



# **CNN – Quest Means Business**

## **Future of U.S.-China Trade Relations**

**Robert Lawrence Kuhn, August 27, 2018**





**HOST/PAULA NELSON:**  
We want to do a deep-dive into the future of U.S. China trade relations. We are with Robert Lawrence Kuhn. He is author of *How China's Leaders Think*. He has also been a long-term advisor to the Chinese government. I thank you for joining us.

**RLK:** Pleasure.

**HOST:** What do you think they're thinking now?

**RLK:** First of all, we're in the realm of self-fulfilling prophecies on both sides, where each side sees the action of the other side as confirming its own predisposed biases.





**RLK: So, for example, in the U.S., the bias is that China's trying to take over the world or kick the U.S. out of Asia or undermine the U.S. economy. And the narrative in China is that the U.S. is trying to thwart China's rise, contain China, surround China. So we have two different narratives, obviously the opposite of each other, but they are really beliefs in both cases. So that's our situation —we have political narratives in both countries. Different [narratives]. Here [in the US] we're more public, China's more private. So we have a tough situation.**





**RLK: Obviously for everybody's benefit, tariffs and trade war are terrible. It forces companies to make suboptimal decisions in industrial supply chains, etc. So we have to really try to analyze what's going on.**





**RLK: Everybody talks about the trade deficit, but people need to know that's really not the most important thing. A trade deficit is very complicated. You've said it here before: take intermediary products, the displays and chips in your iPhone come from South Korea, Japan, and then they're recounted in the trade deficit with China, even though China may only get 7, 8, 10 percent just of the cost.**





**RLK: In addition, China is spending close to \$40 billion dollars on services: students in the U.S., [Chinese citizens] travel, etc. — these are not counted. So it's complicated, but there are what I think are five really critical issues that have to be addressed: China's markets are closed; poor intellectual property protection; industrial espionage which has occurred including cyber theft; forced technology transfer through joint ventures; and the Chinese government supporting new technologies.**





**HOST:** Everything you just listed is why the Trump administration is saying, we're going to play hardball. And where I sit, I see it as a situation now where each country believes they can outlast the other — and a trade war, any way you look at it, spells trouble for the global economy

**RLK:** Right, absolutely right. That's where we are and we know the reasons. So we have to look at these five areas, we can add trade deficits as well and see what's happening.





**RLK: Let me just do it arbitrarily. On intellectual property protection, in a recent survey of American companies in China, more than 90 percent say IP rights are improving. I've investigated what's going on in intellectual property. China is really making a big effort, not perfect — it will be awhile before they get to international standards — but in Shanghai, for example, they've now set up an Intellectual Property Court, focusing on IP. I met one of the judges who was trained at Yale. They're taking it very seriously and they're doing it because it is good for China, not just good for the U.S. or just succumbing to foreign pressure.**





**RLK: They need to do that to encourage innovation, which President Xi Jinping has made the number one priority of his economic plan called *The Five Major Concepts of Developments*. Number 1 out of 5 is innovation. For innovation, you need IP protection. So that's good progress being made. On industrial espionage, 2015 was a serious year. President Obama met with President Xi confidentially. That has been largely dealt with — although still needs to be monitored. Industrial forced transfer is also improving.**





**RLK: But we have to look at the two areas that serious problems: opening China's markets and the U.S. desire to stop China from supporting its industries in the future.**

**RLK: Those are the two big issues and I think they can be traded.**





**HOST:** Can they? Because right now, this whole thing looks like a blood sport if you ask me.

**RLK:** You're right, right now. But at the end of the day I think those will be traded because China needs to open its markets. They're doing some: autos, financial services and more, but they need to do more.



**HOST:** And what specifically is this administration's, how shall we say, competitive advantage in dealing with China, across the table the way you are with me.





**RLK:** Look, I think that's a psychological question. I'm dealing with more rational economics and what makes sense. I don't know. I think I can predict the long future. If you and I were sitting here 5 years or 10 years from now, we'd look back, we can see this self-solving. But to predict what's going to happen in the next few months, certainly before the midterm elections, I'm out of business.

**HOST:** All bets are off. Thank you very much for coming in and we will continue to check in on these negotiations.

