BOARDS OF GOVERNORS•1999 ANNUAL MEETINGS•WASHINGTON, D.C.

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
INTERNATIONAL MONETARY FUND

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Press Release No. 15

September 28–30, 1999

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

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Mr. Chairman, Mr. Camdessus, Mr. Wolfensohn,
Ladies and Gentlemen:

At this time when we meet here, the economy of some crisis-hit countries in Asia and elsewhere has begun to bottom-out and gradually regain growth. The currency and stock market situations have basically stabilized. The investor confidence has restored. And the global economic and financial prospects have improved. This has not come easily. It is a result achieved by the former crisis countries through their strong reform and adjustment efforts. It is also a result of enhanced international cooperation.

However, we should not be over-optimistic. The global economic environment, though improved, has not stabilized completely. The recovery of the former crisis countries has just started. Their economic fundamentals are still fragile, and many deep-rooted issues remain to be addressed. There are still many uncertainties in today's world economy. The regional trade protectionism has been on the rise recently. The exchange rates between major currencies have seen wide fluctuations. The commodity price level is still unstable. The external environment faced by developing countries has not been improved fundamentally. To further consolidate the recovery and stabilize the world economy is a challenging task before the governments around the world. Developing countries need to continue their economic restructuring. At the same time, we call upon developed countries to increase resource transfer to and import from developing countries. We also urge them to implement proactive and responsible fiscal and monetary policies, and coordinate their interest and exchange rates policies, so as to create a better environment for the healthy development of the world economy.

The international community needs to draw lessons from the crisis in a serious manner. In order to prevent any future crisis, it is all the more important to strengthen the international financial cooperation and promote the trouble-free and smooth operation of the international financial market. To this end, the international community should, on the one hand, help developing countries improve their financial supervision and risk prevention capacity, and on the other hand, strengthen the supervision on short-term capital flow and contain the excessive speculation of cross-border hot money.

The formidable shocks of the financial crisis have prompted a reassessment of the costs and benefits of globalization. Globalization has created opportunities as well as challenges and risks. While deepening market liberalization, enhancing competition and raising efficiency, globalization also put forward to countries, and particularly those in the developing world, an issue of how to protect their economic security. We are of the view that economic globalization and financial integration should be based on equity, and aimed at prosperity for all. The law of the jungle must be abandoned. Globalization and integration will not be sustainable if they benefit only a few. Therefore, in the process of reforming the international financial architecture and establishing a new international financial order, the developing countries' full participation is essential, and their interests and demands must be reflected. At the same time, the policy choices by the affected countries or regions to overcome the crisis must be respected, and no model should be imposed indiscriminately.

The financial crisis also caused serious difficulties to China's economy. But the Chinese government has taken effective measures based on China's own circumstances and maintained a rapid growth of the economy. At the same time, the Chinese government, taking into account the need to maintain a healthy development for the Asian and the global economy, has adopted a highly responsible policy stance and made tremendous sacrifice by keeping the Chinese currency stable, thereby contributing to the recovery of the Asian economy. The economy of Hong Kong Special Administrative Region has shown strong signs of recovery since the second quarter, and is expected to realize positive growth for the whole year.

During the past year, the Chinese government further enhanced the macroeconomic regulation. In order to cushion off the negative effects of the deteriorating external environment and the weakening consumption, inadequate investment and the slowing-down export, China continued to implement the proactive fiscal and monetary policy by increasing the issuance of treasury bonds, cutting interest rates and increasing money supply moderately. These measures succeeded in expanding the domestic demand and stimulating investment, particularly in infrastructure. Meanwhile, in order to stimulate consumption, the Chinese government also took steps to increase the income of the civil servants, the unemployed and the laid-off workers from SOEs, and the urban poor. In addition, the Chinese government made special efforts to increase exports by optimizing the product mix and diversifying markets. On top of a 7.8% growth for the year of 1998, China's economy grew by 7.6% for the first half of 1999. By the end of August, the fixed asset investment increased by 10.4% as compared with the same period of last year. Consumption grew by 6.3%. The financial situations remained stable and the growth rate of money supply began to pick up. The total foreign trade rose by 7.3%, reaching $ 220.8 billion with a trade surplus of $ 16 billion. The export volume amounted to $ 118.4 billion, and the decline in export has been basically arrested. The FDI commitment reached $ 59.8 billion. The foreign exchange reserve exceeded $ 150 billion, and the Chinese currency, RMB, remains stable. The Chinese government is fully confident of achieving this year's growth targets.

Since the beginning of this year, the Chinese government has further accelerated the pace of reforms. In the area of SOE reform, we are pressing ahead more vigorously with merger and acquisition, liquidation, downsizing, and redeployment of displaced workers. At the same time, the Chinese government is encouraging the development of non-state sector in various forms. In March this year, the National People's Congress approved an amendment to the Constitution to the effect that the non-state sector is affirmed as an important component of the socialist market economy. As regards the financial sector reform, the Central Bank's independence and its role in macroeconomic regulation and financial supervision have been further strengthened. A system of regulating the banking, insurance and securities industries separately has been established. Drawing on the international experience, the state commercial banks have set up asset management companies respectively to process their non-performing loans. The asset management companies are also engaged in debt-equity swaps for the related SOEs to reactivate their stock assets, reduce their debt ratios, thereby advancing SOE reform and preventing financial risks. In addition, the Chinese government is also making efforts to establish and improve the nation-wide social security system suited to the socialist market economy.

The Chinese government has opened more sectors to the outside world, especially the service sectors including banking, insurance, foreign trade, retail, tourism, and accounting, legal and consulting services. As China's reform and opening progresses further and the socialist market economy takes shape, China's economy will achieve greater success in the 21st century.

For many years, the World Bank has made important contributions to poverty reduction and sustainable development in its member countries. At present when the economy of crisis-affected countries has generally restored stability, the Bank should shift its focus back to addressing the long-term development issues still facing developing countries, particularly poverty reduction. We hope that the Bank, as the largest development finance institution, will build upon its comparative advantages to provide more concessional funds and further promote the capital flow to its developing country members. We also hope that the Bank will strictly keep its political neutrality in the conduct of its business, and resist any attempts to politicize the Bank. We urge all the member countries, and the major shareholders in particular, to respect and protect the Bank's Articles of Agreement with a view to creating a better environment for the Bank to fulfill its development mandate.

We support the efforts by the World Bank and IMF in strengthening the debt reduction for the HIPCs and poverty alleviation in low-income countries. We have also noted the increased emphasis put on social sector issues by the two institutions. We believe that economic development is a precondition to solutions to poverty alleviation and social issues. The two institutions should help developing countries achieve stable and steady growth, which in turn will help reduce poverty and solve social issues. In this connection, we support the Fund's plan to increase the gold sale in a non-market form with a reasonable cost sharing.

In supporting the Fund's efforts to lend more to the HIPCs and strengthen the financing for ESAF, China, as a low-income developing country, has decided to deposit its funds in SCA-2, free of interest, in the Fund's trust fund account.

We endorse the proposal to change the name of the Interim committee into "International Monetary and Financial Committee". We strongly request that the representation of developing countries be safeguarded. We hope the Committee will do a better job in coordinating the major proposals on reforming the international monetary and financial system.

Increasing transparency of all market participants will help raise efficiency and prevent crisis. But lack of transparency is not the main cause of the financial crisis. We are not in favor of mandatory enforcement in any form. And the Article IV consultation should not be linked with transparency assessment.

The Fund's role in promoting capital account liberalization should be helping developing countries put in place the necessary conditions for liberalizing capital account, rather than pushing with the speed of liberalization only.

The international community should encourage the private sector to participate in preventing and finding solutions to financial crisis, and there should be concrete actions as soon as possible. At the same time, the cooperation between debtors and creditors should be strengthened, and a balance maintained between their short-term and long-term interests.

Thank you, Mr. Chairman.