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C.H. Tung, First Chief Executive Officer
Hong Kong SAR, People's Republic of China

Questioners: William Rhodes, President and CEO of William R. Rhodes
Global Advisors and Senior Advisor to Citi

Jane Hartley, CEO of the Observatory Group

Roger Ferguson: Please, please take a seat. And good evening everyone. My name is Roger Ferguson. I am the Vice Chairman of the Economic Club of New York and I'm also the present CEO of TIAA- CREF, the financial services organization. Let me start by welcoming all of you to the 420th meeting of the Economic Club of New York and this is our 105th year. The Economic Club of New York is the nation's leading nonpartisan forum for economic policy speeches. Believe it or not, more than 1,000 guest speakers have appeared before this club in more than a century establishing clearly a strong tradition of excellence and continuity. That tradition has been supported by many of you through contributions from 166 members of the club's Centennial Society. So I thank all of you for supporting the club.

Tonight I am pleased to welcome back to the club the First Chief Executive of Hong Kong, C.H. Tung, who presided over the historic handover of Hong Kong and served as Chief Executive until 2005. He last spoke to the club in September of 1997 as Chief Executive. Now Mr. Tung is the Vice Chairman of the 11th National Committee of the Chinese People's Political Consultative Conference for the People's Republic of China. He is also the founding chairman of the China-United States Exchange Foundation.

Mr. Tung has a distinguished background. He was born in Shanghai and spent his childhood in Hong Kong. He then spent six years in the United Kingdom, first and secondary education, and then in tertiary education graduating from the University of Liverpool with a Bachelor of Science degree. After graduation, he moved to the United States to work first as an engineer with

General Electric in Massachusetts and then in the family business in New York. In 1969 Mr. Tung returned to Hong Kong to help to run the family business. I will call Mr. Tung to the podium at this moment. And then after he speaks he will be questioned by two club members, Bill Rhodes and Jane Hartley. Mr. Tung, the podium is yours.

C.H. Tung

Good evening friends, ladies and gentlemen. Roger, thank you very much for those kind introductions. I am indeed very honored to be here among distinguished members and guests of the Economic Club of New York. Throughout its long history the club has always provided a wonderful forum for serious discourse about global affairs. And so I'm delighted to be able to speak to you about something that I'm passionate about. And that is the relationship between the United States and China. China is my country. I want her to succeed. The United States was my home for nine years. I have great admiration for the American people. And I believe the U.S. - China relationship is the most important international relationship today.

The fact is that the world we live in has entered a post-Cold War era in which ideological differences have given way to a whole set of new issues. Indeed if the 20th century was shaped by the conflict of great powers, the 21st century will be shaped by how we, the human race, can successfully take on the challenges of energy security, climate change, food sufficiency, and scarcity of natural resources, all of which are issues critical to sustainable development and economic growth. Beyond those challenges, the world continues to face the threat of nuclear

weapons proliferation, trans-national terrorism, and localized conflicts. There's also an urgency to improve global efforts on epidemic prevention and drug trade eradication.

Four years since the global financial crisis of '08, there is still a need for common efforts to bring about global financial stability and economic recovery. Fiscal responsibility must be restored and global imbalances must be addressed. Indeed never before has the world been faced with so many trans-national challenges coming all together at the same time. To successfully overcome these challenges, multilateral cooperation, particularly by the major powers, is crucial. The United States and China not only have a foundation for broad cooperation but they also shoulder very important common responsibilities.

Let me take this opportunity to talk to you about the U.S.- China relationship. Forty years ago President Nixon visited Chairman Mao in Beijing and the two leaders began a journey together for our future. Since then eight United States presidents and four generations of Chinese leaders have devoted their wisdom, courage, and energy to improve U.S. - China relations. In these forty years despite ups and downs, and there have been ups and downs, the relationship between the two countries has been on the whole moving steadily forward.

Where's the relationship today? Since President Obama became the President of the United States, the President of the United States and China have met each other eleven times in the last three years. In the various meetings President Obama has been quoted as saying that the United States welcomes a strong, prosperous, successful China that plays a greater role in world affairs.

President Hu has been quoted as saying China welcomes the United States as an Asia-Pacific nation that contributes to peace, stability, prosperity in the region. They jointly stated that both countries would take concrete actions to steadily build a partnership to address common challenges. They have also made an important point, that the two countries believe that to nurture deep and deepen bilateral strategic trust is essential to U.S.-China relationship in a new era.

Building trust is a very important task. Building trust is not an easy task. One is the largest developing nation in the world while the other is the most powerful nation on earth. Their histories and cultures are different and they are at different stages of development. In fact, China does not know U.S. well enough and U.S. understands China, in my view, even less. This makes it difficult to build trust. Therefore, I hope to take this opportunity to talk to you about what is happening in China today.

When the Republic was founded in 1949, political institutions were just starting to be formed. People were hungry. There was little organized education, no healthcare, and no means of social security. The country was bankrupt. Indeed the Chinese people had endured a century of government mismanagement, political instability, constant civil war, and warfare imposed by other countries.

China of today is a very different place, particularly since Deng Xiaoping's policy of Reform and

Opening-Up 34 years ago. Since that time a market economic has been introduced and modern physical infrastructure has been built. A free and compulsory nine-year education has been introduced for all school-aged children. Healthcare and social security have been made available. Above all, 1.3 billion people have moved from abject poverty to a much improved livelihood. In these 34 years a closed Chinese society has become open. Indeed there has been unprecedented expansion of individual freedoms: freedom of thought, freedom to pursue economic opportunities, and etc.

Many people inside and outside China have tried to understand how this has been achieved. Some point to the visionary leadership and effective policymaking. Others point to China's commitment to globalization and to her pursuit of science and technology to improve her global competitiveness. These are indeed some of the reasons of success. But to me, the real reason for China's success is because the Chinese people and their leaders have chosen a unique path of development that meets her needs.

How can we describe the development path? Economically it is about Reform and Opening-up and it's about developing the right mix between market economy and planned economy.

Politically it is about developing China's unique form of democracy and it's consistent with her needs and her current stage of nation-building. Internationally it is about the continued pursuit of policy, of peaceful development all around the world.

Let me elaborate further on these points. Economically, while much has been achieved in the past 34 years, the imbalance, the nature of growth has increased the income disparity between the rich and the poor, between urban and rural populations, and between coastal and inland regions. This growth has also created huge environmental challenges. There's an urgent need to address climate change. New drivers of economic growth needs to be developed.

In China's 12th Five-Year Plan, which is the plan of policy priorities and goals for the next five years, many initiatives were suggested to address these issues. By enforcing massive increases in minimum wages for workers, by increasing farmer's income, by designing a better social security network for farmers, and by ambitious development plan for the western region, where economic development and income lags behind, China is not only reducing the wealth gap but she is also creating conditions for increasing domestic spending.

The rural population whose livelihood is agriculture still accounts for around 50 percent of the total population, or about 650 million people. Massive urbanization, therefore, will continue. In the meantime, the need for rural areas to build infrastructure, to provide better education, social security, and healthcare, and to introduce advanced technology in farming are all pressing tasks being undertaken.

Given China's burgeoning middle class, domestic consumption would become an important driver of the economy. Moreover, the service sector economy would be greatly expanded.

Furthermore, by investment in leading edge industries such as renewable energy, new generation

information technology, high end equipment manufacturing, biotechnology, etc, China is restructuring her economy towards a more modern industrial base, in addition to export and fixed asset investment, domestic consumption, service sector economy expansion, continued urbanization, rural renewal, and further industrialization with engines for growth and job creation for the future.

Now let me talk to you about the political aspect of China's unique development path. Despite China's success over the last 34 years, her challenges are enormous. China is a country with 20 percent of the population, but only 7 percent of world's arable land and is not rich in natural resources. She needs to create 12 million new jobs every year. With a per capita GDP of \$5,500 U.S. dollars, ranking 90th in the world, she still needs to bring people out of poverty and improve the livelihood on a massive scale and in the shortest time possible.

For this to be achieved, social stability is crucial. This is China's challenge. China needs to develop a political path consistent with her own culture and history, but also with current need for nation-building. In developing democracy, China always put people in the center of governance with emphasis on transparency, accountability, rule of law, and protection of legal rights of all her citizens. Development of China's democracy is being institutionalized.

Today democracy consists of what we call electoral democracy as embodied by the National People's Congress and Consultative Democracy as embodied by the Chinese People's Political

Consultative Conference of which I am a member. These two organizations play an increasing active role in making the voices of people heard, in monitoring the work of the government, and in providing checks and balances to the government.

The CPPCC has a particularly important function in building nationwide consensus before national policies are formulated, turned into law, and implemented. The decisive role of the Communist Party in leading China successfully forward needs to be recognized. In evolving from a revolutionary party to a governing party, the party is becoming more democratic. Decisions are made collectively following extensive public consultation and debate. Term limits and retirement age are imposed on government officials. Appointments and promotions are based on merit but we also take into account the views of the people.

The path of political development has been successful and has received the support of the people. To be sure, there are many areas where improvement still needs to be made such as government waste and corruption and the level of competence of local government officials. These needs are being tackled with priority.

Let me now say a few words about China's pursuit of a path of peaceful development, a strategic choice made by China for the following reasons.

First, since the launch of her reform and open door policy, it is increasingly recognized that

China's interests and that of the world has become more and more intertwined and mutually dependent. Therefore, for China's own future she needs a stable and peaceful international environment.

Second, during the age of colonialism, countries waged war to conquer and colonize other countries in order to spread their sphere of influence and secure overseas natural resources, labor, and markets. That brought wealth to the conquering countries but misery to those conquered. Today, due to globalization we can achieve a win-win situation amongst nations through trade, commerce, and investments. Indeed prosperity is much better shared today around the world. China is therefore determined to pursue the path of peaceful development globally.

Third, the path of peaceful development is very much a path of Chinese culture, value, and lessons of history. Throughout her history, renowned Chinese philosophers such as Lao-Tzu(?) _____ warned against war and the burden that would be inflicted in waging wars. Sun Tzu's book on military theory, *The Art of War*, a classical Chinese military treatise, written 2,500 years ago, also stressed the importance of avoiding war as the best option for the country. The famous British philosopher, Bertrand Russell, observed the consistent commitment to peace of China. Ninety years ago Russell wrote in his book, *The Problem of China*, "although there have been many wars in China, the natural outlook of Chinese is very pacifistic." The history, culture, and value explains China's choice of a peaceful path of development today.

The following are the key facts about China's foreign and defense policies.

First, China is committed to an independent foreign policy. China strongly adheres to the five principles of peaceful coexistence. First, mutual respect for each other's territory, integrity, and sovereignty. Second, mutual non-aggression. Third, mutual non-interference in each other's internal affairs. Four, equal and mutual benefit. Five, peaceful coexistence. Central to China's foreign policy is to build a peaceful world that provides shared prosperity for all.

Two, China will increasingly assume its fair share of global responsibilities while at the same time seek to shape a friendly relationship with all her neighbors. China supports the centrality of the United Nations in matters affecting world peace and security. She is committed to addressing international disputes in a peaceful manner. China will not repeat errors of history whereby power, power led to hegemony, and hegemony plunged the world into disaster and conflicts. China has peacefully addressed longstanding boundary issues with twelve of its neighbors. That's point number five. China is determined to find negotiated solutions in territorial and maritime disputes with its neighboring countries including South China Sea, East China Sea, and West China sub-Continent.

You may ask why China is investing so much in her military. The fact is that her military expenditures, approximately 1.5 percent of the GDP, is comparatively low by any standard. It should be noted also that China has no overseas military bases. Indeed China's military

expenditure is defensive in nature. Of course, China recognizes that in order to pursue peace, she needs deterrent to prevent war.

The economic, political, and international relations development path has given China as a nation a way to move forward. The way forward is full of uncertainties and challenges but given China's impressive achievements over the last 34 years, I'm optimistic China will succeed in her objectives.

Ladies and gentlemen, now I would like to take this opportunity to talk specifically about economic and trade relations between the United States and China. Let us take a look at the benefits that our two countries have enjoyed over the past 34 years of Reform and Opening-up. For China, her GDP and her total trade has grown by leaps and bounds, on GDP to over US \$7 trillion at the end of 2011, and in total trade to US \$3.6 trillion by 2011 respectively. In the case of GDP, it's 180 percent, 180 times increased. And in terms of total trade, it's also a huge increase. But far more important is that millions and millions of people have become employed and many more have been lifted out of poverty.

Those are the tangible benefits. But we should not overlook the intangible benefits dealing with the inflow of capital from abroad, brought with it a great deal of knowledge and know-how from better management skills to the principles of corporate governance to an array of new skills for the Chinese people, from appreciation of the market economy to virtues of seeking ways to open

new markets. Culturally, the Chinese people's freedom to pursue economic opportunities is being turned into reality. Today the Chinese private sector accounts for over 60 percent of the GDP and 80 percent of the workforce. Many of these private sector companies are in the small and medium sector.

It should be noted that the beginning of China's Reform and Opening coincided with the establishment of the formal relationship between the United States and China in 1978, or January 1, 1979. Indeed throughout this period, the United States has been one of China's most important economic and trade partners. From that perspective, the United States has contributed a great deal to China's success over the past 34 years.

Let me talk about how China's economic activities has also been of benefit in the past. But first of all I need to address views prevailing in some quarters in the United States that China's economic progress is a threat to the United States' well-being. This is simply not true. It's been advocated in the United States that persistent high unemployment rate in the recent past is because of imports from China. This is not true. The fact is that before June 2008, for a long time unemployment rate in the U.S. was at around just five percent. But by early January 2009, it had grown suddenly to over 10 percent. The sudden increase is not because of China but because of a global financial crisis and the subsequent recession. Furthermore, most of the goods China makes and imports to the United States are from jobs American workers do not want. If China does not make them, the goods would probably be made in Indonesia, Vietnam,

Bangladesh, etc. etc. And in fact this is now happening.

With regards to the value of renminbi, the last four years has seen over 20 percent appreciation in the currency. The Chinese workers in the manufacturing sector have also received substantial salary increases. These factors together with increased imports from the United States and the rest of the world have caused trade and current account surpluses in China to rapidly diminish, the appreciation of renminbi is having its effect already.

I know that since the financial crisis of '08 people of the United States seem to have lost confidence in yourselves. You see persistent high level unemployment, stagnant economy, and also a stalemate in Washington. Indeed economic downturn has more profound impact. Indeed this economic downturn has more profound impact than any other crisis since 1930 Depression. But many of us who see from afar and we are far, you should have every confidence that the United States will overcome these difficulties soon. The fact is the United States has competitor advantages over all the other countries in the world. The United States excels in tertiary education, in development of science and technology, in being innovative. The United States, more than any other nation on earth, attracts talent to your shores while at the same time your demographics is getting younger. The United States has abundance in energy, in water, in natural resources whereas your major competitors do not. The United States can be a bread basket for most of the world.

These competitor advantages will be there for decades to come, decades to come, together with your entrepreneurial-ship, creativity, and this is an “if,” and the ability to achieve sensible compromise eventually in Washington. This is an “if” but I believe in your ability to achieve sensible compromise eventually in Washington. Long-term sustainability of economic growth is only a matter of time.

Let me now talk about, I don't think I'm being too optimistic, you know, I'm really believing this. Let me talk now about the tangible benefits the U.S. gets from the economic relationship with China, especially since China joined the WTO. The inexpensive products imported into the United States from China has kept inflation low, saving the average American household US \$1,000 each year. China's investment of its surpluses into U.S. Treasury bonds has also lowered interest rates in the United States. Since the past years, U.S. exports to China, and this is important, U.S. exports to China has risen at an astonishing pace, doubling the amount about every four years, a trend that is set to continue. China has actually replaced Japan as the third largest importing nation of American goods after Canada and Mexico. By 2011, total exports from the United States to China has reached over US \$100 billion. If trade continues to grow at such a pace, total export value by 2016 would be over \$200 billion creating 800,000 additional jobs in the United States.

The enormous Chinese consumer market presents a tremendous opportunity to American business. Brand names such as, brand name American companies such as Proctor & Gamble,

Federal Express, UPS, Kentucky Fried Chicken, McDonald's, Ford, General Motors, Walmart, and many others operate freely in China winning substantial market shares and becoming household names. Apple iPad sales in China are doing very well, second to the United States in terms of sales. You can see Chinese market is wide open to American business. Furthermore, it is estimated that one in five employees at the U.S. headquarters of these companies are responsible for supporting the international division such as those in China. In this way additional jobs are created in the United States also.

Of course, in broad economic and trade relationships between two large and vibrant economies there will always be conflict of one kind or another. While some may be based on exaggerated or erroneous contentions, some issues are real. The most common of these conflicts are U.S. complaints about intellectual property protection, renminbi currency valuation, government procurement agreement as it relates to indigenous innovation, and the role of state-owned enterprises in the economy to name a few. Chinese complaints are about U.S. export control of high-tech products and limitation of Chinese investment in U.S., and China's market economy status. These issues need to be addressed. Some need to be better understood. Others will be resolved, although some can only be resolved with time.

Let me now try to speculate with you what is it like in the next ten years? The benefits the two countries have enjoyed since China's Reform and Opening has been substantial. But let us look at the next ten years. What will be the economic trade relationship between these two countries?

In the next ten years China's Reform and Opening will be broader and deeper in all aspects. Its economy will be driven by domestic consumption and by expansion of the service sector. Value added innovative manufacturing will be emphasized. And science and technology will be relied upon as a main driver, as some of the main drivers. Together with urbanization and rural renewal will add to the economic vitality of China. The United States will be going through a restructuring of her economy with greater emphasis on energy independence, investment in education, science and technology, renewal of infrastructure, and a determined effort to reduce federal deficits.

The fact is the two countries' economies continue to be very complementary. For instance China needs to import large quantities of corn, soybeans, and wheat, while the United States pays farmers not to farm. China needs imports of beef and pork as well as chicken of which you have ample potential. Evidently there's a huge scope for expansion in agricultural trade between the two countries.

China and the United States are the largest consumers of energy. Both countries are devoting enormous amounts in renewable energy research. We should pool our efforts together to achieve results in the shortest time possible. How the use of such intellectual property should be compensated is somehow to be worked out. But through cooperation we can accelerate the breakthrough which after all is of huge benefit to the two countries and to the world at large.

China's demand in the service sector is at a very early stage of development. The United States is the most developed service sector in the world, or service economy in the world. And the opportunity for U.S. business in China in this respect is really enormous. The Chinese manufacturing sector is moving up the value chain with emphasis on innovation and technology. The U.S. manufacturing sector is the leader in this area. There is great opportunity for U.S. to participate in this development and thereby gaining access to the vast Chinese market.

China imports large quantities of high-tech products from around the world. The United States has restricted many exports to China, but this has not stopped China from buying from other countries. Up to now the United States has not lifted the restrictions thereby depriving U.S. business of such opportunities in China.

The total number of visitors from China to the United States stands at one million at the end of 2011. Fifty million Chinese tourists have traveled around the world every year and the number continues to grow rapidly. Many would have liked to come and visit the United States. The United States needs to open up the market for Chinese tourists. It is estimated that every Chinese tourist during a two-week visit to the U.S. will spend \$6,000. And for every one million tourists it will create 100,000 jobs directly and indirectly.

China is a nation of savers. Therefore, although China has huge domestic needs, China still has surplus capital to export. Chinese capital would want to seek her way into the United States.

This is not only a vote of confidence in the United States economy, this investment can also be beneficial to the United States by creating more jobs and by U.S. exporting more to China.

Ladies and gentlemen, I am confident that in the coming ten years, the new economic direction of both countries will create sweeping, and I really mean sweeping new opportunities that will add to, if not multiply the enormous benefit we enjoy today. I see remarkable potential on any of the above areas. China and United States economies are very complementary. In light of all this, I cannot help but conclude that the United States and China share a symbiotic, mutually beneficial, inextricably linked economic relationship that both countries can benefit from greatly. This relationship is not a zero-sum game. A vigorous America is good for China, and a successful China is good for the United States. Through trade and commerce, let us build a stronger bond between the United States and China, not only to the people of both countries, but to the world at large. Thank you very much.

QUESTION AND ANSWER PERIOD

ROGER FERGUSON: Mr. Tung, thank you very, very much. Mr. Tung will now be joined by two club members who have been designated as questioners. Bill Rhodes, William Rhodes, President and CEO of William R. Rhodes Global Advisors and Senior Advisor to Citi. And also Jane Hartley who is the CEO of the Observatory Group. Both Bill and Jane are members of the board of the Economic Club. Now for those in the audience, if you have any questions you can

email them to questions@econclubny.org and our President, Jan Hopkins will read them. Bill, the first question is yours. Thank you.

WILLIAM R. RHODES: Thank you Roger. First of all, thank you for your very enlightening comments, C.H., and all that you've done for U.S.-China relations over the years. My question is related to a speech I heard Vice Premier Li give about ten days ago at the Boao Forum in Hainan Island. He basically said three things. China needed to increase its domestic consumption which you commented on. Second of all, it needed to move more rapidly in trade and cooperation relationships in Asia including multilateral and bilateral arrangements. And three, it needed to move more rapidly in the area of reforms particularly economic reforms. In light of the upcoming change in leadership in China in October and taking into account that these three points have been mentioned in the last two Five-Year Plans, do you see an acceleration in these areas in the coming months and years, because they're crucial obviously to growth in China?

C.H. TUNG: Thank you very much, Bill. And thank you Jane. I just want to tell you that before today's gathering we fixed all the questions, okay. I'm ready to answer every one of them. The true answer is that we just, we talked a little bit about it, and Jane, I know Bill very well and he's not going to go for any of this stuff. I'm well prepped anyway so thank you very much. On this issue of consumption, it's been growing over the last three or four years, somewhere around 18 percent per annum. It's a huge increase by any comparison and I think

this will continue to be the case.

People have told me that, ah, your economy is now growing at only 7.5 percent, aren't you worried? Well, actually, you know, it's China's objective to try to bring the speed of economic growth down to a manageable level so that the growth can be sustainable. And if we can grow at 7.5 percent, 8 percent, it would be a wonderful thing for China. And also I want to tell you that when the economy moves into the service mode, for every one percent of GDP increase in the service sector, actually it creates 33 percent more jobs than the manufacturing and the investment sector would create. So even at 7.5, 8 percent growth, the employment situation would not be affected at all. So China, in this sort of sense, they take note of the importance of developing the service sector, developing the consumption sector to help, to keep on helping the employment going.

And on this trade front, you know China is a free trader. And in fact I would like to say this, that the whole of Asia, if you look at Asia's economy, why it's so successful, the number one reason is that fiscally they're very conservative in managing their debt affairs. And secondly is that they're all free traders. Everybody wants to be a free trader. So two years ago China and ASEAN implemented the Free Trade Agreement which actually covers 1.8 or 1.9 billion people. And you see a quantum leap in trade between ASEAN and China. And then a year later Korea and ASEAN implemented the trade agreement. And a year later the Japanese and ASEAN did that. So there's a great push for Asian countries to move ahead on free trade.

And this will continue to be the momentum despite the fact that the United States, you know, suggested the TPP. And in fact there are friends in America who are suggesting there should be a free trade agreement between China and the United States. I think it's a very good idea too, but I'm not sure politically this is workable at this moment, that's all. But whether it's a bilateral arrangement or multilateral arrangement, they should all be pushed, although I think multilateral arrangement, so Doha round and APEC has also a Boga(?) round of free trade efforts. So, you know, whether it's bilateral arrangement or multilateral arrangement, it should all be pushed, but a multilateral arrangement would be much more acceptable. But I think Premier Li is saying that we are going to push in Asia, continue to push for free trade. And thirdly, Reform and Opening, you know, Bill, Reform and Opening up 30-odd years ago was what made what China is today. The speed very often has to be adjusted. For instance, in '08, when China had to, like the United States, had to pump in a lot of money into the market, to fiscally stimulate the economy expansion. And some of the other things need to be held back a bit. But now those days are behind us. And, you know, we need to push forward Reform and Opening as diligently as we can to achieve our objectives and you will see this be very much determined to move forward. Thank you.

ROGER FERGUSON: It's Jane's question now.

JANE HARTLEY: Thank you so much. First of all, I'd like to second Bill in thanking you so

much for your insightful remarks. If you don't mind, I'm going to move off the economy for a moment and talk about something that's been on the front page of most of our newspapers today. In recent weeks there has been some concern and speculation about China's leadership transition. Do you expect a seamless power transition to happen as it has in the past? What are the implications of Bo Xilai's incident to this transition? And can Chinese leaders turn this situation into an opportunity for change?

C.H. TUNG: You know this transition into a new generation of leadership in the Communist Party has been watched by everybody inside China as well as internationally also. The first thing is that each one of these office holders and others too, they only have two terms in office, two five-year terms. At the end of ten years you must go. And then the other is there's an age limit. So if you are a Vice Minister's level, you are Minister's level, you are in the Politburo, or you're in the Politburo Standing Committee, they all have very clear rules, at what age, at what time one must leave the scene. And the purpose is to promote democracy. And they actually are very, very carefully followed and observed. And a third point to make is that meritocracy in the government, in the party, is a very big issue for China when they consider promotion of people, meritocracy, how good are they, and so on and so forth.

So for instance people like Mr. Shi, Mr. Li, they have been through it all. I mean, you know they were, the last few jobs they held, they were the very important leader of a province, or of a major city. And when you are a province leader, you are responsible for the livelihood of tens of

millions of people. In Hunan province, it's 100 million people, or close to a 100 million people. In Sichuan province, it's close to 50 million people. So, you know, they have to prove their ability to govern, and both of them have proved their ability to govern without a shadow of doubt. So they have been tested, tried, before they're able to move on. So there is a pattern. There is a policy that guides them. It will be, there will be elections through the party's Central Committee and then from there the Politburo and Politburo Standing Committee members will then be elected. So that's what it is.

Insofar as Mr. Bo Xilai, as I arrived in the United States I noted that he's now officially under investigation and his wife has in fact been indicted. At this moment, I don't know any more than you do. But I don't think it is an issue about succession. It's an individual issue that has happened in the political scene. But it is not a succession issue because a succession issue has other criterias looking at this thing. I would say here one other thing about Chongqing, you know one of the strategies of China's development is to, because the coastal regions' wealth creation is way ahead of the inland regions, and so maybe about ten, ten-plus years ago when China started a major strategy to help the western regions or inland regions to develop herself, and they have really been doing very well. And Chongqing actually is a prime example of how well they have done in economic development. And I don't think we should take anything away from what Chongqing has done in terms of what they have achieved economically. And I would suggest some of you, if you are interested, go and take a look at this. It will astound you as it astounded many of us when we visit Chongqing every time. Thank you.

WILLIAM R. RHODES: I have the next question, C.H. And I have visited Chongqing and I agree with you. Picking up on your comments on growth, you mentioned very correctly the great stimulus package in 2008 that China put forward that help take the world out of the Great Recession. And we're still in problems in many countries of the world. We have the European debt crisis, stagnation or lack of growth in Europe, and it affects a lot of countries. We ourselves are underperforming here in this country. So people are looking to China on the growth area. And one of the most asked questions today is, is China going to have a hard or a soft landing? And I would just back to someone that you obviously know a lot better than I did, but I always listened very carefully when he spoke, which is former Premier Zhu Rongji, because he was often quoted as saying China needs a minimum of 7 percent growth, to go back to your point about Western China, to have the jobs created for those people, the still largest number of Chinese citizens coming in from Western China looking for jobs. So I would ask you how you see that because you can't pick up a newspaper in the economic side today anywhere in the world, not just in the United States, but anywhere, where this question isn't asked?

C.H. TUNG: Bill, I think this is a question asked all around the world. And one of the strengths I think I feel I learned about the leadership in China is that China people are asking this question themselves. Are we all right? Are we all right? Five years from now, what's it going to be like? Ten years from now, what is it going to be like? Are there things we need to be doing today to make things go right? So is there going to be a hard landing? A soft landing? You

know it depends very much on what's happening internationally that if the U.S. economy grows at the way it is now growing, it seems to be better than what we thought. Europe, bumping up and down a bit. I think China will be all right. If there are major problems in Europe, it will make things more difficult but if America is growing all right, then I think we'll still get by. You know, if everybody's in big trouble, China will be in big trouble too. We live in an inter-dependent world. But what I would say is this, that you know, Chinese debt, total debt as a percent of GDP, every year the budget is...we budget three percent debt as a percent of GDP and usually we end up with a bit of a surplus. The total debt, national debt as a percent of GDP is about, only about 30 percent. Then the big question is that people will say, ah, C.H., you didn't include the debt in the provincial governments and so on and so forth. Then you add into it and maybe it comes to be about 40 percent, whatever it is, it's a debt level which is very well managed, very consciously managed.

Why this is important is that if something really needs to be done, if there is a sign of a hard landing, China has the bullets to do things, okay. And then the other is interest rate, you know, China's interest rate is not at zero percent, not at one percent. We're still at three, four, five percent, whatever it is. So from a monetary policy point of view, China also has bullets to do things if something doesn't appear to be as good as they are. But none of these bullets are being used at all. In fact, as you know, China is now gradually loosening the money supply because China was fighting inflation so they kept the money supply very tight. But this is now slightly slowly loosening. So China has a lot of bullets it can use. It hasn't used at all. And then on top

of that, I think you know all of them, ___ and ___, they're all very competent. And I think they're on top of the situation. So I'm quite optimistic that things will move all right and I just keep my fingers crossed. The U.S. seems to be doing well. Come on, keep it up. Keep it up. You know that's really important.

WILLIAM R. RHODES: We could be doing a lot better, C.H.

JANE HARTLEY: I have a question on what economic reforms China might undertake in the future. Recently both Premier Wen and Vice Premier Li have spoken in public urging a new round of economic reforms including reform of the state-owned enterprises. We understand that the state-owned enterprises are still very powerful and may be resisting more fundamental reform. Arguably the current government has made limited progress in this area over the past decade. Shall we have high expectations that the next leadership will take risks and push for more significant reform in this area?

C.H. TUNG: Jane, let me try to be, specifically talk about the state-owned enterprises, you know, what you asked just now, as a specific topic. You know China moved from a planned economy slowly moving towards a market economy. It's at a very early stage of development. You may see lights and highways and so on and so forth, but the economic development is still, you know, at the very early stage from a planned to a market economy. That's number one.

Number two is that, you know, in China where stability is really important, key industries in China, China feels the sensitivity for national security reasons, for stability reasons, it needs to be owned by the government. What are they? For instance, electricity. What are they? The national grids. What are they? Energy. What are they? Banking. You know, and there are a few more of these.

So from national security reasons, China feels it needs to be owned by Chinese capital because it's 1.3 billion people. When the economy goes wrong, you know, nobody but China has to help themselves quickly. Rightly or wrongly, this is China's decision. And honestly, as a capitalist all my life, I think this is the right approach.

And I also remember in 1985, '86, I was doing business, BNP, one of the biggest banks in the world. At that time it was still owned by the French government in total. And it was not until later it was privatized and so on and so forth. So different nations will find their own way how to move forward. But at this stage of development, the national, or the state-owned enterprises, some of them were chosen for that reason. So that's number one.

Number two is that why not Chinese private capital to be involved with these companies? Well, you know, these companies are all billions and billions and billions dollars of which Petro-China's market cap is, I don't know, \$600 billion, \$700 billion. Where are you going to find the Chinese private capital to invest in these companies? You can invest in them through the

markets and so on, but not in such big volumes. The Chinese capital market is not developed as such yet. So the state-owned enterprises can, because it's the state who provided the capital for them to move ahead. So that is another reason why.

And the third thing I want to say also is this, that now the state-owned enterprises are, many of them actually have been listed. Why are they being listed? This is a step by step approach as China does all the time. They do a step by step approach, to have these big companies like Petro-China, CNOOC, and many, many companies are now listed in the Hong Kong stock market. The banks are listed in the Hong Kong stock market. Why? So that gradually this can be moved forward. And as you move this forward, the one thing they have learned is about governance, about the trust of international community investment communities.

You know my brother who is here today with me, he sits on the board of Bank of China, he sits on the board of Petro-China. Until very recently, and you probably do too, I don't know whether Paul(?) does or not, but you know there's a lot of, a lot of effort to try to learn about western governance, about disciplines, about how to approach the shareholders and so on and so forth. They're all ongoing exercises. And the board of directors of these companies, they all have a fiduciary responsibility to their company. So all these things are happening. And I think the development is a continuing one. You would not become a Citibank or you would not become an Exxon-Mobil overnight. That's not going to happen. But in time it will develop.

Are they very powerful? Well, if you have a \$500 billion company you are powerful, what are you going to do? They are powerful companies. But they are also very conscious of their social responsibilities. Would they want to sometime, to overprotect their own company's activities? Maybe. But would the government allow them to do that? No. Because why? Because government would look at overall interest of the thing? Are there monopolistic tendencies? Yes. Should they be changed? Yes. But the change in monopolistic things is an ongoing concern. So, you know, Jane, everything in China is so big, it's so gigantic, and you start from zero and you try to reach something. It all will take time. And we need to read everything that China does over time, judge people over time, how it comes out. And state-owned enterprises is one example where I think you will find it's quite surprising.

JANE HARTLEY: Thank you.

ROGER FERGUSON: Thank you very, very much. Bill, thank you. Jane, thank you, C.H. We often have a tradition here of giving a gift to our speaker. So if you would be kind enough to accept this token from the club.

C.H. TUNG: Thank you very much, Roger. Thank you so much.

ROGER FERGUSON: The other thing, I do need to make this one brief announcement for the club which is to say on April 23 the club is going to be hosting a lunch for Jens Weidmann who

is the President of the Deutsche Bundesbank. And then on May 10 we'll have Robert Zoellick of the World Bank. So please enjoy your meal. Thank you very much.