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On behalf of the People's Republic of China

Statement by Dr. ZHOU Xiaochuan
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at the Twenty-First Meeting of the
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I. GLOBAL ECONOMY AND FINANCIAL MARKETS—PROSPECTS AND POLICY CHALLENGES

Driven by the large-scale stimulus policies of various countries, the global economy is exhibiting positive recovery momentum, but there are pronounced differences in the speed and strength of the recovery in various countries and regions. The recovery is strong in emerging markets and developing countries, while in developed countries the recovery is relatively slow. The foundation for sustainable recovery remains unstable. While some functions of the financial system have gradually resumed, global financial stability remains comparatively weak. The outlook for the global economy faces many uncertainties.

At present, the primary risks to the global economy come from developed countries. Sovereign debt risk has become a major and real threat to global financial stability and economic recovery, and its potential systemic effects deserve a high degree of attention and concern. The financial systems of developed countries have yet to resume their normal functions; the prolonged deleveraging process in the banking industry could result in a lack of financing support for sustainable recovery, increasing the complexity and difficulty of exit strategies. The liquidity poured into financial markets by the central banks of major developed countries and the uncertainty of their exit policies have increased the instability of international capital flows, and, hence, the difficulty of short-term capital flow management for emerging market economies. The risk of a resurgence of trade and financial protectionism must also not be overlooked.

We call on those developed countries with flagging economic recoveries to work in the following areas: (i) restore fiscal discipline as quickly as possible by formulating and implementing a comprehensive, credible, and transparent fiscal consolidation strategy and adopting measures to contain sovereign risk and avoid cross-border contagion; (ii) accelerate financial sector reform to restore the normal functions of the financial system as quickly as possible; (iii) accelerate structural reforms of the products, services, and the labor market to increase the potential for economic growth; (iv) with regard to monetary policy exit, consider not only inflationary pressures, but also the spillover effects and potential systemic risks brought about by excessive liquidity in the financial system. Communications with other countries and markets regarding monetary policy intent and the tools that could possibly be used should be strengthened.

The primary policy challenge for emerging market economies and developing countries experiencing relatively strong recoveries lies in the need to consolidate good recovery momentum while also preventing the accumulation of asset bubbles, requiring timely consideration of exit from stimulus policies. In particular, it is advisable that they pay close attention to the monetary policy trends of major central banks and diversify and improve their own monetary policy tools. At the same time, they need to strengthen monitoring and management of cross-border capital flows to reduce the risk of a sudden reversal.

Currently, our most urgent task is to further strengthen global cooperation and the sharing of responsibilities; in particular, we need to strengthen the coordination of forward-looking macroeconomic and financial policies, resolutely oppose protectionism in all forms, work together to maintain financial market stability, and encourage the strong and sustainable recovery of the global economy.

II. Chinese Economy and Policies

In 2009, thanks to the policy response to the global financial crisis, China's economy achieved an overall rebound and recovery, with annual GDP growth of 8.7 percent and fourth quarter growth of 10.7 percent. The Chinese economy had a good start in the first quarter of 2010, with more balanced growth. The preliminary estimate for first quarter GDP growth is 11.9 percent. Retail sales of consumer products registered year-on-year growth of 17.9 percent, an acceleration of 2.9 percentage points from the same period last year. Year-on-year growth in total fixed asset investment reached 25.6 percent, moderating by 3.2 percentage points from the same period last year. Foreign trade continued to recover and grew 44.1 percent. Exports grew 28.7 percent and imports, 64.6 percent. In the first quarter, the trade surplus declined by US$47.9 billion compared to the same period last year. The monthly trade deficit for March totaled US$7.24 billion, representing the first monthly deficit in six years. First quarter CPI rose 2.2 percent year-on-year. M2 grew 22.5 percent year-on-year, decelerating by 5.2 percentage points from the 2009 annual rate.

The economy is expected to continue a stable and relatively rapid growth in 2010, but it also faces complex challenges. Deep-seated problems have yet to be fundamentally resolved—the urgency of upgrading the economic development model and economic structural adjustments is greater, and guarding against financial risk remains a tough job. The global economic and financial situation is complex, and we must respond appropriately to its effects on China's external development environment. The central government projects GDP growth of around 8 percent, a CPI increase of around 3 percent, and improvements in the balance of payments in 2010.

We will maintain the continuity and stability of macroeconomic policy, and make more targeted and flexible policies to respond to new developments. In particular, we will properly balance the need for maintaining steady and relatively rapid growth in the economy, adjusting economic structures, and managing inflationary expectations. We will continue to implement a proactive fiscal policy and a relatively easy monetary policy, and will continuously improve the policy package to respond to the international financial crisis to maintain good momentum of the economic recovery. We will accelerate the transformation of the economic development model, adjust and optimize the structure of the economy, aggressively expand domestic consumption demand, focusing efforts on improving the investment structure and facilitating sustainable growth driven by endogenous forces such as innovation. We will use a variety of monetary and fiscal policy tools, pay close attention to price trends, and manage inflationary expectations, effectively minimizing potential systemic risks.

III. Economies of Hong Kong SAR and Macao SAR

Immediately after a severe contraction in the first quarter of 2009, the economy of Hong Kong SAR started to rebound. The growth in the year 2009 was a negative 2.7 percent. Although goods trade declined sharply during the year, domestic demand recovered quickly and became markedly stronger along with the upturn in the economic outlook. After peaking at 5.4 percent, unemployment gradually fell to 4.9 percent in the fourth quarter. The 2009 CPI was 1 percent. The Hong Kong SAR economy is expected to resume positive growth in 2010, with a growth rate of approximately 4 to 5 percent. The CPI is projected to increase by 1.5 percent.

With improvements in the international economic environment, Macao SAR's tourism industry recovered quickly and drove annualized growth in Macao SAR's economy to 17.9 percent in the second half of 2009, exceeding expectations. For the year as a whole, despite a continued contraction in exports of goods as well as investment, thanks to a substantial rebound in service exports, the economy of Macao SAR experienced real economic growth of 1.3 percent in 2009, and inflation remained at the relatively low level of 1.2 percent. Moreover, unemployment pressures continued to ease, falling to 3.6 percent. The Macao SAR economy is expected to maintain positive growth in the first half of 2010.

IV. Fund Governance and Mandate Reforms

A. Governance Reform

The quota structure is the core issue in Fund governance. The severe underrepresentation of emerging market and developing countries in the IMF seriously affects the Fund's legitimacy and effectiveness, and must be promptly corrected. To this end, the G20 and the IMFC have called for a shift of at least 5 percentage points, and protection of the voting rights of the poorest countries.

Quota adjustment and reform is not a zero-sum game. A Fund with a more reasonable governance structure will be better able to protect global economic and financial stability which will benefit all member countries. We urge the Fund to accelerate its work, and complete quota reviews on schedule in accordance with the G-20 Pittsburgh Summit and IMFC objectives. Quota adjustment should be rules-based; the rules should be simple and transparent, and should treat all equally. We expect the review to leave no member's quota share severely misaligned. We urge countries that have yet to approve the 2008 quota reform to complete the approval process as quickly as possible.

We support increasing the Fund's resources through a variety of means. However, at the same time, we must emphasize that the Fund is a quota-based institution, and quotas should be its primary resource. Through current reforms, the Fund should aim to substantially increase its quota size by no less than 100 percent in order to alleviate financing shortfalls and create sufficient space for quota shift.

We agree on strengthening the governors' strategic guidance on the Fund's operations and welcome improvements to the operation of the IMFC; we support the adoption of various measures to increase the interaction and effectiveness of the IMFC meetings. We support the introduction of a "troika" to maintain continuity. Diversity in Fund management and staff should be improved to achieve broader representation and legitimacy. In the selection of the Managing Director, we support an open, transparent, and merit-based selection, and call on the Executive Board to adopt a new decision.

B. Surveillance

The Fund's purpose is to promote trade, employment, and growth in real income. The current global financial crisis, which is primarily the result of the inappropriate financial sector in developed countries, has impacted global trade, employment, and income in an unprecedented manner, and the unsustainability of developed countries' fiscal policies has become the primary risk that threatens global financial stability. In recent years, the focus of Fund surveillance has been inappropriate. The hastily introduced *2007 Decision* contains many flaws, and cannot meet the demands on Fund surveillance posed by global economic and financial development. The Fund should face this reality, resolve the problems in its surveillance as quickly as possible, amend the *2007 Decision*, adjust its surveillance focus, improve modalities, and strengthen surveillance over developed countries, mature financial markets, and cross-border capital flows, in order to avoid a recurrence of the crisis.

What is most important at present is to strengthen surveillance of the fiscal policies of developed countries, particularly the evolution of developed country sovereign risks and their impact on international market interest rates, exchange rates, and international capital flows, on public and private sector financing in developing countries, and on global inflation and the real economy. Additionally, tail risks should be analyzed and early warning capabilities improved in an effort to maintain international financial stability and promote sustainable growth of the economy.

C. Financing

We welcome the package of reforms on lending tools and financing mechanisms implemented by the Fund, and anticipate that these reforms will help strengthen the crisis prevention and management capabilities of member countries. While strengthening the attractiveness of lending tools, the Fund should give balanced consideration to the security of funds and the issue of moral hazard. We welcome the Fund's proposal to enhance the usefulness of the FCL, including strengthening the predictability of loan qualifications and extending the term of the facility. We agree to make available SDR 800 million for the Fund's concessional loan resources (PRGT).