

- Speaker 1: Welcome to the Bill Walton show, featuring conversations with leaders, entrepreneurs, artists and thinkers, fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.
- Bill Walton: Hello everyone and welcome to another edition of the Bill Walton show. The United States is a commercial republic, and has every interest in good relations with all the nations of the world. For the past four decades, the United States has given the People's Republic of China a preferred position when it comes to trade and economic engagement. The result, China is now the second largest economy in the world. Yet, China has reciprocated recently, by speaking openly about unrestricted warfare with America.
- Bill Walton: In a long overdue effort, President Trump is now negotiating new and more balanced trade deals with China, but however effective new trade deals will prove to be, they cannot address the many other dangers posed by China's Communist Party.
- Bill Walton: With me to explore this thorny issue, are two founding members of the Committee on the Present Danger of China. Frank Gaffney, who was Assistant Secretary of Defense under President Reagan, is founder of the Center for Security Policy, and Vice-Chairman of the Present Danger Committee China.
- Bill Walton: We've got Kevin Freeman, hosts Economic War Room on Blaze TV, and runs a global capital markets advisory firm focused on how Americans can protect their savings and investments. Kevin, Frank, is the situation with China as stark as I just described?
- Frank Gaffney: Bill, I wish it were only as stark as you've just described. I think, in fact, it's worse, in specifically, the ways in which China has been assiduously waging that unrestricted warfare against us. Kevin's one of the country's preeminent experts on the economic piece of it, but unfortunately that's only part of it. The Chinese have, for decades, had the ambition of displacing the United States as the preeminent power in the world. I spoke earlier in the day, today, with a wonderful source, David Goldman, who suggests they have in mind turning the world into essentially one giant company store, which they would run, but there are components of it that involve the military, that involve-
- Bill Walton: Company store, that sounds a bit ominous.
- Frank Gaffney: Well, it's hugely ominous. I mean, if you think about it. Of course, the company store is an outfit that you have to buy from, and you never get out from under. The debt burden is crushing. That's the light motif of the Belt and Road Initiative, which is strategic, as well as economic. It's truly a colonial enterprise.
- Frank Gaffney: And then there's space. We could spend the whole show talking about what the Chinese are doing to dominate space, because they realize, as we should, that if you do, you can dominate the world below as well.

Kevin Freeman: No question about it. The Chinese have started this more than two decades ago. Every policy of China is driven and built around this concept, intellectual property theft offering of their markets to outsiders just to get the technology, hacking. All of the things that we've seen the Chinese do, they've been doing for a couple of decades, with this intention. President Xi promoted the China dream. Well the China dream is China as the dominant single sovereign state over the rest of the world, and that's what they've been pushing for.

Bill Walton: Well, doesn't China see it self as the middle kingdom? They see themselves as being world imminent forever. They went through something they call the century of humiliation when the Brits and Americans-

Frank Gaffney: A bad patch.

Kevin Freeman: In the great scheme of things, yeah.

Bill Walton: And they take that very seriously. There are books written about it. Xi reminds the Chinese people about it. And when we talk about China's resurgence, they see themselves not as something new, but as something quite old. It's just reclaiming its rightful place in the world.

Frank Gaffney: Exactly.

Kevin Freeman: Under a communist regime. That's the one change from the previous.

Bill Walton: Well one of the things I get curious about, because you guys are expert, but billion three, billion four people in China. Chinese Communist party is, what, 90 million people? The polit bureau is what, nine people, something like that. And then you have Xi who's just declared himself president.

Kevin Freeman: For life.

Bill Walton: For life, which reminds us a lot of The Emperor. How, monolithic is this? I mean how pervasive is what Xi does and the polit bureau and the Chinese Communist Party does in terms of driving the things that you are describing?

Frank Gaffney: Well, I think that what they have done for decades since they came to power is operate a totalitarian system that is brutally repressive and it's ebbed and flowed in terms of the horrors that it's inflicted upon its people. Some estimates are that Mao Tse-tung killed 100 million of them to exercise absolute control and begin building his China dream, if you will.

Frank Gaffney: And by the way, Xi Jinping is a Maoist. He envisions going back to the glory days of Mao Tse-tung. But what's particularly alarming, Bill, is what the Chinese have been doing to introduce instruments that will enable the totalitarian control of yesteryear seem like child's play. This is beyond Orwell, the so-called social

credit score system that the Chinese have developed using techniques like surveillance, cameras all over the country, monitoring everybody's movement tied into facial and actual gait recognition software, and data mining and quantum computing, and artificial intelligence are creating a big brother like system on steroids. That I think means that tiny number of people, whether it's the 90 million or the nine or the one, actually have the capacity to dominate the vast unwashed millions of Chinese. And by the way, to the extent they're able to export this technology, will facilitate that company's store operation worldwide.

Kevin Freeman: Well, they have to do that though, because they have unleashed some mechanisms in their country. They've added some minimal free market freedoms and technology and so forth that requires them to take that totalitarian position if they're going to dominate, because there are three powers inside China. There's the Communist Party, there is the PLA, the military, and there is the business community, and they actually created hope in the business community among people. They moved them into cities and so forth. They created a large amount of economic hope, and now the Communist Party is very fearful that their heads will be removed.

Kevin Freeman: That's their number one fear and they're almost panicked in this. They thought they had President Clinton coming to power and they thought that things would go very smoothly. President Donald Trump has changed that and it's created this normal, we look a hundred years out and all of a sudden they're worried about next week and next year. They're looking at Hong Kong and seeing that as a problem that they hadn't expected.

Bill Walton: Well, Trump's with big change agent in on many fronts. If we had President Hillary Clinton, where would we be with China right now?

Kevin Freeman: They'd be winning. Absolutely.

Bill Walton: There'd be no recognition of these issues.

Frank Gaffney: Think how her husband conducted himself with respect to the Chinese and you'd have some sense of it. He sold out the country, including selling strategic technologies that are now being used to threaten us, MIRV missiles, for example.

Bill Walton: I need details. What did he do to sell?

Kevin Freeman: Well, for one thing, he took the campaign contributions. Charlie Trie, Little Rock, they literally, I mean [inaudible] came in and said, these are illegal campaign contributions written up in the New York Times. This isn't conspiracy theory. This is actual government, communist government influencing the 1996 election in favor of Bill Clinton.

Frank Gaffney: But in exchange for those campaign contributions, Loral and other defense contractors were given the green light to transfer strategic ballistic missile relevant technologies, including the capability to improve their ballistic missiles' accuracy and lethality by, among other things, having multiple independently targetable reentry vehicles, MIRV weapons, as they're called, that are now literally, Bill, being pointed at American cities and other targets.

Kevin Freeman: No question about it.

Frank Gaffney: That's, well, treason, I would argue.

Bill Walton: I think you mentioned social credits and you mentioned the cameras. One of the things I've heard about China is they say it's a hard to govern country it's, I don't know how many hundred of thousands of square miles it is, but they say the mountains are high in the Emperor's far away. But with the cameras and the social credit system, particularly the cameras, what do they have? 25 million facial recognition cameras and counting.

Frank Gaffney: Who knows? Whatever it is, it will be more shortly. And interestingly enough, particularly relevant to, you know, your audience is we're paying them to build those cameras through investments that Americans are unwittingly making in companies like Hikvision that is producing these cameras for among others, by the way, US facilities as well as Chinese. Think about that.

Bill Walton: You're watching the Bill Walton show and we're discussing how America is essentially paying for Chinese strategic ambitions, with Frank Gaffney and Kevin Freeman.

Frank Gaffney: It's unfortunately the case that, and Kevin again is much more expert at this than I, but when you look at what China has done in terms of penetrating our country, and that's a whole nother facet of the threat that we're talking about, Bill, perhaps the most single insidious one is that they've figured out how they can get us through our pension funds and other institutional investments to underwrite the kinds of threatening behavior or activities, or simple products that are making them more and more of a danger to us and the rest of the world as well.

Bill Walton: You know, we talked about was before the show. I mean, there's been an enormous paradigm shift with regard to China, whereas I think for decades we thought, gee, we will bring them into the World Trade Organization, we'll help them with, there will be an market for them. We'll go in, invest.

Kevin Freeman: They'll liberalize, they'll democratize.

Bill Walton: We used to talk about Chimerica.

Kevin Freeman: Right.

Bill Walton: Where were we going to be so integrated, the two economies, and of course then China would then evolve into a liberal Western democracy.

Kevin Freeman: Sure, that was the theory.

Bill Walton: And instead, it's gone just the other way. But let's back up just a bit though. You've mentioned about how they're infiltrating America. What's does that mean?

Kevin Freeman: Well, first off, the first offer was invest in China and we will give you access to a billion customers. And when you do that, you bring your plan here, and oh, by the way, you have to turn over your intellectual property while you're doing it. So they've captured a lot of intellectual property. They've also hacked, theft, direct theft, and otherwise they've stolen intellectual property. But the big offer was build your plant here and we will give you access to our capital markets. Then the second offer was to investors, the great investment frontier, the great emerging market, and I went into China with Mark Mobius, the great emerging market investor when he was with Templeton. I went with him on a trip to Hong Kong and into China, and the offer was we're going to have the growth, so invest in our companies. They would take us and we'd view the companies.

Kevin Freeman: Well, what they're doing now apparently, and our colleague Dan David has shared this, they are asking for investment on the New York Stock Exchange or over the counter markets, and you invest in an IPO or you invest in a company and there may not be the factories that they claim. You go to visit the factory and they've got the sign up for the company you're investing in. Then two weeks later, they take that sign down and put up another name.

Bill Walton: Somebody called them Potemkin villages, where you go in and you look at the factory, and oh, it's there, and then.

Kevin Freeman: Exactly right. Exactly.

Bill Walton: It's something else all together.

Kevin Freeman: They captured maybe a trillion dollars of American capital to fund this vision.

Bill Walton: A trillion?

Kevin Freeman: A trillion.

Bill Walton: Talk about the Alibaba IPO.

Kevin Freeman: Alibaba is the largest IPO in history. \$25 billion was raised.

Bill Walton: Yeah.

Kevin Freeman: What we bought-

Bill Walton: In New York.

Kevin Freeman: In New York. The Hong Kong Stock Exchange turned it down. We bought what I call a pig and a poke because when you bought shares of Alibaba, it's still trading today, it was up this morning when I looked at it. When you buy shares of Alibaba, you get shares in the Cayman Islands Corporation and it's known in China as a variable interest entity.

Kevin Freeman: You don't have shares in Alibaba. They don't allow foreigners to actually own shares of their stock, so you own shares of a variable interest entity that may or may not be able to get cashflows from Alibaba Corporation. We're not even sure that a variable interest entity is legal in China. In fact, in the past, there've been times where they said it's not legal and they've just shut it down. We gave him \$25 billion for that.

Bill Walton: Well, that's the other aspect of our relationships with China. They, because of the middle kingdom, they don't see themselves subject to any international law, the rule of law, you know, South China, they see that sort of thing. But regular commercial trade agreements they don't see as particularly valid. They negotiate today and say we changed their mind tomorrow.

Kevin Freeman: Yeah. They bought an American company, a friend of mine was on the board of directors and so he became a board member of the Chinese company. And he said, I'd go in there and there were always two individuals that spoke not one word in the entire meeting. They didn't speak English and they didn't speak a word to anyone in the meeting that sat in every board meeting. And he finally said, who is that? And he said, well, they're the guys from the Communist Party sitting in to make sure we're doing things right.

Bill Walton: The minders.

Kevin Freeman: At any point, they could change the direction of the company and you wouldn't have any say in it.

Frank Gaffney: Let me give you another example, Bill, of what's afoot here. Another of our colleagues, Roger Robinson, has done some terrific work on the degree to which this investment sort of program that Kevin's talking about has now morphed into, as I mentioned, American pension funds and other institutional investors going into the MSEI and having as a result exposure for people who have no idea that their pension funds may be tied up in China, or a let alone that their money is being used for things like Hikvision, however they pronounce it, the building of aircraft carriers, the building of submarines, the building of fortified islands in the South China Sea, none of which is in our interest, obviously.

Frank Gaffney: And yet as Roger warns, the danger is that those individuals will find themselves so tied to China in terms of their own financial security, that they will become effectively a vastly larger lobby.

Kevin Freeman: China lobby.

Frank Gaffney: For China than anything we've seen to date. And you know, again, this is another of the kinds of penetration we have seen, but it's going to be on steroids if this process continues.

Kevin Freeman: The MSEI is increasing their rating.

Bill Walton: MSEI is what?

Kevin Freeman: Morgan Stanley Capital International. That's the international benchmark. When I was at Templeton, that's what we had to beat as a money manager, is the MSEI global, the MSEI international. They're increasing their rating fourfold of Chinese shares. That means that if you happen to be a pension and you happen to own an international index, you're going to increase your ownership of Chinese shares.

Bill Walton: Just automatically allocated to that.

Kevin Freeman: Automatically fourfold.

Bill Walton: Roger said there's, what, like 700 companies in the over the counter market with about a trillion three in market cap?

Kevin Freeman: Yeah.

Frank Gaffney: And growing. And growing is the point. Here's the other kicker, and again, Kevin and you both understand this better as financial guys, what is particularly outrageous-

Bill Walton: What I understand is extremely troubling.

Frank Gaffney: Well, what is particularly outrageous though is that the kinds of declarations or other explanations of material risk that an American company would have to engage in under our securities and Exchange Commission rules and regulations, doesn't apply to these Chinese companies. They're getting away with exposing, as I say, millions of Americans to risky transactions without disclosing it.

Bill Walton: Trump is on the trade front renegotiating. Who in the Treasury Department is taking a look at this? Or who in the SEC is taking a look at this?

Frank Gaffney: Well, again, I'd defer to Roger, but my understanding is nobody.

Kevin Freeman: No one.

Frank Gaffney: You know, the Treasury Secretary, Steven Mnuchin, is one of the biggest champions of doing more of this kind of business coming out of Goldman Sachs.

Bill Walton: Goldman was a major, major player in opening up China.

Frank Gaffney: Big time.

Kevin Freeman: Yeah. Well, you look at the pension plan-

Bill Walton: Henry Paulson.

Kevin Freeman: Exactly. You look at the California Pension for example, they're very socially responsible. They'll send a letter to a company. You don't have enough minority representation on your board and so forth. They don't look at all at a Chinese company, they don't say, well, you may be oppressing and putting millions of people in concentration camps like the Uyghurs population, the Muslim population of China. They don't look at those things. And yet Americans are funding that, and it's the worst kind of human rights violations.

Kevin Freeman: It goes even further. What if we're funding this organs transplant tourism where they're literally stripping organs from dissidents and selling them to tourists who need a new heart, or new lungs, or a new kidney or whatever? It's a \$20 billion a year business. And the funny part is, China admits they've done that in the past, but they say, "Oh, we're not doing that anymore." But the evidence is pretty strong that they are doing that, they're continuing.

Frank Gaffney: There's even evidence that there are American technologies that are being used through Chinese subsidiaries to keep the victims of an organ harvesting process alive to get those organs out of them in prime condition.

Kevin Freeman: It's the most horrific.

Frank Gaffney: Think about that.

Kevin Freeman: Worse than Nazi.

Frank Gaffney: Indeed.

Kevin Freeman: It really is the worst human atrocity ever, is that you literally are keeping people alive to take their kidney and sell it to someone.

Frank Gaffney: This is a major profit center now for Communist China because they've got lots of people they consider disposable, whether they're Uyghurs perhaps, certainly Falun Gong, Christians, dissidents.

Kevin Freeman: They're desperate for dollars.

Frank Gaffney: And they're desperate for dollars.

Kevin Freeman: They're desperate, they're running out of hard currency.

Bill Walton: Well, since Trump, I think their dollar currencies have plummeted, haven't they?

Kevin Freeman: Absolutely.

Bill Walton: You're watching the Bill Walton show and I'm talking with Frank Gaffney and Kevin Freeman, and we're talking about China, China's commercial and military and cultural ambitions worldwide. It's a big topic and one we need to really dig into more, and I'd like to talk about lines of action though, because you're raising issues. You all are co-founders with a lot of other smart people of the Committee on The Present Danger of China. What's that organized to do?

Frank Gaffney: Well, it has a history. This is the fourth incarnation of a group by that name. The first two dealt with another totalitarian ideology, Communist as well. Though it was doing business under the Soviet Union at the time and particularly in the 1970s, Bill, it had an incalculably important role because one of its members, Ronald Reagan, sought from the Committee on The Present Danger ideas about how not simply to have transactions and detente with the Soviet Union, but actually roll it back.

Frank Gaffney: He hired 31 of its members when he became President to actually execute the strategy that he used to take it down. In the 2000 period, shortly after 9/11, there was another one looking at the totalitarian ideology of Sharia, of Islam and terrorism that flows from it. But this time we believed another effort akin to the one in the 70s is needed to address strategically the various threats we've been talking about here, and more besides. But to actually provide President Trump, his administration and the American people with strategic alternatives to the practice of what's been called engagement. They don't use the term detente, because it's kind of discredited, but engagement with the Chinese.

Frank Gaffney: And by the way, there was recently a letter that was issued by a hundred or so of the people who have been promoting this engagement policy for some time. A number of us under the leadership of Captain Jim Fanell, another of our terrific founding members of the Committee on The Present Danger of China put together an alternative letter, and the Chinese Communist Party has gone absolutely nuts about this letter.

Bill Walton: And the gist of their letter and your letter?

Frank Gaffney: The gist of their letter was reject the Trump approach to China, get back into engagement. The gist of ours is Mr. President, stay the course. You're doing exactly what's needed in light of the evident failure of the engagement strategy

that's being recommended by the people who've practiced to this point. But what we also have seen, Bill, is I think evidence that the Chinese can't stand to be exposed, can't stand the kind of criticism and truth telling that the Committee on The Present Danger is all about.

Frank Gaffney: By the way, if I may just plug the website, presentdangerchina.org provides now dozens of short, very pertinent powerful videos of individuals on the Committee and others presenting information that-

Bill Walton: Presentdanger.org.

Frank Gaffney: Presentdangerchina.org.

Bill Walton: China.org. It really begs the question though, are there other things we could be doing in addition? I think China, Kevin, you have an investment advisory firm where you're working with investors to steer them towards, I'm not quite sure what the term I'd use, is America first investment?

Kevin Freeman: Pro America, yeah.

Bill Walton: Pro America.

Kevin Freeman: Patriotic investing might be the right term.

Bill Walton: What is that?

Kevin Freeman: This isn't actually through my investment advisory business. It's actually we've trained a group of financial advisors and we did the test market with Frank, both with Hillsdale College at the Kirby Center in Washington and at Oklahoma Wesleyan University. We found that advisors, not Wall Street, but the actual client facing advisors, they want to do something unique with their clients. Their clients are interested in being pro America first. These are a lot of cases the Trump voters. They really truly believe in America and they want to put their money, they want to weaponize their money to help protect our nation. And so we train them about these national security issues, whether it's China or there's Russian threats, there's the red green access, there's the socialist movement, and they learn about these and then they help their clients invest in such a way to avoid the Alibaba, but also to invest in American companies.

Kevin Freeman: And we heard the other night at dinner, there are some really good patriotic American companies that are helping us in this China fight.

Bill Walton: Well yeah, we were at a dinner that we learned that US multinationals, which had been painted with the black brush because of some of their trading with China and giving away an intellectual technology, since Trump, that's really been turned around. [crosstalk 00:25:14].

Kevin Freeman: In some cases.

Bill Walton: In some cases. In many cases, yeah.

Kevin Freeman: Yeah.

Bill Walton: So what's the investible universe? If we've got 5,000 public companies in the United States, in the markets, what percentage of those would be America?

Kevin Freeman: Well, first you have to screen out the Chinese companies that have been thrown in there that are-

Bill Walton: So we've already identified 700, so those-

Kevin Freeman: You're going to throw those out.

Bill Walton: Those are not on the list.

Kevin Freeman: There are easily a couple of thousand companies that are pro America. The main thing to do though is to avoid those that are purposely working against the interests of the United States of America.

Kevin Freeman: That could be whether, a few years ago, Standard Charter, there were some emails released, Standard Charter being a UK bank, and they were working against us and they actually got brought up by the District Attorney of New York for essentially laundering Iranian money. They were hiding the fact there's Iranian money, again sanctions, and they paid billion dollars in fines and so forth. The emails that came out in testimony said, "Those effing Americans, who are they to tell us what to do?" Well, they were supporting the Iranian regime, building nuclear weapons. So we've got a screen out those companies, even if they're allies.

Bill Walton: Well, the advantage the Chinese have is what somebody calls coherence, and that they coordinate military, economic, social, all these other issues into a grand strategy. America tends to lack coherence. We think about securities markets. We think about nuclear weapons. We think about trade. We're balkanized in terms of policy, and what I'm hearing is that's beginning to change.

Frank Gaffney: Let me just make one point on on Kevin's comment. When you look at what we're dealing with in terms of corporations, I think one of the things that's changed, Bill, is quite a number of them have been screwed by the Chinese. You know, they bought this idea that they'll get in and get access to that market.

Bill Walton: Well, Amazon's even pulled out of China.

Frank Gaffney: Increasingly they're at least skeptical and they're now thinking about coming back or they are coming back.

Kevin Freeman: There's Google which left and then is going in dramatic.

Frank Gaffney: It's a mixed bag. I just wanted to say that I think part of why you're absolutely right to be focusing on this problem as you are, is that a lot of people are taking a fresh look at China, and they need to be. But in terms of what we are about, I think we have to be clear. It's not just that we want people to stop doing things to prop up the Chinese, we want the American investors, and one of the things that I really want to commend Kevin for is training financial advisors into how to help the patriotic companies and the patriotic investing that will enable us to compete. And to your question, Bill, we don't as a general rule, take the sort of industrial policy approach to government telling private sector entities what to do. But again, my friend David Goldman was talking just this morning with me about this, to the extent we can look back at things like the Manhattan Project, or John F. Kennedy's getting us to the moon, or the President that I had the privilege of serving, Ronald Reagan's strategic defense initiative.

Frank Gaffney: These were catalysts for immense investments and business adjustments throughout America that served the country well, and we need at a minimum to have that kind of catalyst again. Our research and development relative to China's is pathetically small and it's costing us.

Bill Walton: Well, I think a lot of us are coming around to this idea, those of us in the free market world, which I would consider myself we're getting, we're coming around to the nuance of the difference between industrial policy and how it interrelates with national security. We don't like industrial policy, but we love national security.

Bill Walton: That's all the time we have in our regular segment. We've covered about 10% of what I want to cover. We will have an overtime right after this. Kevin Freeman, Frank Gaffney, thanks for your insights. As I said, we'll be continuing in the overtime, and thank you for joining us and we'll see you next time on the Bill Walton Show.

Speaker 1: Thanks for listening. Want more? Be sure to subscribe at thebillwaltonshow.com or on iTunes.