Transcript: The Kyle Bass Interviews: Steve Bannon's China Warning

Featuring: Steve Banon

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Synopsis: Steve Bannon, former White House Chief Strategist, sits down with hedge fund giant Kyle Bass to discuss America’s current geopolitical landscape regarding China. Bannon and Bass take a deep dive into Chinese infiltration in U.S. institutions, China’s aggressiveness in the South China sea, and the potential for global conflict in the next few years. Filmed on October 5, 2018 at an undisclosed location.

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**Kyle Bass**: What do you think China's true intentions are in their grand strategy? What is their grand strategy?

**Steve Bannon**: Their grand strategy is very simple. It's to be a hegemonic world power. I think this will be a big shocker to people. Remember, when Trump won in a complete upset that nobody saw coming, and particularly, you have this post-war, liberal, Democratic, rules-based order. OK? The Chinese have done nothing but gamed the system from day one on every set of rules. The rules are what they determine they are. OK?

And nobody calls them on it. I think you're going to see a double and triple down on One Belt One Road. I think you'll see a double and triple down on Made In China 2025. I think you're going to see the East India Project and Sub-Saharan Africa, the Caribbean, in Venezuela, and Latin America double and triple down. They've got a lot of RMB to spend, right? And if a guy can take RMB--

**KB**: And no one's going to take RMB.

**SB**: Well, this is going to be the great question we're going to have in front of us.

**Grant Williams**: You're about to watch a tremendous conversation between Kyle Bass and the former White House Chief Strategist and Executive Chairman of Breitbart News, Steve Bannon. Steve's a very controversial figure as I'm sure you all know. And in this extraordinary conversation, the two spend an awful lot of time discussing the potential for a major conflict in the South China Sea. It's hard hitting. And as always with Steve Bannon, it's controversial. But I think you're really going to enjoy what you see.

**KB**: Mr. Bannon, thanks for being here at this undisclosed location in Texas.

**SB**: It's Steve.

**KB**: Steve.

**SB**: It's Steve.

**KB**: Steve. It's good to have you here. Thanks for being here.

**SB**: I'm glad to be here and excited.

**KB**: You're here very specifically to talk with me about something that you and I study very intently. And that's China. And I'd love to just start right off the bat with asking you what do you think China's true intentions are in their grand strategy? What is their grand strategy?

**SB**: Their grand strategy is very simple. It's to be a hegemonic world power. You can see it through One Belt One Road. You can it see through Made In China 2025. You can see through everything they're doing like their strategy of being the East India Company in Sub-Saharan
Africa, what they're doing to the Caribbean, now what they're doing in Latin America.

What we call all forces of government-- all areas of government focus on the economic war against the United States and their military build up. They're basically trying to close the South China Sea. It is the most geopolitically ambitious strategy we've ever seen. And let me be very specific. The three great theories of geopolitics-- you've got Mackinder's theory of the Asian landmass. You have Mahan's theory of cutting off the choke points of the world's oceans.

And you have Speakman's theory of keeping your enemy off of the Asian landmass. The Chinese are the only power in world history to ever try to do all three simultaneously. Napoleon, and Hitler, and others tried to do the Eurasian landmass. The British Empire and the American system we have today is built off Mahan's Naval strategy. And then Speakman's is one from the earlier 20th century.

What China is doing with One Belt One Road is trying to basically connect the old Silk Road all the way up to Italy. We saw in the paper today the Italian government-- the guys in the Five Star--Di Maio came back from Beijing. They had a huge thing about hey, we want to end the One Belt One Road in Italy where Marco Polo essentially left. We had a vote this week in the Maldives which really rejected what they're trying to do in the Mahan strategy of taking all the Naval bases and choke points throughout the world.

And then Speakman. What they're trying to do is force the United States, which has been a Pacific power, off of the landmass through what they're doing in the South China Sea and what they're doing around Taiwan. They want to push us back to Guam. People have said for years to kind of cover this.

A lot of the Wall Street, City of London, and Frankfurt crowd have kind of said, oh, well, they're not territorially ambitious. They've never been an expansionist power. Well, they're a geopolitically, expansionist power. And it's quite extraordinary what they're doing. And they're doing it at the same time.

KB: And do you think that their new found economic greatness or perceived greatness, post-financial crisis-- they always believed they were a second rate power, financially, going into 2008. And the world seems to believe that they were the engine of the world's growth from 2009, 2018. Is it that economic growth that they build their geopolitical assertiveness on in your opinion?

SB: Listen, since time immemorial, the access to the Chinese market, this mystery of the Chinese market, has always drawn in the West, whether it's the British coming there at first, or the East India Company, or the China schooners from the United States-- the China trade. It was always this thing about China. What we've seen, and I happen to believe, is that the Chinese economic system is built on a house of sand.

And I think it's going to lead us to a greater financial debacle than 2008 ever was in the exact same culprits that led to the financial crisis in 2008-- the investment banks, the commercial banks,
the hedge funds, and the government entities. It was the same elites that led to that financial crisis and got bailed out. They had no responsibility and no accountability. They've been the same exact actors that have exacerbated the situation in China.

And so yes, the reason the world's elites—the Party of Davos, the people on Wall Street, what I call the IR departments of China, which are the investment banks, particularly Goldman Sachs and some commercial banks, the lobbyists for China, which is basically the 25 or 30 largest corporations that deal in China today— their lobbyists in Washington, DC. And the big private equity guys like Schwarzman and these guys are all going to have to be held accountable for what went on in China.

What China was able to do in basic coordination with the elites in the West was de-industrialize the industrial democracies of the West, both Europe and the United States. That's why Brexit and 2016 are inextricably linked. What it is is the exporting of Chinese overcapacity, and Chinese deflation, and basic industrial goods. And from the Chinese point of view, it's been quite brilliant.

They've essentially taken 350 million of their people from working poverty to middle class, and 400 million people from abject poverty to working poverty. So that's essentially 2/3 of their population, because their population I really think is closer to 1.3 or 1.4 billion than what they say, 1.1. So what they've done is heroic in 30 years from a strategy point of view. But that has been exacerbated by the elites in the West who basically kind of financed it and brought it on.

In fact, the reason Trump was I think so special was that he said, hey, this is not the way the world has to be. It could be very different. We've basically financed the rise of China. We've built China. And all he heard for years and what you heard for years is no. This is what I call the second law of thermodynamics. This is an immutable law of physics—the rise of China.

And what Trump said is no, this is through human agency. It's the commercial banks, the investment banks, the corporations that kowtowed to the Chinese regime. And one thing I want to make sure, Kyle, I get out up front is this is not about the Chinese people. I served as a Naval officer over in China in the Western Pacific in the Seventh Fleet on a destroyer in the mid '70s. I think '76-'77 was the first time I went to China.

I have been involved in China virtually all my life. I've owned businesses over there. I've lived in Shanghai for a while in the French Concession. I have a great not just admiration, but a deep love for the Chinese people. In fact, that they have a saying over there called, old hundred names, which is basically the common man because there's a 100 last surnames in China. So old hundred names is essentially the deplorables.

And those in the old hundred names is a sense of common decency, their grit, and their determination. What they've been through as a people is nothing short of heroic. The problem we have is we have a totalitarian regime of the Chinese Communist Party, and quite frankly, the elite leadership of the Chinese Communist Party that are really in business with the Party at Davos, which is this scientific, engineering, managerial, financial, cultural elite that I say kind of emanates from the World Economic Forum in Davos. But it's really in London, New York, Washington, DC,
Silicon Valley, et cetera.

**KB:** And do you think the way that they've ingratiated themselves into, let's say, the Davos man, as is commonly referred to— the way that they’ve gotten there— is it through economic coercion? Is it through investing in our universities, our think tanks, our lobbyists, as you said, and our corporations, and even the people that are US citizens looking to make profits in China. Is that how they control that narrative? And how do they get there?

**SB:** Let’s go back to one week in January 2017 when we had two seminal speeches. We had the Davos speech from President Xi, which was the high hosanna to globalism. And it was, to me, repulsive how the mainstream media and Davos man just sat there, and bought it all, and said, what a great leader, what a great humanitarian, what he's going to lead us through on the world's environment, what he's going to do for globalization or for the economy.

And then you saw Donald Trump's Inaugural Address was I think three days later in which he said, hey, we're getting back to the nation state. And America is going to start to focus on our sovereignty. And other nations should start thinking about their sovereignty. But this globalization and what's coming out of Davos has stripped our sovereignty from us. And we're going to reassert that. And two years later, which happened this week, was Mike Pence’s speech about the new strategy of the United States.

**KB:** It happened last night.

**SB:** It has really been going along for quite a while, which is now kind of engaging China. But it's not like Henry Kissinger and not like the Thucydides Trap crowd. And I know you did this seminal interview with Graham Allison, but not what those guys want, which is for us to stumble along and play along with China. This is a direct confrontation with China to say, we're not going to take it anymore. You've been in economic war with us. And we're going to reassert us.

Your question about how they ingratiate themself. They’re the guys wrote the biggest checks. They wrote checks to the universities. They've essentially bought off the city of London, Wall Street, and the corporations. I say this in a sense of kind of anger. The great investment banks in London and in New York became the investor relations department for this regime. OK?

**KB:** In the pursuit of profits.

**SB:** In the total pursuit of profits. And corporations became their lobbyists. When Li Hu, deputy, came to the United States about four weeks ago when they had this last round of trying to put something together in the trade deal, there wasn't much going on. But he sent his deputy and a small contingent to see Steve Mnuchin and the guys at Treasury. The very first stop they made was the day before they went to Treasury.

They stopped, and they had a meeting with I think 15 or 20 large corporations. It was the heads of government affairs and I think the presidents, but not the CEOs because the guy wasn't high enough. And he basically said, hey, boys, you have a problem. And you have to figure out how
to help us fix it. OK? Another thing is that had Wang Qishan announce this kind of financial advisory panel.

Being on their back foot by the Trump strategy, they kind of said, hey, we need a financial advisory panel to help us understand what the United States wants and what the United States needs. And it was Paulson, and Schwarzman, and all these characters. And it's interesting. When they need somebody to come over and help intermediate with the United States, they go to the same guys who have been profiting on this.

My understanding is that people came back and said, hey, the UN General Assembly is happening. It's opera season in New York. My schedule is full. And Wang Qishan said, hey, boys, I don't think you're listening. We're having a meeting. I want everybody to show up.

This is general quarters. And so no. I think when we look back on this, people are going to be absolutely stunned when they see how the elites of the Western democracies and the United States went along with China and exacerbated a situation when it was quite evident they were at economic war with us.

**KB:** Going back on this one issue about the way that the influence is being pushed through the corporations, we at our firm know that there are several-- there's a couple of handfuls of corporations that each have more than $1 billion in capital that they're trying to get back from China. And they have been unable to get a dime out of China since November of 2016 when China closed its capital account completely. When you were in the administration, did you interface with any of these companies that were going through a lot of-- pardon the pun-- red tape-- trying to get their money out of China. Did they come appeal to you?

**SB:** Yeah. I think this will be a big shocker to people. Remember, when Trump won in a complete upset that nobody saw coming, and particularly, you have this post-war, liberal, democratic, rules-based order. OK? The Chinese have done nothing but gamed the system from day one on every set of rules. The rules are what they determine they are. OK? And nobody calls them on it because everybody thinks they're too weak.

**KB:** Are the corporations afraid to call them on it?

**SB:** Absolutely. 100%.

**KB:** Because they know if they say that we can't get our money out, they shut their business off.

**SB:** They'll be shut down.

**KB:** There's a quid pro quo?

**SB:** Shut down. They absolutely fear it. By the way, on the entire situation with the tariffs-- and tariffs are just not about tariffs and not about protectionism. That's why Trump's done it at such a scale. Remember, before Trump got here, people are talking about $25-$30 billion of tariffs, it
was like, oh, my god. That's so huge. Trump's program is half a trillion dollars to tariff goods because he knows the Chinese can't respond.

And here's why they can't respond—people in the United States have to understand one thing. The Chinese look at us as a tributary state to them. And let me explain that. China's been around for 4,000 years, right? They've had good runs. And they've had bad runs. OK? But one thing they know, and the reason they're still organized as a nation over 4,000 years, is they know how to handle allies. And they how to handle bad guys. OK?

Now what they've done is they've got this system called barbarian management. And they know how to manage barbarians. The way they manage barbarians is they take the leaders of the barbarians, and they give them a taste of the good life. And you're going to be something special. You're going to get a special deal. Now what happens back into the tributary state is your problem. OK?

In the United States, what they have done for 25 and 30 years is play this as a barbarian state. It's barbarian management. OK? They incentivize our elites. And our elites de-industrialize, particularly the upper Midwest of this country. It's the reason Donald Trump's president.

The audience should understand one thing that's important is that JD Vance, the great guy from Yale who wrote Hillbilly Allergies— it's the best sociological study of the Trump voter. And it was JD Vance who told me those studies that come out of MIT and Harvard show that there is a direct correlation between the factories that left for China, the jobs that left with them, and the opioid crisis. Because this is not about tariffs.

KB: It's actually logic.

SB: It's not about tariffs. What this is about is human dignity and self-worth. Those factories went. Wall Street made the money. The corporations benefit from it for lower costs. And devil catch the hindmost on the workers. And so this is what Trump is totally reverse now. What China sees this as is we're a tributary state. We send them natural resources, soy beans, beef, cattle, Boeing Airlines and Apple products.

Oh, excuse me. We don't send Boeing airlines and Apple products. you know why? Because they forced Boeing to do a joint venture. And they forced Apple to make their products over there. So we're Jamestown to their Great Britain. That's why the tariffs at the scale that Trump put them up at, they can't respond to. OK?

KB: But what's interesting—let's assume we put 25% on $520 billion. We're literally talking about a little over $100 billion dollars. And I know that's a lot of money. But our economy is $19 trillion. It's still not that functionally meaningful to us, in my opinion. But I do think it's a leveling of a field to your point. They've been fighting a trade war with us since 2001. And we just haven't fought back.

SB: OK. The average compounded growth of the United States of America from 1946, the end of
World War II, to 2000, was 3.5%. OK? It's the reason we became a superpower. That economic engine that was unlocked and grew every year at 3.5% and 1/2 percent through good times and bad on average—when China joined the World Trade Organization, they got most favored nation. The growth of the United States is 1.9%.

There's a lot of factors to that. But the central beating heart of it is China because we de-industrialize. We sent our manufacturing over there. Yes, the tariffs in and of themselves, on a nominal number and absolute number, are not huge. But we look at the convergence of everything. What Trump has done is said, hey, we're at economic war. And we're going to hit back with the 301s that stop the forced technology transfers.

We're going to put these tariffs into the scale they've never seen before. We're going to have the ability, if we so desire, to liquidate companies like ZTE to basically cut them off from their component parts in the West. They'll be out of business in 90 days. Also, the new things about these limitation investments that—

**KB**: The CFIUS Reform.

**SB**: the CFIUS Reform that people are talking about— you bring all forces of government together on that and the stopping of intellectual property, you have something. And this is why NAFTA was so important. People mocked and ridiculed Trump. There's a book out called Fear that Gary Cohn, the president of Goldman Sachs—great Goldman Sachs—and I used to work there. He takes the documents off the president's desk.

The book opens where he's taking the NAFTA deal early on and the deal on Korea and actually takes them off the desk because in his judgment, the president wasn't smart enough to understand what he was doing. Well, here's what Trump's done— the new NAFTA deal that he's created is basically setting up a geostrategic manufacturing base to counter East Asia. And Japan is very quickly going to be part of that.

It's a bilateral deal, and not some TPP deal where we're just one among many. It's a direct bilateral deal with Japan as a partner. We've got one with Korea we're updating. And in the EU, Juncker has already told Trump and indicated that they're going to be a part of this too. What Donald Trump has done in less than two years against the second law of thermodynamics—the immutable law of the rise of China—what he's done is reorient the entire world's supply chain away from China.

And this is going to have economic growth opportunities that are going to be incredible. And he's done that kind of single-handedly against the fighting of the corporatist lobby, the fighting of the Wall Street investor relations department, et cetera. So that's why I think it's really heroic.

**KB**: It's interesting with the timing. If you look at just, let's say, the economic laws of China, were already slowing down before we decided to fight back. It just so happens to be that this pushback from a tariff or whether— the most elegant idea was the border adjustable tax which was immediately killed by you and I both know who.
SB: I loved that one.

KB: That was perfect in my opinion.

SB: By the way, I am a huge believer that— and Paul Ryan and I have had our differences, but when he first brought me through that, I said, that's the solution. That's the solution.

KB: It's kind of an egalitarian way of going at it.

SB: I Think— And we all know why it got crushed. I think that that is something that should be brought back up very quickly in future years.

KB: We could do away with tariffs if we imposed a border adjustment tax.

SB: Well, by the way, let's talk about tariffs for a second. President Trump— remember the G7 when he was lectured by his betters— Merkel and Macron on the first day about this whole thing about tariffs. He came back the next day for breakfast. And what Trump told the G7, he said, OK, I thought about it last night. How about this? No tariffs. Absolutely no tariffs. But no subsidies. People have to realize that the White House put out this document over two months ago now. It was the 50 things that China's doing in its economic war with us. It's kind of what the United States wants China to stop. That's the deal. You stop that, we're all good. When you look at that, it's not just the tariffs. It's the investment in state-owned industries.


SB: Free land. Look at what they've done with steel and aluminum throughout the world. Look at what they've done with ship building. You could go every heavy industry. They've gutted Western Europe. And they've gutted the United States. And they continue to do that.

KB: Purposefully.

SB: Purposefully. And by the way, ZTE showed you this. They have to create some number of 11 million jobs a year. They're under enormous, internal, economic pressure to create those jobs. They can't afford to have 150,000 high value added jobs at ZTE just go away. It's the same thing with the steel. They're kind of caught on the wheel now.

They're the first to admit they have to keep adding capacity because they've got to keep these guys working. So I think that's why the Chinese model, and all this happy talk that comes from the West about the Chinese model, when you really look at it— and I know you are one of the world's handful of experts I think had looked at it and looks at the numbers as they really are not what people hoped they are, and not how they're spun by China. Because every number that comes out of China, to me, has to be questioned, verified— trust, but verified.
It has to be questioned, verified, and then verified again. You've got to get on belt and suspenders. And that's why I think we may be hurtling to another financial crisis driven by this financial model of China that can't stand up on its own.

**KB:** Right. Well, the good news about that is if we're right about China, and we're right about their reckless build of credit, coupled with the fact their economy's slowing down, coupled with the size of their banking system and GDP— if we're right about all those things, the good news is their banks aren't inextricably linked to ours the way that ours were to Europe and Asia's back during our financial crisis.

**SB:** They're not. But you used the word they're reckless. This is what upsets me about the lack of accountability and responsibility by the world's elites. We just went through the worst financial crisis in history. Not one CEO went to jail. And not anybody significantly gave up any equity. OK?

People have got to remember that on September 18, 2008, when Bernanke and Paulson walked into the Oval Office with Bush, and he sent them up to Capitol Hill, the balance sheet of the Federal Reserve was $880 billion. On the day that Donald Trump took the oath of office on January 20, 2017, it was $4.5 trillion. All we did in the Bank of England, ECB, Bank of Japan— did the same thing.

**KB:** And the PBOC.

**SB:** PBOC. What they did to save the elites was to turn on the spigots of liquidity. So if you owned assets, real estate, stocks, or intellectual property, you've had the greatest 10-year run in history. If you're a working class schmendrick, wages are flat. This is what's unfair, and this is where the anger that's driving the populist movement— the whole burden comes down on the little guy to finance these deficits with his taxes.

And then his kids get sent everywhere in the world to defend this. That's what's got to stop. You used the word reckless. It is reckless disregard what the elites have done this time. Because what they've done— look, the American banking system has $19 trillion of assets on it. You're 10 times smarter than me on this. I'd respectfully submit that all of those assets are not good. OK? Maybe, let's say, 10% or more could be written off today.

That's the American banking system. The Chinese banking system I think has $49 trillion of assets. Correct me if I'm wrong, but I think $45 trillion have been put on the books since 2008. This is completely reckless. Now, thank god they're not interconnected through the SWIFT system with the rest of the banks.

**KB:** Or through derivatives.

**SB:** Derivatives. And by the way, the reason is— and this is another tell— because none of the investment banks or none of the guys want to say, whoa, we can't hook up with China because
they all stopped themselves from doing it. They all limited their exposure to it because they
understand when it implodes, they don't want to be taken down in the first couple of minutes.

That being said, those banks are going to implode. Nobody can put those kind of assets on and
have a great banking system. This is a total and complete sham in the economists, the Financial
Times of London, all the elites, and all the conferences they have. You had Richard Haass on this
morning on Morning Joe. Richard Haass is from the Council on Foreign Relations. And all he's
doing is beating up Mike Pence and Donald Trump from Pence's speech.

You know what he's saying? He's saying, hey, all my Chinese colleagues and buddies in China
are telling me they don't know what the United States wants. They came over here. They wanted
to deal. And they want to be our partner. But we keep moving the goalposts. That is reckless for
him to say that. He fully understands what the issues are. OK?

And he sits there on a general news show in the morning that basic voters watch and starts putting
this stuff into the mind. It's unacceptable. I got to tell you, Kyle, that's why I think what you're
doing here, what you're doing with your work, and other things-- there are a number of people
like yourself that are sitting there going, this can't continue. And people are going to be held
accountable for this.

If the elites think they're going to skip on this one, it's not going to happen. The reason Donald
Trump's president, the reason you're seeing these populist revolts, whether it's in Italy, Germany,
France, throughout the world, in Brazil this weekend, in Argentina, in Pakistan is the little guy is
fed up with a group of elites that know better. And to take care of themselves, they will play ball
with anybody.

KB: You're right. And when you talk about the Chinese banking system, let's assume that it has to
restructure. They're very smart.

SB: Let's talk about this. Here's how smart they are-- when we went over with Trump's visit,
remember, they didn't make any other changes. They weren't going to let us in on anything
outside of that, except they would open up the finance sector.

KB: Says the spider to the fly.

SB: Exactly.

KB: They've already wrecked their financial system. And now you can invest.

SB: Now you can invest.

KB: Why does the world not see this, Steve?

SB: The world absolutely sees this.
KB: They’re starting to see it.

SB: Hang on, Kyle.

KB: The world’s economists are just starting to see this.

SB: No, no, Kyle, Kyle. Kyle, you are much too kind. You’re a good man. OK? You’ve got to call it like it is. It’s bullshit. OK? You’re telling me the guys at the Wall Street Journal, Financial Times of London, and The Economist—these smart guys and think tanks don’t know exactly what’s going on? Some moron like me can look at the balance sheet of these banks and say, hey, guess what? I think we have a ticking time bomb. They know exactly what it is.

KB: But you know what they say? But it’s China. That’s what I hear all the time. I agree with you. But it’s China. So we’re going to keep writing what we write.

SB: Yeah. That’s got to stop. OK. We cut a deal with China in the late ‘90s. Remember, you had a spectrum back then of the China cheerleaders, the rational accommodationist, and the hawks. So let’s talk about this. Back in ‘99, that was the pitch from the appeasers. The people have to understand it’s both political parties. This is not about ideology.

This is all Democrats and Republicans. OK? When they’re talking about China, they’re just trying to figure out how to get more money in their own pockets. So the cheerleader said, hey, it’s China. Once we get them into the most favored nations, once we get them into the WTO, they’re going to turn out to be liberal capitalists. They’re going to vote.

KB: Liberalize our economy. They’re going to democratize. They’re going to let us invest in everything.

SB: They’re going to be middle class.

KB: Maybe create a rule of law.

SB: Rule of law. It’s going to be nirvana. OK. So we know 17 years later—guess what? They’re a totalitarian, mercantilist regime. They’ve got a system that works for them for the elite for their regime. And it works well. Now you have two sets of folks. The cheerleaders are gone. Nobody’s a cheerleader.

You have rational accommodationist, and you have hawks. Rational accommodation has got a new name. Its Thucydides Trap. It’s your buddy Graham Allison and Henry Kissinger. And here’s the great concept they got. Their great concept is America’s a declining power. China’s a rising power like Athens was a declining power, and Sparta was a rising power.

And what you have to figure out to avoid a global conflict, which has only happened 16 times in world history. And 12 times, they just weren’t wise enough to take it. What has to happen is the declining power can figure out how to nudge the rising power to kind of get into their system.
Now you'll always be the junior partner, but you'll make the big guy work with you. And everything will be happy.

This is the exact same nonsense from the exact same people from Allison Graham and from Henry Kissinger that they spun on Nixon in the late '60s about Russia. Let's go back in time. It was the same exact pitch. Russia's a rising power. America's a declining power. And what we need is detente. We need a rapprochement.

We need to let them have their sphere of influence. It was bullshit then. And it's bullshit now. Ronald Reagan came in and said, hey, you know what? How big is their economy? And they said Russia's economy is the size of California. He says, why do people fear them?

The very first thing that Andy Marshall at the Net Assessment Group in the Pentagon and Bill Casey at the CIA did was do a complete analysis of the Russian economy. And they found out it was only half as big. Whoops. I have a miss. It was 15% bigger.

KB: And they were desperately short dollars.

SB: Desperately short of dollars. This is the whole thing that always happens with a regime.

KB: So exactly where China is.

SB: Because they did the exact same thing as China. They put it into military spending that was not productive. So here we go with the exact same set of guys. And what they tell us 40-50 years later is hey, America's a declining power. China's a rising power. And I look at it. It's the exact same thing. They have an economy with no dollars.

Here's a point I make to them-- how about this. How about we stop being a declining power? That is not a law of physics. A process that manages us to decline is not a process I accept. I am looking for a leader to step up and make America great again. And that's Trump's basic pitch. And guess what? In two years, he proved the Chinese are a paper tiger.

KB: When you think about their grand strategy, our pushback, and where we are in the globe today, what do you think China's next step is? If you were predicting what their next step would be, given our assertiveness that we've stepped forward on the economic side of the coin and pushed in some tariffs, and are starting to reassert ourselves, what do you think they're going to do. What's textbook?

SB: Number one, they want regime change in the United States. They believe they have an 80% chance of getting Trump-- winning the House and doing whatever they need to do with psychological warfare, with money, with whatever they have to do to basically thwart Trump and lose the House of Representatives and see him impeached this year.

And there's 100% probability they'll beat him at 20-20. Number one is the removal of Donald J Trump as President of the United States. Because they say, that is the rail head of everything that's
happened to us badly. We've got to get a globalist in there.

**KB:** They're game just to wait him out.

**SB:** Not just wait him out, but I think take active measures. Pence said yesterday-- and Axios and other people reported-- there's classified information that shows the Chinese involvement and real meddling. This is not some Russia guys on Facebook. This is the real deal because this is all the chips in the middle of the table. That's number one.

Number two, the Italians said today that hey, China's going to be our big buddy. I think you're going to see a double and triple down on One Belt One Road. I think you'll see a double and triple down on Made In China 2025. I think you're going to see the East India Project in Sub-Saharan Africa, the Caribbean, in Venezuela, and Latin America double and triple down. They've got a lot of RMB to spend, right? And if a guy can take RMB--

**KB:** But no one's going to take RMB.

**SB:** Well, this is going to be the great question we're going to have in front of us.

**KB:** It's the key.

**SB:** They're in the Gulf right now. They're all over the UAE. They're all over Saudi Arabia. They're all over Qatar. They're all over every resource area in the world from Argentina to Sub-Saharan Africa, to South Africa. And they're going to try to see it--

And number three, remember in the great textbook that they put out and basically printed in English in the late '90s written by these two brilliant Colonels in the Chinese War College called Unconventional Warfare. Unconventional Warfare.

**KB:** Admiral Lou?

**SB:** Yeah. It's a book that should be read by everybody because it laid out China's strategy. They said there's three types of warfare. There's information warfare. There's economic warfare. And there's kinetic or guns up warfare. And what we want to do is avoid kinetic because the one thing America can do is kick your ass, right? So we want to avoid that. OK?

And so let's focus on information and economic warfare. And they've run the tables. It's textbook. If you go back and read that, they've done exactly what they said they were going to do. I think, and I believe that given the fact that Trump is now converging all forces of government power onto the economic warfare, and they are taking back, and the regime is under huge pressure, because I believe the Deng Xiaoping faction. And others, even at the highest level who believe in collective leadership, have said, hey, what we have here is a cult of personality.

**KB:** You mean the ones that haven't been jailed or killed yet?
SB: The ones that haven't been jailed to killed yet have sat there and go, Deng believed in working with the West. Deng believed in reform. Deng believe in opening up. But Deng believed in being a good partner and particularly keep your lights down. Don't get up in somebody’s grill. What they see with Xi is a return to the cult of personality of Mao. And he’s under tremendous pressure internally.

I said on my radio show, and everybody quotes me on this, back in 2014-2015 that in five years, we'll be in a shooting war in the South China Sea. As a 22-year-old Naval officer, I was on patrol in the South China Sea on an American destroyer. OK? And I said, where in the hell am I? Right?

What is this place? Because every tanker in the world coming through the Straits of Malacca from the Persian Gulf-- you've got every huge tanker. You've got every boxcar. It's a superhighway.

KB: 40% of China's energy needs come through the Strait of Malacca.

SB: I think it's one third of the world's trade. It's $5 trillion.

KB: It is.

SB: My point. When people say the South China Sea, what you have to understand is it's a superhighway of commerce. They have the biggest ships in the world 24/7, 365 days a year. China came to the Rose Garden in 2015 and looked the American people and American president in the eye, and lied to him. They built, essentially, seven or eight stationary aircraft carriers.

They call them reefs. These are stationary aircraft carriers-- Mischeif, Scarborough Reef. All these-- these reefs are basically aircraft carriers. And what they've done is they've put fire control, radar, search radars, and combat planes on them. These things can go.

KB: They're 10,000-foot runways. So China said to us, specifically, when Obama was president, we will not militarize our islands in the South China Sea. We will not go to the Spratlys. Everything we're building is just for research purposes.

How do we engage China now that we see that every single one of these islands, whether it's Fiery Cross, or Mischief, or the others have 10,000-foot runways, missile batteries on them, and all of the weapons that they said they never put there? Now they're landing nuclear bombers there. How do we engage them? Do we engage them over this? Or do we just let them keep going?

SB: When I got into the White House as Chief Strategist with Mike Flynn when we first got there on the National Security Council in the transition, I said the three things you got do is devolve fighting capability to the combatant commanders. The White House was running the wars against ISIS.

KB: Give it to Harry Harris.
SB: Yeah. Well, no. In this regard, give it to the guys in CENTCOM and let them take on ISIS. You've got to devolve the power to fight wars and the ability fight wars back in combatant commanders. Number two, we've got to figure out, in this National Security Council thing, the Obama appointees and how we're going to get our own people in there over time.

Number three, I said, we have to go back and get every document related to Obama's pivot to Asia. I said, I want to see exactly what they looked at. And people should know. In the White House, I worked seven days a week, 18-20 hours a day. OK? 50% of my time was on the pivot to Asia, and why Obama did it, and what we were going to do to counter it.

KB: It was Kurt Campbell's.

SB: Kurt Campbell.

KB: He wrote the book.

SB: Here's what I found. I thought it would be a whole room of documents. It was pretty thin. And what I found is that the United States itself was not really engaged institutionally against China. You had some great people. But there wasn't all forces that kind of thought through, hey, an economic plan or a war plan against China to engage in this economic war. In fact, what you saw, the entire pivot to Asia became I think putting a marine brigade in Darwin, Australia, was basically the issue.

Everybody told me Harry Harris is the man. So I got Harry Harris back. I spent a lot of time with him getting schooled on exactly what was going on. And the one thing I found that was shocking is that the South China Sea—when I was a young Naval officer, we went through the South China Sea guns up, radars up, and everything moving. It's called free navigation.

We did, in international waters, what we wanted to do and when we wanted to do it because we're the United States Navy. OK? We keep the sea lanes free. What I found out now is they got these reefs and everything like that. And China—-we only go through in what's called safe navigation. You go through with your radars off and no fire control solutions like a good little boy. You just kind of go. And you're basically asking their permission to go.

KB: I was unaware of that.

SB: When they lost the International Court, China considers the South China Sea to be an internal sea to China.

KB: I know. The Nine-Dotted Line of 1949 is a joke.

SB: Well, they think it's a territorial sea. They are not prepared. The first thing they'll tell you is that the territorial integrity and the sovereignty of China is not to be questioned. The more people that put it into documents, the more people that put it on TV shows, the more people that the re-
emphasize that meme, they want because they believe that that's reality.

You asked me what's going to happen. I said on my radio show five years ago they would be in a shooting war. The situation in Qatar, and the Persian Gulf, and the South China Sea are the two greatest hotspots of the world for global conflict to start. OK? It's not Korea. Korea's a vassal state of China. The whole Korean thing is nothing but a Chinese drama. OK?

And President Trump is doing an amazing job on it. The South China Sea is a flashpoint. And you saw this the other night. As a former Naval officer, those two ships—

**KB:** 50 feet apart.

**SB:** The USS Decatur was on patrol. And you basically had a Chinese destroyer come up and play chicken with it. They were 50 feet apart. If those two ships had hit, 200 or 300 sailors would have died. Absolutely. If those two ships had hit at the relative speeds they were going, we would have had a catastrophe.

I don't know what could have happened to the weapons or what could happened to the fuel, but I'm telling you, at the speeds, what the Chinese did was reckless. And that was a challenge to us. Remember, what the Decatur did was go 12 miles from one of these reefs. OK? Now what the Chinese say is within 15 miles is their territorial water.

They said it was a violation of their sovereign territory for a United States Navy to come 12 miles off a reef that they built into the South China Sea. My recommendation is I think the President of the United States, Donald J Trump, who to me has been very evenhanded with China and really tried to build a relationship— I think you ought to give the Chinese 72 hours to take every radar, every offensive thing on military, all the jets, everything out of the runways, and everything off the island.

You get 72 hours to take it all off. And on the 72nd hour and one minute, the United States Navy is going to go in there take it off for them. And then I think they ought to take those reefs, and they ought to dismount them and turn them back into international waters. They say the United States is provocative by putting the United States Navy back into the South China Sea to keep the sea lanes open.

I happen to believe where this relationship is going, and the lack of a real response the Chinese are going to have, that they're going to try to do something provocative in the South China Sea to try to initiate a response. And I think the president ought to be proactive on this. I think you ought to tell them they get 72 hours. If you don't take it off, we're going to take it off for you. And then dare them to stop the United States Navy going in to do it.

**KB:** You're saying go to a kinetic conflict in 72 hours and a minute.

**SB:** I didn't say go to a kinetic conflict.
KB: Well, if we go try to take this off, they're not going to let that happen.

SB: Well, the international courts ruled that it was inappropriate for them to be there. Why don't we enforce that? The Party of Davos—when she came and gave that great speech at Davos that they all jumped up about, they failed to say what you just mentioned. They looked the people of the United States in the eye and lied to them from the Rose Garden in 2015 with the President of the United States right next to him. OK?

KB: And no one called him on it.

SB: And never call him on it. And then you saw when the international courts came, they said, hey, this is totally unacceptable. There's no argument for it. It's got to be undone. They just sat there. They've sat there and said, hey, this is our territorial sea. And I realize people saying, Bannon, what kind of crazy whack job are you?

We don't even know where it is in the South China Sea we're going to war. People have to understand the global economy. And I'm a nationalist. OK? But the health of the American economy is based on trade. Populist and economic nationalists are not anti-trade. They're anti-radical concept of free trade when you're trading with a totalitarian, mercantilist society.

What Trump wants and what he said from day one is fair trade and reciprocity. OK? And I think now we're going to get down to it with China. China is going to have to understand that Donald Trump is never going to back down on this. OK? He's a fair man. OK? He's a decent man. He's tried to work with them. But the days of the United States being pushed around like this are over.

KB: Let me ask you a provocative question then.

SB: How can we get any more provocative? I just said we're going to war in the South China Sea.

KB: It's just the derivative of that. We're just going even more. It's equally as provocative. What if we were to just take our seventh fleet and go home?

SB: Here's the thing. I think it's very important for people to remember is that the United States is a Pacific power. The whole development this country, the transcontinental railroad, and the whole West coast— the West coast— we are inextricably linked to the health of Asia's economy.

KB: Well, Article V protections of Japan would be a real issue. I say that because if we were to have to go to— let's say we were to get to the point where we either had to go to war or had to come home—

SB: Coming home is not an option.

KB: Not an option.
SB: Not an option. The world would get to be an incredibly dark and dangerous place. You could have appeasement. You could have a Munich. Right? You could have people say, hey, let's just pull out. They built the islands. They're a rising Naval power.

KB: We don't want to fight.

SB: And one of the cores about Trump's is it is non-interventionist. However, what America first stands for—national security—is where it's in the vital national security interest of the United States. It will be in the vital national security interests of our local partners. That's what America first means. Trump is not going around the world looking for fights.

He's trying to calm things down with Russia. He's trying to calm things down in Syria. He's trying to find a solution in Afghanistan. He's trying to find a solution in Korea. He's trying to find a solution in Venezuela. And your viewers should understand Donald Trump didn't create any of this. This is Richard Haass and all the fucking geniuses of the Party at Davos.

They're the ones that dumped Korea. They're the ones that dumped Afghanistan, Venezuela, and China on his lap. What Trump is saying is that our allies—it will be in their vital national security interests either. And you go around and talk to Singapore, and Thailand, and Indonesia, and Australia and ask them, hey, is an American Naval presence in this neighborhood a good thing or a bad thing.

And they will tell you, no, it's a vital thing. We need America. We need America here because if we lose the South China Sea, we will lose any type of commerce. China would control the whole place. And the Chinese understand that. That's where they're trying to push us out. And they're starting to already have the psychological warfare of exactly that. Hey, it's 12,000 miles away. It's really Asia. What are we involved here for? This is another debacle.

KB: You're already hearing it.

SB: This is another debacle like Iraq and Afghanistan. Look, I'm the biggest proponent of America first. South China Sea in engagement with China is absolutely vital.

KB: Interesting. OK. I have two more questions for you. One is why has the US not had a people management process in the US? And what I mean by that is you read the DIUX report. They call it declassified. Actually, it never was classified. Defense Department report on the infiltration of China into our research universities and our labs.

SB: And our weapons labs.

KB: Weapons labs funded by DARPA and the Air Force. Why haven't we put into place a proper people management process?

SB: I want you to go back because I don't think people understand these reports. These reports are essentially declassified reports that showed that the 300,000 students are here on student
KB: And they're working in our labs. On weapons technology funded by our government.

SB: This is political correctness and greed and avarice writ large. How did contractors-- and let's call them out-- Booz Allen and all these contractors-- how do these contractors and these big government programs get so many Chinese nationals working into our weapons labs? Our weapons labs are at the cutting edge of national security. How did it happen?

And so this has got to be done right away. I don't know why it's been a huge, I think, bone of contention inside the administration. The political correctness of it all-- the Financial Times of London leaked the other day that my colleague, Stephen Miller, who's a terrific young man, actually had the plan in place to get all 300,000 Chinese students out of the country with a way to cut the visas off right away. Not that we're going to execute on it, but it was even in thinking.

And obviously, it got leaked. In the Times, it goes around the State Department, et cetera. Look at all the appeasers. I am so glad. I take great pride that someone like Susan Thornton now owns a farm up in Maine because she was part of this kind of rational accommodationist, this softness in the Defense Department, in the State Department, in our intelligence services that basically went along with what China wanted to do and looked the other way.

KB: So I'm not a proponent of throwing all-- there are 340,000 students here.

SB: I am not a proponent. Here's what I am a proponent. I'm a proponent of if they're intelligence assets, I want to know that. What Miller's program was is that hey, if we can prove this, they've got to go home. OK?

KB: And I'm not even focused directly on China, or India, or anywhere specifically. But why can't we have a policy with the sovereignty and national security of our own country? Why can't we say if it's a weapons program, you just need to be an American citizen and maybe should be a naturally born American citizen?

SB: You're asking basic, fundamental questions.

KB: It's simple.

SB: I think, actually, that's on the book, and they get waivers. I believe that technically, when you look in the details, that's actually the fact that there's kind of waivers given to this because people look the other way.

KB: OK. One more issue is the Confucius Institutes. The Confucius Institutes are on many of our colleges. They're funded directly by the PLA. Why do our colleges allow Confucius Institutes on campus?
SB: It's unacceptable. It would be like in China, having something funded by the CIA that was directly--

KB: Or the Catholic church.

SB: Or the Catholic church. But not the Catholic church because the Catholic church just cut a deal that lets China-- no. But this is a huge issue. Pope Francis just cut a deal that lets the atheist that run the regime in Beijing actually pick our bishops. So the Catholic church would not be a good idea since they've already kowtowed. It would be equivalent of having CIA or DNI have a student center that promoted CIA culture in China.

OK. That's not happening. OK. You know why it's not happening? Because the Chinese say, hey, that's not going to happen because that may affect our sovereignty. You've got to unwind them.

KB: How?

SB: I think you just sit there and just shut them down. Right?

KB: Under what law?

SB: Hang on. This whole thing about people saying, oh, well, they're not that bad. They're pushing culture. And they're helping students learn Mandarin. Hey, they're financed by the PLA.

KB: They have server rooms in the Confucius Institutes. What the F's going on?

SB: All of this is going to be a shock to the American people. Here's why the American people don't know this. Because nobody reports. Has 60 Minutes ever gone and done a Confucius Institute?

KB: They should.

SB: They should have done it 20 years ago. The reason this is coming up is there are people now fed up with this. And that's why in this Trump movement, it was Donald Trump. And when he came into the government that changed it that now other people and other voices are coming up, and you're seeing a real pushback. But to allow this to happen at our universities--

Let's be brutally frank. Why is it always Hudson Institute that's having Miles Kwok, or last night Mike Pence, and Dr. Pillsbury? Why is it always Hudson Institute? Why is it not the other institutes having these kind of conferences?

KB: Well, because China has paid many of them.

SB: The last thing that maybe I'll close on is Li Hu, the economic strategist for President Xi. And I've had the opportunity to know him and build a little bit of a relationship. He's a very brilliant
guy. When he came to do the major negotiation that didn't work out in June of this past year, and the very first day, he didn't go to the White House at first. He didn't go to Treasury first.

He shows up, and the very first day, he spent on Capitol Hill with the quote, unquote, "free traders" in the Republican Party. Remember, the greatest blowback Trump got on this was the Republicans. It was the Republicans that went crazy. Oh, you got to do free trade. You got to do free trade.

All the nomenclature that we've been using in regards to China has always been dismissed as oh, that's just China. And so all the nomenclatures have just been happy talk. And the words don't really mean what they are. And it's people like yourself, it's people like Miles Kwok, it's people like Dr. Pillsbury that are now starting to question this. And I think you see this whole thing that from quote, unquote, "engagement to confrontation."

What they're pinning us on now is engagement versus confrontation. And we're being painted as the war party, right? We're the crazy guys who want to go to war. No. What we want to stop is an economic war that's been against the United States.

And if you look at the group that's in the engagement process, all they've been in is being tapped along by China in these strategic economic dialogues that didn't go anywhere for 25 or 30 years, and put us in the place where we were de-industrialized by a predatory power. And China's predatory capitalism is what they stand on. So I couldn't be prouder than President Trump.

And for people who have not seen that speech, that speech is going to go down in history as an inflection point because Mike Pence yesterday essentially threw down and said, hey, no more games. We understand what you're doing. We understand what you're up to. We understand you have a full force of government against us. And we're going to counter that. And we're going to win.

KB: I appreciate that. When you pull into the Commerce Department, right above the entry way where you drive through, there's a quote from Benjamin Franklin. It says, commerce must be fair and equitable. And I think that's where we need to be. I don't think we should be overly punitive. I don't think we should be combative.

I think we should say we just need a fair shake at things. And what you're saying is we haven't had one. And that's something we believe too. And the good news is is I think in the last six months to a year, culminating with Pence's speech a day ago is finally, the narrative is changing despite all of the efforts from those in China. So thanks for being here today.

SB: Thanks. Thanks for having me. It was great.

KB: It was really nice.

SB: In this undisclosed location.
KB: Undisclosed location. We're here with Miles.

SB: You've got to be undisclosed. Except he's live streaming it constantly, so that's--

KB: I don't know who's more controversial, you or Miles. But we'll see soon.

SB: Miles is a whole different league. I'm junior varsity compared to that.

KB: Thank you. Thanks for coming.

SB: Thanks for having me.

GW: Obviously Steve Bannon and his former boss, Donald Trump, are both very polarizing figures. But hopefully after watching that, it's given you perhaps a bit more perspective and certainly some context on the view of the escalating conflict with China within the White House. For me, it was a fantastic conversation. My thanks to Kyle and Steve for bringing it to us.