

Mr. Placido L. Mapa, Jr.

file

82
August 22, 1972

D.S. Savkar

China - Request for Fund Documents

During the 1971 Article XIV Consultation held in March 1972, the Chinese representatives asked the mission for information on the method of estimating effective exchange rate changes following the realignment.

Please find attached staff memoranda SM/71/278, SM/71/283 and Revisions 1 and 2, SM/71/285 and SM/72/11 which might be of some help to the Chinese authorities.

cc: Mr. Suzuki (on return)
Mr. Ashiabor
Mrs. Yang

HCWYang:hsk
8/22/72

Mrs. Yang

W July 21, 1972

A. Ashiabor *ack*

f

China 1971 Article XIV Consultations--Request for Information

With reference to Question No. 70 of our questionnaire for the above consultation discussions, you will recall that during the last consultations the Chinese representatives asked us to assist them with any information we might have in the Fund on the method of estimating the effective exchange rate of the new Taiwan dollar vis-a-vis currencies of China's main trading partners following the realignment. I believe there are some staff memoranda on this subject; SM/71/278, SM/71/283 and Rev. 1, as well as SM/71/285, deal with this subject and might be of some help to the Chinese authorities; or you may have seen some other relevant material.

You may wish to seek the necessary clearances and have the relevant material sent to them through the appropriate channels if approved. This is only a reminder; we discussed this matter the other day.

cc: Mr. Suzuki
Mr. Williams ✓

14
JUN 16 1972

Sir:

I have pleasure in advising you that the Executive Board has taken the enclosed decision concerning the recent consultation with your Government under Article XIV, Section 4 of the Fund Articles of Agreement.

I should like to take this opportunity to express the Fund's appreciation for the courteous cooperation of your Government during the course of this consultation, and to say that the Fund looks forward to a continuation of this close relationship.

Very truly yours,

W. Lawrence Hebbard
Secretary

Enclosure

cc: Mr. Mapa
ASD
LEG
ETRD
TRE
SEC

His Excellency
The Minister of Finance
Ministry of Finance
Nanchang Street
Taipei
Taiwan, Republic of China

(Cleared with: Mr. Mapa, Mr. Savkar, Mr. Sturc.

JKay:jms - 6/14/72

[Handwritten signatures and initials: "LH", "W", "J", "syn"]

Mrs. H.C. Wu-Yang

June 13, 1972

A. Ashiabor *afh*

China--Article XIV Consultation (SM/72/111,
5/22/72)--Sources and Explanation of Data

I refer to our telephone conversation last Friday (June 9) evening in which you told me the Executive Director's Office (China) has figures which are different from those we used in certain portions of the Staff Report, SM/72/111. I would like to see a copy of the note from the Executive Director's Office. To avoid delays in clearing this matter, however, I have outlined below the sources of the figures used in my portion of the Report, i.e., Monetary Developments, Balance of Payments, and the Exchange and Trade System.

1. Page 2, first full sentence: "As to the exports of textiles and related items, which rose by 45 per cent and represented 29 per cent of total exports in 1971....."

a. You said the Executive Director's Office had 57 per cent and 27 per cent, respectively. The figures of 45 per cent and 29 per cent in the above sentence were obtained from the Council for International Economic Cooperation and Development: A Brief Report on Taiwan's Economy, Taipei, Taiwan, China, March 1972. This document was circulated to the staff during the consultation discussions. Please see pages 9-10, Table 9--Principal Exports 1970-71, of the above document.

	Millions of US\$	
	1971	1970
Total exports	2,135.5	1,561.7
of which		
fabrics, knitted and		
crocheted goods, apparel		
and accessories	620.5	427.2

On this basis, exports of fabrics (textiles), knitted and crocheted goods, apparel and accessories increased by 45.2 per cent in 1971 over 1970 and represented 29.1 per cent of exports in 1971.

See also page 8 of the above-mentioned document, the third full paragraph, second sentence: "Fabrics, knitted and crocheted goods, apparel and accessories valued at US\$620 million and accounting for 29% of total exports again showed the

greatest gain, up by 45% from 1970....." This information was cross-checked by reference to: The Central Bank of China, Foreign Exchange Statistics, Taipei, Taiwan, China, December 1970 and December 1971 Issues.

Composition of Items

ccc Code	Description	Thousands of US\$	
		1971	1970
31	Textile products	202,156	189,948
34	Knitted and crocheted items	301,503	165,836
35	Footwear, wearing apparel, and made-up textile goods	215,847	123,410
	Deduct footwear	<u>-95,023</u>	<u>-50,983</u>
		120,824	72,427
35-34	Footwear with soles and uppers of rubber or plastic material	(59,342)	(30,495)
35-35	Footwear with soles of rubber and plastic material not included in 35-34	(35,374)	(20,349)
35-36	Footwear with soles of wood or cork	(133)	(47)
35-37	Footwear with soles of other materials	(154)	(92)
35-38	Gaiters, spats and leggings	(20)	(0)
	Total of 31, 34, and 35 excluding footwear	624,483	428,211

The table above shows that export of textile products, knitted and crocheted items, and wearing apparel and made-up textile goods increased by 45.8 per cent in 1971 over 1970. Compared with total exports of US\$2,135.546 million, exports of these items in 1971 at US\$624,483 million represent 29.2 per cent of the total.

2. Page 6, second full sentence: "Time and savings deposits rose by 26 per cent or about the same as during 1970....." (The Executive Director's Office had

a figure of 33 per cent). The above figure (26 per cent) was obtained from the Central Bank of China, Taiwan Financial Statistics Monthly, Taipei, Taiwan, China, February 1972 Issue, Table 2, page 8, Financial Survey (Summarized Consolidated Condition Statement for the Whole Banking System).

End of Period	Quasi-money ^{1/} Millions of NT\$
1970	60,755
1971	76,367

On the basis of the above figures, the increase in these deposits was 25.69 per cent which was rounded up to 26 per cent in the Report.

3. Page 9, second paragraph, first sentence: "Regarding the trade pattern, the trade deficit with Japan in 1971 increased by US\$154 million to US\$500 million, while the surplus with the United States (US\$289 million) and other countries increased." (The Executive Director's Office gave the figures as US\$145 million, US\$582 million, and US\$453 million, respectively).

The figures in this section of the report were obtained from the CIECD's "Brief Report on Taiwan's Economy," referred to above. On page 13, Table 11 of that Report, the following figures are given:

	Millions of US\$		
	Exports	Imports	Trade balance
Japan			
1970	235.6	582.1	-346.5
1971	267.0	767.4	-500.4
United States			
1970	578.9	463.4	115.5
1971	883.2	594.1	289.1

^{1/} Quasi-money is defined in this source table as time deposits, fixed savings deposits, and foreign currency deposits (excluding amounts held by government agencies) with banks and credit cooperative associations, and all deposits with mutual loans and savings companies, credit departments of farmers' associations and the postal savings system.

The trade deficit with Japan increased by US\$153.9 million in 1971 over 1970. The figures were cross-checked with and confirmed by source indicated on Appendix Table XXI, page 81 of SM/72/117 of June 5, 1972.

In my opinion, there is no need to issue a correction paper on these points. As can be seen from the above, the figures were derived from information available to us up to the point of writing the Report. If the figures from the Executive Director's Office are new information, they should be treated as such.

cc: Mr. K. Suzuki
Mr. R. Williams ✓
Mr. Palmer

Mrs. H.C. Wu-Yang

June 13, 1972

A. Ashiabor *aw*

China--Article XIV Consultation (SM/72/111,
5/22/72)--Sources and Explanation of Data

I refer to our telephone conversation last Friday (June 9) evening in which you told me the Executive Director's Office (China) has figures which are different from those we used in certain portions of the Staff Report, SM/72/111. I would like to see a copy of the note from the Executive Director's Office. To avoid delays in clearing this matter, however, I have outlined below the sources of the figures used in my portion of the Report, i.e., Monetary Developments, Balance of Payments, and the Exchange and Trade System.

1. Page 2, first full sentence: "As to the exports of textiles and related items, which rose by 45 per cent and represented 29 per cent of total exports in 1971....."

a. You said the Executive Director's Office had 57 per cent and 27 per cent, respectively. The figures of 45 per cent and 29 per cent in the above sentence were obtained from the Council for International Economic Cooperation and Development: A Brief Report on Taiwan's Economy, Taipei, Taiwan, China, March 1972. This document was circulated to the staff during the consultation discussions. Please see pages 9-10, Table 9--Principal Exports 1970-71, of the above document.

	Millions of US\$	
	1971	1970
Total exports	2,135.5	1,561.7
of which		
fabrics, knitted and		
crocheted goods, apparel		
and accessories	620.5	427.2

On this basis, exports of fabrics (textiles), knitted and crocheted goods, apparel and accessories increased by 45.2 per cent in 1971 over 1970 and represented 29.1 per cent of exports in 1971.

See also page 8 of the above-mentioned document, the third full paragraph, second sentence: "Fabrics, knitted and crocheted goods, apparel and accessories valued at US\$620 million and accounting for 29% of total exports again showed the

greatest gain, up by 45% from 1970....." This information was cross-checked by reference to: The Central Bank of China, Foreign Exchange Statistics, Taipei, Taiwan, China, December 1970 and December 1971 Issues.

Composition of Items

ccc Code	Description	Thousands of US\$	
		1971	1970
31	Textile products	202,156	189,948
34	Knitted and crocheted items	301,503	165,836
35	Footwear, wearing apparel, and made-up textile goods	215,847	123,410
	Deduct footwear	<u>-95,023</u>	<u>-50,983</u>
35-34	Footwear with soles and uppers of rubber or plastic material	(59,342)	(30,495)
35-35	Footwear with soles of rubber and plastic material not included in 35-34	(35,374)	(20,349)
35-36	Footwear with soles of wood or cork	(133)	(47)
35-37	Footwear with soles of other materials	(154)	(92)
35-38	Gaiters, spats and leggings	(20)	(0)
	Total of 31, 34, and 35 excluding footwear	624,483	428,211

The table above shows that export of textile products, knitted and crocheted items, and wearing apparel and made-up textile goods increased by 45.8 per cent in 1971 over 1970. Compared with total exports of US\$2,135.546 million, exports of these items in 1971 at US\$624,483 million represent 29.2 per cent of the total.

2. Page 6, second full sentence: "Time and savings deposits rose by 26 per cent or about the same as during 1970....." (The Executive Director's Office had

a figure of 33 per cent). The above figure (26 per cent) was obtained from the Central Bank of China, Taiwan Financial Statistics Monthly, Taipei, Taiwan, China, February 1972 Issue, Table 2, page 8, Financial Survey (Summarized Consolidated Condition Statement for the Whole Banking System).

End of Period	Quasi-money ^{1/} Millions of NT\$
1970	60,755
1971	76,367

On the basis of the above figures, the increase in these deposits was 25.69 per cent which was rounded up to 26 per cent in the Report.

3. Page 9, second paragraph, first sentence: "Regarding the trade pattern, the trade deficit with Japan in 1971 increased by US\$154 million to US\$500 million, while the surplus with the United States (US\$289 million) and other countries increased." (The Executive Director's Office gave the figures as US\$145 million, US\$582 million, and US\$453 million, respectively).

The figures in this section of the report were obtained from the CIECD's "Brief Report on Taiwan's Economy," referred to above. On page 13, Table 11 of that Report, the following figures are given:

	Millions of US\$		
	Exports	Imports	Trade balance
Japan			
1970	235.6	582.1	-346.5
1971	267.0	767.4	-500.4
United States			
1970	578.9	463.4	115.5
1971	883.2	594.1	289.1

^{1/} Quasi-money is defined in this source table as time deposits, fixed savings deposits, and foreign currency deposits (excluding amounts held by government agencies) with banks and credit cooperative associations, and all deposits with mutual loans and savings companies, credit departments of farmers' associations and the postal savings system.

The trade deficit with Japan increased by US\$153.9 million in 1971 over 1970. The figures were cross-checked with and confirmed by source indicated on Appendix Table XXI, page 81 of SM/72/117 of June 5, 1972.

In my opinion, there is no need to issue a correction paper on these points. As can be seen from the above, the figures were derived from information available to us up to the point of writing the Report. If the figures from the Executive Director's Office are new information, they should be treated as such.

cc: Mr. K. Suzuki
Mr. R. Williams
Mr. Palmer ✓

Mr. Palmer

The Managing Director

May 17, 1972

D.S. Savkar and Donald K. Palmer

China - 1971 Article XIV Consultation Report

Attached for your approval is a draft copy of the staff report of the 1971 Article XIV Consultation, which has been cleared with the Departments concerned.

Attachment

cc: Mr. Smith



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

May 9, 1972

MEMORANDUM

To: Treasurer
Internal Auditor
General Counsel
Director, Asian Department
Director, European Department
Director, Middle Eastern Department
Director, Western Hemisphere Department
Director, Exchange and Trade Relations Department

From: The Secretary *LH*

Subject: Change in Par Value and Wider Margins

The Fund noted on May 8, 1972, the new par values proposed by China, the Dominican Republic, Jordan, Thailand, and the United States for their currencies. The new par values are:

0.0204628 gram of fine gold per new Taiwan dollar;
1,520.00 new Taiwan dollars per troy ounce of fine gold.

0.818513 gram of fine gold per Dominican peso;
38.0000 Dominican pesos per troy ounce of fine gold.

2.29184 grams of fine gold per Jordan dinar;
13.5714 Jordan dinars per troy ounce of fine gold.

0.0393516 gram of fine gold per baht;
790.399 baht per troy ounce of fine gold.

0.818513 gram of fine gold per U.S. dollar;
38.0000 U.S. dollars per troy ounce of fine gold.

Jordan and China avail themselves of wider margins under paragraph 1 of Executive Board Decision No. 3463-(71/126), adopted December 18, 1971.

Also, the Fund has concurred in proposals by the Government of Iceland and the Government of Nicaragua for new par values for the króna and the córdoba. The proposed par values are:

0.00930128 gram of fine gold per Icelandic króna
3,344.00 Icelandic krónur per troy ounce of fine gold.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- ☐ Night Letter
☐ Full Rate
☐ Code

SPECIAL INSTRUCTIONS

EBS/72/147 (8/8/72)

KBM/72/42 (5/8/72)

Repeat Para (I) to:

The Central Bank of
 China
 Taipei, Taiwan,
 Republic of China.

Kazmi ASIANBANK,
 MANILA.

TLX

Repeat Paragraph (II)
 to

The Central Bank of
 China
 Taipei, Taiwan
 Republic of China.

Cleared With:

TRE, LEG, ETRD, ASIAN.

Drafted by PHONOHAN/gag

Department Secretary's

Date 5/8/72

AUTHORIZATION

Signature

W. Lawrence Hebbard

Second Signature When Required

FOR CODE ROOM

Time Received 6:45 p.m.

Time Dispatched 8:50 p.m.

Number of Words 250, (150) Bas.

Log 160077/88

Route WU, TLX, INT TLX, INT

Operator FJ

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

MD

DMD

XXMXXBR

Mr. Hsu

CC: TRE

ASD

LEG

RES

ETR

SEC

XTR

To: His Excellency, The Minister of Finance,

Ministry of Finance,

Nanchang Street,

Taipei, Taiwan, Republic of China.

(I) Executive Board took following decision May 8:

QUOTE:

- I. 1. The Government of China has proposed a change in the par value of the new Taiwan dollar to become effective on May 8, 1972. The proposed par value is:
 0.0204628 gram of fine gold per new Taiwan dollar,
 1,520.00 new Taiwan dollars per troy ounce of fine gold.
2. The Fund, in accordance with Article IV, Section 5(c)(i) notes the proposed par value.
3. This par value corresponds to 43.4286 new Taiwan dollars per special drawing right, or 0.0230263 special drawing right per new Taiwan dollar.

II. The Fund notes that the Government of China is availing itself of wider margins under paragraph 1 of Executive Board Decision No. 3463-(71/126), adopted December 18, 1971.

UNQUOTE

(II) In order to facilitate the adjustment of the Fund's holdings of the new Taiwan dollar in accordance with Article IV, Section 8, please cable balance in Fund's No. 2 Account as of ~~business~~ noon, May 8, 1972. If this not possible as of opening of business May 8, 1972.

Hebbard/Interfund

DO NOT TYPE BELOW THIS LINE



Office Memorandum

TO : The Managing Director

DATE: May 8, 1972

FROM : P. Y. Hsu *pyhsu*

SUBJECT : Change in Par Value - New Taiwan Dollar

I have received the following message from Governor Kuo-Hwa Yu:

"The Government of the Republic of China proposes, in accordance with Article IV, Section 5 of the Articles of Agreement of the Fund, to change the par value of the New Taiwan dollar, effective noon, May 8, 1972 (Washington, D.C. time), from 0.0222168 gram of fine gold per New Taiwan dollar to 0.0204628 gram per New Taiwan dollar to prevent the immediate emergence of a fundamental disequilibrium in the context of the recent realignment of exchange rates.

"Furthermore, the Government of the Republic of China herewith notifies the Fund that it avails itself of the wider margins under Executive Board Decision No. 3463-(71/126), adopted December 18, 1971."

Orig: ASD

cc: MD

DMD

LEG

RES

ETR

TRE

SEC



Mr. A. Gerstein
Mr. D. Palmer ✓
Mr. R. Miller

A. A. Matters

China
*Call + msg I have
no comment*
OK CH

May 2, 1972

Cables to be Sent to Some Asian Members when the U.S. Proposes Change in Par Value

As suggested by Mr. Gerstein's memorandum of April 5 to the Managing Director, the attached cables have been drafted in the Asian Department to be sent to four Asian members (China, Japan, Nepal, Thailand) which are expected to propose a new par value when the United States proposes to the Fund a change in the par value of the U.S. dollar. The only one of these four members which now has a central rate is Japan. The draft cables for China and Japan would be given to the respective Executive Directors, and those to Nepal and Thailand would be sent by the Asian Department.

Please give me any suggestions on the attached drafts by tomorrow.

Attachments

cc: Mr. Woodley

China

Following is a suggested form cable that should be sent to the Fund if China chooses to maintain its parity of 40 new Taiwan dollars to one U.S. dollar:

"The Government of the Republic of China proposes, in accordance with Article IV, Section 5 of the Articles of Agreement of the Fund and in the context of the recent realignment of exchange rates, to change the par value of the new Taiwan dollar with effect on (date and time), to 0.0204628 grams of fine gold per new Taiwan dollar, 1,520.00 new Taiwan dollars per troy ounce of fine gold. This change is necessary to prevent the immediate emergence of a fundamental disequilibrium."

The cable to the Fund should also include a brief paragraph of economic justification of the proposed change in the par value.

Mr. Hsu

January 18, 1972

D.S. Savkar

China--Article XIV Consultation

Attached hereto are four copies of the Staff Questionnaire which have been prepared in connection with the forthcoming Article XIV consultation discussions. It would be appreciated if three copies could be forwarded to the appropriate authorities in Taipei; the fourth copy is for your files. The Background Paper will be sent to you shortly.

Mr. Alex Ashiabor and Mrs. Hui-Chen Wu Yang will arrive in Taipei on March 2 so that they can collect necessary information. It would be most helpful if the replies to the Questionnaire could be made available to them on their arrival.

Attachments

HCWY:KS/mp

cc: Mr. Suzuki
Mrs. Yang
Mr. Ashiabor ✓
Far Eastern Division

MINISTRY OF FINANCE
REPUBLIC OF CHINA

Office of the Minister

January 18, 1972

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
Washington, D.C.
U. S. A.

Dear Mr. Schweitzer:

I have received your letter dated January 12, 1972 informing me that, as agreed with our Executive Director, you propose to hold the 1971 Article XIV consultation in Taipei from March 6 to March 17, 1972 and that the Fund staff team for the discussions will consist of Mr. Koji Suzuki, Mr. Alex Eric Ashiabor, Mrs. Hui-Chen Wu-Yang and a secretary.

On behalf of our government, I take great pleasure to welcome the Team's visit. Please advise us in advance the exact time of their arrival.

Meanwhile, I am looking forward to receive the questionnaire from you at your earliest convenience.

Sincerely yours,

K. T. Li
K. T. Li
Minister of Finance



January 18, 1972

Republic of China--1971 Article XIV ConsultationFactual Information Requested by Fund Staff TeamI. Gross National Product and Production

1. Please provide the latest estimate of gross national product in current and constant prices in 1971 together with a general description of the performance of the various sectors during 1971. How do they compare with the previous year?
2. What were the population growth rate and per capita income in 1971? How do they compare with those in the previous year? Please provide information on recent policy emphasis on population.
3. Please provide an estimate of the increase or decreases in the components of national expenditure during 1971 and reasons for such changes?
4. Please provide data on financing of gross domestic capital formation for 1970 and 1971 and explain any major changes in trend.
5. Please provide data on total savings and savings by private sector as a percentage of GNP for 1970 and 1971. Please provide reasons for any major changes in trend.
6. What are the prospects for economic growth in 1972? Please discuss the underlying assumptions in projecting the economic outlook.
7. Please provide data on agricultural outputs in 1971 together with a general discussion of agricultural developments in 1971 and a comparison with the previous year.
8. What were the acreage planted, yields and production for the first and second rice crops of 1971? How do they compare with those of the corresponding crops of 1970. What were the rice exports and imports in 1971 and stocks at the end of the year? What are the prospects for 1972 and following years?

9. What has been the Government's rice policy in 1972? What changes are being considered in this respect?

10. What is the present status of the rice-fertilizer exchange policy and the latest policy regarding the use of fertilizer by farmers?

11. Please give the volume of sugar production in crop years 1970/71 and the estimated volume for 1971/72, as well as actual exports in 1971 and the prospects for exports in 1972, and describe the present price policy with respect to sugar.

12. Please provide a brief summary of production in 1971 of the other main cash crops. What problems, if any, have been encountered in this area, particularly in regard to the further growth of exports?

13. Please indicate the emphasis in recent agricultural development policies that changes, if any, were made in agricultural policy since the last constitution?

14. Please describe in brief the general pattern of industrial development including problem areas in 1971 and indicate the major new elements of industrial policy, if any.

15. Could any data be given on ratios of utilization of industrial capacity in recent years and reasons for changes in such ratios?

II. Prices, Incomes and Employment

16. Please discuss the latest developments in prices and the outlook for 1972? What measures were adopted in 1970 and 1971 to influence the behavior of prices that have been the function and contributions to price stability of the Commodity Price Conference of the Ministry of Economic Affairs established in early 1971?

17. Please discuss the effects of the realignment of exchange rates in December 1971 on domestic price behavior.

19. Please provide a monthly wage index for manufacturing workers for 1970 and 1971.
20. Please review the general pattern of wage movements in recent years, especially in 1969-71.
21. What changes, if any, were made in the salaries of government employees since the last consultation and/or are intended to be made? What is the outlook for wages in the private sector in 1972?
22. What changes, if any, have been made in the Government's rice procurement price, the monopoly prices of tobacco and wine, and in the rates of public utilities since the last consultation? What are the pricing policies intended for 1972?
23. Please provide data on the employment index for 1969-71.
24. Please provide a note to describe the origin, nature and outlook of the unemployment problem and the government's plan to deal with it.
25. Please provide information on shifts in labor resources among the major sectors of the economy and the measures taken to cope with it.
26. Please provide whatever indicators are available on changes in industrial productivity and unit wage costs in recent years.

III. Development Planning

27. Please provide a summary of the major revisions or modifications of the draft Fifth Four-Year Plan.
28. Please review the major achievements and general performance under the Fifth Four-Year Plan in 1971, and indicate the prospects for 1972.
29. Please provide a summary of the projects and programs to be undertaken or carried on in 1972 under the Fifth Four-Year Plan.

30. Please give information regarding actual investments in 1971 under the Fifth Four-Year Plan and the sources of financing. How do they compare with those in 1969 and 1970?
31. The Fifth Four-Year Plan is to be completed at the end of 1972. What is the present thinking on economic development planning from 1972 on? What is the status of the Ten-Year Economic Plan (1971-80) announced lately by CIECO? How is the Ten-Year Plan related to the Four-Year Plan?
32. Please provide information on Government policy on the following developments: (1) Organizational and regional developments; (2) manpower development; (3) Environmental problems.

IV. Public Finance

33. Please check and bring up to date the attached Table 1. Please describe the performance and the actual outcomes of the FY 1971 budget, together with factors accounting for significant deviations from the budgeted amounts.
34. Please provide the consolidated budget for FY 1972 and describe the underlying assumptions for significant increases or decreases in revenues and expenditures as compared with the FY 1971 budget.
35. Is it possible to classify the FY 1972 budget into current and capital expenditures?
36. Please describe major changes in taxation (including name of measure, effective date, and anticipated yield) in FY 1971 and FY 1972.
37. Please list FY 1971 issues of government bonds with details of date of issue, principal amounts authorized and sold, principal buyers (including separately the Central Bank, Bank of Taiwan, other banks, and others), interest rate, terms and maturities.
38. Please provide details of bond issues planned for the remainder of FY 1972, ending June 30, 1972.

Table 1. China: Consolidated Budget of all Levels of Government,
FY 1967-72

	FY 1967	FY 1968	FY 1969	FY 1970	FY 1971 (Budget)	FY 1972
(In millions of NT dollars)						
A. Revenues	28,359	31,973	42,337	49,257	51,658	
Taxes	19,549	24,444	32,760	36,339	39,244	
a. Income and profits	(1,375)	(1,820)	(2,546)	(3,447)	(3,911)	
b. Property and capital transactions	(2,469)	(3,500)	(5,022)	(5,207)	(5,170)	
c. Commodities and services	(10,120)	(12,062)	(15,849)	(17,712)	(19,582)	
d. International trade	(5,017)	(6,516)	(8,564)	(9,706)	(10,436)	
e. Others ^{1/}	(569)	(546)	(465)	(6)	(--)	
Profits of public enterprises and utilities	3,946	3,071	4,529	5,326	5,492	
Other revenues ^{2/}	4,864	4,458	5,048	7,592	6,922	
B. Expenditures	29,703	32,186	39,985	48,293	51,568	
General administration and defense	15,668	17,938	21,051	24,231	25,809	
Economic reconstruction and communication	2,676	3,438	3,570	3,790	4,321	
Education, science, and culture	4,070	4,865	6,711	9,761	9,460	
Investment in public enterprises	4,103	2,004	3,373	3,190	3,445	
Social relief and health	2,198	2,581	3,624	4,519	5,712	
Public debt	516	772	794	904	986	
Others	472	588	862	1,898	1,855	
C. Deficits	-1,344	-213	2,352	964	90	
D. Financing of deficits						
Domestic bond issues	2,800	3,000	2,100	2,500	2,800	
Less: redemptions of securities ^{3/}	-1,024	-816	-2,213	-1,775	-2,890	
Net bond financing	1,776	2,184	-133	725	-90	
Transfers from counterpart fund	480	360	240	--	--	
Changes in cash balance (increase in cash reserves)	912	2,331	2,480	1,689	--	
(Percentage of GNP ^{4/})						
A. Revenues	21.1	20.6	23.6	24.1	21.4	
Taxes	14.6	15.7	18.3	17.8	16.3	
a. Income and profits	(1.0)	(1.2)	(1.4)	(1.7)	(1.6)	
b. Property and capital transactions	(1.8)	(2.3)	(2.8)	(2.5)	(2.1)	
c. Commodities and services	(7.5)	(7.8)	(8.8)	(8.7)	(8.1)	
d. International trade	(3.7)	(4.2)	(4.8)	(4.8)	(4.3)	
e. Other taxes	(0.4)	(0.3)	(0.2)	(--)	(--)	
Profits of public enterprises and utilities	2.9	2.0	2.5	2.6	2.3	
Other revenues	3.6	2.9	2.8	3.7	2.9	
B. Expenditures	22.1	20.7	22.3	23.6	21.4	
General administration and defense	11.7	11.5	12.3	11.9	10.7	
Economic reconstruction and communication	2.0	2.2	2.0	1.9	1.8	
Education, science, and culture	3.0	3.1	3.7	4.8	3.9	
Investment in public enterprises	3.1	1.3	1.9	1.6	1.4	
Social relief and health	1.6	1.7	2.0	2.2	2.4	
Public debt	0.4	0.5	0.5	0.4	0.4	
Others	0.4	0.4	0.5	0.9	0.8	
C. Deficits	-1.0	-0.1	1.3	0.5	0.04	
D. Financing of deficits						
Domestic bond issues	2.1	1.9	1.2	1.2	1.2	
Less: redemptions of securities	1.8	0.5	1.1	0.9	1.1	
Net bond financing	1.3	1.4	-0.06	0.3	-0.04	
Transfers from counterpart fund	0.4	0.2	0.1	--	--	
Changes in cash balance (increase in cash reserves)	0.6	1.5	1.4	0.8	--	

Source: Data obtained during 1970 Article XIV consultation discussions.

^{1/} Defense surtaxes.

^{2/} Includes income from properties, fees, fines, etc.

^{3/} Includes redemption of economic loans from FY 1968.

^{4/} Adjusted to fiscal year.

39. Please provide data on the pattern of ownership of outstanding government debt at the end of FY 1971 and to date in FY 1972.
40. Please describe any change in interest rate on government bonds during 1971, and give reasons for it.
41. Please provide information on interest payments for the public domestic debt for FY 1971.
42. Please indicate further measures taken regarding improvements in domestic debt management. What is the status of the Draft Legislation authorizing the Issuance of Treasury Bills?

V. Money and Banking

43. What were the factors responsible for the higher rate of increase in money supply in the first eleven months of 1971 (it rose by 18 per cent compared with less than 10 per cent for the corresponding period of 1970)? What was the rate of increase in December 1971?
44. Please describe differences in credit developments in 1970 and 1971 and the respective policies adopted.
45. What were the factors contributing to the higher rate of growth in credit to the private sector in 1971?
46. What were the reasons for the wide fluctuation in the Bank of Timor's borrowings from the Central Bank in December 1970 and during 1971? Please provide data on the total accommodation from the Central Bank to specialized banks (at the end of each month since December 1970), including special loans to government agencies, and the purposes (with rates of interest) of such lending.
47. Please explain changes in the investment portfolios of commercial banks and in their liquidity position in 1970 and 1971. What were the reasons responsible for the much improved reserve position of commercial banks in 1971 with increasing actual reserves and declining borrowings from the Central Bank?

48. What were the factors contributing to the substantial increase in quasi-money in 1971 relative to 1970?
49. Please provide information concerning survey data on family income and savings.
50. What is the outlook for money market conditions in 1972--in particular, regarding deposit growth, bank credit, and liquidity of banks? Please indicate the probable direction of credit policy in 1972 and principal instruments of credit control to be used.
51. Please explain the apparent inconsistency between declining domestic interest rates, rising savings, and increased dependence of the business sector on foreign private short-term capital in spite of the liquidity of domestic banks.
52. Please give the authorities' motivations regarding the recent changes (on May 29, 1971 and December 21, 1971) in interest rates.
53. Please describe the measures taken by the Central Bank, effective January 5, 1972 to assist importers to offset cost increases due to the recent realignment of currencies.
54. Please provide information about recent developments in ^{the} short-term money market (interbank market) including the professional intermediate men, brokers, traders and central bank intervention practices. What is the present thinking of the government to place Treasury bills in the free market?
55. Please describe developments in the long-term capital market giving details of instruments traded in (e.g., stocks, bonds, debentures, etc.) as well as the role of brokers, financial intermediaries, institutional investors, underwriters and the monetary authorities. Please provide information on measures taken during the past year to promote the development of the bond, debenture and stock markets.
56. Please summarize progress made in the work of the committee for the revising of the banking law. What is the status of the revised Banking Law?

VI. Balance of Payments

57. Please provide balance of payments estimates for 1971 (Table 2 attached), check the previous figures and provide any available information explaining variations in the accounts for 1970 and 1971.
58. Please provide balance of payments projections for 1972 and 1973 and explain variations between the estimates for 1971 and the projections for the next two years.
59. Please provide estimates of the component items of the capital account of the balance of payments for 1970 and 1971.
60. a. Please update the data on gold and foreign exchange (Table 3 attached).
b. What was the reason for the sharp decline in gross foreign exchange reserves in May 1971 and the steady decline since July while the net foreign assets in the monetary survey showed increases?
61. Please provide data on outstanding preferential export loans by banks, classified by industry as at the end of December 1970 and 1971.
62. Please give details of trade with Viet-Nam in 1970 and 1971, showing separate figures for exports under U.S. aid.
63. Please describe obstacles to exports arising from policies of China's main trading partners. Please include the position with respect to the agreements with the United States on the export of textiles to that country (and also to the textile agreements with Canada and Italy).
64. Please give details of the agreement with EEC member countries, giving the main objects of the agreement, as well as the major items of trade covered by the agreement. What has been the development of exports of these items to the EEC countries in 1971 and what are the prospects for 1972 and 1973? Please give supporting figures.

Table 2. China: International Transactions, 1967-71^{1/}

(In millions of U.S. dollars)

	1967	1968	1969	1970	1971
A. Merchandise, services, and unrequited transfers (excluding grants received)					
Exports f.o.b.	654.0	825.9	1,081.4	1,465.1	
Imports f.o.b.	-716.6	-899.8	-1,100.3	-1,376.1	
Trade balance	-62.6	-73.9	-18.9	89.0	
Other receipts					
Transportation and merchandise insurance	51.4	51.6	55.3	61.3	
Travel	34.1	64.7	66.8	89.0	
Government services	41.0	60.2	51.0	25.3	
Other services	17.3	39.1	72.0	89.8	
Transfers	24.6	14.4	10.9	17.6	
Other payments					
Freight and insurance on imports	-58.2	-80.0	-87.0	-110.9	
Other transportation	-28.3	-38.4	-37.4	-49.0	
Investment income	-16.4	-29.9	-40.1	-61.0	
Other services	-50.2	-127.0	-110.7	-145.5	
Transfers	-4.9	-7.0	-9.2	-11.3	
Total	-52.2	-126.2	-47.3	-5.7	
B. Miscellaneous capital					
Direct investment	26.5	27.3	51.5	61.4	
Other long-term capital of private nonmonetary sector	33.7	17.6	76.4	31.4	
Other short-term capital of private nonmonetary sector	-41.4	-52.3	-34.3	68.3	
Miscellaneous official capital	-0.9	-0.8	-7.3	2.7	
Total	17.9	-8.2	86.3	158.5	
C. Net errors and omissions	-5.4	11.9	16.8	4.4	
D. Total (A through C)	-39.7	-122.5	55.8	157.1	
E. Official grants and loans received, net^{2/}					
U.S. Government grants	4.7	6.7	--	--	
Other grants received	--	2.0	6.1	7.6	
U.S. Government holdings of new Taiwan dollars	14.6	17.1	-9.6	5.0	
U.S. Government loans	42.0	7.4	5.9	-11.6	
AsHB, IBRD, and IDA loans	5.6	6.7	15.5	24.9	
Japanese Government loans	31.1	21.6	14.7	12.7	
Other loans received	0.4	--	--	--	
Trade credits on aid imports	-0.6	17.9	0.8	-12.7	
Total	97.8	79.4	33.4	25.9	
F. Total (D plus E)	58.1	-43.1	89.2	183.0	
Trade balance	-62.6	-73.9	-18.9	89.0	
Other goods and services	-9.3	-59.7	-30.1	-101.0	
Private unrequited transfers	26.2	15.3	13.0	20.2	
Government unrequited transfers	-1.8	0.8	-5.2	-6.3	
Capital of nonmonetary sectors	111.0	62.5	13.6	76.7	
Net errors and omissions	-5.4	11.9	16.8	4.4	
G. Monetization of gold	1.0	--	--	--	
H. Total (F plus G)	59.1	-43.1	89.2	183.0	
I. Monetary movements (increase in assets -)					
Deposit money banks	18.5	8.7	-26.2	-8.4	
Monetary gold	-18.8	0.2	-0.9	--	
Reserve position in the Fund	--	--	--	-59.8	
Foreign exchange reserves	-60.1	24.8	-61.0	-121.0	
Other claims of Central Bank	1.3	-0.6	-1.1	6.2	
Total	-59.1	43.1	-89.2	-183.0	

Source: IMF, Balance of Payments Yearbook, Washington, D.C.

^{1/} Positive figures are credits; negative figures are debits.

^{2/} Drawings net of repayments.

Table 3. China: International Reserves, 1952-71

(In millions of U.S. dollars)

	Gold	Foreign exchange ^{2/}	Official Holdings ^{1/}		Net assets	Foreign Exchange Assets Held by Other Banks ^{3/}
			Fund gold tranche position	Gross assets		
1952	39	23	--	62		1
1953	38	28	--	66		1
1954	40	14	--	54		1
1955	41	30	--	71		1
1956	42	44	--	86		1
1957	42	67	--	109		1
1958	43	82	--	125		1
1959	41	88	--	129		1
1960	41	81	--	122		10
1961	43	93	--	136		13
1962	43	71	--	114		8
1963	50	177	--	227		19
1964	55	242	--	297		25
1965	55	245	--	300		17
1966	62	275	--	337		19
1967	81	335	--	416		21
1968	81	300	--	381		27
1969	82	361	--	443		26
1970						
March	82	389	--	471		29
June	82	449	--	531		33
September	82	433	60	575		39
December	82	482	60	624		32
1971						
January	82	441	60	583		38
February	82	478	60	620		30
March	82	496	60	638		42
April	84	527	60	671		38
May	82	437	60	579		
June	82	422	60	564		
July	82	434	60	576		
August	81	423	60	564		
September	81	398	60	539		
October	80	415	--	495		
November	80	425	--	505		
December	87	437	--	524		
1972						
January						
February						

Source: IMF, International Financial Statistics.

1/ Held by the Central Bank of China and the Bank of Taiwan.

2/ Consists of foreign currencies in vault, deposits with banks in terms of foreign currencies and readily cashable foreign securities.

3/ Covers the Bank of China, the Bank of Communication, Overseas Chinese Commercial Bank, Shanghai Commercial and Savings Bank, the Central Trust of China, the Farmers Bank of China, First Commercial Bank, Hua-Nan Commercial Bank and Chunghua Commercial Bank.

65. Please describe developments in China's principal markets for agricultural and semi-processed agricultural products. How have exports of these items developed in 1971, and what are the prospects for 1972? Please give supporting reasons. Also, please give details of new agricultural, fisheries and other products for export.
66. Please describe developments in the three export processing zones of Kaohsiung, Nangtze and Taichung since the last mission.
67. Please describe the possible effects of the recent realignment of currencies of China's major trading partners on China's exports and imports.
68. Please provide available information regarding China's trade with Japan in 1970 and 1971, and give details of negotiations or measures being taken to improve the trade balance with Japan, particularly since the revaluation of the Japanese yen.
69. Please describe the effects of changes in the United States' trade and exchange policy since August 1971, on China's trade with the United States.
70. Please provide details of any calculations or estimates of the effective rate of the New Taiwan dollar vis-à-vis the currencies of China's major trading partners since the realignment of currencies of December 1971.
71. Please provide data on inward and outward remittances, showing component items (e.g., dividends, interest, royalties, etc.) for the years 1969, 1970, and 1971, explaining any variations and commenting on the prospects for 1972 and 1973.
72. Please give details of foreign official and private loan contracts entered into in 1970 and 1971, showing details of amount, terms and interest rate including grace period, final maturity and guarantor.

73. Please give details of actual inflows of foreign official and private capital into China in 1970 and 1971 compared with projected inflows of capital for these years and comment on any differences. Please provide estimates of capital outflow in 1970 and 1971 if there were any.

74. Please provide data on outstanding external debt and debt service payments by updating and completing Table 4 (attached).

75. Please provide details of approved foreign investments and actual private capital inflow in 1970 and 1971.

a. What has been the experience with regard to measures to stimulate the inflow of foreign capital and to reduce the lag between approvals of foreign investments and actual receipts?

b. What new measures have been introduced or are under consideration?

c. What are the prospects for capital inflows?

76. What is the latest status of the US\$150 million loan from Japan? Please provide information on amounts earmarked for projects under the loan, as well as disbursed and undisbursed amounts as at the end of December 1970 and 1971.

77. Please provide details on the status of the Sino-American Fund for Economic and Social Development (SAFED) in 1971. In particular, please give details of amounts (in grants and in loans) used in 1971 and on which projects, compare actual drawings with projected for 1971 and give reasons for any variations. Also please give details of projected use of SAFED funds in 1972 and the opening and closing balances on the SAFED account for 1971 as well as the projected closing balance for 1972.

78. Please summarize information, as at the end of December 1971, regarding persons involved in economic and technical cooperation projects with other countries for increasing the efficiency of domestic industries. Also show

Table 4. Republic of China: Outstanding External Debt and Debt Service, 1969-78

(In millions of U.S. dollars)

	Outstanding Amounts			Estimated Debt Service Payments									
	End of			1971		1972		Principal					
	1969	1970	1971	Principal	Interest	Principal	Interest	1973	1974	1975	1976	1977	1978
Trade credits (usance credits)	124	154	...	...	...	...	...	...	...	...	...	...	...
Other short-term debt ^{1/}	24	26	...	...	...	...	...	...	...	...	...	...	...
Total short-term debt ^{2/}	148	180	...	...	...	...	...	...	...	...	...	...	...
Total medium-term debt ^{3/} ^{4/}	359	420	...	112	25 ^{5/}	88	...	89	60	42	...	...	...
Total long-term debt ^{6/}	413	445	...	28	20	31	...	37	40	43	...	...	...

Source: Central Bank of China.

^{1/} These loans include overdrafts.^{2/} With an original or extended maturity of less than one year.^{3/} With an original or extended maturity of one year but less than 12 years.^{4/} Includes both public and private.^{5/} Staff estimates: represents 6 per cent interest per annum on outstanding amount at end of 1970.^{6/} With an original or extended maturity of 12 years or more; disbursed amounts only.

details of Chinese technical and other assistance to foreign countries as at the same date. Please describe developments relating to technical and regional cooperation with other countries since the last mission.

79. Please give details of changes in the exchange and trade system since the last Article XIV consultation.

80. Please give a summary of changes in commercial policy with respect to the use of import controls and tariff protection since the previous consultation.

81. Please describe the existing arrangements with regard to the import licensing system and the present position with regard to import margin requirements.

82. Please indicate the number of items on the prohibited, controlled and permissible lists of imports at the end of December 1971 and the shifts that occurred between the lists since December 1970. What are the present arrangements concerning the licensing of commodities on the controlled list of imports?

83. Please give details of the present status of the exchange retention system.

84. Please give the current requirement for domestic manufacturers to use domestic (rather than imported) raw materials, intermediate and capital goods. What changes in this policy have been effected since December 1970 or are being contemplated within the context of the recent realignment of currencies of China's major trading partners.

85. Please outline changes in the tariff structure in 1971 giving details of the range of tariff rates. Also, please provide available information on the work of the Tariff System Committee of the Ministry of Finance.

86. Please summarize the existing arrangements regarding assistance to exporters through the tax, exchange and public utility systems in 1970 and 1971.

87. Please give details of quota limitations on exports including information on commodities, quotas and distribution.

88. Please describe the forms and extent of preferential treatment given to domestic shipping, air transport and insurance enterprises.

89. Please give details of the new Statute for the Encouragement of Investment. What are the new features of this Statute compared with the previous one?

90. Please describe developments in the exchange markets, including any changes in the specific currencies in which exchange transactions may take place and details of the rates concerned since the previous mission.

91. Please give the monthly range of quotations for the U.S. dollar and gold in the curb market since the end of 1970.

92. Please provide details of any changes in laws and regulations governing trade and transactions in gold since the last consultation.

93. Please provide annual data for 1971 on imports of gold, giving details of country sources, prices, the agency affecting the imports and the purpose (i.e., monetary or nonmonetary).

94. Please provide data on gold purchased and sold by the Central Trust of China in 1971 and data of the Central Trust quotations for gold put forward for auction in 1971.

95. Please provide data on the proportion of gold production emanating from publicly-owned mines in 1970 and 1971.

JAN 12 1972

Dear Mr. Minister:

As agreed with your Executive Director, we propose to hold the 1971 Article XIV consultation discussions in Taipei from March 6 to March 17, 1972.

The Fund staff team for the discussions will consist of Mr. Koji Suzuki, Senior Advisor, Asian Department; Mr. Alex Eric Ashiabor, Senior Economist, Exchange and Trade Relations Department; Mrs. Hui-Chen Wu Yang, Economist, Asian Department; and a secretary.

The staff Questionnaire and Background Paper will be forwarded to you shortly, and details of the mission's arrival will be communicated at a later date.

Sincerely yours,

(s)

Pierre-Paul Schweitzer
Managing Director

His Excellency
K. T. Li
Minister of Finance
Ministry of Finance
Taipei, Taiwan
Republic of China

KS:mp
1/11/72

cc.: MD
DMD
Mr. Hsu
ETRD
LEG
RES
SEC
ADM
ASD





EXECUTIVE DIRECTOR

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

338 349 17
cc: Mr. Palmer
Mr. deLooper
Mr. Hughes

CABLE ADDRESS
INTERFUND

December 21, 1971

Dear Mr. Schweitzer:

I take pleasure in informing you that the Republic of China will maintain the rate NT\$40.00 per US\$1.00.

Sincerely yours,

P. Y. Hsu
P. Y. Hsu

Orig: ASD
cc: MD
DMD
TRE
LEG
RES
ETR
SEC

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund.



ORCA POSN 12

24331 INFUN UR

ZCZC YW878 FBD1548 FUS617 12314

URWA CZ CNTA 077

TAIPEI F 77/74 20 19RT CHG

ETAT

MR PIERRE-PAUL SCHWEITZER

INTERFUND

WASHINGTONDC USA

Orig: ASD
cc: MD
DMD
Mr. Hsu
TRE
LEG
RES
ETR
SEC

REURTEL DECEMBER EIGHTEENTH PLEASE BE ADVISE AAA

EXCHANGE RATE FOR OUR CURRENCY REMAINS TO BE 40 NEW TAIWANDOLLARS

PER US DOLLAR. BBB WE PROPOSE TO CHANGE GOLD CONTENTS TO

0.0204628 GRAM OF FINE GOLD PER NEW TAIWAN DOLLAR EFFECTIVE

SAME TIME WITH THE NEW/PAR VALUE OF USDOLLARS STOP SHALL

MAKE OFFICIAL ANNOUNCEMENT LATE THIS AFTERNOON PLEASE

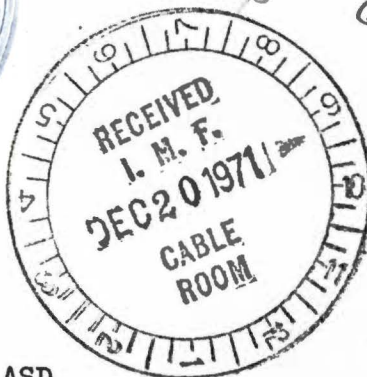
CONFIRM THE PROPOSED NEW PAR VALUE REGARDS KTLI MINISTER

OF FINANCE

+

24331 INFUN UR

159912



December 8, 1971



MEMORANDUM FOR FILES

Subject: Meeting with Mr. Hanh - Viet-Nam and China

Mr. Hanh saw me today when the following discussion took place.

1. He referred to the discussion we had with the Vietnamese delegation during the Annual Meeting and asked me whether the Fund would be prepared to send a mission to Viet-Nam in January. I told him that since enough time had not elapsed after the exchange rate reforms of November 16, we would like to postpone the mission to a later date to enable us to make a judgement as to the effects of the reforms on the economy. We tentatively agreed that a mission could visit Viet-Nam after the Chinese New Year, sometime around February 20.

2. He asked me whether the staff had made any judgement as to what Viet-Nam should do when the realignment of currencies took place. I told him that we had been giving some thought to this question and our view was that the piastre should follow the dollar. Since an exchange reform was introduced only recently I said we felt that Viet-Nam could keep its present exchange rates to the dollar which would have the effect of depreciating those rates against other appreciating currencies. This would amount to a substantial depreciation against major European currencies, and the yen.

3. He asked me whether we intended to send a mission to China as scheduled, sometime at the end of February. I told him that I haven't had time since my return to focus on this question, but my own view was that until the constitutional question came to the surface I would like to continue with our normal activities as before. I said I had not discussed this question with Management, but at this stage this was my view. He replied that this was logical and they would have no difficulty on their side.

4. He said that in the event China's quota is to be readjusted what was the view of the staff as to the possible quota for China. I told him, here again, we have been doing some thinking but had not reached any final view; however, in a preliminary way our analysis showed that the quota could be in the range of \$80-100 million.

D. S. Savkar
Director
Asian Department

cc: MD
DMD
ETR ✓
LEG

Republic of China

Date of Admission to the Fund: An original member.

Par Value: Currency unit is the new Taiwan dollar; an initial par value at NT\$40.00 to one U.S. dollar was approved by the Executive Board on September 4, 1970.

Quota: China has a quota of \$550 million. In the past it has not consented to any increase in its quota and it does not wish to have an increase as part of the Fifth General Review also. Payment of the gold portion of its original subscription to the Fund pursuant to Article III, Section 3, was completed on August 14, 1970.

Use of Fund Resources: None.

SDRs: China's instrument of participation in the Special Drawing Account has been deposited with the Fund. China, however, notified the Fund that it did not wish special drawing rights to be allocated to it for the first basic period, but has reserved the right to request the Fund to terminate the effect of the notification with respect to the third allocation for the first basic period.

Article XIV Consultation: The 1970 consultation was held in Taipei from March 22 to April 1, 1971.

Domestic Developments

Gross national product: In 1970, the second year of the Fifth Four-Year Economic Development Plan, GNP at constant prices rose by 10 per cent compared with less than 9 per cent in the previous year. Barring unforeseen factors, this high rate will probably be maintained and may even be exceeded in 1971.

Production: Prospects of agricultural crops are good. In the industrial sector the overall gain in the first half of 1971 was more than 21 per cent, compared with 15 per cent for the corresponding period of 1970. An increase in industrial production exceeding 20 per cent is projected for the whole year 1971.

Government finance: The consolidated budget of all levels of governments, with some reliance on borrowing from the public and U.S. counterpart fund transfers, has been in balance since FY 1964. Since FY 1970 (beginning July 1, 1969) there has been no transfer of U.S. counterpart fund for budget purposes. Successful efforts have been made in recent years to increase tax revenue. The budget of FY 1971 was estimated to yield a small surplus. Government bonds amounting to NT\$2,800 million were issued to redeem the same amount of public debt.

Monetary conditions: The money supply rose by more than 11 per cent in the first seven months of 1971 compared with an increase of 7 per cent during

the corresponding period of 1970. The monetary expansion was attributable to the continued increase in both net foreign assets and credit to the private sector, each equivalent to more than 20 per cent of money supply at the beginning of the year. The offsetting factors were a nearly 90 per cent increase over the corresponding period of 1970 in savings deposits and some smaller increases in government deposits and in unclassified liabilities.

At the end of May 1971, the Central Bank announced reductions of its interest rates as well as rates on loans and deposits of commercial banks for the second time in six months. The reductions ranged from 0.6 per cent to 0.7 per cent per annum for loans and from about 0.2 per cent to 0.7 per cent for deposits. As a result, interest rates in the unorganized money market receded somewhat in the following months.

Prices: In the first six months of 1971, consumer prices rose by less than one point compared with the end of 1970 level, while wholesale prices receded to a level slightly below that of the end of the previous year. Although current wage data are not available, wages apparently are not showing any strong upward movement.

External Developments

Trade and payments: In 1970, China continued its strong balance of payments performance, when the overall surplus rose to US\$183 million compared with \$89 million in the previous year. Exports rose by 41 per cent and imports rose by 27 per cent. The trade account showed a surplus of \$91 million, the first one for many years.

In the first seven months of 1971, the Central Bank foreign exchange data show that exports, at \$1,185 million, were 39 per cent higher than the corresponding period of 1970, while imports, at \$1,107 million, were 30 per cent higher. There was a trade surplus of \$78 million for the seven-month period. Trade with the United States, China's leading trade partner, resulted in a surplus of \$138 million, while trade with Japan ended in a deficit of \$264 million during the seven-month period.

International reserves: Net foreign assets rose by \$185 million in 1970 and by \$182 million in the first seven months. The total reserves amount to about 5 to 6 months imports at the 1971 rate.

Restrictive system: In July 1971, the Central Bank liberalized regulations governing travel allowances and tuition and living expenses for students studying abroad. The traveling allowance was increased from the previous \$300 to \$600 a trip and the allowance for living expenses abroad was increased from the previous \$700 a month to \$1,000 a month for up to three months.

On August 30, 1971, the Central Bank of China informed the Fund that the par value of NT\$40 to US\$1 was unchanged for the present.

Beginning July 1970, the Chinese authorities took action to review all controlled items, and shifted about 2,000 items to the permissible list in the twelve months ending June 30, 1971. However, following the new U.S. economic moves, the Chinese authorities announced the end of the decontrol action.

Technical Assistance

The Fund was asked to extend technical assistance in connection with the introduction of the Brussels Tariff Nomenclature, and has provided the services of Mr. Quinton from the fiscal panel for one year beginning in May 1971.

Topics for Discussion

1.. The balance of payments has been very strong over the past 18 months, and the monetary expansion resulting from reserve accumulation has required a deliberate policy of offsetting measures to maintain domestic price stability. Both the floating of the yen and the U.S. import surcharge have disrupted Chinese trade and created uncertainties for the future. While China's export performance and the strength of the balance of payments raise some doubts about the wisdom of maintaining a fixed link to the dollar in any international adjustment of exchange rates, this seems the best approach given present political uncertainties. The Chinese authorities should be urged, however, to resume their program of import liberalization to avoid excessive accumulation of exchange reserves.



Office Memorandum

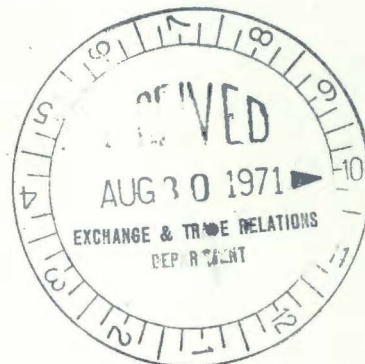
TO : The Secretary
FROM : P. Y. Hsu *pyhsu*
SUBJECT : China - Information on Exchange Practices

DATE: August 30, 1971

In response to the Managing Director's request to all members for information concerning their exchange measures and practices, the following cable has been received from the Central Bank of China:

Basic rate US\$1 NT\$40 unchanged for the present. Listed currencies Australian dollar, deutschemark, Hong Kong dollar, Malaysian dollar, pound sterling and Swiss franc changed to daily quotations based on their market rates abroad with buying and selling margins of .75 per cent. No restriction on current payments and transfers provided we can obtain the currencies concerned.

Orig: ASD
cc: MD
DMD
ETR
RES
LEG
TRE
SEC





Office Memorandum

TO : The Secretary
FROM : P.Y. Hsu *[Signature]*
SUBJECT : China - Exchange Operations

Orig: ASD
cc: MD
DMD
ETR
RES
LEG
TRE
SEC

DATE: August 20, 1971

For your information I have received today the following telegram from Governor Kuo-Hwa Yu of the Central Bank of China:

"Thanks your cable. For your information no change in our rate. All exchange operations carried on as usual."

*Rec'd 3:20 pm
Aug 20/71
LH*



Nars

Mr. Gianviti

March 5, 1971

Kari Nars

Republic of China--Gold Subsidy Arrangements

In response to your questionnaire dated March 3, 1971, the following information is provided on the basis of the last consultation report (see SM/70/100 and SM/70/101) and other available documents. The purpose of this note is to show what existing information we have about the gold subsidy arrangements; if any of the answers raise further questions, I would be happy to discuss them with you before my departure for China on March 12. The intention is to confirm the answers with the Chinese authorities.

Question 1: Under what conditions (total or partial output), for what purposes, and at what price are gold producers required to surrender their output to the Central Mint of China?

Answer: Producers of gold must surrender all their output to the Central Mint of China to be recasted into 0.875 purity. Gold of this fineness is then auctioned by the Central Trust to registered goldsmiths, who are permitted to sell only ornamental gold of a fineness of less than 0.875. The proceeds of the auctions, less a charge of 2 per cent for refining and commission accruing to the Central Trust, are paid to the producers. According to information received during the last consultation in March 1970, the floor price applied in auctions was NT\$1,570 per 1.00471 ounces (one Shih liang) of 87.5 per cent fineness of gold, equivalent to US\$44.60 per troy ounce of 99.9 fineness. Gold not disposed of by auction (this amount was only 1,000 ounces in 1969) was transferred to the Central Bank at the price of NT\$1,400 per ounce, equivalent to US\$35 per ounce. This and the difference between the official price and the auction price was settled to the producers by the Ministry of Economic Affairs.

Question 2: In what capacity does the Central Mint act when it collects gold from producers?

Answer: The Central Mint acts solely as an agent of the producers when it collects gold from them.

Question 3: Does that gold become the property of the Central Mint?

Answer: From the answer to the preceding question, it follows that the gold does not become the property of the Central Mint.

Question 4: At what price is it auctioned or otherwise sold? By whom? To Whom?

Answer: See answer to Question 1.

Question 5: In what capacity does the Central Trust act when it auctions that gold?

Answer: The Central Trust acts only as the agent of the producers when it auctions gold.

Question 6: Who receives the proceeds of the sale? How are they distributed?

Answer: See answer to Question 1. The producers receive all sales proceeds with the exception of the 2 per cent charge for refining and commission, which accrues to the Central Trust.

Question 7: What are the arrangements with respect to purchases by the Central Bank of newly produced gold and the arrangements with respect to the amounts paid by the Government for these purchases?

Answer: See answer to Question 1.

cc: Mr. Woodley
Mr. Baer

Mr. Palmer:

Returning to this question,
would you like somebody
from the Exch. Restr.
Div. to attend the
meeting? It is scheduled
for 2:30 p.m. in Mr.
Woodley's office

Mr. Nass.

Ken

Thanks

John

March 3, 1971

MEMORANDUM FOR FILES

Subject: Republic of China--Some Aspects of Restrictive System

This note includes a little additional background information for the meeting in Mr. Woodley's office today.

1. Registered foreign exchange

The system of registered foreign exchange, described in SM/70/101, p. 59, is an export incentive which operates through an export/import link for certain export industries. Previously, import entitlements that exporters thereby acquired could be transferred between manufacturers. Transactions in entitlements took place at margins which at times exceeded the official rate by more than one per cent (at end-1969 by maximum 1.25 per cent). As a consequence, the arrangement gave rise to a multiple currency practice. The creation of registered foreign exchange amounted to US\$447 million in 1969 (about 41 per cent of the value of annual exports); of this amount, \$59 million had been transferred between holders. The transferability of entitlements was reportedly eliminated as of July 1, 1970 (the change was actually undertaken on July 26, 1970, but retroactive to the beginning of the month, to which date the Fund's approval had been extended), thereby removing their multiple currency aspects.

The attached news clipping suggests that there may be "special cases" in which entitlements may still be transferred. In addition, the system involves some discriminatory features in that use of registered foreign exchange for imports leads to exemption from a special import surcharge. Questions to be discussed before and/or during the mission may include:

- a. Confirmation of the general change in the transference procedures.
- b. Which are the "special cases" in which entitlements may still be transferred; and, if any, what are the margins applied?
- c. What is the staff's opinion about the arrangement to exempt imports by registered foreign exchange from a surcharge?
- d. Do the Chinese authorities still intend to eliminate the registered foreign exchange system by 1972, as stated during the last consultation?

2. Gold

No changes appear to have taken place in the gold subsidy system, as described in SM/70/101, pp. 61-62. It is well known that the main argument by the Chinese authorities in favor of the existing sales arrangement (and subsidy), is that a free market between producers and buyers would make the market price of gold fully reflect the fluctuations in its international price, and hence might "prejudice monetary stability." Since gold is a by-product from copper mining in China, and data received in 1970 suggest that only 0.445 ton per year was produced, the contention about anything else than a very marginal impact of a change in the price of gold on monetary stability is surprising; the total sale of gold by the Central Trust in 1969 were 13,000 ounces, equivalent to US\$0.6 million only. The Central Bank reportedly has imported no gold at prices above \$35.35 per fine ounce.

3. Advance import deposits

China still maintains the advance import deposit requirement mentioned on p. 54 of SM/70/101 (although there may have been a change in the deposit rates; this will be confirmed in Taipei). This practice, which is tied to the exchange system although it would not constitute an effective new rate since transactions other than under sight letters of credit are exempted, cannot be justified in the present balance of payments situation; neither does it have a justification as a check on the creditworthiness of importers, which function can be handled by other means. As mentioned in the draft of the briefing paper, the mission will press for its elimination.

4. Airport Yen

In December 1970, an exchange rate of Japanese ¥ 10 = NT\$1, buying and selling, was established for the conversion of Japanese banknotes at Taipei airport. The crossrate, by applying the respective par values of US\$1 = ¥ 360 and US\$1 = NT\$40, is ¥ 9 = NT\$1. Hence, the airport rate of New Taiwan dollars versus Yen appears to be 10 per cent more appreciated than the crossrate. Although in the past the Fund normally has not objected to even considerable margins for banknotes, the matter might be discussed.

Kari Nars *KN*

Attachment

cc: Mr. Woodley
Mr. Palmer
Mr. Evans
Mr. Miller
Mr. Boer

Suspension of Transference of Registered Foreign Exchange

In connection with the immediate suspension of transference of registered foreign exchange, the Ministry of Economic Affairs announced the following regulations: (1) a manufacturer of processed exports who holds registered foreign exchange should first use his registered foreign exchange to finance imports of needed raw materials, (2) a manufacturer of processed exports, who holds registered foreign exchange in excess of his own requirement, is not allowed to transfer the balance to others barring special cases, and (3) a manufacturer of processed exports is exempted from a surcharge for the purpose of "rewarding soldiers" when he finances imports with his own registered foreign exchange; while importers whose imports are financed with foreign exchange allocated by the Bureau of Foreign Trade of the Ministry of Economic Affairs are required to pay the surcharge in accordance with the General Regulation Governing the Application of Foreign Exchange for Imports. The regulations are applied to commodities under the following categories: (1) textile products, (2) iron, steel and machineries, (3) tools and metals, (4) electrical appliances, (5) chemical products, (6) ^{plywood} wood products, and (7) pulp, paper and allied products.

then want with another

we have rubber products

Source: Central Daily News, Taipei, Taiwan, July 26, 1970.

Mr. Woodley

February 25, 1971

Kari Nars *KN*Republic of China--Monetary Projections for 1971

Further to my preliminary note dated February 24, some additional material is submitted for your consideration. At this stage, I think that our work would be facilitated by using different sets of broad assumptions regarding the growth rate of GNP and the balance of payments surplus in 1971. As I pointed out, we don't have a recent official balance of payments forecast, and hence I had to use a very crude projection which may have been overly optimistic. In addition, the Plan's GNP projection for 1971 may turn out to be on the pessimistic side, as in the past.

I take it that what we finally look for is a projection for the feasible change in the most important policy concept, the central bank's net domestic assets (NDA), so as to be able to caution against any excessive expansion in reserve money (and domestic credit). In the attached table, five different assumptions have been used for both the annual growth rate of GNP and the balance of payments surplus in 1971. This results in a number of various estimates^{1/} for the very approximate desired change in NDA. The monetary ratios used to arrive at the underlying domestic credit and reserve money figures are the same as before, since at this stage I see no reason to question them.

The table shows that, at one extreme, with a nominal growth rate of GNP of 13-15 per cent and a balance of payments surplus of only \$60 million, NDA might be increased by some NT\$1 billion without any excessive expansion of primary liquidity. At the other extreme (growth rate 11-12 per cent, balance of payments surplus \$180 million), it appears that NDA would have to be decreased by NT\$4 billion to accommodate the sharp impact of the foreign sector on reserve money.

Once we have scrutinized the simple methodology used in the projections and agreed on the basic monetary assumptions, and after having obtained the official estimates of GNP and the balance of payments for 1971, it should be possible to discuss the feasible change in NDA, perhaps by using the attached table. If time allows, I will start thinking in more detail about a projection of the balance of payments.

^{1/} Since they are rounded to the nearest billion of NT\$, only six different figures occur in the table.

cc: Mrs. Yang
Mr. Yu

Approximate Suggested Decrease or Increase
in the Central Bank's Net Domestic
Assets Under Various Assumptions
(In billions of NT\$)

		Nominal Growth Rate (In per cent)				
		11	12	13	14	15
Balance of Payments Surplus ^{1/} (In millions of U.S. dollars)	60	+ 0	+ 0	+ 1	+ 1	+ 1
	90	- 1	- 1	+ 0	+ 0	+ 0
	120	- 2	- 2	- 1	- 1	- 1
	150	- 3	- 3	- 2	- 2	- 2
	180	- 4	- 4	- 3	- 3	- 3

Source:

^{1/} As in the past few years, the increase in the central bank's net foreign assets, which is the figure used in calculating the impact of the foreign sector on reserve money, is assumed to be some \$25 million (NT\$1 billion) higher than each balance of payments assumption, because of an expected continued increase in the commercial banks' net indebtedness abroad by this amount.



Office Memorandum

EPD

U R A F I

TO : Mr. Woodley

DATE: February 24, 1971

FROM : Kari Nars *fm*SUBJECT : Republic of China--Monetary Projections for 1971

As requested, I submit this highly preliminary note, which is still in the process of checking, as a basis for discussion at the meeting in your office today. The projections are largely based on a few very stable monetary relationships that can be observed in the Chinese economy (Table 1). It is assumed that there will be no major institutional changes in reserve requirements, interest rates, etc., that would affect the picture during 1971. The projections are based on the broad assumptions of a continued expansion of GNP, a continued balance of payments surplus, and maintenance of reasonable price stability. Since this has been the case in China in the last few years,^{1/} the determination of a "prudent" permissible credit expansion largely follows past trends. The projected levels of money, credit, and net international reserves at the end of 1971 are shown in the attached chart.

My projections start from the observed ratio in the past between net domestic credit^{2/} and GNP. Table 1 shows that the ratio has shown a very steady small increase in the past, to 0.31 in 1968, 0.32 in 1969, and 0.33 in 1970. Since there is no reason to expect that this trend would not continue uninterrupted, it is assumed that the ratio will equal 0.34 in 1971. The GNP estimate for 1971 is based on the Fifth Four-Year Plan's assumption of a 7 per cent increase in GNP

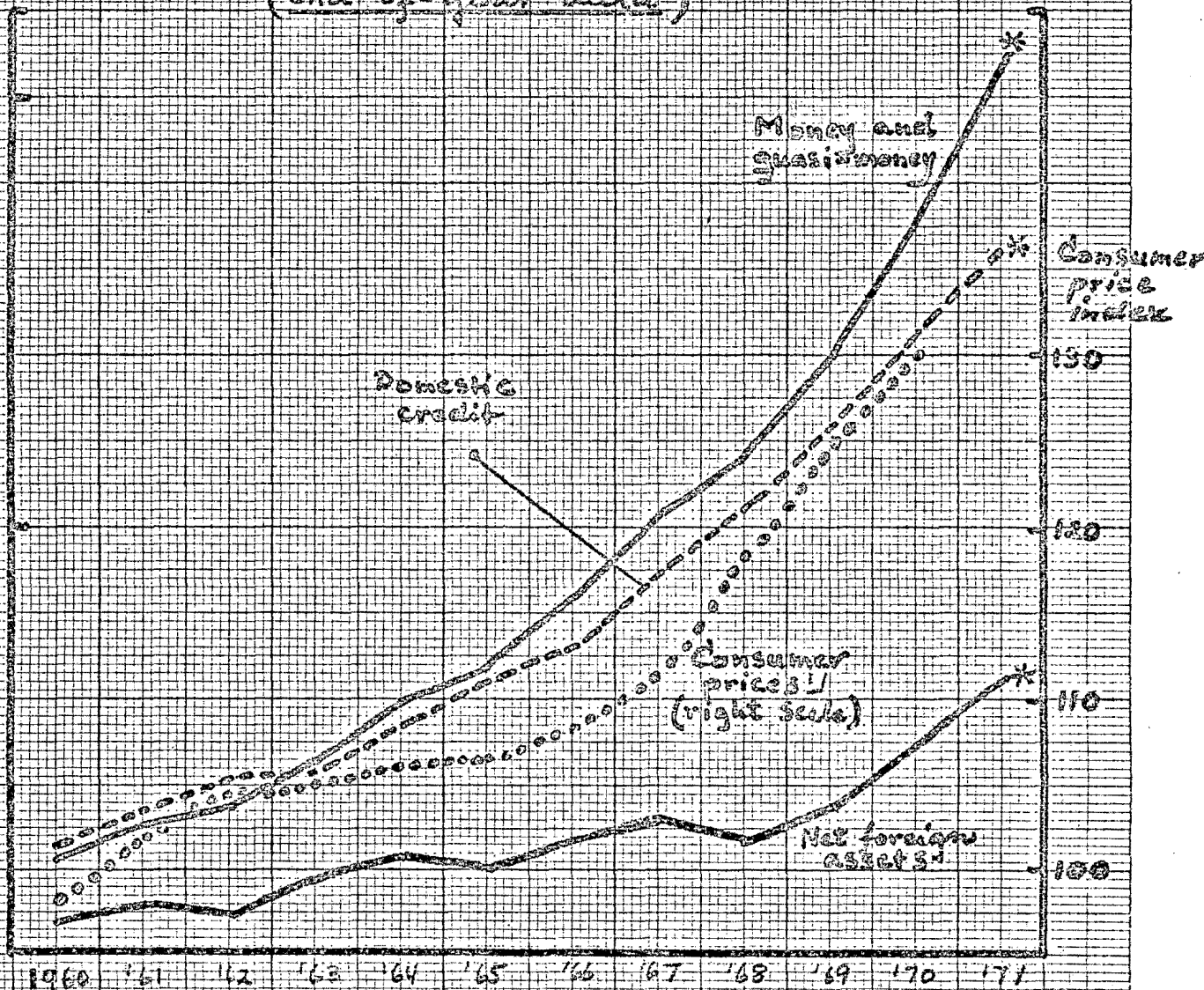
^{1/} The balance of payments, however, showed a temporary over-all deficit in 1968.

^{2/} The banking system's claims on Government net, and gross claims on official entities and the private sector.

REPUBLIC OF CHINA

MONEY, CREDIT, PRICES, AND FOREIGN RESERVES, 1960-71 (end-of-year data)

NT\$ Billion
100
50



* Staff projections for 1971

|| Base: average of the years 1962-64.

in constant prices, and a continued 4 per cent increase in the GNP price index. This gives a nominal increase in GNP in 1971 of 11 per cent,^{1/} to NT\$ 242 billion. Applying the above-mentioned ratio, the increase in domestic credit in 1971 would be 13 per cent (NT\$ 10 billion), compared with 17 per cent (NT\$ 10.7 billion) in 1970 when economic growth (presumably) was higher.

The second step in the projection was to project reserve money. Again, I find (Table 1) that the ratio between reserve money and domestic credit has been stable in the past. It was 0.34 in both 1969 and 1970. Assuming that it would continue to be at this level, the increase in reserve money during 1971 would be about 14 per cent, compared with 19 per cent in the preceding year.^{2/} The absolute increase during 1971 would equal roughly NT\$ 3.5 billion.

Having determined the increase in reserve money, the next step was to project the proportion of this increase that could emanate from the foreign sector. The change in reserve money is identical to the change in net domestic assets plus net foreign assets of the central bank ($M_R = NDA + NFA$). Hence, the balance of payments outcome in 1971 has to be projected. In the absence of any official forecast, I assume that the over-all balance of payments surplus for 1971 would be of the same order of magnitude as in 1970, or something like NT\$ 7.3 billion (about \$180 million).^{3/} However, the increase in the Bank of Taiwan's net^{4/} foreign assets in 1970 was larger than this, or NT\$ 8.2 billion,

^{1/} The average decline in income velocity in 1965-70 (excluding the exceptional year 1968) was almost 7 per cent per annum. It is assumed that the velocity ratio would continue to decline by 7 per cent in 1971 to 2.33. This would be consistent with a nominal GNP growth rate of 11 per cent in 1971 and an increase in broad money of 20 per cent (see Table 1).

^{2/} The bulk of the increase in reserve money in 1970, or NT\$ 3 billion, occurred in the 4th quarter; these figures are, however, regarded as provisional by the Bureau of Statistics.

^{3/} This projection is based on the change in 1970 in net foreign assets of the banking system by \$183 million; the corresponding change in 1969 was \$89 million.

^{4/} Actually, the Bank of Taiwan shows no foreign liabilities.

because the commercial banks' net indebtedness abroad rose by the difference. Hence, the impact on primary liquidity^{1/} from the external sector was actually higher than the balance of payments surplus would indicate. We assume that the net foreign assets of the Bank of Taiwan continue to rise by about NT\$ 8 billion (and the commercial banks' indebtedness by about the same NT\$ 1 billion as in 1970). This would enable us to solve the identity as follows: $3.5 = (-4.5) + (8)$. Hence, the entire projected increase in reserve money would derive from the foreign sector. If these projections are correct, the central bank's net domestic assets would have to be decreased by some NT\$ 4.5 billion to avert an excessive expansion in reserve money.

If this would be the case, the question arises how to decrease the central bank's net domestic assets. The 1970 contraction was about NT\$ 0.9 billion (Table 2), and mainly resulted from a reduction in claims on commercial banks and, to a greater extent, from an increase in government deposits. The expected balance of payments surplus and the increased borrowing by banks from abroad would appear to continue to keep other banks liquid. Hence, in line with the trend of the past two years, and in particular 1969, the central bank's credits to commercial banks could probably be reduced somewhat; the extent of this depends on the outcome of government operations in 1971. During 1970, ^{the government's central bank} / deposits increased by NT\$ 1.8 billion.

Besides the general questions that these simple projections undoubtedly will raise, I see a few further related topics of interest:

1. Despite the improvement in the balance of payments in the last few years, the net foreign assets of commercial banks have declined continually. They dropped

^{1/} Reserve money is not affected by the change in net foreign assets of commercial banks.

from NT\$ 3.1 billion (\$78 million) at the end of 1967 to a negative position of NT\$ 2.1 billion (\$53 million) at the end of 1970. It would seem interesting to discuss the basic reasons for this trend with the Chinese authorities, and to assess its possible implications for the future.

2. Over the past years, reserve money changes have shown sharp seasonal fluctuations, with a large increase in the last calendar quarter. The relationship of these movements to inflows of foreign exchange might be studied, so as to determine when the impact of the expected large balance of payments surplus on reserve money in 1971 may be expected. In order to facilitate this and other more detailed analysis, I have asked the Bureau of Statistics to give me the time series referred to in Table 1 and a few others on a quarterly basis for the last 10 years, both in seasonally adjusted and unadjusted form; they would also calculate the ratios accordingly.

3. The expected change in "real" credit and "real" money in 1971 (deflated by appropriate price indices) versus the forecasted decline in the growth rate of GNP, and the reasons for the latter, also might be analyzed.

Attachments

cc: Mrs. Yang
Mr. Yu

Table 1 . Republic of China: Monetary Variables

(In billions of NT\$)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971*
M_R	4.46	6.09	6.55	7.73	10.81	11.84	13.39	17.18	21.09	20.68	24.55	28
M_R'	2.67	3.08	3.40	4.13	5.20	5.78	6.58	8.36	9.41	11.02	13.50	16
Mo + QM (M')	10.83	15.09	17.48	22.67	29.26	33.46	41.58	51.67	58.10	69.95	86.07	104
DC	12.27	16.86	20.24	22.07	27.04	32.25	36.19	44.62	52.47	61.71	72.40	82
GNP	58.93	66.33	72.38	87.13	102.21	112.87	125.55	143.04	167.98	190.40	217.6	242
Mo	6.11	7.34	7.92	10.20	13.43	14.84	17.39	22.10	24.89	28.92	34.51	39
NFA	3.67	5.12	4.40	8.60	11.22	10.56	13.35	15.67	13.96	17.53	24.85	32
Ratios:									3.57	7.32		
M_R/M'	0.412	0.404	0.375	0.341	0.369	0.354	0.322	0.332	0.363	0.296	0.285	0.269
M'/GNP	0.181	0.227	0.242	0.260	0.286	0.296	0.331	0.361	0.346	0.367	0.396	0.43
M_R/DC	0.363	0.361	0.324	0.350	0.400	0.367	0.370	0.385	0.402	0.335	0.339	0.34
M_R'/M'	0.247	0.204	0.195	0.182	0.178	0.173	0.158	0.162	0.162	0.158	0.157	0.154
M_R'/DC	0.218	0.183	0.168	0.187	0.192	0.179	0.182	0.187	0.179	0.179	0.187	0.19
Mo/GNP	0.104	0.111	0.109	0.117	0.131	0.131	0.139	0.155	0.148	0.152	0.159	0.161
Mo/DC	0.498	0.435	0.391	0.462	0.497	0.460	0.481	0.495	0.474	0.469	0.477	0.48
GNP/M'	5.44	4.40	4.14	3.84	3.49	3.37	3.02	2.77	2.89	2.72	2.53	2.33
DC/GNP	0.208	0.254	0.280	0.253	0.265	0.286	0.288	0.312	0.312	0.324	0.333	0.34

Source: International Financial Statistics, various issues, and staff estimates. M_R = Reserve money. M_R' = Currency outside banks.

Mo = Narrow money.

QM = Quasi money.

DC = Domestic credit

 $M' = (Mo + QM)$

NFA = Net foreign assets of the banking system.

* Projections

Table 2. Bank of Taiwan: Net Domestic Assets, 1965-71

(In billions of NT\$)

IFS Line	1965	1966	1967	1968	1969	1970	1971
12a Claims on Government	3.53	4.50	4.85	5.66	5.49	5.82	...
12b Claims on official entities	0.29	0.29	0.79	0.79	0.68	0.57	...
12c Claims on commercial banks	<u>7.26</u>	<u>7.56</u>	<u>8.88</u>	<u>11.19</u>	<u>9.05</u>	<u>8.69</u>	...
Subtotal	11.08	12.35	14.52	17.64	15.22	15.08	...
16d Government deposits	1.51	2.92	4.12	5.62	6.79	8.59	...
16e Counterpart funds	5.15	4.31	3.33	1.84	1.68	1.36	...
17r Other items (net)	<u>1.07</u>	<u>1.00</u>	<u>0.80</u>	<u>0.60</u>	<u>1.31</u>	<u>0.59</u>	...
Subtotal	7.73	8.23	8.25	8.06	9.78	10.54	...
Net domestic assets	3.35	4.12	6.27	9.58	5.44	4.54	0

Table 3 . Republic of China: Marginal Monetary Ratios

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
$\frac{\Delta M_R}{\Delta Mo}$		0.333	0.552	0.320	0.331	0.411	0.314	0.378	0.376	0.399	0.444	0.555
$\frac{\Delta QM}{\Delta DD}$					1.56	3.32	3.12	1.84	2.09	3.23	3.40	...
$\frac{\Delta DD}{\Delta QM}$					0.64	0.301	0.312	0.544	0.478	0.309	0.294	...
$\frac{\Delta M_R}{\Delta Mo + QM}$		0.096	0.048	0.140	0.162	0.138	0.099	0.176	0.163	0.136	0.153	0.139

Source: International Financial Statistics, various issues, and staff estimates.

M_R = Reserve money.

Mo = Narrow money.

QM = Quasi money.

DD = Demand deposits.

M_R = Currency outside banks.

MEMORANDUM FOR FILES

February 3, 1971

Subject: Meeting with Mr. Woodley - China

Policy issues and general questions which could be raised with the Chinese authorities:

1. Agricultural policy; problems of small holdings; excessive holdings of stocks of rice; restrictions on exports of rice and bananas in traditional markets, especially Japan.
2. Development priorities and the direction of industrial growth in capital intensive vis-a-vis labor intensive industries.
3. Protection policies and the role of tariffs versus quantitative restrictions.
4. Exchange rate policies; the possibility of use of the crawling peg in revaluation of the rate. Preference for reducing restrictions to offset increasing foreign exchange reserves.
5. Interest rate policy and the savings ratio.
6. Taxation reforms (recommendations made in the T.C. Liu report) with special reference to a value-added tax (study by Bela Belassa).
7. Fund policy with respect to the subsidy on gold production.
8. Reorganization of the banking system.
9. In the light of the recent increase in the rate of inflation, consideration of the preparation of a stabilization program, along the lines of those prepared for member countries with stand-by arrangements with the Fund, for presentation to the Chinese authorities.


J.B. McLenaghan

Mr. Palmer

Mr. Woodley

February 3, 1971

J.B. McLenaghan

Republic of China: Gold

During the 1969 Article XIV consultation with China the staff raised with the Chinese authorities the question of arrangements with respect to gold production. The possibility that a gold production subsidy was paid had been discussed in the previous consultation report (SM/69/23). As a result of the 1969 consultation, the staff reported that gold production which was a subsidiary operation of other mining advances, had declined appreciably in recent years; moreover, about 80 per cent of production was from the publicly-owned mining corporation. The Chinese authorities intimated that they were not prepared to allow a free market in gold which would reflect fluctuations in the international gold price and might undermine confidence in the local currency. Notwithstanding this, the report stated that:

"Under the present arrangements governing gold production, the payments made by the Ministry of Economic Affairs constitute a subsidy in the form of a uniform payment per ounce for at least part of the gold produced and amount to an increase in the price of gold which is not consistent with Article 4 (Section 2) of the Statement of Policy Concerning Subsidies for Gold Production (EBD No. 233-2 of December 11, 1947)."

In its appraisal, the staff concluded:

"As regards the gold subsidy arrangements the staff will remain in consultation with the Chinese authorities."

There was no mention of the subsidy in the Board's decision.

No new information has come to light in the period since the previous report and one can only assume that the subsidy arrangements remain unchanged. The foregoing suggests that the question will need to be raised again during the forthcoming mission with, most likely, much the same answers. Comments for the brief on the Fund's position will presumably be obtained from Legal Department.

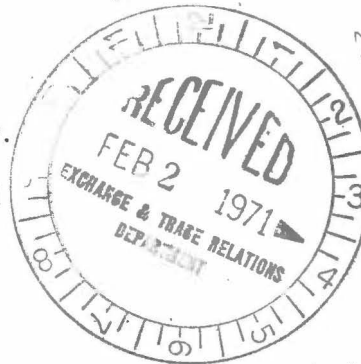
cc: / Mr. Palmer
Mr. de Looper
Mrs. Yang

MINISTRY OF FINANCE
REPUBLIC OF CHINA

Office of the Minister

January 29, 1971

Mr. Frank A. Southard, Jr.
Deputy Managing Director
International Monetary Fund
Washington 25, D.C.
U. S. A.



Orig: ASD
cc: MD
DMD
Mr. Hsu
LEG
RES
ETR
SEC
ADM

Dear Mr. Southard:

This is to acknowledge the receipt of your letter dated January 18, 1971, proposing to hold with us in Taipei the 1970 Article XIV consultation discussions from March 22 to March 31, 1971 and informing me the names of the Fund Team.

We agree to your proposal and welcome the Team members. Please advise us in advance the date of their arrival.

With best regards,

Sincerely yours,

K. T. Li
Minister of Finance

cc: Mr. P. Y. Hsu
Executive Director, IMF

SY:ey

MEMORANDUM

cc: Mr. McLaughlin

To: Mr. Goode
Mr. Sturc
Mr. Thorson

January 19, 1971

From: W. John R. Woodley

Subject: China - 1970 Article XIV Consultation

As proposed in the letter to the Minister of Finance of China sent to the Deputy Managing Director under cover of our memo of January 18, it has been approved that Mr. Yu be added to the mission.



The Deputy Managing Director

W. John R. Woodley

January 18, 1971

China - 1970 Article XIV Consultation

The attached has been agreed with Mr. Hsu and the functional departments. Mr. Yu has been added to the mission so that we can prepare an adequate report on the progress being made as a result of the recommendation of the Commission chaired by T. C. Liu.

Attachment

cc: ADM
✓ ETR
FAD



WJRWoodley:er

Dear Sir:

As agreed with your Executive Director, we propose to hold the 1970 Article XIV consultation discussions in Taipei from March 22 to March 31, 1971.

The Fund staff team for the discussions will consist of Mr. W. John R. Woodley, Deputy Director, Asian Department, Mr. John B. McLennaghan, Economist, Exchange and Trade Relations Department, Mrs. Hui-Chen Wu Yang, Economist, Asian Department, Mr. Shi Kwon Yu, Economist, Fiscal Affairs Department, and a secretary.

The staff Questionnaire and Background Paper will be forwarded to you shortly, and details of the mission's arrival will be communicated at a later date.

Yours very truly,

Frank A. Scuthard, Jr.
Deputy Managing Director

His Excellency
K. T. Li
Minister of Finance
Ministry of Finance
Taipei, Taiwan
Republic of China

WJRWoodley:er
January 18, 1971