

Securing America with Bill Walton September 1, 2022

Frank Gaffney (00:05):

Welcome back. We're going to visit, as we generally do about this time each week, with a man who has a very important perspective on a fundamental problem that faces us with respect to the threat of the Chinese Communist Party. And that is our underwriting of it, by Wall Street, with our money. His name is Bill Walton. He was formerly a Master of the Universe on Wall Street, as they call them. The president of Allied Capital Corporation, a major player there, a man who has, well come a long way, baby, since his days on Wall Street. Now he's the host of a terrific television podcast, the Bill Walton Show, and a very active participant in and contributor to the Public Policy Debate about, well, all kinds of issues, including the threat we face from China. And we're always delighted to catch up with him, especially to explore that topic. Bill Walton, welcome back.

Bill Walton (01:10):

Frank, great talking with you.

Frank Gaffney (01:12):

There's a lot of ferment, at the moment, in among other things, Wall Street and it's attitude towards the Chinese Communist Enterprise as a sound investment play. Even the Financial Times, the daily Bible of the Wall Street crowd has become, it seems attuned to the fact that China actually may be an enemy of the United States and the free world, what a shocking revelation. But what they're certainly picking up on both the FT and folks on the street, is China is in real economic, well, crisis I think, it's not too strong a term. Talk a little bit about what's happening as you see it, Bill and the ripple effects it's having in your old community.

Bill Walton (02:15):

Well, China has joined the long list of countries and regions around the world that are victims of terrible government policies, and we've seen it in Europe with their green climate agenda. We're seeing it here with cutting off oil and gas drilling and trying to get us free from fossil fuels. And it's a pervasive worldwide phenomenon. And China has always been very pragmatic about its economy and how it wants to maintain its eight to 10% growth rate. And that's worked very well for the Chinese Communist Party is they kept the economic plate spinning. They brought tens of millions, if not hundreds of millions of people out of poverty into middle class life in China. It's one of the sources of power and they've done it with things like stimulating the residential real estate market, flooding the economy with liquidity and leveraging up and borrowing and building cities, that really, I think there are probably several million apartment units in the country that have been built that have no occupants because they wanted to keep the investment plate spinning.

And president Xi, who is an ardent communist, loves Mao, seems intent on undoing a lot of that economic miracle in China and pounding it back to something much more primitive. The residential real estate market, which had been a source of investment for most Chinese, there's really no robust investment market in that country. Well, he declared that it was not really investible. If you wanted to buy a house that you had to be something or an apartment you had to live in it and it's caused a tail spin for all the big property developers in China. And there's something and I want to check these numbers, but there's like a couple \$100 billion of real estate, property developers bonds, and almost 130 billion of them we expect to go into default. And the financial times has picked up on what a lot of the other

investment firms have picked up on, is Chinese economy's slowing, it had been eight, 10%. Now it looks like two, 3% this year. And with it's hostility to tech companies, it's becoming uninvestable.

Frank Gaffney ([04:43](#)):

Wow, this is huge. And I hope that it will press a movement out of China by these Wall Street types and that Americans, most of whom have been unwittingly having their money entrusted to the tender mercies of the Chinese Communist Party will be able to get it back before it's all gone.

Bill Walton ([05:07](#)):

I worry about the dark side of that, Frank. I mean, one of the pluses we've had is that it's very difficult to go to war with a country when your economies are completely intertwined. I mean, back in the Cold War with Soviet Union, we had very little connection with each other and could act like we could go to war. Well in China, in the United States, massive, massive sectors of our economy are intertwined and that's in a way a kind of security blanket against kinetic warfare. Xi, however, seems to be interested in disconnecting the Chinese economy, at least certain key industries from the United States and being more self-sufficient. It's something the United States should be working on as well. But in Xi's case, it seems to presage some really very hostile intentions.

Frank Gaffney ([05:59](#)):

Yeah. Well, war I think is the bottom line, kinetic war. Bill, it's interesting, you mentioned that people have said for years, that countries that are deeply intertwined economically, don't go to war. But as I recall, 1914, the Brits and the Germans were deeply engaged in terms of trade, especially. And they did nonetheless go to, not only war, but a World War. Let me ask you about another piece of this Bill, we've been talking on and off about the special inadvisability of investing in Chinese companies without actually knowing their solvency or much else about their financial condition, for that matter. You've talked about the wonders of work products to help you understand what these companies are all about and that that's part and parcel of what as an accountant in a previous life, you look forward to doing.

This Public Company Accounting Oversight Board, PCAOB as it's known, is responsible for trying to, pursuant to relatively new federal statute, get the Chinese to open up their books, if they want to be listed in our exchanges. The Chinese have been pushing back relentlessly on this, saying it's all national security secrets and they can't possibly do that. A compromise has been floated that would involve having the PCAOB, get those audits done, not here in the United States, but in Hong Kong. And I wonder whether that seems to you to be a fix or a scam.

Bill Walton ([07:58](#)):

Well, it depends on how likely the Chinese are to follow the letter and spirit of the agreement, back up on the issue. The issue is, as part of the opening up to China, we've been encouraging Chinese companies to list in the United States and hundreds and hundreds have come in and US investors have happily put money in them. The problem is that we didn't have any idea what their financials really were. We haven't had access to their audit books and the PCAOB, that's its job, is to maintain the system that oversees the financials of publicly traded companies. And in some case, large private companies. Well, the Chinese companies were a black box and so thanks largely to some work by people like you, Frank, and the rest of us engaged and maybe Roger.

Frank Gaffney ([08:48](#)):

Robinson. For sure.

Bill Walton ([08:49](#)):

Robinson, who've been pushing this, we've woken up to the fact that, "Hey, if we're going to let US investors to invest in Chinese companies listed here, we need to know what their financials are." And so the deal that was cut, allows US auditors for the PCOAB to travel to Hong Kong, to inspect the books and records that the auditors presumably audited in Hong Kong. The devil's in the ... Whether they're actually going to let us do that? I'm skeptical. And I think already the Chinese are beginning to say, "Well, look, maybe we just don't even need to be listed in the United States because we still don't want to give up the audit papers and all the information that a good audit would reveal." But it's a step back for them and it's a step forward for us. And if it's executed, as we hope, I think it'd be a good thing for investment transparency, but I still think it's investor beware here.

Frank Gaffney ([09:51](#)):

Yeah, well, that's for sure. And I'm particularly skeptical because I have the feeling that if the Chinese do in Hong Kong, which after all is just another Chinese city, now, what they would do anywhere else in the country, which is coercively pressure accountants to just do what they're told rather than what they're actually supposed to with work papers. I think this can be more a scam than help. And I'm not sure that it's a done deal by the way. I think it's still in the process of being negotiated, but it's one to be watching carefully, I think. Bill, let me ask you finally, we're looking at the de-listing of Chinese companies, as you mentioned, this is something that frankly we've been campaigning for. Not so much that they do it at their initiative, but we do it at ours, to the extent that you see a decoupling, is it likely that this is going to prove to be widespread and sustained? Do you think, or is this, well perhaps part of Xi's campaign against his own companies?

Bill Walton ([11:09](#)):

I think that the interconnections between the United States and China in its interdependencies with supply chains and technology arrangements and marketing arrangements and the amount of business that US companies are doing in China and vice versa and the Chinese diaspora all over the world and it's integration into the US. I don't think there's going to be a decoupling, happens anytime soon. It would take decades for something like that.

Frank Gaffney ([11:39](#)):

Be watching this closely with your good help, Bill Walton. Thank you very much for your time today. Come back to us again soon. And we'll talk with Kevin Freeman next, about the plan. According to the plan, specifically that we are pursuing. You need to know what he's found out, right after this.