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New Tariffs, Trade War

Robert Lawrence Kuhn

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HOST: To China, where Premier Li Keqiang is delivering a speech of the opening of a World Economic Forum gathering in the northeast city of Tianjin, and he's expected to address issues surrounding new tariffs from the United States. On Tuesday, the Chinese government, in what is widely seen as a tit for tat move, confirmed that it would impose tariffs on US goods worth \$60 billion following the Trump administration's decision to impose \$200 billion worth of tariffs on Chinese goods. Now for more, let's go to Beijing and talk to Robert Kuhn who is a longtime advisor to China's leaders and multinational corporations and appears on China Global Television Network. And he's also authored How China's Leaders Think. Great to have you on, Robert.

RLK: Good morning from Beijing!

HOST: Now, what are the real issues at stake, do you think?

RLK: Let's look at each side. I think both sides have misconceptions. From the US side, the feeling is that China's trying to usurp the US, use predatory economics in a way to undermine the US. From China's side, they think the US is trying to restrain or contain China's rise. There are elements of truth in both sides in terms of giving rise to that, but in fact, both are, in essence, self-fulfilling prophecies that can only work against each side. Let's look at what happened in terms of the tariffs that the US put on. It was \$200 billion dollars, a large amount, 10 percent projected to go up to 25 percent on January 1st with the threat that if China did anything in retaliation, Trump would put tariffs on 100 percent of China's goods, a little more than \$500 billion.

HOST: So the \$60 billion -- Do you think that is going to cause more problems coming from the United States?



RLK: Trump said he would impose tariffs on all of China's goods in response, but China couldn't do anything less. China's response is really a very measured response, if you think about it, it's not dollar for dollar, it's proportional — because \$60 billion is about 40 percent of the \$150 billion of total American exports to China, whereas \$200 billion is about 40 percent of the \$500+ billion of total Chinese exports to the U.S. So, it's proportional. Also, only half of China's tariffs is 10 percent and other half is five percent. China is signaling it wants to ratchet down escalation of the trade war. But to reach resolution, we have to look at underlying reasons. From the American point of view, and this is very serious because although Trump is deeply unpopular with many of the elites in the US, virtually all of them support him on getting tough with China—and we have to understand why that's the case in order to solve this. I target five areas — independent of the trade deficit, which is a more complex figure because it's not including services, which is about \$40 billion dollars (Chinese tourists and students); it includes components and products that are trying to get no credit for. So let's look at these five areas. What are they? Number one is closed markets in China. Number two is intellectual property protection or theft. Number three is industrial espionage, cyber theft. Number four is tech transfer, being forced. Number five is the government support for nascent technologies like AI and “Made in China 2025”.

HOST: Robert, briefly, tell me about the US government bonds which are valued at \$1.2 trillion. And also what else is likely to happen? Do we see a situation where there'll be visas withdrawn from citizens working in China?

RLK: There are lots of things being bandied about, but I don't read it that way. I read the way China is operating right now. They have to show strength. National pride, national rejuvenation, is critical for China. So they have responded. They may respond more with some token activities. I don't see them selling down bonds. I think that's mutually destructive and just alienating the businesses and people who are really their greatest supporters, who are the people who want to support China and have good relations between China and the US. But in these areas, China has made progress: intellectual property protection, tech transfers. They're opening their markets more. So they need to do more in each of these categories. But the ultimate trade, I think, is for China to open its markets more, which is good for China itself. And then the US recognize that China is going to support these new technologies.

HOST: Good to talk to you, Robert. Thank you, Robert Kuhn, longtime advisor to Chinese leaders and multinational corporations.