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of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



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Statement by

**Mr. Li Yong**  
**Vice Minister of Finance**  
**People's Republic of China**



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**Mr. Li Yong,  
Vice Minister of Finance  
The People's Republic of China  
at the 78<sup>th</sup> Meeting of the Development Committee**

**October 12, 2008, Washington D.C. USA**

We welcome the Development Committee discussion on three important agenda items- the world economic situation, Development and Climate Change: A Strategic Framework for the World Bank Group, and Enhancing Voice and Participation of Developing and Transition Countries (DTC) in the World Bank Group. I would like to share with you some of my observations on these three topics and other related issues.

**I. Current World Economic Situation**

The current world economic and financial situation is complex. The slow-down in the world economy would adversely affect global development and poverty reduction. The international community should make correct judgment on the situation and strengthen cooperation to jointly maintain world economic stability. To this end, I would like to make the following comments:

- (1) Developed countries should adopt responsible macro-economic policies to maintain international macro-stability. The policy responses should not only effectively address the present crisis, but also take into account long-term interests as well as their impact on international macro environment. Major developed countries should maintain the stability of the value of international reserve currencies and prevent the acceleration of global inflationary pressure. The international community should also be vigilant against the possible deflation caused by slow-down of the world economy.
- (2) Developing countries' efforts to maintain stable growth should be supported by the international community. Developing countries are strong forces of the global efforts for containing a world-wide vicious economic recession. Facing the changes in the international economy, developing countries are stabilizing macro economy, conducting domestic restructuring, and also pro-actively pursuing South-South Cooperation, sharing their respective development experiences, and mutually complementing each other based on their respective comparative advantages. This is not only conducive to middle-income developing countries' expansion of overseas markets nurturing new growth points, but also supportive of low income developing countries' infrastructure development and lay a solid growth foundation. Therefore, the economic stability and social security of entire developing world is an important part of the solution to the present crisis, and a necessary condition for achieving long-term growth and development of world economy. Such an effort deserves full recognition and support of the international community.

- (3) The international community should intensively review the development models and concepts being followed in the process of globalization over the past several decades and explore the establishment of an international economic order aimed at promoting global common development. President Zoellick's vision of an inclusive and sustainable globalization is far-sighted. The Growth and Development Committee has made a useful effort in summarizing a new development concept in its Growth Report. We should pursue the establishment of international economic, financial, monetary, trade and development systems which suit inclusive and sustainable globalization, and enhance global economic governance from all aspects. At present, we should guard against the resurgence of investment and trade protectionism.
- (4) We should look into the impact of the current crisis on the attainment of the UN Millennium Development Goals (MDGs). The international community should respond actively to all the initiatives by the high level UN conferences for MDGs. Especially developed donors need to safeguard ODA increase for the least developed countries and regions so as to ensure the achievement of MDGs as scheduled.
- (5) In view of the great difficulties faced by the world economy, the Bretton Woods Institutions (BWIs) should play a fair, strong and effective role in coordinating efforts to overcome difficulties. To this end, I would like to put forward three suggestions:
- BWIs should face squarely the systemic issues in globalization and world economy and improve global economic governance. The BWIs should give particular attention to the impact of financial crisis on capital flow as well as ODA; follow closely the stability of the international monetary environment and curtail global inflationary pressure; and also keep a watch on the possibility of deflation. They should learn the lessons of financial crisis and strengthen global cooperation on financial regulation. They should take an open and forward-looking perspective on sovereign wealth funds and new types of development cooperation and enhance effectively the participation of developing countries in the international economic rule-making.
  - BWIs should carefully assess some special difficulties faced by developing countries such as price rise of food and fuel, rising financing costs, deterioration of international balance of payments, and acceleration of inflationary pressure. They should make good use of financial and human resources and take relevant actions.
  - BWIs should fulfill their responsibility with professionalism, objectivity and fairness. They should not only meet the challenges faced by developing countries, but also face up to issues in developed economies, and urge

developed members to shoulder their due responsibility for stabilizing the international economy.

- (6) In view of unfavorable external and domestic factors, the Chinese Government has made efforts to improve its macro management capacity, solved in a timely manner the acute constraints and problems in its economic operations, made continuous structural readjustments and expanded domestic demand in order to maintain balanced and rapid economic growth.

In the first half of 2008, China's GDP grew by 10.4%, a decline by 1.8 percentage points over the same period of 2007. CPI grew by 7.3% during the first eight months. The contribution of consumption to GDP growth over the first half of 2008 reached 50.2%, registering an increase of 10.5 percentage points over the same period of last year. Contribution of net export was 4.9%, a decline of 16.6 percentage points over the same period of 2007. Energy consumption per GDP declined by 2.88% over the same period of 2007. Financial institutions have witnessed an overall improvement in strength and profitability. The financial system is both sound and safe. All this indicates that the dynamics of China's growth has evolved with an improved balance between domestic and external demand and an enhanced ability to resist economic risks.

However, the institutional constraints and structural imbalances in China's economy, the inflationary pressure, and the uncertainty of external shocks by the US financial crisis subject China to immense economic challenges. To cope with these complexities, China will adopt a prudent economic policy. It will enhance the foresight, pertinence and flexibility in its macro economic management. It will take measures to maintain stability in the economy and in financial and capital markets so as to achieve sound and rapid economic growth. Sustained, stable and rapid growth in a country with 1.3 billion people itself represents the biggest contribution to world economic stability and development.

## **II. Development and Climate Change: A Strategic Framework for the World Bank Group**

Climate change as a global challenge is both an environment issue and a development issue. It needs joint cooperation of all countries. As the largest global financial institution for development, the World Bank Group (WBG) should play an active role. We welcome the Strategic Framework on Development and Climate Change for the World Bank Group.

To ensure that the Bank's climate change actions maintain the primacy of the UN Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, we advocate that the WBG should adhere to the following principles in implementing this Strategic Framework:

- (1) Maintain its core mission of supporting growth and poverty reduction;
- (2) Pursue country-owned and country-driven approaches;
- (3) Impose no conditionality;
- (4) Maintain a balanced approach to mitigation and adaptation, and increase financial resources for adaptation;
- (5) Ensure additionality of resources, and non reduction of existing ODA level;

- (6) Promote R & D and technology dissemination;
- (7) Respect countries' technology choices;
- (8) Establish balanced monitoring and measurement systems.

### **III. Enhancing DTC Voice and Participation**

Historical experience proves that it is necessary to establish an equitable global economic governance system to support the goal of inclusive and sustainable globalization. Therefore, enhancing DTCs voice and participation in the decision-making of the WBG is a necessary requirement for the WBG as a part and parcel of global governance. We urge the parties concerned to continue to make efforts, especially the developed countries to demonstrate political will, to support meaningful improvements of the DTCs position in the WBG's decision making.

Ensuring that all DTCs benefit from voice reform, and achieving parity voting power between developed and DTC members is the most fundamental and important goal. To promote this objective, we are open to all options on realigning shareholding and voting mechanism. We have strong reservation on the ODA linkage without distinguishing the different role between developed and developing countries, for it will raise the threshold for all DTCs and bias against their equal participation in the Bank's decision making.

We support an additional chair for Sub-Saharan Africa. We hope to see a higher DTC representation in the Bank's senior management, and a specific plan of action by the Bank for this objective.

We support further discussion of the selection process for the President of the Bank. We believe such a process, according to the concept of modern governance, should be open, competitive and merit-based.

### **IV. Strategic Directions for the World Bank Group-Progress and Next Step**

Since the initiation of the six new strategic directions by President Zoellick at the Annual Meetings last year, the Bank has made substantial progress in delivering better, quicker and cheaper services to its client members, especially in IDA replenishment, innovative financial products, South-South cooperation, and response to oil and food price shocks. We appreciate this. We hope that the Bank will achieve further breakthroughs in more areas such as promoting country ownership, use of country system, and decentralization.

As the largest global financial institution for development, the Bank should always put development financing as its core business. Therefore, we support IBRD long-term capital adequacy framework. We believe that on the basis of ensuring IBRD's AAA credit rating and financial sustainability, IBRD should consider the development needs of countries at different development stages, provide more support to IDA countries and fragile states, and promote global public goods and R & D. It should coordinate resource allocation so as to efficiently utilize its capital resources.

The current international financial turmoil has brought new challenges to all developing members. While actively mobilizing financial and human resources to help developing countries respond to the shocks, the Bank should timely draw lessons and readjust in good faith its own aid strategy so as to ensure aid effectiveness. The current international financial crisis shows once again that it's necessary to establish a global economic governance system that all countries participate on equal footing if globalization is to benefit the whole mankind. As an integral part of global governance system, while constantly improving itself, the Bank should make its due contribution to the improvement of global governance in conjunction with the need of global development undertaking.

Thank you!