

## The Chinese Communist Party's Economic Challenge to the Free World

Miles Yu, Senior Fellow at the Hudson Institute and Visiting Fellow at the Hoover Institution

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

Hearing on "An Assessment of the CCP's Economic Ambitions, Plans, and Metrics of Success"

April 15, 2021

Chair Bartholomew, Vice Chair Cleveland, and other distinguished members of the Commission, I would like to thank you for inviting me today. You've asked me to discuss the Chinese economy, the philosophical roots of China's system, and their implications for the United States.

My remarks today will focus on what makes the Chinese economy distinct, how it operates, and why it thrives under a monopolistic government that exploits and challenges the global free-market system. I'll conclude with possible actions for the United States to take.

First, the peculiar and paradoxical nature of the Chinese economy and the West's role in sustaining it.

If there's one thing that every American should understand about the People's Republic of China, it is that it is a communist dictatorship ruled by a Marxist-Leninist party. The Party is dedicated to maintaining and strengthening its monopoly on all powers in the world's most populous country, and to mounting the most serious challenge to the free world since the Cold War.

However, unlike most other communist countries, China has been afforded the benefits of a global free-market system. It enjoys largely open access to international trade, capital markets and advanced technologies. The paradox of a communist nation fully participating in a largely capitalist system has enriched and strengthened the Chinese Communist Party, to the point where Beijing poses a mortal threat to the United States and to the very international free market economic system that has enabled the rise of the communist state.

In his historic speech at the Richard Nixon Library in July 2020, former Secretary of State Mike Pompeo described the situation and how we got here well: "Our policies—and those of other free nations—resurrected China's failing economy, only to see Beijing bite the international hands that were feeding it." Or as President Richard Nixon admitted in his later years, his initiative to open up China in 1972 might have created a Frankenstein.

The West played a role in creating the current state of play. But too many conversations in the United States focus only on our own strategic thinking. In the next part of my testimony, I'd like to focus on the thinking on the other side of the Pacific.

Again, China is ruled by a dictatorial communist government that controls the Chinese economy and exploits the global free market system. Today, we see this most clearly in the Chinese Communist Party's ability to exploit the huge supply of cheap and skilled labor at its disposal. This workforce does not have meaningful labor protections. It does not have the right to form and operate independent trade unions to exercise collective bargaining and welfare negotiations. In Xinjiang – the site of a tragic

genocide against religious and ethnic minorities – laborers are put into camps and have no rights at all. The CCP has created a gigantic, country-sized sweat shop, and the world is buying.

The Party's exploitation doesn't end with human capital. The Leninist centralized model of governance also means it can command the nation's enormous material resources and effectively pursue high-capital-demand landmark infrastructure projects, as in the Belt and Road initiative. These include extensive highway and railway systems, wasteful and environmentally destructive housing and hydroelectric mega projects, and of course, expensive weapons of war in the conventional and nuclear arenas, as well as asymmetrical areas like space, cyber, deep sea and bio-genetics.

The CCP's monopoly on power also allows Beijing to impose strict control over financial resources, forcing non-state businesses to rely on state financing and banking institutions. Any companies that dare to deviate from such reliance will end up like Jack Ma's Alibaba, whose demise is much in the news these days. What has happened should serve as a warning to investors looking to expand to China.

In a similar vein, the CCP is unrelenting on currency control and restrictions on currency flow, which make foreign investors often unable to send profits out of China. This creates a vicious cycle where investors are left with no choice but to keep adding on more and more capital infusions into their Chinese investments. Foreign companies in China also face challenges unlike anywhere else in the world – access to Chinese consumers is often restricted, and the government-inspired and encouraged xenophobia makes many foreign brands victims of crazed national boycotts and mob hooliganism. While the advent of the Bitcoin age poses a challenge to all central banks, China views the digitalization of national currencies as an opportunity to increase its surveillance of its own people and to upend the US dollar-dominated global trade settlement and transactional monitoring systems. It is taking ominous steps in exploring that opportunity.

Meanwhile, due to the lack of constitutional protection of private property and individual ownership, many Chinese who do not trust their government tend to move their money out of China. But the currency controls severely restrict Chinese citizens' ability to send money abroad. This creates a destabilizing factor for the global currency system, including rampant money laundering activities.

When the Chinese people succeed, the Communist Party feels threatened. Without constitutionally mandated private property protection, those who've made it big in China are often targets of the central government for being too rich and too influential, subjecting them to arbitrary extra-legal arrests and financial ruin. In the past 15 years alone, no fewer than 27 Chinese billionaires have been arrested – the charges range from the bizarre to the absurd. In America, we celebrate those who make it on the Forbes billionaires list. In China, getting on the on the Hurun rich people's roster can be like being added to a hit list.

The final point I want to make in this section is about information. The Chinese Communist Party, by its nature, has an innate urge to control the free flow of information. Transparency is anathema to the Party, including when it comes to economic data. It makes arbitrary economic growth objectives based upon political impetuses, rather than credible economic numbers. Lack of transparency also endangers American investors, as many of the Chinese state-owned companies listed on western capital markets

provide vague and opaque information, often keeping their financial records hidden from regulators and investors in free-market countries.

I'd like to close by answering a question that Vladimir Lenin would have asked: "What is to be done?"

First and foremost, the United States should no longer ignore the enormous political and ideological differences between the Chinese Communist Party and the free world's systems. A fully free-market system of international trade cannot coexist peacefully with a "socialist market economy with Chinese communist party characteristics." We should face the reality and redress the biggest foreign-policy failure of the past half a century. It was based on the comforting but misguided view – popularized by political and economic elites – that China and the U.S. could brush aside political and ideological differences, engage uncritically, and hope that democratic virtues and free market system would eventually make communist China change and become a responsible stake holder. Not only have we not changed the Chinese Communist Party with such thinking, the Party is now poised to change us. It is trying to remake the global order in its own image.

Thankfully, we are witnessing a great awakening on this issue, and there seems to be a bipartisan consensus that the old conventional wisdom was a mistake.

My second recommendation is that we must institutionalize this new awakening. Congress, the elected representatives of the American people, can play an important role here.

During the last administration, the United States adopted a new emphasis of engaging China based on the principle of reciprocity. Economic reciprocity with China can be institutionalized through congressional action.

The first step could be item-by-item reciprocal responses to China's Negative List. This is also known as Special Administrative Measures for Foreign Investment Access, and constitutes a comprehensive list published annually by China's Development and Reform Commission that specifies all areas and sectors where foreign investments are allowed or not allowed in China. A reciprocal response would prohibit Chinese investments in the United States in areas such as high-quality agricultural seed, social surveys, humanities and social science research institutions, critical minerals mining, news organizations, radio and television productions, film studios, cinemas and theater chains, and cultural performance troupes, etc, etc.

The second step should involve reciprocity for America's private companies. Congress could create a mechanism for them to register complaints about discrimination by China. The ban on Facebook and Twitter in China should not be a Facebook and Twitter problem, but an American problem. Based on this information, the U.S. government could take sovereign reciprocal actions against China. As it is, too many American companies are effectively held hostage by the CCP and resort to the permanent class of China lobbyists and registered agents for China whose job is to sell corporate America access to senior Chinese officials so that they can continue making big profits and not offending the CCP autocrats, thus perpetuating America's corporate woes in the communist country.

The third step is for America to once again recognize the importance of leadership. The economic challenge of the Chinese Communist Party is not a matter of if we should or should not change Beijing's paradoxical economic reality. It is a matter of if we don't change its behavior, the free world will be changed by Beijing.

We are approaching the 100<sup>th</sup> anniversary of the Chinese Communist Party this summer. Party leaders from Mao to Xi have repeatedly said their actions are guided by an epic struggle of *nisiwohuo*, or "You die, I live." The Party's shibboleth of Win-Win in U.S.-China engagement is nothing but a grand deception.

The Chinese Communist Party's inner core is based on the understanding that China's struggle with America and the free world is nothing but a zero-sum game.

In a world of geopolitical great-power competition, the United States can, and must, win.

Thank you for the opportunity to testify before you today on this important topic. I look forward to your questions, and to working with the Commission.