Good afternoon again, ladies and gentlemen. I’m Adam Posen, President of the Peterson institute. Thank you all for joining us. I am still not yet turned into the Vice Minister. My apologies for that. We have received an update from the Minister’s motorcade, so to speak. And we are told that he is en route and in repeated text messages, he is insistent we begin without him which is very gracious of him except of course we are all waiting to respond to what he has to say.

Nonetheless, what we’ll do in the interest of time is not merely fill it but try to use it constructively. Let me say a couple words of background and then call upon my colleague Nicholas Lardy, who of course is America’s foremost expert on Chinese reform, and ask him to say a few words of background so that the few of you in this room who are not already deeply meshed in the 13th Five-Year Plan can have some small clue before the minister gets here.

Let me just say that this event could not have happened without three people. First, obviously, is Vice Minister Zhu. This will be, I believe, the fourth time in the last couple years that the Minister has chosen to grace our stage. I view that as a reflection of all of you and my colleagues that we maintain the most substantively open and engaged discussions in Washington about international economic issues that we give people fair hearing and to the Minister’s credit, he likes that. And there are other officials around the world, not just from China, who do that, but to have people who are that open as well as that competent and conspiring is a very good combination.

I’m secondly very grateful to my colleague Sean Miner who runs our China outreach program and interfaces – I hate that word but it’s what he does – with a number of organizations in the US, in China, in both the official and private sectors. Sean is currently in the hall monitoring the minute-by-minute messages from the Vice Minister. But many of you in this room have worked with him and he continues to help us plan our work in China, our travels in China, our outreach.
But thirdly, I want to acknowledge and then turn to my friend Haiming Wang, who is the Secretary General of the CF40. Now, many of you, I think, are familiar with the CF40, but let me just say a word. They are far and away our most important partner in China and they are far and away our most important ongoing relationship with a peer think tank. CF40 started several years ago in part, thanks to Haiming’s vision, but also that of some very senior officials including Chen Yuan of the China Development Bank, who used to be on our board, and Governor Zhou of the People’s Bank of China. And it was initially a network of the leading economic policymakers, thinkers, market economists in China and was emphasizing a two-tier system of some of the most distinguished people and some rising stars at or around age 40.

CF40 has continued to develop since that time. It is now, in addition to being this leading network, it is a think tank in its own right. It has now hired its first couple true senior full-time senior fellows – very distinguished people. And they have been our direct partner in a series of conferences we have held in Beijing under their auspices and organization which, Nick and I and Sean Miner and various of our senior fellows have participated in. And some of these have reached reports that have gone directly to the top officials and leaders in China. Of course, CF40 managers could do that on its own without us, so we’re glad that they occasionally take our stuff with them.

Earlier this year, we had a very exciting and stimulating closed conference in New York with some masters of the universe. Those of you who want to attend the next one of those, please see me after class to discuss how you might become so affiliated with the Institute. But joking aside, we had a group of 50 institute stakeholders, thought leaders, a half dozen speakers organized by CF40, a half a dozen speakers organized by our side dealing with Chinese financial stability, starting with an overview by Yu Yongding, our friend, and Nick Lardy [inaudible 00:04:39]. And the Vice Minister has arrived.

You have already missed all the nice things I said about you but I will just say again how grateful we are that you’re willing to come directly from the plane and come directly back to the Institute. So, thank you for that. So, before I introduce the Vice Minister—Haiming, was supposed to come up here now.

Haiming Wang: Okay, thank you, Adam. As the Secretary General of CF40, I’m very happy to be here today for the third conference with PIIE this year. As Adam had said, so far CF40 and the PIIE have been working together for four years and have made great progress. As you know, exchange between US and China is very important and the key economic issues again are
very important compared to official talks. The non-official exchange is equally important. And it is the same case in China.

Thank you, Adam, for the introduction of the CF40. The CF40, as you put it, on one hand we’re like a platform, similar to the NBER, about 300 people who come from the government, academia and the market, participate in our research and seminars personally. And this is a very important factor for CF40’s quality.

And on the other hand, we are updating our CF40 entity with the CF40 group and CF40 foundation. You know, the CF40 people have to compete with each other. In a year, the people who meet our standards we use today while others will have to leave. Some outstanding members can become fulltime research fellows when they leave office or retire. Starting this year in the past few months, Xie Ping from CIC, Guan Tao from SAFE, and Yu Yongding from CASS helping our fulltime senior fellow.

CF40 values international [inaudible 00:07:46]. This year global leaders like Christine Lagarde and Adam Posen [inaudible 00:05:55]. We also had two large successful conferences with our best partner, PIIE, in Beijing and New York. Both were closed door meetings; today’s event is different. It is open to the media. So, welcome our media friends. We are honored to have financial Minister Zhu Guangyao here who is also an academic advisor to CF40. He built China’s 13th Five-Year Plan [inaudible 00:08:37] and today is the first dialogue between US and Chinese think tank on this issue. I look forward to our very successful discussion. Minister Zhu, please.

Thank you very much. And sorry for the delay because of airplane. Some delay because of weather. But today, we really appreciate Peterson Institute and CF40. And I think today is the first time US think tank and Chinese think tank jointly chaired meeting for Chinese 13th Five-Year Plan and appreciate that very much. My teacher, Professor Lardy, he’s very, very famous Chinese expert, also, my Chinese economic policy teacher for long time. I learned a lot from him. Many famous people here from US-China relations, thank you very much. And I know some old friends also, officials from US Federal Government here and also media friend. I know media friend most interested in question-and-answer session. So, I will strictly control my speech with at most 15 minutes and leave some time for Professor Lardy and then we jointly answer/discuss issue with friends.

And you know, everybody knows, China just approved suggestion from Chinese Communist Party about 13th Five-Year Plan. And this indeed, we appreciate very much US think tank, Chinese think tank, jointly chaired meeting to discussion 13th Five-Year Plan in Washington DC. I do believe
that’s the first time in DC have such kind of event. I thank you very much for all.

And I just want to take this opportunity to report to you why we thought 13th Five-Year Plan is so important for China and will have positive impact to the global economy. And from 2016 to 2020, this is very vital time for China completion of build up modestly prosperous society in China or will be a comprehensive society in China. And completion, the goal, elimination of poverty in China. That’s ten years before UN mission.

We thought that with this goal being achieved, China will really introduce a new development stage. Although, that time, even Chinese economy as a whole will be 17 trillion US dollar as the economic scale and the per capita income will be 10,000 US dollar. However, that time China is still developing country.

We will continue to make more efforts to achieve the second goal, that’s by 2050, build up China into most prosperous society. And that’s very important. So that by 2020 and then to 2050. And these five years, so important, and this connect with China successfully close over the middle income gap. And we must exactly follow the decision made by 13th Five-Year Plan. And I said now, outside people also consider the three issues particularly.

Number one issue, people from outside of China concern China’s development theory or develop guidance for next five years or beyond. Second one is the concern about Chinese economic growth rate or growth speed for next year or longer time. And third concern, how China will continue implementation of open up policy.

I do believe 13th Five-Year Plan give full answer for these three key issues. First one about development theory and which can be highlighted with five key points or five key terms: innovation, coordination, green, open up and sharing development. Those five terms are so important for China’s future, particularly next five years because we must change development model from tradition investment driven to the innovation driven. This is so important for China’s development for the next five years or beyond. So that’s the fundamental importance is innovation.

Second term, coordination. We recognize China is so large and so many populations that’s different between rural area and the urban area, and different with coastal area and remote area. So, the income also divided so we must have real policy makes this real coordination to realize balanced development.
Third point, third term is green environment emphasized. This is so important for today’s China and must report to you frankly. China faces big challenge for investment pressure. Just yesterday, there’s big talk in Beijing. So, really people hope fresh air, green mountain, clean water. So, we must do everything now. We couldn’t delay anymore. So that’s why in China we must try every effort to improve environment with high standard. And this is why China made this real policy coordination with US. And last year President Xi Jinping and President Obama reached a great achievement that both US and China made national commitment. For China, we will make less emission carbon to the peak around 2030 and we will try our best to do better. So, that’s extremely important for Chinese people, also for the world.

Just yesterday in Paris, President Xi Jinping, President Obama had very good policy coordination on environment issue. China joined this new energy development program that will financial input on research in new energy side. And we can see now new energy, clean energy and renewable energy, China already for the month number in the world. We hope that we really cooperate globally with US, with other developing country to do our best work.

And yesterday you can see President of World Bank, Mr. Kim, said he believe in the very near future Beijing will become the most important carbon trade center. So, China certainly will be from 2017 in the nationwide to introduce carbon market transaction mechanism based on pilot program now already in several big cities.

And for open-up policy, that’s very important for Chinese economy continue integrity for global economy. We have some program and for US, particularly we hope that the bilateral investment treaty can have real achievement. We hope with both sides’ efforts and try our best [inaudible 00:18:56]. The former USTR ambassador here and if we can really organize the will and with Obama Administration this year, we can complete administration negotiation on China-US bilateral treaty.

We hope more based on this one we can have this APEC framework and the Peterson Institute strongly suggests this expand free trade soon to include China, US and more broadly, APEC members. We hope this one with our efforts can be reality and we appreciate this contribution by Peterson Institute.

And last one, very important for Chinese people is that people must share in the outcome of reform and the opening-up policy. And the economic scale expand, GDP increased, income, national income increased, that must be reflect by the people’s living standard improve. Family house
must have real benefit from those policy and we then gather stronger support for further opening up and reform agenda.

And second one about economic growth, we base on achievement now China [inaudible 0:20:45] with next year, we must enhancement of stability inclusive needs and sustainability. Based on those principles, double Chinese GDP by 2020 based on labor of 2010 and double per capita income, and per capita income, same labor. And I report to you, if we reach these goals, we must keep average annual growth more than 6.5%. In other words, more directly at least averaging yearly growth must be 6.5 or above. So we hope that through structural reforms are devised, Chinese economy can be kept sustainable development. Then by 2020 we can reach that goal and the figure I report to you, total GDP will be 17 trillion. Per capita income will be more than 10,000 US dollars.

And the third point is regarding Chinese opening-up policy. That’s the first time 13th Five-Year Plan include opening-up policy, particularly One Belt One Road policy into program, into 13th Five-Year Plan. And this is the first time China led by Chinese Communist Party, Xi Jinping as leader to outline the program by the world map and not only just forecast domestic economic situation but more beyond that, the global view, global vision and why we so emphasize the principle of One Belt One Road.

Number one, we analyze global situation, international situation. We believe peace and development still mainstream of global trend. So, that’s our external situation. Domestically, we focus and build up prosperous society, concentrate on economic development. Thirdly and from ancient time of China, we have this long, long tradition, have the trade peacefully with road inside and with outside neighbor countries and countries on the Silk Road.

So that’s tradition and in Ming Dynasty, Chunghwa, like this big Chinese ship fleet have this long trip and that Chinese ship fleet brought tea, china and culture and how we find communication with countries on the road. So, that’s very, very traditional. So we believe those traditions are a benefit for China, also benefit country in the road.

So, finally, we do believe our proposal made by President Xi Jinping to connect with other countries’ strategy – for example, Indonesia ocean strategy; for Mongolia, grassland development strategy; for Europe, even Juncker investment strategy; even in UK, now Manchester update program. So that we can connect Chinese proposal, One Belt One Road, with other countries’ programs, make this real connection and so we can realize win-win situation. And in general we thought that China development must rely on global peace and global development.
On the other hand, Chinese development, particularly if China can realize the 13th Five-Year Plan on schedule and eliminate poverty in China by 2020, that’s great contribution toward development and peace. So thank you very much. I hope that we can discuss more. Thank you.

Nicholas Lardy: Well, thank you very much, Vice Minister Zhu, for giving us such a good, broad overview of the 13th Five-Year Plan. I think the contribution I can make to this discussion since I—remember the plan has not yet been released. We had the Fifth Plenum that endorsed some broad principles. It’s fairly detailed but the full plan will not be unveiled to the public until the National People’s Congress in March of next year.

So, what I want to talk about is to put what Vice Minister Zhu has given us in a bit of a historical context to indicate how Chinese planning has evolved substantially over time. And maybe this is a footnote, but I would like to begin by noting that starting with the 11th Five-Year Plan which I believe began in 2006, the Chinese actually changed the name. And they used to always call these things jihua, that’s “a plan”. And we still translate it as plan but in Chinese it’s now a guihua, it’s a program, not a plan. This is very important. This change is not just an accidental change of nomenclature. And at the time that change was made, Xinhua, China’s official news agency made the following statement about why this change was made:

“Over the years, the market has developed so much that it has become the main engine determining Chinese economic growth. Planning is no longer able to exercise sufficient controlling power over the great majority of economic activity and the output of major products.” So, it was a fundamental transformation and this guihua terminology continues in the 13th program.

Now, the second change that’s quite important to note in the evolution of this is that the plan or the program no longer has very many mandatory targets. In the old days there were mandatory targets for hundreds of products and a large number of investment plans and so forth. My favorite example is from the First Five-Year Plan, when one of the listed products for the increase in output was gunnysacks, burlap bags. Probably many people in the room don’t know what they are, but I grew up with horses and every couple weeks we went to farmer’s co-op and we got several burlap bags filled with oats. And the plan called for an increase of 101% in the output of burlap bags between 1953 and 1957. The production level at the end of the plan was supposed to be 68 million burlap bags.

There were dozens of products that were listed in the plan and it went beyond just output. There were detailed things in the area of culture. For example, the plan specified that China would build 109 new libraries. Not
about 100 new libraries, 109 new libraries, 57 new museums, and they were going to dub 308 foreign films into Chinese. Not around 300 or about 300, it was going to be 308. So everything was at a high level of specificity.

In the plan just completed, there are no targets for output for any product whatsoever. There are some targets but most of them have now changed into what is called a forecast. In other words, targets that are [inaudible 0:30:41] they’re voluntary or forecast. They’re not mandatory. The term for mandatory is [inaudible 0:30:12]. And there are very few mandatory targets in the plan these days. And many of them, there were actually 16 binding targets in the plan that just finished. They’re not production levels. They’re things mostly in the area of social things and pollution or environment.

For example, there was a mandatory target in the plan that’s just finishing now to increase the share of students that complete nine years of education from the 2010 level of 89.7% to 93%. In other words, get an even larger number of people to complete nine years of education.

So, other examples are in pollution control. There are mandatory targets for the reduction of emissions of a whole range of things, carbon dioxide, nitrogen dioxide and so forth. In one of the details that has been released about the new plan is that the list of mandatory emissions targets in the 13th program is going to include PM 2.5 or something like that. In other words, one of the things that will be included is not just the things that were in the plan previously but it’s going to deal with particulate matter in the air.

So, the reality on the ground is very much as Vice Minister Zhu announced it or described it. It has broad goals, inclusiveness, changing the growth model, openness, eliminating poverty. I think that China’s plan is kind of the flavor of, if I may say so, what the French call indicative planning. You set out these broad goals and you adopt policies that you think will help to achieve them but you don’t actually have the kind of policy instruments to implement them directly.

And the reason that this is the case today in China is that state companies broadly defined, they only account for about 30% of investment. In about two-thirds of this is in infrastructure, which is typical of what countries and governments do around the world. And the government only directly finances out of its budget about 6% of investment.

So, in the old days 90-some percent of investment was financed from the state budget; now we’re down to 6% and it’s top priority projects. And 70% of all investment is financed from retained earnings and the finical
performance of state-owned industrial companies is so weak that their profits are now less than 20% of the profits of all industrial firms and they’re about half the level of profits of private companies. So, most of the investment in the industrial sector is undertaken by private companies that are responding to price signals in the market.

So, this is a very, very different system than what China has had historically. It may be still translated as a plan but the nature of it has really changed quite dramatically and its broad systemic goals more in the flavor of indicative planning rather than highly disaggregated quantitative targets that were characteristic of the plans all the way up through the 10th Five-Year Plan, and the 11th and 12th were a big transition and I think that will continue in the 13th Program. Thank you.

Adam Posen: Thank you very much, Nick. I have to say to both our speakers that to have someone who comes off the plane, breathlessly comes here, gives us a summary and does so as a government official – and we all know that Treasury officials in the US let alone China normally have to be very careful about what they say – and manage to get out all three foreign concerns, all five key ideas and much of a good preview of what’s to come.

And then of course, also my colleague Nick Lardy, the Anthony M. Solomon Fellow here at the Peterson Institute, who is perhaps the only one who could so quickly take us into both the data and the spirit of the change that China is undergoing and that the 13th Five-Year Plan represents.

I will join my colleagues on stage in a moment. Just to facilitate the discussion, we have so many distinguished guests and press here. The Vice Minister has graciously consented to continue this discussion on the record until he must leave very promptly at 5:30 I’ve been told.

So I will not ask any questions. I will, however, remind all of you of the Peterson Institute ground rules. First, we want you to ask a question. If you’re near the front, raise your hand. If you’re near the back, please go to the standing mic. Jessica can bring you the traveling mic. We ask that you identify yourself when you ask a question. We ask that you pretend it actually is a question and not a speech. If you give a speech, I will be very mean to you. And finally, as something I instituted in the post-Fred Bergsten era, we ask that our Institute fellows wait until two or three of our guests have spoken before they ask their own questions, especially since we already had Nick’s definitive remarks.

So with all that in mind, I would like to open it up for discussion. There obviously is a minor international financial issue that took place over the last few days for which the Vice Minister as much as anyone deserves
credit and acknowledgement. But I do encourage people to also think about how important it is that we and CF40 together have had this opportunity to give you a real preview, as Nick says, of the forthcoming 13th Five-Year Plan and what that will mean for China and the world. So please also consider that topic. So, I’ll open it up. Please. Go ahead, Ian.

Ian Talley: Ian Talley, Wall Street Journal. If I may, can you help me to understand the nature of the debate within those in power in China between moving ahead in market liberalization and opening up markets versus going back to the old strategy of investment-led growth, export-led growth, one. And two, it seems to me that – I wonder if you can detail what you’re thinking about in terms of keeping the 6.5% target. What types of fiscal stimulus re you thinking about? And if I may indulge—

Adam Posen: You get the second one just because we like you. Two is all you get.

Minister: But that first issue, very important.

Adam Posen: Fine, absolutely.

Zhu Guangyao: No, no, no.

Adam Posen: I was just praising his question.

Zhu Guangyao: Really, that’s a fundamental change about our development model and to be honest, that’s a real discussion or debate inside because that’s the long traditional model, investment-driven. It’s easier to do and that’s just from demand side to do stimulus program and that will keep growth high.

But the question now people understand, not sustainable. So that’s why 13th Five-Year Plan so important for us. As Professor Lardy said, this is why just the suggestion by Communist Party. So final program should be approved by next March, by People’s Congress. But now this suggestion is really concentrate consensus by domestic people. We must change development model because the dirty air, because no sustainable development, and soil quality, water quality and soon connect with people’s living standard quality.

So now, people won’t enjoy, that’s not quantity development, but must emphasize quality. So that’s why they changed development model from tradition investment driven to innovation driven. That can be gather consensus, can be strongly supported by whole people.

But I must be very frank, we see innovation-driven in the new format development model, but less traditional model continue play the role in the transition period. But even traditional model for investment of some
traditional way must do some reform and use as innovation approach to change.

So, we hope that’s three sound restructure reforms. Of course that’s with some cost. We can pave the way for sustainable development. Now, its people’s wish and the people’s demand decide real policy. So policy can contribute to reflect people’s bidding and people’s wish and people’s demand. The Chinese people need more fresh air, more clean water and more qualified food and more improved quality of living standard.

Second issue regarding fiscal policy side. We implement proactive fiscal policy this year or you’ll see less expansionary fiscal policy with four key points: one is, we increased the budget deficit from last year, 2.1 to 2.3. Second one, we implement large structure tax reduction, particularly for middle and the small-sized enterprise and systematically cleaning the fee collection. Third one, we’ve made extreme efforts to clean stocked money in the treasury account, use that, not let them continue sleeping in the account. Last point, that’s increase some budget support for public goods. But now we continue to discuss and prepare the next year budget so that the new one should be approved next March by People’s Congress. But we do know how will reflect the situation. But this must be based on reality and must be approved by People’s Congress through legal process. Thank you.

Adam Posen: No, thank you. Nick, do you want to add anything on the growth target or fiscal? Great. We have the gentleman here then to the back mic then to that gentleman and we’ll move from there.

Nathan King: Hi, Vice Minister. Nathan King, CCTV America. Thanks for coming. Can I have your reaction to the RMB decision by the IMF and also what does this mean for the internationalization of the RMB going forward?

Zhu Guangyao: So, firstly, we welcome the decision made by IMF executive board. We do believe this decision reflects the situation. China and the world all benefit from the decision made by IMF executive board. On behalf of US, so that we know how important IMF role and how important made SDR with more representation, more attractive needs. And it’s not just the Chinese interest. That’s IMF interest, that’s global interest. We hope this decision made can benefit Chinese more open financial sector reform and make IMF SDR with more attractive needs and more needs. And also I do believe this decision really reflect global consensus and strong leadership by our leaders.

Just last September, President Xi Jinping had historical successful state visit to US. President Xi Jinping, President Obama reached great achievement on finance architecture among others. One important item is
US based on IMF existed criteria support, renminbi joined SDR. Thus you can check there’s a declaration by President Xi Jinping, President Obama, after September meeting between President Xi, President Obama. Next October, President Xi Jinping had state visit to UK. President Xi, Prime Minister Cameron reached the same conclusion. UK support Chinese renminbi join SDR. Following that, German Chancellor Merkel and the French President Hollande visited Beijing. Both leaders do express same meaning. So just last month in Antalya, back to back with the G20 summit, BRIC leaders meeting, BRIC summit, all members of BRIC leaders support Chinese renminbi join SDR. So you can see there’s real global consensus. President Xi Jinping himself do extreme hard work and discuss with global leaders. This achievement really reflects consensus, global consensus and will reflect the situation. Thank you.

Adam Posen: Before we go to the next question – you’ll be next – just let me try to link back your very clear achievement here to your broader reform discussion. So, as you know, many of us here at Peterson have been very strongly advocating governance reform at the Fund and in the IFIs more globally and have China’s role. So this is not about that.

The issue is many people on the outside, and it seems many people inside China have thought of the SDR as a sort of way of organizing and motivating reform particularly in the financial sector that people would say, in order to reach the SDR goal, we need to be open in this way, a global currency in this way, better data and so on.

Now that we have achieved China getting the SDR status for its currency as I think it should, what does that do to financial reform? Does that mean you’ve been rewarded and now you’ll ease up? I mean, given that many leaders in China seem to be pursing that strategy. I’m sure you’ll tell me no, but just explain why no.

Zhu Guangyao: Yeah. You are right. Certainly the answer is no. Chinese yuan joining SDR does not mean end of reform of finical sector in China. And we have our plan. This plenary meeting, Communist Party third plenary meeting have real mission that include financial sector reform. That’s our guidance. We follow that exactly and certainly join SDR does not mean end of financial sector reform. President Xi said to whole nation, reform is ongoing process. Not this and we must continue reform and reform and opening-up policy complement each other, promote each other. That’s Chinese interest, Chinese mission and we only insist on reform and opening-up policy we can successfully implement 13th Five-Year Plan. And only insist on reform and opening-up policy, we can realize Chinese dream.
Adam Posen: Thank you. We know the Chinese dream is the goal. We don’t know what it means but we know it is the goal. Please, at the mic.

Jennifer Lee: I’m Jennifer Lee with Hong Kong Phoenix TV. Actually, I got a very similar question, but I’ll modify a little bit. It’s still SDR question. So, there are some speculation about renminbi has churned after joining the SDR, either appreciation, depreciation or maintaining stable. So I wonder, can you share China government’s view with us? What will be the exchange rate mechanism, your position going forward? Thank you.

Zhu Guangyao: So, China’s currency must be decided, that value by the market. But now we are continue implement manageable floating system and we hope this system can help us to successfully complete transition period. But IMF point very clear, sometimes you either fully market driven or very manageable. And this one is a transition period. We know that’s a challenge but we must base on Chinese economic situation and go the reform process. And the agenda and we hope that one day renminbi currency totally reflect market value. But even that in the world we still must see global monetary policy coordination including exchange regime coordination. That’s a need, global coordination. That’s why we need G20, that’s why based on instruction by G20, IMF should play very important role. So in this regard we really believe [inaudible 0:50:13] capacity of IMF is in line with interest of every country.

Adam Posen: That’s great to hear. Thank you. Here in the second row, please.

Hilton Root: Hilton Root, George Mason University. I have a question about the innovation policy.

Adam Poses: No, no. I’m just indicating where the microphone goes next. I’m sorry. Please, go ahead.

Hilton Root: What kind of reforms will facilitate the innovation driven development plans and will it involve stock market driven innovations? How will innovators be identified? Will there be national innovation targets? And what about what we often refer to as disruptive innovations that upset the incumbents that are well established in the market?

Zhu Guangyao: So, in our experience, we saw that mostly important is strengthening education. And we also face a challenge, reform of our education system and for Chinese tradition in school, just the teachers taught everything, students learned everything. And then that’s good examination mark but really not suitable for the market we have market action. So just extremely hard work, reform on education system. That’s not only in university but also in middle school, even in the primary school. We hope this system
must be learned the global instruments and must let students have their thought be reflected, not teachers taught everything. This very important but maybe this is the most difficult job because long tradition in Chinese society, student also want to learn everything teacher, professor taught me. At the time Professor Lardy taught me, I learned, that’s something good, I still remember what he taught me, that’s demand, that’s supply. But not just we get to learn, that’s very important.

And the second one, we must increase input of R&D, so this time recently China joined this new energy double R&D research fund. China also important globally now is the 20 countries, that’s global initiative. But in China, we should extremely increase input in R&D. And also we have this one very key challenge is that some innovation result not be quickly used commercialized. That’s bigger and China is developing country, even with some developing country. That’s our problem. We must do extreme reform to change that. And my figure show us this one not used as innovation to commercialize that’s made Chinese total productivity, TFP, become lower. So that’s a real challenge. But this is very frank, that’s very challenging situation. We must do extreme efforts. But that’s not only money issue. Fundamental change is sought. That’s very important. So that’s why we must have more communication with global counterpart including we now much, much encourage our think tank connect with international think tank. That’s a learning process. To be honest, that’s a real learning process. We have some who think we must insist on, but some change must be followed.

Adam Posen: Professor Lardy, do you want to add something?

Nicholas Lardy: Yes. Vice Minister Zhu mentioned total factor productivity and I think firms or regions, sectors that are innovative, it’s eventually going to show up in improvements on total factor productivity. In all the research that’s done on China in the reform era, private firms have two to three times higher total factor productivity than state firms. State firms have been extraordinarily inefficient, whether you measure it by return on assets or total factor productivity. So, when I read that innovation has to become an even more important source of economic growth in China, I think the only way to achieve that is to allow a further expansion of the role of the private sector because I don’t think this innovation, with some exceptions, there are some innovative state forms, but on average their productivity is very low, their innovation potential, given the incentives and so forth that apply I think is very low. So to me it seems to suggest that there will be an even larger role for private firms in the 13th program.

Adam Posen: Very cool. At the mic and then, Jessica, the two ladies just on this side of the mic.
Male Speaker: Thank you. [Inaudible 0:55:33] with China Real News Agency of Hong Kong. I have a follow-up question on SDR. I think there are different interpretations strategically about the inclusion of Chinese currency into SDR. Some people think the US is better positioned to influence China’s foreign policy making process because of this inclusion. And other people think that RMB will be better positioned to compete with the US dollar. So, maybe it means a new beginning of the currency war between US and China. So I would like to hear the perspective from Minister Zhu, Chinese perspective and the American perspective from Mr. Lardy. Thank you.

Nicholas Lardy: Well, I don’t see it as a currency war or competition. China now, RMB-denominated assets accounts for roughly one percent of global reserves held by central banks. The transition to more holding of RMB-denominated assets I think will be very, very gradual. I’d be very surprised if it’s more than 5% by 2020. The US share is above 60% and it will be not of much concern if we go down to 50% or something like that over the next decade. So I think this will be a win-win for the global economy and should be not thought of in competitive terms, you know, that the Chinese are gaining share at the expense of the US. I think that’s a misreading.

Adam Posen: Before the Vice Minster responds, let me give you an addition American view and also an economist view, not that Nick isn’t an economist, but just to expand on this point. What Nick is enunciating is a general principle. It’s not specific to the current situation between the US and China. As Barry Eichengreen and other monetary historians have established, there have been long periods in modern economic history when you’ve had more than one so-called reserve currency, when there have been say the franc and the sterling and a rising dollar, all in heavy use by central banks, all in heavy use by investors.

There is room still for coordination, as the Vice Minster helpfully mentioned, among the major economies and now the major currencies about spillovers, about rapid market movements. But there is nothing inherently zero-sum about this. There is no reason that China and the US and the euro and potentially the yen and the sterling cannot continue to issue debt in their own currencies, not continue to be held by all official sector and cannot continue to be available to the world.

In fact, and I hope the Vice Minister would agree with this and I think it’s in the spirit of what Nick was saying, in a world where we worry a lot about adjustment of global imbalances, having a more balanced basket, not just in the SDR, but in world portfolios means that the burden of any such imbalances will inherently be somewhat more evenly distributed and I think that’s something the US and China both want.
Zhu Guangyao: Yes, that’s both Professor Lardy and Dr. Posen give this inlet from a very, very professional base and very detailed information. I agree very much. And also, from policy side, again I would like to quote President Xi Jinping, President Obama consensus on international financial architecture. We do believe this consensus is great decision not only very positive impact today’s global economic financial situation, but more beyond. That’s the long-term positive impact firstly for relationship between China and US and more broadly, longer for global system. So that’s already take great policy contribution by our leaders.

Adam Posen: Great. Not to cut anybody off, but in the interest of getting as many people as possible in, I’m going to try to gather two questions at a time. Please, the two ladies in this row.

Jo Marie Griesgraber: Thank you. Jo Marie Griesgraber New Rules for Global Finance. I wanted to go back, Minister, to your description of the plan or the program, one that you listened to the people of China and two, that it must be approved by the People’s Congress. Can the People’s Congress change the draft plan and how do people know whether or not they’ve changed it and how do the people of China deliver their wishes to this process?

Zhu Guangyao: Yes, I would like to report you that real precise of formulation of suggestion of 13th Five-Year Plan. So, indeed this openness by Chinese Communist party and in the party side we have real internal discussion and this opinion be reflected by the party members. Also there’s President Xi Jinping and Secretary General of Communist Party chaired meeting to listen in comments from outside of Communist Party. So, we can see, this process to formulate the suggestion if 13th Five-Year Plan already gathered consensus of whole Chinese people. And that’s why we have full confidence to say this really reflects this demand of Chinese people. But however, your point is important. Next March, People’s Congress will discuss this program and as Professor Lardy said exactly. And then the deputies will discussion review including debate. And the final program should be approved by People’s Congress next March and then fully be implemented, this whole process. But in Chinese character, we have actually two tiers: Communist Party’s suggestion and the real approval by People’s Congress.

Adam Posen: Yeah, the lady, please.

Female Speaker: I’m [inaudible 1:02:09] from Shanghai Media Group. I have a question for Vice Minister. As China’s economic growth enters a new normal and 2016 will be the first year of the 13th Five-Year Plan, could you just talk about: How will china make the most of the G20 to play a positive and a constructive role in the global economics?
Adam Posen: Thank you.

Zhu Guangyao: Thank you. Next year, China will host G20 summit. From this month, China already take presidency. So, while I’m here just for policy coordination with our US colleague, particularly Treasury. So, US Treasury strongly suggests immediately after taking over the presidency, we immediately have this policy coordination. And in the last ten G20 Summits I can report to you very proudly, China, US, we had wonderful policy cooperation from very beginning. First one in Washington DC and last one already in Antalya, Turkey. We have this real good policy cooperation. We have this actually three-tier level coordination between China and US. Of course this top level is president. The president, you can say the day before yesterday in Paris, President Xi Jinping, and President Obama had very good meeting and both presidents gave instructions to the Chinese team and US team. We both must strengthen coordination on macroeconomic policy, also that’s G20 issue. So that is so important for us to implement instruction by President Xi Jinping, by President Obama.

So you can see both sides emphasize policy coordination immediately after Chinese take the presidency. We are here to discuss with our – I believe some Treasury people here to discuss the real cooperation.

But we must recognize G20 and the global economy really face this challenge. And 2015 global economy growth only 3.1%. That’s the lowest growth since 2009 and the global trade only 2.8%. And they continue for third year. Lower global trade increase, lower than GDP growth. Even GDP growth is already low since 2009. So, most cautious, will be paid attention to in 2015 the trade volume increased in developing country, first time lower than the trade volume increase by developed country. That’s a new challenge and the price of larger commodity that’s continue job. That’s two sides impact, demand side, supply side, there’s certainly increased uncertainty.

I believe in this one, Peterson have very deepening study. So that’s why we must have real cooperation and show solidarity. We have next year G20. We must face that challenge. We must address the key issue, both demand and supply side to try our best make global growth return to normal track. But easy to say, difficult to reach that mission. So that’s a very big task.

And second one, we must promote structure reform. Also, we will discuss how improve in supply side and how improve in the demand side. And what is monetary role, we saw that very limit, and what fiscal capacity that’s needed, the consensus among G20s. But important is that promote structure reform. We hope that gather consensus may be easier. We must do extreme hard work. Third one, we must strongly emphasize solidarity
of G20. We must work together to deal with challenge. That challenge include promote global governance system reform and continue improve the international financial system. That’s the basic thinking. We’ll consult with all members of G20. But I do believe China-US policy coordination, corporation is very key.

Adam Posen: Very exciting agenda. So, the two gentlemen at the back mic, and then Jessica, these two gentlemen over here. But first the two gentlemen at the back mic, please.

Peter Stern: Peter Stern. I used to work for the OECD and for the IMF. Thank you very much Mr. Vice Minister for an informative overview. Now, the World Bank publishes annually a set of public sector governance indicators, which are highly correlated with economic performance in level form. Among these indicators, the two most important statistically and significant is voice and accountability and rule of law. And traditionally China ranks fairly low on these indicators compared with other countries especially it falls much short of the performance of high income countries. My question is whether you think that ambitious goals of the 13th Five-Year Plan also require reform in public sector governments and if so, what type these reforms might take in the future?

Adam Posen: Thank you. Before the Vice minister replies, let’s just get the last question in. I apologize. I promised the Vice Minister I wouldn’t keep him late. So let’s just try to keep this going.

Ryan Rainey: Thank you. I’m Ryan Rainey. I’m a reporter from Inside U.S. Trade. I know that the Ministry of Finance is involved in the information technology agreement. In the ITA, China has held firm in demanding five- to seven-year phase-outs on sensitive products but industry groups have called for a shorter phase-out period. Is China at all willing to do anything to address these demands from industry groups? And if so, what would that be? Thank you.

Zhu Guangyao: Thank you. That’s two issues. One is for some, there’s a sensitivity but a very direct answer those two questions about World Bank report. And yes, we have some debate discussions with World Bank management. And you are absolutely right. Some rating for China in some year is lower and however risk two years some improvement. But very frankly, we don’t care which kind of level but that really hope reflects the reality.

And now we have very good discussions with World Bank. We hope that World Bank decide improve the data collection and reflects more reality in the country survey. And in the country side we do think rule of law is a very important. That must be as a base for discussion. So, in this regard we are more emphasized at the report. We hope that full cooperation to
enhance the capacity of this report and also contribute to the member countries, improve the business environment.

So, in general, now we have this good discussion with World Bank and China is key shareholder of World Bank. Of course, World Bank is our bank. We hope that World Bank with more qualified report and more good influence, positive influence in the world. We support World Bank play very, very important role in global development process.

And the second one about ITA. I think that’s China-US coordination as a big contribution for completion of negotiation of ITA. Last year, President Xi had a statement, take less advantage of APEC in Beijing, APEC summit in Beijing. That’s one big achievement is that China-US reached this agreement on ITA. Then just the piece on real agreement by China-US. We promote the process of ITA and indeed, every country have this interest group. Some industries certainly have their interest. But every country need internal coordination, balance and really reflect that country’s interest. So, we think this agreement of ITA really contribute to the global system. But beyond, they have a multilateral system in trade particularly WTO should play real low. We hope this will gather the momentum to promote Doha Round and let WTO play the important role. But we know that’s very challenging. We hope that everybody is working. And that’s the direction, there’s the USTR Ambassador here, she’s more powerful with this speech. But I hope that we can work this together to promote process of multilateral trade system.

Adam Posen: Thank you very much. My apologies to everyone including those who were just about to ask a question, the Embassy has threatened to revoke my next Chinese visa if I don’t get him out of here on time. Just quickly, let me just say thank you to everyone in our audience as well as those watching online with the live stream. We know it was delayed but we think it was well worth the wait and we appreciate that.

Thank you to my colleague Nicholas Lardy, who gives us the French planning and beyond perspective that no one else could. And thank you to Haiming Wang and our partners at CF40. We are very proud to be the think tank track to go with these other forms of US-China coordination and to really work together to promote understanding on both sides of the Pacific and to promote better plans in both US and China.

But finally and of course most of all, thanks to Vice Minister Zhu Guangyao. This is, I believe, the fourth time he has come to speak here. This was the most difficult for him to just show up and as always he, in the American phrase, knocked it out of the park. Thank you so much for being with us.
Zhu Guangyao: Thank you. Thank you.