

SPECIAL EDITION DATA DELAWARE: Saturday, January 25, 2020  
SUBJECT: CHINA, a Delawarean's unique insights! (Podcast transcript-Part I)

DISCLAIMER: This transcript is produced from Data Delaware podcast electronically; the conversion is being offered on a best-efforts basis.

Dace Blaskovitz: Good morning. Welcome to Money and Politics in Delaware. I am your host. I am Dace Blaskovitz, compliance asked me to remind everybody. I am Dace Blaskovitz, I am the president and majority owner of wealth advisors in Wilmington, Delaware. As a financial advisor, I offer full brokerage services.

Dace Blaskovitz: Arguably one of our most powerful programs ever in the first half, Delawarean, Dennis O'Brien's talking about China and for those that read their Wall Street Journal, Financial Times, any type of business publication, the handshake over the China deal with Trump and the representative from China. That gentleman from China is Dennis O'Brien's friend. We're going to find that story out in the second half. The American Legislative Exchange Council, ALEC, has just released a new study OPEB, post retirement benefits showing in their research that Delaware owes something like \$10 billion.

Dace Blaskovitz: Crazy story just released. Second half. Welcome back, Dennis O'Brien.

Dennis O'Brien: Hey Dace, how you doing?

Dace Blaskovitz: I'm good, I'm good. So, we get first of all, for our regular listeners, yes, this is Dennis O'Brien. He comes on two, three, five times a year. Talks about a variety of things, primarily China, but we do get first time listeners, Dennis, so talk to us 30 seconds about you, 30 seconds about your business talk.

Dennis O'Brien: Well, I'll talk about my China connections, if you don't mind.

Dace Blaskovitz: Please.

Dennis O'Brien: About 25 years ago I went to China and one thing or another led to the fact that I helped a young Chinese girl come to the United States to study. And, I sort of did that out of the goodness of my heart, thinking that she was poor... It turned out she was connected. Among other things, one of her sisters was the editor of China Daily. After a few years they asked me to write a financial column for China Daily, which I did. And, in 2001 when the towers came down in New York, people don't know this or haven't been emphasized, but the Chinese lost a lot of personnel there. More specifically China Daily came down with the building. They asked me if I could resurrect that by becoming the American editor of China Daily and China Daily's Business Week, which I did.

Dennis O'Brien: In the process of doing that, I got credentials, which I still hold by the way, press credentials for China. That allowed me to interview a lot of people. I did a series of articles called The Untapped Fortune of China, which had to do with data. China is amass with data because unlike United States, the government can

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order, update anytime they want to. And, one thing or another led me to the source and users of all that data which is the State Information Center. The State Information Center is comprised of about 15,000 people all over China who collect data of every ilk you can name transactional data, who wrote a subway, who took a plane ride, who was born, who got married, when did they do that? How many kids they have. All kinds of information that goes well beyond anything in the National Bureau of Statistics database, which is a subset of the State Information Counsel.

Dennis O'Brien: Now, what is the State Information Council do? They are the think tank for the NDRC. The NDRC stands for the National Development and Reform Commission. It by far is the most powerful ministry in China. It sets the five year plan, enforces it and any variation that goes on during that five years, the ministry or the industry that has screwed up and hasn't complied with the plan has to go to the NDRC for their permission to rectify the problem they have. In other words, they're in charge of not only what the plan is, but how to deal with those guys and institutions who's from it. The people who set that plan, the actual economists, by the way, 200 PhD economists at the headquarters of the State Information Center. If the State Information Center extremely powerful think tank, more than the think tank.

Dennis O'Brien: The head of that, was Liu He. Liu He is now the vice premier of China and he's the chief negotiator for the State Information Center, I'm sorry for the People's Republic of China. He was a guy who was sitting down signing the documents with Trump the other day. Liu He is a fantastic human being. He is absolutely one of the greatest economists I've ever met and I worked eight Nobel Laureates and that's number one. Number two, he's a great human being. He's a man who I would say has a generational morality. He operates in the highest traditions... Thinking ahead about what he can do for future generations of Chinese. Extremely charitable in that sense, which is not unusual for the Chinese but it's unusual for people at that level. He speaks English better than I do having gone to Seton Hall and Harvard University, and he's charming to boot.

Dennis O'Brien: I got to know him because his number two, is Li Keqiang, who is my best friend in China. Li Keqiang was actually on your show on a couple of occasions I believe. At least one, Dace.

Dace Blaskovitz: Yes.

Dennis O'Brien: He came in by telephone and he was at the round table...

Dace Blaskovitz: Yes.

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Dennis O'Brien: Anyway, yeah, that's how I know Liu He and Li Keqiang and also another gentleman who was the head of the SIC for a while as well. Liu He is now the head of the SIC, head of the NBRC. He is the economic czar of China and he's also the right hand man of President Xi, and that's one of the reasons was he as a young teenager, he was sent down along with Xi during his high school years. Sent down, means that their parents were taken out of power and sent into the hinterland to learn the communist philosophy again. And, so he grew up in a tough environment. President Xi was almost killed through protesting when he was sent down. So, even though he's a princeling, he's a princeling who grew up in a tough situation and his companion during that was Liu.

Dace Blaskovitz: Do this one for us, your thoughts in a couple minutes on the trade deal?

Dennis O'Brien: Well, first of all, let me talk about the Chinese in the trade deal. The Chinese are really hurting in a way that is not hurting the Americans. The Americans sell simple soybeans to China. What does China sell to the United States? Well, watch this. The Chinese economy is divided between the SOEs, State Owned Enterprises, which are large state corporations and the private sector, small, relatively small, although some of them are getting huge, Chinese private companies.

Dennis O'Brien: The SOEs get 67% of all legitimate loans from Chinese banks. The private sector only gets about 30. The private sectors demand is about 40% export. Of the 40% something like 15 or 20 of the 40, 20 over 40 comes from United States. When the United States starts laying tariffs on the goods imported from China, it's killing the private sector. By the way, the private sector also gets it's debt from the SOEs who lend it out like the mob does, with vigorous tied onto it. So, he might borrow at four and lend at 10 to the private companies.

Dennis O'Brien: That has put the private companies in deep trouble and they're screaming with pain. Now watch this, it's even worse than that. China has for many years depended on foreign direct investment. Foreign direct investment really is encouraged for two reasons. They want the money. More importantly, they want the intellectual property that comes with it. And, that's part of the trade negotiation. United States wants to stop the Chinese from giving access to their economy only by allowing the Chinese partner to effectively take our spiel depending what word you want to use, intellectual property or business secrets from the company you're doing business with.

Dennis O'Brien: Well, what's happening now-

Dace Blaskovitz: Stop there. Stop there because we do two 10 minutes segments. This one's in the process of ending.

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Dace Blaskovitz: His name is Dennis O'Brien, China expert. We're talking about the structural changes happening within China. Then we'll get to the trade deal. But, the key according to Dennis O'Brien, are the structural changes? What's going to happen? We're going to take a short break. Dennis stays with us. We will be right back.