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Securing the Future

ADDRESS BY THE PRESIDENT OF THE RUSSIAN FEDERATION

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V. Putin:

Ladies and gentlemen, Forum participants, friends, it gives me great pleasure to welcome you to the St. Petersburg International Economic Forum. I would like to talk today to this dignified audience about our plans for reforming Russia, and to share my own perspective on the global economic situation.

I will start with a few words about the recently concluded meeting of the G20 and on how our work transpired. The countries meeting at the G20 represent approximately 90% of the world's GDP.

The general assessment, as we heard at the discussions, is that the situation in the global economy is quite worrisome. That should not be news for the people assembled in this hall. Many imbalances and debts have accumulated.

You are aware of the situation in the leading economies. Germany's national debt is equal to 81% of its GDP, in France the figure is 86%, in the United States 104%, and it is even higher in Japan. This undermines the confidence of business and sows anxiety among investors.

Unfortunately, financial and budgetary deficits have been accompanied by a deficit of decisive action. We see numerous fundamental, self-evident measures put on hold because of political, partisan, and factional clashes as a result of domestic politics and agendas in the world's leading economies. Half-measures only make the situation worse.

Risk is growing in Europe. Investor confidence in the financial stability of large European countries is falling. Unfortunately, pivotal eurozone countries cannot halt the drift into a new phase of recession. Agreement has not yet been reached on how to find a way out of the crisis. In truth, I very much hope that at upcoming meetings of the leaders of the eurozone countries, such decisions – consolidated decisions – will be made.

But for the moment, economic contagion has not been contained. And it stands to reason that the business slowdown and loss of economic dynamism have been all the more pronounced in developing economies.

However, the results of the Greek elections, and the firm commitment of the European Commission, the EU leadership, and some of the major European countries to impose financial discipline and remedy imbalances give cause for cautious optimism.

Russia believes that what are needed are urgent, coordinated measures to clean up global finance and make it healthy again, making sure that it is firmly grounded in the fundamentals of the real sector of the economy.

That said, it is fair – as well as wise – to raise the question: what about strengthening the role of the so-called developing countries and ‘new’ economic powers in the drafting and adoption of the steps that will define the shape and structure of the global economy? This was discussed at the meeting of BRICS leaders during the G20 summit. There, Brazil, Russia, India, China, and South Africa confirmed their willingness to cooperate in stabilization and reinforcing the resilience of the world economy. We also undertook concrete steps to this end, committing to make USD 75 billion available to the International Monetary Fund.

Naturally, we would like to have a say in the way these funds will be distributed. We believe that we need to go beyond mere statements to a substantial reform of the International Monetary Fund and other international financial institutions. A reform that would take into account the new economic distribution of power. There need to be discussions about designing updated, economically viable rules for world trade and mutual investments, and about real solutions for sustainable development and energy security.

I emphasize that we intend to keep these topics at the centre of attention and push forward with them during Russia’s upcoming presidency of the G20 in 2013. We have proposed to our partners that we all meet a year from now right here, in St. Petersburg.

Speaking more broadly, the time has come for the G20 to assume the burden of providing ‘leadership that works’ in full measure. The G20 must not turn into just another elite club preoccupied with its members alone. Selfishness and secret dealings build neither stability nor confidence. The G20 must become a platform for

developing fair rules that will ensure sustainable growth of the entire world economy.

The economy is global. We all depend on each other. As such, responsibility, too, is global – first and foremost for the largest economies. This includes the countries that issue reserve currencies and, essentially, are in charge of printing money. This includes those governments that are the primary holders of gold and foreign exchange reserves. It is they who guarantee the resilience of the world financial system. And of course, the governments that have the largest markets and most natural resources determine, in large part, the general dynamic of economic growth. We must not only act together in implementing joint policies. We must also be conscious of how solutions made at the national level have global repercussions.

Russia, I would like to note, is guided by precisely such a responsible approach. For example, despite the well-known problems in the eurozone, we hold a significant part of our international reserves in euros, and refrain from making any unilateral moves that could complicate the already difficult position of the single European currency.

We understand that today the well-being of the entire world largely depends on the actions of the leaders of the eurozone. Therefore, we will support our European partners, as we have common long-term goals. More importantly, I think that together we must learn our lessons from the current situation in Europe. At a global level, we must suggest mechanisms to avoid such recurrences in other regions of the world.

On the whole, leadership that works and responsible behaviour today consist, primarily, in taking realistic decisions and actions to recover confidence. These are balanced fiscal policies, control over national debts, and financial discipline.

We need to be able to speak the truth and to take responsibility. Unrestrained financial speculation and political populism are equally dangerous. Empty talk and posturing have no place in politics or in the economy.

And finally, leadership means finding a fundamental way out of global stagnation and instability, and to offer and implement a long-term strategy for growth. Whoever does this first is sure to achieve strategic advantage.

Leaders who cannot achieve these results, who cannot give their citizens hope for a bright future and a good living, risk plunging their countries into an abyss of social and political instability and conflict. As such, sustainable growth today is the leading issue on the national agenda of every country. It is the cornerstone of global security and is crucial for a decent system of international relations.

Ladies and gentlemen, in Russia we have developed a whole series of ambitious reforms. It has met with wide public support. As President, I consider the implementation of these reforms as my foremost task.

What are our goals? They are the strengthening of Russia's natural competitive advantages, and the pursuit of new opportunities in the global economy; stable growth; an effective government that works for individuals and society alike; and a law enforcement system and judiciary that enjoy the unqualified confidence of Russian citizens.

We anticipate that this will create new opportunities for the personal fulfilment of our citizens, a higher quality of life, modern jobs, improved education and healthcare systems, and housing availability. For business, this means optimum conditions for investment, for entrepreneurship, for the establishment of new companies and factories, open and honest competition, and space for innovation.

I would like to expand on what underpins our economic policies. I will reiterate some points, in part, because it is important for business and investors to feel that the government is acting consistently and predictably, maintaining continuity without revising its previously stated aims.

Of course, this is always easier said than done. And in this regard, I would like to underscore that maintaining macroeconomic stability has been and remains a particular priority for us. This policy has already borne results. Inflation has fallen sharply in the last four years. It is still quite high compared to developed economies: inflation in Russia last year was 6.1%. That is still rather high. But note that inflation

has shrunk by over half in just four years. Four years ago, inflation stood at more than 13%. Last year's figure is the lowest in 20 years. Annualized, this year's inflation rate as at the beginning of June 2012 is less than 4%.

Russia's national debt is the lowest among the G8, the G20, and BRICS countries. As at May 1, 2012, it was 9.2% of GDP. Russia's foreign debt is a mere 2.5% of GDP. Russia is one of three G20 countries to run a balanced budget. I will speak a little more regarding that later.

However, these current macroeconomic figures, while perfectly acceptable and good, provide no cause to lapse into euphoria. We are well aware of serious long-term and medium-term challenges for our economy. The economy is still not yet diversified. Much of our added value is generated in the raw materials sector. Uncompetitive manufacturers carry large debts. Russia is still highly dependent on the price of oil. We need to lower the dangerously high deficit level in spheres other than oil and gas. As I said at the G20 Forum, we know that this is the Achilles' heel of our economy. In an age of high global volatility, such an economy is quite vulnerable and susceptible to risks.

So you can see why it is not only necessary for Russia to have a balanced budget, but also a budget with a safety margin. A budget that counts on non-oil and gas and non-raw material revenue, and only then considers petroleum receipts.

This is why we will very soon adopt what we call a budget rule. The thinking is that the sum of our obligations, budget expenditures, and long-term investment programmes with state involvement, should not be dependent on the current price of oil. Any surfeit of income will serve mainly to supplement our reserves.

At the same time, the Central Bank of the Russian Federation will continue its flexible exchange rate policy. The Bank has already made a substantial contribution in reducing the dependence of the real economy, that is, our manufacturers, on the vagaries of external market conditions. The Bank has reduced the attractiveness of unfounded monetary speculation, thus keeping inflation in check.

I emphasize that we will not compromise on free movement of capital. We will not impose any limitations there. We understand well how important certainty in this

area is for those planning to invest in Russia. Colleagues, please take note that even at the height of the economic turmoil in 2009, the Russian government did not impose restrictions on capital outflows. We did, in fact, lose a great deal in doing so. But we made that decision out of concern for Russia's long-term economic interests. These interests require that investors trust us. We will continue to pursue such a policy.

The last downturn proved that drastic, crass decisions and administrative embargoes do not work in the economy. To stand fast in the face of economic turbulence, government and financial decision-makers must have a full kit of economic tools with which to counter the crisis, as well as, naturally, sufficient domestic, sovereign resources that can be mobilized in any situation.

The situation last autumn is indicative in this regard. Many banks worldwide were going through a liquidity crunch. The joint actions of our financial authorities, in the Ministry of Finance and the Central Bank of the Russian Federation, ensured the uninterrupted functioning of the Russian banking system. In a short space of time, the Ministry of Finance, alone, provided over USD 30 billion of liquidity to credit institutions, without dipping into our reserve fund. Our reserves are rather impressive: the Central Bank has the world's third largest international reserves, worth a total of USD 512 billion as at June 8. Moreover, the Russian government has a Reserve Fund, worth USD 60 billion, to enable it to react quickly to problems as they arise, and a National Welfare Fund, which we use to support the pension system. It is worth USD 85.5 billion.

Russia has sufficient reserves and an entire series of anti-crisis 'rapid-response' mechanisms at its disposal. These include subordinated loans, state guarantees, and programmes for stimulating demand and employment. This arsenal has acquitted itself well in practice. It proved effective in 2008–2009. And we stand ready to mobilize this arsenal, in full measure, in response to any setbacks in the world economy.

We know that a future downturn may be different not only in length, but in nature. So it is an auspicious time to create a full-scale system for forecasting and

managing risks. We will develop such a system. When I was still Prime Minister, I requested that my colleagues give thought to its creation. The new government will continue this work.

Most of the recent economic crises have come to Russia from outside, and we had no influence over these events. But a smart risk management system allows, firstly, the consequences of foreign cataclysms to be minimized. Secondly, it will do away with internal causes that could spark crises, due to accumulation of our own imbalances. For Russia's growing economy, this is key.

Ladies and gentlemen, while honing our rapid-response toolkit, we also believe that the fundamental solutions lie in building a new economy: an economy that is resistant to shocks and which can demonstrate rapid growth in a difficult global context.

Russia's GDP growth for 2011 was 4.3%. This is the strongest growth among major European economies and one of the strongest rates among major economies worldwide. In this category, only China and India are ahead of us. As for our unemployment rate, which is a critical indicator for both social welfare and the state of the economy, it too has come down, to under 5.4% in May. This is much lower than the pre-crisis figure. European unemployment is 11%, its highest level in 16 years. Not everything is cheery in Russia either, it is true. In certain regions, such as the south of the country, in the North Caucasus, unemployment is still extremely high.

All the same, the indicators for the country overall are good. By the same token, such low unemployment means that the opportunities for truly massive growth – by activating unused production capacity and manpower – have already been exhausted. Future growth can only be built on a foundation of high investment activity, high labour productivity, the modernization of existing manufacturing facilities and the establishment of new ones, and new jobs.

Where shall we set the bar? By 2020, 25 million Russian jobs should be either created or modernized. We need to take antiquated, inefficient forms of employment out of our economy. Only in this fashion can we meet the demands of citizens for

modern, well-paying work, and offer new opportunities and better prospects, both for today's workers and for those of the future, for the graduates of our universities and professional schools.

The economic impact of millions of new jobs will be, above all, greater labour productivity, which will jump by at least 50% by 2018. This task is tough, but we have to set ambitious goals. Only then can we progress towards the economic indicators that we need to achieve.

New jobs mean creating an economy that is resilient and has a different makeup. This means increasing the share of GDP coming from high-tech by at least 30% by 2018. Russia needs to establish itself as an exporter of innovative goods and services.

New jobs are the product, naturally, of investment. We need to increase investment volumes to 27% of GDP by 2018. Is that a little or a lot? I think it is a very realistic goal, as the current figure is already 20%. This should come from private investment, first and foremost. We are fully aware that we have to offer investors exclusive terms, to fight for them, so that they choose to come to Russia.

That is why our government policy has prioritized the creation of not just a 'favourable' investment climate, but one that is competitive and the best, in the full sense of the word. By the end of this decade, Russia needs to become one of the world's top 20 best business environments. This too is a complicated and ambitious task, considering the current state of affairs.

We already have specific road maps for removing the administrative barriers involved in connecting to energy networks, in construction, in customs, in completing foreign transactions, in registering businesses, and in filing taxes. We are engaged in this together with the country's leading business associations, as part of what we call the National Entrepreneurship Initiative. The results of our joint efforts should not, and will not, by any means, go to waste.

The practical implementation of the road maps is the linchpin for a great many other things. We need vigilant care to that end by the government, by the public, and by business itself. This is why the decision has been made to establish a special

commission for implementing the National Entrepreneurship Initiative. It will include Russian and international business representatives and departmental and agency heads. As one major political figure of the past put it, "If you want to kill something, create a commission for it." We remember this, and know that we need time to form a complete set of government services for business. But bureaucratic pressure, corruption, administrative barriers, and violations of the rights of entrepreneurs – these are today's problems, and they need to be solved now.

That is why, in collaboration with business, we are creating a special new institution empowered to defend the rights of entrepreneurs in Russia, both domestic and foreign. It will have the right to defend the interests of business in the courts, to delay agency regulations pending court decision, and to go to court for injunctions to quickly halt actions taken by government officials. In order to make this happen, it will of course be necessary to introduce the relevant legislative changes. I can see that we have Duma deputies here in this hall, and I urge them to proceed with this quickly.

Following consultation with the business community, I have decided to appoint Boris Titov, Chair of the business organization Delovaya Rossiya, to the post of Federal Ombudsman. We conducted a poll, and among all other possible candidates for ombudsman, Titov was the near-unanimous choice of the business community. The relevant executive order will be signed very soon, and the Federal Ombudsman's Office will be set up within the next week. The Prosecutor General's Office will also have to devote particular attention to this area, so that the ombudsman can work directly with the law enforcement system.

Furthermore, during my meetings with entrepreneurs, I heard frequent complaints of unfair competition, partly as a result of excessive state presence in the economy. Entrepreneurs complain that state-owned companies enjoy preferential treatment, operate outside of competition rules, and are working in what, by rights, is the domain of private business.

I want to once again set out our firm position: the government will gradually extricate itself from a whole range of industries and assets. The plan for the privatization of

federal property has been confirmed, and it will be implemented. I would like to add that similar plans for privatization must also be adopted at the regional level. I should stress straight away that this must be a fundamentally different kind of privatization. This will have nothing in common with the loans-for-shares auctions and other dubious deals so widespread in the 1990s, when state assets built up by previous generations of our fellow citizens went on fire sale and were sold to the well-connected, often in exchange for government funds, no less.

All this distorted competitive motivation, and corrupted the morals of the business community for years to come, giving rise to serious systemic problems, including ones of psychology and mindset. Clearly, it is hard to expect society to respect ownership of property that has been obtained 'on the sly'. Unfortunately, I am forced to admit that little has changed since then. And so for us it is clear: a new wave of privatization must absolutely be accepted by Russian society, without misgivings. It must therefore be understandable, honest, and fair, and it must be based on the open, competitive sale of state assets to the best buyer at a price that corresponds to reality.

Only by observing all of these principles will we be able to ensure adequate income for the budget, and truly competent owners. Not ones who intend to hold onto a business for a while and sell it to the next buyer, but ones who will develop production, and most importantly, who will secure society's respect for the institution of private property and for such values as economic freedom and entrepreneurial initiative.

It is on the basis of absolute public faith in these values that we will be able to build and strengthen effective guarantees of the sanctity and protection of private property and to qualitatively change the way our law enforcement and legal systems work, doing everything possible so that these systems defend the interests of law-abiding business people, instead of acting as instruments to put pressure on business.

Honest, fair privatization can sever the link between property and power. That, too, is a very powerful and very real anti-corruption measure. I can say that as of today,

corruption is the biggest threat to growth. The risks here are much more serious than those posed by fluctuating oil prices. People and businesses are tired of constant, everyday corruption, of extortion within government departments, the courts, the law enforcement system, and state-owned companies. Undoubtedly, this is a difficult task, and it is one that we have been discussing a great deal recently. Of course, it is not a problem with a simple solution. But we cannot pretend that it does not exist. We must engage in discussion and search for ways to take it on. And we will do this, in part, by employing professional and effective managers for government service – people with different motivations than now.

Privatization is also, of course, required for the creation of a new, modern structure for the economy. Privatization will reduce the risks of inefficient management and lay the groundwork for competition on an equal footing.

Let me reiterate: state capitalism is not our goal, but neither must privatization lead to the rise of private monopolies to replace state ones. We know that without healthy competition, market economies are just as susceptible to decay as command ones. Without honest, internal competition, without the rule of law, and without a fair, equitable public–private relationship, we will not be competitive on an international level. Whether in politics or in the economy, competition is the main driver of growth.

I therefore ask the Russian government to carry out a comprehensive audit of the application of anti-monopoly and pro-competition legislation. This must be done in close collaboration with those who are directly involved in the economy.

Moreover, we will of course welcome the participation of our foreign partners in the privatization process. But they must be truly serious, strategic investors, who bring with them to Russia modern technology, production experience, and large export orders. I would like to point out that we have already had positive experience with foreign investors: over the last few years we have, for example, taken such steps in the electric power industry. The whole world has been hit by the economic and financial crisis, but all those foreign investors who put tens of billions of dollars into our generating capacity have remained steadfast and acted with the utmost

professionalism. I hope that this work with federal and regional authorities will continue – not only in the electric power industry, but in other sectors as well.

Ladies and gentlemen, in today's uncertain world, the nature and quality of investments take on particular significance. Portfolio investments are capable of quickly 'heating up' the market, pushing it higher. These investments are also very susceptible to market factors. Investors' enthusiasm for emerging, high-yield markets can, in the space of a few days, give way to pessimism and capital flight. This has occurred in Russia, on multiple occasions.

This is why we are counting on direct investment, on capital invested in long-term, strategic projects. Right now, Russia is in eighth place worldwide for inbound foreign direct investment. In 2011, almost USD 53 billion was invested in Russia. Investments grew by 22%. But this is not enough, of course, to make our plans come to pass. According to surveys by major multinationals, the number of long-term investors who intend to increase their investments in Russia has almost doubled over the last six months. In October 2011, 25% of the 150 managers of investment companies or funds surveyed said that they intended to increase their investments in Russia. By April 2012, this figure was 48%. We absolutely commend this intention, and will support it.

Last year, here at the St. Petersburg International Economic Forum, Dmitry Medvedev talked about the creation of the Russian Direct Investment Fund. I would like to inform you that this fund is already up and running. The Fund's advisory board was brought together with admirable speed, and includes leading representatives from the international investment community. The first deals have already been concluded, with a total value of USD 1 billion. USD 800 million of that amount came from foreign investors. The Fund is already working with all the international financial centres: the Middle East, China, Europe, the USA, and Australia. Two weeks ago, during my visit to China, we created a Russia–China Investment Fund on the basis of the RDIF. This fund will manage up to USD 4 billion.

We must also continue our work to create an international financial centre in Moscow. Our work proceeds not from overoptimistic projections, but from sober reality. Russia's financial system has been growing quickly as of late, despite the problems of the largest US and European financial institutions. In Russia, business and individuals are enjoying greater access to financial services. The volume of personal credit grew by 43% last year. Mortgages increased by almost 30%. To illustrate: as at June 1, 2012, personal credit totalled RUB 6.4 trillion, or 10% of GDP, and business credit had grown by 25%, representing 34% of GDP. But we also understand the risks associated with this type of growth in credit: personal debt in the US is very high, and this creates problems for the economy and for the budget, because this credit is generally backstopped by the government, which necessarily impacts the government's finances. We understand all this, and will act prudently.

Faith in our banking system is increasing. Over the last year, bank deposits have grown by 25%. And thanks to lower inflation, depositors now worry less about whether they can retain the purchasing power of their savings. Deposits by individuals total RUB 12.5 trillion, or 22% of GDP.

We have already taken several important steps to increase the competitiveness of the Russian markets for finances and goods. The MICEX and RTS exchanges have completed their merger, setting the stage for the creation in Russia of one of the world's largest stock exchanges, where the prices for Russian assets and resources will be set. But this is not all that we have done recently. We have adopted a law on a central securities depository, which came into effect on January 1, 2012; we have adopted a law to combat abuse of inside information and market-rigging; as well as laws on clearing and formal trading. In this way, we are creating a serious, well thought-out framework for our financial institutions. Moreover, we have begun the transition towards international reporting standards for Russian companies.

I believe that the time has come to take one more step, one which will broaden the resource base of our national financial system. By 2015, Russia's pension savings could total more than RUB 4 trillion – approximately USD 120 billion. It is anticipated

that part of these savings will be invested in long-term, safe bonds to finance infrastructure projects. This guarantees the safety of pension savings: we all understand that infrastructure projects do not disappear anywhere and that they will operate within the country. But it is also important to ensure that offering these bonds is profitable. We will consider this issue, and make a decision only when we can be sure on both accounts.

We are ready to offer investors more than just the next level of financial, transport, and energy infrastructure. More than that, we are creating a new Eurasian market, with a new look, and with truly excellent prospects. Russia is promoting Eurasian integration projects which are unprecedented in speed and scale. We see integration as the most important source of development and growth. An agreement has been signed to create a free trade zone within the CIS. Russia, Kazakhstan, and Belarus are already operating within the Customs Union and the Common Economic Space, which brings together 170 million people with a high level of education, professional skills, and rising incomes.

This tripartite entity – Russia, Belarus, and Kazakhstan – is moving towards closer integration. For the first time in the post-Soviet space, we now have a genuine supranational organization with administrative powers – the Eurasian Economic Commission. We plan to delegate several functions to the Commission: coordination of macroeconomic policy, technical regulation, and measures regarding competition and natural monopolies. We believe that the quality of decisions in these areas has improved significantly, and that businesses – both domestic and foreign – will feel the advantages of integration throughout Eurasia.

Finally, this year Russia has become a full member of the World Trade Organization. Accession to the WTO, and the removal of numerous impediments to trade, will impart a different quality to investments. It will significantly alter business strategies for growth. When investing capital in new production in Russia, investors will now be able to rely not only on Russian, but also on international and especially European markets, which despite all the problems, remain some of the most attractive in the world.

Our choice of openness and integration into international economic processes is indisputable. We did not abandon this approach during times of crisis, and we will not veer from it now. This means that we will step up our work towards Russia's accession to the OECD. I think that this could happen as early as 2014. At the same time, we intend to contribute vigorously and substantively to discussions on future international trade rules.

Here, I want to stress once again that it is essential that we remove barriers, not only to trade, but also to reciprocal capital investments, unlocking the potential of large, transnational projects that involve asset and technology exchanges. We are open to such projects and inbound foreign investment, including in strategic industries and sectors. But capital flows must be genuinely reciprocal.

Unfortunately, it sometimes happens that Russian companies are prepared to invest funds in foreign assets and yet they find barriers erected in front of them. Mutually beneficial deals fall through, on blatantly farcical grounds which have nothing to do with economics.

It is difficult to describe such a relationship as a partnership. We do not ask for artificially preferential treatment for Russian businesses overseas. We simply want an equal approach, which would allow Russian investors to acquire foreign assets through fair procedures and to employ their competitive advantages without discrimination.

I think that the free movement of investments between countries, alongside free trade, can be a catalyst for economic growth, even with the current difficulties in the world economy. And together, we must make effective use of this opportunity for growth.

Ladies and gentlemen, the outlook for global growth depends on more than just tackling economic problems. It is equally important to make state mechanisms serve the interests of their citizens, and to involve them in forming a national agenda and making decisions on key issues. The effectiveness and authority of the government in any country depends upon such a strategy. Russia is no exception.

We are proceeding from the fact that the governance model at every level – federal, regional, and municipal – must match the new type of our civil society, which has grown thanks to a decade of stable economic development.

This is a healthy process. And we understand full well that without a mature civil society, it is impossible to build a modern economy. The state must make overtures to society and be open to dialogue. It is only on this basis that we can have mutual trust and stable growth, without upheavals and dead-end conflicts.

I believe that a democratic political system guarantees not only the legitimacy of the state, but also the people's confidence in its just nature and in its ability to defend the interests of the majority. At the same time, minority interests must also be taken into account and appropriately protected. In this vein, we have radically simplified the registration process for political parties. Diverse political and social groups now have the opportunity to expound their views and beliefs in accordance with the law.

Russia's citizens will also play an active part in the legislative process: they will not only be represented by their parliament, but can come forward themselves with legislative initiatives. Any public initiative which collects at least 100,000 certified signatures via the Internet will receive mandatory consideration by the national parliament. We will further improve the mechanisms of our democracy, including, among other methods, through the use of modern crowdsourcing technology.

All reforms seek to provide the people with a new, better quality of life, new opportunities, security, and confidence in tomorrow. This means that anyone who aspires to politics, anyone who considers themselves a politician, is obligated to express their position exclusively within the strictures of law. A thirst for change is, of course, a driver of progress, but one which becomes counterproductive and even dangerous if it leads to the destruction of civic peace and the nation itself.

We must all understand that which can and must be improved within the political system; and which values and institutions are fundamental, forming the pillars of the state, and are not subject to revision.

In open discussion and dialogue with all political forces in the country, we must develop a single response, one accepted by the vast majority of Russian citizens, to

the question of what constitutes an appropriate and effective formula for a national model of democracy, and development based on our country's circumstances.

Ladies and gentlemen, we have formulated a programme of ambitious reforms for the years to come. We have everything we need to achieve our goals: talented, educated people; political will; and the resolve to change our country for the better. Most importantly, we acknowledge our responsibility to our citizens and to future generations.

We are not putting off anything for another day. We are taking action now. To some, it may seem that we need to do even more. Still others may restrain us and tell us not to be so rash. But we are moving and will continue to move forward, and I am sure that we will create a strong, open, successful Russia.

We welcome all who are prepared to work in partnership with us.

Thank you.

S. Niinisto:

Esteemed President Putin, participants of the St. Petersburg International Economic Forum.

The hard times in the world economy have continued for several years now. The situation in Europe is difficult. We have experienced a financial crisis, a debt crisis, and a banking crisis, back-to-back and one on top of the other. I am afraid that in certain cases the situation has already evolved into a social and political crisis as well.

Managing the crisis has demanded leadership from us all, both governments and the corporate sector. Leadership is also needed to guide us into the post-crisis era.

During the recent years, we have understood the extent to which all European countries, Russia, the United States, and other great world economies are dependent, not only on each other, but also on the international capital market. Our interdependence is deeper than ever, and extends to various sectors of the economy: trade, investments, capital markets, and energy. Nowadays, an increasing number of countries are part of this system. It is also valuable that all are

present when decisions are made, for example, on trade rules. It is therefore excellent news that Russia is joining the WTO.

Interdependence emphasizes the responsibility of each country for its own economy. By taking care of one's own economy, one automatically prevents problems from spreading. Under the single currency, responsibility becomes even more important. The responsibility cannot be outsourced. We still talk about the period of the current economic crisis as if we could go back to the pre-crisis world and a situation with renewed economic growth. This is not the case, of course. Some of the economic phenomena observable around us are exceptional and will pass, but many issues are both new and permanent. What used to be self-evident is no longer true, and there are no tickets available to the land of the past.

For some time to come, we will be in a situation where the emerging economies have the highest rate of economic growth. We will also see the focus of investments shifting increasingly towards the fast-growing economies. Many Western industrial countries, on the other hand, will experience slower economic growth or even economic recession. Most, but by no means all, Western industrial countries are relatively heavily indebted.

Over the past few years we have observed that the capacity for economic growth, or the capacity to manage the public economy in a sustainable manner, is not the sole competence of certain economic systems. The lines between the groups of countries that have succeeded or ended up in trouble do not follow the traditional division lines neither within the EU, nor within the world at large. For example, the two EU member states with the lowest debt rate are Luxembourg and Estonia. And the two countries in the world with the highest economic growth in 2011 were Qatar and Ghana. Economic and social systems with very different starting points have generated economic growth, even if the situation around them has been very difficult.

I believe this is a permanent phenomenon. No one is doomed to their former destiny. In an open world economy growth is on offer to everyone, perhaps even more so than ever before. Naturally, it does not come free or without any effort.

Belonging or being admitted to a certain group of countries – the EU, NAFTA, OPEC, ASEAN, or the WTO – is not a guarantee for favourable economic development. At the same time, growth is not automatic for anyone, nor is the continuity of economic well-being at its current level self-evident anywhere. These will be the key features of the world in which we will be living after the crisis.

Difficult economic times have not only tested economic systems, but, more broadly, societies and social models. The share of the public sector in the Gross National Product is not the decisive indicator of a stable economy and success, but more important is how a state manages its affairs. An efficient, responsible, and transparent administration is essential.

Are economic miracles really miracles? This is seldom so. Brisk economic growth is often preceded by decades, or at least years, of hard work. Sustained economic growth and climbing to the top in technology and production requires a longer period of successful economic policy. The real success in many of the countries that have experienced rapid growth in recent years will be judged when they have caught up with those which have been running ahead of them and will have to compete in a new economic league.

This requires that the state and social system are able to adapt and develop as well. The most advanced countries are relatively similar in terms of their political systems. In other words, at the moment, we need to be concerned not only about the short term decisions aimed at managing the crisis, but also conscious that the decisions being made today are wise, with a view to economic growth in the long run. This applies to both the world in general, and each country separately. Due to our mutual interdependence, the fallout of bad economic policy decisions does not stop at state borders.

Right now, the circumstances may not necessarily favour making wise long-term decisions. If we want to have an economy based on competence and innovation within 15 years, it will require investment in education and research now, and the opening up of the economy to influences and ideas. If we want a healthy,

competent, and skilled labour force within 25 years, it requires investment in healthcare and education right now.

In all countries, political decision making is put to a market test every day. When decision making is evaluated on a daily basis, it can lead to short sighted decision making. The temptation to seek short-term goals is high. All those who have served as finance ministers know that the responsible management of finances is not always easy.

The Nordic countries are a good example of how growth and economic well-being have been based on economic openness and a capacity to operate in a competitive manner. In an open world economy small countries and their companies are not predestined to remain small, but can operate anywhere.

I would underscore the importance of economic competition, in particular, as an incentive for economic agility, flexibility, and innovativeness. Closed markets produce national level innovations; open markets produce international level innovations.

Our Nordic societies are based on the rule of law, democracy, openness, and equal opportunity, including equality between the sexes. Equality is the leverage of force multiplied by which all the resources are used to the maximum. By the way, I am the first elected male president of Finland during this millennium!

The Nordic countries have taken care of their international responsibilities. We have kept our economies in order. We offer our competencies on a global scale and earn our livelihood from this. In the Nordic countries, we are a single country, at least in terms of the size of our economy. We would be a member of the G20, only a very few G20 countries are as dependent on the world economy and exports as the Nordic countries.

Economic Forum participants: in an interdependent world, growth, competence, good efforts, or economic policy are not something that benefit or harm any country alone. This is worth remembering as a more comprehensive target for the Economic Forum. An economically strong and technologically advanced Russia is one of the drivers of global growth, benefiting all of us present here: Finland being the largest

foreign investor in Russia per capita, and Russia being our greatest single trading partner, we in Finland are convinced of this.

Thank you.

He Guoqiang:

Esteemed President Putin, honoured guests, ladies and gentlemen, and friends; it is my great pleasure to take part in the XVI St. Petersburg International Economic Forum. I am pleased to have the opportunity to be with my colleagues from other countries here in this beautiful city of St. Petersburg, Russia's northern capital.

First of all, on behalf of the Chinese government, I would like to offer a heartfelt welcome to all the participants and wish the Forum success. Over the course of its 16 years in existence, the St. Petersburg International Economic Forum has become an important international platform for discussing the global financial and economic situation, as well as other important matters. It plays a key role in strengthening mutual understanding and facilitating international collaboration.

It is significant that the Forum's slogan for 2012 is *Leadership that Works*, and is posing such an important question for discussion, as the recovery of the global economy in the post-crisis period. The world today is experiencing a period of accelerated development, major reforms and large-scale adjustment. The international economic situation is undergoing profound changes. The consequences of the global financial crisis are becoming increasingly clear. The sovereign debt crisis in Europe is continuing, aggravating the situation in the international financial markets. Countries with transitional economies, as well as developing countries, are encountering the dual pressures of growing inflation and falling external demand. The rate of growth of international trade is slowing and trade-investment protectionism, in various forms, is becoming popular. A long, thorny path lies ahead of us if we are to get the global economy back on its feet.

A situation has arisen in which all countries share the same fate, according to the proportion of development of economic globalization and the interdependency between them. We can turn challenges into opportunities and facilitate dynamic,

stable and balanced global economic growth only by strengthening mutual understanding and collaboration, where each country accepts its share of responsibility and specific obligations. This concerns all countries, developed and developing, large and small alike. China is in favour of active discussion to solve the most important problems relating to the world economy, and is prepared, together with all other countries, to meet today's challenges. With this in mind, I should like to put forward three proposals.

The first proposal is to urge the utmost participation in open, mutually beneficial collaboration. All countries should consequently uphold a principle of openness, recognizing the extent to which they complement one another. It is essential to activate a macroeconomic policy, intensify international trade and economic collaboration, promote the further liberalization of international trade, create a favourable climate for investment and jointly oppose protectionism in all its forms in order to create a balanced, multifaceted trade system to the advantage of all its members.

The second proposal is to actively intensify regional economic cooperation. It is necessary to continue stimulating economic collaboration on a regional and sub-regional level, making it possible to create free trade zones, as well as promoting regional economic integration by various means and in various forms. In September of this year Russia will be hosting the leaders of the APEC economies. China will assist Russia in any way required in the holding of this meeting. The forthcoming APEC summit will undoubtedly facilitate economic integration the Asia-Pacific region.

The third proposal is to improve the global economic management mechanism. The changes within it are the result of changes in the architecture of the global economy, which is now based on principles of mutual respect and collective decision-making. It is essential to increase the representation of countries with transitional economies, as well as developing countries. The G20 has to play a more active role in managing the global economic system so that the positive results that were achieved during the summit in Los Cabos can be realized.

Ladies and gentlemen, friends, in the current global economic situation, which is very complex and unpredictable, China is dealing with the difficult problem of guaranteeing stable internal development, which is being achieved according to scientifically based principles. We are striving to speed up economic reforms and are conducting an active financial and stable currency policy, while improving the welfare of the nation. In the first quarter of this year China's GDP grew by 8.1% and the overall level of consumer prices by 3.8%. The economy continues to develop evenly and relatively quickly. Nevertheless, we still face problems such as imbalance, lack of coordination, and unstable development. There are numerous factors holding back the development of the economy. China will steadfastly adhere to its policy of achieving progress while maintaining stability. It will continue to take steps to guarantee long-term, steady and rapid economic development, in addition to establishing social harmony.

As a good neighbour and strategic partner of Russia, China follows its development with great interest and is contributing to the revival of the Russian economy. It is gratifying to note that the Russian government has taken effective measures to eliminate the effects of the international financial and economic crisis and revive the Russian economy, while guaranteeing stable growth. Russia is currently carrying out a thorough modernization of its economy and its development is becoming ever more dynamic. China and Russia are world powers, countries with transitional economies that are steadfastly treading the path of development in line with their national characteristics, histories, and traditions. This in itself is already a considerable contribution to the revival of the world economy.

We have an interest in each other's development, prosperity and strength. Acting in a spirit of mutual understanding, flexibility, openness, and tolerance, and cooperating in the name of reciprocal benefit, our countries should use our advantages to the full for the expansion of bilateral trade and economic cooperation. We are each other's main trading partners; last year, China and Russia's bilateral commodity turnover established a new record—nearly USD 80 billion. We are striving to increase this to USD 100 billion by 2015, and USD 200 billion by 2020. A

short time ago President Putin made a state visit to China, where he had meetings with Premier Hu Jin Tao and other leaders, giving an additional stimulus to practical collaboration in various fields.

At present I see our main task as being to actively put into practice the important agreements made between the two leaders and to take bilateral trade and economic cooperation to a higher level. Special attention should be devoted to collaboration in such key areas as investment, energy, science and technology, agriculture and the processing of agricultural products, so as to achieve progress in the realization of major joint strategic projects, an increase in their scale, and an improvement in the quality of our collaboration.

I am convinced that the mutually beneficial collaboration between our countries will not only serve the development of China and Russia, but will make a significant contribution to the growth of the global economy. Thank you for your attention.

Announcement:

Ladies and gentleman, the plenary session is hereby concluded. You are cordially invited to take part in further events on the Forum programme.