



CNN – CNN Today

US-China Trade Tensions & Slowdowns

Robert Lawrence Kuhn, January 3, 2019

slowdown

CNNi talks to Robert Lawrence Kuhn, a long time advisor to Chinese leaders and corporations, about the economic slowdown in China. Source: CNN

CHINA SLOWDOWN

APPLE FEEDING FEARS OF GLOBAL ECONOMIC SLOWDOWN

Stock plunged 10% in steepest decline in 6 years

0:11 / 5:12 space probe successfully makes soft landing on far side of moon

11 montgomery

Host: So clearly as you can see with U.S. stock markets and the steep decline, U.S. is hurting, China is hurting with this slowing down of its economy. You would think that would incentivize both President Xi and Trump to get to the negotiating table and come up with a deal. Is that likely because of the pressures that they're both facing now?



China economic slowdown

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RLK: Certainly, we see the interconnectedness of the United States and China, which differentiates the tensions between the countries very differently from the old U.S.-Soviet Union Cold War. US and China are inextricably connected economically. We see that all the time and we've seen it again today. I absolutely agree that there is pressure, different kinds of pressure on president Xi Jinping and on Donald Trump. Donald Trump has an election coming up. He doesn't like the stock market where it is. It's been one of his claims to success. And the trade war with China is definitely a headwind.



RLK: President Xi Jinping on the other hand, doesn't have to worry about an election, of course. In fact, he doesn't have term limits. So, wh can look long term, but he's fighting what he calls "three big battles" of financial risk in the economy with very high debt in corporations and local government. His commitment to end all extreme poverty in China by 2020 and the pollution problem. And so, the trade war is a massive obstacle in terms of his objective. So, there is great pressure on both presidents and that's very good. We should be happy to see the pressure on both presidents to get a deal done because that's in the interest of both countries and, as we see, of the entire world.



Host: As an aside before, Donald Trump calls what we're seeing in the Dow and last month, December in particular, which I think was the biggest drop since 1931, he calls it a glitch. A, would you agree with that, B, do you think his trade war with China, the tariff war, has exacerbated this situation?

RLK: Certainly, the trade war is an uncertainty, and markets hate uncertainty. So, the stock market fall is an effect of the trade war. Great uncertainty is seen, for example, at least at the beginning, after tariffs, the trade deficit has gotten higher because many people were buying products in anticipation of things getting worse. So, it's a very complex situation. Also complex in China, because the government for the last several years has been focusing on what they call supply side structural reform, deleveraging, eliminating over capacity, getting companies out of the debt trap.



RLK: And when China's economy is slowing, exacerbated by trade war, that pulls in the opposite direction because normally they'd want to have a stimulus, but they can't have a stimulus because the debt is so high. That would make the economy even worse in the future. And there's no other president to come because President Xi Jinping is there for the long term. So, it's all on his watch. But that gives him the flexibility to do what he thinks and his staff thinks is best for China in the long run. And that's probably not a major stimulus, which means, in the short term, the economy will suffer more so, which will have a reciprocal effect on the U.S. Again, it's a very complex situation and the best solution is to, at least short term, solve the trade war. It's not going to solve all U.S.-China problems. It's gotten too far. There are great tensions and great suspicions on both sides, but it would be a really good start.





Host: When we talk about the global impact though of what we're seeing happening, including the uncertainty that this U.S.-China trade war is causing. I mean, if China's economy is slowing down, then you have other major companies in the U.S., which are exposed to the Chinese economy, like GM and Starbucks. They obviously could suffer as well. But you also have companies in Germany, South Korea, Japan, that also supply parts to the iPhone in China.

So, can you talk just quickly in layman's terms, just the global effect that we may see as a result?





RLK: In an interconnected world, everybody is affected. The components are made in South Korea and Japan as you've said. The interconnections in today's world are so complex, you can't even untangle them. So, everybody is affected, and that's why the U.S.-China trade war is so inimical to the global economy, especially because of the uncertainties of this time. But what we need to do to really analyze it is to look at it China and look at the U.S. as independent elements and then look at them together. And when we do that, we see the motivation in both countries is to solve this. As I said, it won't solve long term problems that are geopolitical and sensitive, especially the sovereignty issues. But to solve the trade war would be a very good start for China and the U.S. And as we see the economic pressures that are circling the world, there'll be additional pressures on both presidents to make a deal.



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