



CNN – Quest Means Business

US Tariffs, Trade Negotiations, Hong Kong

Robert Lawrence Kuhn, June 14, 2019





Host: More than 600 companies have written to the White House warning increased tariffs on China will lead to job losses and higher prices for shoppers. Now, in a joint letter, the brands, which include some really big names here - Walmart, Target and Gap - say, "an escalated trade war is not in the country's best interest and both sides will lose. We are counting on you" - they mean the president - "to force a positive resolution."





Host: Now, public hearings on the proposed tariffs will begin Monday and all of this comes as China is aiming to try and drum up trade outside of the United States. President Xi has just met the Russian and Indian leaders at the Shanghai Cooperation Organization summit. It's a key forum for Central Asian economic and security issues.





Host: Robert Lawrence Kuhn is a longtime advisor to Chinese leaders and the author of "How China's Leaders Think" - and we have you here again to get some insight. You have just returned from China. When we take a step here and look at the escalation in the trade war recently, what do you think is at stake now and what do you think will get China to move to a place of compromise?





RLK: The double irony here is that everything the US asked for is in China's best interest: intellectual property rights protection, opening up of markets, reduction of subsidies to state-owned enterprises, etc. The second irony is that the US and China trade negotiators have pretty much reached agreement on most of the substance on the intellectual property rights.





RLK: China passed a law that now reduces the requirement of forced technology transfer in joint ventures.

RLK: The problem has been on the enforcement and the public perception of what the agreement means, what the US is insisting on in, what China wants to do privately.





RLK: So we have this double frustration because tariffs are terrible for everyone. It reduces the economic efficiency. And by President Trump recently saying he is going to put 25% tariffs on \$300 billion more Chinese goods if Xi Jinping doesn't show up, really puts China in a very awkward place. A lesser leader than President Xi would have had to reject that just because he would lose so much of his own perceived political strength. Fortunately, President Xi is strong enough that hopefully he will be able to overcome that and meet with President Trump.





Host: And I know this is incredibly complicated. As all of this has been going on, Robert, as you know, we had those protests in Hong Kong. Now Beijing has been in the center of that story this week. Those protests, as we were saying, China has summoned the US envoy over its 'irresponsible remarks' made about that controversial extradition bill with Beijing, saying it will not accept and it says the United States is meddling in Hong Kong affairs.





Host: Listen, you just said that it takes someone of the strength of Xi to kind of get through this. And yet when you look at the Hong Kong protest and you look at so many people, including Secretary of State Pompeo said, quite concretely, "we stand on the side of democracy." How does this all get resolved when you've got so much at stake?





RLK: Let's understand why Hong Kong is so important to Beijing. First of all, economically, Hong Kong has been the window to the world, but that has changed with the growth of Shanghai and Shenzhen and other areas. But now Hong Kong is the linchpin of what's called the Greater Bay Area strategy, which is an integration of Hong Kong and Macau with the major cities in Guangdong Province. Together they have about 12% of the Chinese GDP, about \$1.5 trillion.





RLK: If that were a country alone, it would be in the top 15 in the world. So, Hong Kong sits at the center of the Chinese economy. And the idea of regional coordination is key: China is doing it in the Yangtze River around Shanghai and north with Beijing, Tianjin and the new city of Xiong'an.

RLK: So, while there are three areas of Hong Kong's importance to China, this is the big one, around the Greater Bay Area. Hong Kong is critical to make that happen in many different ways: technology, logistics, etc.





RLK: There are two other reasons for Hong Kong's importance. One is that this is a demonstration of the Chinese method of governance. And third, Hong Kong is an expression of China's national pride. So this all puts Hong Kong at the highest level of significance, especially at this time in the 70th anniversary year of the People's Republic. So those are the stakes.





Host: And let's be clear, Robert, they believe that system of governance is superior.

RLK: No question. And a great majority of the Chinese people think the same. That doesn't mean it's perfect. And there are a lot of people who complain about non-access to the internet and different things, but bottom line, people's lives are better. 800 million people have been lifted out of poverty. People see that.





Host: Okay. We're not talking about perfect, though, we're talking about repressive, which is a completely different issue. But we had an interesting issue come up, the global chief economist of UBS has been put on leave over a phrase—and it was insensitive, and he said that—he apologized. He was discussing consumer prices in China. Paul Donovan had attributed higher prices to "sick pigs," which was interpreted by some as a slur. Now he, as I said, apologized. Take a listen.





Paul Donovan: I apologize for anyone who took any offense from my remarks, which were clearly not intended to offend. I've got it wrong. I made a mistake and I unwittingly used hugely culturally insensitive language.



Host: And yet this is even from groups of financiers and securities people in Hong Kong, they're saying, "we don't want any part of UBS anymore." They are taking a stand and yet not taking a stand on what's going on in Hong Kong with the extradition treaty. Can you explain that to me?





RLK: You know, this goes well beyond China, Chinese culture. This is a human tendency. We all have a sense—it's based on an evolutionary process of "In-group" and "Out-group". And we're always more willing to accept physical discomforts or problems in order to maintain or elevate our pride. That is just the case.





RLK: And this is perceived as an attack on Chinese pride. We see that everywhere, in all human societies. And so that is the most sensitive thing. That gets people's emotions the highest. And that's what the bankers are reacting to — they're reacting to this simple cultural perception of "In" and "Out" Group situation responses. I wouldn't read more into it than that.





Host: Having said that, I've got to go. But quickly—you just returned from China, hopeful about the tariff talks or not?

RLK: You know, I look for hope in strange things. China published an aggressive attack against the US after the US attacked China for backtracking — and China went right back after the US. I looked upon that and interpreted it positively, because now China is setting an equal playing field. It's not that the US has been attacking China, and China is on the defense. Now the attacks are equal, so both countries are in an equal position.





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RLK: China had a phrase in that document which was important. It basically said that China has said publicly and strongly that it will abide by anything that they agree to, including intellectual property protection. And therefore the kind of restrictions that the US was wanting to impose in terms of laws would be exceedingly offensive to their dignity. And so, if the US would trust China—it's a bad word, I know—but you could always go back—but China is going on record saying they will agree.

