

- Speaker 1: [00:04](#) 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: [00:24](#) Welcome to the Bill Walton Show. We're taping again from our library. Hope to be back in the studio sometime soon. As we tape, we're in mid-April, 2020, and hopefully we're on the down slope of the virus, but who knows? As we're here and thinking about where we are, thinking about president Trump, he seems to have three enemies he's dealing with. One is the virus itself, the other of course, long-time political enemies, and the third category I would say are external enemies, and in particular, China.
- Bill Walton: [01:03](#) The news came out recently, yesterday in fact, that in fact China might have been behind, not purposely, but certainly the virus almost certainly originated in Wuhan and they've done a lot to exploit the virus and have plans to exploit it after the virus ends. With me to talk this through and understand where we are today with regard to China technology, our supply chain issues are two very, very smart scholars from Heritage Institute, Dean Cheng, who is a senior research fellow, Asian studies and oversees most of the Chinese security and economic issues.
- Bill Walton: [01:46](#) Also, with me is a Klom Kitchen who leads tech policy for Heritage, senior research fellow Kathryn and Shelby Cullom Davis Institute for national security and foreign policy. Together we're going to talk about the interrelationship of China's strategic aims and America's technology policies. Dean, let's start with you. You've coauthored an excellent assessment of this called Assessing Beijing's Power: A Blueprint for the U.S. Response to China over the Next Decades. Tell us where we are.
- Dean Cheng: [02:24](#) What I think your viewers and listeners need to understand is that China is a fundamentally different challenge than anything this nation has confronted before. They are not the Soviet Union. They're definitely not Nazi Germany. They're not even Imperial Germany. They're very different for several fundamental reasons. The first is that they're not European. They come from a very different context. Europe was marked by balance of power, politics, multiple great powers. Asia has always been dominant for thousands of years by a single hegemony namely China. China is not a rule of law society. It views the law as simply an instrument for keeping the Chinese Communist Party in power. Finally, China doesn't have civil society. It doesn't have an independent press, that should come

as no surprise, but even religion homeowners associations, bowling leagues.

Dean Cheng: [03:27](#) Everything has a piece of the Chinese Communist Party within it, and that in turn means that when we interact with Chinese universities, Chinese religious groups, Chinese businesses, they're not private. There is no privacy in that context. They are all subject to the Chinese Communist Party. That means that we are facing a whole of society challenge, whether it's dealing with COVID-19 or whether it's thinking about 5G and we are dealing with a system that frankly views us as a threat, whether we want to view them as a threat or not.

Bill Walton: [04:08](#) Well, in your study assessing Beijing, which by the way, I highly recommend to my listener or viewers, the first 15 pages of that study is probably the best overview of China's history, its power structure and its culture that I've read. I've read a lot on China. What gets distilled in those few pages is essential reading for everyone. Just to amplify something you said, Dean, China doesn't have a rule of law. It has a rule by by-law, and that the Chinese Communist Party is really not that different from the way China was ruled when the emperors ruled China.

Dean Cheng: [04:53](#) We tend to think of the Chinese Communist Party as somehow fundamentally different from the old emperors. They're not thinking of themselves as gods or things like that, but the reality is that there was never ... 5,000 years of Chinese history never saw the development of democracy, never saw the development of an independent judiciary. The Chinese Communist Party happily continues those traditions, which obviously from our perspective are not good things, and carries that forward. It also, as I said, the Chinese empires dominated Asia. All of the neighbors understood their place, that they were tributary states. China's regime today is clearly treating its neighbors, Vietnam, the Philippines, Korea as appendages, as tributary states, and it would very much like to see Japan, and frankly, probably even the United States do the same thing.

Bill Walton: [05:56](#) Klon, the rival we have with China, it seems to be in some ways fundamentally different from, say the rival we had with the Soviet Union or any other great powers, and that we are so interdependent with China. Most of our major manufacturing supply chain technologies that we deal with today are not just in the United States, but increasingly in China. What's the nature of our relationship in terms of technology development, manufacturing, supply chain, etc?

Klon Kitchen: [06:35](#) Yeah, it's interesting. I think one of the things that I've noticed as the United States tries to engage China is we're hesitant to recognize some of the similarities of previous confrontations that we've had while also being hesitant to understand some of the dissimilarities that Dean has identified. On the similarity side, in terms of like the cold war, I do think it's important to recognize that what we actually have is an emerging confrontation between two philosophies of government and approach just to governance in general. Obviously with the United States, we have a liberal democratic order that emphasizes and I think maximizes the opportunity for human thriving. But what China is pioneering, and I think ultimately going to try to export is a governance model enabled by technology that promises the economic benefits of capitalism coupled with the government stability and security of authoritarianism.

Klon Kitchen: [07:43](#) They are beginning to lean heavily on their technology sector, both economically and as a tool to enable the type of techno totalitarianism. If they're able to master that model of governance, I think it could easily become the chief export along the Belt and Road Initiatives. Now, one of the interesting things about that, so that's the similarities of previous confrontations, but unlike any previous confrontation that United States has faced, and Dean and you, Bill, have made this point already, is that we were never as deeply integrated with a with an oppositional government the way we are with China. Our dependency, frankly, on a whole host of industries on China, up until pre-COVID-19, we tended to focus on advanced manufacturing and technology.

Klon Kitchen: [08:43](#) In the wake of COVID-19, and even in the midst of COVID-19, those concerns have expanded to personal protective equipment, PPE, as well as precursor chemicals for a significant portion of not the majority of medicines. That is a key challenge. We have simultaneously [inaudible 00:09:04] essentially conflict of worldviews that's coming into place precisely at a moment when economically we're more interdependent than ever before. That's creating some real complexities that the United States is frankly struggling to navigate.

Bill Walton: [09:21](#) Did China launch this virus into the world on purpose or is China simply exploiting it to its advantages? Dean?

Dean Cheng: [09:33](#) I think that there is no evidence that the Chinese somehow created and released this into the world. I think that, unfortunately, there's a lot of conspiracy theory going on about

that. The scientists that I've talked to and have read, all indicate that the markers are of a naturally evolving virus. In terms of as a bio weapon, frankly, there are much better candidates out there. Ironically, however, the fact that China is an opaque system, the fact that it lacks a free press and that the Chinese Communist Party's first reaction was to suppress information has created a fertile ground for all sorts of rumormongering. Inevitably, when you create a vacuum, something rushes in to fill it. In this case, it is a lot of theories that some of which are outlandish, some of which may even be plausible. The possibility that perhaps this escaped from a lab where it was being researched, but the Chinese have done themselves no favors by basically shutting down all inquiries and providing no good information.

Bill Walton: [10:53](#) Well, you talk about, in your paper, the three warfares that China engages in, psychological, political, I'm thinking what the third one is.

Dean Cheng: [11:03](#) Public opinion warfare.

Bill Walton: [11:04](#) Public opinion. Is this part of their warfare?

Dean Cheng: [11:08](#) Yes. Regardless of where this virus came from, the Chinese are very good at facing the world as it is, not as they'd like it to be. They are employing political warfare, including these three warfares, to try and shape and mold three audiences, the Chinese domestic audience, to make the point, this isn't the CCPs fault, the American and Western audiences, hey, we're a good partner. When you build out your 5G networks, keep that in mind. We're providing "aid" to various countries, although in many cases that aid is actually paid for PPE. Finally, the rest of the world, while we are very focused on dealing with this pandemic in our respective countries, the Chinese are very clearly already trying to shape how everyone on the planet is going to look at China.

Dean Cheng: [12:03](#) That China is helpful. China has been open. The WHO has endorsed China. All of this is part of that public opinion warfare of shaping and molding. Not just governments, but popular opinion of, aren't the Chinese good, friendly, cool, and don't we want to work with them, especially once we all emerged from lockdown?

Bill Walton: [12:25](#) Now, I assume you're being facetious.

Dean Cheng: [12:28](#) On which front?

- Bill Walton: [12:30](#) In terms of their kindly intentions and how ... This is more posturing than substance, is not or?
- Dean Cheng: [12:36](#) Yes. No, this is very much the perception that they're trying to inculcate, but you can't deny that the Chinese have been masterful. They jumped on, for example, Italy was complaining about how Europe, the rest of Europe was not providing them with aid as their body count was spiraling, and the Chinese jumped on that. Immediately, you saw videos of Chinese doctors getting out at Rome and shipments of what was presented as aid. As I said, this was PPE that Italy had already paid for, but the global public opinion that they're trying to shave, and I hate to say this, but the American press is openly aided and abetted the Chinese. When the New York Times is publishing op-eds that could have been written in Beijing with a title like Beijing bought us ton. The West squandered it. You have to start wondering how the Chinese are coming across to everyone.
- Bill Walton: [13:33](#) Klon, and the technology area, you've done some research in terms of our medical supplies and supply chain issues. I had Rosemary Gibson on recently. We talked about the fact that we've lost our manufacturing capabilities for aspirin, penicillin and a lot of essential antibiotics. Are you familiar with what they're doing in these labs, like the one in Wuhan and how that fits into their strategic aims to develop medicines and vaccines, etc?
- Klon Kitchen: [14:04](#) Well, so I think with the Wuhan ... it was supposed to be a bio level four, which is the highest level of a research, biological rheological research facility. The United States has some of these as well. From the reporting that's going on, the Dean makes the point that passivity of the Beijing government makes this very difficult to move beyond conjecture. The fact that the Chinese government has one of these facilities is not surprising. There are legitimate reasons why they would have that, particularly regarding the country's history on pandemic viruses and other public health concerns. It wouldn't be surprising. In fact, I'm very confident that they have similar research that's ongoing for national security purposes.
- Klon Kitchen: [14:56](#) The Chinese chemical biological warfare capability is I think, well understood within the national security intelligence community. As Dean said, I don't think there's any indication in anything that we've seen that would suggest that it was deliberately cultivated and released. I don't know that the Wuhan research facility has any direct tie in to the nation's larger medicinal

manufacturing infrastructure. I think it would be a contributory capability and a supplemental capability, but there's nothing that indicates that it's somehow associated with the [inaudible 00:15:34] what's going on [crosstalk 00:15:35].

Bill Walton: [15:35](#) You coauthored a major report that talked about America's strategic military position right now and found some real, I think, deficiencies in it. I think the things that got a low rank were supply chain and issues related to the ability to control manufacturing of key essential military items. Did you also look at the drug chain as part of that?

Klon Kitchen: [16:04](#) It wasn't a part of the study specifically, but I think many of the same trends that we discovered in the defense industrial base would translate into know what we call the medical industrial base as well. That's because the reality is, and I want to be clear that what I'm about to describe has occurred, not out of any sense of malfeasance, not out of any sense of foolishness or anything like that. There have been real market efficiencies that have driven these decisions. It is inarguable to say that the United States public, it has absolutely benefited from many of these efficiencies over the last three decades. But the reality is, is that we have outsourced significant portions of virtually every supply chain to China. The reason we've done that is because Chinese industrial base, heavily supported by the Chinese government, has become, essentially the center of gravity for the world for basic manufacturing and development.

Klon Kitchen: [17:07](#) It's offered companies who have fiduciary responsibilities to maximize returns on investment to produce goods and services at a much more cost effective way than was available in the United States or elsewhere that is absolutely true. Again, it is true that over the last three decades, four decades American consumers have benefited from that. The cost of prescription drugs have been significantly lower because that was the case. Having said all that, we are now recognizing some of the larger strategic costs of those choices and are now having to face the reality of, were those kind of short to mid-term benefits that were realized, were they ultimately work that strategically, because in the midst of the COVID-19 outbreak, there was an op-ed in the state run Xinhua newspaper.

Klon Kitchen: [18:10](#) An author said that China should cut off PPE and medical precursor chemicals from the United States and cast them "into the ocean of coronavirus." Now, regardless of whether that individual actually represented anyone at the Chinese government or not, the point is, is that the threat he made was

in fact a threat that the Chinese government could keep if they so chose. Any rational government would obviously ask themselves, should we allow a foreign government, particularly one that has shown indications of hostility or at least of being a strategic challenger, should they have that capacity to leverage us that way? This is where the point that we made previously, that unlike any other nation that we've confronted before, that deep economic integration, that's where that calculus becomes much more difficult than it has been in the past.

- Bill Walton: [19:08](#) Which just makes us wildly complicated. My short answer to this, I'd rather pay more for drugs and know where they're manufactured. I think that paradigm may be increasingly shared by other people, but it is going to change the economics of drugs and a lot of other things we buy in this country. Now, when we talk about China though, Dean, I don't want to fall into just talking monolithic. China's not a monolith. It's billion three population. Some of my best friends are Chinese. It's just not that simple that we've got this country that's billion three of terrible people. We were talking, Dean, earlier, your parents came to United States when ... I think you were born in New York City in the 1950s, and your father got here by swimming what? He escaped under a boat from China in 1940, 1951?
- Dean Cheng: [20:10](#) Yes, he [inaudible 00:20:12] a fishing boat.
- Bill Walton: [20:15](#) When we're talking about the Chinese people or China, is it the Chinese ... It seems to me we're talking about the Chinese Communist Party, and we've got 90 million people though, so it's not a small element in China. How much does Xi have a whip hand on China, the politburo, so on and so forth? Is what they're currently doing likely to continue for decades? Or is this something that's a feature of the current political leadership?
- Dean Cheng: [20:49](#) Well, certainly. When we're talking about 1.3 billion people, it's always dangerous to generalize. It's generally dangerous to generalize anyway.
- Bill Walton: [20:58](#) But we all do it.
- Dean Cheng: [20:59](#) That's correct. When people say China does X or America does Y or Germany does Z, we are saying the government of these respective countries are undertaking things and not individual citizens, whether they're in Portland, Breslau or Moscow. But the reality is that China is ruled by the Chinese Communist Party, and the Chinese Communist Party isn't very communist anymore in the sense of, from each, according to their ability to

each according to their needs. But they are still very much a Leninist party, a vanguard party, the sole source of political power within a China where they have systematically tried to stamp out civil society. Xi Jinping as head of the Chinese Communist Party supported by the Politburo Standing Committee, which is only about seven people and which he dominates much more than any of his predecessors since, at least Deng Xiaoping, absolutely has an ability to set a course for China in a way that doesn't subject itself nearly as much to internal politics. I think it's safe to say that there is no Chinese media comparable to Jim Acosta or [crosstalk 00:22:20].

Bill Walton: [22:20](#)

They don't even have Twitter accounts.

Dean Cheng: [22:23](#)

That's right. The Chinese media is not going to hold Xi Jinping accountable in anything like the way the American media does, neither is the Chinese state legislature, the National People's Congress. There is no Nancy Pelosi or Mitch McConnell for that matter. Xi Jinping plus certain other key leaders absolutely could do what Klom said, they could think about doing, which is to say if they wanted to, could they impose limits on the export of medical equipment? Absolutely. We have seen, and this is important, the Chinese doing exactly that with rare arts. In 2010, she's predecessor pretty much said, we're not going to sell rare arts to Japan and maybe nobody else, and could make that stick in a way that would be much more difficult if not just about impossible without a state of emergency for the United States. That's the reality.

Bill Walton: [23:19](#)

When you talk about vanguard leadership, that's the Leninist term where you had a few handful of elites in the vanguard and they were in charge completely. Unless you're in the vanguard, you had virtually no political power or other kinds of power. Is that the way you would define it?

Dean Cheng: [23:39](#)

Yes, that's exactly how I would define it. Once upon a time, only about 20 or so years ago, there was this hope, but as China's business elite became wealthier and moved into the party and were welcomed into the party, that maybe they would have a moderating influence. Instead, what we have seen, and this is occurring right now with COVID-19, is in fact, the hunting down and arrest of Chinese oligarchs and billionaires and millionaires because they represent a potential threat to Xi Jinping. Ren Zhiqiang, a leading Chinese media figure actually has disappeared because he had the courage or foolishness to write a letter saying basically Xi Jinping's response to COVID-19 has been catastrophic.

- Bill Walton: [24:27](#) Well, Klon, you coined a term, I don't know whether you've made it up, but I love it, techno totalitarianism. That's the social credit system, it's the facial recognition system. What are the elements of their techno totalitarianism? Which I think bears on Dean's point about the absolute whip hand that the leadership has there.
- Klon Kitchen: [24:53](#) Well, so yeah, I think I can just build on the Leninism argument. Part and parcel to the Leninist model, in addition to having a vanguard, the reason you have a vanguard is because the general population isn't smart enough or powerful enough to enact the vision of government that the Leninist hold. It has to be managed because there are too many competing interests otherwise. What has, I think mitigated the ability of Leninist governments in the past to actually exercise their vision is just a general lack of capacity to have enough knowledge and enough influence and power to exercise their vision. You think economically, there's just so many variables that prevent general strategic knowledge of an economy for a Leninist to actually exercise their supposed of wisdom.
- Klon Kitchen: [25:48](#) Well, the theory I think behind the techno totalitarianism is that, perhaps with modern tech technologies like artificial intelligence and all of its sub-disciplines, machine learning and that kind of thing, coupled with the general digitalization of information. Are we entering an era where the state will have access to capabilities that will enable the type of awareness and knowledge and management that has previously escaped them? When we think about things like the social credit score, there's a couple of technologies that are coalescing that enable a level of awareness and surveillance and knowledge that was just unknown before. So you have facial recognition technology, you have machine learning that can sit on top of everybody's purchases, everybody's movements, even the content of their communications, or things like WeChat.
- Klon Kitchen: [26:46](#) The Chinese government is trying to build a governance model that, yeah, I'm calling techno totalitarianism, I don't think I'm the only one who's used that term.
- Bill Walton: [26:58](#) We'll give it to you.
- Klon Kitchen: [27:00](#) But that banks on being able to collect, being able to understand, being able to exploit, being able to leverage and then ultimately being able to shape all of that human activity. All of that was just not available to previous governments, but now in the modern age, they're betting that it is.

- Bill Walton: [27:21](#) Well, then that spills over into their international ambitions, particularly their interest in influencing the United States public opinion. The question I have is that, why isn't this global pandemic no longer called the Wuhan virus? The previous diseases like Ebola, Zika, West Nile, lime Spanish Flu were all named from the places where they emerged, which has been the convention. Yet, this has now been renamed. I also learned that China, through its Facebook account, I think they've got something called China's Global Times, which has 52 million followers on Facebook. By comparison, New York Times has only about 17 million. They've been systematically running ads, talking about how this ... anybody attempting to call this the Wuhan virus is racist and influencing public opinion in the United States to deflect the blame on China. I guess, Dean, this is part of your psychological, political, social warfare?
- Dean Cheng: [28:35](#) Public opinion warfare.
- Bill Walton: [28:35](#) Public opinion warfare.
- Dean Cheng: [28:38](#) Absolutely. Naming conventions are difficult. Avian Flu was H5N1. There have been some efforts to try and standardize and generalized naming conventions beyond specific locations. But what is more important here is that the Chinese absolutely want to distance themselves from this disease, which is why it's one thing to talk about how you name it. It's something else to talk about whether it came out of China at all. It is not an accident that the Chinese, who don't allow Twitter in China nonetheless have Twitter accounts for their foreign ministry spokespeople because that's aimed at outside China. It was on one of those accounts that the Chinese foreign ministry spokesperson threw out there the idea of, well, we don't know, maybe it came from the US military.
- Dean Cheng: [29:35](#) Now, this kind of misrepresentation, some people might call it even a lie, has a long and pedigreed history because if you look at the Korean war, the Chinese and their Soviet and North Korean partners went around claiming that the West, namely the United States, had engaged in biological warfare in Korea against the North Koreans and the Chinese. The fact that the Chinese would now start throwing around these accusations, even as they're simultaneously saying, but you shouldn't ever refer to it as Wuhan flu or Chinese coronavirus gives you an idea one, about how they are happy to live with a double standard and two, that they are definitely trying to shape a blame narrative which is going to be about the United States, and

third, that China is the victim. Not the victim of Xi Jinping or the Chinese Communist Party of course, but of the West.

Bill Walton: [30:37](#) As China overplayed his hand in the last few years, I remember one of their earlier, I think it was Deng, had a strategy called a build and abide or something like that where China was going to build a strategic capabilities but not really reveal their intentions to the world. Yet, what they've done in the last few years with China 2025 and with the Belt and Road Initiative is they've really announced, look, we're going to be a player and they've announced that they want to be the dominant manufacturer innovator in 17 strategic industries. They really put the world on notice in a way that I think increasingly people ... they're engendering a lot of hostility because of it. Maybe this political strategy is not as smart as it appears at face value.

Dean Cheng: [31:28](#) Well, certainly the strategy of bide your time and never take the lead, which was one of Deng Xiaoping's catchphrases, began to fall by the wayside, actually under Hu Jintao Xi's predecessor. It's hard to be the number two GDP in the world, one of the most populous countries, a member of the UN permanent five, host of the Olympics, etc, and yet somehow be a shrinking violet. Even if you wanted to, the Chinese population, not that there are votes or polls, but more and more the younger generation, which has grown up in a world where China kept going from victory to victory and advancement to advancement, not unreasonably, was asking, why do we take a backseat? Why shouldn't we be more assertive in shaping the world? Xi Jinping is both a beneficiary of this, but also he has to be wary of not coming across as defending China's interests.

Dean Cheng: [32:34](#) In this regard, you now see where reach and grasp don't quite align. China isn't exporting malfunctioning PPE to Spain and Turkey and Italy on purpose. The scary part is they're probably shipping stuff that might have actually been better inspected. So you have to wonder how good the PPE is back in China, and that's the sort of story that an investigative press might well highlight if you had an adversarial press, but of course in China you don't. Might be something for a Western press to focus on, but I gather that the White House press conferences are much better fodder for CNN than doing investigative work into whether Chinese PPE works in China.

Bill Walton: [33:25](#) Klom, in terms of their initiative to dominate these key industries in manufacturing and R&D and innovation, I know we're not going to ... well, it's hard not to generalize, but I will. How are they doing? Are they making progress on all fronts? Is this

something that 10 years from now they will have achieved their objectives? I know we don't have futurist in your title at Heritage, but maybe we could give that a try.

Klon Kitchen: [33:58](#)

Yeah. I'm just going to pick right up where Dean was in the sense of, I think for a great deal of time, China was, and Xi Jinping particularly was trying to abide in the background, or at least not explicitly advertise some of their aims, but there came a point where China made the very rational conclusion that to amass and wield the level of global influence that they were aspiring to, required them leading in their main China 2025 strategy, they needed to lead in 10 key industries. Well, you can't passively, aggressively quietly in the shadows lead in 10 key technological industries. If you're going to go head to head with the United States, that requires a level of assertiveness and upfront and the type of actions that are going to be perceived and understood.

Klon Kitchen: [34:55](#)

That's why they came out with their strategy and that's why Xi essentially needed to kind of rally the Chinese nation, both politically and just the general population toward those strategic aims. It takes a national effort to achieve that level of leadership and capacity. Now, in the wake of that, when they did that, that caught the United States attention and that's when the United States shook itself out of its economic stupor and realized, wait a minute, this is something that we need to engage. Since then, you've seen China turned down the volume on those specific aims. Not give them up, but the way they talk about them, the way they promote them has been blunted. Up until, I think, frankly, I would say the COVID-19 crisis, I would say that China was continuing, generally to move forward along those initiatives and to make material and incremental progress.

Klon Kitchen: [35:56](#)

The United States was frankly just flummoxed by this integration problem that we've talked about previously. With 5G and then with coronavirus, I do think that that has decisively changed the conversation in the United States. 5G, we realized, wait a minute, this is a major problem because we're talking about what's going to effectively be the central nervous system of the new economy. We don't have a viable alternative and neither does Europe and so, wow, we've got to figure this out. Then COVID-19 hits and you have the threats about cutting off of the US from critical materials necessary for saving the American lives. I think that has also changed opinions or is changing opinions in the United Kingdom, France, Germany as

they've seen China seek to leverage their geopolitical influence to force people to change.

Klon Kitchen: [36:54](#) The point that we've been making to our European allies is like, look, if they're willing to do this on PPE, if they're willing to do this on what you call this virus, do you think that they're going to be willing to leverage their position on 5G? Certainly they are. I think that is actually beginning to shift the conversation. Now, to what degree, I think remains to be seen, but it's certainly the point that, in the United States, we're going to be pushing on this because the realities of it are just becoming inescapable. Certainly, it's going to be difficult, but it's something that cannot be left unaddressed.

Bill Walton: [37:31](#) When Dean said, when we talk about China, we're talking about the Chinese government, when talk about America, we're talking about the American government, but this conversation begs the question of whether United States is a free market liberal democracy generally, can compete with the China that's so focused and increasingly is becoming innovative in some of these key technologies. Does the United States need an industrial policy to pull things together and to have ... I'm viscerally opposed to that idea as a free market economic guy, but is it time come where we need to have that conversation, Dean?

Dean Cheng: [38:18](#) I remember when there was this rising power coming out of the East that clearly just had a superior approach to technology, to innovation, to all of the rest. We were all going to be speaking Japanese, Paul Decker was going to be chasing Androids in a Japanified Los Angeles and Blade Runner and the like, and it was clear that we needed an industrial policy and consensus-based leadership and corporations that just didn't focus on that bottom line because Japan had such a superior approach. Here we are 40 years later and Japan has been ... we used to talk about a lost decade for Japan's economy and industry, and now I think people are talking about a last quarter century. Do the Chinese have advantages because of central direction, state policy, etc? Absolutely. Now, least of which is they can set a goal and they have programmatic and funding stability.

Dean Cheng: [39:24](#) You look at their space program compared to ours, but at the same time, it's very hard to correct mistakes. All you have to do is look at Chinese ghost cities, which some people think are a sign success. But if you understand the economics, that is an enormous amount of wasted material, energy, finance, labor,

etc. Is industrial policy the right answer? My personal opinion, no.

Bill Walton: [39:55](#) Good.

Dean Cheng: [39:56](#) Do we need to have better coordination between the private and public sector? Yes. Do we have a private sector that operates almost as opaquely as a Chinese? One where you will oppose cooperating with the American Department of Defense, which is subject to law impress and other coverage, but will happily cooperate with China in building a censored search engine. By the way, your corporate moniker says [crosstalk 00:40:27].

Bill Walton: [40:26](#) Are we speaking Google? Of course, they won't do business with our own defense department.

Dean Cheng: [40:32](#) Right, exactly. I think that there are a whole lot of issues in our own systems that need addressing. I'm not sure that an industrial policy would get at any of that, but I do think that what we do need, if we're going to tap into the strength that is private enterprise, individual choice innovation self-correction is probably better coordination conversation between government and the private sector.

Bill Walton: [40:57](#) Well, and I wish we had more serious people in government having this conversation and talking about what we ought to be doing. Unfortunately, the political struggles we're in right now seem to make serious conversation about this sort of thing verboten. We're about out of time. Klon, do you want to give us your thoughts how the United States can compete effectively and how we ought to deal with this?

Klon Kitchen: [41:22](#) Sure. I'm going to preface my comments by saying that there's perhaps no other scholar at Heritage that I respect more and enjoy working with more than Dean. I'm going to push in on his Japan argument.

Bill Walton: [41:36](#) Good. I was going to do that too.

Klon Kitchen: [41:37](#) Yeah. Because, if I adopt that same logic, then I could easily say ... there used to be a whole lot of concern and worry about the Soviet Union launching nuclear weapons and obliterating the United States and we oriented our entire foreign policy around that and we did all these actions, and you know what? Lo, and behold, it never happened. Therefore, anybody who argues that Iran is a nuclear threat is just falling into the same trap of we

shouldn't take action on that. It's a literal fallacy to say that it didn't happen then, therefore it won't happen now. What I want to say on the question about industrial policy is, well, it depends on what you mean. If you're saying, do I think that the United States should try to out China, the Chinese government? No, obviously not.

Klon Kitchen: [42:24](#)

But if you're asking, so for example, we have kicked a free market company out of the United States, Huawei, and said you cannot provide 5G infrastructure in the United States and we have national security rationales for that. Is that industrial policy? Because if it is, well then, yeah, I think we should have that because I think I'm a free market capitalist, but I'm not suicidal. I want to say that free market capitalism is not an end. It's a means to an end, and the end is human thriving, particularly American human thriving. I think that the government should engage in these questions in ways that are completely consistent with our constitution. I think our constitutional allows for this type of wisdom and prudence.

Klon Kitchen: [43:11](#)

But the reality is, is that it's easy to dismiss industrial policy when we think that national security is relegated to only like who makes our tanks, who makes our bombers, who makes our nuclear weapons, but the reality is, is that in the modern age, artificial intelligence is the new tank and it's the new nuclear weapon and it's the new plane, and it's also what we're just using for general commerce. It's literally the next generation of a general purpose technology. Who makes it and how it's made, and particularly when we start thinking about the advanced microprocessors matters. The government has a conversation. Now, again, I'm not advocating for any type of managed economy, but it's just a reality that the federal government and private industry, not only need to have a more thorough conversation, but that industry has been resistant to that and what has prevented us from being where we need to be and that we need to get better at this.

Bill Walton: [44:09](#)

I so agree. Well, as usual, we've launched the stage for our next show. You've got 50 recommendations, Dean, in your report, and Klon, you've got an equal number in your military preparedness report, so I'd like to come back and talk about lines of action for our next show. Dean, the pushback, I was reading a guy who wrote very, I think cogently, he says, "China's a continent sized power, significant natural resources and four times the population of the United States located in the most economically vibrant region of the world, center of global economic activity, blah, blah, blah." I think Dean Cheng wrote

that sentence. I would just say that China to me represents a far greater threat than Japan was because of all the resources it has that Japan didn't. It's my show. I get the last word on that one.

Bill Walton: [45:04](#) I'd love to have you come back. I'd really love to get into lines of action because we are going to need them and I don't think there's enough conversation about where we go after this virus. Both Klon and Dean, thank you. We've been here with Klon Kitchen and a Dean Cheng, both senior fellows at Heritage Foundation, some of the brightest minds on our geo strategic economic thinking and hope to have them back and hope to have you back for our next conversation. Thanks so much for listening. Thanks for much for watching. You can find us on YouTube and all the major podcast platforms. See you next time.

Speaker 1: [45:44](#) Thanks for listening. Want more? Be sure to subscribe at thebillwaltonshow.com or on iTunes.