White House National Trade Council
Director Peter Navarro on Chinese Economic Aggression

TRANSCRIPT

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• Dr. Peter Navarro, Assistant to the President and Director, National Trade Council and the White House Office of Trade and Manufacturing Policy
• Michael Pillsbury, Senior Fellow & Director, Center for Chinese Strategy, Hudson Institute

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Please note: This transcript is based on a recording and mistranslations may appear in text. The names of participants in the Audience Q&A have been removed. A video of the event is available: https://www.hudson.org/events/1574-white-house-national-trade-council-director-peter-navarro-on-chinese-economic-aggression62018
White House National Trade Council Director Peter Navarro on Chinese Economic Aggression  
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MICHAEL PILLSBURY: OK, well, thank you all for coming. We are honored to have Dr. Peter Navarro come today for a very specific discussion of the report he and his office released last week. We have to be on our best behavior because we're streaming live on the internet. I would ask that all of us – as a courtesy to Dr. Navarro, at the end of his comments at 1 o'clock – just stay in our seats. Let him go out the back door – hopefully – with a big round of applause. I'm going to applaud him. I've read the report and the appendix. In fact, I took it with me to China last week to try to get reactions from the Chinese. For the first year and a half of the Trump administration, they tried to pretend Dr. Navarro did not exist. But that has changed since this report came out, and also since The Wall Street Journal has written so much about him and the president praised him. The Chinese now have a totally different approach: that Dr. Navarro exists, but he should be struggled against. And this report has gone unacknowledged, unreported in the Chinese media. This – to me – is a home run for Dr. Navarro and the report. It means that what he's describing in this report is so sensitive and accurate that the Chinese media doesn't have a response to it yet. And in my personal view, this report suggests that one of the steps to avoid a trade war and to return to the idea of cooperating with China is that China must somehow deal with the hard evidence Dr. Navarro puts in this report.

Now, he very carefully cites other U.S. government documents. He cites a Defense Department study that came out in January of this year. And he goes over many techniques of concerns in the Defense Department and China's industrial power. He cites academic research. He cites newspaper stories. And the report also seems to have, in my personal opinion as a scholar in this field, quite a bit of new information – probably from the U.S. intelligence community – that has not been declassified before. So I thought the report was quite important: a new state-of-the-art finding. But it also goes back to something that the Obama administration issued in January of 2017. The Obama administration issued a White House study of Chinese industrial policy as it focused on the semiconductor industry. And many of the same issues – such as intellectual property theft, use of investment, use of companies, coercion to firms – were first raised in the Obama report. But it too didn't get much press attention because it was already January of 2017 when it was published.

So I think Dr. Navarro's plan today is to go over the contents of the report that is unknown to the Chinese people. So if we have media reach into China, it will continue the notion that China really owes an answer to these concerns that have been so carefully documented in this report. And, by the way, it has an annex. This report has not only 160 footnotes. The annex has even more, and it has a very detailed account of these Chinese industrial policies. Frankly, the term economic aggression in the title is – I personally believe – quite justified. Once you read the whole report, you will see that economic aggression is correct. And it's not introduced here for the first time. It was in President Trump's national security strategy when that was issued. So I hope you all will join me in a warm round of applause for Dr. Peter Navarro.

(APPLAUSE)

PILLSBURY: And I should say. The sales of his three books have gone up. And a really wonderful development is his film, which is on YouTube online. In the next day or two, it's going to reach 1 million viewers. The title is somewhat controversial: it's called Death By China. Here's Dr. Peter Navarro.

(APPLAUSE)

PETER NAVARRO: The master of understatement: "somewhat controversial?"

My deep thanks to Hudson Institute for sponsoring this. Actually, two of my favorite scholars are here. One of them is Mr. Pillsbury. And there's also Seth Cropsey, who's been at the forefront of trying to get the Navy in the United States back on track. The president has committed to a 351-ship Navy, and it's only through the analyses of people like Seth that we have situational awareness about why we need to do it. So I congratulate Hudson for being at the forefront.

My mission is simple. I'll quote Deng Xiaoping to start this off: "seek truth from facts." All I'm going to do today is provide a factual account of the industrial policies, act policies and practices of the People's Republic of China, which are presented in this matrix. We have six strategies of what Mr. Pillsbury called economic aggression. That's not my term. It is a term that was introduced in the 2017 National Security Strategy. And then on the column here is the over 50 acts, policies and practices that China engages in in order to promote its economy worldwide.

And if you can say that one picture is worth a thousand words, this matrix is worth about a half a trillion dollars a year. It contributes to the trade surplus of China, using these various acts, policies and practices – most of which are outside the bounds of the international trading order. But before I do that, let me just step back for a minute and talk a little bit about the administration's trade policy and trade philosophy. President Donald J. Trump has made it clear that he's a free trader. He has made it abundantly clear that, for this administration, free trade means trade that is free, fair, reciprocal and balanced. And in a world where we have free, fair, reciprocal and balanced trade, we would have zero tariffs. We would have zero non-tariff barriers. We would have zero subsidies to industry. We would have zero incidents of currency manipulation and currency undervaluation. And we would have zero instances of using the value-added tax – not as a way to raise revenue in a given...
country, but also as a tool of mercantilism to keep goods out of that country and provide competitive advantage. If we were in China, we might call that the “five zeros.”

But we're not in that world. And because we're not in that world, every year the United States of America basically sends about a half a trillion dollars a year offshore in the form of a trade deficit. This is something that's not supposed to happen in the Ricardian trade model. Let me say that again. This is not what is supposed to happen in the Ricardian trade model, which my colleagues in economics and folks in the media and everybody in between love to cite as the free trade model: “gains from trade, everybody wins.” In the Ricardian trade model, you can never have these persistent deficits because of things like currency adjustments, right? But we have them. We're shipping off a half a trillion dollars a year. We are, as President Trump has said, the piggy bank of the world. And the reason why this happens is because countries around the world do not engage in free, fair, reciprocal and balanced trade. We have, for example, a trade deficit with China, which accounts for about half of the problem. But, at the same time, the European Union is about $151 billion in 2017 in trade deficit in goods: that's about 20 percent of the problem. And then you have Japan and Mexico, with about another 28 percent of the problem.

If you look at these different countries, they all managed to gain advantage over this kind. I don't call it competitive advantage. I just simply say advantage over this country in different ways. Germany, for example, which sells us three cars for every one we sell to them, has a tariff on autos, which is four times higher than ours. Japan, which has very low tariffs, sells us over 100 cars for every one we sell them. Extraordinary! And the problem there is non-tariff barriers. So all the president is trying to do with his trade policy is to level the playing field. And we would love to live in a world where the rest of the world caught up to us: I don't know if you know this, but the United States of America has among the lowest tariff and non-tariff barriers in the world.

The last thing I should tell you is about the World Trade Organization. It's very, very interesting. You might think that the World Trade Organization was an organization where it led to a lowering of tariffs for everybody. But the problem is they have this thing called MFN: the “most favored nation” rule. It basically says that every country has to charge the lowest tariffs to every other country that they charge to anybody else. Let me say that again. The tariff they're going to set, if the lowest they give to one country, they have to charge to everybody else. So if we set 2.5 percent on autos, that's what we have to set for everyone. But if China sets 25 percent for everybody, they can get away with that. And the European Union can get away with 10 percent. So that's the global trading order that this president and this administration want to move towards: the more ideal world of free, fair, balanced and reciprocal trade.

Now, let's get to the matter at hand. This report by the Office of Trade and Manufacturing Policy was months in the making. It was an interagency effort, where the report went out to numerous agencies in the intelligence community. It was reviewed very carefully. I think it's well-documented. I won't challenge you, but, please, look through the footnotes and tell me if you find anything that doesn't ring true. The foundation of this report is good analysis by a lot of people. I would say the DIUx report that the Pentagon put out is very, very good into technology space. There are reports by the European and American Chambers of Commerce which detail chapter and verse all of the unfair trade practices that European and American businesses encounter when they try to get into the Chinese market. So there is that. There is the United States Trade Representative 301 investigation report that came about as a result of the section 301, which is an extraordinary sleeping pill, because it's so dense. But it's also so good. I mean, if you're going to be an expert in this, you need to read that chapter and verse. But it's not just these documents. It's also what the Chinese government tells us. If you read, for example – two documents –, the medium-to-long-range planning document in 2006, it pretty much lays out much of these industrial policies that are used to promote the Chinese economy. And then of course there's the now-“Banned in China,” apparently. They banned their own policy, Made in China 2025. This is extraordinary. This is a policy which came out with great fanfare. It's referenced repeatedly in different government documents, as you can find in the USTR. And now there are reports out in the press that the Chinese themselves are suppressing it as a way of not letting you know that the intent of that report is to put forward a set of plans that would capture 70 percent of the production of the emerging industries of the future within seven years. Extraordinary. And, as President Trump has said, if we lose the industries in the future, we won't have a future. So some of you at least have the chart as a handout, and it'll be up on the Web, available to you.

But let me just now walk through what the chart looks like. It's a standard matrix where you have these six categories of economic aggression. And this is the industrial policy of China. And what distinguishes China from the rest of the world – most of the rest of the world – is that it's a nonmarket economy. It's a heavily state-directed, state-driven economy. And so in the first and second columns here, one goal is to “protect the Chinese market from competition in imports.” No secret there. The second goal is to “expand the global share of markets.” That is, to attack global markets. This would be protectionist, in the vernacular. It would be mercantilist. China also for decades has had a policy of going out and trying to secure the core resources of the world. This is the third category. It can be things like copper in Chile, or it can be things like cobalt – which is really important in high-tech production – in the Congo. And they've done a very, very good job doing that. The fourth category is, “dominate traditional manufacturing industries.” They've done a superb job of doing that: air conditioners,
understanding of the structural challenges that we need to face. The thing: “We’re not the only one.” See, this is why I think this report could be useful: because it gives everybody a common

So I didn't quite find a Z on this, but I got down to W. And you start with the “adverse administrative approvals and licensing processes.” We have approvals and licensing processes for any foreign company or domestic company that wants to produce in this market, sell into this market. And that's fine. But the problem is – and there's well over a dozen or more of these, these approvals processes – the Chinese will use the ability to gain your license or your administrative approval as a tool to extract some kind of concessions, usually on technology. And so this is a very powerful tool. It's very difficult to detect essentially as an unfair trade practice, but it's systemic in the Chinese economy when you try to go in there.

For example, there's a technique they use called “brand forcing,” or the forced use of Chinese brands. This is when a foreign company with a well-known brand comes in with a quality product, sets up their facilities in China, and wants to sell into the market, but it's forbidden from using its own brand. You put a Chinese brand on it, and then that is used in the domestic market. And then down the road, the hope is that they’ll build that brand and begin using it internationally. So that would be one where it's simply in one cell. On the other hand, there are some things on the chart which run the table – all six strategies. One of them, for example, is consolidating state-owned enterprises into national champions. This is really, really important to understand. If, for example, you look at the rolling stock industry – this is the trains and the metro cars and things like that – there are a lot of jobs, a lot of technology, and a lot of implications for the future. In the beginning in China, they had a number of national champions that they were breeding within the country to produce first in China and then sally forth around the world. As they proceeded in that industry and others, they’ve realized that the best thing to do is to consolidate those industries, basically, create monopolies within the country to go out and do battle with the rest of the world. And in that particular industry – rolling stock – they basically put Australia out of business. The company – CRRC, I believe it’s named – is making a very strong bid in this country. And the problem that you have is that these national champions, when they sally forth, benefit from a lot of the things that are on the rest of the matrix here.

The second one on the list is “anti-monopoly law extortion.” I think the poster child for this is what happened with Qualcomm. Basically, this law was invoked against Qualcomm, and there was an extraction of a very large sum of money, but also of some promises, again, having to do with technology transfer. It's always about technology transfer. And what came out of the 301 investigation was an understanding that, when China goes after our technology and our intellectual property, they steal it, they force the transfer of it, they evade the export controls that we have in place, and they buy it. And when you’re running a third of a trillion dollars' deficit with China every year, they accumulate a lot of money to buy it.

There’s also “burdensome and intrusive testing.” This is an interesting tool. So you have a medical device, or a car, or some kind of product that you want to sell into the Chinese market. So what do the Chinese say? “Well, we need to unpack this thing. What’s in it?” So then they get to look behind the veil. And it’s like, “Well, we’re just doing it to make sure that no there’s no health and safety problems.” But, again, it’s a way of extracting information and technology. And it can be burdensome, as well. You can withhold or delay the testing unless you get a concession. This is currently in effect.

And, by the way, one of the things my office does at the White House: we have what we call a SWAT team, where companies come to us with specific problems. And I’ve had many, many companies come in with a problem that they’re having with China. And they’ll go, “Oh, man. They did this to us, and then they did this to us, and then they did this to us.” And I bring them over to the chart and, and say, “You mean they did that, that and that?” And they go, “Oh, we’re not the only one.” See, that's the thing: “We're not the only one.” See, this is why I think this report could be useful: because it gives everybody a common understanding of the structural challenges that we need to face.

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appliances, machine tools, shoes, computers, electronics – they have well over 50 percent market share in most of the traditional manufacturing industries. They have become the factory floor of the world.

This didn't happen by accident. It didn't happen through free market capitalism. It happened through these sets of practices, which I'm going to talk about shortly. And then these last two columns here capture in essence the problem that the United States Trade Representative's been grappling with in terms of the attacks on our technological base by the People's Republic of China. This is simply acquiring the technologies and the intellectual property from, not just the United States, but from the rest of the world and, at the same time, capturing the emerging high-tech industries that will drive future growth and advancements in the defense industry. And what's important about this last column here, this is the Made in China 2025 industries plus the industries identified in medium to long-range planning 2006 document. It's things like autonomous vehicles, robotics, high-tech shipping, and advanced manufacturing. They're what I call “extreme manufacturing,” which is nanotechnology at one end, but also large facilities bigger than anything you could see or imagine. China is trying to dominate all of this. Now, how do they go about it? And this is where we get to the 50 different ways. There are over 50 different things here. And if you look at the chart – you can't see it from where you're sitting – there's a little Y for yes in each one of the cells. So for example, there are some things that China does which is only used to advance one goal.

So let me again cite Deng Xiaoping, who said, “Seek truth from facts.” Let me just walk you through some of the things they do on this chart. So I didn't quite find a Z on this, but I got down to W. And you start with the “adverse administrative approvals and licensing processes.” We have approvals and licensing processes for any foreign company or domestic company that wants to produce in this market, sell into this market. And that's fine. But the problem is – and there's well over a dozen or more of these, these approvals processes – the Chinese will use the ability to gain your license or your administrative approval as a tool to extract some kind of concessions, usually on technology. And so this is a very powerful tool. It's very difficult to detect essentially as an unfair trade practice, but it's systemic in the Chinese economy when you try to go in there.

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Another thing is: “the Chinese Communist Party co-opts corporate governance.” It's truly extraordinary. We have now, by decree, the Chinese Communist Party getting seats on governing boards of companies. So this is not merely about profit maximization anymore. This is more like advancing the strategic goals of the state.

“Claim sovereign immunity on U.S. soil to prevent litigation” – well, this is kind of interesting. They want access to our market and to do business here. But they also want to claim that their state-owned enterprises are not subject to our laws. Interesting. “Counterfeiting and piracy and the intellectual property,” the IP commission report that Jon Huntsman led – and that Rich Ellings spent a lot of time on – came out with costs in the order of $300 billion a year just on theft alone. I mean, this is an extraordinary transfer of wealth. There's “Cyber-enabled espionage and theft,” and there's “data localization mandates,” which allow them to peek under the hood. And there's also “debt-trap financing to developing countries.” This speaks to the way that China is, in many cases, able to gain control, not just of the resources of a country, like copper or cobalt, but also of infrastructure. China will lend a bunch of money to these countries that they really can't afford to borrow and then foreclose on that loan. Anybody know the Hambantota issue, the Sri Lanka issue? I believe that's the one where the Chinese basically gained ownership of that port. I mean, what's going on here?

So, the point is that this is a long list. There are over 50 ways that China engages in these acts, policies and practices with the goal of advancing their own economic dominance, which has, in itself, military implications. And this is what we're up against when we're basically trying to build an international trading order based on free, fair, balanced and reciprocal trade. So I simply present this to you as facts. Challenge these as facts if you will. I welcome that challenge. But if this matrix accurately describes the industrial policies, acts and practices of the Chinese government, then you can understand the structural challenge we face in trying to move to a better place down the road. We want a trading system that works for everybody.

And I'll leave you with this. If you're in a negotiation, and you take 25 of these off the table in a successful negotiation, you still have 25 left. Thank you for the audience here at the Hudson Institute. I salute this institute. And we're going to get on with the mission down the road here. Thank you, sir, very much.

PILLSBURY: All right. Come back.

(APPLAUSE)

PILLSBURY: Dr. Navarro, can we keep these charts?

NAVARRO: Yes, please.

PILLSBURY: Thank you. Thank you very much for coming. I encourage everyone to download both the report and the annex from the internet. There are a number of copies of the matrix being passed around. I don't know how many. Can you put your hand up if you got a copy of it already? OK, some more disseminating is left to do. Thank you for applauding. I think it's quite important that the think tank community take Dr. Navarro's work seriously, not just his three books, but now his efforts with the White House. What I keep hearing is that there's much more of a team strategy at the White House. It's not some sort of debate and factions going on. There's a combined approach. And as I said earlier when introducing Dr. Navarro, these concerns go back at least to the Obama administration. That may explain why two nights ago 400 members of Congress voted to approve the reform of our so-called CFIUS system: our protection against intellectual property and national security issues and investment coming into the country. 400 to two: that's a pretty lopsided vote. In the Senate, the cosponsor on the Democratic side was Dianne Feinstein – obviously, Silicon Valley concerns. It also passed in the Senate. So this is a really strongly bipartisan concern that many people have. And I think the publication of this report provides a single document where the concerns are listed. And Dr. Navarro gave you a clue that just eliminating 25 of the issues in the report wouldn't be enough. Ideally, all 50 will be dispensed with. And the European Union seems to have similar concerns. So, thank you all very much for coming.

(APPLAUSE)