

Strategies for dealing with China - John Manzella-final_mixeddown

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MURTHA: And welcome to the Pennsylvania business report podcast. I'm your host Jim Murtha.

In mid-October of the year 2000, President Bill Clinton signed a bill that granted permanent normal trade relations with China. What that meant at the time was that China would be granted a trade status equal to that of America's closest trading partners like Canada, Mexico and the European Union. This was no small thing. Having a trade deal with a country that had the world's largest economy was a boon to China in ways that only now are being fully understood. Back then, it was thought that bringing China inside the World Economic tent would tame the perceived threat China would become they were left isolated from direct participation in international trade markets.

Since a relatively modest beginning, China's economy has grown to be a close second to that of the United States. Because of its huge population and low labor costs, China manufactures trillions of dollars of goods for markets all over the planet. Now and for the past two years, the world has been dealing with a pandemic brought to you by COVID-19. In the US, demands for personal protection equipment, PPE and various drug therapies. We're at an all-time high, and supplies almost all made in China, we're at an all-time low.

Things have loosened up over time. With room to breathe, governments and businesses the world over are wondering if their desire for low manufacturing costs come at too high a price. Then throw in the newfound bellicosity of the Chinese

government, who was taken to threats for any perceived slights and the complexity of doing business with an in China become at best problematic.

Businesses seek clarity and direction. A large corporation even one with vast resources cannot impact national trade policy by itself. Government has to take the lead role, but what to do.

Joining us in today's program to discuss his thoughts on China and American business is economist John Manzella. Mr. Manzella frequently speaks on international economic issues all over the world. He's also, an author and the publisher of the Manzella report, a periodical that offers insight into the events and people that impact the US and world economy. He has recently outlined some ideas for the US that will help the country and its business community deal with the challenges presented by today's China. John Manzella. Welcome to the Pennsylvania business report podcast.

MANZELLA: Jim, thank you very much. It's a pleasure to be on.

MURTHA: Okay. Before we get heavily into your recommendations about China, I want to start with a kind of a basic question. And I think this is on the minds of a lot of Americans in the last four or five years. Should Americans view China as a competitor or an enemy?

MANZELLA: You know, Jim, that's a great question. And it's one that's asked, constantly. Let me before answering that. Let me just back up a second. When I talk to CEOs, I hear over and over and over again, that they need access to the world's fastest growing markets. And they tell me specifically, they really need access to the Chinese market. And they want us policy to reflect that. GM, for example, sells more cars in China than they sell in the US. So, in terms of business, I think the key really, for US companies is to be as innovative as possible in sell to global markets, and China is the largest, fastest growing market.

So, you know, if we have a choice here, I'd prefer to view them as a competitor, and allowing us to come to court to cooperate where we can and work together where we can. And then of course, you know, compete where we have to, and then negotiate well, we can cooperate. So, I don't see them as an enemy. However, the direction of tensions with China may be moving in that direction. I certainly hope not.

MURTHA: Well, you know, we all hope not, but I guess the actions recently have been they've ratcheted up a notch or two. And I guess that's why a lot of people are wondering about how we should look at them, but we'll move on from that.

Well, I wanted to get into the article you wrote about recommendations about US policy relative to China and how it affects the business community. You wrote an article and you outlined six different records. commendations and I want to go over each of them in our conversation today. Let's start with the first one, rebuild trust and unite our allies then approach China as a uniform as a unified force. Have we? Have we lost trust with our allies?

MANZELLA: That's another good question, Jim. Our allies, whether they're the Europeans, the Canadians, they all are experiencing the same problems with China we are. And we find that when we try to take on China unilaterally. What's happened is this. President Trump bumped up trade barriers, for example, against President Xi by Chinese imports, What did President Xi have to do to save face? Right, he had to bump up barriers to incoming products from the US. So, in the end, tariffs against us products were much higher than say Chinese tariffs against our Canadian allies, Mexican allies, Brazilians, Australians, Europeans, and what happened was our allies began gaining market share in China at our expense.

So, you would find that I would talk to agricultural exporters in the Midwest, and they tell me, John, we're losing our market share to the Australians and to the Brazilians. So, we found that there was sort of a divide and conquer strategy with the Chinese, we try to take them on one on one, and it just doesn't seem to work. But because the allies are experiencing the same thing we are with China, I think the only real approach is to get our allies on our side. And as you know, during the Trump administration, there was a lot of a lot of disagreement, some hostility. I think the President alienated many of our allies, and in some of the Allies had been taking advantage of us for years as well. So, that goes both ways. But we need the allies on our side to present a unified front against the Chinese. And I think that's what President Biden today is trying to do and has been trying to do since he took office.

You know, the European Union, the UK, Canada, Australia, Japan, South Korea, and the US, we all represent 58% of the global economy. And just China really want to alienate that 58% They need these markets for exports. So, I think that's really the only approach. And we've established different organizations, the quad, for example, US, Australia, Japan, and India, which really has an eye on checking Chinese aggression in the South China Sea, and in that region of the world. And

orcas, the agreement with the US, UK and Australians, which is a new security partnership. So, I think we're starting to see our allies coming on board. And it's difficult, Jim, because the Germans, for example, are highly dependent on Chinese markets. And So, the Germans, for example, don't want to alienate the Chinese.

But when it comes right down to it, the Germans are experiencing some of the same problems we are. And you know, nobody wants to be an economic battleground. So, publicly, they're not necessarily going to stand out against China. But But I think privately, when they speak to the administration, I think most agree that China has been a major problem. They haven't been playing by the rules. And the only real approach would be to unify our allies that approached China. And I think that's the only choice we have.

MURTHA: And you said that there are movements to that effect going on right now. Right. But is it? Are we just still in the talking stage? Is this something that the that the diplomats are talking about in in coffee clatches all around the planet? Or is there something tangible really going on out there in a way of a united front?

MANZELLA: Oh, I think I covered Yeah, another good question. I think I covered this in the one article, where I think right off the bat, President Biden met with NATO officials and China came up. It was agreed by NATO, that they've got to act as a unified force. And then we see the quad right, US, Australia, Japan, and India working together. And then Arcus, US, UK and Australia, New creating a new security partnership. So, it's not just talk, I think it's past the talking stages. And I think we are, at this point, working with our allies to coordinate efforts to check China. So, again, it's not just talk anymore. We are moving in that direction. I think that's a very good thing.

MURTHA: Let's move on to your second statement, cooperate, where we can and negotiate where we can't. Exactly where are we cooperating? Yeah, there are a number of areas that we have cooperated And these days? Yes, you're right. There's not a whole lot of cooperation. But I think, you know, with any with any partner adversary, I think it's always important to identify those shared values and work to our mutual benefits. Right. So,, you know, climate change and environmental issues? Well, I think we all agree that there's various problems with the global economy. From an environmental standpoint, I think the Chinese agree now the Chinese are the largest emitters of co2. But if you ever spent time in China, rarely can you see the stars at night, and rarely can you see the sun during the day, because there's So, much pollution. And the Chinese I think, as much as

they're still dependent on coal, which is very dirty burning. I think the public as a whole is had enough. And China and the number of deaths attributable, attributable and the number of sicknesses in China attributable to pollution is skyrocketing. And as the Chinese middle class grows, you know, they're gonna want some of these improvements, right, as they become more powerful and push back against the ruling party.

So, I think China recognizes that they've got to be more environmentally friendly, if nothing else, to satisfy their own populations. And I think that we can cooperate their nuclear proliferation cooperate there as well, international terrorism, we've got the same interests there. I wouldn't go as far as saying peacekeeping missions, although that was an interest in the past. And then, of course, we've got to negotiate where we can't cooperate. And there's a whole number of those issues, right? There's the fact that US companies, for decades have been pressured to turn over sensitive technology to the Chinese in exchange for access to that market.

You know, we, we've got to push back on things like that they restrict us companies operating there, we don't restrict Chinese companies operating here. They unfairly subsidized state owned enterprises tremendously. They've got the Made in China 2025 strategy, which is really an effort to dominate industries of the future, like artificial intelligence, or 5g. Before the show, you and I were both mentioning intellectual piracy, which is tremendous. In fact, the FBI says it's the greatest threat to us security is Chinese property theft, you know, that we can go on and on the National Security Law placed on Hong Kong, repression of the Wiegiers, the militarization of the south China Sea, these are all things China has engaged in that has ratcheted up tensions. And again, not only with the US, but tensions with the rest of the world tensions with our allies. So, we obviously can't cooperate there. But I really do think we have to negotiate where we can. And those are those few areas I just pointed out,

MURTHA: Well, let me let me cast a skeptical eye on that. I mean, if you're talking about like, cooperation, let's take something like the Paris Climate Accords. You know, when it was signed in the Obama administration, you know, we were there. And we had some real and tangible benchmarks to make and reduction of co2. And for some reason, for somehow China was carved out along with India, and they're the two biggest polluters in the world. And, you know, and there are all kinds of alleged agreements that the Chinese have signed, but it doesn't seem like they were all good at following through on the foundations of the agreements. So,, I guess that it's becoming more and more difficult to sell any type of agreement

with the Chinese, at least to the American public, because no one believes they're actually going to follow through on him. Maybe that's overly simplistic. Maybe there are plenty of agreements where they are, it just seems like they're not.

MANZELLA: You know, they have cooperated for years in various areas, like with WTO. And when we've come down with certain WTO issues, we've won a dispute. In many cases, they have agreed but the some of the major ones, you're correct, they have not. And they've pulled back on a number of others when it comes to the co2 emissions, for example, their argument along with India's like, Look, you guys are advanced countries. You guys had a tremendous amount of pollution when you were a developing country, moving up that economic ladder, we're still in the developing stage, they'll argue, and we haven't gotten to that advanced stage and in the process, we are polluting much more. But you did when you were in that development stage, that's their argument. But the bottom line is, they are the biggest emitters of co2. So, how do you how do you take these situations? and try to cooperate. It's very, very difficult.

I think the Chinese in many ways, I think President Xi is walking a tightrope, which in many ways is like a high wire act, right? His job is to create as many Chinese jobs as possible and offer economic opportunity to his population. Otherwise, it's off with the leadership's head. Their only real legitimacy is to provide economic growth and higher standards of living and jobs for the Chinese population. If they can't do that. It's off with the leadership's head. And So, economic growth is the most important thing, the second most important thing, the third most important thing, the fourth most important thing, etc. So, they've got to achieve these goals at all costs. I think why? I think George HW Bush had asked President, who years ago, what kept him up nights? And his answer was creating, and I don't remember how many jobs right now the answer it was, but it was creating a tremendous number of jobs, actually, I believe he's creating. I'm sorry, it was George W. Bush. And he asked President who what keeps them up at night, and President who said creating 25 million new jobs a year.

So, that's their biggest issue. And if they can't do that, again, it's off with the leadership's head. So,, because that's such a primary goal, everything else is a distant second dairy issue. And as a result, they're going to continually break agreements, because their priority is to create jobs at all costs. And that he made that that means, you know, producing products. And as a result, you've got pretty high co2 emissions.

MURTHA: We touched on this briefly, in some of your answers, earlier questions. But your next recommendation is to commit to multinational institutions. And there's a lot of them out there, but which ones do you think are paramount for us?

MANZELLA: Yeah, and this goes to my number one point is we have to rebuild trust and unite our allies. And we do that through the WTO, the World Trade Organization of the UN. Right. Now, interestingly, you may be call, you know, we work with the Cato Institute, from time to time, and Daniel Ikenson, who's recently I believe, left the Cato Institute. He's written for the Manzella report, brilliant guy, he came to the conclusion after a deal of research that 87.5% of cases, the US has brought to the WTO against anyone, 87.5 per cases, percent of the cases we've brought, we've won, and many of those have been against the Chinese. And other scholars have pointed out that over 16 years, the US challenged China 23 times and the deal in the WTO in 120 times, with three pending, as of 2019. So, these organizations, whether it's the WTO, or the UN, I think they're organizations that help us work closer with our allies, and mechanisms to putting pressure against the Chinese. So, one, and number three really sort of work together. So, you know, building trust and uniting our allies, and then working through these multinational organizations, I think is key.

MURTHA: Let's take the WHO, for instance, the US is the biggest contributor, but it seems as though the Chinese have more influence over what they do than anyone. You know, going back to the origins of the pandemic, the W. H O, seemed like an adjunct of the Chinese Communist Party, and was pretty much mouthing all the words that the Chinese wanted them to say. As much as multinational organizations are pivotal in keeping lid on humanity here. Don't we have a right to be somewhat skeptical about though some organizations?

I mean, the new random is not exactly. I mean, they do a lot of strange things. If you take a look at the member countries and their human rights commission. You know, China was part of it. And they're actually enslaving people, like the wiggers. And there's some other like Venezuela, Cuba has been on it. And it's just like, all right. Really do we have to be all in on these organizations, when it's clear that the mission is somewhat mixed? You know, I'm just I guess, people are skeptical about it.

MANZELLA: No, you're right. I'm, in fact, President Trump had pulled out of the Human Rights Council when he was in office. And you're right. You know, So, me of these organizations. They're not always friendly to the US or allies and they sometimes have a different allegiance, as you pointed out the who I don't know, it seems just from what I've read, that the Chinese may have had outsized influence there. But I do go back to the WTO, and UN, because I think overall, these are organizations that we had a major impact in establishing. And they relied on US influence on us funding for years. And I think those are organizations we have to continually work through, we've got to improve those organizations. Absolutely. But I'm not sure there's many other options. Now, you know, the next point is, you know, we've got various trade agreements out there, right. Like the Trans-Pacific Partnership, right? You're I suspect gonna bring up cuz that was my number four point.

MURTHA: Yeah, that was your next one, let's consider that question asked

MANZELLA: You know, jumping outside the WTO, or UN, we've got the Trans-Pacific Partnership, which was rejected, which we really established to a large degree, we had written the rules. And we promoted that. And then President Trump rejected that in 2017. And I what's called the progressive, I'm So, rry, it's called the Comprehensive and progressive Trans-Pacific Partnership.

I think a lot of people in retrospect, realize now that that was a mistake for us to do that. Yeah, yeah. I think Trump had a hissy fit about something that was going on over there with maybe the Japanese, I'm not really certain. But then he pulled out and then later he found out well, if I'm going to deal with the Chinese, it's probably good to have allies in that part of the world. And, you know, he made a move that was not pleasing to those folks that we needed.

So, with the US being a member, the organization was pretty large. And we're talking about 40% of world economic output, that would comprise 1/3 of world trade. And keep in mind that these smaller Asian countries, they want us support. And they would much rather prefer the US writing the rules of trade than the Chinese. So, in many ways, they reject the Chinese. But they've got to be very careful because they're walking a tightrope, right. In many cases, China's their biggest trading partner. So, the Trans Pacific Partnership really was part of President Obama's pivot to Asia, to check China. And So, pulling out of that, I think that a few things wanted it eliminated our negotiating positions, and took away much of our leverage from an economic trade perspective. And from a

military standpoint, or security standpoint, you know, it's sort of removed us to some degree.

And what's going to happen when you have a void like that? Well, China is just going to go ahead and step in. And you can see, you know, China, and many other countries, signed in November 2020, the Regional Comprehensive Economic Partnership. And that's another agreement that's really very, very large, the Regional Comprehensive Economic Partnership, which involves many Asian countries and China, and guest Jim, who's not a member of that. We're not a member. And so, again, that puts us at a competitive disadvantage. Because when you establish these free trade agreements, keep in mind, number one, you typically lower your trade barriers to each other's incoming products. You know, an example closer to home would be the European Union, and Canadian Free Trade Agreement, which was signed several years ago. So, if I'm in upstate New York, and I have a manufacturing company, and I'm selling products to Germany, and a company in Hamilton, Canada, just north of us, they're selling similar products to that same company in Germany, and they have a free trade agreement in place. Well, the tariff barriers on those Canadian products is going to be lower. So, they're going to have a competitive advantage.

Now expand that out to the Trans-Pacific Partnership, all of these countries have preferential access to each other's markets, we don't. So, there'll be higher tariffs on US products entering those markets. So, that puts our companies at a competitive disadvantage. So, you know, we don't need fewer free trade agreements, Jim, because many people wonder about these agreements, there's actually 300 free trade agreements, more than 300 free trade agreements, I should say, without us participating. And we need participation in these agreements are we're at a competitive disadvantage.

So, we pulled out of the Trans-Pacific Partnership. That really was to our detriment not only an economic standpoint, but in a security standpoint, I think Asian countries wanted us in there making the rules and without our involvement in other countries or making the rules and now with this Regional Comprehensive Economic Partnership that China's a Member of China will be making the rules. So, there's a gap. And that's not to our advantage, and it's not to Asia's advantage in the long run in the next point you make is more dealing with how we conduct ourselves and our infrastructure.

MURTHA: So, you're saying we should have more critical investments at home infrastructure being chief among them. So, what did you mean by that? And how does that affect our relations with China?

MANZELLA: Well, I believe there's a couple points here that are related. You know, I believe that we need a new Marshall Plan to counter China's Belt and Road Initiative. So, the Marshall Plan, what I'm talking about is we need more agreements with other developing countries out there to help fortify their market. So,, remember, after World War Two, Western Europe was really demolished. So,, what did we do, we established the Marshall Plan. With Western Europe, we provided a great deal of support a great deal of an aid, and we'd lent them money very, very inexpensively. And we support supplied support to number one, strengthen them against the former Soviet Union, number one, and number two, these countries, as a result, became very strong economic markets for us products. So, not only do we help them strengthen against aggressive, the aggressive, former Soviet Union, but they became markets, very large markets, on their own, became very strong US export markets, and those helped us companies in the exporting field.

So, we see China out there with this Belt and Road Initiative, which is, you know, touches 138 countries. And so, they're trying to make nice with a number of countries and provide aid etc, on some of that's backfiring on the Chinese for a variety of reasons, we probably can't get into it today. But I see a Marshall Plan, where we're helping out countries all over the world, for two reasons, the counter, in this case, China's aggressiveness and to strengthen them. So, when they and they become stronger markets for us products. So, that's really developing a new Marshall Plan. My next point, which is sort of related, as I mentioned, that this is a Sputnik moment, moment, requiring investment at home.

So, they say, you know, what is the best way to counter Chinese challenges, while we've talked about some of those. But one of the best ways really is to invest here at home and strengthen our system. So, I'm talking about investing in research and development, education, health care, infrastructure, all areas that will help boost us productivity. And we see, President Biden did this to some degree, we passed the hard infrastructure bill several months ago. And now I know they're talking about the build back better bill, which I'm not sure will not pass. But that hard infrastructure bill, much of that money for the vast majority of that would go into repairing bridges, improving ports, airports, and you know, our ports are ranked

among the worst in the world. And we really need to improve those ports, we need to automate them to a greater degree due to mechanize them to a greater degree.

I think all of those investments help us become well, if you can get the Longshoremen to go along with it. Yeah, right. that's exactly correct. It's a bit of a play. I mean, long short, yeah. What is it? The Port of Long Beach? Yeah, 40% of cargo enters that port. And that's ranked 333 out of 351. According to the port container port index by the World Bank, terrible, the other major port there, la port ranks like 328. I mean, are you kidding me?

So, we need to we need to improve these ports, and overall, improve our levels of efficiency and productivity, that also, helps reduce some of these supply chain problems we're involved with right now. But when I mentioned a Sputnik moment requiring investment in home, I'm referring back to the challenges that were presented by the former Soviet Union. You may recall at that point, they, you know, Sputnik was the first satellite put in outer space. And it really was a wakeup call to the US and the rest of the world that we really got to get our act together. And we really need to challenge the former Soviet Union. And as a result, we began investing significantly, in a whole number of areas research and development, the military and NASA. I mean, with investment in NASA.

That was a tremendous achievement of putting a man on the moon and think about that money that actually was directed into NASA and into the military. More often than not, the technologies develop then find their way into the private sector and in many ways, you could argue that that they are subsidized by the US government. And, you know, we may have to do more of that to counter Chinese investments. You know, Chinese government is investing tremendously in state owned enterprises. And so, if you're a US company, and you're trying to compete with a Chinese company, and that Chinese companies backed by the Chinese government, you're not only competing against a Chinese company, but you're, you're competing against the entire Chinese government. Now, right? Now, there's some arguments, right? I mean, we're talking industrial policy here. And it's important to invest in R&D and support us companies. But keep in mind, when he started talking industrial policy, that's sort of a slippery slope. Because the Chinese have put, I don't know how many billions and billions of dollars into supporting industry in a lot of that has a very poor return on investment. A lot of that was wasted. A lot of that was just poor use of their money. And very often with industrial policy, you've got the government trying to decide what we're going to invest in. And I believe the market really has, they're in the best position to make those

determinations. So, we got to be careful, we talk industrial policy, but we do need to support our company to a greater extent, if nothing else to counter the Chinese challenge here. So, yes, this is absolutely a Sputnik moment, requiring more US investment here at home.

MURTHA: And I trust your judgment on this and it makes perfect sense. But if you go back to the Sputnik moment, the we had a definitive that was probably close to the height of the Cold War, and the American public, right 1957, the American public was, while there were, you know, Democrats and Republicans, they were almost united in their belief that they would get behind the American government, when on any challenge that was posed to them from overseas and the Russians at that time, or the Soviets at the time, were the biggest challenge. And so galvanizing the public behind this, you know, because we were shocked when Sputnik went up. And then we were shocked even further when they orbited Yuri Gagarin a few years later, you know, we, you know, we can't be behind, right? Everything was framed in terms of a Cold War.

With China, it's multifaceted. And it's hard to to hang your hat on any one thing. And, you know, industrial policy, American foreign policy has mood swings, depending on who's in the Oval Office. And we have shown that if we let our political class get out of hand, it can really screw up everything for the rest of us. And I think we're in that moment right now. Where, you know, Donald Trump becomes president does a lot of things. Joe Biden becomes President and he counter demands those things. So, it's just like, you know, we're trustworthy for our allies on four-year mood swings. And I think it makes it difficult to do these kinds of efforts that you've outlined in in your article. And I'm saying, you know, I'm looking at it. Yeah, this all makes sense. We should do it. But how do we get to the political class? Just to get behind all this stuff?

That's the question. Because you need an average American or business owner or one corporation can't do it by itself. You need you actually need the national government and national governments wanted to negotiate treaties and signs them, and make sure we follow through on them. So, how do we get the political class in this country to sign off on all this?

MANZELLA: Jim, That is the question of the day, isn't it? Really? Yeah. You know, we've got you mentioned, you know, we all we united political parties, the population, et cetera, against the Soviet threat, and we did it successfully. And now we've got a threat from the Chinese. And we have a very difficult time unifying our

government, let alone the population. And it's very, very, very bothersome. To me, it really is. And very often, and I'm out speaking once a week, Sometimes twice a week at a trade associations around the US and I often bring up this point, I'm supported by the business community. You know, sometimes I'll talk about and show a picture of Ronald Reagan and Tip O'Neill. And you know, during the day, they disagreed vehemently they were on opposite ends of the spectrum politically, they would recommend and support political initiatives on both extremes to some from time to time However, at night, they were able to have a beer, play cards, have dinner and be friends.

And, you know, I don't have a problem with anybody who argues a political position on the right or left. But at the end of the day, you've got to respect each other. And you've got to come together when situation presents itself. Well, number one, we're having been able to come together. And that's extremely distressing. It's extremely distressing that a political class can't disagree during the day, but they can't be free. Yeah.

MURTHA: Well, you know, what I think maybe my question spawned like another conversation that we have that could take hours to try to figure that one out. So, maybe it wasn't fair beat it to ask you that. But I figured what the heck, I do it anyway. Yeah, the political class in this country is just not up to the tasks that have been presented to them in the last few years. And that's a little distressing, I think all of us.

MANZELLA: When I do speak with these businesspeople. After the events, we typically will have dinner, or reception. And after everybody's had a couple beers or a few martinis, they begin to tell me what they really think. And at every single event, when we have these post event discussions or dinners or drinks, the businesspeople tell me some privately some publicly they say, John, we've had enough. We've had enough. And they agree with the whole Tip O'Neill, Ronald Reagan, they everybody I've talked to, they are So, dissatisfied with the political dissension and hostility in Washington, it's like enough. And I think the business community can help because they are contributors to political campaigns, right?

And so, they can step in and say, you know, we don't mind if you disagree during the day. But you've got to stop this hostility. And if you don't, we're going to withhold funds from your political campaigns. That's one way around this. One, one thought, but I just want to mention that the political, the business community is

behind us. And they feel the same way. And I hear that every after every presentation.

MURTHA: Well, maybe that'll be the start of a turnaround. But we'll say, I want to get you out here on this question. And I always like asking my guests to predict the future, because it's just fun to do. I mean, as an economist, you know, you have to predict all the time. So, where are we with China in 20 years? Are we still equals? Will China overtake us economically? And militarily? Or are we going to be at the stalemate? Or does and you alluded to some of the domestic problems in China? Do they take a step back? So, 20 years? So, that's 2042?

MANZELLA: You know, many would speculate that we'll be speaking Mandarin 20 years?

MURTHA: I haven't, I haven't, I'm stuck

MANZELLA: I have a different position. Remember the Japanese during the 80s, that Japan, Japan that can say no, I remember the book, I have a bookshelf, everybody thought the Japanese were gonna take over everything that they were more productive, they were more efficient. And they had better methods of doing everything. Well, we saw what happened there, right. I believe the Chinese economic system is unsustainable. You've got a middle class that's growing. And as the middle class grows, economically, we've seen this over and over, they become more politically powerful. And they push back on the ruling elite. And I think we're beginning to see that in China, where you see, some of these, the owners of some of these very large tech companies, some of these very wealthy Chinese are beginning to make statements and push back. And then of course, they disappear for three months. And then they come back and say that we're just kidding. But as the middle class continues to grow, and you want your middle class to expand economically, right, I mean, that's the goal is to increase the standard of living of your population. I think you'll see more and more pushback on the Chinese ruling party.

So, I think that will mean and this was part of our goal, Jim, when you and I lobbied members of Congress to grant China permanent normal trade relations status to join the WTO. And which they did and nine in December 2001. The goal was that they would eventually liberalize their economy. And they would liberalize their political system as a result, and they really haven't done that. We did begin to

see movement there with President who, but then we saw President Xi come in, tighten up the reins and not only stop reform, but reverse it in many cases. I do not see how a middle class can continue to grow and develop and not put pressure on the ruling party. to provide more liberties.

And you see problems with state planning, when you have the government making decisions, this is why I'm a free market capitalist, when the government comes in and tries to make decisions, they very often don't have the information. And it just doesn't work. And then you see companies like Evergrande, right? One of the largest Chinese real estate firms, I'm sure they've been provided with very, very inexpensive loans from the Chinese government, et cetera. I mean, I can't really speak to that with any confidence, but they have received great deals of support. And then you see, they begin to default on their payments and their debt payments.

I think President XI in many ways, and I mentioned this earlier, is walking a tightrope, which is more like a high wire act, you've got an economic system from the outside, it might look stable. But there are so many poorly performing loans, and the return on investment is so bad. And they've got a shrinking population, which is going to devastate their production abilities. They've got tremendous problems on the horizon. And I don't think they will turn out to be that that real competitive power in 20 years, I think, unless they begin to initiate reforms, once again, they're, they're, they'll, they'll actually run into more and more problems. So, I think currently, the system is unsustainable. And so, I don't see them being the mega powerhouse in 20 years that some people have projected them to be.

That's my thought. And hopefully, they do change their ways. Hopefully they do reengage and reform. Hopefully, they do provide political liberties to the middle class and other classes. And hopefully, they do develop the way we projected and thought they would when we pushed to have them join the World Trade Organization when you and I lobbied for that back a few decades ago. So, I suspect that's where things are going to go. Because in the end, I don't think they're gonna have a choice. And that's my story, and I'm sticking to it.

MURTHA: Alright, John, thank you for a terrific discussion. I have a feeling we'll be revisiting this topic again in the near future. Thanks for your time.

MANZELLA: Jim, thank you very much. It was my pleasure.

MURTHA: To obtain copies of John Mandela's books or any of his publications, just go to Johnmanzella.com Manzella is spelled ma n z e ll A. The preceding podcast was a production of Macallen communications publishers of the Pennsylvania business report. To submit your ideas for future podcasts. Just go to [www dot Penn biz report.com](http://www.dotPennbizreport.com) and look for the podcast section on the front page.

Until next time, I am your host Jim Murtha. Be well be safe and be prosperous.