

A Responsibility to the World

**An Interview with Li Rongrong, Chairman,
State-Owned Assets Supervision and Administration Commission of the State Council**

EDITORS' NOTE After graduating from Tianjin University with a bachelor's degree in electrochemical engineering, Li Rongrong served successively as a worker, Workshop Chief, Deputy Director, and Director of a factory. He was appointed Vice Chairman of Wuxi Municipal Economic Commission, Jiangsu Province, and proceeded to hold the posts of Director of Wuxi Municipal Light Industry Bureau, Chairman of Wuxi Municipal Planning



Li Rongrong

Commission, and Vice Chairman of Jiangsu Planning and Economic Commission. In February 2001, he was appointed Chairman and Party Secretary of the State Economic and Trade Commission (SETC). In addition to his responsibilities as Chairman of the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), Li is Party Secretary of the SASAC's Communist Party of China (CPC) Committee and a member of the 16th and 17th CPC Central Committee.

INSTITUTION BRIEF Authorized by the State Council in March 2003, in accordance with the Company Law of the People's Republic of China and other administrative regulations, the State-Owned Assets Supervision and Administration Commission of the State Council guides and pushes forward the reform and restructuring of state-owned enterprises (SOEs); appoints and removes top executives of enterprises, and evaluates their performance through legal procedures, either granting rewards or inflicting punishment based on their performance; and directs and supervises the management work of local state-owned assets according to law.

Thirty years after Deng Xiaoping launched the reform, China has become a major player on the world stage. What have the most significant changes been during this time?

In addition to the economic achievements and improved living standards, I believe the most important change in China is that we are taking increased responsibility in the world. In the past, the idea was barely on our minds as overwhelming poverty deprived us of the capability to take such responsibility. However, the awareness of our responsibility to the world and our participation in world affairs has grown along with our economic strength.

We are striving to be a driving force in the world economy. When facing today's economic crisis, we are quietly working on China's own issues to minimize the impact and make our due contribution to the world. China is not taking the opportunity to show off. Instead, China is trying its best to deal with the crisis in proportion to its national strength and capabilities.

Meanwhile, our communications with other countries has also become better. In the past three decades, the number of students studying overseas

has increased by more than a dozen times. Apart from gaining knowledge and experience from the outside world, they also improved China's understanding of and communication with the world. Statistics or words are hardly enough to reflect the importance of this change. Both domestic development and international communications tell us one thing: China is taking greater responsibility in the world and its capability is also growing. The idea of "harmonious world" is based on our economic strength, without which it would simply be empty talk. China has been making every effort to take responsibility both before and after the financial tsunami.

Many people are shocked by the financial crisis, and confused by how it happened. How do you look at the crisis?

I can only offer my personal opinion. My career has taught me that people will suffer when they neglect the facts. It is better to look further and think deeper.

The Hong Kong media calls the financial crisis a "financial tsunami," which I think is a great description of the ferocity of the crisis. The Asian financial crisis we experienced earlier was much weaker by comparison. This crisis is spreading and evolving so fast and is striking so deeply and broadly, that I would use the the Cantonese word for extreme ferocity, *Sheng Meng*, to describe it. As a former chemical engineering student, I'd like to draw an analogy between the crisis and entropy, a chemical term about balance and disorder. It cannot be simply described as a good thing or a bad thing. It just reflects the degree of balance. With the development of the world economy, I think there are two reasons contributing to more changes: first, rapidly evolving information technology is accelerating the spread of the financial crisis as it enables the whole world to access immediate information about the development

of the crisis, which is unprecedented; second, globalization extends the financial crisis rapidly to various economies. Previously, each national economy was relatively independent of each other, so mutual impact was limited. Economic globalization makes the world more interdependent economically. A slight move in one part may affect the whole situation, thus causing a crisis to develop into a financial tsunami.

A financial tsunami is an inevitable challenge to progress and reform. The United States is assimilating lessons from the crisis and accelerating the pace of reform. So are many other countries. If we draw good lessons from this, I believe better and faster development will follow. The American economy may experience a temporary recession, but it will definitely recover someday, as the United States is still the strongest country in terms of comprehensive power. I am convinced that it is capable of another takeoff based on the lessons learned from the disaster.

In the current chaos, what have China and its state-owned enterprises learned from the tsunami?

First, we may have gained a more profound understanding of the relationship between the virtual and real economies. Although it is easier said than done, we have to find a balance between the two. The financial tsunami in the U.S. was triggered by the major investment banks, creating a rippling effect over a very long capital chain and signaling, in my opinion, a widespread and deep crisis. We had better draw lessons from the crisis in balancing the virtual and real economies. One of the reasons for our successes over the past 30 years is that we have always kept a controlling hand so that we can promptly compensate for any mistakes. This is done throughout the state-owned sector and particularly in the central-governed state-owned enterprises. Our economy stayed on track despite the oil price hikes, which would have been impossible if our pump price would have risen as much as the world crude oil price. Our success is based on control, the key to any reform. Without control, reform gets out of hand. The crisis tells us many things. Our target has never been to have a monopoly by the state-owned sector. What we want is a steady process of opening up that matches the government's ability to steer the market economy. We will relax the control as we can steer the market economy, while we should keep some control as we cannot totally steer it. Thus, we are able to avoid large-scale risks.

The human factor is also very important in financial reform. By this, I am referring to how executive remuneration should be linked with performance. This is something we should have learned from Enron and Lehman Brothers. Outsized executive rewards, in my opinion, distort executive mentality and behavior, which is why SASAC has not promoted stock options too much in China. Lehman Brothers offered incentives that were too high to its executives, which led to distorted executive mentality and behavior and, in turn, the outcome. Reform must be done in a moderate way.

The third lesson we may learn is to follow the rules in operating a business, which has been a key factor in our enterprise reform over the past 30 years as well. Business performance is not necessarily linked to the ownership structure. Success in business operations is not simply about the ownership structure. Lehman Brothers and Enron went bankrupt even though they had a board of directors. The core business rule is to ensure effective operation of the board of directors. When one man's choice overrides the board of directors, he will make mistakes. For quite some time, I have been thinking about what a board of directors should look like and what effective governance means. Maintaining effective business operations, especially the operation of major corporations, is fundamental to the national economy. In the past three years, we've piloted effective board governance. By far, the comments from various parties are quite positive. However, there is still much work left to be done to ensure board effectiveness on an institutional basis.

Every nation and its people have their own philosophy in preventing and fighting crises. What is the Chinese philosophy in regard to the financial tsunami?

The Chinese people like balance and try to be moderate in everything. China is too cautious, while America is probably too audacious. For us, audacity must be affordable. To avoid insolvency, we request the central-governed SOEs to set a 50 percent minimum capital requirement for investment projects, although on some projects 20 percent is legal in China. In the past five years, many of our central-governed SOEs are doing well in the proportions of registered capital required to always keep their projects under control. Although information is now widely available and is traveling so fast that everybody can make their own judgment, any forecast about future economic development would be unreliable if one is only able to see parts of the picture. Sometimes people make mistakes because they are just too confident in their own judgment without really knowing the whole story. I always advise the leadership team of the central-governed SOEs against speculation. My motto is that making the real world a better one is more worthwhile than dreaming about heaven or hell. Risks beyond your control are frightening, no matter how tiny they may seem to be at first. Those tiny risks can become big ones if they get out of hand.

Humanity, righteousness, and faith are very important concepts in our culture. To rebuild public confidence, actions are stronger than words. No one will trust you if your bank is a failure. Only by being honest can we gain others' trust and confidence. I was named as the Primary

Spokesman for China's finance and economy by China Finance in 2008. SASAC and the central-governed SOEs should serve as a stabilizing factor during economic turmoil by repurchasing, rather than selling, the stocks of central-governed SOEs. We know that, in this way, we can help the government and society. As the eldest son in my family, I'm used to taking more responsibility for my family. I often refer to the central-governed SOEs as the eldest son of China, meaning that they shall do more and talk less. Actions of large enterprises are particularly important. Sinochem refrains from buying new cars and from refurbishing buildings in order to further cut costs, which we call "getting three drops of water out of a dry towel." When traveling, the president of CNOOC never stays in a hotel if there is a local branch office with accommodations, which sets good examples for others.

Your thinking about a well-known Chinese proverb, "preparing for the danger while living in peace," has been documented. For instance, you constantly cautioned people to "guard your wallet tight" far before this financial tsunami hit us. What prompted these thoughts?

I attribute it to my five-year experience as a factory worker. I think, as a leader of any corporation, one must prioritize one's responsibility to the employees. Whenever a company files bankruptcy, employees are always among the first items to be cut. Driven by such a sense of responsibility, it's very crucial to stabilize the development of our SOEs to avoid the unbearable sudden rise and fall. I've often said that a small business is like a small boat that would be easy to turn around if it flipped. However, our SOEs are like aircraft carriers and they cannot afford to sink, which requires true vision from its leaders. The bigger the boat is, the better radar system it needs to have to detect submerged rocks far before hitting them. The result will be disastrous if the big boat sinks.

I cautioned SOEs at the end of last year to guard their wallets, and to be at ease holding their money in their hands. There will surely be a pay cut for senior executives if their companies suffer financial loss. Wuhan Steel cut 50 percent off their senior executives' salary and 30 percent off their mid-level managers. Although we imposed pay cuts, we did not lay anybody off. We emphasize the importance of responsibility, and one of SASAC's major functions is to materialize those responsibilities among its SOEs. A leader of a company is like a head of a big family who should be responsible for every family member.

Some refer to the \$700 billion U.S. government bailout bill as a "band-aid." How do you look at China's RMB4 trillion plan?

The RMB4 trillion stimulus package is not simply an emergency plan. It is going to be used to strengthen the weak links that may affect our future growth, thus paving the way for another takeoff. The money will actually be in the form of government investment in large projects such as railroad construction. This provides new opportunities for the central-governed SOEs. For example, while the State Grid possesses excess power supply capacity, the transmission capacity is insufficient. They can take this opportunity to renovate our power grid to lay the foundation for further growth.

There are comments that China's RMB4 trillion package is boosting business and government demand instead of household demand. What do you think?

CPC is a responsible party. The target in launching such a large package in such a short time is to minimize the impact of the financial crisis and make our contribution to the recovery of the global economy. We are doing our part by taking action rather than just showing off our success. Dissonant voices are natural since people's knowledge about China may be limited. We welcome advice and suggestions. What we would like is simply to recover from the tsunami as soon as possible through effective work.

Employment is the basis of consumption. Unemployment means no consumption. For China, only by ensuring employment can we boost domestic demand step by step, even if this means employment at lower wages. Government investment in infrastructure is one of the ways to create jobs and maintain the fundamentals for people's employment. Meanwhile, economic growth will gradually translate into higher income and greater domestic demand. This is a more objective interpretation of the policies.

China seems to be very confident about maintaining an 8 percent GDP growth. Many believe this is overly optimistic and that 5 to 6 percent growth is more realistic. What do you think?

I think 8 percent is possible and we will try our best to reach this target. But we need a substantial 8 percent instead of one created by making more products no one buys. In the transition from a planned economy to a market economy, China has come to respect the market force. For example, transportation and logistics represent a much higher percentage of our cost of production compared to foreign companies, while our manufacturing cost is already down to a comparable level. There are so many things that could be improved. As labor costs grow, we have to curb logistics costs. Compensation and rewards for executives should match business competitiveness. Without competitive advantages, you are on the road to destruction.

Many transnational corporations are looking to China – a rapidly growing emerging market – as a land full of development opportunities. How do you think China's central-governed SOEs will perceive these potential foreign partners who hope to transform dangers into opportunities?

Our door has always been open. As a good example, Vodafone has engaged us in a couple of discussions on how to bring their partnership with China to the next level, which we welcome very much. Business partnership is based on mutual understanding and SASAC's role is to facilitate such partnerships. I think China's biggest advantage now is in our market potential and consumption capability. For example, China's auto market is growing while global auto consumption is down. In terms of global resources allocation, where there are more resources available, there are more benefits to the consumers and the companies. Our welcome to foreign partners remains unchanged. I'm sure China is going to be even more open in the next 30 years. 