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New Tariffs — Trade War

Robert Lawrence Kuhn, September 18, 2018



HOST: China imposes another \$60 billion of tariffs on US imports a day after President Trump announces tariffs on \$200 billion of Chinese goods. Well, let's get more on that story now. We're joined from Beijing by Robert Lawrence Kuhn who advises China's leaders and multinational corporations. He's also the author of "How China's Leaders Think". How do they think about this? It's difficult to know where this might end.



RLK: Let's look at what just happened. China retaliated with \$60 billion worth of U.S. goods that it was putting tariffs on, but half of it was five percent, half was 10 percent, which is less than the American side, which was 10 percent on all. And the \$60 billion is proportional in the sense that it is about 40 percent of the total US exports to China. Just as the \$200 billion was about 40 percent of the little bit more than \$500 billion that China exports to the US. So that's the proportionality.



RLK: There's a lot of talk there might have been more countermeasures like selling treasury bonds or disrupting American companies. That hasn't occurred yet. China is sending signals that it's ratcheting down the escalation, not trying to escalate it. China has to respond. The government of China, the Communist Party of China, the leading Party, the ruling party here, has two big facets that justifies its legitimacy.

RLK: One is the economic growth. This is the 40th anniversary of reform and opening up — China's economic miracle. Increasing GDP per capita is almost 50 times, making the standards of living of the vast majority of people quite decent. Second area is national rejuvenation, national pride. And so the trade war affects both. You have economics, and the pride: the economics, the tariffs, are certainly suboptimal in all respects for all countries, but China must respond because it



has to maintain the dignity of the country, but it does so in a way to signal that it wants this to resolve.

RLK: It won't resolve soon. No one expects it before the mid-term elections. But it's very important to understand from the US point of view what the real issues are and where we seek the solution.

HOST: What are the real issues?

RLK: There are five real issues and I do not include the trade deficit — because, obviously the trade deficit is complicated. You have components coming from other countries that is counted as part of the trade deficit, but China gets no benefit from them. An iPhone for example. Maybe, China gets 6 or 10 percent of the cost of roughly \$350 for a \$1000 retail price. China has also service purchases that's not included in the trade deficit, something like \$40 billion per year — tourists, students.



RLK: But there are five big issues that are really critical. Opening up of China's markets which have been closed. They're making some progress, not enough. Intellectual property: this is an area that China really has made substantial progress. Again, not enough, need to do more, but they've made substantial progress. This is affecting Chinese companies and China knows it needs to improve IP protection.



RLK: Third is industrial espionage, a very sensitive area. Cyber theft: China has decreased it. It's a complicated area. It needs to do more. Hard to know what the government does and doesn't do, but everybody knows that's looked at.



RLK: Fourth is technology transfer. And then government support of new technologies. The last is the most sensitive one.



HOST: Robert Lawrence Kuhn, we're going to have to leave it there. Lots to talk about. We do appreciate your time.

