Speech at the XII St. Petersburg International Economic Forum

By Mr. Lou Jiwei[1]

（June 7th, 2008 in St. Petersburg, Russia）

Distinguished moderator,

Ladies and gentlemen,

Good afternoon.

It's a great pleasure being invited to the 12th St. Petersburg International Economic Forum and having the opportunity to share my views on topics of common interest.

First of all, please allow me to extend the most sincere gratitude to the Russian Federal Government and the Russian people for offering support and humanitarian aid to Sichuan Province, which has suffered from the recent devastating earthquake. Throughout the past millenniums of our history, China has been impacted by all kinds of natural disasters. Today, we are once again determined to rise above the catastrophe and rebuild our homeland.

In line with the agenda set by the organizer, I would like to touch upon the topic of "Foreign Investment - Out to Attract or on the Defensive?" and "State Investment Funds - Their Influence on the Market".

[1] Note: This speech was delivered in Chinese; this English version is provided as reference.

1. For many years China has been one of the largest recipient countries of foreign investment in the developing world. From 1979 to 2007, China utilized over USD 790 billion of foreign investment. According to many scholars, FDI makes a substantial contribution to China's GDP growth. In the past few years, Chinese enterprises began to make overseas investments. China Investment Corporation, which I am appointed to lead, was established in September 2007, with a mission to invest overseas. While realizing returns for investors, foreign investments, in particular long-term investments, can serve to promote economic development of the recipient countries. This has been demonstrated in China's rapid development. Yet we have witnessed a few hedge funds that manipulated the market with hot money and hurt the interest of some countries.

2. Recently, sovereign wealth funds (SWFs), as state-owned investment institutions, have sparked a lot of interest and debate. During the Lujiazui Forum that recently concluded in Shanghai, I shared my thought that SWFs are a natural development of the international financial system, and should be put in the broader perspective of the transforming global economy. Emerging economies have acquired increasing economic and financial strength; regional and international investment and trade are booming; the world economy is imbalanced, featuring an American economy plagued with a chronic trade deficit and weak US dollar. These can partly explain the growth of SWFs, and constitute a contemporary version of the Triffin dilemma. To rebalance the world economy, the international community has to work together, and leading industrialized countries should assume their part of the obligation.

3. SWFs have existed for over five decades, and have only increased in number and scale in recent years. They are created for various purposes, and funded by fiscal surplus or foreign exchange reserves. The IMF has identifies five categories of

sovereign funds. SWF home countries maintain a reasonable pool of reserve, and invest their excess reserve or other long-term assets in diversified portfolios through sovereign wealth funds. The strategic purpose, if any, of these funds is to maximize long-term returns.

4. Compared to some hedge funds, SWFs maintain a long-term investment horizon. This is affirmed by surveys recently conducted by the IMF and OECD. SWF home countries and recipient countries can both benefit from investment made by sovereign funds. While the subprime crisis in the USA and other industrialized countries exacerbates the volatility in the global financial market, SWFs have served as a stabilizing factor. Therefore, the argument that SWFs "disrupt market stability" or "threaten national security" is unfounded.

5. SWF-related debates are focused on two issues: transparency and national economic security.

In my opinion, all participants in the market should adhere to a certain level of transparency. Reasonable transparency facilitates market fairness and efficiency, and relieves concerns. But when doing so, we need to take a balanced approach. We should ensure that the legitimate financial interests of sovereign wealth funds are safeguarded. There is no need to raise security concerns as long as sovereign funds are created for commercial purposes and operate according to market rules.

Some sovereign wealth funds are established by large countries with great growth potential and huge financial resources. An increased focus of attention on such funds is understandable, but should be well grounded, and should never be used as an excuse to justify protectionism.

6. We embrace and advocate constructive dialogue between all stakeholders, including SWFs themselves, governments and regulators of recipient countries, and international organizations such as the IMF, OECD and EU. CIC attended the multilateral roundtables facilitated by the IMF last October and this May. We are also taking an active part in drafting the Generally Accepted Principles and Practices (GAPP), an initiative led by SWFs and facilitated by the IMF.

7. I'd like to say a few words on my company.

Established in September 2007 under the Company Law of the People's Republic of China, China Investment Corporation (CIC) is a wholly state-owned company engaged in the investment and management of our mandated foreign exchange assets. It was funded with the issuance of special treasury bonds worth RMB 1.55 trillion. These proceedings were, in turn, used to acquire from China's central bank approximately USD 200 billion of foreign exchange reserves, which formed CIC's registered capital. Subject to commercial obligations, CIC maintains a strict commercial orientation, pursues long-term risk-adjusted return, and has full operational independence.

We have established a sound corporate governance structure comprising a Board of Directors, Board of Supervisors, and management. CIC operates according to guidelines set by the owner and the Board of Directors.

We are a newly-established institution, and our investment goal is to maximize financial returns for our shareholder within acceptable risk tolerance. Our portfolio structure is similar to those of many pension funds, endowment funds or other sovereign funds - we invest in overseas equity, fixed income, and alternative assets.

When it comes to the issue of transparency, we are for openness and transparency to the extent of not compromising our legitimate commercial interests. We will try to be as transparent as most other sovereign wealth funds, and are open to learn best practices from these peers.

Like many other countries, China is a recipient of foreign investment, but it's also an investor. As the world economy is integrated further in depth, eliminating trade and investment barriers will facilitate cross-boarder capital flow, which will benefit both capital exporters and recipient countries, and the global economy as a whole. Let's join our efforts to create a win-win situation and promote prosperity around the world.