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Kuhn Foundation Chairman Robert Kuhn discusses the National People's Congress; says Xi is calling for "Massive Reforms." He speaks with Susan Li on Bloomberg Television's "First Up."

HOST: Robert, we are about to get underway in Beijing with the NPC, set to take off today. What do you think will be the most important thing you'll hear at this two-week session?



KUHN: We have to look at several different axes of information. First, which positions will be given to which leaders? Who will have what portfolio? In China, as in no other country, the policies of the country are dependent on the personalities of the leaders. So who has what portfolio is the first signal.

Secondly, social issues are the big thing in China today. Everybody's talking about it – healthcare, pollution, food safety. These are the gut issues. And we want to see the policies that are going to happen.



Thirdly, I would look for governmental reforms. What will happen to the bureaucracy? We've had many rumors about the collapse of ministries, making super ministries. Streamlining the bureaucracy seems to have slowed a little bit. Some will happen – Ministry of Railways. We have to watch for signals about policies and reform.



But the over-arching point is how will resources be allocated? What will be the new balance between governmental and private-sector and social decision making. How will that happen? What will be the signals that will be sent about reform? When the Chinese leaders talk about reform – and this applies to General Secretary Xi Jinping, who will be president soon and Li Keqiang, who will be premier soon – they do not mean it in the "multi-party, democratic-elections way" that we mean in the West. They mean economic reform—very significant, systemic, economic reform. How it will actually work is the big signal. It won't happen immediately, but the initial signals will be critical.



HOST: Mr. Kuhn, you had private meetings with Xi Jinping, the incoming Chinese president. What kind of man is he? You're using the term reformer, and people have expectations and hope that he will be a reformer. But some recent moves, including the kind of clamp down on media, suggest the opposite. What kind of man is he?



KUHN: Let's look at what he did within weeks after he became CPC general secretary in November. Just a few weeks later, he was talking very strongly about corruption. He laid down significant new rules for official behavior, such as eliminating the pomp and privileges of officials. This had dramatic impact. He talked about eliminating "empty talk." I know this is not just rhetoric because I was with him, literally one-on-one with our translators, in 2006, when he was Party Secretary of Zhejiang province. And he was telling me some of the same things. He was saying back then, "China has advanced and we're very proud of it, but really we



shouldn't be very complacent, and we shouldn't be smug, because China has even further to go than where we've come." So Xi believes it is very important to continue to reform, continue to press forward – not in a revolutionary way, that's not his personality.



Xi Jinping has a quiet confidence about him that doesn't lead to histrionics and personal aggrandizement, but rather is based on his long history in grassroots administration; his family's history as one of the founders of China; the suffering he endured during the Cultural Revolution; and his long-standing closeness to the military, more than any other recent leader in China. All of these together lead to his confidence – not a smugness, but deep knowledge. The danger, as his senior people have told me, is high expectations of the people. Xi is no magician. He'll only do his best.



HOST: Mr. Kuhn, you're talking about social reform. Let's shift to economic reform. What are Xi Jinping's intentions for China's economy?



KUHN: We need to look at both Xi Jinping and Li Keqiang. Li Keqiang will be in charge of the government. Together they will set policy, which Li Keqiang and the new state council will administer. It's a mistake to look at short-term stock perturbations as reflective of anything other than market expectations. The leaders will be looking at long-term stability: what it will take to ensure stability, so that they will be able to implement the reforms. And the key element to reform is, how can they allocate more decision making to market forces without undermining the whole system?



Because in today's China, the problem is not ideology, as it was in the '80s. Dramatic differences in ideology are gone. But now, because of China's great growth, there are vested interests. Very strong vested interests in many sectors, controlled by state-owned enterprises. These enterprises are often more powerful, more wealthy and more directly responsible for the economy. than the ministries to whom they report. That's an oddity about China today. So how the new leaders will deal with these kinds of vested interests—whether to breaking them up—is key.



HOST: Mr. Kuhn, who's going to help them reform the economy? Is Zhou Xiaochuan going to stay on as a central bank governor?



KUHN: That's what we hear, which is an interesting decision because retirement ages have been strictly followed in China. But an exception is now made with Zhou Xiaochuan in the People's Bank of China, even though he's past retirement age of 65 for a full minister. He is not in the Central Committee. This is a special provision because of his experience in maintaining stability and keeping reform going. Stability is a key element of reform, necessary but not sufficient. But China's new leaders must do more than maintain stability. They must move forward. It's one thing to set the platform, but what are the next steps? What will they do with state-owned enterprises, interest rate reform, pricing reforms, allowing private business and foreign entities to enter various industries? These are the issues we have to follow.