

'Indian companies could have the best time in China now with the change in leadership'

ROBERT KUHN, advisor to Ernst and Young Global and someone who has been advising China's leadership for over two decades on economic and industrial policy, tells **Nayanima Basu** in an interview how the new leadership in China is going to create an environment that will be pro-business. Kuhn, who advised the US visit of China Vice-President Xi Jinping, who will become President this year, said the India-China relationship could become one of the world's most defining. Edited excerpts:

The Indian and Chinese economies are driving Asian growth even as the European Union (EU) struggles to come out of recession and the US crawls back to recovery. Do you see the two economies as engines of global growth as well or is it the other way round that as advanced economies grow, we will falter?

What is absolutely clear is that both India and China will have a larger percentage of growth. The world is dramatically changing from the past. India and China are becoming more and more important. We are all linked together today. So, if one falters, the other will fail as well. In today's scenario, a competitive relationship between countries is absurd. The other issue is the long-term development and inexorable trend for China and India to continue to have larger share in world GDP. So, that is a very natural competition and synergy. I believe that not as much attention is being paid to Sino-Indian business relations as should be.

The Chinese economy grew 7.8 per cent in 2012, the weakest since 1999, and India's economy is projected by the government to grow a decade low of five per cent in

2012-13. Are we paying the price for actions committed by others (Eurozone and US) or these also reflect action inertia in our countries?

The growth rates, according to me, which China and India registered or will register, are still not bad. We view those trends as small growth in the short-term but these are decent growth rates. How India and China can work towards sustaining these is the real issue. Both have to work together in a way that it is good for both countries. But not many understand that even if these growth rates are considered slow, these are indeed very impressive growth rates.



ROBERT KUHN
Advisor to Ernst
and Young Global

How do you view the new leadership in China?

In China, you have a new government which has very business-savvy individuals. Most of them have run major Chinese provinces, so they know from a functional point of view, the importance of business, the importance of foreign investment and international practice and are very sophisticated people, which is a good sign. They are going to be very dedicated to building business and that trickles down immediately. Leaders in China have an immediate impact on businesses and



things happen instantly. But that is not the case in democratic countries such as India where it never makes a difference what the leadership is saying in terms of doing business at the local level. That is true for even the US. There is a total disconnect. In China, it is quite the opposite. I think the new leaders of China want to do good business with India.

You mean to say as the new leadership slowly takes charge, it will engage with India more?

Well, it is not that slow. It is interesting that the general expectation was that it would be slow because that is the Chinese way. But it is not that way because the new leaders are taking control much more quickly and rapidly than what was expected. Their main agenda has to be definitely domestic, they have to address the

social imbalance issues. But they all appreciate the importance of business because of world-class standard practices and they all are promoting business strongly. I think we are entering a time period when Indian companies could have their best opportunities in China to do things properly. The best areas of opportunity would be serving poor Chinese people and Indian companies can be pioneers in that as they were in producing low-cost cell phones. There may be other areas where India's experience in working with its poor can be appreciated in China. India can, for instance, come in the healthcare industry, in terms of pharmaceuticals, through broad-based cheap drugs for the masses.

You mean the new leaders will be different from the old leadership?

The new leadership will have greater sensitivity of the importance of business. They ran provinces so they are used to dealing with it on a regular basis. They are CEOs of major companies so that alone indicates a trend. These leaders are real doers. In China, provinces have the power to do business. So, I see a much greater business appreciation by the new leaders.

India's currency's relative strength is changing as the US and China are engaged in a currency war. What prescriptions do you have for the two countries in this respect?

The Chinese currency is on a

long-term strategic trajectory. So, keeping control and maintaining stability is the key. They will do whatever is necessary to maintain stability. China wants to become a world centre of finance and economics and it cannot do so unless it has a convertible currency eventually. So, I expect it will be fully convertible, maybe in 10 years, and gradually, there will be an internationalisation of the currency so that settlements are done in the yuan. This is going to be an inevitable trend. They want the same powers as the dollar.

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with the change in leadership: Robert Kuhn

Interview with Advisor to Ernst and Young Global



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India has a huge trade imbalance vis-a-vis China. What do you think India should do to address that concern?

It is not only a trade imbalance in terms of numbers but in terms of quality and raw material. This is a real problem and it is unsustainable the way it currently is. And I think China will recognise that. There are two factors involved in this. The main factor is where Indian companies can be legitimately competitive in the world and the second is the policy support that the Chinese government has is to respect India as critical global partners for prosperity that China needs. So, I think there is going to be greater commitment from the Chinese leadership to support the China-India relationship.

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