

REPORT ON THE WORK OF THE GOVERNMENT

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Fellow Deputies,

On behalf of the State Council, I would now like to present to you my report on the work of the government for your deliberation and approval. I also welcome comments and suggestions on the report from the members of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).

I. Review of the Work in 2006

China began implementation of and made a good start on its Eleventh Five-Year Plan in 2006, making major achievements in economic and social development.

- The economy experienced steady and fast growth. China's GDP was 20.94 trillion yuan, an increase of 10.7% over the previous year. The consumer price index rose by 1.5%. For four years in a row, economic growth has reached or slightly exceeded 10% without significant inflation.

- Economic performance improved steadily. National revenue reached 3.93 trillion yuan, a year-on-year increase of 769.4 billion yuan. Profits of large industrial enterprises rose 31%, an increase of 444.2 billion yuan.

- Implementation of the reform and opening up policy was deepened. Further progress was made in reforms in key areas and crucial links. China's import and export volume totaled US\$ 1.76 trillion, a year-on-year increase of 23.8%. Paid-in foreign direct investment reached \$69.5 billion.

- Development of social programs was accelerated. Major achievements were made in scientific and technological innovation, there was continued development of education, the public health system was improved and progress continued in cultural and sports programs.

- People's living standards improved substantially. A total of 11.84 million urban residents entered the workforce. Urban per capita disposable income rose to 11,759 yuan, an increase of 10.4% in real terms after adjusting for inflation, and rural per capita net income grew to 3,587 yuan, an increase of 7.4% in real

terms after adjusting for inflation.

These achievements mark a further increase in China's overall strength and represent another solid step toward the goal of building a moderately prosperous society in all respects.

The main work accomplished in 2006 includes the following.

1. Macroeconomic regulation was strengthened and improved. The central government adopted a series of timely macroeconomic regulatory measures to address major problems affecting economic performance, such as overheated investment, excessive money and credit supply and serious trade imbalance. We strengthened land regulation by strictly controlling the expansion of land used for construction and took stern actions against violations of laws and regulations concerning land use. We strengthened supervision of money supply and credit, raised the basic interest rate on RMB loans twice and raised the reserve requirements for financial institutions three times. We strengthened the role of fiscal and tax measures in regulating economic activities. We tightened the examination and approval process, oversight and inspection of new projects to be launched on the market. We strengthened regulation and oversight of the real estate market to improve the mix of market housing available. These macroeconomic regulatory measures started to work, resulting in a drop in the growth rate in fixed asset investments and slower growth of the bank credit supply. We thus prevented rapid economic growth from becoming overheated growth and avoided drastic fluctuations.

2. Work related to agriculture, rural areas and farmers was intensified. Steady progress was made in building a new socialist countryside. Central government budgetary spending on agriculture, rural areas and farmers reached 339.7 billion yuan, a year-on-year increase of 42.2 billion yuan. We rescinded the agricultural tax and taxes on special agricultural products nationwide, ending a tax that had been collected on grain farmers in China for more than 2,600 years. We continued to increase direct subsidies to grain farmers for producing grain and subsidies for growing superior seed varieties and purchasing agricultural machinery and tools, and followed a policy of granting general subsidies for agricultural production supplies. In addition, we continued the minimum purchase price policy for key grain varieties in major grain-producing areas and increased transfer payments to counties and townships with financial difficulties and major grain-producing counties. Despite serious natural disasters, the output of major agricultural products increased steadily. Grain output reached 497.46 million tons, registering the third consecutive annual increase. We worked harder to develop rural infrastructure, including roads, water conservancy, electricity and communications, and made safe drinking water available to another 28.97 million rural residents and the use of methane available to an additional 4.5 million rural families, thereby improving working and living conditions in rural areas. We made continued progress in reducing rural poverty through

development, lifting 2.17 million rural people out of poverty. We formulated and implemented policies and measures to address the difficulties rural migrant workers in cities face and strengthened protection of their legitimate rights and interests by addressing the problems of low wages and unpaid wages, standardizing labor management pursuant to the law, improving job training and expanding the social safety net.

3. Adjustment of the economic structure was accelerated. We formulated policies and measures to accelerate the development of the equipment manufacturing industry and promoted independent development of major technologies and independent production of major equipment in key areas. We began to independently manufacture mega kilowatt nuclear power generators, ultra-supercritical thermal power generating units and new types of ships, and launched major projects such as those to produce high-grade digitally controlled machine tools and key manufacturing equipment. We also formulated and implemented policies and measures to carry out structural adjustments in 11 industries, including the steel, coal and cement industries. As a result, there was significant decline in the growth rate of investment in some industries with surplus production capacity and total investment for new planned projects dropped significantly. We closed down backward coal production facilities totaling 110 million tons in capacity and electrolytic aluminum production facilities totaling 1.2 million tons. A number of projects vital to China's economy were completed and put into operation and some others were started. The Qinghai-Tibet Railway was opened to traffic, all generating units at the Three Gorges Left Power Station were completed and put into operation, and construction of the Xiangjiaba Hydropower Station on the Jinsha River began. All this will play an important role in sustaining economic development.

We placed greater emphasis on saving energy and protecting the environment. We improved policies on saving energy and reducing emission of pollutants, and established a general responsibility system for meeting energy saving and pollution discharge reduction targets. We strengthened energy conservation in key industries, enterprises and projects, and conducted pilot projects to develop the circular economy. We worked hard to prevent and control water pollution in key river valleys and regions, such as the Three Gorges Reservoir area, the Songhua River, the sources and routes of the South-to-North Water Diversion Project, and the Bohai Sea. We carried out key environmental protection projects to desulphurize emissions from coal-fired power plants, treat urban sewage and dispose of waste safely. To ensure environmental safety, we launched the fourth annual nationwide campaign to punish enterprises that illegally discharge pollutants. We worked hard to protect and improve the ecosystem. Progress was made in the current stage of the campaign to restore order in and standardize the exploitation of mineral resources. Geological prospecting was intensified.

We continued to follow the overall strategy for regional development. We continued to make solid progress in the large-scale development of the western region, and the work of rejuvenating northeast China and other old industrial bases proceeded smoothly. We began implementation of the policy to boost the development of the central region. The eastern region made further achievements in leading the country in development.

4. The process of reform and opening up was accelerated. We made comprehensive plans for overall rural reform. Steady progress was made in the reform of the system of collective forest rights. Further progress was made in adjusting the distribution of the state sector of the economy, introducing the shareholding system in state-owned enterprises (SOEs), and overseeing state-owned assets. Government functions were separated from the management of postal operations, and reform of the electricity management system continued. Significant progress was made in introducing a shareholding system in state-owned commercial banks; the Bank of China and the Industrial and Commercial Bank of China were successfully listed on domestic and overseas stock exchanges, and considerable headway was made in the current stage of the reform of rural credit cooperatives. The reform of the shareholder structure in listed companies was basically completed, and the basic systems of the securities market were strengthened. Reform of the insurance industry was deepened. Reform of the foreign exchange administration system was gradually deepened. Continued improvement was made in the fiscal and tax systems. Smooth progress was made in reforming the civil servant salary system and standardizing the pattern of income distribution. A thorough campaign to improve market order was launched.

We adjusted the trade mix by improving policies concerning export tax rebates, tariffs and processing trade and by controlling the export of products whose manufacture is highly energy consuming or highly polluting. We made energetic efforts to increase imports. The structure of foreign investment use was improved, and service industries, including banking, retail sales and telecommunications, were further opened up. We deepened and expanded economic exchanges and trade with other countries. We encouraged enterprises to invest overseas and cooperate with overseas-funded enterprises. We fulfilled all the commitments we made for China's accession to the World Trade Organization (WTO) and improved economic systems, laws, regulations and policies related to doing business with other countries.

5. We worked hard to develop social programs. We increased funding for social programs. The central government spent 77.4 billion yuan on science and technology, 53.6 billion yuan on education, 13.8 billion yuan on health and 12.3 billion yuan on culture, representing year-on-year increases of 29.2%, 39.4%, 65.4% and 23.9% respectively.

We promoted innovation in science and technology. The Outline of the

National Program for Long- and Medium-Term Scientific and Technological Development (2006-20), which took two years to formulate, has been issued and is being implemented, and related special programs and supplementary policies and measures have been formulated. Sixteen major projects were launched, including projects to develop giant oil and gas fields and coal seam gas, design and develop a new generation wireless broadband mobile communications network, design and produce large aircraft, develop manned spacecraft and explore the moon. We made breakthroughs in key technologies such as a high-performance computer, super high-quality hybrid paddy rice, third generation mobile communications and digital television, and increased China's capacity for independent innovation.

We put education high on the development agenda. A total of 184 billion yuan was allocated by both central and local governments to fund rural compulsory education, enabling us to pay tuition and miscellaneous fees for the 52 million rural students receiving compulsory education throughout the western region and in some areas in the central region, provide free textbooks to 37.3 million students from poor families and grant living allowances to 7.8 million students staying in dormitories. Of the 410 targeted counties, 317 reached the goals of making nine-year compulsory education generally available and basically eliminating illiteracy among young and middle-aged adults. The proportion of the target population attaining these two goals in the western region increased to 96% from the 77% of 2003. The central government spent 9 billion yuan over the past three years building facilities for 7,651 rural boarding schools. Eight billion yuan was spent to develop modern primary and middle school distance education for rural areas. The project covers over 80% of the rural primary and middle schools in the central and western regions and enables over 100 million students to have access to high-quality education resources. New enrollment at secondary vocational schools totaled 7.41 million and total attendance reached 18.09 million. Total attendance at institutions of higher education reached 25 million and the gross enrollment ratio rose to 22%.

We worked to strengthen medical and health care services. Work to set up a disease prevention and control system with a wide range of functions that covers both urban and rural areas and a medical treatment system for public health emergencies has been basically completed. Work was begun to set up a rural health service system, and 2.7 billion yuan from the sale of treasury bonds was allocated by the central government for the development of medical and health care facilities at the county, township and village levels. Trials of a new type of rural cooperative medical care system were extended to 1,451 counties, county-level cities and city districts, covering 50.7% of the country's total number of counties, county-level cities and city districts and 410 million rural residents. With 4.27 billion yuan allocated by the central government and additional local government funding, we raised the allowances for rural

participants in the cooperative medical care system significantly. Development of the community-based system of urban medical services was accelerated. Subsidized medical care was improved for urban and rural residents. The central government allocated 5.1 billion yuan to support local government efforts to improve public health care services. Substantial progress was made in preventing and controlling major diseases such as AIDS.

We energetically developed culture and sports. The press and publishing, radio, television, film, literature and art, philosophy and the social sciences flourished. Culture-related facilities, especially in rural areas, were improved. The project to expand radio and television coverage in rural areas was extended from incorporated villages to unincorporated villages. Continued progress was made in the project to build multi-use cultural centers in communities, towns and townships and the national shared database project for cultural information and resources. Reform of the cultural management system was deepened. Development of the culture industry was accelerated, and cultural exchanges with other countries were increased. Sports activities for the general public were extensively developed, and the level of competitive sports continued to improve. Efforts to promote socialist cultural and ethical progress were strengthened.

6. We worked hard to increase employment and improve social security work. We continued to improve and implement policies on employment and reemployment, and the central government allocated 23.4 billion yuan for employment and reemployment efforts. We created jobs through a variety of channels, stepped up vocational and technical training, provided support and assistance to zero-employment households and people who have difficulty finding employment, and helped 5.05 million laid-off workers find new jobs. The goal set out in 2004 to basically solve the longstanding problems of defaults on payment to construction companies and unpaid wages for rural migrant workers in the construction industry within three years was basically met. A total of 183.4 billion yuan has been paid to construction companies, paying off 98.6% of the total amount owed to them. This payment included 33 billion yuan in overdue wages for rural migrant workers.

The social safety net was strengthened. Trials to fully fund personal accounts for basic old-age insurance of enterprise employees were expanded to eight more province-level localities on the basis of the pilot project in the three provinces in northeast China. After years of effort, the work of incorporating basic cost of living allowances for workers laid off from SOEs into the unemployment insurance system has been basically completed. Basic pension benefits for retired enterprise employees were increased. The coverage of the social security system was further expanded, revenue from social security premiums increased, and oversight and management of social security funds was strengthened. The basic framework of a social assistance system for both urban and rural residents was set up, and charity programs continued to grow. The central government spent

13.6 billion yuan on basic cost of living allowances for urban residents, 2.4 billion yuan more than the previous year, and local governments also increased their spending on these allowances to varying degrees. A system of basic cost of living allowances for rural residents was initiated in 2,133 counties, county-level cities and city districts in 25 provinces, autonomous regions and municipalities directly under the central government, benefiting 15.09 million residents. Funding for providing food, clothing, medical care, housing and burial expenses for childless and infirm rural residents now mainly comes from the government budget instead of depending on rural collectives. Assistance for orphans and protection for homeless juveniles were strengthened. Allowances for all types of entitled groups were increased significantly, with an 11.2 billion yuan allocation from the central government budget, a 47% increase from the previous year. We improved the policy for compensating people whose land has been expropriated to build large or medium-sized reservoirs and for assisting people displaced for reservoir projects, benefiting 22.88 million persons. This longstanding problem is now being gradually solved.

Last year, some areas in China were hit by natural disasters of a severity seldom seen in history, including typhoons and droughts. We promptly took steps to carry out disaster relief work and rebuild disaster-hit areas. The central government raised some disaster relief allowances and allocated 11.2 billion yuan in relief funds to help disaster victims get back on their feet.

7. *We continued to strengthen democracy and the legal system.* Democracy at the community level made continued progress. Government-sponsored legislation was further improved. The State Council submitted seven bills to the Standing Committee of the National People's Congress (NPC) for deliberation, including the Law on Corporate Income Tax (draft), the Antitrust Law (draft), the Law on Response to Emergencies (draft) and the revised Compulsory Education Law (draft), and promulgated 29 sets of administrative regulations, including the Regulations on AIDS Prevention and Control and the Regulations on the Administration of Overseas-Funded Banks. We accelerated development of government by the rule of law and implemented the Administrative Permit Law, the Civil Service Law, and the Program for Advancing All Aspects of Government Administration in Accordance with the Law. Oversight in the form of supervision and auditing was strengthened. Steady progress was made in reform of the judicial administrative system and its working mechanisms. The work of addressing public complaints registered by means of letters and visits was strengthened. In public security, continued improvements were made in the crime prevention and control system and extensive efforts were made to promote peace and security. Significant progress was made in work focused on improving conditions in areas with poor public security and in addressing serious public security issues. An all-out effort was made to build clean government and combat corruption and a campaign to combat bribery in business was launched.

A number of major cases involving government offices and their employees were investigated and dealt with, and a number of people guilty of corruption were punished to the full extent of the law.

Work related to ethnic groups, religions, Hong Kong, Macao, Taiwan and overseas Chinese was further improved. We continued to make progress in modernizing national defense and the army. Significant progress was made in China's diplomatic work.

Looking back on our practical experience, we have come to the following conclusion: We must free our minds, follow a realistic and pragmatic approach, keep pace with the times, work hard with a pioneering and innovative spirit, unswervingly take the road of Chinese socialism, adhere to the reform and opening up policy, pursue development according to scientific principles, maintain social harmony during development and ensure peaceful development. Only by doing so can we attain the ultimate objectives we have set for modernization.

We owe our successes to the correct overall leadership of the Central Committee of the Communist Party of China (CPC) with Comrade Hu Jintao as General Secretary and to the concerted efforts and hard work of cadres and the people across the country. On behalf of the State Council, I would like to express my sincere thanks to the people of all our ethnic groups, the democratic parties, people's organizations and persons from all walks of life. I would also like to sincerely thank our compatriots from the Hong Kong and Macao special administrative regions and Taiwan as well as overseas Chinese. My sincere thanks also go out to all the friends of China around the world who care about and support China's modernization.

However, we are clearly aware that there are still many difficulties and challenges in China's economic and social development and some shortcomings and inadequacies in the work of the government.

First, there are still serious structural problems in the economy. There is a lack of proper balance among primary, secondary and tertiary industry, urban and rural development and development among different regions are not balanced, and the pattern of investment does not reflect consumer demand. Agriculture, the base of the economy, remains weak, and it is now more difficult than ever to steadily increase grain production and keep rural incomes growing. The overall scale of investment in fixed assets is still too large, the problem of excess liquidity in the banking system is serious, and the factors causing overheated investment and excess credit still remain. The trade surplus has become large, and the imbalance in international payments has worsened.

Second, the pattern of economic growth is inefficient. This can be seen most clearly in excessive energy consumption and serious environmental pollution. The targets for saving energy and reducing pollutant emissions were set forth in the Eleventh Five-Year Plan. This is of vital importance in efforts to promote the

change in the pattern of economic growth and increase energy conservation and environmental protection. All local governments and government offices did a great deal of work and made much headway in these areas over the past year. While energy consumption per unit of GDP for the previous three years rose by 4.9%, 5.5% and 0.2% respectively, it dropped by 1.2% in 2006. Growth in total emission of major pollutants declined, chemical oxygen demand rose 1.2%, down from an increase of 5.6% the year before, and discharge of sulfur dioxide rose 1.8%, down from a 13.1% gain in the previous year. However, we fell short of the targets set at the beginning of last year for cutting energy consumption per unit of GDP by about 4% and total discharge of major pollutants by 2%. The main reasons were: Industrial restructuring proceeded slowly, while growth in heavy industry, especially in sectors that are high in energy consumption or are highly polluting, was still overheated. Many backward production facilities that should have been closed down are still in operation. Finally, some local governments and enterprises failed to strictly comply with laws, regulations and standards for energy saving and environmental protection, and it will take time for relevant policies and measures to produce the desired results. Meeting these two mandatory targets in the Eleventh Five-Year Plan is very important. The targets cannot be revised, so we must work resolutely to reach them. The State Council will make annual reports on the progress made in saving energy and reducing emissions to the NPC starting this year, and at the end of the Eleventh Five-Year Plan period it will report on the overall progress made over the five years.

Third, a number of serious problems affecting the people's interests have not been properly addressed. Problems in food and drug safety, medical services, education charges, housing, income distribution, public security and production safety remain a source of public concern. Problems arising in land expropriation and requisition, housing demolition, transformation of enterprises into stock companies and environmental protection that harm the interests of the people have not been fundamentally solved. Life remains difficult for many low-income people.

Fourth, the government's efforts to improve its performance still have room for improvement. Moves to change the way the government functions have not made the expected progress, non-separation of government administration and enterprise management remains a problem, and the responsibilities of some government offices are not clear, leading to low productivity. Expenses related to carrying out official duties have not been standardized, and extravagance and waste are inflating administrative costs. In some local governments and government offices and among a small number of their employees, there are problems of bureaucratism, formalism, isolation from the people, neglect or dereliction of duty and even abuse of power and corruption. The root cause of these problems lies in institutional deficiencies and poor oversight.

We must maintain a strong sense of responsibility to the country and the people and take more forceful measures to solve them in order to live up to the expectations of the people.

II. General Plan for Work in 2007

This is the last year for the term of this government, so we must do our best to carry out our duties with even greater drive and work tirelessly to do even better in all our work in order to deliver a good report to the people.

The basic approach and tasks for the work of the government are: to take Deng Xiaoping Theory and the important thought of Three Represents as our guide and fully implement the Scientific Outlook on Development; to accelerate the building of a harmonious socialist society; to conscientiously implement the principles and policies the CPC introduced since its Sixteenth National Congress; to strengthen and improve macroeconomic regulation; to speed up adjustment of the economic structure and change of the pattern of economic growth; to strengthen resource conservation and environmental protection; to advance the reform and opening up policy and independent innovation; to promote social development and resolve issues related to the people's wellbeing; and to promote all aspects of socialist economic, political, cultural and social development to create a good environment and favorable conditions for the convening of the Seventeenth National Congress of the CPC.

Taking into consideration all factors, we have decided on the following main goals for China's economic and social development this year: On the basis of structural improvement, improved productivity, reduced consumption of energy and environmental protection, GDP is forecast to grow by about 8%, the number of jobs created in urban areas should be at least 9 million, and the rate of registered urban unemployment should be kept below 4.6%. The overall price level should remain basically stable, the overall increase in consumer prices should stay below 3%, and there should be improvement in the imbalance in international payments.

It is important to mention here that in a socialist market economy, a target for GDP growth set by the government is a guide and an indicator of the anticipated level. It serves as an important basis for setting macroeconomic targets for the budget, employment and prices. Because of changes in the domestic and international economic environments including the market, the real GDP growth rate will vary a certain amount from the projected target. In setting the target for GDP growth around 8% for 2007, we have taken into account a number of factors, such as what is needed and what is feasible. The most important task for us is to promote sound and fast economic development. To attain this goal, we should guide all sectors of the economy to conscientiously put into practice the Scientific Outlook on Development, focus on improving the

economic structure and economic performance, saving energy, reducing energy consumption and cutting down on the discharge of pollutants, and to avoid seeking only faster growth and competing for the fastest growth.

In order to realize the goals and complete the tasks for this year's economic and social development, we must closely adhere to the following policies and principles:

First, we must stabilize, improve and implement policies. Stabilizing policies means ensuring the continuity and consistency of macroeconomic policy and continuing to follow prudent fiscal and monetary policies. Improving policies means promptly revising policies and measures in response to new developments in the operation of the economy and finding specific solutions to serious issues and problems. Implementing policies means conscientiously implementing all policies and measures of the central government, improving the ability to implement policies and truly putting all policy decisions into effect.

Second, we must strengthen and improve macroeconomic regulation. The focus of this work is to keep the scale of fixed asset investment and credit under control and to promote overall balance between total supply and total demand while improving the structure. We must encourage growth in some sectors and discourage it in others, treating each sector according to its specific situation, and make more use of economic levers and legal means to guide and standardize economic activity. We need to correctly balance the relationship between central and local government organizations to give full play to the initiative of each.

Third, we need to greatly improve the quality and efficiency of economic growth. We must attach greater importance to saving energy and resources, protecting the environment and using land intensively, pay close attention to improving product quality, strengthen the competitiveness of the economy and better ensure the sustainability of economic development.

Fourth, we need to pay closer attention to promoting social development and improving the people's wellbeing. We must put people first, promote faster progress in social programs, work energetically to solve the most practical problems that are of greatest concern to the people and most directly affect their interests, safeguard social fairness and justice, and ensure that all of the people share in the fruits of reform and development.

Fifth, we need to make reform and opening up the driving force behind all our work. We must continue in the direction of reform to develop the socialist market economy. In order to meet the requirements for economic and social development, we need to promote economic, political, cultural and social restructuring and accelerate the establishment of institutional guarantees for implementing the Scientific Outlook on Development and building a harmonious society. We need to make China more open to the outside world in all respects.

III. Promoting Both Sound and Fast Development of the Economy

Looking at the overall situation, we need to concentrate on the following areas in promoting this year's economic development:

1. We will continue to strengthen and improve macroeconomic regulation.

We need to continue to follow a prudent fiscal policy.

One, we will reduce the budget deficit and the amount of long-term development treasury bonds issued by an appropriate amount. The deficit for the central government budget this year is set at 245 billion yuan, down 50 billion yuan from last year. We plan to issue 50 billion yuan of long-term development treasury bonds, down 10 billion yuan from last year. We also plan to allocate 80.4 billion yuan from the central government budget for investment in regular development projects, up 25 billion yuan from last year. Total central government investment in development projects is expected to be 130.4 billion yuan.

Two, the structure of budgetary expenditures and government investment will be improved to put more emphasis on key areas. "Increase in three areas" must be ensured in the use of government funds, i.e. a year-on-year increase in investment to directly improve living and working conditions in rural areas, investment in social programs such as elementary education and public health, and investment in the large-scale development of the western region. In addition, we will increase expenditures for energy conservation, environmental protection and independent innovation.

Three, we will spend the excess revenue in the central government budget in an appropriate way. Because of the fact that actual economic growth exceeded targets plus some policy factors that increased revenue, the central government revenue has exceeded the targets in recent years by a fair amount. The average annual amount of revenue over the target for the years 2003 through 2006 was 204 billion yuan, with last year's surplus reaching 257.3 billion yuan. The excess revenue was mainly spent for the following purposes: to pay off longstanding arrears in export tax rebates and payments for returning farmland to forests, to increase tax rebates and general transfer payments to local governments in accordance with the law, to increase legally mandated expenditures for education, science and technology, and to increase expenditures for the social security fund, for policy-mandated bankruptcy of enterprises and for basic cost of living allowances for residents. Fifty billion yuan will be allocated from last year's excess revenue to establish a central budget stability fund this year. The fund makes it possible to compile the central government budget more scientifically and rationally, and helps keep it stable and preserve the continuity of fiscal policy. The use of this fund will be put under budgetary control and subject to the oversight of the NPC. We must strengthen the management of public finance, work very hard to increase revenue, reduce expenditures, practice strict economy, combat extravagance and waste, and ensure the efficient use of public funds. We

must administer taxes in accordance with the law, strengthen the collection and management of tax revenue and standardize the management of non-tax government revenue.

We will continue to follow a prudent monetary policy. We must employ a full range of monetary policy tools to appropriately control the supply of money and credit and effectively address the problem of excess liquidity in the banking system. We will adjust and improve the credit structure to guide banks to increase credit support for agriculture, rural areas, farmers, small and medium-sized enterprises, energy conservation, environmental protection and independent innovation. We must continue to control long- and medium-term loans and strictly limit loans to backward enterprises that consume high quantities of energy or are highly polluting and poorly performing enterprises in industries with excess production capacity. We will promote steady reform of interest rates to better reflect market conditions. We will improve the mechanism for setting the RMB exchange rate, strengthen and improve foreign exchange administration, and actively explore and develop channels and means for appropriately using state foreign exchange reserves. We will adopt a variety of measures to gradually ease the imbalance in international payments.

We need to adjust the balance between investment and consumption. We must adhere to the principle of boosting domestic demand, focusing on expanding consumer demand. We will deepen reform of the income distribution system to narrow the increasing gaps in income levels and expand consumer demand. We will take a variety of measures to increase the incomes of both urban and rural residents, especially low- and middle-income persons. We will make appropriate adjustments in and strictly follow the minimum wage system, implement minimum wage standards for part-time workers, strengthen regulation and guidance for income distribution in enterprises, and set up sound mechanisms for regular pay increases and regular payment of wages. All local governments should conduct a general survey of compliance with the minimum wage system and minimum wage standards for part-time workers. We will continue to implement the policies and measures for reforming the salary system for civil servants, standardizing the pattern of income distribution among civil servants and adjusting the benefits they receive. High priority should be given to expanding consumer demand in rural areas, implementing policies and measures to stimulate increase in incomes and reduction of the financial burden of rural residents, and improving the distribution of goods, development of the market system, and the environment and conditions for increasing consumer spending in rural areas. We need to improve policies on consumption, vigorously develop consumption growth areas such as tourism, culture, recreation and exercise, and expand consumption.

We will maintain an appropriate rate of growth for fixed asset investment. We will improve the investment mix to increase returns on investment. We will

continue to keep a firm grip on the controls over land and credit, and appropriately raise and strictly enforce the requirements for market access for development projects in terms of land use, environmental protection, energy saving, technology and safety, taking into consideration specific conditions in each industry. We will strictly control the launching of new projects and pay particular attention to controlling the scale of urban development. We will step up development of major projects that strengthen overall economic and social development and long-term development and accelerate construction of important infrastructure projects such as large water conservancy projects, energy production bases, trunk rail lines and national trunk highways. We will encourage more investment of non-government funds in agriculture, rural areas, social programs, independent innovation, resource conservation, environmental protection and the central and western regions. We will deepen reform of the investment mechanism and improve the decision-making system and system of accountability for major investment projects.

The real estate industry plays a major role in developing the economy and improving the housing conditions of the people, and we must promote the industry's sustained and sound growth.

One, taking into consideration the fact that China has a large population and relatively little land available for building housing as well as the current level of its economic development, we need to make appropriate plans, build housing scientifically, keep consumption at an appropriate level, build environmentally friendly buildings that conserve energy and land, and develop a Chinese development and consumption model for housing.

Two, the real estate industry should focus on developing reasonably priced commercial housing for ordinary people. The government will pay particular attention to addressing the housing problems of low-income families. We will increase fiscal and tax policy support and set up a sound system of low-rent housing. We will improve and standardize the system of affordable housing.

Three, we will properly use both government regulation and market forces to maintain a reasonable scale of real estate investment, improve the supply structure of commercial housing, strengthen oversight and regulation of housing prices, prevent overheating in housing prices and keep prices at a reasonable level.

Four, we will intensify efforts to ensure order in the real estate market, strengthen oversight over it and combat in accordance with the law actions that violate laws and regulations in all links in the real estate industry, including development, sales and real estate agencies. Local governments at all levels must assume their full share of responsibility for regulation and oversight of local real estate markets.

2. We will develop modern agriculture and promote the building of a new socialist countryside.

The issues related to agriculture, rural areas and farmers have a major impact on building a moderately prosperous society in all respects and on overall modernization efforts. This year's work related to agriculture, rural areas and farmers will focus on accelerating the development of modern agriculture and effectively promoting the building of a new socialist countryside.

One, we will ensure the steady development of grain production. We must protect primary farmland, keep the area sown to grain stable, improve the structure of grain varieties grown and increase the per unit area yield of grain. We will strengthen monitoring and regulation of grain production, sale, storage, import and export, and set up a sound grain security warning system to ensure order in the grain market.

Two, we will substantially raise the overall production capacity of agriculture. We will accelerate development of agricultural facilities, improve agricultural technology and equipment, intensify agricultural research and efforts to expand application of advanced agricultural technology, improve the comprehensive system of agriculture-related services and strengthen our ability to prevent and mitigate disasters that affect agriculture. We will increase efforts to develop a system for preventing and controlling animal diseases.

Three, we will redouble efforts to boost rural infrastructure development. We will accelerate the building of water conservancy projects, roads, power grids, telecommunications, safe drinking water supplies and methane production facilities in rural areas. We will pool resources to basically complete, within two or three years, the upgrading of all large and medium-sized and key dilapidated small reservoirs in China. We will accelerate the development of safe drinking water supplies and provide safe drinking water for another 32 million people.

Four, we will increase rural incomes through a variety of channels. We will increase income in the farming, livestock, aquaculture and forestry sectors, develop secondary and tertiary industry in rural areas, particularly the processing industry for agricultural products, promote development of specialized agricultural operations, support the development of key enterprises, strengthen county economies and develop channels to increase rural employment and rural incomes. We will implement policies and measures to solve the problems rural migrant workers in cities face. We will increase efforts to relieve poverty through development and reduce the size of the poor rural population.

Five, we will promote the training of people in the practical skills needed in the countryside and the development of rural human resources. We will step up training of farmers to make them better able to apply scientific techniques to growing crops, raising livestock and producing aquaculture products and to find employment outside of agriculture, and to foster the development of a new type of farmer.

To develop modern agriculture and promote the building of a new countryside, we must strengthen government policy, funding, application of

science and technology, and reform.

One, we need to consolidate, improve and strengthen the policy of supporting agriculture and giving favorable treatment to farmers. We will increase direct subsidies to grain farmers for producing grain, subsidies for growing superior seed varieties and purchasing agricultural machinery and tools and general subsidies for agricultural production supplies. We will continue to follow the minimum purchase price policy for grain. We will increase support for counties and townships with budgetary difficulties and major grain-producing counties.

Two, we need to increase allocations for agriculture and rural areas. We will effectively shift the focus of state infrastructure development and development of social programs to the countryside. Budgetary support for agriculture and rural areas, state fixed asset investment in the countryside and the proportion of land transfer income used for rural development are all slated to increase at a rate higher than last year. Allocations from the central government budget for resolving issues related to agriculture, rural areas and farmers will total 391.7 billion yuan, an increase of 52 billion yuan over last year. We will energetically promote agricultural insurance and expand the scope of the trial for policy-supported agricultural insurance.

Three, we need to accelerate progress in agricultural science and technology. We will strengthen China's ability to make innovations in agricultural science and technology, support agricultural science and technology projects, accelerate application of advances in agricultural science and technology, improve local systems for increasing application of modern agricultural technology and providing technological services, and encourage the introduction of modern agricultural science and technology to individual villages and households.

Four, we need to fully promote overall rural reform. We will accelerate reform of town and township government bodies, reform of rural compulsory education and reform of the management system for county and township budgets to gradually make the administration and management system for the countryside more streamlined and efficient. We will set up a system of government-funded rural compulsory education and a system of public finance that covers both urban and rural areas. In addition, we will promote reform of the system for land expropriation and the system of collective forest rights, energetically develop specialized farmer cooperatives, and continue to pay off and reduce debts of township and village organizations.

In order to promote the building of a new socialist countryside, we must focus on developing the rural economy and increasing rural incomes. We will continue to stabilize and improve the basic system for rural operations and continue to tailor measures to suit local conditions, proceed from reality, respect the wishes of farmers, safeguard their rights and interests, and oppose formalism and the issuing of coercive orders.

3. We will take strong measures to save energy, lower energy consumption, protect the environment and use land economically and intensively.

We must make conserving energy, decreasing energy consumption, protecting the environment and using land economically and intensively the breakthrough point and main fulcrum for changing the pattern of economic growth. The focus of energy-saving and environmental protection efforts will be on the following tasks:

One is to improve and tighten enforcement of energy consumption and environmental protection standards. Potential new projects must be assessed for energy consumption and environmental impact, and projects that do not meet the standards will not be allowed to proceed. Enterprises that still do not meet these standards after taking corrective steps must shut down in accordance with the law.

Two is to resolutely close down backward production facilities. We plan to close down small thermal power plants with total power generating capacity of 50 million kilowatts during the Eleventh Five-Year Plan period. The target for this year is to close down small plants with a total capacity of 10 million kilowatts. In addition, we plan to close down backward iron foundries with total production capacity of 100 million tons and backward steel mills with total production capacity of 55 million tons during the same five-year period, with the targets for this year of 30 million and 35 million tons respectively. We will shut down more backward production facilities in the cement, electrolytic aluminum, ferrous alloy, coke and calcium carbide industries.

Three is to concentrate on key industries and enterprises. We will step up energy conservation and pollution reduction efforts in key industries such as steel, nonferrous metals, coal, chemicals, building materials and construction and in key enterprises that use more than 10,000 tons of standard coal annually. We will carry out a full range of key energy-saving projects, including upgrading of low-efficiency coal-fired industrial boilers and furnaces and combined heat and power facilities. We will continue giving priority to the development of urban public transport systems.

Four is to improve the system of energy conservation and environmental protection policies. We will give full play to the role of the market and make use of a full range of economic levers such as pricing, government finance, taxation and credit to promote energy saving and environmental protection. We will deepen reform of prices for major resource products and charges for pollution emission, improve the system of taxes on resources, strengthen the system of compensated exploitation of mineral resources and accelerate the establishment of a mechanism for compensating for damage to the ecosystem. We will also protect and rationally develop and utilize marine resources.

Five is to accelerate the development of energy-saving and environmentally friendly technologies. We will step up upgrading of equipment and technology

designed mainly to save energy and reduce pollution, and encourage enterprises to adopt new equipment, new processes and new techniques that help save energy and protect the environment. We will attach more importance to comprehensive utilization of resources and clean production, and vigorously work to develop a circular economy and energy-saving and environmentally friendly industries.

Six is to bring pollution under control and protect the environment. We will increase funding from bond sales and central budgetary allocations to support construction of facilities for treating urban sewage and household wastes and disposing of hazardous waste. We will continue to work to control pollution in key regions and the key watersheds of 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 at the sources and along the routes of the South-to-North Water Diversion Project. We will prohibit the relocation of urban polluting enterprises and dispersal of urban polluting materials in the countryside, and control non-point source pollution in rural areas.

Seven is to strengthen oversight and management of compliance with the law. We will set up a more effective system for overseeing and managing energy conservation and environmental protection and resolutely punish in accordance with the law all types of actions that violate laws and regulations.

Eight is to fully implement a responsibility system for fulfilling energy-saving and environmental protection targets. We will promptly set up a sound scientific, integrated and unified system of targets, a monitoring system and an assessment system for saving energy and reducing pollution, and adhere to a rigorous accountability system.

Conserving land and using it intensively is important not only for China's current economic and social development but also for the country's long-term interests and the survival of the Chinese nation. On the issue of land, we cannot afford to make a historical mistake that cannot be corrected, one that will seriously harm future generations. We cannot cross the line and reduce the total amount of farmland in China to less than 120 million hectares. We must resolutely adhere to the strictest possible land management system.

One, we need to conscientiously follow the general plan and annual plan for land use. We will resolutely control the amount of land used for construction, strengthen the protection of agricultural land, especially primary farmland, and stop the unauthorized use of agricultural land for construction. We will conscientiously implement the newly revised regulations defining the uses for land that are prohibited and the uses that are subject to restrictions. In particular, land will not be allowed to be used to build individual houses, golf courses, and new training centers for Party and government organs, SOEs and public service institutions.

Two, we need to make a strong effort to improve and strictly follow

standards for conserving and intensively using land, including the rural land used for collective buildings and private housing. We must control the increase in such uses, make the best use of land reserves, and utilize land more efficiently and intensively.

Three, we need to control industrial use of land and resolutely follow minimum price standards for the transfer of land for industrial use.

Four, we need to implement the policy for taxes and fees for the use of land for development, standardize management of revenue and expenditures for land transfers, and faithfully follow the regulations for incorporating into local budgets all the revenue and expenditures derived from the transfer of state land-use rights.

Five, we need to strictly follow the responsibility system for land management. We will implement a system for supervising land use. We will strictly investigate and prosecute all cases of land use that contravene laws and regulations.

We need to strongly advocate conservation-oriented, environmentally friendly and civilized patterns of production and consumption throughout society so that conserving resources and protecting the environment become second nature for every enterprise, village, organization and individual member of society. We need to work hard to build a resource-conserving and environmentally friendly society.

4. We will accelerate efforts to upgrade the industrial structure and make independent innovations.

We will continue to follow a new path of industrialization, concentrating on upgrading the industrial structure. The focus of this work will be to greatly develop the service industry, to improve the level and technology of industry, and to promote extensive IT application in the economy and in society. We will reform management systems, increase funding and improve economic policy to encourage and support accelerated development of services, particularly modern services such as logistics, finance, information, consulting, tourism and community services. The overall scale of China's industry is large, but the level of industry and technology is not high, which makes translating size into power a pressing task. We will accelerate development of new- and high-technology industries, reinvigorate the equipment manufacturing industry, energetically develop renewable energy sources, systematically develop alternative energy sources and widely apply advanced technologies to upgrade traditional industries. We will accelerate adjustments in industries with excess capacity. We will use economic and legal tools to strengthen industrial planning and provide effective policy guidance for improving the industrial structure.

We will strive to make China an innovative country. We must work diligently to attain the goals and complete the tasks set forth in the Outline of the National Program for Long- and Medium-Term Scientific and Technological

Development. We will launch key state science and technology projects, work hard to make breakthroughs in a number of core technologies crucial to the economy, the people's wellbeing and national security, increase independent production of major equipment through completion of key projects and strive to make breakthroughs in key areas where China holds the lead. We will increase basic research, research in cutting-edge technology and research for public benefit. We will deepen the reform of the science and technology management system. We will speed up development of a system for technological innovation in which enterprises play the leading role, and which is guided by the market and combines enterprises, universities and research institutes. We will improve the mechanism for rewarding independent innovation and implement fiscal, tax and banking policies and the government procurement system to encourage and support independent innovation. We will energetically develop venture capital investment. We will move quickly to formulate and implement a national strategy for intellectual property rights to strengthen protection for them. We will continue to implement the Action Plan to Increase the Population's Understanding of Science.

5. We will do more to promote balanced development among different regions.

We will continue to make and follow comprehensive and well-considered plans, give full play to local strengths and carry out related government policies to promote balanced development among all regions. We will conscientiously implement the Eleventh Five-Year Plan for the Large-Scale Development of the Western Region, focusing on strengthening infrastructure, improving the ecosystem, developing science, technology and education, and developing industries that take advantage of local strengths. We will intensify efforts to formulate follow-up policies to consolidate and continue progress made in returning farmland to forests and returning livestock pastures to natural grasslands. We will continue key ecological projects to protect natural forests, prevent and control sand erosion, and reverse and prevent the development of stony deserts. We will promote rejuvenation of old industrial bases such as northeast China, focusing on stepping up industrial restructuring, successfully reorganizing and upgrading major industries and enterprises, developing the equipment manufacturing industry, the raw material processing industry, new- and high-technology industries and the agricultural product processing industry, and accelerating development of commercial grain production bases. We will accelerate the trial to transform the economies of cities that are dependent on resources that are now depleted and efforts to control sinkholes in coalmining areas. We will accelerate efforts to improve conditions in shantytowns. The focus of work in the central region will be on continuing to strengthen the production capacity of major grain-producing areas and increase the region's capacity to process agricultural products and convert them into other products, strengthening

energy and major raw material production bases and the overall transportation system, and supporting the development of advanced manufacturing and new- and high-technology industries. The focus of work in the eastern region will be on improving and upgrading the industrial structure, increasing the capacity for independent innovation, strengthening international competitiveness, and leading the way in carrying out reform and opening up and promoting development based on scientific principles. We will continue to make full use of the role of special economic zones and the Pudong New Area in Shanghai, and promote the development and opening up of areas with the proper conditions such as the Binhai New Area in Tianjin.

We will step up state support for underdeveloped areas, encourage developed areas to provide assistance to underdeveloped areas, and promote accelerated economic and social development in old revolutionary areas, ethnic minority areas, border areas and poverty-stricken areas. We will actively support the development of the ethnic groups with small populations. We will work to develop reservoir areas and ensure that displaced residents are properly resettled.

IV. Promoting the Building of a Harmonious Socialist Society

Social harmony and stability as well as a better life are the aspirations of all the people and an important goal for the work of the government. This year, we must conscientiously follow the guiding principles set out at the Sixth Plenary Session of the Sixteenth CPC Central Committee, adopt more effective measures and make major strides in building a harmonious socialist society.

1. We will accelerate development of education, health care, culture, sports and other social programs.

Education is the bedrock of China's development, and fairness in education is an important form of social fairness. We need to make education a strategic priority and accelerate the development of all types of education at all levels. The overall goal is to expand the availability of compulsory education and consolidate progress already made, accelerate the development of vocational education and strive to improve the quality of higher education. This year, we will completely stop collecting tuition and miscellaneous fees from all rural students receiving compulsory education. This will ease the financial burden of 150 million rural households with children attending primary and middle schools. We will continue to provide free textbooks for poor rural students receiving compulsory education and living allowances for those staying in dormitories. We will improve the mechanism for ensuring continuing funding for rural compulsory education. This year's government allocations for rural compulsory education total 223.5 billion yuan, up 39.5 billion yuan from last year. During implementation of the Eleventh Five-Year Plan, 10 billion yuan will be allocated from the central government budget to upgrade rural junior middle school

facilities. Local governments should also make corresponding increases in funding in this area. In addition, we will continue working to solve the problems that students from poor urban families and children of rural migrant workers in cities have in receiving compulsory education. This year, we will ensure that the plan to make nine-year compulsory education generally available and basically eliminate illiteracy among young and middle-aged adults in the western region and the modern rural primary and middle school distance education project achieve their final objectives. We will work to ensure that all children are able to afford and attend school. We are definitely capable of reaching this goal. We need to attach more importance to developing vocational education, which is a major reform and historic task to truly make education available to all members of society. The focus of this effort will be on developing secondary vocational education and strengthening the vocational education and training network for urban and rural areas. We will deepen reform of the management of vocational education by setting up a mechanism that combines the participation of industry, enterprises and schools and promoting models of school operation that integrate work and study and enhance cooperation between schools and enterprises. We will accelerate reform of education and teaching in higher education with the focus on improving quality, keep the scale of enrollment relatively stable, increase efforts to develop leading disciplines and universities, make innovations in the model for producing capable personnel and improve the mix of capable personnel being produced in order to produce large numbers of outstanding personnel. We will support and standardize the development of non-publicly funded schools and improve conditions for non-government entities to run schools.

We are adopting two major measures to promote development of education and fairness in education.

One, a system of national scholarships and tuition assistance will go into operation this school year for regular undergraduate institutions, vocational colleges and secondary vocational schools. Funds appropriated for this purpose by the central government will be increased from the 1.8 billion yuan of last year to 9.5 billion yuan this year and 20 billion yuan next year, and local governments should allocate corresponding amounts. We will also further implement the state student loan policy to enable children from families with financial difficulties to attend college or receive vocational education. This is another major move we are taking to promote fairness in education following on the exemption of all tuition and miscellaneous fees for rural compulsory education students.

Two, we will institute free education for students majoring in education in teacher colleges directly under the Ministry of Education and set up a corresponding system. This measure is designed to demonstrate to the general public the importance of the teaching field, to create an atmosphere of respect for teachers and education in society, to increase awareness of the value of the

education profession throughout society, to produce large numbers of outstanding teachers, and to encourage prominent educators to run schools and more outstanding young people to become lifelong educators.

We will continue to carry out the strategy of making China stronger by producing more outstanding personnel. We will speed up efforts to train all types of personnel, focusing on the training of high-level, highly capable personnel and strive to turn out a number of leaders in independent innovation and young and middle-aged high-level experts. We will accelerate reform of the personnel system to promote an appropriate amount of movement of personnel. We will encourage Chinese students studying overseas to return home upon completion of study to work and serve the country, and employ more high-level specialists from overseas. We will work to foster an environment of respect for labor, for knowledge, for ability and for creativity throughout society.

We will accelerate reform and development of public health programs. We will focus on four areas this year in our work to develop a system of primary health care services for both urban and rural residents.

One is to energetically promote the new type of rural cooperative medical care system. The trial area will be expanded to cover over 80% of all counties, county-level cities and city districts in China. Areas possessing the proper conditions may expand the trial faster than others. Allocations from the central government budget to subsidize this trial total 10.1 billion yuan, a 5.8 billion yuan year-on-year increase. We will carry out the program to establish and develop a rural health care service system and improve the three-tier rural health care service network at the county, township and village levels so that the government can set up a health clinic in every town and township. We will employ various steps to support the setting up of a health clinic in every incorporated village, create a rural medicine supply network and oversight network and step up the training of rural health care service workers in order to ensure that rural residents have access to safe, effective, convenient, and reasonably priced medical and health care services.

Two is to accelerate the establishment of a new type of urban health care service system based on community facilities. We will improve the distribution of urban medical and health resources, focusing on developing community health care services and implementing measures for ensuring funding for them to make it more convenient for people to prevent and receive treatment for diseases. Appropriate allocations will be made from the central government budget to support these efforts in the central and western regions.

Three is to launch the trial of basic medical insurance for urban residents that mainly covers major illnesses, with the government providing necessary assistance to the poverty-stricken population.

Four is to do a good job in work related to prevention and treatment of major communicable diseases. This year, we will expand coverage of the state

immunization plan to include 15 communicable diseases that can be effectively prevented through vaccination, including hepatitis A and epidemic cerebrospinal meningitis. On the basis of free treatment for communicable diseases such as AIDS and snail fever, we will expand the scope of diseases subject to free treatment. To fund this work, 2.8 billion yuan has been allocated in the central government budget. This will have great significance for our efforts to ensure the health of the people and raise their overall level of health. We will strengthen prevention and treatment of occupational and endemic diseases. We will strongly support development of traditional Chinese medicine and the folk medicine of ethnic minorities and give full play to their important role in preventing and treating illnesses. In order to better promote reform and development of health programs, the State Council has begun formulating a plan for deepening the reform of the medicine and medical and health care systems in order to resolve the difficulty of obtaining medical service, an issue of common concern.

We will comprehensively address the issue of population and continue to follow the current policy on birth control. We will keep the birthrate low, raise the quality of newborns and take a full range of measures to address the gender imbalance in babies. We will fully follow the reward and assistance system and other similar systems for rural families that comply with family planning regulations. We will expand the scope of the rural “fewer children equals faster prosperity” project. We will improve the family planning management and service system for the floating population.

We will develop old-age programs and actively address the issue of the aging of the population. We will develop programs for women, younger children and teenagers and safeguard the rights and interests of women and minors in accordance with the law. We will continue to show concern for and support programs for physically and mentally challenged persons and create a good environment that will enable them to participate in economic and social activities on an equal basis.

We will foster the common ideal of Chinese socialism among all groups in society, launch an extensive campaign to spread the socialist concept of honor and disgrace, and develop an atmosphere in society that fosters civilized and ethical behavior. Particular attention will be paid to cultivating ideals and ethics among young people. We will accelerate the progress of cultural programs and the development of the culture industry, promote reform of the cultural management system and improve the policy on the culture industry. We will promote the growth of the press and publishing, radio, television, film, art and literature. We will further develop philosophy and the social sciences. We will uphold the cultural rights and interests of the people and work to gradually establish a system of public cultural services that covers all groups in society to meet the cultural needs of the people. We will give high priority to the project to extend radio and TV coverage to every village, the project to develop multi-use

cultural centers for communities, towns and townships, the project to set up a national database for sharing cultural information and resources, the project to show movies in the countryside and the project to set up libraries in rural areas. We will continue developing a number of key cultural projects. We will strengthen efforts to develop and manage the Internet culture and effectively protect our cultural heritage, natural heritage and archives. We will ensure order in the cultural market and continue to combat pornography and illegal publications. We will energetically develop sports programs and the sports industry, step up development of urban community sports facilities and local rural sports facilities, put great effort into developing exercise activities for the general public and raise the level of competitive sports. We will increase efforts to ensure successful preparation for the Beijing Olympics and Special Olympics, do a good job in preparing for the Shanghai World Expo, and successfully host the Special Olympics World Summer Games in Shanghai.

2. We will strengthen employment work and the social safety net.

We will continue to put expansion of employment high on the government's agenda for economic and social development. We will follow fiscal, tax and banking policies that promote employment and actively support the efforts of individuals to start their own businesses or find work for themselves. The focus of our employment work will be on finding employment for people who have been laid off and are still unemployed and those who worked at enterprises that are now bankrupt. We need to actively help zero-employment households and people who have difficulty finding employment find jobs, improve guidance and services for university graduates and promote the reform of the way discharged military personnel are assisted in returning to civilian life. We will develop harmonious labor relations, fully implement the labor contract system and protect the lawful rights and interests of workers.

We will step up development of the social safety net. This year's central government budget includes allocations totaling 201.9 billion yuan for strengthening the social safety net, an increase of 24.7 billion yuan over last year. We will continue to improve the basic old-age pension system for enterprise employees and proceed with the expansion of trials to fully fund personal old-age pension accounts. We will improve the system of basic medical insurance and the system of unemployment, workers' compensation, and pregnancy and maternity insurance for urban workers. We will accelerate the establishment of a social safety net targeted at rural migrant workers in cities, with the focus on signing them up for workers' compensation insurance and medical insurance for major diseases. We will step up efforts to formulate methods for transferring social security accounts of workers moving from one region to another. We will further expand coverage for social security, particularly coverage for people employed in the non-public sector such as those working in overseas-funded or private enterprises and urban residents with

flexible employment. We will collect and build social security funds through a variety of channels. We will improve the methods for collecting and managing social security premiums to raise the collection rate. We will strengthen oversight and management of social welfare funds such as social security funds and matching fund programs for housing and strictly prevent their misuse. We will energetically develop social welfare programs.

We will improve the urban and rural social welfare system. We will improve the urban basic cost of living allowance system, the urban and rural subsidized medical care system, and the assistance system for urban vagrants and beggars. We will set up a nationwide basic minimum cost of living allowance system this year for rural residents, which is another major measure in the work to resolve issues related to agriculture, rural areas and farmers and build a harmonious society. All local governments should set reasonable eligibility requirements to receive such allowances and a reasonable level for allowances based on local conditions. Areas with financial difficulties will receive appropriate assistance from the central government budget. Setting up a basic cost of living allowance system for all urban and rural residents has great and far-reaching significance for promoting social fairness and building a harmonious society. We will continue to effectively implement preferential treatment policies to appropriately resolve the practical difficulties of entitled groups. We will conscientiously do the work of preventing and mitigating disasters, providing relief for victims of disasters and helping them get back on their feet. We will support the development of charity programs. We will ensure that urban and rural residents, especially the poverty-stricken population, enjoy the benefits of public finance.

3. We will strengthen production safety and improve market order.

We must resolutely work to reduce the occurrence of large-scale major accidents and improve production safety throughout the country. We will closely follow a principle of “safety first with emphasis on prevention and overall control,” improve the production safety system, implement a responsibility system to ensure safe production, increase funding for production safety work, and strengthen education and training in production safety. We will bring the problem of coalmine gas buildup under control, remedy safety problems in some coalmines and shut down others. We will carry out a campaign to improve safety in key industries and fields. We will improve public safety in schools and crowded places. We will tighten oversight for production safety in accordance with the law and investigate and prosecute cases involving industrial accidents to the full extent of the law.

We will address both symptoms and root causes to thoroughly improve market order. We will accelerate development of a credit rating system. We will improve the market management system and strengthen market oversight. We will crack down on the production and sale of counterfeit goods, false advertising, commercial fraud, pyramid schemes, including pyramid schemes in

disguised forms, tax evasion, tax fraud, smuggling and sale of smuggled goods. We will carry out extensive campaigns to ensure food safety and fully restore order to the pharmaceuticals market to ensure food and drug safety for the people.

4. We will further develop socialist democracy and the socialist legal system.

Developing democracy and improving the legal system is a basic requirement of the socialist system. The most important aspect of building a harmonious society is strengthening democracy and the legal system to promote social fairness and justice. We will actively yet prudently proceed with reforms in the political system and accelerate the development of democracy with Chinese characteristics. We will improve the system for safeguarding the people's democratic rights to ensure that the people are able to manage state affairs, economic and cultural affairs, and the affairs of society in accordance with the law. We will strengthen self-governing local organizations in urban and rural areas. We will expand democracy at the community level, improve the system for transparency in government, factory and village affairs, and ensure that people are able to directly exercise their democratic rights in accordance with the law. Governments at all levels should continue to make decisions scientifically and democratically, improve the collective decision-making system, the expert advisory system, the system of public notices and hearings and the decision accountability system for major issues, and ensure that citizens can exercise their right to stay informed of, to participate in, to express opinions about and to oversee government affairs.

We will promote all aspects of government administration by the rule of law. We will strengthen government-sponsored legislation, particularly legislation related to developing social programs, improving the social safety net, strengthening public administration, conserving energy and resources, and protecting the ecosystem. We will implement the administrative law enforcement accountability system to strengthen and improve administrative law enforcement. Law enforcement agencies must exercise their powers and carry out their duties in strict accordance with legally specified limits of authority and procedures. We will further improve administrative oversight. Governments at all levels and their employees must take the lead in observing the Constitution and other laws and handle affairs strictly in accordance with the law. They must conscientiously accept the oversight of the people's congresses and their standing committees and the democratic oversight of the CPPCC, and carefully listen to opinions from the democratic parties, federations of industry and commerce, persons without party affiliation and people's organizations. They must accept the oversight of the news media and the general public. They must support supervision and auditing authorities in the independent exercise of their oversight duties in accordance with the law. We will tighten checks and oversight on the exercise of state power to ensure that the powers bestowed on us by the people are used for

the benefit of the people. We will carry out an extensive campaign to raise public awareness of the law and do a good job in carrying out administrative reviews and providing legal services and assistance to the public. We will continue to reform the judicial administration system to ensure justice in the judicial system.

We will improve work related to ethnic groups, religions and overseas Chinese. We will fully enforce the Law on the Autonomy of Ethnic Minority Regions to consolidate and develop socialist ethnic relations based on equality, solidarity, mutual assistance and harmony. We will faithfully follow the Party's basic principle on work related to religions and conscientiously implement the Regulations on Religious Affairs. We will faithfully follow the Party's policy on overseas Chinese affairs and bring into full play the unique role of overseas Chinese nationals, returned overseas Chinese and their relatives in promoting reunification of the motherland and rejuvenation of the Chinese nation.

5. We need to safeguard social stability and harmony.

We must take safeguarding the lawful rights and interests of the people as the starting point and objective in correctly handling social problems in the new period and promoting social stability and harmony. We will improve the mechanisms for balancing interests, reporting on complaints, identifying and handling problems, and safeguarding the rights and interests of the people. We will earnestly carry out all policies that have a bearing on people's interests and act quickly to address complaints made by the people in accordance with the law and government policy. We will work hard to correct actions that harm the interests of the people in land expropriation and requisition, housing demolition, transformation of enterprises into stock companies and environmental protection. Government employees at all levels, especially senior officials, need to visit ordinary people in their communities and take the initiative to help them solve their problems. We will improve work in communities to strengthen their networks of services and management. We will improve the handling of people's complaints made in letters or through visits and improve the responsibility system for handling them. We will improve the crime prevention and control system in public security. We will intensify efforts to address serious public security issues and improve conditions in areas with poor public security. We will crack down on crimes in accordance with the law to safeguard national security and social stability.

V. Deepening Reforms and Opening Further to the Outside World

We will unswervingly promote reform and opening up and strive for breakthroughs in key areas and crucial links.

We will deepen the reform of SOEs.

First, we need to encourage greater investment of state capital in key industries and areas that are important to national security and comprise the

lifeblood of the economy in accordance with the principle of increasing state capital input to some sectors and withdrawing it from others to ensure an appropriate flow of state capital. We will continue restructuring and reorganizing enterprises and support enterprises with the right conditions in their efforts to grow stronger and larger.

Second, we need to promote the reform to introduce the shareholding system in large SOEs, improve their corporate governance and mechanisms for controlling investment risk and for internal oversight and management, and develop a mechanism for personnel hiring and placement and for incentives and restraints that meet the requirements of a modern corporate structure.

Third, we need to improve the oversight system for state-owned assets. We will put in place a budget system for the management of state capital and standardize the way profits are distributed between the state and enterprises. We will carry out a pilot project to compile budgets for the management of state capital this year. We will standardize procedures for transforming SOEs into stock companies and for transferring ownership of state-owned assets to prevent their erosion and protect the lawful rights and interests of enterprise employees.

Fourth, we need to work quickly to solve longstanding problems in SOEs. We will continue to close down or force into bankruptcy depleted mines and enterprises that have long operated in the red with debts surpassing their assets, and actively yet prudently proceed with work of policy-mandated bankruptcy of enterprises. We will further separate core businesses from secondary businesses in enterprises, converting the latter into independent companies, and relieve enterprises of their obligation to operate social programs.

We need to speed up the reform of monopoly industries. We will further relax controls over market entry, introduce a competitive mechanism and diversify the investors in and ownership of monopoly industries. We will deepen reform of the electricity, postal service, telecommunications and railway industries and steadily proceed with the reform of public utilities such as water, gas and heat.

We will encourage, support and guide the development of individual-proprietorship businesses, private companies and other components of the non-public sector of the economy. We will conscientiously implement all policies and measures adopted by the CPC Central Committee and the State Council. We will encourage the non-public sector to participate in the reform of SOEs and to invest in public utilities, infrastructure, financial services and social programs. We will improve policies concerning banking, taxation and technological innovation to improve services for non-public enterprises. We must protect their lawful rights and interests in accordance with the law and strengthen guidance and supervision of them to ensure they operate in accordance with the law.

We will proceed with the reform of the fiscal and tax systems. The timing and

conditions are now ripe for unifying the enterprise income tax rates for domestic and overseas-funded enterprises in order to level the playing field. This reform required the formulation of a new law on corporate income tax – the Law on Corporate Income Tax of the People’s Republic of China. The draft of the law will be submitted to you for your deliberation and approval. We will accelerate improvement of the public finance system, improve the system for transfer payments, reform the budget management system, formulate plans and measures to comprehensively implement VAT reforms, and establish a standardized non-tax government revenue system.

We will accelerate reform of the financial system.

First, we need to deepen the reform of state-owned banks. We will consolidate progress in the reform to change state-owned commercial banks into stock companies and continue the reform. We will promote the reform to introduce a shareholding system in the Agricultural Bank of China. We will further reform policy banks, with the focus on the reform of the China Development Bank.

Second, we need to speed up reform of the rural banking system. We will set up a system of rural financial organizations with a proper division of work, diversified investment and a full range of functions that will provide efficient services. We will make full use of the major role of the Agriculture Bank of China and the Agricultural Development Bank of China as the backbone of rural banking, continue to deepen reform of rural credit cooperatives and strengthen the role of the China Postal Savings Bank in serving agriculture, rural areas and farmers. We will appropriately adjust and relax the controls for establishing rural financial institutions with banking functions and encourage capital from various sources to invest in rural financial institutions. We will explore ways to develop new types of financial organizations suitable for rural areas and intensify efforts to make innovations in financial products and services available in rural areas to eliminate the difficulties that farmers encounter in obtaining loans.

Third, we need to vigorously develop the capital markets. We will promote the development of a multi-level system for capital markets and increase the amount and proportion of direct financing. We will steadily develop the stock market, accelerate development of the bond market and actively yet prudently develop the futures market. We will further strengthen basic market systems, proceed with reforms of the system for issuing stocks and bonds to make it more responsive to market conditions, effectively raise the quality of listed companies and strengthen market oversight.

Fourth, we need to deepen the reform of the insurance sector, expand insurance coverage and improve the services of insurance companies and their ability to handle risks.

Fifth, we need to open the financial sector to foreign competition and increase the degree of openness.

Sixth, we need to strengthen and improve financial oversight, improve the mechanism for coordinating oversight and effectively guard against and defuse financial risks in order to maintain China's financial stability and security.

We will promote growth of foreign trade. Promoting economic development and increasing employment through the growth of foreign trade is a principle we must follow for a long time to come. We must optimize the mix of imports and exports, change the pattern of China's foreign trade growth and strive to reduce our excessively large trade surplus. We will support the export of high value-added products and products with Chinese trademarks, expand the export of service products and agricultural products, limit the export of products whose manufacture is highly energy consuming or highly polluting, and promote the upgrading of the processing trade. We will increase imports of energy, raw materials, advanced technology and equipment, and key spare parts and accessories. We will strengthen management, inspection and quarantine work at foreign trade ports.

We will make good use of foreign capital. We will pay close attention to improving the overall quality of foreign investment coming into the country, optimize the mix of funds, and work to bring in more advanced technology, managerial expertise and high-caliber personnel. We need to encourage multinational companies to move their high-end manufacturing facilities and R&D centers to China and guide foreign investors to invest in the central and western regions, northeast China and other old industrial bases, and in areas identified in our industrial policy. We will actively seek to contract work being outsourced by the service industries in other countries and improve the development of China's service industries. We need to improve guidance and standardization for overseas businesses in mergers and acquisitions involving Chinese firms. We will improve the investment environment. We will standardize the way enterprises attract foreign capital and correct the problem of some localities granting preferential policies to potential overseas investors in disguised forms and assigning targets for attracting overseas investment to each level of government in violation of laws and regulations.

We will guide and standardize the overseas investment and international cooperation of Chinese enterprises. We will improve fiscal, tax, credit, foreign exchange and insurance policies and measures to encourage strong, reputable and competitive Chinese enterprises with different types of ownership to go global. We need to strengthen guidance over and coordination among enterprises to avoid haphazard investment and cutthroat competition overseas. We will continue to conclude more contracts for overseas projects and labor services. We will effectively manage overseas economic and trade cooperation zones. We will promote the Doha round of trade talks under the WTO, actively participate in formulation of multilateral trade rules, and steadily promote the development of bilateral and regional free trade zones.

VI. Strengthening Government Reform and Improvement Efforts

The government must constantly work harder to reform and improve itself in order to function well under the new circumstances. We have defined three basic norms for the work of the government over the past few years, namely, scientific and democratic decision making, administration in accordance with the law and stronger administrative oversight. We have paid close attention to fully exercising the government's functions and worked to improve public administration and public services and establish sound mechanisms for responding to public emergencies. We have advanced the reform of the administrative examination and approval system. We have formulated and put into operation the Program for Advancing All Aspects of Government Administration in Accordance with the Law. Finally, we have strengthened supervision and auditing, thus intensifying efforts to combat corruption and build a clean government. The government has made important strides in reforming and improving itself.

In working harder to reform and improve the government, we must always put people first and run the government for the people, and take fulfilling, safeguarding and developing the fundamental interests of the overwhelming majority of the people as both our starting point and objective. We must proceed from China's actual conditions and fully integrate the leadership of the Party, the people's position as the masters of the country and the running of the government according to the rule of law. We must constantly improve the socialist market economy and promote comprehensive, balanced and sustainable economic and social development. We must make innovations in the systems and means of government administration, and increase transparency and public participation in government affairs. Our objective is to build a just, transparent, hard-working, efficient, honest, upright and clean government that follows a well-defined code of conduct, a government with which the people are satisfied.

For some time to come, we need to work to standardize government powers, adjust and optimize government structure and the division of responsibility, improve the methods used to administer government affairs and deliver services, actively take steps to make administrative affairs more open, accelerate the development of e-government and government websites, improve the overall quality of civil servants, comprehensively increase administrative efficiency and strengthen the public's trust in the government. All these efforts have one main purpose, namely, to transform the way the government functions. This year we will focus on the following three tasks.

One is to improve the macroeconomic regulatory system, continue the work of separating government administration from enterprise management, and deepen reform of the administrative examination and approval system to reduce

the number of items subject to administrative examination and approval and improve efficiency.

Two is to improve public administration and public services, increase the government's ability to provide basic public services and strive to resolve the issues of greatest concern to the people.

Three is to standardize administrative actions in accordance with the law, work hard to build a clean government and combat corruption, and improve the system for punishing and preventing corruption that combines education, regulation and oversight.

We will work vigorously to improve the government's work style. One important task we are now facing is to deal with the serious problem of extravagance and waste in some government bodies. Quite a few local governments, government offices and organizations compete with one another for lavishness and spend money hand over foot, which arouses strong public resentment. We must put a resolute stop to these unhealthy practices. We will strictly control the construction and expansion of government office buildings, absolutely stop the construction of more luxury government building projects, truly standardize official entertaining, plug up loopholes in management rules, and work to reduce government overhead and build a conservation-minded government.

Fellow Deputies,

Building a solid national defense system and a powerful people's army is a strategic task in socialist modernization. We must continue to take as our guide Mao Zedong's military thinking, Deng Xiaoping's thinking on strengthening the army in the new period, and Jiang Zemin's thinking on developing national defense and strengthening the army, and strictly follow the important guidelines of Comrade Hu Jintao on strengthening the army. We must comprehensively put into practice the Scientific Outlook on Development, effectively carry out the historic mission of the army in the new stage of the new century, continue to give high priority to raising the overall ideological and political standards of the army, energetically work for progress in military reform with Chinese characteristics, and ensure a high degree of stability, centralization and unity in the army in order to provide a solid and strong guarantee for China's security, unity and modernization. We must energetically carry out the transformation from military training based on mechanized warfare to military training for warfare under conditions of greater IT application to increase the troops' ability to fight a defensive IT war. We will intensify defense-related research and efforts to produce advanced weaponry and equipment. We will carry out development and reform of the military logistics system. We will continue to run the army in accordance with the law and high standards and work to raise its level of standardization. We must improve all aspects of the People's Armed Police to

make it better able to enforce the law, respond to emergencies, combat terrorism and safeguard national stability. We will expand public education in national defense and improve the system for national defense mobilization. We will encourage government agencies and the public to support the army and give preferential treatment to families of service personnel and martyrs, urge the army to support the government and respect civilians, and support the army and the people in working together to promote cultural and ethical progress. We will consolidate and develop solidarity between the army and the government and between the army and the people.

Fellow Deputies,

We will continue to unswervingly uphold the principle of “one country, two systems,” under which Hong Kong people administer Hong Kong and Macao people administer Macao with a high degree of autonomy. We will strictly comply with the basic laws of the Hong Kong and Macao special administrative regions and give our full support to their chief executives and governments in administering the two regions in accordance with the law and in their efforts to promote economic development, improve the lives of their populations and strengthen harmony. We will increase exchanges and cooperation between the mainland and Hong Kong and Macao in the areas of the economy, trade, science, technology, education, culture, health and sports. Let us work together with people from all sectors of society in Hong Kong and Macao to safeguard the long-term prosperity and stability of the two regions.

We remain committed to the basic principle of “peaceful reunification and one country, two systems” and to all the policies for developing relations between the two sides of the Taiwan Straits and promoting China’s peaceful reunification under the changed circumstances. We will unite with Taiwan compatriots in firm opposition to all forms of secessionist activities such as calls for Taiwan independence through legislation. We will firmly adhere to the main goal of promoting development of peaceful cross-straits relations, vigorously expand exchanges and cooperation between the two sides, promote resumption of direct links for postal, air and shipping services and trade, and make every effort with the utmost sincerity to seek peace, development and prosperity for the people on both sides. We will continue to step up dialogue and exchanges on the basis of the one-China principle with all political parties in Taiwan that advocate development of cross-straits relations. We will strive to resume dialogue and negotiations between the two sides as soon as possible and work for greater peace and stability in cross-straits relations. We firmly believe that with the efforts of all Chinese people, including our Taiwan compatriots, complete reunification of China will definitely be realized!

Follow Deputies,

Taking both the international and domestic situations into consideration, during the last year we actively advocated the building of a harmonious world, promoted comprehensive development of our relations with other countries, and contributed to the development of all countries and the safeguarding of world peace.

We call for and promote the building of a harmonious world, which is in line with the trend of the times in the world today and reflects the common interests and aspirations of people across the globe. This embodies a firm commitment on the part of the Chinese government and people to work for world peace and progress. In order to build a harmonious world, there must be political equality and democracy, mutually beneficial economic cooperation, and cultural exchanges that promote common progress, and countries of the world must work together in friendly cooperation to address traditional and non-traditional global security threats and bring about lasting peace and common prosperity for the whole world. In the face of a complicated and fluid international situation, we need to hold high the banner of peace, development and cooperation, firmly adhere to the path of peaceful development, steadfastly pursue an independent foreign policy of peace, maintain friendly relations with other countries based on the Five Principles of Peaceful Coexistence, safeguard China's sovereignty, security and interests, ensure that China is able to take advantage of this period of important strategic opportunities, and create a favorable external environment for building a moderately prosperous society in all respects and accelerating socialist modernization.

We will vigorously develop exchanges and cooperation with other countries in the fields of the economy, trade, science, technology, culture, education and sports, increase understanding and friendship between our peoples, develop the image of China as a peaceful, democratic, culturally advanced and progressive country, safeguard the lawful rights and interests of Chinese nationals and corporations overseas, and respect and protect the lawful rights and interests of foreign nationals in China in accordance with the law.

We will work untiringly with the people of all other countries for a harmonious world with lasting peace and prosperity for all.

Fellow Deputies,

Looking ahead, we see the future holds bright prospects for our great motherland. Our mission is lofty and sacred, and our responsibilities are both arduous and glorious. Let us unite closely around the CPC Central Committee with Comrade Hu Jintao as General Secretary, hold high the great banner of Deng Xiaoping Theory and the important thought of Three Represents, fully put into practice the Scientific Outlook on Development and accelerate the building of a harmonious socialist society. Let us work together with one heart and one mind, blaze new trails, and energetically progress with reform, opening up and

socialist modernization!