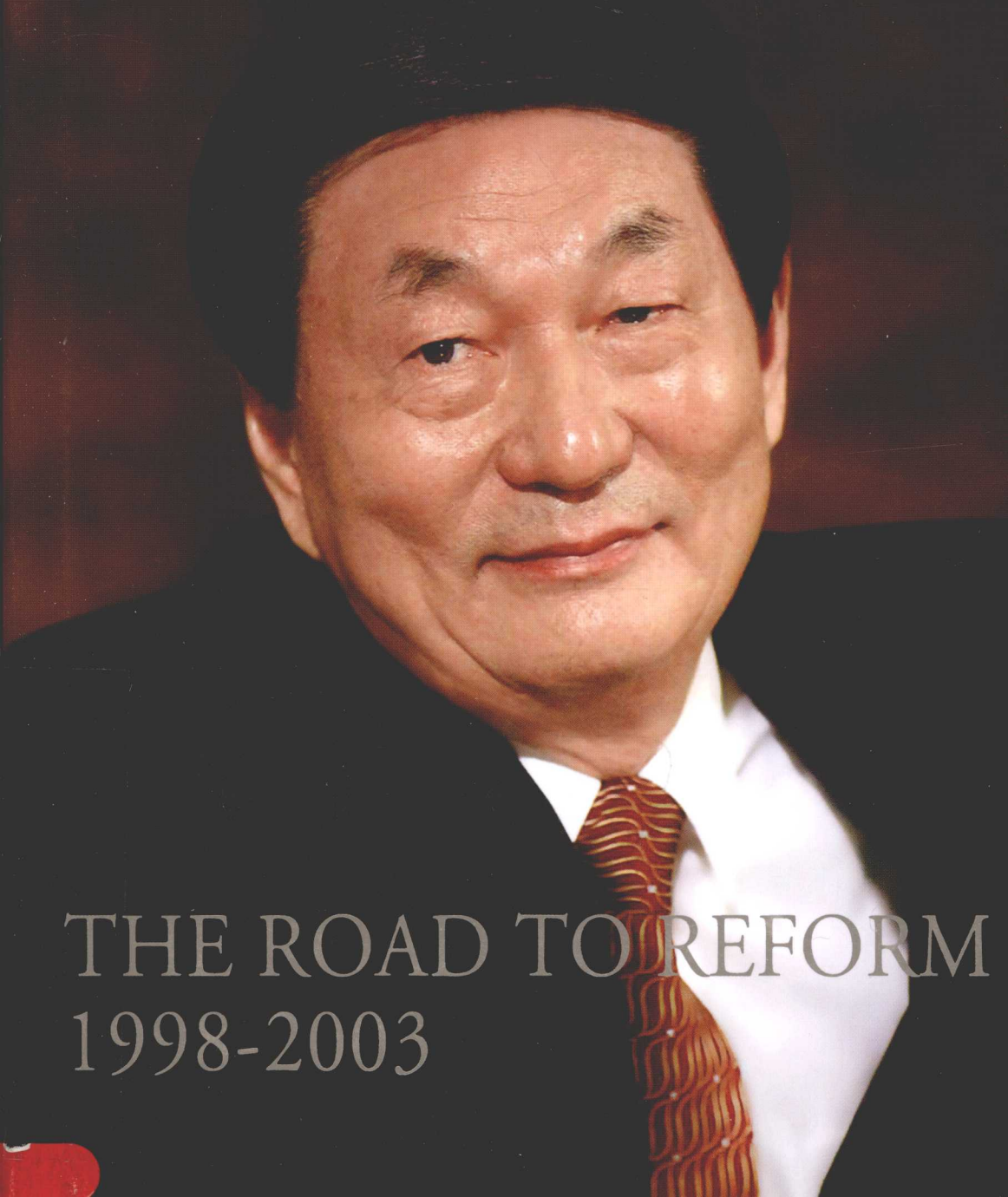


# ZHU RONGJI ON THE RECORD



THE ROAD TO REFORM  
1998-2003

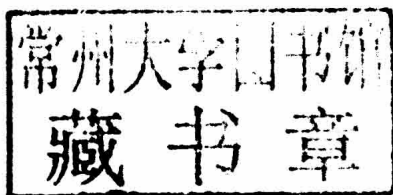
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1998-2003

The Road to Reform

*Translated by June Y. Mei*



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## EDITOR'S NOTE

The 4-volume Chinese version of *Zhu Rongji on the Record* (*Zhu Rongji Jianghua Shibih*) was published in China in 2011. It included 348 important speeches, articles, letters and directives, as well as 272 photos and 30 photocopies of his directives, letters and inscriptions from his term as Vice Premier (April 1991-March 1998) and his term as Premier (March 1998-March 2003).

The two-volume English edition features 112 of these speeches, articles, letters and directives, 54 of which are included in Volume I and 58 in Volume II. The materials are arranged chronologically, Volume I covering the period from September 1991 to December 1997, and Volume II the period from March 1998 to February 2003. The author personally selected and approved all materials included in this book.

These materials were edited from audio-visual materials, transcripts and manuscripts, and most of them are being published for the first time in English. Some brief annotations have been added by the editors and translator, and most captions and subheadings were added by the editors. Due to the unavailability of transcripts in the original languages, remarks by foreign guests in conversations with the author have been translated from the Chinese edition.

Li Bingjun, Lian Yong, Zhang Changyi, Xie Minggan, Lin Zhaomu, Lu Jing and Hou Chun participated in the editorial work, and Ma Dongsheng and Li Lijun helped compile and collate relevant materials.

Our thanks go to the various organizations and individuals who lent their support to the editing of the book as well as to the compilation of materials for it. Mr. Zhou Mingwei, president of the China International Publishing Group, and the Foreign Languages Press have been of great assistance in the publication of the English edition.

Last but not least, special thanks must go to Ms. June Y. Mei, translator of the book, whose excellent command of Chinese and English and deep understanding of China's culture, politics and economy have contributed to an accurate and vivid rendering of the book for English-speaking readers.

The Editorial Group

## FOREWORD

*Henry A. Kissinger*

It is commonplace to refer to China's enormous strides of the past decades as an "economic miracle." Yet in essence a miracle is an event beyond human performance or comprehension. China's reform and development was a policy course adopted by top officials and carried out through the efforts and vitality of the Chinese people. Even if the feats this course involved could not easily be duplicated, they can be studied and mined for practical lessons within China and beyond.

With *Zhu Rongji on the Record*, China's former Premier Zhu Rongji has made a valuable contribution to this process. He has collected dozens of speeches, dialogues, and internal memoranda reflecting his engagement with the major economic, political, and social issues of his era. They cover a period when China, under the leadership of President Jiang Zemin and with Zhu as Vice Premier and subsequently Premier, overhauled its financial system, tamed escalating inflation, concluded arduous negotiations on its entry into the World Trade Organization, lifted tens of millions out of poverty, launched an ambitious development program for its western regions, joined the ranks of the world's largest economies, and made a successful bid for the 2008 Olympics.

By any standard, it was a period of momentous change. It was particularly noteworthy for witnessing the construction of a new set of links between China and the international system – in trade, financial markets, science and education, diplomacy, and many other fields. In its depth and breadth, this integration of China into international architecture had no precedent in previous eras of Chinese history. What Jiang, Zhu, and their colleagues oversaw reflected their considered judgment about China's interests and necessities. The implications were global. The elaboration of the links they fostered will form an essential, perhaps decisive, component of 21st-century world order.

Given this record of extraordinary achievement, one might expect to find in these pages a record of triumphs and exultation. What Zhu provides is something more complex, more sober, and ultimately bolder. He has been as direct in his editorial selections as he was in his leadership

style in office and has not shied away from difficult or sensitive issues. The challenges of balancing growth with environmental preservation; the pitfalls of domestic and international financial instability; the daunting endeavor of reforming China's stock exchanges, labor regulations, infrastructure programs, and grain and natural-resources markets; the urgent task of uprooting malfeasance and preventing financial abuses; the complexities of encouraging growth while ensuring quality and consistency – readers will find forthright discussions of all of these issues in Zhu's book. The picture that emerges is one of the immensity of the task of governing China and addressing its contemporary challenges – and of the boldness and creativity of the generation charged with turning Deng Xiaoping's reform-and-opening-up concept into a reality.

For scholars outside of China, the publication of this book stands as a significant contribution to the historical record. On major debates over China's reform path, which English-speaking readers once knew of only in general terms, Zhu sheds considerable historical light. He publishes here his written instructions to colleagues and transcripts of his internal remarks on policy issues. These include Zhu's watershed March 1992 analysis of Deng Xiaoping's "Southern Tour" talks, in which Zhu stressed – at a crucial period in China's internal debate – the imperative of bold but sustainable growth. This candid discussion earned a crucial endorsement from Jiang Zemin, who ordered it distributed to cadres nationwide, and it became the basis for many of Zhu's subsequent efforts. Scholars will have a chance to study too the conclusions Zhu drew from the 1997 Asian financial crisis, and the lessons he distilled for China's policy course.

*Zhu Rongji on the Record* also functions as a case study in practical statecraft. Because China's reform program was so sweeping, and the projects being implemented were of such scale and complexity, Zhu had occasion to reflect on almost every aspect of modern economic management and social development. The problems addressed in this book range across industries – railways, coal, finance, automobile manufacturing, real estate – and their relevance reaches well beyond China. Economists, business strategists, and policymakers will all find in these pages thought-provoking examples of how a penetrating mind grappled with one of the most significant reform programs in modern history. They will appreciate



the creativity of his proposals, the scope and ambition of his vision, his resoluteness in crisis, and his strategic acuity – marked by a determination, as Zhu puts it, to “unify our thinking, and see the entire country as one single chessboard.”

For many years now I have been fortunate to count Premier Zhu as a friend, and to learn from his insights. It brings great satisfaction to know that with this edition of *Zhu Rongji on the Record*, a broader audience of English-speaking readers will be able to appreciate his vigorous personality and acute analyses.

## FOREWORD

*Helmut Schmidt*

During the late 1960s I had an inkling that China was regaining its status as a world power. However, since Germany and China had no diplomatic ties, I traveled to East Asia hoping to look at China from the perspective of the Japanese, the South Koreans, the Thai people, and the Australians. In 1972, as one outcome of these travels, Germany and China established diplomatic relations. Three years later, I visited China for the first time at the invitation of Zhou Enlai, but owing to Zhou's illness, I was received by Mao Zedong and by Deng Xiaoping. In the following decades I visited China some twelve or fifteen times and witnessed firsthand China's phenomenal economic, educational, and social upswing since the late 1970s.

Throughout the four millennia of its existence, Chinese civilization has shown a fascinating vitality. Considering China's relative decay during the nineteenth century and its riven internal and external conditions during the first decades of the twentieth century, China's rather explosive renaissance in the past three decades seems almost unbelievable.

After 1978 Deng set up a stunning evolutionary process of step-by-step economic reforms. He anticipated that if structural and economic reforms were introduced simultaneously, it might lead to chaos. Later developments in the former Soviet Union appeared to justify this view. After 1989 the risk of a rollback in China appeared a possibility. However, with his five-week trip to southern provinces and cities in early 1992, Deng successfully affirmed that the movement toward a market-oriented economy would continue. Without the paramount leadership of Deng Xiaoping, China's new rise would certainly never have occurred. Yet it has been Zhu Rongji's outstanding achievements as Vice Premier, central bank Governor, and as Premier that have fulfilled the promise of Deng's legacy to present-day China.

The first years of China's economic transformation resembled an ecstatic rush. Severe signs of a dangerous overheating were soon noticeable. Inflation became a serious problem, especially in the early 1990s when China suffered double-digit inflation rates of more than 20

percent. Obviously, a framework that allowed for steady and sustainable growth had to be established, and it became the main driving force of Zhu's work. In a speech in March 1992, he outlined the need for broad structural reforms and technological progress alongside the process of further economic opening. To turn the spirit of Deng's southern talks into reality, a sound macroeconomic environment, a modern financial system, and an efficient industrial sector were essential.

I first met Zhu Rongji in 1993, when he was still Vice Premier and had become fully responsible for economic affairs. Although Zhu was educated as a technical engineer, his economic insight was remarkable, surpassing that of most other political leaders in the world I have met. That year Zhu launched widespread reforms to restructure China's financial sector. As one result, the People's Bank of China became a genuine central bank that was now able to conduct a nationally unified monetary policy. At the same time, Zhu addressed the need to shift fiscal power to the central government as its share of tax revenues had fallen sharply during the 1980s. A federal-style tax-streaming system with centralized tax administration replaced a rather complicated system in which all taxes were collected at the local level. This put the central government's financial resources on a much healthier foundation than before and meant the resources could be redistributed to provinces where needed.

In the wake of improved macroeconomic controls, inflationary pressures decreased, and between 1995 and 1997 China's high-flying economy managed to make a "soft landing." When Asia was hit by a severe financial crisis in 1997 and 1998, China was affected only slightly, mainly because of its capital controls but also with the help of massive infrastructure projects. Guided by Zhu's economic expertise, China's leadership kept the renminbi from being devalued and refrained from taking part in a damaging "race to the bottom." After the Asian crisis, Zhu emphasized the need for effective financial market regulation and oversight in order to prevent harmful speculation. The global financial meltdown after the collapse of Lehman Brothers almost ten years later demonstrated that Western political leaders had regrettably failed to draw similar lessons.

When he was appointed Premier in 1998, Zhu accelerated the pace of reforming China's huge sector of state-owned enterprises (SOEs). By

the mid-1990s many of China's SOEs were showing low profitability and severe losses. Nonperforming loans against them had become a major problem for China's financial sector. By "grasping the large, releasing the small," privatizing was successfully pushed further, while keeping pillar industries fully under state control. Market forces were enhanced, allowing for bankruptcies and lay-offs. When he finished his term as Premier in 2003, the SOEs' estimated contribution to GDP had been reduced to 35 percent. As the related speeches and papers in this volume impressively reveal, he addressed frankly the problems caused by this far-reaching corporate restructuring rather than avoiding them.

Throughout his political career, Zhu has always been a man of action, eager to implement the next feasible steps of reforms, yet always doing so with farsightedness. I remember a conversation with Zhu in the late 1990s about China's possible membership in the World Trade Organization (WTO). In contrast to Zhu, I did not think that such a binding external commitment would be a forceful impetus for China's further reform. Zhu's perception certainly proved to be right. The formal entry into WTO in December 2001 was a crucial milestone in China's successful transformation into a market-oriented economy.

Today, China is already number two in the world economy, and it will become its biggest player within the next fifteen or twenty years. Between 1989 and 2012 China's economic growth averaged nine percent a year. The overall standard of living improved considerably, even though its population increased dramatically to 1.3 billion. Of course, huge problems still remain to be tackled: growing disparities within society as well as between coastal, central, and western provinces; the need for a comprehensive social security system; the rural exodus into ever-expanding megacities; and severe air pollution. These provide only a rough idea of the challenges ahead.

Western perceptions of China's new economic strength are often marked by uneasiness. However, those believing in the mechanism of competition should consider the emergence of a new competitor an inspiring force rather than a threat. The ascent of the Japanese economy after the Second World War did not prove harmful to the Western world, nor has the rise of the inescapable economic and technological competition with China, which instead has revitalized the West's own strengths.

At the same time, the West must accept that China will choose its own way to evolve.

This highly informative collection of speeches, minutes, and letters by Zhu Rongji deserves widespread attention. It is a unique historical document of China's unprecedented economic evolution over the past few decades. And it gives a fascinating insight into the political work of Zhu Rongji – an exceptionally gifted statesman and a dear friend.



*Being congratulated by Jiang Zemin upon being named Premier by the first session of the 9th National People's Congress on March 17, 1998. (Photograph by Wang Jianmin, Xinhua News Agency)*



*Chairing and speaking at the first plenary meeting of the State Council in Zhongnanhai, Beijing, on March 24, 1998. At his left is Li Lanqing, Politburo member and Vice Premier. (Photograph by Liu Jianguo, Xinhua News Agency)*



*Responding to questions from Chinese and foreign reporters at a press conference during the first session of the 9th National People's Congress on March 19, 1998. (Photograph by Zhao Yingxin, Xinhua News Agency)*



*Delivering the "Report on the Work of the Government" at the second session of the 9th National People's Congress on March 5, 1999. (Photograph by Ju Peng, Xinhua News Agency)*



*In conversation with Jiang Zemin at the opening of the third session of the 9th National People's Congress in the Great Hall of the People on March 5, 2000. (Photograph by Wang Xinqing, Xinhua News Agency)*



*In conversation with Hu Jintao at the opening of the 15th Congress of the Chinese Communist Party in the Great Hall of the People on September 12, 1997. (Photograph by Lan Hongguang, Xinhua News Agency)*





*Group photo of the State Council leadership on January 27, 2003. (L-R) Ismail Amat, Luo Gan, Wen Jiabao, Qian Qizhen, Zhu Rongji, Li Lanqing, Wu Bangguo, Chi Haotian, Wu Yi, Wang Zhongyu.*



*On an inspection tour of Jishou University, Jishou, Hunan Province on April 7, 2001.*