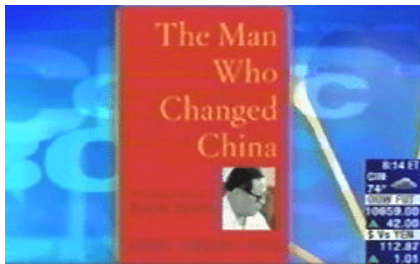


CNBC “Squawk Box” - July 19, 2005

Robert Lawrence Kuhn: “*The Man Who Changed China*”



MARK HAINES (HOST): Wall Street is waiting for a decision from Unocal’s board on CNOOC’s takeover offer. With the anti-CNOOC chorus from Capitol Hill getting louder, the situation could become a test of America’s stance toward China. Our next guest believes CNOOC’s bid represents a wake-up call, and that Americans must learn to deal with today’s China, not as a threat, but an opportunity. Joining us, **Dr. Robert Lawrence Kuhn.** He’s an investment banker and author of “*The Man Who Changed China—the Life and Legacy of Jiang Zemin.*” It’s the number-one selling book in China this year. Good morning, sir, thank you very much for being with us.



ROBERT KUHN: A pleasure to be here. These are exciting times in US-China relations.

HAINES: What is your take on the CNOOC bid?

KUHN: It is more opportunity than threat. It is really in America’s long-term interest to appreciate that the bilateral relationships between the US and China are key for prosperity and peace in the 21st century. The issue is not a competition in economic systems between Capitalism and so-called Socialism; that is 19th and 20th century. Today the issue is between modernism and stability in the world versus anarchy and sectarianism; and on that battlefield, America and China are on the same side. So it’s in our interest to engage China, to interact our economies and our way of thinking more and more. CNOOC is an opportunity because, if they invest in the United States, we should also be able to invest in China.



HAINES: But we are not allowed to invest in China to the same degree.

KUHN: A lot more than people realize. The Chinese market is opening up. We have to recognize they are starting from a planned economy, a backward situation. They are emerging into a market economy from a government-owned one. We have to encourage that.



HAINES: Not to nitpick, but the CNOOC bid is not a free-market bid. This is a bid backed by a lot of interest-free money from the Chinese government.

KUHN: That’s a legitimate point and fascinating point to explore. Because there is a transition from the planned economy to a market economy, and what are we going to do? We are either going to impede that or help it.



BECKY QUICK (ON-AIR CORRESPONDENT): But, in the meantime American businesses should just stand by and realize they are not playing on a level playing field?

KUHN: No, no! They are playing; we should force it open more. If we become restrictive, everything suffers in the world. Standards of living go down because economics are not efficient, and then we present more political problems in the future. We cannot do that. We have to engage China. We have to give them opportunities. There is another fact that people don’t recognize. We look upon corporations like CNOOC as if they are totally government dominated and government controlled. What is not appreciated is that corporations in China—like CNOOC, like Haier—are becoming independent powers in their own right, and therefore contributing to the increasing pluralism of Chinese society.



JOE KERNEN, ON-AIR STOCK EDITOR: There is left over—and you tell me whether it’s right or not—Cold War fear that China would like to crush us, and reign over the globe. And they’re not going do it through warfare anymore; now they are going to do it economically. Are you telling me that they are our friends, and we should trust them, and we’ve got to go forward that way?



KUHN: Those are inflammatory words.



KERNEN: Okay, but that's why the eighty percent of the US public doesn't want to do this deal. Where does that come from? Why not?

KUHN: Of course that's right. Politicians pander to that. We have to do what is in our best long-term interest, okay?



DAVID FABER, ON-AIR-CORRESPONDENT: Robert—you know, CNOOC—we will see if the Unocal board even goes their way, but if they do and gets turned down by CFIUS (Committee on Foreign Investment in the United States), what do you think the implications would be?

KUHN: I think that will increase nationalism in China. It will boil from the bottom up, from the students, not necessarily the leadership. It will be a similar type of thing that happened when we accidentally bombed the Yugoslav embassy. There was this massive emotion that erupted from the students that boiled into society. That is not good for anyone.



JASON TRENNERT (GUEST HOST): I would also say—with all due respect—that is not a particularly good reason for us to do the deal. It might upset people in China. One of the points you made, I think, is an interesting one, and that is that the policy makers in China are mostly scientists and engineers, while the policy makers here in the US are lawyers. And lawyer jokes aside, I thought that was an interesting point, and I was kind of wondering what your thoughts are on the implications of that.

KUHN: I think it is one of the interesting differences between American society and Chinese society. And I bring that point out to just kind of pierce the stereotype that there is a Chinese mentality and American mentality, and they clash. I tell a little joke that maybe the difference is not so much between American and Chinese, but between engineers and lawyers. And the engineers and lawyers can't talk too much. Forget this America/Chinese business. So I say it tongue-in-cheek, but it's to point out that there are these differences in ways of thinking that we have to appreciate.



HAINES: So you don't think the Chinese have set a policy of deliberately corraling natural resources with the intent of denying them to the rest of the world?

KUHN: Every country is doing what is in its best interest. China needs energy to fuel its economic growth. China is addicted to economic growth. It desperately needs it because it has to employ people who are being laid off from moribund state-owned enterprises— young people coming into the marketplace—they need seven, eight percent growth. It has to be fueled by energy. So, of course, it's a national policy. They are trying to develop their society like anyone else. We have to encourage them to participate and continue along the path to become a responsible, dignified and great nation.

KERNEN: We need to provide the fair side of the fair trade, while they don't?



KUHN: We have to encourage their development from a planned economy to a market economy. It is a process.

KERNEN: I will take your word for that. If I'm globally dominated in 10 years by China, I'm going to be mad at you, because I will remember what you said.

KUHN: Your standard of living will be higher, and the world will be more peaceful, because everybody will be working together. That is the key.

HAINES: Dr. Robert Lawrence Kuhn, the author of "*The Man Who Changed China*."