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 (00:25):

The United States has fallen well behind China and many other countries, and our global share of key technology sectors. Our position in high value products and services has fallen so dramatically that we now rank just above Italy and behind Mexico. In the critical areas where the United States faces 250 billion trade deficit, these facts matter a lot. The Chinese Communist Party sees technology innovation as the main battlefield of its industrial policy and its ultimate weapon in achieving global dominance. It's well past the time for the United States to abandon the possibility that competing on a level playing field with China is possible. We need to confront the reality of what's been called China's brute force economics. We have to face up to the fact that we're not simply in competition with China. We're in a war.

(01:28):

Welcome to the Bill Walton Show. I'm Bill Walton. Joining me today to explore these troubling trends is my returning guest and friend Robert D. Atkinson. Rob is Founder and President of the Information Technology and Innovation Foundation. He founded it in 2006 and it's now considered the world's top think tank for science and technology policy. Rob, welcome

Rob Atkinson (01:55):

Bill, it's great to be back.

Bill Walton (01:56):

Yeah. Well, you said recently we're not only below the global average, we're moving in the wrong direction. We've become almost a developing nation.

Rob Atkinson (02:09):

Pretty shocking. So, what that study refers to is seven key industries that every country, especially a big country like us, have to be good at. Things like aerospace, biotechnology, computing, semiconductors, machines, machine tools, things like that. And if you add all that up and say, what share of our economy do those industries make up in terms of their sales or their output? And you compare that to the rest of the world, 85% of the GDP and the rest of the world that we can track, we're at about 0.95. So, in other words, we're below average or 5% below average. China's 35% above average. Germany's 60%.

Bill Walton (02:57):

They're 35% above?

Rob Atkinson (02:57):

Oh, yeah. Yeah.

Bill Walton (02:58):

Is there anybody else, any other country remotely comparable to that?

Rob Atkinson (03:02):

Oh, yeah. There's a few that are better than China. So, Taiwan because of semiconductors and Korea.

Bill Walton (03:08):

All right. Well, yeah.

Rob Atkinson (03:11):

But China's doing very, very well. We on the other hand, and what's interesting about that number, if you take out the sector that we are the best at, there's really three sectors that we're pretty good at. One is biopharmaceuticals. We still invent and make drugs. The second is aerospace, which is a shorthand for Boeing, the world's top passenger jet maker. And the third is software, AI, Google, Amazon Cloud services, all those information services. If you take out the information services sector where we're dominant, we have about 38% of the global market, we go down to about 0.85. So, our auto sectors, about half of the global average, our machines and electronics are about half of the global average. People don't realize how much we've hollowed out our advanced industries.

(04:08):

Well, part of the problem is our thinking about this, and I say this as a recovering unilateral free trader, free market guy, let the market decide who's going to win and who's going to lose and you'll get the best allocation of resources and everybody will thrive. Well, that hasn't happened. And what's happened is by not being selective about what industries we want to support as a country, we've let the critical stuff go to China and they don't think the way we think about free markets.

Bill Walton (04:47):

They don't have free markets, period. And what people confuse them about, well, they must be top down Soviet Gosplan planners. No, they're not that. They understand. They put this sort of magic connection together where they allow their companies a lot of freedom, but it's constrained. If you're going in the direction of the party, of the Communist party, you get a lot of freedom and you get a lot of money. So, they're way smarter than the Soviets were, and we have to recognize that. The other key point there is they don't look at this as Riccardi and free trade. David Ricardo, we specialize in this, and you specialize in that.

Rob Atkinson (05:25):

Comparative advantage. That was 1 0 1.

Bill Walton (05:27):

Yeah. They look at it as absolute advantage for every major industry. That is their goal. If you read their documents, it's straight up there. We want to be the global leader in every single one of these technologies. And global leader means crushing the competitors.

Rob Atkinson (05:44):

And they do support. I think you wrote that Huawei gets some $75 billion.

Bill Walton (05:51):

Yeah.

Rob Atkinson (05:51):

That's stunning.

Bill Walton (05:53):

That was a Wall Street Journal article that showed that they had received $75 billion. Think about that. The CHIPS act we passed, which I think we should have done, I'm glad we did it because every other country, but particularly China, China's put in around $200 billion in subsidies for CHIP factories. So, we put in 50, which is great. There'll be probably, I don't know how many 40 companies that are competing for that. So maybe they're getting a billion, 2 billion, 3 billion. One company in China, 78 billion. How do you compete with that?

Rob Atkinson (06:28):

Well, so far, we're not.

Bill Walton (06:30):

That's it. That is the issue. So, what are the industries that they've achieved the most dominance in?

Rob Atkinson (06:39):

So, a study just came out recently. They have 20 times more ship building capacity than we do.

Bill Walton (06:48):

Wow.

Rob Atkinson (06:49):

So, think about if we're in a war and the first thing that's going to happen in a war over Taiwan are going to be ships sinking, as awful as that is. And part of who survives is who can replace their ships? They'll replace their ships much more than we do. Twenty years ago, they had almost no ship building industry. The major ship builders were Japan and Korea. I don't want to say decimated their shipbuilding industry, but they've shrank it very much.

Bill Walton (07:18):

Japan and Korea decimated theirs?

Rob Atkinson (07:21):

No, Japan and Korea were the leaders in the 2000s.

Bill Walton (07:24):

Okay. All right. Then, China's come on.

Rob Atkinson (07:25):

And then, China came on from almost nowhere to now being the global dump.

Bill Walton (07:29):

Don't they have the one shipyard that produces as much as all of our shipyards combined?

Rob Atkinson (07:35):

Oh, yeah. Oh, yeah. Oh, yeah. Yeah. Just one. So, they've done that one. High-speed rail, that's another one. They had almost no high-speed rail. And their strategy was, we're going to build the world's largest high-speed rail network, but if you want to sell to us, you have to transfer and give us your technology. Lo and behold, you had a few companies that were hungry enough for short-term profits, shall we say, that they made the deal with the devil, and now they have their big giant monopoly. It's called CRRC, China Rail Company. It has 70% of the global market.

Bill Walton (08:13):

I'm curious, what's the key technologies that make for high-speed rail?

Rob Atkinson (08:17):

It's a combination of things. It's the actual way the motors are designed, but it's also the ability to design the wheels and the track system so you can go 250 miles an hour and not derail electronic systems that support all of that. I think what your point is, these are technologies that aren't just very narrow. They have [inaudible 00:08:44].

Bill Walton (08:44):

That was my question. Yeah. This is applicable to a lot of other things.

Rob Atkinson (08:48):

Absolutely. There are what we would call dual use technologies. They have a commercial use, but they have a military [inaudible 00:08:53].

Bill Walton (08:53):

And given China's geographical size, having high-speed rails is a huge edge if they can get that in place.

Rob Atkinson (08:59):

They have it in place.

Bill Walton (09:00):

It's the way the North won the Civil War.

Rob Atkinson (09:02):

Well, yeah, you can move your troops. That's why the North won because we had rail.

Bill Walton (09:05):

Yeah.

Rob Atkinson (09:06):

Yeah, absolutely. So, they've done that, the same that we talked about Huawei. They have the global, and it's funny because President Trump tried to slow down Huawei with export controls, and it was a good intention. But Huawei has the same global market share of five G telecom equipment today than they did before the controls.

Bill Walton (09:30):

Quick thumbnail. What does Huawei produce? Because a lot of us don't really follow it that closely. What are their products?

Rob Atkinson (09:35):

So, Huawei, when they were at their peak before the export, they were essentially the General Electric of the new era. So, they made everything.

Bill Walton (09:45):

Mm-hmm.

Rob Atkinson (09:46):

Their core business was telecom equipment. So, when you get your cell phone and it connects to a tower, they would make the tower and the electronics for all of that and sell it all around the world. But they made laptops, they made consumer devices, they made phones. They were really into everything. But their main business, really the core business is telecom equipment. And the worry with Huawei was that equipment wouldn't be secure that there are back doors in it. So, we banned Huawei equipment in the US, which was the good thing. And then, we tried to put these export controls. It had no effect on them.

(10:24):

The only effect was that American companies lost sales. So, we didn't cripple Huawei with regard to telecom equipment. They have the same market share today than they had. And ZTE, the other competitor actually has more market share. But now, if you look at the ones they're trying to go after, robotics, artificial intelligence, quantum computing, they appear to be more or less at the same level that we are in quantum computing, genomics, which is basically a biotechnology that's based upon gene manipulation. Aerospace, they have a state-owned enterprise called COMAC, Chinese, something, Aerospace Corporation received billions and billions of dollars in subsidies, forced technology transfer from American and European companies.

(11:13):

And now, it had commitments of sales of over 300, 250 planes or so, not just in China. And these are single-aisle 737 equivalents. But think about what that's going to do to Boeing. Because in a few years, Boeing will not, or Airbus, they won't be selling planes in China. And you think about building and designing a plane, the first plane costs a lot of money.

Bill Walton (11:36):

You need a big enough market to cover your development costs.

Rob Atkinson (11:40):

Exactly, exactly right.

Bill Walton (11:42):

And that's one of the ways they've won, is that in many of these industries, in effect shrunk the market so that you can't really sell in the China, so therefore you're not big enough to compete elsewhere.

Rob Atkinson (11:53):

Exactly right. And they have this protected aircraft carrier, if you will, totally protected. They build up their market. They build up scales to cover their development costs, and then they go out to these other countries massively subsidized with their export financing. And the whole goal, and this is why it's so important to understand, the whole goal is to take that profitable part of your business that you've paid off your development costs. Now you're selling everything's gravy. Their whole goal is to take that away so that you can't invest very much in the next round and the Chinese invest more, and then the round after that, you're out of business.

Bill Walton (12:31):

Is this, there are three or four? I've got so many different ways to take this. I mean, you mentioned at the outset, this is not the Soviet style top down five-year plan type economy. I had Bob Lighthizer on, Trade Representative, and he believes, and I think I've come to this view, there are no truly private companies in China. I mean, they're mostly public or private, but not really. And the big ones have all got somebody from the Chinese Communist Party either on the board or involved in [inaudible 00:13:05].

Rob Atkinson (13:05):

Actually, even the middle-sized ones now.

Bill Walton (13:06):

Even the middles have?

Rob Atkinson (13:07):

They have a CCP representative.

Bill Walton (13:09):

Well, how do they maintain their, the knock against that was where you get the government, hold up one second. This is the Bill Walton show, and I'm here with Rob Atkinson, who's one of our great thinkers about technology and information services and America's position in the world. And we're talking about China and how China can be competitive with the free market companies that are working here in the United States with a top down Chinese communist style leadership. I don't know, that was an elegant way to say it, but how does it work? I mean, you've got the party sitting in the room, you've got the entrepreneur in the room. How do they work together?

Rob Atkinson (13:55):

So, what the party does through lots of different vehicles, including what's called the NDRC, the National Development and Reform Commission, is they set targets, they set goals. So, they say, I'll give you a good example. They said, "We should be the dominant player in the printer industry." So, you have your printer, you've got your laptop, and you want to print out some paper and print something. So, they had a firm, and the firm was being sued by Lexmark and HP, the two major printer companies in the world, both American, and they were being sued for patent violation. So, their printer head, which is the most complex part of that, they had stolen it. They weren't going to win because they were being sued in Chinese court. You never win those cases.

(14:39):

So, the Chinese government said, they sent a letter to this company, I can't remember the name of the company that said, "We want you to go out and buy a foreign printer company to become the globally dominant printer company in the world and here's $3.5 billion. They then went and bought Lexmark. Lexmark shareholders were ecstatic because they paid something like 35, 40% over market price.

(15:03):

So, Bill, if you're the shareholder and somebody says, "We're going to sell the company and you're going to get 40% premium, why wouldn't you do that?" So, they end up buying this company. And now, they're a globally dominant printer company. Now, imagine going step after step industry after industry. So, the government doesn't get in the hair of this company and say, you decided you wanted to use this different color ink. They don't get in the business like that. It's much higher level and strategic.

Bill Walton (15:31):

Well, the Soviet said production quote.

Rob Atkinson (15:34):

Yeah, exactly.

Bill Walton (15:34):

You're going to make X number of these things, and that's your number regardless of market demand or price.

Rob Atkinson (15:40):

The Chinese never do that. They learn their lesson from the Soviets. They never do that. The allocation in China is market-based. The production is state influenced. That's, I think, the way to look at it.

Bill Walton (15:52):

I think I read that China has more billionaires than we do.

Rob Atkinson (15:58):

Oh, yeah. Yeah. They say they're communists. It's not like communism the way the Soviets were, which was the [inaudible 00:16:06] had a nice car. They don't mind co billionaires. As long as you are doing the business of advancing state power, you're fine. That's what happened to Jack Ma, the Alibaba billionaires. Jack Ma started to say some things that the CCP didn't like, and he was punished and everybody knew he was punished and that was a signal. Don't criticize the CCP and otherwise we'll let you make as much money as you want.

Bill Walton (16:31):

So, they don't need to use a heavy hand everywhere. They just pick somebody out, make them an example of this can happen to you.

Rob Atkinson (16:39):

Right, right. Exactly. And they do the same to us. So, I'll give you an example. One of our leading computer chip companies is a company called Micron, which is out of Idaho. And it was actually the venture funding of Micron, believe it or not, came from the potato magnate, Simplot.

Bill Walton (16:56):

Oh, Idaho. Sure.

Rob Atkinson (16:58):

Yeah. They had a lot of money. They got a lot of money. He was going, "What am I going to do with my money? Potatoes are growing." So, he funds Micron. Micron is a great company. There're three major memory chip companies in the world. Two are Korean, one is American. Micron made the mistake of criticizing the Chinese because they had stolen Micron technology. Guess what happened? The Chinese government banned all Micron, most Micron products being sold in China. So, that's not just the punishment of Micron. That is a shot across the bow of every American company.

Bill Walton (17:31):

Anybody selling into China has got to see that and say...

Rob Atkinson (17:35):

Just keep your mouth shut. Don't bring a WTO case. Don't have the government do anything. Just shut up.

Bill Walton (17:41):

How do we think about the, I think we have almost $2 trillion invested in China from largely US-based companies, but also European companies from all over the world. And when we think about our business with China, it's not like we're all over here in the United States and we're exporting and whatever. We're in China, and you look at company like Apple. I don't think Apple could exist without China because everything's manufactured. So, it seems like if we want to get tough with China, we're also getting tough on ourselves because we've got all that money invested there.

Rob Atkinson (18:23):

So, this conundrum that is basically increasing China power and increasing dependence of America on China didn't happen overnight. The reason it happened is it was very gradual. They built up these ecosystems, and so they built up these manufacturing ecosystems so powerful that you have to be there. It's a black hole of force that's drawing everybody in there. And so, trying to reverse that, you can't do it in here.

Bill Walton (18:52):

So, if I'm running a tech company in Palo Alto or wherever, and I need to be in China because of the resources or the technology I have there, or is it something else?

Rob Atkinson (19:02):

Well, it depends. Number one, if you want to sell in China, I mean, look at what Tesla did. Tesla wanted to sell in China. So, Tesla had to build a giant, incredibly modern factory in China. You know what the deal was with Tesla? You build this factory and we'll give you subsidies. We don't mind. But the deal is you have to have almost all of your suppliers, Chinese firms, and you have to train them and teach them. So, that's what Tesla did. And their supplier base got so sophisticated that now they're supplying Geely and all these other Chinese electric vehicle companies who now are the largest electric vehicle producer in the world.

Bill Walton (19:42):

And Tesla's losing its market in China.

Rob Atkinson (19:44):

Yeah.

Bill Walton (19:45):

So, these Chinese companies that are using the technology developed and manufactured for Tesla.

Rob Atkinson (19:50):

Right.

Bill Walton (19:50):

That's how it works.

Rob Atkinson (19:51):

Yeah, it was obvious. They let American companies in for a temporary reason. They're not like, so when we let Siemens come in and build a factory here, it's like permanent. Because hey, Siemens is going to help our economy. Or when we go and build a factory in Germany, it's temporary for them. It's like, "I want to take as much of your capabilities, and once I've sucked that out of you, we don't need you anymore."

Bill Walton (20:17):

And that's a timeframe, one of the issues that we have, and I'm having been unfortunate enough or fortunate enough to run a public company, it is ridiculous. You've got this 90-day window where every quarter you get to report to your shareholders how you're doing it. And it's a crazy system because you're sitting there and you're thinking, well, yeah, I mean stuff has happened in the last 90 days, but nothing that's very strategic and nothing that's going to require detail.

Rob Atkinson (20:47):

Right.

Bill Walton (20:48):

And yet that's the game. And also, I'm measured by my investors and whether my earnings went up or down two or 3 cents.

Rob Atkinson (20:54):

Right.

Bill Walton (20:55):

So, we've got this incredibly narrow timeframe that we're measured by, and also infinitesimal differences in outcome. A few pennies of share doesn't really matter one way or the other, but the market reacts to it in a way that can really punish you. China doesn't have that issue.

Rob Atkinson (21:13):

No. No, no, no.

Bill Walton (21:14):

So, their timeframe, you say take time to develop. That could be five to 10 years.

Rob Atkinson (21:18):

It could be 20 years.

Bill Walton (21:19):

Okay.

Rob Atkinson (21:20):

So, COMAC, it'll be probably a 20-year money loser, minimum. Now why isn't gone out of business? Because the government just takes a wheelbarrow full of Yuan and drives it up to the corporate headquarters and dumps it out.

Bill Walton (21:33):

Okay. So, they're real. Life is good if you're a billionaire in China.

Rob Atkinson (21:41):

Exactly, exactly.

Bill Walton (21:41):

Government's going to help you.

Rob Atkinson (21:42):

As long as you keep your mouth shut.

Bill Walton (21:44):

Well, if we're, again, you're giving me so much stunning information. I'm losing my train of thought here. Well, I know where I wanted to go. Pharma, you said China is dominant or US is dominant in pharma. Well, don't we also now have an example of Merck building, a billion-dollar R&D facility just outside Beijing? Aren't we in effect moving a lot of our pharma to China?

Rob Atkinson (22:13):

So, one of the things, Bill, that I find most frustrating in Washington in this debate, it's every time you decide you wanted to go somewhere, you go outside and I hit you in the head with a baseball bat and you go, "You know what? I'm going to try it again. Because what happened in the past, who cares?"

Bill Walton (22:31):

Maybe they'll miss this.

Rob Atkinson (22:32):

Maybe they'll miss. So, they did this in telecom equipment. They did it in solar panels. We had 60% of the solar panel market in 2000. We have 5%. China has 70%. They do it in industry after industry. And American companies think this time's different. So why is Merck or other companies doing that? I don't blame them for doing what they're doing because China's the fastest growing drug market in the world. What China says is, if you want to sell us your drugs, if you want to be on the formulary to have your drug prescribed, you have to build a factory here. Now, that's a complete violation of the World Trade Organization rules. But if you're a CEO, what are you supposed to do? And this is where I think, again, the government, the state has to come in and protect our companies from having to make that Hobson's choice.

Bill Walton (23:21):

Well, we don't.

Rob Atkinson (23:22):

We don't. I mean, I think I'm trying to, help me out, but the Treasury Department has a group inside of it called CFIUS, which tracks investment in the United States. And originally, that was mainly for national security purposes, it's investing in key technologies or industries that would be a threat to us. Now, there's a more economic focus, but it's still primarily national security driven.

Bill Walton (23:54):

Right, right.

Rob Atkinson (23:55):

And on the flip side, we're not doing anything as far as I'm aware of to track what's invested in China.

Bill Walton (24:02):

Correct.

Rob Atkinson (24:03):

So, if I thought the federal government were competent, I'd be more concerned. I don't think it particularly is, but it needs to be.

Bill Walton (24:10):

No.

Rob Atkinson (24:12):

We don't know what's going on in China.

Bill Walton (24:13):

Right.

Rob Atkinson (24:14):

We, meaning, people in Washington that ought to be thinking about grand strategy.

Bill Walton (24:18):

We don't.

Rob Atkinson (24:20):

Yeah. So first of all, in CFIUS...

Bill Walton (24:22):

Probably, you do.

Rob Atkinson (24:23):

It is striking. I was talking to a colleague of mine the other day who knows a lot about a particular industry, and he was telling me that the Pentagon called him up and asked him this question, which we're both like, so if you kind of know something, I won't say what the question was, but it was like a just like, yeah, I can't really believe you asked that question. That was a question. It was so basic. You should know that. So, your point about how much capabilities does the government have? It's not enough. With CFIUS, theirs is basically not an American company, at least in an important industry that can go to China and not invest without a forced JV, joint venture.

Bill Walton (25:04):

Joint venture.

Rob Atkinson (25:05):

Why would we ever allow a Chinese company to invest in this country? Because we don't require joint venture. So, I am all for CFIUS. I love it, but it needs to get beyond its military focus and just simply say, "No more Chinese investment in the US."

Bill Walton (25:22):

Will you occupy an unusual spot in this whole debate because you've worked with every administration going back in the first Bush administration and then Obama...

Rob Atkinson (25:32):

Clinton.

Bill Walton (25:33):

And then Clinton. So, you've worked and the Information Technology and Innovation Foundation, quick plug. This is Bill Walton show, and I'm here with Rob Atkinson as founder of the Information Technology and Innovation Foundation, which I've come to realize is probably the leading think tank that big companies in the US government looks to for answers to questions about what's really going on with investment and technology around the world. And so, you're consulted by everybody. Think about it, put yourself in a position of a typical corporate CEO. And I was one of those typical guys. You typically don't have the staff to analyze something in the way your group does. I mean, I want to do a quick dive into how you operate that gives you such insight into what's going on.

Rob Atkinson (26:26):

There're two kinds of think tanks, if you will. One is based upon sort of area, our focus is Europe or this, or particularly abroad areas. We're really organized much more around technology verticals. So, we know telecom, wireless, wireline in depth. We know biopharmaceutical industry in depth. We know advanced manufacturing in depth, we know electronics, IT semiconductors, AI in depth. So that's, I think frankly, figuring out the policy is easy, understanding the technology and the industry structure and the dynamics is a lot harder. And so, if you don't have that, it's harder to sort of make sense of what's going on. So that's what we try to focus on.

Bill Walton (27:12):

And so, as we think about looking forward, when you and I talked two, three years, four years ago, and I don't know how so much time slipped by because I learned so much when you come on, China was seen as a brutal competitor, but not necessarily an enemy. And still, there were a whole lot of people in the country that thought, "Well, if we just integrate and do more with China, we will live happily together and move on." Now. China's intentions have been revealed almost to everyone. And so, when you go about doing what you're doing and talking with people about what we ought to be doing with China, what's the state of play?

Rob Atkinson (27:59):

So, a couple of things. One, we're going to look back on this and we're going to, I think historians will say, "Xi Jinping made a huge mistake." There was a famous line that Deng Xiaoping had, which was, "Hide your light and bide your time." And why did he want to do that? Because he didn't want to give away the game. He didn't want to really say what the Chinese world were doing, which was by 2049, their 100-year anniversary when they took over China in a violent revolution, that their game was to dominate the world, including through technology and economics.

(28:33):

Xi Jinping sort of put that out too soon. And there's now global pushback against what he's doing. He would've been way smarter. Just keep doing what he's doing, don't say anything, keep quiet. And he would've had another 10 years before people woke up. Now, they've woken up. The problem is that there's people in Washington who will mouth that China's a problem, China's a challenge, but in their heart of hearts, they're like, "Well, if he leaves, maybe we'll get back to normal." Maybe there'll be a Western reformer." That's not going to happen. The Western reformers, it was always a means, not an end. They had reform strategies because they thought it would get them ahead. Now, Xi Jinping has more of a techno authoritarianism because he thinks it's going to gain power.

(29:21):

The other big mistake we make in the US is we evaluate economic policy on does it lead to overall increase in economic welfare? Does it grow your GDP? China doesn't care about that. That's not what's going on there. What's going on there is, does it lead to power? And that's a very different calculus. And so, everybody says, "Oh, the Chinese economy's tanking and all that." Yeah. Again, they'd rather it not tank, but as long as they're proceeding to win the battle, the war of these advanced industries.

(29:51):

So, finally, in the US, I would say in Washington, there's now a growing consensus that China's a problem. But what we lack are, I think two things. One is we don't have a strategy. There's no strategy about how should we go about doing this. Case in point is semiconductors. So, we passed a law called the CHIPS Act. We give these companies incentives to build these very expensive factories for making computer chips because these other countries are giving them big incentives, but at the same time, we're not allowing American companies to sell some computer chips to China that they already can make.

Bill Walton (30:32):

Why bother?

Rob Atkinson (30:33):

Why bother?

Bill Walton (30:34):

Yeah.

Rob Atkinson (30:34):

I mean, I get you, you want to, there are choke points we have, fine. But not selling computer chips that they already can get, what have we done? We've just cut ourselves off.

Bill Walton (30:45):

Well, we talked about this before we got on the air, but you talked about a camp that you just mentioned before, which is the people that, well, yeah, things are tough now, but you'll go out of power and we can get back to doing business as usual and I count among that. A lot of my old friends on Wall Street in the banking business, JP Morgan and BlackRock and what is it, Dalio at Bridgewater.

Rob Atkinson (31:16):

Yeah. Right, right.

Bill Walton (31:16):

And they all want, this is going to pass. We're going to go back. I mean, Steve Schwarzman is funding Schwarzman Scholars in Beijing. He's got hundreds of millions of dollars of personal money in the country.

Rob Atkinson (31:25):

Yeah. Right.

Bill Walton (31:25):

So, they've not only got a business attachment, but a personal attachment to it. They want all this to go away.

Rob Atkinson (31:31):

Yeah. Paulson, the same way.

Bill Walton (31:32):

Yeah. Oh, yeah. Hank Paulson, the Treasury Secretary, made a portion in China, and he still does.

Rob Atkinson (31:38):

Yeah. He's not conflicted, not at all. There's a whole list of people. Allow me, I won't mention them all.

Bill Walton ([31:47](#)):

So, you've got that group, and then you've got the other side, which I have a lot of friends in this camp. China's terrible, China's evil. China is going to come after us. They're going to invade Taiwan and create a cataclysm there. We had to cut off all relationships with China, shut everything down and isolate them, and that's the way we'll win. I don't think that, but I'm thinking that based on kind of less information than you have, you don't think that either.

Rob Atkinson ([32:20](#)):

First of all, the key thing of thinking about China is not to get all wrapped up in motion, but is to be in the foreign policy world. It was to be, there's a term foreign policy of being a realist. So, there's ideals, foreign policy, which are our values. I just wrote a long article on why we need foreign economic policy grounded in realism, and what I meant by that...

Bill Walton ([32:43](#)):

The title and where is it?

Rob Atkinson ([32:45](#)):

I can get you the title, but it's in a journal here in DC called The International Economy. The name of the journal is The International Economy.

Bill Walton ([32:54](#)):

We'll put it on. We'll put it on. We'll get it out there.

Rob Atkinson ([32:56](#)):

And it's called A Realist Approach to Economic. And what I meant by that was, we should be thinking about our interactions with China are only one lens. How do we slow them down and how do we speed us up? Everything else is irrelevant. So, selling Tide detergent or Starbucks or Kentucky Fried Chicken, first of all, it's marginal, but at the end of the day, I want their money. I want their money. Same thing with selling them commodity computer chips. If you look at the export control regime, the Biden administration came out. One of the justifications for it was because you can use some of these technologies for facial recognition systems. We're not going to stop the Chinese from oppressing their certain populations. We're not going to turn them into an enlightened democracy.

([33:45](#)):

Why would we hurt our companies? It is the same thing where you say, "Well, we should not let Google go in." I would love Google to go in because I want them to take market share from Baidu, their major search engine. I want to take Chinese money because the less money they have is less that they can reinvest into their system. So, we just have to be careful. At the same time, I do think we need to limit investment in critical infrastructure and technologies in China. That's very different than selling them stuff that we make here and we want to sell to China. It's very different than investing in an advanced factory in China that we have to really be thinking carefully about.

Bill Walton ([34:26](#)):

But you need people thinking about that who know a lot about the technology, how things are manufactured, what the supply chains are. You need somebody who's been in business or in technology to really understand that. Then the problem I think we've got is we've got very few people here in Washington that have a clue.

Rob Atkinson (34:47):

That's correct. That's correct.

Bill Walton (34:50):

I mean, the CHIPS Act is a great example. You've got all these people making these legislations, these staffers in the hill writing this, that, and the other thing. All of them with lobbyists looking over their shoulder, maybe three or four of every line they write so that they make sure they get peace, what they want in each bill. It's a mess. It's a mess.

Rob Atkinson (35:14):

I think the one thing with...

Bill Walton (35:15):

Okay, you're closer to it than I am. It may not that big. From here, it looks like a mess.

Rob Atkinson (35:20):

There're two things with the chips stack. One, there were a number of Republicans, and there would've been more if there wasn't for political. There are a number of Republicans who went out on a limb and said, "Look, we need to," with Senator Cornyn, for example, Texan, a Republican senator, Todd Young in Indiana. And they did this because of national security. There's no question if we go to war with Taiwan. If they wanted to cut off Taiwan ship exports to us for use it would make COVID look like child's play. So, we have to do it. And the only way we're going to do it, frankly, is just capital subsidies. That's what all these other countries do. You just have to say you want to build a 15, $20 billion [inaudible 00:36:03], we'll give you 3 billion. The State of Texas will give you 2 billion and we'll help train your workers.

Bill Walton (36:08):

So, to do it more like the Chinese do it. We're not talking about an industrial policy that's directed by people in an office in Washington. We're really talking about allocating venture capital.

Rob Atkinson (36:17):

Yeah, investment capital.

Bill Walton (36:19):

Not getting into how the companies are run or protected.

Rob Atkinson (36:21):

So, the problem I think, is what the administration has done is they, at the end of the day, the most important thing for the Biden administration, if you ask me, is an equity agenda. And they used the infrastructure bill and the semiconductor, the CHIPS Act, and they infused it with their equity agenda.

So, for example, we mandated daycare centers. At the end of the day, it's a minor little irritant, but are you kidding me?

Bill Walton (36:50):

Oh, you mean equity meaning DEI?

Rob Atkinson (36:51):

Yeah.

Bill Walton (36:52):

That equity, the whole of government equity agenda, which put this whole thing on top of...

Rob Atkinson (36:58):

Yeah, not equity, like in capital. No.

Bill Walton (37:01):

No. I was thinking my venture [inaudible 00:37:03], back on equity.

Rob Atkinson (37:05):

I was talking the other kind of equity.

Bill Walton (37:07):

Big money.

Rob Atkinson (37:08):

Yeah, yeah.

Bill Walton (37:09):

Oh, DEI equity. Oh, my goodness. That's a catastrophe.

Rob Atkinson (37:13):

Yeah, you have to use union labor. There's another one you couldn't do, stock buybacks.

Bill Walton (37:19):

Yeah.

Rob Atkinson (37:19):

Look, if you don't like stock buybacks, fine. We can have some tax rule for it, but you don't impose these social policy things on your core industrial policy initiative. They're two different things. And that, I think, has upset and rightly so, a number of Republicans. I think if we try to do this again, it wouldn't pass this time because a lot of Republicans feel burned, like, "Hey, we did this. We took a risk because our party [inaudible 00:37:47]. We took a risk because we wanted to make sure that our national security was protected and the administration politicized it."

Bill Walton ([37:54]()):

Then infused it with the whole DEI equity agenda.

Rob Atkinson ([37:56]()):

Exactly. Exactly. Well, if you go on the treasury website and look at their strategic goals that Janet Yellen set for the treasury, it's the DEI equity agenda and climate change, of course.

Bill Walton ([38:09]()):

Yeah, yeah, yeah. Right. The term I use is green equity.

Rob Atkinson ([38:13]()):

Green equity. Okay. I like that. That gets the whole, I like that. That captures the whole agenda, right?

Bill Walton ([38:20]()):

That is it. Two words, green equity.

Rob Atkinson ([38:24]()):

That is it. Yeah.

Bill Walton ([38:26]()):

Okay.

Rob Atkinson ([38:26]()):

And look, it's not like having higher wages for workers or better clean energy innovation. Cool. At the end of the day, you have to pick your battles. What's the most important thing facing our country in the future? And it's the China competition. It's not these other issues.

Bill Walton ([38:46]()):

Well, the DEI agenda gets in the way of something that you and I have talked about, which is the notion of a meritocracy. And when you get the DEI screen put in everything, you tend not to look at things or people based on their merit. And we need the best and the brightest in these things, and we can't really have categories of people that have to have jobs. We need to have categories of people who are brilliant and get things done.

Rob Atkinson ([39:13]()):

So, Bill, it's interesting you say that because back in the '80s when we faced the Japanese German Challenge, big challenge, people forget that was a serious challenge. One of the reasons why we won is because you had a bipartisan Congress combined with Ronald Reagan and Bush, and they supported a whole set of policies like the R&D tax credit. But one of the things that came out of that era was this movement to create specialized math and science high schools around the country. Because the realization was if we don't have the best kids going into math, science, engineering, we're going to lose to the Japanese.

([39:48]()):

So, we created a whole bunch of them, including one here in Northern Virginia where it's near where we are now, called Thomas Jefferson, incredible high school. But to get into Thomas Jefferson, you had to pass a test. You had to be the best and the brightest, and most of those kids ended up being Asian, either Southeast Asian, Southern Asian from India or China or other countries where their parents come here and they're like, "Hey, you got to work hard. No video games tonight for you." After the whole George Floyd thing in the movement, the county changed that, and now it's a lottery.

Bill Walton (40:23):

Oh, my.

Rob Atkinson (40:25):

Look, the purpose of that school is to get the best kids funnel them into this program to teach them the best so they can go on to be the best scientists and engineers in our country.

Bill Walton (40:37):

Well, we had Amy Chua last week who wrote the Battle Hymn of the Tiger Mother and all about the Confucius model of parenting, and they study, I don't know how many hours are in the week, but that's about how many hours they study. And she had a thing in the book we clipped out. Sarah did a cartoon about it, and she wanted her daughters to be concert violinists and pianist, and she said, "Every minute you're not practicing is a minute, you're getting worse." Yeah. That's the attitude, which I thought was terrific. But that's not going to let you win the lottery.

Rob Atkinson (41:20):

Right.

Bill Walton (41:20):

I mean, so a whole notion of merit then that's swept across all of government, a lot of big businesses.

Rob Atkinson (41:27):

Yeah, yeah. And there's certain things that are in my view that are so important in winning the technoeconomic race with China is that we have to have a program of not of equity, of merit. We have to try to get the best people to be focused on that. That doesn't mean that some of those people won't be diverse. It's not at all that, but you have to have merit be the driving force.

Bill Walton (41:50):

Well, I want to wind up with that with you explaining what we ought to put in place. But before we do that, I want to get to the question that I worry about, which is Taiwan. Chinese Communist Party designs on Taiwan. Taiwan is the Semiconductor Capital of the World. We depend on it. They depend on it. The island is not susceptible to traditional sending your troops to the beach and taking it over. There are no beaches in Taiwan, at least on the side that they'd want to attack from. How do you see that playing out? And did the Chinese understand that going to war and destroying Taiwan would destroy themselves or how do they win their crown jewel that they're looking for?

Rob Atkinson (42:41):

So, I give you a little bit of my opinion, and it's only that because I focus really on industry and technology, and I have colleagues. I'm on this Eric Schmidt funded thing called the Special Competitive Studies Program.

Bill Walton (42:55):

Who was the CEO of Google.

Rob Atkinson (42:56):

Yeah. But now, I really respect what Eric's doing. He really sees China as the central threat, the pacing threat as they would say, and he's organized this high level commission with a group focused on military, a group focused on intelligence, and then the group I'm on is technoeconomic competition. So, I hear these folks talking about this, so I can't really say anything. I don't think there's any question that China sees Taiwan as rightfully theirs. I think the only question is, will they just sort of wait until Taiwan gets tired or will they use force? And I don't think we know the answer to that, but I certainly wouldn't preclude, I think we should be prepared for them to use force.

(43:40):

Again, I don't know what the odds are. Some people say it's by the end of the decade that they're likely to do it. The Chinese are irrational about this topic. It would be like if the Mexicans invaded New Mexico, we'd be pretty irrational about it. It's our country. Get the heck out. That's how they feel. And not correctly in my view, but that's not the deal.

Bill Walton (44:05):

Well, it almost doesn't matter what I think about it, but it does matter. I think we're on the air or not, but you said that if something happened in Taiwan, it'd be, talk about things being shut down. COVID would be nothing.

Rob Atkinson (44:26):

Yeah, yeah.

Bill Walton (44:27):

I mean, we would go black, basically.

Rob Atkinson (44:32):

What would happen? The lights would still work. Your computer would still work, but producing all these things that we need, there'd be this massive shortage, and you're talking three years now. The good news, I think, is that the CHIPS Act, there's concrete being poured as we speak, and there's going to be a lot more concrete being poured. If we can wait five years, we should have a good buffer of ability to produce in the US.

Bill Walton (45:02):

So, what we do, what ought we put in place to bring about the things that we ought to bring about?

Rob Atkinson (45:13):

I think there's really two or three main things. Number one, we talked earlier, Bill, you had exactly the right point, which is you got to find a way to pay for your development costs. We have to limit China's ability to get that money back. And the way to do it, I've been working with folks up on the hill, hopefully we can get a legislation. There's a program we passed in 1930 and it gave the US International Trade Commission the ability to block imports for 10 years. It's called Section 337. And unfortunately, there's a lot of problems with it, but you could easily fix it with, and I laid out a report, all the legislative fixes you could do.

(45:54):

I was talking to the CEO of a pretty major, probably $4 billion company in the Midwest, and I was speaking to a group of manufacturers and I mentioned this program. He said, "Oh, yeah, we were facing a Chinese competitor who had stolen our trade secrets. They were selling into the market and we used this Section 337. It cost me $10 million," he said, "but we got a 10-year exclusion order." And in other words, the Chinese company cannot sell into the US for 10 years because they had stolen this company's intellectual property and was competing unfairly. We need to ratchet that program up.

Bill Walton (46:31):

That would work. That would work.

Rob Atkinson (46:34):

Yeah.

Bill Walton (46:34):

It's simple.

Rob Atkinson (46:35):

Yeah. I'll give you another example. Caterpillar, the heavy equipment maker. Fifteen years ago, there were no Chinese companies in the top ten in making heavy construction equipment. Now, they're three. They're all state backed, they're all subsidized. And to your point earlier, it's essentially a closed market. So, the foreign companies can't make any money and they're selling in the US as we speak. I would never let those companies sell in the US. So, we need to do that. We need to do that with our allies. So, in other words, just cut off their ill-gotten gains, if you will.

(47:06):

And the second thing we need to do, we just need to do a better job of helping American companies. We have now the 32nd worst R&D tax credit in the world. When Reagan and Clinton were in office, it was number one. So, when companies spend money on R&D, we should give them a credit, better credit. One of the things that happened, as you're well aware of, Bill, in the 2018 Tax Act that President Trump championed, there was a really good provision in there and it allowed companies to write off in their first-year capital expenditures. You buy $100-million-dollar machine, you can write it off. That's gone away. Craziest thing. We should just immediately restore that. So, we want our companies to be investing in real capital equipment as well as R&D, and the tax code just makes that harder. So, that's what we could do.

Bill Walton (47:57):

Is there a third one?

Rob Atkinson (47:58):

There's a third one, which is we should do a much better job of helping pre competitive early stage collaborative research with industries, working with universities. So, we have a program called Manufacturing USA Institutes, and they're a great system and they're company led. The government puts in money, but the companies have to put their own cash on the table. And there are various universities around the country. Things like lightweight materials, making biotech products without, biotech drugs are made like beer, big fat. And the next big thing is can you make them like a chemical factory flow and it's hard to do. So, there's a consortium to try to do that. We need to do a lot more of that. The Chinese copied our program. They copied our program. It was our idea. We have 15 centers, they have 30, and they're funding them 10 times more than we.

Bill Walton (48:57):

So, university research...

Rob Atkinson (48:59):

With industry programs.

Bill Walton (49:00):

With industry partly funded by the federal government.

Rob Atkinson (49:02):

Correct. Not all funded. We don't want the government to fund it all.

Bill Walton (49:05):

Just some.

Rob Atkinson (49:05):

Some.

Bill Walton (49:06):

So, we can actually accomplish all three of those things. I mean, I think of so many things. We think, well, we ought to do this, but you're never going to get a bipartisan majority to do that. I think you ought to be able to do that.

Rob Atkinson (49:19):

Absolutely. All three. All three. And the biggest, I'll tell you, here's the biggest barrier to all three. It's OMB, the Office of Management and Budget, and the Congressional Budget Office. I'll give you an example. We did an analysis of the research and development tax credit. And what happens when you do the R&D tax credit, companies spend more on R&D, logical. We're giving you tax breaks, you're going to spend more. And all the studies show that when they spend more on R&D, output goes up. Productivity goes up. After 15 years, because every dollar of added output, 20 cents goes to the federal government, just GD [inaudible 00:49:56].

Bill Walton (49:56):

Yeah, yeah.

Rob Atkinson (49:59):

After 15 years, the R&D tax credit pays for itself, but the CBO window is five years.

Bill Walton (50:07):

So, we've got some accountants.

Rob Atkinson (50:10):

Yeah.

Bill Walton (50:10):

And I say that as a former recovering accounting major. They're saying, we can't go out 15 years. That's too long a horizon.

Rob Atkinson (50:18):

Yeah. But the US can go 50 years We're not a company that has capital shortages and we have a budget problem, but we should be budgeting for 15 years like that.

Bill Walton (50:28):

Well, I love finally, after many, many shows, not with you, with other people, I say, what are good lines of action? We finally have three we could actually do.

Rob Atkinson (50:39):

Yeah. The first one costs no money.

Bill Walton (50:42):

Even better.

Rob Atkinson (50:43):

Here, I'll give you an example. And Bob Lighthizer I know has talked about this. I'll give you [inaudible 00:50:47]. If you want to bring one of these 337 cases, you have to show that you've actually suffered material harm as a company. So, there was a company in Illinois called Illinois Tool Works, same issue facing two Chinese competitors stolen their IP, unfairly competing. They brought a 337 case. They won the first part, which was to say, yes, this is completely unfair, but they didn't win an exclusion order because the Chinese were taking the growth of the market. This company's sales were stagnant, so they didn't suffer material harm. What planet are we living on?

Bill Walton (51:24):

Yeah, that's crazy.

Rob Atkinson (51:25):

So, just change that. Congress could change that [inaudible 00:51:28].

Bill Walton (51:27):

I'm glad they're still around. I used to be their banker 45 years ago.

Rob Atkinson (51:31):

Really?

Bill Walton (51:31):

Yeah.

Rob Atkinson (51:32):

They may not be long [inaudible 00:51:33].

Bill Walton (51:33):

I know. Oh, my God. Bad thinking is keeping us from doing the right thing. Well, Rob, thank you. This is great.

Rob Atkinson (51:41):

My pleasure as always.

Bill Walton (51:43):

I wanted to keep this show bite size because I want have you back because there's about 53 things we didn't get to explore. This has been the Bill Walton Show. I've been here with Rob Atkinson, who's founder of the Information Technology and Innovation Foundation, which is the go-to shop if you want to understand technology and entrepreneurship and how to protect American wealth creation, I guess that's one way to put it.

(52:10):

Anyway, thanks for joining. And as always, you can find all of our shows on all the major podcast platforms and on YouTube and Rumble, Substack, and we're also now on CPAC now and Monday nights. Please subscribe. Go to the said Substack site and subscribe to the show. And if you have some like-minded friends that want to learn about complicated things and understand what we can actually do about it, this is the show to be watching. So, anyway, thanks for joining and we'll be back with you soon.

(52:43):

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