Opening Statement of Robin Cleveland, Chairman
U.S.-China Economic and Security Review Commission
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Good morning and welcome to the release of the U.S.-China Economic and Security Review Commission's 2020 Annual Report to Congress. The 2020 Report received the unanimous support of all 12 Commissioners and reflects an understanding that the challenges posed by the Chinese Communist Party (CCP) are not partisan—they are American concerns. China is an adversary presenting unique and immediate threats to our economic and security interests.

Today, I will discuss some of the key economics findings and my colleague, Vice Chairman Carolyn Bartholomew, will speak to the security and foreign affairs findings. We will then move to questions from the audience.

For long-time observers of the CCP, the response to the COVID-19 outbreak follows an enduring pattern—this time with global, catastrophic human consequences. Controlling and stealing information, silencing critics, compromising social safety, disregarding universal inspection protocols, manipulating standards, promoting favored domestic corporations while restricting market access to foreign enterprises, blocking international engagement, and using economic coercion to support political ambitions are issues we have identified in previous reports.

Beyond COVID-19, a case study of the scope of this problem is the healthcare sector. With an aging and chronically ill population relying on dwindling savings, the CCP should be looking for solutions the U.S. is uniquely positioned to offer in pharmaceuticals, precision medicine, medical devices, and biotechnology. Instead of collaboration, we see a replay of practices in other sectors—theft of IP, exploitation of unprotected data and aggressive recruitment of researchers encouraged to establish shadow labs in China. We have recommendations on these areas colleagues will speak to.

What is different this year?

With the first economic contraction since the Mao era and the worst quarterly performance in nearly 20 years, the pandemic has intensified the urgency of China's drive to raise and deploy capital. Over the past decade, China has accumulated an unprecedented amount of debt at a speed unseen in history. In a decade, debt has ballooned from $6.5 trillion to over $36 trillion equivalent to 283 percent of GDP. Bloated with debt, banks are eager to offload non-performing loans while maintaining too little capital relative to risks. Financial institutions are increasingly dependent on short-term financing and complex asset-backed securities for day-to-day liquidity.

China's urgent need for capital now has driven a calculated strategy to open the financial services sector. The risks to U.S. households, investors, and institutions are significant. China continues to hide its balance sheets behind an opaque wall. The United States must develop an approach that takes the following risks into account:

1) Foreign investment may bail out mismanaged sectors of the Chinese economy responsible for subsidizing trade-distorting practices damaging competition and market access for U.S. companies.
2) Poor governance and accounting, capricious regulatory oversight, and politically motivated intervention in financial markets expose investors to losses as illustrated by the stunning interruption of the ANT Initial Public Offering (IPO) and the suspension of the Shanghai-London stock exchange over Hong Kong policy differences.
3) The CCP's deliberate and persistent denial and delay of market entry to U.S. companies allow local companies to consolidate their position. One example is noteworthy. Alipay dominates the $49 trillion mobile payment system in China and now has bypassed a Committee on Foreign Investment in the United States (CFIUS) decision to limit its U.S. access, instead negotiating 25 state operating licenses.
4) CCP-imposed capital controls may limit investors' abilities to move money out of equity and bond investments and the lack of oversight by trusted authorities may jeopardize investors' funds. More importantly, numerous companies which will benefit from U.S. investment have been formally identified as threats to U.S. national security interests.

Policy makers must address these risks which represent clear and direct threats to our economic and national security future.

The Commission has made three recommendations that bear on concerns about these rising risks.

First, we recommend that the principle of reciprocity must be foundational and define all aspects of the U.S.-China relationship going forward. Legislation and policy must promote opportunity and access for U.S. companies, journalists, nongovernmental organizations, and diplomats.

Second, we have recommended Congress direct the administration to apply sanctions consistently—in other words, when an entity is identified as a threat to U.S. national security, its parent company and all subsidiaries should be sanctioned.

Third, we have proposed expanded roles for the Federal Trade Commission and U.S. Department of Commerce to improve economic and financial data collection and address subsidies and market distortions.

Our concerns about financial investment and integration are matched by a concern about the CCP's aggressive pursuit of its interests in international organizations and institutions. Notwithstanding its responsibility for the pandemic, China now seeks to establish a new global political, economic and security order – one in which it freely advances its commercial interests, coopts leadership roles, and rewrites norms and technical standards in international organizations while engaging in economic coercion and exporting tools of repression to shore up authoritarian leaders. In this year's Report, the Commission documents the CCP's efforts to change the United Nations' (UN) policies, practices, and norms to align with the CCP's interests. Whether subverting UN peacekeeping activities to protect their commercial enterprises, blocking Taiwan's contribution to global pandemic management, manipulating standards-setting bodies to limit free and open internet access, or undermining standards of accountability in debt relief initiatives, the CCP is molding international organizations to support their ambitions. To address these risks, we have recommended Congress direct the U.S. Department of State to conduct a thorough audit of China's actions at the UN. To safeguard U.S. economic competitiveness, the Commission has also recommended the establishment of a U.S. interagency body focused on U.S. government policy and priorities for international standards.

I will now turn to Vice Chairman Bartholomew for her remarks.