

Bloomberg Daybreak (Worldwide TV)

Trade War, Technology Competition Poverty Alleviation, Hong Kong Protests

Robert Lawrence Kuhn – August 7, 2019



Robert Lawrence Kuhn, author of "How China's Leaders Think" and a long-time advisor to China's leaders and multinational corporations, talks about disputes between the world's two biggest economies, and the protests in Hong Kong. Last year Kuhn received the 'China Reform Friendship Medal,' China's highest award, from President Xi Jinping. Kuhn speaks with Paul Allen in Sydney and Sophie Kamaruddin in Hong Kong on "Bloomberg Daybreak: Australia." (Source: Bloomberg)

HOST: Robert Lawrence Kuhn is long-term advisor to China's leaders and multinational corporations. He received the China Reform Friendship Medal, China's highest award, given by President Xi Jinping. He is the author of "How China's Leaders Think".

HOST: Robert, there is a sense of escalating trade and potentially currency wars and flooding in this environment, of escalating trade and potentially currency wars and diplomacy by tweet. How will China's leaders be thinking right now?



KUHN: They're in it for the long haul. Unfortunately, this has gone way beyond trade. It's in technology. It's in currency. It's somewhat paranoid thinking in both places, as we see nationalism rising, the temperature of nationalism is always negative. On rational approaches, the economies of both countries are affected as is the world's economy. One only hopes that rational voices will prevail. We have unfortunately, in both countries, media that has become somewhat shrill, and we see President Trump levying additional tariffs, putting China in a very awkward position.

The screenshot shows a Bloomberg TV broadcast. On the left, a male host in a suit and red tie is seated in front of a backdrop featuring the Sydney Opera House and Harbour Bridge. On the right, another male host in a suit and purple tie is seated in front of a backdrop of a city skyline at night. The video is framed by a yellow border. At the bottom, a blue banner displays the text "Bloomberg" on the left and "CHINA, U.S. EXPECTED TO TALK IN DC NEXT MONTH AS PLANNED" on the right. In the top right corner of the screen, there is a sidebar titled "For You" which lists several news items with small thumbnail images and their titles:

- NOW PLAYING: China Advisor Kuhn on Trade Spat, Hong Kong Protests
- 03:30 U.S. Labels China a Currency Manipulator Is 'Mostly Symbolic': Goldman
- 08:27 U.S. Designates China a Currency Manipulator
- 04:22 Scaramucci Says Trade War May Lead to Liquidity Crisis, Sees Trump Winning in 2020
- 01:01 Morgan Stanley Warns U.S. May Quickly Escalate China Trade War
- 01:08 China Grabs More Gold For Reserves
- 03:05 H.K. May See Negative GDP in Second Half: BofAML's Qiao
- 05:48 Trump Administration Labels China a Currency

At the bottom right of the screen, there is a call-to-action button with the text "Get unlimited access to Bloomberg TV." and a "Subscribe" button.

KUHN: The irony is that we were very close to a deal up until May. Both sides said about 90 percent of the issues were pretty much resolved. Chinese economists actually like some of the pressures the U.S. was putting, making China do what it needs to do anyway. The irony is that China would benefit in the long run better than the U.S. from the various provisions.

KUHN: The problem came about because the U.S. insisted on various kinds of strict enforcement rules which were actually insulting if they would be made public — and of course everything becomes public. And so, one would hope that there are rational approaches to these issues because they are solvable, and that diplomatic structures can be put together that give both sides the dignity and the face-saving nature they need in front of their own publics.

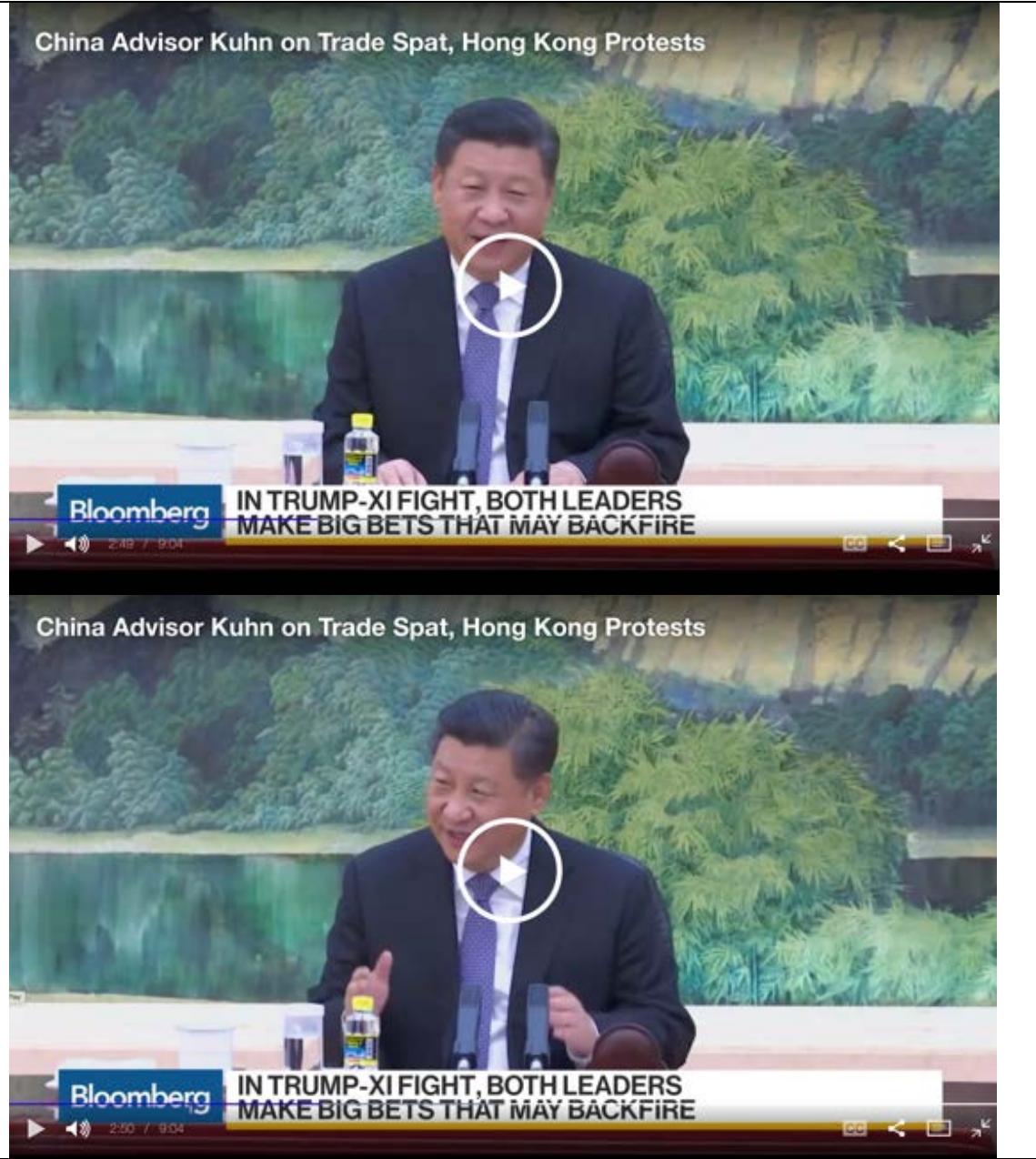


HOST: The face-saving aspects of all of it is a very important point, which is often underestimated. But I was struck also by a remark that President Xi made very early on in the trade dispute when he described it as a "Long March". Now China of course has no elections and has a command economy and its population is less wealthy than the US. So, it has at least less to lose and of course it's a very old civilization compared to that of the United States, so is perhaps the thinking here, "Well, we'll just dig in and outlast the U.S.?"

KUHN: Well, China has a lot to do in its own markets. One need to look at the issues in China. They need to restructure the economy. They need to transform the economy to high-level. They need to eliminate pollution.



KUHN: What is underappreciated is the significance that China has put on its anti-poverty campaign. President Xi Jinping says that poverty alleviation is the most important thing he does. He spends more time on it than anything else. And it's really quite remarkable. China brought 700 million people or more out of poverty. And since 2012, 100 million people were subject to what's called "targeted poverty alleviation" because these people, no matter how much economic development would occur, they would be left behind — because they're in remote mountainous villages or infirm or have no education — and so targeted programs have focused on every single poor family. Tens of millions, each with a specific plan to bring them out of poverty. And President Xi is focusing on that. And that's what they want to do in China.



KUHN: They want to build their own economy and they want to increase the standard of living and bring all the people out of extreme poverty. Of course, they are still poor. And much needs to occur. So China is not trying to do some long-term fight, but they cannot look weak in the eyes of their public. The Chinese people are a very proud people, as most people are, but China, because of its long history of a century of oppression and invasion and humiliation, has maybe an extra sense of the pride that has been deservedly built over this period of time.



KUHN: So, we need to be sensitive when people think China is going to "take over the world". You know, I haven't met anybody in China in 30 years who either thinks that or desires that. People laugh in China when you say that foreigners think China is going to "take over the world". Their response is to say, "We have so many problems at home that we have to deal with."



KUHN: So, what I'm most concerned about is mutual self-fulfilling prophecies where what the other side does reinforces what you think and it becomes a vicious cycle. We have to break that cycle.



HOST: And Robert, turning to China's other economic ambitions. China hoping to be a pioneer in areas like AI, 5G. What do you make then of potential decoupling of the U.S. and China when it comes to leading the global economy, particularly in the IT space? What could that mean for the global economy?



KUHN: Everybody loses. Economics 101, the laws of comparative advantage, when each side contributes what it does best, everybody benefits. Particularly in technology where you have a shared knowledge and in shared knowledge, there is amplification of each other side. Good competition is terrific. But decoupling is not; everybody will suffer in that process. Technology shouldn't be a win-lose competition. It should be a market competition to lift all standards of living. And that's what everyone wants to do.



KUHN: China is very much focused on science and technology. You see, when China has its the biannual meeting of the Chinese Academy of Sciences and the Chinese Academy of Engineering — which are the top bodies in science and engineering — President Xi and every member of the Standing Committee of the Politburo of the Party — which is the highest authoritative body in China —every member comes to those meetings. Science and technology is highly regarded in China; it's a very high status symbol.

KUHN: And so the country wants to develop its science and technology. They're behind in many areas but catching up very rapidly. There was a study done of 180 different areas of science in the world and China was number one in about 25 of them (as of a year ago), U.S. was number one in about 80 areas. But China was catching up. That's good for the world because everybody will benefit from increasing technologies.



HOST: Now Robert, if we could turn our attention to the protests here in Hong Kong, China's latest response shows that positions are hardening after weeks of rallies. The head of China's top agency overseeing the city ruled out an independent inquiry into the unrest. Where do you see things going from here?



KUHN: We need to start by understanding why China thinks Hong Kong is so important to it. Five reasons: two are economic and three political. The first economic reason is Hong Kong has been the vehicle by which China has enabled foreign companies to do business in China. Hong Kong accelerated China's reform and opening up. That's less important today with the rise of Shanghai and Shenzhen and other cities in China, but what is new and very important is what's called the "Guangdong-Hong Kong-Macao Greater Bay Area". It's a coordinated development plan and it is the mechanism by which China will transform its economy.



KUHN: There's one in the north with Beijing Tianjin and the new City of Xiong'on, and another around Shanghai and the Yangtze River Economic Belt, but the one in Guangdong-Hong Kong is the biggest — it's GDP is heading towards \$2 trillion, projected to be \$3.5 trillion by 2030. If it were an independent country, its GDP would be almost in the top ten of the world, so it's extremely important for China's economic transformation.



KUHN: Politically, Hong Kong is important to China because it reflects the “one country two systems” theory that Deng Xiaoping put in place. That is the vehicle for Hong Kong to prosper. And it's also what China would like in the future to apply to Taiwan.



KUHN: Two other political reasons are that Hong Kong is the symbol of China's recent resuscitation and revival after the century of oppression and humiliation. And finally, Hong Kong is the symbol to the world of China's leadership and governance. All of these reasons make Hong Kong very important.



KUHN: So, China will do everything possible to give the local government total authority, will not intervene in any way. But, recognizing that there are three “red lines” that cannot be breeched. First, is no movement towards independence or quasi independence. Second, Hong Kong cannot be used as a base to undermine the political system of the country. And third, finally, if there is unending chaos that will undermine the economy of Hong Kong. So, if any of those three “red lines” become such that the local government cannot handle them, then China will then have to up the ante. And we're now seeing some of that in rhetoric. We'll see what happens on the ground.



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