



**DEVELOPMENT COMMITTEE**  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



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Statement by

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

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Mr. Li Yong, Vice Minister of Finance,  
The People's Republic of China  
at the 77<sup>th</sup> Meeting of the Development Committee**

**April 13, 2008, Washington D.C. USA**

We welcome the Global Monitoring Report submitted to the Development Committee and the discussion of the two important issues of overcoming poverty in the poorest countries, and fragile and post-conflict countries. I would like to make some comments on these two topics and related issues.

## **I. Overcoming poverty in the poorest countries**

### **1. Achieving the Millennium Development Goals**

We are at the midterm of the road towards MDGs, while challenges remain enormous for their full achievement. At current stage, the shortage of development financing remains the core constraint against the expected progress in MDGs. The developed countries should take concrete steps to undertake their obligations, to increase the core development assistance, and to scale up their ODA-to-GNI ratio to the UN goal of 0.7 percent.

The full achievement of MDGs depends heavily on the progress in the least developed countries, especially those in Africa. In this regard, the international community should focus on addressing the critical constraint on their economic growth, promote the development of productive sectors like infrastructure, agriculture, and industries, and help the countries usher in a benign circle of growth, poverty reduction and development.

### **2. Growth Strategies**

To promote the economic growth of the poorest countries, attentions should be paid to the balance in the following three aspects:

- Keep the balance between the software and hardware. While improving the domestic policy and institutional environment, it is important to stress the input into the productive sectors, especially the bottleneck areas such as infrastructure and agriculture.
- Keep the balance between the public and private sector. The public sector should play a leading and supplementary role when the private sector is yet to be fully developed.
- Keep the balance between short-term growth and long-term development. Sustainable development should be achieved by promoting economic growth while maintaining the sustainability of environment and social development.

Economic growth depends on a fair and stable international environment. It requires an international trading system which provides equal opportunities for all parties to benefit. It calls for a stable and orderly international financial and monetary system, and a global economic system which facilitates the free flow of all production factors including labor and technology. This is the prerequisite for the global common development.

South-South Cooperation and Regional Cooperation are effective ways and means to promote growth. They not only expand development financing, and trade and investment opportunities, but also enable the developing countries to directly learn from each other the proven development experiences. The Bank and IMF should take full advantage of their strengths to promote the South-South Cooperation and Regional Cooperation. Meanwhile, it should be pointed out that South-South Cooperation is a complement to the North-South Cooperation rather than an alternative. The developed countries should fulfill their commitment under the UN development aid framework, increase their aid level, and help effectively the developing countries achieve the MDGs.

## **II. Fragile Situations and Post-conflict States**

We support the Bank's effort to promote capacity building and social development in fragile and post-conflict countries from the economic perspective by utilizing its comparative advantage. The Bank should proceed its related work under the context of the UN framework. In dealing with politically sensitive fragile and posts-conflict countries, the Bank should adhere to its mandate set forth in its Articles of Agreement and play its role according to the political consensus led by the UN.

We support the Bank's work in promoting the economic development and poverty reduction in fragile and post-conflict countries through improving government and institutional capacity-building. Meanwhile, we hope that the Bank will also provide direct support to these counties for their productive sectors such as infrastructure to facilitate an early achievement of MDGs.

## **III. World Economic Situation**

Since the sub-prime crisis, there has been a persistent depreciation of US dollars, turmoil in international financial market and notable slow down of the world economic growth. The main characteristics include the dual risks of growth slow-down and higher inflation expectations in major developed economies, price rise of major commodities, accelerated fluctuation of international capital market, and rise of protectionism. They will have long-term implications on the global development if measures are not taken without delay. This is because:

- The loose monetary policy of the major developed countries in response to the short-term credit crunch might lead to sustained excessive global liquidity from a medium and longer-term perspective. Moreover, as the global food and energy prices soar, factor prices of labor and land resources increase, many developing countries, the emerging economies in particular will encounter huge pressures of inflation, economic overheating and asset bubbles.
- The US economic slowdown and deepening financial market crisis have made the external economic environments for developing countries more complex, bringing about enormous uncertainty to the growth prospect and monetary and financial stability of developing countries.
- Although the price increase of main commodities propels economic growth in some low income countries, the price hike of food brings tremendous sufferings to the most vulnerable groups and poor countries with relatively high Engel-Coefficient. It even threatens food security in some countries, thus affecting adversely the progress towards MDGs in the years to come.

The World Bank and IMF should carefully assess the strategic implications of current global economic situation on development. We appreciate the vision of "inclusive and sustainable globalization" proposed by President Zoellick. The concept of inclusiveness and sustainability should apply not only to

developing countries, but also to the current international economic system including the developed countries. We call on the World Bank and IMF to:

- Urge the developed countries to adopt effective measures to resolve financial crisis, strengthen market supervision, prevent credit risks, and implement responsible monetary and exchange policy.
- Support developing countries in transforming their growth pattern, sustaining stable economic growth and guarding against financial risks.
- Follow up the external impact of measures taken by developed countries to tackle financial crisis, help developing countries properly deal with inflation pressure, strengthen supervision of international capital flow, and maintain market stability.
- Pay close attention to the food and energy security of developing countries, prevent and alleviate damages of high oil and food price to developing countries.
- Commit to addressing the systemic issues in the global economic system, reforming international aid architecture, international monetary and trade systems so as to make them conform with the objective needs of economic globalization.

In the recent years, the rising price of main commodities has become major factor affecting the entire global economy, bringing forth important implications on global inflation expectation, terms of trade and global wealth allocation.

We have noted that the rise of major commodity price has improved the fiscal condition in some developing countries whose fiscal revenues are generated mainly by the export of primary commodities. We support the international community to scale up technical assistance for strengthening management of fiscal revenue and expenditure at request of relevant countries. However, we emphasize that work in this respect should be done on the basis of equal consultation with full respect for the ownership and development needs of those countries and should focus on capacity-building.

For those poorest and most vulnerable countries adversely affected by food and energy price hike, we call on the international community, the multilateral development banks in particular, to scale up their support to protect the basic food and energy security.

#### **IV. Strengthening Voice and Representation of Developing and Transition Countries (DTC)**

Enhancing the voice and representation of DTC in the decision-making at the World Bank Group is a fundamental requirement for the Bank as a multilateral development institution. Regrettably, the World Bank has made little progress in this important agenda. We urge the management of the Bank to continue its effort and call on the developed countries to demonstrate political will, in order to reach consensus in the package of options.

We are of the view that overall increase of the voting power of the DTC and allocation of 50% of the capital shares to DTC should be the fundamental goal of the Bank reform. We do not advocate the Selective Capital Increase if it merely reallocates the shares among the developing countries. On such basis, we are open to all specific options on reforming capital structure and voting.

We encourage the Bank to review the selection process for the heads of the BWI. The Bank should increase the transparency and merit-based competitiveness in the selection process and ensure the broad and equal participation of all nationals.

We support the increase of additional chair in the African constituencies in the Board. We also call for a higher representation of DTC nationals in senior management positions. We hope that the Bank will develop as soon as possible an action plan for implementation.

Moreover, as the Bank has a different mandate from IMF, it has no need to copy mechanically the Fund reform, but it can be informed by the experience of IMF.

## **V. Climate Change**

Climate change is a global issue and needs global efforts. Developed countries must acknowledge their historical responsibilities and their current high per capita emissions. They should strictly fulfill their emission reduction obligations under Kyoto Protocol, and take the lead in reducing emissions in post-2012 era. Developing countries need to do their best to contribute to the issue of climate change in line with their abilities.

UNFCCC and Kyoto Protocol serve as the legal basis for international cooperation on combating climate change and the main channels for international cooperation. The Bank's engagement in climate change must be consistent with the progress of political negotiations on the UNFCCC and Kyoto Protocol and follow the principle of "common but differentiated responsibilities".

Climate change is fundamentally a development issue. It is neither desirable nor feasible to either compromise economic development for the sake of combating climate change or ignore climate change in sole pursuit of economic growth. The Bank should take poverty reduction and development as its core mandate in dealing with climate change. It should give priority to the energy demand of developing countries and the poor, and provide concessional financial resources, technologies and services to this end.

Financial support, dissemination and application of new technologies are critical for developing countries to address climate change. We encourage the international communities to actively explore new financial resources and innovative financing mechanisms, develop concrete and effective technology transfer and cooperation mechanism, help developing countries improve their ability in joint response to the climate change. We hope that the Bank can play a more active role in this process.