

**HEARING ON U.S.-CHINA RELATIONS AT THE CHINESE
COMMUNIST PARTY'S CENTENNIAL**

HEARING
BEFORE THE
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED SEVENTEENTH CONGRESS
FIRST SESSION

THURSDAY, JANUARY 28, 2021

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COMMISSION**

WASHINGTON: 2021

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, DC

The Commission met via videoconference at 10:30 a.m., Chairman Carolyn Bartholomew and Commissioner Roy Kamphausen (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF CHAIRMAN CAROLYN BARTHOLOMEW HEARING CO-CHAIR

CHAIRMAN BARTHOLOMEW: Good morning, everyone, and welcome to the first hearing of the U.S.-China Economic and Security Review Commission's 2021 annual report cycle. Thank you to our witnesses today for their testimony and for their forbearance as we hold this hearing virtually. I am really looking forward to the day that we can once again meet in person. I'd also like to thank the Commission staff, Leyton, Alex, and Sierra in particular, for all of the work that they've put into organizing today's hearing.

This year is a pivotal one for U.S.-China relations. In China, it is the 100th anniversary of the founding of the Chinese Communist Party. The CCP has placed a great importance on this anniversary. Globally, it is promoting a narrative of China's inexorable rise and the inevitable decline of the West. The story the CCP is telling around the world is one that is often based on lies and half-truths.

To deflect attention from its early failures in addressing the COVID-19 outbreak, for example, its diplomats have falsely accused the United States of being the source of the virus. The validity of its economic growth statistics is being questioned. It's flatly denying the genocide the U.S. Department of State and many experts have accused it of carrying out against the Uyghurs as well as lying about forced labor, detention and torture, and the destruction of religious sites, all of which have been well documented.

In the United States, we have a new President, a new administration, and a new Congress, all facing the most openly confrontational period of U.S.-China relations since the normalization of diplomatic ties in 1979. Since coming to power in 2012, the General Secretary of the CCP, Xi Jinping, has been increasing oppression at home while acting aggressively in locations around the world. Last year's harsh crackdown in Hong Kong and the ongoing escalations of tensions with Taiwan, the open militarization of the South China Sea, and the expansion of economic, diplomatic, and military activities in Africa, Latin America, and even the Arctic are CCP actions to assert itself on the global stage and promote a Sinocentric world order. That order, which the CCP calls its "community of common human destiny," is one friendly to China's interests, its state-managed economy, and authoritarian governance system.

After decades of greater integration, the U.S.-China economic relationship is coming

under increasing strain. The CCP is continuing its unfair business and trade practices, barriers to the entry of U.S. goods and services, and ongoing theft of valuable intellectual property.

Events of the past several years have also highlighted the national security risks inherent in concentrating U.S. supply chains in China. From electronics to pharmaceuticals, some of the most vital U.S. goods are produced in China, leaving us susceptible to breakdowns and delays in access. The shortages of medical equipment during the early months of the COVID-19 pandemic demonstrated the dangers of this dependency, prompting some U.S. companies to reconsider the extent of their operations in China.

China's policymakers face a difficult economic landscape, a host of global challenges from the pandemic, to environmental destruction, and a decline in public opinion in countries around the world. China's rise is not inexorable, and the West's decline is not inevitable.

In today's hearing, we will explore how the U.S.-China relationship has changed over the past several years and the CCP's response to domestic and international factors that have driven these changes. We will also examine the CCP's goals for its centennial and how these goals and other trends in China could affect the bilateral relationship and broader U.S. interests. As the new Congress and administration consider the future direction of policy toward China, it is essential to understand these developments. This hearing will also preview topics such as the CCP's upcoming 14th Five Year Plan that we plan on exploring in greater depth in upcoming hearings this year.

I want to thank again our witnesses for their participation. Before we begin with the first panel, I will turn the floor over to my colleague and co-chair for this hearing, Commissioner Roy Kamphausen.

PREPARED STATEMENT OF CHAIRMAN CAROLYN BARTHOLOMEW HEARING CO-CHAIR

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After decades of greater integration, the U.S.-China economic relationship is coming under increasing strain. The CCP is continuing its unfair business and trade practices, barriers to the entry of U.S. goods and services, and on-going theft of valuable intellectual property (IP). Events of the past several years have also highlighted the national security risks inherent in concentrating U.S. supply chains in China. From electronics to pharmaceuticals, some of the most vital U.S. goods are produced in China, leaving us susceptible to breakdowns and delays in access. The shortages of vital medical equipment during the early months of the COVID-19 pandemic demonstrated the dangers of this dependency, prompting some U.S. companies to reconsider the extent of their operations in China.

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OPENING STATEMENT OF COMMISSIONER ROY KAMPHAUSEN HEARING CO-CHAIR

COMMISSIONER KAMPHAUSEN: Thank you, Chair. Good morning, everyone. I'd also like to thank our witnesses for joining us today and for the effort they've each put in to the preparation of their testimony. As the Chinese Communist Party prepares to meet its centennial milestone, China's leaders intend to show the Chinese people and the world that they have restored China's former prestige.

General Secretary Xi Jinping has sought to turn a carefully cultivated narrative of victory in containing the COVID-19 pandemic into a success story of the CCP's governance itself. Yet this narrative conveniently overlooks significant vulnerabilities the Party has created for itself. Rather than comfortably settling into a year of ritualized celebration, the Party finds itself contending with a series of challenges, from economic weakness at home to rising tensions with the United States to international opprobrium for its treatment of Uyghurs, Tibetans, and Mongolians, all of which dramatically complicate its domestic and foreign policy agenda.

The Party desires a populace that accepts what General Secretary Xi calls the historical inevitability of its rule in exchange for prosperity and national pride. China's leaders are struggling to continue holding up their end of the bargain. Rapid economic development has created huge wealth inequalities.

China's leaders can no longer count on historic high growth rates to placate the Chinese people. China's rapid growth has also resulted in widespread corruption which General Secretary Xi reiterated just last week is the biggest threat -- biggest risk threatening the Party's governance. And China's class of brilliant entrepreneurs find themselves under extraordinary pressure from the Party.

On the international stage, the CCP is determined to maintain a favorable environment, allowing it to continue growing stronger for as long as possible. Beijing has argued that its own governance system was uniquely successful in responding to the COVID-19 pandemic, that it presents a better developmental model for countries that wish to get rich quickly while retaining their independence, and that it has made a major contribution to keeping the global economy afloat. But its growing use of military and economic coercion has cast a cloud on China's ambitions to be seen as a partner of choice for developing nations.

Moreover, the PRC's increasingly fraught relationships with not only the United States but also the European Union and other major democratic countries risk undermining long-term priorities. Many countries in the Indo-Pacific now view Beijing's geopolitical ambitions with suspicion or even outright hostility. The PRC's ability to assuage their concerns while engaging in arrogant wolf warrior diplomacy will be a major test of its influence.

The Chinese government seeks to achieve territorial gains without resorting to conflict, but its assertiveness has significantly impacted regional perceptions. Beijing's contributions to the aggression on the China-India border last year created a massive rift in the Sino-Indian relationship, raising questions as to whether Beijing is a reliable partner for Delhi. The Chinese military and Coast Guard have increased maritime and air incursions, prompting a further hardening of views in Japan and Taiwan and raising significant concerns in countries like Indonesia.

In short, Beijing's provocative and even reckless behavior is highly risky for regional stability. Xi Jinping's virtual speech at Davos earlier this week can be seen as reflective of the increased confidence that Beijing has about its place in the international system and its ability to

shape the international order according to norms and preferences it holds. But there are notes of concern in the speech as well, hinting at vulnerabilities to international pressure against Chinese excesses and pushback against Chinese assertiveness.

It's therefore essential for American decision makers to also understand China's weaknesses and challenges as part of the development of a long-term strategy and effective set of policies that the United States can successfully address the generational challenge that China poses. As the Biden Administration has taken office and the 117th Congress has been seated, addressing the PRC's ambition comes to the fore. Working together with traditional allies and partners and also with new partners to address the implications for the United States of the gap between China's reach and its grasp is an urgent task.

I look forward to hearing the perspectives of our witnesses today as they discuss this tension between the CCP's aspirations for its centennial year and the contrary realities it faces. Before we begin, I would like to remind you all that the testimonies and transcript from today's hearing will be posted on our website which is www.uscc.gov. Also, please mark your calendars for the Commission's upcoming hearing on the PRC in Taiwan scheduled for February 18th. Now I turn the floor back over to Chairman Bartholomew for Panel 1.

PREPARED STATEMENT OF ROY KAMPHAUSEN HEARING CO-CHAIR

Good morning, everyone. I would also like to thank our witnesses for joining us today and for the effort they have each put into the preparation of their testimony.

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The Party desires a populace that accepts what General Secretary Xi calls the “historical inevitability” of its rule in exchange for prosperity and national pride. But China's leaders are struggling to continue holding up their end of the bargain. Rapid economic development has created huge wealth inequalities, and China's leaders can no longer count on historic high growth rates to placate the Chinese people. China's rapid growth has also resulted in widespread corruption, which General Secretary Xi reiterated just last week is “the biggest risk threatening the Party's governance.” And China's class of brilliant entrepreneurs find themselves under extraordinary pressure from the Party.

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Many countries in the Indo-Pacific now view Beijing's geopolitical ambitions with suspicion, or even outright hostility. The PRC's ability to assuage their concerns while engaging in arrogant “Wolf Warrior” diplomacy will be a major test of its influence. The Chinese government seeks to achieve territorial gains without resorting to conflict, but its assertiveness has significantly impacted regional perceptions. Beijing's contributions to the aggression on the China-India border last year created a massive rift in the Sino-Indian relationship, raising questions as to whether Beijing is a viable partner for Delhi. The Chinese military and coast guard have increased maritime and air incursions, prompting a further hardening of views in Japan and Taiwan, and raising significant concerns in countries like Indonesia. In short, Beijing's provocative and even reckless behavior is highly risky for regional stability.

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PANEL I INTRODUCTION BY CHAIRMAN CAROLYN BARTHOLOMEW

CHAIRMAN BARTHOLOMEW: Thank you, Roy. Our first panel will address the state of the U.S.-China relationship heading into 2021 and how policymakers in the U.S. and China are reassessing their strategy toward the bilateral relationship at a time of significant domestic and international political change. First, we are happy to welcome back Dr. Robert Sutter, Professor of Practice of International Affairs at The George Washington University Elliott School of International Affairs.

Dr. Sutter has a distinguished career and has published extensively on contemporary East Asian and Pacific countries and their relations with the United States. During Dr. Sutter's career in government, he served as Senior Specialist and Director of the Foreign Affairs and National Defense Division of the Congressional Research Service, the National Intelligence Officer for East Asia and the Pacific at the National Intelligence Council, the China Division Director at the Department of State's Bureau of Intelligence and Research, and as a professional staff member of the Senate Foreign Relations Committee. Dr. Sutter will address the political dimension of U.S.-China ties.

Next, welcome back Dr. Mary Lovely, Professor of Economics at Syracuse University's Maxwell School of Citizenship and Public Affairs. She is also a senior fellow at the Peterson Institute for International Economics. Her research combines interests in international trade, multinational supply chains, and China's development. From 2011 to 2015, she served as co-editor of the China Economic Review. Dr. Lovely will address the bilateral economic relationship.

Finally, we welcome Dr. Zack Cooper, a senior fellow at the American Enterprise Institute and co-director of the Alliance for Securing Democracy. Dr. Cooper's work focuses primarily on U.S. strategy in Asia, including alliance dynamics and U.S.-China competition. He also teaches at Georgetown University and Princeton University and co-hosts the Net Assessment podcast.

Dr. Cooper will address U.S.-China security and foreign affairs relations.

I'd like to remind our witnesses to keep your remarks to seven minutes so that we can have a robust question-and-answer session. Dr. Sutter, we will begin with you.

OPENING STATEMENT OF ROBERT SUTTER, PH.D., PROFESSOR OF PRACTICE OF INTERNATIONAL AFFAIRS, GEORGE WASHINGTON UNIVERSITY ELLIOTT SCHOOL OF INTERNATIONAL AFFAIRS

DR. SUTTER: Thank you very much. It's a great pleasure for me to be here to testify before the Commission on the specific topics the Commission asked me to speak about. I have six topics, and I'll treat them briefly. And then I have -- I was also asked to provide some recommendations. And so, I have two recommendations.

So, on the topics, current U.S.-China relations. The current state of relations at the end of the Trump Administration is very poor, the worst since the dark days of the Cold War. Both sides show interest in improvement during the Biden Administration, though prospects for significant substantive improvement are poor. China shows no sign of significant change in its practices challenging America. Unilateral U.S. accommodation of China runs against strong negative sentiment in Congress, in much mainstream media, and in public opinion.

Number two, U.S. negative view of China. The catalyst for the steep decline in relations was a sharp negative turn in U.S. view of and policy toward China carried out by the Trump government and bipartisan Congressional majorities beginning in 2017. Chinese leaders have been seen as untrustworthy, predatory, and dangerous. They undermine critically important American interests in a headlong pursuit of Chinese wealth and power at others' expense.

Point three, China's reaction, changed view of the United States. Chinese leaders endeavored to manage U.S. complaints through repeated consultations between the two presidents. They reportedly view President Trump as a pragmatic businessman seeking deals on economic matters beneficial to the United States.

Against this background, China offset disputes with the U.S. through relatively low-cost economic concessions. Beijing appeared to follow this practice in the protracted negotiations leading to the Phase One trade deal in January 2020. At the same time, there was no significant letup of ongoing Chinese practices challenging U.S. economic and military strength and leadership in regional and world affairs.

Fourth point, China's view of world balance of power and threat perception. The above balanced Chinese approach was in line with Beijing's view of the international power equilibrium and the threat perception posed by the United States. Chinese leaders have long sought an end to unipolar regional and global order dominated by the United States after the collapse of the Soviet Union ended the Cold War. A major U.S.-led economic crisis of 2008 coming in the wake of strong U.S. frustrations with the costly U.S. military involvement in Iraq and Afghanistan was an important inflection point in Chinese international calculations.

Beijing now saw the world's only superpower, United States, was in decline while China emerged quickly from the economic crisis in increasing prominence and influence. These calculations saw newly installed leader Xi Jinping beginning in 2012 increasingly put aside the instructions of Deng Xiaoping that China maintain a low profile in foreign affairs. Xi's challenges to the existing regional and global order came at the expense of the United States. But they were done incrementally in ways that avoided serious confrontation or conflict in U.S.-China relations.

Fifth point, China's domestic politics strengthened resolve against the U.S. In domestic politics, Xi went to great lengths to control the main levers of power guiding Chinese domestic and foreign policies. Using enhanced control mechanisms of the revived Chinese Communist Party, he advanced authoritarian practices, seemed to secure lifetime leadership, and squelched

dissent in directing important advances in Chinese economic military and foreign practices. And then the sixth point is about 2020, very disruptive year.

The pandemic of 2020 was a disruptive event. After weeks of malfeasance with disastrous global consequences, Xi Jinping led effective efforts to bring the plague under control and resume economic growth. It was met with propaganda and considerable medical assistance to offset negative international reactions which works in some countries but not in the United States and many western countries.

President Trump now stopped communications with Xi. His administration, with broad Congressional support, launched wide-ranging measures, viewing China as a systemic threat to the existing world order and global wellbeing. Against this backdrop, Beijing reacted negatively and reportedly ended any preference it may have had for Trump's reelection.

An authoritative assessment by China's top intelligence analysts in mid-2020 showed continuity in Beijing's view of the international balance of power and China's threat perception. United States remained the sole superpower but was in decline. China continued rising with most other powers seen as declining. Against this background, analysts in China and abroad forecast a Chinese approach to the Biden government made little substantive change in the various challenges Chinese advances pose for the United States while seeking to ease tensions and avoid serious confrontation and conflict.

After addressing these six points, I was asked for recommendations. I have two. The first is continued strong American countermeasures against China's challenges. There's some debate about how serious these challenges are.

I've examined them thoroughly in a new book, and they are very serious. So, I associate myself with the Chair's comments at the beginning of our discussion today on the danger and the threat that China poses to the United States in a whole list of areas, and I list them as military, high technology, exploitive economic practices, leveraging economic relationships, coercing neighbors, fostering authoritarianism, and so forth. And I have a long list, if you wish.

And the second point is bipartisanship. This is a unique period. The last four years were absolutely unique. As an old congressional watcher and a China watcher, this is the first time I saw solid togetherness as far as the Congress and the administration were concerned on China policy since the normalization. And so, the upshot of this is, let's continue it. It's important.

We need to have it in some way. And I suggest Congress be open to this, and I suggest that the administration be open to this as well. I'm optimistic this will happen. I think that Congress is very serious about this. And obviously, the administration is serious as well. So, thank you for the opportunity, and I look forward to learning more in our discussion.

**PREPARED STATEMENT OF ROBERT SUTTER, PH.D., PROFESSOR OF
PRACTICE OF INTERNATIONAL AFFAIRS, GEORGE WASHINGTON
UNIVERSITY ELLIOTT SCHOOL OF INTERNATIONAL AFFAIRS**

January 28, 2021

Robert Sutter, Professor of Practice of International Affairs, George Washington University

Testimony before the U.S.-China Economic and Security Review Commission

Hearing on US-China Relations at the Chinese Communist Party Centennial

Panel I--The State of US-China relations Heading into 2021

This testimony will answer the commission's specific questions about recent and future Chinese and US mutual perceptions after presenting in the following sub-section an assessment of how Chinese leaders since the end of the Cold War have viewed the international balance of power and the role of the United States in determining China's evolving approach to the United States up to the present.

The post-Cold War balance of power and China's approach to America

A pattern seen by veteran observers of Chinese foreign behavior since the end of the Cold War has focused on how the perceived international balance of power with the United States as global leader in a unipolar world has impacted China's ability to achieve its many ambitions seen thwarted by the US-led international power. Chinese ambitions and differences with the United States can be summarized as follows: China opposes many aspects of US leadership in world affairs; it opposes the US role as the leading military power in the Asia-Pacific region; it opposes US support for and involvement in Taiwan, Tibet, Xinjiang and Hong Kong seen challenging China's sovereignty and security; and it opposes perceived US efforts to change China's political system.

The 1990s. In this decade, the strength or weakness of what China called US "hegemonism" was widely discussed in Chinese media, with Beijing repeatedly and publicly standing against such unipolar US dominance and encouraging and working with a variety of international actors seen resisting American dominance and seeking a multipolar world more advantageous for China and others to advance their interests. As Beijing's economy took off with rapid growth, the sanctions imposed against China by western countries after the 1989 Tiananmen crackdown fell away. The face-off between Chinese and US forces in the prolonged Taiwan Straits crisis of 1995-1996 prompted the Clinton administration (1993-2001) to see the wisdom of accommodation and close engagement with Beijing. For a time in the late 1990s, these and other developments were seen in Beijing as demonstrating international resistance to US "hegemonism"; some in China anticipated an emerging multipolar world where the United States would be increasingly compelled to accommodate the interests of China and other powers in world affairs.¹

China's "peaceful rise." Unfortunately for Chinese ambitions, this anticipated power shift failed to materialize. US economic prominence grew. The George W. Bush administration (2001-09) came to power with a much stronger emphasis than the outgoing Clinton administration on mobilizing US national security power and working with close allies and partners to counter opposition abroad. For a time, China was a target

¹ Robert Sutter, *Foreign Relations of the PRC* (Lanham MD: Rowman and Littlefield 2019) 96-97.

of this revived US-led power, with the administration taking actions regarding allies and partners in Asia, including Taiwan, very much at odds with Chinese interests. In response, Beijing shifted to an unusually accommodating approach. Judging that the US-led unipolar world would endure and Chinese interests were poorly served by directly opposing it, Beijing muted past emphasis against US hegemonism and creating a multipolar world at odds with US interests. Rather, it went to extraordinary lengths to reassure the United States that China's rise would be peaceful and pose no threat to US interests.²

US decline 2005-2014. Ever attentive to world developments impacting the regional and global balance of power influencing China's ability to advance its interests, Beijing saw the United States bogged down in protracted and costly conflicts in Iraq and Afghanistan amid growing opposition at home and abroad. The concurrent crisis caused by North Korea's development of nuclear weapons saw Washington repeatedly rely on China's help. The US leading role in creating the massive global economic crisis and prolonged recession of 2008-2009 was widely viewed in China as a profound failure of the US-led world economic model and stark evidence of decline in US world leadership. China's effective response to the crisis and quick return to strong growth added to China's confidence that the constraints of US power on China's ambitions were weakening.³

Avoiding the misjudgments of the late 1990s, China tended to see the US as still the only world superpower but with China rising rapidly as the leader among other powers. Beijing continued active collaboration with the Obama administration on issues of mutual interest while it tested the administration's resolve on some issues in dispute such as Taiwan arms sales, US interaction with the Dalai Lama, and confronting US government ships in the South China Sea.⁴

China was the notable exception in the generally positive Asian reaction to the Obama government's signature rebalance policy in Asia launched in 2011. Though US leaders worked hard to reassure Beijing of American intentions amid active leadership meetings and dialogues, Chinese reactions were often extreme, seeing American intentions to encircle and contain China's rising influence in Asia. The concurrent emergence of mass protests against authoritarian rule in the Middle East, Europe, and Central Asia were widely supported in the United States and viewed in Beijing as manifestations of a major US-led effort threatening continued one-party rule in China. US interactions with oppositionists from Tibet and Xinjiang along with support for Taiwan and for pro-Democracy demonstrators in Hong Kong in 2014 underlined China's concern.⁵

² Bonnie Glaser and Evan Medeiros, "The Changing Ecology of Foreign Policy Making in China: The Ascension and Demise of the Theory of 'Peaceful Rise,'" *The China Quarterly* 190 (June 2007) 291-310.

³ David Shambaugh, "Introduction" in David Shambaugh ed. *China and the World* (New York: Oxford University Press 2020) 42-44.

⁴ Robert Sutter, *Chinese Foreign Relations* (Lanham MD: Rowman and Littlefield 2021) 32-33, 132-139

⁵ David Finkelstein, "Breaking the Paradigm: Drivers Behind the PLA's Current Period of Reform," in Phillip Saunders et al., *Chairman Mao Remakes the PLA* (Washington DC: National Defense University Press, 2019) 62-71.

Xi Jinping challenges America. The combination of Chinese rising economic, military and diplomatic power and influence with the decline of US power and the concurrent rise of US measures against China seen in the Obama Rebalance policy and other initiatives set the stage for Beijing's wide ranging array of challenges to the US-led regional and global order seen under the leadership of party leader and president Xi Jinping (2012-). Salient examples included the government orchestrated the largest mass demonstration against a foreign target ever seen in Chinese history (against US ally Japan over disputed islands in September 2012); it followed with diplomatic, military and economic pressure against Japan not seen since World War II. China used coercive and intimidating means to extend control of disputed territory at neighbors' expense, notably in rapidly building island military outposts in the disputed South China Sea. Ever expanding advanced Chinese military capabilities aimed mainly at American forces in the Asian Pacific region. Chinese cooperation with Russia grew steadily closer as each power endeavoured to undermine US influence in their respective spheres of influence. Chinese unfair restrictions on access to China's market, demands that foreign enterprises share sensitive manufacturing and production data, industrial espionage and cyber theft for economic gain, and gross infringements on international property rights all advanced as China's economy grew. These economic practices strengthened China's drive to become the world leader in future high technology industries, displacing the United States. China used its large foreign exchange reserves, massive excess construction capacity and strong trading advantages to develop international banks and to support often grandiose Chinese plans for Asian and global infrastructure construction, investments, loans and trade areas that excluded the United States and countered American initiatives and support for existing international economic institutions. Xi Jinping tightened political control domestically in ways grossly offensive to American representatives seeking political liberalization and better human rights conditions in China.⁶

These challenges were carried out amid active interchange with the Obama government, marking incremental advances at US expense that clearly disrupted relations with the United States but had low risk of confrontation. The disadvantages of confrontation with the US at this time were large because China depended on the United States for technology, markets and financing and for sustaining open searoutes for Chinese trade; China's internal preoccupations would worsen dramatically in a prolonged confrontation with the US; and China's position in the Asia-Pacific—the most important arena in Chinese foreign calculations--remained insecure and vulnerable to US countermeasures. The disadvantages reflected a continued Chinese calculus of the international balance of power that featured China's rising power and US decline but still saw a large gap between the two countries' capacities.⁷

Trump administration push-back and China's response. Beijing did not fundamentally change its balance of power calculus in following years. In mid 2020 China's most senior

⁶ Orville Schell and Susan Shirk, *US Policy Toward China: Recommendations for a New Administration* (New York: The Asia Society 2017) 19-20; Sutter, *Chinese Foreign Relations* 139-140.

⁷ Robert Sutter, "Why China Avoids Confronting the US in Asia," *China&US Focus* March 19, 2014 <https://www.chinausfocus.com/foreign-policy/why-china-avoids-confronting-the-u-s-in-asia-2> (accessed January 7, 2021).

intelligence analyst reaffirmed the US has superpower status and capacity that rising China and other powers don't, arguing "the United States, like Britain after World War I, still has enough power to prevent other countries from replacing it." The United States while in decline is still the "one" super power.⁸

Meanwhile, Beijing was slow to appreciate the sharp negative shift in American policy against China beginning with the Trump government's national security strategy of December 2017. There followed in 2018 the launch of a "whole of government" US pushback against Chinese challenges as a matter of law supported by congressional bipartisan majorities and concurrent trade war involving punitive tariffs, and investment and export controls. Beijing seemed to judge that as in the recent past it could continue forward movement advancing Chinese interests at US expense without major American countermeasures. Chinese officials played down the significance of the rise of anti-China rhetoric during the 2016 presidential campaign, judging that Donald Trump was their preferred candidate as his pragmatism would be easier to shape in ways acceptable to Beijing. Chinese leaders reportedly continued with this sanguine calculus even as they appeared caught off guard and placed on the defensive in the face of punitive tariffs and other US moves against China's challenges. Xi Jinping personally undertook responsibility for managing relations with President Trump. Though Xi and his government were on the defensive in dealing with President Trump and his administration and they scrupulously avoided confrontation with them, China's incremental challenges to US interests in a wide range of areas continued.⁹

The start of 2020 began a tumultuous year for China and its approach to the United States. In the all important strategic rim of countries around China, on the positive side were steady advances in Chinese close collaboration with Russia, greater control of the South China Sea, advances in relations with Central Asia and much of Southeast Asia and seeming stability in relations with South Korea, Japan and India. There was ever wider prominence of the Belt and Road Initiative, strong domestic economic growth and related military power, and greater domestic control exerted by the Chinese Communist party-state including a massive crackdown in Xinjiang. The negative tensions with the United States subsided somewhat during the previous year of negotiations leading to the phase one economic agreement in January 2020. Other negatives were the ongoing demonstrations in Hong Kong, and US counters to perceived Chinese challenges involving Huawei, the South China Sea, Taiwan, Xinjiang, and Chinese influence operations and espionage.

Beijing faced an acute domestic challenge with the pandemic but within a few months it brought the plague under control. China's economy recovered quickly and registered significant growth by the end of the year. The foreign fallout got enormous propaganda

⁸ Yuan Peng: "The New coronavirus Epidemic Situation and Centennial Changes in 袁鹏, "新冠疫情与百年变局," published online on June 17, 2020 at <http://www.aisixiang.com/data/121742.html> and translated in *Reading the China Dream* at <https://www.readingthechinadream.com/yuan-peng-coronavirus-pandemic.html> (accessed January 7, 2021).

⁹ Robert Sutter and Satu Limaye, *A Hardening of US-China Competition: Asia Policy in America's 2020 Elections* (Honolulu: East-West Center 2020) p 2-24.

and significant substantive attention but Beijing's approach failed miserably in dealing with the sharply negative response to China's self serving behavior from the United States and many other western aligned countries.

President Trump halted communication with President Xi. He and Republican Party strategists made hostility to China a focal point of the election campaign. Heretofore more moderate Democrats, including Joseph Biden, adopted much tougher public postures on China. Public opinion and mainstream media were more negative on China than at any time since the darkest days of the Cold War. The administration unleashed what one White House official characterized as an explosion of initiatives against China as the major systemic danger to the United States in the current period. They were fully backed by bipartisan legislation in Congress designed to defend American against a Chinese onslaught.

Chinese leaders no longer favored reelection of President Trump. They encouraged dialogue with the United States but showed no willingness to change Chinese practices deemed offensive by the United States. For the most part, they continued those practices, albeit with continued care to avoid confrontation with President Trump or the US government. Chinese deference was at times extraordinary, especially as the US was taking measures of top importance in Chinese policy, notably increasing greatly American support for Taiwan. China proved ineffective in curbing such measures and the Trump government left office without facing any negative consequences for its "gross interference" in the Taiwan issue.

Outlook for 2021. Beijing has not reached a major inflection point in its foreign practices. The reasons to avoid confrontation with America remain. Beijing is still economically dependent; it has substantial internal preoccupations that would be worsened in protracted confrontation with the US and it remains insecure in key areas along its strategic rim where the US exerts great influence. Beijing's tough recent approaches toward India and Australia have reinforced those governments to work more closely with the United States and Japan in counter Chinese expansion. At the same time, Beijing continues to advance its various challenges to American interests without immediate need for change. Those challenges involve: ever increasing Chinese military advances focused on deterring and if needed destroying American forces; ever closer collaboration with Putin's Russia against US interests; continuing China's three-decade long efforts using state directed development polices to plunder foreign intellectual property rights and undermine international competitors, fundamentally weakening the free trade economic system; using the gains from its state directed economic practices to support ambitions to lead future high-technology industries, displacing the United States; negative economic building and exploiting economic dependencies via the BRI and other means; fostering corrupt and/or authoritarian governments against the West; coercing neighbors unwilling to defer to China's ever increasing demands; employing widespread influence operations abroad using clandestine means; and disregarding international law and accepted diplomatic practices; heightened domestic repressive and massive human rights violations.

The departure of the Trump government leaves a legacy of American countermeasures against Chinese challenges that will be hard to reverse, especially because the US Congress continues bi-partisan support for such measures and Mr. Trump seems determined to remain a major force in American politics. Nonetheless, there are reasons for cautious Chinese optimism that the Biden government's approach to China will not worsen the situation for China and may lead to some improvement. To start, the administration will remain preoccupied with other matters; it will have little incentive to worsen relations with China. Its main measure to deal with China involves close consultations with allies to build a united front against negative Chinese practices; such consultations seem likely to take some weeks and months to reach meaningful results.

Meanwhile, several administration preoccupations involve matters like climate change, pandemic response and economic revival, where China is viewed by administration leaders as playing an important role warranting US outreach to China despite major differences. And, notably, with one or two notable exceptions, the senior officials nominated by the administration are not known for tough views on China. Most, like President Biden, have a recent history of nuance in dealing with China and notably do not express the sense of urgency about countering Chinese practices that has prevailed in Trump administration-congressional discourse about the danger posed by China over the past three years. Chinese observers are well aware that Joseph Biden and the other Democratic presidential candidates came very late to giving high priority to countering China. Those candidates seemed in line with US public opinion which also did not turn substantially against China until mid 2020. And subsequent polling shows Democratic voters are much more moderate than Republican voters in dealing with China's challenges.

Commission Questions and Answers

What is the current state of the U.S.-China relationship heading into 2021? How do Chinese leaders view the United States differently from in the past, and how does the United States view China differently?

2020 represented the lowest point in US-China relations since the days of US containment of China during the Cold War. The Trump administration left office with a strong legacy viewing a wide range of challenges coming from China as collectively representing the main international danger to the United States. Bi-partisan majorities in Congress continue to take the lead in support of this view. Public opinion in 2020 became very negative toward China's leaders as untrustworthy competitors. All of the above serve as a brake against significant back tracking from the current hard US line toward China.

President Biden and his foreign policy advisors also put aside their past low level of attention to China and became strongly critical of Beijing during the run-up to the election. Nevertheless, they do not reflect the strong urgency to counter China seen in administration-congressional discourse over the past three years. They are preoccupied with higher priorities. Some of the latter such as climate change prompt some

administration leaders to seek cooperation with China despite differences. Administration spokespersons avow a methodical process in preparing to deal with China which will involve consultations with allies and partners. Since few of the latter share the more extreme Trump administration views of danger coming from China, the result of such consultations, if successful, seems likely to result in a less truculent US stance toward China's challenges going forward.

For their part, China's leaders were surprised and placed on the defensive by the across the board countermeasures of the administration and Congress carried out over the past three years. Despite candidate Trump's campaign rhetoric against China in 2016, Chinese leaders preferred him to others because of his purported pragmatism and willingness to make deals that Beijing viewed as working in their interests. China's leader Xi Jinping took the lead in endeavoring to manage relations with President Trump in ways that would avoid major costs for China. As relations deteriorated markedly during the 2020 pandemic, Beijing changed its view from support of President Trump and awaited the election outcome. The major immediate costs to China of the administration and congressional countermeasures against Chinese challenges since 2017 have included: enduring offensive rhetorical assaults on China's policies by the US president, his lieutenants, and Congress; the impact of US punitive tariffs and export and investment controls; and much closer US strategic relationships targeting China with Australia, Japan and India. Perhaps the biggest affront was the remarkable Trump administration multifaceted advancement of US security, diplomatic and economic cooperation with Taiwan despite repeated stern warnings from China. Seemingly offsetting these costs is the fact that the US measures did not result in a halt of the foreign Chinese behavior challenging the United States. Those practices continued despite the US countermeasures.

Going forward, Beijing offers no compromise on these practices for the Biden administration. It is open to dialogue and cooperation on common ground, seeing that the ball is in the hands of the Biden government. A successful Biden government effort to build a united front of regional and global allies and partners to press against negative Chinese practices would be a setback for China. But such an alignment likely would take time to build, and Beijing seems prepared to employ tactical compromises and maneuvers to weaken a nascent front against China. In the meantime, Beijing sees little sign that the Biden government seeks on its own to take significant actions to worsen relations with China.

How has China's behavior toward the United States changed in the last several years? How has the CCP's perception of China's external threat environment driven these changes?

The first five pages in this testimony, a subsection entitled "The post-Cold War balance of power and China's approach to America" provides background and endeavors to answer this question. It shows a strong correlation between changes in China's approach to the United States and Beijing's perception of the regional and global balance of power and the resulting threat environment China has faced in the decades after the Cold War.

Chinese commentary seemed optimistic in the late 1990s that the post Cold War US-led unipolar world, which China opposed, was giving way to a multipolar world that would allow China to advance its interests at odd with those of the United States. That projected outcome failed to materialize as US power and strength rose to new prominence at the start of the George W. Bush administration and for a time targeted China. Beijing reversed course and sought to reassure America and play down interest in a multipolar world.

The latest phase resulting in increasing Chinese challenges and advances against US interests began about ten years ago. It has its roots in changed balance of regional and global power and influence caused by the protracted failure of very costly US military operations in Iraq and Afghanistan to result in a successful closure of those conflicts, and the US-led global economic crisis of 2008-2009 impacting very negatively the United States and many other countries while China rebounded quickly. These major developments showed the US in decline while China was rising in power and prominence. Going forward, Chinese calculations showed the US unipolar world in decline, but it remained the only world superpower with capacities much greater than those of China. Beijing also viewed more negatively than any other power the Obama government's signature rebalance policy in the Asia-Pacific announced in 2011, with many in China seeing US efforts to encircle and contain China. And China was unnerved by the mass protests in the Middle East, Europe and Central Asia resulting in color revolutions backed by the United States, judging Washington also favored such regime change in China.

The result was increasingly more assertive Chinese international behavior working against US interests in Asian and world affairs. The effectiveness of these assertive policies was reinforced by strongman leader Xi Jinping (2012-) who quickly consolidated leadership power, asserted communist party control throughout the government and the military, silenced opposition and repressed dissidents including mass interments in Xinjiang and a crackdown in Hong Kong. Chinese foreign behavior causing significantly more frictions in US-China relations include disputes over the South China Sea and East China Sea, cyber espionage, and new international financial initiatives, notably China's Belt and Road Initiative (BRI). As these were carried while both sides participated in active US-China leadership dialogues, the disputes were usually managed (and generally not resolved) out of public view.

The acute competition and acrimony in US-China relations over the past three years does not appear to have substantially changed China's overall view of the regional and global balance and the threat environment faced by China. Chinese experts still see the US, while in decline, as the world's sole superpower, with China rising but unable and seemingly unwilling to displace the United States. Throughout this period of challenges to the United States interests, Beijing has sought to avoid confrontation with America. This pattern has been seen graphically in Xi Jinping's measured responses to President Trump's affronts. The reasons for avoiding confrontation include Beijing is still economically dependent on US technology, markets and financing; it has substantial internal preoccupations that would be worsened in protracted confrontation with the US

and it remains insecure in key areas along its strategic rim where the US exerts great influence.

At the same time, Beijing continues to advance its various challenges to American interests without immediate need for change. Those challenges involve: ever increasing Chinese military advances focused on deterring and if needed destroying American forces; ever closer collaboration with Putin's Russia against US interests; continuing China's three-decade long efforts using state directed development policies to plunder foreign intellectual property rights and undermine international competitors, fundamentally weakening the free trade economic system; building and exploiting economic dependencies via the BRI and other means; fostering corrupt and/or authoritarian governments against the West; coercing neighbors unwilling to defer to China's ever increasing demands; employing widespread influence operations abroad using clandestine means; and disregarding international law and accepted diplomatic practices.

Looking out, Beijing sees little likelihood of worsening ties while some easing of tensions for the sake of cooperation on common interest seems possible.

What is the Chinese government's assessment of the current balance of power between China and the United States?

The leading Chinese government intelligence analyst in mid 2020 assessed that balance along the lines discussed above—that is: the unipolar US led order is in decline and China is rising as the strongest challenger to the United States. But a multipolar world is not imminent as the US has superpower capacity and status that rising China and other powers don't. The analyst argued that "the United States, like Britain after World War I, still has enough power to prevent other countries from replacing it." The United States while in decline is still the "one" super power.

It remains unclear whether or not Chinese leaders see the tough US measures taken against China since 2017 as a sign of greater decline or not. And it remains unclear whether they would view an effort by the Biden government to ease tensions with China or to strengthen pressures on China as indications of changes in the US-China balance of power.

How are China's domestic politics changing, and how have these dynamics affected China's approach to its relationship with the United States?

As noted above Xi Jinping is a strongman leader who has successfully consolidated power, asserted Communist Party control throughout the government and military, suppressed dissent and domestic resistance, and emerged as the most powerful Chinese leader since Mao Zedong. Xi clearly shares the broad desire by Chinese elites and public opinion that China play a more prominent and influential role in international affairs, with less consideration than in the recent past to the interests of the United States and

others at odds with China's strong determination to advance to leadership in regional and global power and influence.

The above recent trends of the China-centered assertiveness seen in Xi's leadership are supported by and reinforce longstanding views fostered by the Chinese party-state that China on the one hand follows foreign policies based on moral principles that result in righteous and effective strategies. This means that Chinese foreign behavior is morally correct. Chinese media, education, military training and domestic propaganda emphasize this point, reinforcing broad popular support for Chinese foreign policies. The Chinese government for its part adds to the image of correctness of Chinese foreign behavior by never acknowledging making a mistake in foreign affairs.

On the other hand, the Chinese party-state reinforces a strong nationalism in China by constantly reminding Chinese people how China's past greatness was undermined and exploited by foreign imperialists, leading to what is known as China's century of humiliation which ran from the Chinese loss to British forces in the first Opium War (1839-42) to Mao Zedong establishing the People's Republic of China in 1949. Xi Jinping's vision for China, the so-called China Dream, involves China regaining control of all territories lost to foreign forces, Taiwan being the most notable example, and taking its place as Asia's leader and a global power.

What the above means for relations with the United States is that the Chinese government and Chinese people generally have no truck with US complaints about Chinese challenges. American complaints are viewed as self-serving efforts to preserve US primacy coming at Chinese expense, reminiscent of the imperialist powers of the past.

Recommendations for Congress

Dealing with China's challenges

This author's recent comprehensive evidence-based assessment of Chinese foreign behavior¹⁰ finds the United States, its allies and partners are fundamentally challenged by wide ranging and intensifying Chinese efforts to weaken America in headlong pursuit of ever expanding Chinese ambitions. Sustained US measures are needed to counter Chinese challenges seen in every major area of Chinese foreign policy behavior. As noted above, those challenges involve: ever increasing Chinese military advances focused on deterring and if needed destroying American forces; ever closer collaboration with Putin's Russia against US interests; continuing China's three-decade long efforts using state directed development polices to plunder foreign intellectual property rights and undermine international competitors, fundamentally weakening the free trade economic system; building and exploiting economic dependencies via the BRI and other means; fostering corrupt and/or authoritarian governments against the West; coercing neighbors unwilling to defer to China's ever increasing demands; employing widespread influence operations abroad using clandestine means; and disregarding international law and accepted

¹⁰ Robert Sutter, *Chinese Foreign Relations: Power and Policy of an Emerging Global Force* Fifth Edition (Lanham MD: Rowman and Littlefield 2021)

diplomatic practices. If successful, the Chinese efforts will undermine and overshadow the existing world order with one dominated by an authoritarian party-state focused on advancing Chinese wealth and power at the expense of others.

Working together in dealing with China

There are a lot of media warnings about how Republicans in Congress will jump on any China policy changes showing the Biden administration is soft on China. This is likely correct but seems to be only part of the story.

The other part is the on-going work of a wide range of congressional members in trying to come up with strategies to deal with what they see as China's challenges and dangers. These efforts involve bipartisan efforts such as the House Intelligence Committee's report proposing much greater China-focused emphasis in US intelligence efforts; the 2021 defense authorization act's provisions on the Pacific Deterrence Initiative and the defense bill's incorporation of provisions of the Creating Helpful Incentives to Produce Semiconductors in America Act, the so-called CHIPS bill, and other China matters as well as China related provisions in the Omnibus spending bill.

Meanwhile, the House Republican task force on China seemed to try to be bi-partisan in its detailed report with numerous recommendations. I'm not sure of partisan or other calculations resulting in Democrats ultimately not joining this effort. On the Senate side partisan calculations may have been behind the separate trajectories of the so called STRATEGIC act introduced in July and the America LEADS act in September, but both focused on detailed proposals to strengthen America in facing Chinese challenges.

My point is that many in Congress seem serious about finding effective ways to deal with China challenges and often are cooperating in bi-partisan ways.¹¹ This context suggests it would be a good idea for the Biden administration to consult with Congress on China going forward. I suspect this is already actively underway, but it is rarely mentioned publicly, while Biden government's plans for consultations abroad get a lot of attention. Some public mention of the administration's consultations with Congress would help build an appreciation that the administration is taking seriously congressional concerns, thereby validating the hard work that many in Congress have devoted in an election year to crafting effective ways to defend American interests. And please remember consultations are two-way endeavors; congressional members and staff need to signal their openness to such interchange, and if deemed advisable, set ground rules for the interactions that are agreeable to both sides, and stick with those guidelines.

¹¹ Robert Sutter, "Will Congress be a 'spoiler' in Biden's China policy?" *THE DIPLOMAT* January 8, 2021 <https://thediplomat.com/2021/01/will-congress-be-a-spoiler-in-bidens-china-policy/>

OPENING STATEMENT OF MARY LOVELY, PH.D., PROFESSOR OF ECONOMICS, SYRACUSE UNIVERSITY MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS

CHAIRMAN BARTHOLOMEW: Thank you, Dr. Sutter. Next, we'll go to Mary -- sorry, Dr. Lovely.

DR. LOVELY: Thank you. Thank you, Chairman Bartholomew, and it's a pleasure to be here with the other Commissioners and my fellow panelists. The Commission asked me to provide a broad overview of questions regarding China's economic progress over the last year, its changing economic relations with the United States, and a changing policy environment that it faces globally.

The bottom line of my testimony is that China has had little success -- I'm sorry. The United States has had little success so far in isolating China economically. Moreover, our approach has heightened China's anxiety about access to technologies that it sees as essential to continued growth. Lastly, the U.S. and its allies should move quickly to establish norms and standards for emerging technologies, welcome China's participation where it's appropriate while delineating clear areas for decoupling. It should also provide a mechanism for a swift and effective response to violations of these norms.

The Chinese Communist Party Central Committee met in October 2020. Its primary task was to assess the results of the last Five Year Plan and consider the proposed next Five Year Plan. A recent scorecard compiled by Dr. Scott Kennedy shows that China believes it has largely met the goals it set for itself five years ago.

The Chinese economy has exceeded its GDP targets, growing by an average of 6.7 percent over the last five years. Per capita income in China now exceeds 10,000 U.S. dollars. Another 50 million people were raised above the national poverty line over the last five years.

The Chinese economy's performance following the COVID-19 outbreak illustrates the resilience of the Chinese model. Hard lockdown policies permitted a comparatively quick economic recovery. And China's GDP grew by 2.3 percent in 2020, becoming the only economy to expand last year.

China's position in global supply chains has been maintained or enlarged despite the pandemic and U.S. tariffs. China now provides 15 percent of the world's imports, 17 percent of U.S. imports, and 21 percent of East Asia -- excluding China -- imports. Despite the pandemic and the trade war which focused attention on intellectual property theft, FDI flows into China were higher in 2020 than the year before.

With new institutional reforms, foreign investors have moved into China's onshore stock and bond markets with foreign investment in these sectors now exceeding 5.5 trillion RMB. China also concluded major foreign economic policy negotiations in 2020. Trade tensions with the United States diminished with the January 2020 signing of the Phase One agreement with its ambitious purchasing targets.

Perhaps a more far-reaching or long-lasting consequence is the successful negotiation of the Regional Comprehensive Economic Partnership, the RCEP, which combines and expands existing trade agreements in the Asia Pacific region. Importantly, RCEP rules of origin encourage investments in Asian regional supply chains, they strengthen and complement China's infrastructure investments and lending throughout its Belt and Road Initiative. To complement RCEP, China is negotiating a separate trilateral free trade accord with Japan and South Korea.

It is also upgrading its bilateral trade agreements with other CPTPP countries, especially those that are highly dependent on China's market. Most recently, China completed negotiations with the European Union for a Comprehensive Agreement on Investment, a pact that is expected to improve access to the Chinese market for European companies and deepen their involvement in mainland China. These advances in China's trade and investment relations lead me to Recommendation 1.

In its oversight capacity, China should insist that U.S. policy recognize China's deepening integration into the global economy despite its failures to meet its previous commitments. Notwithstanding its economic successes, China faces profound challenges that drive its fervid pursuit for advanced technological capacity. China's growth prospects are clouded by the onset of deindustrialization, slow productivity gains, and demographic change.

After more than two decades of rising wages, the international competitiveness of its manufacturers, especially in labor-intensive industries, have eroded. In 2012, China's industrial employment growth stopped. In subsequent years, China's industry shed millions of jobs. In this sense, China is already deindustrializing.

The service sector claims a rising share of employment, but service sector productivity is low and is difficult to raise. The government maintains near monopoly controls over high-skilled activities such as finance, education, and health care.

The Chinese workforce is comparatively young, literate, and numerate. However, China, has the lowest level of secondary school attainment among middle income countries. According to Rozelle and Hell in their new book, over 30 percent -- only 30 percent of the Chinese workforce has graduated from high school.

Adding to these challenges, China is posed for a prolonged period of declining labor force size. Its population will age rapidly and dependency ratios will rise. Thus, as China shifts down from high growth to Xi's desired high quality growth, it needs to maintain rising real wages. But it will have too little human capital to convince -- to compete successfully with other advanced economies.

Even in manufacturing, China is no longer able to squeeze more and more from a set of inputs. Reforms that raise productivity growth in the past have slowed. A recent World Bank analysis finds that China's manufacturing productivity growth has declined markedly in recent years, and productivity convergence between state and private firms has virtually stopped. These considerations lead me to Recommendation 2. U.S. policy will be more effective if it recognizes China's deep anxieties about its future and provide legitimate pathways for its development. China has set its hopes for long-term growth and creating and adopting emerging internet-enabled technology.

Among the many tools that the U.S. government has tried over the past four years, the most threatening to China are restrictions on flows in advanced products and processes and access to the companies that produce them. Over the past three years, the U.S. has passed significant legislation to reduce the flow of U.S. technology to China. These tools appear capable of creating chokeholds on Chinese tech development, at least in the short run, and they add further impetus to Chinese efforts to develop indigenous substitutes.

They also raise the value of foreign tech acquired through force or theft.

These contradictions in China's current trajectory will soon come to fore. And by this, I particularly mean the tensions between the market, its marketization and opening, and its insistence that the state lead the economy.

These observations lead me to Recommendation 3. China should enable U.S. participation and leadership in standards and norm-setting for emerging technology. International norms and standards define what is expected of China, and this is important for China. And it provides a way to hold them accountable for transgressive behavior. Thank you and I look forward to our Q&A.

**PREPARED STATEMENT OF MARY LOVELY, PH.D., PROFESSOR OF
ECONOMICS, SYRACUSE UNIVERSITY MAXWELL SCHOOL OF CITIZENSHIP
AND PUBLIC AFFAIRS**

Testimony before the US-China Economic and Security Review Commission

Hearing on U.S.-China Relations at the CCP's Centennial

Panel I: "The State of U.S.-China Relations Heading into 2021"

A Statement by

Mary E. Lovely¹

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January 28, 2021

1. Introduction

The convening of a new Congress provides an opportunity to forge a more effective American approach to China. The Chinese economy is no longer in transition from plan to market. Successive waves of economic reform have eliminated direct government control of resources and their uses. The plan has been replaced by a modern, decentralized, and integrated economy in which prices drive demand and supply decisions. Under General Secretary Xi Jinping, however, the party-state continues to direct its development. It maintains control of energy, telecommunications, transportation, banking, and heavy industry through the dominant position of state-owned enterprises in these sectors. Subsidies, taxes, and regulation are used to promote desired activities. The Chinese model, thus, is a hybrid in which both the market and the state influence economic activities and outcomes.

This hybrid economy has propelled China into the league of upper-middle-income countries while creating deep linkages to economies in both the East and the West. For US policy toward China to more successfully protect American interests, it must recognize these successes as well as the profound challenges facing Chinese leaders in the new century. For this hearing, I have been asked to comment on the Chinese government's assessment of its progress in its goal to "catch up and surpass" the United States and achieve global economic leadership. I have also been asked to identify internal and external economic challenges that are likely drivers of Chinese behavior toward the United States. Lastly, I have been asked to describe new frictions that have emerged in the U.S.-China economic relationship since the signing of the "Phase 1" deal in January 2020.

China has long benchmarked its performance against the US, seeking to match and exceed it in size and strength. Viewing the US-China relationship through this lens, however, is unproductive. China "overtaking" the United States in terms of economic size is a given in all but the most

¹ The author thanks Tianlei Huang and David Xu for assistance with data analysis. She acknowledges, without implication, useful conversations with Chad Bown, Martin Chorzempa, Tianlei Huang, Nicholas Lardy, and Jeffrey Schott.

extreme scenarios. If this is its goal, the Covid-19 pandemic has given China much to celebrate. The Chinese economy grew in 2020 while the US economy shrank. And because flows of foreign investment into the United States almost halved in 2020, China eclipsed the US as the world's largest recipient of inward investment for the first time (Hannon and Jeong, 2021).

The Chinese leadership, while aspiring to lead, has consistently recognized the importance of access to the world economy to its own success. A healthy world economy is beneficial to China not only as a growing market for its exports, but as a source of key inputs and advanced technology. New American approaches to engagement should be built on a clear understanding of these linkages and how they present both opportunities and challenges for China.

2. Foundations of Chinese Confidence

The Chinese Communist Party (CCP) held the fifth plenary session of the 19th Communist Party Central Committee in October 2020. Presided over by General Secretary Xi Jinping, the primary task was to assess the results of the 13th Five-Year Plan (2016-2020) and consider the draft proposal for the 14th Five-Year Plan (2021-2025). The plenum also provided guidance for setting development goals through 2035. The [communique](#) released at the session's conclusion expresses the party-state view that great progress has been made by adhering to its own development concept and advancing reform and opening-up. As in earlier five-year plans, specific targets reflect a broad spectrum of national development goals rather than a simple metric of global economic leadership. Indeed, the communique omitted an explicit GDP growth target for the next period.

a. Basis for Domestic Confidence

A recent [scorecard](#) (Kennedy, 2020) shows that China has, at least by its own accounts, largely met the goals set by the Party in its 13th Five-Year Plan. Notably, the country met targets set for economic growth, social welfare, and the environment. Two areas where progress was made but still fell somewhat short were research and development (R&D) spending as a share of GDP, which at 2.2% is nonetheless high for a middle-income country, and in the services share of the economy, which currently is about 54% and its growth is seen as a necessary adjunct to domestic-demand-led growth.

Despite fears that gravity would slow performance once it reached upper-middle-income status, the Chinese economy exceeded state targets, growing by an average of 6.7% over the five-year period of the 13th plan. Per capita income now exceeds US\$10,000. Poverty, largely a rural phenomenon, was alleviated as another 50 million people were raised above the national poverty threshold. Social supports, including rural health care system and old-age pensions, received expanded government contributions. Government data show improvements in air quality, water quality, and an increase in the share of energy from non-fossil fuels.

The Chinese economy's performance during the Covid-19 pandemic illustrates the resilience of the Chinese model. Hard lockdown policies constrained individual freedoms and exacted high

costs on specific businesses and individuals, but nonetheless permitted a comparatively quick economic recovery. Factories reopened in the spring, while other countries continue to struggle to control the virus. Growing rapidly after contracting 6.8% in the first quarter, China's GDP grew by 2.3 % year-on-year, becoming the only major economy to expand in 2020. The head of China's national statistics bureau [called](#) this performance "an extraordinary achievement."

a. Basis for Foreign Trade and Investment Confidence

China remains an increasingly important part of the global economy, despite the US-China trade war and the global economic impact of Covid-19. It embraces and seeks to accelerate its ongoing transition from parts producer and assembler to technology supplier. In this transition, China's leadership proclaims its steadfast support for multilateralism. It has devoted considerable diplomatic energy to negotiating regional and bilateral trade and investment agreements.

China is the center of East Asian production networks and its position in global supply chains has proved to be resilient despite pressures from US tariffs and pandemic delays. Figure 1 shows Chinese exports relative to total world exports, relative to US exports, and relative to exports from East Asia (excluding China). As shown, China's share of exports rose between 2009 and 2019, with China now providing 15% of the world's exports. The structure of global supply chains has made Chinese exports even more prevalent in the US import bundle than for the world. As shown in Figure 1, Chinese exports now comprise 17% of all US imports.

China remains America's largest source of imports and its third largest export destination. US imports from China are dominated by exports from foreign multinationals operating in China, the source of 60 percent of total exports to the US in 2014, the last year for which we have data (Lovely and Liang, 2018). These exports are primarily intermediate parts and components imported for US producers.

China's share of exports to other countries in East Asia rose from 17% in 2009 to 21% in 2019, reflecting its heightened centrality in these production chains. China's early recovery from Covid-19 relative to other suppliers suggests that its share of world exports may exceed 15% for 2020. Reflecting the deep linkages among suppliers in the region, exports from the Asia-Pacific region excluding China have followed those from China, bouncing back strongly since the start of the pandemic in early 2020 (Cherney, 2020).

Despite the US-China trade war, which focused attention on theft of intellectual property from foreign affiliates, China maintains its attractiveness as a host for foreign direct investment. Figure 3 illustrates cumulative foreign investment inflows to China in 2018, 2019 and 2020. By the end of summer, inflows during 2020 exceeded those of the prior two years, despite the ongoing pandemic. Reviewing data through September, Lardy and Huang (2020) find that:

"As a result of the Covid-19 pandemic, global FDI flows in the first half of 2020 declined by the largest amount on record. Inflows into the United States, usually the largest

recipient of FDI, were down 61 percent; inflows into the European Union were off 29 percent. In contrast, inflows into China were down only 4 percent, and China's monthly inflows have strengthened since. In the third quarter of 2020, FDI inflows expanded nearly 17 percent compared with the same period in 2019. As a result, cumulative FDI inflows through the third quarter of 2020 were up about 2 percent, putting China on track to set an annual record inflow of more than \$140 billion." (p.10)

The implementation of a new foreign investment law in January 2020 signaled China's commitment to welcoming foreign companies, even as investors remain concerned about behind-the-border treatment of their intellectual and physical property. The new law provides expanded rules around investment promotion, protection, and administration (Jones Day, 2020). Features of the new law, including the creation of a "negative list" for restricted activities, national treatment, and protection of foreign IP rights and trade secrets, addressed some of the US demands in the Phase 1 trade negotiations with China.

Figure 4 illustrates cumulative foreign investment outflows to China in 2018, 2019 and 2020. While the value of China's outward investment kept pace with previous years through the first quarter, outflows ended a year just slightly below 2019. Of note is that Chinese foreign investment into the United States fell dramatically after the initiation of the trade wars, compounded by heightened US review of inward investment on national security grounds.

Meanwhile, regulatory reform opened China's financial market to many US and other foreign financial institutions (Lardy and Huang, 2020). The presence of these firms follows foreign investors interests in Chinese assets. Figure 5 shows that that foreign investment in China's onshore stock and bond markets now exceeds 5.5 trillion RMB

China concluded major foreign economic policy negotiations in 2020. While still facing tariffs on about two-thirds of its exports to the United States, trade tensions diminished with the January 2020 signing of the "Phase 1 agreement," most notable for its ambitious purchasing targets. As charted by Bown (2021), China has fulfilled only 58% of the purchase levels needed to smoothly meet these targets, even as it has reached three-quarters of its import goal for agricultural products, a category of great importance to President Donald Trump.

Perhaps of more far-reaching consequence for China's external trade is the successful conclusion of negotiations for the Regional Comprehensive Economic Partnership (RCEP), which combines and expands existing trade agreements in the Asia-Pacific region. By providing a forum for organizing this "noodle bowl" of overlapping trade rules, China views the RCEP as trade coordination like the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) without CPTPP-level restraints (Gueorguiev and Lovely (2016). China advanced the agreement as a "win-win" approach to integration focused on breadth of membership, not depth of commitment. Despite the final-hour withdrawal of India, RCEP deepens China's ties with the 10-member Association of Southeast Asian Nations (ASEAN), plus Japan, South Korea, Australia, and New Zealand. RCEP rules of origin encourage investments in supply chains that span the region,

strengthening and complementing China's infrastructure investments and lending through its Belt and Road Initiative.

Both CPTPP and RCEP will refocus East Asia's economic ties within the region itself. Although the United States was once seen as an essential partner in the TPP, the agreements moved forward once the US withdrew in 2016. Figure 6 shows membership overlaps among the US-Mexico-Canada Agreement (USMCA), which took effect in July 2020, the CPTPP and the RCEP. The United States is the only North American country outside of the two wider regional agreements.

US absence is likely to tie countries in the Asia-Pacific region closer to China. Using a computable general equilibrium model, Petri and Plummer (2020) show that the agreements will yield especially large benefits for China, Japan, and South Korea and losses for the United States from trade diversion. Their simulations suggest that RCEP is particularly valuable in the context of the US-China trade war because it strengthens East Asian interdependence, raising trade among members and reducing trade among nonmembers. Petri and Plummer conclude that these shifts will further incentivize cooperation among China, Japan, and South Korea.

To complement RCEP, according to Schott (2020), China is negotiating a separate trilateral free trade accord with Japan and South Korea to deepen liberalization among the three northeast Asian countries beyond RCEP requirements. It also has been upgrading its bilateral free trade agreements with other CPTPP countries that are highly dependent on the Chinese market. Recent Chinese statements about its potential membership in CPTPP, moreover, suggest that the country now believes its reform program is on track to meet CPTPP disciplines for policy transparency, subsidies for state-owned enterprises, and data flows.

Most recently, China completed negotiations with the European Union for the Comprehensive Agreement on Investment (CAI), a pact that is intended to replace existing bilateral investment treaties between China and EU member states. Although we await the completed text, the agreement is expected to improve market access for European investors, to promise that state-owned enterprise will not discriminate against EU-invested firms in procurement, and prohibit forced technology transfer (Jones Day, 2021). China has reportedly agreed to implement the Paris Agreement on climate change and to make sustained efforts to ratify the International Labor Organization's conventions on forced labor. Importantly, Chinese investments will remain subject to European national security screening mechanisms, which have recently been updated and tightened.

3. Foundations of Chinese Anxiety

Despite these domestic and international successes, China faces profound challenges at home and abroad. The need to meet these challenges, among other objectives, drives China's fervent pursuit of advanced technological capabilities. Although it has almost eliminated abject poverty, Chinese economic performance must reduce economic insecurity and lift living standards. China's prospects for consistent and inclusive growth, however, are clouded by the onset of deindustrialization, slow productivity gains, and demographic change. It faces these challenges

as some of its most important export customers are repelled by Chinese security, labor, and human rights practices, resulting in new trade restrictions and financial sanctions.

a. Domestic Economic Challenges

China's economic successes both at home and abroad have sown the seeds for new challenges. After more than two decades of rising real wages, the international competitiveness of its manufacturers, especially in labor-intensive sectors, has eroded. The global supply chains that brought investment and employment to Chinese shores are on the move, seeking lower labor, land, and environmental compliance costs elsewhere. So far, these movements have not lowered China's share of world exports but rapid investment in labor-intensive activities in nearby locations, such as Vietnam, suggest that change in the composition of Chinese manufacturing output is already underway.

Chinese economic growth has dramatically reduced poverty, but it has also delivered a high level of inequality. The Gini coefficient, a measure of income inequality, indicates that China's income distribution remains highly unequal although not worsening. Its Gini coefficient has hovered around 0.465 for the past five years, down from a high of 0.49 in 2009 (Naughton, 2018). For comparison, the Gini coefficient for the United States is 0.484 for 2019 (Semega, et al., 2020).

The ratio of urban to rural income held steady over the past five years and is projected by the IMF (2021) to be 2.67 in 2020. Huang (2020) notes that migrant workers, already a vulnerable population with limited social supports, may have fared particularly badly in the pandemic lockdown. The largest employer of migrant workers is the urban service sector, which contracted by an unprecedented 5.2 percent in the first quarter of 2020. This sector has been slow to recover. The resulting loss of income undoubtedly hits migrants themselves and the rural family members that rely on remittances from them.

Figure 7 illustrates changes at the macro level in the structure of the Chinese economy. The year 2012 stands out as a turning point when industrial employment growth stopped. In subsequent years, not only did the industry share of employment fall but the sector also shed millions of jobs. In this sense, China is already "deindustrializing." This downward trend is likely to continue as China's manufacturing share of GDP remains significantly high when compared to other upper-middle-income countries.

The service sector claims a rising share of employment, reaching 47% by 2019. Despite employing a larger share of the labor force, however, the service sector contributes less to national income than industry and construction. Service sector productivity is low, on average, and as in other economies, raising it can be difficult. China's service sector is underdeveloped, and the government maintains near-monopoly controls over high skill activities such as finance, education, and health care. Recent opening to foreign investment in the finance sector will prompt faster productivity growth and could set an example for the health care sector.

China's labor force is a source of its comparative advantage. Its work force is comparatively young, literate, and numerate, and labor force participation is high. The average years of schooling for the Chinese working age population is 10.7 years, close to the goal of 10.8 years set by the 2015 plan (Kennedy, 2020). Despite being on target, however, China has the lowest level of secondary school attainment among middle-income countries. According to Rozelle and Hell (2020), only 30% of the Chinese work force has completed a high-school education.

China is poised for a prolonged period of declining labor force size. Its population will age rapidly, with the elderly making up about 30% of the population by the end of this decade (Naughton, 2018). Projections of the dependency ratio suggest that the burdens on young workers will rise steadily from current low levels through 2050. Thus, as China shifts down from high growth to Xi's desired "high-quality" growth, it faces rising real wages and absolute declines in labor supply, making the transition more complicated.

With these structural and labor force changes clearly on the horizon, the Chinese government recognizes the need to improve the skills of each worker. The state has poured millions of RMB into building and equipping new schools, especially in rural areas. The challenge is formidable, according to Rozelle and Hell (2021), who find that early childhood development deficits in rural China hinder educational attainment and that young people leave formal schooling with few of the skills needed for an advanced economy.

These structural changes underscore the importance of achieving robust productivity growth to maintain per-capita income growth. After four decades of rapid increases, however, China is no longer able to squeeze more and more from a set of inputs as it once did. Reforms that raised productivity growth in the past, by inducing rapid entry and exit within sectors and shifts in resources between sectors and between state and private firms, have slowed. Using available micro and macro data, Brandt et al. (2020) find that China's productivity growth has declined markedly in recent years. Convergence between state and private firms, evident prior to the 2008 global financial crisis, appears to have stalled. They also argue that the allocation of a larger share of credit and investment to infrastructure and housing has led to lower returns to capital and a rapid buildup in debt.

The International Monetary Fund (2021) reports that state firms account for 40% of assets but only 27% of sales by industrial enterprises above a designated scale in 2019. The IMF also finds that these large state-owned industrial firms provided a rate of return on 3.5%, compared to a rate of return of 6.3% for private industrial firms. Lardy (2019) points to poor performance in the state sector as a cause for concern. He argues that the Xi administration has consistently championed state-owned or controlled enterprises, tilting the allocation of investment funds in favor of state companies, despite their weak performance compared to private companies. Like Brandt et al. (2020), Lardy believes that China's growth potential remains high, but its long-term growth prospects depend on returning to reform and the consequent improvement in the return on investment.

As noted above, the Chinese economy has bounced back from Covid-19 lockdowns faster than many other economies. Economic stimulus, primarily financed through debt expansion, has been funneled to construction and heavy industry, which have rebounded faster than household spending. Because state enterprises dominate these activities, the private sector has played a diminished role coming out of the pandemic. When the stimulus is unwound, the need to shift capital toward private firms will remain key to boosting economy-wide productivity, but Party Secretary Xi's will and ability to create this shift is unknown.

Quality of life depends on factors other than economic growth, especially in a country where environmental degradation contributes to serious public health concerns. China is racing against time in its efforts to improve domestic air quality and meeting its Paris carbon commitments. Reining in the continued installation of coal-fired power plants is essential to both goals. On a downward trend since 2007, new coal-fired capacity increased in both 2018 and 2019 (Myllyvirta et al., 2020). These plants were built despite significant overcapacity in the sector, with more than half of coal-power firms already loss-making and with typical plants running at less than 50% of their capacity. After the Covid-19 lockdowns ended, permitting for new coal power plants accelerated immediately, with more permits being handed out in the first half of 2020 than in all of 2018–2019 (Myllyvirta et al., 2020).

The trajectory of Chinese emission is a key variable in progress toward the global Paris accord climate targets. While China has set ambitious targets for carbon reduction, promising to hit peak carbon emissions by 2030, meeting those commitments will be costly. Coal supplied almost 60% of the country's energy in 2019 (Myllyvirta et al., 2020). At the same time an energy transition is taking shape, driven by the state enterprises that dominate the energy sector. In 2020, China installed almost 120GW of wind and solar power, with new wind installations almost three times their previous record (Shaw and Hall, 2021). Reportedly, the government is targeting the same levels of new capacity for 2021 in a sign of renewed action on clean energy. Political resolve is necessary for China to fully commit to reduced reliance on coal.

b. External Economic Challenges

China has maintained its share of global exports in the face of unprecedented tariffs levied by the United States against another WTO member. Nevertheless, these tariffs did affect bilateral goods flows. Tit-for-tat tariff rounds in 2018 and 2019 have left behind reciprocal imports tariffs of almost 20% (Bown, 2020). Careful analysis by Fajgelbaum et al (2019) finds that tariffs levied in 2018 reduced US import values from targeted sources of targeted goods by almost 32%. Supply chains appear to have adjusted, perhaps permanently, as imports from Vietnam, Thailand and Mexico rose to replace some of the exports diverted from China. The "Phase 1" agreement completed by the US and China in January 2020 did not include provisions to roll back these import duties, even as it provided for mandated purchases of American exports by China.

China is also encountering heightened pushback to its domestic human rights violations. Most recently, the United States banned the importation of cotton and tomatoes from the Xinjiang

region in response to what the American government has labeled genocide. Australia has remained resolute in its calls for investigation of the origins of Covid-19 despite Chinese retaliation via export bans and prohibitive tariffs.

More threatening to China's technology drive are general restrictions on flows of advanced products and processes and ownership of the companies that produce them. Tariffs levied during the 2018-19 trade war did not isolate products or technologies to which the US would like to restrict Chinese access. To protect technologies deemed critical to American interests, the US has implemented both export controls and expanded investment review. An updated list of those actions taken by the Trump Administration, with links to relevant government reports, has been prepared by the IP Commission (2019).

Over the past three years, the United States has passed significant legislation to reduce the flow of US technology to China. Defensive measures to protect American technology assets from Chinese control are the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 and the Executive Order on Information and Communications Technology and Services (ICTS) of 2019. The Export Control Reform Act (ECRA), together with the Entity List blacklisting end-users rather than products, provides mechanisms to create chokeholds on Chinese technology development, at least in the short run, while adding further incentives for Chinese leaders to promote indigenous substitutes.

These changes to US policy, with similar efforts completed or underway in other countries, imply that Chinese acquisition of foreign technology will be more difficult moving forward. These have already induced the Chinese leadership to place greater emphasis on domestic technology created through indigenous innovation, as reflected in recent announcements regarding China's next five-year plan.

4. China's next plan reflects its accomplishments and challenges

Through the reform period, China relied on domestic investment and exports to drive growth. Since the Global Financial Crisis in 2008, its leadership has sought to "rebalance" the economy by raising domestic consumption relative to investments and exports. Rebalancing is underway, albeit slowly and with recent setbacks. Consumption contributed more to income growth than investment in each of the four years between 2016 and 2019 (IMF, 2021). IMF projections for 2020, however, reflect the depressing impact of Covid-19 on consumption, and for the first time in five years the contribution of consumption to growth will be less than that of investment. The process of rebalancing is difficult: even today 45% of Chinese GDP is saved. Private consumption accounts for about 38% of GDP, far below the world average of 60%.

Rebalancing requires profound structural changes to the Chinese economy. The service sector must continue to increase its share of employment relative to manufacturing. Export growth must slow relative to income growth. Chinese leaders see technology upgrading as key to both goals. Moving the country's manufacturing base away from labor-intensive activities and toward advanced processing can raise productivity and its contribution to national income, even as its

share of employment falls. Such adjustment also is expected to raise the value-added in Chinese exports by replacing sophisticated imported intermediates with domestic inputs.

China's current grasp for advanced technology is best understood within the context of the long-term development challenges. Even as its exports surged and foreign investment flowed inward following its accession to the WTO, Chinese leaders acknowledged the limits to export expansion and labor-intensive manufacturing as engines to move the country out of middle-income status. China turned from reliance on reform and structural change to modernize its economy toward direct government support of technology development. As Naughton (2018) notes, "although the overall trend since 1978 has been for the reduction of direct government intervention as the market economy grows, in high-technology sectors government intervention has increased steadily since 2003" (p. 363).

China continues to promise policies that advance domestic innovation yet remain consistent with its international obligations. China's industrial policy is offered as a complement, not a substitute, to ongoing reform and opening up. However, under Party Secretary Xi leadership, China's advanced economy partners share concerns that China is skewing its market toward domestic firms, and especially toward state enterprises, and question the government's commitment to a level playing field for foreign companies either exporting to or producing in China. Certainly, numerical targets for Chinese market dominance in key sets, offered by document tied to China's "Made in China 2025" effort, raised alarm bells in the West, even as Chinese officials downplayed their significance.

The Chinese government's Central Economic Work Conference, convened in December 2020, offers some clues to China's ongoing response to these challenge and constraints. Its communique announced China's commitment to high-quality development, improved government efficiency, and heightened national security, as well as expanded openness to international trade and investment. The Chinese press releases portrays the country as a strong and growing nation, able to become a key demand driver for its domestic producers as well as those within the Asia-Pacific region. It sees itself as responding in creative and forward-looking ways to demographic, economic, and environmental growth challenges. While noting that "the international environment is becoming increasingly complex" and that in external relations "uncertainty has increased significantly," the Work Conference announced Chinese resolve to open further to international flows.

The Work Conference portrayed technology as key to China's goal of self-sufficiency. It elevates innovation to "the core of China's modernization" and given the highest priority in the plenum communiqué, the first time in CPC history. The plenum also called on China "to make major breakthroughs in key core technologies and become a global leader in innovation" by 2035. Faced with a "technology war" with the US, China is determined to reduce its reliance on the US and other advanced economies for cutting-edge technologies, which, though not specified in the communiqué, include semiconductors, artificial intelligence and 5G, among others. Beijing is

currently drafting a long-term plan promoting the development of key technologies in the next 15 years.

The statement clearly embeds the ongoing tension between China's drive for technological self-sufficiency, on the one hand, and openness on the other. The oft-repeated concept of "dual circulation" and the policies that would enhance it remain vague. A heightened emphasis on domestic markets and domestic innovation appears to be part of the leadership's push for greater self-sufficiency in technology, and thus less intense involvement in global supply chains. At the same time, China's government has pushed forward long-awaited reforms of laws governing foreign invested enterprises and promised that foreign firms may participate in its industrial development programs. As Barry Naughton testified before this committee almost a year ago, it appears that the Chinese "hope to foster the continuing presence of GPNs (global production networks) 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."

With many of its trading partners convinced that China has not met its existing obligations, the contradictions in China's next five-year plan may come to the fore. This will increase pressure on China in three ways. First, as China ramps up subsidies there are growing and likely more united calls for transparency and, if needed, countervailing duties. This will confine Chinese firms to the domestic market. Secondly, efforts to restrain the transfer of advanced technology to China may become more effective and conflictual. China's recent Blocking Law already increases risk for third-party nationals adhering to US export controls in ways that damage Chinese interests. If China chooses to vigorously enforce the law, ongoing bilateral tensions will quickly become multinational. Lastly, China risks pushing multinationals to find alternative ways to enter the Chinese market, other than by locating production onshore. In these ways, China's reach for technology may reverse the trajectory of its ongoing integration.

5. Recommendations

China's vision reflects a realistic assessment of its strength and challenges, if overly kind in its own policy evaluations. While tone deaf in its pronouncements to the world and willfully blind in its refusal to recognize its own aggressions, China nonetheless continues to seek the benefits of international trade and investment and the country's leaders have invested diplomatic effort in sealing new agreements in these arenas. As the new Congress considers US-China relations, this assessment suggests three guides for legislative and oversight efforts.

- a. Congress should Insist on policy that acknowledges China's integration into the global economy*

Whatever policies the Biden Administration pursues, they are constrained by the reality of China's deep integration into the global economy. The vision of any group of nations joining forces to confront China cannot succeed if it implies that allies must choose sides, at least under

present economic and security conditions. Successful policy will recognize the value to our partners of trade and investment relations with China and the potential for multilateral cooperation on climate change and public health. Thus, the benefits of any united action must be clear and impose commensurate costs. (don't isolate the US while trying to isolate China

b. Congress should enable US leadership in setting international standards

Chinese policymakers see innovation-driven growth as imperative to meet the challenges of a maturing economy with a slowly shrinking, but ever more educated work force. The country's most advanced segments have the capacity to create and absorb technology at the world's innovation frontier. Indeed, the drive to access and the ability to absorb foreign technology, sometimes by illegal means or by force, lies at the heart of frictions between China and the West. The US should work to create structures that allow China to access the (non-military-use) technology it needs, through means that are in keeping with international norms and compensations. Creation of such a framework requires the US to engage like-minded partners in setting standards for AI, biotechnology, data protections, and other emerging technologies. Clear standards will begin the difficult process of identifying behaviors that violate internationally accepted norms, such as IP theft, as well as define obligations for reporting and transparency in rulemaking and enforcement.

While many see cooperation and rulemaking as having been tried and shown useless, such views ignore the interdependence of Chinese and American actions. Over 40 years of reform have removed the Chinese Communist Party from almost total control over every individual life, even as it continues to shape and influence organized economic activity. The party exercises this influence in a flexible way that provides resilience to changes in its domestic and external environment. China will continue to adapt to the structures that determine risk and reward – this is the essence of its “strategic opportunism.” The United States must design structures that move China's strategic calculus in desired directions.

c. Congress should ensure that decoupling efforts are targeted and provide clear net benefits

The Section 301 tariffs covered hundreds of products that have no relation to national security. Simultaneously, the US implemented a host of export controls and sanctions. These actions raised costs and limited markets for US manufacturers, who either absorbed these costs or passed them through to their customers. Such collateral damage should not be denied, but rather limited to actions that are likely to provide security or other compensations for the American public.

Collateral damage can be reduced through proper targeting of restrictions and barriers to US imports, with consideration of third-party suppliers of the same goods. The principle of targets based on threat assessment is embedded into US reviews of inward foreign investment. Applying this principle to trade in high-technology goods would raise the effectiveness and reduce the cost to the US of risk mitigation.

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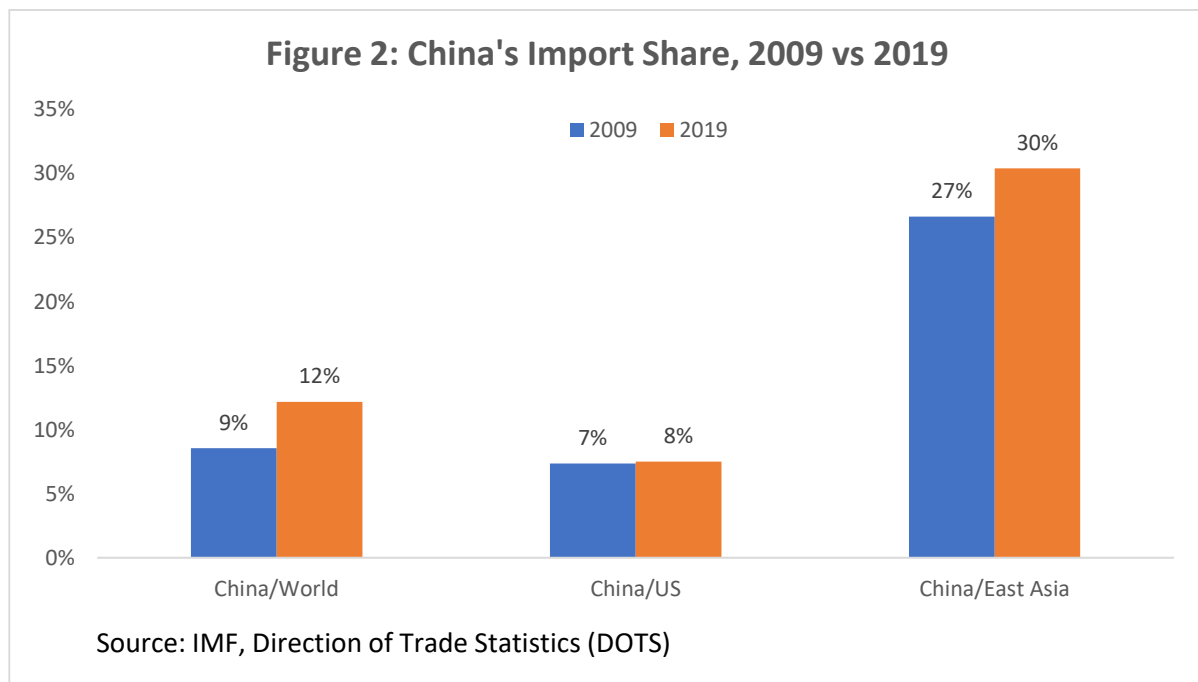
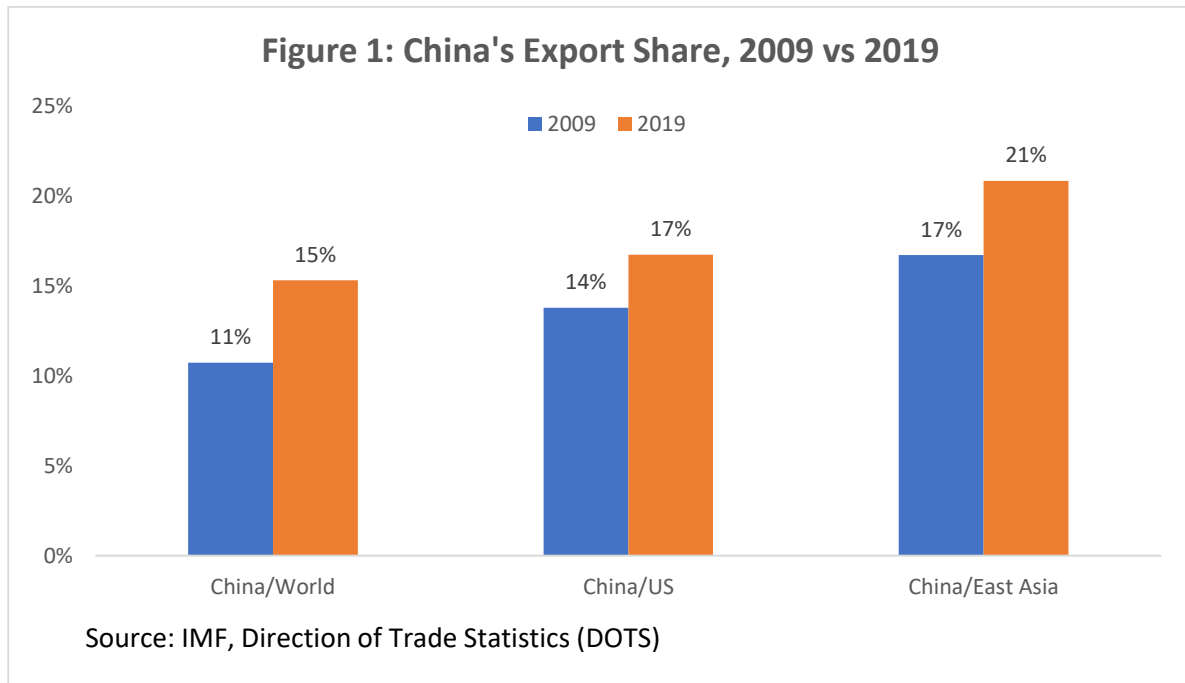
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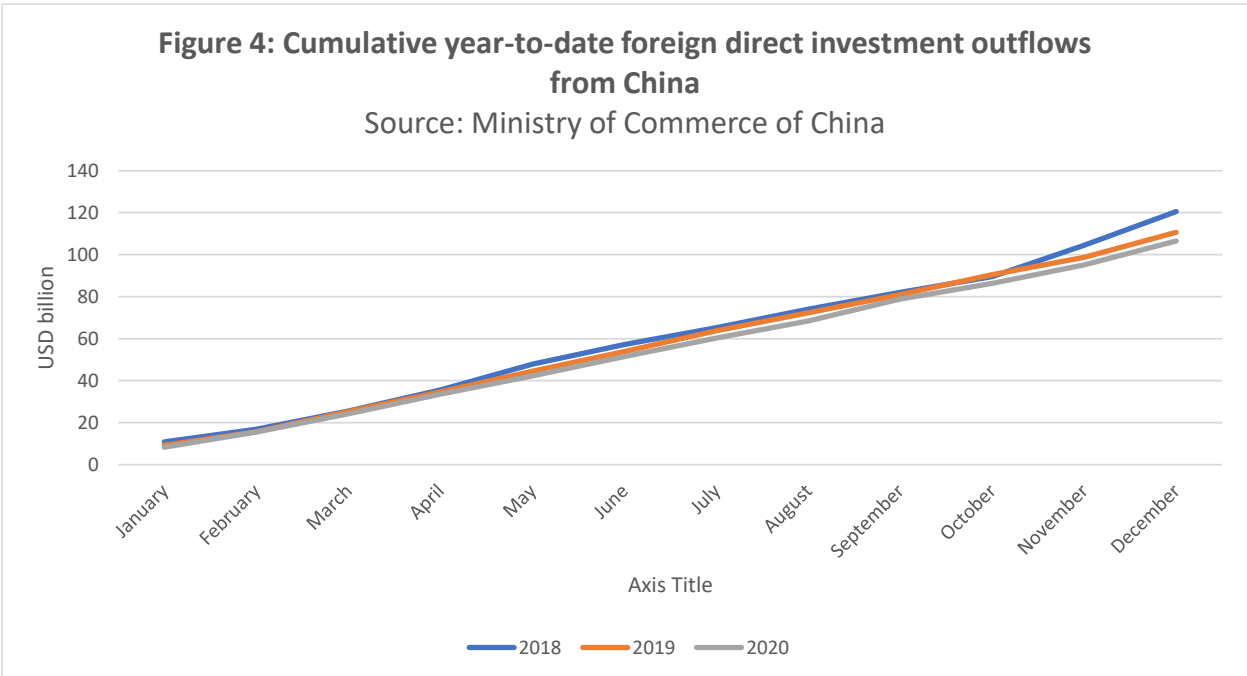
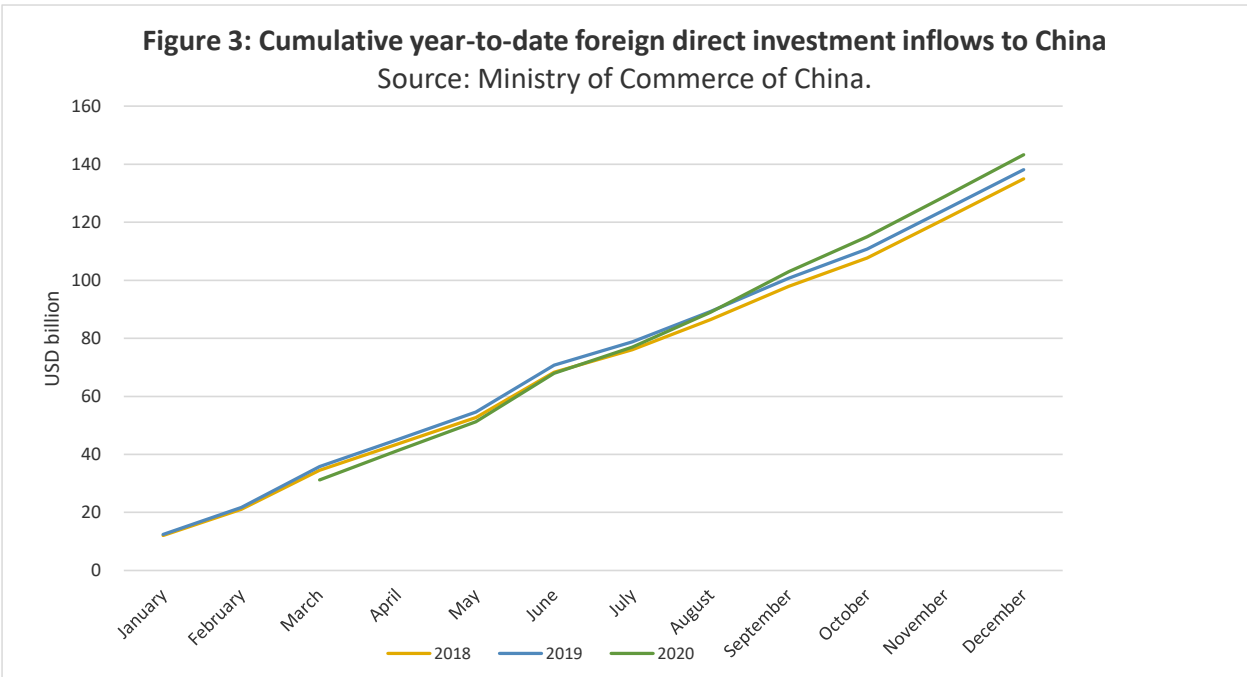
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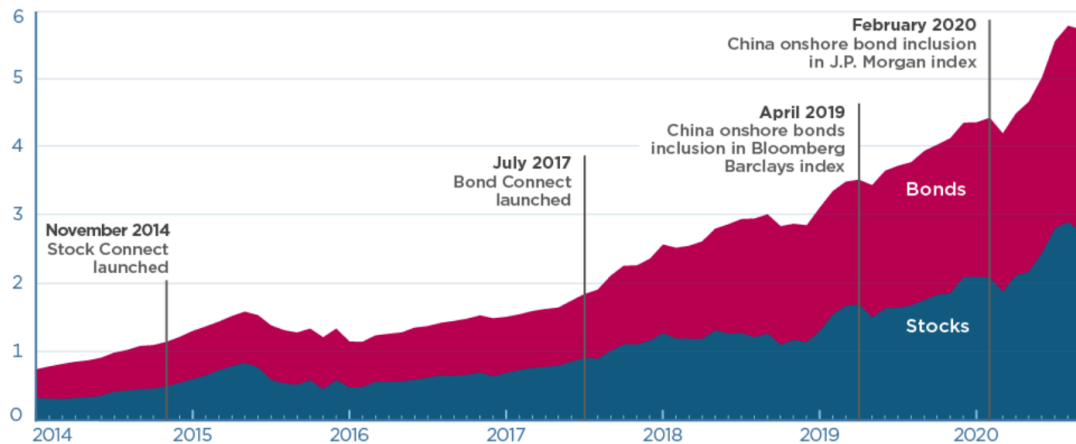
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Figures and Tables





**Figure 5: Foreign onshore portfolio investment in China, trillions RMB
(taken from Lardy and Huang, 2020)**



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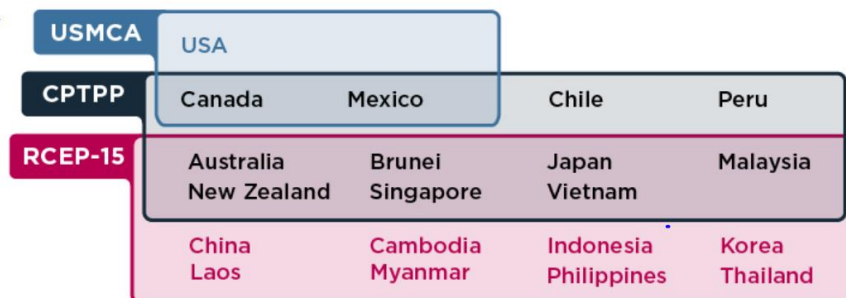
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Note: Data refer to onshore securities issued by Chinese entities in mainland China.

Source: People's Bank of China via Wind Financial Information.

**Figure 6: Trade Agreement Membership in the Asia-Pacific Region
(Source: Petri & Plummer, 2020)**



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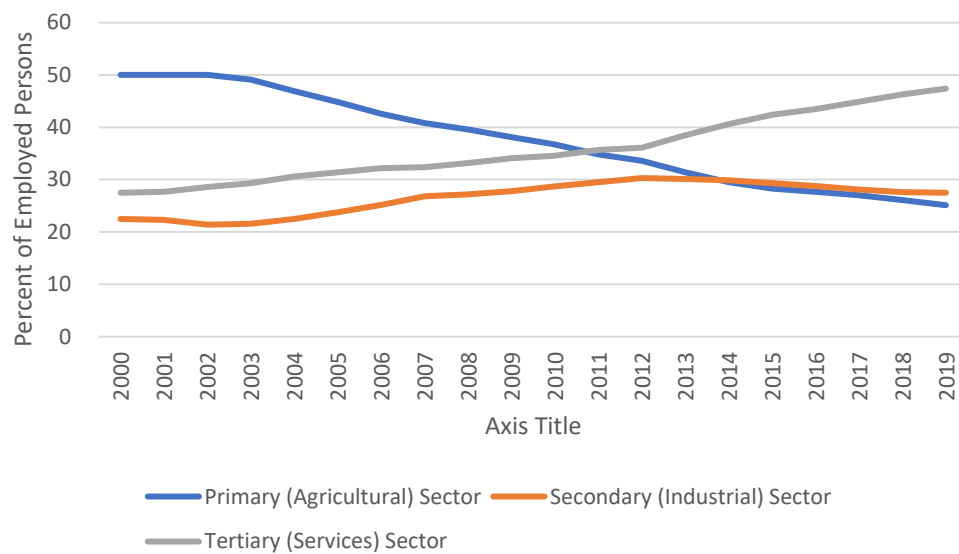
USMCA = United States-Mexico-Canada Agreement; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership

Note: India was originally part of RCEP-16 negotiations, but opted out, leading to the formation of the RCEP-15.

Sources: data.worldbank.org; authors' simulations.

Figure 7: Structural Change in Chinese Employment

Source: National Bureau of Statistics of China



OPENING STATEMENT OF ZACH COOPER, PH.D., RESEARCH FELLOW, AMERICAN ENTERPRISE INSTITUTE AND CO-DIRECTOR, ALLIANCE FOR SECURING DEMOCRACY

CHAIRMAN BARTHOLOMEW: Thank you very much, Dr. Lovely. Dr. Cooper.

DR. COOPER: Well, thank you so much, Chair Bartholomew and other distinguished Commission members, for inviting me to testify before you today on the current state of U.S.-China relations. I want to take this opportunity to highlight three areas in which diverging perspectives pose a risk to U.S.-China strategy. First, there's a widening perception gap on the cause of tensions in the bilateral U.S.-China relationship.

Polling shows that each side's views of the other are at or near their nadir. Yet American and Chinese experts disagree on why. Conversations with Chinese observers suggest that many blame the Trump Administration for damaging the relationship.

This does not, however, explain why China has grown far more unpopular, not just inside the United States but outside as well. Americans are more likely to see the Communist Party's actions as the root cause of bilateral tensions. As Elizabeth Economy argues, U.S. policy has changed because China has changed.

Today, 73 percent of Americans have an unfavorable view of China and 72 percent see China as a rival. This shift has been driven by numerous issues, particularly growing concerns about the Communist Party's repression in Hong Kong, genocide in Xinjiang, and of course, the coercive campaigns that China has pursued beyond its borders. As a result, the percentage of Americans who reported no confidence in Xi Jinping to do the right thing in world affairs rose from half to three-quarters in just the last year. This disagreement on the roots of U.S.-China tensions will make it very difficult to stabilize the bilateral relationship in the years ahead.

This leads to a second challenge which is that leaders in both Beijing and Washington increasingly appear to believe that the other's governance system is growing more unworkable. Xi Jinping has argued that "time and momentum are on our side." Meanwhile, Joe Biden highlights enduring American strengths and says China "is not competition for us."

Meanwhile, polling reveals that many in both Europe and Asia have declining confidence in United States and China. In short, experts in Washington and Beijing increasingly seem to think that time is on their own side while others outside these capitals are increasingly skeptical.

There's a little bit of good news here, of course. This divergence of use could dampen the likelihood of conflict in the short term. If Beijing and Washington believe their competitor's window of opportunity is closing, then each may opt to wait for its position to strengthen. Yet there's risk here as well. A rapid shift in the expectations of either side could trigger a crisis, particularly if leaders come to believe that their hand is worsening and that a window of opportunity is closing.

So, this leads to a third area of diverging theories on America's China strategy. We've already touched on this, this morning, but there are, I believe, at least three distinct viewpoints, each animated by a different set of assumptions and metrics for judging success.

One group of experts believes the Trump Administration adopted the wrong strategy on China. They argue that the key metric for measuring a strategy's success should be whether it positively shapes Chinese behavior and dampens Sino-American tensions. A second view is that a more competitive approach is warranted, but that Trump and his administration failed to execute that strategy effectively.

These observers suggest that the key metric in judging U.S. strategy should not be the

quality of bilateral ties with China but rather ally and partner willingness to work with the United States to develop effective multilateral responses. A third perspective is that the Trump Administration adopted the right basic strategy on China and implemented it relatively well. Advocates of this view tend to believe that the key metric for judging American strategy should be whether countries are actively balancing against China, not whether third countries harbor positive or negative views of the United States.

Unfortunately, each of these groups uses different metrics to assess success and failure of American strategy, and as a result, they often talk across one another. And whether the Biden Administration can build consensus around its approach will, in large part, require it to manage these criticisms and ensure that these views actually come back in line. So, resolving these diverging perceptions will be critical if the United States is to maintain the spirit of bipartisan cooperation that has long characterized U.S. policy on Asia and on China as well.

To that end, I want to highlight five overarching principles that I believe should steer U.S. strategy and policies in the years ahead. First, we have to present a positive vision. For example, the United States is most competitive in Asia when it helps other countries succeed. And we could help other countries succeed very quickly in Asia if we could help provide them with COVID-19 vaccines and medicines at little or no cost as we have done in other situations, as in AIDS relief in Africa. So, I believe this should be a top priority for the incoming administration and the Congress.

Second, we must avoid grand bargains. Overarching deals with China often sound good but seldom deliver. American policymakers would therefore be wise to pursue multiple separate negotiations, recognizing that progress in one domain should not require agreement in others.

Third, we should use targeted collective pressure. It is time for the United States to move beyond the broad incentives and penalties by targeting collective pressure on malign actors within the Chinese system. For example, like-minded countries should work together to ban sales of products from Chinese companies that use stolen intellectual property.

Fourth we should build discrete coalitions. Rather than pursuing a single alliance of democracies, the United States will need to build coalitions with allies and partners across different issue areas. Doing so will encourage countries to collaborate where they are most capable of doing so and slowly build habits of cooperation over time.

And finally, we should always leverage our values. When the United States downplays values or adopts reciprocal strategies against authoritarian regimes, it undermines coalition-building efforts with its own like-minded partners. American leaders have to recognize that shared values strengthen, not weaken lasting coalition-building efforts.

So, with that, I look forward to discussing the ways that the Commission can advance these efforts to safeguard American security, prosperity, and values, and I thank you for the opportunity to testify before you today.

**PREPARED STATEMENT OF ZACH COOPER, PH.D., RESEARCH FELLOW,
AMERICAN ENTERPRISE INSTITUTE AND CO-DIRECTOR, ALLIANCE FOR
SECURING DEMOCRACY**

Statement before the U.S.-China Economic and Security Review Commission
Hearing on U.S.-China Relations at the Chinese Communist Party's Centennial
Panel I: The State of U.S.-China Relations Heading into 2021

Diverging Perspectives on U.S.-China Relations

Zack Cooper

Research Fellow, American Enterprise Institute
Co-Director, Alliance for Securing Democracy

January 28, 2021

Chair Bartholomew, Vice Chair Cleveland, and other distinguished Commission members, thank you for inviting me to testify before you today on the current state of U.S.-China relations. I want to take this opportunity to highlight three interrelated areas in which diverging perspectives pose a risk to Washington's China strategy and America's security more broadly.

- **Diverging Perceptions of Bilateral Relations.** First, there is a widening perception gap on the cause of the recent worsening in the U.S.-China relationship. American scholars tend to attribute the downturn largely to Beijing's destabilizing actions, while Chinese scholars are prone to blame Donald Trump's more confrontational approach. This divergence makes it difficult for Washington and Beijing to agree on the underlying causes of friction in the bilateral relationship.
- **Diverging Assumptions on Time Horizons.** Second, there is a growing perception gap regarding trends in relative power and influence. Xi Jinping argues that "time and momentum are on our side," while Joe Biden highlights enduring American strengths and says China "is not competition for us."¹ Meanwhile, polling in third countries reveals that outside observers believe both China and the United States are struggling.² Counterintuitively, these diverging assumptions about relative power trends imply that leaders in Beijing and Washington each appear to believe time is on their side.
- **Diverging Assessments of America's Strategy.** Third, America's bipartisan consensus on China strategy is at risk due to disagreements about the Trump administration's adoption of a more competitive approach. Some experts reject the logic that underpins this more competitive strategy, others support that strategy but question the effectiveness of the Trump administration's implementation, and still others generally approve of both the strategy and its execution. This divergence threatens to magnify divisions in the American expert community, threatening bipartisan agreement on China policy.

Resolving these diverging perceptions will be crucial if we are to address the China challenge while maintaining the spirit of bipartisan cooperation that has long characterized U.S. policy on Asia. The Commission is in a unique position to stimulate public debate about each of these critical issues, not only among the expert community in Washington but also across a broader audience in the United States and abroad. To that end, this testimony concludes by outlining several policy implications and key principles for U.S. strategy on China and Asia more generally.

Diverging Perceptions of Bilateral Relations

The bilateral relationship between the United States and China is worse today than it has been in at least three decades. Indeed, polling by the Chicago Council on Global Affairs shows that American public assessments of China are at their lowest point ever for members of both parties.³ Meanwhile, surveys by the China Data Lab at the University of California, San Diego find that Chinese feelings toward the United States have also become significantly more negative, especially over the past year.⁴ Washington and Beijing may not agree on much, but both sides acknowledge that the bilateral relationship is at or near its nadir in modern times.

Where American and Chinese experts tend to disagree is on the reasons for the worsening of the relationship. Conversations with Chinese officials and experts suggest that most blame the Trump administration for damaging the relationship. Fu Ying, for example, has argued that “shortly after Donald Trump assumed office, the new U.S. administration began to adjust judgments and policies regarding China . . . provocations forced China to react and take countermeasures, resulting in a rapid slide in bilateral ties.”⁵ This does not, however, explain why China has grown far more unpopular not just inside the United States but also outside. In fact, Haifeng Huang has conducted polling inside China that reveals its public “vastly overestimates China’s global image and popularity,” because “China’s one-sided information bubble about the country’s power and popularity has made the public overly sanguine and even complacent about the country’s global standing.”⁶ This reinforces anecdotal evidence from the author’s recent discussions, in which many Chinese experts and officials have rejected the notion that China’s own actions are to blame for much of the downturn in perceptions of China abroad.

Americans, on the other hand, are more likely to see the Communist Party’s actions as the root cause of these tensions. As Elizabeth Economy argues, “U.S. policy has changed because China changed.”⁷ Concerns about China have been growing for years, but there has been a dramatic uptick in the past decade. Today, 73 percent of Americans have an unfavorable view of China, and 72 percent see China as a rival.⁸ For the first time in decades, more people believe the United States should actively work to limit the growth of China’s power rather than undertake friendly cooperation and engagement with Beijing.⁹ The reasons for Americans’ growing concerns about China are numerous, but human rights abuses often top the list, as well as frustration with China’s handling of, and disinformation around, the pandemic.¹⁰ The Communist Party’s repression in Hong Kong, genocide in Xinjiang, and coercive campaigns beyond China’s borders have done real damage to its image abroad. In just the past year, the percentage of Americans who reported no confidence in Xi Jinping to do the right thing in world affairs rose from half to three-quarters.¹¹

This divergence in views among Chinese and American experts and officials is driven by several factors. First, the growing difficulty of travel has made it harder for both sides to exchange opinions, particularly since health-related restrictions have limited in-person interchanges. Second, the separation of digital ecosystems and increasingly restrictive Chinese information environment have accelerated the creation of two distinct information bubbles. Third, experts on both sides of the Pacific now rely increasingly on small virtual exchanges with like-minded scholars, which tend to reinforce rather than challenge experts’ preexisting views. Even when international travel resumes, this perceptual divergence will likely remain because it is deeply rooted. Therefore, Wang Yi and other Chinese leaders may find themselves disappointed when their anticipated “window of hope” with the Biden administration does not open.

Diverging Assumptions on Time Horizons

Another type of window is even more problematic—the “window of opportunity” that leaders in each capital think is closing on the other.¹² Experts in Beijing and Washington increasingly argue that the other’s governance system is growing more erratic and inoperable. Many Chinese officials appear to be persuaded that China’s rise will continue and that the United States is

undergoing an unavoidable period of decline. Conversely, a number of American experts are concluding that China is entering a period of slowing growth and growing domestic challenges, which will provide the United States a long-term competitive advantage. Meanwhile, many in third countries believe both China and the United States are failing to manage their domestic challenges and exercise effective leadership on the world stage. As a result, leaders in both China and the United States appear to believe time is on their side, while outside observers disagree.

The growing confidence of Chinese leaders has been readily apparent in their public statements. Xi Jinping recently noted that “the opportunities we face outweigh our challenges . . . time and momentum are on our side.”¹³ Chinese leaders have long talked about a “window of opportunity” to take a more proactive role on the world stage, but many in Beijing now appear to believe this window will be extended.¹⁴ For example, Wu Xinbo asserts, “Beijing has more self-confidence. . . Biden has come back, but the U.S. can’t make a comeback.”¹⁵ Kacie Miura and Jessica Chen Weiss note that “Beijing remains confident that long-term trends are in its favor.”¹⁶ Rush Doshi concludes, “For Beijing, a United States that is less engaged abroad, more divided at home, and seemingly uninterested in pandemic management or economic competitiveness is one with dim prospects.”¹⁷ As Julian Gewirtz’s puts it, “China thinks America is losing.”¹⁸

While many in Beijing grow more skeptical of America’s staying power, some counterparts in Washington are reevaluating China’s path and also finding it wanting. Elizabeth Economy argues, “The negative consequences of Xi’s approach—local government paralysis, a declining birthrate, and international opposition, among others—have begun to hold China back from the finish line. Xi needs to course correct.”¹⁹ Similarly, Dan Blumenthal writes that the “Communist Party faces deep problems and possibly even decay. . . . Xi is pushing the CCP—and China—to the brink.”²⁰ As a result, Michael Beckley and Hal Brands contend, “These intensifying headwinds will make China a less competitive long-term rival to the United States but a more explosive near-term threat.”²¹ In short, many experts in both Washington and Beijing think the underlying forces in the other country will eventually diminish their rival’s power, as long as they avoid a conflict in the short term.

Observers in third countries, however, argue that both China and the United States are failing. Laura Silver, Kat Devlin, and Christine Huang at the Pew Research Center have shown that many European and Asian publics have declining confidence in both the United States and China.²² Thus, while Washington and Beijing have focused increasingly on “great-power competition,” the rest of the world is increasingly skeptical of both sets of leaders. Mishandling of the pandemic has accelerated these views, with the Center for Strategic and International Studies finding that roughly half of European and Asian thought leaders expect both the United States and China to lose influence as a result.²³ Moreover, the Trump administration’s embrace of an America First approach and Beijing’s more assertive “Wolf Warrior” diplomacy have done additional damage to their global standing.

The only good news here is that this divergence of views could dampen the likelihood of conflict in the short term. If Beijing and Washington believe their competitor’s window of opportunity is closing, then each may think time is on its side and wait patiently for its position to strengthen. That both sides believe time is on their side is not entirely atypical for rising and declining powers.

Rising powers tend to be slow to recognize the full extent of their power. Once that recognition occurs, however, they can be remarkably confident and assertive, as were Wilhelmine Germany, Imperial Japan, and even the United States around the turn of the 20th century. Powers experiencing relative decline, on the other hand, often struggle to recognize underlying trends until a shock forces them to bring their commitments in line with their resources. The question of whose side time is on, therefore, will be a key—and likely disputed—issue in U.S.-China relations for the foreseeable future.

Diverging Assessments of America's Strategy

A third area of divergence is more domestic than international: differing perspectives on China strategy within the American expert community. At least three distinct viewpoints exist, each animated by a different set of assumptions and metrics for judging success. Understanding these three competing views is crucial to explain why the U.S. strategic community remains divided on how to respond to China's rise, despite growing consensus around the concerning nature of Beijing's behavior.

One group of experts believes the Trump administration adopted the wrong China strategy. It argues that competition with China has spun out of control and risks conflict. For example, Michael Swaine, Jessica Lee, and Rachel Esplin Odell have written that "America needs a new strategy in East Asia."²⁴ They suggest that "China does not constitute an existential threat to the global order or the United States" and worry that "America's broader, zero-sum approach toward China is driving a security dilemma with Beijing."²⁵ What is to be done? Fareed Zakaria advocates, "A wiser U.S. policy, geared toward turning China into a 'responsible stakeholder.'"²⁶ Indeed, Tom Christensen concludes, "The effort since 2005 to urge China to become a 'responsible stakeholder' in the existing international order has often been frustrating, but it has hardly been a failure."²⁷ For these commentators, the key metric for measuring a strategy's success appears to be whether it positively shapes Chinese behavior and dampens Sino-American tensions.

A second view is that a more competitive approach to China is warranted but that the Trump administration's execution of that strategy was flawed. Kurt Campbell and Jake Sullivan have written, "The era of engagement with China has come to an unceremonious close . . . 'strategic competition' should animate the United States' approach to Beijing going forward."²⁸ Yet, Campbell and Ely Ratner have warned that the Trump administration's policies "put Washington at risk of adopting an approach that is confrontational without being competitive."²⁹ From this point of view, the problem was not the administration's strategy, but rather that "the strategy was often ignored or undermined by the man most crucial to its success—the president," as Josh Rogin has suggested.³⁰ These observers suggest that the key metric in judging U.S. strategy is not the quality of bilateral ties with China, but rather ally and partner willingness to work with the United States to develop effective multilateral responses.

A third perspective is that the Trump administration adopted the right basic strategy on China and implemented it relatively well. Supporters of this view, such as Derek Grossman, argue that the Biden administration will "inherit alliances and partnerships that are in much better shape than conventional wisdom would suggest."³¹ Grant Newsham similarly concludes that the Indo-

Pacific “is better off than it was in 2017” and notes that Trump “at least made [China’s] leadership more uncomfortable than had any of his predecessors in the last 40 years.”³² These experts see a more positive regional response to the Trump administration, perhaps because they believe it is necessary to “break some China” to encourage balancing behavior by third countries. Indeed, Mike Pompeo argued, “Some small countries . . . fear being picked off. Some of them for that reason simply don’t have the ability, the courage to stand with us for the moment.”³³ Therefore, these advocates tend to believe that the key metric for judging America’s strategy is whether countries are more actively balancing against China, not whether publics or experts in third countries harbor positive views of the United States.

All three schools are likely to remain relevant in parts of the academic and policy communities focused on U.S.-China relations and Asia strategy. But because they each use different metrics to assess success and failure, these groups often talk across one another. There is a risk that the divergence in their assessments will continue, or even grow, once the Biden administration adopts its new approach. After all, the shift from the Trump administration to the Biden administration will likely represent a transition from the third school to the second, which could lead to critiques from both ends of the spectrum. Whether Biden’s team can build consensus around its approach while managing these criticisms will be one of its central challenges.

Policy Implications

Diverging perspectives on the causes of Sino-American tensions, the time horizon of the competition, and the effectiveness of U.S. strategy threaten to disrupt the spirit of bipartisan cooperation that has long characterized U.S.-Asia policy. Researchers and policymakers need to urgently address these diverging perceptions to decrease misunderstandings with China, among U.S. allies and partners, and in Washington’s own policy community. The Commission is in a unique position to stimulate public debate about each issue, not only in Washington but also across a broader audience in the United States and abroad. As American leaders consider how to advance U.S. interests in Asia, they should keep in mind five overarching principles that should govern U.S. regional strategy and U.S.-China relations:

- **Present a Positive Vision.** The United States is most competitive in Asia when it helps other countries succeed.³⁴ Too often, however, recent American strategy has criticized China without providing an attractive alternative. To remedy this omission, the United States needs to develop more appealing and constructive agendas in the security, economic, technological, governance, and other arenas. For example, the United States is among the world’s most trusted sources of vaccines.³⁵ Therefore, providing COVID-19 vaccines and medicines at little or no cost to allies and partners—as the United States has done with AIDS relief—should be a key part of a more positive American regional strategy.
- **Avoid Grand Bargains.** Beijing has been remarkably successful at persuading policymakers in Washington to limit critiques of China while seeking “grand bargains.” These overarching deals often sound good but seldom deliver, as demonstrated most recently by the failure of the Phase One trade deal. American policymakers would therefore be wise to pursue multiple separate negotiations, recognizing that progress in

one domain should not require agreement in other areas.³⁶ For example, cooperation on climate change or unfair state subsidies should not be conditioned on aligning views (or disavowing critiques) regarding the South China Sea, Taiwan, Xinjiang, or Hong Kong.

- **Target Collective Pressure.** It is time for the United States to move beyond the broad incentives and penalties that it has often used to shape Chinese behavior. A better approach, with more realistic objectives, would rely on targeted pressure applied in concert with our allies and partners to disincentivize malign behaviors by entities and individuals. Targeted collective pressure plays to two enduring U.S. strengths: its powerful economic tools and its global network of allies and partners. For example, the United States should work with like-minded countries to ban foreign sales of products from Chinese companies that use intellectual property stolen from foreign firms.
- **Build Discrete Coalitions.** Rather than pursuing a single “alliance of democracies,” the United States should build coalitions with allies and partners in different issue areas.³⁷ Four separate coalitions are already emerging: a security coalition around the Quad, an economic coalition around the G7, a technology coalition around the T12, and a governance coalition around the D10. Further developing these groupings is critical to push back effectively against destabilizing behavior by China. Yet efforts to merge these coalitions are likely to fail, as few states share the same concerns about China across all issue areas. Therefore, the United States should encourage countries to collaborate where they are the most comfortable, slowly building habits of cooperation over time.
- **Leverage Universal Values.** Finally, the United States needs to root its China strategy in the values it shares with many allies and partners.³⁸ When the United States downplays values or adopts strategies of reciprocity against authoritarians, it undermines coalition-building efforts with many like-minded countries. American leaders should recognize that shared values are critical to lasting coalition-building efforts and need not lead to “zero-sum” conflict. For example, supporting human rights in Hong Kong and Xinjiang does not weaken the U.S. hand; conversely, it strengthens the U.S. position by demonstrating that Washington is willing to speak up for its principles and encourage other like-minded allies and partners to do the same.

Thank you for the opportunity to testify before you today. I look forward to discussing ways the Commission can advance these efforts to safeguard American security, prosperity, and values.

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PANEL I QUESTION AND ANSWER

CHAIRMAN BARTHOLOMEW: Great. Thank you very much. Thank you to all of our witnesses for excellent testimony. We'll start our questions with my co-chair for the hearing, Commissioner Kamphausen.

COMMISSIONER KAMPHAUSEN: Thank you, Chair. I've been looking forward to today's hearing and this panel with eager anticipation. And you have, as anticipated, exceeded my hopes and expectations. Thank you so much for your written testimony and for your oral presentations.

Three questions if we have time, Professor Sutter, the first for you. Appreciate in the opening of your written testimony a sort of quick rollup of the last 25 years in U.S.-China relations, I think that's a very helpful reference for both Commissioners and a broader reading audience. My question really is maybe pivoting off of something Professor Lovely said at the very outset of her testimony.

She said, the U.S. has had little success in isolating China technologically. And I'll give you a chance to -- Professor Lovely, in a minute, to see if I've gotten that right. But if you apply that judgment to the field of foreign policy and security policy, Professor Sutter, would you -- what's your assessment of the U.S. ability to shape or affect Chinese security behavior by the various methods that it has employed? You endorse the Pacific Deterrence Initiative, and I wonder if there's more that you might add about how successful the U.S. has been in shaping Chinese foreign policy and security behavior.

DR. SUTTER: Thank you very much for the question. I think the United States is very influential in China. I think the framework that was followed during the Trump Administration was a good framework for dealing with China effectively.

Maybe the United States hasn't done a good job of isolating China. I can see that being the case. But they have certainly imposed some costs on China that are important and offsetting for Chinese plans. And the prospects are for an alignment which will be something that the Chinese will have to contend with and which they didn't have to contend with before. These are somewhat unexpected developments. This whole change in American policy was not anticipated by the Chinese. They thought they could move ahead with these incremental advances at American expense and keep -- without cost.

And now it's demonstrated that the United States is prepared for costs. And it's done a variety of things, and it could do it a lot more effectively, but the bottom line is I think this matters a lot in Chinese calculations. And I think that what we're not seeing when we see isolation, we're not seeing the cost that this -- and the diversion that this causes to the Chinese, which I think is something that we need to pay attention to.

So, I think on the security side, the Chinese have alienated India and alienated Japan and alienated Australia. This is very clear. I mean, these countries are now aligning with the United States pretty strongly. And India and Australia have changed a lot over the past four years. And so -- and those are the -- and Japan is the other big power. India is the other big power in Asia. And Australia is a very important player. And so, I think these are the networks that can be used by the United States to exert leverage on China.

China gets very nervous about being surrounded. It gets very nervous about alignments, because they can't do it. They don't have countries they can align with. Oh, they align with people, but they're not much -- they're not worth very much. And so, I think under these circumstances, I think this is a -- I think these are ways that can be used to demonstrate to China

the approach they're taking has been -- the challenges that they pose will be countered. And I think that that's what I would recommend.

COMMISSIONER KAMPHAUSEN: Thanks, Professor Sutter. So, my quick take on your perspective is there's opportunity to capitalize on Chinese missteps using the existing relationships and opportunities that the United States might have. Professor Lovely, quickly, last year, mid-year or so, Premier Li Keqiang said that China has more than 600 million people with a monthly income of barely 1,000 renminbi.

How significant is this? How consequential? It's quite an acknowledgment on his part, but you didn't mention it in your testimony. I wonder if you have a perspective on how meaningful that statistic is.

DR. LOVELY: Thank you, and thank you for your opening comments. I found them quite insightful. I think this statistic is very important. I think that the Chinese leadership understands that to retain control which is of utmost importance to the Party, it needs to maintain stability. And that means continuing to deliver on economic advancement.

And it has a lot of people who are hovering just above the poverty line. And the prospects for those people entering successfully into the upper middle income type of activities that are needed is doubtful. They have -- and I think the Chinese leadership is well aware of this. They put on we're on top of the world, but in fact, they're very aware of their own weaknesses and challenges. And I think this motivates their grasping for technology.

I don't think that that grasp to technology is going to be the answer. You're not going to take people who basically have about a seventh grade education and turn them into rocket scientists. But still, we have to think of these needs as we approach them on the other side of the table. It's always best to understand what your partner really needs out of the negotiation or a deal. And I think that this is a key. So, I see that statistic as very important.

COMMISSIONER KAMPHAUSEN: Thank you, Professor Lovely. Chair, I have another question for Dr. Cooper. And so, if we have a second round I --

CHAIRMAN BARTHOLOMEW: You know, Roy, I think we have plenty of time. So I'm going to suggest you actually go ahead now and ask it. And then if you have something else for a second round, we'll take it up in a second round.

COMMISSIONER KAMPHAUSEN: Okay. Dr. Cooper, you talked about the misperception of both parties -- or the perception of both parties that time is on their side. And yet there's also a line of thinking which suggests objectively there's a narrow window for Beijing to achieve its ends after which there'll be a series of factors and forces which come together which fundamentally challenge China's ability to achieve its goals. How do we reconcile this perception of each party about time being on their side and then this more objective outside-in approach which suggests -- at least in China's case, that may not be the case.

DR. COOPER: Well, thanks, Commissioner Kamphausen. I think this is one of the most important issues, especially on the defense side because the U.S. is going to have to be dealing with a growing China, at least for a while, and a far more capable Chinese military at the same time that U.S. defense budgets are going to be flat or maybe even declining. And so, we're going to have to make some choices about when we want our capabilities to come online.

And the kinds of capabilities that might come online in, say, the next three to five years are very different than the ones that one might want to pursue in 10 or 15 years, right? And so, I think we're going to have to make some fairly big bets. And I think the Biden team will have to make some fairly big bets in their first defense budget on exactly what the timeline is that they're most worried about.

My personal view is that there's some small things that are relatively cheap that we should put as top priorities. So, making the crossing of the Taiwan Strait much more difficult for a large amphibious force is -- it's a hard challenge for us. But it's a doable challenge, right?

And so, buying a large number of anti-ship cruise missiles, a much more capable undersea line delivery capability with greater capacity as well, those types of things we could do in the next three to five years. It will take a significant investment. But it's a much different kind of investment than, say, trying to double down on power projecting capability against a growing anti-access, area denial threat.

So, the big challenge in my mind is, how do we actually build these capabilities we need to field in the near term while still having the money to invest over the longer term into procurement and acquisition that will be absolutely critical for the longer term fight if we're worried about that competition down the line. And I think the only answer that I can come up with now is we've got to invest at the moment for the next three to five years because we know that we could end up in a window of opportunity for the Chinese in that period. So we can't simply hope that we can get through that timeline towards a period when maybe we have a bit more confidence in our military advantage.

CHAIRMAN BARTHOLOMEW: Great. Thank you. Vice Chairman Cleveland, let's go to you next.

VICE CHAIRMAN CLEVELAND: Thank you. So, I have two questions, the first to Dr. Lovely. I was struck by your -- both your written testimony and then what you raised today that roughly 30 percent of the population has completed high school, that we have an unskilled and shrinking labor force, and what the impact that is and the shift from high growth to high quality growth that Xi has identified.

I am struggling through Brandt and Rawski's massive tome on economic transformation. And they describe deep structural inefficiencies where you have this cycle of, as you describe, the desire by the CCP for stability leads to subsidies to state-owned enterprises to maintain the labor market. But those SOEs are inefficient. There is disincentive in the labor market to be productive because you get paid the same no matter what.

We have a witness later today who talks about there's actually disincentive for innovation because it would attract attention to you in an environment of censorship and so-called anti-corruption. And then you have this pace of debt accumulation, whether you look at it from the borrowing side or the lending side, relative to GDP. It's, again, a serious structural issue.

And so you get to the end of that kind of characterization of the challenges and you argue -- to summarize it, and I want to make sure I get it right -- that the path ahead is for China to go back to reforms. And in the written testimony, you don't describe that in much depth. So I'm curious.

What's the evidence that under Xi reforms have any real possibility or potential? And yeah, let's just leave it at that. How would you characterize the reforms that are necessary, and how realistic is that?

Because in the world I live in and now it's we have the facts that we know and the anxieties that we fear. But in between those, there is the reality that we have to live in. And I guess I'm challenging your construct of what the possibilities for progress really are.

DR. LOVELY: Well, thank you, Commissioner Cleveland, for the question. And you might know the latest information on China's productivity growth falling off sharply is due to a team where Loren Brandt was one of the key members. So it's a continuation of that. The new book written by Scott Rozelle and Hell are, I think, something you might want to add to your

long reading list. And financial stability is discussed in the new IMF report --

VICE CHAIRMAN CLEVELAND: Right.

DR. LOVELY: -- which came out in January. So yeah, you're up. So you see, I think you appreciate the challenges that China is facing. Now what are the prospects for reform? This is the \$1,000 question, as they say.

We see areas where there has been reform, where there is reform. There has been real opening, as shown by the massive inflows of foreign investors, both for direct investment and portfolio investment. Markets are opening up. That means greater participation by the private sector.

But at the same time, we see a doubling down on so-called state guidance. The communique that came out from the work conference in October talked about the need for high-quality governance for the state to provide guidance to the private sector while still allowing the market to have a dominant role in resource allocation. To me, this is a massive contradiction. We need to see how it will play out.

I have spoken directly with Chinese economists. And frankly, honestly, what they tell me just seems kind of like gobbledygook. It doesn't make sense. How is, like, for example, dual circulation different than what's come before? They seem to have to repeat what is coming down. So I think we really don't know. The prospects of reform given what you're going to hear this afternoon, I hope, on the political side may be very dim, so --

VICE CHAIRMAN CLEVELAND: I'm reassured by your realistic characterization just now, because I felt your testimony was a little rosy in terms of they have all of these anxieties, they need to recognize the only path ahead. But I'm less optimistic about whether or not they will ease -- or whether they will relax this state grip.

And I don't see the increase in foreign investment as anything other than they're starved for capital. And so they're going to relax some restrictions. But I'm not sure that that doesn't present huge risk to American investors, which leads me to the question for all three of you. Xi has appointed himself to the head of virtually every leading small group as characterized by President Biden's national security advisor for Indo-Pacific views this as China's moment. Campbell wrote a piece a couple months ago saying that China believes this is their moment because it's Xi's moment. What happens if Xi dies?

DR. SUTTER: Very good question. This is very much -- they're dependent on this guy. The whole system is him. I mean, he's the key link in all these decisions. It would be amazing flux if that were to happen.

VICE CHAIRMAN CLEVELAND: Any other -- I mean, I just -- this accumulation of power in one person feels unprecedented, both on the economic, political, and security fronts, or on all fronts. So, any thoughts?

DR. LOVELY: Yeah, if I may. I think that the reluctance to reform is reflective of his need to continue to provide goodies to his group -- support group. So we see that he may be seen as the supreme leader, but that doesn't mean that he doesn't have factions to contend with.

And I think if we did see, as you said, his passing, we would see a power struggle within China in my view. You're going to have very eminent political scientists this afternoon. But I think when we think about -- I wrote a paper looking at whether China would actually ever pull the trigger to join the CPTPP. And particularly as it relates to state-owned enterprises, I think politically the answer no, that he's dependent on keeping those people, the state-owned enterprises and the resources that they provide to him in place.

VICE CHAIRMAN CLEVELAND: So supreme but insecure leader. Dr. Cooper?

DR. COOPER: I agree with that, and I think this is where the challenge for the United States is to figure out how you build a strategy that can manage both of those possible worlds, right? A world where you have potentially a China that continues to somehow manage to grow, maybe not at the rates that we've become used to, but certainly to continue to grow fairly rapidly and increase its military capabilities and its economic leverage throughout Asia and the rest of the world. But also a world in which I think we could all imagine a genuine political crisis over the next decade leading to the dissolution of the Chinese state.

And so, I think the challenge here is we have to be realistic that both of these are possibilities. And I think so often the debate -- in China for sure, but often in the United States -- sort of assumes the first. It assumes that 40 years of incredible Chinese successes on the economic side are going to continue without accepting the possibility that they might not. And there's risk to that as well, right? And the biggest risk from my point of view is that countries in the region actually start to believe this, right, and think that they can make big bets on China and that those are riskless bets.

And so I think part of our job is to show that, yes, democracies aren't perfect, but actually, we do leadership transitions okay, not perfect all the time as I said. But even in difficult periods, democracies can handle leadership transitions. It's hard for me to imagine trying to be able to say the same thing about what will happen when Xi Jinping steps down.

VICE CHAIRMAN CLEVELAND: Thank you.

CHAIRMAN BARTHOLOMEW: Excellent. Very interesting discussion. Commissioner Borochoff, you're next.

COMMISSIONER BOROCHOFF: Thank you. Building a little bit, Dr. Lovely, on what Vice Chairman Cleveland commented about your comments and our chairman of the hearing today, Commissioner Kamphausen. At the beginning of what you talked about, you mentioned that same comment that everyone keeps bringing up, that we haven't been able to isolate them economically, and that's clearly true. And in your recommendations, you said, well, we really need to recognize their anxieties and build pathways to respond to that. I'd like you to expound just a little bit on what you think should be done regarding their anxieties specifically.

DR. LOVELY: Thank you. Well, we know that there is a very -- there's still a lot of cooperation between our two governments underneath the political level. This happens in all spheres of economic life. So we still do have ways of communicating and operating day-to-day with China.

I think at the political level, we could acknowledge some of their challenges. They won't like it in some sense because they always want to be seen as destined to rule. But clearly, we need to understand that -- the role that technology will play.

And here's where I think sort of standard and norm-setting -- we know that norms that we have, for example, on the trade front, were created in the -- at the end of the 1980s and early 1990s. And we need to address what is acceptable behavior, what are the boundaries or acceptable boundaries for national security exclusions.

We saw that those, quote-unquote, norms were violated under the Trump Administration. But no new norms have been put in place for years, so you can understand the frustrations that have built up.

The United States in its response with FERMA and ECRA I think took very important steps. We need to make sure that those decisions are made in a way that carefully balances the U.S. costs and benefits, not only obviously in economics but also in security and other societal issues. And there have been some new proposals being put forward, even over the last couple of

weeks, about how we can do that.

I think we invite Chinese participation but expect them to join only if they reach these high standards and develop mechanisms for responding quickly. I think a main frustration with the WTO among others is that it takes forever to get any action. I've worked on solar equipment. We saw what happened where China became a dominant player in solar equipment in a period of six to seven years. I mean, comparative advantage doesn't change that fast. We knew it had to be driven by government action. And yet we were only able to really respond at the end of that period.

I think that the United States needs to engage and say, we need faster things, but hopefully do it in a way that, as Zack mentioned, acknowledges and builds on our values and alliances by being clear about what we think the rules are.

So, I think that's the way, in a sense, to address their anxieties. I don't mean that we need to put them on the couch with a nod to Dr. Cleveland. But we do need to understand that they will get it somewhere. And if you don't provide paths at least above board, they are going to continue to do it through other means.

COMMISSIONER BOROCHOFF: So, you lead right into my next question, and I appreciate that tremendously. You commented that we need to employ restrictions to enforce those standards. And I'm curious as to specifically what kind of restrictions would you like to employ that have been out there and talked about that we're not doing yet?

DR. LOVELY: We've been on the labor front, and I don't always agree with some of the things, but on the USMCA, we have a rapid response mechanism that had received bipartisan support. I think we need to think about some kind of rapid response mechanism. I have studied the trilateral statement on subsidies where the U.S. took a fairly hard position, harder than our two allies, Japan and the EU. Trying to wage this measuring things like market prices, the whole procedure, I think is, in a sense, the horse will be out of the barn by the time we get done with that. So we have to think about some kind of conditional or provisional responses in the tech area, either where tech is being misused or where we feel that it's embodying stolen technology.

I believe that Dr. Cooper also mentioned the need to, on the tech front in particular, use targeted pressure on malign actors. So we need to say, if we won't buy from you, you're not going to sell it to Japan or Germany. And I think this is where we have really been lacking by failing to bring our allies along with us.

COMMISSIONER BOROCHOFF: That's a great comment, and I really appreciate that very much.

DR. LOVELY: You're welcome.

COMMISSIONER BOROCHOFF: Madam Chairman --

CHAIRMAN BARTHOLOMEW: All right.

COMMISSIONER BOROCHOFF: -- I have one more. I'll do it or I can wait till a second round.

CHAIRMAN BARTHOLOMEW: Sorry. Why don't you go ahead and ask now, quickly.

COMMISSIONER BOROCHOFF: Okay. Vice Chairman Cleveland also mentioned the fact that despite the fact that all this tremendous money is being invested, it really appears to be they're seeking it out because of the tremendous debt they're incurring over the past five years. My question is, do you agree that they are headed for some kind of Armageddon economically unless -- or because they're driving that debt so high? Or are they going to be able to keep this

facade up long enough that people begin to believe that reality and, in fact, they're going to be as strong as they say they are?

DR. LOVELY: I'm sorry. Is that directed at Dr. Cooper or me?

COMMISSIONER BOROCHOFF: No, at you, Dr. Lovely, I'm sorry.

DR. LOVELY: Oh, okay. I'm sorry. I think China has enormous resources still. And its consumption level is very low relative to income. People don't have a voice to rebel if more needs to be extracted, in a sense, to support the system.

So, I don't see that. I don't see -- the debt could be a problem. I don't see it being crucial or bringing them down in that sense. I think a failure to continue to deliver on growth will be more. And I think that the main cliff points are still out ahead of them but not that far out ahead. We're talking within the next -- certainly within the next planning period which is until 2035.

COMMISSIONER BOROCHOFF: And I guess I should ask Dr. Cooper, or anyone else that wants to comment, do you disagree?

DR. COOPER: I don't disagree. And of course, you know, Dr. Lovely is the real economic expert on this. So, I guess I would just add that I think there's a real question across autocracies, right, when they reach this point where they have a choice about whether to drive reform or not.

And traditionally when autocracies make a decision to stop investing in reform and to increase their state control of their economies, I think you -- you tend to see that lead, as Dr. Lovely said, you know, to some regression, right, in their economy, just -- just naturally.

And I think when you combine that with the political discussion we were having earlier about a more repressive regime controlled by one man increasingly, it just seems to me that it's going to be very difficult for China to spur the kind of economic growth that they would need to really drive a much more rapid economic growth than -- than the projections that many people are thinking of now, you know, down in the two, three, four percent level over the next decade or two. Thanks.

COMMISSIONER BOROCHOFF: Thanks for letting me ask that question. I'm dying to ask a lot more, but I'm going to listen carefully.

CHAIRMAN BARTHOLOMEW: We'll see if we have some more time. Commissioner Goodwin, your turn.

COMMISSIONER GOODWIN: Thank you, Madam Chair, and thank you all -- to the witnesses for your input this morning.

Dr. Lovely, I will keep you on the hot seat, if that's okay. In your written testimony, you touched on some factors other than economic growth that would affect the quality of life domestically in China, including environmental concerns and air quality concerns.

And you raised them in your testimony within the context of domestic challenges, domestic economic challenges, but I'd like to broaden our consideration of those issues a little bit and get your thoughts.

In that testimony, you mentioned, of course, given these concerns, it was interesting that China was continuing to expand its fleet of coal-fired electric power generating facilities, with the construction of new plants in 2018 and 2019, and a rush of new permits being approved in 2020.

The increase, of course, of this capacity raises questions about the ability to China to meet its stated objection -- or objectives and compliance standards under the Paris Accords. But at the same time, they are investing around the globe in BRI projects in very carbon-intensive investment, infrastructure projects and the like, and most critically, more coal-fired

power plants.

And some estimates have suggested the emissions from these BRI countries will exceed the standards set forth in the Paris Accord, and that the increase in these emissions are primarily driven by these Chinese investments.

So, given this construction and export of coal-fired capacity, and the Biden Administration's recent decision to rejoin the Paris Accords, how do these Chinese activities affect our bilateral economic engagement in activities across the board with China?

DR. LOVELY: Thank you. Thank you for raising the environmental issues that were in the report. It's a really hard area. I think the stop-start behavior that we're seeing in China where they are permitting, greenlighting, more coal-fired power plants in the last two years than in -- you know, in the five before, while in -- you know, they are putting in one wind turbine basically every five minutes; what is this all about?

I think we're seeing that power was devolved from the center to the provinces. The provinces want to keep those state-owned enterprises, those jobs going, and seek -- coal is a cheap source of energy. And so they -- they keep drilling down on it while the -- Xi makes all of these international pronouncements that are trying to tie their hands in terms of, you know, non-fossil fuel energy sources.

So, I think you're seeing the difficulty of a big, decentralized authoritarian system where Xi's power is not absolute, and yet you see him trying to, I think, increasingly tie their hands on the international stage. I mean the fact that they should reach peak emissions by 2030 we all know is going to be a big ask for the economy.

So, you can keep those same power -- those same political interests occupied by having state contracts fulfilled overseas. So, I think these are linked through the domestic political challenges which Xi is faced with. And it would be interesting to hear this afternoon if there are others who are more versed in the politics of this than I who see that same linkage.

So I think, again, as we see this contradiction between market and state, we see this playing out also in its commitment to the gradual decarbonization of its economy.

COMMISSIONER GOODWIN: Thank you. Dr. Sutter, one follow-up question. In your testimony, you seem to suggest or perhaps characterize that the incoming administration's desire to engage or perhaps cooperate with China on some of these climate issues could -- well you characterized it as a preoccupation.

And I suppose the question for me is, are you meaning to suggest that that could inhibit our ability to counter China in other areas where necessary -- on trade, on Taiwan, South China Sea?

DR. SUTTER: Yes. I think the discussion today shows how complicated this is. We're going to apply pressure on China. We're going to counter them in various ways. All these types of understandings, this targeted approach, it's extremely complicated.

And so, the upshot of this is I'm not sure how you can do this in a country like the United States, bring everybody together, and say this is fine, this is fine, this is fine, and we're going to do this, and we're going to do this. We're going to be really busy with this sort of thing if we do this.

And so, I think we need to have some sort of sense of, are we trying to limit the leverage of the Chinese? Are we trying to enhance the leverage of the Chinese as they continue -- as I tried to emphasize in my testimony, they are doing all the challenges that they were doing before. They haven't stopped. I mean, this is ongoing. And so, I think that should be Day 1 that we begin with that.

And I think there is a contradiction in climate change, because I think if you start prioritizing climate change -- we had an experience with the Obama government where climate change seemed to override other issues. And so, the South China Sea Islands, and so forth, were all being occupied by the Chinese at that time.

So, I think it's important that we build our leverage in a whole range of ways so that we can go into these targeted areas in a more effective way. And I think building leverage against China and climate change may be in contradiction, and so I think we need to ask, how much do we need to cater to China in order to get them to cooperate on climate change?

My sense is, in looking at the situation, is that they're going to do what they're going to do on climate change, whether they like us or they don't like us. And so, I think that that judgment needs to be assessed more carefully. But I do think this is a contradiction. It will undermine -- it can easily undermine the sense of leverage that the United States might have in dealing with China on these very -- all of these other issues that we have disagreements on.

COMMISSIONER GOODWIN: I would certainly agree with you that it's complicated, but I would hope it's for the (audio interference). I know, you know, other countries in the region, South Korea and Japan, are engaging with China where they can, but obviously trying to counter them where they must. So, they're engaging with them in trilateral trade negotiations, but obviously standing up to them in other contexts. And I would hope we certainly could do the same.

DR. SUTTER: If that's what you think will work, okay. I wonder. I've seen this before, and I don't think it works very well. I think if it gets very complicated, the Chinese are really good at manipulating us, you have all these agreements, and they don't do what you think they're going to do.

You've got to look at what they're doing, and they're doing what the Chair said in the beginning. All these challenges, that's what --

COMMISSIONER GOODWIN: Well, that really goes to my question (audio interference). Even if they were meeting stated emissions targets domestically in China, how could we characterize that as compliance if they are exporting all of that capacity and those emissions to other countries? So, anyway, I am ---

(Audio interference.)

CHAIRMAN BARTHOLOMEW: Dr. Cooper, is there anything you wanted to add?

DR. COOPER: Well, I think this is a critical issue. And I will say, I was encouraged yesterday by the statement that John Kerry made, right, where he said that climate change issues did not need to be traded for anything else with China.

I think that's important, and I think we should hold him to that commitment, right? I think China also needs to cooperate on climate, just as we do. There is no reason that we should have to sacrifice our interests in other areas for China to cooperate on climate.

And so, you know, I think the Commission has a critical role here to keep highlighting this issue and say, yes, we both need to cooperate on climate, but that doesn't mean that the U.S. has to be quiet on Hong Kong, Xinjiang, South China Sea, Taiwan, et cetera, et cetera. So I think we should stick to our guns on this, and I hope John Kerry and the Biden team follow through on that commitment.

CHAIRMAN BARTHOLOMEW: Great. All right. Commissioner Talent, your turn.

COMMISSIONER TALENT: Thank you. And thanks to the three of you for really enlightening testimony.

I agree with what was just said about climate change. I would expect the Chinese are

going to start talking a lot now about how they're still a developing country and see what they can get us to believe as far as that is concerned.

So, my question I think is pretty simple. I was intrigued by Dr. Sutter's testimony, or his observation, that in the last few years there has been a pretty strong bipartisan consensus in Congress that -- and I think I'm quoting you correctly, Doctor -- that China is, at least under the CCP, is a systemic threat to the global world order and well-being.

So, I'm just -- I'm curious, if you all were sitting with a member of Congress who said that to you -- and we do talk to them and brief them all the time -- and they asked you, am I correct in characterizing China that way, what would you say?

DR. SUTTER: I'd be happy to say that I agree with that position. So, I would then lay out where the Chinese challenged the United States in a range of ways, and how this disadvantages the United States, and it's trying to overshadow the world order that the United States relies on. And I think that world order is better for humanity, in my sense.

And so, I would say look at how this is happening, and that's what I mean by a systemic danger. I think that's -- so I've examined this very thoroughly, sir, and I've tried to look at it. I'm an evidence-based analyst. It's sort of boring, but I've looked at the evidence and it's very strong across the board in Chinese behavior. So you just have to say -- just lay them out in different areas.

I would start with this cooperation with Putin. That might be one way to get somebody's attention, but there's a whole systematic agenda here that you can -- you can raise. I have about eight topics that you could address.

COMMISSIONER TALENT: Anybody else want to comment?

DR. COOPER: I'll just add one thought, which is, you know, I think part of what we're seeing from China is that over the last decade there has been a rapid change in China's behavior. And my view is that that's in large part because the Chinese Communist Party increasingly believes that it is in a relatively strong position.

And so, I think the kinds of changes that we're seeing in Chinese behavior, they create a bit of a tension between the longstanding China expert community and the more functional community that often looks at what happens when a rising power rises, right?

And so, I think the kinds of trends that Dr. Sutter is identifying, you know, we absolutely see them in the data. But I think we're actually going to see even more of an acceleration of this kind of assertive, aggressive behavior over the next few years, because if you listen to what the Chinese are saying, they are so confident, right?

You know, Xi Jinping saying in the fall that time and momentum are on our side, it's hard to be clearer than that. And so, I think we might even see an acceleration of this kind of behavior in the next few years.

COMMISSIONER TALENT: And so, I take it that's because at bottom you think that they want a world of authoritarianism where they are free to engage in aggression. And so, if they are confident they can achieve that, they will. But if they are subject to costs and consequences, they may not. So, that's basically your characterization of them.

DR. COOPER: I don't want to assert that they would actively prefer to spread, you know, a Leninist system globally. I think the evidence is at least less clear in my view on that. I think, you know, as Aaron Friedberg and others have argued, what they definitely want is a world that's safe for autocracy. Whether they want a world that is autocratic I think is a slightly separate question.

But when I read some of what has come out recently on the ideological question from

China, my assessment is that increasingly there is a view that there -- it is going to be very, very hard for the Communist Party and for the United States to coexist with both pushing slightly different ideological frames.

So, I actually think if you look back 10 years ago, I'm not sure I thought this ideological competition was going to be quite as fraught. But now I think it is central.

And I see this in wolf warrior diplomacy, right, where the Chinese are stepping up attacks, not -- they used to do lots of things to try and make China look good and positive and strong on the world stage, and now increasingly they are taking things from the Russian playbook and just sort of attacking democracies, even when it's costly to China for doing so. And that makes me think that there may be a bit of a shift of views on this issue within Beijing.

COMMISSIONER TALENT: Yeah. Dr. Lovely?

DR. LOVELY: Yeah. I was just going to harken back to testimony before this Commission a year ago from Dr. Barry Norton, who described China as strategic opportunists. It's a very flexible regime in a lot of ways. It's resilient.

What that suggests is that we can change, at least in the short run, some of their behavior -- and by "the short run," I mean the next 10 to 15 years -- by changing the opportunities. I think a good example here is the approach that it has taken to Australia. You know, Australia, 33 percent of Australian exports go to China. So China is beginning to view it as kind of another province of China, and it has just decided to whack it around.

You know, where is the international support for Australia? I think we have to say that when you use your power, your economic size in this way, there will be a cost -- a cost that you may not realize the size of -- to start to deter some of this behavior, and that requires us to have, as Dr. Cooper said, you know, some understanding with our allies on shared values.

And right now, frankly, U.S. tried to take advantage of its size, not only with the U.S.-China trade war but with the steel and aluminum tariffs, the section -- the use of national security.

So frankly, you know, our credibility on that score is a little bit low. We need to rebuild it and to then change the chessboard for China in terms of the options for its strategic opportunism.

COMMISSIONER TALENT: Okay. Thank you.

CHAIRMAN BARTHOLOMEW: Great. Thanks. Commissioner Wessel.

COMMISSIONER WESSEL: Finding my mute button. Thank you. Thank you all for your testimony. It comes, as you all know, at a critical time with the -- as was pointed out earlier, a new President and a new Congress. And you know, we are at somewhat of an inflection point in terms of what the policy is going to be going forward.

It's been variously attributed to Lenin, the quote, "When it comes time to hang the capitalists, they will vie with each other for the rope contract." And I think, in my view, the rope consists of capital, technology, and potentially markets, access to markets.

Recently, the EU signed an investment deal with China, and last year perhaps one of the more -- less heralded but more effective components of the Phase One trade deal was the opening of the financial market -- of China's financial market.

It seems to me that we are falling all over ourselves to give China the capital, and it is not simply to address the debt needs, the debt overhang, which Vice Chairman Cleveland and I have co-chaired several hearings on, but it is to fuel their techno-nationalism.

Separately, on the technology side, we have seen the Trump Administration broadly use sanctions, both within the entity list as well as the DoD designation, to restrict certain technology

transfers, and all of that, of course, will be in question as we look at who the next head of the Bureau of Industry and Security will be, and the overall approach of the Biden Administration.

I'll get to the question. The question is: do you view our provision -- increasing provision of capital to China, both the U.S. and the EU now, and others -- Dr. Lovely, you talked about FDI levels -- as supporting or denigrating our interests?

Dr. Lovely, I believe last year in your testimony you indicated that 46 percent of China's exports emanate from foreign-invested enterprises, and I believe you said that for the U.S. that's 60 percent. And correct me if I'm wrong.

But we're fueling China's rise, we're addressing their capital needs, and our companies that are going there or that are investing are all too often industrial -- engaged in industrial tourism and offshoring of U.S. jobs in production.

So, starting with you, Dr. Lovely, how do you view the opening of the investment market and what the EU has recently done, whether it's advantaging Western norms and change, or whether it's fueling China's rise?

DR. LOVELY: Thank you, Commissioner Wessel. I think that, you know, the opening of China's financial market, as you say, has really taken speed in the last two years, especially since the completion of the Phase One deal, although I would argue that a lot of these negotiations were already underway, but clearly it moved China's hand.

I don't see -- I guess where I would differ is I don't see China as needing our capital. They are the best savers in the world. What they need is our know-how. I have done, you know, academic work looking at takeover of Chinese firms by foreign firms, and we find a marked difference between takeover by OECD-based multinationals versus Taiwan, Macau, a lot of round-tripping money. There is a big difference.

So, I think that is what they are seeking, not so much the money but the know-how, the technology. So that's what they are seeking.

On the -- in terms of the financial, our -- our companies want in because of the markets. Clearly, there is a lot of money to be made. We know PayPal, JP Morgan, Goldman Sachs, a whole slew of others, have been greenlighted to go in, and they are doing so eagerly.

For the Chinese, as I mentioned, their service sector is highly unproductive, and this is going to help them raise the productivity of their financial sector, which they need to better allocate capital. And this, again, goes back to this -- this dual personality that they have where they are reforming, they are seeking more -- deeper integration, more market allocation, and at the same time the state believes that it can continue to guide the economy. And that shows up in the increasing share of investment which has been flowing to the very low-return, low-productivity state enterprises, and which has gotten worse through the pandemic, because that's where a lot of the stimulus money went.

So, I think we see, again, this dual approach, which I think is headed to some serious conflict with each strand. Whether our participation benefits the United States or not, I think, again, is something that the U.S. Government needs to consider where are our interests at -- you know, really at risk here? How do we undertake risk mitigation strategies? Is it a threat to us if Goldman Sachs or other financial service companies provide, you know, better access to retirement accounts for Chinese citizens?

I would argue not, although we have to remember that China is a very large economy, and as we see in its behavior toward Australia, will not be afraid to use that power once, for example, its firms are a large share of holdings of major U.S. or other company pension funds, for example.

So, I think that we have to go in with our eyes open, recognize the opportunities, and then begin to do a better risk assessment and risk mitigation.

COMMISSIONER WESSEL: Well -- and I would like to turn to the other two witnesses for a quick comment -- I do want to say that I have, you know, reservations about your approach.

You know, I think the question of the recent activities of the Chinese leadership regarding Alibaba and others, the lack of transparency, et cetera, I do believe there are serious risks, and there are systemic risks not just to an individual investor but otherwise. But that is a separate debate we will have to have probably offline.

But Dr. Sutter and Dr. Cooper, can you provide your thoughts, if any?

DR. SUTTER: Very briefly. What you have pointed to is I think the major dilemma that the United States faces in getting an effective counter to the various challenges that China poses. The business community is the community that is very divided about this and doesn't want to do it.

Japan and South Korea were mentioned earlier by Commissioner Goodwin and that's the same problem they face. Their business community doesn't want to do this either. And so, what sort of an alignment are they going to have vis-à-vis China in dealing with all of these bad things that they do?

And it seems to me that the weakness -- and the Chinese are well aware of this. And Xi Jinping, obviously, in the EU negotiations, he made concessions at the end, and he is working with the Plus-3 now to try to ease tensions there.

So, I think this, America really has to figure out, as an entity, as a unified place, what exactly is their interest? And I think the business community is basically a drag on trying to come up with an effective strategy. I think that's the case in Japan and South Korea and many other places as well.

COMMISSIONER WESSEL: Thank you.

DR. COOPER: And I would just add, I think the trick here is targeting the bad actors in the Chinese system and providing incentives for the good actors to actually continue good behavior. And I think part of the challenge we have seen, especially in the Trump Administration, is that, you know, the use of broad-based tariffs, for example, it provides no incentive for actors within the Chinese system to act -- to act according to international rules and standards, right, because we are going to penalize them regardless.

And so, I think what we need are much more targeted measures that go after companies and other entities that we think are the most problematic because they engage in malign behavior, and to do that with our allies and partners. And then for those companies that -- that we think are largely playing by the rules, to actually show that we're willing to work with them.

And I think that provides the kinds of incentives that will over time hopefully at least change some Chinese behavior. But look, we're still going to have to go after those malign actors in a very tough, targeted way.

COMMISSIONER WESSEL: I appreciate it. I've gone over -- it's hard for me to see how you choose "good actors" against the system, against the CCP's leadership and control and influence over companies, but a separate debate. Thank you, Madam Chair.

CHAIRMAN BARTHOLOMEW: Thank you. My turn. One of the hazards of coming at the very end is the range of issues that have been raised before me. Just a couple of comments before I ask.

First, Dr. Sutter, you and I have been doing this a long time and have seen, going through the 1990s, the hazard of sacrificing many of our interests in pursuit of one goal. And I would

specifically say many things were sacrificed in the 1990s in the name of getting China's cooperation in dealing with North Korea, and look where we are. It didn't exactly accomplish anything.

So, I mean, it's beyond time for us to be more sophisticated in the approach that we take and our ability and willingness to juggle issues.

The second one, Dr. Lovely, I don't actually -- maybe I misunderstood what you were saying, but I don't think that with -- that the goal has actually been to isolate China, with the exception of course of some fairly recent actions on -- restrictions on technology.

So, I always resist because then we get into the, are we for engagement or non-engagement? And the question is always, right, what are the terms under which that engagement is happening?

My third comment, of course, is just a skepticism -- again, after having done this for a long time -- about Chinese intentions to comply with the agreements that they make. And I think that that's an issue that, you know, the Europeans, if the European Parliament goes forward and agrees to this, you know, validates this agreement, then I think they are going to be seeing that they might not get everything that they thought that they were going to get.

But my question sort of gets to this issue of, are they playing -- do you think that they are playing a zero-sum game? And if they are, particularly then, Dr. Lovely, how do we -- how does incorporating them into norms and standards, and particularly there I'm thinking of standard-setting bodies on technology, but how does -- how does that accomplish anything? If what they are intending to do is to use those norms and standards to advantage themselves and disadvantage us and the rest of the world on these issues.

So, for all of you, is it a zero-sum game? Do you think they are playing a zero-sum game with us generally? And then Dr. Lovely particularly, how that has an impact on your recommendation that they be incorporated more into norms and standard-setting bodies.

DR. LOVELY: Well, thank you, Madam Chair.

CHAIRMAN BARTHOLOMEW: Okay.

DR. LOVELY: Yeah. Thank you very much for that challenging question. I do not see that they are playing a zero-sum game. I think that the world has benefitted enormously from China's entry into the global economy. That doesn't mean that we have gotten our fair share. That means that we have benefitted. So, zero sum is where one side takes all the gain. I don't see that that's what's happening.

They will take what they can get, and I see this standard-setting as a way for us to get our house in order and to say that we are willing to have you participate if you adhere to these norms. We're not willing to participate if you don't.

I think that China does need these kinds of guidance for figuring out where the guardrails are. Otherwise, they will just simply run roughshod in a way.

I think, again, going back to my statement about Australia, we need to be clear as to where we will say this is not acceptable behavior, and we have not been clear. That's how I see the standards and norm-setting in emerging technologies as really key. Don't let them know ahead of time.

So, I would stand by my recommendation. I think that that's vitally needed. I think most people in the industry would as well.

I don't see the business community -- unlike Dr. Sutter, I don't see the business community as necessarily adversarial on this. They do want to make profit. They do want to enter into new markets. You know, frankly, that's the capitalist system. That's what we want

them to do.

What we need to do is to provide the right guidance to them, to do the hard work of understanding where the risks are and how they can be mitigated. And I -- I do think that we have used a big bat lately. It has been very broad, as Zack Cooper mentioned, but we haven't done enough homework.

And we talked about this two years ago with this Commission, and the Commission has been very active in trying to signal the need for better information, analysis, and then follow-through on the part of the entire U.S. Government.

CHAIRMAN BARTHOLOMEW: Thank you, Dr. Cooper. Dr. Sutter?

DR. SUTTER: Just a -- I agree with what has been just said, and I am grateful to be part of this panel. Just on your question about zero sum, the way I look at the Chinese -- and most of these challenges that I see them doing to the United States is not necessarily going after the United States. It's basically we're in the way. These things that they want in their headlong pursuit of wealth and power, we're in the way.

We're the main obstacle in all these different areas. And that's what they want. They want those things to get out of the way, and they want to have their -- they want to have their development approach to continue, and that's what they're about. It's not that they want to take over the world or have a new world order. No. They just want to continue to advance in their -- in the way they do it, and we're in the way. And the Western norms are in the way.

And so, it's not zero sum, but whenever those things are in the way, well, that's what they want to overcome in one way or another.

CHAIRMAN BARTHOLOMEW: Dr. Cooper?

DR. COOPER: I very much agree with both of those comments, and I would just add, you know, I think it differs based on the domain. So, in the security domain, I do think we are in a zero-sum competition, and anything that makes China stronger in the security domain I think makes us less secure, and vice versa.

In the economic domain, I think actually in some areas it's positive sum. You know, it is, obviously, highly competitive. But I don't quite see that as a fully zero-sum world yet.

And then you've got areas in the middle like the technology area where it's probably a little bit of both. And I think this is where we have a real challenge, which is that we have to be able to bring allies and partners along. And some of those allies and partners are going to worry a lot about the security sphere, and that's how we can get so much cooperation from the Quad, for example.

But for those allies and partners that still focus most on the economic relationships, they still see the relationship at least as in some areas positive sum.

And I think we've got to try to at least convince them that we're willing to work with them, and that we understand that cooperation sometimes with the Chinese is going to be necessary, but that it has to be done in a way, as others have said, that protects their interests and makes sure that if they strike a deal with the Chinese that actually there is some follow-through on that deal, right? And that if you become more dependent on Chinese trade that you actually have some off ramps in case the Chinese start using trade and economic and financial tools as leverage against you.

So, I think it has got to, unfortunately, sort of combine both of these forces because the Chinese strategy is different across the different sectors of the competition.

CHAIRMAN BARTHOLOMEW: Great. Thank you. I guess I just noticed there that the topic of dual circulation came up, but there is also this sense I have that there is dual messaging

that is going on, right?

One thing that the CCP is promoting inside China -- and I'm always struck by last year when one of our staff sort of uncovered this phrase, that they are exhorting the CCP members to be the "gravediggers of capitalism," and then the face that they are showing outside as they are trying to get access to capital, get access to markets, and all of that, is quite -- is quite different. And how ultimately we reconcile or they reconcile those two visions is going to have a big impact.

So thank you to all of our panelists. We might have some other questions. We have run out of time for this panel. So, if you guys agree, we might have some questions that we'd like to send to you for the record.

And with that, we will break until 1:05, so people have a chance to get lunch. And we'll start our second panel at 1:05.

Thank you again. It was a great way to start off our 2021 hearing cycle, setting the framework for the issues that we are going to have to be grappling with.

So thanks to all of you.

COMMISSIONER KAMPHAUSEN: Thank you all very much.

DR. LOVELY: Thank you.

(Whereupon, the above-entitled matter went off the record and 12:09 p.m. and resumed at 1:07 p.m.)

PANEL II INTRODUCTION BY COMMISSIONER ROY KAMPHAUSEN

COMMISSIONER KAMPHAUSEN: Welcome back. Our second panel will analyze China's goals for its domestic politics, economic policy, and security and foreign affairs policy, as reflected in recent high-level CCP statements and conferences, such as the Fifth Plenum of the CCP's 19th Central Committee.

First, we welcome Dr. Sheena Chestnut Greitens, Associate Professor at the University of Texas at Austin, Lyndon B. Johnson School of Public Affairs. Her work focuses on East Asia, U.S. national security, and authoritarian politics and foreign policy.

Her work on China and North Korea has appeared in academic journals and edited volumes in English, Chinese, and Korean, and in major media outlets. Dr. Greitens will address China's political goals.

Next we welcome Dr. Yuen Yuen Ang, Associate Professor at the University of Michigan. Dr. Ang's research focuses on China and the institutions behind economic development, including how China's Central Party State -- Party State communicates its policies. She is the inaugural recipient of the Theda Skocpol Prize awarded by the American Political Science Association for impactful contributions to the study of comparative politics. Dr. Ang will address China's goals in the economic realm.

And, then finally we are happy to welcome back Dr. M. Taylor Fravel, Arthur and Ruth Sloan Professor of Political Science, and Director of the Security Studies Program at the Massachusetts Institute of Technology. Dr. Fravel studies international relations with a focus on international security in China and East Asia more generally. He is also a member of the Board of Directors of the National Committee on U.S.-China relations and serves as the Principal Investigator for the Maritime Awareness Project. Dr. Fravel will address China's goals regarding national security and foreign affairs.

I would like to remind our witnesses to please keep your remarks as close as possible to seven minutes to leave time for the following question and answer session.

And, Dr. Greitens, we will begin with you.

**OPENING STATEMENT OF SHEENA CHESTNUT GREITENS, PH.D., ASSOCIATE
PROFESSOR, UNIVERSITY OF TEXAS AT AUSTIN LYNDON B. JOHNSON
SCHOOL OF PUBLIC AFFAIRS**

DR. GREITENS: Thank you very much. Hearing Co-Chairs Bartholomew and Kamphausen, distinguished Commissioners, and fellow panelists, staff of the Commission, it is a pleasure to join all of you today. Thank you for inviting me to testify.

My remarks will focus on China's approach to national security under Xi Jinping. The central point that I wish to emphasize today is that Xi Jinping has outlined and operationalized a new security strategy -- a new grand strategy for the People's Republic of China.

It was introduced with the advent of the comprehensive national security concept in 2014, fleshed out with the launch of China's first national security strategy document in 2015, and has since been operationalized in China's security bureaucracies, security law, budget, personnel, and policy behavior, both at home and abroad.

The contents of the Fifth Plenum communique, which your questions asked me to comment on, reflect and affirm this new approach as correct and initially successful. By "grand strategy," I mean today simply a state's theory about how to create security for itself. But China's approach to creating security differs from classic American and often Western thinking in several important ways.

National security is better translated as regime security as the object to be protected is the CCP and its leadership role over Chinese society.

Western grand strategy tends to focus on internal factors insofar as they are a constraint on means. But, in China internal security is often the end toward which grand strategy is oriented.

The comprehensive national security concept in particular views China's security environment as rapidly changing and unstable, as you heard from Dr. Sutter this morning, and as Dr. Fravel will address this afternoon.

Particularly, it characterizes internal and external security threats as interlocking and mutually activated. This means, among other things, that China is not likely to retrench in the face of domestic difficulty, as doing so will not resolve internal challenges that are animated from abroad. Instead, China is more likely to assert itself strongly on internal and external fronts simultaneously.

The other strongly emphasized concept is that the correct approach to this less certain and more complex internal and external environment is a more proactive approach by China, often captured in some variant of the phrase "prevent and control."

I would submit to the Commission that these two concepts -- this internal and external security nexus and the concept of prevention -- explain a good deal about the shift to a more assertive security behavior that we have seen both in terms of internal security and tightening repression at home and escalation of Chinese assertiveness at and beyond the PRC's borders, whether it is, in the case of India, the South China Sea, Hong Kong, or the securitization of China's approach to the Chinese diaspora.

Implementing this strategy has been a huge project for the Chinese party-state in the past few years, as the Fifth Plenum noted. The launch of the Central National Security Commission was followed by reorganization in the People's Armed Police and related structures, and the creation of a new and stronger discipline and supervision apparatus that is now sometimes described as a sharp sword, to parallel and complement Maoist-era references to the gun,

meaning the military, and the knife of the domestic security forces.

Procurement and budget have funded massive investments in surveillance and data integration technologies aimed at achieving what the party-state often calls a three-dimensional information-based prevention and control system for social security and stability.

These surveillance technologies don't just have domestic but have global implications. They have been deployed throughout the country -- throughout the Chinese territory, throughout China's domestic political system, but have also been exported to at least 80 countries to date.

A new legal architecture has also been put in place with a raft of legislation that covers topics from counterterrorism to cybersecurity to the Hong Kong national security law that was passed last summer.

The assertion of extraterritorial authorities in these laws, in particular, is another way in which the CCP and its recent behavior has emphasized the interlocking nature of internal and external security threats.

Xi Jinping has also replaced almost all of the senior leaders across the political legal system in waves of anti-corruption campaigns. As Chair Kamphausen noted this morning, corruption is considered a or the primary threat to CCP governance because it erodes the party's ruling foundation from below and potentially from outside.

Increased international activity on the part of China's law enforcement agencies in recent years reflects the CCP's attempt to grapple with the external dimension of corruption as a security threat.

Finally, China's attention to connections between internal and external security makes it likely that China will respond to internal threats based on external stimuli that don't always make sense to outside observers unless this new framework is fully taken into account.

Elsewhere co-authors and I have argued that China's escalation of massively disproportionate repression in Xinjiang in the spring of 2017 was motivated in part by attention to activities externally, particularly within Uighur diaspora abroad, rather than being a purely domestic security calculus.

Here the CCP's preventive logic uses the metaphor of immunization -- a particular operationalization of the concept of prevention and control that, by definition, requires targeting citizens who have never engaged in politically symptomatic behavior and resulting in the massive abuses of human rights witnessed in Xinjiang today.

This framework produces any number of issue-specific recommendations that I am happy to discuss in more detail, but it also suggests structural changes that are needed to how we think about, study, and approach China.

Three that I wish to emphasize before I close today are as follows. First, increased federal funding for the study of China, to match its strategic importance and ensure that we continue to have a pipeline of capable, trained analysts for the foreseeable future.

Second, establishment of a center that can provide public translation of key documents to apprise policymakers of important developments much closer to real time, and so that fully informed debate is not limited to those who speak and read Mandarin Chinese.

Third, these are policies that allow for continued social science exchange, which I believe is important to lower the risk of misperception and mirroring errors. The risks and benefits of exchange with Chinese counterparts are different in the social sciences than in STEM fields, and domain-specific policies need to be considered and implemented.

I look forward to discussing these ideas. Thank you again very much for the opportunity to testify.

**PREPARED STATEMENT OF SHEENA CHESTNUT GREITENS, PH.D., ASSOCIATE
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**Internal Security & Grand Strategy:
China's Approach to National Security under Xi Jinping**

Statement before the U.S.-China Economic & Security Review Commission
Hearing on "U.S.-China Relations at the Chinese Communist Party's Centennial"
Panel on "Trends in China's Politics, Economics, and Security Policy"

28 January 2021

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Hearing Co-Chairs Bartholomew and Kamphausen, distinguished Commissioners and staff, fellow panelists, it is a pleasure to join you today. Thank you for inviting me to testify about recent and future trends in Chinese security policy. My remarks will focus on China's approach to national security under Xi Jinping, and are based on past research and on a book manuscript that I expect to complete later this spring.

The central point I wish to emphasize today is that Xi Jinping has outlined and operationalized a new national security strategy -- a new grand strategy -- for the People's Republic of China. The contents of the Fifth Plenum communique, which your questions asked me to comment on, reflect that strategy. We often don't recognize it as such, because we are used to thinking of grand strategy purely in foreign policy and often military terms. When the CCP uses national security, however, it means state or regime security -- the security of the Chinese Communist Party and its ability to govern Chinese society. Internal security is one of the chief ends of China's strategy, not just a means or a constraint on foreign policy, and unless we understand that, our analysis of China's security behavior -- both domestically and externally -- is going to have significant errors.

The Fifth Plenum Communique: on National Security

The Fifth Plenum communique, issued at the conclusion of four days of meetings in Beijing in October 2020, was both a retrospective and a forward-looking exercise; it assessed the results of the 13th Five-Year Plan (2016-2020) and the prospective 14th Five Year Plan (2021-2025), which will be unveiled at the National People's Congress this coming March.¹ Many of the themes of the communique are consistent with past rhetoric in which Xi Jinping has laid out a new understanding of China's threat environment, and proposed a new approach by which the party-state should address this environment. As it relates to national security, the main passage of relevant text read:

The plenary session proposed to plan/coordinate development and safety to build a higher level of "Safe China." Adhere to the comprehensive national security concept; carry out the national security strategy; protect and shape national security; plan/coordinate traditional and non-traditional security; integrate the development of security into every domain and every process of national development; prevent and resolve the various risks that (adversely) influence the country's modernization process; and build a firm protective screen for national security. It is vital to strengthen the national security system and build its capacity; guarantee the country's economic security; protect the people's lives and safety; and maintain social stability and security.²

¹ The formal name for the document issued at the Fifth Plenum is "The CCP Central Committee-Formulated Proposal for the 14th Five-Year National Economic and Social Development Plan, and 2035 Long-Term Goals" (中共中央关于制定国民经济和社会发展第十四个五年规划和二〇三五年远景目标的建议). It is available at http://www.xinhuanet.com/2020-10/29/c_1126674147.htm

For a good English-language explainer of the context in which the discussion of national security takes place, see Jude Blanchette and Scott Kennedy's analysis at <https://www.csis.org/analysis/chinas-fifth-plenum-reading-initial-tea-leaves>

² The Chinese reads: 全会提出，统筹发展和安全，建设更高水平的平安中国。坚持总体国家安全观，实施国家安全战略，维护和塑造国家安全，统筹传统安全和非传统安全，把安全发展贯穿国家发展各领域和全过程，防范和化解影响我国现代化进程的各种风险，筑牢国家安全屏障。要加强国家安全体系和能力建设，确保国家经济安全，保障人民生命安全，维护社会稳定和安全。

Both in this passage, and elsewhere in the text, there are some highlights worth noting:

- The directive to adhere to Xi Jinping’s “comprehensive national security concept” (*zongti guojia anquan guan*), with its attention to both traditional and non-traditional security threats.³
- An “increasingly complex” international environment, characterized by “profound changes” and heightened uncertainty and instability. The communique includes the formulation “changes in the world unseen in a century,” a phrase that has been the subject of close textual analysis and discussion both in China and in the United States.⁴
- The CCP’s efforts to reform both the military and the internal security, or political-legal, apparatus, the latter of which is referred to using the “Safe China” phrasing (*ping’an Zhongguo*).⁵
- The important role of technological development in achieving modernization of “national governance system and governance capabilities” and building an overall “national security system.”⁶
- The need to “coordinate development and security,” but with a slight shift in emphasis toward the idea that security must be incorporated into development work.⁷

The communique assesses that in the past five years under Xi Jinping’s leadership, national security has been comprehensively strengthened. and that society has maintained or preserved both harmony and stability.⁸ It also notes improvement in “social governance (*shehui zhili*), especially grassroots governance” as well as the system to “prevent and resolve” major risks.⁹

Analyzing China’s Concept of National Security

What are the sources of this assessment, and upon what is it based? I would argue that the introduction of Xi Jinping’s comprehensive national security concept in 2013-14, and subsequent fleshing out of that concept in both theory and practice, constitute a redefinition of China’s grand strategy. The Fifth Plenum communique, in combination with other evidence, indicates that this approach is now embedded within the party-state’s approach for the foreseeable future.

³ 坚持总体国家安全观.

⁴ Some of the language from the communique that describes this environment includes the following: 当今世界正经历百年未有之大变局… 国际力量对比深刻调整… 同时国际环境日趋复杂, 不稳定性不确定性明显增加. For contrasting interpretations of the “changes unseen in a century” phrase and its implications for China, see Rush Doshi, “Beijing Believes Trump is Accelerating American Decline,” *Foreign Policy*, 12 October 2020; Alastair Iain Johnston, “China’s Contribution to the US-China Security Dilemma,” in Avery Goldstein and Jacques DeLisle, eds., *After Engagement* (forthcoming).

⁵ 平安中国建设达到更高水平, 基本实现国防和军队现代化.

⁶ 基本实现国家治理体系和治理能力现代化

⁷ 统筹发展和安全. Note, however, that this brief reference glosses over some important changes in thinking under Xi Jinping with respect to the relationship between security and development. Whereas previous Chinese leaders tended to see development as a tool for producing security, Xi Jinping has at times suggested the reverse: that security is the necessary precondition for development.

⁸ 国家安全全面加强

⁹ 社会治理特别是基层治理水平明显提高, 防范化解重大风险体制机制不断健全.

One popular way of defining grand strategy is that it is a “state’s theory about how it can best ‘cause’ security for itself,” and it operates by identifying threats and proposing possible remedies.¹⁰ Although there has been much written since this definition that tries to more specifically define grand strategy in both comparative and American context,¹¹ I use this definition because it is the one that I think gives us the most clarity on how to look at what China is doing. In this sense, Xi Jinping has articulated a new threat environment for China; he has proposed a different organizing concept for how to approach this environment (a new theory of how to create security for China); and he has operationalized that concept in significant reforms to law, personnel, organizations, budgets, and policy. In other words, there is a direct connection between the strategic concept he’s outlined, and China’s subsequent policy behavior.

We do not tend to talk about China’s grand strategy in these terms, however -- in large part because doing so requires significant departures from classic Western assumptions about what grand strategy is and what it focuses on. Canonical Western scholarship on grand strategy emphasizes military power, focuses almost solely on foreign policy, and treats domestic politics primarily as a constraint on or enabler of the means by which a state pursues grand strategic ends abroad.¹² China’s grand strategy, by contrast, focuses on regime security, and pays explicit attention to both internal and external dimensions.¹³ Moreover, in the Chinese framework, internal security is the end toward which grand strategy is directed, not a) a means by which external goals are pursued or b) a constraint on pursuing them. China’s notion of grand strategy or national security also includes a much more prominent place for surveillance, policing, and internal instruments of non-military but coercive regime power. To understand Chinese security behavior now and in the foreseeable future, the United States will need to revise its thinking about how Beijing formulates and defines grand strategy.

In retrospect, the first signal of this new grand strategy appeared in a brief discussion of national security in the communique issued by the Third Plenum of the 18th Party Congress in November 2013, but it became much clearer with the unveiling of the Comprehensive National Security Concept in April 2014¹⁴ and launch of the Central National Security Commission.¹⁵ Analysts originally speculated

¹⁰ Barry Posen, *The Sources of Military Doctrine: France, Britain, and Germany Between the World Wars* (Ithaca: Cornell University Press, 1984), esp. p. 13.

¹¹ For two recent reviews of the literature on grand strategy, see Rebecca Friedman Lissner, “What is Grand Strategy? Sweeping a Conceptual Minefield,” *Texas National Security Review* Vol. 2, No. 1 (2018); Nina Silove, “Beyond the Buzzword: Three Meanings of ‘Grand Strategy,’” *Security Studies*, Vol. 27, No. 1 (2018), pp. 27-57.

¹² On the role of domestic politics, for example, see Richard Rosencrance and Arthur Stein, *The Domestic Bases of Grand Strategy* (Cornell University Press, 1993).

¹³ Sulmaan Wasif Khan, *Haunted by Chaos: China’s Grand Strategy from Mao Zedong to Xi Jinping* (Cambridge, MA: Harvard University Press 2018); see also Andrew J. Nathan and Robert S. Ross, *The Great Wall and the Empty Fortress: China’s Search for Security* (New York: W.W. Norton, 1997).

¹⁴ On the NSS, see “Xi Jinping Chairs Political Bureau Meeting on Outline for National Security Strategy,” *Xinhua*, 23 January 2015, http://www.xinhuanet.com//politics/2015-01/23/c_1114112093.htm. On the CNSC, see “National Security Matter of Prime Importance: President Xi,” *Xinhua*, 15 April 2014, http://www.xinhuanet.com//politics/2014-04/15/c_1110253910.htm;

¹⁵ “习近平：坚持总体国家安全观 走中国特色国家安全道路 [Xi Jinping: Adhere to the Concept of Comprehensive National Security and Take the Road of National Security with Chinese Characteristics],” *Xinhua*, 15 April 2014, http://www.xinhuanet.com//politics/2014-04/15/c_1110253910.htm; “Xi Jinping

that China's NSC might mirror the similarly-named body in the United States, but China's CNSC -- a party rather than state body -- has clearly adopted a more inward focus and releases relatively little information about its deliberations. The launch of both the concept and commission was followed a year later by the issuance of China's first national security strategy, a document that is not public but that, from available reporting, appears to reflect and build on the ideas conveyed a year earlier.¹⁶ The inauguration of a codified national security strategy on its own is a break with precedent, and indicates a different approach to these matters under Xi Jinping.

Minxin Pei notes that throughout China's post-1949 history, Chinese leaders have typically tended to offer a framing of the threat, which spells out what policy options are available and which are non-starters.¹⁷ Xi Jinping's characterization of China's threat environment, as noted above, is distinct from those of his predecessors. In November 2012, Hu Jintao stated that the "balance of international forces is developing in a direction favorable for the maintenance of world peace... [and] for overall stability in the international environment."¹⁸ By spring 2014, however, Xi Jinping described China as facing "the most complicated internal and external factors in its history."¹⁹ He quoted the Book of Changes, and warned listeners that "in our efforts to safeguard national security and social stability in these new circumstances, we are confronted with increasing threats and challenges. And, more importantly, these threats and challenges are interlocked and can be mutually activated."²⁰

Xi's reference to "interlocking" threats indicates a key aspect of his framing of China's security environment: the interrelationship, even inextricability, of external and internal threats, and the potential for one type of threat to exacerbate (or "activate") the other. In remarks at the first meeting of the National Security Commission, he called on the CCP to "attach equal importance to internal and external security."²¹ Moreover, the language of "mutually activated" is significant: it suggests that China will not necessarily retrench in the face of domestic insecurity or difficulty, as typical US-centric approach to grand strategy might presume, but in fact may very well escalate or at least become more active abroad. If internal and external threats are truly interlocking and mutually activated, one would not focus on one at the expense of the other, but must address both simultaneously. This has important implications for the United States and international community as they try to predict China's response to various external developments.

Chairs First NSC Meeting, Stresses National Security with Chinese Characteristics," *Xinhua* News, 15 April 2014, http://www.xinhuanet.com//politics/2014-04/15/c_1110253910.htm;

¹⁶ "Xi Jinping Chairs Political Bureau Meeting on Outline for National Security Strategy," *Xinhua*, 23 January 2015, http://www.xinhuanet.com//politics/2015-01/23/c_1114112093.htm. Note that while the presence of a national security strategy (in document form) is new, China has long had military guidelines; see Taylor Fravel, *Active Defense: China's Military Strategy* since 1949 (Princeton, 2019).

¹⁷ Minxin Pei, "Investigation of a Death Long Feared," *China Leadership Monitor*, September 2020, p. 4.

¹⁸ Hu Jintao, "Unswervingly Advance Along the Path of Chinese Characteristics, Struggle To Complete the Building of a Well-Off Society in an All-Round Way," Report to the 18th Party National Congress, 8 November 2012 (*People's Daily*, 9 November 2012), <http://politics.people.com.cn/n/2012/1109/c1001-19529890.html>.

¹⁹ "习近平：坚持总体国家安全观 走中国特色国家安全道路 [Xi Jinping: Adhere to the Concept of Comprehensive National Security and Take the Road of National Security with Chinese Characteristics]," *Xinhua*, 15 April 2014, http://www.xinhuanet.com//politics/2014-04/15/c_1110253910.htm;

²⁰ Xi Jinping, "Safeguard National Security and Social Stability," 25 April 2014, in Xi 2014, p. 234.

²¹ Xi Jinping, "A Holistic View of National Security," 15 April 2014, in Xi 2014, p. 232.

Also embedded at the core of this new strategy is the perceived need to move further toward preventive management of potential instability, as a way of responding to the heightened uncertainty and instability of China's overall security environment. Xi Jinping telegraphed this principle in April 2014 by saying:

To safeguard national security we must maintain social harmony and stability, *prevent and resolve social conflicts*, and improve our institutions, mechanisms, policies and practical endeavors to make this happen.... [We must improve] the mechanism for assessing potential risks, so as to *reduce and prevent* conflicts of interest.²²

In 2015, Meng Jianzhu repeated Xi's formulation about prevention and control (防控, *fangkong*) as the "correct direction" for political-legal work;²³ in early 2019, Zhao Kezhi urged China's various public security bureau directors to "always insist on putting *prevention* of political risks as the first priority."²⁴ The emphasis on prevention and control as a byword for the management of Chinese society indicates a more proactive and preventive way of approaching governance than even the stability maintenance (*weihu wending*) framework used during the Hu-Wen era, and at times has implied some criticism of it (though as the Fifth Plenum text shows, the term has not disappeared).²⁵

The fact that "prevention and control" does double-duty discursively in both public security and public health helps to explain why China's response to COVID-19 was inextricable from the country's broader surveillance and social control projects. Pandemic management efforts drew on the infrastructure of public security, and amplified the strength of those systems in turn.²⁶ But alongside the securitization of public health has come the medicalization of public security, which is perhaps even more troubling in its implications. In 2016, Meng Jianzhu referred to the need to 'immunize' the Chinese body politic and to strengthen its overall immunity against politically problematic thinking;²⁷ in Xinjiang, officials have repeatedly likened perceived threats (usually the "three evils" of separatism, religious extremism, and terrorism) to cancer (tumors) and infectious disease (ideological viruses). This metaphor makes clear that the CCP's preventive logic requires targeting and "treating" citizens long before they have shown any symptoms of threatening behavior, based only on the regime's perceived perception of someone's "susceptibility" to incorrect political thinking.

²² Emphasis added. Xi Jinping, "Safeguard National Security and Social Stability," 25 April 2014, in Xi 2014, p. 235.

²³ Meng 2015.

²⁴ Emphasis added. His statement was "始终坚持把防范政治风险置于首位。" Li 2019.

²⁵ For example, in 2015, Meng Jianzhu appeared to implicitly criticize "stability maintenance" by saying it had been too reliant on "suppressive control."

²⁶ Sheena Chestnut Greitens and Julian Gewirtz, "China's Troubling Vision for the Future of Public Health," *Foreign Affairs*, 10 July 2020.

²⁷ For example, in 2015, Meng Jianzhu appeared to implicitly criticize "stability maintenance" by saying it had been too reliant on "suppressive control."

From Concept to Behavior: Why a New National Security Strategy Matters

The conceptualization outlined above is not simply abstract theorizing; it has shaped and justified concrete policy changes that have made headlines in and outside of China since 2014. According to Chinese analysts and commentary, existing security frameworks and tools “did not meet the requirements of safeguarding/protecting national security.”²⁸ The increased prevalence of non-traditional security threats in China’s new security environment, combined with the increasingly interlinked relationship between internal and external security threats, propelled reforms of China’s national security institutional infrastructure, and many recent developments reflect the party-state’s attempt to operationalize its new national security strategy. I have written about many of these developments at some length elsewhere,²⁹ but let me review a few key points below.

Organizationally, the inaugural national security strategy has been operationalized through steps such as the creation of the Central National Security Commission, reorganization of the People’s Armed Police, and creation of a new and much stronger supervision-and-discipline apparatus that is sometimes now referred to as a “sharp sword” that parallels the gun of the military and the knife of the domestic coercive apparatus. As noted above, these reorganizations are often explicitly justified by linking them to the comprehensive national security concept and subsequent new approach. Leaders of the People’s Armed Police (PAP), for example, have cited the inadequacy of the old organization as a reason to reorganize and change the command structure of the PAP.³⁰

A new legal architecture has also been constructed through the nearly twenty pieces of legislation related to national security passed by the National People’s Congress, from early ones such as the Counter-Espionage Law in 2014 to the Hong Kong National Security Law in summer 2020. As with organizational reform, legislation has been explained as emanating from the Comprehensive National Security Concept.³¹ These laws have paved the way for an assertion of extraterritorial authority that only makes sense in light of the permeability of internal and external security asserted by Xi and the Comprehensive National Security Concept. Among other effects, this has posed challenges to academic freedom in the United States, particularly (but not only) when Chinese students taking courses from American universities are physically located in the PRC.³²

In terms of *personnel*, Xi Jinping has replaced almost all of the senior leaders across the political-legal apparatus, either through retirement or via anti-corruption investigations. His rhetoric, and that of senior officials, frames corruption itself as a matter of national security; earlier this month, at the annual meeting of the Central Commission for Discipline and Inspection (CCDI), he repeated a

²⁸ Xi Jinping, “Explanations of ‘the CPC Central Committee’s Resolution Concerning Several Major Issues in Comprehensively Deepening Reform,’” *Xinhua*, 15 November 2013, http://www.xinhuanet.com/politics/2013-11/15/c_118164294.htm; Hua Yiwen, “‘Three in One System’ Opens New Stage in National Security,” *People’s Daily*, 2 July 2015, http://www.xinhuanet.com/world/2015-07/02/c_127974791.htm; See also Chen 2013; Gong 2014; Liu 2014.

²⁹ <http://www.court.gov.cn/fabu-xiangqing-13840.html>

³⁰ Wang Ning 2017.

³¹ “Build a Firm System for National Security,” *Renmin Ribao*, 2 July 2015, <http://opinion.people.com.cn/n/2015/0702/c1003-27240271.html>

³² For example, see Sheena Chestnut Greitens, “America’s Universities Need a China Strategy,” *ChinaFile*, 27 August 2020, <https://www.chinafile.com/conversation/future-of-china-studies-us>

statement made previously, that corruption was the biggest threat to the CCP's governance.³³ As I have written elsewhere,³⁴ the anti-corruption campaign is explicitly political, in that it targets not just criminals but their “protective umbrellas” in law enforcement and local government, on the belief that collusion threatens not just the safety or finances of citizens, but the political stability and “ruling foundation” of the Chinese Communist Party. This securitization of corruption means that both the military and the political-legal apparatus have been made primary targets of recent anti-corruption campaigns, including the rectification-and-education campaign that was piloted last summer/fall, and formally kicks off this year.

The anti-corruption campaign also demonstrates China's perception that internal and external dimensions of security interlock, meaning that anti-corruption is not just domestic politics but also drives some of China's foreign policy behavior. The Supreme People's Procuratorate, for example, has advertised its success in returning expats via Interpol's red notice system, and highlighted the promotion of a “Clean Belt and Road” alongside other forms of international cooperation on anti-corruption and law enforcement.³⁵ The fall of Meng Hongwei from Interpol leadership when he was detained by the CCDI in fall 2018 indicates that regime security takes priority over participation and potentially even leadership of international organizations when the two objectives come into conflict.³⁶ Moreover, there is some evidence that the penetration of external threats inside China's political system heightened the urgency of the anti-corruption campaigns in the first place; Zach Dorfman reported in late 2020 that Xi Jinping was impelled in part by concern that the American CIA had exploited corruption in China by paying officials' promotion fees and thereby recruiting them.³⁷

Procurement and budgets also reflect the new approach to national security; these documents show large increases in technological spending related to surveillance which is often explicitly linked to the aim of “prevention and control”³⁸ and which parallels the Fifth Plenum's rhetoric about construction and strengthening of “the national security system.” One phrase that occurs often in CCP rhetoric on public security management is the need for a “three-dimensional information-based prevention and control system for public-social security” (创新立体化信息化社会治安防控体系). A 2015 opinion from the CCP Central Committee and PRC State Council, for example, calls for this system to be

³³ Echo Xie, “Chinese President Xi Jinping says corruption remains biggest threat to Communist Party,” *South China Morning Post*, 23 January 2021, <https://www.scmp.com/news/china/politics/article/3118964/chinese-president-xi-jinping-says-corruption-remains-biggest>; see also http://paper.people.com.cn/rmrb/html/2021-01/23/nw.D110000renmrb_20210123_1-01.htm

³⁴ Sheena Chestnut Greitens, “The *Saohai* Campaign, Protection Umbrellas, and Impact on China's Political-Legal Apparatus,” *China Leadership Monitor*, September 2020, <https://www.prcleader.org/greitens-1>

³⁵ Ibid.

³⁶ Colin Dwyer, “Meng Hongwei, Ex-President of Interpol, Sentenced to Prison in China for Corruption,” *NPR*, 21 January 2020, <https://www.npr.org/2020/01/21/798121397/former-interpol-president-sentenced-to-prison-in-china-for-corruption>

³⁷ Zach Dorfman, “China Used Stolen Data to Expose CIA Operatives in Africa and Europe,” *Foreign Policy*, 21 December 2020, <https://foreignpolicy.com/2020/12/21/china-stolen-us-data-exposed-cia-operatives-spy-networks/#>

³⁸ Jessica Batke and Mareike Ohlberg, “State of Surveillance,” *ChinaFile*, 30 October 2020, <https://www.chinafile.com/state-surveillance-china>

implemented so as to “comprehensively promote the construction of a peaceful China”³⁹ -- the same language invoked in the Fifth Plenum communique. Concretely, this directive calls for the expansion of networked video surveillance and community grid management, enhancement of predictive and early warning capabilities in public security, and reorganization of local party and government work to limit “information islands” and more smoothly coordinate information and public security intelligence.⁴⁰ The drive to develop these capabilities inside China has not just had domestic consequences, but is affecting governance worldwide; as of late 2019, Chinese tech companies had exported surveillance and data-integration platforms to over 80 countries worldwide.⁴¹

The advent of this new approach to national security has also produced significant changes in specific regions and policy issues -- perhaps most notably in Xinjiang, where the CCP has escalated a campaign of collective repression against the Uyghur Muslim population to the point where it was deemed genocide by both the outgoing Trump and incoming Biden administrations. In work published last year in *International Security*,⁴² two colleagues and I argued that China’s sharp turn to collective repression in spring 2017 was likely motivated not only by domestic factors, but also by heightened sensitivity to changes in their perceptions of the external threat environment, especially a desire to prevent terrorism from diffusing back into China via radicalized transnational Uyghur networks and links (however tenuous) to terrorist groups in Southeast Asia, Syria, and the broader Middle East. This is a particular variant of the internal-external security nexus that Xi Jinping’s comprehensive national security concept called on officials to scrutinize -- and when combined with the preventive logic of “immunization,” it has produced the sharp escalation in collective repression and grossly disproportionate violations of civil, political, and other human rights that the world has witnessed in Xinjiang.

Thus Xi Jinping’s comprehensive national security concept, China’s inaugural national security strategy, and a whole body of related writings lay out a revised understanding of China’s threat environment, and propose a new doctrine, or approach, to addressing these challenges. Understanding this affects how we interpret and predict any number of Chinese actions and behaviors, whether in Xinjiang or elsewhere, and can therefore generate specific policy recommendations for each individual topic or issue-area. But more fundamentally, I believe, analysts and policymakers must revise how they understand China’s approach to national security and grand strategy to account for the strategic framework I have outlined today. A more accurate understanding of the underlying concept will lead to better analysis, more accurate predictions, and more useful policy proposals across a wide range of issue areas, the full breadth of which we cannot hope to cover today.

³⁹ “全面推进平安中国建设。” CCP Central Committee/PRC State Council 2015.

⁴⁰ On the local application of these platforms to try to resolve the challenge of “information islands,” see Huirong Chen and Sheena Chestnut Greitens, “Information Capacity and Social Order: The Local Politics of Information Integration in China,” *Governance* (forthcoming).

⁴¹ Sheena Chestnut Greitens, “Dealing With Demand for China’s Global Surveillance Exports,” Brookings, April 2020.

⁴² Sheena Chestnut Greitens, Myunghee Lee, and Emir Yazici, “Counterterrorism and Preventive Repression: China’s Changing Strategy in Xinjiang,” *International Security*, Vol. 44, No. 3 (Winter 2019/20).

Recommendations for Research and Policy

In addition to the specific issue-area recommendations that I mentioned, and which I would be happy to follow up on with the Commission after this hearing, the framework I have described today suggests a need for several structural changes to the way the United States seeks to understand and analyze the People's Republic of China. To begin, I would ask the Commission to consider the following:

- 1) Increased federal funding for the study of China (via FLAS, etc) to match the PRC's current strategic importance to the United States, and ensure that the U.S. has a pipeline of capable, trained researchers and analysts for the foreseeable future;
- 2) Establishment of a center or initiative that provides public translations of key open-source documents, so that analysts and policymakers are aware of important policy changes (or evolutions) in something closer to real-time, and so that fully-informed debate is not limited to those who speak and read fluent Mandarin Chinese;
- 3) Revised visa policies (and collaboration with American institutions of higher education) to facilitate exchanges between Chinese and American researchers in the social sciences, where the risks of illicit technology transfer are very low, but the benefits to national security of open dialogue (and particularly of avoiding misunderstanding of Chinese priorities and assumptions) are high;
- 4) Incorporation of analysis of Chinese law enforcement and domestic security actors into research on China's national security and foreign policy, whether in Congressional reporting requirements or this Commission's annual report. (In essence, there is a need to take China's framework for national security on its own terms to avoid mirroring errors that assume China sees the concept the same way the United States does.)

This is far from an exhaustive list, and I look forward to continued dialogue on these important issues and the policy recommendations that flow from them. The Commission plays an important role in bringing these questions and concerns to public light, in Washington, across the United States, and indeed internationally. I thank you again for your time and attention, and the opportunity to testify to you today.

OPENING STATEMENT OF YUEN YUEN ANG, PH.D., ASSOCIATE PROFESSOR, UNIVERSITY OF MICHIGAN

COMMISSIONER KAMPHAUSEN: Thank you so much, Dr. Greitens. There's a lot to engage with you on from your presentation and your testimony, written testimony. We look forward to that in the question and answer.

We'll turn next to Dr. Yuen Yuen Ang.

DR. ANG: Thank you to the Commission for the invitation to speak on this important topic. My testimony is focused on Chinese economic policymaking, and I look to my fellow panelists to help fill in on other aspects of U.S.-China relations.

To address the questions raised by the Committee -- by the Commission as completely as I can, I focused on examining the language of the relevant documents. As two Chinese policymakers once said, "In Chinese politics, subtle changes in rhetoric reflect a big change in ideology."

In my experience studying China, this is true. But the challenge lies in extracting those subtle changes from a sea of party speak. In particular, my testimony compares the language of the Fifth Plenum communique in 2020 with the preceding one in 2015. Both took place under Xi's leadership.

The advantage of this approach is that it gives us a clear perspective on continuity and changes in Xi's administration, and it provides one evidential basis for assessing what Chinese leaders are thinking, which is otherwise opaque.

There are three words that capture the core themes of the 2020 communique. Number one, quality development; number two, core technology; and number three, security. But given time limitations, I am only going to highlight two observations.

My first set of observations concerns the CCP's confidence about the economic future, and here I characterize its sentiment as guarded confidence rather than hubris. Most commentaries describe the CCP as being very confident today, after having successfully controlled the pandemic and survived other crises. And this is true -- the 2020 communique used a new term, a once-in-a-century seismic shift, which alludes to the pandemic and historical forces being on China's side. But there is more to that. A closer look at the communique indicates that this confidence is moderated by an explicit acknowledgment of China's limitations, which you don't find in 2015.

Also striking is Xi's personal explanation on the communique in which he states, "Our nation is still the world's largest developing country." Now note that when China says that it is a developing country to foreigners, that is completely different from Xi saying it to China, because this is inconsistent with the grand narratives that became popular under the president.

The line that China is still a developing country is usually associated with the premier, Li Keqiang, who has a different take. He tends to urge realism, pragmatism, restraint in hubris and overreach.

The premier caused quite a stir in May of 2020 when he revealed at a press conference that 40 percent of China's population made less than \$140 U.S. a month. While this may seem mundane to audiences outside of China, in effect, what he said deflated triumphalist narratives about China's superpower rise.

So what does the tone of guarded confidence imply? One way to read it is that although the realists have been seriously sidelined over the years, their message of restraint was still partially incorporated in 2020.

For policymakers, the takeaway is this: China is not a monolith. There are differences, even among the top leaders, but these differences can only be subtly expressed.

My second set of observations concerns the CCP's changing priorities toward innovation and technology. Popular discourse about the U.S.-China tech race overlooks a basic fact. China's comparative advantage in technology is different from that of the U.S.

China excels in commercial applied technology; that is, applying existing technology to improve business models, for example, e-commerce and fintech. By comparison, the U.S. is still the number one world leader in basic scientific research and advanced technology.

It is well-known that Beijing wants to catch up in advanced technology. But what has not been pointed out is that in 2015 Beijing also welcomed other types of technological ventures involving commercial applications and bottom-up participation.

So if you look at Table 4 in my testimony, you see that in 2015 the communique mentioned Made in China 2025, and that is well-known. But it also mentioned mass entrepreneurship, the sharing economy, and Internet Plus. Mass entrepreneurship was a broad initiative to encourage the whole society, and not just the bigwigs, to participate in innovation. Local governments created incubators, hackathons, and startup ecosystems around the country. One element of mass entrepreneurship is known as the Makers Movement, where individuals make their own devices using open-source hardware. And the origins of that movement actually came from the place where I went to school, the Bay Area in California.

These types of bottom-up innovation are not in zero-sum competition with the U.S. They are not about grabbing critical technology or creating a few national champions. Instead, it is about leveraging the internet to do business, with a focus on startups and SMEs, small and medium enterprises.

But in 2020 you see that these innovations were no longer mentioned in the communique. Instead, the CCP was only interested in acquiring core technology to ensure self-sufficiency. But this shift in emphasis is also mirrored in The People's Daily, the party newspaper, which I show in Figure 1.

In 2015, mass entrepreneurship was the game of the town. But by 2018, when the techno-trade war started, mentions of core technology overtook mass entrepreneurship, and this trend has since continued.

There could be a number of factors driving this trend, but one motivation is clear. Beijing is now determined to escape what it calls the "strangle of U.S. containment policies." The relationship has moved from having different comparative advantages in technological innovation to a zero-sum competition.

Finally, let me turn to the implications for U.S.-China relations. I agree with many of the points raised by Dr. Greitens, in particular about increasing expertise on China. This I think would be necessary for supporting a targeted, differentiated approach to China, instead of a blanket approach.

This targeted approach should recognize: a) that different types of innovation exist in China, presenting different risks and opportunities; and b) that differences among Chinese elites, including among its top leaders, exist, just as we find in the U.S.

When the U.S. sees China as a monolith, looks only for threats and uses only sanctions, this blanket approach can backfire. It creates a convincing narrative that the U.S. is bent on containing China's rise and presents itself as a rival to all of China. This perception goes against U.S. interests, and it strengthens the hand of nationalist hawks.

I borrowed the term "smart competition" from a joint report by the Asia Society and

UCSD. In my view, smart competition involves knowing the contours in China and having a diversified toolbox, pushing back strongly on some practices but selectively engaging on others. Thank you very much, and I welcome any questions.

**PREPARED STATEMENT OF YUEN YUEN ANG, PH.D., ASSOCIATE PROFESSOR,
UNIVERSITY OF MICHIGAN**

**Testimony before the
U.S.-China Economic and Security Review Commission**

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

Yuen Yuen Ang

January 28, 2021

Thank you for the opportunity to offer my views on U.S.-China relations and China's economic policymaking. In this testimony, I address four themes.

1. The CCP leadership's confidence in China's economic trajectory
2. Continuity and change in China's economic policies
3. CCP's vision of "socialist modernization" by 2035
4. Recommendations for managing relations with China

Key observations:

- Three words capture the core themes of the 2020 communique: (1) "quality development," (2) "core technology," and (3) "security."
- Despite the shocks in 2020, the CCP remains confident and sees opportunity in a post-pandemic global order; but this confidence is better characterized as guarded confidence rather than hubris.
- There are continuities and changes between the 2015 and 2020 Fifth Plenum communiqués, which provides a useful indicator of whether and how Xi's administration has evolved over the past five years.
- Consistent with 2015, "quality development" remains the central theme of the 2020 Fifth Plenum—but this time, no GDP targets were set.
- One urgent problem facing the CCP is how to overhaul and align the target system with its core goal of achieving quality development.
- Technology is always a top priority—but whereas the leadership welcomed all types of technological ventures in 2015, in 2020, it only prioritized "core technologies" that can ensure "self-sufficiency."
- The leader Xi clearly favors a statist approach but he also wants to make use of market forces to strengthen the state's allocative role.

Significance of the 2020 Fifth Plenum

From 26-29 October in 2020, the 19th Central Committee of the Chinese Communist Party (CCP), under the leadership of General Secretary Xi Jinping, met for the Fifth Plenum to review the proposal for the next 14th Five-Year Plan (FYP) (2021-2025). This meeting is especially significant because it took place at a moment of extraordinary stress: a once-in-a-century pandemic on top of an unprecedentedly fractious relationship with the United States.

Another significance is that the CCP is making plans on a longer time horizon than before: the next five-year plan is positioned as a stepping stone toward a 15-year plan. Having made “decisive accomplishments” on the first centennial goal of “moderate prosperity for all,” the leadership is now striving toward the second centennial goal of reaching “socialist modernization” by 2035.

Reading the Tea Leaves

My analysis will focus mainly on the communique (a summary of the discussion), which the state media released on the last day of the plenum.¹ Other relevant documents include the proposal formally approved at the meeting: “CCP Central Committee-Formulated Proposal for the 14th Five-Year National Economic and Social Development Plan and 2035 Long-Term Goals.”² Following up, on 4 November, the state media released “explanations” of the communique, including one personally issued by Xi.³

In China’s single-party state, official addresses are instruments of policy rather than public communication. They are usually stultifying, filled with platitudes and party slogans, with entire sentences and even paragraphs copied and pasted from plenum to plenum. Hence, a cursory read of CCP communiqués may yield the impression that more or less the same things are being said over and over again.

But in fact, as Qian and Wu, two Chinese economists and policy advisors, pointed out, “In Chinese politics, subtle changes in rhetoric reflect a big change in ideology.”⁴ The challenge lies in extracting these “subtle changes” from a sea of bureaucratic jargon, and interpreting their significance in light of previous and concurrent actions and statements.

Hence, in this testimony, I compare the language of the Fifth Plenum in 2020 (which approved the draft of the 14th FYP) with the Fifth Plenum in 2015 (which approved the 13th FYP). Both took place under Xi’s leadership. Thus, a comparison of the two communiqués provides one evidential basis for assessing whether and how Xi’s administration has evolved over the past five years.

It is worth underscoring that while the Xi administration has certain enduring goals and characteristics, it is constantly *evolving* in response to the domestic economy, global environment, and in particular, U.S. policies toward China.

Guarded Confidence

Q: What do recent CCP policy documents such as the Fifth Plenum communique indicate about CCP policymakers' confidence in China's economic trajectory?

1. *Despite the shocks in 2020, the CCP remains confident about China's economic trajectory and sees opportunity in a post-pandemic global order.*

One indication lies in the CCP's diagnosis of its situation in 2015 compared to 2020. Both plenums underscored the “tough domestic challenges” and “complex international situation.” But in 2015, the leadership saw its defining challenge as the “economic slowdown,”⁵ whereas in 2020, this was no longer mentioned. Instead, their overriding concerns were the pandemic (mentioned 4 times) and the “complex international situation” (mentioned 3 times). The latter alludes, above all, to worsening U.S.-China relations. As Mr. Xi elaborated: “In recent years, de-globalization is on the rise, and some countries are dramatically pushing for unilateralism and protectionism.”⁶

It is a cliché to say that there is opportunity in crisis. Predictably, there is a paragraph with this cliché in 2015. What is subtly different in 2020 is that the CCP emphasizes that “both the nature of our opportunities and challenges” have changed. Here, it introduces a new term: “a once-in-a-century seismic shift,” paired with another new word: “the relative power [of nations] is shifting.” This alludes to the Party's belief or narrative that passing the pandemic stress test has boosted China's position in the global order.

Table 1: Mentions of China's challenges

Keywords	2015 Fifth Plenum Communique	2020 Fifth Plenum Communique
Pandemic 疫情	0	4
A once-in-a-century seismic shift 大变局	0	2
Relative power is shifting 国际力量对比深刻调整	0	1
Tough domestic challenges 艰巨繁重的国内改革发展稳定任务	1	1
Complex international situation 错综复杂的国际形势/环境	1	3
Economic slowdown 经济下行	1	0

Beijing's evaluation of China's position is often in response to the domestic situation in the U.S. The storming of Capitol Hill on January 6th 2021 was closely watched by the Chinese leadership and elites. Overall, the event has affirmed the impression that “the East is rising while the West is declining,” as Chen Yixin, secretary general of Central Political and Legal Affairs Commission, remarked at a workshop for provincial leaders on January 15th.⁷

2. *Having said that, the type of confidence expressed in 2020 is better characterized as guarded confidence rather than hubris.*

Not all types of confidence are the same. One type is pragmatic confidence about what needs to be done to solve problems. But a second type is hubris—visions of grandeur and overestimation of one’s abilities, leading to overreach.

Since taking office, Xi’s administration has been prone to hubris.⁸ But the language of the 2020 plenum now suggests a position of guarded confidence. It dedicated a full paragraph to delineating China’s strengths and great challenges, which was absent in 2015. On the sources of confidence:

Our nation has transitioned into a stage of quality development; our (political) institutional advantages are obvious; our governing capacity has increased; our growth prospects look good; our natural and human resources are abundant; our market is large; our development is resilient; we enjoy social stability; all of which provides many advantages and conducive conditions for continued development.

Then it added a strong note of caution:

At the same time, our nation faces an acute problem of inequality; reforming critical steps of key domains remains tough; our innovation capacity does not match the needs of high-quality development; our agricultural foundation is not strong enough; there is a large rural-urban divide; monumental work awaits on environmental protection; and gaps remain in people’s livelihoods and in social management.

Another sign of restraint in hubris appears in Xi’s own explanation of the 2020 communique.⁹ He stated, “Our nation is still the world’s largest developing country, and hence development is still our party’s number one mission.”¹⁰ This may seem a mundane statement except when interpreted in light of earlier comments. At the Two Sessions meeting on May 28 in 2020, Premier (head of the State Council) Li Keqiang admitted that about 600 million Chinese people make only 1,000 Yuan (US\$140) a month.¹¹ This statistical fact deflated triumphalist narratives about China’s superpower ascent that became popular under Xi.¹² Again in July of 2020, Li reiterated on the website of the central government: “China is still a developing country, so we should always act and live within our means.”¹³ In this context, it is worth noting that by the end of 2020, Xi echoed this message of realism.

Yet these signs do not mean that ambition has faded—as earlier discussed, the CCP’s assessment appears to have rapidly changed after January 6th, and whether it would tilt toward hubris and aggression afterward remains to be seen.

3. *Guarded confidence is accompanied by an overwhelming emphasis on security.*

The 2020 Fifth Plenum resoundingly reaffirmed Xi’s position as the paramount leader. Whereas the 2015 communique referred to “the central Party with Xi Jinping as general

secretary,” the 2020 referred to him as the “core” and “helmsman” four times. It placed an overwhelming emphasis on “security,” which is mentioned 22 times in 2020—more times than “quality of development” (16), “innovation” (15), and “dual circulation” (2)—compared to only 13 times in 2015. Xi personally reiterated this message: “Security is the precondition of development, and development is the safeguard of security.”¹⁴

Continuity and Change

Q: What are the most important economic policies introduced in the Fifth Plenum? Do the policies introduced in the Fifth Plenum signal a change in CCP economic policymaking?

There are continuities and changes from plenum to plenum. The best way to identify what has changed is to compare the structure of the communiques in 2015 and 2020: they share a template but with slight variations (see Table 2 at the end of this document). Both place the quality of development and technological innovation at the heart of the agenda, above all other topics. What is different is the way the leadership interpreted and set targets for these overarching goals, which signals changes in the means to achieving them.

1. *Consistent with 2015, “quality development” remains the central theme of the 2020 Plenum—but this time, no GDP targets were set.*

Since 1978, China has pulled itself out of poverty through four decades of market liberalization and rapid economic growth. As income rises, the leadership has shifted its emphasis from the quantity to *quality* of growth. Prioritizing quality development simultaneously meets rising domestic expectations for higher quality of life and competitive pressures from the U.S.

Quality development was already championed in the 2015 communique and 13th FYP. Against this backdrop, it set an annual GDP growth target of 6.5% for the next five years (2015-2020), and included other targets such as increasing the share of the services sector, the number of patents per 10,000 people, increasing broadband coverage, reducing air pollution, and so forth.

In 2020, “quality development” received even more mentions than in 2015 (Table 3). However, in the proposal of the 14th FYP, there was no mention of concrete GDP targets. In his commentary, Xi personally explained why:¹⁵

Some localities and departments have suggested that we specify GDP growth targets... Our country does have the hope and potential to achieve long-term stable development, reach the standard of high-income countries by the end of the 14th FYP (2025), and double total GDP or per capita income by 2035.¹⁶ But in consideration of high uncertainty in the external environment... on top of the effects of the pandemic and a global economic slowdown, we should focus on refining the economic structure in the medium to long term, and guide everyone toward raising the quality and productivity of development.

There are two likely reasons for omitting growth targets. One, not being able to meet them due to disruptions beyond China’s control would look bad. Two, GDP growth targets

distract or discourage local leaders from pursuing quality investments that do not quickly translate into GDP growth, e.g., supporting tech start-ups takes high initial costs and time to yield results. (As I later elaborate, setting targets for quality development is very difficult.)

Table 3: Quality development is mentioned even more times in 2020

	Number of times mentioned in 2015 Fifth Plenum	Number of times mentioned in 2020 Fifth Plenum
Quality (of development) 质量	5	16
Refine (economic structure) 优化	2	6
Total	7	22

2. *Technology is always a top priority—but whereas the leadership was open to all types of technological ventures in 2015, in 2020, it only prioritized “core technologies” that can ensure “self-sufficiency.”*

Popular concerns about China’s race for technology overlook a basic fact: China’s comparative advantage in technology is different from that of the US.¹⁷ Owing to its massive consumer market, China excels in commercializing and applying existing technologies to improve manufacturing processes and business models, for example, in e-commerce and Fintech. By comparison, the U.S. remains the unparalleled world leader in basic scientific research, the foundation of advanced technologies.

Consider the composition of each country’s tech unicorns (private startups with a valuation of at least \$1 billion). In 2018, 46% of the world’s unicorns were from the U.S., and China took second place at 29%.¹⁸ But whereas the largest share of Chinese unicorns (58%) operate in the e-commerce and gaming sectors, U.S. unicorns are highly concentrated in artificial intelligence, big data, robotics, and software—the “core” technologies.

My analysis of the communiques’ language indicates that U.S. sanctions on Chinese tech firms in the past years may have pushed the Chinese government away from China’s preexisting strengths in commercialization and applied technologies toward “core” technologies and basic sciences.¹⁹

Table 4: Shift in technological focus in the two plenums

Technology phrases that appeared only in the 2015 Plenum	Technology phrases that appeared only in the 2020 Plenum
Made in China 2025 中国制造二〇二五	Core technologies 关键核心技术
Mass entrepreneurship 创业/大众创业	Self-sufficient 自立自强
Sharing economy 分享经济	Supply chain modernization 产业链现代化
Internet Plus 互联网+	Technological superpower 科技强国

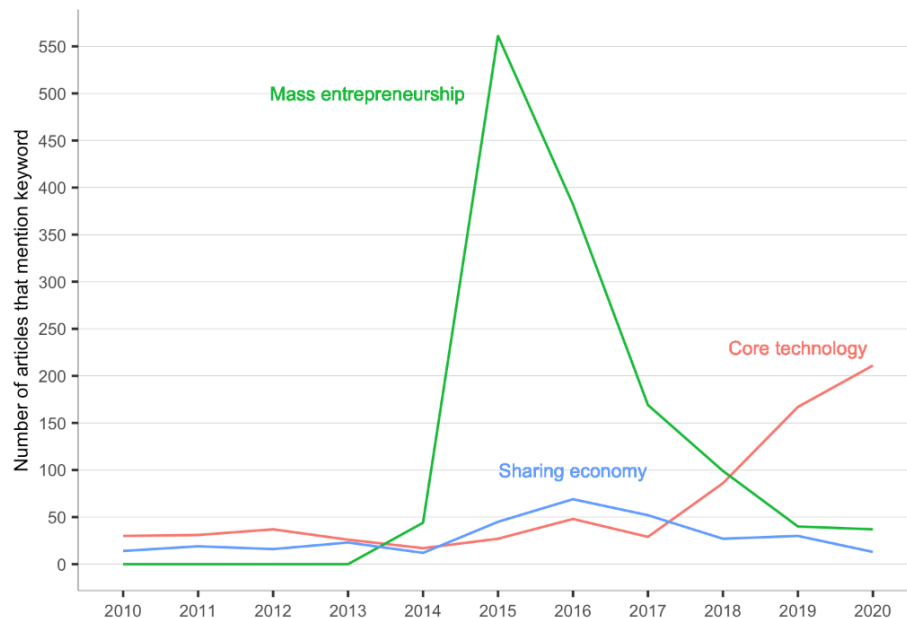
Glossary

- *Mass entrepreneurship*: This term first appeared in state media in 2013, as state endorsement of a preexisting entrepreneurial movement in innovation. One element of it is the “maker movement,” where ordinary people make their own devices using shared resources and open source hardware. This movement originated in the Bay Area and traveled to China. Following the central government’s call for “mass entrepreneurship” in 2013, local governments responded by creating incubators, hackathons, and “maker spaces.” In contrast to top-down industrial policies, mass entrepreneurship is associated with “democratizing technological agency”²⁰ and SMEs (small and medium enterprises).
- *Sharing economy*: These are business models and start-ups centered on consumer-to-consumer sharing of resources, usually through online platforms. Examples include sharing car rides, bikes, and work spaces.
- *Internet Plus*: A state initiative to integrate the Internet with traditional industries and agriculture, for example, “rural e-commerce,” where farmers directly sell their products online.
- *Supply chain modernization*: According to Xinhua, “China will advance the optimization and upgrading of its entire industrial chain by making sector-specific strategic plans for supply chains in a targeted approach.”²¹ Because this is a relatively new proposal, the details have not yet been spelled out. But Chinese policymakers are clearly aware that domestic supply chains are threatened by the denial of access to crucial raw materials, equipment, and technologies.

In 2015, Beijing’s aims to promote advanced manufacturing in the “Made in China 2025” Initiative seized attention and raised concerns in Washington.²² But it is rarely, if ever, pointed out that in the 2015 communique, Beijing also welcomed *other* types of technological ventures involving commercial applications and bottom-up participation, e.g., mass entrepreneurship, sharing economy, and Internet Plus (see glossary and Table 4).

Such diversification benefits both China and the U.S. economically because different comparative advantages in technology can be complementary and yield opportunities for U.S.-China cooperation, for instance, in clean energy.²³ Moreover, mass entrepreneurship has the benefit of allowing ordinary Chinese to practice “experimentation,” “self-enterprise,” and “opportunity of the majority”²⁴—qualities compatible with democracies and free markets. While U.S. policymakers should have no illusions about Xi’s authoritarian and ambitious turn,²⁵ they should not overlook China’s bottom-up innovation.

Figure 1: Shifting coverage of technology topics in *The People's Daily*



Yet after being “strangled” by U.S. sanctions, Chinese leaders in 2020 became singularly fixated on developing “core technologies” to ensure “self-sufficiency.” The 2020 communique no longer mentioned commercial, bottom-up forms of innovation (see Table 4). To see whether this shift in technological priorities is reflected elsewhere, I examined mentions of three topics in *The People's Daily*, the CCP’s official news outlet (see Figure 1), which propagates official positions. In 2017, the year when the 19th Party Congress was held, “mass entrepreneurship” had fallen in coverage from its peak in 2015 but it still appeared thrice more than “core technology.” In 2018—when the trade war and U.S. technological sanctions on China began—mentions of “mass entrepreneurship” fell below “core technology,” and “core technology” continuously surged in coverage, up until the end of 2020.

To be sure, there could be a variety of factors driving this shift—but U.S. policies are surely on the top of the list. Indeed, Chinese policymakers have coined the term “strangled technologies” in reference to those particular technologies that the Trump administration has barred China from accessing. The linguistic indicators I have shown, though preliminary, suggest that Beijing is reacting to U.S. containment defensively, hence pushing U.S.-China relations in technology toward zero-sum competition.

3. “Dual circulation” formalizes earlier proposals to increase the weight of domestic consumption in driving economic growth.

Another new term in the 2020 communique is “dual circulation.” This is not a new concept; rather, it formalizes proposals made more than a decade ago to shift the drivers of China’s growth from export and investment to consumption, known at the time as “economic

rebalancing.” Facing the prospect of U.S.-China decoupling and trade conflicts, this agenda has become urgent. In my view, “dual circulation” does not indicate an inward turn. Rather it means that where globalization can be sustained, China will continue to trade and attract foreign investment; but where this is blocked, China must rely on domestic sources of growth.

Socialist Modernization by 2035

Q: What is the significance of the CCP’s stated goal for basically achieving “socialist modernization” by 2035, including building a “modern economy”?

- 1. The leader Xi favors a statist approach but he also wants to make use of market forces to strengthen the state’s allocative role.*

Under Xi’s leadership, the CCP articulated two centennial goals. The first centennial goal is to achieve “moderate prosperity for all” by 2021, the 100th anniversary of the CCP’s founding. As *Xinhua* explains, this means “making sure that China’s development improves the lives of all its people, particularly those who are below or near the country’s poverty line”²⁶—this explains Xi’s relentless efforts to eradicate poverty. The second centennial goal, which marks the 100th anniversary of the founding of the People’s Republic of China, is to achieve “a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious” by 2049.

The 2020 communique introduced medium-term goals to achieve “socialist modernization” by 2035, which is halfway between the first and second centennial goals. As earlier discussed, while the CCP refrained from setting growth targets, the proposal of the 14th FYP sketches an ambitious vision in 2035 that includes “a big jump in economic size,” “GDP per capita to reach the level of middle-income economies,” “breakthroughs in core technologies,” “ascent into the top ranks of innovation-led nations,” “reduction in carbon emissions,” “a significant increase in cultural and soft power,” and more.

Still, what exactly is “socialist modernization” and “a modern economy,” apart from achieving a list of desirable outcomes? It is worthy to note that the 2020 communique did *not* articulate the vision of achieving a “modern socialist market economy.” In 1993, the Third Plenum of the 14th Central Committee, under the leadership of President Jiang Zemin and Premier Zhu Rongji, adopted a monumental decision to build a “socialist market economy.”

Described as a “watershed,” the 1993 decision seriously deepened China’s market reforms, involving closures of SOEs, massive layoffs, and dismantling of central planning mechanisms such as price controls. At the time, the choice of words—socialist market economy—was deliberate and significant. The ultimate goal of the party was to achieve a “market economy,” and the term “socialist” was only an adjective appended to this market economy.²⁷ But for Xi, the end goal is not the market economy; rather, it is “modernization.”

Some may recall with disappointment that in 2013, at the Third Plenum of the 18th Party Congress, Xi pledged that market forces should play a “decisive” role in allocating

resources, elevating its status from the previous designation of playing a “basic” role. This raised hopes that Xi would be a liberal reformer. In the 2020 communique, Xi repeated that “markets should play a decisive role in allocating resources,” but he added a qualifier: “promote the merger of effective markets *and interventionist governments*.”²⁸

In other words, Xi values market forces insofar as they can strengthen the allocative role of interventionist governments. One example is the creation of Government Guiding Funds (GGFs), government-established funds that partner with private venture capital to invest in risky high-tech sectors.

Q: What indicators will Beijing use to gauge its progress?

2. *One urgent problem facing the CCP is how to overhaul and align the target system with its core goal of achieving quality development.*

In my view, the urgent issue facing the CCP is what it should do with the target (and indicators) system altogether. To align with the overarching goal of pursuing quality development, this whole system must be overhauled, but it is not clear how this can be done.

In the early stages of development, Beijing was focused singularly on economic and industrial growth. In this context, central authorities could easily specify a short list of concrete numerical goals to motivate and evaluate officials. However, over time, as China grew affluent, so did the demands on governments. My research finds that by 2009, a typical township official was burdened with more than 140 granular targets.²⁹

Moreover, the problem is confounded by the fact that it is inherently difficult—and indeed self-defeating—to impose quantitative targets on ground-breaking innovation because doing so would induce “bean counting” and opportunistic attempts to “game” the numbers. For example, targets on patents has pressured local governments to subsidize and encourage companies to file useless, repetitive patents, just to meet targets.³⁰

Three Recommendations

1. *Track a diverse selection of elite opinion within China*

Despite the appearance of unity within the CCP, there are different viewpoints even among the top leaders. Central party documents necessarily reflect Xi’s grand visions, yet the tone of “guarded confidence” in the 2020 communique suggests that voices urging restraint in hubris and hinting at the dangers of overreach were partially incorporated.

It is practically difficult to identify differences in Chinese elite opinion not only because of language but because disagreements are subtly expressed. Still, it would be well worth trying to track a diverse selection of elite opinion within China, from the most nationalist and hawkish to the opposite (e.g., through selected translations with annotations by experts). Policymakers should especially consider the effects of U.S. rhetoric and actions in shaping

these opinions. Accomplishing these tasks call for long-term investment in U.S.-based analysts who command linguistic and contextual knowledge of China.

2. *Instead of a blanket threat-driven approach, U.S. policymakers should clearly identify the risks and opportunities of different types of Chinese technological innovation, and formulate differentiated responses.*

As Richard Haass, President of the Council on Foreign Relations, wrote: “Developing and implementing a foreign policy that pushes back against selected Chinese practices at home and broad but at the same time leaves open areas for cooperation will be as vital as it will be difficult.”³¹ In a similar vein, a report jointly issued by the Asia Society and University of California in San Diego applies the term “smart competition.”³²

In the realm of technology, this means that U.S. policymakers should begin with an understanding of different *types* of Chinese technological innovation, along with the different risks and opportunities they pose. Such knowledge would inform “smarter” ways of dealing with China through a *differentiated* set of responses, rather than by using only charges and sanctions. A blanket threat-driven approach can backfire by hardening Beijing’s resolve to acquire core technologies at the expense of other types of innovation; it can also boost nationalist hawks within China, who point to foreign hostility to compellingly justify more authoritarian control and silence moderate views.

3. *U.S. policymakers should commission hearings and/or reports on all aspects of China’s innovation and technology landscape, not just in those areas that pose risks, but also in applied, bottom-up innovation.*

As Peter Cowhey and Susan Shirk pointed out in *The Wall Street Journal*, “Incomplete tech knowledge can lead to policy mistakes.”³³ In navigating the U.S-China technological competition, it is especially useful to balance keen awareness of risks and threats with an understanding of these points:

- The different comparative advantages in technology that China and the U.S. possess, and how this may yield complementarities and potential cooperation in transnational challenges such as climate change;³⁴
- The flourishing of applied, bottom-up forms of Chinese innovation alongside Beijing’s pursuit of cutting-edge technologies;
- That certain bottom-up innovation sectors in China have been highly competitive by tailoring to domestic consumers (e.g., e-commerce);
- Both the strengths and weaknesses of CCP’s top-down industrial policies;
- How Beijing’s attitudes toward technology have changed and might change in light of U.S. policies.

A balanced appreciation of the whole landscape can help U.S. policymakers avoid policy mistakes and effectively formulate differentiated, targeted responses.

4. *In monitoring developments in the Chinese economy, U.S. policymakers should pair numerical data collection with contextually-informed interpretation of the statistics across multiple dimensions.*

Targets are indispensable for running the Chinese government and economy. However, going forward, the CCP leadership will be diluting its emphasis on growth targets, and, more importantly, they will struggle to set numerical targets for “quality development.” In monitoring China’s developments, U.S. policymakers should adjust to this reality.

Numerical indicators will always be an important source of information, but they are not sufficient and can even be misleading. For example, in 2011, China surpassed the U.S. to become the world’s top patent producer.³⁵ Those who take this statistic to mean that China is indeed rapidly dominating in technology may be alarmed and thus overreact. In fact, upon closer examination, large quantities of patents may actually come at the expense of quality.³⁶ This is one example in which outcomes in China can no longer be captured by a single unambiguous metric—most notably, GDP. Indicators must be critically interpreted in context and across multiple dimensions.

Table 2: A Comparison of the 2015 and 2020 Fifth Plenum Communique

<i>Common themes</i>	2015	2020
<i>Context of plenum</i>	Combination of domestic and international pressures, particularly economic slowdown	Domestic pressures, particularly COVID Urgency of expanding domestic consumption Complex international situation
--	Declared the first centennial goal of “moderate prosperity for all” by 2021	NA
<i>Achievement of prior FYP</i>	Only briefly mentioned, no concrete indicators However, Xi Jinping’s leadership as general secretary is highlighted	Made decisive accomplishments on “moderate prosperity for all” Reached target of poverty eradication on time Reached first centennial goal on time All of which lays a solid foundation for medium-term goals in 2035
<i>Opportunity and risk</i>	Present situation presents opportunity and risk	Both the nature of opportunity and risk are changing Disruptions: Once-in-a-century shift in global order caused by the pandemic; technological and industrial revolution; relative power [of nations] is adjusting
--	NA	Our nation is confident in these ways, but we still face these daunting challenges.
--	NA	Propose medium-term goals for “socialist modernization” by 2035, to significantly raise economic, technological, and overall national strength
<i>Coming FYP</i>	13 th FYI focused on quality of government, defined by five principles: innovation, coordination, greening, liberalization, and inclusive	14 th FYP focused on quality of development, defined by the same principles But acknowledged that current innovation capacity is insufficient to meet this goal
<i>Technology and innovation</i>	Innovation at the center of the national agenda	Innovation still at the center of the national agenda

		But with emphasis on “self-sufficiency” and “core technologies”
--	Emphasize overall strategy and coordination With a focus on nationalism, ideology, extolling ethics	Modernization of economy, with emphasis on strengthening the “real economy” ³⁷ Particular emphasis on expanding domestic consumption and “dual circulation” Blend market mechanisms with proactive state role
<i>Policy issues discussed in this order</i>	Environment Integration with the world Hong Kong and Taiwan Increasing public services Social security and pension Aging population and abolishing one-child policy Ideology and political thought Rule of law Security Anti-corruption Discipline (including list of disciplined top officials)	Agriculture New urbanization Culture and education Environment Integrating with the world Public services and aging population Security and safety Military modernization Absolute party leadership

- ¹ “The CCP 19th Central Committee Fifth Plenum Communique” (in Chinese), *Xinhua*, 29 Oct 2020. Accessed at http://www.xinhuanet.com/politics/2020-10/29/c_1126674147.htm.
- ² “Proposal on the 14th FYP and 2035 Long-Term Goals” (in Chinese), Website of the Central Government. Accessed at http://www.gov.cn/zhengce/2020-11/03/content_5556991.htm.
- ³ “Xi Jinping: Clarification on ‘Proposal on the 14th FYP and 2035 Long-Term Goals’” (in Chinese), *The People’s Daily*, 4 Nov 2020. Accessed <http://cpc.people.com.cn/n1/2020/1104/c64094-31917783.html>.
- ⁴ Qian, Yingyi, and Jinglian Wu. “China’s Transition to a Market Economy: How Far across the River?”. In *How Far Across the River? : Chinese Policy Reform at the Millennium*, edited by Nicholas C. Hope, Dennis Tao Yang and Mu Yang Li, Stanford University Press, 2003, p. 37.
- ⁵ That year, China’s GDP growth rate slowed to a 25-year low of 6.9%. This downward pressure reflected both the structural challenge of overcoming the “middle-income trap” (finding new sources of growth as the previous advantage of low-cost labor dissipated) and policy missteps (e.g., channeling resources toward inefficient SOEs).
- ⁶ Xi Jinping, 4 Nov 2020.
- ⁷ Remarks by Chen Yixin, “What is new about the new development stage?,” on 15 January 2021 (in Chinese), Accessed at https://www.sohu.com/a/444668793_118060?mc_cid=d028ea4f3c&mc_eid=22e819b40c.
- ⁸ For example, see John Hubris, “In the Age of Trump and Brexit, China’s National Hubris is on the Rise,” *Washington Post*, 31 Jan 2018.
- ⁹ Another indication of a pragmatic turn is that whereas the 2015 Plenum spent a whole section extolling ethics and ideology (including “national consciousness” and “social responsibility consciousness”), this no longer appears in the 2020 Plenum. There was also no mention of anti-corruption and discipline in 2020, which was received plenty of spotlight in 2015.
- ¹⁰ Xi Jinping, 4 Nov 2020.
- ¹¹ 600 million is about 40 percent of China’s total population. See Wan Haiyuan and Meng Fanqiang, “China Has 600 Million People With Monthly Income Less Than \$141. Is That True?,” *Caixin*, 6 June 2020.
- ¹² One example is a documentary produced by CCTV in 2018, titled “Bravo, My Nation”, that breathlessly praised China’s accomplishments since Xi took office in 2012.
- ¹³ “Li Keqiang: Do Not Waste Money on White Elephant Projects” (in Chinese), Website of the Central Government, July 7 2020, accessed at http://www.gov.cn/xinwen/2020-07/17/content_5527482.htm.
- ¹⁴ Xi Jinping, 4 Nov 2020.
- ¹⁵ Xi Jinping, 4 Nov 2020.
- ¹⁶ According to Bert Hofman, this translates into an annual growth rate of 4.8%, lower than the target of 6.5% growth in the 13th FYP. See Remarks by Bert Hofman, Panel Discussion on “Doubling Down on China,” CSIS, 12 Nov 2020.
- ¹⁷ Ang, Yuen Yuen. “The Myth of the Tech Race.” *Project Syndicate, Special Edition, “Beyond the Techlash.”* 28 April 2020. Accessed at <https://sites.lsa.umich.edu/yy-ang/wp-content/uploads/sites/427/2020/05/PS-Myth-of-the-Tech-Race-final-color-pdf.pdf>.
- ¹⁸ Credit Suisse, “China, A Breeding Ground for Unicorns,” Nov 16 2018.
- ¹⁹ Of course, this is only one indicator; we will learn more details when the CCP releases the 2021-2035 Medium and Long-Term Plan for Developing Science and Technology.
- ²⁰ See Silvia Lindtner (2020), *Prototype Nation*, Princeton University Press, pp. 18-19. See also George Yip and Bruce McKern (2016), *China’s Next Strategic Advantage*, MIT Press; Dan Breznitz and Michael Murphree (2011), *Run of the Red Queen*, Yale University Press.
- ²¹ *Xinhua*, “China to facilitate the modernization of industrial supply chains,” 3 Nov 2020.
- ²² This goes back even further to the 2006 national campaign, under President Hu Jintao, to promote “indigenous innovation.”
- ²³ See John Helveston and Jonas Nahm. 2019. “China’s key role in scaling low-carbon energy technologies.” *Science* 366 (6467): 794-796.
- ²⁴ Lindtner (2020), pp. 25.
- ²⁵ Economy, Elizabeth. *The Third Revolution: Xi Jinping and the New Chinese State*. New York, NY: Oxford University Press, 2018.

²⁶ Xinhua, “What Are the Two Centennial Goals,” Oct 17 2017, Accessed at http://www.xinhuanet.com/english/2017-10/17/c_136686770.htm.

²⁷ “Socialist market economy” is fundamentally more progressive than the goal of “market socialism,” as advocated by some Eastern European reformers in the 1970s and 1980s. See Qian and Wu, pp. 39.

²⁸ The term *youwei zhengfu* (有为政府) is the opposite of the Taoist concept of *wuwei zhengfu* (无为政府), which can be translated as minimalist or limited government. *Youwei zhengfu* means governments that are proactive and interventionist, also known in political economy as “developmental states.”

²⁹ Ang, Yuen Yuen, 2016, *How China Escaped the Poverty Trap*, Cornell University Press, pp. 118-122.

³⁰ Ang, Yuen Yuen, Jia Nan, Yang Bo, Kenneth Huang. “The Limits of State-Led Innovation: Evidence from Chinese Patents.” Posted 14 Dec 2020 on SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3714029.

³¹ Richard Haass (2020), *The World*, New York: Penguin Press, pp. 51.

³² Orville Schell and Susan Shirk, “Course Correction: Toward an Effective and Sustainable China Policy,” Issued in February 2019, accessed at <https://asiasociety.org/center-us-china-relations/course-correction-toward-effective-and-sustainable-china-policy>.

³³ Peter Cowhey and Susan Shirk, “The Danger of Exaggerating China’s Technological Prowess,” *The Wall Street Journal*, 8 Jan 2021.

³⁴ Ang (2020), “The Myth of the Tech Race.”

³⁵ Reuters, 11 Dec 2011, “China Tops U.S, Japan to Become Top Patent Filer in 2011

³⁶ Ang et al (2020), “The Limits of State-Led Innovation.”

³⁷ In recent years, central planners have warned against the trend of “moving from a real to hollow economy” (*tuoshixiangqu*), which began in the early 2000s. This refers to local governments moving away from promoting industrialization toward real estate development, and to investors from productive economic activities to speculation.

OPENING STATEMENT OF M. TAYLOR FRAVEL, PH.D., ARTHUR AND RUTH SLOAN PROFESSOR OF POLITICAL SCIENCE, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

COMMISSIONER KAMPHAUSEN: Thank you very much, Professor Ang. Dr. Fravel, we turn to you.

DR. FRAVEL: Thank you very much. Chairman Bartholomew, Commissioner Kamphausen, members of the Commission, thank you for inviting me to appear before you today to discuss U.S.-China relations at the Communist Party's Centennial. I have been asked to comment on China's foreign policy and national security goals after the Fifth Plenum of the 19th Central Committee, drawing on Chinese sources.

In my remarks, I would like to make five points. My first point is that China views its international environment as the most challenging in at least a decade, if not more. And this is the assessment, that China now faces, quote, "profound changes unseen in this century."

The term was first used by Xi Jinping in late 2017 and now featured prominently in the communique and proposal issued by the Central Committee after the Fifth Plenum. Specifically, according to the communique, China's international environment is seen as, quote, "increasingly complex as instability and uncertainty are clearly increasing." With the spread of the pandemic and resistance to globalization, quote, "the world is entering a period of turbulent change."

According to various authoritative studies within China, there are several elements to these profound changes unseen in this century. Many of them focus on changes in the structure of power, including the shift in power from East to West, which paradoxically increases tensions in Asia; the shift in power from the developing states to the developing world; scientific and technological changes around the Fourth Industrial Revolution that are going to become a new source of competition and power among states; and the rise of anti-globalization-driven populism that challenges many aspects of the existing order.

Other elements of these profound changes unseen in this century include a global recession and increased risk of economic and financial crises, a resurgence in great power competition more generally, the prevalence of international hot spots that could further destabilize the international situation, and growing global challenges, in addition to the pandemic, in the area of health and climate.

The bottom line, as noted in one report from the China Institutes of Contemporary International Relations, the reshaping of the global order is accompanied by disruption and disorder, and thus, the world is heading for, quote, "eventual and more troubled times."

Just a few days ago, a column in The People's Daily from the famous commentator, Ren Zhongping, I think captured many of these sentiments and the challenges they pose for China. And I quote, "In the past, the general environment was relatively stable, and the risks and challenges were relatively easy to see. Now the world is turbulent and complex. Geopolitical challenges are high and sharp as are many submerged reefs and undercurrents."

My second point is that the assessment that China faces profound changes unseen in our century is described as the central challenge to the strategy of the great rejuvenation of the Chinese nation, and described as such in these documents from the Plenum.

Thus, a central goal for China's foreign policy in the coming years is what the sort of Plenum proposal describes as, quote, "creating a favorable external environment for China's development," and specifically for the implementation of the 14th Five Year Plan.

A central element of this approach will be to continue China's omnidirectional foreign policy orientation in which China seeks to maximize beneficial relations with all states around the world, which China often divides into great powers, neighboring states, and the developing world.

Thus, with great powers, China will seek to deepen ties especially with Russia and Europe, primarily as a hedge against the United States. With its neighbors, China will seek to deepen multilateral approaches while preventing contentious disputes from impacting cooperation. And with the developing world, China will seek to deepen relations using what I describe in my testimony as a one-plus-many approach.

Another element of Chinese foreign policy in the coming years will be to focus on maintaining an open global trading and investment system, which is seen as necessary for China's growth and successful implementation of the plan. Towards this end, for example, Xi Jinping last November indicated that China would consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

A third element of China's foreign policy will be to focus on global governance, and in particular I believe China sees an opportunity to further strengthen its position in the UN system and the WTO. This also allows China to more fully appeal to the developing world.

And last but not least, we of course have to expect that China will, quote, "resolutely safeguard national interests." This includes defense of the CCP and China's social system in many of the areas that Dr. Greitens mentioned, as well as where China views its sovereignty as being challenged, including but not limited to, Xinjiang, Tibet, Hong Kong, Taiwan, and the South China Sea.

As a speech by Executive Vice Foreign Minister Le Yucheng in December indicated, China's acerbic diplomacy that is often described as "wolf warrior diplomacy" is likely to continue, especially to the degree that China believes that it is going to be challenged on these issues.

My third point now turns to the national security goals, which will be the continued focus of the People's Liberation Army on modernization, and in particular on joint operations. In sort of the proposal for the 14th Five Year Plan that the Central Committee released, it includes a very important paragraph on the PLA, focusing in particular on raising the quality and effectiveness of military modernization as a key priority, focusing on strategy and doctrine, on organization, on personnel, and on weapons and equipment.

An important development here is the promulgation of a new operational doctrine on a trial basis last November which is called the Outline for Joint Operations. This is the first time that the PLA has revised its operational document in more than two decades. It indicates that the PLA believes that most of the reforms since late 2015 have been completed successfully, such that it can now actually focus on training the force to be able to conduct these much more complex kinds of operations. But it was also released on a trial basis, and a new doctrine will still need to be written for the services and their components, a process that will likely take several years to fully unfold.

My fourth point turns to the question of the period of the 14th Five Year Plan, which will end in 2025, regarding whether or not China is likely to initiate a major use of force against another state. Although I certainly expect China will continue to aggressively pursue its interests beyond its periphery, use of force will either be too costly for China to undertake or unnecessary because China possesses other tools for advancing its interests.

My testimony has already covered two reasons why. First, because of these profound changes unseen in a century and China's perception that it needs to really stabilize its position in a much more turbulent world, a major use of force would undercut this omnidirectional foreign policy push.

Second, because of the effort that will be devoted to implementing this new Doctrine for Joint Operations, and because it will likely take several years, China will lack confidence to execute this sort of large-scale and high-intensity military operations.

In addition, there are three other reasons. First, in the next few years, China will be focused on key milestones that are keys to the party image and legitimacy, both at home and abroad, which include the 100th anniversary of the CCP this year, the hosting of the Winter Olympics in February of 2022, and, most importantly, the 20th National Party Congress. Second, China has developed other ways to pursue its interests without having to resort to use of force, in particular gray-zone actions. And then, finally, China's growth and capability is so strong that it simply has even more tools with which it can coerce other states if it needs to.

My fifth and final point is to offer two recommendations for Congress. Briefly, they are, first, Congress should pass legislation to significantly increase the size of the U.S. Foreign Service; and, second, Congress should pass legislation to create an open-source central repository that will translate essential Chinese language materials for a much wider audience. Many thanks for your time and attention today.

**PREPARED STATEMENT OF M. TAYLOR FRAVEL, PH.D., ARTHUR AND RUTH
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Testimony before the US-China Economic and Security Review Commission

Hearing on

“US-China Relations at the Chinese Communist Party’s Centennial”

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Introduction

Chairman Bartholomew, Commissioner Kamphausen, members of the commission, thank you for inviting me to appear before you today to discuss US-China Relations at the Chinese Communist Party's centennial. I have been asked to comment on China's foreign policy and national security goals after the Fifth Plenum that was held last fall. My testimony draws on Chinese language sources to examine how China assesses its international environment, the goals it will pursue in the areas of foreign policy and national security (with an emphasis on national defense), and implications of the analysis for whether China will engage in a major use of armed force. I conclude with recommendations for Congress.

China Assesses Its External Environment—"Profound Changes Unseen in a Century"

China formulates its foreign policy and national security goals based on its interests and its assessment of China's international security environment. The "communique" (公报) issued by the Central Committee at the end of the Fifth Plenum assessed that "the environment for China's development faces profound and complex changes."¹ On the positive side of the ledger, China remained "in an important period of strategic opportunity," which reflects the judgment that China can avoid major armed conflict and thus focus national efforts on pursuing development. On the negative side, however, "today's world is experiencing profound changes unseen in a century [百年未有之大变局]." The international environment is seen as "increasingly complex," as "instability and uncertainty are clearly increasing." With the spread of the pandemic and resistance to globalization, "the world is entering a period of turbulent change [动荡变革期]." Below, I will examine in more detail the concept of "profound changes unseen in a century" as an authoritative assessment of China's external environment, which then shapes the policies China may adopt to pursue its interests.

¹ "中国共产党第十九届中央委员会第五次全体会议公报 [Communiqué of the Fifth Plenum of the 19th Central Committee of the Communist Party of China]," *Xinhua*, 2020 (October 29), http://www.xinhuanet.com/politics/2020-10/29/c_1126674147.htm [hereafter "Communique"].

Origins of the Assessment

Xi Jinping first used the phrase “profound changes unseen in a century” at the ambassadorial work conference held in December 2017, a rare gathering of China’s overseas ambassadors that was convened to discuss China’s diplomatic work. As part of his admonition to “correctly understand” international trends, Xi said that “looking at the world, we are facing profound changes unseen in a century.”² At the time, this initial assessment was fairly optimistic, noting that “multipolarization,” or the diffusion of power in the international system and end of unipolarity, had “accelerated” with rapid growth in the developing world, including China. Because the international system was “becoming increasingly balanced,” and because China was continuing to grow, China could “increasingly approach the center of the world stage.” Yet reflecting the dialectical approach to assessing international trends, Xi also noted that China is “currently facing both unprecedented opportunities and unprecedented challenges,” though his publicly available remarks did not dwell on the challenges.

The phrase appeared again in the summer of 2018, in Xi’s speech at the 2018 foreign affairs work conference, another relatively rare but important meeting on Chinese foreign policy. As this speech introduced the ten pillars of what would become described as “Xi Jinping’s Diplomatic Thought,” Xi’s reference again to profound changes unseen in a century elevated this phrase as a framework for assessing China’s international environment.³ Xi noted a few more risks for China than in 2017, describing factors that were countering trends toward multipolarization and globalization that were otherwise favorable to China. But overall, the assessment remained favorable.

To this point, the content of profound changes unseen in a century had not been fleshed out and remained poorly defined. As with many political slogans in China, their content is only developed in detail after their initial introduction. In the case of profound changes unseen in a century, this process of determining its content overlapped with growing tensions between the United States and China, starting with the trade disputes and then broadening

² “习近平会见 2017 年度驻外使节工作会议与会使节并发表重要讲话 [Xi Jinping Meets with Envoys Attending 2017 Annual Conference on Diplomatic Envoys and Delivers Important Speech],” *Xinhua*, 2017 (December 28), http://www.xinhuanet.com/politics/leaders/2017-12/28/c_1122181743.htm

³ “习近平：努力开创中国特色大国外交新局面 [Xi Jinping: Strive to Major Power Diplomacy with Chinese Characteristics],” *Xinhua*, 2018 (June 23), http://www.xinhuanet.com/politics/2018-06/23/c_1123025806.htm

to into other areas.

Among several efforts by Chinese experts to unpack the slogan, perhaps the most important came from a report at the China Institutes of Contemporary International Relations (CICIR). Chen Xiangyang (陈向阳), the head of CICIR's World Politics Institute, led the team that conducted the study. Given CICIR's position in China's intelligence apparatus, this report may be viewed as close to an authoritative description of the profound changes unseen in a century. Importantly, the CICIR report was published in January 2020, before the outbreak of the coronavirus pandemic, which, as described below, further accelerated these changes and greater tension in China's relationship with the United States.

The CICIR report identified five changes that, together, compromise profound changes unseen in a century. These changes reflect an increasingly uncertain and complex international environment in which China would seek to achieve its goals. Perhaps in contrast with previous assessments in recent years, the CICIR report's topline conclusion was clear: the "reshaping of the global order is accompanied by disruption and disorder."⁴

The first and most important set of changes concern power trends and what Chinese analysis often describes as the "international strategic configuration" (国际战略格局). Taken together, these trends indicate a diffusion of power away from the dominant powers, especially the United States, as well as away from nation-states, creating what the report describes as an "eventual autumn" (多事之秋) or "troubled times." The CICIR report identifies several elements of "profound and complicated" changes in the international strategic framework. The first is "rising East, declining West," which refers to the "resurgence" and development of China, India, and ASEAN to the point of creating parity between East and West. As a result, the major powers focus more attention on the region, which the report views as increasing tensions. The second element of the changing strategic framework is "rising South, declining North," which refers to developing countries as the engine of global growth in contrast to the weaker performance of the developed world beset by aging populations or political polarization, among other factors. Overall, this drives a change in the balance of power and has led the United States, in CICIR's view, to view China as its primary strategic competitor. The third element of the changing international strategic

⁴ 中国现代国际关系研究院课题组, "世界"百年未有之大变局"全面展开 [The World's "Profound Changes Unseen in a Century" Fully Unfold]," *Xiandai guoji guanxi*, No. 1 (2020), pp. 19-25 [hereafter, "CICIR Report"].

framework is scientific and technological advances, sometimes described as the fourth industrial revolution, which has become the focal point of competition states but also portends significant and uncertain changes with societies. The fourth element highlights the rise of non-state actors, especially international IGOs and NGOs, as well as multinational corporations and high-tech firms, and by implication, the loss of control by nation-states. The last element is the weakening of international order and global governance in the face of “anti-globalization populism” in developed states, as epitomized by “America First.” As the report describes, the international order centered on the United Nations and trade liberalization after the end of the Cold War is facing “severe challenges,” creating a governance deficit that increases global instability.

The rest of CICIR examines additional changes that contribute to uncertainty in the international system. First, the report highlights a “resurgence” in great power competition. Although much of this focuses on the change in US policy toward China through 2019, the report also draws attention to the weakening of the trans-Atlantic alliance, growing US-Russian tensions in Europe and the Middle East, and growing military competition. Second, the report highlights that regional hotspots remain volatile, reviewing conflicts in the Asia-Pacific as well as the Middle East, Ukraine, and elsewhere. A third change is growing global challenges in the areas of climate change, civil conflicts, and frontier technologies amid the “deficit” created by what the report views as the abdication of US global leadership and US efforts to weaken the UN system along with the G20. The last source of uncertainty is the rise of anti-establishment and anti-globalist populism in both the developed and developing world as well as separatism, again factors that are seen as weakening the international order.

In sum, the CICIR report paints a picture of growing disorder, much of which is attributed paradoxically to the decline in US global leadership and increased tensions with China as well as other major powers against the backdrop of the changing distribution of power. Although China may welcome such a vacuum in principle, in the sense that it creates an opening that China could fill, the tenor of the report is that the decline has arrived more quickly than China would like. As CICIR president Yuan Peng noted in the summer of 2020, “At the end of the American “unipolar era,” China will still lack the strength to take up its position as a second pole, and the changed trajectory of a multi-polar order will be all the more complex.”⁵

⁵ Yuan Peng, “The Coronavirus Pandemic and a Once-in-a-Century Change,” Introduction and Translation by

The Fifth Plenum and “Profound Changes”

The CICIR report painted a picture of China’s external environment that was far from rosy. But with the onset of the pandemic, the “profound changes unseen in a century” appear even bleaker from China’s point of view. The consensus now is that the pandemic has accelerated these changes, increasing disruption and disorder in the international system. Chinese assessments in 2020 point to the growing antagonism between Washington and Beijing far beyond levels in 2019, the onset and deepening of a global recession, increased opposition to globalization and the multilateral trading system, and the emergence of ideology as a point of contestation—all amid a global pandemic.

A detailed assessment of how China views its external environment comes from Yang Jiechi, a member of Politburo and director of the party’s Central Foreign Affairs Commission. Yang’s assessment appeared in a signed article that was published in the *People’s Daily* shortly after the conclusion of the Fifth Plenum.⁶ Yang’s frames his assessment around the profound changes unseen in a century, which is described as a “significant judgment” (重要论断). Yang’s main conclusion: “now and in the coming period, the COVID-19 global pandemic has accelerated the evolution of the world’s profound changes. The international economy, science and technology, culture, security, and politics are all undergoing profound adjustments. The external environment of our country’s development will face more profound and complex changes.”

Specifically, Yang highlighted five components of China’s external environment. The first and most positive was that multipolarization is (still) accelerating. However, as the pandemic is evolving into a long-term situation, a key feature is the “adjustment” of the major powers or an ongoing power transition. Second, however, the global economy has been “hit hard” by the pandemic, especially trade, investment, and consumption. The prospects for recovery are mixed, with increased risks of financial and economic crises. Third, the pandemic presents further challenges to an already weakened system of global governance. Fourth, although Yang states that no one “wants to see the international security situation spin out

David Ownby, from Reading the China Dream, <https://www.readingthechinadream.com/yuan-peng-coronavirus-pandemic.html>. The article originally appeared in *Xiandai guoji guanxi*, No. 5 (2020).

⁶ Yang Jiechi, “积极营造良好外部环境 (学习贯彻党的十九届五中全会精神) [Actively Create A Favorable External Environment (Study and implement the spirit of the Fifth Plenum of the 19th Central Committee of the Party)],” *Renmin ribao*, 2020 (November 30), p. 6, http://paper.people.com.cn/rmrb/html/2020-11/30/nw.D110000renmrb_20201130_1-06.htm

of control,” nontraditional security concerns are seen as increasingly intermixed with regional hotspots. Finally, Yang notes that “international ideological trends are surge and collide and ideological factors became prominent again.” Yang observes how the pandemic has intensified social divisions and ethnic conflicts within states, while conservatism and populism have increased, even leading some states to engage in external conflicts to divert attention from domestic woes.

Thus, building on themes in the CICIR report, Yang portrays a challenging environment for China. What does this all mean? As discussed in more detail below, supporting development is the top priority for China’s diplomacy, but China’s external environment is much more volatile and contains many more risks than before. China is more integrated into the world than ever before but also more vulnerable to what happens beyond its borders than ever before. Put differently, the start of the 14th five-year plan and the start of progress toward “basically achiev[ing] socialist modernization” by 2035 now coincide with a period of great global uncertainty and instability. Placed into a dialectical framework, the challenge is how to achieve China’s development goals during this period of “turbulent change” in the world.

A January 2021 commentary under the influential pseudonym of “Ren Zhongping” in the People’s Daily captures the sense of unease well:⁷

Living in a world that has not seen profound changes in a century, we are well aware that “the closer we are to national rejuvenation, the less smooth sailing will be, the more risks, challenges, and even stormy seas will be.” The world’s profound changes unseen in a century are not changes in one moment, one event, one region, or one country, but changes in the world, the era, and in history. Today, the world has entered a period of turbulent change. The impact of the COVID-19 epidemic is widespread and far-reaching. Economic globalization has encountered a countercurrent. Unilateralism, protectionism, and hegemonism continue to rise. Various “black swan” and “gray rhino” incidents have occurred from time to time. Sailboats must be sailed well in the external environment with more headwinds and headwaters, and new development must be sought in an international environment with markedly increased instability and uncertainty.

...

We are well aware that “our country’s development is still in a period of important strategic opportunities, but there are new developments and changes in opportunities

⁷ Ren Zhongping, “征途漫漫从头越: 论新征程上的孺子牛拓荒牛老黄牛精神 [Long journey from scratch: On the spirit of a willing ox, pioneering ox and old ox in the new journey,]” *Renmin ribao*, 2021 (January 22), p. 3, http://paper.people.com.cn/rmrb/html/2021-01/22/nw.D110000renmrb_20210122_2-03.htm

and challenges.” In the past, we were able to take advantage of the trend and it was easier to grasp opportunities; now we have to go up against the wind, and it is more difficult to grasp opportunities. In the past, the general environment was relatively stable, and the risks and challenges were relatively easy to see; now the world is turbulent and complex, geopolitical challenges are high and sharp, and there are many submerged reefs and undercurrents, which puts forward higher requirements for coping capacity. In the past, when our level of development was low, we were more complementary to others; now that our level of development has improved, we are more competitive with others. To nurture opportunities in a crisis and open new games in a changing situation, it is especially necessary to accurately recognize changes, respond scientifically, and actively seek changes.

China’s Foreign Policy in 2021 and Beyond

The central implication of the Fifth Plenum for China’s foreign policy was clear. As the communique stated, “the party must coordinate the overall situation of the strategy for the Chinese nation’s great rejuvenation and the world’s profound changes unseen for a century.” In other words, the current international environment is one of the main challenges to China’s development. Thus, the Central Committee’s “proposal” (建议) stated that the goal of China’s diplomacy is to “actively create a favorable external environment.”⁸ That is, the priority for China’s diplomacy should be creating the conditions for the successful implementation of the 14th five-year plan and, in turn, propelling China toward the accomplishment of its 2035 development goal from the 18th Party Congress. This is the main theme in writings and speeches by China’s leading foreign affairs officials in the past few months, including Yang Jiechi’s signed article from the *People’s Daily* as well as speeches and articles by foreign minister and state councilor Wang Yi⁹ and a speech by executive vice foreign minister Le Yucheng.¹⁰

⁸ “中国共产党第十九届中央委员会第五次全体会议公报 [Communiqué of the Fifth Plenum of the 19th Central Committee of the Communist Party of China],” *Xinhua*, 2020 (October 29), http://www.xinhuanet.com/politics/2020-10/29/c_1126674147.htm [hereafter “Communique”].

⁹ Wang Yi, “百年变局与世纪疫情下的中国外交：为国家担当 对世界尽责——在 2020 年国际形势与中国外交研讨会上的演讲 [China’s Diplomacy Amid Centennial Changes and a Once-in-a-Century Pandemic: Serving the Country and Contributing to the World],” Ministry of Foreign Affairs, December 12, 2020, https://www.fmprc.gov.cn/web/ziliao_674904/zyjh_674906/t1839713.shtml, and Wang Yi, “迎难而上 为国担当 奋力开启中国特色大国外交新征程 [Rise to the Challenges, Serve the Nation and Embark on a New Journey for Major-Country Diplomacy with Chinese Characteristics],” *Qiushi*, No. 2 (2020), https://www.fmprc.gov.cn/web/ziliao_674904/zyjh_674906/t1846767.shtml

¹⁰ Le Yucheng, “大疫情、大变局呼唤大团结、大作为——在第三届中国智库国际影响力论坛暨第六届新型智库建设学术研讨会上的主旨演讲 [Major epidemic and profound changes call for great unity and great

In many ways, anchoring China's diplomacy around promoting China's growth is a well-worn theme. Since the opening and reform period, a key priority in China's diplomacy has been to ensure favorable external conditions for China's development. Today, however, even with a focus on spurring growth under "dual circulation," China leaders have concluded that achievement of these goals requires that China be much more deeply integrated into the international system, both to rebuff challenges of decoupling and strained ties with developed economies and to maintain access to foreign investment. Moreover, increasing its integration with the global economy will also create stakeholders in other countries in continuing trade and investment ties with China.¹¹ As one analyst notes, one of "the most daunting external environment in decades "ironically will likely push Beijing to further embrace foreign direct investment (FDI) and improve the business environment."¹²

Yang's signed article provides one useful source for thinking about China's foreign policy goals after the plenum, in 2021 and beyond, and how China will seek to create a favorable external environment. Specifically, Yang's article outlines several subordinate goals for creating a favorable external environment.¹³ The first and broadest is to "actively develop global partnerships" and "deepen and expand the omnidirectional arrangement of foreign affairs work." An omnidirectional diplomatic orientation has been China's general approach since reform and opening and emphasizes pursuing beneficial relations with as many states and organizations as possible. Lacking allies, China seeks partnerships, broadly defined. Since the early 2000s, Chinese diplomacy has highlighted three groups of states—great powers (大国), neighboring states (周边国家), and developing countries. By maximizing ties with each, China invests in a broad portfolio of diplomatic relationships. Great powers are seen as critical to the overall stability of the system, while neighboring states bear much more directly on China's security and stability, and developing countries are viewed as important partners. Today, the economic component of many of these relationships is as important as the political one, as China can leverage the attraction of its economy as a source of diplomatic influence while also ensuring access to markets and technologies.

In an omnidirectional framework, great powers matter most. Chinese writings highlight

deeds],” Ministry of Foreign Affairs, 2020 (December 6),
https://www.fmprc.gov.cn/web/ziliao_674904/zyjh_674906/t1838082.shtml

¹¹ Houze Song, “China Economy 2025: Eluding the Middle Income Trap,” MacroPolo, 2020 (October 26),
<https://macropolo.org/analysis/china-economy-forecast-2025-eluding-the-middle-income-trap/>

¹² Song, “China Economy 2025.”

¹³ Yang Jiechi, “Actively Create A Favorable External Environment.”

three in particular—Russia, the EU, and the United States.¹⁴ China sees managing ties with other great powers as key to maintaining global stability. The precipitous decline in the US-China relationship, what Wang Yi describes as the “most challenging” since “the establishment of diplomatic ties” elevates the importance of ties with Russia and the EU as counterweights.¹⁵ Thus, in his year-end speech, Wang Yi called for “deepening” coordination with Russia “in all areas” and enhancing “bilateral strategic coordination in all areas and at all levels.” Turning to Europe, Wang indicated China’s desire to “enhance strategic trust,” focusing on multilateral approaches to trade and climate change.¹⁶ Regarding the United States, Wang Yi describes China’s goal is to “rebuild a strategic framework for the sound and stable growth of bilateral relations,” which will focus on reopening dialogue and finding new areas for cooperation such as climate change, pandemic, counterterrorism, and cyber. Yet as much as China would like to see a more stable relationship with the United States, Beijing will wait for Washington to make the first move to signal it wants to pursue cooperation and to abandon the rhetoric and many policies of the Trump Administration.

China’s neighbor states are described as a “key point” (重点) on par with great powers. Many of China’s most contentious relationships involving sovereignty disputes with its neighbors, such as in the East and South China Seas or on the border with India. Although China will continue to press its claims, it also will seek to prevent these disputes from harming the implementation of broader multilateral efforts in the region, including the implementation of the Regional Comprehensive Economic Partnership (RCEP) as well trilateral cooperation with Japan and South Korea. More generally, China will seek to deepen multilateral fora in the region, such as the Shanghai Cooperation Organization, the Mekong-Lancang initiative, ASEAN, and a new “C+5” initiative with Central Asian states.

Perhaps the most active area, however, has been ties with the developing world. Although always part of China’s omnidirectional foreign policy, their importance to China has been elevated in recent years. Xi Jinping in 2018 described developing countries as “our country’s natural allied forces [天然同盟军] in international affairs.”¹⁷ Here China will deepen what can be called “bi-multilateralism” or “one plus many” arrangements in which China has established forums for engaging in diplomacy with different regions, such as the

¹⁴ Notably, recent Chinese statements do not describe Japan or India as great powers.

¹⁵ Wang Yi, “China’s Diplomacy Amid Centennial Changes.”

¹⁶ Wang Yi, “China’s Diplomacy Amid Centennial Changes.”

¹⁷ “Xi Jinping: Strive to Major Power Diplomacy with Chinese Characteristics.”

Forum on China-Africa Cooperation, China-CELAC Forum (Latin America and the Caribbean), and, the China-Arab State Cooperation Forum, among others. Such groupings allow China to engage much of the developing world in a more systematic and structured way, with a regular schedule of summits and ministerial meetings. Some of these groups were also the target of China's COVID diplomacy, including Latin America and Africa. The developing world is also a major target for the Belt and Road Initiative (BRI), as well as efforts to address the deficit in global governance.

The second foreign policy goal Yang highlighted was "promoting the development of an open system of win-win cooperation." Although part of this includes elements of economic policy that lie beyond the scope of diplomacy, it also highlights China's concerns about protectionism, fragmentation, and decoupling in the international economy. Thus, a likely focus of China's diplomacy would be to pursue efforts aimed at what Yang describes as "maintaining the multilateral trading system." A good example would be the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Xi Jinping signaled China would consider joining in his speech at the November 2020 APEC conference. Nevertheless, China sees global trade and investment regimes as key to the international component of the dual circulation economic framework. Continued promotion of the Belt and Road Initiative (BRI) falls into this set of objectives, but the focus on the BRI in public statements has been reduced and stresses the pursuit of "high quality" projects. For example, in Wang Yi's extensive year-end speech, the BRI was not featured as a separate category of China's diplomacy in 2020 or for 2021.

A third foreign policy goal Yang discussed is "actively participating in reform and building of the global governance system," a theme highlighted at the 19th Party Congress and in earlier foreign affairs work conferences. Although China's concerns about global governance began early, China likely sees the "governance deficits" as presenting new opportunities, especially in light of the Trump Administration's approach to the United Nations, WTO, and G-20.¹⁸ This also dovetails with China's focus on developing countries, "supporting and expanding [their] voice and representation," and the "democratization" of international relations in which the influence of the most powerful states is reduced. As 2021 marks the 50th anniversary of the PRC's participation in the UN, China may highlight its work

¹⁸ Timothy R. Heath, "China Prepares for an International Order After US Leadership," Lawfare, 2018 (August 1), <https://www.lawfareblog.com/china-prepares-international-order-after-us-leadership>

in the UN this year as part of its effort to increase its influence. As Wang Yi noted, China will seek to enhance the “central position and role” of the UN in international affairs while “enhancing the effectiveness and authority” of the WTO.¹⁹

The last area mentioned by Yang (but not least) is “resolutely safeguarding national sovereignty, security and development interests.” Broadly speaking, this includes the defense of the CCP and China’s “socialist system” as well as other elements of regime security in addition to long-standing sovereignty issues including Taiwan, Hong Kong, Xinjiang, Tibet, and the South China Sea. Although none of the sources describe future approaches on these specific issues, the clear implication is that China will continue to stand firm and press its claims or hold its ground and “resolutely oppose distortion and smearing by anti-China forces.” More generally, Yang calls for “properly responding” to economic frictions and “safeguarding our country’s development space and long-term interests.”

Although a focus on these national interests is long-standing, what has changed in the last year has been China’s much more active and acerbic public diplomacy under the banner of “wolf warrior diplomacy.” Wang Yi, Le Yucheng, Yuan Peng, and others describe China as having fought both the coronavirus and a “political virus” (政治病毒) in the form of US challenges to and critiques of China. In his December 2020 speech, Le Yucheng described China’s approach as “standing up in self-defense and firmly defending our national interests and dignity” when “someone comes to our door...interferes in our housework, and constantly abuse and smear us.” In other words, according to Le Yucheng, when others criticize or challenge China, “we cannot swallow our anger and compromise...naturally, we should carry out a tit-for-tat struggle.” Thus, wolf warrior diplomacy will likely remain part of China’s foreign policy in the coming year, especially in its most contentious relationships.

In many ways, the general foreign policy goals Yang highlighted are not new and were well-established by the 2018 foreign affairs work conference. Nevertheless, the continued pursuit of trade and investment agreements, and efforts to maintain an open trading and investment system, are likely to be top priorities because of their direct links to China’s broader development goals in the 14th five-year plan and because of the need to hedge against further decoupling and decline in relations with the United States. Otherwise, in terms of substance, key themes are likely to support global efforts to combat the pandemic, including providing vaccines as a public good, supporting debt relief, and highlighting

¹⁹ Wang Yi, “China’s Diplomacy Amid Centennial Changes.”

China's economic recovery, especially in the fourth quarter, as a source of global growth.

Another theme for China's diplomacy in 2021 is worth noting, which will revolve around the centennial anniversary of the CCP's founding. Although much of the propaganda and celebrations will be domestic and focused on the Chinese public, it will also be part of China's public diplomacy, to burnish China's reputation and standing after the global pandemic, and to highlight the successes of the Chinese system. As Wang Yi notes, "we will better communicate to the world the CCP's track record of governance...[so that] the world will get an objective view of the CCP and a more accurate understanding of socialism with Chinese characteristics."²⁰ To the degree this narrative encounters push back from other countries, however, it will likely elicit more wolf warrior-style commentary. According to Le Yucheng, "experts and scholars should ... defend the party and the country against political slander and malicious attacks carried by some anti-China forces."²¹

China's National Defense Goals After the Fifth Plenum and Beyond

The five-year planning process plays an underappreciated role in China's military modernization. Although China's military strategy can be changed as threat perceptions and other circumstances shift, five-year plans mark the time when resources are allocated throughout the party-state, including to the armed forces. The national five-year plan is often accompanied by a five-year plan for the armed forces. For example, when China significantly altered its military strategy in January 1993, with the shift to fighting high-tech local wars, resources were only allocated to implement this strategy with the roll-out of the Ninth five-year plan that began in 1996—almost three years after the change in strategy.²² In this way, five-year plans offer a window into general priorities not just for the economy but also for national defense.

The 14th five-year plan is no different and includes a section on national defense that highlighted two topline goals. The first is "accelerating national defense and military modernization," while the second is "realizing the unity of a wealthy country and strong army." The latter indicates that, unlike in earlier periods, defense should no longer be

²⁰ Wang Yi, "China's Diplomacy Amid Centennial Changes."

²¹ Le Yucheng, "Major Epidemic and Profound Changes Call for Great Unity and Great Deeds."

²² See M. Taylor Fravel, *Active Defense: China's Military Strategy Since 1949* (Princeton: Princeton University Press, 2019).

subordinate to the economy but developed in tandem with it. Although the top-level discussion repeats many current slogans, two phrases stand out as areas of emphasis over the next five years. The first is “the fused development [融合发展] of mechanization, informatization, and intelligentization [智能化],” which places intelligentization on par with the other two technological goals, though how it will be pursued remains uncertain at this point.²³

The second noteworthy phrase is loosely translated as “ensuring the achievement of the military's centenary goal by 2027.” Some news outlets viewed this as accelerating the timetable for the PLA's modernization—and thus a major change in China's defense policy. Nevertheless, as the PLA's founding is traced back to the establishment of the Chinese Workers and Peasants Red Army in July 1927, the plenum's communique and proposal instead were drawing attention to a centennial anniversary by which PLA progress and modernization could be measured. Neither the plenum's communique nor proposal indicated that the timetable for PLA modernization as laid out in the 19th Party Congress work report had been changed. These were to “strive to basically complete national defense and military modernization” by 2035 and to “fully complete” its modernization to become a “world-class” military by 2049.²⁴ In fact, paragraph 3 of the “proposal” affirms the 2035 modernization benchmark. During the monthly press conference in November 2020, for example, the defense ministry spokesperson described the PLA's new centennial largely in terms of the goals in the 14th five-year plan, as discussed below, and thus not a new milestone but of progress toward the 2035 objective.²⁵

The “proposal” released after the conclusion of the Fifth Plenum itself highlights two goals for national defense under the 14th five-year plan. The first outlines specific priorities for PLA modernization as a fighting force, which are described as “raising the quality and effectiveness of military modernization.” One component is further modernizing what the PLA calls “military theory,” which includes strategy, strategic guidance, and operational doctrine. Areas highlighted include building a “strategic system” for the “new era” and developing “advanced operational theory.” As discussed below, a key element will be

²³ On intelligentized warfare, see Elsa Kania, “‘AI Weapons’ in Chinese Military Innovation,” The Brookings Institution, April 2020, https://www.brookings.edu/wp-content/uploads/2020/04/FP_20200427_ai_weapons_kania.pdf

²⁴ On China's world-class military ambitions, see M. Taylor Fravel, “China's “World-Class” Military Ambitions: Origins and Implications,” *The Washington Quarterly* Vol. 42, No. 4 (Spring 2020), pp. 85-99

²⁵ http://eng.mod.gov.cn/news/2020-11/29/content_4874839.htm

implementing and refining new operational doctrine for joint operations. A second component is further modernizing the “military’s organization form” (军队组织形态). This is a broad category that includes deepening the reforms from 2015, including the command and management of China’s armed forces. Areas highlighted include accelerating the transformation of the services and People’s Armed Police [PAP], building a “high quality strategic deterrence and joint operations system,” and strengthening joint training and joint support (保障). A third component is personnel, especially education (necessary for intelligentization). The fourth and final component is weapons and equipment. The most noteworthy elements were strengthening “strategic, cutting-edge, disruptive” technologies and the development of “intelligentized” equipment.

The second goal for national defense during the 14th five-year plan is “promoting the simultaneous increase in national defense and economic strength” (促进国防实力和经济实力同步提升). As the defense ministry spokesperson noted in November 2020, “China’s national defense strength does not match its economic growth and is not compatible with China’s international standing and its strategic security needs.”²⁶ Because the PLA is a party-army supervised by the Central Military Commission under the Central Committee of the CCP, coordination between the armed forces and the economy has been hampered because the PLA lies outside state institutions. As a result, greater coordination is needed to ensure further the continued growth of both. Toward this end, the proposal outlined measures to “create an integrated national strategic system and capabilities.” The section also called for making progress in large national defense projects, improving defense scientific research, and improving national defense mobilization.

Two other important documents relating to national security have been released recently. The first is a revised National Defense Law (国防法), which the National People’s Congress passed in December 2020.²⁷ As the previous national defense law had been in place for twenty-three years, since 1997, it was revised so that it would conform with the latest changes in China’s armed forces and provide a legal basis for further implementing rules and regulations. In the area of strategy, the language was slightly altered to include “development interests” in addition to sovereignty and security as well as including cyber,

²⁶ http://eng.mod.gov.cn/news/2020-11/29/content_4874839.htm

²⁷ For a copy of the law as well as related documents, see <https://npcobserver.com/legislation/national-defense-law/>

electromagnetic, and space as domains for national defense in addition to national territory, territorial waters, and airspace. However, both development interests and these new domains were first introduced as part of the idea of the PLA's "new historic mission" by Hu Jintao in 2004.²⁸ The law also now includes requisite references to Xi Jinping Thought and its security-related offshoots such as "building a strong army" and "comprehensive security concept." Otherwise, many features of the law focus on questions of organization. The law, for example, formalizes the chairman responsibility system (introduced in 2014), notes how the People's Armed Police now falls under the sole command of the Central Military Commission (which occurred in 2018) and removes local governments from the chain of command for reserve units. Other changes include the incorporation of non-commissioned officers and contract civilians into defense arrangements.

The second important document released around the time of the Fifth Plenum is the "Chinese People's Liberation Army Joint Operations Outline (Trial)," which was issued by the CMC in November 2020 and signed by Xi Jinping.²⁹ The last change to the PLA's operational doctrine occurred two decades ago, in 1999, when the PLA issued its first joint operations campaign outline (战役纲要) as part of the "fourth generation" of operations regulations issued since 1949.³⁰ Efforts to formulate new operational doctrine for joint operations stalled in the late 2000s, as "fifth generation" of operations regulations were drafted but never promulgated. Similar to the PLA's past operational doctrine, this new outline is classified and will never be openly published.

The promulgation of new operational doctrine is significant for several reasons, as it bears squarely on the efforts to improve the PLA's effectiveness and the success of its modernization efforts. Several points are worth noting:

First, the promulgation of a high-level doctrinal document indicates that the PLA believes it has completed the organizational reforms necessary to be able to focus on preparing to conduct joint operations. Second, the outline is described as "the top-level regulation [顶层法规] of our military's operational regulations system [作战条令体系] in the new era."³¹ That

²⁸ On the new historic mission of the PLA, see Daniel M. Hartnett, "The PLA's Domestic and Foreign Activities and Orientation," Testimony before the US-China Economic and Security Review Commission, 2009.

²⁹ "中央军委印发《中国人民解放军联合作战纲要（试行）》，[CMC Issues Chinese PLA Joint Operations Outline (trial)]," *Xinhua*, November 13, 2020, http://www.xinhuanet.com/mil/2020-11/13/c_1210884857.htm

³⁰ Fravel, *Active Defense*.

³¹ "中央军委印发《中国人民解放军联合作战纲要（试行）》，[CMC Issues Chinese PLA Joint Operations Outline (trial)]," *Xinhua*, November 13, 2020, http://www.xinhuanet.com/mil/2020-11/13/c_1210884857.htm

is, it provides a framework to guide the subsequent development of the PLA's operational doctrine—a process that will unfold over several years as additional outlines and combat regulations for each of the services and combat arms are drafted. Third, the joint operations outline was issued on a trial basis. This suggests either that the promulgation of the PLA's operational doctrine may be more dynamic than in the past, abandoning the focus on issuing a complete set of combat regulations as a package, or that it will be subject to revision as the kinks are worked out. Fourth, the new joint operations outline also codifies the shift from campaigns (战役) to operations (作战) as the unit of analysis for China's operational doctrine, indicating a more nimble and refined approach to the use of force than in past doctrine. Finally, the new outline will play a major role in training. Specifically, it will inform training content, requirements, and standards. In January 2021, Xi Jinping signed the PLA's annual training direction, which indicated that training priorities for the year include joint operations and joint command training.

Prospects for the Use of Armed Force

China's assessment of its international environment as experiencing “profound changes unseen in a century” as well as its foreign policy and national defense goals raise important questions about the prospects for the major use of force during the period of the 14th five-year plan that will end in 2025. Below, I examine the prospects by a major use of force by China, defined as initiating a large-scale attack against another state, most likely on its periphery. Although I expect China will continue to aggressively pursue its interests around its periphery, the use of force will either be too costly for China to undertake or unnecessary because China possesses other tools for advancing its interests. Thus, when seeking to “safeguard national interests,” China will continue to use gray zones tactics or economic coercion or, in a narrow range of cases, fait accompli. If force is used, it will likely be the result of either an accident or miscalculation, which then escalates to much higher levels of violence.

China is unlikely to initiate a major force for five reasons. First, as noted above, China's leaders view the profound changes unseen in a century as a fraught moment for the country. As China seeks to enter the next stage of its development, instability, and disorder are growing. China seeks to weather this storm through a network of “global partnerships” amid

a “community of common destiny for mankind.” Thus, initiating a major use of force against another country would upset or undermine the pursuit of the omnidirectional diplomacy it has identified as central to navigating these changes.

As a rising but isolated power, China needs to prevent the formation of counterbalancing coalitions, especially during a moment of great flux in the system. China has no formal allies, except for North Korea, which may be more of a security liability than an asset, and to a lesser degree Pakistan. Moreover, China’s rise and behavior have created deep concerns about Chinese intentions, indicating that the region is ripe for balancing against China from many directions. No action would be more likely to spark the formation of such a balancing coalition than a significant use of force against a neighbor. Furthermore, such a use of force by China would also catalyze an even tougher response by the United States and provide the United States an opportunity to play an even greater role in the region (which China would like to reduce).

Second, more narrowly, China’s leaders over the next few years will be focused on hosting a series of domestic anniversaries and events that a major use of force would upset. These include the celebrations for the 100th anniversary of CCP in July 2021, the hosting of the Winter Olympics in February 2022, and, most importantly, the convening of the 20th National Party Congress of the CCP, most likely in the fall of 2022. This congress will be the most important one since the start of reform and opening, as it will focus on consolidating Xi’s rule or start the process of succession to Xi. All these events are critical for the party’s domestic and international image. They are intended to convey the strength, success, and stability of CCP rule, which in turn is viewed as increasing external support for China’s development goals. The major use of force amid these events would raise questions about China’s leadership among those states it seeks to influence, as well as its own public. To ensure the success of these events, China’s leaders will seek to avoid situations that could escalate to high levels of armed conflict.

Third, amid these constraints, China has developed effective ways to pursue its national interests in disputes with other states that do not require the use of military force—gray zone actions and economic coercion. Gray zone actions seek to gain advantage without provoking a military response. These can be undertaken by both military and other government assets and include actions such as salami-slicing and executing a *fait accompli*. China’s emphasis on operating in the gray zone recognizes the clear dangers of crossing the

threshold for the use of armed force and have been employed precisely for this reason—to achieve national objectives without using force. China has employed this approach in most of its sovereignty and maritime disputes, with great success from China’s standpoint. Thus, there is no reason why China will not continue what has been an effective and efficacious approach for pursuing its interests, as it allows China to achieve its goals and avoid the risks/costs of using force against other states.

Fourth, the gap in capabilities between China and its neighbors on all dimensions of national power only continues to widen. This widening gap in capabilities matters for two reasons. To start, historically, China has usually used major force against its most capable neighbors to arrest a further decline in what it assessed as a deteriorating situation when Beijing viewed these states as challenging China’s interests.³² Now, however, China enjoys a strong and—in many instances—dominant position relative to most of its neighbors. As the gap in power widens, these states are less and less likely to challenge China in ways that would elicit an armed attack or use of force in response. In addition, the growing gap in capabilities and China’s increasing national power gives it a range of tools beyond the gray zone with which to pursue its interests, such as economic or diplomatic sanctions, as seen in China’s response to the South Korean decision to allow the US to deploy THAAD systems or Japan’s detention of a Chinese fishing boat captain. These alternative tools of statecraft will only grow more effective as China’s power increases, further reducing the need for the significant use of military force.

Fifth, as discussed in the previous section, the PLA’s focus over the next five years will be to deepen modernization, as discussed in the previous section. A key effort will be to train the force to be able to conduct joint operations, as envisioned in the new joint operations outline. As the outline was issued on a trial basis, likely subject to revision based on problems identified in training, this process will take time. It will likely take many years for China to be able to conduct these operations, which would increase uncertainty about a major use of force.

As states use force over contested sovereignty more than any other issue, below, I briefly examine the prospects for the use of force in China’s outstanding territorial and maritime jurisdictional disputes over the next five years in order to illustrate the argument above.

³² M. Taylor Fravel, *Strong Borders, Secure Nation: Cooperation and Conflict in China’s Territorial Disputes* (Princeton: Princeton University Press, 2008).

East China Sea. China has limited goals in the East China Sea, namely, to maintain its claim in the dispute over the Senkaku Islands and to bolster its claims to continental shelf rights up to the Okinawa Trough. Since 2012, China's approach to the Senkaku Islands has been to use coast guard patrols within 12nm of the islands to bring about a de facto dual administration, which weakens Japan's position and allows China to portray that it is exercising sovereignty over the islands. US alliance commitments to defend these islands, which president-elect Biden affirmed in a phone call with Prime Minister Suga in November 2020, also deter China from taking military action. These commitments place clear limits on Chinese aggression against Japan, which is why China has focused on using its coast guard and not its navy to advance and defend its territorial claims. Finally, after years of frosty ties, China has sought to improve relations with Japan as its own ties with Washington have deteriorated, as part of a broader effort to stabilize its periphery.

South China Sea. China has transformed its position in the South China Sea disputes in the past decade by using gray zone actions and building three large forward-operating bases from which to increase China's presence and ability to control these waters. For example, these bases now sustain a large and permanent presence of coast guard and maritime militia vessels in the southern half of the South China Sea. The success of China's efforts to improve its position in the South China Sea disputes reduces the need to forcibly retake the islands and reefs held by other claimants. China no longer needs these features to be able to assert control over these waters. Thus, because China's position already so strong relative to the other claimants, it has little need to use force and can rely either on gray zone actions or economic and diplomatic tools to continue to press its claims. China's diplomacy has also divided ASEAN so that it cannot present a united front to China, and no individual claimant is likely to directly challenge China in a way that would risk eliciting an armed response.

China-India Border. In its largest territorial dispute, China relies on its military much more directly to press its claims than in the maritime disputes discussed above. As the events of this past summer show, culminating the clash in the Galwan Valley, China seeks to improve its position along the border by using its military units to carry out fait accomplis to increase control of territory along the "line of actual control" (LAC), not through large-scale attacks against Indian positions. China has also been building new villages in land claimed by India (and Bhutan) that China controls. This trend of using fait accomplis on the China-India border began over a decade ago and, from China's standpoint, has improved its

position without having to use force. Moreover, each possesses nuclear weapons, which places a hard constraint on escalation to the major use of force on both sides. China may continue to move up to its view of the line of actual control but avoid launching large-scale, direct attacks against Indian forces. In the aftermath of the Galwan clash, China has tried to pursue a reset with India, albeit unsuccessfully.

Taiwan. China has two objectives toward Taiwan: deterring independence in the short to medium-term and achieving unification in the long term, by compellence if necessary. China's military modernization over the past two decades has played a key role in deterring independence. Within the next five years, the odds of using force will be driven by Chinese perceptions of whether its position regarding Taiwan is improving or weakening. Key factors informing such perceptions are whether Taiwan's leaders pursue de jure independence, or are viewed as doing so, or whether the United States abandons its "one China policy." On both counts, change is unlikely. President Tsai Ying-wen, a pragmatic leader, will serve until mid-2024 and is unlikely to pursue de jure independence. A Biden administration is likely to seek continued to improve ties with Taiwan, but it is unlikely to change the one China policy and will therefore reassure China in one important respect, though managing this balance will be delicate and is not without risk. As the gap in capabilities with Taiwan grows, China also seeks to leverage other tools.

Recommendations for Congress

The analysis above yields several recommendations for Congress: First, Congress should pass legislation to significantly increase the size of the US Foreign Service. As this testimony notes, the principal means by which China seeks to pursue its interests internationally, and especially beyond East Asia, is through diplomacy. According to the Lowy Institute, China now has more diplomatic posts abroad than any other country, including the United States.³³ As shown by Wang Yi's tour of four southeast Asia states earlier this month, China maintains a high-level diplomatic presence in many parts of the world that also matter for US interests. On a day-to-day basis, diplomacy is where much of US-China competition will occur in 2021 and beyond. Thus, increasing the size of US Foreign Service will better equip the United States to meet and manage the many challenges China poses.

³³ Global Diplomacy Index, Lowy Institute, <https://globaldiplomacyindex.lowyinstitute.org>

Second, Congress should pass legislation to create and fund an open-source center or repository of material on issues relating to the entire breadth of China's domestic, foreign, and security policies. A tremendous amount of information is available from Chinese-language sources. Only a very small portion is translated into English, often appearing in outlets tailored for foreign audiences, such as the *China Daily* or English-language edition of the *Global Times*. Even when Xinhua releases an English-language translation of a news item that originally appeared in Chinese, such as coverage of an important speech or meeting, it is often not verbatim but often truncated. Many more not even translated at all. As an example, neither the Fifth Plenum proposal has been translated into English by China.

This proposed center can be "open source" in two ways. First, it can focus on providing to the US government and to the general public translations and analysis of important Chinese documents, commentary, scholarly articles, and news reports. Second, it can crowd-source what items to translate and how to translate key terms from the community of analysts and scholars of Chinese affairs who are proficient in Chinese.

PANEL II QUESTION AND ANSWER

COMMISSIONER KAMPHAUSEN: Thank you, Dr. Fravel. All three of the panels have given us a great deal of topics for discussion during our question and answer period. We have a bit over an hour, and so we're going to proceed immediately.

I'm going to repeat the pattern of this morning and invite my co-chair and the chair of the Commission this year, Carolyn Bartholomew, to ask the first question. And then we'll turn to Vice Chair Robin Cleveland. And then we will proceed in reverse order. And so, Commissioner Wessel and Commissioner Talent, you will follow Vice Chairman Cleveland.

So, Carolyn, over to you.

CHAIRMAN BARTHOLOMEW: Thank you very much. And thank you to all of our witnesses.

I had the pleasure and the honor of participating with Dr. Greitens in a panel put on by the Association of American Universities. I don't know, it was last week or the week before. I completely lost track of time in this pandemic.

And so, Dr. Greitens, I actually have questions, one for each of you. But, you have mentioned the need for capable trained analysts. And I wonder how we do that when the CCP is shutting down the ability of scholars to actually get in and study and, in some ways, either directly or indirectly, limiting the focus, the topics that people can focus on.

So, I think that there's a challenge in our development of a new generation of scholars. And I wondered what ideas or suggestions you have about that.

The next question I have for Dr. Ang is, when you look at mass entrepreneurship, I'm just wondering what kinds of incentives or disincentives there are for these entrepreneurs. So, for example, as China is emphasizing more state-owned enterprises and, you know, is there sufficient capital for private entrepreneurs to actually start up businesses?

And then, what kind of messages are they getting when they see something like what's happened with Jack Ma, that if you grow too big in your -- in your entrepreneurial activities you will be punished one way or another?

And so I'm just wondering about the series of incentives and disincentives.

And then, Dr. Fravel, who I always think of as Dr. Fravel, so forgive me for years of mispronunciation, I wonder if you could just talk a little bit about the border conflict, China's border conflict with India, its move into Bhutanese territory, sort of its growing activities in the South China Sea, and how you see that fitting into sort of this increasingly complex environment that the CCP is trying to deal with and manage when they are, in a lot of ways, creating a bunch of that complexity themselves?

So, should we start with Dr. Greitens?

DR. GREITENS: Chair Bartholomew, thank you. And that is a terrific question in an increasingly complex and challenging environment for American academics who work in or on the People's Republic of China.

First I would say that I think study on the mainland wherever possible, even if it's circumscribed, has a tremendous amount of value. We have a lot of experts on China from generations more senior than mine who dealt with China much earlier in the reform and opening

period, and managed to amass considerable amounts of insight from time even in a more closed Chinese political system.

And so, you know, I think as long as that can be safely done, I would still encourage people to take advantage of it.

The other opportunity that we have, of course, is for students to study in language programs in Taiwan. And as someone who has spent chunks of time in both Beijing and Taipei, I would say that they provide very different experiences, but both are very, very valuable. And I would like to see analysts who are trained and conversant in understanding both places and the benefits that come from studying in both mainland China and Taiwan.

Second of all, I do think our graduate training needs to do a better job preparing students for the chance that they could encounter any number of various forms of repression that the Chinese party-state can levy against academics or scholars working in the PRC.

That's something that a co-author Rory Truex and I have tracked extensively. We find that repressive experiences against scholars studying China are not ubiquitous but they are fairly, fairly present. And we did a survey in part so that graduate training can more fully account for and teach students how to deal with those experiences.

And I think that American higher ed, and in particular our flagship programs for study of China need to be realistic and to incorporate that into the training for students, undergraduate and graduate.

Lastly, I think, you know, yes, we are losing access to certain forms of data and information from China as the political environment has become more circumscribed. But, we are also seeing a wide array of other data and other methods becoming available to us in the form of social media, big data analysis, and a whole range of tools and techniques that can be used, at least in part, to fill the gaps.

And I think it would be very, very useful to comprehensively take stock at this point of what analytical methods and data we can sort of port and adapt based on new, new methods and new analytical techniques that are available. And where the sort of increasing closure of the political system creates real obstacles so that we can think more systematically about how to handle those particular chokepoints in information access.

Thank you.

CHAIRMAN BARTHOLOMEW: My co-chair, do we have time to get answers from the other two people?

Thank you very much. Dr. Ang?

DR. ANG: Thank you very much, Chairman Bartholomew, for your excellent question about incentives and disincentives. I will make a couple of observations.

The first is to highlight that the Chinese government's priorities and attitude toward technology has undergone rapid evolution within just a short period of five years. And I think that's something noteworthy to keep in mind, that their attitude towards technology is by no means static. It never came as a single, complete package, and it's actually open to change and influence.

With regard to the question of incentives and disincentives, the movement on mass entrepreneurship, or initiative, started around 2013. And the attitude of the role of the government promoting innovation is very different from top-down industrial policies.

The focus was on the government as an enabler of innovation, meaning it's very much focused on creating the ecosystems, the innovators, the infrastructure for lots of people to get together to do innovation. The focus is bottom-up, and a focus on start-ups and SMEs.

This is in contrast to the present priorities now, which is solely focused on the core technologies and the stranglehold that China wants to break. And those policies are much more top-down, pouring large amounts of money, selecting winners with a strong degree of political control.

So, I think it's important to keep in mind this really rapid evolution within a short period of time.

Another observation that I'll make is that the different approach towards technology, the bottom-up versus the top-down, is also led by different leaders within the CCP. If you look at mass entrepreneurship, it's highly associated with the Premier Li Keqiang, who generally has always preferred this bottom-up, private sector approach to its innovation. Whereas, if you look at when the President Xi talks about innovation and technology, his focus is on the core technologies like quantum computing and AI.

So, I think it's also useful to keep in mind that different leaders within the CCP actually have very different priorities and attitudes to how the government should go about promoting innovation, and what innovation is important to the country.

Thank you.

CHAIRMAN BARTHOLOMEW: Thank you.

Dr. Fravel? You're muted. You have to unmute.

DR. FRAVEL: There you go. My apologies.

I always joke with my friends, if I ever become a famous composer they can call me Fravel as opposed to Fravel. But either is fine.

To answer your question, it's really terrific. The point I was really trying to make with profound changes unseen in a century is this sense that some deeper elements of the order are kind of fraying. And that is sort of worrying for China because it has really relied and benefitted so much from a more stable order.

You are absolutely right that the way in which China asserted itself in sovereignty issues, particularly with India in the last 12 months, where I think it's been the most extreme culminating in the clash last June in the Galwan Valley, right, are obviously quite counterproductive in the sense that they worsened a relationship with a country that China would really otherwise probably seek to have better ties with.

And I think what's happened is that China has sort of backed itself into a circle. If we go back to Xi Jinping become General Secretary and the first pronouncements of the China Dream in late 2012 and early 2013, sovereignty, and the sort of defense of sovereignty was really featured quite prominently.

And thus, I think China feels compelled that it has to take quite strong stances on these sovereignty issues, especially when it believes it's challenged. Whether or not, you know, it's actually being challenged is sort of a separate issue. And that produces these various assertive actions, especially with regard to India.

So, I think China has boxed itself into a corner, and it will be very telling to see, given their new assessment of their environment, if they find a way to do that. But I think the trick for

China will be find a way out of that corner, so to speak, without creating the perception, especially at home, that they somehow have made deep or significant compromises on questions of sovereignty.

CHAIRMAN BARTHOLOMEW: Great. Thank you very much.

COMMISSIONER KAMPHAUSEN: Commissioner Cleveland, we turn to you.

VICE CHAIRMAN CLEVELAND: Thank you. Wonderful testimony. And I appreciate the breadth of your knowledge and experience.

I'd like to focus on, Dr. Fravel, you've talked about their assertion of self and sovereignty. And, Dr. Ang, you've talked a little bit about there are differences between Li and Xi when it comes to their thinking about innovation. And, Dr. Greitens, you've talked about the use of internal security tools to promote control.

And I think there's no doubt that control in the interests of protecting the party is the ultimate objective. But I'm really curious about, are there differences in approaches to decisionmaking in the political, security, and economic sectors?

Is this just Xi making all the decisions all the time in every sector, and through every small leading group, or are we seeing differences?

And I'm particularly interested in the context that Mr. Kamphausen and I often debate the role that the PLA may or may not play when it comes to final decisions about asserting Chinese interest in Taiwan.

So, I'm curious about, I guess the question is can you clarify in each of the sectors that I see your expertise in how decisions get made, who makes them, and what's the process?

Dr. Greitens, can we start with you?

DR. GREITENS: Sure.

I would say that in national security this is an area where Xi Jinping has taken a really central leadership role and has sought to put a personal stamp on both the concept and the implementation of national security, which indicates largely internal security policy. I'm not an expert on economic policies, so I struggle to directly make comparisons about the decisionmaking processes.

But, I would say that one of the features of the anti-corruption campaign has been to remove a large number of senior-level leaders in both military and then the political-legal or domestic security apparatus. And what we now see in the anti-corruption campaign, particularly the rectification and education campaign that is launching this year, is that there's an effort to really push consolidation of control and of responsiveness to the leadership team that Xi Jinping himself has put in place in the domestic security apparatus.

The rectification and education campaign, I believe, and my research has focused a little bit on this, is directed at pushing his authority down through the lower levels of the system, not because the idea is that there might be some sort of regional mutiny among coercive forces or something, but simply that there would be sort of shirking or non-responsiveness to the directives of the upper-level leaders and the team that Xi Jinping has.

That said, there are a few remaining mysteries. I don't -- I don't want to take more time, but I'm happy to follow up with you offline to talk about some of the decision-making questions that I have. But that's how I would characterize national security.

Thanks.

VICE CHAIRMAN CLEVELAND: Thank you.

Dr. Ang, can you talk about the economic decision-making process?

DR. ANG: Sure. Thank you very much, that's a great question.

Let me make a couple of observations. The first point that I would make is that the example that I gave of the differences in opinion between President Xi and Premier Li is just one example of other possible divisions and disagreements within the party. So, this is not just limited to the number one and number two leaders.

The second thing I would point out is that the differences in opinion between the first and second leader is not actually only in the realm of innovation. As I gave earlier on, even though the remark about China being a developing country seems really harmless, the fact that the premier really made an effort to push this message and announce it almost by surprise at a press conference is actually very revealing.

And so, the differences are not only about innovation, it's also about foreign policy. Should China be aggressive or should it continue the path of keeping a low profile and be realistic?

Should China be market-oriented or should it have a statist approach?

So, the differences are actually not just in one realm, but across many.

The third point I would make is that I think it is common knowledge by now that Xi has very effectively centralized power in his own hands. So, all decisions, whether it's economic or political, really has his very, very strong imprint. And, generally, we can see his preference and how it's different from past leaders.

In foreign policy he's much more assertive. He clearly prefers a statist approach to economic management. And he's much more controlling in the political realm as well.

Nevertheless, as someone who studies policy communication, one of the benefits that we can get out of this approach is that when we look at the communication that comes out of the party, even though we don't know the process and the black box that goes into that decisionmaking process, we can get some concrete signals of whether other kind of opinions manage to make their way into the final message.

And so, if you look at the way the CCP talks about its strategic position, its confidence, that is where you can see 95 percent reflects this kind of Xi rhetoric about China being an absolutely victorious, having this once-in-a-century seismic shift, historical forces on its side. These are the kind of narratives that Xi prefers.

But, the last 10 percent would be dedicated to say, but China is still a developing country and we are way behind the U.S. And you actually now see this template being repeated in other party documents, including a recent one by the Central Discipline Commission, which is a very powerful agency.

So, this is one way in which you can see that despite Xi being absolutely dominant in process, other voices are still trying and struggling to make their way into the decision-making process to moderate his personal preferences.

Thank you.

VICE CHAIRMAN CLEVELAND: Excellent. Thank you. Dr. Fravel?

DR. FRAVEL: Yes, thanks very much.

So, turning to sort of foreign policy and national defense, I' make three points: First, decision-making in these two sort of policy systems that have always been sort of concentrated in the authority of the General Secretary of the Party. So, if one looks at the, you know, seven members of the Politburo Standing Commission, only Xi Jinping has foreign policy and defense in his portfolio.

If we look at the membership of the Central Military Commission more broadly, now today Xi Jinping is the only non-uniformed member of that commission.

Within the broader Politburo itself there is Yang Jiechi who does sort of oversee the Central Foreign Affairs Commission, and aids Xi Jinping in foreign policy. But, nevertheless, both I think are quite centralized with Xi at the top.

Now, the second question is do they have it too centralized; right? Does this mean that -- VICE CHAIRMAN CLEVELAND: Yes, yes.

DR. FRAVEL: -- information, competing views are not necessarily filtered up to the top where the decisions -- and thus poor decisions are in fact made. And that's, I think, a very important question to consider, although analytically very, very difficult to study.

And then, thirdly, with regards to the PLA in particular, and Taiwan, I don't want to wade directly into your debate with Commissioner Kamphausen but I'll make the following observations, which is that I think because of the way in which Xi has worked so hard to gain control of the PLA, the way in which that discipline was elevated very prominently on the Central Military Commission in 2015, that major decisions that the PLA takes are taken with the approval of the General Secretary of the Party, right, that there's not a lot of -- especially at the strategic level there's really no room for, kind of, policy entrepreneurship.

That doesn't mean that, necessarily, everyone in the rank and file is happy with all the decisions that are made, but my own judgement would be that certainly when it comes down to questions of using force, that ultimately is a question for the Standing Committee and Xi, in particular.

VICE CHAIRMAN CLEVELAND: I think I won, Roy.

COMMISSIONER KAMPHAUSEN: I was going to say, I thought I had won.
(Laughter.)

COMMISSIONER KAMPHAUSEN: Okay. Let's turn to Commissioner Wessel.

COMMISSIONER WESSEL: Hi. Thank you all for great testimony, both oral and written. Let me start with a quick vignette, I guess, on us.

You know, we've been in operation 20 years. When we first started hiring many years ago, Chinese language skilled employees were very difficult to find. We are now, you know, happy that we have broad interest in both serving on the Commission, but very qualified staff. Certainly our current cadre is part of that.

I think you all saw the House Intelligence Committee's report last year, which in part said the Intelligence Committee -- or Community should formalize and broaden programs designed to mentor the next generation of China analysts. And you have all indicated that reading what China says, Chinese leaders say, is vital. And we all agree, and as a Commission we've recommended that.

If you can, beyond what you've already had in your testimony, provide us for the record your thoughts of any specific actions that we can take, without going into it here, to both work

with Congress and the new administration to make sure that we do provide that cadre, those who will fill your shoes many years from now, that would be very helpful to us. That's my first comment.

Second, Dr. Ang, you talk about developing country status. And when I hear that term I think of it in a different context, which is the legal status of China as it relates to trade law, as it relates to climate change, and a number of other, you know, bilateral and multilateral regimes. And that China, when I hear them say that, I think they are trying to lower expectations or get the cover of a different legal regime, too, that governs their path forward.

Can you comment on that, since you've talked about it in a different context?

DR. ANG: Sure. Thank you for your question.

You are absolutely right to raise the point about developing country and that phrase having a certain connotation when said to a foreign or American audience. And you're absolutely right about that.

What I wanted to point out is that in the Chinese context, who says something to whom makes a huge difference, even when they use exactly the same phrase and say exactly the same content. So, I completely agree with you that when China throws out the term developing country in the context of WTO and to foreigners, it is often in the context of wanting to downplay its rise and plead leniency in fulfilling its obligations as a middle-income economy.

What I wanted to point out is that, however, when Chinese leaders say that China is a developing country to its own people, this is a completely different context, in particular, when President Xi says it himself, because this is inconsistent with the narratives that he has very much preferred about national rejuvenation, and China's greatness, and so on.

So, when I see that I was quite surprised, and I would read that as some form of a compromise or at least acknowledgment on his part that they need to downplay that over-ambition. So, this is something noteworthy, I believe, to U.S. policy makers.

COMMISSIONER WESSEL: I appreciate that. So, you don't view it as trying to, if you will, harmonize the inward and the outward messaging, but rather the different audiences?

DR. ANG: Absolutely, different audiences. The Chinese are very conscious of when they're speaking to foreigners versus speaking to domestic audiences.

COMMISSIONER WESSEL: Okay.

Dr. Greitens, if you could, you talked briefly about, you know, the alignment or the intertwined internal and external challenges. And with recent commentary both by the Trump and Biden Administrations regarding the Uighurs and genocide, how do you view the use of that term and the heightened attention on the Uighur issue in terms of those intertwined challenges?

DR. GREITENS: I think it's absolutely appropriate to have heightened attention to what is happening in Xinjiang, to the program of collective repression that the CCP has launched, and to what I view as crimes against humanity that are being committed there.

I'm not an expert in the sort of international legal designations on --

COMMISSIONER WESSEL: I apologize --

DR. GREITENS: Yes.

COMMISSIONER WESSEL: -- I'm wondering more that with the use of that term which, you know, which is heightened attention, how do you view that in terms of how China

sees itself in those both internal and external challenges? Do you think that it sees itself under even greater attack and that it must take new steps to respond?

DR. GREITENS: I think it will put China on the defensive. But the reality is that China has been on the defensive about its actions in Xinjiang for a long time.

To me, the significant strategic change occurred in the spring of 2017. There was a Central National Security Commission meeting in Beijing. And when Chen Quanguo, the Party Secretary of Xinjiang, got back from that meeting the orders to construct the mass detention facilities went out and he held a bunch of counterterrorism-themed rallies that looked like something out of a Star Wars set.

And so -- and that's really when there was a strategic inflexion point in terms of the CCP's willingness to target people not on the basis of individual behavior, but on the basis of descriptive group characteristics, which is sort of a textbook definition of collective repression, as used as an academic term.

So, I think the key question going forward is whether or not the United States is going to be able to marshal an effective international coalition that might have some hope of moderating internal Chinese behavior. When things get defined in terms of national security, the stakes for trying to convince the CCP to walk policies back become extraordinarily high. And I think we shouldn't underestimate the difficulty of that task.

But, I also think there's a lot that the United States could do and that I hope the Biden Administration will pursue in terms of trying to build a more effective international coalition, for example, among Muslim-majority countries, who so far has been relatively quiescent and raised very limited objections to China's behavior. I think it's important that that change. And we need to see what this administration has planned.

Otherwise, the term is kind of empty talk, and it's rhetoric without a real strategy behind it, which I think would be in some ways a really, really unfortunate and tragic outcome, not least for all the people who are in detention facilities in Xinjiang today.

COMMISSIONER WESSEL: Thank you.

COMMISSIONER KAMPHAUSEN: Thank you.

Commissioner Talent, let's turn to you.

COMMISSIONER TALENT: Thank you, Mr. Chairman. I must say I'm a little tempted to yield my five minutes to you and Commissioner Cleveland for a little debate over the PLA. But, I guess we can wait until our regular commission meeting for that.

So, Dr. Ang, you discuss the importance of targeting our actions. And that was a major theme in the first panel. So, I guess I'd like to inquire into how each of you think about that in a little bit more detail from your perspective.

And maybe, maybe it would be illuminating if I mention three areas where we have made recommendations in this year's report or last year's report and just see what you would think the Chinese reaction to that would be, whether you think it would be effective as a means of, you know, deterring aggressive behavior or channeling it in the right direction.

So, in this year's report we said the principle of reciprocity ought to govern our actions regarding China. And that would apply to restraints on media personnel, on diplomats, non-governmental organizations, which the Chair mentioned earlier, as well as regulatory -- moving

towards regulatory parity, and even as regards markets. And we were pretty strong. That was our number one recommendation.

The last couple of years we've been recommending that the United States government move towards creating self-sufficiency here, or at least more secure supply chains with regard to pharmaceuticals so that we were not dependent upon Chinese imports.

We had a very targeted recommendation this year that when the government sanctioned a Chinese firms, or put it on the entities list, that it apply that sanction as well to any parent companies or organizations.

So, I'm not going to go through all our recommendations. But I'd like a little more clarity on what kind of targeted actions you think, you know, would work. What, you know, what can we do? And maybe you want to comment on these, on these recommendations, though you certainly don't have to be exhaustive about it.

So, I'll let you all take those -- that question wherever you want to go with it.

DR. ANG: Sure. Can I begin?

COMMISSIONER TALENT: Yeah, please.

DR. ANG: Yes. Well, thank you very much for --

COMMISSIONER TALENT: I did mention you specifically.

DR. ANG: Yes. Thank you for initiating this conversation about a targeted approach.

Let me just give an example of a possible targeted approach.

So, in the realm of innovation, we could begin to start making a very broad distinction between the kinds of applied innovation that I talked about, versus the competition over critical technologies. And one possible realm of engagement in innovation is in the realm of climate action, which is a very important priority for the current administration and for China as well.

The Chinese innovation landscape is really good at taking an existing technology and making it cheaper, making it more accessible. That's their commercial strength. So, that is one example in which the U.S. and China could actually engage on climate action and in the realm of innovation. And that's just one example.

And the broader, I think, spillover effects of having selective engagement and at the same time having selective pushback is that I also think that it creates an ecosystem where it makes it easier for individuals and experts like myself to be able to engage with China, going back to Chairman Bartholomew's earlier comment.

The pressure for China experts is not only coming from China, but also from the U.S. When the two countries are in a very tense climate, we actually are pressured on both sides.

So, if there can be selective dialog and selective engagement on areas of mutual interest and cooperation, it actually makes it easier for experts like myself to be able to engage with China and, therefore, bring expertise back to a healthy and informed discussion.

COMMISSIONER TALENT: Why wouldn't reciprocity, for example, though, encourage the right tendencies in Beijing? Like, you know, if I looked at costs, if you're constraining our media, if you're constraining our diplomats -- not just ours but the world's maybe -- non-governmental organizations, you know, we'll adopt that policy here.

DR. ANG: I don't think that the approach of targeting is inconsistent with reciprocity. The reciprocity principle can remain, and it makes complete sense. But at the same time, there

can be a targeted approach where there will be areas where the U.S. must push back strongly on practices but be willing to dialog and engage on other areas.

So, I don't think that the two are actually inconsistent with each other.

COMMISSIONER TALENT: Dr. Fravel, would you like to comment or?

DR. FRAVEL: Yeah. Let me just jump in briefly with the type of reciprocity. And I think one concern that I have, certainly last year, is the fear that reciprocity became an end in itself and it was no longer a means to achieve something else. And it was also never clear it was embedded in a larger, sort of, framework or strategy to create pressure to achieve a desired outcome.

So, if you take journalists, for example, it's always been the case that they're treated differently in China than they are in the United States. And part of that is because the United States is, you know, a democracy, China is not. But the net result now is we have fewer American journalists reporting on China at a time when knowledge about China has never been more important.

So, you know, China may have regretted losing some journalists in the United States. Although there's still many [audio interference] comparatively easy to learn about the United States from a variety of news sources because we are such an open society.

And so I'm not really sure what we gain. I don't think we've got a lot of leverage on the media question with China by doing this. And I think we lost access to information at the same time.

And so I think, in principle, reciprocity can create leverage, but one has to think very carefully about how it's going to be exercised and how it will be used to bring about the desired outcome. But as a general principle, I think it does become an end in itself, and I'm not sure if that necessarily advances other policy objectives.

DR. GREITENS: Let me just give one example, if I may, Commissioner, of where I think that reciprocity might be concerning or raise concerns from the standpoint of American national security, and that has to do with the recommendation I made about visa policies. It is no secret that China strategically leverages access to the country itself for researchers, whether they're journalists or academics, like those of us on this panel today.

And so, one of the questions that I have is in an era when China is closing and making it harder for us to gain important information about its strategic priorities and the way that it organizes and conducts its national security objectives, you know, how do we deal with that closure?

And one of the possible ways to do that is to allow Chinese social scientists or officials to come either to the United States or for meetings in third countries.

And so what I worry about as I look at this is that I think that China, the extent of China's national security strategic shift and grand strategy, because it occurred sort of piecemeal over a couple of years actually didn't get enough attention, and we didn't understand the various implications of China's extra-territorial projection of its internal security goals.

And, to me, understanding how to read, and how to interpret phrasing in Chinese documents, there are things where conversations with Chinese counterparts doesn't signal agreement. Right? I think all of us have probably been in circumstances where we go into meetings with Chinese interlocutors and there's a lot of disagreement. And, sure, they try to

persuade us, we try to persuade them. That's why we do this for a living, is to be able to parse and critically assess the information or the case that's being presented by Chinese interlocutors and contacts.

But I think we have to be concerned that because we are an open society, loss of that particular access point would disproportionately hurt the United States because we have fewer access points to begin with. And so, if you have, you know, 20 ways to understand the United States on one side, and 5 ways to understand China, and reciprocity removes one on each side, we're down to 4 and China still has 19 ways of looking at what we're doing.

And I'm just not sure that plays out to the U.S.'s, you know, relative benefit.

COMMISSIONER KAMPHAUSEN: This has been great.

Let's move on next to Commissioner Goodwin, who I believe is on the phone. Carte, can you hear us? And go ahead with your questions, if you can.

CHAIR BARTHOLOMEW: Is he on the phone or is he -- Carte, if you're online, we can't --you're muted.

COMMISSIONER GOODWIN: How's that?

CHAIR BARTHOLOMEW: That's good.

COMMISSIONER GOODWIN: All right, I'm going to try this on the computer. I've been having connection issues, as I'm sure you all have gathered. So I appreciate your patience with me. Things were going way too well there for the first four hours. Inevitably they popped up right as my turn came up.

CHAIR BARTHOLOMEW: Actually, it does, it sounds good now, Carte.

COMMISSIONER GOODWIN: Dr. Greitens, I wanted to ask you a question about this phrase "prevention and control," which you discussed in your written testimony earlier this afternoon, and you noted the troubling trends of the use of that phrase in both securitizing public health issues as well as the medicalization of public security issues, with phrases such as immunizing against problematic political thinking and excising cancers and the like.

I'd like to kind of continue this health metaphor in the public security space and ask you about the risks of misdiagnosis. On our next panel we're going to talk -- well, we touched on it here -- about how the Chinese Communist Party's desire for control, and the consolidation of such control, reduces the space for critical feedback and for competing ideas and, arguably, undermines the integrity of the flow of information that gets to decisionmakers, and becomes reflected in policy decisions.

We've certainly seen the dangers of that dynamic play out this past year. And my question to you is what additional dangers do you see posed by this dynamic in the coming years?

And how can that lack of a critical dialog and the lack of competing ideas lead to a misdiagnosis of public security issues, and result in mistakes in public security decisions?

DR. GREITENS: Thank you. It's a terrific question. And I was trying to be mindful of time but, but yes, it's something that I emphasized a bit more in my written testimony than in my remarks today.

If I could add one sort of friendly amendment also, or addition to my previous remarks about American policy on Xinjiang, I think the other piece that I didn't mention because I sort of took it for granted and should not have, is the need for America to ensure that we are not

ourselves complicit in what's going on in Xinjiang. And so I would just add that as a very short asterisk to my earlier comments on that issue.

And I know that's something the Commission has already looked at, so I won't belabor it. But, I think it's an important thing to note for the record.

I think that the risks of misdiagnosis are real and significant and probably growing with the types of reforms and, in particular, bureaucratic and informational reforms that China has put in place.

My first book actually looked largely at autocratic threat perceptions and concluded that dictators are particularly prone, right -- this is a fairly -- I'm certainly not the only person to have reached this conclusion, right -- that non-democracies have endemic information problems. Citizens falsify preferences and what they say and do publicly to try to avoid being targeted by state repression. And lower-level officials misrepresent their activities and the consequences of their activities upward, whether it's to avoid censure or to get promoted.

And so information distortions are really sort of hard wired into the system. One of the things I think that we see in China's response to COVID-19 is some of those dynamics at work within the Chinese bureaucracy and the problems with information flows upwards and horizontally within different parts of the Chinese political system itself.

As it relates to public security, there is a very real danger that threats get inflated because security bureaucracies particularly, if they're ever placed in competition, tend to inflate threats to make themselves or their performance valuable to the key leadership. And so, having internal security centralized in one person can be particularly dangerous.

The other thing that I worry about is this consolidation of the discipline and supervisory apparatus and the potential for that to be a separate and more stovepiped line of reporting. And so, if you get competing inform -- different stovepiped information channels by different bureaucracies that are both involved in coercion and punishment for Xi Jinping, that can actually then escalate threats, escalate repression, and create a sort of a vicious circle for which there actually is no good way for feedback to come in and say, actually, the threat is lower than we think. Right?

That doesn't ever tend to be the outcome once the system is set up in that particular way. And so I worry that some of the bureaucratic changes we're seeing under Xi Jinping actually heighten the risk of these information problems and prevent the Chinese political system from getting feedback that might lower the temperature when it's appropriate to do so.

COMMISSIONER GOODWIN: Thank you.

And with the indulgence of the Chair, I wanted to ask a follow-up question to Senator Talent's question. Due to my connection issue, I was unable to hear the witnesses responses.

But just want to pose a somewhat related question based upon the testimony we heard this morning, where it was suggested that we have a finite amount of leverage or engagement that we can use, and perhaps efforts to seek cooperation or engagement on some issues can inhibit our ability to counter and push back against China and others.

And I just wanted a quick response from the panel on that suggestion.

DR. GREITENS: Commissioner, I largely agreed with the discussion that occurred this morning. I think that that -- it is likely, and we may have already seen some evidence that China would like to suggest that there's -- that the U.S. would have to compromise on some issues to

make progress on others. And I very much hope the administration will not fall into that line of thinking. I don't think it's necessary or wise.

COMMISSIONER GOODWIN: Thank you.

DR. FRAVEL: If I can just add briefly here, if my reading of these sources are correct and China really does view its environment as kind of more worrisome than it has in the past, that suggests the U.S. has more leverage to be able to push hard on both directions.

So, if it's something where there's a genuine basis for cooperation that can be pursued because they can be more effectively sandboxed or isolated from the areas where China might want to draw linkages, because China will see some of this cooperation not just as something that is beneficial for the U.S., but actually is potentially even more beneficial for itself. And that allows for new framings and means that one doesn't need to think necessarily in terms of these kinds of linkages.

COMMISSIONER GOODWIN: Thank you.

DR. ANG: My only comment on your question would be, I think it's noteworthy to highlight that U.S. policies have a much more profound effect on Chinese policymaking than vice versa. And I think it's useful to acknowledge that reality.

So, even the act of a dialog -- and I'm not even talking about cooperation here -- even the act of a dialog I think can have actually profound influence on the way China perceives itself and its place and its relationship with the U.S.

And you see that in the language of the policy documents where in the communique, if you compare the communique with, say, the inaugural address, the U.S. is on page one, under the euphemism "a complex international situation." Whereas, if you think about an inaugural address in a U.S. context, China actually doesn't appear.

So, the U.S. really actually has disproportionate influence in the way the Chinese perceive themselves and make their policies. So, even a withdrawal of sanctions, and even a little bit of showing of dialog I think can go a very -- can go a long way. And mixing that with, as I said, the necessary pushback into a targeted approach.

COMMISSIONER GOODWIN: Thank you.

COMMISSIONER KAMPHAUSEN: Thanks very much.

Commissioner Borochoff, we turn to you now. You're still muted. Bob, you're muted.

COMMISSIONER BOROCHOFF: You know, when your last name begins with a B or a W on this commission you get to either be first or last. And a lot of the questions that I was really concerned with have been asked. And that just opened me up in listening to some to ask this:

All three of our folks who have testified today have really impressed me with your breadth of knowledge and your strategic thinking. And, Dr. Ang, you know, your concern and your suggestion that we find avenues to make people feel more comfortable I totally agree with.

Dr. Fravel, when you talked about the concerns the Chinese have with defense of sovereignty, I really understand that as a business guy. Because when you build a business, you know, you fight like crazy to get to a certain size, and then when you get there you worry every single day that someone's going to take it away from you.

And, Dr. Greitens, what struck me in your very first comments talking about prevention and control, you said that they look at security more as an ends than a means. And that really struck home for me.

I have a very close friend who grew up in business with me and built a gigantic restaurant company. And last year, when the pandemic hit, he was very, very upset with the way the PPP got handled because he didn't understand why his billion-dollar company was being attacked for getting so much money. And he said, you know, "I'm a small business, too."

And it reminded me of what you all are talking about today with China downplaying themselves and saying they're a developing country. And I said, you know, "No offense, but you're really not a small business." And he said, "I'm 500 small businesses. That's just not true." And where I'm leading with this is that the psychological difference between what's happening in China and the people who run it and their governmental system, I realized today listening to you all, really can be misunderstood just because they use the same words. That's a very, very big concern.

So, I also know from just watching my friends who build these big companies that are not all that different than China, they want to control the marketplace once they get to a certain place. And they can be -- beaten is the wrong word -- manipulated might be too strong a word -- but they can be influenced to do the right thing if you understand their psychology.

So, what I want to ask, starting with Dr. Greitens, and then Dr. Ang, and then Dr. Fravel, is if you had to choose the one psychological position, ploy, tactic on the leaders of China, what would you try to effect? What area would you -- because just talking to them will not make them -- it will open the door to listen, but they're not going to change their behavior.

What will change their behavior if reciprocity doesn't, and these other threats we make don't work, what do we need to do to make them feel secure enough and trust us enough to actually make a change? Or is it strictly going to be this threat?

DR. GREITENS: So, unfortunately, based on the work that I've done on autocracies in different historical periods and across the world, I'm not sure that solving the insecurity issue is actually possible, given the nature of the political system and the leadership that China has.

And so, I think we need to figure out how to bound the actions that result from it. I think we need to understand it, bound it, and it should be about protecting and defending American interests and American values. And I know the discussion this morning touched on some techniques to do that.

I say that because I think it is possible for a country to be both very powerful and insecure at the same time. Power does not always create a perception of security. And the old joke when I was studying Chinese is that we look at China and we multiply everything by 1.3 or 1.4 billion. Chinese leaders look at it and they divide by 1.3 or 1.4 billion. And so just even the size of China plays in different ways, right, as Professor Ang's comment about, you know, the monthly income of most Chinese households earlier made clear.

The final thing I'll say is that, you know, a lot of the problems that we highlight in our testimony, I think it's important to be aware that the Chinese political system is also aware of and actively trying to solve these issues. Right?

So, Commissioner Goodwin's question earlier about information problems, right. There's a concept that Premier Li Keqiang has used called Information Island that appears throughout

efforts to reform Chinese bureaucracy right now. The Chinese political system is aware that the fragmentation of information is a problem for the leadership and is actively trying to figure out what to do about it.

The problem is that it's more of a political problem than a technological or a bureaucratic one. And so, a lot of American policy needs to be, I think, sort of accepting of that reality, even as we hope that it will evolve and change. But I think we need to focus more on American interests and American values. And really for that to lead our strategy.

COMMISSIONER BOROCHOFF: Thank you.

Dr. Ang?

DR. ANG: Thank you very much for your really thoughtful comments. You raise a profound question. And I'm not sure if I can answer it in three minutes. But I do have a few thoughts that I would like to emphasize.

I think the issue may be less of a psychological tactic, as you said, but an understanding that I think it's helpful for the U.S. at the outset to question the assumption that the CCP is a monolith, that the CCP leadership is a monolith, that they act and think in one mind and agree on everything.

If you think about it, it's not a realistic assumption. We know from historical experience that every government has divides. And we know from the Soviet Union that even the Soviet Union was deeply divided and Stalin was condemned by his successor.

So, I think it's actually realistic to assume that there are differences and divides within the CCP. But, because in the past years the relationship has been one where they were all bundled together, think about the implications of that action.

If, assuming that within the party you do have people who are moderate reformers, versus hardliners, when you bundle them all together and react to them in an aggressive way, that almost always strengthens the hand of the hardliners, and the moderates and reformers find themselves really in a double whammy: they are repressed both domestically by the repressive climate, as well as by U.S. pressure because they're just bundled together with their colleagues whom they do not necessarily agree with.

So, I think at the outset it's helpful to realize it's not a monolith.

The other thing I would point out is that the U.S. does have a lot of leverage over China.

And one simple leverage is that China really wants to dialog with the U.S. They do want to have a better relationship because it's in their interest.

And I think if the U.S. can signal that we're willing to talk, but we really want to talk with the right people. We want to talk with the people who are open to market reforms, who support the private sector, who are not into over-ambitions and creating a China-led order and so on. We want to talk to people who are more along the lines of Deng.

Then I think that that actually can have a powerful effect on changing the dynamics within China. I'm not saying that the U.S. should attempt to change China. I don't think that's realistic. But I do think that the U.S. should be aware that it does have sort of leverage to influence Chinese politics in a positive direction. At least it should not be helping the hardliners to have an upper hand.

Thank you.

COMMISSIONER BOROCHOFF: Thank you.

The description, by the way, sounded a little bit like some of my friends here in America today.

Dr. Fravel, go ahead.

DR. FRAVEL: Thanks. It's a great question. And also invites almost a philosophical response in the same way. And it's hard to add to what Dr. Greitens and Dr. Ang have mentioned.

But I guess let me make two points. The first is I guess a bit more narrow. But if one reflects on kind of the change in U.S. policies with China in the last year, it obviously had a very strong moralizing component to it; right? It's just blame China for lots of different things, maybe rightly, maybe wrongly, do so in a very public way.

And, of course, that may have been viewed as a way to get leverage or build policy support. But I don't think it certainly led to any real changes in China's behavior, in fact, probably helped elicit some of the wolf warrior sort of diplomatic responses. I talked a little bit about this in my written testimony.

So, I think certainly how one talks about a relationship with another major country in the world is important. And there are different ways one could talk about China while still recognizing all the challenges and differences and look at and consider different ways of getting it done than have been done in the last 12 to 24 months.

More concretely, though, one could be equally philosophical about international relations theory and think about deterrence and reassurance, right. So, if you want to deter someone from doing something you have to assure them what you won't do.

So, if the U.S. wants to exercise leverage over China in a certain area, I believe that's in U.S. interests. And I believe the outcome will be positive. It's worth pursuing. But at the same time you have to signal what you won't do. And I'm not sure much of our discussion or our thinking has really thought about that element of it either.

But China is a big country. It has its interests. It's going to want to pursue those interests. I think as Dr. Greitens really artfully laid out earlier, right, her view of this much more holistic notion of national security.

And so when thinking about how to gain leverage, or when thinking about where U.S. leverage might lie, how to exercise that, this is an important question to ask is, as you exercise that leverage what is it specifically you're targeted on, and what are you trying to achieve, and what are you actually not trying to achieve, and what assurances will you provide on the other side? That actually may lead to more policy movement because it gets more sort of targeted, in a way that gets back to our earlier discussion.

Thanks.

COMMISSIONER BOROCHOFF: Thank you.

COMMISSIONER KAMPHAUSEN: Thank you much. I have a few minutes to ask my own questions, and they're going to be focused to Dr. Greitens and Dr. Fravel. And the framing piece is the India-China border dispute of June of last year.

So, Dr. Greitens, I'm fascinated by your description of a new grand strategy with interlocking consideration of foreign and internal security threats.

Can we mute? I'm getting a -- thank you.

And the sense that you talked about where there's actually a proactive element, in which the CCP apparatuses could act in an early fashion when it perceives a threat to itself.

The challenge of this grand strategy, it appears to give the predominance of consideration to domestic interests. And so in the case of the Sino-Indian border war, the evidence I've seen -- and Taylor can correct this if wrong -- but the evidence I've seen suggests that this was intentional on the part of the Chinese side, that they rotated in different troops just prior to the confrontation. And suggesting that it was -- they knew what was going to happen and it was part of a plan.

But, what was left out is that the consideration of how counterproductive this is to China's general consideration regionally. Right? The views of China among regional states as to why they precipitated this mini-crisis at this point is just not understood.

And so, I guess the question is, how do we account for these? If there is an interlocking nature of domestic and external threats, how do we account for that in trying to understand Chinese actions, especially when they just don't seem to make sense and they appear to be counterproductive to China -- what we understand to be in China's interest.

Dr. Fravel, for you, you talked about the profound changes and that China acknowledges in 2020. I tend to share your views on the unlikelihood of major regional conflicts precipitated by China. But I wonder if those five reasons you give in your written testimony are themselves tested by this era of profound changes. Right?

And in particular, thinking about the Sino-Indian border events of last year, do they potentially misunderstand or have a lack of appreciation on the topic of conventional escalation control? Right?

We know there's a mutual agreement to not use weapons, to not shoot live bullets at each other on the Sino-Indian border war, so there's a natural escalation control that's been put in place. So, the soldiers that died were bludgeoned to death, or beaten with stones, or drowned in the river, I mean, really medieval forms of conflict.

The point is, do they have an appreciation, does the PLA, the Chinese top military and security leadership, have an appreciation for the ways in which even conventional conflicts might spiral out of control?

So, those are my two questions. Dr. Greitens, first to you.

DR. GREITENS: Save the tough one for the end, huh?

Well, thank you, Commissioner. I'll give you part of an answer and then I'll defer to Dr. Fravel who's written an entire book in China's handling of maritime and territorial disputes. And so I'm interested in his thoughts.

You know, like many people, I find some of the Chinese decisionmaking in this particular instance puzzling. And this is, I think, a real example of the question that arose earlier about who drives security decisionmaking in certain instances, and whether or not it's consistent even across different issues that we would kind of group under this issue of -- or heading of -- national security decision-making.

Let me say a couple of things. First, a long-term strategic goal vis-a-vis the resolution of this dispute does not preclude tactical opportunism. And so I think we need to keep in mind that those are not mutually exclusive alternatives.

Second, you know, China tends to -- I think one of the implications of this preventive framework as opposed to even a preemptive framework, which is the way I would characterize this shift under Xi Jinping pushing even earlier for prevention rather than preemption, is an over-sensitivity to any potentially threatening indicator.

And so, for example, there's been some suggestion that road-building activity on the Indian side of this area could have somehow precipitated Chinese behavior. I think it's important to remember that that's not saying it justifies the behavior, because one of the implications of this preventive framework is that you'll get things that are disproportionately reactive to those kinds of developments that might have otherwise not produced this level of response.

The final issue I'll say is that, you know, what we see in CCP rhetoric and the rhetoric around the comprehensive national security concept is that border security and diasporas become really, really important and potentially threatening from a security standpoint to Xi Jinping. And so I think, you know, China's approach to borders, right, the Fifth Plenum had this phrase about creating a protective screen, which isn't a direct reference I think to borders, but just this idea of protecting the inside from outside penetration that's harmful.

But the other issue here is the diaspora populations become a real security issue because they are, to use a classic phrase, outside the state or outside the territory but inside the people, inside the body politic. And so, I think that's also part of why you can see so much security emphasis or a change in security policies towards the Chinese diaspora, up to and including, you know, in American higher education where I sit.

So, those are a few thoughts that only take us part of the way to a complete answer. But let me stop and defer to Dr. Fravel on the rest of it.

COMMISSIONER KAMPHAUSEN: Thank you.

DR. FRAVEL: Thanks, Commissioner Kamphausen for that great, actually both questions were terrific and challenging.

So, on your question specifically to me, I guess I would make two points.

First, in PLA writings there's certainly quite, you know, there's an awareness, right, that uncontrolled escalation is a problem. So, you know, I think one of the terms, is "guankong," to sort of manage and control crises to prevent them from escalating. And more generally China has a tradition with respect to using force for framing it in quite political terms so that you have the political effect you want to have with a military action versus sort of just brute force or partaking in seizing something.

So, I think there actually is an awareness. And if one even looks at it from China's history of these, of course one can see this sort of awareness or this political use of force playing out in a lot of different contexts.

That said, it would seem to have backfired in this particular instance, right, as you know. And I don't have a particularly good explanation for that, but to say, of course, just because China writes about the fact that force should be controlled that doesn't necessarily mean that they're always able to do that. And there are probably also events, you know, tactically that led to the situation that culminated in the clash in the Galwan Valley in mid-June.

So, I'm not sure that's a complete answer to your question.

I guess the other final point I'll make, immediately after the clash I think China certainly realized, right, that the situation had spun out of control. And they went into pretty significant damage control and talked about, you know, resetting relations with India.

Of course, at that point it fell on deaf ears in New Delhi, right, because of what happened. But I cite that only to say that I do think that there was an awareness in this particular instance, right, that it was mishandled in a pretty significant way.

Now, where we are today, right, is that who knows how many, according to Indian press reports, 50,000 to 60,000 soldiers from each side, not necessarily immediately sort of eyeball-to-eyeball, but certainly in the vicinity of the Line of Actual Control, and in the Spanggur Gap, right, where you can actually, you know, use some armor and do more than sort of, you know, mountain infantry operations, which itself is a worrisome situation.

On the plus side, it's the middle of winter. And if you think Massachusetts is cold, I invite you to, you know, the Kailash Mountain Range, right. It's very cold and very hard to do things.

But, yeah, as the snow melts you're going to have a lot of forces in proximity to each other, and I think it will be a real test and very important to watch.

Thank you.

COMMISSIONER KAMPHAUSEN: Thanks very much.

As with the first panel, we'd invite our witnesses to -- for your consideration in responding to questions for the record, that we would reach out to you with, and look forward to continued follow-up with you all.

We're a couple minutes over time. So, let's adjourn for the second panel, take a short break and return at 2:45 p.m. Eastern.

CHAIR BARTHOLOMEW: Yeah, let's reconvene here at 2:50 so that people have 10 minutes.

COMMISSIONER KAMPHAUSEN: Thanks to the panel.

CHAIRMAN BARTHOLOMEW: Thank you all. Thanks.

(Whereupon, the above-entitled matter went off the record at 2:40 p.m. and resumed at 2:52 p.m.)

PANEL III INTRODUCTION BY CHAIRMAN CAROLYN BARTHOLOMEW

CHAIRMAN BARTHOLOMEW: Our third panel today will assess the implications of China's domestic political dynamics and economic security and foreign policy goals for the United States. It will also explore potential challenges China will face in accomplishing its goals.

First, we welcome back Dr. Jacqueline Deal, president and CEO of the Long Term Strategy Group, a Washington, D.C.-based defense consultancy. Her recent work includes an analysis of the security implications of alternative Chinese futures and assessment of China's capacity for technological innovation.

For the last 14 years, she has worked with the Director of the Office of the Secretary of Defense, Net Assessment on projects related to East Asia. Dr. Deal will address the political challenges China faces and the implications for the United States.

Next, we welcome back Mr. Daniel Rosen, founding partner of the Rhodium Group. Mr. Rosen's work focuses on U.S.-China policy dynamics, interpretation of Chinese economic policy indicators, and assessment of long-term Chinese reform policies.

He is an adjunct professor of international and public affairs at Columbia University. From 2000 to 2001 he served as a Senior Advisor for International Economic Policy at the White House National Economic Council and National Security Council.

At some point, I think we need a competition for who had the longest title on their business cards. Mr. Rosen will address China's economic challenges and implications for the United States.

Finally, all the way from Australia, we welcome Mr. Peter Jennings, Executive Director of the Australian Strategic Policy Institute, ASPI, a defense and strategic policy think tank based in Canberra.

His research focuses on Australian and regional defense policies, crisis management, government decisionmaking, and future defense capabilities.

He has worked at senior levels in Australian public service on defense and national security including as Deputy Secretary for Strategy in the Defense Department, Chief of Staff to the Minister of Defense, and Senior Advisor for Strategic Policy to the Prime Minister.

I hope that was all at one time, all that title. Mr. Jennings will address the implications of China's security and foreign policy challenges -- forgive my cat.

I'd like to remind the witnesses to please keep your remarks as close as possible to seven minutes to leave time for the question-and-answer session.

Dr. Deal, we will begin with you. You're muted.

OPENING STATEMENT OF JACQUELINE DEAL, PH.D., PRESIDENT AND CEO, LONG TERM STRATEGY GROUP

DR. DEAL: Thank you. Thank you to today's Chairs, Chairman Bartholomew and Co-Chair Kamphausen, and to the other honorable Commissioners for the invitation to testify.

I appreciate the opportunity to contribute to the very important work of the Commission and would also like to thank the Staff for their support of my appearance today.

It's fitting that this first hearing of 2021 is both retrospective marking the centennial of the Chinese Communist Party and prospective because the Party's past is clearly an essential factor shaping how the People's Republic of China will evolve in the coming years.

You asked me to address a variety of questions about the domestic and international challenges that the CCP faces, known and unknown, to the Party and the Party's ability to deal with them, as well as their potential implications for the PRC's behavior abroad and for U.S. interests.

My answers inspired a range of suggested recommendations to Congress. Some focus on the consequences of CCP success and are designed to sharpen our competitive approach.

Others focus on the potential for a major discontinuity in the PRC. Where do I get this wide range of potential outcomes?

First, as others have testified, the CCP's ambition for the PRC to secure global ascendancy is no longer in question and Xi Jinping seems to be in a hurry.

He's advanced the deadline for the People's Liberation Army to be a world-leading force from 2049, the PRC centennial, to 2027, the PLA's centennial, and appears to have lifted the cap on the share of the PRC's GDP that goes to the PLA.

Some combination of perceived opportunities and perhaps also pressures building up within the PRC are driving this rush.

We are likely to misunderstand what is happening if we apply Western frameworks, though, because the CCP's system is just very different from ours.

While the Party is comfortable, clearly, navigating interactions with the Western liberal world, its own policies reflect an evolving Chinese Marxist perspective on global power. This orientation is materialist and zero sum, to address an exchange from the first panel this morning. The Party worries about securing the PRC's access to outside resources that it needs, from food to energy to intellectual property.

Party theorists deliberate on and debate new policies with reference to empirical trends that they conceive of as illuminating scientific laws of history.

They start from a common ideology about the centrality of the Party itself in governing the PRC and promoting its rise to world-leading status.

They believe that the CCP regime is better positioned than the United States is to adapt to the information technology and digital economy developments likely to determine victory in 21st-century major power competition.

The state will play an essential role in ensuring that the PRC dominates what it calls the commanding heights of the important new domains from the network or cyber realm to space, which the Party sees as central to geopolitical contestation in what they call the new era.

That said, some theorists recognize pitfalls associated with the Party's approach, for instance, the way in which the anti-corruption campaign that Xi has used to centralize power disincentivizes initiative on the part of officials, who may calculate that inaction is safer than actions for which they may be blamed.

For similar reasons, PRC scholar strategists also worry that the political system reduces the likelihood that good information about what is happening at the local level will be transmitted up the chain of authority.

They also diagnose that the international environment has become more challenging for the CCP's continued rise insofar as foreign interlocutors are more suspicious of Beijing than they used to be.

But, overall, they have confidence that the Party, by virtue of its theorizing and mastery of the important developments of our time, will succeed.

They may not appreciate the degree of risk they incur by putting all their faith in the Party itself. Domestically, the Party's fallibility has been cast into relief by the relative failure of the PRC's COVID-19 vaccines.

If the same compromised information flows that induce Xi Jinping to boast that the Party would provide the vaccine as a global public good also lead to an underestimation of other public health challenges or infrastructure problems or environmental issues, the impact could be catastrophic.

And there are other examples from recent history of the Party not anticipating second- and third-order effects of its domestic policies.

Externally, again, because of their confidence in the Party's playbook, they are likely to double down on the behavior that they have engaged in over the past decade, combining threats and coercion with efforts to co-opt foreign elites whom they see as friends or potential allies.

But it is possible that the Party could miscalibrate this combination or grow frustrated if the targets of coercion prove resistant or as the cost of wooing foreign friends rises in the wake of the Xinjiang genocide and the Hong Kong crackdown.

Looking back at the PRC's history at moments when the tide seems to be shifting against the Party, the Party has authorized the initiation of hostilities, so-called lesson-teaching attacks or political uses of warfare, as was discussed on the previous panel, in an effort not to wage a prolonged war but rather to use a short conflict in which it can exploit local or discreet functional advantages and capabilities to send a broader message to the world. That is, to try to assert China's perceived prerogatives and status.

The PLA build-up on the border with India today is worrisome in this regard. If such an attack were to succeed, it would advance the Party's interests at the expense of those of the United States and the open world by reducing faith in the alternative to the PRC model.

So, we face a wide range of potential outcomes from the PRC even as the Party maintains its ideological outlook and continues to execute the approaches that it has applied to date. For this reason, my recommendations start with ways to compete harder or better, but also include preparatory steps for potential major Chinese discontinuities or downside scenarios.

Three recommendations related to sharpening our competitive approach are, one, the Commission might recommend that Congress ask the State Department to track the CCP's

progress at sinicizing Marxism to shine a light on this endeavor, which is not often discussed or often enough discussed in English or in the West.

Two, it might recommend that Congress ask the Defense Department to develop courses of action to deter or dissuade the PRC from launching a lesson-teaching war against India or any other potential target.

Three, it might recommend that Congress ask the Federal Bureau of Investigation and any other relevant intelligence agencies to supply DOD with an inventory of all known targets of PRC espionage in the United States to illuminate which technologies we have that they most fear or want and need to plug their own gaps as an input to the defense Department's development of competitive strategies for the competition with the PRC.

And I'll conclude with recommendations related to potential PRC discontinuities. The Commission could consider recommending to Congress that it task the relevant agencies with developing contingency plans in the event of a PRC internal crisis to include research, analysis, and simulations designed to address questions, such as what would be the most important U.S. interest in such a scenario in the short and medium terms? Over the long term? With whom inside and outside the PRC would the United States work to ensure the protection of U.S. interests in these different timeframes?

And finally, what are the indicators that such a discontinuity might be imminent? Who within the U.S. Government is monitoring those indicators?

So, thank you very much again and I look forward to your questions.

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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

Jacqueline Deal

28 January 2021

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 21st-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 21st 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,¹ 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 21st 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*,² which also recently boasted

¹ 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.

² "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."³ 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 21st 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.⁴

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.⁵

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."⁶

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

³ "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.

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

⁵ Ibid.

⁶ "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.⁷ 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.⁸ 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."⁹ 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

⁷ 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>.)

⁸ "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>.

⁹ 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;¹⁰ 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.¹¹ 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,¹² but as mentioned, it

¹⁰ 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.

¹¹ 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.

¹² 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."¹³ 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."¹⁴ 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.¹⁵ 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.¹⁶ 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-

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

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ 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 2021.¹⁷ 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.¹⁸ Chinese primary sources reveal an emphasis on horizon scanning and risk mitigation.¹⁹ But the party is not all-knowing or infallible, and its

¹⁷ 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.

¹⁸ 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).

¹⁹ 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.

penchant for control is likely to spawn unexpected second- and third-order consequences.²⁰ It is the system itself that puts the PRC at risk: Xi aspires to Sinicize Marxism,²¹ while employing 21st-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.²² 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.

²⁰ 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.

²¹ 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.

²² Jayadeve Ranade, "An Assessment of China's 13th 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 2027.²³ The aforementioned May 2020 National People's Congress disclosed that the PLA's budget rose even more than the public security budget.²⁴ 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

²³ Ibid.

²⁴ 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.²⁵ 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 2019.²⁶ 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,²⁷ 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.²⁸ 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

²⁵ 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/>.

²⁶ 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>.

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

²⁸ 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.²⁹ 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

²⁹ 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?

OPENING STATEMENT OF DANIEL ROSEN, FOUNDING PARTNER, RHODIUM GROUP

CHAIRMAN BARTHOLOMEW: Thank you very much, Dr. Deal.

Mr. Rosen, onto you.

MR. ROSEN: Thank you so much, it's so nice to be speaking with the Commission again. Chairman Bartholomew, Commissioner Kamphausen, and colleagues on the Commission, thanks for the opportunity to offer my perspectives today on the implications of China's policies for U.S. interests.

I'm going to address three of the questions that were suggested to me.

First, we seek to understand what economic challenges are confronting Beijing right now and how they affect U.S. economic interests. China's leaders describe their present goal as maintaining stable progress towards prosperity while transitioning from growth quantity to growth quality. That's a reasonable goal for them.

China's GDP per capita in 2019 was still just a little over \$10,000 per person, just above Argentina, Mexico, Bulgaria.

So, growth is essential to China and the Party at home and abroad, to its ambitions, and it's entirely possible given the low starting point that they're still at, provided that China can realize its potential.

But there are tremendous problems for them behind the veneer of unvarying success that they present. Economies grow through three ways: labor force demographics, capital stock deepening, or productivity growth.

China's story of reform and opening was foremost about letting markets guide more productive use of labor and capital to produce value over the decades after 1978.

And that propelled China very well for many years, but past moves don't sustain growth forever. The working-age population in China peaked, the working size population peaked in 2014, and will decrease outright by 2023.

China has under-invested terribly in health and education for more than 750 million of its non-urban citizens, as my good friend Scott Rozelle has so ably documented.

The capital stock of the country grew 11 percent per year from 2010 to 2017 compared to just over 1 percent for the U.S.

But with ever-diminishing return on investment for all that money they're putting to work, it takes almost 9 renminbi of new credit today to drive just one renminbi of GDP growth.

That's almost three times the amount that was needed in a decade prior to Xi Jinping taking power. So, it's taking a huge amount more money to get the same amount of growth out of China, and that kind of thing just doesn't go on forever.

With domestic shrinkage and limits to debt-driven growth, a productivity boom is the only way for China to get the high-income status on which all of its aspirations to 2027 or 2049 or what have you are all completely contingent.

However, China is trending in the wrong direction here on productivity as well. Productivity contributed only 0.6 percentage points to their average GDP growth in 2014 to 2018, compared to 2.1 points a year in the 5 years prior to that.

So, not in the right direction in terms of that third option for growth.

The Xi era began with a plan to address all those challenges but implementation of that plan proved too scary whenever it led to instability, which was all the time.

Capital account opening was started and then suspended, interbank market cleanup was turned on and then turned off, state-owned enterprise governance reforms were begun and then cancelled over and over and over again.

Beijing fell back on statist solutions, sending in officials to determine market outcomes.

While politically expedient now, and that really has shined bright during the pandemic year, reverting to a state-owned playbook disregards the lessons of the past and will not take China forward into the future.

The first implication of all this for the U.S. is that China cannot actually negotiate on structural matters if it does not resolve its internal barriers to marketization.

Without market-driven productivity, Beijing will need to keep an iron grip on its system to keep it from faltering and private and foreign interests will be disadvantaged.

And that means it's not going to be able to truly be a good actor in serious negotiations over structural matters with us.

If we cannot negotiate progressive economic arrangements, strife will ensue, I would caution and counsel.

If China is unable to build a market system at home, it will prefer to change market systems abroad so as not to be off sides and out of alignment with global trends.

This was one thing when China was just a percent or two of the global GDP decades ago when I started my career.

Today they are 16 percent of global GDP and 30 percent of marginal GDP growth, and so that disinclination to stay on the track of marketization is completely problematic, as we all know.

The second implication is that despite strong 2020 economic performance, the China we're dealing with is actually quite brittle.

Both the global benefits it delivers to those commercial entities that want to engage with the terms it offers and also the security risks it presents must be at least questioned to see if they need discounting.

China is an important source of revenue for U.S. firms and commodity and raw material exporters, but major segments of Chinese growth, such as the property sector, are inevitably going to be sidelined before very long.

Meanwhile, security analysts in the U.S. and elsewhere often presume that Beijing's breathless long-term growth target should be taken at face value, whereas in fact, they absolutely cannot.

And I spend a lot of time talking to leaders directly, including in the strategic sector, about how big a difference there is between some of our off-planning and the realities.

The other two points I wanted to make, which I don't have time to fully read even what I had in my shortened spoken remarks, are first on China's attraction as a development partner.

This diagnosis I have offered of problems in the Chinese economic system has profound implications for whether China can be the same kind of development partner it promises many developing countries to be.

We've already seen a lot of debate in the past year about Belt and Road outlays falling short of what Beijing had suggested they would be. I can speak quite a lot about that.

And finally, I was going to speak to, and I have in my written remarks, decoupling talk abroad and what it means for changes being made in Beijing about their own policy planning.

Dual circulation in many, most ways is China's acknowledgment that its hopes for its global engageability have changed and that the world is not going to simply reset or go back to status quo ante Donald Trump. That's not possible.

To close up, in terms of a quick recommendation, I've offered these before the Senate, for instance, but three quick Ps to keep in mind. Whatever decoupling and disengagement we do, make it partial.

We don't have a compelling reason to cut off everything, unlike what some in late Trump period thought.

Number two, make it provisional if possible, make it reversible, because when the Chinese people and even parts of the Party try to reverse course to get back on track and out of the problem they're in, we're going to want to be able to offer them a way forward and not just doors closed across the board.

And third, and finally, make it as peaceful as possible. Just because we have to disengage doesn't mean we should do it with any joy or that bellicosity should be the prevalent American tone.

It's not a good look for us and it'll long be remembered by the Chinese people what mood we took into this period of our relationship in the future.

Thank you very much.

**PREPARED STATEMENT OF DANIEL ROSEN, FOUNDING PARTNER, RHODIUM
GROUP**

January 28, 2021

Daniel H. Rosen
Founding Partner, Rhodium Group
Testimony before the U.S.-China Economic and Security Review Commission
Hearing on U.S.-China Relations at the Chinese Communist Party's Centennial

Implications of China's Policies for U.S. Interests

China's leaders describe the economic challenge of these times as maintaining stable progress toward prosperity while transitioning from emphasis on growth *quantity* to growth *quality*. As a high-level mission statement this is reasonable and well-matched to China's state of development and future potential. China's per capita GDP in 2019 was still only \$10,300, just above Argentina, Mexico, and Bulgaria. Further growth is essential to China's stability and success as a nation, at home and abroad, and to the Communist Party of China's very legitimacy. It is also entirely possible – provided China can realize its potential.

But demonstrable difficulties behind the veneer of unvarying success necessitate asking what economic challenges China's policymakers will face over the next five years, and, importantly, how those will affect U.S. interests.

In the simplest accounting, all economies have three avenues of growth: growing or improving the labor force (demographics); amassing more resources into productive assets (capital stock deepening); and getting more out of the same labor and capital by being smarter, less wasteful, more technologically advanced, and otherwise more productive. This third wellspring of growth – which economists call *total factor productivity* – was the core of China's post-1978 success. The story of “reform and opening” was foremost about letting markets guide more productive use of labor and capital to produce value. This was not easy. The sheer backwardness of the Chinese economy by the end of the Mao era meant that China could achieve meteoric growth, but only with difficult political reforms and exposure to foreign forces and ideas: the world had progressed while China devolved into ideological discord pre-1978.

Boldness in accepting that exposure and tackling those reforms propelled the People's Republic for several decades, but past market moves are not enough to sustain growth forever. In the 1980s and 1990s, favorable demographics and market-oriented reforms brought millions of workers out of the countryside to work more productively in cities. But the working-age population peaked in 2014 and China's population will likely begin to decrease outright by 2030. China has also underinvested in health and education for its more than 750 million non-urban citizens.

China's capital stock grew at an impressive 11% per year from 2010 to 2017, compared to just over 1% for the US. But the important question is whether there is much return on that vast investment. The answer is that it takes almost 9 renminbi of new credit to drive 1 renminbi of GDP growth today, almost three times the amount needed in the decade before Xi Jinping took office.

With hardwired demographic shrinkage and hurricane headwinds to even more debt-driven growth, a boom in productivity is the only way China will reach high-income status. However, China's performance in that column is trending in the wrong direction, contributing only 0.6 percentage points to average GDP growth from 2014-2018, compared to 2.1 percentage points in the five years prior.

The Xi era began with a reasonably bold plan to address these economic challenges. But implementation proved too scary to manage, and when reform moves caused temporary economic stress and instability, they were kicked down the road rather than risked. Capital account opening was suspended, interbank market cleanup was turned on then off, state enterprise corporate governance reforms were reversed... the list goes on. Unable to push through reform plans without triggering intolerable instability, Beijing is falling back on statist solutions, sending in officials to determine market outcomes. This was evident five years ago in “supply side structural reform” of heavy industries; and it is clear today in the blitz of re-regulation of high-tech industries and leading private firms including Alibaba. While politically expedient for now, reverting to a state-led playbook disregards the lessons of the past about implications for China future, and implications for other nations.

The United States must properly understand these implications, even while it prioritizes shoring up domestic foundations.

The first implication is that China cannot negotiate on structural matters if it does not resolve its internal barriers to marketization. Without market-driven productivity, Beijing will need to keep an iron grip on the system to keep it from faltering, and private and foreign interests will be disadvantaged. If in turn Washington and Beijing cannot negotiate progressive economic arrangements, or if US allies settle for promises that cannot be fulfilled, strife will ensue (as it has). If China is unable to build a market system at home, it will prefer to change market systems abroad so as not to be offside. This was one thing when China accounted for only a few percent of the global economy decades ago. Today, China is 16% of the global economy, and provides 30% of marginal global growth, making its choices are of first-order importance.

A second implication that should be borne carefully in mind is that despite its strong 2020 economic performance, China’s recovery is brittle, which means that both the global commercial benefits it delivers and first-order security risks it presents should probably be discounted. China is a hugely important source of revenue for US firms and their competitors from like-minded nations, as well as commodity and raw material exporters in the developing world. But major segments of the Chinese growth equation – such as the property sector – are likely to be sidelined in the near future. Meanwhile, security analysts in the US and elsewhere often presume Beijing’s breathless 2035 growth targets should be taken at face value. This is not the case.

China’s Attraction as Development Partner

China’s demand for foreign products, inbound and outbound commercial investment (FDI), its outward-facing development assistance, and deft diplomacy all play a role in making it attractive to others as a partner. So does the relative withdrawal of US foreign policy vision, money, firms, and ideals in recent years, unfortunately.

However, before considering priorities for reasserting American leadership in international development, it is important to right-size China in the international development context. China’s domestic economic challenges effect its outlook as a development partner in at least three ways.

First, China has dramatically scaled-back its outbound lending activity in recent years, in large part due to economic constraints. Project data from the China Africa Research Initiative at SAIS shows that Chinese lending to Africa fell from over \$29 billion in 2016 to under \$9 billion in 2018. Amid pressure to clean up the financial system after doubling in size *twice* since the Global Financial Crisis, Chinese banks have been

forced to move considerable “shadow debt” back onto their balance sheets, leaving them with less room to make new loans.

Second, just as importantly, Beijing is realizing that its poor return on investment at home is an even bigger nightmare abroad. Often, loans are made out to countries with weak economic fundamentals or are put toward unsustainable projects. As a result, up to one-quarter of China’s overseas lending has come under renegotiation as debtor countries have found themselves unable to repay their loans on their original terms. Although debt renegotiations have in a few instances resulted in debt-to-equity swaps (such as the Hambantota port) that are hallmarks of debt-trap diplomacy, most renegotiations end in deferrals or debt rescheduling, leaving banks with increasingly unsustainable balance sheets. The pile-up of bad projects has caused developing countries to rethink the risks of working with China as a development partner, and also to reassess the costs and benefits of the debt-driven “China model”.

Third, as domestic challenges lower China’s growth, not only can it lend and grant less abroad, but it also is losing its luster as an export destination. China’s economic recovery from COVID-19 has been driven in large part by infrastructure and property, which has been good news for global commodities exporters. However, there are now simply too few profitable infrastructure projects and too few young Chinese to buy much more property. With wage growth trailing far behind overall GDP growth, the outlook for domestic consumption is also questionable. These negative trends will cause China’s trade and investment partners to question whether China can be relied upon as a long-term source of demand.

Taken together, these issues mean less Chinese economic leverage abroad. The most important reduction in this leverage is not financial, but in terms of the soft power attraction of China’s model. It is in the US interest that China contributes to global development to the maximum of its ability, in a sustainable manner. It is not in the US interest that officials across 100 struggling nations with weak institutions are pulled by the allure of a debt-driven alternative to the hard work of capacity building and physical and human capital formation.

The United States has the ability to bring ideas and values to the development process which – once American political foundations are repaired – will prove enduring and suitable to global prosperity. But we must bring resources and practical solutions too. That means access to our markets and a more proactive use of official financial institutions such as the Export-Import Bank and the Development Finance Corporation to compete with China.

Decoupling Abroad Compels Adjustment in China

Beijing is aware that the international environment is now less welcoming than it was in the past. While the most gratuitous aspects of decoupling policy promulgated in Washington 2017-20 will quickly be reversed, not just the United States but indeed most liberal market economies have decided to be less permissive with China in ways that will endure. In truth China was the initial decoupler, well prior to the Trump years, as it stalled on reforms essential to maintaining engagement. Market economies could choose to be patient with China’s policy shortcomings and residual statism as long as China was actively transitioning toward markets. But with assurance of that lost, recalibration is inevitable and necessary, though it need not be bellicose. In a classic self-fulfilling prophecy, this foreign reaction to changing Chinese policy fundamentals is reinforcing Beijing’s intention to attain self-sufficiency particularly in critical technologies and supply chains.

The impulse toward self-sufficiency is manifesting in a new economic policy formulation from Beijing called “dual circulation” — roughly explained as making the domestic market the mainstay of the economy

and making international and domestic economic activities reinforce one another. While the details of the plan are still being hashed out, the priorities presented at China's central economic work conference in December are informative: 1) improve national strength in strategic technologies; 2) strengthen control over supply chains; and 3) expand domestic demand. Tellingly, promoting reform and opening ranks only fourth.

The prospect of disengagement also compels Beijing to make improved offers in various negotiations and on many issues to ease tensions and shore up external relations. China's concerted push to complete negotiations on the EU-China Comprehensive Agreement on Investment (CAI) and join RCEP are examples. Pledges to achieve a net-zero carbon emissions target by 2060 can also be read in this light. Many democratic governments appear eager to secure any advantages on offer, even while human rights concerns worsen and campaigns like dual circulation and the "3-5-2" program to expunge foreign technologies make the long-term value of today's trade agreements somewhat dubious.

For the United States, China's inward turn under the dual circulation strategy presents challenges—some new, some old. China is redoubling efforts to achieve technological mastery and control over critical technologies. This is not new, but the scale will require a more strategic approach than the US has taken so far. Washington made reasonable strides on defense, such as the streamlined export control and investment screening framework enabled under the Foreign Investment Risk Review Modernization Act of 2018. This enhanced the toolbox for managing security relevant concerns, while at least in principle leaving room for strategically benign commercial engagement to persist – that is the right mix. However, American security and prosperity rely more on forward-looking dynamism and vision than solely on defense, and many aspects of the recent rush to pull up drawbridges have put that US strength in peril. A new US innovation strategy is essential, and in the offing. But as we step into new realms of industrial policy we previously shunned, great care must be taken not to impair the primary, private sources of innovation. Crucially, a successful US strategy must preserve openness to global trade, investment, ideas, and talent—including, more often than not, from China.

Conclusions and Recommendations

Despite strong headline growth numbers, China faces serious economic headwinds. Unfavorable demographics and diminishing returns on investment mean that only productivity growth can vault China into the ranks of high-income countries. Yet the reforms necessary to make that happen have stalled. The resulting return to statism is not a sustainable growth solution, and it will inevitably take China down a blind alley of divergence from international economic norms.

This naturally invites questions about whether China will instead attempt to reshape the economic order to suit its interests, especially as a development partner to low- and middle-income countries. But while the United States needs to up its game, we should also not overstate China's international economic power, which is constrained by the same systemic challenges we see China's leaders wrestling with at home. While those seem trivial compared to the economic challenges on show elsewhere in the world today, they are not: the magnitude of financial difficulties China is building up in the course of reporting steady progress is epic.

China's reversion to statism has sparked market economy debate over how to manage economic relations with a country falling short of promised reforms. The so-far limited international pushback has already prompted Beijing to turn inward, double-down on self-sufficiency goals, and place its bets on the power

of its large domestic market. China's leaders are working to forestall a financial reckoning at home and the formation of a balancing coalition of market economies abroad.

Taken together, these points suggest two recommendations that might be of use to a new administration:

First, many senior US policy professionals across the functional and ideological spectrum have come to accept the notion that China's economic system is sound and strong and will inexorably rise through the decade ahead. But the evidence recommends an open mind on the question of China's economic prospects. Advocates of new US policy priorities counsel massive changes in budget priorities, bureaucratic assignments, controls over the private sector, attitudes toward allies and other departures all on the premise of an ever-growing China. It is time to critically examine that premise, with better evidence.

Second, and relatedly, a right-sized vision of the Chinese economic juggernaut permits us to be smarter in our great power competition. Not all aspects of our engagement merit consideration of decoupling. Gratuitous separation does not serve the American interest, and it will not lay a laudable foundation for our future conversation with the Chinese people. By correctly diagnosing China as a developing nation clinging to statism because it has not succeeded at liberalizing, we can repair a global narrative that has swung dangerously close to believing that illiberal autocracy offers a better route to prosperity and human happiness than open market democracy. That is an American insight that friends and partners can rally around.

OPENING STATEMENT OF PETER JENNINGS, EXECUTIVE DIRECTOR, AUSTRALIAN STRATEGIC POLICY INSTITUTE

CHAIRMAN BARTHOLOMEW: Great, thank you very much. Mr. Jennings?

MR. JENNINGS: Well, thank you very much and it's a great pleasure to be speaking to the Committee today.

I will very quickly go through some highlights from the written comments that I've provided you. I just wanted to start by thanking the Commission for its work and saying that it actually has resonance well beyond the United States.

It's an important factor in policy thinking in Australia and I'm sure many other countries as well.

Now, I was asked to address a number of questions, the first being what challenges do China's leaders anticipate in strengthening China's global appeal and achieving its desired status in the international order.

That reminded me of a conversation I once had with a very senior Indonesian political figure who said to me once, "Peter, China has no soft power in South East Asia. It has only money power." But the point I would say about that is that money power has an appeal all of its own, including in countries like Australia.

Another factor which goes to how countries in the Indo-Pacific think about China is that they very much calibrate their judgments about China based on an assessment of the longevity of American commitment to the security in the Asia Pacific region.

And so those two things in the minds of Southeast Asian policymakers, Pacific Island policymakers sit very much together.

I think in recent years what we've seen from Beijing is that their primary objective is to achieve their strategic aims and it doesn't matter so much to them if, in fact, they are losing the soft power battle and indeed being perceived more negatively by countries in the region while they do it.

Now, my own government would not put it in these terms to you, but in the South Pacific and Southeast Asia, these are currently zones of intense competition for influence between the PRC and the United States and its allies.

And that competition I think is going to only become significantly hotter in the short term and in coming years.

That leads to the second question that was put to me which was, what impact will political pressures of the CCP's centenary have on the Party's willingness to use military force or other coercive measures abroad.

On that I would say I think the centenary is something which Xi Jinping can use to strengthen his personal position within the Party and the Party's position within the country.

It's clearly going to be a major focus for propaganda and it's clear that the PLA is going to be a significant part of that propaganda effort.

My judgment is that Xi Jinping is ready to exploit any opportunity for possible aggression against Taiwan.

Whether that opportunity is going to be exercised depends on his calculation of risk and also China's capacity to carry out a military activity and the likely American response.

On risk, it seems clear to me that China's use of its military, its coast guard, and other security entities shows that Xi Jinping is willing to take on more risky activities.

And that's not least because it's shown that risk can pay off, we've seen that in the South China sea, we've seen it in his almost cost-free treatment of Australia, the economic coercion that's been handed out to Australia without a large international response being geared.

We've seen it in terms of China's failure to manage the virus, but without an effective international response being developed to shape that blame.

However, on risk, it seems to me that because he has the capacity to, Xi Jinping is prepared to take more risk.

And I think the big factor governing his calculations around Taiwan is going to be the credibility of America's commitment to the country.

I was then asked about does Beijing understand the limitations and have concerns about the capacity of PLA to undertake complex military operations.

The answer to that is yes, but I think the point to make to the Commissioners here is that we're not in the business of making assessments about whether or not the PLA is going to develop into the perfect force.

It just has to be good enough to deliver the strategic objectives that China wants it to deliver, that Xi Jinping wants it to deliver.

Let me finish by going to some recommendations.

Perhaps because this is the first time I was talking to the Commission I got ambitious so I came up with six recommendations for you and I'll skim through those just very quickly.

The first one is I think it's immensely important for you to understand the value of your work to democracies around the world, not simply in terms of America's interests.

And so, promote an alignment of democracies to counter malign CCP influence. I think you can play an international role by cooperating more closely with like-minded democracies and democratic legislatures.

So, why not, for example, think about establishing a regular dialog on the PRC amongst the elected representatives of the Five Eyes countries.

Secondly, I would be reaching out to capable democratic legislatures to develop a shared program of research. And I would suggest reach out to the Australian Parliament, to the Speaker of our House of Representatives, to the President of our Senate.

We have a pretty capable, reasonably well-funded committee system in the Australian Parliament, and I think an approach which would bring some shared activities would be useful. What would I focus that on? Well, I think the Commission should focus on Southeast Asia as an emerging critical zone of strategic competition.

What happens in Southeast Asia over the next two years is really going to shape the success or failure of the United States in Asia more broadly.

Next, I would look at the South Pacific, and I would simply make a point that we are dealing with very fragile polities here, easily corrupted by money, desperately in need of support from well-meaning democracies that are prepared to work with the Pacific Island countries.

Two points which I'll just go through very quickly, one is I work a lot with members of parliament here in Australia, all of whom are really desperately looking for information that they can put to their own electors to explain to them the complexities of dealing with China in the international environment.

A toolkit for politicians developed by the Commission to explain these strategic complexities to their electors would be a really valuable thing.

And finally, and perhaps most desperately important, we need to do more to help Taiwan, which is critical to regional security and critical also to America's credibility as a security partner.

My paper does cover some of the things that might be included in that, but I do see that as being a critical task for the Commission, particularly in this year.

And I'll finish my comments at this point. Thank you.

**PREPARED STATEMENT OF PETER JENNINGS, EXECUTIVE DIRECTOR,
AUSTRALIAN STRATEGIC POLICY INSTITUTE**

Testimony before the US – China Economic and Security Review Commission

Thursday January 28, 2021

Peter Jennings

Executive Director, Australian Strategic Policy Institute

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

Panel III: Implications of China's Policies for US Interests

My thanks to the Commission for the opportunity to provide you with written responses to the following questions.

- **What challenges do China's leaders anticipate in strengthening China's global appeal and achieving its desired status of an international leader, and what obstacles have they failed to acknowledge? How will China's attempts to promote itself as a global leader impact U.S. interests?**

A leading Indonesian political figure once said to me that the PRC had no real soft power in Southeast Asia, but plenty of 'money power'. In many countries, Australia included, money power has an appeal all its own. The PRC is working hard to build soft power globally through its own foreign language media outlets, Confucius Institutes, many United Front Work Department-linked local organisations and, above all, financial relationships. One should not underestimate the attraction this holds for many people in our societies. In Australia, State Premiers, University Vice Chancellors, and many in the top end of the business community find the financial rewards of engaging with the PRC is all that is needed to justify and sustain close cooperation. The security and geopolitical risks of engaging with the PRC are understood inside the broad national security establishment but have less traction with those doing business with China.

For many countries around the world China's global appeal is calibrated against the global attractiveness and effectiveness of the United States. Key Southeast Asian countries will make judgements about the need to hedge their relations with Beijing based on the level of confidence they have that the United States is engaged with the region and committed (for reasons of its own interests) to Asian security. A Southeast Asia that doubts the longevity of American interest will get closer to the PRC regardless of the appeal of doing so.

While China's 'ace' in regional engagement is money rather than attractiveness, the Covid-19 experience and last few years of American policy is giving rise to a view in some quarters that the CCP model of Leninist authoritarianism connected to state-controlled capitalism, while not pretty, in some way works to deliver positive outcomes. It is often claimed that Beijing is not seeking to export its political model. That is changing. In countries less strongly committed to democracy we may see a growing attraction to the PRC political system. This is something that

Beijing can exploit, for example using so-called smart-cities technologies to support the growth of surveillance systems designed to strengthen political control over societies.

In recent years, the PRC has demonstrated that maintaining a global appeal doesn't matter to Beijing's leaders as long as key strategic objectives are met. On the face of it, Beijing simply did not care that Southeast Asia and much of the rest of the world rejected the PRC's illegal annexation of, and island construction in, the South China Sea. It did not seem to matter to Xi Jinping that he misled President Obama in September 2015 by saying he had no 'intention to militarise' the Spratly islands in the South China Sea. In recent dealings with Australia, Canada, France, India and other countries the PRC seems to have dispensed with any pretense towards friendly relations. With Machiavelli, the CCP has concluded that it is better to be feared than loved.

There may be a hint of frustration that, in the PRC's use of unashamedly rude 'wolf warrior diplomacy', China's soft power is not winning hearts and minds. However, we should not take much comfort from that. The PRC's money power, be it from open commercial arrangements or covert inducements that capture local elites, is helping China to promote and advance its interests in many parts of the world.

One possible outcome here is that the PRC may conclude it is too difficult to make soft power headway in robust democracies, that is, countries like Australia which will push back against unacceptable covert influencing attempts and not react well to aggressive wolf warrior diplomacy. Beijing may decide that it can make faster headway in countries where soft power is less important than money power, and where negative public opinion about the PRC won't sway elites that can be co-opted by Beijing. In effect this is what we have seen in several Pacific Island countries, where fragile governance systems struggle to withstand the influx of vast sums of money, promises of rapid and profitable infrastructure development and substantial PRC diplomatic and business footprints.

The Australian government would not put it in these terms, but the South Pacific and Southeast Asia are currently zones of intense competition for influence between the PRC and the United States and its allies. In this competition democracies are slower, poorer and unwilling to compromise the standards of development assistance in the way that the PRC does. A major Australian concern is that PRC infrastructure development and commercial assistance shapes the way for Chinese military and intelligence gain access to these countries. Throughout the Pacific region, Chinese companies are building, extending or maintaining airports and wharf facilities. We know that this type of infrastructure is consciously treated as potentially 'dual use' and military requirements (for runway lengths, for example) can be factored into construction. In addition, the PRC is actively looking for places to establish military facilities through the Indo-Pacific. We know this has included exploring opportunities for a military base to be established in Vanuatu and the Solomons. The establishment of a military facility would have a profound negative impact on United States and Australian interests in the Indo-Pacific.

The PRC's interest in multilateral organisations – everything from the World Health Organisation to the Paris Agreement on Climate Change to INTERPOL – shows that Beijing well understands the value of being able to shape the agendas of powerful international organisations to ensure they do not cut across key Chinese lines of effort. It is critically important that the United States and other democracies do not cede these fields to the PRC. Countries that support the international rule of law need to develop a strategy which regains the management and direction of international organisations rather than allow them to be reshaped for Beijing's purposes.

Overall, my conclusion is that the PRC's use of money power compensates for its soft-power failings. Beijing's agenda is to secure its key strategic aims regardless of whether this tarnishes their international image. But we shouldn't underestimate the extent to which money, coercion and the appeal of authoritarian regimes that 'get things done' has some attraction, especially in developing countries. This puts American and Australian interests at risk in many areas around the world.

- **What impact will the political pressure of the CCP's centenary have on the Party's willingness to use military force or other coercive measures abroad? How might it affect China's diplomatic posture? What are the implications for the United States and allies and partners in the region?**

Xi Jinping has pinned his own political fortunes to the two centenary dates of the founding of the CCP (2021) and the Party's accession to power (2049). He is 67 and therefore hardly likely to be in power in 2049. The hundredth anniversary of the Party presents an opportunity to better his 2012 aspiration that China should be 'moderately prosperous society' by 2021. As such, the June Party centenary is something which Xi can use to strengthen his personal position within the Party and the Party's position. It will be a major focus for propaganda. On current trends it seems clear that the position of the PLA will be central to that propaganda effort as will the contention that China is more aggressively promoting its interests around its borders, including by using military force.

Of course, there can be no certainty that Xi will seek to stage a major military activity against Taiwan or in the South China Sea, but it is directly observable that Xi is positioning to be able to use that option if he deems it advantageous. My judgement is that Xi is ready to exploit any opportunity for possible aggression against Taiwan. Whether that opportunity is exercised will depend on his calculation of risk, China's capacity to shape and carry out a military activity of some sort and the likely American response.

Risk

China's use of its military, Coast Guard and other security entities shows that Xi is willing to take on riskier activities, not least because Xi has shown this type of risk taking can pay off. Consider four examples: The decision in effect to annex and militarise features in the South China Sea was clearly risky because it cut across the interests of neighbours and many in the international community. Other than some negative publicity, Beijing has paid no price for its actions. Second,

Xi clearly misled the Obama administration in September 2015 when, on a visit to Washington DC, Xi publicly undertook not to militarise the southern part of the South China Sea and to reduce cyber-enabled intellectual property theft from American companies, universities and government. He did neither. His lying to the American President and people appeared to carry no repercussions.

Third, the CCP has largely had a consequence free ride since Covid-19, which originated in Wuhan, has devastated global economies and killed several million people. There has been an abject failure on the part of the United States and the global community to even establish a case that China should be held accountable for its failure to manage the virus domestically, and a failure to cooperate with the international community to manage the consequences.

Finally, over the course of 2020 Australia has been subject to the open use by the CCP of economic coercion as part of political warfare to 'punish' Canberra for a series of measures designed to protect our sovereign interests from being undermined by Beijing. All of the problems Australia has been dealing with – 5G; countering espionage and covert influencing; defending a free press; protecting our Pacific Island neighbours – are interests that all democracies share. But attempts to build an international response to the PRC's behaviour have only had limited success. In effect, Beijing took a risk to attack a G20 democracy by all means short of open warfare and has largely gotten away with it.

A lesson Xi Jinping may take from these experiences is that taking greater risk is, so far, rewarding China. China's normally more cautious international behaviour is taking on a flavour of Putin's Russia.

China's capabilities

The Commission understands the rapid buildup of Chinese military and security capability across all fields, but with particular emphasis on cyber, space and counter-space, missiles and strike weapons and maritime capabilities. Associated with this build up we see these capabilities being brought into operational service and high-tempo training and exercising to improve the PLA's overall skill and competence levels.

There are clearly deficiencies in capabilities and a lack of real-world operational experience, but it is undeniable that China is moving at pace to improve its capabilities. As the Pentagon's annual report to Congress acknowledges, The PLA is making good progress. The pattern of PLA (and Coastguard) operations in the South and East China Seas and around Taiwan also show a willingness to take more risky actions, in part to establish a self-defined 'new normal' of more intense and assertive Chinese military activity.

This shows that Xi has a wider range of military, para-military, overt and covert options to pressure China's neighbours. He can take more risks because he has the means at his disposal to do so. Whatever their deficiencies, the PLA is more capable now than it has ever been, including

with, in some areas, acknowledged preponderance over American capabilities around the Straits of Taiwan.

American responses

The final piece of the puzzle for Xi is the likely American response to an attempt to pressure Taiwan in the lead up to the June Party Centenary. My assessment is that we will continue to see China regularly testing US interest in and reactions to the PRC's actions inside the first island chain. An initial US failure in 2014 and 2015 to respond to Chinese military island building in the South China enabled Beijing to define its new normal of military activity in the region. The current stage of this testing is multiple PLA incursions into air and sea space around Taiwan and more broadly in the East and South China Seas.

- **How confident are CCP leaders in the PLA's ability to carry out its various missions, especially regarding the Party's sovereignty claims? Should we expect to see China significantly escalate the use of paramilitary and military coercion against its neighbors or even undertake an offensive military campaign in the region?**

In the previous section I offered some thoughts about the CCP leadership's views of PLA capability. Beijing does understand the PLA's very substantial limitations, particularly around command and control, leadership, training and the untested capabilities of their fielded force. These deficiencies are studied publicly and in-depth in Chinese military journals. From Xi Jinping as Commander-in-Chief, through all levels of the Party and military there is a sustained focus on strengthening PLA capabilities and bending China's research and development capabilities to that end. On any measure, the PLA is on a steep capability improvement path. Western analysts have tended to underestimate the PLA's capacity to rapidly field new technology and develop meaningful military capability with it. (Those assessments are rapidly being revised.) All militaries are imperfect and face daily capability deficiencies. Xi will understand that the point is not to reach for the perfect PLA, rather the aim is to have it fit for its designated purpose and more determined than their likely opposition.

The CCP will continue to test the boundaries of international patience about its operations against Taiwan and in the first island chain until such time as the United States and the allies feel compelled to attempt to limit Beijing's behaviour. At any stage in this process Xi has the option to step back, reduce the rhetorical tone, limit exercising and air incursions, but he loses nothing to keep testing the limits.

This gives rise, in my view, to a possible major crisis on Taiwan or the East China Sea in 2021. Beijing will have developed a menu of options that will pressure concessions from Taipei around their political autonomy. This does not have to involve a PLA amphibious assault of Taiwan's northern beaches, but it could involve maritime blockades, closing airspace, cyber assaults, missile launchings around (and over) Taiwan, use of fifth column assets inside Taiwan, use of PLA force in a range of deniable gray-zone activities and potentially seizing offshore territory –

Quemoy and Matsu, Pratas, and Kinmen Islands. Beijing will continue to probe with military actions, test international reactions and probe again.

- **The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony?**

I suggest six recommendations for the Commission.

1. Promote an alignment of democracies to counter malign CCP influence.

The Commission will rightly see its task as promoting the interests of the United States through the work of the Congress. But it is vital to understand that the CCP presents a profound threat to democratic systems and the international rule of law everywhere. The strategy most likely to successfully counter malign CCP activities is one that brings like minded democracies into an aligned and shared sense of purpose. As Australia saw over 2020, Beijing works hard to split democracies apart from each other and to weaken their resolve through bilateral pressure. My view is that the Commission can play an international role by cooperating more closely with like-minded democratic legislatures including, of course the Australian Parliament; sharing information and generally emphasizing that we must work together to address a global threat. The commission might consider establishing a regular dialogue on the PRC for legislatures from the Five Eyes Countries.

2. Reach out to capable counterpart democratic legislatures to develop a shared program of research.

Of course, this should include the Australian Parliament. I recommend the commission engages with the Speaker of the Australian House of Representatives and President of the Senate (being the two most senior leaders of our Parliament) to propose a shared research agenda. The Australian Parliament has a high quality and relatively well-resourced Committee system, which operates in a largely bipartisan way on national security matters. There would be great value in deepening connections with the Congressional Commission. The Australian Parliament might agree to develop a direct counterpart to the Commission to undertake work of shared interest, exchange staff, create shared educational resources, and provide a focus for Congressional/Parliamentary visits and meetings.

3. Research the CCP's activities in Southeast Asia as an emerging critical zone of strategic competition.

Southeast Asia is emerging as one of the most critical zones of global competition for influence between the United States and the CCP. Beijing sees the region as key to its security, which is why it made such an audacious move to annex the vast bulk of the South China Sea. For Japan and Australia, the free passage of trade through and over the South China Sea is an existential strategic interest. If the United States is denied access to the region (which also includes treaty allies Thailand and the Philippines) America's capacity to shape positive security outcomes in the

Western Pacific is deeply eroded. Beijing knows this and is actively engaged in trying to tilt the region away from the US.

What happens in Southeast Asia over the next two years will shape US success or failure in Asia more broadly. I suggest the Commission should make Southeast Asia a particular focus for the next two years. Of course, this should include building deeper knowledge about Beijing's efforts in the region, and a deeper appreciation of the strategic outlooks from the ten Southeast Asian capitals. Just as important will be determining how the US should engage in Southeast Asia and how like-minded democratic partners can work with Washington to shore up our strategic position. As much as China presents the immediate risk, America's challenge is to give the Southeast Asian countries a sense that they have a realistic alternative to accepting Beijing's dominance and that the democracies will continue to support in their sovereignty and security.

4. With Australia, develop a plan to assist the vulnerable Pacific Island Countries (PICs) to resist CCP-pressure.

Just as in the Second World War, the PICs remain strategically important to the United States in shaping how US forces can access and operate in the Western Pacific. Beijing understands this too, which helps to explain why the PRC has invested so quickly and substantially into building relations with PIC political elites. Through a policy known as the Pacific Step Up the Australian government is re-energising its own PIC engagement strategy, but all like-minded democracies can play a role. It is true that INDOPACOM and other US agencies have lifted their interest and activity with the PICs. This engagement could be further enhanced with more Congressional help and support.

The Commissioners should understand that the PICs are fragile societies, often with very limited infrastructure, economic and social opportunities. On the plus side the region overwhelmingly shares our values and have (mostly) stuck to democratic systems. Dealing with PRC money power is one of the biggest challenges the region faces. I suggest it would be valuable to consider a joint study with the Australian Parliament on how best democracies can assist the PICs in strengthening their own systems and reducing their vulnerability to coercion and cooption.

5. Develop a 'tool-kit' for elected politicians helping them to explain the risk presented by the CCP everywhere.

Across all our democracies, there is a need to explain to our citizens the nature of the challenges we are facing in dealing with an increasingly aggressive, nationalistic PRC. There is a significant gap between what executive government and security and policy specialists understand on the one hand (which is often based on classified material), and what back-bench politicians and their electors know. All politics (or much of it anyway) ultimately comes down to how our representatives put their case to their voters. The Commission could play an important role here by distilling its very deep strategic understanding of the issue into a 'tool-kit' for elected representatives designed to help them explain the strategic challenge we face to our citizens.

6. Help Taiwan, which is critical to regional security and to the United States' credibility as a security partner.

It seems clear that Taiwan will face yet more added pressure from the PRC in 2021 and later. It may be that President Xi calculates that a short-term window of opportunity is closing for the PRC to pressure Taiwan to make concessions on its future political status. We should not be surprised if Beijing confects a cross-straits crisis over the course of this year as the centenary of the CCP looms mid-year and the US faces a terrible domestic health situation. I suggest the Commission should urgently review what can be done to strengthen factors that will deter Xi from taking a disastrous strategic course on Taiwan. Again, this should lead to discussions with Japan and Australia among other important allies because the threat to Taiwan is really a threat to all democracies in the Indo-Pacific.

The Commission should develop a view on the merits of the current debate about the value of ambiguity versus clarity in setting out US responses if Taiwan is attacked. My view is that clarity is what is most needed at a time when the PRC might fail to correctly read American policy signals.

A key to achieving greater clarity of US (and allied countries) policy towards PRC aggression over Taiwan is to develop a shared appreciation of how to steer an effective One China Policy. In Australia at least the PRC has very effectively sold the line that Beijing determines what is appropriate for government-to-government contact between Canberra and Taipei. Of course, that should not be a driver of policy, but it has resulted in such limited Australian engagement with Taiwan that our policy thinking about the country and our capacity to make public statements about its security has become stunted. A Commission dialoge with Australian counterparts on options for engagement with Taiwan would be valuable.

I would expect the United States to stand by its long-held policy disposition to support Taiwan. On that expectation hangs the credibility of America's alliance network in the Pacific. To put it bluntly, if the US chose not to vigorously support Taiwan in the face of PRC coercion, this will do immense damage to the credibility of US engagement as viewed in Tokyo, Seoul, and Canberra. That could weaken resolve in these capitals to resist PRC coercion.

If the Commission chose to adopt any of these proposals, the Australian Strategic Policy Institute would be an enthusiastic partner, willing to assist you on any aspects of these suggestions.

My thanks for the opportunity to make this submission. Thanks also to the Commissioners and your staff for the excellent work you do, which is important well beyond the borders of the United States.

Peter Jennings

27 January 2021

PANEL III QUESTION AND ANSWER

CHAIRMAN BARTHOLOMEW: Excellent. Thank you to the three of you for interesting, thought-provoking testimony.

We're going to start out our questions with Commissioner Kamphausen.

COMMISSIONER KAMPHAUSEN: Thank you very much, Chair. I echo her comments about how fascinating your testimony was. I have three questions, Dr. Deal, first for you.

You speak to the centrality of Xi Jinping's role as leader at the limited options in terms of leadership to his approach.

And then you perhaps alarmingly, and I'm sure intentionally so, talk about the centrality of Mao's leadership during The Great Leap Forward suggesting, at least to me as a reader, that a possibility of catastrophic, not just marginal but catastrophic error, that the Chinese Party state might bring about as a result of miscalculation on the part of Xi himself is a very real near-term possibility.

Tell me if I'm reading too much into your statements or if you would otherwise qualify that?

DR. DEAL: Thank you for the question and thank you again for the opportunity.

I have to be careful, because I think my point was, when you have a system that is as ambitious and centralized and different from ours as the CCP regime is, I think we can't discount possibilities, a wide array of possibilities, on either end of the spectrum, from their success, which at this point I think would bear huge costs for the free and open world and its prospects on the one hand, to major, terrible decisions or mistakes and very bad outcomes ensuing from those.

And, in some sense, the COVID-19 pandemic, however you want to trace its cause, it seems to have come out of Wuhan, China, and we are already bearing, you know, globally catastrophic costs. And we don't know the level of the suffering that went on in China, and people have been quick to respond to Chinese efforts to claim credit for locking everything down and containing it. But the way that they did that was so foreign, I mean, they did things we couldn't do and wouldn't do or even think of doing. And the problem appears to have come from there.

So, in some sense, we don't need to look much farther than recent history to realize that, you know, things we never would have dreamed about last year, or the year before last, coming to pass from China are now possible, or seem to be possible.

So, that's one way of putting it. And I can't emphasize enough, you know, how likely we are to deceive ourselves or make big mistakes if we assume that, you know, they're on a track to be more like us or just like us, or that our policy frameworks we can impute to them.

COMMISSIONER KAMPHAUSEN: Thank you. Mr. Rosen, one of the conclusions I drew from reading your testimony and listening to your prepared remarks is that the preponderance of economic factors favor the United States and our interests; and that, given that, a reasonable approach might be to play for time, play the longer game, take a breath, tone down the rhetoric, let the fundamentals play out in ways that serve U.S. advantages over the medium to longer term.

Now, I'm asking you to respond to my characterization in two sentences of your lengthy statement and oral remarks. But, come back at me in response to that.

MR. ROSEN: The trick with me is always keeping it to two sentences, but I would say nothing is further from my sense, actually. While I do think that I'm still long on liberalism, I

think liberalism ultimately works a hell of a lot better, and I think China's kind of illiberalism prevents them from self-correcting their own flaws. And we know this from history.

However, they are a \$15 trillion economy with 1.4 billion people and a tremendous amount of narrative throw-weight around the world and people that are believing the surface version of the Chinese story. And, I mean, they believe their own story and their success has a lot of momentum right now. And ours, we are really punching ourselves in the face over and over again on a lot of things we're doing on our side.

So this is a two-sided equation. Their side is batting above its true weight, and that's not necessarily just going to revert back to normal soon enough to serve our interests. And we are not protecting and shoring up our own side of the equation.

So, it needs a lot more conversation but in no way are things right now business as usual or okay. But I do think if we don't screw this up, I'd rather have our cards than theirs for sure.

COMMISSIONER KAMPHAUSEN: Thank you. Chair, if I may? I have a third question.

CHAIRMAN BARTHOLOMEW: Yes, go ahead.

COMMISSIONER KAMPHAUSEN: Mr. Jennings, your testimony talks about the greater risk that the PRC under Xi and Xi himself might be willing to take.

Because obviously, the potential for miscalculation, and I invite you to make any comment you have there, but my real question is about is there any means, is there any entity, is there any person who provides the restraint?

Is there a governor, a natural governor or you could say is China an engine that's running full out, the governor is wide open?

MR. JENNINGS: Commissioner, thank you.

Look, I can't see what that sense of restraint might be other than perhaps a sort of a cultural disposition to worry about the weakness of China, which I think does still inform a lot of decision-making.

Look, I agree, I think, with my co-panelists that Xi Jinping has made some shockingly bad decisions over the last few years and yet, still seems to have the capacity to carry them through without anyone attempting to moderate his views.

The unrolling of wolf warrior diplomacy I think is a prime example of that which has really lost a huge amount of good will, which used to be there for China through the region.

His treatment of Australia means he's lost the Australian heart and mind for a generation. And so, these things may deliver some short-term positives for China but I think long term, they are really disastrous.

I think Xi Jinping is in some respects taking a page from Vladimir Putin's playbook in terms of the audacity of using risk to achieve strategic objectives, starting with the effective annexation of the South China Sea.

And the point that I make in my paper, Commissioner, is that essentially, Xi Jinping has been able to take a number of risky gambles in terms of his engagement with the United States, promising not to militarize the islands, promising to walk back on cyber spying, in the handling of the virus, in the unrolling of wolf warrior diplomacy.

And each of those, arguably, strategic blunders, he's been able to get away with it because the United States and the West has been unable to develop a shared, coherent response. Now, if you're Xi Jinping in 2021, might that not lead you to think that it's worth taking a few more risks over Taiwan at this moment when America is in the state that it's in, when the West is distracted, not really interested in large-scale investments in military capability.

Yes, I think that his attitude to risk has changed.

I think it's making him much more dangerous, and I think the only thing that's really going to put some brakes on that is not what will happen internally, it's how we will be collectively able to respond to him.

COMMISSIONER KAMPHAUSEN: Thank you. Thank you all.

CHAIRMAN BARTHOLOMEW: Thank you. Vice Chairman Cleveland? Is she there? No, alright, temporarily, let's move onto Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you, all. A different viewpoint today from some of you.

Dr. Rosen or Mr. Rosen, you talked about the fundamentals in China and the fact that they're clearly not what they're broadcasting. And the world press talks about the phenomenal success they're having, which apparently doesn't have proper underpinning.

So, my question is do you believe that this incredible increase in investment by our companies into their stock market is dangerous for those investors in America today?

MR. ROSEN: Thank you. So, China is achieving tremendous successes.

However, the question is the cost side, whether the amount of capital being amassed into that, whether other social priorities, be it rural education, environmental cleanup, things like that, are being adequately addressed.

I don't think the totality of the Chinese model growth as we see it right now is at all sustainable nor does it present a development model for the rest of the world.

But that doesn't mean that the semblance of modernity in Shanghai is somehow smoke and mirrors. It's not. There's tremendous, tremendous achievements in China as well.

As for foreign direct investment into China, which is something the Rhodium Group looks at very closely, I would say this, the vast majority of money, of foreign money, going into China is being intermediated by professional firms and investors who understand the risks that they're grappling with.

On a short-term basis, Chinese debt is paying very high yield, the only yield on the planet, because China is the only country that had the capacity politically to get this pandemic under control.

And I think though the means were very unconventional, I think the merits of the choices that were made, some of them have to be respected frankly, given the enormity of death and tragedy that we're experiencing and others in like-minded democracies are experiencing right now.

It is a catastrophe of centennial dimensions. And so investors recognize that, they recognize that China's system has the ability to deliver a lot of value to investors.

And also, many of them also understand there are risks, but you miss 100 percent of the investments you don't try to make, right?

And when I look at some of the craziness in the American capital markets right now, China frankly doesn't look so disconcerting to me compared to GameStop, for example.

So, it's a mixed bag, it's, as with everything, a longer conversation, which I would look forward to having by email or however you'd like.

COMMISSIONER BOROCHOFF: And how would you characterize the interesting last couple of months of delisting and relisting the corporations and the big-money players that have dropped in and dropped out?

MR. ROSEN: Yes, and the news just today that a general license has been issued that delays the 1237 divestitures until May 27th I believe.

I think what's most disconcerting is that the United States plays a global role as the best, the most important capital market on the planet.

And yet, the manner of regulatory intervention and using our capital markets to try to compel political change in China, the way we did over the past six months in particular, I think was criminally negligent of the value laden in the American system.

We have chosen and selected to be a global capital market, not just a capital market for Americans but one that attracts money and has global rights and responsibilities as a result of the special role that it's played.

And the manner in which things were inserted and then done poorly, such that judges and the judiciary had to put them on hold and change things overnight, that's just banana republic kind of behavior frankly and it's not befitting of the United States of America.

The world is recalibrating whether it thinks that depending on the United States for its capital market needs is so prudent anymore.

And that's really quite tragic I think. We have a lot of work to do to regain that credibility and respect now.

COMMISSIONER BOROCHOFF: I really just wanted you to give me your real opinion. Thank you very much, that was enlightening.

MR. ROSEN: Needs more time, sorry.

CHAIRMAN BARTHOLOMEW: Thanks. Dr. Deal, you have a comment on that?

DR. DEAL: Yes, because I think Commissioner Borochoff raised a very important question and I think it can be answered in two ways, one with regards to the likely prospects of the investments that are flowing into China in terms of returns that could be generated.

And the other, I think, is actually maybe closer to the way that the Chinese Communist Party thinks about it.

They discriminate between the real economy and the virtual economy, and financial markets are part of the virtual economy or the fictitious economy.

And what happens when huge American pension funds and other major investment houses participate and send money to China is that China then has leverage and influence.

And so there's the question of political influence and leverage that's I think separate from the value of the returns that people can expect.

And I think from an influence or united front work perspective, it's very consistent with the CCP's goals to have financial elites and influential capital market actors in the United States have their prospects and fortunes tied up with decisions that ultimately in China will be made by the Party.

Because their system is such that firms don't really get to choose individually what happens to their stocks or to the money that has been invested in them.

Ultimately, that's up to the Party itself.

COMMISSIONER BOROCHOFF: Good comments.

CHAIRMAN BARTHOLOMEW: Mr. Jennings, anything you want to add from the Australian perspective?

MR. JENNINGS: Never underestimate the strength of money power.

In my country, there's a huge gap between the way the business community, our universities, our state premiers, think about China and the way the security community thinks about China, and closing that gap is something that we've really failed to do.

I think Australian business is now starting to recalibrate its thinking around risk of engaging with China, but they've been very slow to the table.

I say in part that's because they read the back half of the newspaper rather than the front half of the newspaper.

But there is, for example, in our university sector, almost every Australian university derives somewhere between a quarter and a third of its income from Chinese fee-paying students.

So, we have a sector where the business model is now broken and universities will go to the wall unless they can achieve a snap-back to the old relationship with China, so they can delude themselves into imagining that is an achievable goal.

I think the problem for all of us is how do we try to get a conversation going between national security professionals and the business sector and those who are economically enmeshed with China in ways which can produce some shared view about how to move forward.

Because it would be wrong for me to suggest to you that Australia is now four-square behind, a single view of how we should deal with that problem.

Because there is a large number of people with deep investment in China that desperately want to return to that world. I just don't think that's going to be possible.

CHAIRMAN BARTHOLOMEW: Thank you. Vice Chairman Cleveland, your turn.

VICE CHAIRMAN CLEVELAND: I'll go at the end.

CHAIRMAN BARTHOLOMEW: Okay. Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, and I see we have the cat making a cameo here at the end too.

CHAIRMAN BARTHOLOMEW: I've moved him off the desk three times. It's not working.

COMMISSIONER GOODWIN: My appreciation to the witnesses for your great testimony.

Mr. Rosen, I wanted to start off with you and see if I could maybe generate some discussion where there might be points of disagreement on the panel.

You talked a lot about Chinese investment abroad and how performance of some of those investments have been lacking.

And you suggest that the nature of these investments and their performance indicate that it might not be part of some grand plan or representative of the debt trap diplomacy that it's often characterized as, but instead just bad deals.

And bad deals that now have those countries reconsidering working with China as an investment and development partner.

Mr. Jennings by contrast, I think by contrast, indicated in your written testimony, that PRC infrastructure investment and development does pave the way for subsequent Chinese military and intelligence access to these countries.

So, I want to talk about that apparent conflict but in the context of BRI.

We heard during the hearing last year on Chinese power projection that it could be fair to consider BRI as a strategic initiative, one with strategic goals and objectives and corresponding strategic implications to the United States.

Is it that, or are these deals simply representative of the kind of messy, bilateral interactions that you get through these piecemeal interactions between China and the host countries?

And as one commentator noted, should we not attribute malice or grand scheming to things that can just be chalked up to bad decision-making and bad deals?

MR. ROSEN: Is that to me, Commissioner?

COMMISSIONER GOODWIN: Sure, to start off.

MR. ROSEN: Okay, so, actually, the two things you observed are actually two sides of the same coin, I think. If I'm correct, that the commercial outcome of this deal-making is not good. I am noting that there's very little evidence of debt traps, where China's seizing assets, which is what people mean when they say debt trap.

But there's very strong evidence of unrecoverable loans being made that have to be renegotiated. And so my concern, looking at things through a development economics lens, is that this is tending to screw up and undermine the healthy formation of good institutions, sound lending practices, that sort of stuff, in countries with weak institutions.

Nothing about that outcome is inconsistent with the notion that China knows it's actually not that great commercial deal-making, but there is some strategic utility, which impels the action that it doesn't matter if they're good deals or not.

I'll let others speak to the strategic motivation.

There is commercial motivation as well; definitely China's trying to sell product, trying to push over-capacity product out there, trying to find new markets and ways to deepen its economic relationships with countries all over the world.

But there's no question that there's often a strategic element to these programs as well. I'll stop there.

COMMISSIONER GOODWIN: Just a quick follow-up before we turn to the other witnesses. I did gather from your testimony that some of these other countries are coming to that same realization, that the commercial aspects of these deals aren't strong and perhaps, as you suggested, maybe there are these other strategic implications.

What impacts will that have on BRI going forward?

MR. ROSEN: Look, I think both the countries, call it 85 or 100 countries, and China itself is starting to understand the long term implications of this loan book growing as we knew it.

China realized it was going to be blamed for the world's biggest debt crisis of the 21st century now, as we saw starting to play out due to COVID, right?

That would be laid at its feet because they're the ones that after all the efforts we've made to try to improve the quality of OECD lending to these countries, China just came in and said, oh, no, don't worry about it, we've got \$1 billion for you.

And they will be held to account for that I think.

And so they realized that every day you see some instance, some case study, of a major deal, Philippines, Indonesia, elsewhere, being renegotiated, rethought, before it gets started because these countries are stopping to say, wait a minute, are we really going to be able to use this asset after we build it, for example?

So, there's plenty of evidence and cases to look at where if the countries are thinking twice about obliging themselves to China to the extent that people thought, and there's very good evidence too of China pushing the stop button on its own outbound lending.

BRI lending has fallen off dramatically, as a number of researchers have more or less correctly described. And that's because Beijing realized, hey, we don't know exactly what we're doing out there around the world and we're going to get blamed for it too.

So, there's big changes taking place on both sides of the money flow, I would say.

COMMISSIONER GOODWIN: Thank you. Mr. Jennings or Dr. Deal?

MR. JENNINGS: Thank you. So, I think there is a mix of commercial drivers pushing some Chinese companies, but they understand very well the point about if they can align their activities to Belt and Road, that's going to help the situation domestically.

If you look at the South Pacific, it operates on a very different scale to the big Belt and Road infrastructure projects that you might see in Southeast Asia.

Nevertheless, it's a very interesting thing. Almost throughout the region, any port that's being constructed, any port that is being refurbished, any airport that is having its runway lengthened or is under management will be being constructed or managed by a Chinese company.

And it seems to me that in many cases we see, for example, runways being built that are ostensibly to fly seafood back to Beijing daily or to support tourism ventures in areas of Melanesia that will never see large numbers of tourists.

I think there is clearly an integration between an attempt to deliver a commercial outcome that has also got dual-use value to the PLA, thinking long term.

The other point I'd make about the Pacific is that in many cases, what you see is companies engaging not with central governments but by regional governments, often down to the village level.

And we're dealing with people that are frankly not terribly sophisticated when it comes to thinking about China's strategic objectives. All they know is that no one else has turned up to offer investment or development in their province or their village. And China is having enormous success throughout the region.

Does this matter to the United States? We're talking about islands that the U.S. had to fight its way through to get to Japan in the Second World War. They are vastly strategically important for how America thinks about its military interests in the Western Pacific.

So, yes, they are important, and I'm convinced that behind whatever the commercial facade is of these deals as presented to state governments, regional governments, there is a long arm of the Chinese military behind them, at least wanting to position themselves with the possibility that that type of facility might offer in coming years.

COMMISSIONER GOODWIN: Thank you.

DR. DEAL: Can I just second what has been said? In World War II obviously we needed those islands to get to our ally, Australia.

The American or Western tendency to think, well, is this military/strategic or is this economic, is a Western liberal tendency.

And I think from Beijing's point of view, they go together, wealth and power, as we know, I hope, from learning about their history and observing their behavior.

Of course, if you have the dominant foothold on a smaller country's economy, you will have access to its data-flows, access to its strategic geography or real estate, the ability to use it potentially as at least a stopping off point for your forces.

If that country stops granting you the right terms or tries to negotiate too hard on economic matters, you will have the ability to threaten it militarily.

So, that's more the Chinese neo-mercantilist, if you will, way of looking at it. And we tend to think about it in these kind of arbitrarily or unusually distinct military versus economic terms.

And I think that's a mistake, and I think we need to recognize that the two spheres are not just blended, they're interdependent. They go together in a way that can't be separated.

If China is worried about its economy, it will have the ability to use threats and its military forces to coerce better terms from trade partners, and things will get better economically.

If it's worried about its military, it'll be able to use its economic engagement to get better technology, dual use systems, access to whatever it needs to buy or extract.

So, again, these two spheres are codependent.

COMMISSIONER GOODWIN: Thank you.

CHAIRMAN BARTHOLOMEW: All right, thank you. Commissioner Talent, you are up.

COMMISSIONER TALENT: Thank you, Madam Chair. Well, this has been --

VICE CHAIRMAN CLEVELAND: Carolyn, I think Mr. Jennings wanted to say one more thing. He raised his hand.

CHAIRMAN BARTHOLOMEW: Sorry, I didn't see. Mr. Jennings?

MR. JENNINGS: Thank you. Just in 30 seconds, I wanted to say that Australia has maintained for many years a very sophisticated, over-the-horizon radar network looking north and looking west, as you would imagine.

In July of last year, our government announced it would construct a new element of that over-the-horizon radar network looking east out into the South Pacific.

Now, this is a big expenditure we're talking about here. We're not doing it because we're looking for fishing boats.

CHAIRMAN BARTHOLOMEW: All right, thank you, Mr. Jennings. Senator Talent?

COMMISSIONER TALENT: Well, I'm going to try and be as quick as I can in asking the questions.

I do I want to say this has been about as clear-eyed and powerful a testimony as I've heard on this Commission from any panel, and I'm grateful to you all for it and for your kind words about the Commission.

So, Carolyn, with your permission I'm going to ask three questions. If we don't have time to get to the third, then I'll maybe pick that up in a second round if we have it, or do one for the record.

CHAIRMAN BARTHOLOMEW: So, Jim, Commissioner Wessel had to drop off the call, so we have a little bit more time. He sends his apologies to everybody.

COMMISSIONER TALENT: Yeah, I'll leave that up to you.

So, the first question, and this is for Mr. Jennings, how important is America's military presence in the region to its credibility with the allies and with the Chinese?

I know there's been a lot of discussion, not just in the United States, but in all the Western democracies about freezing or reducing the budgets, the defense budgets, as we come out of the pandemic.

What message, if we did that, would that send to allies and to the Chinese in the region? And are there any steps the United States could take to strengthen deterrence in the short term, particularly with regards to Taiwan, which you mentioned is a flash point? That's Question 1.

I'll go ahead and ask the other two quickly. Mr. Rosen, your analysis was great. I'm not as economically literate as other people on the Commission, but I am a politician and I put myself in the shoes of the Chinese leaders.

So, for all the reasons you mentioned, they're not going to and they can't do a lot of market liberalization. I mean, for other reasons, they just don't want to give up control, right?

But they've got to have growth. So, this tells me, just broadly speaking, what I would do in their shoes is I would try to look to step up all the ways they have been getting growth through

shady or semi-legal, or in some cases illegal, measures. Getting around trade agreements, et cetera. So, this would push me to do more of that. I'd like to know whether you agree with that?

And then Question 3 is we had a discussion in the last panel about why Beijing did what it did with India.

And even though it was so counterproductive in terms of their reputation in the region, I think Occam's Razor would suggest -- I'd like to know what you think of this -- that they knew they were going to suffer reputational damage.

But they were sending the message that reputational damage is not going to keep them from taking the steps which they want to take to achieve their objectives in the region.

And that, in fact, in this case, of the reputational damage sent the message to everybody that where corruption doesn't work they'll use coercion.

And if we have time, I'd like your evaluation of that. So, maybe Mr. Jennings, could you start?

MR. JENNINGS: Thanks, Commissioner. Look, the U.S. military presence is invaluable. The last four years have really taught us that the United States remains an essential element of Indo-Pacific security.

And so a strong, consistent military presence is a really significant thing. And we're getting it, actually. INDOPACOM I think is well focused on this. It's been extremely active in the South China Seas. They're there right now with the Theodore Roosevelt, doing operations. So, those big muscle movements of military engagement I think are there.

Something the Commission might like to think about is how you advise a government on country-to-country relationships. So, there are limits, for example, on U.S. engagement with Indonesia on human rights grounds.

I tend to think that's an artefact of last century, and what the United States should be thinking about now is the smaller-scale engagements with countries of South East Asia and the South Pacific. That lends tremendous confidence to have those countries think about the credibility and longevity of America's presence.

It also has to be tied very closely to active American diplomatic engagement in the region, and in South East Asia what that means is turning up to the meetings at appropriate senior levels, which can be an impost on travel and has of course been difficult in the last 12 months but really is a core element of being there to demonstrate shared commitment.

Look, on the question of Taiwan and short-term deterrence, I think a large part of that is going to have to be addressed by movements of the American main fleet units over the next little while.

Where I think we have to go, though, is to start to have a conversation amongst the American allies in the region about what are we going to do and say to China about their threatening behavior that we have seen increasing pretty rapidly in the last six to nine months around Taiwanese air space.

In my written comments, I do suggest that it might be time to think about what is the Commission's position on the debate that I see in American think-tanks about the sort of level of overt support that the United States should talk about in terms of Taiwan. And I think we've really failed to bring the allies into that conversation as well.

So, that's my answer, Commissioner. I think there's got to be both a military and diplomatic effort here, but the core of America's credibility in the region is driven by presence, and sustained presence, and that's really what's desperately needed.

COMMISSIONER TALENT: Thank you. Mr. Rosen?

MR. ROSEN: I'm going to offer one negative and four positives in answer.

I think on net Beijing is not thinking it's going to get growth out of global capital inflow to China, despite all the attention on that issue, because they know there's even more Chinese capital that's leaving the country.

And coming back to that topic, we just published something with the National Committee a few days ago. There's \$3 trillion of Chinese money in America for \$2 trillion of U.S. money in China.

So, on net there's more of their money coming out than there is our money going in. They're not going to get any growth out of that, so to speak.

Four things that they do think is going to get their chestnuts out of the fire:

Number one, they truly believe that their investments in high technology and service sector activity are going to continue to be a big source of wind under the wings of their economy. And it's going to make up for declining heavy industrial stuff, like steel and aluminum.

Number two, the dual circulation strategy, which they announced mid last year, that needs a lot of time to make sense of. Nobody knows exactly what it is yet, trust me, but it does require your attention to see whether and what they think that actually means.

It could be import substitution, it could be letting their domestic households off the leash a little bit more and letting them consume more. They think that's going to be a big source of growth right now.

Third, they do think they can boost their productivity by implementing some sort of magic market allocation reform that will allow them to make their economy more market-driven without losing any political control. And maybe the Party Committees are the magic sprinkle of pixie dust that's going to permit that.

I'm dubious, but they do believe it, that they can get market efficiency without letting go of political control, and that that's going to add to their numbers in the out years.

Fourth and finally, there's tons of Chinese industrial policies talked about, of course, but one that has not been, I think, crystallized enough is their setup for climate industrial policy.

Their carbon targets are so far ahead of our political conversation around getting some targets out there that they can use to help impel trillions of dollars of investment into next-generation green sunrise activity.

Goldman thinks Europe is putting \$10 trillion into green adaptation in the years ahead. That's probably a sound number. China will put at least as much, if not more, into green competitiveness for the future.

Whoever can truly have a widely deployable solar source of energy, for example, is going to clean up worldwide as a commercial presence, right? So, China is very much organized politically to invest in that. They and the Europeans are ahead of us. We're in trouble if we don't have a radical re-righting our course on that, that will facilitate private-sector activity in our economy in one year ahead I would say.

Let me stop there.

COMMISSIONER TALENT: Thank you.

CHAIRMAN BARTHOLOMEW: Dr. Deal, anything to add?

DR. DEAL: Just on the capital deployed in the United States, I think it is possible that it could contribute to Chinese growth down the road, or productivity, because it could be helpful in securing useful technology that maybe China will outpace us into putting into applications that then allow them to conquer new markets or dominate markets.

So, I think if you think about the money as potentially buying access to technology that could then be harnessed, that's one potential benefit from the outflows.

Another is political influence that allows China to keep pushing to the right the day when the rest of the world decides that it's no longer a viable bet as it, as you were saying, Dan, has to put more and more renminbi behind every new -- 1 renminbi of growth.

To some extent, China is therefore kind of a bubble, but if it has lots of friends and believers all over the world, then it will continue to get access to capital and they can push off their reckoning.

So, I think from a Party perspective, there are potential options for growth or ensuring continued prosperity other than the traditional, exclusively economic ones. Or just thinking about labor and capital and domestic productivity growth sources. I think they think they can get advantages from their foreign interactions.

And then just on the point that Senator Talent made, Commissioner Talent made, on the interaction with India, I completely agree with your analysis of what happened, and I think it goes back to what Mr. Jennings was saying about the lack of cost imposition on China for its aggression.

I don't think we've established a stable deterrence regime, and I think another potential benefit that China derives from its aggression on the border with India is encouraging the Indian Army's dominance within the Indian military such that resources that might otherwise have gone to the Indian Navy or the maritime sphere are diverted to having to worry about what China's going to do next on the border.

And strategically, over the medium to long term, that's probably not great for India or again for the free and open Indo-Pacific and the alliance of powers that want to keep the Indo-Pacific open.

COMMISSIONER TALENT: Thank you.

CHAIRMAN BARTHOLOMEW: Interesting observation.

Mr. Rosen, did you have something you wanted to add, something to respond?

MR. ROSEN: I hope the Commission programs more time to think about global financial dynamics and how to best serve the American interest and put these questions of private portfolio investment flows clearly enough in front of Members who have to help participate in policy formation that we can get this right. Because it really is, as Jacqueline's noting, this is really important stuff; it's where a lot of the debate is right now, including within the Defense Department and elsewhere.

And yet, most decision-makers are operating with pretty thin evidence briefs thus far in terms of what the nature of these financial flows is, whether the Government of China is able to put them to strategic purpose or not, things like that. Now's the time to get all that clear. Thank you.

CHAIRMAN BARTHOLOMEW: So, I'm pleased to be able to tell you that some of those topics are going to come up in our third hearing, which is being put together now. Commissioner Borochoff is co-chairing that one. Vice Chairman Cleveland, your turn.

VICE CHAIRMAN CLEVELAND: So, I'm struggling with how to organize everything that we're hearing and I guess I want to focus it on -- because I think growth, economic growth, however we define it, is central to the Party's survival, to Xi's survival. And yet, what I've heard all day today is that the very things that potentially could contribute to growth are being undermined.

And Dr. Deal, in your testimony and in your comments you've talked about the anti-corruption campaign leading to idleness of cadres because they're fearful of drawing attention, that the consolidation of power erodes the adaptive innovation that is necessary for either securing or developing the technology that will be critical to growth.

Dan, you talked about the inefficient allocation of capital, the lack of productivity in the labor market, I think somebody talked this morning about how there's a lack of incentive to perform because you simply don't get paid more for more productivity.

And that's partly because of the subsidies to state-owned enterprises. And then you add to that, I think in your testimony, Dr. Deal, you talked about even repatriated scientific talent is underperforming because they want to stay safe. There is this fear of the Jack Ma consequences of innovation or getting too big.

And then Roy sort of wraps it all up by saying that in an environment where you have all of these factors that are constraining growth, you also have a lack of information flowing to Xi and the key decision-makers that could lead to miscalculation or catastrophic decision-making. So, I find myself thinking if all of those factors are real and they are impediments to growth, I'm not sure where that leaves us. I'm not sure how, how does the Politburo not recognize that the very things they're doing are undermining their long-term interests? Does that make sense? I'm struggling because we get caught up in this. That's where I am.

I see all the points that say they're on the wrong track, whether it's information or economic decision-making, and I don't think Xi is stupid.

So, I guess the question becomes, how do they integrate all of this? And what happens next? Go ahead, Dan.

MR. ROSEN: Well, let me start with this.

So, Xi Jinping came in 2012, by 2013 he had a huge, actually huge, economic plan on the table that introduced this whole make-markets-decisive meme that he's still burdened with eight years later.

In subsequent years, they tried to de-lever the interbank market, it caused a crisis, they had to fall back. They tried to open the capital account on net, \$1 trillion went global and another \$2 trillion was lined up to leave and they said, whoa, shut the door.

They tried to internationalize the renminbi and ended up having to collapse that back and essentially kill the CNH offer renminbi market in Hong Kong.

They tried to de-lever the banking system in 2017, 2018. It caused GDP growth, if you believe our internal friends, to go to something like zero. They tried to introduce independent governors for state-owned enterprises and get the Party Committee out of making business, strategic decisions, and that led to the wrong outcomes.

And so they put the Party Committee back in, they even put it into the articles of incorporation everywhere. So, to your excellent point, Xi Jinping is not an anti-reformer, he's a failed reformer.

VICE CHAIRMAN CLEVELAND: Right.

MR. ROSEN: He's actually tried half a dozen times to do some next-generation, next-order things to get things more productive and on track, and each time it turned out to be much more complicated than he thought.

The instability was greater than he was briefed in by his economic deputies to expect, and they've had to fall back on a holding pattern strategy, which is where we are right now.

VICE CHAIRMAN CLEVELAND: Right.

MR. ROSEN: We have a lot of these campaigns and new things being trotted out that seem a little ponderous to us because frankly, they're quite ponderous.

Last year they announced this market allocation initiative to make capital labor data, even, allocated by the market, to which I responded and I'll ask Yang Jiechi when we are with him at the National Committee the night of February 1st, what were you're doing the past 45 years if only now you're saying we're going to allocate all these factors of production via market forces? What have you been doing?

So, I think they actually revealed in the text of what has happened over the past eight years is that they're trying to find a way to address -- you're correct -- an urgent set of concerns that they have. They're not finding a magic third way to do it.

They're certainly not willing to embrace our playbook because that would be conceding that China should be lining up behind the U.S. and Bretton Woods institutions, and that's not what you do if you're the Communist Party of China right now, right?

VICE CHAIRMAN CLEVELAND: Right.

MR. ROSEN: But what's the alternative? So, they're playing for time, coming back to a previous question, we're not the ones playing for time, it seems to me.

Provided that we don't lose our confidence in our own model and think we need to join them instead of beating them because we can't do this the liberal way.

So, we need industrial policy and we need to step in and decide what the market's going to look like ten years from now and all this kind of stuff. Which makes me terribly worried, actually, about coming back to that question about the American prospect.

That's where my fears lie. Not that China gets it right but that we lose our cool and make some pretty big strategic and systemic mistakes.

Sorry to go on long.

VICE CHAIRMAN CLEVELAND: No, it's helpful. Dr. Deal?

DR. DEAL: I mean, I agree. That's why I think this is kind of a high variance situation.

On the one hand, they have all these problems, but the ones that were identified and described are there because fundamentally, the Chinese Communist Party doesn't want to give up control. And it doesn't really want to liberalize, so it's going to stay in power and come up with work-arounds and their system is just very different from ours. I keep saying that and it's very centralized and I think that creates a lot of risk for everybody.

But not for the Communist Party, not compared to the alternative for the Chinese Communist Party rulers, who worry that if they weren't in power -- they're riding the tiger. If they weren't in power, their corruption, their status would be -- they'd be subject to lots of penalties for their position. The rivalries, the bitterness, the way that they think of the rest of the Chinese population.

Putting aside the genocide in Xinjiang, the way that they talk about the rest of the Chinese Communist population is in, kind of, by our terms, not -- second-class citizen terms. They don't believe that they're like those people, so they're not going to be "of" those people and let those people determine China's future. They're the ones who are supposed to determine China's future.

So, I'm worried because, just because we can identify these problems or pressures building up within the system, as Dan pointed out at the outset, they're sitting on a \$15 trillion economy, they've got 1.4 billion people. The rest of the neighborhood recognizes that, as Mr. Jennings was pointing out, and the rest of the neighborhood worries that we're going to lose our nerve, as Dan was pointing out, and so how is this all going to unfold?

I think there are major risks building up and we have to be prepared for a wide range of outcomes. And of course, not lose our nerve. But that's why my recommendations were to try to propose actions that the U.S. Government should take to prepare and try to shape the decision-making of the CCP.

CHAIRMAN BARTHOLOMEW: Mr. Jennings, anything you want to add?

MR. JENNINGS: I can't speak on the economic front, but I was thinking as Dan was going through his very compelling line of the economic blunders that there is a parallel list that one could put forward of strategic mistakes that China has made in its management of key relationships over the last few years.

One area, however, where they've had tremendous success, really tremendous success, has been to reduce the capacity of the democracies to develop a shared response to these problems.

Even today in our local papers there's stories about New Zealand in just the last few days updating its free trade agreement with China.

So, here we have a situation where Canberra and Wellington have been unable to talk to each other to find a shared approach to thinking about dealing with China.

Australia and New Zealand are two of the closest countries in the world in terms of our shared strategic interests. So, how do we improve on that?

How do we get a common approach going forward that gives some force to responses to China to try to mitigate their bad behavior?

I think that is the critical task and one we're going to have to get so much better at, and something that I think the Commission is in a really nice spot to be able to influence.

VICE CHAIRMAN CLEVELAND: Carolyn, can I ask one more question?

CHAIRMAN BARTHOLOMEW: Sure, as long as our witnesses are able to stay just a little bit longer so I have time to ask questions.

Can you guys spare us another five or ten minutes? Yes? Yes? Jackie? Great, okay.

VICE CHAIRMAN CLEVELAND: So, I don't know if you've seen, this morning, or at least I got it this morning, the Atlantic I think put out this "longer telegram" towards a new American China strategy.

And in essence, it said that the United States has to protect its interests in economic and technological superiority and the global status of the dollar and our capacity for military deterrence, and consolidating and expanding our alliances.

And I want to run through, in order to do that, this telegram, this report, suggests that we have to be very, very clear, and this may get at what you just were mentioning, Mr. Jennings, about defining, deterring, and preventing China from crossing red lines.

And the red lines that are listed, and I ask whether you agree with these, is should there be additional, should some be taken off, are there additional red lines that would be important?

The United States should be very clear and unambiguous about prompt direct U.S. intervention in the event that any nuclear, chemical, or biological weapons action by China or by North Korea, and I'm summarizing these, any Chinese military attack against Taiwan or its offshore islands, including an economic blockage or cyberattack, any Chinese attack against Japanese forces in the defense of Japanese sovereignty over the Senkakus and the surrounding areas, any major Chinese hostile action in the South China Sea to further reclaim and militarize the islands or to prevent freedom of navigation, and any Chinese attack against the sovereign territory or military assets of U.S. treaty allies.

Is that a comprehensive list? Is there something missing? To me, there's noticeable lack of any kind of consideration of economic red lines, but I'm not sure I'm prepared to define what they would be. Does that sound like a comprehensive list, Dr. Deal?

Go ahead, Dan.

MR. JENNINGS: It sounded good to me. I really like that. I didn't hear anything on cyber and I think that's critical. So, cyberattacks into critical infrastructure I think is something we need to develop shared positions around as well. But yes, that list is really important.

Top of it for my thinking right now would be Taiwan. I wrote an article for one of our national newspapers the other day saying, how important is Taiwan to President Biden? Is a paper deal on climate more important to President Biden than the security of Taiwan?

Australia is a democracy of 25 million people. Common worries about American attitudes to how they'll defend a democracy of 23 million people in Taiwan. So, I think that's a critical question, and something we really should be engaging, you really should be engaging, the allies in the discussion of it.

VICE CHAIRMAN CLEVELAND: Thank you. And feel free to respond for the record if this was an overwhelming list.

Dr. Deal? Mr. Rosen?

DR. DEAL: I was just going to say that I think in some ways the harder question is not which red lines to draw, but how to make them credible because of what Mr. Jennings described.

In a sense, we've already had red lines crossed by Beijing with impunity or with minimal cost and so the interesting question is what actions can we take with whatever tools the U.S. Government and its allies want to bring to bear to make it very clear that we mean those red lines.

So, I think we could have a longer discussion about that and make a whole hearing or two. But I think that's the billion-dollar question or trillion-dollar question.

MR. ROSEN: Economists don't usually work with this red line concept. It just means it's a bad day for the markets is what it means. So, I don't know how to make this holistic enough to describe our most important economic concerns.

I do think we have some very important ones, but I don't know whether the red lines strategic mindset is going to be transferrable so well to the economic domain. Which is really important now that post NSS 17, we have this fused mindset around our security.

I will observe as a non-security person that there's like four different ranks of important things for America in this document, from red lines to major national security concerns, to declared areas of strategic competition where we intend to lean in hard with all of our might, and yet, it's number three in rank.

And responding to genocide is only in Group 2, it's not even a red line issue. When I grew up, genocide was a fighting word, and it wasn't something that was -- something very serious. It was something that was not tolerable. So, I'm not sure as a non-strategic person how exactly to understand the pantheon here but anyway.

VICE CHAIRMAN CLEVELAND: Helpful, thank you.

CHAIRMAN BARTHOLOMEW: Thank you. Yes, I think, Robin, also, since that article just came out, people haven't even had a chance to read it and absorb.

All right, my turn and I'm trying to pull a bunch of different things together here.

First, Mr. Jennings, I wanted to you to know actually that several of us met with the International Trade Committee of the European Parliament earlier this week.

So, some of those discussions are starting. On Taiwan, I want to mention that for the first time ever, Taiwan's representative to the United States was directly invited to the inauguration instead of having to come as a guest of one of the Members of Congress. She actually had a direct invitation, which I think is actually an important step.

When I listen to the litany of problems, the litany of the things that they've tried on the economic front, I find myself thinking and yet, and yet.

They had this problem, and yet, and yet, and yet, and yet they continue to rise. And I think in some ways on the strategic front it's a little bit clearer that they're often testing, they're testing to see if the world will respond. If the world doesn't respond strenuously, they move a little bit further. Or if the world responds, they move back just a little bit.

So, I kind of grapple with yes, they have all of these problems, they seem to be successfully kicking those problems down the road, right? I don't know that the chickens are going to come home to roost on these economic problems that they have.

So, I guess that's just more a general observation. I think they are also reverting back to an old -- old for me; it goes back to the 1990s, but -- a divide and conquer strategy.

That's what the EU-China investment agreement is, divide and conquer, and in some ways, Germany's push for that is separating Germany out.

I think one of the reasons some of those things are being more successful is the economic stress that all of our countries are under because of the pandemic. So, people are perhaps a little bit more desperate than they were about dealing with investment.

But this issue of economic coercion, Jackie, you mentioned the lesson-teaching wars, and I wonder if economic coercion is a substitute for a more military action or if it's just another tool in the toolkit.

And Mr. Jennings, you guys are now the poster child for economic coercion, so I'd like to hear a little bit more from you, prefacing that with in September of 2019, I think it was 2019, I was actually in Australia for some meetings with your defense community, and at that time, there was a significant level of concern about the primacy of the economic interest, the business interests in this.

And I wondered if the recent economic coercion has shifted that at all. So, there's a lot there. I welcome any of you to answer any piece of this.

MR. ROSEN: Let me take a crack at "and yet they continue to rise."

In 1978, when China got started, it had immiserated itself down to \$350 per capita, much poorer than Botswana, most sub-Saharan African countries in that year.

And by horrible, crazy, insane government intervention, making people in the north grow rice and the south grow wheat, like exactly the opposite of what nature called for.

And so really, all they had to do in those early decades was tell the officials to go back to Beijing and stop telling people to shoot themselves in the head, and economic growth was going to really do great things.

And that's indeed what happened. There was so much latent potential for growth or productivity for China to come back to a less artificially impoverished level.

So, now we're at \$10,000 nationally, about Taiwan or Korea level welfare in Shanghai, and still very, very poor for 750 million people who still live on \$3, \$4, or \$5 a day, over half of the country. But the easy stuff is done. It's not just about getting government out of the way now.

For them to continue turning in these high growth numbers, they have to actually do productive things, some of which are about not Beijing getting out of the way but getting back in the way.

They've been providing standardized labor rights across the country, that's the opposite of what Beijing did the past 40 years.

Part of the attraction for global firms was that there were no labor rights in China, and so you could go back to doing things the old, steel mills in Pennsylvania in the 1890s way.

You make a lot more money as a capitalist there back then relative to your fellow Americans, right? It's because Washington stepped in, that Ayn Rand wrote Atlas Shrugged and talked about all these burdens on capitalism.

China tore all those out and Beijing got out of the way but that only gets you so far. Now, truly today, Beijing is in the place where they need to get back into doing the right stuff as a government.

It's not what they have been doing in recent years, it's not just industrial policy. It's actually providing good government for the whole country and for the private sector.

The last people that are celebrating Beijing right now is the private sector, it's just not happening. And so we're seeing the proof in the pudding, GDP growth is getting harder and harder for them to squeeze out of this.

More and more debt, as I said, is required to get less and less growth and things are changing.

So, yes, the "and yet," it's the crucial question but there's a lot to be said about it that starts to make sense and does condition our strategic outlook. And I'd love to continue the conversation, thank you.

CHAIRMAN BARTHOLOMEW: Great, and I'll make one point which is, thank you for acknowledging the poverty that failed, catastrophically failed, Chinese policies had created.

So, everybody gives them a lot of credit for pulling all these people out of poverty and, yes, that's great, but people forget that it was what they did that really put those people into poverty in the first place.

MR. ROSEN: We've done the numbers. If China were only as well off as I think Colombia was in 1978, then its average GDP growth rate from then until today would have been about 4 percent, not the fabled 10 percent double-digit number.

So, Step 1 is immiserate yourself and Step 2 is stop -- and that's how you turn it into four decades of double-digit growth.

CHAIRMAN BARTHOLOMEW: And Step 3 is take credit for what you've done.

Jackie, any comments? Sorry, cat again.

DR. DEAL: Thank you for the very thoughtful questions, as usual. I think yes --

COMMISSIONER TALENT: Can I say something real quick here?

CHAIRMAN BARTHOLOMEW: Yes, Jim?

COMMISSIONER TALENT: Mr. Rosen, this kind of reminds me of an NBA team that tanks in order to get the better draft choices, loses every game. So, they basically tanked for 30 years. I'm sorry, Carolyn.

CHAIRMAN BARTHOLOMEW: I just want to know if you're thinking of a particular basketball team as you raise that analogy.

COMMISSIONER TALENT: The 76ers. They're on top now. I'm getting a little punchy, Madam Chairman, I'm sorry.

CHAIRMAN BARTHOLOMEW: All right. So we'll have Jackie and we'll have Mr. Jennings finish, and then I have just a closing comment and Roy might, too, and then we will be done.

Thank you all for being so generous with your knowledge and your time.
Jackie?

DR. DEAL: I was just going to say, I think different ways of going on offense or pressing home advantages that China perceives makes sense with different targets.

With Australia, using trade and economics as a lever makes a lot of sense, because it not only sends the message to the rest of the world that this is what you get if you are crosswise with Beijing, you're going to be in a world of hurt economically. But it also plays upon the contradiction in Australia's position right now which is, it is an American ally, but its economic ties with Beijing are denser or draw it more into China's sphere.

And so they are driving the wedge or exacerbating that competition with the pressure they're putting on Australia, and I guess as Mr. Jennings was saying, it's not clear that the allied or the rest of world has a coherent response.

And so that's a problem. They're succeeding in wedge-driving or splitting, and again, sending a message to lots of other countries in the process.

CHAIRMAN BARTHOLOMEW: Mr. Jennings?

MR. JENNINGS: Thank you. Look, to Jacqueline's point, that's exactly what I was going to say.

It is interesting that after a year of fight between Beijing and Canberra, we had the highest volume of trade ever with China. And the punitive approach that China is taking is also doing them considerable damage.

For example, they have ceased to take Australian coal. There's something like 60 vessels, I think, off the Chinese coast but we now have blackouts in large parts of the Chinese East Coast. They've all selectively ceased to allow in imports of Australian food, thereby punishing shopping Chinese consumers. This is a counterproductive strategy from Beijing's perspective.

The other thing that's been enormously helpful for us is that it's actually forced Australian business at last into thinking about diversification.

So, again, I think China has some political objectives that it's tried to achieve, but it's doing itself longer-term damage. The political objectives they want to achieve is to try to get Australia to shut up, frankly to behave more like New Zealand.

They want us to be less active in the South Pacific and Southeast Asia. They're trying to weaken our alliance relationship with the United States.

And they will be able to find affiliates and supporters in my own country which will enable them to prosecute that narrative.

So, we have a number of state premiers, for example, saying to Canberra what are you doing, we want to be able to export our iron ore. So, we have a damaging political discussion in Australia.

I'll just finish on this point. The Chinese embassy in Canberra a month or so ago released a 14-point grievance claim which listed all of the sources of unhappiness -- you might have seen it -- that China has with Australia right now.

My own institute was number ten on the list, so we have some stretch targets to improve our standing the next time around.

But really, my point was, if you looked at that list, the things that China was unhappy about would be dealt with in most democratic capitals as presenting precisely the same sets of problems for Canada, for the UK, for the United States.

In other words, this wasn't just a bilateral hit on Australia. It was an attempt to set out how China wants the democratic world to engage with it.

And their real success in this was in making it a bilateral problem, and our failure was in failing to persuade other countries that they should be supporting us, because their interests are fundamentally the same interests as ours.

So, I get back to this point that the real failure here, you know, we can contemplate the successes and potential failure of China, but the real failure here is on the part of the democratic West to find a way to push back that we can all share.

And I think that really has to be the task for coming years, to rebuild those types of engagements that means it's not just Australia that's fighting China over our 5G decision, but every country that's interested in protecting their communications will have a reason to want to do the same.

CHAIRMAN BARTHOLOMEW: Great, thanks. Roy, any closing comments from you?

COMMISSIONER KAMPHAUSEN: Three quick points. First, Jim, I grew up in Philadelphia, and we call it trusting the process.

You accumulate draft picks and so much so that one of the leading players, Joel Embiid, is now nicknamed The Process because he, in his person, emblemizes what that whole several years of agony brought forth.

And I wonder if there isn't a little bit of that messaging in what we hear from Beijing sometimes. I'm going to continue to mull that over.

The second point is we started the day wanting to understand the difference between China's reach and China's grasp.

And admittedly, as one of the people who helped frame this hearing, I think I may have thought of that in more potentially esoteric ways or even more academic ways as we consider this centennial year.

But the third point is, and Mr. Jennings, we're deeply grateful for your participation, as has often happened in our deep relationship with our allies from Australia, you've introduced a sense of urgency to this discussion about the near-term challenges vis-a-vis Taiwan, which I think are a bracing message for us to consider.

It's not just about understanding the difference between the party's aspirations and the cruel realities it faces.

There's also real potential things at stake, a deep relationship with a fellow democratic state, the American reputation, the ability to coordinate effectively with allies.

And so it's imperative on us to communicate these things effectively to the United States Congress in the advisory role that we play.

So, thank you for all of your participation and we appreciate you being with us here today and hanging in.

CHAIRMAN BARTHOLOMEW: Yes, and I actually just want to return some of the compliments, and that is how much we rely on the work that you all do to inform our analysis.

I think that just about every time I speak somewhere I'm either quoting an ASPI product or a Rhodium product, frankly.

Jackie, we work with you, and it's great, and thank you for the work that you do. So, thank you.

I hope this hearing has actually given us some themes that we can carry through with our other hearings and our other work.

For me one of the take-aways is still trying to understand better the CCP's accurate or ability to accurately assess risks because that's also going to inform a lot of things going forward.

So, thank you all very much. We will probably have some questions. If you are willing to address some questions in writing, we will probably have some to send to you, and we appreciate that.

Thank you for your time, thank you for your knowledge. All right, bye.
(Whereupon, the above-entitled matter went off the record at 4:34 p.m.)

QUESTIONS FOR THE RECORD

RESPONSES FROM ZACK COOPER, RESEARCH FELLOW, AMERICAN ENTERPRISE INSTITUTE AND CO-DIRECTOR, ALLIANCE FOR SECURING DEMOCRACY

Question for the Record: Hearing on “U.S.-China Relations at the Chinese Communist Party’s Centennial”

Submitted by Vice Chairman Robin Cleveland

To Zack Cooper:

- In the context of Commissioner Bartholomew's question about zero sum politics, you contrasted the value some partners place on their economic relationships/investment with China in comparison to those who recognize the need to cooperate because of the premium they place on security concerns. Germany comes to mind as a country that falls into the first category. Given the level of Chinese investment and increasing ownership of German high technology assets (KUKA as an example), what recommendations would you offer on how to reverse or slow that trend? Is it simply too late in some countries? And, if so, what does that imply for U.S. interests in balancing or the CCP's rise?

I agree that many German leaders think about China in a positive sum fashion, which is driven by several factors. First, China remains a major trading partner and source of economic growth for Germany, which accentuates positive sum aspects of the relationship. Second, Germany's direct security interests in East Asia -- which would otherwise tend toward zero-sum competition -- are more limited than those of several other leading countries in Europe. For example, the United Kingdom retains close ties to Hong Kong and France has citizens and a large exclusive economic zone in Asia, which are more likely to force their leaders to consider competitive or conflictual aspects of their relationships with China. But Germany largely lacks these political and military commitments in the region. For this reason, asking Germany to play a larger role in security in Asia is likely to fail. Instead, the United States would be wise to ask that German leaders stand up for shared principles. Those shared principles, such as human rights standards, intellectual property protections, guardrails on emerging technologies, and avoidance of coercive economic pressure, are the areas that German voices are most needed now. Although more forceful statements and actions on these issues would not amount to a wholesale change in Berlin's approach to Beijing, they would signify an important shift toward a more competitive approach.

RESPONSES FROM JACQUELINE DEAL, PRESIDENT AND CEO, LONG TERM STRATEGY GROUP

Question for the Record: Hearing on “U.S.-China Relations at the Chinese Communist Party’s Centennial”

Submitted by Chairman Carolyn Bartholomew

To Jacqueline Deal:

- When did the CCP first start talking about Indigenous Innovation, and what factors led them to believe they should make it a priority?

To start, there is reason to believe that the meaning of the term “indigenous innovation” in the People’s Republic of China (PRC) is much broader than what most English speakers would expect. For Americans, the term conjures up the capacity to develop radically new technologies on one’s own. In the Chinese context, it more likely means the capacity to secure privileged access to breakthroughs – whether generated at home or abroad – and their economic and security applications.¹ This definition is based on a close reading of Chinese sources, which also reveal the distinctive logic behind the indigenous innovation drive that Beijing formally launched 15 years ago.²

In 2006, the PRC State Council’s “National Medium- and Long-Term Program for Science and Technology Development” (MLP) codified the goal of indigenous innovation, stating in its Preface:

In our effort to build a well-to-do society, we are faced with both rare historic opportunities and grave challenges. The nation’s economic growth shows an excessive dependence on the consumption of energy and resources, with high associated environmental costs; the economic structure is irrational, characterized by a frail agricultural base and lagging high-tech industry and modern service industry; and firms lack core competitiveness, and their economic returns are yet to be improved as a result of weak *indigenous innovation* capability. There are a whole range of problems concerning employment, distribution, health care, and national security that need prompt solution. Internationally, the nation will be for a long period of time under enormous pressures from developed nations who possess economic and S&T superiority...

¹ As evidence of the thorniness of translating “自主创新,” consider that the term has its own Wikipedia page – https://en.wikipedia.org/wiki/Zizhu_chuangxin – which explains that the first two characters, translated as “indigenous,” may also be understood as “self-governed” or “self-determined.”

² As discussed below, when this drive was launched, the official line was actually that indigenous innovation had already been a goal for a long time. This makes sense in light of older initiatives such as the 863 and 973 Programs, dating back to 1986 and 1997, respectively, which were part of a succession of externally and internally focused efforts to help the PRC catch up to and then surpass countries with the most advanced technologies.

In the 21st century, the new science and technology revolution is rapidly unfolding and gestating significant new breakthroughs... S&T achievements are being applied and transferred at an ever faster pace, thus creating new opportunities for catching up and leapfrogging... Confronted with the new international situation, we must have a greater sense of responsibility and urgency, by making S&T progress a major driving force for the economic and social development more conscientiously and resolutely. We must place the strengthening of *indigenous innovative capability* at the core of economic restructuring, growth model change, and national competitiveness enhancement.³

Accordingly, the MLP lays out the PRC's "guiding principles" for S&T development out to 2020 – 'indigenous innovation, leapfrogging in priority fields, enabling development, and leading the future' – and then defines these principles:

Indigenous innovation refers to *enhancing original innovation, integrated innovation, and re-innovation based on assimilation and absorption of imported technology*, in order [to] improve our national innovation capability. Leapfrogging in priority fields is to select and concentrate efforts in those key areas of relative strength and advantage linked to the national economy and people's livelihood as well as national security, to strive for breakthroughs and realize leaping developments. Enabling development is an attempt to strive for breakthroughs in key, enabling technologies that are urgently needed for the sustainable and coordinated economic and social development. Leading the future reflects a vision in deploying for frontier technologies and basic research, which will, in turn, create new market demands and new industries expected to lead the future economic growth and social development.⁴

Note that indigenous innovation encompasses breakthroughs generated in the PRC and innovations produced by kludging together or improving upon developments achieved elsewhere.

The MLP further explains:

This calls for placing the strengthening of indigenous innovation capability at the core of S&T undertakings. The Party and government have long advocated and paid close attention to indigenous innovation. To press ahead with the modernization drive under conditions of opening to the outside world, we must earnestly study and draw on all the fine achievements of human civilization. During the past two decades or so since we began to pursue the policy of reforms and opening to the outside world, our country has imported a huge amount of technologies and equipment, which played an important role in raising the overall technological level of our industries and promoting the country's economic development. However, one should be clearly aware that importation of technology without emphasizing assimilation, absorption, and re-innovation is bound to weaken the nation's indigenous R&D capability, which in turn widens the gap with world advanced levels. Facts have proved that, in areas critical to the national economy and

³ Emphasis added; English-language document is accessible at: https://www.itu.int/en/ITU-D/Cybersecurity/Documents/National_Strategies_Repository/China_2006.pdf

⁴ Emphasis added, *ibid*.

security, core technologies cannot be purchased. If our country wants to take the initiative in the fierce international competition, it has to enhance its indigenous innovation capability, master core technologies in some critical areas, own proprietary intellectual property rights, and build a number of internationally competitive enterprises. In a word, the improvement of indigenous innovation capability must be made a national strategy that is implemented in all sectors, industries, and regions so as to drastically enhance the nation's competitiveness.⁵

The 2006 MLP thus actually argues that the PRC has long been pursuing indigenous innovation, just not assiduously enough. It has been importing technology without sufficient efforts to copy, adapt, and incrementally build on it, all of which would contribute to improving the PRC's position. To rectify the situation, the MLP calls for a range of policies, including:

- government procurement, fiscal transfers, and the loosening of foreign exchange controls to support investment in and the access to capital of Chinese high-tech enterprises;
- a state strategy for setting international technology standards;
- military-civilian integration;
- expansion of S&T cooperation and exchanges with outside powers; and
- attracting "talents" from overseas.⁶

There is no mention of whether these policies comport with the PRC's international commitments (e.g., under the terms of its accession to the World Trade Organization), because in large part, they do not. The MLP exhibits a fluid or mixed-method approach to its goal, as the idea is not only to "master core technologies in some critical areas," but also to work with and leverage foreign-based talents, develop and exploit intellectual property ownership, and build internationally competitive firms. These other avenues may serve the agenda of core technology mastery, and also complement that achievement. As William C. Hannas and Huey-Meei Chang explain, the PRC has a "composite innovation system" that must be "confronted on its own terms."⁷ Compared to standard Western notions of indigenous innovation, the PRC approach is more flexible and capacious.

Per the MLP citation above, indigenous innovation was made a priority on the grounds that S&T achievements are important to victory "in the fierce international competition." The country faces both "rare historic opportunities" and "grave challenges." On the positive side of the ledger, the "rapidly unfolding" 21st-century S&T "revolution" offers the PRC the opportunity to "catch up and leapfrog" over established powers such as the United States. On the negative side, "Facts have proved that, in areas critical to the national economy and security, core technologies cannot be purchased," and the PRC is "under enormous pressures from developed nations who possess economic and S&T superiority."

⁵ Ibid.

⁶ Ibid.

⁷ William C. Hannas and Huey-Meei Chang, "Chinese Technology Transfer: An Introduction," in *China's Quest for Foreign Technology: Beyond Espionage*, eds. William C. Hannas and Didi Kirsten Tatlow, (New York: Routledge, 2021), p. 3.

At the time the MLP was written, these claims would have been puzzling to the West. From an American point of view, the PRC was benefiting tremendously from its international engagement. Thanks to its role as the world's factory, the PRC was enjoying rapid economic growth. It was also cooperating with the West on international challenges such as terrorism, nonproliferation, and climate change.

From Beijing's perspective, this was neither sufficient nor grounds for complacency. Economic and defense considerations required that the PRC intensify efforts to secure access to cutting-edge technologies. Economically, frontier S&T would enable the PRC to continue to grow after it had exhausted the gains from moving rural agricultural workers into more productive manufacturing jobs. Hence Chinese references to the need to improve the "sustainability" of the PRC's growth. In security terms, indigenous capacity would ensure that the PRC could defend itself even after it lost access to critical technologies from the rest of the world. As a 2011 article by two innovation scholars from the Chinese Academy of Sciences put it:

In part shaped by the historical lessons from the 1960s surrounding China's acquisition of nuclear weaponry, the Chinese government believes that only an ability to develop their own technology will provide China true economic sovereignty.⁸

In other words, just as the Soviets eventually decided to cut off assistance to the PRC's nuclear program, so the United States or other leading-edge countries might similarly elect to squeeze Beijing in the future. The Soviet withdrawal of support came in response to a breakdown in Sino-Soviet ties as the two powers jockeyed for leadership of the international communist movement. One wonders what Chinese strategists expect will trigger a 21st-century cutoff.

Note on sources:

By 2010-2011, the PRC's implementation of the MLP had provoked sufficient concern among Western firms that the US Chamber of Commerce and US International Trade Commission published reports on it, and the US House of Representatives held a hearing on it. (Recall that in October 2010, Beijing also announced plans to develop seven "strategic emerging industries," which in July 2012 resulted in the release of a "Five-Year Plan for Strategic Emerging Industries.") The consensus of these reviews was that Beijing was pursuing indigenous innovation through a complex web of policies, including subsidies, government purchase regulations, and mandatory technology transfer provisions. These sources also highlighted the PRC's interest in setting global standards, a goal they traced back to its World Trade Organization accession in 2001, which stimulated the initial drafting of PRC standards setting strategies.⁹ The USITC report is worth reviewing, and for a broader look at the range of tactics

⁸ Xielin Liu and Peng Cheng, "Is China's Indigenous Innovation Strategy Compatible with Globalization?" East-West Center, *Policy Studies* 61, 2011.

⁹ James McGregor, "China's Drive for 'Indigenous Innovation' - A Web of Industrial Policies," US Chamber of Commerce, July 2010, <https://www.uschamber.com/report/china%E2%80%99s-drive-indigenous-innovation-web-industrial-policies>; US International Trade Commission, "China: Intellectual Property Infringement, Indigenous Innovation Policies, and Frameworks for Measuring the Effects on the U.S. Economy," Nov. 2010, accessible at:

and techniques that the PRC is using to secure access to innovations, please see the new book *China's Quest for Foreign Technology* (cited above) and its predecessor, *Chinese Industrial Espionage*.¹⁰

https://www.usitc.gov/publications/industry_econ_analysis_332/2010/china_intellectual_property_infringement.htm ; "China's Indigenous Innovation, Trade, and Investment Policies: How Great a Threat?" Hearing before the Subcommittee on Terrorism, Nonproliferation, and Trade, Committee on Foreign Affairs, House of Representatives, 112 Congress, First Session, 9 March 2011, accessible at: www.gpo.gov/fdsys/pkg/CHRG-112hhrg65067/pdf/CHRG-112hhrg65067.pdf.

¹⁰ Anna B. Puglisi, James C. Mulvenon, and William C. Hannas, *Chinese Industrial Espionage: Technology Acquisition and Military Modernization* (New York: Routledge, 2013).

PUBLIC COMMENT SUBMITTED FOR THE RECORD

Submitted via email by Jean Public on January 13, 2021

keep chiinese out of the usa - they are not good for this country public comment on federal regiser

the usa has been duped by china, which is our enemy. you can be sure they will not staop with taking over taiwan. they want to take over cambodia, korea and entire asian area. they are all over africa plundering that continent. they want to be no. 1. we are being dupled into buying from them, making them financially powerful. there is no reason for that. we do not have to buy from china. we should pay them off and stop buying from them and we need to keep them out of this country. no more immigration from china. none. and the ones who are here need to be looked at very carefully. we need to stop allowing this overrunning of all races into america. it makes us completely vulnerable. nobody will be with us and we will have spies all over america. the fleecing of america is taking place right now. this commetn is for the public record. we need to keep american tax dollars in america. jean publiee