

**Bloomberg Daybreak (Worldwide TV)**

**What are the Challenges China Faces?**

**Robert Lawrence Kuhn – September 27, 2019**



## What Are the Challenges China Faces?

**Bloomberg Daybreak: Australia - September 27th, 2019, 11:34 AM CST**

**Robert Lawrence Kuhn, chairman of the Kuhn Foundation and a long-time adviser to China's leaders and multinational corporations, talks about the challenges the country faces. Last year he received the 'China Reform Friendship Medal,' China's highest award, from President X Jinping. Kuhn speaks with Paul Allen and Shery Ahn on "Bloomberg Daybreak: Australia."**

**HOST: Robert Lawrence Kuhn is chairman of the Kuhn Foundation and a long-time adviser to China's leaders and multinational corporations. China of course faces a number of problems and challenges. Let's start with one right there south of the border. At the moment the police are giving permission for another protest in Hong Kong. That's going to be the 17th straight weekend. So how does Beijing handle this issue?**

The screenshot shows a Bloomberg video player interface. At the top, there is a 'Menu' icon, a search bar, and the 'Bloomberg' logo. The main video area displays a split-screen interview. On the left, a host is shown against a background of a city skyline, with a yellow banner below him that says 'Sydney'. On the right, Robert Lawrence Kuhn is shown in a room, with a yellow banner below him that says 'Beijing'. A large white play button is centered over the video. Below the video, a blue and white banner reads 'Bloomberg 70TH ANNIVERSARY OF THE PRC'. At the bottom of the player, there is a title card for the video: 'What Are the Challenges China Faces?' followed by 'Bloomberg Daybreak: Australia - TV Shows' and 'September 27th, 2019, 11:34 AM CST'. A short description of the video content is provided below the title card. The bottom right corner of the player has a 'Get unlimited Bloomberg' button.

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**KUHN: China looks at the situation in Hong Kong very seriously but is committed to the One “One Country, Two Systems” policy that they would eventually like to apply to Taiwan – and they have been fairly strict about it. There was a lot of speculation China would intervene, but they have not, leaving the Hong Kong government to control the situation. The media in China is very negative, blaming foreign forces and black hands behind it. But there has been no movement by China to take a more interventionist view. They hope that the protests will continue to die down over time.**

The image is a screenshot of a Bloomberg live broadcast. At the top, there is a navigation bar with links for "Bloomberg the Company & Its Products", "Bloomberg Anywhere Remote Login", and "Bloomberg Terminal Demo Request". Below this is a "Menu" and "Search" icon. The main content area shows a man, Robert Kuhn, speaking. A "LIVE 6:45 am" badge is in the top left. A nameplate on the right identifies him as "Robert Kuhn" and "THE KUHN FOUNDATION CHAIRMAN". A lower-third banner reads "Bloomberg KUHN: HONG KONG IS CHINA AND WILL REMAIN CHINA". At the bottom, a dark banner says "What Are the Challenges China Faces?" and a small text on the right says "Get unlimited access to Bloomberg TV".

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**KUHN: One has to appreciate how important Hong Kong is to China. We could talk about five specific areas: two economic, three political.**

**Briefly, the two economic reasons are:**

**(i) Hong Kong used to be the main gateway to China for companies to come in with capital and technology and trade. That's less important today, of course, with the rise of Shenzhen and Shanghai and other cities.**



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(ii) But Hong Kong is a key linchpin in what's called the Guangdong Hong Kong Macao Greater Bay Area Regional Integration Plan — which is a major part of China's attempt to transform its economy through regional coordination. They do that in the north with Beijing, Tianjin and the new City of Xiong'an, and around Shanghai with the Yangtze River Economic Belt. In the Guangdong Hong Kong Macao Greater Bay Area, it's a \$1.7 trillion dollar GDP per year. As it were an independent country, it would be close to the top ten in the world; it is projected to be \$3.5 trillion dollars in 2030—and Hong Kong is key to this.



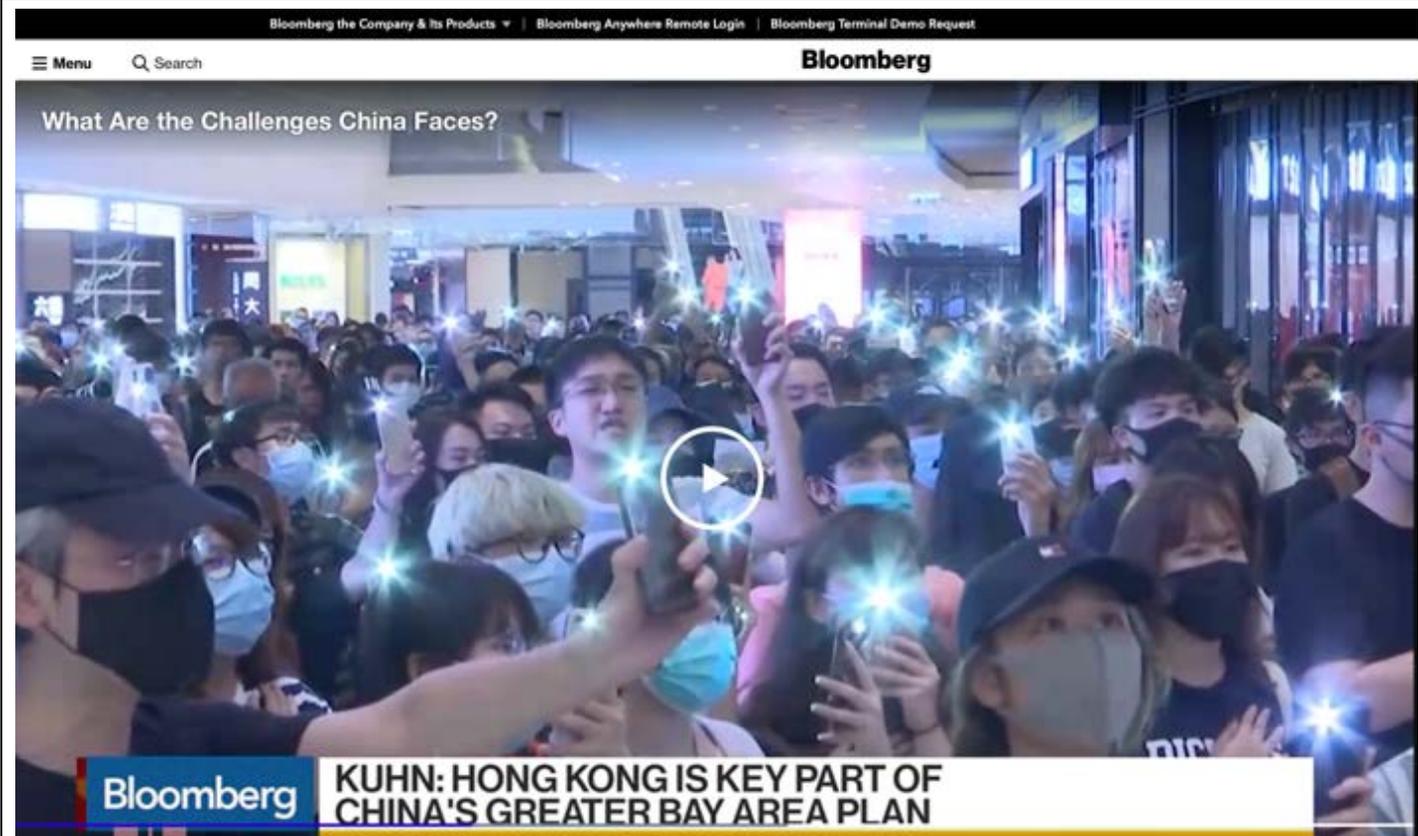
## **KUHN: The three political reasons why Hong Kong is key for China:**

**(i) Hong Kong is the symbol of the “One Country, Two Systems” model.**

**(ii) It represents China's resurgence and recrudescence after a century of humiliation; and**

**(iii) It is a signal of how China deals with a sophisticated world.**

**So, for all those reasons, Hong Kong is extremely important to China.**



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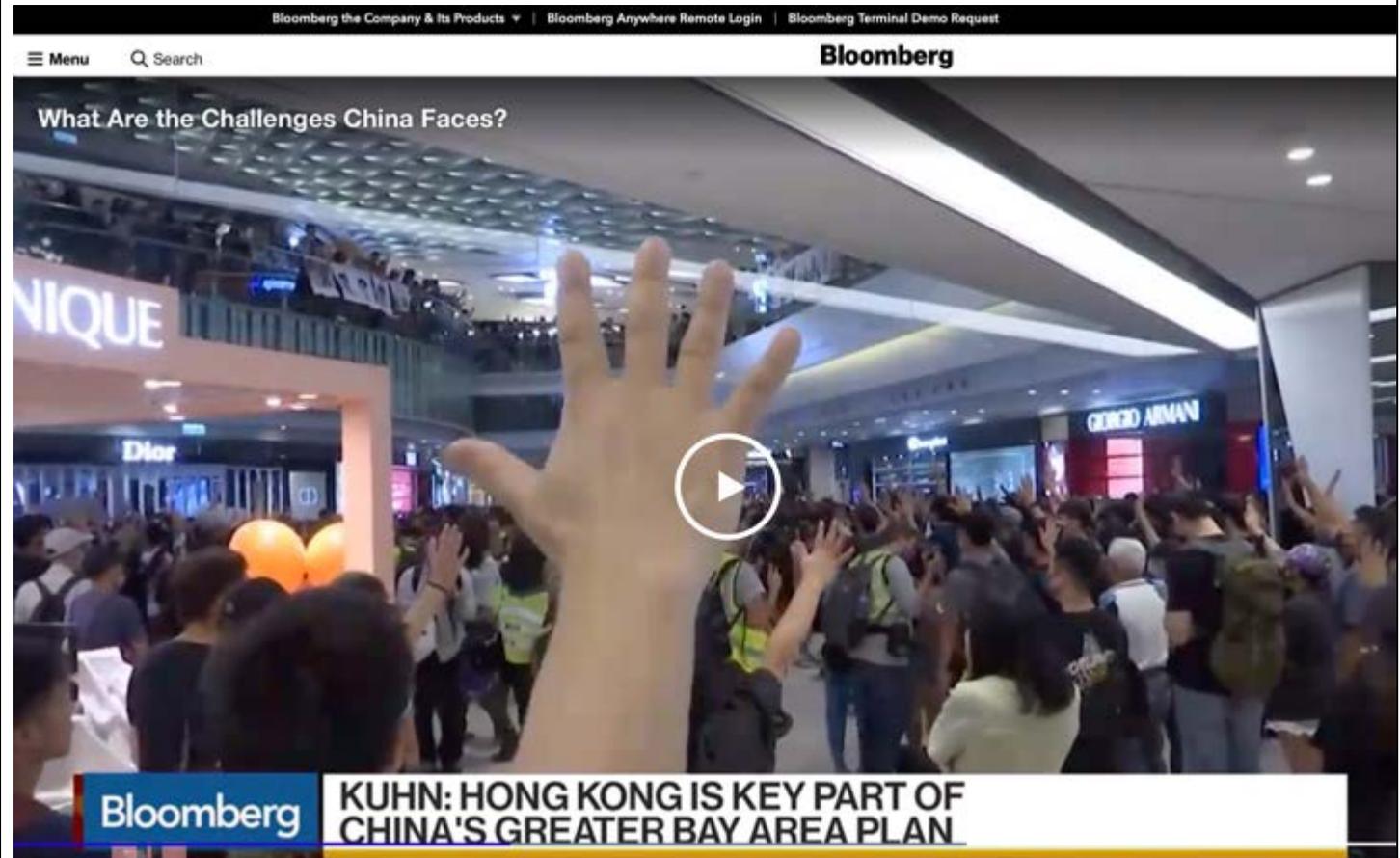
**KUHN: But China is being very careful: there are three “Red Lines” that cannot be crossed — let's not fool ourselves.**

**(i) If Hong Kong moves towards any sort of independence, or quasi independence, which could be universal suffrage—that would certainly trigger that.**

**(ii) If Hong Kong is used as a ‘base’, as they say, to attack the mainland political system, or to undermine it.**

**(iii) If there would be unending chaos, which would really just destroy the economy.**

**But right now, things are in a modest holding pattern. Everybody's waiting to see.**



# Bloomberg

**KUHN:** But the big energy today, of course, is on the October 1<sup>st</sup> — the 70<sup>th</sup> anniversary of the People's Republic of China — a time for reflection on the past 70 years and, frankly, looking ahead to the next 30 years, to where China will be on its 100<sup>th</sup> anniversary.



**HOST:** Really on a holding pattern when it comes to the situation in Washington here in the U.S., we are seeing impeachment drama being played out. Is that going to help or hinder a trade deal between the U.S. and China?



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**KUHN: I don't think it's going to matter much — China has gotten used to the perturbations on a daily, Twitter basis from Washington, and has learned not to react to it, not to comment. But I think the interest in both countries — for different reasons — will be towards having some kind of a small, short trade deal that won't be comprehensive, but it will deal with some agricultural matters and freezing of tariffs or something like that.**



# Bloomberg

**KUHN: Both countries need a trade deal – both presidents need it for different reasons. China's economy is slowing and they have other priorities. President Xi is focusing on anti-pollution and completing what's called “targeted poverty alleviation” to eliminate all extreme poverty in China by 2020, which is the first of this so-called Centennial Goals of China – 2021 is the 100<sup>th</sup> anniversary of the Communist Party of China—and therefore 2020 is the date for the “moderately prosperous society”.**



# Bloomberg

**KUHN: So that's where the focus is. President Xi is worried about financial risks, other risks, to the system. He is talking about struggles and risks. They want to damper down problems with the U.S.**

**KUHN: But mid-term, I think we have more serious problems. We have a tech war. We have competition, rivalry in the world. The short term, I think, is reasonably positive. The midterm is fraught with danger.**



# Bloomberg

**HOST:** On that tech war that you mention, Washington now saying that he will probably not renew a temporary waiver for American suppliers to do business with Huawei. How is this encouraging China to actually move ahead with their more ambitious plans on the tech sector.



**KUH:** A very good point — I have said in the past that all the things that America wants China to be forced to do — and the strictures that it puts on China — will in the long run help China more than it will help the US. Because it is certainly in semiconductor manufacturing, advanced technologies, China is throwing a huge amount of resources — public acclaim, lauding scientists who are supporting the motherland in its time of difficulty, to really surge forward.



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**KUHN: And you see in the scientific communities — I deal with that a lot here — a kind of an enthusiasm, really sort of seeing an entrepreneurial spirit, to see how China can be innovative and in key technologies eventually be number one in the world. They make no bones about that. In AI and big data. Semiconductors is the linchpin. And China is making significant efforts to narrow the gap and eventually to become a leader in that area. So, we'll have to see — it's not easy. Hardware is tougher technologies than software, than AI and big data, but they are throwing resources at it.**



The image shows a Bloomberg live video player. At the top left, there are 'Menu' and 'Search' icons. The top right corner displays the 'Bloomberg' logo. The video title is 'What Are the Challenges China Faces?' with a 'LIVE 6:50 am' indicator and a 'Play Video' button. The main content is a video of Robert Kuhn, a man with glasses and a black turtleneck, speaking. A white play button icon is overlaid on the video. A yellow nameplate on the right identifies him as 'Robert Kuhn' and 'THE KUHN FOUNDATION CHAIRMAN'. A blue and white banner at the bottom reads 'Bloomberg KUHN: MID-TERM U.S.-CHINA RELATIONSHIP FRAUGHT WITH SERIOUS RIVALRY AND PERHAPS WORSE'.

# Bloomberg

**HOST: Robert, another major challenge China is going to face in the coming years is a demographic one. You won't be able to see this, but our viewers will. It's a chart on the Bloomberg terminal that shows that China has got 1.15 billion people above the age of 15 and the birth rates is at its lowest on record. Now President Xi is president for life. He's going to be in his 80s when this problem really starts blowing up. What's the solution?**



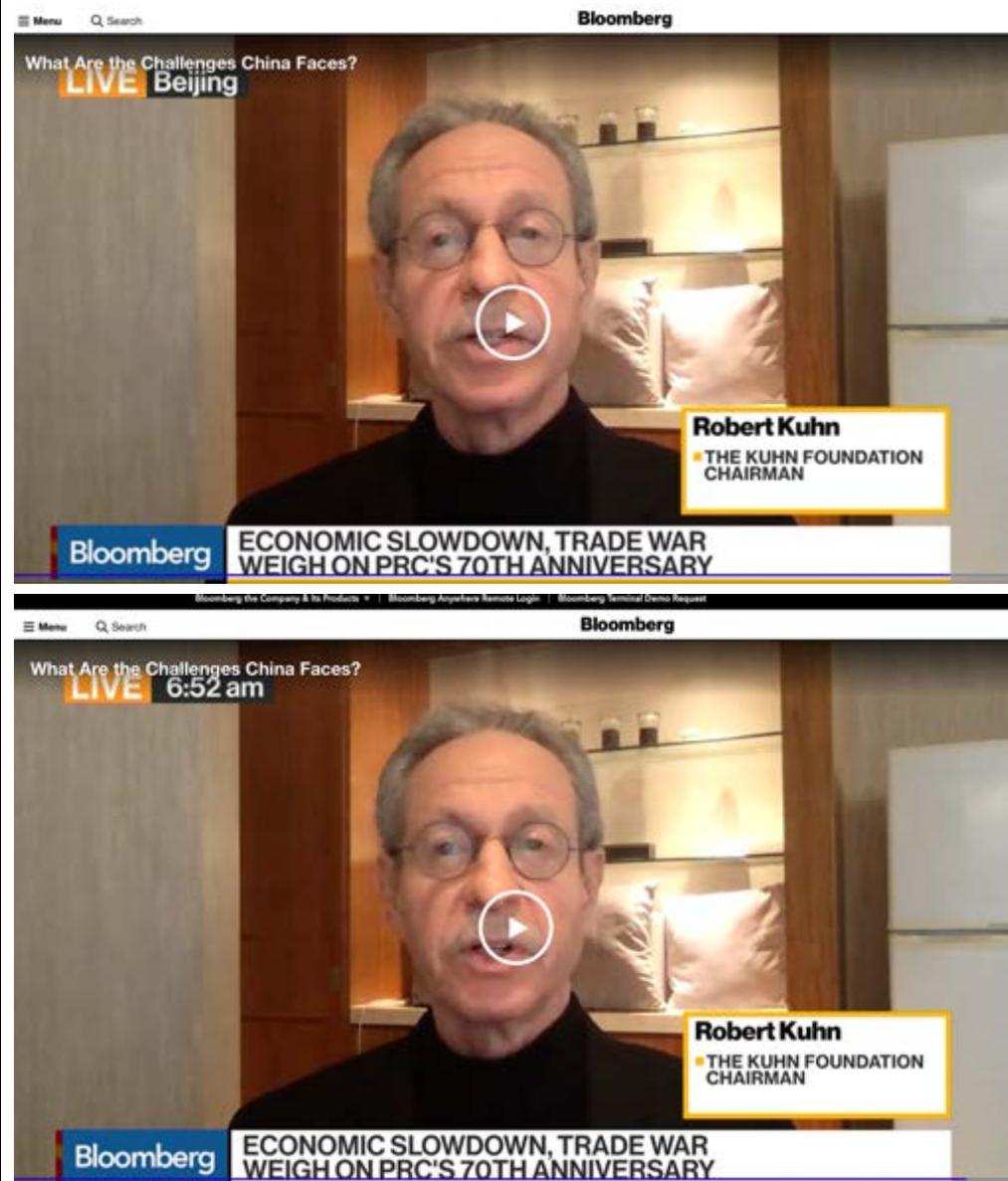
# Bloomberg

**KUHN: Well. first of all President Xi is not president for life. That's an oversimplification. He is a president with term limits having been eliminated. His more important positions are as general secretary of the Party and chairman of the military, which never had term limits anyway. That's a more complicated question to deal with — I just wanted to correct that. But President Xi certainly is in a very powerful position, a very unassailable position at this point.**

The image shows a screenshot of a Bloomberg video player. At the top left, there are icons for 'Menu' and 'Search'. The Bloomberg logo is in the top right. The video content features a close-up of President Xi Jinping speaking, with a play button icon overlaid on his mouth. The video title 'What Are the Challenges China Faces?' is displayed in the upper left of the video frame. At the bottom, a white Bloomberg news banner contains the text 'KUHN: XI IS FOCUSED ON RISK'.

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**KUHN: And the demographic issue is a critical one. One result you see of that is the healthcare industry is arguably the most important growth industry in China today, and it's very exciting. There are opportunities for foreign companies to be involved — for example, in geriatric care and developing of hospitals, various tiers of hospitals. But demographics is a concern for China for the future. China has changed its one child policy. But even that change has not yet led to the number of pregnancies as many as they want. People's lifestyles have change; women are working. So, demographics are a real issue.**



<https://www.bloomberg.com/news/videos/2019-09-27/what-are-the-challenges-china-faces-video>