Keynote address, and remarks to close …

The 3rd All China Economics International Conference

APEC Turns 20 and the Anniversary of the Financial Tsunami

Celebrating the 25th Anniversary of City University of Hong Kong

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I am honoured to address the third All China Economics International Conference.

The conference organizers, Professor Kui-Wai Li and his team, insist that we set our sights on pressing economic and financial issues that affect the entire world.

Scholars and professionals, largely from China and APEC member states, have come to Hong Kong at a time of unprecedented change in the world economy to share views and to report research on a range of contemporary economic, financial and governance issues.

Congratulations to all for participating in this significant and successful three day event.

To give structure and shape to my comments at the close of the conference, I turned to the special themes set out for the ACE Conference itself …

My remarks will deal with China's new-found place of power and influence on the world stage. The world stage has various dimensions.

China is now a formidable economic force in the world.

China is emerging as a global political influence.

And on a timely, sensitive and important international issue with both economic and political ramifications, China has assumed a leading position in dealing with the challenge of climate change.

The three concerns that frame my remarks – economics, politics and the future of the physical world as we know it – are addressed from the perspective of the Western view of China's role.

I am not from China. I cannot speak for China. However, I am a long-time China watcher and I have watched with fascination as China became committed to the greatest economic and social experiment in modern history.

Each of the three dimensions of my remarks incorporates the idea of "balance" – in a Taoist sense of the word – encompassing thoughtful adjustment and harmony. At the moment there are straining imbalances, in the world as a whole and in China in particular, in economics, politics and the pursuit of a healthier planet – that we can identify and, perhaps, with circumspection, suggest promising directions to correct the imbalances.

When I come to China, and this is my 30th trip, I am always struck by the uniquely Oriental perspective on the timeframe in which progress and accomplishment are measured. While the economic and social progress over the past 30 years has been remarkable, what is 30 years?

In the West – in the European tradition – we mark time in centuries. In China, on the other hand, historical time is recorded in dynasties. When we look at the duration the dynasties, we see that some have lasted longer than the entire span of Western civilization.

This underlies a remarkably long horizon in planning and philosophizing on economic progress and the social order that accompanies it.

Perhaps we should recall Zhou Enlai, the first Premier of the People's Republic of China and a well-trained historian. In 1971, amidst the tumult of the Cultural Revolution, Zhou was asked his view of the social and political consequences of the French Revolution of 1789, almost 200 years earlier. Zhou famously replied, "It is too soon to tell."

I am impressed by China's practical, incrementalist, risk-managing method of approaching even the biggest tasks in reform ... *mwa je shitow gua he* ... crossing the river by feeling for the stones. For the past 30 years, the "stones" just below the surface of the waters have been largely at home. Now, as China emerges to global power and influence, it faces formidable challenges on the world stage. China must tread carefully.

Speaking of the French as I did a moment ago, we might also recall the West's concerns about China as suggested by that great French strategist, Napoleon Bonaparte, 200 years ago …

> "Let the dragon sleep, for when it awakes the world will tremble."

<u>China in our tremulous world of economics and finance …</u>

Over the past three days of seminars and presentations at the ACE Conference, you have addressed, analyzed and explored many dimensions of the extraordinarily difficult and stormy period – that destructive word "tsunami" is explicit in the Conference theme – that we seem to be beginning to put behind us.

As Paul Romer, that American growth economist put it, "A crisis is a terrible thing to waste."

It would indeed be a shame if we were to adjourn a conference focussed largely on the particulars of the period without looking ahead – perhaps farther ahead than most finance professionals and professors are used to – to consider the longer term economic and financial adjustments that confront China.

We all know that the institutional collapse – involving bank failures, credit paralysis, bailouts, emergency funding and the deepest recession in 80 years - along with dramatic trade contraction and huge unemployment, all of these painful disruptions and losses were triggered in the United States.

As in all complex phenomena, a number of factors contributed to the global economic and financial upheaval. High on the list is the role of derivatives and financial engineering involving complex and opaque real estate finance – reminiscent of the Asian financial crisis ten years ago and, ten years before that, the avalanche of bank failures in the United States – all of which reflects the woeful state of financial sector regulation.

However, we also all know that in the current global financial maelstrom, China played a crucial contributing role in the build-up of the global imbalances that are at the heart of the problem.

I will turn to what China must do, in a global macro-economic sense, to contribute to restoring balance to the world and, in turn, to establishing balance within China itself. But I must take a moment to point out what took China to where we are.

China's road to prosperity, its outward looking policy based on export-led growth and the embrace of foreign-direct investment, was accelerated - fortuitously although unlikely intentionally – by the world's rapture with globalization and the prosperity that globalization seemed to promise. Almost simultaneously, most countries of the world embraced the ideas of unrestricted trade and cross-border investment more enthusiastically than ever before. That put China's export-oriented, foreign-technology-absorbing economic initiatives on steroids.

China, of course, rapidly became the world's factory for relatively low-tech manufactured goods for export, combining its seemingly boundless supply of labour with a great deal of foreign direct investment with its technology, business acumen, production management and global marketing. While Deng Xiaoping said in encouraging the reforms, "To be rich is glorious", we also know that a country cannot become seriously and securely prosperous by making socks and toys for the world.

Today, the external driver of China's newfound prosperity – the seemingly boundless external demand for China's manufactured consumer goods – has dropped dramatically. There are no more striking pictures of that than the locked factories of Guangzhou and the relatively quiet harbours of Hong Kong.

Perhaps for the first time in 30 years, we must confront the unsettling question that began to be asked three or four years ago. The question is, "Is China on a straight, upward path of prosperity that began in 1978 with Deng Xiaoping, Zhou Ziyang and the market reforms?" I spoke on this issue in Beijing, to a United Nations Conference, about 4 years ago. The answer

seemed obvious to many, especially to Western economists, that "Yes, boundless prosperity – as long as China can keep finding secure footing on stones under the river."

My cautionary view 4 years ago and again today is that the rising path to prosperity is not a sure thing for China. The Chinese economy is more fragile than most recognize or are willing to admit.

Let's go backwards. The past 20 years, since the sad Tiananmen incident of 1989, is the longest stretch of internal "harmonious relationship" that China has enjoyed in more than a century. Prior to 1989, the early struggle was to make the transition from central planning.

In reverse chronology back from the launch of reform, China had suffered through the Cultural Revolution, the Great Leap Forward, famine, civil war, an isolated society, the Sino-Japanese War, occupation by Japan, the Wuchang Uprising, the Boxer Revolution and numerous other difficult local events.

Perhaps, China proves, as Neitschze said, "What does not kill you makes you stronger."

Perhaps it all began in 1919 with the May Fourth Movement that began as a response to the terms imposed on China by the Treaty of Versailles that ended World War I. The May Fourth Movement quickly became a protest movement about the domestic situation in China. Liberal Western philosophy was discredited among Chinese intellectuals who were to adopt more radical lines of thought. The seeds were planted for the irreconcilable conflict between the left and right in China that would dominate Chinese history for the rest of the century.

The key point is that it would be naïve to see nothing but a continued straight line to further prosperity and harmony in China. For the past 20 years, China has effectively purchased internal harmony and relative social stability with an ever-growing economy. Will that promise hold? Is it too soon to tell?

Today, the economic challenges that will determine whether China might follow a "straight line" to further prosperity are no longer simply internal economic matters. China is now grappling with one side of a huge international macro-economic imbalance – China's Current Account surplus, capital exports and a 2 trillion dollar mountain of reserves, versus America's Current Account deficit, its huge capital imports and the world's greatest foreign debt, much of which is held by China. Has this been a happy international marriage of convenience or the basis of global economic peril?

It is encouraging to see indications that the Chinese authorities recognize that the mix of aggregate demand in China must shift. It must shift from growth driven by investment and export-oriented manufacturing to growth driven by domestic consumption. The required China-internal re-balancing of aggregate demand is consistent with the external macro re-balancing between – to keep it simple – China and the United States.

China has a strong hand to play. As, or if, China shifts its growth engines away from investment and energy-intensive exports toward domestic consumption, the effect will involve expanded services, reduced energy consumption and less capital-intensive production. With a less capital-

intensive industrial structure, growth will rely more on productivity than investment in physical capital. The shift requires complex changes in incentives: for households to consume more and for China's countless job-creating small private businesses to diversify into services, undoing the policy bias that favours polluting, export-oriented, capital-intensive state enterprises.

The call to constructively re-balance the economy is all the more urgent because of the cataclysmic demographic course that China set itself on in 1979 with the one-child policy. China is aging rapidly. Will China become rich before it becomes old?

China's slowdown is a certainty. We only have to look at comparable experience in the neighbourhood. As Japan, South Korea and Taiwan embarked on market reforms and industrialization, each initially grew at high rates similar to China's. After several decades, each subsided to permanently lower levels. Eventually China will as well.

China has already passed the first stage. China is no longer the lowest of the low wage producers. Vietnam, India, Bangladesh and Myanmar lay claim to that title.

China's growth has been accommodated in large part by the rural-to-urban migration. Underlying this was a production function that reallocated labour to the more productive manufacturing jobs. As mentioned, the foreign-source pull on this – US consumption - has subsided and will not return with the same intensity.

We see some early promise in the re-balancing. China has succeeded in raising its domestic spending through fiscal incentives and an explosive growth of credit. Its real consumer spending has jumped 15 per cent in the past year, outpacing the almost double digit rise in GDP. Chinese government spending has also increased domestic demand via major expenditures in domestic infrastructure investment and low income housing.

But while these two shifts are necessary to reduce global imbalances, they are not enough. For that, exchange rates must also adjust.

The US dollar must decline – and it is declining - relative to other currencies. The dollar decline will go some distance toward making US products more attractive to foreign buyers while encouraging American consumers to substitute US goods and services for imports. Without that incentive to increase US exports and reduce US imports – to correct the US trade imbalance - any rise in US income would be deflected abroad via imports. The recent decline in the dollar relative to the euro, the yen and other currencies is a natural and desirable part of the process of reducing the US trade deficit and shrinking global imbalances.

Unfortunately, the Chinese government is resisting substantial *renminbi* appreciation. It has kept it pegged at a rate of 6.82 *renminbi* per dollar. With the dollar falling relative to other major currencies, the fixed exchange rate of the *renminbi* relative to the dollar has caused the Chinese currency to also fall relative to the euro, yen and other currencies. The trade-weighted value of the *renminbi* has therefore been declining, making Chinese exports more attractive and foreign goods more expensive in China.

The result has been an increase in China's exports from $276bn in the second quarter of the current year to $325bn in the third quarter. This helps lift GDP and jobs in China but does nothing to reduce global imbalances.

China's policy of keeping the *renminbi* weak means that the US dollar must decline more rapidly against the euro, yen and other currencies to achieve the same overall trade-weighted fall of the dollar. China's weak *renminbi* policy therefore frustrates the restoration of global macro-balance.

Equally important, China's policy of expanding domestic spending while limiting *renminbi* appreciation will lead to an overheating of China's economy, particularly its manufacturing sector. This in turn forces the Chinese economic authorities to pull the only effective lever, that is to impose higher bank reserves and restrictions on credit expansion. On the other hand, allowing the *renminbi* to rise would naturally shift demand in China from manufacturing to services and prevent inflation. A stronger *renminbi* would thus reduce both China's domestic imbalance and China's role in global imbalances.

Getting the exchange rate right is part of China's new-found responsibility to the world. Now, we all recognize the difficulty China has in this regard, especially if we were to propose the next logical step – liberalization of the Capital Account. China does not have sufficiently sophisticated domestic internal financial institutions and markets to would allow China to deal with the unfamiliar risk it would face as its Capital Account is liberalized.

In the interests of our time this evening, and to keep matters interesting, I would like to take a sub-topic of this fairly well-established "China must re-balance" story and, as economists typically do, suggest that things might not be as simple as they seem.

The simple story is that, in order for the world economy to move into balance, China must increase it consumption – and reduce investment and export-oriented production – in order to compensate for the reduction in US consumption that is well underway. It seems straightforward, but do we fully appreciate the magnitude of the problem?

China's consumption is $1.2 trillion. US consumption is 8 time that, about $9.6 trillion.

China's consumption as a share of GDP, the proper focus of our attention, is 35 percent. The 35 percent figure is well below the consumption-to-GDP ratios of developed countries, but it is also below the ratio of most other nations in the region – and most other nations in the region at their corresponding stages of export-oriented reform. For all practical purposes, China's consumption share of GDP ... 35 percent ... is the lowest in the world.

The figure is astonishing low. Consumption for most European nations lies in the 55 to 65 percent range. In the US it is around 70 percent. Even by Asian standards, China's consumption share is low. India, Japan, Taiwan and Thailand are at about 55 percent.

The point is this, China's extraordinary GDP growth actually poses a great challenge to raising the consumption share of GDP. With GDP growth of, say, 8 percent, consumption must increase by more than 8 percent to raise the consumption share of GDP. That is simple arithmetic. If

China's GDP grows at 8 percent, consumption must grow by more than 11 percent to raise the consumption share of GDP by one percentage point, from 35 to 36 percent. Consumption, in other words, must grow *substantially* faster than GDP in order to have a marked effect on the consumption share of GDP.

What if consumption cannot – or does not – grow more rapidly than GDP? What are the consequences? As that insightful analyst of the US economy, and great wit, Herbert Stein once said, "If something cannot continue, it will stop."

Optimists see China carefully redirecting its economic course via a shift from export-led growth, increased domestic consumption and even a degree of reverse migration – as the bright, enthusiastic, educated, skilled Chinese population abroad starts to return home. This is perhaps how China will deal with the looming demographic challenge of an aging society.

Beyond optimism, at a more operational level, we saw the 11th Five Year Plan enacted in 2006 lay out a broad framework for the evolution of a more consumer-led model. However, it was long on theory and short on execution. Premier Wen Jiabao expressed his frustration with the failed transition when he forcefully said at the end of the National People's Congress of March 2007 – in phrasing a bit like Herbert Stein – that the Chinese economy was "unstable, unbalanced, uncoordinated and ultimately unsustainable."

We can look back and understand WHY China's macro-economy became so unbalanced, especially the global conditions that were extremely accommodative of the export-led growth model. Stephen Roach, Chairman of Morgan Stanley Asia, calls the lure "seductive". And of course it is now difficult to shift away from a growth formula that has been extremely successful for 30 years.

But China must shift, for itself and for the world. So this is the forward-looking perspective.

The fundamental shift must be made in incentives. To shift the consumption share of GDP requires three categories of policy-led incentive adjustment ...

1. First, as is generally recognized, there must be broad scale improvements to the social safety net to reduce private incentive for precautionary savings ... pension finance, state health care, fully-funded education and unemployment insurance. Scholars at the ACE Conference have much to offer in the research of the corresponding financial institution change.

2. Second, income redistribution from urban to rural areas. This is hard-nosed economics consistent with a "harmonious society". My own work in the income redistributive effects of the current structure of taxation indicates that this will not happen without major reform of the tax system. The recent removal of the agricultural tax is a step in the right direction.

3. Third, China needs an effective plan to develop service industries. As a graduate student long ago, I studied Soviet economics and was always dismayed at the lack of logic in the

disdain for the tertiary sector – distribution, marketing, wholesaling, retailing *et cetera* viewed by Communist hardliners as exploitative. For China, this has been a relatively unattended facet of reform.

We know that the enormous saving and the extraordinary savings rate in China largely reflects precautionary private saving in the absence of effective state provision of a social support network for retirement and health care along with private saving for education.

This time last year, in the darkest days of the global financial tsunami, when China was asked what it would do to rescue to world from the turmoil, Chinese officials had a blunt answer, "Our greatest contribution will be to keep our own economy running smoothly." Although to some the response seemed trite at the time, it was fundamentally wise and constructive under the trying circumstances. China's inward focused response with its outward implications offers reassurance that China knows what's ahead and China is prepared to steer the proper course.

Over the past year, China brought in a huge 4 trillion yuan stimulus package, boosted grain-procurement prices and lowered the corporate burden of the VAT. China must maintain its focus on stimulatory spending on east-west infrastructure, post-earthquake reconstruction, health care, education and environmental protection. As China builds itself, it builds the world.

China on the World's Political Stage

The West is worried about the Communist Party's determination to remain at the helm of China's one-party state with no real rule of law and independent judiciary. Despite economic advances, China's political institutions are still primarily preoccupied with control. As China continues along the path of technological advance, internal tensions will increase between political control and the increasingly market-based-economy.

When the West thinks of China in a political context, a few perspectives predominate.

First, the West recognizes that - for reasons of history, culture and philosophy – China has an internal political system and political priorities that differ significantly from those in the West.

Second, there is a – perhaps reluctant – regard for the effectiveness of China's "enlightened authoritarianism". Its past is unpleasant, but its current application seems to work. In my own life-time I have observed a steady transformation, especially in economic thinking, from the view that individual initiative and entrepreneurship are beasts to be tamed, to the view that that commercial energy is in fact the root of prosperity and social development, and as such is to be encouraged.

Third, there is the Western liberal view, and I believe it is correct, that heavy-handed central economic control is not compatible with the flexibility and decentralized decision-making associated with a fully functioning market economy. Enlightened authoritarianism may remain, but it ought to become less rigid.

On the world political stage, China now has a commanding presence. China claims its role as the centre of Asia. This power, which has evolved in line with China's economic might, calls for the corresponding responsibility for China to constructively engage with other nations.

We have recently watched China assert its influence at the APEC meetings. And let's not forget, and how can we forget at this ACE Conference that celebrates the 20th Anniversary of APEC, that APEC is founded on principles of free and open trade and investment.

One aspect of this year's APEC forum in Singapore made itself clear - the rising role of China in the grouping and beyond. China was expected to reassure the global community of what China could and would do for economic recovery and new direction – exactly the themes of the ACE Conference. To that effect, President Hu Jintao's speech was a major event …

"The international financial crisis has revealed serious problems, including the lack of sustainability in the current pattern of world economic growth and major deficiencies in the international financial system. To ensure long-term development of the world economy, we must adopt a multi-pronged approach and effectively address the underlying structural problems in the world economy,"

The key particulars of Hu Jintao's important speech to the world are telling.

He called for innovative thinking to speed up the necessary adjustment of the world's economic growth pattern. He explicitly recognized the need to accelerate technological innovation and industrial restructuring to stimulate the development of a green economy. This is a call for economic and technological cooperation and limits barriers to technology transfer. President Hu insists that we narrow the technological gap, especially for green technologies between developing and developed members. Developed economies should help developing ones with access to capital and technologies in order to change their economic growth mode and promote balanced development of the world economy.

Next summer, my city, Toronto, will host the G20 meetings. I am proud to be the co-director of the G20 Research Group. My colleagues in the G20 Research Group are intent on monitoring the initiatives that China will bring to the meetings, and we will pay special attention to proposals that China will bring forth to give substance to President Hu's clear and unequivocal remarks to the APEC conference.

And, if I may, I would like to remind this group of the importance of the emergence of the G20 – a forum initiated by former Canadian Prime Minister Paul Martin, originally as a ministerial group (of finance ministers and central bankers) – but which "leapt to leaders" to become the most important international, with China in a central position of influence. On the other hand, the old, annual photo-op assembly, the G8, has gone on to inflate itself into irrelevance.

Over the past three decades, global conditions – especially the broad commitment to the gains from internationalization - played into China's hands in its ascendancy to world economic power. China did not miss its opportunities, which in retrospect may seem obvious steps in a

move toward markets, while going forward China must recognize and respond to more complex international opportunities and responsibilities.

Are we entering the Century of Asia? It looks promising, but perhaps it is too soon to tell.

China's Leadership in Global Climate Change Initiatives

Here in Hong Kong at a conference on economics and finance, it may seem peculiar to close with remarks on the issue of climate change.

Well, it is not peculiar. The issue is crucial. Global warming has significant financial and economic implications, perhaps the most pressing financial and economic implications that the world is dealing with.

What is the China angle? Well, first, China is the world's biggest polluter of the atmosphere. China spews more greenhouse gases into the atmosphere than any other nation. This, of course, is in total, not on a *per capita* basis. On a *per capita* basis, the world's biggest polluter is the United States.

It is disconcerting, but it was predictable, that the meetings in Copenhagen are not going well. They are not moving toward an international agreement with substance.

My purpose, consistent with the focus of my remarks on China's Newfound Place on the World Stage, is to argue that the global climate change challenge currently lacks a forceful leader. (It is certainly not my own, relatively clean and environmentally conscious country, Canada, which is an embarrassment to its own people on this international policy front.) China has an unprecedented opportunity – and, I would argue, a responsibility – to exercise leadership on this front.

Without defining WHAT China should do – that job is for China's climate change experts, of which there are many – I will simply outline WHY China ought to take the lead. And I will focus on the global economics and politics.

First, China is becoming increasingly aware its own vulnerability to a warming world. For example, the monsoon seems to be weakening, traveling less far inland and dumping rainfall on the coasts. As a result, China is experiencing floods in the south-east and droughts in the north-west. At the same time the country's leaders are deeply concerned about the melting of the glaciers on the Tibetan plateau which feed the Yangzi and Yellow Rivers.

Second, as I have insisted in this talk, as China emerges as a leading world power, it must assume its rightful role in addressing global issues – not just the economic crisis, but the climate crisis as well.

And then there are issues of energy security. Although China has large coal reserves, it is also a big energy importer. Changes in China's demand explain 70 percent of the demand-side

variance in the world price of oil. China should – and there are promising indications to this effect - shift the mix of energy in favour of cleaner sources such as hydro, nuclear, solar, wind and carbon capture.

Just before the meetings in Copenhagen, Beijing announced that it will aim to reduce its "carbon intensity" by 40 to 45 percent by the year 2020, compared with 2005 levels. Carbon intensity, China's preferred measurement, is the amount of carbon dioxide emitted for each unit of GDP.

Excessive dependence on foreign fossil fuels, a concern that China shares with the United States, has prompted China to look enthusiastically for alternatives. China is committed to substantially reducing its coal dependency, from 80 percent to 65 percent, over the next 5 years. China's push into nuclear and renewable energy is driven by its need to diversify its energy resources.

Let's turn to the economic dimension of environmental initiatives. China's proper insistence that the focus be to reduce "carbon intensity" is wise, worldly wise. China has shifted how it thinks about economic growth, and not too soon. In the past, China's all-out drive for growth led it to disregard the environmental consequences and to rebuff pressure to cut emissions. With a bit of understandable righteousness, China argues that most of the cumulative STOCK of carbon and greenhouse gases that now pollute the atmosphere was put there by the rich industrial countries, with a finger pointed directly at the United States. China has come relatively late to industrial export-led growth, and so – in China's view - the punch-bowl is being removed just as they have arrived at the party.

This also underlies China – and India's - contention that the rich industrial countries should pay for the adjustment to a greener environment by transferring funds to the now polluting poorer countries to allow them to move to more costly, but environmentally friendlier, energy technologies.

The most promising prospect is the idea that clean energy might be a source of growth rather than a constraint on China. Here, with my country's world renowned expertise in the capital and technology that cleans things up and keeps them clean, Canada and China could read from the same script. The next growth industry – following, for example, computers and information technology – is likely to involve environmental protection in a big, big way.

This represents a huge opportunity for China. China will become the largest renewable energy market, clean-coal market, low-carbon-intensity economy (as it promises), exporter of low-carbon products. The question is, or the opportunity is, can China become a low-carbon-technology innovator?

China certainly has the local need, the necessity that is the mother of invention. China also has the potential inventive intellectual power as it produces more than 600,000 engineers each year, and also as many of the brightest foreign trained engineers continue to come home in the reverse brain drain.

Finally, with an expediency that other countries with other political systems cannot match, China can direct massive resources to this task of "growing green" just as it has done in the remarkable infrastructure campaign of late.

Sir Nicholas Stern, in his 2006 Report on the Economic Cost of Countering Environmental Destruction, forecasts that the world needs to spend 1 per cent of global GDP - equivalent to about $400 billion - to deal with climate change now, or face a bill between five and 20 times higher for damage caused by letting it continue. China's long run economic opportunity could not be clearer.

More immediately, China can adopt incentives to bring industrial behavior in line with environmental responsibility. I was taken by a suggestion made recently by my friend Fan Gang, Director of the National Economic Research Institute in Beijing, and one of China's foremost economists. Pointing to the likelihood of "cap and trade" along with pollution taxes imposed by importing countries, China is likely to be most affected. Professor Fan suggests China should be pro-active and impose an "export tax", perhaps indexed to the "pollution intensity" of the exports. Because nations seldom impose export taxes, this step would send a strong signal of China's commitment to environmental protection on a global scale. It would send an equally strong message to China's export-oriented industry to literally clean up their act. It would send the cleaner-product incentive back along the internal supply chain in China. And, in the process, China would capture fiscal revenue that could be ploughed back into environmentally responsible projects.

Closing Comments

As China's modern reform program enters its fourth decade, the All China Economics Conference is an appropriate venue to acknowledge the remarkable achievements to date and consider the economic opportunities, political challenges and global responsibilities that lie ahead. Such has been the thrust of my remarks.

In many respects the past seems to have been programmed for China's march to markets. The first decade focused on price liberalization and loosening of the state's grip on production. The second decade, the 1990's, was all about export development, foreign direct investment, technology transfer and China-internal shifts in the deployment of labour and the rise of other than state-owned enterprise. The third decade dealt with strengthening the national and international institutional infrastructure – for example, financial sector development and joining the WTO – to give resiliency to industrial structure and a more effective means of macro-economic management. Much has been accomplished, but there is much more to do.

The rest of the world is no longer merely a fascinated observer of China's reforms. The rest of the world is engaged. The rest of the world is heavily invested in China and a beneficiary of gains from trade with China. And, of course, the rest of the world is also vulnerable. A future misstep by China on the stones below the surface of the water – in economic policy, political

processes or environmental responsibility – will have not just local but global ramifications. We wish China continued sound footing.

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