January 25, 2018—While Chinese President Xi Jinping was not present at this year’s World Economic Forum in Davos, much of the focus of the event was nevertheless very much on China. The Chinese delegation, which consisted both of Chinese officials and a large business delegation, was headed up by economist Liu He, who, while not so well known, has been the chief economic advisor to President Xi for a good number of years, but was only this year elected to the Political Bureau, the highest body of the Chinese Communist Party. It is generally understood that the major changes in China over the last five years have, to a certain extent, been due to Liu’s advice. A leading economist, educated at Harvard among other institutions, he has written extensively on the 2008 crisis and its aftermath, and seems to refer mostly in his writings to economists like Joseph Schumpeter and Peter Romer. In his speech at Davos, he really issued what can only be considered the biggest challenge facing the world community, making fundamental changes in the present world financial system.

While laying out the overall perspective of Chinese policy heading following the 19th Party Congress, he identified one major requirement, one main task, and three major battles. The major requirement was transforming the economy from high-speed growth to high-quality development, moving from an economy of "is it enough" to one based on "is it good enough", Liu said. The short term goal was to move from a per capita income of $8,000 to $10,000 and higher by 2020. The main task was to apply supply-side economic reform to the economy. This includes cutting excess capacity, reducing inventory in housing, and bringing down the debt leverage ratio. The three battles were preventing risks, particularly financial risks, poverty reduction, and eliminating pollution. The purpose, he said, was "to bring the financial system into better conformity, prevent financial risks, and make the financial system more adaptable in order to better serve the real economy."

Liu noted that the international community was closely following the Chinese efforts.

Liu then drew the connections to the world financial system:

"In addition, strengthening risk awareness and changing market expectations and implicit assurances with regard to moral hazard have created important psychological conditions for us to prevent and control financial risk. I would like to highlight that the build-up of China’s financial risks and our response to them are closely related to the changing global market. That is why we welcome the participation and cooperation of the international community in China’s endeavor to address financial risk as it is part and parcel of global efforts to maintain economic stability," Liu said.

Then, after some comments on the significance of the Belt and Road Initiative, which he again reiterated, was open to all nations, he returned to the financial crisis. While noting the first signs of recovery last year and the possibility of a cyclical upswing, he also issued a warning.

"At such a critical moment we must focus on the spill-overs of the monetary policy of the world’s major economies and to changes in the debt, equity, and commodity markets in the short term. In the medium term we need to pay attention to the question of labor productivity and to the changing savings rates in the large economies... Meanwhile, deep-seated problems in the world economy have yet to be fixed. Multiple risks and considerable uncertainties come in the form of high debt, asset bubbles, protectionism, and the escalation of global and regional hot-spots. To turn cyclical recovery into sustainable growth, we need concerted global efforts."

Other important China statistics to be noted in his speech: the contribution of consumption to economic growth has now reached 58%, an increase of 4% over the previous five years; the proportion of service industry to GDP has reached 60%; and over the past five years, 80 million people have moved to urban areas, with urbanization now at 58.52%.

Liu concluded his speech by referring to President Xi’s appeal last year to a community of shared future for mankind, which was praised several times by Karl Schwab, the president of the World Economic Forum, who introduced Liu He and who moderated the following discussion.

"As long as we firmly establish the awareness of the community of human destiny and work together to help each other and overcome difficulties, we will certainly be able to make the world a better place."