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Robert Lawrence Kuhn

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HOST: Corruption is one of the key issues that at the *National People's Congress* that got underway today. Let's speak about what leaders will be grappling with. We can talk now to Robert Kuhn who joins us from Beijing. Robert is a long-term advisor to China's leaders and to the Chinese Government, so he really is the man to take us through some of these issues.

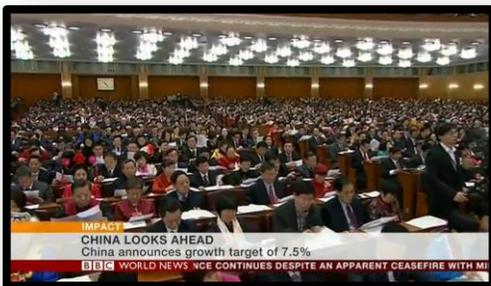
Good to see you again Robert. Can we start with some of the figures that are being bandied about today: a promise of about 7.5% growth, and an increased military spending of 12.2%. Firstly: how reliable are those figures? Can we trust them?



KUHN: We have to understand what is behind those figures. If we look at 7.5%, most people believe that 7% is the absolute bottom to protect China from instability due to unemployment. So this is a very serious number. The base of China's economy is much larger, it was a nine trillion dollar economy last year, so 7.5% on nine trillion is approaching \$700 billion.



Now how do you get that 7.5%? Look at the components—investments, exports, and consumption. All are pressured. Exports are pressured by exchange rates issues and by weak economies around the world. Consumption is rooted in ways of living that the Chinese people have, which they are not going to change that quickly. They do not trust promises about healthcare and retirement, so they save. Thus economic growth usually depends on investment—and here is where the problem lies. Investment today is terribly pressured. There is tremendous overcapacity in steel, cement, chemicals, glass – and the local governments finance factories by selling land. They cannot do that anymore—there is very high debt, not to mention the huge pollution.



So all of the elements of the GDP are pressured, so it will really be a challenge for Chinese leaders to achieve 7.5%. That's why they need economic reform; that's why they need tremendous industrial restructuring. Many policies are focused on this.



On the military side, the Chinese budget is published at \$130 billion--some say that it is as much as \$200 billion—but still, this is a lot less than the US, which is about \$525 billion.

HOST: Isn't it rather provocative to be announcing such an increase in military spending at a time when there is real tension right across the region?

KUHN: First of all, the increase is in line with those of the last few years, and the claim is that much of this is just what is needed to take care of the soldiers, whose living standards have not benefited over a number of years. However, what is really relevant to understand is that President Xi Jinping needs to be a strong leader—so his position with the military is extremely important—in order for him to carry out economic reforms for the well-being of the whole country.

HOST: Are you talking about? –

KUHN: So Xi this year, in his first year, has been a stronger leader, initially, in terms of the military, than either of the previous two generations. Supporting the military stronger is essential to effect domestic policy. In terms of international policy, there are issues.

HOST: Okay Robert, you talk about Xi being a strong leader. How much does the world need to care about whether or not his reforms are being enacted?

KUHN: Good question, because we should care. We all should root for China's success, because China's success will be the world's success. A stable, strong China is in the world's best interest – not only in terms of buying products that will improve the economy of the entire world, but creating the stability and confidence in China itself.

So that's good, but please understand it will be a battle to achieve 7.5% growth. There is talk among the bureaucracy, government ministers – quietly – that achieving a legitimate 7.5% will be tough.

HOST: Okay, Robert Kuhn, always good to see you, thanks so much for joining us from Beijing.

