration, Hebei
19. Baoji Nitrogen Fertilizer Factory, Shaanxi
20. Xiangxiang Cement Factory, Hunan

Enterprise Guidance Research Papers
Master List (1/5/84)

I. Questionnaire

- I-1. Quantitative questionnaire for pilot surveys
- I-2. Quantitative questionnaire (revised June 1983)
- I-3. Enterprise questionnaire (December 1982 draft)
- I-4. Enterprise questionnaire (revised June 1983)

II. CCWC Interviews

- II-1. CCWC: Outline of Survey on Management System (January 1983)
- II-2. CCWC: Interviews (January 1983)
- II-3. CCWC: Quantitative questionnaire (January 1983)
- II-4. CCWC: Memo on internal prices (January 1983)
- II-5. CCWC: Interviews (March - April 1983)
- II-6. CCWC: Supplementary Data (April 1983)
- II-7. Granick: Miscellaneous Notes (January 1983)

III. Qingdao Forging Machinery Plant Interviews

- III-1. QFMP: CASS interviews (March 1983)
- III-2. QFMP: Quantitative questionnaire (March 1983)
- III-3. QFMP: Interviews (April 1983)
- III-4. QFMP: Appendix on Production (April 1983)

IV. Case Studies

- IV-1. Byrd and Tidrick, CCWC Case Study (June 10, 1983 draft)
- IV-2. Byrd and Tidrick, CCWC Case Study (December 1983 revised draft)
- IV-3. CASS QFMP Case Study (first draft March 1983)
- IV-4. CASS QFMP Case Study (revised draft December 1983)
- IV-5. CASS CCWC Case Study (April 1983)
- IV-6. Xu Lu "Investigation of CCWC", Jingji Diaocha 1983
- IV-7. Yu Zuyao "Investigation of CCWC's Experiment"
Finance & Trade Economics 1983

V. Hypotheses for Research

- V-1. Granick, Outline of hypotheses
- V-2. Granick, Hypotheses Drawn from First Two Case Studies, Parts 1 & 2
- V-3. Granick, Hypotheses Drawn from First Two Case Studies, Part 3
- V-4. Granick, Hypotheses Drawn from First Two Case Studies, Part 4
- V-5. Byrd, Enterprise Management Study: Hypotheses
- V-6. Naughton, Hypotheses on Enterprise Management

VI. Miscellaneous Papers

- VI-1. Brief Notes on 20 Enterprises (Jan 83)
- VI-2. CASS seminar papers on adjustment and reform (June 1983)
- VI-3. Naughton, Lessons & Legacies (August 30 1983 draft)

STRUCTURAL CHANGEIntroduction

1. Progress with this component has been slower than with the enterprise management component; there may be a slippage of six months or so. However, as foreshadowed in the memorandum of February 4, 1983, from Messrs. Lim and Stoutjesdijk, it was always expected that there might be frustrations and delays. We have certainly not fared worse than expected; possibly a little better.
2. We have not received any primary data for the consumption study, but the chances of that at this stage were never regarded as very good. The recent provincial data referred to below have proved useful, both on the research and the operational side, in improving our understanding of the Chinese economy, but the historical data is, as yet, on the thin side.
3. The development of the sources model has been carried on independently from the Chinese. Delays have been mainly due to the time-consuming nature of the work. We have received some help from CASS with data on China itself, but it has been limited. We are pursuing this in conjunction with the operational activities of the China Division.

Consumption Study

4. Collaboration with CASS was mainly concerned with the consumption study, as previously envisaged. This has been somewhat delayed because of the difficulties encountered by CASS in obtaining data.
5. During the first stage of this study, Mr. van der Gaag visited CASS several times during missions in March and September, 1983. Initial discussions centered around the concept of consumption, as seen by the Chinese researchers, and the availability of data. Mr. Dong Fureng managed to obtain two sets of data in tabular form: one for Hubei province, one for Beijing municipality. These data were released for study at the Bank and given to Messrs. King and Urata during their last mission to China in June.
6. Researchers at the Bank and at CASS analyzed these data simultaneously. A first draft of the Bank's work became available in August and was discussed during Mr. van der Gaag's last visit to CASS. During that visit CASS presented a preliminary version of their results.
7. During the September mission it was also stressed that more data should become available. However the Statistical Bureaus of the provinces and municipalities are reluctant to release data that contain, among other things, more detail on income.
8. CASS has recently finished its report on the Hubei and Beijing data. It is expected that this report will be presented and discussed during a February mission by Mr. van der Gaag, who has just finished a draft of a study of both provincial data and the data obtained from CASS. This study includes consumption projections for the year 2000 under various income growth scenarios.

9. It will be presented and discussed at a workshop in Beijing in February. Staff from several statistical bureaus are expected to participate in this workshop.

Sources of Growth Model

10. Insofar as the large country archetype model is concerned, two major activities were conducted in 1983.

- A. Presentation of a series of seminars at the Chinese Academy of Social Sciences in Beijing (B. King and S. Urata).
- B. Construction of a data base for a source of growth study (S. Urata).

11. In June 1984 B. King and S. Urata presented seminars on the following topics:

- (a) Social accounting matrix
- (b) Sources of growth analysis
- (c) Patterns of economic development
- (d) Dynamic input-output analysis

12. The purpose of these seminars was threefold:

- (i) To show Chinese economists the methodologies and results of the research on economic development conducted at the Bank.
- (ii) To show Chinese economists types of research we are going to conduct in this project.
- (iii) To have discussions of Chinese economic data with the Chinese economists.

13. We started the construction of data base for the sources of growth by assembling existing I-O tables for the countries under investigation. In addition to assistance from the respective divisions in the Bank, the process involved correspondence with UNIDO, Institute of Development Economics in Tokyo, Japan, U.S. Bureau of Census and India Council for Research on International Economic Relations in New Delhi. After checking the consistency of the data, deflation of the tables to constant prices was undertaken. Although the procedure itself is straightforward, actual exercises required a lot of work. A listing of I-O tables collected is shown in the appendix.

Interim Outputs

14. Since most of the time was spent on construction of the data base, except for the collection of I-O tables listed in the appendix, there are very few interim outputs describing methodologies on creating consistent data base and on sources decomposition.

- (a) Indonesia Input-Output Data (M. Yee)
- (b) Decomposition of changes in factor intensities in foreign trade (S. Urata).

Activities in 1984

15. It will probably take a few more months to finish construction of the data base. However, we will start analyzing and writing up results very soon. Reports on the sources of growth in individual countries and on a comparison across countries should be finished by the end of the summer. Since China-India comparison is of great interest, we have hired Ms. Ishar Ahluwalia as a consultant to do a detailed India study. We have collaborated with the China Division on the preparation of a questionnaire on statistics for the Chinese government.

Appendix: List of I-0 Tables

1. China:
1956, 1980 (both in 1980 prices) and 1981 (in current prices) input-output tables (16x16) are constructed. Tables for 1955 and 1975 will be constructed when enough information on final demand and value added are estimated. Construction of all the tables is expected to be finished by the end of March 1984.
2. India: 1959-60 (29x29), 1968-69 (60x60) and 1973-74 (60x60) I-0 tables in 1970 prices will be constructed by the end of January 1984. All the tables in current prices are available
3. USSR: 1959-60 (69x69), 1966 (75x75) and 1972 (88x88) tables are available in current prices. These tables in 1970 prices are also available at 18 sector aggregation level.
4. Indonesia: 1971 (175x175) and 1975 (179x179) tables are available in current prices. 1971 and 1975 tables (66x66, 23x23) are available in 1971 prices.
5. Brazil: 1959 (32x32) and 1969 (25x25) tables are available in current prices. However, the quality of these tables seems to be questionable. We have been trying to obtain official tables for 1970 and 1975.
6. Japan: 1955, 1960, 1965, 1970 (41x41) tables are available in 1965 prices.

Economists weigh data on State units

by our staff reporter
Zhang Kewen

Dozens of Chinese and foreign economists have gathered in Beijing to discuss a topic of wide concern — management of State-owned industrial enterprises.

The ongoing four-day academic international symposium is co-sponsored by the Economic Research Institute of the Chinese Academy of Social Sciences.

The conference, which opened yesterday, is attended by economists from the World Bank, Hungary, India and the United

States in addition to their Chinese counterparts and Chinese enterprise leaders. Gene Tidrick, senior economist from the China division of the World Bank who co-chaired yesterday's discussion, said participants will discuss the results of the first joint research projects of the World Bank and China done over the past three years.

In 1982, the Economic Research Institute and the World Bank began their joint investigation of 20 select State-owned industrial enterprises in China. Theoretical conclusions have been drawn from first-hand information collected by the projects.

During the current symposium, about 14 research papers are to be discussed.

Tidrick said that one of the main purposes of the conference is to begin to make a comparison between China and other countries, both socialist and non-socialist.

The participants hope to draw lessons from the Chinese' experience and make recommendations. The conference also aims to help China improve its future policy and provide a basis for reform.

In his opening address, Liu Guoguang, vice president of the Chinese academy, expressed his ap-

preciation for the efforts made by the World Bank and foreign scholars.

Liu said that over the past three years the joint investigation has continually received help from leaders of the World Bank. Foreign participants impressed the Chinese side with their serious and down-to-earth work style, he said.

Chen Jiyuan, deputy director of Rural Development Research Institute of the academy who took part in the joint investigation, told China Daily that such co-operation helps Chinese economists to gain a better understanding about the problem of management in State-owned industrial enterprises.

CHINA DAILY

1985. 8. 28

Economists tackle State industry issues

China Daily 9/4/85

by Zhang Kewen

Last week, the Economic Research Institute of the Chinese Academy of Social Sciences and the World Bank co-sponsored an international conference in Beijing to discuss a topic of wide concern in both socialist and non-socialist countries: the management of State-owned industrial enterprises.

It was China's first such cooperation with the World Bank. Attended by economists from the bank and several foreign countries, including Hungary, India and the United States, the conference provided a good opportunity for Chinese scholars to learn from their foreign counterparts.

Management of State-owned industrial enterprises has received particular attention in China in recent years. As Liu Guoguang, vice-president of the Chinese Academy of Social Sciences, said in the opening address, a key link in undertaking the current economic reforms in urban areas is to increase the vitality of State-owned industrial enterprises by correctly handling the relationship between the enterprises and the State.

Because many problems related to this issue still need to be

clarified, it is beneficial for China to hear the views of foreign economists and learn from the experience of other countries.

The Economic Research Institute and the World Bank began to study the topic of management of State-owned enterprises three years ago. They conducted a wide-ranging joint investigation of 20 selected State-owned enterprises across the country, building up a dossier of some 600,000 Chinese characters in information. Last week's symposium was held mostly to discuss research papers on the results of the investigation. Of the 14 papers, eight were presented by foreign economists, most of them directly involving China's economic reforms.

For instance, William Byrd, an economist from the World Bank, and Gene Tidrick, the bank's senior economist, co-wrote a paper titled Factor Allocation in Chinese Industry.

Citing data from the investigation, the paper discussed the distribution and management systems under which industrial factors such as land, labour and funds are put into production.

Commenting on the paper, Zheng Guangliang, an economist from China Enterprise Management Association, said the writers'

discussions and suggestions would help China improve the profitability of enterprises and study the direction and trend of enterprises reforms and overall economic structural reforms.

Zheng said, "The paper points out the need (for China) to bring in to play the role of market mechanisms in forming China's distribution and management systems, incorporating all three factors into industrial production. This issue has much to do with China's planned market-oriented economy and therefore deserves our study."

David Granick, a professor from the University of Wisconsin in the United States, is the author of Enterprise Guidance in Eastern Europe, which is familiar to Chinese economists.

At the conference, he presented a paper entitled Comparison of the Chinese and CMEA Industrial Environment (CMEA is the Council for Mutual Economic Aid formed by the Soviet Union and some Eastern European countries.)

Granick discussed what he called "the system of multiple prices in China," meaning that some products, including raw materials, are distributed according to State plans and have low prices, while those outside the plans have high

prices. Granick said such a system had multiple drawbacks. For instance, the higher the production target set for an enterprise, the more severely the enterprise can be "punished." While it does not always receive enough raw materials to meet its target and so is forced to buy them at higher prices, its products must be sold at the low prices set by the State.

Rong Jingben, from the Central Institution for Editing and Translating Works of Marx, Engels, Lenin and Stalin, felt Granick pointed out a problem that should receive more attention in China.

Hungary's lesson

Other economists discussed economic issues in their own countries. But their discussions were considered valuable to the Chinese side.

Janos Kornai, a professor at the Hungarian Academy of Social Sciences presented a paper called The Dual Dependence of State-owned Firms. The paper analysed the successes and failures of the Hungarian reform of State-owned enterprises. "From Hungary's experience, Chinese reformers may gain some lessons," said Kornai.

Wu Jinglian, from the Economic and Technological Development Centre under the State Council,

said the questions raised in Kornai's paper had been resolved, or had already been raised and discussed in Hungary. The issues included whether industrial reform should progress step-by-step or be introduced wholesale, and whether a buyers' market was needed to bring into play the role of the market mechanism. These questions are now important ones in China.

Prem Shankar Jha, economics editor of the Times of India, presented a paper entitled The Public Sector in India: an Appraisal. Because India has much in common with China, with a large population and similar level of development, how the public sector of India's economy operated was of interest to the Chinese participants.

A Chinese enterprise representative, who commented on Jha's paper, said he was impressed with the importance of conducting a feasibility study for a project before investment.

In his closing speech, Dong Fureng, director of the Economic Research Institute, who headed the Chinese side at the symposium, said: "We will continue to cooperate with the World Bank and economists from abroad."

"For our part, we have learned quite a lot," he added.

WORLD BANK INTERNATIONAL FINANCE CORPORATION

December 10, 1985

Messrs. Koch-Weser, Levy, Byrd
Ms. Woo

Attached are translations of two recent articles in the Economic Daily about the collaborative research project on enterprise guidance.

Gene Tidrick

cc: Mr. Schrenk

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How the World Bank Conducts Research on Chinese Enterprises

by Chen Jiyuan

(Carried in the Economic Daily, November 2, 1985)

In the past two years, with the approval of departments concerned, the World Bank and CASS (Chinese Academy of Social Sciences) initially selected 20 state-owned industrial enterprises for a joint survey and research project. By working with Bank economists, we have come to understand their methodology and the reason why certain questions are posed. Certain methods that they use may be borrowed or used for reference, and the questions they have raised concerning our enterprise management system merit our attention.

Preparations prior to the survey and survey content

Before a survey was conducted, the World Bank side did a lot of preparatory work, including mainly the preparation of a detailed survey outline and a set of questionnaires. The major questions to be asked listed in the survey outline covered the following areas: the essential leadership system; management of planning; finance; the supply and allocation of inputs; labor and wage management; marketing; the role of the industrial corporation in the coordination of activities; cooperation between factories; the powers of the enterprise and its overseeing department and their relationship.

Attention to data and the case study method

The Bank economists worked out a quantitative data sheet for this joint survey to systematically collect data regarding the current

economic status of the enterprises studied and the evolution of their economy over the years. This data sheet covered nine important areas: production; manpower; fixed assets; working assets; investment; financial indicators; planning; consumption of inputs; and inventory. Each area again included some detailed items. It was required that the enterprise should provide concrete data covering the period from 1975 up to the present by filling out the QDS sent to it; the enterprise was also required, whenever possible, to provide data prior to 1975, in details.

Before the interviewing began, the questionnaires had long been sent to the enterprise, to be filled out by the units concerned. After receiving back the sheets, the data furnished were immediately studied and analyzed. The first thing the Bank economists did when they came to a particular enterprise was to check the data with the relevant personnel and discuss any discrepancies arising therefrom. The questions asked also involved the implications of certain projects and a request for clarification of conflicting data. This is a very important basic piece of work and a first step in the survey of the enterprise management system.

The Bank economists paid a lot of attention to the case study method in the surveys they conducted. What is known as the case study method aims not only to find out the evolution of an event, but also to understand more about the circumstances surrounding that event by first focusing on an individual case (problem, area, etc.) -- all this through investigation and dissection of that particular case.

That the case study method is required is specified in the survey outline. For instance, on the question of marketing, the survey is required to proceed along the following steps:

The first step: if an enterprise usually has difficulty selling all its products, it should select two concrete examples that would

illustrate the situation -- one in the period before reform (prior to 1979) and one after reform was introduced (since 1979). The enterprise is required to provide detailed circumstances for the two examples: the cause of the difficulties; what measures were taken to remedy the situation; and what effect each measure had. Then, the following questions need to be asked: (1) Time -- when was the problem uncovered; were measures taken promptly; (2) flexibility -- what degree of autonomy did the enterprise have in adopting effective steps to resolve the problems; (3) upper-level actions -- did upper -level units protect the enterprise from market changes and if so how was it protected (e.g., protectionism; subsidies; bank loans, etc.); what were the short-term and long-term effect of these measures; (4) provision of details about the effect that marketing difficulty had had on production and planning in the enterprise. The aim of posing this series of questions is to find out the changes that economic reform has brought about: what changes have occurred in the impact of the market situation on the enterprise; and what changes have occurred in the response on the part of the enterprise to the market.

The second step: asking for a concrete example, an example that shows how the enterprise has tried diligently to market a specific product (repetition of what was said in the First Step should be avoided): who decided to initiate the marketing? What specific actions were taken? Which of them needed to be approved by the upper levels? Which level? Were the marketing measures successful? What temporary or long-term effects have resulted? Are the measures to be continued?

The third step: was there an instance that the enterprise was compelled to renounce a sales contract it had signed with another unit? What were the specific circumstances? Has such action seriously impaired the enterprise's ability to sell its products to the other contracting party and other enterprises? If possible, two examples of such breaching

of contract should be cited, one occurring before the reform was instituted, one during the reform.

In the survey on CCWC, the Bank economists focused their attention on the supply of material, production and marketing of the alarm clocks as a core question. They proceeded step by step and pursued their questioning to the end. Using alarm clock as a case study was not determined beforehand. Rather, it was instantly recognized at the time as an illustrative example for systematic and deep-going study for the survey when it was found out that in recent years due to sluggish sales of alarm clocks in the market, CCWC had requested the upper-level departments to revise the plans for alarm clock production.

Starting with this problem had the aim to uncover larger questions in enterprise management. For example, through this case study on the cause of the sluggish sales of the alarm clocks, it was found that the mandatory planning targets issued by the state did not accord well with market projections, with the result that the plan-assigned targets were larger than the sales in the market; further, the procedures needed for the readjustment of the production plans for alarm clock production and the fact that it took six months to complete these procedures brought home the realization that at present planning is very ineffective, that it lags far behind the needs posed by recent economic development. Also, the sluggish sales of the alarm clocks have pointed to the necessity to increase variety of CCWC's alarm clocks and to diversify into the production of new products such as electronic timers, which are technologically close to alarm clocks.

To sum up, the case study method that the World Bank uses in conducting surveys proceeds from a few "points" to the "entire areas," from the specific to the abstract, thus ensuring an in-depth and sound understanding of the problems. However, there is a deficiency in the method in that

it neglects the role of "production relationship" in the development of the economy; usually, it limits itself to the case in hand and thus fails to perceive the true nature of a problem by not raising to the "altitude" where principles stand.

Attention to preparatory work prior to the survey, and familiarity with background materials; analysis of the data obtained in the survey and using the case study approach, to proceed from a "point" to the "entire area," from the obvious to what lies deep below; stress on the scientific and systematic approach in asking questions; putting one's finger on the true underlying problem through linking up all the ties and activities of an enterprise.

IBRD LANGUAGE SERVICES DIVISION	
Control #: 86C0060	Date: 12/6/85
Dept.: AEA	Tr.: Kung

How To Infuse Vitality Into Large- and Medium-Scaled Enterprises

(Carried in the Economic Daily, Nov. 23, 1985)

To infuse vitality into the large- and medium-scaled core enterprises that play a crucial role in our economy is a central link in our current economic reform and development. At the International Seminar on China's State Enterprise Management System called last August in Beijing, Chinese and foreign experts, through comparison of international experiences, held very useful discussions on our country's enterprise management system, the current market situation, factor allocation for enterprises, industrial enterprise behavior, and the road of reform.

I. About the planning and supply systems in Chinese industry

(Changing the role of the state as the sole bearer of enterprise investment risks is a critical factor in the sorting out of relationships between the state and the enterprise.)

The experts pointed out: the relationship between the enterprise and the state is a critical factor that shapes the planning system in large- and medium-scaled enterprises. In the past, because the commodity nature of the socialist economy was erroneously slighted, because the commodity-money relationship within the state-owned economy itself was overlooked, and because of a one-sided interpretation of the "state ownership system," an economic structure gradually took shape

that confused government administrative functions and enterprise operations, thereby cutting off production from consumption by the very nature of its management system. Correspondingly, there was a materials allocation system characterized by administrative control. Under such a general system, because the state had become the sole bearer of investment risks, the inflation of investment demand became a permanent phenomenon. More and more people became concerned with this state of affairs.

In point of fact, the planning and the supply systems can never accommodate all the activities of the enterprises. Therefore, it is inevitable that in the operation of the socialist economy, market mechanisms would come into existence that parallel government planning. Since 1979, the powers conferred on enterprises to sell their own products have been gradually expanding, and the role of the market for producer's goods is becoming more and more important in the allocation of resources. At the same time, open market prices appeared side by side with planned prices. All this shows that the reform of large- and medium-scaled enterprises is going forward according to its own "laws". What does the actual working of this reform look like? What new problems have arisen? These are questions that the seminar participants took an interest in.

Based on their survey and study and by referring to the experiences in the Soviet Union and Eastern Europe, experts in the World Bank have made some meaningful judgements on the characteristics of the economic reform activities in China.

Some of the experts underscored the fact that China is a developing country that has transplanted the Soviet-style central planning and the allocation system of supplies. This has a great influence on the extent to which the imported system can take root. The Chinese system as it is now seems to have the following features: (1) Compared with the

Soviet Union, the scope of central planning and distribution of products is much smaller. In 1981, the first and second categories of goods in China totalled 837 items while in the USSR they totalled 6,500.

(2) A many-tiered price system -- including prices fixed by the central government, by the locality, and by the enterprise when it does the marketing. (3) Planned targets are sent down only after long and informal "bargaining" has been done. (4) A most prominent feature -- plans are neither tightly nor emphatically enforced. In the representative enterprises surveyed, not a single one was ^{penalized} ~~reduced (in scale?)~~ because of non-fulfillment of the plans. Consequently, planning has no great impact on enterprise initiative. Compared with the USSR and Eastern Europe, the free-moving prices in the producer's goods market have enabled market mechanisms to play a fairly large role. Therefore, on this point (e.g., outside-of-plan market regulation) the role of market mechanisms is even greater than in Hungary. One point also worth noting is that compared with Eastern Europe, the existence of an industrial goods market in China has some other background, namely, the existence of a mass of urban and rural collective enterprises. This not only creates outside-of-plan supplies, but also generates extra demand for important producer's goods. However, it must also be seen that such a market is yet immature, with many problems -- e.g., low economies of scale, etc.

II. Market analysis and enterprise response

(Under conditions of a seller's market, the market-oriented enterprise, in terms of enterprise response, should be encouraged.)

Based on basic data collected in surveys, some participants worked out a classification list of enterprise behaviors under different market situations, and explored the factors that have a bearing on enterprise response. In a seller's market, four types of enterprise behavior can be found, based on the following ascending order: the

higher the degree of difficulty of response, the better the economic results, as follows:

1. The passive type: enterprises that enjoy the advantage of having a part of the market carved out for them and would not make any effort. 2. The expansion type: enterprises interested only in raising output, caring little for the reduction of cost, improvement of products, and the development of new technology. 3. The technically responsive type: enterprises paying attention to raising the quality of their products, but caring not too much for cost. 4. The market-oriented type: this has something to do with the concern for the reputation of an enterprise, e.g., showing one's capability to export, etc.

On the other hand, in a buyer's market, the initial response of an enterprise is usually of the passive nature, that is, it would hope to survive by relying on assistance from the upper levels. After that, a second type of response would follow, namely, orientating itself toward the market and pushing hard to sell its products. A third type of response is the more intensive type, with emphasis on the improvement of product structure, on raising quality and on developing new products. In many instances, however, they still would try to pass the loss in revenue on to the government. Finally, there is the type of response that would result in the shutting down or reorganization of the enterprise for other lines of production.

Among the enterprises surveyed, their move to readjust product prices was often slow when the market situation changed, caused largely by the control exercised by upper levels. However, they were all able to play a certain role in the formulation of prices. Generally speaking, the enterprise strongly wishes to keep the prices of raw and processed materials at low official rates while raising the prices on the products they sell. But the buying side doesn't seem to care too much if a dual price system is instituted when demand becomes overly large. The selling

side also feels that anyway a dual price system is better than prices being uniformly kept low.

III. About the motivation structure in China's state-owned industrial enterprises

(Under the premise of guaranteeing workers' welfare, an enterprise's expansion motive and profit motive create opportunities to realize higher level objectives.)

In China, the following factors have an impact on enterprise objectives: 1. The workers' welfare is closely tied to the enterprise; they are highly dependent on it. 2. A large surplus labor force. 3. Managers' pay is low (as compared with the USSR), and there are many more restrictions on their authority. 4. The profit retention system has stimulated the initiative to maximize profit, but the strong "bargaining" mechanism between the enterprise and upper-level agencies has weakened the pressure and motivation that profit retention may bring. Therefore, the enterprises' motives in China, according to the experts, can be classified into the following types: 1. The family motive: manifesting itself mainly in (1) the manager tends to let the workers get maximum welfare; and (2) generally the enterprise puts no restrictions on employment, so that the dependents of the employees may get jobs. Under such circumstances, the goal of the enterprise is probably to achieve maximum net total output value, instead of maximum average net output value. In distribution, the tendency is to use the production development fund from the retained profit for worker welfare. 2. The expansion motive: the prestige of the manager depends on enterprise scale and its socioeconomic status. The ambitious manager strives to achieve expansion by pushing for investment and mergers. The goal of the enterprise is to capture the internal market. This, as shown in enterprise behavior, is a lack of enthusiasm for short-term interest. 3. The engineering motive: this can be satisfied through

the production of high-quality goods or the adoption of certain types of new technology. 4. Orders-taking motive: this was extremely prevalent before the current reform was introduced. 5. The profit motive: currently, it is an intensifying trend for enterprises to operate for profit; this motive is closely related to workers' welfare and to enterprise expansion. Surveys show that only when the manager has been to it that the basic welfare objectives for the worker's family have been achieved can he or she have the opportunity to realize higher goals. Simultaneously, the various restrictions placed on the use of profits have made it impossible for the family motive to always take the first place.

A feature of the wage system is its egalitarianism; the workers' attitude is also egalitarian. In recent years, bonuses and the piece wage system have been restored, but the ceiling on bonus has been repeatedly breached. In bonus distribution, the range of variation has been very small, so that it basically has become a form of supplementary wage. Bonus paid to the manager has hardly ever exceeded the average bonus level.

In sum, the enterprise is responsible for social welfare which makes the flow of labor difficult, thus restricting the dissemination of technology. This situation is not conducive to economic growth nor to individual welfare.

IV. About further reform of the state enterprise

(In state enterprise reform, dual reliance on the market and on the "soft" constraints of the budget should both be avoided.)

The experts held wide-ranging discussions on economic reform in China's urban areas, covering mainly two aspects: 1. how should the

reform objectives in China be designed; and 2. through what road should the set objectives be brought to fruition.

Concerning the first aspect, the consensus seems to be that the principles of a planned commodity economy should be upheld, and that the role of market mechanisms should be further enhanced. Some experts put forth the thesis that the socialist system should be a system that combines uniformity with flexibility. There are others who hold that due to its underdeveloped economy and its uneven development pattern, the Chinese government needs to play a larger role in regulating regional balance and in deciding on industrial development priorities. Further, because the situation in which supply falling behind demand cannot be changed in a short time, so firstly, mandatory planning should not be outright abolished; but secondly, the scope it covers should be gradually reduced, while the influence of macro economic instruments on economic life should be gradually strengthened.

OFFICE MEMORANDUM

Jf

DATE July 8, 1986
TO Mr. Gene Tidrick, CPD
FROM Phi Anh Plesch, VPERS *PAP*
EXTENSION 33484
SUBJECT Completion Report on Collaborative Research with China (673-14)

This is to inform you that your proposal to submit the completion report on the above project by August 31, 1986 instead of June 30, 1986 has been approved by REPAC.

cc: Mmes. O. A. Meesook, V. Mataac, F. Jessup, VPERS

OFFICE MEMORANDUM

file 673-14

DATE: June 6, 1986

TO: Ms. Phi Anh Plesch

FROM: Gene Tidrick ^{G.T.}

EXT: 61078

SUBJECT: Completion Report on Collaborative Research Project
with China (673/14)

The completion report on the above project is due by June 30, 1986. Unfortunately, due to the time needed to prepare the research output for publication, the need to coordinate inputs from some participants who have since left the Bank, and my long-standing travel plans, I will be unable to meet this deadline. I propose to submit the completion report by August 31, 1986.

cc: Messrs. Ingram, Lim, Urata (c/o Corbo), Van Der Gaag

/ G.T.
Lew

ROUTING SLIP		DATE: 5/14/85	
NAME		ROOM NO.	
G. Ingram			
Mrs. Krueger			
D. Lal			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
RE: <u>Dissemination of DRD's Contribution to the First Research Project on China</u>			
SEE ENCLOSED Morse full			
FROM: J. van der Gaag		ROOM NO.: I8-146	EXTENSION: 61235

much of it Hongkong Land's own doing, because Exchange Square has put the equivalent of three years' supply of new space on to the market.

The test now is how Mr Davies swings his company from defence to attack. He is moving cautiously. He has revived Harcourt House in Wanchai, a shelved, but small, redevelopment project which is due for completion in 1987. He has also given the go-ahead for the third, short tower of Exchange Square; that should be completed in 1988, when he reckons vacancies will have fallen in the Central district to below 5%. Then may be the time for heroic helmsmanship again.

Matsuzakaya

Trouble in store

TOKYO

Allegations of corruption have brought a boardroom coup with a difference at Matsuzakaya, one of Japan's oldest and biggest department stores. The difference is that the winner, for now, is the man accused of corruption, Mr Masao Suzuki. He has taken over as president with the backing of Tokai, the firm's main bank, and against the opposition of the Ito

family which has controlled Matsuzakaya since 1768.

Mr Suzuki was Matsuzakaya's vice-president in 1980 when a jewellery firm called Imaizumi Shoten went bankrupt. During the proceedings, trustees and lawyers for the jeweller claimed that the firm had paid kick-backs to Matsuzakaya's executives in return for orders. According to Zaikai, a Japanese business magazine, Mr Suzuki was implicated.

The sedately run Matsuzakaya is based in Nagoya. Although the Ito family owns only 2% of its equity, family members still occupy the top jobs. Mr Suzuki had become the driving force, building control by judicious hiring and firing. The Ito family felt threatened, but never pressed the bribery allegation.

In December, 1984, the store's chairman, Mr Jirozaemon Ito, died. Dead chairmen are not supposed to be replaced for at least 49 days in Japan but Mr Suzuki broke the taboo. Before mourning was over he got himself elected chairman, the first outsider for two centuries. As chairman he stood to lose day-to-day control but his lieutenants held some senior jobs in the firm. Enraged, Mr Yotaro Ito, the then president, called a board meeting in April about the bribery allegations. After a row, Mr Ito and two brothers walked

out; in their absence Mr Suzuki was elected president and Mr Ito was kicked upstairs to be chairman.

Tokai Bank supported the coup because it thinks Mr Suzuki will be better for Matsuzakaya's business than the rich, aloof Ito family. Under pressure from snazzier rivals, the store's net profit has fallen to only 1% of its Y350 billion (\$1.4 billion) annual sales.

Jewels seem to bring scandal to Japan's venerable department stores. In 1982, the chairman of Mitsukoshi had to quit after it was found the firm had bought jewellery from his lover's company.

India's harvest

Giving it away

NEW DELHI

India is exporting wheat. Successive good harvests have swelled the government's food stocks to overflowing. After last season's record 155m-tonne grain harvest and with the newly harvested winter wheat crop far exceeding expectations, stocks could reach 30m tonnes by June. The government has run out of storage space in silos and warehouses, so it is using schools and village meeting halls to

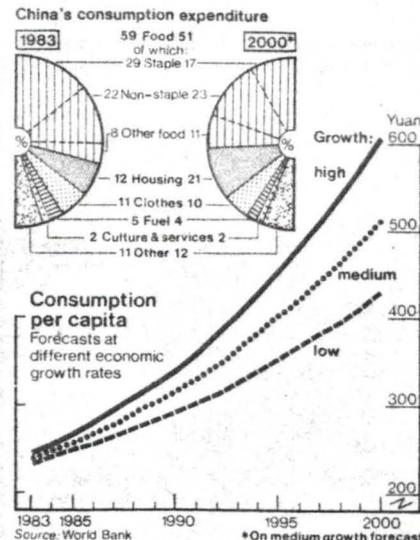
One billion poor consumers

If every Chinese bought a pair of wool socks a year, China would use up a quarter of the annual production of the world's biggest wool exporter, Australia. That is the sort of calculation that has some businessmen drooling over a market of 1 billion Chinese consumers. World Bank research* about consumption in China shows just how fanciful this is. The Chinese, it suggests, will use what little extra money they have to build a better home rather than buy lots of furnishings and gadgets for their old one.

A Chinese consumer boom is many a year away. Chinese receive lots of subsidised goods and services, such as low rents in the cities and cheap food everywhere. Direct food subsidies alone cost the government Rmb20 billion (\$6.9 billion) a year, some 20% of total state expenditure. The World Bank reckons that consumption expenditure per head will rise from a modest Rmb266 this year to only Rmb607 by the year 2000 (at constant 1983 prices)—and that calculation assumes high growth for the economy as a whole (see chart).

The typical Chinese household spends nearly two thirds of its disposable income on food, roughly an eighth each on housing, clothing and articles such as utensils and small appliances, and 5% on fuel. The big change that the World Bank foresees as the Chinese get (rela-

tively) better off in the years to 2000 is that housing will move clearly into second place after food. Spending on housing may grow by more than 9% a year with the rapid transition from mud- or timber-built to brick-built houses. In rural China, this means peasants buying building materials out of their own pockets. In town, where rents are subsidised, tenants have little incentive to use their own money to improve their homes.



The other main changes the World Bank foresees up until 2000 are:

- Spending on consumer durables growing by little more than 6% a year.
- Food continuing to account for around half of the average Chinese household's budget but spending on food growing by barely 4% a year. Most of that increase will come from non-staple foods. Staple-food consumption is forecast to increase by 1%.
- Spending on clothing increasing by 4-7% a year. (Sheep can sleep soundly.)
- Fuel consumption growing by less than 3% a year. That figure may prove an under-guesstimate. Most household fuel consumption in China is wood and stalks being burnt for cooking. As electricity becomes more widely available to homes and as homes get bigger, the demand for heating and lighting could soar. So, too, could the increase in the demand for fuel for transport.

One uncertainty over these projections is what will happen to savings. Chinese have high marginal saving rates, especially in the countryside, where 30-34 fen of every additional yuan earned is saved. That is partly because there has been little to spend it on. But even if they blow their savings, the Chinese will provide a modest market for foreign firms.

* "Private Household Consumption in China. A Study of People's Livelihood." By Jacques van der Gaag. World Bank Staff Working Papers No 701.

OFFICE MEMORANDUM

DATE October 11, 1984

TO Mrs. Phi Anh Plesch, VPERS

FROM Gene Tidrick, ^{ET}AEACH

EXTENSION 72749

SUBJECT Completion of Collaborative Research with China: Phase I (672-68)

We spoke on the phone concerning your memorandum of September 26, to Mr. G. Ingram on this project. This is to confirm my understanding that: (1) the memorandum refers only to Phase I of Collaborative Research with China and (2) the completion report for Phase I will be included in the completion report for Phase II (673-14) at the end of the Phase II project.

cc: Messrs. Ingram, Lal, Lim, Lowther, B. King

GTidrick:mac

→ Phi Ann
 For your info - I'll do something more formal
 7/7/84 JUL 3 1984
 673-14

EXTERNAL RESEARCH PROGRAM

Completed Research Projects with Overspending

on my return from leave.

RPO #	Title	Dept.	Supervisor	Negative Remainder of Total Authorization as of end March 1984
670-99	Economic Aspects of Household Fertility Behavior & Labor Supply in Northeast Brazil	DRD	R. Moran	\$3,300 <u>1/</u>
671-77	Appropriate Industrial Technology	DRD	L. Westphal	\$16,300 <u>2/</u>
672-05	Real Incomes and Economic Welfare of Selected Socio-Economic Groups in Colombia	DRD	R. Webb	\$2,600 <u>3/</u>
672-56	Dissemination Conference on Consequences of Educational Expansion in East Africa	DRD	R. Sabot	\$5,200 <u>4/</u>
672-68	Collaborative Research with China - Phase I	DRD	E. Lim	\$1,400 <u>5/</u>

- 1/ this was commitment error; it has been fixed.
- 2/ I'll write a note on this when I return 7/17/84 - it was accrual loss.
- 3/ an error in overtime charges too time consuming to track down. I guess will buy it.
- 4/ should be charged to 672-01 (they were the same project)
- 5/ charge to 673-14 - all china research project

OFFICE MEMORANDUM

673-14
FEB 13 1984
JAP
file

DATE: February 7, 1984

TO: Messrs. John H. Duloy, VPERS, and Anthony A. Churchill, WUD

FROM: Greg Ingram, DRD; and Edwin Lim, AEADR

EXTENSION: 61002 and 74753

SUBJECT: Collaborative Research Project with China
Progress Report

1. In approving funding for the above research project on March 31, 1983 the Research Committee requested that we submit a progress report, with particular emphasis on the enterprise management component, by the end of the year.
2. In fact, the enterprise management component has progressed very satisfactorily. Attached is a report prepared by Gene Tidrick (who is in charge of this component) outlining, in some detail, methodological development, collaboration procedures with our Chinese counterparts, and research findings to date.
3. The structural change component has progressed slower, and in a more fragmentary manner. For this component, attached is a progress report. Although no publishable result is expected of this component in the immediate future, interim results have been immensely useful in the preparation of the second major economic report on China. In particular, the work on China's SAM, on comparative analysis of China's economic structure, and on consumption analysis will be incorporated into the forthcoming economic report.
4. In summary, we feel that the project is developing in two very encouraging directions. First, notwithstanding considerable uncertainty initially, the research is being conducted with active participation of our Chinese counterparts in research design, implementation and reporting. The project is therefore truly collaborative and will serve as technical assistance and contribute to institution building for economic research in China. Second, the research is providing the Bank with insights into the functioning of the Chinese economic system which are normally not available to any outside researchers nor even for our operational economic work, and with access to unpublished data. Thus the research project is contributing to our operational work and will also add significantly to the stock of knowledge about the structure of China's economy and the functioning of the Chinese economic system as well as, more generally, the functioning of a socialist economic system.

5. Management of the project has remained unchanged, except that Greg Ingram has replaced Ardy Stoutjesdijk as co-manager of the overall project. Ben King continues as the adviser to the project; Gene Tidrick as manager of the research on enterprise guidance; Shujiro Urata on "Sources of Growth: Large Country Archetype" and Jacques Van Der Gaag on "Analysis of Consumption Structure".

Attachment

cc: Messrs. King, Urata, Van Der Gaag, Tidrick

ERLim:em

STRUCTURAL CHANGEIntroduction

1. Progress with this component has been slower than with the enterprise management component; there may be a slippage of six months or so. However, as foreshadowed in the memorandum of February 4, 1983, from Messrs. Lim and Stoutjesdijk, it was always expected that there might be frustrations and delays. We have certainly not fared worse than expected; possibly a little better.
2. We have not received any primary data for the consumption study, but the chances of that at this stage were never regarded as very good. The recent provincial data referred to below have proved useful, both on the research and the operational side, in improving our understanding of the Chinese economy, but the historical data is, as yet, on the thin side.
3. The development of the sources model has been carried on independently from the Chinese. Delays have been mainly due to the time-consuming nature of the work. We have received some help from CASS with data on China itself, but it has been limited. We are pursuing this in conjunction with the operational activities of the China Division.

Consumption Study

4. Collaboration with CASS was mainly concerned with the consumption study, as previously envisaged. This has been somewhat delayed because of the difficulties encountered by CASS in obtaining data.
5. During the first stage of this study, Mr. van der Gaag visited CASS several times during missions in March and September, 1983. Initial discussions centered around the concept of consumption, as seen by the Chinese researchers, and the availability of data. Mr. Dong Fureng managed to obtain two sets of data in tabular form: one for Hubei province, one for Beijing municipality. These data were released for study at the Bank and given to Messrs. King and Urata during their last mission to China in June.
6. Researchers at the Bank and at CASS analyzed these data simultaneously. A first draft of the Bank's work became available in August and was discussed during Mr. van der Gaag's last visit to CASS. During that visit CASS presented a preliminary version of their results.
7. During the September mission it was also stressed that more data should become available. However the Statistical Bureaus of the provinces and municipalities are reluctant to release data that contain, among other things, more detail on income.
8. CASS has recently finished its report on the Hubei and Beijing data. It is expected that this report will be presented and discussed during a February mission by Mr. van der Gaag, who has just finished a draft of a study of both provincial data and the data obtained from CASS. This study includes consumption projections for the year 2000 under various income growth scenarios.

9. It will be presented and discussed at a workshop in Beijing in February. Staff from several statistical bureaus are expected to participate in this workshop.

Sources of Growth Model

10. Insofar as the large country archetype model is concerned, two major activities were conducted in 1983.

- A. Presentation of a series of seminars at the Chinese Academy of Social Sciences in Beijing (B. King and S. Urata).
- B. Construction of a data base for a source of growth study (S. Urata).

11. In June 1984 B. King and S. Urata presented seminars on the following topics:

- (a) Social accounting matrix
- (b) Sources of growth analysis
- (c) Patterns of economic development
- (d) Dynamic input-output analysis

12. The purpose of these seminars was threefold:

- (i) To show Chinese economists the methodologies and results of the research on economic development conducted at the Bank.
- (ii) To show Chinese economists types of research we are going to conduct in this project.
- (iii) To have discussions of Chinese economic data with the Chinese economists.

13. We started the construction of data base for the sources of growth by assembling existing I-0 tables for the countries under investigation. In addition to assistance from the respective divisions in the Bank, the process involved correspondence with UNIDO, Institute of Development Economics in Tokyo, Japan, U.S. Bureau of Census and India Council for Research on International Economic Relations in New Delhi. After checking the consistency of the data, deflation of the tables to constant prices was undertaken. Although the procedure itself is straightforward, actual exercises required a lot of work. A listing of I-0 tables collected is shown in the appendix.

Interim Outputs

14. Since most of the time was spent on construction of the data base, except for the collection of I-0 tables listed in the appendix, there are very few interim outputs describing methodologies on creating consistent data base and on sources decomposition.

- (a) Indonesia Input-Output Data (M. Yee)
- (b) Decomposition of changes in factor intensities in foreign trade (S. Urata).

Activities in 1984

15. It will probably take a few more months to finish construction of the data base. However, we will start analyzing and writing up results very soon. Reports on the sources of growth in individual countries and on a comparison across countries should be finished by the end of the summer. Since China-India comparison is of great interest, we have hired Ms. Ishar Ahluwalia as a consultant to do a detailed India study. We have collaborated with the China Division on the preparation of a questionnaire on statistics for the Chinese government.

Appendix: List of I-0 Tables

1. China:
1956, 1980 (both in 1980 prices) and 1981 (in current prices) input-output tables (16x16) are constructed. Tables for 1955 and 1975 will be constructed when enough information on final demand and value added are estimated. Construction of all the tables is expected to be finished by the end of March 1984.
2. India: 1959-60 (29x29), 1968-69 (60x60) and 1973-74 (60x60) I-0 tables in 1970 prices will be constructed by the end of January 1984. All the tables in current prices are available
3. USSR: 1959-60 (69x69), 1966 (75x75) and 1972 (88x88) tables are available in current prices. These tables in 1970 prices are also available at 18 sector aggregation level.
4. Indonesia: 1971 (175x175) and 1975 (179x179) tables are available in current prices. 1971 and 1975 tables (66x66, 23x23) are available in 1971 prices.
5. Brazil: 1959 (32x32) and 1969 (25x25) tables are available in current prices. However, the quality of these tables seems to be questionable. We have been trying to obtain official tables for 1970 and 1975.
6. Japan: 1955, 1960, 1965, 1970 (41x41) tables are available in 1965 prices.

Progress Report for 1983 on the Enterprise Guidance Component of
Collaborative Research with China - Phase II (Ref. No. 673/14)

Background

Little is known about how the Chinese industrial planning system works. Almost no systematic research could be done on the Chinese economy by either foreign or Chinese scholars during 1966-78. Since then, the situation has improved, but there are still few relevant statistics and little but anecdotes available about continuing far-reaching changes in industrial planning and enterprise incentives. The objective of this study is to enhance understanding both within and outside China of how Chinese enterprise guidance works. Enterprise guidance is defined to include internal management issues, relations among enterprises, and relations between enterprises and the state. Emphasis will be placed upon the response of enterprises to incentives and planning directives set by higher authorities.

The main source of information will be in-depth interviews with key personnel in 20 enterprises and related organizations. This method was chosen largely because of its successful application by David Granick in his comparative study of four socialist countries, entitled, Enterprise Guidance in Eastern Europe. This is generally regarded as the most illuminating analysis of enterprise guidance in socialist countries and it provides a basis for comparing China to other quite diverse socialist economies. In China, even more than in Eastern Europe, neither macro nor micro data are available which could be used to test hypotheses about the effect of the planning and incentive system on enterprise behavior. Case studies of enterprise decisions are the only way to obtain detailed knowledge of the formal and informal workings of the system required to analyze most enterprise guidance issues.

It was agreed that our research collaborator, the Chinese Academy of Social Sciences (CASS), would take primary responsibility for the collection of information in China while the World Bank would provide information on enterprise guidance in other countries in order to bring a comparative perspective to the research. Methodology would be developed jointly, analysis would be done by both sides, and the results of the research would be published jointly. The research strategy was first to conduct joint pilot interviews in two enterprises, write separate case studies analyzing the results, and then to agree on a revised questionnaire incorporating the issues and hypotheses to be covered by CASS in the remaining 18 interviews. The remainder of this memo reports the progress made thus far in implementing the research program and summarizes the interim research results.

Progress in 1983

A draft memo dated November 11, 1982, has served as an informal memorandum of understanding between CASS and the World Bank for planning purposes (Attachment 1). A formal memorandum of understanding was not drawn up because, under Chinese government procedures, this would have made the research procedure and timetable less flexible.

At our request, the original list of enterprises and organizations to be interviewed was amended. The aim was to select a broad range of enterprises varying in size, location, extent and type of reform, source of control (central vs. local), and industry (including producers of standardized and differentiated products in both producer and consumer goods industries). The sample was made up of "representative" rather than randomly selected enterprises and organizations. The revised list contains a disproportionate number of experimental reformed enterprises, but this is probably desirable given the focus of the research. We believe that the revised list (see Attachment 2) provides a good sample of enterprises for the research project.

The research program during the first six months of 1983 closely followed the tentative timetable in Attachment 1. In January 1983, the Bank and CASS teams conducted 10 days of interviews with officials of the Chongqing Clock and Watch Company (CCWC) and its superior organizations. The Bank team, consisting of Gene Tidrick, Bill Byrd, Josephine Woo, and David Granick (consultant), took the lead in interviewing, but the CASS team, consisting of the four principal researchers (Chen Jiyuan, Chen Lantong, Tang Zongkun, and Xu Lu) plus the Deputy Director of the Institute of Economic Research (Dong Fureng) and several other CASS staff, also participated. The Bank and CASS teams met frequently to discuss interviewing strategy and interpretation of the results. The Bank had specifically requested that CCWC be used for a pilot interview (it was not on the original list) because of its reputation as a model reformed enterprise as well as its status as a producer of consumer durables, output of which has been increasing during the past several years. It proved to be a good choice. CCWC's performance had deteriorated--a fact never mentioned in the articles holding it up as a model--and the management was quite candid about its problems and cooperative in providing statistics.

After returning to Washington in February, the Bank team wrote a report on the interviews while the CASS team conducted a week of interviews in a second enterprise, the Qingdao Forging Machinery Plant (QFMP). CASS also wrote a report on the QFMP interviews. These reports were intended to be very detailed so that researchers who were not there could understand what went on in the interviews. Detailed reports will be critical in the remaining 18 interviews conducted entirely by CASS, for these reports will provide the raw research material for the Bank team. The reports on the pilot interviews were not completely successful. The Bank report was a slightly condensed transcript of individual questions and answers. It was about 200 single-spaced pages long and, because of the need to cross-check each other's notes, took 3 people 4 full weeks to produce. Clearly, this could not be used as a model for remaining reports. It would take too long to translate and read as well as to write. The CASS interview report on the other hand erred in

the opposite direction. Their report was one-fifth as long and organized by topic rather than by source of information. This obscured the insights that might result from one of the most basic interview techniques we were trying to establish: asking the same question to different people in order to spot contradictory accounts and ensure that we find out how the actual system differs from the official textbook model. In fact, we discovered during the reinterviews that the story of how the QFMP material supply system works differed substantially from the first account. In future interview reports, CASS will summarize the discussion in each interview, rather than by topic.

In late March and early April the Bank team returned to China for joint reinterviews in the two enterprises and their associated organizations. The same Bank team as before was joined by Bevan Waide for most of the mission. The interviews lasted 3 days in CCWC and 5 days in QFMP. Reinterviews are an essential part of the project. They enable the researchers to clarify inconsistencies and test hypotheses developed after reflection on the original interviews. And they are critical for a collaborative research project since they enable researchers who did not participate in the first interview to cover issues missed previously and to cross-check and supplement information which appeared dubious or insufficient. These reinterviews were very successful from all points of view. They filled in several gaps in our information and confirmed that the collaborative interview technique could work. With the exception noted above, we found that the CASS interview report provided an accurate picture of the areas covered and no more new information turned up in the QFMP reinterviews than in those in CCWC. With the agreed change in CASS interview reports (see above), and the proposed method of reinterviewing (see below), we believe that interviews will provide adequate information for analysis by both CASS and the Bank.

During April and May, the World Bank team (Byrd and Tidrick) prepared a case study of CCWC while the four principal CASS researchers wrote studies of both CCWC and QFMP. Professor Granick also wrote a paper on "Hypotheses Drawn from the First Two Case Studies and Intended for Further Research". This was supplemented by other papers on hypotheses by Bill Byrd and by Barry Naughton, a Yale graduate student who was a summer intern. The Bank team also rewrote the interview questionnaire based on these and other hypotheses. In June, the CASS team came to Washington for 3 weeks to discuss the case studies, review the lessons from the pilot interviews, and prepare for the remaining 18 interviews.

The Bank case study was analytical, focusing on CCWC's behavior in response to market conditions and the incentives created by reforms. The CASS studies were largely theoretical and prescriptive, concentrating on overall evaluation of the particular reforms introduced in the two enterprises. It was evident from their case studies and discussions of hypotheses that CASS was not accustomed to using models or hypotheses to guide analysis. We were able to agree, however, that it would be useful to have an explicit set of hypotheses--many of which would be rejected or modified in the course of our research--to guide interviews and analysis. Our discussions were helped

enormously by the presence of Wu Jinglian, a senior CASS researcher on leave at Yale, who acted as a bridge between differing concepts of research. As a result, we were able to focus discussion on alternative hypotheses and the kind of information needed to test them.

During the CASS visit, we held two Bank-wide seminars; the first on project research methodology and the second on brief papers the CASS team had written on various aspects of reform in China. The main questions and criticisms raised in the seminar on methodology were: (1) Will the small size of the sample enable us to test all of the hypotheses? (2) Can we assess the level of technology and analyze its effect on enterprise performance? (3) Can we collect more data on production costs in order to have a concrete measure of enterprise performance over time and in comparison to other countries? The discussion resolved some, but not all, of these issues. The sample size will be too small if all of the dimensions of size, location, industry, etc. turn out to be important or if there is significant interaction among them. The sample is large enough to permit comparisons of pairs or even groups of three of the most important variables, but not all. The findings will undoubtedly leave some issues unresolved and generate additional hypotheses for further research. With respect to assessment of technology, there was general agreement that this would be desirable, but expensive. One of the CASS researchers is an engineer, but proper assessment would require employing a specialist consultant engineer for each industry. However, it was suggested that IFC or IND engineers might read the interview reports with a view to proposing supplementary questions in the reinterviews. The prospect for getting more production cost data appears more hopeful. Although the government is very sensitive about cost data, we had in fact been able to get more than anticipated in the pilot interviews. The revised questionnaire includes a set of questions on production costs, but we will probably only be able to get information on trends and relative levels within China rather than data which would permit international comparisons.

During the CASS visit, several agreements were reached. Based on suggestions at the methodology seminar, more time was allowed in the schedule for completing the remaining 18 interviews. Revised quantitative and interview questionnaires were completed. The latter contains a checklist of issues and hypotheses rather than a specific set of questions common to all enterprises. Discussion with several Bank staff engaged in related research was helpful in preparing the questionnaire. We agreed that the Bank team will participate directly in 3 or 4 reinterviews and that CASS will conduct the remaining reinterviews based on jointly agreed questions and issues. We would not, in any case, have the resources to conduct more joint reinterviews and this arrangement should ensure that the Bank team has sufficient information for its analysis. Each team will write separate papers for a conference at the end of the project. Outside scholars will also be invited to the conference to present papers on selected aspects of enterprise guidance in other countries. Finally, we agreed that we would publish the Bank's CCWC case study and CASS's QFMP case study together in a Bank Staff Working Paper. Both papers were to be revised before publication. CASS team members subsequently published two short articles in Chinese journals on CCWC based on the January interviews.

During the remainder of the year, CASS conducted additional interviews while the Bank team mostly did other economic and operational work. Both teams have also revised their respective case studies which will be forthcoming as a Staff Working Paper. Barry Naughton also wrote a background paper on "Lessons and Legacies: Antecedents to China's Current Reform Process". CASS has completed interviews in 14 enterprises and will finish the remaining 4 by the end of March 1984. Unfortunately, we have not yet received any interview reports though several have been written and are being typed. The delay may also be due to clearance procedures by the Chinese government, though we have been assured that there will be no problem in obtaining the reports. Since the reports will average approximately 125 double-spaced pages, translation and review by the Bank team will take at least three months. We currently expect to be able to meet with CASS again in Washington about June 1984, to discuss the reports and plan reinterviews. We hope to complete reinterviews by fall 1984, and hold the conference in early summer 1985, about 4 months later than originally planned.

Interim Research Results

Here we will simply list the main conclusions derived from the case studies along with some of the principal hypotheses developed for further research. These are based mainly on the World Bank case study of CCWC (which contains some comparisons of the two enterprises included in the pilot interviews), the background papers on hypotheses, and the revised enterprise questionnaire. These and other project papers listed in Attachment 3 are available to anyone interested. In most cases, the conclusions and hypotheses are those of the World Bank team. The CASS team mostly agrees with these, but on a few issues (such as the nature of the objective function), CASS has an alternative hypothesis. Members of the World Bank team also differ on several hypotheses. This diversity of views should enrich the research.

The main conclusions of the CCWC case study are as follows:

1. The market, not the plan, has been the dominant influence on enterprise decisions for the past several years in both CCWC and QFMP. The reform giving enterprises some responsibility for sales has also been the most important change in the enterprise guidance system. But this reform may only have a significant effect in combination with changes in market conditions from excess demand to rough balance or excess supply.
2. Both the planning and financial incentive systems are manipulable. Planning targets are therefore slack and financial sanctions weak. The enterprise expends a great deal of effort in bargaining with its superior organizations to change the rules of the game in its favor.
3. The unreformed labor allocation system distorts enterprise behavior, especially when combined with reforms granting more enterprise autonomy in other spheres. Constraints on hiring caused CCWC to undertake mergers of dubious long-term benefit. Constraints on firing have caused both enterprises to channel excess labor into auxiliary activities and product diversifications which often earn low returns.

4. The increased use of investment financing through bank loans has generally loosened rather than strengthened financial discipline.

5. The enterprise objective function is not maximization of profits, average value added per worker, managerial incomes or any of the other maximands normally assumed in analyzing capitalist or other socialist economies. The objective appears to be to maximize total family income and benefits of workers which, under the incentives and constraints operating at CCWC, led to behavior best modeled by positing a maximand of total net product. (CASS believes that the main motivation of managers is to comply with the wishes of their superiors in the ministerial and local government hierarchies.)

All of these conclusions are tentative and form hypotheses to be tested and refined in the remaining interviews. A sample of other important hypotheses are:

1. Approved annual plan targets play only a minor role in determining current operations.

2. The link between material allocation and plan targets, which is important in many other centrally-planned economies, is weak because of pricing flexibility and formal and informal arrangements for trading materials.

3. Production planning in the sense of detailed simultaneous control of input allocation and output targets is stronger at the provincial level, in industries with important forward linkages, and in industries which produce output in chronically short supply.

4. Investment planning is more tightly controlled than production planning. However, local authorities may have different investment plans from central authorities.

5. Local authorities and locally-controlled enterprises are allied and protect their interests against higher-level authorities. Enterprises controlled by provincial or central authorities will find themselves in conflict with local authorities in the areas in which they are located.

6. Control by higher authorities over use of enterprise retained profits has been weak.

7. An unreformed enterprise would always like to hire more workers, but is restrained from doing so by hiring quotas. Reforms which make the enterprise responsible for profit and loss or which significantly expand profit retention may restrain enterprise demand for labor (other than for hiring dependents of workers).

Collaborative Research: Enterprise Management

The Research Institute of Economics of the Chinese Academy of Social Sciences and the World Bank, after many mutual visits and discussions, agree to conduct collaborative research on the management system of state industrial enterprises.

Research objectives and mutual responsibilities

The main objectives of the research are to analyze the existing system of enterprise management and its evolution over time, to compare the Chinese system with what is known about systems of management of state enterprises in other countries, and to make recommendations for improvement of the management system. The research will cover management within enterprises, the relationships among enterprises, and the relationship between the state (including central and local governments) and the enterprises.

The Chinese Academy of Social Sciences (CASS) will take main responsibility for the collection of information regarding management in Chinese enterprises. The World Bank will take main responsibility for providing information on management in other countries in order to help bring a comparative perspective to the research. (The World Bank research team will include World Bank staff and experts on enterprise management hired as consultants.) CASS and the World Bank will jointly develop the research methodology and analyze the results. The results of the research will be published jointly.

Research procedure

The core of the research will be in-depth interviews with key personnel in twenty enterprises and organizations. The enterprises and organizations selected (see Attachment A) represent a wide range of sectors, regions, levels of organization, and experience with changes in management systems. The interviews will require about one week in each enterprise and will primarily be conducted by CASS. Prior to the main set of interviews, the CASS and World Bank teams will conduct a pilot study of two enterprises. Following the main set of interviews, the two teams will discuss the results and will conduct joint supplementary interviews in some enterprises where outstanding questions remain.

The main issues which will be investigated are:

1. Internal enterprise management

- (1) Basic system of leadership
- (2) Planning management (both current production and investment planning)
- (3) Financial management
- (4) Materials management
- (5) Labor and wage management

2. Relationships among enterprises

- (1) Supply of equipment and raw materials needed by enterprise
- (2) Sales of products
- (3) Cooperation between factories and management of economic contracts
- (4) Role of industrial companies in coordinating activities.
- (5) Financial relationships among enterprises and between banks and enterprises

3. Relationship between state and enterprise

- (1) Basis for determining whether enterprises will be under central or local state control. Relationship between central state industrial enterprise and local authorities where it is situated. Relationship between local state industrial enterprises and relevant central departments.
- (2) What rights and responsibilities do supervising departments (planning, finance, materials and goods, labor) of government (central or local) have toward industrial enterprises, and what responsibilities and rights do enterprises have in relation to state supervising departments. Role of each level in plan formulation.
- (3) What are the chief contents of the several major changes in the relationship between state and enterprise.
- (4) What problems exist now in the relationship between the state and the enterprise. What improvements are needed.

A summary of the work procedure and tentative timetable for each step is given below.

(1) November-December 1982 Each side will prepare a draft questionnaire to be used in the enterprise interviews. The questionnaire will cover some quantitative aspects of enterprise management and performance which can be provided by the enterprises in written form prior to the interviews. However, the questionnaire will mainly outline a set of issues and questions to be covered orally during the in-depth interviews. The World Bank will send a copy of its draft questionnaire to China by mid-December 1982, and the CASS side will provide a copy of its draft questionnaire by the end of December 1982.

(2) January 1983 The two research teams will meet in China to discuss the questionnaire and the interview procedure. They will then jointly interview one enterprise and discuss the results and their implications for future interviews.

(3) February to mid-March 1983 The CASS team will conduct a pilot interview in a second enterprise and write up the results so they can be used for discussion and analysis by both sides. The World Bank team will write a preliminary report on the first interview and draft a revised questionnaire.

(4) March-April 1983 The two teams will again meet in China to review progress and to conduct reinterviews in both pilot enterprises in order to clarify unanswered questions.

(5) April-May 1983 Each side will write reports analyzing the two pilot interviews.

(6) June 1983 The CASS side will visit Washington to discuss the reports, put the questionnaire into final form, and prepare for the main set of interviews.

(7) July-September 1983 Interviews in the remaining 18 enterprises and organizations will be conducted by the CASS research team.

(8) October-December 1983 Research staff on the CASS side will compile information collected from the interviews and provide it to the World Bank.

(9) February 1984 The two sides will meet in Washington to begin to process and analyze the interview results. During this time, World Bank staff and international experts will conduct seminars and provide material on management systems in state enterprises in several countries.

(10) March-April 1984 The two sides will meet in China to conduct joint supplementary interviews in some enterprises to clarify outstanding questions. They will also agree on the division of responsibility for writing up the research results and other papers.

(11) May-August 1984 Each side will separately prepare draft reports on results of the research. The two sides will exchange draft reports by the end of August.

(12) September-December 1984 The draft reports will be translated. Each side will comment on the other's report. The reports will then be revised and translated for the symposium.

(13) January 1985 An international symposium on state industrial enterprises will be convened. In addition to relevant people from China and the World Bank, economists from several countries will be invited. Reports on the results of the research will be presented for each side along with papers from invited participants.

Following the symposium, papers will be revised in preparation for joint or separate publication. The form of publication will be agreed.

Manpower

The World Bank will provide the equivalent of 2-3 full-time researchers to the project and the CASS side will provide the equivalent of full-time researchers.

List of Enterprises and Organizations to be Interviewed

1. Capital Iron and Steel Company
2. Beijing Railway Bureau
3. Beijing Qinghe Woolen Textile Mill
4. Anshan Iron and Steel Company
5. Tianjin Textile Industry Company
6. Jilin Sanchaze Forestry Bureau
7. Shenyang Refining Plant
8. Daqing Oil Field
9. Shanghai No. 17 Cotton Mill
10. Shanghai High-Tension Oil Pump Plant
11. Nanjing Jinling Petroleum Industry Company
12. Mindong Electric Machinery Plant
13. Qingdao Forging Machinery Plant
14. Jiangmen Nanfang Foodstuff Factory
15. Guangdong Provincial Qingyuan County Economic Commission
16. Nanning Silk Spinning Factory
17. Chengdu Locomotive and Carriage Plant
18. No. 2 Automobile Plant
19. Guiyang Yonghong Instruments Factory
20. Northwest No. 1 Cotton Mill

Names of Enterprises

1. Beijing Qinghe Woollen Textile Mill, Beijing
2. Anshan Iron and Steel Corporation, Liaoning
3. Tianjin Color Textiles Company, Tianjin
4. Jilin Sanchazi Forestry Bureau, Jilin
5. Shenyang Smelting Factory, Liaoning
6. Shanghai No. 17 State Cotton Mill, Shanghai
7. Shanghai High-Pressure Oil Pump Factory, Shanghai
8. Nanjing Jinling Petro Chemical General Corp., Jiangsu
9. Mindong Electric Machinery Factory, Fujian
10. Qingdao Forging Machinery Factory, Shandong
11. Jiangmen Nanfang Foodstuff Factory, Guangdong
12. Qingyuan County Economic Commission, Guangdong
13. Nanning Silk Spinning Factory, Guangxi
14. Chengdu Locomotive and Rolling Stock Factory, Sichuan
15. No. 2 Automobile Plant, Hubei
16. Chongqing Clock and Watch Company, Sichuan
17. Northwest No. 1 State Cotton Mill, Shaanxi
18. North China Petroleum Administration, Hebei
19. Baoji Nitrogen Fertilizer Factory, Shaanxi
20. Xiangxiang Cement Factory, Hunan

Enterprise Guidance Research Papers
Master List (1/5/84)

I. Questionnaire

- I-1. Quantitative questionnaire for pilot surveys
- I-2. Quantitative questionnaire (revised June 1983)
- I-3. Enterprise questionnaire (December 1982 draft)
- I-4. Enterprise questionnaire (revised June 1983)

II. CCWC Interviews

- II-1. CCWC: Outline of Survey on Management System (January 1983)
- II-2. CCWC: Interviews (January 1983)
- II-3. CCWC: Quantitative questionnaire (January 1983)
- II-4. CCWC: Memo on internal prices (January 1983)
- II-5. CCWC: Interviews (March - April 1983)
- II-6. CCWC: Supplementary Data (April 1983)
- II-7. Granick: Miscellaneous Notes (January 1983)

III. Qingdao Forging Machinery Plant Interviews

- III-1. QFMP: CASS interviews (March 1983)
- III-2. QFMP: Quantitative questionnaire (March 1983)
- III-3. QFMP: Interviews (April 1983)
- III-4. QFMP: Appendix on Production (April 1983)

IV. Case Studies

- IV-1. Byrd and Tidrick, CCWC Case Study (June 10, 1983 draft)
- IV-2. Byrd and Tidrick, CCWC Case Study (December 1983 revised draft)
- IV-3. CASS QFMP Case Study (first draft March 1983)
- IV-4. CASS QFMP Case Study (revised draft December 1983)
- IV-5. CASS CCWC Case Study (April 1983)
- IV-6. Xu Lu "Investigation of CCWC", Jingji Diaocha 1983
- IV-7. Yu Zuyao "Investigation of CCWC's Experiment"
Finance & Trade Economics 1983

V. Hypotheses for Research

- V-1. Granick, Outline of hypotheses
- V-2. Granick, Hypotheses Drawn from First
Two Case Studies, Parts 1 & 2
- V-3. Granick, Hypotheses Drawn from First
Two Case Studies, Part 3
- V-4. Granick, Hypotheses Drawn from First
Two Case Studies, Part 4
- V-5. Byrd, Enterprise Management Study:
Hypotheses
- V-6. Naughton, Hypotheses on Enterprise
Management

VI. Miscellaneous Papers

- VI-1. Brief Notes on 20 Enterprises (Jan 83)
- VI-2. CASS seminar papers on adjustment
and reform (June 1983)
- VI-3. Naughton, Lessons & Legacies
(August 30 1983 draft)

OFFICE MEMORANDUM

TO: Files

DATE: August 16, 1983

FROM: John H. Duloy 

SUBJECT: Collaborative Research with China
Phase I (Ref. 672-68)

With the approval of Phase II of this project (which has been assigned Ref. No. 673-14) the first phase is completed. No completion report is necessary for Phase I. A completion report covering the entire project (i.e., including costs and results of Phase I) will be required at the end of Phase II.

cc: Ref. 672-68
673-14 ✓

JDuloy:nw

OFFICE MEMORANDUM

DATE: April 7, 1983

TO: Messrs. E. Lim, E. Stoutjesdijk, G. Tidrick, T. King, S. Robinson

FROM: John H. Duloy, Senior Research Adviser, VPERS

EXTENSION: 69011

SUBJECT: Collaborative Research with China - Phase II

You will be pleased to learn that, at its meetings of March 24 and 31, the Research Committee approved your research proposal. A formal memorandum setting out the precise financial and other conditions is being sent to the director of your department.

cc: Mr. B.B. King

JD:lt

OFFICE MEMORANDUM

DATE: April 6, 1983

TO: Mr. E. Stoutjesdijk, DRD
Mr. E. Jaycox, AEA

FROM: John H. Duloy, VPERS

EXTENSION: 69011

SUBJECT: Decision Memo on "Collaborative Research with China - Phase II"

The Research Committee meet on March 24 and 31 to discuss this proposal. The proposal is approved in the amount of \$245,000.

The project's identification code and financial authorizations are as follows:

(i) Identification Code:	673-14
(ii) FY83 Authorization:	\$ 40,000
(iii) FY84 Authorization:	\$160,000
(iv) FY85 Authorization:	\$ 45,000
(v) Total Authorization:	\$245,000

The Committee requests that the project managers provide it with a progress report, with particular emphasis on the enterprise management component, by end-December 1983. The Committee endorsed this proposal because of its initiating a collaborative research with China, yet it expressed concern that the project did not meet the usual standards of proposal design. In future projects relating to China, the Committee will evaluate proposals according to standard criteria.

Please use the identification code in all financial documents and other communications concerning this project, including letters of appointment to consultants. While this project is a joint one between the two departments (DRD and AEA), I understand that DRD is responsible for its financial management.

cc: Messrs. T. King/S. Robinson/B.B. King/J. Lowther
E. Lim/G. Tidrick/C. Koch-Weser
A. Bararia/Ms. K. Herat
W. Casson/Ms. Y. Rodrigo
Mmes. B. Lewis/P. Plesch

JD:lt

OFFICE MEMORANDUM

DATE: March 29, 1983

TO: Research Committee Members

FROM: Sharon Blinco, VPERS JB

EXTENSION: 69015

SUBJECT: Minutes of the Research Committee Meeting held on March 24, 1983

1. The Research Committee met on March 24, 1983. Present were Mrs. Krueger, chairman, and Messrs. Baneth, Churchill, Duloy, Picciotto, Rao, Selowsky, and Willoughby. Mr. Feather and Ms. Blinco also attended. Absent were Ms. Plesch and Messrs. Balassa, Gulhati, Shakow, and van der Tak.

The Budget

2. Mr. Duloy discussed the budgetary implications of the proposals before the committee in the context of the recently introduced three-year rolling plan. Assuming Committee concurrence with the recommendations of the panel review committees, the External Research Budget (ERB) would be closer to the mark in FY83 with a balance of \$.06 million in uncommitted funds than in the past three years, and in FY84 and FY85, the ERB would have substantial degrees of freedom. Mr. Rao queried the implication of \$1.58 million in uncommitted funds in FY84. Mr. Duloy responded that it implies that there will be slack in the budget next year, which it will be difficult to reduce without a number of large and quick-disbursing projects. Mr. Baneth observed that the essential problem in ERB's formulation is that the Committee plans according to commitments, while PAB's accounting procedures are based on disbursements.^{1/}

Proposals

3. Mr. Willoughby presented the proposal for funding of An Analysis of the Tax Systems in Developing Countries -- Applications to Pakistan and Mexico, jointly sponsored by DRD and CPD, in collaboration with Professor N. Stern of Warwick University (United Kingdom). The proposal aims at developing a more systematic framework for analyzing changes in the tax structures in the context of the public finances in developing countries, with special focus on Mexico and Pakistan. It is based on earlier work by the team of researchers on indirect taxes in

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For the record, this is not entirely correct. The Committee does not plan on the basis of commitments but on the basis of forecasts of expenditures. The problem is that these forecasts have not proved accurate in the past and are unlikely to be so in the future, unless researchers are held more closely to their expenditure plans.

India where the impact of tax changes on income distribution and efficiency were explored. In Mexico and Pakistan more detailed data would be collected, and in terms of methodology, the impact of the tax structure on production would be looked at. Mr. Willoughby indicated that the panel was concerned that 1) the methodological approach was not well specified, 2) that local institution-building had been overlooked; and 3) that the proposal relied too heavily on expertise situated in Warwick University. In response to these concerns, the sponsors had made arrangements for closer, on-site collaboration with indigenous researchers and had upgraded the role of internal supervision within the Bank.

4. The committee's reaction to the proposal centered on two issues that overlapped in the discussion: whether the study should be conducted in more than one country and what were the limits to the analytical techniques being employed. Concern was voiced by several committee members about the clarity and correctness of the conclusions reached by the researchers in their work on indirect taxes in India. Mr. Willoughby acknowledged that some aspects of the India study were questionable, but that overall it was judged to be an interesting, innovative, and powerful approach to tax analysis. Several members disagreed, saying that the analytical tools being used in India and under consideration in the proposal were limited. Mrs. Krueger noted that the technique is based on the assumption of no substitution in production. She suggested that a first-rate economist from outside the Bank be enlisted to look at the technique and the range of its applicability.

5. Following discussion, the Committee agreed to fund the proposal at the level of \$350,000, as recommended by the panel. The sponsors are in the process of soliciting additional funding from the Social Science Research Council of the United Kingdom (SSRC-UK) which had funded part of the India study. Mr. Duloy explained that on the basis of the outcome of the sponsors' bid for SSRC-UK funding, the budget would be redrafted in late Spring or early Summer. The Committee also stipulated that an oversight committee be formed to report to the Committee on the project's progress twice annually. Mr. Duloy nominated the country economists of Mexico and Pakistan, a member each of the IMF Fiscal Department and the IND Strategy and Policy Division, and the Economic Adviser of the Projects Advisory Staff as members of the oversight committee.

6. Mr. Churchill introduced the proposal for Collaborative Research with China -- Phase II to be conducted jointly by the Bank and the Institute of Economics of the Chinese Academy of Social Sciences (CASS). The project contains two components - the first dealing with enterprise management and the second with demand and production structures. The Committee's discussion focused on the former of these, which is intended to analyze the system of Chinese enterprise guidance -- how it worked in the past, the effect of recent reforms, and the likely effect of proposed reforms, based on in-depth interviews by CASS

researchers and Professor Granick with key personnel in 20 enterprises and organizations in China. Mr. Churchill noted that the panel recognized that special circumstances surround research in China and that a somewhat unconventional approach should be tolerated in this endeavor, due to the potential benefit of such collaboration. Several Committee members commented that they were dissatisfied with the qualitative and imprecise nature of the study and its lack of a systematic framework for analyzing what makes enterprises "tick" in China. Mr. Rao mentioned that he was assured by the presence of Chinese researchers that quality information would be elicited in the interviews. Mrs. Krueger countered that it might be just the opposite, because CASS researchers have been kept on the sidelines for so long; perhaps collaboration with university staff would be more fruitful. Mr. Churchill, reiterating the panel's view, said that the project's support level (\$245,000 from ERB and \$110,000 from DRD and AEA) was a small price to pay for getting involved in research there. The Committee noted the work of Professor Granick in Eastern Europe and hoped that a similar approach to China would be fruitful; yet members still had reservations about the absence of a more structured methodology. Mr. Willoughby suggested that the project be incorporated into the process of developing a medium-term strategy for research in China. Mr. Duloy summed up the discussion by commenting that it was clear that the Committee had some misgivings about the proposal, due to its lack of adherence to normal standards set by the Committee. While such an approach may be necessary in the first stages of collaborative research with China, it was appropriate for the Committee to communicate a strong signal that it would expect future proposals for research on China to adhere to normal standards.

7. The Committee agreed to support the ERB component of \$245,000 and called for a progress report, especially on the enterprise management component of the project, by end-December 1983. It further elaborated on the above point that future projects in China would have to adhere to the usual standards of the Committee.

8. Discussion of the proposal on Integrated Systems Approach for Investment Analysis of Cementitious Materials was deferred to the next session of the meeting.

9. Mr. Duloy then presented the panel review of the proposal on Supply Response of Aggregate Crops Output, to be jointly sponsored by AGR and EPD. The panel voiced only moderate enthusiasm for the proposal, which represents an attempt to estimate the aggregate crop supply response using the latest techniques of pooling time series and cross-section data. Without substantive discussion, the Committee agreed to fund \$28,500 for the project.

10. Also presenting the panel review of the proposal for Agricultural Mechanization in Africa: Review and Prospects, Mr. Duloy mentioned that the proposal is essentially an in-depth review of the wide range of studies of agricultural mechanization in the past,

attempting to describe what worked and why and to disaggregate the mechanization experience by agro-climatic zones. It will be similar to work done by one of the sponsors in Asia.

11. Mr. Dubey raised serious objections to the prospect of supporting funding of a second project on farm mechanization by the same department (AGR), prior to a report on the results of "Conditions for Sustained Farm Mechanization," mainly in Thailand (Ref. No. 672-67). One should benefit and build on previous projects, he said. Mr. Duloy responded that the panel review had not taken the ongoing project into account, yet, while he personally remained skeptical about the outcome of Ref. No. 672-67, he was confident in the proposal at hand which had quite different objectives. Mr. Picciotto observed that the proposal does not have enough analysis of prices and price policy and that agronomists should be brought on board the research team.

12. The Committee decided to return the proposal to AGR for a statement on the status of results from 672-27, especially its methodology and any similarities to the present proposal, and its response to the possibility of including agronomists in the research effort. The department's responses are due for discussion by the Committee at the continuing segment of the meeting on March 31, 1983.

13. Mr. Selowsky reported to the Committee on the panel review of two related proposals: 1) Education and Informal Sector Employment, sponsored by EDC-Psacharopoulos, and 2) Human Capital Accumulation and Urban Wage Employment: Consequences for Efficiency and Equity, sponsored by DRD-Sabot. Both proposals address key issues in the evaluation of the contribution of investment in education. The first proposal intends to assess the impact of schooling on workers in the informal sector of the urban economy; the second proposal concentrates on the effects of education in the urban wage sector. Mr. Selowsky, the panel review chairman for both proposals, noted that the review process had been most difficult and had entailed about 100-man hours of effort, plus a review by an outside referee. The panel noted the weak analytical framework of the EDC proposal for research in Lima, Peru, and the inappropriate or inadequate methodology of the DRD proposal for research in Brazil, Korea, and Sri Lanka. The panel declined to recommend either proposal for funding, yet it suggested that the topics being addressed warranted expenditure of research funds and recommended that a proposal be reformulated with careful ex-ante conceptualization for investigation in one large country with substantial variation in interregional prices and endowments.

14. Mr. Churchill questioned why, in view of the panel recommendation to fund neither proposal, the proposals, in fact, were before the Committee. Mr. Selowsky said that each department had responded to the panel's report by requesting a research preparation grant. Mrs. Krueger noted that attempts to get the departments to collaborate on a joint proposal had not worked out, that DRD was

generally not entitled to preparation grants, and that the Research Adviser probably welcomed advice from the Committee on how to proceed.^{2/}

15. The Committee noted that the panel was an excellent one, that its conclusions were unanimous. Regarding the research preparation requests received in response to the panel's recommendations, Mr. Selowsky noted that, in his view, the EDC proposal had a clearly stated objective, that the present methodological weaknesses could be solved by further preparation work, and that the sponsors understood the issues raised by the panel. On the other hand, Mr. Selowsky was concerned that the DRD proposal had multiple objectives that were perhaps too ambitious and that the methodology required substantial additional work. He suggested that the DRD had to mobilize some of its very good staff resources to strengthen the conceptual basis for work in this area. He was concerned that the sponsor's reply to the panel's final report did not address the substantive issues raised by the panel.

The Committee requested that the minutes should reflect its concern that the two departments involved had not responded to Mr. Duloy's request that they should coordinate their overlapping plans in this area.

Supplementaries

16. Mr. Dubey presented a request from TWD for \$295,000 in supplementary funding to complete the Highway Design and Maintenance Standards Study (Ref. No. 670-27), one of the longest and largest projects within the Bank. The panel's reaction to the request was that the amount of \$47,750 in contingencies were not acceptable; however, the project itself was obviously relevant and significant. The panel had called for additional data documentation of the study, which had been incorporated in a revised budget estimate at a cost of \$39,000.

17. The Committee agreed to the total request -- \$295,000 -- with the proviso that this supplementary would be the last authorized by the Committee for the project. The Committee received assurances from Mr. Willoughby, Director, TWD, that TWD would complete the work program of the project with its own funds, if additional funds should be required.

[Meeting adjourned until March 31, 1983]

Cleared with: Mr. J. Duloy

SRB:mm

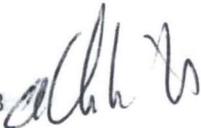
2/

For the record, DRD is not entitled to research preparation grants through the discretionary process. It can, like any other department, apply for preparation funds in excess of \$20,000 to the Research Committee through a panel process.

OFFICE MEMORANDUM

DATE: March 7, 1983

TO: Ms. Phi Anh Plesch, VPERS

FROM: Anthony A. Churchill, Director, URB 

EXTENSION: 73996

SUBJECT: Review Panel: "Collaborative Research with China - Phase II"

1. The panel comprising Messrs. A. Churchill (URB), Chairman; E. Bennathan (TWD); R. Stern (AEA); F. Lethem (PAS); B. Waide (CPD); and Ms. C. Hardy (EA1) reviewed this research project on February 25, 1983. The panel supported the efforts of the sponsors to initiate a collaborative research program in China and agreed that the present proposal was an appropriate and modest response to a unique set of circumstances.
2. In accepting the need for a good deal of flexibility as to the specific items of research and the details with which they can be presented at this point in time, the panel places a special emphasis on the need for a responsive management structure for this project. There are two sponsoring departments and it is unclear from the proposal how the project would be managed and who would be taking responsibility for the various decisions that will be required as the project is implemented. We feel that clarification of the management structure should be required as a condition for Committee approval.
3. Of the two major components of the project, the panel had only a few questions concerning the one dealing with structural change but expressed some skepticism about the component concerned with enterprise guidance. It would have been helpful to have had a better understanding of the "Granick" methodology - what was the logic of the method; how had it worked in other countries; what were the hypotheses behind it; and how would they be tested. After discussion with the sponsors, the panel agreed that this was an appropriate way to proceed but suggests that the study team may find it useful to prepare for their own use (and for other interested parties in the Bank) a short paper on this technique of research, experience gained, and on the nature of the conclusions which are to be expected.
4. Subject to clarification of the management structure, the panel recommends that the Research Committee approve this project.

Attachment

Cleared with and cc (w/out attachment): Panel Members
Messrs. Duloy (VPERS), B. King (CON),
E. Lim (AEA)

AChurchill/vjb

OFFICE MEMORANDUM

TO: Mr. Anthony A. Churchill,

DATE: March 4, 1983

FROM: Edwin R. Lim

SUBJECT: Collaborative Research with China - Phase II
Your draft memorandum of February 28, 1983

I appreciate your sending me the above draft memo and would like to take this opportunity of responding to the two questions raised.

1. Management Structure

Management of the proposed project will be as follows:

Ardy Stoutjesdijk and I will be responsible for the general supervision and direction of the project. This will include coordinating work of the various research teams, continuing the dialogue with the Chinese Academy of Social Sciences and other government agencies on ongoing collaboration as well as other ideas under discussion (e.g., shadow pricing, methodology of investment planning), and coordinating the research with other economic work on China and other research. My main responsibility, for instance, would be to ensure - as we mentioned in the China CPP - that "all elements of the Bank's operations - project lending, technical assistance, economic and sector work, EDI courses and economic research - should be conceived as a mutually reinforcing package, not as independent activities". Because coordination will become quite a heavy load from time to time, and because Stoutjesdijk and I might be away on mission, Ben King has agreed to continue helping us in this regard, as well as making his many years' experience in managing both operational economic work and research available to help us in overseeing the work of this project. Parvez Hasan and Caio Koch-Weser (Chief, China Division) will, of course, also be involved in monitoring the development and implementation of this project.

The day-to-day management of specific research components will be as follows:

Enterprise Guidance - Gene Tidrick (AEA)
Consumption Study - J. Van Der Gaag (DRD)
Sources of Growth:
Large Country Archetype/Modelling - S. Urata (DRD)

In accordance with the usual procedure in East Asia Programs, we intend that each of these task managers would be assigned a task budget. Because substantial expenditures have been incurred, we already have a task budget for the enterprise management component for this fiscal year, and as soon as resource availability becomes known - particularly the decision of the Research Committee - we will prepare task budgets for all components for FY84.

The task managers will have considerable latitude in deciding the use of budget funds, as well as in the management of consultants and other Bank staff in the team; but, as for other ESW in this Region, they will be expected to provide quarterly reports on budget expenditure and progress on project implementation.

During project implementation, the different components of the project are likely to progress at different rates, thus requiring adjustment of task budgets or revision of the scope and direction of individual components. Such decisions will be the responsibility of Stoutjesdijk, King and myself, after consultations, as necessary, with Hasan and Koch-Weser. The five of us, and others to be co-opted as necessary, will review research output at all stages.

2. Methodology of Enterprise Guidance Study

I would certainly accept the Panel's view that the methodology of the enterprise guidance study is less developed than the other two components. In fact, we see the first stage of the study essentially as developing the methodology before we proceed with the main task of field investigations. Our starting point is David Granick's work on Eastern Europe as well as the USSR and a number of Western countries. Since members of the Research Committee may not be familiar with Granick's work, I attach a copy of his CV and some reviews of his work on Eastern Europe. Together with our Chinese collaborators (and Granick himself), however, we intend to examine carefully the applicability of Granick methodology for China. In doing this, Gene Tidrick's three years' experience with the Harvard Advisory Service in Tanzania, much of it devoted to work on parastatals, should be useful; as will be the considerable work on management reforms in China done by Bill Byrd (the other member of the research team) while he was at Harvard. Even for the first pilot enterprise, for instance, we have collected a substantial amount of quantitative information, which we expect will be useful in supplementing the qualitative information gained through interviews. (Granick relied entirely on qualitative information, largely out of necessity.) In June of this year, following field investigations at the two pilot enterprises, our Chinese collaborators will be coming to Washington to review with us experience to date, including methodological issues, before embarking on the main study itself. At that time, we plan to hold a seminar on the project to seek the views of others interested in this area of research. /1

In conclusion, I believe we are making sufficient provision for the management and periodic review of the proposed project. Indeed, the risk is probably one of over-management rather than under-management. Given the circumstances, however, I believe this is the right side on which to err.

/1 Since this memo was drafted, I have received Francis Lethem's memo on this project. Many of his concerns will, I believe, be met through this seminar and we will certainly consider the individuals he suggested when organizing the seminar.

Attachments

cc: Messrs. Hasan, Koch-Weser, Waide, Bennathan, Stern, Lethem, Duloy, B.King, Stoutjesdijk, S.Robinson, T.King, Tidrick, Van Der Gaag, Urata
Ms. Hardy

OFFICE MEMORANDUM

DATE March 1, 1983

TO Mr. John H. Duloy, VPERS

FROM Barend A. de Vries, IND *Dw*

EXTENSION 75781

SUBJECT Research Proposal

Collaborative Research with China - Phase II

Both components of this proposal make sense. In fact the proponents must be commended for having carried the proposal thus far. Two comments or questions on the Enterprise Guidance component:

- a) Will it be possible to compare Chinese results with the performance of private enterprise in similar industries? For this purpose can we make comparisons with enterprises assisted by IFC or IBRD?
- b) Will the interview material permit evaluation of the efficiency and competitiveness of Chinese enterprise in comparison with enterprises in the same or similar industries in other socialist and private and/or public enterprises in market economies?

I consider the Enterprise Guidance proposal of high priority in improving our knowledge about how Chinese industry and industrial policy works. The Structural Change component will be an interesting instrument for scholarly interchange, but has probably less benefit in improving on understanding of policy issues.

BAdeVries:lpm

cc: Messrs. A. Churchill
E. Stoutjesdijk
E. Lim
G. Tidrick
Mrs. Phi Anh Plesch

MAR 14 1983

5

OFFICE MEMORANDUM

TO: Mr. A. Churchill, Chairman, Review Panel

FROM: Francis J. Lethem, Technical Cooperation Adviser, PAS

SUBJECT: CHINA - Research on Enterprise Guidance

DATE: February 25, 1983

R

While agreeing to the need for the proposed research, this is to repeat my concern with the relevance of the information that will be gathered under this project for the purpose of:

- (a) overall guidance of public enterprises; and
- (b) managerial improvement of individual enterprises.

The general framework of issues to be investigated as described in Part E of Appendix seems reasonable. One wonders, however, how it will be used when reading its interpretation in para. 8, Scope of the Study. For instance, will only rewards and incentives for individuals be considered? or will group rewards also be examined? Will monetary incentives alone be considered, or also staff promotion and non-monetary incentives? Will mobility and transfer of experience from industry to industry be examined?

Will advantage be taken of the presence in the sample of four textile mills to do in-depth cross-enterprise-comparisons along the Lawrence and Lorsch approach in the U.S. plastic manufacturing sector (P. Lawrence and J. Lorsch, Organization and Environment, Irwin, Ill., 1969) or along the Bank's own approach to rural development (W. Smith et al, The Design of Organizations for Rural Development Projects, Staff Working Paper 375, 1980)?

Have we formulated hypotheses about how best to reconcile the various constituencies of a public sector manager in a socialist economy: the State, the Party, the workers? Or is our questionnaire going to ignore the whole of this fundamental area?

Have we models of the type of feedback systems that are appropriate for successive levels of management in China? For instance it was striking that the Scope of the Study made no reference to management information systems, financial reporting and auditing systems and performance criteria.

At this point, therefore, my main suggestion is that the authors should be requested to make a clearer statement of the organizational hypotheses that may be of help to the Chinese, so that the appropriate information will be generated by the questionnaire to substantiate or reject such hypotheses. To that intent, I would advise the Bank staff involved to organize as soon as possible a professional panel to examine, in the light of available management and organization theory, the implications of the

first interviews that were conducted and to refine the questionnaire accordingly. Such a panel might be composed of (a) Bank staff with a continuing policy interest in the field (e.g. Geoff Lamb in PAS or Mary Shirley, WDR) and staff with a leading operational experience (e.g. Barbara Bruns in Western Africa or Jonathan Brown in Eastern Africa); and (b) outsiders who would broaden the experience of the principal consultant, such as J.P. Anastassopoulos, the leading French specialist in public enterprises, William E. Smith (Wharton) who did pioneering organizational studies for the Bank in Africa and Asia, and Leroy Jones (Boston U.) who is presently involved with the public enterprises in Pakistan.

cc: Mr. E. Lim, AEA

FJLethem:ndm

FEB 15 1983

7

CONFIDENTIAL

OFFICE MEMORANDUM

TO: The Research Committee

FROM: Messrs. Lim and Stoutjesdijk *LS*

SUBJECT: China Collaborative Research Proposal: Phase II

DATE: February 4, 1983

DECLASSIFIED

APR 07 2017

WBG ARCHIVES

1. This proposal has been written so that, if necessary, it can be shown to our collaborators at the Chinese Academy of Social Sciences, who in turn may be required to show it to political authorities at a high level. There are a number of points, which, for that reason, have not been mentioned in the proposal.

2. The first is that this project was designed from the outset as a truly collaborative project with a developing country institution in the spirit of the GRAP report. Instead of picking a research topic and looking for a collaborator, we did the reverse; in this respect the project is probably unique. The subjects proposed are ones that we find useful and interesting to pursue, but the final choice has been made primarily by the Chinese from a set of alternatives put forward variously by us and by them. As regards the proposed enterprise management study, no obstacles have appeared and preparations have proceeded rapidly and smoothly. The proposed study of structural change, by contrast, has emerged from a long and difficult series of discussions, and represents - in ways to be explained further below - a delicate balance between, on the one hand, the (rather similar) inclinations of us and CASS, and, on the other hand, certain political and administrative constraints imposed on CASS. Likewise, some subjects which we put forward with enthusiasm and which CASS undoubtedly regards as important, such as research on the rural economy, were quickly rejected by them. Other promising subjects, such as price reform and sectoral planning methodology, were discussed, at some length, but ultimately foundered because CASS could not, at this stage, get permission to work on them.

3. Our proposed research topics are thus not exactly those which we or CASS would have selected had the choice been unconstrained. But we believe it is desirable and important to get started on a mutually agreed program of research in China so long as it measures up to a reasonable standard of usefulness. The purpose of the program is not purely the specific output from these topics, but the results over a period of time of the process of collaboration, which include forging closer links with CASS and other institutions, relaxing inhibitions, developing new research topics, building up our general knowledge of China's economy, and - very importantly - transferring to China methods of economic analysis and empirical research which are very familiar to us but quite new (at least in their application) there. The current state of economics in China - largely the product of the transfer of 1950s Soviet economics followed by 20 years of neglect - leaves much to be desired, and handicaps policy making at every level. We cannot hope singlehandedly to remedy this. But the proposed research could make a significant contribution to developing the capabilities of China's leading economic research institution, many of whose personnel are involved in policy

formulation at a high level.

4. More generally, the proposed collaborative research program should be seen in the context of the Bank's total relationship with China. The following two paragraphs are from the Country Program Paper approved on December 24, 1981:

"The financial resources the Bank can offer China must necessarily be very limited relative to the country's needs. The Bank's strategy should therefore be to intervene where intervention is likely to make the greatest difference. In project selection, we should concentrate on areas where our involvement would improve the quality of the project, and where the benefits of our involvement, in terms of institutional development, sector planning and policy as well as the quality of project preparation and implementation, are likely to have a wide impact on other projects or to have a broad demonstration effect in some other way. Moreover, all elements of the Bank's operations - project lending, technical assistance, economic and sector work, EDI courses, and economic research should be conceived as a mutually reinforcing package, not as independent activities. These considerations are of course relevant in all Bank member countries; in China, however, they are particularly salient.

In the early years of our relations with China, there will be a need for much flexibility, experimentation and learning. A great deal of ignorance remains on both sides. Although the Chinese authorities spent considerable effort in learning about the Bank before making the decision to join the Bank Group, their understanding of the capabilities of the Bank and the broad range of assistance it could provide is limited. Equally, the Bank's understanding of China's development constraints and priorities, the functioning of the economic system and the process of decision making remains inadequate. Moreover, China today is in a process of fundamental change, the direction and speed of which remain matters of great uncertainty. Thus a great deal of patience and flexibility will be required on both sides in the coming years. It will be particularly important to gain experience in working with each other and developing a solid working relationship."

5. Our aim, in line with this approach, is thus not for DRD staff to initiate self-contained research projects with ad hoc assistance from Chinese institutions, but for regional and DRD staff, working together, to establish a genuinely collaborative relationship with Chinese institutions, to provide them with as much of the methodological expertise at our command as appears useful, to help them absorb it and to trust in their ability to use it and spread it to the best advantage. The emphasis, in fact, must be on application and dissemination rather than innovation for its own sake.

6. It follows that we accept the costs inherent in any collaborative research, whether in China or elsewhere. These can be summed up by saying that the research is as much a learning process for our collaborators as it is

a research activity. This is very likely to be time-consuming and might be costly compared to research in some other countries. For one thing, the infrastructure for research is poor: data-processing, copying machines, and especially trained researchers. It is the quality of the latter that we hope to upgrade, since we have little doubt that there are capable people to absorb whatever we can give.

7. While the research program may not yield much by way of innovative technique - though, as it goes along, there may be some surprises - it will not be purely a technical assistance exercise. Both the data on the Chinese economy and the manner of its functioning are not well understood by the Chinese themselves, let alone the outside world. If we are looking for innovation and advance of knowledge, it is likely to be in a better understanding of the way the Chinese economy works. This in turn is likely to contribute to improvements in policies, institutions, planning and the system of economic management.

8. Although our understanding of China's economy has been much improved through operational missions, there are limits to this approach. One of them is recognized in the following extract from a recent official letter to the Chinese Ministry of Finance: ^{1/}

"We in the Bank feel that often our most important contributions to a project are in technical and economic preparation, evaluation and management, and not in financing. The Bank therefore usually prefers to be involved at an early stage of project formulation. How useful the Bank can be in formulating projects will also depend to a large extent on our information base. We understand that you face some problems in granting us access to information, and that not all government agencies yet feel comfortable in dealing with a multilateral aid agency such as the World Bank. Nonetheless, access to information is the key factor in improving our understanding of the Chinese system and individual sectors of the economy, so that we can offer suggestions for improvement based on our experience in other countries. Sufficient data are also needed to carry out analysis of proposed operations in order to select sound, priority projects."

9. We have some reason to believe that, through collaborative research with a quasi-official institution, we will have freer access to information and franker exchanges on sensitive economic issues (both methodological and practical) than through more official channels. This is not to say that no holds will be barred; we are already aware of the contrary. But we will be working with an institution whose interests are closer to ours than a government ministry.

^{1/} Letter of 11/30/82 from Caio Koch-Weser to Mr. Ge, Director of the External Finance Department.

10. A good illustration of this is the history of our structural change proposal. This is the outcome of two initial proposals, one on structural change, the other on economy-wide modelling, which soon fused into a single topic. Our colleagues in CASS have from the outset expressed strong interest in economy-wide modelling - both multisectoral and more aggregative - and its application to medium-term planning and macroeconomic policy-making. Though they were to some extent already acquainted with the principles of input-output and macroeconomic models, we exposed them to other sorts of models, and to a range of applications, as well as to social accounting matrices (SAMs) as an organizing framework. It was then envisaged that our collaborative research would consist of developing and using one or more models to address particular issues, including structural change. This was subsequently vetoed by higher authorities in China, who, for reasons we can only guess at, explicitly prohibited collaborative research on economy-wide modelling, including the immediate development of a SAM. Our colleagues in CASS succeeded, however, in obtaining permission to collaborate on what is in effect building a SAM through a series of component studies, the first of which (on consumption) is one part of our structural change proposal. They also encouraged us to embark unilaterally on research more directly connected with the development and use of models, with CASS in the more limited role of spectator, discussant, and provider of assistance in locating and interpreting published data. The second part of our structural change proposal (extension of "sources" methodology to China and other large countries) is an agreed response to this encouragement. In addition, other applications of economy-wide models to China, drawing on the "sources" research, may be undertaken in the Bank, not necessarily as research projects: these too would be of considerable interest to CASS, as well as contributing to the foundation for more fully collaborative work on economy-wide modelling if and when the present political constraints are relaxed.

11. In sum, this collaborative effort is likely to prove costly and at times frustrating; the research output, may not, from the theoretical point of view, be as stimulating as that of some other projects; and there is indeed substantial uncertainty as to how far we will get. But at the very least, we are likely to make significant progress towards two important goals, namely advancing our knowledge of China and promoting greater mastery of economic analysis in China. For this reason, we think the effort well worth making and the extra cost justifiable.

12. Since we have alluded to the relative costliness of the project, we should make one point about the foreign exchange requirements of our Chinese collaborators. We supply CASS with foreign exchange for overseas visits, because of the great difficulty they would have in obtaining it in Beijing. But the requirements are kept to a bare minimum. They have readily agreed to the same basis as the EDI courses: hotel room plus \$25 a day. Wherever possible, we use Concordia apartments or something similar. We do not, as in some other projects, pay the salaries, much less the overhead, of their staff.

13. Moreover, it is the intention of the two sponsoring departments to contribute not less than \$100,000 between them to the cost of the project. This is in addition to their large contribution of staff time.

OFFICE MEMORANDUM

DATE: February 22, 1983

TO: Distribution

PAP

FROM: Phi Anh Plesch, VPERS

EXTENSION: 69013

SUBJECT: Review Panel: "Collaborative Research with China -- Phase II"

This is to inform you that Mr. B. Waide (CPD) will replace Mr. B. Kavalsky (CPD) on the panel set up to review the above named proposal on Friday, February 25 at 10:00 am in Room F-1038.

Distribution: Panel Members: A. Churchill (URB), Chairman
E. Bennathan (TWD)
R. Stern (AEA)
F. Letham (PAS)
C. Hardy (EA1)
B. Waide (CPD)

J. Duloy, VPERS
B.B. King, CON
E. Lim, AEA
G. Tidrick, AEA
C. Koch-Weser, AEA
E. Stoutjesdijk, DRD
S. Robinson, DRD
T. King, DRD

cc: A. Wood, AEA
W. Byrd, CON
J. Woo, AEA
S. Urata, DRD
S. Bhalla, DRD
J. van der Gaag, DRD
B. Kavalsky (CPD)

THE WORLD BANK AND INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: February 17, 1983

TO: See Distribution

FROM: Phi Anh Plesch, VPERS *PAP*

EXTENSION: 69013

SUBJECT: Review Panel: "Collaborative Research with
China - Phase II"

Please note that the amount requested from the Research Committee for the above research proposal is \$245,000 and not \$355,000 as incorrectly stated in my memorandum dated February 15, 1983. The latter amount represents the total dollar cost of the project, part of which (\$110,000) is expected to be covered by the two sponsoring departments, AEA and DRD (see page 36 of the research proposal).

Distribution: Messrs. A. Churchill
B. Kavalsky
E. Bennathan
R. Stern
F. Letham
Mrs. C. Hardy
Messrs. J. Duloy
B.B. King
E. Lim
G. Tidrick
C. Koch-Weser
E. Jaycox
E. Stoutjesdijk
S. Robinson
T. King
A. Wood
W. Byrd
J. Woo
S. Urata
S. Bhalla
J. van der Gaag

OFFICE MEMORANDUM

DATE: February 15, 1983

TO: See Distribution

FROM: Phi Anh Plesch, VPERS *TAP*

EXTENSION: 69013

SUBJECT: Review Panel: "Collaborative Research With China - Phase II"

1. A panel comprising Messrs. A. Churchill (URB), Chairman, B. Kavalsky (CPD), E. Bennathan (TWD), R. Stern (AEA), F. Letham (PAS), and Mrs. C. Hardy (EAL) has been set up to review the above named proposal. The panel will meet on Friday, February 25 at 10:00 a.m. in Room F-1038.

<u>Project Title</u>	<u>Supervisors</u>	<u>Amount Requested</u>
Collaborative Research With China - Phase II	E. Lim E. Stoutjesdijk	245,000 \$255,000

2. The panel is expected to consider issues such as (i) Is the proposed research of interest to the Bank? (ii) What is the expected usefulness of this research for Bank operations? (iii) Is the study designed to deal with the issues that it raises? A set of guidelines designed for the preparation and submission of research proposals is attached. It highlights many of the issues that may be relevant for the panel discussion. It may, therefore, be a useful aid in considering this proposal.

3. The panel's recommendations should reach me by Friday, March 4.

Attachments:

Distribution: Panel Members
J. Duloy, VPERS
B.B. King, CON
E. Lim, AEA
G. Tidrick, AEA
C. Koch-Weser, AEA
E. Jaycox, AEA
E. Stoutjesdijk, DRD
S. Robinson, DRD
T. King, DRD

cc: A. Wood, AEA
W. Byrd, CON
J. Woo, AEA
S. Urata, DRD
S. Bhalla, DRD
J. van der Gaag, DRD

PART III. IMPLEMENTATION

1. DATE WORK TO START: January 1983	2. DATE FIRST DRAFT EXPECTED: End 1984	3. DATE FINAL REPORT EXPECTED: Spring 1985
4. IMPLEMENTATION METHOD: Names		
(a) <input checked="" type="checkbox"/> Bank Staff	<u>A. Wood, W. Byrd, J. Woo, S. Urata, S. Bhalla, J. vanderGaag</u>	
(b) <input checked="" type="checkbox"/> Individual Consultants	<u>David Granick; Benjamin King; others</u>	
(c) <input checked="" type="checkbox"/> Developing Country Contractor/Institute	<u>Institute of Economics, Chinese Academy of Social Sciences</u> <u>Beijing</u>	
(d) <input type="checkbox"/> Developed Country Contractor/Institute	_____	
(e) <input checked="" type="checkbox"/> Conference or Seminar	<u>As described in Text.</u>	
5. PROPOSED LIAISON WITH OPERATING DEPARTMENTS: Joint project between AEA & DRD		
6. REPORTS EXPECTED IN THE FIRST YEAR: Reports on pilot interviews on Enterprise Management.		

PART IV. FINANCIAL AND STAFF RESOURCES

1. DOLLAR COSTS (ESTIMATED DISBURSEMENTS BY FY):	FY '83	FY '84	FY '85	After FY	Total
(a) Consultants Fees	30	41	6		77
(b) Travel	55	105	39 ^{1/}		199
(c) Data Processing	1	16			17
(d) Other Contractual Services	10	36			46
(e) Contingencies	4	12			16
Total	100	210	45		355
2. STAFF REQUIREMENTS (ESTIMATED STAFFWEEKS BY FY):					
(a) Professional	90	120	80		290
(b) Assistant	13	18	18		49
3. STAFF COSTS ^{1/}					
(a) Professional	261	372	264		897
(b) Assistant	17	25	27		69
4. TOTAL COST: (1 + 3)	378	607	336		1321

^{1/} Staffweeks should be costed as follows (\$'000 per staffweek): Professional: FY83 - 2.9; FY84 - 3.1; FY85 - 3.3; FY86 - 3.6.
^{1/} Symposiums Assistant: FY83 - 1.3; FY84 - 1.4; FY85 - 1.5; FY86 - 1.6.

COLLABORATIVE RESEARCH WITH CHINA

Part A: Introduction

Form of the Proposal.

1. This proposal is divided into five parts:
 - (A) A brief account of preparatory work for collaborative research;
 - (B) Proposal for research on enterprise guidance;
 - (C) Proposal for research on structural change with two components: (a) consumption patterns in China and comparison with other countries; and (b) application of the methodology used in the "Sources" project (RPO 671-32) to China and other large countries.
 - (D) Organization and budgetary arrangements for the two proposals.
 - (E) Documents agreed by the proposing departments and the Institute of Economics, Chinese Academy of Social Sciences (CASS) are added as an appendix.
2. It is understood that the Research Committee may treat (B) and (C) as separate proposals, or may combine them. However, the proposals have a common genesis and are all part of a proposed program of collaborative research with the Chinese Academy of Social Sciences with administrative arrangements in common.

History of Collaborative Research

3. The idea for collaborative research between the World Bank and CASS was first mooted at the time of the Bank's economic mission in the Fall of 1980. A mission charged specifically with carrying this idea forward visited

China in October 1981. This led to a decision by the Research Committee to approve a proposal by the East Asia and Pacific Programs Department and two departments in the then DPS (DRC and DED); this proposal was for a first preparatory phase (RPO 672-68).

4. The first phase called for a series of visits to the Bank by staff of CASS (primarily the Institute of Economics), and the employment by the Bank for 6-12 months of a research assistant specializing in data processing. The research assistant has still to complete part of his term with the Bank; otherwise, the first phase is now more or less completed as envisaged, except that the timing of the visits was put off by several months. This was result of the reorganization of DPS, but at the same time suited the convenience of CASS.

5. The purpose of the visits was to acquaint the staff of CASS who might be involved in the collaborative research with the work of the Bank and to identify more precisely possible proposals under certain headings previously selected by CASS as of particular interest to them. The purpose of the research assistant's term with the Bank is to make the transfer of data-processing techniques smoother.

6. The first visit took place in May 1982, under the aegis of the China division (AEA). Ms. Zhang Chunyin and Mr. Chen Jiyuan, both of the Institute of Economics, came to discuss possible topics under the headings of prices and enterprise guidance, respectively. As will emerge later, CASS chose to pursue only the latter proposal on enterprise guidance.

7. By the time the second visit took place, effectively in September and early October 1982, a new institute had been created at CASS: the Institute of Quantitative Economics. Two members of the party came from this

institute: Mr. Wu Jiawei, who is in charge of it, and Mr. He Juhuang.^{1/} The third member, Mr. Li Xuezheng was still with the Institute of Economics.

8. During the course of their stay in the Bank, Messrs. Wu, He and Li each presented papers and attended seminars on modelling methods used in the Bank, organized by the DRD (Development Strategy Division). Preliminary discussions were held on the possible nature of a collaborative research program on structural change and the methodology of analysis associated with it. It was recognized that such a program might extend over a considerable time and that there would be advantages in breaking it up into component studies.

9. The latest visit took place when Mr. Dong Fureng, Deputy Director of the Institute of Economics, visited the Bank from October 29 to November 11. During this visit, a series of discussions was held on the specific content, timetable and administrative arrangements on the two main subjects previously discussed:

- (i) Enterprise guidance in state industry;
- (ii) Structural change and methods of analysing it.

10. These discussions led to the drafting of a set of documents, which both sides agreed to submit for approval. These documents, with a covering memorandum from Messrs. Lim (AEA) and Stoutjesdijk (DRD), are attached as an appendix to this proposal. Two of the documents outline the procedure to be followed in research on enterprise guidance and on structural change and the respective roles of CASS and the World Bank. A more detailed description of the underlying purpose and nature of the research is in Part B (enterprise guidance) and Parts C (structural change) of this proposal. The proposal on

^{1/} Mr. Wang Li, the research assistant, began his term of appointment at the same time. He is also from the new institute.

structural change is divided into two parts: one a study of consumption in China and the other an extension to large countries of the "Sources" project.

11. A third document in this appendix describes the principles on which costs are to be shared. Generally speaking, the Bank will pay for its own staff and all costs outside China, while CASS will pay for all costs within China, with the exception of certain travel expenses of Bank staff and consultants.

12. Since the documents were written, a number of additional steps have been taken or planned. As regards enterprise guidance, the first of the Bank missions occurred in January. It participated in the first of two pilot interviews of an industrial enterprise - a clock and watch factory in Chongqing. The interviewing, which lasted about 10 days, was very successful, with full cooperation on the part of the enterprise both in providing information and in discussing behaviour. The arrangements for further work on this topic were confirmed with CASS.

13. As regards structural change, CASS has compiled and sent us a bibliography of secondary material on consumption in China, and has approached provincial statistical bureaus to seek access to primary household survey data - with positive results, although higher-level permission is still being sought. In March Mr. van der Gaag (DRD) will be visiting China in a health sector mission. He will take this opportunity to exchange views with CASS on data relevant to the consumption study and possible ways of analyzing it. The timing of the first full-fledged structural change mission is still under discussion between CASS and Mr. Lim in Beijing; more up-to-date information will be given on his return in early February.

Part B: Enterprise Guidance

Introduction

1. The objective of this study is to analyze the system of Chinese enterprise guidance:^{1/} how it has worked in the past, the effect of recent attempts to reform the system and the likely effect of other proposed reforms. Enterprise guidance is broadly defined to include not only internal management issues, but also relations among enterprises and between the enterprise and higher levels of authority. The focus will be on how enterprises have responded to the set of incentives and directives issued by higher authorities.

2. The main source of information on Chinese enterprise guidance will be in-depth interviews with key personnel in 20 enterprises and organizations. The interviews permit exploration of frequently cited systemic problems and an analysis of how closely the actual guidance system conforms to the official model. They will also provide a basis for comparing the Chinese system to those of the Soviet Union and Eastern Europe and, to a lesser extent, to the guidance systems for public enterprises in market economies.

3, The research will be conducted jointly by the World Bank and the Institute of Economics of the Chinese Academy of Social Sciences (CASS). CASS will be responsible for most of the interviews and the World Bank will be mainly responsible for providing information on other countries. CASS and the World Bank will be jointly responsible for preparing questionnaires,

^{1/} The documents in Annex E use the term "management" rather than "guidance" to facilitate translation into Chinese (in which the word for "management" has more appropriate connotations than the word for "guidance").

conducting pilot interviews and analyzing the results. The Bank's involvement will further our understanding of Chinese enterprise guidance and help bring a comparative perspective to the research. The more fundamental objective, however, is to enable Chinese researchers and planners to better understand how to improve the Chinese enterprise guidance system and how to do quantitative research.

Background to the Research Proposal

4. Throughout most of the 1960s and 70s there was little opportunity for outsiders to observe the Chinese economy directly. Analysis by Chinese economists was also hampered by the shortage of statistics and by periodic disruptions. As a result, comparatively little systematic research was done on the Chinese economy during a long period of extensive political and economic change. Since the late 1970s more information about the Chinese economy (including the Bank's Economic Report) has become available, but there are still large gaps.

5. Only the broad outline of the Chinese industrial planning system is known. China has essentially followed the Soviet model of industrial development. Industry has been assigned the role of leading sector, with particular emphasis on heavy industry, and decision-making has traditionally been highly centralized with enterprises acting as executing agents of a central plan. However, Chinese industry has also had some unusual features. Through the policy of "walking on two legs", China promoted small-scale production of fertilizer, cement, steel, and other products for local markets along with large-scale production for urban and national markets. A significant portion of industrial output is therefore under local government

control or dual national-provincial control. Moreover, since completion of the First Five Year Plan in 1957, China has not had an effective medium term plan. Beginning with the Great Leap Forward in 1958, a series of ad hoc campaigns have alternately stressed a big push and consolidation of industry. At the same time, there has been a protracted "red versus expert" struggle for control of industrial decision making.

6. Despite impressive growth and structural change, the Chinese industrial sector has several fundamental weaknesses: inefficiency in the use of capital, labor, materials, and energy; poor product quality; an inability to match supply and demand; and an imbalance in capacity. These weaknesses have many causes, including past overemphasis on heavy industry, neglect of medium-term economic planning, and technological backwardness due to two decades of international isolation. They also stem from deficiencies in the economic system, including the system of enterprise guidance. In 1979, the government introduced a program of adjustment and reform to try to improve the performance of the economy. The main thrust of reform has been to decentralize economic decision-making and rely more on the market to provide incentives and guide decisions. Although changes were more far-reaching in agriculture, several changes affecting industry have been introduced; (a) profit and foreign exchange retention schemes; (b) increased use of loans and other capital charges; (c) greater use of bonuses; and (d) experimentation with more flexible pricing and marketing arrangements. A great variety of reforms have been introduced and there have been frequent changes in all of them. Although the government has proclaimed the reforms a success, no systematic evidence has been cited to back this conclusion. Moreover, the government has acknowledged that the reforms have brought problems such as

lack of control over aggregate investment. Critics both inside and outside China have warned that partial reform of the system, such as decentralized decision-making without price reform, will create severe distortions. The debate on reforms and changes in the enterprise guidance system will no doubt continue for some time to come.

7. This brief background makes clear why a study of enterprise guidance in China is of interest. We do not know in detail how the system has worked in the past, how extensive the changes have been, or what effect these changes have had. A comparison of Chinese enterprises with others elsewhere would assist Chinese policy makers in drawing lessons from experience in other countries and would add to general knowledge of enterprise guidance.

Scope of the Study

8. The proposed study will be primarily analytical rather than prescriptive. We know too little about how the existing system works to prescribe with confidence what detailed changes are needed. However, the analysis of the system should provide a better basis for discussion of reform. The study will also focus on the enduring features of the system rather than on the changes which have recently been made. The changes made thus far may not have altered the system fundamentally. Moreover, with frequent minor changes still occurring and the future of reform unsettled, it would be premature to concentrate only on changes. Finally, the research will be comparative, with particular emphasis on enterprise guidance in Eastern Europe and the Soviet Union. The large literature on the functioning, problems, and reform efforts of these economies will provide a framework and set of working hypotheses for the analysis of China's system. Some important

the comparative dimension of the research and the lessons to be derived from other countries. The proposed research is important for the operational work of the Bank because it should help clarify some of the key policy issues in the industrial sector and provide a common basis for discussion with the government of industrial policy and system reform. The third main audience is the academic community. This research will be the first systematic empirically-based analysis of China's industrial guidance system, and, because of its comparative perspective, should also contribute to the understanding of the workings of socialist economies in general.

Existing Work on Enterprise Guidance

10. Relevant previous research includes studies of state enterprise guidance in the Soviet Union, Eastern Europe and China, as well as studies of public enterprises in market economies. Work done on Eastern Europe will probably prove the most useful for comparative purposes, because of the similar evolution of reform policies in certain Eastern European countries and because of the high quality of existing research there. Many of the reforms in Chinese state-owned industry closely resemble those tried at various times in the USSR, so comparisons with the latter also should prove instructive. Though public enterprises in market economies function in a different environment from those in China and other centrally planned economies, some of the problems and issues they face are very similar.

11. Four main methodological approaches have been used: (i) narrative analysis based on local media reports and press articles; (ii) theoretical analysis based on analysis involving construction of models to highlight and illuminate various aspects of enterprise behavior; (iii) qualitative analysis

based on information gathered through intensive interviews with enterprise personnel; and (iv) quantitative analysis using available statistical information or data from survey questionnaires. Each of these four approaches will be briefly surveyed.

12. Method (1) has been the most commonly used by outside scholars studying enterprise guidance in socialist countries. It is also utilized by scholars who are nationals of the countries concerned. At its best and when combined with analytical skills, as in the work of Berliner in the case of the USSR or Franz Schurmann in the case of China, such research is very illuminating. The anecdotal and other qualitative information in published sources, on which this type of work is based, is useful in providing a wider context for more focussed research and in allowing the results of more rigorous approaches to be checked for consonance with the general situation in the country concerned. The weakness of this approach is that it commonly lacks any theoretical basis. At the same time, because of the source of the information used, it is impracticable to undertake any major quantitative analysis.

13. Method (2), which basically involves the construction and analysis of abstract theoretical models, was pioneered by Benjamin Ward and has since spawned a large literature. Existing work includes modelling of enterprise behavior under different assumptions about its maximand (Ward, Domar, Vanek, Portes, and others), examination of managerial incentives (related to the economic theory of agency - Ross, Bergson), and analysis of manipulation of preferences and/or capabilities by enterprises (Weitzman), as well as other types of models.

14. Model (3) has been practised rigorously only two outside scholars

(Granick in Eastern Europe and Richman in China in the 1960's).^{1/} This type of work allows the greatest scope for gaining a direct understanding of the way in which socialist enterprises actually function and the factors motivating their managers. Unfortunately foreign researchers are very rarely permitted to engage in such in-depth interviewing, directly or indirectly. Nationals of the countries concerned have often undertaken investigative studies of small groups of industrial enterprises, but questions tend to be haphazard and there is no attempt to keep the same agenda of inquiries for different enterprises. As a result, this kind of work often tends to differ little from anecdotal media reports.

15. Method (4) has never been applied rigorously to state industrial enterprises in centrally planned economies, but it is being increasingly used in studies of public enterprises in developing countries (Levy, among others) and developed countries. It provides the most fertile means of testing hypotheses developed from theoretical models. Data requirements, however, are rather strict; so opportunities for use of this method in socialist countries are limited.

16. One research project on public enterprises already underway deserves mention. The Bank's research project on "Managerial Structures and Practices: Public Manufacturing Enterprises" will provide some useful comparisons with enterprise guidance in China. A case study on Yugoslavia (Schrenk) has already been published, and additional studies on India and Italy will be

^{1/} David Granick, Enterprise Guidance in Eastern Europe: A Comparison of Four Socialist Economies, (Princeton: Princeton University Press, 1975) and Barry Richman, Industrial Society in Communist China, (New York: Random House, 1969).

done. Both the Yugoslav and Indian studies are based on enterprise interviews, and, while the issues covered differ from those in China, it should be possible to obtain comparable information on some questions.

17. While much useful work has already been done on public industrial enterprise guidance, in China research has tended to lag behind that in Eastern Europe. There is considerable room for innovative comparative work in the future, and the proposed research project will provide a useful basis for this. If successfully implemented, this project should bring the level of research on state industrial enterprise guidance in China to the point where it is as advanced as or more advanced than that in most other centrally planned economies.

Organization of Research

18. The methodological model for investigating Chinese enterprise guidance is Granick's study of four East European economies (Granick, 1976; see also his study of four developed countries in Granick, 1972). Granick relied on intensive interviews with top managers in a few enterprises and related supervisory organizations to obtain information on how decisions are made in each country he studied.

19. The proposed study will interview key personnel in twenty enterprises and organizations. The interviews in each enterprise will take about one week and will be based upon a questionnaire (copies available upon request) prepared jointly by the Bank and CASS. We will first conduct a joint pilot study of two enterprises, write up the results of the two case studies, and revise the questionnaire in the light of this experience. David Granick will be involved as a consultant in this phase of the research. The remaining 18

enterprise interviews will be conducted by CASS researchers. They will share the interview results with the Bank. Following the discussion of the interview results and joint reinterviews in some enterprises to clarify outstanding questions, the Bank and CASS will agree on the division of labor for writing up the results. At this stage, we expect that the Bank will write a paper comparing enterprise guidance in China with that in Eastern Europe and that each side will write additional papers on selected policy issues and/or enterprise case studies. A timetable is given in Part E.

20. Some quantitative information on each enterprise will be collected, but the bulk of the questions will focus on nonquantifiable aspects of enterprise guidance. For example, we may be able to obtain data on what percentage of raw materials are obtained through direct allocation rather than market purchase, but analysis of the materials allocation system will require information on how the enterprise reacts if its allocation is insufficient in aggregate or in detail to meet production quotas. Probing questions on particular cases will be necessary to obtain more than a superficial understanding of how decisions are actually made. The quantitative material will be examined; it may suggest hypotheses for testing. But analysis will consist primarily of a qualitative evaluation of the experience of different enterprises, as well as a comparison of Chinese and East European experience. Supplementary interviews will be essential in order to pursue some issues more thoroughly after examination of the initial interview results.

Dissemination of the Results

21. The results of the research will be published. CASS has also asked

that an international conference be held, preferably in China, to discuss the results and to compare the Chinese system of enterprise guidance with the systems in other countries. We therefore propose to convene a conference in which several papers based on the present research will be discussed. The Bank and CASS will each prepare one or more papers which will be discussed by outside scholars. Invited scholars will also present papers on enterprise guidance in other countries. We anticipate that at least some of the paper will be revised and published jointly by the World Bank and CASS.

Resource Contribution of Each Side

22. CASS will assign four senior researchers to the project. These senior researchers will help prepare the questionnaire, conduct the interviews, and help analyze the results. Some junior researchers will assist in the interviews. The Chinese will contribute the equivalent of about four staff-years of time.

23. The Bank will contribute the equivalent of about three staff years (including consultants) to the project and will fund all foreign exchange expenses. As part of its regular economic work program, the East Asia and Pacific Region will fund part of the cost of the consultant and of travel to China by Bank staff members.

Part C: Structural Change

1. From 1952, the year preceding the first Chinese Five Year Plan, to 1979 net material product per capita grew threefold and product as a whole about five times. This growth has entailed, as in other countries experiencing similar growth, great changes in economic structure. A simple comparison of the proportions of sectoral output in net material product during the two years illustrates this:

	<u>1952</u>	<u>1979</u>
Agriculture	58	38
Light Industry	11	17
Heavy Industry	8	28
<u>Other Sectors</u>	<u>23</u>	<u>17</u>
N.M.P.	100	100

2. The transition to a much more complex structure and the expectation of (and need for) further changes in the future have stimulated much interest in China in understanding the dynamics of structural change. The need for a better sectoral "balance" in production, so that output meets the needs of intermediate and final demand, is well recognized and often stressed. At the same time, the program of adjustment and reform referred to in Part B has both aimed at overcoming some structural imbalances and contributed to exacerbating others. It has been increasingly vital to accumulate the data base needed for analyzing structural change and to master the tools that will help in that analysis.

3. While there is probably a considerable amount of data in China, especially for certain historical periods, it has not been brought together in a form suitable for analysis. In collaborative research, it will necessarily be the main task of CASS to assemble the available Chinese data. The Bank can provide international data for comparison. Once the data are assembled, CASS can provide technical understanding of the data and of the historical context, while the Bank can assist in the process of analysis with its knowledge of studies elsewhere of the methods used in them.

4. In any program of research on structural change in a particular country, one can conceive of two possible approaches. The first is to make a series of detailed studies of different aspects of the economy (consumption, production etc.), gradually bringing them together to form a consistent general framework over a number of years. The second is to attempt to construct such a framework at a very aggregate and necessarily approximate level at the outset and then gradually disaggregate. The proposed approach has elements of both.

5. On the one hand, a series of individual studies is proposed. The first would be on the structure of consumption, to be followed by one on production (interindustry relations), and subsequently by others. Only the study on consumption is included in this proposal. It is intended both to advance knowledge of Chinese consumption patterns (in itself of immediate use in China) and secondly as a component of a more complete and integrated study of structural change at a later stage. This study will, with an appropriate division of labor, be conducted jointly by CASS and the Bank.

6. On the other hand, the Bank has had considerable experience in analyzing the way in which structural change has taken place in a number of

countries, particularly through its "sources" project. It is thus also proposed to extend the methodology used before to a selected group of very large countries in order to provide a general framework more pertinent to a country the size of China. This would not constitute an attempt to construct a macro-economic framework for China at this time, but rather a set of "stylized facts" about the growth of large countries and a methodology for analyzing the process of change applicable to countries like China. While this part of the study will be undertaken by Bank staff only, CASS is interested in the methodology developed for the study and in its conclusions; they will assist in locating published data.

7. The two elements of this part of the proposal are described in more detail in subsequent paragraphs.

(a) Consumption Study

8. Purpose. The immediate purposes of the study are (a) to analyze the evolution of Chinese consumption patterns over time; (b) to obtain a more detailed view of the current patterns of Chinese consumption through analysis of one or more household survey samples and comparison with international data, and (c) to use this analysis as a demonstration project to advance the methodology of consumption analysis in China.

9. The ultimate purposes, in association with such other studies as may be undertaken, are: to create the basis for establishing reasonable consumption patterns in China; to forecast the composition of demand over the medium term, and thereby to establish a better foundation for the matching of consumption and production.

Changes in Consumption Over Time

10. Material consumption per capita grew in real terms at an annual average rate of 1.3% between 1957 and 1977. This is slightly above the average 1.2% for other low-income countries, but well below the average of 2.9% for middle-income countries, over the same period. However, since 1977 the growth rate of real per capita consumption has increased substantially in China, so much so that the average growth rate over the period 1957-79 is 1.9%.

11. Consumption of specific commodities has grown at widely different rates. As Table 1 shows, the per capita consumption of durable goods has grown much faster than food consumption. In addition, the growth rates by commodity vary from period to period. For instance, the consumption of vegetable oil actually declined during the early fifties. Information from various sources confirms the large variance in growth rates across commodities.

Table 1

Annual Per Capita Consumption of Specific Commodities

	Annual average real growth (%)	
	1952-79	1957-79
Grain (kg)	0.7	0.6
Vegetable oil (kg)	-0.2	0.3
Pork, beef and mutton (kg)	2.3	2.6
Sugar (kg)	n.a.	4.3
Cotton cloth (meters)	2.0	1.7
Radios (per '000 persons)	25.7	16.0
Bicycles (per '000 persons)	17.0	9.8
Sewing machines (per '000 persons)	15.4	12.3
Watches (per '000 persons)	n.a	60.1

Source: "China: Socialist Economic Development" (3391-CHA), The Main Report, Table 3.13.

12. The first task of the consumption study is to systematically document both the current pattern of consumption and its evolution over time. Studies of Chinese consumption patterns are rare. Indeed, although we have been informed that large household surveys have been conducted, both before and after the Cultural Revolution, no systematic attempt has been made to use the information from these surveys to document the historical development of consumption in China.

13. We anticipate the use of secondary data sources for this part of the study. Information in table-form, from various sources, will be collected by CASS and the present structure of consumption will be analyzed in the light of the historical structural changes. The results will be compared with corresponding developments in other low-income countries.

14. Although there is still some uncertainty about the availability of data for this part of the study, it is anticipated that our efforts will yield a first consistent look at the historical development of consumption in China. Our ultimate goal is to enhance forecasting ability in the light of future income growth, demographic changes and changes in the consumption goods distribution system.

Cross-Section Studies of Consumption

15. Marked regional differences exist in agricultural incomes. In addition, there is a wide gap between urban and rural income levels. Consequently it seems likely that large differences in consumption patterns exist between urban and rural households and among households in richer and poorer areas. As is the case for the historical consumption data, not much is known about these regional differences at any point in time. The recently published Statistical Yearbook of China provides some first systematic

information on inter-provincial differences in consumption patterns.

16. The differences in total consumption expenditures are large, ranging from 135 yuan in Gansu to 390 yuan in Shanghai (Table 2). Not surprisingly, similar variation is observed in the budget shares. Not all variations in these shares can be explained by the differences in total consumption levels, however. For instance the food-share in Sichuan is 66% and in Shandong 50%, in spite of the fact that both provinces have about the same level of total expenditures (184 and 179 yuan, respectively).

17. The main goal of this second part of the consumption study is to document and, to the extent possible, explain differences in household consumption patterns at one point in time. The main focus will be on urban-rural differences and on variation due to differences in income levels and demographic factors.

18. Thus, this part of the study bears a close resemblance to the analytical work that is part of the LSMS topic study on consumption in low-income countries. Indeed, the comparison, both of the descriptive statistics and of the analytical results of this study, with results from other countries, as obtained in the LSMS study, will form an integral part of the current project.

19. Careful attention will be given to the particular structure of the Chinese economy. Three of the features that will be emphasized in relation to consumption patterns are:

- The large part of income that accrues in kind in China. This constitutes an analytical problem that we have to deal with in many countries. In order to obtain consistent income and expenditure data, in kind income (and consumption) has to be valued in monetary

Table 2

REGIONAL RURAL HOUSEHOLD'S (FARMER'S) AVERAGE INCOME AND CONSUMPTION EXPENDITURE PER CAPITA, 1981

	Distributed /a collective income (yuan)	Total consumption	Total necessities consumption	Foodstuffs					Others			Culture & living services			
				Subtotal	Foodgrain	Supplementary food		Clothing	Fuel	Housing	Subtotal		Furniture	Others /c	
						Subtotal	Meat /b								Others
NATIONAL TOTAL	101.32	190.81	186.17	113.83	61.07	41.50	14.53	26.98	23.57	10.59	18.67	19.51	3.46	16.05	4.64
Southwest Region	71.87/d	161.45	157.23	106.07	55.08	42.24	14.79	27.45	18.49	10.38	10.54	11.76	1.97	9.79	4.21
Sichuan	75.38	184.07	179.53	121.21	61.48	50.11	17.54	32.57	20.65	9.13	13.38	15.16	1.86	13.30	4.54
Guizhou	65.71	162.51	157.07	105.16	54.33	42.96	15.04	27.92	18.93	14.29	9.19	9.50	2.16	7.34	5.44
Yunnan	74.53	137.75	135.09	91.83	49.43	33.65	11.78	21.87	15.90	7.71	9.04	10.61	1.88	8.73	2.66
Yizong	(157.53)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Northwest Region	79.64	149.49	145.19	95.31	61.58	25.86	9.05	16.81	21.86	7.72	7.18	13.12	3.06	10.06	4.30
Shaanxi	62.42	148.46	145.39	92.10	61.45	22.80	7.98	14.82	18.82	9.75	9.13	15.59	2.40	13.19	3.07
Gansu	56.79	135.23	131.11	92.99	66.32	21.15	7.40	13.75	16.37	5.17	7.11	9.47	2.43	7.04	4.12
Qinghai	83.21	153.48	146.55	103.43	63.19	28.58	10.00	18.58	18.90	7.67	7.24	9.31	1.73	7.58	6.93
Ningxia	81.81	141.68	139.05	89.06	61.62	23.48	8.22	15.26	20.11	5.80	7.42	16.66	4.95	11.71	2.63
Xinjiang	113.99	168.58	163.83	98.98	55.33	33.31	11.66	21.65	35.08	10.22	4.99	14.56	3.79	10.77	4.75
Central South Region	104.72	198.89	193.72	122.69	61.64	49.60	17.36	32.24	21.28	12.21	18.37	15.98	3.33	15.84	5.16
Henan	100.82	165.57	161.40	89.08	58.10	20.89	7.31	13.58	24.51	8.68	19.96	19.17	3.67	15.50	4.17
Hubei	102.45	183.78	178.27	114.75	65.36	40.46	14.16	26.30	22.58	10.34	15.56	15.04	3.72	11.32	5.51
Hunan	107.36	207.59	202.88	135.98	65.06	59.55	20.84	38.71	23.06	14.28	13.59	15.97	3.33	12.64	4.71
Guangxi	82.94	171.45	168.41	115.93	58.43	49.87	17.45	32.42	14.93	10.72	9.50	17.33	0.69	16.65	3.04
Guangdong	130.01	266.05	257.66	157.72	61.23	77.25	27.04	50.21	21.32	17.01	33.25	28.36	5.25	23.11	8.39
East Region	103.52	235.35	230.02	131.75	63.71	50.43	17.65	32.78	27.12	12.06	34.14	24.92	4.92	19.67	5.33
Shanghai	177.59	389.85	384.02	198.10	67.78	87.65	30.68	56.97	43.25	12.43	83.43	46.81	11.28	35.53	5.83
Jiangsu	120.77	225.54	219.54	128.22	66.22	44.01	15.40	28.61	25.80	9.49	33.15	22.88	3.99	16.64	6.00
Zhejiang	111.57	266.46	261.61	147.01	61.67	59.96	20.99	38.97	31.75	11.81	43.15	27.89	3.70	24.19	4.85
Anhui	122.64	193.26	187.21	117.90	68.37	38.49	13.47	25.02	21.49	11.12	19.67	17.03	4.04	12.99	6.05
Fujian	91.84	199.25	193.52	123.50	62.32	51.83	18.14	33.69	19.98	16.52	14.82	18.70	2.65	16.05	5.73
Jiangxi	96.62	194.17	189.38	117.99	66.57	43.00	15.05	27.95	20.52	15.35	21.00	14.52	3.77	10.75	4.79
Shandong	126.29	178.95	174.88	89.56	53.07	28.09	9.83	18.26	27.03	7.69	24.00	26.60	5.03	21.57	4.07
North Region	123.18	210.34	205.03	114.41	61.62	38.03	13.31	24.72	29.12	8.21	26.14	27.08	3.87	23.21	5.37
Beijing	203.34	312.99	298.95	163.11	76.04	57.15	20.00	37.15	36.00	9.16	49.24	41.11	5.31	35.80	14.34
Tianjin	153.66	249.17	245.30	126.42	64.64	43.77	15.32	28.45	37.49	10.06	41.44	29.89	5.25	24.64	3.87
Hebei	86.15	164.66	162.19	85.93	52.77	25.79	9.03	16.76	23.48	8.66	19.41	24.71	4.60	20.11	2.47
Shanxi	79.57	147.78	145.43	85.86	56.79	20.80	7.28	13.52	23.88	5.55	12.15	17.99	2.32	15.67	2.35
Hei Monggol	93.18	177.12	173.29	110.74	57.86	42.65	14.93	27.72	24.77	7.62	8.46	21.70	1.88	19.82	3.83
Northwest Region	130.05	226.60	221.70	131.14	66.07	51.65	18.09	33.57	33.30	14.07	15.81	27.38	4.21	23.18	4.90
Liaoning	125.29	258.50	253.60	139.06	61.94	64.82	22.69	42.13	35.88	16.44	25.16	37.06	5.73	31.33	4.90
Jilin	144.05	246.07	242.89	152.39	74.88	57.58	20.15	37.42	34.04	15.24	13.70	27.52	3.93	23.59	3.18
Heilongjiang	120.81	175.23	168.60	101.98	61.41	32.54	11.39	21.15	29.97	10.52	8.56	17.57	2.96	14.61	6.63

/a Average collective distributed income per capita of rural people's communal basic estimation unit. Excluded other enterprises and organizations direct payment for labor wages, living compensation, technical compensation, bonus and retained plot and sideline activities incomes.

/b Approximate 35-40% of total supplementary food consumption as protein diet consumption (J. Chang's assumption).

/c Bicycles, sewing machines, radios, television sets, etc.

Source: State Statistical Bureau.

terms. Though various methods to deal with this problem are available, even the simplest one -- the cash-equivalent market value -- is complicated in China, since more than one price exists for the same good. Which price should be used to obtain the monetary value of in kind income? Which price is being used in the official statistics? To what extent does this explain differences from other countries?

- The rationing mechanisms for some consumption goods (e.g. foodgrains, certain durables). A descriptive analysis of household consumption is of interest for its own sake, certainly in the current situation where very little factual information is available. An economic analysis of consumption patterns generally allows us to go further. However, the analytical framework normally used breaks down if the observed consumption patterns reflect (rationed) supply rather than demand. The question here is to what extent can the observed patterns of consumption be explained by such conventional economic variables as income, prices and demographics, and to what extent do other variables, peculiar to the Chinese economy, play a role. And consequently, to what extent are conventional economic methods applicable in China? A detailed documentation of the rationing mechanisms and distribution processes of various goods will precede the attempt to answer these questions.
- As mentioned above, in many cases various prices (and in some cases more than one market) exist for the same goods. This constitutes a problem not usually encountered in the study of household consumption behavior. The relevance of this feature of the Chinese economy for

the explanation of observed consumption patterns will be assessed, especially in the context of international comparisons.

20. It is expected that CASS will identify, and make available, one or more household survey samples, to form the base for this part of the study. It is not expected, however, that all of the above issues can be solved satisfactorily during the course of this project. Hypothesis forming rather than hypothesis testing will be the core of the project, in addition to the descriptive analyses and international comparisons. It is anticipated that, as part of the project, an explicit list of data and other general information will be produced, that should be collected in future surveys in order to tackle some of the particular problems regarding the study of consumption in China.

Organization of the Research

21. The organization of research is follows:
- a) A questionnaire has been given to CASS covering the nature and form of available studies and primary data. CASS has submitted an initial response (see Part A, para. 13).
 - b) It was originally agreed that the Bank would send a small mission (three people) to China in March 1983, but this arrangement has been modified. Instead, Mr. van der Gaag (DRD), who will be visiting China anyway in March, will, as stated in Part A, undertake preliminary discussion with CASS particularly on the consumption data. Depending on the outcome of the preliminary discussion, the timing and composition of a subsequent mission would be decided. The combined purpose of Mr. van der Gaag's visit and any subsequent mission would be as follows. CASS would brief the Bank on the

Chinese data in more detail and the Bank would brief CASS on international data. The Bank would discuss with CASS methods of organizing and analyzing data, and review what is known about the most important secondary data. CASS and the Bank would also determine which primary data are to be analyzed. The Bank would consider the arrangements by which the identified data sets could be analyzed. In deciding on the breakdown of expenditure the desirability of relating the consumption study to that of production would be borne in mind.

- c) The next step is for the Bank to assemble international data and CASS to assemble the Chinese data. This process would take about six months.
- d) In October 1983, approximately, CASS will send a mission of about four people to Washington for about a month to exchange data. Some processing of the data will be carried out during the mission's visit. The Bank and the mission will agree on further processing and discuss analysis.
- e) CASS and the Bank analyze data, and write reports independently. Reports are exchanged and translated. The Bank and CASS meet to discuss their reports on Beijing and then carry out any necessary revisions. Preliminary discussion will be held during that meeting on the production structure study and any other subsequent studies.

Dissemination

22. This last stage will be completed by Summer 1984 (i.e. Stages (a)-(e) in 12-18 months). CASS and the Bank would subsequently hold a joint symposium to discuss their findings with a larger audience, and agree on dissemination,

in the form of joint, or separate publications.

(b) Sources of Growth: Large Country Archetype

23. The purpose of this study is to analyze the source of industrial growth and structural change in large countries, with an emphasis on China.^{1/} Such a study will permit a deeper understanding of economic development in China through a comparative analysis that will also include in its purview the semi-industrial economies studied in the "Sources of Industrial Growth and Structural Change" project.^{2/}

24. Although there have been several comparative studies that include China, lack of sufficient data has limited the issues they have addressed.^{3/} More specifically, existing studies seem to suffer from two shortcomings. First, although industrial growth is often associated with deepening of the inter-industry relationships in production, these studies could not take these relationships into consideration. Due to unavailability of input-output tables, they only analyzed the development of gross output or value added. Secondly, although the choice of development strategy has a great influence on industrial growth and structural change, previous analyses have not explicitly examined the effects of development strategies pursued during the period

^{1/} In addition to China, large countries included in the project are: India, Indonesia, Brazil, Japan and the USSR.

^{2/} RPO 671-32. These economies include: Japan, Korea, Israel, Turkey, Yugoslavia, Norway, Mexico and Colombia.

^{3/} Chenery examined structural change in large countries including China ("Industrialization and Growth, The Experience of Large Countries" World Bank Staff Working Paper 539). However, he was forced to rely on national accounts data which limited the scope of his analysis. See also Malenbaum for a study on China and India, "Modern Economic Growth in India and China: The Comparison Revisited, 1950-1980," Economic Development and Cultural Change, 1982.

concerned.

25. These two shortcomings will be addressed in our study by constructing two models based on input-output tables. The first model (sources of growth model), which is based on the input-output accounting framework, enables one to analyze the sources of growth by decomposing output growth into various demand components. An examination of sources of growth in large countries historically should reveal the effects of various policies insofar as they can be linked to changes in contributions from demand factors.

26. The second model is a dynamic input-output model. This model is useful to analyze the effects of different development strategies on the structure of production and demand by simulating the effects on investment allocation and hence on production of different paths of foreign trade and final demand. Especially in an economy such as China, where the price mechanism plays a very small role in allocating resources, and input-output model is useful tool. A dynamic input-output model, which focuses on investment requirements, is useful to analyze economic growth and structural change. The effects of policies actually followed can be identified and understood more clearly by applying a series of counterfactual experiments. Validation of the model must be performed as part of the analysis.

Methodology and Existing Work

27. The sources of growth decomposition model originates from the study of Japan by Chenery, Shishido and Watanabe (1962).^{1/} Since then, a number of studies applying the method have been conducted for other countries. On the

^{1/} "The Pattern of Japanese Growth 1914-1954," Econometrica, Vol. 30, pp. 98-139.

other hand, the dynamic input-output model that will be used in this study has been applied to relatively few countries.^{1/} In the "Sources of Industrial Growth and Structural Change" project, both models have been applied to various countries and have proved useful in examining the implications of different development strategies. However, neither model has been applied to the Chinese economy.

1. Sources of Growth

28. Sources of growth can be analyzed using the input-output accounting framework. Domestic production at a point in time (t) can be written as: $X_t = u_t(D_t + W_t) + E_t$, where X, D, W, E are domestic production, domestic final demand, intermediate demand and exports, and u is the domestic supply ratio defined as $(X-E)/(W+D)$. In order to explain the changes in output by changes in the demand variables, the difference of the above equation between periods 2 and 1 is obtained as follows:

$$\Delta X = u_2 \Delta D + u_2 \Delta W + (D_1 + W_1) \Delta u + \Delta E$$

where ΔX is defined as $X_2 - X_1$ and the subscript indicates the period. Using this equation, changes in output can be explained by the changes in domestic final demand (ΔD), intermediate demand (ΔW), domestic supply ratio (ΔU) and exports (ΔE).

2. Dynamic Input-Output Model

29. In the static input-output model for each period, there are no

^{1/} See Dervis, de Melo and Robinson (1982), General Equilibrium Models for Development Policy, Cambridge University Press, Chapter 4 and Kubo, Lewis, de Melo and Robinson (1982) "Multisector Models and the Analysis of Alternative Development Strategies," mimeo, World Bank.

explicit linkages between the two periods concerned. Such a model, while useful, can provide only limited analysis of dynamic forces. An extension of such a static input-output model to incorporate dynamic linkages through capital accumulation is constructed by specifying an investment equation over time, thus making investment endogenous in the model.1/

Sample of Countries

30. Several considerations determine the sample of countries to be analyzed in this project. Since one of the major objectives is to increase our understanding of the Chinese economy, it is natural to select the countries to be investigated based on the characteristics of the Chinese economy. First, size in terms of population is important. The evidence from cross-country studies such as Chenery and Syrquin (1975) strongly suggests that country size is one of the important determinants of the structure of the economy.2/ As the population of China is now over 1 billion, the lower bound should be at least 100 million.3/ This constraint limits the sample to the following six countries out of the 125 countries listed in the 1982 World Development Report: India, Indonesia, Brazil, Japan, USA and USSR. Second, the level of economic development should be considered, since economic structure depends heavily on the level of economic development. As GNP per

1/ See Dervis, de Melo and Robinson (1982), op. cit., Chapter 2 for a description of the methodology.

2/ Patterns of Development 1950-1970, London, Oxford University Press.

3/ Chenery and Syrquin op. cit., and Chenery, op. cit., define a "large country" as one with a population in excess of 15 million in 1960 and 20 million in 1980, respectively. There does not seem to exist a "best" way to determine the dividing line but our definition of very large country seems to be reasonable.

capita in China in 1980 was 290 U.S. dollars, a reasonable upper bound may be around 1000 U.S. dollars. Among the six countries listed above Brazil, India, Indonesia, Japan and maybe the USSR experienced the level of GNP per capita of 1000 U.S. dollars in 1980 prices, or less, during the process of development in the last thirty years. Third, the economic system should be given consideration in the choice of countries. China followed the Soviet model in the 1950s and the Chinese economy still exhibits some similarities with the Soviet economy. With these considerations in mind, we plan to include the following five comparator countries in the sample: India, Indonesia, Brazil, Japan and USSR.

Sector Aggregation

31. The number of sectors analyzed depends on the amount of consistent data available as well as on the purpose of the study. Following the sector aggregation utilized in the "Sources of Industrial Growth and Structural Change" project, an economy will be disaggregated into about twenty sectors. Among these sectors, about half are in manufacturing while the rest are in agricultural, mining and services. This aggregation scheme reflects a desire to focus the analysis on the process of industrialization.

Organization of the Study

32. Most of the data collected will be finished within the first six months. Model application using these data will be completed within the second six months. The last six months will be spent on writing reports on the findings. Research output will be in the form of several articles.

33. Substantial efforts will be made to assemble the required consistent data from published sources in the countries analyzed. Especially, some estimates (or "guesstimates") for figures on China seem necessary, since some

of the necessary data are not available from published statistics. In obtaining these published data and estimates, the Chinese Academy of Social Sciences (CAS) will be consulted. Data on the Japanese economy have already been assembled for the "Sources of Industrial Growth and Structural Change" project. Several input-output tables have been assembled for Brazil, India and USSR. The availability of the data on Indonesia has not been investigated yet.

34. Once the necessary data are assembled, the analyses proposed above should be performed without much difficulty. Shujiro Urata has already used these models to analyze the implications of development policies in various countries under the "Sources of Industrial Growth and Structural Change" project. However, the design of the counterfactual experiments conducted with the dynamic input-output model will require some time.

35. As CASS is interested not only in the results of our study but also in the methodologies applied, the methodologies will be transferred to CASS in the course of the study.

Part D: Administration and Budget

Introduction

1. Two departments, the East Asia and Pacific Programs Department (China Division) and the Development Research Department are sponsoring both proposals. However, one department will assume the main responsibility for each proposal.

Enterprise Management

2. The China Division of the East Asia Programs Department will assume the main responsibility for the Enterprise Management proposal. Mr. Tidrick, of that division will be in charge, with participation by Mr. Byrd and other members of the division. Professor David Granick will be the principal consultant. Other consultants may be employed to assist in the comparative analysis and, for this part, it may be desirable to have the advice of other parts of the Bank (e.g. EMENA in respect of Hungary and Yugoslavia and CPD).

3. The principal costs of this proposal will be for travel. As outlined in Part E (the agreement on proposals between the Institute of Economics and the proposing departments) there will be five separate trips involving four people each between China and the US, a total of twenty man-trips. The estimated cost of each trip is \$5,000, making a total of \$100,000.

4. Additional costs will be for consultants, principally David Granick, and for the symposium. The consultants would be hired for 130 days (of which Granick 120) at a fee of approximately \$400 a day.

5. It is too early to say where the symposium will be held: in Beijing if a rather restricted group of invited participants is expected; or in Washington, if more. Costs per man-trip should be less for the symposium than for a regular mission because (a) of the shorter duration, (b) shorter travel

for some participants and (c) the arrangements whereby the cost of participant room and board are borne by CASS. Rough estimates are as follows:

<u>Beijing</u>	<u>Washington</u>
3(Bank) x 4000 = 12,000	4(CASS) x 4,000 = 16,000
3(Part.) x 3500 = 10,500	1(Part.) x 3,500 = 3,500
1(Part.) x 1500 = <u>1,500</u>	2(Part.) x 1,500 = 3,000
	2(Part.) x 750 = <u>1,500</u>
\$24,000	\$24,000

6. Hence the total costs (other than common costs referred to below) would be (in \$000):

Travel	100
Consultant	52
Symposium	<u>24</u>
	176

Structural Change

7. The structural change project will be the primary responsibility of the Development Research Department: Mr. Ardy Stoutjesdijk assisted by Mr. Benjamin King (consultant). Detailed work on the model for large countries will be undertaken by Mr. Shujiro Urata, Development Strategy Division, and on the consumption study by Mr. Jacob van der Gaag, Employment and Income Distribution Division. Mr. Surjit Bhalla (DSD) and Mr. Benjamin King will also participate in the large country model work, which will be under the general supervision of Mr. Sherman Robinson. Mr. Adrian Wood (China Division) and, possibly, Ms. Oey Meesook (CPD) will also participate in the consumption

study, which will be under the general supervision of Mr. Timothy King.

8. As outlined in Part E, travel should not exceed 12 man-trips at \$5,000 each for a total of \$60,000.

9. It is expected that research assistant time will be required for the large-country model project for a period of approximately twelve months and for the consumption study six months: estimated cost \$36,000. Data-processing costs for both elements are estimated at \$17,000.

10. In addition, allowance has been made for a consultant to advise on the consumption element of the proposal. Until more is known about the data and the problems of interpreting it, only a rough estimate can be made: \$6,000.

11. It is expected that the symposium or seminar on the consumption study results will have a restricted international participation, since the results will have most interest for a Chinese audience. Consequently a smaller amount has been projected for this purpose than for the enterprise management proposal: \$15,000.

12. Total costs are thus (in \$000):

Travel	60
Research Assistant	36
Data-processing	17
Consultants	19
Symposium or seminar	<u>15</u>
Total	147

Common Costs

13. Whatever decision is made by the Bank about the combination of the proposals into a one project or separation into two, they will be regarded by CASS as elements of a single collaborative program. Liaison with CASS will,

therefore, be centralized, as with the continuing dialogue on these proposals and future responsibilities. Coordination of the research with other economic work on China and other research will also be necessary. The principal supervisors, Messrs. Edwin Lim (East Asia Programs Department) and Ardy Stoutjesdijk (DRD) will be responsible for this coordination and will be assisted in this function by Benjamin King (consultant), who acted as coordinator during Phase I.^{1/}

14. Document translation will be an expense that cannot be closely estimated nor allocated to the individual proposals. Furthermore, provision of an inexpensive photocopier to CASS would plainly expedite interchange of information. There may also be need for other simple hardware such as sophisticated calculators. This and an overall contingency constitute the remaining common costs.

15. Total common costs (in \$000) are:

Consultant	6
Translation and photocopier	10
Contingency (including hardware)	<u>16</u>
	32

Total Costs

16. Overall, the total (in \$000) would be:

Enterprise Management	176
Structural Change	147
Common	<u>32</u>
	355

17. By fiscal years, these costs would break down as follows (\$000):

^{1/} Seventy days of Mr. King's time have been budgeted for, divided between general coordination and work on structural change.

	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>Total</u>
Enterprise Management				
Travel	40	60	--	100
Consultant	24	24	4	52
Symposium	--	--	24	24
	<u>64</u>	<u>84</u>	<u>28</u>	<u>176</u>
Structural Change				
Travel	15	45	--	60
Research Assistance	6	30	--	36
Data Processing	1	16	--	17
Consultant	5	13	1	19
Symposium	--	--	15	15
	<u>27</u>	<u>104</u>	<u>16</u>	<u>147</u>
Common Costs				
Consultant	1	4	1	6
Translation	4	6	-	10
Contingency	4	12	-	16
	<u>9</u>	<u>22</u>	<u>1</u>	<u>22</u>
<u>Total</u>	<u>100</u>	<u>210</u>	<u>45</u>	<u>355</u>

18. Expected contributions from the two departments would be of the following order of magnitude (in \$000).

	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>Total</u>
AEP	50	40	-	90
DRD	<u>10</u>	<u>10</u>	<u>-</u>	<u>20</u>
	60	50	-	110
Support needed	<u>40</u>	<u>160</u>	<u>45</u>	<u>245</u>
	100	210	45	355

OFFICE MEMORANDUM

Part E - Appendix

DATE: November 11, 1982

TO: Mr. Dong Fureng

FROM: Ed Lin and Ardy Stoutjesdijk *ETS*

EXTENSION: 61018 and 61001

SUBJECT: Collaborative Research

We attach three draft memoranda on enterprise management, structural change and cost-sharing and a supplementary questionnaire. These represent our understanding of the principles on which we will submit a proposal for approval and budgetary allocation to the World Bank's Research Committee at its next meeting. It is our understanding that you will submit a proposal on the same lines to your authorities in China. In both cases it is understood that modifications of the proposal may be put forward.

Attachments

- Collaborative Research: Enterprise Management
- " " : Structural Change
- " " : Cost Sharing
- Structural Change : Questions regarding Consumption Data

BBKing:gm

Collaborative Research: Enterprise Management

The Research Institute of Economics of the Chinese Academy of Social Sciences and the World Bank, after many mutual visits and discussions, agree to conduct collaborative research on the management system of state industrial enterprises.

Research objectives and mutual responsibilities

The main objectives of the research are to analyze the existing system of enterprise management and its evolution over time, to compare the Chinese system with what is known about systems of management of state enterprises in other countries, and to make recommendations for improvement of the management system. The research will cover management within enterprises, the relationships among enterprises, and the relationship between the state (including central and local governments) and the enterprises.

The Chinese Academy of Social Sciences (CASS) will take main responsibility for the collection of information regarding management in Chinese enterprises. The World Bank will take main responsibility for providing information on management in other countries in order to help bring a comparative perspective to the research. (The World Bank research team will include World Bank staff and experts on enterprise management hired as consultants.) CASS and the World Bank will jointly develop the research methodology and analyze the results. The results of the research will be published jointly.

Research procedure

The core of the research will be in-depth interviews with key personnel in twenty enterprises and organizations. The enterprises and organizations selected (see Attachment A) represent a wide range of sectors, regions, levels of organization, and experience with changes in management systems. The interviews will require about one week in each enterprise and will primarily be conducted by CASS. Prior to the main set of interviews, the CASS and World Bank teams will conduct a pilot study of two enterprises. Following the main set of interviews, the two teams will discuss the results and will conduct joint supplementary interviews in some enterprises where outstanding questions remain.

The main issues which will be investigated are:

1. Internal enterprise management

- (1) Basic system of leadership
- (2) Planning management (both current production and investment planning)
- (3) Financial management
- (4) Materials management
- (5) Labor and wage management

2. Relationships among enterprises

- (1) Supply of equipment and raw materials needed by enterprise
- (2) Sales of products
- (3) Cooperation between factories and management of economic contracts
- (4) Role of industrial companies in coordinating activities.
- (5) Financial relationships among enterprises and between banks and enterprises

3. Relationship between state and enterprise

- (1) Basis for determining whether enterprises will be under central or local state control. Relationship between central state industrial enterprise and local authorities where it is situated. Relationship between local state industrial enterprises and relevant central departments.
- (2) What rights and responsibilities do supervising departments (planning, finance, materials and goods, labor) of government (central or local) have toward industrial enterprises, and what responsibilities and rights do enterprises have in relation to state supervising departments. Role of each level in plan formulation.
- (3) What are the chief contents of the several major changes in the relationship between state and enterprise.
- (4) What problems exist now in the relationship between the state and the enterprise. What improvements are needed.

A summary of the work procedure and tentative timetable for each step is given below.

(1) November-December 1982 Each side will prepare a draft questionnaire to be used in the enterprise interviews. The questionnaire will cover some quantitative aspects of enterprise management and performance which can be provided by the enterprises in written form prior to the interviews. However, the questionnaire will mainly outline a set of issues and questions to be covered orally during the in-depth interviews. The World Bank will send a copy of its draft questionnaire to China by mid-December 1982, and the CASS side will provide a copy of its draft questionnaire by the end of December 1982.

(2) January 1983 The two research teams will meet in China to discuss the questionnaire and the interview procedure. They will then jointly interview one enterprise and discuss the results and their implications for future interviews.

(3) February to mid-March 1983 The CASS team will conduct a pilot interview in a second enterprise and write up the results so they can be used for discussion and analysis by both sides. The World Bank team will write a preliminary report on the first interview and draft a revised questionnaire.

List of Enterprises and Organizations to be Interviewed

1. Capital Iron and Steel Company
2. Beijing Railway Bureau
3. Beijing Qinghe Woolen Textile Mill
4. Anshan Iron and Steel Company
5. Tianjin Textile Industry Company
6. Jilin Sanchaze Forestry Bureau
7. Shenyang Refining Plant
8. Daqing Oil Field
9. Shanghai No. 17 Cotton Mill
10. Shanghai High-Tension Oil Pump Plant
11. Nanjing Jinling Petroleum Industry Company
12. Mindong Electric Machinery Plant
13. Qingdao Forging Machinery Plant
14. Jiangmen Nanfang Foodstuff Factory
15. Guangdong Provincial Qingyuan County Economic Commission
16. Nanning Silk Spinning Factory
17. Chengdu Locomotive and Carriage Plant
18. No. 2 Automobile Plant
19. Guiyang Yonghong Instruments Factory
20. Northwest No. 1 Cotton Mill

Collaborative Research: Structural Change

Introduction

1. In the first phase of collaborative research from October 1981 to November 1982, there were several exchanges of visits among members of the staff of the Chinese Academy of Social Sciences and of the World Bank in order to determine what specific studies might be undertaken in collaboration. ^{1/} After discussion of a number of alternatives, it is now intended that two studies be carried out in the second phase: one on the management of state enterprises and the other on structural change. This memorandum describes the procedure for carrying out the second of these on structural change.

General Purpose of the Research

2. It is intended to carry out studies in several phases, leading to a better understanding of the structure of the Chinese economy, both as it has evolved over time and with reference to structural change in other large countries. This would involve collecting and organizing existing Chinese studies and data and arranging them in a form suitable for analysis and international comparison. The Chinese Academy of Social Sciences will be primarily responsible for collecting and organizing the data. The World

^{1/} The research project is identified in the World Bank as "Collaborative Research with China: Phase I" (RPO 672-68).

Bank will be mainly responsible for suggesting methods of analysis and for providing international data for comparison. Both sides will undertake analysis of the data.

Studies Proposed in Phase II

3. The studies to be undertaken in phase II will form part of the series of studies referred to above. One study will consist of the collection and analysis of historical data on consumption in China. Another study to be undertaken by the World Bank will be an application of the methodology used in the Bank's Comparative Study of the Sources of Industrial Growth and Structural Change (RPO 671-32) to China and other large countries.

The Consumption Study

4. The consumption study is seen as the first of a number of studies. The next, to be included in a subsequent phase, would be a study of production structure.

5. The immediate objectives of the study are: to explore the differences in consumption patterns according to such things as income level, by region and by urban or rural location; and to understand the differences between China and other comparable countries. If the available data permit, an additional objective would be to obtain orders of magnitude of certain price elasticities.

6. The ultimate purposes, in association with such other studies as may be undertaken are: to create the basis for establishing reasonable consumption patterns in China; to forecast the composition of demand over the medium term; and, thereby, to establish a better foundation for the matching of consumption and production.

7. In this study only existing data will be analyzed; there will be no primary data collection. Primary data have been collected both before and after the Cultural Revolution and may be available; there are also scattered secondary studies. With these data historical processes of structural change in consumption and the present structure will be analyzed in the light of corresponding developments in other countries. The study will take 1980 or another appropriate year as the starting point and select certain years and other countries for historical and international comparison.

8. The procedure is outlined in several stages:

a. A questionnaire (attached) has been given to CASS covering the nature and form of available studies and primary data. CASS will reply in December 1982.

b. The Bank will send a small mission (probably three people) to China for about three weeks after studying the reply (February-March 1983). CASS will brief the mission on the Chinese data in more detail and the mission will brief CASS on international data. The mission will discuss with CASS methods of organizing and analyzing data, and review what is known about the most important secondary data. CASS and the mission will also determine which, if any, primary data are to be analyzed (possibly in a separate longer term context). The mission will also consider the arrangements by which the identified data sets could be analyzed. In deciding on the breakdown of expenditure the mission will bear in mind the desirability of relating the consumption study to that of production.

- c. The Bank assembles international data and CASS assembles the Chinese data. This process would take about six months.
- d. In October 1983, approximately, CASS will send a mission of about four people to Washington for about a month to exchange data. Some processing of the data will be carried out during the mission's visit. The Bank and the mission will agree on further processing and discuss analysis.
- e. CASS and the Bank analyze data, and write reports independently. Reports are exchanged and translated. The Bank and CASS meet to discuss their reports in Beijing and then carry out any necessary revisions.
- f. Preliminary discussions are held during the meeting on the production structure study and any other studies that may be undertaken during Phase III.

9. This last stage will be completed by Summer 1984 (i.e., Stages a-f in 12-18 months). CASS and the Bank would subsequently hold a joint symposium to discuss their findings with a larger audience, and agree on dissemination, in the form of joint, or separate publications.

Extension of "the Sources of Growth and Structural Change" Project

10. The World Bank will be responsible for this study. The World Bank will apply the methodologies used in the "Sources of Growth and and Structural Change" project (RPO 671-32) to China and other large

countries to analyze the structural change of the Chinese economy in light of the development in other countries. In the "Sources of Growth and Structural Change" project various methodologies for examining structural changes and for analyzing the sources of economic growth have been developed and they have been applied to countries such as Colombia, Japan, Mexico, Norway, Turkey and Yugoslavia. Only published data will be used for this study. CASS will assist the World Bank in locating the published data and in interpreting the published data. The results of the study will be made available to CASS. This study would be completed by the summer of 1984.

Manpower

11. The Bank and CASS will each devote at least the equivalent of 2 to 3 full-time researchers to the project.

Collaborative Research: Cost-Sharing

Financial Responsibilities

The following will be the principles for cost-sharing:

- (i) CASS will be responsible for the salaries of Chinese research staff and all other expenses incurred in conducting the research within China.
- (ii) The World Bank would be responsible for the salaries or fees of its research staff and other expenses incurred in conducting the research outside China. Research staff in this context include both permanent staff of the World Bank and its consultants.
- (iii) The World Bank would be responsible for travel, hotel, subsistence and other necessary expenses of Chinese research staff visiting the World Bank.
- (iv) The World Bank will be responsible for the hotel, subsistence and intercity travel of World Bank staff visiting China. All other necessary expenses directly related to the research within China, including in-city transportation, would be borne by CASS.
- (v) If an international symposium is arranged for either of the two proposals, the above arrangements would apply for the staff of the World Bank and CASS. CASS and the World Bank would also agree on a limited number of international experts to be invited. If a symposium is held in China, the World Bank would be responsible for travel of the invited participants to and from China, while CASS would be responsible for their hotel, subsistence and other expenses directly related to the symposium within China. If a symposium is held outside China, the World Bank would arrange for financing the cost of travel, housing and subsistence of invited participants.

(vi) With regard to the exchange of materials and information, CASS will provide material in Chinese to the World Bank and the World Bank in English to CASS. Each side will be responsible for its own translation.

DRAFT
A. Gelb
11/11/82

Structural Change: Questions Regarding Consumption Data

Data Needs in Relation to the Objectives

1. The consumption study has the following objectives:
 - (a) to learn more of Chinese consumption patterns and their determinants;
 - (b) to enable comparison with the structure of consumption in other countries and a view of its evolution over time;
 - (c) therefore, to study structural change and consumption;
 - (d) to improve methodology for subsequent analysis of Chinese data.
2. How far the study will be able to go depends critically on the quality of data available to CAAS. Three types of information are relevant:
 - (1) household survey data on a case by case basis (primary data);
 - (2) existing tabulations and studies based on these (secondary data);
 - (3) other information to check and assist the interpretation of household survey data: retail sales, price data, imports and production as well as an understanding of the role of rationing in particular commodities, time periods and places.
3. We know that large household surveys are conducted regularly (both rural and urban), that they normally include information on income level and consumption patterns, and that sometimes demographic characteristics are included. We are less sure of how thoroughly it is possible to link consumption with a variety of household characteristics (size, family composition, type of work, number of workers, housing conditions). In order to understand the effect of any individual characteristics (such as family size) on consumption it is necessary to separate its effect from that of other

characteristics (such as number of workers). This requires the analysis of data on a household-by-household basis, using econometric techniques. Because of China's distinctive and changing demographic structure this is necessary for analysis of structural consumption change. Also, without it, it would be difficult to make valid international comparisons.

4. Since the comprehensive analysis of survey data is time consuming only a limited amount of such activity is possible within the 18 month time period.

Therefore:

- (a) use of secondary data is necessary, and should be combined with:
- (b) limited analysis of primary data.

This will allow:

- (a) a perspective on broad consumption aggregates and patterns, some very rough international comparisons and time series analysis of the level and structure of consumption;
- (b) a more detailed examination of factors influencing the structure of consumption at the household level and comparison with other surveys from the World Bank's Living Standards Measuring Study (LSMS).

The analysis of even one set of household primary data could be a demonstration for future, more extensive, household consumption analysis and could help in the design of future surveys.

Requests for Information About Data

5. In order to proceed further and prepare for the mission in March we need to know more about available data, both primary and secondary:

- (1) Primary Data. For primary data, detailed information is needed on the characteristics of the surveys which could be analyzed. This is laid out in the accompanying Annex A. It is suggested that one or two surveys (say, one rural, one urban or of one province) be

described in detail following the set of questions laid out in the Annex. The surveys chosen would preferably be those where there is a good chance that the primary data could be analyzed.

- (2) Secondary Data. We suggest that major studies or tabulations be listed. This should include studies before the Cultural Revolution. In the listing we would like to know some of the main characteristics of the studies. Do they give information on:
- o year, province or city (urban/rural?)
 - o income group (how many income levels?)
 - o household size
 - o categories of expenditure
 - o occupation of household head and education level
 - o number of workers in household.

In what form are these studies now available to CASS?

- (3) Other Information. We know that data are collected on retail sales, by commercial departments, by commodity groups and with an urban/rural breakdown of the totals for the whole of China. Are such data available by province, city, urban/rural, and commodity group? Is it possible to obtain a more detailed commodity breakdown?^{1/}

Is there information similar to this which also might be useful? We have seen estimates of total provincial consumption by several categories by rural/urban. What are these based on and how many are available? Are they available in price and physical quantity terms or only in values?

Could we see a sample of such information?

^{1/} We have seen a breakdown by seven categories of commodity.

Questions Regarding the Nature and Form of Chinese Primary
Consumption Data Available for the Collaborative Research on
Structural Change

General

For which years are primary household consumption data available?

Specify for each survey:referred to in paragraph 5(i):

- the number of households in the sample
- to what extent is the sample representative for a region, province, socio-economic group or for the country?
- what has been the sample procedure? Are sample weights available to allow the construction of aggregate consumption data?
- in what form are the data available?
- what was the main purpose of the survey?
- what studies have been done? Are the results published/available?
- include a copy of each of the survey questionnaires

Please specify for each survey:

- what is the unit of observation? How is it defined?
- what is the definition of consumption?
 - is it measured in physical units
 - is it measured as cash expenditures
 - does it include home-grown produce
 - does it include collectively provided goods and services (e.g., free health care, or subsidized schooling)
 - does it include in-kind collective income (e.g., grain; physical units or cash-equivalent? total received amount or actually consumed amount?)
 - does it include gifts (received or given to others)
 - does it include taxes, insurance premiums, production fees
 - does it include imputed rent for owner occupied housing
 - over which period has consumption been measured

If any of the above mentioned items is not included in consumption, is there additional information available to get an estimate. For instance:

- is anything known about collectively provided goods and services in the brigade/commune (how much; which distribution schemes; what is the value)
 - is anything known about the housing conditions of the household (e.g., number of rooms, availability of electricity, age of the house, main construction material)
 - is anything known about the presence, value and age of durable goods in the household, such as bicycles or farming tools
- what is the definition of income:
- many of the above questions regarding consumption also need to be answered for income (e.g., is in-kind income included)
 - over which period has income been measured
 - is income available for each individual in the household
- what is known about the household;
for instance:
- number of adults, age/sex of adults
 - number of children, age/sex of children
 - education level of each person
 - type of work, occupation of each worker
 - number of days of work per year, per worker
 - number of hours of work per day
 - size of land available for cultivation
 - farm production (type and value of production; production costs)
 - sideline activities
 - assets; savings
- is anything known about consumption plans, e.g., building material for a new house, major durables. What is known about the ration process for such items?

- what is known about prices? Is there regional variation in prices; are prices known for the various markets (government; private)? Is it known how these prices developed over time?

- regarding food consumption: how detailed is the information (grain, by type? meat, by type?, etc.) Is the information detailed enough to provide information on nutrition levels? Please specify.



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		Date April 07, 2017

OFFICE MEMORANDUM

TO: See Distribution

FROM: Mrs. Phi Anh Plesch, VPERS *PAP*

SUBJECT: Informal Workshop on "Collaborative Research with China"

DATE: January 12, 1983

1. You are invited to an informal workshop to be held on Thursday, January 20, at 2:30 p.m. in Room I-8-218.
2. The purpose of the workshop is to provide sponsors of the proposal with comments on their proposed study and to allow participants an opportunity to contribute to the shaping of the study. Participants are expected to comment on the objectives of the proposed research, its usefulness for the Bank and as a basis for policy advice to developing countries. You are also invited to comment on the methodology and other related aspects of the proposal.
3. Please let Miss Jacob (Ext. 69012) know if you are unable to attend.

Attachment

Distribution: Messrs. A. Churchill (URB)
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 P. Hasan, J. Chang, R. Pepper* and A. Wood (AEA)

cc: Messrs. B.B. King
 E. Lim
 J.H. Duloy

PAPlesch/bj

* Did not attend