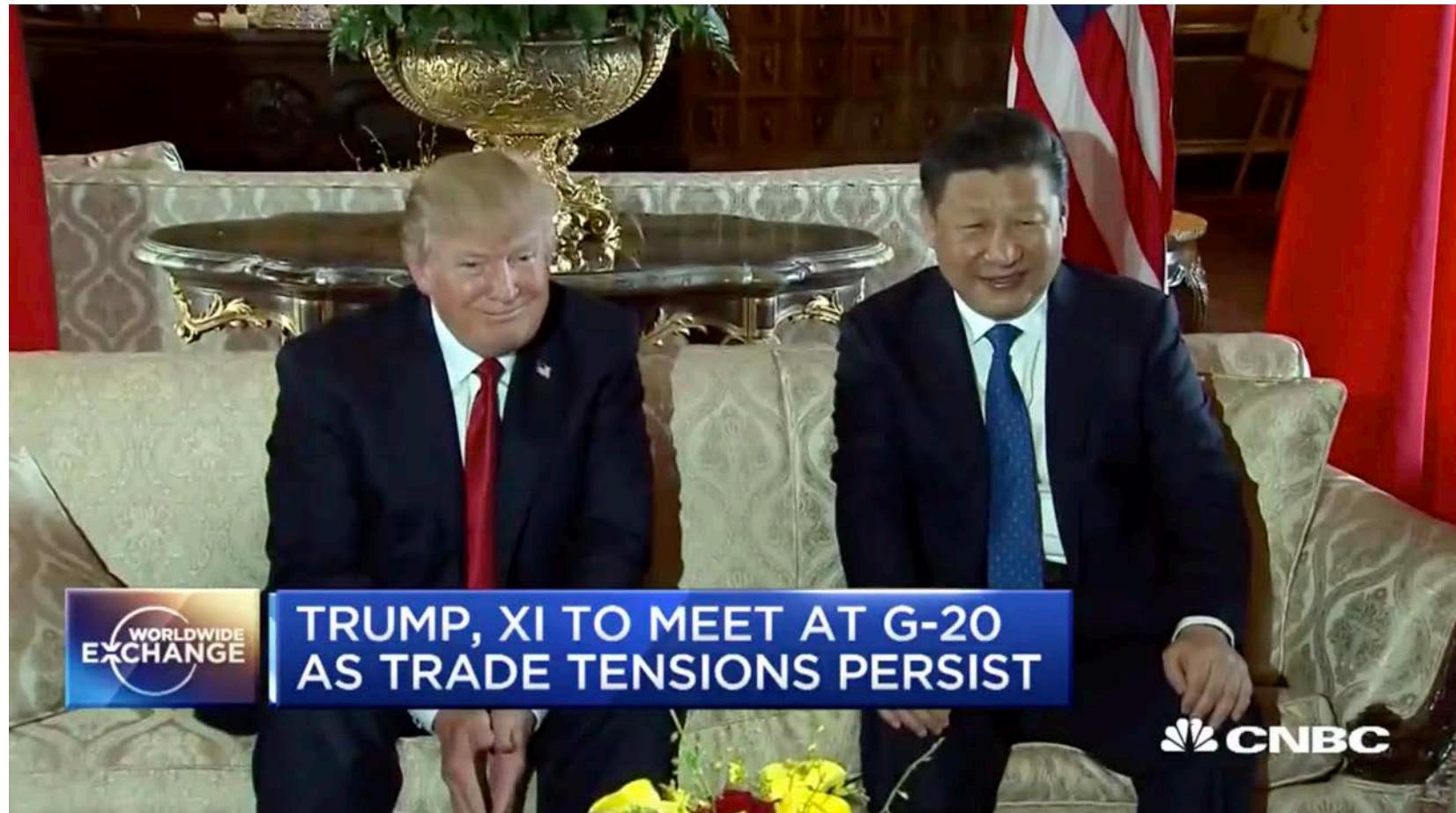




CNBC – Worldwide Exchange

G20 Summit, US-China Trade War

Robert Lawrence Kuhn, June 24, 2019



<https://www.cnbc.com/video/2019/06/24/kuhn-best-and-worse-case-scenarios-for-q-20.html>

Host: What would be the best case outcome? The best possible scenario from the Xi-Trump summit this week?



RLK: The double irony is that, first, the kinds of demands the US is making will be, in the long run, better for China, and second, the list of demands had largely been negotiated among the trade negotiators — almost all of them — before there was the disruption which was brought about by the nature of the enforcement of those.



RLK: So given that, and subsequent to the breakdown, there has been a hardening of positions in both countries, both the political leaders as well as the general public. And this puts a lot of pressure on the Xi-Trump visit. Happily, President Xi is strong enough, and President Trump is mercurial enough, to be able to break through that inertia that we currently have. So if we look at—





Host: Hold on, Robert. Hold on. Robert, let me jump in here because I want to push back on something you said at the beginning, which was "the demands the US has made would be ultimately good for China." Do you really believe that China wants or is committed to the kinds of intellectual property reforms and outside enforcement that the Trump administration wants?





RLK: Well, first of all, let's look at the list. The first three or so do cluster around intellectual property. Intellectual property protection in China, forced technology transfer in joint venture, and cyber theft. Those are the big three. So we have to unpack them and to see what they're like. First of all, intellectual property protection. This is essential for China in order for China to become a leading innovator in the world.



RLK: That's their goal, to have indigenous innovation, become a world leader in all the major new technologies. And for that to happen, you need intellectual property protection. I have visited the intellectual property courts, the new one in Shanghai. They have it in Tianjin, and in Beijing and in Guangdong Province. And these are really serious efforts. It has a long way to go, sure. But they are serious efforts, because China needs IPR protection to develop their own innovation.



RLK: On forced technology transfer in joint ventures, China has passed a new law, the Foreign Investment law, which now says that those things are no longer necessary. Cyber theft is a sensitive area, has to be settled privately. So those issues are really important for China. But opening markets as well, and reducing state-owned enterprise subsidies — these are all critical areas that would be ultimately better for China, although for China's own developmental model, they do need some kind of state support.



RLK: Those are some sensitive issues, but you put your finger on the right place because enforcement is the key. And that's what made talks break down. The US insisted on very strict enforcement, and for China that was an insult. It goes against their dignity and their sovereignty, and because of the public exposure, that made it a problem.



Host: Of course. But it's also insulting for US companies to have their intellectual property stolen, Robert. I mean that's probably the bigger insult, is that, you know, if you're Microsoft and 90% of Windows installations on computers were pirated, that's insulting as well.

RLK: No question.





Host: But the worst case scenario would be that both sides decide not to attend. We still have a few days until they actually get there. But, assuming both Xi and Trump do arrive, what would be the worst possible outcome of an actual meeting?



RLK: What we expect is that the two presidents will signal that they will give their senior negotiators the marching orders to reach a deal. That's the best scenario. And we will judge anything short of that as something we must analyze. I don't think it's going to be difficult to analyze what happened.



RLK: Clearly, we're not going to get a deal. They're not going to get a complex, 150-page deal signed and sealed in Osaka. There's no chance of that. But what we will do is we will read the tea leaves of exactly what they say — and the expectation is they will give their top negotiators a mandate to get a deal done over a period of time. Anything short of that, we'll know there's problems, and that could be followed by tariffs and then a long-term battle.



