The Chinese Economy: Reform and Innovation
For Sustained and Healthy Development

Speech by Li Keqiang
At the World Economic Forum
Annual Meeting of the New Champions 2013
11 September 2013

Professor Klaus Schwab, Executive Chairman of the World Economic Forum, and Mrs. Schwab,

Distinguished Guests, Ladies and Gentlemen, Dear Friends,

Let me begin by extending, on behalf of the Chinese government, hearty congratulations on the opening of the seventh Summer Davos Forum and a warm welcome to all the distinguished guests.

Seven years ago, when the Davos Forum came from the high mountains in Switzerland to the shore of the Bohai Bay in China, I was working in Liaoning and was personally engaged in the launch of the Forum, and my memories of the event are still vivid today. I am truly happy that the Forum, which has been held in Dalian and Tianjin in rotation since then, is gaining greater influence, and I find the theme of this year's Forum, "Meeting the Innovation Imperative," a forward-looking one that points the way to the future.

Five years have passed since the outbreak of the international financial crisis in September 2008. Yet the world economy still faces a complex situation. Just as developed economies begin to show some signs of improvement, emerging economies are confronted with rather serious downward pressure. As we often say in China, "Hardly has one wave subsided when another wave rises." Affected by a multiple of factors, economic growth in China has slowed down to some extent. Yesterday, Professor Schwab and I had an exchange of views with some of the business representatives. They all showed a keen interest in the state and prospects of the Chinese economy. For some time now, there have been many comments on the Chinese economy, wondering whether it may slow down too early, like in some other countries, or even encounter a hard landing. What I
would like to say is that the Chinese economy, which is at a crucial stage of transformation and upgrading, is moving forward in a steady way and its fundamentals are sound.

Economic growth in China went down from 7.9 percent in the fourth quarter of last year to 7.7 percent in the first quarter and 7.5 percent in the second quarter of this year with a reduced increase in consumption, investment and foreign trade. There was a registered negative growth in the central government revenue, which has been rarely seen for many years. Confronted with downward pressures, we stayed committed to the overall policy of seeking steady economic progress. We took a host of innovative policies and measures with a holistic approach to pursue steady growth, conduct structural readjustment and promote reform, which served to ensure a smooth economic performance.

First, keeping the macro economic policy stable with consideration given to both immediate and long-term needs. In the face of economic downturn, a short-term stimulus policy could be one way to drive up growth. But after weighing the pros and cons, we concluded that such an option would not help address the underlying problems. Hence, we opted for keeping the macro economic policy stable, which we believe served both the immediate needs and long-term interests of the economy. With respect to fiscal policy, we introduced policy measures that kept deficit from expanding, readjusted the expenditure structure, cut down administrative expenditures, accelerated spending, increased support for the central and western regions as well as for structural readjustments and for improving people's wellbeing, and granted preferential tax treatment to small and micro businesses. In terms of monetary policy, we stayed focused, responded calmly and met difficulties head-on. We did not relax or tighten the monetary policy in spite of the short-term fluctuation in the money market, and properly managed liquidity. We supported the real economy mainly by making good use of both the stock and the increment. At the same time, we strengthened supervision and improved regulation to prevent and defuse potential risks in the fiscal and financial sectors. Regarding the local government debt issue, which has become a source of concern, we are taking pertinent measures to regulate and address it in an orderly fashion. Here, I can say with certainty that the situation is on the whole safe and manageable.

Second, steadfastly pursuing reform and opening-up with priority given to the stimulation of the market. Reform and innovation provide an inexhaustible driving force for a country's development. What this government has done first is to vigorously reform the administrative system with focus on transforming government functions. Since the beginning of this year, we have abolished or delegated to lower levels the conduct of administrative review and approval for over 200 items. By streamlining administration and delegating power, the government aims to delegate power to lower levels as much as what is necessary and appropriate while effectively managing all the matters within its purview so as to provide a level-playing field for all enterprises and stimulate the creativity of market players. We have expanded the scope of the business-to-value added tax pilot reform, and advanced reforms relating to market-based interest rates, the investment and financing system for the construction of railways and other infrastructure, pricing of resource products and government procurement of public services. We have accelerated the reform of economic structure, endeavored to develop a mixed economy, relaxed market access in the financial, oil, electricity, railway, telecommunications, resources development, public facilities and the services sector, encouraged more investment of the non-public sector, and provided greater space for business of various ownerships.

China's modernization will not be accomplished without reform, nor will it be achieved without opening-up. We have explored new ways to open China wider to the outside world.
In the first half of this year, we signed FTA agreements with Switzerland and Iceland, and we have recently discussed with ASEAN leaders on how to upgrade the China-ASEAN Free Trade Area. In our effort to build a pilot free trade-zone in Shanghai, the negative-list approach will be explored and priority will be given to easier investment access and greater openness in trade in services. We have also adopted measures to facilitate foreign trade and promote a steady growth in import and export.

Ladies and Gentlemen,

In the world today, the trend towards economic globalization, a multi-polar world and IT application is gaining momentum. We live in a global village. No country can live in isolation of others like Robinson Crusoe. Over the years, the Chinese economy has benefited enormously from its opening-up policy. At the same time, China has become a major engine driving world economic growth and played an important role in responding to the international financial crisis. In the next five years, China is expected to import 10 trillion US dollars of goods, invest 500 billion US dollars overseas and send over 400 million tourists abroad. China, with its economic structure transformed and upgraded, will contribute more to the prosperity and development of the world economy. China is ready to share this huge business opportunity with the rest of the world and hopes to have a better cooperation environment for its development.

As a major developing country, China is ready to take up its responsibility in international affairs. As its economy expands, China will play an increasingly bigger role in international affairs. As an ancient Chinese saying goes, "A gentleman is always ready to help others attain their goals." We believe that only by helping each other can we all attain our goals. We are ready to take a more active part in international governance and do our best to provide international public goods. We are ready to share our poverty reduction experience with and offer more assistance to fellow developing countries. We will share responsibility for and make our contribution to a strong, sustainable and balanced world economy. However, China is still a developing country. Over 100 million people still live under the poverty line according to international standards. China's modernization will be a long and arduous process. The international responsibilities and obligations China undertakes must be commensurate with both the level and approach of its development.

In view of the difficulties and setbacks in the global economic recovery, members of the international community should increase coordination on macro economic policies as well as the readiness to cope with the cross-border financial risks and help speed up the reform of the global economic governance. Developing countries should have greater representation and bigger voices in international affairs so as to minimize the adverse impact of the change of macro economic policies by some countries on the entire world economy, especially on emerging market economies. All countries should open wider to other countries, take a clear-cut stand against all forms of protectionism, and work in concert to enlarge the pie of the world economy.

China will continue to encourage foreign companies to make investment and do business in China. We will create a more investment friendly environment, intensify IPR protection, and provide an environment in which all players have equal access to factors of production, market competition and legal protection while taking up social responsibilities together. Facts will continue to prove that to come and do business in China is a wise decision for multinationals to grow their business.

Ladies and Gentlemen,
We live in a time of fast changes. Changes call for innovation and innovation leads to progress. Reform and innovation is the running theme and spirit of the policies adopted by the Chinese government, and it is the banner that we will always hold high. I hope you, new champions of the world economy, will become indeed champions of reform and innovation in your respective areas. Over the years, the Summer Davos has played a unique role and served as an important platform for discussions on the Chinese economy. Now the new season of the Chinese economic miracle, one of better quality and higher efficiency, is unveiled, and I guarantee you even more exciting stories to come. I am sure that the Summer Davos Forum will achieve greater successes, presenting to the world new progress of the Chinese people in building a modern country, and contributing more wisdom and strength to the common prosperity of China and the world.

In conclusion, I wish this year's forum a complete success!

Thank you.