

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

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INTERNATIONAL MONETARY FUND

Press Release No. 34

October 22, 2007

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

**Written Statement by Mr. Li Yong, Vice Finance Minister, PR China,
at the Opening of 2007 Annual Meetings of Boards of Governors of the
World Bank Group and the International Monetary Fund
October 22, 2007, Washington, D.C.**

Mr. Chairman, Dear Governors, Ladies, and Gentlemen,

The first half of 2007 witnessed a continued buoyant growth of global economy. The growth in the emerging markets and the developing countries was particularly robust, making them the main engine for the global economy. However, the growth in some major developed countries has slowed down since the second quarter, reflecting in a significant downside risk in the global economy. At the same time, there is a widening gap between the North and the South, unbalanced global economic development, resurgence in trade protectionism, high oil price, unstable exchange rates of the world major currencies and increasing pressure of expected high inflation. All this has added to the uncertainty in both regional and global economic growth. In addition, the unjust international economic order and the shortage of the external financial assistance still impede severely the development of the developing countries whose overall unfavorable position is yet to be fundamentally improved and whose challenges in poverty-reduction and development remain daunting.

Colleagues, the World Bank and the International Monetary Fund continue to play a constructive role in enhancing international coordination and cooperation, promoting global economic growth and reducing poverty. We appreciate their role and hope that they will continue to play an important role in global economic governance. For this purpose, we propose the following:

1. The Bretton Woods Institutions (BWIs) should continue to improve their own governance and ensure the rights of the developing countries to effectively participate in the decision-making of the institutions.

We believe that the increasing share of the developing countries in world GDP and their significant contribution to world growth should be duly reflected in the voice and representation in the decision-making of the BWIs. The developing countries can no longer be excluded from major decisions or remain severely underrepresented in international institutions such as the BWIs. Further, we support working towards a transparent process in the selection of the heads of the BWIs, as unanimously resolved by the G-20 meeting in Melbourne in November 2006. We also hope that the recent consensus on IMFC chairmanship will be honored.

Therefore, the BWIs should actively reform their own governance, reflect the improvement of the economic positions of the developing countries, and demonstrate in a balanced manner the interests of the different members so as to design policies in the interest of the developing countries and long-term global development.

i) On the Fund's Quota and Voice Reform

After several rounds of discussion, preliminary agreement has been reached on some aspects of the Fund's quota and voice reform. Nevertheless, it should be noted that a number of important issues have yet to be resolved.

According to the Resolution adopted in Singapore, one of the objectives of the Fund's quota and voice reform is to realign quota distribution with members' relative position in the world economy, which means the reform should aim at significantly raising the overall quota shares of developing countries, particularly emerging market economies. To achieve this, the size of the second round ad hoc quota increase must be sufficiently large. We believe an overall increase of at least 12.5 percent is appropriate. The overall size of the increase should not be restricted by conventional considerations regarding whether the Fund has ample liquidity.

The first round ad hoc quota increase agreed at the Singapore Meeting is broadly welcome by the international community. Its positive role should be recognized. We need to build further reform on this achievement rather than returning to the pre-Singapore quota level to start the reform again. It should be noted that the first round ad hoc quota increase has only partly addressed the significant under-representation of China, Korea, Mexico and Turkey. These four countries remain markedly under-represented even after the ad hoc quota increase. Therefore, we believe it is appropriate to adjust their quota or voting power based on the post-Singapore quota level.

The quota formula is the focus of the reform at this stage. We agree that the new formula should be simple, transparent and easy to implement, and should include four variables, namely, GDP, openness, variability and reserves. We are in favor of giving GDP the greatest weight, using a blended GDP variable and giving the PPP GDP a weight of at least 25 percent. At the same time, we support a slightly lower weight for openness and a higher weight for variability, which we believe will better reflect members' potential demand for financial resources from the Fund. We suggest that the staff continue to thoroughly examine issues related to the definition, scope and weight of these two variables.

More importantly, the Fund should enforce a mechanism to periodically assess members' quota and make necessary adjustments to respond to changes in the world economy.

Based on these principles, it is our sincere desire to push forward the process of quota and voice reform. We are always of the view that the inclusion of PPP GDP in the quota formula is the most effective way to increase the quota of developing countries as a whole. It is also the simplest and most transparent way to achieve this objective. Nevertheless, to facilitate the Fund's reform process, we are also open to the Troika Proposal of a PPP GDP filter approach based on the proposal put forward by Australia. However, if MER GDP plus a PPP GDP filter are to be adopted, we oppose the use of any compression factor in the formula.

Another important objective of quota and voice reform is to preserve the voting power of low-income countries. In this regard, we call for a substantial increase in basic votes, and support efforts to increase the resources and capacity of the African Executive Directors' offices.

In order to complete the reform agenda within the timeframe set in the Singapore Resolution, we urge relevant countries to take a flexible and pragmatic approach to push ahead with the reform. In particular, we call on the developed nations to demonstrate their political commitment to facilitate the smooth implementation of the quota and voice reform.

ii) Reform of the World Bank Governance

Enhancing the Voice and Participation of developing and transition countries (DTC) in the decision-making at the World Bank Group is a fundamental requirement for the Bank as a multi-lateral development agency, an important safeguard for fulfilling the Bank's mandates of poverty reduction and development and a major measure in promoting democratic global economic governance. We are of the view that overall enhancing the voting power of the DTC is the basic principle of the reform which should ultimately realize the allocation of 50% of the capital shares to DTC. We do not advocate the Selective Capital Increase if it only reallocates the shares among the developing countries.

We support other ways of enhancing the participation of the developing countries in decision-making process. We encourage the Bank to review the selection process for the head of the Bank and increase the transparency of the selection process to include DTC nationals. We support the increase of additional

chair for the African constituencies in the Board. We also support a higher representation of DTC nationals in senior management positions.

It is necessary to reform the developed donors-led decision-making process of IDA. Given the fact that the IBRD and IFC have significant amount of net income transfers to IDA, the developing members have become the de facto contributors to IDA. Therefore, it is necessary to fully reflect this fact by ensuring the full participation of the developing countries in the policy-making of IDA.

2. The BWIs should make use of their comparative advantages as global multilateral financial institutions and guide the economic globalization to the right direction.

Through multilateral coordination and technical assistance, the BWIs should promote participation of the developing countries in the setting of the international economic rules, facilitate the balanced and orderly flows of capital, technology and labor, and monitor the global economic development in a balanced manner. They should promote the reform of the international monetary and financial regimes, promote South-South cooperation and regional cooperation, as well as maintain stable global economic environment.

3. The World Bank Group and other multilateral development agencies should take transfer of development resources as their core mission.

First, it is necessary for the World Bank and other multilateral development agencies to continue to strengthen their capital strength. The pressing task at hand is to realize a 20% growth of IDA15 over IDA14 through concrete actions by the developed countries. Second, it is necessary to further reduce financial and operational costs, improve and scale-up country-based model, and increase relevance and flexibility for the client countries. Third, it is necessary to continue to explore new development financing mechanism and actively promote the gradual test and improvement of some specific initiatives. Fourth, it is necessary to enhance supervision on developed countries for their fulfillment of the commitments to ODA, and particularly at this time, to ensure a successful IDA15 replenishment.

4. The World Bank Group and other multilateral development agencies should adapt to the new global development trends and adequately make strategic realignment.

We support the Bank's principle framework for long-term development strategy. We hope the Bank's new long-term strategy will play a leading role in reforming, and building a global aid architecture based on the development need of the developing countries. We believe that the Bank should always adhere to the following principles in the course of developing its new strategy:

- i) maintain and strengthen the Bank's global nature and ensure that it provide capital and knowledge for developing members at different development stages and play a constructive role in the course of providing public goods for global common development;
- ii) respect developing countries' country-specifics and ownership of development;
- iii) add a third pillar of "creating a favorable external environment for development" to the Bank's current "twin pillar" strategy in order to reflect more comprehensively the new situation and the new needs of the global development;
- iv) promote overall innovation in development thinking, business scope, products and instruments, and establish a new type of development partnership with the developing countries based on equality and demand orientation.

On the basis of the above-mentioned principles, we support the Bank's priority areas, including Sub-Sahara Africa, fragile states, middle income countries and global public goods, learning and knowledge agenda.

5. The Fund should enhance its surveillance over countries issuing major reserve currencies so as to play an effective role in promoting financial stability and economic prosperity.

We regret that the Fund adopted in June the Decision on Bilateral Surveillance over Members' Policies (the 2007 Decision) in the absence of consensus among its members. The Fund should adhere to its consensus based approach in the adoption of major resolutions. We note that the application of the 2007 Decision over the past months has given rise to some controversy due to certain less clearly defined core concepts. This has had an adverse impact on the effective implementation of surveillance.

We believe that the Fund's exchange rate surveillance should focus on whether a member country's exchange rate regime is consistent with its medium term macroeconomic policies, rather than on the level of the exchange rate. Given the apparent weakness in the concept and measurement of the equilibrium

exchange rate, its calculation can serve only as a reference but not as the basis for assessing members' policies.

We hope that the Fund will objectively recognize the diversity of member countries' situations as well as the role of exchange rates in economic performance and the limitations of the tools used for exchange rate analysis. We also hope that the Fund will respect the autonomy of its members in choosing their own exchange rate regimes. Moreover, the Fund should appropriately determine the priorities in its exchange rate surveillance, and enhance its surveillance of countries issuing major reserve currencies. The Fund should also take concrete steps to address problems related to the 2007 Decision and its application. The aim of these efforts is to enable the Fund to conduct surveillance in a prudent, fair and effective manner and based on clear consensus so that, through its surveillance, the Fund will contribute significantly to financial stability and economic prosperity.

Colleagues, in view of the new opportunities and challenges, China will continue to stick to people-centered, comprehensively balanced and sustainable road of development. It will continue to be innovative in mode of development and institutional mechanisms, and maintain stable and rapid economic growth. It will accelerate the economic restructuring and transform the way that economy grows. It will adhere to "five balanced aspects" and realize harmonious development. It will do more to save energy and reduce emission and develop circle economy so as to construct resource-efficient and environment-friendly society. It will uphold equity and justice and improve people's livelihood. It will resolutely push forward reform and opening up and realize sound and rapid economic and social development.

Colleagues, in the course of national development, China has always linked its development with the common progress of the human beings. While persisting in its own development, China attaches great importance to international development cooperation in an effort to seek balanced and equitable global development. China cannot develop in isolation from the rest of the world, nor can the world enjoy prosperity and stability without China. The Chinese people will continue to work unswervingly with the people of other countries to bring about a better future for humanity

Thank you!