

Uncommon Wisdom



What China's New Leader Means for Business

by Robert Lawrence Kuhn

KEY TAKEAWAYS

- PRESIDENT XI WILL FOCUS ON IMPROVING THE LIVES AND STANDARDS OF LIVING OF THE CHINESE PEOPLE
- FOREIGN COMPANIES LIKELY TO SUFFER UNDER XI INCLUDE THOSE THAT CONSUME HIGH ENERGY, PRODUCE HIGH POLLUTION OR EXPLOIT CHEAP LABOR
- FOREIGN COMPANIES FOCUSED ON TECHNOLOGIES IN AREAS SUCH AS INFORMATION TECHNOLOGY AND HEALTHCARE/MEDICAL ARE LIKELY TO PROSPER

China, perennially evolving, is poised for a major leadership transition. Over the coming year, Xi Jinping is expected to succeed China's President Hu Jintao, who will retire as head of the Communist Party later this year and from the presidency in 2013. Xi, 58, is already instrumental in shaping the world's major growth economy, currently serving as the top-ranked member of the Central Secretariat of the Communist Party of China and the country's Vice President, among other roles. His ascension will have powerful implications for companies of all sizes around the globe that do business in or with China or seek to do so in the future. In the column to follow, Chief Executive columnist Robert Lawrence Kuhn offers a profile of Xi Jinping gleaned from his own experience and the accounts of those who know and work with China's leader-in-waiting.



No single individual will have greater impact on American companies than Xi Jinping, China's upcoming new leader. The reason is what I call a "politico-strategic framework," which seeks alignment between the policies of leaders and the strategies of companies. Because of the way this framework functions in China, the more business executives know about China's leaders the more they can understand and work with the officials or state-owned enterprise executives with whom they relate, who are all intimately tied into the system. For doing business in China, nothing is more important. That's why CEOs must know Xi (pronounced "Shee"), who will likely lead China for 10 years.

Xi Jinping is the son of a revolutionary leader, Xi Zhongxun, who, during the ideological madness under Mao Zedong, was purged and humiliated for 16 years.

As a result, a teenage Xi Jinping was "sent down" to a poor, remote mountain village where he spent six years chopping hay, reaping wheat and herding sheep. He lived in a cave house.

Xi was helped by the harsh times and he was strengthened by the harsh experience. Xi is technically a "princeling" [a term used to refer to members of an elite group, the offspring of political leaders who attended prestigious schools together and now hold various power positions in China's party apparatus]. However, Xi is known for a common man's touch. "Many of my practical ideas stem from my life during that period, which has influenced me every minute, even today," Xi has said. "To truly understand common folk and society is fundamental."

For 25 years Xi served in China's administrative grassroots, running every

level of government—village, county, city, and province. He led three dynamic regions: Fujian Province, China's frontline with Taiwan (37 million people; \$200-plus billion GDP); Zhejiang Province, China's center of entrepreneurship (55 million people; \$500-plus billion GDP); and Shanghai, China's commercial center (23 million people; \$300-plus billion GDP). By population, economic vitality and social complexity, Xi led the equivalent of three European nations.

Xi is not given to radical change, yet with China's exceedingly complex problems—especially economic imbalances, class disparities and poor social services (e.g., healthcare)—nothing less than substantial change is needed. How to balance the obsession of stability with the necessity of reform? That's Xi's challenge, now exacerbated by unreasonably high

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expectations. A senior aide confided, “Xi is ready, but it won’t be easy.”

Xi says that pursuing growth must be based on actual conditions. “We respond to local realities by seeking truth from facts,” he said. “Before we implement new policies broadly, we test them thoroughly at the grassroots level, gaining experience.” Take food quality: As governor of Fujian, Xi improved the process “from farm to dining table.”

China’s leaders “constantly draw theoretical lessons from our work,” Xi said, “and use them to guide our practice.” These are not “long-winded exercises,” he added with a wry smile. “We don’t discuss these theories all day long without making any decisions. Leaders must be decisive and action-oriented.”

Though some would have Xi quicken reform—political as well as economic—he will likely move slowly. Stability will continue to be China’s touchstone.

Xi is committed to the primacy of the Party; yet recognizing China’s “earth-shaking change,” he advises officials to embrace more change—to “emancipate our minds and resolutely overcome the attitude of being satisfied with the status quo, the inertia of conservative and complaisant thinking, the fear of difficulties, and timid thinking.” Xi is driven by “patriotism and pride,” which he says undergirds the Chinese people’s dedication to “revitalize the country.”

Xi’s people stress two traits needed for leading China: deep understanding of Chinese reality and broad appreciation of how the world works. Xi has visited 47 countries, learning best practices abroad to adapt at home. He visited the U.S. five times, and his daughter attends Harvard.

In preparing for Xi’s recent trip to the U.S., I, with Adam Zhu (my long-term business partner), worked with Xi’s senior staff. We attended events and saw the sense of mission. The trip had a tripartite structure, reflecting Xi’s thinking: *diplomacy* in Washington; *people* in Iowa; and *business* in Los Angeles. While Xi offered no new policies, his manner was confident and relaxed, conveying understanding and engagement. Xi was clearly at

ease—initiating spirited conversation, offering firm handshakes. He was having a grand time.

What to Expect

Based on Xi Jinping’s way of thinking, here’s what foreign businesses can anticipate under his tenure. (New policies take time to develop—continuity is sacrosanct in China.)

Currency: Modest, gradual appreciation of the Chinese yuan, seeking minimum disruptions. This means a kind of balance between appreciating too fast so that Chinese companies would lay off employees and appreciating too slowly so that foreign governments would impose tariffs. Moreover, China’s leaders foresee a time when the yuan should become a world reserve currency, used to settle international trade, thus enhancing China’s power. For that situation to occur, a fully convertible currency is required.

Trade: Transitioning from an export-based economy to a domestic-consumption economy.

Economy: Products and services to enhance standards of living, particularly for farmers in rural and inland areas, especially in social services (healthcare, retirement and education).

Intellectual Property Rights: Stricter IPR enforcement, energized by “indigenous innovation” and the need to protect creative Chinese companies. Furthermore, for China to emerge as a center of world commerce—a goal of China’s leaders—strong IPR are essential.

Corruption: Although a system without a free media remains heavily handicapped in fighting corruption, it will become increasingly difficult for officials to solicit bribes. This should benefit American companies, which, on occasion, have been bested by competitors from other countries that have, well, looser standards.

Industries Favored: Technologies (information, electronic, bio, agriculture, energy, energy-saving, green, water, automotive, etc.), healthcare (hospitals, pharmaceuticals, medical devices),

environmental protection and pollution control, new materials, advanced manufacturing, education, consumer products/services (food, household goods, entertainment, sports). “We attach great importance to innovation,” Xi said.

Industries Disfavored: Low-labor cost, low-margin, assembly businesses; energy intense and polluting industries. For firms whose products or processes are not favored, doing business will become increasingly problematic.

Small and Mid-Sized Firms: Considering Xi’s experience in Zhejiang Province, which is replete with smaller companies, expect policies that balance the playing field for smaller Chinese companies, such as access to financing. For smaller, foreign companies, this should give opportunity to find better-quality partners.

Homegrown Champions: Preferential policies, in every industry of importance, that favor Chinese companies to become world-class competitors. Foreign competitors, be forewarned.

What will President Xi mean for foreign firms in China? Xi is pro-market, pro-business; he favors new technologies, new skills, new thinking, new ideas, and he supports policies to attract them. However, never forget this: Xi is a Chinese patriot who wants the best for the Chinese people, including the privileged emergence of Chinese corporate champions.

Face it: Doing business in China differs from doing business elsewhere. Most foreign firms won’t like it, but if building shareholder value/wealth is paramount, the most successful companies will figure out how to do it. ■

Robert Lawrence Kuhn is an international corporate strategist and investment banker who advises multinationals on doing business in China. A longtime counselor to China’s leaders, he is the author of How China’s Leaders Think. His biography of former President Jiang Zemin, The Man Who Changed China, was China’s best-selling book of 2005. Dr. Kuhn is a frequent commentator on China (BBC, Bloomberg, CCTV, CNBC, Euronews.)