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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **YI GANG**,
Governor of the Fund for the **PEOPLE'S REPUBLIC OF CHINA**,
at the Joint Annual Discussion

Statement by the Hon. Dr. YI Gang
Governor of the Fund for the People's Republic of China,
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Distinguished Chairman, Governors, Ladies and Gentlemen:

The U.S. financial crisis has taken a serious turn for the worse and continues to spread across the globe. Economic growth has slowed markedly worldwide and we face enormous uncertainty. For the international community, the most urgent task is to join efforts to stem further deterioration and spread of the crisis—the major threat to global growth—and restore global economic and financial stability. The Bretton Woods Institutions should fulfill their mandates to maintain global monetary and financial stability and facilitate sustainable, balanced growth.

We hope the measures adopted by advanced economies to stabilize financial markets—particularly the *Emergency Economic Stabilization Act of 2008* in the United States—will be implemented quickly and yield positive results in restoring confidence and stabilizing the financial markets. China will continue to strengthen its cooperation with concerned countries and hopes that all governments will work together to overcome the current difficulties and restore international financial stability. From the medium- and long-term perspective, the reserve currency issuing countries must assume international responsibility, commensurate with their positions, for advancing structural adjustments, increasing savings, and preserving economic health and sustainable growth to benefit balanced and stable growth of the global economy.

In 2008, China has weathered the shocks of natural disasters and an adverse external environment. While maintaining stable and relatively rapid economic growth, clear progress has been made with structural adjustments. Consumption has increased, the trade surplus has narrowed, and the growth of foreign exchange reserves slowed. The industrial structure has been improved. Every effort is being made to protect the environment through intensifying energy conservation and the reduction of COD and SO₂ emissions. Inflationary pressure has decreased with the CPI dropping in recent months to 4.9 percent y-o-y in August. In addition, financial institutions in China remain sound. After several years of comprehensive financial reforms, the capital adequacy of financial institutions has reached a historical high, corporate governance has improved markedly, and risk management strengthened significantly. There is ample liquidity in the market. Overall, the fundamentals of the Chinese economy are solid and resilient. We are

confident we can weather the financial turmoil. With the global economic slowdown, it is important that China maintains its stable and relatively rapid growth.

We remain committed to expanding domestic demand—household consumption in particular—by providing a better social security system. In the rural areas we are improving medical schemes and making additional resources available for infrastructure and education. The successful implementation of these adjustments will further improve the external and internal balances.

Here, I would like to make special mention of the substantial progress in reforming the renminbi exchange rate formation mechanism. Exchange rate flexibility has increased markedly and the exchange rate increasingly reflects the fundamentals. From introduction of the exchange rate reform in July 2005 to end-September 2008, the real effective exchange rate (REER) of the renminbi calculated by the Bank for International Settlements appreciated 21.8 percent, an average annual rate exceeding that of the euro, the yen, and currencies of other emerging Asian economies. From the unification of exchange rates in 1994, the REER appreciated 54.47 percent. In the past two months, the renminbi has appreciated 15 percent against the euro. The ongoing improvement in China's balance of payments demonstrates that the renminbi exchange rate is closer to the fundamentals.

Mr. Chairman, China attaches significant importance to the role of the Bretton Woods Institutions. The Fund should give the surveillance priority to the ongoing financial turmoil, deepen its analysis, learn lessons, and listen to the opinions of member countries. In providing a practical and effective guide for the Fund's surveillance and in adapting to global economic developments, the *2007 Surveillance Decision* should be reviewed and revised as soon as possible so that the Fund can determine where the true risks lie, and adopt effective measures to maintain a stable and orderly global economic and financial system. From the medium- and long-term perspective, the Fund must address the inherent deficiencies of the current international monetary system and foster an international financial architecture adaptive to the evolving global economy and financial markets.

As the largest multilateral development institution, the World Bank should re-assess the challenges confronting the developing countries—soaring food and fuel prices, higher financing costs, deteriorating balance of payments positions, and mounting inflationary pressures. With the advantages of its financing capacity and expertise, the World Bank should urge the developed countries to shoulder their due responsibilities in stabilizing the global economy through targeted measures, carried out in an even-handed and professional fashion.

We welcome the World Bank's active participation in the global response to climate change and formation of the *World Bank Group's Strategic Framework for Development and Climate Change*. In accordance with the *United Nations Framework Convention on Climate Change* and the *Kyoto Protocol*, we agree that in carrying out its core mission of poverty reduction and development, and, with no policy conditions attached, the World Bank should vigorously encourage the transfer of low-carbon technologies and provide recipient countries with practical aid in facilitating their response to climate change.

Enhancing the voice and representation of developing and transition countries (DTCs) in the World Bank's decision-making process is an essential component of its governance. Ensuring that all DTCs benefit in the reform process and the ultimate achievement of a 50/50 distribution of voting rights is the most fundamental and important objective of World Bank reforms. With the proviso that existing DTC Executive Director seats are not affected, we support the addition of a Chair for the African constituency, and endorse further discussion on the selection process for leadership of the World Bank in accordance with the principles of openness, competition, and merit.

Thank you.