

The Economic Club of New York

360th Meeting
92nd Year

His Excellency Zhu Rongji
Premier of the People's Republic of China

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Questioners: Barbara Franklin
Former Secretary of Commerce

Robert D. Hormats
Vice Chairman, Goldman Sachs International

Introduction

Chairman William J. McDonough

I'm Bill McDonough, the Chairman of the Economic Club. It is my distinct pleasure to welcome you to the 360th meeting of the Economic Club of New York in this, the 92nd year of our history. Tonight we are co-sponsoring this important event with the United States-China Business Council headed by my good friend, George.

We are particularly pleased, all of us, who have a long relationship with China that the family of the first American president who had the insight and the political courage to open the relationship between China and the United States is represented here by the late president Richard Nixon's lovely daughter, Tricia Cox. (Applause)

Much as we Americans fondly believe that the world would be an absolutely wonderful and better place if everybody would be just like us and think just like us, it is highly unlikely that the Chinese will ever be exactly like Americans, or Americans exactly like Chinese. We have a very different philosophical tradition – the Chinese tradition originating in Confucius' thought of the tremendous importance of the family and of the society as a whole, and our tradition from our founding fathers of the immense importance of the rights of the individual. We will undoubtedly always have minor differences of opinion based on those philosophical traditions.

However, one thing I think all of us can agree on is that China, a great country with a tradition greater and longer than any other, with almost 25% of the world's population within its boundaries, must play an important part in the world of today and in the world of the future.

(Applause) We, in the American business community, can contribute to that opening by continuing to be interested in doing business with China, in investing with China, in having China sell its products within our boundaries, and in working together to a freer world trading institution.

I sometimes wonder who is the individual statesman in whose success all of the people of the world have the greatest interest, and I believe that that statesman is with us this evening. He is, with his very important colleague, Jiang Zemin, the President of China, a team which is leading their country in a very dramatic period of change, change which as we well know ourselves is always difficult. His success is important to China, but it is almost equally important to the United States and to the rest of the world. Therefore, I ask all of you to give a particularly warm Economic Club of New York, United States-China Business Council welcome to our very distinguished guest, the Premier of China, His Excellency Zhu Rongji. (Applause) Mr. Zhu speaks English better than I do, but for reasons of protocol and others, he is, of course, going to speak in the official language of his own country, Chinese. We will have consecutive translation. Our visitor will speak for a few minutes, then his remarks will be translated and so forth until he finishes his prepared remarks. And then we will have our usual tradition of questions from two members of the club. Ladies and gentlemen, Premier Zhu. (Applause)

His Excellency Zhu Rongji

Premier of China

Mr. McDonough, ladies and gentlemen. Mr. McDonough is a good friend of mine so he really overly lavished praise on me just now and I'm unworthy of his praise. I must say we really want to thank the Economic Club of New York and the U.S.-China Business Council for having organized such a splendid evening here tonight and the very, very warm welcome which all of you extended just now to the entire delegation from the People's Republic of China has really touched us in our hearts. And so I'd like to also ask all of you here this evening to convey the best wishes and the fondest regards of all the people of China to the people of New York City and of New York State. (Applause)

We've already been to five cities in the United States. We went from Los Angeles to Washington, D.C. to Denver and Chicago. We arrived last night in New York and we're going to Boston tomorrow. This afternoon, I was being interviewed by CNN and the interviewer said to me, which city did you like the most? (Laughter) And I said I liked them all. So she said, you are a real diplomat. (Laughter) Now, here in this evening, but please don't tell anybody outside this room, I can say to you New York is my favorite. (Laughter and Applause)

But I really speak from the heart when I say this because this morning as I was on my way to

NASDAQ we drove by the East River and it really reminded me so much of The Bund in Shanghai. (Applause) So I think Shanghai is really the New York of China. (Applause)

The Chinese delegation is visiting the United States at the invitation of President Clinton and we feel that the visit has been a very successful one. Even though every member of the delegation was prepared to turn black and blue in the states. I had asked Ambassador Sasser how I could avoid turning black and blue in the United States and he said to me, always keep a smiling face.

However, I have a very bad temper and it's very impossible for me to pretend to have a smiling face. But even though I didn't put on a false friendly face, I was still very warmly received by the people of the United States. That's why I feel that the friendship between China and the United States is very, very deeply rooted both in history and among the people, because this policy of friendly relations between our two people has been a bipartisan one that has been supported by both the major political parties of the United States, both the Republicans and the Democrats.

It was initially President Nixon who was a Republican who first opened wide the door of relationships and contact between China and the United States. And I was especially pleased this evening to be able to meet with President Nixon's daughter here. Then it was President Carter of the Democratic Party during whose administration we established normal diplomatic relations between China and the United States. And it was Presidents Reagan and Bush who promoted and

fostered improved relations between the two countries. And it was the Democratic President Clinton who, through his exchange of visits with President Jiang Zemin, started pushing China and the United States together to strive to build a relationship which was a constructive strategic partnership. And I feel that this is especially the case because the United States is the world's most, is the world's strongest nation and China is the world's most populous nation and, therefore, good relations between China and the U.S. are not only in the best interest of our two countries, but in the best interest of the world as a whole because cooperation between these two countries will help foster world peace and world cooperation. (Applause)

And although at present there are minor difficulties in our relationship, although there may be a few little twists and turns, I think if we look at these in terms of the broad flow of the history of Sino-American relations we will find that this is after all just a small digression. So we hope that this little cloud will pass soon and that the bright sunshine of U.S.-China relations will continue to shine brightly. (Applause)

Our government delegation, while we were in Washington, D.C., engaged in friendly but frank discussions with President Clinton, and I think that we have come up with some very constructive results. We also feel that we've made very great progress on the WTO issue. And I think we are very, very close to achieving a final agreement on WTO. Some observers in the United States say that we are 95% of the way there. I, myself, think that it's more like 99%. (Applause)

And this afternoon, at 2:00 in the afternoon, President Clinton called me over the telephone and I told him that as I was visiting these cities in the United States I met people from Congress, I met officials, I met ordinary American citizens. And the result was that I very deeply sensed the depth of the friendship between the Chinese and American people, and I also felt that the American people favored this friendly relationship between our countries and favored an early and rapid accession of China to the WTO. (Applause) President Clinton answered by telling me he had the same feeling. (Applause) And so we talked this over and both sides agreed that this evening we would issue a press release saying that both sides have agreed to push hard for the rapid, successful conclusion of the talks regarding WTO. (Applause) And both sides will, before the end of April, will step up their activities and meet in Beijing to pursue these discussions. So I hope that in the near future we will see the conclusion of an agreement. And while this agreement may have elements that are favorable to China, as I see it, it has even more that's favorable to the United States. (Applause) With my background as an engineer, I understand even more clearly than my American negotiating counterpart, how beneficial the concessions made by the Chinese side are to the American side. (Laughter)

Let me give you one example. In the past, the telecommunications industry in China was not open to foreign investors. And now China is going to adopt the American CDMA standards for development of its mobile telephone systems. But you also know that the system most widely used in Europe and Asia is the GSM system. The CDMA system is unique to the United States. The market in China for telecommunications is enormous and last year alone China added 50

million telephone lines. So the prospects for American and Chinese companies to jointly develop CDMA projects in China and the permission for American companies to hold up to 25 to 30% ownership of projects in China is a sign of how huge this market is to the United States and how enormous the prospects are for the future. Now, because of this I have already come under some criticism from the Europeans. As for the concessions made by the Chinese side in terms of agriculture, these you can already see in the agricultural agreement which we have already signed.

Recently in Washington, D.C., Vice President Gore and I jointly co-chaired the second U.S.-China Environmental Forum. And so I pointed out to Vice President Gore that China right now is placing a lot of emphasis and attention on environmental and ecological projects. And the potential market in energy, in environmental protection, and in telecommunications should be measured in the hundreds of billions. And therefore, if China and the United States can cooperate in this regard, if there is transfer of American technology and products to China, then perhaps in a few years time there will still be a trade deficit between us but the deficit will be China's.

(Applause)

Today at noon I had lunch with bankers in New York and among them was my old friend, Mr. Morris Greenberg, with whom I had a little negotiation. I told him that when I was the Mayor of Shanghai I had approved the license for AIG to establish a branch operation in Shanghai. And for doing that, I was accused by a senior person in charge of betraying my own country. But after

AIG entered China, not only did itself develop very well, but the Chinese insurance companies also learned a great deal about management from AIG and this stimulated them to manage themselves better. (Applause)

But when AIG wanted to expand its operations to other parts in China, it ran into rather stiff opposition, and even though at the time I was the Vice-Premier, I wasn't able to help. And so Mr. Greenberg said to me, well, over this time span even a young lady would have become an old lady, how much longer are we going to have to wait? (Laughter) But now we have given AIG new licenses so that it can operate not just in Shanghai and in Guangzhou but also in Shenzhen and Foshan. And I said to him, I said if you would only be patient and wait a little bit longer, surely before you retire, you will see the day when AIG would be able to set up shop anywhere in China that it wishes to. (Applause) But please don't misunderstand, I talk here about AIG but I am referring to all American companies. (Applause) And that's why I feel that there really is no such thing as the theory of China as a threat. I feel that it's high time that we change this to a theory of China as opportunity. (Applause)

Now what kind of threat could China possibly constitute to the United States? According to President Clinton, the United States has about 6,000 nuclear weapons and China has 20 to 30 nuclear weapons. Of course, I have no idea what means President Clinton used to know that we have 20 or 30 weapons. (Laughter) But I myself certainly do not have an idea of the exact number. I truly don't know the exact number, but at least I do agree with President Clinton's

point which is that you have a lot of these and we have very few of them, and therefore China could not pose a threat to the United States.

You know China's per capita GDP right now is several tens of times smaller than that of the United States. And even in another 30, or even 50 years, it will remain significantly far behind the U.S. And for that reason, China will always be a big market to the United States. We are not a potential adversary, neither are we a foe. We are a trustworthy friend. (Applause)

Over lunch today, a banker asked me, of all the experiences that the U.S. has in financial matters, which do you think might be most applicable to China? And CNN asked me the same question – namely, what do we have to learn from capitalism? And my answer to both of them was the same – namely, that there is absolutely nothing in the American economic experience, including financial experience, which cannot be brought into China or serve as a point of reference for China. But, of course, it must be appropriate to China's special circumstances and it must acquire Chinese characteristics. And while I was in Washington, D.C., I engaged in talks with the threesome called the Three Marketeers. Namely, Mr. Greenspan, Mr. Rubin, and Mr. Summers, who are credited with halting the financial crisis.

Mr. Greenspan, who is an old friend of mine, suggested that we separate our social safety net scheme out of our state-owned enterprise system. And I said to him, I couldn't agree with you more. In fact, we've done so already. And then he said to me, you must separate banks from their

non-performing loans. And I said to him, I totally agree with you and we are in the process of doing so.

I was talking to Mr. McDonough just now and I pointed out that the Japanese have been talking for a very long time about establishing a bridge bank. But the non-performing loans in China are not of the magnitude as those in Japan. And although they've been talking about it for a long time, I still haven't seen the establishment of a bridging bank yet whereas in China we have used the model of your Resolution Trust Company to create some asset management companies to take care of the non-performing bank loans. And this is not only good for helping the state-owned commercial banks improve their management, but it also allows us to recover as much as possible all the loans.

And so overall there is much in the United States that we should borrow from and that we should learn from. And indeed, during this visit we have learned a great deal. And now as our visit to the United States draws to an end, I want to express our deep thanks to President Clinton and to the government of the United States for the very warm hospitality which they have shown us during our trip. And we also want to express our heartfelt thanks to the people of the United States for the strong sentiment and friendly feelings which they have shown us throughout our visit. And particularly to all of you friends here this evening, I want to tell you that I am truly grateful to you from the bottom of my heart. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN WILLIAM J. MCDONOUGH: Thank you Mr. Prime Minister. We will have a very short version of our question and answer period. The questioners are Barbara Franklin, the former Secretary of Commerce, and Robert Hormats, who served, you will be happy to know, Mr. Prime Minister, having gone through the political history of the relationship with China, one, as a Republican, and the other as a Democrat. (Laughter) We will ask them to ask two questions each because the Premier was so generous in offering his remarks. And we will begin with Barbara Franklin.

BARBARA FRANKLIN: Thank you Mr. Chairman. Mr. Premier, it's a great honor and pleasure to have you here. The failure, so far, to reach a final agreement between the U.S. and China on terms for China's accession to the World Trade Organization has obviously been a disappointment. But we are pleased to hear about your conversation today with President Clinton and the accompanying press release. In your public comments on the WTO situation you have shown a remarkable understanding of and sensitivity to our political system. What sort of political conditions or difficulties do you anticipate in China as a result of these negotiations?

PREMIER ZHU RONGJI: I'm very glad you asked this question because I indeed will encounter difficulties in China. What I said to you just now about us having made the greatest possible number of concessions are words that I could not repeat in China. (Laughter) And the media in

China has been just reporting facts as they are, but the Hong Kong newspapers have described this trip as my bringing a huge gift to President Clinton. And I said to them, would you please not report it that way because that might be construed as a political contribution. (Laughter and Applause) But to tell the truth, we really did make concessions and rather large concessions at that. Now did we make these concessions because we absolutely had to get into WTO and if we didn't get into WTO we couldn't survive? Of course not. For the last 13 years China has been in negotiations to accede to WTO, and during those 13 years our lives have gotten better from year to year. And so certainly if we've waited for 13 years, we could wait longer if need be. So why then did we make these concessions? First of all, we were looking at the bigger picture of U.S.-China relations. We were hoping that since we knew that there are many people in the United States who are unhappy with China, that by reaching an agreement we would be able to promote the development of the relationship between our two countries and to promote movement towards that constructive strategic partnership which was described as a goal by Presidents Clinton and Jiang. And secondly, the line of opening up to the outside and of reform which was established by Mr. Deng Xiaoping has produced such great results in China that at this stage in the reform and opening up process, our state-owned enterprises, our economic structure, and our competitiveness are now at the point where they are able to withstand the impact of joining the WTO. Also, the understanding of the Chinese people has improved and so now people realize that only by bringing in competition from outside will we be able to stimulate and promote the development of our state-owned enterprises and to ensure that our national economy develops in a healthy and rapid pace. Let me share a little story with you. A couple of years ago when I was

talking with Mr. George Fisher about Kodak's entry into the China market, again a person in a position of authority accused me of being a traitor to my country. Now in the past two years, Kodak has entered the China market. It has invested large sums. And it has stimulated the development of the film manufacturing industry in China as a whole. And so this very same person very recently, over Chinese New Year, came to me and said, I was wrong. I do believe I will not be accused of being a traitor for a third time and so I feel that making these concessions is beneficial to U.S.-China relations. (Applause)

ROBERT D. HORMATS: First, Premier Zhu, let me join Bill McDonough and Barbara Franklin in welcoming you here to New York. My first question relates to an issue that you have been discussing very actively over the last several years in China and that's the question of legal reforms. In your recent government work report, you place great emphasis on strengthening China's legal system and the rule of law. I wonder if you could share with us your thoughts on the steps your government has taken to do this and the impact you believe these changes will have on the Chinese economy in coming years?

PREMIER ZHU RONGJI: Thank you for the question. Indeed, this development of a nation that is ruled in accordance with law has now become a task of pressing urgency in China. And therefore, recently the Standing Committee of our National People's Congress which is the analog to your Congress here, passed an amendment to China's Constitution. And special emphasis was placed on ruling the country according to law. That means that we need to develop

a country where there is rule of law. In this visit through the United States, many American friends have raised the issue of human rights with me. And I have told them it is true that recently China has seen development in human rights which has been unprecedented historically. At the same time, we also acknowledge that there are still shortcomings in human rights in China and we are willing to listen to opinions from friends as to how we can better improve our work in human rights. And as you all know, the Chinese senior leadership, including President Jiang and myself and many others, when we were young we were fighting for democracy in China, for freedom, for human rights, and for the rule of law. So how then would it be that we would want to violate or trample on people's human rights? But you must understand that China is not like the United States. We have had an old tradition which dates back over 2,000 years and the People's Republic has been in existence only 50 years. Our standard of living is tens of times lower than yours and the educational level of our population is tens of times lower than yours. And therefore, it is simply unworkable just to take democratic methods used in the United States and apply them to China. And if you want to have rule of law, you need a very large core of competent people working in the legal judicial areas. You need a large core of properly qualified judges. You also need a large core of lawyers and the unfortunate thing is that you have so many of them in the United States whereas we have so few in China. (Laughter and Applause) So we are not afraid of democracy and we are not afraid of rule of law. And even more, we are not bent on violating human rights. What we must do is gradually improve and reform ourselves so that we can build up a nation that is ruled by law. When we come across instances where human rights are violated, President Jiang and I are even more upset than you are. But we have one and

a quarter billion people in China, and so you cannot be too over-rushed. If you do that the results will not be very good. But I totally believe that human rights in China are getting better from one day to the next, and I entirely believe that China will get to the point where we have built up a country that is ruled by law. (Applause) We are eager to hear opinions and suggestions from our friends. Thank you. (Applause)

BARBARA FRANKLIN: Despite the prospect of slowing GDP and export growth this year, you are continuing to press forward with a wide variety of economic reforms. Inevitably, some of these have brought rising unemployment and now you are planning to open China's markets further which will promote more competition. This convergence of ambitious reforms, further market opening, slowing growth, and rising unemployment presents you with an enormous set of sometimes conflicting challenges. How will you juggle these?

PREMIER ZHU RONGJI: Indeed, the size of its population is the biggest headache in China. Although people are the most valuable resources of all, it takes a process in order to develop them and they require education in order to reach their full potential. So at present, the fact that we have too large a population does indeed constitute a burden to China. Right now agriculture is the sector in China that absorbs the largest number of people. And while I was in Chicago, I had an opportunity to see some regular farms and meet with some regular farmers and I discovered that the amount of land cultivated by a typical American farmer is about ten times that of a typical Chinese farming family...excuse me, 1,000 times. However, Chinese farmers

have applied themselves very intensively to the plots of land which they do farm. They have focused their labor to increase the amount produced per unit area. And therefore, they are living better than they used to. But particularly since we started advocating diversity in the agricultural sector, farmers are also engaging in various forms of processing, in animal husbandry and this has helped, this and other sidelines, has helped them to increase their incomes and to live better. State-owned enterprises indeed are faced with the problem of unemployment. At the beginning of last year, there were 10 million workers laid off from state-owned enterprises. Because of the social safety net that I was describing just now, because of the establishment of that social safety net, we have been able to guarantee the laid-off workers at least the basics, the basic minimums required for them to survive. And that is why this unemployment problem has not led to great social instability. Also, through our efforts of the past year, we have managed to find re-employment for six million laid-off workers which still leaves us with another six million because there are another new two million added to the rolls. So this system which we have in place now brings new hope to our state-owned enterprises because in the past they could not lay off their workers. We had what we called the “iron rice bowl.” But now what we’ve done is to shatter that iron rice bowl and this has stimulated competition and this is beneficial for the future development of the state-owned enterprises. Also, the tertiary sector is very underdeveloped in China and this will also be capable of absorbing large amount of labor power. And therefore, we feel that the unemployment situation will not worsen. Instead, it will gradually get better. Therefore, we are not afraid of competition and we are not afraid that foreign goods and services coming into China will destabilize us. But, of course, we are fully aware that the question of

unemployment and re-employment is a very serious one in China and we have to handle it very carefully. Otherwise, I'll be out of a job. (Laughter and Applause)

ROBERT D. HORMATS: Premier Zhu, as you stated in our recent report to the National People's Congress, some state enterprises have been very successful in the face of market competition while others have not been. I wonder if you could describe for this group the kinds of management practices that have characterized the successful state enterprises and the kinds of incentives that the government is using to strengthen the management practices of those enterprises.

PREMIER ZHU RONGJI: Indeed, there are some problems facing the state-owned enterprises of China. So this is the broad direction which our reform program is taking. For the large companies, we are turning them into companies that have stocks issued, and part of the shares can therefore be traded publicly and sold to the public. Also, we have totally separated these enterprises away from the government so that the government no longer can directly get involved in managing these enterprises. The government from now on is responsible only for making policy and the enterprises will be left to compete independently. As for small and medium-sized enterprises, our policy is to invigorate them through various means including selling them to private parties. And therefore, we feel that the most important thing is to strictly separate government from the enterprises so that there's no vested interest by one and the other. When I was in Washington, D.C., Vice President Gore and I co-chaired a discussion with representatives

of business circles and one person asked a question, and I suspect that he was rather upset because his company had just lost a bidding process in China. And he said to me, I have this impression that China is not really that eager to see foreign companies come to China and China may be even less eager to see foreign companies actually make money in China. I said to him, that definitely is not China's policy. I said to him, the profits made by our state-owned enterprises are retained by them. They don't turn it over to the government. Their job is to pay taxes to the government. Now when new foreign companies come to China, your profits are yours. I don't want your profits. All I want is that you pay me taxes. (Laughter) But I can honestly tell you that the record shows that foreign companies, including Mr. Fisher's company, in China have a much better track record at paying taxes than China's own state-owned enterprises do. (Applause) So why then would I take sides with the Chinese companies? And that's why I think I feel that only through competition can we make our state-owned enterprises shape up. Thank you. (Applause)

CHAIRMAN WILLIAM J. MCDONOUGH: Well, thank you Premier Zhu. Thank you Barbara. Thank you Bob. It is now my great pleasure to introduce to you my co-host, one of the most successful leaders of the American business community, the Chairman of the China-U.S. Business Council, and in his spare time the Chairman of the Board of Eastman Kodak, George Fisher.

GEORGE FISHER: Mr. Premier, Madame Lao, distinguished members of the Chinese

delegation and all the guests of the Economic Club and of the U.S.-China Business Council, it's my privilege to spend the next two hours talking to you about...(Laughter) about taxes in China. (Laughter) I won't do that. But I do want to propose a toast at the end of this. Before I do, I want to thank the Economic Club for sharing with the U.S.-China Business Council the privilege of hosting this grand event. And thank all of you for attending. Mr. Premier, I think you can tell by the tone of the audience the true friendliness with which we hold your country and the popularity that you, yourself, have amongst many Americans. (Applause) We truly applaud the dramatic changes that you have made in your country and we know they are not easy changes. But those of us who have benefitted from it cannot thank you enough. We also, as a group I believe, share the hope that you expressed that we have a near-term conclusion of the WTO agreements. (Applause) And that hope is based on the true belief that increasing the amount of economic and commercial cooperation between our two countries is indeed good for all our peoples. Now I would like, if you would, to propose a toast. To the health of Premier Zhu, Madame Lao, to all our Chinese guests, to the successful completion of your visit, and to your safe return home to China. And to the continued growth of our economic and commercial relations as we move into the 21st century filled with what must be increasing prosperity for all our people. Cheers. Thank you. (Applause)

CHAIRMAN WILLIAM J. MCDONOUGH: Madame Lao, Premier Zhu, ladies and gentlemen, the security people have asked that all remain seated until the Premier and his party have had a chance to leave the dais, so if you would be kind enough to do that. The meeting is adjourned.

Thank you very much for being here. (Applause)