Zhou Xiaochuan: Overview of the Chinese economy against the background of the global recovery

Statement by Mr Zhou Xiaochuan, Governor of the People's Bank of China, at the Joint Annual Meeting of the IMF and the World Bank, Washington DC, 3 October 2004.

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Mr. Chairman, Governors, Ladies and Gentlemen:

We are very pleased to see increasing evidence of the global recovery, with growth rates in most regions exceeding original expectations. While this is apparent in the world's major economies - the United States, Europe, and Japan - economic growth rates in the developing countries and many regions have also been remarkable. Undoubtedly, countries can take advantage of these developments to resolve inconsistencies and imbalance problems in their economic operations by making structural adjustments, while at the same time creating sound conditions for the developed countries to carry out their obligations in promoting global sustainable development.

However, we cannot ignore the risks and challenges to sustained growth of the global economy. Complex geopolitical issues and terrorism pose threats to global peace and development. The economic structural problems of the major developed countries are having a potentially negative impact on global economic development, exchange rates, and even financial market stability. Affected by the geopolitical situation and the dynamics of supply and demand, the rise in international oil prices has triggered widespread concern, with a marked correlation between financial market volatility and changes in oil prices. The new round of interest rate increases not only will narrow the long- and short-term interest rate spread and squeeze the profitability of financial institutions, but will also increase the financing costs of developing countries. Emerging markets' resilience to external shocks is still weak, and the many low-income and developing countries have a formidable task in revitalizing their economies through structural reform. In addition, the unfair trade system and lack of external financial assistance are seriously hindering development in these countries.

Over the past year, China's economy has maintained the momentum of rapid growth. In the first half of 2004, GDP growth was 9.7 percent y-o-y, 0.9 percentage points higher than the growth rate last year. Foreign trade continued to grow, with total imports and exports for the first eight months of 2004 reaching US$ 722.1 billion. Fiscal revenue increased significantly to RMB 1.4307 trillion yuan in the first half of 2004, up 30.6 percent y-o-y.

Since 2003, China has introduced a series of macroeconomic management measures in response to over-investment in certain sectors of the economy with the result that the unstable and unhealthy factors in the economy have been curbed. Based on updated statistics, the growth of money supply slowed in August, with all intermediate targets for monetary policy lower than expected at the beginning of the year. The consumer price index rose by 5.3 percent, due mainly to rising food prices compared with the same period last year. Inflation, which excludes food and oil prices, remains relatively low, demonstrating that China's macroeconomic management measures have played an important role in lowering credit and investment growth, leading to brighter prospects for a soft landing. The Chinese government is firmly resolved to curb over-investment in certain economic sectors and to promote economic and financial reform. We will pay close attention to macroeconomic developments and remain prepared to take the necessary steps to consolidate the gains in macroeconomic management.

In 2004, we have taken important steps to reform state-owned commercial banks and capital markets. Learning from international practice, we have begun to restructure two state-owned commercial banks as share holding companies, which are scheduled to be listed in 2005. Furthermore, reforms are also underway at banks and non-bank financial institutions - including the two other state-owned commercial banks, joint stock commercial banks, urban commercial banks, and rural credit cooperatives. We have also introduced the Qualified Foreign Institutional Investors scheme, allowing the investment of foreign capital in China's security markets. Through these reforms, we will build a strong financial system able to support the sustained, stable, and rapid growth of China's economy.

The recovery of the Hong Kong SAR economy continues. For the first half of 2004, real GDP registered robust growth of 9.5 percent. Growth was broadly based, supported by further implementation of the Closer Economic Partnership Arrangement between Hong Kong SAR and the Mainland and gradual expansion of travel deregulation to more mainland cities and provinces. Consumer confidence continued to recover, putting an end to almost six years of deflation.

Driven by service exports, real GDP in Macao SAR grew by 36.0 percent for the first half of 2004, and the unemployment rate dropped to 4.9 percent. The further strengthening of economic cooperation between the Mainland and Macao SAR contributed not only to the continued growth momentum in the tourism industry and strengthening the role of its trade platform, but also to the development of the financial sector and new industries.

We believe that the global recovery combined with the stable growth of the Mainland - with the full support of the central government - will help the economies of Hong Kong SAR and Macao SAR maintain the momentum of strong growth.

We appreciate the Fund’s efforts to promote global economic and financial stability by strengthening surveillance. Nevertheless, we believe that the Fund should place greater focus on surveillance of the major developed countries that have a significant impact on the global economy. These countries should be encouraged to better coordinate their economic policies, maintain exchange rate stability for the major currencies, increase financial aid to the developing countries, and open their markets to them.

While we support the efforts of the international multilateral institutions to develop standards and codes and introduce them to facilitate global economic and financial development on a voluntary basis, we suggest that the Fund and the World Bank should fully consider countries’ different stages of development and their specific circumstances. In developing and introducing these standards and codes, the Fund and the World Bank should listen more to the voice of the developing countries while adhering to the voluntary principle and the gradual approach. As the number of international standards and codes increases, the Fund and the World Bank should be more selective, focusing on those that are closely related to their core areas of expertise, avoiding those areas that are not.

After many years of effort, the international community has made considerable progress in development matters; however, the developing countries still face serious bottleneck constraints. Many developing countries lack development funds and can hardly achieve sustained and effective structural reform. Therefore, we hope that the developed countries can implement the Monterrey Consensus as soon as possible, increase their development aid funds, and reach at an early time the ODA level of 0.7 percent to GNP, set by the United Nations. Promoting fair trade will not only help the developing countries, but will also benefit the developed countries. The developing countries have long faced an unfair trade environment. We are pleased that the Fund and the World Bank are promoting the Doha Round of trade negotiations and advocating an open and fair multilateral trade mechanism. At present, the Doha Round of trade negotiations has made some progress. We hope the international community will continue their efforts. We urge the developed countries to lower their trade barriers and reduce their subsidies on agricultural products, so that the Doha Round of trade negotiations can achieve substantive progress.