

[The Bill Walton Show](#)

China Then and Now: Century of Humiliation to a \$4 Trillion Trade Surplus

Speaker 1:

Let me start rolling some cameras here. [inaudible 00:00:02]

Speaker 2:

All right. It's the Bill Walton Show, March 22nd.

Bill Walton:

Here we go. It's all fun [inaudible 00:00:34].

Speaker 2:

And Bill also will be talking to you but except right in the beginning where he'll be addressing the camera. So he'll do his thing to set things up but then be in conversation.

Pat Mulloy:

Good. Thank you.

Speaker 2:

All right. Have a great show.

Pat Mulloy:

Thank you.

Speaker 2:

All right, and Bill, when you are ready.

Bill Walton:

Okay. Welcome. I'm here today to talk with you about China.

Speaker 1:

I am sorry. I haven't done that before.

Bill Walton:

I also want to talk to you-

Speaker 2:

[crosstalk 00:00:59]

Bill Walton:

... about Kenny [inaudible 00:01:00]. We don't want to hear a pin drop on the set.

Speaker 1:

Jeez. Sorry about that.

Bill Walton:

Except my three [terriers 00:01:06].

Speaker 1:

Okay. We'll wait just a moment. Ready, and when you're ready, Bill.

Bill Walton:

Welcome. I'm here today to talk with you about China. As most of you know, as you know, I have been studying China with more depth and concern in the last six months. They're much in the news now because of the trade issues that are out there with Trump's tariffs. And to understand China better, I brought in two fantastically expert men, Patrick Mulloy ... Stefan Halper and Patrick Mulloy.

Pat Mulloy:

Thank you.

Bill Walton:

I get my experts confused from time to time. Patrick is a former commissioner of the US-China Economic and Security Review Commission. He was general counsel to the Senate Banking Committee and was assistant secretary in the Department of Commerce's International Trade Administration. Patrick, welcome.

Pat Mulloy:

Thank you very much for inviting me, Bill.

Bill Walton:

Glad to have you here. Stefan, Stefan is a professor at Cambridge University in Cambridge, England, and he goes all the way back to serving in the White House during the Nixon and Ford administration. You were there for about seven or eight years, as I recollect.

Pat Mulloy:

Yeah.

Bill Walton:

He's a prolific author on international affairs, and specifically as it relates to China, he's written a great book called China: The Three Warfares and also China in the Year 2030, and I'm very interested to see where we learn China will be in 2030. So starting back not at 2030 but maybe a little bit back in history, Stefan, do you want to give us a sense of where China is coming from so we can figure out where they are today, and then perhaps we'll figure out where it's all going from here.

Stefan Halper:

Well, the China story is really a very long one, and of course it extends back beyond where I'm going to begin, in the 1970s. But in the early '70s, Henry Kissinger and Richard Nixon decided that they would recognize the People's Republic of China, and they would arrange a full relationship between the US and China. So Kissinger was dispatched to Beijing, where he was met by [Zhou Enlai 00:03:31], Mao Zedong's number two and an experienced intelligence officer. Zhou Enlai was well trained and with great depth had researched Kissinger's background, and he in effect seduced Kissinger by calling him, "A great professor," and, "The global statesman," and all that sort of thing.

Bill Walton:

Oh, I can't believe it. He seduced Kissinger through massaging his ego? [crosstalk 00:04:06]

Stefan Halper:

Just massaging his ego, yeah. And Kissinger came to believe that they could forge a relationship based on essentially what China wanted and what the US might be able to give and how we could together oppose the Soviet Union at the time, and that was a big deal. We needed to find allies in resisting the Soviets.

Stefan Halper:

So we developed a relationship with China that was ... It was very transactional. The trade was not immediately a major issue, but the assumption was that if we traded with China, American corporations would benefit; Americans would be employed; the Chinese would benefit on their end; and that eventually China would develop into a market economy and then a democracy. That concept was at the center of Kissinger's thought and at the center of American policy and our assumptions, and it was dead wrong because China did not develop into a democracy. It never developed a full market economy or even a ... I guess you could say it has a partial market economy. And we end up at this very difficult moment on trade questions today because of China's having taken advantage of American technology and exports.

Bill Walton:

And China under Mao from '49 through ... When did he die?

Pat Mulloy:

'76.

Stefan Halper:

'76.

Bill Walton:

... was utterly impoverished for the entire time he was in charge. He tried all the centralized command-and-control Soviet-style plans, and they all failed. So at the time they went over-

Stefan Halper:

Plus, the Great Famine.

Bill Walton:

... it was a failed country, economically anyway.

Stefan Halper:

Millions of people died from the famine in China, and Mao had all sorts of ideas. He had the backyard steel furnaces. They were going to create steel in their backyards.

Bill Walton:

I always wondered what those looked like.

Stefan Halper:

They looked like a barbecue pit.

Bill Walton:

Pat, what's your take?

Pat Mulloy:

I think you can't understand what's really happened here with our China relationship without understanding what the Chinese call their "century of humiliation." The Chinese are a very old and sophisticated civilization. They were a very prosperous society. Around 1820, around that period, the Western guys suddenly show up out in Asia. The West, the Brits, French, others, they have superior technology. They're not as wealthy. They want to trade with the Chinese. They want the tea and the porcelains and the silk.

Bill Walton:

Was it somebody estimate the Chinese GDP was 30% of the world GDP-

Pat Mulloy:

30% of the world GDP.

Bill Walton:

... in 1830?

Pat Mulloy:

About that period, yes.

Bill Walton:

Around then?

Stefan Halper:

That's about right.

Pat Mulloy:

Yes.

Bill Walton:

So they were completely dominant economically.

Pat Mulloy:

They were the dominant society in Asia. Other countries paid them tribute. They were the hegemon of that era. The Brits wanted to trade with them. They went up and visited with the Chinese and offered what they had, and the Chinese did not say, "Anything you have is worth giving," so they didn't want to trade with them.

Stefan Halper:

In fact, they explicitly said, "We don't want what you have," and they sent the British home.

Pat Mulloy:

Home.

Bill Walton:

Is that right?

Stefan Halper:

Yeah, they really did. This was a time when the Chinese had sent [Admiral Xiao 00:08:13] ... remember that? ... around the world. They had a fleet of 300 ships.

Pat Mulloy:

That was earlier, yeah, than this period, yeah.

Stefan Halper:

Right.

Pat Mulloy:

But they were a very sophisticated and old civilization.

Bill Walton:

They didn't want our collected works of Shakespeare or the ...

Pat Mulloy:

No. But what the Brits found was they could grow opium in India, sell it into China, and get the foreign reserves, and then get the money that they needed to buy the Chinese silk, tea, and porcelain. Around 1840 or so, the Chinese said, "This isn't working out too well, a lot of bad things happening in our society," and they tried to shut it off. And the Brits went to war to keep that open and quickly found out that the Chinese were not a very good technology and warfare at that point, and so they took the Chinese apart, and they won the First Opium War. They grabbed Hong Kong. They began to have certain ports in China that would be open. Other Western countries quickly realized that these guys couldn't fight well, that we had better technology. They were gonna carve up China just like they did Africa.

Pat Mulloy:

There was a series of disasters for China during that period from 1840 to 1870, 1880. Then, the Japanese came in in 1894, and they took Korea away from them, and they took Taiwan away from the Chinese. The whole civilization was falling apart, and they blamed the West, and they tried to develop ideas: "How do we regain our power and our wealth?" There were many different efforts to stop the decline. It didn't. The emperor fell in 1911. The whole emperor period fell apart.

Pat Mulloy:

They tried a republic. They had civil war in China. Finally, the Japanese come in and invade in the 1930s, further turmoil, loss of life, poverty. And we helped them defeat the Japanese, but then they had their own civil war between a nationalist [Chiang Kai-shek 00:10:53], who ended up out on Taiwan, and Mao Zedong, who won and took control of China on October 1, 1949, and stood up and made a major speech: "The Chinese people have stood up." In other words, we're not gonna be pushed around anymore, and he tried to rebuild China through a centrally planned [autotic 00:11:18] economy. It didn't work. He had the Great Leap Forward, which didn't work.

Bill Walton:

He had [inaudible 00:11:27].

Pat Mulloy:

The cultural revolution. The whole place was in turmoil. He dies in 1976, and the genius [Deng Xiaoping 00:11:36], who was an accomplice of Mao earlier on but then was banished by him and then came back, he got control. He said, "If we want to build a powerful China, we need foreign markets, foreign know-how, foreign technology, and foreign investment, and if we get those, we can start building a very powerful country."

Bill Walton:

Didn't he write a booklet called Capitalism with Chinese Characteristics or something like that?

Pat Mulloy:

Well, that's what they said. That was later on that they said that's what [crosstalk 00:12:13].

Stefan Halper:

He had a Little Red Book, which was a collection of his sayings.

Bill Walton:

I found a copy of that in an airport, and I thought, "This is interesting."

Pat Mulloy:

Yeah. But the thing that you have to understand about this guy was he went to Japan and saw how they developed, and he said, "We can do this, but we have to entice the Western companies to come over here and help us."

Bill Walton:

Well, one thing-

Pat Mulloy:

Now, wait a minute. I just want to finish up.

Bill Walton:

Yeah.

Pat Mulloy:

Nixon and Kissinger never did finish the recognition of the PRC as the legitimate government of all of China. Remember, we were still pretending that the government on Taiwan-

Bill Walton:

PRC is the People's Republic of-

Pat Mulloy:

People's Republic of China-

Bill Walton:

China, yeah.

Pat Mulloy:

... is the Communist government. We were still pretending that the nationalists who had fled over to Taiwan after the loss of the civil war in 1949 were the legitimate government of all of China, and we dealt with them. Nixon and Kissinger started the process of moving the recognition. It wasn't done, finished under Nixon, and then Nixon, remember, had his problems and had to leave office. And then it wasn't done until '79, and it was done under Jimmy Carter and the [big neighbor Zinsky 00:13:29].

Bill Walton:

While we're in the history about it, I just wanted to establish something. We've had a lot of fantasy thoughts on foreign policy, like we could turn a rock into a liberal [crosstalk 00:13:40]. China has no history of liberal democracy. It's all been ruled by an emperor for 3,000 years.

Stefan Halper:

Absolutely. It's been hierarchical.

Bill Walton:

So there's never been any market ... maybe a market but not a democracy.

Stefan Halper:

The only brief period when you could look for democratic tendrils was after 1911 when [Sun Yat-sen 00:14:08] became the president of China.

Bill Walton:

This was the republic.

Stefan Halper:

This was the republic, yeah.

Pat Mulloy:

This was the republic.

Stefan Halper:

But that didn't last long, and there was no tradition of a democratic government there. The cultural background of China's politics, it's rooted in Confucian thought, Confucian thought being very, again, hierarchical, deriving from the father and the family and responsibilities that people have to support and sustain that. Politics grew out of that and had to be consistent with it, and so you didn't have a lot of room for experimentation.

Stefan Halper:

But as you say, I think that [inaudible 00:14:59] a very good summary, Pat, 'cause it gets us right up to basically the period when Nixon and Kissinger were trying to find a way to open relations with China in 1971, '72. Carter, when he recognized China, he de-recognized Taiwan. That is to say, he moved away from the nationalist government on Taiwan, which has since become a very powerful democratic statement in East Asia, perhaps the most dynamic country in terms of economic growth and open elections. No election in Asia that I know of is free and fair, but they are pretty good in Taiwan. So that's how that began. It was the beginning of essentially when we ceased to recognize that government. They had to go off on their own. They struggled all the way through this period until, frankly, today. They were our 10th largest trading partner through this period.

Pat Mulloy:

Yeah, I want to come back to this history thing 'cause I think it's so important. When I first went to China in 1981, I went to Shanghai, [Xuzhou 00:16:28], and Beijing, but I remember going to the [Bundown 00:16:30] area of Shanghai. Not a lot of the Chinese spoke English, but I remember particularly there were a couple students who told me there used to be signs down in the [Bund 00:16:44] in Shanghai: "No Chinese or dogs allowed."

Stefan Halper:

You should mention that this was the German zone.

Pat Mulloy:

This was the German zone.

Stefan Halper:

Yeah, the German zone, right.

Pat Mulloy:

But they felt humiliated and completely taken apart in their own country.

Bill Walton:

Right. Maybe I understand the no Chinese part, but the dogs part, too? I thought the Germans liked dogs.

Stefan Halper:

Bill, we had signs like that in this country.

Bill Walton:

Well, yeah, yeah, yeah.

Stefan Halper:

Yeah, when they were building the railroad in the West Coast. There were signs in saloons and hotels that said, "No Chinese or dogs."

Bill Walton:

[inaudible 00:17:29]

Pat Mulloy:

Well, let's come back to Taiwan for one second. President Nixon and Henry Kissinger, they signed the Shanghai Communique, in which they acknowledge that there was but one China, now, that we would not have Two China policy. In other words, we would not recognize the government of Taiwan and the government of the PRC and have relations with them both. When Carter recognized the PRC as the legitimate government of all of China, they broke relations with the government of Taiwan as the government of China. But then the Congress passed the Taiwan Relations Act, which essentially said that we're gonna treat Taiwan as a country. We won't recognize them as a country, won't have a clear Two China policy, but we're gonna give Taiwan a lot of help and trade and other things so that they can survive and not be taken over by the [inaudible 00:18:41].

Stefan Halper:

This is a very interesting thing, this Taiwan Relations Act, because it is one of the most artful diplomatic documents that we've seen in modern times. It allows the Chinese to say that there's only one China, and it allows the Taiwanese to say, "We are our own government," and it allows the US to say to Beijing, "Don't force yourself on this small island because we're obligated to protect them, and we will."

Bill Walton:

Well, at some point, we need to talk about the South China Sea.

Pat Mulloy:

Yeah.

Bill Walton:

One of the things I like to do is to trace the economic history-

Pat Mulloy:

Yeah, let's go-

Bill Walton:

... 1978 to today-

Pat Mulloy:

Yeah.

Bill Walton:

... because in 1978, [Deng 00:19:28] takes charge. Is it Deng?

Pat Mulloy:

Yeah, [Deng Xiaoping 00:19:31].

Bill Walton:

Deng Xiaoping.

Stefan Halper:

Deng Xiaoping.

Bill Walton:

And he's an innovator, and he keeps authoritarian control of the political process, but he starts opening up China to bring companies in, technology in, trade deals, giving people free land, that sort of thing. Everybody's invited in. What did he do to make those things happen? Because at the time, China's economy, even though it had a billion [inaudible 00:19:58] people at the time. It was like 1/20th of our size.

Stefan Halper:

Yeah.

Bill Walton:

And now it's the same size.

Pat Mulloy:

Same size.

Bill Walton:

So what happened that that-

Stefan Halper:

Deng Xiaoping, he took a trip to the South of China, which is often looked back on as a kind of turning point. And he went to [Xinjiang 00:20:19], which is an area that has become known for its market orientation, and he came back with the belief that China had to have some market mechanism in order to grow, that it couldn't simply have a state-directed economy. And that's where we began to see

elements of a market and some state forbearance, that is to say, some general acceptance of the important role that markets could play in China's growth.

Stefan Halper:

So that's where it began, and then we've seen this incremental process since in which China has added to the market slowly. But it's got state-owned enterprises, which until recently were over 50% of the economy. They're very inefficient. They borrow money from state banks. They use it poorly. They pay very low interest rates, and their products are not sought. They're not able to sell their products. They're shoddy and uninteresting products. So this was a system which did not encourage or insist on innovation and market-

Bill Walton:

Not now but then.

Stefan Halper:

... then, yeah.

Bill Walton:

So what were the pieces they put in place to bring ...

Pat Mulloy:

Here's what I saw.

Bill Walton:

What was the road map?

Pat Mulloy:

I'm more of a trade and investment guy, so I follow this pretty closely. When we recognized the PRC, the People's Republic of China, and Deng Xiaoping and those guys as the legitimate government of all of China, which we hadn't done until '79, we then also got us to give them MFN trade treatment.

Bill Walton:

Most favored nation.

Pat Mulloy:

Most favored nation. Now, what this means is that you're giving the Chinese the same trade treatment on individual items as you give your most favored trading partner. Prior to that, the average tariff on a good coming from China would've been over 40%. Once they got MFN, the average tariff on a good coming from China to the United States was about 4%. So that's an enormous gift. At that time, China had a GDP of about \$400 billion. Now they've got a GDP of about \$18 trillion.

Bill Walton:

About the size of ours, the United States.

Pat Mulloy:

Yes, now, how did they do that? Well, once you give them that MFN low tariff and you give companies that are gonna invest in China ... you give them subsidies and no taxes, and they even [sped up 00:23:27] special zones that you could invest, but you couldn't sell the stuff in China. You had to ship it back out of China. So they developed a policy to develop their own economy by being an export-led growth strategy. And we were sitting here letting them, and in 2000, we had an \$83-billion trade deficit with China. In '79, we recognized them. 20 years later, we got an \$85-billion trade deficit with China as our companies were enticed to go over there and other foreign companies and ship back to us. Now, this has an impact on jobs in the United States.

Pat Mulloy:

Now, the key thing, though, was China's entry into the WTO, which happened in 2000.

Stefan Halper:

2002.

Pat Mulloy:

2001, they came in.

Bill Walton:

The World Trade Organization is what? It's the international framework through which multilateral trading agreements-

Stefan Halper:

Yes. That's what it is, yeah.

Pat Mulloy:

Yeah.

Bill Walton:

Okay. For those of us that haven't been following it that closely, I just want to make it clear what it is.

Pat Mulloy:

I was at the meeting in Geneva in December 1993 when the WTO was created. It came out of ... They used to have something called the GAT, the global-

Bill Walton:

GAT, General Agreement on Tariffs and Trade.

Pat Mulloy:

On Trade, okay.

Bill Walton:

I think I remember that, yeah.

Pat Mulloy:

Now, the WTO began to get into a lot of other ... Other than tariffs, they get into banking services. That's when we on the banking committee said, "What is going on here?" and we wanted to understand it better, so I was sent over. We found out that people wanted to give MFN trade treatment to other financial firms that weren't giving us any market opening commitments, so I was sent over there to keep financial services out of the WTO. But I remember Mickey Kantor telling us that Section 301 of our trade law was gonna be survived. Section 301 of our trade law was where a country we could identify if they were committing an unfair trade practice like currency underpricing, you could punish them and put tariffs on them.

Pat Mulloy:

When we created the WTO, Mickey said we had that. We were immediately sued in the WTO by the Japanese and the Europeans, who said, "301 is inconsistent with your WTO obligation," where you have to win a dispute in the WTO before you could put any sanctions on anybody. And we said we would only use 301 after we first win a dispute in the WTO.

Bill Walton:

Well, there's a piece in Foreign Affairs, I think, that was written by Kurt Campbell and Ely Ratner.

Pat Mulloy:

Yeah.

Stefan Halper:

Oh yeah.

Bill Walton:

And it's interesting 'cause we weren't crazy then. We were just wrong, and they were all these assumptions that by bringing China into the world economy and making them more wealthy, that somehow that wealth would increase their desire for democratic liberal institutions, and we would neutralize China because we brought 'em into the trading system. And then the other thing, I think, we're realizing we were wrong is that the free traders ... The policy makers in the United States [inaudible 00:26:58] the low consumer prices ... "Gee, you can import stuff cheaply from China." ... as the greatest good and forgot about the manufacturing and the jobs that were on the other side of the equation, which is why Donald Trump is the president of the United States now-

Pat Mulloy:

Yep, absolutely.

Stefan Halper:

[inaudible 00:27:14]

Bill Walton:

... 'cause the whole theory of low prices swamped the idea of protecting manufacturing and protecting jobs.

Stefan Halper:

That's a good point.

Pat Mulloy:

Okay, I think you have to come back ... We look at this decision to bring China into the WTO. That wasn't a unanimous ... A lot of people had grave doubts about doing that.

Bill Walton:

How did the votes line up?

Pat Mulloy:

In the House of Representatives, it was a very close vote. The majority of Democrats, including Chuck Schumer and Nancy Pelosi, were opposed to it and voted against bringing China, 'because here's what we were gonna do. You were gonna give them permanent MFN trade treatment. Prior to that, we could only give China MFN one year at a time because we had a law that said you can't give a Communist country permanent MFN trade treatment.

Bill Walton:

So we had a stick we could use each year [crosstalk 00:28:12].

Pat Mulloy:

Each year. Each year, if China wasn't behaving properly, we could take it away.

Stefan Halper:

It was a terrible mistake to give it up because we were unable to manage or govern the Chinese after that.

Pat Mulloy:

It was up until '89, remember-

Bill Walton:

I just want to drill in. Who was in favor of this terrible mistake? What were the politics?

Pat Mulloy:

Yeah, here's what I-

Bill Walton:

Pat, I bet you could tell me.

Pat Mulloy:

I saw it. Here's what I saw.

Bill Walton:

What did you see?

Pat Mulloy:

I saw that the multinational corporations and the Wall Street guys were very much in favor of this decision, and they told members of the Congress ... Again, we had an \$80-billion trade deficit with China at the time this was going on. They said it would help reduce our trade deficit with China because we would get better access to export into the Chinese market.

Stefan Halper:

[inaudible 00:29:10]

Bill Walton:

How has that worked out?

Pat Mulloy:

The day after the House vote, which was a close vote, there was an article in the Wall Street Journal, front page, it said, "This vote in the House was really not about exporting to China. It was about investing into China," so that's what it really was about. In 1980, we had a \$80-billion trade deficit with China. Now, since they joined the WTO, last year, we had a \$370-billion trade deficit with China. Since they joined the WTO in 2001, it was done ... Clinton got the vote passed. Bush finished it up and brought China into the WTO in December of 2001. Since this happened, we've had about \$4.5 trillion worth of trade deficits with China.

Bill Walton:

I've changed my position on trade deficits as I've dug into this more. What do we say to the people that trade deficits don't matter?

Pat Mulloy:

Do you want to speak on that?

Bill Walton:

I've got an answer.

Pat Mulloy:

I'm ready to go, but I want to-

Bill Walton:

I used to ... [Paul Krugman 00:30:18] wrote that, I think, in no important way are countries really in competition with each other, and yet, I don't think the Chinese exactly see it that way.

Stefan Halper:

I don't think they see it that way either, and I think that they matter because the effect of these deficits can have a very bad effect on particular industries or particular areas of the country, which we've seen with China [inaudible 00:30:44] the Midwest. But I think they really do matter.

Bill Walton:

Here's my theory, and I haven't written as many books as you guys have, but my theory is that ... and this comes from my experience in business ... you don't just design a product and then send it to somebody to make it, and that's sort of what we've been thinking about manufacturing, is we [inaudible 00:31:11] all the brainy people here in the United States, and then you give it to somebody to make it, this trivial little thing that we don't have to do. What I think happens in the creative process of making products is that you learn a lot when you're manufacturing but you don't know when you design it. And so when you just allow your manufacturing to head offshore, you've given up a lot of information-

Stefan Halper:

That's interesting.

Bill Walton:

... that you need for innovation and growth.

Pat Mulloy:

Yes.

Bill Walton:

So if a nation, its wealth is its productive capacity, I don't think you can divide a line between, "Okay, here are the people who are gonna be in offices in Silicon Valley designing this, and here are the people [inaudible 00:31:47] in China who are making this." The people in China are [inaudible 00:31:49] a lot more about how this was made than we do.

Pat Mulloy:

Bob Lighthizer was our US TR, testified before the Ways and Means Committee yesterday and before the Finance Committee today. I watched his testimony for Ways and Means yesterday. He pointed out we have an \$800-billion manufacturing trade deficit this year. Now, when I was on the China Commission, we would do hearings. We would find the best people in the country to come in and testify. I remember there was two professors at Harvard Business School, [Willy Shih 00:32:23] and [Joe Pisano 00:32:25], and they came in, and they said, "When you are outsourcing your manufacturing and your technology base, you're gonna really harm your ability to innovate"-

Bill Walton:

Yes.

Pat Mulloy:

... "and if we're gonna be the innovative economy, and we're outsourcing our ability to do so, this is enormous problem for the United States of America." Now, the Chinese and their 2025 plan identified 10 key technologies that are gonna be the key technologies they think of the coming century, and they want to be dominant in those by 2025.

Bill Walton:

Artificial intelligence-

Pat Mulloy:
Artificial intelligence.

Bill Walton:
[crosstalk 00:33:11] things, that sort of [inaudible 00:33:16].

Pat Mulloy:
And that's why-

Stefan Halper:
Robotics.

Pat Mulloy:
... the administration and Bob Lighthizer are bringing a suit against them, because what they do now, they have all of our companies that put all this investment into China, and they say, "You want to be a friend of China? You ought to put an [R&D Lab 00:33:31] in here as well. You ought to transform, and then you get better treatment here." Our corporations, who are focused on only making their shareholders wealthy, and the CEOs, [inaudible 00:33:44] told their own compensation that are building to make shareholders wealthy, they don't feel they have any responsibility to this country. Their responsibility is to their shareholders.

Bill Walton:
So your view-

Pat Mulloy:
This is an enormous problem for the United States, our corporate governance.

Bill Walton:
Your view is that the multinationals-

Pat Mulloy:
Yes.

Bill Walton:
... governed by shareholder profit maximization gods-

Pat Mulloy:
Yes.

Bill Walton:
... CEOs are incented to make short-term deals in order to maximize earnings-

Pat Mulloy:

Yes.

Bill Walton:

... and they don't care about trading technology to China because they're making their numbers.

Stefan Halper:

Yeah, this is true, and not only that, but they enter into joint venture agreements in which the technology is passed to the Chinese. They share their research with the Chinese, and essentially, they're hollowed out by this process. So it's really a very damaging thing.

Bill Walton:

So there's a process in-

Pat Mulloy:

I want to come back to you-

Bill Walton:

Continue, continue. No, no, keep going.

Pat Mulloy:

... because you asked a key question. Do trade deficits matter?

Bill Walton:

This is a massive issue. We're not gonna-

Pat Mulloy:

Do trade deficits matter? Okay. We have an \$800-billion manufacturing-

Bill Walton:

I heard my answer. I want to hear your answer.

Pat Mulloy:

I'll give you what Warren Buffett says. People think he's pretty smart. I do too.

Bill Walton:

Yeah, he's pretty smart.

Pat Mulloy:

He wrote an article in Fortune magazine in October 2003 entitled "The Trade Deficit Is Gonna Sell the Country Out from Under Us." He says we're like a rich family on the hill. We have a nice farm. Each year, we're selling off part of the farm ... That's the foreign investments now buying American companies ... to support a lifestyle we're no longer earning. We're selling off part of our hegemony to support a lifestyle we're no longer earning. And he said this, in time, is gonna be a very bad development for the country. And you see more and more of our economy now, and all of the economists are saying, "Well, we want

all this in foreign investment." Well, where is the foreign investment? Because we've run \$4.5 trillion worth of trade deficits with the Chinese, they have a lot of money, and they're now buying key technologies in this country.

Bill Walton:

Our cumulative deficit with them since 1990 is \$4 trillion?

Pat Mulloy:

\$4.5 trillion since they joined the WTO.

Bill Walton:

Okay.

Stefan Halper:

Which is a disaster. We ought to talk about what they're doing with that money.

Pat Mulloy:

Yeah.

Stefan Halper:

That is the problem in the South China Sea. The Chinese have gotten a great deal of confidence about their ability to project force throughout Southeast Asia and throughout the South China Sea and the East China Sea, which is the areas near to Japan. They have essentially claimed 90,000 square miles of sea and islands and outcroppings as part of China.

Bill Walton:

And they're not only claiming existing islands; they're building islands.

Stefan Halper:

And they're building islands.

Bill Walton:

Out of nothing, off of reefs, on top of reefs.

Stefan Halper:

Yeah, [inaudible 00:36:58] their claim is based on the notion that historically, Chinese fishermen left bits of pottery and other artifacts around these places. The Chinese have found these things and say, "Well, we were here first, and this is our territory."

Bill Walton:

So implicit in what we're saying though is this is not just about trade and economics. This is about territorial geopolitical expansion ambitions.

Stefan Halper:

You bet. It certainly is. They are using the money to project power and influence, and with that, you have a situation where the Chinese have ... For example, they've claimed parts of the Paracel Islands, the Spratly Islands, islands off of the Philippines, islands which are claimed by five and six other nations. But because China is so powerful, so large, so much money, and in fact is using it to buy off politicians in the Philippines who object to this, they are slowly but surely moving into the South China Sea with great force. I have to say that China's ability to suppress objections in that area is really quite strong, and our response has been very weak. Countries look to us to say, "Well, gee, this is not a Chinese lake. This is a major international waterway through which one-fifth of the nation's commerce flows every year." And when you look at the way China has pursued this and you see that the UN Convention on the Law of the Sea had a court case brought by the Philippines which challenged China-

Bill Walton:

That was the UN court in the Hague.

Stefan Halper:

That's right. That court found that China had no feasible or legal claim to the South China Sea or any of its outcroppings. But China ignored that and has demonstrated a cavalier dismissal of the rule of law.

Bill Walton:

And so they dismissed Japanese concerns, Singaporean concerns, Taiwanese, the whole ...

Stefan Halper:

And so what it shows you is that China's willingness to set aside the rule of law and to respond only to other nations' forceful capabilities, Japanese being a good example of a country that would not stand down and has rejected Chinese end roads with their own Japanese air and naval forces, this is nature red in tooth and claw. It's a confrontation at a very basic level. That's what it's devolved to.

Stefan Halper:

I would say this final thing, that when China displays this willingness to set aside the rule of law ... And they've dismissed the legal architecture, which arose in the aftermath of World War II. They don't accept the legitimacy of the World Bank, of the WTO, of any of these international organizations because they didn't have a major hand in creating them. They say they were created by the West for the benefit of the West. When they set that aside, you're looking at a country which is the most radical actor on the global stage, what, since 1789, since the French Revolution. Nobody has set aside the global commitment to law the way the Chinese have. So I think that we look at these disadvantageous trade arrangements, and we say, "Well, so what?" The answer is that the \$4.5 trillion that they've gathered since entering the WTO is being put to use against us.

Pat Mulloy:

Can I ... I want to join [crosstalk 00:41:26] on that.

Bill Walton:

I'm gonna give you a final word for our show part one. This is gonna be a cliffhanger show because we're gonna have to come back and do part two 'cause I want to figure out how we deal with this and whether we can go back or whether we go forward or how we are where we are now.

Pat Mulloy:

Yep. Here's what I want you to know.

Bill Walton:

So, Pat, why don't you wrap up part one?

Pat Mulloy:

I want your readers to understand-

Bill Walton:

I want to get you guys back for part two.

Pat Mulloy:

The Chinese use a term called, "We want to build our comprehensive national power." They had that bad century and a half they want back. They say, "We do that by building our industrial manufacturing and technological base. Upon that, we will build our military capabilities, and upon that will flow our political influence worldwide." Let me just read you what the China Commission in their 2014 report to the Congress, bipartisan China Commission: "China's rapid economic growth has been able to provide consistent and sizable increases to the [PLA 00:42:33] budget to support its military monetization. China's defense budget has increased by double digits every year since 1989."

Stefan Halper:

And that's a lot faster than ours has.

Pat Mulloy:

And we're feeding that by this crazy imbalance in our whole trade and economic relationship with China.

Bill Walton:

Guys, we've got to stop here, but there's a lot more we have to cover, so I hope I can get you back soon to figure out-

Stefan Halper:

Sure.

Bill Walton:

... We've defined that we've got a big problem-

Pat Mulloy:

Yeah, we've got a problem. Houston, we have a problem.

Bill Walton:

Thank you for joining me with Stefan Halper and Pat Mulloy to talk about this extremely interesting and vital issue that we face. I'm gonna try to lure them back on for another show so we can dig into this some more. But if you want to reach them in the meantime, Pat can be reached at PMULLOY@SSO.org.

Pat Mulloy:
@SSO.org, yes.

Bill Walton:
Okay, so PMULLOY@SSO.org.

Pat Mulloy:
Correct.

Bill Walton:
And Stefan, you're at ...

Stefan Halper:
I'm at HRBESH@aol.com.

Bill Walton:
Okay, well, thank you. Thanks for joining me, and we'll talk with you soon.

Pat Mulloy:
Thank you, Bill.

Stefan Halper:
Thanks so much, Bill.

Pat Mulloy:
Thanks, Stefan.

Stefan Halper:
Good to see you, Pat.

Bill Walton:
Pretty interesting.

Speaker 2:
Excellent job, guys.

Pat Mulloy:
Was it interesting?

Speaker 2:
Yeah.

Speaker 6:

Yes, it was.

Pat Mulloy:

Good.

Speaker 2:

Yes.

Bill Walton:

Was that interesting?

Speaker 6:

Yes, it was.

Speaker 2:

Yes.

Bill Walton:

Okay, that's the whole ...

Speaker 6:

It makes you kind of scared of China.

Pat Mulloy:

I've got this because people say, "This China Commission is Republicans and Democrats, Senate and House, but almost every report is unanimous." And people say, "How the hell do you guys do that?" And I always say, "We're just like Joe Friday in Dragnet," and then I pull this out and go [music 00:44:26].

Stefan Halper:

Just the facts, man.

Pat Mulloy:

Get the facts, man, and then when you get the facts, it's pretty clear what's going on.

Stefan Halper:

You know, if you do a second show on this-

Bill Walton:

Well, I'd very much like to do [inaudible 00:44:41] I think we now have gotten a chance to [inaudible 00:44:44].

Stefan Halper:

Gotten some of the basic facts down. I think it would be helpful or you ought to consider whether you should do this as a comparison between the way that we've been fixated on the Russians and the Soviets and the fact that China is a much more serious threat to us.

Pat Mulloy:

Much, much bigger threat to us.

Bill Walton:

Totally agree. Totally agree.

Stefan Halper:

And I think we ought to go into the notion that the nature of warfare of confrontation has changed. It is not about an aircraft carrier rolling up to the coast and frightening the little brown natives anymore. That's not what happens. It's a question of, investment in strategic areas of an economy so that your interests are represented and served-

Speaker 2:

Let's do a show about that next.

Stefan Halper:

... 'cause this is what I-

Speaker 6:

The other thing we didn't get to talk about today is the way the Chinese government really puts a lot of pressure on entities to steal intellectual property [inaudible 00:45:56].

Speaker 2:

Yeah, yeah, absolutely.

Bill Walton:

The rule of law doesn't exist.

Pat Mulloy:

No.

Bill Walton:

We have a long-term strategic objective. We're gonna get this by [inaudible 00:46:02].

Stefan Halper:

That's right, and the rule of law does not exist. They are quite happy to walk away from it if it benefits ... The thing about China, as I said to you on the telephone when we were chatting the other day, China's policies are designed to serve China, China's objectives, their individual objectives. And they don't accept the idea of a common win-win situation [inaudible 00:46:32] talk about it all the time.

Bill Walton:

We talked about that. They don't have the mindset that we do. It's not part of the Western experience or understanding, as I think you put it.

Stefan Halper:

Yeah. Well, they don't. Our political system derives from 1848 when we had ...

Speaker 2:

Hi, baby. She's just passing through.

Stefan Halper:

And our understanding of international politics goes back to that period [inaudible 00:47:13].

Speaker 2:

Coco, thank you. Thank you, Coco.

Stefan Halper:

[inaudible 00:47:20]

Speaker 2:

You guys want to [inaudible 00:47:23]?

Pat Mulloy:

I'm gonna make that call [inaudible 00:47:30] join this call at 2:00.

Speaker 2:

We'll order quick [inaudible 00:47:33].

Pat Mulloy:

[inaudible 00:47:35] [Dan Damico 00:47:35].

Bill Walton:

Okay, let's say hi to Dan for me. [inaudible 00:47:40] 'cause he turned me around on trade. I think unless you get close to it, you don't really see it.

Pat Mulloy:

Did I send you Lighthizer's testimony that he delivered before the China Commission?

Bill Walton:

Yeah.

Pat Mulloy:

I mean that is a terrific piece of testimony. Bob sees it.

Bill Walton:

Well, I'm now joining a world that you've been in a for a while, so I'm just seeing this as a big problem.

Stefan Halper:

Do you have my tie and all that stuff?

Bill Walton:

Who are the people who would be sitting there [inaudible 00:48:10]. Oh, you're just off. They're not [inaudible 00:48:14].

Stefan Halper:

Thank you very much. That's very kind of you.

Speaker 2:

Of course. Thank you. I'm glad you remembered.

Pat Mulloy:

That dude dominated this town for 30 years.

Bill Walton:

I know, but that's changing.

Pat Mulloy:

It's moving in its new direction. The fact [inaudible 00:48:32] article on Foreign Affairs suggests that that's-

Bill Walton:

That's a big [inaudible 00:48:40] change.

Pat Mulloy:

That's a big change.

Bill Walton:

Okay, all right, so we're gonna talk about that too.

Pat Mulloy:

Yeah, this is all [inaudible 00:48:45].

Bill Walton:

We'll talk about that too, 'cause we're also talking about ...

Pat Mulloy:

Now, [inaudible 00:48:52] China, they're [inaudible 00:48:59] people. [inaudible 00:49:00] the government and the way they operate, I care about our people too.

Bill Walton:

[crosstalk 00:49:05]?

Speaker 8:

Okay. All right.