

# CHAPTER 1

## U.S.-CHINA GLOBAL COMPETITION

### SECTION 1: THE CHINESE COMMUNIST PARTY'S AMBITIONS AND CHALLENGES AT ITS CENTENNIAL

#### Key Findings

- The Chinese Communist Party (CCP) views the 2021 centennial of its founding as a time for both great confidence and great caution as it seeks to consolidate domestic and international support ahead of key political goals in 2035 and 2049. Through a widespread propaganda campaign, it has promoted a triumphalist narrative while omitting any mention of the CCP's serious shortcomings and heavily censoring dissenting opinions. The CCP's triumphalism derives both from a genuine belief in its own superiority and from the need to sustain its authoritarian system.
- CCP leaders publicly express confidence that China will prevail in an ideological and civilizational clash with the United States and other democracies they refer to as "the West." Chinese leaders portray the United States as a waning superpower on a path toward inevitable decline and believe China will be able to continue expanding its power and influence globally.
- China confronts a range of challenges that undermine the CCP's triumphalist narrative. Economically, China faces a set of structural problems, including growing debt, income inequality, demographic decline, and technological dependence on the United States and other advanced democracies that policymakers have been only partly willing or able to address. Politically, the CCP is concerned about internal disunity, corruption, and a lack of ideological conviction within its ranks.
- The CCP also perceives the international environment as becoming increasingly hostile to the Party's aims. This view has sharpened as the United States and other countries have more firmly pushed back against China's actions, including its policies in Xinjiang and Hong Kong, its handling of the novel coronavirus (COVID-19) pandemic, economic coercion, and Chinese diplomats' aggressive approach to foreign policy. External pressure has increased CCP paranoia about the potential for external forces to amplify internal dissent and threaten its regime.
- Both the CCP's confidence and its insecurity have contributed to an uncompromising approach domestically and to the outside

world. Regardless of how China’s internal and external environments develop, the CCP’s aggressive posture will likely harden further as Chinese leaders confront the tensions between their rhetoric and their challenges. The CCP is now likely to react in an aggressive manner either in order to defend itself against perceived threats or to press perceived advantages.

## Recommendations

The Commission recommends:

- Congress hold hearings including Administration witnesses to explore the advisability of forming an economic defense coalition with allies and partners. The object of such a coalition would be to provide mutual support in the event of economic coercion by the People’s Republic of China (PRC) against a coalition member. Such support could include:
  - Commitments not to seek, at the expense of the coerced party, market share created by China’s action;
  - Formal complaints to the World Trade Organization (WTO);
  - Assistance to the coerced party to reduce its incentive to comply with Chinese demands; and
  - Imposition of retaliatory measures against China in support of the coerced party.
- Congress direct U.S. Customs and Border Protection to initiate action to impose a region-wide Withhold Release Order on products originating from Xinjiang, China. In addition, Congress should require the U.S. Department of Homeland Security to provide a comprehensive list of technologies needed and an outline of the resources required to enforce the Withhold Release Order and address other instances of China’s use of forced labor.

## Introduction

For the CCP, 2021 has been a momentous year. As it celebrated the hundredth anniversary of its founding, the CCP aimed to show the world that it has transformed China into a prosperous and powerful country that is prepared to assume and is deserving of a greater leadership role in international affairs.\* In recent decades, after CCP leaders reversed some of their earlier disastrous policies, such as the Great Leap Forward, hundreds of millions of people have risen out of poverty while China has grown into the world’s second-largest economy. These successes have emboldened CCP leaders and contributed to their belief in China’s supposedly inexorable rise. Throughout the year of the centennial, CCP leaders praised the Party’s centralized control of politics, economics, and society and predicted the triumph of China’s model over that of the United States and other democratic countries they refer to as “the West.” This triumphalist propaganda, however, hides the CCP’s ris-

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\*The CCP seeks to revise the international order to be more amenable to its own interests and authoritarian governance system. It desires for other countries not only to acquiesce to its prerogatives but also to acknowledge what it perceives as China’s rightful place at the top of a new hierarchical world order. (For more, see U.S.-China Economic and Security Review Commission, “The China Model: Return of the Middle Kingdom,” in *2020 Annual Report to Congress*, December 2020, 80–135.)

ing concerns that failing to demonstrate the superiority of its model and address long-term challenges could jeopardize the Party's domestic control and international influence.

While China's leaders may have envisioned 2021 as a showcase for China's rejuvenation under the CCP, the year also made clear the profound internal and external challenges facing the Party. The COVID-19 pandemic cast a pall on the centennial celebrations, further stalled China's already-slowing economic growth, and exposed serious shortcomings in CCP governance. Internally, China struggles with persistent inequality and an often unresponsive political system that is failing to deliver an improving standard of living for many citizens. Externally, China faces what it perceives as growing hostility as many countries, particularly democracies, push back against its distorting economic policies, predatory trade practices and economic coercion, termination of Hong Kong's autonomy, and repression of Uyghurs and other minority groups in Xinjiang. The United States and a number of other countries have determined that the Chinese government's treatment of the Uyghurs constitutes genocide.\* CCP leaders also view the United States as an increasingly dangerous competitor with the capability of restraining China's ambitions in the short term, even as they insist the United States is already in long-term decline.

Faced with these problems, the CCP has maintained its triumphalist rhetoric while responding more harshly to any criticism and opposition. General Secretary of the CCP Xi Jinping continues to restructure the Party-state to amplify his own power while suppressing political resistance. Over the past several years, the CCP has put greater emphasis on China's domestic economy and placed a greater portion of the economy under state and Party control, prioritizing economic control over addressing distortions. Instead of acknowledging that economic coercion and diplomatic aggression have harmed China's image abroad, China's diplomats continued to lash out in response to even minimal challenges to China's image, agenda, or priorities.

This section assesses the CCP's worldview and priorities at the centennial of its founding. The section begins by examining the ideological and governance imperatives driving the CCP's centennial propaganda push. The section then assesses the many challenges undermining the CCP's confident narrative. These challenges include ongoing shocks from the COVID-19 pandemic, structural economic deficiencies, an unaccountable political system, and growing international opposition to the CCP's increasingly aggressive behavior. It concludes by discussing the implications of Chinese leaders' domestic and foreign policies for the United States. The section draws from the Commission's January 2021 hearing on "U.S.-China Rela-

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\*The U.S. government, Lithuania's parliament, the Czech senate, the British House of Commons, the Dutch parliament, and the Canadian parliament have all described CCP repression of Uyghurs as genocide. Inter-Parliamentary Alliance on China, "Czech Senate Declares China Perpetrating Genocide on Uyghurs Ahead of Key Vote in Belgian Parliament," June 14, 2021; Andrius Sytas, "Lithuanian Parliament Latest to Call China's Treatment of Uyghurs 'Genocide,'" *Reuters*, May 20, 2021; *BBC*, "Uyghurs: MPs State Genocide Is Taking Place in China," April 23, 2021; *Reuters*, "U.S. Will Address Uighur 'Genocide' in Talks with Chinese: White House," March 11, 2021; *Reuters*, "Dutch Parliament: China's Treatment of Uighurs Is Genocide," February 25, 2021; *BBC*, "Canada's Parliament Declares China's Treatment of Uighurs 'Genocide,'" February 23, 2021; Michael R. Pompeo, "Determination of the Secretary of State on Atrocities in Xinjiang," *U.S. Department of State*, January 19, 2021.

tions at the Chinese Communist Party's Centennial," consultations with experts, and open source research and analysis.

### **Centennial Drives a Triumphalist Narrative**

At the July 1 celebration of the centennial of the CCP's founding, General Secretary Xi struck a victorious tone. In his speech, he congratulated the CCP for its contributions to "the rejuvenation of the Chinese nation" over the past century and declared that China had realized the CCP's first centennial goal—building a "moderately prosperous society in all respects" by 2021.<sup>1</sup> General Secretary Xi also expressed confidence in China's future under the CCP, stating that China was "marching in confident strides" toward the second centennial goal—intended to be completed by 2049, the centennial of the founding of the People's Republic of China—of "building China into a great modern socialist country in all aspects."<sup>2</sup>

General Secretary Xi's speech was the culmination of months of CCP effort to create an overwhelmingly positive narrative surrounding the centennial, devoting special attention to the Party's central role in China's development. In January 2021, Politburo Standing Committee member and propaganda chief Wang Huning met with propaganda officials, where he "demanded all-out efforts on the publicity work for the celebration of the 100th anniversary of the founding of the CCP, and to tell well CCP stories to mark the Party's centenary."<sup>3</sup> In April 2021, the CCP Central Committee published a notice outlining propaganda themes for the centennial celebration, with a guiding theme of "forever following the Party."<sup>4</sup> In addition to stories in media outlets, the CCP also planned Party-themed entertainment and events across the country.<sup>5</sup> In April 2021, China's National Film Administration required all Chinese cinemas to show and promote at least two approved new or classic propaganda films per week through the end of 2021.<sup>6</sup> Local officials were expected to encourage attendance.<sup>7</sup> The directive stated that the film screenings will cultivate "love of party, country, and socialism."<sup>8</sup>

The CCP also intensified efforts to censor and punish any organizations or viewpoints that could harm the Party's image. In March, China's Ministry of Civil Affairs announced a nationwide crackdown on "illegal" nonprofit organizations, including health organizations and religious groups, as part of an effort to create a "good environment" ahead of the centennial celebrations.<sup>9</sup> In April, the Cy-

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\*According to a 2017 speech by General Secretary Xi, the second centennial goal includes several objectives, including achieving "material, political, cultural and ethical, social, and ecological advancement" as well as becoming "a global leader in terms of composite national strength and international influence." Xi Jinping, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," October 18, 2017.

†In April 2021, the Central Office of the CCP issued a list of 80 propaganda slogans for the centennial, 33 of which directly mention the CCP. Slogans included: "Unswervingly listen to the Party, and follow the Party unswervingly!"; "To achieve the great rejuvenation of the Chinese nation, we must uphold the leadership of the CCP!"; and "Unswervingly persist in and perfect the Party's leadership and continue to advance the great new project of Party building!" As the China Media Project notes, such a release of propaganda slogans on a national level had not occurred in the post-1978 era until 2019, when a list of 70 slogans was published to celebrate the 70th anniversary of the founding of the People's Republic of China. Office of Shanghai Spiritual Civilization Construction Committee, "Propaganda Slogans of the Central Committee on Celebrating the 100th Anniversary of the Founding of the Communist Party of China" (中央关于庆祝中国共产党成立100周年的宣传标语口号), April 12, 2021. Translation; China Media Project, "CCP Slogans for 2021," April 14, 2021.

berspace Administration of China launched a hotline where people can report online users who “distort” CCP history, attack CCP leadership or policies, defame national heroes, or “deny the excellence of advanced socialist culture.”<sup>10</sup> Chinese diplomats have also challenged foreign viewpoints critical of China and the Party, responding to even minor criticisms with harsh and often offensive rhetoric.<sup>11</sup> In one example of Chinese diplomats’ aggressiveness, Jojje Olsson, a Swedish journalist who has published articles critical of Beijing’s policies in Xinjiang, said in April he had received threats from the Chinese Embassy in Sweden.<sup>12</sup> Communication from an embassy official instructed Mr. Olsson to stop his critical coverage of China “or face the consequences of [his] actions.”<sup>13</sup>

### ***CCP Propaganda Themes***

#### *Dubious Claims of Victory in China’s “War on Poverty”*

One of the central themes of the centennial propaganda campaign has been Beijing’s assertion that it had eliminated “extreme poverty” by 2020, a goal first announced by General Secretary Xi in 2015.<sup>14</sup> In April 2021, China’s State Council Information Office released a white paper titled “Poverty Alleviation: China’s Experience and Contribution.” The white paper referred to poverty alleviation as “a key task and index of realization of the First Centenary Goal” and claimed unambiguous success in the CCP’s efforts, stating, “China has secured a complete victory in the battle against extreme poverty, eliminating overall and extreme poverty for the first time in its history of thousands of years, and realizing a century-long aspiration of the Chinese people.”<sup>15</sup> Outside experts have identified serious shortcomings in the Chinese government’s methodology, however, and poverty and income inequality remain serious problems in China (see “Poverty and Inequality Undercut Claims of Success” later in this section).

#### *Rewriting the History of the CCP’s COVID-19 Response*

The spread of COVID-19 has caused economic disruptions and exposed the weaknesses of the CCP’s governance model. (For more, see “Setbacks Expose Shortcomings in the CCP’s COVID-19 Response” later in this section.) Nevertheless, the CCP has attempted to revise the narrative regarding its management of the outbreak into a positive propaganda story focusing on its efforts to limit domestic spread while attacking any negative coverage, both at home and abroad, that tried to bring light to the pandemic’s origin or China’s early failings. Throughout 2020 and continuing into 2021, Chinese policymakers and media continued to promote a victorious message. As reported cases of COVID-19 fell across China in early 2021, media reports celebrated the apparent return to normal daily life, particularly in Wuhan, where the outbreak began and was most severe.<sup>16</sup>

The CCP also continued to exercise harsh censorship of stories that could show China’s policymakers in a negative light. In January, Chinese journalists reported being instructed by editors to avoid mentioning the anniversary of the lockdown in Wuhan, and social media networks reportedly deleted posts with the word “whistleblower.”<sup>17</sup> In June, Radio Free Asia reported Chinese au-

thorities in Guangdong were cracking down on information about a COVID-19 outbreak in the province, including detaining two men for “rumor-mongering” after they posted about COVID-19 on social media.<sup>18</sup>

### *Promoting the CCP as a Development Partner*

While most of the centennial propaganda has been for domestic consumption, Chinese policymakers have also promoted a narrative of the CCP’s international achievements. In a December 2020 speech, Chinese State Councilor and Foreign Minister Wang Yi stated, “As we celebrate the historic hundredth birthday of the [CCP], we will better communicate to the world the [CCP]’s track record of governance.”<sup>19</sup> A prominent focus of the CCP’s external messaging has been China’s role as an international development partner. In March 2021, the *People’s Daily* ran a feature summarizing pro-CCP news articles published that month by media outlets in Africa, Asia, Europe, and Latin America.\* According to the feature, the topics in these articles—750 in total, printed in 12 languages in 40 countries—included foreign investment in China as well as China’s role in global poverty reduction efforts.<sup>20</sup> According to the China Media Project, a research program in partnership with the University of Hong Kong, these propaganda pieces represent the CCP’s massive efforts “to overcome what its leadership sees as a global discourse power deficit.”<sup>21</sup>

### *Overtaking the United States*

Chinese leaders expressed great public confidence in the country’s future and the United States’ continuing decline.<sup>22</sup> According to a statement following the October 2020 Fifth Plenum, CCP leaders assess they can continue extending China’s “period of strategic opportunity” during which the country can continue developing and advancing its power and influence while avoiding armed conflict.<sup>23</sup> Foremost among the opportunities the top leadership identified at the Fifth Plenum is a so-called “profound adjustment to the international balance of power,” a phrase the CCP uses to describe the increase in China’s relative international strength.<sup>24</sup> At a high-level meeting in January 2021, General Secretary Xi asserted “time and momentum are on China’s side,” with other officials echoing his assessment.<sup>25</sup>

In keeping with their triumphalist narrative, Chinese leaders and scholars portray the United States as a declining power.<sup>26</sup> General Secretary Xi has prominently described the United States as a weakened superpower in a civilizational confrontation with an ascendant China.<sup>27</sup> In early 2021, other top CCP leaders began repeating the phrase “the East is rising and the West is declining,” attributing the judgment to General Secretary Xi himself.<sup>28</sup> Chinese scholars have reiterated similar views. In April 2021, Zhang Shuhua, head of the Political Research Institute and School of Government Management at the Chinese Academy of Social Sciences, described the

\*According to David Bandurski of the China Media Project, while it is unknown whether the CCP directly paid for all these articles, referred to as “media drops,” “the vast majority of the drops would certainly have been paid for, and this would represent a substantial ad buy, running to tens of millions of dollars.” David Bandurski, “Inside China’s Global Media Blitz,” *China Media Project*, March 17, 2021.

United States as “contaminated with serious illness” and “waning with age.”<sup>29</sup> He claimed the United States uses democratic values mainly as cover for suppressing China and other states and insists that no matter how hard the United States tries to maintain its global influence, “not only will it not prevail, it will actually accelerate its own decline” as other countries reject its leadership.<sup>30</sup> A May Xinhua article entitled “Reasons that a Hegemon Is Bound to Decline” touted a similar theme and insisted the United States is “embarking on the beaten road” to decline.<sup>31</sup>

### ***Ideology Drives the CCP’s Messaging***

The CCP’s triumphalism likely derives both from a genuine belief in its own superiority and from the need to legitimize and sustain its one-party rule. In official statements, General Secretary Xi and other Party leaders assert that the CCP is the only political force suited to lead China and will inevitably demonstrate the superiority of its one-party system over liberal democracy. In his speech at the 19th Party Congress in 2017, General Secretary Xi described the so-called “scientific truth of Marxism-Leninism” as “a solution to China’s problems” and claimed that the CCP alone out of all political forces was able to fulfill the Chinese people’s desire for rejuvenation after a history of humiliation by outside powers.<sup>32</sup> In his lecture on Party history in February 2021, General Secretary Xi told gathered Party cadres that history reveals “why the Chinese Communist Party is capable, why Marxism works, and why socialism with Chinese characteristics is good.”<sup>33</sup> He also lectured on the need for Party members to understand “how profoundly Marxism has changed China and changed the world.”<sup>34</sup>

Lacking a representative governance system, the CCP also uses claims about the superiority of its political model to justify its authoritarian rule and views any criticism or admission of failure as a threat to its legitimacy. CCP leaders thus feel obligated to highlight what they consider to be advantages of China’s authoritarian system, even in the face of clear systemic failures. For example, in January 2021, Xinhua described centralized government control as the “fundamental guarantee of China’s systemic advantage” over other countries, echoing similar statements by the *People’s Daily* in March 2020.<sup>35</sup> In an interview in July 2021, China’s Vice Foreign Minister Le Yucheng claimed that so-called “brilliant governance achievements” by the CCP constitute “the most convincing democracy.”<sup>36</sup> He similarly attempted to dismiss the CCP’s widespread human rights abuses by claiming the Party was not only “blameless” on human rights issues but “should also be awarded gold medals.”<sup>37</sup> In December 2020, former Minister of Public Security Guo Shengkun professed that China’s handling of the COVID-19 pandemic demonstrated the superiority of the CCP’s governance system.<sup>38</sup> He cautioned, however, that the CCP must continue demonstrating its alleged superiority to maintain the security of the regime, warning that “momentum that is not flourishing is in decline; order that is not advancing is in retreat.”<sup>39</sup>

## **Challenges to the CCP's Triumphalist Narrative**

The CCP's centennial propaganda campaign masked Beijing's view that it in fact faced a considerably more troubling state of affairs. A range of political, social, and economic problems belie the triumphalist narrative the CCP promoted throughout 2021. The ongoing economic shocks and international scrutiny of the CCP's handling of the COVID-19 pandemic, along with growing international pushback against the CCP's repressive policies in Xinjiang and violation of its commitment to maintain Hong Kong's autonomy, provide perhaps the most jarring contrast with the optimistic image promoted by Beijing. Meanwhile, the CCP perceives itself as engaged in a simultaneous struggle against domestic and foreign threats it believes threaten the regime's stability. As Sheena Chestnut Greitens, associate professor at the University of Texas, noted in her testimony to the Commission, the Party's combative mindset and intense paranoia stem in large part from its assessment that internal and external security threats to the regime are tightly linked and have the potential to exacerbate one another.<sup>40</sup>

### ***Setbacks Expose Shortcomings in the CCP's COVID-19 Response***

In March, China's state media ran an interview with a Chinese professor who claimed "China [had] essentially brought [COVID-19] under control, while most of the West failed in implementing stern containment measures."<sup>41</sup> While officially reported COVID-19 case numbers have indeed fallen across China compared with the early stages of the pandemic, China's stated success in suppressing COVID-19 has come at the cost of lockdowns that have resulted in massive economic disruption. In August, a single case of COVID-19 in a worker at Ningbo-Zhoushan Port, the world's third-busiest port, led to an almost two-week closure of a terminal that represented approximately one-quarter of the port's overall capacity.<sup>42</sup> Authorities have shut down other ports due to COVID-19 infections among workers, including the Yantian Port in Shenzhen, which led to shipping delays of more than two weeks.<sup>43</sup> (For more on China's closure of the Yantian Port, see Chapter 2, Section 1, "Year in Review: Economics and Trade.") China's government has also instituted strict travel prohibitions and business closures upon detecting just a few cases in a city. In September, for instance, after detecting a dozen COVID-19 cases in Xiamen, a city with a population of 4.5 million people, Chinese authorities prevented residents from leaving the city in most cases and closed venues, such as libraries, bars, and movie theaters.<sup>44</sup>

If official data are credible, China's shutdown measures have not significantly harmed the economy. Contrary to most economists' expectations, for example, China's export data from August showed 25.6 percent year-on-year growth despite the Ningbo Port closure.<sup>45</sup> Economists have warned, however, that a continuation of China's extreme lockdown measures will weigh down economic growth. In September, an S&P Global Ratings report highlighted the economic risks that China's zero-COVID policy posed to Chinese companies already struggling with economic headwinds, saying China's zero-tolerance approach may "push rating momentum further into



the negative if outbreaks continue to bring mobility restrictions that disrupt large parts of the country.”<sup>46</sup>

Suppressing the spread of COVID-19 cases in China is made more difficult by the fact that Chinese-produced vaccines have lower efficacy rates than vaccines produced in other countries, such as the United States.<sup>47</sup> This means that costly and disruptive lockdown measures will remain a necessity, leading some experts in China to question the feasibility of China’s zero-tolerance COVID-19 policy.<sup>48</sup> Zhang Wenhong, an infectious disease specialist who is viewed by many Chinese citizens as a trusted voice on public health issues in China, said that “the [July] Nanjing outbreak has prompted a national stress test and serves as food for thought for the future of our pandemic response.”<sup>49</sup> Dr. Zhang acknowledged that China “will have more to learn” on living with the virus.<sup>50</sup> In some cases, interviews with Chinese experts who question China’s zero-tolerance COVID-19 policy have been censored and removed from Chinese media outlets.<sup>51</sup>

### *International Fallout from Handling of COVID-19*

While the CCP has trumpeted its COVID-19 response as a success, international reception has been less laudatory. Ongoing international scrutiny of the origins of COVID-19 and Beijing’s initial handling and coverup of the outbreak continue to bring the CCP’s credibility into question. Chinese policymakers have obstructed international attempts to investigate the origins of COVID-19 in China, including the possibility that SARS-CoV-2, the virus that causes COVID-19, accidentally leaked from a facility in China. In March, the World Health Organization (WHO) released a joint report with a Chinese research team on the origins of COVID-19 based on an investigation in January and February.<sup>52</sup> While the report concluded that a lab leak was “extremely unlikely,” many observers criticized the Chinese government for not allowing the WHO investigators sufficient access to facilities and data.<sup>53</sup> In July, Tedros Adhanom Ghebreyesus, WHO director-general, admitted there had been a “premature push” to rule out a lab leak.<sup>54</sup> Dr. Tedros also proposed a second phase of the investigation, including audits of laboratories and research institutions in Wuhan, this time publicly asking China “to be transparent and open and cooperate” on further investigations.<sup>55</sup> Zeng Yixin, the vice minister of China’s National Health Commission, rejected the proposal and said the WHO needed to get rid of “political interference.”<sup>56</sup> In August, the Office of the Director of National Intelligence released an unclassified summary of its classified report on the origins of the COVID-19 pandemic, which found that Beijing “continues to hinder the global investigation, resist sharing information and blame other countries, including the United States.”<sup>57</sup> (For more on the report, see Chapter 3, Section 1, “Year in Review: Security, Politics, and Foreign Affairs.”)

China is the predominant global supplier of personal protective equipment (PPE).<sup>58</sup> In early 2020, as reports of COVID-19 cases in Wuhan emerged, Chinese authorities began aggressively implementing export controls on PPE, including both finished products, such as face masks, and raw materials used to produce equipment. These restrictions contributed to massive PPE shortages in the

United States and in other countries.<sup>59</sup> The global PPE crisis was exacerbated by skyrocketing prices and China's apparent prioritization of certain countries to receive PPE before others.<sup>60</sup> Further, independent analysis confirms that a majority of certain U.S. imports of PPE, including from China, failed to meet necessary healthcare safety standards.<sup>61</sup>

In addition to imposing export controls, China stockpiled massive amounts of PPE. Before COVID-19 cases were widely reported outside of China, the CCP's United Front Work Department orchestrated a campaign to purchase PPE items in countries around the world and send them to China.\*<sup>62</sup> A September 2021 report by Internet 2.0, an Australian cybersecurity company, also found that a number of Chinese government institutions in Hubei Province, where Wuhan is located, sharply increased procurement of tests used to detect infectious diseases before Chinese authorities acknowledged the outbreak.†<sup>63</sup> Test purchases nearly doubled from \$5.7 million (renminbi [RMB] 36.7 million) in 2018 to \$10.5 million (RMB 67.4 million) in 2019, with a sharp uptick beginning as early as May 2019.‡<sup>64</sup>

While China sold the vast majority of the PPE it exported, Beijing also engaged in a diplomatic campaign of donating certain medical equipment to other countries.<sup>65</sup> These donations often came with political conditions, such as public statements of gratitude, and some recipients have claimed that the Chinese equipment failed to meet basic safety standards.§<sup>66</sup> In 2021, China's COVID-19 diplomacy efforts have shifted from medical equipment to vaccines. According to data compiled by Bridge Consulting, a China-based consulting firm, China has primarily sold rather than donated vaccines to other countries, selling 1.3 billion doses and donating 71.9 million as of October 4, 2021.<sup>67</sup> (For more on China's vaccine diplomacy, see Chapter 3, Section 1, "Year in Review: Security, Politics, and Foreign Affairs.") Struggles with the effectiveness of vaccines developed by the Chinese companies Sinovac and Sinopharm have undermined Beijing's external messaging, however. In April 2021, Gao Fu, the director for the Chinese Center for Disease Control and Prevention, said China's government was considering mixing vaccines as a way of dealing with "not high" efficacy rates of existing vaccines.<sup>68</sup> Mr. Gao later said his remarks were taken out of context and that he was speaking about "vaccines in the world, not particularly for China."<sup>69</sup>

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\*The United Front Work Department is a Chinese government entity charged with extending the CCP's influence and control over non-Party organizations both domestically and abroad to advance CCP policy objectives. For more on the United Front Work Department, see Alexander Bowe, "China's Overseas United Front Work: Background and Implications for the United States," *U.S.-China Economic and Security Review Commission*, August 24, 2018.

†The study assessed 1,716 procurement contracts for polymerase chain reaction (PCR) tests from 2007 to the end of 2019 and found "significant and abnormal 2019 purchases of PCR equipment in Wuhan" by the following entities at the following times: the PLA Airborne Corps Military Hospital in May 2019; the Wuhan Institute of Virology in November 2019; the Wuhan University of Science and Technology in October 2019; and the Hubei Province Districts Centers for Disease Control and Prevention between May and December 2019. David Robinson et al., "Procuring for a Pandemic: An Assessment of Hubei Province (China) PCR Procurement Requirements," *Internet 2.0*, September 2021, 2–3.

‡Unless noted otherwise, this section uses the following exchange rate throughout: \$1 = RMB 6.43.

§For more on Beijing's "mask diplomacy" in the beginning of the COVID-19 pandemic, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Year in Review: Security, Politics, and Foreign Affairs," in *2020 Annual Report to Congress*, December 2020, 347–349.

Countries that have relied heavily on Chinese vaccines have struggled to contain COVID-19 outbreaks. In May 2021, Seychelles experienced a spike in COVID-19 cases, despite being the country with the highest vaccination rate in the world at the time.<sup>70</sup> Seychelles had used vaccines supplied by Sinopharm for more than 60 percent of the doses administered at the time of the outbreak.<sup>71</sup> Other countries relying on Sinopharm vaccines, including Chile, Uruguay, and Bahrain, also saw outbreaks continue even amid high vaccination rates.<sup>72</sup> In July, Malaysia's Ministry of Health announced that once its current supply of the vaccine was depleted it would stop using vaccines made by Sinovac and begin using Pfizer vaccines.<sup>73</sup> That month, Indonesia and Thailand announced they would begin supplementing Sinovac doses with non-Chinese vaccines in order to improve the efficacy of the immunizations.<sup>74</sup> In September, the *Wall Street Journal* reported Brazil's federal government had stopped negotiations to purchase an additional 30 million doses of the Sinovac vaccine amid concerns over its efficacy against the Delta variant.<sup>75</sup>

### ***Economic Challenges Jeopardize Long-Term Growth***

Throughout 2021, CCP policymakers promoted an optimistic assessment of China's economic trajectory despite persistent problems in its economy. Beijing's confidence is reflected in the 14th Five-Year Plan (FYP) released in March 2021, which sets China's top economic policy objectives for 2021–2025.<sup>76</sup> In an unusual move, along with the 14th FYP the CCP also released a longer-range plan in March 2021 detailing goals for 2035, including doubling the size of China's 2020 gross domestic product (GDP).<sup>\*</sup> In order to meet this goal, China's GDP would need to grow by an average of 4.7 percent annually through 2035.<sup>77</sup> This plan also carries an implicit goal of making China the world's largest economy by 2035, demonstrating CCP confidence in China's continued economic growth.<sup>78</sup> (For more on the 14th FYP, see Chapter 2, Section 2, "The Chinese Communist Party's Economic and Technological Ambitions: Synthetic Biology, New Mobility, Cloud Computing, and Digital Currency.")

Even as the CCP claims China is on track to achieve its economic ambitions, Beijing has admitted that China's economic growth faces increasing headwinds. At the October 2020 Fifth Plenary Session of the 19th Party Congress, CCP leaders offered a frank assessment of many of China's economic challenges:

*Our country still faces acute problems of unequal and insufficient development; reforming critical steps of key domains remains difficult; 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.*<sup>79</sup>

<sup>\*</sup>The release of such a long-term goal document is highly unusual, having occurred only one other time in the past 25 years. Damien Ma, "Getting to \$30 Trillion: China Aims for Largest Economy by 2035," *MacroPolo*, March 1, 2021.

*“Dual Circulation” Signals Greater Focus on China’s Domestic Economy*

Throughout 2021, the CCP has sharpened its emphasis on China’s domestic economy, reflecting Beijing’s concerns about China’s international economic dependence. While CCP policymakers at the 2020 Fifth Plenum discussed domestic economic challenges, they signaled greater concern than in years past about the country’s external economic challenges. According to Yuen Yuen Ang, associate professor of political science at the University of Michigan, compared with the Fifth Plenum in 2015, which previewed the 13th FYP (2016–2020), the 2020 Fifth Plenum paid comparatively less attention to domestic challenges and placed paramount emphasis on COVID-19 and what it views as an increasingly difficult international environment.<sup>80</sup> Similarly, the 14th FYP notes that “China’s development environment faces profoundly complex changes,” including an international environment that “is growing steadily more complex, with instability and uncertainty increasing significantly.”<sup>81</sup>

One of the most visible manifestations of this trend has been the CCP’s increasing invocation of the “dual circulation” strategy first introduced at a Politburo meeting in May 2020. Dual circulation remains vaguely defined but broadly calls for rebalancing China’s economy away from export-led growth and emphasizing China’s domestic consumption (referred to as the “domestic cycle”) over international trade and investment (referred to as the “international cycle”).<sup>82</sup> Through dual circulation, the CCP hopes to hedge against what it views as an increasingly hostile international environment by making China’s economy less dependent on external sources of growth while making the rest of the global economy increasingly dependent on China. At a high-level meeting in January, General Secretary Xi promoted dual circulation, saying, “Only by being self-reliant and developing the domestic market and smoothing out [the domestic cycle] can we achieve vibrant growth and development, regardless of the hostility in the outside world.”<sup>83</sup>

Even as the CCP has placed greater emphasis on China’s domestic economy, however, it has continued opening in certain sectors where it wants to attract foreign capital and knowhow. At a press conference in March, Premier Li Keqiang stated that China would “continue to take the initiative to open further” and said, “China will remain a key destination for foreign investment and a big market to the world.”<sup>84</sup> Jude Blanchette and Andrew Polk of the Center for Strategic and International Studies have described dual circulation as a “hedged integration” strategy, “engaging international capital, financial, and technological markets when advantages can be gained while simultaneously bolstering indigenous capabilities to avoid overreliance on the global economy—due to national security concerns or the vagaries of global economic cycles.”<sup>85</sup>

*Poverty and Inequality Undercut Claims of Success*

Although claims of eliminating extreme poverty have been crucial to the CCP’s centennial propaganda campaign, the living standards of many Chinese citizens remain low. In May 2020, Premier Li provoked controversy when he said 600 million Chinese citizens lived on a monthly income of less than \$155 (RMB 1,000).<sup>86</sup> Dr. Ang tes-

tified before the Commission in January 2021 that “while this may seem mundane to audiences outside of China, in effect, what he said deflated triumphalist narratives about China’s superpower rise.”<sup>87</sup>

While General Secretary Xi celebrated China’s supposed eradication of extreme poverty in his centennial speech, throughout 2021 he also frequently spoke publicly about the need to pursue “common prosperity.”\* While the concept of “common prosperity” remains ill defined, it entails greater attention to reducing income inequality. An August 2021 meeting of the Central Commission for Financial and Economic Affairs, the CCP’s top economic deliberation body, chaired by General Secretary Xi, signaled greater scrutiny of wealthy Chinese people and companies. A readout of the meeting said China “must reasonably adjust excessive high-income [sectors] and encourage high-income individuals and companies to make more contributions to society.”<sup>88</sup>

The metrics, methodology, and accuracy of the CCP’s assertion of victory over extreme poverty have met with considerable skepticism among outside observers. The Chinese government’s threshold for poverty is set at an annual income of \$622 (RMB 4,000) per person as of 2020, or \$1.70 a day.<sup>89</sup> While this standard is slightly higher than the World Bank’s threshold for extreme poverty,<sup>†</sup> economists have argued that it is nevertheless too low for a country with China’s aggregate wealth.<sup>90</sup> A report published in June by Bill Bikales, former lead economist for the UN in China, also found that the CCP’s definition of poverty reduction overlooked significant portions of China’s population. Notably, Chinese policymakers do not count any urban residents as being poor, even those who receive funds from the Minimum Living Standard Assistance Program, China’s largest social assistance program.<sup>‡</sup><sup>91</sup> The CCP’s poverty reduction tally also did not include households that entered poverty in 2020 as a result of the economic slowdown caused by COVID-19.<sup>92</sup> Moreover, China’s official poverty statistics are difficult to verify, with “a conspicuous lack of detailed data that would allow an outside observer to confirm or reject the accuracy” of China’s claims of eliminating poverty.<sup>93</sup> The report concluded that despite progress in poverty reduction, “China has not eradicated poverty—even extreme poverty.”<sup>94</sup>

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\*According to analysis by Bloomberg, General Secretary Xi mentioned “common prosperity” 65 times from January to mid-August 2021, more than the previous four years combined. *Bloomberg*, “Xi Doubles Mention of ‘Common Prosperity,’ Warning China’s Rich,” August 22, 2021.

†The World Bank’s threshold for extreme poverty is \$1.90 a day in 2011 dollars in the United States. This is equivalent to \$1.33 in China in 2020 after adjusting for U.S. consumer inflation and purchasing power parity between the United States and China based on World Bank data. Purchasing power parity is a standard measure for determining the amount of money required to purchase the same basket of goods and services across two countries, but economists disagree on the accuracy and the robustness of the measure. World Bank International Development Program, World Bank Development Indicators Database, and Eurostat-OECD PPP Programme, “PPP Conversion Factor, GDP (LCU Per International \$),” *World Bank Group*, September 15, 2021; International Monetary Fund and International Financial Statistics, “Official Exchange Rate (LCU Per US\$, Period Average),” *World Bank Group*, September 15, 2021; International Monetary Fund and International Financial Statistics, “Inflation, Consumer Prices (Annual %),” *World Bank Group*, September 15, 2021.

‡Eligibility for the Minimum Living Standards Assistance Program is determined by local governments based on the cost of living in a given locality. According to Mr. Bikales’s analysis, setting separate urban and rural poverty lines “may be desirable” given the persistent urban and rural income gap. Doing so reveals an urban poverty rate as high as 14 percent, accounting for 120 million urban residents living in poverty. Bill Bikales, “Reflections on Poverty Reduction in China,” June 2021, 34.

Some economists have also noted the most significant cause of poverty reduction in China since 1987 was simply the cessation of destructive economic policies. According to World Bank data, China's per-capita GDP in 1978 was below all other countries but five.<sup>95</sup> As Dan Rosen of Rhodium Group described in a 2014 review of China's economic growth, "This greatly impoverished position did not come naturally but reflected the immiserating mistakes of Mao-era economic policy."<sup>96</sup> A 2021 National Bureau of Economic Research study on China's poverty reduction examined the effectiveness of different policies and similarly concluded that "a large share of China's success following Deng's reforms reflected the prior failure of the Maoist economic-policy model."<sup>97</sup>

Despite progress in reducing poverty, income inequality remains a serious problem in China. As of 2019, China's Gini coefficient—a measure of income inequality—was 0.465, according to Chinese government statistics.<sup>\*98</sup> While this is an improvement from the peak of 0.491 in 2008, China's leaders have previously stated that any Gini coefficient above 0.40 is potentially destabilizing.<sup>99</sup> Income inequality among China's provinces is stark and particularly pronounced between urban and rural areas. In 2019, the average income of China's three wealthiest provinces was 3.5 times higher than that of the three poorest provinces.<sup>100</sup> According to government figures, the average disposable income of the wealthiest 20 percent of Chinese households was approximately \$11,600 (RMB 76,400) in 2019, which is more than ten times the disposable income of the poorest 20 percent of households, at \$1,100 (RMB 7,380).<sup>†101</sup> As Elizabeth Economy, now senior advisor for China at the U.S. Department of Commerce, wrote in a May 2021 *Foreign Affairs* article, persistent income inequality can thwart efforts to promote consumption in China and "limit economic growth and sustainability, weaken investment in health and education, and slow economic reform."<sup>102</sup>

### *China's Economic Growth Faces Structural Problems*

Although Chinese officials acknowledge difficulties facing China's economy, some of the solutions the CCP has pursued appear likely to exacerbate these longstanding problems. Even as China's government strengthens its control of the economy, it worsens inefficient allocation of capital and dampens the productivity of China's workers. For the CCP, however, economic inefficiency is an acceptable price to pay for ensuring its power is secured and its political objectives are met.

### Rising Debt

In the wake of China's stimulus-led recovery from the COVID-19 pandemic, China's debt burden has further increased, stressing a financial system still struggling to manage an unprecedented debt

<sup>\*</sup>The Gini coefficient measures a country's income inequality on a scale of 0 to 1. Higher Gini coefficients indicate greater levels of inequality. A 2018 International Monetary Fund working paper found China's Gini coefficient was among the highest in the world. Sonali Jain-Chandra et al., "Inequality in China—Trends, Drivers and Policy Remedies," *International Monetary Fund Working Paper*, June 2018, 4.

<sup>†</sup>Disposable income in China includes wage and salary income, net business income, net property income, and net transfer income (i.e., government benefits and subsidies). China's National Bureau of Statistics, *Households' Income and Consumption Expenditure in 2020*, January 19, 2021.

expansion following the 2008 global financial crisis.<sup>103</sup> In 2016, China's financial regulators launched a deleveraging campaign amid fears over growing instability in the financial system. China's debt has continued to balloon, however, particularly over the past year as the CCP used fiscal stimulus measures to address the economic slowdown caused by COVID-19.<sup>104</sup> By the end of the fourth quarter of 2019, China's total credit\* reached 262.9 percent of its GDP at \$37.2 trillion (RMB 259 trillion), up from 178.8 percent at the end of 2010, according to data from the Bank for International Settlements.<sup>†</sup><sup>105</sup> China's debt growth accelerated between the end of 2019 and the end of 2020, rising to 289.5 percent of GDP.<sup>‡</sup> In December 2020, former finance minister Lou Jiwei said government debt would "increasingly become a threat to future fiscal stability and economic security" of China.<sup>106</sup> The Chinese government has continued to emphasize the importance of debt reduction, listing deleveraging as one of the "five major tasks" for the year in the March 2021 government work report.<sup>107</sup> (For more on debt problems in China, see Chapter 2, Section 1, "Year in Review: Economics and Trade.")

### Weak Consumption

In December 2020, China's Ministry of Commerce said it would promote dual circulation by increasing domestic consumption, echoing a longstanding goal of CCP policymakers. Nevertheless, Beijing struggled to improve anemic consumption throughout 2021.<sup>108</sup> For decades, China's growth has relied more heavily on investment spending largely financed by the state, rather than consumption. Since 2001, when China joined the WTO, household consumption has fallen as a proportion of China's GDP, indicating the structure of China's economy has become more unbalanced at the expense of households, even as the country grew wealthier.<sup>109</sup> In 2001, household consumption accounted for 45.5 percent of China's \$1.3 trillion (RMB 11.1 trillion) GDP.<sup>110</sup> As of 2019, household consumption accounted for 39.2 percent of China's \$14.3 trillion (RMB 98.7 trillion) GDP—a proportion far below the share of economies such as Russia (51.1 percent), India (60.5 percent), Brazil (64.8 percent), or the United States (67.9 percent).<sup>§</sup><sup>111</sup> China's relatively low consumption levels reflect higher precautionary savings among Chinese households, a phenomenon that is driven in part by China's limited social safety net.<sup>112</sup>

\*The Bank for International Settlements' measurement of total credit includes credit to the nonfinancial nonstate sector and to the government sector. It encompasses currency and deposits, loans, and debt securities. The Bank for International Settlements' debt data do not include special drawing rights (SDRs); insurance, pension, and standardized guarantee schemes; or other accounts receivable/payable, which the bank indicates should "be included in any comprehensive picture of government debt." These are not measured in the same way across countries, so their exclusion makes international comparison more reliable. Bank for International Settlements, "Introduction to BIS Statistics."

†While total U.S. debt levels are comparable to China's levels when measured as a proportion of each country's GDP, U.S. total credit grew much more slowly between 2010 and 2019. At the end of 2019, total U.S. debt was 254 percent of U.S. GDP at \$54.3 trillion, up from 248.7 percent at the end of 2010. Bank of International Settlements, "Total Credit to the Non-Financial Sector (Core Debt)—As a Percentage of GDP"; Bank of International Settlements, "Total Credit to the Non-Financial Sector (Core Debt)—In Billions of USD"; Bank of International Settlements, "Total Credit to the Non-Financial Sector (Core Debt)—Domestic Currency Billions."

‡U.S. debt grew more quickly than Chinese debt in 2020, rising to 295.5 percent of GDP at the end of the year. Bank of International Settlements, "Total Credit to the Non-Financial Sector."

§Exchange rate based on World Bank data.

This unbalanced model is related to China's slowing growth in productivity, or the amount of output that can be produced from a given amount of inputs, such as labor and capital. Between 1978 and 2007, a period when China's officially reported GDP per capita grew an average of 8 percent a year, upward of 70 percent of this growth was due to reallocation of resources from low- to high-efficiency sectors and firms.<sup>113</sup> Since 2007, however, GDP growth has mostly been driven by state-directed investment in infrastructure and housing projects, which faces diminishing returns even if it was initially justifiable.\*<sup>114</sup> The economic recovery from COVID-19 has prolonged this imbalance, as much of China's initial bounce-back was due to heavy government spending and investment in industries such as real estate and infrastructure, while consumption gains have remained weak.<sup>115</sup> (For more on slowing productivity growth in China, see Chapter 2, Section 2, "The Chinese Communist Party's Economic and Technological Ambitions: Synthetic Biology, New Mobility, Cloud Computing, and Digital Currency.")

### Demographic Decline

According to the results of China's latest decennial census, released in May 2021, China's population was 1.41 billion people in 2020, which is an increase of 72 million from the 2010 census—the slowest decade of population growth since at least the 1960s.<sup>116</sup> China's anemic population growth threatens to stall the economy as the workforce shrinks.<sup>117</sup> China's population is also aging more quickly than other low- and middle-income countries, leading to higher healthcare costs and pension payments, while the labor force (people aged 16–59) has fallen for eight years in a row.†<sup>118</sup> At the National People's Conference in March, Premier Li said China would gradually raise its retirement age over the next five years and try to reach an "appropriate birth rate."<sup>119</sup> Prospects for the CCP's ability to reverse the population trends are dim, however. After China raised the birth limit to two children for most families in 2016, the country saw a small increase in birth rates that year, but the rates resumed their decline in 2017.<sup>120</sup> According to statistics by China's Ministry of Public Security, there were ten million births in China in 2020, a 15 percent decrease from 2019 births.<sup>121</sup> In May 2021, the CCP announced married couples could have up to three children and promised increased government support for child-rearing expenses. Many Chinese people reacted to the announcement with indifference or even anger, noting having three children could result in career setbacks or unbearable financial burdens.<sup>122</sup> As Julian Evans-Pritchard, senior economist at Capital Economics, wrote, "With small family sizes now well ingrained into the fabric of Chinese

\*China currently spends 25 percent of its GDP on construction investment, a higher proportion than South Korea, Japan, or Taiwan spent during the peak of their construction investment in the 1980s (Japan) and 1990s (South Korea and Taiwan). Houze Song, "Is China's Productivity Slowdown Here to Stay?" *MacroPolo*, February 3, 2021.

†China's dependency ratio (the ratio of people younger than 15 or over 64 to the working-age population) has grown from 36.5 in 2010 to 41.4 in 2019, according to World Bank data. This growth has come almost entirely from an increase in people over 64. The proportion of Chinese people over 64 to the working-age population increased from 11 in 2010 to 16.2 in 2019. World Bank, "Age Dependency Ratio—China"; World Bank, "Age Dependency Ratio, Old (% of Working-Age Population)—China."



society, there is little that policymakers can do to turn back the clock.”<sup>123</sup>

### Environmental Degradation

Decades of pursuing economic growth at any cost have left China as one of the most polluted countries in the world. An estimated 80 percent of Chinese citizens are regularly exposed to air, water, and land contaminants and pollution, compromising safety and wellbeing.\*<sup>124</sup> China’s environmental degradation has led to higher healthcare costs, slower economic growth, and increasing complaints among Chinese citizens over quality-of-life issues, such as food contamination and air pollution.<sup>125</sup> CCP leaders have acknowledged the importance of finding more environmentally sustainable forms of growth, and the 14th FYP sets a goal of “new progress of ecological civilization” as well as more specific environmental targets, such as an 18 percent reduction in carbon dioxide intensity over the next five years.<sup>126</sup> As of July 2021, China-headquartered firms accounted for 56 percent of global capacity for coal plants planned or under construction, according to Global Energy Monitor, a non-governmental organization.†<sup>127</sup> In a September speech at the UN General Assembly, General Secretary Xi said China would not build new coal-fired power plants in other countries.<sup>128</sup> According to Li Shuo, a policy advisor at Greenpeace China, it was unclear whether General Secretary Xi’s pledge applied to the nonstate sector or to projects that have already been proposed, been approved, or begun construction.<sup>129</sup> Additionally, Mr. Li said it was unclear whether the moratorium applied to the financing of projects in addition to construction.<sup>130</sup> China’s government has also long failed to deliver meaningful emissions reductions domestically, particularly as local governments continue to rely on coal-powered plants as an inexpensive source of energy, investment, and jobs.<sup>131</sup> This reliance on coal power seriously threatens China’s pledge to reach carbon neutrality by 2060.<sup>132</sup>

### Dependence on Foreign Technology

China remains highly dependent on foreign technology, something that has concerned CCP policymakers for decades. In 2016, General Secretary Xi said, “The fact that core technology is controlled by others is our greatest hidden danger.”<sup>133</sup> Lacking domestic capacity, Chinese companies are highly vulnerable to supply chain disruptions, including from U.S. export restrictions. In the second quarter of 2021, Chinese telecom giant Huawei reported a 38 percent year-on-year fall in revenue, the third straight quarter of decline.<sup>134</sup> Huawei executives have attributed their troubles to U.S. sanctions,

\* For example, in 2017 the average exposure of China’s population to particulate matter with a diameter of less than 2.5 micrometers (PM2.5), an important indicator of air pollution, was more than five times the World Health Organization’s guidelines for average annual exposure. At 52.7 micrograms per cubic meter, China’s average PM2.5 exposure was the world’s 20th worst in 2017 out of 194 reporting countries and territories. World Bank, “PM2.5 Air Pollution, Mean Annual Exposure (Micrograms Per Cubic Meter)”; World Health Organization, “Ambient (Outdoor) Air Pollution,” May 2, 2018.

† Planned projects include those announced, pre-permitted, and permitted but not yet under construction. Capacity is measured as gross megawatts of energy output prior to subtracting the capacity used for plant operations. Global Energy Monitor, “Global Coal Plant Tracker,” July 2021.

which restricted the company's access to chips used in many of its phones.\*<sup>135</sup>

Despite massive investment, the CCP has fallen far short of its ambition of creating a self-sufficient domestic manufacturing base to meet China's technological needs. The Made in China 2025 Plan, released in 2015, called for Chinese firms to produce 40 percent of semiconductors used in China by 2020 and 70 percent by 2025.<sup>136</sup> In 2020, Chinese firms produced only 5.9 percent of semiconductors used in China, with foreign-owned companies in China producing an additional 10 percent, according to a research report by market research firm IC Insights.<sup>137</sup> The CCP's efforts to foster technological self-sufficiency have also highlighted the inefficiency of China's state-led investment approach, with approximately 50,000 new Chinese firms registering as "semiconductor-related businesses" in 2020, nearly quadruple the number of registrants in 2015.<sup>138</sup> These registrants included companies that had highly questionable connections with semiconductors, including restaurants and real estate developers.<sup>139</sup> In October 2020, a spokeswoman for China's National Development and Reform Committee said that some firms "with insufficient knowledge of integrated circuit development have blindly entered into projects."<sup>140</sup> The case of Wuhan Hongxin Semiconductor Manufacturing, a company founded in 2017, is a recent illustration of this problem. In March 2021, the Chinese technology company 36Kr reported that Wuhan Hongxin Semiconductor Manufacturing was a fraudulent business whose founder had no expertise in semiconductors.<sup>141</sup> The company reportedly received an estimated \$1.9 billion (RMB 12.4 billion) in government investments, bank loans, and contractor deposits before failing.<sup>142</sup> (For more on China's efforts to achieve technological self-sufficiency, see Chapter 2, Section 2, "The Chinese Communist Party's Economic and Technological Ambitions: Synthetic Biology, New Mobility, Cloud Computing, and Digital Currency.")

### ***Domestic Disunity and Flagging Ideological Commitment Threaten Political Control***

In addition to its wide-ranging economic difficulties, the CCP faces significant challenges with internal disunity that appear to extend from the lowest-ranked CCP members to the highest levels of the policymaking apparatus.<sup>143</sup> The CCP top leadership feels a growing sense of insecurity about flagging ideological commitment and Party unity.<sup>144</sup> In October 2020, China's Ministry of State Security Party Committee published a study guide in the *People's Daily* for the third volume of General Secretary Xi's book, *The Governance of China*. The study guide warned the Party to "strengthen political acuity and political differentiation abilities" to "overcome the political paralysis disease where one lacks the will for struggle, cannot smell out the enemy positions, cannot differentiate right and wrong, and does not understand the direction."<sup>145</sup> In a forceful lecture in February 2021, General Secretary Xi identified intra-Party threats

\*In May 2020, the U.S. Department of Commerce Bureau of Industry and Security issued a rule restricting exports of U.S. semiconductors to Huawei. This was followed by a rule in August 2020 that closed loopholes in the May 2020 rule, such as non-U.S. chip designers selling semiconductors they had contracted from other firms to Huawei. Ben Thompson, "New Huawei Rules, What Now for Huawei, Apple's Brand and China Inc.," *Stratocracy*, August 19, 2020.

as the biggest risk facing the CCP, warning that “the fortress is easiest to break from the inside.”<sup>146</sup> State media commentary on his speech further described the CCP’s hundred-year history as “the history of our Party ... unceasingly guarding against the danger of being disintegrated and corrupted.”<sup>147</sup>

Persistent problems with corruption and questionable commitment from lower-level cadres reveal core problems with the CCP’s claims to superior governance. In his January 2021 work report, Politburo Standing Committee member and Secretary for the CCP’s Commission for Discipline Inspection Zhao Leji described ongoing corruption within the Party as a “political hazard” and bureaucratic formalism as “a stubborn chronic disease.”<sup>148</sup> In February 2021, General Secretary Xi emphasized the importance of adhering to Party centralization and criticized cadres for “not paying attention to implementing the major policies of the CCP Central Committee.”<sup>149</sup> He admitted that many CCP cadres “will not consider showing initiative” and “waste time in lazy governance,” calling increased attention to an ongoing problem in which lower-level officials calculate it is politically safer to do very little rather than take actions for which they may later be blamed.<sup>150</sup> This failure of the CCP system is a direct consequence of political centralization and the central government’s associated tendency to blame lower levels for problems.<sup>151</sup> As Jacqueline Deal, president and CEO of the Long Term Strategy Group, testified before the Commission, such widespread unwillingness to take risks or innovate inevitably erodes the state’s adaptive potential and decreases its ability to react to and navigate new situations.<sup>152</sup>

Evidence suggests disagreements even persist between some of China’s most senior leaders. The widely reported conflict between factions associated with General Secretary Xi and Premier Li is one important example of these high-level disputes. As Dr. Ang argued in her testimony before the Commission, Premier Li’s faction continues to advance an image of China as a developing county still lagging far behind the United States, which contradicts General Secretary Xi’s preferred triumphalist narrative.<sup>153</sup> In September 2020, Yuan Nansheng, vice president of the foreign ministry-affiliated think tank the China Institute of International Studies and former Chinese consul general in San Francisco, warned that interpreting the COVID-19 pandemic as a historic opportunity for China’s rise was a “strategic misjudgment.”<sup>154</sup> His article was censored after going viral on WeChat.<sup>155</sup> In April 2021, an unnamed Chinese government advisor also criticized China’s diplomatic strategy to outside media for being too focused on “internal propaganda” and stressed that China needs to “make more friends, fewer enemies.”<sup>156</sup>

Also in mid-April 2021, former Premier Wen Jiabao published an essay memorializing his late mother in a Macau newspaper that mainland media censors interpreted as a criticism of General Secretary Xi and outside observers described as a “remarkable” intervention in current politics by a Party elder.<sup>157</sup> The former premier implied his discontent with General Secretary Xi’s increasingly brutal leadership by including the statement, “In my mind, China should be ‘a country full of fairness and justice,’ and there should always be respect for the will of the people, humanity and the nature of human beings.”<sup>158</sup> After the essay generated a social media storm within China, WeChat

and Weibo stepped in to block users from sharing it, and reprints of the piece were removed from the internet.<sup>159</sup>

An additional topic of debate among the CCP leadership is China's policy toward the United States. In December 2020, Xinhua published a sharply worded commentary that poured vitriol on unspecified Chinese officials for taking too soft a stance on relations with the United States.<sup>160</sup> The article's prominence revealed a view among the highest echelons of the CCP that certain officials' desire for a less confrontational approach to the United States posed a sufficient threat to merit public condemnation.<sup>161</sup> The author accused these officials of "worshipping America," "kneeling to America," and "bowing their heads and gluing their ears" to the United States.<sup>162</sup> The article further accused them of suffering from ideological "soft bone disease" and having "lost basic judgement" and exhorted readers to "resolutely struggle [against them], pierce through their disguises, eliminate their influence, and not allow wrong values to lead the people's hearts astray."<sup>163</sup>

### *Expanding Domestic Control Measures*

In an effort to maintain political stability in the year of its centennial, the CCP has continued to tighten the political consolidation and domestic control measures that have characterized General Secretary Xi's rule. In March, the National People's Congress passed an amendment that could facilitate General Secretary Xi's selection of a political ally to replace Premier Li when the latter's term as State Council premier expires in 2023.\*<sup>164</sup> In 2021, General Secretary Xi escalated his signature anticorruption campaign, which he has used to address issues of corruption as well as consolidate his power and eliminate political rivals. In January, the leadership set an uncompromising tone for its centennial year by executing Lai Xiaomin, former chairman of state-owned asset management conglomerate China Huarong Asset Management, who had been accused of accepting bribes, shattering a previously unwritten rule against execution for bribery or financial crimes.<sup>165</sup> In April, former senior inspector at the CCP's Central Commission for Discipline Inspection Dong Hong was expelled from the Party on allegations of corruption.<sup>166</sup> Seeking to convince the broader public that General Secretary Xi's campaign has been effective, state media has prominently covered stories of officials who voluntarily turned themselves in for corruption.<sup>167</sup> The CCP also used the anticorruption campaign to take down business leaders perceived as threatening.<sup>168</sup>

China's leadership has approached the year of its centennial with an increased focus on preemptively identifying and neutralizing perceived political challenges before they can do lasting damage to the

\*The amendment vests the National People's Congress Standing Committee with new authority to appoint or remove vice premiers at any time, actions previously requiring the approval of the full National People's Congress, which convenes only once per year. In practice, this adjustment provides a workaround for the current situation in which no sitting vice premiers young enough to be eligible for promotion to premier in 2023 are General Secretary Xi loyalists. Three of the four are nearing or have already reached the Party's unofficial retirement age of 68 for top officials, and the fourth is aligned with the same faction as Premier Li. The amendment creates a new opportunity for General Secretary Xi to orchestrate the installation of favored candidates as vice premiers in sufficient time for them to gain experience before the next premier is chosen in 2023. NPC Observer, "2021 NPC Session: Dissecting the Amendments to the NPC's Two Governing Laws (Updated)," March 12, 2021; Tsukasa Hadano, "China Alters Vice Premier Selection, Paving the Way for Xi Loyalists," *Nikkei Asia*, March 11, 2021.

regime. The communiqué from the CCP's Fifth Plenum in October 2020 called for the strengthening of a "system for preventing and resolving great risks."\* According to Dr. Greitens, this means a heavier reliance on surveillance, policing, ideological indoctrination, and other coercive measures of internal control.<sup>169</sup> Around the same time, China's Ministry of State Security Party Committee's study guide in the *People's Daily* warned that the Party needed to "have clear eyes, see things, early, [and] act quickly" to prevent political risks from developing.<sup>170</sup> In January 2021, the Politburo Standing Committee held a meeting with the theme "be wary of dangers in the midst of stability," signaling continued attention to political regime security.<sup>171</sup> In his speech on January 15, Chen Yixin, secretary general of the CCP's Central Political and Legal Affairs Commission and a protégé of General Secretary Xi, instructed the Party to "build an impenetrable wall to guard against infiltration, subversion, and destruction from outside enemy forces" and "eradicate the soil of internal forces that influence political security."<sup>172</sup> Also in January, State Councilor and head of the Ministry of Public Security Zhao Kezhi called upon the Party leadership to prioritize "the prevention of political risks" and to "strictly crack down against hostile forces' infiltration, disruption, subversion, and sabotage activities... [in] the battle of defending political security."<sup>173</sup> The same month, the CCP amended internal regulations to further restrict Party members' ability to publicly express views contrary to those of the central leadership.<sup>174</sup>

Increased power consolidation raises the likelihood of policy mistakes and instability. The increasing centralization and repression, combined with a developing cult of personality around General Secretary Xi, make officials less willing to make decisions and thus undermine the Party's ability to deliver on its promises of efficient governance. According to Dr. Deal, the Party's turn toward totalitarian governance has made it more prone to sudden shocks and discontinuities.<sup>175</sup> Tightened information controls within the Party and prohibitions against criticizing leadership decisions reduce channels for feedback and impede the flow of bad news, creating an echo chamber at the highest levels of the Chinese government.<sup>176</sup> According to Dr. Deal, although consolidation increases General Secretary Xi's direct control over policy decisions, the accompanying reduction in critical feedback "increases the likelihood that the state will charge ahead in the wrong direction."<sup>177</sup> Dr. Deal noted in her testimony that China faced this problem during the Great Leap Forward in late 1950s and early 1960s, when then Chairman Mao Zedong's plan for rapid industrialization of China led instead to widespread famine but CCP elites did not dare to confront him with evidence of the policy's failure.<sup>178</sup> Finally, General Secretary Xi has rendered China's government dangerously reliant on him for political direction and created serious risk for the Party by eliminating his political rivals and failing to designate a successor, taking personal control over critical governance institutions, and enshrining his right to remain in power indefinitely.<sup>179</sup>

\*This represents an intensification of the Party's focus on preventive management of potential instability, which began with the release of General Secretary Xi's national security strategy and associated policy statements in 2014. Sheena Chestnut Greitens, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on U.S.-China Relations at the Chinese Communist Party's Centennial*, January 28, 2021, 5.

## ***Growing International Opposition***

The CCP perceives an international environment fraught with challenges for China. Foremost among the challenges identified at the Fifth Plenum is an intensification of geopolitical uncertainty, particularly from the United States and other democracies. According to M. Taylor Fravel, professor of political science at the Massachusetts Institute of Technology, the CCP's most recent uses of the phrase "profound changes unseen in a century"\* have emphasized the negative impact of an uncertain and complex international situation strongly associated with intensifying competition with the United States.<sup>180</sup> Chinese leaders believe fallout from the COVID-19 pandemic has further intensified existing uncertainties, creating an international political environment they describe as fraught with "turbulent change."<sup>181</sup> A January 2021 commentary in the *People's Daily* captured this sense of unease, warning that the challenges the CCP faced heading into its centennial year were increasingly severe:

*The closer we get to national rejuvenation, the less likely smooth sailing will be, the more risks, challenges, and even stormy seas there will be.... In the past we were able to take advantage of the trend and opportunities were relatively easy to grasp; now we have to go up against the wind... In the past, the general environment was relatively stable, and risks and challenges were relatively easy to see clearly; now global circumstances are turbulent and complex, geopolitical challenges are high and pressing, and there are many submerged reefs and undercurrents.*<sup>182</sup>

The CCP views the United States, even if in decline, as posing a particularly severe challenge to its power. In the months preceding the centennial, China's leaders and political elites reiterated long-standing views that the United States is a dangerous opponent with which China is locked in a long-term ideological and civilizational confrontation. In January 2021, Secretary General Chen warned that China faced a major threat from "containment and oppression" by the United States.<sup>183</sup> In March, Yuan Peng, vice president of the China Institute of Contemporary International Relations,† publicly stated that the "security dilemma" between the United States and China is "more profoundly fraught than any other rise and fall of great powers in history."<sup>184</sup> In his view, the epochal stakes at play in U.S.-China competition are the result of major ideological and cul-

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\*This phrase refers to both the benefits and risks of what the CCP perceives to be accelerated global trends toward multipolarity. As Dr. Fravel explained in his testimony before the Commission, the phrase has been a constant refrain for CCP top leadership since General Secretary Xi first introduced it in 2017. M. Taylor Fravel, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on U.S.-China Relations at the Chinese Communist Party's Centennial*, January 28, 2021, 1–6; *Xinhua*, "(Authorized Release) Communiqué of the Fifth Plenary Session of the 19th Central Committee of the Chinese Communist Party" ((授权发布) 中国共产党第十九届中央委员会第五次全体会议公报), October 29, 2020. Translation.

†The China Institute of Contemporary International Relations is a research institution affiliated with China's Ministry of State Security. In addition to his position as vice president, Yuan Peng directs the organization's Institute of American Studies and is known to counsel the Chinese elite on U.S.-China relations. Yuan Peng lectured China's Politburo on national security in December 2020. China-U.S. Focus, "Commentaries by Yuan Peng, China-United States Exchange Foundation," 2021; David Ownby, "Yuan Peng on the Anchorage Summit," *Reading the China Dream*, 2021; William Zheng, "Why Did China's Communist Party Elite Need a Lecture on the U.S.?" *South China Morning Post*, December 14, 2020.

tural factors, such as a “conflict between capitalism and socialism” and a “clash of Eastern and Western civilizations.”<sup>185</sup>

In addition to the challenges posed by the United States, China faces growing international pushback against its foreign and domestic policies. By early 2021, Beijing’s assertive actions had caused significant frictions with many of the world’s democracies. Throughout the year of its centennial, the CCP faced growing criticism of its human rights abuses in Xinjiang. In late March 2021, the United States, the EU, Canada, and the United Kingdom each announced sanctions on Chinese entities over human rights abuses in Xinjiang, eliciting a furious response and countersanctions from the Chinese government.<sup>186</sup> (For more on China’s countersanctions and the EU response, see Chapter 3, Section 1, “Year in Review: Security, Politics, and Foreign Affairs.”) Shortly after the initial sanctions against China, lawmakers in Japan, the only G7 country then lacking an explicit legal basis for international human rights sanctions, announced a cross-party effort to craft legislation that would enable them to develop sanctions of their own.<sup>187</sup> By May, Japan’s newly created Nonpartisan Parliamentary Association for Reconsidering Human Rights Diplomacy had released a draft bill that would allow the freezing of assets and denial of entry into Japan for serious violators of international human rights law.<sup>188</sup> The Chinese government believes the United States is responsible for turning other countries against China, and a statement from China’s Ministry of Foreign Affairs in mid-April 2021 accused the United States of “engaging in bloc politics along ideological lines, and ganging up to form anti-China cliques.”<sup>189</sup>

### **CCP Response to Internal and External Threats in Xinjiang and Hong Kong**

The Chinese government’s human rights abuses of Uyghurs and other minorities\* in Xinjiang, which the U.S. Department of State recognized in 2021 as genocide, and its imposition of authoritarian rule in Hong Kong are stark examples of how the CCP’s fear of mutually intensifying internal and external threats shapes its foreign and domestic policies. The CCP has long feared the potential for Uyghur resistance to its rule in Xinjiang threatening its control over the region and finding support amid the ethnically similar populations in neighboring Central Asian states.<sup>190</sup> Growing international outrage over the CCP’s human rights abuses in Xinjiang and violation of Hong Kong’s autonomy has undermined the Chinese government’s efforts to prevent its policies in the two regions from damaging its relations with the international community.

\*Since 2017, the CCP has detained an estimated one to three million Uyghurs, Kazakhs, and other Muslims in prison camps it claims are for “transformation through education” and vocational training. In fact, detainees are kept in extraordinarily poor conditions, forced to denounce their religious beliefs and culture, and subjected to brainwashing, torture, forced sterilization and abortions, and forced labor. Phil Stewart, “China Putting Minority Muslims in ‘Concentration Camps,’ U.S. Says,” *Reuters*, May 3, 2019; *China Digital Times*, “Foreign Citizens, Residents Caught in Xinjiang Camps,” April 2, 2019; Tara Francis Chan, “U.S. Resident May Be One of a Million People Imprisoned in China’s Secretive Detention Camps,” *Newsweek*, March 29, 2019; U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 271–272; Nick Cumming-Bruce, “U.N. Panel Confronts China over Reports That It Holds a Million Uyghurs in Camps,” *New York Times*, August 10, 2018.

### CCP Response to Internal and External Threats in Xinjiang and Hong Kong—Continued

In both cases, the CCP has attempted to address its concerns through harsh measures both at home and abroad. Internationally, it has attempted to fight coverage of its actions with disinformation, sought international support for its policies through the UN, and retaliated against countries, companies, or individuals who have criticized Chinese policies. At the same time, the CCP fears foreign criticism of its actions may influence domestic opinion and foment discontent with CCP control, so it couples its international response with tightened internal controls and a continual stream of propaganda aimed at the domestic audience. Internal-facing propaganda paints China's external critics as unjust slanderers and portrays the defense of China's Xinjiang and Hong Kong policies as a patriotic duty.<sup>191</sup> For example, after the Swedish clothing brand H&M spoke out against forced labor in the Xinjiang cotton industry, the CCP retaliated in March 2021 by erasing the company's internet presence in China and using state media to call for a boycott of its products and accuse it of "dancing with anti-Chinese forces."<sup>192</sup> The Chinese government also often targets Uyghurs overseas, either demanding their deportation or harassing them and threatening their family members remaining in China.<sup>193</sup> In the case of Hong Kong, Beijing has attempted to silence international criticism through extraterritorial law.<sup>194</sup> The National Security Law<sup>‡</sup> that Beijing unilaterally imposed on the territory in June 2020 includes provisions that criminalize any perceived criticism of the Chinese or Hong Kong governments, regardless of where the offending individual or entity resides.<sup>195</sup>

The CCP is particularly concerned about these combined internal and external threats in the context of U.S.-China competition.<sup>196</sup> The Chinese government and state media have accused the United States both of seeking to destabilize China from within by supporting Uyghur unrest and of using Xinjiang as a focal point for intensifying China's external confrontation with the United States and its allies and partners.<sup>197</sup> Thus, the CCP

\*Pressure from Beijing has not been successful in convincing H&M to change its policies. According to its online statement, H&M does not work with any garment manufacturing factories located in Xinjiang and does not source products from the region. H&M Group, "H&M Group Statement on Due Diligence."

†The Chinese government has employed these tactics to attempt to silence Uyghur activists and journalists living in the United States, including some U.S. citizens. Chinese government officials have targeted these individuals by intercepting communications between them and their family members in China; sending harassing messages through their family members' social media accounts; and physically detaining, interrogating, and threatening their family members in China. Meagan Flynn, "Their Uyghur Relatives Are Imprisoned in China. From Virginia, They Plead for Help," *Washington Post*, March 19, 2021; Michael R. Pompeo, "Harassment of the Family Members of Uighur Activists and Survivors in Xinjiang, China," *U.S. Department of State*, November 5, 2019; Gulchera Hoja, written testimony for Congressional-Executive Commission on China, *Hearing on Surveillance, Suppression, and Mass Detention: Xinjiang's Human Rights Crisis*, July 26, 2018, 25-26; Shohret Hoshur, written testimony for Congressional-Executive Commission on China, *Hearing on Urging China's President Xi Jinping to Stop State-Sponsored Human Rights Abuses*, September 18, 2015.

‡The law's full official title is Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region.

§Chinese state media also insists on framing international opposition to the CCP's Xinjiang policies in terms of civilizational conflict. A March 2021 editorial in the state-backed tabloid *Global Times* asserts that "[the U.S.] objective is to promote opposition between the entire West and China... [and] it has chosen Xinjiang as a point of conflict." The article also warns in stark



### **CCP Response to Internal and External Threats in Xinjiang and Hong Kong—Continued**

believes U.S. actions with regard to Xinjiang have implications for not only China's domestic stability but also its international standing.<sup>198</sup> The Chinese government has similarly accused U.S. diplomats and journalists of acting as “black hands” supporting the 2019 prodemocracy protests in Hong Kong, and it continues to claim that U.S. policy toward Hong Kong constitutes “interference in China's internal affairs.”<sup>199</sup>

#### *China Launches Assertive Measures*

The CCP is attempting to push back against these perceived international threats. According to testimony before the Commission by Robert Sutter, professor of practice of international affairs at the George Washington University, the CCP seeks to “weaken a nascent front against China.”<sup>200</sup> Top leaders at the October 2020 Fifth Plenum identified the main goal for diplomacy heading into the centennial as “actively construct[ing] a favorable external environment” for China and emphasized China's need for reliable global partnerships to accomplish that goal in the face of competition with the United States.<sup>201</sup> According to *Global Times* in March 2021, in order to succeed in its “game” against the United States, China must “form more public customs and unspoken rules with the outside world.”<sup>202</sup> Another *Global Times* editorial in April 2021 highlighted a string of Chinese diplomatic exchanges with Russia, five Asian countries, six Middle Eastern countries, and four European countries\* as efforts to “break America's encirclement.”<sup>203</sup>

The CCP has demonstrated a brazen disregard for international norms, responsibilities, and perceptions. Although the Chinese government long sought to avoid provoking harsh responses by painting China as a country of modest ambition abroad, it is increasingly turning to open intimidation to force other countries to do its bidding.<sup>204</sup> China has a developed set of coercive tools for pursuing its national interests vis-à-vis other states, including gray zone operations,† economic coercion, and aggressive diplomacy, which it views as having been highly effective in advancing its interests in interstate disputes.<sup>205</sup> As Peter Jennings, executive director of the Australian Strategic Policy Institute, noted in his testimony before the Commission, in recent years China's leaders have demonstrated that their “primary objective is to achieve their strategic aims, and it doesn't matter so much to them if... they are... perceived more

terms that China views the issue as nonnegotiable, stating that “the West would need to die in order to change China's mind on this point of Xinjiang policy.” *Global Times*, “Editorial: China and Europe Must Both Be on Alert, Not to Fall into the United States' ‘Supposed Battlefield’” (社评: 中欧都要警惕, 不落入美国的“预设战场”), March 28, 2021. Translation.

\*Countries identified by name include Indonesia, Malaysia, the Philippines, Russia, Singapore, and South Korea. The six Middle Eastern countries and four European countries were not individually named. *Global Times*, “Editorial: Encircle China? Who Is Willing to Be a Brick for America Building a Wall?” (社评: 包围中国? 有谁愿给美国砌墙当砖头), *Global Times*, April 1, 2021. Translation.

†Gray zone operations are akin to military activities that leverage nonmilitary tools to achieve competitive objectives by means below the threshold for open war. Gray zone activities often creep incrementally toward their objectives. For more on gray zone operations, see Michael J. Mazarr, “Struggle in the Gray Zone and World Order,” *War on the Rocks*, December 22, 2015.

negatively by countries in the region while they do it.”<sup>206</sup> Mr. Jennings further stated that “with Machiavelli, the CCP has concluded that it is better to be feared than loved.”<sup>207</sup>

CCP leaders, including General Secretary Xi, have encouraged this aggressive stance. In April 2019, Xinhua called on the CCP to “wage an uncompromising struggle against all phenomena, trends of thought, and actions that damage the fundamental interests of the Chinese nation.”<sup>208</sup> In September 2019, General Secretary Xi signaled his approval of government officials engaging in public conflicts on China’s behalf when he instructed CCP cadres to “take the initiative to throw themselves into various kinds of struggles,” “dare to show the sword,” and “dare to resolutely struggle in the face of noxious winds and evil influences.”<sup>209</sup> In July 2020, Xinhua circulated General Secretary Xi’s instruction that CCP cadres must “rush up at the critical moment” with the spirit to “prevail over every enemy and not succumb to any enemy.”<sup>210</sup> In a provocative speech in August 2021, the new Chinese ambassador to the United States, Qin Gang, enumerated U.S. leaders’ supposed “wrong beliefs” about China and accused Congress of acting with “no knowledge” when passing legislation on China policy.<sup>211</sup>

### *Economic Coercion Engenders International Pushback*

The CCP continues to view China’s massive economy as a source of international political leverage. In lieu of soft power, which it has largely failed to cultivate, the CCP has attempted to use the appeal of China’s markets to influence or even coerce other countries into supporting Beijing’s policy priorities. In testimony before the Commission, Mr. Jennings described this strategy as Beijing’s “money power.”<sup>212</sup> Countries that frustrate Beijing’s goals have found themselves subject to punitive manifestations of this “money power,” which often includes being cut off from the Chinese market. In a stark example of the CCP’s escalating use of economic coercion, throughout 2020 and 2021 the CCP banned imports of some Australian products and resources after the Australian government in April 2020 supported calls for an independent inquiry into the origins of the Chinese government’s response to the COVID-19 pandemic.<sup>213</sup> The Chinese government introduced trade barriers on a range of Australian exports, including wine, barley, and beef.<sup>214</sup>

### **China’s 14 Grievances against Australia**

In November 2020, amid deteriorating China-Australia relations and China’s imposition of trade barriers against Australia, the Chinese Embassy in Canberra sent Australian media outlets a list of 14 grievances China has against Australia.<sup>215</sup> The list outlined the following practices of the Australian government that the Chinese government deemed damaging to the bilateral relationship:

1. *Foreign investment decisions, with acquisitions blocked on opaque national security grounds in contravention of [the China-Australia Free Trade Agreement].... [S]ince 2018, more than 10 Chinese investment projects have been rejected by Australia citing ambiguous and unfounded “national se-*

### **China's 14 Grievances against Australia—Continued**

- curity concerns” and putting restrictions in areas like infrastructure, agriculture and animal husbandry.*
2. *The decision banning Huawei Technologies and ZTE from the 5G network, over unfounded national security concerns, doing the bidding of the US by lobbying other countries.*
  3. *Foreign interference legislation, viewed as targeting China and in the absence of any evidence.*
  4. *Politicization and stigmatization of the normal exchanges and cooperation between China and Australia and creating barriers and imposing restrictions, including the revoke of visas for Chinese scholars.*
  5. *Call for an international independent inquiry into the COVID-19 virus, act as a political manipulation echoing the US attack on China.*
  6. *The incessant wanton interference in China's Xinjiang, Hong Kong and Taiwan affairs; spearheading the crusade against China in certain multilateral forums.*
  7. *The first nonlittoral country to make a statement on the South China Sea to the United Nations.*
  8. *Siding with the US' anti-China campaign and spreading disinformation imported from the US around China's efforts of containing COVID-19.*
  9. *The latest legislation to scrutinize agreements with a foreign government targeting towards China and aiming to torpedo the Victorian participation in [the Belt and Road Initiative].*
  10. *Provided funding to anti-China think tank for spreading untrue reports, peddling lies around Xinjiang and so-called China infiltration aimed at manipulating public opinion against China.*
  11. *The early dawn search and reckless seizure of Chinese journalists' homes and properties without any charges and giving any explanations.*
  12. *Thinly veiled allegations against China on cyberattacks without any evidence.*
  13. *Outrageous condemnation of the governing party of China by MPs and racist attacks against Chinese or Asian people.*
  14. *An unfriendly or antagonistic report on China by media, poisoning the atmosphere of bilateral relations.*

Following the release of the list, a Chinese official said, “China is angry. If you make China the enemy, China will be the enemy”; he also stated it “would be conducive to a better atmosphere” if Australia stopped the 14 practices China specified.<sup>216</sup> Australian politicians roundly criticized the list, with Australian Prime Minister Scott Morrison saying, “Our values are not up for trade, our democracy is not up for trade, and our sovereignty is not up for trade.”<sup>217</sup>

The CCP's threats against Australia, however, have had limited effect and in some cases have proven counterproductive to Beijing's goals. After China restricted certain Australian exports in 2020,

Australian sellers were generally able to divert their products to other markets. Between late 2020 and April 2021, exports of affected goods fell in annualized terms by \$10 billion to China but rose by \$14 billion to other markets, including Saudi Arabia and India.<sup>218</sup> In April 2021, Roland Rajah, director of the International Economy Program at Australia's Lowy Institute, commented that "the most remarkable aspect of the experience so far is just how ineffective China's attempted trade coercion has been."<sup>219</sup> Similarly, after China's March 2021 announcement that it would suspend imports of pineapples from Taiwan, Taiwan's Council of Agriculture recorded a surge in pineapple demand, both in domestic sales and export orders.<sup>220</sup>

In practice, it appears China's high-profile trade attacks have failed to induce target countries to change their policies to the CCP's liking. On the contrary, China's economic coercion has contributed to a growing backlash among its economic partners. In March 2021, Secretary of State Antony Blinken said during a visit to Tokyo, "We will push back, if necessary, when China uses coercion and aggression to get its way."<sup>221</sup> While concrete international action has remained limited so far, as China's coercive measures become more widespread, countries may respond in ways that harm China's economic interests. In April, Australian Foreign Minister Marise Payne announced the cancelation of two contracts that the state of Victoria had signed in 2018 and 2019 to participate in the Belt and Road Initiative, saying the agreements were "inconsistent with Australia's foreign policy or adverse to our foreign relations."<sup>222</sup> In August, Australian Prime Minister Scott Morrison proposed a strategic economic dialogue with the United States to help guard against "economic coercion."<sup>223</sup> In September, Australia, the United States, and the United Kingdom jointly announced the formation of a trilateral security pact, known as AUKUS, as well as an agreement under which Australia would receive access to technology for nuclear-powered submarines.<sup>224</sup> (For more on AUKUS, see Chapter 3, Section 1, "Year in Review: Security, Politics, and Foreign Affairs.")

In some instances, Beijing's use of China's economic might to gain political leverage has taken less overtly confrontational and more subtle forms—making a coordinated response more difficult. China's international lending, for instance, is often accompanied by political conditions that are not commonly seen among other international lenders. A March 2021 study by AidData, the Center for Global Development, the Peterson Institute for International Economics, and the Kiel Institute for the World Economy analyzing 100 agreements between Chinese state-owned enterprises (SOEs) and foreign governments found many of the contracts contained clauses that could give the Chinese government substantial political leverage over the borrowers. These included cross-default clauses, which, while common in commercial lending settings, are comparatively rare in bilateral and multilateral loans.\* The cross-default clauses were also

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\*Cross-default clauses allow the lender to terminate the loan and demand full repayment if the borrower defaults on any loans to other lenders. The study compared Chinese development financing contracts with a benchmark sample of bilateral and multilateral development financing contracts and found that cross-default clauses were present in approximately half of bilateral contracts and only 10 percent of multilateral contracts. In the sample set of 100 Chinese contracts, 98 contained cross-default clauses. Anna Gelpern et al., "How China Lends: A Rare Look into

broad enough to potentially apply to political developments in the borrowing country, such as clauses that could be triggered if the debtor took action adverse to “any PRC entity” in the borrowing country. The study also found that some of the contracts could allow China to demand accelerated loan repayment in the event of a “political disagreement,” though Chinese lenders do not yet appear to have exercised this sweeping power.<sup>225</sup> (For a case study of China’s international financing practices, see Chapter 1, Section 2, “China’s Influence in Latin America and the Caribbean.”)

As China’s economic growth slows, however, its “money power” and ability to engage in economic coercion may face new limitations. Even before the COVID-19 pandemic, for instance, China’s overseas lending had dropped considerably. According to a 2020 study by Boston University, the outbound lending commitments from the China Development Bank and the Export-Import Bank of China, China’s two main policy banks, dropped from \$75 billion in 2016 to \$3.9 billion in 2019.<sup>226</sup> This slowdown has largely been driven by domestic economic constraints, but it also reflects pushback against China’s lending practices by some debtor countries.<sup>227</sup>

### **Implications for the United States**

After one hundred years of the CCP’s existence, China has become a formidable global power with a dynamic economy and growing ability to shape key aspects of world affairs. Still, in the year of its centennial, CCP messaging has been inconsistent as official proclamations of triumph coexist alongside expressions of trepidation. A pressing need to defend itself from what it perceives as mounting internal and external challenges compels the CCP to acknowledge its concerns and attempt to address them. At the same time, however, the CCP’s political inability to admit failure and genuine belief in its own superiority limit China’s ability to address those same challenges. As a result, the CCP views itself as destined to succeed yet threatened from all sides and from within. It perceives an environment that is both ripe with opportunity to expand its own influence and also unstable and increasingly hostile. Rather than reconcile these two assessments by allowing one to temper the other, the CCP pursues both simultaneously by insisting on the Party’s infallibility while attempting to address some of its many shortcomings.

The CCP’s combined triumphalism and paranoia elevate the likelihood of risky decisions, aggression, and miscalculation by Beijing and necessitate U.S. vigilance. The leadup to and celebration of the CCP’s centennial heightened Chinese government attention to long-term political goals, such as immunity from criticism and a leading international role for China, that it considers crucial for its own security but run directly counter to U.S. interests. In his speech on Party history in February 2021, General Secretary Xi illustrated this urgency by warning CCP cadres, “At the moment of this critical juncture, [the Party] cannot tolerate any pause, hesitation, or waiting to see.”<sup>228</sup>

Regardless of whether future developments cause the Chinese government to feel more or less secure, it will likely react by go-

<sup>225</sup> 100 Debt Contracts with Foreign Governments,” *Aid Data*, Kiel Institute for the World Economy, Peterson Institute for International Economics, March 2021.

ing on the offensive. Beijing's belief that international trends create opportunities for China to advance may lead to an escalation of assertive behavior. At the same time, the CCP's paranoia incentivizes it to react harshly to perceived threats, also resulting in a more aggressive posture toward the outside world. As Dr. Deal testified before the Commission, the CCP's hypersensitivity to negative developments and perceived "need to reverse negative momentum" have historically resulted in a record of "striking out at moments when it perceives sudden shifts in the tide against it."<sup>229</sup> The high political stakes of the centennial have further increased the Chinese government's focus on preempting and countering potential threats to its regime security, raising the likelihood of overly defensive reactions to both internal developments and U.S. and other foreign countries' actions. Responses to both success and failure are amplified by General Secretary Xi's increasing appetite for risk.<sup>230</sup>

The CCP's efforts to sow division between the United States and its allies and partners further challenge U.S. interests. Beijing has attempted to leverage its economic relationships with advanced democracies to push for compliance with its agenda and signal to other countries that defying Beijing carries a price. In doing so, Beijing has at times taken advantage of other countries' limited mechanisms for coordination against economic coercion by framing issues that challenge the interests of all democratic states as bilateral disputes. This has complicated efforts by the United States and other countries to develop common responses with its affected partners.<sup>231</sup> As CCP leaders perceive an increasingly fraught international environment, such attempts to impede coordination between the United States and other democracies will likely intensify.

Economically, China's increased emphasis on self-sufficiency will lead to continued difficulties, such as discriminatory treatment for U.S. firms hoping to participate in China's market. To be certain, this trend is not monolithic, and the Chinese government will continue to open discrete sectors of its economy when it judges doing so will benefit its interests. In those cases, some U.S. businesses may benefit from entering China's market. Even if U.S. firms nominally gain more access to China, however, the premium the CCP places on economic stability will lead to policymakers exercising increasing control over larger aspects of China's economy. State intervention in China's economy means U.S. businesses operating in China will face various restrictions that place them at a disadvantage relative to Chinese firms. Because the CCP views state control of the economy as an increasingly important part of economic policymaking, the United States and other economic partners of China should not expect to negotiate any meaningful structural changes to China's economy, even if doing so would ultimately result in a more dynamic Chinese market.

At the same time, China's government seeks to play its foreign trade partners against each other to prevent an emergence of coordinated pushback against China. As the European Parliament's decision to suspend discussions on the Comprehensive Agreement on Investment shows, the CCP's attempts to use its markets as leverage over other countries have limits and can backfire. Nevertheless, the recent conclusion of the Regional Comprehensive Eco-

conomic Partnership and China's formal application to join the Comprehensive Progressive Trans-Pacific Partnership demonstrate that China remains determined to increase its presence in international economic agreements. In the long term, China's increasing use of economic leverage could disrupt U.S. economic relations with many traditional U.S. economic partners and challenge U.S. influence in the international economic system.

The importance the CCP has placed on its centennial year has introduced a sense of urgency into the CCP's approach to both domestic and international affairs that is likely to persist. China's leadership is increasingly uninterested in compromise and willing to engage in destabilizing and aggressive actions in its efforts to insulate itself from perceived threats. The United States must confront an increasingly combative CCP that will push back against actions taken by the United States and its allies and partners that promote an open, rules-based international order. CCP leaders appear to have decided from recent experience that progressive risk-taking can pay off. They will likely continue escalating with this approach.

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