

**REPORT ON THE IMPLEMENTATION OF THE 2006 PLAN FOR
NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT
AND ON THE 2007 DRAFT PLAN FOR NATIONAL
ECONOMIC AND SOCIAL DEVELOPMENT**

*Fifth Session of the Tenth National People's Congress
March 5, 2007*

National Development and Reform Commission

The final version of this report in Chinese will be approved at this session and released by Xinhua News Agency.

Fellow Deputies,

The National Development and Reform Commission has been entrusted by the State Council to report on the implementation of the 2006 plan for national economic and social development and on the 2007 draft plan for national economic and social development for your deliberation and approval at the Fifth Session of the Tenth National People's Congress (NPC), and also for comments and suggestions from members of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).

I. Implementation of the 2006 Plan for National Economic and Social Development

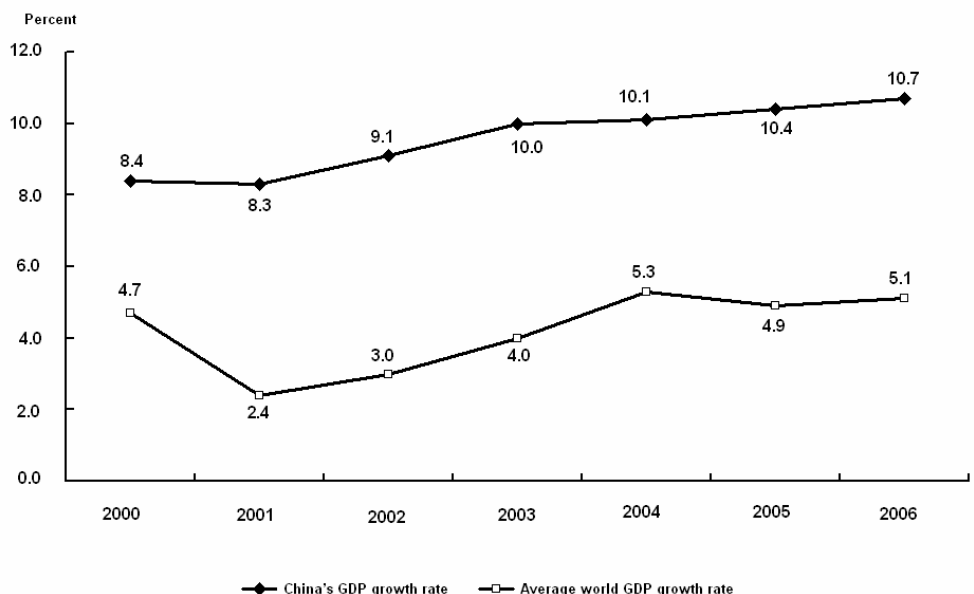
Under the leadership of the Communist Party of China (CPC), the people of all our ethnic groups in 2006 diligently put into practice major strategic concepts of the Scientific Outlook on Development and building a harmonious socialist society, followed the plan for national economic and social development adopted at the Fourth Session of the Tenth National People's Congress, and accelerated reform and opening up and the modernization drive, resulting in improved conditions and environment for development, a better growth momentum and an overall good start to the Eleventh Five-Year Plan. We took another solid step toward the magnificent goal of building a moderately prosperous society in all respects.

1. The national economy maintained its development momentum, characterized by rapid growth, strong performance and relatively low prices.

Economic growth was fast yet steady. China's GDP for the year reached 20.94 trillion yuan, up 10.7% from the year before. Economic development became more stable, with only minor fluctuations in quarterly and annual GDP growth rates. The consumer price index rose by 1.5% during the year. Although economic growth rate has remained at or slightly above 10% for four consecutive years, price rises have been relatively slow and stable, a situation rarely witnessed in the history of China's development.

The economy performed well. Total government revenue for 2006 was 3.93 trillion yuan, an increase of 24.3%. Large industrial enterprises generated 1.8784 trillion yuan in profits, up 31%. Energy consumption per unit of GDP fell by 1.23%, which is the first drop since 2003. Water consumption per unit of the added value of industry dropped by 9%.

**Figure 1.
GDP Growth**



Prominent difficulties and problems affecting economic performance were alleviated. Investment growth declined. Total fixed asset investment nationwide increased by 24% for the year, a decrease of 5.8 percentage points from the first half of 2006 and 2 percentage points from 2005. Growth of the money supply and credit slowed. At the end of 2006, the broad money supply (M_2) had increased by 16.9% compared with 2005, representing a decrease of 2.1 percentage points from the May-end level and 0.6 percentage points less than the figure for the same period of the previous year. The pressure on tight supplies of coal and electricity and on the overloaded transportation system eased noticeably. Stored coal directly supplied to power plants reached 24.11 million tons at the end of 2006, indicating sufficient supply; installed power-generating capacity increased by 100 million kilowatts; electricity generated annually reached 2.8344 trillion kilowatt-hours, up 13.4%; the number of power lines affected by power outages plus the number of outages was down 97% from the year before, and the total power loss caused by outages was down by 82%; and transportation facilities proved adequate to meet transport demand for grain, fertilizer and other key materials.

2. Steady progress was made in building a new socialist countryside.

Policies to favor farmers were improved. The agricultural tax and tax on

agricultural specialties were abolished across the country. This was in addition to other previously rescinded agriculture-related taxes and charges, including the butchery tax and animal husbandry tax, thereby relieving the financial burden on farmers by about 125 billion yuan each year. We provided grain farmers with direct subsidies, subsidies for growing superior varieties of crops and purchasing machinery and tools as well as general direct subsidies for agricultural supplies. Total subsidies given out last year exceeded 30 billion yuan. We also increased transfer payments to major grain-producing counties and those with limited financial resources, granting a total of 23.5 billion yuan in rewards and subsidies. The imposition of a minimum grain purchase price was extended from rice to include wheat. Compensation for the expropriation of farmland for large and medium-sized water conservancy and hydroelectric projects was also substantially increased.

Investment to support agriculture continued to increase. A total of 339.7 billion yuan from the central government (excluding 12 billion yuan of general direct subsidies to grain growers deriving from special surcharges on oil sales) was spent on agriculture, rural areas and farmers, a year-on-year increase of 42.2 billion yuan. Working and living conditions in rural areas were improved. A total of 6 billion yuan from the central government, triple the amount for the previous year, along with 6.9 billion yuan from local governments was spent on safe drinking water projects in the countryside, benefiting 28.97 million rural residents. The central government also invested 2.5 billion yuan, a year-on-year increase of 150%, and local governments invested 1.56 billion yuan in building rural methane facilities to serve an additional 4.5 million families. In addition, 19 billion yuan from the central government and 24 billion yuan from local governments were invested in the rural road upgrade project, rebuilding and extending 120,000 kilometers of asphalt or cement roads to connect more townships and villages. We encouraged retailers to open stores in more townships and villages, thus setting up more than 100,000 stores in the countryside.

Agricultural structure was further improved. Grain acreage rose by 1.1 million hectares from the previous year to reach 105.38 million hectares. Once again, we had a rich grain harvest with total output amounting to 497.46 million tons, 13.44 million tons more than the year before. High-quality special wheat acreage accounted for 55.2% of China's total wheat acreage and the acreage of high-quality rice accounted for 69.1% of total rice acreage, up 6 percentage points and 4 percentage points year-on-year respectively. Cotton and sugar output increased by 17.8% and 16.2% respectively, and the output of meat, milk and aquatic products increased by 4.6%, 18% and 2.8% respectively.

Figure 2.
Safe Drinking Water Projects in the Countryside

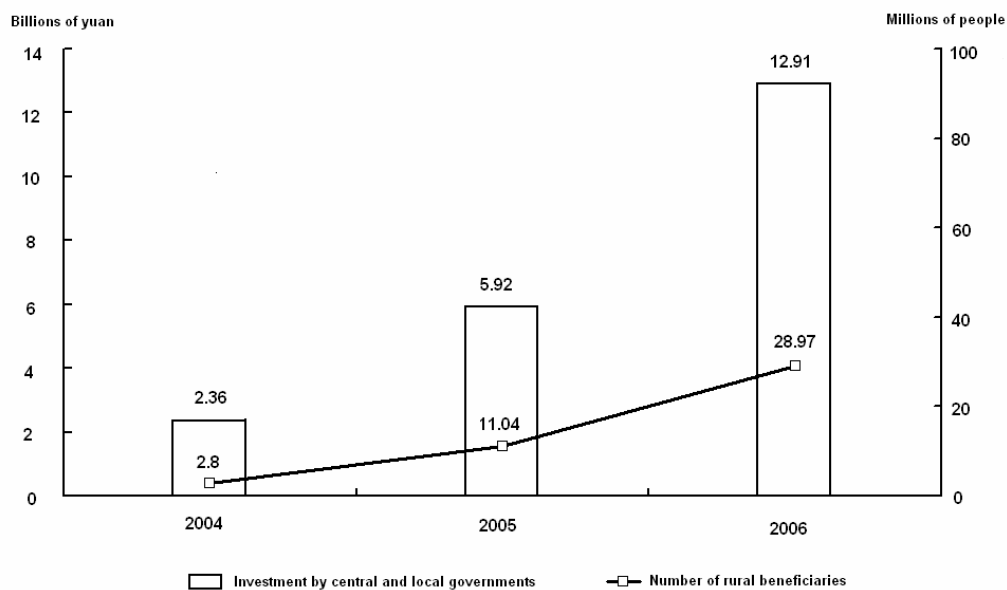
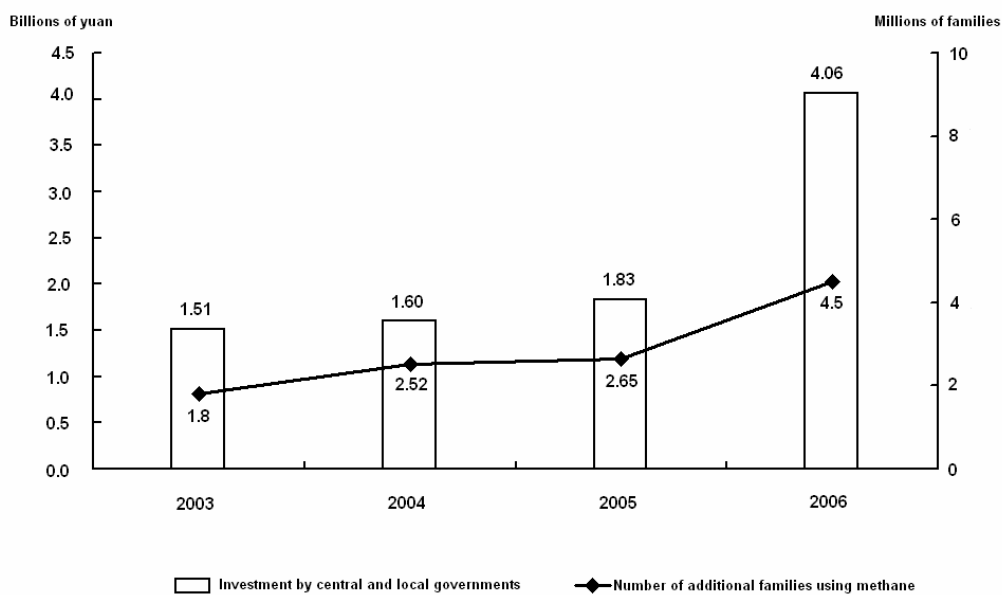


Figure 3.
Rural Methane Facilities

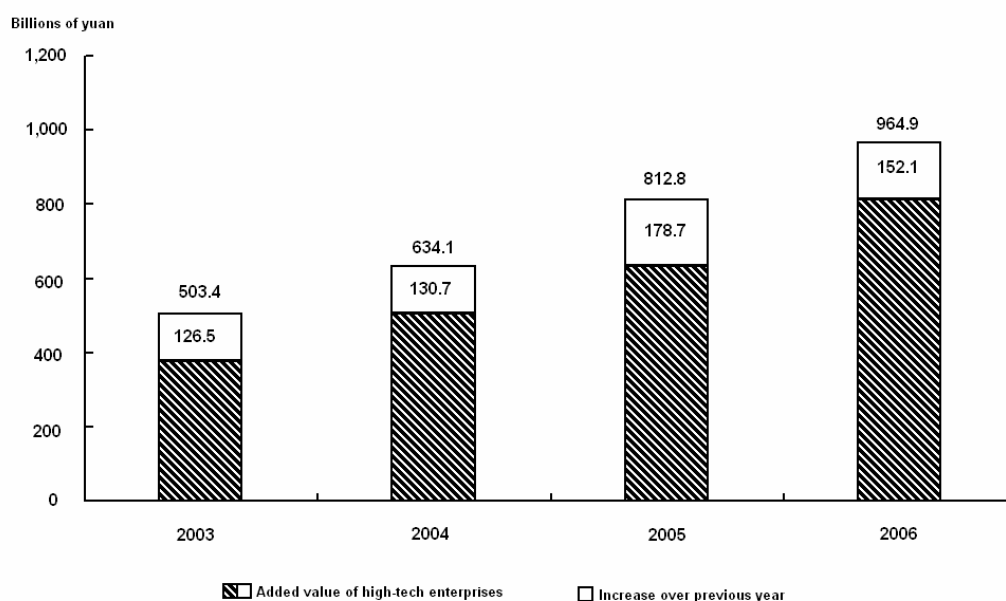


3. Improvement was made in economic restructuring.

Industrial restructuring was accelerated. Total added value of large high-tech enterprises rose by 18.7%, 2.1 percentage points higher than the average for all large industrial enterprises. A significant breakthrough was made in the independent manufacture of key equipment including complete sets of hot tandem mills for large steel sheets and the air-cooling system for large power stations. Further progress was made in restructuring industries with excess production capacity. A number of backward production facilities were shut down in accordance with the law. For example, in the steel industry, a number of smaller blast furnaces with a capacity under 100 cubic meters and small converters with a production capacity under 15 tons were closed down. All aluminum Soderberg cells were eliminated. Most wet-processing kilns for making cement have now been shut down or demolished, increasing the proportion of new dry-process cement to over 50% of total cement output. In the coal sector, a total of 5,931 smaller mines were closed down, eliminating backward facilities with total production capacity of 110 million tons that did not meet safety requirements or were damaging to resources.

Figure 4.

Added Value of High-tech Enterprises Since 2003



Major strides were made in the field of independent innovation. Detailed provisions for the implementation of policies to support independent innovation were released. Preliminary deliberations were launched for 16 major science and technology projects. The central and local governments earmarked 126.038

billion yuan for science and technology, a year-on-year increase of 26.2%. National engineering research centers for projects such as medical ultrasound and fuel cells were established, and technology centers of 92 more enterprises received state recognition. A pilot project to nurture the first group of innovation-based enterprises was launched. Major innovation results were achieved in the demonstration project of the next-generation Internet and the development and manufacture of the Goodson-2 general purpose high-performance microprocessor chip. The Experimental Advanced Superconducting Tokamak, the first of its kind in the world, was developed.

The service sector enjoyed steady development. Its scale continued to expand, with a total added value of 8.2703 trillion yuan, an increase of 10.3%. Its structure and service quality were also improved. Transport capacity of the national transportation system was notably increased, evidenced by the following. An additional 93,700 kilometers of highways were built, including 4,325 kilometers of expressways; newly built railways opened to traffic totaled 1,605 kilometers, and double-track railways 705 kilometers; 252 berths were added or expanded at seaports, including 144 deepwater berths catering to tonnage exceeding 10,000; renovation and expansion work at Capital Airport of Beijing and Pudong Airport of Shanghai progressed smoothly; and five branch-line airports in the middle and western parts of the country, including Nyingchi Airport in the Tibet Autonomous Region, were put into operation. Development of service industries related to business and production such as logistics, banking, insurance and information services was accelerated. A variety of new businesses and new products emerged in the consumer service industry.

Fresh achievements were made in balancing regional development. Formulation of the plan for the large-scale development of the western region during the Eleventh Five-Year Plan period was completed, and 41% of investment funds from the central government budget and from the sale of treasury bonds for the year were spent in the western region. Construction was started on all 12 key projects designated early last year. Industries taking advantage of local characteristics and strengths enjoyed accelerated development, progress in returning farmland to forests was consolidated and pilot projects to promote subsistence grain farming in the western five provinces and autonomous regions were launched. In northeast China and other old industrial bases, progress was made in trials to transform the economies of cities reliant on natural resources, in addressing the problem of sinkholes in coal mining areas, and in turning shantytowns into proper residential areas and key enterprises strengthened their capacity for independent innovation and their production and manufacturing capacities. Implementation of the strategy for the rejuvenation of the central region was initiated. Guidelines for boosting

development of the central region were issued, and support policies were clarified. The eastern region continued to lead development, and rapid progress was made in the trial reforms for comprehensive and sustainable development in the Binhai New Area of Tianjin and the Pudong New Area of Shanghai.

4. Work related to social programs and people's well-being was strengthened.

Progress was made in education development, which is a national priority. The goal of making nine-year compulsory education generally available and basically eliminating illiteracy among young and middle-aged adults was realized in an additional 83 counties. Reform of the mechanism to guarantee funding for compulsory education in rural areas got off to a good start, benefiting 52 million elementary and middle school students in 2006. Each elementary school student paid 140 yuan less on average, and middle school student 180 yuan. A total of 37.3 million students from poor rural families in the central and western regions received free textbooks and 7.8 million rural students living on campus were provided with living allowances. A fund of 4 billion yuan from the central government budget was invested to support the building of 2,858 boarding schools and facilities for providing modern distance learning at 85,800 elementary and middle schools. A further 2.85 billion yuan from the central government budget was allocated to fund the construction of 321 practice laboratories for vocational education, 28 demonstration vocational colleges, 478 secondary vocational schools and county-level vocational education centers. The secondary gross enrollment ratio reached 59%, and the tertiary gross enrollment ratio 22%.

Further improvement in the public health system and family planning was made last year. Funds totaling 2.7 billion yuan from the sale of treasury bonds and 1.7 billion yuan from local governments were pumped into infrastructure development of 5,436 town and township health clinics and 672 county-level hospitals, Chinese medical hospitals, and maternity and child-care centers. A number of food and drug inspection and supervision facilities were built in the central and western regions with funds from the sale of treasury bonds. A community-based health service network covering all big and medium-sized cities across the country began to take shape. The number of rural residents taking part in the new rural cooperative medical care system now totals 410 million and the coverage rate based on county units has reached 50.7%. The natural population growth rate was 5.28‰.

Figure 5.
Counties Achieving the Goal of Making Nine-year Compulsory Education Generally Available
and Basically Eliminating Illiteracy Among Young and Middle-aged Adults Since 2003

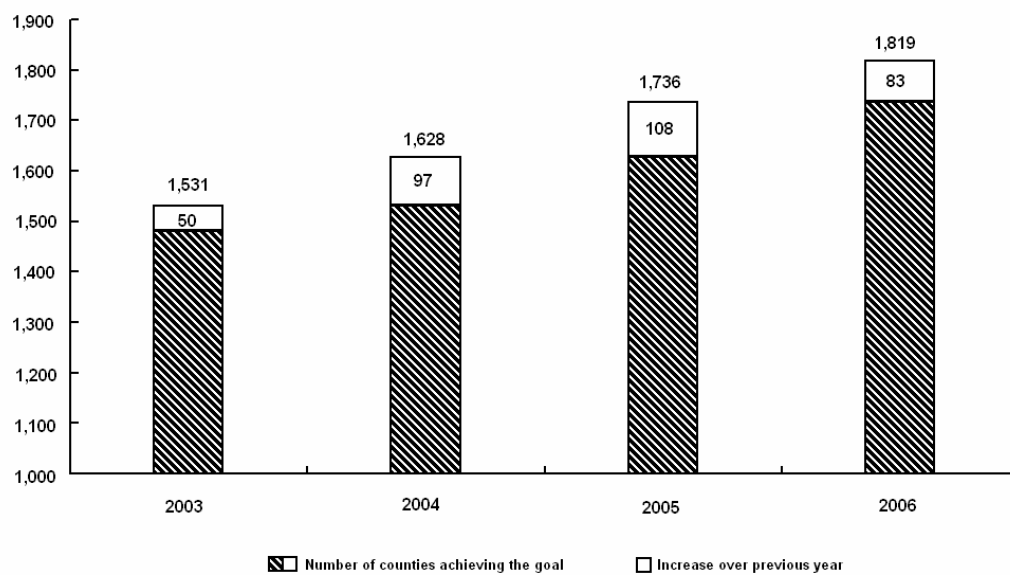
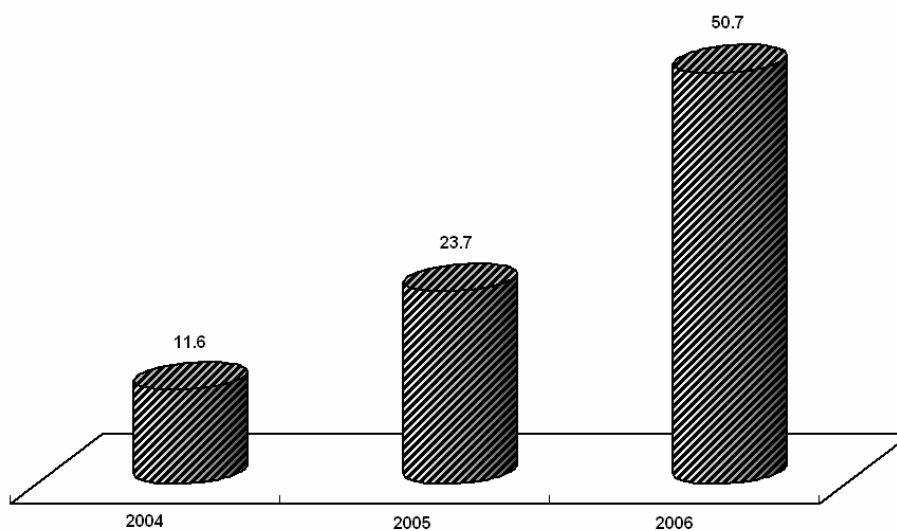


Figure 6.
Coverage Rate, Based on County Units, of the New Rural Cooperative Medical Care System
(Percent)



Culture, tourism and sports enjoyed rapid development. The goal of extending radio and TV coverage to every village with electricity and minimum size of 50 households was completely realized and the project to screen more movies in rural areas progressed smoothly. Steady progress was made in key cultural projects including the second phase of the National Library of China, the second phase of the China Art Gallery and some provincial museums. More emphasis was also placed on the protection of cultural heritage. Number of domestic and outbound tourist trips grew by 15% and 11.3% respectively. Infrastructure development for tourist areas around key sites in the early history of the CPC was expedited. Continued progress was made in the national fitness campaign. Construction was begun on 30 out of 31 venues for the Beijing 2008 Olympic Games.

People received more real benefits in 2006. Per capita net income of rural residents and per capita disposable income of urban residents grew by 7.4% and 10.4% respectively in real terms. Minimum wage rates were raised in 29 provinces, autonomous regions and municipalities directly under the central government. Systems were improved to ensure rural migrant workers in cities are paid on time and in full. The urban workforce expanded by 11.84 million, and urban registered unemployment at the end of the year stood at 4.1%. The social safety net was expanded, and the number of rural residents covered by basic old-age pensions, basic medical insurance, unemployment insurance, workers' compensation and maternity insurance increased by 11.62 million, 19.54 million, 5.39 million, 17.57 million and 10.38 million respectively. A system to provide basic cost of living allowances to rural residents was introduced in 25 provinces, autonomous regions and municipalities directly under the central government. Assistance allowances to all entitled groups were raised by a large margin. A number of small infrastructure projects were built in poverty-stricken areas to create jobs and replace assistance allowances. In addition, 1.06 billion yuan was used for the trial relocation of impoverished people from inhospitable areas as a poverty relief effort, resulting in relocation of 240,000 poor people in the western region. Methods of compensating farmers for expropriated land to build reservoirs and follow-up policies for supporting their relocation were gradually improved, benefiting 22.88 million displaced rural residents. Inspections were conducted of the prices of products and services such as electricity, grain, fertilizer, drugs, refined oil and real estate, as well as charges levied on farmers and enterprises, educational fees, medical charges and taxi fares. Retail sales of consumer goods increased by 13.7%, up 0.8 percentage points year-on-year.

Figure 7.
Per Capita Net Income of Rural Residents Since 2003

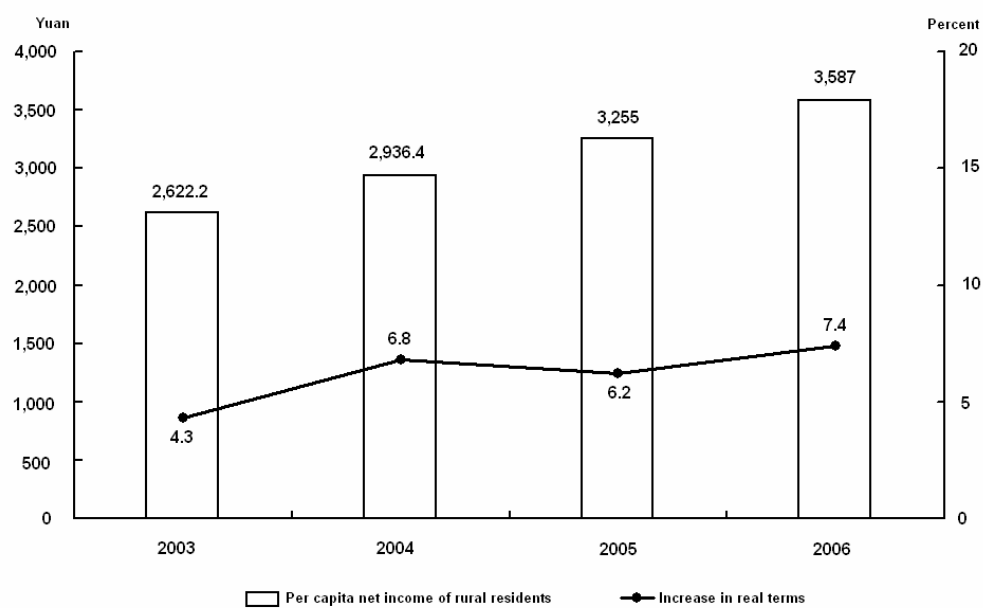
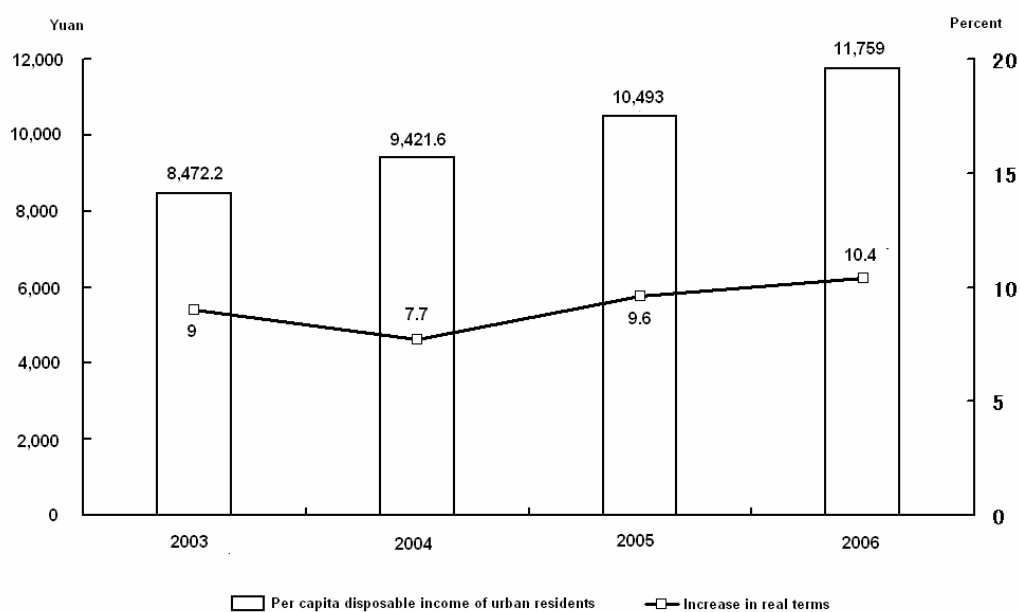


Figure 8.
Per Capita Disposable Income of Urban Residents Since 2003



5. Efforts were intensified to save energy, reduce pollutant emission and protect the environment.

More efforts were made to conserve energy and resources and to develop a circular economy. Although targets for energy conservation and pollutant emission reduction set at the beginning of 2006 were not met, awareness of the importance of this work was increased throughout society and efforts were strengthened. The central government promulgated a decision to intensify energy conservation work and signed agreements with 30 provinces (autonomous regions and municipalities directly under the central government), the Xinjiang Production and Construction Corps and several central government enterprises to meet energy conservation and pollution reduction targets. An accountability and assessment mechanism for meeting these targets was introduced, and a system to publish energy consumption per unit of GDP and water consumption per unit of industrial added value was officially launched. Good overall progress was made in ten major state energy conservation projects and funds from the sale of treasury bonds were used to support 111 key energy-saving projects. We launched an energy-saving campaign in about 1,000 large industrial enterprises high in energy consumption, to strengthen energy conservation management in these enterprises. The list of energy- and water-saving products subject to government procurement was adjusted, and the scope of mandatory energy efficiency labeling was expanded. Demand side management of power was enhanced. The policy of charging differential electricity rates for highly energy-consuming industries was tightened, and several local governments imposed surcharges for electricity used in excess of quotas. A widespread publicity campaign to promote energy conservation and environmental protection was launched, resulting in a notable increase in people's awareness of the issue. The first group of pilot projects for a circular economy were launched.

Greater efforts were made in environmental protection and ecological improvement. Clean production was widely promoted and the government released a state list of technical guidance and a system of assessment indicators for clean production in key industries. Work was undertaken to control urban water pollution and pollution caused by industrial wastewater in areas along the Huai and Songhua rivers. The percentage of treated urban sewage and safely handled urban household waste reached 56% and 54% respectively, 4 and 2.3 percentage points higher than the year before. Desulphurization facilities were installed in thermal power plants with a total power generating capacity of 104 million kilowatts. Growth in sulfur dioxide emission and chemical oxygen demand dropped by 11.3 and 4.4 percentage points respectively. A total of 267,000 hectares of farmland were returned to forests and 10 million hectares of

livestock pastures to grasslands last year.

Figure 9.
Urban Sewage Treatment and Safe Handling of Urban Household Waste Since 2003

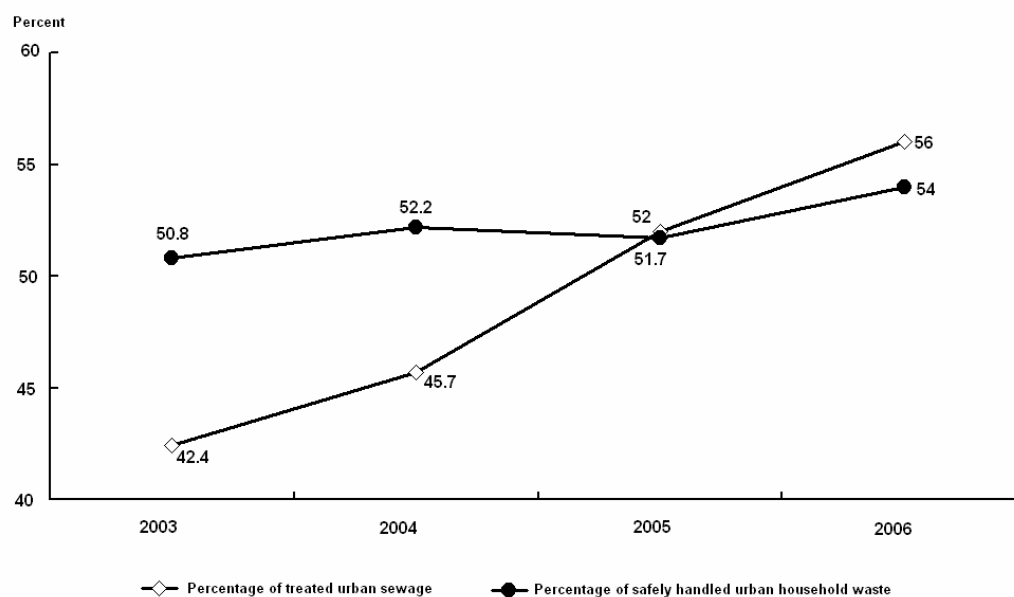
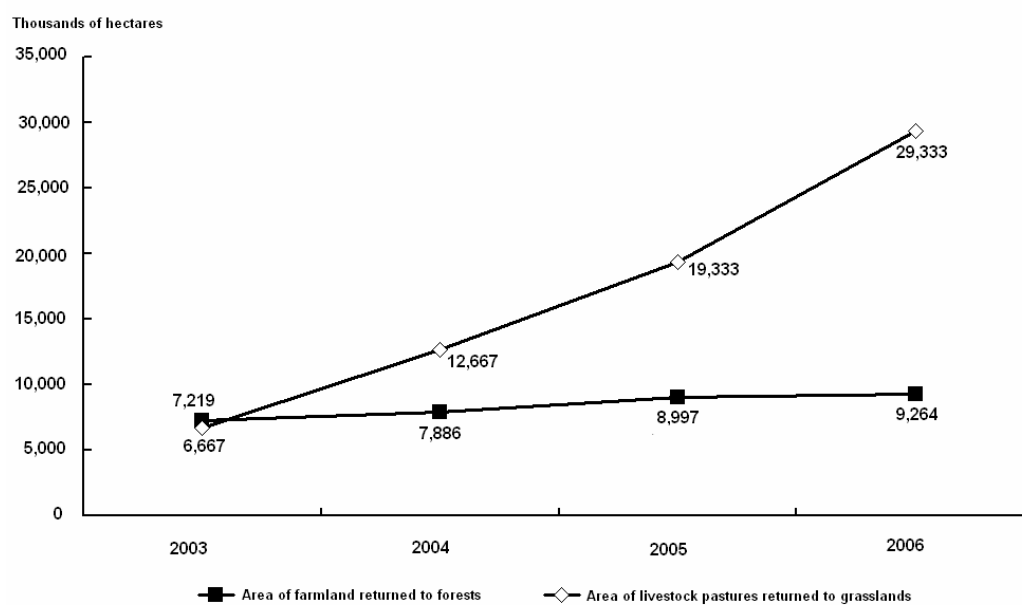


Figure 10.
Farmland Returned to Forests and Livestock Pastures to Grasslands since 2003



6. Further progress was made in reform and opening up.

Reforms in key areas continued to deepen. Trials in comprehensive rural reform were carried out throughout eight provinces (autonomous regions and municipalities directly under the central government), including Beijing and Inner Mongolia, as well as in some counties and cities in other provinces. A system of a board of directors was introduced in 19 wholly state-funded corporations on a trial basis. Work was basically completed to relieve a second group of 74 central government enterprises of their obligation to run social programs. Good progress was made in the reform of the management system of monopoly industries and in the initial phase of work to separate government functions from enterprise management in the postal service system. The Bank of China and the Industrial and Commercial Bank of China were successfully listed on the stock exchange and requirements for market access were lowered for rural financial institutions. The quality of assets of banks and their capital adequacy rates were further improved. Reform of the shareholder structure of listed companies was completed by and large, resulting in a rise in direct financing in such companies. Improvements were made in the foreign exchange management system and the mechanism for setting the Renminbi exchange rate. Reform to reclassify government revenue and expenditure items proceeded smoothly, and reform of the budgetary management system was deepened. Adjustments were made to improve policies on the sales tax, tax on natural resources and taxes relating to real estate, and the threshold for personal income tax was raised. Progress was made in reform of the investment system, with 30 provinces (autonomous regions and municipalities directly under the central government) working out rules for managing the approval and recording for projects funded by enterprises and more than 80% of enterprise-funded projects now on official record. In addition, the central government also moved to standardize management procedures for its investment projects. Positive results were achieved in the reform of the pricing mechanism for resource products and factors of production; the oil price reform and its support measures and the program to adjust electricity prices were implemented smoothly; fees for using water resources were introduced in 30 provinces, autonomous regions and municipalities directly under the central government; a progressive water pricing system was adopted for households in 15 cities; and a unified system for publishing minimum prices for the transfer of land to be used for industrial purposes was instituted. Work to deepen reform of the pharmaceutical and health care system was launched. An initiative to nurture small and medium-sized enterprises was implemented, thereby further improving conditions for the development of the non-public sector of the economy.

Vigorous efforts were made to change the pattern of growth of China's

foreign trade. The country's export and import volume reached US\$1.76 trillion in 2006, up 23.8% from the year before. The mix of exports and imports was improved with an increase in electromechanical exports of 28.8%, an increase in export of new and high technology products of 29% and in increase in the percentage of exports in the general trade that have high domestic innovation content and high added value. At the same time, excessive growth in the export of certain products whose manufacture requires large amounts of energy or results in serious pollution was curbed. Foreign direct investment in China over the year totaled US\$69.5 billion. Further progress was made in the implementation of the "go global" strategy, with direct foreign investment by Chinese enterprises, excluding pure financial investment, hitting US\$ 16.1 billion, a rise of 31.6% as compared to the figure for the previous year.

Although progress has been made in social and economic development, China is still faced with many difficulties and challenges. Certain deep-seated problems, including an unbalanced economic structure, an extensive pattern of growth and systems and mechanisms that require further improvement, have yet to be fundamentally solved. Although development of China's economy is still moving towards the expected goals of macroeconomic regulation, the foundation of economic performance is still not solid, the price of economic growth is too high and there are quite a few uncertainties and imbalances. The most serious issues are as follows:

First, the problem of the country's inherently weak agricultural infrastructure has yet to be changed fundamentally, making it ever more difficult to increase rural incomes. The impact of the sector's vulnerability to natural disasters is exacerbated by inadequate application of modern agricultural science and technology. Returns from growing grain are relatively low, the use of subsidies to raise grower incomes is not particularly effective and there are many factors restricting rises in income for rural migrant workers in cities. Moreover, institutional barriers hindering increase in rural incomes have still not been eliminated completely.

Second, China still faces the risk of a rebound in investment that could trigger major economic fluctuations. Investment is growing too quickly, there are too many projects now underway and too many new ones being launched due to the fact that the problems in systems and mechanisms leading to overheated investment have not been fundamentally resolved and pressure to increase investment is still great in some regions and sectors. Furthermore, the banking system continues to have too much liquidity and strong capacity and willingness to make loans. Moreover, China's trade surplus continues to grow.

Third, the need to save energy and reduce pollution is extremely pressing as pressures on resources and the environment continue to grow. Targets for energy

saving and pollution reduction set at the beginning of 2006 were not met. The main reasons for this were as follows. Progress in adjustment of the industrial structure has been too slow, with the service sector of the economy still too small and continued excessively rapid growth in heavy industry, especially in certain industries that are high in energy consumption and cause serious pollution, added to the fact that many backward production facilities that should have been shut down are still in operation. Furthermore, related laws, regulations, standards, and management systems need to be improved and better coordinated, investment in projects to save energy and reduce pollution is inadequate, and fiscal, tax, pricing, financial and other policy measures to support such efforts have not been put in place. Few enterprises are motivated to upgrade their technologies to save energy and cut pollutant emission, and it will take some time before energy-saving and environmental protection projects are completed and produce results. The relevant laws and regulations are not being strictly enforced and the cost of breaking the law is too low, resulting in a great deal of wasting of resources and environmental damage in violation of laws and regulations in spite of repeated attempts to curb such behavior. People's awareness of the importance of saving energy and protecting the environment and the urgency of doing so still needs to be raised and practices persist that show too much value placed on economic growth at the cost of environmental protection in some regions. All the above means that the government's work to achieve targets set for 2007 will be daunting. Pressure on shortages of coal, electricity, petroleum and transportation is still evident from time to time in some regions and sectors, despite the fact that supplies actually increased in 2006.

Fourth, social problems are still serious, and promoting social harmony remains a challenging task. The employment situation, for one, remains serious. The problems of a surplus workforce and shortages of workers in certain occupations exist simultaneously. It is growing increasingly difficult to guarantee employment for new university graduates and to find new employment for laid-off workers, especially for those who are members of zero-employment families and men over 50 and women over 40. The social security coverage is inadequate. Strong public concern has been voiced over the lack of accessibility and affordability of medical treatment and education. There are also serious problems related to food and drug safety, housing, income distribution, public security and production safety. Other problems that have a negative impact on the interests of the people include enterprise restructuring, housing demolition and resident relocation in urban areas, land acquisition and expropriation and environmental protection. Poverty alleviation in old revolutionary areas, ethnic minority regions, border areas and poverty-stricken

areas is still an arduous task.

We must take vigorous measures and work hard to solve the above problems.

II. General Requirements and Major Targets for Economic and Social Development in 2007

In carrying out economic and social development work for 2007, we must take Deng Xiaoping Theory and the important thought of Three Represents as our guide, closely follow the guiding principles set out at the Sixteenth CPC National Congress and the third through sixth plenary sessions of the Sixteenth Party Central Committee, fully put into practice the Scientific Outlook on Development and accelerate the building of a harmonious socialist society. We must continue to improve macroeconomic regulation and work hard on economic restructuring and changing the pattern of economic growth, strengthen efforts to conserve resources and protect the environment, deepen reform and opening up and promote independent innovation, promote social development and address problems affecting people's well-being, make economic and social development more scientific and promote sound and rapid development of the national economy to create an excellent environment for the convening of the Seventeenth National Congress of the CPC.

In accordance with the general aims cited above and in the Outline of the Eleventh Five-Year Plan and taking into consideration both necessity and feasibility, we set the major targets for economic and social development in 2007 as follows.

--An appropriate rate of economic growth based on economic restructuring, improved economic performance and reduced energy consumption and pollutant emission. We will increase the proportion of tertiary and high-tech industries in the overall economy. Government revenue for the year will total 4.4065 trillion yuan, with GDP increasing by about 8%. GDP growth has hovered around 10% or slightly higher in recent years. We are leaving some leeway in this year's targets for economic growth to indicate to society the government's intentions in terms of macroeconomic regulation and to guide all sectors of the economy to focus on improving economic structure, changing the pattern of economic growth and improving overall quality and performance. We also hope to prevent people from single-mindedly competing for the fastest economic growth and thereby promote sound and rapid economic growth. The economic growth targets are indicators of the anticipated levels and are for guidance only. Local governments should set targets for local GDP growth at an appropriate level in

line with local conditions.

--Creation of at least nine million new jobs for urban residents with urban registered unemployment under 4.6%. Although the employment situation will present a fair amount of difficulty this year, with hard work, coupled with sustained rapid economic growth and more results produced by government policies to promote employment, it will be possible for us to reach these targets.

--Increase in both per capita disposable income of urban residents and per capita net income of rural residents of 6% in real terms, and increase in retail sales of consumer goods of 12%. Factors that will contribute to a steady rise in urban and rural incomes include improved national financial strength, better enterprise performance, deepened reform of the income distribution system and the implementation of measures such as the building of a new socialist countryside, efforts to increase rural incomes, strengthening of the social safety net and poverty alleviation programs. However, achieving this year's targets will still require an enormous amount of effort because we still need to overcome many difficulties and restraints in order to increase the incomes of rural residents and low-income urban residents.

--Rise in the consumer price index under 3%. The major considerations behind this target are: proactive yet prudent price reform for resource products, adjustments in the prices of public goods and services and the aftereffects of last year's year-end rises in the prices of grain, edible oil and other farm and sideline products, all of which will tend to drive up the price level to a certain extent.

--Continued progress in science and technology, education, health, culture and other social programs. The ratio of research and development expenditures compared to GDP is expected to increase to 1.56%. The secondary gross enrollment ratio should reach 65%, and plans call for enrolling 5.67 million undergraduate students and 424,000 graduate students in regular institutions of higher learning. The system of public cultural services will be strengthened. Trials of the new rural cooperative medical care system will be expanded to cover at least 80% of all counties (county-level cities and districts). The natural population growth rate should stay under 7.5%.

--Improvement in the balance of payments. Because the current international environment should remain favorable overall, and domestic enterprises and their products are becoming more competitive, growth in exports should remain strong. There should be a reasonable increase in the scale of imports as a result of the end of the transition period for China's WTO entry coupled with policies to encourage imports and the service trade, which should hold down the excessive rate of increase in the trade surplus to a certain extent.

III. Major Tasks and Measures for Economic and Social Development in 2007

To reach this year's targets for economic and social development, we must make unified overall plans and focus on key areas. We need to pay particular attention to the following eight aspects of our work.

1. We will continue improving macroeconomic regulation and maintain stable economic performance.

We need to continue to follow prudent fiscal and monetary policies.

1) We need to reduce the central government budget deficit by an appropriate amount and continue to adjust the structure of expenditures. The deficit in the central government budget for 2007 is projected to be 245 billion yuan, 50 billion yuan less than last year. We need to make proper arrangements for any revenue in excess of the projected figure. We will vigorously work to increase revenue and reduce expenditures and improve the performance of budgetary funds.

2) We need to reduce the issuance of long-term treasury bonds and appropriately arrange investment allocations from the central government budget. We plan to issue 50 billion yuan worth of long-term treasury bonds in 2007, 10 billion less than last year, and allocate 80.4 billion yuan from the central government budget for regular development projects, 25 billion more than last year, together for total central government funds for development projects of 130.4 billion yuan. In accordance with the requirement to improve the structure of expenditures, focus on key areas, shore up weak links and concentrate resources on accomplishing major tasks, the central government will allocate more development funds to certain areas than it did last year. These include efforts to directly improve rural working and living conditions, support for social programs such as elementary education and public health, and promoting the large-scale development of the western region. In addition, support for energy conservation, environmental protection and independent innovation will also be increased.

3) We need to maintain a reasonable growth rate in the money supply and improve the structure of loan portfolios. The broad money supply (M_2) is expected to grow by 16% in 2007. We will make comprehensive use of a variety of monetary and credit tools to continue to improve liquidity management in the banking sector, guide financial institutions in controlling the pace of credit growth and keep the amount of long- and medium-term loans at an appropriate level. Lending to enterprises that consume large quantities of energy or cause serious pollution and poorly performing enterprises in industries with excess

production capacity will be strictly controlled. We will increase financial support for agriculture, rural areas and farmers, small and medium-sized enterprises, independent innovation, energy conservation, environmental protection, social programs and underdeveloped areas.

4) We need to maintain overall price stability. We will strengthen monitoring and analysis of the overall price level as well as trends in the prices of major goods and services such as grain, cotton, petroleum, coal, steel and commercial housing. We will do a good job spot-checking market prices.

We need to continue to improve regulation of fixed asset investment.

1) We need to continue to restrict the development of industries that consume large amounts of energy and resources, seriously pollute the environment or have excess production capacity by maintaining strict control over availability of land and credit and market access. We need to appropriately raise and strictly enforce standards for approval of development projects in terms of land, environmental protection, energy conservation, technology and safety in accordance with the situation in each industry. We will build on our achievements in reviewing newly launched projects and rigorously control market access for new projects, paying particular attention to controlling the scale of urban development. We will strictly control building and expansion of office buildings of administrative organs and prohibit construction of luxurious office buildings and halls. We need to set up a mechanism to coordinate the actions of government departments in approving and managing new projects and work out a system for announcing and disseminating information on new projects.

2) We need to increase efforts to implement projects of major overall importance for long-term economic and social development and give more support to weak links in the economy such as agriculture, the service sector, social programs, energy conservation, environmental protection, independent innovation and underdeveloped areas. We will employ economic means such as subsidies, discount interest, tax and pricing to give full play to the role of government funding in properly guiding non-government investment.

3) We need to strengthen the management and oversight of investment projects. We will promptly set up a preparatory reserve system for investment projects and improve inspection and supervision to ensure the safety of funds and overall project quality.

We need to vigorously expand consumer demand.

1) We need to accelerate adjustment of the distribution of national revenue and promote continued increase in the incomes of both urban and rural residents, paying particular attention to constantly increasing the incomes and purchasing power of rural residents and low-income urban residents.

2) We need to expand rural consumer demand. We will increase support for the development of the rural distribution infrastructure, such as the rural commodity distribution network, wholesale markets for agricultural products and a modern system of grain distribution. We will improve the distribution network for agricultural supplies and continue the project to encourage retailers to open stores in more townships and villages and the project to support 100 large wholesale markets for farm products and 100 large rural retail distributors.

3) We need to fully implement policies for regulating the real estate market. We will accelerate the construction of low-rent housing and low- and medium-priced condominiums of modest size for ordinary people, and improve and standardize the system of affordable housing to improve the housing conditions of low-income families. We must punish violators of laws and regulations in all links of the real estate industry, including development, sales and real estate agencies, to curb overheating in housing prices.

4) We need to expand areas of consumer spending. We will strongly develop e-commerce, increase consumer spending in areas such as tourism to key sites in the early CPC history, rural tourism, culture, fitness, sports and recreation, and foster and expand new areas of consumption.

5) We need to further improve the environment for consumption. We will improve policies related to medical charges and drug prices, standardize prices of medical equipment and fully implement the system for publicly announcing school fees. We will conduct monitoring and inspection of prices and charges related to farmers, enterprises, education, medicine, real estate, and services such as telecommunications and public utilities (water, electricity, oil and natural gas), improve market oversight and management and protect the legitimate rights and interests of consumers.

We need to do a good job regulating economic activities. We will focus on development of modern high-capacity coalmines while combining or upgrading small and medium-sized ones. We will accelerate development of oil and gas resources, gradually establish an oil storage system and speed up the planning and building of oil and gas pipelines. We will accelerate the development of power grids, build more high-quality thermal power plants, vigorously develop hydropower stations and accelerate the development of nuclear energy and renewable energy sources such as solar energy, biomass energy, wind power and geothermal energy. We will intensify efforts to shore up weak links in coal transportation routes and develop embarkation ports and other major aspects of the transportation infrastructure. We will carefully maintain a proper balance among the different means of transportation to ensure rational distribution of transportation resources and improve the overall efficiency of the transportation industry. We will further standardize the management of power use to make it

more orderly, launch the trials of the “efficient power plant” power-saving scheme and set up a long-term mechanism for improving the demand side management of power. We will do more to balance supply and demand in coal, electricity, oil and transportation and first of all ensure that household requirements of the people as well as demand in key areas and institutions such as hospitals, schools, banks, grain and fertilizer are met.

2. We will focus on rural economic development and make substantial progress in building a new socialist countryside.

We need to consolidate, improve and strengthen policies for supporting agriculture and giving favorable treatment to farmers, provide more support for agriculture, rural areas and farmers, and promote restructuring of agriculture and the rural economy.

1) We need to steadily expand grain production. We will continue the project to industrialize the production of high-quality grain varieties and continue to develop large state commercial grain bases. We will improve the policy of granting direct subsidies to grain growers and general direct subsidies for agricultural supplies, and increase the amount of subsidies for growing superior grain varieties and purchasing agricultural machinery and tools. We will carry forward the minimum purchase price policy for key localities and key grain varieties. We will set up a sound food security warning system to strengthen monitoring and regulation of grain production, storage and imports and exports.

2) We need to vigorously promote the development of modern agriculture. We will improve agricultural technology and equipment and facilities for basic research in agricultural science and widen the application of advanced applied agricultural technologies. We will step up efforts to develop cotton, oilseed and sugar crop production bases, encourage localities to develop intensive livestock, poultry and aquatic farming as appropriate for local conditions, and continue the projects to cultivate superior varieties and breeds, to protect vegetation and to set up demonstration zones for modern agriculture. We will do a good job developing the system for quality and safety inspection of agricultural products and the system for preventing and controlling animal epidemics, and improve the comprehensive system of agriculture-related services.

3) We need to continue improving working and living conditions in the countryside. We will accelerate the project to improve soil fertility, build more small and medium-sized water conservancy facilities, support water-saving efforts in large irrigated areas and the building of drainage pumping stations in the central region, and step up efforts to renovate dilapidated reservoirs. We will increase investment in rural roads and water, gas and electricity facilities. We will provide safe drinking water for another 32 million rural residents, add 5

million to the number of rural households using methane and support improvement of roads connecting county seats and townships and the building of roads to villages. We will upgrade rural power grids and extend power grids to more areas without electricity in the central and western regions.

4) We need to accelerate the development of rural social programs. We will exempt all rural students receiving compulsory education from paying tuition and miscellaneous fees. We will continue to provide free textbooks to students from poor families and living allowances to poor students staying in dormitories. We will complete the project to develop modern distance learning at the elementary and middle school level and the task of making nine-year compulsory education generally available and basically eliminating illiteracy among young and middle-aged adults in the western region. We will continue the project to build and renovate rural boarding schools and begin work to improve rural middle school buildings in the central and western regions. We will vigorously develop the rural health service system, focusing on health clinics in towns and townships, and expand the area covered by the new rural cooperative medical care system. We will begin building multipurpose cultural centers in towns and townships and carry forward the project to extend radio and TV coverage to all villages and the project to screen more movies in rural areas.

5) We need to expand channels for increasing rural incomes. We will expand secondary and tertiary industries in the countryside, accelerate development of highly efficient cash crops and livestock, poultry and aquatic products, improve the quality and safety of agricultural products, increase income from farming, livestock, poultry and aquatic breeding and forestry, promote industrialized management of agricultural production and support development of leading enterprises. We will develop rural economic cooperatives and strengthen county economies. We will give rural residents vocational training of all types to help them become better qualified to get jobs or start their own business.

6) We need to set up a mechanism to ensure stable growth of investment in rural areas. We will promote improvement in the pattern of investment in rural programs and set up a mechanism for coordinating investment programs and plans and for communication among relevant departments to improve the management of investment.

3. We need to work hard to reduce energy consumption and pollution emission, strengthen environmental protection, conserve land and use land more intensively.

To attain a reduction in energy consumption per unit of GDP of about 20% and emission of major pollutants of 10%, within a period of five years as

required in the Outline of the Eleventh Five-Year Plan, we must forge ahead in spite of difficulties, adopt more effective measures and work even harder. We must make energy saving, decreased energy consumption, reduced emission of pollutants and conservation and intensive use of land the breakthrough point and main fulcrum for accelerating economic restructuring and changing the pattern of economic growth. We will energetically develop the service and high-tech industries, encourage the use of modern technology to transform traditional industries, provide guidance for enterprise mergers and reorganizations, promptly eliminate backward production facilities that cannot meet the requirements for market access in industries that consume large quantities of energy or seriously pollute the environment and promote more efficient development. At the same time, we must do a good job in the following eight areas.

1) We need to implement an accountability system. We need to strictly adhere to a responsibility system for meeting targets for energy conservation and consumption reduction and reduction of pollutant emission, promptly set up a unified, scientific system of statistical indicators and a monitoring system for reducing energy consumption and pollutant emission, and improve the performance assessment mechanism for the same purpose.

2) We need to focus on key areas. We will use funds from both central and local government budgets to carry out ten major state energy conservation projects including those to upgrade low-efficiency coal-fired boilers (furnaces), to develop district combined heating & power facilities, to utilize by-product heat and pressure, to conserve petroleum and find petroleum substitutes and to promote a wider use of environment-friendly lighting in key industries and areas such as steel, non-ferrous metals, power, petroleum and petrochemicals, chemicals and building materials. We will strengthen energy conservation management in key enterprises that each burn more than 10,000 tons of standard coal annually, launch a campaign to save energy in about 1,000 large enterprises with extremely high-energy consumption, tighten energy auditing, and step up efforts to develop and promote the use of major energy-saving technologies that have great potential for saving energy and can be widely applied in highly energy-consuming industries.

3) We need to attack the roots of the problem. We will follow an energy-saving evaluation and examination system for fixed asset investment projects and make energy efficiency a mandatory criterion in project examination, approval and development. We will adopt minimum energy efficiency standards for products whose manufacture is high in energy consumption, work out and implement quotas of energy consumption in production, set up a system of energy consumption limits for public buildings

and expand the scope of mandatory energy efficiency labeling. We will improve power generation and distribution and accelerate efforts to encourage larger thermal power plants and discourage smaller ones by shutting down small thermal power generating units with a total power generating capacity of 10 million kilowatts. We will require all new thermal power plants to install desulphurization equipment, issue a plan for controlling sulfur dioxide emission of coal-fired power plants and carry out the trial of exclusive distribution of desulphurization equipment. We will work hard to close down backward iron foundries with total production capacity of 30 million tons and backward steel mills with total production capacity of 35 million tons.

4) We need to increase policy support. We will improve the fiscal and tax policies for encouraging energy conservation and reduction of energy consumption. An energy-saving fund has been set up in the central government budget to support the application of highly efficient, energy-saving products and the operation of major energy conservation projects and the major demonstration projects for energy-saving technologies. We will improve the policy of differential electricity and water charges for enterprises that consume large amounts of energy or are highly polluting. We will improve the system of charges for pollutant emission. All cities and towns must begin collecting charges for sewage treatment by the end of the year and gradually increase the charges, and all cities must begin collecting charges for garbage disposal within the specified time. We will increase the price for electricity from coal-fired power plants using desulphurization equipment and disallow the increased price for power plants that turn off desulphurization equipment without a proper reason and fine them severely. We will introduce a policy to encourage the use of by-product heat and pressure, coal gangue and waste incineration to generate power and set preferential prices for electricity from such sources when supplied to the state power grids.

5) We need to develop a circular economy. We will promptly formulate a national plan for the development of a circular economy, improve the system of assessment indicators and statistical database for a circular economy, and press ahead with the first group of trial projects for a circular economy. We will energetically promote comprehensive utilization of resources and do a good job conducting trials to recycle renewable resources, recover and dispose of used home appliances and remanufacture auto parts.

6) We need to do more to protect the environment. We will fully promote clean production, carry out mandatory clean production inspections in enterprises whose pollution discharge seriously exceeds stipulated standards and order them to make corrections within a prescribed time. We will continue our comprehensive efforts to prevent and control pollution in key river valleys and

regions, including the Huai, Hai, Liao and Songhua rivers, Tai, Chao and Dianchi lakes, the Bohai Sea, the Three Gorges Reservoir area and the upper reaches of the Yangtze River, and the sources and routes of the South-to-North Water Diversion Project. We will strengthen guarantees for the safety of urban drinking water supplies, improve the capacity of cities to treat sewage and waste, and stop direct discharge of pollutants into the zones for conserving and protecting potable water sources according to law. We will vigorously develop the environmental protection industry.

7) We need to conduct effective oversight and inspection. We will carry out inspections for energy conservation and pollution reduction, and strengthen oversight and inspection of compliance with the responsibility system for meeting energy conservation and pollution reduction targets, requirements for mandatory energy efficiency labeling and adoption of energy saving measures by high energy-consuming enterprises. We will carry out on-line monitoring of target energy consuming enterprises and major pollution sources and increase oversight over the operation of facilities for urban sewage and waste treatment and desulphurization.

8) We need to conserve land and use land intensively. We will implement the strictest possible land management system, carefully follow the master plan and annual plans for land utilization, strengthen control over the amount of land to be used for development projects, protect arable land, especially basic farmland, and prohibit unauthorized development on agricultural land. We will strictly implement quotas for the amount of land that can be used for development projects and minimum price standards for the transfer of land for industrial use. We will standardize management of revenue and expenditures deriving from the transfer of land and incorporate into local budgets all the proceeds from and payment for the transfer of the rights to use state-owned land.

4. We will enhance the capacity for independent innovation and promote improvement and upgrading of the industrial structure.

1) We need to diligently implement the Outline of the National Program for Long- and Medium-term Scientific and Technological Development, and introduce another set of detailed rules for implementing support policies to encourage independent innovation. We will carry out major state science and technology projects, develop a group of major science and technology infrastructure facilities, build a number of state engineering laboratories and research centers, provide support for a number enterprise technology centers that have obtained state recognition and promote association of applicable technology research institutes with production enterprises. We will continue to

develop the platform to support technology sharing, improve agencies dealing in technical consultation and technology transfer and strengthen the protection of intellectual property rights.

2) We need to accelerate the development of the service sector. We will carefully carry out planning and development of projects in key areas of the service sector. We will relax and standardize entry-level requirements, implement fiscal, tax and pricing policies to support the development of key areas, shore up weak links and support development of new growth areas in the service sector. We will learn from advanced foreign practices, technologies and management expertise to improve the quality and level of China's service industries.

3) We need to adjust and improve the industrial structure. We will implement the Provisional Measures for Promoting Industrial Restructuring and the Guiding Catalogue for Industrial Restructuring, improve the system for managing entry into industries, accelerate restructuring of industries with excess production capacity, encourage and support mergers and reorganization among enterprises in the steel, cement, electrolytic aluminum, coal, textiles and papermaking industries, and close down backward production facilities in accordance with the law. We must also pay close attention to changes in supply and demand in the markets for other industries and the status of their production so we can promptly take measures to prevent development of additional excess production capacity. We will extensively apply advanced information technology to transform traditional industries, paying particular attention to upgrading technology in the steel, building materials, coal, power, petrochemicals and construction industries.

4) We need to strengthen the core competitiveness of high-tech industries. We will continue to carry out projects for high-tech development and projects for industrial application of high-tech advances in the fields of biopharmaceutical, integrated circuits, new generation mobile communications, next generation Internet and information security, and work out industrial policies on software and integrated circuits, digital TV and bioindustry. We will set up high-tech industrial bases for electronic information, biotechnology and aeronautics and aerospace, and foster the formation of groups of new industries.

5) We need to vigorously promote the development of the equipment manufacturing industry. We will introduce as soon as possible measures to encourage the purchase and use of key equipment that are newly developed and manufactured domestically, and formulate a plan and general implementation program for major projects to develop high-grade digitally controlled machine tools and basic manufacturing equipment. We will begin independent production of key equipment for the Ling'ao (Phase II) and Hongyanhe nuclear

power station projects and launch trial demonstration projects for 1,000-kilovolt AC and 800-kilovolt DC transmission and transformer facilities. We will consolidate and continue progress in producing urban rail transit facilities independently, promote independent production of high-tech ships and ship equipment, and accelerate the infrastructure development of large shipbuilding facilities.

6) We need to systematically develop alternative energy. We will promptly work out a long- and medium-term program for developing alternative energy and plans for developing coal-based alternative energy and biomass energy. We will first conduct trials and then proceed steadily, avoiding rushing into any technology before it has matured.

5. We will implement the overall strategy for regional development and promote balanced economic development among regions.

1) We need to continue to accelerate the development of the western region. We will carry out the plan for the large-scale development of the western region in the Eleventh Five-year Plan period by accelerating the development of infrastructure, ecological improvement, environmental protection, science and technology and education. We will begin work on a group of key projects to speed up infrastructure development of railways, trunk highways, branch-line airports and inland waterways. We will vigorously develop competitive and distinctive resources in the western region and set up manufacturing bases that take advantage of them. We will promptly work out follow-up policies to consolidate and develop the results in returning farmland to forests and returning livestock pastures to grasslands. We will continue key ecological projects such as those to protect virgin forests, bring desertification under control and prevent the spread of stony deserts. We will strengthen human resource development and the legal system in the western region. We will improve coordination and cooperation among the eastern, central and western regions.

2) We need to vigorously promote the rejuvenation of northeast China and other old industrial bases. We will support association and reorganization among enterprises and the development and manufacture of key equipment and promote improvement and upgrading of the equipment manufacturing, raw materials and agricultural and sideline product processing industries. We will develop commercial grain bases in the Songnen and Sanjiang plains, continue the trials to transform the economies of cities that depended on resources that are now exhausted and work to control sinkholes in coalmining areas and improve conditions in shantytowns.

3) We need to carry out policy measures to boost the development of the

central region. We will step up efforts to develop grain production bases, bases for producing energy resources and raw materials, advanced manufacturing and high-tech industrial bases and a comprehensive transportation system, and accelerate development of a modern commodity distribution industry. The region need to open wider to the outside world and receive and carry on the industrial transfer from the eastern region and abroad in an orderly way.

4) We need to encourage constant innovation in systems and mechanisms and accelerate improvement and upgrading of the industrial structure in the eastern region, retaining the status of the region in leading the country in deepening reform and opening up, promoting scientific development and changing the pattern of economic growth. We will implement policy measures related to the development and opening up of the Binhai New Area in Tianjin and vigorously proceed with the trial reforms for comprehensive and sustainable development of the Pudong New Area in Shanghai and Shenzhen Special Economic Zone.

5) We need to accelerate economic and social development in old revolutionary areas, ethnic minority areas, border areas and poverty-stricken areas, increase support for development of infrastructure and public services in underdeveloped areas and give more aid to ethnic groups with small populations.

6) We need to compile plans for development priority zones at different levels of government. We will complete a national plan for development priority zones and make substantial progress in compiling provincial plans.

7) We need to actively yet prudently promote urbanization. The focus of this effort will be on improving the overall carrying capacity of cities by first of all developing public transportation, concentrating on solving the serious problems of large cities such as traffic congestion and environmental pollution, and improving conditions in “inner-city villages.”

8) We need to do a good job in marine planning and support development of the marine economy.

6. We will continue to deepen all reforms and raise the quality and level of opening up.

We need to strengthen overall guidance and coordination, set up a sound mechanism for coordinating and promoting institutional reforms, and strive for breakthroughs in key areas.

1) We need to accelerate the reform of the administrative system. We will scientifically define responsibilities of different government bodies, improve the way government administration operates, improve the way the government exercises management and delivers services, promote government

administration in accordance with the law and strengthen the administrative accountability system.

2) We need to deepen all aspects of rural reforms. We will consolidate and develop the results of the reform of rural taxes and fees. We will vigorously promote comprehensive rural reform, which mainly consists of reform of town and township government bodies, reform of rural compulsory education and reform of the management system for county and township budgets. We will keep the system of land contracts stable and work to further improve contracts to protect the rights and interests of farmers. We will explore ways to develop new types of financial institutions geared towards rural areas and foster various types of microcredit lending institutions to improve the quality of rural financial services.

3) We need to continue the reform of enterprises. We will accelerate reform to transform large SOEs into stock companies and improve their corporate governance, mechanism for investment risk management and system of internal supervision and management. We will successfully continue work related to policy-mandated bankruptcy of SOEs, to relieving enterprises of the obligation to run social programs and to separating the secondary businesses of enterprises from main businesses and set up a budget system for the use of state capital. We will deepen reform of the management systems for the telecommunications, power, civil aviation and postal service industries. We will speed up reform of the investment and financing system for the railway industry and work out a master plan for restructuring the railway system. We will continue reform of urban public utilities such as water, gas and heat. We will fully implement policy measures to encourage, support and guide the development of the non-public sector of the economy. We will continue carrying out the project to nurture small and medium-sized enterprises, and improve the comprehensive system of services for them.

4) We need to speed up financial reform and innovation. We will carry out reform of the Agricultural Bank of China in a steady and orderly manner. We will continue reform of policy banks and other commercial banks, financial asset management companies and non-bank financial institutions. We will vigorously develop the capital market and the insurance market, set up a multi-level system of financing market, strengthen the institutional foundation of the securities market, allow enterprises to issue more bonds and carefully carry out trials of industrial investment funds. We will steadily deregulate interest rates to leave them to market forces and improve the mechanism for setting the exchange rate for the RMB. We will improve the system of financial oversight and management to prevent and defuse financial risks.

5) We need to steadily proceed with reform of the fiscal and tax systems.

We will improve the system for transfer payments, deepen reform of the budget management system, work out plans and support measures to comprehensively implement VAT reforms, and improve the compensation systems for the use of mineral resources and for the protection, restoration and improvement of the natural environment.

6) We need to deepen reform of the investment system. We will improve the approval procedures for projects funded by enterprises, publish the texts of sample project applications, revise the Catalogue of Enterprise-funded Projects Approved by the Government, and unify and standardize the system for recording these projects. We will continue the contractor system for construction projects and promptly set up an accountability system to cover decisions made on government-financed projects.

7) We need to improve the mechanism for pricing resource products. We will gradually rationalize prices for refined oil and natural gas, adjust prices for all categories of water as needed, accelerate the reform of prices for electricity transmission and distribution, improve the policy of competitive prices and subsidies for electricity generated by wind, biomass and other renewable energy sources, and promote reform of the price of heat.

8) We need to speed up improvement in the growth pattern of foreign trade. We will encourage the export of products with registered Chinese intellectual property rights using core Chinese technologies, raise the proportion of general trade and high value-added products exported, control the export of resource products and products whose manufacture consumes large amounts of energy or causes serious pollution, expand the import of energy, important mineral products, advanced technology and equipment and key spare parts and accessories, and strengthen strategic reserves of critical resources. We will raise the standards for approval for processing trade enterprises, and work vigorously to promote the upgrading of the processing trade.

9) We need to make better use of foreign capital, focusing on introducing advanced technology, management expertise and high-caliber personnel. We will energetically yet prudently open the service sector wider to foreign competition, guide more foreign funds to the central and western regions, northeast China and other old industrial bases and fields identified in industrial policy and increase support for the central and western regions from foreign preferential loans. We will improve the policy measures and coordination mechanism for promoting overseas investment by Chinese firms and encourage and standardize their overseas investment and international cooperation activities. We will take an active part in the formulation of multilateral trade rules and the establishment of free trade zones.

7. We will vigorously develop education, health and culture and strike a balance between economic and social development.

1) Development of education is a high priority. We will continue to favor the countryside, the central and western regions, poverty-stricken areas, border areas and ethnic minority areas when allocating public education resources. We will implement a new mechanism for ensuring adequate funding for rural compulsory education, and resolve the problem of children of poor urban families and children of rural migrant workers in cities not having adequate access to compulsory education. We will strengthen development of the infrastructure of vocational education, focusing on support for secondary vocational education for rural students. We will accelerate reform of teaching in higher education with the focus on improving quality, continue to implement the 211 Project, and energetically develop key disciplines in colleges and universities. We will set up a sound national system of scholarships and assistance grants, carry out the student loan policy and provide education free of charge for pedagogical students at normal universities directly under the Ministry of Education.

2) We need to improve the public health and basic medical service systems. We will phase in a basic health care system that covers both urban and rural areas. We will improve the community-based health service system in cities and implement measures to ensure adequate funding to make disease prevention and treatment more accessible and affordable for people. We will continue to prevent and control major communicable diseases. We will energetically support development of traditional Chinese medicine and folk medicine of ethnic minorities. We will soon work out a master plan and policy measures to deepen the reform of pharmaceutical and health care systems.

3) We need to vigorously develop culture, radio, film, television, the press and publishing and sports. We will promote development of the system of public cultural services, paying particular attention to developing basic cultural facilities in rural areas. We will strengthen protection of recovered cultural relics and cultural and natural heritage sites, accelerate the building of major cultural projects such as the National Museum of China, the second phase of the National Library of China and the second phase of the China Art Gallery, and proceed with the reform of the cultural system. We will do everything possible to successfully complete venues for the Olympic Games.

4) We need to maintain consistency in the current family planning policy, keep the birthrate low and improve the health of newborns. We will fully implement the reward and assistance system for rural households that comply with family planning regulations, improve community-level family planning services in rural areas and extend “Fewer Children Equals Faster Prosperity”

pilot project to more areas. We will energetically develop programs for the elderly.

8. We will conscientiously work to solve major problems that affect the vital interests of the people and promote the building of a harmonious society.

1) We need to continue to follow a proactive employment policy. We will energetically develop labor-intensive industries, small and medium-sized enterprises and the service sector that can create more employment opportunities. We will provide people with better vocational training to equip them with the skills to find work. We will focus on creating and finding employment for university graduates and laid-off workers and actively help members of zero-employment households and people who have real difficulties finding employment to find jobs. We will fully implement the system of labor contracts. We will experiment with a mechanism to promote employment that covers both urban and rural areas.

2) We need to do a good job adjusting income distribution. We will appropriately raise the labor share in the primary distribution of income. We will improve the wage negotiation mechanism. We will also make appropriate adjustments in and strictly follow the minimum wage system and further standardize income distribution in state-owned enterprises and institutions, especially in monopoly industries. We will improve tax collection and management and raise taxes for high-income earners. We will protect the legitimate rights and interests of rural migrant workers in cities by strengthening oversight over payment of their wages and requiring employers to set up a payroll guarantee fund.

3) We need to speed up development of the social safety net. We will extend coverage of basic old-age pensions, basic medical insurance and worker's compensation to urban employees of enterprises under all types of ownership as soon as possible. We will steadily proceed with the work of fully funding personal old-age pension accounts. We will launch the trial of basic medical insurance for urban residents that mainly covers major illnesses and work to provide rural migrant workers in cities with workers' compensation insurance and medical insurance for major diseases. We will study measures for transferring social security accounts of workers from one region to another. We will improve the management systems for social security funds and the funds in matching fund programs for housing to ensure their safety. We will continue working to improve the urban basic cost of living allowance system and set up a similar system for rural residents nationwide. Reasonable eligibility requirements for rural residents to receive such allowances and a reasonable

level for allowances will be set, and areas with financial difficulties will receive appropriate assistance from the central government budget. We will accelerate efforts to improve the social assistance system for both urban and rural residents to better protect and help disabled persons, ensure that childless and infirm rural residents receive subsidies for food, clothing, medical care, housing and burial expenses, and better care for orphaned and handicapped children.

4) We need to improve production safety and ensure food and drug safety. We will launch more campaigns to ensure food and drug safety and intensify oversight to ensure the quality of food and drugs and proper sanitary conditions in the food and beverage industry. We will set up a sound system and related mechanisms for ensuring production safety and make it clearer that enterprises have the main responsibility for production safety. We will work hard to bring the problem of coalmine gas buildup under control, remedy safety problems in coalmines and shut down coalmines that fail to meet requirements for production safety. We will carry out campaigns to improve safety in industries most affected by safety issues such as hazardous chemicals, fireworks, transportation, fire prevention, construction and explosives for civilian use. We will intensify preventive safety measures in schools and entertainment venues.

5) We need to step up efforts to reduce poverty through development. We will properly manage and use budgetary funds for poverty alleviation and for projects to give people work instead of merely handing out relief subsidies, strongly support small rural infrastructure projects in key counties included in the national plan for poverty alleviation through development and continue to relocate people from inhospitable areas as a poverty relief effort on a trial basis. We will carry out follow-up policies to support relocation of residents from reservoir areas and do a good job rebuilding disaster-hit areas.

6) We need to safeguard and promote social stability. We will attach a great deal of importance to solving problems arising from land expropriation and requisition, housing demolition and resident relocation, enterprise restructuring and petitions concerning interpretation and enforcement of the law. We will increase our overall ability to respond to emergencies and improve the system of contingency plans for the various types of emergencies. We will improve the crime prevention and control system and launch extensive campaigns to promote peace and security.

Fellow Deputies,

Our tasks in reform, development and stability for 2007 will be arduous. Under the leadership of the Party Central Committee with Comrade Hu Jintao as General Secretary, we will hold high the great banner of Deng Xiaoping Theory and the important thought of Three Represents, fully put into practice major

strategic concepts of the Scientific Outlook on Development and building a harmonious socialist society, and work hard together in a down-to-earth manner to achieve the targets for economic and social development and promote sound and rapid development of the national economy!