

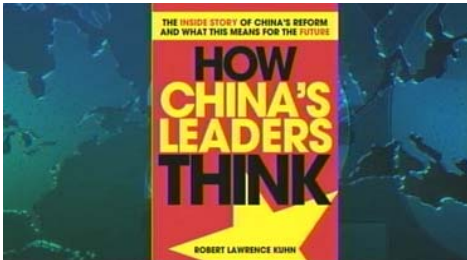
# CNBC "Power Lunch" – October 23, 2009

## Robert Lawrence Kuhn



**SIMON HOBBS (CO-HOST):** The push for China to revalue the Yuan appears to be picking up steam. In an op-ed in today's New York Times, Paul Krugman says China's bad behavior is a growing threat to the global economy. Will China make a move on its currency? **Joining us now is long-time China adviser, Robert Lawrence Kuhn**, also a senior advisor to Citigroup. He's the author, importantly, of a new book, **HOW CHINA'S LEADERS THINK**.

What's your view on the Yuan, and what's their view on the Yuan?



**ROBERT LAWRENCE KUHN:** The most important thing for Chinese leaders is the stability of the country, which is necessary to provide the opportunity for them to deal with some very serious domestic problems – particularly social imbalances in income, and also employment, pollution, and other problems that can lead to instability. So of all the things that China's leaders think, that's number one: how to maintain stability.

**MICHELLE CARUSO-CABRERA (CO-HOST):** And how's that related to the currency? Does that mean the Yuan floats, doesn't float, what?



**KUHN:** Stability means that China's leaders will do whatever they think, at any given moment, is required to protect stability, and that includes the currency. They do want to maintain exports. To maintain exports, the currency cannot appreciate, from their perspective, more than a modest amount. As we know from when they decoupled the currency and allowed it to float, the yuan increased about 20 percent and was increasing until the financial crisis. And then, China's leaders put a lid on it. So for the last year or so, it's been relatively stable. I don't look for any dramatic change soon.



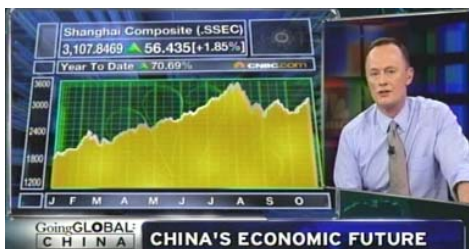
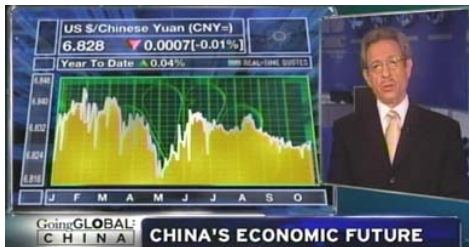
**DENNIS KNEALE (CO-HOST):** From the U.S. perspective, Robert, it just seems like the more we pressure them to do something about their currency, the more they resist. The Chinese hate being told what to do, right?



**KUHN:** That's absolutely right. That's a way of thinking that goes back a long time. External pressure never worked with China, even when the country was weak. Whenever foreigners applied pressure, Chinese leaders would resist, go the other direction. So avoiding pressuring China is very wise advice. That's not the best way to go about effecting constructive change. The best way is to work together behind the scenes to look for win-win situations – and I believe such coordinated success is there to be achieved, because a great deal of the stability and prosperity of the world over the next decade will depend on the United States and China working together.



**SUE HERERA (CO-HOST):** Dr. Kuhn, it was really fascinating to read your book. First of all, you had access, which I don't think anybody has ever had, to the large number of people at the top in China. You have a chapter called "The Economic Future, How Far Can China Go?", and there's a passage where you quote one of the Politburo members who says, "Can you imagine if we had done what Robert Zoellick, now president of the World Bank, had advised us to do? He advised us to be totally linked, and if we had done that, as many had implored us, what a disaster it would have been."



Given the state of world economies, Chinese leaders have a pretty valid point, do they not? They went by the straight and narrow. They didn't completely link. They don't have a lot of debt. They're sitting on a hoard of cash. And they're our biggest investors. It sounds like they did it the right way, from this anyway (*holding up the book, HOW CHINA'S LEADERS THINK*).

**KUHN:** Not only that, but if you go back a decade or so, the big story was the anticipated implosion of Chinese financial institutions. All the major banks were effectively bankrupt. Every international expert was advising them what they had to do. Today if you look at the market cap of the largest banks in the world, three or four of them are Chinese. But when China leaders look upon what they've accomplished, they certainly don't think they're perfect (and they warn against complacency and overestimation of achievements). They know they have a huge number of problems, but they are determined: "We've got to deal with our problems, and we must maintain stability to do so."

**SIMON HOBBS (CO-HOST):** On that very theme that you are highlighting there, is there a perception, amongst the people that you spoke to, that China is grabbing a moment in time? When the big powers, notably the United States, are distracted by the obvious problems – I'm thinking particularly about buying up the energy companies, the oil companies, in Canada, West Africa and Latin America. Because China is able to combine these huge financial reserves with a public sector that has a direction. And arguably, in a mixed economy, the public and the private are split, like you see in the United States.

**KUHN:** You bring up an extremely important point, but it is less a pre-planned strategy than a reaction to the startling events that have occurred. Chinese leaders would have preferred to wait 10, 15, 20 years – to get their domestic house in order, to get the social imbalances corrected – before taking a more active role on the world scene. The financial crisis changed their way of thinking; I saw this at the end of 2008 and the beginning of 2009 as I was preparing my new book, *HOW CHINA'S LEADERS THINK*. Suddenly China's leaders realized they must focus internationally, assume new responsibilities for peace and prosperity – they have no choice – they must be on the forefront or world economics, politics. This includes Chinese companies out operating in world marketplaces, engaged in M&A—though cautiously, concerned about public reaction. China leaders have no options now. They are spending a much higher percentage of their own time on international affairs. This is not what they had planned. It's something that has been impelled on them by the financial crisis, and this is how they now think.

**SUE HERERA (CO-HOST):** It's about stability like you said. Good luck with the book.