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On behalf of the People's Republic of China

Statement by Zhou Xiaochuan
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I. World Economic Outlook: Vulnerabilities, Risks, and Policy Responses

The vulnerability affecting global economic growth since the Dubai meetings has by no means been entirely eliminated. Geopolitical confrontations persist, and debt remains a very conspicuous problem in some emerging markets. Yet, in spite of all this, the global economy shows obvious momentum toward recovery. All the major economies and emerging markets have demonstrated strong growth, or have extricated themselves from a downturn. The three largest economies—the United States, Japan, and Europe—have entered a period of recovery or strong growth. Emerging markets, particularly the emerging markets in Asia, are playing an increasingly important role in driving global economic growth. Industrial production in the major industrial nations has continued to increase. Business and consumer confidence have begun to strengthen. Private sector investment, which has been sluggish for years, is clearly recovering. The business cycle is exhibiting an obvious upward trend, and concern about deflation has decreased significantly. Overall, Fund staff have properly analyzed and judged global economic development, and their forecasts for the next two years are, on the whole, reasonable.

1. It is still true that the global economy relies excessively on conditions in certain individual countries. Moreover, this problem has intensified. For a long time, the prospect of the world economy has, to a great extent, been dependent on the United States. Although the U.S. economy is now showing strong momentum toward recovery, its internal adjustment process is by no means over. Certain imbalances are still on the rise. Therefore, great uncertainty remains as to whether the U.S. economy has entered a period of stable growth.

First of all, the wealth effect on which this recovery relies may be difficult to sustain. Second, the expansion of the U.S. fiscal deficit is detrimental to private sector investment and capital market stability. Third, the U.S. current account deficit continues to grow, inevitably resulting in an adjustment of the U.S. dollar exchange rate, and may perturb the global economy.

2. Uncertainties in the timing and magnitude of macroeconomic policy adjustments by the major industrial nations are putting global economic trends at increasing risks. Current interest rate levels are very low. As output gaps narrow and potential inflationary pressures rise, the possibility of an interest rate hike cannot be ruled out. Long-term low interest rates might cause asset prices to depart from economic fundamentals and lead to bubbles. If an

interest rate hike is not well timed, or if it is not executed with proper intensity, the result might be a short-term upheaval in financial markets, which would in turn adversely affect the recovery. The monetary authorities in countries with excessively high real estate prices face the severe challenge of containing the bubbles while avoiding excessive market fluctuations at the same time.

3. In some industrial countries, structural reforms have been slow, which has had a direct impact on stable economic growth and sustained development. For example, social security systems and labor market reforms are lagging, banking system reforms have been slow, and problems with corporate governance and accounting systems have surfaced. If structural problems of this nature are not promptly resolved, they will likely have a severe and negative effect on the entire economy at some point.

4. The debts of some emerging markets and developing countries are not likely to remain sustainable. Although economic recovery and low-interest rate policies have improved the debt structure in many emerging economies, and debt sustainability has obviously improved, certain emerging market and low-income countries still face problems with debt sustainability. If these difficulties lead to a debt crisis, not only will these countries suffer financing difficulties, but international financial markets will also be severely shaken. Therefore, we call for discussion of debt sustainability issues within the more general framework of promoting international poverty relief and development aimed at establishing a feasible debt sustainability arrangement.

5. Geopolitical tensions show no clear signs of abating. Although the Iraq war ended a year ago, various conflicts persist, and recently there has been an escalating trend. The situation in Iraq remains very serious. The recent explosions in Madrid again show that geopolitical tensions have not fundamentally dissipated. Their effect on the global economy will be multifaceted with direct consequences for oil price stability. Since last year, rising oil prices have also threatened stable economic recovery.

Therefore, the international community should clearly recognize the primary risks to global economic growth. All countries should actively participate in policy coordination and cooperation and strive to maintain sustained and healthy global economic growth. In particular, the main industrial countries should assume the primary responsibility for global economic recovery and adjustment. They need to increase market confidence, give free rein to their comparative advantages, gradually improve external account conditions, and enhance the sustainability of economic growth by adjusting economic structures, increasing domestic savings, consolidating fiscal positions, expanding trade, and pushing forward labor market and social security system reforms. While making macroeconomic policy adjustments, they should consider the global and long-term effects of the adjustments. They should continue to open markets to developing countries, promote capital and technology transfers, and take concrete steps to push forward the Doha Round of trade negotiations.

Whether or not the imbalances in global economic development can be eliminated in an orderly way will, to a great extent, decide future global economic trends. These imbalances exist at a very fundamental level. Each country, and particularly the major industrial countries, must make appropriate adjustments to their macroeconomic policies. Moreover, it is critical to further reform the current, irrational international monetary and financial system and establish a new, rational and just international economic order.

Emerging markets and developing countries should vigorously take advantage of the current favorable environment brought on by the economic recovery. In particular, they should use the favorable financial market conditions to accelerate structural reform, improve their public management capacity, enhance the soundness of macroeconomic policy, develop domestic financial markets, reduce external vulnerabilities, foster and promote healthy private sector development, and increase the efficiency and capacity of economic activities.

The international community should pay sufficient attention to the increasing severity of fiscal deficits in those major economies and, by vigorously strengthening tax administration, optimizing budgetary spending, and advancing social security system reform, consolidate the fiscal situation and increase the quality and stability of economic growth. In addition, to maintain the global economy's favorable growth momentum, the international community should work to promote geopolitical stability, avoid tensions and conflicts, and prevent excessive oil price fluctuations.

II. STRENGTHENING SURVEILLANCE: OBJECTS, MEANS AND PROVISION OF DATA

We commend the Fund's extensive study and efforts in recent years to strengthen surveillance and to prevent and resolve crises. This has played a positive role in upholding the stability of the international monetary and financial systems and in diminishing the effects of financial upheavals.

We believe Fund surveillance should focus on those economies and financial markets that substantially affect global or regional economic development, especially the major industrial nations and the economies that have greater debt vulnerability. We endorse the Fund's ongoing support for, and assistance to, developing countries—to advance structural reforms, strengthen capacity building, put domestic markets on a sound footing, and enhance financial sectors.

We encourage the Fund to adopt more diversified and more effective surveillance methods and tools. We note that the Fund has expended much effort in strengthening its surveillance methods and that some progress has been made. The recent introduction of the balance sheet approach has remedied shortcomings in the traditional financial programming tools, i.e., their exclusive focus on flow analysis. The Fund's efforts in the sustainability analysis of public and foreign debt also deserve encouragement.

As for strengthening surveillance by improving data provision practices, I believe that as economic globalization proceeds and as countries become more reliant on each other, the importance of timely, accurate data for world economic and financial system stability, security and efficiency will keep growing, and the role of such data in risk prevention will become increasingly obvious. We continue to support the Fund's various data provision initiatives, and encourage member countries to provide timely and accurate data to the best of their abilities. At the same time, it needs to be understood that data provision and capacity building in each country are at different levels, particularly in the developing and emerging market countries. Data provision, therefore, should continue to be on a voluntary and consultative basis. While the Fund emphasizes data provision by member countries, it should also pay close attention to fostering and improving their capacity building, particularly in helping the developing countries to strengthen their fundamental statistical work. Furthermore, data provision depends largely on member countries' support and cooperation. Therefore, we encourage the Fund to continue to work in the spirit of friendly cooperation so that gradually the quality of members' data reporting will be improved.

We support the Fund's efforts to improve transparency. However, we wish to point out that the goal is not to increase transparency itself, nor is it merely to emphasize higher rates of publication. The ultimate goal should be to provide member countries with policy suggestions suited to their conditions through strengthened surveillance and thereby stimulate them to implement sound macroeconomic policies, to promote economic development, and to ensure that international financial systems function in a sound and stable way. Excessive emphasis on transparency might affect member countries' candor during policy dialogue with the Fund, thereby weakening the Fund's policy advice and effective surveillance functions. Therefore, when promoting new transparency policies, the Fund should consider the actual conditions of each member country and their different stages of development, and uphold the principle of voluntary and gradual progress. When promoting this issue, aside from the public sector, important market participants and the private sector should also be urged to increase transparency so that all market participants can obtain reciprocal information. Therefore, the Fund should strengthen its cooperation with the authorities concerned to improve necessary surveillance of the private sector.

III. Development of Low-Income Countries: Debt Relief Initiatives, the Poverty Reduction and Growth Facility, and the Doha Round

During the last ten years, the international community has worked tirelessly, and with encouraging results, to help low-income countries (LICs). However, the economic and social conditions in these countries give rise to many challenges and the international community needs to continue to provide its support to LICs. The Fund and the World Bank are duty-bound in this respect. We welcome the Fund's commitment to engage in assisting LICs over the long term and its research into ways to improve the relevant policy instruments to expedite the elimination of poverty in LICs. We hope that the enhanced Heavily Indebted Poor Countries' (HIPC) Initiative and the Poverty Reduction and Growth Facility (PRGF) will continue to play important roles in assisting economic development in LICs.

Clearly, LICs require the help of the entire international community. Together with international organizations, bilateral aid plays a role that cannot be overlooked. We call on the developed countries to implement the Monterrey Consensus and increase their official development aid to assist LICs in achieving the Millennium Development Goals. History proves that trade development is an important avenue through which LICs overcome poverty. We call on the industrial countries to open their markets fully to developing countries, reduce their trade barriers—especially to LICs—cut their agricultural product subsidies and make the most of the momentum, with wisdom and determination, from the revival of the current Doha Round to push for a breakthrough in the negotiations.

The Chinese government has consistently supported the enhanced HIPC Initiative and the PRGF and has striven to do what it can for the cause of HIPC debt relief. We are pleased that, under the enhanced HIPC Initiative, a number of countries have reduced their debt burdens significantly, achieving a basis for future sustainable growth. Nevertheless, these countries' economic fundamentals remain relatively weak. Their long-term development will require the concern and assistance of the international community. The fact that poor countries, with the assistance of the international community, will autonomously draft their own poverty-reduction strategy documents will be of tremendous significance in their implementation, based on a broad consensus of long-term sustainable development strategies and the elimination of poverty. In addition, we hope the Fund and other international organizations will continue to take seriously and adopt effective measures to remedy the fact that developing countries have a relatively limited voice in international institutions.

IV. Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

We have consistently believed that terrorism threatens world peace and security and therefore threatens the sustained development of the world economy. The Chinese government attaches great importance to the work on AML/CFT and continues to support and actively participate in the cooperative efforts of the international community in this area. We are broadly satisfied with the 12-month pilot program assessment carried out jointly by the Fund and the World Bank.

It must be emphasized that the resources allocated by the Fund to AML/CFT should not affect other core business of the Fund. In particular, the interests of developing countries should remain fully protected. Given its limited resources, the Fund should continue to focus its technical assistance on some core and traditional areas. When participating in AML/CFT work, the Fund should respect the sovereignty and specific conditions of individual countries and give them free rein in exercising their independence and initiatives.

The Chinese government attaches importance to the role of the Financial Action Task Force in the field of AML/CFT and calls for it to be more representative so as to make its recommendations more pragmatic and authoritative.

V. THE CHINESE ECONOMY

The Chinese economy experienced sound development in 2003, with GDP growing by 9.1 percent over the previous year and per capita GDP reaching US$1,100, passing an important milestone.

So far this year, the Chinese economy has continued to grow at a rapid rate. Investment, consumption, and exports have shown strong growth. Profits of industrial enterprises have registered a large increase, and entrepreneur and consumer confidence in macroeconomic trends continues to strengthen. This year's growth target for the Chinese economy is about 7 percent.

Of course, we also face many challenges. The main ones are that aggregate investment in some industries and regions is somewhat excessive, inflationary pressures are building up, and much remains to be done in the areas of employment and social security. Solutions to these problems will require us to pay even closer attention to proper macroeconomic management and to the proper handling of the relationship between reform, development and stability.

To deal with the accelerating rise of the commodity price index during the past six months, we employed a combination of monetary policy tools and strengthened preemptive adjustments and fine-tuning by controlling the excessive growth of monetary credit. The People's Bank of China (PBC) has twice employed the required reserve ratio as a monetary policy tool to strengthen macroeconomic management. The PBC has raised the required reserve ratio by 1.5 percentage points, from 6 percent to 7.5 percent. In addition, we will institute a "differential required reserve ratio" system based on the capital adequacy ratios of financial institutions. At the same time, PBC, through open market operations, is recalling the excess liquidity out of financial institutions. We have also implemented a floating rate system for central bank lending and have again expanded the range within which financial institution loan rates are allowed to float. Thus, we continue to push forward steadily with the market-based interest rate reform. We believe that, through these monetary policy measures and with the support of other macroeconomic policies, China's economy can certainly continue to develop smoothly and steadily, without excessive fluctuation.

In the medium and long term, the renminbi exchange rate will develop in the direction of increased flexibility, but our current focus is, while deepening financial reforms, to take further steps toward exploring and improving renminbi exchange rate formation mechanisms. The reform of the exchange rate regime is itself a systems engineering task that involves many areas. It should be carried out in tandem with the conversion of the state-owned commercial bank operational mechanisms, clearance of non-performing assets in the banking system, and the reform of state-owned enterprises. To maintain the renminbi exchange rate basically stable at a reasonable and equilibrium level will create an environment that is good for Chinese economic development, reform, and opening up to the outside world. It will not be in the interests of China alone; it will also be in the interests of the region.

In pushing forward with financial system reform, we are using state foreign exchange reserves to inject US$45 billion into the Bank of China and the China Construction Bank. This is a prudent decision that the Chinese government has made on the basis of the current state of the Chinese economy and finances, after studying the actual conditions of pilot reforms in some banks and learning from relevant successful international experiences. Our next steps are to accelerate reform of the state-owned commercial banks and to deepen the reform of other commercial banks and policy banks.

After 25 years of reform and opening up, China's economy has grown somewhat stronger, and more closely integrated with the world economy. The rapid development of the Chinese economy has injected vitality into the global economic recovery and created the necessary conditions for economic growth in some countries. However, we must understand clearly that, relative to its population, the size of the Chinese economy accounts for a relatively small share of the global economy. Per capita GDP has only recently reached US$1,100. There remains a large poor population. Economic system reform and structural adjustments are still plagued with many difficulties and problems. Therefore, one should not exaggerate the impact of the Chinese economy on the global economy. Even so, China will certainly do its utmost to shoulder its responsibilities and will strive to make contributions to global economic development.

Since the second half of last year, buoyed by the global economic recovery and supported by the Closer Economic Partnership Arrangement (CEPA) signed by the central government with the Hong Kong Special Administrative Region (SAR), Hong Kong's economy has shown signs of recovery. Hong Kong SAR residents and foreign investors have grown more confident. Such measures as permission for individual travel to Hong Kong SAR from the Mainland of China, the launching of renminbi operations, and zero-duty commodities for exports to the Mainland have further bolstered Hong Kong's economy. Hong Kong SAR's property market continues to heat up, the stock market has set new highs, tourism and related industries are booming again, consumption and investment are growing more lively, foreign imports and exports are showing stable growth, and the unemployment rate has dropped. Last year, GDP grew by 3.3 percent. According to Hong Kong SAR forecasts, GDP is expected to grow by 6 percent this year. It can be said that Hong Kong's economy has bottomed out and is now in the midst of a sound and stable recovery.

During the past year, the Macao Special Administrative Region (SAR) continued to adopt sound and stable economic policies. In particular, thanks to the major effort made by the central government, economic ties between Macao SAR and the Mainland of China were further strengthened. Free travel, the CEPA, exemption from double taxation in both regions, the prevention of tax evasion, and other measures favorable to the development of Macao's economy were introduced, one after another. These beneficial factors boosted continued economic improvement. The investment climate underwent further enhancement, the recovery of the travel industry accelerated, export and processing industries grew, and the financial industry functioned well. GDP grew by 15.6 percent in Macao SAR in 2003. It is expected that the double-digit growth will continue in 2004.

We believe that, given the global economic recovery and the Mainland's stable economic growth, particularly in light of the full support of the central government, the future is bright for the economies of Hong Kong SAR and Macao SAR.