



CNN – The Express / The Money Pit

China Slowdown, US Trade War, Apple Decline

Robert Lawrence Kuhn, January 3, 2019





Host Richard Quest: CEO Tim Cook said Apple did not foresee the magnitude of economic deceleration, particularly in China. How can this be the case? In November, he said the business in China was strong. What happened between November and January. Ultimately, is this about China or is this about Apple's failure to predict and forecast? Robert Kuhn joins me now in the money pit. Jump deep down with me, Robert — you're the author of *How China's Leaders Think*. You're a long-time advisor to China's leaders and corporations. So, Robert, are you surprised that Apple seemingly didn't see this coming?





RLK: There are a number of factors here that we have to look at. One is the economic situation in China. Second, as you pointed out, Apple itself. And third are the nationalistic tendencies of the Chinese people relative to the trade war. And all of these kind of confound each other. To kind of tease them apart, on the economic front, I don't see a dramatic change between November and now. We've been in a long-term trend in terms of slowdown in China It's sort of a natural thing.

RLK: After a long period of growth, China has been trying to control its excessive debt, corporate debt in particular, also local area debt. Mixed signals have been given by the central government to local governments about controlling debt and expanding investment due to the economy. So it is a complex situation, but it has been developing over the past year.





Quest: Right. But on this question of the trade war - we're all fascinated by this - Tim Cook suggested that it exacerbated the slowdown because the trade war created a lack of confidence and therefore people aren't spending, rather than any feelings of patriotism and nationalism and not buying American products. Would you buy that too?



RLK: Both factors are clearly involved. Anytime there's uncertainty in an economy no matter where you are, there's slowdown—but particularly in China, because the media is not obviously as open as here, so people tend to exaggerate rumors that they hear. From the all the years I've been in Beijing, I always hear people talking about how bad the economy is privately when everybody is saying publicly that it's great. So that's no different today.



RLK: So, we have to look broader. There are some nationalistic tendencies in China. There's no doubt about it. It doesn't mean everyone. People have bought Apple products in the past as almost a way of internationalizing themselves — status symbol as well as a great product. But in some cases, there is a turn to Huawei products because of the symbolism that Apple represents the U.S. and Huawei represents China. It's not a major factor, but it is a factor.

Quest: Right. Finally, the question now of the slowdown and how the Chinese government is likely to deal with it. With higher levels of debt, both corporate and government, and individuals? Are they in a position to reflate the economy via spending?





RLK: Not completely. President Xi Jinping has a very strong position in China. The people for sure support Xi, so he will be able to institute policies that make sense for the long term. He won't be motivated, particularly, for instant short-term actions. There's no Party congress coming up. He has a long period of time. There are no term limits, so he can do what's good long term for China. It doesn't mean he won't be sensitive to public opinion. But I don't see any rapid expenditures of debt and government policy that will alter the status quo. They recognize that in the long term, they have to control financial debt.

Quest : Good to see you, sir; thank you. Happy New Year to you. Thank you for your help in understanding.

