

- 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.
- Speaker 2: Welcome to The Bill Walton Show. American politics increasingly do not address [00:00:30] many of the big issues that we face. The clearest example is how information technology is radically changing how we need to think about national security or economic wellbeing and even American culture. See, changes are happening in matters like crime, privacy rights, and even the financial security of local governments. The rapid rise in the power of information technology means that issues like economics, culture, and [00:01:00] national security are no longer separate.
- Speaker 2: Joining me to help understand this is Klon Kitchen, who leads tech policy at the Heritage Foundation as its senior fellow for technology, national security and science. Klon, steers an enterprise wide interdisciplinary effort to understand and to shape the growing convergence of policy issues. Before joining heritage, Klon was national security advisor to Senator Ben Sasse of Nebraska. [00:01:30] He also served more than 15 years in the U.S. intelligence community working on counter-terrorism, counter-proliferation, covert action and cyber issues. Klon, welcome.
- Klon Kitchen: It's my pleasure.
- Speaker 2: Before we get into convergence, 15 years in the U.S. intelligence community, maybe we can start with what you were doing and what's counter-proliferation all about.
- Klon Kitchen: Yeah. Yeah. So again, thanks for having me. I'm very happy to be here.
- Speaker 2: Yeah.
- Klon Kitchen: [00:02:00] So my career in the intelligence community is, it can't be separated from 911. So 911 happened. I had recently graduated with a theology philosophy degree from a classical liberal arts school.
- Speaker 2: Great training for counter-intelligence.
- Klon Kitchen: Yeah. Honestly, I was given an intellectual toolkit to think well, I'm very thankful for that. But 911 happened. At the time I had been doing some kind of low level writing on terrorism [00:02:30] issues, and I had recently applied to the FBI to be a counter-terrorism agent before 911. So this was an interest of mine. When 911 happened, I got recruited into the department defense. The early years of my career were spent doing the high value targeting mission, looking for terrorist bad guys, deploying to Afghanistan, Pakistan and other areas of the world.

Klon Kitchen: As you mentioned, I eventually, especially when my [00:03:00] wife and I started having a family, decided that running around the globe with my hair on fire was perhaps not the best use of my time. And I transitioned and I started running programs for other agencies including counter-proliferation, which on that was trying to prevent the spread and illegal use of weapons, particularly chemical, biological and nuclear weapons. And there are host of both offensive and defensive programs that we do to minimize that threat.

Speaker 2: And one of the things that [00:03:30] you did was you, and this sort of bears on what we're going to talk about today, you were coordinating among all the agency's policy or strategies to go after threats.

Klon Kitchen: Yeah. One of the peculiarities of my career is that my entire career was in a joint environment, which means that prior to 911, it was the norm for an intelligence official to spend the overwhelming majority of their career within their agency, and to work almost exclusively with that agency. [00:04:00] 911 demonstrated the need to have a more integrated comprehensive approach toward analysis. And I was that first generation of intel professionals who kind of built that culture and came up into that culture. And that's just the way I kind of think and breathe now.

Speaker 2: That's a great background for your current project.

Klon Kitchen: I hope so.

Speaker 2: You gave a testimony to the Senate judiciary committee earlier this week, cybersecurity threats to [00:04:30] corporate and personal data. I guess Josh Holly was there and Sheldon Whitehouse.

Klon Kitchen: That's right.

Speaker 2: Among others. What would you tell them?

Klon Kitchen: Yeah, so it was an important committee hearing and the kind of presenting fact was the growing popularity of a Chinese app called TikTok. TikTok is a social media app, it allows users to do funny videos [00:05:00] where they lip sync videos, and they have different filters, and they can do all kinds of messages and that kind of thing. But it's exceedingly popular amongst American youth. In fact, American teenagers have adopted that even more than Facebook over the last several months. So it's a growing trend.

Klon Kitchen: Well, the challenge with it is that it is a Chinese app. And what I was explaining to the committee is that because of Chinese cyber law, that means inescapably [00:05:30] that any data that is being captured by that app, and it is capturing a lot of data, is automatically fed back to Chinese servers. And because it's on Chinese servers and because it's a Chinese company, that means that the Chinese government has access to that information. And so the particular

application is a concern, and we talked about that at length, but I was trying to make the point that there's actually a broader concern that this is going to be the case with essentially any [00:06:00] Chinese company precisely because of the way the Chinese government works and integrates with them.

Speaker 2: Well, all significant Chinese companies are tightly integrated and controlled with the Chinese communist party.

Klon Kitchen: By design.

Speaker 2: I mean, this TikTok sounds like a Trojan horse. It sounds like a great way to gather lots of data about lots of Americans.

Klon Kitchen: Yeah. I mean, there's no doubt that it is a moneymaker. I mean, there's a legitimate kind of commercial side to it, but it absolutely feeds a double need in terms of the [00:06:30] exfiltration of data.

Speaker 2: Well, your focus was on security, and you mentioned a couple of things in here, that you had three big issues, cyber crime, cyber enabled economic warfare, and we have ransomware as the third one. Cyber enabled economic warfare, would TikTok be a part of that?

Klon Kitchen: Yeah. That's really the core thing. And that's what I emphasized in my opening statement, was the use of technical and [00:07:00] the tech industry as a means of exfiltrating American strength, both in terms of data and economics.

Speaker 2: So when we talk about state actors, is China, all we hear about is Russia, I guess I'm less concerned about Russia because what's their economy about the size of California, maybe smaller.

Klon Kitchen: Yeah. And I often refer to Russia as a declining state with a growing authoritarianism.

Speaker 2: Okay.

Klon Kitchen: That's how I think about it.

Speaker 2: Which can be lethal and dangerous.

Klon Kitchen: Which is dangerous. That's right.

Speaker 2: But not nearly as big [00:07:30] as well organized as China. So in terms of state actors in cyber warfare, we're talking basically China, or are there other ... what's going on in that world of cyber warfare?

Klon Kitchen: Yeah. Well, so it's a great question because the world of cyber warfare and kind of geopolitical cyber is a pretty active world right now. So there's a great deal of engagement that's happening online between nation States. The challenge with cyber [00:08:00] is that it's a pretty diverse threat spectrum. So Russia's a real concern in certain categories. So if we started going toe to toe with Russia, their cyber capability is going to be a real concern and we've got to be smart about that. Same thing with North Korea. Same thing with Iran.

Klon Kitchen: The reason why the United States tends to speak about China differently is because with China, it's so much more than just cyber. China is the, in my view, [00:08:30] systemic peer competitor that we have to be worried about. And unlike Russia, and unlike Iran, and unlike North Korea, China is deeply integrated into our economy and to other aspects of our national strength. And so it requires both nuance and increasingly some hard choices.

Speaker 2: I believe this is right, that the United States in terms of its military [00:09:00] opponents hasn't faced an economy of our own size since 1875.

Klon Kitchen: Yeah, that's right.

Speaker 2: And now as the economy become a purchasing power, China is almost where we are right now.

Klon Kitchen: That's right. Yup. So what China is able to do is, it's able to increasingly, and we see this, I mean, the NBA example here recently is a great example where, because of their economic power, they're the fastest growing marketplace in the world. [00:09:30] And they are able to exert significant kind of soft power and influence toward very real strategic geopolitical ends. And again, that's more than just kind of high-minded policy talk. That really affects Americans. So it affects how movies are made and how China is portrayed in those movies. It affects what NBA managers and coaches can and cannot say about [00:10:00] events like the Hong Kong protests. It affects the types of services and provisions that companies will provide to Americans.

Klon Kitchen: It's a type of influence that we have never allowed previously and that we ought never allow going forward.

Speaker 2: You're watching The Bill Walton Show. I'm here with Klon Kitchen, Heritage Foundation and we're talking about the pervasiveness of China's efforts to, I would say, return us to their middle kingdom.

Klon Kitchen: [00:10:30] Yeah. And if you don't mind, I'll put that in a little bit of context. Because one of the things, I don't want to be accused, I don't have a problem with an economically prospering or socially prospering China in principle. I would like that. The challenge is, is that China, it's like every other nation in the history of the world. It wants to amass into wield influence for its own ends. And again, that's coherent and not novel. At the same time. [00:11:00] It has made

the decision, I think correctly, that to do that going forward, it's going to have to dominate technology generally and 10 industries specifically.

Klon Kitchen: Again, I think that's right. But what that means in their view is not some type of a compatible approach with the United States and with the Western world. But it's actually confrontational. They want to displace. That moves us into a realm of confrontation.

Speaker 2: Well, I mentioned the middle kingdom. We've talked [00:11:30] about this before here, but their view is that they have 3000 years as an empire, govern, ruled by an emperor. Very similar to what GE would like to be now. They're not used to liberal democracy. And they view themselves as a country entity without borders, all the rest of the worlds and comforts, and therefore no other laws, no international laws, no other countries laws, no other countries boundaries or even to be respected with that worldview.

Klon Kitchen: Well, and one of the peculiarities [00:12:00] of it is that they actually understand their nation to extend to every individual Chinese. So they expect, the cultural expectation is that if you're Chinese, wherever you are in the world, that your responsibilities are to the Chinese nation, that your authorities are the Chinese nation, and that you will act accordingly. And you see that in how they engage with their people overseas.

Speaker 2: So we have 350,000 Chinese students studying [00:12:30] in the United States right now. They see them as part of the Chinese state.

Klon Kitchen: That's how the government would have them understand themselves.

Speaker 2: And with their surveillance systems they can enforce that.

Klon Kitchen: They can certainly enforce that domestically within China. In the United States, I think there are constraints somewhat, but I mean, they're active. Any counter-intelligence professional will tell you that China is exceedingly active in the United States.

Speaker 2: The more I learn [00:13:00] about China, the more I grow both alarmed and confused. 300 million Chinese children are learning English because one of the barriers, I guess they feel, in Singapore, the head of Singapore decided that Mandarin or whatever the language was, wasn't good enough for science and business, and so he has everybody learning English. Now Singapore speaks English. China's moving in that direction.

Klon Kitchen: Sure. Yeah. I mean, well, again, if you want to exercise [00:13:30] the type of global influence that the United States has enjoyed, that means that you have to be able to participate in kind of the lingua franca. You've got to be able to have a global language both in economics and politics.

Speaker 2: Well, the Chinese, we talk about the Chinese Communist Party, but they're not really using communism anymore as the spur for people's ambition or the country's ambition. They're using the century of humiliation.

Klon Kitchen: Yeah, no, there's definitely a profound sense of grievance. [00:14:00] I mean, and you hit on this earlier, I mean, China's been around for a long time, and this is not the first time where that nation has tried to reassert itself globally. They've gone through these cycles before and any honest reading of history, which show that they've done so successfully. And so, one of the points I try to make, I made it in the testimony I make it in these types of conversations is that the United States is not inevitable. It's the type of [00:14:30] thing that must be secured. It must be defended. It must be considered. The Chinese are certainly doing that in the context of their nation. And while I don't think conflict is inevitable, or inescapable. The reality is, is that we have a very focused challenger who is capable, historically proven, and shows all of the strengths that are going to be necessary to achieve many of the objectives that they're kind enough to lay [00:15:00] out for us.

Speaker 2: Well, so how are they using the technology, the cyber warfare against us? When you're one of a US-based corporation, you go to China and they say to, "Well, sure, come on in, but we've got to join your board and maybe you have to hand over all your IP."

Klon Kitchen: Yeah, yeah, exactly. So standard operating procedure for doing business in China includes they require you to do a joint venture. So if you want to be a business in China, that means that you have to have a business [00:15:30] arrangement with a domestic Chinese partner. You have to turn over intellectual property. You have to have members of the CCP as a board within your company, to ensure that any decisions that are made are in keeping with the CCPs, the Chinese Communist Party, with their objectives and what they're trying to do. And now, beginning in January, there's going to be a new cyber security law that also requires all companies, including foreign owned [00:16:00] companies to build their networks in such a way as to where the Chinese government, both their law enforcement and intelligence apparatus has near unfettered digital access to all communications, all trade secrets, essentially every bit and byte of data that either resides on Chinese servers or transits Chinese servers.

Speaker 2: So what would companies use to do is they kept their information on their own servers, in their VPNs.

Klon Kitchen: Yeah. These virtual private networks [00:16:30] were essentially encrypted communications lines and they would just do all business on those. And theoretically the Chinese government wouldn't have ready access to that.

Speaker 2: And now-

Klon Kitchen: That's illegal.

Speaker 2: As of January, that would be, as of January 2020, that will be illegal.

Klon Kitchen: There will be no place to hide.

Speaker 2: So how are companies reacting to this? One of the reasons why I have you on is we're talking about things that most people are not talking about.

Klon Kitchen: Yeah. And this is my-

Speaker 2: Yeah, this [00:17:00] is huge. And we have how many companies doing business in China? How many technology companies? Couple thousand.

Klon Kitchen: Oh, easy. Yeah. Well-

Speaker 2: And so all of their intellectual property to hold it inside China is illegal. I mean, what do you do if you're [crosstalk 00:17:19].

Klon Kitchen: Seems existential. No, I think your response is exactly right. That's the way I-

Speaker 2: What's happening? This is terrible.

Klon Kitchen: It's the same response. Well, my first response was when I started reading through this, it was like, okay, [00:17:30] I'm obviously not understanding something. Maybe I don't get this. Maybe there's some nuance to this that I'm not picking up on. But in my engagement with IP experts, trade experts, economists and security experts, it's inescapable. In fact, if you go back and watch the video of my testimony, there's a representative from Microsoft there. Microsoft has a huge presence in China.

Speaker 2: Yeah. The video is on Google. Is on YouTube.

Klon Kitchen: The video is on YouTube. Yup. Yup. And you can also [00:18:00] get it I think from the Senate Judiciary website.

Speaker 2: Great. It was riveting. I mean, it was very, very good.

Klon Kitchen: Well, but one of the things you'll note is that the Microsoft representative doesn't dispute any of the assertions I'm making. So there's no dispute about what I'm saying this law does. It's clear because people have to comply. Now, what I think companies are doing is, is I suspect that they will test it initially. They'll try to resist it to the degree that they can. And if the Chinese enforce it the way I think they're going to, well, then they'll have [00:18:30] to think about are there alternative mechanisms, but that's going to be difficult. And then finally I think they're going to be forced into a decision.

Klon Kitchen: Now, some I suspect will actually interpret this as an opportunity, because in the past they had to deal with the idea of, well, if the Chinese government comes asking for information, I now have a hard choice that I have to make. Do I give it to them or don't I? Under this new regime. However, the government is just going to get it. And so-

Speaker 2: The government's just [00:19:00] going to-

Klon Kitchen: The government is going to have digital access to this information by design, which means they don't necessarily have to ask for it, which means if a company was so inclined, they could make themselves sleep at night by saying, "Well, we never gave anything to the government. They never even asked." All the while knowing that the government was getting it all.

Speaker 2: We're wandering all over this, but this is a big security issue because we have US-based companies [00:19:30] acting like they're global companies, not acting like their American companies, at the same time putting American security a grave risk.

Klon Kitchen: Yeah. I made that point, just that these companies, look, there is a rationale for why a company wants to go to China. I get it. It's a huge marketplace. It's a growing marketplace. But the reality is, is that as they make these decisions, they're making decisions that affect more than their [00:20:00] bottom line. These things have implications for American economic competitiveness, American data streams, American national security ultimately. And up until here recently, we've tried to keep a lot of these different issues as separate silos of issues. And the reality is, is that they're intermingling in a way that won't allow us to do that anymore.

Speaker 2: You're watching The Bill Walton Show, and I'm here with Klon Kitchen of Heritage Foundation, [00:20:30] and we were talking about an alarming new law that the Chinese are about to implement, which will require all U.S. companies operating in China to turnover all their intellectual property.

Klon Kitchen: Yeah. So I think these are the things that companies are going to have to face. One of the points I try to make too is I have conversations with these companies, is that I don't want this. This is not something that we want to happen. [00:21:00] And I understand how it makes their business and their decisions more difficult, especially as the U.S. government starts to turn an eye on this and really turn the screw. But at the same time, I don't get, I don't have as a national security professional, I don't have the luxury of denying reality. My fellow citizens, my nation depends on me having a clear-

Speaker 2: Most of our political class does. Why should you single yourself out?

Klon Kitchen: Well, [00:21:30] I can only speak for myself, you know what I mean? Look, the thing that makes this important-

Speaker 2: That's why I wanted to talk with you because this is something everybody should know about.

Klon Kitchen: I certainly, agree with you.

Speaker 2: But they're not just taking property or intellectual property there, they're taking it here too. What's happening with the intrusion and our cyber realities here?

Klon Kitchen: Yeah. So Chinese theft of intellectual property in the United States continues. [00:22:00] Under the Obama administration, we had apparently signed a memorandum of understanding with the Chinese government. We blew through that pretty quickly. It doesn't seem to have had any real meaningful impact in terms of their theft of IP. This is something that the president articulates as one of his justifications for his posture toward China. I know that it's a key negotiating point with our representatives and the Chinese representatives, that there has to be a demonstrable decline in Chinese theft [00:22:30] of American IP. But part of this goes back to my point about China's intentions in terms of reasserting itself.

Klon Kitchen: So the Chinese industrial base for decades wasn't anywhere near what the United States was in terms of technology and emerging technology. And one of the ways that they thought that they would leapfrog the United States was to skip the burdensome process of research design testing and evaluation and just steal [00:23:00] intellectual property from the United States and implements it. Well, they've done that long enough and well enough to where they're legitimately innovating on their own now. They're still stealing all kinds of information from us, but they're not nearly as dependent on that theft as they once were. And that's why you have four of the big 10 global tech companies are Chinese now, and they are real market players. They have U.S. tech companies worried. And I think that that's a [00:23:30] well-placed concern.

Speaker 2: Well, we're talking about the economic impact, but this is also a national security issue, because one of the things that they've done over there in China is every Chinese company is required to give over all their information and cooperate with whatever the government does. And they link economic warfare with kinetic warfare.

Klon Kitchen: That's right. So that's actually one of the interesting things that is true about that is that that's the way the United States has thought about these things for a long time too. That economics is an element [00:24:00] of national power, like military, diplomacy, information, economics there's even an acronym called DIME. So the idea of economics being separate from national security or from national power, that's peculiar in terms of history, certainly in terms of American history. The Chinese certainly understand that. Now, the key distinctive is, is that they are arranging [00:24:30] a partnership between their government, and their industry that it's called civil military fusion. And that's

just, it takes it to a whole new level. And I don't think the United States should try to out China, China in that regard. That's not my objective.

Klon Kitchen: My point is, is that we don't get to deny that they're doing that. We understand it's a violation of everything that we hold sacred and how we view economics. But my high view of economics [00:25:00] and that separation doesn't allow me to deny the reality of what they're doing. And we have to build policies that recognize and roll that reality back, because it creates distortions in the global marketplace.

Speaker 2: Well, the leadership makeup of China is worth getting into. I've done this before, but it's worth repeating. The polit borough, the Chinese leadership, they all come up through a rigorous system of like the mandarins use to the test after test, year after year, after year. It's almost like the Frenchie coal system. So by the time [00:25:30] you get in a leadership, you've sort of been stamped as having a 130 to 160 IQ, and they're not trained in the law, they're trained in STEM, science, technology, engineering, math. And so they think like engineers, they're trained to think in terms of process and systems and to think long term. And I was at a White House event recently, and there were 20 senators there and there were 19 lawyers. And [00:26:00] we are just, our mindset is completely different.

Klon Kitchen: Yeah. It's one of those things where it can be easy to be lulled into the position that China is 10 feet tall and bulletproof, and that they're human machines that are thinking on these different levels. And I don't think that's true at all. I think they have some systemic challenges that they're facing even in terms of their form of governments and, and the [00:26:30] system that you're describing. That being said, they are patient. They do think systematically, and the types of strategies that they've been rolling out and that President Xi articulate, they're coherent. I mean, that's the thing, it's like they're not guaranteed success anymore than we're guaranteed failure. But the reality is, is that only a fool would deny that they have intentions, that they have capabilities and that they have plans, and that [00:27:00] those things are coherent with one another. Well, that's the definition of threat.

Speaker 2: Well, let's talk about 5G.

Klon Kitchen: Okay.

Speaker 2: Let's use that as an example of what's happening.

Klon Kitchen: It's perfect. Yeah.

Speaker 2: Let's talk about 5G. You want to elaborate on what the issues are there?

Klon Kitchen: Yeah, that's the perfect example. So when we talk about 5G, what we mean is fifth generation wireless technology. And the key point there is that 5G is more

than faster phones. 5G [00:27:30] is best understood as the central nervous system of the new digital economy. Everything is going to connect to this. The thing that makes 5G so amazing is that the central constraint on innovation up until this point has been compressed data pipes. Meaning we have all these sensors around us that are producing all this information. But up until this point, you can only put so much data through those pipes. 5G greatly expands those pipes.

Klon Kitchen: We're now going to be able to put through a lot more [00:28:00] data and that's going to have all kinds of follow on impacts. Okay. Well, over the last several decades, our market global economy has seen that Chinese companies like Huawei are building very real capable 5G wireless technical capabilities. Their stuff works. Part of the reason that they've been able to do that is because the Chinese government has stolen quite a bit of intellectual property, Huawei itself has stolen a lot of IP. [00:28:30] And so they put together a pretty good offering. On top of that, the Chinese government has funded and supplemented Huawei. It is enabled them in terms of contract negotiations through espionage. It has provided seed money and done a whole host of things. Well, this has made them very competitive, and our response to-

Speaker 2: And just put something visual on it, the campus of Huawei is enormous.

Klon Kitchen: Oh, it's huge.

Speaker 2: [00:29:00] I mean, it's like a couple of miles of just-

Klon Kitchen: Yeah. Yeah. I mean, it's their version of kind of a Google campus or a Facebook campus.

Speaker 2: And all the buildings are American style, it's like a selection of architecture from around the world.

Klon Kitchen: Yeah. I mean, look, Huawei is a formidable company. They stand on the cusp of realizing as much as 50% of the global 5G marketplace. But so, my final point there is that Huawei has become what it is because it's been supported by the Chinese government and [00:29:30] because U.S. firms said, well, we can get this cheaper and more efficiently by allowing Chinese companies like Huawei to build these capabilities. And so, as 5Gs rolling out, national street professional started looking at this and said, "Wait a minute, there's a real problem here. This is going to impact our domestic cybersecurity." But then we looked around and said, "Well, wow, we don't really have a good alternative." And that's why the bell has been ringing on this.

Speaker 2: A good alternative to the Chinese sub subcontractors.

Klon Kitchen: Precisely. [00:30:00] And so that's why the bell's been ringing, is we've realized, okay, we now find ourselves in a place where the economy has evolved in such

a way as to where we have a glaring national security gap. How are we going to fix that?

Speaker 2: Culturally, we're not really equipped to, I mean, one of our good characteristics is we don't mark and lock step all that well, which I like, but when you're dealing with something like this, you need a concerted effort. What's happening on the front? I mean, how do you see this [00:30:30] playing out with 5G?

Klon Kitchen: Well, with 5G, the administration is acted pretty aggressively. We put out, there's probably about four or five months ago, we put out a paper at Heritage. I was one of the authors, on taking China as a threat when it comes to 5G. And it was only a couple of days later that the administration rolled out a series of executive orders on that issue. So what they did was they took Huawei and many of its subsidiaries and put them on what's called the U.S. Treasuries Entity List, [00:31:00] which means that they can't do certain types of business in the U.S. and U.S. companies can't supply them with certain materials. Congress is currently exploring ways that Huawei equipment can be what's called rip and replaced in local telecommunications networks.

Klon Kitchen: We're trying to think about alternative suppliers for the kind of key technologies of 5G. So we're talking to people like Nokia, Ericsson and other providers. But just to be kind of [00:31:30] honest and transparent about that, that won't alleviate the challenge because so much of the supply chain, even for trusted providers like Nokia and Ericsson, still goes through China. So we will mitigate a significant portion of the threat by taking the actions we're taking. But there's a broader systemic threat to the degree that technical supply chains run through China. It's still a-

Speaker 2: Well, that's true in every industry at this point.

Klon Kitchen: Exactly right. Exactly right. Yeah.

Speaker 2: They're no longer making Kewpie [00:32:00] dolls, it's evolved.

Klon Kitchen: No, they're making quantum chips.

Speaker 2: Yeah. We need to talk about quantum as well. But you're also though not recommending that we set up our own national 5G network. There's been some talk about that.

Klon Kitchen: That's right. At one point there was a proposal. It was headed up by a then director on the NASA security council, and it was really just floated as among the alternative approaches to this, that we could nationalize 5G. [00:32:30] I am in one sense, sympathetic with the underlying concerns that would lead someone toward that. I just don't think it would work. I don't think that it would-

Speaker 2: Think Amtrak.

Klon Kitchen: Right, exactly. Right. When it comes to national security I'm pretty aggressive. But I'm about outcomes, and I don't think that that would've generated the outcome we wanted.

Speaker 2: Who's leading on this issue?

Klon Kitchen: In what sense? I'm sorry.

Speaker 2: In terms of saying, okay, 5G is an issue, we need to solve it. We need our own robust system. [00:33:00] We can't let China do it. Do we have a champion in government? Who would that be?

Klon Kitchen: Yeah, so the White House is heavily involved in this. The FCC is heavily involved in this. Chairman Pai has recently come out with a number of orders.

Speaker 2: Ajit Pai, yeah.

Klon Kitchen: Exactly.

Speaker 2: He's good on this.

Klon Kitchen: He is. And we have regular engagement with them on those things. And so, I actually think that this is an issue where the nation has a pretty clear eyed, shared understanding. There doesn't seem to be a lot of resistance on this, whether it be an industry or elsewhere. [00:33:30] Now, it's just coming down to the hard choices of, okay, what do we do and how do we do it?

Speaker 2: Well, the Trump administration does not get enough credit for what they're doing with China and Trey, this idea that, well, we can't have aluminum tariffs. This is not about aluminum tariffs. This is about the whole fabric of our relationship.

Klon Kitchen: That's right.

Speaker 2: And they seem to get that.

Klon Kitchen: I think that's right. And if you look, the president actually enjoys bipartisan support on his approaches to China. So Chuck Schumer has come out and praised the president for his hard line approaches to [00:34:00] China. Speaker Pelosi has done similar things.

Speaker 2: You may have to say that twice for me to believe it, but that's true.

Klon Kitchen: It's true.

Speaker 2: Well, Xi overplayed his hand. I mean, president Xi, president of China stiles himself to be the Maorian reincarnate or an emperor. And he's spoken very boastfully about very many things. He's talked about how I think high technology needs to be the sharp [00:34:30] end of the spear and we need to keep sharpening it faster than our ... they have something called a ... Anyway, I can't remember what the ... But he's come out and I think had he kept a lower profile and boasted less about all this, we might not have caught on or is that not true?

Klon Kitchen: Well, I don't know. I mean, yeah, that's a hard one to predict. What I'll say is this, is that he's definitely walking a tight rope. But some of it [00:35:00] is unavoidable, because on the one hand, if all he was trying to do was avoid kind of American awareness, well, then yeah, you would keep a low profile. At the same time, he has to motivate his population and his government to kind of get in line. And so that means going public and being loud on a couple of things. And the reality is, is that-

Speaker 2: Yeah, that makes sense.

Klon Kitchen: Yeah. Just to be a strategic leader at the level where he's trying to lead requires a balancing act. I respect him in the sense of, I think he's capable, I think he's thoughtful, and I think he's [00:35:30] committed. I disagree with virtually everything he's pursuing. But it would be a mistake in my view for us to underestimate him.

Speaker 2: You're watching The Bill Walton Show, and I'm talking with Klon Kitchen of the Heritage Institute, and we're talking about China and president Xi, and his strategies. So I sort of, I mean, we could spend maybe a couple of days talking about China, but there's another big thing that you mentioned in your report, which is cyber crime.

Klon Kitchen: [00:36:00] Huge.

Speaker 2: It's huge. Talk about that.

Klon Kitchen: So, there have been a number of assessments done, one of which is cited in the report that global cyber crime is expected to reach \$6 trillion annually in losses. That is an amazing number.

Speaker 2: By comparison, I don't have the exact number, the U.S. economy is about 18 trillion.

Klon Kitchen: Yeah, yeah. Something like that. Yeah.

Speaker 2: So it'd be a third of the U.S. [00:36:30] economy.

- Klon Kitchen: And global cybercrime losses annually. Yeah. It's big.
- Speaker 2: And that's about, I mean, that would be double, it's already at three trillion.
- Klon Kitchen: That's right. That's right. Yeah. By 2021, I think is when that number is supposed to kind of fully realized.
- Speaker 2: Break this down for me, how's that money being taken, and who are the actors and who are the victims?
- Klon Kitchen: So it's cumulative. It's everything from actual stealing money. So for example, North Korea [00:37:00] was using the international banking system Swift, and intercepting millions of dollars. And that's one of the ways that they fund their kingdom. But it's also the loss of IP, and the loss of capital and of profits when companies are shut down or when they have data loss. So for example, Equifax, the [00:37:30] personal credit monitoring agency or scoring agency had a huge data breach, and that had secondary and tertiary impacts on all kinds of companies. Separate, but related is the ransomware attack. The international shipping company, Merced had like a billion dollar loss because of-
- Speaker 2: So ransomware is you're not actually taking the money, you're just shutting somebody's system down and you're saying, "Well, if you'd like to have your computers back, give us X amount of [00:38:00] money."
- Klon Kitchen: Well, so yeah. So there's layers to ransomware. So that's the typical way ransomware works where, yeah, you locked people out of their systems.
- Speaker 2: And local governments are the ones that are getting hit by it.
- Klon Kitchen: Used to be individuals, and now local governments and municipalities are really the kind of key targets. Baltimore's been hit. There were like 21 or 22 different municipalities in Texas that were hit simultaneously. And yeah, it's straight up ransomware. But with the one I was mentioning there in terms of Merced, which was the want to cry attack, [00:38:30] it was actually what's called wiperware, which means that it pretends to be ransomware that, "Hey, pay this money and you'll get it back." But what it actually does, it destroys the data. There's no getting it back. And that was done by Russia. And it cost international shipping company a billion plus dollars.
- Speaker 2: So you make a point, and I'll let you finish the sentence. We are innovating faster-
- Klon Kitchen: Than we can secure.
- Speaker 2: What do you mean by that?

Klon Kitchen: Yeah, so when I say we're innovating faster than we can secure, that's [00:39:00] an organic reality to our kind of free enterprise system, which is great. We are a permissionless innovation environment, which means if you are an entrepreneur, if you're a creative, if you're an engineer and you want to come up with a cool thing, you don't need anybody's permission, you can just do it. And that creates this amazing and dynamic environment where people can do amazing things. And that's awesome. At the same time, it's also a choice that we've made, where we have willfully sidestepped [00:39:30] and ignored some of the security implications of our innovations and have chosen to absorb the risk that comes with them rather than kind of slow down what people would call progress or innovation. That's a choice that we've made as well. And for a long time, that choice has been largely without cost or costs that were manageable. It now looks like that may not be the case much longer.

Speaker 2: [00:40:00] Well, the impact of this is enormous. You're right that 43% of global businesses were victim of a cyber security breach within the last year. 83% of finance companies get hit by 50 cyber tech per month. And what they do is they get in, they enter the system, they remain undetected and they stay there for six to 12 months while they gather this up.

Klon Kitchen: Yeah. So typically, a threat actor [00:40:30] will be in someone's system for six to 12 months before they're ever even recognized.

Speaker 2: Average cost, one and a half to \$8 million per attack.

Klon Kitchen: Yeah. And that's the average. So you're factoring in a whole host of smaller activities, but the bigger ones are massive.

Speaker 2: Well, I know you've been telling them about this at Heritage, because whenever I email you, my emails bounce. So Heritage does not let in anybody.

Klon Kitchen: I got to imagine, I can tell somebody about that and I'm sure we can get that [00:41:00] fixed.

Speaker 2: And the big companies, I think you mentioned Microsoft, Google, Facebook, they're spending about a billion a year on this. Well, that's the thing. It's like, look, I'm not afraid to kind of push in on these companies a little bit, especially when it comes to China. But the reality is, is that there's no one spending more on cybersecurity than these companies. It's an existential challenge for them. And they know that. Now, are these state actors or are these non state actors or are they just crooks that are doing this?

Klon Kitchen: Yes.

Speaker 2: [00:41:30] All three?

Klon Kitchen: Yeah. It's everybody. The cyber domain is a very crowded domain, and it's individuals, it's nations, it's cyber syndicates. So there are whole kind of hacking groups, international individuals who operate coherently with each other to steal money, steal IP. Sometimes they're enlisted by government, sometimes they're operating on their own. I mean it's-

Speaker 2: So we've got maybe a couple of million hackers worldwide that are-

Klon Kitchen: Yeah, [00:42:00] it's hard to know. I haven't seen any kind of real reliable assessments. Now, whatever the number is, the kind of the elite group, the people with whom we'd be really concerned. That's a relatively small number still.

Speaker 2: Yeah.

Klon Kitchen: But the thing about domain is that you don't have to have large numbers to be impactful. One person or a small group of people can have a catastrophic impact.

Speaker 2: This is, so on this front [00:42:30] we talked about a line of action on 5G. What's our line of action on cybersecurity?

Klon Kitchen: Yeah. I do want to, but before I'm dismissed, I do want to have, I think there's some things to be optimistic about, but when we talk about cybersecurity, it's pretty easy to get pretty negative pretty quickly. But one of the things that this president did-

Speaker 2: We'll save the last 15 minutes for [crosstalk 00:42:53].

Klon Kitchen: That's right.

Speaker 2: I could use that too.

Klon Kitchen: Well, it's a discipline I have to kind of [00:43:00] impose on myself. So one of the first things that the president did when he came in was he actually issued a new executive order that greatly expanded the freedom to operate of our cyber personnel. People I affectionately refer to as cyber ninjas. And they have been much more aggressive over the last 12 to 18 months in terms of preventing and disputing [00:43:30] hostile cyber actions. And they're very good at it. This is a key priority across the government. The challenges or the mitigating factor for this is not people's awareness anymore. It's just the slowness of government and the agility of government to-

Speaker 2: Well, and the ability for government to be able to afford to hire people.

Klon Kitchen: It's getting talent. I mean, they're competing with the wealthiest companies in the world.

Speaker 2: I worked on transition for Donald Trump [00:44:00] between the time, I think, August before the election, through the inaugural. And I was responsible for the financial agencies. And one of the fun jobs I gave myself was to lead the team that went into the IRS because I've been on record that IRS is terrible. I get rid of it. I was done, it's pretty stupid thing to say, but I said it. I go into the IRS and I see a lot of fairly well intentioned [00:44:30] people trying to do their job, get the things done, and they've been massively underfunded because of the lowest learner thing and stealing and keeping the tea party people from getting their C3 and C4s. So they're starved, they're budgets starved. They probably have 10,000 people, fewer than they need, but their systems budget is tremendously underfunded.

Klon Kitchen: It's archaic.

Speaker 2: And they can't afford to hire people because the private companies around the beltway can pay a lot more than the [00:45:00] IRS can.

Klon Kitchen: Well, and it's even worse than that honestly, because when I was-

Speaker 2: So I became a fan of the IRS sort of.

Klon Kitchen: Right.

Speaker 2: Till I get a letter from-

Klon Kitchen: One of the things I experienced as I was in my career in the government was, I used to be able to go to technical experts and say, "Hey, listen, I can't pay you what you'll get somewhere else, but you can do patriotic work and I'll give you a cool mission, and you'll do some really great stuff." Toward the end of my career, when I [00:45:30] would give that pitch to someone, there was a couple of times where they looked at me and said, "Hey, I appreciate that, but I'm not sure working for the federal government is my patriotic duty. It may be more patriotic working for tech company X, and then they do have the coolest stuff out there, not you." And that was a real challenge.

Speaker 2: Yeah. You're watching The Bill Walton Show. I'm here with Klon Kitchen from Heritage Foundation, and we're talking about cyber crime and the talent that we need to fight it. [00:46:00] Now, I know we're going to get around to optimistic and positive things, but we're talking about talent and patriotic work. Brings me back to Google. Not back to Google, back to China, and Google employees, I think last year circulated a petition that they didn't want Google working on a project that the defense department was running on artificial intelligence.

Klon Kitchen: Project Maven.

Speaker 2: And I don't want to get into what that was, but it's just the Google employees [00:46:30] said, "We're not going to work for the defense department because we do not want to be in support of war."

Klon Kitchen: Yeah, they said that doing so violated their ethical standards.

Speaker 2: But Google's working in China.

Klon Kitchen: It is certainly trying to, yeah. Yeah. So look, one of the challenges is a number of these companies, when they're called before Congress, they say we're an American company, but in terms of the ethos that they cultivate, in terms of the way they talk [00:47:00] about themselves, everywhere else, they identify as global companies. And they absolutely hire globally. I mean, they have human capital pipelines that truly transit the earth. And Google is got a particular challenge because they have self ... they have intentionally built a culture of questioning. So every Friday they have these [00:47:30] all hands meetings that they call, thank God it's Friday or thank goodness it's Friday, TGI Fridays, where an intern can stand up and rail against the CEO of the company. And that's a culture they cultivated.

Klon Kitchen: And so when any group of their employees gets together and doesn't like something, they can generate the type of thing like they did on project Maven. And the company's leadership has shown themselves to be very responsive to that, [00:48:00] which only invites more. The problem is, is that so many of their employees to quote Reagan, is not that they don't know anything, it's just that so much of what they know is wrong. So their perspective on project Maven was just fundamentally wrong. It was an image recognition algorithm that certainly had what we can call lethal applications, but it went far beyond that. I mean, it's the ability of a drone to fly over a hurricane disaster area and identify individuals [00:48:30] so that we could put resources toward rescuing them or helping them. It's a drone flying over an area ahead of a convoy and automatically recognizing IADs and other problems.

Speaker 2: Well, I've raised this at the outset. This is where I think the whole economic national security also interact with the culture wars. Yes. Because we've got culture in Silicon Valley that's decidedly left, decidedly progressive. In many ways it doesn't really like America. [00:49:00] And yet we're asking them and want these companies to help defend America. And increasingly, they don't want to do it or am I overstating that?

Klon Kitchen: Well, I mean they would say you're overstating it. I think the challenge is, is that it's unclear.

Speaker 2: I get to do it. I don't have to.

Klon Kitchen: But the point that they should take back from that is that, well, it's unclear. I imagine what they would say is, well, no, we love America. We just don't think it should be what you're describing. And so what we have is we have a conflict of [00:49:30] worldviews. The problem is, if I can be frank with my friends in tech, their worldview is untethered to reality. So the project Maven thing example is perfect in the sense of, I don't want war. I don't like war. I've fought in wars. I am very well aware of what the cost is and what that means.

Speaker 2: You went through serious school.

Klon Kitchen: I did.

Speaker 2: That's sort of the ultimate.

Klon Kitchen: [00:50:00] Yeah. And my point is there are other people in the world who get a vote on this, and it would not be moral and it would not be responsible for the United States to give up its constitutional required duty to be prepared for that. And so I can understand if a company doesn't want to participate in that, that's their freedom not to do it. But don't be surprised then when the government looks at you and is offended when you say working with it violates your ethical standards. [00:50:30] So I mean, no one's forcing anyone to do anything, but just understand those decisions have consequences.

Speaker 2: You've testified in front of Congress a fair amount. I mean, is our political leadership aligned on these issues, do you think? You mentioned bipartisan support for Trump.

Klon Kitchen: Yeah, no I do. I think there's actually quite a bit on some of these issues, at least. There's a growing consensus in terms of concern. So, for example, if you talk to a bipartisan group of senators on the Senate Armed Services [00:51:00] Committee, I think that there is a growing shared understanding of the challenges we're facing. Similarly, on the Senate Select Committee on Intelligence, same thing in the house on both of those. So there is such a steady drum beat coming from national security professionals before those committees about what the problems are, that essentially it's undeniable at this point. The differences are what do we do about it?

Speaker 2: So reasons for optimism.

Klon Kitchen: Yeah.

Speaker 2: We have [00:51:30] four minutes.

Klon Kitchen: Okay. So the number one there is shared understanding that this is a problem and that action has to be taken. So that's progress. Two, there is broad consensus within the national security community about the relative challenges that we're facing. Three, we do have some of the most amazing personnel in the

world on these issues. I can't underline that more heavily amongst kind of political conversations about deep state and everything else. [00:52:00] All that to the side, the professionals and the department of defense and the intelligence community and the law enforcement community, 99% of those people are out there just getting the job done. They're the people I loved working with, the people I continue to advocate for. And there are people with whom Americans should feel safe and trusting their security too.

Speaker 2: Give me [00:52:30] an example of a success that you've had with this group recently?

Klon Kitchen: Well, okay. I mean, if I can, I'll go back to the 5G point. I mean, to get that point across because it is a significant economic implication. That has required a comprehensive approach both in terms of intelligence analysis. So the secret stuff that we know about intentions and capabilities, government agencies [00:53:00] coming together to think about how we can begin to approach that. The civil society sector, like the heritage foundation, talking about this in ways that are meaningful to Congress, so they can take action and informing the executive. Industry being responsive and sharing information and helping us understand how did we get here and what would need to be done. So these things are, we have this capacity, we're not helpless. It just always comes down to commitment and intention.

Speaker 2: So we [00:53:30] didn't talk about two things that I really wanted to get into with you. Actually, we didn't talk about 30 or 40 things I wanted to get into, but we'll resolve that by having you back.

Klon Kitchen: Great.

Speaker 2: Artificial intelligence, are we still a leader in that?

Klon Kitchen: In many ways, yes. The two big dogs on AI are definitely the U.S. and China. The short answer or the kind of basic way to understand that is one, the discovery itself largely happened in 2012. That's when AI [00:54:00] really kind of took a little giant leap forward and now the race is about implementation. And in that race, China is showing real advantages because it has a lot of data and it has virtually unrestricted access to that data, whereas the United States has less data that it's collecting and more restrictions.

Speaker 2: What happened in 2012?

Klon Kitchen: That's when the computer science community kind of pivoted away from what was then called the expert model of training AI algorithms to machine learning. The short side of that [00:54:30] is we used to have to teach in detail an algorithm, if you're doing an image recognition, these are all the features that make up a cat and the features would be innumerable. With machine learning, we essentially just pointed it at a data stack of a bunch of pictures of cats and

said, that's a cat, that's not a cat. And then it determined for itself what those features were and it became really, really sharp and really, really accurate.

Speaker 2: Interesting. Well, I also want to talk about quantum computing and bio-sciences. [00:55:00] So we're out of time. You have to come back-

Klon Kitchen: Okay. That'd be good.

Speaker 2: ... and we'll dig into it. Well, that's it for now. Thank you for joining us and we'll see you back on the next Bill Walton Show.

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