



WTH is coronavirus doing to the economy? Discussing the coming corona-recession and US economic dependence on China

Episode #36 | March 16, 2020 | Danielle Pletka, Marc Thiessen, and Derek Scissors

Danielle Pletka: Hi, I'm Danielle Pletka.

Marc Thiessen: And I'm Marc Thiessen.

Danielle Pletka: Welcome to our podcast, What the Hell Is Going On? Marc, what the hell?

Marc Thiessen: Well, the coronavirus impact-

Danielle Pletka: We can't talk about anything else.

Marc Thiessen: The impact is finally hitting home because AEI is shutting down.

Danielle Pletka: We're not shutting down work, we're just shutting down the office.

Marc Thiessen: The office, we're all going to be working from home, social distancing.

Danielle Pletka: You aren't seeing the air quotes there.

Marc Thiessen: Social distancing, so Dany, keep your distance.

Danielle Pletka: Don't worry, I already do.

Marc Thiessen: I'm not sharing a microphone.

Danielle Pletka: No Trump cooties for me.

Marc Thiessen: Exactly. We're going to find a way to continue podcasting, but if you have a temporary interruption in your podcast service from us, understand it's because we're trying to find a studio to record this.

Danielle Pletka: You can go back and listen to the ones you missed, which are excellent.

Marc Thiessen: If you do say so yourself.

Danielle Pletka: If I do say so myself, right. Don't forget to subscribe, review, and all of that stuff too. So today, we're talking about the economic impact of the coronavirus. Is it

going to shut down our economy? Is it going to end trade with China? What's going to happen? There is a lot out there.

Marc Thiessen: Yeah, so I mean this is a huge issue. So, we are finding right now, first of all, not just AEI, but schools, universities, businesses are shutting down.

Danielle Pletka: The Masters, the NBA, the NCAA, everything.

Marc Thiessen: The National Hockey League.

Marc Thiessen: But more broadly, we're finding how economically dependent we really are on China, which is concerning. So, there are statistics that we get huge amounts of our medicines and biologics from China, generic drugs from China. We are incredibly economically intertwined with China, which is a totalitarian dictatorship.

Marc Thiessen: If you've been listening to our podcast, we just did a great episode on the link between totalitarianism and the public health threat from China, lies about the virus, lies about the problems it's facing, lies to itself about the challenges it's facing and then lies to the world.

Marc Thiessen: We really need to just have a national discussion of, should we be this economically dependent and economically intertwined, or should we start looking at ways of decoupling from China?

Danielle Pletka: So, that's really been, I think, where the discussion about China has been headed for the last couple of years and it's gotten muddled because the president is totally focused on trade balances rather than on sectors and threats. That's a problem for us. There is a problem in that we don't have a consensus with a lot of our allies about the nature of the challenge from China.

Danielle Pletka: But, I think one of the things that we've tried to tease out in all of the discussions that we've had about this challenge is that the trading relationship we have with China is leverage for the Chinese, okay. They use every sector of their economy to squeeze us. And so even from the most basic viewpoint, we ought to be diversified. The notion that we get 80% of our heparin, or our antibiotics from Communist China is just dumb.

Danielle Pletka: If you were living in your neighborhood and at the end of your block there was a drugstore being run by the mafia, you would not buy your things from that drugstore to the exclusion of all others. Right? You would make sure that there were a couple of other places that you knew had it just in case. And yet, the United States is still buying from the mafia communist drugstore in Beijing.

Marc Thiessen: That's a great analogy. And there's also an issue that I think something like 80% or 90% of the products that are sold from clothes to sneakers that cost under \$100 that are shoes and sneakers and clothes come from China.

Danielle Pletka: But, do we care?

- Marc Thiessen: No, but that's my point. Do we care if our sneakers come from China? No. Do we care if our toilet paper comes from China? Well, we're having a run on toilet paper, so maybe we do, maybe that's a national security issue, but no, we don't. Laundry detergent? No. Our drugs that are lifesaving biologics? And I'm sure there are others, our cell phones and our communications infrastructure with Huawei? We have to have a national conversation about how dependent we want to be on China.
- Danielle Pletka: And especially in key sectors.
- Marc Thiessen: If you want to have cheap T-shirts going to Walmart all saying "Made in China," go for it. I don't care. But, when we get in a situation where we're going to have a run on the pharmacies because we can't get the basic ingredients to make ADHD medications, antidepressants-
- Danielle Pletka: Antivirals for HIV.
- Marc Thiessen: ... antivirals for HIV. If we're dependent on them and we can't get those things, that's a national security issue. There are other industries, which are national security issues, and I think we need to have a broader national conversation about, do we need a strategy to produce some of that stuff here at home?
- Danielle Pletka: Well, I really don't believe that produce here at home is the right answer. I think we need to have a trust group of allies with whom we do business, period, end of story. I reject wholeheartedly the notion that I think some in the White House—Peter Navarro I'm talking to you—some in the White House believe is an opportunity for protectionism. We know where the 1930s went with that. We do not need a new Smoot-Hawley. We do not need indiscriminate use of tariffs. What we need is an intelligent bit of discrimination between good guys and bad guys in key sectors. That's the challenge.
- Danielle Pletka: But, let's get back to the coronavirus for a second because I think as we talk about our own deficiencies, as we talk about the president's terrible speech, as we talk about the CDC and its failings, we have forgotten that if China had not lied, and concealed from the very beginning of December, folks, we're four months later, right? If they hadn't done that, we wouldn't be in this spot right now. We are here because of the nature of the Chinese Communist Party.
- Marc Thiessen: Yes, but that is why we need to start talking about the broader dependence on China for trade.
- Danielle Pletka: Right.
- Marc Thiessen: We've already talked about the fact, we had a terrific episode on this about how totalitarian regimes lie. You've got a great piece in the Dispatch on that, which I recommend that everybody go to and [we'll link to it in the transcript](#). That is well-trodden ground on this podcast. What we need to discuss is, what do we do about it?
- Danielle Pletka: Right. Why are we incapable?

- Marc Thiessen: Do we want to be dependent on a bunch of totalitarian lying dictators? I'm not arguing for protectionism.
- Danielle Pletka: Right.
- Marc Thiessen: I'm not saying everything has to be produced in America, but would we prefer that some of these products be coming from a more diverse-
- Danielle Pletka: From Canada, from France, from Germany.
- Marc Thiessen: From Mexico.
- Marc Thiessen: Even friendly dictatorships, like Vietnam, which is one of the most pro-American countries right now ironically in Asia right now because they're terrified of China too. The enemy of my enemy is my friend. There are lots of places we could be getting this and also, diversifying. Everybody went into China because it was so cheap for so long.
- Danielle Pletka: It's not cheap anymore.
- Marc Thiessen: It's not cheap anymore. They've got this myth of a billion consumers that we're going to be able to sell anything. And instead what the Chinese are doing is stealing all their intellectual property and all the rest. We need to really have a reassessment of our trading relationship with China, our economic dependence on China and whether we need to decouple and diversify.
- Danielle Pletka: So, Marc and I, of course, never hesitate to put ourselves out there as experts on absolutely everything, but we have our colleague Derek Scissors who is a resident scholar here at the American Enterprise Institute. He specializes in the Chinese economy. He's the person who I go to anytime I have a question about these issues. He has been making very, very succinct and crisp arguments for quite a long time, well before the coronavirus, about the need to actually reassess our relationships-
- Marc Thiessen: Sometimes the world comes and validates the work you've been doing for 20 years.
- Danielle Pletka: He's got a doctorate from Stanford and a master's from University of Chicago. Derek is the author of AEI's China Global Investment Tracker, which is the only dataset out there of Chinese foreign investment. It really gives you a good sense of what the Chinese are up to in the world. So, it's really great that on the eve of our shutting down here at AEI, we were able to grab him in the studio.
- Marc Thiessen: Derek, welcome to the podcast.
- Derek Scissors: Thanks for having me.
- Marc Thiessen: It's great to have you here. There are so many businesses shutting down. There are schools shutting down, airlines shutting down. AEI is shutting down. This is going to have a huge economic impact. You're an economist. You're an expert

on China, which is with whom our economy is inextricably linked right now. Tell us, are we going to have a coronavirus recession?

- Derek Scissors: I think we probably are. And I'm going to say that disagreeing with Michael Strain yesterday-
- Danielle Pletka: Michael Strain is our director of economic studies.
- Derek Scissors: Michael may have changed his mind given the extent of shutdowns across the country just between yesterday and today. Let's remember what a recession is. We're at very low levels of unemployment. A recession is two consecutive quarters of less economic activity and so unemployment rises, but it's rising from a really low level. This isn't a recession where people our age think of the 1970s or people thinking of the global financial crisis when unemployment jumps to 11%. This is a technical recession. The reason is, all these things you just mentioned shutting down, that's what GDP is, is a measure of economic activity. We're just buying less stuff because we're staying home.
- Danielle Pletka: I don't know. I'm buying more stuff at home.
- Derek Scissors: Okay, all right.
- Marc Thiessen: Dany is just hanging out and shopping at home instead of doing this podcast. There you go.
- Derek Scissors: Okay.
- Marc Thiessen: Dany is not an economic indicator.
- Derek Scissors: Okay, they're select purchases, but travel, tourism, sporting events, all that spending is going to go down, so that's fine. Activity, whatever, activity can come back really, really fast-
- Marc Thiessen: But that's not a structural issue.
- Derek Scissors: Right, exactly.
- Marc Thiessen: That's a temporary issue based on people self-quarantining.
- Danielle Pletka: People's choices, right.
- Marc Thiessen: Yes. It will come bounding back.
- Derek Scissors: Exactly. There will be a V-shaped recovery because American people are just as productive as they were before. There is nowhere, anywhere that there has been, I don't mean to put this crudely, mass death, in the worst cases, that's not the case. We're going to have the same-
- Danielle Pletka: Fewer people will die probably of the coronavirus than actually will die of the flu

worldwide this year, still.

- Derek Scissors: Right. We need to take steps to make sure that's true, which is why we're doing all these shutdowns. The capital stock is affected by Wall Street, but the actual physical capital—that's just a valuation of the capital—we haven't destroyed any buildings. This isn't a war. It isn't an earthquake. It isn't anything like that. So, I think technically, we're going to have a recession because there is going to be less activity. I don't think in a year the US economy is going to be harmed by this because we'll come soaring back.
- Derek Scissors: The people at risk are people who, as we've been discussing, and businesses, that live paycheck to paycheck. That's who Congress and the administration should be helping because if we can help them, the people who have several months of savings, they're going to be fine. So, I think technically, we're going to have a recession. I think for the economy as a whole it doesn't matter very much given where we started, but I think there are people who are at economic risk that we need to help right now.
- Danielle Pletka: So, let's talk a little bit about China. Again, we've covered with Scott Gottlieb and others some of the medical questions relating to China's management as well as a lot of the political questions. That's really where the political economic stuff comes in. I don't think people in America have talked about supply chains this much in the history of the world. But, what we suddenly realize is the Diet Coke we're drinking right now, yeah, we're getting sweeteners from China. Shoes, pharmaceuticals, automobile parts, we can go down the list. How much of a disruption to the global supply chain is there going to be, and add to that as well, is the Chinese economy also going to slow down dramatically and drag others down with it?
- Derek Scissors: Second question first. China's economy absolutely will slow down dramatically. It won't be reported-
- Marc Thiessen: Because they lie.
- Derek Scissors: Right, right. The Chinese are even saying now that 60% of their small firms have gone back into operation, not at full capacity. They've just gone back into some sort of operation. They previously claimed, it was a lie, that small firms account for huge amounts of their economy. Now, they'll discover that isn't true, of course. But, China is going to have a crash in the first quarter, is having a crash in the first quarter, that's worse than anything that's going to happen to us.
- Danielle Pletka: Why is it worse?
- Derek Scissors: Because their health solution was to paralyze everything very early on. So, they gave out orders that it's hard for us to give out. We have to think about people. They enforced them by force. Wuhan quarantine wasn't voluntary like, you just don't leave, stay home, it'll be fine.
- Marc Thiessen: I was at a church a couple of weeks ago where there was a priest who came back from China. It was a Chinese priest who had been there. He showed pictures to

the congregation of, literally, signs outside of a building that said, "Don't leave this building or we will break your legs." That's literally what the sign said.

Derek Scissors: So, all the terrible things you can imagine happening in a crisis that threatens the communist regime in China have happened. Those froze economic activity much worse. The other thing for Americans to realize, we're still a much more advanced nation than China. China is not Shanghai. When we talk about telework, 90% of Chinese don't have that kind of option. Yeah, okay, in the rich cities they do, but most Chinese don't. So, when they're told to go home, that's the end. They're stuck at home and that's the end of their economic contribution. So, it's going to be worse in China in the first quarter.

Derek Scissors: What the Chinese have bought with these, "We'll break your legs if you leave this building," kind of reactions is they're bringing their supply back up. They're already into the V-shaped recovery. February was awful, right. I mean, really like a depression level month. March is clearly better than February. April will be clearly better than March. So, the question for the world is, if you're supplying China with energy, you're out of luck. Chinese energy demand is going to drop and you're stuck. And so there are a bunch of commodity suppliers who supply China and they're going to take a big hit. The oil fight between the Saudis and the Russians is going to make everything worse for oil suppliers.

Derek Scissors: For the US, what we're looking at is about a two month disruption. Disruption sounds so vague. It's two months that depending on the industry you're in, you get nothing from China. So, pharmaceuticals is what everybody is worried about because the Chinese stopped sending stuff to the Indians, period.

Derek Scissors: The Indians then said, well, we're not exporting because we're not getting anything from China, we're hoarding, which we have not felt yet. There is going to be about a two month blip where pharmaceutical products are not in new supply. That doesn't mean we'll run out. That depends on the stockpile and that depends on the demand. Maybe people aren't going to get headaches as much and they're going to be worried about respiratory ailments. So, we're going to have a two month hit, which we have not felt yet. I'm not enough of an expert on everything in the US supply chain to know where it's going to be hurt the most, but I think that is going to affect us next month. We're going to start seeing the effect of China's decline next month. It will last into May. Then it will, because of these stark Chinese measures, it will ease.

Danielle Pletka: So, I'm just reading from some research that we put together, but, Chinese pharmaceutical companies supply more than 90% of US antibiotics, vitamin C, which by the way, doesn't help you, ibuprofen, hydrocortisone and acetaminophen, that's Tylenol for those of you guys who don't pay attention, and 40 to 45% of heparin, which is a blood thinner-

Marc Thiessen: Which is really important for a lot of people.

Danielle Pletka: It's very important to a lot of people, right. So I mean, it represented 20% of overall US imports in 2018. Does that have an impact on our economy?

Derek Scissors: Well, I don't think it has an impact on our economy. That's an impressive, scary

list of drugs. The numbers aren't that big. I mean, it's not that big of an industry. When people are concerned about rare earths, our rare earth imports from China, well, we only import them from China, but the numbers are tiny.

Danielle Pletka: Right.

Derek Scissors: So, the question would be shortage of those drugs. I'm pretty skeptical on some of the sourcing on what Chinese actual contribution is. This sounds weird, but there is a supply chain in little tiny pills like there is in your computer monitor. Little tiny pills get assembled in different places, so people are backtracking the supply chain. Since the supply chain runs through India, all their numbers are wrong because the Indians have no idea what's actually going on.

Marc Thiessen: Which gives us great confidence in our drugs.

Danielle Pletka: That's a whole other ballgame.

Derek Scissors: That's the risk.

Marc Thiessen: Yeah.

Derek Scissors: I don't believe those 90% numbers, but if somebody said, pick a number, I'd say 60%. How confident are you in that? Not. I'm not confident. We're going to find out that our dependence on China in some drugs is lower than we think, but in others, it's not. We don't know yet which it is because we don't know where substitutes can ramp up quickly and so on.

Derek Scissors: There are going to be stockpile shortages of some drugs for sure, whether they get to the market depends on how much stockpiling people have done. The one advantage here, if our companies are competent, is they've had two months warning. We'll see.

Marc Thiessen: Yeah.

Derek Scissors: We'll see.

Marc Thiessen: Yeah. But I mean, it's not just that. Apparently 90% of our generic drugs come from India and China, right? So, you're talking about antidepressants, HIV/AIDS medication, birth control, chemotherapy, Alzheimer treatments, diabetes, epilepsy, Parkinson's, ADHD medicines for kids. Under our system, for the most part, people only get a 30 day supply. You can't really stockpile medicines because the insurance companies mostly require you to get 30 days and then renew.

Derek Scissors: Individuals can't, right.

Marc Thiessen: Yeah, individuals. So my point being, are we going to have a rush on the pharmacy soon where people are fighting over their medicines?

Derek Scissors: Thanks, Marc.

- Derek Scissors: People are panicking over toilet paper, which is not really related to a respiratory illness. There could be a situation where people decide to panic. There's nothing to be done about that. Again, there has been lead-time. There should be warnings privately to the US government about sourcing. The military, for example, has stockpiles of drugs they can make available. Eventually, publicly, companies, are going to have to say this is, for stock purpose, this is where we're at. It is a threat.
- Derek Scissors: It's very difficult to say which drug is going to be in short supply and which is not. I don't have that level of knowledge. I'm not sure a pharmaceutical expert has that level of knowledge, again, because of the opacity, the lack of knowledge that we have of the China and India supply chain. I hope this is a warning, and the warning is obvious, which is this is ridiculous.
- Danielle Pletka: Diversification is what we need to do.
- Derek Scissors: Right. If somebody says, "Hey, we got four different kinds of painkillers, we can rely on one of them for the supply chain," I'm fine. We mentioned heparin, we mentioned anti HIV prophylactics, if you have a critical drug, you cannot be running it through China and India.
- Derek Scissors: To their credit, a couple of Democratic lawmakers brought this up eight months ago. We should have brought it up eight years ago. So, I hope that this is a warning. We can get to the bigger issue of decoupling from China, but having drugs that American people rely on come through China and India, that's a situation we have to address in some way.
- Marc Thiessen: So, it's not just drugs, it's a lot of things that we're very dependent on China. Donald Trump has been warning that we're too dependent on China. He said the other day, "The coronavirus shows the importance of bringing all that manufacturing back to America and we will have that started." We obviously can't bring all manufacturing back to America, but it does raise the question, are there certain areas and industries and things where we really do need a domestic manufacturing base, so that we are not dependent on a country like China that we can't rely on?
- Derek Scissors: President Trump often sounds to me exactly right about trade, and then he can't stick with it. So yes, there-
- Marc Thiessen: Well, that's a different question.
- Derek Scissors: Right.
- Marc Thiessen: Is he right?
- Derek Scissors: Well, I mean, which Trump are we talking about? The Trump that says there are essential industries that we should not be dependent on the Chinese for, I agree completely. I've been making that argument for years and you can look back. The Trump that says, "Canadian steel is a threat to our national security and that's where I'm going to start my trade action?" No. The Trump that treats China as if

it's the same as our treaty allies whom we're sworn to go to war with? Again, no. Who are democracies, who tell the truth about what's going on in their countries? Again, no.

Derek Scissors: If you start off with, there are critical industries we should have in North America or among our friends and not in China, that's 100% true. That's not the way US policy has gone. If the US policy had gone that way, we would have evaluated what really matters, like pharmaceuticals, at the beginning of the Trump administration, or even better, the Obama administration and taken action on that.

Derek Scissors: The president has really been focused on big numbers in the trade deficit, which is a different thing. I am not talking about reducing the trade deficit. We shouldn't be talking about reducing the trade deficit. We should be talking about what are industries that we don't want to depend on the Chinese for even if the numbers are small? Consumer electronics are still these giant imports from China because who cares?

Danielle Pletka: So here is the question, one of the cases that you've been making over the years is just this, that the United States is too dependent. That fundamentally, it's not that we shouldn't be trading with China, it is that China is a risk, China is a liability, China is a threat. And that we can't really extricate one problem from the other. You can't have trade with good China and confront bad China in the South China Sea. That's not how they look at it. That's not how we should look at it. You've actually argued for a disengagement. Is this crisis an opportunity for us to accelerate that disengagement?

Derek Scissors: It should be.

Danielle Pletka: And then how do we do it right?

Derek Scissors: This is the most high profile, scary virus that's come out of China. It's not the first, it won't be the last. We have lots of evidence about this. Mostly, it affects animals, so it's in a sense good for our farmers. But the same process what they lose, they have these plagues spreading through their animal population lends itself to things like the COVID outbreak. So, we should take this opportunity to think, all right, if the Chinese cut themselves off because they had a virus or they cut us off because they're angry at us because we won't let them invade Taiwan, or whatever their motivation is, what do we not care about? We don't care about cheaper computers. That's fine, make them in China. Knock yourselves out, guys. We do care about drugs. We do care about things that matter to the health and safety of the American people.

Danielle Pletka: Diet Coke.

Derek Scissors: That's true. If the Diet Coke is poisoned then a lot of people are in trouble, including the two people sitting across from me here. That's the kind of discussion we should have right now. The whole thing of we should treat, no changes in our relationship with China because American companies make too much money, or abandon the Chinese completely, that's not the real choice. The real choice is we should use this opportunity to say, what industries actually

matter to America? It's not steel. It's not cars. I'm sorry, Mr. President, that's wrong. It might be semiconductors. It certainly should be products that Americans need for their health. We're going to have to decide then, okay, not China.

- Derek Scissors: A tougher choice because this is a democracy, but not a reliable trade partner, would be India. Reliable choices are the Canadians, the Germans. These are democracies that we have alliances with. So, we don't need to bring everything back to the United States and we don't need to be taking everything out of China. We have to start the process of making those calls, which this administration hasn't done even though it's correctly raised the alarm on China when the Obama administration did not at all.
- Danielle Pletka: Right. I mean, the fear that I have is exactly the one that you articulated, the "Which Donald Trump?" problem. Which is that, this is an opportunity not for protectionism, not for a designation of national strategic industries a la French style, which is also protectionism. This is an opportunity to basically whitelist a group of our trading partners and blacklist the others.
- Danielle Pletka: By the way, isn't the fight over Huawei and ZTE, wouldn't it have a similar effect on that kind of thing as well where you basically choose. And that you build a group of countries as we did during the Cold War that trade with each other and don't trade with bad guys?
- Derek Scissors: I think in some industries that's what we need to do. You're absolutely right. We've been focused on technology, technology, technology, and now we're reminded that healthcare is really important. And even though we don't think of healthcare in connection with our military the way we think of communications, in a crisis we do need to think of that. So absolutely, the first step should be treating our friends much better than we treat everyone else. We can argue over who is our friend. I'd go for a broad definition until somebody proves otherwise. I'd say, innocent until proven guilty, but absolutely.
- Derek Scissors: That's why it's so upsetting to me that the president was acting as if European cars were the biggest trade issue outside of China. They're completely different. Stop talking about that. It would be great right now if the president said, "Look, I'm not changing my views of trade, but we're not going to put tariffs on European cars in the situation that we're in, in the United States and Europe. That's just not going to help at all." That would be useful to the stock market, or it would be useful to people's long-term expectations.
- Derek Scissors: And then on the other side, we don't want to say blacklist necessarily because that would be for everything. I would have the group of countries where we say, look, you can provide us with a lot of stuff and we're happy that your workers can get good salaries and you can make money. That's all good. Trade is mutually beneficial, but not for things we think are important, so unfortunately-
- Marc Thiessen: So, what are those things? I mean, healthcare is one of them.
- Derek Scissors: Dany didn't want to do this for good reason. This is the big, scary thing about protectionism, once you open the door and say, "My industry is crucial for

national security," everybody is like, hey, look, there is a line of 150 people, like Costco toilet paper lines, trying to get into the, "My industry is crucial for national security."

- Danielle Pletka: No, but Derek points it out. Right, the steel industry wants it. The airline industry wants it.
- Derek Scissors: Right.
- Danielle Pletka: Because China is trying to compete there.
- Derek Scissors: Right.
- Danielle Pletka: Right. An F-35 is not the same as a Boeing commercial jet.
- Derek Scissors: There is an overwhelming bipartisan view in Congress that we need to change our relationship with China in particular. Bill after bill is introduced and leadership won't let them pass because they'll embarrass the president because he's very focused on his Phase 1 deal. If we wanted to take this opportunity, we can forge a bipartisan consensus on not stuff we need to subsidize, not stuff we need to cut off Mexico on or anything, stuff we don't want to get from China because there is a consensus on China. And so the way I want to build a wall between protectionism, which is all of our industries need help because "I'm important, I'm so and so," and what we need to do to disengage partly from the Chinese is to say, "It's not about the industries. It's what we don't want China to supply us with."
- Derek Scissors: My answer to that is, we don't want to be in a technologically dependent relationship with the Chinese, which a lot of our tech firms are in now, where they claim, "I can't make money unless I can sell to the Chinese." All right, that's no good because the Chinese will squeeze. Now, we have a very strong reason for health and safety, so I would look for advanced technology and health. And then have the bipartisan discussion where we've shown that we can act on China.
- Danielle Pletka: When I talked about the Cold War, I was talking about CoCom. It was so long ago, I can't even remember what it stood for. But, that was a multi-lateral arrangement in which we agreed that we were not going to buy certain things from the Soviet block and that we were not going to sell certain things to the Soviet block. It was followed by something called the Wassenaar Arrangement. It was mostly us and our NATO allies, right. That's the thing to my mind that might need to proceed...
- Danielle Pletka: So, this is my question, cart/horse question, right, should we be leading on this? Should we have congressional action that starts this disengagement on these key issues, or should we try to actually put together a new CoCom with our European, our Canadian, our commonwealth friends?
- Derek Scissors: We have to lead. The reason is, and I deal with the Europeans all the time, they don't see China as a security threat.

- Danielle Pletka: Right.
- Derek Scissors: They see China as a health threat now. They see China as an economic threat. But, they're not in Asia. They're like, "Oh yeah, I understand your concerns, paren, "I don't care."
- Marc Thiessen: Because during the Cold War, they had all the missiles pointed at them.
- Derek Scissors: Right.
- Marc Thiessen: They're not in the crossfire now.
- Danielle Pletka: Right. Now, they've got Chinese tourists.
- Marc Thiessen: That's it exactly.
- Derek Scissors: So, we need to lead. I'm not saying that us leading magically solves all the problems, but we're not leading. I'll give you a very concrete example. Congress in July 2018 overwhelmingly passed changes to both our foreign investment regime, which is known as, the body is known as CFIUS, Committee on Foreign Investment in the United States, and our export control regime, overwhelming bipartisan basis. We have not done anything on export controls. Treasury has put out, it's implementing regulations for CFIUS. I don't think they were that good, but they did their job.
- Danielle Pletka: Right.
- Derek Scissors: And Congress has done nothing on export controls. So, when we go to the UK about Huawei and we say, "You need to take this costly action to keep Huawei out of your network." They're like, "I'm sorry, your Department of Commerce is not even implementing export controls passed on an overwhelming bipartisan basis by your own Congress because industry doesn't like it." So, we don't have our own house in order to be having these discussions.
- Derek Scissors: All it would turn into is a bunch of finger pointing where we say to the Europeans, "You don't take China seriously as a security threat." They point back at us and say, "You don't take China seriously as an economic threat." So, we have to get our own house in order first and then go to our allies. Japan and Australia, thankfully, will be with us. They are in East Asia. But, if we don't have a consistent set of actions on our part, we can't talk with other people productively.
- Marc Thiessen: This is the fundamental problem though is that in the Cold War, Bernie Sanders exempt, everyone understood the Soviet Union was the enemy, right? Today, there is not that kind of consensus even in the United States I don't think, that China is our emerging enemy. That this is a country that is the new Soviet Union of the 21st century that's going to threaten us. It's the biggest national security threat. It's starting to happen.
- Danielle Pletka: I don't think you feel that way either though, do you?

- Derek Scissors: Here is the big difference, let's say Xi Jinping is as bad as any Soviet party head and dictator. I'm fine with that. I think that's true. China is not the same as the Soviet Union, and so we can't forge the same kind of consensus. For one thing, we had a block in Western Europe of democracies. In East Asia and South Asia, we have a hodgepodge of who knows what we think about democracy versus dictatorship. So, we're not in the same situation.
- Derek Scissors: Getting back to Dany's point of this crisis and how scary it is, assuming it doesn't go as badly as we fear, is also an opportunity to say to the American people, "Congress already thinks China is a threat." This virus came from China. Forget the propaganda about they did it on purpose, or whatever, it came from-
- Marc Thiessen: Or everyone running around saying, "You can't call it the Wuhan virus because that's racist."
- Derek Scissors: It came from China and are you comfortable with this happening again 10 years from now because there is a pretty good chance it will happen again 10 years from now, or would you like the government to protect your health and safety by saying, "This is an unreliable partner?" It's reliable for a lot of things that we can continue to have trade with and it's unreliable for other things. I don't think China is the Soviet Union. I think we're already ready to treat China differently than we have been in the Congress and I think this event is going to bring support in the American people to that same side.
- Derek Scissors: I'll say one thing, Joe Biden's record in the Obama administration was very pro-China as far as I'm concerned. I think it'll be very interesting to watch him try to campaign. I think he's going to sound very different than he did, for example, in 2015 and that is going to reflect shifting American mood where we can take the actions against China that before people were wondering, "Why do we really have to do that?"
- Danielle Pletka: Luckily, Joe Biden doesn't really remember what he did in the Obama administration, so that won't affect him. I've got a big exit question for you. Just before we started recording the podcast, we talked about this happening again. You just said that again. So, one of the conceits that's going to come out of China is, "We've learned so much, this is never going to happen again and so don't worry people. And anyway, it was your fault America, disinformation."
- Danielle Pletka: Make a persuasive case why this is going to happen again because I think that we're such a 24 hour news cycle country once the stock market starts going up, we're going to forget this happened and start talking about Joe Biden and Donald Trump and Melania and Jill. That's the way we are, which is a great thing about our country. But we need to be reminded, China is going to do this again. What's the persuasive case?
- Derek Scissors: Let's say there was no COVID virus at all and nobody is paying any attention, any more attention to China than they did. The Chinese pig population is being ravaged by yet another virus. You might be like, the pig population, who cares? Pork is a staple in China. It's the meat core of their diet. It's responsible for most Chinese inflation bursts. Chinese inflation is very low and then pork inflation shoots up and everybody gets upset. They haven't been able to protect their pig

population despite its importance in Chinese food and the happiness of their people for years and years and years.

Derek Scissors: I have no idea about epidemiology. I do know that when you have animal viruses again and again and again, the chance of one of them jumping, bird flu, pig flu, swine flu, all of that, rises. The Chinese have a lot of control over a lot of things in their country, but if they can't control their pigs and they have to become more dependent on us, for example, for a pork supply, they don't want to depend on us for food, for Pete's sake, that's a sign to me that they don't have it together.

Derek Scissors: So forget COVID, just ignore all of it. You could still look at what's going on in China in terms of their ability to feed themselves, which is a huge priority for the Communist Party, and say, you can't do it. And if you can't do that, then 10 years from now, animal virus number 38 is going to jump to people again. You're going to lie about it again because you are the Communist Party and the world is going to be exposed again even if you take very dramatic affective actions after the virus jumps and after you lie about it. So, we have decades of evidence saying the risk in China is higher than any other country despite Communist Party control and then because of Communist Party control.

Danielle Pletka: Terrific. It's scary as hell, jeez. Thank you so much, Derek.

Marc Thiessen: Thank you, Derek.

Danielle Pletka: You're terrific as always.

Marc Thiessen: I really appreciate it.

Derek Scissors: I'm glad to be here.

Marc Thiessen: I'm really glad we grabbed Derek before the AEI shutdown and dragged him into the studio before we lose our space here because I think that was really informative.

Marc Thiessen: I want to argue with you about this protectionism point because every time somebody wants to put some restrictions on trade, everyone sets their hair on fire and says, "Protectionism, protectionism." I think we need to have a fundamental reassessment of certain things that have been established truths on the right. That all free trade is good, that populism is bad.

Marc Thiessen: We just had an election with Donald Trump in 2016 where millions of Americans who weren't getting listened to, whose jobs were being exported to China and that's true, that's what happened... On the right we always say, "Free trade deals, there is no net job loss," right? No. There is a net job loss in Ohio. There is a net job loss in Michigan. Those voters stood up and said, "What about us? No one is watching out for us."

Marc Thiessen: At the same time, we're discovering now that through globalization, we've become completely economically dependent on China in key sectors that we shouldn't be dependent on them for. I think we need to get rid of this turning

protectionism into an epithet. We don't want to be protectionists. We don't want Smoot-Hawley. We don't want to go back to what caused the depression, but we need to have a national discussion about the limits of globalization, the limits of free trade and have a more balanced policy that takes into concern, number one, our national security and two, the economic security of a lot of Americans who were getting hurt by unfettered free trade.

Danielle Pletka: Okay. I'm not an absolutist on trade either. I understand what you're saying and I think that there is an argument there. The problem is that the rational argument that you're making is an open door for everybody who wants to bring back, to make GM great again. This is the buggy whip industry. I'm sorry. At the end of the day, what has kept America at the forefront of the global economy has been innovation and productivity. The notion that somehow we should wrest back the making of TVs or your computer screens and give those jobs to people in Ohio or in Michigan is ridiculous. We need to figure this out.

Danielle Pletka: My argument is, I half agree with you, which is that I think that there needs to be a recognition that there are some strategic areas.

Marc Thiessen: I think you wholly agree with me because I want a balanced approach and what you're saying is that you're opening the door to the crazies who will say let's go back to protectionism and inflationism.

Danielle Pletka: But, I think a lot of those people who voted for Donald Trump actually do think that they should be making their TVs back. Remember those crappy RCA TVs that we used to have back in the olden days, right? They think we should be making those again. This is the challenge for us. I will say this, America is not very good at calibrating. I don't want us to get off topic. I don't want us to get off topic, because I think we need to separate this discussion, which is a much bigger discussion, from the notion that we need to do a reassessment of our relationship with China. As Derek said, not only do we need to do a reassessment of our relationship, our economic dependence on China, our lack of diversification, but that we need to get our own house in order.

Danielle Pletka: What we've seen with this Huawei fight is that we cannot get the Europeans to do what we want because they look at us and say, "I'm sorry, what? Didn't you just give a waiver to Microsoft to continue working with Huawei?"

Marc Thiessen: Well, because we don't have an alternative.

Danielle Pletka: Right.

Marc Thiessen: Because we don't have a domestic 5G capability to offer them. This making my point.

Danielle Pletka: So, we're not even competing, right. But our lack of a domestic 5G competitor, I'm not sure we can root it back to this. But, I also want to come back to the coronavirus challenge because Derek said something at the end that I think everybody needs to listen to and this is the point that you made—thank you for flagging my piece in the intro—but this is the point that I made in this piece I

wrote in the Dispatch. Everybody says, "Oh, America. You can't export democracy and who cares if they have a totalitarian regime in these places?"

- Danielle Pletka: The answer is, you know what, if you're going to do this again, if you want to get coronavirus mark three, if you want to get swine flu, HIV, Ebola, if you want to get those diseases again, then we should keep doing things the way we're doing them right now because these governments, bad governance is what leads to the spread of these diseases. It's Russia that says they have 28 cases. I mean, really, 28 cases? It's the Chinese who have continued to lie about this.
- Danielle Pletka: It's the Iranians. I don't know whether you guys caught this, but you can see Iranian mass graves from space. I mean, it's mind-boggling because the Iranian Government is lying. It's not just the licking of the shrines that they've been recommending.
- Marc Thiessen: Ew!
- Danielle Pletka: They've been lying about this left, right and center. Half their cabinet is infected. These are bad people.
- Marc Thiessen: There is an upside to every tragedy.
- Danielle Pletka: Marc! These are bad people and they're making Americans sick. We can say we don't give a damn if they die and that has been the attitude about diseases overseas, but we do give a damn if we die.
- Marc Thiessen: Everybody has walked away from the freedom agenda because, well, "How does it affect my life if the Chinese are jailing a million Uyghurs?" Well, this is how it affects your life because we learned on 9/11 that events that happen 3,000 miles away can come and hit us here at home and it's not just terrorists. It's disease, it's all sorts of things. So, we need to have a freedom agenda. We need to make democracy more of a priority in our foreign policy.
- Marc Thiessen: But two, we also need to have a real rethink about our trading policies and find that balance and not be terrified by the protectionists to say that we may need to rethink globalization a little bit. We need to have an intelligent policy when it comes to restricting trade with certain countries on certain products like health, national security and all the rest of it and try and favor trading partners and allies who-
- Danielle Pletka: We trust.
- Marc Thiessen: ... we can count on and trust. I think that's a reasonable discussion for us to have.
- Danielle Pletka: Yes, it is. You see, the coronavirus has really brought us together, Marc because we are ending on a note of harmony and consonance. How lovely for us. Thank you guys for listening. See you soon.
- Marc Thiessen: Bye.