

China

News and Report

中国新闻与报道

NO. 5

March 1, 2015

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Uphold Peace and Stability, Advance Structural Reform and Generate New Momentum for Development

—Special Address at the World Economic Forum Annual Meeting 2015

Li Keqiang, Premier of the State Council of the People's Republic of China

(Davos, January 21, 2015)

It gives me great pleasure to come to Davos again after five years to attend the World Economic Forum Annual Meeting 2015. Davos is a town of peace and serenity, yet the world outside is not tranquil. We need to work together to shape the world in a new global context. I was told that Davos used to be a resort for recuperation from lung diseases, and the later discovery of Penicillin changed that. Now it is a place for people to gather and pool their wisdom for “brain-storm.” Personally, I find this more than relevant, be-

cause our world also needs new forms of “Penicillin” to tackle new challenges that have emerged.

Admittedly, the world today is by no means trouble-free. Regional hotspots, local conflicts and terrorist attacks continue to flare up, posing immediate threats to humanity. Global economic recovery lacks speed and momentum. Major economies are performing unevenly. Commodity prices are going through frequent fluctuations. And signs of deflation have made the situation even worse. In fact, many people

are quite pessimistic about the future of the world. They believe that the guarantee of peace is weak, and the prospect of development is elusive.

A philosopher once observed that we cannot solve problems by using the same kind of thinking we used when we created them. Indeed, old problems can no longer be solved by clinging to the outdated mindset of confrontation, hatred and isolation. Dialogue, consultation and cooperation must be explored to find solutions to new problems. It is important that we draw lessons from history, and pool our collective wisdom to maximize the convergence of interests among countries. Fortunately, in time of hardship and trial, mankind have always been able to find the courage to get out of the predicament and move ahead through change and innovation.

In a world facing complex international situation, we should all work together to uphold peace and stability. This year marks the 70th anniversary of the victory of the world's anti-Fascist war. To uphold peace and stability serves the interests of all people in the world. The world order established after World War II as well as generally recognized norms governing international relations must be maintained, not overturned. Otherwise, prosperity and development could be jeopardized. The Cold War and zero-sum mentalities must be abandoned. The "winner takes all" approach will not work. Regional hotspots and geopolitical conflicts must be resolved peacefully through political means. Terrorism, in all its manifestations, must be opposed. China remains committed to peaceful development and regional stability. And China has no intention to compete with other countries for supremacy. Peace in the world must be cherished the same as we cherish our eyes, so that the achievements and benefits of civilization, including reason and justice, will prevail.

In a world of diverse civilizations, we should all seek to live in harmony. Cultural diversity, like biodiversity, is a most precious treasure endowed to us on this planet. And human society is like a garden where all human civilizations blossom. Different cultures and religions need to respect and live in harmony with each other. While maintaining the natural close ties among those with whom we see eye to eye, we also

need to respect those with whom we disagree. Like the vast ocean admitting all rivers that run into it, members of the international community need to work together to expand common ground while accepting differences, and seek win-win progress through inclusive cooperation and mutual learning.

In a world facing volatile economic situation, we should all work to promote opening-up and innovation. What has happened since the outbreak of the international financial crisis seven years ago proves that to work in unity is the surest way for countries to get over the difficulties. We are all interdependent in this world. While we each have the right to adopt economic policies in line with national conditions, we need to strengthen macro-policy coordination to expand the convergence of interests and achieve common development. A European proverb says, "When the wind of change blows, some build walls, while others build windmills." We need to act along the trend of our time, firmly advance free trade, resolutely reject protectionism, and actively expand regional economic cooperation. We need to build global value chains, and seize the opportunity of a new technological revolution. While the international community agree on the importance of macro-policies to the economy, they also recognize the urgency to go ahead with structural reform. Structural reform must be carried through no matter how difficult it is, as it is an effective way to foster conditions conducive to global innovation and bring about new momentum for global development.

I know you are all interested in the outlook of the Chinese economy. Some of you may even worry about the possible potential impact of China's economic slowdown and transition. To ease your concerns, let me spend more time today on what is really happening in China.

The Chinese economy has entered a state of new normal. The gear of growth is shifting from high speed to medium-to-high speed, and development needs to move from low-to-medium level to medium-to-high level. This has made it all the more necessary for us to press ahead with structural reform.

It must be noted that the moderation of growth speed in China reflects both profound adjustments in the world economy as well as the law of economics.

The Chinese economy is now the second largest in the world. With a larger base figure, a growth even at 7 percent will produce an annual increase of more than \$800 billion at current price, larger than a 10-percent growth five years ago. With the economy performing within the reasonable range and the speed of growth no longer taken as the sole yardstick, the strained supply-demand relationship will be eased, the pressure on resources and the environment will be lowered, and more time and energy will be devoted to push forward structural reform. That means, the economy will enter a more advanced stage of development, with more sophisticated division of labor and a more optimized structure. If I could compare the Chinese economy to a running train, what I want you to know is that this train will not lose speed or momentum. It will only be powered by stronger dynamo and run with greater steadiness, bringing along new opportunities and new momentum of growth.

In 2014, we followed exactly the afore-mentioned approach. In the face of downward pressure, we did not resort to strong stimulus; instead, we vigorously pursued reforms, and the government in fact led these reforms by streamlining administration and delegating power. This has motivated both the market and the business sector. GDP grew by 7.4 percent for the whole year, the best among major economies in the world. Over 13 million new jobs were created in cities, with both registered and surveyed unemployment rates lower than the previous year. That is, we achieved growth in employment despite the economic slowdown. CPI was kept at 2 percent, lower than the target set at the beginning of the year. These outcomes prove that the host of macro-regulation measures China adopted have been right and effective. More importantly, new progress has been made in advancing structural reform.

Needless to say, the Chinese economy will continue to face substantial downward pressure in 2015. What shall we choose to do under such circumstances? Shall we go for even higher growth for the short term, or for medium-to-high growth and a higher quality of development over the long run? The answer is definitely the latter. We will maintain our strategic focus and continue to pursue a proactive fiscal policy

and a prudent monetary policy. We will avoid adopting indiscriminate policies. Instead, we will put more emphasis on anticipatory adjustment and fine-tuning, do an even better job with targeted macro-regulation to keep the economy operating within the reasonable range, and raise the quality and performance of the economy.

We are taking effective measures to fend off debt, financial and other potential risks. China's high savings rate, which now stands at 50 percent, generates sufficient funds for sustaining economic growth. Besides, China's local debt, over 70 percent of which was incurred for infrastructure development, is backed by assets. And reform of the financial system is making progress. What I want to emphasize is that regional or systemic financial crisis will not happen in China, and the Chinese economy will not head for a hard landing.

It must be pointed out that China is still a developing country and still has a long way to go before achieving modernization. While peace is the basic condition for China's development, reform and opening-up along with our people's desire for a happy life constitute the strongest impetus propelling development. The space of development in China's rural and urban areas and various regions is enormous, and the country's domestic demand will simply generate great potential of growth. Development at medium-to-high speed for another 10 to 20 years will bring even bigger changes to China and create more development opportunities for the world.

For the Chinese economy to withstand downward pressure, and to maintain medium-to-high speed of growth and achieve medium-to-high level of development, we need to say "no" to traditional mindset. We must encourage innovative institutions, and press ahead with structural reform. We need to adopt more innovative macro-regulation policies and develop a more vigorous micro economy. We need to promote more balanced development of industries, between rural and urban areas and among regions. We need to ensure relatively high employment rate, especially sufficient employment for the young people. And we need to optimize income distribution and raise the people's welfare. All this certainly calls for tremendous efforts. Yet we will stay undaunted in the face of

difficulties. We will unswervingly press ahead with reform and restructuring to ensure that our economy maintains medium-to-high speed of growth and achieves medium-to-high level of development.

To ensure long-term and steady growth of the Chinese economy, we need to comprehensively deepen reforms. We need to properly use both the hand of the government and the hand of the market, and rely on both the traditional and new engines of growth. We will let the market play a decisive role in resource allocation to foster a new engine of growth. At the same time, we will give better scope to the role of the government to transform and upgrade the traditional engine of growth.

To foster a new engine of growth, we will encourage mass entrepreneurship and innovation. China has 1.3 billion people, a 900-million workforce, and over 70 million enterprises and self-employed businesses. Our people are hard-working and talented. If we could activate every cell in society, the economy of China as a whole will brim with more vigor and gather stronger power for growth. Mass entrepreneurship and innovation, in our eyes, is a "gold mine" that provides constant source of creativity and wealth.

Speaking of this, I think of China's rural reform conducted more than 30 years ago. The reform brought farmers' initiatives into full play and allowed them to decide for themselves matters related to rural production and management. Consequently, the problem of hunger that previously haunted China was solved in just a couple of years. In short, a structural innovation that unleashed the creativity of the people changed the lot of hundreds of millions in China. I also think of a small village I visited two months ago in eastern China. In the village were some 700 households and over 2,800 registered online stores. Each day, more than 30 million items of various sorts were sold to different parts of the world. The story of the village speaks vividly of the hard-working Chinese people actively engaged in entrepreneurship.

Going forward, China needs new sources of dynamism to carry development forward. Dynamism comes from diversity, which sparks wisdom and fosters innovation. Mass entrepreneurship and innovation serves to unleash people's ingenuity and power. It

will result in greater demand and residents' consumption, greater social wealth, and greater welfare for the people. More importantly, it will bring opportunity for many and give people the stage to reach life's full potential. It will also bring about greater social mobility, equity and justice.

Excessive regulation discourages innovation, and healthy competition is the way to prosperity. We will deepen reform of the administrative system. This means we will continue to abolish or delegate to lower-level governments items previously subject to State Council review and approval. We will comprehensively sort out items requiring non-governmental review and approval, and put in place a negative-list approach for market access. This will incentivize market players, and help reduce the possibility of rent-seeking and corruption. We will protect intellectual property rights in accordance with the law, and do our best to foster an environment that encourages entrepreneurship and tolerates failure. Moreover, we will give protection to all sorts of legal property rights.

To transform the traditional engine of growth, we will focus on increasing the supply of public goods and services. China has made remarkable economic achievements, but inadequate supply of public goods and services remains a weak link in development. China's capital stock on public infrastructure, in per capita terms, is only 38 percent that of Western Europe and 23 percent that of North America. The development of its service sector is 10 percentage points lower than other developing countries at similar development stages. And its rate of urbanization is more than 20 percentage points lower than developed countries. This means a massive space for increasing public goods and services. To deliver such public goods and services to improve people's lives is the government's responsibility. They are also important ways to boost domestic demand.

This year, we have identified some key areas for investment, including building railways in central and western provinces, constructing water conservancy projects, rebuilding rundown urban areas and old houses in cities and villages, and preventing and controlling pollutions. The government will increase investment in these areas, and it will not act alone. Ef-

forts will be made to break monopoly and reform the investment and financing systems to encourage the participation of private and foreign capitals. The model of public-private partnership (PPP), Sino-foreign cooperatives and government purchase of services will be adopted to better leverage various investment sources. I have an example here to cite. A few years ago, the plan was made to build a sewage treatment plant in a province in western China, and a total of 335 million yuan was needed. The project later attracted investment from a German water company, with the German side controlling 70 percent of the total shares.

Moving forward, we will deepen fiscal and taxation reform, reduce the tax and fees charged to businesses, particularly those in the service sector, and take new steps to support SMEs. We will deepen reform of the financial system, continue to promote liberalization of interest and exchange rates, and accelerate the development of small- and medium-sized financial institutions, private banks in particular, with a view to developing a multi-tiered capital market. We will speed up reform of the pricing system, substantially reduce the types and items for which the government sets the prices, and liberate price regulation to the maximum extent possible. More emphasis will be given to the government's role in creating a favorable "soft environment." That means better market regulation, a world-class business environment established on market principles and the rule of law. In this way, we will be able to provide efficient and quality public services to all market players.

China's reform and development will bring more business opportunities to the world. We will provide easier market access for inbound foreign investment, and explore the possibility of management based on a pre-establishment national treatment and negative-list approach. Chinese and foreign companies will be treated as equals. We will further open the financial, education, cultural, medical care, pension and other service sectors in an orderly way, and bring the experience of the China (Shanghai) Pilot Free Trade Zone to other parts of China. Our aim is to help investors from across countries find "rich mines" and reap steady returns from their investment.

What is more, China will explore new approaches

to investment cooperation with other countries. China's high-speed railway, nuclear power, aviation, telecommunications and other sophisticated manufacturing capacities are gradually being introduced to other countries. They could meet market demand of the recipient country, and stand the test of competition on the international market. Their export will also help open up third-country markets, as many of such products are made by joint ventures between China and a foreign country. China has put forward the initiatives to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road. China hopes to work with other countries to advance these initiatives and ensure that they are brought forward in ways that meet the actual needs of countries concerned.

Davos of Switzerland is a world-famous ski resort. As we understand, to be a good skier, one needs to do three things: go at the right speed, keep balance and be courageous. I believe this also holds true for the Chinese economy. What is important now for China is to adapt to the new normal. China will maintain medium-to-high speed of growth, keep a proper balance between steady growth and structural adjustment, and push forward reform with great courage and determination. China will stay firm in its commitment to reform and opening-up. It will focus on structural reform, encourage mass entrepreneurship and innovation, increase supply of public goods and services, and use the twin engines to ensure that the economy maintains medium-to-high speed of growth and achieves medium-to-high level of development. As long as we succeed in doing so, the Chinese economy will successfully overcome the "middle-income trap" and move ahead along the path of sustainable and sound development. This will in turn bring greater opportunities to the world economy.

In closing, I would like to call upon the international community to forge ahead and work in unison to uphold peace and stability, embrace harmonious coexistence, and boost the impetus for openness and innovation. By doing so, I am confident we will be able to overcome whatever difficulty or obstacle that stand in our way, and bring about a better future for the world that we all call home.

Thank you very much.

Premier Li Keqiang Holds Dialogue With Representatives of the International Business Council of the World Economic Forum

On the afternoon of January 21, 2015 local time, Premier Li Keqiang of the State Council attended a dialogue session with members of the International Business Council of the World Economic Forum in Davos, Switzerland. The session was moderated by Alcoa Chairman and CEO Klaus Kleinfeld. The following is the transcript of the dialogue.

Premier Li: Ladies and gentlemen, dear friends, when I landed at the Zurich airport yesterday, it was drizzling, reminding me of the current world situation: a weak economic recovery and peace and stability facing threats. But when we got to Davos, it was all sunshine here. It is you, entrepreneurs from across the world, those having links with China in particular, who have brought sunshine to Davos. I am delighted to have this interaction with you.

Klaus Kleinfeld: If my memory serves me right, the Communist Party of China held the third plenum of the 18th Central Committee late 2013. A series of major decisions were adopted at the plenum, including reforming state-owned enterprises and encouraging private investment, foreign investment and competition. What will be the priorities of China's economic reform this year? With 2015 being the last year for implementing the 12th Five-Year Plan, I would like to know the long-term development plan that China envisages. How can the global business community help China advance reforms in these areas?

Premier Li: China is deepening reform on all fronts. The most powerful drive for China's economic development comes from our people's aspiration for a better life and from reform and opening-up. This year, we will press ahead with reforms in key areas. First, we will continue to handle well the relationship between the government and the market, and take more solid steps in government reform. Since its inception, this government has slashed

items that require State Council's review and approval by one third. Entrepreneurs who have business in China may know that in the past, one had to seek the approval of several government departments before his business operations could get started in China. And applications for setting up new businesses, joint ventures included, may need to be approved by dozens of departments. Such a time-consuming process was inefficient and left room for rent-seeking and corruption. This year, we are determined to continue the reform of the administrative approval system, abolishing unnecessary requirements for licenses and certificates as well as non-administrative approval items. Reform will take place in wider areas and at deeper levels. The purpose is to unleash greater market vitality and foster a level playing field. I hope that for all the business people coming to invest in China, it will take them less time to get things done and there will be lesser a need for them to build networks of connections. This way, they could channel more energy into developing businesses.

Second, we will press ahead with fiscal, tax and financial reforms. In the fiscal field, all government budgets will be made public. Government spending will focus on supplying public goods and services rather than those competitive areas to avoid unfair competition. In the financial sector, we will promote financial inclusion, vigorously develop small and medium-sized banks as well as private banks, and build a multi-tiered capital market, so that businesses can gradually reduce their leverage ratio through direct financing on the capital market.

Third, we will continue to build an open system. We are experimenting with a management model based on pre-establishment national treatment and a negative list, and further opening up the service sector. All foreign investments used to be subjected to government approval, whereas now most such

investments only need to be reported to the government for record, and government approval is needed only in limited cases. In a word, our reform is a comprehensive one, and the above-mentioned areas are only some focuses. We will open our door wider and we welcome foreign investors.

As for China's development plan, this is a question too broad to answer within a short time. In a nutshell, we will accomplish all major tasks set out in the 12th Five-Year Plan this year.

Carlos Ghosn, Chairman and CEO of Renault-Nissan Alliance: We've been attending the World Economic Forum in Davos in the past 10-plus years. Each year, there's been a keen interest in China's development, and there has also been worry about it in some areas. This year is no exception. We've seen a cooling real estate sector, over-capacity and risks from shadow banking. What do you think are the major risks and challenges that China needs to tackle?

Premier Li: Indeed, there have been some fluctuations recently in the investment and transaction volumes of China's property market, drawing attention from various sides. But I want to emphasize that China's urban population increased by 18 million last year, adding another 1.04 percentage points to the urbanization rate, which now stands at about 55 percent. As urbanization pushes forward in the course of modernization in China, there will be a long-term, inelastic demand for housing. And it is also normal for some adjustments to happen on the property market within a certain period of time.

The Chinese Government hopes to see long-term, steady and healthy growth of the property market. The government's primary task is to ensure basic housing for people who can hardly afford it themselves so that everyone can have a place to live. This year, we will intensify efforts to rebuild run-down areas in cities. Now, about 100 million people live in such places and many others live in dilapidated housing in both urban and rural areas. We will scale up investment to ensure basic housing for people with difficulties. This shows from another angle that the housing investment demand in China will last

and it will surely boost related industries and product supply.

The Chinese Government has already paid high attention to shadow banking. Last year, we took measures to ensure that financial institutions put some off-balance-sheet businesses onto their balance sheets. We hope to put as many shadow banking activities under oversight as possible. In the meantime, I should point out that China's savings rate has exceeded 50 percent, and Chinese banks have adequate capital and provisions for non-performing or bad debts. We are capable of regulating shadow banking activities and averting moral hazards, and individual irregularities will be handled in accordance with the law. No country in the world has ever been able to fully resolve the shadow banking issue. Although isolated risks might occur, the Chinese Government is able to stave off regional and systemic financial risks.

Ellen Kullman, Chairman and CEO of DuPont: After the Beijing APEC meeting last November, China made a historic and commendable pledge to cap its CO2 emissions by 2030. Given China's coal consumption and rapid urbanization, how can the global business community, as partners of China, help China deliver this commitment?

Premier Li: I appreciate you raising the issue of climate change. A wise man once said that mankind can hardly control the environment, but they can control their own actions. China has announced that it will cap its CO2 emissions around 2030 and increase the share of non-fossil fuels in primary energy consumption to around 20 percent by 2030. This requires persistent and even painstaking efforts as China, after all, is still a developing country with over 1.3 billion people. As you may know, coal accounts for about 70 percent in China's energy mix. This is the reality we face, which is determined by our resource endowment. Going forward, we will endeavor to bring down the share of fossil fuels, coal included, in overall energy consumption. Meanwhile, we will promote clean coal technology and we need help from the international community in this respect. Many developed countries have advanced technology

gies in this field, and we hope you will export clean coal technology and products to China. There is a huge market here. As a major developing country, China shoulders unshirkable responsibility in tackling climate change. We have been active in meeting the challenge and will fulfill our due international responsibility. We also maintain that the principle of “common but differentiated responsibilities” should be upheld. China will do its best to achieve both environmental protection and development, pursue a green and low-carbon economy, and nurture the new growth driver of the environmental industry. This will give a strong boost to China’s economy. I hope that friends from relevant businesses, such as auto companies, will enhance cooperation with China in new energy vehicles. More importantly, given its resource and environment constraints, China knows full well that it must follow the path of green and low-carbon development. But this will need a rather long process.

Peter Sands, CEO of Standard Chartered: You mentioned just now that China is expanding opening up and intensifying efforts to integrate into the world economy and global financial market. From my perspective, I have seen rapid development in this field in China. How can the global business community help China get more integrated into the global economy and achieve its reform goals?

Premier Li: The financial sector in China, like its overall development, is getting increasingly open. You may know that not long ago we took the big step of launching the “Shanghai-Hong Kong Stock

Connect.” It signals further expansion of the renminbi offshore businesses. Under this program, Chinese people can invest overseas and foreign companies and individuals can invest in China directly through the stock market. But given China’s short history of financial openness and modest international experience, the “Shanghai-Hong Kong Stock Connect,” with a limit on its scale, is still in the process of exploration. Nevertheless, responding to the market demand, we are steadily advancing the use of RMB in settling cross-border trade, making cross-border investment and providing offshore financial services. During my visit to Switzerland, the Chinese and Swiss governments will sign an agreement on setting up an RMB clearing bank in this international financial center of Switzerland. China will phase in a global RMB clearing framework in light of its capability, experience and needs of the global markets. The two governments will also sign an agreement on China providing Switzerland with 50-billion-yuan quota of RQFII. I believe that with the growth of RMB offshore businesses, China’s financial sector will be more open and we will gain more experience in this process. Our aim is to facilitate the development of China as a major developing country, maintain stability of the global financial system, and meet the need of reforming the global financial system and market development.

Klaus Kleinfield: I know that many of them have more questions for you, but we have run out of time. I hope we could continue the conversation at the Summer Davos in Dalian.

Comments and suggestions from our readers are appreciated. **E-mail:** shuangqin2004@china.com.cn

Distributed by *CHINA NEWS AND REPORT* **Circulation Department**

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