Statement by XIANG Huaicheng
Minister of Finance
People's Republic of China
I. Impact of Recent Events and Response of the World Bank Group

We agree with the World Bank’s analysis on the impact of the tragic events of September 11\textsuperscript{th} and their aftermath on developing countries. Almost all countries have been adversely affected by the events, directly or indirectly, with an unprecedented scope ever seen in recent years. In the short run, the September 11\textsuperscript{th} terrorist attacks and the aftermath will lead to further slowdown of the world economy, worsening the prospects of recovery. Developing countries, which are more vulnerable to external shocks, are most affected and will face more difficulties in exports, foreign capital inflows, poverty alleviation and external debt service. From a medium- and long-term point of view, the tragic events and their aftermath have increased uncertainties to the prospects of world economic growth, and developing countries will have to meet with tremendous challenges in achieving sustained economic and social development in the future.

With the rapid progress in globalization as the world has made today, the economy of one country is closely linked with that of another, and all countries, being confronted with the shocks from the September 11\textsuperscript{th} events and their aftermath, should enhance their cooperation and solidarity with better coordination in macro-economic policies. The developed countries, when formulating their macro-economic policies, including fiscal, monetary and trade policies, should give due considerations to the implications these policies may have for developing countries. Developed countries should not only adopt stimulus measures to prevent their economy from further slowdown, but also increase their international assistance to the developing countries affected by the September 11\textsuperscript{th} events and help them tide over the difficulties, to make due contributions to an early recovery of the world economy.

We support the World Bank’s response to the tragic events of September 11\textsuperscript{th} and their aftermath and welcome its efforts in providing assistance to developing countries through various lending and non-lending instruments. We hope the Bank would work closely with member countries to formulate feasible assistance programs. We welcome the efforts the Bank has made in strengthening cooperation with other international agencies to increase the scale and effectiveness of assistance. In order to enhance the ability of the Bank to assist developing countries, developed countries should give more support to the Bank’s window of concessional
resources. It is also our view that under the new circumstances the Bank should take a close look at how to adjust its own development strategy, and how to provide more effective assistance to developing countries in finding the right balance between overcoming short-term difficulties and achieving the objective of long-term development, with a view to increasing fundamentally their ability to deal with external shocks.

While dealing with the present shocks, we should also realize that a fundamental approach to ensure peace and development is to establish a fair and equitable international economic order. We call on the Bank to play a greater role as a development institution to promote the transfer of financial, technological and human resources to developing countries, making the 21st Century a century of justice, harmony and common prosperity.

II. Financing for Development

We welcome the involvement of the Bank and the Fund in the UN Financing for Development process, and appreciate the recommendations they have made to FfD Conference. The theme of FfD Conference is exactly what the Development Committee is working for under its mandate, i.e., to promote the transfer of real resources to developing countries.

In the process of economic globalization, the unbalanced distribution of global income has become an apparent issue we are now facing in the world development. Whether the world will be able to attain a sustained development in future depends largely on how well this issue can be addressed. And in this regard, ODA plays a crucial role that cannot be replaced by the private capital. We support the Bank/Fund joint paper’s emphasis of the International Development Goals as the common ground for international cooperation, and we once again call upon the major developed countries to make concrete efforts to increase their ODA and to reach the UN target of 0.7% of GNP as early as possible. Efforts should also be made to ensure concessionality in ODA flows. We encourage the Bank and Fund to make further efforts to carry out, on the theoretical front, an in-depth study of the relationship between development assistance and the sustainability of economic globalization, and adopt necessary binding measures, in practice, to urge developed countries to ensure a real increase of ODA.
We support the Bank and the Fund’s efforts to help developing countries improve their investment climate and the Bank Group’s use of lending and guarantee instruments to help developing countries attract more foreign private capital. But the improvement of domestic investment environment alone is not sufficient, and what is equally important is to create a favorable international environment conducive to a sustained inflow of external resources to developing countries. And therefore, while developing countries are making efforts to improve investment environment, developed countries should adjust their policies accordingly to induce more long-term capital flows to developing countries. Given the fact that the volatility of short-term private capital flows increases the financial risk of developing countries, it is also important for them to improve the regulation of short-term capital flows in addition to their efforts to attract foreign private capital. The liberalization of capital account should be pursued with a step-by-step approach based on the establishment of a sound macro-economic management mechanism. Developed countries should help developing countries in strengthening the surveillance of international private capital flows.

Trade is not only a critical source for financing for development, but also an important channel for integration into the global economic system. We appreciate the basic assessment of the joint paper on the trade issue. We are of the view that the tariff and non-tariff barriers imposed by developed countries have put developing countries in a more disadvantaged position in the world trade system, and have impeded the development of developing countries. As indicated in the paper, the trade barriers imposed by rich countries, together with the agricultural subsidies, cost developing countries much more than the $58 billion that they currently receive in foreign aid every year. This will without any doubt have significant implications. We support the efforts of the two Institutions in helping developing countries to become integrated into the global economic system. And we strongly urge the developed countries to eliminate various trade barriers and expand market access for developing countries. Developed countries should give due consideration to the concerns of developing members and honor their commitments made during the Uruguay Round. We support the launch of a new trade round in Doha. We stand for a balanced, broad and feasible trade agenda, in the hope that WTO will build a stronger world trading system capable of providing more opportunities for all, particularly the developing and
least developed members. We also support the Bank and the Fund in their efforts to assist developing countries with institutional capacity building, to realize the gains from the expansion of market access.

With regard to the global public goods, we welcome the World Bank’s efforts in providing support to developing countries in five areas as previously defined. It is our view that ODA should play a major role in addressing these issues, and developed countries should provide additional fund in concessional terms rather than reallocate the already limited existing resources.

To promote the common prosperity and development of the world economy and establish a new international economic order with justice and fairness, we call on the international community to work together to push ahead with reforms of the current international financial system and increasing the voice and participation of developing countries in global economic affairs and decision-making processes.

III. HIPC and PRSP

The Chinese Government will as always continue to support the HIPC Initiatives. We appreciate all the efforts the Bank and the Fund have made so far in this regard. We also noted, however, that some work need to be accelerated in institutional arrangement, the design of legal instruments and financing arrangement so that more countries could benefit from the program.

Though still being a developing country with low per capita income, China will do as much as it can for HIPC. The Chinese Government has committed to provide debt relief worth of 10 billion RMB for African HIPC countries.

We are pleased to see the progress achieved in PRSP, and we hope PRSP would become a basis for the international community to expand assistance to HIPC countries. We are also concerned, however, with the complicated procedures of PRSP, which very often exceed the ability of countries for implementation, leaving the notion of “ownership” only in words. It is our
hope that the Bank and the Fund could streamline the procedures and speed up the implementation of PRSP, and provide actual support to the countries concerned as early as possible.

IV. Harmonization of Operational Policies and Procedures

We welcome the efforts of the World Bank and other MDBs in harmonizing their operational policies and procedures in the areas of financial management, procurement and environmental assessment, so as to reduce the transaction cost and increase the project implementation ability of borrowers. Harmonization means mutual coordination among MDBs, rather than expanding the Bank’s policies and criteria to others; it should aim at streamlining over-complicated procedures, modifying unrealistic criteria and reducing cost; and it should also be conducive to the coordination between donors and recipients. We hope the Bank could adjust its policies and procedures in light of the above objective for further improvement of the quality and effectiveness of its assistance program.

V. Education for All

We share the Bank’s view on the importance of education for all. And we are pleased to note that the governments of developing countries are focusing more and more attention on education. With increased investment, they have made considerable progress in this area.

We must, of course, also realize that many developing countries, particularly the low-income countries, are still facing enormous challenges. Lack of adequate resources, for instance, is a key factor that constrains the education program in developing countries. Given the low level of aggregated economic development in many developing countries, it is difficult for them to change the current education status in the short run. This therefore calls for an intensified assistance from the international community, particularly the developed countries, to the education sector in developing countries. We hope that, with the joint efforts of the international community, the education development goals as reaffirmed at the Dakar World Education Forum will be realized in the near future.
The Chinese Government always attaches great importance to education. To vitalize the nation through science and education is our principal national policy. In addition to the increased inputs from governments at various levels in the country, the whole society has been mobilized to develop basic education, helping children, particularly girls, from poor areas and poor families to receive better education.

Development is the overriding priority. To find a fundamental solution to address the issue of education for all in developing countries, the international community must help them achieve sustained economic growth. China is willing to work with other nations to make its own contribution to the development of global education.