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Dace Blaskovitz: Welcome back to Money and Politics in Delaware. China, China, China, with Delawarean Dr. Dennis O'Brien. One more clean up and that was research by Ray Fair at Yale University, thank you, that shows growth in the three-quarters before an election is an important determinant of election results. So Trump is running out of money. Dennis, we'll bring you back to that in just a minute. During the break, you wanted to talk about Biden. Here's the platform.

Dr. Dennis O'Brien: Well, it's an interesting thing. Do the Chinese want Trump, Biden, or do they want some other more Socialist type of President with that kind of an agenda? Interestingly enough, they want Trump, okay? Trump knows what's going on in China, and it's the devil they know. And Xi respects Trump. They don't respect Biden, and the reason for that is they don't feel he understands the problems, the inherent problems, the enormous problems, that the Chinese are going to have. The Chinese are getting old before they get rich, that the old saying, and it's true, the demographics are ugly in China. Not only does one person have to support eight people by 2025, but there's 119 men for every 100 women in the family formation aging. That's a real, real problem.

Dr. Dennis O'Brien: They have another little problem, 1.5 million Chinese are educated in the last couple years in the United States and they are the sons of the princelings and the wealth Chinese. What's the old saying, "How are you keep them down on the farm after they've seen Paris?" These kids understand what freedom of speech is and access to information, and they're being restricted tremendously by the current regime.

Dace Blaskovitz: Stop there, stop there. Stop there just a minute, because tick tock on the clock, we're going to run out of time. But use that and launch right into the significance of the protesters in Hong Kong. It's more than just a couple thousands kids storming the fort. It has real significance. What is that, Dennis?

Dr. Dennis O'Brien: Well, I mean, the significance is it's a major crisis. Are they going to have another Tiananmen Square like they had in '89? They can't do that. Hong Kong is a show piece, and it's also that their currency is different than the Chinese, and it, of course, has the stock market, which is international because it's not controlled by the Chinese or Shanghai. And those people in China, and I have a lot of friends there both American and Chinese, they've had it. They do not want to have the dictatorship and authoritarian government that Xi is presenting. By the way, the Chinese law is neither universal nor does it exist. You don't want to go into a court in China, the mainland China, not Hong Kong, and try to get justice. 99.99% of the people who are in the docket are convicted in those courts, and there's no way to get a small corporation to compel a large corporation to fulfill its contracts. Universal law does not exist in the mainland China.

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- Dace Blaskovitz: Take it a step further, take it a step further. The Premier will appear, this is a question, weak if he bows to the demands of the protesters, and therefore, he can't seem weak in the tariff negotiations too, is that a true statement?
- Dr. Dennis O'Brien: No, I don't think it's true. I think what Xi will do, he'll show up in Hong Kong, and calm things down by personal presence and charisma. He is an impressive guy, and that's my forecast for what's going to happen. It's not going to be another Tiananmen Square, and I think he's going to have to back down. So I'm very optimistic about Trump and Xi. I think Xi has Liu, who's whispering in his ear, even though he was demoted by the way because of his failure with Trump. We have Trump, who is going to become a realist real fast with guys like Art Laffer talking in his ear, and my forecast is this is going to de-escalate rapidly. I think the Chinese have to do this by October 1st, which is the 70th anniversary of their succession to power in China. It was October 1st, 1949.
- Dace Blaskovitz: But Dennis, hang on..hang on. Let me take the other side of the argument just a second. The markets are on fire right now. We don't have until October, in my opinion, we don't have until October, we don't have Robert Fry till January 1. The crisis is, right now, the pot is boiling and bubbling. What happens right now, markets moved 800 points in a day, 3%, but still, you have this kind of volatility, what calms it, what addresses everybody's need right now?
- Dr. Dennis O'Brien: The old way to look at China was you had to have a partnership with them, and I think somebody like Larry Kudlow, who is a good advisor to Trump, and, again, not a radical, he's very rationale, sometimes he comments on Trump's irrationality, and I think you're going to have both sides put down the guns and the market will react positively. By the way, the Chinese are really hurting long term. The American firms are pulling out, they're going to Vietnam and other places like that. That's number one, so it's a long term phenomenon for that. And number two, the Chinese have this enormous demographic problem. So it's going to be with the Chinese, and just real fast. Who is exporting to the United States? Private Chinese companies, not the big state run enterprises.
- Dr. Dennis O'Brien: The private Chinese companies are getting an enormous amount of their revenue, about 40%, that comes from foreign exports. About half of that comes from the United States. When the United States stops buying their goods, their top line goes down and their bottom line goes down, and they can't pay their bills. Where are their bills? One of their biggest bills is the fact that they borrowed money and they didn't borrow it from the banks. They borrowed it from the large SOE state enterprises (*state-owned enterprise*), and those SOEs are now taking back these private companies because they were the collateral for the loans. So, it's a real problem in China. Effectively, they're going back to where they were in 1991, before Deng Xiaoping had allowed them to go into free market capitalism.

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Dace Blaskovitz: Tick tock on the clock, you got 90 seconds. One more challenge to the logic, and by the way, I agree with everything but I'm having fun with you. One more challenge, and that is, you and I are not the only smart guys in the room. Laffer, Trump, Navarro, smart people. Why hasn't this got done? By the way, give him a plug, Robert Fry, economist, his newsletter comes out today, On a Knife's Edge. Why take it to DEFCON 1?

Dr. Dennis O'Brien: I think Trump does not want to lose. I think he is, I'll get in trouble for saying, I think he's a narcissist who doesn't want to lose. So now there's that pride with him. I think all the things he's fighting for are good. I think his timing is terrible, and I think he's going to face the reality that he won't be President in 2020 if he maintains his current position. So he's going to have to cave, and Xi's going to have to cave.

Dace Blaskovitz: With that thought let me turn to the audience. Dr. Dennis O'Brien, absolutely delightful, insightfully joins us with regularity. Thank you. And let's see, looking forward, I'd like to remind everybody, next week, Charlie Copeland. Week after that, Robert Fry, economist. The week after that, Charles Elson, University of Delaware professor who we label the \$40 Trillion Dollar Man talking on corporate governance. Big event in mid-September at the University of Delaware. We're going to see you back here next week for more Money and Politics in Delaware.