

## [The Bill Walton Show](#)

China's Led by Engineers, the U.S. by Lawyers. What Could Possibly Go Wrong?

Herman Pirchner:

Was in the blue network before TV, which was NBC. And I remember one time we were recording, I think in our home, and I had Louis Bromfield who was ... it's a name nobody knows now, but Bogart and Bacall were married in Bromfield's home in Ohio, but he was known by the [screen 00:00:18] thing. But he always had dogs, and they brought in the dogs, and it was going on, and they had a yapping fit. So fortunately it was recorded, not [inaudible 00:00:31]. He was a kidder, I remember that.

Crew:

Is everybody's telephone, phone, in airplane mode?

Herman Pirchner:

Oh, good move.

Bill Walton:

Mine's not.

Herman Pirchner:

Mine is not.

Crew:

It's better than vibrate, if you can go into airplane mode quickly.

Herman Pirchner:

No, I will put it ... airplane mode. This one.

Crew:

Okay guys, we're gonna roll on the cameras.

Herman Pirchner:

This one should just go off.

Crew:

And, so this is a conversation amongst the three of you, forget about the cameras. Just look at each other, and the only time Bill will look at the camera is when he's just doing introductions at the very beginning, but otherwise he'll be engaged with you guys as well.

Riley Walters:

All right.

Herman Pirchner:

So we look at each other, and not the camera.

Crew:

Yeah, that's it, forget the cameras. Yeah.

Herman Pirchner:

Okay.

Crew:

All right. If I need to do something, and you see me out of the corner of your eye moving around, just disregard the man behind the curtain.

Herman Pirchner:

Okay.

Riley Walters:

Don't break the fourth wall.

Bill Walton:

Although he has been known to interject on occasion.

Crew:

Only when you prompted me.

Bill Walton:

I did. I did, it was fun.

Crew:

Okay, let's see. Sarah, you can roll, also. You rolling? Yeah, let's roll.

Bill Walton:

And I promise to sit up.

Crew:

Yes.

Bill Walton:

Okay.

Crew:

Okay. You okay?

Bill Walton:

All right.

Crew:

So I'll give you, what, like 35 minutes here?

Bill Walton:

Yeah, give me 30 minutes in, and then we're gonna go 30, 35, or more depending on if we're being, if we want to keep going.

Riley Walters:

Sure.

Herman Pirchner:

Yeah. Gives you an opportunity to cut, if you want to keep it shorter, too.

Bill Walton:

Yeah. Yeah.

Crew:

Okay, here we go. Just a moment. Okay, go Walton Show for March 8th.

Bill Walton:

March 8th.

Crew:

Look here. Oh, make sure you guys can hear me. Here's that thing. You don't have to answer me back, but come over in this area here. Stop, yeah, good. Okay. Thank you. All right.

Bill Walton:

Well, I had a woman, this acting teacher, on, and we opened the show with me doing breathing exercises, so we could all do that. Take a deep breath, and then we all burble.

Herman Pirchner:

Loosens things up.

Bill Walton:

It's on the website.

Herman Pirchner:

Loosens things up.

Bill Walton:

We can all burble now.

Crew:

You're in the theater now, okay.

Bill Walton:

Okay.

Crew:

All right. Have a good show everybody, and Bill, looking at the camera, and when you're ready.

Bill Walton:

Hi, welcome back. I'm here today to follow up in the conversations we've begun about trade, and discussions about trade, those roads have led to China. And today we're here to talk about trade and China, and with me to do this are two very smart men, Herman Pirchner, and Riley Walters.

Bill Walton:

Herman is the founder, in 1982, of the American Foreign Policy Council. He has traveled to China annually since 1994. He's been to Russia more than 65 times. He advises presidents, heads of state, all over the world. Interestingly, his organization takes donations only from American citizens and US entities. So, welcome.

Herman Pirchner:

Bill, pleasure to be with you.

Bill Walton:

Riley is a policy analyst for Asian economy and technology at The Heritage Foundation Asian Studies Center. He specializes in northeast Asian macroeconomic issues, as well as emerging technologies, and cyber security.

Riley Walters:

Thank you.

Bill Walton:

We have two men that know a lot about this topic. Welcome, welcome. Herman, you just came back from China.

Herman Pirchner:

Yeah, I was in China in December, and two main takeaways I had, Bill. First, attitudes have changed markedly on North Korea, and I think the Chinese leadership has turned sour on the Kim regime. It's less clear what that will mean in terms of policy changes in China. My sense is that's still being debated inside closed rooms in Beijing. Second takeaway has to do with the growing social control over religion, over social media, over anything that's not directly under the thumb of the Communist Party. So transit began under Xi, and is accelerating in recent years.

Bill Walton:

I understand they have a facial recognition technology where they can round people up within an hour. Is that factual, or is that cock-and-bull?

Herman Pirchner:

I don't know about an hour ...

Bill Walton:

Quickly.

Herman Pirchner:

But they have facial recognition, and it's everywhere, so it's a means of greater control for sure.

Bill Walton:

And ...

Riley Walters:

It's ...

Bill Walton:

Riley, jump in.

Riley Walters:

It's so everywhere, that even public restrooms have facial recognition to allow you to only take out so much free toilet paper per day. It recognizes your face and knows you came to this park today, you've already taken two squares, and then tomorrow you can have another two squares.

Bill Walton:

You mean the extra water bottle I take from my gym is gonna be surveilled pretty soon?

Riley Walters:

They'll know.

Bill Walton:

Do they have cameras in each one of these ... how's that work?

Riley Walters:

I don't know. I'm sure it's different, I think it was more of an introductory project, I'm not saying every public restroom has this. But it's part of China's Made in 2025, where they want to become sort of the next global technology leader, beating out Silicon Valley, beating out Japan, beating out South Korea. They want to be the place for technology, I think.

Bill Walton:

Well, we've had discussions on this show about just how free trade oriented China is, and whether it's a really command and control economy disguised as a market economy. We had a lively debate.

Somebody, when I said they were mercantile, said that was just utter nonsense. Do you have a view about that?

Riley Walters:

I would say that the economic freedom, or trade freedom that you would see in China, I think it ebbs and flows, right? So I would say that since China joined the WTO back in the '90s, there has been an opening of China's market, but, perhaps Herman could talk more about this, under Xi's leadership there's been perhaps a constraining of it through either the subjugation of minorities and religious freedom, as well as trying to maintain state control of [united 00:07:08] enterprises, and trade and investment aspects.

Herman Pirchner:

Xi now thinks the communist cells that exist in companies will have a say in how private companies make their decisions in personal matters. So, what you have is the growing pervasiveness of the state. I think you are not going to see the privatization of the big state enterprises. They may become more important under Xi, even though it's less efficient.

Bill Walton:

The ... about 50% of the significant companies in China are state-owned?

Herman Pirchner:

Yes.

Bill Walton:

And, as I understand it, they've allowed even the entrepreneurs that aren't in the state-owned companies to join the Communist Party, or maybe they've required them to join the Communist Party. To what extent is that shaping industrial policy, or whatever?

Herman Pirchner:

In communist societies, usually around 5% of the population join the party, and party membership is a prerequisite to management positions across the board. I mean, if you were a totally brilliant scientist, they'll let you be a scientist, but in general if you're gonna run something, you have to be part of the party. And being part of the party means attending party meetings, receiving education as to the party line, and to accept party discipline.

Riley Walters:

And if you're not a company who has a party member, you are required to have a party member a part of your board of directors, your senior management. So, it's a requirement that China's Communist Party is a part of your company, essentially.

Bill Walton:

So, trade is much in everybody's mind now, as we speak we've just had some talk about steel and aluminum tariffs slapped on imports. 25% on steel and 10% on aluminum. And I think this is just, like you're shooting yourselves in the foot, or in the head, or whatever metaphor you want to use. I mean, do we really need tariffs on steel imported from Vietnam, or Venezuela, or Hong Kong? I don't know.

Riley Walters:

Or South Korea, Japan?

Bill Walton:

Or South Korea.

Riley Walters:

Canada, our allies?

Bill Walton:

Canada. I mean, Canada's a great example if you look at the aluminum industry. I think, if you take it together, we're strategically protected for years with the amount of aluminum we make together. So the idea that this was a strategic threat, that we're importing aluminum, is nonsense.

Riley Walters:

Right. So last year the president asked the congress department to investigate, based on the authority given to them in legislation, to review whether the steel industry and aluminum industry are a threat, essentially. And the report that was released publicly, graciously, usually these reports aren't always released before the decision is made, lays out their national security concerns. And, to be frank, they are bogus. Certainly, the national security argument is bad, the economic security argument is bad. To say that these industries are a threat when the Department of Defense only uses 3% of steel made in America for their needs, and that for some reason, our allies who we would rely on in war can actually support us, is bogus.

Riley Walters:

Also, they talk about the steel industry, but they don't talk about the overall macroeconomic effect of these imports. There's been a couple studies that've come out that say the US could net loss 146,000 jobs, another study said at least 90,000 in manufacturing alone.

Bill Walton:

Well the Bush tax, or the Bush tariffs in 2002 cost about 200,000 jobs.

Riley Walters:

Yeah.

Bill Walton:

And that somebody has point out for every one job we've got in a steel company, there's 16 jobs in companies that use steel, so.

Herman Pirchner:

Well, I have a question for Riley. I don't know too much about trade, I'm more an expert on geopolitics, but I've heard it argued that making this announcement on tariffs is really the opening of a negotiation to have a more level playing field. Is there any truth in this argument?

Riley Walters:

That's one of the things I've heard. It kind of seems like every week the narrative around 232 kind of changes. At first there ...

Bill Walton:

232 means?

Riley Walters:

I'm sorry, 232 is the investigation done by the Commerce Department. It is what the president would use to assign these tariffs.

Bill Walton:

It was the document that Trump got to say we had to slap these tariffs on because this strategic [report 00:11:58].

Riley Walters:

Correct. It's ...

Herman Pirchner:

Meant he could do it without congressional approval.

Bill Walton:

Ah.

Riley Walters:

Correct. It gives him, section 232 of the Trade Expansion Act of the 1960s grants him explicit authority to go around Congress and implement these taxes on steel imports. So, as I was saying, the narrative seems to change every week. At first, it was leveling the playing field with China, then there were national security concerns, since that is what the legislation is meant to address. The 232 legislation, not any new legislation. Then, now I hear things that it's perhaps a negotiating tactic for NAFTA. It's not, it doesn't really have anything to do with China, it's not leveling the playing field with China, now it's leveling the playing field with Mexico and Canada.

Riley Walters:

So, every week it's a new target, it seems.

Bill Walton:

Well, I hope it's something like that, because otherwise it looks like we've got four old guys in their 70s and 80s who think the next war we're gonna fight is World War II. Because the manufacturing that count are all the high-tech industries, which is where China's concentrating its resources.

Herman Pirchner:

But Bill, I know you don't think being in your 70s is old.



Bill Walton:

Not, no, I'm close to thinking that's young. Very close. But at least we don't think the next war we're gonna fight is World War II.

Bill Walton:

But what about the geopolitical implications of this? I'm looking at a chart that was in a journal today, Greg Ip put something together, that something that like ... China's now gone from 10% of the steel produced in the world to 50% of the steel in the world for strategic reasons, and my libertarian friends say they foolishly continue to build new aluminum smelter capacity even though it has no cost advantage, and by basically selling aluminum below cost they're giving it away to US consumers, subsidizing Americans who drink beer from aluminum cans. I mean is that, are the libertarians, is it ...

Herman Pirchner:

Well, you have, and Riley's more the economist and you can correct me if I'm wrong, but they have over capacity for sure, not just in their aluminum, steel, but in other industries. They look at state-run enterprises as a way of keeping people employed, which they need to do, and they will spend some of this over capacity in building out the Silk Road Initiative, as well as infrastructure projects. And China, and other places, they think this serves a strategic aim to spreading Chinese political influence as well as doing it for economic reasons.

Bill Walton:

And the Silk Road Initiative, that is, there's also the One Belt One Road Initiative, is that the same thing?

Riley Walters:

That is the same thing.

Herman Pirchner:

Yeah.

Bill Walton:

What is that?

Herman Pirchner:

There ... Riley, you want to jump in?

Riley Walters:

Yeah, so it goes by several names. The Silk Road is, from history of China, the ancient trade routes they would take through central Asia to Europe.

Bill Walton:

Spice trade and silk trade, the whole ...

Riley Walters:

Yeah, the Silk Road. So ...

Bill Walton:

Very exotic, very historic, very interesting.

Riley Walters:

The Chinese, the current administration in China, is seeking to build sort of a Silk Road 2.0. This means increasing transportation, both by land and by sea, to all over the world. Name a place, they're trying to create a means of transportation to that area. One, it was originally called the One Belt One Road when it first came out. The Chinese have since changed that for PR purposes, because One Belt One Road One China is a bit exclusive sounding.

Bill Walton:

It's all pretty aggressive.

Riley Walters:

Right, exactly. I think, actually, in Chinese it's still the same. The Chinese term for One Belt One Road, or as it's called now in English, The Belt Road Initiative, they just took out the one, one, it's still the same. But for PR purposes, for selling it to Americans, or eastern European countries, or western European countries, it's now the Belt Road Initiative. And it means anyone can join.

Bill Walton:

Well, Herman, is this for commercial purposes, or is this for geostrategic purposes? I know they bought, they basically purchased the Port of Piraeus in Greece, and they want to make that the largest deep water port in Europe.

Herman Pirchner:

The answer is it's both, and I think Riley made a good comment. It's not just one belt, and one road, there are many trade routes. If you see a map of them, it's like spaghetti, with all kinds of different routes. I think the Chinese see the following advantages. One, they can tie in some of these developing economies permanently to the Chinese economy, so they have customers that will be there for generations. I think they see it as a way of getting influence, if they have the infrastructure projects, they get UN votes along with it. They're using Greece, which you mentioned, in particular to try to break up European unity regarding policy towards China. They invest so much in Greece, they expect to have Greece advance pro-Chinese positions.

Bill Walton:

The Europeans are getting a little alarmed, though. They've been buying up a lot of infrastructure in Europe, and the European commission with Jean-Claude Juncker, they're now examining these purchases. That they say if they want to buy a harbor, or part of our infrastructure, defense technology firm, we want to look at this a lot closer, which is what we're doing in the United States with CFIUS. CFIUS means ...

Riley Walters:

CFIUS is an acronym, C F I U S, it stands for the Committee on Foreign Investment in the United States. It's a multi-agency committee that reviews foreign investment for national security concerns. And you're right ...

Bill Walton:

And it's lodged in the Treasury Department.

Riley Walters:

It is chaired by the Treasury Department, yes.

Bill Walton:

Okay, right, right.

Herman Pirchner:

You know, using ports for strategic reasons isn't anything new. Hutchison Whampoa, a major Chinese company with ties to their defense ministry, operates the ports in the Panama Canal. Now, things will be normal as long as there's no crisis in Taiwan. If there's ever a shooting war in Taiwan, will American ships have access to the canal? I doubt it.

Bill Walton:

Well the question I keep asking me is, that I come to things as a visceral free-trader libertarian, let's let people innovate, create businesses, compete worldwide, don't have any barriers, yet China doesn't seem to be playing with that rule book. It seems like they're playing very much within the mercantile model, which is where they see this is not ... they don't need a return of investment, they're willing to invest to get a strategic foothold, in not only infrastructure, ports and things like that, but also technology in particular they're really pushing.

Herman Pirchner:

And raw materials. When they wanted to teach Japan a lesson, they withheld rare earth minerals, which they have a near-monopoly on. And I think, in the mind of the Chinese politicians, the price of any good is not just economically determined, but you can add a political surcharge on it to score points on the political side, not just in your bank account.

Riley Walters:

For the ... So, there's actually, you're right, there's a bit of a division in the European community, since the EU has both very advanced economies, and still similarly developing economies. And the approach the Chinese have been taking, and the response by individual European countries, is very divided between those countries who are poor who would like capital invested in their countries, versus those economies like Germany who are very advanced and are skeptical of the security implications of companies like China buying up, say, the number one robotics manufacturer, which Germany used to have, and what that means for both the future of Germany economically and security-wise.

Bill Walton:

We were on about a \$375 billion, although I think Donald Trump told us recently it was 500 billion, but, I don't know, that would just make it huger or not, does that matter? \$500 million trade deficit with China?

Riley Walters:

No.

Bill Walton:

No? Herman? Like Riley?

Herman Pirchner:

I think our cumulative trade deficit is not sustainable over the long run, and I'm less concerned about an individual country than the total amount.

Riley Walters:

I'm less worried about the trade deficit than I am perhaps Chinese ownership of US securities. Now I think there is not as big a threat I think from either one, but ...

Bill Walton:

Ownership of US securities, meaning ownership of the US firms, or ...

Riley Walters:

No, no, bonds and securities, so like ...

Bill Walton:

Okay.

Riley Walters:

During, after the financial crisis, the fed issued quantitative easing, which sold treasury securities and bonds, which were purchased by foreign companies and things like that.

Bill Walton:

But, I could be, I'm not totally current on this, but I thought their ownership of those securities has dropped pretty substantially ...

Riley Walters:

Yes.

Bill Walton:

But instead they've shifted their purchases to real companies, which brings us back to the CFIUS, where they're trying to acquire actual companies in the United States.

Riley Walters:

Yeah. But even that wouldn't account for the trade deficit, though.

Bill Walton:

Yeah.

Riley Walters:

If anything, that would actually change it. Typically, the correlation between trade and investment is that a company, say a Japanese company invests in an American company to export back to Japan, or vice versa. Say an American company will invest in China to export back to the United States. So the trade deficit, I think, there's no real security concern. I think there's no way that China tomorrow can say, "We have a deficit in trade, and you owe us," essentially.

Bill Walton:

I'm not so much worried about the financial implications. The thing that concerns me is that I think a nation's strength is its productive capacity. We've had leadership in manufacturing and technology information, internet, all that. We've been a leader there, and our productive capacity is such that that gives us a lot of strength as a country strategically. And we've already seen a lot of the manufacturing hauled out in the sunset industries, and I think they are, but that's not what China's interested in. They want to be a leader, this is their 2025 strategy, they want to be a leader in semiconductors, computers, software, biotech, pharmaceuticals, electric cars, batteries, robotics, drones, virtual reality, artificial intelligence. They're on record as saying, and 2025's only seven years from now.

Bill Walton:

Herman, is this rhetoric, or is this, are they executing on this strategy?

Herman Pirchner:

Well, I think the Chinese are highly ambitious, and they wish to extend their hard and soft power worldwide, and I don't see anything they've done that runs contrary to that motive. And they're very long-ranged in their projections, for instance, we sponsored a book well-reviewed by the Financial Times a few years ago, called China in Africa, and we took a look at what the Chinese state companies were doing there. And essentially, the Chinese government said, all right, it's in our national interest to tie up all the mineral wealth, all the petroleum assets that we can in a state company.

Herman Pirchner:

What do you need to do that? Do you need bribes? No Foreign Corrupt Practices act governs Chinese companies. Do you need infrastructure projects? Do you need military sales? Whatever you need you have, just tie it up. And they've done that, but with controlling these raw materials, they're also buying political influence, and if you watch votes in the UN and the foreign policy of some African countries that have heavy Chinese investment, you see that.

Bill Walton:

Well, doesn't America's sort of visceral free trade philosophy, doesn't that leave us extremely vulnerable to them? Riley's written on an example of a company where they stole something like \$800 billion of ...

Riley Walters:

Not ...

Bill Walton:

That number's got to be too big.

Riley Walters:

Not a specific company, no.

Bill Walton:

Okay, so what ...

Riley Walters:

This is ...

Bill Walton:

Tell us about that, and what we ought to know.

Riley Walters:

You're talking about intellectual property theft.

Bill Walton:

Yeah.

Riley Walters:

And so the commission on intellectual property theft estimates that annually up to \$600 billion worth of wealth is lost from the United States through intellectual property theft or transfer of, perhaps not like patents exactly, but technical know-how, best practices, things of that sort, a significant chunk of which is done by the Chinese, and ...

Bill Walton:

How does that happen? I mean what's the trade, I mean if you're ...

Riley Walters:

Well, it could come from anything from cyber theft, which is a big proponent. There's also either forced transfer or coerced transfer. There's a bit of a difference there. Say I'm an American company, and I invest in China, and I develop a really strong product, and then one day the Communist Party comes in and takes it, that's forced transfer. The other one is, say I have a strong product, and I want to get access to the Chinese market, and the Communist Party will say, "Well, you need to give us that technology already if you want to invest here."

Bill Walton:

So, I'm a CEO of a multinational company, and I want to go into China. And so I go to China, and with my people, and we have a meeting, and they say, "Well, that's great. If you want to be here, you need to give us access to your technology." Is that the way it works?

Riley Walters:

Yeah, that happens, and ...

Bill Walton:

Herman, you were ...

Herman Pirchner:

That's correct, but it also could be more subtle. You can come in, you bring your best technology, and you have to hire as managers Chinese, and when the Chinese managers are there enough years they figure out not just what's patentable or not patentable, but as Riley said, trade craft. And when they have it down, then they go out and open their own company to compete with you, because they don't need you anymore.

Riley Walters:

Or, you think you have a partner in China, and then based on just the rules that govern patent protection and how they differ in China and Japan, they can gain that ...

Bill Walton:

And they basically don't protect intellectual property.

Riley Walters:

Essentially. I mean, they have a certain set of rules, but the courts are very sporadic. It could be different depending on either the state or local level, and the implementation of ... A unified property right is just nonexistent.

Bill Walton:

But their greatest good is, well our greatest good is the rule of law, the constitution, the respecting contracts, good courts and judges, and things like that. Theirs is the party, and the party said we want to be the leader in all these strategic industries, so go get this technology and we're not gonna ask any questions how you get it.

Herman Pirchner:

Well, also the party governs all courts. There's some moves to make the courts more independent, but if a senior party official interferes in a court case, the judge won't rule contrary to the party official. It's been curbed a little bit, in now if a party official intervenes, it becomes part of the official record, and if they intervene to line their own pockets they're in trouble. If they intervene to protect the Communist Party's interests, they may be promoted.

Riley Walters:

Have you been following the whole anti-corruption campaign?

Herman Pirchner:

Yes, carefully.

Riley Walters:

How does that, has that ...

Herman Pirchner:

To do business in China is akin to operating a bar in a college town. Every bar owner is guilty every night. There's always somebody underage, yeah. So, the question is, if you're going after corruption in China,

whose corruption are you going to go after? Do I go after Bill Walton, who's a good friend of Xi, the head of the Communist Party of China? Or do I go after Riley, who maybe is not so friendly to Mr. Xi? So it's become, it's anti-corruption ...

Bill Walton:

And all eyes are staring at Riley now.

Riley Walters:

Oh, jeez.

Herman Pirchner:

But it's also a question of consolidation of power.

Bill Walton:

So, I'm late to this game, I've really just become aware of some of these issues. One of the things I've been learning is that if you look at their education system, they're very oriented towards technology. Their STEM degrees, which is what, Science, Technology, Engineering, and Math, they're awarding \$1.3 million every year, and we're at \$300,000. They're very much saying, if you want to go to college, you've got to learn something in hard science.

Herman Pirchner:

If you look at the political bureau, the politburo, which is the leading body in China, you'll find they've been disproportionately engineers, and we don't have that in this country. But they have ...

Bill Walton:

Wait, wait, wait. Their government is primarily engineers? As opposed to lawyers? What a wonderful ...

Herman Pirchner:

China's run by a standing committee of a politburo, which, it's seven people now, it's been nine. And if you look at the background of most of the people that have served there over the past couple decades, I think you'll find they're engineers.

Bill Walton:

That's fascinating.

Herman Pirchner:

And that's why, in part, they were able to guide industrialization, because they understood it.

Bill Walton:

Well, that's a totally different mindset from most of our western politicians.

Herman Pirchner:

Yes.



Bill Walton:

I'm glad you pointed that out. Well, it explains an awful lot, though. It also explains that they think in systems and building, and they're not interested in sort of letting, what is it, a thousand something blown, they're one of ... instead control outcomes the way engineers do?

Riley Walters:

Yeah.

Herman Pirchner:

Yes, they like predictable outcomes from every nation.

Riley Walters:

Yeah.

Bill Walton:

Now, Herman, you've been to China every year since 1994. I think you know a lot more than you're saying. Can you give us an anecdote of something like that, where you've seen ... I'm setting you up so you can't go on your next trip, all right. Riley, can you ...

Herman Pirchner:

We have a few stories. When I first went to China, there were more bicycles than cars in Beijing and other cities, and the amount of economic progress is jaw-dropping countrywide. This is how the Communist Party legitimizes its rule. The people, including party people, worry about corruption, they don't like it. But as long as they're living better, and everybody's living better, they give the party a lease on life, and they think the party has earned the right to continue to govern.

Herman Pirchner:

But now, with Xi, you have a clamping down, maybe because they're afraid that the freedom has permitted people to go in directions, they're not fully under party control. And in their mind, that's akin to chaos, and if you have country of a billion 300 million, maybe 400 million people, to have things out of order is frightening, especially for those that remember the anarchical days of the cultural revolution, which was a nightmare for anybody that went through it.

Bill Walton:

That's where we get back to where we started with the facial recognition.

Herman Pirchner:

Oh yeah. Yeah, yeah.

Riley Walters:

You mentioned bicycles, and it made me think of the sharing economy. And so the sharing economy is essentially this new idea that individuals can share products, capital goods, it's maybe better to use an example. Think of Uber. Uber, or Lyft, or these ride-sharing cars are an aspect of the sharing economy. You can call up a car, and it's not yours, but you share it with others. In China, and some in DC and other

states, we have bike-sharing systems. For DC, I think there's maybe five or six companies that specialize in bike-sharing. China is very prolific in bike-sharing, so much so that their market's actually completely saturated by it, to the fact that there is an oversupply of bikes, to the fact that ... It kind of makes me think of Amsterdam.

Riley Walters:

In Amsterdam, I believe they drained one of the rivers once, and it was just completely littered with bicycles. But I draw that analogy to kind of say that, typically in capitalist countries, there's competition that drives out inefficiencies. In China, you don't necessarily have so much of that competition, so you end up creating an oversupply of bikes, when people do want bikes in China but when you've got, I don't know, say ...

Bill Walton:

There are not market signals.

Riley Walters:

Ten bikes per one person, something ... I don't know if that's a real statistic, but something along that line, you create inefficiencies in your economy, and that's just in bikes. What do you do when you have overcapacity in steel? What do you do when you have overproduction of other types of machinery, and so on and so forth?

Bill Walton:

Well, the Chinese are shifting their gaze from bikes and steel and aluminum to the high-tech, and they're underwriting infrastructure, technology infrastructure, the way we might think about our trillion dollar infrastructure program here.

Herman Pirchner:

Yep. You know, if you go to the best engineering programs in the US, you have a disproportionate number of very bright Chinese. And the shift I see coming over the next 10, 20 years, is the Chinese now are establishing their own higher head in technology, and they are gonna create absolutely world-class engineering programs, and the number of patents I predict that are taken worldwide by China's gonna increase in percent by a significant amount.

Riley Walters:

I think ...

Herman Pirchner:

If we don't do better with educating people in engineering here, in mathematics and hard science, it's a long-term problem for us.

Riley Walters:

I think China is already outranking both the US and Japan, two of the largest patent countries, countries that patent the most already, by maybe a factor of three or four.

Herman Pirchner:

Yeah, but part of that is mitigated by the fact that technology is changing so fast that many of our companies in Silicon Valley do not even patent anymore, because by the time you go through the patent process, it's already old technology. So I'm not sure that innovation is so disproportionate with China, but the trendline is there.

Riley Walters:

No, no, no. I agree. I think perhaps a lot of those patents are just, I don't know, I think of patent trolling. People who are just creating patents for the sake of patents.

Bill Walton:

We've got a couple minutes here to wrap up. Riley, what would you ... you work in the area of intellectual property theft, acquisition of companies, and that piece of the world, what would you see that we need to be focusing on now to protect American interests?

Riley Walters:

Protecting our rule of law. We've mentioned this already, it's one of the guiding aspects, and to allow theft to continue, theft of intellectual property, I think sort of undermines that. So I think we need to address the theft problem before we address any unfair trade practices.

Bill Walton:

And you had three steps to take, maybe the Department of Commerce would set up a watch list. What was that punch list of things we need to do?

Riley Walters:

Yeah. Companies can work, or the Department of Commerce can work with companies, to sort of ... non-publicly, because I know a lot of companies are sensitive about this topic, you don't want to say that blaming the victim publicly, but they can work with the Department of Commerce to identify things that have been stolen or copied illegally by Chinese entities, and allow the commerce to sort of create a list. And this list of either companies that are known thieves of intellectual property, or use products that are knowingly stolen.

Riley Walters:

So perhaps one Chinese company steals it, but they share it with all their other Chinese companies because the party says they need to. So they're all guilty, essentially.

Bill Walton:

Yeah.

Riley Walters:

Guilty by association. They create this list, and then the Treasury Department, who has the ability to sanction companies, comes in and says, "Look, you've stolen American property, you're not allowed to access the American financial markets anymore."

Bill Walton:

Bingo. Okay, so. Herman.

Herman Pirchner:

If the countries of south and southeast Asia think the US will not maintain a robust military presence, and will not engage actively on a diplomatic front, they will accommodate to China and it will result in the long-range trade disadvantage to the US as we would seek to trade with traditional partners like Japan and South Korea.

Herman Pirchner:

There was a study some years ago by Morris Rossabi, I think he's at Columbia, talking about how China defeated its enemy at the time, the Mongols, through trade war. They have millennia of history of dealing with these problems, and to the extent that they're able to use geopolitical means to influence trade, they will do it. It's worked for them in the past, and they will have confidence it will work in the future.

Bill Walton:

Troubling. Fascinating. We've barely scratched the surface. Let's come back and talk some more about this. It's clear, though, that we're spending all our time worrying about Russians and elections, and actresses, a lot of things are happening we should be paying far more attention to. In this case, it's China. Thanks, guys.

Riley Walters:

Thank you.

Herman Pirchner:

Thanks, Bill.

Bill Walton:

There ya go.

Riley Walters:

Yeah.

Crew:

Super.

Bill Walton:

Okay.

Crew:

Excellent cut.

Bill Walton:

Interesting stuff, guys.

Crew:

Very good, very good.

Riley Walters:

Yeah.

Bill Walton:

Boy, do we really focus on trivia in this country.

Riley Walters:

It's ... so, I always kind of like to think, you know at the Heritage Foundation, we cover everything, right? So we've got domestic policy, foreign policy, economic policy, family life policy. I always feel working in DC, though, like I've got a disadvantage in working in foreign policy, because everyone wants to talk about domestic policy, right? Everyone wants to talk about ...

Bill Walton:

Well you know, exactly, my shift ... this last month has been really interesting for me. Because for me, it's like my eyes are open, and you see all the stuff that's going on, and this is where the real game's being played.

Herman Pirchner:

Yeah.

Bill Walton:

I mean, we sit there and happen ...

Herman Pirchner:

And you want to take some macro picture, yep.

Bill Walton:

We sit there in cap and talk about Mitch McConnell one more Wednesday I'm gonna die. That's why I'm not there.

Herman Pirchner:

You watch how Mitch McConnell and China will interact by the end of this month.

Crew:

[inaudible 00:40:33] and now it's like, all right, I'm gonna do it ...

Herman Pirchner:

There's a book coming out dealing with his connections to China.

Crew:

Do it as a real thing, and know where to stop.

Bill Walton:

Ah.

Riley Walters:

Fun.

Herman Pirchner:

And that's all I know, I've not read the book.

Bill Walton:

But it ... he didn't start in the Senate with \$100 million in the bank, and that's about what he's got now. Is it that kind of book?

Herman Pirchner:

I have to keep my mouth shut. Book release date is later this month.

Bill Walton:

You're an interesting guy to have here, because you have a feeling like we're only hearing about 5% of what you really know.

Riley Walters:

Well, it was a pleasure.

Herman Pirchner:

Yeah, well.

Riley Walters:

Yeah.

Bill Walton:

Riley, to be continued. Great job.

Herman Pirchner:

You headed back to the hotel?

Riley Walters:

Yeah, I've got to head back, I've got to do this thing for Heritage, what do you call it, face the camera kind of thing. I'm gonna do like a straight into the camera and talk about why terrorists are bad.

Bill Walton:

Okay, well we've got you tuned up, then.

Herman Pirchner:

[inaudible 00:41:39]

Crew:

Oh good, you've got your powder on, you're all set to go.

Riley Walters:

Yeah, exactly. I'll try not to, like, run or anything.

Crew:

You can't really see it, by the way. Okay, thank you.

Herman Pirchner:

All right.

Bill Walton:

We get what we needed?

Crew:

Yeah, that was good. I started taking notes even while, when I can here, I can save time, yeah.