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Interview With Robert Lawrence Kuhn - Corporate Strategist, Investment Banker and Author

## Is China Really Changing?

by Neil A. Martin

Robert Lawrence Kuhn, an international investment banker, corporate strategist and author, has spent much of the past two decades trying to understand how China's leaders think.

By his reckoning, he has visited that nation more than 100 times and interviewed hundreds of its top political figures, bureaucrats and technocrats.

In the past few years, he has been on a self-financed China Odyssey to some 40 cities in 20 provinces on the mainland. The result is *How China's Leaders Think*, a 546-page book published this year by Wiley, that looks at reforms taking place in today's China and what they mean for the U.S. and other countries.

The 65-year-old Kuhn has written or edited more than 25 books, including a 710-page biography of China's former president — *The Man Who Changed China: The Life and Legacy of Jiang Zemin* (Crown, 2005). It was the first biography of a living Chinese leader to be published on the mainland and a best-seller; more than 1.1 million copies of the Chinese translation were purchased.

A former investment banker and mergers and acquisitions specialist who sold his company to Citigroup in 2001 and a commentator on the government-owned China Central Television (CCTV) network, Kuhn is an advisor to BNP Paribas and counsels multinational corporations on their strategies, structures and relationships with China. A graduate of Massachusetts Institute of Technology's Sloan School of Management, Kuhn also holds a Ph.D. in brain research from UCLA.



Daniel Zheng/Getty Images for Barron's

**China "must effect the largest planned migration in history, moving 400 million to 500 million from rural areas" over the next 20 years or so.** —Robert Lawrence Kuhn

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**DOWJONES**

## Rising (Red) Stars

In the fall of 2012, when China's Communist Party has its next National Party Congress (one is held every five years), senior leaders will be selected to replace those who have run the country for the past decade. In his book, *How China's Leaders Think*, Kuhn offers background on Chinese officials we may hear more about in coming years.

- **Xi Jinping**, vice president of China, focuses on party building and international activities. Many expect him to become general secretary of the party and president of China.
- **Li Keqiang**, executive vice premier, focuses on government operations and the domestic economy. A candidate to become premier of the powerful State Council.
- **Liu Yunshan**, head of the party's publicity (propaganda) department. Liu is responsible for statements on ideology, media, media reform and international communications.
- **Li Yuanchao**, chief of the party's organization department, is responsible for supervising party and government personnel, and is engaged with the party's official roadmap for political reform.
- **Wang Qishan**, vice premier, is responsible for finance. Wang co-leads the U.S-China strategic and economic dialogue.
- **Wang Yang**, party secretary of Guangdong Province, promotes industrial restructuring and new economic models.
- **Bo Xilai**, party secretary of Chongqing Municipality. Bo has been building this major gateway-to-the-west city and has cracked down on crime.

*Barron's* spoke by phone with the peripatetic Kuhn while he was in Shanghai. To learn his views on the world's most populous country, read on.

***Barron's:* You were educated as a brain scientist and have worked as an investment banker and merger specialist. How did you suddenly end up writing about Chinese politics?**

**Kuhn:** It wasn't sudden. In early 1989, as an investment banker and a scientist, I was invited by China's State Science and Technology Commission to advise on reform. Then came the suppression of student demonstrators in Tiananmen Square and I, like many foreigners, refused to return to China. But in the summer of 1990, I invited a Chinese government scientist to a conference I was co-chairing at UCLA on creativity in large organizations. During a break, several of us confronted him about Tiananmen and he said something remarkable. He agreed that China was moving backward, but he argued that it was more our fault than his, because by turning our backs on China,

we in the West were abandoning domestic reformers. His appeal touched me and changed my life.

For the next decade or so, while I was running my M&A firm, I would go to China several times a year, consulting in science, restructuring and M&A. I wanted to support those, particularly in China's intellectual communities, who sought reform and opening up. A Chinese translation of my book on investment banking [Investment Banking: The Art and Science of High-stakes Dealmaking], published in China in 1996, was one of the first of its kind on the mainland. In the late 1990s, frustrated by the lack of understanding in the West about China's ongoing transformation, I began doing media and writing articles. I created and co-produced with China Central Television a TV special, *In Search of China*, which was broadcast on PBS in 2000. Then, I secretly began work on President Jiang Zemin's biography. The book was entirely my idea. I wanted to tell China's true story to the world.

### Are China's leaders serious about reform?

Sure. Only deepening reform will continue to increase the standard of living of the Chinese people, which China's leaders see as their primary responsibility. The social gap between rich and poor – urban versus rural, coastal versus inland – which is growing forebodingly large, is China's most serious problem. This means that China's old developmental model of being the low-cost producer, supported by low wages, has run its course. Demands by workers for higher wages, and by farmers for higher prices, are escalating. Strikes and labor strife are increasing nationwide.

Higher wages force industries to restructure by developing technology, design and branding. Furthermore, China must transfer some 400 million farmers over the next two decades to urban and suburban areas, so that they too can earn higher salaries. The remaining farmers will also want to enjoy higher incomes. All this will require massive reform.

### How can they implement such reform?

Chinese leaders want more entrepreneurship and nongovernment organizations, more technology and innovation, and increasing transparency in governance. They want reforms to bring their country into the top tier of the modern world. But they understand they're walking a fine line and can only go so far. While they don't want to be told what to do by America or

anyone else, they want to learn from best practices in other countries – though always recognizing China's differences.

### Has the global financial crisis changed their way of thinking?

No, it's accelerated it. The crisis forced China's leaders to realize that it must engage more fully with the world now. Leaders are spending a much higher percentage of their own time on international affairs.

### Have you met the new-generation leaders?

Yes, I've watched and tracked their development. For example, I first met Li Yuanchao, who in 2007 was promoted to China's Politburo [the highest body of the Communist Party], during his successful, change-making five-year term as party secretary of the economically dynamic Jiangsu Province. Li is now head of the party's powerful "organization department," which appoints senior officials in ministries and agencies of the central, provincial and municipal governments, plus senior executives of China's large state-owned enterprises. When Li began expounding provocative, reformist ideas, elaborating on President Hu Jintao's vision of "intra-Party democracy" and outlining a roadmap for political reform, I presented these ideas to foreign readers, in-depth and for the first time, in two long interviews.

### When China's leaders talk about "democracy," what do they mean – free speech, individual rights, one-person-one-vote?

China's form of democracy is not one-person-one-vote, other than at the local level, because one-party rule is still sacrosanct. But it does include greater transparency in government operations and decision-making and greater public participation in the process of governance. This includes more open discussion of issues – particularly on the Internet, which has become a very powerful force in China – more grass-roots involvement in local affairs, and reform of the system for nominating, appointing, promoting and demoting officials. Generally, more openness and a rejection of the secretive, arbitrary decision-making of the past.

### Sounds good, but is it just lip service?

That's a legitimate question. Although China has a long way to go, its leaders, especially the new generation, are committed to change. Basically, the plan is



this: first, to build democracy in the party and then to expand it into the general population.

### **Can you give us examples?**

When officials are selected for promotion, but before they are formally appointed, their candidacy now is announced publicly and constituents are encouraged to write or e-mail, anonymously if they like, to offer their comments and critiques. This would apply within ministries where certain staffs would have their say, or in cities where the general public would be invited. Also, local party congresses are becoming stronger in checking-and-balancing the power of local party leaders, as opposed to the way of the past when local leaders controlled the rubber-stamp congresses. In Kunming, Yunnan Province, the party secretary, Qiu He, had the telephone numbers of 859 leading officials, including his own, published in the newspapers and encouraged the public to call them up. He then had his staff spot-check to make sure the officials answered their phones!

In Guangdong Province, the birthplace of China's economic miracle, I've seen how Wang Yang, the party secretary, is seeking to transform traditional industry by shifting the old economic model of low-cost manufacturing, which is often energy-inefficient and highly polluting, to a new higher value-added model, based on proprietary products or processes.

The key, Wang says, is developing "independent innovation," in technology, design or branding. In Shanghai, Party Secretary Yu Zhengsheng is implementing the central government's policy that Shanghai should become an international center for finance, trade, shipping and general economics. In Tianjin, a northern metropolis, Party Secretary Zhang Gaoli is transforming the city into an economic engine to revitalize China's entire north-east.

### **Barron's: foreign investment?**

Certainly, although various regulations seem to disadvantage foreign companies, But China has become more selective. In the past, almost any foreign investment was appreciated. Now, China is looking to fulfill particular needs, such as in world-class technology or management. China's leaders seek a future in which one or more Chinese enterprises are world-class players in every industry of importance. They want to accelerate the emergence of companies that can compete globally.

These will be supported in various ways – for example, by financing overseas acquisitions via state-owned banks and sovereign funds.

### **What advice would you give to western businesses interested in investing in or doing business with China?**

My watchword is "alignment." Astute foreign companies can gain a competitive edge by aligning with the policies of China's leaders and with the specific needs or requirements of specific sectors. For those executives with eyes to see, there is much opportunity in China for cooperation, alliances, special relationships and business advantages.

### **Don't you sometimes take heat for these views?**

Sure. When I hear naive or biased reporting about China, particularly in western media, I have a natural tendency to redress the distortions by highlighting the roses. But this is wrong, so I try to tell the truth, at least as I see it presently; I don't seek balance, although the truth is often in the middle. In all my works, I stress China's massive problems, but I try to do so constructively and in the context of its achievements.

This includes commenting on human rights and rule of law, which China's leaders acknowledge need much work. China will have great impact on the peace and prosperity of the 21st century. It behooves us to help China continue to progress into responsible statecraft. I enjoy criticism. It gives me the opportunity to break stereotypes and convey information that might not otherwise reach audiences. Everything I say about China I believe. In over 21 years, I've never been paid by the Chinese government, not even expenses (except some on my first two trips in 1989 and 1990). I am paid, of course, by my corporate clients.

### **There's a great deal of pressure on China to allow its currency, the yuan, to appreciate in order to reduce its huge balance-of-trade surpluses. What's your view?**

It is in China's best interests to allow its currency to appreciate in a controlled and gradual manner – cooling the economy, curbing inflation and enhancing the buying power of its citizens, as well as reducing China's trade surpluses and ameliorating foreign criticism. I have said so many times, privately to leaders and publicly in the media. It's a symbol of how things are

changing in China that recently CCTV invited me to join a televised debate on yuan revaluation. My two opponents were Chinese economists who defended the government's case against appreciation. I propounded the opposite argument, in favor of appreciation. There was no censorship or time delay and the debate raged. I think I won. The producers were pleased because the ratings were high.

### **What's China's biggest challenge?**

The rural economy. There are roughly 900 million people in rural areas and 400 million in urban areas. Of those 900 million, roughly 200 million have already moved to cities as migrant workers. Rural areas can only support about 400 million at decent income levels. This means that China has to effect the largest planned migration in human history – transferring 400 million to 500 million people from rural areas to urban and suburban areas, over two decades or so. That's why China's leaders are pushing for more education, new technology, expanded infrastructure, better communications, industrial development and widespread social services.

### **What do the Chinese think their country will look like in, say, 10 or 20 years?**

In 2007, researchers at the Institute of Quantitative & Technical Economics of the Chinese Academy of Social Science made projections for the year 2035. Now, just three years later, almost all of them look too conservative. They thought mobile phones in China would plateau around 550 million. Mobile phones are now approaching 800 million. Before mid-century, barring international disruptions or internal instability, China will surpass the U.S. as the world's largest economy – though measured on a per-capita basis, it still won't be close.

### **How good are the opportunities for foreign companies in China?**

Many state-owned enterprises want to seek joint ventures or other business ties with foreign entities because that lets Chinese management escape their system's career and compensation rigidities. But to do business in China, one must appreciate the multiple and competing constituencies there. Doing business in China the way one does business in America reduces the likelihood of success.

Thanks, Robert. ■