

**Demetri Kofinas:** 00:00 Today's episode of Hidden Forces is made possible by listeners like you. For more information about this week's episode or for easy access to related programming, visit our website at [hiddenforces.io](http://hiddenforces.io) and subscribe to our free email list. If you listen to the show on your Apple Podcast App, remember, you can give us a review. Each review helps more people find the show and join our amazing community. With that, please enjoy this week's episode.

**Demetri Kofinas:** 00:31 What's up, everybody. I'm Demetri Kofinas, and you're listening to Hidden Forces, where each week I speak with experts in the fields of technology, science, finance, and culture to help you gain the tools to better navigate an increasingly complex world, so that you're less surprised by tomorrow and better able to predict what happens next.

**Demetri Kofinas:** 00:54 My guest today is James Mulvenon, Vice President of Defense Group Inc.'s Intelligence Division and Director of DGI's Center for Intelligence Research and Analysis. Dr. Mulvenon is an expert on the Chinese military and Chinese cyber issues, and has published widely on Chinese military affairs, party-army relations, C4ISR, and nuclear weapons doctrine and organizations.

**Demetri Kofinas:** 01:21 He's a regular commentator on the Chinese military, cyber warfare and Chinese Industrial Espionage, all of which we discuss in today's hour long conversation. My discussion with James was prompted by the recent arrest by Canadian officials of telecommunication giant, Huawei's CFO, Meng Wanzhou, during her transit through Vancouver Airport on December 1st, 2018. Meng is currently out on bail, awaiting the service of a formal extradition request from the United States on charges related to Huawei's alleged evasion of Iranian sanctions.

**Demetri Kofinas:** 02:01 James has been investigating and writing about Chinese commercial espionage, and in particular about Huawei for years, so he was the perfect person to speak to for context about this ongoing diplomatic drama, its implications for the trade talks and how it fits into this larger trend of deteriorating U.S.-China relations. Will Trump's hard nose, no-holds-barred negotiating style work to level the playing field between these two countries without a more comprehensive strategy that includes concessions on China's military posture, its efforts in cyber and its ongoing use of commercial espionage and IP theft.

**Demetri Kofinas:** 02:45 More importantly, is it time to acknowledge that our multi-decade long effort to integrate China into the neoliberal world order has failed and that a new strategy must be developed to

deal with a more obstinate and adversarial China that is determined to displace the United States as global hegemony in the 21st century? With those questions in mind, let's get right in to this week's episode.

- Demetri Kofinas:** 03:15 James Mulvenon, welcome to Hidden Forces.
- James Mulvenon:** 03:18 Well, thank you Demetri.
- Demetri Kofinas:** 03:20 The way I'm thinking about us starting this conversation is, maybe you can catch us up on the newsworthy story, the reason why I thought this would be an interesting conversation is the arrest of the CFO of Huawei, which is the Chinese telecom consumer electronics company, the second largest smartphone maker in the world behind Samsung, close to a hundred billion dollars of revenue.
- Demetri Kofinas:** 03:43 It's a monster multinational and the CFO of the company, who also is the daughter of the founder of the company who's very close with the government in China and the Chinese Communist Party, was arrested at the Vancouver Airport as she was transiting I think to South America. For those who know nothing about this, what is Huawei? Who is this executive? Why is she important? Why is this story significant?
- James Mulvenon:** 04:08 Well, Huawei is easily the most important Chinese national champion company, and that's a term the Chinese use to denote companies that have a very close relationship with the government and the government does a lot to make sure that Huawei is successful. It is almost a hundred billion dollar a year telecommunications equipment manufacturer. So, everything from handsets, to cellular base stations to servers and switches.
- James Mulvenon:** 04:36 It's really a success story. It's probably one of the only companies that China has international brand recognition. Maybe if you're an aficionado, Demetri, of wine fridges, maybe you've heard of Haier. But other than that, Huawei is really the leader, and Huawei was founded in the '80s by a former military officer named Ren Zhengfei with a lot of assistance from the Chinese government. He's also very keen on having family members in leadership positions, even though he has said many times that he won't pass on the company.
- James Mulvenon:** 05:07 Huawei has been a source of tremendous controversy for many, many years as far as the U.S. government is concerned, all the way back to when Saddam Hussein was still in power and Huawei was alleged to be cooperating with the Iraqi military in

building out their air defense networks. There's been a lot of speculation over the years about whether Huawei should really be allowed to get into the U.S. market, particularly given its close ties to the Chinese government and the Chinese military, and sort of what kind of national security threats that posed.

**James Mulvenon:** 05:39 Huawei has been the source of U.S. government's scrutiny in the last couple of years. They've been prevented by the Committee for Foreign Investment in the United States for making certain purchases. The U.S. military recently banned the sale of Huawei handsets at stores on U.S. military bases. So, things are really starting to escalate, and there had always been the suspicion in the background that Huawei had been involved in violating the U.S. sanctions regime on Iran in the same way that the company ZTE did.

**James Mulvenon:** 06:08 ZTE got a lot of press a couple of months ago because the United States government levered more than a billion dollar fine on them for having illegally transferred U.S. technology to Iran, breaking the sanctions regime. Indictment for ZTE, there was a company code named F7 that they said was doing the same thing, and everybody in the industry knows that F7 is really Huawei.

**James Mulvenon:** 06:33 So, the speculation in Washington for the last couple of months has been okay, when are they going to drop a dime on Huawei? When are they going to actually do that indictment? What happened last week was that the CFO of Huawei, Meng Wanzhou, who just happens to be Ren Zhengfei's oldest daughter, as you said, was transiting Canada on her way to Mexico and she was arrested by the Canadians at U.S. government's request for extradition at the United States for fraud.

**James Mulvenon:** 06:59 What she's alleged to have done is that she was the board secretary of a Hong Kong company called Skycom Tech, and Skycom Tech is widely believed to have been completely owned by Huawei. Skycom Tech employees had Huawei business cards and called themselves Huawei employees, but Skycom Tech was the front company that Huawei used to transfer, illegally, computer equipment from Hewlett-Packard to Iran as part of Huawei's telecommunications modernization efforts in Iran. Because she was the nexus between Huawei and this front company, she was arrested on charges of fraud, lying to international banking institutions about whether or not Skycom Tech was owned by Huawei.

**Demetri Kofinas:** 07:41 So, it wasn't that they were doing business with Iran, that Huawei was doing business. It's that they transferred American technology to Iran and that violated the sanctions.

**James Mulvenon:** 07:49 Yeah. It's not illegal for a Chinese company to do business with a country that the U.S. has sanctioned laws against. It is illegal when they violate the sanctions that China has signed up to under the UN but that wasn't true in this case. What was illegal was the computer equipment that Skycom Tech transferred to Iran would have required an export license to be transferred under the sanction regime, and Huawei through this front company violated that U.S. law.

**Demetri Kofinas:** 08:16 Now, you mentioned 5G, that's really significant. It's been a major source of anxiety for U.S. intelligence services, New Zealand, Australia and the U.S. have banned Huawei from their 5G networks. As I understand it, the U.S. has been lobbying Canada and the UK to do the same. I'd love for you to give me your thoughts on why the move to 5G is so significant, and why there's so much anxiety around giving a company like Huawei access to these networks.

**Demetri Kofinas:** 08:46 Then also, how much of this arrest was about the Iranian sanctions, and how much of it was really about ring fencing a company that the U.S. intelligence services and it's Five Eyes partners thinks is too tightly interconnected with Chinese intelligence to allow it so much access?

**James Mulvenon:** 09:05 Now, let's take 5G first. I mean, 5G is the next generation of cellular and I'm sure many of your listeners know that this is going to be this big leap forward. It's going to be sort of a mesh system that is going to dramatically increase bandwidth speed, and also facilitate the introduction of billions more of these IoT, internet of things, devices like cameras and ring doorbells and Nest thermostats.

**James Mulvenon:** 09:34 But it's really going to allow the computer, in a sense, to sort of begin to fade into the walls and we're going to have what people call ubiquitous computing and that's really key for wearables and really much more science fiction where the computer is all around you at all times and you're not as tied down to handsets and devices and tablets and things on those lines.

**James Mulvenon:** 09:57 Huawei, for its part, is actually, despite its beginning as a copier and someone who had illegally over licensed technologies now, illegitimately, globally innovative tech company and has really put all of its chips down on 5G and has a very impressive suite of

technology related to 5G and has been deeply involved even in the development of 5G standards globally. Such that Huawei, and this is a very important point, is the only global telecommunications equipment company that is currently producing the entire end-to-end range of 5G equipment, so everything from handsets, to base stations, to servers and switches and routers, right?

**James Mulvenon:** 10:42 Nokia, Ericsson, Cisco, Juniper, they make pieces of it, but Huawei is the only end-to-end, right? Why is that significant? Well, a lot of people in the U.S. government are very concerned that when the 5G modernization starts in the United States, that what are called the Tier 1 carriers, your AT&Ts, your Verizon's, your Sprint Nextel's, who had historically avoided putting Huawei equipment in their networks, because of the concerns of the U.S. government and the national security agency and others, will then have no choice but to put Huawei equipment in the network because there are no substitutes for it among other companies.

**James Mulvenon:** 11:20 So, that's really been a big issue, and some of the moves that have been made preemptively, you mentioned the Australians and the New Zealand's, these are countries that are in the Five Eyes intelligent sharing relationship with the Brits and the Canadians and the United States. The Five Eyes have really sort of gotten together and decided that they're going to have a common front to not allow Huawei 5G equipment into their networks, and that's why the arrest of Meng Wanzhou in Canada is so significant, because the Canadian government has not yet agreed to ban Huawei equipment in their networks. So, it creates a new source of friction with the Chinese on that issue.

**Demetri Kofinas:** 11:56 Supposedly, Donald Trump was unaware of this when he met with Xi Jinping in Argentina. How much of this is independent judicial action that's been working its way through the courts, and how much of it has been top-down, maybe even from the intelligence services?

**James Mulvenon:** 12:10 Well, I mean, the thing is the case against ZTE that first indicated to us that F7 was going to be Huawei was first dropped in 2010, and I have been working with people and talking to people in federal law enforcement for years about this and it was just a question of timing and things along those lines. So, I think the timing, for instance, of her arrest was entirely serendipitous that she just happened to be transiting a friendly country that had an extradition treaty with the United States.

**James Mulvenon:** 12:37 I've seen evidence that there was prior planning that this was going to be used as leverage in the trade war negotiations with the Chinese or anything like that. I mean, she had to be in Canada for this to work, but at the same time, these kinds of things are often handled directly by federal law enforcement but there is some indication that John Bolton, the National Security Advisor, at least was asked, is this a bad idea? He was given the option to sort of veto it and didn't veto it.

**James Mulvenon:** 13:06 By all indications, the president had no prior knowledge of it, and I've even heard stories that Xi Jinping was told at the table with Trump, that this was going down, which has all the sort of feel of a New York City mafia kind of hostage taking sort of feel to it, like Donald Trump is sitting there sort of smugly grinning knowing that he's got a card up his sleeve. But that may just be a me projecting.

**Demetri Kofinas:** 13:30 So, that's a good point about card up their sleeve, because Larry Kudlow when asked about this recently, he basically said these are two separate lanes. I think he called them one is the trade lane and one is the law enforcement lane, and that they're different. They're different channels, and he thinks that they'll be viewed differently by the Chinese authorities and Xi Jinping. From your understanding, how do the Chinese interpret this? Do they feel that it's coincidental, or do they think that this is part of the Trump administration's negotiation strategy on trade?

**James Mulvenon:** 13:59 Well, I mean, the thing is that it fits with a much more hardball strategy than they're used to seeing from the previous administrations. The problem is that from afar, it all looks like an elaborate sort of well-coordinated conspiracy, in the same way that I think a lot of American analysis of China falsely sort of engages in sort of the cognitive process of filling in gaps and data by filling it with conspiracies, you know what I mean?

**James Mulvenon:** 14:28 I'm well known in D.C. for what's known as Mulvenon's third law, which is that the value of any PowerPoint briefing on China in the Pentagon is inversely proportional to the number of Sun Tzu quotes in the briefing. The idea being that we use things like Sun Tzu as cognitive placeholders for lack of data. When we look at real Chinese policy making, we see internecine struggles and backstabbing and bureaucratic competition and everything else.

**James Mulvenon:** 14:53 What the Chinese when they look at our system, they have a lot of trouble understanding the independence of the three branches of government and they have a lot of trouble believing

that there isn't more political influence on law enforcement decisions, when in fact, in my personal experience working on dozens and dozens of Chinese economic espionage cases, is there's often very little political interference in these sorts of things.

- Demetri Kofinas:** 15:15 They just have a pace and a timing of their own. So, I do want to ask you what impact you think this would have and will have on the trade negotiations. That's one question I have for you. Then a separate one to continue along with Huawei and the efforts of America, I mean I guess these kind of all come together before we started the conversation I mentioned to you the analogy that I had been thinking about with respect to the Soviet Union in the 1950s and early '60s and the anxiety that the United States government had that the Soviets with their command and control model were going to be able to grow faster.
- Demetri Kofinas:** 15:51 They were growing very strongly after the end of World War II. They launched Sputnik. They were showing themselves to be technologically capable adversary and so that was a big part of the impetus that led to the subsidy and creation of the military-industrial-congressional complex. Something similar has been happening in the United States where there's been a push for that by U.S. officials.
- Demetri Kofinas:** 16:13 One case in point was the fight between the United States government and Apple over the jail breaking of an iPhone. There's a sense in which the Chinese have an advantage in the sort of international espionage cyber war realm because of the relationship, the tight relationship between the government and the commercial sector. There is this battlefield on the one hand that's happening there, this clash, of which Huawei is part. Then there's also this interdependence which didn't exist with the Soviet Union and the U.S.
- Demetri Kofinas:** 16:47 During the Cold War, our economies weren't interdependent in the way that ... I mean we sold wheat to the Russians. I'm sure you know much more about this than I do. But we weren't interdependent the way we are with the Chinese. There wasn't this commercial relationships and these dependencies of American companies and Chinese manufacturing and the like, but now there is.
- Demetri Kofinas:** 17:05 So, these trade negotiations are significant and they're pushing in one particular direction. Private enterprise wants us to resolve this trade dispute so that there could be some certainty around regulations and tariffs and such. At the same time, the intelligence establishment, the military, I think they have

different incentives, right? Their desire is to hold and maybe I'm also mistake because at the same there is a desire, has been expressed by a number of companies around getting the Chinese to play fair. So, I guess this is a way of asking the incentives are so complex here. It's hard for me when I'm looking at it to think about who's driving the train, both in China and in the United States.

**James Mulvenon:** 17:47

I agree with a lot of the sort of structural features of the problem that you laid out. On the one hand, there's a lot of people who are very admiring of the Chinese government's ability to mobilize resources to do national level industrial planning, a lot of things that frankly the U.S. system is terrible at. Our strength is the dynamism of the market and having an independent legal system and a strong banking system and a strong investment system.

**James Mulvenon:** 18:14

But let's look at China for instance. China does share that with the former Soviet Union, this ability to mobilize these massive projects, whether it is building the high speed railway, the Tibetan plateau, or all the energy they're putting into man spaceflight and things along those lines. But like the Soviets, there are a lot of questions about whether it is just a question of mobilizing resources or where is this innovation spark coming from?

**James Mulvenon:** 18:43

There's a lot of questions about the Chinese economic modernization when it comes to the really higher end innovation, because they still have tremendous problems with their education system, which is still largely focused on rote memorization and there's a real crisis, I would argue, on the innovation side in many sectors where the Chinese are pouring billion after billion after billions of dollars into centrally planned innovation, which is sort of oxymoronic if you think about it that way.

**James Mulvenon:** 19:12

There's entire sections of Chinese bookstores filled with books with titles like, "Where is China's Steve Jobs?" The point is that the Chinese legal system, the financial system, and the education system is really sort of ill-suited to spawn those kinds of individuals and so they're just forcing it and forcing it and forcing it, and when they can't innovate, as they discovered in the early odds, that is my argument structurally as to why they started engaging in large scale economic espionage and cyber espionage.

**James Mulvenon:** 19:43

What they couldn't force multinationals in China to transfer to them, they went out and stole, but what we see again and again

and again in the espionage record is they'll steal the technology, they're very good at reverse engineering it, they're able to recreate the product, but they don't understand the organic innovation and knowhow that sort of created it. So, instead of being able to then leap to the second generation of the product indigenously, they then go out and have to steal it again and start the reverse engineering process.

**James Mulvenon:** 20:14 When people say to me, "Well, what's the good news?" I say the good news is we don't see that same dynamism that you see in the United States in the high tech sector. You just see a tremendous amount of state pressure and coercion and regulatory manipulation and so on.

**Demetri Kofinas:** 20:30 Is Huawei an exception to that? Because I know they've been accused of stealing or copying or reverse engineering a lot of Cisco's technology during their initial phase, but they seem to have transitioned to a place where, like you said, they're unique and that they are an end-to-end manufacturer and provider of telecommunications equipment.

**James Mulvenon:** 20:50 I'm always careful to give them credit for it. Yes, I did spend a lot of my career documenting their sort of illegal copying, but they are really a global leader on 5G. But what are the ingredients of that global leadership? A big part of it is that the Chinese government worked hand in glove with Huawei in the international standards regime using international standards as a trade weapon.

**James Mulvenon:** 21:12 There is tremendous illegal subsidies, in my view, under the WTO in key Chinese sectors like semiconductors and other places. Huawei enjoys enormous advantages domestically that allow it to grow, including the fact that it is very, very close to the regulatory ministry, which gives it tremendous advantage over foreign competitors and it being able to exclude foreign competitors.

**James Mulvenon:** 21:37 It's not that the company itself just by the sort of dint of hard work and sweat on its brow became this global powerhouse. It was encouraged and supported and helped all along the way by the Chinese government in a way that the U.S. government would never do to an American company.

**Demetri Kofinas:** 21:55 So, we've had, going back to I guess, to Nixon but accelerated after the WTO, we've had this sort of frenemy relationship with the Chinese but it's always felt like it was a temporary truce. That was I think highlighted in the fact that the Chinese have had, from the beginning, clearly stated ambitions about

becoming a, if not global power, certainly regional power, but I think the implication was that the desire was to be a global power.

- Demetri Kofinas:** 22:22 The United States has tried and western allies have tried to accommodate that rise, is that a good way of putting it, by bringing them into the neoliberal order that the U.S. spearheaded after World War II. It seems that that strategy has failed. Would you agree with that?
- James Mulvenon:** 22:39 I mean, the thing is that between '72 and '89, the real focus of Sino-U.S. relations was having a relationship with the Chinese as a counterpoint to the Soviets. By '72, the Chinese already had a border skirmish with them in '69. There was no love lost there. I mean, obviously for a significant part of that period, there was nothing about the Chinese system that was at all compatible with the United States.
- James Mulvenon:** 23:04 It was pure sort of Kissingerian Realpolitik sort of foreign policy, and then the '89 Tiananmen Massacre really reminded a lot of people of the true nature of the Chinese regime, which is a Leninist party built on secret police and coercion and military power and everything else. That was really sort of the first disillusionment, if you will, and then as their sphere of influence started expanding in Asia, in terms of their trade and everything else, it started naturally chaffing up against the U.S. alliance structure in the region.
- James Mulvenon:** 23:39 Ever since then, we've been rarely sort of eyeing each other, cooperating where we can, trying to negotiate conflict where we can, involving Taiwan, involving other sort of sources of contention. But the real change for me in the last five years or so has been China's abandonment of historically sort of modest approach to international affairs, the hide and bide strategy where there's sort of don't get high on your raising, as we say in the South, and really this sort of triumphalist kind of ugly this is China century.
- James Mulvenon:** 24:15 You saw it in frankly what I thought was sort of the distasteful opening ceremony at the Beijing Olympics. There's really this sense of China on the march and sort of this cocky swagger and everything else. Xi Jinping as sort of the leader for life has really embraced this sort of culturally exceptionalist narrative about the superiority of Chinese civilization and historical destiny and all these sorts of things that has been well documented by other people.

**James Mulvenon:** 24:48 I think that has ironically created a new bipartisan consensus in the United States that China's rise is not going to be integrated into the liberal international order, but in fact is a revisionist power that is seeking to overturn critical aspects of the liberal international order.

**Demetri Kofinas:** 25:06 That's something actually I wanted to ask you, which is given that the foreign policy approach to China has been to accommodate its rise, hoping that by integrating it into the global order, not only would it lead that order, but become part of it but also that American values and Western values would integrate into the Chinese economy.

**Demetri Kofinas:** 25:27 That hasn't happened. How has the foreign policy community in Washington adjusted and where is the government and where are the sort of eggheads and think tanks? Is there a consensus emerging on how to deal with China given the dynamics that exist today and where they seem to be going?

**James Mulvenon:** 25:46 We're in an awkward spot right now, because there's a bit of a taking sides going on, and there's some finger pointing and name calling and a little bit of a who lost China debate. People are raising strongmen arguments and saying, "Well, I was never so naïve as to believe that economic development was going to lead to political liberalization. Maybe he thought that, but I never did."

**James Mulvenon:** 26:30 A lot of people doing sort of a personal revisionism. The bottom line is when you look at countries like Taiwan, right? Taiwan is actually an interesting laboratory. The Kuomintang, the leading party in Taiwan for many, many years after 1949, was also a Leninist party set up by the Comintern with the Central Committee and a politburo and everything else.

**James Mulvenon:** 26:31 The argument of Sam Huntington and others was that you look at South Korea, you look at Taiwan, that as their middle class developed and their socioeconomic status got above a certain level, that people began saying, "Well, why can't I exercise personal political autonomy in the same way that I can exercise personal economic autonomy in the marketplace," and then graduates these new atavistic social forces that seek ways of articulating their policy preferences, which leads to a gradual democratization, like we've seen in Taiwan and South Korea.

**James Mulvenon:** 27:04 The argument would be that once the Chinese middle class got to a certain size, that they would also begin asking, "Why can't I articulate my personal political preferences?" You would see the Chinese communist party try to co-opt those new forces by

creating quasi democratic channels and using the National People's Congress and things like that.

- James Mulvenon:** 27:27 In fact, we've seen the system go the exact opposite direction. It's become more authoritarian, more dystopian in its surveillance state, and more ruthless in terms of suppression of alternate political viewpoints, and that's been deeply depressing to the chattering classes here in D.C. that had hoped that those natural political processes will work themselves out.
- Demetri Kofinas:** 27:51 So, this is something else I was thinking about. I mentioned it earlier when I said about these countervailing interest groups and the fact that the military has certain interests in United States, the intelligence community, even within the intelligence community, the commercial sector, et cetera, and to what extent that's also true in China.
- Demetri Kofinas:** 28:09 But given some of these very large differences in values, you're saying that the internet in China functions very differently than in the United States. The surveillance system in China is, as you said, Orwellian. Is there enough daylight between the two countries where you think that they can actually arrive at some sort of accommodation in foreign policy for diplomatic relationship that can work long-term?
- Demetri Kofinas:** 28:38 Because we're not being given that as citizens, but we're being told our theories of Thucydides Trap Graham Allison's view that sort of conflict is inevitable, or people that want to continue moving down this path of accommodation with the hope that eventually what hasn't happened up until now will happen, that China will integrate, that it will liberalize. Do you see daylight between these two countries, where a new type of relationship can emerge?
- James Mulvenon:** 29:04 Well, I think that right now we're probably in one of the most dangerous periods we've been in in a long time. Obviously we've weathered major crisis in the past, but let's look at structurally how we weathered them. I was in Beijing actually. I landed in Beijing just as the five U.S. missiles landed in the Chinese embassy in Belgrade in Yugoslavia in 1999. I was on the streets during all of the protests there.
- James Mulvenon:** 29:29 Obviously, we had our own hostage crisis, as I'm allowed to call it, because I'm not a U.S. government employee, involving the air crew of our EP-3A that it was forced to land at Lingshui airfield on Hainan Island after a Chinese fighter aircraft collided with it. So, how did we weather those crises? We had no crisis management mechanisms. The Chinese are terrible at strategic

communications and escalation control because of the nature of their system.

- James Mulvenon:** 29:56 What the leaderships on both sides came back to, at the time, was the strong standing pillar of Sino-U.S. relations was the trade relationship and the economic relationship, the business community. The big change, Demetri, in the last 10 years has been the shaking and cracking of that final strong structural pillar supporting cooperative, mutually beneficial Sino-U.S. relations.
- James Mulvenon:** 30:22 The reason was because companies now are finding it increasingly difficult to make money in China, and were the victims of large scale espionage and felt that they were being disadvantaged by regulatory ministries and industrial planning. The bloom was really off the rose of this idea that they had to go to China and they were going to make money in China, and that the Chinese economy was going to mature in a way where we could all make money together.
- James Mulvenon:** 30:46 Instead, the legal system and the political system and the government system all seem to be stacked against Western companies succeeding on their own merits, and seemed instead to be designed to force Western companies to partner with their natural competitor in the China market, transfer technology and then have that national champion Chinese company push them out of the domestic market, and then compete with them globally.
- James Mulvenon:** 31:10 There's been a tremendous disillusionment, and so that's my worry is that the next crisis that comes along, we're not going to have that strong constituency saying it's worth it because we're making a lot of money here and the trade relationship is more important than any sort of small scale foreign policy crisis.
- Demetri Kofinas:** 31:26 Kind of an interesting parallel. It's not exactly the same thing, but the European Coal and Steel Community, which eventually became the EU and EMU, the UK was not part of EMU, but the attempt had always been to use these super structures and these relationships to tighten integration and make long-term union and stability more likely. We've seen that break down in Europe with Brexit and I feel like we're seeing something similar happening with China.
- James Mulvenon:** 31:53 No. I mean, I think that Marx would accurately describe the sort of front lines in this super structure arrangement, I mean look at the breakdown of what had been the so-called liberal

international order on the international lending and funding side, right?

- James Mulvenon:** 32:08 So, World Bank, IMF embedded with Western notions of governance oversight and anti-corruption being undermined by the Asian Infrastructure Investment Bank and other Chinese initiatives like Belt and Road Initiative where there's not going to be the same stressor in terms of governance and best practice. Who would you rather take your money from? The one who's going to tell you that you have to change your political system or the one who is not going to change your political system?
- Demetri Kofinas:** 32:37 You know what's interesting though about that? The point you raised earlier dealing with the way that the Chinese government and regulations and laws have dealt with foreign businesses in China, and compared to the narrative that they've put out. A lot of companies and businesses have invested in China expecting and hoping that they'll be able to do business there, and that have found it increasingly difficult. Many have left like prime case obviously Google.
- Demetri Kofinas:** 33:02 Similarly, you were talking about the Belt and Road Initiative and the foreign investments and the bilateral relationships to China has been engaged in abroad, a lot of those have also soured, right? As I understand, there is a narrative that China puts out, and then puts a lot of money and effort behind this propaganda that it's an open liberal, it's economy with respect to businesses, and similarly, in respect to its foreign policy but a lot of that is backfiring. How is China navigating its attempt to sort of expand its influence internationally?
- James Mulvenon:** 33:38 Well, the thing is that first of all, the plural of anecdote is data, right? My father did business in China for many, many years selling nuclear radiation detectors, and he was there in the '80s when it was a very immature economy and Western technology was highly priced and foreigners were frankly put up on a pedestal.
- James Mulvenon:** 33:56 By the end of his career, the system was becoming much more aggressive. We would sit in the bar at Charlie's Bar at the Jianguo Hotel in Beijing and watch these businessmen get off the airplane, "My board wants me to be here, but we have to make money." Then we'd see him a week later and they would just be all sort of flattened and dejected and their wallet pocket was sort of folded down and they'd lost a heel on one of their shoes and they were going back to the airport to fly home.

**James Mulvenon:** 34:24 It's just becoming increasingly difficult to do that. Look at the person who introduced you and I, Demetri. Anne Stevenson-Yang was a lifer. I mean, she was a classic expatriate lifer who was there. She spoke the language. She was there to help companies, and she just got frustrated. A week doesn't go by where I don't get an email from someone I knew who I thought would never in a million years leave China who are leaving because they just can't deal with it anymore.

**James Mulvenon:** 34:51 They can't deal with the pollution. They can't deal with the bureaucratic hassles. They can't deal with the fact that they thought the system was going to get more level playing field. They thought it was going to get fair. They thought the courts were going to get fair. They thought it was going to get easier over time to do what they were doing. In fact, what they found was they were just increasingly disadvantaged and frustrated and many of them are leaving.

**Demetri Kofinas:** 35:13 Was there a certain turning point where this became more obvious for American businesses and international companies and individuals operating in China? Or has it just been a frustration that's built over time because of the unwillingness of the CPC and the government entities to reform themselves adequately?

**James Mulvenon:** 35:33 Well, there were a couple of turning points and I would particularly point to the financial crisis in 2008 where China was asked to take a leadership role internationally, to help refashion the international financial system and they said, "Nah, no thanks. We're still going to just keep our head down," and weathered the storm fairly well.

**James Mulvenon:** 35:52 I think it actually had the unintended consequence of convincing the Chinese regime that their plan, that their course of sort of state directed capitalism was superior to the free market model that they had been told for 20 years was really the ideal they needed to be working towards. What they saw in the financial crisis was the complete implosion of a lot of the Shibboleths of that free market philosophy.

**James Mulvenon:** 36:19 I think it caused them to double down on what they were doing despite the incredible dysfunctional pathologies within the Chinese system. I think it gave them a false sense of confidence, and really efforts subsequent to the international financial crisis to get China to change key structural aspects of their economy have fallen on deaf ears I think.

**Demetri Kofinas:** 36:40 How does the U.S. enterprise, American enterprise, how do we navigate this relationship now? We touched on before these two different areas of trade on the one hand, and commercial espionage. Another way to maybe look at it is the commercial relationships and the geopolitical relationships and the tensions between those two, am I right to focus on those two?

**Demetri Kofinas:** 37:01 Because it seems to me that the trade negotiations pose, in some cases certainly for certain businesses, existential threats to their business and certainly we could see a huge drop off in growth and in commerce as a result of any additional tariffs or regulatory actions that are initiated against either country. But then there's also this issue with IP with commercial espionage, with theft, with surveillance generally, also the infiltration of both societies, so both the Chinese country's infrastructure and American infrastructure have been infiltrated by both sides.

**Demetri Kofinas:** 37:42 The rules of cyberspace, something that we've talked about on the show before, I mean, the world of cyberspace is the deterrence model of the nuclear age on its head where you're incentivized to use a weapon rather than disincentivized to use it. There isn't any clear definition of what an attack in cyberspace is. All these things are still coming together. It feels very chaotic.

**James Mulvenon:** 38:04 It does. I've done a lot of work over the years on cyber deterrence and one of the key things right off the bat that is noticeable about the U.S. China situation is one, we're very clearly in a deterrence hole with respect to China. It's clear that China doesn't believe they found our pain point yet, because they have escalated attacks and intrusions often without any response from our side.

**James Mulvenon:** 38:29 The first rule when you're in a hole is to stop digging, but then we're going to have to have a series of sort of Berlin airlifts and Cuban missile crisis along the way where we restore deterrence stability to that domain. One of the main challenges we have restoring deterrence stability is that China is the world's IT workshop. This is another structural difference with the Cold War, because it's as if during the Cold War, the only source of enriched uranium in the world was the Soviet Union and we had to trade with them in order to acquire the uranium to enrich to then build nuclear weapons to then target the Soviet Union.

**James Mulvenon:** 39:02 The idea that China is the world's IT workshop meant that they are the vector for the creation of the very weapons being used in cyberspace to be able to undermine the U.S. economy and the U.S. political system is sort of perverse. That's why I think

the U.S. government has been really looking around for various industrial strategies that it can use. In my view, this is my personal opinion, the Pentagon has decided that semiconductors and integrated circuits are the hill that they want to die on, because it is the foundational technology under so many other technologies.

- James Mulvenon:** 39:38 So, when you look at the possibility of the tariffs leading to a strategic decoupling of the U.S. economy from the Chinese economy, the area I would look for most is semiconductors, where U.S. companies still have technological predominance, where we could onshore back critical features of it and pull it back from China. But that would require enormous friction and disruption in global supply chains. It'd probably take a decade or two to sort out, but if you're looking for an example of sort of the economic philosophy, the administration playing out about sort of going to a more autarchic model that's where I would look.
- Demetri Kofinas:** 40:19 That's interesting. Do you think that this is a policy that will extend beyond this administration? I think there's this hope or expectation by some that the Trump phenomenon is unique to that administration and it's unique to a certain type of certain brand of populism.
- Demetri Kofinas:** 40:34 But as, I think, you've pointed out and as I've come across in my research, this is not an unpopular position among even business people, certain business circles in the United States that there is a sense in which the Chinese have been operating on an even playing field for an extremely long time. Not even necessarily dealing just in terms of subsidizing domestic industries, but in the way in which they've been aggressive in their tactics and that this is a policy and an aggressive stance, the stance of the Trump administration, that is sufficiently popular so that it actually could become a new posture for American trade relations.
- James Mulvenon:** 41:13 Well, I mean, I would distinguish on the one hand between the strategy, which says that people's mindsets about China have really begun to turn and sort of the impunity with which they conducted planetary scale espionage against U.S. companies and the U.S. government and the things that they've been doing have finally gotten to a tipping point where there is this sort of bipartisan consensus, for instance, among people in Congress on both the Democratic and Republican side, that we need to have a much more hard-nosed policy about China, and the operations and tactics of the Trump administration, which may or may not survive to the next administration.

**James Mulvenon:** 41:51 Then you also have to factor in that China has been really put on its back heels by these moves by the Trump administration, and is very likely going to do some very reactionary and very volatile things in response, and that those reactions themselves may, in fact, solidify the post-Trump constituency that has a much more jaundiced view of China.

**Demetri Kofinas:** 42:14 You're saying the Chinese will react in a volatile manner in response, or the Trump administration will?

**James Mulvenon:** 42:20 Yeah, the Chinese have a long history of misunderstanding the mechanisms of American democracy and acting in ways that really shoot themselves in the foot, and largely to placate their own domestic constituencies and because of the lens with which they view things. So, China has proven itself many, many times fully capable of overreacting to this phenomena, overcorrecting and in fact, creating the self-fulfilling prophesy of a much more aggressive hostile China that is in direct competition with U.S. interest.

**Demetri Kofinas:** 42:55 Do you think that there have been benefits to the Trump administration's aggressive stance that this is something that, the need to confront China was something that was going to have to happen one way or the other? Then the second question is, do you agree with the way that it's being done? How could it be done better? I mean, what is your view on that?

**James Mulvenon:** 43:13 I mean, the thing is that a lot of the areas that I do research in, I guess I can say that I appreciate that this administration is a little bit more risk-acceptant in terms of being able to push back on some of this activity. When you study China's cyber and Chinese illegal tech transfer, as I have for the last 20 years, it was easy to despair and ask yourself, were we ever really going to systematically push back on this behavior?

**James Mulvenon:** 43:40 We are now finally, and the administration has to be given credit for that, because it is more risk-acceptant. At the same time, I think that the real problem that I see right now is the incoherence of the execution of that strategy. The Chinese side is just fore mixed. Who are they supposed to listen to? Are they supposed to listen to Mnuchin, Kudlow, Kushner, Lighthizer, Ross, Navarro? Combinations of all six?

**James Mulvenon:** 44:10 There's a lack of management of the message that is driving the Chinese side crazy and they keep sending wave after wave after wave of barbarian handlers to U.S. think tanks to try and figure out who in the leadership of the Trump administration is the person we're supposed to be listening to, and the conclusion a

lot of people are drawing is whoever the last person the president talked to.

- Demetri Kofinas:** 44:32 There isn't really a coherent policy. In fact, much of this is driven by political motivations, or political instincts.
- James Mulvenon:** 44:40 Well, I mean, I don't know whether my wife is going to allow me back in the house tonight, but I mean, there is an economic philosophy at the heart of the Trump administration. I'm not an economist, so I can't judge it one way or the other, but it is a view of the value of tariffs, the preference for bilateral trade negotiations, vice multilateral institutions.
- James Mulvenon:** 45:03 They have a point of view and they're executing that point of view, and I know a lot of people disagree with it. I think it's wrong. Then a lot of other people look in the Rust Belt in the United States and say, has globalization really been good for us? It's been good for the sort of bougie class who shops at Whole Foods, but has it really been good for people in the Hinterland. That was really the constituency that the president tapped into.
- James Mulvenon:** 45:27 Now, I don't believe that the coal jobs are going back to West Virginia. I don't believe that we're going to build more cars in the United States. But there is somewhat of a philosophical coherence to the view. Whether it's right or wrong, I can't be the judge.
- Demetri Kofinas:** 45:40 It's interesting. It seems to me that much of the conversation or debate, at least in the media and certainly coming out of official channels of the administration, has been around trade, manufacturing, helping the American worker. But it seems like what really matters to China and what the really big story here is not about any particular tariffs or rebuilding American manufacturing. It's really about figuring out a more sustainable strategy in a way to deal with what is becoming increasingly clear to be a major geopolitical, the geopolitical adversary of what has been the global hegemony for the last seven years, namely the United States.
- Demetri Kofinas:** 46:26 It's interesting. This administration just like they dealt with North Korea, on the one hand, if it all works out, you can look back and say maybe that's exactly what we needed. But on the other hand, it is scary and it feels uncoordinated. You mentioned people from the Chinese administration coming to the United States trying to figure out who's leading what policy.

**Demetri Kofinas:** 46:49 I mean, I think Rob Joyce was the cyber security coordinator. I don't think we have one now. I don't know how significant that is. How much does the public appreciate maybe am I overestimating the importance of the need to develop some sort of new strategy for dealing with China?

**James Mulvenon:** 47:06 Well, I mean, the thing is that there are good people in the system. Rob Joyce was an excellent leader, and when they got rid of him, they said that they were going to have a new cyber coordinator and then Mr. Bolton came in and said we didn't need one and he was just going to assign them as other duties to his new deputy national security advisor, Mira Ricardel, who was just cashiered for apparently stealing Melania's seat on an airplane.

**Demetri Kofinas:** 47:30 I heard about that.

**James Mulvenon:** 47:31 And denying resources to her staff from the NSC. So, Mira Ricardel is gone, so she was supposed to be the part-time cyber coordinator and I'm not exactly sure that anyone has replaced her. Certainly a diminution of the importance of cyber that doesn't accord with the sort of strategic salience of it.

**James Mulvenon:** 47:50 But at the same time, to your argument about basically you could crudely say it, maybe only a Trump could negotiate with a Kim Jong-un, you know. Maybe only a Trump could go toe to toe with a Xi Jinping. Maybe the more consensus oriented professorial approach of previous administrations wasn't really producing results.

**James Mulvenon:** 48:11 I mean, I was sort of joshing with a friend of mine, who was a senior official in the Obama administration. I said, "Oh yeah, how many trade concessions did you get out of the Chinese?" In other words, are they responding to these hardball tactics? My view is they might be if we actually had a coherent sort of negotiating strategies instead of this on-off, on-off, on-off all day long, you know.

**Demetri Kofinas:** 48:34 That's the thing. That's what I'm kind of hinting at and I'm reticent to say it because I don't know enough to say it with confidence. But it feels somewhat like we've got the beer-muscles, you know what I mean? There's a willingness to act tough, but in a way that maybe is wasteful because it's not coordinated because we don't actually have a coherent strategy.

**Demetri Kofinas:** 48:54 The fact that they haven't replaced Rob Joyce, they don't seem to have ascribed the level of importance to cyber security as maybe warranted. Could be part of that. I mean, you'd think that they'd have a more coherent strategy towards China, and it feels very much like their strategy isn't so much a strategy, but much more about the political payback for basically sticking it to China and enacting certain tariffs and creating either the illusion or the actuality of support of the American worker. That's what the focus seems to be. Am I mistaken?

**James Mulvenon:** 49:30 No. I mean, I agree with that. Cyber is an interesting issue for me, only because there's only two ways to create deterrence, deterrence through denial and deterrence through punishment. We can't do deterrence through denial because you can't deny the internet or cyberspace to anybody because of its mesh packet-switched sort of nature. So, you have to look at deterrence through punishment. Previous administrations were very reluctant to sort of walk down the path that said the only way you can set up the credibility of deterrence through punishment is by having credible offensive action.

**James Mulvenon:** 50:01 This administration, when you read the DoD Cyber Strategy, when you read the documents coming out of the Trump White House, and when you listen to the speeches of the NSA director and Cyber Com lead, do understand that we needed to be more aggressive and risk accepting on the offensive side in order to establish deterrence stability. That's an example where maybe the sort of norm and tradition breaking of this administration has actually moved us advertently or inadvertently into a strategic space that's actually better for you as national interest.

**Demetri Kofinas:** 50:35 Do we need to develop an international attribution and sanctions regime that sanctions companies that benefit from cyber espionage like the kind we're describing? Do we need to engage in the kind of counterintelligence outreach to companies that the Chinese do? Does there need to be that level of support and collaboration and cooperation by the U.S. government? Is that where you're ...

**James Mulvenon:** 50:58 Let's look at two good examples. I fought these wars for years internally about how we were going to shape Chinese cyber behavior in a way that they wouldn't engage in commercial espionage on behalf of their state-owned enterprises. One of the first attempts was to indict five low level operators of Unit 61398, which did nothing, right?

**James Mulvenon:** 51:17 But then when the president put out an executive order putting in place a set of cyber sanctions against the senior executives of

Chinese state-owned enterprises that benefited financially from commercial espionage by Chinese state actors, almost immediately the head of the political [inaudible 00:51:34] leading small group Meng Jianzhu flew to the United States and sort of said, "I have the authority to negotiate anything right now," and that led to the Rose Garden promise by President Xi that they were going to tone down their commercial economic espionage activity. Why did that work? It worked because money talks and bullshit walks, right? I mean the thing is-

- Demetri Kofinas:** 51:53 Is that part of executive order 13694?
- James Mulvenon:** 51:56 Yes, sir. So, the issue is those high ranking individuals, the heads of Sino-Pack and Chinook and Sinochem are really much more senior Communist Party apparatchiks than they are oil executives and they're appointed to be in those positions by the Chinese Communist Party and are deeply connected to the factional networks within the leadership.
- James Mulvenon:** 52:19 So, you were really striking the administration where at its most vulnerable position which was the financial equities of these executives. To be put on an Interpol Red Notice list and to not be able to go to Davos with all your other bougie Davos friends, and to be able to pay your daughter's Harvard tuition with your ill-gotten gains was going to be a real problem.
- James Mulvenon:** 52:41 This is my argument about why just to bring us full circle, Demetri, the Meng Wanzhou arrest is in many ways striking at that same aristocratic red capitalist elite that is deeply connected to the Chinese Communist Party and is really sort of the opening salvo in what later this week is going to be a whole series of announcements about Chinese intrusion groups, very likely an official repudiation of China's Rose Garden promise by saying that China is now engaged in large scale commercial economic espionage again and has violated that promise.
- James Mulvenon:** 53:18 Perhaps even the laying the groundwork for a new more penetrating executive order on cyber sanctions that specifically names Chinese Communist Party and government officials and so on and so forth. And maybe even a large scale announcement about a U.S. government strategy on preventing Chinese 5G equipment from being in the network and maybe even a new industrial planning strategy with U.S. and European companies to counter it. I mean, all of these things could be in the works and for me, are all of the piece of the part of this strategy we've been talking about.

**Demetri Kofinas:** 53:51 We actually did an episode not long ago or maybe a bit long ago, I think it was Episode 33 with Bill Browder where we covered the Magnitsky Act. This sounds very similar. Are you saying basically that we should have something similar like a Magnitsky Act for Chinese officials who are engaging in malicious forms of commercial or state sponsored actions?

**James Mulvenon:** 54:11 Well, I think that we have historically done something similar to that. I think that a good example is going to be Magnitsky Act type sanctions against senior officials involved in the crackdown in Xinjiang, senior Communist Party officials that are involved in that, preventing their international travel, and also what is the one issue that really sent the senior Chinese leadership into paroxysms was when David Barboza and people at the New York Times and other media outlets reported on the billions of dollars of ill-gotten wealth.

**Demetri Kofinas:** 54:44 Yeah.

**James Mulvenon:** 54:44 They went absolutely ape about that stuff. So, they just telegraphed us. This is the area where we feel most vulnerable. This is the thing we're most sensitive about. Well, that's exactly the sort of thing that we need to go after.

**Demetri Kofinas:** 54:58 It's interesting because on the one hand we're seeing this breakdown in the commercial relationship or a challenge to it, but at the same time, there is, of course, Chinese officials and anyone that makes money in China wants to spend it in the West. People want to live in the West and they want to protect their assets in the West.

**Demetri Kofinas:** 55:16 It's interesting that that is an area where Western countries, in this case, specifically the United States, but through its partners can be effective in deterring or punishing members of the elite in order to get the country to act in ways that are more to its liking.

**James Mulvenon:** 55:34 Yeah. I agree with that. In fact, I was a big supporter of the expansion of the scope of the authorities of the Committee for Foreign Investment in the United States, CFIUS, and Senator Cornyn's FIRRMA Act. My main argument when I testified about it was the greatest source of leverage that the U.S. government has to change Chinese economic behavior is by shaping Chinese access to the U.S. market, whether it's investment, whether it's real estate, whether it's technology.

**James Mulvenon:** 56:03 The Chinese economy has a lot of good things going for it, but it really needs access to the American market. It needs to be able to acquire things to bleed off its large foreign exchange reserves and so on and so forth. That's a huge source of leverage that we have that I think could be used to greater effect in terms of creating more of fair balance, if you will, between the two economies.

**Demetri Kofinas:** 56:27 So, James, I don't want take up anymore of your time, but in closing, how do you see things developing over the next six months, a year? I think there's a 90-day deadline for a trade deal. That's not something that's been written in stone, but it's been talked about a lot. How do you see this playing out? Where do you see this going?

**James Mulvenon:** 56:47 Well, with the big asterisk of sort of the extent to which things going on in Washington might sort of flood everything out, I think that we're going to continue to have significant friction and conflict with the Chinese side across a wide variety of dimensions in national power, whether it's confrontations in the South China Sea over freedom of navigation operations around the Chinese sandcastles, whether it is trade and economic things, whether it's accusations about Chinese influence organizations operated in the United States, whether it's students, whether it's denied entities, whether it's illegal tech transfer. There's just a lot of fires being lit right now, and I don't see the heat going down any time soon.

**Demetri Kofinas:** 57:33 Well, James, I appreciate you coming on the show. I learned a tremendous amount having you on, and I appreciate it very much.

**James Mulvenon:** 57:39 Demetri, it was a lot of fun. Thank you for actually inviting me.

**Demetri Kofinas:** 57:42 That was my episode with James Mulvenon. I want to thank James for being on my program. Today's episode of Hidden Forces was recorded at Edge Studio, in New York City. For more information about this week's episode, or if you want easy access to related programming, visit our website at [hiddenforces.io](http://hiddenforces.io) and subscribe to our free email list.

**Demetri Kofinas:** 58:06 If you're a regular listener to the show, take a moment to review us on Apple Podcasts. Each review helps more people find the show and join our amazing community. Today's episode was produced by me and edited by Stylianos Nicolaou. For more episodes, you can check out our website at [hiddenforces.io](http://hiddenforces.io). Join the conversation at Facebook, Twitter, and Instagram

@HiddenForcesPod or send me an email. As always, thanks for listening. We'll see you next week.