

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **LIU ZHONGLI**,
Governor of the Bank for the **PEOPLE'S REPUBLIC OF CHINA**,
at the Joint Annual Discussion

Statement by The Honorable LIU Zhongli, Minister of Finance,
People's Republic of China,
at the 1997 Annual Meetings of the Boards of Governors of
the World Bank Group and the International Monetary Fund

September 23, 1997, Hong Kong, China

Mr. Chairman,
President Wolfensohn,
Managing Director Camdessus,
Fellow Governors, Delegates and Guests,
Ladies and Gentlemen:

The world economy continued to be encouraging in 1996, and achieved the best performance since 1990. The integration of developing countries in the world economy was further strengthened. However, we should not overlook the wide range of risks and fragilities persisting in the world economy. The international financial market has experienced some unrest. The international capital flows create opportunities for developing countries, and cause risks as well, such as speculative attacks. Global inflation could re-emerge, and interest rates in developed countries are under greater pressure to trend higher - this could reduce the capital flows to developing countries. Especially disturbing is that ODA as a share of developed countries' GNP has dropped to the lowest level in fifty years. New protectionism is occurring in international trade under the guise of environmental protection and labor standards. These problems, if not addressed in a timely and effective manner, will not only dampen the economic future of developing countries, but also undermine the sustainability of the global economic growth. We call upon the international community, and developed countries in particular, to act as soon as possible to reduce uncertainty and destabilizing factors in the world economy.

Mr. Chairman, China's economy also made satisfactory headway in 1996, and since the beginning of 1997, the economy overall has maintained a momentum of healthy growth. While encouraged by our prospects, we are fully aware of the challenges we face. China is still a low-income developing country with a large population, a weak economic base and wide disparities

across regions. At present, we are facing a number of difficulties, especially irrationality in the economic structure, low efficiency in the economy, heavy loss by some State-owned enterprises, and rising unemployment. To address these problems, the Chinese government will further enhance the economic system reform and take effective measures to change the growth pattern. Particularly, we will speed up the reform of State-owned enterprises, focusing on invigorating the large ones while further relaxing the control over small ones. We will standardize bankruptcy procedures, encourage mergers and acquisition, and promote re-employment. We are fully confident that, within the next few years, the performance of State-owned enterprises will be improved fundamentally. At the same time, we will continue to readjust and improve the ownership structure. Efforts will be made to develop diverse forms of ownership while ensuring a dominant position for public ownership.

Mr. Chairman, the World Bank, as the largest international financial institution, has played an important role in supporting economic development of developing countries. We note that the Bank management, and Mr. Wolfensohn in particular, has exerted many efforts in promoting the Bank's own reform. We support the fundamental objectives of the "Strategic Compact", namely to increase the efficiency of the Bank's work and provide better and more timely services to its borrowing members. In designing and implementing reform measures, the Bank should fully consider the real needs of different borrowers. In today's changing world, it is important, more than ever, that the Bank should act strictly within its mandate and overcome any political interference. We hope that the Bank will make full use of its comparative advantages and continue to focus on transferring resources to developing countries, alleviating poverty and promoting sustainable development as its core operations.

A magnitude of international experience has shown that infrastructure development requires joint efforts by public and private sectors. In this vein, we support the World Bank Group to take new actions, including strengthening and expanding guarantees, advisory services and information dissemination, in order to facilitate the private sector involvement in infrastructure. At the same time, we are of the view that the ability to provide finance is a valuable asset of the Bank and that financing infrastructure in developing countries directly should continue to be a priority for the World Bank and other multilateral development banks. In a fairly long time horizon, the Bank's role in infrastructure, particularly in those projects related to

poverty reduction, will still be irreplaceable. The Bank's finance in infrastructure will not crowd out private sector; on the contrary, it will help create an enabling environment for the private sector participation.

We note that the prospect of the Bank's net income is less than optimistic. We are of the view that the Bank must be more selective especially when it is faced with increasing claims. In allocating net income, priority should be given to supporting the mainstream operations of the Bank as a development institution, especially lending. And the principle of equity should be observed.

MIGA, since its founding, has played a unique role in helping developing countries absorb international capital. We welcome the consensus reached on MIGA's capital increase, and are willing to take our share of responsibility.

Improving governance and eliminating corruption contributes to economic development. Fundamentally speaking, the responsibility of fighting corruption rests solely with sovereign governments. The Bank and the IMF, at the request of countries concerned, could play a useful role. But the two institutions should act in strict accordance with their respective mandates, limit their anti-corruption activities to the economic aspects, and ensure uniformity of treatment of all members based on objective criteria.

We are pleased to see that certain progress has been made in implementing the HIPC initiative. We hope creditors, especially the Paris Club members, will honor their commitments in a timely manner to benefit eligible countries as soon as possible. With regard to the debts owed to China, we will address them through bilateral channels on a case-by-case basis.

Mr. Chairman, the Chinese government supports the IMF to assist the economic reforms and adjustments of developing countries through ESAF arrangements. It is our view that the major industrial countries should take the lead in making concrete financial commitments. Conditional on this, China is willing to consider contributions comparable to its fiscal ability.

We support the extension of the Fund's jurisdiction to capital account and we endorse the inclusion of capital account convertibility in the Fund's

purposes. Meanwhile, the Fund should respect the sovereignty of member countries and the jurisdiction of existing international treaties. Sufficient time should be given to member countries to study related issues, and haste should be avoided. During the transitional period, those members with immature conditions should be allowed to proceed in an orderly and healthy manner based on their real situations. Technical assistance to member countries should also be strengthened.

We welcome the newly reached agreements on SDR allocation and quota increase under the Eleventh General Review. Developing countries' quota share in the Fund and capital share in the World Bank are declining, however. We request that efforts be made to address this issue at an early date.

As is well known, the return of Hong Kong to China has increased China's economic strength. This development should be duly reflected in China's quota share in the Fund. China has made a formal request to the Fund for a special increase in its quota share. We hope that our reasonable request will be met as soon as possible.

Thank you, Mr. Chairman.