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Squawk on the Street

US-China High-Level Trade Talks in Washington

Robert Lawrence Kuhn, January 30, 2019





Host 1: Give me your take right now in terms of where we are and what the likelihood you think is of real progress being made [in Washington negotiations] that even if it's not a deal, might be enough to forestall those tariffs going into effect on March 2nd.



KUHN: I think short term we do have some kind of deal. Whether it's a postponement or an actual deal, that decision won't happen now. It will happen very close to the deadline, not at the deadline, but just before. President Xi, President Trump, they both need a deal for very different reasons. President Xi talks about the significant risks that China is facing politically, economically, a financial risk, overcapacity. The need to reform state owned enterprises, contend with interest groups, a whole series of things. Trump obviously needs a rising stock market like today, hopefully, and needs a win because of all of his other issues.





KUHN: So there's a great deal of pressure on both to get a deal done. I think a deal will be done. Some kind of deal that each side can say is okay, a "win". I think midterm though, defined as the next three to ten years, US and China, this deal, whatever it is, is not going to solve those problems. We see conflict in terms of technology, geopolitical issues — that things will probably get a lot worse before they get better.

I hope long term that there is strategic cooperation between the US and China. But we've got to go through a long patch before that.





Host 1: Right, to your point, their 2025 plan they may not talk about as often or openly, but they still do have a plan to be the world's largest economy, in the next 10 years, maybe less, and may be ahead of us in 5G, ahead of us in artificial intelligence. Isn't that a threat that ultimately means the two countries are going to be opposed?

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U.S. COMPANIES WARN ON CHINA AS HIGH-LEVEL TRADE TALKS BEGIN

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LAM RESEARCH	168.70	[+2.25%]
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KUHN: It depends on how you look at threat. In the old world, in the 19th century, part of the 20th century, threats where when people wanted the same territory and it was a zero-sum game. There is some of that in the world, but not much. When you're talking about technology, you have incremental bases. It's not a zero-sum game. Technology will bring up everyone. What's wrong with competition in technology?

SQUAWK ON THE STREET

ROBERT KUHN
"HOW CHINA'S LEADERS THINK" AUTHOR

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KUHN: China 2025 has been misinterpreted in many ways, that China is trying to dominate the world. China's trying to build its own economy; it's trying to increase the standard of living of its people.

Xi Jinping has made a remarkable statement. He says he spends more time on antipoverty work, on poverty alleviation, targeted poverty alleviation, than on anything else, whether it's the military or economics. It's a remarkable statement.



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NIKE	80.26	[+0.05%]
BOEING	389.39	[+6.71%]
ILLUMINA	272.47	[-4.49%]

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KUHN: So it's not like there's this entity trying to take over the world. They're trying to build the standard of living for their own people. They're also trying to protect their political system. We can disagree with that system, but they are trying to protect it. A lot of the moves they are making are designed to maintain the stability of the country through enabling the political system to survive the various kinds of external threats that they see, which may be legitimate in terms of what they do on their own.



KUHN: They think stability is absolutely necessary, that, to elevate the standard of living of their people, to eliminate all extreme poverty, to give people healthcare and social security and education, all the things that they want.



Host 2: We have pictures from this morning of Ambassador Lighthizer, the US trade representative, who's leading these negotiations, kicking off the meetings, welcoming. The press was allowed in for those initial remarks.

What is your sense on how far the two sides are apart on structural issues, like intellectual property and the enforcement monitoring? That seems to be the tricky stuff.



KUHN: If we look at the whole picture, trade deficits started the conversation, but nobody really talks about trade deficits seriously. That'll be made up through purchases, but that frankly doesn't benefit the US very much at all—for the Chinese to buy products. It's helpful in some ways but, but no long-term benefit.



KUHN: There are really five big issues: opening of Chinese markets; intellectual property theft that has been going on in the past; cyber espionage and cyber theft; forced technology transfer in joint ventures; and the government subsidies of new technologies. Those are the real issues.



"REAL" CHINA ISSUES

BEYOND TRADE DEFICITS

- Closed & restricted domestic markets
- Poor I.P. protections & cyber theft
- Forced tech transfer
- Gov't subsidies to favored industries

ROBERT KUHN

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KUHN: Now on some of these, China has made real progress and needs to be given credit for that. Some they haven't, and they need to be held to account for it. They've made progress on intellectual property protection. I have visited the Shanghai Intellectual Property Court. There are some very tough judges. I've met a woman judge who was a lawyer who was trained at Yale and she had some very big cases that had been awarded to foreign companies. These IPR judges have that mandate.



KUHN: China knows that if it doesn't protect its intellectual property, No. 1, its own companies are going to suffer, and No. 2, the country is never going to take a significant role in the world of business. China wants Shanghai to be a world center of business, like London and New York and maybe even the first among equals, and for that to happen, however many years in the future, they must protect intellectual property. So, there is great pressure on IPR protection in China. It has been difficult for them to do because of the nature of society.



KUHN: In terms of government support of technologies, there's great debate in China. I've talked to Chinese economists who tell me, privately, that many of the things that the US demands is actually better for China — Intellectual property protection, not providing state subsidies for state-owned enterprises because that hurts productivity.



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WYNN RESORTS	117.53	[+0.73%]
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QUALCOMM	49.50	[+0.20%]
MICRON	38.10	[+1.89%]

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Host 1: Reform will increase their actual competitiveness in the global market.



KUHN: Yes! So, the irony is that what the US is forcing China to do, in the short term will be good for the US, in the long term, it's better for China.



Host 2: As a result of this trade fight, Robert, very quickly — in the long term, are we going to do more damage to this relationship? Or will it lead to a better relationship with China?

KUHN: I think there's a narrow window to make it better — and that's just what I said, because the Chinese economists who want the best for China, realize that much of what America is demanding now, is good for China in the long run.



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