

Opening Statement of Dr. Robin Cleveland, Vice Chairman
U.S.-China Economic and Security Review Commission
November 14, 2019

Thank you, Chairman Bartholomew. I know our colleagues on the Commission and in the Congress are deeply concerned about the developments in Hong Kong, especially in the last week. Beijing continues to demonstrate a blatant lack of regard for the commitments made to Hong Kong and the world. They have abandoned assurances of universal suffrage and guarantees that no citizen would be subject to unlawful arrest, detention or imprisonment. Just as nations sought freedom from the iron grip of the Soviet system, we are bearing witness to aspirations in both Hong Kong and Taiwan which require our reconsideration of the commitments we made under the one country two systems model.

Beijing's disregard for its obligations to Hong Kong are part of troubling trend under the leadership of Secretary Xi. Rules, regulations and laws designed to protect trade, commerce, economic growth, and prosperity, as well as the health, safety and well-being of citizens both here and around the world have been undermined, circumvented or disregarded. Last year the Commission addressed consumer risks related to agricultural safety—a problem highlighted by the recent, sweeping consequences of swine flu with 1/3 of China's herd culled and pork prices leaping 50 percent. This year the Commission concluded weak regulatory oversight, corruption and aggressive industrial policies are undercutting America's pharmaceutical industry and putting the public and our military forces at risk for drug shortages and contaminated medicine. At a time when China fails to uphold safety and surveillance standards to protect the health of their citizens, they are investing in a massive security surveillance state to suppress dissent. To address the pharmaceutical risks we recommend Congress investigate and assess the productive capacity of the U.S. pharmaceutical industry, U.S. dependence on drugs and pharmaceuticals from China, and the ability of U.S. regulators to guarantee the safety of imports.

Threats to U.S. interests extend beyond specific industry concerns. American pension funds and investors are exposed to problems associated with Chinese corporate listings on U.S. stock markets and their inclusion on global indices. Although Chinese companies have raised more than \$1 trillion on U.S. stock exchanges, Beijing obstructs compliance with global and U.S. audit requirements and standards of disclosure protecting investors from insider trading. To address these risks, we have recommended Congress enact legislation to prevent any listing that fails to meet disclosure, structural and auditing standards required of U.S. companies. In a similar vein, we have recommended Treasury, Commerce, and the SEC join in an effort to report on U.S. investors' ownership in Chinese bonds and debt instruments.

Lack of transparency not only has consequences for U.S. investors. Beijing's Belt and Road Initiative is raising concerns that China is increasing the risk of debt distress in some of the world's poorest countries. Twenty three of 36 countries that are provided grant funding and concessional lending from multilateral banks and were provided generous debt relief to support poverty reduction are now at risk of China's free riding. Notwithstanding Secretary Xi's commitment to open, clean and green projects, the terms and conditions for Chinese lending and investment remain hidden from regulatory or public view.

The Commission began this year by examining the internal and external challenges that threaten China's ambition to project power and confidence both at home and abroad, many of which have come into sharper relief in 2019.

While trade tariffs have increased pressure on China's growth, fundamental economic difficulties continue to be the consequence of the CCP's self-promoting policy choices. Chinese policymakers credit their state-led economic model for the country's rapid growth, but the flaws and limitations in their approach are increasingly apparent as China's economic challenges mount. The size, speed, and scale of the increase in debt is nothing short of alarming. By the end of 2018, China's banking sector had expanded to \$39 trillion exceeding the combined banking sectors of the U.S, Japan and England. Of that total, an estimated \$10 trillion is sunk in off balance sheets in the shadow banking sector. Efforts to curb corporate borrowing have protected large, inefficient state-owned enterprises while starving the emerging private sector. Commercial non-performing loans and household mortgage debt are rising, foreign debt is estimated as high as \$3 trillion, and the RMB was allowed to slide risking capital flight and depressed consumption. Economic growth, the key source of legitimacy for the CCP, recently fell to its lowest point in 30 years. How low we don't know as the data continue to be falsified and vague.

As it maneuvers to correct economic course Beijing views its dependence on foreign technology as a critical vulnerability, thus has intensified efforts to develop advanced technologies, with a particular emphasis on pursuing military-civil fusion. Leveraging civilian innovation for China's defense sector, Beijing directs efforts to capture the best of foreign technology and research.

This year, we took a close look at China's efforts to achieve leadership in three critical emerging technological fields: artificial intelligence, new materials, and new energy. We are especially concerned that China's military-civil fusion approach presents the risk that academic and business partnerships could unintentionally support China's military capabilities and ambitions. To safeguard U.S. economic competitiveness and national security, we recommend Congress direct the U.S. Department of Justice to reestablish a higher-education advisory board, which would, among other tasks, review the adequacy of protections for sensitive technologies and research.

To sum up, General Secretary Xi assumed leadership at a time when the economy was growing at a reported rate of 10 percent and 300 million people had been lifted from poverty. The bargain between the Communist Party and its citizens has been we deliver economic and income growth and you accept our authoritarian rule. In a misguided effort to shore up the latter, Xi and the CCP are doubling down on policies which will continue to compromise the former and, in the process, increase risk to global trade and financial stability.

Thank you.