Strengthen Confidence and Work Together for A New Round of World Economic Growth

Special Message by H.E. Wen Jiabao Premier of the State Council of the People's Republic of China At the World Economic Forum Annual Meeting 2009

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Professor Klaus Schwab, Executive Chairman of the World Economic Forum,
Ladies and Gentlemen,

I am delighted to be here and address the World Economic Forum Annual Meeting 2009. Let me begin by thanking Chairman Schwab for his kind invitation and thoughtful arrangements. This annual meeting has a special significance. Amidst a global financial crisis rarely seen in history, it brings together government leaders, business people, experts and scholars of different countries to jointly explore ways to maintain international financial stability, promote world economic growth and better address global issues. Its theme—"Shaping the Post-Crisis World" is highly relevant. It reflects the vision of its organizers. People from across the world are eager to hear words of wisdom from here that will give them strength to tide over the crisis. It is thus our responsibility to send to the world a message of confidence, courage and hope. I look forward to a successful meeting.

The ongoing international financial crisis has landed the world economy in the most difficult situation since last century's Great Depression. In the face of the crisis, countries and the international community have taken various measures to address it. These measures have played an important role in boosting confidence, reducing the consequences of the crisis, and forestalling a meltdown of the financial system and a deep global recession. This crisis is attributable to a variety of factors and the major ones are: inappropriate macroeconomic policies of some economies and their unsustainable model of development characterized by prolonged low savings and high consumption; excessive expansion of financial institutions in blind pursuit of profit; lack of self-discipline among financial institutions and rating agencies and the

ensuing distortion of risk information and asset pricing; and the failure of financial supervision and regulation to keep up with financial innovations, which allowed the risks of financial derivatives to build and spread. As the saying goes, "A fall in the pit, a gain in your wit," we must draw lessons from this crisis and address its root causes. In other words, we must strike a balance between savings and consumption, between financial innovation and regulation, and between the financial sector and real economy.

The current crisis has inflicted a rather big impact on China's economy. We are facing severe challenges, including notably shrinking external demand, overcapacity in some sectors, difficult business conditions for enterprises, rising unemployment in urban areas and greater downward pressure on economic growth.

As a big responsible country, China has acted in an active and responsible way during this crisis. We mainly rely on expanding effective domestic demand, particularly consumer demand, to boost economic growth. We have made timely adjustment to the direction of our macroeconomic policy, swiftly adopted a proactive fiscal policy and a moderately easy monetary policy, introduced ten measures to shore up domestic demand and put in place a series of related policies. Together, they make up a systematic and comprehensive package plan aimed at ensuring steady and relatively fast economic growth. First, substantially increase government spending and implement a structural tax cut. The Chinese Government has rolled out a two-year program involving a total investment of RMB 4 trillion, equivalent to 16% of China's GDP in 2007. The investment will mainly go to government-subsidized housing projects, projects concerning the well-being of rural residents, railway construction and other infrastructural projects, environmental protection projects and post-earthquake recovery and reconstruction. Some of them are identified as priority projects in China's 11th Five-Year Plan for Economic and Social Development. The rest are additional ones to meet the needs of the new situation. This two-year stimulus program has gone through scientific feasibility studies and is supported by a detailed financial arrangement. RMB 1.18 trillion will come from central government's budget, which is expected to generate funds from local governments and other sources. The Chinese Government has also launched a massive tax cut program which features the comprehensive transformation of the value-added tax, the adoption of preferential tax policies for small and medium-sized enterprises (SMEs) and real estate transactions, and the abolition or suspension of 100 items of administrative fees. It is expected to bring about a total saving of

RMB500 billion for businesses and households each year. Second, frequently cut interest rates and increase liquidity in the banking system. The central bank has cut deposit and lending rates of financial institutions five times in a row, with the one-year benchmark deposit and lending rates down by 1.89 percentage points and 2.16 percentage points respectively. Thus the financial burden of companies has been greatly reduced. The required reserve ratio has been lowered four times, adding up to a total reduction of 2 percentage points for large financial institutions and 4 percentage points for small and medium-sized ones. This has released around RMB800 billion of liquidity and substantially increased funds available to commercial banks. A series of policy measures have been adopted in the financial sector to boost economic growth, including increasing lending, optimizing the credit structure, and providing greater financial support to agriculture and the SMEs. Third, implement the industrial restructuring and rejuvenation program on a large scale. We are seizing the opportunity to push ahead comprehensive industrial restructuring and upgrading. To this end, plans are being drawn up for key industries such as automobile and iron and steel, which not only focus on addressing the immediate difficulties of enterprises but also look toward their long-term development. We have taken strong measures to facilitate the merger and reorganization of enterprises, phase out backward production capacity, promote advanced productive forces, and improve industry concentration and the efficiency of resource allocation.

We encourage our enterprises to upgrade technologies and make technological renovation. We support them in making extensive use of new technologies, techniques, equipment and materials to restructure their product mix, develop marketable products and improve their competitiveness. Our financial support policies are being improved, a sound credit guarantee system installed and market access eased for the benefit of SME development. Fourth, actively encourage innovation and upgrading in science and technology. We are speeding up the implementation of the National Program for Medium- and Long-Term Scientific and Technological Development with a special focus on 16 key projects in order to make breakthroughs in core technologies and key generic technologies. This will provide scientific and technological support for China's sustainable economic development at a higher level. We are developing high-tech industrial clusters and creating new social demand and new economic growth areas. Fifth, substantially raise the level of social security. We have accelerated the improvement of social safety net. We will continue to increase basic pension for enterprise retirees and upgrade the standard of unemployment insurance and

workers' compensation. We will raise the level of basic cost of living allowances in both urban and rural areas, welfare allowances for those rural residents without family support and the special allowances and assistance to entitled groups. This year, the central budget for social security and employment will increase at a much higher rate than the growth of the overall fiscal revenue. We are advancing the reform of the medical and health system and working to put in place a nationwide basic medical and health system covering both urban and rural areas within three years and achieve the goal of everyone having access to basic medical and health service. It is estimated that governments at all levels will invest RMB 850 billion for this purpose. We give priority to education and are now working on the Guidelines of the National Program for Medium- and Long-Term Educational Reform and Development. This year, we will increase public funds for free compulsory education in rural areas, offer more financial support to students from poor families and improve the well-being of middle and primary school teachers so as to promote equity in education and optimize the educational structure. We are using every possible means to lessen the impact of the financial crisis on employment. We are following a more active employment policy. In particular, we have introduced various policy measures to help college graduates and migrant workers find jobs and provided more government-funded jobs in public service. These major policy measures as a whole target both symptoms and root causes, and address both immediate and long-term concerns. They represent a holistic approach and are mutually reinforcing. They are designed to address the need to boost domestic demand, readjust and reinvigorate industries, encourage scientific innovation and strengthen social security. They are designed to stimulate consumption through increased investment, overcome the current difficulties with long-term development in mind, and promote economic growth in the interest of people's livelihood. These measures can mobilize all resources to meet the current crisis.

China's economy is in good shape on the whole. We managed to maintain steady and relatively fast economic growth in 2008 despite two unexpected massive natural disasters. Our GDP grew by 9%. CPI was basically stable. We had a good grain harvest for the fifth consecutive year, with a total output of 528.5 million tons. Eleven million and one hundred and thirty thousand new jobs were created in cities and towns. Household income in both urban and rural areas continued to rise. The financial system functioned well and the banking system kept its liquidity and credit asset quality at a healthy level. When China, a large developing country, runs its affairs well, it can help restore confidence in global

economic growth and curb the spread of the international financial crisis. It will also help increase China's imports and outbound investment, boost world economic growth and create more development and job opportunities for other countries. Steady and fast growth of China's economy is in itself an important contribution to global financial stability and world economic growth.

Ladies and Gentlemen,

Will China's economy continue to grow fast and steadily? Some people may have doubts about it. Yet I can give you a definite answer: Yes, it will. We are full of confidence. Where does our confidence come from? It comes from the fact that the fundamentals of China's economy remain unchanged. Thanks to our right judgment of the situation and prompt and decisive adjustment to our macroeconomic policy, our economy remains on the track of steady and fast development. Our package plan takes into consideration both the need to address current difficulties and that of long-term development. It is beginning to produce results and will be more effective this year. Our confidence comes from the fact that the long-term trend of China's economic development remains unchanged. We are in an important period of strategic opportunities and in the process of fast industrialization and urbanization. Infrastructure construction, upgrading of industrial and consumption structures, environmental protection and conservation projects, and various social development programs—all can be translated into huge demand and growth potential and will bolster relatively high-speed growth of our economy for a long time to come. Our confidence also comes from the fact that the advantages contributing to China's economic growth remain unchanged. With 30 years' of reform and opening-up, we have laid a good material, technological and institutional foundation. We have a large well-trained and relatively low-cost labor force. We have a healthy fiscal balance, a sound financial system and adequate funds. Our system enables us to mobilize the necessary resources for big undertakings. There is harmony and stability in our society. What is more important, we follow a scientific approach to development which puts people first and seeks comprehensive, balanced and sustainable development. We are committed to reform, opening-up and win-win progress. We have found the right development path in line with China's national conditions and the trend of our times. Our people are hard-working, persevering and resilient. It is precisely these fine qualities that endow China, a country with a time-honored history, with greater vitality in the face of adversities. At the same time, there is no fundamental change in the external environment for

China's economic growth. The pursuit of peace, development and cooperation is the irreversible trend in today's world. The readjustment to the international division of labor offers new opportunities. We have the confidence, conditions and ability to maintain steady and fast economic growth and continue to contribute to world economic growth.

Ladies and Gentlemen,

The global financial crisis is a challenge for the whole world. Confidence, cooperation and responsibility are key to overcoming the crisis. Confidence is the source of strength. The power of confidence is far greater than what can be imagined. The pressing task for the international community and individual countries is to take further measures to restore market confidence as soon as possible. In times of economic hardships, confidence of all countries in the prospect of global economic development, confidence of leaders and people around the world in their countries, confidence of enterprises in investment and confidence of individuals in consumption are more important than anything else. In tackling the crisis, practical cooperation is the effective way. In a world of economic globalization, countries are tied together in their destinies and can hardly be separated from one another. The financial crisis is a test of the readiness of the international community to enhance cooperation, and a test of our wisdom. Only with closer cooperation and mutual help, can we successfully manage the crisis. To prevail over the crisis, accepting responsibilities is the prerequisite. When governments fulfill their responsibilities with resolution and courage, they can help maintain a stable financial order and prevent the crisis from causing more serious damage on the real economy. Political leaders must be forward-looking. They should be responsible to the entire international community as well as to their own countries and people. It is imperative that we implement the broad agreement reached since the G20 Summit on Financial Markets and the World Economy. We should not only take more forceful and effective steps to tide over the current difficulties, but also push for the establishment of a new world economic order that is just, equitable, sound and stable. To this end, I would like to share with you the following ideas.

First, deepen international economic cooperation and promote a sound multilateral trading regime. Past experience shows that in crisis it is all the more important to stick to a policy of opening-up and cooperation. Trade protectionism serves no purpose as it will only worsen and prolong the crisis. It is therefore necessary to move forward trade and

investment liberalization and facilitation. China firmly supports efforts to reach balanced results of the Doha Round negotiations at an early date and the establishment of a fair and open multilateral trading regime. As an important supplement to such a trading regime, regional economic integration should be vigorously promoted.

Second, advance the reform of the international financial system and accelerate the establishment of a new international financial order. The current crisis has fully exposed the deficiencies in the existing international financial system and its governance structure. It is important to speed up reform of the governance structures of major international financial institutions, establish a sound global financial rescue mechanism, and enhance capacity in fulfilling responsibilities. Developing countries should have greater say and representation in international financial institutions and their role in maintaining international and regional financial stability should be brought into full play. We should encourage regional monetary and financial cooperation, make good use of regional liquidity assistance mechanisms, and steadily move the international monetary system toward greater diversification.

strengthen international cooperation financial supervision and regulation and guard against the build-up and spread of financial risks. Financial authorities around the world should step up information sharing and the monitoring of global capital flows to avoid the cross-border transmission of financial risks. We should expand the regulation coverage of the international financial system, with particular emphasis on strengthening the supervision on major reserve currency countries. We should put in place a timely and efficient early warning system against crisis. We should introduce reasonable and effective financial regulatory standards improve and mechanisms in such areas as accounting standards and capital adequacy requirements. We should tighten regulation of financial institutions and intermediaries and enhance transparency of financial markets and products.

Fourth, effectively protect the interests of developing countries and promote economic development of the whole world. The international community, developed countries in particular, should assume due responsibilities and obligations to minimize the damage caused by the international financial crisis on developing countries and help them maintain financial stability and economic growth. International financial institutions should act promptly to assist those developing countries in need through such measures as relaxing lending conditions.

We should advance the international poverty reduction process and scale up assistance to the least developed countries and regions in particular with a view to building up their capacity for independent development.

Fifth, jointly tackle global challenges and build a better home for mankind. Issues such as climate change, environmental degradation, diseases, natural disasters, energy, resources and food security as well as the spread of terrorism bear on the very survival and development of mankind. No country can be insulated from these challenges or meet them on its own. The international community should intensify cooperation and respond to these challenges together.

I want to reaffirm here China's abiding commitment to peaceful, open and cooperative development. China is ready to work with other members of the international community to maintain international financial stability, promote world economic growth, tackle various global risks and challenges, and contribute its share to world harmony and sustainable development.

Ladies and Gentlemen,

The harsh winter will be gone and spring is around the corner. Let us strengthen confidence and work closely together to bring about a new round of world economic growth.

Thank you.