

050919 Air Force Association Mitchell Institute for Aerospace Studies, Reserve Officers Association, and National Defense Industrial Association Capitol Hill Forum with Gordon Chang, Contributor to the Daily Beast, on “China’s Peer Challenges, Nuclear and Space Modernization, Power Projection, and Political Strategy”

(For additional information on AFA/NDIA/ROA seminars contact Peter Huessy at phuessy@afa.org).

MR. PETER HUESSY: Good morning, everybody. Rick Fisher is stuck on GW Parkway. There’s an accident and it has been stopped for 45 minutes, and everybody is just turning their cars off and waiting. If he gets here he’ll get here, and if not we’re going to reschedule him.

But we have another speaker, our friend Gordon Chang, who is a dear friend and writer for the Daily Beast. He does one other thing, he’s the co-host with John Batchelor of the John Batchelor Show on ABC Radio. I’ve had the privilege of appearing on the radio with him and John Bachelor, I would guess, six times, talking almost always about China. Just last week I was talking about how many nuclear weapons does China have?

The circular argument is that because they have a minimal deterrent policy they only need 300 or 280, but they only have 200 because they have low levels of fissile material. How do you know that they have low levels of fissile material, because they only have 300 warheads. So it goes around and around.

Part of the logic is that they’re city busting strategy requires big warheads of megaton class, and that therefore that requires large amounts of fissile material so the limited amount they produce can only produce a certain level of nuclear weapons. Mark Schneider has thrown a few grenades my way saying, that’s not right. I know it’s not right, but he says, don’t make that argument because you don’t necessarily need more fissile material to build a bigger warhead in terms of yield. Numbers yes, but not yield.

So, that’s kind of interesting. Gordon, thank you for being here. I want to welcome you.

I want to make three notes. On May 16th the Undersecretary of Defense, John Rood, is speaking here. On May 17th, Ms. Hicks and Mr. Mahnken from CSBA and CSIS, who are the real co-authors of the National Security Commission Report, are going to give us some details of how they came up with their conclusions. I would reference one of the members of that commission, former Senator Jon Kyl. If you read his comments that were made public, he said, in all the commissions he has served on, and he has served on a lot of them on national security, this is the first one where the conclusion came to, if we’re in a war we’re going to lose.

That is now public. He’s written that, and the question is, that’s deadly serious.

If that doesn't get your attention, then part of the problem is what Gordon is going to talk about today, which is the not peaceful rise of the People's Republic of China.

We're also going to have Peter Fanta on the 23rd of May. What I love about the secretary is that he has spoken at a number of my events and his theme is, why are we apologizing as a country for modernizing our nuclear deterrent? Why are we claiming, we don't want to do an arms race, we're sorry we're spending so much money, or we have to unilaterally cut things in order to make other people happy? He is not bashful, and I must say he's a wonderful speaker.

Also, on June 14th the new head of the Space Development Agency is Fred Kennedy, and he is going to be our speaker at our next Space series on June 14th here. I also want to put in a pitch for a program we have at AFA that's called the Cyber Patriot Program. In particular, our friends from Northrop Grumman have been great supporters. What we do is have 6,200 high school and mid school teams that compete every year for scholarships to go to college by doing real war games with cyber.

We've gotten now down to pre-school. We now give pre-schoolers an online course on protecting their home computer from the evil cyber geeks and hackers. These books have just been put out and they're called "Sarah the Cyber Hero." General Skoch, who is the head of the Cyber Patriot Program at AFA, gave them to me.

So we now have not only 6,200 teams, but we have teams in Mexico. We have teams in Canada. We have teams in Latvia. And we have teams that just came in in Romania.

These teams compete over the Internet until the finals. If they make the finals, if they can get to a seaport or an airport, the United States of America will pay to bring them from there to here in Virginia where we do the finals. As I said, the winners of these teaming groups get a scholarship to go to college. It's not a full ride, but it is considerable.

With that, it's an extraordinary program, as I said. There are 6,200 teams from high schools all over America. So if you have nephews, nieces, children, grandchildren in high school who would like, please let us know. As I said, we have been doing this, it's a great, great program, and a lot of the companies involved, we find young people who are interested in this going through high school. They go to college, then they go to graduate school, and they come and work for these companies, and it's a great way of putting a great workforce together in this area, which is critical.

Rick couldn't be here, but I recommend from Epic Times, his piece that came out April 25th about the Chinese use of their military in the Spratley's and the islands with Japan and the South China Sea islands, and around Taiwan, where the message is as following. General Fay, as you know, is the head of Global Strike Command down in Louisiana. I went down to speak to him about national security narratives in the United States that get us into trouble, like détente and peaceful coexistence, because it assumes a

cooperative enemy.

He made the point that what the Russians and Chinese are up to is, they don't want to fight us. What they want us to do is, once they go after our allies and friends, and we cannot come to their defense because we are deterred because of cyber or hypersonic or nuclear, and we have to stand down, their announcement to the world will be, America, you are no longer head of the free world because you cannot come to the defense of your friends, without having to fire a shot.

That's what Gordon is going to talk about to us today. We are not seeking dragons to slay on the other side of the world, as President John Adams warned us about years ago. We have a dragon on the other side of the world and they're in the business of slaying our friends. I learned this in Korea when I lived there as a student in 1969 and '70. My favorite professor was Chinese. He was from Shanghai. He said, in a paper we did for the Ford Foundation, that this is the most dangerous enemy America will ever face.

With that, Gordon, thank you for being here on behalf of the Mitchell Institute for Aerospace Studies and AFA. I want to thank you for being here. Our sponsors and guests say thank you.

Would you welcome Gordon Chang?

(Applause).

MR. GORDON CHANG: Thank you so much, Peter. The most important developments in the world today are taking place in the Chinese capital. Too bad we don't know what they are.

Yes, we are the most powerful nation on the planet, but we are not driving developments, China is. If we were talking two years ago, we could even be more specific. We could be saying that Xi Jinping, the Chinese ruler, is the driver. Today, it's not so clear.

Indeed, this week we received some disturbing information that could lead some people to believe that there is political disorganization now in the Chinese capital. Today, we're going to talk about what we know and we're going to speculate about the rest of it. So, let's get started.

We start in December of last year. Last December, twice, senior Chinese military officers publicly urged unprovoked attacks on the U.S. Navy in the global commons. In the second of those outbursts, on the 20th, a rear admiral said that he wanted to use his Dong Fong 21D and Dong Fong 26 to attack two aircraft carriers, sink them, and kill 10,000 Americans.

Of course, this is not a statement of official Chinese policy, but most people

believe that it is reflective of the thinking in the higher Chinese ranks. Let's remember, the Chinese have gone beyond just the rhetorical stage. Last April, the Chinese from their military base in Djibouti lasered an Air Force C-130, temporarily injuring two of the pilots. If the Chinese are attempting to blind the pilots of a plane, we have to assume that they're trying to bring the plane down. If they're trying to bring the plane down, we have to assume that they are trying to kill the crew.

Also last spring we learned that the Chinese, with their sonic attacks at the consulate in Guangzhou, our consulate in Guangzhou, caused brain injuries to our diplomats. Both these outbursts and these attempts to injure and kill Americans, are signs of serious problems inside the Chinese capital. So it appears that there is some turmoil there. In turmoil, of course, there is danger. There is danger to us, and of course there is danger to the Chinese people themselves.

To understand this we need to look at the motor of China's rise, its economy, which now appears to be the engine of its fall. Ruler Xi Jinping has been intoxicated by success, and he is going back on the reformist policies that made China successful and contributed to its rise. As a result of this reversal, many Chinese themselves are moving from supreme self-confidence to deep anxiety.

Xi Jinping himself may remain sure of his course, but if so he is alone. Not long ago the Chinese people were hopeful. Everyone in the Chinese capital, indeed everyone in this capital, was talking about this era as the Chinese century. Many people said that China's rise was inevitable, inexorable, undisputable.

Xi's signature motto, the Chinese dream, the Chinese dream of the great rejuvenation of the people, was repeated incessantly in China and was thought to be the only possible outcome for China and, of course, the only possible outcome for us as well.

When we go back six years, optimists in 2012 rejoiced that Xi Jinping was going to become the next Chinese ruler. They thought that unlike his predecessor Hu Jintao, that Xi Jinping could actually move China in better directions, that he would have the power to put China on a better course. Xi Jinping did have the power, but unfortunately he believed in the primacy of the Communist Party and he also believed in the power of the Chinese state.

So his idea of power and idea of where China was going was to push it in directions that we thought were wrong. And indeed, he wanted China to become something more familiar to what Mao Zedong, the first ruler of the People's Republic, would have liked.

So Xi Jinping, for instance, believes, as I mentioned, in the power of the state, so he is recombining large state enterprises back into formal monopolies. He is increasing subsidies to Chinese state favored participants. He is exerting much more control over the movement of capital, and indeed enforcing unannounced rules, and he is determining the outcomes in the market with more controls.

Xi Jinping, and this is important for us, has doubled down on industrial policy. The most notorious of them, of course, is his Made in China 2025 Initiative. CM2025, as it's known in China, has now taken 11 sectors, with the addition of 5G wireless communications -- originally 10, now 11. He's taken 11 sectors where he believes China should dominate. Many of them, of course, have military applications. So we have aircraft, robotics, information technology, semiconductors.

At the same time, Xi Jinping has been closing off his market to foreign companies, and that of course affects us. That is, of course, the subject of the trade talks that we are currently having with China. He has used new laws, the cyber security law and the national security law, as bludgeons against foreign companies.

Beijing has been blatantly ignoring its obligations to us, and worse, it has been stealing U.S. intellectual property. Some people say it's \$150 billion only, some people say \$600 billion a year. Whatever it is, it's a grievous loss to the American economy.

We increasingly have an innovation-based economy. If we cannot commercialize our innovation we do not have an economy of the future. If we don't have an economy of the future, we don't have a society, we don't have freedom, and we don't have a military.

Finally, Xi Jinping has been inserting Communist Party cells into foreign companies and into domestic private ones, and he has been nationalizing the tech sector. Of course, if you do these things you can create a bump in economic growth, but it can't be sustainable. Everyone now sees trouble ahead for China with its unprecedented accumulation of indebtedness.

Yes, China is growing, but it's growing only because it is accumulating debt. Today the country is accumulating debt so fast that people are saying that it is eating itself alive. When you take into account the hidden obligations, China is creating debt about 5.5 times faster than nominal gross domestic product, even if you believe China's inflated claims of GDP growth. If you don't, that number goes up.

And by the way, that 5.5 number is up from 1.5 times, already incredible. But it's up from 1.5 times from a year ago. Beijing is not growing at the reported 6.4 percent that it claims, and this of course has implications for whether it can fund its military indefinitely. But it is not growing at 6.4 percent as claimed.

Growth, in reality, is much lower. It's lower than ours. Probably China is growing at about one or two percent. This has political implications inside China.

Despite the central leadership's tight grip, people are now becoming concerned inside Beijing about the direction of the country. Xi Jinping is trying to keep his economy together, and he's trying to keep his political system from falling apart. He has spent his tenure cementing the Communist Party's control over society, and his control

over the Communist Party.

Many people have likened Xi Jinping to Mao Zedong, but there's another comparison which is more apt. That other comparison is to Qin Shi Huang, who is considered to be the first emperor of a unified China. Xi Jinping, by his pronouncements which we have heard for more than a decade, has invited such comparisons. And it's no accident that a China that is sliding from authoritarianism to full-on totalitarianism, would seek to emulate the totalitarian system of the Chinese emperors.

Xi Jinping thinks he's an emperor. Indeed, his critics say the same thing because they call him the chairman of everything, everywhere, everyone. As long as this Chinese political system is hard-lined and is closing up, we can see that the ruling group is indeed concerned about political security and survival, and it is acting like a traditional imperial regime.

Central control is the basis of the emperor's notion of tianxia, or "All Under Heaven," the concept that China ruled all under heaven. What Chinese leaders are doing right now is they're trying to maintain this fiction, and trying to maintain the notion that they are the only legitimate rulers in the world. This has not been a formula for success.

In the tianxia eras in China's past, there has been political, economic and social disintegration. Xi Jinping, as I mentioned, has been employing these tianxia themes, and his officials have been trying to make this explicit. So, for instance, in September of 2017 his foreign minister, Wang Yi, wrote an article in Study Times, which is the Central Party's School newspaper. It's an authoritative publication.

In this article Wang Yi said that Xi Jinping thought -- and in Communist Party lingo a "thought" is an important body of ideological work -- Wang Yi said that Xi Jinping thought made innovations on and transcended 300 years of Western international relations thinking. Take 2017, you subtract 300, you almost get to 1648. 1648 is the Treaty of Westphalia. It is considered to be the basis of the current international system which we call Westphalian.

With Wang Yi's words, and with Xi Jinping's words himself, we can see that the Chinese are hinting that there is only one sovereign state in the world. And if we want to maintain sovereignty ourselves, we have to understand the breadth of the challenge and act accordingly.

This tianxia vision of unity is always cherished by strong men and hard-line states, which are in fact divided, and China is divided. We have seen this from the series of protests across society last year. And we are seeing, of course, this occur at a time when it is becoming more obvious that the economy is stumbling.

There is unhappiness across China for a lot of reasons, but one of them is because the ruling elite has feasted off trillions of dollars of debt, and this corruption has become evident and has become a mortal threat to the regime. It has been absolutely staggering.

But also staggering at the same time that China's economy is losing steam, are Xi Jinping's commitments, including, of course, his One Belt, One Road Program to tie the world to the Chinese capital. It's a trillion dollar commitment on infrastructure that the private sector thought was uneconomic.

But also Xi Jinping's other grand ambitions. He is spending hundreds of billions of dollars on modernizing the Chinese military, and he is spending tens of billions of dollars on foreign aid and loans which will never be paid back. Xi is, in short, over-extending China, and this is the one principle that I think we need to understand as we start to look at political developments in China.

So, Xi Jinping has made commitments that he cannot keep. At the same time that he is proposing this economic model that has failed China so many times in the past, he must deal with three factors going forward.

One of them is extreme environmental degradation. Another is accelerated demographic decline. And the other one is that China is losing support around the world. All three of these factors have economic and political implications.

Let's talk about the last one. In the 1950s in this town and in other towns across America the conversation was, "Who lost China?" Today in the Chinese capital the conversation is, "Who lost America?" Indeed, it can be broadened out -- although it isn't -- but it could be broadened out to, "Who lost the European Union?"

Xi Jinping is being blamed for that because of his especially provocative policies. At the same time that Xi Jinping is being blamed by all of his critics, he has deinstitutionalized the Communist Party. He has, one way or another over his six years as China's supreme leader, gotten rid of the rules that have constrained elite infighting. We are now back to the no-holds-barred era of Mao Zedong.

Deng Xiaoping, who was Mao's successor, wanted to reduce the cost of losing political struggles, so they developed these norms, guidelines, rules that have indeed moderated infighting. The idea was that if a senior leader knew that he was not going to lose his life if he came up short in the political struggle, he wouldn't fight to the end. Now losers in political struggles in the People's Republic are not just losing their power or their position, many of them, millions of them, have lost their freedom. That means everyone now in Beijing has a reason to fight long, to fight hard, to fight nasty, to fight to the end, to fight as if there is no tomorrow.

So let's put all of this together. The economy in China is crumbling. Xi Jinping gets blamed for that. China has been losing support around the world. Xi Jinping gets blamed for that too. China is losing the trade war. Of course Xi Jinping is being held accountable.

What we learned a couple of days ago was that China has withdrawn commitments that the Chinese trade negotiators made to the United States. That

withdrawal of commitments was across-the-board. That was the reason why our president on Sunday tweeted the United States would not renegotiate the trade deal with China.

I think that this is another sign of Xi Jinping losing support. Why would Xi Jinping -- and this is the reporting -- why would he tell his trade negotiators that they could not make the commitments that Xi Jinping had previously agreed to? I think it's because Xi Jinping is -- because he's the chairman of everything -- is responsible for everything. There is nobody else to blame.

If the trade deal isn't what people in Beijing and at the state enterprises across China like, then they are going to blame Xi himself. And because there are no more rules in the Chinese political system, Xi Jinping knows he could lose more than just power. He could lose his freedom, he could lose his assets, he could lose even more than that.

So Xi Jinping is being blamed for everything in China. When you are the supreme leader, when you have taken power from everybody else, and when things are going well for China -- as they were, for instance, in 2016 -- it's great if you're the Chinese leader. You get all the credit.

Come 2018, President Trump changes policy towards China. China starts to falter badly. China is losing the trade war. He gets blamed for that.

Do we really care about problems in the Chinese capital? We can remember that during the Maoist era there were the Anti-Rightist Campaign, the Great Leap Forward, the Great Proletarian Cultural Revolution. None of this affected the United States.

Yet turmoil today will undoubtedly affect us because of the nature of the interconnections between China and the United States. There's two things to talk about. First of all, of course, Xi Jinping could try to distract his internal critics by lashing out.

I can't say that he will do this, but we can say that he has all the incentive in the world to do this. His verbal threats against Taiwan, for instance, which are coming with greater frequency, are a real indication of problems inside. Why does that matter to us?

For more than 100 years American policymakers have not drawn our Western defense perimeter off the coast of California or even off the coast of Hawaii, not even off the coast of Guam. American policymakers have drawn our Western defense perimeter off the coast of East Asia. Taiwan is in the center of that critical line of defense.

It is at the intersection of the South China Sea and the East China Sea. It has been called various names: cork in the bottle, the unsinkable aircraft carrier. But what it means is that Taiwan prevents the Chinese navy and the Chinese air force from flooding into the Western Pacific. This brings us back to those threats that we heard from the Chinese military in December.

Xi Jinping, I believe, is now a weak Chinese leader, and this forces him to rely on the People's Liberation Army to be a core of his support. Go back to 2011 or so, senior Chinese Communist Party leaders chose Xi to be the next general secretary of the party, in other words China's next ruler. They did that because he was not identified with any particular faction in the party. The party was faction-ridden, and he was just basically the least unacceptable choice acceptable to all factions.

That's a great way to become China's leader, but it's not a great way to rule in the Communist Party, and Xi Jinping thought that he needed a political core. He chose as his political core young flag officers and senior colonels. And I think that what we're seeing today in these hostile statements from the Chinese military, and indeed on the attacks on our C-130, Chinese officers doing what they want to do. They have latitude. They've got latitude because they know that Xi Jinping depends upon them for their political support.

So with regularity, for instance, we are seeing these dangerous intercepts of our vessels and our planes in the global commons. In the most recent one of them, which was the last day of September in the South China Sea, a Chinese destroyer, the Lanzhou, came within a reported 45 yards of an Arleigh Burke, the Decatur. If you look at the pictures, it's probably a lot closer than 45 yards. And there is some reporting that the Chinese destroyer not only came alongside the Decatur, but actually tried to cross the bow.

The law of averages says that one of these days a Chinese captain or a Chinese pilot is going to make a grave mistake. In one of these incidents manufactured by China, we've got to be concerned that Beijing's response is going to be determined not by some cool civilian official, not even maybe by Xi Jinping, but by the most hostile elements of the Chinese political system, senior officers in the People's Liberation Army.

So where do we stand? We look at all of these hints in Beijing and we try to figure out. Some things we know, much we don't.

But we can see that there are signs that are inconsistent with a stable political system. And the one thing we do know is that whatever is happening in Beijing this time will affect us. Thank you.

(Applause).

So, until Rick Fisher gets here, you've got to ask me questions.

MR. : Would you talk about the implications and the state of the Huawei affair between the U.S., Canada and China?

MR. CHANG: I've been asked a three-hour question, to talk about the state of Huawei. The state of Huawei is that Canada is considering our extradition request for Meng Wanzhou, the chief financial officer of Huawei. We are accusing her of

committing bank fraud and a number of other things in connection with Huawei's violation of our Iran sanctions.

This comes after allegations, and indeed admissions of guilt, by Huawei's sister company, ZTE, for violating those same Iran sanctions. So there's a pattern of conduct which has been conducted by the Chinese central government, directed from the top of the Chinese political system.

Huawei, as people should know, is probably winning the battle for 5G wireless communications. Everything is going to be connected. Your car will be driven by 5G. This is the Internet of Things. Your car, your doorbell, your pacemaker, all connected to 5G. If the Chinese control 5G they'll be able to suck up all the information in the world, and that has an implication for AI.

Remember, people say our AI is more advanced than China's. I'm prepared to believe that, I don't know. But I do know that AI systems are driven by data. The more data you have, the better your system is. China, because it doesn't have restrictions on the collection of data -- they are not a democracy, we are -- but because of that their AI systems will have much more data than ours, especially if Huawei dominates 5G and takes all the information from the rest of the world. So, this is going to be important.

People say the future of, not only technology but the future of everything else, is going to be determined by 5G. So, we've got a lot at stake here. There are a number of indications that we could put Huawei down, because if Meng Wanzhou is indeed extradited to the United States, she is going to have an incentive to talk. If she has an incentive to talk, we're going to learn so much that we can actually go after Huawei, especially in Western Europe and many of our friends, and we can start to rollback.

But right now, we are very much behind. And remember, America does not have an integrated company like Huawei that can provide communications solutions. We rely on the likes of Erickson to be the standard bearers of Western civilization, if you want to use that term. So at this point we are in a big hole. We're in a big hole that we created for ourselves, and we're going to have to dig ourselves out. Fortunately, the Canadians are now holding one poor woman who holds in her head a lot of secrets to Huawei.

MR. : Regarding North Korea, how do you see the relationship between China and North Korea?

MR. CHANG: Does anybody have any easy questions here?

(Laughter).

China has been a supporter of North Korea from really the very beginning. If you go back to the administration of George W. Bush, we thought that we could integrate China into the international system by putting them at the center of the international community's efforts to disarm North Korea. So, Bush got the Chinese to sponsor the Six

Party Talks.

During the pendency of those talks from 2003 to 2009, Beijing primarily used its position to push us around, not to try to disarm the North Koreans. So today, China supports North Korea and there are a number of things that are important from the last couple of years. One of them is that China has been openly violating UN sanctions, and the Trump administration has been doing virtually nothing about it.

We have sent a warning to China by disconnecting Bank of Dandong, a small Chinese institution, from the global banking system, but we haven't gone after the other Chinese banks, including all four of the Big Four banks, who have been laundering money for North Korea. So, we've been allowing the Chinese not only to violate UN sanctions, but also to make a hash of our money laundering laws, abusing our system.

The other thing, you noticed that 24 hours ago or so the North Koreans launched another projectile. The one they launched three or four days ago, there is speculation that, oh boy, this looks like a Russian Iskander missile. Rick Fisher, when he gets here, will tell you that it looks more like a Chinese missile.

This is a solid-fuel missile. You've got to remember that North Korea's first launch of a solid-fuel missile was in August of 2016 from below the surface of the Sea of Japan. In the following year of 2017 they launched two solid-fuel missiles from the land surface, but they looked to be a derivative of the one they launched in August of 2016.

I'm saying this because those three missiles, the one from the sea and the two from land, look to be derived from China's JL-1 submarine launched missile. North Korea had been really good at developing liquid-fuel missiles. All of a sudden, in August of 2016, they pop up with a solid-fuel one. Perhaps those three intermediate-range missiles that I talked about, plus the short-range missile from two or three days ago, and maybe the one from 24 hours ago, that could very well be from China.

We do know that the Chinese have provided the transporter-erector-launcher for one of their liquid-fuel missiles. We saw that at the April 15, 2012 parade through the center of Pyongyang. This is fascinating because the New York Times reported that after that parade Obama administration officials talked to the Chinese about the sale of that TEL to the North Koreans.

The Chinese apparently told the Obama officials, "We just sold the chassis because the North Koreans said that they wanted them for logging vehicles." That makes no sense on any level, especially because the chassis that the Chinese sold are generally wider than the roads leading to North Korea's logging areas. People say the New York Times got that story wrong, that the Obama officials actually talked to the Chinese before the sale of those TELS and the Chinese said, we're selling them anyway.

This is important because we're not concerned about North Korea's longest-range missiles. Those take weeks to assemble, transport, fuel and test. We can kill them really

easy -- 20th century technology. We are concerned about these mobile missiles, and China has supplied the launchers for these mobile missiles.

That makes North Korea a real threat, because these missiles can hide. If you can hide, you can't necessarily kill them before they're launched. This makes North Korea a military threat to the U.S.

China decided to do that. That tells you all you really need to know. There's a lot more discussion about it, but you know that and you're well on the road to understanding the relationship between Beijing and Pyongyang.

There is this discussion, the Chinese hate the Koreans, the Koreans hate the Chinese. All of it is true. These two peoples have been fighting each other for millennia. The border between Korea and China has moved 600 miles in both directions over the course of God knows how many centuries.

But the point is, the Chinese say we don't control the Koreans. Nobody argues that anymore because for four straight times Kim Jong-un, the North Korean ruler, has gone to Chinese soil. Xi Jinping, the Chinese ruler, has not gone to North Korea once. This shows that the North Koreans know they are vassals, they are puppets on a string, and when the Chinese pull that string the North Korean leader goes to Beijing.

Yes, Frank.

MR. FRANK GAFFNEY: Gordon, thank you for an excellent presentation, as well as your body of work that's behind it. I wanted to come back to something you said, which is largely part from Rick Fisher and the work of the Center for Security and Policy. I want to go back to something you referred to, and I've talked with you about this before.

These general officers who have been making very bellicose statements, you say that they don't represent the official policy of the Chinese government, which always prompts me to ask, have they been demoted? Have they been run out of the service? I think you've indicated the answer is, no.

I'd also ask you to tie into this what does seem to be pretty much the official policy of the Chinese government, namely what PLA colonels, not general officers, wrote about in 1999 about unrestricted warfare against us.

MR. CHANG: Yes, for instance the rear admiral who made the threat to kill the 10,000 Americans, Luo Yang, has been promoted repeatedly, despite a history of threats like this. The two colonels who wrote that book on unrestricted warfare are general officers. So clearly the hostility that is evident among the senior officer corps is a warning to the United States.

I remember speaking to a one-star Air Force general who -- I shouldn't talk too

much more because you'll be able to figure out who he is -- who was telling me that in his relationships with his Chinese counterparts, that they always express the enthusiasm about killing Americans, that they have all of these new weapons and they want to use them. That is an indication of just the emotional component. Remember, this officer corps has been bred on anti-Americanism, and it has been a core part of the curriculum.

We're dealing with people who have maybe not from day one, but from the time that they entered the Chinese Military Academies, have been taught that your goal is to kill us. So, we always have to keep that in mind. In China's political system political leaders have been able to control the general officers.

One example is Xi Jinping's predecessor Hu Jintao, who is generally considered to be weakest of the Chinese rulers. Hu Jintao, as weak as he was, was able to prevent general officers from doing what they wanted to do, which was to declare the East China Sea Air Defense Identification Zone. Hu Jintao was able to stop that.

Xi Jinping, he becomes general secretary in November of 2012 and China declares the ADIZ in November of 2013, which shows you the power of the general officers. And, of course, we are seeing increased Chinese military budgets which outstrip not only inflation, not only central government revenues, not only gross domestic product, and they outstrip it by a wide margin, which is an indication of the power of the Chinese officer corps to get larger and larger shares of China's resources. And, of course, the announced percentage increases don't reflect reality, but they do reflect trends. This is a trend that is a warning to us.

MS. : I was wondering, you mentioned the broad outreach to other countries, the One Belt strategy, and lending. Could you speak to the Chinese satellite navigation systems, the BeiDou system that they're about to complete and how that fits, if it does fit, into their broader strategy?

MR. CHANG: The question was about China's BeiDou navigation system, which is really meant to replace GPS, and how that fits into China's strategy. When Rick gets here he'll tell you everything in the world about that. The one thing, just in terms of their general outreach, they are trying to tie the entire world into a Chinese system. That fits in with Xi Jinping's believing that he's the world's only legitimate ruler and all the rest of it.

It's just clear. They're not hiding it. That's what they're trying to do. The issue has always been, are they competing, yes, but countries always compete. I don't hold it against the Chinese that they're competing with us. We should be surprised if they weren't competing with us.

What we have to be concerned about is the way that they're competing with us. And remember, this is not a group of people that are competing within the existing international system. These are people who want to overthrow that system. In other words, we're dealing again with a Chinese leader who is revolutionary.

Whether it's One Belt, One Road, or whether it's the navigation system for satellites, this is really part of a Chinese plan to dominate the world. We have no choice but to respond to it, and unfortunately we haven't responded to it. We have, for four decades, had a policy of engaging China, bringing China into the international system, helping China.

We've had American presidents who have put Chinese interests ahead of our own, and we've had American presidents who have rescued the Chinese Community Party. Nixon did it in 1972. George H.W. Bush did it after Tiananmen Square, which by the way we're marking the 30th anniversary of that this year. Bill Clinton did it with his agreement to get China into the WTO. For God sakes, let's not rescue the communists again. I'm sorry, that was not terribly responsive, but I just couldn't help myself.

MR. : Gordon, would you comment, given the threat, would you comment on their aggressive approach to shaping and influencing decision-making across all levels, meaning local and state levels, from universities to here in Washington, D.C., with their information campaigns, their money, their outreach, using inserts into magazines and TVs and buying off Hollywood and elsewhere, in order to make America think that there's no problem?

MR. CHANG: The question is, China's information warfare campaign against the United States. You mentioned a number of areas where it is working. It is working in the financial community. It is working in Hollywood. And it's working at the state level.

For instance, the state of California, all sorts of states, are vying for Chinese money. From what we have seen, there are a number of places where it's not working, though, or where it is no longer working. For instance, you mentioned university campuses. There we are seeing the Confucius Institutes being removed. There were about 107-110 Confucius Institutes on American university campuses and college campuses. These were funded nominally by the Ministry of Education, but they really were a part of the Communist Party's United Front War Department, which is to influence public opinion in other countries.

We have seen over the last 18 months or so, thanks to efforts from Frank and others, about 11 or 12 of these Confucius Institutes being removed. And, of course, in the John McCain National Defense Appropriations Act, there was a provision that a university or college could not get Pentagon language money if it also had a CI, as they're called. So, we're seeing that and we're seeing more and more rollback, which is good.

But nonetheless, China is trying to influence the elections. In 2018 -- you referred to magazine inserts. In the Des Moines Register there was that four-page advert which was notorious. But also there were other efforts to influence the outcome of the elections. One of them, of course, was September 16, 2018, China summoned the heads

of Wall Street firms to Beijing to talk about the election. Unfortunately, we had Americans accepting that invitation and going there.

So these are attempts to influence. We also had the Chinese ambassador who was unusually loquacious, trotting out Henry Kissinger to further China's themes. All of this was considered sort of above the board. It wasn't like the Russian bots. But we do know the Chinese have done the same thing that the Russians have done in preparing for a bot information warfare.

They've done this in Taiwan recently in the local elections that were across the island. They have the capability, which means that they could very well do this in the 2020 elections. I tend to think that what China did in 2018 was pretty ham-fisted and probably did not help them. What they tried to do was to get Democrats elected, and what they ended up with is Nancy Pelosi as Speaker of the House rather than Paul Ryan. And I'll tell you from a China perspective, I would take Pelosi any day of the week over Ryan.

So, what China did was it help put a leading China critic in charge with the speaker's gavel in the House. What we are seeing in the American political spectrum is across the board there is agreement that China is a bad actor. There is not agreement on what to do about it, but this is I think pretty evident. There's only one exception, and the fact that there was an exception, shows how much things have changed in the United States.

So, for instance, a week ago Joe Biden said China was not competition with the U.S. and Chinese leaders were good guys. He received criticism from everybody. So, I think that that's a good sign that public opinion in the U.S. is moving in the right direction. What we need to do now is to firm up that opinion, plus also to get consensus on what to do about it, because there we are still lacking. But, apart from Hollywood, apart from the state of California and some other states, and apart from a few blocks in downtown Manhattan, we seem to be in much better shape than where we were before.

One other thing that people talk about in this connection, and that is for decades the business community was carrying China's water. China did not need to hire lobbyists in this town because they had all sort of big companies whose names will not be mentioned today, basically taking Beijing's line. That pretty much is over, and it's over because China has made it clear that it is attacking foreign business in China itself.

The business community, at least behind closed doors, has been pretty good in convincing, or trying to convince, President Trump to stay tough on tariffs. This was highlighted by the Silicon Valley meeting that President Trump had in the first months of his office where, behind closed doors, apparently Silicon Valley gave Trump an earful about the terrible things that Beijing was doing. So at least we're moving in the right direction. The point is, our clock is not fast enough and we need to go further, but we are at least in the right direction.

MR. MARK KURTZ (ph): Hi, Mark Kurtz from the National War College. Thank you for your comments today. Speaking of timing, back in the Cold War we used to talk sometimes of a maxim being the correlation of forces. Do you see any signs in China of thinking along those lines? Do they see a period where it's going to be most beneficial for them if they're going to make a move on Taiwan?

MR. CHANG: There's a do-it-now mentality. There's a closing window of opportunity. This is most clearly illustrated in China's perceptions of India.

The reason why India is so important in the Chinese imagination right now is demography. The UN estimates that in 2024 for the first time in at least 300 years, and maybe for the first time in all recorded history, China will not be the world's most populous society. That will be held, the crown of population is going to be held by a country that the Chinese just detest and fear, and that's India.

We have seen now for more than five years, I would say probably for almost a decade, Chinese security thinkers talking about how to break up India. We have seen an increased tempo of PLA, People's Liberation Army, incursions into Indian-controlled territory. We have seen stepped up Chinese support for terrorists in Pakistan attacking India. So, I think that this is symptomatic of the do-it-now mentality.

Jim Fanell, the retired U.S. Navy Captain, who by the way was turfed out for being concerned about China, Fanell talks about yes, I'm concerned about the 2030s and the 2040s. He says he's really concerned about the 2020s, which he calls the "Decade of Concern." That's because at a time when the U.S. has maybe not fully rearmed, at a time when China sees this closing window of opportunity, when its economy is stumbling, its demography is crumbling, its environment won't hold out, and the people are getting a little bit restless, this is the time that we have to be most concerned about what China might do.

MR. : Gordon, capital flows explain a lot of things here. There's a net capital outflow out of China. An interesting manifestation is real estate in Vancouver, British Columbia, it's pretty hard not to walk into somebody who is from the mainland and has brought real estate there.

MR. CHANG: Including Meng Wanzhou, who is basically under house arrest in Vancouver.

MR. : It appears to be a vote of no confidence in the system. What do you think about that?

MR. CHANG: Absolutely. There's a difference between the Chinese Communist Party and the Chinese people. In 2015, Bloomberg estimated that net capital outflow from China was \$1.0 trillion. For 2016, we don't have a good estimate, but most people think it was higher. In 2017, that number goes to zero, basically.

The Chinese people didn't gain confidence in their country. What happened is, China started to impose -- in September or October of 2016 and all throughout 2017 and up to today -- draconian capital controls, many of them unannounced. So, they were able to staunch the flow of capital.

This is sort of loosening up a little bit, because you're talking about the phenomena of the Chinese just buying up, gobbling up, real estate in places like Vancouver. And yes, it is happening. The Chinese people will get their money out, if they can. If they can't get their money out, they'll buy gold, which is another sign of lack of confidence. Bitcoin, anything that is not renminbi-denominated. So, that has occurred.

And you know, part of it is because the economy is crap, but it's more I think concern over the way the political system is going. And this is an indication of people. So, for instance, my wife two years ago had a conversation with a woman in her late 20s or early 30s. She went to a U.S. school and was now working in a really prestigious U.S. investment bank. She was the type of Chinese person who would basically work for three years on Wall Street and then go back and make a ton of money in China.

She said, "I'm not going back. My family wants me to stay here." They're making preparations to leave. This is really what's happening.

I'm sort of maybe more aware of this because my dad left China, but that was a different time. That was before the end of World War II. But nonetheless, it is a sign of instability when a lot of Chinese people want to leave.

You walk around the streets of the city where we live close to, that's New York, and you see a lot of Chinese. They're not with cameras around their necks or in big tour groups. They just live there. It's remarkable. And I think it's largely a reflection that people want to get out. So, it is a sign of lack of confidence. It is a struggle. People want to get their money out, the regime wants to keep their money in.

MR. FRANK HINKELMANN (ph): I'm Frank Hinkelmann from (World Evangelical Alliance ?). You mentioned about the aggressiveness of China in terms of economic investment, but typically in the global South. I'd like to ask what are some of your warnings to the people? They have already overtaken some facilities like in Sri Lanka. But they are also trying to strip away the dollar in their exchange, making a direct transaction from the currency of a particular country to China's currency.

MR. CHANG: Yes, there's a lot of really important points that you're talking about. I worry a lot about China. The one thing I don't worry about is the renminbi overtaking the dollar.

In normal circumstances, the renminbi would be a popular currency in the world. But because of what we were just talking about in terms of currency controls, usage of the renminbi worldwide has actually declined in recent years. Despite all the efforts of

what you're talking about, Beijing promoting the use of its currency, it just hasn't happened. People have been predicting the renminbi was going to take over the dollar a couple of decades ago. It ain't happening.

But, you do point out something which is debt trap diplomacy, because you mentioned Sri Lanka. In Sri Lanka there is the Hambantota Port, which in 2017 China took over. China lent money at six percent, or in excess of six percent, which was just astoundingly high. Of course, the Sri Lankans couldn't pay it back, so the Chinese got a 99-year lease plus 70 percent of the equity of Hambantota. We can expect that Chinese warships are going to show up there, because they've shown up at the Chinese-funded Colombo International Container Terminal in September of 2014.

In October of that year the Chinese nuclear attack sub and its tender docked at the Colombo port. So, you can look at Hambantota as being another Chinese naval base. This, for Americans, let's remember that the Chinese are now pouring in excess of \$3 billion in a location 87 miles east of Palm Beach, and that is in Freeport on Grand Bahama Island: \$3.2 or \$3.4 billion for a port in the Bahamas. This makes no economic sense.

Now people say, with the expanded Panama Canal there will be more opportunities. But nonetheless, the Bahamas doesn't buy a lot of Chinese goods. What will happen, we will see Chinese warships in Freeport, 87 miles east of Palm Beach, unless we do something about this. Because this is what happened in Hambantota, debt trap diplomacy, it's happening all across the world.

MR. : I wanted to ask you an easier question.

MR. CHANG: Good, finally.

MR. : You have been a great prophet the last decade or so. I wish the policymakers had listened to you much earlier than today.

MR. CHANG: Which shows you how ineffective I am.

(Laughter).

MR. : Or naïve we are. But I want to ask you about a question that really what the regime fears most is Internet freedom. Xi Jinping and Hu Jintao, repeatedly said that if China's Internet circumvention or firewall is broken, it's the end of the regime.

China has been spending, according to the BBG estimate, \$10 billion for so-called overseas propaganda, every year \$10 billion. Most of the Chinese newspaper, radio and TV in the United States, 98 percent, are controlled fully by the Chinese Communist Party's propaganda money. I have friends working inside the Chinese Communist Party, who basically told me all these things.

And yet, in our U.S. budget to the BBG,, the Broadcasting Board of Governors, they received like \$700 million each year. But they only spend like two percent on the Internet circumvention development, two percent of this \$700 million. What do you make of it?

MR. CHANG: One of our most effective tools to combat Chinese communism is human rights, breaking the firewall, all the rest of it. We Americans don't think much about this because we have a government -- you know, people may not like the president, they may not like their senator, but everyone recognizes our government is legitimate. In China, that's not the case.

They worry about this, which is the reason why they put all this cash into this stuff. We Americans don't realize how weak Chinese leaders are, how weak the Russian leader is, because of this whole notion of legitimacy. We should be attacking them day-in and day-out on this, especially because China is now committing crimes against humanity in Tibet and in Xinjiang, what the Uyghers call East Turkistan. There's so many ways that we can protect ourselves in basically preventing all the things that we fear about. And you're absolutely right, we can do that. Seven hundred million dollars, that's nothing.

MR. HUESSY: With that, Gordon, thank you very much.

(Applause).

As I said, we will have Rick Fisher again. I just want to make one advertisement. Diana Robinson is here, who works with her husband, Roger Robinson, who was on the National Security Council under President Reagan and at 29 years old was given the job of taking down the Russian economy, the Soviet economy. That was just one of the things.

But, he has done a study of, there are close to 700 Chinese stock companies on our exchanges, and almost none of them have either been required or have given us due diligence as to how many are owned by the People's Liberation Army. To what extent, what percent of them are controlled? They're raising money in our capital markets to use to fund to modernize their military?

I've talked to Newt Gingrich about this as part of the Committee on the Present Danger, the New China, which Frank has been instrumental in creating. It is critical that our companies have to tell the stock exchanges who you are, what you are, who owns you, and every other thing. But China is basically -- the Securities and Exchange Commission folks that are meant to do this have kind of said, well, China says there are national security implications of information, so they won't give it to us. We kind of say, oh, okay. We've been kind of covering for them.

So, for those of you interested in American stock companies -- buying for labor unions, teachers unions, private equity -- we're paying China money that they're using to

modernize their military, which we then have to spend money to defend ourselves and our allies. That's crazy, when we talk about giving the Chinese the money with which to come after us. It's something Rick was going to talk about.

If you look at the Chinese modernization effort, to put it in purchasing power, what would it cost us to do what China is doing with their military? About \$650 billion. And then given the fact that the Chinese don't tell us everything they're doing, it's not exactly transparent, their space and nuclear stuff is not included in their defense budget that they officially put out.

So anyway, that's critical. Those of you that are interested, the Committee on the Present Danger/China, or Roger Robinson, who has Conflict Securities as one of his companies, and they have the Prague Security Institute, please help John out on that, and Roger, because they're the only folks, one of the few people in this country that are actually doing that kind of work.

John Rood, the Undersecretary of Defense for Policy will be here on the 16th. We look forward to many of you coming. I want to thank our sponsors and our friends for being here.

Gordon, once again, it's always a pleasure to hear my friend talk about the Chinese. This is serious stuff. Thank you all for being here.

(Applause).