Summary Proceedings

of the Fifty-Second Annual Meeting of the Board of Governors

September 23–25, 1997

International Monetary Fund
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*Speaking on behalf of a group of countries.

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INTRODUCTORY NOTE

The Fifty-Second Annual Meeting of the Board of Governors of the International Monetary Fund was held in Hong Kong, Special Administrative Region, from September 23 through September 25, 1997, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable Mohammed K. Khirbash, Governor of the Bank and the Fund for the United Arab Emirates, served as Chairman.

These Proceedings include statements presented by Governors during the meetings, resolutions adopted by the Board of Governors of the Fund over the past year, reports, recommendations, or communiqués issued by the Committees of the Board of Governors at the time of the meetings, and other documents relating to the meetings.

Statements by the Governors are listed in alphabetical order by country on pages iii–v, and a list of abbreviations used in the statements and documents is given on page 323.

REINHARD MUNZBERG
Secretary
International Monetary Fund

Washington, D.C.
November 3, 1997

ADDRESS BY THE PREMIER OF THE STATE COUNCIL OF THE PEOPLE'S REPUBLIC OF CHINA[1]

Li Peng

Today, the 1997 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund open solemnly in the Hong Kong Special Administrative Region of the People's Republic of China. On behalf of the Chinese government and people, I would like to extend our warm congratulations on the convocation of the Annual Meetings and our sincere welcome to all the delegates and honored guests. I am convinced that, with the concerted efforts of all of you, these meetings will yield rich results.

The Annual Meetings constitute the largest international conference held in Hong Kong since its return to the motherland and the first such meetings ever held in China. They are therefore of great significance for promoting mutual understanding, exchanges, and cooperation among various parties.

As a Chinese saying goes, "saying it once is better than hearing about it a hundred times." Now that you are in Hong Kong, you can see with your own eyes that the Chinese government's basic policies of "one country, two systems," "Hong Kong people administering Hong Kong," and "a high degree of autonomy" have been carried out in earnest, and the Special Administrative Region (SAR) government headed by Mr. Tung Chee-Hwa is operating normally and effectively in accordance with the "Basic Law." We are confident that the SAR government and the Hong Kong people will do a good job in running and building Hong Kong. It can be predicted that Hong Kong's future will be more splendid. Hong Kong, in its continued capacity as a free port and an international financial, trade, and shipping center will play an even more active role in strengthening the economic cooperation between China's mainland and other countries in the world.

The just-concluded Fifteenth National Congress of the Chinese Communist Party was an extremely important meeting, held at the turn of the century. It was a meeting about building on the past and preparing for the future. The main message I bring to you today is that the Congress has identified the Deng Xiaoping Theory as our guiding ideology, after drawing upon the experience of the past two decades of reform, opening up, and a socialist modernization drive; that, in control of the situation, our

[1] Delivered at the Opening Joint Session, September 23, 1997.

central collective leadership with President Jiang Zemin at the core is strong and enjoys the support of the whole party and the entire population; that China's political situation is stable; that the reform and opening-up policies will not only remain unchanged, but also continue to develop; and that the cause pioneered by Deng Xiaoping will not only go on, but make even greater progress.

The period from now to the end of the first decade of the next century, during which we must properly fulfill two tasks, is crucial for China's modernization. One task is to establish the complete structure of a socialist market economy, and the other is to maintain the sustained, rapid, and sound development of our national economy. It is expected that in the last few years of this century, the Chinese economy will maintain a growth rate of more than 8 percent, while inflation will be kept under 5 percent. In the first 10 years of the next century, the Chinese economy will continue to grow at about 7 percent. So, with effort for another three to four decades, that is, by the middle of the next century, China will achieve all-around modernization and become a prosperous, democratic, and culturally advanced socialist country. We must actively promote a fundamental shift in both the economic structure and the mode of economic growth, continue to deepen reform, and effect breakthroughs in the reform and transformation of state-owned enterprises and the diversification of the forms of public ownership. According to the latest statistics, since the reform and the opening up, Sino-foreign joint ventures, which represent a form of mixed economy, have made marked progress, as they now make up 20 percent of China's total GDP, including 7 percent from the public economic elements of these joint ventures. Generally speaking, the mixed economic sector enjoys advanced technologies, scientific management, and high economic returns. In the course of the development of the mixed economy, the public sector has also made progress. We will implement a policy of national rejuvenation through science and education and a strategy of sustainable development, and we will achieve coordinated socioeconomic development and overall social progress. These goals are magnificent and, with hard work, entirely achievable. This is because we have already found the road of development suited to China's national conditions; we have secured a stable social and political situation; we have acquired a solid material and technological base; and we are possessed of a large market and rich resources. And, finally, we have 1.2 billion industrious and talented people.

Unswervingly carrying out its policy of opening up, China will work energetically to embrace the world by continuing to improve its all-directional, multilayered, and extensive pattern of opening up. The economic development of China is closely linked with that of the world. A prosperous Chinese economy needs a substantial absorption of advanced technologies, capital, and management expertise from abroad. To meet the needs under the new situation of reform, opening up, and economic development, the Chinese government has decided to further lower its tariff level by 26 percent in general and to adopt preferential policies on the access of new and high-tech equipment and practical advanced technologies to China. China's vast market and enormous growth potential will undoubtedly provide even more opportunities for its cooperation partners and instill vigor into global and regional economic development.

Mankind is about to enter the twenty-first century. Reviewing the past century, we see stupendous and far-reaching changes in the world scene. Having freed themselves from imperialist and colonialist domination and won national liberation and independence after centuries of foreign oppression and enslavement, developing countries find themselves now on the world stage with a completely new image and growing ranks. Thanks to their unremitting efforts of several decades, the overall strength of developing countries has increased remarkably, their international status has risen, and the prospects for their economic growth look promising. The rise of developing countries is a far-reaching event in the present-day world. It has smashed the monopoly on world affairs by a few countries and lent a powerful impetus to the movement toward a multipolar world.

We must not forget that 1.3 billion people in the developing world are still struggling in poverty. Economic disparities among countries are staggering as the gap between the rich and the poor continues to widen, and the unjust and inequitable international economic order still puts the interests of the developing countries in harm's way. If these problems remain unresolved, the developing countries cannot become developed, and neither can the existing developed countries sustain their growth. The world economy is an interrelated whole. As much as the developing countries need the developed countries, the developed countries cannot stand without the developing countries. To sustain their prosperity, the developed countries must have markets for their goods, outlets for their capital, and suppliers of the raw materials they need—for all of which they must look to the developing countries for answers. If the developing countries enjoy economic development and social stability, this will increase the capacity of the world market, create more commercial and job opportunities for all countries, and generate tremendous benefits. Conversely, if their economy is sluggish and society turbulent, there will be no peace and tranquility in the world. The prosperity and affluence of a small number of countries cannot last long on a foundation of poverty and backwardness of the majority countries. When we approach this issue, we must have in mind cross-century development and all of mankind.

Creating favorable conditions and helping developing countries achieve sustainable development is a shared responsibility of the international community and an important task of international financial institutions. In this connection, I would like to set forth six propositions of principle as follows:

First, full attention should be given to the urgent development needs of the developing countries. Since the end of the cold war, some people have not regarded development as a crucial issue. This view fails to consider the whole picture. In fact, the question of development bears on the future destiny of the world, which calls for proper attention. If the international community wants to concentrate on developing the economy in a peaceful and tranquil environment, then it cannot afford to ignore the reasonable demands of the developing countries and must attend to their concerns over finance, debt, trade environment, and poverty issues. The international community, developed countries in particular, should take a long-term view and adopt effective measures to meet their pledges of providing monetary and technical assistance to the developing countries so as to make appropriate contributions to their development.

Second, extensive cooperation should be conducted on the basis of quality and mutual benefit. There are about 200 countries in the world, and all of them—big or small, rich or poor, strong or weak—are equal members of the international community. Trade discrimination and exchanges of unequal values in economic relations should be opposed. Such practices as bullying the weaker or less fortunate by dint of one's power or wealth should not go unchecked; still less should countries be allowed to impose sanctions against others, or threaten to do so, at every turn. The developing countries are equally entitled to participate in the decisions and rules affecting the international economy.

Third, the right of every country to independently choose its social system, mode of development, and lifestyle should be respected. Countries differ from one another in historical background, social system, level of development, cultural tradition, and value system. Such diversity is a fact of life that we must face squarely. Indeed, we can very well regard these differences as something favorable for greater cooperation and exchanges if we can pursue common ground while reserving differences and refrain from interfering in each other's internal affairs. In no circumstances should any country be allowed to impose its social system and ideology on others. Assistance has always been mutual. And economic assistance must not be attached to any political conditions.

Fourth, countries should learn from each other and complement each other with their respective advantages. Both the developed and the developing countries have their own strengths and advantages. The developed countries are advanced in science and technology and strong in financial capital, while the developing countries are rich in natural and human resources and large in market potential. The economic interdependence between the two groups is increasing steadily. Faced with such increasingly serious global issues as environment, poverty, debt, and refugees, the two sides will find it hard to cope with the challenges unless they can learn from and complement each other and work together to bring about common prosperity.

Fifth, it is essential to choose a development road suited to one's own national conditions. True, developing countries need a favorable external environment in order to eliminate poverty and achieve economic takeoff. Yet in the final analysis, they must depend on their own efforts. Proceeding from their actual situation at home and in light of their needs and possibilities, the developing countries should work out effective domestic policies and actively conduct economic restructuring in response to shifting economic and technological trends in the world. At the same time, South-South cooperation in every field should be strengthened and North-South relations improved and further promoted.

Sixth, international cooperation in the financial field should be reinforced. Free flow of capital across national boundaries is a strong feature of the development of the world economy. It can facilitate absorption of capital by various countries but may also carry financial risks. Being prone to such risks, developing countries may also become easy targets for international financial speculation. Financial crises will do no country any good. The international community, international financial institutions included, should play a positive role in maintaining international financial stability.

The World Bank and the IMF, established half a century ago, have played a constructive role in promoting world economic growth, economic exchanges among countries, and economic and social progress of the developing countries. This we must affirm. At present, with the rapid advancement of science and technology and unprecedented expansion of economic cooperation, the world is moving toward multipolarity at an accelerated pace. The World Bank Group and the IMF, as the most influential multilateral financial institutions, will preserve their vigor and hold out a bright future only when they can undergo timely readjustments and reform in keeping with the new and shifting world situation and give expression to the reasonable demands of the developing countries.

Our world needs peace, countries want stability, the economy must develop, and society must make progress. This has become the trend of the times. Let us work together and make our due contribution to the lofty cause of world peace and development. In conclusion, I wish the Annual Meetings complete success.

ADDRESS BY THE CHIEF EXECUTIVE OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA[1]

Tung Chee-Hwa

Premier Li, Chairman Khirbash, Mr. Wolfensohn, Mr. Camdessus, Ministers, Governors, guests, ladies, and gentlemen, I have much pleasure in welcoming you, distinguished officials and guests from around the world. We are honored that China is the host of the 1997 Annual Meetings of the World Bank Group and the International Monetary Fund and delighted that the Hong Kong Special Administrative Region (SAR) is to act as the host city to you.

Hosting the Annual Meetings this year has a special meaning for Hong Kong SAR. We have just witnessed, on July 1, 1997, our reunification with the People's Republic of China. The presence of Premier Li and the distinguished guests of the international financial community signifies your strong support for Hong Kong SAR and underlines Hong Kong SAR's status as a leading international financial center. These prestigious meetings also provide a unique opportunity for our visitors and friends from all over the world to witness firsthand the pride and confidence, and the continuing prosperity and stability, of Hong Kong SAR under the framework of "one country, two systems."

July 1 has come and gone. We who live and work in Hong Kong SAR continue to work hard for an even more successful and prosperous future. All three branches of our political structure—the executive, the legislative, and the judiciary—have been functioning normally. There has been no change in our lifestyle, and our economy continues to grow. Indeed, recent surveys have shown that 78 percent of the Hong Kong people expressed confidence in Hong Kong SAR's future.

Hong Kong SAR has achieved remarkable success in the past few decades. Because of our strategic position, Hong Kong SAR has benefited greatly by an increasingly open and global trade and financial system. Part of Hong Kong's success is also as a result of our promotion of a free competitive environment, strict adherence to the rule of law, minimum bureaucracy, level playing field, and strong commitment against corruption—all provided and supported by an efficient civil service. Our conservative fiscal management and low and predictable tax structure have also contributed greatly to our stability and prosperity.

[1] Delivered at the Opening Joint Session, September 23, 1997.

All the above-mentioned critical success factors for Hong Kong SAR have been enshrined in the Basic Law. The fundamental reason for our confidence is, of course, the old promises of our Basic Law. It is a comprehensive document that was drafted together by people from both Hong Kong SAR and mainland China after some four years of consultation and discussion. The Basic Law provides a constitutional framework for the Hong Kong Special Administrative Region. It institutionalizes the concept of “one country, two systems.” It clearly prescribes the social, economic, and political systems in Hong Kong SAR, which are different from those in mainland China. It protects the rights, freedom, and lifestyle of the Hong Kong people. The Basic Law guarantees the independence of our judiciary and, apart from foreign affairs and defense, it gives us full responsibility to manage our own affairs. It allows us complete financial autonomy and the independence of our monetary system. It establishes Hong Kong SAR as a separate customs territory and enables us to work directly with the international community to curb trade in strategic commodities, drugs, and illegal transshipments, and to protect intellectual property rights. The Basic Law has also established the framework for the democratic evolution of our political structure over the first 10 years, with my election as Chief Executive in December 1996 and the election for the first Legislature scheduled for May 1999. Development beyond the 10-year period will be determined by the views of the people of Hong Kong SAR at that time. The political evolution will continue with universal suffrage as the ultimate objective.

Over the past two decades, Hong Kong SAR has transformed itself successfully from a manufacturing economy to a service economy. Today, more than 70 percent of our workforce is employed in the service sector, contributing to more than 80 percent of GDP. With a GDP per capita of $25,000, we are a leading international financial center.

Hong Kong SAR has achieved this status through the maintenance of sound economic policies. We are proud of our linked exchange rate regime, which remains unshakable despite turbulence in the region. Today we have over $85 billion in foreign exchange reserves, of which about $50 billion constitutes fiscal reserves, with no external debt. Our fiscal surplus this year will exceed 2 percent of GDP, our savings rate continues to exceed 30 percent, and in the past 10 years, we exported on average more than 5 percent of GDP in domestic savings.

These sound fundamentals underline our approach to our role regionally and globally. Hong Kong SAR’s linked exchange rate regime is the anchor of our monetary and financial stability. We do not intend to compete internationally on the basis of exchange rate adjustment. We compete equally and fairly in terms of private sector productivity and public sector efficiency. Our open markets, free trade, and sound finance are the hallmarks of Hong Kong SAR.

Hong Kong SAR has benefited greatly from its strategic position at the heart of the fastest-growing region in the world, an Asia that is increasingly more open to global trade and investments. Asia may be going through a period of consolidation, but I am confident that many of the countries that have suffered from the recent turmoil in the financial market will soon be on a rebound. The continuing rapid growth and development in many parts of Asia will bring new opportunities to Hong Kong SAR.

We are gathered here today for a common objective—international economic and monetary cooperation to achieve stable global development, prosperity, and stability. As an international financial center, Hong Kong SAR is a living symbol of that cooperation. Hong Kong SAR will play its role as a good neighbor in promoting monetary and economic cooperation in the region and internationally. This is clearly shown in our recent $1 billion participation in the Thai adjustment package, led by the IMF; in the New Arrangements to Borrow; and in our recent membership in the Bank for International Settlements and the World Trade Organization.

Hong Kong SAR has enjoyed great prosperity over the past two decades. The extraordinary economic success of mainland China over this period has been a particularly important driving force behind our success. The Fifteenth National Congress, which was recently concluded in Beijing, has reaffirmed and ensured the path of development for China for years to come. Indeed, as we move into the twenty-first century under visionary leadership, China will become more prosperous and more open, and China's economy will become one of the largest in the world. Hong Kong SAR, with its access to, knowledge of, and expertise in the global financial market, and its position as the primary gateway to China, looks forward to both taking advantage of and contributing toward the development of our country. China's emergence is one of the most important events in the twenty-first century. We in Hong Kong SAR are proud to play an important role in this historic time.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS, AND GOVERNOR OF THE BANK AND THE FUND FOR THE UNITED ARAB EMIRATES

Mohammed K. Khirbash

I am honored, on behalf of the United Arab Emirates, to chair these 1997 Annual Meetings of the World Bank Group and the International Monetary Fund. I would like to thank the government of China and the people of Hong Kong for their generous hospitality in this beautiful city in this historic year.

I am particularly honored to chair this year's meetings, because I represent a member country that deeply believes in the Bretton Woods system and in effective international cooperation. My country, along with other Arab donor countries, has demonstrated a firm commitment to international cooperation by extending substantial aid, grants, and concessional assistance to developing countries.

We applaud the active role of the Bretton Woods institutions and other multilateral groups in helping to foster increased prosperity, which will improve standards of living worldwide, particularly for those living in poverty. Growth and prosperity are difficult to sustain without peace and stability. In this context, the advancement of the peace process in the Middle East constitutes an urgent international objective.

We meet in Hong Kong as we stand at the threshold of a new millennium. How will we make the transition to the twenty-first century? As Governors of the Bank and the Fund, we have a critical responsibility to ensure that the state of current events does not prevent us from preparing for the demands of the future. The Bretton Woods institutions have to adapt to rapidly changing circumstances. The same is true for our countries and economies.

The success of these two institutions is largely a function of their ability to bring about a remarkable degree of consensus and productive action. Debate among different views leads to better policies, better projects and programs, and, most important, better "results on the ground." The world economic environment remains broadly favorable for the achievement of our objectives. Most countries are achieving growth, with increased attention to investing in people and with an increased concern for the environment.

The IMF's projections show that world output will expand by 4.4 percent in both 1997 and 1998. The quality of this growth is sounder and more sustainable than it has been in a generation, largely as a result of sound economic and financial policymaking. Growth has been accompanied by low and declining inflation, thanks to prudent fiscal and monetary policies and more liberal trade policies. The continued vigorous and well-balanced economic performance of the United States, with low inflation and unemployment, and the improving growth prospects in Europe and Japan bode well for the continuity and sustainability of global growth.

Developing countries and economies in transition have become more active participants in global economic change. The accelerated integration of world markets for goods, services, and capital over the past decade has increased growth in many developing countries, albeit at significantly different rates. Overall economic performance in the Middle East and Africa has improved as a result of the acceleration of economic reforms. The fastest growing regions—South and East Asia and Latin America—are being incorporated into the international capital markets and trade system at the fastest pace, although many countries in other regions are lagging behind.

The countries best placed to benefit from globalization are those adapting to change and transforming their policies and structures to support more market-based, outward-oriented growth. Growth and integration are mutually reinforcing. Both depend, however, on the quality of policies and on the institutional and human capacity that support them. Many countries still lack the institutional and administrative capacity to formulate and implement the effective policies that are necessary in an increasingly integrated world economy.

The task ahead, for our countries and for the Bretton Woods institutions, is to accelerate our efforts to achieve sustained growth and harmonious development, so that all may share in the benefits of globalization.

The wide-ranging economic problems of our member countries will require various solutions. Let me take a moment to tell you how my country has prepared itself for participation in the global economy.

As the twentieth century draws to a close, the United Arab Emirates seeks to consolidate the policies that have enabled it to achieve high real annual GDP growth rates, which now average about 6 percent.

The United Arab Emirates adopted a growth strategy that focuses on substantial expansion of both upstream and downstream activities in the oil and gas sector while at the same time promoting activities directed toward diversification through consolidation of the country's dynamic non-oil sector and promotion of higher levels of private sector investment. The government's large investment in infrastructure, power generation, industrial parks, and free trade zones have already played a major part in attracting private sector investment in an increasing number of manufacturing industries. At the heart of these policies lies a strong commitment to an open economic system, liberal trade and exchange policies, a stable currency, and low inflation.

This environment has proved conducive to the development of a private sector—which is active in a number of non-oil sectors—and to the creation of a modern and sound banking system. It has also provided the foundation for further economic diversification. Our development strategy has continued to emphasize education and health, as we recognize the importance of our human resources in sustaining growth.

The United Arab Emirates is now in a good position to meet the challenges ahead and will continue to implement its open economic policy. In so doing, it shares the benefits that should follow from recent trends of greater world economic integration.

The United Arab Emirates firmly believes in international cooperation and continuously supports the efforts of the developing countries. The United Arab Emirates has a long-standing policy of providing official development assistance to the developing countries in the form of grants and untied concessional loans. Such assistance amounted to Dh 90 billion by the end of 1996, which represents an annual average rate of about 3.5 percent GDP a year.

My central thought today is that all participants in the global economy must adapt to the changing realities of an increasingly interdependent world economy. Adaptability must be the hallmark of our work. This is not change for the sake of change. As we seek answers to new questions and as we evaluate our approaches to difficult problems, we are required to change in ways that increase efficiency, minimize costs, and bring increased benefits to our own people and the rest of the world. Many countries have come to recognize the important role of the private sector in contributing to the achievement of higher economic rates of growth.

The Bank and the Fund are becoming more effective and forward looking. Increasingly, they are working in a complementary fashion as they adapt to the changing needs of member countries. Let me highlight three areas where a strengthened common effort is making a significant difference: financial sector cooperation, governance, and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

Regarding financial sector cooperation, substantial progress has been made. Enhanced collaboration will ensure that financial sector problems are promptly identified and that each institution takes the lead in its areas of primary concern. In areas of mutual interest, duplication of activity should be avoided.

The ability of the Bank and the Fund to adapt to changing circumstances is evident in their approach to the issues of governance. Promoting transparency, accountability, and institutional capacity is critical to successful, sound, and equitable development. The Bank and the Fund are increasingly able, within their areas of competence and respective mandates, to assist a growing number of member countries to tackle corruption and develop effective administrative and financial systems.

My fellow Governors, the Fund's and the Bank's role on issues related to governance should contribute to the achievement of effective development.

A concrete example of enhanced Bank-Fund cooperation is the HIPC Initiative, which is a striking development and a radical departure from past attempts to address the debt problems of these countries in a comprehensive fashion, including debt owed to multilateral institutions. We look forward to the continued expeditious implementation of this initiative and to further transfers of concessional resources to developing countries. We also applaud the leadership shown by the Bank and the Fund and the support of other creditors, such as the Paris Club.

As shareholders in the Bank and the Fund, we should be proud of what these international institutions, working on behalf of all their members, are able to do as they adapt to ever-changing needs and circumstances.

Under James Wolfensohn's leadership, the World Bank Group—the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—is making significant progress on a number of fronts.

The World Bank has embarked on a comprehensive program of reform and renewal. The framework is embodied in the Strategic Compact between the Bank Group and its shareholders. The President will provide you with his view of the changes. I am sure I speak for all shareholders in expressing strong support for the fundamental objective of the Compact, which is to achieve greater effectiveness and efficiency in the Bank's basic mission—to reduce poverty—by delivering better products and services to its clients. Now that the Compact has been endorsed by the Bank's shareholders, the Bank must continue to move toward its quick implementation, for it is only then that shareholders will witness the real benefits. The Bank's Executive Directors will be monitoring developments closely, which should also provide opportunities for mid-course corrections when necessary.

We are also pleased to see that the Bank is adapting to the increasing number of countries seeking support for post-conflict reconstruction. This forms a growing part of the Bank's work, much of which entails rebuilding infrastructure, but which also prompts economic adjustment and recovery to address social sector needs and to build capacity.

Supporting private sector development is a large part of the Bank's overall strategy to promote sustainable growth, reduce poverty, and integrate countries in the global economy. The Bank is encouraging greater coordination at the policy, country, sector, and project levels and is improving outreach and partnerships with the international business community. The initiative known as “Extending IFC’s Reach” encourages private investment in selected countries where difficult conditions have constrained the IFC’s activities and programs.

The MIGA’s considerable success in promoting foreign direct investment is making an important contribution to development. The MIGA’s portfolio has grown rapidly, as is evident in its continuous stream of applications. We welcome the consensus that was reached regarding MIGA’s capital increase.

Turning to the IMF, Governors will join me in welcoming the initiatives taken by the Fund, under the leadership of Michel Camdessus, to strengthen its effectiveness in the aftermath of the Mexican crisis of 1994. These included strengthened surveillance and more effective financial support to member countries. The events of recent months affecting Thailand and other countries have tested the Fund’s ability to provide quick assistance to members in need. I am sure that Governors will join me in commending the Fund’s rapid and decisive assistance to Thailand and the Philippines. Nevertheless, the Fund must further improve its ability to serve its members. It must also constantly adapt to a changing world.

I welcome the Fund’s work on issues related to capital movements. The growth of international capital markets is bringing major benefits to member countries, but recent events in Asia have again shown the dangers. The challenge facing the Fund is to help members maximize the gains while managing and minimizing the associated risks. It can best do this by fostering the liberalization of capital movements in ways that are consistent with a sound international financial system. I hope that Governors will join me in encouraging the IMF’s Executive Board to make rapid progress toward an appropriate amendment of the Articles of Agreement.

Governors will also join me in welcoming the breakthrough in the negotiations for a new allocation of SDRs and for an increase in quotas under the Eleventh General Review. With respect to the SDR allocation, the resolution that is before the Governors for adoption during these Annual Meetings represents a reasonable compromise: it equalizes the ratios of quotas and SDRs for all members and addresses the issue of equity for those member countries that have not participated in previous allocations. I encourage Governors to adopt this resolution. With agreement now having been reached in the IMF’s Executive Board on the quota increase, we hope that procedures will soon be put in place to allow the new quotas to become effective as soon as possible. With strengthened resources and new initiatives, we will expect the Fund to play its role with increased effectiveness in the period ahead.

We live in a dynamic world in which the need for adaptability to change within a sound framework is paramount for success. This is true for each of our individual countries and for the two institutions that are responsible for ensuring international monetary stability and promoting economic development.

In conclusion, I would like to recite a verse from the Holy Koran:

> "Mankind! We created
> You from a single (pair)
> Of a male and a female,
> And made you into
> Nations and tribes, that
> Ye may know each other.
> (Not that ye may despise
> Each other). Verily
> The most honored of you
> In the sight of God
> Is (he who is) the most
> Righteous of you.
> And God has full knowledge
> And is well acquainted
> (With all things)."

I now declare the Fifty-Second Annual Meetings of the World Bank Group and the International Monetary Fund open.

OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP[1]

James D. Wolfensohn

The Challenge of Inclusion

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund. I am also delighted to be in Hong Kong. This beautiful and bustling city, which I have visited regularly for 40 years, exemplifies the openness, dynamism, and optimism of so much of Asia today. So does our meeting here in this magnificent conference center, where everything has been done impeccably. I would like to express my thanks to our hosts, the government of China.

China's success has been truly remarkable. Less than a generation ago, 8 in 10 Chinese eked out an existence by tilling the soil for less than $1 a day. One adult in three could neither read nor write. Since then, 200 million people have been lifted out of absolute poverty, and illiteracy has fallen to less than 1 in 10 people. China is our largest borrower, one of our most valued shareholders, and home to more than one-fourth of our clients. I am delighted that our partnership continues to strengthen.

Mr. Chairman, this is the third time that I address you as President of the World Bank Group—the third time I have the opportunity to express my deep gratitude to my friend Michel Camdessus, whose collaboration over the past two-and-a-half years has been so invaluable to me. We work ever more closely together, and I continue to benefit from his great experience and judgment.

From the beginning, one of my priorities has been to take the pulse of development firsthand. I have now visited almost 60 countries. I have met with governments, parliamentarians, and members of the private sector. I have talked with national and international nongovernmental organizations (NGOs) on subjects ranging from women's issues to the environment, from health to the impact of macroeconomic reform.

Wherever I go, I continue to be impressed by the people we serve—by their strength, their energy, and their enterprise—even in the most abject conditions; by the hundreds of thousands disadvantaged by war; by the millions of children without families condemned to live on the streets; by the disabled shut out from any kind of social support; and by the plight of the poorest.

[1] September 23, 1997.

Today our clients number 4.7 billion people in more than 100 countries. Three billion live on less than $2 a day. One billion three hundred million live on less than $1 a day. One hundred million go hungry every day; one hundred and fifty million never even get the chance to go to school.

But whether they live on the plains or in the valleys, whether they live in slums or isolated villages, whether they speak Hindi, Swahili, or Uzbek, they have one thing in common: They do not want charity. They want a chance. They do not want solutions imposed from without. They want the opportunity to build from within. They do not want my culture or yours. They want their own. They want a future enriched by the inheritance of their past.

I have learned that people are the same wherever they are—here in this room and across the world. We all want the best for our children and our families. We all want peace and economic and physical security. We all want to live in a supportive community. We all want personal dignity.

This was vividly brought home to me six months ago, when I visited a large water and sanitation project that the Bank is supporting in the favelas in Brazil. The project, which is now self-sustaining, brings together the local community, the private sector, and NGOs.

With my host, the Vice-Governor of the State of Rio, I went from one makeshift home to the next, talking with the women who live there and who used to carry the water on their shoulders from the bottom of the hillside to their dwellings at the top. One after the other, they proudly showed me their running water and flushed their toilets and told me how the project had transformed their lives.

And as I walked around, more and more of the women came up to me displaying pieces of paper showing charges and receipts for 5 or 7 cruzeiros a month. I watched and listened to this until the Vice-Governor said, “What they’re showing you, Jim, is that this is the first time in their lives that their names and addresses have appeared on an official notice. This is the first time their existence has been officially recognized. This is the first time that they have been included in society. With that receipt they can get credit to purchase goods; with that receipt they have recognition and hope.”

As I walked back down the hill from that favela, I realized that this is what the challenge of development is all about—inclusion. Bringing people into society who have never been part of it before. This is why the World Bank Group exists. This is why we are all here today: to help make it happen for people.

The State of Development Circa 1997

Where are we in terms of “making it happen” in 1997? In many ways, this is the *best of times* for developing countries: Output grew last year by

5.6 percent—the highest rate in 20 years. Foreign direct investment exceeded $100 billion—the most ever; private capital flows now total $245 billion—five times official development assistance. And developing countries are projected to enjoy continued strong growth over the next 10 years.

Social indicators are also improving. Life expectancy has risen more in the past 40 years than in the previous 4,000. And freedom is blossoming. Today nearly two in three countries use open elections to choose their national leadership, and 5 billion people live in a market economy—up from 1 billion, 10 years ago.

There is also much good news regionally: Reform programs in Eastern European and Central Asian countries continue to advance, and prospects for accession to the European Union now look promising for several countries in the region. There is real progress in sub-Saharan Africa, with new leadership and better economic policies. There was GDP growth of 4.5 percent in 1996, up from 2 percent two years ago.

In the Middle East and North Africa, despite political problems, efforts continue to boost regional trade and investment, improve competitiveness, and expand economic opportunity. In Latin America—countries have emerged from the "tequila crisis," with their earlier gains against hyperinflation fully intact.

In East Asia, despite recent turbulence in financial markets, we still expect long-term growth and poverty reduction to be strong. In South Asia, home to 35 percent of the developing world's poor, growth rates over the past several years have approached 6 percent.

This all adds up to much to celebrate, but there is also much to lament. Yes the glass is half full, but it is also half empty. Too many people are not enjoying the fruits of success: here in East Asia, where, despite the "miracle," inequities between rural and urban areas and between the skilled and the unskilled are becoming more widespread; in the countries of the former Soviet Union, where the old and the unemployed have become more vulnerable amidst the turbulence caused by the transition from command to market economies; and in parts of Latin America, where problems of land-ownership, crime, drug-related violence, unequal access to education and health care, and enormous disparities in income hinder progress and threaten stability in many of the world's poorest countries, where population growth continues to run ahead of economic growth, eroding living standards. The deeper tragedy is that the glass is almost totally empty for too many. Indeed, for too many, it is the *worst of times,* as huge disparities persist across and within countries.

In too many countries, the poorest 10 percent of the population has less than 1 percent of the income, while the richest 20 percent enjoy over half. In too many countries, girls are still only half as likely as boys to go to school. In too many countries, children are impaired from birth because of malnutrition, inadequate health care, and little or no access to early childhood development programs. In too many countries, ethnic minorities face discrimination and fear for their lives at the hands of ethnic majorities.

What we are seeing in the world today is the tragedy of exclusion.

The Challenge Ahead

Our goal must be to reduce these disparities across and within countries, to bring more and more people into the economic mainstream, and to promote equitable access to the benefits of development regardless of nationality, race, or gender. This—the challenge of inclusion—is the key development challenge of our time.

You, I, and all of us in this room—the privileged of the developing and the developed world—can choose to ignore it. We can focus only on the successes. We can live with a little more crime, a few more wars, air that is a little bit dirtier. We can insulate ourselves from whole sections of the world for whom crisis is real and daily but to the rest of us is largely invisible.

However, we must recognize that we are living with a time bomb, and unless we take action now, it could explode in our children's faces. If we do not act, in 30 years the inequities will be greater. With population growing at 80 million a year, instead of 3 billion living on less than $2 a day, the figure could be as high as 5 billion. In 30 years, the quality of our environment will be worse. Instead of 4 percent of tropical forests lost since Rio, it could be 24 percent. In 30 years, the number of conflicts may be higher. Already we live in a world that last year alone saw 26 interstate wars and 23 million refugees. One does not have to spend long in Bosnia and Herzegovina, or Gaza, or the lakes district in Africa to know that without economic hope, we will not have peace. Without equity, we will not have global stability. Without a better sense of social justice, our cities will not be safe and our societies will not be stable. Without inclusion, too many of us will be condemned to live separate, armed, and frightened lives.

Whether you broach it from the social, economic, or moral perspective, this is a challenge we cannot afford to ignore. There are not two worlds; there is one world. We breathe the same air. We degrade the same environment. We share the same financial system. We have the same health problems. AIDS is not a problem that stops at borders. Crime does not stop at borders. Drugs do not stop at borders. Terrorism, war, and famine do not stop at borders. Economics is fundamentally changing the relationships between the rich and the poor nations. Over the next 25 years, growth in China, India, Indonesia, Brazil, and Russia will likely redraw the economic map of the world, as the share in global output of the developing and transition economies doubles. Today these countries represent 50 percent of the world population but only 8 percent of the GDP. Their share in world trade is one-fourth of the European Union's. By the year 2020, their share in world trade could be 50 percent more than that of Europe.

We share the same world, and we share the same challenge. The fight against poverty is the fight for peace, security, and growth for us all.

How then do we proceed? This much we know: no country has been successful in reducing poverty without sustained economic growth. Those countries that have been most successful—including most notably many here in East Asia—have also invested heavily in their people, have put in place the right policy fundamentals, and have not discriminated against their rural sectors. The results have been dramatic: large private capital inflows, rapid growth, and substantial poverty reduction.

The message for countries is clear: educate your people; ensure their health; give them a voice and justice, financial systems that work, and sound economic policies; and they will respond, save, and attract the investment—both domestic and foreign—needed to raise living standards and fuel development.

However, another message is also emerging from recent developments. We have seen in recent months how financial markets are demanding greater information disclosure and making swift judgments about the quality and sustainability of government policies based on that information. We have seen that, without sound organization and supervision, a financial system can falter, with the poor hurt most. We have seen how corruption flourishes in the dark, how it prevents growth and social equity, and how it creates the basis for social and political instability.

We must recognize this link between good economic performance and open governance. Irrespective of political systems, public decisions must be brought right out into the sunshine of public scrutiny—not simply to please the markets, but to build the broad social consensus without which even the best-conceived economic strategies will ultimately fail.

The Development Community

How can we in the broader development community be most effective in helping with the enormous task ahead?

It is clear that the scale of the challenge is simply too great to be handled by any single one of us. Nor will we get the job done if we work at cross-purposes or pursue rivalries that should have been laid to rest long since. Name-calling between civil society and multilateral development institutions must stop. We should encourage criticism, but we should also recognize that we share a common goal, and we need each other. Partnership, I am convinced, must be a cornerstone of our efforts, and it must rest on four pillars.

First and foremost, the government and the people of developing countries must be in the driver's seat—exercising choice and setting their own objectives for themselves. Development requires too much sustained political will to be externally imposed. It cannot be donor-driven. However, what we as a development community can do is help countries by providing financing, but even more important, by providing knowledge and lessons learned about the challenges and how to address them. We must learn to let go. We must accept that the projects we fund are not donor projects or World Bank projects—they are Costa Rican projects, or Bangladeshi projects, or Chinese projects. Development projects and programs must be fully owned by *local* stakeholders if they are to succeed. We must listen to those stakeholders.

Second, our partnerships must be inclusive—involving bilaterals and multilaterals, the UN, the European Union, regional organizations, the World Trade Organization, labor organizations, NGOs, foundations, and the private sector. With each of us playing to our respective strengths, we can leverage up the entire development effort.

Third, we should offer our assistance to all countries in need, but we must be selective in how we use our resources. There is no escaping the hard fact that more people will be lifted out of poverty if we concentrate our assistance on countries with good policies than if we allocate it irrespective of the policies pursued. Recent studies confirm what we already knew intuitively—that in a good policy environment, development assistance improves growth prospects and social conditions, but in a poor policy environment, it can actually retard progress, by reducing the need for change and by creating dependency.

I want to be very clear on this point: I am not espousing some Darwinian theory of development, whereby we discard the unfit by the wayside; quite the contrary. Our goal is to support the fit, and to help make the unfit fit. This is all about inclusion.

In Africa, for example, a new generation of leaders deserves our strongest possible support for the tough decisions they are taking; they have vast needs and a growing capacity to use donor funds well in addressing them. We must be there for them. It is an economic and a moral imperative.

However, where aid cannot be effective because of bad policy, corruption, or weak governance, we need to think of new ways to help the people—not the old technical-assistance approaches of the past that relied too heavily on foreign consultants, but helping countries help themselves by building their own capacity to design and implement their own development.

Finally, all of us in the development community must look at our strategies anew. We need that quantum leap that will allow us to make a real dent in poverty. We need to scale up and to think beyond individual donor-financed projects to larger country-led national strategies, and beyond that, to regional strategies and systemic reform.

We need approaches that can be replicated and customized to local circumstances—not one agricultural project here or one group of schools there, but rural and educational country strategies that can help the Oaxacas and the Chiapas of this world as well as the Mexico Cities.

We need to hit hard on the key pressure points for change—social and human development, rural and environmental development, and financial and private sector development. Moreover, we need to remember that educating girls and supporting opportunities for women—health, education, and employment—are crucial to balanced development.

In the struggle for inclusion, this all adds up to a changed bottom line for the development community. We must think about results—about how to get the biggest development return from our scarce resources. We must think sustainability—about how to have enduring development impact. We must think equity—about how to include the disadvantaged. We must focus not on the easy projects, but on the difficult—in northeast Brazil, in the Gangetic Plain in India, and in the horn of Africa. Projects there will be riskier, yes. But success will be worth all the more in terms of including more people in the benefits of development—and giving more people the chance of a better life.

The World Bank Group

How is the Bank Group responding to the challenge of inclusion? Last year, I said that if the Group were to be more effective, it needed to change—to get closer to our clients' real needs, to focus on quality, and to be more accountable for the results of our work. This year, I want to tell you that it is happening. Not only is the Bank changing, but also the need for change is now fully accepted. I know—and you know—that the Bank has tried to change before, but there has never been this level of commitment and consensus. We are building on the mission statement articulated by my predecessor, Lew Preston, whose untimely death made it impossible for him to implement his plans.

Earlier this year, we launched an action program—the Strategic Compact—to renew our values and commitment to development, and to improve the Bank's effectiveness. I believe the Compact is historic. Not because there is agreement on every paragraph of the document, but because staff, management, and shareholders—with terrific support from our Executive Directors—are now united on the future direction of the institution.

While we still have a long way to go, and while change is painful—and some people are undoubtedly feeling that pain—implementation is well under way. I really believe that this time we can succeed. And we will succeed because of our truly remarkable and dedicated staff. I do not believe a better development team exists, nor one with more experience in fighting poverty.

However, the Compact is not primarily about our organization and internal change. It is about our *clients* and meeting their needs more effectively. To take this beyond rhetoric, we have decentralized aggressively to the field. By the end of this month, 18 of our 48 Country Directors with decision-making authority will be based in the countries they serve—compared with only 3 last year.

We have speeded up our response time and introduced new products, such as the Single Currency Loan and loans for innovative projects of $5 million or less that can be implemented very quickly.

Working with Michel Camdessus and our colleagues in the IMF—as well as with many other partners—we have prepared debt-reduction packages worth about $5 billion, for six heavily indebted countries under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). That is not bad for an effort that did not even have a name 18 months ago. And we are moving speedily ahead to help other HIPC countries.

The New Bank is committed to quality. We have put in place reinvigorated country management teams, with 150 new managers selected over the past six months—and rigorous training and professional development programs have been introduced for all staff. The International Finance Corporation (IFC) has also made major changes in management and is decentralizing to the field.

We have improved the quality of our portfolio, and, as a result, our disbursements reached a record level last year of $20 billion. The quality of all our work is being enhanced by the progress we have made toward becoming a "Knowledge Bank." We have created networks to share knowledge across all regions and all major sectors of development. Our Economic Development Institute is playing a leading role in this area. Last June, in Toronto, working with the Canadian government and many other sponsors, the institute brought together participants from over 100 countries, for the first Global Knowledge conference.

My goal is to make the World Bank the first port of call when people need knowledge on development. By the year 2000, we will have in place a global communications system with computer links, videoconferencing, and interactive classrooms, affording our clients all around the world full access to our information bases—the end of geography as we at the Bank have known it.

We are also promoting increased *accountability* throughout the Bank Group. We have developed a corporate scorecard to measure our performance. We are closely monitoring compliance with our policies and continuing to work to improve the inspection process by making it more transparent and effective. Moreover, we are designing new personnel policies that explicitly link staff performance to pay and promotion.

We are also emphasizing accountability in the dialogue with our clients. Last year I highlighted the importance of tackling the cancer of corruption. Since then, we have issued new guidelines to staff on how to deal with corruption—including ensuring that our own processes meet the highest standards of transparency and propriety. We have also begun working with the first half-dozen of our member countries to develop anticorruption programs.

My bottom line on corruption is simple: if a government is unwilling to take action despite the fact that the country's development objectives are undermined by corruption, then the Bank Group must curtail its level of support to that country. Corruption, by definition, is exclusive; it promotes the interests of the few over the many. We must fight it wherever we find it.

However, key to meeting the challenge of inclusion is ensuring not only that we do things right, but also that we do the right things. Earlier, I mentioned the strategic pressure points of change. Let me say a few words about what we are doing in each of these areas.

First, in the area of human and social development, we are mainstreaming social issues—including support for the important role of indigenous culture—into our country assistance strategies, so that we can better reach ethnic minorities, households headed by women, and other excluded groups. We are participating in programs designed by local communities to address pervasive needs—such as the EDUCO basic literacy program in El Salvador and the District Primary Education Program in India—and these programs are being replicated by other countries. We are increasing our support for capacity building—particularly the comprehensive program initiated by the African countries last year.

Second, regarding sustainable development, in the rural sector, which is home to more than 70 percent of the world's poor, we have completed a major rethinking of our strategy. Lending is now up after many years of decline, supporting innovative programs such as the new market-based approach to land reform in Brazil. We are also supporting our clients' efforts to address the brown environmental issues—clean water and adequate sanitation—that are so often neglected but are so important for the quality of the poor's everyday lives. In addition, through the Global Environment Facility, the Global Carbon Initiative, and a new partnership with the World Wildlife Fund to protect the world's forests, we are continuing to advance the global environmental agenda.

Third, with regard to the private sector, we are capitalizing on the synergies between the Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA) and coordinating our activities under a single client-focused service "window." Across the Bank Group, we are building up our work on regulatory, legal, and judicial reform designed to help create environments that will attract foreign and domestic private capital. We are using IBRD guarantees to help support policy changes and mitigate risk, and we are expanding the International Development Association's (IDA) product line to help poor countries develop their private sectors and become full participants in the global economy. Meanwhile, IFC is working in 110 countries, and in more sectors, employing more financial products than ever before. Last year saw $6.7 billion in new approvals in 276 projects. Its Extending the Reach Program is targeting 33 countries and regions that have received very little private sector investment. Again, the goal is clear: to bring more and more marginalized economies into the global marketplace. The Multilateral Investment Guarantee Agency, too, is playing an active and enhanced role. Last year it issued a record 70 guarantee contracts for projects in 25 developing countries, including 11 countries where it has not worked before. I am delighted that yesterday the Development Committee agreed to an increase in MIGA's capital that will allow it to continue to grow.

My fourth "pressure point" is the financial sector—brought sharply into focus by recent events in this region. Here, too, we are scaling up our work in coordination with the IMF and the regional development banks for the simple reason that when the financial sector fails, it is the poor who suffer most. It is the poor who pay the highest price when investment and access to credit dry up, when workers are laid off, and when budgets and services are cut back to cover losses.

However, success in the financial sector requires much more than the announcement of new policies or financial packages pulled together when crisis hits. This is why we are expanding our capacity for banking and financial system restructuring, not just for the middle-income countries, but taking on the larger task of financial sector development in low-income countries. For those countries, home to the world's 3 billion poorest people, IDA remains the key instrument for addressing the challenge of inclusion. I will be coming back to you in due course to seek your support for the twelfth replenishment of IDA.

Conclusion

I believe we have made considerable progress in putting our own house in order in preparation for the challenges of the new millennium. The year 1997 has been one of significant achievement. We must push ahead with this process. We must ensure that we deliver next year's work program, that we strengthen the project pipeline and increase the resources going directly to the front line. And we must implement our recently completed cost-effectiveness review.

But the time has also come to get back to the dream, the dream of inclusive development. We stand at a unique moment in history when we have a chance to make that dream a reality. Today we have unprecedented consensus on the policies that need to be put in place for sustainable and poverty reducing growth. Today we have clear and unambiguous evidence of the economic and social linkages between the developing and the industrialized worlds. Today we face a future where unless we take action our children will be condemned to live in a degrading environment and a less secure world. All we need today is the determination to focus on tomorrow and the courage to do it now.

As a development community we face a critical choice. We can continue business as usual, focusing on a project here, a project there, all too often running behind the poverty curve. We can continue making international agreements that we ignore. We can continue engaging in turf battles, competing for the moral high ground.

Or we can decide to make a real difference. However, to do that, we need to raise our sights. We need to forge partnerships to maximize our leverage and our use of scarce resources. We need to scale up our efforts and hit hard in those areas where our development impact can be greatest.

We at the Bank Group are ready to do our part, but we cannot succeed alone. Only if we work together will we make a dent. Only if we collectively change our attitude will we make that quantum leap. Only if, in board rooms, ministries, and city squares across the globe, we begin to recognize that ultimately we will not have sustainable prosperity unless we have inclusion, will we make it happen.

Let me end where I began: in that favela in Brazil. What I saw in the faces of the women there, I have also seen on the faces of women in India showing me passbooks for savings accounts. I have seen it on the faces of rural cave dwellers in China being offered new productive land. I have seen it on the faces of villagers in Uganda, able for the first time to send their children to school because of the private profit they can now make through rural extension schemes.

The look in these peoples' eyes is not a look of hopelessness. It is a look of pride, of self-esteem, of inclusion. These are people who have a sense of themselves, who have a sense of tradition, who have a sense of family. All they need is a chance.

Each one of us in this room must take personal responsibility for making sure they get that chance. We can do it. For the sake of our children, we must do it. Working together, we will do it.