

WEBVTT

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<v SPEAKER_1>Hello again, and welcome to Global Exchange, part of the Canadian Global Affairs Institute's Podcast Network.

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<v SPEAKER_1>I'm your host, Colin Robertson.

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<v SPEAKER_1>On this episode, recorded on June 27th, we talk with Patrick McGee about his new book, Apple in China.

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<v SPEAKER_1>Patrick, born in Canada and grew up in Calgary, then educated at the University of Toronto, is a Financial Times San Francisco correspondent covering Apple and the technology file in Silicon Valley and environs.

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<v SPEAKER_1>Patrick, welcome.

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<v SPEAKER_2>Thanks Colin, thrilled to be here.

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<v SPEAKER_1>For listeners, based on more than 200 interviews and a decade of covering technology, Apple in China tracks the decades-long relationship between Apple and China.

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<v SPEAKER_1>Apple investments are compatible, writes McGee, to the US Marshall Plan investment in post-war Europe.

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<v SPEAKER_1>Year in, year out, writes McGee, Apple took the most cutting-edge designs, processes and technical understandings from around the world and scaled them in China.

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<v SPEAKER_1>The partnership with China turned fields into factories within months.

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<v SPEAKER_1>It created, according to Apple CEO Tim Cook, more than five million jobs in China.

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<v SPEAKER_1>Today, 90% of its lucrative iPhone assembly is in China, although some of that is to move to India, as we will probably hear

from Patrick as we get into this.

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<v SPEAKER_1>But with Trump and the tariffs and the Chinese response, Apple 9 finds itself at risk of losing it all.

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<v SPEAKER_1>If you want to know more, buy a copy of Apple in China.

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<v SPEAKER_1>It's a necessary read for anyone interested in China or doing business in China.

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<v SPEAKER_1>So Patrick, let's begin.

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<v SPEAKER_1>Why did you decide to write the book?

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<v SPEAKER_2>Well, I had this realization that, I mean, this is a strange realization, but there hasn't really been a history of Apple in the 21st century.

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<v SPEAKER_2>And you might think, wait a minute, there have been massive amounts of books.

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<v SPEAKER_2>You know, there's too many Apple books or something.

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<v SPEAKER_2>And people say that all the time, and I think they're wrong.

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<v SPEAKER_2>There are biographies of people.

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<v SPEAKER_2>There are biographies of Tim Cook and Johnny Ive, of course, multiple biographies of Steve Jobs.

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<v SPEAKER_2>But there's not actually just like a standard history written in either 2011, 2017, or last year that sort of takes you from near bankruptcy in 1996, as I do, and to becoming the world's most successful company and what the transition was like from Steve Jobs to Tim Cook, etc.

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<v SPEAKER_2>There are a few books that maybe touch on those subjects.

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<v SPEAKER_2>And certainly there are some books about Apple.

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<v SPEAKER_2>There's a book about, you know, a very good book about the birth of the iPhone and sort of like all the various things that needed to be invented, right?

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<v SPEAKER_2>Lithium ion batteries and glass touch screens, things like that, for it to happen.

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<v SPEAKER_2>But there actually just had not been a standard history of Apple in quite some time.

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<v SPEAKER_2>So that alone was quite stunning.

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<v SPEAKER_2>Then there was the fact that, you know, manufacturing is very much in the DNA of this company because they really do their own products even down to the circuit board for at least the first 20 years of the company, right?

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<v SPEAKER_2>From 1976 when two guys named Steve found the company all the way through the early 2000s when they're beginning to outsource.

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<v SPEAKER_2>But the story of how they go from manufacturing things themselves to outsourcing them, that also had never been told.

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<v SPEAKER_2>And so like one of the early parts of the book, right?

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<v SPEAKER_2>A multiple chapter part is what I call the Long March to China, where they're building products in countries that nobody knew anything about Apple's production, right?

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<v SPEAKER_2>They're building IMAX in the Czech Republic, in Wales, in Taiwan, in California, in Mexico.

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<v SPEAKER_2>I just think that history hadn't been told at all.

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<v SPEAKER_2>And then, of course, the culminating thing is the discovery, if you will, of China.

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<v SPEAKER_2>And what does Apple find in China that you don't find anywhere else?

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<v SPEAKER_2>So it wasn't really that there was one book to write.

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<v SPEAKER_2>I felt that there were three books to write.

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<v SPEAKER_2>And in the same way that the iPhone was three products in one, which is how Steve Jobs presented it, it just struck me as a very good pitch to the publishing industry to say, look, I want to write three books about Apple, but I'm going to put it in one dense narrative.

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<v SPEAKER_2>And it'll be fast paced, spanning decades and continents.

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<v SPEAKER_2>And the pitch was really good.

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<v SPEAKER_2>The struggle was then how do you actually get enough sources to tell the insider narrative?

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<v SPEAKER_2>And that was really difficult to do.

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<v SPEAKER_2>But I think I feel most proud of that.

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<v SPEAKER_2>I feel like I knocked it out of the park in terms of getting enough people to speak with me and to tell a whole bunch of original stories.

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<v SPEAKER_2>Because the originality of the book to me is probably its greatest appeal.

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<v SPEAKER_1>Yes, I know.

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<v SPEAKER_1>I think that's true.

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<v SPEAKER_1>And actually I found it really interesting, as you say, the early years about when they decided to go outside of the United States, as you said, went throughout the world.

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<v SPEAKER_1>So I guess my question would be, why did they decide on China in the end, given that there were certainly when I was posted in Hong Kong from 1987-92, there had been that early wave of Americans.

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<v SPEAKER_1>I think it was American Jeep.

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<v SPEAKER_1>I remember reading at the time, these things didn't work out, but Apple, it did work out for a number of years.

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<v SPEAKER_1>So why did Apple, given the history, feel that they could beat the tide, which certainly when I was there and would go afterwards, there was a bit of buyers remorse in some of those who had just leapt right in, but not so with Apple.

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<v SPEAKER_2>So I would say, so if you were there, 87-92, yeah, that's pretty early.

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<v SPEAKER_2>That's when Taiwan is beginning to do circuit boards, motherboards, final assembly.

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<v SPEAKER_2>Yeah, and definitely there's some stuff going on in Hong Kong, but it's too early for China.

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<v SPEAKER_2>By the time Apple really finds China and consolidates into China, that's like 2000-2003, and I would have to say they are not at all going out on a limb at that stage.

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<v SPEAKER_2>By that stage, they're actually late going into China.

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<v SPEAKER_2>In the same way that they are late building an MP3 player, but the iPod is just a better product than what anyone else has done.

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<v SPEAKER_2>In the same way that they are late to the smartphone market, but the iPhone is a better product than everybody else, they are late to both offshoring and late to discovering China, and yet they just do a better job in the supply chain than anybody else.

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<v SPEAKER_2>And I think it's because they had that manufacturing DNA, so it wouldn't suffice for Apple to just hand over some designs in terms of a blueprint and then wait for a factory to develop it.

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<v SPEAKER_2>I mean, that quite literally is what you would do if you were another company in the PC era.

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<v SPEAKER_2>I mean, you'll remember in the 1990s, there was no design aesthetic to a PC.

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<v SPEAKER_2>I mean, the difference between an HP and a Dell really just came down to price, but they all used Intel chips, they all ran Windows and they were all beige boxes with ugly monitors.

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<v SPEAKER_2>Apple has this design first mentality that completely upends everything we know about how a computer looks, but especially how it is put together.

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<v SPEAKER_2>What Apple finds in China is the perfect marriage of skill, which is what they have, and scale, which is what China has.

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<v SPEAKER_2>In a sense, the essence of that relationship and really the essence of the book is that Apple doesn't become dependent on skills and competence in manufacturing tech that it finds in China.

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<v SPEAKER_2>It becomes dependent on the capabilities that it creates in China.

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<v SPEAKER_2>And so a good portion of the book is detailing what this group of engineers within Apple called manufacturing design does.

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<v SPEAKER_2>So we all know about industrial design.

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<v SPEAKER_2>That's Johnny Ive that's creating the look and substance of the products.

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<v SPEAKER_2>Some of us know about product design, which is how do you actually make these prototypes function with the right circuit boards and batteries and such.

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<v SPEAKER_2>But nobody had really ever covered MD before.

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<v SPEAKER_2>And MD is this group within Apple that has to go throughout dozens and later hundreds of factories to basically teach engineering 101, to find competent suppliers and then raise them to the level of Apple quality.

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<v SPEAKER_2>And because Apple goes so bonkers in terms of its global appeal, it ends up having this just enormous impact on China in particular.

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<v SPEAKER_2>And so what China is offering is an ability to build factories at a, a time frame where we in Canada would still be doing the environmental paperwork.

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<v SPEAKER_2>It has abundant labor from the hinterlands where literally hundreds of millions of people are sort of rotating around the country.

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<v SPEAKER_2>I mean, China calls this the floating population where you're going from the west to a place like Shenzhen or Suzhou to work for a few months.

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<v SPEAKER_2>And Apple is able to just sort of take advantage of this in ways that no other company was thinking about.

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<v SPEAKER_2>And the design first aesthetic of the computers is what's so critical because it's not a knock against China to say they didn't know how to build what Johnny Ive conceived in the early 2000s.

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<v SPEAKER_2>Nobody knew how to build it.

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<v SPEAKER_2>But the consequence of that has like second and third order impact because in order to train people, in order to conjure that into reality, you needed to have these MD guys train people.

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<v SPEAKER_2>And that's just to meet the quality and the cost.

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<v SPEAKER_2>And then because Apple succeeds so much, they end up having to train the hundreds of factories by the 2010s.

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<v SPEAKER_2>And so that's why they have like this Marshall Plan like influence on the country, which is an insane thing to say.

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<v SPEAKER_2>But so I love being able to have the time to explain what it means because we're talking about 28 million people have been trained in the Apple supply chain since 2008, right?

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<v SPEAKER_2>That's a larger labor force than California.

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<v SPEAKER_2>It's probably a larger labor force than Canada.

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<v SPEAKER_1>You know, it's quite extraordinary.

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<v SPEAKER_1>And that's the use of the analogy of the Marshall Plan to anybody who sort of study history really does bring it home.

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<v SPEAKER_1>My question, you've been watching this beat for a decade now.

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<v SPEAKER_1>When in your watching what Apple was doing, did you recognize the risks involved in Apple's investment in China?

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<v SPEAKER_1>Because it starts off as this kind of glorious story, everything working well.

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<v SPEAKER_1>But as you portray in the book, which is again, why I recommend people read it, things start to go a little off the rails.

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<v SPEAKER_1>And then of course, you get, it's not just Trump either, although he certainly plays a big piece in it.

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<v SPEAKER_2>Well, the discovery sort of happened in stages.

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<v SPEAKER_2>I mean, I would say for starters, when I was writing my first stories about how Apple was stuck in China, if I described it in the wrong way, people would see like, well, why do I want to read about that?

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<v SPEAKER_2>Like everybody knows the iPhone is made in China.

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<v SPEAKER_2>Like there was this sense from people that like this isn't a story worth writing, let alone a book, right?

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<v SPEAKER_2>But it was just like everyone knows Apple products are made in China.

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<v SPEAKER_2>And I think it was even how hum the idea that like there's no place else on the planet to create them.

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<v SPEAKER_2>I think by the early 2020s, people sort of had this understanding that yeah, China does have superior manufacturing dominance.

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<v SPEAKER_2>And so the struggle was, what is the story there?

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<v SPEAKER_2>And it just struck me, especially as I spoke with people that had Apple experience, is that we didn't know the basic questions, or the basic answers to the basic questions of like, what were they doing before they went to China?

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<v SPEAKER_2>What did China offer?

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<v SPEAKER_2>What sort of political connections did Apple have to create in order to justify its massive presence in the country?

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<v SPEAKER_2>And how much value added was coming from the Chinese side

in building the next generation of iPhones and such?

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<v SPEAKER_2>And so, like, in my understanding would be, or my sort of take on the existing literature would be that almost every story about China involving Apple, China would enter the picture to explain a problem, right?

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<v SPEAKER_2>And that was the backwards way to think about it, because China is the secret sauce for Apple, right?

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<v SPEAKER_2>Nothing gets done without China's involvement.

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<v SPEAKER_2>And yet we were only writing these negative stories about China.

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<v SPEAKER_2>So our only understanding really was narrow.

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<v SPEAKER_2>And it was that the tedium of assembling iPhones in the Foxconn factory, that was the story that we just kept writing over and over, and journalists had won awards about this.

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<v SPEAKER_2>And you could extrapolate from there and find forced weaker labor allegations, right?

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<v SPEAKER_2>Or underage labor, interns being forced to work, just to complete their degree and such.

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<v SPEAKER_2>And those are all important stories, don't get me wrong.

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<v SPEAKER_2>But I wanted to flip the narrative on its head, because to me, it wasn't a story about Apple exploiting China.

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<v SPEAKER_2>It was Beijing allowing Apple to exploit China, so that China could in turn exploit Apple.

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<v SPEAKER_2>Which is a way of saying, this was not a story of the tedium of assembling products, it was a story of technology transfer.

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<v SPEAKER_2>Because to take Johnny Ive and Steve Jobs' crazy ideas and actually build them at a ludicrous scale, right?

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<v SPEAKER_2>More than a million iPhones shipped per day at peak season, you had to sort of transplants not just the engineering know-how, but sort of the cultural acumen from Cupertino and put it into the Chinese factories.

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<v SPEAKER_2>And so that sort of handholding and that exchange of information, the jargon used here is the tacit knowledge that gets transferred to China.

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<v SPEAKER_2>That was an enormous story still going on today, and it was one that just hadn't been touched in articles, let alone books.

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<v SPEAKER_2>And so that was really the essence of it.

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<v SPEAKER_2>And I came to that in stages, including well after I pitched the book.

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<v SPEAKER_1>Now, as we look at what's happened to Apple in China, how much of this, because now we're focusing so much on Donald Trump and his tariffs, or is it more about Xi Jinping and his Made in China approach, which as you point out, China seemed to know what they were doing in allowing Apple to train the people and then taking that technology and their expertise and transferring it on to other things as well.

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<v SPEAKER_2>Yeah, so among the reasons why Apple is in such a bind right now is that Donald Trump is actually more of an existential risk to their operations today than Xi Jinping ever was.

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<v SPEAKER_2>And, you know, it's almost worth pausing the podcast and thinking about that, because I think that can sound like an unhinged statement.

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<v SPEAKER_2>But as soon as you give it a little, you know, a minute or so of thought, it begins to make sense.

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<v SPEAKER_2>And this was something that had to be explained to me.

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<v SPEAKER_2>I thought of this as an unhinged statement when someone within Apple told me that.

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<v SPEAKER_2>And so the way they explained it was like, well, look, I mean, Apple's interests and China's interests are very much aligned in that they both get a lot out of all of Apple operations being in China, right?

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<v SPEAKER_2>For Apple, the benefits are probably obvious.

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<v SPEAKER_2>This is what's made them a \$3 trillion corporation.

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<v SPEAKER_2>They can produce at enormous scale with very few problems, very few defects.

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<v SPEAKER_2>They've got access to abundant labor.

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<v SPEAKER_2>They have a \$70 billion business in China alone, right?

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<v SPEAKER_2>Plus a \$400 billion business globally.

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<v SPEAKER_2>They're doing really well to manufacture everything in China.

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<v SPEAKER_2>What China gets out of it, what Beijing gets out of it is 3 million people in any given year are working on hardware assembly in China.

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<v SPEAKER_2>There's another 1.8 million developers in the country, which is how you get to the 5 million figure that you cited in your introduction, right?

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<v SPEAKER_2>Both of those figures come from Tim Cook for what it's worth.

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<v SPEAKER_2>Not only do they get the employment, but they get the technology transfer.

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<v SPEAKER_2>In a sense, the birth of the Chinese smartphone industry over the last 10 to 15 years, Huawei, Oppo, Vivo, et cetera, they have 55% global market share.

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<v SPEAKER_2>The reason they're so damn good is that Apple trained up the entire supply chain base that they rely on.

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<v SPEAKER_2>If you're thinking about just the 2 partners in this relationship, it's a very stable marriage.

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<v SPEAKER_2>The trouble is that Donald Trump basically has some understanding of this and wants manufacturing to be in America.

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<v SPEAKER_2>He doesn't like the idea that we've voluntarily given up our manufacturing expertise over the last 30 years.

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<v SPEAKER_2>But it's at such a level, there's such a superb culture of manufacturing in China that taking it over to Pittsburgh or something is essentially ludicrous.

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<v SPEAKER_2>And we can get into why if we want to.

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<v SPEAKER_2>But even if you're wanting to do it in a place like India, which is more, there's more of a chance there just because of the density of population and the wages and so forth versus China, but especially versus America, there's more of a possibility there.

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<v SPEAKER_2>But Donald Trump doesn't want really any of their existing relationship to take place.

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<v SPEAKER_2>He wants a total upending of how Apple operations exist.

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<v SPEAKER_2>And so that's a major, major risk.

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<v SPEAKER_2>So the thing that I would advocate right now is either

something like NAFTA on steroids, right?

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<v SPEAKER_2>Where a lot more is leveraged out of Mexico or that things are made in India.

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<v SPEAKER_2>But neither Beijing nor Washington wants that.

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<v SPEAKER_2>And so all the tariff policies that are being introduced are very much short-circuiting Tim Cook's plan to sort of de-risk some operations from China and put them in a place like China.

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<v SPEAKER_2>I'm sorry, put them in a place like India.

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<v SPEAKER_2>That's going to be really tough when there's tariffs imposed on India.

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<v SPEAKER_2>We don't know how that's all going to shake out.

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<v SPEAKER_2>But I mean, I think they're facing a really, really major challenge with the massive caveat that Trump's policies are so erratic that you never know if they're actually going to be implemented.

00:16:43.860 --> 00:16:48.260

<v SPEAKER_2>And even if they're implemented, you don't know how long they're going to stay as policy.

00:16:49.200 --> 00:16:52.540

<v SPEAKER_2>So, the uncertainty here is hard to exaggerate.

00:16:52.540 --> 00:17:03.740

<v SPEAKER_1>No, and your point, which I found quite interesting about the shift to India or wherever is, and as you point out, Donald Trump doesn't necessarily want that because he wants to re-short back to the United States.

00:17:03.780 --> 00:17:09.620

<v SPEAKER_1>But China itself is not terribly keen to see that happen either.

00:17:09.620 --> 00:17:13.580

<v SPEAKER_1>And there are problems in India, as you've also pointed out.

00:17:13.580 --> 00:17:14.260

<v SPEAKER_2>I mean, yes.

00:17:14.260 --> 00:17:20.820

<v SPEAKER_2>So to take sort of both of those in sequence, Beijing wants technology transfer to be a one-way gate.

00:17:20.820 --> 00:17:34.120

<v SPEAKER_2>They really understand the prior history of South Korea, of Japan, et cetera, where you have companies chasing lower rates of labor, but then the technical competence is built, and then the companies move on to the next country, right?

00:17:34.120 --> 00:17:44.440

<v SPEAKER_2>If you think of something like a Nike supply chain, the way Nike shoes were made has basically followed one developing country after the other, until they priced themselves out and then moved someplace else.

00:17:44.440 --> 00:17:50.980

<v SPEAKER_2>The next logical place right now to go for electronics manufacturing really is India, but China doesn't want to lose out, right?

00:17:50.980 --> 00:17:54.940

<v SPEAKER_2>China has a pretty domineering approach to electronics manufacturing.

00:17:54.940 --> 00:18:08.080

<v SPEAKER_2>So yes, they want to move up the value chain, they want more of the robotics jobs and the cutting edge tooling and the chip fabrication, but they also want to have a hand in the labor intensive lower value assembly.

00:18:08.080 --> 00:18:10.280

<v SPEAKER_2>So they're not willing to say goodbye even to that.

00:18:10.280 --> 00:18:11.360

<v SPEAKER_2>So that makes things really tough.

00:18:11.800 --> 00:18:20.880

<v SPEAKER_2>And then, I think there's a part of, I would accuse Apple of hubris in a sense, and the part of how easily they seem to think it will be to move to India.

00:18:20.880 --> 00:18:26.360

<v SPEAKER_2>I don't think they seem to have a great understanding of just what a once in a century partner China was.

00:18:26.360 --> 00:18:37.300

<v SPEAKER_2>Because when I would have discussions with senior people at Apple, either currently there or there in the past, they would basically look back at the last 25 years and talk about what Apple did rather than what China did.

00:18:37.300 --> 00:18:45.380

<v SPEAKER_2>But as good as your engineers are, they are not the ones building eight-lane highways from the factories, from the industrial clusters to the ports, right?

00:18:45.380 --> 00:18:53.580

<v SPEAKER_2>They are not the ones building just an insane number of airports in China that Apple is able to leverage.

00:18:53.580 --> 00:19:03.320

<v SPEAKER_2>There are so many things that were taking place in China that sort of reflect this like Nietzschean will to power all based on technology and manufacturing supremacy, right?

00:19:03.320 --> 00:19:12.680

<v SPEAKER_2>So the origins or rather the epigraph of the book is from a Chinese document in 2015 that says, without manufacturing, there is no country, there is no nation.

00:19:12.680 --> 00:19:14.100

<v SPEAKER_2>India doesn't think like that.

00:19:14.280 --> 00:19:17.000

<v SPEAKER_2>And unless you do, you're not going to rival China.

00:19:18.680 --> 00:19:22.100

<v SPEAKER_3>Hi, I'm Dave Ferri, the president and CEO of The Canadian Global Affairs Institute.

00:19:22.100 --> 00:19:26.720

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00:19:26.720 --> 00:19:35.060

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00:19:44.300 --> 00:19:48.180

<v SPEAKER_1>Has China got everything they want from Apple?

00:19:49.260 --> 00:20:10.940

<v SPEAKER_1>As I was reading the end of the book, I thought, you know, they can make life very difficult for them to move, but at the same time, because especially there was that wonderful story you have of them bringing Chinese engineers, Chinese Apple-trained Chinese engineers over to America to help get one of the factories that they're trying to get in the United States going, but the real expertise was now in China.

00:20:10.940 --> 00:20:11.460

<v SPEAKER_2>Yes.

00:20:11.460 --> 00:20:14.620

<v SPEAKER_1>So my question, I'll go back to the original question.

00:20:14.620 --> 00:20:18.780

<v SPEAKER_1>Has China got everything they need out of, from Apple?

00:20:18.780 --> 00:20:19.600

<v SPEAKER_2>So it's a great question.

00:20:19.600 --> 00:20:29.180

<v SPEAKER_2>So I definitely think the student has become the master, that if I wanted to wow you in person with a smartphone, it wouldn't be an iPhone, right?

00:20:29.180 --> 00:20:31.520

<v SPEAKER_2>You would say, I have an iPhone too, what's the big deal?

00:20:31.520 --> 00:20:37.920

<v SPEAKER_2>I would bring you the Huawei Mate XT, which is a \$2,600 phone that unfolds twice.

00:20:37.920 --> 00:20:44.720

<v SPEAKER_2>So it's basically in Apple terms, an iPhone and an iPad in one, and it also has stunningly good cameras and a host of other features.

00:20:44.720 --> 00:20:50.280

<v SPEAKER_2>It even these days runs its own operating system called Harmony OS, distinct from Android, distinct from iOS.

00:20:50.760 --> 00:20:57.320

<v SPEAKER_2>And I've made the prediction that Harmony OS will probably become the de facto standard for all smartphone brands in China by 2030.

00:20:59.300 --> 00:21:05.020

<v SPEAKER_2>So there is this sense that Apple no longer has a lot to

teach the Chinese.

00:21:05.020 --> 00:21:18.460

<v SPEAKER_2>I don't know how Beijing thinks about that, but if that is becoming the feeling, I do think there's a risk of the status quo being ruptured because China has less to lose from it being ruptured.

00:21:18.980 --> 00:21:37.020

<v SPEAKER_2>And although you could say China has benefited enormously from Apple's presence in the country, you know, the craziest statistic about Apple is that although the iPhone accounts for less than 20% of global market share, it reaps 80% and indeed 85% of the industry profits.

00:21:37.020 --> 00:21:51.960

<v SPEAKER_2>That's another way of saying that all the Chinese brands that have replicated Apple are only scrambling for, you know, they're getting 85% of the or about 80% of the global volumes, but they're scrambling among themselves to only get 15% of the profits.

00:21:51.960 --> 00:22:02.620

<v SPEAKER_2>If Beijing begins to look sort of that, look at that relationship in a different way and says, hey, we want our brands to have the existing 80% of profits.

00:22:02.620 --> 00:22:05.380

<v SPEAKER_2>All we need to do is shut out Apple from the equation.

00:22:05.380 --> 00:22:14.000

<v SPEAKER_2>I mean, I don't know what the likelihood of that is, but it's insane that the world's greatest company has no plan B in case Xi Jinping makes that sort of decision.

00:22:14.000 --> 00:22:19.400

<v SPEAKER_2>So the more that you see Xi Jinping as like a Putin type figure, the more worrying this should be.

00:22:19.400 --> 00:22:25.940

<v SPEAKER_2>But it's up to the reader as to whether they sort of view China in that kind of dark way, that foreboding way or not.

00:22:25.940 --> 00:22:30.660

<v SPEAKER_2>I don't view my own perspective and my own book as particularly anti-China.

00:22:30.660 --> 00:22:44.300

<v SPEAKER_2>I'm concerned basically just on the size of China, the impact of what China's impact is when they take a strategic priority into any avenue, whether it's solar panels or electric vehicles.

00:22:44.560 --> 00:22:49.700

<v SPEAKER_2>China is just so large that they end up de-industrializing rival nations trying to compete.

00:22:49.700 --> 00:22:53.640

<v SPEAKER_2>It's even worse if you have a view of China as quite hostile.

00:22:53.640 --> 00:22:56.420

<v SPEAKER_2>But I try not to introduce that into the book.

00:22:56.420 --> 00:22:58.540

<v SPEAKER_1>No, that's fair.

00:22:58.540 --> 00:22:59.600

<v SPEAKER_1>What lessons?

00:22:59.600 --> 00:23:12.240

<v SPEAKER_1>Western companies are still looking to less and less in the United States, but to manufacture offshore partly because of costs and also of competence.

00:23:13.020 --> 00:23:22.340

<v SPEAKER_1>But there are challenges particularly, and they tend to look to the Indo-Pacific, China, India, Vietnam, Malaysia, other places.

00:23:22.340 --> 00:23:27.540

<v SPEAKER_1>What lessons should Western companies learn from the Apple experience?

00:23:27.540 --> 00:23:44.740

<v SPEAKER_1>Because it really is singular in the sense because they went so deep into China, as you point out, using the Marshall Plan example, and it worked brilliantly, at least as when I get halfway through your book, this is all working very well for both partners.

00:23:44.740 --> 00:23:56.460

<v SPEAKER_1>But then the second half, as things start to shift, you think, no, this is going to end in tears, at least for one partner, and probably not China.

00:23:56.540 --> 00:24:01.520

<v SPEAKER_2>Yeah, well, I mean, the irony is it's their success in the country that actually makes them vulnerable, right?

00:24:01.520 --> 00:24:09.360

<v SPEAKER_2>I talked to the CEO of another computer company recently, and he said, well, we were never all that successful in marketing our products to the Chinese, right?

00:24:09.360 --> 00:24:10.900

<v SPEAKER_2>Or you think of a company like Microsoft.

00:24:10.900 --> 00:24:16.480

<v SPEAKER_2>I mean, Windows was used by basically everybody in China at a certain period, and yet it was all pirated.

00:24:16.480 --> 00:24:21.000

<v SPEAKER_2>And so Microsoft never earned more than two or three percent of the revenue from the Chinese market.

00:24:21.000 --> 00:24:30.820

<v SPEAKER_2>Well, if you don't have exposure to the retail market, then it's actually much easier for you to move your operations because you don't risk the backlash of the 1.4 billion people deciding to buy Huawei instead.

00:24:30.820 --> 00:24:32.380

<v SPEAKER_2>That is the position Apple is in, right?

00:24:32.380 --> 00:24:34.900

<v SPEAKER_2>They have a \$70 billion business in China.

00:24:34.900 --> 00:24:41.100

<v SPEAKER_2>It is by far the most successful, never mind Western, but just like non-Chinese business operating in the country.

00:24:41.100 --> 00:24:45.040

<v SPEAKER_2>And so that actually sort of, that's one element as to why they're captured.

00:24:45.040 --> 00:24:52.280

<v SPEAKER_2>The other reason is just that they're doing so much for the country and their operations are so gargantuan and so costly to replicate anywhere else.

00:24:52.360 --> 00:24:58.900

<v SPEAKER_2>And they get such support from the subsidized manufacturing sector within the country, that that makes it really tough for them to leave as well.

00:24:58.900 --> 00:25:04.340

<v SPEAKER_2>I mean, again, it would be a 15-year effort if they were to replicate this in India, and that's assuming it can be done at all.

00:25:04.340 --> 00:25:08.100

<v SPEAKER_2>And unfortunately, I'm quite pessimistic about India in terms of its prospects.

00:25:08.100 --> 00:25:09.020

<v SPEAKER_2>I wish I wasn't, right?

00:25:09.020 --> 00:25:11.200

<v SPEAKER_2>You want to support a democracy.

00:25:11.200 --> 00:25:17.260

<v SPEAKER_2>You want to support a country that's not sort of treating minorities the way that Beijing treats them and so forth.

00:25:17.260 --> 00:25:24.740

<v SPEAKER_2>And yet, I think China system actually works better for this manufacturing industrial prowess that they have.

00:25:24.740 --> 00:25:26.920

<v SPEAKER_2>Anyway, sorry, coming back to lessons.

00:25:26.920 --> 00:25:29.360

<v SPEAKER_2>I think there's a few.

00:25:29.360 --> 00:25:33.720

<v SPEAKER_2>And one of them would just be that it's one thing to trade with China.

00:25:33.720 --> 00:25:35.560

<v SPEAKER_2>It's one thing to have a business in China.

00:25:35.560 --> 00:25:40.860

<v SPEAKER_2>But the absolute consolidation is clearly a massive problem for Apple.

00:25:40.860 --> 00:25:48.880

<v SPEAKER_2>So to cite another computer company, they said, yes, we rely on contract manufacturers, but we never allowed it to become more than 50% of the business.

00:25:49.360 --> 00:26:02.300

<v SPEAKER_2>In other words, Apple could have said in the early 2000s, let's shift half the business to China, but let's have our own factories up and running like they used to for the prior 20 years at that stage, to maintain the experiential know-how in the company.

00:26:02.300 --> 00:26:10.380

<v SPEAKER_2>I mean, that would mean that today, if they had done that, they would have engineers who have the nitty-gritty experience of actually running and operating a production line, right?

00:26:10.380 --> 00:26:12.240

<v SPEAKER_2>Not just in China, but someplace else.

00:26:12.240 --> 00:26:16.880

<v SPEAKER_2>That would make it considerably easier to move to India because they would just have a bunch of people in Texas that could do that.

00:26:17.220 --> 00:26:27.220

<v SPEAKER_2>But as you pointed out in the anecdote I cite in the book, I mean, when they did try to build something in Texas, they needed to have a bunch of Chinese people with experience and know-how run the factory line because they didn't have that.

00:26:27.220 --> 00:26:29.480

<v SPEAKER_2>So don't put all your eggs in one basket.

00:26:29.480 --> 00:26:35.620

<v SPEAKER_2>This is like Supply Chain 101, and yet the company that built the world's most sophisticated supply chain failed that test.

00:26:35.620 --> 00:26:39.420

<v SPEAKER_2>The other thing I would say, and this is maybe something that I've been thinking about.

00:26:39.420 --> 00:26:45.080

<v SPEAKER_2>So you tell me if this is a good answer or the listeners could tell me, they can write to me, add me on LinkedIn, tell me if you think this is a good answer.

00:26:46.080 --> 00:26:48.580

<v SPEAKER_2>Tim Cook is someone that very much looks at the metrics, right?

00:26:48.580 --> 00:26:52.900

<v SPEAKER_2>He's really known for looking at dozens and dozens of pages of Excel sheets at the weekly meetings.

00:26:52.900 --> 00:26:55.260

<v SPEAKER_2>I can go on for multiple hours.

00:26:55.260 --> 00:27:01.820

<v SPEAKER_2>And there's that saying, I forget who originally said it, but it's, what gets measured gets managed.

00:27:01.820 --> 00:27:06.280

<v SPEAKER_2>And it strikes me that Tim Cook is probably the epitome of someone that took that too far.

00:27:06.280 --> 00:27:12.220

<v SPEAKER_2>Because where on the Excel sheet do you put the metric of uparming America's biggest adversary?

00:27:12.600 --> 00:27:15.380

<v SPEAKER_2>That's not an easy number to put in column D.

00:27:15.380 --> 00:27:27.840

<v SPEAKER_2>And so this becomes really pertinent in the second half of the narrative, because Apple has been shifting a lot of the orders from multinationals operating in China to Chinese companies operating in China.

00:27:27.840 --> 00:27:46.160

<v SPEAKER_2>And the reason why is that from a business perspective, if you ignore the geopolitics of it, it makes all the sense in the world, because it's the Chinese companies that have the political connections, the Guangxi, that they can get the migrant labor more easily, they can get the free tooling, they can get the free land to build their factories and so forth.

00:27:46.160 --> 00:27:52.200

<v SPEAKER_2>And so they can, as a result, operate at a lower margin and therefore put in an attractive bid.

00:27:52.200 --> 00:28:03.100

<v SPEAKER_2>But the fact that Apple is working with more and more of these companies with communist Chinese political connections, that has to introduce a series of questionable risks over the next decade.

00:28:03.100 --> 00:28:06.620

<v SPEAKER_2>But where do you put that on the Excel sheet?

00:28:06.620 --> 00:28:09.760

<v SPEAKER_1>No, these are all fair and useful observations.

00:28:10.260 --> 00:28:31.500

<v SPEAKER_1>My last question, Patrick, is that because Apple has put so much into China, and of course making sales there as well, can they distinguish themselves from other Western brands which are now not being bought by the Chinese because they are Western?

00:28:31.500 --> 00:28:36.880

<v SPEAKER_1>In other words, is Apple still seen as Western or is Apple seen by the Chinese?

00:28:36.880 --> 00:28:42.080

<v SPEAKER_1>For the reasons you pointed out, they really did go deep into China, Chinese made, Chinese designed.

00:28:42.080 --> 00:28:44.820

<v SPEAKER_1>Are they seen as Chinese?

00:28:44.820 --> 00:28:48.740

<v SPEAKER_1>If so, then that would give them some hope that they can continue to sell in China.

00:28:48.740 --> 00:28:51.900

<v SPEAKER_1>Otherwise, they really are up the creek.

00:28:51.900 --> 00:28:56.240

<v SPEAKER_2>So the Chinese absolutely see the iPhone as an indigenous product.

00:28:56.240 --> 00:29:05.580

<v SPEAKER_2>You can see why they think that, and I believe it's a fair, not how you and I would see it, and yet they are all made in China.

00:29:06.060 --> 00:29:11.360

<v SPEAKER_2>And a decade ago, Apple had zero research and development centers in China.

00:29:11.360 --> 00:29:12.720

<v SPEAKER_2>Today, they have five.

00:29:12.720 --> 00:29:21.380

<v SPEAKER_2>So the whole idea that things are designed in California but assembled in China, basically like the Apple slogan or signature, if you will, that's really open to question.

00:29:21.380 --> 00:29:24.320

<v SPEAKER_2>More and more of the design is indeed happening in China.

00:29:24.400 --> 00:29:30.280

<v SPEAKER_2>They do have product design teams there that didn't have a decade ago, in addition to the R&D centers.

00:29:30.280 --> 00:29:32.680

<v SPEAKER_2>But it's not just assembly that's happening in China.

00:29:33.160 --> 00:29:36.640

<v SPEAKER_2>Like the supply chain is not just mere assembly.

00:29:36.640 --> 00:29:39.780

<v SPEAKER_2>Assembly is what they're sending to India right now for political reasons.

00:29:39.780 --> 00:29:58.020

<v SPEAKER_2>But the operations are so incomparable, so impressive, that it's almost like, I want to say, discriminatory or unfair, just to say that the products are assembled in China.

00:29:58.020 --> 00:29:59.080

<v SPEAKER_2>It's so much deeper than that.

00:29:59.860 --> 00:30:34.880

<v SPEAKER_2>Okay, anyway, going back to how the Chinese see the phone as an indigenous product, if Apple really makes an accelerated push to do more in India, not just the assembly, but the depth and breadth of the supply chain, or indeed, that they respond to Donald Trump and try to build these things out of Pittsburgh, just for some political point scoring in Washington, then what you risk is the 20% of Chinese people who buy the iPhone, they would begin to see Apple not as the champion of indigenous innovation, which is how they see them now, they would see them as the poster child for de-risking from China.

00:30:34.880 --> 00:30:37.400

<v SPEAKER_2>I think that immediately hurts their brand.

00:30:37.400 --> 00:30:45.580

<v SPEAKER_2>In addition to all the troubles they have, because Apple is not leading in AI right now, and AI is like the primary feature as to what would dictate your next smartphone purchase.

00:30:45.580 --> 00:30:56.420

<v SPEAKER_2>The problem is compounded in China because over here, you can at least have chat GBT to overriding Siri, which is what I've done with my iPhone in China, chat GBT is illegal, so you can't do that.

00:30:56.600 --> 00:30:59.640

<v SPEAKER_2>So Apple is having to work more closely with Baidu or Alibaba.

00:30:59.640 --> 00:31:01.520

<v SPEAKER_2>We don't know which direction they're going to go.

00:31:01.520 --> 00:31:17.020

<v SPEAKER_2>And that's sort of the most close, that's like the closest thing they've had to a joint venture on the product side, where they would be working hand and glove on AI features with a Chinese national champion to basically embed that AI within the operating system.

00:31:17.020 --> 00:31:20.040

<v SPEAKER_2>That's a bit of a scary prospect.

00:31:20.040 --> 00:31:27.300

<v SPEAKER_1>You know, there was a time we used to think that big companies, transnational companies had transcended the nation state.

00:31:27.300 --> 00:31:27.880

<v SPEAKER_1>Yeah.

00:31:27.880 --> 00:31:37.280

<v SPEAKER_1>When reading your book, I said, it's also a sub-theme, is almost the return because of the nation states.

00:31:37.280 --> 00:31:47.220

<v SPEAKER_1>But China, United States conflict, it's the return of the nation state, and the nation state still has an awful lot of heft.

00:31:47.220 --> 00:31:52.780

<v SPEAKER_2>Well, I'm glad that you mentioned that, just because the book is called Apple in China, and every chapter is about Apple.

00:31:53.400 --> 00:31:59.820

<v SPEAKER_2>But the themes go way beyond the iPhone or anything going on with Apple.

00:31:59.820 --> 00:32:11.040

<v SPEAKER_2>It's really just like, what's a popular vehicle to help readers understand US-China tech rivalry, supply chains, their fragility versus their resilience.

00:32:11.040 --> 00:32:19.960

<v SPEAKER_2>The last 75 years of how manufacturing travels from America to Japan, from Japan to their former colonies, South Korea and Taiwan, and from Taiwan to China.

00:32:20.440 --> 00:32:23.140

<v SPEAKER_2>There's a host of issues discussed in the book.

00:32:23.140 --> 00:32:36.780

<v SPEAKER_2>I think the reader comes away not just learning and understanding Apple's history, but a whole number of things from the rise of Terry Guo and Foxconn, to the issues that you're discussing and to being conversant on why the tariff discussion matters.

00:32:36.780 --> 00:32:42.260

<v SPEAKER_2>It's about all of those things, but Apple was the common thread through which to tell that entire story.

00:32:42.260 --> 00:32:44.220

<v SPEAKER_2>But it's quite a broad and dense story.

00:32:44.900 --> 00:32:50.120

<v SPEAKER_1>Oh, and listeners, another good reason to go out and buy a copy of Patrick McGee's Apple in China.

00:32:50.120 --> 00:32:51.760

<v SPEAKER_1>Patrick, thank you very much.

00:32:51.760 --> 00:32:55.100

<v SPEAKER_1>My final question, what are you reading or streaming these days yourself?

00:32:55.100 --> 00:33:05.900

<v SPEAKER_2>Oh, so what was brilliant about writing the book is that every other journalist was devoted to AI during the last two years, for good reason, the rise of ChatGPT and so forth.

00:33:05.900 --> 00:33:14.440

<v SPEAKER_2>And so I just happily ignored that and felt comforted by the fact that nobody else was really paying attention to hardware dependence and engineering dependence on China.

00:33:14.440 --> 00:33:15.520

<v SPEAKER_2>But now I'm playing catch up.

00:33:15.520 --> 00:33:18.160

<v SPEAKER_2>So I'm reading Empire of AI by Karen Howe.

00:33:18.160 --> 00:33:25.960

<v SPEAKER_2>And I'm reading Supremacy by Parmy Olsen, which won the Financial Times Business Book of the Year Award last year.

00:33:25.960 --> 00:33:28.400

<v SPEAKER_2>Yeah, thoroughly enjoying both books and catching up to speed.

00:33:28.400 --> 00:33:34.420

<v SPEAKER_2>If there was one book I was to recommend, by the way, I would go with The Maniac by Benjamin Lapitude.

00:33:34.420 --> 00:33:38.780

<v SPEAKER_2>He's a Chilean author and the work's been translated into English.

00:33:38.780 --> 00:33:40.120

<v SPEAKER_2>I didn't love the title The Maniac.

00:33:40.120 --> 00:33:46.760

<v SPEAKER_2>So if you're off put by the title, just know it's an acronym for an early computer in the 1950s rather than a reference to a person.

00:33:46.760 --> 00:33:55.080

<v SPEAKER_2>It's largely a biography of John von Neumann, a Dutch mathematician who the author basically says is the most important mind of the 20th century, which is rather big claim.

00:33:55.080 --> 00:34:01.500

<v SPEAKER_2>And then the second or the third, the final third of the

book is about AlphaGo, which is the story of deep minds later acquired by Google.

00:34:01.960 --> 00:34:09.140

<v SPEAKER_2>And it's the story of using an AI system to defeat the world's best player in the game of Go, which you could call China's version of chess.

00:34:09.140 --> 00:34:13.860

<v SPEAKER_2>So a really multidisciplinary book, absolutely fascinating some of the best writing I've ever read.

00:34:13.860 --> 00:34:14.660

<v SPEAKER_1>All right, the maniac.

00:34:14.660 --> 00:34:15.440

<v SPEAKER_1>No, I have not heard of that.

00:34:15.440 --> 00:34:17.960

<v SPEAKER_1>You said translated from Spanish.

00:34:17.960 --> 00:34:18.780

<v SPEAKER_2>Yes.

00:34:18.780 --> 00:34:21.480

<v SPEAKER_1>All right, Patrick, thank you.

00:34:21.480 --> 00:34:22.640

<v SPEAKER_2>Cheers, thank you so much.

00:34:22.640 --> 00:34:25.280

<v SPEAKER_1>Thank you for listening to this episode of The Global Exchange.

00:34:25.280 --> 00:34:39.540

<v SPEAKER_1>We are joined today by Patrick McGee by his new book, Apple in China, because it's not just about Apple, it's also about China and as we've tried to discuss in our conversation, it gives you both technology and geopolitics at the same time.

00:34:39.540 --> 00:34:46.520

<v SPEAKER_1>So Apple in China, Patrick McGee at a bookshop near you or through Amazon or wherever else you want to buy it.

00:34:46.520 --> 00:34:48.680

<v SPEAKER_2>I need to make it a Heather's pick at Indigo.

00:34:48.680 --> 00:34:50.300

<v SPEAKER_1>That's right, at Indigo.

00:34:51.820 --> 00:34:55.660

<v SPEAKER_1>You can find The Canadian Global Affairs Institute on Facebook, Twitter and LinkedIn.

00:34:55.660 --> 00:34:59.880

<v SPEAKER_1>And The CGAI Podcast is on iTunes, Spotify and Google Play.

00:35:00.240 --> 00:35:03.940

<v SPEAKER_1>The Global Exchange is brought to you by our team at The Canadian Global Affairs Institute.

00:35:03.940 --> 00:35:08.440

<v SPEAKER_1>Thanks to our producer, Jordyn Carroll and to Drew Phillips for providing our music.

00:35:08.440 --> 00:35:09.820

<v SPEAKER_1>I'm Colin Robertson.

00:35:09.820 --> 00:35:11.960

<v SPEAKER_1>Thanks for joining us today on The Global Exchange.