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## Bloomberg Daybreak (Worldwide TV)

**“U.S.-China ‘Increasing Rivalry’ Is Cause for Concern, Kuhn Says”  
Robert Lawrence Kuhn, October 4th, 2018**

Robert Lawrence Kuhn, chairman of The Kuhn Foundation and a long-time advisor to China's leaders and the government, talks about the disputes between the world's two biggest economies. Kuhn, who is also a strategic advisor to multinational corporations and the author of "How China's Leaders Think," speaks with Shery Ahn and Haidi Stroud-Watts on "Bloomberg Daybreak" from New York and Sydney.

**HOST: Could this be the new Cold War?**

**RLK: Look, we're in the unhappy world of self-fulfilling prophecy, where the reactions to perceived threats on the other side creates reactions which makes the perceived threats morph from theoretical to reality. So, in the U.S., the perception is that China is trying to replace the U.S.; China has become a competitor and may become an adversary.**



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**RLK: In China, the perception is that the U.S. is trying to thwart China's rise, contain China.**

**RLK: So we have these two opposite views. But this is not a trade war. It is basically an existential fear. And this is what we have to battle, because ultimately the Chinese people, the American people, are better off by America and China working together, just as the whole world is.**



**RLK: But there are real issues. The trade deficit seems a simple number, but which is not so simple. In fact, there are five major issues from the U.S. point of view: Number one is China's closed markets. Number two is the intellectual property theft of companies in China.**



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**RLK: Number three is industrial espionage; cyber theft which is what we're talking about today. Number four is forced joint venture tech transfer. And number five is the Chinese Government subsidizing technologies and industries of the future, the so-called "Made in China 2025". These are real issues. But China is making progress in intellectual property protection and other areas. And so what we have to do; we have to look at these areas and see where the ultimate trade can be.**



**HOST: Are they making progress in ways to hack the United States as well because we are now seeing these reports that there could have been hardware hacking by China.**

**HOST: Could we be facing a tech war?**



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**RLK: We are facing a tech war. As for the hack itself, there are disputing claims today by the companies and by Bloomberg's reporting, so trying to know where that is. But clearly China has been doing espionage. All countries do espionage. The difference is that in China there is no line, or a blurred line, between industrial (or commercial) espionage, and military / defense / security espionage.**



**RLK: In the U.S., in the western world, there's a bright red line where one recognizes as acceptable espionage in defense and security. Everything's fair game, whatever you can do, good for you — but commercial and industrial espionage is off-limits.**



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**RLK:** In China it's all about the development of the country, after a century of humiliation at the hands of Japan and western powers. So, China is looking to build itself up and there was no distinction between industrial and military espionage in terms of the rejuvenation, the revitalization, of China. More recently, since 2015, China has become sensitive to the difference. And so progress is being made, but much more needs to happen.



**HOST:** Robert, Amazon and Apple, as well as Super Micro, have all come out denying the accuracy of Bloomberg's reporting. But, if you look at the details, would it validate the Trump Administration's hardline stance against China? And does it endanger the Asian supply chain for technology, and make stronger the argument that some of these factories should be moved back on shore — and if you are investing in this type of technology offshore, than you've got to bake in this risk?



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**RLK: This is the critical question; you've hit it right on the head — and I agree with that. And that's why this is a serious story. I can't adjudicate here what the truth of all this is, but we know for sure the U.S. and China have been doing their best in various areas to conduct espionage operations — no question about that. How it differs and is changing, as I said, is the distinction between industrial espionage and defense espionage, to which China has become more sensitive.**



**RLK: It wouldn't make any sense for China — for the snippets of information that they may get from some of these companies — to basically jeopardize their whole global supply chain, upon which the entire Chinese economic miracle for the last forty years has been based. That would make no sense whatsoever. That doesn't mean it hasn't happened, but it is not like a national program to do that. That's completely illogical.**



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**RLK: But in terms of justifying the Trump Administration, in terms of what they're doing, yes this will be used and to probably add legitimacy. You can always find justifications [for enmity]. The challenge is not so much to find legitimacy for what divides us, but the better challenge is to find legitimacy for what can unite us. And if we go through the real issues, we can see China is making real progress in intellectual property protection — for their own benefit.**



**RLK: China needs to open their markets more, again for their own benefit. It helps the competitive position in China for more companies to have greater freedoms in China. The critical area of concern will be the Chinese government's support of industries of the future, and this they're probably not willing to give up. They may put some restrictions on it, but they're not going to give it up. So we have to promote the opening of Chinese markets. That's the key for the future.**



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**RLK: But I don't see it happening anytime very soon.**

**HOST: Robert, Sherry mentioned this idea of a Cold War, a war of attrition We've also heard the U.S. is planning to put on a show of force to kind of warn Beijing. There was a report of that near-collision of the warships. Is the risk of an actual altercation getting higher?**



**RLK: Yes, no question about it. And it is again this world of self-fulfilling prophecy, that each side is engaged in.**

**RLK: And if I am embedded within the thinking of the Chinese, which I am often as well as in the U.S. which I am also often, I can put myself coming to those same conclusions.**



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**RLK: That's the history of human beings. And so we have to rise above that in today's world and see what these issues are. Because the issues that really divide China and the U.S. are really superficial, if we really understand them deeply. And there's much more to be gained in common with cooperation, but for right now — in trade, in technology, in the South China Sea, in competition around the world in other countries with infrastructure development, there is increasing rivalry — and it is a cause for concern.**



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