HEARING ON THE CHINESE VIEW OF STRATEGIC COMPETITION WITH THE UNITED STATES

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED SIXTEENTH CONGRESS
SECOND SESSION

THURSDAY, JUNE 24, 2020

Printed for use of the
United States-China Economic and Security Review Commission
Available via the World Wide Web: www.uscc.gov

UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

WASHINGTON: 2020
Commissioners:

ANDREAS A. BORGEAS
BOB BOROCHOFF
JEFFREY L. FIEDLER
HON. CARTE P. GOODWIN
ROY D. KAMPHAUSEN
THEA MEI LEE
KENNETH LEWIS
HON. JAMES M. TALENT
MICHAEL R. WESSEL
LARRY M. WORTZEL


The Commission’s full charter is available at www.uscc.gov.

Back to Table of Contents
CONTENTS

THURSDAY, JUNE 24, 2020

THE CHINESE VIEW OF STRATEGIC COMPETITION WITH THE UNITED STATES

Opening Statement of Commissioner Roy Kamphausen
(Hearing Co-Chair) .........................................................................................................5
Prepared Statement........................................................................................................8

Opening Statement of Commissioner Kenneth Lewis
(Hearing Co-Chair) .......................................................................................................10
Prepared Statement.......................................................................................................12

Panel I: China's Approach to Strategic Competition

Panel I Introduction by Commissioner Kenneth Lewis
(Hearing Co-Chair) .......................................................................................................14
Statement of Barry Naughton
So Kwanlok Chair of Chinese International Affairs, School of Global Policy and
Strategy, University of California San Diego ..............................................................15
Prepared Statement.....................................................................................................17
Statement of David Finkelstein
Vice President and Director, China and Indo-Pacific Security Affairs Division, CNA 30
Prepared Statement.....................................................................................................32
Statement of John Pomfret
Author and former Beijing Bureau Chief, Washington Post.......................................48
Prepared Statement.....................................................................................................51
Panel I: Question and Answer ......................................................................................61

Panel II: U.S.-China Competition and Cooperation on the World Stage

Panel II Introduction by Commissioner Roy Kamphausen
(Hearing Co-Chair) .....................................................................................................78
Statement of Kristine Lee
Associate Fellow, Center for a New American Security .............................................79
Prepared Statement.....................................................................................................82
Statement of Satu Limaye
Vice President, East West Center .............................................................................93
Prepared Statement.....................................................................................................95
Statement of R. Evan Ellis
Research Professor of Latin American Studies, Strategic Studies Institute, U.S. Army
War College ................................................................................................................102
Prepared Statement....................................................................................................105
Panel II: Question and Answer ..................................................................................133

Back to Table of Contents
Panel III: Future Prospects for Strategic Competition: Toward a Cold War, Hot War, or Cold Peace?

Panel III Introduction by Commissioner Kenneth Lewis
(Hearing Co-Chair) .................................................................151
Statement of Janka Oertel
   Director, Asia Programme, European Council on Foreign Relations ..........152
   Prepared Statement...................................................................156
Statement of Alison Kaufman
   Principal Research Scientist, CNA .........................................166
   Prepared Statement...................................................................169
Statement of Michèle Flournoy
   Co-Founder of WestExec Advisors and former Under Secretary of Defense for Policy
   ........................................................................................................179
   Prepared Statement...................................................................182
Panel III: Question and Answer ..................................................191

QUESTIONS FOR THE RECORD
OPENING STATEMENT OF COMMISSIONER ROY KAMPHAUSEN
HEARING CO-CHAIR

COMMISSIONER KAMPHAUSEN: Good morning, and welcome to the sixth hearing of the U.S.-China Economic and Security Review Commission's 2020 Annual Report cycle. My name is Roy Kamphausen. I'm Co-Chair of this hearing with Commissioner Ken Lewis. Thank you all for joining us, and a special thanks to our witnesses for the time and effort they have put into their testimonies.

I would also like to thank the Senate Recording Studio for enabling us to livestream this event.

This is our first hybrid hearing in which some of our panelists and commissioners appear in person and others will testify and appear as commissioners via Webex.

Before I give my opening statement, I would like to acknowledge our 2020 Report Cycle Chair, Commissioner Robin Cleveland.

CHAIRMAN CLEVELAND: Thank you. I'm delighted to be here and look forward to a terrific hearing.

COMMISSIONER KAMPHAUSEN: Thank you, Commissioner Cleveland.

In its 2017 National Security Strategy, the Trump administration labeled China a revisionist power that was engaged in a great power competition with the United States. This determination broke from the approach to U.S.-China relations pursued by administrations from both political parties since the normalization of bilateral relations more than 40 years ago.

Even after the Tiananmen Square massacre in 1989, successive U.S. administrations sought to engage with China, ultimately championing China's accession to the World Trade Organization in 2001. Parsing the strategic, human rights, democracy enlargement, and trade rationales for engagement are beyond the scope of this hearing, but are nevertheless worthwhile exercises to examine the premises and assumptions that framed previous decisions.

The principal effort of today's hearing, however, is to better understand Chinese perspectives on this competition. Indeed, viewing the U.S.-China relationship as fundamentally competitive is not at all new to leaders in Beijing. In fact, China has been engaged in this strategic competition since long before the United States acknowledged that such a competition...
was underway.

In Beijing's view, the normalization of Sino-American ties during the Cold War was only a short-term tactical shift to counter the threat posed to China by the Soviet Union. None other than Premier Zhou Enlai, speaking at the outset of U.S.-China rapprochement in 1973, shed light on the instrumental nature and long-term goal of this strategy. Speaking to high-ranking cadres, Zhou quoted Lenin, "There are compromises and compromises," he said. "One must learn to distinguish between a man who gave the bandits money and firearms to lessen the damage they can do and facilitate their ultimate capture and execution and a man who gives bandits money and firearms in order to share in the loot."

In Zhou's estimation, China's cooperation with the United States belonged to the former category, suggesting that China was willing to cooperate with the United States in the near term due to its temporary weakness, but only so as to ultimately return to its original goal: the defeat of their erstwhile American partners. Indeed, the essence of the "tao guang yang hui," "hide one's capabilities and abide one's time" approach, as enunciated by Deng Xiaoping in the early 1990s, is consistent with that line of thinking.

After the collapse of the Soviet Union, U.S.-China ties deepened with the two sides developing a complex and multi-tiered economic and cultural interdependence. Expanding exchanges of goods and services and people, however, did little to alter Chinese leaders' adversarial view of the United States and its role in the world.

In 1993, then-CCP General Secretary Jiang Zemin declared the United States to be China's main adversary in international affairs due to its position as the world's most powerful nation and its attitude of hegemonism toward China. Jiang said that he expected the United States to remain China's primary strategic opponent for a long time to come.

Nor did this view change following China's accession to the World Trade Organization. In a 2006 speech, the Chinese diplomats' then-top leader, Hu Jintao, reiterated that the United States remained China's primary adversary in international dealings. He further warned of attempts by outside enemy forces to Westernize and divide China, stir up domestic social unrest, and ultimately carry out regime change.

In recent years, it appears those views have only hardened further. Last year, General Secretary Xi Jinping declared that China was now engaged in a new long march and a wide-ranging struggle spanning the economic, political, cultural, foreign policy, and military domains. In Xi's view, this struggle will last until at least the middle of the century.

The evidence suggests that the People's Republic of China, even from the inception of U.S.-China diplomatic relations, has held competitive views about the United States. Recent developments indicate that Beijing has largely abandoned efforts to cloak its ambition. Indeed, in the 2018 report from this very Commission, we declared the formal end of China's pursuit of a hide and bide effort vis-a-vis competition with the U.S.

These recent changes in China's approach have caught many in the U.S. off guard. Some of the emotional reactions to China's competitive impulses are surprise at unmasked Chinese ambition, as though China's impulses are a new phenomenon. This lends impetus to the urgency of articulating a coherent approach to the future of U.S.-China relations.

To be sure, Americans might rightfully blanch at the prospect of committing to a competition with a country possessed of a strongly oppositional political, economic, and ideological system. Indeed, the urge may be strong to identify a single exquisite solution to the challenge or to seek victory within the span of the next election cycle. These are false hopes. This is a generational challenge, unavoidable and necessary.
The necessity of taking up the challenge is confirmed by the open and deep-seated hostility of China's leaders to the United States. What is essential, then, is a carefully planned, long-term strategy firmly implemented over successive administrations and supported by both political parties. This realistic approach to strategic competition is also the most necessary, and ultimately likely to be the most effective.

By better understanding how Beijing intends to approach strategic competition, we hope our hearing today will help U.S. policymakers, especially members of the United States Congress, outline and implement such a strategy.

I now turn the floor over to my distinguished colleague and Co-Chair for this hearing, Commissioner Ken Lewis, who will discuss the economic dimension of U.S.-China competition. Thank you.
PREPARED STATEMENT OF COMMISSIONER ROY KAMPHAUSEN
HEARING CO-CHAIR

Good morning, and welcome to the sixth hearing of the U.S.-China Economic and Security Review Commission’s 2020 Annual Report cycle. Thank you all for joining us, and a special thanks to our witnesses for the time and effort they have put into their testimonies. I would also like to thank the Senate Recording Studio for enabling us to livestream this event.

In its 2017 National Security Strategy, the Trump Administration labeled China a “revisionist power” that was engaged in a “great power competition” with the United States. This determination broke from the approach to U.S.-China relations pursued by administrations from both political parties since the normalization of bilateral relations more than 40 years ago. Even after the Tiananmen Square massacre in 1989, successive U.S. administrations sought to engage with China, ultimately championing China’s accession to the World Trade Organization in 2001. Parsing the strategic, human rights, democracy enlargement, and trade rationales for engagement are beyond the scope of this hearing, but it is always a worthwhile exercise to examine the premises and assumptions that framed previous decisions.

Nevertheless, the principal effort of today’s hearing is to better understand Chinese perspectives on this competition.

Indeed, viewing the U.S.-China relationship as fundamentally competitive is not at all new to Chinese leaders in Beijing. In fact, China has been engaged in a strategic competition since long before the United States acknowledged that a competition was underway. In Beijing’s view, the normalization of Sino-American ties during the Cold War was only a short-term, tactical shift to counter the threat posed to China by the Soviet Union. None other than Premier Zhou Enlai, speaking at the outset of U.S.-China rapprochement in 1973, shed light on the instrumental nature and long-term goal of this strategy.

Speaking to high-ranking cadres, Zhou quoted Lenin. “There are compromises and compromises,” he said, “One must learn to distinguish between a man who gave the bandits money and firearms to lessen the damage they can do and facilitate their [ultimate] capture and execution, and a man who gives bandits money and firearms in order to share in the loot.” In Zhou’s estimation, China’s cooperation with the United States belonged to the former category, suggesting that China was willing to cooperate with the United States in the near term due to temporary weakness, but only so as to ultimately return to its original goal: the defeat of their erstwhile American partners. Indeed, the essence of the Tao Guang Yang Hui (hide one’s capabilities and bide one’s time) approach, as enunciated by Deng Xiaoping in the early 1990s, is consistent with that line of thinking.

After the collapse of the Soviet Union, U.S.-China ties deepened, with the two sides developing a complex and multitiered economic and cultural interdependence. Expanding exchanges of goods, services, and people, however, did little to alter Chinese leaders’ adversarial view of the United States and its role in the world. In 1993, then CCP General Secretary Jiang Zemin declared the United States to be China’s “main adversary in international [affairs]” due to its position as the world’s most powerful nation and its attitude of “hegemonism” toward China.
Jiang added that he expected the United States to remain China’s primary strategic opponent for a long time to come.

Nor did this view change following China’s accession to the World Trade Organization. In a 2006 speech to Chinese diplomats, then top leader Hu Jintao reiterated that the United States remained China’s “primary adversary … in international dealings.” He further warned of attempts by “outside enemy forces” to Westernize and “divide” China, stir up domestic social unrest, and ultimately carry out regime change.

In recent years, it appears those views have only hardened further. Last year, General Secretary Xi Jinping declared that China was now engaged in a “New Long March” and a wide-ranging “struggle” spanning the economic, political, cultural, foreign policy, and military domains. In Xi’s view, this struggle would last until at least the middle of the century.

The evidence suggests that the People’s Republic of China, even from the inception of U.S.-China diplomatic relations, has held competitive views about the United States. Recent developments indicate that Beijing has largely abandoned efforts to cloak its ambition. Indeed, in the 2018 Report from this very Commission, we declared the formal end of China’s pursuit of a “hide and bide” effort vis-à-vis competition with the United States.

These recent changes in China’s approach have caught many in the U.S. off guard. Some of the emotional reactions to China’s competitive actions can be traced to surprise at unmasked Chinese ambition, as though China’s competitive impulses are a new phenomenon. This lends impetus to the urgency of articulating a coherent approach to the future of U.S.-China relations.

To be sure, Americans might rightfully blanch at the prospect of committing to a competition with a country with a strongly oppositional political, economic, and ideological system. Indeed, the urge may be strong to identify a single exquisite solution to the challenge, or to seek victory within the span of the next election cycle. These are false hopes. This is a generational challenge, unavoidable and necessary.

The necessity of taking up the challenge is confirmed by the open and deep-seated hostility of China’s leaders to the United States. What is essential is a carefully planned, long-term strategy, firmly implemented over successive administrations and supported by both political parties. This realistic approach to strategic competition is also the most necessary, and ultimately likely to be the most effective.

By better understanding how Beijing intends to approach strategic competition, we hope our hearing today will help U.S. policymakers, especially Members of the U.S. Congress, outline and implement such a strategy.

I will now turn the floor over to my colleague and co-chair for this hearing, Commissioner Ken Lewis, who will discuss the economic dimension of U.S.-China competition.

---

COMMISSIONER LEWIS: Thank you, Commissioner Kamphausen, and good morning to everyone.

Thank you to our expert witnesses who will provide very outstanding testimony to inform and educate all of us about what's happening with this strategic competition.

As Commissioner Kamphausen has indicated, the U.S. strategic competition with China occurs across many domains and is notably economic, political, and military. Of these domains, however, it is Chinese economic strength that serves as the foundation from which all other sources of strength are generated.

When China joined the World Trade Organization in December 2001, the United States gross domestic product was $10.6 trillion and China's gross domestic product was $1.6 trillion. At that time, the United States had a trade deficit with China of $83 billion with $102 billion in exports from China and $19 billion in imports to China.

By 2019, only 20 years later, last year, the U.S. gross domestic product had doubled to $21 trillion, an increase of about 100 percent. In that same period of time, however, the Chinese gross domestic product had increased from $1.6 trillion to $14 trillion, a dramatic increase of nearly 800 percent. The U.S. trade deficit with China also increased to $345 billion with $452 billion imports from China and only $106 billion exports to China.

The U.S.-China economic relationship represents an extraordinary contradictory and conflicted history. On the one hand, with the growth in the Chinese economy following China's accession into the World Trade Organization, the Chinese Communist Party has presided over the largest economic expansion in human history, causing millions of people to no longer be in poverty. U.S. companies realized extraordinary expansion in their business and profits, and U.S. consumers enjoyed lower prices on everyday goods largely imported from China.

These benefits, however, came at a price for both Chinese and U.S. citizens. Chinese citizens did not gain greater political freedom and civil liberties, and China did not become a responsible stakeholder in the international system, both politically and economically, as many in the United States had hoped and expected when China joined the World Trade Organization.

At the same time, rising imports from China displaced many U.S. workers, delivering a hit to the U.S. manufacturing employment. This manufacturing shift left gaps in many U.S. cities and in the U.S. economy. And at the same time, this gave rise to a military and geopolitical adversary.

China's clout has allowed Beijing to gain leverage abroad. China is now the second largest economy in the world, based on gross domestic product. It is the largest global manufacturer, the largest merchandise trader, and the largest holder of foreign exchange reserves.

Contributing to this noteworthy economic growth was a series of industrial policies designed to guide resources and investment in state-directed industries. As the Chinese economy has moved up the global value chain, Beijing's industrial plans have become targeting of high-end technologies that are critical to the Chinese economy and to the Chinese military, including semiconductors, energy storage technologies, and aerospace.

As China becomes increasingly aggressive in wielding its economic power, U.S. policymakers have become alarmed at the degree of U.S. dependence on Chinese manufacturing. The COVID-19 endemic revealed one of the most striking examples of this dependency.
In 2019, China accounted for 70 percent of the United States imports of protective clothing and medical textile materials used in face masks. More importantly, the United States is heavily dependent on drugs and pharmaceuticals sourced in China. The United States and our drug industry is no longer able, for example, to produce antibiotics and penicillin. We are now relying on Chinese companies for the active pharmaceutical ingredients needed to produce penicillin and other lifesaving drugs.

Addressing the supply chain dependencies on China will require hard choices about the type and extent of productions that the United States takes from a source that is increasingly adversarial and competitive. Looking to the future of U.S.-China relations will require a re-imagination of the U.S. economy.

Our first panel today will address Beijing's response to defeat the competition with the United States in the economic, military, and diplomatic domains.

Before we begin, however, I want everyone to know that today's hearing, testimony, and transcripts will be posted on our website at uscc.gov.

Please also mark your calendars for our final hearing that will take place on September 9, which will review the U.S.-China relations in this eventful year.

Thank you again for joining us today.
Thank you, Commissioner Kamphausen, and good morning, everyone. Thank you to our witnesses for the time and effort they have put into their excellent testimonies—to help inform and educate all of us.

As Commissioner Kamphausen indicated, the U.S. strategic competition with China occurs across many domains, most notably economic, geopolitical, and military. Of these domains, however, it is China’s economic strength that serves as the foundation from which other sources of strength are generated.

When China acceded to the WTO in December 2001, the U.S. GDP stood at $10.6 trillion and China’s GDP was $1.6 trillion. At that point, the US merchandise trade deficit with China was $83 billion, with $102 billion in imports from China and $19 billion in exports to China.

By 2019, nearly 20 years later, the U.S. GDP had doubled to $21 trillion, an increase of about 100 percent. In that same period, China’s GDP jumped from $1.6 trillion to $14 trillion, a dramatic increase of nearly 800 percent. The U.S. merchandise trade deficit with China increased to $345 billion, with $452 billion in imports from China and only $106 billion in exports to China.

The U.S.-China economic relationship presents a contradictory and conflicted history. On the one hand, with the growth in the Chinese economy following China’s WTO accession, the CCP has presided over the largest economic expansion in human history. U.S. consumers enjoyed lower prices on goods imported from China, and U.S. corporations enjoyed exceptional expansion and profits. New York Federal Reserve branch economists estimate U.S. manufactured goods prices fell by 7.6 percent between 2000 and 2006 alone.

These benefits, however, came at a price for both Chinese and U.S. citizens. Chinese citizens did not gain greater political freedoms or civil liberties, nor did China become a “responsible stakeholder” in the international system, as many in the United States had hoped. At the same time, rising imports from China displaced U.S. workers, delivering a hit to U.S. manufacturing employment. This manufacturing shift left gaps in the U.S. economy and profoundly dislocated U.S. communities. It has also given rise to a military and geopolitical adversary.

China’s economic clout has allowed Beijing to gain leverage abroad. China is now the second largest economy in the world by GDP. It is also the largest global manufacturer, merchandise trader, and holder of foreign exchange reserves. Contributing to this noteworthy economic growth were a series of industrial policies designed to guide resources and investment in state-directed industries. As its economy has moved up the global value chain, Beijing’s industrial plans have increasingly targeted high-end technologies critical to both China’s economy and its military, including semiconductors, energy storage technologies, and aerospace. Beijing’s 14th Five Year Plan, expected next year, is likely to redouble these efforts.

As China becomes increasingly aggressive in wielding its economic power, U.S. policymakers
have grown alarmed at the degree of U.S. dependence on Chinese manufacturing. The COVID-19 pandemic revealed one of the most striking examples of this dependence. In 2019, China accounted for over 70 percent of U.S. imports of protective medical textile materials, such as face masks. More broadly, the United States is heavily dependent on drugs and pharmaceutical inputs sourced from China. The U.S. generic drug industry is no longer capable, for example, of producing certain critical antibiotics such as penicillin. Instead, we rely on Chinese companies for the active pharmaceutical ingredients needed to produce this and other life-saving drugs.

Addressing U.S. supply chain dependencies on China may require hard choices about the extent and type of production the United States can afford to source from a country acting in increasingly competitive and even adversarial ways. Increasingly, looking to the future of U.S.-China relations calls us to reimagine the future U.S. economy.

Our first panel today will assess Beijing’s approach to strategic competition with the United States in the economic, military, and diplomatic domains.

Before we begin, I want to let everyone know that today’s testimonies and transcript will be posted on our website at uscc.gov. Please also mark your calendars for our final hearing of 2020 to take place on September 9, which will review U.S.-China relations in this eventful year.

Thank you, again, for joining us today. With that, we will proceed with our first panel.
PANEL I INTRODUCTION BY COMMISSIONER KENNETH LEWIS

And with this, we will proceed with our first panel.
We will start with Professor Barry Naughton, who is actually now in San Diego. He is the So Kwanlok Chair of Chinese International Affairs at the University of California in San Diego's School of Policy and Strategy. Professor Naughton is an authority on the Chinese economy, with special emphasis on issues relating to industry, trade, finance, and China's transition to a market economy and decoupling. He's the author of the fundamental textbook, The Chinese Economy: Adaptation and Growth, and he is currently working on a book about Chinese industrial policies.

Professor Naughton will discuss and address China's views on the United States' economic and technological competition, as well as its approach to economic competition, decoupling, and the dominance of the global supply chains for goods.

Then, we'll hear from Dr. David Finkelstein, the Vice President, the Center for Naval Analyses, CNA. He is the Director of CNA's China and Indo-Pacific Security Affairs Division. Dr. Finkelstein is a renowned expert on China's defense. He's a retired Army officer and is the editor of numerous volumes about the People's Liberation Army. He is a member of the National Committee on U.S.-China Relations and the International Institute for Strategic Studies.

Today, Dr. Finkelstein will speak to China's views on the United States as a military adversary and the strategy from Beijing in military competition.

Finally, we'll hear from John Pomfret, who is also now in California, a writer and former Beijing Bureau Chief for The Washington Post. He is the author of the acclaimed book, The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present. He has won awards for his reporting on Asia, specifically the Osborn Elliott Prize. Mr. Pomfret was one of the first students to go to China after normalization occurred, and he was expelled from China after the Tiananmen Square massacre in 1989.

He will address China's views on the United States as a diplomatic and ideological competitor, as well as its strategy for engaging in diplomatic and ideological competition.

Thank you all very much for your testimony. I'd like to remind you to keep your testimonies to seven minutes.

Professor Naughton, we'll begin with you.
OPENING STATEMENT OF BARRY NAUGHTON, SO KWANLOK CHAIR OF CHINESE INTERNATIONAL AFFAIRS, SCHOOL OF GLOBAL POLICY AND STRATEGY, UNIVERSITY OF CALIFORNIA SAN DIEGO

DR. NAUGHTON: Hello from California, and it's a great honor to be in this distinguished company and testifying before this committee.

It's clear, of course, that Chinese leaders see themselves as being in economic and technological, and indeed strategic, competition with the United States. We can say that the drive to catch up and surpass developed countries has been a constant theme for Chinese policymakers since the very formation of the People's Republic of China in 1949.

But we should distinguish carefully between the years before and after a turning point that's hard to pin down, but roughly about 2006. Because in the 15 years since 2006, China has steadily shifted toward a more interventionist approach in the economy and a more directly competitive approach toward the United States internationally.

Now, if we look at the continuities first, I mean, China is ambitious, tends to benchmark itself against the best, which has certainly meant the United States traditionally. And influenced by their own authoritarian and hierarchical political system, the Chinese certainly tend to see the international order as also being hierarchical, with the U.S. as the dominant power and the older brother. So, I think we could say that Chinese strategic thinking has long since anticipated the idea that, as China grew, there would be a time when there would be a clash between China and the United States, not necessarily a military clash, but a kind of struggle for dominance.

But we have to say that, before 2005, there wasn't really any kind of coherent plan for this and certainly not a target to displace the United States in certain industries. In fact, up through this time, Chinese five-year plans and industrial policies consistently failed. Not surprising, really. The authoritarian party state is not really very good at foreseeing the future. They're certainly not as good as us.

But, without a plan, they still had what we might call a strategy of preparation, or what we might think of as strategic opportunism. And over the last 15 years, we've seen them adapt to their understanding of the strategic opportunity. I think of it in sort of three waves.

In the first wave, China started to go beyond passive acceptance of incoming foreign investment, began to insist on control of core technologies and investment in indigenous innovation.

After 2010, they developed this program for strategic emerging industries, which, for the first time, was really a true industrial policy in the sense that they targeted specific industries. But the ones that they chose were specifically those where there wasn't an existing incumbent. In other words, solar power, electric vehicles, biomedical engineering, areas where they could establish their firms in a dominant position. So, this is the first time where surpassing starts to become more important than catch-up.

But most important, after 2016, China's policymakers really bought into the idea that a new cluster of technological change, a new technological revolution, was going to change everything, including the global order and the relative distribution of power among nations. As they themselves put it, a cluster of revolutionary new technologies that are intelligent, green, and ubiquitous are reshaping the global competitive landscape and changing the relative strength of nations, giving us a rare historical opportunity to catch up and surpass. So, it's this conjunction between strategic opportunity and technological opportunity that defines the current moment and the current competition.
Chinese leaders believe that they have a unique ability to combine the unified management of the internet, sensors, telecom, Smart City networks, all driven by artificial intelligence. They know that the U.S. is ahead technologically in each one of these individual sectors, but they think their system gives them the ability to pull these together into smart networks in a way that they don't see the U.S. doing for quite a while.

And so in pursuit of this, since 2006 but especially 2016, we see them greatly increasing the number of targets and specific objectives. They're not really plans, but they are important signals to their actors. We see a steady and massive increase in the financial commitment of the Chinese government, and we see them attempting to develop a new model where what they think is, they think they're combining a market economy with government steerage. And they think this is going to be the most effective way to leap ahead of the United States.

And this leads them to embrace all kinds of different participants. They emphasize state-owned firms, but they're just as happy to embrace private national champions as well.

So, when you put these all together, they see a historic opportunity for their firms and their country to leap ahead. China is a long-term challenger with a formidable capability. We need a steady and consistent long-run strategy in line with our allies to show China that their conception of this strategic opportunity is mistaken.

The area of competition is not so much any one specific industry, but rather the ability to govern and make attractive massive interacting networks that need standards and that need coordination, and need to be attractive between the United States and our allies, to show China that its attempt to disrupt the global economic system, the global information system, will not prevail.

And finally, I think we need to do a better job of following the money and watch the massive injection of resources that the Chinese government is making, an injection of resources that just wouldn't be possible in a political system where there's oversight about the way leaders spend money.

I'll stop there and look forward to the question and answer period.
This testimony follows the format of the six questions proposed by the Committee, slightly rearranged.

1. Does China view itself as in an economic and technological competition with the United States? If so, how has its approach evolved over the past 15-20 years? Please address the impact of recent U.S.-China trade tensions.

Chinese leaders certainly see themselves as being in economic and technological competition with the United States. The drive to “catch up and surpass” developed countries has been almost constant in Chinese policy-making since the foundation of the People’s Republic in 1949. In 1958, China adopted the target of catching up with the U.S. in steel production in fifty years. Although this (Great Leap Forward) push collapsed and China retreated into near-isolation during the Cultural Revolution (1966-1976), the desire to surpass always closely follows the goal of catch-up.

In 1978, China discovered that it was in fact hopelessly behind the US; had lost ground in relative terms over the preceding 20 years; and would take a long time to catch up. Direct competition was de-emphasized and “catch-up” was repositioned as a distant future objective. During the 1980s and 1990s, traditional five year plans repeatedly failed, and policy-makers sensibly scaled back the process, prioritizing economic reforms and growth-by-any-means. This policy orientation culminated during the Premiership of Zhu Rongji (1998-2003), the recent Chinese leader most committed to market institutions. Foreign investment was the main source of technology transfer, economic reform was the primary goal of policy-makers, and WTO membership was seen as a culmination of a process of domestic institutional change. At first, the subsequent Hu Jintao-Wen Jiabao administration (2002-2012) seemed set to maintain this policy orientation. However, things began to change immediately after 2006. Under question two, I will show how during the 15 years since 2006, China has steadily shift towards a more interventionist approach to the economy and a more directly competitive approach toward the US. To understand this shift, though, we should acknowledge the elements of competition that were present, but submerged, in the relationship through the twenty years before 2005.

China is ambitious: policy-makers benchmarked almost exclusively against the United States, never against other developing countries. An educated audience enjoyed watching China’s climb upward on various international rankings, including those of “comprehensive national power” (basically GDP augmented by hard and soft power). Deng Xiaoping carried out a foreign policy of international restraint, but even his dictum “hide your capabilities and bide your time” (韬光养晦) contained an implication of later rise and possible future pay-back. It is obvious that the collapse of the Soviet Union and the lopsided US victory in the first Gulf War were huge shocks. At first these shocks confirmed the basic economic orientation—they were
far behind and not necessarily closing the gap—but they also sparked fear and seeded a determination to gradually resume a program of national strengthening, including military strengthening.

China’s authoritarian political system contributes greatly to its international strategic view. Through 2005, China greatly relaxed political controls and partially institutionalized the authoritarian system and the bureaucracy, but it remained authoritarian and since 2012 its authoritarian nature has intensified. This political system reinforces China’s traditional Confucian culture that saw social relations as being intrinsically hierarchical. Chinese policymakers overwhelmingly see the global order as also being hierarchical. The U.S. is the dominant power and “older brother.” However, since China is a large and rapidly growing country, in this view there will inevitably be a time when it clashes with the “older brother” and China should be prepared for the possibility that the elder brother will not give way. Through 2005, then, there persisted in China a strong strategic culture which incorporated visions of future competition and the possibility of conflict.

However, through 2005, there was not any kind of coherent planning for specific industrial development, and certainly not for any target to displace the United States. In the first place, displacing the United States in any industrial sector was simply not conceivable twenty years ago. Broad Chinese Five Year Plans and industrial policies through the turn of the century displayed a consistent record of failure, a reality acknowledged by Chinese planners when they took a completely different approach toward “planning” in setting the broad development objectives in the 2005 11th Five Year Plan. Market-oriented economic reform and continued internationalization were the prerequisites for that program, and intensified competition and potential conflict was not at all fore-ordained at that time. Indeed, it would give far too much credit to China’s planning to claim that China had a hidden plan for growth or development (or for displacing the United States) in the decades from 1978 to 2005. The authoritarian Party state is no better than anybody else at foreseeing the future, and indeed is probably worse.

In essence, China’s approach in these decades was to carry out market-oriented reform, but also to invest in capabilities, single-mindedly pursue national interest, and remain flexible and opportunistic. The capabilities in which China invested were the same as those needed to foster economic growth. Chinese investment in human and physical capital has been very high for the past few decades. China has invested more than 40% of GDP on new fixed capital for every year since 2003. Graduates of junior colleges and universities have grown steadily since 1999 and now graduate over 7 million students annually. On these bases—along with successful market reforms—a trajectory of growth was created that of course had implications for international relations. Strategic opportunism is the watch-word of China’s national strategy. As China’s capabilities grew, China has spent more and more time gaming out specific international outcomes. While not good at predicting the future, the authoritarian Party state is very good at subordinating the activities of national actors to specific definitions of national interest, which are typically short-term, improvised, and again opportunistic. China doesn’t have a plan, but it has a strategy of preparation. We must keep this in mind when we turn to specific industrial planning.

This basic strategy of preparation has persisted through the important changes of the past fifteen years and it has not been fundamentally changed by the recent US-China trade tensions. Indeed, if anything, the aggressive US response to the China challenge has confirmed the Chinese
suspicion that the incumbent power would eventually move to block their rise. They congratulate themselves on their suspicious foresight and are almost completely blind to the role that their own policies have played in triggering what is now a global backlash. This framework gives us perspective on specific changes of policy in the last 15 years, to which we now turn

2. Did China have a plan to achieve a dominant position in certain industries, technologies, or supply chains? If so, in what sectors did it plan to achieve this dominance? Was this reflected in their five-year and other long-term economic development plans over the last 20 years?

3. What are the main features of Beijing’s strategy to achieve “indigenous innovation” and global dominance in the industries and technologies of the future? To what extent do these goals involve China taking steps to achieve “decoupling” from the United States?

4. To what extent does Beijing perceive that it needs to supplant the United States in key industries and technologies to achieve its goals? Have these perceptions been reflected in any of China’s five-year and other economic development plans over the past 20 years?

In 2006, China released its Long and Medium Plan for Scientific and Technological Development (hereafter LMP). The plan, in its public form, was initially welcomed by outside advisers. It had a broad definition of innovation, and called for strengthening overall innovative capabilities in a way that corresponded to common understandings of innovation. However, tucked inside this broad, contradiction-filled document were three small provisions that would become steadily more important in Chinese policy-making. The first was a call for “indigenous innovation”; the second was a reference to “core technologies”; and the third was the initiation of 16 “megaprojects” that would be the beginnings of a new Chinese approach to industrial policy.1 In the 15 years since, these provisions have each become more prominent, more specific, and much, much bigger. This turn—gradual at first, but steadily gaining momentum—has put China on a collision course with the United States and the world.

Continuity with the fundamental orientation of strategic opportunism can be seen by examining the strategic rationales which have accompanied successive waves of industrial policy. This can be clearly seen in the three successive waves of industrial and technological policy.

Wave 1: 2006-2010. Based on the concepts included in the MLP, China began to move beyond passive acceptance of foreign investment and the Chinese role in global production networks, which had been the dominant forms of technology absorption through the mid-2000s. Now, China began a concerted effort to invest in domestic capacity and develop command over certain (ill-defined) core technologies, those which Xi Jinping later said “cannot be bought, and cannot be attained by bargaining or by wishful thinking.”2 Core technologies have never been defined,

---

in part because there is no coherent definition—core technologies are important technologies that China doesn’t possess right now—and in part because defining them would reveal the priority targets of China’s technology acquisition efforts. But this was clearly the beginning of the Chinese effort to expand the scope of their direct mastery of technology, including an effort to build up domestically held intellectual property rights.

At the same time, these intentions were still compatible with a broader developmental impulse and an understandable effort to develop stronger innovation resources and a better environment for innovation. There was no particular rationale for which technologies should be targeted, beyond the obvious, such as semiconductors. The “megaprojects” were 16 specific areas where the government would provide direct research funding. They have no unifying rationale. They are not primarily pure research, but rather applied research in industrial sectors where China might have an emerging comparative advantages. A few—including three undisclosed military projects—have strategic importance, but most are designed to contribute to China’s industrial growth. The funding amounts were limited, and there was no coherent strategy for selecting sectors. However, it was the beginning of something much bigger.

Wave 2: 2010-present. Strategic Emerging Industries (SEIs). The formulation of the SEI program in 2009-2010 represented a new departure. For the first time, this was a true industrial policy, in the sense that the state began to provide support for targeted sectors that were expected to lead growth. Moreover, SEIs had a new rationale: targeted sectors were those that were new on a global scale, and as a result, did not have powerful entrenched competitors. Rather than targeting “catch-up” in existing industries, like high-grade steel or gasoline-powered vehicles, the SEI identified areas where there could still be first-mover advantages for late-developing economies like China. These included solar and wind power, electric vehicles, mobile internet, and biomedical engineering. To be sure, these rationales were not entirely consistent: some SEI programs were little more than an ex post rationale for the enormous subsidies that the Chinese government had doled out in 2009, during the Global Financial Crisis, and some were existing industries with potentially bright catch-up prospects, such as civilian passenger aircraft.

Nevertheless, the SEIs clearly marked a new departure: a response to opportunity presented by technological change, combined with a much more aggressive effort to foster domestic competitors. “Surpass” became conceptually as important as “catch-up.” A popular slogan of the new program was “seize the commanding heights of the new information economy.” These programs have continued and expanded through the present.

Wave 3: 2016-present. Innovation-Driven Development Strategy (IDDS). Within a few years, Chinese planners had become convinced that technological changes were coming together in a distinctive pattern that constituted a new technological revolution. In response, they pulled together a still more ambitious development program they called the Innovation-Driven Development Strategy, endorsed at the highest level of the Communist Party and government. It is important to emphasize that while the program targets “innovation,” what it actually means is technological mastery of a range of inter-related and economically significant technologies. (Innovation just sounds better.) The authoritative document issued in May 2016 can speak for itself:

A new round of global technological revolution is occurring, and sectoral and military change is accelerating….A cluster of revolutionary new technologies that are intelligent, green and ubiquitous has triggered a major adjustment of the international division of
labor,… reshaping the global competitive landscape and changing the relative strength of nations… We not only face a rare historical opportunity to catch up and surpass, we also face the serious challenge that the gap might widen again.³

Thus, we can see that the arrival of a new technological revolution is seen by Chinese policymakers as an extraordinary once-in-a-lifetime opportunity. It is not that China expects to achieve a dominant position in any single industry. Realistic policymakers understand that the US still has an absolute scientific and technological edge in virtually every individual sector. But they believe that China has made enough progress in each constituent element of the several sectors that together make up the core of the technological revolution that they can be the dominant actor in the whole space defined by these emergent technologies.

These technologies are “general purpose” technologies, with applicability in virtually every sector of the economy and the military. Mobile high-speed internet; 5G telecommunications networks; ubiquitous sensors and monitors; programmable robots; and artificial intelligence individually and especially in combination have positive productivity implications for every economic sector. That means that the potential spill-over benefits (positive externalities) from these technologies are unusually large, justifying government intervention to accelerate adoption. Moreover, China, they believe, has a unique ability to combine unified management of the Internet, ubiquitous sensors, telecommunications and smart transport/city networks, along with artificial intelligence. The US may be ahead in every one of these individual sectors, but the prospect for the US combining management and control of these networks is virtually zero. Therefore, China has the potential to reap the overall benefits of these general purpose technologies, catapulting it into a position parallel to the United States. At the same time, the negative externalities of these technologies in enabling enhanced government surveillance and top-down control are welcome by the Chinese government and have so far evoked little opposition among Chinese citizens.

To really reap the economic benefits of the technological revolution, however, China has to upgrade its generally low-to-medium technology industrial base into smart, automated factories (“Industry 4.0”). “Made in China 2025” is simply a component of the broader IDDS, but it is important because it targets a weak link in the “new technology” ecosystem. China’s existing industry is huge, cost-effective and fast, but it is far behind the US, Japan, Germany and Korea in terms of process control, complex mass production, and ability to customize. “Made in China 2025” has been especially controversial because it lays out specific quantitative targets that are obvious violations of the spirit and letter of China’s WTO market access commitments.

The emergence of the IDDS illuminates a particularly clear example of China’s adaptation of strategic opportunism to a particular set of international and technological conditions. Chinese policymakers believe that the Global Financial Crisis was a key turning point revealing the weakening relative position of the United States. Policy-makers have long said that the first twenty years of the 21st century were a period of “strategic opportunity,” meaning that China could grow rapidly under the auspices of the American-led global system, closing the gap with the United States, which should be exploited but without rocking the boat too much. After the

global financial crisis (GFC), though, policy-makers began to perceive additional opportunities. In their view, the GFC weakened the U.S. economically and in terms of the “soft power” attractiveness of the American model. This created an additional opportunity to catch up with and surpass the United States.

This global strategic moment is logically completely separate from the arrival of the technological revolution referenced in the IDDS, and the two have arrived together by coincidence. However, Liu He, now Vice Premier and the crucial brains behind China’s economic policy, has argued that this accidental conjuncture reflects a broader historical pattern. Liu led a small team to study the two global crises of the 1930s and post-2008. He concluded that global crises are generally followed by sudden, sharp re-configurations of global power associated with technological mastery. After 1945, the U.S. emerged as the dominant power because of its technological position and its economic size. Acting as a responsible creditor nation, the U.S. then carefully consolidated its position and constructed a global system in accord with its interests. China today, Liu argues, should do what the U.S. did after 1945: rely on its economic competitiveness and emerging technological capabilities, act cautiously as a creditor nation, but begin to systematically shape global institutions and interactions in China’s interests. The final step is left unstated, but clearly implies displacing the U.S. as the world’s dominant power. Liu’s approach perfectly exemplifies the way that China’s authoritarian system mobilizes resources to move decisively in response to perceived strategic opportunity.

In addition to the changing strategic orientation of China’s industrial and innovation policy, there have been several key features which have characterized those policies since 2006. I here highlight four features, each of which is dynamic and steadily increasing in importance across the three waves of policy outlined above.

1. Steady proliferation of specific targets and objectives. While the 2005 11th Five Year Plan had a handful of targets and several subsidiary plans, the 2020 14th Five Year Plan will have scores of targets and well over 50 subsidiary plans that will contain hundreds of targets and indicators. To be sure, these are not plan targets in the sense of the old planned economy. There are no general command channels to compel the achievement of a compulsory plan target. However, these targets serve an information and guidance function. They tell local governments and enterprise decision-makers what national priorities and objectives are. They validate the spending of financial resources that are under decentralized control. If an official takes steps to support a local champion or hobble a foreign competitor, and keeps it secret, or invests resources in failed projects, he has been offered some protection if his actions are consistent with the “plan.”

These targets are sometimes absurdly unrealistic, and are often discarded without having been fulfilled. This is a weakness, but also a strength. They can be abandoned, but they still provide valuable information. For example, electric vehicle subsidy programs began in 2009, and the State Council laid out an ambitious plan to produce 500,000 electric vehicles by 2011. In fact, China produced only 8400 electric vehicles in that year (less than 2% of the target). In the SEI in 2010, the government adjusted targets to the more realistic two million new energy vehicles per year by 2020. In fact, production peaked at 1.26 million in 2018, amidst massive unhappiness at

---

low quality vehicles and a subsequent reduction in subsidies.\(^5\) Still an impressive performance, it hardly justifies faith in government planning and targets.

2. Steady and massive increase in financial commitment. China’s industrial policy and innovation system is not truly centralized. Moreover, money flows through an enormous variety of channels, which nobody can accurately track. Tax reductions, cheap utilities, accelerated depreciation, cheap loans, easy access to loans, etc., are all being used to foster priority sectors. Each of these existed back in 2005-2006, but primarily as multi-purpose instruments in the hands of development-oriented local governments, or as modest preferences for “innovative” firms. Each one has expanded enormously since 2006, and become more targeted. In addition, of course, China’s massive state-owned financial system stands ready to back many types of investment that conform to state plans. China Development Bank has this as its primary mission.

Even more important, however, has been the establishment and massive growth, since 2014, of an entire new category of new government funds.\(^6\) These funds replicate organizational forms common in the US venture capital sector. There is a managing partner and several limited partners. The managing partner has responsibility for the specific project selection and while limited partners review general strategic direction. Rewards for successful managing partners can be substantial. In most of the cases studied, however, essentially all the partners are state-owned entities. Each fund establishes a fund-raising scope, and brings in limited partners up to the designate fund-raising scope. These funds are massive. By early 2019, the aggregate fund-raising scope of all government industrial guidance funds was well over a staggering US $1.5 trillion. While not all of the funding has been raised, much less actually invested, the rapid growth shows a new level of commitment of financial resources by the Chinese government. The following Table shows the largest such funds.

![Table: Largest Government Industrial Guidance Funds](image)

Slightly more than half of the funds are designated for broad, multi-sector “high tech” investments, such as SEIs, “new growth drivers,” or related. Another 7% are single-sector funds for a specific sector such as integrated circuits. Three-quarters of the funding in the IGFs is controlled by local governments. Although they have strong incentives to display their conformity with the objectives and priorities of national policy, the quality of their manpower is lower, their access to cutting edge technologies is often limited. The IC sector, a very high priority area, shows some important patterns. The big National IC Fund has already raised and

---


fully invested a first round of $20 billion, and in 2018 completed raising another $21 billion. Yet this is a small part of the total picture, since there are about 30 local government IC Investment Funds which are in aggregate larger than the single National Fund.

3. Efforts to combine government steerage with market principles. China’s willingness to spend money to foster priority sectors means it can potentially scale back some of the most market-distorting government interventions, such as quotas and prohibitions. Indeed, Chinese policymakers believe they are doing this. They believe they are creating a new model which is “market-driven, and government guided” (市场主导，政府引导). Indeed, the “Made in China 2025” program explicitly adopts this principle to guide its efforts. The term “guided” (yindao) has a long history in Chinese Communist usage, and it implies a very strong and concerted effort to lead or guide, so in context perhaps “steerage” gives a better sense of the meaning. The Ministry of Finance describes the national IC Industry Fund as “an organic combination of national strategy and the market mechanism.”

It is extremely unlikely that the mechanisms the Chinese government is developing will actually combine market efficiency with government steerage. Government industrial guidance funds have a theoretically efficient incentive structure, but are actually corrupted by implicit guarantees, low or zero target rates of returns, and widespread expectations of ex post forgiveness of debts. It is likely that these funds will lead in the future to financial disturbance or crisis and massive bailouts. However, they show very clearly what Chinese policy-makers think they are achieving. They see themselves as having substantial advantages in a broad swathe of emerging technologies, and they believe that government can foster and accelerate that transition. Because they are willing to spend massive amounts of money, they can achieve those benefits at a fraction of the cost of traditional inefficient government programs. They will spend money, and get the market to supply the progress they demand.

4. Embrace of national champions, whether state-owned enterprises (SOEs) or private firms. SOEs are important actors in China’s drive to establish a new technological revolution. However, Chinese policy-makers recognize that the expertise needed to carry through this revolution is predominantly possessed by private companies, especially the Chinese internet giants, Baidu, Alibaba and Tencent (sometimes called the BAT firms). As part of its industrial policy ambitions, the Chinese government has shown a marked willingness to embrace private firms of all stripes, but especially private firms that have already proven their ability to compete successfully. China’s government swings behind private firms after they succeed: again, strategic opportunism is the watchword.

The BAT firms are all dynamic private firms, started in collaboration with American venture capital, that sought to combine Silicon Valley approaches with the vast potential of the Chinese

---

market. They are now being brought into an increasingly close embrace with the Chinese state. Since China is willing to spend massive sums of money and work through the market, it is able to bring private firms along with purchasing contracts and regulatory support. Private firms are being initiated into the “national team” by a rich array of incentives. Besides, they don’t really have the option to say “no.” Recently, a set of artificial intelligence “open innovation platforms” have been established, each of them run by a prominent and successful private company. Of the 15 platforms (2019), Alibaba and three companies in which Alibaba has large stakes account for four; Baidu runs the platform for autonomous vehicles; and Tencent the platform for medical imagery. The platforms are a kind of implicit tax on the companies, requiring them to share their expertise, in return for which they receive recognition and status in a designated realm. ⁹

The above discussion of Chinese industrial and technological policy can also help us understand Chinese attitudes toward decoupling. These are complex, since decoupling is not a simple phenomenon. One the one hand, Chinese policy-makers do not want decoupling. They understand very well that they benefit enormously from international production and research links. They both profit and learn from their participation in global production networks. Even more valuable are their participation in education and research networks. Chinese scholars have advanced tremendously in science, technology, and technology applications and they are very aware of the consequent growth in their overall scientific and innovative capabilities. The US has also benefitted enormously from the many joint research enterprises carried out with Chinese scholars and students. Chinese policy-makers have no interest in breaking these ties and recognize they will be hurt by their rupture.

On the other hand, in two important respects, Chinese policy-makers have initiated decoupling, somewhat intentionally but partially inadvertently. First, Chinese leaders have created a Chinese internet that is hermetically sealed off from the rest of the world. China’s aggressive regulatory approach to the Internet, and the insistence on national sovereignty in Internet governance comes primarily from the Communist Party’s desire to control speech within China. Google’s exit from China was primarily because of censorship. However, this level of national control created a protected ecosystem within which Chinese internet giants have flourished. The decoupling of the Chinese from the global internet created an environment in which the Chinese government could effectively consolidate its control over domestic speech while also tying dynamic tech companies into a shotgun marriage, in which both sides had a strong incentive to work together. This is a type of decoupling, and China now seeks to export its alternative model.

Second, even though China has benefited more than any other country from the expansion of global production networks (GPNs) Chinese policy-makers have frequently criticized those GPNs and argued that Chinese producers contribute relatively little value-added to high-tech products such as the iPhone. Even though there is now abundant evidence that Chinese firms have been successfully upgrading within the framework of global production networks, Chinese policy-makers have simply ignored this evidence. The fundamental principle of GPNs is that key technological capabilities are distributed among many different economies. In the case of the electronics value chains that are central to this discussion, very important capabilities are possessed by the US, Japan, Korea and Taiwan, and GPNs gain their extraordinary efficiency by

the ability to link these centers of expertise. By proclaiming that “core technologies must be in our own hands,” Xi Jinping launched rhetorical war on the principle of interdependence that lay at the heart of GPNs. This vague proclamation has been accompanied by efforts to pressure multinational corporations to transfer and/or share high-tech production links. Thus, China announced its willingness to use hardball tactics to compel the transfer of as much value-added and technological capability as possible within GPNs.

At the same time, Chinese policy-makers absorbed the lessons of GPNs into their own industrial policy framework. Industrial policy-makers tend to take a “value chain” as a unit of analysis. For example the National Government IC Guidance Fund invested in the best indigenous firms at each stage of the semiconductor value chain (design, fab, packaging, equipment). Do these approaches mean that Chinese policy-makers are willing to give up on GPNs? Absolutely not. It means they want to have it both ways. They hope to foster the continuing presence of GPNs in China—perhaps held there by the attractions of the Chinese market—as a continuing source of technology transfer, while also aggressively squeezing out the foreign links in the GPNs. It shows that Chinese policy-makers value GPNs, but systematically under-estimate the impact of their own aggressive actions in undermining the basis for successful GPNs.

4 / 5. What are the implications of China’s economic and technological development strategy for the United States? In what sectors and technologies does China view itself as weak relative to the United States? In which sectors would “decoupling” jeopardize China’s goals for innovation and tech leadership?

China’s economic and technological development strategy poses a profound challenge to the United States and compels a steady and determined response. At the same time, the nature of the challenge is not a traditional one in which specific industries appear to hold the key to competitive strength. We do not carry out a systematic inventory, as we once did with respect to Japan, to keep score of who is ahead in different industries. If we did, we would see that there is no industry where China has unambiguous technological superiority to the United States, and many where the US has clear scientific and technological advantages. But that traditional form of industry analysis is not as central as it once was.

On one hand, within each industry, there are many stages of production in which expertise is distributed around the world. There are certainly bottlenecks where China is weak, for example in semi-conductors. China is weak and vulnerable in terms of semiconductor fabrication, and even weaker in fabrication machinery. It has notable shortcomings in the area of IP building blocks that are the foundation of complex circuit design in ICs. But China also has strengths in circuit design, packaging and testing, and device manufacture and assembly. In an industry like semiconductors, which the Chinese has repeatedly designated as a core and strategic industry and on which they have spent literally hundreds of billions of dollars without major success, the weaknesses and bottlenecks appear to dominate the strengths. But most crucially, the balance of strength and weakness is something that plays out inside a broad global sector with many players. With a different balance between strength and weakness, this same reality plays out in different sectors, from aeronautics, to precision machinery, to pharmaceuticals and biomedical engineering, to artificial intelligence. There is no single industry that is a magic bullet for China or the source of overwhelmingly strategic vulnerability either. Complete decoupling is simply
not an option either for China or for the United States, and competitive rivalry must be fought out within the compass of complex sectors with many heterogeneous production segments.

On the other hand, the emergence of a new technological revolution, with a new cluster of general purpose technologies, means that rivalry will take place in very broad arenas where industries and standards come together to define huge and complex interacting systems. This will be true in the management of transportation and communications infrastructure; it will be true on the battlefield; it will be true in the operation of financial and payments systems based on emerging Internet-based fintech; and in many other areas. These are not industries in the traditional sense, but rather new forms of large-scale interactive networks. Networks require standards, rules and principles for interoperability. China has spent more time thinking about how to push these networks in directions that support their national interest. The US needs to spend more effort on a parallel exercise.

6. What are your recommendations for Congressional action related to the topic of your testimony?

First, it would be best if we do not make China a partisan issue. China is a long-term challenger with formidable capacity. Its authoritarian system is inimical to ours; it disposes of vastly greater resources than the Soviet Union ever did; and it has a coherent approach to how it deploys its exceptional capabilities. We need a steady and consistent long-run strategy to counter China.

An effective strategy requires the cooperation of our allies, most of whom are just as alarmed at China’s aggressive and assertive policies as we are (especially in the wake of the coronavirus experience). In the long run, the most effective response to today’s China will be to show them that their assessment of the window of strategic opportunity is wrong, and that they will not succeed in achieving their aims by dividing the world into a group of weak, declining, and squabbling powers. China needs to see that they face an outside world with exceptional innovative and technological capabilities, that is capable of cooperating to produce fair and open global systems. We must ensure that China sees that it cannot hope to achieve unfair advantage inside those systems, and realizes it will be unable to prosper fully outside those systems as well. At that point, there will be an excellent chance that China will return to their traditional pragmatic opportunism, re-assess their options, and change their approach. However, this positive outcome requires a stronger effort on our part.

Second, the US should develop a much more coherent strategy on the development of cooperative and open standards to govern massive information networks, particularly those that regulate smart infrastructure and communications networks. New 5G networks are creating dramatic new technological opportunities as computing moves to “the edge” and semi-autonomous networks spring up in local settings. The US needs to develop those standards as part of the expansion of 5G in any case. Doing so in an attractive, open and international way will have multiple benefits. It will prevent the default global expansion of the Chinese internet ecology driven by Chinese infrastructure investment and expansion of Chinese e-commerce and payments networks. It can provide an attractive alternative to Chinese systems particularly in Asia, where many countries adhere to democratic values and/or are wary of overbearing Chinese
influence. Having a national standards strategy with outreach would give other countries access to open systems for infrastructure, financial transactions, and internet. This effort would also help protect privacy and internet security.

Such an effort is not primarily a matter of hardware, although hardware plays a role. It is primarily a question of creating and enforcing new standards that allow cooperating nations to participate in and reinforce a secure and open network of networks. There is still time to achieve this, and it must be done if we ourselves are to reap some of the benefits of the new technological revolution. It should be an important objective of our international negotiations, as we seek high quality agreements with like-minded countries that include cooperation on regulatory principles for service delivery and fair competition. This should become a national strategic priority of the United States.

Third, we need to make a greater effort to follow the money and create new agreements to control and regulate government spending. China has spent—and often wasted—literally hundreds of billions of dollars on industrial policy initiatives in the past fifteen years, with zero accountability. It is not the case that the outcomes from this expenditure have been generally successful and threatening to the United States. In fact, there have been very few unambiguous successes, and many notable failures. China has spent around $200 billion on semiconductor manufacturing over the past twenty years without narrowing the gap with the United States. This would never be accepted in a country where there was transparency and public oversight over how tax revenues were spent. Still, these recurrent programs, no matter how wasteful, distort the investment decision-making of companies all over the world, create loss-making companies that destroy industry-wide profitability, and handicap healthy innovative approaches everywhere in the world. This expenditure harms our interests whether it fails or succeeds.

The WTO today has elaborate protocols that govern how much a country can subsidize agriculture, placing government support into “green box” (permitted), “yellow box” (subject to quantitative limits), and “red box” (prohibited) subsidies. However, there are virtually no limitations on direct or indirect subsidies of industry (so long as subsidies do not go specifically to the export process). We should begin work immediately on a far more restrictive set of protocols to limit the aggregate amounts and types of subsidy to industry and service providers, perhaps along the lines of what already exists in agriculture.
OPENING STATEMENT OF DAVID FINKELSTEIN, VICE PRESIDENT AND DIRECTOR, CHINA AND INDO-PACIFIC SECURITY AFFAIRS DIVISION, CNA

COMMISSIONER LEWIS: Dr. Finkelstein will speak about the military aspects of the China-U.S. competition. Dr. Finkelstein?

DR. FINKELSTEIN: Good morning, and thanks for the opportunity to participate and be in such distinguished company.

I was asked to address some of the larger order issues associated with the military dimensions of U.S.-China competition. And of course, the views I offer today are strictly my own.

First, there is a significant military component to the U.S.-PRC strategic competition. But as some of the Commissioners have already pointed out, it's important to remember that this competition is not defined by its military dimensions alone. Rather, it is taking place on multiple fronts:-- diplomacy, technological innovation, trade and economics, and so forth. Ultimately perhaps, this competition is about whose institutions, whose processes, and especially whose values will most greatly influence the international order going forward.

Second, the military component to this rivalry is not new. It goes back decades. Sometimes it has been in the forefront. Recall that the two countries have experienced both conflict and crises, and sometimes it has operated quietly in the background, such as during periods of defense cooperation.

Recently, of course, military competition has become more prominent. This is the result of increasing mutual distrust, as related in each country's strategic documents; a result of PRC military modernization continuing apace; and a result of Beijing employing the military element of national power more assertively, certainly close to home.

Third, the military competition is most intense in the Indo-Pacific region. Operationally, this is where the U.S. military predominance in maritime and aerospace domains is intercepting with the PRC's expanding offshore reach and increasing military capabilities. This is the one theater in which the possibility of a conflict, a kinetic engagement, or an unintended military incident is acknowledged by both sides.

The military competition in the Indo-Pacific is fundamentally a contest between two operational visions. Former Defense Secretary Gates put it succinctly when he said the U.S. seeks to, quote, ensure that America's military will continue to be able to deploy, move, and strike over great distances in support of our allies and our vital interests.

For its part, China's apparent vision is to ensure that no potentially hostile military, especially that of the U.S., can operate with impunity in the vicinity of the PRC, and that no military can engage the PLA or intervene in its operations without taking on great risk.

And of course, the military competition, especially in the Indo-Pacific, has a significant political-military dimension. Both militaries are being employed as one means among many to shape the regional architecture to achieve larger political, economic, and security objectives. Consequently, there is a competition underway between military diplomacies that is not to be ignored.

Of course, beyond the Indo-Pacific, there is a nascent global dimension to military competition, but for the moment at least, it is predominantly political-military in nature, encompassing issues such as access, shaping regional perceptions, and building partnerships.

A fourth major point touches on whether China characterizes the U.S. as a military adversary. This is a question the Commission specifically asked me to address.
And I point out, as Commissioner Kamphausen did earlier, that for many years Beijing's assessments of U.S. intentions toward the PRC at a strategic and political level have been highly cynical and predicated upon assumptions of hostility toward the CCP. Those steeped in PRC materials are familiar with the litany of judgments, chief among them being that the U.S. intends to contain China, intends to Westernize and split China, and that the U.S. will never accept the legitimacy of CCP rule.

At an operational level, publicly available information suggests that the PLA views the U.S. military as a potential operational adversary mainly in the context of maritime-centric contingencies around China's periphery. For example, the Taiwan contingency or scenarios in China's near seas involving U.S. allies.

One also presumes PLA planners likely account for the possibility of a range of contacts between PRC and U.S. forces, some hostile, some possibly not, in various Korea peninsula scenarios. I point out that the recent reorganization of the PLA was accomplished in part to better position the PLA to engage in contingencies around China's periphery. Moreover, trends in PRC weapons developments suggest the U.S. serves as the pacing threat.

The last major point, allies and partners. One can never underscore enough that working with allies and partners is critical to achieving a host of strategic objectives shared between the U.S. and many countries in the Indo-Pacific and beyond. We should assume Beijing will seize on any daylight between Washington and its allies and partners to undermine confidence in U.S. political reliability as well as raise questions about the efficacy of the U.S. Armed Forces as a credible security guarantor. We simply cannot take our allies and partners for granted.

So, to sum up and summarize, first, U.S.-PRC's strategic competition will continue to have an important military dimension, but it would be mistaken to view it as the dominant or sole dimension.

Next, military competition will be the most intense in the Indo-Pacific. This demands that the two sides focus on risk reduction and confidence-building measures in order to minimize miscalculations that could lead to unintended confrontation or conflict. We need to keep the lines of communication open.

Third, the two competing operational visions will persist, and of course, the U.S. must continue making the investments necessary to maintain its operational advantages. In this regard, the inclusion of the Pacific Deterrence Initiative in the Senate Armed Services Committee's version of NDAA '21 is very encouraging.

Fourth, we take our allies and partners for granted at great risk. They must be assured that the U.S. will be a good partner for them and not just ask that they be good partners for us.

And finally, over the long term --and this is, indeed, a long game --prevailing in strategic competition with China will require more than just military prowess. It will also demand an economically strong, technologically innovative, and cohesive America at home. It will demand a respected America abroad whose values resonate, and an America that embraces its traditional leadership role in the international system.

Thanks.
PREPARED STATEMENT DAVID FINKELSTEIN, VICE PRESIDENT AND DIRECTOR, CHINA AND INDO-PACIFIC SECURITY AFFAIRS DIVISION, CNA
June 24, 2020

David M. Finkelstein, PhD

Vice President, CNA, and Director, China & Indo-Pacific Security Affairs Division

Testimony Before the US-China Economic and Security Review Commission

The Chinese View of Strategic Competition with the United States
June 24, 2020
David M. Finkelstein, PhD
Vice President, CNA, and Director, China & Indo-Pacific Security Affairs Division
Testimony Before the US-China Economic and Security Review Commission

The Chinese View of Strategic Competition with the United States

Introduction

Commissioner Kamphausen, Commissioner Lewis, and other distinguished members of the Commission, many thanks for the opportunity to participate in this important hearing focused on Chinese views of strategic competition with the United States and China’s perceptions of the United States as a strategic competitor.

I have been asked to address some larger-order issues about the military dimensions of the US-China strategic competition. These include:

• How we should think about the military dimensions of US-China strategic competition
• Whether China characterizes the United States as a military adversary
• How the Chinese military assesses its performance

Four preliminary comments are in order. First, when discussing “China’s perceptions,” we are actually talking about the perceptions of the ruling Chinese Communist Party (CCP). Second, elucidating Chinese views and perceptions does not imply endorsement or agreement. Third, some aspects of these issues cannot be answered with high levels of confidence based solely on publicly available information. And fourth, the views expressed today are strictly my own.

The military dimensions of US-China strategic competition

The Commission asked me to address how we should think about the military dimensions of the US-China strategic competition.

Key Points: There have always been military tensions in the US-PRC relationship. In recent years, these tensions have increased as mutual strategic distrust has heightened and tension points between the two governments have grown. While significant, the military dimensions are not the sole defining aspect of this rivalry, which ranges across various issue sets.

Over the course of seven decades, the relationship between the People’s Republic of China (PRC) and the United States has had periods of cooperation, contention, crisis, and even conflict. Since the 1990s, relations have been characterized by cooperation in
some areas and contention and competition in others. Today, the relationship has devolved so that the competitive dimensions are more pronounced and more contentious than they have been in many years, overshadowing cooperative endeavors between the two countries.

There is an important military component to the US-PRC strategic rivalry. However, the competition between the two should not be defined solely by its military dimensions. Rather, US-PRC rivalry is taking place on several fronts: on the diplomatic front for traction in international affairs, for leadership in technological innovation, in trade and economics, and so forth. Ultimately, perhaps, the two are competing for whose institutions, whose processes, and—especially—whose values or preferences will most greatly influence the international order going forward. Moreover, this competition is taking place in the context of two economies that are still deeply intertwined.

The military component of this rivalry predates the current downturn in relations, going back decades. In retrospect, there have always been military tensions in the relationship. Sometimes the military dimensions have been in the forefront, and sometimes they have operated in the background. Recall that within one year of the founding of the PRC, the two countries were at war in Korea (1950–1953). However, during the 1980s, the US and China engaged in extensive military cooperation against two former common antagonists: the Soviet Union and the Socialist Republic of Vietnam.¹

Military tensions in US-China relations have become more prominent in the past few years. This is primarily the result of increasing mutual strategic distrust on a host of issues, Chinese military modernization continuing apace, Beijing employing the military element of national power to assert itself, and the US defense establishment refocusing attention on the Indo-Pacific region. Overall, military tensions are reflective of larger strategic tensions, but are the most acute in Asia.²

**Military competition in the Indo-Pacific region**

*Key points:* US-PRC military competition is the most intense in the Indo-Pacific, where a contest between two operational visions is taking place. The Indo-Pacific is where traditional US military predominance in the maritime and aerospace domains and China’s expanding offshore reach and increasing military capabilities are intersecting.

---

¹ During the US’s conflict in Vietnam (1965–1975), Beijing provided military support to Hanoi’s forces, and there have been various crises with military components, such as the Quemoy-Matsu Crisis (1954), the Second Taiwan Strait Crisis (1958), and the two Taiwan Strait crises in 1995 and 1996. See David M. Finkelstein, *The Military Dimensions of US-China Security Cooperation: Retrospective and Future Prospects*, (Alexandria, VA: CNA, August, 2010).

Operationally, US-China military competition is the most intense and most pronounced in the Indo-Pacific region. In this theater, more than in any other, the possibility of conflict, a kinetic engagement, or an unintended military incident is acknowledged by both sides. PRC forces are the most efficacious in this theater since they operate close to home under the umbrella of their land-based assets. The Indo-Pacific is also where the military forces of the two nations are operating in proximity, where mutual strategic distrust is the greatest, and where the risk of miscalculation is the highest.3

The military competition between China and the US in the Indo-Pacific is fundamentally a contest between two operational visions. Former Defense Secretary Robert Gates put it succinctly for the American side when he stated that the US seeks “to ensure that America’s military will continue to be able to deploy, move, and strike over great distances in defense of our allies and vital interests” in the region.4 For its part, China’s apparent vision is to ensure that no potentially hostile foreign military—especially that of the United States—can operate in the vicinity of the PRC with impunity and that no military can engage the People’s Liberation Army (PLA) or intervene in its operations without confronting great risk.

To achieve its operational vision, China is developing military capabilities that expand its strategic depth beyond its shores while seeking to degrade American military advantages. The PLA is also transforming itself to be better postured to fight as a joint force offshore. Chinese analysts focus on the maritime, aerospace, cyber, and outer space domains as playing prominent roles in this contest of capabilities.5

The activities associated with these two competing operational visions are currently the essence of the military competition between China and the United States. These two competing operational visions are driving force modernization decisions, deployment decisions, organizational and doctrinal developments, technological innovation, regional military diplomacy, and myriad other issues within the respective defense establishments of the US and the PRC.

---

3 This reality is why the Pentagon has made confidence-building measures and risk reduction the most important dimension of US-China military relations and why the PLA speaks of making US-PRC military relations a “stabilizing factor” in the overall relationship.


US-China military competition in the Indo-Pacific also has a significant political-military dimension. The civilian leadership in both countries is employing their militaries to support other governmental entities in shaping the region to achieve political, economic, and security objectives. This includes promoting their respective visions of how regional security affairs should be managed and organized. Cognizant of the operational (and political) advantages that accrue to the US from its alliances and defense partnerships, China is also employing political, economic, and military means to attempt to weaken those relationships. Consequently, the military competition between the Pentagon and the PLA also engenders competing military diplomacies.

The military competition in the Indo-Pacific also has a perceptual component of competing narratives. Each defense establishment is advancing its own narrative of its roles and capabilities, as well as the roles and capabilities of the other, in the region. For their parts, the countries in the region are assessing US and PRC military capabilities as well as making judgments about the political will of Washington and Beijing to stay engaged diplomatically, economically, and militarily. These assessments have the potential to affect the policy choices of third parties.

The global dimensions of US-China military competition

Key point: For the near term, the nature of US-China military competition outside the Indo-Pacific region will be predominately political-military.

The global dimension of the US-China military competition has garnered more attention over the past decade, primarily because Chinese national security interests have expanded geographically to comport with globalized economic interests. This expansion has in turn impelled the PLA’s emergence as an incipient expeditionary force. The Commission’s hearing on February 20, 2020, entitled “China’s Military Power Projection and US National Interests” covered many of the issues and implications associated with the PLA’s increasing global presence.

For the near term, the nature of US-China military rivalry outside the Indo-Pacific region will be predominately political-military. It will focus largely on issues such as securing access for military forces (places and bases), shaping regional perceptions, seeking influence, pursuing sea lane (SLOC) protection, and especially strengthening or building regional security partnerships (military diplomacy). Over the longer term, should the PLA develop the capabilities to project and sustain conventional combat power far from home (which is currently an extremely challenging proposition for Beijing), the nature of the military competition outside the Indo-Pacific could take a very different form.

A strong military for a rich nation

Key point: Beyond the issue of the US-China dynamic, the Chinese party-state views the possession of a strong and capable military as an end in itself; it is integral to the “China dream” of the “great rejuvenation of the Chinese nation.”
Since the turn of the century, Beijing has devoted considerable resources to transforming the PLA into a military that can serve the needs of a rising China. The party-state has come to view a strong, capable PLA as a critical prerequisite for validating China’s transition to major power status in the international system, and as necessary for securing interests close to home and beyond.\(^6\) To accompany the party’s mid-century goal of becoming a fully developed nation, Beijing has declared it also aspires to field “a world-class military” by that time.\(^7\) The imperative of a “strong military” (强军) for a rising China is a *leitmotif* of the Xi Jinping era. The “China dream” is also the “dream of a strong military”—rhetoric reminiscent of Japan’s Meiji modernizers (1868–1912) who called for a “rich nation and strong military” (*fukoku kyôhei*; 富国强兵).

In addition to the rising importance of the armed forces in general, Beijing’s unprecedented emphasis on maritime security, and especially the need to build a powerful navy, represents another significant transformation in Chinese thinking about military affairs that feeds into the larger US-China competition.\(^8\) The increasing size, expanding operational reach, and improving capabilities of the PLA Navy provide visible symbols of potential coercive power in China’s neighborhood, brings it into contact with operating US forces and those of other militaries in the region, and facilitates the PLA’s presence far from home.

**The US as a strategic and political challenge and potential operational adversary**

*The Commission asked me to address whether China “characterizes the US as a military adversary,” and how such views of the US have evolved over time.*

**Key points:** Strategically, the US has long been viewed by the party-state with suspicion; it is seen as determined to challenge a host of Beijing’s

---

6 The party’s evolving concepts of the role of the military can be traced over time. For example, Hu Jintao issued his “Historic Missions of the Armed Forces in the New Period of the New Century” in 2004. Among other things, it highlighted the need for an expeditionary PLA to secure China’s expanding economic interests. By 2008 the PLA Navy was conducting its first anti-piracy patrols off the Horn of Africa. By mid-decade, the PLA Navy promulgated a new naval strategy with an out of region component ("near seas defense, far seas protection" 近海防御, 远海护卫). A significant statement of intent was included in the work report of the 18th Congress of the CCP (2012), which declared, “Building a strong national defense and a powerful armed forces that are commensurate with China’s international standing and meet the needs of its security and development interests is a strategic task of China's modernization drive.” In 2017, the PLA Navy established its first overseas naval base in Djibouti.

7 The Chinese have been vague on what exactly this means, but one can surmise that the aspiration is that the PLA will be ranked among the most operationally capable militaries of the world along with the US, Russia, UK, EU, and Japan.

8 The 2015 edition of Beijing’s defense white paper declared, “The traditional mentality that land outweighs the sea must be abandoned, and great importance has to be attached to managing the seas and oceans and protecting maritime rights and interests.” While visiting unidentified PLA Navy installations on May 24, 2017, the following was attributed to Xi Jinping: “Building a strong modern navy is an important symbol of building a world-class military, a strategic support for building [China into] a maritime power, and an important part of realizing the Chinese national dream of a great rejuvenation.” https://www.xuexi.cn/lgpage/detail/index.html?id=2886891037448290706.
objectives at home and abroad. Operationally, PLA planners undoubtedly envision scenarios in which the two militaries could come to blows.

The US as a strategic and political challenge to PRC national objectives

Since the founding of the PRC, the United States has figured prominently in how the party-state assesses its external security as well as challenges to its political security—meaning the security of the CCP. Party-state officials have long been cognizant that few nations besides the United States possess the wherewithal and potential to either thwart or advance Beijing’s various foreign and domestic interests. This remains the case today.

For many years, long predating the current downturn in relations, the party-state’s assessments of larger-order US aims and intentions toward China have been highly cynical and predicated upon assumptions of hostility towards the CCP. Among others, these assessments include:

- The US intends to “strategically contain” China’s rise;
- The US intends to “Westernize China” and keep it divided;
- The US intends to keep Taiwan separated from the mainland;
- The US refuses to accept the legitimacy of the CCP;
- The US is instigating “color revolutions” aimed at weakening the regime;
- The US is using military alliances to encircle the PRC;
- The US is impinging on Chinese “core interests”; and
- The US is putting military pressure “on China’s doorstep.”

Notably, as the PLA launched its unprecedented reform enterprise after the Third Plenum of the 18th Central Committee in 2013, these party-sanctioned judgments, and others, were deployed and promulgated for the consumption of the Chinese armed forces as one reason among several why a very painful and dislocating set of military reforms was necessary. Specifically, the PLA claimed that hostile foreign forces posed a potential

---

9 PRC government officials have no problem publicly calling out the United States by name when specific policies cause displeasure, such as Taiwan arms sales or freedom of navigation operations. Traditionally, however, the public statements of PRC government officials and publicly released PRC government documents rarely mention the United States by name in connection with the judgments above. Instead, oblique references are used and euphemistic phrases are enlisted—phrases such as “hostile Western forces,” “certain Western countries,” “some large foreign countries,” “some countries from outside the region,” “some hegemonic nations,” and the like. Nevertheless, it is usually clear from context that the United States is being referred to. As US-PRC rancor over COVID-19 has ratcheted up, these diplomatic niceties seem to be breaking down.

---
threat to China’s sovereignty, to China’s aspirations for modernization, and possibly even to the regime itself. Consequently, at a strategic and political level, the PLA leadership and the PLA political work system, following the party’s lead, portray the United States to the Chinese defense establishment as having fundamentally malevolent intentions, and have done so for many years.

The United States as an operational opponent for the PLA

Key point: Publicly available materials suggest that the PLA views the US armed forces as an operational adversary mainly in the context of contingencies around China’s periphery.

Beyond Beijing’s larger order strategic and political concerns about the minatory intentions of the United States, one can infer from public domain materials that the PLA also views the US military as a potential operational opponent to be planned against, at least in various contingencies around China’s periphery in the Indo-Pacific.

One group of PLA analysts wrote that the most likely threat of war for China is a conflict in the maritime domain, and so the PLA must prepare “to face relatively large-scale and high intensity local wars in the maritime direction under the backdrop of nuclear deterrence.” Putting a finer point on this judgment, they claim the main axes for possible conflict are “in the eastern and southern maritime directions. In these directions, real and potential operational opponents are the most prominent and the threats are also the greatest, especially the existence of a powerful, adversarial military alliance.”

---


11 As examples, see: Commentator article in Qiushi, "Strive to Build a People’s Army That Obeys the Party’s Command, Is Able to Fight and Win, and Has a Good Style —Celebrate the 87th Anniversary of the Founding of the PLA," No. 5, July 31, 2014; Huanqiu Wang, "Admiral Sun Jianguo: China is in Danger of Being Invaded; Using Struggle to Seek a Win-Win for China and the United States," March 2, 2015; Jiefangjunbao commentator article, "Take the Endeavor for Winning at War as the Greatest Duty —Second Talk on Seriously Studying Chairman Xi’s Important Speech During His Meeting with Responsible Comrades at Various Departments of the CPC Organ,” January 13, 2016; Jiefangjunbao commentator article, "Peace Must Be Backed Up with Great Power—First Talk on Studying and Implementing Chairman Xi’s Important Speech at the Plenary Meeting of the PLA Delegation,” March 15, 2014; and Jie Xinping: “Start the New March in the Course of Military Strengthening and Development—Deeply Study and Implement Chairman Xi’s Important Expositions on National Defense and Armed Forces Building,” Jiefangjunbao, February 17, 2014.

12 PLA Academy of Military Science Military Strategy Department, Science of Military Strategy, (Beijing: Military Science Publishing House, December 2013), pp. 100-101. 中国人民解放军事科学院军事战略部,《战略学》（北京：军事科学出版社，十二月，2013）. This volume is often cited by foreign analysts of the PLA; however, although the authors are highly credible military professionals whose views are respected within the Chinese defense establishment, the volume does not represent official PRC or PLA policy.
What “maritime direction” contingencies involving US forces might that include? Certainly these would include a Taiwan contingency, which is still considered the PLA’s priority planning scenario (the “main strategic direction,” in the parlance of the PLA). 13

Presumably, assumptions about US military intervention factor into the PLA’s Taiwan plans. 14 These contingencies would also presumably include the maritime disputes that involve China in the South China Sea and the East China Sea since two US allies are involved—the Republic of the Philippines and Japan. Of note, within the last two years, the US secretaries of state and defense have publicly stated that any attacks on those allies over contested claims in the South and East China Seas are covered under US defense treaty obligations. 15 These contingencies might also include unplanned kinetic engagements between PRC and US naval or air forces in China’s near seas resulting from the escalation of a notional incident in which the two militaries operate in proximity. Beyond maritime contingencies, PLA planners likely account for the possibility of a range of contacts between Chinese and US forces—some hostile, some possibly not—in the various scenarios attendant to the Korean Peninsula, scenarios ranging from regime implosion in the north to full out north-south conflict.

Overall, the sense one gets from publicly available materials (an admittedly constrained dataset) is that the PLA views the US armed forces as an operational adversary mainly in the context of contingencies around China’s periphery, and that they view the US armed forces as both a contingency-based (scenario-specific) and capabilities-based (combat power) threat. Certainly, the types of capabilities the PLA is developing would suggest the same.

---


14 On May 20, 2020, the PRC Ministry of National Defense spokesperson made the following statement in denouncing Secretary of State Pompeo’s congratulatory message to Taiwan President Tsai Ing-wen on the occasion of her inauguration: “The Chinese People’s Liberation Army (PLA) has the strong will, full confidence and sufficient capability to thwart any form of external interference and any separatist attempts for ‘Taiwan independence.’” (Emphasis added,) http://eng.mod.gov.cn/news/2020-05/20/content_4865380.htm.

15 During a visit to Manila in March 2019, Secretary of State Pompeo stated: “As the South China Sea is part of the Pacific, any armed attack on Philippine forces, aircraft, or public vessels in the South China Sea would trigger mutual defense obligations under Article IV of our Mutual Defense Treaty.” During a visit to Tokyo in February 2017, former Defense Secretary Mattis said, “The Senkaku Islands are under the administration of the government of Japan, and fall within the scope of article five of the Japan-US Security Treaty.” See, respectively, Financial Times, “Pompeo Assures Filipinos of Mutual Defence in South China Sea,” March 1, 2019, https://www.ft.com/content/d7bee564-3bf8-11e9-b72b-2c7f526ca5d0; and “Joint Press Briefing by Secretary Mattis and Minister Inada in Tokyo, Japan,” February 4, 2017, https://www.defense.gov/Newsroom/Transcripts/Transcript/Article/1071436/joint-press-briefing-by-secretary-mattis-and-minister-inada-in-tokyo-japan/.
Chinese assessments of progress

The Commission asked me to offer high-level comments on how the PLA assesses its progress in meeting its objectives.16

Key points: While acknowledging its many shortcomings, the PLA seems to believe it is making progress in becoming a force capable of credibly engaging in regional conflicts around its periphery. However, the question of how the PLA assesses its own progress may be less relevant than how other countries in China’s neighborhood assess PLA progress.

The PLA acknowledges it is still grappling with operational and systemic issues that have long bedeviled it as a warfighting organization and institution. At the Commission’s hearing on February 7, 2019, Lieutenant Colonel Dennis Blasko (USA, Ret.) provided testimony entitled “PLA Weaknesses and Xi’s Concerns about PLA Capabilities.” That testimony addressed myriad problems the PLA bemoans it faces within its force.17

Challenges the PLA acknowledges it faces include (but are certainly not limited to):

- Tactical-level units (“grassroots units”) whose operational capabilities are not up to standard
- Commanding officers whose operational judgments are wanting
- Problems integrating new equipment into units
- Training that is less realistic than it should be
- The quality or educational levels of some officers and non-commissioned officers (NCOs) and the NCO system itself
- The efficacy of the Professional Military Education system
- Policies and processes that are outdated or that inhibit the generation combat power

There is no reason to believe that these or other such challenges have gone away altogether, since the PLA continues to discuss them. Yet, the PLA would argue they are working on these and other self-perceived shortcomings as part of the ongoing reform enterprise. Over the past year and a half, PRC and PLA media reports have touted redoubled efforts to improve the realism of combat training.18 In November 2019, the

16 This issue stretches the limits of public domain information, and one should be wary of reaching firm conclusions.
Central Military Commission met specifically to deal with problems in “grassroots units.”

The PLA media is currently giving coverage to the “Third Big Campaign” (第三大战役) of the military reform effort, which is aimed at making much needed changes to the “military policy system” (军事政策制度). Although information describing these challenges and mitigating initiatives reside in the public domain, it is extremely difficult to validate either the depths of the problems or the claims of success in addressing them. Over the years, however, the PLA has shown itself to be a learning organization.

From a higher-order perspective, the PLA does not yet consider itself an across-the-board operational peer of the US armed forces, or likely of other highly advanced foreign militaries. That is the PLA’s implied objective set for mid-century. Nor has the PLA announced, at least to date, that it has achieved its key objectives set for the year 2020, which are (1) “basically achieving mechanization,” (2) “making significant progress in informatization,” and (3) enhancing “strategic capabilities.” They still have a few months to make that assessment.

Nevertheless, the PLA seems to believe it is making progress in retooling itself—institutionally, organizationally, doctrinally, technologically, and with weapons and platforms—to become a force capable of credibly engaging in regional conflicts around its periphery, especially in an information-intensive fight in the maritime domain. At the recently held National People’s Congress (May 2020), PLA delegates acknowledged achievements to date, not just the ongoing challenges.

Certainly, US government


20 The PLA refers to the reorganization of the national- and theater-level leadership and command and control systems as the “First Big Campaign” of the reform, and the restructuring and rebalancing of the services and their units as the “Second Big Campaign.” “坚信！军队改革‘第三场战役’的胜利就在前方” (“Hold Firm! The Victory of the ‘Third Campaign’ of Military Reform is Ahead”), November 20, 2018, http://www.81.cn/xue-xi/2018-11/20/content_9351678.htm. This third major tranche of reforms is intended to update a sweeping set of policies, regulations, directives, standard operating procedures, and business practices that govern how the PLA functions both operationally and administratively. It is a huge undertaking, and PLA commentators state that changing policies and practices may actually be tougher than changing organizational structures.

21 China’s National Defense in the New Era. Coverage of comments by Xi Jinping and PLA delegates at the National People’s Congress in May 2020 suggested that the COVID pandemic may be negatively impacting progress in some areas.

22 See, for example, “打赢改革强军的攻坚战——军队代表委员热议将深化国防和军队改革进行到底” (“Fighting to Win the Arduous Battle of Reforming and Strengthening the Military——Military Representatives to Enthusiastically Carry out the Deepening National Defense and Military Reform to the
assessments of PLA capabilities in the public domain paint a picture of a force whose operational reach and overall capabilities across the services continue to improve. At bottom, the PLA does not have to be an operational peer of the US military across the board to cause serious problems for the US military, especially in scenarios around China’s periphery.

From the perspective of US-China strategic competition, the question of how the PLA assesses its own progress may be less relevant than how other countries in China’s neighborhood assess PLA progress. The PLA already has one of the fastest modernizing militaries in the region. It possesses the biggest navy, with some 300 ships and with a second aircraft carrier commissioned in late 2019, and it has the largest air force. If a country shares a land border with China, it is aware that ample ground force units are available to Beijing, even with the recent downsizing of the PLA Army. These realities alone already put a good deal of potential coercive power—and potential combat power—in Beijing’s hands relative to most countries in the region, regardless of where the PLA is on its timetable for modernization. This is also why US reliability as a partner is being perpetually assessed by countries in the region, which brings us to the issue of allies and partners.

Alliances and partnerships in the Indo-Pacific

*The Commission invited me to address any other matters I believe important to the topic of US-China strategic competition.*

**Key Points:** As US-PRC rivalry plays out, much is at stake for the countries of the Indo-Pacific—especially for US defense partners and allies. Beijing

---

23 Office of the Secretary of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2019* (May 2, 2019). See especially Chapter 2, “Force Modernization Goals and Trends.” The key judgments in this chapter include the following: “In 2018, the PLA continued to implement structural reforms, make progress on fielding indigenous systems,” and “PLA capabilities and concepts in development are strengthening China’s anti-access/area denial (A2/AD) and power projection capabilities.”

24 In its National Defense Program Guidelines (NDPG), Japan assessed that China has achieved “rapid improvement in its military power in qualitative and quantitative terms” and that these improvements, along with a lack of transparency, “represent a serious security concern for the region including Japan.” *National Defense Program Guidelines for FY 2019 and Beyond*, December 18, 2018, https://www.mod.go.jp///approach/agenda/guideline/2019/pdf/20181218_e.pdf.
will be quick to exploit any daylight between the US and its regional partners. We need to remind ourselves that US allies and defense partners are vital and simply cannot be taken for granted.

Today, countries in the Indo-Pacific, including some US allies and partners, are watching tensions in the US-China relationship with intense interest and varying degrees of nervousness. Much is at stake for them. Some find themselves in the uncomfortable position of looking to China for their economic security while looking to the United States for their military security. Consequently, many Indo-Pacific countries are engaged in hedging, and none are keen about the prospect of having to choose between the two countries as problems between Beijing and Washington play out and potentially intensify.25

Meanwhile, Beijing continues to decry US military alliances as remnants of the Cold War. It assumes the only purpose of US alliances and partnerships is to contain China. As a result, Beijing will seize on any daylight between the US and its partners to undermine confidence in the political reliability of the United States. This includes China exploiting US rhetoric and potentially contentious issues between the US and its allies. While doing so, its diplomats and other officials will continue to propound the need for “new type security partnerships.”26

Beijing also seeks ways to question the efficacy of US military forces in order to degrade confidence in Washington as a security guarantor. This tactic was on full display this winter and spring in the PRC media’s portrayal of the impact of COVID on US forces in general and in the Indo-Pacific in particular.

We should assume that China will continue to put pressure on allies or partners who support US military initiatives that Beijing views as detrimental to its interests. China’s economic and political actions against Seoul in 2017 in response to its decision to allow the US to deploy THAAD27 missile defense batteries in the ROK is a good example. All

---


27 Terminal High Altitude Area Defense
of these approaches by China will require continual whole of US government efforts to reassure allies and partners.

**Concluding comments**

Looking forward, it is clear that a competition-dominant dynamic will define US-China relations for some time to come. This dynamic will include a significant military component that has both operational and political-military dimensions. However, we should keep in mind that these defense dimensions will not singularly define relations between the two countries, or the contentious issues that must be managed. Military rivalry will be but one set of challenges that include economics, diplomacy, technology, innovation, and trade that will demand attention. Additionally, the possibility of US-PRC cooperation should not be dismissed when doing so serves US national interests.

Geostrategically, military issues will be the most pronounced in the Indo-Pacific. In that part of the world, it will be critical for both the US and the PRC to focus on risk-reduction and confidence-building measures in order to minimize miscalculations that could lead to unintended confrontation or conflict. In recent years, across administrations, the US Department of Defense has made risk management a mainstay of its approach to relations with the PLA. The Commission might consider assessing the range of efforts in place or underway, including their efficacy and (especially) how the PLA has engaged on these issues.

The contest between the two competing operational visions for the Indo-Pacific discussed earlier will persist. In response, the US must continue making investments, pursuing technological innovation, and adjusting operational concepts to maintain its traditional operational advantages, credible deterrence, and ability to reassure allies and partners in the face of a modernizing PLA. This imperative is captured in the 2018 *Summary of the National Defense Strategy*. The question is whether such a focus can be sustained given competing demands and constrained resources. In this regard, the inclusion of the Pacific Deterrence Initiative (PDI) in the SASC version of NDAA 21 is encouraging.  

Political-military issues must be given equal attention as operational concerns, especially US relations with allies and partners in the region. US allies and partners are critical to a host of strategic-level objectives shared between the US and many of the countries in the Indo-Pacific region. Along with key institutions such as the Association of Southeast Asian Nations (ASEAN), US defense partners represent a network of like-minded nations that can undergird the regional order, and that can set norms and rules to provide a bulwark against challenges to that order. Operationally, allies and partners will remain critical enablers of the access and sustainment that US forces need to overcome what Pacific planners refer to as “the tyranny of distance.” The US takes allies and partners for granted.

---

at great risk. They must be assured that the US is a good partner for them, not just that they are good partners for the US.

Over the long term, prevailing in long-term strategic competition with China will require more than maintaining American military prowess. Among other things, it will also demand an economically strong, technologically innovative, and cohesive America at home; a respected America abroad whose values resonate; and an America that embraces its traditional leadership role in the international system.
OPENING STATEMENT OF JOHN POMFRET, AUTHOR AND FORMER BEIJING BUREAU CHIEF, WASHINGTON POST

COMMISSIONER LEWIS: Thank you, Dr. Finkelstein.
We'll now hear from a person who was actually in China during the Tiananmen Square occurrence. John Pomfret of California will address the ideological and diplomatic relations and competition between the United States and China. Mr. Pomfret?

MR. POMFRET: Thank you very much. It's a great honor to appear with such distinguished colleagues and actually old friends.

On November 29th, 2012, two weeks after his appointment as the new General Secretary of the Chinese Communist Party, Party Leader Xi Jinping visited the vast National Museum of Chinese History on Tiananmen Square. Xi and the rest of the grim-faced Standing Committee of the Politburo toured an exhibition titled The Road to Rejuvenation about China's history from the Opium War to the present day. It was there that China's new leader revealed his, and by extension the Communist Party's, profoundly tortured view on the United States.

As he stood at the threshold of an exhibition that offered not a single word of praise for any of the Westerners who had helped China modernize over the last 200 years, Xi declared that the Chinese dream constituted a great revival of the Chinese nation. That the President of China and the head of the Communist Party would couch his hopes for his country in quintessentially American terms, a dream, at the doorstep of a deeply xenophobic exhibition, illustrates the messy complexity of China's response to, and its view of, its strategic competition with the United States.

China's power, as we've noted, has immeasurably increased over the last 50 years of economic reforms. But if anything, since the rise of Xi Jinping in 2012, the Communist Party has acted as though the threat posed by the United States is intensifying, not decreasing, across a vast array of fields, including ideology, diplomacy, standard-setting in the technological realm, the military, and the media.

China is engaged in a full-scale strategic competition with the United States. Chinese thinkers and spokespeople like to accuse Westerners, particularly Americans, of what they call Cold War thinking. But years before a growing percentage of Americans had begun to worry about the strategic challenge presented by Beijing, China's government had already entered a new Cold War with the United States.

Scholars can legitimately debate when the Chinese government joined this battle. There are those who posit its beginning with Xi's rise in 2012. Others find the 2008 financial crisis as a trigger for greater Chinese ambition. I personally look to the Tiananmen Square crackdown of 1989 as a key inflection point that allowed a powerfully anti-Western, anti-liberal faction within the Communist Party to rise to prominence, defeating a more open wing led by deposed Party Chief Zhao Jiang.

To be sure, throughout the 1990s, there were those at the heart of China's system—the name of China's then-Premier Zhu Rongji comes to mind—who continued to push for a more pluralistic China. But within Chinese security services, the People's Liberation Army, and its state-owned enterprises—I guess you could call these China's versions of the deep state—a paranoid, virulently anti-American view of the world took root. From my perspective, Xi's rise constitutes not so much an abrupt change in policy, but a declaration of victory of one world view over another and the end for now of any hope for a more liberal China.

China's government views its strategic competition with the United States as rooted in a
battle between two ideologies, China's version of Leninism versus Western liberalism. China has been opportunistic in fighting this battle. China's aggressiveness increased considerably following the global recession of 2008, when China saw the United States as a wobbly power.

Similarly, during today's fight against COVID-19, China has sought to draw a distinction between its system and what it claims to be its successful suppression of the pandemic with the chaotic approach of America's democracy.

China has launched a battle against Western ideas both inside and outside of China. In April 2013, the General Office of the Chinese Communist Party issued a communique ordering heightened vigilance against American ideas. The communique, called Document No. 9, listed seven political perils, including universal values and a free press. The document described China's ideological situation as, and I quote, a complicated, intense struggle. This struggle has now spread to Chinese universities where university presidents have been tasked to wage war on American-inspired ideas.

The Party under Xi has come up with all sorts of slogans to take this ideological battle with Western ideas to the international arena. In 2014, Xi began floating the idea of the China Solution, "Zhongguo Fang-an", to the problems of the world, which involve adopting a combination of China's authoritarian political system and China's mercantilist economic system. Soon after, Xi proposed another idea which he called "a community of common destiny for mankind."

These proposals mark a shift from the old communist doctrine of hiding China's strength and biding China's time to one that involves stepping in where the U.S. steps back. It stresses China's role in shaping international organizations and initiatives, insisting on China's right to be heard in global affairs.

So, China has invested billions of dollars in building this right to be heard across the world, creating a massive media organization called the Voice of China, which incorporates TV, radio, print, and social media. Parenthetically, on June 11th, Twitter announced it had deleted almost 170,000 accounts tied to a Chinese operation to spread false information about the COVID-19 virus, political dynamics in Hong Kong, and other issues.

In the diplomatic arena, these days China's representatives are now eager to attack the United States. China's media has portrayed these diplomats as what they call Wolf Warriors, practicing wolf diplomacy, a reference to a 2015 Chinese action movie.

Following the slaying of George Floyd in Minneapolis in May, Chinese spokesmen began appropriating Floyd's dying words, "I can't breathe," when asked to respond to U.S. criticism of Chinese moves in Hong Kong and elsewhere.

Cyberspace is another important battlefield, the Chinese view. China has a radically different perspective on the internet and cyberspace than the one generally advocated by the U.S. Government. China has used diplomatic efforts to enshrine the concept of what it calls cyber-sovereignty in international organizations. This position is in direct contrast to the American vision that cyberspace should remain an open, global platform.

It's not clear to me how successful Beijing is going to be as it seeks to advance across a broad front that spans the South China Sea, the virtual realm, space exploration, the North and South Poles, just to name a few arenas where it has joined in strategic competition against the United States.

China's soft power has taken a significant hit from its woeful handling at the outset of the coronavirus pandemic. China's wolf diplomacy has alienated governments, media, and the general population across a significant portion of the globe. China's efforts to create a computer
chip to rival U.S. products have also so far failed. And Chinese analysts have actually warned about what they call strategic overdraft.

However, it would also be a mistake to underestimate China's ability to rise to this challenge. China's government has a remarkable capacity to surprise its competitors, including those in the United States.

Thank you for your time.
PREPARED STATEMENT OF JOHN POMFRET, AUTHOR AND FORMER BEIJING BUREAU CHIEF, WASHINGTON POST
On November 29, 2012, two weeks after his appointment as the new general secretary of the Chinese Communist Party, Xi Jinping, along with the rest of the all-powerful seven-member Standing Committee of the Politburo, visited the vast National Museum of China in Tiananmen Square. Cloaked in the dark suits of the party elite, the seven men toured an exhibition titled “The Road to Rejuvenation,” about China’s history from the Opium War to the present day. It was there that China’s new leader revealed his—and by extension, the Communist Party’s—profoundly tortured views on the United States.

As he stood at the threshold of an exhibition that offered not a single word of praise for any of the countless Western businessmen, scientists, soldiers, philosophers, diplomats, missionaries and educators who had helped China modernize from the 19th to the 21st centuries, Xi declared that the “Chinese dream” constituted a “great revival of the Chinese nation.” That the president of China and the head of its Communist Party would frame his goals for his country in quintessentially American terms, a dream, at the doorstep to a deeply xenophobic museum exhibition illustrates the messy complexity of China’s response to and its view of its strategic competition with the United States.
China’s power has measurably increased. It now boasts the second highest gross domestic product of any nation in the world. Its navy is capable of carrying out complex evacuation operations as far away at Northern Africa. But if anything, since the rise of CCP boss Xi Jinping in 2012, the Communist Party has acted as though the threat posed by the United States is intensifying. Across a vast array of fields, including ideology, diplomacy, standards-setting in the technological realm, the military, and the media, China is engaged in a full-scale strategic competition with the United States. Chinese thinkers like to accuse Westerners, and particularly Americans, of “Cold War” thinking. But years before a large percentage of Americans began to worry about the strategic challenge presented by China, China’s government had already entered a new Cold War with the United States.

China’s government views its strategic competition with the United States as rooted in a battle between two ideologies—China’s version of Leninism versus Western liberalism. China has been opportunistic in fighting this battle. China’s aggressiveness increased considerably following the global recession of 2008 when China saw the United States as a wobbly power. By February 2010, even Europeans were wondering how to respond to China’s “strident rise.”¹ Similarly, during today’s fight against COVID-19, China has sought to contrast

what it views as American failures to fight the disease with what China claims to be its successful suppression of the pandemic.

Starting in 2008, and accelerating since 2012 when Xi Jinping took office, China has launched a battle against Western ideology both inside and outside of China. As with many of China’s ideological wars, its main battlefield was domestic. In April 2013, the General Office of the Chinese Communist Party issued a communique ordering heightened vigilance against American ideas. The communique, called Document Number 9, listed seven political “perils.” Among them were the growth of civil society, criticism of the party’s mistakes, the promotion of “universal values,” a free press, and a privatized economy. The document described China’s ideological situation as “a complicated, intense struggle” and framed the purveyors of these “false ideological trends” as enemies. Again, the party—as it has done in the past—declared war on American ideas.

In the fall of 2014, Document Number 9 was followed by Document Number 30, which ordered universities cleansed of Western-inspired liberal ideas. Party secretaries of universities were summoned to Beijing to study the document and directed, the state-run press reported, to “enhance their sense of danger and resolutely safeguard political security and ideological security.” In November 2014, the Liaoning Daily, a party newspaper in northeast China, drew nationwide attention when it declared that ideological laxity was rampant in Chinese
universities. Chinese academics, the newspaper complained, were comparing Chairman Mao to an emperor, praising Western notions such as the separation of powers, and advocating “that China should take the path of the West.”

The party under Xi has come up with all sorts of slogans to take this ideological battle with Western ideas to the international arena. In March 2014 in Germany and then again at the Sixth BRICS summit in July of that year, Xi floated the idea of “the China solution” to the problems of the world, which involved adopting a combination of China’s authoritarian political system and China’s mercantilist economy. Almost simultaneously, in 2013, Xi proposed the idea of an “Asian-Pacific Community of Common Destiny.” Two years later, this vision had expanded to “A Community of Common Destiny for Mankind,” which he outlined to the United Nations General Assembly.

As the analyst David Kelly has noted, the China Solution and the Community of Common Destiny are part of a shift from Deng Xiaoping’s doctrine of “hiding and biding” to one that involves stepping in where the US steps back. It stresses China’s role in shaping international organizations and initiatives, insisting on China’s “right to be heard” in global affairs.²

China has invested billions of dollars in building this “right to be heard” across the world, creating a massive organization called “Voice of China” which incorporates the international-facing wings of China Global Television, the Xinhua News Agency, China Radio International and the China Daily, among other publications. The Xinhua News Agency is now the largest wire service in the world in terms of bureaus and correspondents. China’s government also subsidizes Chinese-language media outlets around the world and has been particularly aggressive in the United States, Australia and Canada. China seeks the ability to continue to dispatch as many reporters to the United States as it sees fit while limiting access to China by American correspondents and the websites of Western media outlets.

Much of the work on media was taken over by the United Front bureaucracy of the Chinese Communist Party during a significant reorganization in 2018. Xi Jinping has promoted the work of that key bureaucracy. As he said in a 2015 speech, “the United Front … is an important magic weapon for strengthening the party’s ruling position … and an important magic weapon for realizing the China Dream of the Great Rejuvenation of the Chinese Nation.” China has viewed social media as a key component of this ideological battle with America. On June 11, 2020, Twitter announced that it had deleted more than 170,000 accounts tied to a Chinese state-linked operation that were spreading
deceptive information around the COVID-19 virus, political dynamics in Hong Kong, and other issues.³

China views its campaign to reunite with Taiwan and the years-long demonstrations in Hong Kong as critical aspects of its strategic competition with the United States. Numerous Chinese officials have blamed “hostile foreign forces,” the CIA, and “Western black hands” for the unrest in Hong Kong. The recent move by China’s National People’s Congress to approve a resolution to introduce sweeping security legislation for Hong Kong is part of China’s campaign to empower its security services to crack down on Hong Kong pro-democracy activists and link them with the United States. China sees political developments in Taiwan as part of its larger strategic struggle with the United States. In January 2020, Taiwan’s president Tsai Ing-wen cruised to re-election. Her victory, according to the Xinhua News Agency, was “a temporary counter-current.” Xinhua also blamed open intervention by “anti-China political forces” for helping Tsai win.⁴

Since Xi’s rise and accelerating over the last two years, China’s diplomats have appeared increasingly eager to attack the United States.

⁴ http://www.xinhuanet.com/english/2020-01/12/c_138697346.htm
China’s media has portrayed these diplomats as “wolf warriors,” practicing “wolf diplomacy,” a reference to a 2015 Chinese action movie. China’s diplomats have been eager to capitalize on perceived failures in the United States as a way to highlight what they believe to be the superiority of the Chinese system. Following the slaying of George Floyd in Minneapolis in May 2020, Chinese spokesmen began appropriating Floyd’s dying words, “I can’t breathe,” when asked to respond to US criticism of Chinese moves in Hong Kong and elsewhere.

China views strategic competition with the United States in cyberspace as another important battlefield. China has a radically different perspective on the Internet and cyberspace than the one generally advocated by the US government. At the opening of the World Internet Conference in Wuzhen, Zhejiang Province, in 2015, Xi Jinping delivered a keynote speech and proposed the "China Plan" on jointly building a community of shared destiny in cyberspace.

China has used diplomatic efforts to enshrine and expand the concept of cyber sovereignty in international organizations. As described by Xi, cyber sovereignty means “respecting each country’s right to choose its own internet development path, its own internet management
model, and its own public policies on the internet.”\* This position is in direct contrast to the American vision that cyberspace should remain an open, global platform. Beijing is also in the process of exporting its philosophy to other nations, assisting authoritarian regimes as they seek to manage the flow of information and tighten surveillance of their people. China has paid particular attention to two sets of technologies—5G and surveillance—and has placed them at the center of its competition not only to win over markets, but to set standards and control the underlying ideology of cyberspace around the world.

It is not clear how successful Beijing is going to be as it seeks to advance across a broad front that spans the South China Sea, the virtual realm, space exploration, the North and South Pole, just to name a few arenas where it has joined in strategic competition against the United States. China’s soft power has taken a significant hit from its woeful handling of the outset of the coronavirus pandemic. While the “wolf diplomacy” being practiced by Chinese representatives overseas might play well in Beijing, it has served to alienate governments, media and the general population across a significant portion of the globe. Chinese analysts have warned, often elliptically, about what one Chinese scholar

called “strategic overdraft.” However, it would also be a mistake to underestimate China’s ability to rise to the challenge. China’s government has a remarkable ability to surprise its competitors, including those in the United States.

As far as policy proposals, the United States might do well to seek far more reciprocity in its relations with China than before. It also must be willing to let certain parts of the relationship founder should Beijing be unwilling to accept reciprocity. One example would be in media access. If China is unwilling to allow American reporters to work in China, the US government must contemplate asking all Chinese reporters in America to leave. If China continues to block the websites of American media companies in China, the United States should consider closing the operations of Chinese-funded media outlets in the United States.

---

6 [http://www.globaltimes.cn/content/1162594.shtml](http://www.globaltimes.cn/content/1162594.shtml)
COMMISSIONER LEWIS: Thank you very much, Mr. Pomfret.

I will now turn to our 12 commissioners who will each have five minutes to ask questions of the witnesses. I will begin in alphabetical order, asking each of our commissioners to ask a question. I will begin with the person who was last year's Chairman of the Commission and this year's Vice Chairman of the Commission, Carolyn Bartholomew. Please go ahead.

VICE CHAIRMAN BARTHOLOMEW: Thank you very much. Thank you to all of our witnesses. Apologies for my cat who seems to think that China Commission hearings and meetings are his territory. I think it's also because I'm a captive audience at my desk.

Dr. Naughton—and I guess I'd like the other two people to weigh in on this, too—you mentioned specifically 2006, which sounds like an inflection point of sorts. And what I'm curious about, both sort of why 2006, but how long would it take the bureaucracy in China to put together a new approach? So, it's not as though 2006 arose and things were different, but I presume that it takes a few years of working things through. And so, I'm wondering if any of this was connected to the success that China saw with the WTO.

DR. NAUGHTON: Thank you. It's a great question. And, of course, there's no abrupt turning point at 2006. It's a very gradual inflection point where we see China essentially saying, all right, we've adapted to our WTO membership and we have a lot more resources than we used to; what do we want to do?

And so, they say, let's start to invest in our domestic technological capability. Well, of course, we've always been doing that in a way with respect to certain military high-priority programs, but now let's extend this into a domestic economic program.

And at first, it's completely compatible with what we would like to see, that China become a more innovative and creative economy. But it turns out to become the opening wedge of this much stronger government role. So, it's a very gradual shift, but boy, it's unmistakable in retrospect.

VICE CHAIRMAN BARTHOLOMEW: So, do you think that some of it was just based on the fact that it was being so financially successful with the WTO? Did it free up enough money that all of a sudden they could start thinking about these things or investing in them?

DR. NAUGHTON: Well, I wouldn't draw such a tight link with WTO membership, but certainly, yes, they had budgetary resources that were ample for the first time. As you know well, in the mid-90s they had a really serious budget crisis. They overcame that, and by the time we get well into the 2000s, there's money to spend and they decide, let's do it; let's spend it. And it's pretty consensus at first, and it's clearly before the global financial crisis.

VICE CHAIRMAN BARTHOLOMEW: Yes, yes.

John and Dr. Finkelstein, do you have any comments or thoughts? Is 2006 an era or a year that you think was really sort of a pivotal one?

MR. POMFRET: I could just add a little bit, that you see near the end of the first term of Hu Jintao, who was the Party Leader at the time, a lot of talk in the Chinese media about what they call the advance of the state-owned enterprises and the retreat of the private sector. And so, that happened around 2006 and it accelerated.

You also see the strength of the Chinese bureaucracy and the fact that Hu Jintao was generally considered a relatively weak leader in China. So, state-owned interests could really push their interests to the detriment of the private sector. So, you definitely see that happening then.
VICE CHAIRMAN BARTHOLOMEW: And Dr. Finkelstein, seeing anything on the military front that was happening around the same time?

DR. FINKELSTEIN: Yes, absolutely. Thank you, Commissioner Bartholomew.

Around the 2004, '05, '06 timeframe, we start to see the Chinese Party state starting to think differently about the role of the military and what it's supposed to do for China. We start to see this transition from the role of the military, of course, always protecting the Party, but basically, operationally, being able to protect Chinese sovereignty, to a military that now must begin to protect Chinese interests. And those interests don't necessarily have geographic bounds.

So by 2004, Hu Jintao proclaims the new historic missions for the PLA in the new century. By 2008, you have the first flotillas of PLA navy going out to the Gulf of Aden to do their counter-piracy operations. And you start to see the beginnings of an incipient expeditionary PLA that can start to project presence, if not always power, in ways that it hadn't done before.

VICE CHAIRMAN BARTHOLOMEW: All right. Thank you very much, Commissioner Lewis.

COMMISSIONER LEWIS: Thank you. I will now call on Commissioner Borgeas, who will be followed by Commissioner Borochoff, and then Commissioner Cleveland. Go ahead.

COMMISSIONER BORGEAS: Thank you. And please forgive my technology. I'm on the phone.

My question is for the second panelist, and frankly, any of the other esteemed panelists that wish to weigh in. Knowing that the strong direction exists from the state in China in terms of developing industries, advancing industries, and positioning industries in the foreseeable marketplace, do you have any thoughts on at what point, if any, do you think the U.S., given the slowness in responsiveness of federal policymakers, would position ourselves to have no choice but to have more market involvement in the U.S. toward the great competition? So in other words, do you anticipate that, given China's rapid rise, continued foreseeable rise, that we are going to have to have some degree of market or state involvement in the market, much more than we're accustomed to traditionally?

DR. FINKELSTEIN: Barry, I think that's more your lane in the road.

DR. NAUGHTON: It's an extremely difficult question. There is clearly one area where we do need to see a more activist government role. That is in helping private businesses and our allies work out a set of standards that go beyond the internet per se, beyond 5G telecom per se, to help create open and fair, but also privacy-protecting standards for new intelligent networks.

We have to do that anyway. Everybody talks about 5G, but the reality of it is the potentials of 5G are just beginning to be unlocked. We don't know how it's going to work as these local networks get started. So, I think it's well within Congress' remit to get an initiative, hopefully in cooperation with our allies, to create a set of standards and support the standard-setting creation to unleash further development of this revolutionary technology.

DR. FINKELSTEIN: I would just add that the government needs to be involved, and probably is already involved, in the defense sector in supply chain security, making sure that the critical components that our defense industrial sector requires to produce our capabilities is secure and not held hostage to any third country.

DR. NAUGHTON: And if I could briefly add one thing, I mean, both the Republican and the Democratic parties support a national infrastructure program. And national infrastructure today should incorporate smart networks. So, let's spend some money, some stimulus money, to begin the process of learning how to create really first-class physical infrastructure guided by intelligent networks. China is doing this right now. This is an area where we should be doing
more, much more than we are doing.

COMMISSIONER BORGEAS: Thank you.
COMMISSIONER LEWIS: Andreas, do you have anything else to add?
COMMISSIONER BORGEAS: No, thank you. I appreciate it.
COMMISSIONER LEWIS: Thank you. I will now call on Commissioner Borochoff, who will be followed by Commissioners Cleveland and Fiedler. Go ahead, Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you very much.
First, let me say thank you to all three of you for the very enlightening remarks you've made so far today.
And I've been thinking about this sort of unanimity that everyone has been telling us about, the way that China looks at the manner in which they effectively co-opt businesses, both in states that are in need of money and impoverished, and in America, where they count on economic self-interest of our businesses to bridge their own natural desire to help our country grow.

You know, everyone is saying that there's this natural competition between looking at the growth of China's internal business structure and the fact that they're looking at America and telling our folks—and using coercion to grow their business. Now, for the first time, I think we're seeing American businesses realize that they're working against their own self-interest when they grow the business and move their manufacturing to China. I think that's what you're telling us, particularly you, Dr. Naughton.

My question is, if China believes that the way they've been doing this over the last decade, maybe 15 years, has worked for them, through a combination of our self-interest being met and using coercive methods when that doesn't work, now that we're seeing a sway in the public opinion and the business opinion, not just here, but in our allies, how can we enhance that? What do we need to do to make the viewpoint of China itself change, so that they understand that it's counterproductive for them to go down the road they're going down economically?

DR. NAUGHTON: That's a great question with no simple answer. I mean, I think, first of all, we need to recognize that, of course, those forces were pulling China in the right direction for many decades, right? From the late '70s onward, so many positive changes happened in China. So, I think the ability of the Party to sort of get on top of these economic interest groups and shape them for their strategic interest was a surprise to many of us.

I think the, we have to -- I mean, the long-run answer is relatively easy. It's the short-run steps that are hard. The long-run answer I think is to lay out a set of principled positions and absolutely insist that both our companies and the Chinese follow them. Unfortunately, that's going to mean there are certain cases where we have to sacrifice our immediate economic interest.

I mean, if we insist, as we appear ready to do, that Chinese firms listing in the United States allow auditing by international audit firms, you know, the New York Stock Exchange is going to lose some listings. And I believe that that's an essential step that we have to take in order to rebalance the relationship and make it fair economic competition. If it's fair economic competition, we can do fine.

COMMISSIONER BOROCHOFF: Do you think it's possible to convince our allies to take the same position?

DR. NAUGHTON: I do. I think Xi Jinping has done us a big favor in one way, in that
he has carried out such menacing policies in certain ways that many people around the world—
in Germany, in Japan, in Korea——understand what's at stake. So, I think there is a great
opportunity for the United States in this respect.

MR. POMFRET: I'd agree with Professor Naughton on that. I think that the allies in
Europe particularly -- Japan was always sort of more on our side, if you will, quote-unquote --
but the allies in Europe are very much apprised of the challenge that's placed by China, much
more so than they were, let's say, a decade ago.

It's really up to the United States to lead in this issue, though, and that's the issue. I think
that's the critical issue that we face, is our ability to lead and have them follow.

DR. FINKELSTEIN: And this was certainly in evidence during the China-EU Summit
this past week between Xi and the various EU commissioners and EU community presidents,
very strong statements that they are looking for fair playing fields as well.

So, to use the CCP's own jargon, I think that the key to some of this is to the U.S.
becoming involved in meeting the united front to say that, enough. Enough of the unfair
practices. And this is going to take diplomacy. It's going to take very active and very steady and
constant diplomacy on our part to get all the allies involved.

Because the fact of the matter is that the U.S. and its allies are not always going to agree
on various China issues all the time. It's going to be very issue-specific. So, we need to figure
out where our common interests are, build upon them, strengthen them, and present that so-
called united front that will provide the roadblocks to show our Chinese friends that enough is
enough and you've got to start doing business differently.

MR. POMFRET: If I could add just one thing, though, it's not simply the nations that
need to be on the same page, if you will. It's also the international corporations, such as Apple
and the corporation in Barry's town of San Diego, Qualcomm, which does massive amounts of
business with China. And getting them onboard as well is going to present significant challenges
simply because they make so money in China.

COMMISSIONER BOROCHOFF: Thank you very, very much. And that's the point:
how do we convince people to go against their short-term economic interests for their long-term
self-interest? Thank you.

COMMISSIONER LEWIS: Thank you for that.

And now, I will ask our present Chairman of the Commission, Commissioner Cleveland,
to ask questions, followed by Commissioners Fiedler and Goodwin. Go ahead, Madam
Chairman.

CHAIRMAN CLEVELAND: Thank you, Commissioner Lewis. And I want to thank
you and Commissioner Kamphausen and the staff for putting together a really fine hearing today.

This panel, in particular, I think, has helped me conceptualize the ideological, political,
security, and economic challenges we face with China. So, I very much appreciate your written
testimony and what you're offering today.

I had planned to ask a question of Dr. Naughton, but, instead, I think I'll shift to, you
mentioned in your testimony that the Chinese may have inadvertently initiated decoupling by
sealing off their internet in an effort to censor and control speech, and that's a model that they're
now trying to export.

And, Mr. Pomfret, you talk about the investment in billions and billions of dollars and
China's right to be heard through China TV, radio, and China Daily around the world. And what
I think is interesting is your Atlantic article sums up that, in this process of trying to censor and
control speech, we found U.S. corporations are bending to China's will.
So, the question for the entire panel is, as China moves to restrict free speech and censors at home, and now is exporting that model, in your written testimony, Mr. Pomfret, you suggest that we begin to think about reciprocity and that we look at the fact that, if they're going to throw out our journalists or restrict access in China, we should begin a process of thinking about PNGing -- I don't know what you do to a journalist, but we should be thinking in terms of a policy of reciprocity to remove, to send home, some of their journalists.

So, how would you frame that? What steps could we take? In what order? Do we do an all-or-nothing approach, which is, if you're going to continue with this censorship, then your journalists are out? How do you think about the question of reciprocity when it comes to treatment of journalists, free speech, and censorship?

MR. POMFRET: That's a great and really sticky question. And I've had personal experience because I was expelled from China, but I also had personal experience and the Chinese allowed me back in for seven years at the end of the '90s and the early 2000s.

I think the first issue is a very simple one, which is to get a hand on exactly how many Chinese correspondents China has in the United States. And from what I understand, the United States Government does not know that number. It knows how many visas it's issued to Chinese correspondents in America, but it doesn't know how many currently are in the United States. Whereas China is very clear about that. It knows how many numbers of Chinese correspondents- or- how many American correspondents are in China.

So, the simple numbers issue, actually, the United States Government doesn't have that information. The Trump Administration has started policies to restrict in some ways the activities of Chinese news operations in America by forcing them to register as foreign agents, et cetera. It's begun to give numerical caps.

And the Chinese, then, responded to these moves, and to other issues, by expelling all the American correspondents from The Washington Post, The New York Times, and The Wall Street Journal, I think bar one, which is Keith Bradsher, who's the Shanghai Bureau Chief for The New York Times.

So, the Chinese, if you engage in this type of reciprocity issue, will always seemingly, at least on this front, kind of embrace a race to the bottom very quickly. We take a move. The Chinese take a move that's actually even more serious. We take another move. The Chinese do something; they sort of double-down.

And so, the issue in trying to confront or trying to sort of rebalance the playing field just in the media area, which one could argue doesn't really actually matter that much, becomes very difficult because the Chinese seem always willing to do something far more radical than the United States Government, the action the United States Government has taken. So, it's a very difficult issue.

That said, I think there's some justification for saying to the Chinese, "Okay, let's try to stop this race to the bottom." And basically, once we determine how many Chinese correspondents are in America, because we still don't know that number, we say to the Chinese, "We want the same amount, at least the number of slots in China." Whether the Chinese government is actually going to give that to us or not is an open question.

But I think the idea that the Chinese government is willing to sacrifice the billions of dollars that it has spent, not just in America, but around the world, in creating this Voice of China, I think we actually have some leverage on that front. But I think it's a very difficult issue, even in the media space, which, like I said, doesn't really at the end of the day matter actually that much.
CHAIRMAN CLEVELAND: I might disagree with you on how much it matters. I think it's critical. But thank you.

Dr. Naughton, do you have anything to add to that?

DR. NAUGHTON: Just to support what John said. Reciprocity has got to be the underpinning of our relationship, but it's not easy to do, right? And it's probably harder in journalism than any other area because our fundamental interests are so different. We don't share anything. There are a lot of other areas where we do share something.

But, even so, I think to establish reciprocity, we have to do something that we're not good at; namely, articulate a specific ideological justification on the basis of which reciprocity is going to be based. Because, otherwise, Chinese reciprocity is going to be: you hit us; we're going to hit you back. That's their view of reciprocity.

CHAIRMAN CLEVELAND: Thank you very much.

COMMISSIONER LEWIS: Thank you very much.

And now, we will have Commissioner Fiedler, followed by Commissioner Goodwin, and then, my Co-Chair, Commissioner Kamphausen.

COMMISSIONER FIEDLER: So, I'd like to delve into a different part of this.

First of all, let me make a comment, John, that I don't think that U.S. corporations will ever play a significant role in furthering U.S. national security interests. There's no history of it. And there's no history, for instance, in recent history of them abandoning Xinjiang because of what the Chinese are doing there.

So, I want to get into what inhibits the Chinese from succeeding. For instance, they arguably—and you may disagree with me—-have a fragile hold on power. Now that sounds crazy on the level that their repressive machinery is working quite well. Okay. But my point is, they need repressive machinery to keep it going, number 1.

So, how fragile do you think they really are, ultimately? And I'm not saying that capitalism brings democracy. I'm not wanting anybody to get confused that that's my position.

Then, what are the limits of coercion? So, we already see that their coercive policies and ham-fisted diplomacy are antagonizing allies who previously were operating only in their narrow economic self-interest before and didn't care much about the United States' problems.

So, how fragile and what are the limits and inhibitions that the Chinese have in succeeding in their policies in this competition?

MR. POMFRET: I think that Yogi Berra once said that predictions are really difficult, especially about the future. But I'll try to stumble into this.

I think that the internal machinations of the Party have always been really difficult to parse, and I think they're becoming increasingly difficult. In fact, in the 1980s, you could see ideological debates published on the front pages of Chinese newspapers, where you don't see anything like that today. So, it's very difficult to parse exactly how fragile the system is.

Clearly, it's a system that is paranoid. In fact, they spend more money on internal security than they do on national defense. So, that gives you an idea of how they view their position and power.

In addition, I think some of the moves by Xi Jinping, particularly his move to declare himself President for life, has set the Party on a course, at least in the medium term, not in the short term, but in the medium term, for another significant political earthquake, once he begins to become frail, and then, the knives will come out and people, various political factions will compete to succeed him.

So, I think in the medium term you're going to see probably significant political agitation,
because, generally speaking, in China, the Communist Party has actually been the main source of instability over China's history. And if you look at the Tiananmen Square crackdown, and all the issues about that, that was essentially an internal Party struggle that manifested itself on the street. So, I think there's fragility there as well.

In addition, I think they also have systemically some serious issues, not simply with their government issue, but the fact that they have massive air pollution and water pollution. They don't have any water in northern China, and they have a horrible demographic trajectory, right? This is a country that is going to get very old before it gets rich. And so, they have long-term stresses on the system as well that could actually increase their fragility also.

That said, people have been predicting the fall of the Communist Party since before 1989, right? And we've both been in that game. And so, I think, like I said at the end of my testimony, we have a remarkable—we have to kind of give them significant credit. They have a great capacity to surprise us.

The Party is flexible. It's learned from its past. You remember the internet was going to come to China and set all the Chinese free. That never happened because the Chinese security services became masters at using/employing the internet not only to stop the freedom issue, but actually to increase their ability to control society.

So, while I definitely see a lot of evidence of fragility within the system, I also recognize—I have come with some humility—that this is a system that is quite strong really at its root.

DR. NAUGHTON: Could I throw in one quick comment on that? I agree with everything that John said, but I think we really need to keep in mind one additional factor. And that is, a young Chinese person today is not only better, much better off than his parents, he's much better off than he ever thought he could be.

So, the economic success means that most Chinese are at least passably appreciative of their government. As John said, yes, there still can be instability coming, breaking apart the leadership group, but I don't think we should think of China as a volcano that wants to explode. People are pretty proud of what they've achieved in the last couple of decades.

COMMISSIONER LEWIS: Thank you very much.

COMMISSIONER FIEDLER: My time is up.

COMMISSIONER LEWIS: Commissioner Fiedler, your time is up. I'm sorry.

I will now ask Commissioner Goodwin, followed by Commissioner Kamphausen, and then, Commissioner Lee. Commissioner Goodwin, it's up to you.

COMMISSIONER GOODWIN: Thank you, Commissioner Lewis.

And, gentlemen, thank you for your time this morning.

Mr. Pomfret, I actually want to return to a little bit of a discussion about your piece in The Atlantic last fall, what we didn't anticipate about China. Because I think that piece and your response to Chairwoman Cleveland's earlier question really touches on one of the fundamental premises of our relationship with China, which was that increased engagement, the opening of the economy, expansion of trade, deepening the economic relationship, and obviously, their accession to the WTO, would lead to reforms -- human rights protections and market reforms, intellectual property protections, and even democracy. As you put in The Atlantic, the remarks of Secretary Rubin that "It would sow the seeds of freedom in China." Now two decades on, not so much.

But not only has that not occurred in China, they are now using their position of interconnectedness with the global community to change those very institutions and change the
norms in the international order. And I think the example that you put in the piece about the NBA is fascinating. First, of course, they are imposing and foisting their own notions of free speech on actors abroad, but, also, because in that instance, the National Basketball Association provides a bit of a singular product that was without competition. And yet, their response to the economic pressure was muddled, to say the least.

So, what do we do? Our increased interconnection and the expansion of trade, the expansion of our relationship with China, has not led to these reforms. To the contrary, it seems to have allowed China to reform the very institutions that we thought would help. So, what's next?

MR. POMFRET: Well, I mean, I think you're going to have continued pressure on both governments and corporations to bend to China's will. And you see the recent issue with Zoom, right, having to remove people from video conferences. You see the Hongkong and Shanghai Banking Corporation sign on to support of the Hong Kong Security Act, even without having seen any of the legislation. So, this is something that's going to continue as the Chinese push, both internally, but also internationally, to get their narrative accepted around the world.

The issue is that I think, back to the points that both Dave and Barry mentioned, it is that we need to have our allies together with us. We cannot go it alone in our relationship with China at all. And the only way to deal with China, to use the Chinese terminology, is via a united front of like-minded partners, both in the corporate sector, if they exist, to Commissioner Fiedler's point, but also among our European allies and our Asian allies as well. That's the only way to really deal with China.

There is no such thing as a successful G-2, if you will. China and America aren't going to solve the problems of the world together. The only way to deal with China, I think, is with our allies. That's the only way I see forward.

COMMISSIONER GOODWIN: Thank you.

One additional question. Dr. Naughton, you talked a little bit about the "D" word, decoupling, in your testimony, and noted, of course, it's not a simple phenomenon. Given the parameters of today's hearing, what is the Chinese view of decoupling? What does it mean when they hear the Administration here in the States use that phrase?

DR. NAUGHTON: For them, it means two things, I think. One is unraveling global production networks, of which they're a major beneficiary, and restricting research and educational exchanges. Now I think they very much don't want those things to happen because they know that they benefit from both those things.

But what makes it difficult is, of course, we benefit from them as well. Speaking from a major research university, Chinese researchers and Chinese students make a dramatic positive contribution to us. But, of course, we have to balance the national security implications of specific interactions.

So, I guess I would simply say there is another constituency out there, which is young Chinese people. And we can reach them with a principled, clear, but firm commentary on our own values.

COMMISSIONER GOODWIN: Thank you. Thank you, Commissioner Lewis.

COMMISSIONER LEWIS: I will now ask Commissioner Kamphausen to ask a question, followed by Commissioners Lee, and then, myself. Mr. Co-Chair, please go ahead.

COMMISSIONER KAMPHAUSEN: Thank you, Commissioner Lewis. And thanks to our panelists. This has really been a panel that exceeded our even very high expectations and hopes. Thank you so much.
I have two questions. First, for Dr. Finkelstein, your written testimony addressed a concern that you have about miscalculations that might lead to unintended confrontation or conflict, largely arising from competing operational visions in the Indo-Pacific. Please climb the escalation ladder a bit with me. Isn't there a natural ceiling in escalation of unintended conflict by virtue of both countries being nuclear powers? Or put differently, is a steady state of constantly high maritime tensions the new normal that we and our partners in the region have to get used to?

DR. FINKELSTEIN: Commissioner Kamphausen, I think you're quite correct. I think that there is a ceiling to escalation, and I think it's not just the U.S. side that appreciates this, but also the Chinese side. Ironically - ironically, and you will appreciate this, in particular-- the Chinese now speak, the PLA now speaks about the military relationship needing to be a stabilizing force in the overall relationship. And, of course, that scares the heck out of me because, traditionally, the military relationship has been the weakest link in this bilateral relationship. So, yes, we have two nuclear powers who are very conscious of the fact that no two nuclear powers have ever gone to war.

But you are correct in saying that we’re going to be living with a constant state of maritime tension, and I don't see this going away anytime soon. The U.S. is determined, to use the U.S. jargon, to fly/operate anywhere that international law allows. The Chinese have their own special interpretation of what that international law allows.

The two forces are now operating in closer proximity more often than any time in the past. Hence, in my view,- and I think in the view of both sides as well,- the need to make sure that confidence-building measures and risk-reduction measures we have in place are valid and working.

And, of course, there are several mechanisms in place that you're well aware of, and Larry is well aware of, Commissioner Wortzel: the various MMCA meetings, the maritime confidence-building measures, the agreement on pre-notification of major military exercises, although I don't know how that one has been operating in the past.

One of the things I recommended to the Commission in my written testimony is that you might consider devoting a session in the future, or at least having some research done for you, on what is the state of risk-reduction mechanisms between the two sides and what are their efficacy at the moment. And do we need to work harder at this? And if so, what needs to be done? Over.

COMMISSIONER KAMPHAUSEN: Thank you, Dr. Finkelstein. We certainly heard a similar message when we visited the PLA Ministry of National Defense last May when we were in Beijing. And the spokesperson, Senior Colonel Wu Qian, made similar points about the stabilizing dimension of U.S.-China mil-to-mil, similarly difficult to believe, when we heard it.

And I appreciate your judgment, which undergirds my own view, that this competition is longstanding and there is no exquisite solution to it.

I have a second question for Professor Naughton. I'd like to ask you about two associations you didn't make in your written testimony and that are a part of the discourse commonly here, at least in Washington.

The first is your turning point was, roughly, 2006, and I understood your caveats. You addressed in your response to Commissioner Bartholomew the 2008 financial crisis, but not as an important element of the inflection point. So, I'd like to ask you to elaborate.

And secondly, you didn't mention the role of Xi Jinping in the third wave post-2016. And the chairman of everything, you know, every great decision is usually ascribed to him, and you don't. And so I'd love to hear your thoughts as to why that is and any amplifying thoughts
you might have. Thank you.

DR. NAUGHTON: No, there's nothing contrarian about my view on this. I think Xi Jinping has taken a piece of adverse trends and made them much worse. I think Xi Jinping has done enormous damage to China as well as the China-U.S. relationship. And I think the global financial crisis was a very important turning point in convincing people in China that the U.S. was weak, weaker than it is for sure, and that, therefore, there was this strategic opportunity. So, no, I'm not debunking the importance of either of those critical viewpoints. Thanks.

COMMISSIONER KAMPHAUSEN: Thank you. Back to you, Commissioner Lewis.

COMMISSIONER LEWIS: Thank you very much.

I'll ask Commissioner Lee to ask a question, followed by myself, and then, Commissioner Talent. Go ahead, Commissioner Lee.

COMMISSIONER LEE: Thank you, Commissioner Lewis.

And thank you so much to the panel for your excellent testimony and for your presentations here today, which I found very useful.

So, the three of you have laid out a portrait of recent history of U.S.-China relations: economic, military, and ideological. And in some ways, I guess I was struck by the fact that there seems to be more consensus, which is maybe not surprising, in China than there is in the United States. In terms of how the United States views China, it seems like people are all over the map, and it's not just in terms of partisan divides, but it's also just in terms of maybe seeing things as too stark, like there are only two questions: we can decouple or we can be all in with an economic commercial relationship that is maybe not in our interest.

And I've always thought that, obviously, there's something in between there, which is that we need to use both WTO rules, we need to use our own trade rules, but also domestic choices that we make in the United States. Dr. Naughton, you laid out how China has a very clear industrial policy, and I think that's obvious from looking at all that.

And I guess one of the questions for me, for all three of you, is really, as we think about U.S. policy responses to China, what are the things that we can do, both in terms of our direct economic and military security relationship with China, but also in terms of what we need to do at home differently, whether we need a more concerted, comprehensive strategic industrial policy?

And you all have mentioned, I think, two areas, in particular, that are important. One is international cooperation. I think all of us would agree that it's very hard to have a policy with China where we are trying to do everything one-on-one.

And the second piece is also, in terms of international standard-setting and networks, that China -- and I think, Dr. Naughton, you made this point very explicitly -- China recognizes the importance of those networks and the standard-setting and the principles and the interoperability, but the U.S., it seems, hasn't been as concerted.

I know it's a little bit of an open-ended, broad question, but I'd welcome all three of you to respond. Thanks.

DR. NAUGHTON: Let me start with the economic question. I think, yes, there's lots of things we can do. Before we do, let's not get too absorbed with the idea that Chinese industrial policy has really worked. I mean, actually, when you look back on their successes, they're all rooted in the economic reform period, and all these hundreds of billions of dollars they were spending in the last 5 or 10 years, they might turn out to work, but, boy, so far, they really don't have much to show for it. So, let's not go that way.

But, hopefully, we'll be coming out of a COVID recession next year. We're going to
need more government spending. We know we need more infrastructure. Let's put some money into experimental, high-quality AI network-driven infrastructure, maybe three or four different places in America. Risk some money, government money. Build the stuff. See if it works. We've got to take some risks in that direction. So, that's what I would advocate.

COMMISSIONER LEE: Thank you, Dr. Naughton.

Dr. Finkelstein?

DR. FINKELSTEIN: Yes, thanks. Thanks for the question. And, boy, we could have an entire day's hearing just on that question, Commissioner Lee.

If the U.S.-China competition was just a military competition, it would be easy because we know how to do that. But that's not what this is about. And I think when Commissioner Kamphausen opened up in his statement that this is a long-term competition, I think he really hit on something there.

We've finally learned how to confront China, but I don't think we've learned quite yet how to be more competitive. And competitiveness starts right here at home. And this may shock some of the colleagues out there who know me, but I actually started out doing quantum physics because, when I was a kid, we were going to beat the Soviets with science and technology. And so, that's a long way of saying that I think we need to invest in our young people, our educational systems, to grow a generation of young men and women who are going to be competitive in a 21st century economy, who will be the seed bed of technological innovation. So, we need to invest in our young people, our education.

Next, we talked about the international dimensions. We also need to understand the power of our own soft power, and I don't think we quite understand that at any given moment. We are so self-critical. Yes, we have blemishes. We have seen these blemishes over the last few weeks. We will always have blemishes. But there is so much that's good, and we have trouble telling that story.

As I go around the world, if you go to any country around the world, you don't see long lines of foreigners around Chinese embassies trying to get Chinese citizenship. Why is that, right? An obvious question. So, we need to educate our children, have a competitive workforce, prepare for a 21st-century-plus economy. We need to be able to tell America's story well because we have a good story. It's a story we can all believe in, the aspiration, if not always the reality. We need be better about that and we need to invest in our governmental organs who can tell that story well.

And I think that, finally, we need to accept that this is going to go on for the long term and it's just not enough to confront. We have to be positioned to compete. And we squander our soft power at our own strategic risk.

COMMISSIONER LEWIS: Thank you very much.

I will now ask a question, and I will be followed by Commissioners Talent and Wessel.

I have one question for Professor Naughton on decoupling, as it was mentioned by Commissioner Goodwin. The question on decoupling is, if we decoupled financially and used our ability for the dollar being the dominant currency in the world to hit the Chinese banking system, what kind of decoupling could occur? That's one question.

And the other question I have for all of you, and I wish your answers would be very succinct. You have all stressed the need for the United States to have good relationships with our allies. In the last year or two, we have withdrawn from the Paris Climate Accord; we've withdrawn from the agreement dealing with Iran, and we've withdrawn funding for the WHO. What has this done to our relationships with our allies? And what has this done for the
competition that we have with China?

I would ask Professor Naughton to begin about decoupling, and then, ask each of you for about one minute to talk about the relationships with our allies with those three policies the United States has assumed. Go ahead, Professor Naughton.

DR. NAUGHTON: Financial decoupling is, I think, something that should be treated with the greatest caution. Of course, we could do damage to the Chinese financial system, but a crisis in the Chinese financial system would quickly reverberate around the world and do significant damage to our economy. And that's kind of a lethal weapon, that I don't think it's in our advantage to do anything like that.

In this, as in so many areas, I think our best path is to lay out a set of principles that can be defended, that is constructive and defensive, rather than offensive. I think, yes, what you're suggesting smacks too much of an offensive approach.

I very much agree with you that some of the measures that we have withdrawn from, most notably the Paris Accord, is something we should go back to, as a means of shoring up and reconstituting relations with our allies.

COMMISSIONER LEWIS: And how about the WHO and the Iran Accord?

DR. NAUGHTON: I'm not going to speak about the Iran Accord because I don't know enough about Iran.

The WHO definitely has flaws, but the U.S. traditionally has been the biggest supporter; should go back to being the biggest supporter, and should demand reforms. But why we would not use the WHO to expand our voice and influence is something I find utterly puzzling.

COMMISSIONER LEWIS: Thank you.

Dr. Finkelstein, would you please answer those questions also?

DR. FINKELSTEIN: Thank you, Commissioner.

Well, my own view is that any time that the U.S. steps back from a leadership role or a participatory role in any international organization, we're going to be leaving a vacuum for the Chinese to fill. That's not to say that these organizations and institutions are awash in perfection. They are clearly not, to the same with the accords that you mentioned, such as Iran. But to take ourselves out of the game means that we cede territory.

So, this is what I mentioned in my closing statement, that the U.S. needs to re-embrace its traditional leadership role, not just as a unitary actor, but in the international system that we, in fact, helped create in the post-World War II era.

And I think another one that I would throw out there, during the 2016 presidential election, both political candidates, both presidential candidates, for reasons I don't quite understand, tossed Trans-Pacific Partnership out into the dustbin of history. And so, this really, really set us back in our ability to shape the economic architecture of the region. And, of course, now you have China promoting RCEP and other regimes.

So, again, we need to exercise leadership. Where we don't like what we see, we need to work hard to adjust these institutions and programs. But we step away from the international system at risk to our own ability to shape it.

COMMISSIONER LEWIS: Thank you.

Mr. Pomfret, will you please talk about our alliance and our policies?

MR. POMFRET: I just want to add one thing to Dr. Finkelstein's point about the Trans-Pacific Partnership. One of the fascinating things is that, after we pulled out of that organization, it didn't die. And, in fact, it continues to exist. It's the TPP-11 and it was passed by the countries around the Pacific Rim. To me, this is an indication of the fact that there is a significant body of
public opinion amongst the nations who are allies and friends who want to continue to create a positive architecture that will help push China in the right direction.

COMMISSIONER LEWIS: Thank you very much for your answers. Commissioner Talent, will you please go ahead, followed by Commissioners Wessel and Wortzel?

COMMISSIONER TALENT: Thank you, Mr. Chairman.

So, I would like to ask Dr. Naughton to expand a little bit on his comment that the Chinese may concede that they're behind in varying sectors of technology, but that they can, nevertheless, dominate whole ecosystems because of their unique ability, as you put it in your testimony, to combine unified management of the internet, sensors, and the rest of it. I think that's a very intriguing concept, and I sort of intuitively agree with it. But I'd like you maybe to make it a little bit more concrete, give examples or hypotheticals.

And then, the second question, and I'm glad Commissioner Lewis raised this issue of alliances because I was thinking about it as well. You all have affirmed the importance of alliances, and I think it's a key soft power tool that we have in dealing with the Chinese.

But, when we get beyond that, the importance of alliances, we deal with the issue of why the United States, in order to be faithful to its allies, is the only ally that cannot stand up for what it perceives to be its own interests within the alliance. Now Ken mentioned, for example, the nuclear agreement. Well, the United States has a paramount priority of preventing Iran from getting a nuclear weapon. The Obama Administration believed that the agreement was the way to go in doing that, and so, negotiated the agreement, despite the fact that our allies and partners in the region, to include Israel and the Gulf States, didn't want us to do it. And the Trump Administration had a different view for how to constrain the Iranians and pursued that, despite the fact the European allies didn't want us to do it.

And we have allies all the time going off defending their own national interests, and nobody says they're bad allies. So, I guess, moving forward -- and I think this is a substantive question, because you're right, we're going to be competing for a long time; we need the allies -- how do we establish an understanding around the world that the United States, like our other allies, has its own unique interests, and occasionally, must pursue them, notwithstanding maybe the disagreement of the allies on a particular issue?

So, maybe, Dr. Finkelstein, weigh in on that since you're the foreign policy expert. If we have a second round, I really want to go into greater depth with Dr. Finkelstein about the Gray Zone and how we can get the Department of Defense to begin integrating Gray Zone tactics into its overall strategy. But I'll just stick with those two questions for now.

DR. NAUGHTON: Two fantastic questions. Let me take a crack just at the first one because it's already so big.

If we just think of things like sensors linked to artificial intelligence, for China, that presents no difficulties. They are already, and they have the Smart Cities Program in Hangzhou in China that's probably the most advanced in the world.

We're still struggling and the Europeans are still struggling with, what are the privacy implications of having all those cameras and all those sensors? So, that gives them a huge advantage.

Now that advantage is exportable. They're already working in Malaysia to say, hey, we'll help you with your Smart Cities Program in Kuala Lumpur and we'll provide assistance in improving logistics at the same time. And, of course, it's a private company, Ali Baba, that takes the lead on that, and it's in Ali Baba's business interest to do so.
So, it's not that it's all part of an insidious plot, but, boy, it sure does work out in a way that the convergence of general-purpose technologies under the influence of the Chinese state is really working to their advantage in a very significant economic and technological sense.

I mean, it really is a challenge to us for which there is no easy answer. I think the best response we have is to apply just a little touch of government activism from the U.S. Government to say, all right, we're going to support a set of standards and regulations that help us unite with our allies. And TPP would have been a great contributor to it. It's a different dimension. It's more the economic dimension, but it certainly would feed into a set of technological and other standards that would improve the integration of our smart networks. And that would be a much more attractive alternative to integration with Chinese networks.

COMMISSIONER LEWIS: Thank you very much.

Our time is up, I believe. If there's a second round, I'll come back to you. Our time is up. And now, I ask Commissioner Wessel for his question, and then, we'll end with Commissioner Wortzel. Go ahead, Michael.

COMMISSIONER WESSEL: You and I spoke via email and by phone over many years. It's good to see you in person now and good to see our other witnesses back.

Let me, first, just make a quick comment on TPP, not to re-litigate that. But there's a reason that the other nations decided to participate after our withdrawal. It's because the terms were pretty one-sided and offered them huge opportunities. It was the U.S., I think in both candidates' views, that would not have seen its interests advanced.

We're looking at an election coming up. I'm not trying to be political. Let me make that clear. But our report will come out in November, and we will have at that point a transition to a new Administration or an extension of the current one.

You clearly have seen the public's concern about China's rise to probably unheard-of levels. And there's a view that we have to find a path forward. I shouldn't say, have to. Of course, we have to find a path forward.

I'm of the view that China is essentially operating by fight club or UFC rules, and we're still playing by Marquess of Queensbury Rules, abiding by the rule of law.

What would you suggest we do going forward to ensure that our interests are more faithfully upheld? Most of our trading partners, our allies, have been willing to hold our coat while we bloody our nose in those fights. And we have seen little support, whether it's 5G, where Great Britain embraced Huawei, then they backed away. This past week they agreed to a $500 million investment by Huawei. What would your advice be to the next Administration - forget about which party --- as- to what our path forward is?

And, Barry, if you could start on the economics? We have the potential for WTO withdrawal now on the horizon.

DR. NAUGHTON: Thank you.

I think the most important thing is to establish a degree of consistency. Whatever administration it is, if a Biden Administration comes in, I don't think that the first order of business should be to throw overboard everything the Trump Administration did. And if the Trump Administration is reelected, I think their first job, also, would be to give more consistency, coherence, and transparency to what we're doing.

In my belief, WTO needs reform. So, a little bit of a shakeup, based on uncertainty about American intentions, followed by a clear set of principles that the U.S. wants to pursue. I think U.S.-China policy needed a bit of a shakeup. Now what it needs is consistency, transparency, and the ability to bring in others in support of our objectives.
COMMISSIONER WESSEL: Thanks.
Dr. Finkelstein?
DR. FINKELSTEIN: And your question, Commissioner, also touches on Senator Talent's comment as well. So, that's a good one.
COMMISSIONER WESSEL: Right.
DR. FINKELSTEIN: That sort of reminds me of the alleged quip of Winston Churchill who said that the only thing worse than having to work with allies is not having allies to work with, or something to that effect.
(Laughter.)
DR. FINKELSTEIN: I think Professor Naughton put his finger on something important. We need to have predictability, consistency, and clearly articulated objectives and rationales for our foreign policies.
And I think that it's pretty clear to me that alliance management in the context of China is going to be extremely difficult going forward, and that we need to devote tremendous amounts of human talent to that particular issue. So, again, alliance management in the context of China, and that cuts across all enterprises -- defense, technology, informational, cultural, et cetera, et cetera -- that needs to be a central focus of how we need to manage some of our external relationships in confronting the challenge that will be China.
Over.
COMMISSIONER WESSEL: John?
MR. POMFRET: I'll just be very brief. I think that—- and this is also to Commissioner Lee's point—- there's definitely a false dichotomy between decoupling and all-in. And I think that we need to begin to manage—I mean,- engagement is going to happen because China is just so big. But we need to basically reimagine what engagement looks like going into the future.
Specifically, let's say just dealing with Chinese students coming to the United States.
The idea of blocking all of them coming to America is ridiculous. But, at the same time, the idea of welcoming them into every laboratory in the United States is foolish as well.
So, it has to be much more strategic, much more targeted. In addition, American universities need to do a better job of integrating the Chinese who are coming to the United States into the general population of American students, which I think is very important and hasn't been done very well in the past.
COMMISSIONER LEWIS: Thank you very much. Our time is up for this question.
The last Commissioner or the last question is Commissioner Wortzel. Please go ahead.
COMMISSIONER KAMPHAUSEN: Commissioner Lewis, this is Commissioner Kamphausen. Commissioner Wortzel was concerned that his internet connection might go on the fritz. And so, he sent me his question.
COMMISSIONER WORTZEL: No, I'm here. I'm here.
COMMISSIONER KAMPHAUSEN: Okay. All right.
COMMISSIONER WORTZEL: Thank you, though, Roy. I appreciate it.
The hearing itself is about strategic competition, and I think all of you covered the issues really well and your suggestions for the future both about strategy and actions are great.
But ultimately, we still have to deal with China, regardless of the fact that there's a competition. I mean, Lee Hsien Loong had a great article in Foreign Relations that outlined that—or, yes, Foreign Policy—CFR's journal—that outlined it well.
So, my question, instead, relates to common interests. In what areas, aside from developing a vaccine for the virus, do U.S. and China's interests intersect? What common
interests do we still have on which to continue any form of cooperation?

And you can go right down the line. DR. NAUGHTON: I'll start. I mean, we still have enormous common interests. And I think one of the problems with Xi Jinping and the security-obsessed folk around him is that they are not acting in Chinese interests, either. There are many businesses, many industries, where there is money to be made. There are technological innovations to break through. We still have huge common interests.

So, I think we should trust more in those common interests and push back on our own national interests, understanding, you know, we're going to go through a difficult time. But there is a possibility, -I'm not saying it's a certainty,-- but there is a possibility that Chinese leaders will reassess their conception of the strategic opportunities and realize, yes, okay, we prospered under this American-dominated system; we can have a greater voice, but make a more constructive contribution to the global system. We can't base our policies on the certainty that that will happen because it might not, but we should definitely leave it open, absolutely.

DR. FINKELSTEIN: Thanks, Commissioner Wortzel, for the question. Certainly, in the selfish national interests of both countries, we have the common interest of making sure that competition does not lead to confrontation. So, that's a bottom-line starting point and goes without saying.

Now it also seems to me that there are still many areas of non-traditional security where the U.S. and China can cooperate, whether it's humanitarian assistance and disaster relief. I would point out that the U.S. Army, USARPAC and the PLA ground forces still do a disaster management exercise, or at least they did last year. I don't know if they'll do one again.

Now people are always surprised to learn that in the past, the U.S. Coast Guard and the Chinese Coast Guard had a shiprider program to look for illegal fishing in the Pacific Northwest.

So, you can go down a long list of non-traditional security areas where the U.S. and China theoretically have common interests. My concern is that, as ideological issues become greater in this bilateral competition, that we're going to preclude the possibility of even working on those areas where our national security interests intersect. I mean, Commissioner Wortzel, you were at the leading edge of working with people in China that today nobody would want to work with, when it was in our selfish national interest to do so.

So, the U.S. and China, ironically, have proven that, on those occasions where their national interests intersect, they are able to put the other issues aside and engage in pragmatic cooperation. The question is, will ideological competition preclude even that possibility, question mark. I don't know.

Over.

COMMISSIONER WORTZEL: John, do you want to chime in there?

MR. POMFRET: Yes. Sorry, my computer screen froze.

I think it's a great question. And you also actually see the cooperation continuing even in the nuclear realm, where the Department of Energy has continued to have a program with the Chinese to try to avoid nuclear disasters at energy plants.

Terrorism is another area of cooperation, although the Xinjiang tragedy has clearly put a spanner in that works.

Law enforcement cooperation was actually a very positive part of the relationship, but that's apparently slowed significantly, again, because some of the characters around Xi Jinping have really pushed this ideological nature of the struggle. The question is whether that could be somehow stove-piped, to Dave's point, and the cooperation continue.

And then, of course, climate change, whether that cooperation could continue. There's a
lot of areas for potentially working with the Chinese.

COMMISSIONER LEWIS: Thank you very much.
We went a few minutes over the allotted time for this panel, but I want to thank all three
panelists for giving us their views on strategic competition. This helps our understanding much
better. Thank you.
We'll now take a 10-minute break, and when we come back, Commissioner Kamphausen
will start with Panel II. So, it will be a 10-minute break and come back in 10 minutes.

COMMISSIONER KAMPHAUSEN: Before we depart, Commissioner Lewis, there's
been so many good questions that have not been asked. I hope our panelists would be willing to
receive questions for the record that our Commissioners submit, that you could take your time in
responding to.

Thank you.
We'll start again at 12:00. So, six minutes.

(Whereupon, the above-entitled matter went off the record at 11:54 a.m. and resumed at
12:03 p.m.)
COMMISSIONER KAMPHAUSEN: -- panel today, we'll examine how China views its strategic competition with the United States, pulling out of the United Nations and key regions of the world. We will begin with Ms. Kristine Lee, Associate Fellow with the Asia-Pacific Security Program at the Center for New American Security, CNAS.

Ms. Lee's research focuses on U.S.-China relations, U.S. alliances and partnerships in the Indo-Pacific region, and managing the North Korean nuclear threat. Ms. Lee's testimony today will address China's approach to strategic competition with the United States at the United Nations.

Next, we will hear from Dr. Satu Limaye, Vice President of the East-West Center and director of its Washington, D.C. Office. Dr. Limaye publishes and speaks widely on Asia Pacific regional issues. He is the founding editor of the Asia Pacific Bulletin, as well as a Senior Advisor at the Center for Naval Analyses and a Senior Fellow at Johns Hopkins Paul H. Nitze School of International Studies.

Dr. Limaye's testimony will address China's rise in the Indo-Pacific Region in the context of strategic competition with the United States.

Finally, we will hear from Dr. R. Evan Ellis, Research Professor of Latin American Studies at the U.S. War College Strategic Studies Institute. Dr. Ellis' research focuses on the region's relationships with China and other non-Western Hemisphere actors. He has also served on the Secretary of State's Policy Planning Staff as the official responsible for Latin America and the Caribbean, as well as international narcotics and law enforcement issues.

His testimony today will address the implications of U.S.-China strategic competition in the Western Hemisphere.

I thank each of you today for your testimony and for appearing in person. I'd like to remind you to keep your remarks to seven minutes.

Ms. Lee, we will start with you. Thank you.
OPENING STATEMENT OF KRISTINE LEE, ASSOCIATE FELLOW, CENTER FOR
A NEW AMERICAN SECURITY

MS. LEE: Thank you very much, Commissioner Kamphausen and Commissioner Lewis and all the Commissioners and staff for the opportunity to testify on China's growing influence in the United Nations.

Since the beginning of the 21st century, China's approach to the U.N. has gradually shifted away from that of an ascendant actor seeking to gain legitimacy toward a much more confident, activist role. Beijing is today executing a well-resourced campaign to bend the U.N. away from its founding principles toward growing liberalism and to use it as a vehicle for advancing the Chinese Communist Party's narrow aims.

My testimony today will proceed in three parts. I'll first outline Beijing's goals and ambitions vis-a-vis the U.N. Second, I'll discuss emerging trend lines in China's strategy. And finally, I'll conclude with a set of recommendations for the United States to push back on China's approach where necessary.

The first on China's goals, fundamentally, China's growing focus on the U.N. is animated by three main priorities. First, Beijing seeks to weave its foreign policy strategies into the fabric of the U.N. system in ways that directly serve its economic and security interests, including through its Belt and Road Initiative, Digital Silk Road, and perhaps most pertinent to the pandemic that we're all living through today, its Health Silk Road. It's steered the U.N. toward embracing the Belt and Road as a panacea effort promoting sustainable developing, including through pushing forward Belt and Road MOUs with nearly two dozen U.N. agencies and making it synonymous with the U.N. signature sustainable development goals.

It's also used as leadership in specialized agencies such as the International Telecommunications Union to advance its high-tech equities, to promoting Huawei as a 5G vendor of choice.

The second priority is a bit more ideological in nature as it seeks to advance the superiority of its brand of authoritarian goal in comparison with liberal, democratic governments. For example, China sought to redefine human rights in terms of economic and social rights whereby governments could cite unique local conditions to justify human rights abuses. As Chinese Vice Minister Le Yucheng argued before the Human Rights Council in 2018, quote every country may choose its own model of human rights protection in the context of its national circumstances. All of this is ultimately rooted in the desire to create an external, international environment that's conducive to securing and advancing the CCP's core interests.

Finally, Beijing seeks to displace America's leadership in the United Nations. It's drawn considerable momentum from the perception of U.S. retrenchment in recent years and has stepped up with full force to shape the personnel policies and procedures that comprise the backbone at the U.N. As the United States halted its funding to the World Health Organization in April and subsequently signaled its withdrawal from the agency, China announced it would donate more than $2 billion to the U.N. over two years, touting its role as a quote unquote defender of multilateralism.

I'll make four brief observations about current trend lines in China's strategy and how this will play out to the detriment of American interest if unchecked.

First, Beijing will continue to create coalitions with developing countries, particularly those of a liberal orientation that challenge what it sees as Western dictated norms in the U.N. Last summer, when a coalition of 22 liberal democratic countries submitted a letter to the U.N.
High Commissioner for Human Rights condemning China's repression of leaders in Xinjiang, China mobilized a counter coalition of 37 primarily authoritarian countries to silence this criticism including Muslim majority ones.

Second, its elevation of citizens to key posts in the U.N. will pay greater dividends in the future as the CCP seeks to shape the organization internally. As many of you already know, China already heads up more than a quarter of the specialized agencies while recent elections such as that of the Food and Agricultural Organization last summer have been rife with instances of coercion, inducements, and other corrupt practices.

Third, Beijing will continue to use its influence in the U.N. to isolate Taiwan diplomatically. This year, China again succeeded in blocking Taiwan's participation in the WHO's World Health Assembly even at the height of this pandemic.

Fourth and finally, as I alluded to earlier, the CCP is rewiring the U.N.'s signature initiatives to advance its narrow aims, both economic and political, while injecting its ideological terms such as win-win cooperation and community of a shared future for mankind into resolutions. It has even recruited its tech champions to do its bidding as Tencent recently partnered, for example, with the U.N. Development Program to establish a data-sharing platform to tackle environmental and urban challenges in developing countries. And as Chinese technology proliferates across the regions of the organization, it has joined hands with Russia to try to institutionalize illiberal norms around the use of technology.

Fundamentally, China's efforts to hollow out a liberal, international order will facilitate the export of some of the most harmful aspects of China's political system including corruption, mass surveillance, and the repression of individual and collective rights.

Washington has taken some important steps to respond to these efforts in the last year, but if it's serious about competing with China in this arena, it must fundamentally renew its approach to the U.N. system in a whole-of-government manner.

So I'll break out a very small selection of my recommendations today in just three core pillars. The first pillar is to raise awareness and build consensus. Congress should continue to elevate the issue of China's growing influence in the U.N. including through holding additional hearings with senior officials like USUN. It should also direct the State Department to establish a data-sharing platform or mechanism with allies to track China's resolutions, rhetoric, and other activities in the U.N. that threaten to erode the world's peace order. This, of course, should supplement ongoing efforts to lead structured conversation with allies as well as key swing states like India on China's growing influence be it through the Quad Plus, G-7, or even the new Inter-Parliamentary Alliance on China.

The second pillar is to deepen participation in the U.N. and to leverage momentum from global events to push back. This could begin with establishing a congressional task force with experts to strategize with experts, industry, civil society, and policy makers about the future of the U.S. engagement with the U.N. and to map out high-impact, low-cost opportunities for American companies, for example, to step up. Washington certainly shouldn't cede ground in the U.N. and agencies with kinds of issues like the WHO's handling of COVID-19.

Rather than walk away from organizations it finds distasteful and leave a void for China to fill, it should exactly be the exact opposite and marshal its considerable leverage to shape outcomes from within.

The third and final pillar is to invest in the future of American multilateralism. Importantly, Congress should work with the Executive Branch to build new pathways for Americans to take jobs at, and advance U.S. interest in the U.N. Separately, Congress should
also fund new pathway programs within the State Department that incorporate rotations to the U.S. mission to the United Nations.

I will just conclude here by noting that as the United States has stepped back, the CPP is using this window of opportunity to bend to the U.N. away from the norms and values that the United States has promoted since its inception. And Washington and its allies must not allow that to happen.

So thank you very much again for holding this hearing today and I look forward to your questions.
The United Nations: An Emerging Battleground for Influence

BY

Kristine Lee
Associate Fellow
Center for a New American Security
Introduction

Thank you very much for the opportunity to testify on China’s growing influence in the United Nations (UN). Since the beginning of the 21st century, China’s approach to the UN has gradually shifted away from that of an ascendant, regional actor seeking to gain legitimacy toward a more confident and activist role. Eager to expand its influence on the world stage in ways that serve its interests, Beijing has placed considerable resources behind an effort to present its leadership at the UN as a nimbler, more dynamic, and more reliable alternative to that of the United States. It is, in doing so, steering the UN away from its founding principles and turning it into a vehicle for advancing its narrow foreign policy aims.

The contours of China’s ambitions are clear. In a speech before the 19th Communist Party Congress in 2017, Xi Jinping laid out his vision for a “new era of great-power diplomacy with Chinese characteristics” that would see “China moving closer to center stage and making greater contributions to mankind.” Xi reiterated in a 2018 address before the Central Conference on Work Relating to Foreign Affairs that China needed to take “an active part in leading the reform of the global governance system.” Though he spoke only in broad brush strokes about “democratizing international relations” and setting developing countries on equal footing, it demarcated a shift—that had been years in the making—away from China’s traditional defensive posture in the UN.

To further illuminate how these trends are unfolding, this written statement proceeds in five main parts: I begin by examining China’s goals and ambitions within the UN. I, then, assess the extent to which China’s growing activism within the UN is animated by competition within the United States. Third, I discuss Beijing’s tactics—particularly its formation of blocs with developing countries and other illiberal states—to advance its aims. Fourth, I evaluate the relative strengths and weaknesses of China’s approach. Finally, I conclude with a set of specific recommendations for the United States, in concert with like-minded nations, to push back on China where necessary.

I. Making the World Safe for the Chinese Communist Party

The Chinese Communist Party (CCP) is, fundamentally, using China’s growing influence in the UN to create an external international environment that is conducive to securing and advancing its core economic and security interests. Its sovereignty over Tibet and Xinjiang has, for example, informed the positions it takes on UN Security Council votes and resolutions relating to self-determination and humanitarian intervention. China has also continued to tighten its vise on countries, non-governmental organizations, and even individual political activists that present views in the UN that challenge its core interests while elevating its own government-organized non-government organizations (GONGOs) to advance its positions. All the while, its growing contributions to development programs serve as a relatively low-cost opportunity to blunt criticisms of its policies and build support for its initiatives.

In particular, Beijing’s emerging strategy for advancing its interests and policy preferences in the UN focuses on the following priorities:

- Promote an alternative, context-specific view of human rights whereby governments can cite “unique” local conditions to justify disregard for individual or minority claims. This, fundamentally, runs counter to the American belief that human rights universally belong to individuals and cannot be violated on the whims of a single government;
- Redefine “democracy” in terms of so-called “economic and social rights” rather than inalienable civil or political rights. This entails privileging the exigencies of state-led development over fundamental rights of association and expression while diminishing the standing of these rights in international law;

---

• Make state sovereignty inviolable and reestablish national governments as the only legitimate stakeholders in
determining countries’ internal affairs, with the purported aim of “democratizing” international relations and
setting developing countries on equal footing in the UN;
• Resolve political issues through bilateral negotiations, whereby the CCP can use economic coercion, inducements,
and other corrupt practices to get its way, rather than through rules-based approaches, and;
• Inject consensus goals, such as the 2030 Agenda for Sustainable Development (colloquially known as the
“SDGs”) with its ideological terms and major foreign policy strategies such as the Belt and Road Initiative.

II. An Emerging Battleground for Influence

The UN is emerging as a key arena for ideological competition as Beijing seeks to make its brand of
authoritarian rule seem as legitimate as, if not superior to, democratic governance. The CCP sees China as
locked in a long-term struggle with liberal democratic nations—the United States foremost among these. According
to this view, global governance institutions, when they seek to impose limits on state power and promote values around
universal human rights, actively threaten China’s political stability.5 This is evident in the UN Human Rights Council
(HRC) for example where China has used its growing profile to aggressively silence criticism of its human rights
record and, under the guise of “democratizing” international relations, to dilute concepts of universal human rights.6
As China’s Vice Minister Le Yucheng revealingly argued before the HRC in 2018, China’s achievements show that
there is “more than just one path towards modernization and every country may choose its own model of human
rights protection in the context of its national circumstances.”7 Beyond focusing on narrow “core interests” such as
isolating Taiwan or forestalling criticism of its policies in Xinjiang, Beijing is also extending its concepts of human
rights and sovereignty to other illiberal states.

Beyond this overarching ideological contest, Beijing is also leveraging its influence in the UN to turn it into
a platform for advancing its foreign policy strategies. These efforts can be seen across all corners of the
organization. Beijing is using its leadership in specialized agencies such as the International Telecommunication Union
to advance its high-tech equities, such as advancing Huawei as a 5G vendor of choice. It has also steered
the organization toward embracing its signature Belt and Road foreign policy strategy, which has won accolades for
helping provide needed infrastructure to developing countries but has also garnered substantial criticism for falling
short of international standards of financial viability, environmental protection, and labor rights.8 Nonetheless, Beijing
has tried to make the Belt and Road synonymous with the UN’s SDGs, which mobilize UN resources toward
mitigating poverty, inequality, and climate change—thereby generating business for its state-owned firms and
spreading its illiberal political influence across the developing world.9 UN Secretary-General António Guterres,
speaking at the 2019 Belt and Road Forum in Beijing, celebrated the “alignment of the Belt and Road Initiative with
the Sustainable Development Goals.”10 And in the UN Environment Program last year, China launched a Belt and
Road Initiative International Green Development Coalition, which purportedly seeks to advance standards around
environmental protections to “ensure that the Belt and Road Initiative brings green and sustainable development to all
concerned countries.”11

Beijing is even leveraging its tech champions in its bid to rebrand global governance in its own image. The
UN recently announced that it was partnering with China’s largest surveillance software company, Tencent, to
conduct the organization’s 75th-anniversary celebrations this year.12 In 2018, Tencent also launched a major
collaboration with the UN Development Program to tackle environmental and urban challenges in developing
countries through digital platforms that connect local government bodies to entrepreneurs.13 These arrangements in
turn position China’s technology giants to mine and hoard large quantities of foreign data for commercial gain. And as
Chinese technology proliferates across the reaches of the organization, China has joined hands with Russia to
institutionalize international norms around surveillance and censorship, including through the passage of a joint
cybercrime resolution in November 2019 that equips authoritarian governments with broad-based authority to repress
and censor political dissent online.14
China has ultimately drawn considerable momentum from the perception of U.S. retrenchment from the UN in recent years and has stepped up with full force to shape the personnel, procedures, policies, and rhetoric that comprise the backbone of the organization. In 2011, for instance, the United States cut off $80 million in annual funding to the UN Educational, Scientific, and Cultural Organization—about 22 percent of its entire budget. Beijing raced to fill the void, pledging millions of dollars in extrabudgetary support for education programs. China increased its monetary contributions to the UN by more than fivefold in the last decade, emerging recently as the second-largest contributor to the system overall. Amid the COVID-19 pandemic in 2020, as the Trump administration halted its funding to the WHO in April and subsequently announced its withdrawal from the agency in May, China announced that it would donate more than $2 billion to the UN over two years. Beijing has touted its leading role as a “defender of multilateralism” in its state-sponsored narratives, framing its activism in sharp contrast to Washington’s repudiation of global leadership in recent years.”

III. Beijing’s Playbook

In the early days of its entry to the UN, Beijing was circumspect, largely avoiding scrutiny and public confrontation with the United States. But as the CCP has advanced a more ambitious agenda in the UN, its voting patterns have more often than not clashed with the United States. Nowhere is this more apparent than in the UN Security Council, where it has defended beleaguered autocrats in Venezuela and Syria and promoted the view that respect for “sovereignty” should allow governments to disavow individual and minority claims in the name of preserving internal security. To this end, China has used its veto privilege in the Security Council more frequently and in growing alignment with Russia. In 2018, China had the second-lowest voting coincidence with the United States in the Security Council, second only to Russia. Similarly, in the General Assembly, China’s voting patterns on “important votes” converged with the United States only 5 percent of the time in 2018 (in comparison, North Korea voted with the United States 6 percent of the time and Russia overlapped with the United States 13 percent of the time).

China has been able to mobilize support for its priorities within the UN by strategically positioning itself as a champion of developing states and building substantial influence within the G77, which constitutes 70 percent of UN member states. It has repeatedly characterized itself as a developing nation when engaging with the UN, despite its standing as the world’s second-largest economy. In a 2015 UN General Assembly speech, Xi Jinping declared that “China’s vote at the United Nations will always belong to developing countries.” Xi has stated in subsequent major speeches that China would support “the efforts of other developing countries to increase their representation and strengthen their voice in international affairs.” Through this frame, Beijing has been able to cast its actions as geared toward redressing the past imbalances and injustices of a Western-dominated system.

China has, in particular, formed blocs with other illiberal states, leveraging its Belt and Road Initiative and Digital Silk Road to strengthen its exclusive ties with countries. Studies have shown that governments that support China’s foreign policy positions in the UN General Assembly also receive more Chinese development assistance, including Belt and Road investments. Through its vast digital surveillance apparatus under the auspices of its Digital Silk Road, China also offers resources, technology, and know-how—particularly relating to internal security—to other illiberal states. In other words, China leverages financing for projects to exert leverage over countries, including through threatening to cut off funding pipelines to countries that fall out of line. There have been several examples in the past year alone of the CCP wielding both inducements and threats of retaliation to try to wrangle votes and pressure UN agencies into submission:

- **Food and Agriculture Organization (FAO) election.** In June 2019, Qu Dongyu, formerly China’s Vice Minister of Agriculture and Rural Affairs, was elected Director-General of the UN FAO, decisively defeating two other candidates backed by the United States and the EU. Qu’s success was certainly a testament to China’s growing clout within the UN, but it also fueled allegations that China had deployed both coercion and inducements—including absolving millions of dollars in debt and threatening economic retaliation—to pull ahead in the race. In the leadup to the election, Chinese officials allegedly traveled to Cameroon and announced that
Beijing would cancel $78 million in debt to the country. The Cameroonian candidate subsequently withdrew from the race. China also threatened to block key exports from several countries, such as Argentina, Brazil, and Uruguay. All three countries reportedly backed Qu in the election.

- Xinjiang and the Office of the High Commissioner for Human Rights (OHCHR). In July 2019, a coalition of 22 liberal democratic countries submitted a letter to the OHCHR urging Beijing to end its “mass arbitrary detentions and related violations” against Xinjiang’s ethnic Uighurs and to allow UN experts to access the region. Notably, the United States withdrew from the Human Rights Council in 2018 and was not a signatory to this letter. Chinese diplomats reportedly canceled a bilateral event with Albania and threatened to deny the Austrian government land for a new embassy in Beijing in an unsuccessful attempt to preclude them from signing the letter. In a heavy-handed rejoinder, Beijing then mobilized 37 authoritarian countries—including Muslim majority ones—to submit a response to the OHCHR lauding China’s “contribution to the international human rights cause” through “protecting and promoting human rights through development.”

- Taiwan and the World Health Organization (WHO). China has grown more brazen in its long-standing efforts to control political representation in the UN, particularly through constricting Taiwan’s diplomatic space. In May 2017, for example, Beijing blocked Taiwan from participating in the WHO’s annual World Health Assembly (WHA) meeting, despite the contributions that Taiwan has made to efforts to mitigate global health crises, including during the 2014 to 2015 Ebola pandemic. Taiwan was also barred from three subsequent World Health Assembly sessions, including the virtual session that took place in May 2020 as the world was still reeling from the COVID-19 pandemic. Notably, the continued exclusion of Taiwan from the WHA has coincided with China’s growing financial commitments to the WHO.

IV. “Hide your Weakness, Bide your Time”

Despite its growing profile within the UN, China will face headwinds in its bid to displace U.S. leadership and emerge as an unequivocal leader in the organization. Below is a brief discussion of enduring weaknesses in China’s strategy and overall position, as well as emerging sources of strength:

Strengths

- China has a clear, consistent, and well-resourced strategy that is being dictated by the highest levels of the CCP. In particular, the Chinese government is routing talent pipelines through the UN as it seeks to “utilize international bodies as platforms to be involved in global rule-making and to gain more of a voice for China.”

- China has had considerable success with forming coalitions with developing countries, particularly those with authoritarian tendencies. It has used these blocs to challenge what it perceives to be Western-dictated status quo in international institutions and will continue to seek international endorsement for its political concepts and foreign policy strategies, in exchange for the provision of money, personnel, and “public goods.”

- China’s single greatest source of strength has been the perception of the United States’ repudiation of multilateralism and global leadership. Capitalizing on U.S. retrenchment at the UN, Beijing has seized on this window of opportunity and has stepped up with full force to shape the personnel, procedures, policies, and rhetoric that comprise the backbone of the organization.

Weaknesses

- China lacks “soft power” appeal, despite the dramatic expansion of its global narrative shaping efforts. In the UN, much of the ideological language that it inserts into resolutions and other documents—such as “win-win cooperation” and “community of a shared future for mankind”—not only lacks resonance with most countries but is also often seen as blatantly strategic.
• China’s monetary contributions to the UN have increased substantially, but it still lags behind those of leading democratic countries, especially collectively. China remains a distant second to the United States as the largest financial contributor to the UN system overall. Nonetheless, Beijing is moving quickly to close gaps in financing. As its relative share of the global economy continues to rise, it will increase the depth and breadth of its engagement with the UN.

• China will face growing opposition, particularly from liberal democratic nations, amid global events. Particularly in a post-pandemic world, many countries may increasingly question their preference for a world order with China at the helm.

V. Recommendations

As Beijing steadily expands its influence in the UN, it has tried to downplay its growing profile within the organization, citing the leadership void that the United States has left in the institution in recent years. It is thus quietly bending the UN toward a more illiberal ideological orientation that privileges CCP interests over freedom and rules-based norms. Fundamentally, any U.S. approach to managing China’s growing influence within the UN must accomplish four things: first, understand the evolving nature of China’s strategy; second, raise awareness and build consensus by boldly pointing out where it diverges from principles of universal human rights and justice alongside like-minded countries; third, deepen American participation in the UN; and fourth, leverage momentum from global events to offer alternatives to China’s initiatives that reinvigorate confidence in the liberal democratic path of development. Below are specific recommendations, broken out into four core pillars, for how to accomplish these objectives.

Pillar One: Gain a Deeper Understanding of Beijing’s Strategy

• Congress should work toward breaking down barriers to a whole-of-government grasp of China’s strategy. Congress should elevate the issue of Beijing’s growing influence in the UN and what this means for U.S. interests by continuing to hold high-profile hearings that bring senior American officials, including those serving at USUN, to testify on China’s use of the UN to legitimize the Belt and Road Initiative and other foreign policy strategies. The hearings would also provide an opportunity for members of Congress to discuss how to navigate the increasingly sharp tradeoffs between downgrading America’s participation in the UN and competing with China. Congress should also call for the establishment of a fusion center housed at the National Security Council or in the Office of the Director of National Intelligence to collect, analyze, and disseminate information about how China is maneuvering in the UN to advance its Belt and Road Initiative and Digital Silk Road and implications for norms and technical standards.

• Congress should make investments toward enabling the U.S. government to develop a comprehensive operating picture of China’s activities in the UN with key allies, partners, and fence-sitters. This, of course, requires that the U.S. government send diplomats to consistently participate in meetings of the UN and other international organizations. Additionally, Congress should direct the State Department to establish a data-sharing platform with allies focused on tracking—and where necessary, countering—China’s activities in the UN that erode human rights and the rules-based order, and to report findings and activities annually to Congress. Finally, the U.S. Mission to the United Nations (USUN), should continue to convene and lead structured conversations with Japan, Australia, and allies in Europe as well as fence-sitters such as India and Indonesia on some of the risks associated with China’s growing influence in UN agencies and ways to advance alternatives. Insights from swing states will further enhance U.S. understanding of Chinese strategy. The United States should also leverage dedicated bilateral discussions with Taiwan—a primary target of Beijing—to identify new tactics the CCP employs to systematically exclude Taiwan’s participation in the UN.

---

I am indebted to CNAS Senior Fellow and Asia-Pacific Security Program Director, Dr. Daniel Kliman, for this recommendation.
Pillar Two: Raise Awareness and Build Consensus

- Members of Congress should reaffirm American commitment to upholding norms and values in multilateral contexts, particularly in the UN. The United States must boldly point out where Beijing’s actions depart from international principles of acceptable conduct—and backstop allies as they also do so too—when the CCP engages in human rights violations. Members of Congress should introduce bipartisan resolutions that affirm the importance of advancing civil rights of speech, assembly, and religion in international organizations including the UN, while American diplomats continue to raise resolutions, statements, and letters in the UN.40 In particular, in the UN, U.S. and ally diplomats should continue to ratchet up their demands for the UN Human Rights Commissioner to conduct an independent investigation of the human rights atrocities in Xinjiang.

- Congress should up step up public diplomacy about China’s erosion of human rights in the UN. The United States must communicate directly to populations both at home and abroad the facts about China’s human rights abuses, including its efforts to dilute consensus around universal human rights in the UN. Domestically, members of Congress can assist by ramping up their ongoing efforts on social and broadcast media to publicize China’s repression of ethnic Uighurs in Xinjiang. Members of Congress can also signal American commitment to multilateralism abroad through leading bipartisan Congressional Delegations, with U.S. experts, civil society, and private sector leaders, to strategically important countries in the UN system.

Pillar Three: Deepen Participation in International Organizations

- Congress should establish a bipartisan task force to strategize with experts, industry, civil society organizations, and the Executive Branch on the future of U.S. engagement with the UN. Congress should hold dialogues with leading experts, civil society organizations, and industry to map low-cost and high-impact opportunities to influence multilateral systems and to develop policy-relevant recommendations for the future of U.S. engagement with the UN. These dialogues should also strategize new ways to advance the American “brand” of multilateralism in select UN agencies; this could include identifying concrete opportunities for leading American companies, particularly in the technology domain, to partner with UN development agencies tasked with advancing the Sustainable Development Goals, to provide needed technological solutions while advancing norms of transparency and universal human rights in implementation.

- Congress should play an active oversight role in assessing and restoring the United States’ ties with key UN agencies. The United States cannot credibly influence the norms in international organizations from afar. Rather than walk away from international organizations that it finds distasteful and leave a void for China to fill, the United States should marshal its own considerable leverage and shape outcomes from within. This requires much more significant Congressional attention and oversight to the funding of the UN, as well as to agency appointments, staffing, and reporting activity by the State Department. These activities should be backstopped by rhetoric from members of Congress and the highest levels of government at strategically important moments—including UN General Assembly meetings—that signals U.S. commitment to multilateralism.

- Congress should appropriate additional resources to invest in the future of American multilateralism. The depth of U.S. human capital is among its greatest competitive strengths, but the United States lags behind in contributing personnel to the UN. The State Department should strive to fix this by addressing barriers to entry for American candidates who lack foreign language proficiency or are deterred by convoluted hiring processes, including through building pathways for encouraging U.S. government personnel to take on posts in the United Nations system. Additionally, to advance American interests in the UN at the working level, Congress should fund new pathway programs within the U.S. State Department for promising young leaders with demonstrated interest in multilateral diplomacy modeled after the Rangel, Pickering, and Payne Fellowships that include intensive language immersion programs and incorporate rotations to the U.S. Mission to the United Nations.
Congress could also deepen its engagement with the United Nations Foundation and the Better World Campaign to expand its international outreach and engagements with younger generations in strategically important countries.

**Pillar Four: Leverage Momentum from Global Events to Push Back**

- **Congress should assess the legality of the Executive Branch’s unilateral decision to withdraw from the WHO and push for a restoration of ties with the agency, while pressing for the truth both within and beyond the agency.** A legitimate and multilateral campaign for the truth about the origins of COVID-19 and the CCP’s early blunders is essential. This requires American participation in the WHO, as well as doubling down on pressure, alongside a coalition of like-minded nations and even civil society organizations, to provide an honest account of Beijing’s handling of the outbreak, beyond the state propaganda that the CCP proffers. Congress should thus continue to hold hearings and work toward bipartisan legislation that imposes limits on the Executive Branch’s ability to unilaterally announce that it is withholding funding or withdrawing from critical agencies such as the WHO.

- **Congress should work with the Executive Branch to draw on momentum from the COVID-19 pandemic to advance the protection of human rights in the UN.** Congress, through its oversight role, should urge the Executive Branch and American diplomats to continue to raise resolutions and build awareness around the CCP’s incursions on human rights during the pandemic. The United States and like-minded countries could, for example, call upon the UN Office of the High Commissioner for Human Rights to conduct an independent investigation into the silencing and detention of medical professionals and activists in China during the COVID-19 pandemic. The findings of this investigation should be made public to ultimately create momentum for a resolution that broadly protects the rights of medical and health care professionals who speak out against institutional failings, including those at the WHO.

- **Congress should appropriate resources to assess alternative multilateral mechanisms, in concert with like-minded allies and partners, to address China’s cooption of international organizations.** While continuing to double down on its engagement with the UN, Congress should support increased funding for regional institutions such as the Asian Development Bank and the Asia-Pacific Economic Cooperation with an eye toward elevating rules-based norms and standards in even alternative institutions. Congress should also quietly engage allies and like-minded partners to explore whether there is room to build new or leverage existing alternative multilateral mechanisms—including through leveraging insights from the new Inter-Parliamentary Alliance on China—focused on advancing international coordination on global health, humanitarian crises, sustainable development, and other global issues in ways that also uphold democratic norms and values. In addition to key allies, partners such as India would be strategically important swing states to engage.

**Conclusion**

To be sure, all major powers, seek to promote their interests within international organizations. What is perilous about China’s pursuit of its core interests at the UN, however, is that it serves the narrow political purpose of shoring up power under a single authority: the CCP. Riding the tide of perceptions that China is a more dynamic and nimble problem-solver for today’s global challenges, Beijing is steering the UN away from its founding principles. Rather than China becoming more like the rest of the world, the CCP retooling the UN to try to make the rest of the world more like China. Washington and its allies must not allow that to happen.


3 Xinhua, “Xi urges breaking new ground in major-country diplomacy with Chinese characteristics.”


30 Jenni Marsh, “China just quietly wrote off a chunk of Cameroon’s debt. Why the secrecy?”
31 Jenni Marsh, “China just quietly wrote off a chunk of Cameroon's debt. Why the secrecy?”
OPENING STATEMENT OF SATU LIMAYE, VICE PRESIDENT, EAST WEST CENTER

COMMISSIONER KAMPHAUSEN: Thank you, Ms. Lee. Dr. Limaye, we turn to you.
DR. LIMAYE: Well, good afternoon and thank you to the Commissioners and to the Commission for this opportunity to testify regarding U.S.-China's strategic competition in the Indo-Pacific region.

China's strategic motivations are focused on East Asia. China's top priority is the reunification of Taiwan. It also has territorial claims across the region.

U.S.-China competition is concentrated in East Asia because it is the only region where both the U.S. and China have identified core interests and fear the other will deliberately impede their achievement. China seeks to both wedge and wean away U.S. allies and partners. Overall, it has been ineffective. China's assertiveness is actually reinforcing U.S. alliances and creating new strategic partnerships, but these alliances and partnerships are not problem-free or open-ended. They never have been. American alliances and partnerships will have limits even in U.S.-China steady-state competition and certainly during U.S.-China crises.

The U.S. needs to match a robust defense cooperation with allies and partners with optimal commercial and diplomatic relations. China's predicament is alienating U.S. allies and partners by assertive and aggressive behavior while wooing them with trade, investment, and infrastructure.

The U.S. policy task is easier. America has ample capacity to improve commerce and diplomacy. China cannot easily back off expensive, illegal, and threatening territorial and reunification claims.

Regarding commercial competition, the challenge is less China wedging and weaning than American policy effectively competing. Future U.S.-China commercial competition depends on two big unknowns. First, how and how much the U.S., China, and other regional countries decouple their economies. And second, the future balance between intra-Asian integration and trans-Pacific integration which includes the United States.

Right now, China's economy and regional trade agreements favor intra-Asian over trans-Pacific economic integration. This puts the U.S. at a disadvantage.

The U.S. can regain advantage by pursuing strategic trade and ending strategically insignificant squabble with allies and partners. Allies' and partners' disappointment with American commercial decisions is not new and can be overcome. Poor U.S. economic strengths are formidable. The U.S. remains crucial through remittances, private capital, markets, government securities, high technology, and dollar denomination actions. And China's commercial record is problematic. U.S. allies and partners are trying to counter its economic coercion and restrictions and overcome over dependence on China.

China has also been ineffective in pressing its norms, values, and narratives on U.S. allies and partnerships. Countervailing factors such as nationalism, religion, history, ethnicity, and specific disputes constrain Beijing's attractiveness. Regional polls of the leagues and republics show immense growing worry about Chinese influence.

American human rights and democracy criticisms irritate its partners, but China's expectations of deference and hierarchy are frightening the region. Tellingly, U.S. criticisms of partners on values do little to inhibit defense cooperation, whereas China's overtures on norms undermine trust.

U.S. allies and partners appreciate that their key aspirations of sovereignty and territorial
integrity have more chance to be fulfilled through relations with a strong, confident, and attractive America. Unlike China, the United States is not an irredentist state. It does not harbor historical grudges or seek to overturn historical outcomes. China's rise has brought much material benefit and gain to the region, but simultaneously it has created more negative reaction than previously ever existed.

Internal politics in Indo-Pacific countries will be the primary drivers of their approach to China. History's hangovers in East Asia are unique and heavy. Countries live with the shadow of China's past efforts at domination, support for communist insurgencies, and the economic influence of large diaspora communities. Indo-Pacific countries are capable of navigating turbulent geopolitics. They have more agency, maneuvering room, and management tools than is usually appreciated.

Indo-Pacific countries do not want to make choices. They want to have more choices. While Indo-Pacific countries work to stay on the right side of the United States, they merely avoid being on the wrong side of China. Indo-Pacific countries know that intra-regional coalitions and multilateral organizations will not protect them against China. They realize full well that only the U.S. allows a semblance, if not surety, of deterrence, persuasion, and defense against China and the best available access to modern capabilities, training, and networks required for balancing.

Regional countries are uncomfortable with a U.S. policy only about and at China. They prefer a focused, engaged, and balanced American approach emphasizing principles that apply to all.

On the basis of this assessment, I would offer four recommendations specifically for Congress.

One, create an East Asia and Pacific or Indo-Pacific congressional caucus that works the seams of geography and functional issues that privilege our engagement to the region.

Two, commission a report that systematically assesses congressional authorities, appropriations, and actions that restrict and support regional relationships with the goal of increasing the wherewithal and support for our regional partners and allies.

Third, establish a United States-Indo-Pacific Professionals Program in order to build human capacity, the hallmark of America's approach to regional engagement with its people.

And fourth, establish a new congressionally-backed state and provincial legislative exchange program for elected leaders and political experts.

Thank you very much for the opportunity to testify.
PREPARED STATEMENT OF SATU LIMAYE, VICE PRESIDENT, EAST WEST CENTER
China’s Strategic Motivations in the Indo-Pacific and Implications for U.S.-China Competition

Debate abounds about China’s strategic motivations as well as its strengths and urgency to achieve them. Consensus prevails, however, that China’s strategic motivations and military strengths are currently primarily directed towards East Asia or the western Pacific. As China’s capabilities increase and improve, its interests may expand to embrace the entire Indo-Pacific region. China is already a global economic and diplomatic power with attendant influence.

Of China’s core interests authoritatively articulated by State Councilor Dai Bingguo in 2009 and in China’s Peaceful Development 2011, the key strategic interrelated ones are: territorial integrity and national reunification. The East Asia region most directly implicates these interests.

China’s neighbors, stretching from the Yellow Sea to the Indian Ocean, either alone or through a coalition amongst themselves and others, can frustrate China achieving territorial integrity and reunification. China’s top priority is reunification of Taiwan. Its other territorial and maritime disputes are in the Yellow Sea, East China Sea, South China Sea, and borders with India. China has in the past and continues to use military force to assert some of its claims and press these disputes.

China’s strategic motivations centered on East Asia cross the tipping point into broader competition with the United States because the U.S. has alliances, strategic partnerships, or strengthening partnerships with many regional countries. China perceives that its reunification and territorial integrity objectives are impeded by these relationships. Therefore, as Admiral Dennis Blair has written, “The key, China’s leadership believes, is undermining and overmatching American military capability in the region.”

1 Satu Limaye, PhD, is Vice President of the East-West Center, and directs the EWC in Washington and Asia Matters for America initiative. He is also Senior Advisor at the Center for Naval Analyses and Senior Fellow in Asia History and Policy at the Foreign Policy Institute of the School for Advanced International Studies (SAIS). The views expressed are personal.
Furthermore, three U.S. presidents over the past two decades have identified East Asia and the Pacific as the region where U.S. attention and resources must be prioritized to address threats (mainly from China) as well as to maintain prosperity and global leadership. The Trump Administration articulated a National Security Strategy of “great power competition” due to China and Russia’s re-assertive roles. In June 2019, the Indo-Pacific was declared the Department of Defense’s “priority theater.”

East Asia is the only region where both the U.S. and China have identified core interests, and where failure or success could be a game changer for their respective global and regional roles and ambitions.

**The Effectiveness of Beijing’s Efforts to Wedge and Wean U.S. Allies and Partners**

Beijing works to both wedge and wean away U.S. allies and partners via a combination of coercion and inducements. Overall, China has been ineffective in doing so. However, China has made important inroads on trade and diplomacy across the Indo-Pacific, especially with smaller countries on its periphery, and among smaller island states in the Pacific and Indian oceans.

U.S. alliances have generally improved during the past two decades in operational terms such as interoperability, rotational and other forms of basing and access, high-end exercises, and integrated defense production and military purchases. Headlines do not capture fully the strengths of deeply institutionalized alliance mechanisms, habits, and networks of cooperation resulting from decades of hundreds of annual exchanges and engagements between allied militaries and their American counterparts (and among each other).

China’s assertiveness is reinforcing U.S. alliances and creating new strategic partnerships. For example, the U.S.-Singapore strategic partnership has been enhanced twice in five years with longer-term extensions plus new training on American soil in Guam. Other Indo-Pacific partners such as India, New Zealand, and Vietnam are strengthening defense and security cooperation with Washington, while low-key, constructive defense and security ties continue with Malaysia and Indonesia.

Moreover, U.S. allies the United Kingdom and France are increasing their coordination on shared interests in the Indo-Pacific. Allies and partners remain receptive to joining U.S.-led or backed initiatives such as the Maritime Security Initiative (MSI) and “The Quad Consultations.” Finally, the U.S. with its allies and partners are increasing security and other capacity-building coordination in Southeast Asia, the Pacific Islands and among Indian Ocean states.

U.S. alliances and partnerships are not problem-free or open-ended. They never have been. Even in the face of Chinese assertiveness, American alliances and partnerships will have limits in U.S.-China crises as well as steady-state competition. Careful, persistent alliance and partner management is required. Currently, the main U.S. challenge with allies and partners is matching relatively robust defense cooperation with more optimal commercial and diplomatic relations.

---

China’s challenge vis-à-vis U.S. allies and partners is alienating them through assertive behavior while wooing them with trade, investment, and infrastructure. America has ample ability to improve commerce and diplomacy; China has little room to back off expansive, illegal and threatening territorial and reunification claims.

Scenarios in which U.S. alliances and strategic partnerships could be broken require conditions so profoundly different from today and the foreseeable future (e.g., a reset of the major flashpoints via negotiation or war, the collapse of China’s ambition or capacity to achieve its core interests, or a U.S. decision to withdraw from the region) that the very value of these relationships would be different.

On commercial issues, China’s own economic growth and emergence as a platform for global supply chains has made it a crucial partner for the U.S., its allies, and its partners. Especially in the wake of the COVID-19 pandemic, several uncertainties reign:

- The first is how and how much the U.S. and China “decouple” their economies and the effects of that decoupling for allies and partners.
- A second is how much regional countries diversify their own supply chains and investments from China. A modest diversification, rather than flight, has been underway for about a decade.
- A third uncertainty is the balance between intra-Asia integration and trans-Pacific integration. The pending Regional Comprehensive Economic Partnership (RCEP) trade agreement includes ten Association of Southeast Asian Nations (ASEAN) countries plus China, Japan, Korea, Australia, and New Zealand could modestly increase intra-Asia integration through tariff reductions.
- A fourth more worrying uncertainty is China’s recently stated receptivity to joining the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP). If China successfully negotiates membership in this successor agreement to the U.S.-rejected Trans-Pacific Partnership (TPP), intra-Asian integration could be significantly bolstered to the disadvantage of trans-Pacific economic ties. CPTPP already includes two U.S. treaty allies and one close strategic partner. Three other treaty allies—Thailand, the Philippines, and the Republic of Korea—as well as the largest economy in Southeast Asia, Indonesia, and in South Asia, India, could feel compelled to join CPTPP. While the U.S. squabbles continue with regional allies and partners over trade deficits, preferences, and tariffs, the balance between intra-regional and trans-Pacific commerce could erode to irrecoverable U.S. disadvantage.

In areas of commerce, the challenge is less China wedging and weaning the region away from the U.S. than American policy decisions not effectively competing with China. The U.S. remains key to allies and partners for remittances, private capital markets, government securities, high technology, and the use of the dollar. These structural advantages will not easily erode, but cannot be taken for granted.
China’s commercial record is not unblemished. Allies and partners have faced increasing Chinese economic coercion and restrictions. The COVID-19 pandemic has highlighted the high level of dependence on China for markets, production as well as consumers and tourists. In response, U.S. allies and partners have created new laws and regulations to restrict China’s foreign direct investment, trade, mergers and acquisitions, access to higher education in sensitive fields, and role in 5G networks. They have encouraged and funded supply chain diversification. But these actions are not framed as China-directed or only responsive to U.S. demands. Rather, allies and partners have acted on their own concerns aligned with the U.S. and narrowly scoped restrictions to maximize trade and investment benefits from China. American allies and partners also seek global trade and investment agreements with the European Union among others to support economic development and growth and diversify dependence on China. And they pursue intra-Asia integration and encourage the U.S. to “up its game” on regional trade and investment. Regional disappointment with the U.S. on commercial matters is not unprecedented and not insurmountable.

Finally, China has not been effective in foisting its norms, values, and narratives on U.S. allies and partners. China’s non-democratic, one-party authoritarian political model has almost zero resonance amongst elites and publics. Even among non-democracies or deficient or illiberal countries, countervailing drivers such as nationalism, religion, history, ethnic considerations, or specific disputes with Beijing constrain overly close relations with China. Even though majorities in Southeast Asia view China as the most influential regional economic and politico-strategic power, majorities (71.9 percent and 85.4 percent, respectively) also worry about this influence. Southeast Asia’s top China worries include economic dominance and political influence and coercion, strong-arm tactics in the South China Sea and the Mekong, and use of economic tools and tourism to punish foreign policy choices. A Pew Research poll conducted in 2019 found favorability ratings for China among Asia-Pacific countries to be considerably lower than those for the U.S., though U.S. favorability had slipped too.

American criticisms about human rights and democracy grate and irritate, but contrast with China’s demands for obeisance and hierarchy. It is telling that U.S. criticisms on values issues do little to inhibit defense cooperation whereas China’s human rights standards in alleged alignment with much of Asia foster next to nil security and defense trust. It is no wonder that the region complains about declining U.S. engagement and influence while fearing China’s rising engagement and influence.

Beijing’s “New Security Concept,” “Nine-Dashed Line,” “Community of Common Destiny,” and efforts to negotiate a Code of Conduct (CoC) as well as territorial and maritime assertiveness accentuate anxieties about China. Meanwhile, Beijing remains mum on regional proposals such as the ASEAN Indo-Pacific Outlook. U.S. allies and partners appreciate that their aspirations of national security, sovereignty, and territorial integrity have more space and chance to be realized when a strong, confident, and attractive America fully and sensitively engages with the region. The reasons are simple: the U.S. is not an irredentist state, it does not harbor historical grudges from past conflicts, and it does not seek to overturn outcomes left over by history. China’s rise has brought many material gains to the region, but it has also led to negative complications in its own narrative where before few or none existed.
Indo-Pacific Countries’ Evolving Approaches to China and The Prospects for a Common Approach

Indo-Pacific countries’ approaches to China start from domestic politics. As China’s diplomatic, commercial, and security salience increases with asymmetrical impacts on localities, constituencies, business sectors, and bureaucracies, policy coherence and consensus are more complex. This challenge is not unique to the region. One difference is that history’s hangovers are especially heavy. East Asian countries are well aware of China’s historic efforts at domination, support for communist insurgencies, and the economic influence of large diaspora communities. The PRC’s modern relations with the region are newer than the U.S. history of engagement with the region; and offer a new mix of opportunities and threats. Compounding their difficulties of dealing with China, regional countries perceive the United States as currently distracted and even dysfunctional.

Despite these difficulties, Indo-Pacific countries are more than capable of coolly calculating global and local geopolitical balances and navigating between and among them. Such maneuverings may be couched in protestations, norms or ideology but the behavior is a mix of geopolitical assessment and managing domestic politics. They are experienced in the comings, goings, and rivalries of great powers. Indo-Pacific countries have far more agency, maneuvering room, and tools than usually realized.

Of course, Indo-Pacific countries do not want to make choices, but even more importantly, they don’t want no choices; which is one reason Southeast Asia in particular has invited and received strategic internationalization (i.e., bringing more countries into ASEAN’s diplomacy, commerce, institutions, and security). Other Indo-Pacific countries are reaching out to each other and beyond the region. Meanwhile, regional states’ seek to keep the U.S. present and engaged—including by improving defense alliances and strategic alignments; joining groupings such as the Quad; and coordinating more closely among American allies and partners—and modernizing and strengthening national defense capabilities with U.S. cooperation.

Essentially, Indo-Pacific countries want to stay on the right side of the United States and off the wrong side of China. Meanwhile, Indo-Pacific countries will try to get the PRC and/or the U.S. to take their side regarding specific national interests.

Indo-Pacific countries are clear-eyed that any combination of intra-regional coalitions or multilateral organizations will not protect their interests vis-à-vis China. They are therefore also clear-eyed that a close relationship with the U.S. allows a semblance if not surety of deterrence, dissuasion, and defense against China and the best access that exists to the modern capabilities, training, and networks required for balancing. Allies and partners welcome close security/defense cooperation with Washington so long as it is not directed overtly at China.

There cannot be a common approach to China policy across the Indo-Pacific on every issue. For now, an amalgamation rather than a coalition or concert of American alliances and partners constitutes a common approach. A focused, engaged, and subtle American approach
emphasizing that U.S. policies and objectives vis-à-vis the Indo-Pacific are not only about and at China but about a set of principles that apply to all will be welcome.

**Recommendations to Congress**

1. *Create an East Asia and the Pacific or Indo-Pacific Congressional Caucus* to complement country or sub-regional caucuses to provide a more holistic legislative approach to policy across geographical and functional seams; and with the central purpose of shoring up U.S. relations across the region.

2. *Commission a report that systematically assesses congressional authorities and actions that restrict and support relations with allies and partners* in an effort to minimize the former and expand the latter.

3. *Establish a United States-Indo-Pacific Professionals Program via a consortium of professional associations in the U.S. and Indo-Pacific* countries bringing together American and Asian professionals in fields such as civil engineering, architecture, health care, and law among other professions. Such a program would complement existing fellowship and short-term exchanges, but emphasize best practices and principles in the professions and hone mutual human capital development.

4. *Establish a new congressionally-backed subnational (state and provincial) legislative exchange program* for elected political leaders and policy professionals between the United States and Indo-Pacific countries.
COMMISSIONER KAMPHAUSEN: Thank you very much, Dr. Limaye. We turn now to Dr. Ellis.

DR. ELLIS: Thank you, Commissioner Cleveland, Mr. Kamphausen, Mr. Bartholomew, Commissioner Lewis, distinguished commission members, thank you very much for this opportunity.

PRC global engagement is inherently a competition because it threatens the position of the United States, our security and prosperity and the democratic values, rights, and institutions upon which we depend.

The PRC is engaged in a predatory economic advance at the expense of the United States and others in the region. China's companies have invested over $122 billion in Latin America since 2000 of which $110 billion approximately was acquiring control over commodities or for building the infrastructure to assess them as we see elsewhere in the world.

China uses its economic might to induce governments to behave in ways that benefit it. Outside of the region, when Australia, for example, sought to investigate the causes of COVID-19, China boycotted its beef. When Britain fought to block Huawei from its 5G network, China threatened to cancel investment in British infrastructure projects.

China underwrites and prolongs the life of anti-U.S. regimes here in hemisphere and elsewhere, for example, giving $62 billion in loans to Venezuela, then recuperating all but $19 billion of that by being in control and pumping the oil from Venezuela used to repay itself.

The PRC's China First deals stick the region and the U.S. with the consequences. We are connected to that region. The PRC's defect-ridden, loan-based projects in Ecuador, for example, obligated that nation to commit 90 percent of its oil to China through 2024, something that the current government of Lenin Moreno has been unable to extricate itself.

China has sold problematic surveillance systems to the region including ECU-911, BOL-110, a system in Colon, Panama, border monitoring in Uruguay, and a system in Jujuy, Argentina. With these, the 2017 PRC National Security Law allows the PRC Government to oblige those Chinese vendors to turn over data passing through those architectures, putting Latin American business and political leaders at risk, putting their trade, political, and personal secrets in jeopardy.

The Chinese security engagement, modest to date, still helps the PLA develop capabilities, knowledge, and relationships that let it operate better in an increasingly global fashion. In Venezuela just last year, China developed JY-27A radars, even as the regime was in full collapse, plus the armored vehicles used by the Bolivarian National Guard, to crush dissent in Caracas and elsewhere.

China has sold or donated 31 armored cars and 6 helicopters to Bolivia; 10,000 assault rifles and 709 military vehicles to Ecuador; 27 Multiple Launch Rocket Vehicles to Peru; a patrol ship to Trinidad and Tobago; and a $20.7 million police academy building to Costa Rica, just to name few.

The PLA navy hospital ship, Peace Ark, visiting the region first in 2011, then again in 2015, then again in 2018-2019. China has deployed military police to Haiti for eight years from 2004 through 2012. PLA soldiers have participated in Lancers course in Colombia, the Brazilian Jungle Warfare School, among others, just to give a few examples.
Chinese goals and methods. For me, the objective of PRC engagement openly expressed in documents like Made in China 2025 and President Xi's China Dream speech is arguably to reshape the global economic order to China's benefit. In this, the BRI is its cornerstone and illustrates China's fundamental mercantilistic approach.

China's primary instrument in this endeavor is its companies. It supports their efforts, especially SOEs, to build and dominate overseas infrastructure, operations, and markets. The PRC works to ensure that multilateral institutional order is conducive to its ambitions as shown by its influence in the WHO costing lives and time in the struggle against COVID-19.

China also uses its soft power leveraging politicians and businessmen who hope to profit informally by tying themselves to Chinese partners or to win access to Chinese markets. It further leverages people-to-people diplomacy. Beyond the 46 Confucius Institutes in the region, many of Latin America's China facing officials, and I know this from experience, gain their expertise about the PRC on scholarships to the PRC paid for by the Chinese Government. How now can those officials objectively represent their governments' interests vis-a-vis China?

China further brings foreign officials, scientists, influential think tank leaders, academics, journalists, and others to the PRC inducing them indirectly to mute their criticism in order to avoid loss of future China trips or future China business.

Willingness to confront the U.S. The PRC avoids directly challenging the U.S. in hemispheres, that's true, yet has expanded commerce and investment with the region, involvement in multilateral bodies, and has established nine formal strategic partnerships here. It has defied the United States in recognizing and cautiously continuing to support the illegitimate Maduro regime in Venezuela. Since 2017, it has induced Panama, El Salvador, and the Dominican Republic to abandon Taiwan and is lobbying others, specifically Haiti and Paraguay, among others to do so as well.

The PRC makes the opportunities arising from COVID-19 now and in the near future to expand its strategic position through advances in its commodity purchases, in supply chains, in acquisitions from distressed European and U.S. companies, and in loans to distressed governments such as the current government of Argentina.

Strengths and weaknesses. PRC's strengths include the perceived attractiveness of its market, I say perceived, plus the power of its government to coordinate across sectors including financial. The perception that China's authoritarian system is effective against the health and economic risk of pandemics, the perception, will help Beijing in the emerging debate of ideas about authoritarian versus democratic systems, although I believe its clumsy medical diplomacy will not completely overcome distrust towards China deeply rooted in the region.

Nevertheless, China's SOEs have difficulties in the region adapting to local conditions. Also, its authoritarian system, I believe, impedes its leaders from fully understanding the distrust that others feel towards China.

Congressional action to conclude. I respectfully recommend considering action in the following areas.

Number one, hearings and studies. This includes publicly releasable reports by this committee, as well as by the Congressional Research Service, in order to fully and more broadly highlight the bad behavior by China and its companies and the threats that it poses to the U.S. and our partners.

Two, CFIUS. I recommend the strengthening of the CFIUS process here, plus funding to help our partners strengthen their own CFIUS-like review procedures in their countries to protect against the more predatory strategically damaging Chinese investments.
Governance. I recommend funding for State Department-led programs to help our partners fight corruption, advance transparency, and strengthen good governance and the rule of law, especially to inoculate them against the most threatening aspects of China's advance.

Private sector initiative. I recommend the continued support for America Crece, for the Development Finance Corporation, and in general harnessing the resources of the private sector in competing against China's offer.

Foreign aid. I do recommend as a complement to this funding and continued funding for non-reimbursable programs such as USAID's Clear Choice which showcase U.S. generosity which I believe China does not compete against very well.

Technology. I recommend the initiatives that make non-Chinese technology solutions such as those from Japan and Korea and elsewhere, more economically viable against Chinese ones, especially in areas like 5G and surveillance architectures.

Finally, multilateral fora. As my distinguished colleague also has said, I recommend congressional support to sustained U.S. engagement in multilateral bodies in order to prevent the PRC from dominating such spaces.

Thank you very much.
PREPARED STATEMENT OF R. EVAN ELLIS, RESEARCH PROFESSOR OF LATIN AMERICAN STUDIES, STRATEGIC STUDIES INSTITUTE, U.S. ARMY WAR COLLEGE
Commissioner Kamphausen, Commissioner Lewis, distinguished members of the US-China Economic and Security Review Commission, thank you for the opportunity to share my work and views with you today regarding strategic competition between the People’s Republic of China (PRC) and the United States. My testimony is based principally on my research and engagements over the past sixteen years on PRC activities in Latin America and the Caribbean.

While I am currently employed as Latin America Research Professor at the Strategic Studies Institute at the US Army War College, my views are wholly my own, and do not necessarily represent those of my institution or the US government.

PRC global engagement, including the examples in Latin America and the Caribbean I will address today, principally seeks to benefit China. Nonetheless, that engagement is inherently a competition because it threatens the position of the United States, our security and prosperity, and the democratic values, rights, institutions and laws on which we depend. Those threats, while mostly based in economic activities, are nonetheless strategic for the U.S. They include:

(1) A predatory PRC economic advance, achieved through a mercantilist strategy that involves state coordination, unfair practices, and technology theft. This strategy actively seeks to propel Chinese companies to the top of value-added chains, dominating critical sectors, and in control of resources, markets and global wealth flows, at the expense of the US and others.

(2) The use of economic incentives and threats, plus other forms of coercion, as PRC power grows, to silence criticism and cause governments to behave in ways that benefit it, undermining democratic institutions and discourse and the competitive position of US and partner companies.

(3) Trade with, loans to, investment in, and other forms of economic and other support to anti-US regimes, indirectly enabling their criminal activities and contributions to regional instability.
(4) The deployment of communication, technical and security architectures that potentially give the PRC access to data on partner nation leaders, companies, and citizens, compromising their ability to make sovereign decisions to protect and advance their interests.

(5) Through providing an alternative to commerce, loans and investment from the West, making governments of the region less inclined to support the US on political, commercial, or security issues, or to stand up for rule of law, democracy or human rights, particularly where it might offend the PRC; and

(6) Through security engagement that strengthens the capabilities of the PRC, including the quality of its weapons systems, the capability of its forces, and their ability to operate globally against the US in a future conflict, even in our own hemisphere.

In Latin America, the PRC has rapidly expanded its position and influence in the past two decades through trade, loans, and investments. China’s trade with the region has grown from $12 billion in 2000 to $278 billion in 2017. Its policy banks have made more than $137 billion in loans to the region, eclipsing the Interamerican Development Bank and World Bank; Chinese companies have invested over $122 billion in the region between 2000 and 2018, with all but $16 billion of that coming after 2010. The vast majority of those investments have involved acquiring control over commodities or building and dominating the infrastructure to assess commodities and markets. Indeed of that $122 billion in investments, $73 billion (60%) have been in the commodities sector, and another $37 billion in services such as construction.

Although the PRC calls its engagements as “win-win,” they are better characterized as “China First,” letting the U.S. and the region bear the consequences and pick up the pieces.

A few examples illustrate the damage China is doing through its engagement:

In Venezuela, from 2008 through present, Chinese banks provided over $62 billion in loans to the leftist populist regimes of Hugo Chavez and Nicholas Maduro, propping them up as their regimes expropriated western companies, fomented subversive and criminal activities in the region, dismantled democracy in the country, and so mismanaged the economy that over 5 million Venezuelans have fled. The PRC has recuperated all but about $19 billion of what it loaned by controlling the pumping of the Venezuelan oil used to repay itself. Nonetheless, because the PRC turned a blind eye to the corrupt Venezuelan counterparts who authorized the work, including abandoned infrastructure projects, car and electronics factories that produced products few products, and purchasing appliances for political supporters, the country has almost nothing to show for what it spent.

In Ecuador, the populist anti-US government of Rafael Correa incurred more than $6 billion in debt to China for infrastructure projects with numerous defects such as the Coca Coda Sinclair hydroelectric facility, in the process signing commitments with the
Chinese that obligated delivery of 90% of the country’s petroleum through 2024 on questionable terms. Ecuador’s current president Lenin Moreno attempted, but was unable to restructure that debt and petroleum commitment.

In Jamaica, in exchange for building a $600 million highway from Kingston to the tourist destination Ochos Rios on the north of the island, the government ceded the rights to land whose commercial value, once the highway was built, was vastly greater than the cost to build the road.

In the Bahamas, developer Sarkis Izmirlian lost his investment when the fate of the $4.2 billion Baha Mar resort, bankrupted by the poor performance of Chinese developer China Construction Americas, was settled in a Hong Kong court thanks to the fine print in the contract, and Macau-based Chow Tai Fook enterprises swept in to buy the distressed asset.

In Costa Rica, the Chinese oil company CNPC attempted to use its own subsidiary HQCEC for a study required for the Costa Rican government to move forward on the $1.3 billion Recope refinery, including incurring a loan from the PRC to finance work by Chinese companies.

In Argentina, in 2010, China reacted to anti-dumping measures against its products by the Argentine Congress by suspending the purchase of $2 billion in Argentine soy oil, eventually obliging the government to commit to the purchase of $10 billion in train infrastructure projects, before resuming purchases.

In the Dominican Republic, El Salvador and Panama, the PRC obliged the government to abandon diplomatic recognition of Taiwan and recognize the People’s Republic of China, with the promises of significant Chinese investment and projects. Almost none of the $3 billion in projects promised to the Dominican Republic have been realized.

In Panama, the government of Nicolas Cortizo, has suspended or cancelled multiple Chinese projects agreed to by his predecessor, including an economically questionable $4.1 billion high speed train from Panama City to David, a cross-country electric transmission line, a fourth bridge over the Panama Canal, and a major new port project in Colon, whose developer was arrested in June 2020 for illegal investment practices.

China has also sold a growing array of surveillance systems to the region. Within the framework of the 2017 PRC National Security law, the Chinese government can oblige Chinese companies to turn over data passing through these architectures, potentially allowing them to compromise leaders or gain leverage in commercial and political interactions. Notable examples of these architectures include ECU-911 in Ecuador, which now includes 4,300 cameras and 16 regional response centers, and BOL-110 in Bolivia, which has recently been used to monitor people infected with Covid-19. Other examples include a system installed in the Colon Free Trade zone in Panama, a border monitoring system in Uruguay, and one in the Argentine province of Jujuy.
Chinese security engagement in the region, while modest to date, plays an important role in helping the PLA develop technical and support capabilities, knowledge and relationships that enable it to operate in an increasingly global fashion, as acknowledged in the May 2015 PLA Defense Strategy White Paper. This includes helping the PRC to operate effectively in the Western Hemisphere, if China decides to do so, in the context of a future conflict with the US. While PRC weapons sales in the past 5 years were a modest $615 million, donations are far greater.

Chinese military transactions with the leftist populist regime in Venezuela include K-8 light jets, Y-12 and Y-8 military transports, JYL-1 air defense radars, and long-range JY-27A radars, delivered just last year. They also include armored vehicles for the Bolivarian National Guard, used to crush dissent, and used this January, to help lock Venezuela’s interim President Juan Guaido and his supporters out of the National Assembly.

Bolivia’s military transactions with China include numerous military trucks and vehicles, armored cars, and six Harbin H-425 helicopters (leading to the arrest of the Bolivian general involved in the transaction for corruption).

Ecuador’s military transactions include 10,000 AK-47 assault rifles, and 709 military vehicles.

Peru has acquired Chinese military trucks as well as Type-90B Multiple Rocket Launch Vehicles. 27 were ultimately delivered, although as in Bolivia, the government later opened a corruption investigation into the contract.

In Argentina, the prior leftist populist government of Christina Fernandez was negotiating the purchase of 20 Chinese FC-1 fighters, which would have been the most advanced Chinese military aircraft sold to the region, as well as five P-18 OPVs and a number of armored vehicles. Similar purchases from the PRC are again possible now that Christina Fernandez has returned to power as Vice President.

In the Caribbean, in 2014 The Trinidad and Tobago defense force acquired a Chinese Offshore Patrol Vessel (OPV). The Chinese have donated vehicles to the Guyana Defense Force, and at least $1.1 million in equipment to the Jamaica Defense Force.

Beyond Latin American militaries, the PRC has also used sales and donations of security equipment to strengthen its ties with Latin American police forces, building connections and goodwill potentially useful in protecting the interests of Chinese companies and personnel operating in the recipient nations. Examples include a $2.6 million in vehicles donated to the Guyana Police Force in 2017, and 200 motorcycles to donated to the Trinidad and Tobago police service in 2019. The PRC also donated a $20.7 million building for the Costa Rica police academy, inaugurated in 2017. In 2018, Argentina imported Chinese armored vehicles to provide security for the G-20 summit in Buenos Aires.
The PRC has been actively engaged in visiting Latin American military institutions and bringing the region’s military personnel to China, in the process creating opportunities for its government to obtain information and develop relationships useful for future operations in Latin America, as well as evaluating and potentially compromising those personnel. Notable examples include PLA participation in the elite “Lanceros” special operations training course in Tolemaidia, Colombia, in courses of the Brazilian jungle warfare school near Manaus, and institutional visits to both Colombia’s Peacekeeping institute and Brazil’s well-respected counterpart, CCECOPAB.

Latin American and Caribbean militaries send their officers to China’s National Defense University to Command and General Staff schools, and in fewer numbers, have sent cadets to participate in the 5-year long program of the PLA Military Academy.

Beyond such visits and exchanges, Chinese military forces regularly conduct operational missions to the Latin America and the Caribbean, useful if needed for future activities in the region. The Chinese hospital ship Peace Arc has deployed to the region three times, in 2011, 2015, and 2018-2019, each longer and more sophisticated than the previous one. Chinese military forces also maintained a constant presence in Haiti, as part of the MINUSTAH peacekeeping force from 2004 through 2012.

Having detailed the nature of the current Chinese challenge in Latin America and the Caribbean with specific examples, the balance of my testimony addresses the specific questions put to me by the Commission for the preparation of this testimony:

1. Understanding Beijing’s Approach and Motivations
2. The Question of PRC Deference to the United States
3. The Impact of Covid-19
4. Strengths and Weaknesses of PRC Engagement
5. Recommendations for Congressional Action

**Understanding Beijing’s Approach and Motivations**

The overarching objectives of the PRC, in its global engagement, are expressed candidly, although diplomatically, in its official documents, including “Made in China 2025,” as well as in the rhetoric of President Xi, such as his “China dream” speech. The implication, if not the words, of those documents and statements, is that the PRC is actively working to reshape the global economic order, to establish for itself a privileged position at the center, and to accumulate wealth and power through trade, finance, investments and global commercial operations. Its 2013 official launch of the “Belt and Road Initiative” as a cornerstone for that strategy and its global marketing highlights how China’s current ambitions and strategy are rooted in past dynastic periods when China was relatively powerful and unified, situated in a world system that functioned to its advantage, in which the “Silk Road,” and for a time, Zheng He’s “treasure fleet,” facilitated tribute from, and exchange with, the “barbarian periphery” for the enrichment of the imperial center (中国 Zhōngguó).
Today, the focus of the PRC is to advance the position of its companies, both at home and in global markets, as the principal tools for generating wealth for the Chinese people and power for the Chinese state.\textsuperscript{65} Through those enterprises as its tools, the PRC approach is fundamentally neomercantilistic,\textsuperscript{66} It uses its companies to build and dominate the infrastructure and associated overseas operations and markets that enable that generation of transfer of wealth.\textsuperscript{67} This includes, in Latin America and elsewhere, controlling the agricultural operations that feed the Chinese people and the petroleum and minerals that feed the PRC commercial machine. It includes control of key ports, sea and air logistics routes, as well as electricity generation and transmission, telecommunications, banking and other “soft” infrastructure instrumental for the system to function.

In Latin America, the primary tool of the PRC in this advance has been its enormous financial resources, which it has leveraged to buy assets and commercial operations in the region, rather than investing in existing ones that it controls there. Indeed, seventy-five percent of PRC investment in the region during the period has been through mergers and acquisitions.\textsuperscript{68}

Dominating leading technologies, and being competitive in others, as outlined in Made in China 2025,\textsuperscript{69} is a necessary enabler to achieve Chinese strategic objectives. Developing and appropriating such technology is not only important for its companies to occupy dominant positions and realize a substantial portion of the value added in supply chains. It also supports construction of a strong Chinese state, secure from external challenges,\textsuperscript{70} and internal challenges to the hegemony of the Chinese Communist Party.\textsuperscript{71} To protect the PRC from those who it fears might resist its ambitions, the PRC has continued to substantially expand defense spending, even during the Covid-19 crisis,\textsuperscript{72} building capabilities that include not only anti-access weapons and systems, and the militarization of reefs in the South and East China Seas,\textsuperscript{73} but also constructing a Navy\textsuperscript{74} that is projected to be twice the size of that of the US by 2030.\textsuperscript{75}

In order to ensure that the international multilateral order is conducive to its ambitions, the PRC is further seeking leverage in global institutions. Examples include its membership in the Interamerican Development Bank since 2009 (to include the IDBs agreement to hold its 2019 annual meeting in the PRC, and China’s associated interference with who the organization sent there in representation of Venezuela),\textsuperscript{76} its active role in the Economic Commission on Latin America and the Caribbean (ECLAC), and the now infamous leverage it built within the World Health Organization, allowing it to persuade the organization to delay the sharing of important information about Covid-19.\textsuperscript{77}

In individual countries, working through both its companies and government channels, the Chinese state advances its position by coopting partners into contracts, relationships, and other activities disproportionately beneficial to the PRC. This ultimately facilitates access to the markets and resources of those partners.\textsuperscript{78} It uses its diplomatic tools and hopes for future trade, investment, and loans from the PRC, as well as nurturing local business and political leaders and bureaucrats through people-to-people diplomacy\textsuperscript{79} to facilitate approval of acquisitions, contracts and other access,
thus enabling clusters of its companies to achieve strategically important positions in key sectors. Reciprocally, it leverages the fear of lost access to the Chinese market, investments, loans, and trips to the PRC for key businessmen, academics and think tank figures, journalists and others to mute local discourse critical of the PRC, its system, and the operations of its companies. For example, when the Australian government called for an investigation into the causes of Covid-19, China threatened to boycott Australian products. It also threatened to cancel Chinese investment in British infrastructure projects including a nuclear reactor and a high-speed train if the later blocked Huawei from participating in construction of the nation’s 5G telecommunications infrastructure.

In its global maneuverings, the PRC is not competing with the United States so much as pursuing its self-centered objectives while anticipating US pushback, and working in political, economic, institutional arenas to undermine the US ability to do so.

China has a right to prosperity and security. It is the predatory manner in which its current government is pursuing those objectives, combined with the scale of the transformation unfolding through that pursuit in our interdependent world that makes its rise so disruptive to the current global order, and so threatening to the United States. The PRC government and its companies consistently disregard, and in the process undermine, structures, norms, and institutions that have been fundamental to the global economic and political system since the Second World War. These include rule of law, respect for intellectual property, democracy, freedom of expression, and the rights of individual persons and states. The PRC may not seek to impose a Soviet-style model of governance on the world. Nonetheless, the way in which it systematically helps its companies to steal technology and achieve lopsided business deals suppresses dissent within its borders, imprisons minority populations like the Uighurs, and bullies its neighbors to impose its claims in the South and East China seas does not bode well for the less powerful in a world where the PRC is even richer and stronger.

In general, the PRC uses the lure of access to its massive market and resources, including loans and investments, to tempt business and political leaders to explore deals they would not otherwise consider. It leverages its government’s ability, through administrative, legal and Communist Party mechanisms to coordinate the activities of its State Owned Enterprises (SOEs), financial institutions, and other entities to offer partners political-commercial-financial package deals that Western companies and governments find difficult to compete with. This often includes the promise of rapid financing and execution without the fiscal or policy conditionality often associated with lenders such as the International Monetary Fund. China’s package deals, by contrast, typically oblige its partners to relax procedural requirements such as transparent, competitive public bidding, privileging Chinese subcontractors and labor, and exempting them, formally or de facto, from certain labor, environmental and other requirements. The best known examples in Latin America are the lines of credit that the PRC provided to leftist populist governments in Venezuela and Ecuador for work to be performed by Chinese companies and workers, to be repaid through parallel contracts for the delivery of those nations’ oil.
China's pursuit of objectives is helped by its substantial and growing "soft power." That influence is very different, however, from US "soft power," which is based more on value alignment: the affinity felt by people in the region for the US people and culture, or their belief that concepts of democracy, human rights, or free markets espoused by the United States are useful guides for their own countries—even if they do not care for certain rhetoric or actions by the US government.\textsuperscript{90} By contrast, Chinese "soft power" often coexists with a deep distrust for the PRC government and its businessmen; it involves the belief, or hope by local politicians and businessmen that they can "manage the risks," and benefit their government, company, and/or personally through engaging the Chinese.\textsuperscript{91}

The PRC exploitation of soft power in Latin America, in practical terms, means that its companies enter the country through a type of “civil war”: A portion of the established businesspeople fear the enormous resources of the Chinese will demolish their cozy, closed world of doing business, and thus use every legal, political, and personal tool available to keep the Chinese out. Other businessmen seek to offer their local knowledge and access as partners to the Chinese in what they hope will be lucrative relationships leveraging the Chinese company's perceived access to financing, production capabilities, and other resources. The administrative and legal battle in 2015 over the proposed Dragon Mart wholesale-retail complex in Quintana Roo, between China-affiliated developer Juan Carlos Lopez and those who opposed the project, illustrates such dynamics.\textsuperscript{92}

Beyond the lure of profit from Chinese companies as partners, or access to the Chinese market, PRC soft power also involves substantial "people-to-people" diplomacy. Hanban's forty-six Confucius Institutes and five Confucius Classrooms in Latin America and the Caribbean\textsuperscript{93} play an important role in this regard.\textsuperscript{94} Even more important are the thousands of students from the region who connect with the Chinese government and receive scholarships to study in the PRC each year through Hanban and these institutes. They incur debts of gratitude, positive socialization into the Chinese authoritarian system, and enduring ties to Chinese academic and government officials, which they retain when they return home with their unique and prized knowledge of China and the Mandarin language to assume leadership positions on China issues in their governments, leading academic institutions, or as businessmen dealing with the PRC and its companies. Indeed, the current generation of Latin American officials responsible for negotiating their government's interests with the PRC, gained their "China expertise" in the PRC under such programs, raising questions about their ability to best represent the sovereign interest of their countries against the country who allowed them to obtain their expertise.

In addition to such scholarships shaping the future leaders of the region, PRC people-to-people diplomacy includes Latin American government, party, and military officials, scientists, influential think tank leaders, academics, journalists and other elites brought to China and wined-and-dined on luxurious trips. While there have been some cases of scientists and other academics giving their Chinese hosts sensitive technical and business information,\textsuperscript{95} the adverse effects in most cases are more subtle but equally troubling. While only a portion may become spies or propagandists for China, for the
others, their desire not to be ungrateful to their hosts and their hopes of receiving future invitations may lead them to temper their criticism of the PRC and the behavior of its companies.

Beyond such individual level activities, the PRC is also becoming increasingly aggressive in using access to its markets to intimidate governments, companies and organizations. In Argentina, China's April 2010 cut-off of purchases of soy oil as a reprisal for anti-dumping measures adopted by the Argentine Congress ultimately led Foreign Minister Timmerman and even President Fernandez de Kirchner to race to China to make amends. The government ultimately agreed to commit to over $10 billion in Chinese infrastructure projects in the country before the PRC finally resumed purchases of Argentine soy. More recent cases include China's suspension of business with the US National Basketball Association franchise Houston Rockets, costing the team over $450 million in lost revenues, after its general manager dared to make a twitter post in support of Hong Kong protesters. Most recently, when the Australian government indicated it might investigate China's role in the spread of the Coronavirus, the PRC retaliated by suspending imports of Australian beef.

In short, the PRC is increasingly using coercion by denying access to its markets and resources to buy compliance or at least silence from governments, businesses, and individuals.

**Deference to the United States in its “Backyard”**

The PRC has traditionally avoided directly challenging the United States through rhetoric, military, and political initiatives involving territories close to the United States that it perceives as the US “sphere of influence.” In this regard, the Communist Chinese government gives some de facto weight to the “Monroe Doctrine,” even after the Obama administration renounced US adherence to the doctrine. Yet, such caution only applies in a limited fashion to economic and cultural engagement. The PRC openly indicated its intention to pursue significant engagement with the region across a broad range of areas in its 2008 and 2016 policy “white papers” toward Latin America and the Caribbean, as well as in the 2015-2019 and 2019-2021 China-CELAC plan. As noted previously, China has increasingly done so through its diplomatic activities in the region, expanding trade and loans, active involvement in multilateral bodies such as the Interamerican Development Bank, CELAC and the BRICS forum, and in establishing nine formal “Strategic Partnerships” with countries in the region.

The PRC has generally avoided associating itself with anti-US rhetoric or actions of leftist populist regimes in the region such as Venezuela, Nicaragua, and previously Ecuador and Bolivia. In recent years, however, it has publicly taken positions in support of such regimes on issues central to US policy in the region, including recognizing and providing continuing assistance to the illegitimate Maduro government in Venezuela.

The PRC has also been increasingly willing to conduct military and law enforcement engagement and expand political ties, including in the Caribbean, to include establishment of diplomatic relations and aggressive forward movement with new
projects in Panama, El Salvador and the Dominican Republic. Its new generation of ambassadors in these and other countries in the region, sometimes referred to as “wolf warrior” diplomats,\textsuperscript{110} are increasingly outspoken\textsuperscript{111} in challenging the US as they advance the PRC position.\textsuperscript{112} In general, over the past two decades, the PRC has tended to become more assertive when its advances do not meet resistance, but also to temporarily pause or adjust course in the face of strong US reactions, such as that which occurred following El Salvador’s establishment of diplomatic relations with the PRC.\textsuperscript{113}

Such nuances notwithstanding, the expansion of Chinese wealth and power and the confidence of the PRC’s current generation of leadership under President Xi has led it to behave more assertively in all parts of the globe. China may see the shift in US posture toward multilateral institutions and trade agreements that has occurred under the Trump Administration and the Administration’s increased willingness to challenge its traditional allies from the European Union, Japan, and Mexico as an opportunity for it to position itself more assertively in a global leadership role. Similarly, the PRC may see opportunities arising from Covid-19 to expand its strategic position, through both medical diplomacy and advances in supply chains, strategic acquisitions, and loans to distressed governments while the West remains economically weakened and politically distracted by its own Covid-19 related difficulties.\textsuperscript{114}

**The Impact of COVID-19**

The COVID-19 pandemic has not changed the PRC’s global objectives or strategy but gives it an unprecedented opportunity to advance in achieving them.\textsuperscript{115} With the help of the government’s authoritarian controls over its population to impose and enforce quarantines, enormous financial reserves, and levers over the economy, the PRC is emerging from the crisis (although certainly weakened) ahead of most Western countries.\textsuperscript{116}

The pandemic and its health, economic, and other effects will likely persist and continue to debilitate the United States and Europe for some time.\textsuperscript{117} The interaction between partial economic re-openings and the time required to develop, test, and mass-produce a vaccine will extend this process. In Latin America and other less developed parts of the world, the situation is likely to be far worse.\textsuperscript{118} Less capable public healthcare systems, large informal sectors, vulnerable small and medium enterprises, and limits on the ability of governments to borrow money to protect vulnerable populations and economic sectors\textsuperscript{119} will place pressure on economies as they suffer from diminished investment and demand from Western countries for their exports.

The PRC does face continued risk of new outbreaks, such as have occurred in Shulan and Wuhan,\textsuperscript{120} the possibility of graver than anticipated economic problems due to weak demand from its customers,\textsuperscript{121} the impact of a financial crisis in the West on PRC global holdings, and the vulnerability of China’s enormous public and private sector debt.\textsuperscript{122} Such risks notwithstanding, the prospect for the PRC to emerge from the crisis ahead of the West appear relatively good.
With the Chinese economy projected to show growth for 2020, a financial meltdown notwithstanding, PRC-based companies will be well positioned to greatly strengthen their global presence. They will have options to expand positions in global supply chains as local competitors are shut down or bankrupted. Chinese companies will also likely have options to buy assets in strategic sectors that distressed Western companies are seeking to sell off, as they did after the 2008 crisis.

China will also have opportunities to offer desperate Western governments financing deals with conditions they previously would have rejected. A current example in Latin America is Argentina, which on May 22 entered into technical default on payments of its sovereign bonds, raising a significant risk that it will be excluded from Western capital markets just as it needs to expand spending to combat Covid-19 and the economic and other effects of the disease. The PRC is already deeply embedded in the Argentine economy, from $18.7 billion in currency swap agreements, to ICBC’s ownership of Standard Bank, to the large exports of soy, soy oil and other agricultural projects. China’s significant role, with intimate ties to an array of influential Argentine business figures, includes numerous infrastructure projects financed by PRC-based banks and worked by Chinese companies. Leading examples include the revitalization and extension of the Belgrano Cargas rail network, metro systems in Buenos Aires and Cordoba, and two hydroelectric projects on the Santa Cruz river. It also includes expansion of the Atucha III nuclear complex, a significant stake by the PRC-based company Gangfeng in the development of lithium reserves in the north, the deep space radar communications facility in Bajada de Agrio, and China’s presence in at least two astronomical observatories.

With the combination of dire need, existing relationships, and political will it would be logical for the current left-oriented Argentine government of Alberto and Cristina Fernandez to turn to the PRC for loans and investment in the present crisis. As the crisis deepens across the region, however, Argentina is only one of many countries who will likely face such choices.

**Strengths and Weaknesses of PRC Engagement**

PRC strengths in engaging with Latin America include the perceived attractiveness of access to its market, in combination with the ability of its government to oblige Western firms to partner with PRC-based firms or otherwise expose their technologies and processes to be appropriated in exchange for that access. The PRC further benefits from perceptions by would-be partners, only partially accurate, of its agility to quickly invest or loan money in their countries, without fiscal or political conditions. The PRC also benefits from the mechanisms available to its government to coordinate with companies and financial institutions across multiple sectors to edge out competitors by offering large package deals.

Those same tools also help the Chinese state to coordinate and impose controls across its own society to weather debilitating shocks, from the 2008 financial crisis, to the COVID-19 response, to the suppression of dissent. Although such coordination does not ensure that the Chinese government will make wise policy decisions, it increases its
likelihood of weathering the chaotic forces of such shocks, as well as the consequences of any bad decisions it makes in managing them.

As COVID-19 makes global publics increasingly sensitive to the dangers of the interconnected global order, their perception of China’s authoritarian state-led capitalism becomes important. Rightly or wrongly, such perceptions will influence the alignments and political choices of a world which is, itself, fundamentally rethinking the most important functions of the State, and the balance between security and liberty in an interconnected world whose dangers have been brought to the fore by the pandemic.

The PRC’s strength does not come simply from being an authoritarian command economy. Rather, it has been relatively successful in combining direction-giving through rules, monitoring, and implied sanctions, with guidance and incentives that prompt initiative by a myriad of state and semi-private actors in the desired direction. The PRC is able to support favored Chinese companies to pursue market advantage in desired sectors while handicapping their Western competitors, obliging partnerships between those competitors and local Chinese firms, and using those partnerships to systematically steal their technology and transfer it to their Chinese counterparts.138

Another example of China’s integration of centralized command and decentralized execution is its “people-to-people” diplomacy. Between 2019 and 2021, China committed to bringing 6,000 Latin American students, government, business, media and other leaders to the PRC on scholarships.139 PRC people-to-people diplomacy involves not only official paid trips to China by its government, but also a labyrinth of Chinese universities, private institutions, and other sponsors of travel for individual academics, businessmen, and other targeted persons. It is a part of the challenge of China, whose scope and impact is enormous, but is little understood in the public discourse about Chinese influence and activities.

The PRC also arguably has advantages in the fusion of communication, computational, and other technologies for societal control. It is arguably the quantity of resources, together with researchers at home and abroad and stolen technology that give it an edge in areas such as artificial intelligence and 5G networks. In addition, it is China’s ability to trample privacy and other individual rights, together with unrestricted access to the physical and genetic characteristics, financial, and other attributes of a vast population has allowed it to develop integrated surveillance and social control systems such as those using “social credit” algorithms.

China’s weaknesses are as numerous as its strengths, but that does not imply that the PRC will collapse under its own internal contradictions and relieve us of the responsibility to address the challenges that the PRC presents to the West and to the security and strategic position of the United States globally. Of course, the PRC system has significant structural defects to include its education and healthcare system, its enormous government and private sector debt overhang, and sources of discontent including severe pollution, mistreated minority populations, and other issues. China’s authoritarian system, bolstered by a culture of deference to authority, permits the mobilization of resources. But as seen repeatedly during periods such as the Cultural
Revolution, that system does not always permit effective mobilization of resistance to bad or extreme policies in time to prevent them from wreaking havoc on the country and the broader region or world.

In China’s engagement abroad, many of its enterprises have had difficulties in reconciling the exigencies of the business style and expectations of headquarters bureaucracies with the requirements and sensitivities in the countries where they operate. That tension contributed to conflicts centered on Chinese mining operations in Las Bambas (Peru), El Mirador (Ecuador), and construction projects by China Railway Road and others in Bolivia.\textsuperscript{140}

China’s “medical diplomacy” accompanying the COVID-19 crisis shows the ability and willingness of the state to mobilize resources to advance the Chinese narrative. Its offer of $2 billion to fund the World Health Organization at the time that the United States has suspended aid to the organization highlights the magnitude of what it is willing to do, and the ongoing risk for US leadership in multilateral bodies.\textsuperscript{141} Nonetheless, the clumsiness China’s medical diplomacy, with defective tests\textsuperscript{142} and ventilators,\textsuperscript{143} as well as other missteps such as the attempt to charge the Italian government for equipment which Italy had previously donated to it,\textsuperscript{144} suggests that its ability to win hearts and minds in the region may be limited.

One of China’s important shortcomings arguably comes from its authoritarian system.\textsuperscript{145} It has such complete control over the narrative and means of communication within its borders that it is handicapped in understanding how it is seen critically abroad. The PRC is selling itself to a world that deeply fears and distrusts it, even as those other governments and businesspersons hope to profit from commerce with China.

Recommendations for Congressional Action

In my judgement, Congressional action is one necessary part of a whole-of-government solution, which also must be coordinated with our global partners who are also affected by China’s reshaping of the global order to its benefit. I see benefits in, and respectfully recommend Congressional action in the following areas:

**Studies and Hearings.** Congress should continue to employ its institutional capabilities, resources, and actions to generate and focus public attention on Chinese activities globally, the challenge they present to the United States and prosperity, good governance, democracy, freedom of expression and human rights in our partner nations. Hearings by this body, and by committees and subcommittees of the House and Senate involving both government officials and independent scholars are useful in highlighting to a broad, high-level audience viable responses through our government, the private sector, and international partners. Such hearings also publicly emphasize to our partners our attention to and concern about these issues. For the same reason, I recommend the continued production of publicly releasable studies and reports by this committee, as well as by Congressional Research Service (CRS) and other US government organizations. As someone who has used the published reports of this Committee, CRS, and Congressional hearing transcripts in my own work, I can affirm
they are important as authoritative, accessible references contributing to the public discussion on the challenge of the PRC.

**Foreign Investment Review.** I recommend Congress continue to support the maintenance, improvement and strengthening of the Committee on Foreign Investment in the United States (CFIUS) process for the review of transactions by the PRC and other actors involving US-based companies. CFIUS will likely play an increasingly important role as PRC attempts to acquire the assets of distressed Western companies increase in the coming later stages of the COVID-19 crisis.146 Congress should also make funds available through the Executive Branch for bolstering CFIUS-like mechanisms among US partners, and sharing associated best practices for the same reason. Such reviews by both the US and our partners, when objectively applied by knowledgeable decisionmakers with good information, are a useful vehicle for insulating against the more threatening aspects of China’s advance without advocating a position unpalatable to our partners and unrealistic to enforce that countries simply should not do business with the PRC.

**Help Partners Strengthen Governance.** I respectfully advocate full funding for US State Department-led programs to help our partners fight corruption, advance transparency, and strengthen mechanisms for governance and rule of law. Such engagement is one of our most effective tools to inoculate them against the most threatening aspects of China’s advance in a way that is productive to our long-term relationship with the populations and governments of the region.147 Chinese deals with the former Varela government in Panama to build a high-speed train into the countryside and a cruise ship port on the Pacific side illustrate how the PRC exploits a lack of transparency and solid analysis by the host government for deals which disproportionately benefit the Chinese companies and the local elites who agree to their terms.148 Failure of governments to hold the PRC-based companies doing the work to labor, environmental, and other regulations makes matters worse.149

When the United States helps our partners combat corruption and improve planning, evaluation, and enforcement, we ensure alternatives to Chinese proposals receive fair consideration, and that the country gets the most out of contracting with the Chinese when they do while appreciating the United States for the help.

Less corrupt, well-governed partners are also less vulnerable to populist leaders who turn against Western companies and governments and bring in the Chinese as an alternative. Each of the leftist populist leaders who have come to power in the Western Hemisphere in the past two decades, Hugo Chaves in Venezuela, Rafael Correa in Ecuador, and Evo Morales in Bolivia, have opened the door to non-transparent and ultimately disastrous projects with the Chinese. All came to power campaigning against the corruption and poor governance of established elites, even if each subsequently made their country far more corrupt and less well governed.

**Private-Sector-Led Development.** I recommend continued support for initiatives such as *America Crece* and the Development Finance Corporation, harnessing the resources of the private sector to help our partners achieve sustainable growth within a framework
of transparency, good governance, and the rule of law. Such programs provide an alternative to PRC offerings that not only disproportionately benefit the Chinese, but also ultimately reduce incentives for partners to maintain a framework of democratic accountability, respect for rights, and rule of law in the process of securing often ephemeral benefits.

Congress and the Administration should ensure such programs are agile and not overly encumbered by rules, facilitating their ability to realistically lever private sector funds in a timely fashion (a challenge made more difficult by the Covid-19 pandemic). It is also important that they be available not just in low-income countries, but also in those with higher GDPs (which are equally, if not more targeted by the PRC), including the small island nations of the Caribbean.

While private-sector-led development is strategically the best path ahead, the poor current economic prospects and political risk in the region associated with the pandemic will limit the willingness of the private sector to invest. In the near term, it is particularly important to maintain full funding for non-reimbursable programs such as USAID’s Clear Choice. While such foreign aid can never compete in magnitude with the PRC self-interested loans and investment deals, it provides a stopgap while private sector investment is depressed. At the same time, it showcases a positive side of the United States that our partners can believe in, contrasting with their persistent distrust of the PRC for its previously noted predatory commercial practices, their politics of bullying with a smile, as well as their responsibility for the coronavirus.

**Push back on Chinese Technology.** I recommend Congressional support for economic incentives that support or reward partners choosing non-Chinese technology solutions in critical sectors, as well as laws backed by authority to sanction entities subject to US jurisdiction who support or participate in projects with Chinese partners and technology in these areas. Such areas include but should not necessarily be limited to 5G and other telecommunication architectures, and surveillance and control architectures such as those in “smart cities” initiatives.

Outside these sensitive sectors, the United States should advocate for a level playing field rather than obligating partners not to do business with China. Nonetheless, in some sectors, a PRC presence in projects or technical architectures presents a significant potential vulnerability to the sovereignty of the partner, and by extension, its long-term relationship with the United States. This risk demands employment of the full weight of available diplomatic, economic, financial, and other instruments to dissuade partners from allowing the Chinese in. In the context of China’s 2017 National Security Law, as noted previously, a Chinese presence in sensitive communications and technical architectures within our partner nations gives the PRC the opportunity to oblige its companies, such as Huawei, to collect and turn over sensitive personal, financial, technical and other data on partner decisionmakers, companies, or state organizations and processes. Such information potentially gives the PRC access to personal, commercial, and technical information providing them leverage over decision-makers or insights into technologies and decisions.
Working With Like-minded Partners and Multilateral Fora. Finally, I recommend Congressional support for financial and other incentives to partners who work with the US to provide alternatives to Chinese financing and commercial solutions. There are circumstances in which there is not a US company that presents a viable alternative in the space, but a Japanese, Korean, Indian, or European company may do so.

I further recommend Congressional support for sustained US engagement in multilateral forums such as the United Nations, International Monetary Fund, Organization of American States, Interamerican Development Bank, World Health Organization, and others, to prevent the PRC from dominating such spaces, however flawed those organizations may be.

We must not cede to Chinese lobbying the power to influence what the reports say, who gets loans, what issues are criticized or excluded from criticism by the international community, or myriad other decisions that shape our strategic position in the financial, legal, and political dimensions of the international order.

5 “China-Latin America Finance Database.”


venezuela-politics/venezuelan-opposition-barred-from-congress-as-armed-group-attacks-lawmakers-idUSKBN1ZE23H.


48 “Chinese vessel coming to Trinidad.”


See Ellis, 2011.

See Ellis, 2017.


See, for example, “Xi’s speech at first session of 13th NPC to be published,” *China Daily*, May 15, 2020, https://www.chinadaily.com.cn/a/202005/15/WS5ebe530ca310a8b2411560a2.html.


See R. Evan Ellis, “Understanding and Responding to Chinese Activities in Latin America and the Caribbean,” in *China’s Global Influence: Perspectives and Recommendations*, https://apcss.org/chinasglobalinfluence/, Scott McDonald and Michael Burgoyne, eds. (Honolulu, HI: Asia-Pacific Center for Strategic Studies, 2019), pp. 142-159.


82 Ellis, 2019.


Ellis, 2019.


115 For a detailed analysis of the dynamics associated with this possible PRC advance, see Ellis, “Covid-19 acelerará …”
119 Ellis, “COVID-19: Shaping a Sicker, Poorer, More Violent, and Unstable Western Hemisphere.”


151 Thomaz Favaro, “COVID-19 And Latin America: A Political Risk Tsunami In The Making?,” Forbes, April 6, 2020,
155 “China passes tough new intelligence law.”
COMMISSIONER KAMPHAUSEN: Thank you, Dr. Ellis.
We'll now turn to our question and answer period. As previously mentioned, our commissioners will ask questions in reverse alphabetical order and I'll call their names out three at a time so they have some advance notice.

For our panelists who are in person, I would suggest you look to your left to the large screen when the questions are being asked so that you can see the commissioner who is asking the question, but then when it is time to respond, when it's your turn to respond, please return to looking at the camera in front of you so the viewers will have a clear picture.

Okay, we'll begin with Commissioner Larry Wortzel, who will be followed by Commissioner Mike Wessel, and then Commissioner Jim Talent.

Commissioner Wortzel.

COMMISSIONER WORTZEL: Well, thank you all for really great testimony, for showing up in person, for traveling around D.C. and for what were really practical recommendations for us to consider. They were very good.

I actually have direct questions for two of you. I'll just go through them and then give you each time to respond.

For Ms. Lee, how relevant today for U.S.-China relations is the Deng Xiaoping slogan, hide your strength, bide your time. You used it as a subtitle in section four of your written testimony. What's your view on whether Xi Jinping pays any attention to those words of caution?

For Dr. Ellis, tell us about any evidence of PRC's military personnel in Argentina associated with the cooperation and operation of a satellite monitoring station China installed and the space program between the two countries.

Also, if you remember, Condor was originally a German-Argentine program to develop a space program. In the aftermath of the '82 Falklands War, Argentina began to work with the People's Liberation Army to develop a ballistic missile program which I also believe is called the Condor Program. In 1997, that program reportedly ended, but what kind of cooperation exists in the area of ballistic air-to-air defense missiles between China and Argentina? And what military personnel are roaming around Argentina to facilitate that cooperation? Thank you.

Ms. Lee, you might as well start. I asked you first.

MS. LEE: Thank you very much, Commissioner Wortzel for your question. So I think you alluded to, in the subheader in my testimony, I sort of reversed Deng Xiaoping's dictum of hide your strength, bide your time. And I think the sort of underlying argument that I'm making there is that Xi Jinping's has largely reversed this dictum and is working off of a new sort of strategic operating picture of, you know, hiding China's weaknesses and biding its time to continue to grow in strength, particularly in the United Nations.

I think it's important to note that, you know, China's strategic focus on the United Nations has predated Xi Jinping, dating back to President Hu Jintao. And since the early 2000s, Beijing has long used the United Nations as a very strategic arena for China to grow its influence and to protect its legitimacy on the world's stage.

But I think what you've seen under Xi is a willingness to leverage this long-term vision of what it wants to accomplish in the U.N., but also be very opportunistic about harnessing strategic windows particularly now that we're seeing the sort of ambivalence of the United States towards the United Nations. I think that you're seeing a greater willingness to be more explicit about

DR. ELLIS: Commissioner Wortzel, thank you very much for the question. Specifically, with respect to the radio communication facility in Bajada del Agrio in Neuquen, I've actually followed this closely and actually participated in one of the programs by Jorge Lanata in Argentina when they were looking at this.

It actually is operated by PLA military personnel. That's probably not quite as nefarious as it sounds because that's fairly standard for Chinese space facilities. It is clear that the Argentine Government of both previous under Cristina and then under Macri, and now under Alberto Fernandez, does not have regular physical access to the facility, specifically because the nearest major Argentine Government facility is about six hours away. What they have access to is not unlike facilities like SETI is a certain amount of time to get access to the data and steer the dishes.

Having said that, my sense is that although the capabilities, and I am not a satellite expert per se, but there is some capability to sweep and collect electronic information. However, it does seem consistent with China's long-range goal of meeting certain geographically-positioned facilities in support of its long-range lunar and Mars and other deep space activities.

So for me, there are some concerns about accessing military, although I'm hesitant to overstate that threat. But as you also allude to, sir, I think very important is to recognize that what's going on with Bajada del Agrio is only one. There are actually two other basically radio observatories in Argentina, as well as in Chile. As you also alluded to, sir, the ARSAT program, even before that China tried to get involved in helping Argentina launch its satellite, actually, the one that would replace the FASat-C satellite which I believe was put up initially by the United States. Although, in the end of the day, the Chinese about five years ago, lost the initial bid for that.

My understanding is there's some possibility for Argentina to get involved in APSCO, basically the China-led Asia-Pacific Space Cooperation Organization which has provided a vehicle for Peru and others and their space technologies to be sucked in.

Also, Argentina is only one of a relatively large number of Latin American states with which China is developing space cooperation. China has launched three satellites for Venezuela, has built their -- their entire space architecture, has trained their personnel including satellites whose orbits go over sensitive U.S. southern facilities. Bolivia has developed a satellite and has had its personnel trained there. Ecuador under the previous government had a satellite.

Brazil, our Brazilian partners actually have launched and co-developed six satellites and indeed, ironically the Brazil-China space cooperation, CBERS, came out of exactly what you alluded to, sir, that era in which the Condor program was in development in which Brazil also wanted ballistic missile capabilities. We didn't want to give them to them and so they began --

COMMISSIONER KAMPHAUSEN: Thank you, Dr. Ellis. I'm going to need to cut you off, but I'm certain we're going to have a follow-up question for the record, given your depth of knowledge on this topic, and a lot more to explore.

We next turn to Commissioner Wessel for his questions and then he'll be followed by Commissioner Talent and Commissioner Lewis.

Mr. Wessel.

COMMISSIONER WESSEL: Thank you. Thank you all for your testimony. Very helpful. I would like to get some idea of what you think the path forward is and appreciate all recommendations that have been offered.

I'm not sure we have been, we, the U.S., has been as active in developing many of these
relationships, Latin America and elsewhere with some of our partners in identifying a number of the challenges that we face. So we have a U.S.-Chile free trade agreement in place, yet China has been investing, been developing strategies and relationships with Chile. We don't appear to have pushed back at all.

We've seen until just recently that the U.S. ceded leadership, Ms. Lee, as you talked about of a number of U.N. organizations and only in the last year with WIPO and others, has begun to push back I would say.

So tell us what you think our priorities going forward should be beyond the exchanges of how we assert U.S. interests in these organizations, how we capitalize on the relationships we have and if you have any idea what kind of time and money do you think would be involved in helping to re-balance the equation with China in these organizations and with our allies?

Ms. Lee, do you want to start?

MS. LEE: Thank you, Commissioner. And I've done a little bit of thinking about how the United States can best renew its approach to the U.N., particularly in concert with some of the sort of developing countries and swing states that you alluded to. And I think there are really four priority areas.

So first, I think it's critically important and you mentioned the WIPO election earlier this year, but there are a number of strategically important elections coming up, both this year and in 2021 for specialized agencies including agencies that Chinese nationals currently head up. So I think this is the time during which Congress should also work with the Executive Branch to map out all of these strategically important elections and you know, be doing the sort of diplomatic legwork to vet candidates of like-minded countries and to get them elected.

I think the second aspect of this problem is also mapping out opportunities and some of my colleagues today mentioned bringing in American companies and American initiatives including the Blue Dot Network and the New Development Finance Corporation, bringing American initiatives to the U.N. and ensuring that they're given sufficient air time and that they're being branded as American initiatives at the U.N. to push back on some of China's narrative-shaping efforts around its Belt and Road initiative and Digital Silk Road at the U.N.

I think the third area is continuing to engage with allies through existing structures, but also ensuring that critical swing states -- sort of looking at countries like India, Indonesia, countries that have actually traditionally, interestingly, voted with China at the U.N., expanding traditional data-sharing mechanisms and bringing those strategically important swing states into these conversations.

And fourth and finally, I think I made this point in my testimony, both written and oral, but ensuring that more Americans are employed both at USUN and at the U.N. system to ensure that American interests are advanced in these multilateral fora. Thank you.

COMMISSIONER WESSEL: Thank you. For the others, if you could provide us what some of those key elections would be in writing afterwards that would be helpful. You don't need to do it right now. But we'd like to be on the lookout.

Any other quick views?

DR. LIMAYE: Well, thank you very much for the question, Commissioner Wessel. In the Indo-Pacific, I think I would prioritize four things. First, presence and attendance at key events and key bilaterals. It is very difficult, of course, for our senior leadership to attend everything, but the non-attendance at big summits and postponed summits sometimes give the mis-impression, unfortunately, that we are not interested or perhaps distracted.

Second, we mustn't think of this in terms of time and money, I think, Commissioner. I
think we need to think of persistent engagement because China is there in the region, has a lot of people, a lot of bandwidth, and we can, too. But that means instead of thinking about bound time or bound budgets, we must think about persistent, regularized engagement.

Third, we need a very serious consideration and debate in our country about this issue of trade agreements and making our private sector competitive in the region, how we can do that with ongoing intra-region efforts to build integration because that will be, in my view, the really profound determinant of the trajectory of the future in the Indo-Pacific region is how this intra-Asian and trans-Pacific integration plays out because it will affect structural interests over the next five decades or more.

And finally, I just want to reemphasize as I did in my formal recommendations that engaging the publics and the people of the Indo-Pacific is critical. The governments are fine. We have wonderful bureaucracies of State Department, DoD, other agencies and departments who are world class professionals who continue to do solid work. But we need some big initiatives that highlight how American society is open, transparent, free, and engage and build human capacity together because this is no longer an age in which Asia is simply a recipient of American expertise. They, too, have expertise in niche areas that we might benefit, so a combined professional program that brings our publics and peoples to the highest standards would be advisable. Thank you.

COMMISSIONER KAMPHAUSEN: Commissioner Wessel, in the interest of time I'm going to ask if we could ask Dr. Ellis to respond in writing to this question if you have any inputs.

Let's next turn to Commissioner Talent followed by Commissioner Lewis, and then Commissioner Lee.

COMMISSIONER TALENT: Thank you, Mr. Chairman, and thank all three of you. I thought the testimony was outstanding and some very interesting recommendations. I really like what Dr. Limaye just said about the importance of a persistent investment over time.

Okay, so I want to stay within the five minutes so I'll pick one question. I want to ask Ms. Lee about her -- one of her recommendations that Congress ought to constrain or pass legislation, constraining the Executive from withdrawing funding or lessening funding or participation in U.N. agencies and I think you have specific reference to the WHO. So I'm concerned about that kind of a thing because I think as we build an architecture for prosecuting this competition, we have to also include tools to impose costs and consequences for activities that not only hurt the United States, but also significantly undermine the integrity of the international order. And certainly, the WHO did that.

Now, I won't try and equivocate. Just give me your -- I mean do you really feel like we should not have that alternative going forward? And if we constrain ourselves in that regard, then what is to keep these agencies from saying well, look, the Chinese will withdraw funding from us or otherwise impose costs on us if we don't do what they want, but the Americans won't. Now I personally think that's one of the reasons the WHO acted the way it did. So if you'd address that and if there's time and anybody else would like to address it that would be fine.

MS. LEE: Thank you, Commissioner Talent. And I certainly agree with you that the right to withdraw from certain U.N. agencies or actually withdrawing them is certainly one tool in the United States' tool kit to exert leverage over the behavior of the leadership of and the sort of working level decisions of these agencies.

I think the WHO case is actually a little bit different in that there's recent reporting
suggesting that contrary to initial speculation about the Director General sort of being in the pocket of the Chinese Government and kowtowing to Xi Jinping, there's been interesting reporting suggesting that there's actually a pretty tense relationship between the WHO and the Chinese Government and there was significant disagreement, particularly when the WHO was trying to get officials on the ground in Beijing to conduct an investigation and getting the Chinese Government to release information about the virus.

And so I think that this is an instance in which the WHO made, in my view, an erroneous strategic calculation to publicly laud the Chinese Government in order to coax more information out of Beijing.

I think the United States, its leverage actually in the WHO is significant. It's the number one funder. Prior to its cutting off funding it provided about 15 percent of the WHO's budget and this doesn't include other private actors like the Bill and Melinda Gates Foundation which is the second largest funder.

COMMISSIONER TALENT: Let me interrupt you just for a second to say I agree that's substantial leverage, but if they know we can't reduce it, poof, the leverage goes away, doesn't it?

MS. LEE: I agree with you that it is important leverage. I think the reform period that the administration gave to the WHO wasn't sufficient time because we're clearly in the pandemic, to actually implement reform. But I agree with you that the funding and the threat of cutting off funding offers significant leverage. The problem is that the Chinese Government quickly swooped in and offered $2 billion to sort of fill the gap that the United States has left. So I think when we step back, the Chinese Government is prepared to step up and fill the void and so I think we also need to think about that consequence as well.

COMMISSIONER TALENT: Yes, I agree with that. I just am concerned about putting institutional constraints on those kinds of alternatives going forward.

Well, I see I'm running out of time. Perhaps, Mr. Chairman, if anybody else has a comment that's quick? I'll probably have questions for the record also, Mr. Chairman.

COMMISSIONER KAMPHAUSEN: Okay, let's turn to Commissioner Lewis who will be followed by Commissioner Lee and then I'll ask a couple of questions.

Mr. Lewis.

COMMISSIONER LEWIS: In pursuit of its goals, does China value the European community or the Indo-Pacific countries more important for it to achieve its goals? And secondly, does it look at Europe as a way to create wedges between the United States and its traditional allies? And what is the effect in the Indo-Pacific region of China's claiming ownership of all the waters that are also claimed by other countries?

I will ask each of you to please answer that question in about a minute and a half each.

COMMISSIONER KAMPHAUSEN: Dr. Limaye, can we start with you?

DR. LIMAYE: Thank you very much, Commissioner Lewis. My answer would be that China prioritizes the Indo-Pacific far more, currently, than the European Union, not to say that the European Union is not important to China. There's huge investments, huge trade equities, it's part of its overall global influence and diplomacy, et cetera. But the Indo-Pacific is where the rubber meets the road for China, where its outcomes will determine China's fate.

On effects of China's claims, it is clearly the case that China's territorial claims, maritime claim is expansive, illegal, and often backed by force have created great consternation and difficulty in the region. We've seen this in the last two weeks on the Sino-Indian border. We see it in the East China Sea vis-a-vis Japan-China relations. We see it in the South China Sea in spades over and over again. And we see it throughout the region.
So as I said in my statement, both opening and formal, I believe that China's threatening and assertive behavior on territorial claims and reunification with Taiwan is creating more room for American strategic partnerships. Thank you.

COMMISSIONER KAMPHAUSEN: Dr. Ellis.

DR. ELLIS: Wonderful question. I think the European dimension is very important and often underrated from here in the United States. I often, when I talk about China's global interests, I see a mix of really a combination of four areas, interest in resources, markets, technology, and foodstuffs, as well as the political dimension with the different regions having different mixes of those things.

And so for me, the EU especially, it's in part about technology which you saw initially through attracting European investments and now, of course, through technology partnerships and actually in acquiring European companies whether in the automotive or other sectors which benefit basically the appropriation of their technology, as well as obviously, Europe is a powerful market.

Europe also has a powerful institutional role. If you look at the role in institutions such as the IMF, and the instrumentality of Europe's role in getting the recognition of the renminbi as a reserve currency a couple of years ago under Lagarde. And what worries me thus is China, as my colleagues have alluded to, pushes this reworking of institutions to serve it. The EU is a key player in that space.

I would also mention that when we talk about Europe it's important not just to look at the EU, but also the 17 + 1 countries because what China is doing with Hungary and with Poland and elsewhere in terms of BRI projects and influencing malleable governments looks a lot of what it's doing in Latin America and Africa.

COMMISSIONER LEWIS: How about China's claims for the waters in Asia?

DR. ELLIS: I certainly see its lack of respect for UNCLOS and with the nine-dash line and things like that is really an indication of what we can expect as China continues to be strong and really the lack of respect for traditional, settled international law. So I see those as a grave matter of concern as China grows more powerful.

MS. LEE: Thank you, Commissioner Lewis. In the context of the United Nations, China largely views countries in the Indo-Pacific as countries that can be swayed and induced more effectively. And so it's created coalitions, particularly with countries in Southeast Asia with weak democratic institutions or authoritarian governments to form voting blocs, to get resolutions passed, and to get its candidates into positions of power and as mentioned by my colleagues, it uses Belt and Road financing as a major inducement to win votes. There are studies that have been done showing the correlation between Belt and Road financing and voting patterns in the U.N. And so I think that the Indo-Pacific is a critical, strategic region when it comes to building coalitions in the U.N.

COMMISSIONER LEWIS: How significant are the Chinese claims to the waters to countries in the Pacific, Vietnam, the Philippines, and so on? Ms. Lee?

MS. LEE: Thanks. I am not an expert on the South China Sea, but I'd be happy to get that information to you as soon as possible.

MS. LEE: Thank you very much.

COMMISSIONER KAMPHAUSEN: Thank you, let's turn now to Commissioner Lee. I will follow Commissioner Lee and ask a question, and then Commissioner Goodwin will follow me. Commissioner Lee?

COMMISSIONER LEE: Thank you, Commissioner Kamphausen.
So thank you all, I thank the three of you for your testimony and the ways in which you have outlined all the different ways that China is building soft power and influence both in the international agencies and in key regions around the world.

I guess I have maybe sort of a crass question which is as you see that China's investment and significant financial contributions and not just to international agencies where the United States has stepped down its role, but also in things like the Belt and Road Initiative, bilateral aid. Do you have a sense, this is for all three of you, of the scale of Chinese financial investment in soft power and influence, U.N., key regions?

And the second part of the question is for the United States, what kind of scale of financial investment do you think would be needed for the United States to sort of show up and to be an effective counter?

And I know some of you said that some of the things the United States needs to do to counter China's influence are not -- are not even very expensive, like showing up at meetings and sort of engaging more in different issues.

So in your estimate of all the different policy priorities and the policy directions, you'd like to see the United States take to be more effective in countering China's growing influence, how important are the financial contributions and what's the scale of them? So I invite all three of you in any order.

DR. ELLIS: Thank you very much. Commissioner, with respect to Latin America, first of all, in terms of actual non-reimbursable aid, the amount is almost zero. In terms of trade, China's bilateral trade is about $330 billion with the region which is still about, I believe, a third of what the U.S. is. But, still significant, especially in the southern cone as you move farther to the south.

About $122 billion in Chinese investments, that is basically direct, nonfinancial FDI, which again is relatively limited with respect toward the U.S. and Europe, but is still increasingly significant.

In about $150 billion since 2005 in loans, which just by China's two principal policy banks, China Development Bank and China Exim. What I actually see is what's important is not so much the numbers, but the soft-powered dimension of that. It's the belief that tying into the Chinese money machine not only provides particular personal benefit to the leaders and getting a Chinese partner with access to the Chinese projects or for political leaders an opportunity to unconnect oneself from dependency on the United States or institutions like the IMF and World Bank.

And so in many ways I see that what people are willing to do for what is seen oftentimes as easy Chinese money, is very destructive to institutionality. It's very destructive to things that we try to promote in this region because we believe it's good, things like transparency, rule of law, et cetera.

For me, with respect to what is needed to show up in the region, I think the things like DFC and America Crece are very important, although with a delay because right now the markets are relatively soft as we struggle with COVID.

To me, equally important than competing with money and aid is actually working together. And this goes back to one of the previous Commissioner's statements. For me, having followed this for 16 years, I believe the most important thing is to not have an attitude of, you know, we are trying to outbid you or we're trying to forbid you from doing business with China, but we have a stake in helping you get the most out of and having a credible, negotiating position before China because if China takes you to the cleaners, you lose and then we lose because we're
And so to me, that has to do with helping our partners do good front-end planning about the projects they actually need, not the projects the Chinese want; having credible, transparent, open competitions because oftentimes China doesn't win when they're under those circumstances; having good application of rule of law afterwards in terms of labor law, in terms of environmental law, and other things.

And I think in a select set of cases such as surveillance architectures or 5G, actually saying okay, these are game changers, so in these few areas, yes, we need to push back because if China gets those under the tent and these architectures, that undermines the ability of our partners to make sovereign decisions. And so for me, it's a complex strategy, but it's not just about the money. It's about working with our partners in the region to provide -- to help them --

COMMISSIONER KAMPHAUSEN: Thanks. Dr. Ellis. Can we turn to Dr. Limaye?

DR. LIMAYE: Thank you very much, Commissioner Lee for the question. I would answer this way. I don't know an algorithm or a calculus to come at the number, but I would do it this way. China today represents 40 percent of world economic growth. It's the second or third largest economy in the world. Let us take our economy at roughly $25 trillion. Let us take China's at roughly $20 trillion. Let's say they spend five percent of that on soft power. We can arrive at a number. The problem for China is that expenditure is not helping a lot in my judgment in the Indo-Pacific with soft power. If they're spending that, they're not getting a good return.

Second, innovation and nimbleness is our best currency. The United States doesn't have to spend a lot to gain a lot, because as I said, we have some values, some freedoms, some non-historical elements of our relationship with the Indo-Pacific region, that is fundamentally sound and a currency in its own right. We don't need to spend more dollars for it.

And finally, I'd say a few select innovative programs, and we're known for these: Fulbright, Humphrey, Wicele (phonetic). All kinds of programs, and I particularly stress professionals because Asia is getting professionalized. It's not developing Asia. There are a few places, but it's getting professionalized and establishing those best practices and principles with our best professional experts, whether it's architecture or engineering or healthcare or what have you, can bring us together in a fundamentally open, transparent way at the highest standard. That is the kind of innovation that doesn't have currency.

COMMISSIONER KAMPHAUSEN: Thank you, Ms. Lee, we're going to come back to you and ask you to answer any question for the record. It's now my turn to ask two questions. I'll be followed by Senator Goodwin and Mr. Fiedler.

Ms. Lee, in your testimony you raised China's outreach to the G77. Fascinating. It doesn't appear to be at first glance a space where the U.S. can compete. China says it's not even a member of the 134 member states of the G77. I'm going to ask you after the hearing to come back and give us some thoughts about pathways to engagement. But thank you very much for raising that topic. It's quite intriguing.

Two questions then. One is for Dr. Limaye and Dr. Ellis.

You talked a little bit in the first panel, Dr. Limaye, about the possibility of the implications of the already on-going, if limited, what might be called limited decoupling or managed in their interdependence or partial disengagement between the U.S. and Chinese economies.

What do you hear from your networks in South and Southeast Asia about the opportunities that that might present?
And then Dr. Ellis, you discussed the very modest military security interactions between Chinese military and security apparatuses with their counterparts in Latin America, really pretty lower level kind of activities, sales of lower end lethal combat systems, training opportunities, but this might be called a limited demonstration effect.

Do you anticipate, is there a pathway to greater military and security interactions between the PLA and Latin American militaries writ large in this so-called American backyard? Dr. Limaye?

DR. LIMAYE: Thank you, Commissioner Kamphausen. The question of decoupling or managed deintegration, however one wants to put it, is, I think, a crucial issue. And we must remember that much of Asia that is non-China is in the supply chain, value production supply chain. So their interests and equities are enormous for how we decouple and that's why I said how and how much. It depends on the sector. If it's the automotive sector, if it's the computer chip sector, that will affect different countries and different sectors in those countries differently.

I think overall the opportunities that I see are as follows. One, more investment flowing into those countries away from China. Two, perhaps an expanded U.S. interest in engaging those countries by signing on to agreements or other measures that will allow American companies to go into those countries. Three, more play by Japan, Korea outside of China in those sectors because Japan and Korea are critical. So those are the advantages. But my own reckoning is that decoupling completely is going to be very difficult and very difficult on most players who are in the middle part of the production and supply chain because they don't (a) make the rules, and (b) their relative shares are quite small, therefore they cannot leverage outcomes and will be at the mercy of big player decisions. So that's kind of the balance that I foresee on decoupling for non-China Asia countries.

COMMISSIONER KAMPHAUSEN: That's terrific. Thank you. Dr. Ellis?

DR. ELLIS: Thank you. With respect to the military, actually, China's May 2015 defense strategy white paper clearly acknowledges the importance of global engagement including Latin America. In the 2008 and 2016 key China white papers towards Latin America, it explicitly mentioned military as well as other security engagement. So I actually do see a cautious, but gradual trend. It will continue to increase. You see in terms of the sale of its systems, there's an ever-increasing capability sophistication, the presence of shows like LAD, and SITDEF, and others and increasing sophistication in the offering.

I mentioned the OPV sale to Trinidad and Tobago. They almost sold them to Argentina as well. I think Argentina is probably the next big opportunity with the return of Cristina in the Fernandez Government there. And there are a whole series of things that I didn't even mention in terms of the institutional visits, the people-to-people exchanges.

Just about every Latin American military has sent some of its senior officers to schools in Changping outside Beijing to Nanjing. They're sending cadets to the China's five-year military academy, et cetera, et cetera.

What I don't see happening in the near future for I think China's own strategic reason is the establishment of overt bases. Even Djibouti doesn't call it a base. So I don't think we're going to see a base in La Union or Panama any time soon. But I think where we will see advances and China recognizes this in its 2019-2021 China CELAC plan is expanded security engagement writ large. That is donations to police, work with Latin American police forces and counter corruption because China has companies and people increasingly on the ground in Latin America and it needs those security cooperation relationships to help protect those people even
as we use our security cooperation relations to do so.

COMMISSIONER KAMPHAUSEN: Thank you very much. Let's next turn to Commissioner Goodwin, who'll be followed by Commissioner Fiedler and then our Chair, Commissioner Cleveland. Commissioner Goodwin, can you unmute?

COMMISSIONER GOODWIN: How's that, can you hear me now?

COMMISSIONER KAMPHAUSEN: Yes.

COMMISSIONER GOODWIN: All right, perfect. Again, thank you, Commissioner Kamphausen, and my appreciation to the panel for their great testimony today.

Dr. Ellis, a quick question. In your testimony, you suggested that the U.S. should make money available to our partners in Latin America to help bolster CFIUS-like review mechanisms, and I know that Mexico and I believe Brazil have comparable review systems in place.

Do we know who else has review mechanisms in place like that now? How do they compare, in terms of scope, to CFIUS, and is there variance among the countries with regard to the concept of national security?

DR. ELLIS: Thank you very much for the question. I'm not an expert on who has what. I believe that Brazil has something, and I believe actually from my time at State we are engaged in a limited dialog with countries that have various versions of that processor, or at the very least strategic oversight mechanisms.

And if I could, one of the things -- I think you raise a critical point. If you recall, the first major advance of Chinese companies on the ground in Latin America occurred really from about 2008 to 2010. And it occurred in large part because of the economic crisis, and that made a lot of -- you know, created a lot of bargain-basement distressed European companies looking to get rid of their Latin American assets.

So what I believe is in the coming months after COVID crisis, we are going to see again the same thing, a lot of Western companies looking to get rid of distressed Latin American assets and China being in a position to buy them.

And so I think the prime reason that we really need this is because we probably have about six months before we really need our Latin American countries to be able to think really hard about what's in their own interests, whether to allow or block these type of acquisitions. And I can follow up with more technical detail about who has what, sir.

COMMISSIONER GOODWIN: Sure. Well, on that same note, in your testimony and in response to Commissioner Lee's question, you also suggested that the region's governments should try to restrict or limit Chinese entry into certain sensitive sectors. How do we effectively encourage our partners in Latin America to do just that, especially given, in light of the fact that our efforts in Europe have been met with mixed results?

DR. ELLIS: Absolutely. In part, with countries such as Mexico and others where there's a large trade and investment dependence, essentially our implicit option to -- the degree to which we will work on certain things in the economic space, but frankly in the security spaces as well.

I mean, we've made it clear that if certain critical information flows over, you know, Chinese infrastructure networks, that may very well limit our ability to cooperate with those partners, and the degree to which our partners in Latin America value their continuing ability to coordinate with us on security affairs and other things.

And in addition, there is a just an information-providing function, which is to make it clear some of the technical ways in which -- and it's not just to say, do this because the United States wants you to do this.
It's about saying, you know, these are the ways in which through back doors and through these other things that, you know, your corporate data, the decisions that you're making about who to award contracts to, you know, frankly the certain personal things about the vice minister's personal life, that you may not want to get out, is going to be exposed.

And so you know, making it clear that -- so that they understand that it's not about us, but it's about them putting their own ability to make sovereign decisions in their interest at risk. And so I think that advocacy, information-providing function, in addition to the economic and the security is -- those are probably the three key levers that we have.

COMMISSIONER GOODWIN: Thank you.

DR. ELLIS: Thank you, sir.

COMMISSIONER KAMPHAUSEN: Thank you, Commissioner Goodwin. We now turn to Commissioner Fiedler, who will be followed by Commissioner Cleveland, and then Commissioner Borochoff. Commissioner Fiedler?

COMMISSIONER FIEDLER: Yeah, I'd like to ask Dr. Limaye what do you think precipitated the incident along the Chinese-Indian border recently, and what do you think the implications are, and are there different implications from previous eras where there are border incidents?

DR. LIMAYE: Thank you very much, Commissioner Fiedler, for the question. You know, I think it may be a little bit early for the full forensics on what happened on the Sino-Indian border, that -- as you know there are three contested areas in the west, the middle sector, and the east. We've had a recurrence of Sino-Indian border tensions now, on and off, for decades.

The last major conflict -- or, significant conflict was October 1962, but we had one in 2017 at Doklam in the eastern sector. My point is really this: their line of actual control is not written in coordinates. That is to say, there is no firm border.

So there might be what could be called in old, imperial, days, a buffer zone between the two, and they move troops and seek to solidify infrastructure, roads, facilities, et cetera, up along that line of actual control. Since it is undemarcated, it's not clear who crosses first or who thinks the others. We have video evidence of literal fistfights and fights with clubs and other tools, rather than gunshots.

We already have a climb-down off the most recent incident over the last 36/48 hours, so my hunch is that both Delhi and Beijing want to back off. The bigger question for our engagement with India and with China and the region is this: does this mark something different?

My answer to this is as follows. One, India has been moving steadily in our direction, we have been moving steadily in India's direction. That's not going to change. It might quicken more, it might get slightly deeper, but it's not likely to fundamentally shift.

As I tweeted the other day, we're moving towards each other, not siding with each other. And I think that's the way that it's going to remain.

And the other implication that's really important is that India's beginning to develop relationships with American allies and friends in the region. That includes Australia, Japan, and others. And therefore, the net gain is for the United States and its allies and partners to bring India into a larger community that has concerns about China.

COMMISSIONER FIEDLER: Thank you. I'm done.

COMMISSIONER KAMPHAUSEN: Thank you, Commissioner Fiedler. We now turn to Commissioner Cleveland, then Commissioner Borochoff, and Commissioner Borgeas.
CHAIRMAN CLEVELAND: Thank you to Commissioners Kamphausen and Lewis. Again, a phenomenal panel with real expertise that I have found myself hearing and thinking about new ideas. So I very much appreciate that.

So Commissioner Fiedler asked the question I was going to ask of you, Dr. Limaye, so I'm going to turn to Ms. Lee and Mr. Ellis for two different questions. I want to play devil's advocate with you on the question of our commitment to the U.N. and what China is gaining. I have a little bit of fatigue when it comes to the optimistic prospect of reform at the U.N., having worked on this for a few years.

And so I'm wondering if you could identify, very specifically, what the advantage is of doubling down on our commitment. Where do you see specific opportunity? You point out that, you know, when the United States walked out of ECOSOC, China rushed in. My reaction to that is okay, go ahead and pay for that. I'm not sure that there's real value or return on investment for the United States.

And so I want -- if you could identify specifically what you see as the return on investment. And then, in the context of your -- all of your testimony, if we took the $10 billion, whatever it is that we contribute to the U.N., and we invested it in regional strategic relationships, if we shifted from this multilateral institution to regional institutions, might we gain more traction?

So that's my question for you, Ms. Lee. And then Mr. Ellis, you spoke -- Dr. Ellis, you spoke to something that Dr. Naughton spoke to this morning, which is that the CCP is handicapped by a lack of appreciation for the distrust and the public perception of their role and their actions.

I wonder if you could elaborate on that and talk a little bit about specific country, kind of, impacts. How they are -- how that lack of understanding may or may not change, because they seem very adaptive at times when they get negative feedback.

And then I'm also interested in your point on, perhaps in the context of regional relationships, building relationships with Japan and Korea in Latin America. So, lot of questions. So Ms. Lee, if you could respond to the devil's advocate in me.

MS. LEE: Thank you, Commissioner Cleveland, for the important question. When we talk about, you know, organizations or agencies like ECOSOC, I think they are frequently viewed as backwater agencies that don't hold much strategic significance. There's an under-discussed component of a dimension of U.S.-China competition in the U.N. in that, you know, there's a hard power dimension to what China's doing.

So it takes agencies, its leadership in agencies like ECOSOC, to push forward, you know, Belt and Road memorandums of understanding with countries, member states, and ECOSOC. And it uses these agencies as a platform to promote its technology companies.

And so I mentioned the partnership that Tencent, the Chinese technology giant, formed with the U.N. Development Program to create this datasharing platform that connects Chinese entrepreneurs with people in the ground who are looking for solutions to development challenges.

All of this ultimately creates a mechanism by which Chinese companies can hoard and mine data from developing countries for their own commercial gain. And so I think China is very strategic about taking these agencies that seem to lack strategic significance, and finds ways to insert and advance their commercial and even security ambitions through these agencies.

And we're also seeing this, for example, with peacekeeping operations, which is a whole different animal. So I think that the United States shouldn't lose sight of the very strategic
dimensions of these agencies, and find ways for American companies and civil society organizations to step up and to advance their own interests in the same way that China has, in some ways.

Thank you.

DR. ELLIS: Thank you, Commissioner, for the question. You raise a very important point, which is the difference between distrust and soft power. Oftentimes we say that because we find distrust towards China in the region and polls like Pew and others show it, that therefore China must have limited soft power. What I see is the two coexist in oftentimes a very complex civil war.

So with respect to your question about distrust, what you find is that in certain countries, higher than others, I think, in Mexico for historical reasons, very high levels of distrust that go beyond surely the competition. Maybe less so in more culturally tolerant Brazil.

But what often happens is that distrust towards China is used by those who oppose Chinese projects in order to try keep the Chinese out. And so it becomes part of a complex discourse.

I remember a project that they tried to stop, a palm oil project in Suriname a couple years ago with Ronnie Brunswijk. The charge was that the Chinese, you know, who ate dogs and were going to use slave labor must be kept out of this project.

But what I find is that despite the distrust, and I believe the distrust is going to increase in the coming months, first of all because you're going to have new Chinese companies coming in, taking advantage of the weakness in the post-COVID environment. You're also going to have the narrative of China as responsible in some way for the virus, that continues to percolate through the region, even if they don't like to hear it from our leadership.

And so on top of all of those things, you are still going to get the local businessmen who say, okay, I believe that I can manage it. And if I can only plug in because you know, I know the brother-in-law of the sister of the president, so if I can just plug into the Chinese technology provider with their resources, then I will become a rich man. Or if I can just the get Chinese partner in China.

And so it's the belief that I can manage this and I will become rich. And it causes a civil war between those who want to keep the Chinese out and those who want to bring the Chinese in as a Trojan Horse.

With respect to Japan and Korea, I think absolutely a very important point. For me it's not just about, you know, the U.S. versus everyone else in our backyard. But we have a lot of likeminded partners. In some cases there are opportunities on particular projects, for example, you know, oftentimes you know, like Nokia in terms of 5G solutions, but needs a little bit of help to make it compete with Huawei.

Or, for example, options with respect to the transpacific cable that would go from Chile, you know, a better, a Japanese option which would go through Australia, rather than a Chinese option which would go through Hong Kong.

And frankly, there are opportunities for collaboration in multilateral forums. I would love us return to something that the looks like the TPP. Essentially, you know, forcing all players into a rule of law framework with meaningful dispute resolution mechanisms.

And I think there's a political dimension to it as well, which is that, you know, if you look at, for example, JBIC on the Japanese side, or if you look at certain other diplomacy in the region, the Japanese and Koreans have already, you know, huge and productive and generally are good corporate citizens in places like Mexico and elsewhere.
And so I think there's opportunities for it not to be -- Latin Americans don't like to do things because the gringos tell them to do things. But you know, if there's a coalition, sometimes I think that gets you to a better and more acceptable voice. And so I think are opportunities there. Thanks.

COMMISSIONER KAMPHAUSEN: There's a lot here, I think, maybe we want to come back to Dr. Ellis with some questions for the record as well. Let's turn to Commissioner Borochoff and Commissioner Borgeas and then Commissioner Bartholomew will end our Q&A session.

COMMISSIONER BOROCHOFF: Thank you. You know, it's an interesting process when you're -- I'm used to being early in the alphabet and as you get in reverse order all your questions get asked. But Chairman Cleveland, you asked something that I -- it touches a bit on what I was going to ask, and I'm going to amend it a little to make it work.

Dr. Limaye, you stated a few minutes ago something that really rang true, I think, in every arena of competition, when you said that the nimbleness and innovation can win out over money.

And I believe that, and I want -- and I really want to ask Ms. Lee about the comment that you made at the very beginning that a fourth of the U.N. committee special agencies have been taken over by the Chinese. And I think there are 15 of them, and I'm curious as to your take on, first, I guess it was just a week ago they took a run at the intellectual property agency and failed, which was fortunate.

Do we have an opportunity to regain the ones that are gone in the short run, or are they just gone? And secondly, are there are others that we're very worried about today? And then, forgive me for the compound question, but what would you do today other than just spend money?

MS. LEE: Thank you, Commissioner Borochoff. So certainly there are, as I alluded to earlier, there are a number of important elections coming up, and more often than not the leadership of these agencies don't serve more than two terms. And so you have organizations like the International Civil Aviation Organization, which is currently headed up by a Chinese national.

China has used that leadership position to consistently block Taiwan's participation and to ensure that it doesn't gain recognition. That's an election coming up in 2021 that I think we should -- I think we're already doing this -- be vetting candidates that we can support of allies.

And I think it's something that we've sort of taken our eye off of the ball in previous elections leading up to the WIPO election, in which we finally sort of regained our strategic focus on supporting candidates who will support American and democratic interests.

In terms of innovation, I think that there is an important narrative dimension to what's happening in the U.N. When you look at the numbers, it's striking. The United States far outpaces China in terms of monitoring financial contributions. But we aren't communicating this effectively. China is really dominating the narrative at the U.N., suggesting that it's, you know, a leading contributor.

The fact is, it's not. Even when you look at the personnel, China at the working level -- at the leadership level, it dominates the specialized agencies. At the working level, there's only a very small fraction of Chinese nationals who contribute personnel to the U.N. system overall. Americans far outpace China in that regard as well.

And so I think there's an argument to be made for investing more in our sort of information agencies. You know, thinking more creatively about ways we can bring in, you
know, the Global Engagement Center, or other such agencies, that work on the narrative and information piece, and to communicate more effectively what the United States is doing at the U.N., to rebrand the U.N. in that way.

COMMISSIONER BOROCOFF: Thank you. I just want to say that this is just a practical thing I've learned in my business in the last 40 years. I learned it a long time ago. I could spend millions of dollars with a vendor, and somebody would come along and get a much better relationship with them than me, just because they took them to play golf three or four times.

And I would tell you that's a very real life, true story. And I know that this idea of innovation and nimbleness combined with friendship and just camaraderie, at what you called the working level, is probably the most important thing we could do. Thank you.

COMMISSIONER KAMPHAUSEN: Thank you, Commissioner Borochoff. Commissioner Borgeas's connection has dropped, and so he sent his question to me and it's a U.N.-related question. I'll read it and ask each of the panelists to respond, starting with Ms. Lee.

This is Commissioner Borgeas. He believes we have --

COMMISSIONER BORGEAS: Can you hear me?

COMMISSIONER KAMPHAUSEN: Commissioner Borgeas, is that you?

COMMISSIONER BORGEAS: Yes, my connection's not dropped, there's just construction everywhere and there's just too -- way too much background noise.

COMMISSIONER KAMPHAUSEN: Okay, I'll go ahead and read your question then. We have learned that China has prioritized employment, its own employment of Chinese citizens at international organizations, particularly the U.N. My understanding [Commissioner Borgeas] is that the U.N. has historically been institutionally reluctant to allow in entry and mid-level Americans to serve in the U.N.

Do any of the panelists share this impression, and any recommendations on how we can counter this practice to help balance the future of American employment presence at the U.N.? Ms. Lee?

MS. LEE: Thank you, Commissioner, for the question. I believe that your assessment of the situation is correct, that Americans have historically faced significant challenges to gaining employment at the U.N., be it because of, you know, language proficiency issues, opaque hiring practices, unclear pathways to gaining employment, and, you know, lack of leverage over the leadership of these agencies, in recent years primarily because there is Chinese leadership in so many of them.

I think, actually, I was alluding to this in my response to the previous question, the numbers are quite striking. Chinese nationals at the working level I think only comprise less than 1 percent of the U.N. system overall. And so there is a disproportionate influence that China has at the leadership level, rather than the working level.

But I still do believe it's important to build new pathways for Americans to take on working level positions in these agencies. And I think part of it is sort of renegotiating terms of employment with the agencies. It's, I think, an item that was debated when the United States decided to withdraw from the WHO, one of the conditions was expanding American employment at the WHO.

And so I think that, you know, when we're working on getting allied candidates elected into these positions, the United States should make clear that it's a priority to have more Americans hired by these agencies so that, you know, the United States can advance its interests in that way.
COMMISSIONER KAMPHAUSEN: Dr. Limaye or Dr. Ellis, do you have an impression on this question?

DR. LIMAYE: I would say in the Indo-Pacific, we now have more and more layered institutions. So it's not so much a question of Chinese employment at existing institutions, but China is proposing new institutions, whether that by AIIB or the Shanghai Cooperation Organization.

So that old model of money and personnel doesn't apply so much, because both allies and partners are joining existing institutions and new ones proposed by China. So this is a contestation over narratives, over the rules, norms, and values that will govern those institutions. That's where it will play out in the Indo-Pacific.

And most of Asia, for the reasons I've articulated in my prepared statement and opening statement, much of Asia will be quite resistant to letting China shape the rules, occupy the positions, or fund all those organizations for the very reasons that they're worried about China. So in the region that I've been assigned to speak to you about, that does not apply as much.

COMMISSIONER KAMPHAUSEN: Dr. Ellis?

COMMISSIONER BORGEAS: Can I ask a follow-up question on that point?

COMMISSIONER KAMPHAUSEN: Go ahead.

COMMISSIONER BORGEAS: You bring up a good point on the emerging institutions in that Indo-Pacific area. One of the provisions that exists with World Trade or World Health, and other organizations, is that it requires affirmation by all the member bodies.

Should this be a political priority that those members of the Shanghai Cooperation or any of the other emerging institutions, that we use our diplomatic relationships to ask those members who are there or will be there to add a provision that says affirmation for observer status, or anything like that, not be limited to a veto?

DR. LIMAYE: Thank you, Commissioner Borgeas. I'm not qualified to answer the technical rules and charters of every organization, both proposed and existing in the Indo-Pacific. I will reflect on the following points.

One, we cannot ask anything if we do not turn up and if we do not attend. Two, it is the best place for our allies and partners who are members in full standing and resident powers in the region to shape the discourse on the rules and norms. And we can be at the table and help shape those norms so that they are not prejudicial to our interests.

That's the way in which we can help shape how those institutions evolve. Some we'll have no standing in. Many of them we will have standing in. Outright rejection of them will not put us at the table to help shape the rules.

COMMISSIONER KAMPHAUSEN: Dr. Ellis, in the interests of time, I'm going to need to move to our final commissioner, Commissioner Bartholomew, and invite her to ask her questions.

VICE CHAIRMAN BARTHOLOMEW: Thank you very much. Commendations to our co-chairs for putting together an interesting hearing. I'm looking forward to the third panel. And thank you very much to our witnesses for their participation today.

I have a question -- a sort of series of questions for each of you. Ms. Lee, you mentioned the Belt and Road MOUs with U.N. agencies. And I'm wondering is there any difference in the nature and the extent of the kinds of MOUs that the Chinese or Chinese companies are making than those of other countries? That's one question.

Second question for you is, you've several times now mentioned UNDP and Tencent. Do you know if there are any data protections in the MOU that's included, or is this just another
example of a Chinese company gathering vast amounts of data on individuals in different countries?

Let me put the other questions out on the table. Dr. Ellis, how much of the Chinese economic participation in Latin America is done through its state-owned enterprises? On other continents, Chinese companies have had a history of bringing in their own labor, their own management. Is that happening in Latin America? And is there evidence of an increase in corruption as these companies are moving in and entrenching themselves?

And then Dr. Limaye, the question that's probably the most unfair because it's the broadest, but how do countries balance their economic relations with their national security concerns, particularly now in the economic stresses of COVID-19? And Australia, of course, always jumps -- comes to mind first, but how do people move forward with that balance? And I'm not sure I really expect you to answer that question today.

Ms. Lee?

MS. LEE: Thank you, Commissioner Bartholomew. The question about Belt and Road MOUs and the way in which they're different from other -- the other MOUs that member states advance in these agencies is that oftentimes these memorandums are negotiated in very opaque and untransparent ways. They often are conducted through backroom deals between the Chinese leadership of these specialized agencies, and you know, the agencies themselves.

And so I'd actually point to the example of the World Health Organization. Back in 2017, China supported the Director General Tedros in his election to becoming the leader of the organization. Notably, Tedros flew to Beijing for the Belt and Road Forum, the first Belt and Road Forum in 2017.

And he basically parroted China's call for the creation of a health silk road, which is, you know, it's an amorphous strategic concept that, you know, China is currently leveraging to advance the export of its health surveillance technology to developing countries. And so I think what's extremely problematic is that the terms of agreement are opaque and not open to public debate and discussion.

And in that way, you know, it's conducive to corrupt practices. China often, you know, uses Belt and Road financing, as I mentioned earlier, to win votes both in elections and on resolutions in the General Assembly. And so I think, you know, if there's a way to make these memorandums of understanding more transparent, open to public debate, it would be of less concern.

The second question, I am unfortunately blanking on. If --

VICE CHAIRMAN BARTHOLOMEW: It was about -- it was about Tencent-UNDP and whether there are any data protections in it.

MS. LEE: Yes. So I think sort of related to your first question, there aren't data protections that are made publicly available. And so I think it's -- you know, that these companies have the ability to access large quantities of citizens' data in these developing countries is a way for Chinese companies to continue to refine their algorithms and to, you know, enhance the competitiveness of their products in these countries in which it seeks to gain access.

And so I think that is another area of significant concern.

VICE CHAIRMAN BARTHOLOMEW: Dr. Ellis?

DR. ELLIS: Yes, thank you very much for the questions, Commissioner. First of all, in general most of the Chinese companies in Latin America and the Caribbean do tend to be SOEs of various sizes. I mean, one mentions CNPC, CNODC, China Minmetals, China Aluminum Corporation, COFCO, the major food purchaser.
You do find variations. Clearly the SOEs get the most attention from -- when they come to the Chinese embassy to coordinate. But you also find, for example, you know, a national SOE is Shanghai Automotive Industrial Corporation, SAIC, versus Chery, which is more of an Anhui-based, lesser but still state-connected entity.

Or for example, a very large, but technically private, entity like Sany Heavy Industries, but for which the Chinese government has strong leverage through the fact that the president is an important party member.

And then in nontraditional services, so financial services and things like that. So some of Jack Ma's companies, you know, Alibaba, et cetera, you do find.

So there is a mix, and you do find the odd cats and dogs of, you know, investor groups that actually stir up problems for the Chinese. But in general, it is mostly about SOEs. But it's -- I think it's about herding cats.

With respect to labor, yes, absolutely. What I find is the most institutionalized countries are able to best restrict the abuse of Chinese labor. So in smaller companies in the Caribbean, so for example, when the Baha Mar $4.2 billion resort was built, the Bahamanian Government just off of our coast gave 8,150 work visas for Chinese workers.

Clearly -- but for example, in Brazil, the negotiation of a GASENE pipeline was done with about 70 percent Brazil labor. In part it was because it was done through the Brazilian Development Bank, BNDES, and so they had to negotiate. So I think it just depends on the negotiating position.

With respect to corruption, I see two paths. There probably is some marginal increase in corruption, where the Chinese who are not restricted by Foreign Corrupt Practices Act type of things. But there's also a political cycle with corruption where, when you have governments who come into power rallying against corruption, to Rafael Correa in Ecuador, Hugo Chavez in Venezuela, Evo Morales.

And who then basically ally with China in order to liberate themselves from the West and then themselves become far more unchained and corrupt and untransparent, enabled by the Chinese. So I there are certainly different paths to corruption, but clearly there are significant corruption concerns with dealing with the Chinese. Thank for the question.

VICE CHAIRMAN BARTHOLOMEW: Dr. Limaye, any words of wisdom on -- COMMISSIONER KAMPHAUSEN: You have 30 seconds to solve this enormous question.

(Laughter.)

DR. LIMAYE: Thank you for your profound question. I would say there's three ways to think about this. One, we have to get over the economics versus security issue. Just, we have to end that discussion and think about it as integrated whole. Why? Because China is 40 percent of global growth, and the number two economy in the world, a choice is not available to most.

My hunch is most countries will worry about China's economic collapse, or inability to grow, more than they will worry about a steady state China that offers trade investment and market opportunities.

Second, having said that, the economic-security nexus will be carefully calibrated because most -- many countries around the world, including us and our friends and allies in the region, are able to walk and chew gum at the same time. They want markets, they want trade, they want investment. They are very astute, able people, who will carefully calibrate what rules, norms, openings they offer China.

You see this in the response to economic statecraft on technology. You see it in access to
high-tech sectors of education departments. You see it in cleanup basement sales in the wake of
the pandemic. So all countries are managing very carefully the openings and closings that
they're going to allow to China in key areas.

And the net basis is going to be for them to keep the U.S. engaged and active in the
region for their own national security interests.

VICE CHAIRMAN BARTHOLOMEW: All right, thanks, sir.
COMMISSIONER KAMPHAUSEN: Thank you. This concludes panel two. You all
have been patient and enlightening at the same time, and so we're indebted to your time and
commitment. I'm sure, as we discussed numerous times, we'll be coming back to you with
questions for the record, and so we ask you to respond to those.

For my fellow Commissioners, we are running a little bit late, and so I would ask that we
return at 2:10 p.m. Eastern to begin our final panel, panel three. Thank you, we are adjourned.

(Whereupon, the above-entitled matter went off the record at 1:41 p.m. and resumed at
2:11 p.m.)
COMMISSIONER LEWIS: It is my distinct pleasure to introduce our third panel today. We’ll examine the prospects of the future of the U.S.-China relationship, including the possibility of military conflict. It will also address Europe's role in U.S.-China strategic competition.

We will begin with Dr. Janka Oertel, who interestingly is now in Berlin, who serves as Director of the Asia Program at the European Council on Foreign Relations. Dr. Oertel has published widely on topics related to the European Union-China relations, transatlantic China policy, security in the Asia-Pacific region, Chinese foreign policy, as well as 5G and emerging technologies.

Prior to the European Council on Foreign Relations, she worked as Senior Fellow in the Asia Program at the German Marshall Fund of the United States in the Berlin Office. Dr. Oertel will address Europe's role in U.S.-China's strategic relationship and future prospects for transatlantic unity.

Next we'll hear from Alison Kaufman, Principal Research Scientist at CNA, the Center for Naval Analyses. At CNA, Dr. Kaufman worked on issues relating to China's and Taiwan's military culture, Chinese foreign and security policy, and cross-trade relations.

Her personal research focuses on the historical origins of the current trends in Chinese strategic and regional and foreign policy in debates.

Dr. Kaufman will address the implications of China's worsening external environment for the prospects for a military conflict on its periphery, including one that involves the United States.

Finally, we have Ms. Michele Flournoy, co-founder of the WestExec Advisories and member of the Board of the Center for a New American Security, CNAS. Ms. Flournoy served as the Undersecretary of Defense for Policy from February 2009 to February 2012. She was then the Undersecretary of Defense for Policy.

She led the development of the Department of Defense's 2012 strategic guidance, and represented the Department of Defense in dozens of foreign engagements in the media and before Congress. Prior to founding CNAS in January 2007, she served as a Senior Advisor in the Center for Strategic and International Studies and a Distinguished Research Professor at the National Defense University.

Ms. Flournoy will address how the United States should manage its strategic competition with China in the future.

Thank you very much for all of you for your testimony, and I want to advise that you will each have seven minutes each to make your conclusions. And then we will go through the 12 Commissioners, three of whom are present and nine of whom are also remote, who will each ask a question of the witnesses.

I'd like remind each of you to keep your remarks to seven minutes. Dr. Oertel, we'll begin with you, please.
OPENING STATEMENT OF JANKA OERTEL, DIRECTOR, ASIA PROGRAMME, EUROPEAN COUNCIL ON FOREIGN RELATIONS

DR. OERTEL: Thank you very much, Commissioners, and thank you very much for the kind invitation and the opportunity to testify today.

For China, Europe has become the key battleground in the competition with the United States for economic and technological supremacy. Europe is a crucial market for Chinese products, second only to the United States, with an overall volume of roughly $400 billion U.S. exports in goods.

Especially at a time of increasingly strained U.S.-China trade relations, Europe is a critical partner for China, not only in terms of its market, but because of European companies are important investors in China, as well as key sources of technology transfer and know-how.

On technology, we've seen in the battle for Europe around 5G, how real and fierce strategic competition has already become. For China's tech industry, gaining a strong foothold in the European market is not only economically attractive, but vital in terms of increasing the global footprint of Chinese brands and standards.

What the 5G debate has also demonstrated, however, is that Beijing's success in winning over European support is at best mixed. But Europe is not just a battleground in the ongoing competition. Against the background of China's growing assertiveness and limited willingness to address European concerns over market access and fair competition, Europe is striving for enhancing its own capacity to act vis-a-vis China.

E.U. and its member states are increasingly getting tougher on China on trade, and more vocal in their demands for reciprocity. The E.U.-China summit, which took place on Monday, was a good indicator for this. Disinformation activities and Chinese cyber-attacks were clearly called out.

And while Chinese news agencies attempted to paint a rosier picture of the overall cooperative spirit, and the prospects of the relationship, and attempted to downplay the fundamental divergencies, the clear message from the E.U. side was that Europe is enhancing its defense and will stand up for its interests.

Recent months have seen the introduction of a comprehensive investment screening mechanism, a new white paper on leveling the playing field on foreign subsidies, and a clear positioning that prospects for an E.U.-China comprehensive agreement on investment remain slim, if Chinese ambition remains low.

Europe's recovery plan will see billions of Euros invested in greater resilience, reduced reliance on single suppliers and critical infrastructure, while boosting European competitiveness along an ambitious climate agenda. All this is also targeted at being less dependent on China, and Europe's business around -- is going to be conditioned around green recovery.

This is not great news for Beijing. There is a significant change in attitude and a reassessment of priorities when it comes to relations with China, across Europe. Beijing's assertive diplomacy during the pandemic and its concerted disinformation campaigns to control the narrative of the crisis in Europe have prompted a strong response.

Even wider public attention is now paid to China across Europe, and especially parliaments have become more prominently involved, which poses a challenge for Beijing as it forces it to navigate the intricacies of European domestic politics.

At the E.U. level and in the capitals of virtually all members states, on the outside, there's
a declared willingness to a cooperative agenda with Beijing on matters of concern to European voters, first and foremost on climate change. But beyond the diplomatic facade, frustration with China looms large. While this in general presents great potential for transatlantic cooperation, it does not automatically enhance its prospect.

The Wolf Warrior diplomacy of recent months backfired. But it would be a folly to assume that Beijing is not capable of adjusting its approach. A recent representative poll that the European Council on Foreign Relations has conducted in nine European countries having two-thirds of the E.U. population and GDP, shows that views of China have worsened due to the coronavirus crisis among a majority of those interviewed. But that views of the U.S. have also deteriorated significantly.

That despite its recent assertiveness vis-a-vis Europe around the coronavirus narrative, Beijing remains poised to avoid the emergence of a united European and transatlantic approach. Exploiting transatlantic dissonance may be a sufficiently good outcome for the time being.

In a climate of overall geopolitical uncertainty, European governments are in many cases hesitant to alienate Beijing, to keep open the prospect and promise of the Chinese market. Beijing still has economic carrots to offer.

But Europeans are also growing increasingly concerned beyond the trade objectives, including on Beijing’s human rights record, the situation in Hong Kong, and in the South China Sea around Taiwan. Beyond the national government level, new coalitions are emerging that transcend narrow economic interest, and that focus on fundamental values.

Members of the European Parliament have urged the European External Action Service to speed up the process of establishing an E.U. global sanctions regime to address human rights violations, the E.U. equivalent of the Magnitsky Act. And the European Parliament has introduced a strongly worded resolution on Hong Kong.

Growing numbers of initiatives are now coming from parliaments, rather than executives. The recently announced inter-parliamentary alliance on China is a particularly interesting example of transatlantic, and even transpacific, parliamentary coalitions emerging.

Given that the U.S. and Europe align on a wide variety of challenges that China presents, from trade to human rights, the lack of a coordinated approach currently is clearly a lost opportunity in terms of shaping the future of the global order according to shared norms.

Much more could be done on aligning policies on high quality infrastructure, pushing a high standard that includes a trade agenda, cooperating on cyber security, for example in the NATO context, and creating industrial policies that not only underpin the strength and complementarity of the transatlantic economies, but also make them fit for the future.

To further improve transatlantic coordination, Congress could set up a joint transatlantic commission with European lawmakers to investigate Chinese trade practices, and explore legal mechanisms that comply with established norms and provide a basis for joint transatlantic action.

To enhance transatlantic trust and predictability for European allies, Congress could also mandate that the justification for all future U.S. government trade enforcement actions aimed at China contains an assessment about how that action will negatively impact European companies and economies. Side and secondary effects of economic coercive action against allies will decrease the potential for cooperation.

Lastly, understanding the challenge ahead is absolutely key. Without naivete about the state of transatlantic relations, joint research in understanding the full meaning of the emerging systemic rivalry with Beijing should underpin a renewed push for finding common ground across the Atlantic.
Thank you very much.
For China, Europe has become the key battleground in the strategic competition with the United States for economic and technological supremacy. Access to Europe’s market and political cooperation with the economic bloc are crucial for realizing China’s expanding global ambitions. China’s approach to Europe is a challenge to internal cohesion within the European Union (EU) as well as for transatlantic relations. The EU and its member states are increasingly getting tougher on China on trade and more vocal in their demands for reciprocity. While this presents great potential for transatlantic cooperation, it does not automatically enhance its prospects.

**China’s relations with Europe**

For the last few decades, China has mainly focused on expanding its trade relations with Europe. Most member states of the EU –first and foremost Germany –benefitted greatly from close economic ties with Beijing.1 Europe is a crucial market for Chinese products – second only to the United States – with an overall volume of roughly 400 billion USD of exports in goods. The EU runs a 180 billion USD trade deficit with China.2 European companies are an important source of foreign direct investment in China, as well as a key source of technology transfer and know-how. After the global financial crisis of 2008, Europe also became a favored destination for Chinese investments, which peaked in 2016.3

In China’s economic relations with Europe, some countries matter much more than others in terms of strategic considerations. Chinese companies have, for example, sought economic opportunities in eastern Europe, they have pursued takeovers of port infrastructure in Southern Europe, and have found a promising investment climate in the Nordic countries. But in terms of overall political and economic ties, Germany remains the key player for Beijing within the EU.4

---

1 Over the past 15 years, exports from Germany to China, for example, have more than quadrupled from roughly 26 billion USD to 110 billion USD in 2018, the share of total of German exports rising to slightly more than 7% in 2018, up from under 3% in 2005. Data based on https://wits.worldbank.org/CountryProfile/en/Country/DEU/Year/2018/TradeFlow/Import.


Europe’s relations with China had already seen a significant course correction in 2019. In March of that year, the EU labelled China a ‘negotiating partner, economic competitor, and systemic rival’ for the first time. The new assessment was preceded by a report of the German Federation of Industries (BDI) pushing the German government to adjust its approach towards China. Beyond anti-subsidy and investment control measures, it also called for ambitious steps in terms of industrial policy focused on innovation and high-quality standards for public procurement. The report was informed by the realization that China’s predatory economic behaviour around the globe, coupled with its continued restrictions on market-access and industrial strategies present an enormous challenge – especially to German companies which are no longer complementary to Chinese companies, but increasingly direct competitors – and would require a tougher response and clearer articulation of European interests to safeguard European prosperity and economic competitiveness.

This change was highly significant, especially since European countries were initially very receptive to Xi Jinping’s signature Belt and Road Initiative (BRI), which promised a greater degree of connectivity and an increase in trade and investment with China. During his first state visit to Europe in 2014, Xi personally welcomed the arrival of a cargo train from Chongqing to the German city of Duisburg to underline not only the success of the initiative, but also the role of Europe within it. But across Europe enthusiasm for the BRI has since faded. European companies have only played a marginal role in BRI projects. BRI investments in Europe remain at low levels, particularly in Central and Eastern Europe, where hopes for an expanded economic relationship with China were highest. Contrary to a common assumption, Beijing’s economic relations with the countries of the 17+1 format are not particularly deep. And concern about BRI extends beyond frustration over unfilled economic expectations. Engagement with China along the Belt and Road has been beneficial for some countries but has also left a trail of debt in Europe’s Eastern neighborhood as well as in Africa, with significant implications for economic stability outside Europe’s borders. Various African countries struggling with the implications of the coronavirus pandemic are dependent upon Chinese goodwill in debt renegotiations. Europe has a sincere interest in cooperating with China to find multilateral solutions to mitigate the economic fallout in the developing world, but Beijing is more inclined to negotiate most of the commitments bilaterally with its debtors.

**The 5G dimension**

Nothing illustrates the current dynamics more clearly than the 5G debate that has been raging in Europe now for more than a year. In early 2019, U.S. pressure forced allies across the At-

---

7 See the January 2020 report of the European Chamber of Commerce in Beijing, which highlights “the peripheral role currently played by European business in the BRI, as well as the competition-blunting effects that the Beijing-led scheme is having on business worldwide.” https://www.europeanchamber.com.cn/en/press-releases/3110/european_chamber_report_identifies_profound_lack_of_european_involvement_in_china_s_belt_and_road_initiative_and_the_scheme_s_dampening_effects_on_global_competition
Atlantic to revisit the national security implications of what up until then had been mainly regarded as commercial, private infrastructure among European governments. For many years, Chinese companies had been welcome competition in Europe’s open telecommunications market. Chinese vendors Huawei and ZTE still occupy a prime position in the existing 3G/4G infrastructure, especially in the radio access network – often constituting more than 50 per cent of deployed networks, and up to 100 per cent in select EU member states. Competition among European telecommunications operators is fierce and the incentive to increase profit margins by purchasing from Chinese vendors, able to offer lower prices due to preferential conditions in their home market as well as direct and indirect subsidies, is high. Chinese companies have skillfully used this opportunity to gain market share, through active lobbying, veiled threats, good economic and political ties, an effective communication strategy that is willing to engage in misinformation, and at the expensive of European indigenous champions Ericsson and Nokia.

For China’s tech industry, gaining a strong foothold in the European market is not only economically attractive, but also vital in terms of increasing the global footprint of Chinese brands and standards. The United States government now increasingly views this effort as a threat to its economic and security interests, but European partners did not necessarily share this assessment at the outset. When the U.S. moved to constrain the use of Chinese vendors in the rollout of 5G infrastructure domestically, but also to limit their ability to do so in other markets by imposing restrictions on their capacity to source from U.S. companies, it caught European policymakers off guard.

Telecommunications infrastructure and (cyber) security remain the prerogative of EU member states. While the U.S. was engaging in a coordinated diplomatic and bipartisan political campaign to win over European allies for its restrictive approach over the course of 2019 and early 2020, Beijing was likewise having extensive conversations with individual member states, making the case for Chinese vendors’ presence. Chinese diplomatic engagement focuses on the bilateral level, which allows Beijing to exploit existing differences and fault lines between EU member states and exert pressure more surreptitiously. But in the 5G controversy, its success is so far at best mixed. That debate is far from finished and, in the next phase, it is going to be heavily influenced by a growing European disenchantment with China that has emerged from the corona crisis.

Final decisions on the role of high-risk vendors at the member state level are still rare. In those cases where national legislation has passed, as, for example, in France, Sweden, or Estonia, it mainly prescribes a case-by-case approach, with involvement of the security services throughout the process. All put significant restrictions on Chinese technology in their networks, but they also allow for a degree of strategic ambiguity.

Denmark is the latest to pursue a restrictive approach. Announcements aimed at excluding Chinese vendors have also been made, e.g. in Romania, the Czech Republic, Italy, or Poland. The EU itself, through its Toolbox on 5G Cybersecurity, has elaborated a much-appreciated basis for member states to follow, but concerted EU-wide action regarding the future of 5G networks is still missing. This patchwork of approaches offers avenues for Beijing to exert pressure on individual countries and use national dependencies on China as leverage.

---

The key country for the outcome of the discussion remains Germany. The size of its telecom market, which is the largest in Europe, its special relationship with Beijing, and the strong presence of Huawei and ZTE in existing infrastructure all mean that Germany’s decision will reverberate through the rest of Europe. It has already triggered an intense debate about industrial policy and “digital sovereignty” in Germany and Europe more broadly, which will have implications far beyond 5G, e.g. for European indigenous cloud ambitions, an effort actively promoted by Berlin that is also intended to reduce reliance on U.S. technology in the long-term. The 5G debate in Berlin has been fierce and the government has been split on how to respond to the challenge – though interestingly not along party lines. Rather, it pits those focused on foreign, security and cyber issues against those mainly dealing with economic and trade issues. ‘Trustworthiness of the supplier’ has become a key phrase in the German debate. And trust has really become an issue when it comes to China, particularly since the coronavirus crisis.

The Corona-Factor

Beijing’s efforts to withhold information about the outbreak of the novel coronavirus and its initial management of the disease have received widespread criticism. The assertive attempts to shape the global narrative about the pandemic, through so-called ‘mask diplomacy’ or intimidation, demonstrate that the Communist leadership has limited patience for playing nice with Europe. The Chinese focus is on solving domestic economic problems that the pandemic has created, particularly massive job losses, through increased spending at home. The impact of the pandemic on China’s image in the world will be lasting, but even more importantly, it will focus Chinese economic attention inwards and will make reciprocal policies even less likely than before. Beijing’s assertive approach during the pandemic and its concerted disinformation campaigns to control the narrative of the coronavirus crisis in Europe have prompted a strong response from the EU, which called out China’s activities as “targeted influence operations”. Beijing’s heavy-handed approach to diplomatic relations with Europe has severely irritated Europeans in the national administrations, the media and the wider general public.

The debates surrounding the changing role of China in Europe by the various national governments and the EU level have prompted a stronger engagement especially from parliaments. In Germany, it was the role of the Bundestag that was crucial in changing the momentum in the 5G debate. In the Netherlands and in Sweden, parliaments demanded their governments to draw up explicit China strategies. China has recently become a major domestic policy issue in a wide range of European countries. The coronavirus crisis has enhanced this dynamic. Across Europe there is a reassessment of defensive measures against Chinese assertiveness, including the effects of market-distorting state-capitalism.

---

This backlash poses a challenge for Beijing: It requires engagement beyond the government level and forces Beijing to navigate the intricacies of European domestic politics. But it can also be an opportunity for Chinese efforts, depending upon the receptiveness of the national audience and parties as well as the skill of Chinese public outreach. So far China has exhibited limited ability to sustainably navigate the nuances of European domestic politics. European views of China have worsened due to the coronavirus crisis.  

At the same time, disinformation activities and Chinese cyber-attacks have been clearly called out at the latest EU-China Summit. The meeting between President of the European Commission Ursula von der Leyen, President of the European Council Charles Michel, President Xi Jinping and Premier Li Keqiang took place in a virtual format on 22 June 2020. While Chinese new agencies attempted to paint a rosier picture of the overall cooperative spirit and the prospects of the relationship, “which will provide Europe with a new round of cooperation opportunities and development space”, while downplaying the fundamental divergencies, the clear message from the EU side was that Europe is getting tougher and will stand up for its interests.

This more assertive stance of the EU is particularly visible in the trade and industrial policy realm. Recent months have seen the introduction of a comprehensive investment screening mechanism on the EU-level that complements national measures in member states. It allows for a comprehensive assessment of the national security implications of foreign investment in the EU. The EU is also extending the scope of its measures: Just recently, it targeted China’s distortive state support beyond China’s borders by introducing tariffs to a company based in Egypt. Brussels is addressing the question of the long-term effects of Chinese subsidies on fair competition with a new White Paper on levelling the playing field on foreign subsidies, and is trying to push Beijing towards actual economic reciprocity and greater market-access for European companies, which should manifest itself eventually in an EU-China Comprehensive Agreement on Investment. Both sides had originally envisioned a conclusion of that negotiation in 2020, but that now seems unlikely. It was supposed to be one of the deliverables at a summit between the 27 heads of state and government, the EU leadership, and Xi Jinping, which was planned for September in Leipzig, Germany. The meeting has now been postponed. Without clear commitments by China on matters of European concern, the event could have served as a major strategic win for the Chinese leadership. There was a degree of relief in capitals across Europe that by postponing the meeting some time was gained to assess the changes of the recent months and re-calibrate policies accordingly.

Europe wants to remain open for business with China, and it does not want to give up on the Chinese market, but Beijing sees limited reason to give in to European demands for real reciprocity and a level-playing field. To the contrary, keeping the playing field as unlevel as possible currently has a stabilizing effect on a Chinese economy that is under heavy stress. For

15 See, for example, for Germany: https://www.koerber-stiftung.de/fileadmin/user_upload/koerber-stiftung/redaktion/the-berlin-pulse/pdf/2020/Koerber_TheBerlinPulse_Sonderausgabe_Doppelseiten_20200518.pdf, also upcoming data on https://www.ecfr.eu/europeanpower/unlock.


Europe, on the other hand, defending itself against China’s state capitalist economy is key in securing Europe’s future competitiveness and prosperity.

The pace of change in the EU-China relationship is indicative of the size of the challenge Europeans face. Europe’s post-pandemic economic outlook is bleak. The shutdown of the economy has amply demonstrated dependencies in terms of medical supplies and deficiencies in the overall digitalization of even Europe’s leading economies. Europe’s recovery plan will see billions of Euros invested in greater resilience, reduced reliance on single suppliers in critical infrastructure and goods while boosting European competitiveness and progress on its ambitious climate agenda. But the situation remains volatile and trade with China will be important in achieving Europe’s goal of speedy recovery from the crisis.

What role does NATO play?

From a European perspective, NATO was until recently not regarded as the right place to discuss China. Yet again it was the 5G debate, which changed this. By making military interoperability and NATO communications part of the debate on 5G infrastructure, the U.S. government combined the geo-economic and geo-political challenge that China poses and presented it to the Alliance. Especially for Eastern European members, the link to national security and NATO readiness changed the meaning of the choice that they had previously seen as primarily economic in nature.

As a result, even though threat perceptions within the Alliance vary greatly, the December 2019 Leaders’ Meeting in London called out China for the first time as a challenge to NATO. Beijing brushed the statement off as a minor development, stating that “within NATO, there are objective and rational voices saying China is not an enemy”. In a thinly veiled attempt to play to potential divergences within the alliance, the Chinese also declared that “there is no immunity even for US allies” as “the greatest threat and challenge the world faces is unilateralism and bullying practices.”

Finding a strategic response to the new geopolitical environment is essential to NATO’s continued relevance. NATO leaders have collectively recognized that they can no longer ignore the implications of Chinese assertiveness. There will continue to be hesitation on the side of various European members of the alliance to fully engage on the question of China, but NATO’s relations with and posture towards a rising China will be a key theme for NATO in the coming decades.

This will not be limited to questions of communications infrastructure and interoperability, or intelligence sharing. NATO Secretary Jens Stoltenberg underlined in a recent interview with a German newspaper that China is gradually encroaching upon Europe’s doorstep: Beijing, he argued, is a regular presence in the Arctic, in Africa, and in the Mediterranean and firmly established as a power in cyber space. At the same time, Stoltenberg states, China invests heavily

---

21 Foreign Ministry Spokesperson Hua Chunying’s Regular Press Conference on 5 December 2019
in nuclear modernization and long-distance missiles, which put Europe within striking range.\textsuperscript{23} His remarks prompted an immediate response by the Chinese Foreign Ministry. It noted that Stoltenberg had not declared China an outright rival to the alliance and that there was expectation that the alliance will “continue viewing China in the correct way” and that NATO will engage with China on the basis of mutual respect.\textsuperscript{24}

From Beijing’s perspective, divisions between NATO members on China remain clear and so it believes that an assertive NATO posture toward China is unlikely. However, NATO has the potential, especially in the cyber domain, to create capabilities that the EU level cannot generate at this point. Enhanced cooperation of EU countries especially with the U.S. and Great Britain within the NATO framework will not necessarily prevent any attack on one or all members of the alliance, but it would at least make it potentially more costly for an adversary. European states increasingly view Chinese strategic intentions outside the Asia-Pacific region and in cyber space with unease. While many would stop short of calling China an actual threat to European security, some have; Latvia\textsuperscript{25} called out China as a cyber and espionage threat in its recent security assessment, Estonia\textsuperscript{26} labelled Chinese investments and potential “technological dependency” as a threat to its security.

Consequences for transatlantic relations

At the EU level and in the capitals of virtually all member states, there is a willingness to find a cooperative agenda with Beijing on matters of concern to European voters, first and foremost climate change and the rules-based multilateral order. But beyond the diplomatic façade, frustration with China looms large. Europe currently lacks a clear strategic vision for the future of its relations with China beyond the trade agenda – and a clear indication from Beijing that it is actually willing to cooperate beyond lofty language. Especially on climate and emissions reductions, China is currently not pursuing a more ambitious stance. The question remains whether Europe will continue along its current course or start pushing more forcefully for its interests through the introduction of a carbon border adjustment tax or other economic measures.

At the same time, there is a significant weariness with U.S. policies as well: actions such as withdrawal from the Paris Climate Accord, the Iran nuclear deal, and various arms control treaties as well as hostile rhetoric regarding multilateral cooperation and the looming threat of additional trade measures and tariffs, have alienated European policy makers and publics alike. Coercive economic measures that have targeted European allies have led to irritation and hedging impulses. Equidistance between the U.S. and China remains neither feasible nor desirable for Europe, but under the current conditions of reduced transatlantic trust the potential for joint action regarding China seems more limited. Given that the U.S. and Europe align on a wide variety of challenges that China presents, from trade to human rights, this is clearly a lost opportunity in terms of shaping the future of the rules-based international order according to the norms and values that underpin the transatlantic partnership. The very recent suggestion by EU High Representative Josep Borrell “to launch a distinct bilateral dialogue focusing on China


\textsuperscript{26} https://www.valisluureamet.ee/pdf/raport-2020-en.pdf
and the challenges its actions and ambitions mean for us’’ in his call with U.S. Secretary of State Mike Pompeo is thus a welcome initiative to improve transatlantic exchange on China.\textsuperscript{27}

From Beijing’s perspective, transatlantic divergence is a highly preferable outcome. Despite its overly assertive stance around the coronavirus narrative, Beijing remains poised to win over enough European member states by paying lip service to the climate agenda and its own understanding of multilateralism to avoid the emergence of a united European or transatlantic policy and an overall tougher European stance across the entire range of policy areas, including on Beijing’s human rights record, the situation in Hong Kong and Xinjiang or its posture in the South China Sea or with regard to Taiwan. It still has economic carrots to offer and Europe will also increasingly be subject to coercive economic sticks.\textsuperscript{28}

In a climate of overall geopolitical uncertainty and while facing probably the most severe economic crisis since the Great Depression, European governments are in many cases hesitant to fundamentally change their underlying commitment to cooperation with China. But beyond the national governmental level new coalitions are emerging. Members of the European Parliament have urged\textsuperscript{29} the European External Action Service to speed up the process of establishing an EU global sanctions regime to address human rights violations, the EU equivalent of the ‘Magnitsky Act’, and the European Parliament has introduced a strongly worded resolution on Hong Kong.\textsuperscript{30}

As indicated above, growing numbers of initiatives are now coming from parliaments rather than executives. The recently announced Interparliamentary Alliance on China is a particularly interesting example. The bipartisan initiative that describes itself as a “cross-party group of legislators working towards reform on how democratic countries approach China”.\textsuperscript{31} Founded in June 2020 with co-chairs from eight European countries plus the European parliament together with colleagues from Australia, Canada, Japan and the United States, it has more than 100 members. It is drawing increasing attention and ire from Beijing, in part because it brings together the entire democratic spectrum of Europeans with their democratic partners from North America and Asia-Pacific.

\textit{Recommendations for Congressional Action}

- Set up a joint transatlantic commission with European lawmakers to investigate Chinese trade practices and explore legal mechanisms that comply with established norms to safeguard an open, rules-based, inclusive international economic system and provide a basis for joint transatlantic action.
- Instruct the relevant U.S. authorities to discuss setting up a coordination mechanism with the European Union, to create a process for sharing information and enhancing the effectiveness of human rights sanctions through transatlantic coordination.

\begin{itemize}
\item \textsuperscript{27} \url{https://www.scmp.com/news/china/politics/article/3089178/eu-plans-dialogue-us-deal-chinas-growing-assertiveness}
\item \textsuperscript{28} \url{https://www.globaltimes.cn/content/1187254.shtml}
\item \textsuperscript{29} \url{https://twitter.com/guyverhofstadt/status/1243602389699039236}
\item \textsuperscript{30} \url{https://twitter.com/buetti/status/1274068879904518151?es=20;}
\item \url{https://www.scmp.com/news/china/diplomacy/article/3088697/eu-parliament-mulling-un-court-action-against-chinas-national}
\item \textsuperscript{31} See \url{https://www.ipac.global/} for additional information about the Alliance.
\item \textsuperscript{32} \url{https://www.globaltimes.cn/content/1190732.shtml}
\end{itemize}
• Mandate that the justification for all future U.S. government trade enforcement actions aimed at China contain an assessment about how the action will negatively or positively affect China’s global political and economic position, including through assessing the impact on European companies and economies.

• Establish new funding mechanisms for joint US-European research on the economic and political challenges China poses in the context of the new dimension of “systemic rivalry” with Beijing.
OPENING STATEMENT OF ALISON KAUFMAN, PRINCIPAL RESEARCH SCIENTIST, CNA

COMMISSIONER LEWIS: Sorry to keep you up so late. We will now hear from Dr. Alison Kaufman.

DR. KAUFMAN: Well, thank you very much, Commissioner Kamphausen, Commissioner Lewis, other distinguished members of the Commission, thank you very much for inviting me to testify. I hope you can all hear me, this is all new for me.

I want to start with the usual caveat that the views that I'm expressing today are my own, they don't reflect the opinions of CNA, the U.S. Navy, the Department of Defense, or in fact anyone but myself.

So I want to make four points today about the future, what I see as the future of U.S.-China competition. The first point is that the future is now. The first concern of the Chinese leadership and the ones that drives every policy decision will always be the survival and the stability of the Chinese Communist Party, or the CCP.

The second point is that China's leadership is actually increasingly confident in its ability to shape the international strategic environment, I think we've heard a lot about that today, and to attain its national objectives. But they don't see China's success as assured, there are many obstacles in their way.

The third point is that China is not yet confident in its military's ability to prevail against the United States in a full-out war. And with regard to Taiwan, that means that the key assessment that China's leadership will be needing to make is whether and how the United States would intervene, should a conflict there break out.

And my fourth point that I want to make is that even apart from Taiwan, there will be persistent competition from China. And this does carry important risks for the United States that we do need to be prepared to address.

So point number one. I cannot stress enough that for the PRC leadership, China's security, which is what I was asked to talk about today, China's security equals the security of the Chinese Communist Party. That means its undisputed rule over the PRC. And this in turns rests on principles such as national sovereignty, territorial integrity, economic growth, domestic social stability, and also international respect and recognition.

If a policy action doesn't support these objectives in the longer term, it's not in the CCP's interest to pursue it. And what this means is that a measure of success for Chinese military action is ultimately whether that action supports national political objectives, not just military objectives in and of themselves.

Point number two is that currently the CCP leadership actually assesses that the global environment is generally favorable to China's ability to meet these national objectives, but that its success is not fully assured.

Xi Jinping has noted that China and the world are entering into what he calls a new era. And he says this is for the most part quite positive for China. He asserts that -- in the 2019 Defense White Paper he asserted, that China's international influence, ability to inspire, and power to shape have risen as never before. I think we've heard quite a lot about that today.

He says, overall the world is more balanced in its configuration of strategic power. And interestingly, he says that for the most part, the situation in the South China Sea is generally stable and in fact improving as regional countries are managing risks and differences. That's a direct quote from the Defense White Paper.
But he also notes that international strategic competition will continue to create international regional stability, due primarily, not surprisingly, to the actions of the United States. But he also calls out NATO, Russia, and the E.U. among others. And of course, he also calls out what he calls Taiwan independent separatist forces as being a major obstacle to China's future strategic success.

So on that last point, the third point I wanted to make today is that China does not believe, for the most part, that it can currently afford the risks of taking on the U.S. in a full-scale war, if it can possibly help it. A critical area in which Chinese defense planners and strategic planners in my opinion believe that China's success is not assured is Taiwan.

Dr. Finkelstein testified this morning, China's military capabilities still lag those of the United States. That won't be true forever, but it is right now, and they're quite aware of that. And this has a lot of implications for a Taiwan conflict.

Chinese writings on escalation control, which is my area of specialty, suggest that PRC decisionmakers strongly prefer not to enter a military conflict if they don't calculate either that their odds of winning quickly are very high, or that the costs of not doing so are unbearably high.

And right now, it appears for the most part that China's odds of winning against the United States in a military conflict over Taiwan is rather low, and the potential costs to China of not succeeding are extraordinarily high.

In fact, one of the most costly outcomes that I could envision for the CCP would be if China attacked Taiwan and lost. This would create massive, massive damage to the CCP's domestic credibility, international reputation, and influence, and so on; its broad legitimacy.

So knowing that they can't beat the U.S. in a full fight, the key assessment that China's leaders would make regarding Taiwan in the near term is the credibility of the U.S. commitment to become involved in a conflict. If China's leaders believe that attacking Taiwan will certainly trigger an overwhelming U.S. response in some domain, military or otherwise, then they'll probably calculate that it's not worth that risk, unless Taiwan independence is truly imminent.

If, on the other hand, they're fairly certain that the U.S. won't intervene, or that the PLA could preclude the U.S. from intervening effectively, then the odds in China's favor become much better.

Now, in my opinion, what this means is that right now is actually the United States' window of opportunity. This is the time for the U.S. to shape China's perceptions that it cannot take Taiwan without incurring unbearable costs to all other aspects of China's security and CCP legitimacy, which is ultimately what they care about.

Now, point four is that apart from Taiwan, Chinese near-term competition still carries plenty of risks for the U.S. We've heard a lot about that today. We see China using every element of its national power to expand its global footprint and influence. And to be very honest, this is partly enabled by the fact that the PRC government is opportunistic.

A lot of people, especially in the first panel, used this language of opportunism. China's good at finding and filling in voids where other countries have failed to step forward. And frankly, sometimes the U.S. makes this rather easy for China.

When the U.S. steps back from international institutions, this foot-dragging, placing severe limitations on contact with other countries, makes statements that imply that the U.S. commitment to its treaty allies is conditional, these create opportunities for China, and we have seen ample evidence that they will use those opportunities.

Many countries -- most countries probably prefer to partner with the U.S. than with China, but they can't do so if we're unavailable.
In the interests of time, I'm going to leave aside a point that I wanted to make about inadvertent or accidental escalation of a military crisis, beyond to say that I think the chances of that happening in the South China Sea or elsewhere that U.S. and Chinese forces are quite active is rather high, and is something that we need to be aware of.

And I will just move on quickly to a couple of recommendations for congressional action. The first is simply to keep in mind, again, that for China's leadership, security is a political concept. And so for the U.S. to respond effectively to Chinese actions, it really needs to communicate the consequences of those actions for the CCP.

Second, we need to send extremely consistent and very credible signals across any administration to China and more broadly about the U.S. commitment to meet its treaty obligations and to support allies and close partners.

Third, we do need to have serious discussions with China about how to handle military accidents and misinterpretations. We do have a lot of mechanisms in place for that already, but as someone noted earlier, those need to be expanded upon and reinforced.

And the fourth point, I think most importantly, is we need to close some of China's easy windows of opportunity to influence others. We can't compete with China if we don't show up. We need to be as opportunistic in a very positive sense as the Chinese are. We need to take advantage of opportunities.

Many of these actions are not that expensive in monetary terms, but they do require political will and a clear vision of what the U.S. is trying to accomplish.

Thank you.
PREPARED STATEMENT OF ALISON KAUFMAN, PRINCIPAL RESEARCH SCIENTIST, CNA
June 24, 2020

Alison A. Kaufman

Principal Research Scientist, CNA

Testimony before the US-China Economic and Security Review Commission

Hearing on “The Chinese View of Strategic Competition with the United States”
Introduction

Commissioner Kamphausen, Commissioner Lewis, and other distinguished members of the Commission, thank you for inviting me to present testimony for the Commission’s hearing on “The Chinese View of Strategic Competition with the United States.” The Commission has asked me to address a series of questions about how the political and military leadership of the People’s Republic of China (PRC) view China’s current and future security environment, and the implications of those perceptions for the future of strategic competition between the United States and China—including the near-term potential for armed conflict.

There are four main points I wish to make in this testimony:

1. In the future, as now, the first concern of the Chinese leadership will always be the survival and stability of the Chinese Communist Party. This concern drives all other policy choices, domestically and internationally, and it will continue to drive China’s approach to and choices about strategic competition with the United States.

2. China will continue to compete against the United States in all domains, particularly as it views the global security environment as increasingly favorable to China.

3. China’s leadership is far more confident in its ability to shape the international strategic environment than it was just a few years ago, and it views the United States as its primary obstacle in doing so. However, it is not yet confident in its ability to prevail against the United States in a full-out war.

4. The United States currently has a window of opportunity to shape PRC perceptions that the costs to China of certain actions—such as waging armed conflict against US allies or Taiwan—are too high, and the certainty of success too low, to be worth carrying out. This window of opportunity will not last forever.

The views in this testimony are my own and do not reflect the opinions of CNA, the US Navy, the Department of Defense, or anyone else but myself.

How do China’s leaders view their “external” security environment?

The Commission asked me to discuss how Beijing views China’s external security environment, where it thinks this security environment is headed, and the extent to which these views are informed by the actions of the United States.

For the PRC leadership, “China’s security” = the security of the Chinese Communist Party

Several of the questions raised by the Commission refer to China’s views of its “external” security environment—that is, the security threats and opportunities in the international arena that China’s leadership believe they face due to the actions of and relationships with other countries. However, stating the question this way elides a key driver of China’s activities in the
The security that matters the most to the Chinese leadership is the security and stability of the Chinese Communist Party (CCP) as undisputed ruler of the PRC. If a policy action does not support this objective in the longer term, then it is not in the CCP’s interest to pursue it.

CCP legitimacy rests on several pillars; prominent among these are national sovereignty and territorial integrity, economic growth, domestic social stability, and international respect and recognition. If any of these is absent, the CCP’s legitimacy and stability are weakened. Xi Jinping has asserted that attaining these objectives requires a “holistic security concept” that encompasses multiple domains and includes both domestic and international security. In other words, all elements of national power—economic, diplomatic, military, cultural, scientific, etc.—should both contribute to and benefit from China’s long-term strategic security.¹ A “secure” international environment is one that sustains the “pillars” that support CCP rule over China.

CCP leadership perceives the global environment as generally becoming more favorable to China’s interests, but with continued challenges

“Both China and the world are in the midst of profound and complex changes. China is still in an important period of strategic opportunity for development; the prospects are bright but the challenges are severe.”

—Xi Jinping, Report at the 19th Party Congress of the CCP, 2017

Earlier this decade, Xi Jinping declared that China and the world are undergoing a fundamental shift into a “new era” in which China is moving ever closer to the center of global affairs. Chinese official documents describe this “new era” as having the following attributes.²

- A world that is overall more “balanced” in its “configuration of strategic power” due to the rise of the developing world and the “realignment of international powers.”


• An international area in which “international strategic competition is on the rise,” due primarily to the actions of the United States, as well as NATO, Russia, and the European Union (EU).

• A “further rise in China’s international influence, ability to inspire, and power to shape” so that “China’s international standing has risen as never before.”

• In the Asia-Pacific, a region with a “generally stable security situation” but one that has “become a focus of major country competition, bringing uncertainties to regional security.”

• A world in which China and other countries (particularly Asian nations) can form a “community of common destiny” as long as this harmony is not disrupted by great power conflict or “hegemonism.”

These words paint a picture of a world in which China believes it has a very real possibility of achieving a state of “external security,” if it can manage certain risks. From the Chinese leadership’s standpoint, potential “spoilers” for China’s future prospects include: internal Party disruption or cleavage; domestic instability, social unrest, or political insurrection; a Taiwan declaration of independence; war between China and other nations; or war between China and the United States. If these risks can be managed, China’s future is bright. If they cannot, then China’s ability to meet its longer-term goals will be significantly diminished.

*The CCP views the United States as posing the greatest threat, but not the only threat, to China’s long-term security*

The Commission asked about the extent to which Beijing takes its cues about China’s security environment from the United States. The US is, and has long been, by far the most important influence in Chinese leadership’s view of its ability to achieve its clearly-stated national objectives, for the simple reason that it is the United States that is the most able to obstruct them. In the Chinese quotes above about the direction of global security, the euphemisms about “major country competition,” “hegemonism” and similar terms are nearly all thinly veiled references to the US.

China’s sense that the US poses a threat to China’s long-term strategic objectives was heightened by the public release of the US National Security Strategy and National Defense Strategy in 2017 and 2018, respectively. These documents, which specifically named China (along with Russia) as a strategic competitor to the United States, were viewed in China as confirming long-held

---

3 Xi Jinping, “Secure a Decisive Victory.”


suspicions that the United States seeks to slow China’s rise and prevent the PRC from attaining its goal, by 2049, of “becom[ing] a global leader in terms of composite national strength and international influence.”

China’s sense of threat is exacerbated by signs that not all Asian nations view the regional environment to be quite as “peaceful” and “stable” as China wishes it to be. The PRC 2019 Defense White Paper specially calls out actions taken by US allies, such as the deployment of the THAAD system in South Korea, shifts in Japan’s defense policy, and Australia’s “military engagement in the Asia-Pacific” as contributing to continued “uncertainties” in the region. It also names instability in the Korean Peninsula, tensions between India and Pakistan, challenges in Afghanistan, and “disputes over territorial and maritime rights and interests”—although it adds that “the situation in the South China Sea is generally stable and improving as regional countries are managing risks and differences.” The overall picture provided in the Defense White Paper is that there is still some work to be done before the rest of the region and the world recognize China’s benign intentions and rightful place of global leadership, and that the US and its allies are the biggest obstacles to realizing this aspiration.

What are the prospects for near-term military conflict between China and the United States?

The Commission asked whether the current moment presents a “window of opportunity” for the PRC to achieve some of its national strategic objectives, particularly with regard to sovereignty claims. In other words, do the Chinese believe that the likelihood of achieving their national objectives likely to be greater now, or in the future? Can China afford to wait (or, indeed, must it wait) on achieving some of these goals, or must it act quickly?

China’s “windows of opportunity” on Taiwan do not line up

The picture is mixed. On one hand, in the view of China’s leadership one very important window may be narrowing: the window to win the hearts and minds of the people on Taiwan. Tsai Ing-wen’s reelection, surveys that show an increasing number of Taiwan citizens identifying themselves as “Taiwanese” rather than “Chinese,” and most recently the Hong Kong crackdowns all serve as warning signs to Beijing that attaining its long-articulated goals of peaceful reunification and the establishment of “one country, two systems” will be difficult if not impossible. China’s 2019 Defense White Paper notes that

---


7 State Council of the PRC, China’s National Defense in the New Era.
China’s fight against separatists [i.e. Taiwan] becomes more acute … The ‘Taiwan independence’ separatist forces and their actions remain the gravest immediate threat to peace and stability in the Taiwan Strait and the biggest barrier hindering the peaceful reunification of the country.”

On the other hand, another window of opportunity has not yet opened for China, and that is its ability to prevail in a military conflict against the United States, alone or with its allies. This concern preoccupies China’s military leaders and strategists because they know that right now, China cannot win in such a conflict. Dr. Finkelstein writes about the PLA’s military reform efforts in his testimony, so I will not repeat his points, but the sweeping nature of those reforms underscores the extent to which, and the specific areas in which, China’s military leaders and planners believe that they are unable to compete militarily.

The costs to China of going to war are high

If push came to shove on Taiwan, how would the CCP weigh those windows of opportunity—one narrowing, the other not yet open—against one another? Chinese writings suggest that the PRC decision-makers are unlikely to deliberately enter a military conflict if they do not calculate that (a) their odds of winning (which is to say, achieving their national and political objectives, not necessarily their military ones) are very high, or (b) the costs of not doing so are unbearably high.

Becoming involved in any military conflict creates some risk for China’s ability to achieve its longer-term goals of economic development and leadership at the international table, both of which require a generally stable international environment. In the case of Taiwan, the risks are higher yet. Because the CCP has for so many years put reunification with Taiwan at the very top of its nationalist agenda, this issue has now become central to CCP identity and legitimacy. Therefore, there are two possible “most costly” outcomes for China in this scenario. One is if Taiwan successfully declares independence and China does nothing: the costs to the CCP’s domestic credibility would be high. The other extremely costly outcome—for all dimensions of China’s national security—would be for China to attack Taiwan and to lose. If this happened, the CCP’s future ability to secure China’s long-term interests would be at great risk. The CCP’s domestic credibility would decline; there would likely be high economic and human costs; China’s international reputation and influence would suffer as its claim to be a “peaceful power” is laid bare; and the breakdown of the “peaceful international environment and … stable

---

8 State Council of the PRC, China’s National Defense in the New Era.
9 For example, China’s National Defense in the New Era notes that “The PLA still lags far behind the world’s leading militaries.”
10 See, for example, Alison A. Kaufman and Daniel M. Hartnett, Managing Conflict: Examining Recent PLA Writings on Escalation Control (Arlington, VA: CNA, 2016).
11 For example, in the 19th Party Congress work report in 2017, Xi proclaimed that “The dream of the Chinese people is closely connected with the dreams of the peoples of other countries; the Chinese Dream can be realized only in a peaceful international environment and under a stable international order.”
international order” that Xi names as essential to realizing the “Chinese dream” would be upended. Thus at present, the potential costs to China of setting off such a conflict are very high without a guarantee of success.

Since we already know that the PLA currently sees itself as inferior to the US military, the key question is how credible China believes the US commitment to become involved in a conflict to be. If China’s leaders believe that attacking Taiwan (or any other territory or region) will certainly trigger an overwhelming US response, then they may well calculate that it is not worth the risk. If they are fairly certain that the US won’t intervene, or that the PLA can preclude the US from intervening effectively, then the odds in China’s favor become much better.

In this sense, it is the US that has a window of opportunity right now, and that is the opportunity to shape China’s perceptions of its ability to successfully prosecute a conflict against Taiwan without incurring unbearable costs to all the other aspects of its security. As China becomes more confident in its military capabilities, it may become more adventuristic. But for now, at least, China’s adventurism has come in areas such as the South China Sea where the Chinese have calculated—rightly or wrongly—that the US will not take costly actions against China. The question of whether and how the US would become involved in a major conflict, over Taiwan or other causes, is a critical variable in these calculations, and China will continue to test the US commitment in this regard.

There are a number of other ways that armed conflict could erupt between China and the United States

Outside of Taiwan, I can envision several other pathways that could plausibly lead to near-term armed conflict between China and the United States and/or its allies. “Hot button” areas that could potentially lead to a conflict include:

- A proxy war, particularly on the Korean Peninsula
- Entanglement, in which the US gets drawn into a fight between China and a US ally
- Spillover of competition in other arenas (e.g., economic, diplomatic) into the military domain
- Chinese response to what it views as “interference in internal affairs,” i.e. ethnic or social unrest, by the United States or a US ally
- Inadvertent or accidental escalation of a crisis due to misinterpretation or an accident.

In my opinion the last of these— inadvertent or accidental escalation of crisis—is the most likely near-term path to conflict and the one that worries me most. As Chinese military forces increase their regional and global presence, they come into contact and sometimes cross-purposes with the forces of other nations. My own research on Chinese views of escalation

---

12 Xi Jinping, “Secure a Decisive Victory.”
control suggests that, even if Chinese decision-makers prefer to de-escalate a crisis—which for
the most part they do—there may be a mismatch between Chinese and US views of what
constitutes an “escalation” in a military crisis, which makes the possibility of misinterpretation
and inadvertent escalation much higher. Moreover, many Chinese operators (particularly
maritime operators and airplane pilots) appear to see themselves as operating in a permissive
environment, in which they have tacit approval from the PRC government to harass and pursue
foreign vessels in the name of “maritime rights protection.” Because the levels of tension and
suspicion between China and the US are already high, it would be very easy for one or both sides
to mistake the other’s action as a form of deliberate escalation and react accordingly, resulting in
a costly conflict that no one wants.

The good news is that the Chinese appear to be aware of the risk of inadvertent or accidental
escalation (although their writings do not admit that such a situation could ever arise due to a
Chinese action). To avoid inadvertent escalation, it is essential that the US convey to China,
repeatedly and in the clearest possible language, US views of what actions constitute
escalation, and the consequences that would result from China taking such actions.

How else might China compete against the United States?

China will use— and is already using – the present moment to expand its global influence in non-
military domains.

China’s strategic competition does not take place only, or even primarily, in the military domain.
The PLA may not be ready to take on the US in a conflict, but the PRC has made good use of the
present moment to expand its influence in many other ways. China’s government is opportunistic,
and it is good at finding and filling in voids where other countries have failed to step forward.
China’s ability to place people and institutions in dozens of other countries has occurred partly
because it was willing to invest, build infrastructure, and pursue relationships in places that other
major powers and international institutions have—often with good reason—eschewed, or where
current circumstances have weakened those countries’ relationships with the United States. In
some cases China has expanded its influence and footprint through coercion, but some forms of
Chinese influence have been welcomed or even solicited by the recipient nations.

China’s investments and activities around the world do not necessarily add up to a single, refined
“plan” on China’s part, but they do reflect a long game in that the PRC leadership recognizes that
building these connections now may come in handy in the longer run, even if it’s not clear yet
exactly how. Sometimes the US makes this long game easier for them. Actions such as non-
participation in or withdrawal from international institutions, foot-dragging or placing severe
limitations on economic aid, or statements that imply that the US commitment to its treaty allies
is conditional all create opportunities for China to step in with its numerous tools to provide aid,
partnership, and promises. Many countries may prefer to partner with the US than with China,

13 Kaufman and Hartnett, Managing Conflict: Examining Recent PLA Writings on Escalation Control.
but they can’t do so if the US is not available. We can expect China to continue to pursue these actions in the future as a fundamental element of its strategic competition with the United States.

**Recommendations for Congressional action**

*Keep in mind what “security” and “strategic competition” mean for the PRC.* For China’s leadership, “security” isn’t just about military power. If pursuing an action does not in the long term sustain the survival of the CCP, then it is not in the CCP’s interest to pursue it. For the US to respond effectively to Chinese actions, it must clarify and communicate the consequences of Chinese actions for the CCP. This means focusing on those elements that are most essential to CCP legitimacy: economic growth, international status, and the support of the Chinese citizenry. It also means being willing to use all elements of US national power across the globe, in order to counter China’s use of all its elements of national power.

*Send consistent and credible signals about the US commitment to meet its treaty obligations and support its allies and close partners.* If the US wishes to deter China from starting or entering into a conflict, or acting opportunistically in the mistaken assumption that the US will not react, then we have to make our military will and ability to get involved – particularly on behalf of an ally—extremely clear and credible. We have to be willing to expand credible capital in some (or multiple) domains to persuade China that certain courses of action are too risky to pursue.

*Have serious discussions with China about how to handle military accidents and misinterpretations.* The US and China have already put in place several crisis management mechanisms. Even in a “cold peace,” these and additional, more robust mechanisms are critical for preventing accidental or inadvertent escalation.

*Close some of China’s easy targets of opportunity to influence others.* We cannot compete with China if we don’t show up. We need to be as opportunistic—in a positive sense—as the Chinese are, and we need to be wary of missed opportunities. This means being members of all the international institutions where China is currently trying to amplify its voice. It means that we have to stop squabbling internally about low-hanging fruit, such as extending the Compact of Free Association with Pacific island nations, and take these sometimes simple steps. We need to be willing to take on a variety of roles in international cooperation to show that we have faith in our partners without dominating them. Many of these actions are not expensive in monetary terms, but they require political will and a clear vision of what the US is trying to accomplish. Absent that vision, it will be more difficult to successfully convey the US’ commitments and credibility to our allies and partners around the globe.
OPENING STATEMENT OF MICHÈLE FLOURNOY, CO-FOUNDER OF WESTEXEC ADVISORS AND FORMER UNDER SECRETARY OF DEFENSE FOR POLICY

COMMISSIONER LEWIS: Please go ahead.

MS. FLOURNOY: All right, Commissioner Kamphausen, Commissioner Lewis, and other distinguished members of the Commission, it's truly an honor to testify before you today on the nature of the U.S.-China strategic competition.

As you well know, the strategic competition between the United States and China is multifaceted, with economic, technological, diplomatic, ideological, and military dimensions. First and foremost, this competition is taking place between two globally integrated economies. These connections provide huge benefits to U.S. businesses, markets, supply chains, investment, talent, but also create vulnerabilities for U.S. enterprises and U.S. national security, via theft of intellectual property and data, and untrustworthy supply chains with ties to the PLA.

I do not think wholesale decoupling is realistic or wise, but I do think we need to do a better job of using carefully targeted measures to protect our intellectual property and data, level the playing field for U.S. and allied businesses, and secure and make more resilient our critical supply chains.

Second, as China invests tens of billions of dollars in emerging technologies, the United States is at risk of losing its technological edge. This tech race is a primary area of the competition on which the United States must focus, as it will ultimately determine whether we keep our military edge and will have the most -- this will also have the most profound and enduring impact on U.S. prosperity and security over the next half-century.

Third, competition will be shaped in large part by our success in developing and sustaining close relationships with allies and partners and other countries in the Indo-Pacific. It is in Beijing's interest for Washington to view this competition in purely bilateral terms. Instead, we must be laser-focused on strengthening our existing relationships in the region, as well as building new ones.

Fourth, the competition between the U.S. and China has strong ideological and narrative elements. The Chinese government spends considerable time and effort attempting to shape both domestic and global narratives about China, often at the expense of the U.S., through a robust disinformation campaign.

The United States needs to do a better job of offering fact-based responses to Beijing's version of events, as well as an alternative and compelling vision for the Indo-Pacific region.

Finally, the resurgence of great power competition requires the United States to reimagine how we deter, and if necessary prevail, in a future conflict with China. America's military advantage is rapidly eroding in light of Chinese modernization efforts.

So I want to turn now to some principles for strategic competition. As was mentioned, China's principal objective is to protect the continued rule of the Communist Party, displace the United States as a preeminent global, political, and economic power, and gain increased freedom of action by removing what it sees as strategic threats on its periphery.

Over the long term, it seeks to wield influence globally and reshape international institutions and norms according to its interests, and ultimately eclipse U.S. leadership on the world stage. With this in mind, I think there are four overarching principles that should guide the U.S. approach to this competition.

First, we need to invest more substantially in the drivers of our own competitiveness here.
at home. This includes science and technology, research and development, using federal funding to incent private sector investment in key technology areas like AI, robotics, autonomy, quantum computing, biotech, and so forth. Better access to STEM education, affordable higher education, and investment in 21st infrastructure like 5G.

We also need a smart immigration policy that attracts and keeps the best talent from around the world.

Second, we need to leverage our unique strategic advantage of having an unrivaled network of allies and partners. The best way to deal with China, and the challenges it poses, is by making common cause with our allies and partners.

We are infinitely stronger confronting China's violations of international trade regimes, or security norms, as a coalition of likeminded states committed to a shared set of rules of the road, rather than trying to do so alone.

Third, we should lead in protecting and adapting the rules-based international order to the new realities of the 21st Century. We need to uphold norms like freedom of navigation, and the peaceful resolution of disputes, in order to ensure that might does not make right in the Indo-Pacific.

And fourth, we should invest in the national security tools that will enable us to better shape the international environment, and deter Chinese coercion and aggression. For starters, the next administration must invest in rebuilding a strong diplomatic posture in the Indo-Pacific, including sending our best diplomats to lead fully-staffed embassies in the region. The U.S. must deepen our bilateral relationships, as well as show up and lead in the region's various fora.

To prevent miscalculation or escalation to conflict with China as a nuclear-armed rival, the United States must also prioritize the development, acquisition, and demonstration of those military capabilities that will be essential to deterrence in the future.

I was asked to draw some lessons from past cases of major power competition. As this competition with China intensifies, there's been a lot of discussion about whether we're entering a new Cold War. Certainly, there are some lessons from the Cold War that may serve as a guide in this period of strategic competition.

During the Cold War, we sustained substantial investments in the sources of our competitiveness. We invested heavily in strengthening and sustaining deterrents. Both Democrats and Republicans were committed in a bipartisan manner to arms control and strategic stability. And we maintained alliances and partnerships in Europe, Asia, and around the world.

That said, in my view, there are critical differences between the situation we are now in and the Cold War. Even during the Cold War, the United States did not face a competitor with the economy the size of China's relative to our own. Unlike the Soviet Union, the Chinese economy, as we've mentioned, is deeply integrated into the global economy and closely intertwined with ours.

And other countries will be hesitant to choose between the United States, often the preferred security partner, and China, often their dominant trade partner. There will not be a Berlin Wall in Asia.

I also think it's important to consider, even as we compete with China, the opportunities for cooperation. Beijing must serve as a critical partner to address any number of global challenges. For example, it will be impossible on climate change for us to reach aggressive global emissions reduction targets without cooperation from China and other major powers.

The United States and China must also work together to prevent future pandemics and other global health challenges. The existence of competition here should not foreclose
cooperation. China's help will also be necessary in preventing the proliferation and use of weapons of mass destruction, especially on the Korean Peninsula.

And further, it's in the U.S. interest to engage Beijing in candid discussions on strategic stability, and avoiding miscalculation and unwanted escalation in crises.

So let me conclude by just offering a few recommendations for your consideration. As the United States recalibrates its policy towards China, Congress has an important role to play. First, I would say Congress must be a critical partner in reestablishing and sustaining credible deterrents.

While there's certainly understandable pressure to reduce defense spending post-COVID, it would be a mistake to make draconian cuts in defense at a time when critical investments must be made to keep our military technological edge relative to China and to prevent conflict between two nuclear powers.

DoD is currently under-investing in the new technologies that will ultimately determine our success in the future security environment, and still over-investing in legacy platforms and weapons systems. Congress should press DoD leaders on the tradeoffs that need to be made to keep our edge vis-a-vis China, and then support DoD when they actually make the tough choices that are necessary.

Congress can also support path-breaking efforts to develop and test new joint and operational concepts, work with DoD to bridge the valley of death between prototypes and production, and ensure that DoD has the tech talent it needs, and the acquisition cadre trained and incentivized, for rapid and agile development of new technologies.

Second, Congress should invest more in funding for research and development in emerging technologies, and provide tax incentives for companies to invest in these areas.

COMMISSIONER LEWIS: Ms. Flournoy, we're running out of time. Could you please wrap up?

MS. FLOURNOY: I will wrap up. I also believe Congress has a role to play in supporting our alliances and partnerships as these are critical assets in the strategic competition. And, finally, we need to act in alignment with our values. Happy to unpack those ideas when we get to the Q&A. And thank you so much.
PREPARED STATEMENT OF MICHÈLE FLOURNOY, CO-FOUNDER OF WESTEXEC ADVISORS AND FORMER UNDER SECRETARY OF DEFENSE FOR POLICY
Testimony before the U.S.-China Economic and Security Review Commission

The Chinese View of Strategic Competition with the United States

Michèle A. Flournoy
Former Undersecretary of Defense for Policy

June 24, 2020
Commissioner Kamphausen, Commissioner Lewis, other distinguished members of the Commission, it is truly an honor to testify before you today on the U.S.-China strategic competition.

Nature and Features of the U.S.-China Competition

As you well know, the strategic competition between the United States and China is multi-faceted, with economic, technological, political, ideological, and military dimensions. Any successful approach to this competition must take account of each of these dimensions.

**Economic Dimensions:** First and foremost, strategic competition between the U.S. and China is taking place between two globally integrated economies. The economic dimension of the competition is paramount and will set the conditions for all of the others. For about two decades, the United States premised its approach to China on the belief that integrating a rising China into the global economy and international institutions would increase the likelihood that Beijing would become a “responsible stakeholder” in the rules-based international order, and that this was in the U.S. interest. As a result, the U.S. and Chinese economies are now deeply intertwined. These connections provide benefits to U.S. business – markets, supply chains, investment, and talent – but also create vulnerabilities for U.S. enterprises and U.S. national security – via theft of intellectual property (IP) and data, and untrustworthy supply chains with ties to the People’s Liberation Army. I do not think wholesale decoupling is realistic or wise, but I do think we need to do a better job of using carefully targeted measures to protect our intellectual property and data and to secure and make more resilient critical supply chains.

**Technological Dimensions:** Second, the period of unrivaled technological superiority the United States enjoyed after the Cold War is over. China is investing tens of billions of dollars in a state-directed technology roadmap for emerging technologies – from hypersonics and robotics to quantum computing and artificial intelligence. This tech race is a primary area of competition on which the United States must focus, as it is this competition that will determine whether we keep our military edge and will have the most profound and enduring impact on U.S. prosperity and security over the next half century. In the quest to maintain our edge in key technologies, we must be clear-eyed about the risks that our open economy poses and take steps to reduce them: China is trying to use foreign investment and espionage to gain access to nonpublic IP and leveraging its role in U.S. supply chains to introduce vulnerabilities into our systems.

**Political and Diplomatic Dimensions:** Third, competition between the U.S. and China will be shaped in large part by our success in developing and sustaining close relationships with allies, partners, and other countries in the Indo-Pacific region. It is in Beijing’s interest for Washington to view the U.S.-China competition in purely bilateral terms. Instead, we must be laser focused on strengthening our existing relationships in the region as well as building new ones. The United States will be far more effective if we join forces with allies and partners who share our interests and values. Yet we must seek to avoid forcing countries to choose between the United States and China; given the deep economic relationships countries in the region have with China, our allies and partners will not sign up to a virtual Berlin Wall separating the Indo-Pacific into openly competing U.S. and Chinese spheres of influence. The best ways the United States can bolster these relationships are to: show up and lead in the region more often and more effectively, including in regional fora; invest in bilateral and multilateral cooperation with key allies and partners; strengthen trade, investment, and military-to-military ties; and cooperate on global issues like climate change, nonproliferation, pandemic prevention and economic development. Smart U.S. policy on China must be based on a smart strategy and robust diplomacy for the region as a whole.

**Ideological Dimensions:** Fourth, competition between the U.S. and China has a strong ideological and narrative element. The number one objective of the Chinese leadership is to maintain the Communist Party’s control of its system of government, and the number one threat to their system would be for
economic liberalization and rising expectations of the Chinese people to spark some kind of democratic movement like the one we’ve seen in Hong Kong. The Chinese government spends considerable time and effort attempting to shape both a domestic and global narrative about China, often as compared to the U.S., through a robust (dis)information campaign. The Communist Party has tried to argue, for example, that China’s system is superior to that of the West in fighting COVID-19. Too often the United States is caught flat-footed in responding to the CCP’s propaganda. We must do a better job of offering fact-based responses to Beijing’s version of events as well as an alternative and compelling vision for the Indo-Pacific – one that is free of coercion; respects sovereignty, the rule of law, and human rights; and is open to the free flow of people, goods, and ideas.

Military Dimensions: Fifth, the resurgence of great power competition requires the United States to reimagine how we deter and, if necessary, prevail in a future conflict with China. America’s military advantage is rapidly eroding in light of China’s modernization efforts. In fact, if we stay the current course, a rising China will likely achieve overmatch in a number of key capability areas, calling into question our ability to credibly deter aggression; defend our interests, allies, and partners; and prevail in any future conflict at acceptable levels of cost and risk. The number one military objective for the United States today should be to re-establish credible deterrence; I will expand on this point below.

Principles for Strategic Competition

China’s principal objectives in strategic competition with the United States are to protect the continued rule of the Communist Party, displace the United States as the preeminent global political and economic power, and gain increased freedom of action by removing what it sees as strategic threats on its periphery. Some have recently argued that Beijing’s ambitions are more modest, confined largely to the Indo-Pacific region. My view is that while the Chinese government’s immediate aims focus on strengthening its position domestically and regionally, over the long term it seeks to wield influence globally to reshape international institutions and norms according to its interests and ultimately eclipse U.S. leadership on the world stage.

In the face of these Chinese objectives, the United States’ central objectives must remain constant: to protect the American people, promote American prosperity, safeguard the American way of life, and advance American interests and values. With this in mind, there are four overarching principles that should guide the United States’ approach to this strategic competition.

Invest in American Competitiveness: First, the most important thing for the United States to do is to invest more substantially in the drivers of U.S. competitiveness here at home. This includes science and technology, research and development, using federal funding to incent private sector investment in key technology areas (e.g., AI, robotics/autonomy, quantum computing, biotech, etc.), STEM education, broader access to affordable higher education, and 21st century infrastructure like 5G. We also need a smart immigration policy. The United States should welcome foreign-born talent that pose no risks to our national security and encourage them to stay and build innovative enterprises here in America. At the same time as we maintain the open system that drives our prosperity, we must protect the crown jewels that are essential to our security. This is a moonshot moment, and we need the national leadership, call to action, and smart investment plans to inspire and enable America to compete and win. As our history proves again and again, this is something we know how to do as Americans. It is imperative that Congress overcome its current partisan polarization to make urgently needed strategic investments in our future.

Leverage Allies and Partners: Second, the United States should leverage its unique, strategic advantage of having an unrivaled network of allies and partners around the world. The best way to deal with the challenges China poses is by making common cause with our allies and partners whenever possible. We
are infinitely stronger confronting China’s violations of international trade regimes or security norms as a coalition of like-minded states committed to a shared set of rules of the road rather than as the U.S. alone. We would also be better positioned to compete technologically and economically if we worked more closely with other free-market democracies to shape international technology standards to favor free and open systems rather than the state-controlled systems favored by authoritarian regimes like China and Russia. On the security front, the United States should work closely with its allies and partners to assess what each country can contribute to stabilizing the Indo-Pacific environment and deterring the increasingly aggressive behavior of revisionist powers. This will also require reassuring our partners, with both words and deeds, that they can count on the United States to have their backs in disputes with Beijing and ultimately to help defend them against coercion or attacks.

**Protect and Adapt the International Order:** Third, the United States should lead in protecting and adapting the rules-based international order to the new realities of the 21st century. We should uphold norms like freedom of navigation and the peaceful resolution of disputes, in order to ensure “might does not make right” in the Indo-Pacific. An Indo-Pacific dominated by a revisionist power like China would be very different than the one we all live, trade, and travel in today. Ships that today can freely navigate the seas would be liable to possible harassment. Decisions made today by independent governments could increasingly fall prey to coercion. And failure to resist these coercive measures would, in turn, limit our collective ability to deter aggression or – if aggression takes place – to deny its success. The U.S. needs to do a better job of spelling out how different and detrimental international rules and norms shaped by Beijing would be compared to those the region has enjoyed to date.

**Invest in National Security Tools:** Fourth, the United States should invest in the national security tools that will enable us to better shape the international environment and deter Chinese coercion and aggression. For starters, the next administration must invest in rebuilding a strong diplomatic posture in the Indo-Pacific, including sending our best diplomats to lead fully staffed embassies in the region. The U.S. must deepen our bilateral relationships as well as show up and lead in the region’s various fora. To prevent a miscalculation or escalation to conflict with a nuclear-armed rival, the United States must also prioritize the development, acquisition, and demonstration of those military capabilities essential to credibly deter Beijing’s aggression, deny its ability to rapidly seize territory or create new facts on the ground, and be able to impose significant costs for any act of aggression. The Department of Defense (DoD) needs to pursue this with two timeframes in mind: deterrence in the near term (the next 5-10 years) and deterrence in the long term (10 years and beyond). Emerging technologies and new concepts of operations will enable potential adversaries to challenge us in new ways on the battlefield, but they can also greatly strengthen our ability to deter aggression and bolster our response capability should conflict break out.

**Lessons from Past Cases of Major Power Competition**

There has been a lot of discussion recently about whether we are entering a “new Cold War” with China. While the Cold War is our most recent experience with great power competition, it is not necessarily the right conceptual frame for understanding the China challenge.

Certainly, there are some crucial lessons from the Cold War that may serve as a guide in this period of strategic competition. First, one of the keys to U.S. success against the Soviet Union was our sustained investment in the sources of our own competitiveness. The United States invested early on in math and science education, infrastructure, and space – and these investments allowed us not only to blunt Soviet advances, but also to bolster our own position. Second, we invested heavily in strengthening and sustaining deterrence. This is a critical task vis à vis Beijing. Third, one of the main reasons the Cold War did not end in a hot war was the commitment of successive presidents, both Republicans and Democrats, to arms control and strategic stability. It is vital that our leaders today not mistake bluster for strength;
they must understand the vital role that strategic dialogue and arms control can play in reducing the likelihood of conflict. Fourth, our success in the Cold War would have been far more challenging without our allies and partners, in Europe, Asia, and around the world. Allies and partners will be equally essential in dealing with the rise of China.

That said, there are critical differences between the Cold War and our competition with China that we should not ignore. First, in its modern history, the United States has not faced a competitor with an economy the size of China’s, relative to our own. Second, China’s economy is also deeply integrated into the global economy and closely intertwined with ours, with $558 billion in bilateral trade in goods in 2019, $18.9 billion in bilateral foreign direct investment (FDI) in 2019 (including both U.S. FDI in China and Chinese FDI in the U.S.), and interdependent supply chains across multiple sectors. This kind of economic relationship is dramatically different than that which existed between the United States and the Soviet Union. It is neither possible nor in our interests to completely “decouple” from or try to “contain” China. Third, other countries will be hesitant to choose between the United States, often the preferred security partner, and China, often the dominant trade partner, like they did between the U.S. and the Soviet Union during the Cold War. There will be no Berlin Wall in Asia. Our alliance system in the Indo-Pacific will look less like NATO and more like a network of security relationships with countries who are deeply engaged economically with both the United States and China.

Others who seek historical parallels for our current moment have turned to pre-World War I Europe as a guide: specifically, the rivalry between Germany and Great Britain. While I believe many dimensions of Anglo-German competition are unique to that historical era, I do think that this case offers at least one major lesson for the United States: specifically, how to pursue sophisticated economic competition with a rising autocratic power. As Marks Brunnermeier, Rush Doshi, and Harold James have argued, the rivalry between Britain and Germany featured an established democracy with a free-market system facing a rising autocracy with a state-protected economic system. What Doshi and his colleagues argue, and I find compelling, is that blunt tools of competition, like tariffs, were far less successful than “competition over standards, technology leadership, and financial leverage.” Similarly, in competition with China, it is vital that we compete in ways that go beyond tariffs. We need to work with other like-minded states to actively set global standards on emerging technologies like AI, quantum computing, and 5G, and we need to compete with China on infrastructure – both physical and digital – across the Indo-Pacific.

Prospects for Cooperation with China

The re-emergence of great power competition must not blind us to the continued importance of tackling vital transnational challenges, which in many cases will require U.S.-China cooperation. While COVID-19 has accelerated strategic competition, this was not fated to be so. The pandemic could have – and should have – been a moment for Washington and Beijing to cooperate on understanding the virus, accelerating vaccine development, and preventing the spread of COVID-19 to other countries, particularly those with less developed healthcare systems. Our failure to do so has left us all less safe. This should be a lesson: Even as we compete with China, Beijing may also serve as a critical partner to address global challenges like climate change, global health, and the proliferation of weapons of mass destruction.

Climate Change: The Obama-Biden administration’s Paris Agreement was an illustrative case of how, with strong U.S. leadership, cooperation with China is possible. Future climate action must be even more ambitious. It will be impossible for us to reach aggressive global emissions reduction targets without cooperation with China and other major powers. After all, China accounts for 28 percent of the world’s CO₂ emissions, the most of any country, according to the Union of Concerned Scientists. It is, therefore,

essential for Beijing to meet or beat its Paris commitment of peaking CO₂ emissions around 2030, if not
earlier. The U.S. and China might also jointly finance clean energy projects in the developing world, as a
way to ease the burden for poorer countries transitioning to a more sustainable economy, as well as
projects to protect low-lying countries from the effects of climate change.

**Global Health:** The United States and China must work together to prevent future pandemics and other
global health challenges. There will inevitably be competition here, as well, but the existence of
competition should not foreclose the possibility of cooperation. For example, senior medical personnel in
the two countries could share information about best practices in managing and controlling outbreaks.
The two governments could also facilitate the distribution of vaccines and therapeutics to countries in the
developing world, which would serve everyone’s interests.

**Non-Proliferation and Strategic Stability:** The inclusion of China as a party in the Joint Comprehensive
Plan of Action (JCPOA) was a major success of the Obama-Biden administration and an example of how
cooperation with China is possible on non-proliferation. China’s help will also continue to be necessary in
preventing the proliferation and use of WMD on the Korean Peninsula. As China continues to modernize
its nuclear arsenal and invest in new weapons like hypersonic missiles, offensive cyber capabilities, and
anti-satellite weapons, it is in U.S. interests to engage Beijing in candid discussions on strategic stability
and avoiding miscalculation and unwanted escalation in crises. While the Trump administration has
invited China to participate in U.S.-Russian strategic arms reduction talks, it is unlikely that Beijing will
agree given the much smaller size of China’s nuclear arsenal. A better approach would be to extend the
New START agreement with Russia and address nuclear issues with Beijing as part of bilateral U.S.-
China strategic stability talks.

**Recommendations for Congress in Recalibrating Policy Toward China**

As the United States recalibrates its policy toward China in the future, Congress has an important role to
play in resourcing and overseeing whole-of-government efforts critical to competition. I will outline
recommendations for Congress along four lines of effort: 1) supporting efforts to re-establish and sustain
deterrence; 2) investing in and protecting U.S. competitiveness; 3) strengthening our relations with allies
and partners; and 4) defending American values. I would also suggest that Members of Congress and their
staffs read the Center for a New American Security’s Congressionally-mandated *Rising to the China
Challenge* report, which has shaped my thinking on this topic.

**Supporting Efforts to Re-Establish and Sustain Deterrence:** The number one U.S. military objective
vis à vis China today should be to re-establish and sustain credible deterrence, and Congress must be a
critical partner in this effort. Given the vast amounts of federal spending focused on COVID-19 response
and recovery, there will be pressure on Congress to significantly cut the defense budget. But it would be a
mistake to make draconian cuts to defense spending at a time when critical investments must be made to
keep our military-technological edge relative to China and to prevent conflict between two nuclear
powers. Any reductions to defense spending should be carefully considered in close consultation with
DoD leaders to ensure that these cuts, if they occur, do not hamper the Department’s ability to deter and
prevail against China. Congress should support, resource, and oversee the Department’s efforts to
strengthen the U.S. military’s edge and transform how the force fights in the face of great power threats.
DoD is currently under-investing in the new technologies that will ultimately determine our success in the
future security environment and is still over-investing in legacy platforms and weapons systems.

As a result, there are several actions I would recommend Congress take. First, Congress must hold DoD
accountable for answering a fundamental question for every program of record: Where is the knee in the
curve? Where is the point where it makes more sense to forgo the next major platform in order to invest
those resources in the cutting-edge technologies and capabilities that will keep existing platforms
survivable, combat-relevant, and effective? Second, Congress should support pathbreaking efforts to develop and test new joint and service operational concepts, such as the US Marine Corps’ Force Design 2030, the Navy’s transition to distributed maritime operations, and the Air Force’s investment in Joint All-Domain Command and Control. Third, advancing DoD’s ability to develop new operational concepts and field the new capabilities necessary to implement them will require Congress to accept a small amount of risk to allow the services to acquire the prototypes needed for more robust field experimentation. Fourth, Congress and DoD should work together to bridge the “valley of death” between prototype and production contracts that deters many cutting-edge commercial tech companies from working on defense. Lastly, Congress should work with DoD to ensure it has the tech talent it needs and an acquisition cadre trained and incentivized for the rapid and agile development of new technologies.

**Investing in and Protecting U.S. Competitiveness:** Congress should invest in new funding for research and development of emerging technologies, including AI, autonomy, biotechnology, quantum computing, and 5G. Congress should also provide tax incentives for companies to invest in these areas and in 21st century infrastructure. To build the tech talent pipeline, Congress should expand programs (currently focused on cyber talent) that offer scholarships or debt relief to students in a broad swath of tech fields in return for a government service commitment. It should offer tax incentives to employers who invest in upskilling their workforce to meet the demands of the new, more digital economy. It should make it easier for vetted foreign students who come to the United States and study STEM subjects to stay and contribute to the vitality of the U.S. economy and society. And it should evaluate whether the U.S. needs to diversify its supply chains to ensure that domestic manufacturing capacity can support the country’s needs in a time of crisis, such as pandemic or war.

As we invest in our competitiveness, it is also important to protect our crown jewels – our most sensitive technologies and IP -- through foreign investment reviews and export restrictions. However, we must do so with a scalpel, not a sledgehammer. Our openness is a source of strength. This means Congress should not pursue blanket restrictions on all Chinese graduate students, and that it should ensure that foreign investment restrictions and export control reforms do not unnecessarily choke off passive Chinese capital in our innovation ecosystem. Here, the devil is in the details -- like the type of technology involved, whether it has national security uses, and whether or not the investment involves a controlling interest or access to non-public IP.

**Supporting our Alliances and Partnerships:** U.S. alliances and partnerships are among our greatest assets in strategic competition with China. Congress should increase the resources available to rebuild the cadre of U.S. government civilians focused on the Indo-Pacific (especially at State, Treasury, Defense and the Intelligence Community) in order to support increased engagements with allies, partners, and regional institutions. It should exercise close oversight over any efforts by the administration to withdraw or disengage from critical alliances, partnerships, or agreements. And it should substantially increase funding for security cooperation and critical infrastructure investment – both physical and digital – with key partners in the Indo-Pacific region. Supporting our alliances and partnerships will require that we rebuild diplomatic instruments that have been severely weakened during the Trump administration. This includes rebuilding and strengthening our Foreign Service, ensuring that key positions do not remain vacant for long periods of time, and re-dedicating ourselves to showing up and leading in key multilateral fora that are seen as markers of our commitment to the region.

**Acting in Alignment with our Values:** There is a strong ideological element to competition with China that Congress should not neglect. First and foremost, Congress should ensure that we are modeling the kind of behavior here at home that stands in stark contrast to China’s repressive, authoritarian system. Racial injustice in America is not just unconscionable and antithetical to our values; it is exploited by strategic competitors like China to undermine the appeal of democracy and U.S. standing in the world. The United States should continue to support the people of Hong Kong. However, it should be careful not
to harm Hong Kongers themselves in the course of retaliating against China’s recent national security law. For example, we might opt to provide visas to Hong Kongers suffering political persecution and, as former U.S. Consul General in Hong Kong Kurt Tong has suggested, take the matter of China’s national security legislation for Hong Kong to the International Court of Justice. In the meantime, Congress should continue to implement the Taiwan Relations Act and support Taiwan’s efforts to shore up its ability to deter and defend against Chinese coercion and aggression. The United States should also explore Taiwan as an alternative to mainland China for parts of its supply chains.

Conclusion

In conclusion, strategic competition with China is more than a military contest – it has economic, technological, political, and ideological elements the United States must not neglect. The actions we take in the next few years could not be more critical. They must be driven by a broader strategic vision of the core interests and values we seek to protect. The United States must maintain its unique leadership role as a force for good in the world -- a defender of democracy, human rights, and a rules-based international order. The United States must maintain its ability to leverage all instruments of national power -- not only defense, but also diplomacy, development, economic influence, and information. Only by harnessing all of these levers can the United States demonstrate the resolve and capability to compete effectively on the world stage, deter war among the great powers, defend our interests, values, allies and partners, and compete and win in a far more challenging future.
COMMISSIONER LEWIS: Thank you very much. I will call on our 12 Commissioners in alphabetical order. They can each ask a question that will be for five minutes each.

I want to thank the witnesses for giving us good information on these various aspects of U.S.-China competition. I will begin with the person who is our past Chairman and present Vice Chairman of the Commission, Commissioner Bartholomew.

VICE CHAIRMAN BARTHOLOMEW: Thanks very much and thank you to all of our witnesses for appearing today. I'm always particularly thrilled to see a panel of all women working on tough national defense and security issues. So thank you for all the work that you guys do. I know it's been a long time coming.

Ms. Flournoy, you mentioned that, of course, avoiding miscalculation is critical to avoiding armed conflict. And I was just wondering for all of you, are there -- how accurate do you believe that Beijing's assessment of its external security environment is and are there particular areas where you think they've got it wrong?

MS. FLOURNOY: If I could start, I can -- I think that it's very important -- I think China views the United States in a period of inevitable decline and withdrawal from the world. And I think they are -- they underestimate our commitment to our allies and partners in the region and particularly potentially Taiwan is most important.

So I think there's a very real risk that as they see the U.S. struggling, whether it's with the pandemic or issues here at home or being distracted in the Middle East or elsewhere, I think they risk underestimating the resolve that can be provoked by a crisis.

Secondly, I do think we have to be careful that they don't underestimate our capability. And this is where continued investment in some key cutting-edge technology areas will be very important to demonstrate, to let them know that we are maintaining deterrence either by being able to deny you the objective of your aggression or being able to impose unacceptable levels of cost. But I do think the risk of miscalculation is quite real.

VICE CHAIRMAN BARTHOLOMEW: Yes. Ms. Alison?

DR. KAUFMAN: Yes, thank you. I just want to add one quick thing about miscalculation just in the very immediate term in the areas such as the South China Sea.

I think that one area where there's a rather persistent mismatch of perception is actually in what Chinese operators and planners regard as escalatory behavior versus what American operators and planners and policymakers may regard as escalatory.

And I'm talking about very simple things, like, you know, what do you do when you encounter another vessel in what you think is your territory? How do you respond to that? Do you respond kinetically or not?

And there's some evidence to suggest that the Chinese may, for example, view kinetic behavior such as firing a warning shot or even a direct shot differently than we would.

And so there's literally a chance that something that one side views as de-escalatory is actually viewed as quite escalatory by the other side.

And so one thing that I think needs to be carefully communicated in some of those confidence building and other -- back in kind of risk management mechanisms is to be very clear about what is our own escalation ladder? What do they view? What do we view as if you do this, this is going to strike us as escalatory and we're going to respond accordingly? And I think that's a very, very real risk and something that bears discussion.

I mean, the Chinese don't want to inadvertently escalate either. So this should be an area
where there's an ability to talk about those mismatched perceptions.

VICE CHAIRMAN BARTHOLOMEW: Dr. Oertel, anything to add?

DR. OERTEL: Maybe taking this beyond the security realm into the diplomatic realm, I think we have just seen a very good live example of a miscalculation in terms of the narrative and the diplomacy used during the coronavirus pandemic in Europe and the backfiring that this has achieved was clearly something that Beijing did not expect to this degree.

And I think this is -- if you see it in a bit more integrated way, misjudging the perceptions that this creates or misjudging the surroundings can have also a huge diplomatic impact, not just a security impact. Maybe just on that end to extend that a little bit.

VICE CHAIRMAN BARTHOLOMEW: Thank you. All right. I'm going to cede the rest of my time.

COMMISSIONER LEWIS: Thank you very much. I will next call on Commissioner Borgeas, but I understand -- and then Commissioner Borochoff and then Commissioner Cleveland.

I understand that Commissioner Borgeas has a lot of construction around his house. He's asked Commissioner Kamphausen to ask any questions that he has. Commissioner Kamphausen, has he given you any questions?

COMMISSIONER KAMPHAUSEN: I'm checking now. Commissioner Lewis, why don't you proceed to Commissioner Borochoff? I haven't gotten that question yet. And then come back to Commissioner Borgeas.

COMMISSIONER LEWIS: Okay. Commissioner Borochoff will be next and then Commissioner Cleveland. Go ahead, Commissioner Borochoff.

COMMISSION BOROCHOFF: Thank you. And thank you all. It's also very refreshing to see three great women leaders in this field.

Ms. Flournoy, I think this is for you, but the other two ladies are welcome to respond if they wish. There's been a lot of talk in the media in the last week about a possible EMP attack capability by China. And my question is are there strategic military challenges, whether they're traditional or technological, such as EMP, for which we are not prepared?

MS. FLOURNOY: Yes. I think that there are some areas where, you know, China has really gone to school on the American way of war. And they have spent 20 years investing in asymmetric capabilities to try to counter our strength of power projection and to undermine -- you know, undermine our strengths and exploit our vulnerabilities. So things like EMP weapons are a great example.

Another is cyber, the strategic use of cyber. One of the common scenarios in Chinese military doctrine is the use of counter -- cyber-attacks and counter-space attacks really to try to thwart American power projection, you know, our forces even being able to leave the United States to go to Asia to respond to a crisis.

But as was mentioned, the importance of having some mechanism, some forum for talking about strategic stability and crisis stability is so important because the Chinese think they can use cyber and space attacks early to create a fait accompli and stop us.

But what will actually happen is if they take down the electrical grids around U.S. military bases, they will almost certainly hurt civilian hospitals, public safety. They will create civilian deaths in the United States, which will actually only likely to escalate the situation with the United States.

So the risk of miscalculation is very real. We need good fora for communicating and clarifying both our intent and our resolve and trying to help them understand certain mistakes
that they shouldn't make.

COMMISSIONER BOROCHOFF: Thank you very much. Anyone else wish to comment on that? Thank you. That was what I was wanting to know.

COMMISSIONER LEWIS: Do you have any other questions, Mr. Borochoff?

COMMISSIONER BOROCHOFF: No. Thank you.

COMMISSIONER LEWIS: I would now like to call on the Chairman of our Commission, Commissioner Robin Cleveland.

CHAIRMAN CLEVELAND: Commissioner Borgeas is -- no, okay.

COMMISSIONER LEWIS: We'll come back to him.

CHAIRMAN CLEVELAND: Okay. Thank you to the co-chairs of the hearing and the staff for just a phenomenally helpful day in terms of my thinking about the challenges.

I have three country-specific questions for each of you. I want to talk about Hong Kong, Germany, and South Korea. I'm interested in how you think U.S. policy and action in Hong Kong will influence Chinese perceptions of U.S. credibility and commitment to Taiwan.

The second question is I noticed in your testimony and construct of miscalculations, the DPRK is noticeably absent, perhaps because it is an intractable issue. But I'm curious also about perceptions that China may have of our commitments to South Korea in the context of the potential use of WMD or force by North Korea.

And then the third for you, Ms. Oertel, specifically, is you talk about the 5G campaign having mixed success even though the Chinese have worked assiduously to bilaterally and then to exploit seams within the EU.

I'm particularly interested in your characterization of the German special relationship because as I look at it, I think you watch Kuka and KraussMaffei, it feels to me like the Chinese are hollowing out advanced technology and German interests.

So there's clearly something I don't understand about that special relationship. So if we could talk about Hong Kong, South Korea, and Germany in four minutes.

DR. OERTEL: Maybe I'll start with Germany and lead that conversation that way.

So on the special relationship, what we are seeing is a significant intense trade relationship between Germany and China. And it's more intense than any of the other European countries. And I think it's really important to underline that.

But if we look at the overall exposure, you have to dig a little bit deeper to make sense of it because the exposure is in key industries of German economy. So it's the automobile industry, it is the chemical industry that have an exposure of over 40 percent of the profits that are being generated in China. So that makes it also politically extremely important and extremely relevant.

In the 5G case what we saw was a clash of those two. It was the clash between national security interests and the question of long-term, you know, competitiveness and short-term economic interests.

And the interesting thing was that the clash wasn't along the lines of political parties, but it was like squarely within the parties. People were torn apart from those that are more concerned about national security and long-term competitiveness questions and those that were more concerned about the short-term economic gains, short-term job costs, et cetera.

So I think what we've seen is that 5G has been a sort of a prism of all of the difficulties that the relationship is currently facing. We should not underestimate also the trickle effect that the German special relationship with China has to the rest of the European economies, whereas their relationship with China nominally in terms of numbers is just smaller. But they're all dependent on the German economy because Germany has 60 percent of its trade is taking place...
within the EU.

So there is a very complicated interconnection going on but that we probably don't have
time to solve at this point in time. But if you're interested, I'm happy to provide you with a
couple of more numbers that underline and underpin that argument as well.

CHAIRMAN CLEVELAND: That would be helpful. We'll do that for the record.

MS. FLOURNOY: I'm happy to jump in on the Korea question. I do think that Chinese
perception of the U.S. commitment to South Korea does influence their behavior and what they
are willing to do with regard to North Korea.

In the past when North Korean provocations have actually gone so far as to provoke
closer security cooperation and particularly provision of additional military capabilities to South
Korea or Japan, that has sort of triggered Chinese concern about building up the U.S. alliances in
the region and has gotten them more involved in trying to tamp down North Korean provocations
and bad behavior.

They obviously have their own interests in trying to prevent conflict on the peninsula.
They don't want instability or, you know, huge refugees coming across their border with North
Korea.

But when the U.S. seems distant from our allies, when we are calling those alliance
relationships into question, it does tend to disincentive Beijing from using what leverage it does
have vis-a-vis Pyongyang.

DR. KAUFMAN: Just one quick note. I know we're slightly over time. But the one
other thing I would note is just that China is rather self-centered. And so there is also a tendency
to view our actions with our alliances through the lens of them assuming that they are actually
about China.

And so things that we do with our allies in service of their defense such as that or
something else like that are viewed sometimes in Beijing as being direct actions against China.
And obviously that is not the case, and so that's an ongoing kind of area of tension.

CHAIRMAN CLEVELAND: Would you say that's true of Hong Kong, that they see it
exclusively through their prism rather than --

DR. KAUFMAN: I would probably let others speak to Hong Kong, but I will just say
that the nature of our relationship and commitment to Hong Kong is quite different from that of
Taiwan. And so although for China, they may be similar issues there, they're not the same
category of issue for us.

And I think the Chinese are probably aware of that. I mean, we don't have a TRA with
Hong Kong. So I would guess that they are looking at how we respond in terms of our
commitment to the political freedoms and civil freedoms of Taiwan vis-a-vis, you know, our
commitment to the democracy also of Taiwan. But I don't think they're really the same kind of
thing exactly.

COMMISSIONER LEWIS: Thank you very much. I will now call on Commissioners
Fiedler and then Goodwin after I check with Commissioner Kamphausen whether he has
anything from Andreas, Commissioner Borgeas.

COMMISSIONER KAMPHAUSEN: Nothing from Commissioner Borgeas yet.

COMMISSIONER LEWIS: Thank you. It's all yours.

COMMISSIONER FIEDLER: My question is to Ms. Flourney primarily. What is your
view of U.S. naval power with the rise of Chinese naval power? And what I think it may be -- I
mean the question is, is U.S. naval power sufficient or is naval power less important today than it
traditionally has been in competition among rising powers?
MS. FLOURNOY: So I think today you're safe to say the U.S. Navy is unmatched and unrivaled. But I think the trends going forward are worrisome because what China has done is it's invested in, and I'm not sure, an anti-access area denial architecture where it basically has used the first and second island chain to build offensive capability that can hold our assets at risk, you know, certainly within the first island chain and to some extent inside the second island chain.

So they're trying to create a no-go area for the United States Navy, the Air Force and the rest of the U.S. military.

I think if the U.S. Navy remain unchanged going forward, our advantage would erode. I think it's very important to invest in technologies that will make our ships more survivable, that will enable them to project power at greater ranges and more precisely and more speedily and that will enhance our decision-making and the speed of our decision-making and the agility of the force over time.

So I actually think naval power will be extremely important in the future in deterring China and in imposing costs if it came to that in the Taiwan scenario. But it can't just be the Navy we have a legacy force. It has to be a legacy force that is mixed in with and modernized by the whole set of emerging capabilities over the next 10 to 20 years.

COMMISSIONER FIEDLER: And your view of what happens when we have crises in multiple places simultaneously and its effect on our naval power, in other words disbursing.

MS. FLOURNOY: Yeah. Obviously our forces get pulled in different directions. One of the consistent aims of the U.S. defense strategy from both Obama and the Trump administration has been a priority to Asia. But that's been difficult to implement because of the immediate needs in the Greater Middle East.

So there's always a set of trade-offs there, but I do think Asia will be, because of its importance to our economy and our security in the future, I think Asia will be the priority region.

COMMISSIONER FIEDLER: Do you see any strategic change because both the Russians and the Chinese have troublesome navies for us?

MS. FLOURNOY: Well, I think one of the challenges is we're going to have to be able to deter and influence situations in more than one theater at a time. And the good news is some of the same capability investments we need to make, vis-a-vis China, will also help us vis-a-vis Russia because Russia is also around Kaliningrad has -- architect of this kind of A2/AD anti-access area denial set of capabilities.

But, again, it pulls us in different directions, not so much from an investment point of view but from a force management point of view.

COMMISSIONER FIEDLER: Thank you.

MS. FLOURNOY: Sure.

COMMISSIONER FIEDLER: I'm done, Ken.

COMMISSIONER LEWIS: For some reason, everybody has disappeared from my screen.

COMMISSIONER KAMPHAUSEN: We can still hear you.

COMMISSIONER LEWIS: Okay. The next person will be Commissioner Goodwin then followed by Commissioner Kamphausen in his own respect then Commissioner Lee. I can't see the timer either, though. Go ahead, Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Commissioner, and thanks again to the witnesses for their wonderful testimony this afternoon.

Ms. Flournoy, a question for you. In your written testimony you were talking about some
historical parallels that have been drawn related to our strategic competition with China. And you stressed the need to move beyond the blunt tools of competition to more effective and successful tools, including working with our partners to help craft global standards on emergent technology, including 5G, AI, and quantum computing.

We explored some of those efforts in a hearing earlier this year and certainly came to see how Beijing recognizes the importance of those efforts and appreciates how setting those standards can help them write the rules of the road and get a leg up in those critical sectors and secure its share of those critical markets.

But we also learned that even outside of those standard-setting bodies, there is a de facto adoption of a Chinese standard that is going on through Chinese exports along BRI and the digital silk road and routine equipment sales, so a lot of the trading partners.

So how do we meet that challenge of setting the standards for these critical technologies in both contexts, both obviously within the standard setting bodies themselves but also with regard to the fact that these standards are in some practical sense being set already through some of their routine trading and BRI initiative.

And this actually touches along what Dr. Kaufman alluded to near the conclusion of her testimony, which is that the Chinese use strategic competition as a whole of nation approach. It's not merely military or economic. And BRI says, in my perspective, is as good example of that of anything, it's a strategic program with strategic objectives and as a result strategic implications for the U.S. and our partners around the globe.

MS. FLOURNOY: Yeah. So it's a great question and really at the heart of probably some of the most consequential aspects of the competition long-term.

I would like to think of this not only as a U.S. challenge but a challenge for the free market democracies. And, you know, the kind of standards that China is trying to put in place and get other countries to adopt is very much in the authoritarian model. And there's a block of other countries who would like to regulate the internet and use surveillance technologies and so forth in similar ways.

I would like to see us work much more with our transatlantic partners and our Democratic allies in Asia to show up at these standard setting bodies together, you know, to try to push for, you know, standards that support an open and free internet.

But I also think we need an answer to the BRI. And, again, it has to be asymmetric. We're never going to invest -- be able to compete with China in terms of dollars invested. And not every place along that digital silk road or in the BRI network is equally important.

So the first thing we have to do is decide where is it really strategically important for us to compete and then secondly what are our asymmetric advantages? What can we offer?

And I actually do think digital infrastructure, like access to, you know, to Wi-Fi, to the internet, laying fiber optic cable and so forth, there are relatively inexpensive investments compared to what China is doing that we could make to really try to influence how countries evolve and how open their future societies and markets are.

But we don't have a strategy. And we haven't had a strategy on this for a number of years. The best piece I've read on this was actually a recently -- a congressionally commissioned study that the Center for New American Security has just published, which really goes into this digital diplomacy piece in detail. And I think it might be worth your consideration in answering your question.

COMMISSIONER GOODWIN: Thank you.

COMMISSIONER LEWIS: Commissioner Lee and then myself. Go ahead,
COMMISSIONER KAMPHAUSEN: Thank you very much to our panel. Dr. Oertel, you raised the topic of NATO in China. I'd like to follow up with a question for the record for you on that topic as, in my experience, there has been quite an evolution over the last 15 years. But we'll do that for the record.

Dr. Kaufman, I asked this question of Dr. Finkelstein earlier. I'll ask a variation of it since essentially, he said ask Dr. Kaufman. But the question is about escalation management.

Is there a shared understanding between the U.S. and China that there is a ceiling to how intense a confrontation might get as a result of both powers being nuclear states, and what comment do you have along those lines?

DR. KAUFMAN: Well, thank you for that. Actually, when you were asking Dr. Finkelstein that this morning, I thought, oh, I hope he asks me that, so I'm glad you did.

I think that -- I mean, yes, I think there is probably some kind of as yet still somewhat undefined threshold once you get up to the nuclear level. But no one wants to go that high before we test where that threshold is.

So and even there, the threshold is a little bit unclear. I mean, if you think about a progression all the way from, as the Chinese do, all the way from a state of crisis up to a state of what they would call total or all-out war. You know, total war is nuclear war, right. It's mass devastation. Nobody wants that. The Chinese do not want it any more than we do.

But the transition from each of those stages to the next is very, very, very hazy. And I think we see that when we look at what some of us call -- you know, what people call gray zone tactics, which is, you know, China using its military forces to achieve kind of low-end strategic aims in the South China Sea or whatever else, doing things that they view as not particularly escalatory that we may view differently.

And then my guess is you would get to higher and higher levels. I mean, we haven't been involved in a conflict with them so we don't know for sure. But my guess would be that the threshold between each stage, between military crisis and armed conflict, armed conflict and war, war and total war, that those thresholds are probably equally fuzzy at each stage.

And that's to some extent, I think, natural. No one has really clear thresholds, but I am not sure that they are the same for U.S. planners and for Chinese planners. And I think that's something that's important to have a really, really straight-up discussion about.

The other thing I would add is that the introduction of the idea of tactical nuclear weapons and/or extremely precise conventional weapons, those things also blur that line a lot. It's not really either you drop the bomb or you don't because you could drop a small bomb or you could use an extraordinarily powerful conventional weapon. So I think that although no one wants to end up there, I don't think anyone knows exactly where the line before there is.

COMMISSIONER KAMPHAUSEN: Thank you. I share the view in your testimony that the likelihood of full on U.S.-China conflict over Taiwan or elsewhere is not great precisely for the reasons that you note and because the Chinese strategic assessment of the situation would lead them to similar judgments as you've laid out.

My concern then is, and this then leads to a question for Secretary Flournoy, my concern is that's the environment that we've seen for the last 15 years. And China has achieved strategic objectives as a result of a series of tactical gains.

So, Secretary Flournoy, the question is you've dealt at the very highest level of defense policy. If Americans are serving in overseas contingencies and in some cases dying, how do you navigate a steady state of increased U.S.-China tensions with an appreciation that the likelihood
of conflict is not particularly high but recognizing the urgency of taking a stand in the moment lest we continue to see this accretion of tactical gains into further strategic gains? Thank you.

MS. FLOURNOY: Yeah. No, I agree that neither side wants all-out war or a nuclear exchange. But I do think that there's huge opportunities for miscalculation either strategically, China judging a lack of U.S. resolve or a decline in the United States or a withdrawal from Asia in the United States.

They could decide that, you know, there's a window of opportunity where, you know, their capabilities are improving, our full modernization and showing up in the region with new capabilities has not yet occurred. And so there may be a window for action where they might be more successful than if they waited.

And then there's the potential miscalculation from escalation. You know, some gray zone, you know, ships bumping, you know, a buzzing of a ship and an aircraft that crashes and kills American sailors. I mean, there are all kinds of miscalculations that can arise from just the gray zone jostling that goes on day to day.

So I really think the number one priority for the defense department should be deterrence, shoring up deterrence in the gray zone, shoring up deterrence by denial vis-a-vis Taiwan, shoring up deterrence by cost and position if necessary because that, you know, really is the name of the game with China.

And to do that we also need to have a much more strategic dialogue and a consistent dialogue where we talk about these things, where we let them know that some of their assumptions in their planning and their doctrine are just plain wrong about how we will react and something they think might stop U.S. action might actually provoke it.

So we need, you know, mechanisms to have those discussions. And right now they don't exist.

COMMISSIONER KAMPHAUSEN: Thank you.

COMMISSIONER LEWIS: Since Commissioner Kamphausen was the last person present in D.C., everything else will now be remote. Commissioner Lee, then myself and then Commissioner Talent. Commissioner Lee, go ahead.

COMMISSIONER LEE: Thank you, Commissioner Lewis. And thanks so much to the panelists for your excellent presentations.

So I wanted to sort of grab the concept that I think a couple of you talked about. I know, Dr. Kaufman, you talked about the window of opportunity to shape China's perception about the cost of conflict. And I know, Ms. Flournoy, you also talked about the actions that we take in the next few years could not be more critical.

I guess I wanted to ask are there other key areas in the U.S.-China relationship where we have a limited window of opportunity, in particular in the U.S.-China trade relationship?

And I know the post-COVID era is one in which China certainly has acted with a lot of confidence, I think, as you all noted about taking advantage. Because it does seem like this is a moment where the global economic order has been upended and, therefore, it could be a moment for opportunity for whatever party is ready to grasp it.

And I guess there's another piece of this question, which is for you, Ms. Flournoy, too, about you talked about investing in U.S. competitiveness. And you talk about, you know, research and development and technology and skills, which are all really important and things that the United States has underinvested in.

But I guess my question for you and for the others, too, is: is it enough? Given the terms of the U.S.-China trade relationship, we heard earlier today the word mercantilism was thrown
around a lot, a lot of discussion about licit and illicit forms of competition by the Chinese government. What I worry is that if we only invest in technology and research and development skills that we will not be effective in taking that limited window of opportunity. Thank you. I look forward to your answers.

MS. FLOURNOY: I would just start by saying you're absolutely right. It's necessary but not sufficient, right? And here again, I think, the only way we really are effective in trying to shape Chinese behavior on issues of trade, standard setting, and so forth is if we show up with the strength of our like-minded allies alongside us.

I mean, if you were to compare, and I would love, you know, our other panelists' perspective here, but if you were to compare, you know, some of the problems that Europe has with level playing fields for businesses, theft of intellectual property, you know, unfair practices, the laundry list is going to be the same for most European countries and the United States.

So I think the best way we can compete, you know, is not only investing at home but also working on high standards trade deals, so transatlantic trade deals with the EU, some kind of new version of the Trans-Pacific Partnership in Asia.

I think one of the biggest strategic mistakes that the United States has made recently is failure to actually enter into the TTP that -- sorry, TPP that we negotiated and our allies are now enjoying the fruits of.

COMMISSIONER LEE: Well if I could just say one thing, and I think it echoes a point that Commissioner Wessel made earlier, in terms of the TPP, my view is that the terms of TPP were not sufficient to set that new kind of competitive ground between the United States and China.

And, therefore, I don't disagree that we need to engage and we need to have allies on our side. But I guess it's more about what are the terms of that competition and have we gotten it right yet? And I don't think we have quite yet and certainly not with TPP, but, Dr. Oertel and Dr. Kaufman?

DR. OERTEL: Thank you very much. I think I completely second what Ms. Flournoy said. The joint approach with allies is the only way forward in this competition because the economic power of the U.S. alone is not sufficient any longer in this current context that we face each other.

And Europe has become a completely different partner in the military sphere. Everyone knows that we're obviously not as competent as the U.S. to defend interests of the United States.

But in the strategic competition in the economic space, in the stamina space, when it comes to high standard connectivity projects, we are the best partner that the U.S. can find, and we already have an actual strength.

And once -- as that strategic competition has shifted so much into the trade and technology space, looking at Europe through that different lens is, I think, extremely important. But it's also important that you understand what China is doing in this space at the moment.

As we speak, one of the stimulus packages that was rolled out in China after the corona pandemic, a really careful approach that the Chinese have been taken in terms of stimulus, one of the big chunks was rolling out 600,000 5G base stations and data centers all across the country to build that competitive edge using the window of opportunity that we're facing at the moment, that China is facing at the moment, to lead on these technologies.

We have to be very, very mindful of that and closely coordinate across the Atlantic about the developments that are building on these moves taking place in China.

DR. KAUFMAN: I know we're a little over time, but I'll just say briefly, I think there's a
window of opportunity in terms of the soft power that others were speaking about earlier.

You know, Dr. Finkelstein pointed out this morning, people are not lining up to try to become Chinese citizens. You know, even now, at what is probably a very challenging point for the U.S., people still want to come here.

And they -- you know, I think that China has been rather ham-handed in how it has approached the world. I mean, they sort of go around and say we're a rising power so we'd like to trade so obviously you like us.

Well, people may like to trade with China, but that doesn't mean that they love spending all the time with them in other ways, I guess. And, you know, the U.S.—ultimately we have a political system to be proud of. It's messy. But it is a democratic system. We do have, you know, a robust civil discourse.

We have a lot of things that a lot of people in other countries admire and would like to have that China does not have. And I think that we miss a lot of opportunities to stress that.

And it's partly that we don't want to seem overly paranoid. You know, Confucius Institutes, when they were new, might have seemed like a good idea. I don't think they were such a good idea, and I think people are kind of coming around to that, and that was a form of soft power.

But I think that being clear about this is what the Chinese are doing. These are the opportunities that they are taking. These are the ways that these affect your country and your bottom line and, you know, your political system and your freedoms and all the rest of it is very important.

And I think just being straight up about this is what they are doing, and this is what we have that they do not. And I really don't think that we take full advantage of our own soft power. And I think it's a window of opportunity that we have right now.

COMMISSIONER LEWIS: Thank you, Secretary Flournoy. I want to ask a question now followed by Commissioner Talent and then followed by Commissioner Wessel.

I wanted to ask a question. I realize that the five major allies of the United States all have China as their number one trading partner, which makes them conflicted both they don't want to alienate us because we have security for them. They don't want to alienate China because it's important for their economies.

But I wanted to ask you, Dr. Kaufman, I think you quoted the Chinese paper as saying that events in the South China Sea are now manageable. Is that true or do the other maritime countries in that area, are they still upset with China claiming ownership of all those waters?

DR. KAUFMAN: Well, it is true that China said that in the defense white paper and in some ways this is probably a question to follow up with Dr. Limaye about. But I would be very surprised if every other claimant in the South China Sea was equally satisfied with how things are working out there right now.

You know, obviously in some countries a change of leadership changes the situation. We've seen that in the Philippines. And when there's another change of leadership, we'll see what the new leader there has to say. But we've seen a lot of pushback among countries in the region as well.

You know, we've seen pushback from Malaysia against certain aspects of the BRI. We've seen other countries when they feel like they're getting a raw deal, they do push back.

It may be that right now the South China Sea is an area that they are, you know, pushing back on less than at some points in the past. But if you look at what's going on there, there's a lot of ships and boats and small vessels and big vessels sailing around there still causing one another
quite a lot of friction. And so I would take that as a measure that it's not really all that stable or all that serene.

But I think it's very interesting to note that the Chinese assess that the situation there is more stable from their standpoint than it was and therefore that they have a fair amount of confidence at this point in their ability to shape that region to their desires.

And I think that's another potential area for miscalculation. If they think that everything is going swimmingly so to speak there and they turn out to be wrong and they kind of push that envelope, that could create some pretty big problems.

COMMISSIONER LEWIS: Thank you very much. All of you have stressed the fact that the United States needs its allies in confronting China. And I want to ask, particularly Dr. Oertel, in light of the tariffs that have been assessed against some of the countries in Europe and the removal from the Paris climate deal and the Iran deal and the removal from the World Health Organization, has that impacted the relationship of the European countries with the United States?

And how does this measure in the strategic competition of China, who wants to create wedges between Europe and us? I'd like to ask Dr. Oertel that question.

DR. OERTEL: Thank you very much for that question. Well, I think it would be an understatement to say that transatlantic relations have been in better shape before. I think we're at a low point of the relationship in many ways, and this has a significant impact on the way we can cooperate on China.

And I think this is something where trust has to be re-established to actually get to a promising solution on all of the analysis that we share, where it's just the approach that we don't share, and it becomes absolutely critical to work together.

I think the measures that have been taken out of U.S. interests have been a gift to Beijing in terms of driving wedges actually and lowering the trust. But it doesn't necessarily mean that just because trust on the U.S. side is lower from Europe that Beijing gains.

I think the numbers that I've cited have shown that Europe just feels alone much more now and feels more that it needs to be more sovereign and it needs to enhance its own capacity to act because it neither trusts the U.S. at the moment very much nor does it want to side with China. That's not what it's all about.

COMMISSIONER LEWIS: What recommendations would you have for the United States to improve its relationship with the European Union, Dr. Oertel?

DR. OERTEL: So I think if we want to see, like, sudden changes, then I think the most important steps will be a return to the multilateral system, a return to rules-based order, and a return to commitments that have been made.

So a return to the WTO standards, a return to the Paris climate agreement, find joint solutions on other issues, areas such as the Iran deal where it's just the reliability of U.S. commitment that is really worrisome for European allies.

COMMISSIONER LEWIS: Thank you very much. That concludes my questions. Now I'd like to ask Commissioner Talent to begin followed by Commissioner Wessel and then Commissioner Wortzel.

COMMISSIONER TALENT: Thank you, Mr. Chairman. Dr. Lee, in your testimony you make the point that the credibility of the United States' commitment to become involved in a conflict is very important in terms of Chinese calculations.

And you go on to say if China's leaders believe that attacking Taiwan or any another territory or region will certainly trigger an overwhelming U.S. response, they may calculate it's...
not worth it.

So are you suggesting that the United States give an explicit guarantee to Taiwan, treating it in essence like a treaty partner?

And would your recommendation in that respect be affected by what our current treaty partners in the region would say about it? And after you're done maybe Secretary Flournoy would offer her opinion as well.

DR. KAUFMAN: So I'm not advocating for a change in the TRA. I'm not weighing in on the TRA as a policy device one way or the other. But I think that making sure that the Chinese cannot be sure of their success or do not have a very high level of confidence in their success in a Taiwan conflict is important.

If that uncertainty can be kind of -- if it can be upheld under the current terms of the TRA then that works fine. It's essentially that if they feel certain that they can win, then they may go for it. If they feel pretty uncertain that they can win, the Chinese, they don't like uncertainty. You know, there's ample evidence in very public Chinese writings to suggest that it makes them very uncomfortable. And uncertainty is an important -- I think it's an important tool.

So the real question, I think, with regard to Taiwan is do they feel quite certain that we won't intervene? Because if they do feel certain about that, then that changes their calculus.

COMMISSIONER TALENT: Okay. So you don't mind the whole ambiguity, at least formal ambiguity. You are not suggesting a change in our typical relationship with Taiwan?

DR. KAUFMAN: No. I'm not a policymaker so I'm not weighing in on that one way or the other. I am simply suggesting, though, that if they feel sure that we won't intervene, that could create a problem.

COMMISSIONER TALENT: Okay. Michelle, do you want to say anything about that or?

MS. FLOURNOY: Yeah. No, I think, you know, I don't think you have to depart from the twin pillars of our policy, which is a One China policy and the Taiwan Relations Act. I think there are real downsides to sort of moving away from that structure.

But within that structure, I think through our actions first and foremost and our words, we can do a lot more to demonstrate our commitment to the region, to a democratic Taiwan, to peaceful resolution of disputes, to abiding by the rules of the road, to isolating China by leading the region to push back when they do step over certain normative lines.

So I think short of actually formally providing a defense guarantee to Taiwan, which I would not advise at this point, I do think there's plenty we can do to signal our intent and our commitment and our capability.

COMMISSIONER TALENT: Yeah. Because one of my concerns is that I'm not as sanguine as Dr. Lee is, or I guess maybe you, Secretary Flournoy, about our superiority in their near seas. I think they have a lot more non-escalatory options in the event of a military confrontation.

And as long as that is the case, and I think it's going in the wrong direction, the more we signal support for Taiwan, the more we may push them towards resolving the situation or put them in a situation where they feel they can't tolerate it anymore, and they can't tolerate anything that looks like Taiwanese independence.

So my concern is that we need to redress the -- what I perceive is an imbalance in their near seas before we do anything like that.

MS. FLOURNOY: No. And I'm not sanguine about our capabilities at all and the balance and particularly the direction it's evolving in.
I think that deterrence by denial right now would be very -- has some real challenges. Not that we couldn't do it, but it has some real challenges that we need to address urgently.

Deterrence through cost imposition, I'm still quite confident we could impose very significant costs on China, you know, in the event that they were aggressive against Taiwan.

But, again, if we just sit still or rest on our laurels and our presumption and our, you know, tradition, if you will, of military superiority, we will have a problem because it is eroding, and it will erode faster if we stand still. So I think we need to make very serious investments in deterrence in the near term.

COMMISSIONER TALENT: I'm out of time, but I may give you a question for the record because I'm concerned about a cost imposition using hard power in a way that would be non -- or less escalatory.

I agree we certainly can impose costs. But I would not want to be the first to escalate in the event of a confrontation. But maybe I'll submit a question for the record to you.

MS. FLOURNOY: I would direct you -- I just did a Foreign Affairs article that gave a couple of examples of this.

COMMISSIONER TALENT: There you go. Then I can avoid the question, and you can avoid the answer. I'll just read the article. Thank you all for your testimony. It's very enlightening.

COMMISSIONER LEWIS: Commissioner Flournoy, I just want to take one last question to you on that issue. Does the recall of the mayor of Kaohsiung change your views on any of this?

MS. FLOURNOY: I don't know enough about that situation to be able to comment. I'm happy to take a look at it and come back to you if you'd like.

COMMISSIONER LEWIS: Please do. Please do. Commissioner Wessel, it's up to you now and then for Commissioner Wortzel.

COMMISSIONER WESSEL: Thank you. Thank you all for being here this afternoon. I appreciate all your testimony and all your work on these issues.

I want to pull on a couple of threads that have been put out there by my colleagues and some answers by some of you. This President, you know, uses uncertainty as a negotiating tool.

And I think you said, Ms. Kaufman or Dr. Kaufman that, you know, the Chinese value certainty over everything -- or over much else. And we have gone into this situation or where we are now, I think there's a lot of uncertainty about the strength of some of our alliances.

Dr. Oertel, I'll, you know, focus on you for a moment that there's some question about the EU's -- the strength of the alliance with the EU where a number of U.S. objectives dealing with overcapacity and other issues over the years has been called into question, most recently with the white paper that you identified during your opening statement. There were a number of people here in the U.S. who viewed that not just targeted at China but also at the U.S., as I'm sure you know.

So with that as the backdrop, what steps can our allies take or should they take to try and restore both greater certainty but, you know, create enhanced value cognition here in the U.S.? We often feel that we're going it alone and that our allies, I said it earlier and I say it often, hold our coat while we bloody our nose. Dr. Oertel, do you want to start with that?

DR. OERTEL: Certainly. Thank you very much for the question. So I think in the first instance, we need to improve the communication because otherwise we will never get the uncertainty out of the relationship, and that has been a huge problem that, you know, the allies
have been informed of policy decisions by the media and not by normal established channels. I think this is something that definitely needs to return back to the formal channels that used to be the trusted channels for this kind of exchange of information.

And then, you know, in a relationship of trust that you have between allies, then you can actually also tackle the more difficult issues and the more difficult problems. I think it's just a matter of being overrun and feeling threatened that has become a huge issue and a huge problem over recent years.

I think what we really need to overcome is -- the biggest gift to Beijing is transatlantic bickering over things that we can get over.

And I think that's something that we need to understood the magnitude of the challenge, economically, technologically but also security-wise that we're facing at the moment does not allow for this kind of bickering or this kind of dissent on both sides.

And I think the first step in that regard is going to the negotiating table, having serious conversations with serious commitments of both sides because then I think we can get over a lot of the issues that are at stake in a trusted environment.

COMMISSIONER WESSEL: Dr. Kaufman? Any thoughts?

DR. KAUFMAN: I'm not sure that I have anything to add to that. The one thing I will briefly say about certainty is that when I was speaking about that earlier, I was talking about operational certainty as in the ability to --

COMMISSIONER WESSEL: Escalatory expectations, okay. I got you.

DR. KAUFMAN: Strategically, I think it may be a slightly different story.

COMMISSIONER WESSEL: Okay. Secretary Flournoy, any thoughts? You are muted.

MS. FLOURNOY: I just very much agree with what was said in terms of rebuilding trust and getting ourselves back on the same sheet of music to work together strategically.

COMMISSIONER WESSEL: Great. Thank you.

COMMISSIONER LEWIS: Anything else, Michael, or are you finished? We'll now hear from --

COMMISSIONER WESSEL: That's it. COMMISSIONER LEWIS: Thank you. We'll now hear from our last Commissioner, Commissioner Wortzel. Larry, can you hear me?

Jameson, is Commissioner Wortzel's mute -- muted?

MR. CUNNINGHAM: Commissioner Wortzel had to leave, unfortunately, and had a couple questions that either Commissioner Kamphausen could ask or we can have those as questions for the record.

COMMISSIONER LEWIS: Commissioner Kamphausen, do you know what Commissioner Wortzel's questions were?

COMMISSIONER KAMPHAUSEN: Yes. I do have them. There were two.

COMMISSIONER LEWIS: Please go ahead.

COMMISSIONER KAMPHAUSEN: Dr. Oertel, with what countries in Europe has China prioritized developing close relations at the expense of U.S. interests? And please characterize the success of China's diplomatic, economic, and military efforts.

And then for Dr. Kaufman, in Point 4 of your introduction to your written testimony, you say that the U.S. has a window of opportunity to shape PRC perceptions about the costs of certain actions. Please describe the PRC actions you think the U.S. should try to influence or shape. Please describe the military, diplomatic, economic, and cultural shaping mechanisms you recommend the U.S. employ.
So for Dr. Oertel, first.

DR. OERTEL: Thank you very much. So in terms of the countries that China has established close relations with or closer relations with than with others.

Obviously on the trade and economic front it is Germany. But especially important in terms of political influence is the European neighborhood. These are the western Balkan countries where investments are very important. Serbia, for example, Montenegro, we have very close relations with Greece that are politically more important.

But what I would like to stress in this whole context is that it is impossible for China or it's really hard for China to destroy a bottom line of European unity on a number of issues. We have seen a number of disarrays in terms of going into different directions from different countries because they were seeking certain economic opportunities.

But the kind of frustration that European countries have seen over the past couple of years in their relations with China has actually pulled the Europeans more closer together on China questions, which you can see in very active EU policies at the moment, very active ability to shape the agenda not just in the trade and economic space, but also on other issues.

So I think there is a limit to the divisive potential that Beijing actually has when it comes to Europe. I think it is often overrated, but especially linked to the 17 plus one countries where the economic engagement has actually never been deep and the political engagement is not super deep. And we have countries such as Estonia in there who are staunch supporters of the transatlantic alliance and would do anything for U.S. security cooperation.

So I think we have to be very nuanced in our approach. And it probably warrants more than two minutes of a statement. But I would be happy to go into closer detail if that is wanted.

MS. FLOURNOY: Well, I think we've been discussing windows of opportunity for a little while. So I think some of Commissioner Wortzel's questions were probably already addressed. But I will say that one of the other Commissioners, I can't remember now who it was, pointed out that China has been able to make strategic gains through tactical moves.

And I think that those tactical actions, when they are taken, those are windows of opportunity for China that we should probably be working harder to close off. And so what that means, just to give an example, part of what has happened, I think, in the South China Seas is that Chinese operators have been acting in an environment of permissiveness, essentially. They may not have been explicitly told to harass and follow some of these other vessels. They know they won't get in trouble if they do.

And through a series of actions like that, if no one pushes back, then in the longer term you do see changes in behavior on China's part. And so that's just one example of small things that if they are not pushed back on may become big things.

That, obviously, is in the maritime military domain. But I think there are similar sorts of things in economic and diplomatic and political domains if you think about, for example, the way that China has really used legal means, entirely legal means, to access U.S. technologies, both through the U.S. and through other countries.

We've talked a little bit about that. You know, we have instruments like CFIUS and other things like that that, over time, have started to push back on some of those. But I think that as long as China continues to make tactical moves that aren't pushed back on, then those are
opportunities that we are probably missing. And I think that those are areas to look at.

And I appreciate Commissioner Wortzel's question about saying let's look at all domains, not just the military ones, because China uses them all and we should as well.

DR. KAUFMAN: May I just add one point on that, that historically the U.S. has shown up and developed diplomatic pushback across the ASEAN nations, for example, when China has overstepped in the region.

Historically, when aircraft have come too close to U.S. aircraft in a way that posed real danger, at the highest levels, like at the vice presidential level, we have had people go to Beijing, show them photographs, say this has got to stop, and it would stop for a period.

So it's not like this has never been done. It's just not happening right now.

MS. FLOURNOY: And I absolutely agree with you about that. And I think those are great examples of how active it can be, if it's not in the moment.

COMMISSIONER LEWIS: Thank you, Secretary Flournoy, Dr. Kaufman, and Dr. Oertel, particularly for allowing us to keep you up so late on Berlin time.

COMMISSIONER TALENT: Ken? It's Jim Talent. Before we close, would you allow me to take a moment and apologize to Dr. Kaufman? I believe I referred to her as Dr. Lee. I was looking at the wrong square on the grid. And I'm very sorry about that.

COMMISSIONER LEWIS: We have now heard from nine experts on various aspects of the U.S.-China strategic competition. Thank you to all nine witnesses for expanding the knowledge that we have of what's going on between the United States and China. I will now turn this back to Commissioner Kamphausen for closing this hearing.

COMMISSIONER KAMPHAUSEN: Thank you, Commissioner Lewis, and thank you to all of our panelists today for a simply wonderful set of interactions. As we've noted at several points along the way, there are additional questions we will likely have and so we'd like to be able to come back to you and ask those in questions for the record.

Thank you for your participation. Thank you to our audience who has tuned in. And please join us in September for our final hearing of the 2020 Annual Report cycle. We are adjourned.

(Whereupon, the above-entitled matter went off the record at 3:42 p.m.)
QUESTIONS FOR THE RECORD

To: USCC Commissioners

From: Ben Frohman, Director, Security and Foreign Affairs
Anastasya Lloyd-Damjanovic, Policy Analyst, Security and Foreign Affairs
Howard Wang, Policy Analyst, Security and Foreign Affairs
Suzanna Stephens, Policy Analyst, Economics and Trade

Date: July 20, 2020

Re: Questions for the Record from June 24, 2020 hearing, “The Chinese View of Strategic Competition with the United States”

This memo compiles witness responses to Questions for the Record submitted by Commissioners following the Commission’s June 24, 2020 hearing, “The Chinese View of Strategic Competition with the United States.”

Panel I: China’s View of Strategic Competition
Submitted by Vice Chairman Carolyn Bartholomew

To All Panel 1 Witnesses:

• What aspects of the state of the competition between China and the U.S. today surprise you the most?
• What is the biggest unexpected risk to the U.S. of the competition?

Barry Naughton, So Kwanlok Chair of Chinese International Affairs, School of Global Policy and Strategy, University of California San Diego

• What aspects of the state of the competition between China and the U.S. today surprise you the most?

I am most surprised by the way the technological landscape has shifted in ways that give advantages to China. I am NOT saying that China has the technological lead, and I am NOT saying the Chinese industrial policies have helped China very much. But the nature of the potential changes from the broad implementation of “intelligent networks” may play to China’s strengths. China already has the largest industrial base in the world and (by far) the highest rate of investment, particularly infrastructure investment. At the same time, it has the largest number of cellphone subscribers, and by some metrics, the largest Internet economy. Since all these things interact, China is likely to emerge as the “lead market,” driving adoption of various kinds of smart networks in commerce, smart infrastructure, etc. China’s technological capacity appears to be “good enough” for many of these applications. That makes it a formidable competitor.

• What is the biggest unexpected risk to the U.S. of the competition?

The biggest unexpected risk is that the US will underestimate China’s competitive challenge and that China will overestimate its fundamental strength. China’s competitive strength comes fundamentally not from government policy, but from hard-working, frugal, increasingly well-educated individuals. If the US underestimates the significance of this force, our policies will be misguided. By contrast, the Chinese seem to think that government can steer everything and accomplish anything. In this belief they may think they can get away with sudden, opportunistic and decisive actions in a range of difficult-to-foresee situations. I
worry about the consistent potential for miscalculation in a situation where the US underestimates China’s strength and China overestimates China’s strength.

**David Finkelstein**, Vice President and Director, China and Indo-Pacific Security Affairs Division, CAN

- What aspects of the state of the competition between China and the U.S. today surprise you the most?

The speed with which US-PRC relations deteriorated over the past twenty-four months or so (not the fact that relations were headed in a negative direction).

How difficult it is for some in China to understand that American dissatisfaction with the relationship goes beyond the current administration and cuts across various US constituencies that have traditionally had significant stakes in the relationship.

The fact that there has yet to be a significant public debate or national discussion in the United States on China policy, which is arguably near the top, if not at the top, of the list of the most important long-term foreign policy issues Americans will have to grapple with in the 21st Century.

- What is the biggest unexpected risk to the U.S. of the competition?

The unclear second- and third-order effects of a highly competitive US-PRC relationship on the international system that could negatively affect US interests.

**John Pomfret**, Author and former Beijing Bureau Chief, Washington Post

- What aspects of the state of the competition between China and the U.S. today surprise you the most?

I have been surprised that China’s competition with the US has not prompted a “Sputnik” moment to convince our lawmakers and president to rebuild this country’s sagging infrastructure and commit more investment to R&D. It’s past time that this occur.

- What is the biggest unexpected risk to the U.S. of the competition?

I don’t think this is an “unexpected” risk but I believe moves to cut off Chinese access to US higher education would be a huge mistake and would greatly hurt the US. Granted a small number of Chinese students engage in espionage in the United States, but the great majority do not and the United States profits enormously from their ability to study, do research, become citizens and start companies in this country. This is a knife fight and employing buck shot at close quarters never works.
Panel II: U.S.-China Competition and Cooperation on the World Stage

Submitted by Commissioner Roy Kamphausen

To Ms. Kristine Lee:

- Please elaborate on China’s efforts to engage with the G-77 in the UN, especially as it relates to Beijing’s approach to competition with the U.S.

Kristine Lee, Associate Fellow, Center for a New American Security

China has been able to mobilize support for its priorities within the UN by strategically positioning itself as a champion of developing states and building substantial influence within the G77, which constitutes 70 percent of UN member states. It accomplishes this through several vectors of influence.

First, China leverages the Belt and Road financing to reward and coerce developing countries, with a particular strategic focus on African countries. From 2014 to 2018, for example, China’s foreign direct investment in Africa surged by 44 percent to $46 billion. Studies have pointed to a clear correlation between the level of funding that Belt and Road countries received from China and their voting alignment with China in the UN General Assembly. For example, if African countries voted with China an extra 10 percent of the time, they would get an 86 percent bump in official aid on average. Conversely, China can also threaten to turn off the tap.

Second, Beijing’s peacekeeping operations serve as a relatively low-cost opportunity to blunt criticisms of and anxieties about its geopolitical ambitions, both regionally and globally. They have evolved as part of a broader foreign and economic policy primarily centered on force projection and safeguarding commercial interests. In particular, China has invested extensively in peacekeeping in Africa because it has economic stakes in countries like South Sudan and the Congo and seeks sustained access to Africa’s natural resources and potential market of one billion people. Some G-77 countries view China’s contributions to peacekeeping as generally beneficial; for example, its support troops are hailed in a number of African countries as a positive force due to their low visibility and cultural sensitivity, and its financial support has expanded the UN’s overall peacekeeping capacity. In its contributions, Beijing also has committed significant resources and personnel—including technicians and engineers—to mitigating non-traditional security threats, such as water and food security, in conflict areas. And beyond the scope of UN peacekeeping, China has provided training, equipment, and financial aid to African Union-led peacekeeping missions, which tend to be undermanned, undertrained, and under-resourced.

Third, through diplomatic coordination mechanisms such as the G-77 + China Annual Ministerial Meeting, Beijing has been able to frame itself as a partner and advocate of the G-77 countries. In a 2015 UN General Assembly speech, Xi Jinping declared that “China’s vote at the United Nations will always belong to developing countries.” Xi has stated in subsequent major speeches that China would support “the efforts of other developing countries to increase their representation and strengthen their voice in international affairs.” One of Xi’s signature refrains, the “democratization of international relations,” purportedly endeavors to give greater voice to developing countries in the global governance system. Beyond the façade of activism on behalf of the developing world, however, it is clear that China’s interest in greater “democratization” only extends as far as Beijing’s domestic political cost-benefit analysis allows.

Finally, Beijing exports its technology to developing countries around the world under the guise of strengthening their internal security, such as through surveillance cameras coupled with facial recognition software. Beijing’s digital expansion is especially pernicious because through the provision of technology, funding, and know-how, China is making repression easier and more attractive to governments that have weak democratic institutions and enabling fragile authoritarian regimes to operate more effectively and...
cost-efficiently. Chinese startups such as Hikvision and CloudWalk have gained notoriety by building facial and voice recognition security systems in South Africa and Zimbabwe, respectively. In March of 2018, the CloudWalk partnered with the Zimbabwe government, backed by Belt and Road financing, to launch a large-scale facial recognition program for purported domestic security purposes.

Amid the COVID-19 pandemic, China is now poised to use its so-called “Health Silk Road”—which seeks to promote China’s high-tech healthcare model to Belt and Road countries—to increase its leverage over developing countries under the guise of distributing global public goods. Where it involves the deployment of surveillance and telecommunications infrastructure, the Health Silk Road could position Chinese technology companies to mine large quantities of foreign data that would enable them to even more effectively target consumers.

Submitted by Commissioner Roy Kamphausen

To Dr. R. Evan Ellis:

- Please discuss the ways in which you have observed PRC patterns of interaction in Africa replicated in Latin America

R. Evan Ellis, Research Professor of Latin American Studies, Strategic Studies Institute, U.S. Army War College

The PRC and its companies have appeared to pursue the same basic goals and approach in Africa and other parts of the world that they have in Latin America and the Caribbean. The divergences between Chinese engagement in Africa, versus that in Latin America, principally reflect differences in the political, institutional and economic conditions of the two regions, as well as Africa’s greater geographic proximity to China, and its stronger historical relationship with the PRC.

In both regions, the PRC government and its companies have sought to secure reliable access to commodities and markets. In both, it has done so principally by using its financial resources to acquire ownership over the extraction and transformation of the commodities, including buying controlling (and sometimes minority) interest in mines, oilfields and similar assets. In both regions the PRC has instrumentally used its resources to solve the problem of accessing those commodities or markets in ways that maximize the benefit to China, focusing where possible on multi-sectoral government-to-government deals in which its banks loan money for the construction of infrastructure, including ports, railways, highways, electricity, and telecommunications, attempting to achieve that the work is principally done by Chinese companies, subcontractors and laborers.

In both regions, Chinese construction of infrastructure has not only facilitated extraction of commodities and their transformation and transportation to the PRC, but also PRC access to Latin American markets. In that case, the compliment to Chinese control over mines and oilfields, was a growing presence of Chinese products such as cars, trucks and manufactured goods, increasingly in an evolving partnership with local distributorships, and sometimes involving some local Chinese final assembly and warehousing. It also involved a growing Chinese presence in branch banking, financial instruments, and services.

China’s acquisition of oilfields, mines, and infrastructure construction started somewhat earlier in Africa than in Latin America, reflecting that the African continent is closer to the PRC than Latin America, and that Chinese politicians and businessmen initially had a stronger base of knowledge and business ties with Africa. This was a function of China’s activities on the continent, including its support for various groups during wars of “national liberation” in the 1970s and 1980s. From China’s perspective, Latin America was, by contrast, closer to the United States, initially inspiring greater caution by the PRC governments. With
the growth of Chinese economic power and self-confidence during the first decade of 2000, however, with the relative lack of US resistance to Chinese advances in Latin America and the Caribbean, and with the expanded confidence of the Xi Jinping government, the differential in China’s caution toward Africa versus Latin America has arguably decreased over time. In addition, problems in Chinese projects in Africa, including violent political change forcing the evacuation of PRC personnel from Libya and Yemen, and ongoing violence in other focuses of Chinese operations such as South Sudan, may also have helped to reshape Chinese thinking.

The PRC has arguably done more loan-financed, government-to-government infrastructure projects in Africa than in Latin America. This difference, however, arguably reflects the relatively greater number of weakly institutionalized regimes with commodity-based economies in Africa, vis-à-vis Latin America. This difference was illustrated in China’s launch of its new phase of courtship of Latin America in the early 2000s, highlighted by then President Hu Jintao’s high-profile trip to the region for the 2004 APEC summit in Santiago, Chile. The widely publicized promise of “$100 billion in Chinese investment” in the region, made by President Hu during that trip, was essentially an unvetted shopping list of government-to-government proposals, almost all of which fell flat because the relatively strongly institutionalized regimes of Brazil, Chile and Argentina would not seriously consider subverting their existing acquisition processes to accommodate China’s terms. Relatively strong and politically well-connected manufacturing sectors in Brazil and Argentina, threatened by the prospect of China’s entry into the region as a commercial competitor, also played a role in the rejection of many of China’s proposals.

Further illustrating the point that the controlling factor was local conditions, not a difference in the Chinese approach, PRC proposals also encountered difficulties in Africa, in states with stronger institutionalization and industry, such as South Africa. Yet in the long term, the greater number of institutionally weak regimes and commodity based economies in Africa, vis-à-vis Latin America simply made Africa more fertile ground for China’s preferred government-to-government deals.

With time, powerful Chinese infrastructure construction companies such as China Harbour, Sinohydro and China Railway Road have advanced in Latin America and the Caribbean through participation in competitive public procurements, through public-private-partnerships, and through learning in selecting good local partners and consultants. Overall, however, such evolution in the approach of Chinese companies in Latin America reflects their required adaptation to local conditions, more than fundamental differences in the approaches to each region.

Finally, as PRC economic, political, and military power has expanded, China has generally modified its behavior and taken pioneering actions in Africa before it has done so in Latin America and the Caribbean. As China expanded its involvement in United Nations peacekeeping, for example (with the exception of its deployment of peacekeepers to Haiti from 2004-2012), Africa has been one area in which the PRC has concentrated its peacekeepers. This has included peacekeeping operations indirectly in support of, and in the vicinity of important extractive operations by PRC-based oil companies operating in South Sudan. Similarly, China’s first out-of-region counterpiracy operations were off the coast of Somalia, and its first overseas military base was in Djibouti. Its first required major noncombatant evacuation operation of Chinese citizens was from Libya, in 2012, arguably driving Chinese thinking about the need to protect Chinese companies and citizens operating in other parts of the world. The renewal of the PRC diplomatic offensive against Taiwan, frozen from 2008 through the election of Tsai Ing Wen and the DPP in January 2016, began in Africa with changes in recognition by Gambia and Sao Tome and Principe, before moving to Latin America with changes by the governments of Panama, the Dominican Republic and El Salvador. The evolution of PRC activities and increasing boldness in its economic, diplomatic, and military behavior in Africa, thus may provide an important indicator of how it may behave in Latin America as Chinese power
and leadership confidence continues to grow as it recovers from the current Covid-19 pandemic while the United States and many other parts of the world remain mired in a health, economic, and public security crisis.

Submitted by Commissioner Larry Wortzel

- Please provide details on the historical development and present status of China's cooperation with Latin American countries on space and missile technology.

I am not aware of explicit Chinese collaboration with Latin America explicitly to develop missile technology since the late 1980s, although such collaboration is possible. In addition, China has sold crude, man-portable HN-5 air defense missiles to Bolivia, and the more sophisticated Type 90B multiple launch rocket system to Peru.

In the 1980s, Brazil began collaborating with the PRC on satellites and space launch systems, in response to U.S. efforts to restrict Brazil’s indigenous development of a launch vehicle under the U.S. Missile Technology Control Regime (MCTR). This collaboration ultimately led China to offer, in 1989, to launch a Brazilian communication satellite on one of its Long March launch vehicles, and to share missile technology in support of Brazil’s development of its indigenous VLS-1 launch vehicle. China-Brazil collaboration ultimately led to a formal program for China-Brazil cooperation, initiated in 1988, involving co-development of satellites, and their launch on Chinese launch vehicles, the China-Brazil Earth Research Satellite program (CBERS).

The CBERS program is the oldest significant example of space collaboration between China and Latin America. China has co-developed and launched six satellites for Brazil under the program, the last of which was successfully launched from China’s Taiyuan Satellite Launch Center in December 2019. While the co-development of the satellites may have helped the PRC with its digital imaging and other satellite technology, Brazil has generally developed and maintained control over its communication and control infrastructure for the satellites, and the personnel which administer its space program.

Beyond CBERS, the Chinese have expressed some interest in access to the equatorial launch facility at Alcântara, Brazil. Nonetheless, a technology safeguards agreement signed between the U.S. and Brazil in March 2019 for the use of the facility by U.S. commercial space providers, and ratified by the Brazilian Congress in November 2019, has substantially shut the door to Chinese domination of this launch facility for the moment.

Brazil China has helped each of the three populist socialist regimes in the region to develop and launch satellites, as well as contributing substantially to their development of supporting control infrastructure and the training of space personnel. This included the development and launch of three satellites for Venezuela: the communication relay satellite Venesat-1 in 2008, the imaging satellites VRSS-1 in 2012, and VRSS-2 in 2017. The Chinese also played a role in providing the technology for the Venezuealan space control facility in the Manuel Rios airbase in Guarico (BAMARI) and the Luepa facility in Southeast Bolivar state, as well as training Venezuelan personnel supporting the operation of and communication with these satellites, giving the PRC significant insights into and opportunity to obtain data from these satellites through access to both their personnel and technology.

As in Venezuela, China substantially developed and launched the Bolivian communication relay satellite TKSAT-1 in 2013, and prior to the departure of the populist socialist government of Evo Morales from office in 2019, had committed to launching a second, TKSAT-2, in 2020 or 2021. As in its interactions with the government of Venezuela, the PRC has trained most of the key Bolivian personnel involved with
the satellite and Bolivia’s fledgling space agency, and has provided key electronics and telecommunications components of the Amachuma space control facility in La Paz, and the La Guardia facility in Santa Cruz.

In Ecuador, in April 2013, the Chinese launched the Pegasus microsat, which was rapidly disabled by a collision with space debris. Beyond this minor project, however, there is no indication of any major PRC role in building space control infrastructure in Ecuador or training its personnel.

In Chile, for a number of years, China has sought unsuccessfully to develop and launch satellites for the Chilean government, including seeking a role in its SSOT program for earth observation satellites. As the US-build FASAT-C satellite constellation ended its service life, senior Chilean officials including former Chilean ambassador to the PRC Jorge Heine advocated replacing the constellation with its own Beidou family of satellites.

China also shares time with the Chilean government in an observatory in Paranal, in the Atacama desert, and has expressed interest in building a second observatory there.

In 2013, the PRC began working on deep space radar communications facility in Bajada de Agrio, in the department of Neuquén, Argentina. The facility, which became operational in 2017, compliments less sophisticated facilities in Namibia, Pakistan, and Kenya, as well as Chinese space tracking ships at sea, as part of China’s construction of global space infrastructure for maintaining communication with PRC space vehicles on lunar, mars, or other solar system missions. It also partnered with the Argentine government in installing and operating space observation equipment in the observatory in San Juan.

The PRC has further sought to maintain space cooperation through China-led international organizations. Peru, for example, has been a member of the China-led Asia-Pacific Space Cooperation Organization (APSCO).
Panel III: Future Prospects for Strategic Competition: Toward a Cold War, Hot War, or Cold Peace?

Submitted by Commissioner Roy Kamphausen

To Dr. Alison Kaufman:

- Please elaborate on the ways in which PLA views of escalation might play out in an unintended confrontation in the maritime domain.

Alison Kaufman, Principal Research Scientist, CNA

Thank you for this question. Here are some broad thoughts on how PLA views of escalation could play out in an unintended maritime confrontation, particularly if it takes place in disputed waters.\(^1\) As with my testimony, this response represents my own views only.

I will outline three aspects of Chinese escalation management that could create unintended escalation in such a situation: (1) divergent views among different nations of what constitutes “escalation”; (2) “blind spots” in Chinese assumptions about how to control escalation; and (3) the PRC government’s establishment of a permissive environment that allows some Chinese maritime operators to act (or believe they can act) with relative impunity.

First, some Chinese views of what constitutes “escalation,” and beliefs about how to control it, differ from those of other nations. For example, some Chinese writings raise the possibility of conducting kinetic strikes on foreign vessels entering into Chinese-claimed waters, with the primary purpose of controlling crisis and “probing the adversary’s intentions.” In at least some Chinese writings, actions such as shouldering and ramming, firing warning shots, or even firing direct shots on a foreign vessel are depicted as forms of crisis control that fall within the parameters of reasonable behavior for persuading foreign vessels to leave the area. While Chinese writings do portray such actions as a step up from non-kinetic interactions such as verbal warnings or shadowing, the purported intent of these kinetic actions is to avoid escalation to conflict. From the US standpoint, however, such actions would likely be viewed as an escalatory move. Unfortunately, the possibility of divergent interpretations is not acknowledged in the Chinese writings I have looked at.

Relatedly, Chinese writings, as well as real-life interactions, suggest that Chinese decisionmakers believe that one can “calibrate” escalation by using a variety of maritime forces—such as the navy, the coast guard, maritime militia, and private fishing and commercial vessels—to achieve national objectives without triggering escalation. The view appears to be that non-navy vessels that interact with foreign operators are inherently less escalatory than navy ships, regardless of what the Chinese vessels are doing.

In an unplanned maritime encounter, these Chinese views could mean that (a) Chinese operators might go kinetic earlier in a crisis than we would expect, leading to escalation on both sides; and (b) Chinese non-navy vessels might behave more aggressively out of a mistaken belief that they can “push the envelope” further without risking escalation. In a worst case scenario, Chinese actions intended to be deterrent or

---

\(^1\) This analysis is based on a reading of Chinese open-source writings coming from a range of reasonably authoritative PRC civilian and military institutions and publications. I view such writings as representing a spectrum of mainstream views that are being explored and/or are considered acceptable within the PLA. However, they should not be mistaken as formal PLA doctrine. For more on this approach to Chinese writings, and on previous analyses of Chinese views of escalation control, see the publicly-available report, Alison A. Kaufman and Daniel M. Hartnett, Managing Conflict: Examining Recent PLA Writings on Escalation Control (Arlington, VA: CNA, 2016).
exploratory could be mistakenly interpreted by the other side as the first indications of a large-scale attack, and responded to accordingly.

Second, Chinese views of escalation control display several assumptions or “blind spots” that make it more difficult to have productive dialogues about how to safely control crises. These include:

• A view that coercion is a relatively low risk, low cost endeavor
• A belief that improved capabilities will lead to better tactical control
• An assumption that China’s deterrent signals are clear and will be received as intended
• An assumption that other countries’ intentions and actions are predictable and transparent.

Thus, Chinese operators and planners may believe that—should a crisis arise while they are engaging in activities aimed at solidifying their control over disputed areas—this crisis will be relatively easy to control, their intentions will be clearly understood, and they will be equally able to interpret the adversary’s intentions. I have seen almost no discussion in these writings that Chinese deterrent signals could be ambiguous or counter-productive. I have also seen no indication that they believe they could misinterpret an adversary’s signals. Any escalation that does occur is portrayed as a deliberate provocation by other side.

In an unplanned maritime encounter, this may mean that Chinese operators or decisionmakers would not seek to re-confirm their understanding of the other side’s intentions, or to ensure that their own signals have been accurately received, before acting or responding. Given that PRC actors are inclined to take the most negative possible view of US intentions, we can imagine that they would be similarly inclined to interpret an accident involving US forces as deliberate and potentially inviting escalation. Moreover, Chinese certainty that their own intentions are crystal clear creates challenges for creating or strengthening longer-term crisis control mechanisms between China and other countries—since if they believe that their operators’ intentions are always clear, what is there to talk about?

Third, the Chinese government has created a permissive environment in areas such as the South China Sea, such that PRC maritime operators often see themselves as having tacit approval from the PRC government to harass foreign vessels or take other actions in the name of “maritime rights protection.” This may lead such operators to act provocatively and opportunistically, in an unpreplanned or uncoordinated manner, out of the belief that they will not be disciplined for doing so. This permissive environment makes it sometimes unclear whether the actions of individual Chinese operators are being centrally controlled or monitored; the 2016 seizure of a US unmanned underwater vehicle (UUV) by a Chinese navy ship may have been one such example. While it is likely that some such actions are actually conducted with the knowledge of higher authorities (who may then deny it), it seems plausible that some of them are truly random and unplanned.

In an unexpected maritime encounter, this permissive environment could encourage Chinese operators to take actions that are not usually considered within the parameters of “reasonable” behavior, without explicit orders by their superiors. Since the other side would have no reason to expect such actions, this creates a very real possibility of unintended escalation. It also creates headaches for officials trying to put in place consistent, enforceable crisis control mechanisms.

All that said, there is some good news. For the past several years, Chinese civilian and military authors have increasingly acknowledged the possibility of accidental or inadvertent escalation, and express concern about it in the abstract. Of course, they usually blame this possibility on the actions of other countries rather than on those of a Chinese operator, but this acknowledgment at least provides a language and a framework for discussing how China and other countries should manage such situations.
Given the issues I have outlined above, it is more essential than ever that the US convey to China that the two sides do not share the same interpretations of “reasonable” behavior or the causes of escalation, and that US officials emphasize—repeatedly and consistently—US views of what actions constitute escalation and the consequences that would result from China taking such actions.

Submitted by Commissioner Roy Kamphausen

To Ms. Michèle Flournoy:

- Please discuss policy approaches for standing against PRC incremental gains, such as through its salami slicing tactics, in the maritime domain in China’s littoral region.

Michèle Flournoy, Co-Founder of WestExec Advisors and former Under Secretary of Defense for Policy

China’s salami-slicing tactics in the South and East China Seas are designed to incrementally advance Beijing’s regional ambitions without provoking a strong response from its neighbors or the United States. These tactics include “island” building and using coercive measures to stake expansive maritime and territorial claims that do not accord with international law. One of the principal objectives of a broader U.S. strategy towards China should be to deter Beijing from using such “grey zone” tactics to coerce its neighbors or try to create new facts on the ground. In order to do so, the United States should take several steps. First and foremost, it should invest more heavily in strengthening relationships with and among key allies and other like-minded partners in the region. Here, Australia, India, Japan, South Korea and Singapore are particularly important. Second, it should provide the diplomatic leadership to encourage like-minded states to come together to push back against unacceptable Chinese behaviors; such a united approach is much more likely to succeed in getting China to dial down its activities than unilateral U.S. actions alone. Third, the United States must consistently reaffirm, in both words and deeds, the international rules and norms that should govern activities in the South and East China Seas. Finally, the U.S. should align its military presence and operations in the region to deter this behavior from China, including conducting (preferably alongside partner naval forces) regular freedom of navigation operations. Congressional plans for a Pacific Deterrence Initiative are a particularly welcome step to authoritatively signal U.S. commitment and help deter Chinese malign activities in the region.

---


Duggan, “The Expanding Role of Chinese Peacekeeping in Africa.”

Duggan, “The Expanding Role of Chinese Peacekeeping in Africa.”

Duggan, “The Expanding Role of Chinese Peacekeeping in Africa.”


