

## [The Bill Walton Show](#)

“It’s Time to Get Serious About China” with Stefan Halper and Pat Mulloy

Bill Walton:

Yeah.

Speaker 2:

Ladies, you can roll your cameras.

Speaker 2:

I'll take this one, all right. All right.

Speaker 2:

All right, so you remember, just forget about the cameras. Also, I may, if I have to walk around to do so, and don't, don't let that distract you, all right, just stay focused on each other.

Stefan Halper:

Okay.

Bill Walton:

So just FYI, guys, I'm gonna give you guys just only the briefest introduction because we did it last time. It's also gonna be on the website and all that stuff. Quick introduction for you might be you spent 10 years on the China Commission?

Pat Mulloy:

Yeah, I was the commissioner, on the China Commission for 10 years.

Bill Walton:

And what's a good-

Pat Mulloy:

Bipartisan, the bipartisan China Commission.

Bill Walton:

That's important.

Pat Mulloy:

Yep. Almost all the reports have been unanimous.

Bill Walton:

Stefan, quick one? Do you like professor ... Professor at Cambridge is a pretty cool-

Stefan Halper:

Sure, you can use that.

Bill Walton:

What are you professor of?

Stefan Halper:

Professor of international studies.

Bill Walton:

Okay.

Stefan Halper:

I've also written 11 books, but only two of them are on China, so.

Speaker 2:

Oh, is everybody's phone on airplane mode?

Stefan Halper:

But you don't need to put that down, it's too much.

Speaker 2:

Is your phone on airplane mode? Put your phone on airplane mode if you [crosstalk 00:01:31]

Stefan Halper:

Nobody cares.

Speaker 2:

Stefan, is your phone handy?

Stefan Halper:

It's upstairs.

Bill Walton:

Well that's the other goal with this. How many thousand books did you sell, how many copies?

Maureen:

Hey Ken, is that door-

Stefan Halper:

Well, my book The Beijing Consensus was a bestseller.

Bill Walton:

Great.

Stefan Halper:

And the book called Tibet, that was also a bestseller.

Bill Walton:

Oh good. Bestseller's what, 50,000?

Stefan Halper:

Yeah, about that. I honestly don't know the exact number.

Bill Walton:

Yeah.

Stefan Halper:

The Tibet book was selling well very quickly in south Asia, in India, Pakistan, and all across Europe, and it's called Tibet: An Unfinished Story. And the implication is that Tibet will rise and bite the Chinese in the ass, and it's gonna happen, too.

Bill Walton:

Okay. Well.

Stefan Halper:

Probably don't need to say it in those words.

Speaker 5:

We're good.

Bill Walton:

All right. I think in those words is not so bad. All right, we're ready.

Speaker 2:

All right. [inaudible 00:02:40]

Speaker 2:

Hopefully the dogs will calm down. Okay, this is The Bill Walton Show for April 12th.

Speaker 2:

Check cameras, good, good. Okay Bill, looking at the camera. Energy, and when you're ready.

Bill Walton:

Welcome. I am here today to talk with you again about China, and joining me for round two of a very interesting conversation we had a few weeks ago to talk in even more depth are Pat Mulloy, who is a 10 years commissioner of the bipartisan China Commission, and Stefan Halper, who is a professor of international studies at Cambridge University in Cambridge, England. So welcome back, guys.

Pat Mulloy:

Thank you very much for having me.

Stefan Halper:

Thanks, Bill.

Bill Walton:

We call this round two based on the earlier conversation, and all the content we got here, this may be round two of round 32, number 32, we'll see. A few months ago, a few weeks ago China announced that Xi Jinping, in the Communist Party in the Great Hall of the People voted 2,958 for and six against that he should become president for life, and that this is realizing China's dream of national rejuvenation. What do you think?

Stefan Halper:

Well, I'll tell you what I think.

Bill Walton:

What could possible go wrong with that, huh?

Stefan Halper:

Close election, huh?

Bill Walton:

Close election, yeah, it was a 99.8%, they're still looking for those three, the six who didn't vote for him.

Stefan Halper:

There's no opposition in Communist China, that's the first thing to understand. They can call it election, but in effect it's a coronation, and the striking thing in what you've said is that he's managed to make himself president for life. And that is something that China has not had. They've incorporated Xi Jinping's thought into the constitution, first person since Mao Zedong. He's one of the most powerful leaders of China that we have seen since the Chinese Revolution in 1949.

Stefan Halper:

So what do we think about it? It's fairly extraordinary. We're dealing with a very strong leader with very clear ideas.

Bill Walton:

Well one of the-

Pat Mulloy:

Can I-

Bill Walton:

Yeah, jump in Pat, yeah.

Pat Mulloy:

... give you my take on this? China used to have emperors who'd serve for life. When Mao Zedong and the Communists took over China in '49, Mao stayed in power til his death in 1976, but he was so abusive and did so many bad things that Deng Xiaoping, who was the successor to Mao, tried to limit that no person would have that kind of power, they would only have two terms, two I think five-year terms, and then they would move on. And that was followed under two prior presidents of China.

Pat Mulloy:

But now, this guy's presidency has taken it upon himself, and he recommended that the congress give him this power, that he will be the new emperor. And so we're going back into a period that the Chinese were very afraid of getting into again, of having a permanent emperor ruler. I think this has really caught the attention of many in the west who thought China was not going back on this kind of road.

Bill Walton:

Well the-

Stefan Halper:

And many in China as well, there's a lot of opposition to it. I think that Xi Jinping and his coterie have been surprised at the resistance to this move.

Bill Walton:

Well, but if you're in opposition, do you get caught up in his anti-corruption campaign-

Stefan Halper:

Yes.

Bill Walton:

... and you end up being declared corrupt? And what's he punished, 180,000 people?

Stefan Halper:

That's right, that's right, that's the best net they have.

Bill Walton:

Yeah.

Stefan Halper:

If they ... Corruption is endemic in Chinese culture, and so officials all the way up and down the line are constantly making backroom deals, and they can be arrested effectively on the basis of this behavior. And Xi Jinping is using that to eliminate his opponents. And as you say, he has arrested about 182,000 people, that's a lot of people, and they're frightened to death.

Bill Walton:

Well, there are a lot of theories that have been disproven. We talked about this last time. One of the theories was we lead China into the world trade system and they'll become more liberal, democratic,

and more like us. The other theory, another theory that was that the internet was going to make China more liberal and open, and that hasn't happened.

Pat Mulloy:

I can remember we brought China into the WTO ... the key vote in the Congress was, again, in 2000 when we gave China permanent MFN trade treatment.

Bill Walton:

Most favored nation.

Pat Mulloy:

Most favored nation trade treatment.

Bill Walton:

Which gave them lower tariffs.

Pat Mulloy:

We gave them lower tariffs. We would give them MFN one year at a time, since '79, but we'd always take it away. Once we gave it to them permanently, that was an enormous gift, and part of the way they sold Congress on doing that was bringing China into the WTO. We moved China toward a more Western democratic system, and I remember people saying the internet was gonna make it impossible to have a dictatorial kind of government in China. The Chinese government and the Party have learned quite well to control that whole internet process, and they spend an enormous amount of money and resources doing it. But they do it.

Bill Walton:

So we're dealing with a country that was moving a little bit toward decentralization, maybe-

Pat Mulloy:

Yeah.

Bill Walton:

... under Deng, and now it's going back to centralized authority. And instead of the internet being a freeing thing, it's becoming an oppressive technology, and they have something called social credit scores.

Stefan Halper:

Yeah, they do, and it's worth knowing that in Beijing alone there are over 40,000 internet policemen, people who track the internet, what people are doing and saying. And the social credit system, which was just recently put in, is a system in which people now have cameras in their home, and of course on the streets, and they're monitored 24/7. And if you have an infraction, like you've been crossing the street in the wrong place or against the light, you can be, that's noted. And if you get enough of these infractions, you begin to lose certain privileges and freedoms.

Bill Walton:

Well the-

Stefan Halper:

So it's 1984 at large.

Bill Walton:

Here's what they boast. They said this credit system will "allow the trustworthy to roam everywhere under Heaven while making it hard for the discredited to take a single step."

Stefan Halper:

And who decides what's trustworthy and what isn't?

Bill Walton:

Who does decide? Is this Xi?

Stefan Halper:

It's the oldest question in the book. Who guards the guardians?

Bill Walton:

Yeah.

Stefan Halper:

Yes, and it is Xi, it is Xi.

Pat Mulloy:

And the Party?

Stefan Halper:

And the Party.

Pat Mulloy:

And the Party.

Stefan Halper:

It's the Party.

Pat Mulloy:

The Party, you have a one party dictatorship. That's the Communist Party of China, and they're running the show, and Xi is both the president of China and the head of the Party.

Bill Walton:

So the Party, the population of China's a billion, how many members-

Pat Mulloy:

1.2 billion people.

Bill Walton:

1.2 billion, how many-

Stefan Halper:

Maybe a bit more, like 1.3 or 4.

Bill Walton:

1.3, how many members of the Party?

Stefan Halper:

The Party, they say, has 80,000 people, which makes it rather small in total terms.

Bill Walton:

Yeah that's tiny.

Stefan Halper:

But it could be as much as a hundred thousand, but it's right in that neighborhood.

Bill Walton:

And so you don't ... Let's frame this in a certain way that I think could be interesting. We're talking about China as a juggernaut authoritarian society, they're coming after their own people, they're coming after us in terms of trade and presumable military expansion, starting with the South China Sea. Then there are other people who say, well we don't really worry about China, they're so dependent on us, China tends to fragment, requires authoritarian rule, so relax and nothing bad's gonna happen.

Stefan Halper:

Well, first of all China doesn't depend on us as much as that suggests, and China does have problems in its own region. It's surrounded by 14 countries, it has border difficulties, territorial claims with 12 of those countries, and it doesn't play well with others. China has always had difficult-

Bill Walton:

So presumably it is getting along with North Korea?

Stefan Halper:

It's getting along with them somewhat.

Pat Mulloy:

Well, it controls [inaudible 00:12:19] to be honest.

Bill Walton:



Yeah.

Stefan Halper:

But it has problems on its periphery because when a lot of these borders were set, there were no agreed maps. This was in ancient times, they were just simply areas of the periphery where Beijing's power was fading, and others had some power too. So there was a bit of a back and forth. So they do have difficulties in the region. They have not managed to effect any sense of common purpose or other common effort, except they're trying to have people resist the United States and resist the west in general. That is their theme.

Pat Mulloy:

Yeah. My view again, and I stated it in our last program, you cannot understand what's happened here and where China's gone, and where it wants to go. We're not understanding that they were the dominant power and the wealthiest country in the world, and the dominant power in Asia for centuries, and that they were taken down by the west beginning with the opium wars in the 1840s. They want back, and they've developed a strategy to get back, and part of it was getting into the WTO and getting the investment and trade flows that would make them wealthy as our companies moved operations from here to China. And the Chinese then, once more of our companies got there, they would put pressure on these companies to move more operations to China, and move R&D to China.

Pat Mulloy:

We had a major CEOs, John Chambers, Cisco, 2004, he says we want to be a Chinese company, and he talked about how he was gonna have his R&D and other factors moved into China to get more favor and becoming wealthier in China.

Bill Walton:

I went to business school with John.

Pat Mulloy:

Did you?

Bill Walton:

Yeah. He's a good old boy from West Virginia, I didn't know he had aspirations to be Chinese.

Pat Mulloy:

Yeah, and it's just amazing. You read these articles and say, my god. Now, one more thing. Remember that when the Chinese came into the WTO, before that it was the GATT and then the WTO, but this was democratic free-market economies. So suddenly we're bringing an authoritarian non-market economy into the WTO, and they've not abided by their WTO obligations, and they've used forced technology transfer to tell our companies you want to get good treatment in China to become wealthier and get your CEO salaries up you better play ball and move your stuff here.

Bill Walton:

Well, the Chinese claim they're voluntary.

Pat Mulloy:

Yeah.

Bill Walton:

They say that, well, they're voluntary because if you want to come into our country you've got to do this, and if you don't want to do it then you're not to come in.

Pat Mulloy:

Well, let me-

Stefan Halper:

I think the main ... I'm sorry.

Pat Mulloy:

I want to go back to just this.

Bill Walton:

Okay.

Pat Mulloy:

Because I was around watching all of this in 2000 and 2001 when this was going on. Sperling, in the negotiations-

Bill Walton:

Gene Sperling.

Pat Mulloy:

Gene Sperling, who was one of the key negotiators for bringing China into the WTO-

Bill Walton:

Worked for Clinton, he was Trade Representative under Clinton.

Pat Mulloy:

He was actually I think running the National Economic Council under President Clinton.

Bill Walton:

Okay, yeah.

Pat Mulloy:

Charlene Barshefsky was the Trade Representative. But they got an agreement by the Chinese that they would not do forced technology transfers, and that's part of their WTO commitment. The Chinese pressured the American companies so that they voluntarily, in order to make more money, transferred

the technology. And they said, oh we're not really forcing your companies to do this, they're just doing it voluntarily.

Pat Mulloy:

Well that's what Bob Lighthizer and this US TR and this president have gone after, saying that this is a complete violation of the understanding of which you came into the WTO and we're gonna do something about it.

Bill Walton:

Let me-

Stefan Halper:

There's a wider point here that's important, and that is that the argument produced in 2001 and -2 when people were talking about bringing China in was that China would become more democratic, that it would become together with the internet would reinforce this process, that China would adopt market elements. And of course this was an argument made by Kissinger, and it began when he was in China in the early 1970s to effect the so-called opening. So you had a growing sense of discourse in Washington, the Chamber of Commerce, certain members of Congress, certain parts of the media, all agreeing that this was the way to democratize China. Well of course it was profoundly wrong.

Bill Walton:

Who believes that now?

Stefan Halper:

Well, now it's very interesting, we have just hit what people call an inflection point.

Bill Walton:

We talked about the ascendance of Xi-

Pat Mulloy:

Yes.

Stefan Halper:

Yes.

Bill Walton:

... his lifetime president was a wake up call.

Stefan Halper:

Right, it was a wake up call, it was definitely a wake up call. But we've now got to a point where people, after China's aggression in the South China Sea, and after the clarity of what China is trying to do on the trade front, people now realize that this is an aggressive and dangerous state.

Bill Walton:

Let's go for some context here, because we talked about the trade issue and it's real-

Pat Mulloy:

Yeah.

Bill Walton:

... technology transfer is real, but they also have other things that are in their wheelhouse. Like their One Belt One Road strategy, China 2030 strategy. They've also got a South China Sea, the Maritime Silk Road China. And we talked earlier, there's three warfares, the way they redefine what they're doing. What's the One Belt One Road about?

Stefan Halper:

One Belt One Road is a concept that Xi Jinping advanced that would link China with India, the Near East, South Asia, Europe, and it would facilitate the movement of Chinese exports by road and rail all the way into Europe. It involves the construction of roads and bridges and railroads in order to move all of these exports, and it requires China to effect relationships with businesses across the Near East and South Asia. So you have a lot of businesses which are now being offered financing by China, management by China, in order to create this system, and a lot of these businesses are resisting because they don't like the idea of having a foreign power so heavily involved in their enterprises.

Bill Walton:

I think we talked about this before, they bought the Port of Piraeus in Greece essentially.

Stefan Halper:

Yeah, they did that. They bought Hambantota in Sri Lanka, and so on. But that's One Belt One Road, and it is a very dramatic, it's an enormous concept. It's 50 times the size of the Marshall Plan.

Bill Walton:

Which was what?

Stefan Halper:

Which was a program that the United States initiated after World War II to rebuild Europe devastated by the war. So this is a huge project. But in the end China would control a lot of these businesses, and certainly be very influential in these local governments.

Bill Walton:

And the point you've made is that, how are they paying for this? They're paying for this with a \$4.5 trillion trade surplus.

Pat Mulloy:

Yeah, they're putting a trillion-

Stefan Halper:

They're putting forward a lot of money.

Bill Walton:

They're putting that cash to use.

Pat Mulloy:

They're putting a trillion dollars into this program.

Bill Walton:

Is that the total number, a trillion dollars?

Pat Mulloy:

About a trillion. Yeah.

Bill Walton:

Okay.

Pat Mulloy:

Now, where do they get that money? Since China had joined the WTO, the United States has run trade deficits with China of \$4.5 trillion. So this lopsided economic relationship that we have with China is permitting them to expand their political influence through projects like this, and their economic influence, but also permitting them to strengthen themselves militarily. Because when you transfer technology and industrial capacity to your opponent at your own expense, they can then pump money into their military capabilities, and they've been doing that.

Bill Walton:

Well one of my more-

Pat Mulloy:

I want to come back to this inflection point.

Bill Walton:

Okay, yeah.

Pat Mulloy:

I was a big fan of George Kennan, who was a famous American diplomat who as the guy who first put together the containment strategy when Russia was expansive after World War II.

Bill Walton:

He wrote the memo after-

Pat Mulloy:

Yes, he wrote the long telegram and then the foreign affairs article.

Bill Walton:

Yeah.

Stefan Halper:

8,000 words.

Pat Mulloy:

And he saw what was going on. I've always been hoping there would be a wake up moment in this country to realize that the policies that we have been following toward China are not in our national interest and will hurt us in the long run. I think when President Xi went after and made himself the emperor, I think it really impacted people in the west to say, what do we really have going on here? So it was kind of like the wake up call that George Kennan gave us in 1946 and 1947. There's a rethinking of this whole China relationship going on in the United States now.

Stefan Halper:

I couldn't agree more. I think you're absolutely right, Pat, and it is a very dramatic moment in reassessing our relations with China.

Bill Walton:

One of my economist friends, one of the more wonky sorts says, well it's really not 4.5 trillion because there's a lot of intercompany transfers, says it's probably only more like 2 trillion. And I said, well that's a lot of money. Okay.

Stefan Halper:

Right, let's argue about it.

Bill Walton:

A trillion here, a trillion there. So this is something we need a lot of people to wake up about.

Pat Mulloy:

Yes.

Bill Walton:

What's, One Belt One Road, South China Sea, or the Maritime Silk Road, let's talk about what that is.

Stefan Halper:

Well, the Maritime Silk Road is simply the maritime version of the One Belt One Road, and it has a series of ports, what China calls its string of pearls-

Bill Walton:

That's great.

Stefan Halper:

... across the Indian Ocean.

Bill Walton:

They use much better labels for these things than we do.

Stefan Halper:

Yeah, they really do.

Pat Mulloy:

That they do.

Stefan Halper:

These are places where China has facilities, port facilities, docking, bunkering, and so on, and their ships can move across the Indian Ocean and the Arabian Sea to move goods and services that way.

Bill Walton:

And when they have this established, this is, how will they use this? I mean, is it a way to not be dependent on anybody else to move goods and shipments?

Pat Mulloy:

Your energy won't have to be going through the Straits of Malacca for one thing.

Bill Walton:

Okay.

Pat Mulloy:

The freedom from that concern. The second thing it is to permit them to export more into these countries.

Bill Walton:

So they're creating their own export market-

Pat Mulloy:

They are.

Bill Walton:

... abroad.

Pat Mulloy:

And they get political influence in these countries, which is of enormous importance to the Chinese.

Bill Walton:

Right.

Stefan Halper:

And the most ... another point is that when you create these port facilities, they become facilities that can be used by the Chinese Navy. They can store fuel, ammunition, refurbishing and supply and repair in all of these places.

Bill Walton:

Well that brings us to the South China Sea strategy. Recently there was an announcement that China's put jamming gear in a couple of the islands, and they've been claiming territory that otherwise has been considered international waters. And they've been doing it by, I guess since 2014 they've moved sand onto rocks and reefs, paving them over with concrete, and creating islands that they then have done things like put 10,000 foot runways in place and hangars for fire aircraft, and they've got plans. So what do we, are we paying attention to this, and what do we do about it?

Stefan Halper:

Certainly some of us are paying attention to it. It is one of the most outrageous and egregious violations of international law and precedent that any of us have seen in a long while. China believes that because its fisherman and others, many hundreds of years ago, thousand years ago, visited these little islands in the South China Sea and left bits of pottery and so on, that these islands can properly be claimed by Beijing. If that were true, then the United States could claim the Gulf of Mexico, the French would own the Atlantic Ocean, and so on and so forth.

Stefan Halper:

It is a straight out violation of current international law, and the issue was considered by the United Nations Convention on the Law of the Sea court, and the Chinese were found to be without any foundation for these claims. Meanwhile, Beijing simply ignored the court's findings, and I mean just flat-out ignored them. So it didn't matter what the court said, they were skating right by the rule of law and they were onto a set of claims which, for them, provides them with what they call sovereignty over the South China Sea. A modest proposal, its only 100,000 square miles of ocean.

Pat Mulloy:

See, the thing ... Having, as a young man I was in the State Department, and I worked on the Law of the Sea Convention, which is the law that governs these kinds of things. The United States has never ratified the Law of the Sea Convention, but we should. But we've said that we accept it as international law.

Stefan Halper:

And we abide by it.

Pat Mulloy:

And we abide by it. Now, when the Chinese made these claims, the Philippines actually brought the case to the Law of the Sea Tribunal, and they won it. But then the Chinese squeezed the Philippines economically, and you don't see the Philippines raising big concerns about this matter right now, and they would love it-

Bill Walton:

I've also heard they're bribing their politicians.



Pat Mulloy:

Well, I've-

Stefan Halper:

Absolutely.

Pat Mulloy:

They've squeezed them economically in different ways, yeah. And so ... But I think it would strengthen our hand if we did ratify that Law of the Sea Convention so that we're party to this whole convention. It was negotiated, we took the lead in putting the thing together, I've always felt we should. And the Senate Foreign Relations Committee has reported it out of committee a couple of times, but we've never taken the time to get it done on the Senate floor. It has to be approved by the Senate.

Stefan Halper:

On the question of the Philippines and bribery and so on, what the Chinese have actually done is offered to build a railroad from Manila down through Mindanao to connect the capital with parts of the outlying areas of the Philippines. And the president, Mr. Duterte, is very grateful for that, and for that he's prepared to be flexible on Chinese claims of Philippine islands.

Stefan Halper:

Going back to your earlier point about these hardened runways and bunkers and so on, China has been trying to create a string of military assets across the South China Sea that would in effect lock American naval task forces from sailing from Japan down through the Malaccan straits, that's what they're trying to do. And they put in radar and intercept and jamming devices, as you mentioned, which are designed to block the US fleet from moving from the north to the south. And what the Pacific fleet is doing is increasing the tempo of what they call Freedom of Navigation exercises in which the US fleet moves through that area and does not acknowledge Chinese claims to these territories or any prohibitions.

Bill Walton:

So do we have a strategy to deal with that? Is that-

Stefan Halper:

I think we do. I think the Navy certainly does, and I think that Trump has been particularly, or much more receptive than Obama was in listening to what the Navy would like to do and agreeing to it. So we do have a strategy, and of course one of the major issues here is Taiwan.

Pat Mulloy:

Yeah.

Stefan Halper:

We are increasing our relations with Taiwan. Trump signed the Taiwan Travel Act, which allows US officials, senior officials, to travel to Taiwan and have conversations with their leadership, which was prohibited before. I believe we're in process of arranging naval visits to Taiwanese ports. I don't know that for sure, I'm not sure that's been settled, but that's the intention. And I think when we have done those things, the Chinese will react strongly. So Taiwan's gonna be an issue for us going forward.

Bill Walton:

Well how does this square with ... I was talking to somebody else about this, and they said you really don't have to worry about China because it tends to fragment, and they're not expeditionary, they haven't really been out conquering faraway lands. Now that's per their tradition under, well okay, we're gonna laugh out loud over your iPad.

Pat Mulloy:

Well you know that-

Bill Walton:

Why is that dead wrong.

Pat Mulloy:

Well you know that Korea, before 1894, was controlled by China as was Taiwan. And the Japanese, as part of that whole fragmentation that happened to China in that, what they call their century of humiliation, the Japanese went to war with the Chinese in 1894 and they took Korea and Taiwan away from China. So this idea that the Chinese don't expand, why were the Vietnamese always so concerned about the China? Because China was moving influence down into southeast Asia.

Pat Mulloy:

They haven't gone on and colonized Latin America and Africa, but they're essentially using their economic influence now to gain more and more political control in these countries.

Bill Walton:

Yeah, they're making big investments in both places.

Pat Mulloy:

Yeah, in both countries.

Bill Walton:

Yeah.

Pat Mulloy:

So this idea ... They are very subtle in the way that they behave, and they are using their economic power to gain more and more political influence in these various countries around the world. I want to come back to one more thing, because I think it's so important to this discussion. When we brought China into the WTO, I saw an article by Larry Summers who was I think the Treasury Secretary then, and he said that wasn't such a big deal because we were already giving China MFN trade treatment although we could always take it away. Here is an article that appeared in the Wall Street Journal the day after the House voted to give China PNTR, and our corporations and the administration-

Bill Walton:

When was this published?

Pat Mulloy:

This vote took place in 2000.

Bill Walton:

Okay, so this is 18 years ago.

Pat Mulloy:

This is 18 years ago, the vote. The House passed it, it was a narrow vote. The Wall Street Journal ... And it was all said, we're gonna get more exports from China, reduce the trade deficit, which was then at 80 billion, it's now 370 billion. The article in the Wall Street Journal says even before the vote was cast yesterday, and while the ... it says it was all about, the companies were saying it was about exporting. And while the debate portion focused mainly on probability lift for US exports to China, many US multinationals have something different in mind. This deal is about investment, not exports, said Joe Quinlan in the comments with Morgan Stanley. A foreign investment is about to overtake US exports by the primary means by which US companies deliver goods to China. The company sold it, that this was gonna be about exports, it was really about investment. And when they invest in China, then they become part of rebuilding China's comprehensive national power, which is what the Chinese wanted.

Pat Mulloy:

Now, if I could ... As you know, that I was on the China Commission, the China Commission is a bipartisan think tank set up by the Congress in law, they passed a law to create this commission to get bipartisan advice. It has issued 18 reports, this is the 2017 report to China. It's at [www.uscc.gov](http://www.uscc.gov)-

Bill Walton:

Which will also be on our website, I have a link there, yeah.

Pat Mulloy:

Which is very important for people to know that this is a resource, because this group of bipartisan people, they get intelligence briefings, they travel to China, they read enormously.

Bill Walton:

How many pages is that? Seven, eight, six, seven?

Pat Mulloy:

This is 2017.

Bill Walton:

Okay, and it's holding up. Okay.

Pat Mulloy:

Yeah. And it's former senators, it's the former Council of Economic Advisors, chairman of the Council of Economic Advisors, and it's guys that were experts in our military, where military attachés in Beijing. Bipartisan, almost every report has been unanimous.

Bill Walton:

You want to read that clip that you said, because it's-

Pat Mulloy:

Yeah, I just want to read this to you, because this is what people don't understand.

Bill Walton:

Yeah.

Pat Mulloy:

China has laid out an ambitious whole, this is from their 2017 report, whole of the government plan to achieve dominance and advance technology. This state-led approach utilizes government financing and regulations, high market access, and investment barriers ... you can't sell into China, you have to ... for foreign firms, overseas acquisitions, they're now buying key technologies both here and in Europe, and talent recruitment, and in some cases industrial espionage to create globally competitive firms. And this is what Bob Lighthizer and USTR have also identified in their recent report to the Congress. They are saying the administration is saying the same thing, and we have to develop a strategy to deal with this problem.

Bill Walton:

Well, we've got an increasingly aggressive China.

Pat Mulloy:

Yes.

Bill Walton:

Authoritarian, with a strategy, lots of cash to implement it, going all over the world. I want to talk about China's weaknesses, but-

Pat Mulloy:

But, Bill, but why are they increasingly, what gives them the ability to be increasingly aggressive?

Bill Walton:

Well, we gave them all our money.

Pat Mulloy:

We gave them their strength.

Bill Walton:

And we borrowed to buy their stuff.

Pat Mulloy:

Yes.

Bill Walton:

And now we're in debt, and they've got the money, and they're building all this stuff.

Pat Mulloy:

Yeah.

Bill Walton:

Is that the equation?

Pat Mulloy:

Exactly.

Bill Walton:

I think that's it.

Pat Mulloy:

You got it.

Bill Walton:

I try to learn it if I can. Just parenthetically, one of the reasons, we weren't crazy. The United States after World War II was the only economy in the world that was viable. Japan was in rubble, Hiroshima. Germany laid low, everybody ... We were the only manufacturing economy in the world that mattered. And we had the Marshall Plan, we built these, it was in our interest really to build up Japan, build up Europe, but we were hugely protected from competition. I think it's 30 years from the end of the World War II to 1976, we had wage growth of like 100%, the GDP was growing like mad, we were protected from imports. And then we set up these trading systems, which we're now saying are a big problem, to help them. I think we've done that.

Pat Mulloy:

Yes. We have, we have.

Bill Walton:

We're saying, oh my god, we've got to reverse this.

Pat Mulloy:

Yeah.

Bill Walton:

Because we were in a trade deficit every year for 42 straight years.

Pat Mulloy:

Yes.

Bill Walton:

So.

Pat Mulloy:

An increasingly large trade deficit every year, essentially, before you-

Bill Walton:

Okay, quickly, we talked about this last time. Why do trade deficits matter?

Pat Mulloy:

When you run a trade deficit, as Warren Buffett put out in his famous article in Fortune magazine, you're sending the other guy dollars, he's sending you the goods. The economists will say we're giving them slips of paper, we're getting real asset, we're getting goods. But those dollars we're sending them are claims on the US economy. So the foreigners have been investing the dollars into our treasuries as a way of keeping the dollar over-valued and continuing their-

Bill Walton:

They've got about a trillion three right now [inaudible 00:38:21]

Pat Mulloy:

They buy our treasuries as a way of keeping the dollar over-valued and keeping the trade deficits going. But now what they're using their dollars for is to buy high-tech tech companies in the United States. That's why the Congress is in the middle of strengthening the whole foreign investment, strengthening because the Chinese are over here buying key technologies and Congress is getting more and more concerned about it.

Pat Mulloy:

President Trump, in his discussions with the Chinese, may restrict Chinese investment using the International Emergency Economic Powers Act, that Bob Lighthizer and the Treasury Department have discussed this.

Pat Mulloy:

So trade deficits matter because as Warren Buffett put in that article, the trade deficit is gonna sell your country out from under you. What used to be yours is now gonna be owned by the people that you've run your trade deficits with.

Bill Walton:

Well, I think the larger point is that if you, people say well there's a trade deficit between New York and California or vice versa, but that's not exactly what's going on here.

Pat Mulloy:

That's the United States of America, we're all-

Bill Walton:

As Stefan's written about, something he calls the three warfares.

Pat Mulloy:

Yes.

Bill Walton:

And so the three warfares are the next shooting war's not likely to be a shooting war, and that China's engaged in a much broader strategy.

Stefan Halper:

Right, that's exactly right. Because of the media, and current sensitivities, a nuclear arsenal is almost completely useless these days. When's the last time somebody used a nuclear weapon? So what you have instead is a concentration by the Chinese on what are called non-kinetic weapons. That is, weapons that do not explode. And the three warfares are the most elegant and sophisticated of these. Essentially the three warfares is a dynamic three-dimensional war fighting process that constitutes war by other means. It's flexible, it's nuanced, it's innovative, and it proceeds in a dimension which is quite separate from the way that we've been trained to think about war.

Stefan Halper:

Our military academies, West Point, Annapolis, and so on, think about wars the way we did about Vietnam. You have to control their hearts and minds, and from that you'll gain influence. The Chinese are essentially saying that that's not what this is about. The three warfares envisions results in a much longer period of time, the impacts are measured by different criteria, and the goals seek to alter the environment in a way that renders kinetic engagement irrational.

Stefan Halper:

So, for example, if the US wanted to have naval access to a port in the South China Sea, the Chinese would use the three warfares to alter the environment through media by explaining to the local population that this was not a good thing, they would use intimidation by threatening to boycott that country, and they would mount legal challenges. Those are the three warfares, and when you use them in combination they are a formidable weapon.

Stefan Halper:

If the object of war is to acquire resources and influence and territory, and to project national will, China's three warfares is war by other means. And it's something we need to come to grips with. There are some ways that you can do it. You need to shine a bright light on what they're doing, you need to challenge them in established courts, and you need to resist specific efforts that they've undertaken. But those are the three warfares. Very effective.

Bill Walton:

We need to wrap up.

Pat Mulloy:

Can I-

Bill Walton:

As always we've only scratched the surface of this.

Pat Mulloy:

Yeah.

Bill Walton:

But that's a pretty alarming note to end on.

Stefan Halper:

Sorry.

Bill Walton:

It's sobering, that's good. Pat? Last word?

Pat Mulloy:

Yeah, I just wanted to add to that. The China Commission, again, has said we should not let state-owned enterprises from China invest in the United States.

Bill Walton:

Well, that's most of them.

Pat Mulloy:

The state-owned enterprises from China are owned and controlled by the Communist Party.

Bill Walton:

Yeah.

Pat Mulloy:

You know that they are now requiring a Communist Party apparatchik to even be on American companies that are in China? So they want ... But anyway, let's come back to their investment here. If you have a state-owned enterprise investing here, and then it can play in our political system because it's incorporated in the United States, doesn't that give the Chinese more and more ability to influence our political process so that we don't come up with strategies to stop the hemorrhaging that's going on in terms of technology and jobs in this country?

Bill Walton:

Well guys, we've got work to do.

Pat Mulloy:

Yeah, we do.

Bill Walton:

Thank you for all this very useful information. I guess the first step to dealing with the problem is realizing you have a problem.

Pat Mulloy:



You realize you have a problem.

Bill Walton:

And we have a problem.

Pat Mulloy:

Yep.

Bill Walton:

So thanks Stefan.

Pat Mulloy:

You need an integrated approach.

Stefan Halper:

Thank you Bill for putting this on.

Bill Walton:

Yeah, you guys have-

Stefan Halper:

I think this is a really important issue and you're right onto it. Very good.

Bill Walton:

So I was right, this is not the end of our series, but we'll take a break from it and then we'll come back to talk about China part three.

Pat Mulloy:

Thanks Bill.

Bill Walton:

Okay.

Pat Mulloy:

Thank you very much.

Stefan Halper:

Thank you Bill.

Bill Walton:

And thank you for listening, thank you.

Pat Mulloy:

Thank you.

Bill Walton:

And stay tuned, we're gonna have a brief wrap up, I'm gonna talk briefly about what I think the key takeaways are from today's show. Thanks.

Pat Mulloy:

You'll come back and do that?

Bill Walton:

Yeah.

Pat Mulloy:

Yep.

Speaker 2:

[inaudible 00:44:33] the room should do that.

Bill Walton:

Yeah, I didn't say it the way we teed it up, but ... So what I gotta do now, this is a whole new thing that our syndicated wants. I'm gonna go, I'm gonna walk you guys upstairs, I'm gonna come back down and take 60 seconds to say what the show's gonna-

Stefan Halper:

While it's all fresh in your mind.

Bill Walton:

What the show's gonna be about, and then I'm gonna take 60 seconds about what the show was about.

Pat Mulloy:

Yeah.

Bill Walton:

How would you sum it up in 60 seconds?

Stefan Halper:

Well, we've moved across the Chinese-American landscape. I mean we looked at a variety of things.

Bill Walton:

Yeah.

Stefan Halper:

We looked at China's trajectory, we looked at US policy, we looked at what the Chinese have done to gain this dramatic advantage in the use of the funds that they've gotten through lopsided American-Chinese trade. We touched on the three warfares in the South China Sea. I mean, I think you can say all that, and you can point out the things we didn't get a chance to talk about.

Bill Walton:

Well, the other thing I think is we do have a president, and with Lighthizer we're on the case at least economically, and I think that's different from where we were before.

Pat Mulloy:

For the first time.

Bill Walton:

Yeah.

Stefan Halper:

And we're on the case, too, from the Navy's point of view.

Bill Walton:

Yeah, yeah.

Stefan Halper:

Which is something that Trump-

Bill Walton:

So I do want to have part three, but let's give it a break for a while so people think I don't do anything excessive like China.

Stefan Halper:

Okay.

Bill Walton:

But I think the next piece might be talking about what are the three scenarios we've got about different outcomes with China, how we get there.

Stefan Halper:

Yeah, we could certainly do that, yeah.

Bill Walton:

And talk about their internal weaknesses, and what could happen that changes where we are right now.

Stefan Halper:

And what our policies-

Bill Walton:

And what we do about it, and what they do about it.

Stefan Halper:

... should be to adjust to each one of these China's.

Pat Mulloy:

Yeah.

Speaker 2:

Okay, thank you sir, that was camera one.

Speaker 5:

Thank you, that was great.

Pat Mulloy:

Maureen, I'll send you a note if you can send me a different link that doesn't bubble like that.

Maureen:

We will, I'll try to get you what you need.

Pat Mulloy:

Yeah, that would be good.

Stefan Halper:

Thanks Maureen.

Maureen:

Oh, you're welcome, thanks for coming.

Speaker 5:

It's alarming that nobody knows about it.

Bill Walton:

Nobody knows about it. Well, that's why we're doing it.

Pat Mulloy:

Thank you for having me.

Maureen:

It's always a pleasure.

Pat Mulloy:

So your husband, his dad was with the agency, huh?

Maureen:

Uh-huh, yeah.

Pat Mulloy:

Did he like that period of his life?

Maureen:

My husband?

Pat Mulloy:

Yeah.

Maureen:

No.

Pat Mulloy:

He didn't.

Maureen:

No, he just remembered ... because they were in Africa, and they were in a lot of bad places, and he was ... I think he was little, he was not, I think they came back here when he was probably eight, so he doesn't have fond memories of traveling.

Pat Mulloy:

Yeah, I started out as a foreign service officer, but after a few years I said I don't think I want to spend my life that way.

Maureen:

Yep. Well, take care.

Maureen:

Scary information.

Speaker 2:

Yeah.

Maureen:

How do we turn this off?