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China-US Trade War

Robert Lawrence Kuhn

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Host: Welcome to News Hour from the BBC World Service. We're coming to you live from London. I'm James Menendez, and we start today with the confrontation between China and the US over trade. With every week the stakes get higher and the rhetoric from both sides, well, less conciliatory. On Saturday, both countries imposed further tariffs on each other's goods. And today China's Defense Minister, General Wei Fenghe, had this to say, speaking to reporters in Singapore.

General Wei Fenghe (Interpreter): As for the recent trade friction started by the United States, if the US wants to talk, we will keep the door open. If they want to fight, we will fight to the end. Before coming to Singapore, I saw what was being said by the general public in China. A talk, welcome. A fight, we're ready. Bully us, no way.

Host: Those comments come at the same time as the release today of a new policy document, or "white paper" in Beijing, laying out that tougher stance. Presenting the paper, a senior Chinese trade negotiator laid the failure of negotiations firmly at America's door, saying its unreasonably high demands were intervening with China's sovereignty. Add to that threats last week to blacklist US firms that stopped supplying Chinese partners. From the outside, it certainly doesn't look as if a breakthrough is possible. Both sides seem to be digging in for the long haul. But one man who knows more than most about trade relations between China in the US is Robert Lawrence Kuhn. He has advised Chinese officials and companies about trading overseas and US firms about doing business in China. So, is China really prepared for a full-blown trade war and if one develops, what will be their weapons of choice?

RLK: China of course, has said that it does not want a trade war; it does not want to fight, but if it has to, it will, and it will fight to the end. In fact, the State Council Information Office just released today a roughly 5,000-word English kind of rebuttal of the American position, taking a very strong stance against American so-called accusations that China has stolen intellectual property to use for its advancement. But the tone at the end of this white paper shows that China really does want to settle and is putting out a strong position in order to equal the US's (accusations), so that they will have a balanced, dignified approach to serious negotiation.

RLK: So, with that as background, China has a fairly diverse kinds of things that it can do, but each one has to be analyzed, because although on the surface they may look like they're hurting the US, if you dig a little deeper, they may be hurting China even more. People talk about rare earth—China's controlling of a very large majority of the rare earth market. But if you drill down on it, if China uses that, it'll just drive others into production and perhaps hurt China's position long term. People talk about China's selling US treasury bonds to put pressure on the interest rates in the US but, you know, that has all sorts of unintended consequences, some of which will be detrimental for China in terms of their holdings and in terms of the economy and interest rates and everything else.

Host: What about going after American firms operating in China, there's been a bit of saber rattling about Fedex hasn't there in the past couple of days/

RLK: Yes. I mean it's not only about FedEx, many American firms are reporting various kinds of interferences or delays at customs or extra checks. Nothing that you could say is systematic, but overall there's definitely some pressure on US firms. It's light pressure at this point. It's really showing what other things could be done. Obviously, some American companies are very exposed to China. Apple I think has 20% of its revenues, GM sells more cars in China than it does in the US, Starbucks, I mean, you could look at a whole host of companies. But once again, if China moves strongly against these companies, it will force them to make other contingencies, which would hurt China in the future. And then even companies that are not targeted will see that they could be, and will start making different investment decisions, pulling their global supply chains away from China.

Host: How important is it for President Xi and the leadership of the Communist Party not to be seen to back down in any way at this point?

RLK: Yes, that's always extremely important in China. China has a long history, from the Opium Wars through at least the founding of the People's Republic in 1949, so more than a century, of feeling humiliated, oppressed, invaded by foreigners, with very good reason of course, during this period. And there's a term that's used in the early part of that called "unequal treaties," where China was forced to cede Hong Kong and make concessions in Shanghai and Tianjin where the cities were divided up into eight, nine different concessions to different foreign powers. And the legitimacy of the Communist Party of China maintaining its leadership role in the country is based really on two big pillars. One is economic development, leading the people to higher standards of living and bringing 750 million plus people out of poverty, a remarkable achievement. But the other pillar is pride, is nationalism, is a sense of returning China to its position as one of the great powers in the world. And so that really cannot be violated and, in fact, in any showdown between economic concerns and patriotic pride concerns, patriotism will win.

Host: Donald Trump seems to, from what we can tell, take a pretty zero-sum view of these sort of negotiations. Is there, though, a solution that looks like a win-win for both countries that could be reached?

RLK: The answer is certainly yes to that. However, it is now today more difficult than it was two months ago. But if you look at the issues that are on the table — intellectual property protection, forced technology transfer, cyber theft, market access, subsidies to state-owned enterprise, currency manipulation. Those are six kinds of hot-ball issues. Frankly, on virtually all of these, progress has been made and on some of them they really have complete agreement. Because what the US is asking for, in many cases, is what China's economy really needs to do. And China is changing. If you look at intellectual property, I have visited the intellectual property courts in Shanghai. I talked to the judges, one woman trained at Yale. I mean these are very serious things going on and China knows that it has to do that to become a world power. The sensitive issues, though, are subsidies to state-owned enterprises, which is part of China's whole system of doing things, which the US is trying to restrict. And I don't think there's any way the full US demand will be met.

Host: That's the 30-year veteran of China-US trade policy and host of a show, "*Closer to China*", on Chinese state TV. Robert Lawrence Kuhn. He was speaking to me from New York, just returned from Beijing.