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New Tariffs – Trade War

Robert Lawrence Kuhn, September 18, 2018





HOST: Now from Beijing, Robert Lawrence Kuhn is a long-time advisor to China's leaders and the author of "How China's Leaders Think". Thank you so much for joining us. We appreciate it. Your reaction to Jack Ma's prediction and do you agree?

RLK: The public stance of China has to be strong. The legitimacy of the government and of the Communist Party is based on two primary factors. One is the economic development.

RLK: China is celebrating this year 40 years of reform and opening up really having created an economic miracle, an astonishing 50 times increase of GDP per capita. So that has been terrific. The second area is national pride and national rejuvenation. And frankly, China as almost every other country, if the two come into conflict, the latter has to prevail, especially in China with a history of 100 years of bullying, as they say, by foreign powers, mostly Western, and then of course Japan.



RLK: This has caused a deep scar in the Chinese psyche. So you have all of these factors coming together — but I can tell you the public stance of the government, of Jack Ma we just heard, is very strong and they have to be.

RLK: If you look at what President Trump said, that is not a public posture for seeking solution. Not just saying tariffs will go up to 25 percent in January will go up, but then threatening if you retaliate at all, we're going to levy tariffs on everything else [\$500+ billion Chinese goods]. That's a very aggressive stance and China really has no choice.

Beijing 3:36 AM

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RLK: But behind the scenes, I talked to economists, the leading economists officials, every day. Everybody wants a solution and they want it a lot sooner than 20 years. But number one, they have to have a government in Washington that are people they can talk to, that they will have confidence that what they say will be implemented. And the Chinese want a solution because many of the problems, if we look at the problems, solutions are consonant with what China needs itself, opening up markets further is one of them.

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RLK: Economists tell me all the time that China needs to open markets. That more competitiveness within China — that's good for China, but they can't look like they're subservient or bowing to foreign pressures. We can go through each of the issues that are critical: China has made progress in intellectual property. Is it perfect? Of course not, but they know they really need to improve that. They will reduce forced technology transfer.

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RLK: What they will not do is change their industrial model, which is government support for future industries. So that's a sticking point, but I believe that they will open their markets further and this is critical.

HOST: So how do you find compromise when on the one hand, as you've described, you've got a country that wants to come across as a superpower equal to that of the United States, so any concessions would make them look weak. On the other hand, there's not much love lost for China here.

HOST: In the United States, as you know, Republicans and Democrats alike, some that may not even agree with most of President's Trump's policies can't go out necessarily and throw their arms around China and support China openly to the voters. So where do you come up with a middle ground to where both sides look like they're walking away with something?





RLK: Certainly that's the objective. You're absolutely right: There's no issue in American politics that the all sides of the spectrum agree upon more than on China. In fact, on every other issue, one could say from the Bernie Sanders / Elizabeth Warren, Democrats on the left, to Donald Trump Republicans on the far right, they disagree on virtually everything we can say except on China. So that's the reality we are dealing with.

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RLK: Nobody expects this to be resolved before the midterm elections. That's for sure. But if we look at the details, if the people who really know what's going on look at the detail, we look at the real issues, we have the trade deficit, sure, but most people in the U.S recognize that it's a simplistic number.

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RLK: The trade deficit has a lot of things in there that are not accurate. You look at the iPhone, China will get 6, 10 percent of that, the rest are components that go into China. Services are 40 billion dollars — what Chinese tourists and students pay in the US — not counted in the trade deficit, which is a very complicated number. It also benefits the US because we have a lot of good products at cheaper prices.

RLK: But there are five real reasons that are problematic to the US with respect to China: closed markets; intellectual property protection; industrial espionage, which includes cyber theft; forced technology transfer in JVs; and government support for future industries. Those are five real issues that the smart people in America are focusing on. And legitimately so.

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RLK: But there are five real reasons that are problematic to the US with respect to China: closed markets; intellectual property protection; industrial espionage, which includes cyber theft; forced technology transfer in JVs; and government support for future industries. Those are five real issues that the smart people in America are focusing on. And legitimately so.

RLK: But these are, I believe, solvable — because intellectual property rights, China's improving. Industrial espionage, they're reducing and they have reduced. It needs to be more. Tech transfer, I think that will be eliminated.

RLK: The two critical issues are government support of nascent industries in China and the opening of markets. I think ultimately those two can be traded. The US can recognize that China can do some of those things with certain restrictions and really open their markets more. I think that's the ultimate trade.

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HOST: As you mentioned, it's a long-term process, not anything we're going to see resolved in the next few months or even years. Though many people would say it would be easier from the American perspective if the president wasn't approaching it as I go it alone, a type of relationship and getting out of TPP. But that's for another conversation. Robert, we appreciate you joining us.

