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Interview: Robert Lawrence Kuhn, Ph.D.

Kathleen Campion (Host):

Let's welcome back Robert Kuhn. Robert is a Sinologist, an author and an investment banker. Since 1998, he's been advising the Chinese government on economic policy, and M&A activity as well; and his book, *The Man Who Changed China: The Life and Legacy of Jiang Zemin*, is the number-one bestseller in China right now. Robert, good to have you back.

Robert Lawrence Kuhn, Ph.D., China Expert:

Hi, Kathleen. Pleasure to be here. Lots of exciting news.

Campion:

Big day, yeah. Now, one consensus forming around the decision to revalue the Yuan is that it will head off protectionist sentiment in the US Congress. Do you think it's got that much kick?

Kuhn:

Economically it doesn't, but politically it does. It shows a willingness on China's part to play its increasing role as a responsible nation, as part of the world's integrated global economy. And it doesn't mean it's the last move. It's the beginning. It shows good faith. It was done on China's terms. It always has to be done on China's terms. They could never be seen to be kowtowing or submitting to pressure from a foreign government. That's a political no-no internally, just as we have our issues. So they did it as a surprise. And this was a move they did to show good faith. Everybody recognizes more needs to be done, but it's a good start.

Campion:

Robert, just to pursue that point a little bit, do you mean this message of, "We did it in our own time, on our own terms," needs to be delivered domestically, or internationally?

Kuhn:

Well, the message needs to be delivered domestically, in terms of their own internal politics, and also from an international perspective, it shows that China will play according to the rules. But it will still do it to protect its own national interest. It's not going to be a reflex reaction when Washington or London or Tokyo says, "Jump," and they say, "How high?". That will not happen. From our point of view, I've heard commentators say that the revaluation should have been 10 percent, and the real value of the Yuan is 25 to 40 percent higher than it is, and this is just a token and meaningless gesture. And in fact, it's not meaningless. The change is a significant one. China has to manage its own economy to prevent the perturbations, and at 25 to 40 percent, those numbers we've heard bandied about, would be true in an ideal world where everyone was rational, and where China and America were the only players, and the only issue was pure supply and demand economics. But that's not the case.

Campion:

Would you expect a further revaluation this year?

Kuhn:

I would doubt that it would be this year, but one never knows. I would expect some gradual evolutionary moves that will not exacerbate their domestic political sentiments. So I would look for a series of gradual moves in the very small percentages that we've seen today over time. But we should not wish for a great deal more, because stability, for everyone's sake, is the most important thing, and politicians in Washington need to understand that.

Campion:

As you've hinted, Chinese-US relations can be prickly. It appears that it was official Washington opposition to the CNOOC bid for Unocal that may have soured CNOOC's chances there. Would you expect, if that's the case, some sort of Chinese government retaliation for that slight?

Kuhn:

I think there already has been some commentary by the foreign ministry in China, which I thought was a little ill-advised, in reaction to Washington, which were not helpful. I think there is probably an underlying nationalistic sentiment, not just in the government, but more importantly in the people, in a lot of young people. You see that in internet chat rooms, and just in common conversation. And that's unhealthy. I think the senior leadership recognizes that China is part of the global economy, that it needs to be integrated, and we have to have our policy in line with America's best long-term interests. And I have said that as Chinese companies begin to emerge from this vast morass of government, and become independent entities – strong independent entities, like CNOOC and Haier, even though they may be owned by the government – they become independent sources of power, and, therefore, contribute to the increasing pluralism in Chinese society. And that's a trend that bodes well in everyone's long-term interest. And we should be encouraging that. We should be reinforcing behaviors that are according to the norms and practices of international markets.

Campion:

So you're really stretching the market play into sociology, economics and politics.

Kuhn:

Well, it's all integrated together. I don't think you can separate one from the other. The markets move tremendously over rumors of political events. And so everything is all tied together in today's world. The entire legitimacy of the Chinese government is founded on economics, on delivering an increasing standard of living, on maintaining a high growth rate, of minimizing unemployment and migrant workers, and income disparity. There's a whole series of very hard issues that they have to deal with. And this is not an isolated country from an American point of view. It's right in our sweet spot of how we live. Our standard of living is really dependent upon China being stable, helping us with prickly international issues like North Korea, and also the integrated economies. If China revalues too much too quickly, not only do they destabilize themselves, but the American standard of living goes down, because goods will be higher priced for the vast majority of Americans. China may withdraw some of its funds from investment in our deficit. They may do that ahead of a revaluation, if it was going to be a big one, in which case it would cost us more money to borrow, for the government to borrow, which would also be inflationary. So you'd have a number of inflationary pressures, so we have to be careful.

Campion:

Right. A lot of those things have been raised today, piecemeal. It's interesting to hear you weave it all together. Let me ask you to help us with the timing here. Our previous guest was telling us he expects a new wave of acquisitions: Chinese companies anxious to acquire US companies for a lot of reasons. But let me ask you this: given the reception that CNOOC – and even Haier – received, do you think that wave is really about to break?

Kuhn:

I wouldn't call it a wave. I'd call it an inevitable trend, and a trend that we should applaud, not hiss at. Provided that American companies – international companies in general – have equal access to the Chinese market. Because that brings economics into a stronger position than the pure political dances of the past. So, provided that we have the opportunities to go into their markets, which we do – it's limited. Certain industries, like media, it's zero. Other industries, it's completely open. In other industries – finance, for example, telecom – it's limited to certain percentages over time. All of that needs to move to a more open market. But as that does, we should then welcome Chinese companies into our market. I don't look for a wave to break. I think the previous gentleman said, "a couple of percentage points cheaper than American companies today." That's right. I think some spreadsheets that are cranking out in China will be recalculated today and see if it makes sense to make an offer for this or that company they may be thinking about. And I think all that's good.

Campion:

All right. We have to leave it there. As always, a pleasure. Thank you, Robert Kuhn, Sinologist, author, and investment banker.