

# Changes and challenges

By Robert Lawrence Kuhn

China makes news. Stories about corporate takeovers, trade disputes, diplomatic rivalries and military tensions fill the American media, and scare screeds about "Communist China" that sound like Cold War satire are taken seriously.

Consistent bilateral relations between America and China are essential for the peace and prosperity of the 21st century, and for this reason such misperceptions are disturbing and potentially dangerous. Americans should know the inner attitudes and primary concerns of China's new leaders, especially those of President Hu Jintao.

Recent history provides backdrop.

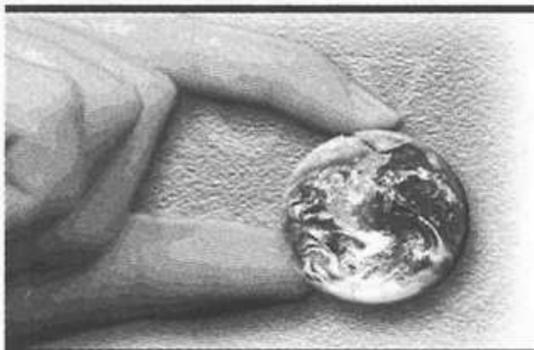
After a century of foreign subjugation and decades of ideologically induced oppression, Deng Xiaoping initiated revolutionary reforms in 1978, two years after Mao Zedong's death. These reforms became irreversible and the economy developed dramatically during the period of Jiang Zemin's leadership from 1989 to 2002.

When asked what I've seen to be the country's greatest change since I first came to China in 1989, I answer that economic development, as remarkable and historic as it has been, is China's second most important change. China's greatest change is the mentality and spirit of its people – their attitudes and outlooks, expansive thinking, confidence in themselves and their country, and enthusiasm to reach out to the world.

But China has serious, systemic problems – income disparity, fragile financial systems, sustainable development, unemployment, migrant workers, corruption, energy constraints, environmental pollution, family and moral values, and more. Some problems result from dramatic economic growth; some from rapid transition to a market economy; some from need of social and political reform.

President Hu acknowledged that "The problems and contradictions China will face in the next decades may be even more complicated and thorny than others...with its social structure and ideological set-up also in major shake-up." Furthermore independent thinking of the general public, their newly developed penchant for independent choices and thus the widening gap of ideas among different social strata will pose further challenges to China's policy makers.

China's fundamental problem is a dependency on growth combined with a widening gap between rich and poor, imbalances that the Communist Party calls China's "most serious social problem." China must grow because, with tens of millions of farmers needing to be relocated to cities, millions of workers laid off from State-owned enterprises,



## VIEWFINDER

and with legions of young people entering the workforce, unemployment could threaten social stability.

President Hu Jintao is now faced with the natural consequences of the country's prodigious economic transformation, which has spawned complex and interwoven challenges. China's leaders know that they must be flexible, innovate, consider diverse opinions, and make measured decisions.

President Hu's overarching vision is summarized by three slogans – "Harmonious Society" (*he xie she hui*) and "Scientific Development Perspective" (*ke xue fa zhan guan*) domestically, and "Peaceful Rise" (*he ping jue qi*) internationally. Harmonious Society stresses social and political reform and seeks fairness and equity across China's diverse populations and geographies; Scientific Development Perspective stresses integrated sets of solutions to arrays of economic, social and environmental problems, and seeks the rectification of economic imbalances and the institutionalization of sustainable development; and Peaceful Rise conveys that no matter how strong China will become, it will remain a bulwark of stability in the world and it will never threaten its neighbours.

One application of Scientific Development Perspective is the recent rejection by a coastal county of a large investment in a battery factory because of pollution. Another is a huge investment by the municipality of Tianjin in a world-class hospital (Tianjin Medical University General Hospital) with a "Health Management Centre" to promote healthy lifestyles and prevent illness.

It is true that many of China's current problems are the inevitable side effects of rapid economic development, which, of necessity, had to occur in an unbalanced way. Without economic development, everyone is equal but poor – everyone is equally poor. China must prevent the trauma of social disruptions by getting out ahead of the historical trends and implementing sophisticated, nuanced policies. Economic development had to come first, but now a more complex agenda of social and political requirements must be integrated and optimized with pure economic growth. This is the only way

to represent the fundamental interests of the people and this is the primary thrust of President Hu's Scientific Development Perspective.

Hu Jintao continues the Party's modernization, calling for both "Advancement" of the Party and its increasing transparency, thus creating a "democracy of the elite" (which is my term, not China's), which means increasing democracy within the Party and the Party continuing to lead the country. President Hu's political philosophy stresses closeness to people; people first; transparency in government; increasing democracy and openness in the Party; progressive democracy in society (where propitious); continued economic development; and an all-around pragmatism. Hu's commitment to promote democracy is tempered by the higher good of social stability.

Western criticism of President Hu, particularly regarding human rights, highlights his sensitivity to social stability but misses his fresh commitment to address China's multifaceted problems. Hu's pragmatic, non-ideological agenda has three core values – maintaining social stability to further economic development; instituting social fairness and rectifying imbalances; and sustaining Chinese culture to secure national sovereignty and enrich people's lives. Such realism increases confidence that China, notwithstanding its problems, will maintain its remarkable development.

What emerges in the view of President Hu is the "China Model," a systematic approach to national structure and development that combines dynamic economic growth, a free market energized by a vigorous "non-public" (private) sector, concern for the welfare of all citizens, cultural enrichment, and a synergistic approach to rectify economic imbalances (Scientific Development Perspective) and ensure social fairness – all of which lead, in Hu's vision, to a Harmonious Society. Beijing sees its China Model as an alternative to Washington's Western Democracy Model, particularly for developing countries.

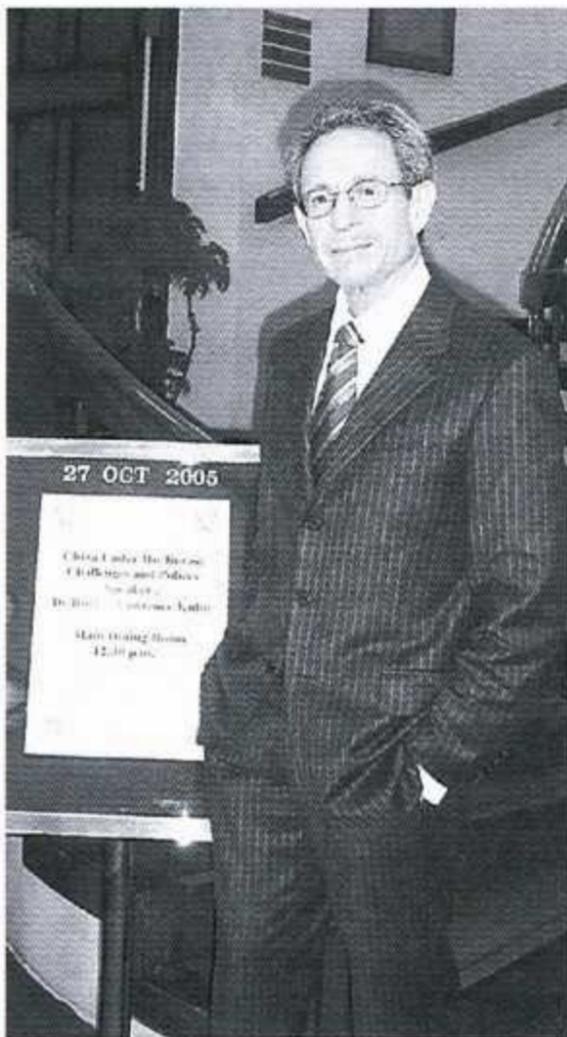
In President Hu's words, "A harmonious society should feature democracy, the rule of law, equality, justice, sincerity, amity and vitality." Such a society, he says, will give full scope to people's talent and creativity, enable all the people to share the wealth brought by reform and development, and forge an ever closer bond between the people and government.

The author, senior advisor, Investment Banking, Citigroup, is the author of *The Man Who Changed China: The Life and Legacy of Jiang Zemin*, the best-selling book of 2005 in China. The article is based on his speech at the Foreign Correspondents' Club, Hong Kong

## 美国知名企业战略家、作家走访中国19个省

# 我看到的中国变化

库恩·劳伦斯·罗伯特 朱亚当 编译



库恩博士

增长而必然引起的；有些是因向市场经济转化过快而衍生的。中国经济必须依靠快速增长来创造就业机会。

### 中国开始遵循国际惯例

现在，中国经济逐步融入世界经济，私营经济成为国民经济重要组成部分，中

国开始遵循一个负责任的大国该遵循的规则和国际惯例。

胡锦涛主席的执政思想可以用三句话概括——“和谐社会”、“科学发展观”和“和平发展”。“和谐社会”强调社会和政治改革，寻求中国不同群体和地域的平等和社会的公平；“科学发展观”强调经济、社会和环境问题的综合性解决方案，寻求对经济发展不平衡的调整以及可持续发展的制度化；“和平发展”表达了无论中国多么强大，都将永远维护世界和平稳定，绝不威胁邻国。

### 中国当前的形势与美国当时并不一样

就美国发展史而言，尽管花的时间更长、人口压力没有中国大，但美国也走过同样的路。20世纪30年代，美国还遭受了经济大萧条袭击。富兰克林·罗斯福总统采取了新措施应对——政府介入控制经济。例如，加强对垄断集团的监管、保持劳资关系平衡等等。美国政府也尽量避免损害激励企业家继续创造新财富的机制。

中国当前的形势与美国当时并不一样，但其原理有些可以适用。中国必须通过采取“与时俱进”的态度，制定并执行与社会发展状况相符的政策。过去经济发展摆在首位，但现在一个结合当前社会和政治需求的复杂日程必须与原来单纯强调经济增长的政策综合起来，进行有机结合并进行最优化考虑。

### 西方批评无碍中国发展

一位官员表示，为了避免严重社会分

化情况的出现，中国的民主进程仍需按照适合中国自己的速度推进。

他还举例说明了中国一些民主的进步举措，现在政府和立法机构在决策过程中，会经常邀请公民提出他们的意见和看法。例如，最近

全国人民代表大会在讨论物权法案和征收个人所得税的起征点两个立法过程中，就公开听取了公民的意见和收集反馈信函。

一位官员曾对我感慨：无论中国怎么做，西方媒体总批评中国政府。他举了现场直播神舟六号载人飞船发射的例子。他说，如果中国发生像美国“挑战者”号那样的悲剧会令国人伤痛。“但西方媒体一直批评中国政府操纵媒体”，他说，“因此我们决定对神舟六号的发射现场直播。结果呢？一些外国媒体却指责中国利用现场直播来（显示国力）恐吓邻国！”

胡锦涛主席注重实效，他的国内政策包含三个关键因素——维持社会稳定，争取进一步经济发展；建立社会平等和公平机制，校正失衡状况；为了维护国家主权和丰富人民生活继续弘扬中国文化。尽管中国仍存在许多问题，但是胡锦涛的这些务实措施增强了人们对中国将继续高速发展的信心。

### “中国模式”把中国带入“和谐社会”

这种特殊的体制和执政方式构成了当代的“中国模式”。这一模式是用全局性和系统性的方式来考虑整体社会各方面的发展。其政策包括继续推进快速的经济增长以及发展有“非公有制”经济起着积极作用的自由市场经济、持续加强政治管理、增加公民个人自由、关注公民福利、丰富文化生活和调整经济发展的不平衡（科学发展观）与保证社会的公平——所有这些政策的实施将把中国带入到胡锦涛提出来的“和谐社会”。▲

编者按：库恩·劳伦斯·罗伯特博士是美国一位知名投资银行家、企业战略家、作家和编辑，美国花旗集团投资银行的高级顾问，也是2005年中国最畅销书《他改变了中国：江泽民传》的作者。他最近走访了中国19个省份的32个城市。库恩博士经常就中国问题接受国际媒体采访，并就中国话题撰写评论文章和演讲。本文是他一篇演讲稿的节选。

### 中国最大的变化是人民的思想和精神

中国一直被新闻媒体广为报道。有关中国企业国际收购、与其他国家的贸易纠纷、外交摩擦和军事紧张局势等消息充斥美国媒体，还常常配以“共产党中国”之类这种听起来像是冷战时期的词汇，对中国加以描绘。不错，稳定的中美双边关系对于21世纪的和平与繁荣非常关键，也正因如此，那些对中国的误解是十分有害甚至是十分危险的。美国人应该了解中国新一代领导人的想法和关注的事情，特别是胡锦涛主席的执政理念以及他所关心和重视的工作。要了解中国的今天，我们不妨从近代史的角度来分析。

在经过一个多世纪的外国凌辱与侵略及几十年的意识形态演变后，邓小平在毛泽东逝世后的1978年开始实施改革。特别是在江泽民领导时期，更是走上了一条不可逆转的改革之路，中国经济取得了飞速发展，老百姓个人享有的自由也是中国有史以来最为广泛的。

每当我被问及首次来华到现在，我所见到中国最大的变化是什么时，我的答案是：尽管中国的经济取得了辉煌的历史性发展，但我仍然认为经济上的变化只是我所看到的第二个最大变化；中国真正最大的变化是人民的思想和精神——他们的看法和见解、开放性的思维、对自己国家和人民的自信、他们走上世界舞台时所表现的那种热情，还有他们现实生活中所拥有的个人自由。

当然，中国也存在着问题——贫富悬殊、财政系统脆弱、维持可持续性发展的障碍等等。有些问题是因为过快的经济

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北京地区天气预报

白天 阴 部分地区  
有小雨转多云  
降水概率 40%  
风向 偏南  
风力 二、三级  
夜间 多云转晴  
降水概率 20%  
风向 南转北  
风力 一、二级  
温度 13℃/3℃

国 际

人 民 日 报

● 专 访

## “我们应当为中国喝彩”

——美国著名国际投资银行家库恩谈科学发展观

本报驻美国记者 唐 勇

罗伯特·劳伦斯·库恩博士是美国著名国际投资银行家和公司战略家,现任花旗集团公司执行董事,也是美国公共广播公司节目制片人和主持人。自 1989 年以来,应中国国家科委之请,库恩一直担任中国经济政策、并购、科技和媒体等方面的顾问。他写的《江泽民传》最近在中国出版发行。这位声誉卓著的中国通如何看待中国政府提出的科学发展观?美国在国家发展战略方面有什么值得中国借鉴的地方?带着这些问题,记者日前对库恩进行了独家采访。

在进入科学发展观这个话题以前,库恩向记者特意强调了两点。第一,中国的国情非常特殊。在短短几十年时间里,中国走过了包括美国在内的许多工业化国家花 100 多年才走过的路程。因此,西方国家的经验可以给中国提供有益的借鉴,但绝非灵丹妙药。第二,从历史的观点来看,发展经济始终是一个国家的头等大事。从理论上讲,经济

发展始终是一个国家的头等大事。从理论上讲,经济

纪 30 年代,经济大萧条冲击美国。富兰克林·罗斯福总统开始转向一种新的发展模式。从此,联邦政府在经济调控中的作用得到前所未有的加强。政府采取了一系列调控措施,比如反垄断、建立全民社会福利网、征收个人所得税,对社会财富进行重新分配,以确保整个社会的相对公平。

库恩说,对中国来说,美国经济大萧条有一个重要启示,那就是:经济发展固然是头等大事,但发展到一定阶段,经济增长必须跟其它方面的社会需要相配套相平衡,只有这样才能正确地反映最广大人民的根本利益。当然,在不同的社会领域实现平衡绝非一朝一夕之功,因为这是一种动态的平衡,所以必须随时进行调整,才能确保平衡的局面不被打破。目前,以胡锦涛总书记为核心的中国新一届领导人正带领中国人民走向新的发展阶段。在这个时候提出科学发展观的发展思路是非常

杂和多元化,政府没有能力也没有必要对所有的东西都作出决策。博弈的结果往往能够让政府专注于宏观调控,从而作出最优化的决策。

库恩提到,为了全面发展文化事业,可以部分借鉴美国文化产业发展的经验。美国发展文化产业的特点是更依赖私营部门而不是靠政府。比如,美国的传统媒体都是私人性质的,即使是公共广播系统,财政来源也主要靠民间私人 and 公司捐赠。这种模式的好处是:它能让公众享受到更丰富多彩的文化节目,同时也让政府摆脱巨大的财政负担。

### 依靠税收杠杆 缩小贫富差距

谈到社会如何协调发展时,库恩说,中国必须保持较高的经济增长速度,否则将很难解决棘手的失业问题。但是经济高速增长又将进一步拉大贫富差距。中国如何既保持高速增长同时又能逐步缩小贫富差距,这是中国政府今天面临的巨大挑战。

库恩建议说,中国政府可以通过税收政策来缩小贫富差距。比如,向那些从事科技研发工作的企业提供更多的政府贷款。一旦研发工作得到鼓励,整个国民经济都将受益匪浅。同样,对那些在贫穷地区投资设厂的企业,政府应该给予特别的税收优惠和特殊贷款。实际上,中国目前已经开始这么做了。这些政策还应该得到进一步强化。

不过,库恩认为,中国政府尚须加强税收法规的执行力度。他说,如果逃税很容易,抗税可以不受处罚,那么税

罗伯特·劳伦斯·库恩博士是美国著名国际投资银行家和公司战略家,现任花旗集团公司执行董事,也是美国公共广播公司节目制片人和主持人。自1989年以来,应中国国家科委之请,库恩一直担任中国经济政策、并购、科技和媒体等方面的顾问。他写的《江泽民传》最近在中国出版发行。这位声誉卓著的中国通如何看待中国政府提出的科学发展观?美国在国家发展战略方面有什么值得中国借鉴的地方?带着这些问题,记者日前对库恩进行了独家采访。

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### 实现均衡发展 确保社会公平

谈到以人为本的发展战略,库恩说,美国也曾经历过与今天中国在经济快速起飞阶段相似的问题。19世纪末和20世纪初是美国的“强盗资本主义”时期。当时极少数美国人积聚和控制了大部分的社会财富,而普通工人工资微薄,几乎难以糊口,享受到的社会福利也少得可怜,工作条件差得简直让人无法忍受。但就是这个“强盗资本主义”阶段在美国历史上发挥了重大作用。它给美国经济注入了极大的活力,使美国一跃成为世界头号工业大国。上个世

纪30年代,经济大萧条冲击美国。富兰克林·罗斯福总统开始转向一种新的发展模式。从此,联邦政府在经济调控中的作用得到前所未有的加强。政府采取了一系列调控措施,比如反垄断、建立全民社会福利网、征收个人所得税,对社会财富进行重新分配,以确保整个社会的相对公平。

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### 建立制约机制 平衡利益冲突

谈到全面发展的战略时,库恩强调,美国社会有一套针对互相冲突的利益进行平衡的机制,通过这种机制可以自然而然地实现政治、经济、社会和文化等的全面发展。

库恩解释说,在美国,垄断性工业公司的经济力量惊人。为了实现均衡发展,美国社会逐步演化出一套有效的社会制约机制。从政府的角度来讲就是反垄断。垄断对国家有百害而无一利,它让消费者承担过高的商品价格,它给公司赚取过高的利润提供了机会,它使科技研发丧失动力。库恩建议说,中国政府可以从西方的模式中吸取经验,让各种利益不同的社会力量相互博弈。今天的社会日益复

民间私人和企业捐赠。这种模式的好处是:它能让公众享受到更丰富多彩的文化节目,同

时也让政府摆脱巨大的财政负担。

### 依靠税收杠杆 缩小贫富差距

谈到社会如何协调发展时,库恩说,中国必须保持较高的经济增长速度,否则将很难解决棘手的失业问题。但是经济高速增长又将进一步拉大贫富差距。中国如何既保持高速增长同时又能够逐步缩小贫富差距,这是中国政府今天面临的巨大挑战。

库恩建议说,中国政府可以通过税收政策来缩小贫富差距。比如,向那些从事科技研发工作的企业提供更多的政府贷款。一旦研发工作得到鼓励,整个国民经济都将受益匪浅。同样,对那些在贫穷地区投资设厂的企业,政府应该给予特别的税收优惠和特殊贷款。实际上,中国目前已经开始这么做了。这些政策还应该得到进一步强化。

不过,库恩认为,中国政府尚须加强税收法规的执行力度。他说,如果逃税很容易,抗税可以不受处罚,那么税收政策将变得毫无意义。库恩说,要让所有人都认识到,一旦逃税,潜在的处罚会远远超过潜在的收益。只有这样,税收政策在帮助实现社会协调发展方面的作用才能显现。

### 利用 NGO 和媒体 监督公司行为

谈到可持续发展问题时,库恩说,在美国,非政府组织(NGO)的力量非常强大。比如民间环保组织能够得到大量个人捐赠,它们在国家实现可持续发展方面立下了汗马功劳。美国的大型石油公司现在都有一个庞大的环境保护部门,大批环保科学家在那里工作,确保公司在能源勘探和开采过程中不对环境造成破坏。没有环保组织长期施加压力,很难想象石油公司会这么做。

库恩认为,实现可持续发展也离不开媒体。美国媒体具有反商业文化的传统,这有助于对大公司巨大的经济影响力构成牵制。最近几年来,往往是美国媒体,而不是美国政府,对一些大公司破坏环境、丧失社会责任的行为进行了有效的监督。美国的司法制度往往也能对大公司的贪婪行为形成制约。

库恩最后说,他对中国政府提出的科学发展观印象深刻,“这是中国政府为全面实现和谐社会和小康社会而推出的发展战略”。库恩说,“我们应当为中国喝彩”,不仅仅为它已经取得的巨大经济成就,也为它为建设和和谐社会而做出的新努力。这项任务比单纯的经济增长要艰巨得多,复杂得多。国际社会应该支持和鼓励中国领导人在这方面表现出的成熟与远见。“我坚信,尽管不应该低估其复杂性和艰巨性,但中国推行科学发展观以建设和和谐社会的努力一定能取得成功。”

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6

星期五

甲申年六月廿一

北京地区天气预报

白天 晴转多云

降水概率 20%

风向 北转南

风力 二、三级

夜间 多云转阴

部分地区有小阵雨

降水概率 40%

风向 南转北

风力 一、二级

温度 32℃/24℃

国 际

人民日报

## 宏观调控利于中国经济发展

### ——访美国花旗集团执行董事库恩博士

本报驻美国记者 刘爱成

中国经济的迅速发展,世人为之惊叹。而目前中国为实现经济软着陆而采取的宏观调控政策,也同样引起不少世界经济学家和金融界人士的关注。

熟悉中国情况的美国著名金融投资专家、花旗集团执行董事罗伯特·库恩博士不仅对中国的经济形势表示关注,而且对中国政府目前采取的宏观调控政策有自己的独到见解。他在接受本报记者专访时,除了支持和赞成中国的宏观调控政策,还提出了一些建设性建议。

#### 多种原因 造成过热

库恩告诉记者,中国非凡的改革给经济注入了巨大活力,同时也出现了一些问题,这是很自然的。在他看来,中国经济出现某些过热现象的主要原因是一些工业领域和行业过多投资造成的。比如房地产的开发,供过于求。许多公司(大多数是国有企业)过多地借贷,过多地投入到“形象工程”,成本高而收效低,它们的行动不是市场的驱使和需求,而是

自己拍脑袋使然。另外,一些政府机构(特别是地方政府)过多地投入了它们看中或喜欢的项目,引起一些问题。比如,过多投资房地产导致钢铁、水泥及其他建筑材料的过分需求,造成对能源供应很大压力。对此,目前中国政府正在适度限制诸如此类的借贷,这种控制是正确、有益的。采取宏观调控,对实现经济稳步发展非常必要。

#### 宏观调控 自然选择

记者问起其他国家如何控制经济过热时,他说,外国的情况与中国有所不同,不能完全照搬。中国从计划经济向市场经济转型是史无前例的,而且现在正在转型之中,因此它与外国的许多情况还是不同的。

他说,在市场经济成熟的国家和地区,如美国对经济的宏观调控主要依赖于货币政策。也就是说政府控制货币供应量和利率,用调整利率来控制个人和企业的借贷,货币政策使市场经济自行调节。比如,通过提高利率减缓经济过热,使它能软着陆,不需要政府出面来决

定哪个行业,哪个企业或哪个地区必须放慢速度或需要政府采取行政措施。当然,如果经济形势特别严峻,不管是经济过热还是需要经济刺激,政府也可以动用其财政政策,这些措施主要是调整政府的开支、借贷和税收政策。在美国历史上,采取这种财政政策多数是在经济衰退期,政府用这样的政策,降低税收或增加政府开支来刺激经济增长。中国目前是在向市场经济过渡中,仍然有大量的国有企业。因此,政府采取包括财政政策在内的行政手段进行宏观调控是非常自然的。

#### 注重平衡 持续发展

他指出,中国在宏观调控方面应注意两个问题:一是“必须将(政府行为的)财政政策和市场经济的货币政策结合起来,这样控制经济过热,比较符合目前中国实情,而不是用外国人开出的用自由市场经济的调控药方”。

二是在宏观调控中,不能完全一刀切,总体来讲不应影响中国的整体经济发展战略。他特别强调,尽管中国经济有过热现象,但保

持经济增长,特别是持续稳步增长,对中国的整体发展仍然至关重要。比如,增长速度较快的高科技行业,它们可能依靠借贷来保证持续高速发展,创造新的就业机会,这有利于国家的科技进步和长足发展。“我的建议是,可以对这样的领域和企业给以特殊考虑和政策,可以保留一些‘例外’”。

再就是像“西部大开发”和“振兴东北老工业基地”等计划,这些关乎提高落后地区人民收入,改善他们的生活及有利于解决经济发展不平衡等大问题,对这些地区也应该“例外”。“当我们讨论经济过热时,并不意味着所有的经济领域和地区都在同一个速度层面上。中国必须处理好地区发展不平衡问题,以便保证中国经济长期持续稳定增长。尤其应继续关注农村地区的经济发展问题,因为农村地区拥有 9 亿多人口。提高农民的年收入也可以增加商品购买力,有利于拉动整个国家的内需。”

他认为,目前中国政府为使经济软着陆所采取的决策是果断、明智的,运作得也不错。但在整体调控中如何选择“例外”,确实比较难。他认为,中国的经济转型是独特的。将来在中国经济变得更加市场化、地区发展逐步达到平衡和社会更加自律的时候,这样的“例外”就自然会慢慢减少或取消,到那个时候,使用货币政策就会明显见效,政府行为就会自然减少。

(本报华盛顿电)

● 专 访

loans, low-cost land, and government research and development subsidies don't necessarily violate WTO rules. Such help is proper, contends Wang Yong, director of Beijing University's Center for International Political Economy. For 20 years, China has given many breaks to lure multinationals, which now dominate markets for cars, cell phones, and other goods. "Keep in mind that the growth we've seen has been mainly driven by foreign-invested companies," Yang says, "while domestic companies have suffered a lot." Besides, subsidies that could be deemed unfair trade practices, such as free loans to steel or paper mills that export, are difficult to document due to weak government and company disclosure.

Aggrieved companies can always file antidumping suits in the U.S. against

**OLYMPIC MASCOT**  
Beijing is determined to stop forgeries



prices. The U.S. slaps penalties on Chinese imports in dozens of cases each year. But the litigation is time-consuming and expensive, especially for small U.S. companies. "We've considered a dumping suit, but a lot of our members don't have the money and time," says Purchasing Manager Zachary J. Mottl of Lyons (Ill.)-based Atlas Tool & Die Works. Mottl is a director of a U.S. association of small manufacturers: Its membership has dropped from 1,600 to 1,200 in six years as many succumbed to super-cheap Chinese imports. "By the time they get a remedy, they already would be bankrupt."

What can be done to achieve radical change? "You will not litigate a country into changing its more important principles on how to run its economy," says a U.S. trade official. Washington can bring Beijing to the bargaining table with WTO threats, but progress will be slow. China the heavyweight will set the rules for some time to come. ■

—With Dexter Roberts in Beijing, Nnette Byrnes in New York, and Michael Arndt in Chicago

## COMMENTARY

BY ROBERT LAWRENCE KUHN

# A Problem of Perception

Why China and the U.S. aren't on the same page

**C**HINESE PRESIDENT Hu Jintao arrives in Seattle next week for his first state visit to the U.S. During meetings with the likes of William H. Gates III, Yale University students, and finally President George W. Bush, there will be plenty of talking. Given the huge geopolitical and economic stakes riding on that dialogue, it's appropriate to ask: Why do China and America have such difficulty communicating?

Sure, the two nations are half a world apart, geographically, historically, and politically. But the cause of their at times cacophonous discourse could lie in something less obvious: the strikingly different academic training of their political leaders.

The majority of American senators and congressmen were schooled as lawyers. But each of China's senior leaders—all nine members of the Politburo's Standing Committee—was trained as an engineer: President Hu in hydropower, Premier Wen Jiabao in geological structure, for instance. Perhaps the difficulties between China and the U.S. lie less with dissimilar languages, cultures, and histories, and more with the divergent ways of thinking between lawyers and engineers.

This is no small difference. Engineers strive for "better," while lawyers prepare for the worst. Failing to appreciate the implications of these different approaches (and the relating styles they engender) can lead to missed signals.

Such miscommunication occurred when a U.S. plane accidentally bombed the Chinese embassy in Belgrade, Yugoslavia in 1999. When the Chinese government

bused students from college campuses across Beijing to the U.S. Embassy to protest, American politicians assumed that Chinese leaders orchestrated the demonstrations to whip up nationalistic fervor. (To lawyers, the evidence was *prima facie*.) In truth, the Chinese leaders—the engineers—worried that if protesting students were allowed to march through the city, their ranks would swell with workers and ordinary citizens, creating an even larger, less manageable problem. So bus-ing them contained, rather than exacerbated, the volatile situation.

Another dichotomy: More than 90% of Chinese, including professionals often critical of their government, saw the bombing as deliberate. But most Americans believed the bombing had been, as U.S. officials claimed, an accident due to the use of "old maps."

Why such disparity? The Chinese have an idealized picture of the U.S. as so technologically advanced that it would have been impossible for it to make such a stupid mistake. Americans, on the other hand, are quite used to their government's stupid mistakes.

More worrisome, most Americans perceive China as an economic predator concerned solely about its own welfare. Beijing does not deny its policies benefit its own people, as any legitimate government's would. But it asserts that in a global economy, China's stability and development are essential for world peace and prosperity. Disturb the former, it warns, and you disrupt the latter. Given that consequence, it's time the lawyers and engineers began communicating better.

**Hint: China's leaders are trained engineers. America's are lawyers**

Robert Lawrence Kuhn, author of *The Man Who Changed China: The Life and Legacy of Jiang Zemin*, is a Senior Advisor at Citigroup Investment Banking



# Talking to China

## What Business Leaders Can Learn from Politicians Mistakes

BY ROBERT LAWRENCE KUHN

**T**he irony about China, a senior Chinese leader told me recently, is that “when for more than a century foreigners thought we were so weak, we weren’t really so weak, and now when foreigners think we are so strong, we aren’t really so strong.”

When American and Chinese political leaders interact, divergent perceptions are common. Ameri-

cans focus on their huge trade imbalances with China, Chinese fret about foreign acquisitions of their companies. Americans envision China as a voracious economic competitor and growing military power; Chinese assert that more than half of its exports—and about 85 percent of high-tech exports—come from foreign-funded firms, and that it needs a strong military to protect its homeland. Ameri-

PHOTO CREDIT HERE

cans see China awash with cash, holding more than \$1 trillion in reserves; Chinese see their vast, poor rural population, 300 million of whom must be moved to urban areas by 2020.

Divergent perceptions are dangerous. In 1999, during NATO's military campaign against ethnic cleansing in Yugoslavia, an American aircraft accidentally bombed the Chinese embassy in Belgrade. When the Chinese government bused college students across Beijing to the U.S. Embassy to protest violently, American politicians assumed that Chinese leaders orchestrated the demonstrations. In truth, the Chinese leaders worried that if protesting students marched through the city to the U.S. Embassy their ranks would swell with workers and common citizens. So the Chinese leaders determined that busing the students would be the best way to contain, and not exacerbate, the volatile situation—precisely the opposite of what American politicians assumed.

To no small degree, the peace and prosperity of the 21st century depends on the bilateral relations between China and America. Good communications are vital for political leaders, and it is no less so for business leaders. Let's explore both.

### Political Communications

**E**ffective political communications require honesty and clarity. The place to start is for each side to explain how it truly feels about the other side. Being frank is often uncomfortable, but if both sides are sincerely interested in reaching agreement, it is often the optimum approach.

Most Chinese believe that America seeks to “contain China” and thwart its historic resurgence as a great nation. This is the real reason, they say, that America supports Taiwan, not as a worthy democracy but as an “unsinkable aircraft carrier” by which America can assert dominance over China and keep the motherland divided. Chinese see America encircling them by military alliances with Japan, Taiwan and perhaps India; forcing open their markets to control China's industries and exploit Chinese consumers; and by introducing Western culture to erode China's independence and sovereignty.

Most Americans believe that China is a determined, monolithic competitor whose intentions appear threatening. They view China as acting solely in its own interests, even to the detriment of the international order—such as by selling weapons to Iran and sustaining North Korea's intransigence. Americans see China as an economic predator that keeps its currency artificially low to boost exports; as a repressed society that tramples human rights to maintain Communist Party control; and as a looming military force that harbors expansionist ambitions.

The Chinese government does not deny that its policies benefit its own people—any legitimate government, they say, should. With 1.4 billion people, the Chinese obsession with stability has been seared into the collective consciousness by a catastrophic political legacy of roiling mass movements that decimated a generation and, nearly, the country. They see China's stability and development as essential for world stability and development.

Disturb the former, they warn, and you disrupt the latter.

America and China should respect each other's thinking. Chinese should appreciate that Americans are genuinely troubled by China's apparent lack of democracy, human rights violations, support of dangerous regimes and huge trade surpluses; this is why China's continuing military build-up is so worrying. Americans should appreciate that China's stability requires a different developmental path due to its different history and culture and to its massive population, and that China's resurgence as a great nation and responsible power is good for the world.

To understand China today one must understand President Hu Jintao's overarching vision, summarized by three slogans: “Harmonious Society” and “Scientific Development Perspective” domestically and “Peaceful Development” internationally. Harmonious Society calls for fairness and equity across China's diverse populations and geographies and embeds careful social, legal and political reforms. Scientific Development Perspective applies optimized sets of solutions to arrays of economic, social and environmental problems seeking to rectify economic imbalances, increase energy conservation, reduce pollution, achieve sustainable development and prioritize innovation. Peaceful Development conveys that no matter how strong China becomes, it will never threaten its neighbors.

### Styles of Communication

**C**hinese and Americans, by tradition and culture, express subtle differences in styles of communication. A senior

Chinese official contrasted four general ways of thinking that cause political misperceptions and which affect all instances of Chinese-American communications, commercial as well as political.

► Chinese are more indirect and cyclical, whereas Americans are more

deprecating banter or smile in serious situations. As such, Chinese leaders may appear more rigid, inflexible, impersonal, doctrinaire and unapproachable than they really are. The dour countenances of many Chinese officials may well be the residual conditioned response to

the recitation of these principles may be repeated more than you think necessary; do not move too aggressively to nail down specifics.

► Recognize that as China adopts elements of democracy, collective decision-making in many large Chinese enterprises has become more common. Senior management is now less able to dictate decisions than their American counterparts. Chinese business leaders must engage their own middle management in sometimes-laborious internal discussions and negotiations before finalizing an important transaction. This means that foreign business people must work with many managers in the hierarchy, even those down the line in the chain of command.

► Respect the formality of meetings; maintain professional decorum.

Business success in China is determined by multiple factors and difficult enough under ideal conditions. Don't manufacture additional stumbling blocks with poor communications. Although political leaders often seem genetically predisposed to have divergent perceptions, business leaders should rise above such instincts and avoid such errors. ▲

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### Americans see China awash with cash, holding more than \$1 trillion in reserves; Chinese see their vast, poor rural population, 300 million of whom must be moved to urban areas by 2020.

direct and linear. Thus, Americans may see Chinese as evasive and deceitful, whereas Chinese may see Americans as rude and arrogant.

► Chinese use more abstract forms and general terms, focusing on principles and theories, whereas Americans use more concrete forms and specific terms, focusing on practice and precedents. Thus, Americans may see Chinese as programmed and robotic, whereas Chinese may see Americans as pompous. (For example, the American media tends to mock China's political slogans—when it considers them at all—as empty jargon, rather than consider the insight into political priorities they offer.)

► Chinese stress the collective more than they do the individual, believing that the needs of human society exceed in importance the ideals of human rights; Americans prefer the reverse.

► When dealing with weighty matters, Chinese are not given to humor, nor do they engage in self-

a past system of fear-driven governance where a single mistake could cost an official his job, if not his freedom. Under President Hu, there is more tolerance: mistakes don't end careers, risks can be taken.

#### Business Communications

Let's consider each of these contrasting styles of communication, and construct general principles that American businesspeople can apply when dealing with executives of Chinese companies, particularly those of state-owned enterprises. (At private Chinese companies, especially high-tech firms, there is more similarity with Western ways and these principles are less applicable.)

► Be patient in negotiations. Do not assume the Chinese side is being deliberately opaque. If you must press for answers or resolution, do so with sensitivity and respect.

► Learn to appreciate the purpose of general principles and why



# Globalization and Its Discontents



How can CEOs of multinational companies skirt the hurdles of globalization? Follow these four policies.

BY ROBERT LAWRENCE KUHN

**U**.S. President George W. Bush's grand vision is of a Western-style "Democracy World," where all countries have a similar system of selecting their leaders in a majority-rule, one-person-one-vote, free election. Chinese President Hu Jintao's grand vision is of an Eastern-style "Harmonious World," where all nations live together in mutual respect and peace, even though they have and maintain different systems of government.

The problem with President Bush's grand vision is what happens when majority rule initiates or instigates more, not less, belligerent and violent acts against perceived foes, such as rival ethnic or religious groups, whether in foreign countries or within their own populations. The problem with President Hu's grand vision is what happens when certain countries do

KUHN

not respect their neighbors and will not tolerate peace with them.

To most CEOs, that globalization is efficient economics is obvious; that it embeds psycho-political intricacies is not. Human beings are rarely rational actors; what they do may not be in their own best interests. Why do poorer people, say, in America or in China, feel more disaffected today than they did 30 years ago, even though their standards of living are much higher now? And why do people in developing countries, by and large, still honor their despotic leaders who perpetrate, instigate or allow monumental violations of common decency?

To appreciate the political psychology of globalization, consider two overarching principles of human emotions: “feelings are relative” and “pride trumps comfort.”

### Feelings are Relative

Human cognition is such that how we feel is almost always a function of short-term comparisons. In assessing our current status our mental methodology is to use relative, not absolute, standards, and the grounding of these relative standards is usually recent circumstances. If you are worth \$10 million and stocks plummet so that your worth is reduced to \$9 million, you are depressed, whereas if you are destitute and find a modest job, you are ecstatic.

Now assume that both situations describe you—you are the same person just shifted in time—so that your rich self exists today and destitute self 20 years prior. Although you have intellectual appreciation of your continuing good fortune—to be worth the \$9 million is certainly wildly better than that old modest job—you still

cannot help but feel dejected today because your previous circumstance of destitution has no affective impact on your present emotions. Similarly, if you are sick with a terminal illness and told that a new drug might extend your life for two years, you are happy,

## Pride is a powerful and persistent human trait; but it can also warp common behaviors and priorities.

but if you then cut your finger while cooking you are unhappy.

The application to economic perceptions is direct. When the Chinese people were all financially equal 30 years ago—all equally poor—envy of lifestyles and material possessions did not exist. Today, while all Chinese are dramatically better off, the fact that some are now wealthy while others are not is increasing social strains.

Blame the ubiquitous media, which highlight disparities, exaggerating them too, by skewing to glamour and elegance and by glorifying physical possessions and sybaritic behaviors. Today in the Muslim world, and soon across Africa, television and the Internet make social and economic differences with the developed world stark and disturbing. One should not be surprised that attitudes of poor people are deteriorating and levels of their anger are rising.

### Pride Trumps Comfort

Pride is a powerful and persistent human trait; it can motivate great acts of artistry or bravery, but it can also warp common behaviors and priorities. When struggles of national inde-

pendence movements bring about economic hardships, people are usually willing to accept sacrifices in order to gain their freedom from foreigners. When national leaders restore pride to their people, particularly those who had been humiliated

by invading oppressors, they are given wide latitude for error. Witness the Chinese people’s continuing appreciation (though no longer adoration) of Mao Zedong, who enabled the Chinese people to “stand up” in the world and regain their long-lost dignity, even though, not much later, he was responsible for divisive mass political movements, including the devastating Cultural Revolution, in which millions suffered and many died.

When multinational corporations invest in developing countries they almost always bring economic gain to the local population, yet their presence is not always welcomed. To some, foreign factories are a constant reminder of their own secondary status or subservient place in the world and no economic benefit is worth such anguishing and continuing dishonor. This endemic and enduring psychology presents a challenge for multinationals as they plan global strategies.

### Prescriptive Policies

Recognizing these psycho-political problems, what can multinationals do? Corporate executives should sensitize themselves to needs of local people for whom disparities in economic status can be psychologically

devastating. Consider an analogous problem that faced Chinese President Hu Jintao when he took leadership and faced the growing problem of multiple disparities between sectors of Chinese society. As a priority of his administration, he adopted a “close-to-the-people” policy that seeks to construct a “Harmonious Society” through a “Scientific Development Perspective,” balancing social and environment factors with pure economic growth. Though disparities remain severe, President Hu’s resultant popularity in China facilitates his change-making policies.

But to be effective, a leader’s philosophy can rarely be of recent mintage. Expediency is a graceless and obvious motivation. Policies work best when a leader’s philosophy is founded on his or her long-standing beliefs or personality. When President Hu was a young official in west China’s poor Gansu province in the 1970s, he *was* close to the people. I spoke with a former subordinate of Hu’s who told me how he had accidentally burst into his boss’s office. Hu, though at first startled, invited him to sit and talk for an hour. Hu is a people person who works to turn crisis into opportunity.

Is there prescriptive advice we can draw from a psycho-political perspective? What can CEOs of global companies do to ameliorate the dangers of globalization? I have four suggestions:

▶ **Steady Progress.** Seek managed, modulated improvement rather than unexpected big spurts, particularly in wages or working conditions. Even if the “big-spurt strategy” would produce better absolute results over time, people will not be as happy in the gap periods between these spurts, when there will seem to be stagnation.

▶ **Local Hires.** Use local managers whenever possible, and develop a systematic method of training and promoting them. Limit ex-pat executives as much as possible. When this is not practical at the beginning of a foreign operation, evince progress by increas-

### CEOs must vote with their bodies, not only with their mouths, and travel to countries that are important to their firms... superficial visits wear thin.

ing the number and seniority of local leaders. Sony, for example, stresses local hires, even selecting a non-Japanese CEO.

▶ **Respect.** CEOs must vote with their bodies, not only with their mouths, and travel to countries that are important to their firms; words alone are not sufficient and superficial visits wear thin. Trips should be regular and substantive, including meetings with local managers and staff, as well as government officials. Some language learning doesn’t hurt either, if only to demonstrate an effort to appreciate the culture. Four of the most successful firms in China are Goldman Sachs, AIG, Morgan Stanley and Citigroup; for years, their senior executives, Henry Paulson, Maurice Greenberg, John Mack and Chuck Prince/Bob Rubin, respectively, traveled to China multiple times every year.

▶ **Transparency.** People are naturally suspicious and secrecy feeds their fears. Rumors can be so rootless and virulent that they are hard to source and impossible to stop. Whenever operating internationally, companies—like countries—should learn to be more open, even though overt

honesty may go against the grain of leaders, who by nature tend to be guarded and controlling.

The importance of transparency in a media-intense, tightly wired world cannot be overstated. A case in point is China’s financial and banking mar-

kets, which are critical for the country’s economic development and which have been legitimately criticized in the foreign press for lack of transparency, credit culture, controls, and the like. If the Chinese government would react by seeking to further control bad news, it would just feed the fire of international doubt. Part of the long-term solution is for China to enable its best financial scholars to assess and analyze the industry, and then to publish their findings publicly, in Chinese for domestic consumption and in English for the international community.

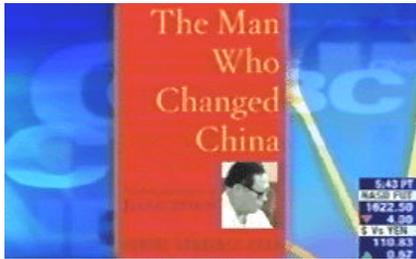
Globalization is an inevitable, inexorable trend. Getting it right means understanding the psychology of people as much as the economics of productivity. ▲

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**Dr. Robert Lawrence Kuhn** is an international investment banker and corporate strategist, adviser to the Chinese government, and senior adviser at Citigroup. The author or editor of more than 25 books, he is editor-in-chief of *China’s Banking and Financial Markets: The Official Report*, (John Wiley).

## CNBC “Squawk Box” – September 13, 2005

**Robert Lawrence Kuhn: Investment Banker, Advisor to China, Author, “The Man Who Changed China”**



**MARK HAINES (HOST):**

Better late than never—President Bush is meeting with Chinese President Hu Jintao today in New York, one week later than planned. The meeting was delayed, of course, because of the Hurricane Katrina disaster. It’s expected to be a brief meeting, but the two world leaders still have plenty to talk about. Joining us with his thoughts on the issues shaping today’s meeting and possible outcomes, an economic advisor to the Chinese government, an investment banker, and author of the best selling book in China this year, *The Man Who Changed China: The Life and Legacy of Jiang Zemin*, Doctor Robert Kuhn joins us from Burbank, California. Doctor, good morning, good to see you.

**ROBERT KUHN:**

Good morning, Mark. Good to see you again.

**HAINES:**

What do you think these two will talk about in whatever time they have?



**KUHN:**

President Hu Jintao has an agenda that has four points. Number One: Relations with America are critical for China’s continued development. Number Two: China is not a threat to anyone; there is no China threat. China’s rise will be peaceful and imperils no one. Number Three: With all the hype, China is still a developing country needing twenty, maybe fifty, years to become even a mid-level developed country. And Number Four: Even though China is not a democracy [by Western standards], the Chinese government cares for its people and will be instituting political reform, human rights reform, but over a long period of time and in a controlled manner. That’s President’s Hu’s agenda.



**HAINES:**

Let’s talk about number two. Aren’t they spending, in fact, a lot of money on military buildup?

**KUHN:**

Sure, and that is something that we should be concerned about.

**HAINES:**

How come they say, then, that they’re not a threat if they’re spending all this money on beefing up their military?



**KUHN:**

China’s issues are twofold. First is that it seeks, like any other country, to protect what it determines to be its national interests. And second, the most critical issue that we face is Taiwan. It’s fascinating. You can talk to vast numbers of Chinese people who criticize the government, but there’s a [widespread] nationalistic sense over Taiwan. That’s the one sensitive issue.



**HAINES:**

And they fear an invasion from Taiwan?

**KUHN:**

Well, they feel that Taiwan is the last vestige of a hundred and fifty years of foreign oppression.

**HAINES:**

So they’re preparing to take it by force?



**KUHN:**  
China's policy is that the only way to prevent Taiwan from declaring independence is to leave the threat of force ambiguous. And, if they didn't do that, then it would be a natural way for Taiwan to declare independence. So China believes that keeping the military option open is the best way to prevent any military action [from happening]. Our role is to manage that process in the same way that we've been doing it for many years—keeping America's role strong, but ambiguous about response—this is the traditional approach—and allow economic integration, which is occurring [to bring about ultimate resolution]. The Taiwanese are investing enormously in mainland China and the relationships between the old Kuomintang Party and the Communist Party, which were mortal enemies for decades, are suddenly very conversant, and we should encourage that process.



**JOE KERNEN (Co-Host):**  
It's interesting you said Taiwan is a critical issue but not North Korea. Are we happy with China's cooperation with that situation?



**KUHN:**  
North Korea is a fascinating situation because there really is internal controversy and dispute in China about their reaction. China doesn't want North Korea to have nuclear weapons. That's a disaster for China. But it has problems if it allows the North Korean government to be undermined. Their worry is a short-term problem of hundreds of thousands of refugees pouring over the border. So China is in a bind over North Korea, frankly. We should encourage China and put pressure on China to continue to support our position, which most senior leadership people in China know is the correct view.



**KERNEN:**  
Do you think that President Bush will hear some unhappiness with what finally happened with CNOOC and Unocal?

**KUHN:**  
I am not sure that will come up in a brief meeting. The Chinese government has gone out of its way to have its media downplay the nationalism that was starting to erupt. I believe that [the CNOOC affair] was an unfortunate incident. I think that American interests are served by having Chinese companies invest in America. That integrates our economies closer together, which is good for the standard of living of everyone.



**HAINES:**  
No one's arguing that. The issue with CNOOC was...

**KUHN:**  
If China comes here and invests, we have their assets.

**HAINES:**  
The issue with CNOOC was that it was oil. No one argued about when they want to buy a washing machine company or IBM's computer stuff. The issue was oil. And I'm getting tired seeing this misrepresented in the mass media, people saying that America's against having Chinese buy American companies. That wasn't it.



**KUHN:**  
Well, I think it's a combination. I think the strategic issue of oil is right. But if you look at oil, it's fungible in the world. It's a world pricing. It's debatable on both sides. I think it's an emotional issue that will pass.

**HAINES:**  
All right. Robert, thank you very much for your views, we appreciate it. Robert Kuhn, author *The Man Who Changed China: The Life and Legacy of Jiang Zemin*.

## Bloomberg Radio Bloomberg on the Economy January 11, 2006

### Interview: Robert Lawrence Kuhn, Ph.D.



**Tom Keene, Anchor:**

It's *Bloomberg on the Economy*. I'm Tom Keene, today in London. In this hour, Robert Kuhn. He is senior advisor to Citigroup Investment Banking and also author of a very influential book, *The Man Who Changed China: The Life and Legacy of Jiang Zemin*. Dr. Kuhn, welcome to "Bloomberg on the Economy."

**Robert Kuhn:**

Glad to be here.

**Keene:**

Let's talk about Shanghai. What makes Shanghai different from Beijing and Hong Kong?

**Kuhn:**

Shanghai is what has been called one of the two "Dragonheads" of China. The first is the Pearl River Delta in Guangdong Province, near Hong Kong, where reform began in the 1980s. During this period, Shanghai, which early in the 20<sup>th</sup> century had been the Great City of Asia, the Paris of the East, was languishing. Shanghai began to expand in the 1990s, so that today the Yangtze River Delta, with its core in Shanghai and with two of China's most economically powerful provinces, Jiangsu and Zhejiang, located contiguously, has become one of the most economically vibrant areas of the world. If you consider their collective economic strength, you're talking about 30% of the GDP of China. Furthermore, Shanghai has recently become the number one port in the world. It is an enormously powerful economic city. But more than that, Shanghai is truly an international city, with its historic intermixing of European and Chinese cultures. Shanghai is really quite unique.

**Keene:**

Dr. Kuhn, give us an update right now on the domestic politics of China. We see toxic events, chemical spills, some unrest, social tensions. Does the government have control of the domestic economy and national politics?

**Kuhn:**

The short answer is yes. Although we hear much about mine disasters and pollution—all of which are terrible—China's biggest problem is "imbalances." There are great disparities in economics and in people's standards of living between coastal and inland provinces; between urban and rural populations; between the "haves" and the "have-nots." Some people have benefited enormously from reform and have become wealthy, whereas many people are still impoverished or have grown poorer. These less-fortunate Chinese may be unemployed farmers or workers who have been laid off from state-owned enterprises. Often they are forced to become migrant workers. This "floating population" of around 200 million people has come off the farms, where they have minimal income, and into the cities where they must live under difficult conditions to make money for their families back home.

These are some of the social problems, but the government is sensitive to them. China's leaders recognize these problems and are trying to deal with them.

**Keene:**

China has a booming economy—9, 10 percent—I don't even know if I believe that number. John Ryding at Bear Stearns thought it was higher. What portion of 9.8 percent is along that Coast Region?

**Kuhn:**

A good deal of China's growth is indeed being generated by the dynamic coastal regions, a fact of life that can exacerbate China's imbalances. The recently revised data shows that the economy has actually been growing faster than earlier statistics indicated, at the astounding rate of over 10 percent. President Hu Jintao and Premier Wen Jiabao's policies to cool the economy, to enable a soft landing, are working, though it still remains sizzling hot, even after the restraints on too-rapid growth have been in effect for over two years.

President Hu has made a significant policy decision to emphasize the strategy to "Revitalize the Northeast." It's focused in the old Manchurian areas in North China, beginning in the city of Tianjin and running north through Liaoning, Jilin and Heilongjiang provinces. In the 1950s, in the first flourishing of the state following the founding of New China in 1949, this whole area was China's industrial base. These massive, state-owned factories, which composed China's early industry, have in the new market economy fallen into disrepair and disgrace. But now President Hu's government is focusing on this area, and also the central provinces, which have vast populations but are economically underperforming. The Chinese leadership has targeted these heretofore lagging regions, the Northeast and the Central, as centers of growth, and the government is putting into place favorable policies to facilitate their growth and thus help rebalance society.

**Keene:**

Kenneth Rogoff of Harvard University is concerned about the money flows into developing nations. Is there a concern about too much investment by the Western world into China, too much money coming in for them to withstand the shock?

**Kuhn:**

When you have such massive flows of capital, there's always opportunity for untoward things to happen. Of concern in China is that a great deal of the growth—the capital that is spent in China—is being spent on capital assets. Now infrastructure is really needed. The roads, the railways, the bridges are extremely important for China. But there are also many high-priced real estate projects, and when growth is fueled by such a high percentage of capital investment, it is warning sign that the system can be fragile. China needs to fuel more of its growth through domestic consumption—its people need to spend more!

Herein lies part of the cause of America's gigantic trade deficit with China, which can be [over]simplified in this way: In China, the people save too much and spend too little, whereas in America, the people spend too much and save too little. And Americans buy Chinese products because they are less expensive than similar products, a process that increases the American standard of living but also increases the American trade deficit, which the Chinese then finance. We send them our cash for their products, and then they send this cash, which is now their cash, right back here to purchase U.S. government debt, which helps finance our country's deficit.

When you have so much cash coming into a country, the danger is that the cash will be spent on inefficient projects: people get so excited about China's growth that they put their money into anything. In Shanghai, which is a fabulous city, the housing market, the real estate market, has become overheated and now is settling back; people are concerned about this retreat. Well, it's simple economics: in such a frothy situation, too much cash is chasing too little good property.

**Keene:**

That brings to mind Chairman Greenspan's comments on our own imbalances. One of the things that we've heard so much about is the burgeoning state of China's defensive, and maybe offensive, military forces. With your big-picture view of China, do they need such defense? Do they need to grow their military defense budget?

**Kuhn:**

You have to look at it from both domestic and foreign perspectives. From China's own perspective, they need powerful, modern armed forces to safeguard their national sovereignty, which in their view includes

an ultimate reunification with Taiwan—and Americans should recognize that this desire is felt emotionally by the vast majority of the Chinese people in China, who view Taiwan as the last vestige of foreign efforts to fragment China. Even Chinese citizens who reject Communism, or who are very critical of the government, when you mention nationalistic issues like Taiwan, you see unity from people who would ordinarily be disagreeing on other issues. Maintaining China's integrity is something that is very important to the Chinese soul; China is committed to protect itself against any sort of effort, as they would look at it, to divide their country. For instance, the separatist threats against Tibet and Muslim separatists seeking independence in the western region of Xinjiang Province is taken very seriously. So there are a number of sensitive issues that, to China, necessitate a strong military.

And then there's the question of national pride, which in China is essential to appreciate. This was a country that, during Europe's Dark Ages, probably consumed about a third of the world's GNP, which is what America had at its peak. China is a country that invented many of the inventions that drove modern civilization [such as paper and printing, compass, wheelbarrow, gunpowder, rockets]. And then China fell into centuries of poverty and humiliation and their once-proud country came to be dominated by foreign powers, which reached its nadir of oppression with the Japanese invasion and occupation in the 1930s.

Now that China is resurging, it insists of having a very strong military. This is non-negotiable. And they are focusing on high-tech weapons and information warfare, while cutting back their ground forces. The Chinese leadership sees science and technology as critical for their future, driving their economy as well as enhancing their military. President Hu Jintao recently gave a speech about the importance of high technology in which he acknowledged that China is still not up to world-class standards in state-of-the-art research. And President Hu wants to bring China to the highest level of technology, both for the economy and for military defense, and if you understand China, also for the sake of Chinese civilization.

**Keene:**

Dr. Kuhn, at the Royal Academy of Arts in London, there's this magisterial exhibition of three emperors going back hundreds of years. Is there a historical heritage in China that links to the country's amazing economic growth?

**Kuhn:**

China's remarkable resurgence since Deng Xiaoping began his reforms in late 1978 has been called the greatest sustained economic success story in the history of the world. And at its roots is this sense of Chinese culture and historic pride, the strength of the family, the intense focus on education, the ambition and energy of the people. These are what really drive China and will continue to drive China.

By the way, one of the concerns of the government is that Chinese civilization be protected against the onslaught of foreign and Western cultures, which, because of their power through film, television and the internet, may put Chinese culture into a secondary position.

**Keene:**

When we talk about the economics of China, we have to talk about the adjacent nations. A colleague of mine just returned from Vietnam. He says it's simple: they're riding on the coattails of China. Is that true of all the Asian nations?

**Kuhn:**

You have to look at each nation separately. Certainly China has become the centerpiece of Asia. Everybody recognizes that. It used to be Japan. Asian peoples didn't like a dominant Japan, of course, because of obvious historical reasons. Now there's no escaping China, which is using its economic clout to increase its diplomatic influence. China is once again truly the "Middle Kingdom," which is the name of China in Chinese. It is certainly operating that way in Asia.

However, we should recognize that there are historic rivalries as well. The Vietnamese and Chinese have had a long history of friendship but also a long history of conflict punctuated by armed skirmishes along their border. So today the Vietnamese have their own desire to be independent; they want to create their

own nation and not be dominated by others. But they recognize that the reality of the world is that China is the center.

**Keene:**

Different economists have come up with 10-year, 20-year, 30-year forecasts that bring China, Brazil, and other large countries to economic leadership. Do you buy an extrapolation of 9 and 10 percent year after year growth?

**Kuhn:**

Extrapolation is always dangerous. It is easy to project that the future will emulate the past because nobody can criticize you for basing your forecasts on history. The problem is that it is almost always wrong. There are always exogenous forces that come up and reshuffle the deck. In predicting what will happen in the real world, we always have to be sensitive to unexpected events.

Having given that qualification, it is indeed remarkable that China has sustained since the late 1970s—for almost 30 years—this 10-percent per year growth rate. It is truly an astounding story. And then if one extrapolates forward, one does have China becoming the world's largest economy—not per capita but on an absolute basis—sometime before the middle of the 21st century. (The time has actually been rolled back a few years, from about 2050 to about 2040—some say as soon as 2030. This is because China recently reevaluated its GDP upward when their first exhausted economic census concluded that the economy has been growing faster than anyone realized—the census found the service economy, such as restaurants, which trades in cash, was much higher than heretofore thought.)

Chinese leaders do point out, with pains, that even though China may now be the sixth largest economy in the world (and soon to become the fourth), that on a per capita basis, it is still far down the list at around number 100. And it will be a very long time before, on a per capita basis, China is able to elevate itself to the level of the developed nations of the world. So although China has made great progress, it still has a very long way to go.

**Keene:**

The last time I was in Hong Kong what I noticed was the pollution. Is pollution going to get in the way of this economic dynamism?

**Kuhn:**

I'm impressed with President Hu Jintao's commitment to a clean environment. By training and early profession, he was a water conservation engineer and so he is technically expert as well as socially conscious. In fact, all of China's senior leaders have been trained as engineers, and they take the issue of pollution very seriously, treating it as an engineering problem as well as a political and social issue. China is putting enormous emphasis on solving the pollution problem.

However, there's a tension here, because on the other side of pollution you have energy, which is needed to fuel economic growth. China must have economic growth; it has no choice: this remains the top priority. If you don't have growth in the economy, you can't sustain employment (especially with too many rural farmers and millions of workers laid off from defunct state-owned enterprises). If you can't sustain employment, you're going to have social disintegration. So if you must have increasing employment, you must have economic growth, and if you must have economic growth, you must have increased energy consumption. China is two-thirds dependent upon coal, and coal is the most polluting of energy sources. New technologies for burning coal more efficiently and more cleanly is a priority.

**Keene:**

So that's the heart of it.

**Kuhn:**

That's the reality of it—this natural tension between growth and pollution. China is trying to work both ends, but it's difficult.

**Keene:**

Absolutely fascinating. When I think of China, I think of the dialogue with Washington. You are such a student of China—what are your thoughts when you see the response of Washington to China? Is it a simplistic response?

**Kuhn:**

Politicians in any country have a domestic constituency whom they need to satisfy and respond to. Sometimes this generates inflammatory rhetoric. I understand that and don't take it too seriously. At the same time, the leadership of the executive branch who are responsible for China policy in Washington, in general, really do get it. Some in the Congress, especially those who represent districts that have been hurt by employment, where businesses have closed and jobs have been lost, have attacked China. I understand that they need to protect their constituents, and naturally these politicians have a predisposition to be very negative about China. What they don't recognize is that thwarting China's access to American markets would probably have little impact, since if Chinese exports to America were restricted, other countries, say Mexico or Vietnam, would produce goods to take their place. The prices would be a little higher, and perhaps the quality a little lower, so that much of the result would be a slightly depressed standard of living for Americans. As the American domestic society is tightly integrated into the global economy, these are the broad trends that are going to dominate from now on.

**Keene:**

We saw the last of the Gang of Four pass on this week [the "Gang of Four" instigated and perpetuated the "Cultural Revolution," China's most chaotic and regressive period that lasted from 1966-1976]. It is the end of the era? What's the next era for the Chinese economy?

**Kuhn:**

China is becoming, socially and even politically, what I would call a normal country. It's not there yet, but it is on the right road. It is already a responsible country in terms of its statecraft, a country that is central to virtually every important issue in international affairs. The leadership of China is philosophically united; although they like any other group of strong leaders have internal disagreements in terms of shades of policy, such as the speed of certain reforms, they share common thinking in terms of their vision, in their sense of pride in what China has accomplished, and for seeking optimum solutions to the host of serious, systemic problems with which they currently must deal [e.g., income disparity, fragile financial systems, unsustainable development, unemployment, migrant workers, corruption, energy constraints, environmental pollution, family and moral values].

We've spoken about pollution and the social imbalances. These are all critical issues. China's leadership, led by President Hu, very much look to science and technology for solutions. China is committed to science and technology—all of the sciences, from basic research to applied research—to revitalize their society.

**Keene:**

What do you say to conservatives in the United States who say we shouldn't really be interacting with a Communist government?

**Kuhn:**

Those people are living in the 1950s, because when a person calls China "a Communist government," it is baffling to everyone who knows China. Anybody who has any sort of awareness about China recognizes that to call it "Communist," in the way one would have properly done in Mao Zedong's day, is just ludicrous.

China does maintain an authoritarian government. It does not have a free press and it does not have a one-person, one-vote democracy, as we have. China is not a democracy in the Western sense, but its government has become much more transparent and responsive to the needs of the people. China, at its own pace, is evolving its own system, a unique system. It's what I (not the Chinese) would call a "Democracy of the Elite"—the elite being the party members—because within the party, there has really been fascinating reforms, even in terms of expressing opinions of leaders (up to a certain level) and

internal voting. President Hu Jintao is committed to increasing transparency, both within the party and the government. This attitude is really pervading much of what is happening in China today. They're improving the judicial system, intellectual property rights, even the capacity to lobby and sue the government.

**Keene:**

Regrettably, we're going to have to leave it there, Dr. Kuhn. Thank you.

**Bloomberg Radio**  
**Bloomberg Big Picture**  
**February 17, 2006**

**Interview: Robert Lawrence Kuhn, Ph.D.**



**Kathleen Campion (Host):**

This is the Bloomberg "Big Picture." Our guest is Robert Kuhn. He serves as advisor to the Chinese government and Senior Advisor to Citigroup Investment Banking. His book, *The Man Who Changed China*, was the best-selling book in China in 2005. We're talking about a number of China-related issues: the trade relationship with the U.S. and reports that the U.S. Treasury is considering labeling China a "currency manipulator."

Dr. Kuhn, you have long argued that the U.S. gets nowhere by trying to force China to do anything or punish China for having done something. This has been the position that [former Chairman] Greenspan has taken as well, that China will eventually see a market-driven currency is in their own interest. Is that how you see it?

**Robert Lawrence Kuhn, Ph.D., China Expert:**

That's absolutely right; however, constructive pressure, if properly nuanced, can be helpful. Currency exchange rates, intellectual property rights, the need to open markets, are all real issues, but more progress would be made working behind the scenes. Modulated, quiet pressure would help China to do what is truly in its own best interests. As I've said, let's look at the context. China was a planned economy that stagnated for decades. It made fledgling, volatile, politically contentious efforts to reform in the 1980s, some of which turned traumatic and led to Tiananmen Square. It was only in the early 1990s that China's economy really began to take off.

Remember that China had to devalue its currency in the early '90s, but then they resisted pressure during the Asian crisis [1997-1998] to devalue it further, which would have destabilized all Southeast Asia. China acted responsibly during that period. Now China is addicted to growth. They need growth to maintain employment, because there are tens of millions of migrant workers from rural areas, laid-off workers from old state-owned enterprises, and legions of young people entering the work force. There are only three fundamental ways that an economy can grow: consumption by its people; investments by business entities (largely foreign) or by the government (primarily infrastructure); and exports. China's growth has been driven by the latter two. They need more consumption; the Chinese people need to spend more and enjoy the fruits of their labors. The government is trying. China is trying to develop the economy by increasing consumption, which will relieve pressures on exports. There is great pressure to keep China growing because of social necessities: China needs economic growth of 8 or 9 percent per year because of the transformation of the economy, the need for jobs, the closing of moribund state-owned enterprises, and the migration into the cities of farmers who don't have work in rural areas.

China is desperately trying to maintain its social stability. For this they need growth. And they know from where it must come. The government is trying to raise consumption, to encourage spending, but until Chinese citizens purchase more goods and services, the country still is highly dependent on exports. So, American pressure is correct, but it needs to appreciate context and be nuanced.

**Campion:**

As you point out, one reason the Chinese like to hold on to so much foreign currency is so that they can help to protect their exports. Is another reason that they sit on so much foreign currency an attempt to prevent a repeat of what happened in 1997, when the lack of ample reserves allowed speculators to attack various currencies?

**Kuhn:**

Good point; well said. Stability has long been the overriding mission of Chinese leadership, and indeed stability is necessary [but not sufficient] for economic growth and social change. President Hu Jintao has an overarching philosophy of creating what he calls "a harmonious society." This can be achieved, Hu

envisions, by means of a “scientific development perspective,” an integration of social and cultural goals, which, along with economic goals, can deal with what is the most problematic and invidious aspect of Chinese society today—imbalance. There are dramatic differences between eastern coastal regions and western inland regions, between urban and rural incomes, imbalances that are getting worse, driven by this need for growth. Optimum growth comes most efficiently from areas that are the most developed, and while such growth increases the vibrancy of the economy overall, it exacerbates the imbalances in society, which leads to social unrest. So considering this complex socio-economic equation, American interests are best served by being sensitive to China’s domestic conundrums even while pushing for currency adjustments, protection of intellectual property, and further opening of markets.

American trade imbalances with China are unsustainable. China knows that. It’s impossible to go on this way forever. We need to work together to find ways to alleviate the problem. The primary salutary mechanism, in my opinion, is helping China to increase domestic consumption; this will be a natural way for China to maintain social stability and allow its export income to diminish. And increasing Chinese consumer consumption will also enable American exports to rise. This should be our focus.

**Campion:**

This week we heard Pascal Lamy, a leader at the WTO, lash out against what he sees as a rising protectionist sentiment in the U.S. Congress, specifically increasing Congressional opposition to free trade. We know that we have two senators—Senator Schumer (New York) and Lindsay Graham (South Carolina)—who are proposing tariffs on Chinese goods as both punishment for what they see as an unequal playing field and as a way to improve the balance of trade. How are such tariffs going to play in world markets? And with the Chinese?

**Kuhn:**

It would be like shooting yourself in the foot. If your foot trips, you don’t shoot it; you find out why your foot tripped and try not to do it again. Tariffs would be counterproductive in two ways. First, it is insulting to the Chinese, and therefore would create anti-American feelings, not necessarily among Chinese leaders, but primarily among common people and students. Such antagonisms would not be in our own interests, politically or economically.

Second, what would tariffs accomplish? Granted, they would help certain workers in certain American industries, but they would lower the standards of living for all Americans because so much of what we buy is made in China. [Other countries in Asia and the Americas would fill in for China, mitigating benefits for American workers while still raising prices for American consumers.] It’s a complicated set of simultaneous equations. Politicians speak to their own audiences. It may sound superficially good to orate that we’re going to “punish China” and make life more difficult for them. But what tariffs would really do is make life more difficult for everyone.

America needs China to be a responsible nation, a bulwark of stability in international affairs from East Asia to the Middle East. We have many problem areas around the world. We need China to be on our side in securing the new world order. That’s the way our future is best designed. And threats of tariffs are not the way to bring such harmony of interests about.

**Campion:**

Let me argue, as you do, that lifting millions of Chinese out of poverty, making them productive consumers, will ultimately benefit the U.S. and everyone else engaged in the world economy. Whether that’s a rosy scenario or not, can you put a time frame on it? Americans, as you know, are impatient.

**Kuhn:**

This is a long process. Let’s take the Chinese view. Their goal is to have what they call a well-off social level (in Chinese, the word means “modestly well-off”) by the year 2020—they’ve pointed to a country like Portugal as exemplifying this kind of mid-lower development. We’re dealing with an order of magnitude of 15 years, but achieving this transformational goal requires unabated continuation of current levels of growth. You need 8, 8.5 percent growth. Last year China hit 9.9 percent, which was red hot. [2006 is forecast at 9.2 – 9.3 percent.] But the bigger the economy, the more difficult it is to maintain high growth.

**Campion:**

It’s always enlightening to hear what you’re thinking about. Robert Lawrence Kuhn, advisor to China.