

U.S.-China Economic and Security Review Commission

Testimony

*Hearing on U.S.-China Relations at the Chinese Communist Party's Centennial*

*Panel: Implications of China's Policies for U.S. Interests*

**Competing with a Totalitarian PRC**

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## Key Points

- If the Chinese Communist Party (CCP) under General Secretary Xi Jinping faces unexpected challenges, it will not be for lack of attention or ambition. Xi aspires to Sinicize Marxism, while employing 21<sup>st</sup>-century tools to control the party's subjects and steer the People's Republic of China's (PRC's) interactions with the outside world in directions that asymmetrically benefit Beijing. Major policy questions are debated among experts before directives are issued, and Xi inherited a set of foreign and domestic policy frameworks that have been operative for decades. Chinese scholars believe that the CCP regime is better positioned than the United States to implement adaptive governance in the face of the information technology and digital economy developments likely to determine victory in the 21<sup>st</sup> century.
- Moving forward, however, the CCP's increasing obsession with information control and the disincentives it has created for the transmission of bad news raise the chance that the inputs to its policies will reflect faulty or incomplete data – c.f. Xi's calls for the PRC to win the race for a coronavirus vaccine, which it would dispense to the world as a "global public good," even as its leading vaccine turned out to be minimally effective.
- Additionally, from the CCP's perspective, external conditions for the PRC's continued rise have deteriorated. The United States and other advanced democracies are openly calling the PRC a competitor. The party is likely to double down on efforts to coopt and divide foreign rivals, but these options may no longer work as well as in the past.
- The CCP discourages references in English to its attempt to make a Chinese version of Marxism, and denies that the US-PRC competition is ideological. Yet the party's efforts to exercise centralized control are obvious, costly, and have their own momentum. Totalitarian systems are known to be prone to sudden shocks or discontinuities.
- In the event that the party encounters an unexpected setback, history suggests that CCP elites will fear that foreign adversaries are poised to exploit their misfortune. They will therefore look to initiate aggression wherever they perceive an opportunity to teach rivals a lesson and bolster deterrence. The PLA buildup along the border with India may appear to provide such an opportunity.
- **Recommendations:** In light of that buildup, the commission could consider recommending that Congress task the Department of Defense with generating operational deterrence options that the United States could conduct alone or in partnership with allies or friends to reinforce stability. The commission could also consider recommending that Congress task the State Department with tracking and publicly releasing a report on the CCP's progress with the Sinicization of Marxism – to shine a light on this endeavor. Finally, the commission could consider recommending that Congress task the Department of Defense with using data from the Federal Bureau of Investigation on the targets of PRC technology acquisition efforts in the United States to infer which US capabilities the PRC most fears and which the PRC most needs to redress gaps in its indigenous development capabilities. These inputs could inform the development of US competitive strategies toward the PRC.

## Introduction

First, I want to thank today's co-chairs, Commissioners Bartholomew and Kamphausen, and the other Honorable Commissioners for the opportunity to testify. It is an honor to appear before the U.S.-China Economic and Security Review Commission (USCC) – virtually, at least – because of all the important work that the commission does. I'd also like to thank the commission staff in this regard and for supporting this hearing. Second, I want to ask your forbearance because the questions I was assigned concern the blind spots of the Chinese Communist Party (CCP) and their implications for the United States. We can only address these questions with reference to CCP plans, expert commentary, observable behavior, and patterns from the past, but the past tells us that the party has a penchant for secrecy,<sup>1</sup> which it sees as necessary for security reasons. Speculation is therefore necessary, as absence of evidence should not be mistaken for evidence of absence with regard to potential gaps in the party's foresight. With those caveats, I am eager to present my testimony because the questions you have posed are so important. The People's Republic of China (PRC) is a very serious, formidable competitor, and as it proceeds down the path of totalitarianism, the range of behaviors we may confront from it widens. My testimony argues that PRC experts see the CCP regime as better adapted than the US government for waging what they define as the 21<sup>st</sup> century competition over information technology and the digital economy. While CCP elites are aware of some liabilities of their system, others may surprise them. These challenges, along with the resolve of foreign powers to resist their coercion, may lead the CCP to initiate conflict. I close with recommendations based on this diagnosis of the state of the US-PRC competition.

### **1. How might Xi Jinping's consolidation of authority affect the CCP's ability to address expected and unexpected challenges? What are the implications for the United States of potential growing rigidity in CCP policies?**

If the CCP under General Secretary Xi Jinping faces unexpected challenges, it will not be for lack of attention or ambition. The party has plans for everything from dominating the international competition for high technology and data to managing the PRC's domestic spatial layout, guiding its youth, alleviating its poverty, and cleaning up its environment. The CCP aspires to total visibility and control at home, and to the extension of this paradigm as far as possible abroad. To enact this vision and achieve the China Dream, i.e., establish the PRC's ascendance globally, Xi has put himself at the head of an unprecedented number of small leading groups, accrued a series of titles (such as "core leader") designed to signal his absolute control, and waged an anti-corruption campaign against both lower-level "flies" and more senior "tigers" – i.e., potential rivals – within the CCP. The anti-corruption campaign has now punished hundreds of thousands of party members, according to the *People's Daily*,<sup>2</sup> which also recently boasted

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<sup>1</sup> Major initiatives such as the Third Front project, which absorbed roughly half of the state's budget in the late 1960s and early '70s, were concealed from public view.

<sup>2</sup> "Continue to Punish Corruption and Apply High Pressure," *People's Daily*, 9 Jan. 2019, <http://www.fanfu.people.com.cn/n1/2019/0107/c64371-30506526.htm>.

that centralized government is the PRC's "systemic advantage."<sup>3</sup> On this theory, unlike liberal systems in which state authority is limited, the CCP has the ability to mandate action and then get things done expeditiously, in coordinated fashion, across the country.

Further, PRC experts appear to believe that these traits are particularly important in the digital 21<sup>st</sup> century, and that compared with the United States, the PRC government is more, rather than less, nimble and adaptive. The Chinese political scientist Yan Xuetong has recently argued:

In the era of digital economy, [international] competition ... no longer focuses on the field of natural resources but on the field of digital economy... When the digital economy becomes a major source of national wealth, the importance of non-digital economic factors declines. If either China or the United States has absolute dominance in the digital economy, it must be the world leader... The network economy is driven by technological innovation, while technological innovation capabilities are driven by political reforms, and political reforms are driven by government leadership. This means that the current strategic competition between China and the United States is over government leadership.<sup>4</sup>

On this basis Yan judges the PRC to be closing the gap with and likely to overtake the United States. He diagnoses the CCP regime to be more dynamic than the American one, and for him, the government's "reform capability" is the metric that will determine which country will win the competition for global leadership.<sup>5</sup>

Alongside such triumphalism, Chinese sources nonetheless offer evidence of concerns about the trajectory of the party and its prospects. CCP elites, including Xi himself, have identified a few downsides of his consolidation of power, including the idea that it has eroded the state's adaptive potential. By striking fear into the hearts of CCP cadre, he has caused some to calculate that idleness is preferable to taking actions for which they could be censured. Chinese sources cite an uptick in "lazy governance" (懒政), i.e., paralysis. Xi gave a speech about lazy governance in 2019, complaining about officials who "spend the whole day eating" and warning them not to "view anti-corruption as an excuse to ... do nothing."<sup>6</sup>

Another Chinese diagnosis of a weakness in the current party-state system concerns the integrity of information flows. Bad news travels slowly in a system in which lower-level officials expect to be blamed for problems on their watch, and any kind of information disclosure is

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<sup>3</sup> "Promote Major Technological Innovation with a New Nationwide System," *People's Daily*, 31 March 2020, [http://www.xinhuanet.com/comments/2020-03/31/c\\_1125792094.htm](http://www.xinhuanet.com/comments/2020-03/31/c_1125792094.htm).

<sup>4</sup> Yan Xuetong, "Sino-U.S. Competition in the Digital Age," 13 Jan. 2020, <https://www.kunlunce.com/llyj/fl1/2020-01-13/139617.html>.

<sup>5</sup> *Ibid.*

<sup>6</sup> "China's Xi tells officials not to be lazy and 'spend whole day eating,'" *Reuters*, 9 July 2019, <https://www.reuters.com/article/us-china-politics/chinas-xi-tells-officials-not-to-be-lazy-and-spend-whole-day-eating-idUSKCN1U41I5>.

strictly regulated in the PRC.<sup>7</sup> The party has a vast censorship apparatus to ensure its control over what gets said or written within the PRC's borders (and it has been seeking to extend this control abroad). New laws governing the "rights" of CCP members forbid them from openly expressing dissenting views and stress that any criticism be made through approved intra-party channels.<sup>8</sup> Officials can expect to be punished for deviating from disclosure protocols, even – or especially – in an emergency. As the outbreak of the coronavirus epidemic showed, when a public health problem surfaces, special provisions kick in governing how data can be transmitted, by whom, and to whom. The party's "Infectious Disease Information Reporting Management Regulations (2015 Edition)" sets forth how reporting should proceed; medical professionals and journalists in Wuhan who sounded a public alarm about the novel virus starting in December 2019 were punished.

These issues make the system more prone to significant mistakes. While in theory Xi's consolidation positions him to move the PRC along smartly, the reduction of space for critical feedback increases the likelihood that the state will charge ahead in the wrong direction. To be sure, many major policy questions are openly debated among PRC scholars and policy experts before directives are issued, but the situation with regard to information raises the possibility that these inputs are based on faulty or incomplete data.

A few examples illustrate the problem. Looking back, the PRC pursued the Great Leap Forward when Mao Zedong's power was such that few other elites dared confront him with evidence of the devastating famine that it was causing. Last year, after exhorting Chinese researchers to develop vaccines for Covid-19 and help the PRC win the global vaccine race, Xi promised to make PRC vaccines a "global public good."<sup>9</sup> Now evidence is emerging that the PRC's vaccines barely meet the minimum threshold of efficacy for release. While the death toll will not be as great as in the Great Leap Forward, the consequences of the misinformation or wishful thinking under which Xi was operating may nonetheless be profound.

These issues raised by Xi's consolidation of power raise the possibility that CCP elites will encounter unexpected difficulties. History suggests that they may then see an urgent need to reverse negative momentum and act accordingly – at the expense of US interests; allies, partners, or friends; or the United States itself. This possibility demands careful attention as, despite the pitfalls of the centralized party-state system and the potential increasing rigidity of its policy-making, the PRC has become the second largest economy in the world and achieved

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<sup>7</sup> As the PLA strategist Luo Yuan observed last spring, what lower-level official would be willing to make a decision about anything in the wake of how the Covid-19 outbreak was handled? (Luo Yuan, "Thinking about Future Crisis Management from the Fight Against the Epidemic," 20 March 2020, <http://m.cwzg.cn/politics/202003/56156.html?page=full>.)

<sup>8</sup> "Regulations on the Protection of the Rights of Party Members of the Communist Party of China," <https://www.12388.gov.cn/html/law/3.html>.

<sup>9</sup> C.K. Tan and Erwida Maulia, "Red Pill? Behind China's COVID-19 Vaccine Diplomacy," *Nikkei Asia*, 4 Nov. 2020, <https://asia.nikkei.com/Spotlight/The-Big-Story/Red-Pill-Behind-China-s-COVID-19-vaccine-diplomacy>; Minnie Chan, "Chinese Military Scientists Ordered to Win Global Race to Develop Coronavirus Vaccine," *South China Morning Post*, 19 March 2020, <https://www.scmp.com/news/china/military/article/3075843/chinese-military-scientists-ordered-win-global-race-develop>.

substantial progress in its drive to make the People's Liberation Army (PLA) a first-rate military. The United States now confronts a sizeable, well-armed competitor – with a record of striking out at moments when it perceives sudden shifts in the tide against it, from Korea in 1950 and India in 1962 to the Soviet border in 1969 and Vietnam in 1979. While in each case Beijing detected a local opportunity to make aggression pay, its offensives were justified in terms of new developments that posed imminent risks;<sup>10</sup> moreover, in each case unexpectedly negative developments at home stoked Beijing's threat perceptions, as CCP leaders worried that foreign rivals would exploit these domestic setbacks.<sup>11</sup> This suggests that missteps or unexpected bad news could be a trigger for PRC aggression. The party would be on the lookout for a discrete opportunity to reverse negative momentum and deter rivals from capitalizing on its misfortune. The PLA buildup along the border with India may appear to provide such an opportunity.

## **2. What are the most significant new challenges that the CCP confronts in the international environment? How might the PRC's behavior abroad change in response?**

The new challenges that the party confronts in the international environment are in some sense the products of its success over the last four decades. During that period, the CCP's strategy was to rise by exploiting the benefits of engaging with outside powers, while minimizing the associated political and economic risks. This entailed preventing the liberal partners with which the party was engaging – to secure both capital and knowhow – from having a reason to go on the offensive to try to change the CCP regime or to squeeze it economically. But now that the PRC is the second biggest economy in the world and has succeeded in developing cutting-edge military capabilities, from hypersonic missiles to directed energy weapons, the tensions in its strategy are coming to the fore. To navigate this terrain, the party is likely to fall back on an old playbook, united front work tools,<sup>12</sup> but as mentioned, it

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<sup>10</sup> These include the appearance of Western forces in Korea, Indian road-building near disputed territory, the dispatch of increasing Soviet forces to the border region, and the signing of a friendship agreement between Vietnam and the USSR, then the PRC's rival, in 1978.

<sup>11</sup> In 1950 the challenge was the difficulty the CCP encountered asserting its control over all of China in the face of continuing threats from the Nationalists on Taiwan. In 1962 it was the aforementioned devastation wrought by the Great Leap Forward. In 1969 Mao's Cultural Revolution was in full swing, resulting in the imprisonment or death of thousands if not hundreds of thousands of party members and other targets of young Red Guards. Finally, in 1979, Deng was waging his ultimately successful campaign to defeat Hua Guofeng in the competition to succeed Mao, but at the moment he launched the offensive, neither his personal success nor the party's survival could be assured, given the weakness and disarray Mao had bequeathed.

<sup>12</sup> Anne-Marie Brady, "China's Political Influence Activities Under Xi Jinping," Wilson Center, 18 Sept. 2017, <https://www.wilsoncenter.org/article/magic-weapons-chinas-political-influence-activities-under-xi-jinping>; Alexander Bowe, "China's Overseas United Front Work: Background and Implications for the United States," US-China Economic and Security Review Commission, 24 Aug. 2018, <https://www.uscc.gov/research/chinas-overseas-united-front-work-background-and-implications-united-states>; Martin Hala and Jichang Lulu, "The CCP's Model of Social Control Goes Global," Synopsis, 20 Dec. 2018; Alex Joske, "Reorganizing the United Front Work Department: New Structures for a New Era of Diaspora and Religious Affairs Work," *China Brief* (Vol. 19, Iss. 9), Jamestown Foundation, 9 May 2019, <https://jamestown.org/program/reorganizing-the-united-front-work-department-new-structures-for-a-new-era-of-diaspora-and-religious-affairs-work/>; and Alex Joske, "The Party Speaks for You," Australian Strategic Policy Institute, 9 June 2020, <https://www.aspi.org.au/report/party-speaks-you>.

may also see fit to strike out militarily, especially if the united front effort yields diminishing returns.

To understand where the PRC finds itself today, consider how its playbook worked in the past. The protests at Tiananmen Square in 1989 demonstrated the domestic political challenges the party faced as a result of Deng Xiaoping's "reform and opening" to the world, but after the West proved willing and eager to continue to engage despite the party's massacre of protesters, Deng calculated that domestic opposition was manageable. *Vis-à-vis* the rest of the world, he counseled "biding time and hiding capabilities," to preserve the CCP's image as an eager, modest student of the West rather than a burgeoning threat. As insurance against the day when that image would change, however, and in advance of the PRC's joining the World Trade Organization (WTO) in 2000, the PRC also launched the field of "economic security research."<sup>13</sup> Economic security is defined as a situation "in which the economic development and economic interests of a sovereign state are not subject to external and internal threats while maintaining sustainable and stable development."<sup>14</sup> According to PRC calculations, though, the PRC was and is at risk – due to its dependence on both foreign energy supplies and, to a lesser extent, foreign sources of food, among other vulnerabilities.<sup>15</sup> To reduce the chance of a Western rival's exploiting these weaknesses, the party has sought to assure its interlocutors that its ambitions were modest, while not challenging their belief that nature would take its course, and the PRC would eventually liberalize as it grew more prosperous.

Thinking like a Leninist regime, the party has needed friends in high places in these countries – specifically, the support of well-placed Western economic and political elites.<sup>16</sup> These friends could be recruited in the past because the party played the modesty card well, flattering foreign contacts that they were indispensable and cherished. There were material rewards to be dispensed, too – the PRC is a large country, with a large market. From a very low base, it grew at a rapid rate by redeploying workers from relatively unproductive agricultural work to more productive manufacturing jobs, emerging as the world's factory in the span of a decade or two. Much of this manufacturing was done for foreign firms, which exploited the PRC's low-

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<sup>13</sup> Gu Haibing, Li Changzhi et al., *Annual Report on Economic Security: Monitoring and Early Warning* (Beijing: Renmin University Press, 2019).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> A recent speech by an associate dean at Beijing's Renmin University in which he bragged of the PRC's longstanding influence with Wall Street financiers – "for the past 30 years, 40 years, we have been utilising the core power of the United States" – was captured on video (Frank Chung, "Chinese professor boasts about Beijing's influence in 'America's core inner circle', hails Biden victory," *News.com.au*, 10 Dec. 2020, <https://www.news.com.au/world/north-america/us-politics/chinese-professor-boasts-about-beijings-influence-in-americas-core-inner-circle-hails-biden-victory/news-story/8627da8b369ffc569791393649e0df2e>). Similarly, in Sweden, the CEO of Ericsson was recently disclosed to have been lobbying to get the Swedish government to overturn its ban on Huawei, the PRC state-backed telecommunications company – contrary to his country's security interests but presumably for the sake of Ericsson's future sales prospects in the PRC (Stephen Treloar and Charles Daly, "Ericsson CEO Lobbied to Overturn Sweden's Huawei Ban, DN Reports," *Bloomberg*, 2 Jan. 2021, <https://www.bloomberg.com/news/articles/2021-01-02/ericsson-ceo-lobbied-to-overturn-sweden-s-huawei-ban-dn-reports>).

wage labor to reduce prices and increase profit margins, becoming natural allies of the regime, at least for a time. Beijing's goal was to parlay its centrality to manufacturing to move up the industrial food chain and become self-sufficient in advanced technological areas. But by the end of the first decade of the 2000s, the PRC had already grown into the world's second largest economy, and the rest of the world's appetite for its exports was contracting. The PRC's growth rate decelerated, before full self-sufficiency in critical technological areas was achieved.

This turn of events has provoked the party to transition from "biding time and hiding capabilities" to trying to intimidate other countries into doing its bidding. By virtue of its success, the CCP's demands and expectations have grown, as have its options for compelling compliance. The crackdown in Hong Kong serves as an object lesson. Betraying its promise to preserve the island's liberty until 2047 revealed the CCP's character. The price of preserving access and recruiting foreign friends must now rise. Consider the mixed fate of Beijing's campaign to have Huawei dominate the global 5G landscape, which only a few years ago looked more likely to succeed. What options does the party have when not only the United States but also actors from Japan and Australia to France and the United Kingdom decline to engage on the terms the CCP seeks? The party can double down on cooption, and there are signs that this is well underway, with the release of new United Front Work guidelines in early January 2021.<sup>17</sup> But the outcome of this new drive remains unknown. Again, frustration or desperation may yet lead the CCP to turn to aggression as a way of teaching the rest of the world a lesson.

### **3. What are the likely political or domestic obstacles that the CCP has not identified? What are the likely obstacles that the CCP will be unable to address effectively due to internal political dynamics, and how might these affect US interests?**

The CCP has identified many of the challenges that it faces as a result of its own policies (whether or not it accepts responsibility), as well as those that it confronts as a result of independent or external developments.<sup>18</sup> Chinese primary sources reveal an emphasis on horizon scanning and risk mitigation.<sup>19</sup> But the party is not all-knowing or infallible, and its

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<sup>17</sup> Yu Haiyang, "The Central Committee of the Communist Party of China Issued the 'Regulations on the United Front Work of the Communist Party of China'" *Xinhua News Agency*, 5 Jan. 2021, [http://81.cn/yw/2021-01/05/content\\_9963275.htm](http://81.cn/yw/2021-01/05/content_9963275.htm).

<sup>18</sup> For instance, the CCP appears to be dealing with the PRC's demographic crunch and the gaps in its social safety net by confining the neediest elements of the population – e.g., the impoverished elderly – to the countryside, while concentrating the most productive workers in urban areas (Jacqueline Deal and Michael Szonyi, "China's Demographic Trends: How Will They Matter?" chapter in Nick Eberstadt, ed., *China's Changing Family Structure: Dimensions and Implications*, [Washington, DC: American Enterprise Institute Press, 2019]). Because of the plight of the children of migrant workers in rural areas, this approach has already exacted a major toll on the health and prospects of future generations, as documented in Scott Rozell and Natalie Hell, *Invisible China: How the Urban-Rural Divide Threatens China's Rise* (Chicago: U of Chicago P, 2020).

<sup>19</sup> In addition to the work on "economic security monitoring and early warning" cited above, consider the range of annual "Blue Books," "Yellow Books," and "Green Books" published by the Chinese Academy of Social Sciences, each of which compiles data and tracks trends over time in a particular category.



pendant for control is likely to spawn unexpected second- and third-order consequences.<sup>20</sup> It is the system itself that puts the PRC at risk: Xi aspires to Sinicize Marxism,<sup>21</sup> while employing 21<sup>st</sup>-century tools to maintain the CCP's power over the lives of its subjects and to steer the PRC's interactions with the outside world in directions that asymmetrically benefit Beijing. Note that the party discourages references in English to its attempt to make a Chinese version of Marxism, lest this effort impede the PRC's access to foreign capital and markets. Beijing does not want the world to see the US-PRC competition in ideological terms. Yet the party's efforts to exercise centralized control are costly and have their own momentum. Totalitarian systems are known to be prone to sudden shocks or discontinuities.

The CCP's ideological orientation under Xi has already led to a massive increase in surveillance and repression. While this serves the party's immediate interest in control, it is not clear if the downstream effects or costs have been fully explored. Uyghurs are incarcerated in so-called "re-education camps," where they are subjected to forced sterilization and brainwashing. Outside Xinjiang, the installation of cameras, "smart cities," and the social credit system across the PRC demonstrate the party's intent to use high technology to surveil and police its population on an ongoing basis. Such efforts can only proceed in one direction, up and to the right. Meanwhile, economic growth has slowed, while inequality, notwithstanding the anti-corruption campaign, remains at unprecedented levels. For ideological and domestic security reasons, then, more and more resources are likely to be devoted to monitoring and stabilization at home. Already, at the National People's Congress in May 2020, the party acknowledged an increase in public security spending even as the general public affairs, foreign affairs, and education budgets declined in light of the fact that 2019 saw the PRC's lowest growth rate in years.<sup>22</sup> At the same time, regardless of this rising investment, the internal security system will always be corrupt because the regime is ruled by men, not law. Entrepreneurs will find ways of manipulating data to make money or to please elites; elites will exempt themselves and their families from surveillance; and the tension between the party's vision of absolute control and the gaps or corruption in the system will grow. Over time, then, this dynamic can be expected to further undermine the CCP's ideological claims, exacerbate its insecurity, and compromise its morale.

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<sup>20</sup> The One Child Policy (OCP) – an initiative conceived by engineers to lower the population beneath the PRC's assessed "carrying capacity" (Susan Greenhalgh, "Missile Science, Population Science: The Origins of China's One-Child Policy," *China Quarterly* [2005] 183:253-276, p. 266) – offers an example. The OCP's architects evidently failed to take into account that as the PRC grew richer and more urban, women would choose to have fewer children; they also failed to anticipate the use of technology to select for boy babies and the resultant sex ratio imbalance that the PRC now confronts. Finally, there does not appear to have been any effort to think through the impact of such a dramatic change to China's traditional, kinship-based social order on the fabric of society.

<sup>21</sup> See, for instance, Hu Leming et al., eds., *Frontier Report on Political Economy, 2019* (Beijing: Social Sciences Academic Press, 2019). This book is in Mandarin. In English, the line is just that the PRC is pioneering "socialism with Chinese characteristics," as socialism is seen as more palatable than Marxism to the West.

<sup>22</sup> Jayadeve Ranade, "An Assessment of China's 13<sup>th</sup> National People's Congress," 20 June 2020, Vivekananda International Foundation, <https://www.vifindia.org/article/2020/june/20/an-assessment-of-china-s-13-national-people-s-congress-may-2020>.

While this is happening, the CCP's approach to the outside world has hardened, as mentioned above, raising the prominence of the PLA in backstopping the party's coercive threats. This is consistent with Xi's oft-repeated calls for the military to be ready to fight, and his advancing the PLA's modernization deadlines from 2049 to 2035 to 2027.<sup>23</sup> The aforementioned May 2020 National People's Congress disclosed that the PLA's budget rose even more than the public security budget.<sup>24</sup> This suggests that the CCP is moving away from its longstanding policy of keeping defense spending capped within a certain percentage of GDP, to avoid overspending on the military – considered a cause of the Soviet Union's collapse. As the international environment for the PRC's rise deteriorates, the party confronts an inverse relationship between its ambitions and its strategy. Or at least, it bumps up against the limits of a strategy designed to bring rivals to heel on the cheap and on the sly, i.e., without rivals detecting and reacting to the strategy. The more the party uses "Wolf Warrior" diplomacy and conducts threatening missile launches, the harder or less likely it becomes for foreign friends to facilitate the PRC's continued access to foreign knowhow, capital, and markets.

This raises the urgency of Xi's repeated calls for the PRC to become more self-reliant technologically, but the party's totalitarian turn has potentially unforeseen consequences for its ambition in this area. Past examples from the PRC and the Soviet Union show that authoritarian regimes can assemble specialized personnel to achieve cutting-edge defense capabilities when tasked, e.g., both countries' nuclear weapons and space programs. The CCP is now demanding something closer to persistent, continuous innovation across a range of civil and military fields, however. It is less clear that a totalitarian system can accomplish this feat. Many of the PRC's best and brightest continue to have experiences studying abroad in countries that are not surveillance states and in which information flows freely. They may not be free to choose to stay in these places, as the party uses both inducements and threats to repatriate talent, but those who have the option to stay abroad may increasingly be likely to exercise it. Those who return, meanwhile, may have incentives not to perform at their highest levels, to avoid being the object of excessive attention and pressure from authorities. (The *Three Body Problem* science fiction novel illustrates the point, as its heroine is confined to a special secret PLA base in the Chinese interior from which her colleagues seek to escape by convincing their superiors that their skills are just not well-matched to their assignments.) The nature of the CCP regime could thus incentivize the PRC's most talented people to try to game the system rather than perform at peak capacity.

Finally, recent events suggest that unforeseen consequences of CCP policies may compromise the livability of the PRC in other ways – e.g., with regard to public health, infrastructure, and the environment. These are all areas in which the combination of the regime's ambition and its compromised reporting channels may pose larger than appreciated dangers. The most obvious example is the public health sphere. The regime appeared to have quashed Covid-19 within its borders for much of the second, third, and fourth quarters of 2020, but in 2021 the virus has

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<sup>23</sup> Ibid.

<sup>24</sup> Ibid. The only categories that grew more than the PLA budget in 2019 were debt interest payments and transfers to local governments.

resurfaced, prompting lockdowns in new, sensitive, and highly populated areas of the country. We do not yet know at what cost the initial victory over the virus was won, only that the official casualty figures lack plausibility.<sup>25</sup> What is clear is that the virus emerged in the city where the PRC has its only known bio-safety level 4 laboratory, in which staff members were working on gain-of-function research on coronaviruses. It is also known that PRC laboratories have been the source of previous disease outbreaks, and that affiliates of the Wuhan Institute of Virology (WIV) were sick with conditions that could have been Covid-19 as early as late summer 2019.<sup>26</sup> This suggests that the CCP regime that authorized coronavirus research at the WIV bears more responsibility than it has acknowledged for the outbreak within the PRC and for the global pandemic. Chinese commentators fear that other outbreaks continue to be possible,<sup>27</sup> and, as mentioned, the vaccines of which Xi boasted may not provide more than minimal protection. Episodic reports of problems with the construction of the Three Gorges Dam raise the specter of a homegrown infrastructure catastrophe, and the scale of the pollution associated with the PRC's industrial rise raises similar concerns about an environmental natural disaster.

These trends and potential developments have a range of implications for the US-PRC competition. Over the long haul, the United States stands to benefit from attributes of the CCP's rule that undermine the PRC's competitiveness. In the short to medium term, as noted above, setbacks and frustrations may compel the CCP to try to reassert dominance and deter anticipated challenges by striking out in some area where the PRC has a local advantage – i.e., to instigate a “lesson teaching” limited conflict.

#### **4. What are some “wild cards” that could dramatically alter the CCP’s domestic policy environment? How might these affect its approach to domestic governance and external relations?**

Aside from the above-mentioned public health, infrastructure, and environmental risks that could be considered “wild cards,” the CCP now faces the possibility of instability if something happens to Xi. It is very unlikely that he has designated a successor around whom a consensus exists. His aforementioned “core leader” status may affect the party's ability to execute or legislate in his absence. Given the conditions he has created, the most likely successor is one who could fight his way into the position and then exert personalized rule after Xi's example.<sup>28</sup> While it is possible that the party could come together and pick a successor or team that would moderate some of Xi's most authoritarian impulses, this seems unlikely given the security dynamics unleashed by his policies. Further, it may not be easy for the party to reach agreement around such a figure or group at this point, given the grievances of various key

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<sup>25</sup> Derek Scissors, “Estimating the True Number of China’s Covid Cases,” American Enterprise Institute, 7 April 2020, <https://www.aei.org/research-products/report/estimating-the-true-number-of-chinas-covid-19-cases/>.

<sup>26</sup> US State Department Fact Sheet: Activity at the Wuhan Institute of Virology, 15 Jan. 2021, <https://2017-2021.state.gov/fact-sheet-activity-at-the-wuhan-institute-of-virology//index.html>.

<sup>27</sup> Tong Xing, “Evolution and Current Trends of Emergency Management in China,” 4 Apr. 2020, <http://aisixiang.com/data/120748.html>.

<sup>28</sup> The masculine pronoun is used because women make up only 11 percent of the party elite, making the odds of a female successor very low. <http://chinadatalab.ucsd.edu/viz-blog/the-makeup-of-the-ccp-elite/>

families that have suffered from Xi's anti-corruption campaign. The last time the party endured such a contested transition was after Mao's death, which almost precipitated a coup that would have pitted opposition forces backed by military leaders from Fuzhou, Guangdong, and Nanjing against forces in Beijing.<sup>29</sup> A full range of possibilities and outcomes should therefore be considered plausible in the event that Xi disappears from the scene unexpectedly.

## 5. Recommendations

The USCC has taken the lead in recommending to Congress steps to help the United States improve its ability to compete with a formidable, determined PRC. These recommendations are clearly well-advised and should be implemented, and below are some additional steps in that vein:

- The commission could consider recommending that Congress task the State Department with tracking and publicly releasing a report on the CCP's progress with the Sinicization of Marxism. This would shine a light on the ideological underpinnings of the CCP's behavior, which the party is at pains to deny with Western audiences.
- The commission could consider recommending that Congress task the Department of Defense with using data from the Federal Bureau of Intelligence and other agencies on the targets of PRC technology acquisition efforts in the United States (e.g., through the various PRC "Talents Plans") to infer which US capabilities the PRC most fears and which the PRC most needs to redress gaps in its indigenous development capabilities. These inputs could inform the development of US competitive strategies toward the PRC.
- Given the PLA's build-up along the border with India and history of launching aggression for lesson-teaching purposes, the commission could consider recommending that Congress task the Department of Defense with generating operational deterrence options that the United States could conduct alone or in partnership with allies or friends to reinforce stability.
- The commission could consider recommending that Congress ask the National Intelligence Council to produce an annual classified National Intelligence Estimate tracking the ability of the United States to monitor developments inside the PRC. This would give policy makers a sense of whether over time our degree of insight is shrinking or expanding.

Additionally, given the wide range of potential outcomes noted above, the commission could consider recommending to Congress that contingency plans be made for a PRC collapse or break-up. To that end, Congress could task the relevant US departments and agencies to

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<sup>29</sup> Jeremiah Jenne, "Why Hua Guofeng Matters... No Seriously," 25 Aug. 2008, <https://www.jeremiahjenne.com/the-archives/2018/4/9/why-hua-guofeng-mattersno-seriously>.

address through research, analysis, and tabletop exercises or simulations the following questions:

- What would be the most important US interests in such a scenario, in the short and medium terms? and over the long term?
- To whom would the United States reach out within the PRC, or with whom would it seek to work to ensure the protection of US interests?
- With which external actors would the United States work, and are relevant preparations being made?
- What are the indicators that such a discontinuity might be imminent? Who within the US government is monitoring those indicators?
- If or when a certain threshold is breached, what steps could be taken to prepare for potential instability or regime change within the PRC?