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**Transcript of interview with**

**CAIO KOCH-WESER**

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## FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*Caio Koch-Weser*  
*December 21, 1992 - Verbatim*

**[Begin Tape 1, Side A]**

**LEWIS:** Tell us about your connection with China in the Bank. When did you . . .

**KOCH-WESER:** Well, I was [Robert S.] McNamara's personal assistant at the time when the Chinese came in February 1980 and asked for membership, which was kind of out of the blue because since Nairobi in 1973 there had been no official contact. I think there had been one or the other contact, [Moeen] Qureshi meeting some Bank of China officials on a junk, a boat in Hong Kong, and things like that, but it came really as a total surprise, although people thought that after the normalization of relations with the U.S. in 1979 this might come next. So I simply happened to be his personal assistant. And then because there was virtually nobody in the Bank focusing on China—we had Ed [Edwin R.] Lim, who then later became one of my associates to work with me on China, who had done some work for *WDR* [*World Development Report*] and other purposes on the Chinese economy, who was pulled in, but there was nobody else.

So since McNamara went to China then in early April, I was put in charge, with a few others, to prepare for that trip and accompany him. And when he took this—not secret, but informal or semi-secret—mission consisting of Qureshi, [S. Shahid] Husain, who was then Vice President, East Asia, (Qureshi was Finance, of course, because there were membership issues which he would have to deal with), and [Heribert] Golsong, who was the General Counsel, and myself to China, I became even more involved.

And then it happened that since—I was lucky because I was about, like other assistants, after two and a half years to leave that job, and there were some other alternatives, but Shahid Husain came to me because I had been involved for months intimately with China and said, “Do you want to be my China division chief?”

And I said, “Of course, I'm delighted. I'm surprised you offer it to me because there must be people with much more experience in the Bank as managers than I have.” I was relatively young and had not been a manager, of course, before that job.

And he said, “No, no, but you're the right person. You do it.”

So that's why I got into it. And for actually almost half a year—because McNamara didn't want me to leave the personal assistant job before the annual meetings in October or September, for four or five months I was in a sense managing both the job with him and the job of creating the China division and getting the program going. And then I stayed on China for almost six years.

**LEWIS:** Did you?

**KOCH-WESER:** Almost six years, by choice. I could have moved on to other things, but I felt it was one of the most fascinating things one could do in the early '80s.

**LEWIS:** So you were right up until Javed Burki took over there, is that right?

**KOCH-WESER:** Almost. In 1986, May or June, I moved on to become—Ernie [Ernest] Stern then sent me to West Africa. Then there were these assistant director jobs; I became director directly for West Africa Department. And that was still pre-reorganization, so my successor—because on China I was a division chief; I was not a director under the old structure; I was a programs division chief—although, and I might come back to that, it’s an interesting thing because some of our thinking on the reorganization in ’87, where I was leading the operations team for [Barber B.] Conable, was very much based on my China experience where, because it was a new country, a totally new relationship, the programs division chief--the Mr. China, so to speak--was much more central than normally a programs division chief is. When you have a very strong projects department where you have all the old India hands who know India maybe even better than you do on the programs side, here it was me and one or a few others who had the most knowledge, and we ran the China program de facto (not organizationally on paper), very much like today a country department. I was probably more influential than a programs division chief at that level normally is and was working at least as closely with all the project guys in the project department and divisions as I was working with my program guys. So at least my thinking on what to do in the 1987 reorganization was greatly influenced by the China experience.

But to answer your question, no, in ’86 then Baelhadj Mehghoub, who left the Bank since, came . . .

**LEWIS:** He came to Pakistan?

**KOCH-WESER:** He then went to Pakistan, exactly. He became my successor as programs division chief but not for a long time because then the reorganization kicked in, and Javed Burki became now country director for China.

**KAPUR:** I don’t recall: how did the Chinese first approach the Bank? Sort of a formal letter or more . . .

**KOCH-WESER:** It was very funny, actually. It’s a nice story. I was sitting there in my office sometime in February, late February it was, when there was a call. Blanche [Moore] came in and said, “Look, there’s a call from the Chinese Embassy. They want to talk to McNamara or someone here. I suggest you talk to them first. I don’t really know what it’s all about; they seem to want to come and see him immediately.” But basically the message was the Ambassador wanted to come and see McNamara the same day, immediately, important message. So I said, “Well, he has a very busy schedule and so on; we’ll try to fit it in.”

I forgot now whether it was the same day or the next day, but he came very shortly thereafter to see McNamara. And there was McNamara, him and myself taking notes. And he virtually started that meeting—the minute must be somewhere in the files—by saying, “Look, Mr. McNamara, I’ve come with a message from the leadership that we would like you to visit China within the next three weeks, two or three weeks,

immediately, to discuss membership. And we want to be members almost immediately, within the next few months. And the Chinese leadership would like to discuss this and other matters of international concern and membership with you.” It was really a very exciting moment because we had no idea, no forewarning.

First--of course, I could see McNamara very excited. Of course, he had to say, “Look, my calendar is very full. I cannot possibly make it within the next two or three weeks, but let’s come back to that later. Let me remind you, among others, that to become a member of the World Bank you have to become a member of the IMF [International Monetary Fund] first.”

And the Ambassador said, “IMF? What’s that? Is that this institution in New York, UN or something?”

McNamara said, “No, no, it’s right across the street here, the other building. My assistant, Mr. Koch-Weser, when he accompanies you out, can show you actually where it is.”

And virtually after that meeting I accompanied this Ambassador--who was probably not one of the best informed diplomats; I’m sure Beijing knew better—downstairs, where he also wanted to go to our bookstore immediately and so on, and said, “This is the IMF. That’s where you have to go.”

And sure enough he went to see the IMF indeed the following day and basically made the same request there. But they were really after the Bank, not so much the IMF.

It was an exciting meeting because they basically said, “We want to become full members; we want to learn from you; we want to have all the benefit of your technical advice. Yes, we understand there are also some concessional funds called IDA [International Development Association] which we should as a very poor country be eligible for.” But basically it came from Deng Xiaoping himself: “We want to learn how to integrate ourselves and how to do better on development after all this destruction of the Cultural Revolution,” which was very much, later, on our first trip to China, the basic theme.

One issue that immediately came up, and McNamara had to warn them, was Taiwan. Taiwan was, as you know, then not an active member any more. I think documents were delivered to some mailbox somewhere in town, but they owed us money. There was still—I’ve forgotten the exact number—I think it was somewhere between two or three hundred million they had to repay. And there were with the IMF additional issues on gold holdings and the gold formula and all that kind of stuff. There were some very complex legal and financial issues. And the great concern was that the Taiwan lobby— influential here in town and on the Hill, and obviously China didn’t have too many friends at that time in town—would mobilize a major effort to block Chinese membership or at least delay Chinese membership. Combined with pressures we then got because of the Taiwan lobby from the U.S. and others who however, I guess, also genuinely believed that moving very quickly on PRC membership would jeopardize the ongoing IDA

negotiations, which were going on that same year. And the strong advice and pressure that came from very many quarters McNamara's direction was, "For god's sake, delay this. Don't go now. Let's delay it. There are many ways to finesse it and delay before—you will have no chance to get IDA through Congress," and all the kind of arguments. But McNamara was determined to seize this historic opportunity . . .

**LEWIS:** Do you think the fact that he was leaving soon had anything to do with that?

**KOCH-WESER:** No.

**LEWIS:** No.

**KOCH-WESER:** And he had at that point not even made the decision.

**LEWIS:** He hadn't. Okay.

**KOCH-WESER:** That he made it in the fall of that year, I think. And I don't think he even had to make—well, he might have made that decision—we've discussed that. I think he made it earlier than people realized, but I'm sure it didn't have to do with that. He saw it really as the historic opportunity to make this truly a World Bank and saw the enormous opportunity to work with its leadership. Of course, [Cyrus R.] Vance was then in State and [W. Michael] Blumenthal, I think, was in Treasury, and . . .

**LEWIS:** Now no longer. He left in '79.

**KOCH-WESER:** Maybe. But it was very much also the feeling around town that this is now the big opportunity. For example, we organized very quickly with Mike [Michel] Oksenberg, one of the leading China scholars . . .

**KAPUR:** The one who wrote the book.

**KOCH-WESER:** Yeah. Who, by the way, advised us greatly in early, early on. And the guy—oh gosh, the name escapes me--in Brookings. Doak Barnett.

**LEWIS:** Doak Barnett was in . . .

**KOCH-WESER:** Doak Barnett, who McNamara knew well, Brookings, who might actually be very interesting to talk to, seen from outside how this worked, as well as Oksenberg; the two would be key, I think.

And I remember we had very early on a small think—Doak Barnett organized for me at Brookings, I think it was—a meeting where he brought some of the China scholars together in preparation for McNamara's trip. And only McNamara and myself went, and very much the message, "This is the right time now for the World Bank to come in. You'll find open doors on reform."

But it remained very contentious with Treasury.

The Taiwan thing, we got our lawyers involved. Taiwan in the end was more reasonable. We were talking tough, they were talking tough initially, but the formula was found. So this, beyond the political impact it might have on IDA and so on, not the big issue anymore.

But Treasury was sufficiently concerned—maybe not State—that this would jeopardize IDA and other things that I remember the night before we left for China (I think it was very early April, just before Easter that we went to China) they called McNamara to State. McNamara had conducted some informal meetings with EDs [Executive Directors] to tell them, one, two or three meetings, where we had—I'll come back to the preparatory work we did—when there was not too much opposition. But then there was the opposition in Treasury. And the night before we left McNamara was called to Treasury—I think with two Secretaries of Treasury; Vance was also there—and they really put a lot a pressure on him not to go to China, to even delay his trip that he was undertaking the next day to China, arguing it would create all kinds of problems in the U.S. [inaudible] It was really McNamara's strong leadership and determination that pulled this one off. Otherwise it would have been at great cost, I believe, from dealing with the Chinese then the following six years, in terms of how the way the Chinese saw us and approached us because they saw us as real friends and McNamara as taking some risks.

What we did during these few weeks before he went was to--Shahid Husain already, because it was East Asia, became involved. Ed Lim was pulled out of his China work, parked in a front office there to write initial notes, kind of a mini-CEM [country economic memorandum] on China, and of course the lawyers, Golsong and company, became very much involved in preparing documentation for membership. We didn't tell anybody that we were working already on precise documents here, but basically we had in our briefcases when we went to China in early April already a set of documents that Golsong and McNamara were able to pull out of their bags when we were in China on only the second day. So again the message to the Chinese: "We are ready. We're ready to almost negotiate here and to make it membership in a very short period of time." Of course, they were members then on May 18, I think, or May 15 was the famous date in 1980; only six weeks or five weeks after McNamara returned from China we had the Board [of Executive Directors] meeting on membership.

**KAPUR:** At the same time were you talking with the IMF?

**KOCH-WESER:** Of course. Now in fact—I forgot to say—the IMF went before us because of the procedure. They didn't send—the MD [Managing Director] didn't go himself. They sent—Tun Thin was then the head of the Asia Department (who, by the way, would be another good source on this China thing) and had very good discussions, basically already, again backed by the MD, membership discussions, quota and things, surveillance. And of course they had to start everything like we did in the following years from scratch. The Chinese didn't know a thing: what is the IMF, how does it

survey, what's the procedure. That happened, and we got the feedback from that mission just before we left for China.

The ironic thing was on May 18, then, the U.S. started as the first speaker at that Board meeting on membership saying, "This is the greatest event that one could imagine. We had always been for rapprochement with the People's Republic," totaling ignoring the pressure that they had put McNamara under of course in this former meeting. So we were all sitting there smiling because they had turned it around and were now becoming very supportive of what we were doing in China.

**LEWIS:** Could I just go back for a minute--I don't want to interrupt this narrative—but to the Taiwan business. Is it right that the—the Chinese, however, insisted that Taiwan be sort of disappeared from sight . .

**KOCH-WESER:** Yes, yes.

**LEWIS:** . . in the statistics and so on.

**KOCH-WESER:** Oh, we had a hell of a time. That started, really, while we were in China. Very much so.

**LEWIS:** Let me just add to that that I was, had an in-and-out connection with ADB [Asian Development Bank] at that time, and it came out differently in ADB.

**KOCH-WESER:** But ADB is different. One, it was not China as a founding member. ADB was founded in the '50s, I guess. The China case was also legally different, because people—China, not Taiwan, was one of the founding members but then disappeared in '49, and that made a hell of a difference. Two, the Chinese, when ADB came up—I think that was two years later, a year or two . .

**LEWIS:** '65 or something like that.

**KAPUR:** No, no, '82.

**KOCH-WESER:** '82, two years later.

**LEWIS:** Oh, yes, it came up later.

**KOCH-WESER:** Yeah. The Chinese had become a bit more relaxed, and they were playing it differently in different fora. But with us they were very dogmatic and very firm. They didn't want China [Taiwan] of course to continue as a member; that was accepted. But they didn't want China [Taiwan] to figure in our, as a separate line in the *WDR* or any statistics. They thought Taiwan should just be called a province of China, nothing else, like any other province.



It was very funny, for example, when we delivered our first economic report on China where we were all sweating, with these large teams, this unique event where we worked on this big report. And I went out there fearing all kinds of comments, of course, on substance and so on, which in the end were almost none because they very much liked what they got, which was purely technical. But we had a hell of a time on footnotes that mentioned Taiwan somewhere, on the color on maps that were in all these reports or whether this little island Taiwan was the same color like Xinjiang or some other province and whether the letters were in a different print than the others. And that's where they spent time and time and time. And we had a heck of a time because, of course, some other shareholders also felt strongly the other way around.

The other one, by the way, was borders with India, which was another big mess because we had never cared too much about that. In fact, I remember I was joking with my Chinese friends, I said, "When they erased all the Soviet Union borders then of course we had no problem with the Soviet Union, so," I said, "you can have as much Soviet Union as you wish. Just tell us where you want to put the border." [Laughter] "India, I have to insist; I mean, this is how we want to do it."

**KAPUR:** Then you started to get flak from the Indian ED.

**KOCH-WESER:** Of course. It was a big thing. The Indian ED was adamant: "Why did you change maps that you had for so long?" In the end we kept white prints or didn't show it on maps. There were all kinds of tricks. But that border with India and the Taiwan one was a big thing.

And then it got down to things like do we call it "China comma Taiwan" or we do we call it "Taiwan comma China" and all that . .

**KAPUR:** Taiwan dash Taipei.

**LEWIS:** No, that's ADB.

**KOCH-WESER:** That's ADB.

Well, maybe a few words on the visit itself. It was a few days in Beijing and a few days, a day or two field trips from Beijing, and then a day or two in Guangdong in Canton. Composition of the mission I talked about. It very quickly became really negotiating membership. Golsong spent long evenings with his Chinese counterparts on documents that we had brought in draft. It was very much geared towards accelerating the process. It was a number of almost seminars, I would call it, we had with leaders, with ministers also from various ministries on their economic reform, where they stood, looking at numbers, comparing it with our report. You know McNamara, he then really wanted to get into substance.

**LEWIS:** Was interpretation a problem?

**KOCH-WESER:** We had excellent interpreters. Lee Miao [phonetic], who is still a close friend—I mean, he speaks English like any American because he went to (his parents were doctors; he suffered in the Cultural Revolution as a result) but he went to American kindergarten school in Beijing in the old days. And they had a few of these superb interpreters. The other guy was—what’s his name again, who’s now one of [Boutros] Boutros-Galli’s number twos in New York, who is also mentioned in Kasindra’s [phonetic] book, who was in Foreign Affairs then and also operated partly as an interpreter, partly as a diplomat. Excellent people for interpretation, no problem. Of course, when it got to more technical and economics it was more of an issue, and it was, of course, a big issue for us initially when we sent technical missions later. In fact, we quickly learned that we had to put on every team a Chinese speaker from our side—there were a few in the Bank or consultants—just to avoid mistakes. And still I remember terrible situations where months later when I returned maybe to another thing I could see that something had gone totally wrong in interpretation months ago, there was misunderstanding, fundamental misunderstanding.

McNamara met with Deng Xiaoping. That meeting was fascinating. It focused as much on geopolitics and the past and where of course the two were opponents on Vietnam and all these things, on what Russia was really up to (everybody was concerned then about the arms race and expansion). And the Chinese were very gloomy on Russia, gave very much the line, “Look, don’t trust them. The Americans are naïve; the [Jimmy] Carter Administration and so on believe Russia. These guys are really here to expand. And we are prepared. I mean, they can take”—I remember Deng Xiaoping saying--“they can take one-fourth, one-third, one-half of China. Other invaders have done it. They will never take China as a whole and turn us around. They are much more powerful, but China has this tremendous size and resistance of people. They will never succeed with China.”

The other thing which is very interesting Deng said then, I will always remember--and again there must be a minute of that meeting somewhere—is, “Look, we are a poor country. We need your help. There are lots of things we don’t know; we have been so isolated.” That was the first impressive statement to come from the supreme leader. You could not—McNamara’s comment was, “You could not see Indira Gandhi or someone talk so openly about what they need in a big way from the World Bank.” But they were, have this—they are so self-assured as the Middle Kingdom that they don’t mind telling even these barbarians (as we all are for them) we need a lot of this help. It shows a modesty and self-assuredness that many other government leaders lack. So that was one point.

The other one he said, “We need your help to grow faster, but we will also make it without you. Make no mistake: China will grow and we’ll catch up. We’ve made terrible mistakes, but we’re learning from them. We’ll make further mistakes, and if you help us we’ll make less mistakes, but no question we will catch up.” This assuredness, this help them to help themselves, McNamara very much got very this message out of them.

And three, the way he was already predicting what has now happened the past twelve years, he said, “We will quadruple our income by the year 2000.” And with 7 percent growth, of course in twenty years they would do that, and of course they out-performed themselves. They have grown at 7, 8, 9, 10 percent. Then he said, “By the year 2000 we will have overcome the worst aspects of poverty. We will be more comfortable. But by all means we will still be a poor country. We have a long way to go to catch up with the rest of the industrialized world. But we will have quadrupled our income by 2000. Then it will take us another thirty or forty years to catch up with the OSCE [Organization for Security and Cooperation in Europe] countries. Again, we will make it. No question. By the year 2030 or 2040 we will be.” Then, of course, looking how desperate they were—now, of course, we all say, you know, “It’s a reasonable statement,” but in 1980 I can tell you to hear that--desperately poor, out of this turmoil of the Cultural Revolution even holding this country together was a question--it really sounded prophetic or maybe even totally unrealistic, but they are on their way. They are doing exactly what he predicted.

It was a very substantive mission, a very warm welcome, still with a lot of confusion on their side of what we are and how to treat us. For example, our host was the Bank of China not the government—although we then saw all the government leaders--partly because they felt we wanted to keep it very low-key and not so official but also a misunderstanding of what we are and what Bank are. And of course these guys were fairly narrow and useless for us. We did see the finance minister and others during that mission.

**LEWIS:** Let me just ask: did you find that they had economists who were fairly self-confident?

**KOCH-WESER:** Not really. They had a small group--and that was really beginning then only; it was not even then, that was more a half a year later when we sent that large economic team—of reformers in the various institutes of the Academy of Social Sciences that were quite good. But they all, of course—most of them—trained in the Soviet Union, very much the central planning, accounting methodology, just beginning to catch up.

**LEWIS:** They were very bashful about their economics back in the ‘70s, I remember. They wouldn’t assign—they had a hard job assigning anybody to come to the Committee for Development Planning, for example. And I tried to hire somebody to come and teach a course in Chinese economics in about 1974 at Princeton, and they just said, “We haven’t got anybody.”

**KOCH-WESER:** That’s right. No, they had very, very few people, and that was really the historic task that then followed. We quickly understood that what these guys need much more than IDA or money is good sound technical advice and system reform advice. And we quickly understood that we have to think real big on China in terms of what the amount they get. And even on the plane back McNamara was scribbling on the back of the envelope the kind of budget we would need for that. And he was going on and

staying for a few days—he went to Nepal from there, in the mountains--and sent me back to talk to [J. Burke] Knapp and Ernie and others and say, “Look, we really have to get moving on this immediately.”

We went to the Board, presented a supplementary budget; we quickly created this Focal Point China division. We went for an approach of not staffing up immediately this large number of people but by using other *WDR*, the best talent from all over the Bank with this special budget, back-filling with consultants or whatever in the unit that they came from, we had a large team—we had more than thirty people in the Bank—that we mobilized within a month.

The mission—the first—well, we went with another mission: Husain, [Syed S.] Kirmani, [Edward V.K.] Jaycox, the two directors, Ed Lim, I who had been appointed division chief, in July to prepare the logistics, to get a better fix on how we would play this economic mission. We also insisted that we needed to do a lot of desk work and home work and they on their side data-gathering before the big mission hit them, which was then I think in September, October, November, these missions. There were a whole slew of missions going out. And we basically had the first economic reports, big thing on China, looking back thirty years and forwards, sector annexes, big, big stuff, within a year. I think it went to the Board before the fiscal year '81 was over, in conjunction with the first project which we also worked on very quickly, which was this 250 million loan for twenty universities, university development, which was a very nice operation because it focused on the weak links that been destroyed in the Cultural Revolution in engineering, in chemistry, in physics and computer sciences, getting the right equipment in, modern computers, laboratory equipment, getting a large number of scholarships funded for these guys to go to refresher courses abroad, one-two years, and a large number of consultants and others coming in to help them, libraries to be rebuilt and the whole thing. It was also highly symbolic that we helped them on this know-how loss that they had incurred in the Cultural Revolution.

Then, coming back to your question, economists started coming back. Some of those who had gone to Britain, to the U.S. in the '70s began flocking back. And we organized a huge program with EDI [Economic Development Institute] to address those in the system who had not gone out but on project methodology, for example, evaluation. EDI has, by now I think they have trained a thousand five hundred people in China, but particularly in the first year there was a massive program of training in China.

**LEWIS:** In China.

**KOCH-WESER:** In China, in Beijing, in Shanghai, with two or three counterpart institutes, very much also linked to our operations. I think we never had as close a dovetail of EDI and operations, because we then depended crucially on the guys trained to work as our counterparts in the ministries on project preparation and implementation. And for years wherever I traveled in China, remote provinces and at dinners, I could see there is a guy who really has a different attitude towards us, understands better, I could bet that was one of the guys who had gone to EDI. “Sure,” he’d say, “I’ve been to EDI.”

[inaudible] go somewhere in this huge country, some remote province, you met these guys trained by EDI.

**KAPUR:** How did—I'm sorry--your first economic report when looking at some GNP numbers and so on and so forth, what were the debates here in the Bank on the issue how do you price these?

**KOCH-WESER:** Big question. Big problem. It was very rudimentary at that point.

**KAPUR:** But how did that sort of debates here in the Bank—how do you price these things?

**KOCH-WESER:** There was of course a big debate here. I'm not underestimating the GNP per capita. We tried to do a [Irving B.] Kravis purchasing power parity and it was very crude. We had a hell of a time translating national accounts, which were done Soviet way (there's nothing in there for services, for example), the net material product concepts, into our kind of accounts.

We found quickly, which was reassuring, that even during the Cultural Revolution their statistical apparatus of reporting in a physical way had not broken down. In fact, these numbers where we double-checked in the field and so on were remarkably accurate. And then, of course, there was a lot of massaging and sitting down and checking. We developed—we had Ramesh Chander (who is a good source on that, he was very central in this) and others worked for months on this, come up with our estimates that people were looking for. But it was a very, very difficult task and done very rudimentary. I remember how we added the services part initially, just estimating from what we knew about Eastern Europe and other places.

By the way, one group of people we involved very much in this initial work who were experts, in Britain particularly, who had worked on Hungary with some worried Hungarians, Poland and others during this reform wave of the '70s and had focused on similar issues of system reform and were both in terms of methodology and policy good consultants to us initially on China. And the Chinese very much appreciated that we brought them in because some of them they did not have--Soviet Union rivalry and so on--the relationship that they could bring them in directly. Romania they always had, but not Hungary and some other countries.

But it was a big problem, and it was always a bit *kum braunes alles* [phonetic] that we viewed these number estimates on GNP.

**LEWIS:** Let me ask a little more about that. To what extent there was really—driven by political or IDA-related considerations—I find someplace in what's been summarized for us very early on, I think somebody, maybe it was Hasan, the economist . .

**KOCH-WESER:** Parvez Hasan.

**LEWIS:** Yeah, who said that it was quite clear that if you believe their growth rates—and from what you just said they had physical data on it—probably the growth rates are better than the level estimates. If you believe those, and extrapolate back from what the nominal present GDP per capita was, that it became ridiculous back, within twenty years or so, that there's no way that could be. And many people, including lots of us, have been saying that for a long time. *The Economist*, as you may have just seen, has had another, sent me an account. Now, you also see in the records that the Chinese demanding parity with India, very insistently through this period that they're--IDA . .

**KOCH-WESER:** IDA parity.

**LEWIS:** IDA parity. And in terms of rationalizing that to the rest of the house, it helps quite a lot to have the income estimates roughly equal, too; whereas, it may very well be, I should think, that the Chinese should be at least twice or three times what it is.

**KOCH-WESER:** Well, I have my doubts now, too, when one looks at, compares the two countries, et cetera. I had some doubts then. All I can say, of course, is that our economists tried to come up with the best numbers. It was not a political number that we dreamed up.

**LEWIS:** It wasn't at all driven from the top, then.

**KOCH-WESER:** No, no. I mean, we did a lot. As I said, we had a lot of people working on this for quite some time. We checked in the provinces; we checked physically in the field. And this was the best number we could up with. In retrospect I believe there was--the number should probably have been somewhat higher.

**LEWIS:** Of course, the Chinese government was insisting on a low number, wasn't it?

**KOCH-WESER:** But you know, the IDA, the debility did not really come from there, because even if this number had been substantially higher, there was no question that they fell comfortably in that range. The Chinese, of course, wanted it very low because they thought they could get parity with India, which we never accepted. From the very beginning, that was the other contentious issue, IDA, all these first few years and still remains. It was not so much how much IDA they'd get but how they're politically seen vis-à-vis India. And they even came with arguments such as, "India has benefited with billions over so many years; now it's our turn."

**KAPUR:** Catch up.

**KOCH-WESER:** Yeah. And of course the message was from the very outset, "No way you can get the amounts that India gets." And in fact a very tough message that we wanted a blend, that for them to get, say, 40 percent IDA, we wanted 60 percent: that was the magic formula, 60/40, you want, you take sixty percent IBRD [International Bank for Reconstruction and Development] to get 40 percent IDA.

**KAPUR:** This first cooperation was IBRD or IDA, this university one?

**KOCH-WESER:** That was a blend, I think; I think it was. Many initial operations had to be blend. Of course, the additional problem was in the very early operations we didn't have an IDA allocation for them. So there were some, I guess, reflows and special allocations that we could make but it was very, very limited. So they got even much less initially.

**LEWIS:** But you say they didn't get parity. They, of course, started from zero, so as they're going up towards the Indian share, the Indians coming down.

**KOCH-WESER:** Yes.

**LEWIS:** But fairly soon you were thinking in terms of about the same number for both countries, right? I mean, of course, it's now fifteen, or a little less . .

**KOCH-WESER:** They never got the same number. They always remained quite below. I remember the days when, in these early years, when we had somewhere between four hundred and five hundred, four hundred, five hundred, never more than that, for China, and India was comfortably in the seven hundred fifty, eight hundred plus, nine hundred range.

**LEWIS:** That was in your time.

**KAPUR:** IDA 8, you know, the negotiations of IDA 8 and IDA 9 explicitly had Africa's share and India and China fifteen.

**KOCH-WESER:** No, no, not fifteen each; thirty together.

**KAPUR:** Right.

**KOCH-WESER:** Now, check the records on that.

**LEWIS:** I think they're pretty close together.

**KOCH-WESER:** No, no, no, no. They never came very close. It was less than the difference in the end, unless I'm completely wrong. The difference in absolute amounts was always kept, certainly in the early years they were far apart, and I know I had a hell of a time because it was every mission, every meeting, "And by the way, what about IDA?" And so on and so on. It was the main bone of contention. And I myself, of course, being the advocate for China, was not happy with senior management's decision. I think there was argument to bring them closer together. But as far as I know the formula was always expressed as China and India thirty percent, but it was more like one getting eighteen and the other one twelve, this kind of, than fifty-fifty. They never reached that. And even today, I mean, of course, now they are brought down and India's been kept up.

It was a very contentious issue and soured the relations at certain points a little bit at the margin. And was it not for us by then having acquired such a good credibility as a provider of system reform advice, it could have soured the relationship further because initial years they didn't quite see yet the benefits of our projects, how we really change, what we began to understand later, the way they thought about investments, the rates of return and all the rest, but they saw just the concessional funding for that. And the Japanese came in with cheap, low interest OECF [Overseas Economic Cooperation Fund] and Ex-Im [Export-Import Bank of Japan] lending, all kinds of political deals that had to do, too, with the reparations issue with Japan. And they were worried that they didn't get sufficiently soft money from us.

But I guess what turned it around was that Zhao Ziyang became prime minister in August 1980, a reformer [inaudible], and he very quickly developed this—you asked about economists—this think tank around him, a system reform group, commission, around Zhao Ziyang. Ed Lim, particularly, being also a native Chinese speaker, had very close rapport, and I think it's fair to say that in the following years the Bank had a really historic role in China in influencing--without people much talking about it, of course--the course of economic reform that Zhao Ziyang initiated.

It was a very close relationship; in fact, to the point where sometimes these guys said, not like other countries say, "How much economic work do we have to accept from the Bank, all these missions asking questions in order to get a certain amount of lending?" But the Chinese asked the other way around, "In order to get all this free economic policy advice which we need so badly, how much lending do we have to accept?" Because they swung later into fairly comfortable balance of payments position, and there was really a question of how fast the program should grow, for all kinds of right and wrong reasons. And that became, then, in the following years, more than our projects work, the mainstay of the Bank in China, which was really unique.

**LEWIS:** You talked about the relationship between IDA and IBRD, and someplace I looked at it indicates that when IDA was tight, in the early '80s, Ernie was saying that China really was, had too bad a foreign exchange situation and could afford to take harder money, and so the headquarters, Bank management, was moving toward a—what do you call it--a harder blend. And somebody wrote—I think it was Hasan—saying, "This is contrary to the theory we've been peddling which was more of a complementarity, that if IDA goes down for China, than IBRD also has to go down." Was that an issue?

**KOCH-WESER:** That was an issue.

**LEWIS:** Rather than having them sort of substitute for one another.

**KOCH-WESER:** That was exactly the problem. You know, once they had accepted, say, a 60/40 blend, they wanted 50/50. Whenever you wanted to reduce IDA and increase IBRD, they said, "No, then we also reduce IBRD." And I was sitting through



endless meetings—I was always going there, say, two or three times a year to do our large lending program review with the Planning Commission, and these were highly formal meetings. We were sitting in big rooms, and I was there with all my project colleagues, and we went operation, operation, and the total program. And where it really always bogged down was that they didn't want to commit to let's, doing this forestry project, doing this railway project, and it was not so much project issues, it was playing games on the blend, counting how much they get on IDA and all the rest. Like other countries had hang-ups of taking only IDA for certain sectors.

We had the big problem in China that they on-lent at rates that reflected the cost of source of funds, rather than like India pooling it and then have a rational on-lending policy, central government, state governments, ministries, et cetera. So we got into a mess there, too, because if the agriculture ministers could get an IFAD [International Fund for Agricultural Development] loan cheaper, that was reflected all the way down to the province, and they didn't want to see us anymore because ours was more expensive and so on and so on. So it is correct that they didn't want to change the blend. They always magically fixed on the 60/40.

**KAPUR:** So that did limit the amount of IBRD lending in the '80s.

**KOCH-WESER:** It did for some time.

**KAPUR:** 'Til when, do you think?

**KOCH-WESER:** I think the—basically, well, of course, the first years, to get up to-- IDA was becoming more generous then and the replenishment was not so much a limitation because to get from zero to a billion, a billion three lending, we had the IDA for that. When I left the program in early '86, we were at about a billion three, billion five. I think Javed Burki then became constrained, although I think they then also agreed to heighten the blend slightly. It then did not constitute much of a constraint when the Tiananmen Square and other things came in, of course, in '89. Qureshi tried to be generous on the IDA side. I don't know the details--it was after my time--how much more they got after '86 or '87. But it was in the early years not that much constraint because we could go without funds on IDA. But IDA issue was a contentious issue all the way through.

**KAPUR:** I was just wondering, I mean, especially you mentioned this financial sector operation with the interest rates which became a big part of IDA's philosophy, especially in the later '80s, the Bank in China went along with, you know, interest rate policies [inaudible] very different way and more it seemed to be willing to tolerate in many other countries.

**KOCH-WESER:** Well, that was of course always very, very difficult to decide, but the deliberate strategy in the case of China—and of course on some of these interest issues the Bank in the '80s didn't have the views of today. And we shouldn't forget that other countries did things differently, too. But with this huge entrenched system and with the

prime minister moving very forcefully on system reform, the important thing was to keep the system reform sequence, price liberalization on agriculture first, et cetera, on track and supported even if it meant that we had to be more lenient than we would otherwise be in certain sectors at certain times in terms of the project. It was very much based on the outstanding performance on the broad system reform side where we could report internally and to the Board year after year that if anything they out-performed our expectations. But I can at the same time tell you we had long and contentious Loan Committee and other meetings on specific projects, of course, because in some cases also prices, energy prices, coal prices, we were not happy at all. And in some cases, of course, we went out of the sector or limited our lending or projects were bogged down for many months if not years because we couldn't reach the formula. But you're right: I mean, because of the overall performance we were more flexible in some sectors on specifics than in others. Also arguing this first of a generation of projects to get into the picture: they didn't even know what you were talking about, these concepts of interest rates, market rate of interest and so on, when we first came and we had to be realistic.

**KAPUR:** And I think it's very interesting now, I mean, to compare to where the sequencing of reform that the Bank did in China compared to what it is going about in East Europe. It is different.

**KOCH-WESER:** It is different, and there is a big debate now (which I am not that close to now, of course) going on in the Bank and outside, and I would hope, personally speaking, that we analyze that further. Javed Burki will tell you something much more closely to what has worked and how the Chinese have done. It was a totally different thing, not driven so much by us as by actually the Chinese.

**LEWIS:** It is the sequencing.

**KAPUR:** It is now like the Bank seems to believe that financial sector reform ought to come much earlier than it was in the '80s.

**KOCH-WESER:** Well, it is correct also that on financial reform we would have liked the Chinese to move earlier. We had long missions; we had a lot of work in this area which didn't lead very far given the very entrenched organizational setup of that sector.

Maybe one point on the second economic report, because the first one in '81 was so well received that Zhao Ziyang, when we then developed close relationships of his advisors with us, felt that the Bank really should be asked—that was in 1983, I think; it was a Clausen visit, I accompanied Clausen to China—to make a formal request for a report that would go much beyond that and would really become kind of a “China Year 2000” report, second big report, widely published. And by then, of course, we had a lot of insight, experience; it was not so much learning about China and looking back as the first one as it was now the very ambitious task—I think for any country in relationship standards--of now giving them far-reaching advice, sector by sector, and system reform for the next few decades.

That became a very massive thing, [inaudible] spent time, almost two million dollars. We had teams, five, six, seven teams, in all sectors. We worked on this for a year and a half. We had seminars before and after in China, counterpart teams in China. It was a very elaborate exercise, managed primarily by Ed Lim, who was then the lead economist in China division, and Adrian Wood, who has left the Bank and is now at Sussex; the two were really masterminding this excellent book and which became really almost a Bible for the Chinese (I think I'm not saying too much here). It was on the desk of the prime minister for a long time. Everybody in China read it [inaudible] people. It was in bookstores because it was translated into Chinese, and it became a textbook for Chinese students.

I think it's one of the big things the World Bank has done. And if you look now at these twelve years of Chinese reform, it had a tremendous contribution, not so much actually what we wrote in the end but the whole process, the way counterpart teams were brought in. We worked with Zhao Ziyang's group sector by sector with the reformers, forging the consensus, influencing their thinking, and then coming up with this report.

**LEWIS:** Has the Bank done any adjustment lending in China?

**[End Tape 1, Side A]**

**[Begin Tape 1, Side B]**

**KOCH-WESER:** . . . as you clearly have in China from the beginning--maybe also in some other countries--to do the nitty-gritty investment lending approach, large volume of that, to give them maximum assistance at the project and sector level, institution building, all of those, procurement, all these things had to be introduced there, [inaudible] projects and so on, and then the other track of at a very high level, a very separate track almost, do this big stuff on system reform and advice which did not come with our lending but was demanded.

In fact, even for me in managing this, what had become then a very large division and group working on China, it was a real management challenge internally for me and others because we had to make sure that these parallel tracks did not go different ways. It comes back to some of your questions: how much could we afford to be flexible in some of project conditionalities when we were on a different track already on system reform advice. Some of Ed Lim's economists were saying, "Gee, what you guys on the project side do, I mean, this is not what we should do," et cetera. Healthy tensions between the two sides. At the same time, the sense of realism that these project guys brought in and said, "Don't get, go too far," because these reformers at the center—the reality in Guangzhou province on the ground in coal ministry and so on looks totally different. And bringing these two sides together I think was particularly productive way for the way for the Bank to operate.

**LEWIS:** But the pundits doing the macro stuff, the policy stuff, didn't have to have non-project sort of vehicles for their . . .

**KOCH-WESER:** No.

**LEWIS:** The client was interested in the advice for its own sake.

**KOCH-WESER:** Right. But even in China, of course, it was a big problem because you might have the big emperors of the coal ministry or others, the minister, or in the Planning Commission, which like in all these countries is far behind and wants to, the status quo, giving us very different messages than you got from the reformers in the academies and around the prime minister. And the fascinating thing for us to manage was how to also in China bring these groups together a bit and play a role, a catalytic role in that sense, through EDI, through seminars, through reports, through joint think pieces that we did.

Now the funny thing was with the second report then people thought it might become too visible in fact. And I don't know—I told the other day when we met the story that we were actually in—*Time* magazine did a big man of the year, just as one illustration (or it was '85 or '84; I've forgotten; '85 maybe) when Deng Xiaoping was the man of the year, and their Bureau Chief in New York called me and said he wanted to come down and interview me and my colleagues for that thing. They wanted to make a box on the World Bank having done really the blueprint for the next Five Year Plan, it was all done by the World Bank in Washington. Now the last thing I need is publicity in *Time* magazine all over the world that we have done their system reform—which, one, was not entirely correct, of course, not at all because we did it jointly with them and, two, of course what all these years we had avoided and with much less (even within the Bank) knowledge--and outside, of shareholders--of how influential and central in some of these areas we were. And of course we wanted to keep it that way. So I deflected that. In the end he didn't come to Washington; I gave him a few things on the phone. But just to illustrate what was in the public domain and what was not.

And I think that's another lesson for the Bank. The way we were perceived by the Chinese as always there, always responsive but not making big waves, conditionality, which of course in adjustment lending we would have had to do.

**KAPUR:** It's the visibility of adjustment lending which can be a liability?

**KOCH-WESER:** Absolutely. I see that now.

**KAPUR:** One sees that now.

**WEBB:** The—it's almost unique the way in which the Bank has been, has had almost a monopoly on advice.

**KOCH-WESER:** Yeah.

**WEBB:** Presumably they're diversifying. Maybe not. But like in Indonesia all along, one of the [inaudible] is that the true diversifying the Bank thought was [inaudible] here, the brokers there . .

**KOCH-WESER:** Well, they tried that, but, one, initially it was not easy for them because they didn't know how to do it, diversify, and two, I think they felt very comfortable with our relationship. But they tried it, of course, and they tried it particularly with the Japanese. Of course we were also working very closely with the Japanese on this, and some of the leading China scholars in Japanese universities were also working with us, consultants for us, or we worked as a group. But they started systematically early on—also for political reasons—to have seminars, conferences, and ask people like Okita [Saburo] and others from Japan to, who was born in Manchuria and had always this affinity for China, to come and give them the best of Japanese advice. So with the Japanese they had it. I don't think they had it with many others. They sometimes tried to check with Eastern Europe, the few countries where we were operating then (Romania, later Hungary, Yugoslavia), check how the World Bank had done there and what they thought of working with us so closely on policy advice.

The Japanese, by the way, very quickly understood that we knew more in these areas than they did about China. And, you know, it's a funny story about how we were courted by the Japanese system, who knew that maybe in very few areas it was the case but here it was that we knew something that could be very useful to them. I mean, even as a little division chief or Ed Lim as the lead economist, when we traveled through Tokyo we had invitations to brief the prime minister's office, we had invitations to brief the head of Ex-Im Bank, which normally even a vice-president has problems to see or to do, because the Japanese understood these guys were interesting for us and they took care about it.

**KAPUR:** And they were interested in China.

**KOCH-WESER:** Yeah. 

**LEWIS:** They're the ones that got China named a developing country in DAC [Development Assistance Committee, Organization for Economic Cooperation and Development], you know. They came to us in 1979, the Japanese, and said that they wanted to start giving more aid to China and they then wanted it to count as ODA [overseas development assistance]. So we had to go to the Chinese Embassy in Paris and say, "Do you guys mind being called a developing country?" And the word came back, "No, no, that's fine."

**KOCH-WESER:** Oksenberg, by the way, produced a book . .

**KAPUR:** Right.

**KOCH-WESER:** You have seen it?

*Caio Koch-Weser  
December 21, 1992 - Verbatim*

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**KAPUR:** Yeah, we have the book. How did you think of the book?

**KOCH-WESER:** I think it was good. It's a bit superficial in some areas, a bit messy, political scientist, who--and he based it basically on sessions like this with Ed Lim and me in my garden in the mid-'80s. He didn't have all that much independent . . . But it's okay, a portrait.

I believe—obviously I'm biased—but I believe this China experience of the World Bank really deserves, whether in your book or somewhere, a special chapter or treatment because I think there are lessons in here. I mean, one, it reflects, I think, on what the institution has done well.

**LEWIS:** McNamara says there are two cases that stand out: Indonesia and China, that they are different sort of from the rest of the . .

**WEBB:** But he has responsible for both.

**LEWIS:** Well, yeah, that's incidentally true.

**KOCH-WESER:** McNamara? Oh, yeah.

**KAPUR:** It also, I think, it would be very fascinating towards the end to compare the East Europe (how the Bank) and China. It would seem that there are some significant differences.

**KOCH-WESER:** Of course there are.

**KAPUR:** And I think that would be interesting: why.

**WEBB:** To say nothing of Peru.

**KOCH-WESER:** But you know one other thing—just another footnote is what also, because of McNamara's interest and this special relationship, it was for those of us who had different levels of responsibility for managing this China program a unique opportunity of managing in a non-bureaucratic, very free way. I mean, again as even a little programs division chief for China, one had room for maneuver and getting of course the best people to work—everybody wanted to work on China—but also an access within the institution, a flexibility that was really unparalleled. I think McNamara did something right also in the way this was set up very quickly as a China division and really giving all of us special budgets, with access and so on. And I guess that's one of the little things also what helped and why maybe Shahid made me instead of very experienced, much more experienced other people the offer was that I had this experience of, the politics of the place having been with McNamara for some years.

**LEWIS:** Sure, sure.

**KOCH-WESER:** But I think whoever from the China team you would interview would say these first years, the way the economic report was produced and so on, were also a lesson for the institution how we can move less bureaucratically and fast on big tasks.

**LEWIS:** We've kept you over . . .

**[End of Tape 1, Side B]**

**[End of interview]**