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ARTICLE

A merger of equals: The political economy of the World Bank's early contacts with China

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Abstract

This article assesses the initial contacts between the People's Republic of China (PRC) and the World Bank during the early 1980s, following China's admission to the institution in 1980. In the late 1970s, the PRC launched a new phase of economic reforms aimed at re-modelling its economic outlook. Collaboration with multilateral economic institutions such as the World Bank was a key part of its "opening up" strategy. By drawing on newly available records from World Bank archives, the article reveals how the Bank's approach to China's economic development was tailored to meet Beijing's specific economic conditions and needs, and welcomed gradualism as the best path for China's reform strategy. At times of free market triumphalism and heavy structural adjustment towards developing countries, the China case, the article stresses, shows a World Bank behaving not quite in line with what many would expect. Therefore, the article provides not only an account of a bilateral relationship but offers a new perspective and reflection of the history of the international political economy of the early 1980s.

Keywords: World Bank; International Political Economy; People's Republic of China

'Sir, very definitely [. . . .] we believe you can reach your objective, and with cooperation hard work and a little bit of luck, you will reach your target.' This was what Alden Clausen, President of the World Bank, confidently replied to Deng Xiaoping, leader of the People's Republic of China (PRC), who had just proclaimed the country's main economic goals and asked, 'For us our target is a great ambition, others may think it miniscule. But do you think it possible?' According to Deng, by the end of the century, the PRC aimed to quadruple its industrial and agricultural outputs, restrict population growth to 1.2 billion, and achieve a per capita income of US$800.[1]

That target seemed very ambitious in 1983, but time has proven Deng's predictions — and Clausen's assertiveness — correct. By 2000, China's GDP per capita had reached US$959, up from US$225 in 1983. In the same year, its Gross National Output (GNP) topped US$1.180 trillion, up from US$230 billion in 1983. Population growth was the only missed target, at 1.263 billion in 2000.[2] Deng had pushed the nation to reduce poverty and increase the living standards of its people. Most importantly, he wanted to create an efficient economy, one that was capable of optimizing its resources in order to achieve the targets that he had set. So did the World Bank.

This article examines the policies that the World Bank pursued during the early phase of its relationship with the PRC. The narrative starts in 1980, the year that Beijing became a member of the Bank, and it ends in 1984, which marks the end of the first important phase of China's economic

[1]Mr Clausen's Interview with Chairman Deng Xiaoping, 26 May 1983, FINSU-Financial Adviser, IBRD, China 1981-1986, World Bank Archives, Washington, DC (hereafter cited as WBA), 3.

[2]'GDP per Capita (current US$) – China': https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN; 'China GDP 1960-2022' https://www.macrotrends.net/countries/CHN/china/gdp-gross-domestic-product.

reforms with the introduction of the planned commodity economy.[3] Based on previously unexamined World Bank records, this article claims that the Bank was willing to be flexible and acquiesced to the vast majority of the economic choices the Chinese government undertook. The Bank tolerated public ownership of means of production and the high dirigisme of the Chinese economy during times when the prevailing economic orthodoxy was starting to push into the opposite direction.

By analyzing the Bank's relationship with China in the early 1980s, this article contributes to a growing body of recent scholarship on the topic. It has been observed that the Bank's greatest contribution to China's economic development during this decade consisted of the technical advice, human capital, and expertise that it provided to Chinese economists and policymakers.[4] Expanding and complementing these works from the side of the Bank, this article explores how the ensuing partnership was built around sharing economic policies based first and foremost on the Bank's good understanding of the PRC's economic outlook. The World Bank behaved prudently, without 'advancing an a priori or one-size-fits-all agenda', but by providing tailor-made reports that reflected a good understanding of both the Chinese economy and how to help it 'grow out the plan'.[5]

While still important, simply describing the peculiarities of how this partnership came about is not enough to enable a full appreciation of the global historical importance of this tale. The motives behind the Bank's malleability with the PRC still need to be uncovered. Therefore, this article assesses the reasons and the importance of the ensuing partnership not only bilaterally but also as a transformative moment for the history of the global economy at the turning point of the early 1980s, when financial globalization started to emerge and, un-coincidentally, the PRC also began to slowly open its economy to world markets.[6]

There is no single reason that can explain why the Bank was so conciliatory in its first dealings with the PRC, but rather a complement of motives. First and foremost, there was honesty. As Adam Tooze has recently noted

> One might be tempted to dismiss this simply as kowtowing to an important new member state. Beijing would hardly react well to a more critical report [the first report the World Bank published about the Chinese economy in 1983]. But there is every sign that the World Bank economists believed in their basic diagnosis.[7]

Confirming Tooze's stance this article documents that the tailored approach came out of the Bank's sincere conviction that, in China, 'a turn toward the capitalist world was entirely feasible

[3]Joseph Fewsmith, *Dilemmas of Reform in China: Political Conflict and Economic Debate* (London and New York: Routledge, 1994), 123-48; Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform 1978-1993* (Cambridge: Cambridge University Press, 1995), 173-99; Yan Sun, *The Chinese Reassessment of Socialism, 1976-1992* (Princeton: Princeton University Press, 1995), 85-121.

[4]Isabella Weber, *How China Escaped Shock Therapy: The Market Reform Debate* (London and New York: Routledge, 2021); Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China, 1976-1992* (Cambridge, MA: Harvard University Press, 2017); Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: The University of Michigan Press, 1990); Pieter Bottelier, 'China and the World Bank: How a Partnership was Built', *Journal of Contemporary China* 16, no. 51 (2007): 239-58. For oral histories, see 'Transcript of Interview with Edwin R. Lim', 30-31 October 2002, Washington, DC, The World Bank Group, Oral History Program: http://documents1.worldbank.org/curated/en/344281468157786211/pdf/790750TRN0Lim000October030031002002.pdf and 'Transcript of Oral History Interview with Caio-Koch Weser', 21 December 1992, World Bank History Project, Brookings Institution: https://oralhistory.worldbank.org/transcripts/transcript-oral-history-interview-caio-koch-weser-held-december-21-1992; Edwin Lim, 'Learning and Working with the Giants', in *At the Frontiers of Development: Reflections from the World Bank*, ed. Indermit S. Gill and Todd Pugatch (Washington, DC: The World Bank Group, 2005), 94-107.

[5]Gewirtz, *Unlikely Partners*, 180.

[6]David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005), 120.

[7]Adam Tooze, 'China in 1983, a miracle waiting to happen? The World Bank's first report on Socialist Economic Development': https://adamtooze.substack.com/p/adam-toozes-chartbook-28-china-in.

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within the framework of a centrally planned economy' through prudence, experimentation, and improvization.[8]

There was more involved than just honesty, though. The Bank needed to secure a prestigious success during hard times. As it admitted in the first China Country Program Paper (CPP), a document the institution produces to scrutinize a country's economic outlook and to determine borrowings criteria:

> It is in the context of the fundamental re-orientation of development strategy that China is seeking cooperation from the Bank Group. Equally for the Bank, the active participation of the largest country in the world, representing nearly one-fourth of the world's population is a challenge and a significant event perhaps unparalleled in its history since the very early years. Thus, for both the Bank and China, our success or failure in developing a mutually beneficial relationship in the next few years will have far reaching implications. For China, disappointment over the Bank's response could set back the leadership effort to reorient the country's development. For the Bank, our credibility as an international development institution must surely suffer if we are unable to respond effectively to China in its crucial period of fundamental adjustment.[9]

Because of this, it is safe to state that the World Bank and its president during the long 1970s, Robert McNamara (1968-81), engaged China in order to reassert some credibility after a turbulent decade during which the Bank had suffered several setbacks. By the late 1970s, the Bank had reached a historically low point. Two oil crises, stagflation, high interest rates and difficulties in efficiently channelling capital to developing countries had consistently weakened the Bank's status as a global development institution. Reduced funding from the US government had also 'rendered the Bank less relevant as a development financier', making clear 'that the Bank was having mixed success promoting development'.[10]

Therefore, both the Bank and McNamara, whose personal aspirations are also crucial to this story, were hungry for a victory. The onset of China's reform and opening-up provided an opportunity to gain positive visibility and to show that the Bank had remained skilful in fostering the development of a giant new client, as well as in exerting power over donor members to receive funding to promote its agenda. When the first official World Bank delegation visited China in April 1980 to discuss the PRC's request to join the Bank, which would officially occur on May 15 1980, McNamara proudly pointed out to Chinese Vice-Premier Gu Mu that only at that moment had the Bank truly become a *world* Bank. In one go, China had added 1 billion people to the World Bank group, as well as 9.6 million square kilometres of territory.[11] The World Bank needed China as much as China needed the World Bank. Flexibility came out of necessity. The stakes were too high.

Timing also deserves attention in order to clarify why the Bank engaged China so flexibly. The PRC membership came *precisely* in the midst of the Bank's culmination of becoming a more aggressive institution that had begun to promote development through policy-based loans requiring borrowers to pay careful attention to their macroeconomic conditions.[12]

[8]Naughton, *Growing Out of the Plan*, 63.

[9]Country Program Paper, China, December 24, 1981, FINSU-Financial Adviser, IBRD, China 1981-1986, WBA, 8.

[10]Patrick Sharma, *Robert McNamara's Other War: The World Bank and International Development* (Philadelphia: University of Pennsylvania Press, 2017), 140.

[11]Mr Stern's Meeting with Vice Premier Gu Mu in Beijing, 8 March 1982, Memorandum from Caio Koch-Weser to Files, 25 March 1982, China, Trips, 1982 19 April – 1 May, Background Materials, World Bank Memoranda, 1980-1982, Geopolitical Files, Box I99, Folder 1, McNamara Papers, Manuscript Division, Library of Congress, Washington, DC (hereafter LOC), 2.

[12]Sarah Babb, *Behind the Developments Banks: Washington Politics, World Poverty, and the Wealth of Nations* (Chicago and London: Chicago University Press, 2009), 70-99; Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers* (Ithaca: Cornell University Press, 2006), 39-64.

Institutionally, the culmination of these changes would be reached in 1982 with the appointment of Anne Krueger, a supply-side development economist, as the Bank's chief economist. But the fully-fledged shift to a different vision of development, one connected to the mismanagement of loans, would become prominent only after the 1982 debt crisis and the 1985 publication of the Bank's document, 'New Research Priorities: The World Has Changed—So Has the Bank', as well as the Baker Plan, which was devised by the US Treasury Secretary to force indebted developing countries to liberalize their economies.[13]

Therefore, this article treats the Bank of this period as an institution caught between the switch from a Keynesian vision of global development to a post-Keynesian one. Even among commentators who are more sympathetic to the Bank's mission, the early 1980s are seen as an important pivot in the direction of enforcing a new economic doctrine. But this article observes no such pivot, focusing instead on the continuity in the sophistication and subtlety with which China was treated. Hence, the Bank remained a pluralistic institution, as demonstrated aptly by the fact that 'China's post-1980 experience highlighted how, even in an era of neoliberalization, the institutionalized liberal multilateralism of the BWOs [Bretton Woods Organizations] could continue to support a diversity of domestic economic strategies, including the kinds of state-led development goals that had been discussed at Bretton Woods'.[14]

This interpretation is important for several reasons. For the Bank, the China story underlines the independence of a single country's division vis-à-vis the general political orientation of the institution. During times of growing but still not definitive consensus for the limited role of government in the economy, the newly established China division of the World Bank demonstrated that it could approach the PRC more pragmatically, without aligning with new prescriptions coming from the top of the institution.[15]

For the history of the global economy, the encounter between China and the Bank can spark debate in terms of re-interpreting the early 1980s, not only as the beginning of the lost decade of development or the triumph of neoliberalism, but as the consolidation of the most successful post-1945 version of development, one that emerged in Asia in the 1960s, which the Bank supported. It was a development that encouraged markets to co-exist with national social orders and governments to promote strategies to foster growth through exports, but also by protecting key national industries.[16]

Also, in 1980, both China and the World Bank were chastened and puzzled about their future. Because of this uncertainty, this encounter must be considered as a real defining moment of global history. With all the necessary caveats, the study of global history has emphasized the connections and disruptions of borders and boundaries, a narrative that the Bank-China story fits into.[17] However, in 2017, Jeremy Adelman asked whether global history was just another way to reproduce a triumphalist Western-centric approach to the study of globalization.[18] This article asserts that it would be too simplistic to reduce this story to a simple integration of China into Western capitalism on the latter's terms in order to celebrate the latter's ability to re-shape itself at

[13]Sara Lorenzini, *Global Development: A Cold War History* (Princeton and Oxford: Princeton University Press, 2019), 164; Sarah Babb and Alexander Kentikelenis, 'Markets Everywhere: The Washington Consensus and the Sociology of Global Institutional Changes, *Annual Review of Sociology* 47 (2021): 525.

[14]Eric Helleiner, 'The Life and Times of Embedded Liberalism: Legacies and Innovations since Bretton Woods', *Review of International Political Economy* 26, no. 6 (2019): 1127.

[15]Paul Mosley, Jane Harrigan, and John Toye, *Aid and Power: The World Bank and Policy-based Lending. Volume 1. Analysis and Policy Proposal*, 2nd ed. (New York: Routledge, 1995), 24.

[16]On the lost decade, see Lorenzini, *Global Development*, 160-9; H.W. Singer, 'The 1980s: A Lost Decade – Development in Reverse?', in *Growth and External Debt Management*, ed. H.W. Singer and Soumitra Sharma (New York: Palgrave MacMillan, 1989), 46-59; for the East Asian successes, see Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asia Industrialization,* 2nd ed. (Princeton and Oxford: Princeton University Press, 2004).

[17]Richard Drayton and David Mortadel, 'Discussion: The Futures of Global History', *Journal of Global History* 13, no. 1 (2018): 1-21.

[18]Jeremy Adelman, 'What is Global History Now?', *Aeon*, 2 March 2017.

a critical juncture. Instead, there is room to argue that this was a moment of true exchanges about the shape of the globe, in this case of the global economy, which were respectful of both sides' positions and were not unidirectional. Clearly, in the early 1980s, the World Bank influenced the world economy significantly more than China did. But China's economic catch-up and convergence began precisely at this point, even due to the system's willingness to include China on Chinese terms. The process was not straightforward, but rather fragile and often interrupted, a testament to its true globalism.[19]

As Richard Drayton and David Motadel write, 'there are risks inherent to global approaches, that while similarities and convergences are identified, or sometimes forced, differences and interruptions are ignored', [20] or that global history could privilege 'motion over place, *histoires qui bougent* (stories that move) over tales of those who got left behind, narratives about others for the selves who felt some connection – of shared self-interest or empathy – between far-flung neighbours of the global cosmopolis'.[21]

While some convergences were certainly forced by China and the Bank, differences were not overlooked. Noticeably, the China of 1980 considered itself to be very much 'left behind' and indeed demonstrated all possible determination to catch up. China did not simply share some sympathy for the global cosmopolis. It wanted to be part of it on its own terms. This is also a story of global history because it deals directly with capital, which China created both by liberating productive forces and by borrowing from the Bank. This capital would end up influencing the lives of ordinary Chinese people, who in 1980 were very much isolated from the global community.[22] Finally, it is real global history because it deals with both structures and individuals. This partnership would not have been possible without the agency of leaders such as McNamara or Deng. At the same time, the structure in which China and the World Bank were acting within significantly constrained and shaped their actions.

The first visit: diplomacy, prestige and prudence

In the 1940s, China was an active founding member of both the International Monetary Fund (IMF) and the World Bank. In the wake of the establishment of the PRC in October 1949, China's representation on the boards of these institutions was retained by the Republic of China (ROC), otherwise known as Taiwan. Three decades later, when the PRC and the United States normalized diplomatic relations in early 1979, hints and rumours spread that policymakers in Beijing decisively wanted to replace Taiwan on the board of the World Bank. China and the World Bank had in fact made informal approaches with one another as early as 1971, when the PRC replaced Taiwan in the United Nations, but such efforts intensified significantly only after US-China normalization.[23]

China's membership in the UN was a watershed moment for the global history of the second half of the twentieth century. It marked the real onset of the PRC's re-integration into the global international system that had been created after the Second World War, including membership

[19]Drayton and Mortadel, 'Discussions', 9.

[20]Ibid. 8.

[21]Adelman, 'What is Global History Now?'.

[22]Drayton and Mortadel, 'Discussions', 10.

[23]On China at the Bretton Woods conference, see Michael Franczak '"Asia" at Bretton Woods: India, China and Australasia in Comparative Perspective', in *Global Perspectives on the Bretton Woods Conference and the Post-War Order*, ed. Giles Scott Smith and Simon J. Rofe (London: Palgrave MacMillan, 2017) 111-29; for the earlier approaches of the 1970s see Eric Helleiner and Bessma Momani, 'The Hidden Story of China and the IMF', in *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, ed. Eric Helleiner and Jonathan Kirshner (Ithaca: Cornell University Press, 2014), 62-5; for the late 1970s acceleration see Pieter Bottelier, *Economic Policy Making in China (1949-2016): The Role of Economists* (London and New York: Routledge, 2018), 72-84; see also Doak Barnett, *China's Economy in Global Perspective* (Washington, DC: The Brookings Institution, 1981), 191, 236-7.

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into financial institutions, a fact that the World Bank did not ignore.[24] Already in 1973, when the PRC knocked at the Bank's door for the first time, McNamara pointed out to Algerian finance minister Smain Mahro that the Bank would welcome the membership of socialist states, including China.[25] However, initial PRC interests were more closely focused on expelling Taiwan from the board of the IMF and the World Bank than about becoming a World Bank member. Furthermore, as long as Mao Zedong, the PRC's Chairman, was alive, it would have been impossible for Beijing to join the Bank or the International Monetary Fund (IMF). It took Mao's passing and the consolidation of a new path of economic development to complete the transition. The invitation for World Bank President Robert McNamara to visit the PRC came in February 1980.[26]

Ignoring pressure from the US Treasury Department, which wanted to postpone China's entry for at least one year, McNamara insisted that the PRC should join the Bank in May 1980. As Pieter Bottelier observes, 'He [McNamara] thereby established credibility for the Bank as an *independent* multilateral agency which was very important for the Chinese.'[27]

The risk of postponing the PRC's entry because of the Treasury's tactical hesitations and political calculations was real. In a meeting held in late March 1980, William Miller, the Carter Administration's Secretary of the Treasury, had expressed reservations about the timing of the move, because it could hamper Congressional approval of the next round of IDA funds. IDA were low-interest loans that had a stronger concession element and were more valuable to recipient countries (instead, IBRD were the Bank's loans given at market rates). The Treasury strove to convince McNamara not to travel to China as early as April 1980, but only to send 'a working group'. However, it is important to note that no opposition existed in the US government, the Bank's largest donor, regarding the possible long-term benefits and opportunities that China's joining of multilateral economic institutions presented for the PRC, for the Bank, and also for US-China relations.[28] The Carter Administration believed that it was only important to inform Chinese officials that becoming World Bank members in 1980 would delay the disbursement of IDA funds. Notwithstanding, the White House instructed Ambassador Leonard Woodcock to communicate to the PRC that 'whatever the PRC decision', the US government 'will support it'.[29]

The US government's behaviour in this matter makes clear how supportive it was about integrating China into the system at the turning point of the late 1970s, a position that would be maintained staunchly with various ups and downs over the following decades.[30] This stance was also motivated by Cold War reasons. After the Soviet Union invaded Afghanistan in late 1979, the American and Chinese governments reached a de facto military alliance.[31] Supporting China's entry into the World Bank meant more for the US government than simply helping Beijing to join a leading developing institution. It meant locking China into the Western camp.

McNamara's determination to go ahead with the original schedule points to his personal ambitions. His decision to step down came in June 1980, just one month after the China feat. Officially motivated by the satisfaction of having solved all major issues that he was meant to fix, McNamara's retirement obscured his awareness that many of the Bank's problems continued to

[24]Rebecca Karl, *Mao Zedong and China in the Twentieth-Century World: A Concise History* (Durham and London: Duke University Press, 2010), 150-1.

[25]'Bank/IMF membership of the People's Republic of China,' Memorandum from M.P. Benjenk to Memorandum for the Record, Robert McNamara Papers, Country File, China, 1973-1979, Box I-25, Folder 5, McNamara Papers, LOC, 2.

[26]'Transcript of Interview with Caio Koch-Weser', 2.

[27]Bottelier, 'China and the World Bank: How a Partnership was Built', 242.

[28]US-China Economic Relations, Summary of Conclusions of a Presidential Review Committee Meeting, Washington, 27 March 1980, 4.30-5.45pm, Foreign Relations of the United States, Government Printing Office, Washington, DC (hereafter cited as FRUS), Volume XIII, China, Document No. 305, 1103-4.

[29]PRC Entry into the IMF/IBRD, Memorandum from the President's Deputy Assistant for National Security Affairs (Aaron) to President Carter, Washington, April 2, 1980, FRUS, 1977-1980, Volume XIII, China, Document No. 306, 1104-5.

[30]Stephen Roach, *Unbalanced: The Codependency of America and China* (New Haven and London: Yale University Press, 2014).

[31]Odd Arne Westad, *Restless Empire: China and the World Since 1750* (New York: Basic Books, 2012), 373-5.

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increase and that the war against poverty, his trademark signature as President, had not been won. With a changing political environment in the United States, he wanted to leave the Bank with a legacy of success, to which few things greater than China's membership could have contributed.[32]

In this context and with these motivations, the stage was set in April 1980 for the first official meeting between Bank officials and members of China's leadership. The partnership had to work, and both parts had a positive inclination to let it happen. On April 14, 1980, Chang Yanqing, Senior Vice President of the Bank of China, handed McNamara a letter requesting the change to the Bank's board. This was a watershed event, marking the beginning of a relationship that McNamara believed 'could continue for decades'. If the World Bank had not become China's most important external source of technical and financial assistance by the end of the decade, McNamara believed that the relationship 'would have failed'.[33] The same was true for the Chinese, who knew how much sympathy they had already garnered at the Bank. As Deng reported to McNamara:

> he was aware that McNamara and his colleagues had taken a friendly and positive attitude with regard to helping China. The country needed this. He hoped that the relationship between China and the Bank would be a long and constructive one.[34]

It was just the tip of the iceberg. A lot had evidently already happened before.[35]

It is also evident how much McNamara had personally invested in all of this. The World Bank President was a man of great ambition who wanted to increase the Bank's activities and powers at all costs. He always strove for prestige and was very 'publicly minded', as Burke Knapp, the Bank's chief of operations, remembered: 'He wanted the Bank to look like it was expanding its activities at a great rate ... that was part of the whole game of building up the reputation and the power of the Bank, both in developing countries and in the donor countries.' As hinted, the China membership had also secured a political ally.[36] The Bank was never indifferent to geopolitics. For example, in 1980-83, Turkey received very preferential treatment from the Bank even due to Ankara's importance in light of the 1979 Iranian Revolution and the Soviet invasion of Afghanistan.[37]

Indeed, the relationship did not fail, and time would prove McNamara's hopes, fully reciprocated by Chang, well-founded.[38] In 1982, World Bank's lending to Beijing was \$200 million. By 1989, it topped \$1.348 billion. Though these amounts remained rather small when compared to China's overall GDP, \$205 billion in 1982 and \$347 billion in 1989, the ratio almost quadrupled (from 0.1% to almost 0.4%) in the span of only seven years, showing the big impact that China's opening up produced on the Bank's lending.[39] Furthermore, the usefulness of World Bank lending needs to be assessed in terms of what it contributed to boosting the sectors to which it was applied. Since his appointment as President of the World Bank, McNamara had worked to increase the number of loans targeting social issues and the poor. Most of the China loans during the 1980s went into agriculture, industry, transportation, and education, the latter being described

[32]Sharma, *Robert McNamara's Other War*, 158-9.

[33]Final Meeting, 14 April 1980, sub-section of Meetings of the People's Republic of China (PRC) and World Bank Delegations, 10-14 April 1980, at the State Guest House, Beijing, Geopolitical File, China Trips, 1982 19 April – 1 May, Background Material, World Bank Memoranda, 1980-1982, Box I99, Folder 1, McNamara Papers, LOC, 11.

[34]Meeting with Vice Premier Deng Xiaoping, Beijing, 15 April 1980, Geopolitical File, China Trips, McNamara Papers, LOC, 1.

[35]World Bank China records pre-1980 are still classified, preventing a fuller account of what happened before then.

[36]Knapp as cited in Sharma, *Robert McNamara's Other War*, 152; McNamara shared China's preoccupation over Soviet expansion in Asia. See Meeting with Vice Minister of Foreign Affairs, Zhang Wenjin, 12 April 1980, Geopolitical File, China Trips, McNamara Papers, 2.

[37]Devesh Kapur, John P. Lewis, and Richard Webb, *The World Bank: Its First Half Century, Volume 1: History* (Washington, DC: Brookings Institutions Press, 1997), 549-50.

[38]Final Meeting, Geopolitical Files, China Trips, McNamara Papers, LOC, 11.

[39]Data is taken from https://data.worldbank.org/country/china.

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as the 'McNamara Revolution' because of his determination to increase the number of projects dealing with education since the early 1970s. Education loans were also considered to be 'safe' loans to disburse: quick and generally uncontroversial. [40] And they were part and parcel of the new shift in thinking regarding development that took place between the late 1960s and the early 1970s, when the so-called 'basic needs' strategy emerged. The strategy stressed the importance of social indicators and rural growth. It would constitute the Bank's pillar approach to China.[41]

Before lending could commence, World Bank delegates were keen to hear about the PRC's recent and upcoming development plans. In fact, since the two sides knew 'so little' about each other, 'there was a great danger of misunderstandings and of raising false expectations'. The Bank's delegation therefore had to be 'careful' not to mislead the PRC as to what the Bank could do at that point in time.[42] The need for prudence was also acknowledged in the first CPP:

> 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 efforts 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 constrains and priorities, the functioning of the economic system and the process of decision making remains inadequate.[43]

Beyond honesty, this language emerged out of the situation that the Bank was embroiled within. Introduced in 1968, Country Program Papers were prepared by regional departments to analyze a country's political and economic situation and to review its eligibility for loans.[44] During the 1970s, they became instruments that regional departments used to request more funds to be disbursed to their supervisee. Country Papers' economic forecasts were often intentionally pumped, thus affecting the Bank's ability to lend efficiently.[45] With shrinking finances, the first China CPP had to be prudent and realistic in order to avoid situations like that of Brazil, where McNamara had to step in to reduce the amount of lending proposed by the Country Paper for fiscal years 1976-80 due to budget limits.[46]

Prudence also came out of the pressure that the Bank was facing about the efficiency of lending. The Bank could not afford to waste its few resources and needed precise data to validate loans. Shahid Husain, the Bank's Vice President of the East Asian and Pacific Department, clarified to the Chinese how the 'the foundation for the Bank's lending in any given country were the government's economic objectives and plans' and that it was necessary to produce a report in order to let lending begin.[47] During the 1970s, as the number of clients rose, the Bank progressively acquired more information on the economy of its borrowers as part of the expansion of its research department.[48] Having just acquired a very big and important client, it was a legitimate desire and necessity to repeat the same procedure.

[40]Kapur, *The World Bank*, 24, 258.

[41]Babb, *Behind the Development Banks*, 50.

[42]Meeting on Bank Operation Program, Policies and Procedures, 12 April 1980, Geopolitical Files, China, Trips, McNamara Papers, LOC, 7.

[43]Country Program Paper, WBA, 9.

[44]Kapur, *The World Bank*, 244.

[45]Sharma, Robert *McNamara's Other War*, 143.

[46]Kapur, *The World Bank*, 981.

[47]'Meeting on Bank Operation Program', Geopolitical Files, China Trips, McNamara Papers, LOC, 8; see also Gewirtz, *Unlikely Partners*, 75.

[48]Robin Broad, 'Research, Knowledge, and the Art of "Paradigm Maintenance": The World Bank's Development Economics Vice-Presidency (DEC)', *Review of International Political Economy* 13, no. 3 (August 2006): 392.

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The first visit: global and national development, lending and the international economic situation

In the context of the first visit, the Bank was not behaving graciously just because it wanted to please an important new client. As shown, it had its own legitimate reasons, necessities, and concerns. For example, despite the doubling of the Bank's capital stock to $85 billion approved in January 1980, and the successful negotiation of an IDA replenishment of $12 billion for Fiscal Years (FY) 1981-83, the problem at that point was that both the capital increase and the replenishment had been negotiated without considering China's participation.[49]

Additionally, if China wanted to gain experience in using foreign capital, such as World Bank lending, it had to be more integrated into the world economy — a world economy that in the early 1980s was still in the midst of its worst recession since 1929. In developed countries, the recession was triggered by the decision of the US Federal Reserve Bank to raise interest rates in 1979 to fight persistently high inflation, the so-called 'Volcker Shock', restricting the global money supply, as well as by the second oil energy crisis that almost doubled oil prices. This scenario reverberated into developing countries as well, whose economic development had been built upon the rapid growth generated by low interest rates and private borrowings from Western banks during the 1970s.[50] While China remained mostly unaffected by the global debt crisis, rising interest rates certainly impacted the PRC's intentions to borrow on global markets, at least at market terms, when it became a viable option to be pursued.

However, on the Bank's side, despite the global recession, the institution was already working behind closed doors to include the PRC in the latest round of IDA replenishment and to treat Beijing with terms more favourable than those of the Bank's other big client, India. Since 1968, the Bank had a rule that 40% of IDA ought to be allocated to India. China's entry into the World Bank, as well as severe conditions confronting new IDA claimants in Sub-Saharan Africa, undermined India's position. By the end of the 1980s, it was decided to match New Delhi's IDA share to that of Beijing, both standing at 30%. However, in 1980, McNamara had already worked to include China into the IDA 6 'while minimizing the abruptness and severity of India's allocative decline'. The equal share was also not justified by parity in GNP per capita, which, according to the Bank's calculations made before Beijing's entry, was roughly twice that of India's ($390 against $150).[51] This was done to send China a signal of friendship. John Lewis, one of the three authors of the World Bank History Project, commented that 'I think that's—it's the worst case I know of, and it's also senior (although not vice presidential level) officials of the Bank who will say quite candidly, "Yes, it's political."'[52]

As observed, the Bank's approach in determining project eligibility and funding was informed by its view that the resources it could offer were limited and had to be calculated relative to the country's needs in order to make the greatest and most efficient impact, i.e., in this case, producing the highest rates of return.[53] In the 1980s, the quality of projects funded by the Bank plummeted. Too often, estimated rates of return were unrealistically optimistic, diverging with what recipient countries were actually able to deliver. However, for its part, China proved capable of successfully negotiating, implementing, and realizing viable projects. Credit for such success must be shared. In part, it rests with the PRC, which had 'both the domestic capacity and the size always to come up with mutually agreeable projects'.[54] It also goes to the Bank, which chose to lend mostly at the

[49]Meeting on Bank Operation Program, Geopolitical Files, China Trips, McNamara Papers, LOC, 7; on the successful negotiation see Sharma, *Robert McNamara's Other War*, 158.

[50]Harold James, *International Monetary Cooperation Since Bretton Woods* (New York: Oxford University Press, 1996), 347-51.

[51]In order to be eligible for IDA funds, GDP per capita had to be lower than $400; see Kapur, *The World Bank,* 1154-5.

[52]'Transcript of oral history interview with J. Burke Knapp', held on 22 October 1990, 26 June 1991, 24 and 25 September 24 1992, and 10 October 1995, World Bank oral history program, 101: https://oralhistory.worldbank.org/transcripts/transcript-oral-history-interview-j-burke-knapp-held-october-22-1990-june-26-1991.

[53]Country Program Paper, WBA, 9.

[54]Kapur, *The World Bank,* 44-5.

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local level, where the impact could be better maximized and where operations were more closely monitored and discussed between China's State Planning Commission, the PRC's agency in charge of planning, and the World Bank China Division.[55]

This result invites reflections on why, from the very beginning, the China-Bank partnership was quite productive. In fact, the topic of developing countries' loan usage during the 1980s is now garnering scholarly attention because of its broad implications for the sweeping economic transitions that unfolded during that decade. In a recent blog post, Branko Milanovic argued that the stagnant, if not negative, rates of returns of investments struck one of the last blows to socialism in Europe.[56] On the contrary, a profitable use of World Bank loans allowed the PRC to productively invest money into sectors that generated positive yields, helping the country to grow and to reduce poverty.[57]

This achievement can also be attributed to the image of itself that the Bank wanted to project to the Chinese. Several times the World Bank remained adamant about conveying to the Chinese a picture of itself 'not just as a financial agency but also as a development institution'.[58]

What motivated this insistence? In the 1970s, development economics — which sought to help developing countries find their ways out of poverty — suffered many blows because of the increasing demise of Keynesianism and the rise of a mathematical and more conservative vision of macroeconomic policy in the United States. Furthermore, the challenges posed by the New International Economic Order (NIEO), which demanded a more egalitarian reconfiguration of global trade — the so-called North-South dialogue that pushed for a more equitable redistribution of resources and concessional loans from North to South — put the Bank in a difficult position.[59]

The Bank was caught in a dilemma. As the quintessential institution in charge of promoting global development, it had to look credible to the Global South without compromising the political and financial assistance of the richer North, especially the United States. This was a daunting task for the Bank to navigate. There were two main visions of development: one centered on individual basic needs and the war on poverty championed by McNamara. It was the vision NIEO was not happy about. NIEO focused on a more equitable redistribution of wealth and on a radical and persistent elimination of economic and social injustices between North and South. NIEO's 1974 founding declaration called for a tougher control of foreign investment, national control over natural resources, redistribution of power in the World Bank and IMF, and cheaper access to technology, goods, and services produced in the rich countries. From NIEO's perspective, the safeguarding and promotion of basic minimum economic needs was not enough to eradicate deeper inequalities, as lamented by Vijaya Lakshmi Pandit, India's delegate in the UN Human Rights Commission, in 1978 at a meeting of the foreign ministers of the non-aligned countries in Belgrade.[60] In other words, poverty could not 'be eradicated by isolating it from the system' insisted Altaf Gauhar, a Pakistani intellectual.[61]

[55]Caio Koch Weser, 'How it All Began; China Resuming Membership in the World Bank,' in *At the Front Line: Reflections on the Bank's Work with China Over Forty Years, 1980-2020.* 40 years of Partnership, World Bank Group, 23: https://documents1.worldbank.org/curated/en/643531627030598596/pdf/At-the-Front-Line-Reflections-on-the-Bank-s-Work-with-China-over-Forty-Years-1980-2020.pdf.

[56]Branko Milanovic, 'How China Escaped, and Eastern Europe Was Felled by, the Volcker Shock': http://glineq.blogspot.com/2021/06/.

[57]Katherine Marshall, *The World Bank: From Reconstruction to Development to Equity* (London and New York: Routledge, 2008) 48.

[58]Meeting on Bank Operation Program, Geopolitical Files, China Trips, McNamara Papers, LOC, 8.

[59]On NIEO see the special issue 'Toward a History of the New International Economic Order', *Humanity* 6, no. 1 (spring 2015); on the rise and fall of development economics, see Paul Krugman, 'The Rise and Fall of Development Economics', in *Development, Geography, and Economic Theory*, ed. Paul Krugman (Cambridge, MA and London: MIT Press, 1995), 1-31.

[60]Lorenzini, *Global Development*, 156-7; 'Declaration on the Establishment of a New International Economic Order', Resolution Adopted by the UN General Assembly, 1 May 1974: http://www.un-documents.net/s6r3201.htm

[61]Samuel Moyn, *Not Enough. Human Rights in An Unequal World* (Cambridge, MA: Harvard University Press, 2018), 139.

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In the late 1970s, attempts were made to have these two visions co-exist. However, pushed by the growing centrality of human rights in the discourse of international politics, the basic needs version prevailed as NIEO gradually lost its appeal and the partial support of the Carter Administration. At the turn of the decade, development was *de facto* interconnected with human rights, and NIEO would be progressively defeated. What emerged out of this shift was a vision of development tied to the mismanagement of foreign aid by developing countries, which often were those with the worst human rights records.[62]

China rescued the Bank when the shift from basic needs to mismanagement was still in transition, giving the institution a chance to reassure the PRC that the Bank was not just a financial institution exclusively focused on loan management. It was another message of friendship that the Bank was sending to Beijing, to not worry about an intrusive bank. What was more, the Bank also wanted to re-affirm that many of the features of 1970s development were still valid, that it continued to care about fighting poverty and improving education, and also that it did not oppose a public role in the economy. Assisting the PRC in its efforts to reduce poverty in its poorest rural areas was one of the three main goals that the Bank had set in the CPP.[63] Lastly, political imperatives obliged the Bank to turn a blind eye to China's human rights records.

Among those pleased by seeing the Bank as a development institution was Chinese Vice Premier Gu Mu. Gu had been a prominent figure in China's recent political economy. In July 1978, he had led a study mission to Western Europe that resulted in a State Council decision to lift China's self-imposed ban on borrowing from Western countries and agencies, marking a decisive turnaround in China's recent economic history.[64] Like the Bank, China was also looking for stability. The cause of the agitation was the PRC's re-adjustment.

After the initial opening up of the economy in 1977, the PRC began importing foreign industrial plans in order to build new facilities with Western technology, the so-called 'Western Leap Forward' promoted under the first post-Mao Chairman, Hua Guofeng. Ministries compiled long wish-lists hoping that the government would satisfy their requests. But officials in the Ministry of Finance kept an eye on their country's level of foreign currency, which was needed to acquire overseas plans. After an initial euphoria, with foreign reserves accounting for only $4 billion, Vice-Premier Chen Yun convinced the initially impatient Deng that a U-turn was necessary. Chen's economic policies encompassed balanced planning, investment cutting, and the avoidance of excessive trade debts. The deficit had grown due to the costs of the 1979 Sino-Vietnamese War, as well as a decline in agricultural taxes and an increase in agricultural procurement prices paid to farmers.[65]

Gu had initially pressed hard for a very expansive economic policy in 1977-78. Subsequently, he sided with Chen. While re-adjustment had been officially embraced since January 1979, there were dire conflicts about its intensity. Gu favoured full re-adjustment, while other Vice-Premiers Yu Qiuli and Kang Shi'en opted for softer corrections. Deng too was undecided. Hence, re-adjustment was often chaotic to implement for provinces and local municipalities.[66]

For all these reasons, the April 1980 meeting between Gu Mu and McNamara was an encounter between two shaky leaders. It also revealed how Chinese leaders' emotions and assessments of their country's past and current development status diverged from those of the Bank.[67] Or so it seemed. Gu proclaimed that China 'was still a rather poor country which appreciated the Bank's help'. In response, McNamara noted that although the current level of development was low,

[62]Lorenzini, *Global Development*, 154-9.

[63]China Country Program Paper, WBA 9.

[64]Gewirtz, *Unlikely Partners*, 35-6.

[65]Naughton, *Growing Out of the Plan*, 65-70, 74-6; Ezra Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2011), 424-30.

[66]Frederick C. Teiwes and Warren Sun, 'China's Economic Reorientation After the Third Plenum: Conflict Surrounding "Chen Yun's" Readjustment Program, 1979–80', *The China Journal* 70 (July 2013): 167-8.

[67]Weber, *How China Escaped Shock Therapy*, 104.

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China had recently made 'substantial progress' in the fundamental indicators of development such as 'mortality and fertility rates and education'.[68]

McNamara's judgment was informed by studies that the World Bank had recently conducted on China's development. In one briefing that made its way to the World Bank president's desk just before the trip, credit was given to the Chinese leaders, as 'they attempted to deal seriously with the human dimension of the development problem before this issue received attention from most other world leaders'. The attention paid to human resources was 'one of the most impressive achievements of the Chinese development experience'.[69] The effort had led to virtually universal access to education services and primary healthcare delivered in the rural areas, during the Cultural Revolution, by barefoot doctors and by measures taken to control infectious diseases.[70]

Such studies, all of which contributed to the 1983 official volume, were emblematic of the Bank's initial posture and diplomatic savoir-faire. It remains hard to believe that the turmoil of the Cultural Revolution, which seriously hollowed educational institutions for more than 10 years, could have achieved the results described in the report.[71] Instead, the significance of the document rested on the attention that the World Bank still dedicated to human capital issues when evaluating a country's economic performance. In its dealings with China, the Bank was not solely dominated by an 'apolitical, technical, and economic rationality'.[72] Comparatively, it set the Bank's approach in China apart from that of other countries. Regarding Kenya, for example, all of the Country Program's Papers stopped mentioning socio-political problems by 1981, and exclusively turned to macroeconomics and finance.[73]

Similarly, for the Bank, 'today, life expectancy at birth in China is close to that in developed countries', and China's death rate was 'half that of middle income countries' and 'reported to be even less than that of the industrial countries'.[74] In reality, Chinese living standards had improved quite slowly over the prior three decades, mostly due to the PRC's choice to focus its economic development strategy on heavy industry and military build-up, sacrificing agriculture and consumption.[75] China was also a very poor country whose GNP growth had not been sufficient to catch up with the rest of the developed world, and where, in 1978, one third of its rural population, approximately 250 million people, was still living in poverty, which had not been reduced as well as it had been in South Korea or Taiwan, countries with similar poverty levels in 1950.[76] Despite this gloomy outlook, these first encounters and reports confirmed the Bank's gambit in the PRC. The Bank's faith in China was clearly underscored.

[68]Meeting with Vice Premier Gu Mu, Beijing, April 13, 1980, Geopolitical Files, China Trips, Box I 99, McNamara Papers, LOC, 1.

[69]Human Resource Development and Employment, Development Performance and Issues, Economic Brief/1, attached to People's Republic of China, Briefing Material Mr. McNamara, Prepared in March, 1980, Country Files: China-Correspondence 01, WBA, 1.

[70]Dwight Perkins and Shahid Yusuf, *Rural Development in China* (Baltimore and London: John Hopkins University Press, 1984), 139-40.

[71]Xin Meng and Robert Gregory, 'Exploring the Impact of Interrupted Education on Earnings: The Educational Cost of the Chinese Cultural Revolution', Forschungsinstitut zur Zukunft der Arbeit Institute for the Study of Labor, Discussion Paper No. 2548, January 2007: http://ftp.iza.org/dp2548.pdf.

[72]Weaver, *Hypocrisy Trap*, 76.

[73]Kapur, *The World Bank*, 292.

[74]Human Resource Development and Employment, Country Files: China- Correspondence 01, WBA, 1.

[75]Naughton, *Growing Out of the Plan*, 52-3.

[76]Weber, *How China Escaped Shock Therapy*, 90; Justin Yifu Lin, *Demystifying the Chinese Economy* (Cambridge: Cambridge University Press, 2011), 6; Martin Ravallion, 'Poverty In China Since 1950: A Counterfactual Perspective', National Bureau of Economic Research Working Paper No. 28370, January 2021: 1-2: https://www.nber.org/papers/w28370.

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Sharing economic analysis

Chinese leaders had never shied away from admitting that they had to deal with some serious problems. During the April 1980 meeting, Deng proved to be more blunt — and theatrical — than Gu. 'Economically speaking, China should be considered as a backward country, although now there was the euphemism of calling these nations "developing countries"', he commented. For his part, McNamara expressed a more generous assessment: Yes, China was poor, but 'backward' might not have been the best word to describe a country with 6,000 years of history.[77] The exchange was exemplary of both the Bank's and China's strategies. McNamara behaved like a diplomat, using flattery and graciousness to please his host. Deng emphasized poverty because China was truly poor, but also because the poorer China looked, the more IDA it could receive.[78]

When the World Bank visit took place, domestic commitments kept Deng busy. In April 1980, China's State Council was conveying a conference on future economic planning after big organizational changes had taken place at the fifth plenum of the Chinese Communist Party (CCP) in February 1980, when new leaders such as Zhao Ziyang and Hu Yaobang were appointed members of the Politburo Standing Committee. Shortly afterward, Zhao began chairing the newly formed group of the Party's Centre finance and economic leadership. While consensus on re-adjustment was solid, conflicts over its intensity were fervent between Hu and Chen Yun.[79]

As re-adjustment gained momentum, Deng's message about relying primarily on China's strengths stood in stark contrast with the growth strategy relied upon by almost all developing countries, as well as those in Eastern Europe undergoing post-socialist transitions: that of heavy overseas borrowing.[80] In 1980, China's foreign debt over GDP was only 4%. By contrast, Hungary's stood at 44% (debt/GDP), and Poland's at 66%.[81] This meant that outsiders could never set the rules of China's economic policy. The Bank was aware of this, and it concluded that the nation's economic potential could be realized only 'on the success of the Government's program of reform and adjustment in the 1980s'. From the Bank's perspective, it ought to help China eliminating its main 'bottlenecks in the economy' through 'better planning and project analysis and improved economic management and production know-how'.[82] During the debt crisis of the 1980s, it became evident that poor countries needed sound information about economic development. This was a task that international institutions had to provide, and which the Bank had fell short of fully offering in the past.[83]

The Bank's first goal with China was indeed to facilitate Beijing's integration into the world economy and community.[84] However, the Bank prompted this outcome with a tone that was never prescriptive. Why? In 1980, the Bank made its first structural adjustment loans to Turkey and Kenya. While policy loans required governments to interfere less in the economy, their implementation was a big burden, and they had to be continuously monitored in order to check that the recipient country would fulfil all of the conditions. Thus, the Bank had to be selective. Between 1980 and 1981, ten proposals of Structural Adjustments Loans (SAL) were blocked

[77]Meeting with Vice-Premier Deng Xiaoping, Geopolitical Files, China Trips, McNamara Papers, LOC, 2.

[78]Julian Gewirtz, *Never Turn Back. China and the Forbidden Story of the 1980s* (Cambridge, MA, and London: Harvard University Press, 2022), 75.

[79]Teiwes and Sun, 'China's Economic Re-Orientation', 178-9.

[80]For Deng's stress on relying on China's own strengths, see Meeting with Vice-Premier Deng Xiaoping, McNamara Papers, LOC, 2.

[81]Martin Raiser, 'Lesson for Whom, From Whom? The Transition from Socialism in China and Eastern Europe Compared', Kiel Working Paper, No. 630, May 1994: 9, Kiel Institute of World Economics, Kiel.

[82]Country Program Paper, WBA, 8,9.

[83]James, *International Monetary Cooperation Since Bretton Woods*, 407.

[84]China, Country Program Paper, WBA, 8.

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because the Bank retained borrowers unprepared to receive loans.[85] Early SALs also had so many conditions that borrowers were confused about what to prioritize.[86]

In addition to its carefulness, the Bank was also in the midst of a theoretical and practical shift regarding development. During the 1970s, the two-gap model developed by Hollis Chenery had proved inefficient. The model assumed that exports could not be the only source of accumulation of foreign reserves for developing countries. Concessional foreign aid was also needed to help acquire foreign currency and pursue economic growth.[87] For example, when India flirted with the idea of fully renouncing foreign aid in 1973, worth only 1% of its GDP, 'McNamara told M. G. Kaul, India's secretary of finance, that such a policy was "dangerous and counterproductive", and that "it was unrealistic to expect that India could be able to continue her development efforts at a reasonable pace without a positive transfer of foreign aid"'.[88]

Indeed, lending soared in the 1970s. Beyond India, Turkey was also an exemplary case: Ankara borrowed consistently in order to pursue import substitution, but it ran into a financial crisis in the late 1970s which forced the adjustments of the early 1980s.[89] So the Bank was aware that it had given wrong advice and that it had pursued a growth-at-all-costs strategy that had remained sustainable only as long as private lending, often given with real negative interest rates, was made possible by a huge amount of recycled petrodollars.[90] However, the Bank failed to see a mounting debt crisis coming, at least until the second oil shock. When the crisis hit, it was too late, and lending shrunk due to a reduced money supply and higher interest rates.[91] To aggressively tell China what to do could have exposed the Bank to another failure. At the same time, the Bank wanted to show that it had learnt its lesson and was able to give prudent advice under new circumstances.

China was also obliged to go it alone. Shrinking global trade during the early 1980s, coupled with the steady rise in interest rates, compelled Beijing to rely primarily on its own resources. Ideally, the bulk of the PRC's foreign capital requirements needed to come from export credits and commercial loans, most of which were subject to market terms and had short periods of maturity. However, according to the Bank, it was 'inopportune' during China's initial phase of joining 'the world capital market' to borrow money at market rates during a period when interest rates were outpacing the inflation rate, therefore with positive real interest rates.[92]

Indeed, as underlined in the Country Paper, the Bank believed that, for the time being, a low-interest borrowing strategy was the only way to sustain medium- and long-term growth plans. In fact, the Bank's projections on China's trade statistics illustrated 'the fragility of China's balance of payments prospects and the country's need for a reasonable amount of concessionary capital in order to maintain moderate growth while keeping its debt servicing burden within a manageable limit'.[93] On the need for a sustainable long-term growth strategy, there was convergence with the Chinese. Gu noted that he preferred to slow the pace of economic reforms rather than face complications related to debt repayment.[94] A few months later, Zhao agreed, adding inexperience

[85]Kapur, *The World Bank*, 517.

[86]Mosley, Harrigan, and Toye *Aid and Power*, 43-4.

[87]Babb, *Behind the Development Banks*, 50.

[88]Kapur, *The World Bank*, 297.

[89]A. Aydin Cecen, A. Suut Dogruel, and Fatma Dogruel, 'Economic Growth and Structural Change in Turkey 1960-1988', *International Journal of Middle East Studies* 26, no. 1 (February 1994): 38-9, 44-6.

[90]Francisco H.G. Ferreira and Louise C. Keely, 'The World Bank and Structural Adjustment: Lessons from the 1980s', in *The World Bank: Structure and Policies,* ed. Christopher L. Gilbert and David Vines (Cambridge: Cambridge University Press, 2000), 162.

[91]Mosley, Harrigan, and Toye*, Aid and Power*, 22.

[92]Country Program Paper, WBA, 11.

[93]Ibid., 12.

[94]Meeting with Vice Premier Gu Mu, Geopolitical Files, China Trips, McNamara Papers, LOC, 4.

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in using foreign funds as a cause of prudence.[95] In a speech in late 1980, Chen himself had agreed that loans from the World Bank might be useful in the future, but only if used carefully.[96]

Gu's remarks about debt also revealed why a structural adjustment approach could not be on the agenda. As noted, Beijing had not been borrowing from Western banks in the 1970s, and therefore had nothing to restructure requiring the restitution of loans.[97] Therefore, there was nothing to impose on the PRC requiring policy changes. The Bank did not have to demand that the PRC implement certain macroeconomic policies, and most certainly would not have had the leverage to do so, let alone the fact that Beijing would not have tolerated it.[98] The Bank knew that pressing China too much would have been detrimental and astutely limited its goal to offer, not dictate, 'suggestions and options' on issues related to China's creditworthiness and development strategies.[99]

The Bank was also well aware that the PRC was in the midst of its own adjustment. In early 1981, Husain would conclude in a letter to McNamara that 'the fierce debate in China over the direction and pace of the country's development seems to be resolving itself in favour of financial conservatism and a determination to move more slowly with the investment program while studying projects more carefully'.[100]

It is important therefore to reflect on the compelling convergence of actions that China and the World Bank shared in favouring sustainable economic policies aimed at correcting imbalances in the short term and promoting growth in the long term. Within this convergence of intentions, time had come to start lending. Due to a lack of financial support for the development of China's education, the Foreign Investment Management Committee, a branch of the State Council founded in July 1979 to supervize and manage foreign capital, had proposed prioritizing and investing WB funds towards education.[101]

Despite 'severe constraints' still existing on the Bank's capacity to lend to Beijing, and despite the fact that it normally took the Bank between eighteen and twenty-four months to prepare a project for financing, it ultimately would take only eight months to negotiate, sign, and approve the first project. The project was signed in June 1981, and went into effect in early 1982, with a blend of \$100 million IDA and \$100 IBRD.[102]

This fast-tracked disbursement was the result of China's pressures. The PRC had already successfully asked the Japanese government to simplify and accelerate its lending procedure to Beijing. Gu made the same request to the World Bank. While the Bank was prone to do so, the education project was already 'at an advanced stage of preparation'. Therefore, further work was not necessary.[103] This supersonic speed was also the result of the Bank's anxiety about seeing its capital quickly disbursed. The impasse created in the late 1970s over the slow disbursements of accumulated capital, which angered the Bank's donors and especially the US taxpayers, was one of the main factors that had pushed McNamara to introduce structural adjustment. The Bank was under pressure to use its funding as quickly as possible, and lending to the PRC showed that the Bank's resources were not immobilized.[104]

[95]Ziyang Zhao, *The Collected Works of Zhao Ziyang (1980-1989), Vol. 1 (1980-1982)*, ed. editorial group of *The Collected Works of Zhao Ziyang* (Hong Kong: Chinese University Press, 2016), 48-51.

[96]Chen Yun, *Chen Yun Wenxuan* [Selected Works of Chen Yun], Volume III, (Beijing: Renmin Chubanshe, 1995), 100.

[97]James, *International Monetary Cooperation Since Bretton Woods*, 551.

[98]Mosley, Harrigan, and Toye, *Aid and Power*, 78.

[99]Country Program Paper, WBA, 17.

[100]Recent Changes in Economic Policy' sub section of 'CHINA-Recent Developments, Memorandum from Shahid Husain to Robert McNamara, January 9, 1981, Country Files: China-Correspondence 02, WBA, 4.

[101]Mu Gu, *Gu Mu Hui Yi Lu* [Autograph of Gu Mu] (Beijing: Central Party Literature Press, 2009), 314-16.

[102]Meeting with Vice Premier Gu Mu, Geopolitical Files, China Trips, McNamara Papers, LOC, 6; Jacobson and Oksenberg, *China's Participation in the IMF,* 111.

[103]China—Mr. Husain's meeting with Vice-Premier Gu Mu, Beijing, 24 July 1980, Memorandum from Caio-Koch-Weser to FILES, 11 August 1980, Country Files: China-Correspondence 01, WBA, 5, 4.

[104]Sharma, *Robert McNamara's Other War*, 144-5.

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The education loan was disbursed to the PRC's Ministry of Education (MOE) in order to support the work of twenty-eight higher institutions. The aim of the loan was to boost the quality of graduate training, as well as to raise the number of students undertaking postgraduate degrees. Against MOE's intention to spend all $200 million on equipment, the Bank insisted that 20% needed to be allocated for human capital training. The China Education Project did a lot to bolster the China-Bank Partnership in 1980-81, setting the tone for what would come in following years.[105]

Towards the First Economic Report

There was no time to waste in the wake of the first official visit. In July 1980, Husain travelled to China to discuss project priorities and the procedures for project assessment, monitoring, and loan payment. Ultimately, the mission would reach an agreement with the PRC on the most significant procedural principles.[106] However, for the time being, re-adjustment was biting China hard.

In fall 1980, the situation in China was concerning. As Frederick Teiwes and Warren Sun write, 'Economic policy-makers were becoming increasingly aware that the situation was potentially spinning out of control. State revenues were in decline, and by the end of the year investment reached 75.8 billion yuan, well in excess of Chen's prescriptions.' Inflation reached 6% in November, and the majority of the Chinese leadership came to the conclusion that a stronger adjustment, formulated by Zhao, was required. It was a hard pill to swallow: 'a drastic 40 percent "haircut" to overall budgetary investment, a cutback in state capital construction investment by nearly half, shutting down many large and medium projects, holding back bank loans for fixed investment and freezing enterprise bank deposits'. The intensification of re-adjustment also affected a continued political battle against the past policies of the Hua-Guafeng interregnum. It was a case 'of thoroughly under-mining any remaining leftist thinking on economic matters'.[107]

The Bank, which was always keen about political stability, understood that things could have slipped out of control. While Husain had trust in the Chinese Communist Party's ability to lead the masses, the authors of the Country Paper held a more balanced position.[108] China's economic performance during the 1980s was hard to predict given 'the considerable uncertainty about the political situation'. Improving people's standards and the overall efficiency of the economy were clearly the key metrics of future successes. However, 'internal economic liberalization and freer interchange with the West inevitably involve political risks, which, if not demonstrably offset by economic benefits, could seriously undermine the position of the current leadership'.[109] For the time being, it was crucial to understand whether re-adjustment could hamper reforms. Both the Bank and China shared the view that these two were mutually re-enforcing. Edwin Lin, the Bank's leading China economist in the 1980s, commented at the end of 1980 that 'Reforms should therefore make it easier to achieve adjustment'.[110] This was the dominant view among Chinese policymakers.[111]

Adjustment aimed not only to correct the overly ambitious investment programme of the late 1970s, but also involved the ways that the PRC would reshape its entire economy. In July 1980, Zhao explained to Husain that 'the overall goal of restructuring is to integrate socialism with an

[105]Jacobson and Oksenberg, *China's Participation in the IMF,* 111-12.

[106]Bottelier, 'China and the World Bank', 243-4.

[107]Teiwes and Sun, 'China's Economic Re-Orientation', 182, 184-5.

[108]CHINA-Mission Report and Recommendation, Memorandum from Shahid Husain to Robert McNamara, July 27, 1980, Country Files, China, Correspondence 01, WBA, 5.

[109]Country Program Paper, WBA, 7, 8.

[110]Economic Mission to China, General Wrap Up Meeting, 12/11/80, attachment to 'CHINA-Recent Developments,' Country Files: China-Correspondence 02, WBA, 8.

[111]Ezra Vogel, *Deng Xiaoping and the Transformation of China*, 430.

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open economy, based on commodity economy (or market economy)' by integrating centralized control with market. Serving as Premier since September 1980, he underlined that planning and markets would coincide by giving enterprises 'more independence vis-á-vis central and local governments' on their production plans, marketing, and cost accounting, and in the longer term by enabling market forces to fully determine production plans.[112]

In the PRC, the flourishing of markets ought to still occur within a reinforced planning system. This is what was concluded by the Bank's first economic delegation to spend an extended period of time — two months in late 1980 — in the PRC. The mission was tasked with producing the Bank's first report on China that would serve as the basis of the three-volume study on the Chinese economy that would be released in 1983 as 'China: Socialist Economic Development'.[113] In the economic mission's final report, Husain indicated that to strengthen planning required better statistical analysis.[114]

The problem was that poor planning, inefficient decentralization, and an inadequate use of its resources had been costly for the PRC. According to the Bank, inefficient planning in the past had not raised living standards, but in fact exacerbated the shortcomings and bottlenecks of the system — from overly centralized control, to 'the inadequate use of prices as an instrument and insulation of production from demand', to excessive focus on heavy industry and isolation from foreign capital and technology. Regarding this last point, some Chinese who met the first Husain delegation admitted that 'many of the technical advances in industry during the last 30 years have bypassed China'.[115] This lack of familiarity with foreign capital had also contributed to stagnant productivity, especially in heavy industry.[116]

As documented, from the start of the partnership, the Bank had prudently advized China to undergo a process of gradual integration in the global economy. In 1983, Zhao told World Bank president Clausen: 'It should be explained that through assistance the developed [nations] gain as much as the developing. No developed nation can operate in isolation, can secure on their own their recovery. Gone is this era.'[117] Clausen agreed, pointing out to Deng that the global economic crisis could only be solved through a coordinated effort. Developed nations could not grow without trading with developing nations.[118]

The conversation reflected the changing global dynamics of 1983. The Bank considered the 1982 debt crisis as one with potentially endangering effects for the whole credit system, and not only for the economic health of borrowing countries. In other words, developing nations were feared to spread their own balance of payments crisis worldwide. The solution adopted to avoid this outcome was to go for a one-off shot of liquidity, coupled with adjustment, that would have put indebted countries back on the right track, that of export-led growth. A binary, that of growth and exports, China could pursue as well.[119]

Talks about trade came in the midst of a critical moment for the Bank. Clausen has been viewed as having been appointed to administer the Bank's transition to a more-friendly environment for supply-siders, trade liberalizations, and the forces of the free market. He appointed Anne Krueger as the chief economist of the Bank that had stopped to prioritize equity and poverty, just as it had during the 1970s.[120]

[112]Mr Husain's meeting with Vice Premier Zhao Ziyang, Beijing, July 16, 1980, Memorandum from Caio Koch- Weser to Files, July 29, 1980, Country Files: China-Correspondence 01, WBA, 1-2.

[113]Bottelier, 'China and the World Bank', 244.

[114]CHINA-Recent Developments, WBA, 3.

[115]CHINA-Mission Report and Recommendation, WBA, 3-4.

[116]Loren Brandt and Thomas G. Rawski, 'China's Great Economic Transformation', in *China's Great Economic Transformation,* ed. Loren Brandt and Thomas G. Rawski (Cambridge: Cambridge University Press, 2008), 6.

[117]Mr Clausen's Interview with Premier Zhao Ziyang, IBDR, FINSU-Financial Adviser, China-1981-1986, WBA, 7.

[118]Mr Clausen's Interview with Chairman Deng Xiaoping, WBA, 6, 7.

[119]Kapur, *The World Bank*, 26.

[120]Ibid, 338-9, 511-12.

The Bank was more influenced by the increasingly conservative political environment. After the outbreak of the 1982 debt crisis, the US government chose not to end its support for Multilateral Economic Institutions, but rather to capitalize the crisis in order to remodel the role of Multilateral Development Banks (MDBs) in ways more consonant to US global economic interests.[121] Therefore, the publication in February 1982 of a Treasury Document entitled 'United States Participation in the Multilateral Development Banks in the 1980s' marked a turnaround for the World Bank's relationship with Washington.

In the report, the Treasury concluded that MDBs should act as 'policy advisor[s]' to influence recipient countries to implement long-term reforms in areas deemed strategic for the spread of free market principles. The latter had now become the main motive behind US support for MDBs: 'US support for the MDBs should be designed to encourage adherence to free and open markets, emphasis on the private sector as a vehicle for growth, minimal government involvement, and assistance to the needy who are willing to help themselves.'[122]

The partnership with China continued to grow steadily throughout the early 1980s. The country showed that it was willing to help itself and this was what the Bank was looking for to prove that the policies that it pursued during the 1970s, as well as the new ones of the 1980s, had been and were continuing to be effective. The PRC was becoming a visible example that liberating productive forces created economic growth that assisted the needy.[123] The PRC gave the Bank the chance to claim that it had gotten it right, and that governments doing what the Bank had prescribed bore successes.[124]

Beyond giving the Bank a valid reason to assert that its economic doctrines were correct, political pressure from the US government also motivated continued support for China. In 1982, the United States was seeking to reconcile its relationship with Beijing after the 1981-82 crisis over Taiwan over US arms sales to the island. Though still aligned with the US, China proclaimed an independent foreign policy in 1982.[125] After many ups and downs, the US-China relationship had to be normalized and expanded because it was always going to be in the American interests to encourage 'a stable China, constructively tied to the West and to the World Community', as a paper prepared by the Policy Planning Staff, the strategic arm of the US State Department, observed in September 1982.[126] The World Bank was a perfect ally to continue keeping China anchored to the West.

In the aftermath of the publication of the Treasury document, American funding for MDBs did diminish. However, as Sarah Babb observes, 'so relieved were other donors that the United States was not pulling out of the banks altogether [because of the debt crisis] that they were willing to make significant concessions to avoid future problems. These concessions included allowing the United States to both reduce its own contributions and hold down the contributions of other donors'.[127]

In the meantime, as anticipated, re-adjustment in China came to an end between late 1982 and 1983. In 1982, the budget deficit declined to 2.6% from almost 12% the year before.[128] Chinese

[121]Babb, *Behind the Development Banks*, 106-8; Weaver, *The Hypocrisy Trap*, 76.

[122]'United States Participation in the Multilateral Development Banks in the 1980s', Department of the Treasury (Washington, DC, February 1982), 1, 7.

[123]Yasheng Huang, *Capitalism with Chinese Characteristics. Entrepreneurship and the State* (Cambridge: Cambridge University Press, 2008), 53.

[124]Kapur, *The World Bank*, 332.

[125]Sergey Radchenko, *Unwanted Visionaries. The Soviet Failure in Asia at the End of the Cold War* (New York: Oxford University Press, 2014), 4.

[126]'Planning Considerations for US-China Policy,' Paper Prepared in the Policy Planning Staff, undated, attached to 'Some differing thoughts on our emerging China strategy', Information Memorandum From the Director of the Policy Planning Staff (Wolfowitz) to Secretary of State Shultz, Washington, 22 September 1982, FRUS, 1981-1988, Volume 1, Foundations of Foreign Policy, Document 118, 450.

[127]Babb, *Behind the Development Banks*, 111.

[128]Gewirtz, *Unlikely Partners*, 115.

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officials grew confident in setting long-term goals and in advocating for the investment programme being expanded to prioritize energy, transport, and infrastructure. They recognized that overseas borrowing could assist.[129] In a 1983 meeting with Clausen, China's Vice Prime Minister Li Peng stated that China's fast-growing foreign trade necessitated larger amounts of 'working capital'. He stressed that gaining 'access to concessional borrowing abroad was of vital importance'.[130] After that lending had stagnated in 1982, between late 1982 and 1983, a new pipeline of projects was approved. Among many sectors, loans went for agricultural techniques in the Yellow River and the ports of Guanzhou, Shanghai, and Tianjin.[131]

In late 1983, when the World Bank had learned more about IDA prospects, the goal became to secure a new IDA replenishment large enough to provide substantial funding to 'both the pure IDA countries and those, like China, whose economic position made them eligible for both IDA credits and IBRD loans'. However, the Reagan administration went for a replenishment of $9 billion — in real terms, some 40% less than the previous replenishment level of IDA 6. Beijing sought to convince all major donors of the need for a larger replenishment, but the attempt failed.[132] Loans destined for China totalled $613 million in 1983 and $1 billion in 1984, while IDA loans went from $153 million in 1983 to $423 million in 1984. Approved projects increased from six in 1983 to ten in 1984, including a new education project and others targeting areas of priority investment for the PRC, such as a railway project and two oil projects.[133] The fact that lending to China grew during times when shrinking private lending was not offset by foreign aid is a noticeable by-product of the Bank's special focus on the PRC.[134]

Since the overall sluggish funding did not damage China's position, Zhao's visit to the United States in early 1984 was the culmination of the first phase of the World Bank-China relationship. The first three-volume study, published a year earlier, had been very helpful, according to Zhao. Greater expectations were invested in the second report that was being prepared at that time and Zhao publicly stated that if some parts of it 'did not reflect properly the reality of China, his government would not mind'.[135] The reformist faction headed by Zhao was publicly inviting the World Bank to have a greater say in China's domestic affairs. The Bank should not have felt constrained about hurting the Chinese government with some undesired advice, as Zhao was using the Bank to bolster his own vision and strengthen his own reformist agenda. It would have been highly unthinkable just a few years earlier.

Conclusion

In 1980, the opportunity to incorporate China was a chance that the World Bank could not pass by. The Bank needed the PRC as part of its broader strategy to regain prestige after a decade in which the status of the institution had declined. Besides, the outcome of the PRC reform efforts could also have produced a significant impact beyond Chinese borders. The Bank could not afford to sit on the sidelines. Indeed, in the 2000s, many World Bank economists would argue that

[129]Naughton, *Growing Out of the Plan*, 134.

[130]CHINA—Mr. Clausen's Meeting with Vice-Prime Minister of Finance Li Peng, Washington, 26 April 1983, Memorandum from Caio Koch-Weser to Files, May 5, 1983, Country Files: China-Correspondence 03, WBA, 1-2.

[131]Weser, 'How It All Began', 23-4.

[132]Briefing Note: Meeting with Premier Zhao Ziyang, Wednesday, January 11, 1984, at 11:45, Madison Hotel, Memorandum from Attila Karaosmanoglu to Clausen, January 9, 1984, Country Files: China-Correspondence 03, WBA, 2. For data see also Babb, *Behind the Development Banks*, 111.

[133]'The World Bank Group in China: Facts and Figures, 1980-2020', The World Bank Office, Beijing, July 2020', 1-1: https://thedocs.worldbank.org/en/doc/777941604392304764-0070022020/original/ffs2020en.pdf.

[134]Kapur, *The World Bank*, 25.

[135]Mr. Clausen's meeting with Premier Zhao Ziyang, Washington, 11 January 1984, Memorandum from Caio Koch-Weser to Files, 11 January 1984, Country Files: China-Correspondence 03, WBA, 1.

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China's success in reducing poverty was a confirmation of the benefits of globalization.[136]

In the early 1980s, when no one could have predicted China's success, the Bank had an interest in understanding the PRC and in facilitating its economic transition taking into full consideration the strengths and weaknesses of that country. Ultimately, the World Bank sought not to operate 'in a state of more or less total ignorance of the cultures, languages, or institutions', when it worked with Beijing.[137] As documented, it recognized its initial ignorance and acted prudently. The Bank was fulfilling its task by providing mostly technical advice to an authoritarian sovereign state.[138]

This article has provided a first step in assessing the real material contribution the World Bank offered to China's economic development, while also raising important questions for future research. The latter will need to wait for the day when archives in the PRC, which are indispensable to fully assessing the official view of the Chinese government regarding the work and the advice of the Bank, will be more easily accessible.

Undoubtedly, the PRC deserves the lion's share of credit for the achievements of this period. Nonetheless, as has been shown, the Bank's role was not insignificant. Indeed, it facilitated China's gradual and prudent integration into the world economy by acknowledging that, while deficient overall, some of the economic foundations the PRC had built during its socialist period had contributed to what would become spectacular growth over the following four decades. Centring efficiency as its main counsel to Chinese economists and policymakers, the Bank eschewed the dichotomy of plan versus market from the start of its collaboration with the PRC. It encouraged China's pursuit of growth through a more efficient and decentralized planning system in which markets would be allowed to grow as long as they enhanced peoples' living standards.

Equally important, the Bank encouraged and assisted the development of this mixed system during a decade in which its role and ideological convictions were undergoing significant changes. Therefore, the policies the World Bank pursued with the PRC in the early 1980s demonstrate that reducing that decade simply to one in which free markets triumphed over national governments, equality, and social justice overlooks country-specific situations where this was not the case. The China-World Bank partnership proves otherwise, inviting a further reassessment of this narrative and additional reflection on how countries and global financial institutions rebranded economic policies during the early 1980s.

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[136] Huang, *Capitalism with Chinese Characteristics*, 53.

[137] Mark Mazower, *Governing the World: The History of an Idea* (Penguin: London, 2012), 317.

[138] William Easterly, *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor* (New York: Basic Books, 2014).

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