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China's Economy & Politics President Xi's 'Four Comprehensives' August 25, 2015

HOST: Dr. Robert Lawrence Kuhn is an advisor to the Chinese government and author of *How China's Leaders Think* and he joins me now from Beijing. A cut in interest rates today - but in China any economic decision is always colored with politics.

RLK: Certainly people are concerned here, but you have to realize a 43 percent drop in the Shanghai stock market is still 25 percent above its 52-week lows, so what the economists, government, tries to do is to distinguish between the so-called real economy and the stock market. Most people realize China's stock market was overvalued, but perception is reality, and if people have less money on paper, they'll spend less, and so the fall will affect the real economy.

And you're right, the way to look at such situations in China is not just economically - you can't look at China without looking at politics, and here there are two major areas. One is President Xi Jinping's trip—his state visit to Washington. This has been a very tense time in Sino-US relations: South China Sea, cybersecurity, human rights, lots of issues. But what this economic uncertainty and volatility will do - I hope - is to make both presidents focus on what really affects human beings and human lives, focus on economic areas, because this is where there can be some commonality between China and the US. The contentious issues are real, but economics is more real for people.



Domestically in China, it's really interesting, because in recent days, there have been editorials in *People's Daily* talking about extreme resistance to reform and older leaders who are still involved and maybe shouldn't be, and so you have to look at domestic politics in terms of what Xi Jinping, who is China's dominant leader, the president of the country, head of the party, head of the military, and other titles as well, and what his overarching policy is.

It's called the "Four Comprehensives." We learn from each one. The first says that China wants to build a 'moderately prosperous society'. That's their short-term goal. It's not different than others have said in the past, but it now has greater intensity because of the need to bring up rural comes and alleviate the great imbalances in Chinese society. But the other three are mechanisms to achieve that - deepen reform, rule of law, and strictly governing the party, which is of course the anti-corruption campaign. And in each of these areas, there is significant resistance from different kinds of interest groups that are affected. And you're now seeing this openly discussed, and so when we have this economic turmoil—and China, if they want anything, they want stability, that is the governing word in the country for the last 40 years. Stability is what the government wants and what the people want—

HOST: Now we have this economic instability, and with instability there could be real problems.

HOST: And the stability may have been rocked a bit because whatever the Chinese government was doing in recent weeks to try and sort out the economy, it wasn't



working, and that perception argument then becomes crucial, doesn't it, then?

RLK: You cannot manage a market economy, whether stock markets, capital markets, or business markets, the same way you do a planned economy, or the way you can deal with the legal system or social organizations. The Communist Party [CPC] has ruled and has organized society to maintain this stability. But if you're going to make the market play a decisive role, which is what the CPC has decided, you cannot have that same kinds of control - and if you try, sometimes you make it worse.

HOST: And in terms of what happens next, we see an interest rate cut today, the damage that's been done, of course, is to China's middle classes, who have invested an awful lot of money and are beginning to see it disappear.

RLK: Right, and there are some in the government who have kind of encouraged an overoptimistic view. Certainly some of the press have praised the market appreciation over the years - it was a way to give the people their higher standards of living, which is the primary legitimacy of the party. And that may have been ill-advised in terms of really understanding how a market economy works, for China's own best interests, for its financial system, its economic system—if you're going to let the market play a decisive role, you have to let the market play a decisive role.

HOST: Dr. Robert Lawrence Kuhn, thank you very much for your time this afternoon.

