

Bloomberg TV — “China's NPC to Bring Stability, Not Policy Change”

March 4, 2012



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



Susan Li, Host:

Let's bring in a man who has unprecedented access to China's leaders. Robert Lawrence Kuhn, qualified because wrote the book How China's Leaders Think, joins us this morning live from Glendale, California.

Robert, good to have you on the program and I'm very interested to hear your comments.

Kuhn:

Good morning.

Li:

What about happiness? We were just talking about this, and we didn't hear this from the Chinese Premier Wen Jiabao. Is it all about economic growth in 2012, considering there are so many headwinds that China has to grapple with?

Kuhn:

China's leaders are talking about the people's *well-being*. So President Hu Jintao, before the congresses began, spoke about the importance of improving the *well-being* of the Chinese people, which includes social security, a rebalancing of the destabilizing imbalances in economics between different classes and geographies, and also the healthcare and the medical system, which very badly needs reform. That's what the focus is today.

And the fact that the Chinese government proposes a 7.5% targeted growth rate, and the markets have reacted so poorly to it, shows a kind of myopic approach. Because the Chinese leadership believes that slightly lowering the growth targets will enable them to rebalance the economy — seeking greater equality between social classes. China's leaders plan a more proactive fiscal policy, so that they can invest in well-being, healthcare, etc. And this policy will work toward ensuring a greater stability for the future. And in China, stability is more important than anything else. It's true all the time, but it's especially true now in this change-of-leadership year. Everybody is focused on stability, and the plan is designed to maintain that stability as best they can.

Li:

And Robert, maybe you can provide some insight into the psychology



here, because the markets reacted to 7.5% growth with, “Oh my goodness! Is China headed towards a hard landing?” That’s not necessarily the case. Because they set a base case scenario and the economic growth usually beats those forecasts.

Kuhn:

Every year they’ve been beating it, but where they set it is an important criterion to understand their thinking. It’s also important to factor in the inflation rate. Inflation last year was high, unacceptably high. So now they’ve set it at 4%. Inflation is very important because rising prices hit people immediately. People go out and buy milk or groceries, and instantly, they feel the impact of inflation. And that could cause instability. So the government wants to be proactive fiscally, to spend on people’s well-being to improve people’s lots, particularly in healthcare and social security, but also to have a prudent monetary policy to make sure that inflation doesn’t get out of control, in order to maintain that all-important stability.

Li:

That’s right, and there are also a lot of housing subsidies as well. We’re looking at 36 million homes being built for those that can’t afford housing right now.

But Robert, I really want to touch upon the change in leadership. We all know that we’re going to have a new president. Xi Jinping is a man that you’ve met, by the way, interestingly enough. What kind of person is he? What kind of leader do you think he will be for China?

Kuhn:

Xi Jinping, whom I just was with in Los Angeles, is a man who is very comfortable in his own skin. He’s self-confident, not in a cocky way at all, but befitting his background and experience. His father was a Vice Premier, one of the great reformers under Deng Xiaoping, and his father, and his family, and Xi himself, suffered terribly during the Cultural Revolution. So he knows both sides of it.

And then for 25 years, he was in the grassroots administration of the country, leading two major provinces, Fujian and Zhejiang Provinces, one as Governor and one as Party Secretary. He then spent time as Party Secretary of Shanghai, running China’s commercial center, so he has had experience at all levels in administration. And he has managed, as the senior leader, three major regions, each the size and complexity of a major European nation.

So that’s Xi Jinping’s background—very stable, very experienced, very confident. His wife, as we all know, is a very famous folk singer. Up until about five years ago, she was more famous than he was!





And so, I look forward to, not a change in policy, but perhaps a change in style—an openness, a receptivity, someone who has dealt with foreign CEOs and foreign leaders throughout his career in running these provinces, a certain level of sophistication.



And the important thing to know about China's governance is that it is not just about the one senior leader. China is not a dictatorship the way many people in the West imagine it. China is an *authoritarian* government, but not a totalitarian one. China is run by the Party, and the Party will be led by the nine members of the Standing Committee of the Politburo. The president, who is head of the Party, will be one of the nine—first among equals—but those other eight members are very important. Most of the remaining members have been determined, but not all.



So all eyes are on Beijing during the congressional sessions as we watch the tea leaves, so to speak—who's talking to whom, who says what. Because those nine people, who we'll know in October, are vital for determining China's future.

Li:

Is that what we're watching out for at the NPC this year? Because some people say it's pretty much status quo, considering we do have a leadership change. Do we have a watch out on who's going to be part of these nine members of this Standing Committee of the Politburo? And what are the policies that you are expecting that could have ramifications on the markets?

Kuhn:

We won't know the exact make-up until the Fall, after the 18th Party Congress...the day after, in fact. But we can begin to see during these congresses who's more visible and who's less visible.



We will certainly see stable policies. Stability will be, by far, the most important thing. Chinese leadership will not want to have any perturbations in the economy—controlling inflation, as I said, is uppermost.



China's leaders will not want any ideas of controversy among the coming leaders. In fact, there will be last-minute jockeying, as we would expect, for those final positions, which will determine the policy coalitions as the country moves forward.



So I do not expect to see any dramatic change of policy at all during these congresses, just the opposite. It will be stability, stability, stability. But we may be able to see hints of who are the leaders for the future.

Li:

Great talking to you this morning, Robert. Thank you for sharing your insights. Robert Lawrence Kuhn.