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China is blocking joint World Bank report that calls for state-owned enterprise reform

By Anna Fifield
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BEIJING — China has delayed the publication of a report on its economy, written in conjunction with the World Bank, as it tries to tone down recommendations about reforming its state-owned enterprises and allowing more market-led principles to reign.

The report, titled "New Drivers of Growth in China," has been ready for a year, according to four people involved in drafting it, but Chinese authorities have not allowed it to be published.

The delays underscore the Chinese Communist Party's extreme sensitivity about its economy as growth rapidly slows, particularly amid a protracted trade war with the United States.

Many of the core recommendations of the report echo calls from the United States and other industrialized countries for China to make its trading practices more fair. Beijing's objections to the report underscore just how difficult it will be for Washington to persuade China to change.

"We were trying to put out a road map that would provide China with a sustainable growth path," said one academic involved in the drafting of the report who, like others, spoke on the condition of anonymity to protect his ongoing work in China.

The report was jointly written by the World Bank and the Development Research Center, an influential think tank under China's State Council, or cabinet. It was designed to be a follow-up to "China 2030: Building a Modern, Harmonious, and Creative Society," a 2012 report published before President Xi Jinping took power.

It said that China should implement structural reforms, including restructuring state enterprises and banks.

It was the first time the World Bank had worked together with the Development Research Center and "the research was challenging," according to the preface to the report. It detailed how the team went back to government departments for input and revised the report in line with their comments.

David Dollar, a former World Bank director in China who worked on the 2012 report, said there had been "some back and forth," but that they had found a way to compromise. "It would be a failure if they couldn't reach an agreement and publish this report," he said.

The follow-up report appears to have been even more difficult. Researchers worked on it throughout 2017, seeking advice from outside experts as well as staff from both organizations.

One person involved said the report addressed issues relating to industrial upgrading and innovations for all companies, including state-owned enterprises, which have become increasingly powerful under Xi.

“My sense is that the bank and its Chinese counterparts both felt that their hands were tied, and that they would have to tread carefully” on state-owned enterprises, the academic said.

Another person involved in writing the report said the Chinese side had “tried to water down some of our messages.” Two others who had read the report said the recommendations were “anodyne blanket statements” and were not “particularly hard-hitting.”

As the economy has slowed and the trade war has rumbled on, Xi has been lavishing subsidies on state-owned enterprises and extending to them huge credit lines, especially in strategic sectors such as aerospace, energy, heavy industry and telecommunications. These companies have no need to turn a profit, giving them an advantage over competitors.

World Bank insiders said that they were still negotiating with the Chinese and hoped the report would be released in some form this year.

The bank said the report would be released. “The report has not been completed, but it will be made public, like all World Bank reports, when it is finalized,” said spokeswoman Marcela Sanchez-Bender.

The Development Research Center did not respond to a request for comment.

The failure to publish the report so far has raised questions about China’s influence over the bank.

Eswar Prasad, a former head of the China division at the International Monetary Fund, said China might be using its influence over the bank to shape the report.

“The Chinese have been becoming more and more aggressive and the World Bank has given into the pressure in the past,” Prasad said. “That has emboldened the Chinese.”

China is one of a handful of developing countries that is borrowing from the World Bank at the same time as it is making contributions to its funds. The other countries in this situation are making small contributions.

“China’s size is off the scale,” said Dollar, who is now at the Brookings Institution. “I would think that the World Bank management would treat China very carefully.”

The World Bank’s International Bank for Reconstruction and Development has committed about $2 billion a year to China for the past three years, making China one of the bank’s largest borrowers, according to a report from the Center for Global Development published in January.

At the same time, as China has grown richer, its influence on the bank has also grown — and that has concerned the United States. China has a seat on the bank’s 25-member board and has started contributing increasingly large amounts to the International Development Association, the part of the World Bank that helps the world's poorest countries.

Beijing contributed almost $600 million in the last round and is expected to contribute more than $1 billion in the next replenishment.

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