News Release

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As China Aims to Transform its Economy, Time Is Ripe for a New Round of Reforms

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Fon Mathuros, Director, Media, Communications Department, Tel.: +86 15122018229; fmathuro@weforum.org

- China ' s new leaders could implement a fresh round of institutional reforms needed for long-term sustainable growth.
- China should bolster the independence of the judiciary and promote the growth of small and medium-sized enterprises through financial reforms.
- For more information about the Annual Meeting of the New Champions 2012, please visit: http://www.weforum.org/newchampions

Tianjin, People ' s Republic of China, 12 September 2012: With a leadership change playing out and in the midst of implementing its current Five-Year Plan for sustainable and balanced growth and creating an innovative knowledge economy, China may be poised for a fresh round of reforms that are necessary to achieve its long-term development goals. " The coming three years are critical for the next 20, " Li Daokui, Director of the Center for China in the World Economy (CCWE), People ' s Republic of China, told participants in a session on the global implications of China ' s transformation at the World Economic Forum ' s Annual Meeting of the New Champions. " We still have a lot of institutions which are not conducive to creative activities. "

The rule of law, for example, needs to be bolstered by ensuring the independence of the judiciary, Li noted, adding that stock markets should be more closely regulated and rules enforced. " Too much attention is fixed on GDP, " he lamented. " The key issue is the fundamentals of growth. We are now running out of the dividends from institutional reforms pushed out by the previous government. To continue to grow, we need a new round of institutional reforms. " Reckoned Li: " The social conditions are ripe. Among the new leaders, there is religious belief in reform. Without reform, there is no way to achieve success in the future. "

Klaus Kleinfeld, Chairman and Chief Executive Officer of Alcoa, USA, agreed. " When you look at the policies, they are clear, " he said, citing China ' s 12th Five-Year Plan. The challenge is how to manage the transformation from a great plan to reality. In particular, Kleinfeld remarked, " there is a tremendous need for more small and medium-sized enterprises (SMEs) and a tremendous need to change the financial system to make that happen. " Private companies typically pay double the cost of capital; poorly performing state-owned enterprises are kept afloat; and resources are misused, he pointed out.

Stimulating the growth of SMEs and promoting innovation will be critical to China maintaining its high growth and improving its quality. " Can small and medium-sized enterprises and innovative businesses grow more to sustain the 7.5% or higher growth? " asked Lee Kai-Fu, Chairman and Chief Executive Officer of Innovation Works Management, People ' s Republic of China. " We are very optimistic and bullish. The question is whether China can build the solid and useful products that its people will use and drive up consumption. " The government has so far played a positive role in stimulating innovation by attracting talent, co-investing in funds and keeping its hands off, Lee noted.

But, will the new leaders be able to implement robust reforms at this critical stage in China ' s development, with the global economy weak and unstable? " It ' s not true that the quality of growth is as high as the Five-Year Plan wanted, " Arvind Subramanian, Senior Fellow at the Peterson Institute for International Economics, USA, argued. " There is still an internal imbalance. China is still doing a lot of investment. It has not improved consumption and not improved employment. The share of the pie has been coming down. " Declared Subramanian: " The big question going forward is whether it is possible to re-orient [China ' s development] model towards consumption without taking

on the vested interests in the economy. ” He said he wonders whether the government would be capable of taking away the privileges of state-owned banks in the interest of reforming the banking sector.

The determination of China ’ s political leaders to get things done should not be underestimated, Sir Martin Sorrell, Chief Executive Officer of WPP, United Kingdom, advised. “ I have great confidence in the political leadership here. State-directed capitalism works. My experience is that the leadership understands the need for change. ” Indeed, with China and other economies in Asia and Latin America growing rapidly, the developed world will need to get used to the new order, Sorrell warned. “ We in Western Europe will not be the top dogs, which is the uncomfortable truth that we have to get used to. ”

Notes to Editors

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WORLD ECONOMIC FORUM
World Economic Forum, 91-93 route de la Capite, CH-1223 Cologny/Geneva
Tel. +41 (0)22 869 1212, Fax +41 (0)22 786 2744, http://www.weforum.org