

# Bloomberg Television

November 8, 2012



**Robert Lawrence Kuhn, international corporate strategist, investment banker, China political and economics commentator, and expert on the China business market.**

**HOST:** Dr. Robert Lawrence Kuhn, thank you very much for joining us today.

**KUHN:** It's an auspicious day: the opening of the 18<sup>th</sup> CPC National Congress.



**HOST:** We heard from General Secretary Hu Jintao today. I didn't hear anything necessarily earth shattering or new. What did you hear with your nuanced sense of Chinese politics?

**KUHN:** First of all, the continuity, which is always important. Chinese leaders have to show continuity, without dramatic change, because of the genetic ideology that they're all part of – that it's one-party, it's a continuity.



But, indeed, there are major problems in society, so you have to look for the nuances - discontinuities. We saw an increased emphasis on President Hu Jintao's fundamental theory, the scientific outlook on development, and what it means.

**HOST:** What does it mean?

**KUHN:** In the past, we've had just economic growth as the goal. Growth meant everything. But with growth, came serious problems: sustainable development, with excessive use of resources; social imbalances, between rich and poor, urban and rural, coastal and inland, China's biggest problem; pollution; and corruption. Those are the big four, but there are plenty of others.



Now, what the scientific outlook on development says is this: "All of these issues, in addition to economic growth, are important, so we have balance them in some optimized way." So the more Hu Jintao emphasizes the scientific outlook on development, the more we know that there are problems in society.



**HOST:** A lot of the problems, though, is because it is a government ruled by consensus. Directives are often boiled down to what everyone agrees on, and the marching orders are often watered down. How do we know what reform is? It's an over-arching umbrella word and we don't know what it means. How do we know that it's not just going to be lip service, that there will be actual reforms?

**KUHN:** It's a complex question. First of all, the source of power is the Standing Committee of the Politburo. That is the source. We have a number one leader, and we expect it to be Xi Jinping. Number two is the premier, Li Keqiang. But they're not all powerful. It's the Standing Committee. There are nine members today; they all have equal votes.



One of the things we've heard is that the Standing Committee will be shrunk to seven. That's very significant, because consensus is required. Senior leaders are saying we need a smaller group so we can make changes more effectively.



There won't be radical reform, radical change. But for China, with a 1.3 billion people, the world's second largest GDP, I'm not sure we want radical change. Stability is important. Without stability, China could be devastated and the world would suffer. So we want stability, and yet we want reform at the same time.

I've said that reform is always risky, but today in China, and in Chinese society, the risk of not reforming can be greater than the risk of reforming.



**HOST:** When that curtain unveils at the end of the Congress and we get that new seven or nine member Politburo, what are you going to be looking for? You have, on the one side, the propaganda director, but also you have reformers possibly in the mix. Are hardliners winning out right now, or is it somewhere in between?

**KUHN:** I'll tell you on the 15<sup>th</sup>, when they walk out and we know. Because anything can change before then. But I'll tell you this now: the Western media, in general, has a very one-dimensional, simplistic view of China's leaders.



Frankly, of the ten potential members of the new Politburo Standing Committee, I know seven personally, some over many years. And the stereotypes that the West have are not correct. All the candidates are highly experienced: one of the key characteristics is that most of them will have run two major provinces as either governor or Party secretary. These provinces have 50 to 100 million people, a GDP of 300 billion to a trillion dollars. They're like countries. These individuals have run two or more "countries," so the group is extremely experienced.

**HOST:** And they didn't get to where they are by playing just one faction. They're probably playing both side of the fence, aren't they?

**KUHN:** Well, it's not a question about playing both sides of the fence, as much as trying to understand the problems of society and trying to adjudicate them collectively, keeping stability, but yet, going for reform. It's not easy.



**HOST:** Now China's become very much more assertive. Is that going to be something which we're going to see even more of over the next five years?

**KUHN:** China's leaders will have to show a degree of strength regarding China's sovereignty. They cannot appear "soft" in the initial period of the transition because, given the nationalism of the country, it'd be impossible to maintain public support. So look for a strong China. But in reality, China's leaders recognize, just as we've said, that stability is absolutely essential for the continuation of economic development, which is the priority. China's new leaders will have to maintain the confidence of the people and that means they will have to take a strong position regarding sovereignty issues.

**HOST:** So they are playing with fire possibly here as well?

**KUHN:** We've seen in the past where the leaders will allow students to express nationalistic emotions for a short time, but then they will constrain them because they fear loss of control. It's a fine balance between maintaining the confidence of the Chinese people regarding sovereignty, while at the same time giving other countries confidence that China is a stable, reliable partner for world prosperity.



China today is very different. China today is tightly tied to the world economy, so they must maintain a proper image in the world, or other countries won't buy their products. So foreign policy a critical issue. Leaders have to find a fine balance.





**HOST:** Well absolutely, and they invested quite a lot of money, and time, in the relationship with Barack Obama. They must be relaxing here in Beijing today.

**KUHN:** China is very much focusing at its own issues at this point, and the arrival of new leaders here. China's leaders are quite aware of the American political campaign, recognizing that China is a bit of a "punching bag" at this point, with both sides bashing China to gain political advantage. Chinese leaders were a little more concerned about Mitt Romney because of his statements about what he'd do on "day one". As for Barack Obama, although China's leaders don't like his "pivot" to Asia, they recognize that he is a known quantity. So I don't think the US presidential election is a big deal here. People are focused on what's happening at the Party Congress and the arrival of China's new leaders.



**HOST:** Thank you very much, Dr. Robert Kuhn, author of "How China's Leaders Think".