

GORDON CHANG AT “COMMITTEE ON THE PRESENT DANGER: CHINA” EVENT

FRANK GAFFNEY:

Gordon Chang is, of course, well-known to everyone in this room and everyone who follows China. He is one of the country’s foremost, I think, public figures in terms of describing the challenges that we’re addressing with this committee on the present danger. He does it through myriad media outlets. Radio, television, through his writings at the *Daily Beast*. He is also, of course, the author of several important books, including *The Coming Collapse of China*. I’m very privileged to say he is also a weekly guest on our radio program, Secure Freedom Radio, and we’re delighted to have him here with us today to talk a little bit about trade and the context in which we are discussing it today against the present danger. Gordon Chang, welcome. [APPLAUSE]

GORDON CHANG:

The committee on the present danger: China is a critical element of the defense against the greatest threat to free societies everywhere. It is an honor for me to be here today. Thank you so much, Frank. Just about everything is on the line in our trade talks with China. This is where we determine our future, not just this decade, but in prior – in subsequent periods. Yes, it is that significant because we have an opportunity to not – to not rescue Chinese communism. We’ve done that so many times in the past. Starting with President Nixon. Actually, Nixon had a good reason to rescue China’s communists because that was a low point for us in the Cold War. But we also saved China after the Tiananmen Square massacre in 1989. We shouldn’t have done it then and we shouldn’t do it now. We shouldn’t do it now because Xi Jinping, I think, the greatest danger to us and to other societies, is at a weak point. He needs a lifeline. He needs a lifeline because his economy is weak. The official national bureau of statistics says that China’s economy grew 6.6 percent last year. But that’s far too high. A professor at Renmin University in Beijing created a sensation across China in December when he said, in 2018, China will grow no more than 1.67 percent and it may actually be contracting. And that sounds just about right. Well, we know in March, after three months of evident contraction, the Chinese economy picked up a little bit. It picked up a little bit because Chinese leaders said that they were going to do something that they said they would never do, which is to flood the economy with debt. Flooding the economy with debt is not sustainable. There is only one sustainable escape path for the Chinese communist party. And that is a trade deal with the United States. So, I say we should not sign a deal with China. And today, I’ll talk about five reasons for not doing so. First, China just has not honored trade deals with the United States for decades. So, who thinks here that the remedy for failed decades of trade agreements with China is to sign up another one? Second of all, China does not believe in the notion of comparative advantage, which underpins global trade. So, there’s really nothing to talk to Xi Jinping about. Third, a trade deal will try to open up China. In other words, to reform China. But even if it were in our interests to reform China, and that is not one of our goals, it is simply not possible to do that with Xi Jinping. Xi Jinping, for about a half-decade, has been reversing reform in China. Because he believes in a state economy. And that’s clear because we know about his made in China 2025 program. Xi Jinping simply does not share our goals when it comes to trade or anything else. And that means we can’t accomplish anything with an agreement. Fourth, Xi Jinping just does not believe in the legitimacy of the Westphalian international system. For more than a decade, he’s been dropping hints that China is the world’s only sovereign state. In September, 2017, his foreign minister said that Xi Jinping’s thoughts on diplomacy make innovations on and transcend three hundred years of Western international relations thinking. You take September, 2017, you subtract three hundred years, you get to the Treaty of Westphalia, which is the foundation of today’s international system of competing sovereign states. So, my question is, what’s the point of helping somebody who believes in these things? That China is the world’s only ruler? Fifth, China is using the profits of our trade to expand its military, whose officers openly talk about and gleefully talk about killing Americans. Twice in December, senior officers of the People’s Liberation Army, openly

advocated unprovoked attacks on the US Navy in the global commons. In the second of those bellicose statements, on the 20th of that month, a Chinese rear admiral said that China should use its DF21-D missiles and its DF26 missiles to kill ten thousand Americans by sinking two aircraft carriers. Now, these statements are not reflective of – of official thinking in Beijing. But they are reflective of what senior leaders of the People’s Liberation Army want. So, why should we help this rear admiral accomplish his goals? And remember, the Chinese have gone beyond just boasting about this in public. In May, we learned that the Chinese, from their military base in Djibouti, lasered our C-130, temporarily blinding two of the pilots. You blind the pilot of a plane, you intend to bring it down. If you intend to bring it down, you intend to kill the crew. We also know that this spring, that Beijing caused brain injuries to our diplomats in the consulate in Guangzhou. So, we have to ask ourselves, why should we maintain trade or cordial relationships with a country that intends to harm us? So, what should we do on trade? Well, I think that President Trump needs to undo the reprieve of the higher tariffs that he granted the Chinese in February. I think we need to increase the tariffs beyond those already scheduled rates. And I believe that we need to ban the importation into the United States of goods that have benefited from the theft of US intellectual property and we should also ban the importation of goods sold by companies that have stolen US IP. We should do these things until Beijing stops stealing our intellectual property and stops committing trade violations. Now, not many people think that this will happen. But we’ve got to remember that we have leverage over the Chinese. We have a healthy economy. The Chinese do not. We have a larger economy than China’s and our economy, in reality, is growing faster than theirs. And we have an economy that is not dependant on trade. The overriding reality is that the Chinese are critically reliant on the US market. Beijing statistics, which normally understates China’s exports to the US because they don’t count trans-shipments through Hong Kong, they show that in 2018, China’s merchandise trade surplus with the United States accounted for 91.9 percent of China’s overall merchandise trade surplus. 91.9 percent. Now, most everyone believes that you can’t separate the US and the Chinese economies and, indeed, Chinese premier Li Keqiang, in his March 15th, once a year press conference, actually came out and said, it is not feasible or possible to separate China and the United States. Well, if the Chinese premier said that, he’s obviously worried about it. He is concerned about this dis-coupling of the two economies, this disengagement, because people understand that our tactics and our strategies in the past to try to engage China have just completely failed and that we should try something new. Will disengagement hurt us? Yeah, of course it will. But people forget that we’re already suffering a grievous wound. Each year, China steals US intellectual property to the tune of hundreds of billions of dollars. Some people say as little as a hundred and fifty billion dollars. Some people say six hundred billion dollars. But the amount is a grievous wound to the United States. It is consequential, after all, we have an innovation-based economy and if we cannot commercialize our innovation, we do not have an economy of the future and we do not then have a society in the future. So, yes, disengagement will hurt, but it is necessary. But we cannot expect that the remedy for decades of misguided US trade policy is going to be without cost. We have to disengage. We have to disengage now. And for God’s sake, let’s not save China’s economy and the Chinese political system again. Thank you.

[APPLAUSE]

FRANK GAFFNEY:

Sully? Sully, do you want to come on – we’re just going to have a few minutes of discussion, folks. I understand our next speaker is here, but we’re just going to try to make sure that we have some interaction with you all. Are there any questions or comments? Chad? Chad, formerly with the House foreign affairs committee. [OFF-CAMERA VOICES] Retired for the third time.

CHAD:

The reticence to enforce sanctions is something that, you know, we all saw. Who do you think and do you think that there’s support for the kind of process that you’re advocating in the administration?

And if so, when do you think we'll start to see – we may see evidence that they're following a path similar to what you're advocating?

GORDON CHANG:

Well, I think that certainly Peter Navarro advocates a robust policy towards China. I think even US trade representative Robert Lighthizer, in creating requirements that the Chinese cannot fulfil, is moving along this path. A number of people have said that the administration is really looking towards the disengagement of the US and the Chinese economies. I don't know if that's true or not. But I think what's happening is that the American people demand a certain type of trade agreement. The Chinese cannot agree to it. And if they agree to it, they can't honor it. So, we're moving in this direction anyway. We've seen a number of companies have said that they are trying to get parts of their supply chain out of China. This is going to occur, Chad. It's very important for us. And it's going to be essentially the American people who support this, regardless of who's in the administration.

FRANK GAFFNEY:

Any other comments or questions? Faith McDonnell. Faith is one of the great faith leaders in this country, as a matter of fact, and defenders of faith worldwide. Welcome.

FAITH McDONNELL:

Thank you, Frank. Thank you both and, as a faith leader you would think I would have a question for Sully, but I just spent quite a bit of time with him, so, my question is actually for you, Gordon. China is swallowing up Africa right now. I'm very concerned about China's role and influence in Africa, in many countries. And what can we do to convince US businesses that they should be competitive with China in Africa, they should be pushing, they shouldn't be afraid of Africa. They should go in and get things done.

GORDON CHANG:

Good. That's a great question and it's not only Africa, it's also regions closer to home, Latin America and the Caribbean. You know, no administration can tell companies what to do. And that's very much the difference between our system and China's where China just tells the state enterprises to go out and do certain things, which is the reason why, over the last fifteen, twenty years, you've seen rapid Chinese penetration of the African market. As well as South America. We've got a problem right now in Venezuela in part because of China. But also the Caribbean where essentially companies, Chinese companies are making investments that have little commercial rationale. For us, it's going to have to really be making sure of a couple things. One of them is that when borrowers of easy Chinese cash get into trouble, that the IMF and other multilateral institutions don't rescue them. And this is the issue right now with Pakistan. Because Pakistan's borrowed something like on the order of sixty-two billion and finding it very difficult to pay back the Chinese. But also, I think that what we're going to have to do ultimately is we're just going to have to oppose the Chinese at each and every step of the way. It's going to be difficult for us. There are a lot of little things that we can do. But there's no one big thing. Not until we change our economic system where we can tell AT&T and General Motors and everybody else to go out and do something that's good for US national security. I think ultimately, though, we will respond. Because if you look at, for instance, your case of Africa, six of the ten fastest growing economies, each and every year, come from sub-Saharan Africa. And eventually American companies will see the light. But you got to remember, even with all this talk about China taking over Africa, the biggest foreign investor by stock is the United States.

FRANK GAFFNEY:

Could I just add a point? I, truthfully, haven't had a chance to read this myself, but the author of the piece that appeared in the *Wall Street Journal* this morning was in the room earlier today. I don't see him at the moment. But he described, as I recall, an effort now being made on an interagency basis by the United States government together with private sector entities to try to go into some of these countries and I think do very much what you're talking about, Gordon, to help raise the alarm about the debt trap, I think of it as sort of a payday loan kind of approach, that is ensnaring country after country and creating, as you say, Faith, this condition that ultimately leads to domination to the great detriment of the people and governments involved. Anybody else want to make a quick comment?
Sasha Gong?

SASHA GONG:

Yeah. Actually, my question is that I once heard someone working for Deng Xiaoping, told me one thing. He said, well, in the early 1990s when the United States was talking about sanctions, Deng Xiaoping said, well, if they want to deal with three hundred million refugees, let them do it. That's the very fundamental strength from China and I heard also from the Chinese economist that seventy percent of Chinese economy at this time somewhat depends on foreign trade. So, have you – you have this engagement policy, have you ever thought how do we deal with that aspect – that aspect?

GORDON CHANG:

One of the most effective things we can do with China without firing a shot is to encourage Chinese people to leave with their money. That's unfortunately not up to us because of the draconian capital controls in China. And we've got a very difficult determination of figuring out who's who. But I think it's important for us to make sure that companies and individuals can take their cash out of China. And there's a number of things that it's very hard for us in terms of that determination, but we can avoid creating obstacles to it. Because the one thing that China's worried about right now is not keeping their currency low, but it's keeping it high in order to convince Chinese to keep their money in the country. There was 1.0 trillion dollars of net capital outflow in 2015. Probably about 1.1 trillion in 2016 until the Chinese stopped it. This is a critical vulnerability for them.