



BOLETÍN INFORMATIVO

Speech by H.E. Liu He

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the People's Republic of China**

At the World Economic Forum Annual Meeting

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Embajada de China en Costa Rica

Dr. Klaus Schwab,

Ladies and Gentlemen,

Friends,

Good morning! Let me begin by thanking Dr. Schwab for inviting me to Davos again. The last time I came here was 2018. Over the past five years, we have experienced all kinds of unexpected events, and witnessed profound changes in the world's political and economic landscape. Therefore, the theme of this year's Annual Meeting, "Cooperation in a Fragmented World", cannot be more relevant.

Mutual understanding is an important prerequisite for cooperation. Online communication, no matter how frequent or how technologically advanced, is no substitute for in-person meetings. I had quite a number of very warm meetings with some old friends these two days. Hopefully, at this face-to-face meeting, I can help you understand the Chinese economy better.

In 2022, China completed its major political agenda. We held the 20th National Congress of the Communist Party of China (CPC), and elected the new central leadership with President Xi Jinping at its core. We drew up an ambitious blueprint for advancing Chinese modernization in the coming five years and beyond.

Last month, we held the annual Central Economic Work Conference to make plans for 2023 in line with the deployment of the 20th CPC National Congress. In 2022, China's growth was 3

percent. And we managed to keep jobs and prices stable. Urban surveyed unemployment rate was 5.6 percent, CPI was 2 percent, and current account surplus was slightly above two percent of GDP.

In 2023, we will continue to try to make progress while maintaining stability, and follow a proactive fiscal policy and a prudent monetary policy. We will strive to maintain reasonable economic growth, and keep prices and jobs stable. More focus will be placed on expanding domestic demand, keeping supply chains stable, supporting the private sector, reforming the State-owned enterprises (SOEs), attracting foreign investment, and preventing economic and financial risks.

If we work hard enough, we are confident that growth will most likely return to its normal trend, and the Chinese economy will see a significant improvement in 2023. A noticeable increase of import, more investment by companies, and consumption returning back to normal can be expected.

Over the past ten years, China's GDP grew from 54 trillion to 121 trillion yuan; average life expectancy rose from 74.8 to 78.2 years; and contribution to global growth reached around 36 percent. There are five things that we always bear in mind in making such achievements.

First, we must always take economic development as the primary and central task. Under the new circumstances, guided by the philosophy of innovative, coordinated, green, open and shared development, high-quality economic development must always be our goal.

Second, we must always make establishing a socialist market economy the direction of our reform. We must let the market play a decisive role in resources allocation, let the government play a better role. (Some people say China will go for the planned economy. That's by no means possible.) We will deepen SOE reform, support the private sector, and promote fair competition, anti-monopoly and entrepreneurship.

Third, we must always promote all-round opening-up. Opening-up, as a basic state policy, is a catalyst of reform and development, and a key driver of economic progress in China. China's door to the outside will only open wider.

Fourth, we must always uphold the rule of law. We must protect property rights and IPRs in accordance with the law. We must create a world-class and market-oriented business environment underpinned by a sound legal framework. Both government and market activities must stay within the confines of law.

Fifth, we must pursue innovation-driven development. We must promote innovation and education, grow human capital, foster a sound interaction of finance, technology and industry, and boost productivity.

The above five points are the important experience we have learned and gained since China started its reform and opening-up. We must stick to them and never waver in our commitment.

Let me also briefly touch upon three issues about the Chinese economy you might be interested in: first, where we are in resolving financial risks, those in the real estate sector in particular; second, our thinking on the dual circulation; third, the rationale behind China's goal of common prosperity.

The financial risks that emerged in China over the past five years are a result of multiple factors, including macroeconomic downturn, loose financial supervision, imprudent business expansion, and insider control.

We fought a tough battle to address these risks. We dealt with conglomerates as well as small and medium-sized financial institutions of high risks, disposed of distressed assets, curbed shadow banking activities, and handled unusual volatility in the capital market.

Thanks to these efforts, we have managed to maintain overall financial stability and prevented systemic risks. We are drafting the Financial Stability Law right now, which is expected to provide legal safeguards for defusing risks and maintaining financial stability as we go forward.

Real estate sector is still a pillar for China's economy. It accounts for nearly 40 percent of bank lending, 50 percent of overall local government fiscal resources, and 60 percent of urban household assets. From the second half of 2021, China experienced a rapid decline in property prices and home sales. Many property developers suffered from liquidity shortage and deteriorating balance sheet. The risks of a handful of leading property developers are particularly noticeable.

If not handled properly, risks in the housing sector are likely to trigger systemic risks. That is why prompt steps must be taken to address them. That said, however, we should also prevent possible moral hazards while doing so. Here is what we have done.

First, we have stabilized expectations by honoring contracts and protecting property rights. For the 2,600-plus pre-sold but unfinished housing projects that concern 1.88 million people across the country, we have made ensuring their delivery a priority, and this helped prevent panic in the market.

Second, we have conducted massive "blood transfusion" to the real estate sector. The liquidity situation of real estate companies has been greatly enhanced by way of fresh bank lending, bond issuance guarantee, and equity financing.

Third, we have helped the real estate sector with "blood formation". We have relaxed restrictions that were once introduced to address the overheating in the property market. Such adjustment has expanded effective demand and enabled property developers to generate revenue.

Thanks to these efforts, the supply and demand in the market has seen noticeable improvement. Looking ahead, China's urbanization is still on a fast track, and the enormous potential demand generated in this process will provide a strong underpinning for the development of the real estate sector.

Right now, China is stepping up efforts to foster a new development paradigm with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. The focus of domestic circulation is on expanding internal demand, promoting industrial upgrade, developing a consumption-led growth model, and re-balancing the economy. (This is a logic reflecting international consensus since 2008.)

However, for domestic circulation to function well, it must rely on international division of labor and cooperation, as well as more foreign trade and investment. Therefore, the new development paradigm of dual-circulation is to be pursued in an open economy.

China's national reality dictates that opening up to the world is a must, not an expediency. We must open up wider and make it work better. We oppose unilateralism and protectionism, and look forward to strengthening international cooperation with all countries for world economic stability and development, and the promotion of economic re-globalization.

Now that China has completed the mission of building a moderately prosperous society in all respects, we have come up with a new social development goal of achieving common prosperity, a historical mission that will help us ensure lasting stability. It is a long-term task that requires an incremental and gradual approach. It is not something to be achieved overnight.

Common prosperity, as we see it, is aimed at preventing polarization. It can only be attained through common development and the hard work of every Chinese. Common prosperity is by no

means a synonym of egalitarianism or welfarism. As China grows, all Chinese people will be better off, but that doesn't mean their incomes and level of prosperity have to be the same. (That is to say, there will be equal opportunities, but no guarantee of equal outcomes)

Entrepreneurship is a key factor for wealth creation of a society. Therefore, entrepreneurs, both Chinese and foreign, will play an important role as the engine driving China's historical pursuit of common prosperity. If wealth doesn't grow, common prosperity will become a river without source or a tree without roots.

Ladies and Gentlemen,

Friends,

The theme of this meeting, "Cooperation in a Fragmented World", is highly relevant. As President Xi Jinping noted, changes of our world, of our times, and of history are unfolding in front of us in unprecedented ways. The world has once again come at a historical crossroad, and its future hinges on the choices we make.

As for how to advance international cooperation, I would like to share with you the following three observations.

First, we need to uphold the right principles and maintain the effective international economic order. Under the new circumstances, the traditional way of thinking cannot provide the solution. That is why we have to abandon the cold war mentality, try to understand the nature of things from the perspective of

material duality, endeavor to build a community with a shared future for mankind, and join hands to respond to global challenges. We believe that an equitable international economic order must be preserved by all. Equitable division of labor, encouragement of competition, anti-monopoly, protection of property rights and IPRs, promoting entrepreneurship and free flow of production factors, fair distribution, a strong social safety net, and ensuring macroeconomic stability are the well-proven economic principles that are still relevant today. Government has a key role to play on major issues, despite temporary resistance and some setbacks, we must have the courage to uphold truth and law of economics, and address complex issues pragmatically with plain and simple solutions.

Second, we need to strengthen international macro policy coordination and strike a good balance between inflation and growth. To tame inflation, some countries have chosen the policy that will likely result in the hike-recession-recovery loop. But it is important to note that inflation this time around is driven by multiple factors. Apart from the demand side, supply-side measures are also needed to repair the supply chains and preserve energy and food security.

A joint response to this challenge requires international cooperation and maintenance of peace. We call for more attention to the negative spillover effect of major countries' rate hikes on the emerging markets and developing countries so as not to add to more debt or financial risks. We stand ready to work with all parties to find solutions to the debt issues of some developing countries.

Third, we need a global response to climate change. Most countries in the world are keenly aware of the urgency of climate governance and the need for common actions. COVID-19 has revealed to us a possible connection between climate change and public health crisis. This is an area where effective international cooperation is needed.

China will honor its commitments to the international community, push for global cooperation on climate change, and work with other countries to tackle the serious challenges posed by climate change, and build a community with a shared future for mankind.

How to strengthen cooperation in a fragmented world is a real problem we all face. We must dig deep into the causes of fragmentation, promote positive-sum games, identify the possible converging areas of cooperation, and explore the mechanisms for doing so. We must work together to firmly safeguard world peace. We should be grateful that this year's Davos Forum presents us with an opportunity to do just that. I wish the Forum a full success, and hopefully, it can help us strengthen cooperation and preserve peace in a fragmented world.

Thank you for your attention.