Statement by

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Statement by Mr. LI Yong, Vice Minister of Finance of P.R. China, at the 69th Development Committee Meeting (April 25th, 2004)

Since our last meeting, the global economy has been recovering at a rapid pace, and the developing countries have been further deepening their structural adjustments. These developments have created a favorable condition for advancing the global agenda of poverty reduction. Despite the encouraging trend of global economy with cyclical recovery and rebounding private capital flows to emerging markets, many developing countries, especially the least developed ones, are still confronted with economic difficulties, and achieving MDGs remains a formidable challenge.

I would like to share with you my observations on the specific issues on the agenda as the following.

1. Global Monitoring Report

We welcome this first annual report on the progress towards achieving MDGs. We thank the staff of the World Bank and the International Monetary fund for their work in this area. The report analyzes in detail both the opportunities as well as challenges in reaching MDGs. It provides an objective assessment on the progress achieved so far by developing countries, developed countries, and International Financial Institutions (IFIs) in their efforts to implement Monterry Consensus and achieve MDGs. The report also pinpoints the gap between the action and commitment by the parties concerned. Overall, the report has provided comprehensive and timely information for the Development Committee. We believe this report will exert positive influence on strengthening international cooperation, forming global solidarity, and speeding up progress towards MDGs. In addition to their efforts in monitoring various indicators of progress towards MDGs, we encourage the Bank and the Fund to focus on the selected policy areas that are in the most need of scaling up efforts, and put forward constructive suggestions for the discussion of this committee.

2. Actions by respective parties in achieving MDGs

As bluntly pointed out by the report, without substantially accelerating progress towards MDGs, most countries will not meet MDGs in 2015. Therefore, the most urgent need is for all parties to take their respective responsibilities seriously and scale up actions to fulfill their commitments at Monterry. We will comment on the key actions that need to be taken by each party as follows:

(1) Developing countries

We fully endorse the emphasis in the report that economic growth is critical for poverty reduction. We share the view that the design of economic development strategy should be country-driven and be supported by international community. We are pleased to note that there is emerging consensus by all parties on the key factors for economic growth, including
the increase of investment in infrastructure, the promotion of balanced development of social sectors, the enhancement of Public-Private sector partnership and the improvement of governance structure.

By focusing on results in development and poverty reduction, developing countries have made impressive progress in deepening structural adjustments. Developing countries as a whole have outperformed their developed counterparts in terms of economic growth. The high growth has greatly enhanced the progress in social elements of MDGs. However, we should clearly recognize that, some developing countries, especially the low-income ones, are in severe difficulties to attain economic growth. Many developing countries still lag far behind MDGs in education, water sanitation, disease prevention, and environment protection, due to the lack of adequate resources to meet the needs of MDGs.

Developing countries’ efforts in deepening the reforms in key areas could not be sustained unless there is adequate financial support. However, we regret to note that the current level of official development aid (ODA) to developing countries is significantly lower than what is needed. We are also concerned that the cash ratio of ODA for developing countries has decreased from 60% in the early 1980s to 30% now. Mobilizing additional aid and more aid in cash form is an urgent issue in accelerating efforts towards MDGs. According to the conservative estimation by the report, developing countries can effectively utilize at least additional $30 billion aid annually. Going forward, as countries improve their policies and investment climate, they will be able to absorb additional $50 billion aid annually. The lack of long term and predictable aid support, a key issue in the current debate, has inevitably affected the progress of policy reforms in developing countries.

(2) Developed countries

The structural reforms by developing countries should be supported by adequate aid from developed countries. This is key to achieve MDGs, and it is also the core of Monterrey consensus. Therefore, sufficient aid should be provided for the countries which have committed to implement necessary reforms and are capable to use aid effectively. We support the point made by the report that additional aid should be provided in the higher proportion of cash form to meet the immediate needs of recipient countries. And predictable and longer term development aid should be committed to support good policy performance.

We appreciate the UK proposal for International Finance Facility (IFF) as a feasible mechanism to mobilize additional international aid. We welcome the efforts of the recent Paris meeting to promote international consensus on increasing aid. We also welcome the studies by the international community on other feasible options to mobilize more aid. We hope that the current replenishment negotiations, including IDA 14, Asian Development Fund 9 and the African Development Fund, would achieve positive progress. We call for all developed countries to increase development aid to meet the UN target of 0.7% of their GNI, and make their due contribution to MDGs.
The structural adjustment by developed countries and hence their sustainable economic growth will create a favorable external environment for developing countries’ growth. We hope that the developed countries would adopt appropriate macro-economic policies to address their internal imbalances, instead of resorting to trade protectionism to shift the responsibility of adjustment to developing countries.

We agree with the report that developed countries, given their weight in world trade system should lead by example to promote the successful conclusion of the Doha round negotiation. Developed countries should make further efforts to eliminate agriculture subsidies and reduce tariffs. We expect tangible results from this round of trade negotiation.

(3) The role of IFIs

The IFIs play an important role in achieving MDGs. The World Bank, the International Monetary Fund, and regional development banks should, based on their mandates and comparative advantages, strengthen their cooperation and coordination to support developing countries’ policy reform and urge developed countries to increase official assistance. As far as the World Bank is concerned, we welcome the progress achieved so far by the Bank in promoting country ownership, emphasizing infrastructure development, and reducing cost of doing business. We applaud the Bank’s efforts to strengthen its support for Middle-Income Countries, including increasing flexibility and simplifying procedures, lowering financial cost specifically reducing the front-end fee, etc. These measures will not only benefit borrowing countries, but will also help the Bank to increase its competitiveness and achieve its mandate. We urge the Bank management to implement these proposed measures as soon as possible so as to speed up the process of international development and poverty reduction.

3. Debt sustainability

We appreciate the progress of HIPC countries in conducting necessary structural adjustments and welcome the efforts by the international community to reduce the debt burden of HIPC countries. There is, however, still a long way to go before the debt burden of the least developed countries could be completely relieved. The debt sustainability framework currently under discussion will be conducive to prevent another major debt crisis. However, it has to be realized that the problem of debt overhang cannot be addressed unless the debt-ridden countries could achieve sustainable economic growth and development. Development of these countries requires increased investment in infrastructure and continued external financial support. Therefore the relationship between desirable fiscal space and adequate funds for development needs must be appropriately handled. The debt sustainability framework should not work as financial constraints to the country’s development. Therefore, we believe the issue of debt sustainability should be discussed in a broader context of promoting international development and poverty reduction. Only in this way, can a workable framework be formulated.