

**HEARING ON CHALLENGES FROM CHINESE POLICY IN 2022:
ZERO-COVID, UKRAINE, AND PACIFIC DIPLOMACY**

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

ONE HUNDRED SEVENTEENTH CONGRESS
SECOND SESSION

WEDNESDAY, AUGUST 3, 2022

Printed for use of the
United States-China Economic and Security Review Commission
Available via the World Wide Web: www.uscc.gov



**UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW
COMMISSION**

WASHINGTON: 2022

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ALEX WONG, *CHAIRMAN*
KIMBERLY GLAS, *VICE CHAIRMAN*

Commissioners:

CAROLYN BARTHOLOMEW
BOB BOROCHOFF
ROBIN CLEVELAND
JEFFREY FIEDLER
AARON FRIEDBERG

HON. CARTE P. GOODWIN
JAMES MANN
RANDALL SCHRIVER
DEREK SCISSORS
MICHAEL R. WESSEL

The Commission was created on October 30, 2000 by the Floyd D. Spence National Defense Authorization Act of 2001, Pub. L. No. 106–398 (codified at 22 U.S.C. § 7002), as amended by: The Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107–67 (Nov. 12, 2001) (regarding employment status of staff and changing annual report due date from March to June); The Consolidated Appropriations Resolution, 2003, Pub. L. No. 108–7 (Feb. 20, 2003) (regarding Commission name change, terms of Commissioners, and responsibilities of the Commission); The Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109–108 (Nov. 22, 2005) (regarding responsibilities of the Commission and applicability of FACA); The Consolidated Appropriations Act, 2008, Pub. L. No. 110–161 (Dec. 26, 2007) (regarding submission of accounting reports; printing and binding; compensation for the executive director; changing annual report due date from June to December; and travel by members of the Commission and its staff); The Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113–291 (Dec. 19, 2014) (regarding responsibilities of the Commission).

The Commission’s full charter and statutory mandate are available online at:
<https://www.uscc.gov/charter>.

CONTENTS

WEDNESDAY, AUGUST 3, 2022

HEARING ON CHALLENGES FROM CHINESE POLICY IN 2022: ZERO-COVID, UKRAINE, AND PACIFIC DIPLOMACY

Opening Statement of Commissioner James Mann (Hearing Co-Chair)	1
Prepared Statement.....	4
Opening Statement of Commissioner Randall Schriver (Hearing Co-Chair)	5

Panel I: China's Zero-COVID Policy

Panel I Introduction by Commissioner James Mann (Hearing Co-Chair)	6
Statement of Yanzhong Huang Professor and Director of the Center for Global Health Studies, Seton Hall University School of Diplomacy and International Relations; Senior Fellow for Global Health, Council on Foreign Relations.....	7
Prepared Statement.....	10
Statement of Shehzad Qazi Chief Operating Officer and Managing Director, China Beige Book International	18
Prepared Statement.....	22
Statement of Manoj Kewalramani Fellow-China Studies & Chair Indo-Pacific Studies Programme, The Takshashila Institution	41
Prepared Statement.....	45
Panel I: Question and Answer.....	64

Panel II: Russia's Invasion of Ukraine and Implications for Integrated Deterrence

Panel II Introduction by Commissioner Randall Schriver (Hearing Co-Chair)	81
Statement of Bonnie Glaser Director of the Asia Program, German Marshall Fund of the United States	82
Prepared Statement.....	86
Statement of Edward Fishman Senior Research Scholar, Columbia University Center on Global Energy Policy.....	95
Prepared Statement.....	99

Statement of Emily Weinstein	
Research Fellow, Georgetown University Center for Security and Emerging Technology (CSET)	113
Prepared Statement.....	116
Statement of Sheena Chestnut Greitens	
Associate Professor, Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin.....	135
Prepared Statement.....	139
Panel II: Question and Answer	148

Panel III: China’s Strategy for the Pacific Islands

Panel III Introduction by Commissioner James Mann	
(Hearing Co-Chair)	172
Statement of Derek Grossman	
Senior Defense Analyst, RAND Corporation	173
Prepared Statement.....	177
Statement of Alan Tidwell	
Professor of the Practice and Director of the Center for Australian, New Zealand and Pacific Studies, Georgetown University	193
Prepared Statement.....	197
Panel III: Question and Answer	207

QUESTIONS FOR THE RECORD

Response from Yanzhong Huang	
Professor and Director of the Center for Global Health Studies, Seton Hall University School of Diplomacy and International Relations; Senior Fellow for Global Health, Council on Foreign Relations.....	223
Response from Manoj Kewalramani	
Fellow-China Studies & Chair Indo-Pacific Studies Programme, The Takshashila Institution.....	224

HEARING ON CHALLENGES FROM CHINESE POLICY IN 2022: ZERO-COVID, UKRAINE, AND PACIFIC DIPLOMACY

WEDNESDAY, AUGUST 3, 2022

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, D.C.

The Commission met in Room 430 of Dirksen Senate Office Building, Washington, DC and via videoconference at 9:30 a.m., Commissioner Randall Schriver and Commissioner James Mann (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF COMMISSIONER JAMES MANN HEARING CO-CHAIR

COMMISSIONER MANN: Welcome to our final hearing of 2022. The Commission will conclude this year's hearing cycle by examining three of the most significant developments over the past half year affecting American relations with China. The hearing also provides us with an opportunity to shape the research agenda for the year ahead. We are grateful to our witnesses for coming to testify before us and look forward to an engaging discussion on these topics.

As countries around the world reopen their borders and relax COVID restrictions in an attempt to normalize life with the virus, the Chinese regime has intensified its resolve to eradicate COVID within its borders. The leadership under Xi Jinping has shown the world how far it is willing to go to maintain its Zero-COVID policy.

The Chinese economy has suffered under the weight of lockdowns. There has been considerable public unhappiness with the restrictions, and some instances of social unrest have emerged in cities like Shanghai and Beijing. Beijing's Zero-COVID policy has caused significant damage to China's economy. At the same time, the continuing pandemic is also facilitating the CCP's long-standing efforts to establish a world-class surveillance infrastructure that can be used long after the virus is eradicated to suppress political dissidents and critics of the regime.

In 2022, the world has also witnessed a country in Europe invade a democratic neighbor, engage in widespread human rights violations, and commit brutal atrocities without provocation. While Russia's unprovoked invasion of Ukraine has prompted extensive sanctions on Russia by the United States and its allies and partners, Beijing continues to provide considerable economic, rhetorical, and diplomatic support to the Kremlin.

Ultimately, General Secretary Xi Jinping has prioritized his so-called no-limits partnership with Putin over respect for national sovereignty and Europe's security concerns. As the Russian economy tries to weather the impact of global sanctions and diplomatic isolation, Beijing looks on the allied coordination on Ukraine as a possible indicator of what it might face

in the case of a military conflict over Taiwan and is trying to work out its responses to any similar sanctions against China. Obviously, this issue takes on new relevance in the immediate aftermath of Speaker Pelosi's just-concluded visit to Taiwan.

Finally, China's foreign policy towards the Pacific Islands is increasingly worthy of attention. Beijing's new security pact with the Solomon Islands demonstrates its desire to project power in the region and to limit the ability of the United States and its allies, such as Australia and New Zealand, to operate there.

Chinese Foreign Minister Wang Yi's spring tour highlighted Beijing's growing presence in the Pacific, but also revealed the island nation's wariness of China's economic inducements and of Beijing's ambitions for a sphere of influence in the region.

As we conclude our 2022 research year, the Commission continues to grapple with the abundance of challenges posed by the policy decisions of the Chinese regime. It is my hope that our witnesses today will help us better understand these issues while providing recommendations to continue driving U.S. policy forward.

Before we begin, I would like to thank the Senate Committee on Health, Education, Labor and Pensions for securing this room for our use today. I would also like to thank the Senate Recording Studio for their assistance in livestreaming this event.

Now I will turn the floor over to my colleague and Co-Chair for this hearing, Commissioner Randy Schriver.

**PREPARED STATEMENT OF COMMISSIONER JAMES MANN
HEARING CO-CHAIR**

Commissioner Mann Opening Statement

Welcome to our final hearing of 2022. The Commission will conclude its hearing cycle by examining three of this year's most critical developments within the U.S.-China policy nexus. At the same time, this hearing provides us with an opportunity to shape the research agenda for the year ahead. We are grateful to our witnesses for coming to testify before us today and look forward to an engaging discussion on these important topics.

As countries around the world re-open their borders and relax COVID-19 restrictions in an attempt to normalize life with the virus, the Chinese Communist Party has doubled-down on its resolve to eradicate COVID within its borders. The CCP has shown the world just how far it is willing to go to maintain its "Zero-COVID" policy, as the Chinese economy suffers under the weight of oppressive lockdowns and social unrest emerges in cosmopolitan cities like Shanghai and Beijing. While Beijing's Zero-COVID policy has caused significant damage to China's economy, it is simultaneously facilitating the CCP's longstanding efforts to establish a world-class surveillance infrastructure that can be used long after the virus is eradicated to suppress political dissidents and critics of the regime.

In 2022, the world also witnessed a country invade a democratic neighbor and commit horrific atrocities and human rights violations without provocation. While Russia's unprovoked invasion of Ukraine has prompted extensive sanctions on Russia by the United States and its allies and partners, Beijing continues to provide economic, rhetorical, and diplomatic support to the Kremlin. Ultimately, General Secretary Xi Jinping has prioritized his "no limits" partnership with Putin over respect for national sovereignty and Europe's security concerns. As the Russian economy weathers the impact of global sanctions and diplomatic isolation, Beijing looks on at an instructive case study of allied coordination that it too may face, should it continue to intensify its aggression against Taiwan.

Finally, China's brazen foreign policy toward the Pacific Islands is increasingly alarming. Beijing's new security pact with the Solomon Islands demonstrates its intent to restrict the ability of the United States and allies such as Australia or New Zealand to project power in the region. Foreign Minister Wang Yi's spring tour highlighted Beijing's growing presence in the region, however, it also revealed island nations' wariness of Beijing's economic inducements as well as its ambitions for a sphere of influence in the Indo-Pacific. China's successes and mistakes in the Pacific Islands should serve as a wake-up call to the United States. As a Pacific nation, we must step up our commitments to regional partners by concluding negotiations on the Compacts of Free Association, ensuring equitable treatment of Pacific Islanders in the United States, and providing viable economic alternatives to Chinese loans that do not saddle countries with unsustainable debt burdens or constrain their diplomatic autonomy.

As we conclude our 2022 research year, the Commission continues to grapple with the abundance of challenges posed by CCP policy decisions. It is my hope that our witnesses today will help us better understand these complex issues while providing recommendations to continue driving U.S. policy forward. Before we begin, I would like to thank the Senate Committee on Health, Education, Labor and Pensions for securing this room for our use today. I would also like to thank the Senate Recording Studio for their assistance in livestreaming this event. Now I will turn the floor over to my colleague and co-chair for this hearing, Commissioner Randy Schriver.

OPENING STATEMENT OF COMMISSIONER RANDALL SCHRIVER HEARING CO-CHAIR

COMMISSIONER SCHRIVER: Thank you.

Good morning. I join Commissioner Mann in welcoming our witnesses and to those viewing the hearing. As Commissioner Mann said, in a wrap-up hearing, we have the opportunity to address more diverse topics that have emerged and evolved since the time our original hearing schedule was identified. And if nothing else, the three topics, I think, today prove what an eventful last several months we've all experienced.

So I, too, look forward to hearing from our witnesses about the economic and societal impact of Zero-COVID, and in particular how this may impact, if at all, the upcoming Party Congress. I'm also eager to learn from our expert witnesses about China's ambitions in the Pacific Islands and how that may clash with the U.S. interest in promoting a free and open order in Oceania.

But perhaps most pressing, at least in a time-sensitive manner, is the discussion we'll have on the lessons being drawn from the Russian invasion of Ukraine. This is not to say at all that all the lessons have been harvested and absorbed. Surely, we'll be analyzing that conflict for some time to come.

But the urgency emanates from the CCP's growing campaign of coercion and intimidation directed at Taiwan and the real possibility that conflict may come from Xi Jinping's ambitions and PLA aggression. Should political tensions turn to crisis and crisis to conflict, it might very well be the case that the leaders who accurately analyze the lessons from Russia/Ukraine and who rapidly pursue policy adaptations in accordance with these lessons may actually enjoy an earned advantage in a conflict should it occur.

Commissioner Mann mentioned Speaker Pelosi's visit. I would say the peaceful visit of our democratically elected Speaker of the House to Taiwan is hardly *casus belli*, and we should be careful not to validate the CCP's manufactured outrage over these types of events. We should not completely discount how these overreactions continue to push Beijing into hardened positions with respect to Taiwan and that such steps over time lead us closer to an actual armed conflict in the Taiwan Strait.

Thus it is an important time to better understand how to deter the PRC if possible, as well as how to prevent Beijing from realizing its political objectives on the battlefield should deterrence fail. So I look forward to hearing from our witnesses on that panel as to how economic preparedness can help bolster our posture to deter Beijing's military aggression and how our military relationship with Taiwan might evolve to help Taipei meet the challenges from the PRC across all phases of conflict they may face.

Thank you, Commissioner Mann.

PANEL I INTRODUCTION BY COMMISSIONER JAMES MANN

COMMISSIONER MANN: Thank you, Commissioner Schriver.

Our first panel will examine China's approach to managing the COVID-19 pandemic and the impacts of this approach on public health, China's economy, Party governance, and social stability. We'll start with Dr. Yanzhong Huang. Dr. Huang is a professor and Director of the Center for Global Health Studies at Seton Hall University School of Diplomacy and International Relations, as well as a Senior Fellow for Global Health at the Council on Foreign Relations.

Next we'll hear from Shehzad Qazi, Chief Operating Officer and Managing Director at China Beige Book International, an international consulting firm. And finally, we'll hear from Mr. Manoj Kewalramani. He's a China Studies Fellow and Chair of the Indo-Pacific Studies Programme at the Indian think tank the Takshashila Institution.

Thank you all very much for your testimony. The Commission is looking forward to your remarks. I ask all our witnesses to please keep their remarks to seven minutes.

Dr. Huang, we'll begin with you.

**OPENING STATEMENT OF YANZHONG HUANG, PROFESSOR AND DIRECTOR
OF THE CENTER FOR GLOBAL HEALTH STUDIES, SETON HALL UNIVERSITY
SCHOOL OF DIPLOMACY AND INTERNATIONAL RELATIONS; SENIOR FELLOW
FOR GLOBAL HEALTH, COUNCIL ON FOREIGN RELATIONS**

DR. HUANG: Thank you, Commissioner Mann and Commissioner Schriver and other esteemed Commission members. It's an honor to be a witness to testify on China's Zero-COVID strategy and its implications for public health.

We know that China pursued a Zero-COVID policy in the aftermath of the Wuhan outbreak in early 2020. That policy has kept the infection level and COVID-related death level low, but it also has generated unintended, even undesirable, consequences in public health and healthcare.

To begin with, the pandemic response complicated the healthcare reform process. First, it threatens the coverage of people's medical needs when the debt, greed and local governments misappropriated the health insurance funds to finance expenses of mass PCR testing.

And secondly, it has also derailed the process of public hospital reform because the pandemic response demonstrated the central role played by the public hospitals in the state sector. The government actually became more interested in making the public hospitals bigger and stronger.

This has fueled a new wave of investment expanding public hospitals nationwide, and as a result, reforming the public hospitals' internal management and rationalizing the distribution of healthcare resources become a back-burner issue in the public hospital reform. And also in reinforcing the dominance of the public sector in providing healthcare, private hospitals now received little government support, and many of them have gone bankrupt.

The Zero-COVID policy has also caused second-order problems in China's public health. First, the extremely strict and prolonged lockdown measures have contributed to a major mental health crisis in China. A national survey taken in 2020 found that 35 percent of the respondents suffered from panic disorder, anxiety, depression, and other mental health problems.

The situation could be even worse in 2022 as the Government upped the ante in implementing Zero-COVID measures. So that created a highly volatile Chinese society. And secondly, the policy might have also result in high level excess death from noncommunicable disease, including diabetes, heart attack, stroke, and cancer by discouraging -- even denying -- people from accessing food, medicine, and care for other illnesses during the pandemic. A prominent Shanghai physician estimated in April 2022 that the number of excess diabetes death alone could reach more than 2,000 during the one month of lockdown in Shanghai.

And third, the Zero-COVID policy has contributed to a demographic crisis. There's unemployment problems caused by the pandemic and the lockdown measures. The lockdown measures like the school closures significantly increased the burden of childcare and housework, which further reduced the women's fertility desires. So that trend has apparently continued in 2021 and 2022. In 2021, the total birth dropped to 10.62 million, the lowest since 1949.

And in order for China to move away from Zero-COVID prior to the Party Congress in the fall, either the top leader himself abandons the Zero-COVID mentality or rapid nationwide spread of the virus overwhelms the country's response capacity, forcing the top leader to change course.

In the first scenario, a reverse course will be immediately followed by a spike of cases

nationwide, which could undermine President Xi's personal leadership and even spawn socio-political instability. In the second scenario, the existing intervention measure is no longer able to cut the transmission chain. That would force the government to give up Zero-COVID.

This involuntary policy shift could be socially and politically dangerous. Beijing would lose the trust of the people on fighting the virus. A regime that was most known for its technocratic efficiency could soon face a legitimacy crisis. That said, once the worst stage of the crisis is over and China ends up coexisting with COVID-19, a swift and strong economic rebound may help reestablish legitimacy for the Chinese leadership, even though a growing number of well-to-do Chinese may choose to leave the country.

Chances are that some of the tools used to implement Zero-COVID such as QR codes may be retained to strengthen the surveillance state. In order to divert the mass moves, the state may increasingly turn to nationalism as a main pillar of regime legitimacy. That would render China's relationship with Western countries even more prickly.

Given the global repercussions of China's Zero-COVID strategy, letting China wreck is not a viable policy option for the United States. After all, what is at risk is not only the lives of millions of people but also global, economic, and political stability. The United States might be willing to forsake the considerable benefits brought by cooperation of public health with China, but it cannot afford to decouple from China in public health because China's long been considered one of the biggest risk factors of global health security.

So what is needed is a forward-looking and pragmatic approach in seeking a detente with China in promoting global health security. And as the first step, the U.S. and China should reestablish a dialogue mechanism on global health security. And given the enduring political differences and the lack of trust between the two nations, the Congress can support initiation of a small-level, closed-door track 1.5 dialogue, bringing together officials, scientists, public health officials, and thought leaders from both sides.

This initial dialogue would avoid hot-button issues and start with specific, more technical topics, including modeling of the pandemic's trajectory, harmonizing testing standards from COVID to flu, and surveillance of new variants of pathogens like monkeypox. The dialogue would help build momentum for more engaged, broader, and results-oriented conversation. Thank you.

**PREPARED STATEMENT OF YANZHONG HUANG, PROFESSOR AND DIRECTOR
OF THE CENTER FOR GLOBAL HEALTH STUDIES, SETON HALL UNIVERSITY
SCHOOL OF DIPLOMACY AND INTERNATIONAL RELATIONS; SENIOR FELLOW
FOR GLOBAL HEALTH, COUNCIL ON FOREIGN RELATIONS**

China's Response to Covid-19 and Its Public Health Implications

Prepared statement by

Yanzhong Huang

Senior Fellow for Global Health, Council on Foreign Relations

Professor, School of Diplomacy and International Relations, Seton Hall University

Before the

U.S.-China Economic and Security Review Commission

Hearing on "Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and Pacific Diplomacy"

Introduction

Back in 2019, on the eve of the novel coronavirus outbreak, China appeared to be well under way to achieve the objectives of its Healthy China 2030 blueprint, which aims to significantly improve its people's public health standards to the level of high-income countries. Already, health insurance schemes had been extended to cover virtually the entire population, as part of the healthcare reform process that sought to significantly improve access and affordability in China. Meanwhile, more than 16 years of post-SARS disease surveillance and capacity building appeared to have [convinced](#) government officials that China was in a much better position to rapidly and effectively detect and respond to any public health emergencies.

Against this backdrop, it was truly shocking when a novel coronavirus outbreak emerged in Wuhan and quickly spread to other parts of the country before evolving into a global pandemic in March 2020. Leaked documents from the Hubei Provincial Health Commission [revealed](#) that "underfunding, understaffing, poor morale and bureaucratic models of governance" hampered China's disease surveillance and response capacity from day one of the outbreak. The local government not only covered up the cases but was also slow in confirming diagnostics (which in part was caused by the [shortage in coronavirus test kits](#)). In addition to the flawed reporting and testing mechanisms, local hospitals were caught off guard and quickly overwhelmed by the surge of cases.

But once the state recognized the seriousness of the problem, it moved quickly to ramp up its ability to cope with the crisis. On January 23, 2020, the government imposed lockdown on the city of Wuhan, the Covid-19 Ground Zero. In perhaps the largest medical support mission since 1949, the government mobilized [42,600 healthcare personnel](#) from across the country to support Wuhan's anti-Covid campaign

during the period of January 24 to March 8. Within the span of a couple of weeks it completed the building of enough hospitals and facilities to treat all the infected cases in the city. Meanwhile, the government has significantly increased its capacity to enforce other public health measures, including masking, quarantine, contact tracing, and monitoring of people's movement.

This course of action soon paid off. By mid-February 2020, daily new case count began to drop dramatically. On April 8, 2020, with the lifting of Wuhan lockdown, China emerged as an early winner in the campaign against Covid-19. This transpired at a time when other countries including the U.S. were still reeling from the crisis. China's initial success beefed up the legitimacy of the Chinese government, lending support to the self-proclaimed superiority of the China model. It also enabled China to start economic recovery earlier and became the only major economy that registered economic growth for 2020. Equally important, the return to some level of normalcy allowed China to buy time for vaccine development and distribution, which ultimately paved way for China to practice "mask diplomacy" and "vaccine diplomacy".

The Launch and Implementation of Zero-Covid Strategy

In view of the global spread of the virus, China's comparative success in fighting Covid also generated strong incentives to secure its "[hard-won achievements](#)" of Covid control, which in turn justified the pursuit of "zero-Covid" policy in pandemic response. The term "*qing ling*" (resetting cases to zero) [appeared in Chinese media as early as February 2020](#). But it was only promoted as a government strategy in the aftermath of the Wuhan outbreak. In order to prevent the imported cases and the rebound of domestic transmission, China started to pursue a strategy under which the government relies on draconian, often nonpharmaceutical intervention measures to reset local cases to zero. That policy, which is sometimes also called "dynamic zero-Covid", has its own variants, including "societal zero-Covid", under which the government can declare success when cases are only found in quarantined or "controlled zones".

Zero-Covid policy has some important components. Keenly aware of the threat of imported cases, the government has imposed the world's most stringent restrictions on inbound international travel, under which anybody who wants to travel to China is subject to multiple tests before departure and long quarantines in designated hotels after entry. Since May 2020, with the introduction of pooled testing in Wuhan, i. e., combining multiple individual samples for testing in a single tube, mass PCR testing has become a major policy tool to quickly ferret out new cases and take early action. In November 2021, the National Health Commission further [stipulated](#) that cities with no more than five million residents should complete mass PCR testing within two days and cities with more than five million residents complete it within three days.

The government also relies on aggressive contact tracing and quarantines to quickly break the transmission chain. Even single-digit cases can trigger immediate contact tracing, and the identified close contacts are then moved to designated places for quarantines. In some cities, the detection of even one Covid case in one building could lead to the quarantining of all residents in the building. In light of Shenzhen's success in resetting local cases to zero after one week of lockdown in the spring of 2022, there has been more frequent and extensive use of lockdown measures across China, which effectively curb business activities and people's movements. These measures are implemented through a mix of traditional and high-tech means, including mutual social monitoring, grid management, big data, and QR codes.

Since April 2022, the government has also moved to institutionalize and routinize key zero-Covid measures, including quarantines and mass PCR testing. In September 2021, Guangzhou [built](#) a 5,000-room facility (officially named “International Health Station”) to replace designated hotels located throughout the city to quarantine travelers arriving from overseas. The central government now [requires](#) each province to build two or three makeshift hospitals. These hospitals will be used to “treat” asymptomatic and mild cases and/or to quarantine their close contacts. In June 2022, the head of NHC [said](#) “permanent makeshift hospitals” should be prepared as a precautionary measure so that they can be activated quickly in case of a health emergency. In a bid to head off future flare-ups, the government has invested in efforts to “normalize” PCR testing services even after the current round of outbreak ends. Mega cities and provincial capitals with high risks of imported cases are asked to set up permanent PCR testing stations which will allow people to access them in just 15 minutes. Thus far, [Beijing](#) and [Shanghai](#) have each completed 9,000 PCR testing stations. Local residents are required to be tested on a regular basis – from 48 hours to one week – and proof of negative tests are required for accessing public buildings and public transportation.

Impact on Healthcare Reform

The pandemic response complicated the healthcare reform process as far as access and affordability are concerned. First, it threatens the coverage of people’s medical needs by siphoning the health insurance fund off for Covid response. According to the National Health Insurance Administration (NHIA), the spending on mass vaccination ([120 billion yuan](#)) would be jointly absorbed by the health insurance fund and the fiscal authorities. Later, the debt-ridden local governments were found to have misappropriated the health insurance fund to finance expenses on mass PCR testing, prompting the NHIA to send a notice [prohibiting](#) this practice. Although the government claims the fund broke even in 2021, the prospect does not look promising for 2022, when more such misappropriation was expected to happen due to frequent and extensive use of mass PCR testing. Already, Chinese social media has [shared](#) stories about how shortage of money in the health insurance fund is leading to higher out-of-pocket pay and the removal of certain drugs from the reimbursement drug list by some local governments.

Second, it has derailed the process of public hospital reform, supposedly the core component of the healthcare reform. The perceived “failure” of the Western countries’ healthcare system and the “success” of China’s in responding to the pandemic convinced the policymakers in China that the country should uphold “the public benefit feature” (*gong yi xing*) of China’s healthcare cause and make the public hospitals “bigger and stronger” (*zuoda zuoqiang*). As an article released by the National Development and Reform Commission (NDRC) [observed](#): during the Wuhan outbreak, all the treatment spending was shouldered by the state and most of the healthcare personnel involved in fighting the outbreak were from the public hospitals, which fully demonstrated that “the medical service treatment system dominated by the government, the public benefit feature, and public hospitals is the important safeguard for the major strategic achievement in fighting the disease.” A provincial-level urban health center is now allowed to have 1,500-3,000 hospital beds (the number was capped at 1,500). The government policy relaxation has [fueled](#) a new wave of investment fever for expanding public hospitals nationwide. As a result, reforming the public hospitals’ internal management, abolishing their profit-seeking mechanisms, rationalizing the distribution of healthcare resources, and improving the quality of the healthcare services become backburner issues in the public hospital reform.

Third, while reinforcing the dominance of the public sector in providing healthcare services, private hospitals, which accounted for [2/3 of China’s hospitals](#) in 2021, received little government support and were instead [pushed over the edge](#) by the need to comply with the strict zero-Covid measures, such as

sending patients with COVID-like symptoms to public hospitals. Since the beginning of the outbreak, more than 2,000 private hospitals, representing more than 8 percent of all private hospitals, have [gone bankrupt](#).

Impact on Surge Capacity Building

The rapid spread of the virus and the devastating impact it has caused highlight the importance of surge capacity building in weathering Covid and other disease outbreaks. Indeed, one of the main reasons of China's adamant pursuit of zero Covid is the fear of [China's fragile healthcare system](#) being overwhelmed by the surge of cases. In order to beef up "public health prevention and control ability", the central government earmarked [45.7 billion yuan](#) for hospital renovation and construction, which focused on 1) improving housing conditions of fever clinics and ERs; 2) increasing infectious disease diagnostic and treatment capabilities of county-level hospitals, which were required to have stand-alone PCR testing capacities by the end of 2020; and 3) expanding ICU capacity. That was followed by additional central fiscal investment of [30 billion yuan](#) to support the construction of "public health epidemic prevention barriers", including 8.44 billion to support the building of centers of disease prevention and control at the provincial, city, and county levels.

These efforts promise to beef up China's capacity to respond effectively to infectious disease outbreaks. Focusing on Covid response, however, the investment may face fungibility issues, i.e., to what extent it can be translated into surge capacity in coping with other public health emergencies. This summer has seen a spike of H3N2 cases in southern China, but there is no indication that China's public health infrastructure was ready to cope with the flu outbreaks. Not only was the flu vaccination rate extremely low (around [5 percent](#)), but some of the anti-Covid measures, like [stringent government control over anti-fever drugs](#) (which force those with flu symptoms to seek care at fever clinics), undermined China's capacity to handle other diseases.

The investment in building infectious disease diagnosis and treatment capacities at hospitals also raises the question of balancing run-of-the-mill healthcare with infectious disease prevention and control. Hospital managers typically do not have strong incentives in investing in the latter, which "[does not make money](#)." This may explain why in certain localities, a big chunk of the central public health investment was used for renovating and expanding hospital buildings. It may also explain why in 2021, the hospital beds per 1,000 population in China had reached 6.51, which exceeds the level in some developed countries, but the [ICU beds per 100,000 population](#) was only 3.6 or 1/10 of the U.S. Interestingly, China's total size of ICU beds, which is ranked no. 2 in the world (50,000-60,000), and its ability to rapidly mobilize resources across the nation to make up for the ICU bed shortages in one locality, also reduces the local incentives to expand ICU bed capacity.

In addition, the politicization of the Covid response, including the recognition that its hobbled response in the early days of the outbreak would tarnish its image as a success story in fighting Covid, created a taboo in the "lessons learned" discourse in China. The government has discouraged any serious discussion of the political and institutional problems (e.g., lack of transparency, upward information flow problem, and the highly centralized political system) that hindered speedy and effective response to the outbreak. In the immediate aftermath of the Wuhan outbreak, for example, there were [calls](#) for increasing the power and authority of China CDC in public health policymaking. Such calls were soon silenced with the creation of the disease control bureau in the NHC, which further marginalizes China CDC's role in policymaking by placing it under the bureau's supervision. In the absence of meaningful political and institutional reform, these problems will continue to haunt China's future outbreak response.

Second-Order Crises

Zero-Covid policy has also caused second-order problems in China's public health. First, it has contributed to a major mental health crisis. Many other countries instituted some form of lockdown measures during the pandemic, but China's zero-Covid policy is among the most stringent in the world. While depression and anxiety have increased worldwide due to the pandemic—which is also [evidenced](#) in an online survey of mental health status among residents in Hubei province in early 2020—the extremely strict and prolonged control measures in China, including the extensive and mandatory quarantines, school closures, and stay-at-home order imposed on millions of people, has made the situation even worse in China. A national survey taken in 2020 [found](#) that 35 percent of the 52,000 respondents suffered from panic, disorder, anxiety, depression and other mental health problems during the pandemic.

The situation could be even worse in 2022, as the government upped the ante in implementing zero-Covid measures. During the first month of Shanghai lockdown, searches for “psychological counselling” on Baidu (the most used search engine in China) [rose](#) by 253 percent. This will surely exacerbate the already fragile mental health status in the country (the first national survey of mental disorders in China, conducted during 2013-15, [suggested](#) that 16.6 percent of the adults in China had experienced mental health problems). Given the [extremely poor access to treatment](#) and the rapid slowdown of Chinese economy (which resulted in an all-time high [youth-unemployment rate](#) of 19.3 percent in June), the mental health crisis may lead to a highly volatile Chinese society. Premier Li Keqiang recently [warned](#) that the government will closely monitor social problems to “prevent moral red lines from being crossed out”.

Second, the policy might have caused high-level of excess deaths from non-communicable diseases (NCDs), including diabetes, heart attacks, stroke, and cancer. Thanks to the zero-Covid policy, the Covid-related death toll in China remains relatively low (5,226), and most of the deaths occurred in Hubei province (4,512) and Shanghai (595). But the implementation of the policy – through lockdowns, closure of hospitals, and redesignation of hospitals for treating Covid – has also discouraged (and even denied) people from accessing food, medicine and care for other illnesses. A study conducted by Chinese scientists based on nationwide mortality registries data [found](#) that excess deaths from NCDs were much higher than expected during three months of the outbreak in Wuhan (cardiovascular disease: 29 percent increase; hypertensive heart disease: 100 percent; and diabetes: 84 percent). Based on the Wuhan study, a prominent Shanghai physician, Miao Xiaohui, [estimated](#) in April 2022 that the number of excess diabetes deaths alone could reach more than 2,000 during the one month of lockdown in Shanghai. Since NCDs kill more people in China than infectious disease, the significant increase of excess NCD death will make it more difficult for China to achieve the goals of the Healthy China program, which aims to increase average life expectancy to 79 by 2030 and raise survival rates for cancer and other chronic illnesses.

Third, the zero-Covid policy has contributed to a demographic crisis, accelerating the population decline in China. A 2021 study conducted by four leading Chinese demographers [identified](#) two new developments during the outbreak that comprehensively and drastically depressed the fertility rate in China: 1) the rising unemployment and reduced disposable income, which negatively affected people's willingness to get married. In the first quarter of 2020, the number of marriages registered fell by 45 percent from a year ago; and 2) lockdown measures like school closures significantly increased the burden of childcare and housework, which further reduced women's fertility desires. Not surprisingly, the number of births in November and December 2020 fell by 45 percent from five years ago. The trend

has apparently continued in 2021 and 2022. The UN *2022 Revision of World Population Prospects* [concludes](#) that China's population began to drop this year and should fall by 8 percent between 2022 and 2050. A leading Chinese demographer [estimated](#) that actual first-order fertility rate has dropped below 1.0, which is among the lowest in the world.

Lack of Progress in Vaccinating the Elderly

Unlike most countries that prioritize vaccination among the elderly, who are more likely to develop severe symptoms from infecting COVID-19, China adopted a vaccination sequence that focuses on vaccinating healthy young adults. Indeed, it did not promote vaccination among the elderly until November 2021. While the government justified this on grounds of the lack of data on the effectiveness of the vaccines on this segment of the population, it had the unintended result of leaving the elderly under-vaccinated. As of late July, while [90 percent](#) of the population in China have received two doses of inactivated vaccines, more than 27 million people aged over 60 remain completely unvaccinated and 100 million of them still haven't received a booster shot (according to the WHO, people with inactivated vaccine [should get COVID-19 booster](#)). [More than a quarter of people aged over 80](#)—the most vulnerable population—have not received any vaccine doses. The relatively low vaccination rates among the elderly, coupled with the low efficacy rate of Chinese vaccines, has produced a [huge immunity gap](#) between China and the rest of the world that leaves the country vulnerable to a Covid-19 tsunami.

Paradoxically, the acclaimed success of the zero-Covid strategy in shielding the population from Covid-19 has also generated a false sense of security in China, reducing the incentives to prioritize this segment of the population for vaccination. The government's lukewarm attitude toward vaccinating the elderly was reinforced after the highly transmissible delta variants hit China last summer, which significantly lowered the efficacy rates of their vaccines in preventing infection, effectively shattering the dream of using vaccines to achieve herd immunity in the country. Since zero-Covid policy does not tolerate any infections, the vaccines ceased to be a major policy tool in China's fight against Covid-19. That might explain why we have not seen top leaders publicly promote the broader domestic use of the vaccines, and why they have failed to come up with a clear and consistent message on vaccine effectiveness and the need to inoculate the elderly, who (and whose family members) are convinced that the vaccine poses more risks than the virus.

As a result, China is caught in a Catch-22 situation: moving away from zero-Covid and avoiding the worst-case scenario requires boosting the immunity level among the elderly, which can be achieved by significantly increasing the vaccination rate among this segment of the population. But [vaccine skepticism](#) becomes a bigger problem in reaching this "last mile", and the relatively low vaccination rate among the elderly only makes sustaining zero-Covid justifiable.

Scenarios of Moving Away from Zero-Covid

Due to the high political stakes, it would be unlikely to expect China to give up its zero-Covid strategy before the completion of leadership transition by March 2023. A political window may open after the 20th Party Congress in the fall, when President Xi is expected to secure his third term as China's paramount leader. In order for China to move away from zero-Covid prior to the Party Congress, either the top leader himself abandons the zero-Covid mentality, or rapid, nationwide spread of the virus overwhelms the country's response capacity, forcing him to change course.

In the first scenario, a reverse course will be immediately followed by a spike of cases nationwide, which could undermine Xi's personal leadership and spawn social-political instability. But the Chinese state can still muddle through the crisis, if it moves to redefine the narrative that warrants the shift to a mitigation-based approach, educate the people about the actual risks posed by the virus, implement workable triage plans so that hospitals are only used to treat severe cases, and make more effective vaccines and therapeutics available to at-risk population.

In the second scenario, the government remains determined to pursue zero-Covid, but the virus has become so highly transmissible that the existing intervention measures are no longer able to cut the transmission chain. As the Covid-19 flareups and localized outbreaks quickly develop into a nationwide outbreak, the existing approach would become meaningless. This involuntary policy shift could be socially and politically devastating. Poorly prepared for the worst-case scenario, the Chinese hospital system could be quickly overwhelmed, which in turn would exacerbate fear and panic in the society. Worse, Beijing would lose the trust of the people on fighting the virus. As a result, a regime that was once known for its technocratic efficiency could soon face [a legitimacy crisis](#).

That said, once the worst stage of the crisis is over and China ends up coexisting with Covid-19, a swift and strong economic rebound may help reestablish the legitimacy for Chinese leaders, even though a growing number of well-to-do Chinese may choose to "exit", i.e., leaving the country. Chances are that some of the tools used in implementing zero-Covid, such as QR codes, may be retained to strengthen the surveillance state, and in order to divert domestic woes the state may increasingly turn to nationalism as a main pillar of regime legitimacy, which would render China's relationship with Western countries even more prickly.

Policy Recommendations

The U.S. has a long history of engaging in China's healthcare sector. As early as 1834, Peter Parker, an American missionary, physician, and diplomat, built China's first modern hospital in Guangzhou. Eighty-five years later, the China Medical Board, created by the Rockefeller Foundation, founded Peking Union Medical College, which had a profound impact on the nature of public health delivery and medical care in China. The U.S.-built hospitals and medical schools continued to function even after 1949. In the 1970s, public health-related cooperative activities were among the first to resume following the resumption of official bilateral exchanges. Indeed, over the past four decades, cooperation in the field of health has been among the most successful aspects of the bilateral relationship. The cooperation helped stabilize other aspects of the bilateral relationship and brought the two countries together to address a wide array of global health issues, including HIV and AIDs, pandemic flu, and health-related development assistance.

Unlike U.S.-China military and security relations, U.S.-China health cooperation was independent of the strategic foundations and other sensitive issues undergirding the bilateral relationship. Back to September 1989, when there was a sharp dip in U.S.-China relations, pharmaceutical company MSD signed an agreement with China's Ministry of Health to transfer its hepatitis B vaccine technology to China. The MSD-China deal, an example of U.S. soft power in China, is credited with saving millions of lives in China. The cooperation continued during the early stages of the Covid-19 outbreak, when China CDC exchanged information with its U.S. counterpart and the U.S. offered to send public health experts to China to help it fight the novel coronavirus. It was not until after March 2020, with the intensified politicization of the pandemic, that government-to-government public health cooperation came to a halt.

Despite deterioration of the bilateral relations during the pandemic, the two countries still share an interest in cooperation over a range of public health issues, from surge capacity building to NCD prevention and control. The U.S. might be willing to forsake the considerable benefits brought by the cooperation, but it cannot afford to decouple from China, arguably one of the biggest risk factors for global health security. The bottom line: we need China's cooperation in beefing up our capability to detect dangerous pathogens and take early and effective actions before they develop into a global epidemic. Unfortunately, while the highest levels of both governments now have acknowledged that public health should be a priority for bilateral cooperation, there is still no government-to-government conversation in global health security. The Biden administration has no problem reaching out to the Chinese to discuss cooperation over climate change but is lukewarm in starting a serious dialogue with China on how to prepare for future disease outbreaks. Concerned about the lack of cooperation from China in the pandemic origin probe and being seen as "soft" on China (especially before the mid-term election), Congress is also not enthusiastic about public health cooperation with China.

Given the global repercussions of China's zero-Covid strategy, "letting China rip" is not a viable policy option for the U.S. After all, what is at risk is not only the lives of millions but also global economic and political stability. What is needed is a forward-looking and pragmatic approach in seeking a détente with China in promoting global health security. It is in the best interest of the U.S. to register more compassion for China's fight against Covid-19 by offering to 1) share cutting-edge mRNA vaccines and antivirals as well as best practices on developing them; and 2) work with China on issues that are of their immediate interest, including surge capacity building, vaccination of at-risk populations, and mitigating the growing disease burden associated with NCDs and mental health issues. Evincing sincerity and commitment that current U.S. overtures have lacked in dealing with China would facilitate the U.S. discussion with China on issues that are crucial for global health security, including lab safety, data and sample sharing, supply chain resilience, and vaccinating the world.

Given the enduring political differences and the lack of trust between the two nations, Congress can support the initiation of a small-level, closed-door Track 1.5 dialogue, bringing together officials, scientists, public health experts, and thought leaders from both sides. The initial dialogue would avoid hot button issues and start with specific, more technical topics including modeling of pathogen trajectory, harmonizing test standards from Covid to flu, and surveillance of new variants or pathogens like monkey pox. The dialogue, if successfully initiated, would help build momentum for a broader, sustainable, and results-oriented bilateral cooperation over public health.

OPENING STATEMENT OF SHEHZAD QAZI, CHIEF OPERATING OFFICER AND MANAGING DIRECTOR, CHINA BEIGE BOOK INTERNATIONAL

COMMISSIONER MANN: Thank you, Mr. Huang.

Mr. Qazi?

MR. QAZI: Chairman Mann, Chairman Schriver, and members of the Commission, good morning, and thank you for the opportunity to testify today.

Since the onset of the COVID-19 pandemic, China's public health response has differed considerably from other countries, especially other major economies. To control the spread of the virus, the Chinese leadership has relied on a policy known as Zero-COVID, which includes large-scale lockdowns, strict quarantines, and mass testing of millions of citizens.

In its initial iteration in 2020, this approach resulted in an unprecedented nationwide shutdown of nearly all commerce. For example, when my firm, China Beige Book, tracked business activity in February 2020, we found that only a third of the country's businesses were functioning normally, even by the end of the month. Among the rest, around three in ten were still closed, and even where firms had reopened, employees of many were either working from home or had not yet returned to their job sites to resume operations.

This nationwide economic lockdown, far more widespread than what Beijing publicly acknowledged at the time, was unprecedented and at least temporarily devastated every segment of China's economy. In the absence of mRNA vaccines, low vaccination rates among the elderly population, and a healthcare system vulnerable to being overwhelmed in the event of mass outbreaks, China continues to rely on this approach well over two years into the COVID-19 crisis.

However, the implementation of this policy has evolved, with its current iteration referred to by the Chinese government as Dynamic Zero-COVID, allowing for certain businesses like factories and trucking to continue operating, albeit at greatly reduced levels.

Zero-COVID policy has come at a steep economic cost for China, with the economy undergoing multiple bouts of intense weakness and failing to reach pre-pandemic growth levels. In the period over January through March 2020, or the first quarter of 2020, the Chinese economy experienced its sharpest downturn on record, whether in China Beige Book's proprietary data or official government statistics. Every sector, every region, and every key headline metric that we track saw an outright contraction during this time.

Crucially, the results continued to deteriorate even into mid-March, a point at which the economy had supposedly begun to return to normalcy for the Chinese government. While China would begin to recover in the second half of 2020, by virtue of every major year-on-year lens, the economy underwent a full-year contraction that year per CBB's independent numbers.

It is worth mentioning that these economic strains at the time renewed long-standing concerns about China's manipulation of economic data. In sharp contrast to the weakness in CBB, official statistics showed a robust recovery in 2020. As I've explained in my written statement, China's statistical authorities created the solution of growth by simply deflating baseline 2019 numbers.

Unfortunately, however, these falsified claims of a V-shaped recovery carried far and wide, especially by the research arms of Wall Street banks whose China economic analysis is based almost exclusively on official data.

The re-imposition of lockdowns in 2022 has again brought into focus the economic damage of the Zero-COVID policy. CBB data collected over the course of April through June of

this year, when lockdowns took place in China's most prosperous and economically vital cities, showed an economy in its weakest position since the initial COVID-induced recession of 2020.

Yet again, every headline indicator, sector, region was weaker compared not just to earlier this year but from year-ago levels. Critically, this downturn extended to China's labor market. If you look across sectors, for example, manufacturing saw weaker earnings as production growth slowed and domestic as well as export orders continued to decline.

On the consumption side of the economy, which really has borne the brunt of China's COVID lockdowns, you see even greater pain. For example, the retail sector got battered in the second quarter, suffering a second consecutive quarter of slower growth. Services industries, which were seeing signs of recovery in early 2022, recorded four consecutive months of deterioration through June.

This year's lockdowns have also exacerbated China's property market turmoil, especially the housing market, where sales and price growth saw precipitous declines through the second quarter. China Beige Book's latest data shows that much of this economic pain has continued through July.

Finally, the Zero-COVID policy has also had important global ramifications because of supply chain disruptions resulting from derailed production, interruption of domestic transportation networks, and major port closures. To date, the most severe impact was in early 2020 when serious supply chain stress began developing as critical industries like chemicals, autos and auto parts manufacturing, and shipping itself reported some of the highest rates of extended workplace shutdowns in China Beige Book's economic survey history.

Recent lockdowns, those that just took place over the spring/early summer of this year, again resulted in some of the most intense supply chain disruptions that we have recorded since 2020. For example, the proprietary containers process index that we had created when COVID first hit has seen its steepest fall on record. Importantly, nearly all manufacturing industries reported more frequent delays in receiving supplies, which subsequently led to delays in these factories themselves being able to process their existing orders.

The recent supply chain problems were again concentrated into critical industries: chemicals processing and IT and electronics manufacturing. Over the last two years, supply shortages linked to China have hit nearly every major sector of the U.S. economy. The current contrast shortage in hospitals and clinics caused by a plant lockdown in Shanghai is just the latest example of how China's Zero-COVID policy has serious repercussions for the U.S.

Several policymakers, as a result, have proposed reshoring or nearshoring supply chains. I believe any policy toward this end would benefit first from systematically identifying America's supply chain dependency on China, especially in critical industries such as medical devices, pharmaceuticals, IT technology. Therefore, I propose that Congress task either the Congress Department or perhaps the Census Bureau to develop a China supply chain dependency tracker that allows policymakers to concretely answer a few critical questions, such as what percentage of supplies for critical industries are sourced directly from China? What are these specific products or component parts? What Chinese factories produce them, and where are they produced?

This tracker would have to be constructed using existing public sector sources, such as CBB import data, but also data gathered from corporate entities that distribute or are end users of these supplies in the U.S. You could begin by creating a pilot tracker that would focus exclusively on pharmaceuticals and medical devices.

I also recommend that Congress require firms in critical industries that sell within the

U.S. to disclose their list of suppliers to the Commerce Department. Once again, this data could perhaps be collected as part of the merchandise entry records by the Customs and Border Protection.

I believe these next steps are integral to determining policy interventions that could help make America's supply chains more secure and more resilient. Thank you again for the opportunity to be here, and I look forward to discussing these issues with you.

**PREPARED STATEMENT OF SHEHZAD QAZI, CHIEF OPERATING OFFICER AND
MANAGING DIRECTOR, CHINA BEIGE BOOK INTERNATIONAL**

Testimony before the U.S.-China Economic and Security Review Commission
Hearing on “Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and Pacific
Diplomacy”

CHINA’S ZERO-COVID POLICY

ECONOMIC IMPACT, SUPPLY CHAIN DISRUPTIONS, AND THE FUTURE OF CHINESE GROWTH

Shehzad H. Qazi
Chief Operating Officer & Managing Director
China Beige Book International

August 3, 2022

EXECUTIVE SUMMARY

Since the onset of the SARS-CoV-2 (COVID-19) China's public health response has differed considerably from other countries, especially major economies. To control the spread of the virus the Chinese leadership has relied on a policy known as "zero-COVID," which includes province and city-wide lockdowns, strict quarantines, and mass testing of millions of citizens. In its initial iteration in 2020 this approach resulted in an unprecedented nationwide shutdown of nearly all commerce, with businesses forced to remain closed for at least two weeks after the end of the Spring Festival (Chinese New Year).

In the absence of mRNA vaccines, low vaccination rates among its elderly population, and a healthcare system vulnerable to being overwhelmed in the event of mass outbreaks, China continues to rely on this approach well over two years into the COVID-19 crisis. However, the implementation of this policy has evolved, with its current iteration – referred to by the Chinese government as "dynamic zero-COVID" – allowing for certain businesses like factories or trucking to continue operating, albeit at greatly reduced levels.

Beijing's lockdown policies have come at a considerable economic cost, resulting in a historic contraction of the Chinese economy in 2020 and a serious slowdown so far in 2022. The consumption sectors of the economy have especially come under pressure as Chinese households have held tightly to their pocketbooks amidst multi-year economic uncertainty. It's worth mentioning that these economic strains have renewed longstanding concerns about China's manipulation of economic data, such as deflating baseline numbers to create the false impression of a V-shaped recovery in 2020.

Moreover, the zero-COVID policy has also had important global ramifications because of supply chain disruptions resulting from derailed production, interruption of domestic transportation networks with shipping grinding to a halt, and major port closures.

This statement address each of these issues and is divided into four major sections: the first overviews China's zero-COVID strategy and how its implementation has evolved from 2020 to today. The second section provides an in-depth assessment of the economic impact of zero-COVID, with the subsequent section illustrating the domestic supply chain distress that has resulted from repeated lockdowns. The concluding section focuses on the probable longer-term effects of zero-COVID on China's economy, including how Beijing abandoning its traditional model of using big stimulus measures to combat slowdowns spells a very different Chinese economy – one featuring a much slower growth pace – than China watchers have been accustomed to.

In each of these sections I have leveraged insights from my firm China Beige Book International (CBB), which gathers real-time economic data from thousands of companies in China across every key sector, region, and every firm type by ownership and size.

CHINA'S ZERO-COVID POLICY: 2020 vs PRESENT

China's initial response to the COVID-19 virus was to implement blanket quarantines through the country. Starting on January 23, 2020 – just under 2 months after the initial outbreak of the virus on December 1, 2019 – Chinese authorities imposed a lockdown in Wuhan, the capital of Hubei province, and other major cities.¹ This included shutting down major highways leaving Wuhan as well as suspending national railway services.

By January 27, 2020, China's State Council announced extending the Lunar New Year holiday to February 2, but around 24 provinces – or more than half the country – told non-essential businesses to remain closed till at least February 9. To put the extent of the shutdowns in perspective, in 2019 these provinces together had accounted for over 80% of China's Gross Domestic Product (GDP) and 90% of its exports, per calculations by CNBC.²

In early 2020 CBB created new proprietary metrics to gauge the extent of business closures and the economic impact of lockdowns in China. Data gathered from over 1,400 companies between February 13-28, showed that nationally around 29% of firms remained closed till the end of the month (**Chart 1**). Moreover, where businesses had opened back up, employees of many (29%) were either still working from home or simply waiting to start working from their job sites (7%). Only a third (34%) of businesses reported functioning normally.

At this time CBB's data differed considerably with official figures on the resumption of business activity. While Beijing claimed that 91% of workforces at state-owned enterprises (SOEs) had returned to the office by the end of February, CBB data showed only 33% of state firm employees being back onsite, i.e., over two-thirds (67%) of SOEs were either locked down or operating under lockdown like conditions till the end of the month.³

These conditions would drastically improve through mid-March, when nationally only 9% of companies remained closed in CBB data. But, as discussed in greater detail below, the lockdowns would result in a historic economic contraction in the first quarter of 2020, at least temporarily devastating every segment of China's economy.

The damaging effects of China's initial Covid lockdowns contributed to the evolution of the zero-COVID policy over 2021 and 2022, with Chinese policymakers now referring to their modified approach as "Dynamic zero-COVID." The lockdowns that emerged in Spring and Summer 2022 have followed this approach, which rather than blanket national shutdowns, has featured more targeted lockdowns across neighborhoods, districts, and cities where virus

¹ Allam, Zaheer. "The First 50 days of COVID-19: A Detailed Chronological Timeline and Extensive Review of Literature Documenting the Pandemic." Surveying the Covid-19 Pandemic and its Implications (2020): 1-7, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7378494/>.

² Cheng, Evelyn. "More than Half of China Extends Shutdown over Virus." CNBC, 3 Feb. 2020, <https://www.cnbc.com/2020/02/01/coronavirus-more-of-china-extend-shutdown-accounting-for-80percent-of-gdp.html>.

³ Lo, Kinling. "Coronavirus: China says over 90 per cent of state firms back in business after manufacturing index hits all-time low." South China Morning Post, 1 Mar. 2020, <https://sg.news.yahoo.com/coronavirus-china-says-over-90-093224075.html>.

clusters have emerged. Moreover, since May 2022 quarantine periods for incoming visitors have also been reduced to 10 days from effectively 21 days in 2020 and 2021.⁴

Furthermore, even during lockdowns local authorities have allowed certain factories and ports to operate under a “closed-loop” or “bubble” system, which includes workers quarantining at their workplace and operating in teams. This approach has allowed commerce to continue, albeit at reduced levels and not without serious economic pain, as discussed below.

THE ECONOMIC IMPACT OF ZERO-COVID

The zero-COVID strategy has come at a steep cost for China, with the economy undergoing multiple bouts of intense weakness and failing to reach pre-pandemic growth levels. The repercussions of zero-COVID are seen most clearly in the dismal economic results of Q1 2020 and Q2 2022, when strict lockdowns were put into place.

Q1 2020: A Historic Contraction & Illusory V-Shaped Recovery

The sharpest economic downturn in the history of the China Beige Book survey occurred in Q1 2020, when most business activity virtually ceased amidst the first iteration of China’s zero-COVID policy (**Chart 2**). Every sector, every region, and every key headline metric we track saw an outright contraction during this time. Worse yet, every one of those metrics fell to the lowest level on record. And this fall wasn’t just a blip as the government implicitly claimed. Crucially, the results continued to deteriorate even into mid-March, a point at which the economy had supposedly begun to return to normalcy, according to the Chinese government.

The severity of the devastation from blanket lockdowns was captured poignantly by the sentiments expressed by C-level executives in CBB’s Q1 survey, 72% of whom said their company’s revenues had fallen as a direct result of the COVID-19 virus and subsequent lockdowns.

To an extent, China acknowledged this widespread downturn, reporting a 6.8% year-over-year contraction in its first quarter GDP growth rate. While Beijing ultimately did not acknowledge what appeared to be an even uglier, low-double-digit contraction in growth, this was still the worst GDP print Beijing had ever released.

That said, it was around this time that the leadership in Beijing began telegraphing the prospects of a rapid rebound, and surely soon enough the government’s data would show this so-called “V-shaped recovery.”⁵

⁴ Original quarantine rules for visitors into China mandated hotel quarantine for 14 days, self-isolation for 7 days, and monitoring for 7 days. Travelers could choose 21 days in hotel quarantine instead as well without monitoring for 7 days afterwards.

⁵ “China Talks Up Post-Virus Rebound as World Economy Shuts.” Bloomberg, 22 Mar. 2020, <https://www.bloomberg.com/news/articles/2020-03-22/china-talks-up-post-virus-rebound-as-world-economy-shuts-down?sref=CNnUTuPJ>. “Chinese economy’s V-shaped recovery becomes more prominent.” Xinhua, 9 Aug. 2020, http://www.xinhuanet.com/english/2020-08/09/c_139277231.htm.

A mere three months after China's historic contraction, the National Bureau of Statistics (NBS) released its Q2 2020 data claiming a 3.2% year-over-year *expansion* in growth. Over the remainder of 2020 China's GDP figures would continue to show strong positive momentum, with the economy not only recovering from the early 2020 downturn but also growing compared to 2019.

By comparison, CBB's survey showed pain continuing on the ground in Q2, with the economy barely escaping another contraction. It wouldn't be till Q3 2020 that the economy would solidly enter expansion territory, thanks to global demand helping fuel the manufacturing sector, with additional improvement in Q4. Still, by virtue of every major year-on-year lens the economy underwent a full year contraction in 2020 per CBB's independent data.

Why would private economic data differ so meaningfully from China's official statistics? A closer examination of official figures revealed that statistical irregularities were indeed at play.

Data Integrity Issues in 2020 & 2021

Forensic survey accounting of China's 2020 official statistics quickly revealed that key economic numbers had been wildly inflated through downward revisions to their 2019 baselines. This depression of prior year figures created the appearance of growth, when in fact the economy continued to struggle in 2020 (**Charts 3 and 4**). The author has publicly detailed these findings previously, writing⁶:

In a series of revisions over the course of 2020, China's statistics bureau cut the aggregate amount of 2019 Fixed Asset Investment (FAI) down by over 4.7 trillion yuan (equivalent to about \$720 billion) ... By quietly changing the baseline, China masked what was in fact a year-long contraction in investment spending. When aggregated over the full year, the unadjusted data show FAI shrinking roughly 5.9% compared to 2019.

The baseline for another critical metric, total retail sales, which gauges consumer strength, was also revised down, showing positive on-year growth each month since August 2020. The original figures indicated positive growth starting a month later, in September, and at a slower rate for the remainder of the year. More importantly, in aggregate total retail sales contracted year-over-year by 4.8% or approximately 1.97 trillion yuan. Even based on the retroactively revised data, accumulated retail sales fell by 3.9% in 2020 compared to the previous year. No matter how you slice the official numbers, they reject the idea of China seeing a broad-based recovery that includes Chinese consumers.

This practice of downward revisions continued into 2021, where newly released growth figures for FAI again included downward revisions of originally published 2019 nominal data, continuing the mirage of strong, positive growth, where in reality FAI shrank in 2021 versus 2019 as well (**Chart 5**).

⁶ Qazi, Shehzad. "The Great Chinese Rebound? Not so Fast." *Barron's*, 26 Jan. 2021, <https://www.barrons.com/articles/the-great-chinese-rebound-not-so-fast-51611622798>.

Moreover, at some point during this period the NBS decided to remove all nominal FAI data from its online database, leaving only growth figures available. While these nominal figures can still be accessed through monthly press releases, these questionable statistical practices and data suppression tactics have all but destroyed what was once considered to be one of the most important pieces of official data on the Chinese economy.

Finally, it's worth mentioning that research arms of various investment banks – whose China economic analysis and forecasts are based almost exclusively on official Chinese statistics – had also been expecting a rapid rebound.⁷ Unsurprisingly, official data showcasing a quick recovery were then uncritically accepted by Wall Street research and investment advisory teams, who simply turned a blind eye toward the serious data integrity issues that began emerging, and instead repeatedly claimed that China had indeed accomplished a V-shaped recovery in 2020.⁸

Economic Setbacks in 2022

While the implementation of zero-COVID has become more targeted since the early days of 2020, lockdowns continue to impose economic damage as seen over the second quarter of 2022.

Following a troubled second half of 2021, punctuated by severe downturn in the property sector, early 2022 began to show evidence of a nascent recovery. Yet this recovery proved short-lived as lockdowns emerged in some of China's most prosperous and economically vital cities, starting with Guangdong and the surrounding regions in March 2022 with the emergence of Omicron cases. The spread of the virus to Shanghai led to a major intensification of the lockdowns there over April and May, and soon Beijing was also under a de facto lockdown. The bringing of daily life to a near stand-still had a devastating human impact and predictably delivered a major blow to economic performance.

CBB data collected over the course of April-June 2022 showed an economy in its weakest position since the Covid-induced recessions of early 2020 (**Chart 1**). Every headline indicator, sector, and region we track weakened not just compared to Q1 2022 but also from year-ago levels (**Chart 6**). Critically, this downturn extended to China's labor market, where hiring slowed for the first time since Q1 2020, adding to Beijing's challenges in a politically sensitive year.

Across sectors, manufacturing saw production growth slow (**Chart 7**) as operating capacity at factories fell for a third consecutive quarter to 62%, one of the lowest levels recorded in two years. The accompanying slowdown in new domestic and export orders along with faster

⁷ "Investing in the Chinese Recovery." HSBC, 7 Jun. 2020, <https://www.business.hsbc.com.mo/en-gb/insights/support/investing-chinese-recovery>. "China's Economic Recovery and Equity Markets," 31 March 2020, https://www.goldmansachs.com/insights/pages/from_briefings_31-Mar-2020.html. "Eyes on Asia's Path to Recovery," 26 Jun. 2020, <https://www.jpmorgan.com/solutions/cib/investment-banking/asia-path-to-recovery>.

⁸ Rothman, Andy. "China's Economic Resilience." 16 Jul. 2020, <https://www.matthewsasiasia.com/insights/sinology/2020/chinas-economic-resilience/>. "COVID-19: Where We Go From Here," 13 Aug. 2020, <https://www.goldmansachs.com/insights/pages/covid-19-where-we-go-from-here-f/report.pdf>. "China's V-Shaped Recovery from Pandemic Is Complete, Says JPMorgan." Street Signs, CNBC, 18 Jan. 2021, <https://www.cnbc.com/video/2021/01/18/chinas-v-shaped-recovery-from-pandemic-is-complete-says-jpmorgan.html>.

accumulation of unsold products suggests any manufacturing recovery in 2H 2022 will be unpleasantly modest.

While the impact of Zero-Covid on factory activity is of critical concern to China's major trading partners, it's the consumption side of the economy that has borne the brunt of China's Covid lockdowns.

The sharpest reversal occurred in Services, which was accelerating in Q1 but saw business conditions quickly deteriorate starting March 2022 as lockdowns emerged (**Table 1**). The Services sector recorded four consecutive months of deterioration through June, and saw the biggest drops in earnings, sales, investment, and hiring of the three core sectors in Q2.

Moreover, Chinese retail spending also got battered. Weak macroeconomic conditions had already hurt the Retail sector in Q1, but widespread lockdowns pushed the sector into a deeper hole, with earnings, sales, and pricing power all deteriorating from Q1 2022 and falling below year-ago levels (**Chart 8**).

Consumption sectors are most consequential as far as China's long-term economic trajectory is concerned, and the impact of zero-COVID on their performance should remain a key focus for China watchers.

Finally, the city-wide lockdowns in 2022 exacerbated China's property market turmoil. Real estate slowed across the board in Q2, with every sub-sector suffering double-digit drops from Q1-22. Price growth cratered across the country, while property sales decelerated in most locales. The most intense pain was concentrated in housing, where sales and price growth nearly halved their Q1 pace (**Chart 9**). Worse yet, the real estate sector's financing prospects remained poor, with egregiously high capital costs and rising loan rejections capping borrowing at minimal levels.

SUPPLY CHAIN DISRUPTION

The disruption of domestic supply chains—the consequences of which go far beyond China's borders—is another major aspect of the economic pain caused by China's zero-COVID policy.

To date, the most severe impact was in early 2020 when serious supply chain stress began developing as critical industries like chemicals, autos and auto parts manufacturing, and shipping itself reported some of the highest rates of extended workplace lockdowns in CBB's economic survey. These closures would soon roil global markets, resulting in shortages of medical equipment, car parts, and components for tech and consumer electronics among other products.⁹

⁹ Donnan, Shawn, et al. "A Covid-19 Supply Chain Shock Born in China Is Going Global." Bloomberg.com, Bloomberg, 20 Mar. 2020, <https://www.bloomberg.com/news/articles/2020-03-20/a-covid-19-supply-chain-shock-born-in-china-is-going-global?sref=CNnUTuPJ>.

The author had alerted to the risk of major supply chain logjams in a February 2020 op-ed, writing:

The most frightening aspect of this crisis is not the short-term economic damage it is causing, but the potential long-lasting disruption to supply chains. Chinese auto manufacturers and chemical plants have reported more closures than other sectors. While there are fewer idle IT factories by comparison, here too workers have not returned to a majority of firms. Crucially, shipping and logistics companies have also reported higher closure rates than the national average.

The ripple effects of this severe disruption will be felt through the global auto parts, electronics, and pharmaceutical supply chains for months to come.¹⁰

As feared, this disruption in delivery channels would not be resolved for several months. In Q2 2020 Shipping & Logistics sector firms reported a mean operating capacity of 42%, the lowest on record in our data (**Chart 10**). Moreover, during that period CBB developed a proprietary metric to gauge changes in the number of containers processed by these shipping companies. That CBB Containers Processed Index also saw record low activity through Q2 and Q3 2020 (**Chart 11**) despite operating capacity recovering over that time.

Recent lockdowns have resulted in the most serious supply chain logjams since 2020. In Q2 2022, the Containers Processed Index saw its steepest fall on record (**Chart 11**), as logistics and shipping companies saw their activities curtailed amidst strict local protocols for the movement of trucks in and out of China's major coastal regions.

Simultaneously, the CBB Supplier Delivery Times index jumped in several major sectors in Q2, including manufacturing, as businesses complained of longer wait times to receive inputs from suppliers (**Chart 12**). Moreover, nearly all manufacturing industries reported more frequent delays in receiving supplies (**Chart 13**) which led to concomitant delays in factories processing existing orders: the CBB Backlog of Orders index climbed across nearly every manufacturing sub-sector in Q2 (**Chart 14**).

It should be noted that these recent supply chain problems were again concentrated in two critical industries: chemicals processing, which saw the worst delays in receiving supplies, and IT and electronics manufacturing, which saw the backlog of work pile up fastest.

ZERO-COVID & CHINA'S ECONOMY BEYOND 2022

As a result of these developments over the last two years, and especially as we enter the period leading to the 20th National Party Congress, the core questions China watchers are grappling with today are how long will the zero-COVID strategy stay in effect? What are some of the

¹⁰ Qazi, Shehzad H. "Coronavirus Is Hitting China's Economy Harder than Expected." Barron's, 28 Feb. 2020, <https://www.barrons.com/articles/coronavirus-hit-chinas-economy-worse-than-expected-china-beige-book-51582902867>.

long-term impacts of this policy on the Chinese economy? And to what extent will Beijing use its traditional policy tools to combat the economic downturn?

At this point it can be reasonably assumed, that China's zero-COVID policy is here to stay until the country has access to mRNA vaccines with high efficacy rates and is also able to vaccinate a vast majority of its population, especially the elderly. This pushes any lifting of zero-COVID as it is implemented today well into 2023 if not beyond.

This then suggests that the Chinese economy will remain under pressure for the foreseeable future as new virus outbreaks emerge and lockdowns go into effect, especially in more economically developed regions. Furthermore, it paints an especially concerning picture for the services and retail sectors of the Chinese economy which have suffered the most from lockdowns. This, of course, has long-term consequences as it will only push any rebalancing to a consumption-driven economy further into the future.

The final, and even more critical factor, that will determine China's growth trajectory this year and beyond is the role of policy stimulus. China's typical economic model has featured high levels of investment funded through high levels of debt to boost growth. This was especially true in the aftermath of the 2008 Great Financial Crisis, when China unleashed billions of dollars of fiscal stimulus and bank lending to combat the global recession. But over the last two years one of the most remarkable developments has been the absence of large-scale stimulus despite periods of serious economic weakness.

Counter to the expectations of markets and predictions of major investment banks, big stimulus has simply not materialized in China, whether in official credit figures (**Chart 15**) or CBB's private credit data.¹¹ In the Q2 2022 CBB survey, national borrowing skirted record lows for a fifth straight quarter (**Chart 16**). The same held true for corporate bond issuance, while reported loan rates and bond yields remained at some of the high levels on record.

Why has the PBOC not used its bazooka to rev up economic growth? This is because a paradigm shift has taken place in how Beijing is now approaching its economic priorities and management. China's political leadership, which for years understood that the road had run out on its traditional investment and debt-heavy growth model, is now much more concerned about addressing systemic risk. In doing so policymakers have now clarified that large-scale stimulus is off the table and they are willing to accept a slower pace of economic growth.¹²

This doing away of the old growth playbook then spells a very different Chinese economy than policymakers and investors have been accustomed to.

¹¹ "JPMorgan's Kolanovic Says Stocks Will Rise on Pandemic End, China Stimulus." Bloomberg, 23 Feb. 2022, <https://www.bloomberg.com/news/articles/2022-02-23/marko-kolanovic-interview-china-pandemic-s-end-to-boost-stocks?sref=CNnUTuPJ>. "China Traders Bet Promised Stimulus Will Outweigh Covid Outbreak." Bloomberg, 6 Apr. 2022, <https://www.bloomberg.com/news/articles/2022-04-07/china-stocks-shrug-off-covid-outbreak-as-traders-bet-on-stimulus?sref=CNnUTuPJ>.

¹² "China's Premier Signals Flexible Growth Target, Stimulus Caution." Bloomberg, 19 Jul. 2022, <https://www.bloomberg.com/news/articles/2022-07-20/china-will-focus-on-employment-and-targeted-covid-curbs-li-says?sref=CNnUTuPJ>.

RECOMMENDATIONS

Over the last two years supply shortages linked to China have hit nearly every major sector of the U.S. economy. Several policymakers have discussed reshoring, near-shoring, or “friend-shoring” supply chains. Any policy toward this end would benefit first from systematically identifying America’s supply chain dependency on China, especially in critical industries such as medical devices, pharmaceuticals, and technology. Policymakers can then benchmark the results of this analysis against metrics for making U.S. supply chains more secure and decide the necessary policy interventions.

- 1. Developing a China Supply Chain Dependency Tracker:** The government must undertake data collection that allows it to concretely answer: What percentage of supplies for critical industries are sourced directly from China? What are these specific products and/or component parts? Which Chinese factories produce them? And where?

This supply chain tracker would have to be constructed from both existing public-sector sources – such as Customs and Border Protection (CBP) import data – as well as data gathered from private sources such as U.S. corporate entities that domestically distribute or are end-users of these supplies. It will likely also require additional primary research.

A pilot tracker of this nature could be developed to first focus on pharmaceuticals and medical devices.

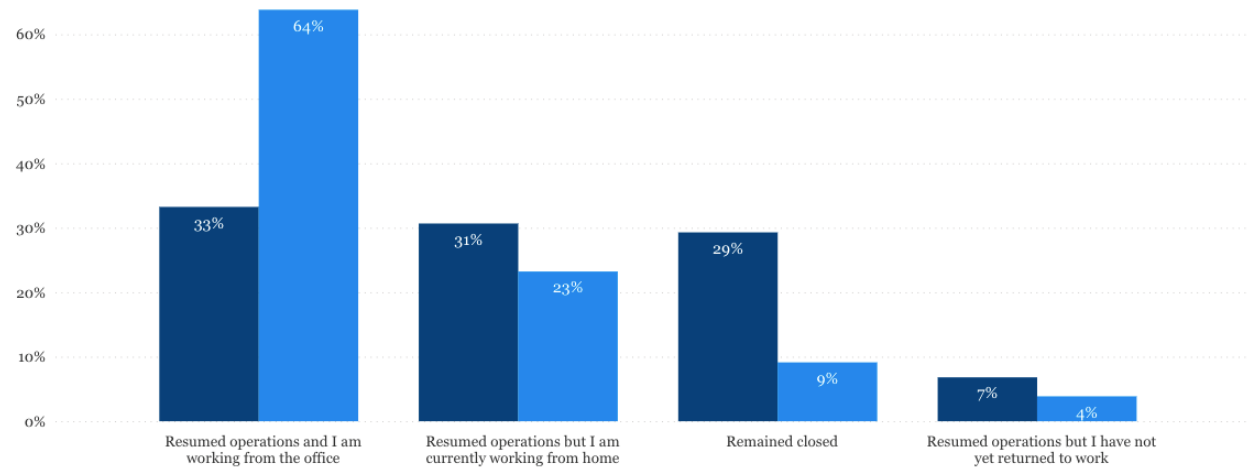
Congress should task the Commerce Department to undertake this effort, with a bi-annual reporting requirement. Alternatively, Congress could also task the U.S. Census Bureau to develop this tracker. In either case, Congress should mandate that the underlying raw and aggregated data are available on a platform that can be accessed by all USG agencies and include a mechanism for real-time monitoring, ensuring all entities involved in supply chain policies have ready access to this information.

- 2. Congressionally mandated supplier disclosures:** Congress should require firms in critical industries that sell directly to consumers or other businesses within the U.S. to disclose their full list of suppliers to the Commerce Department. Congress can also mandate CBP to collect this information as part of the merchandise entry records. Full lists of suppliers across individual firms should be made available on a platform that can be accessed across agencies and the results should either be presented in a bi-annual report to Congress or be utilized in the reporting structure for the China Supply Chain Dependency Tracker.

CHARTS & TABLES

Chart 1: Business Closures Due to COVID-19 Lockdowns

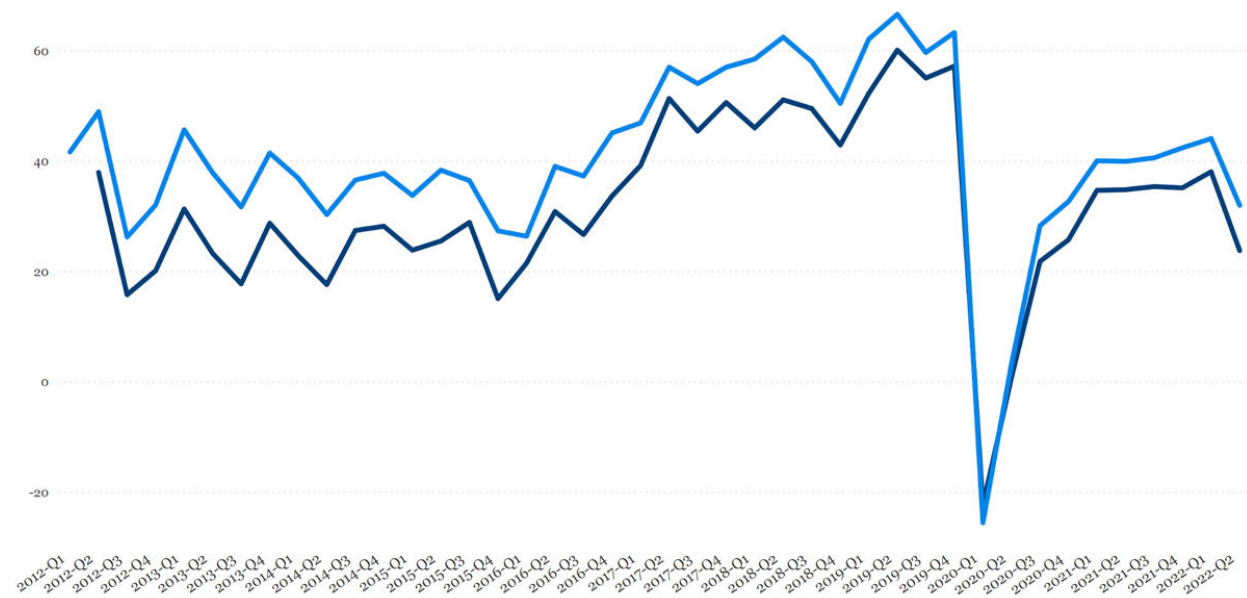
● Feb 2020 ● Mar 2020



Source: CBB Data Analytics Platform

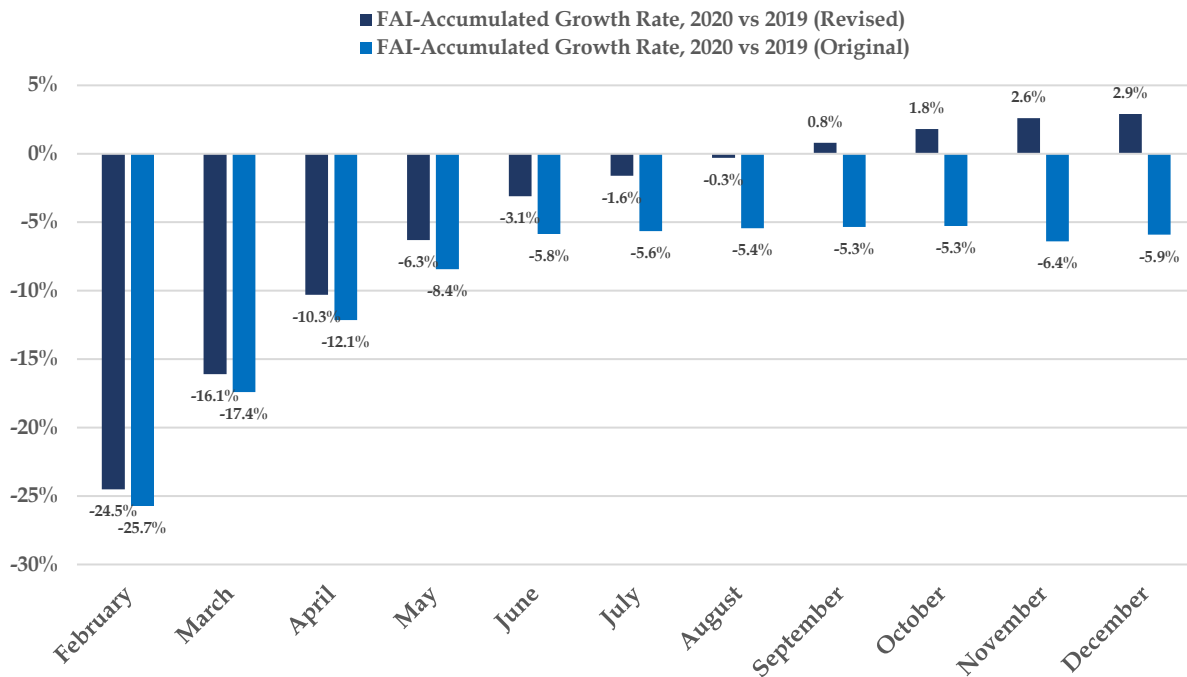
Chart 2: Sales Revenue and Profit Margins (Diffusion Index)

● Profit Margins ● Sales Revenue



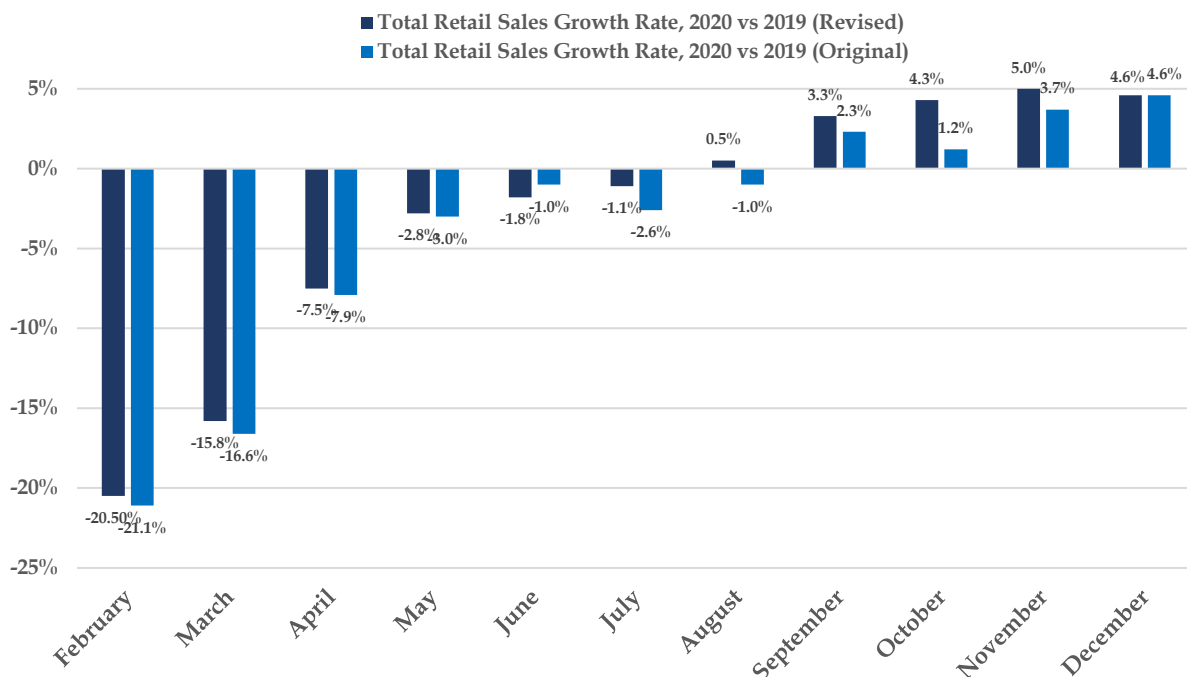
Source: CBB Data Analytics Platform

Chart 3: Fixed Asset Investment Growth (Year-on-Year)



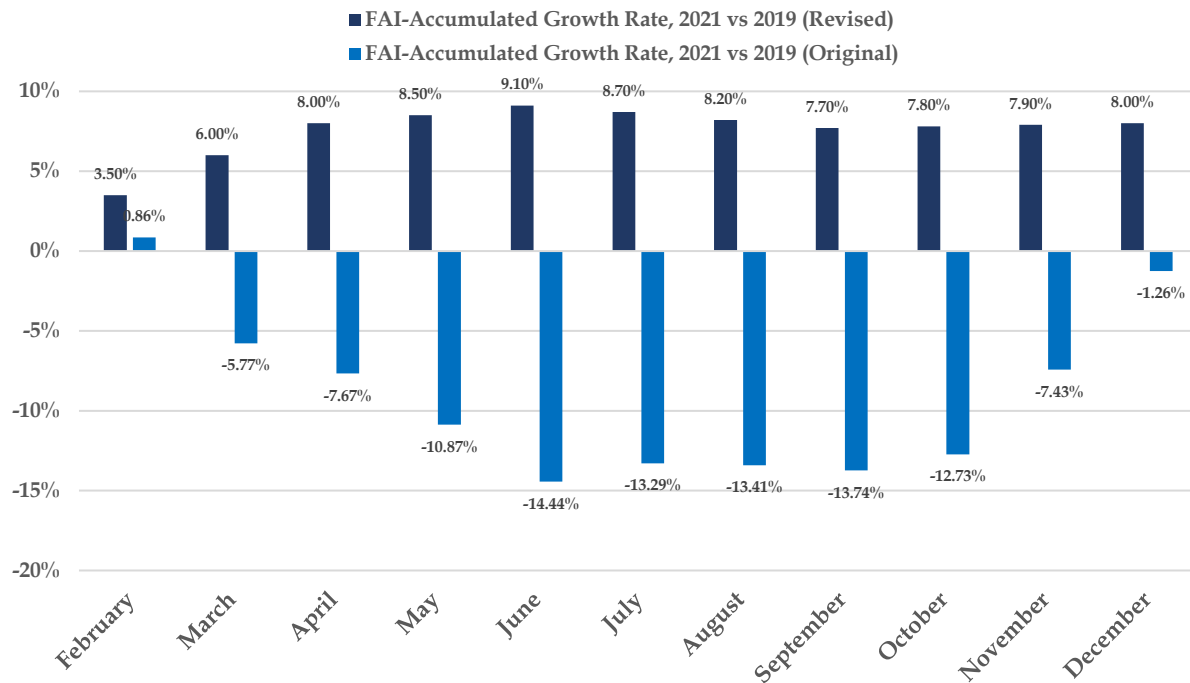
Source: National Bureau of Statistics; Authors own calculations

Chart 4: Total Retail Sales Growth (Year-on-Year)



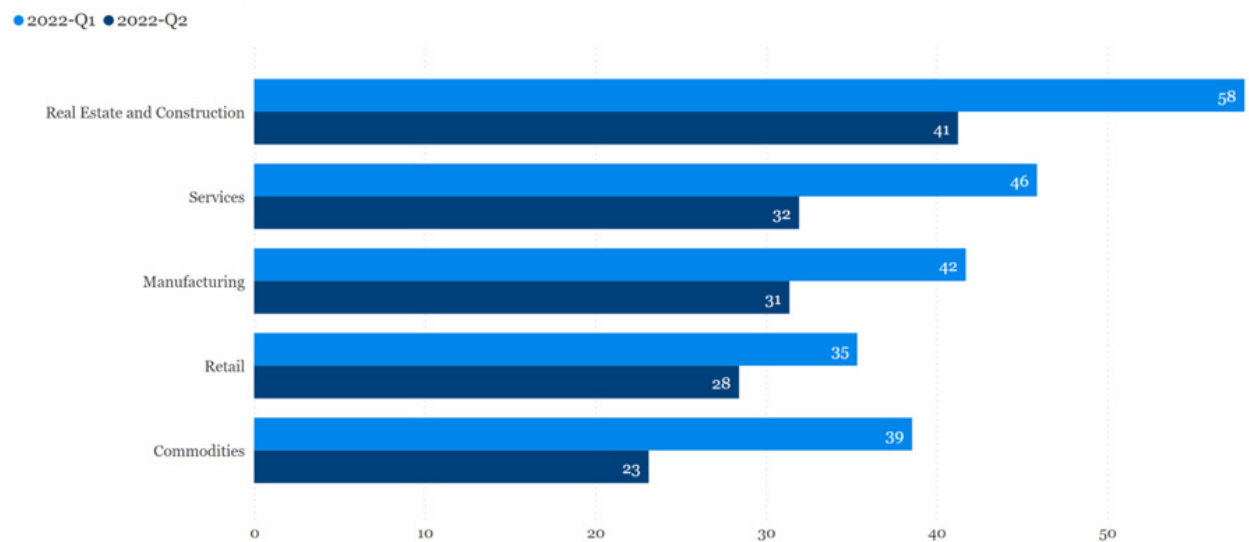
Source: National Bureau of Statistics; Authors own calculations

Chart 5: Fixed Asset Investment Growth (2021 vs 2019)



Source: National Bureau of Statistics; Authors own calculations

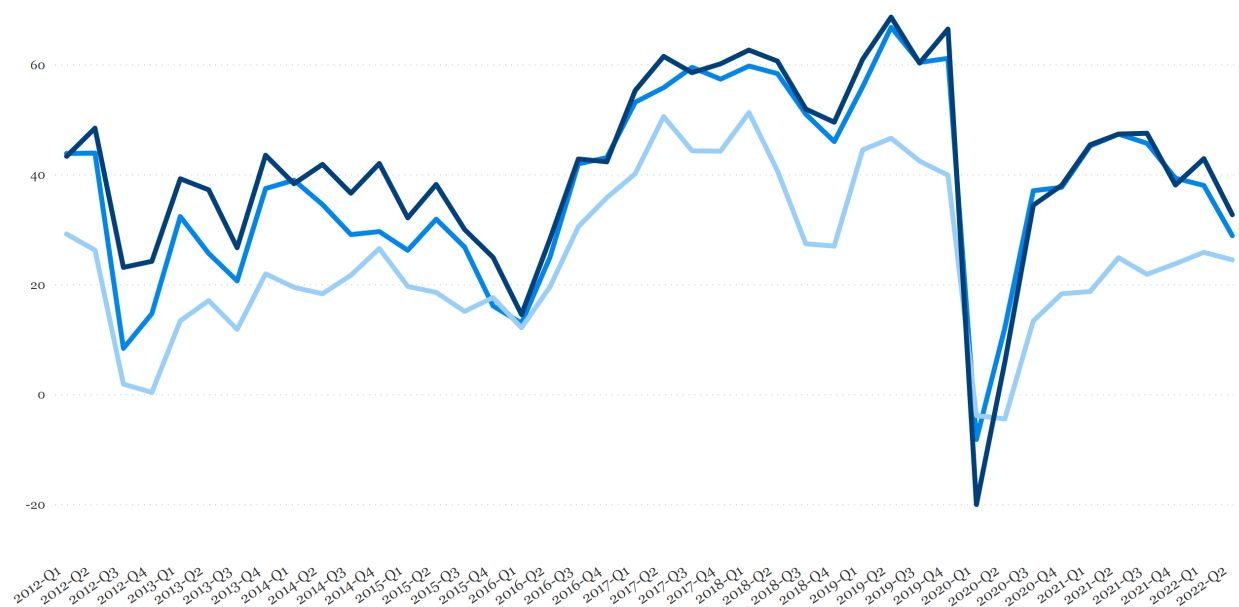
Chart 6: Revenue Growth Across Sectors (Diffusion Index)



Source: CBB Data Analytics Platform

Chart 7: Manufacturing Output and New Orders (Diffusion Index)

● Domestic Orders ● Export Orders ● Output



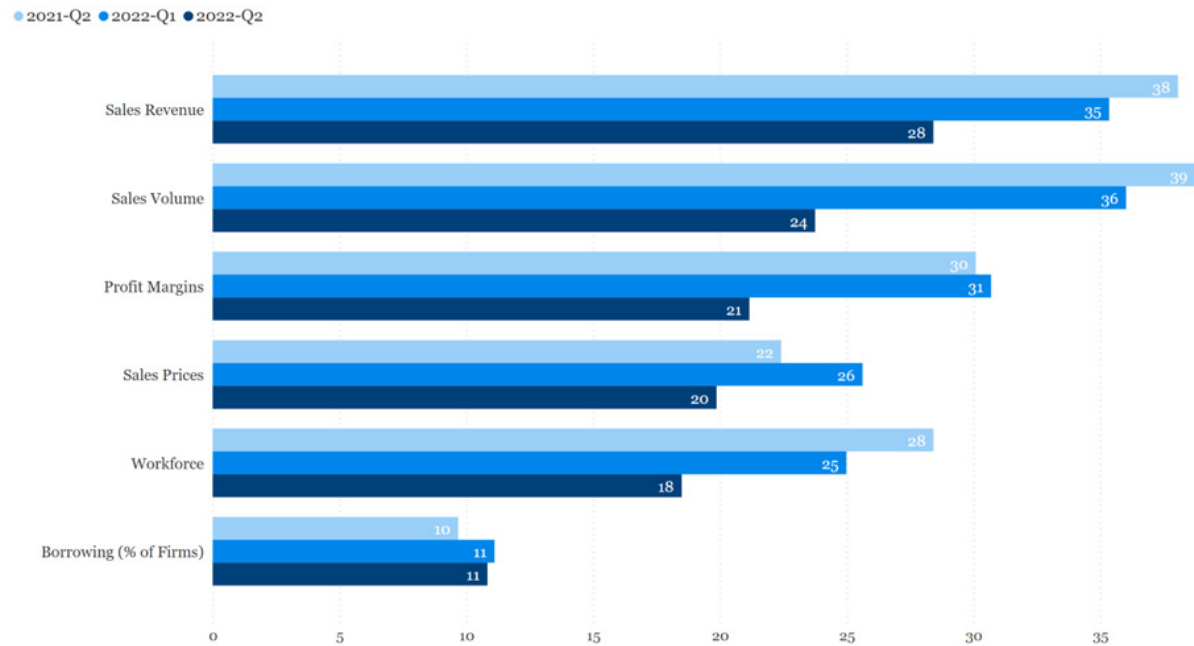
Source: CBB Data Analytics Platform

Table 1: Services Sector Heat Map (Diffusion Index)

Indicator	Jan-2022	Feb-2022	Mar-2022	Apr-2022	May-2022	Jun-2022
Business Conditions	36	59	49	46	39	30
Capital Expenditures	32	52	39	37	33	24
Containers Processed	42	58	60	25	11	20
Input Costs	20	48	33	33	30	23
Online Sales Revenue	49	62	42	47	24	27
Profit Margins	26	50	34	22	22	8
Profits from Online Sales	26	51	40	33	26	24
Sales Prices	20	40	30	23	23	10
Sales Revenue	35	59	43	37	31	26
Sales Volume	33	57	41	36	28	26
Six-month Revenue Outlook	44	68	55	53	50	43
Wage Rates	23	41	31	20	20	15
Workforce	20	47	39	30	23	21
Workweek	17	20	32	16	16	6

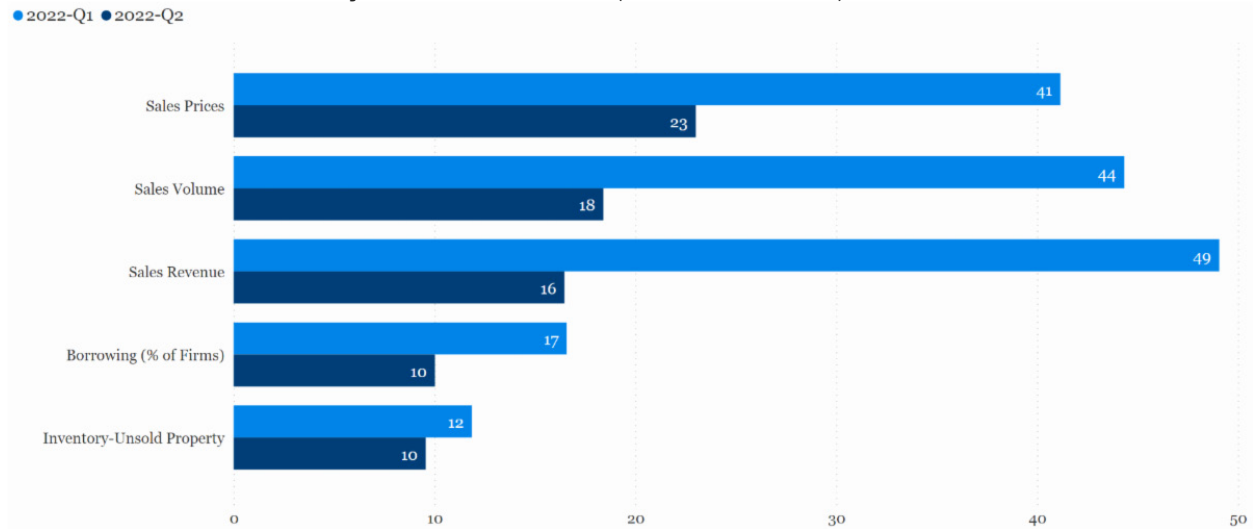
Source: CBB Data Analytics Platform

Chart 8: Retail Headline Metrics (Diffusion Index)



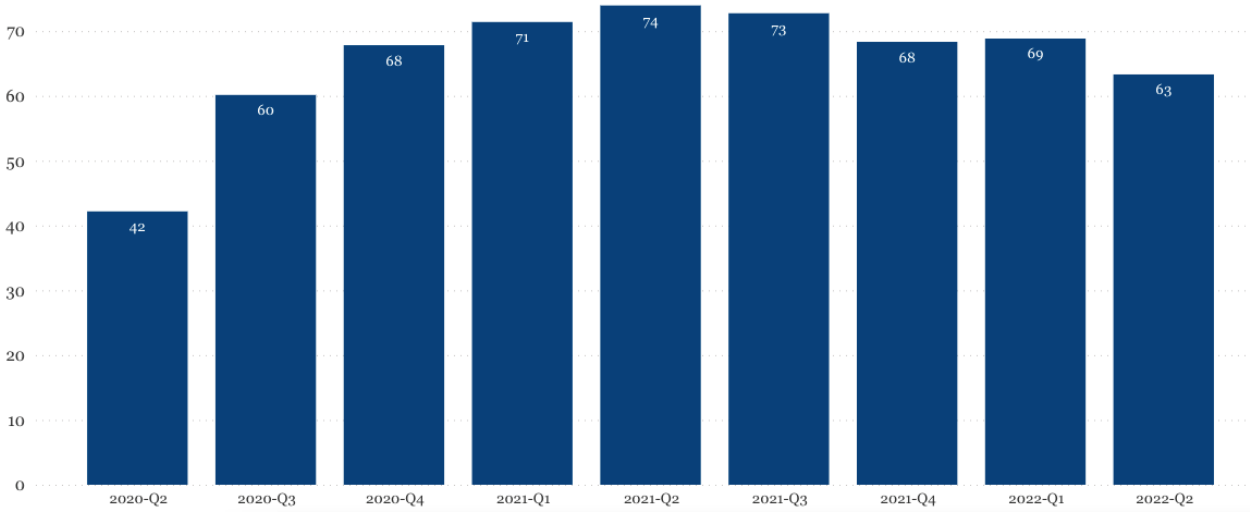
Source: CBB Data Analytics Platform

Chart 9: Residential Realty Headline Metrics (Diffusion Index)



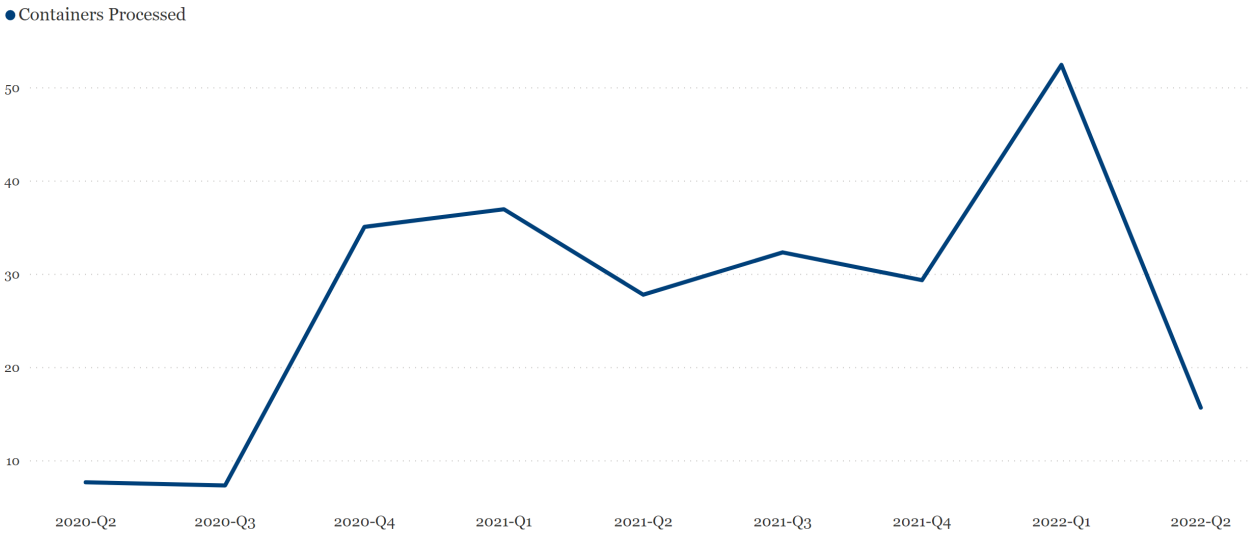
Source: CBB Data Analytics Platform

Chart 10: Shipping & Logistics Mean Operating Capacity (%)



Source: CBB Data Analytics Platform

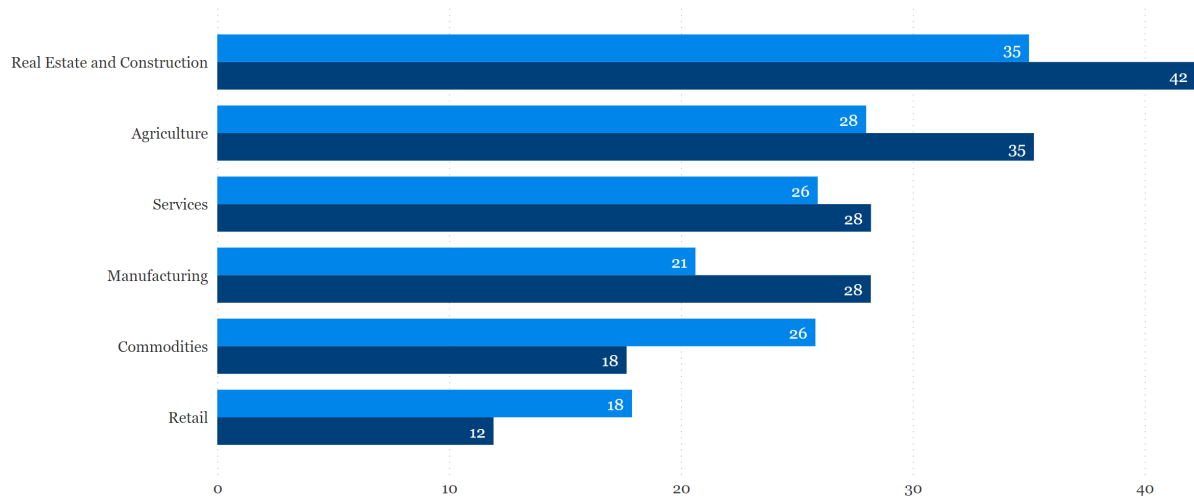
Chart 11: Shipping & Logistics Containers Processed (Diffusion Index)



Source: CBB Data Analytics Platform

Chart 12: Supplier Delivery Times Across Sectors (Diffusion Index)

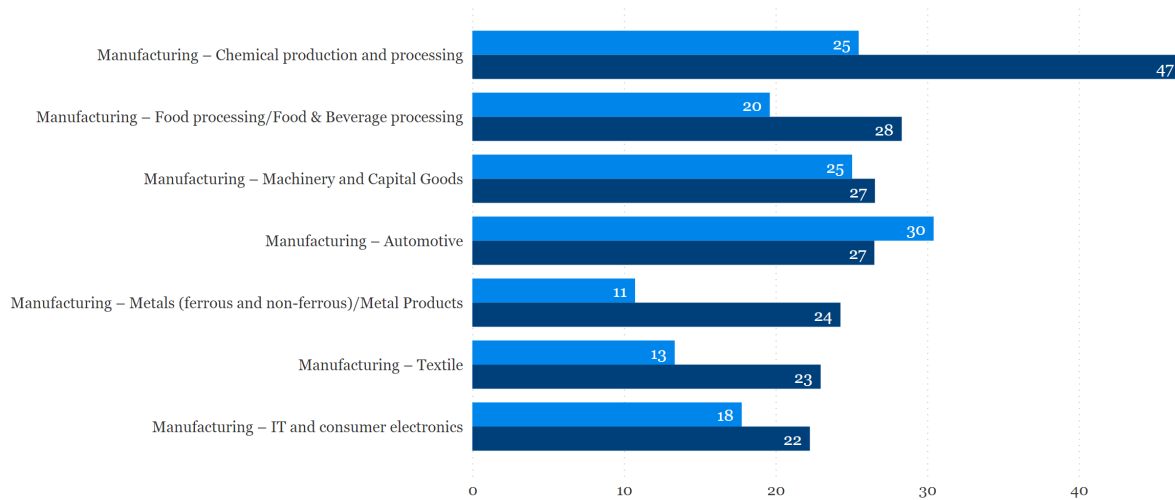
● 2022-Q1 ● 2022-Q2



Source: CBB Data Analytics Platform

Chart 13: Supplier Delivery Times Across Manufacturing Sub-Sectors (Diffusion Index)

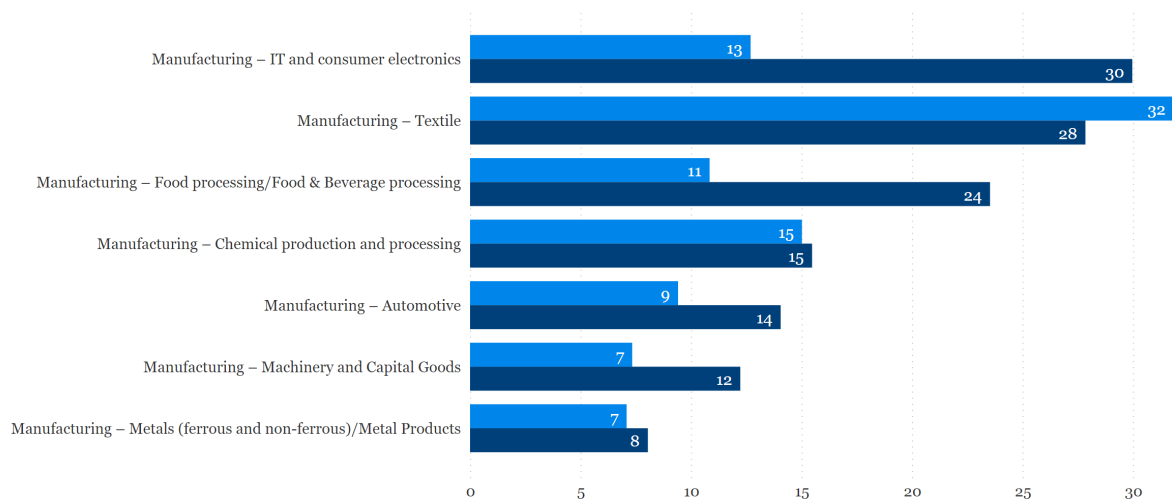
● 2022-Q1 ● 2022-Q2



Source: CBB Data Analytics Platform

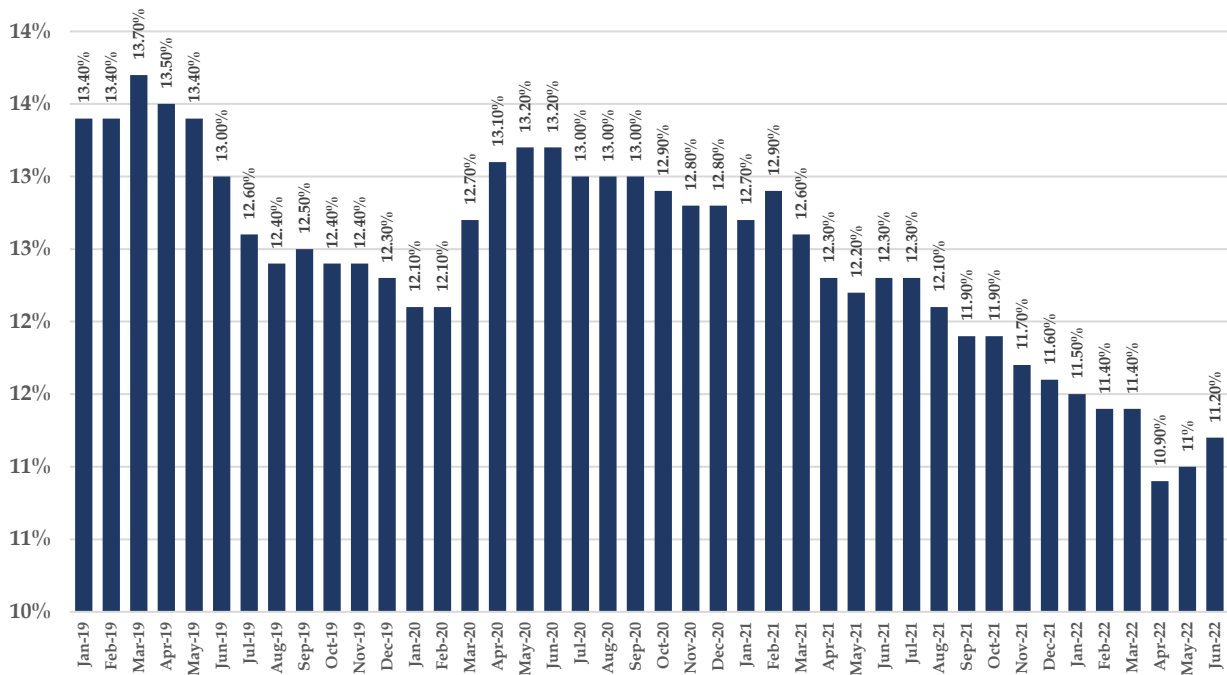
Chart 14: Backlog of Orders Across Manufacturing Sub-Sectors (Diffusion Index)

● 2022-Q1 ● 2022-Q2



Source: CBB Data Analytics Platform

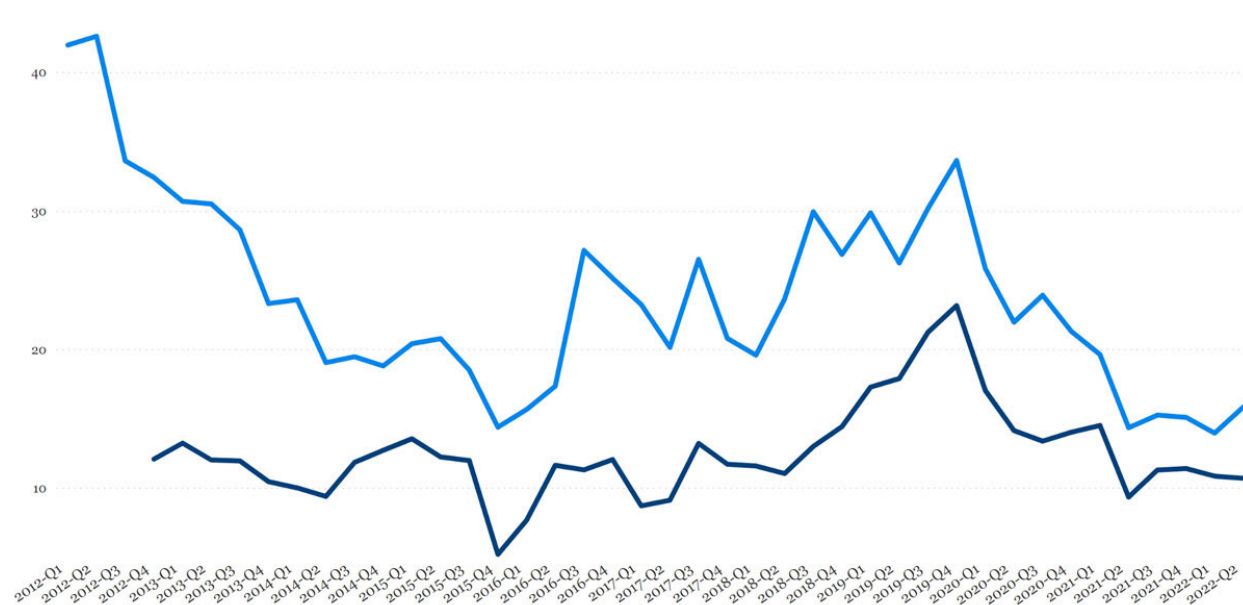
Chart 15: China Outstanding Yuan Loan Growth



Source: CBB Data Analytics Platform

Chart 16: Corporate Borrowing & Bond Sales (% of firms)

● Bond Issuance ● Borrowing



Source: CBB Data Analytics Platform

OPENING STATEMENT OF MANOJ KEWALRAMANI, FELLOW-CHINA STUDIES & CHAIR INDO-PACIFIC STUDIES PROGRAMME, THE TAKSHASHILA INSTITUTION

COMMISSIONER MANN: Thank you, Mr. Qazi.

Mr. Kewalramani?

MR. KEWALRAMANI: Thank you. Thank you so much, hearing Co-Chairs Commissioner Mann, Commissioner Schriver, members of the Commission, and staff. Thank you very much for your invitation to testify on China's Zero-COVID policy. It is indeed a pleasure and privilege to present my views before the Commission.

I'll keep my remarks to address three primary questions. Firstly, what are the core constituents of the Zero-COVID policy and how it has evolved? Secondly, what are the factors that are impacting the policy's evolution? And finally, I'll try to address the question whether there has been meaningful dissent within the party ranks on this policy.

So, like my previous panelists have said, the prevailing Dynamic Zero-COVID policy derives from the Chinese leadership's early experience of dealing with the pandemic. After a period of confusion and mismanagement, in January 2020, we saw the Chinese central government impose a lockdown on Wuhan. Similar lockdowns were subsequently imposed in large parts of the country.

The purpose of these, the government argued, was to control the source of the infection, block transmission, and prevent further spread. Since 2020, lockdown measures have been accompanied by several other policy steps. These include expanding healthcare capacity through makeshift hospitals, quarantine facilities, rushing in healthcare workers from different parts of the country to places where there have been outbreaks, mass testing, use of technology solutions for monitoring, contact tracing, and surveillance, use of grassroot party groups to enforce restrictions and provide essential goods.

These measures have had varying degrees of effectiveness, and they continue to be deployed today, too, as was evident in Shanghai or in Hong Kong, too. Along with this policy is included restrictions on inbound and outbound travel. Some of these have eased, yet China remains an outlier across the world in terms of accessibility to foreign travelers.

Across the last two years, local officials have had a reasonable degree of autonomy. Now the reasonable degree is carrying a lot of weight here, but a reasonable degree of autonomy in implementing these measures from this tool kit. However, the challenge for them has been that they have to balance two policy objectives, which the central authorities have outlined that are fundamentally in friction with each other.

The central leadership led by Xi Jinping has repeatedly emphasized that the priority of the Zero-COVID policy is to contain the spread of the virus and to reduce the impact on people's lives and health. But at the same time, officials are required to do this while minimizing social and economic cost.

In pursuit of these goals, what we've seen is that the policy has undergone two key changes, particularly in the last six months, in the recent lockdowns in Shanghai particularly. First is that for the longest time, the primary objective of the Dynamic Zero-COVID policy was to completely stamp out infections. Zero-COVID at that point in time, in 2020 and 2021, largely meant zero COVID, zero infections.

However, in the most recent wave of infections, what we've seen is that this goalpost has been shifted. Zero-COVID no longer means zero infections. What it means is still evolving in

some ways, and it changes in some ways on a day-to-day basis. In the past few months, we've seen officials defining it as a situation when a district reports less than one infection but a population of 100,000 people, or the absence of new infections outside quarantine zones.

The second change that we've seen is that there has been greater emphasis today on rapid and regular testing; easing of quarantine requirements, particularly for travelers; allowing for greater economic activity, particularly when you're identifying certain sectors and certain enterprises which are critical to the overall economy and you're trying to allow greater economic activity there -- this has been challenging to do -- focusing on more narrowly targeted containment. In Shanghai, for instance, one of the steps that was taken was to isolate neighborhoods in particular as opposed to imposing large-scale lockdowns that didn't necessarily work out well initially.

So it's likely that down the road, the definition of Zero-COVID will further be relaxed and priorities may shift after the 20th Party Congress. That said, the emergence of a new COVID variant with higher transmissibility, high lethality, or greater immune evasion capacity could result in tighter restrictions persisting.

It's also important to note that at the end of the day, like one of my previous panelists said, the healthcare costs are going to weigh very heavily on the leadership's mind. This leads me to the second question that I wanted to address, which is about the factors impacting the evolution of the policy.

In my assessment, there are six key factors, six broad factors. Firstly, the perception about the policy's efficacy and efficiency -- Chinese officials and analysts repeatedly tell us that the policy has kept infection at a remarkably low level and the death toll at a remarkably low level, and this is proof enough for the superiority of the policy. The second factor is that there is a serious concern -- at least there appears to be a serious concern -- about public health-related challenges and those bleeding into issues of social stability and potential political legitimacy.

The Politburo standing committee meeting on May 5th, 2022, warned of the threat of massive infections, critical cases, and deaths if controls were eased. Studies have shown that given the rates of vaccination, given the efficacy of vaccines, and given the low natural immunity because of the low rates of infection over the past two-odd years, it's likely that you may end up seeing around 1 to 1.6 million deaths if there is a large-scale outbreak.

So this seems to weigh very heavily on the Chinese leadership's mind. In June 2022, visiting Wuhan, Xi Jinping was categorical when he said that if China had adopted a herd immunity policy or a hands-off policy, given its large population, given its vulnerable population, the country would have faced unimaginable consequences.

The third point is, again, this sort of leads into the idea of the vaccination campaign and the efficacy of the vaccines. Officially it informs us that around 89.7 percent of China's total population and just under 85 percent of the elderly population have received a two-course dose of the vaccination. An estimated 60 percent of people aged over 60 and above have received the booster shot.

And there's also concern about the efficacy of the vaccines, particularly the fact that mRNA vaccines have not been permitted so far, and we vaccines that are currently being used are designed based on the original strain of the virus.

The fourth point is Xi Jinping's personal linkage to the Zero-COVID policy. From 2020 onwards, Chinese officials and the propaganda characters have linked the containment success to Xi Jinping's personal and decisive leadership, as they call it. State media refer to him as the Commander in Chief, have praised him for putting people's lives first.

This glorification has persisted, and the linkage to having low deaths and low infections to Xi Jinping's so-called people-centered development philosophy has made this a legacy issue for him. Therefore, at every opportunity, we see Xi Jinping appears to be leaning more in favor of tighter controls as opposed to necessarily alleviating the economic costs.

The fifth point is from the view of the pandemic containment, Chinese Communist Party appears to see this from the point of view of systemic competition with the West and the U.S. in particular. Chinese officials have previously talked about how the pandemic is a once-in-a-century profound event which has brought systemic changes.

It compares its own success with the COVID policies of other countries, making the point that the Communist Party has demonstrated strong political leadership, social appeal, mobilization capacity, and the associated planning capabilities.

There's also a moral component of this argument, which I'll use, that the Communist Party has put people's lives first at the cost of economic losses, whereas politicians in the West, particularly in the United States, have prioritized "political self-interest and short-term economic interests." When you've established this narrative, it makes shifting away from the policy all the more challenging.

Finally, from the point of view of economic concerns, there is a conversation that appears to be going on in terms of the short-term economic costs and the long-term economic challenges. Xi Jinping appears to be -- his primary argument appears to be that the dynamic zero COVID is the best option from the perspective of long-term economic developments. Containing infections with short lockdowns is much better than letting the virus run around rampant, that in a nutshell is the argument.

COMMISSIONER MANN: Sir, please wrap up now. You are out of time.

MR. KEWALRAMANI: Certainly. So that is fundamentally the view that he's proposed, whereas others have argued that it's important to strike a balance.

My final point in this context would be that in terms of dissent within the party, I would sort of be very cautious in over-interpreting such differences as a meaningful challenge to Xi Jinping's authority. And I can probably -- can probably talk about that in the question session.

Thank you so much.

**PREPARED STATEMENT OF MANOJ KEWALRAMANI, FELLOW-CHINA STUDIES
& CHAIR INDO-PACIFIC STUDIES PROGRAMME, THE TAKSHASHILA
INSTITUTION**

Testimony before the US-China Economic and Security Review Commission
Hearing on Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and
Pacific Diplomacy

Manoj Kewalramani

Fellow-China Studies & Chair Indo-Pacific Studies Programme,

The Takshashila Institution

August 3, 2022

Questions Addressed:

1. What are some of the key social and political constraints shaping China's zero-COVID policy? How does China's zero-COVID strategy fit into CCP doctrine and political objectives?
2. What does the policy suggest about the CCP's political time horizon and level of confidence? Does it demonstrate prioritization of short-term control over long term stability, or a willingness to take short-term damage in pursuit of long-term objectives?
3. Describe the association of the zero-COVID strategy with General Secretary Xi Jinping and its relevance to the upcoming 20th Party Congress.
4. How would you characterize the coordination and implementation of the Zero-COVID policy within China's bureaucracy? Have we observed tensions in center-local relations, bureaucratic infighting, or evidence of meaningful dissent within Party ranks on the issue?
5. What impact do you expect the considerable public unhappiness surrounding the COVID-19 situation to have on regime security and stability?
6. How has the CCP tried to control information flows about its Zero-COVID policy? How is it managing domestic and international scrutiny? What are the most reliable sources of information coming out of China on the COVID-19 situation? What are their strengths and limitations?
7. To what extent has Beijing used the COVID-19 pandemic to innovate new methods of social control? How do you expect this to shape Beijing's long-term capabilities in this area?
8. The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to your testimony?

Hearing Co-Chairs Commissioner James Mann and Commissioner Randall Schriver, members of the Commission and staff, thank you very much for your invitation to testify on China's zero-COVID Policy. It is indeed a pleasure and privilege to present my views before the Commission.

I. Evolution of the Dynamic Zero-COVID Policy

The prevailing dynamic zero-COVID - or dynamic clearing - policy adopted by the Chinese leadership derives from its experience of dealing with the pandemic since January 2020. The core constituents of the policy can be traced back to the central leadership's initial response to the novel coronavirus outbreak in Wuhan in December 2019. After a period of early confusion and mismanagement, on January 23, 2020, the Chinese central government announced an unprecedented lockdown of the city. This was followed by a series of lockdowns across other cities and provinces. As of February 20, 2020, assessments indicated that around 760 million Chinese, approximately half of the country's population, were facing residential lockdowns of varying intensities.¹ The purpose of these lockdowns was to "control the source of infection, block transmission and prevent further spread."²

Even at this early stage the Chinese government was clearly cognisant of the economic costs of lockdowns. On February 17, 2020, the State Council's Joint Prevention and Control Mechanism called for region-specific and tiered measures to be adopted in order to ensure "an orderly return to work and normal life."³ Subsequently, guidelines were issued calling on low-risk regions to resume full production, while those deemed as high risk were asked to monitor the health situation first. In practice, this differentiated and tiered approach has since proven challenging to implement. In large part, this is because of the central leadership's mixed messaging — as it has advocated policy goals that are fundamentally in friction with each other — and local officials' perceptions of Beijing's political priorities.

Starting with Xi Jinping, by and large, central authorities have repeatedly emphasized that the priority is to contain the spread of the virus and reduce the impact on people's lives and health. This must be done while minimizing social and economic costs. It is worth noting that despite framing the problem as such, the Chinese leadership did not eschew setting annual GDP targets for 2021 and 2022. While achieving the 2021 target

¹ Raymond Zhong and Paul Mozur, "To Tame Coronavirus, MAO-Style Social Control Blankets China," The New York Times, February 15, 2020, <https://www.nytimes.com/2020/02/15/business/china-coronavirus-lockdown.html>.

² "Report of the WHO-China Joint Mission on Coronavirus Disease 2019 (Covid-19)," World Health Organization, February 28, 2020, [https://www.who.int/publications/i/item/report-of-the-who-china-joint-mission-on-coronavirus-disease-2019-\(covid-19\)](https://www.who.int/publications/i/item/report-of-the-who-china-joint-mission-on-coronavirus-disease-2019-(covid-19)).

³ "White Paper on Fighting Covid-19 China in Action," The State Council Information Office of the People's Republic of China, June 8, 2020, <https://www.mfa.gov.cn/ce/cehr/eng/gdxw/t1786877.htm>

was never going to be a serious challenge owing to the base effect, meeting the 2022 target has presented local officials with difficult choices.

In the end, while local officials technically have had autonomy in tailoring policies to suit local conditions, worried about potential political and disciplinary consequences owing to outbreaks, they have tended to prioritize containment over all else. For instance, in May 2022, Bloomberg's assessment of data released by state media and Communist Party disciplinary authorities showed that more than 4,000 officials in relation to some 51 local Covid outbreaks.⁴ This situation has often led to excessive restrictions, which have subsequently been the subject of frustration by the public and censure by central officials. A measure of the structural nature of this challenge is that even as of February 2022, the National Development and Reform Commission was calling on local governments to avoid arbitrary lockdowns and was pushing back against unauthorized closures of public places like restaurants, supermarkets and tourist sites.⁵ Then, in April 2022, the State Council was warning local authorities against unauthorized blocking of expressways, ports, docks, railway stations and airports.⁶

Since 2020, lockdown measures have been accompanied by steps to expand healthcare capacity through the construction of makeshift hospitals and quarantine facilities. Mass testing has been conducted across cities and towns with even small outbreaks. Technological solutions have been deployed for close contact tracing. Mandatory health codes have been used to track and control people's movements and access to public spaces. Special permits have been used over time to ensure the smooth transport of goods, particularly essential goods. Grassroots party groups have been mobilized in order to enforce restrictions and provide support in meeting people's needs for essential supplies. These measures, with varying degrees of effectiveness, continue to be deployed at present too, as evident in the case of the recent outbreaks in Shanghai and Hong Kong.

In contrast, quarantine for inbound and outbound travelers was tightened in late February 2020, with the entry of foreign visitors eventually being suspended a month later.⁷ Foreign travel policy, however, has subsequently eased, although connectivity is still nowhere close to what it was prior to the pandemic. In this sense, the People's Republic of China continues to be an outlier when compared to most other countries. Nevertheless, over the past few months, the Chinese government has opened new

⁴ "Neighborhood Covid Enforcers Keep Large Parts of Shanghai in Lockdown," Bloomberg, May 24, 2022, <https://www.bloomberg.com/news/articles/2022-05-23/shanghai-easing-stalls-over-resistance-of-neighborhood-enforcers>.

⁵ Dennis Normile, "China Quietly Plans a Pivot from 'Zero COVID,'" Science.org, March 1, 2022, <https://www.science.org/content/article/china-quietly-plans-pivot-zero-covid>.

⁶ Xinhua, "China Stresses Smooth Freight Transport amid Pandemic," China Daily, April 11, 2022, <https://www.chinadailyhk.com/article/267404>.

⁷ "Announcement by the Ministry of Foreign Affairs and the National Immigration Administration on the Temporary Suspension of Entry by Foreign Nationals Holding Valid Chinese Visas or Residence Permits," Ministry of Foreign Affairs Republic of China, March 26, 2020, <https://www.mfa.gov.cn/ce/ceis/eng/lsfw/fwxx/t1874167.htm>.

international routes and quarantine requirements for travelers have been halved.⁸ Premier Li Keqiang's remarks in July promising to increase international passenger flights "in an orderly way" are indicative of potential further easing in the months ahead.⁹ However, the caveat of policy change being calibrated under the premise of "ensuring safety against COVID infections" is worth keeping in mind. In essence, a broad-based return to normal exchanges with the outside world is unlikely in the near future.

Evidently, the stated and revealed objective of the Chinese government's response to COVID-19 since 2020 has been to completely stamp out new infections. This was the original necessary condition that needed to be met for the lifting of restrictions. The Chinese leadership, led by Xi Jinping, have often described the pandemic as a "crisis and major test" for the Chinese system of governance. The threat of mass infections overwhelming the healthcare system and leading to high death rates – which could in turn result in economic and social instability, eventually undermining the Communist Party's ruling legitimacy – has been a key part of the political and policy calculus. The framing of the containment effort as a "people's war" in February 2020 underscored the existential nature of the challenge from the perspective of the Chinese leadership.¹⁰ Consequently, for much of the past two years, the key goal of the zero-COVID policy had been to ensure zero infections.

For instance, outbound traffic restrictions and all health checkpoints on highways across Hubei, except Wuhan, were removed on March 25, 2020. This was done roughly after two weeks of no new cases being reported across the province. Likewise, after a brief surge in COVID-19 cases in Beijing in June-July 2020, the outbreak was only formally deemed as being under control after no new infections were reported for nearly two weeks. The Xinfadi market, which was the epicenter of the outbreak in Beijing, resumed partial operations as late as mid-August, well over a month after Beijing was declared free of new infections.

This approach by and large continued through the following year. This was the case despite the large-scale deployment of vaccines. In fact, in 2021, Chinese officials were categorical that vaccination was not an alternative to containment measures, arguing that vaccines were not a "talisman."¹¹ That said, some adjustments were being made in terms of policy implementation. For example, health authorities sought to improve

⁸ Nick Yang, "China Adds International Flights after Relaxing Covid-19 Controls," South China Morning Post, July 5, 2022, <https://www.scmp.com/news/china/diplomacy/article/3184222/china-adds-international-flights-after-relaxing-covid-19>.

⁹ Xinhua, "Premier Vows Further Efforts to Deepen Opening-Up," The State Council People's Republic of China, July 20, 2022, https://english.www.gov.cn/premier/news/202207/20/content_WS62d811e2c6d02e533532e42d.html.

¹⁰ "White Paper on Fighting Covid-19 China in Action," Ministry of Foreign Affairs Republic of China, June 8, 2020, <https://www.mfa.gov.cn/ce/cehr/eng/gdxw/t1786877.htm>.

¹¹ "China Hunkers Down as Delta Reaches Nearly Half The Country," Bloomberg, August 5, 2021, <https://www.bloomberg.com/news/articles/2021-08-05/china-hunkers-down-as-delta-reaches-nearly-half-the-country>.

targeting of lockdowns to narrow clusters and enhancing the speed of testing in order to contain outbreaks within a period of two weeks as opposed to the previous four-to-six-week timeline.¹²

This trend of broad persistence with specific adjustments continues to be evident at present too. For instance, responding to the COVID-19 outbreak earlier this year, the Shanghai government initially eschewed a city-wide lockdown.¹³ Instead, it experimented with brief, targeted action focussing only on affected neighborhoods.¹⁴ However, with infections rising, the government soon turned to what was seen as a tried and tested playbook of a city-wide lockdown,¹⁵ mass and repeated testing, and imposing strict quarantines and setting up makeshift medical facilities for treatment and quarantine. In doing so, measures – such as grouping regions and units together under three risk categories to allow for “appropriate activity”¹⁶ and issuing whitelists to ensure that economic activity related to critical sectors and enterprises¹⁷ would remain uninterrupted – were adopted to limit social and economic costs. Despite these measures, Shanghai’s GDP economy contracted 13.7% year-on-year in the second quarter of 2022, with urban unemployment surging to 12.5%.¹⁸

However, what is more significant from a long-term perspective was the critical shift that was made to the definition of the core objective of the dynamic zero-COVID policy. As argued earlier, the primary marker of success for the policy over the past two years had been to completely extinguish outbreaks. This was a prerequisite to the gradual easing of restrictions. However, more recently, in light of the particular transmissibility, pathogenicity and lethality of the Omicron variant of COVID-19 and its sub-variants and keeping in mind the rising economic costs, the goalpost appears to have been shifted. In

¹² Person, “China Ends 2021 with Worst Covid Week since Taming Original Epidemic,” Reuters (Thomson Reuters, January 1, 2022), <https://www.reuters.com/business/healthcare-pharmaceuticals/chinas-xian-enters-10th-day-covid-lock-down-cases-persist-2022-01-01/>.

¹³ “Shanghai Says No Lockdown for Now, Tells Bankers to Work at Home,” Bloomberg, March 15, 2022, <https://www.bloomberg.com/news/articles/2022-03-15/shanghai-urges-bankers-to-work-from-home-rules-out-lockdown#xj4y7vzkg>.

¹⁴ Agence France-Presse, “Shanghai Rules out Full Lockdown despite Sharp Rise in Covid Cases,” The Guardian, March 26, 2022, <https://www.theguardian.com/world/2022/mar/26/china-shanghai-rules-out-full-lockdown-despite-sharp-rise-in-covid-cases>.

¹⁵ Agence France-Presse, “China’s Shanghai to Impose Phased Lockdown to Curb Covid Outbreak,” NDTV, March 27, 2022, <https://www.ndtv.com/world-news/chinas-shanghai-to-impose-phased-lockdown-to-curb-covid-19-outbreak-2846394>.

¹⁶ Person and David Stanway, “Shanghai Eases Lockdown in Some Areas despite Record Covid Infections,” Reuters (Thomson Reuters, April 11, 2022), <https://www.reuters.com/world/china/shanghais-covid-infections-rise-city-looks-get-moving-again-2022-04-11/>.

¹⁷ “Companies on Shanghai’s First Whitelist Resume over 80% Production: Official,” Global Times, April 30, 2022, <https://www.globaltimes.cn/page/202204/1260679.shtml>.

¹⁸ “Corrected-Shanghai Economy Contracts 13.7% in Second Quarter - Stats Bureau,” Reuters (Thomson Reuters, July 15, 2022), <https://www.reuters.com/article/china-economy-shanghai-idINB9N2Y9010>.

essence, this has meant that zero-COVID no longer implies zero infections. This shift had been part of the public discourse, particularly among the scientific community, months before it became stated policy.¹⁹

In early May, Shanghai officials informed that if the number of new daily infections in a district accounted for less than 1/100,000 of the total number of people in the district for three consecutive days, then it would be deemed that the district had basically curbed community transmissions.²⁰ Also, if the number of new daily infections fell to zero for three consecutive days, then too the district would be deemed to have achieved no community transmission. Subsequently, officials appeared to suggest achieving the zero-COVID status merely required a decline in new infections and no new infections outside the quarantined areas for three days in a row.²¹ By this metric, Shanghai was deemed to have achieved zero community transmission as on May 17, 2022, allowing for a gradual reopening. The adoption of this new definition of zero-COVID was later confirmed in a People's Daily commentary, which explained that dynamic zero-COVID does not imply the pursuit of zero infections. Rather, it refers to identifying and eliminating infections, with the aim of preventing the spread of the novel coronavirus in the area of the outbreak and to other areas across the country.²²

These changes are important indicators to understand the future direction of China's COVID-19 containment efforts. It is likely that the definition of zero-COVID will further be relaxed as priorities shift after the 20th Party Congress. However, the emergence of a new COVID-19 variant with higher transmissibility, higher lethality or greater immunity evasion ability could result in tighter restrictions persisting. In either case, given the massive testing infrastructure that has been built, certain elements of the zero-COVID policy will in all likelihood sustain regardless for the foreseeable future.²³

¹⁹ "China's scientists are looking for a way out of the zero-covid policy." The Economist. March 12, 2022.
<https://www.economist.com/china/2022/03/12/chinas-scientists-are-looking-for-a-way-out-of-the-zero-covid-policy>

²⁰ "Shanghai Achieves Phased Results in Latest Battle against Omicron with 6 Districts Basically Registering No Community Transmissions," Global Times, May 1, 2022,
<https://www.globaltimes.cn/page/202205/1260706.shtml>.

²¹ See, "Transmission Risk Curbed Effectively in Shanghai, No New Omicron Variants Detected," Global Times, May 11, 2022, <https://www.globaltimes.cn/page/202205/1265342.shtml>. Also see, 上海市实现社会面清零- People's Daily, May 18, 2022,
http://paper.people.com.cn/rmrb/html/2022-05/18/nw.D110000renmrb_20220518_6-01.htm

²² "我们的防疫措施是最经济的、效果最好的 (人民观点) People's Daily, July 14, 2022,
http://paper.people.com.cn/rmrb/html/2022-07/14/nw.D110000renmrb_20220714_1-05.htm.

²³ Jiaying Li, "China's Online Maps Now Dotted with Covid-Testing Booths," South China Morning Post, May 23, 2022,
<https://www.scmp.com/tech/tech-trends/article/3178833/chinas-online-maps-dotted-covid-testing-booths-testing-becomes>.

This should not obscure the fact that there has been significant debate over how the zero-COVID policy must evolve going forward.²⁴ While the challenges related to public health and social stability continue to be important considerations, the economic situation also seems to be weighing far more heavily on the minds of the leadership. This is discussed in greater detail in the subsequent section.

For the moment, it is worth keeping in mind that in his comments in early April 2022²⁵, then at a Politburo Standing Committee meeting in early May²⁶, and eventually during a visit to Wuhan in June, Xi has appeared to lean in favor of tighter controls, indicating greater willingness to bear economic costs.²⁷ In May, state media reporting had Xi calling for the need to resolutely fight “any attempts to distort, question or dismiss China's anti-COVID policy.” In Wuhan, he warned against the “tendency to lower the guard, grow weary of the fight, or slacken prevention and control efforts,” arguing that “temporary impacts on the economy” were acceptable in order to protect “people’s lives and health.” At the same time, however, he did call for “utmost efforts” to be made “to promote steady and sound economic development.”

Official commentaries since then have echoed that language, tying together these different policy objectives and impulses within the Party into a coherent narrative. A set of three commentaries published in the People’s Daily in July 2022 argued that the dynamic clearing policy comprises three “indispensable goals,” i.e., controlling the pandemic, ensuring the normal life of ordinary people and ensuring the necessary economic and social operations,²⁸ and balancing between these three goals is not an “either-or ‘single-choice question.’”²⁹ What is needed is to improve the speed and precision to ensure differentiated and targeted prevention, while keeping the wheels of the economy churning, because “the economy and society are a dynamic circulation system, which cannot be suspended for a long period of time.”³⁰

²⁴ Agence France-Presse, “China could move away from zero-Covid strategy ‘in the near future,’ top scientist says,” HKFP, March 1, 2022.

<https://hongkongfp.com/2022/03/01/china-could-move-away-from-zero-covid-strategy-in-the-near-future-top-scientist-says/>. Also see, Weijie Guan and Nanshan Zhong, “Strategies for reopening in the forthcoming COVID-19 era in China,” in National Science Review, Volume 9, Issue 3, March 2022. <https://academic.oup.com/nsr/article/9/3/nwac054/6564385>

²⁵ Varma, KJM. ‘Xi defends China’s zero-COVID policy amid Shanghai lockdown to curb sharp spike in cases,’ Press Trust of India. April 8, 2022.

<https://theprint.in/world/xi-defends-chinas-zero-covid-policy-amid-shanghai-lockdown-to-curb-sharp-spike-in-cases/907962/>

²⁶ “China will surely win anti-COVID war in Shanghai, with time-tested epidemic control policy: top leadership,” Xinhua. May 6, 2022.

https://english.www.gov.cn/news/topnews/202205/06/content_WS62747913c6d02e533532a4de.html

²⁷ “Xi Inspects Wuhan, Stresses Sci-Tech Innovation, COVID-19 Control, Community Management,” Xinhua, June 20, 2022,

<https://english.news.cn/20220630/2d8dfd7007ea4bd7b3c3a2ae52236a01/c.html>.

²⁸ “不断提高疫情防控科学性精准性(人民观点)” People’s Daily, July 15, 2022,

http://paper.people.com.cn/rmrb/html/2022-07/15/nw.D110000renmrb_20220715_1-05.htm.

²⁹ “统筹好疫情防控和经济社会发展工作(人民观点)” People’s Daily, July 18, 2022,

http://paper.people.com.cn/rmrb/html/2022-07/18/nw.D110000renmrb_20220718_1-05.htm.

³⁰ Ibid.

II. Factors Impacting the Dynamic Zero-COVID Policy

As it did back in 2020, the Chinese leadership continues to view the COVID-19 pandemic as primarily a public health challenge. At the same time, it appears to be extremely sensitive to the social, political, economic and geopolitical consequences of its response to this challenge. Consequently, the policy's persistence and evolution are products of several factors. At the heart of all of this are concerns about large-scale outbreaks undermining the Communist Party of China's governing legitimacy.

The factors discussed below include:

- Perceptions of the policy's efficacy and efficiency
- Public health and social stability-related concerns
- Scale of vaccination and perceptions of the protection provided by vaccines
- Short-term economic costs and perceptions of long-term economic implications
- Xi Jinping's personal linkage with the "people's war" to contain the pandemic
- The narrative around the policy being a demonstration of the Chinese Party-state system's moral, organizational and operational superiority

The Chinese leadership's persistence with the zero-COVID policy is, in part, driven by the perceived efficacy and efficiency of the policy. This was amply evident in the official narrative during the recent outbreak in Shanghai. In mid-April, pieces in the media argued that the zero-COVID policy was the best choice for Shanghai, while warning that wavering from adhering to the policy would result in soaring infections and exact a higher social and economic price.³¹ By mid-May, the official narrative emphasized that the improvements in the city were a direct result and demonstration of the scientificity and effectiveness of the dynamic zero-COVID policy.³² This was subsequently affirmed by Shanghai Party Secretary Li Qiang in his work report to the 12th Congress of the municipal party committee in late June, where he hailed the central leadership's epidemic prevention and control approach as "completely correct."³³

Chinese officials, analysts and media commentaries have also repeatedly pointed to the remarkably low death toll in the country to argue for the superiority of the dynamic zero-COVID policy. Officially, as of July 22, 2022, the Chinese mainland reported just 5,226 COVID-19-related deaths.³⁴ Of course, this number is likely the product of serious undercounting of the actual death toll.³⁵ The Johns Hopkins Coronavirus Resource

³¹ "齐心协力，尽快实现社会面清零的目标（人民论坛）"People's Daily, April 12, 2022,

http://paper.people.com.cn/rmrb/html/2022-04/12/nw.D110000renmrb_20220412_3-04.htm.

³² 第003版, "实践证明我们的防控措施科学有效（人民论坛）" People's Daily, May 13, 2022,

http://paper.people.com.cn/rmrb/html/2022-05/13/nw.D110000renmrb_20220513_1-03.htm.

³³ 李强：我们打赢了大上海保卫战, Beijing Daily, June 25, 2022.

<https://bj.bjd.com.cn/5b165687a010550e5ddc0e6a/contentShare/5b16573ae4b02a9fe2d558f9/AP62b68abde4b0c2cdf0a33c20.html>

³⁴ "July 23: Daily Briefing on Novel Coronavirus Cases in China," National Health Commission People's Republic of China, July 23, 2022, http://en.nhc.gov.cn/2022-07/23/c_86060.htm.

³⁵ Andy Lin, "China's Covid Death Data Obscure True Impact of Omicron, Experts Say," Financial Times, April 17, 2022, <https://www.ft.com/content/45f4b975-443f-44b7-92b8-5d2417491015>.

Center estimates that COVID-19 has led to over 14,600 deaths in the mainland.³⁶ If one were to assume that is the case or even take a 10-fold increase to the number, it is still much lower than the reported deaths in democracies like the US, India and the UK. What is also evident is that after the initial outbreak in Wuhan in 2020, the dynamic zero-COVID policy has generally managed to limit the scale of infections and prevent a run on medical and healthcare resources.³⁷

Statements by Chinese officials and state media commentaries indicate a persistent anxiety that shifting away from the dynamic zero-COVID policy could result in a rapid surge in deaths and a spiraling public health crisis. There is clearly a fear of a healthcare crisis leading to a social stability crisis, which would be politically damaging particularly as the Party prepares for its 20th Congress later this year. The official readout of the Politburo Standing Committee meeting on May 5, 2022 argued that China's large elderly population, unbalanced economic development and insufficient healthcare resources make it difficult for the country to relax COVID controls.

*“Relaxation will undoubtedly lead to massive numbers of infections, critical cases and deaths, seriously impacting economic and social development and people's lives and health,” the meeting concluded.*³⁸

Likewise during his visit to Wuhan in June, Xi was categorical that:

*“if China had adopted the ‘herd immunity’ policy or a hands-off approach, given its large population, the country would have faced unimaginable consequences.”*³⁹

This anxiety is in part driven by the large population of the elderly and children in the country, who are believed to be vulnerable to severe infections. If one is to accept the low official number of COVID-19 infections in China, it follows that fewer people would have developed natural immunity to the virus. Moreover official data, as of late July, informs that 89.7% of China's total population and 84.5% of elderly population have received the whole course of vaccination.⁴⁰ This refers to the two-dose course and not boosters. As of late June, data show that only around 60% of people aged 60 and above in the mainland had received a booster shot.⁴¹ Meanwhile, officials have also expressed concern about the efficacy of Chinese vaccines, which are largely based on the original

³⁶ “China - COVID-19 Overview,” Johns Hopkins Coronavirus Resource Center, accessed July 2022, <https://coronavirus.jhu.edu/region/china>.

³⁷ This is a subjective view based on available reporting, which has been constrained due to tightened restrictions on the press in China.

³⁸ “中共中央政治局常务委员会召开会议 习近平主持会议,” The State Council of the People's Republic of China, May 5, 2022, http://www.gov.cn/xinwen/2022-05/05/content_5688712.htm.

³⁹ “Xi Inspects Wuhan, Stresses Sci-Tech Innovation, COVID-19 Control, Community Management,” Xinhua, July 30, 2022, <https://english.news.cn/20220630/2d8dfd7007ea4bd7b3c3a2ae52236a01/c.html>.

⁴⁰ 第002版, “坚决防止出现规模性疫情 (国务院联防联控机制发布会)” People's Daily, July 22, 2022, http://paper.people.com.cn/rmrb/html/2022-07/22/nw.D110000renmrb_20220722_2-02.htm.

⁴¹ Jun Cai et al., “Modeling Transmission of SARS-COV-2 Omicron in China,” Nature News (Nature Publishing Group, May 10, 2022), <https://www.nature.com/articles/s41591-022-01855-7>.

virus strain.⁴² Research into vaccines to address new strains is currently underway, as is the development of a Chinese mRNA vaccine. However, large-scale rollouts are not imminent.⁴³

Two studies are important to note in this context. First, a November 2021 study by the Chinese Center for Disease Control and Prevention found that China was “not ready to embrace ‘open-up’ strategies, warning that a policy of co-existence with the virus could threaten a “colossal outbreak which would almost certainly induce an unaffordable burden to the medical system.”⁴⁴ Another assessment published in May 2022 by researchers at Fudan University warned that if left unchecked, the spread of the Omicron variant could lead to a “tsunami” of cases, overwhelming the country’s healthcare system, which is characterized by very low capacity when compared with Western developed economies⁴⁵ and even regional countries like Singapore, South Korea and Japan.⁴⁶ Consequently, the study warned of large-scale deaths estimated at around 1.6 million.⁴⁷

Official media commentaries have reiterated this argument, referring to the dynamic zero-COVID as the “inevitable choice” for China.⁴⁸ For instance:

“If the prevention and control policies such as ‘herd immunity’ and ‘lying flat’ are adopted, a large number of people will be infected in a short period of time. This will result in a large number of severe cases and deaths, leading to a run on medical resources, which will eventually lead to unbearable losses in terms of people’s lives and property, with unimaginable consequences. From a practical point of view, it is precisely because we have insisted on dynamic clearing that we have been able to ensure extremely low morbidity, mortality and hospitalization rates, so that the masses can be protected to the greatest extent.”⁴⁹

In addition, some of these pieces have made the case that the dynamic zero-COVID policy was not simply the most practical choice but also a morally superior one, when compared to approaches advocated and being adopted by other, particularly Western

⁴² “Current Measures Effective for Variants,” China Daily, July 22, 2022, <https://www.ecns.cn/news/2022-07-22/detail-ihcakxsi6139261.shtml>.

⁴³ Eleanor Olcott, “New Covid Variants Threaten China’s Mrna Vaccine Hopes,” Financial Times, July 7, 2022, <https://www.ft.com/content/1ce91ee9-5e74-40db-80ec-fc2cbe97533d>.

⁴⁴ Yuan Zhang et al., “On Coexistence with Covid-19: Estimations and Perspectives,” China CDC Weekly, December 3, 2021, <https://weekly.chinacdc.cn/en/article/doi/10.46234/ccdcw2021.245>.

⁴⁵ “Why It’s So Hard for China to Exit Covid Zero,” Bloomberg, March 8, 2022, <https://www.bloomberg.com/news/articles/2022-03-07/hard-for-china-to-exit-covid-zero-with-unprepared-hospitals>.

⁴⁶ “China’s ‘Zero-Covid’ Strategy Will Ease but Not End in 2023,” The Economist Intelligence Unit, July 4, 2022, <http://country.eiu.com/article.aspx?articleid=1212247504&Country=China&topic=Economy&subtopic=Forecast&subsubtopic=Policy%2BTrends>.

⁴⁷ Jun Cai et al., “Modeling Transmission of SARS-COV-2 Omicron in China,” Nature News (Nature Publishing Group, May 10, 2022), <https://www.nature.com/articles/s41591-022-01855-7>.

⁴⁸ “坚持就是胜利,” People’s Daily, April 15, 2022, http://paper.people.com.cn/rmrb/html/2022-04/15/nw.D110000renmrb_20220415_4-01.htm.

⁴⁹ “我们的防疫措施是最经济的、效果最好的 (人民观点) People’s Daily, July 14, 2022, http://paper.people.com.cn/rmrb/html/2022-07/14/nw.D110000renmrb_20220714_1-05.htm.

developed countries, such as living with the virus or relying on herd immunity. Choosing to live with the virus, one of the recent pieces in the People's Daily argued, demonstrated a “disregard for science, a contempt for the complexity and difficulty of the fight against the pandemic, and an extreme irresponsibility when it comes to the people's right to life and health.”⁵⁰ Consequently, officials and media commentators have claimed that in making the choice to adhere to dynamic zero-COVID, the Communist Party of China was being true to its inherent identity as the vanguard of the people and governing philosophy of being people-centered.

This argument is not entirely new. It builds on a narrative that has been carefully constructed and propagated ever since February 2020.⁵¹ Soon after the lockdown of Wuhan, the Party-state propaganda apparatus began emphasizing Xi Jinping's command over the situation, the Party's focus on saving lives and the heroic nature of individuals who had contributed to virus containment. Official commentaries and analyses praised Xi's “personal” and “decisive” leadership as being critical to China's success in containing COVID. During his visit to Wuhan in March 2020, Xinhua referred to Xi as the “commander-in-chief” and the “man of the hour.”⁵² Another state media article, at the time, praised him for his “pure heart like a newborn's that always puts the people as his number one priority.”⁵³ This glorification of Xi's leadership has persisted. For instance, a front page article in the People's Daily on June 17, 2022, praised Xi's courage and perseverance in leading the pandemic containment effort, the cause of economic development and for coordinating developmental and security interests.⁵⁴ An earlier piece in May 2022 hailed his “superb political wisdom, extraordinary leadership skills, profound philosophical thinking and effective scientific methods” in stabilizing the overall situation facing China.⁵⁵

Other commentaries and writers have claimed that China's pandemic containment results had demonstrated the advantages of the Chinese system.⁵⁶ China's containment and work resumption successes have been compared with the “inefficient and ineffective” management of Western countries, arguing that this demonstrated that the system of socialism with Chinese characteristics had displayed “strong political leadership, social appeal, mass organization and resource deployment” capabilities.

⁵⁰ “实践证明我们的防控措施科学有效 (人民论坛,) People's Daily, May 13, 2022, http://paper.people.com.cn/rmrb/html/2022-05/13/nw.D110000renmrb_20220513_1-03.htm.

⁵¹ For a detailed study, see Manoj Kewalramani, *Smokeless War: China's Quest for Geopolitical Dominance* (New Delhi: Bloomsbury Publishing India Pvt. Ltd., 2021).

⁵² “Xi Focus: Moment of Truth: Xi Leads War against Covid-19,” Embassy of the People's Republic of China, March 10, 2020, <https://www.mfa.gov.cn/ce/ceca/eng/zqgw/t1754238.htm>.

⁵³ Chun Han Wong, “Beijing Portrays President Xi Jinping as Hero of Coronavirus Fight,” *The Wall Street Journal* (Dow Jones & Company, March 8, 2020), <https://www.wsj.com/articles/beijing-portrays-president-as-hero-of-coronavirus-fight-11583678054>.

⁵⁴ “勇毅笃行 长风万里,” People's Daily, June 17, 2022, http://paper.people.com.cn/rmrb/html/2022-06/17/nw.D110000renmrb_20220617_1-01.htm.

⁵⁵ “重要之年看开年,” People's Daily, May 13, 2022, http://paper.people.com.cn/rmrb/html/2022-05/13/nw.D110000renmrb_20220513_1-01.htm.

⁵⁶ “推动制度优势更好转化为治理效能 (深入学习贯彻习近平新时代中国特色社会主义思想) People's Daily, July 21, 2022, http://paper.people.com.cn/rmrb/html/2022-07/21/nw.D110000renmrb_20220721_1-11.htm.

China's success in comparison to "chaos" in the West, writers have argued, was nothing short of a "miracle in terms of economic development and social stability." Xi's September 2020 speech at the obviously premature celebration of the triumph in pandemic containment echoed these themes.⁵⁷ He said that China had achieved a "heroic feat in humankind's fight against disease," with the system clearing an "extraordinary test of history." In doing so, it had demonstrated the strengths of the system of socialism with Chinese characteristics, through extraordinary organizational, mobilization, planning and coordination, and implementation capabilities. In making this case of systemic and moral superiority, Chinese officials and media have compared Chinese infection and fatality data with those of Western developed countries, particularly the United States. They've argued that unlike the Communist Party of China, which put people's lives and safety first, American politicians have prioritized "political self-interest" and "short-term economic interests" along with the "interests of capital" above the safety of public health and people's lives when it comes to dealing with COVID-19.⁵⁸

The framing of the pandemic as a profound once-in-a-century event which has brought changes that are intertwined with the shifts in the geopolitical balance of power along with constant references to Xi's personal leadership and systemic comparisons indicate that ensuring low rates of infections and deaths is a legacy issue for Xi Jinping. Therefore, this is not something that one should expect him to ease up on in order to simply pursue economic growth targets. For instance, during his visit to Wuhan in June 2022, Xi seemed to soften the expectations with regard to the annual growth targets, calling on officials to "strive for a *relatively good performance* in this year's economic development." That said, performance legitimacy cannot be maintained if economic development, employment and livelihood concerns are unmet.

From an economic development prism too, Xi's primary argument, which has been largely echoed across the Party-state ecosystem, has been that dynamic zero-COVID remains the best policy option. In saying this, one would be remiss in not reiterating that there exist policy debates around this proposition, which have led to redefinition of goals and tweaks in implementation, as mentioned above. Nevertheless, addressing the Politburo Standing Committee meeting in late March, Xi reiterated an oft-repeated claim that ever since COVID-19 response measures were enforced on a regular basis, China had "led the world" in both economic performance and pandemic response.⁵⁹ The rapid recovery in economic activity following the historic slump in 2020 and comparison to other major economies appear to have reinforced this view. This

⁵⁷ Xi, J. 2020. 'Speech at the National Commendation Conference for Fighting the Novel Coronavirus Pandemic'. 9 September. Available at https://web.archive.org/web/20201105055549/http://paper.people.com.cn/rmrb/html/2020-09/09/nw.D110000renmrb_20200909_1-02.htm

⁵⁸ "新冠肺炎死亡超百万，一场不该出现的‘国家悲剧’（钟声）" People's Daily, May 16, 2022, http://paper.people.com.cn/rmrb/html/2022-05/16/nw.D110000renmrb_20220516_6-03.htm.

⁵⁹ "XI Requires Swift Containment of Latest COVID-19 Outbreaks," Xinhua, March 18, 2022, http://www.china.org.cn/china/2022-03/18/content_78115150.htm.

argument, along with Xi's comments in Wuhan in June 2022 about the dynamic zero-COVID policy having "temporary impacts on the economy," are indicative of the view that brief, targeted controls containing outbreaks early result in lower economic costs than choosing coexistence with the virus.

Proponents of this view argue that pandemic containment is a necessary condition or a "powerful guarantee" for future economic growth and stability. They also claim that it is important to take a long-term view on economic development. From this viewpoint, the pandemic had provided a "stress test under actual combat conditions" for China's industrial and supply chains, and if one were to assess the "essential nature of the situation," it would be clear there was now an opportunity to strengthen "competitiveness and risk prevention and control capabilities."⁶⁰ This can be achieved by focussing on building the new development pattern through investments in technological and industrial transformation, advancing the development of a unified national market, focussing on high-quality Belt and Road cooperation and pursuing self-reliance and supply chain diversification.

Meanwhile, others, such as Premier Li Keqiang, appear to be proponents of the need for "striking a balance" between reviving the economy and containing outbreaks⁶¹ by adopting "more targeted and well-calibrated" control measures.⁶² Over the past few months, Li has repeatedly emphasized the need to support enterprises and stabilize prices and employment, as part of the immediate steps that are required to address the economic fallout of the dynamic zero-COVID policy.⁶³ In doing so, he has called on local officials to act with a "sense of urgency"⁶⁴ and demanded that they "place stabilizing growth in a more prominent position."⁶⁵ The official readout of the State Council's Executive Meeting in May, which announced the 33 measures to stabilize the economy, quoted Li as saying that "without a certain level of GDP growth, stable employment cannot be realized."⁶⁶ The meeting also committed that "freight logistics will be kept smooth. Restrictions on the passage of trucks from low-COVID-risk areas will be lifted and all undue height limits and arbitrary charges scrapped. Non-local drivers of

⁶⁰ "重要之年看开年," People's Daily, May 13, 2022,

http://paper.people.com.cn/rmrb/html/2022-05/13/nw.D110000renmrb_20220513_1-01.htm.

⁶¹ Wei L., and Spegele, B. "WSJ News Exclusive | China's Top Two Leaders Diverge in Messaging on Covid Impact," The Wall Street Journal (Dow Jones & Company, May 26, 2022), <https://www.wsj.com/articles/chinas-top-two-leaders-diverge-in-messaging-on-covid-impact-11653486508>.

⁶² "Premier Vows Further Efforts to Deepen Opening-Up," State Council People's Republic of China (Xinhua, July 20, 2022), https://english.www.gov.cn/premier/news/202207/20/content_WS62d811e2c6d02e533532e42d.html.

⁶³ "Chinese Premier Urges Efforts to Stabilize Employment, Safeguard Livelihoods," Xinhua, June 29, 2022, <https://english.news.cn/20220629/1eddba2494114abb99ef6b536a322223/c.html>.

⁶⁴ Xie Jun, "China Ups Ante in Tackling Economic Challenges, as Premier Li Urges Speedier Policy Support," Global Times, April 11, 2022, <https://www.globaltimes.cn/page/202204/1259049.shtml>

⁶⁵ "Chinese Premier Stresses Need to Implement Policies to Stabilize Economy," China Internet Information Center (Xinhua, May 26, 2022), http://www.china.org.cn/business/2022-05/26/content_78237592.htm.

⁶⁶ "China to Take Steps to Stabilize Economic Activity, Bring Economy Back to Normal Track," Xinhua, May 24, 2022, <https://english.news.cn/20220524/3039cf6ed99743258621e6bd4052bb87/c.html>.

passenger and cargo vehicles will have equal access to free COVID testing as local residents.”⁶⁷ The fact that these issues were referenced in the readout implies that these are difficulties being encountered at local levels in terms of how the dynamic zero-COVID policy is being interpreted and implemented.

That said, in the final analysis one must be cautious in overinterpreting the differences in emphasis on short-term and long-term priorities and preferences of policy tools as significant dissent within the party ranks or a meaningful challenge to Xi’s authority or the persistence of the dynamic zero-COVID policy. It is perhaps much more useful to think of this from the viewpoint of contestation over specific policy measures and political jostling for positions among individuals and groups ahead of the 20th Congress to be able to influence different policy domains.

A framework based on the three pillars of *faith, fear and fruits* is perhaps a useful tool in understanding this dynamic.

a. *Faith*:

While it is never easy to precisely assess how much genuine buy-in Xi has managed to elicit from party cadres, there is significant information to suggest that he commands tremendous ideological influence. For instance, at least, 70% of the current effective central party regulations have been issued during Xi’s reign.⁶⁸ This is a measure of the expansion of his authority over the past decade. More critically, it is worth noting that a significant number of these revisions have taken place within the framework of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, which emerged as the party’s guiding ideology following its 19th Congress in 2017. The Two Establishments – which refers to the establishments of Xi’s authority as the core of the Central Committee and the whole party and the establishment of his political doctrine as the party’s guiding ideology – outlined in the third history resolution adopted at the 6th Plenum of the 19th Central Committee in November 2021 further underscored this. It is imperative to not underestimate the significance of this ideological shift as mere rhetoric. In Leninist systems, ideology comprises programmatic and epistemological elements, which inform governance at all levels. Outright challenges to the party’s guiding ideology, therefore, can be a recipe for systemic instability. Finally, since October last year, there have been several leadership changes at the provincial levels. A significant number of the new provincial party chiefs are reported to have close ties to Xi or are connected to known Xi allies. Articles and statements by several of these individuals lavishing praise for Xi, particularly since the 6th Plenum, are also worth noting.

⁶⁷ Ibid.

⁶⁸ 中国共产党党内法规体系. People’s Daily. August 4, 2021.
http://paper.people.com.cn/rmrb/html/2021-08/04/nw.D110000renmrb_20210804_1-01.htm

b. *Fear:*

Of course, one can question the genuineness of these statements. How deeply do these individuals truly believe that Xi Jinping is the “beacon,” “compass” and “helmsman” guiding the party – the People’s Leader, who deserves to be the core? Given the opacity of the Chinese system, making such an assessment is a fraught exercise. However, the hagiographic writings of senior party leaders indicate either the lack of broad political will to push back against Xi or that the political cost of such an effort is believed to be extremely high and, therefore, unviable. In his study on Chinese politics, Joseph Fewsmith explains that in Leninist systems, control over critical positions within the party apparatus is critical to a leader’s power.⁶⁹ Viewed from this prism, Xi continues to enjoy unparalleled authority within the system. Over the past 10 years, he has structurally concentrated power. His control over the party’s ideological, propaganda, security, organization and disciplinary organs appears to be as firm as ever. Therefore, where faith may be lacking, fear is likely to yield desired behavior.

c. *Fruits:*

Finally, performance legitimacy, as mentioned earlier, has been key to the Communist Party of China’s narrative justifying its continued rule. This was amply evident in the Party’s year-long history campaign last year, which culminated in the third history resolution in November 2021. To quote from that document:

“Over the past century, the Party has led the people in forging ahead persistently, opening up the right path to national rejuvenation. China has moved from a state of disunity and division to a high level of unity and solidarity, from weakness and poverty to strength and moderate prosperity in all respects, and from suffering invasion and bullying to becoming independent, self-reliant, and confident. China has completed a process of industrialization that took developed countries several centuries in the space of mere decades, bringing about the two miracles of rapid economic growth and enduring social stability. Today, the Chinese nation is a thriving nation standing tall and firm in the East.”⁷⁰

In other words, delivering tangible developmental and security outcomes or fruits, have been a key aspect of the Communist Party’s pitch to the Chinese people. A number of actors are involved in this process, jostling for power and influence, and evidently there have been significant misgivings of late. The Chinese economy is under increasing pressure. China’s external environment has become much more challenging than it was 10 years ago. State-owned enterprises have grown stronger at the cost of the private sector. Anti-monopoly efforts have led to significant losses for consumer technology firms. Efforts towards building a unified national market are likely to adversely impact

⁶⁹ See, Joseph Fewsmith, *Rethinking Chinese Politics*. (Cambridge University Press., 2021)

⁷⁰ *Resolution of the Central Committee of the Communist Party of China on the Major Achievements and Historical Experience of the Party over the Past Century*. Adopted at the Sixth Plenary Session of the 19th Central Committee of the Communist Party of China on November 11, 2021

vested local interests, given that the stated goal is to remove local protectionism market segmentation.

In the context of the dynamic zero-COVID policy, there is evidence, most prominently in Shanghai and Beijing, of public frustration with repeated lockdowns, limitations with regard to access to public spaces, repeated testing, and policy uncertainty. Among local officials, there is also likely to be significant frustration with regard to the increasing challenges of pursuing policy objectives that increasingly appear mutually incompatible. In managing these challenges with regard to fruits, the leadership appears to have used different tools at narrative and policy levels. For instance, at a narrative level, it has focussed on high infection rates and fatalities in the West to serve as a negative example for the Chinese public that might be frustrated with the zero-COVID policy. Another narrative example was Shanghai Party Secretary Li Qiang publicly acknowledging and thanking the city's population for their "sacrifice" in dealing with the outbreak.⁷¹ At the policy level, meanwhile, there are adjustments that have been made to respond to public criticism. The reversal of the decision to impose vaccine mandates for access to public places in Beijing in July is one such example.⁷² Another example is the acceleration in issuing of local government bond quotas for 2022 and enhancing infrastructure spending.

Viewed from this framework of the three pillars of *faith*, *fear* and *fruits*, it appears that the dynamic zero-COVID policy is on firm ground when it comes to the first two pillars. Contestation and experimentation with regard to fruits will likely continue, leading to adjustments and uncertainty.

III. How has the CCP tried to control information flows about its Zero-COVID policy? How is it managing domestic and international scrutiny? What are the most reliable sources of information coming out of China on the COVID-19 situation? What are their strengths and limitations?

Throughout the course of the pandemic, the Communist Party has used several soft and hard measures to control the narrative around the origins of COVID-19 and its policies. Taken together, these measures have led to significantly diminished transparency, with Party-state media outlets and the official narrative dominating the information ecosystem.

The soft measures refer to selective – and generally uncritical – coverage of the pandemic situation across Party-state media outlets, the framing of the central leadership as being responsive and in control, pointing to Western developed countries' pandemic responses as negative examples, and the co-option of the experiences of ordinary people into positive stories of the Party and community's response to a

⁷¹ Yang Meiping, "Shanghai Party chief thanks people for pandemic efforts, outlines future." June 25, 2022, <https://www.shine.cn/news/metro/2206257181/>

⁷² "Beijing Scraps China's First Vaccine Mandate in Abrupt Reversal," Bloomberg, July 8, 2022, <https://www.bloomberg.com/news/articles/2022-07-08/beijing-revokes-first-ever-vaccine-mandate-after-public-outcry#xj4y7vzkg>.

calamity. Let me explain the last of these in further detail. In February 2020, more than 300 Party-state media journalists were deployed to report on the outbreaks in Wuhan and Hubei. The decision came following a directive by Xi during a leadership meeting on February 3, calling on the media to tell “the moving stories of how [people] on the front line are preventing and fighting the virus, telling the story of how China is combating the virus and showcasing the unity of the Chinese people in the face of the virus.”⁷³ These stories were eventually published as a compilation by late February.

Writing as Wuhan reopened in April 2020, political scientist Maria Repnikova described this trend of narrative appropriation succinctly, explaining that “China’s propagandists are skillfully incorporating into their storytelling some of the positive sentiments and plotlines that circulate among the public.”⁷⁴ In other words, the Party-state media narrative has consistently focused on nationalism, mobilization, organization and rejuvenation of the nation, while highlighting individuals whose heroic deeds embody the strengths of China’s socialist system. Key aspects of this narrative setting have also involved actively comparing infection rates and death tolls with Western countries, particularly the US, to those in China and leveraging positive coverage by foreign publications and analysts to reinforce the correctness and superiority of Chinese policies.

The primary objective of this effort, which continues at present, is to shape a favorable perception of the leadership’s response to the pandemic. The external dimension of this effort has also included efforts to highlight China’s sacrifice, the resilience of its economy and governance system, and its generosity. The sacrifice narrative was in part a response to early criticism of the delayed response to the outbreak in Wuhan. Beijing argued that its unprecedented decision to lock the city down was an unparalleled sacrifice to benefit the world. The narrative around economic and systemic resilience has been targeted at foreign businesses and governments in an effort to ensure enterprise and investor confidence. The generosity narrative, meanwhile, revolves around the supply of pandemic-related goods to other countries, either through aid or commercial exports. The primary objective of these efforts has been to shape the perception of China as a responsible major power that remains open and is *the* engine of global economic growth.

The hard measures refer to denial of access, censorship, coercive legal action against critics and the use of disinformation. The annual reports published by the Foreign Correspondents Club of China in 2021 and 2022 paint a grim picture of how the Chinese government has used the pandemic to significantly frustrate the work of journalists in the country. The 2021 report talked about the expulsion of journalists, weaponization of visas, harassment and intimidation along with the use of new surveillance systems and

⁷³ Li, J. 2020. ‘China is Dispatching Journalists to Tell the Coronavirus Story It Wants Its People to Hear’. Quartz, 6 February,

<https://qz.com/1798070/chinaseeks-to-create-positive-media-coverage-about-coronavirus/>

⁷⁴ Repnikova, M. 2020. ‘Does China’s Propaganda Work?’. The New York Times, 16 April. Available at <https://www.nytimes.com/2020/04/16/opinion/china-coronavirus-propaganda.html>

strict controls on movement – implemented for public health reasons – to control foreign journalists.⁷⁵ The 2022 report details how the Chinese government has used strict pandemic measures as a reason to delay approvals for new journalist visas, shut down reporting trips, and decline interview requests. In essence, “covering China is increasingly becoming an exercise in remote reporting,” the report said.⁷⁶

Limiting access, however, is merely one of the coercive measures in the Chinese government’s toolkit. In promoting its own sanitized, state-sanctioned collective memory of the pandemic, the Chinese government has used censorship and coercive instruments of the law to impose a sort of selective amnesia. Since the start of the pandemic, several regulatory measures have been adopted, strengthening online censorship, and a large number of articles and social media posts expressing dissent or alternate viewpoints have been taken down. Citizen journalists like Zhang Zhan⁷⁷ and archivists linked to the Terminus 2049 project⁷⁸ have been sentenced for violating the law. In a recent assessment, Sarah Cook, Research Director for China, Hong Kong, and Taiwan at Freedom House, has documented how views of medical professionals, grassroots health workers, online influencers and scholars were censored during the Shanghai outbreak earlier this year.⁷⁹ Even remarks by the World Health Organization Director-General Tedros Adhanom Ghebreyesus on the unsustainability of the zero-COVID policy came under the scanner by censors.

Finally, throughout the pandemic, Chinese officials and media have engaged in disinformation campaigns around the origins of the novel coronavirus and the pandemic responses of other countries. In particular, there has been significant focus on the impact of the pandemic in the United States, with Party-state media framing the issue from the prisms of racial and economic inequality and a failure to protect the human rights of American citizens. What’s further troubling from a public health perspective are the findings of a 2021 European Union study of Chinese and Russian disinformation

⁷⁵ Media Freedoms Report 2020: ‘Track, Trace, Expel: Reporting on China Amid a Pandemic’, FCCC, March 10, 2021, <https://fccchina.org/2021/03/10/media-freedoms-report-2020-track-trace-expel-reporting-on-china-amid-a-pandemic/>

⁷⁶ Media Freedoms Report 2021: ‘Locked Down or Kicked Out’, FCCC, January 31, 2022. Available at: <https://fccchina.org/2022/01/31/media-freedoms-report-2021-locked-down-or-kicked-out/>

⁷⁷ Wang, V. 2021. ‘Chinese Citizen Journalist Sentenced to 4 Years for Covid Reporting,’ The New York Times, October 8. Available at: <https://www.nytimes.com/2020/12/28/world/asia/china-Zhang-Zhan-covid-convicted.html>

⁷⁸ Davidson, H. 2022. ‘Detained, missing, close to death: the toll of reporting on Covid in China’, The Guardian, January 4. Available at: <https://www.theguardian.com/world/2022/jan/04/detained-missing-close-to-death-toll-reporting-covid-china>

⁷⁹ Cook, S. 2022. ‘China’s Censors Aim to Contain Dissent During Harsh COVID-19 Lockdowns’, The Diplomat, May 18. Available at: <https://thediplomat.com/2022/05/chinas-censors-aim-to-contain-dissent-during-harsh-covid-19-lockdowns/>

campaigns around the pandemic.⁸⁰ The study documents how Chinese and Russian media and officials have been pushing misleading narratives sowing doubt around the safety of Western vaccines, while also accusing the West of perpetuating a global vaccine divide that hurts developing countries.

IV. To what extent has Beijing used the COVID-19 pandemic to innovate new methods of social control? How do you expect this to shape Beijing's long-term capabilities in this area?

This has not been an area of my research. However, as the findings of the Foreign Correspondents Club of China's report referenced above and the recent scandal around officials in Henan tampering with the health code system to prevent angry bank customers from traveling to Zhengzhou show, the system lacks transparency and is ripe for abuse.

V. The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to your testimony?

1. The experience of the COVID-19 pandemic over the past two years has highlighted the need for greater transparency and multinational cooperation with regard to public health challenges and bio-security. In this context, the US government must continue to remain engaged with the WHO and it must engage the Chinese government too, pressing for greater transparency in disease and health reporting along with free access for journalists, international experts and researchers. ***At the same time, it is critical for the US to work more closely with like-minded partners on addressing future health security challenges. Therefore, I recommend that the US government pursue the establishment of a Pandemic Research Hub and the development of a Public Health Intelligence Sharing Network within the Indo-Pacific, nestled within the Quad framework.***
2. China's dynamic zero-COVID policy is likely to persist for the foreseeable future. Lockdowns of varying intensities and policy uncertainty will, therefore, continue to adversely impact business continuity across a range of sectors. Consequently, the global economic recovery is likely to remain stymied in the near term owing to supply chain shocks. This impacts not just the broader American economy but also enhances critical sector vulnerability. ***Therefore, I recommend that Congress continue to work with the US government to build supply chain resilience through on-shoring, near-shoring and friend-shoring with like-minded partners, particularly with regard to critical sectors.***

⁸⁰ EEAS Special Report: Short Assessment of Narratives and Disinformation around the COVID-19 Pandemic (Update December 2020 - April 2021). Available at: <https://euvsdisinfo.eu/eeas-special-report-update-short-assessment-of-narratives-and-disinformation-around-the-covid-19-pandemic-update-december-2020-april-2021/>

PANEL I QUESTION AND ANSWER

COMMISSIONER MANN: Thank you, Mr. Kewalramani.

It's time now for question and answers, and I will start calling the Commissioners. I would remind everybody that you have five minutes of time each. And let's start with Commissioner Bartholomew. Is -- she's not on.

Okay, Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you for appearing today, all three of you. Very much appreciate what you have to say.

I'm curious, I have, really have the same question, kind of a yes-or-no question for each of you. And then because we don't have enough time to hear a long explanation, tell me what you think will happen after you answer yes or no.

After the fall meeting when things are resolved one way or the other for Xi Jinping, many of our witnesses think that's preordained. But after that occurs, do you believe that zero COVID could potentially go away, and what will happen to the economy then in China?

And Mr. Huang, you can start.

DR. HUANG: Thank you, Commissioner Borochoff, for your question. I think it could be yes and no. It depends on first on what the economic situation will be like after the party congress. I think if the economy's continued that free fall, I think he might have to have a second thought on zero COVID, especially if he has managed to consolidate his position after the 20th party congress.

But of course there's also the issue of the two session, right, in spring 2023, so to complete the leadership transition. So he might have to -- might think of waiting until after March 2023.

COMMISSIONER BOROCHOFF: And if he does do it, will there be an immediate to their economy?

DR. HUANG: Well, I think if he chooses to abandon zero COVID, well, that is going to certainly send a very strong policy signal to China's economic recovery. And I expect, and as we have seen over -- in the past, you know, there's likely going to be an immediate and positive economic rebound after that.

COMMISSIONER BOROCHOFF: And Dr. Qazi, what does the Beige Book think?

MR. QAZI: You know, I don't think that we're going to see zero COVID being dialed back or wrapped up after the party congress. I think it's important to keep in mind that President Xi downward, there's an acceptance that we're in a period probably for a long time of very slow growth or at least slow growth. And of course gives you some maneuverability on the economic front.

I think this question is really reliant on their access to mRNA vaccines that actually work and be able to sufficiently, you know, inoculate enough of the elderly population. Because the alternative could result in a far worse economic picture than even what you're seeing today.

COMMISSIONER BOROCHOFF: Thank you. And Mr. Kewalramani.

MR. KEWALRAMANI: Thank you. I agree with the previous speaker. I don't think that we'll see the zero COVID policy go away in its entirety. I think we'll see some degree of adaptation.

It depends on the healthcare costs. And like I said, it's a legacy issue for Xi Jinping to be able to project victory at minimum cost of lives in -- with regard to the pandemic. So I don't think it will go away.

Yet I do think there is a greater impetus in terms of trying to find ways in which the economy can be -- can be maintained and you don't resort to large-scale lockdowns like you've seen in the past.

COMMISSIONER BOROCHOFF: Thank you for those very succinct answers. I yield the rest of my time.

COMMISSIONER MANN: Thank you. Commissioner Cleveland.

COMMISSIONER CLEVELAND: Thank you, and thank you to our witnesses for appearing. I have two questions, I think probably for Mr. Huang.

If I heard you right, you are arguing for some kind of collaboration when it comes to working on COVID policy, the global pandemic, that there should be a way to -- whether it's research or other means of public health collaboration.

I want to set COVID aside for a moment and look at the -- an emerging crisis, which some of us who worked on AIDS issues early on see as of concern, and that's monkeypox. What evidence is there that on that issue, that Chinese public health officials have cooperated, collaborated, are interested in sharing research?

Since that's been a forward-looking crisis, we don't have to revisit the history of what happened, what's the evidence that they are interested in collaborating on that issue?

And then the second question I think again for Mr. Huang is you talk about the second-order crisis in China is -- and public health has to do with mental health. And that the rocketing numbers in terms of people who have depression, panic, anxiety, and other mental health issues are of concern in terms of social stability.

Again, what's the evidence that there was any support for any of these issues prior to COVID? My study of it is there haven't been adequate mental health services available for Chinese citizens. So I'd like your assessment of both of those issues. Thank you.

DR. HUANG: Thank you, Commissioner Cleveland, thank you for your questions. As to the first question, so far, to my knowledge, I haven't heard that China has expressed any explicit desire to share with the U.S. and other countries monkeypox-related information, that may be in part because monkeypox is not considered an emerging, even a major public threat. Because essentially there's a lack of cases in the country, even though the WHO has announced monkeypox as a public health emergency of the international concern. The problem here --

COMMISSIONER CLEVELAND: Mr. Huang, can I stop you on -- can I just stop you on that point quickly. Given how Xi has represented that he -- the strategic importance of Africa, where this epidemic is underway, do you have any knowledge of whether or not he's -- Xi and the CCP are willing to provide any kind of meaningful support or research to those strategic partners at this early stage of the epidemic?

Sorry, go ahead.

DR. HUANG: Thank you. So far we haven't seen any sign that China has reached out to Africa on working together to fight monkeypox. But, well that is because China has -- the COVID-19 has absorbed all the attention.

So that we have seen that China in terms of the health-related development research -- health-related development assistance has sort of come to a halt, especially in terms of the relationship with Africa.

It actually has not started to reach out I think to Africa to reserve a health-related assistance. I'm not -- I'm talking about, you know, the issues beyond the COVID-19. It has just started, to my knowledge, resuming that cooperation. So there is really not much information to share at this moment.

But we have also learned, right, that the Ministry of Science and Technology, for example, is not very enthusiastic about sharing samples with the outside world. It has the actually the drafting regulations, you know, that prohibit the sharing of disease samples with the outside world.

In fact, the -- even though China has shared the COVID-19, the sequence, the genomic sequence with the international society, so far it has not shared any samples.

Second, about the second-order problems, the mental health issues, it is -- it was, actually, a major concern among the public health community on the emerging mental health crisis, because according to the first international survey, on the mental health conditions in the country, they have seen the almost like 17% of adults had some kind of mental health issues, you know.

So the COVID-19 actually has exacerbated the problems, you know, that raised the concerns. But that could have the implications for social stability. In fact the Premier --

COMMISSIONER MANN: Please conclude now, we're running out of time, so.

DR. HUANG: So, yeah, Premier Li Keqiang, you know, has implied this could be a concern when he said we want to prevent any moral red lines to be crossed out, you know, that -- during the pandemic.

COMMISSIONER CLEVELAND: Thank you. I'll follow up for the record on that. Thanks.

COMMISSIONER MANN: Thank you. Commissioner Fiedler.

COMMISSIONER FIEDLER: Yes, thank you. The -- every new variant of COVID appears to be more transmissible. I'm -- my questions involve the three sort of groups: transportation workers, truck drivers, railway workers, aircraft workers; migrant workers; and factory workers who live in dormitories where social distancing is virtually impossible.

And I have not read any information on these groups of people or on the problem generically of transportation workers and the impact on transmission and zero COVID over time. And obviously each of those groups is critical to the functioning of the Chinese economy.

So any and all responses would be welcome here.

DR. HUANG: Thank you -- am I on? Commissioner Fiedler. I think the factory workers indeed represent this at-risk populations in COVID prevention and control. I think we have seen that in Singapore, right. They have this -- the -- these workers, foreign workers, have been a major contributing factor for the outbreak in the country during the pandemic.

But when China, because of the zero COVID strategy, I think once they have identified even a single-digit number of cases, then immediately that will be followed by, you know, government, non-pharmaceutical interventions to cut the transmission chain.

You know, so, you know, that means, but that the -- that the -- even though those factory workers represent at-risk group, right, so far the data have not -- have not showing like -- like a significant concern in China's -- the pandemic prevention and control. We don't -- so far have no data suggesting, right, that most of those case, like from migrant workers.

COMMISSIONER FIEDLER: Go on, anyone else?

MR. KEWALRAMANI: If I could add to that?

COMMISSIONER FIEDLER: Yes, please.

MR. KEWALRAMANI: Yes, so what we've also seen is that whenever there has been an outbreak, even -- even if it's a single case, we have seen the kind of measures that Dr. Huang talked about.

But also what we've seen in the last -- in the last year, in the last six months, is that

factory workers have been constrained and they've been, you know, they've been localized in their compounds to ensure that operations are running. And whenever there have been cases within those compounds, there have been reports -- there has been reporting which tells us that individuals have been isolated, there's been repeated testing to make sure that there isn't a spread.

So that's been a policy that they've made sure that they continue with so that -- to ensure that at least operations at particular facilities that may be critical, are continued.

COMMISSIONER FIEDLER: Have they focused vaccination efforts on these workers?

MR. KEWALRAMANI: Not that I'm aware of that there has been. From what I understand, there has been an effort -- there was an effort initially to sort of prioritize them, at least in -- from what state media has told us. But not that I'm aware of as a singular campaign that has been launched.

COMMISSIONER FIEDLER: So we don't know anything about any you know, for instance, truck drivers specifically who go from one area of the country to another.

MR. KEWALRAMANI: What they have done right now is that they have allowed for -- there have been restrictions across local governments as truck drivers cross through. And they've allowed for -- for more truck drivers who are traveling to different provinces and different cities to be able to access testing facilities so that they can be isolated in case there are cases.

But there's been no data that I least I know of which talks about specific vaccination efforts focusing on these people.

COMMISSIONER FIEDLER: Thank you. I'm done.

COMMISSIONER MANN: Commissioner Friedberg.

COMMISSIONER FRIEDBERG: Thank you very much, thank you. I have a question for Dr. Huang, and also one for Mr. Qazi.

Dr. Huang, you described two scenarios. One in which the regime moves away from its current policy and accepts an increase in the number of COVID cases, at least for some period of time. And another in which the system breaks down. They try to maintain it, but it fails, in which case presumably the results are even worse.

I wondered might there be several other scenarios. And let me just identify two and get your reactions to them. One would be a situation in which the regime continues with the current policy more or less indefinitely as it plays whack-a-mole. Every time cases increase, it imposes the localized containment policies that it's been pursuing, and that goes on indefinitely.

And then the other would be an off-ramp in which presumably there's some change in their ability to deal with the spread. I assume that would have to involve either the development or the acceptance or the use of some more effective foreign vaccine.

So that would be my question for Dr. Huang.

Mr. Qazi, you, in your written testimony, you make the observation that the regime's response thus far to the pandemic suggests that there's been a fundamental shift in thinking about the management and the future trajectory of the economy, and in particular that they've decided not to unleash some large, presumably investment-driven stimulus to sustain the economy.

Could you comment more on that? When do you think that decision was made? Are you confident that it is a permanent decision? So Dr. Huang, to you first.

DR. HUANG: Thank you, Commissioner. I think both the scenarios are likely. The -- for that whack-a-mole approach that tried to basically indefinitely postpone the abandonment of that policy, the -- actually what is -- this is what the government is doing.

They're trying to normalize, routinize the zero COVID policy by making the test, right, the part of the routine of people's lives, especially in large and the medium-sized cities. But the

problem here is that this is still going to represent a risk, right, to -- an uncertainty doing business in the country. You know, so the economic cost, like the -- a continued, a continued rise.

And secondarily, when there's also cost of maintaining that approach, like the cost of conducting PCR testing. But they are -- the local government, which is, you know, is debt-ridden, but they already, they have the problems of financing what is the -- the direct expenses, you know.

So you know, in Shanghai, they were talking about even making that out-of-pocket, right, that people pay, just sort of like a tax too. So that is not going to, I think, continue in the long run in my opinion because of this huge financial cost associated -- and economic cost associated with this approach.

Then what the possibility of China may be to import the foreign vaccines. You know, that could give them more confidence in terms of opening up, right, in terms at least relax that approach.

The problem here is so far we haven't seen any -- no indication that government is willing to import foreign vaccines, you know. Certainly there is the issue of techno-nationalism. They want to approve their own home-grown mRNA vaccines first before they approve the foreign vaccines.

But there's also this issue, right, of the inherent tensions between the vaccination and zero COVID policy. Because the zero COVID policy cannot tolerate any infections. But even the best of vaccines cannot prevent infections.

So that give them -- also reduce some incentives to introduce more effective foreign vaccines.

COMMISSIONER FRIEDBERG: Thank you.

MR. QAZI: On that second question, you know, I think what you've seen over the last year and a half, at least at this point, is this essentially refusal to use the bazooka, right. Because the economy, especially over the last six months, has been in a pretty tough position.

But you saw parts of the economy like the consumption side of the economy really begin to slow at some point last year and remain lackluster through most of last year.

So the fact that you don't have a big monetary push that has taken place, counter to the expectations of the market, etc., suggests that there was a shift about a year and a half, two years ago or so in terms of altering that growth model, of moving away from that investment-led high debt, high growth model.

Do I think this is permanent? Hard to say, but it certainly seems the direction in which the Chinese economy and its policy planners are headed at the moment. Otherwise I think this year specifically you would have seen some serious amounts of monetary stimulus. You would have seen far bigger fiscal stimulus take place than there has been any evidence for so far.

So I'll stop there.

COMMISSIONER FRIEDBERG: Thank you very much.

COMMISSIONER MANN: Thank you. Commissioner Glas.

VICE CHAIR GLAS: Thank you to everybody in your testimony and your expertise on this issue.

Mr. Qazi, I have some -- two questions for you, so hopefully we'll get to question number two. But you talked in your testimony about the Chinese Government using inflated data and how it masks the economic impact of the COVID-19 shutdowns, and we all have seen that with various supply chain reports.

But there's been a consistency -- consistently a lack of transparency on COVID-19

transmission and on COVID itself. This data has helped inform Wall Street and others related to their economic projections. And obviously there's a different story on the ground, right, with housing and other issues really showcasing what the impact has been.

To what extent do you believe that we are over-relying on inflated data from the Chinese, and what impact has that had on the U.S. economy, especially now? And so I'd be -- and then I have another part of this question as well for you.

MR. QAZI: Thank you very much. Yeah, the issues relating to data integrity as far as the official Chinese data are concerned are well known for decades, if not years and years at this point. The big issue that we face within the U.S. for example if that we've got research arms off pretty much every major investment bank that's out there that is reliant almost exclusively on the Chinese Government's official data.

Even in instances where they'll claim to have forecast models of their own, if you read through the methodology, it is all rejiggered Chinese official data, if I may. Which creates a real big problem for us because then you have potentially investment decisions that are being made or actual investments that are being made on that basis, you know, with the assumption, for example, back then, being that the Chinese economy is doing far better than it actually was.

And you saw the consequences of that when the market was surprised in 2021 with a much weaker economy than was supposed, or right now, where the assumption was that the Chinese economy is moving towards a liftoff phase and there's going to be a significant rebound. Or you're going to get massive amounts of stimulus, etc.

None of that has happened, and a lot of bets have gone wrong because of the bad data that I think a lot of these investment advisory teams on the street, on Wall Street, have relied on. So there are economic repercussions when investment decisions go bad when you plow money into something like bad data.

VICE CHAIR GLAS: Thank you for that. And agree with you that it is well known, but just wanted to make sure that was stated for the record.

In addition, when I was looking at your recommendation that you also spoke about in your oral testimony, you talked about that the Commerce Department should do sort of a tracker on supply chains and understanding that. And actually, over the last decade, Commerce used to track domestic production for industry. That, unfortunately, was cut due to budgetary constraints.

So, and it as also part of your recommendations, you talk about on-shoring and near-shoring production chains. How would this tracker help with some of those efforts?

MR. QAZI: Yeah, so I think, you know, when we talk about supply chain dependency on China, the reality is that we need to sit and say, okay, well, what matters most, what are the most critical things that we need to be concerned about and where, you know, which industries and which supplies matter by comparison, at least a little bit later, especially in terms of policy action.

I think a tracker of this nature helps us understand here are the critical industries, here are the industries that we're most concerned about. As I said, medical devices, pharmaceuticals.

And if you start breaking them down by parts, subcomponents, medical devices that we actually utilize, medicines, etc., and what proportion of all of this is coming from China.

As I said, where is it located, because then that can help us understand what happens tomorrow if there's a shutdown. What happens tomorrow if there's a geopolitical crisis which leads to interruption of supplies and so forth.

But for us to act and decide in which areas, in which industries, which component parts

do we need to be most concerned about vis-a-vis moving supply chains to somewhere else, I think having an understanding of the depth of reliance is probably a helpful way of starting, rather than sort of maybe flying blind.

COMMISSIONER MANN: Thank you. Is Commissioner Goodwin with us? I don't think so. Commissioner Schriver -- excuse me, Commissioner Scissors.

COMMISSIONER SCISSORS: Okay. Shehzad, who's your favorite China Beige Book employee, okay? Sorry, sorry. Just as a disclaimer, Shehzad and I are both China Beige Book employees, and our boss is possibly listening and I want to take a shot at him.

I do want -- I do have a methodological comment, and then sort of a response to Kim's question now that she's gone, so that'll work out great.

In a crisis, so we -- Shehzad gave this comparison of official data being more rosy than China Beige Book data. In a crisis, China Beige Book data actually systematically are too positive because we rely on surveying firms. And if in a crisis, the firms die, we can't ask them anymore how they did.

So in a normal time, this isn't really an issue. But in a high stress time like the second quarter of this year, we're actually overestimating the results. And yet, our results are weaker than official data. So I just wanted to drive home that methodological point.

Also, to strengthen the point in response to Kim, I'm not, you know, it's not just that Wall Street investment houses and investment houses in other countries use official data, and I'm going to ask Professor Huang a question about this. It's that they are -- they are systematically exaggerating China's prospects for the sake of chasing money.

This extends to consulting firms like McKinsey, right, China is such an interesting market and you need our help. Okay, well, if it's not an interesting market, don't need your help, so you better say it's an interesting market. And we've seen it very recently and very intensely with regard to Wall Street.

So Chinese stocks -- sorry, the stock market and Wall Street asking for money to invest in Chinese securities. Chinese stocks aren't necessarily linked to the economy.

But we still have American investment firms running around chasing money, saying oh, you really got to get in on China, when they have not only bad data but a bad argument that, you know, there's -- the valuations are low, as if Chinese valuations work the same way as U.S. evaluations.

So I agree, of course, with the fact that we have exaggeration in the financial community here. But it's not just limited to using official data, it's hawking a China story for the sake of fundraising or actual payments.

Now, half my time was used on up commentary, but I do have a question for Professor Huang. I followed your work for a while pre-COVID. You use official data a lot. Of course, it's the only game in town to a lot of extent, so there's not much you can do. I face the same limitation.

On the health side, if you think there are weaknesses in official data, where would you put them right now? In other words, you're a longtime observer, we're all stuck using official data on Chinese health statistics pretty much, not all the time, but a lot. Where would you see the biggest weakness in the quality of official data at the moment?

DR. HUANG: Thank you, Commissioner Scissors. I think what is -- in terms of the official health-related data from China, I think, and certainly not all of them, right, are unreliable. You know, that there are some of those, especially that's considered politically and sensitive that still rely, especially if you look at the long-term, you know, trend, right, the list, even what the is

the issues, that the full -- specific items might be.

But if you look at it from the long-term trend, but they still can tell you something, you know, about, you know, what is going on there, right. And also, right, that it also depends on what item you're looking at, right.

For example, the COVID infections in the country, right. Certainly what is the problem of cover-up during the initial stage of the outbreak, but after Wuhan, you know, then before that's the -- this round of the -- this outbreak.

But the infection data because of that strict zero COVID policy, you know, that overall I think that those data are reliable, including those mortality data.

Because simply if you choose to lie, there's going to be -- it will put you in big trouble, right, if suddenly, right, there's the outbreak in the country, say, in your locality. They are in -- the local officials would be in big political trouble.

So it all depends on what data we are looking at, you know, that -- to -- and what time period you are looking at, you know, and what kind of, yeah, the -- and whether we are looking at the long-term and short-term trend.

COMMISSIONER MANN: Thank you. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you to all the witnesses, appreciate your long-term work and your testimony. I got a lot of questions, but I'll try and make them -- shorten them. Mr. Qazi, you talked about an investment tracker, and if you could briefly respond as to both the deficiencies of current information.

So for example, the Commerce Department publishes every -- every year, but with a two-year backlog, information under the MME reports, which has data on outsourcing -- I shouldn't say outsourcing. Activities of U.S. multinationals in the China market.

And our staff published a study showing that the rate of R&D by U.S. companies in China, the rate of increase understanding the pace is important, is higher in the pharmaceutical and chemical sector than it is on their spend here.

We also saw as it relates to bipartisan legislation in both the House and Senate regarding outbound investment tracking that the business community strongly opposed that initiative. What gives you any confidence that we are going to be able to have a better mechanism for a tracker, as you point out, and do you believe existing authority is good enough, that's first question?

Second question goes to the question of the lockdowns. And U.S. imports, understanding the impact of inflation on per-unit prices, but U.S. imports from China now exceed on a monthly basis the level pre-pandemic, 2019. I've heard stories of the closed-loop system in terms of production actually resulting in, you know, strong coercion if not forced labor activities to keep plants operating.

If anyone has knowledge of how that quote unquote closed loop system is working and whether it appears to be pretty successful in terms of export-led growth approaches by China, how one evaluates that.

So Mr. Qazi, do you want to start on the first question?

MR. QAZI: Yes, thank you very much. So on the first question, I think when we think about a supply chain dependency tracker, the really -- the biggest deficiency is that if we were to try to ask this question today, okay, well, you know, what percentage off, yeah, masks, for example, are coming from China.

Where are they being produced specifically, geographically where, and you know, how does that -- you know, and in what part of the overall picture does that make up.

Maybe you get answer. How exact is it, I'm not sure. But if you start getting more and more complicated, for example, you go with a contrast dye shortage illustration I had earlier, or you start talking about specific tubes that are used during operational procedures or to keep patients breathing post-operation, do we really know those things? Probably not.

So I think that's where it comes in, this idea of really understanding our reliance in a concrete, quantitative manner comes in. I think some of the other things that you mentioned in terms of outbound investment and looking at U.S. companies' R&D in China of course is integral to all -- to the larger supply chain shifting conversation that we have.

On the second question, certainly when you think about closed loop, you're splitting workers up into teams, you're forcing a certain amount of workers to stay on site and you're forcing them to essentially isolate. That naturally creates several concerns about, you know, sort of their ability to freely move.

Beyond that, I personally am not aware of any other data or information suggesting how much of that includes forced labor and so forth.

COMMISSIONER WESSEL: On either of those two questions, either of the other witnesses have thoughts? If not, I have a separate question.

DR. HUANG: As to the second question, I think, yeah, I agree that so far we don't have any systematic data that showed there is indeed forced labor going on in those closed loop system. And in a way, I think the foreign business who ordered to operate under closed loop in fact is -- they are sort of like plan B options.

In a way they are also welcome that option, especially if the other parts of the city actually are under the stricter zero COVID policies, you know, that may represent the only viable option, you know, that the business -- the factories continue to operate.

And plus, there's the other kind of forced labor. If you compare, even though it exists, right, if you compare it with other, the restrictions on people's movements, like during the lockdown when you are not allowed to even come out, right, to do grocery shopping. But that's, you know, no -- it's -- I think it's at least comparable, right.

COMMISSIONER WESSEL: I don't know that I would consider it comparable if an individual is required to be housed in a dormitory away from their family supporting the profits of a manufacturing concern versus their ability to be with their loved ones at a critical time.

But my time is elapsed. And if there's a second round, perhaps we'll come back to that. Thank you.

COMMISSIONER MANN: Thank you. Commission Chairman Wong.

CHAIRMAN WONG: Thank you. So Mr. Huang, in your testimony you talk of and recommend greater U.S.-China cooperation on -- on global health or on public health.

And I do appreciate that you discussed how the United States over the past generation has done a lot to provide technical assistance to the Chinese to cooperate with them to improve their capacity for their own public health.

That's only one example of the United States and how we've really worked to improve the lives of the Chinese people, and that's at odds with some narratives out there that we have not done that or even gone the opposite way of trying to negatively affect the population. I think we've been a positive force in the lives of the Chinese people, so thank you for highlighting that.

My question, however, though, to your recommendation is you do, and I understand this is a recommendation to the United States Government, indicate that there's some reluctance on the part, or maybe some reluctance on the part of the Biden Administration to forthrightly engage the Chinese on this. I actually don't see it that way, and maybe I'm wrong.

But isn't it -- isn't it more the problem is the CCP's desire to reciprocate or respond to entreaties to cooperate on public health? And this is not just on COVID, you know.

My understanding going years back is examples of the political and strategic use of certain global health goods like flu samples for the development of flu shots year round. That has been delayed or not forthrightly given by -- by Chinese institutions. The strategic use of supplies of PPE. We could list other examples.

So maybe you could talk about the level of desire on the part of the CCP to engage in such cooperation.

DR. HUANG: Thank you, Chairman Wong. I think in terms of the level of desire of cooperating with the United States from China, I think indeed, there are variations.

You know, when we talk about technical, working-level still to Chinese scientists, you know, the lower middle level, the public health officials, you know, they still express, you know, desire to cooperate with their U.S. counterparts in research and development.

On technical issues, you know, non-sensitive political issues like, you know, non-communicable disease. On environmental health, you know, population aging, and others, you know.

But when we talk about the, like minister-level, right, that the -- they're also -- there's the variations here. One minister of foreign affairs, you know, they might be more interested in working with the United States, but over those issues related to public health. And also engaging China on global health.

But when you -- like, the ministers of the science and technology, you know, National Health Commission, they might actually be more lukewarm in terms of reaching out, you know, to the United States. And simply this -- the landscape has changed, right, or the landscape of cooperation of changed, where they're no longer basically need the U.S. expertise, in their opinion I think, especially during the COVID. They believe they have done a better job than the United States in combating COVID.

There's also funding. They no longer need the U.S. funding, right, because now they have the money.

So that incentive also has been significantly reduced at the minister level, especially for those lead ministers that are supposed to participate in the cooperation.

CHAIRMAN WONG: Thank you. And Mr. Kewalramani, in your testimony you talk and analyze some of the drivers of CCP thinking on COVID to maintain stability. And maybe I could just ask you to expand a little bit upon a point that I want to press on.

You know, in my view, this is the first time in a long time, and perhaps in the memory of some economic and political elites in China in the economic centers of Shanghai and Beijing, it's the first time that they've experienced really acute material crisis.

So whether it's food insecurity, whether it's severe social control and lockdown, whether it's economic displacement or a more generalized higher risk profile for future investment.

So my question is given that situation, if you agree with that, how does this, and how can it affect for the long term, the faith of economic and political elites in CCP legitimacy and management of the economy and society?

MR. KEWALRAMANI: Thank you, thank you so much, Commissioner Wong.

My view is that, I mean, we should be looking at firstly from the point of the view of the general public in Beijing and Shanghai. My sense is that yes, this has been a bit of a rude shock in terms of how the party has managed the pandemic, and particularly the last few months the kind of restrictions that have been imposed.

And we've seen a reaction, but we've also seen the party sort of adapt to it. For example, when vaccine mandates were imposed in Beijing, they were rescinded within two days. So the party has been responsive to some of these complaints.

And Shanghai likewise -- and likewise when it comes to vaccination, what you've seen is instead of forcing vaccination, we've seen an attempt at a nudge very recently with the announcement that all Party-state cadres at the senior level and central level have been vaccinated with Chinese vaccines.

So we've seen that there the party has sort of adapted with a nudge and with policy adjustments as in and when required.

COMMISSIONER MANN: I think we're out of time. If you could just finish up very quickly.

MR. KEWALRAMANI: Sure. Finally, on the point of elites, my sense is that from an elite point of view, there is significant fear. And Xi Jinping controls the levers of coercion, and he's demonstrated that he's willing to use them. Along with that, there is significant buy-in with regard to the direction of his leadership. So therefore I don't see any immediate sort of pushback in that sense.

COMMISSIONER MANN: Okay, thank you. Commissioner and Co-Chair Schriver.

COMMISSIONER SCHRIVER: Thank you. Well, I'd be happy to continue along these lines if you had something further to say, and I'd like to hear from the other witnesses too. I think the key question, and maybe the hardest question, because we're asking you to peer into the most opaque of the opaque, is how this might affect party cohesion, how this might impact any potential challenge to Xi Jinping.

So Mr. Kewalramani, if you had more to say on that topic about potential for party dissent, I know you didn't get into it in your opening statement. And from the other witnesses too, any signs whatsoever that this could create political difficulties for Xi Jinping?

And not just limited to the party congress, which I think is going to be a pretty scripted event. But even beyond that, are there -- is there anything emerging that would suggest that these policies could create problems for Xi Jinping and his control?

MR. KEWALRAMANI: Thank you, thank you so much, Commissioner. So in my testimony I put out a framework of fear, fruits -- faith, fear, and fruits.

And my sense is that looking at the evolution of Xi Jinping's control in terms of the key institutions of the party-state apparatus, including the institutions of coercion, looking at the change in terms of his ideology and his party guiding ideology.

And these are not rhetorical changes. These are epistemologic changes, these are programmatic changes. And we can see that impact of these sort of ideas across party policy.

From a faith point of view, he is in a much stronger position. Now, we can question the amount of buy-in that he has from provincial and local cadres, we can look at their statements, we can read the rhetoric that they're putting out, the profuse praise for him. And we can see that, you know, while we may question the genuineness of that, there is sufficient faith -- there is sufficient fear to not push back against these policies.

We've seen no significant local experimentation of COVID lockdowns. We've seen very, very careful maintenance of what the central leadership wants whenever it has pressed. So we've seen that where faith has not worked, fear is working. That gives me a sense of how much Xi Jinping -- how much control Xi Jinping enjoys.

Finally, the framework of -- the framework has this pillar of fruits, which is where I think we're seeing contestation, on economic policy, on adjustments with regard to lockdowns and

healthcare policy. And I think we'll see much of -- much more of that.

But I don't think we should think of that as significant pushback against his leadership, whether it's going toward the 20th party congress or subsequently. I think Xi Jinping is on very - - is on very firm ground, and so is zero COVID policy.

MR. QAZI: The only thing on that question I'll quickly add is I think parts of the press in recent months really played up this idea that there perhaps are going to be or there are challengers to Xi's leadership or control of the party.

And the only comment on that is that I think at times it's very, very difficult to identify by the newspapers themselves that are carrying this information what the sourcing on any of this stuff is. Right, so I think we need to take this with many grains of salt, and because it's just very, very hard to verify what looks like otherwise to not really be the case at all. Thank you.

DR. HUANG: Commissioner Schriver, I think this is a great question. I think it -- the harm caused by the zero COVID policy after highlighting the differences between Premier Li Keqiang and the President Xi, it's very clear that Premier Li's top priority is to fix the economy. And for President Xi still maintenance of zero COVID.

But it's very clear even among what the -- even the Chinese -- the officialdom, the middle ranking, you know, government officials, I mean, the pragmatic ones didn't even want to hide what they are -- their dissatisfaction with the zero COVID.

So I sense that there's indeed some in a sense staff dissatisfaction in Chinese officialdom. You know, that's sort of put President Xi on the defense you know when he was talking about it. Overall, you know, our policy is still good and the economy is still good.

And of course the recent -- this development including Speaker Pelosi's visit might have helped President Xi in terms of diverting attention from the wounds caused by the zero COVID, I mean the nationalist backlash that this caused.

COMMISSIONER SCHRIVER: Thank you. I might get in on a second round if there's time. Thanks.

COMMISSIONER MANN: Yes, I hope there's a second round. Thank you.

In my own time, I wanted to focus in on the question of low vaccination rates for the elderly. In other -- many other aspects of Chinese life and with COVID in Shanghai, the Chinese regime has shown an ability to persuade or compel people in China to do things that they don't want to do.

So why the low vaccination rates for the elderly? Is it because they are not the working age population? It can't simply be that elderly people don't want to do something, because that would not be enough for the party. Or the -- well, I'll let you explain. I don't, I just don't get it. Mr. Huang, yeah.

DR. HUANG: Commissioner Mann, this is a great question. I think in terms of the low vaccination rate among the elderly, this is actually, it's confluence of factors.

It certainly has something to do with the Chinese vaccine. The efficacy rates, you know, are relatively low. That sort of gave the -- and the safety remains a concern because it has not in the clinical, first three clinical trials not include large number of elderly people.

So there's a lack of data on the efficacy rate, on the safety, you know, for the elderly people. And there's also a issue of the government vaccination strategy. Because unlike the United States, in China basically prioritize the healthy young adults in launching the vaccination drive, you know.

So this mixed the public messaging from the government in terms of the effectiveness of the vaccine on the elderly, you know. So that -- elderly, who wants, even though he wants to get,

you know, vaccinated if he has hypertension, he goes to the doctor, the doctor very likely will tell him, well, probably you don't want to get vaccinated. Oh, you know, I don't know.

So you know, this is the public messaging problem also I think hindered the popularization of vaccination, you know, vaccines among the elderly.

COMMISSIONER MANN: Mr. Qazi or Mr. Kewalramani, any thoughts?

MR. QAZI: Just very quickly. Yeah, it's absolutely a mystery.

But to Dr. Huang's point, perhaps, the real question is with efficacy rates being what they are with these vaccinations, even if you are to do a forced drive and you get the adult, the elderly population vaccinated, does it really help you change your COVID zero approach that much? Probably not, would be my assumption.

DR. HUANG: And plus the claimed success, right, of the zero COVID strategy creating sort of, you know, virus free and then shielding the population from COVID-19 also generate the false sense of security, right, among the elderly. Said well, you know, I don't -- even though I don't get the vaccine, I still will be safe.

COMMISSIONER MANN: Mr. Kewalramani. Any thoughts?

MR. KEWALRAMANI: Yeah, I don't have anything -- no, I don't have anything specific to add.

COMMISSIONER MANN: All right, that -- we do have some time for a second round of questions. Commissioner Scissors, I know you had one. Shall we go in order?

COMMISSIONER SCISSORS: Whatever order you want.

COMMISSIONER MANN: Go ahead.

COMMISSIONER SCISSORS: I have a -- my mandatory comment on the exchange with Professor Huang about cooperation with China, which is, again, we should not be calling it China. Because there was the China of Jiang Zemin, there was the China of Xi Jinping now. There is a future China. I do not see much point in cooperating with Xi Jinping's China on health issues.

That does not mean the U.S. should never cooperate with China. We should cooperate with a future China that is a little less, you know, run less by a cult of personality.

That's just a comment that when we say U.S.-China cooperation, we really have to talk about which China we're discussing. Because U.S.-China cooperation has been substantial in the past, it may be substantial in the future. I do not think it can be substantial while Xi Jinping is in charge.

My question is to follow up from what Aaron asked you, Shehzad, which is, you know, the confidence in the change in the development path. As you know, I wrote about this last year, so obviously I'm biased. But you know, let's -- let's think about three scenarios, once COVID is really controlled. Not, we announce it's controlled, but it really looks controlled.

So this could be a long time. You know, there was that little slip-up of Beijing will be facing dynamic zero COVID for five years, everyone freaked out. But you know, if COVID is active elsewhere in the world, China will be putting very strict controls on.

So it's sometime in the future. It's 2024, it's 2025, we don't know when. Three scenarios. The Chinese go just right back to where they were, it's 2019 all over again. We have exactly the same policy. Shehzad, Scissors, we're both totally wrong.

Second scenario is we have become accustomed to slower growth, we don't need to expand growth because the workforce is shrinking anyway. And debt is a bad idea. We've gotten into too much debt, so we're not doing that anymore.

And that's where you and I are kind of pushing, but we're not confident.

COMMISSIONER MANN: Commissioner, could you come to your question?

COMMISSIONER SCISSORS: Yes. Third, I have to give the third scenario and let him have a choice. Third scenario is that is there some sort of a compromise where they put a floor on growth because they want to run faster than the U.S.

And that is an important political thing to say. And you can announce whatever you want, but a growth of zero and you announce five, it's a big gap.

So give me a sense, 2025, post-COVID, they go back. They change their development model, as we've hinted at, or there's this compromise where, okay, growth isn't that important as long as we're outrunning our rivals.

MR. QAZI: So I think there are a couple of things. One, is the old growth model running out of road because of the number of mini financial crises or different crises that are popping up, either what you're seeing in property or elsewhere. And the large amount of bad debt that's circulating around the country and the recognition of all of that.

The second is of course a long-running theme that we've been hearing about, which is ideally the party would be able to have some kind of economic transition which allows it to shift towards a more consumption-driven growth.

Now if that is something they're actually committed to accomplishing into the future, well, then, there are tradeoffs. You're not going to get really high levels of growth or be able to beat the U.S. perhaps if you are trying to get this to be a consumption-driven economy.

So it really depends on how serious the party gets about that second factor, right. Because the first one we understand that it seems like there's quite a lot of evidence suggesting okay, growth model run out of road and high investment, high debt, and all that.

Are they actually committed towards shifting this towards a consumer-driven economy? Do they know how to do that, what the plans for that really actually look like and not just the party announcing it to the press every, you know, six months or so?

So I think that's where -- that's where it comes in. And slower growth therefore will just, will have to happen. Probably neither scenario, but especially if you're looking at a big economic transition.

COMMISSIONER SCISSORS: I thank you for making me look good by finishing quickly.

COMMISSIONER MANN: We have ten minutes left. It's not time enough to go in alphabetical order. Do other Commissioners have questions? Commissioner Fiedler.

COMMISSIONER FIEDLER: I would ask all three witnesses do you believe that zero COVID will work for China, your personal opinion.

MR. QAZI: I think I can go first.

(Simultaneous speaking.)

MR. QAZI: So far it seems like obviously not, because you know, you keep getting repeated, obviously, outbreaks. You keep, you know, if you're shutting down places like Shanghai and Beijing's going under a de facto lockdown, the evidence suggests that it can't work. It's not sustainable.

DR. HUANG: Well, I think it is successful in terms of sustaining, right. That there's still extremely low level of COVID infection. And also the low COVID-related death, you know.

But, again, what considering the cost, the socio-economic cost, and considering the huge immunity gap between China and the rest of the world, you know, that in a way, you know, sustained because of the zero COVID policy's just too successful. So that's considered a failure

in that sense.

MR. KEWALRAMANI: And if I could just add to that. It depends on what you mean by success. If one is looking at it from Xi Jinping's political prism, he would probably look at it as extremely successful. It's allowed him to establish his position of strength politically.

It's allowed him to create a model which he's arguing domestically is superior and competitive with any other developmental model and model of governance in the world. So in that sense, it's successful for him politically.

Pragmatically for the Chinese economy, it's going to be challenging.

COMMISSIONER FIEDLER: My measure of success is the impact on the suffering of Chinese people.

MR. KEWALRAMANI: I think the argument there is in the context of the number of lives lost. And the argument that he's made fairly successfully at home is that the numbers of fatalities and infections tell you that you're in a much more secure position.

Whatever short-term economic pains you're dealing with are being addressed. And that's a legitimate sacrifice for the country and for society. In that sense, it's an argument, it's a narrative that has much -- much buy-in, you know, socially also.

COMMISSIONER FIELDER: You've actually answered my question in terms of what Xi Jinping thinks, not what you think. So, we've talked about variants are highly transmissible and every new variant is even more transmissible than the last. And Dr. Huang, you didn't answer actually your personal opinion either. So, do you think that with highly transmissible variants that zero COVID-19 will ultimately work?

DR. HUANG: I think in terms of the high transmissibility of new variants and in terms of sustaining these huge immunity gaps between China and the rest of the world. So, China will continue to be vulnerable to this virus.

So, when we talk about the success in terms of the ability to achieve the zero infection, that is certainly known, but again, when you talk about it from a President Xi's perspective, given that China is so large.

There are still only a relatively small number of people negatively affected by the policy despite the rising and social economic cost but the public support for that policy overall remains relatively strong, especially in smaller cities and in the countryside.

MR. KEWALRAMANI: If I could add to that my opinion, not Xi Jinping's view but my view, which is that I don't think the policy is sustainable and we're seeing that already in terms of the redefinition of its key goals.

Zero COVID-19 no longer means zero infections. So, I think the policy will be made to be sustainable by trying to re-interpret key goals and I think that's how it will survive.

But in its original appearance, it's no longer what it was. So, in that sense it's not sustainable.

COMMISSIONER MANN: Commissioner Schriver, you suggested you might have more for a second round?

COMMISSIONER SCHRIVER: I'll yield if there are other questions.

COMMISSIONER MANN: Are there other questions? Commissioner Glas?

VICE CHAIR GLAS: Dr. Huang, I just wanted to get back to the data question that I asked earlier in relation to COVID-19 and the transparency we actually have about the infection rate in China.

You just reaffirmed that infection rates have been low, deaths have been low but do we really know?

DR. HUANG: I'm glad you asked that question because I have some further thoughts on that issue after you ask that question.

When we talk about, for example, the COVID-related deaths, there is certainly the concern that the number might have been underestimated.

Even in Shanghai, for example, before April 19th, they would consider a COVID-19-related death essentially only COVID-19-caused death as a COVID-19 death.

And in fact, you only show the symptoms of pneumonia when you're infected with COVID-19 would be counted as a COVID-19 death before April 19th.

So, the mortality data from Shanghai before April 19th in my opinion is not very reliable. But after the 19th they have basically redefined the COVID-19-related deaths that are now similar to the United States.

And in the meantime, when we look at the overall mortality data, actually, there was always people questioning the reliability and accuracy of this data.

But one thing you could do is to compile the data from the National Health Commission or the National Bureau of Statistics with the Minister of Civil Affairs, that also keeps the data of the number of people who have registered death, death register data.

In fact, what I found is those numbers seem to be similar. So, that seems to suggest that even that death data overall in 2021, for example, seem to be reliable.

COMMISSIONER MANN: We have about five minutes. Is there any Commissioner who has as short question?

COMMISSIONER SCHRIVER: Aaron has one.

COMMISSIONER MANN: Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Thank you very much. My question is I think an extension of Commissioner Scissors' question for Mr. Qazi.

If you assume a continuation of the current Chinese policies, the zero COVID-19, what is your expectation about Chinese actual growth rate over the next several years?

MR. QAZI: It's a little bit to estimate but maybe we're looking at closer to two, two and a half percent, probably could go lower than that. It really depends on the decision the party continues to make.

So, there is a commitment saying we're only going to do a little bit of a fiscal stimulus to create some kind of floor so that we're not getting two and a half, three percent this year but maybe a few years down the road, that's a different story.

If you do get a reversal, to I think Commissioner Scissors' question earlier, the commitment towards holding back monetary stimulus goes away, that could of course change the picture a little bit.

But slower growth rates than what we've been accustomed to and the fact that the party has already walked away from its growth rate of five and a half percent, the target growth rate this year, tells you that we're probably in for a period of significantly slower pace economic expansion.

And let's be honest, I continue to believe in 2020 we got a contraction, it just was never acknowledged.

COMMISSIONER FRIEDBERG: As far as efforts to increase consumption, would you expect to see any change there if the zero COVID-19 policy remains in place?

MR. QAZI: It's hard to really feel consumption when you are shutting down not just factories, et cetera, but when you're literally disrupting transportation networks.

If truck drivers can only operate in limited capacities, they have to literally live within

their trucks when they're in other zones as they're making their deliveries, et cetera.

That makes it very hard, for example, to sustain a lot of e-commerce, so you can place orders but you may never get back the new pair of shoes or whatever that you may have ordered. So, that's a very specific example.

That's one part of it. The other element is we haven't seen the type of stimulus, again, targeted towards households in China that we got, for example, here in the U.S.

So, if you don't get that type of stimulus spending either, you're not necessarily encouraging households to spend to begin with.

So, there are some challenges in terms of spurring consumption while still maintaining this current zero COVID-19 approach.

COMMISSIONER FRIEDBERG: Thank you very much.

COMMISSIONER MANN: Is there a Commissioner with a two-minute question? No comment. All right, I want to thank all of our witnesses.

Thank you very much for your testimony, and we will now take a 10-minute break and resume with the next panel promptly at 11:20 a.m. Thank you.

(Whereupon, the above-entitled matter went off the record at 11:08 a.m. and resumed at 11:20 a.m.)

PANEL II INTRODUCTION BY COMMISSIONER RANDALL SHRIVER

COMMISSIONER SHRIVER: (Audio interference) Columbia University Center on Global Energy Policy.

Then we'll hear from Ms. Emily Weinstein. Ms. Weinstein is a research fellow from Georgetown University Center for Security and Emerging Technologies.

And finally we'll hear from Dr. Sheena Chestnut Greitens, who is an associate professor at the Lyndon B. Johnson School of Public Affairs at the University of Texas.

We thank you all very much for your testimony, the Commission is looking forward to your remarks and I ask that you keep your opening remarks to seven minutes to preserve time for our questions and answers.

Ms. Glaser, we'll begin with you.

OPENING STATEMENT OF BONNIE GLASER, DIRECTOR OF THE ASIA PROGRAM, GERMAN MARSHALL FUND OF THE UNITED STATES

MS. GLASER: Co-Chair Schriver and Mann, Members of the Commission and Staff, thank you very much for your invitation to testify on the implications of the Ukraine conflict for PRC Taiwan scenarios.

The impact of the Ukraine conflict on Chinese military planning for Taiwan contingencies in my view is not likely to be significant in the near term.

China's judgments about the implications of prior conflicts like the Falklands War and Desert Storm came only after a lengthy period of study and debate lasting at least one to two years.

With fighting in Ukraine still underway, the outcome of the conflict uncertain, it's premature to assess with confidence the lessons that Beijing will eventually absorb and translate into practice.

Moreover, the PRC's policy towards Taiwan has its own logic and timetable that will probably not be substantially influenced by Putin's war.

Based on the first five months of the war, China's study of Russian and Ukrainian operations has likely validated much of the PLA's existing invasion plans.

For example, the PLA plans to use overwhelming force to ensure information dominance over the information space as well as the cyber and electromagnetic domains. China's military likely plans to decapitate Taiwan's leadership.

Russia's mistakes in Ukraine in these areas will reinforce PLA current operational plans.

In my written testimony I outline some of the similarities and differences between Russia's invasion of Ukraine and potential Taiwan scenarios from a military perspective.

And here I'd like to highlight two crucial differences. First, since Russia shares a land border with Ukraine that is mostly flat terrain, rolling Russian tanks across the border was relatively easy.

An operation to seize and control Taiwan would require the PLA to transport hundreds of thousands of troops across the sea, 90 miles wide at its narrowest point.

The readiness of the PLA to successfully conduct an amphibious assault remains a subject of heated debate among experts.

Second, since Ukraine shares land borders with NATO members, the flow of weapons and humanitarian assistance into the country has been conducted without serious challenge.

As an island, Taiwan can be relatively easily cut off. The PLA's substantial air and maritime capabilities would enable the imposition of a blockade that would raise the escalatory risk of any re-supply efforts.

Therefore, Taiwan needs to prepare a large inventory of ammunitions in addition to food and other supplies.

At this juncture, I believe the lessons that Chinese leaders and the PLA may draw from Ukraine are more likely to induce greater caution than embolden Beijing to act against Taiwan in the near term.

However, there are potential lessons that could embolden Beijing that are dangerous. The most worrisome involves the utility of nuclear weapons in a crisis.

Putin's threat to use nuclear weapons and his decision to put Russian nuclear forces on alert may strengthen China's belief that nuclear deterrents could deter foreign intervention, enable conventional military conflict, and keep the conflict contained.

The military lessons that Taiwan draws from the Ukraine War may be even more important than the lessons drawn by the PRC. In my view, the most valuable lesson of the war for Taiwan is the importance of national resistance to foreign occupation.

Taiwan would benefit greatly from the establishment of a territorial defense force that provides basic combat and first aid skills to civilians, the demonstration of strong national resolve to fight to defend Taiwan's freedoms would send a strong signal to the PRC and contribute to strengthening deterrents.

Yet, so far there is no concrete plan to create a territorial defense force in Taiwan. In April Taiwan established its all-out defense mobilization agency, an organ to the MMD.

It was established before then but in April it issued the first ever war survival guide to citizens and that provided information about what to do in a crisis, including how to locate bomb shelters and make first aid kits.

It maybe a good first step but the Agency has not been tasked with organizing civilian resistance and I hope that the U.S. will strongly encourage and assist Taiwan to establish a territorial defense force and encourage the government to amass the energy, food, munitions, and medical supplies that it would need to survive the PRC assault.

The concept of integrated deterrence is introduced by Secretary of Defense Lloyd Austin and attaches great importance to working with our allies and partners.

Our allies and partners in both Europe and the Indo Pacific are increasingly concerned about China's destabilizing measures to change the status quo in the Taiwan Strait.

They will be willing to work alongside the United States in peace time and I believe in crisis, some of them perhaps in wartime, if they assess that Washington has a coherent strategy to deter Chinese aggression.

Going forward, the United States should take the following steps. It should seize the opportunity of growing international concern about Taiwan to continue to strengthen Taiwan's connections with other countries.

The U.S. should build a united coalition of like-minded countries willing to demonstrate the concrete costs that China would incur if it used force against Taiwan. This, of course, includes economic and financial costs but that's not the topic of my testimony.

It should strengthen Taiwan's ability to defend itself and to fight an insurgency if necessary.

We should increase Taiwan's inventory of missiles and other munitions and the U.S. and Japan should expand ongoing bilateral discussions and operational planning with an eye to building greater capability to jointly respond to Chinese aggression against Taiwan.

Finally, just a few specific recommendations for Congress.

I think that Congress should require the Department of Defense to conduct a review of Taiwan's progress in implementing defense reforms and developing capabilities to defend itself.

This has become a high priority for the United States, it needs to be a higher priority for Taiwan and I hope that we can do things to accelerate their progress. And having a review of their state and status now and where they need to go I think is important.

Congress should support the establishment of the Taiwan Security Assistance Initiative as called for in the Taiwan Policy Act that was introduced by Senators Lindsay Graham and Bob Menendez that authorizes \$4.5, I think it's now \$6.5, billion over 4 years in foreign military financing for Taiwan and prioritizes Taiwan's request for assistance.

And then finally, Congress should expedite the delivery of backlogged military equipment. I know this is a supply chain problem but the U.S. has agreed to provide this to

Taiwan.

I read the other day the harpoons may not arrive until 2028.

I think that's a little late so we need to take steps to make available the arms that Taiwan has already purchased that we have agreed to provide and make the arms sales process more transparent, and ensure the timely delivery of future arms shipments.

Thank you for your attention.

**PREPARED STATEMENT OF BONNIE GLASER, DIRECTOR OF THE ASIA
PROGRAM, GERMAN MARSHALL FUND OF THE UNITED STATES**

Testimony before the U.S.-China Economic and Security Review Commission
Hearing on Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine,
and Pacific Diplomacy

Bonnie Glaser
Director, Asia Program, The German Marshall Fund of the United States
August 3, 2022

Co-chairs Schriver and Mann, members of the Commission and staff, thank you very much for your invitation to testify on the implications of the Ukraine conflict for a PRC-Taiwan scenario.

Beijing is undoubtedly observing all dimensions of the Ukraine war. There are signs that the Chinese are paying close attention to the unifying effect that Putin's invasion has had on NATO. They are surprised by the speed and scale of sanctions imposed on Russia by the US and its allies in Europe and the Indo-Pacific. Beijing is likely also tracking the decisions by over 1,000 foreign companies to shutter or curtail their operations in Russia.¹ My testimony will focus on the lessons that the Chinese military may draw from this conflict, as requested by the Commission.

The People's Liberation Army (PLA) studies and learns from foreign wars, and the Ukraine conflict will not be an exception. If the past is a reliable guide, the Chinese military won't draw conclusions rashly. China's judgments about the implications of prior conflicts like the Falklands War and Desert Storm came only after a lengthy period of study and debate lasting 1-2 years. With fighting in Ukraine still underway and the outcome of the conflict uncertain, it is premature to assess with confidence the lessons that China will eventually absorb and translate into practice. Nevertheless, it is not too early to start thinking about these issues and their implications for integrated deterrence.

Based on the first five months of the Ukraine war, China's study of Russian and Ukrainian operations has likely validated much of the PLA's ongoing reforms and modernization plans, while also providing lessons that could result in adjustments aimed at enhancing the prospects of success at a lower cost if the Chinese leadership decides to launch an invasion.

Similarities and Differences from a Military Perspective

The most obvious similarity between Russia's invasion of Ukraine and a potential Taiwan scenario from a military perspective is that just as Russia has significant conventional military advantages over Ukraine, China has substantial conventional military advantages over Taiwan. But contrary to expectations, Russia's possession of an overwhelming military advantage in combat power was not employed in a way that could enable a quick victory. Instead, it was offset by skillful application of asymmetric military capabilities. If the PLA tries to seize Taiwan, it

¹ Yale School of Management Data Base, <https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain>.

will need to use massive force and move quickly. A second similarity is that both Russia and China are nuclear powers, while Ukraine and Taiwan are not but its backers are. A third similarity is that no country has a treaty obligation to defend Ukraine, and Taiwan also has no treaty ally, although the United States is required under the 1979 Taiwan Relations Act to sell Taiwan defensive weapons and has a policy commitment “to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.” However, Beijing has long planned for the possibility of US intervention in a Taiwan conflict, whereas Moscow did not have to factor in the potential for direct US involvement in planning its invasion of Ukraine.

The differences between Russia’s aggression against Ukraine and a possible PRC action against Taiwan are significant. Prior to Russia’s full-scale invasion in February 2022, it had already occupied approximately 7 percent of Ukraine, including Crimea and portions of the Donetsk republic. There were already tens of thousands of Russian troops occupying the Crimean Peninsula. By contrast, the PRC has not seized any of the ROC’s claimed territory. In addition, a total of 23,000 Ukrainian soldiers received training from the US and other NATO countries beginning in the aftermath of the 2014 attacks right up to Russia’s invasion in February 2022.² US training of Taiwan’s troops has likely involved much smaller numbers.

The geographical differences between the two regions are pronounced. Since Russia shares a land border with Ukraine that has mostly flat terrain, rolling Russian tanks across the border was relatively easy. An operation to seize and control Taiwan would require the PLA to transport hundreds of thousands of troops across the sea, which is 90 miles wide at the narrowest point. The readiness of the PLA to successfully conduct an amphibious assault remains a subject of heated debate among experts.³

Ukraine also has the advantage of sharing land borders with NATO members, which has enabled the flow of weapons and humanitarian assistance into the country over land routes. Delivery by land and air of Javelin antitank missiles, Stinger anti-aircraft missiles, small arms and ammunition and other weapons has kept the morale of Ukraine’s fighters relatively high and helped to give the Ukrainian military the ability to sustain the fight. Logistics could be the deciding factor in the war. As an island, Taiwan can be relatively easily cut off. The PLA’s substantial air and maritime capabilities would enable the imposition of a blockade that would raise the escalatory risk of any resupply efforts. The Chinese military would also be able to block Taiwan’s exports from Keelung and Kaohsiung, its major ports in the north and south. In a point

² David Vergun, “DOD Leaders Say Training Ukrainian Forces is Paying dividends,” DOD News, May 4, 2022, <https://www.defense.gov/News/News-Stories/Article/Article/3020199/dod-leaders-say-training-ukrainian-forces-is-paying-dividends/>.

³ For example, Kevin McCauley argues that the PLA likely does not currently possess the requisite logistics capabilities to successfully support a large-scale amphibious landing on Taiwan. *China Maritime Report No. 22: Logistics Support for a Cross-Strait Invasion: The View from Beijing*, China Maritime Studies Institute, U.S. Naval War College, July 2022, <https://digital-commons.usnwc.edu/cmsi-maritime-reports/22/>. Lonnie Henley maintains that the PLA’s concept of operations includes requisitioning civilian vessels operated by China’s maritime militia that could enable a large-scale ambitious assault. *China Maritime Report No. 21: Civilian Shipping and Maritime Militia: The Logistics Backbone of a Taiwan Invasion*, China Maritime Studies Institute, U.S. Naval War College, May 2022, <https://digital-commons.usnwc.edu/cmsi-maritime-reports/21/>.

of similarity with Russia's operations in Ukraine, Moscow has prevented Ukraine's grain exports by blockading the ports of Odesa and Ochakiv.

Will Ukraine Embolden or Caution Beijing?

The impact of the Ukraine conflict on China's approach to Taiwan in the near-term is not likely to be significant. There is no evidence that Xi Jinping has already made the decision to use military force to compel cross-Strait unification and the Ukraine crisis by itself will probably not lead him to make that decision. Beijing's policy toward Taiwan has its own logic and timetable that will not be substantially influenced by Putin's war. Reunification is an "historical mission" of the CCP, but where it fits among Xi Jinping's priorities and ambitions is not clear. Despite public opinion polls in Taiwan that show only a small percentage of the population support unification with China, CCP documents continue to state that "time and momentum" are on China's side.⁴ If the article by Taiwan Affairs Office Director Liu Jieyi published in *People's Daily* on July 7 is a reliable indicator,⁵ the Chinese Communist Party's new "Comprehensive Plan for Resolving the Taiwan Issue in the New Era" will contain many elements of continuity with recent policy, though I expect there will be increased emphasis on legal warfare and various forms of coercion.

Over time, as China's study of the war yields conclusions, some of those lessons may give the Chinese leadership greater confidence that it can succeed in a military takeover of Taiwan and embolden Beijing to act; other lessons are likely to inject greater caution. At this juncture, I think that the lessons that will induce caution outweigh those that will bolster confidence that an invasion can succeed at a low cost. However, as I noted above, it is early days and even if my analysis is correct today, China's assessment could shift over time.

Lessons that China may draw from the Ukraine conflict that could embolden Beijing include:

Employ nuclear threats: Putin's threat to use nuclear weapons and his decision to put Russian nuclear forces on "special combat readiness" may strengthen China's belief that nuclear deterrence could deter foreign intervention, enable conventional military conflict, and keep the conflict contained. Beijing appears to have already begun to shift away from its policy of building "a lean and effective deterrent force," as articulated in its 2009 Defense White Paper, and has likely already conditionalized its "no first use" policy.

Impede enemy resupply: The key role of logistics, as noted above, has been crucial in the Ukraine war. Russia has been unable to prevent NATO from providing weapons and other forms of assistance to Ukraine. In the case of Taiwan, resupply would be far more difficult, and Beijing would likely impose a blockade to isolate Taiwan and raise the escalatory risk of any resupply

⁴ *Full Text: Resolution of the CPC Central Committee on the Major Achievements and Historical Experience of the Party over the Past Century*, State Council, November 16, 2021, https://english.www.gov.cn/policies/latestreleases/202111/16/content_WS6193a935c6d0df57f98e50b0.html.

⁵ 刘结一 (Liu Jieyi) (2022). "Striving to Advance the Process of Reunification of the Motherland in the New Era and New Journey [在新时代新征程上奋力推进祖国统一进程]".

efforts. The PLA's confidence in its ability to cut off outside assistance could strengthen confidence that the PRC can prevail.

Ensure information dominance: A negative lesson that could embolden Beijing is the impact of leadership in Ukraine's battle against Russian forces. Ukrainian President Volodymyr Zelenskyy has played a vital role in inspiring patriotism in his people and encouraging them to continue to fight, while also marshaling international support for Ukraine's sovereignty. China has advantages that it may believe could enable it to dominate the information environment in advance of and during a conflict. These include the PRC's significant control over Taiwan's media, its ability to spread disinformation on social media, and its ability to limit or even cut off internet access. The PRC likely believes it can dominate the cyber, space, and electromagnetic domains. China's plan to establish information dominance will likely prioritize operations to decapitate Taiwan's political and military leadership.

Use overwhelming force and win a quick victory: Another negative lesson from the Ukraine war is that a decisive victory cannot be won without the use of massive force. China will double-down on its plans to invade Taiwan with overwhelming firepower. It will seek to achieve victory before the US can come to Taiwan's defense, and the Ukraine conflict has provided the lesson that the PLA must avoid getting bogged down in a protracted conflict.

Lessons that China may draw from the Ukraine conflict that could induce additional caution Beijing include:

The costs of war in blood and treasure will likely be high: To date, approximately 15,000 Russian soldiers have been killed in the war in Ukraine, and up to 45,000 more have been wounded.⁶ Unlike the Russian military, the PLA has no recent extensive combat experience. The PLA could lose large numbers of soldiers in an amphibious assault, and perhaps more in a protracted conflict on Taiwan's soil. Strong resistance by the Ukrainian population will require the PLA to consider Taiwan's will and capacity to resist, a factor that it previously discounted. Instead of a quick victory, the PLA could get bogged down in a stalemate. Consideration must be given to war termination and post-war governance.

The PLA can't count on having the element of surprise: The accuracy of US intelligence regarding the timing and plans of Russia's invasion of Ukraine has likely altered Beijing's thinking about whether it can achieve strategic-level surprise in an invasion of Taiwan. The mobilization required to invade Taiwan with overwhelming force cannot be completely hidden from US intelligence gathering satellites and other means.

China's security environment will deteriorate significantly: The Chinese leadership is increasingly worried about unfavorable trends in China's security environment, including the emergence of coalitions to push back against Chinese assertive behavior. The strong response of many countries to Russia's invasion and the willingness of the United States and its allies to punish Russia has not gone unnoticed. At the G20 foreign ministers meeting in Indonesia in mid-

⁶ Reis Thebault, Andrew Jeong, and Hari Raj, "CIA chief says 15,000 Russians killed in war, dismisses Putin health rumors," *The Washington Post*, July 21, 2022, <https://www.washingtonpost.com/world/2022/07/21/ukraine-russia-war-putin-fighters/>.

July, Russian Foreign Minister Sergei Lavrov was met with harsh criticism from many countries' representatives who called for Moscow to end the war and the grain blockade. Xi Jinping told President Biden in March that "the prevailing trend of peace and development is facing serious challenges." Global diplomatic condemnation of a Chinese attack on Taiwan is highly likely. Before embarking on an invasion of Taiwan, the Chinese will have to carefully weigh the reputational costs and determine whether an attempt to reunify the nation will enable or set back Beijing's ambitions to be a global leader along with its quest to achieve national rejuvenation by mid-century.

The civilian leadership needs to question its military's assessments: Prior to the launch of the invasion, Russia's military was overconfident about its prospects for a quick victory. We know very little about what the PLA's estimates are of its capabilities to seize and control Taiwan or what it the Chinese military has told Xi Jinping. But it is reasonable to assume that Xi Jinping could demand a high degree of certainty that an attack would succeed before launching a full-scale invasion. In the near-term, he may be skeptical of the PLA's assessment of its ability to take Taiwan as a result of the Ukraine war, and take measures to ensure that any deficiencies are first identified and rectified. The poor performance of Russia's military and Russian weaponry, especially in the early phases of the war, may add to Chinese doubts about PLA readiness to succeed in a military takeover of Taiwan.

Unintended consequences are unavoidable: The Ukraine war has led to numerous unintended consequences, including the expansion of NATO to include Sweden and Finland. Beijing also needs to consider the potential unintended consequences of a PLA attempted takeover of Taiwan by force. One possible unintended consequence is the increased willingness of countries with territorial disputes with China to forge closer ties with the United States and join quasi anti-China coalitions. A particularly alarming unintended consequence could be a decision by Japan to develop nuclear weapons, which might depend on the outcome of the war and Tokyo's perception of U.S. willingness and capability to defend Taiwan.

The implications of defeat must be considered: The Ukraine conflict is not over, but if Russia is defeated, Chinese leaders are almost certain to think more deeply about the implications of a PRC defeat. For Beijing, a failed attempt to seize Taiwan could weaken Xi Jinping's rule as well as CCP legitimacy and make China's attainment of national rejuvenation unattainable.

Taiwan's Military Lessons from Ukraine

Russia's invasion of Ukraine has heightened concern in Taiwan about the possibility of the PRC using force to attempt a takeover of the island. Taiwan's President Tsai Ing-wen is trying to use the Ukraine crisis to promote national unity as well as to encourage defense reforms that will strengthen deterrence and better prepare for defending the homeland if deterrence fails. At the same time, she has sought to reassure the public by insisting that Taiwan's circumstances are different from Ukraine and that the military is prepared to respond to any contingency. In March, Tsai donned army fatigues and body armor to observe army reservist training under a pilot program to enhance readiness. She told the reservists that "The recent situation in Ukraine once

again proves that the protection of the country, in addition to international solidarity and assistance, depends on the unity of the whole people.”⁷ On other occasions, Tsai has endorsed the concept of “asymmetric warfare” that emphasizes mobility and survivability in wartime.

Taiwan’s Ministry of National Defense (MND) warned in June that the PLA would be capable of fighting against Taiwan and allied forces by 2027, though it did not echo the claim by some Americans that 2027 is a target date for a Chinese invasion of Taiwan. The ministry cited steps that are being taken to improve Taiwan’s defense capabilities in joint operations to resist an invasion, including integrated air defense systems and maritime interception.⁸ It also noted that MND is planning to boost its missile production capacity to 497 from 207 per year. The National Chung-Shan Institute of Science and Technology plans to build 34 new facilities to manufacture missiles. Domestically produced missiles include Wan Chien air-to-ground missiles as well as the Hsiung Feng IIE missile and the longer range Hsiung Sheng land-attack missile.⁹ The ministry is also reportedly planning to start manufacturing attack drones.

Taiwan’s annual Han Kuang exercises this year incorporated lessons from the war in Ukraine. Major General Lin Wen-huang, director of joint operations under the military’s planning office, told reporters that the exercises would use lessons from the Ukraine conflict to “improve our capabilities in asymmetric warfare, cognitive warfare, electronic warfare and the reserve force.” He said the military would test the effectiveness of local forces in dealing with cognitive warfare launched by Beijing and mobilizing reserve forces in working with police, firefighters and civilian volunteers. The exercises reportedly used portable Javelin and Stinger missiles as well as military drones.¹⁰

Discussion is underway in Taiwan regarding whether to extend the period of compulsory military service, which was reduced to 4 months in 2013 as part of a plan to shift to an all-volunteer military. Sources suggest mandatory service will be extended to 10 or 12 months. Defense Minister Chiu Kuo-cheng has publicly committed to present a plan to bolster Taiwan’s defenses by the end of this year, which many believe will include extending national service.

Under the army reserve pilot program, which began implementation prior to the invasion of Ukraine, 15,000 reservists are being called up for two stints of 14 days, instead of four stints of 5-7 days, and their training regimen has been modified to include 10 hours per day, night training, live-fire drills, and training with active-duty soldiers. But the total amount of required training over the period of their eight-year service will not increase over the existing program.

⁷ “Taiwan’s Tsai says Ukraine war shows need for unity in defense,” *Nikkei Asia*, March 13, 2022, <https://asia.nikkei.com/Business/Aerospace-Defense/Taiwan-s-Tsai-says-Ukraine-war-shows-need-for-unity-in-defense>.

⁸ “China able to take on Taiwan, allies by 2027: MND,” *Taipei Times*, June 6, 2022, <https://www.taipeitimes.com/News/front/archives/2022/06/06/2003779417>.

⁹ Yimou Lee, “Taiwan to more than double annual missile production capacity amid China tension,” Reuters, March 3, 2022, <https://www.reuters.com/world/asia-pacific/taiwan-more-than-double-annual-missile-production-capacity-amid-china-tension-2022-03-03/>.

¹⁰ “Taiwan begins annual military exercise with lessons from Ukraine-Russia war on mind.” May 16, 2022, <https://www.firstpost.com/world/taiwan-begins-annual-military-exercise-with-lessons-from-ukraine-russia-war-on-mind-10681581.html>.

The results of the training program will be evaluated in the last quarter of 2022, at which time a decision will be made on whether to apply the new procedures across all the reserves.¹¹

Taiwan's lessons from the key role played by Ukrainian civilians in resisting Russia's armed invasion remain unclear. Defense Minister Chiu seemed to imply that he recognized the value of civil defense when he told reporters last March that giving people guns and sending them to fight after a few days of training was among the lessons that Taiwan could learn from Ukraine.¹² Yet there is no concrete plan to create a territorial defense force, in part because neither MND nor the Ministry of Interior supports it. In April, Taiwan's newly established All-Out Defense Mobilization Agency, an organ of the MND, issued the first ever "war survival guide" to citizens that provided information about what to do in a crisis, including how to locate bomb shelters and make first-aid kits. But the Agency has not been tasked with organizing civilian resistance.

Several non-governmental groups emerged in Taiwan to try to fill the gap even before the outbreak of the Ukraine war, including the Forward Alliance, which trains civilians in skills such as first aid and emergency response, and the Taiwan Military and Police Tactics Research and Development Association, a paramilitary organization composed of former, reserve, and active-duty special operations soldiers, members of Taiwan's SWAT police units, and others with special skills. Former Chief of General Staff Admiral Lee Hsi-min (ret.), continues to advocate for Taiwan to create a standing, all-volunteer, territorial defense force to signal the PRC that even if the PLA can successfully establish a beachhead on Taiwan's territory, it will not easily be able to occupy and control Taiwan.¹³

Based on my observations, there are efforts in Taiwan to draw lessons from the Ukraine conflict and apply them to strengthen Taiwan's defense capabilities, but the persistence of long-standing obstacles to defense reform will likely hamper those efforts. Moreover, Taiwan's government and military appears less urgent about the PRC invasion threat than their counterparts in the United States.

US and Allied Lessons from Ukraine for Deterrence in the Taiwan Strait

The concept of integrated deterrence, as introduced by Secretary of Defense Lloyd Austin attaches importance to working with our allies and partners. As Undersecretary for Policy Colin Kahl has stated, "We have to work alongside our allies and partners so that our adversaries know that they are not just taking on the United States, they're taking on a coalition of countries who are committed to upholding a rules-based international order."¹⁴

¹¹ "New intensified reservist training program set to launch," *Focus Taiwan*, March 2, 2022, <https://focustaiwan.tw/politics/202203020008>.

¹² "Taiwan's Tsai says Ukraine war shows need for unity in defense."

¹³ Thomson Chau, "Taiwan's ex-defense chief calls for sweeping military reforms," *Nikkei Asia*, July 20, 2022, <https://asia.nikkei.com/Editor-s-Picks/Interview/Taiwan-s-ex-defense-chief-calls-for-sweeping-military-reforms>.

¹⁴ Statement made by Undersecretary of Defense for Policy Colin Kahl during the Defense One Outlook 2022 summit, <https://www.defense.gov/News/News-Stories/Article/Article/2866963/concept-of-integrated-deterrence-will-be-key-to-national-defense-strategy-dod-o/>.

The Ukraine war has raised questions about whether the US and its allies did enough to deter Russian President Vladimir Putin from invading Ukraine. It is impossible to know whether Putin could have been deterred, but it is logical that a strategy aimed at deterring Putin had to focus on altering his cost/benefit calculus. Deterring a Chinese attack on Taiwan must similarly focus on changing Xi Jinping's cost/benefit calculus. We must understand where unification resides on Xi's list of priorities, as well as what he fears, and what will constrain him. We need to identify actions the US and our allies and partners can take that will deter Xi from moving against Taiwan and avoid taking measures that will likely provoke use of force.

Our allies and partners in Europe and the Indo-Pacific are increasingly concerned about China's destabilizing measures to change the status quo in the Taiwan Strait. They increasingly appreciate the imperative to avert crisis and preserve peace and stability. They will be more willing to work alongside the US in peacetime, crisis, and wartime if they assess that Washington has a coherent strategy that is unlikely to inadvertently provoke conflict with China, but instead will deter Chinese aggression.

Below are five important steps that the US and its allies can take as they seek to apply lessons from the Ukraine war to the task of strengthening deterrence in the Taiwan Strait:

- ***Seize the opportunity of growing international concern about Taiwan to strengthen Taiwan's connections with other countries.*** The US should encourage our allies and partners in Europe and the Indo-Pacific to expand their contacts and cooperation with Taiwan. Moscow underestimated the extent of international support for Ukraine. Steps should be taken to ensure that Beijing understands that many countries have a stake in preserving peace and stability in the Taiwan Strait.
- ***Build a united coalition of like-minded countries willing to demonstrate the concrete costs that China would incur if it used force against Taiwan.*** The sanctions that Western governments threatened to impose on Russia prior to the invasion were less severe than the sanctions they imposed after the invasion. The US and its allies should signal resolve to take measures that would inflict substantial pain on China's economy and deny China the ability to achieve national rejuvenation by Xi Jinping's stated goal of 2049. Advance coordination and planning with allies are essential. Candid discussions should include establishing redlines for various scenarios as well as courses of action in response.
- ***Strengthen Taiwan's ability to defend itself and fight an insurgency, if necessary.*** Assist Taiwan to establish a Territorial Defense Force. Taiwan should learn from such programs in Finland, Sweden, and the Baltic states. There is no evidence that PLA planning to date has anticipated a protracted war in Taiwan. The strong Ukrainian resistance has hampered the ability of Russian forces to achieve their military goals. Demonstrating the will and capability of Taiwanese citizens to fight to preserve their freedoms will introduce greater uncertainty and alter Beijing's risk/benefit calculus.

- ***Increase Taiwan's inventory of missiles and other munitions.*** Taiwan's missile production capacity is insufficient to enable Taiwan to fight a protracted war. The US should augment Taiwan's indigenous systems through the supply of anti-ship missiles, coastal defense cruise missiles, and precision-guided munitions, enabling Taiwan to stockpile large quantities of these capabilities. The US must also increase its own production of missiles in preparation for a Taiwan Strait crisis. If the US detects Chinese mobilization for an invasion, Washington should be prepared to supply additional weapons quickly.
- ***The US and Japan should expand ongoing bilateral discussion and operational planning with an eye to signaling the capability to jointly respond to Chinese aggression against Taiwan.*** Tokyo and Washington should discuss in greater detail their respective roles and missions in various contingencies. Effective allied response will require rapid policy decisions and implementation that necessitate advance planning.

Recommendations for Congressional Action

- Congress should require the DoD to conduct a review of Taiwan's progress in implementing defense reforms and developing capabilities to defend itself.
- Congress should support the establishment of the Taiwan Security Assistance Initiative as called for in Section 204a of the Taiwan Policy Act introduced by Senators Lindsey Graham and Bob Menendez that authorizes \$4.5 billion over four years in Foreign Military Financing for Taiwan and prioritizes Taiwan's requests for assistance.
- Congress should expedite the delivery of backlogged military equipment that the US has agreed to provide to Taiwan and take steps available to make the arms sales process more transparent and ensure the timely delivery of future arms shipments.

OPENING STATEMENT OF EDWARD FISHMAN, SENIOR RESEARCH SCHOLAR, COLUMBIA UNIVERSITY CENTER ON GLOBAL ENERGY POLICY

COMMISSIONER SCHRIVER: Thank you very much. Mr. Fishman?

MR. FISHMAN: Thank you so much. I appreciate the opportunity to testify today. Although, we're just five months into the conflict it's already clear that Russia's invasion of the Ukraine is a seismic event that will have implications for countless areas of U.S. foreign policy. Perhaps most important of all are the lessons for our policy towards China, in particular our efforts to deter Chinese aggression in the Indo Pacific.

My testimony today will focus on a specific set of lessons, those derived from the unprecedented economic sanctions that the United States and our allies have imposed on Russia in recent months.

I was part of the team that designed, negotiated, and implemented sanctions in response to Russia's 2014 invasion of Ukraine and annexation of Crimea. The difference between that experience and the more intensive campaign in recent months are instructive.

They help identify lessons that will be important for economic state craft against China. The biggest difference is that in 2014 Russia's operations to seize Crimea took us by surprise. As a result, by the time Russia's little green men had seized Crimea, we had no sanctions options vetted than ready to go.

By contrast, in the current crisis the first reports of Russia's military build-up on Ukraine's border came months before Putin gave the order to invade.

The Biden Administration along with U.S. allies in the G7 and beyond used this early warning to good effect, developing sanctions options, vetting them, and coordinating them in international contact groups.

They also took the initiative to declassify intelligence on Russia's military buildup and Putin's intentions. This deprived Moscow of the elements of surprise and confusion that it used to its advantage in 2014.

It also allowed the United States and our allies to attempt to use the threat of sanctions as a deterrent and to marshal significant public support for sanctions after Putin launched the invasion.

This one lesson that early planning and preparation are essential will be critical for us to wield the economic state craft effectively against China.

By any measure, China is an economic behemoth. Its economy is ten times larger than Russia's but size does not equate to invulnerability.

On the contrary, our experience with Russia hints that the more integrated a country is with the global economy, the more vulnerable it may be to economic state craft. Today China is even more enmeshed in the global economy than Russia was in 2014.

This is especially true in the financial sector. China holds somewhere between 50 and 60 percent of its foreign exchange reserves in dollar-denominated assets and it conducts most of its international trade in dollars.

China's also highly dependent on advanced technology from the West. For instance, in 2021 just 20 percent of the semiconductors used in Chinese-made products were produced in China.

That said, even though China is vulnerable to Western sanctions, economic state craft against China would be anything but easy. Sanctions against China could boomerang against

U.S. businesses and Beijing could retaliate with measures that harm American interests.

An ad hoc approach to sanctions against China, therefore, will simply not cut it. It's tantamount to playing with fire. Over the last decade, China has also taken steps to insulate itself from U.S. sanctions.

One of these steps is its effort to obtain self-reliance in advanced technology such as semiconductors and I anticipate some of our other witnesses will talk about this.

But the most significant is Beijing's strategy to reduce its dependence on the U.S. dollar and Western financial infrastructure. China's growth as a financial power has gone far beyond its rises in economic power.

China is the world's leading trading economy but the renminbi share of global currency and letters of credit and collections is less than two percent. The dollar, by contrast, represents a share of almost 90 percent.

China's efforts to elevate the renminbi as a global currency have enhanced Beijing's reluctance to relax capital controls.

Despite Beijing's easing of some of these strictures, China's capital account remains one of the most tightly controlled in the world.

China has also begun developing financial infrastructure that could serve as the backbone of a more globalized renminbi.

The centerpieces of this strategy are China's Cross-border Interbank Payment System, CIPS, and its central bank digital currency, known as the digital renminbi.

But these infrastructures will only threaten U.S. financial power if the renminbi itself comes to rival the U.S. dollar as a medium exchange and store of value.

This is highly unlikely in the foreseeable future. Russia's invasion of Ukraine and the unprecedented sanctions that the G7 has mustered in response demonstrate the centrality of economic statecraft in great power competition today.

But our processes for designing and deploying sanctions and other tools of economic statecraft remained underdeveloped.

For the United States to compete effectively in this new world, it is essential for both the Executive Branch and Congress to enhance America's capacity to develop and execute economic statecraft. There is no time to waste.

I encourage the Commission to consider the following five policy recommendations. First, we must systematically plan in advance. We can do this by establishing a permanent Interagency Committee in the Executive Branch for contingency planning and strategy development and economic statecraft.

Second, we must systematically consult with allies. We can do this by designing international contact groups for high-priority areas of economic statecraft and coordinating policy in those fora.

Third, we must strengthen the ability of economic statecraft to deter. We can do this by enacting laws that identified triggers for significant economic penalties, establishing processes for determining whether those triggers have been met and prescribing a menu of options for penalties.

You'll notice a theme of mine in both my written and oral testimony is the importance of clarity if we're going to use these tools to deter China. And I think both international statements as well as Congressional action can provide that clarity.

Fourth, we must play defense. We can do this by preparing contingency plans to defend against other countries' uses of economic statecraft against the United States and our allies. Fifth

and finally, we must put the best players on the field.

We can do this by training and developing government personnel skilled in economic statecraft. For any of these policy initiatives to come to life, Congressional action will be necessary.

Because of its mandates to make policy recommendations to Congress, the Commission can play a critical role in strengthening U.S. economic statecraft against China.

It's an honor to address you today on this critical subject. Thank you for your time, I yield the floor.

**PREPARED STATEMENT OF EDWARD FISHMAN, SENIOR RESEARCH SCHOLAR,
COLUMBIA UNIVERSITY CENTER ON GLOBAL ENERGY POLICY**

**

Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and Pacific Diplomacy
Panel II: Russia's Invasion of Ukraine and Implications for Integrated Deterrence

August 3, 2022

By Edward Fishman¹

Hearing Co-Chairs Mann and Schriver, Commission members, and staff, thank you for the opportunity to speak with you today. I commend the Commission for calling a hearing on this critical subject.

Although we're just five months into the conflict, it's already clear that Russia's invasion of Ukraine marks a hinge in history — an event with far-reaching implications for geopolitics, the global economy, and the international order. It has shattered the theory that economic interdependence reduces the scope for conflict between great powers. It has proven that neither the involvement of nuclear superpowers nor the presence of McDonald's restaurants rules out large-scale military confrontations resembling the wars of conquest from centuries past. And it sounds the death-knell on the period of hyperglobalization that began in the 1990s and went into decline in the years following the 2008 global financial crisis.

This seismic event will have implications for countless areas of U.S. foreign policy. But perhaps most important of all are the implications for our policy toward China — in particular, our efforts to deter Chinese aggression in the Indo-Pacific. While we are still early in the Russo-Ukrainian War, it is not too early to begin drawing lessons from the conflict and applying them in a forward-looking way to U.S. policy toward China. As Russia's invasion of Ukraine demonstrates, revisionist powers can't be counted on to act in a predictable manner or on timelines projected by U.S. experts. So the sooner we can process lessons from Russia's invasion of Ukraine and translate them into tangible policy initiatives, the better.

My testimony today will focus on a specific set of lessons: those derived from the unprecedented economic sanctions that the United States and our allies have imposed on Russia in response to the invasion.

2014 vs. 2022

As the Russia and Europe Lead in the State Department's Office of Economic Sanctions Policy and Implementation — and later, as a member of the Policy Planning Staff — I was part of the team that designed, negotiated, and implemented international sanctions in response to Russia's

¹ Edward Fishman is a Senior Research Scholar at Columbia University's Center on Global Energy Policy.

2014 invasion of Ukraine and annexation of Crimea. The differences between our experience in 2014 and the more intensive sanctions campaign of 2022 are instructive, as they help reveal important lessons for the future of U.S. economic statecraft.

The biggest difference between those two episodes is that, in 2014, Russia's operation to seize Crimea took us by surprise. As a result, by the time Russia's little green men had secured control over Crimea, we had no sanctions options vetted and ready to go. There was no one at the State Department or the Treasury Department whose job was to develop sanctions against Russia; there was no international coalition in place to coordinate sanctions; and we had done no analysis to assess the targets in Russia's economy that were most vulnerable to sanctions — or the areas in our own economy that could face blowback in an economic conflict with Russia. Put simply, we were caught flat-footed. This explains why there was a four-month gap between President Barack Obama's signing of Executive Order 13662 on March 20, 2014 — which authorized sectoral sanctions against Russia — and the introduction of the first sectoral sanctions on July 16, 2014.

By contrast, in the current crisis, the first reports of Russia's military buildup on Ukraine's border came months before Vladimir Putin gave the fateful order to invade on February 24, 2022. The Biden administration, along with U.S. allies in the G7 and beyond, used the early warning to good effect, developing sanctions options, vetting them, and coordinating them in international contact groups. They also took the initiative to declassify intelligence on Russia's military buildup and Putin's intentions, depriving Moscow of the elements of surprise and confusion that it used to its advantage in 2014. This allowed the United States and our allies to attempt to use the threat of sanctions as a deterrent — an effort that ultimately failed — and to marshal significant public support for the imposition of sanctions after Putin launched the invasion.

Another key difference between 2014 and 2022 is that, in 2014, we had no experience wielding sanctions against large economies that were deeply integrated into the global financial system and supply chains. In 2014, Russia was the world's eighth-largest economy in nominal GDP and fifth-largest measured in terms of purchasing power parity. At the time, its economy was larger than the combined GDP of all other economies under U.S. sanctions. According to Nigel Gould-Davies of the International Institute for Strategic Studies, "Russia is the largest country ever to face major peacetime sanctions."² Developing sanctions against Russia was a wholly different enterprise from designing penalties on Cuba, North Korea, or even Iran. Major sanctions against Russia were likely to produce significant spillovers on the United States and our allies. They would not be cost-free. So, in 2014, it's not just that we were caught by surprise; we were embarking on an economic sanctions campaign with no obvious precedent.

By 2022, of course, the United States and our allies had eight years of experience with sanctions against Russia — and additional experience with export controls against an even larger economic rival: China. Consequently, in 2022, policymakers in the United States and allied countries were

² Nigel Gould-Davies, "Russia, the West, and Sanctions," *Survival: Global Politics and Strategy*, February–March 2020.

more confident in designing and implementing sanctions and other economic penalties. This was not their first rodeo, and it showed.

How to Design Strategies of Economic Statecraft

Economic statecraft is not a one-size-fits-all tool. Penalties against an individual Russian oligarch and restrictions on the Central Bank of Russia are both “sanctions,” but only insofar as a crossbow and an intercontinental ballistic missile are both “weapons,” or a schooner and an aircraft carrier are both “ships.”

Designing strategies of economic statecraft requires breaking the problem up into constituent variables and developing hypotheses about chains of causality. The first variable is the type of objective that the state is trying to advance with economic statecraft. I divide these into four categories of objectives: stigmatization, attrition, deterrence, and compellence.

Stigmatization involves punishing a foreign actor such that its behavior is stigmatized and, in turn, discouraging other actors from taking similar actions. Stigmatization is the easiest goal for economic statecraft to achieve, as it does not aim to change the target’s behavior. Instead, its intent is primarily symbolic — to “name and shame” and enforce a norm. Sanctions on individual human rights abusers, such as those enabled by the Global Magnitsky Act, are a typical case.

Second is attrition, which involves using economic damage to advance a discrete, material objective, such as degrading a state’s military capacity. Like stigmatization, attrition does not intend to change the target’s behavior, making it a relatively straightforward objective. The challenge for attrition is wielding economic statecraft tools in a manner that advances the attrition goal without leading to intolerable spillover effects. An example of this conundrum is evident in the 2014 U.S. and European sanctions against Russia. While Russia’s defense sector was an obvious target for economic statecraft, the West refrained from imposing full-blocking sanctions on Rostec, the main node of Russia’s military-industrial complex. That’s because Rostec has hundreds of subsidiaries, and broad-based financial sanctions could have therefore reverberated across the entire Russian economy. As a result, the West opted for more scalpel-like measures to attrit Russia’s military capacity.

Third is deterrence, which involves using the threat of economic harm to discourage a foreign actor from taking an action that it otherwise would take. Deterrence is a significantly more challenging objective than attrition, as it requires producing a shift in the target’s policy calculus. This is an area of economic statecraft that is underdeveloped and demands the most attention from Congress. The mechanisms by which economic statecraft can achieve deterrent effects are poorly understood. It is possible that the threat of additional economic harm drove Moscow to consent to the Minsk agreements in September 2014 and rein in Russia’s strategic objectives in Ukraine. This experience inspired additional attempts to use economic statecraft as a deterrent, including Congressional legislation aimed at deterring Russia from interfering in future U.S. elections.

Most notably, President Joe Biden attempted to use the threat of devastating economic consequences to deter Vladimir Putin from ordering a full-scale invasion of Ukraine in early 2022. This attempt at deterrence failed. But it was also relatively crudely designed. The exact consequences were never publicly spelled out, and the United States didn't take steps to ensure that Russia knew precisely what would happen in the realm of economic statecraft if it invaded Ukraine. In the future, the United States should explore additional measures to increase the likelihood of achieving deterrence, including enshrining specific triggers and economic consequences in mandatory statutes and international declarations. I'll provide more detail on these ideas later in my testimony.

Fourth is compellence, which involves using the prospect of either relief from economic harm or increasing economic harm to persuade a foreign actor to take an action that it otherwise would not take. Compellence is the hardest objective to achieve through economic statecraft. In recent years, the best example of successful compellence is the Joint Comprehensive Plan of Action (JCPOA), in which Iran agreed to constraints on its nuclear program in exchange for limited sanctions relief. Other attempts at compellence using negative incentives, including President Donald Trump's "maximum pressure" strategy against Iran, failed.

When devising an economic statecraft strategy, the first step is aligning on which of these categories of objectives the strategy aims to advance. This step is especially important, as certain tactical approaches may be better suited to one category versus another. The second step is determining a persuasive theory of success — in other words, a hypothesis for how economic harm will translate into the policy outcome that we seek. Will broad-based economic damage lead to popular discontent, which then puts pressure on an incumbent leader to change course? Will targeted economic harm incentivize elites to apply pressure to the incumbent leader? Perhaps a more precise form of economic damage could address the problem directly — for instance, blocking a state's nuclear development or plans for military modernization? Establishing hypotheses about chains of causality is critical to devise a successful policy. But this is seldom done explicitly by policymakers.

After developing a theory of success, the final step is choosing the best tools of economic statecraft to use. Policymakers have a wide range of tools at their disposal, including a diverse array of financial sanctions, trade sanctions, export controls, and investment restrictions. In parallel, it's important to model the potential for unintended spillover effects created by each tool. To illustrate, full-blocking sanctions tend to impose the swiftest and most severe economic harm on targets, but they also can be blunt instruments and carry high risks of unintended consequences — especially when applied to sizable targets.

Is China Vulnerable to Economic Statecraft?

By any measure, China is an economic behemoth. China possesses the world's second-largest economy. At more than \$3 trillion, its foreign-exchange reserves are far and away the biggest in the world.³ China is the leading trading economy and the top exporter of manufactured goods.

³ Andrew Mullen, "China economy 2021: latest economic data about world's second-largest economy," *South China Morning Post*, April 7, 2021.

For U.S. economic statecraft, China presents a target of an entirely different magnitude from Russia. In 2021, China's economy was about 10 times larger than Russia's and its banks held more than 30 times more assets than Russian banks.⁴

But size does not equate to invulnerability. On the contrary, our experience with Russia hints that the more integrated a country is with the global economy, the more vulnerable it may be to economic statecraft. Our best evidence for this is the 2014 sanctions against Russia. Those sanctions were relatively modest. Instead of hitting Russia's largest banks and companies with full-blocking sanctions, we imposed restrictions limiting their ability to issue certain types of debt on U.S. and European capital markets.⁵ At the time, such scalpel-like penalties were unprecedented — indeed, we designed them specifically to narrow Russia's economic horizons without pushing the country into a severe recession that could spread instability to the European Union and beyond.

For the sake of comparison, if the Iran sanctions in the leadup to the JCPOA were a 10 out of 10 in intensity, the Russia sanctions of 2014 were roughly a 2 out of 10.⁶ Still, these sanctions sent Russia's economy into a tailspin, reducing Russia's economic growth by an estimated 2.5 to 3 percent (equal to about \$50 billion) per year from 2014 through 2021.⁷ This track record demonstrates that, for a country deeply reliant on U.S. and European financial markets and technology, even moderate sanctions can inflict substantial economic damage.

Today, China is even more enmeshed in the global economy than Russia was in 2014. This is especially true in the financial sector. China holds between 50 and 60 percent of its foreign-exchange reserves in dollar-denominated assets.⁸ Because its holdings are so large, it has no viable alternatives to assets denominated in dollars, euros, pounds, or yen. This means that, in a conflict scenario, a significant portion of China's foreign-exchange reserves would be exposed to the risk of sanctions by the United States and our allies. Additionally, were China to try to dump its dollar-denominated holdings, it would be barred from doing so, as the assets would be frozen. Meanwhile, the geopolitical shockwaves of Chinese aggression — say, an invasion of Taiwan — would rattle world markets, leading to a flight to safety that would buoy U.S. assets.⁹

China's vulnerability to financial sanctions goes beyond its foreign-exchange reserves. China conducts just 20 percent of its trade in renminbi.¹⁰ Much of the rest is settled in dollars. Consequently, broad-based financial sanctions on China would affect not just its trade with the United States, but with the whole world. A similar reality explains the precipitous decline in Russia's imports since it invaded Ukraine in February. As Matthew C. Klein has observed, the value of Russia's imports from the United States and our allies declined by 66 percent in April

⁴ Gerard DiPippo, "Deterrence First: Applying Lessons from Sanctions on Russia to China," *CSIS Commentary*, May 3, 2022.

⁵ Edward Fishman, "Make Russia Sanctions Effective Again," *War on the Rocks*, October 23, 2020.

⁶ Tunku Varadarajan, "The West's Economic War Plan Against Russia," *The Wall Street Journal*, March 11, 2022.

⁷ Anders Åslund and Maria Snegovaya, "The impact of Western sanctions on Russia and how they can be made even more effective," *Atlantic Council Report*, May 3, 2021.

⁸ Rebecca M. Nelson and Karen M. Sutter, "De-Dollarization Efforts in China and Russia," *Congressional Research Service In Focus*, July 23, 2021.

⁹ "Could the West punish China the way it has punished Russia?" *The Economist*, April 23, 2022.

¹⁰ Nelson and Sutter, "De-Dollarization Efforts in China and Russia."

compared with the monthly average in the leadup to the invasion. Imports from neutral and pro-Russian countries, meanwhile, fell by 42 percent.¹¹ Why would imports to Russia from countries outside the sanctions coalition plunge by so much? Because the thicket of financial sanctions makes it difficult for Russia to pay for imports. Were China to come under sweeping financial sanctions, a comparable dynamic could well unfold.

China is also highly dependent on advanced technology from the West. In a conflict scenario, restricting China's access to such technology — as the United States and other democracies have done toward Russia in recent months — would cause China significant problems. Take airplanes. Commercial Aircraft Corporation of China (COMAC), a state-owned aerospace firm, has poured more than \$70 billion into the C919, a competitor to the Boeing 737 and Airbus A320. Yet the essential parts of the aircraft come from the West — including the engine, which is produced by a joint venture between GE Aviation and France's Safran. (COMAC initially planned on using a homegrown engine, but it was forced to change course due to technical challenges.)¹² Russia's aviation sector is similarly dependent on the West. That's why, since the imposition of sweeping sanctions and export controls earlier this year, Russia has faced major difficulties maintaining its air fleet.¹³

In addition to aerospace technology, China relies on foreign suppliers for semiconductors. In 2021, just 20 percent of the semiconductors used in Chinese-made products were produced in China. Beijing has set an ambitious goal of increasing that figure to 70 percent by 2025, pouring tens of billions of dollars into the effort. But the chips made by Semiconductor Manufacturing International Corporation (SMIC), China's largest producer, remain several generations behind those made by the global leaders, Taiwan Semiconductor Manufacturing Company (TSMC) and South Korea's Samsung.¹⁴

A parallel dependency exists in software. After the Trump administration imposed export controls on Chinese telecom giant Huawei in 2019, a generation of the company's smartphones were deprived access not just to best-in-class chips, but also to Google's Android operating system. These restrictions led Huawei's revenue to decline by roughly 30 percent last year. Despite billions of dollars of investment into HarmonyOS, Huawei's alternative to Android, the vast majority of Chinese smartphones run on operating systems developed by Apple or Google, and virtually all Chinese desktops run on Microsoft Windows or Apple's macOS.¹⁵

All that said, just because China is vulnerable to Western sanctions — especially in the financial and technology sectors — it doesn't mean that economic statecraft against China would be easy. On the contrary, it would be exceedingly difficult. As potential targets of economic statecraft, China and Russia differ in a critical way that warrants emphasis. Even though Russia is a relatively large and integrated economy — especially compared with previous targets of sanctions — the West maintains escalation dominance over Russia in the economic sphere. For

¹¹ Matthew C. Klein, "Russia Sanctions Update," *The Overshoot*, June 29, 2022.

¹² "China wants to insulate itself against Western sanctions," *The Economist*, February 26, 2022.

¹³ Mari Eccles, "Russia scrambles to save aviation as sanctions start to bite," *Politico*, May 6, 2022.

¹⁴ "China wants to insulate itself against Western sanctions," *The Economist*.

¹⁵ *Ibid.*

Russia, a tit-for-tat economic war with the West makes little sense, as Russia will always suffer far more than the West.

With China, the picture is quite different. While the West still outranks China in the global economy, there is much more parity between the West and China than there is between the West and Russia. China is also far more deeply integrated in global supply chains and markets than Russia is, so the unintended consequences of an economic conflict with China would be very difficult to contain. To illustrate, the United States may possess leverage over China in the semiconductor space, but, according to an analysis by the Boston Consulting Group, a complete ban on the export of high-tech components to China could cost U.S. chipmakers almost 40 percent of their revenues and endanger more than 120,000 American jobs.¹⁶ Hard-hitting economic statecraft against China would be anything but cost-free. Crucially, moreover, the West doesn't possess the same unambiguous escalation dominance over China in the economic sphere that it wields over Russia. In other words, China could hit back — and partially insulated from popular discontent due to its closed political system, Beijing may assess that time would be on its side in a grinding economic contest with the West.

These caveats don't mean that the use of economic statecraft against China is a fool's errand. But they do indicate that the United States and our allies must be judicious in our application of these tools against the world's second-largest economy. Most important, we must institute rigorous processes to design, evaluate, coordinate, and implement sanctions, export controls, and other tools of economic statecraft against China. An ad hoc approach will not cut it.

The Best and Worst Uses of Economic Statecraft Against China

As outlined above, the first step in devising a strategy of economic statecraft is choosing the type of objective that we aim to advance. I have described four broad categories of objectives, ranked from least to most difficult: stigmatization, attrition, deterrence, and compellence. The former two objectives are material in nature; economic consequences are both the means and the end. The latter two are psychological; economic damage is a means to altering the behavior of the target government. That's why those two objectives, deterrence and compellence, are particularly hard to achieve.

When it comes to economic statecraft against China, the least promising objectives are those on the opposite ends of the difficulty spectrum. The United States has already deployed sanctions against China for the purpose of stigmatization — including individuals involved in undermining Hong Kong's autonomy¹⁷ and government entities and officials that perpetrated human rights abuses against Uyghurs in Xinjiang.¹⁸ These penalties are warranted, and they are worth building upon. They are not, however, intended to impose substantial economic pressure on China, nor can we reasonably expect them to alter Beijing's policies. In a scenario in which China commits

¹⁶ Ibid.

¹⁷ "Treasury Sanctions Individuals for Undermining Hong Kong's Autonomy," *U.S. Department of the Treasury Press Release*, August 7, 2020.

¹⁸ "Treasury Sanctions Chinese Entity and Officials Pursuant to Global Magnitsky Human Rights Executive Order," *U.S. Department of the Treasury Press Release*, July 31, 2020.

military aggression against a neighbor, expanding these symbolic measures should be part of the U.S. response. But they should not be the centerpiece. If they are, they risk signaling to Beijing that the West is not serious about responding to Chinese aggression — perhaps because we lack the stomach for tough economic and military measures that carry significant risk. This, in turn, could inadvertently provoke China to broaden its territorial ambitions.

On the other side of the spectrum is compellence, which is the hardest objective for economic statecraft to achieve as it requires coaxing the target to retreat from an entrenched position. In a scenario in which China invades Taiwan, a compellence strategy would involve imposing substantial economic penalties on China and seeking to trade them for Beijing's commitment to pull back forces and restore Taiwan's autonomy. It is easy to see why such a strategy would be highly unlikely to succeed. Once Beijing decides to launch a military operation to assert control over Taiwan, it almost definitely will have done so with a high degree of preparation and commitment. While Chinese forces could pull back if they encounter stiff resistance, they cannot be expected to change course because of economic pressure alone. As a result, we should set aside compellence as a viable objective for economic statecraft toward China — for the same reasons that it is problematic as a goal of economic statecraft toward Russia.¹⁹

That leaves attrition and deterrence as the most promising objectives of economic statecraft toward China. Let's start with attrition. Since Putin ordered Russian forces to invade Ukraine, the primary goal of Western sanctions and export controls has been to degrade Russia's capacity to do more harm.²⁰ This is a reasonable goal for the measures, as Russia's defense-industrial base is dependent on the West for technology. Additionally, by sending Russia into a steep recession, sanctions will force the Kremlin to make hard tradeoffs between continuing to invest in military capabilities and maintaining living standards. But we cannot expect economic statecraft to achieve these goals rapidly; they will not affect Russia's ability to prosecute the war in Ukraine in the near-term, though they could affect the Kremlin's medium- and long-term military ambitions.

Degrading China's military capabilities would be even more difficult. That's because the Chinese government is far less resource-constrained than the Russian government. Moreover, Beijing has been more judicious in its use of military force in recent years than Moscow has been. If Beijing opts to invade Taiwan, it is highly unlikely that Western economic restrictions could meaningfully curtail Beijing's capacity to prosecute the war.

As a result, a better way to think about attrition in U.S. economic statecraft toward China is as a preventive measure — a strategy to deploy *before* China obtains certain capabilities that could damage U.S. interests, not afterward. Specifically, the United States and our allies should use tools of economic statecraft to prevent China from obtaining dominant positions in critical technologies, infrastructure, and other systems that it could exploit for its own coercive aims against the West. The campaign against Huawei and ZTE is emblematic of such a strategy. Were Chinese companies to gain dominance over global 5G networks, Beijing could eventually weaponize its central position in those systems for surveillance and coercion. That's why efforts by the United States and our allies to insulate our 5G networks from Chinese technology have

¹⁹ Edward Fishman and Chris Miller, "The New Russia Sanctions Playbook," *Foreign Affairs*, February 28, 2022.

²⁰ Ibid.

been so important. As Beijing seeks to obtain control over other critical economic chokepoints, the United States should seek to replicate this successful model of preventive attrition.

Deterrence also represents a promising and key objective of economic statecraft toward China. Our best chance at influencing Beijing's calculus is *before* it takes aggressive action against Taiwan or other neighbors. To be clear, economic statecraft can never replace military deterrence, which must be the linchpin of U.S. strategy to defend countries in the Indo-Pacific from Chinese aggression. But economic stagecraft can and should play a significant role in an integrated deterrence strategy.

At the beginning of this year, President Joe Biden threatened Russia with “swift and severe consequences” if Putin opted to invade Ukraine. Other leaders issued similar public threats, in what amounted to the most high-profile attempt in recent history to use economic statecraft to deter a military assault. That effort failed. But its failure does not indicate that deterrence is an unreasonable objective for economic statecraft. It's possible, for instance, that Putin underestimated the West's capability or will to impose devastating economic consequences on Russia. The fact that nearly two-thirds²¹ of Russia's foreign exchange reserves were in euro-, dollar-, pound, or yen-denominated assets at the time of the invasion is strong evidence that Putin misjudged the West's readiness to hit the Central Bank of Russia with sanctions. Had Putin anticipated the West would go so far, he likely would have amassed Russia's war chest in assets less exposed to penalties by the G7.

For economic statecraft to play a meaningful role in deterring China from taking aggressive action against its neighbors, the United States and our allies must draw clear red lines, spell out the consequences of crossing them in advance, and demonstrate their resolve to impose those consequences if China crosses the red lines. As I will detail later in my testimony, a combination of statutorily mandated triggers for sanctions and multilateral declarative policies will likely be necessary to satisfy these conditions. Signaling resolve to Beijing will be especially important. In addition to public declarations, putting skin in the game can advance this purpose. Just as forward-deployed U.S. forces in Europe and South Korea demonstrate U.S. resolve and contribute to military deterrence, stronger U.S. commercial ties with China's neighbors, including Taiwan, can fortify economic deterrence. If Beijing assesses that the United States has a lot to lose in material terms if it invades Taiwan, it may also assess that Washington would hit back forcefully in such a scenario; in turn, Beijing may think twice before invading in the first place.

China's Quest for Economic Security

In 2016, then Secretary of the Treasury Jack Lew gave a speech warning about the “risks of overuse” of sanctions. If the United States continued to use sanctions so frequently, Lew cautioned, “financial transactions may begin to move outside of the United States entirely —

²¹ “Russia: Facing a severe economic and financial crisis,” *Allianz*, April 2022.

which could threaten the central role of the U.S. financial system globally, not to mention the effectiveness of our sanctions in the future.”²²

Lew’s speech correctly identified a trend in which other countries, including China and Russia, would seek to insulate themselves from the reach of U.S. sanctions. The implication of the speech that using sanctions more sparingly could reverse this trend is questionable. After all, once the power of U.S. sanctions was laid bare as Iran’s financial system froze, its oil sales plummeted, and its economy spiraled in the leadup to the JCPOA, no government that may one day end up on the wrong side of such measures could afford to ignore them. But it is certainly true that as the United States and our allies have demonstrated this power time and again, including in the campaign against Huawei and in the recent sanctions against Russia, the incentive for revisionist powers to diversify away from the U.S. financial system has grown. The world is now engaged in a race for economic security, in which all major powers — including the United States — are striving to protect themselves from the economic weapons of rivals.

China’s quest for economic security has taken several different forms. As discussed above, one of them is Beijing’s push to attain independence in advanced technologies such as semiconductors. The most significant yet least developed of these initiatives, however, is Beijing’s strategy to reduce its dependence on the U.S. dollar and Western financial infrastructure more broadly. This effort is especially important because, if it succeeds, it could insulate China and potentially other countries from the United States’ most potent economic weapon: financial sanctions.

China has enshrined its objective to internationalize the renminbi and become a leader in global finance in its Financial Standardization Five-Year Plan (2021–2025), which was published this past February. Yet it is worth noting that China’s growth as a financial power has lagged far beyond its rise as an economic power. While China is the world’s leading trading country, accounting for 15 percent²³ of global exports, the renminbi’s share of global currency in letters of credit and collections is less than 2 percent (the dollar, by contrast, represents a share of almost 90 percent).²⁴ China’s efforts to elevate the renminbi as a global currency have been hamstrung by Beijing’s reluctance to relax controls on the flow of capital in and out of the country. Despite Beijing’s easing of some of these strictures, China’s capital account remains one of the most tightly controlled in the world.²⁵ It is highly unlikely that the renminbi can become a major global currency unless Beijing fundamentally shifts its priorities and loosens these restrictions.

Nevertheless, China has begun developing financial infrastructure that could serve as the backbone of a more globalized renminbi, should that eventually come to pass. The centerpiece of this strategy is China’s Cross-Border Interbank Payments System (CIPS), which the People’s Bank of China (PBOC), the country’s central bank, launched in 2015. While CIPS is sometimes viewed as an alternative to the Society for Worldwide Interbank Financial Telecommunications

²² “U.S. Treasury Secretary Jacob J. Lew on the Evolution of Sanctions and Lessons for the Future,” *Speech at the Carnegie Endowment for International Peace*, March 30, 2016.

²³ Alessandro Nicita and Carlos Razo, “China: The rise of a trade titan,” *UNCTAD*, April 27, 2021.

²⁴ Emily Jin, “Why China’s CIPS Matters (and Not for the Reasons You Think),” *Lawfare*, April 5, 2022.

²⁵ “Will China’s Push to Internationalize the Renminbi Succeed?” *China Power*, April 1, 2020. Updated August 26, 2020.

(SWIFT), which is based in Belgium, that's not quite right. SWIFT is a financial messaging service. It does not move funds between banks; rather it provides a standardized method for banks to send payments instructions to one another. Prior to SWIFT's founding in the 1970s, banks communicated with one another via telegraph and telex. These methods, of course, remain available, along with contemporary equivalents like email. Consequently, when a bank is barred from SWIFT, it does not lose access to the global financial system. It just becomes more burdensome to transact with that bank.

CIPS, on the other hand, is not a messaging service but an actual settlement mechanism. It is used to clear renminbi-denominated payments across borders. Its closest Western analogue is not SWIFT but the Clearinghouse Interbank Payments System (CHIPS), another institution founded in the 1970s and the main hub for clearing dollar-denominated transactions. So CIPS is not an alternative to SWIFT but rather a potential complement to it. In fact, it is estimated that 80 percent of all transactions through CIPS use SWIFT for messaging. This helps explain why, in recent years, SWIFT and China have deepened their relationship; SWIFT opened a unit in Beijing in 2019 and now supports messages in Chinese characters, making it compatible with China's domestic payments system.²⁶

If China or any other country aimed to create an alternative to SWIFT, there would be no technological hurdle to doing so. The primary challenge would be getting banks to sign up and agree to use an alternative to SWIFT, which is a global standard. There are more than 11,000 financial institutions across over 200 countries that are connected to SWIFT, and the network processes more than 45 million messages each day.²⁷ For a utility like financial messaging, network effects apply — the network becomes more valuable as additional users participate in it. This creates a massive competitive moat for SWIFT. Moreover, if a competitor to SWIFT somehow was able to gain steam, the U.S. government could theoretically prohibit U.S. banks from participating in it, which would immediately undercut its utility. As a result, the potential rise of an alternative to SWIFT does not pose a major threat to the use of U.S. economic statecraft.

A more serious threat comes from the rise of the renminbi itself. Were China's currency to become as reliable of a medium exchange and store of value as the U.S. dollar is, it could serve as a real alternative to the dollar, thereby limiting the U.S. government's ability to wield financial statecraft. As discussed, this is still a distant prospect. But there are early signs that international usage of the renminbi is increasing in the wake of Russia's invasion of Ukraine. For instance, Chinese buyers of Russian oil have started paying for cargoes in renminbi.²⁸ While Russia has sought to de-dollarize its economy since it was first hit with financial sanctions in 2014, Moscow initially shifted to a preference for the euro.²⁹ Now it is driving toward a deeper financial alliance with China, expanding a currency swap line inaugurated in 2014 and

²⁶ Barry Eichengreen, "Sanctions, SWIFT, and China's Cross-Border Interbank Payments System," *CSIS Marshall Paper*, May 2022.

²⁷ www.swift.com

²⁸ Sharon Cho, "Chinese Buyers Given Flexibility to Pay in Yuan for Russian Oil," *Bloomberg*, April 1, 2022.

²⁹ Eichengreen, "Sanctions, SWIFT, and China's Cross-Border Interbank Payments System," *CSIS Marshall Paper*.

integrating Russia's Mir card network more closely with China UnionPay, an alternative to Visa and MasterCard.³⁰

Another key part of China's financial innovation strategy is its central bank digital currency (CBDC), known as the digital renminbi or e-CNY. Because the e-CNY is a digital currency that is a direct liability of China's central bank, it can be transferred without using financial messaging services like SWIFT or clearinghouses like CHIPS or CIPS. It is effectively the digital equivalent of cash, with the critical difference that the PBOC retains visibility over e-CNY transactions.³¹

As with CIPS, however, the e-CNY will only threaten the use of U.S. economic statecraft if the renminbi itself can achieve parity with the dollar as a store of value and medium of exchange. Even in such a scenario, moreover, U.S. financial sanctions will continue to pack a punch so long as access to the dollar remains vital. For instance, if a foreign financial institution were to conduct a transaction in e-CNY that would otherwise violate U.S. sanctions, the U.S. government could target that institution with secondary sanctions — severing its access to the U.S. financial system. The only situation in which such a threat would become toothless is one where access to the dollar is no longer a necessity for banks, companies, and countries that want to participate in global commerce. Again, this is improbable anytime soon.

Where Do We Go from Here?

Russia's invasion of Ukraine — and the unprecedented sanctions that the G7 mustered in response — demonstrates the centrality of economic statecraft in U.S. foreign policy and contemporary geopolitical competition. The leading role of economic statecraft for the United States dates back more than a decade, when Washington ramped up sanctions against Iran in the years before the JCPOA. In that instance, it was not just the Obama administration but also Congress that drove U.S. strategy. For the United States to compete effectively in a world of intensifying geoeconomic competition, it is essential for both the Executive Branch and Congress to enhance the United States' capacity to design and execute economic statecraft.³²

I encourage the Commission to consider the following policy recommendations:

- **Establish a permanent interagency committee in the Executive Branch for contingency planning and strategy development in economic statecraft.** The single most important lesson of the recent sanctions against Russia is that it is critical to plan in advance. The reason that the United States and our allies were able to impose unprecedented sanctions and export controls within days of Putin's decision to invade is that they had spent months develop a menu of options, vetting them, and coordinating them. This is a historical anomaly. The normal order of business is that the United States

³⁰ Jin, "Why China's CIPS Matters (and Not for the Reasons You Think)," *Lawfare*.

³¹ Eichengreen, "Sanctions, SWIFT, and China's Cross-Border Interbank Payments System," *CSIS Marshall Paper*.

³² For earlier articulations of some of these recommendations, see Edward Fishman, "Even Smarter Sanctions," *Foreign Affairs*, November/December 2017 and Edward Fishman, "How to Fix America's Failing Sanctions Policy," *Lawfare*, June 4, 2020.

only begins developing options for economic statecraft after a crisis has already started. As a result, we almost always run behind events. This procedure differs substantially from how the Department of Defense prepares for potential military operations, which involves rigorous planning, evaluation, and exercises. It is time for the United States to institute similar processes for the development of economic statecraft. Ideally, this could take the shape of a permanent interagency committee — say, an Economic Contingency Planning Committee (ECPC) — enshrined in statute like the Committee on Foreign Investment in the United States (CFIUS). The remit of the ECPC would involve developing options for the use of economic statecraft in different contingency scenarios, such as a Chinese invasion of Taiwan; modeling and evaluating potential economic and political consequences; and running tabletop exercises to identify weaknesses and account for them. While the ECPC can be staffed by personnel from various agencies, including the State Department and Treasury Department, it will require its own source of funding, as personnel involved in sanctions and export controls are already stretched thin.

- **Designate international contact groups for high-priority areas of economic statecraft and coordinate options developed in the ECPC in these fora.** Another major lesson of the recent sanctions against Russia is the importance of early and intensive coordination with allies. The degree of harmony between the United States and our allies on Russia sanctions is also a historical anomaly, rooted in the G7+ Russia Sanctions Contract group that we originally formed in 2014 in the wake of Russia’s annexation of Crimea. With relations between the United States and China and Russia growing increasingly fraught, we can no longer rely on the UN Security Council as a primary body for coordinating sanctions. As a result, we need to form coalitions of the willing for high-priority areas of economic statecraft. For Russia, the G7 has emerged as such a coalition. It is essential that we also designate such a group for China-focused economic statecraft, as well as groups dedicated to other critical issues as they arise. In addition to planning, a major benefit of such groups is that they can issue joint declarations spelling out important policies and red lines. To that end, they could be used for deterrence. For instance, a China-focused group could issue a declaration detailing economic consequences for Chinese aggression against Taiwan or other neighbors.
- **For high-priority deterrence objectives, establish laws that identify triggers for significant economic penalties, establish a process for determining whether those triggers have been met, and prescribe a menu of options for penalties.** As discussed above, a tragic possibility about the Russian war against Ukraine is that Putin may have underestimated the West’s readiness to impose devastating economic consequences, emboldening him to proceed with an invasion. In the future, Congress can reduce the likelihood of similar costly miscalculations by enshrining specific red lines in statutes and establishing a predictable process for imposing economic penalties on any country that crosses them. A model for such legislation is the Defending Elections from Threats by Establishing Redlines Act (DETER Act), which was introduced by Senator Chris Van Hollen (D-MD) and Senator Marco Rubio (R-FL) in 2018. While the DETER Act was aimed at foreign governments that interfered in future U.S. elections, the model could plausibly work for other scenarios, including a potential Chinese invasion of Taiwan.

Such an approach is viable because Congress possesses the power to wield economic statecraft. The benefit of enshrining such a strategy in law is that it will provide clarity to would-be aggressors about the consequences of their actions, which could strengthen the likelihood of deterrence working as intended.

- **Prepare contingency plans to defend against other countries' uses of economic statecraft.** In addition to planning for offensive economic statecraft, it is important for the United States to defend against the use of economic weapons by competitors such as China and Russia. The remit of the ECPC could expand to encompass such defensive contingency planning. For instance, the ECPC could identify potential shortages of critical natural resources or technological components in the event of a conflict with China and recommend proactive actions to mitigate them. Another aspect of such defensive planning could include highlighting potential chokepoints that other countries may seek to exploit and recommending actions for preventive attrition, as outlined earlier in my testimony.
- **Train and develop cadres of professionals skilled in economic statecraft.** While economic statecraft has come to play a central role in U.S. foreign policy, there are few, if any, government programs or funding streams dedicated to training personnel in economic statecraft. Designing and executing successful strategies of economic statecraft requires some degree of fluency in diplomacy, strategy, finance, technology, business, and regulation. Unfortunately, there are only a handful of graduate-level courses that teach this combination of skills. By contrast, nearly every graduate program in international relations includes modules on warfare and nuclear weapons. It's time for economic statecraft to assume a coequal place with these important subjects. In addition to expanding educational opportunities in economic statecraft, it would be valuable to establish exchange programs in which State Department officials can complete temporary tours of duty at the Treasury Department and vice versa. Just as years of war in Afghanistan and Iraq forged a generation of U.S. diplomats and military officers who understand each other's vocabulary, equities, and institutional touchstones, we need to train a new generation of diplomats and sanctions experts who are similarly well-versed in each other's domains.

For any of these policy initiatives to come to life, Congressional action will likely be necessary. Because of its mandate to make policy recommendations to Congress, the Commission can play an important role in strengthening U.S. economic statecraft.

It is an honor to address the Commission on this critical subject. Thank you for the opportunity.

**OPENING STATEMENT OF EMILY WEINSTEIN, RESEARCH FELLOW,
GEORGETOWN UNIVERSITY CENTER FOR SECURITY AND EMERGING
TECHNOLOGY (CSET)**

COMMISSIONER SCHRIVER: Thank you very much, Ms. Weinstein?

MS. WEINSTEIN: Co-Chairs Mann and Schriver, distinguished Commissioners and Staff, thank you for the opportunity to participate in today's hearing.

It is an honor to be here alongside the esteemed experts on this panel.

I am a research fellow at the Center for Security and Emerging Technology at Georgetown University, where I lead our line of research on U.S. national competitiveness.

I want to acknowledge that things in the Taiwan Strait are changing as we sit here today. Events are evolving quickly, however, I want to give a highlight of the testimony I prepared on the topic requested by the Commission.

At the outset, I want to emphasize that Russia is not China and Ukraine is not Taiwan. This is not to say that we must prioritize one over the other, however, the two situations deserve dedicated approaches that can in fact be pursued simultaneously without unduly straining U.S. resources.

Where Russia struggles to develop and produce all within its borders, China is highly self-sufficient.

As such, export controls apply to China even when applied with a clear objective and multi-lateral support will have vastly different effects on China and the rest of the world.

We've learned from the Ukraine conflict that when export controls have a clear purpose and are done in conjunction with allies and partners, they are more likely to achieve desired results.

Although multi-lateral controls may be harder and more time-consuming to implement, they are more effective in the long run. A point agreed upon in the bipartisan export control format, or ECRA, of 2018.

That is why I recommend that we codify the de facto multilateral export control regime that has emerged since the invasion of Ukraine. The current export control regimes serve important diplomatic and legal purposes.

However, to deal with the crises of the future, including a potential invasion of Taiwan, we need to consider additional export control measures.

With an emphasis globally on securing semiconductor supply chains and with Taiwan's TSMC manufacturing more than half of global semiconductors, Taiwan is a necessary participant in this new regime.

However, this new export control regime must go beyond Taiwan and semiconductors and include leading high-tech producer countries worldwide in order to fill the gaps in our existing multilateral export controls.

We must also temper expectations when it comes to export controls, especially when thinking about China. Export controls are tools designed for imposing strategic delay.

They are not intended for purposes of economic destruction although this is often a side effect. Our success in isolating the Russian economy over the past months is unique.

A similar approach to China would yield vastly different results because China is a central actor in global supply chains.

In comparing the multilateral response to Russia to a potential response to China, we are

unlikely to muster the same multilateral approach in any scenario short of an invasion of Taiwan.

If or when an invasion of Taiwan occurs, there are several differences to keep in mind both in terms of implementation and expectation. First, as the saying goes, we must ensure that we are not, quote, cutting our own jugular just to spite the Chinese Government.

Historical examples such as that from the U.S. commercial satellite industry demonstrate the potential unintended consequences for U.S. competitiveness.

In the wake of unilateral U.S. export control actions in 1999, the U.S. share of worldwide satellite exports decreased from 73 percent in 1995 to just 25 percent in 2005.

To add insult to injury, China has still managed to emerge as a leading player in space technologies, despite U.S. efforts. In this case, we not only damaged ourselves but also failed to achieve our intended objective.

Second, export controls should be imposed through multilateral channels whenever possible as unilateral controls have proven to be ineffective and eventually counterproductive.

We cannot expect unilateral controls to be effective as China can easily source what it needs from third parties.

In the satellite case study I just mentioned, European firms began manufacturing ITAR-free satellites after 1999, allowing China to buy satellites that were free of U.S. origin items and thereby not affected by U.S. export controls.

If we unilaterally move against China or don't take the time to assess the potential long-term economic effects of these export controls, other countries can backfill and decrease the competitive edge of U.S. firms.

Finally, export controls are only one part of our larger national security toolbox. These defensive measures alongside sanctions and other tools are vital in any conflict that arises with China.

However, these defensive tools are most effective when used in conjunction with, quote, run faster policy options meaning those policies that enhance U.S. innovation.

Regardless of a potential Taiwan invasion, it is critical for the United States and allies to work together to ensure that we are bolstering domestic innovation and easing burdens on bilateral and multilateral investments and science and technology collaboration.

To conclude, I recommend the following, one, capitalize on the multilateral coordination following the Ukraine conflict by codifying a new multilateral export control regime to complement the four existing regimes.

Two, establish a supply chain choke points taskforce to study global supply chains and critical technologies.

And three, set up a well-resourced science and technology analysis and monitoring organization with sustained funding to track developments and emerging and foundational technologies.

Thank you for your time, I look forward to your questions.

**PREPARED STATEMENT OF EMILY WEINSTEIN, RESEARCH FELLOW,
GEORGETOWN UNIVERSITY CENTER FOR SECURITY AND EMERGING
TECHNOLOGY (CSET)**

Testimony before the U.S.-China Economic and Security Review Commission Hearing on “Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and Pacific Diplomacy”

Panel II: “Russia’s Invasion of Ukraine and Implications for Integrated Deterrence”

Emily S. Weinstein

Center for Security and Emerging Technology (CSET), Georgetown University

August 3, 2022

Co-Chairs Mann and Schriver, distinguished Commissioners and staff, thank you for the opportunity to participate in today’s hearing. It is an honor to be here alongside esteemed experts on this panel. I am a Research Fellow at the Center for Security and Emerging Technology (CSET) at Georgetown University, where I lead our line of research on U.S. national competitiveness. This work centers on both the “promote” and “protect” sides of national competitiveness, as I believe it is impossible to compete without both working in tandem. As part of the “protect” piece, our work includes examining U.S. and multilateral export control policies to better understand how to most effectively wield these tools, particularly as it relates to China. Today, I will focus on this topic at the committee’s request.

My testimony assesses lessons learned from the multilateral export controls implemented following Russia’s invasion of Ukraine in February 2022. Weaved throughout my testimony will be a common theme: when export controls have clear vision or purpose and are done in conjunction with allies and partners—in other words, multilaterally or plurilaterally—they are more likely to achieve desired objectives. Moreover, we must also remember to temper our expectations when it comes to export controls, especially when thinking about China. The success we have witnessed in isolating the Russian economy over the past five months is unique to this scenario; a similar approach to China would yield vastly different results, in part due to the interconnectedness of global supply chains and China’s role at the center of many of these.

I’d like to begin with a high-level overview of the export control response to Russia’s invasion of Ukraine, followed by an assessment of export controls beyond Russia. I will then analyze how export controls have affected China, and what China has done to reduce its vulnerability to these controls. Lastly, I’ll offer lessons learned, as well as recommendations for Congress, which include:

- Capitalizing on the multilateral coordination following the invasion of Ukraine by codifying a new multilateral export control regime to complement the four existing regimes. This regime should focus on using export controls to achieve objectives beyond nonproliferation;
- Establishing a Supply Chain Chokepoints Task Force to study global supply chains in critical technologies; and
- Establishing a well-resourced S&T analysis and monitoring organization with sustained funding to monitor global developments in emerging and foundational technologies.

Overview of Export Control Response to Russia’s Invasion of Ukraine

Following Russia’s invasion of Ukraine on February 24, 2022, the Bureau of Industry and Security (BIS) at the Department of Commerce imposed significant, novel, and complex export controls on Russia and Belarus. Under these new controls, the export from the United States, as well as the reexport from abroad, of any commodity, software, or technology subject to the Export Administration Regulations (EAR), whether U.S.- or foreign-made, now requires a license if destined for Russia or Belarus, which will generally be denied.¹ Please see the Appendix for additional information on relevant export controls terminology. Fundamentally, these export controls are designed to allow consumer goods to flow to Russia and Belarus while cutting the governments off from any Western technology that could support their militaries. More specifically, as CNAS’ Emily Kilcrease laid out in her overview of these new controls, there are four elements of these new controls that are worth highlighting:²

New Economy-Wide Restrictions

- These economy-wide controls were designed to allow for the flow of purely commercial goods, while restricting the flow of even lower-level technology that might have military applications or is relevant to Russia’s energy sector. These items are subject to a licensing policy of denial, meaning that licenses will be denied for the applicable items exported to Russia.

¹ Kevin Wolf et al., “U.S. Government Imposes Expansive, Novel and Plurilateral Export Controls Against Russia and Belarus,” Akin Gump Strauss Hauer & Feld LLP, March 8, 2022, <https://www.akingump.com/a/web/ayCoxfB41bXG1H8Y4jUWup/3FFMet/us-government-imposes-expansive-novel-and-plurilateral-export.pdf>

² Emily Kilcrease, “NOTEWORTHY: The New Russia Export Controls,” Center for a New American Security, March 7, 2022, <https://www.cnas.org/press/press-note/noteworthy-the-new-russia-export-controls>

Russia/Belarus Foreign Direct Product Rule (FDPR)

- The Russia/Belarus FDPR extends the new economy-wide restrictions to apply on an extraterritorial basis to the same scope of foreign goods, if those goods are made using U.S.-origin technology or software, or using equipment made from U.S.-origin technology or software.

New Entity List Rules

- More than 100 entities from both Russia and Belarus have since been added to BIS' Entity List, thereby barring them from receiving U.S.-origin items of any kind. In addition, the new FDPRs were applied to these entities. These controls have a much broader scope than the economy-wide rules, as they notably capture all items that are subject to the EAR, including those not listed on the Commerce Control List (CCL). These rules also impose a licensing policy of denial, and the only goods allowed to be exported to these listed entities are food and medicine.

New Military End User (MEU) Rules

- The new Russia/Belarus MEU rules expand the general restrictions related to military end uses and end users to cover all U.S.-origin items, including EAR99 items.³

These tools, in conjunction with financial sanctions, appear to have had a rapid and harsh effect on the Russian economy and military. Russian government reports from April claim that the country's GDP decline could hit 12.4 percent this year.⁴ A May statement from the White House stated that two major Russian tank plants—Uralvagonzavod Corporation and Chelyabinsk Tractor Plant—have halted work due to a lack of foreign components.⁵ On exports alone, Martin Chorzempa of the Peterson Institute for International Economics found that global exports to Russia have fallen significantly from both sanctioning and non-sanctioning countries, thereby

³ EAR99 items are those that fall under BIS' jurisdiction but are not listed on the CCL. They usually consist of low-technology consumer goods and do not require a license in most situations, unless they are being exported to an embargoed country, to an end-user of concern, or in support of a prohibited end-use. For more information, see: "Commerce Control List (CCL)," Bureau of Industry and Security, U.S. Department of Commerce, <https://www.bis.doc.gov/index.php/regulations/commerce-control-list-ccl>

⁴ "Russia's GDP decline could hit 12.4% this year, economy ministry document shows," Reuters, April 27, 2022, <https://www.reuters.com/business/russias-gdp-decline-could-hit-124-this-year-economy-ministry-document-shows-2022-04-27/>

⁵ "FACT SHEET: United States and G7 Partners Impose Severe Costs for Putin's War Against Ukraine," The White House, May 8, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/08/fact-sheet-united-states-and-g7-partners-impose-severe-costs-for-putins-war-against-ukraine/>

hampering Russia's ability to purchase products from overseas.⁶ BIS Under Secretary Alan Estevez, in his testimony before the House Foreign Affairs Committee on July 19, stated that, from February 24 through July 1, U.S. exports in categories of items subject to the new U.S. export control license requirements decreased by 95.9 percent by value as compared to the same period in 2021. Secretary Estevez also noted that this rapid decline has led Putin himself to voice concern about where Russia will source critical inputs for Russian weapons systems.⁷

Chinese Response to Russia Export Controls

So how has China reacted to these events? After the initial imposition of export controls in late February, Ministry of Foreign Affairs (MOFA) Spokesperson Wang Wenbin responded to a question on the subject by stating the following:

*China does not support the use of sanctions to solve problems, and is even more opposed to unilateral sanctions that have no basis in international law. China and Russia will continue to carry out normal trade cooperation in the spirit of mutual respect, equality, and mutual benefit.*⁸

In the weeks following the invasion, U.S. leadership stated publicly that there would be consequences for undermining U.S. export controls and sanctions against Russia.⁹ In particular, U.S. policymakers and scholars emphasized the threat of secondary sanctions against China, since many in Washington and elsewhere believed that China would step in to backfill much of Moscow's needs. Since then, however, with the exception of a select number of Chinese firms, Beijing appears to be acting carefully to abide by U.S. export controls, based on publicly available information. On June 28, BIS added five Chinese firms to the Entity List alongside 31 other global firms for continuing to supply entity listed Russian firms.¹⁰ Of the other 31 companies listed, 25 had China-based operations, demonstrating the wide global reach of

⁶ Martin Chorzempa, "Sanctions against Russia are also hurting its trade with nonsanctioning countries," Peterson Institute for International Economics, June 29, 2022, <https://www.piie.com/research/piie-charts/sanctions-against-russia-are-also-hurting-its-trade-nonsanctioning-countries>

⁷ "Statement of Alan F. Estevez Under Secretary of Commerce for Industry and Security Before the House Foreign Affairs Committee," U.S. Department of Commerce, July 19, 2022, <https://docs.house.gov/meetings/FA/FA00/20220719/115016/HHRG-117-FA00-Wstate-EstevezA-20220719.pdf>

⁸ "Foreign Ministry Spokesperson Wang Wenbin hosted a regular press conference on February 28, 2022" [2022年2月28日外交部发言人汪文斌主持例行记者会], Ministry of Foreign Affairs of the PRC, February 28, 2022, <https://perma.cc/T4WS-KG38>. (Original text: 中方不赞成用制裁手段解决问题，更反对没有国际法依据的单边制裁。我们要求美方在处理乌克兰问题和对俄关系时，不得损害中方和其他方面正当权益)

⁹ Ana Swanson, "Chinese companies that aid Russia could face U.S. repercussions, commerce secretary warns," New York Times, March 8, 2022, <https://www.nytimes.com/2022/03/08/technology/chinese-companies-russia-semiconductors.html>

¹⁰ Federal Register Vol. 87 No. 125, Rules and Regulations, June 30, 2022, <https://www.bis.doc.gov/index.php/documents/regulations-docs/federal-register-notices/federal-register-2022/3053-87-fr-38920-entity-list-rule-effective-6-28-22-published-6-30-22/file>

Chinese firms.¹¹ In response, MOFA Spokesperson Zhao Lijian responded with a similar message as his colleague in February. However, this time, his statement included warnings of retaliation:

*We urge the U.S. side to immediately correct its mistakes, revoke relevant sanctions, and stop long-arm jurisdiction and unilateral sanctions against Chinese companies. China will take all necessary measures to resolutely safeguard the legitimate rights and interests of Chinese enterprises.*¹²

Is Beijing actually capable of retaliating as Zhao claims? Although China does not maintain as robust an export control system as the United States, Beijing has recently begun to up its game by implementing policies like the January 2021 “Anti-Foreign Sanctions Law” designed to censure foreign companies and individuals for implementing or complying with the sanctions of a foreign country “when those sanctions adversely affect Chinese citizens or otherwise interfere with China’s internal affairs,” in conjunction with its Export Control Law and “Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures.”¹³ As CSIS’ Jeannette Chu argues, the timing of these regulations reinforces perceptions of the retaliatory nature of these efforts. Although we have yet to see these policies fully implemented, the United States and allies should pay attention to how these develop.

Beyond Russia: The Future of Export Control Policy

The geopolitical, geoeconomic, and moral effects of Russia’s unprovoked invasion of another sovereign nation can be felt across the entire world. It is critical that the United States and its allies are equipped to deal with this ongoing and immediate threat. At the same time, it is important to acknowledge the longer-term challenges that we face—namely from China. This is not to say that we must prioritize one over the other. Although some scholars believe that our efforts in Ukraine are a “distraction” from broader issues related to China and Taiwan, I believe the two situations deserve their own dedicated approaches that can in fact be pursued simultaneously without unduly straining U.S. resources.¹⁴

¹¹ Alexandra Alper, “U.S. accuses five firms in China of supporting Russia’s military,” Reuters, June 29, 2022, <https://www.reuters.com/world/us-accuses-chinese-companies-supporting-russias-military-2022-06-28/>

¹² “Foreign Ministry Spokesperson Zhao Lijian’s Regular Press Conference on June 29, 2022” [2022年6月29日外交部发言人赵立坚主持例行记者会], Ministry of Foreign Affairs of the PRC, June 29, 2022, <https://perma.cc/7ZWM-AUN9>. (Original text: 我们敦促美方立即纠正错误, 撤销有关制裁措施, 停止对中国企业进行长臂管辖和单边制裁。中方将采取一切必要措施, 坚决维护中国企业的合法权益。)

¹³ Jeannette Chu, “The New Arms Race: Sanctions, Export Control Policy, and China,” Center for Strategic and International Studies, March 25, 2022, <https://www.csis.org/analysis/new-arms-race-sanctions-export-control-policy-and-china>

¹⁴ Elbridge Colby and Oriana Skylar Mastro, “Ukraine Is a Distraction From Taiwan,” Wall Street Journal, February 13, 2022, <https://www.wsj.com/articles/ukraine-is-a-distraction-from-taiwan-russia-china-nato-global-powers-military-invasion-jinping-biden-putin-europe-11644781247>

It has become commonplace, particularly among U.S. scholars and policymakers, to draw parallels between Ukraine and Taiwan due to historical and political similarities with respect to their relationships to Russia and China. Chinese leadership is surely paying attention to ongoing events in Ukraine, and the People's Liberation Army (PLA) will certainly study Russia's Ukraine campaign and attempt to draw lessons from it. Beijing is also likely taking notes on the risks of escalation, particularly in light of the crushing export controls and sanctions that were applied to Russia.¹⁵ However, as scholar Bonnie Glaser noted in March, the Chinese themselves are not drawing parallels to Taiwan, and the Chinese Ambassador to the United States even argued that the two scenarios are "totally different things."¹⁶ Ongoing assertions regarding the parallels between Ukraine and Taiwan are misplaced; as Dr. Andrew Scobell argues, "Xi Jinping's China is not Vladimir Putin's Russia, and Taiwan is not Ukraine."¹⁷

However, in comparing the multilateral response to Russia to a similar multilateral export control approach to China in response to an invasion of Taiwan, it is crucial to point out that we are unlikely to see the same multilateral approach to export controls applied to China in any scenario short of an invasion of Taiwan. If or when that does occur, there are several differences to keep in mind. First, China is already significantly more self-sufficient than Russia. Beijing has been pushing for self-sufficiency in high-tech sectors since the early 2000s. Furthermore, China already maintains more robust technology and manufacturing sectors; where Russia struggles to develop and produce all within its borders, China is already a one-stop-shop and is able to push certain technologies through the entire innovation cycle without ever going abroad. As such, export controls applied to China, even when applied with a clear objective and multilateral support, will have vastly different implications for China and the rest of the world.

China's Push for Self-Sufficiency

Before assessing future scenarios, it is important to understand the effects of recent U.S. export controls on China, as well as Beijing's attempts to reduce its vulnerabilities to these controls. Since the passage of the Export Control Reform Act of 2018 (ECRA), a large portion of U.S. export control efforts have focused on addressing concerns related to China's pursuit of commercial and military leadership in advanced technologies, particularly through access to U.S. companies and universities. China, however, has been on the track toward reducing the vulnerabilities associated with its reliance on foreign sources long before the recent geopolitical

¹⁵ Andrew Scobell, Ph.D and Lucy Stevenson-Yang, "China Is Not Russia. Taiwan Is Not Ukraine," U.S. Institute for Peace, March 4, 2022, <https://www.usip.org/publications/2022/03/china-not-russia-taiwan-not-ukraine>

¹⁶ "Ukraine and Taiwan: Parallels and Early Lessons Learned," Center for Strategic and International Studies, March 22, 2022, <https://www.csis.org/analysis/ukraine-and-taiwan-parallels-and-early-lessons-learned>; and Qin Gang, "Chinese Ambassador: Where we stand on Ukraine," The Washington Post, March 15, 2022, <https://www.washingtonpost.com/opinions/2022/03/15/china-ambassador-us-where-we-stand-in-ukraine/>

¹⁷ Scobell and Stevenson-Yang, "China Is Not Russia. Taiwan Is Not Ukraine," U.S. Institute for Peace.

developments or the trade conflict with the United States.

Over the past three decades, China has been developing a multi-faceted approach to improving its technology prowess. Assertions of China's inability to innovate or move beyond its copycat culture are false and overly simplistic. As documented by CSET's William Hannas and Huey-meei Chang, China has spent decades building an indigenous S&T capacity and can innovate on its own terms while tracking global trends to move to new stages of novel technology development.¹⁸ China's way of innovativeness is unique; it is a system of "re-innovation", or *zaichuangxin*, that does not mirror other global paradigms.¹⁹ As such, China is keenly aware of its strengths and weaknesses, and is actively working to achieve its S&T innovation goals.

China's efforts to modernize its innovation system have centered on self-sufficiency and indigenous innovation, and it is critical to understand that these efforts predated most major U.S. and multilateral export control maneuvers.²⁰ The "Medium- to Long-Term Plan for Science and Technology Development (2006-2020)" (MLP; 国家中长期科学和技术发展规划) identified China's weak indigenous innovation capability as a driving force for policy change. The MLP outlined Beijing's plan for indigenous innovation, which referred to "enhancing original innovation, integrated innovation, and re-innovation based on the assimilation and absorption of imported technologies, in order to improve our national innovation capability."²¹ Subsequent S&T policies and Five-Year Plans have centered on this theme, emphasizing the need for self-sufficiency in technology for both economic and national security reasons. For instance, the 2015 "Innovation-Driven Development Strategy" (IDDS; 国家创新驱动发展战略) argued that an indigenous innovation capability was needed to break through "major bottleneck problems" constraining economic and national security, and called for the reversal of situations in which

¹⁸ William C. Hannas and Huey-meei Chang, "China's Access to Foreign AI Technology," Center for Security and Emerging Technology, September 2019, https://cset.georgetown.edu/wp-content/uploads/CSET_China_Access_To_Foreign_AI_Technology.pdf

¹⁹ Emily S. Weinstein, "Beijing's 're-innovation' strategy is key element of U.S.-China competition," TechStream, January 6, 2022, <https://www.brookings.edu/techstream/beijings-re-innovation-strategy-is-key-element-of-u-s-china-competition/>

²⁰ Although most major export controls against China came about in the last two decades, it is important to note the case of satellite technologies. In this instance, in response to concerns about technology transfer benefitting the Chinese missile development program, the U.S. government in 1999 unilaterally moved satellites from the Commerce Control List under BIS to the U.S. Munitions List under the State Department, thereby changing the export control classification of satellites from dual-use to munitions. For more information, see: Tim Hwang and Emily S. Weinstein, "Decoupling in Strategic Technologies: From Satellites to Artificial Intelligence," Center for Security and Emerging Technology, July 2022, <https://cset.georgetown.edu/publication/decoupling-in-strategic-technologies/>

²¹ "The National Medium- and Long-Term Program for Science and Technology Development (2006-2020), State Council of the PRC, https://www.itu.int/en/ITU-D/Cybersecurity/Documents/National_Strategies_Repository/China_2006.pdf; and "Outline of the National Medium- and Long-Term Plan for Science and Technology Development" [国家中长期科学和技术发展规划纲要], State Council of the PRC, <https://perma.cc/MQ48-E5PD>

“key and core technologies” were controlled by other nations.²²

As such, Beijing has prioritized indigenous innovation in key strategic technology areas. The 2015 “Made in China 2025” (MIC 2025; 中国制造2025) strategy laid out China’s aims for technology substitution in fields such as new energy vehicles, high-tech ship components, new and renewable energy equipment, industrial robots, high performance medical devices, mobile phone chips, and more.²³ In semiconductors specifically, the release of MIC 2025 and IDDS in 2015, and the establishment of the National Integrated Circuit (IC) Investment Fund the year before in 2014, marked a turning point in Beijing’s approach to pushing the semiconductor industry toward reduced dependence on foreign suppliers.²⁴

Meanwhile, for the past six years, semiconductors and semiconductor manufacturing equipment (SME) have become the focus of U.S. export controls on China. In May 2019, BIS added Huawei Technologies to the Entity List, citing “activities that are contrary to U.S. national security and foreign policy interests.”²⁵ In 2020, the Commerce Department expanded restrictions on Huawei by imposing a new FDPR on Huawei, thereby limiting the company’s access to foreign-made items containing, produced by, or the direct product of U.S.-origin technology or software.²⁶ Following this, Huawei issued a statement arguing that the move would “damage the trust and collaboration within the global semiconductor industry,” and would “inevitably affect [Huawei’s] business.”²⁷

In response to U.S. export controls, especially those on Huawei, the Chinese government is doubling down on self-sufficiency in semiconductors and other critical technologies. A 2021 study by scholar Paul Triolo found that Beijing is now mandating that Chinese companies begin to phase out reliance on U.S. semiconductors and other vital components. Notably, Triolo points out that this effort does not apply to chips or components from Japanese, South Korean, European, or Taiwan-based firms—the other leaders in this unique high-tech industry. As part of

²² Translation of the “Outline of the National Innovation-Driven Development Strategy” Issued by the CPC Central Committee and the State Council [中共中央 国务院印发《国家创新驱动发展战略纲要》], Center for Security and Emerging Technology, originally published on May 19, 2016, translated on December 11, 2019, https://cset.georgetown.edu/wp-content/uploads/t0076_innovation_driven_development_strategy_EN.pdf

²³ Jost Wübbeke et al., “Made in China 2025: The making of a high-tech superpower and consequences for industrial countries,” Mercator Institute for China Studies, December 2016, <https://merics.org/sites/default/files/2020-04/Made%20in%20China%202025.pdf>

²⁴ Paul Triolo, “The Future of China’s Semiconductor Industry,” American Affairs Journal Vol. V Number 1, Spring 2021, <https://americanaffairsjournal.org/2021/02/the-future-of-chinas-semiconductor-industry/>

²⁵ “Huawei Entity List Frequently Asked Questions (FAQs),” Bureau of Industry and Security, Updated December 3, 2020, <https://www.bis.doc.gov/index.php/documents/pdfs/2447-huawei-entity-listing-faqs/file>

²⁶ Robert Slack, “Expansion of U.S. Huawei Restrictions: More Foreign-Made Items Are Caught By U.S. Export Controls,” Trade and Manufacturing Monitor, Kelley Drye, August 25, 2020, <https://www.ustrademonitor.com/2020/08/expansion-of-u-s-huawei-restrictions-more-foreign-made-items-are-caught-by-u-s-export-controls/>

²⁷ “Media Statement on Foreign Direct Product Rule Changes Made by US Government,” Huawei, <https://www.huawei.com/en/facts/voices-of-huawei/media-statement-on-foreign-direct-product-rule-changes-made-by-us-government>

the indigenous chip push, Chinese tech giants like Alibaba, Tencent, Baidu and others have begun to focus on chip research and development (R&D).²⁸ Research entities in China are also actively studying how to replace key U.S. components—like Intel’s x86 processor—with domestic alternatives.²⁹ Most recently, in July 2022, *The Wall Street Journal* reported that China is now leading the world in building new chip factories, with 31 major factories set to be built by 2024.³⁰ Although many of these factories are expected to work on low-end chips, focusing on low-end chips may allow China to still achieve its technology leadership goals while avoiding U.S. export controls, which are mostly centered around high-end chips and related SME.

Beyond semiconductors, China is actively studying its vulnerabilities and crafting ways to overcome them. A recent CSET report by Ben Murphy highlighted China’s self-identified strategic technology import dependencies—or “chokepoints”—by assessing a set of 35 articles published in 2018 by Chinese state-run media, and examining China’s efforts to address these vulnerabilities. Understanding and studying Chinese self-identified vulnerabilities attempts to overcome them can help to inform future export control policies. These 35 articles, all published in *S&T Daily* and written by staff reporters, profile different technological import dependencies for China, ranging from advanced photolithography machines to foundational aviation-grade steel. In each of these instances, the “chokepoints” pieces lay out who the leading global providers are for the given technology, identifies who the Chinese provider or developer for that technology is (if at all), and discusses China’s potential difficulties in overcoming this “chokepoint.”³¹

As Murphy notes, some of these “chokepoints” are worse than others. For instance, certain import dependencies involve technologies that cannot easily be bought or copied. With regards to photolithography machines, He Rongming (贺荣明), general manager of PRC chip manufacturer Shanghai Micro Electronics Equipment (SMEE; 上海微电子), told *S&T Daily* that, even if ASML were to give him the blueprints for their photolithography machines, SMEE would still be unable to replicate them.³² In other instances, some of the identified “chokepoints”

²⁸ “Baidu says 2nd-gen Kunlun AI chips enter mass production,” Reuters, August 18, 2021, <https://www.reuters.com/technology/baidu-says-2nd-gen-kunlun-ai-chips-enter-mass-production-2021-08-18/>; and “Tencent flags progress on three chips in development, investment efforts,” Reuters, November 3, 2021, <https://www.reuters.com/business/cop/tencent-has-long-term-plan-chip-development-investment-2021-11-03/>; and Coco Liu and Debby Wu, “Alibaba Just Unveiled One of China’s Most Advanced Chips,” Time Magazine, October 18, 2021, <https://time.com/6108124/alibaba-china-chip/>

²⁹ Wang Haoyu [王浩宇], “Design of Localized CPCI Motherboard Based on Zhaoxin X86 Architecture Processor” [基于兆芯X86架构处理器的国产化CPCI主板设计], Southwest Institute of Automation, Mianyang, Sichuan Province [四川省绵阳西南自动化研究所], 2020.

³⁰ Dan Strumpf and Liza Lin, “China Chases Chip-Factory Dominance—and Global Clout,” Wall Street Journal, July 24, 2022, <https://www.wsj.com/articles/china-bets-big-on-basic-chips-in-self-sufficiency-push-11658660402>

³¹ Ben Murphy, “Chokepoints: China’s Self-Identified Strategic Technology Import Dependencies,” Center for Security and Emerging Technology, May 2022, <https://cset.georgetown.edu/wp-content/uploads/CSET-Chokepoints.pdf>

³² Murphy, “Chokepoints: China’s Self-Identified Strategic Technology Import Dependencies,” Center for Security and Emerging Technology.

required decades of research, data, and experimentation to refine their products, making catching up a daunting task for Chinese entities wishing to supplant foreign providers. A Chinese IT expert identified operating systems as falling under this category, as it took U.S. PC and mobile phone operating systems like Windows, Android, and iOS years of trial and error to reach their current state.

To summarize, Beijing's history of long-term strategic planning, in conjunction with its active awareness of its strengths and vulnerabilities are helping Chinese leadership more effectively plan around U.S. export controls. Policies aimed at achieving self-sufficiency are not new; however, Chinese leadership has further emphasized and ramped up these efforts in the aftermath of U.S. export controls. For U.S. policymakers, studying these efforts will allow us to identify a clearer objective for our export controls.

The Need for a Multilateral Approach on Export Controls

As demonstrated by the Russia example, export controls are most effective when imposed multilaterally, and working with allies can eliminate the need for extraterritorial controls. This concept is not new. Even 30 years ago in the early years following the end of the Cold War, scholars emphasized the need for multilateralism in export controls and the limits of U.S. unilateral action: "The fundamental constraint on the ability of the United States to control the export of sensitive military and dual-use technologies is the availability of alternative sources of supply."³³ Although multilateral controls may be harder and take longer to put in place, they have historically proven to be more effective in the long run—a point agreed upon in the bipartisan Export Control Reform Act of 2018.³⁴

Although we currently have multilateral export control regimes in place, these regimes are more narrowly focused on nonproliferation and conventional weapons, and are not equipped to deal with the multifaceted geopolitical challenges of the 21st century, particularly those related to competition with China. As such, the U.S. government should lead in the coordination of a new multilateral export control regime that is built to address today's issues. Since we have effectively created a framework for coordination—a *de facto* regime, per se—through our multilateral response to Russia, U.S. leaders should capitalize on this opportunity to codify this arrangement.

³³ John H. Henshaw, "The Origins of COCOM: Lessons for Contemporary Proliferation Control Regimes," The Henry L. Stimson Center, May 1993, https://www.stimson.org/wp-content/files/file-attachments/Report7_1.pdf

³⁴ Export Control Reform Act of 2018 (ECRA): Paragraph 5: "Export controls should be coordinated with the multilateral export control regimes. Export controls that are multilateral are most effective..." and Paragraph 6: "Export controls applied unilaterally to items widely available from foreign sources generally are less effective in preventing end-users from acquiring those items..."

Why a new regime?

There are currently four multilateral export control regimes: the Nuclear Suppliers Group (NSG), the Australia Group (AG), the Missile Technology Control Regime (MTCR), and the Wassenaar Arrangement (WA). As suggested by their names, NSG controls nuclear-related items, and MTCR controls missile-related items. The AG is responsible for controlling items related to chemical and biological weapons, and the Wassenaar Arrangement—the successor of the Cold War-era Coordinating Committee for Multilateral Export Controls (COCOM)—controls conventional military-related items. Although they have and continue to serve an important purpose in geopolitics, there are elements of these regimes that are problematic, and many of the challenges we now face fall outside of the scope and jurisdiction of these four regimes.

First, both China and Russia are privy to some, although not all, of the regimes. Both are members of the NSG, and Russia also maintains membership in the WA and the MTCR, of which it currently chairs. Russia's membership and leadership roles have become increasingly disruptive since the February invasion. Since these regimes operate on consensus, it is impossible to remove Russia from these regimes without its consent (which it is unlikely to give), thereby lessening their effectiveness. For China, international organizations and fora have often been a place to advocate and push for its own interests.³⁵ For example, a March 2022 study by Jessica Drun and Bonnie Glaser found that China has used the United Nations (UN) to further institutionalize and normalize its own stance on Taiwan by signing secret agreements with UN bodies, restricting Taiwan's access to the UN and its facilities, and embedding Chinese national across various levels of UN staff.³⁶ If tensions between China and the U.S. and its allies grow, China's membership in the NSG is likely to become disruptive as well.

Beyond the issue of membership, the scope of the existing regimes is narrowly focused on controlling items related to conventional weapons and weapons of mass destruction (WMDs). At the time of their birth during and right after the Cold War, this made sense, as these were the primary shared geopolitical concerns. However, decades later, although these regimes retain some amount of salience, geopolitical challenges have shifted, threat landscapes have changed, and new adversaries have emerged. More specifically, the regimes' mandates do not permit actions to address contemporary policy issues, such as but not limited to the following³⁷:

1. Responding to the national security threat posed by China's objective of obtaining

³⁵ Yaroslav Trofimov, Drew Hinshaw, and Kate O'Keeffe, "How China Is Taking Over International Organizations, One Vote at a Time," Wall Street Journal, September 29, 2022, <https://www.wsj.com/articles/how-china-is-taking-over-international-organizations-one-vote-at-a-time-11601397208>

³⁶ Jessica Drun and Bonnie Glaser, "The Distortion of UN Resolution 2758 to Limit Taiwan's Access to the United Nations," German Marshall Fund of the United States, March 2022, <https://www.gmfus.org/sites/default/files/2022-03/Drun%26Glaser-distortion-un-resolution-2758-limit-taiwans-access.pdf>

³⁷ Kevin Wolf and Emily S. Weinstein, "COCOM's daughter?" WorldECR, May 2022, <https://cset.georgetown.edu/wp-content/uploads/WorldECR-109-pp24-28-Article1-Wolf-Weinstein.pdf>

- strategic economic dominance in key technology areas;
- 2. Securing allied supply chain resiliency;
- 3. Preventing the misuse of commercial technologies to abuse human rights; and
- 4. Countering China's military-civil fusion (MCF) strategies.³⁸

Furthermore, these four voluntary regimes govern the export control systems of U.S. allies; but beyond that, the export control systems of our allies have, until recently, been relatively underdeveloped. In fact, the existing regimes, and thus the laws of U.S. allies, do not allow for controls over unlisted items against specific countries, end users, or end uses, except if related to WMD, nonproliferation, or arms embargo objectives. A 2020 study by the Mercator Institute for China Studies noted that the EU only adopts one-for-one controls on items that are agreed upon in the multilateral regimes, but does not have the power to add controls itself.³⁹ The lack of ability to control based on end users and end uses (outside of the scope of nonproliferation or conventional weapons-related items) greatly hampers regimes' and the allies' abilities to control items that pose economic or national security risks, specifically in the context of a given country like China. This inability to impose end user controls presents serious challenges for the scope of current multilateral regimes, particularly in the context of China's MCF strategy, which aims to make the distinctions between civilian end users and military end users essentially nonexistent.⁴⁰ Controls on exports to specific end users (and end uses) are necessary when the items in question are widely available and widely used in benign or beneficial civil applications.⁴¹

Our current regimes are also unable to address the misuse of commercial technologies to abuse human rights. This is especially relevant in the context of China and surveillance technologies, a subject of which I know the Commission and my co-panelists have studied at length.⁴² Although the United States has worked to impose export controls and sanctions on companies and entities complicit in the atrocities in Xinjiang, these have all happened unilaterally; therefore, listed companies like iFlytek, and others have continued to thrive both within China and in third-party

³⁸ According to the U.S. Department of State, "Military-Civil Fusion," or MCF, is an aggressive, national strategy of the Chinese Communist Party (CCP). Its goal is to enable the PRC to develop the most technologically advanced military in the world. As the name suggests, a key part of MCF is the elimination of barriers between China's civilian research and commercial sectors, and its military and defense industrial sectors." For more information, see: "Military-Civil Fusion and the People's Republic of China," U.S. Department of State, May 2020, <https://www.state.gov/wp-content/uploads/2020/05/What-is-MCF-One-Pager.pdf>

³⁹ Noah Barkin, "Export Controls and the US-China Tech War: Policy challenges for Europe," Mercator Institute for China Studies, March 18, 2020, <https://merics.org/en/report/export-controls-and-us-china-tech-war>

⁴⁰ The Hon. Christopher A. Ford, "Rethinking Multilateral Controls for a Competitive World," National Security Law Journal Vol. 9:2, 2022.

⁴¹ Wolf and Weinstein, "COCOM's daughter?" WorldECR.

⁴² "China's Smart Cities Development," SOS International prepared for the U.S.-China Economic and Security Review Commission, January 2020, <https://www.uscc.gov/research/chinas-smart-cities-development>; and Sheena Chestnut Greitens, "Dealing with Demand for China's Global Surveillance Exports," Brookings Institution, April 2020, https://www.brookings.edu/wp-content/uploads/2020/04/FP_20200428_china_surveillance_greitens_v3.pdf

countries.⁴³ The Biden administration recognizes a need for multilateral human rights controls; in December 2021, the White House issued a joint statement announcing the Export Control and Human Rights Initiative alongside Australia, Denmark, and Norway.⁴⁴ This is a step in the right direction, and I hope to see more like-minded countries join the Initiative. However, the topic has not come up publicly since it was first announced.

Creating a new regime

A new export control regime is vitally needed to improve our ability to deal with the aforementioned challenges. It should capitalize upon the *de facto* group of techno-democracies—advanced, high-tech producer countries with shared democratic values—that emerged since the Ukraine invasion, which includes 38 countries, including Taiwan. It will be imperative to include Taiwan in this regime, both for practical and moral reasons. On the practical side, as home to the largest semiconductor company in the world, Taiwan should be included in all conversations about semiconductor supply chains. This is particularly salient for the objectives #1 and #2 that I laid out in the previous section. In order to most effectively use export controls to respond to 1) the national security threat posed by China’s objective of obtaining strategic economic dominance in key technology areas, and 2) securing allied supply chain resiliency, Taiwan will need a seat at the table.

I am not advocating for replacing or ending the current four regimes, nor do I believe that the United States and our allies should reduce our commitments to the existing regimes. On the contrary, I believe that these regimes serve as the foundations for their members’ and adherents’ domestic export controls within the context of traditional nonproliferation objectives. These regimes have and should continue to serve as critical venues for discussion and diplomacy. Rather, I strongly urge the creation of a new regime that can fill the gaps in the current regimes and bring export control policy into the 21st century. This new regime should also not be considered as a way to alienate countries that are not yet part of ongoing multilateral or plurilateral export control discussions, or are not considered to be leading technology producers. Once the concept gets off the ground, I would encourage the United States and other countries to

⁴³ “Addition of Certain Entities to the Entity List,” Bureau of Industry and Security via the Federal Register, October 9, 2019, <https://www.federalregister.gov/documents/2019/10/09/2019-22210/addition-of-certain-entities-to-the-entity-list>; and “FACT SHEET: Executive Order Addressing the Threat from Securities Investments that Finance Certain Companies of the People’s Republic of China,” The White House, June 3, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/03/fact-sheet-executive-order-addressing-the-threat-from-securities-investments-that-finance-certain-companies-of-the-peoples-republic-of-china/>; and “Chinese AI company iFlytek thrives despite techno-trade war,” SupChina, February 12, 2020, <https://supchina.com/2020/02/12/chinese-ai-company-iflytek-thrives-despite-techno-trade-war/>; and “iFLYTEK Reports 62% Increase in H1 2021 Net Profits,” iFlytek company website, September 9, 2021, <http://www.iflytek.com/en/news/199.html>

⁴⁴ “Fact Sheet: Export Controls and Human Rights Initiative Launched at the Summit for Democracy,” The White House, December 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/12/10/fact-sheet-export-controls-and-human-rights-initiative-launched-at-the-summit-for-democracy/>

actively include other nations that are deemed critical across high-tech supply chains.

As a first step to creating a new regime, the United States and allies should state in a common document what we have essentially agreed to in the context of Russia—impose new substantially similar controls on regime-listed items and items not on regime lists that are important to Russia’s strategic economic and military objectives. From there, the signatories can then establish a charter similar to that of the U.S.-EU Trade and Technology Council’s export control working group.⁴⁵

The initial mandate of this new regime should be clear and concise, as export controls are most effective when they come with a clear vision of what needs to be controlled, by whom, and to what end. As a start, members could identify the commodities, software, technologies, end uses, and end users that warrant control, on the basis of shared national security, economic security, and human rights issues, that currently fall outside of the scope of the existing four regimes. When thinking through this issue, members should consider whether the item in question would either: 1) advance a traditional export control objective that cannot be advanced thanks to the disruptive membership of Russia and/or China; or 2) address one or more of the contemporary national security, economic security, or human rights challenges that cannot be addressed through current coordinated export controls.⁴⁶ In addition, allies would need to make assurances that they would, in a relatively short period of time, harmonize and align their domestic controls with those of the United States and other allies, particularly as it relates to military end use controls related to Russia, China, and other threat actors.

Creating this new regime is relatively simple, and Congress is not required to provide any additional authorities to begin this process. Although the Export Control Reform Act of 2018 (ECRA) does not call for the United States to lead an effort to create a new regime of technocracies, it clearly authorizes such an effort with U.S. participation. For example, paragraph 16 of ECRA gives the administration the broad authority to “undertake any other action as is necessary to carry out” ECRA’s national security and human rights objectives.⁴⁷ The harder part will be getting allies on board and their domestic systems up to speed. Allies have broken the mold by proving that they can control items outside of the scope of traditional nonproliferation objectives; however, these new policies must be codified into law and given proper authorities so they can be most effective moving forward.

A sense of urgency is necessary in creating this new regime, and we cannot afford to miss out on the momentum created by the multilateral action in response to Russia’s invasion of Ukraine

⁴⁵ “U.S.-EU Summit Statement,” The White House, June 15, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/15/u-s-eu-summit-statement/>

⁴⁶ Wolf and Weinstein, “COCOM’s daughter?” WorldECR.

⁴⁷ “Public Comments of Kevin Wolf, Emily Kilcrease, and Jasper Helder Regarding Areas and Priorities for US and EU Export Control Cooperation under the US-EU Trade and Technology Council,” January 14, 2022, <https://www.akingump.com/a/web/da8PXpEZoaPekNsTPUmfmr/011422us-euttewolfkilcreasehelderfinal.pdf>

earlier this year. Formalizing a new regime sooner rather than later will put the United States and allies in a better position to deal with emergencies as they arise and avoid having to pull together ad hoc coalitions in response to incidents. In the context of a potential invasion of Taiwan, having this regime in place would allow the United States and allies to move rapidly and effectively against China in support of Taiwan.

What's more, members of Congress have recently expressed concerns about our inability to act on harsh export controls before Russia's invasion of Ukraine. BIS Under Secretary Alan Estevez responded by saying that he did not think we would have been able to get the same multilateral response if we had acted before the invasion, and he argued that unilateral action on the part of the United States would not have been nearly as effective at deterring and/or preventing the invasion. Moving forward, if a new regime is already in place, the established information channels created and formalized by this new regime would allow for more efficient information sharing before, during, and after a potential crisis.

Conclusion: A Need for Tempered Expectations and Critical Assessments

Studying the use of export controls against Russia following its invasion of Ukraine allows us to see just how effective export controls can be when applied multilaterally and with a clear objective in mind. When applying this lesson to China, however, it is important to have tempered expectations; China is not Russia, and these controls will not look the same when applied to China.

In particular, there are some specific lessons to keep in mind. First, as the saying goes, we must ensure that we are not “cutting our own jugular” just to spite the Chinese. Second, export controls should be imposed through multilateral channels whenever possible, as unilateral controls have proven to be ineffective and eventually counterproductive. The satellite technology case study from the 1990s provides an excellent example of how export controls, especially unilateral ones, can have unintended consequences. In unilaterally moving satellites from the CCL to the U.S. Munitions List, the U.S. government inadvertently destroyed the competitiveness of the U.S. satellite industry. The U.S. share of worldwide satellite exports decreased from 73 percent in 1995 before the policy change in 1999, to just 25 percent in 2005.⁴⁸ In 2014, BIS estimated that the U.S. satellite industry lost between \$988 million and \$2 billion in foreign sales between 2009 and 2012 due to export controls.⁴⁹ To add insult to injury, a 2020 report from this Commission argued that China has now emerged as a leading player in space

⁴⁸ Hugo Meijer, *Trading with the Enemy: The Making of US Export Control Policy Towards the People's Republic of China* (New York, NY: Oxford University Press, 2016): 284.

⁴⁹ Office of Technology Evaluation, U.S. Space Industry “Deep Dive” Assessment: Impact of U.S. Export Controls on the Space Industrial Base (Washington, D.C.: U.S. Department of Commerce, February 2014), 28, <https://www.bis.doc.gov/index.php/documents/technology-evaluation/898-space-exportcontrol-report/file>.

technologies despite U.S. efforts, partly due to a domestic push to indigenize space R&D capabilities.⁵⁰ In this instance, we can see that a lack of consideration of long-term effects led to unintended consequences and eventually did not solve the objective in question.

In addition, export controls are designed to impose strategic delay by preventing entities from accessing critical technologies. They are not designed to be wielded as tools of economic destruction, although that of course can be a side effect (intended and unintended). In the context of China, the United States cannot expect export controls to cripple China's high-tech sectors or prevent China from indigenously innovating.

Moreover, we cannot expect unilateral controls to be effective, as China can easily source what it needs from third-parties. Even if the U.S. government chose to apply the FDPR more broadly, it would likely only work for a short time, and would eventually incentivize companies to offshore production in order to avoid U.S. export controls regulations. The United States is no longer the only source of technology and high-tech expertise; indeed, CSET's work on "Chokepoints" provides further examples of these workarounds—China identifies leading providers for several essential technologies outside of the United States, namely in part of Europe, Japan, and South Korea.⁵¹ Thus, to ensure the effectiveness of export controls, we must approach them with other high-tech nations.

Finally, export controls are only one part of our larger national security toolbox. These defensive measures, alongside sanctions and other tools, are critical tools, and will likely be vital in any conflict that arises with China. However, the defensive tools are most effective—both unilaterally and multilaterally—when used in conjunction with "run faster" policy options. Regardless of a potential Taiwan invasion scenario, it will be crucial for the United States and allies to work together to ensure that we are bolstering domestic innovation and easing burdens on bilateral and multilateral investments and S&T collaboration. Additionally, it behooves us to work together to incentivize companies to move their production out of China and into places like Southeast Asia and Latin America.

To conclude, I propose the following recommendations for U.S. policy:

- 1. Capitalize on the multilateral coordination following the Ukraine invasion by codifying a new multilateral export control regime to complement the four existing regimes. This regime should focus on controlling beyond nonproliferation objectives.**

While Congress does not need to provide the executive branch with any additional authorities to

⁵⁰ Mark Stokes, Gabriel Alvarado, Emily Weinstein, and Ian Easton, *China's Space and Counterspace Capabilities and Activities* (Arlington, VA: Project 2049 Institute, 2020), https://www.uscc.gov/sites/default/files/2020-05/China_Space_and_Counterspace_Activities.pdf.

⁵¹ Ben Murphy "Appendix: Key Details of the 35 "Chokepoint" Technologies," Center for Security and Emerging Technology, https://docs.google.com/spreadsheets/d/1e1qEMe5FDB_zv1Kcu67CpNK2rlC7UFsa/edit#gid=2146773379

lead this effort, it should move swiftly to codify the *de facto* regime while it still has momentum in order to prepare for various contingencies, including a potential invasion of Taiwan. It will be critical to have this in place before a Taiwan invasion scenario, as it will vastly improve our ability to coordinate with allies and have the greatest potential impact on the Chinese economy and military. As part of this effort or separately, the United States should work to establish multilateral controls for human rights objectives. Although relevant in the context of China, these human rights controls should be applied to any entities worldwide that are found to be complicit in designing, manufacturing, selling, or using commercial technologies to abuse human rights.

In conjunction with these efforts, the United States should work with like-minded nations to assist them in updating their domestic export control regimes. Absent any progress on a new multilateral regime, this is a necessary step in modernizing export controls that will help us prepare for future emergency scenarios.

2. Establish a Supply Chain Chokepoints Task Force to study global supply chains in critical technologies.

Additional research is required to identify chokepoints in global supply chains. The relevant data exists but is often behind paywalls or held closely by industry for comparative advantage reasons. In other cases, the data is not actually written out, but exists in the minds of academics and researchers working at the cutting edge. A task force dedicated to examining supply chain chokepoints could act as a middleman between industry/academia and the U.S. government, as it could aggregate and anonymize data to protect comparative advantages and other competition issues while providing the U.S. government—and hopefully the public in some form—with the information necessary to hone how we use tools like export controls.

This effort should be twofold. First, this task force should study instances where China views themselves as vulnerable, similar to the efforts in CSET’s Chokepoints report. It should also examine instances where the United States and like-minded countries are vulnerable to China—like lithium, pharmaceuticals, and more. These efforts will be critical to how we assess when and how to use export controls.

3. Establish a well-resourced S&T analysis and monitoring organization with sustained funding to monitor developments in emerging and foundational technologies.

Given the now-globalized nature of S&T innovation and the central role of technology in national security, effective strategy and policy require open-source collection and analysis of S&T developments worldwide.⁵² As such, Congress should mandate the establishment of an open-source S&T analysis center that uses unclassified sources to monitor global developments

⁵² Tarun Chhabra, William Hannas, Dewey Murdick, and Anna Puglisi, “Establishing a new open-source National Science and Technology Analysis Center,” Center for Security and Emerging Technology, <https://cset.georgetown.edu/wp-content/uploads/CSET-Policy-Recommendation-OSINT-One-Pagers.pdf>

in emerging technologies. This center should be an independent entity housed outside of the intelligence community, and its mandate should focus on S&T collection, analysis, and decision support. As noted by CSET Director Dewey Murdick in testimony before Congress, this type of entity can achieve the following objectives:⁵³

- Create an unclassified foundation on top of which more sensitive threat work can be overlaid;
- Function seamlessly across foreign and domestic technological challenges;
- Assemble a critical mass of resources that are hard to find due to high setup costs, such as technical infrastructure, data resources, expert input, and analytic talent; and
- Work to enable innovations to move from research to practice.

Thank you once more for the opportunity to address these issues before the Commission and alongside my fellow panelists. I look forward to your questions.

The author would like to thank Tessa Baker, Hanna Dohmen, Margarita Konaev, Danny Hague, Dewey Murdick, Igor Mikolic-Torreira, Lynne Weil, and Kevin Wolf for their assistance in preparing this testimony. The author is solely responsible for all errors.

⁵³ Dewey Murdick, Ph.D., “Testimony before the Senate Select Committee on Intelligence: Countering the People’s Republic of China’s Economic and Technological Plan for Dominance,” Center for Security and Emerging Technology, May 11, 2022, <https://cset.georgetown.edu/wp-content/uploads/2022.05.11-Testimony-before-the-Senate-Select-Committee-on-Intelligence.pdf>

Appendix: Glossary of U.S. Export Control Terminology

Term	Definition
End User	The person abroad that receives and ultimately uses the exported or reexported items (i.e., commodities, software, and technology). 15 CFR 748.5(f).
End Use	How and for what purpose the item exported or reexported is used.
Military End User	Refers to “the national armed services (army, navy, marine, air force, or coast guard), as well as the national guard and national police, government intelligence or reconnaissance organizations, or any person or entity whose actions or functions are intended to support ‘military end uses’.” 15 CFR 744.21(g).
Military End Use	Refers to items incorporated into a military item on a munitions list; or any commodity that is designed for the use, development, production or deployment of military items on a munitions list. 15 CFR 744.21(f).
Entity List	The list of persons and entities identified in the Export Administration Regulations (EAR) to whom items subject to the EAR may not, with rare exceptions, be exported, reexported, or transferred without a license. Entities are added to the list if there is a reasonable cause to believe, based on specific and articulable facts, that the entity has been involved, is involved, or poses a significant risk of being involved in activities that are contrary to the national security or foreign policy interests of the United States. 15 CFR 744.11.
Foreign Direct Product Rule	The rules in the EAR that govern when an otherwise uncontrolled foreign-made item outside the United States is subject to the jurisdiction of the EAR if produced with certain types of commodities, software, or technologies that are subject to the EAR. 15 CFR 734.9.

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

COMMISSIONER SCHRIVER: Thank you. Dr. Chestnut Greitens?

DR. CHESTNUT GREITENS: Good morning, distinguished Co-Chairs, Commissioners and Staff, thank you for inviting me to testify today.

China's response to the conflict in Ukraine placed several of China's own priorities into potential conflict and means that Beijing has had to make choices and trade-off for foreign and domestic priorities for 2022.

Among those are a set of principles that China has long espoused in diplomatic rhetoric that included principles like sovereignty, territorial integrity and non-interference in other countries' domestic affairs, the high-level partnership with Moscow that had been affirmed in early February, and Beijing's own desire for stability in the run-up to the 20th Party Congress this fall at a time when economic and political stability in China have already been challenged by China's zero COVID policy and slowing economic growth, as the first panel discussed this morning.

In response, China has been actively supportive of Russia, particularly in the informational and diplomatic realm.

Its economic behavior has been more mixed, and its military support has been limited although it has continued routine military cooperation with Russia.

So, China's official rhetoric and the messaging that it has shared about the Ukraine conflict have been strongly pro-Russia and aligned with Russia's own messaging. Again, that's particularly notable here because of the centrality of information strategies to the unfolding course of conflict.

Perhaps the most consistent theme of China's response has been that ultimate blame lies with the United States and NATO, a point to which I'll return in just a moment.

China's amplification of Russian talking points has included active promotion of Russian disinformation, and China's controlled domestic information space and social media environment have largely paralleled its foreign rhetoric in being dominated by pro-Russian anti-American messaging.

In terms of diplomatic behavior, bilateral communications between Russia and China have remained robust including at senior levels, and there's been no sign of backing off the early February joint statement or the high-level partnership with Moscow.

In multilateral settings, China's diplomatic actions have leaned towards Moscow though with considerable free-riding in higher-profile forums and in other more specialized settings, Beijing has been much more openly supportive of Moscow, including voting alone with Russia in several contexts.

Economically, again, the picture is a little bit more complicated given that China's behavior is an aggregation of both the official actions of the Party-state and a more diverse set of corporate and financial actors.

Again, official rhetoric has really stridently opposed the use of sanctions, but so far, U.S. officials say they see at least no systematic sign of sanctions evasion, although I would note that five Chinese entities were placed on the Entity List earlier this summer for assistance to Russia

in the aftermath of the invasion.

My co-panelists have already covered some of the lessons that China may be drawing in terms of insulation from sanctions themselves, so I'll return to that at the very end and bracket that point for a moment.

Again, material support from the PRC for Russia's military has been limited, but the PRC has not paused its military relationship with Russia, and I would note that the strategic partnership affirmed in early February was likely a broadly enabling factor for the invasion because it gave Russia the perception of a permissive security environment, particularly in the Far East, enabling them to concentrate on Ukraine itself.

The reason that I'm reviewing this pattern of evidence is that it suggests pretty clearly that Russia and China share a view not only that the United States is the main threat to their external security but also a threat to their internal stability.

And both countries see these two as linked, and there's particular language in the joint statement as well as this broader pattern of behavior that affirms this shared perception.

And the reason that I stress this is that I think we need to see Ukraine in a slightly broader context.

In parallel to Beijing making these specific claims about Ukraine and the role of the United States and NATO, in April Xi Jinping also rolled out his new Global Security Initiative at a forum in April of 2022.

The GSI is still more a concept right now than a concrete policy agenda, and it includes considerable repackaging of past Chinese complaints about the American-led international order.

But it represents a potential broader Chinese challenge to global and regional security order. I think that's concerning for two reasons.

First of all, Chinese language analysis that hasn't really made its way into English yet explicitly frames the GSI as an international projection of Xi Jinping's Comprehensive National Security Concept, which is a regime security concept.

That was also quite vague when it was first rolled out in 2014, but it has transformed the way that the Chinese Party-state approaches domestic security.

And so if that is the precedent for the GSI, I think we are potentially looking at a much broader challenge to the U.S.-led security order, the alliance system that the United States relies on, and an effort to make the rules of the international system compatible, not just with the PRC's external security interests but its desire for internal regime security. And so this bears very close watching.

The final point I want to make is about implications for Taiwan.

The parallelism in the February 4th joint statement primed global audiences to analogize in their own minds between Ukraine and Europe and Taiwan and Asia, but also to believe that China might view them as somewhat similar.

Now, once the conflict in Ukraine began, Beijing really backpedaled and has begun to stridently disavow the comparability of the two situations, as we heard earlier, framing Taiwan as a matter not of authoritarianism versus democracy, but secession versus the maintenance of territorial integrity, et cetera.

The reason that I mention that is that I think it's really important as we look at lessons from the Ukraine conflict for Taiwan to understand that China's own rejection of that comparison is going to have lock-in effects within the Chinese political system that are going to affect the process of learning and the conclusions that the PLA and the broader Chinese political system draw from the conflict for Taiwan.

So, analysts need to really take care that they focus on what we actually observe the Chinese political system learning so that we avoid mirroring errors and make sure that we are looking at what China actually learns, not what we are learning and assuming that they're learning the same lessons.

That will be really key to effective deterrence and to managing risks of conflict in the years ahead. Thank you for your time and I look forward to your questions.

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

China's Response to War in Ukraine

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

Hearing on

“Challenges for Chinese Policy in 2022: Zero-COVID, Ukraine, & Pacific Diplomacy”

3 August 2022

Sheena Chestnut Greitens, PhD

Associate Professor and Director, Asia Policy Program

University of Texas at Austin

Visiting Fellow, American Enterprise Institute

Distinguished Co-Chairs and Commissioners -- thank you for inviting me to testify today on how China has responded to war in Ukraine and the implications of Beijing's response for American national security and foreign policy.

Vladimir Putin's decision to invade Ukraine on February 24th posed important choices for the People's Republic of China (PRC). China has been actively supportive of Russia in the informational and diplomatic arenas, while its economic behavior has been mostly self-interested and material military support for Russia's war has been limited though routine military cooperation with Moscow has continued. Beijing's stance on the war appears to be determined largely by its perception of the need to counter and oppose the United States and the U.S.-led alliance system; many of its criticisms of Western policy on Ukraine extend and augment pre-existing themes about flaws in the American-led security order in both Europe and Asia. The unfolding of Xi Jinping's Global Security Initiative in parallel with these criticisms suggests that Beijing may be gearing up for a significant attempt to revise international order in the realm of global security, something the U.S. should watch closely. Moreover, although the Feb. 4th Russia-China Joint Statement implied that Ukraine and Taiwan were analogous, Beijing's post-invasion rhetoric has stridently rejected that comparison, even as the PRC observes the conflict to decide what lessons it can or should draw for Taiwan.

As other analysts have noted, the Russian invasion of Ukraine placed into irreconcilable conflict several of China's key priorities for 2022.¹ The most visible of these was Beijing's high-level partnership with Moscow, which was reaffirmed on February 4 and is based not only on close personal ties between the two leaders, but shared interests in energy, trade, and military technology, and common pursuit of an authoritarian political system with power concentrated in the top leader.² The second Chinese interest at play was a set of principles that Beijing has long espoused in diplomatic rhetoric and that were included in the Joint Statement: sovereignty, territorial integrity, and non-interference in the domestic affairs of other countries (all of which presumably preclude armed invasion and wars of aggression). The third major interest is Beijing's desire for stability in the run-up to the 20th Party Congress this fall, when Xi will assume an unusual third term – at a time when economic and political stability have already been challenged by China's zero-COVID policy and slowing economic growth.³ The implication for foreign policy is a need to maintain decent relationships with major trading partners such as the US and the EU, at a time when concern over human rights issues in Xinjiang and Hong Kong, and other assertive Chinese behavior abroad, has heightened tensions already.

Describing Chinese Rhetoric and Behavior Regarding the War in Ukraine

China's official messaging and the information it has shared about the Ukraine conflict have been strongly pro-Russia and aligned with Russia's own messaging⁴ – which is particularly notable given the centrality of information strategies to the unfolding course of the conflict. Perhaps the most consistent theme of China's messaging has been that ultimate blame lies with the United States and NATO, because the overexpansion of NATO in eastern Europe militarized the region and precipitated Russia's "special military operation." PRC Foreign Ministry spokesperson Hua Chunying, for example, asked in late February whether NATO and the U.S. had "forced Russia into a corner" by expanding NATO to their doorstep.⁵ She rebutted questions about the U.S. invoking the principle of sovereignty by saying, "the US is in no position to tell China off," and then argued that "China still faces a realistic threat from the US flanked by its several allies as they wantonly and grossly meddle in China's domestic affairs and undermine China's sovereignty and security on issues including Xinjiang, Hong Kong and Taiwan." References to NATO expansion among Chinese official social media accounts during

January-April 2022 far outnumbered those in a comparable period in 2021 (366 to 36).⁶ At multiple points since the conflict broke out, PRC diplomats and state media have also accused NATO and the United States of inflaming and profiting from the conflict,⁷ and China's amplification of Russian talking points has included active promotion of Russian disinformation claims, such as those on bioweapons labs in Ukraine.⁸ China's controlled domestic information space and social media platforms are similarly dominated by pro-Russian, anti-American messaging.⁹

Beyond rhetoric, what of Chinese diplomatic behavior? Bilateral communications between Russia and China have remained robust, including at senior levels. A call occurred between Putin and Xi the day after the invasion, and another took place on Xi's birthday in mid-June.¹⁰ Both Wang Yi and Li Zhanshu have also affirmed the partnership in the months since the invasion.¹¹

In multilateral settings, China's diplomatic actions have leaned toward Moscow, though with considerable free-riding in higher-profile forums. The PRC abstained in the initial UNGA vote (after insisting on removal of Chapter VII language), and in several subsequent UN votes, though it actively voted against the UNGA's decision to suspend Russia from the Human Rights Council.¹² In other, more specialized settings, Beijing has been openly supportive of Moscow, voting (alone) alongside Russia at an IAEA Board of Governors meeting that "deplored" Russia's invasion and in opposition to an International Court of Justice (ICJ) order that Russia should immediately halt all military action in Ukraine.¹³ The Asian Infrastructure and Investment Bank (AIIB) decision to halt lending in Russia was described by some media as a possible exception to this pattern of support in international institutions, but that outcome likely reflects AIIB's multilateral stakeholder structure – in which the vote share of NATO countries almost equals China's – and not "Beijing's" preferences at all.¹⁴ In aggregate, then, China's behavior in multilateral settings has been supportive of Russia, especially when visibility and costs are relatively low.

Economically, the picture is somewhat more complicated, given that "China's" behavior is an aggregation of party-state and corporate/financial actors. Official rhetoric has stridently opposed the use of sanctions, to a degree that caused friction at the China-EU virtual summit in early April.¹⁵ In late June, the U.S. Commerce Department placed five Chinese entities on the BIS Entity List specifically for supporting Russia's military and/or defense-industrial base after the invasion – but thus far, U.S. officials also say they see no sign of "systematic evasion of sanctions,"¹⁶ likely due to the reality that China's economic interests with Europe far exceed those in Russia and could be jeopardized by intentional sanctions backfiring.¹⁷ Simple self-interest, not solidarity with Russia, appears to be the consistent principle guiding Chinese actors' behavior in the economic realm.

Material support from China for Russia's military has been limited thus far, despite reports of Western government concern on this front in the spring.¹⁸ At the same time, however, the PRC has also not paused its military relationship with Russia, opting to continue with joint exercises in May 2022 during President Biden's visit to Tokyo for a Quad meeting.¹⁹ Signing the strategic partnership in early February may also have been a broadly enabling factor for the invasion, with Putin's perception of a permissive security environment in the Russian Far East giving Moscow a freer hand to draw troops from there to send into Ukraine.²⁰

Understanding China's Motivations & Resulting Policy Implications

Available evidence – including the Joint Statement -- suggests that Russia and China share a view that the United States is not only the main threat to their external security but a threat to their

internal stability; Moscow and Beijing therefore share a common interest in constraining American power in the international system.²¹ Opposition to NATO enlargement – a central theme of China’s response to the war – was a new addition to the Joint Statement in 2022.²² It also stated:

“Russia and China stand against attempts by external forces to undermine security and stability in their common adjacent regions, intend to counter interference by outside forces in the internal affairs of sovereign countries under any pretext, oppose colour revolutions, and will increase cooperation in the aforementioned areas.”²³

This language constructs clear parallels in Russia’s and China’s views of the common security threats they face at home and abroad, and outlines the two countries’ willingness to cooperate against “external influence” on their periphery. Xi’s affirmation in June of “the legitimacy of the actions taken by Russia to protect the fundamental national interests in the face of challenges to its security created by external forces” suggest that this plays a significant role in Beijing’s thinking.²⁴ In a Maoist sense, then, Russia and China share a view of the “principal contradiction,” oriented around the need to counter the U.S. and its allies/partners, who ring the Eurasian landmass from NATO in the west to the American alliance structure in Asia in the east.²⁵ It also suggests that from China’s standpoint, there is little to be gained from any effort to resolve transatlantic security concerns; as one state media host put it, “Can you help me fight your friend so I can concentrate on fighting you later?”²⁶

Indeed, in parallel to Beijing making these criticisms of the U.S. and NATO over Ukraine specifically, Xi Jinping also rolled out his new Global Security Initiative (GSI), which he announced at the Boao Forum in April.²⁷ While the GSI is still more a concept than a concrete policy agenda, and as yet includes considerable repackaging of past Chinese complaints about the inadequacy of the global security order and the moral bankruptcy of American security leadership,²⁸ the Initiative nonetheless represents a potential broader Chinese challenge to regional and global security order, and particularly to the U.S. alliance system worldwide. Chinese analysts are already writing that the U.S. approach to national security limits common security to “like-minded allies” and pursues security for those in the alliance network at the expense of those outside it.²⁹

Moreover, Chinese-language analysis explicitly frames the GSI as an international projection of Xi’s 2014 Comprehensive National Security Concept (CNSC).³⁰ The CNSC is first and foremost a strategy aimed at safeguarding the political and regime security of the Chinese party-state -- “the Party’s leadership, China’s socialist system, and the authority of the CCP Central Committee with Xi Jinping as the core.”³¹ The CNSC was also vague when it was first unveiled in April 2014, but over the course of the past eight years, it has provided the framework by which Xi has transformed China’s national security bureaucracy, legal landscape, budgets, and policy choices.³² If that is the precedent for GSI, as early indicators from Chinese-language literature suggest it is, then the U.S. should be ready for a wide-ranging and fundamental attempt to revise regional and global security order to be more favorable to the PRC – an effort to make the rules of the international system compatible not just with the PRC’s external security interests, but its desire for internal regime security.

How has the international community responded to China’s position on the war in Ukraine? The answer depends on which part of the world one talks about. In Russia, China’s position has been perceived as setting (disappointing) limits on the partnership between Beijing and Moscow.³³ In Europe, China’s support for Russia has contributed to a further hardening of many European leaders’ and publics’ negative views of China.³⁴ This shift has produced concrete policy shifts; the new NATO Strategic Concept issued in late June devoted more space to transatlantic cooperation on challenges posed by China than any previous NATO document.³⁵ In the Global South, however, China’s

messages may be finding a more receptive audience, as Beijing has sought to use the conflict to highlight concerns it shares with developing countries while also promoting its own initiatives (GSI and its economic counterpart, the Global Development Initiative) as preferential alternatives to existing international order.³⁶ It is difficult to systematically assess how successful these efforts have been; leaders in Brazil and South Africa have echoed PRC talking points, while countries like India have been much more skeptical.³⁷ Systematic polling data across the Global South remains very limited and, in most cases, has not yet been updated to reflect the impact of the Ukraine conflict, so the answer is, at present, simply unknown. This suggests a strong need, going forward, to disaggregate and systematically measure not only how China's position on Ukraine evolves, but how that position is impacting perceptions of Chinese foreign policy and China's role in Asia and the world.

The final set of possible implications have to do with Taiwan. The parallelism in the February 4th Joint Statement not only primed global audiences to analogize in their own minds between Ukraine in Europe and Taiwan in Asia, but to believe that *China* also viewed them as comparable. Once the conflict began, however, Beijing began to stridently disavow comparability, framing Taiwan as a matter not of authoritarianism vs. democracy, but as secession vs. the maintenance of territorial integrity.³⁸

As various think pieces and panels have considered what lessons Ukraine holds for Taiwan,³⁹ the similarities between the two situations are worth listing. Taiwan and Ukraine are both smaller, non-nuclear powers facing the threat of invasion by a conventionally superior nuclear power. Both are Western-oriented democracies facing authoritarian opponents who seek to revise the status quo to incorporate part or all of their territory and see their independent existence as largely illegitimate. And both are located in regions geographically distant from the U.S., without a formal security guarantee from the U.S. or other great powers to assure their survival. Ukraine therefore potentially offers important lessons on a range of issues: the utility of intelligence diplomacy in strategic warning and coalition-building; the efficacy of particular forms of security assistance; the urgency of getting both procurement and manpower mobilization right in advance of a potential conflict; and the need to revisit and update pre-conflict assessments of the effectiveness of both political warfare and likely battlefield performance (to take just a few key examples).⁴⁰

Any lessons drawn from Ukraine for Taiwan, however, must be applied in very different geographic and political context. Ukraine (pop. 44 million) is approximately the size of Texas; Taiwan is closer to the size of Maryland and more densely populated (pop. 23 million). Ukraine is a land conflict environment, whereas Taiwan would be a maritime one, affecting everything from actual military operations to noncombatant evacuation and humanitarian assistance to logistics and resupply. China and Russia have different nuclear doctrines, at least for now, affecting calculations about escalation risk.⁴¹ And the PLA is also attempting to learn from the conflict in Ukraine – for example, on the need for overwhelming force to achieve a quick, decisive victory – so it is unlikely simply to repeat Russian mistakes.⁴² Diplomatically, there are also significant differences: Taiwan is not recognized by most nations as a sovereign country and lacks a seat at the UN; China is also far more enmeshed in the global economy than Russia, making the costs of multilateral sanctions higher and economic punishment harder to coordinate. Additionally, Zelensky's personal charisma and his appeals to democratic identity will not have easily replicable effects, especially in a region that is far less consistently democratic than Europe. All these factors combined mean that Taipei would likely face an uphill battle to marshal global support.

Thus while it is probably too early to say what lessons Beijing will draw from the conflict in Ukraine, either in terms of military operations, diplomatic strategy, or economic insulation to pre-emptively

counter sanctions, what lessons China draws from the conflict bear close watching. As that process unfolds, analysts should take care to focus on what they actually observe about the learning process in Beijing, without assuming that China's lessons will mirror our own or those of other external observers. Understanding what Beijing learns will be key to effective deterrence and to managing the risks of conflict in the Taiwan Strait in the years ahead.

REFERENCES

- ¹ Evan Feigenbaum, "China Faces Irreconcilable Choices on Ukraine," Carnegie Endowment, 24 February 2022, <https://carnegieendowment.org/2022/02/24/china-faces-irreconcilable-choices-on-ukraine-pub-86515>; Evan Medeiros, "China's Strategic Straddle: Analyzing Beijing's Diplomatic Response to the Russian Invasion of Ukraine," *China Leadership Monitor*, 1 June 2022. For Chinese coverage, see *Zhongguo Xinwen Wang* [China News Network], "习近平与普京共赴'冬奥之约' 中俄并肩'一起向未来' [Xi Jinping and Putin 'Jointly Attend the Olympics'; Russia and China go Shoulder-to-Shoulder 'Together to the Future'," 3 February, 2022, <https://www.chinanews.com.cn/gn/2022/02-03/9667970.shtml>
- ² "Joint Statement of the Russian Federation and the People's Republic of China on the International Relations Entering a New Era and the Global Sustainable Development," 4 February 2022, <http://en.kremlin.ru/supplement/5770>
- ³ Jason Douglas, Stella Yifan Xie, and Selina Cheng, China's Economy Appears to be Stalling, Threatening to Drag Down Global Growth," *Wall Street Journal*, 1 May 2022, https://www.wsj.com/articles/china-economy-recession-covid-lockdowns-11651434168?mod=article_inline
- ⁴ Maria Repnikova, "China's Propaganda on the War in Ukraine," *China Leadership Monitor*, 1 June 2022; "Minitrue: Turn Down Temperature, Strictly Control Content of Ukraine Situation," *China Digital Times*, March 2022, <https://chinadigitaltimes.net/2022/03/minitrue-turn-down-temperature-strictlycontrol-content-on-ukraine-situation/>
- ⁵ Hua Chunying, "华春莹：北约5次东扩至俄家门口，是否想过把一个大国逼到绝地的后果 [Hua Chunying: NATO Expanded Eastward 5 Times to Russia's Doorstep. Did It Think About the Consequences of Cornering a Great Power?]," *Global Times*, 23 February 2022, <https://world.huanqiu.com/article/46w0eT0bUId>; "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference," 24 February 2022, https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202202/t20220224_10645282.html
- ⁶ Zack Cooper et al. "China's State Media and Government Officials are Backing Russia on Ukraine War," German Marshall Fund of the United States, 13 March 2022, <https://securingdemocracy.gmfus.org/chinas-state-media-and-government-officials-are-backing-russia-on-ukraine-war/>
- ⁷ For example, "全球连线：美国从这里向乌克兰输送武器 隔岸拱火三个算计 [U.S. Sends Weapons to Ukraine, Stoking Fires from the Opposite Bank with 3 Calculations]," *Xinhua*, 21 March 2022, http://www.news.cn/world/2022-03/21/c_1128489508.htm; Le Yucheng, "Cherish Peace, Work Together in Unity, and Pursue a Win-Win Future in the Asia-Pacific," Address by Vice Foreign Minister Le Yucheng, 4th International Forum on Security and Strategy, 19 March 2022, https://www.mfa.gov.cn/eng/wjbxw/202203/t20220319_10653460.html
- ⁸ Cooper et al 2022; U.S. Department of State, "People's Republic of China Efforts to Amplify the Kremlin's Voice on Ukraine," Global Engagement Center, 2 May 2022, <https://www.state.gov/disarming->

[disinformation/prc-efforts-to-amplify-the-kremlins-voice-onukraine/](#). See also David Bandurski, “China and Russia Are Joining Forces to Spread Disinformation,” Brookings Institution, 11 March 2022, <https://www.brookings.edu/techstream/china-and-russia-arejoining-forces-to-spread-disinformation/>; CGTN, “Examining the Bucha Evidencem,” CGTN, 6 April 2022, <https://newseu.cgtn.com/news/2022-04-06/Truth-or-fake-Examining-the-Bucha-evidence-18ZvxAKrQQM/index.html>; Elizabeth Dwoskin, “China is Russia’s Most Powerful Weapon for Information Warfare,” *Washington Post*, 8 April 2022, <https://www.washingtonpost.com/technology/2022/04/08/russia-china-disinformation/>; Paul Mozur, Steven Lee Myers, and John Liu, “China’s Echoes of Russia’s Alternate Reality Intensify Around the World,” *New York Times*, 11 April 2022, <https://www.nytimes.com/2022/04/11/technology/china-russia-propaganda.html>

⁹ Maria Repnikova and Wendy Zhou, “What China’s Social Media is Saying About Ukraine,” *The Atlantic*, 11 March 2022, <https://www.theatlantic.com/ideas/archive/2022/03/china-xi-ukraine-war-america/627028/>

¹⁰ Stuart Lau, “China’s Xi Gives Most Direct Backing to Putin Since Invasion,” *Politico*, 15 June 2022, <https://www.politico.eu/article/china-xi-give-most-direct-backing-putin-invasion-ukraine/>

¹¹ Foreign Ministry of the PRC, “Wang Yi Holds Talks with Russian Foreign Minister Sergey Lavrov,” 30 March 2022, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202203/t20220331_10658029.html; Renmin Ribao, “栗战书同俄罗斯联邦委员会主席马特维延科举行会谈 [Li Zhanshu Holds Talks with Chairman of Russian Federation Council Speaker Matviyenko],” 16 April 2022, http://paper.people.com.cn/rmrb/html/2022-04/16/nw.D110000renmrb_20220416_5-01.htm

¹² For a table summarizing votes, and China’s position on each, see Medeiros 2022: 11-12.

¹³ International Court of Justice (ICJ), *Allegations of Genocide under the Convention on the Prevention and Punishment of the Crime of Genocide (Ukraine v. Russian Federation)*, 2022, <https://www.icj-cij.org/en/case/182>

¹⁴ James T. Areddy and Liyan Qi, “Beijing-Based Multilateral Lender Suspends Russian Activities,” *Wall Street Journal*, 3 March 2022, <https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-03-03/card/beijing-based-multilateral-lender-suspends-russia-related-activities-62Z9MLgC5yhNDWOXX0c4>

¹⁵ Le Yucheng 2022; Lorne Cook, Samuel Petrequin, and Ken Moritsugu, “China Rejects Sanctions As Ukraine War Tops Summit Agenda,” *Associated Press*, 1 April 2022, <https://apnews.com/article/russia-ukraine-business-beijing-economy-europe-f904dfd7f17cf1259b34d91d226d353>

¹⁶ Demetri Sevastopulo, “U.S. Blacklists Chinese Companies for Allegedly Supporting Russian Military,” *Financial Times*, 28 June 2022, <https://www.ft.com/content/a866bf53-ed1a-4329-aa01-2d7c1fcf305d>

¹⁷ Huang Tianlei, and Nicholas Lardy, “China is too tied to the global economy to risk helping Russia,” Peterson Institute for International Economics, 15 March 2022, <https://www.piie.com/blogs/realtime-economic-issues-watch/china-too-tied-global-economy-risk-helping-russia>; *Federal Register*, “Addition of Entities, Revision and Correction of Entries, and Removal of Entities from the Entity List,” 2022-14069, 30 June 2022 (filed 28 June), <https://www.federalregister.gov/public-inspection/2022-14069/addition-of-entities-revision-and-correction-of-entries-and-removal-of-entities-from-the-entity-list>

¹⁸ Stuart Lau, “EU has ‘very reliable’ evidence China is considering military support for Russia,” *Politico*, 18 March 2022, <https://www.politico.eu/article/eu-has-very-reliable-evidence-china-is-considering-military-aid-for-russia/>

¹⁹ Edward Wong, “Russia and China Held Military Exercises in East Asia as Biden Visited,” *New York Times*, 24 May 2022, <https://www.nytimes.com/2022/05/24/us/politics/russia-china-bombers-biden.html>

²⁰ Victor Santora, Jane Arraf, and Michael Levenson, “Kremlin Deploys New Troops to Ukraine as Both Sides Gird for a War of Attrition,” *New York Times*, 30 April 2022, <https://www.nytimes.com/live/2022/04/30/world/ukraine-russia-war-news>

²¹ Elsewhere, I have examined two other potential contributing factors to China’s behavior: the possibility China was caught off guard by both the course of the Russian invasion and its consequences and has simply not yet recalibrated; and the possibility that an increasingly personalist, information-sclerotic regime in Beijing locked itself into a strategic alignment at the top of the system that it is now politically infeasible to undo. Sheena Chestnut Greitens, “China’s Response to War in Ukraine,” *Asian Survey* (fall 2022, forthcoming); see also Sheena Chestnut Greitens, “China, Russia, and Ukraine,” Association for Asian Studies / UC Press blog, 24 March 2022, <https://www.ucpress.edu/blog/58807/china-russia-ukraine/>

²² Anna Kireeva, “The Limits to Russia and China’s ‘No Limits’ Friendship,” *East Asia Forum*, 22 March 2022, <https://www.eastasiaforum.org/2022/03/23/the-limits-to-russia-and-chinas-nolimits-friendship/>; Roderick Kefferputz and Vincent Brussee, “China and Russia: United in Opposition,” MERICS, 16 June 2022, <https://merics.org/en/short-analysis/china-and-russia-united-opposition>

²³ Interestingly, at least one Russia scholar interpreted “common adjacent regions” to refer to Central Asia, while most Western analysts appear to have interpreted it as a reference to shared challenges across the regional security environments, with Ukraine and Taiwan as specific potential flashpoints. Igor Denisov, “‘No Limits’? Understanding China’s Engagement with Russia on Ukraine,” *The Diplomat*, 24 March 2022, <https://thediplomat.com/2022/03/no-limits-understanding-chinasengagement-with-russia-on-ukraine/>

²⁴ Lingling Wei and Sha Hua, “China’s Xi Reaffirms Support for Moscow in Call with Putin,” *Wall Street Journal*, 15 June 2022, <https://www.wsj.com/articles/chinas-xi-fails-to-endorse-putin-over-ukraine-in-call-with-russian-leader-11655299293>

²⁵ Michael Cohen, “If Xi Wants out of his Putin Bromance, He Sure Isn’t Acting Like It,” *The New Republic*, 18 March 2022, <https://newrepublic.com/article/165789/xi-jinping-putin-bromance-biden-call>

²⁶ Liu Xin, [[@LiuXininBeijing](https://twitter.com/LiuXininBeijing)], tweet, 18 March 2022, <https://twitter.com/LiuXininBeijing/status/1505043155682402306>

²⁷ Xi Jinping, “Xi Jinping Delivers a Keynote Speech at the Opening Ceremony of the Boao Forum for Asia Annual Conference 2022,” Foreign Ministry of the People’s Republic of China, 21 April 2022, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202204/t20220421_10671083.html

²⁸ Point made by Taylor Fravel in a CSIS Interpret: China webinar on GSI, 14 July 2022, <https://www.csis.org/events/xis-new-global-security-initiative>. For an example of previous calls to revise global security order, see “Xi Jinping: Adhere to cooperation, innovation, rule of law and win-win cooperation, and jointly carry out global security governance,” keynote speech at Interpol’s 86th General Assembly (Beijing, 26 September 2017), <http://cpc.people.com.cn/n1/2017/0927/c64094-29561212.html>

²⁹ Chen Xiangyang, Dong Chunling, Han Lique, “Deep Comprehension of the Global Security Initiative: Coordinating Our Own Security and Common Security” [“深刻领悟全球安全倡议+统筹自身和共同安全”], China Institutes of Contemporary International Relations (CICIR), 9 May 2022; Feng Weijiang, “The Theoretical Foundation of the Global Security Initiative – The Comprehensive National Security Concept,” 16 June 2022, <https://www.163.com/dy/article/HA0SKOJ9051495OJ.html>

³⁰ Chen et al, “Deep Comprehension of the Global Security Initiative”; Feng, “The Theoretical Foundation of the Global Security Initiative”; Tian Wenlin, “The Epochal Value of the Global Security Initiative Surpasses the Traditional Western Security Outlook” [“全球安全倡议的时代价值超越西方传统安全观”], *Contemporary World*, 16 May 2022.

-
- ³¹ Sheena Chestnut Greitens, “How Does China Think about National Security?” in *The China Questions II* (Harvard University Press, 2022); Sheena Chestnut Greitens, *Preventive Repression: Internal Security and Chinese Grand Strategy under Xi Jinping* (book manuscript in progress).
- ³² Chestnut Greitens, “How Does China Think about National Security?”
- ³³ Elizabeth Wishnick, “Strategic Partner or Strategic Player? Russian Asia Experts Assess China’s Ukraine Policy,” *China Leadership Monitor*, 1 June 2022.
- ³⁴ Finbarr Bermingham, “EU, US Slam China Over Russia Ties,” *CNN*, 23 April 2022, <https://www.scmp.com/news/china/diplomacy/article/3175254/eu-us-slam-china-over-russia-ties-alleged-falsehoods-ukraine>; Laura Silver et al, “Negative Views of China Tied to Critical Views of Its Policies on Human Rights,” Pew Research, June 29 2022, <https://www.pewresearch.org/global/2022/06/29/negative-views-of-china-tied-to-critical-views-of-its-policies-on-human-rights/>
- ³⁵ NATO [North Atlantic Treaty Organization], *NATO 2022 Strategic Concept*, <https://www.nato.int/strategic-concept/>
- ³⁶ Nadege Rolland, “China’s Southern Strategy,” *Foreign Affairs*, June 2022, <https://www.foreignaffairs.com/articles/china/2022-06-09/chinas-southern-strategy>
- ³⁷ Medeiros 2022; Repnikova 2022.
- ³⁸ Hua Chunying, “China Says Taiwan is ‘not Ukraine’,” *Reuters* (video), 23 February 2022, <https://www.youtube.com/watch?v=zwiD32UzSUM>; *Global Times*, “‘Taiwan is not Ukraine,’ linking the two is to create new crisis across the Taiwan Straits: Chinese FM,” 28 March 2022, <https://www.globaltimes.cn/page/202203/1256993.shtml>; *Global Times*, “Chinese Embassy Refutes...” 2 April 2022, <https://www.globaltimes.cn/page/202204/1257440.shtml>
- ³⁹ Chris Horton, “The Lessons Taiwan is Drawing From Ukraine,” *The Atlantic*, 7 May 2022, <https://www.theatlantic.com/international/archive/2022/05/defend-taiwan-democracy-china-threat/629782/>; Jeffrey Hornung, Ukraine’s Lessons for Taiwan,” *War on the Rocks*, 17 March 2022; James Baron, “Taiwan and Ukraine: Parallels, Divergences, and Potential Lessons,” *Global Asia* 17/2 (June 2022), https://www.globalasia.org/v17no2/cover/taiwan-and-ukraine-parallels-divergences-and-potential-lessons_james-baron; Kharis Templeman, “Taiwan is not Ukraine. Stop Linking their Fates Together,” *War on the Rocks*, 27 January, 2022, <https://warontherocks.com/2022/01/taiwan-is-not-ukraine-stop-linking-their-fates-together/>
- ⁴⁰ For a more detailed discussion of these lessons, including sources, see Sheena Chestnut Greitens, “China’s Response to War in Ukraine,” *Asian Survey* (fall 2022, forthcoming).
- ⁴¹ Caitlin Talmadge, “What Putin’s Nuclear Threats Mean for the U.S.,” *Wall Street Journal*, 3 March 2022.
- ⁴² Rebecca Falconer, “CIA Chief: Putin’s War on Ukraine Forcing China Taiwan Invasion Rethink,” *Axios*, 21 July 2022, <https://www.axios.com/2022/07/21/russia-ukraine-war-china-taiwan-invasion-rethink-cia-chief>; “Chinese Military Lessons from Ukraine,” Carnegie Endowment panel, 18 July 2022, <https://carnegieendowment.org/2022/07/18/chinese-military-lessons-from-ukraine-event-7909>

PANEL II QUESTION AND ANSWER

COMMISSIONER SCHRIVER: Thank you again to our witnesses. We'll begin this round of questions in reverse alphabetical order among our Commissioners, which means we'll start with our Chairman, Commissioner Wong?

CHAIRMAN WONG: First question for Bonnie, good to see you, you talk a bit about the lessons that China may take from the very thinly veiled nuclear threats that Russia has made and I want to ask you whether the action might take the opposite lesson you put forth, that nuclear threats actually aren't effective at deterring at least intervention.

If I remember Putin's words correctly, he said any country that interferes -- he said it in February, maybe a day after the invasion -- they'll experience consequences never seen in history, which basically says nuclear attack.

But the world really has interfered, sanctions, military aid, now we haven't had any countries directly intervene and fight on behalf of the Ukrainians, maybe that's not needed but it doesn't seem to me the world was cowed by that nuclear threat.

So, maybe we could expand upon that thought.

MS. GLASER: Great question, thank you. I think you certainly underscore the point that I made early on in my oral testimony, that the outcome of the war will have an impact on the conclusions that China draws.

So, at the end of the day, we don't know but I think the Chinese have been, as you know, increasing their nuclear inventory quite substantially and I believe that is driven at least in part by an assessment that if they have a capability that approaches the United States, they can essentially keep that off the table while using their conventional weapons to full advantage.

So, essentially, I think maybe we could disagree about the threat itself but it's the possession of the large nuclear arsenal, which the narrative goes really quite I think widespread and China encourages this in its disinformation, that the United States was intimidated because Russia was a nuclear power.

So, President Biden said in advance the United States would not send troops to Ukraine. This is a message that the Chinese sent to Taiwanese to say, look, the United States is unreliable.

So, I think it will reinforce their view that having a large nuclear arsenal with various options, maybe even tactical nuclear weapons, I think that it will reinforce their view that will be useful.

But perhaps they will conclude that the actual threat, as you outlined, maybe didn't have the result. But stay tuned, the war is still going on.

CHAIRMAN WONG: And Dr. Chestnut Greitens, on the Russia-China No Limits crypto alliance, do you sense any Russian dissatisfaction with China's policies and stance post-invasion?

No limits sounds great but there appear to clearly be limits on China's willingness to give military assistance.

I know they've done some enhanced trade but as you've cited, it's a mixed bag on the economic front and China's willingness to confront the sanction regime.

On the diplomatic front there has been very strong rhetoric from the Chinese repeating Russian viewpoints on their invasion, but that said, I think there is some hedging on some of the messages in the international fora from China.

So, I guess does Russia view China as a reliable no-limits partner here?

DR. CHESTNUT GREITENS: My sense in looking at the Russian side of this is there's been at least disappointment, if not outright dissatisfaction with the Chinese response.

And certainly, the perception among Russian scholars, think-tank folks, I don't have any access to internal deliberations within the Kremlin or what Vladimir Putin's perception of what the Chinese response has been but certainly there's been some broader discussion among the Russian think-tank and other analysts expressing that China's response really clearly did actually sketch out some limits to the support it was willing to offer.

And it outlined those limits much more clearly. That appears to be the dominant response that I've seen thus far.

I don't know that has resulted in any policy change on Russia's part towards China as yet but that is the mood or overall assessment that I've seen.

CHAIRMAN WONG: Thank you.

COMMISSIONER SCHRIVER: Commissioner Wessel?

COMMISSIONER WESSEL: Thank you all and good to see some of you again. I want to try and deal with what I perceive to be a somewhat maybe an internal conflict on the panel.

And Mr. Fishman, I appreciate your testimony and comments about the need to prepare early and I think those need to be taken very broadly.

I think the time is now for us to look at Chinese capabilities, where we may be advancing those capabilities by way of capital and technology, and to address vulnerabilities and I think of vulnerabilities in two areas.

One, I think the homeland is vulnerable in terms of the openness of our system, whether it's water systems, electric, grid, many other things. We have failed to prepare, harden, and assess what our vulnerabilities are and take action for what a possible contingency in any number of realms it could be.

And separately, our empowering and advancing Chinese capabilities, as I look at the execution of export controls, something this Commission has spent time on in the past, I still see a very inconsistent approach and Ms. Weinstein, I want to get your thoughts here as well.

As it relates to the foreign direct product rule, as it relates to the lack of harmonization and consistency of sanctions across entities and parties within those entity families as well as end user verifications, which the certifications are being supplied without any follow-through.

How do we act early, Mr. Fishman, as you suggest, on both counts?

And Ms. Weinstein, you're arguing for multilateral coordination which I agree with. But it seems that we are enhancing our own vulnerabilities and advancing Chinese interests while we wait for Godot.

Mr. Fishman, you want to start?

MR. FISHMAN: Thank you, Commissioner, and I appreciate your comments about early preparation.

It's just not something we're accustomed to doing in the realm of economic statecraft. The norm I think, having been on the inside, is that crisis breaks out and we all rush to the situation room to try to come up sanctions options.

And maybe that works when you're imposing sanctions against North Korea and you're not worried about ramifications but when you're imposing sanctions against China it's a whole different story.

So, I appreciate your recognition of that. One thing I note in my written testimony is this concept of escalation dominance.

When we have used economic statecraft even against Russia, it's by far the largest

economy that we've really used the full breadth of our arsenal against, we've always possessed escalation dominance.

And what that means is that Russia knows that no matter what it does in terms of countersanctions, we can always up the ante.

A tit for tat economic war just doesn't make rational sense for Russia and I think that's part of the reason you haven't seen Russia take dramatic steps like cut off gas entirely to Europe for instance.

Because frankly, there's a lot more we can do to harm Russia than vice versa. With China, the picture is a little different and China may feel that it can go toe to toe with the United States in an economic war, particularly given that its political system is more insulated.

They may think that because they can summit significant GDP contraction in a way that we couldn't given that we're a democracy.

And so one of the things I think is really important is that we need to prepare not just for offensive contingencies as I state, but also these defensive contingencies and that includes the potential use of economic statecraft by China against us.

That's something I'm happy to expand on later but I also want to give Ms. Weinstein a chance to weigh in as well.

MS. WEINSTEIN: Thank you so much. Great question, I acknowledge there's only a few seconds left.

I want to say just quickly, one, regarding your comment on vulnerabilities, I do think we have absolutely no idea where our vulnerabilities really are, which is why I have suggested the supply chain chokepoint taskforce that can actually go out and work with industry to help to identify where some of those choke points are.

Because I do think at this point in time industry does know this but it's about working with them to potentially anonymize some of this data or work with them to ensure that they're not going to feel like they're losing any competitive edge in handing this data over to the Government.

And I'll just say lastly, to your point on the foreign direct product rule, I do think it's had a time and a place but I really do think that working urgently with our allies to formalize something that could help allies get to the point of harmonizing, for instance, military end user requirements or things like that.

I think it's a much stronger play in the long term and allies are more willing to get on board when they have a say versus when they are brought in extra-territorially.

I'll stop there.

COMMISSIONER WESSEL: I appreciate it, let me just make a quick comment.

I think both the Trump and Biden Administrations have done a lot of work on supply chains and that work is more advanced than the questions or comments might seem to indicate.

And the fact is what we need to do is act on that information while we also enhance it. I agree completely that we should know what the chokepoints are, et cetera, but as we've seen in countless products and sectors, we have a pretty good idea of where they could hold us over a barrel or already do.

And we've been dilly-dallying while we should be acting. Thank you.

COMMISSIONER SCHRIVER: Commissioner Scissors?

COMMISSIONER SCISSORS: This is great and I can disagree with the last thing Mike said. I don't think we have a great idea of where our supply chains are vulnerable, embodied materials and important components would be an example.

But I have a question for Emily, good to see you again, a little one and a big one. The little one is you said both in your written testimony and just now that China is significantly more self-sufficient than Russia.

You mean on the technological side, right? And the reason I'm driving that home -- good, she's saying yes -- is because on the commodity side that isn't true.

And a major part of what I would recommend as a U.S. response to Chinese coercion of Taiwan or violence would involve attacking Chinese vulnerability in commodities.

So, yes, on technology they're in a much stronger position than the Russians, on the commodity side they're not and that is an economic vulnerability that we can use if needed.

My big question to you is I think you internally contradicted yourself and now you need to tell me why I'm wrong.

You want to take the regime that has emerged out of the Ukraine-Russia conflict, sorry, I should use Mike's language, Russia's unprovoked invasion of Ukraine, no shorthand, that's what it was, and formalize that.

But you and many other people correctly say that China is really different than Russia. So, what I think we get out of codifying what we learn from Russia is a regime that does not work at all with the Chinese.

So, I agree with your point that there's more will to do this but the regime, the actual details of what we've done against the Russians, codifying that is useless against the Chinese.

And I think a lot of people have said not that but they've made points to that direction. Another smaller point is you close by talking about foundational technology, which is a trigger word for me.

The Commerce Department has mocked the idea of foundational technology for four years before in May 2022 in a Federal Register notice dropping it. And that's not your fault, I'm just saying that's another barrier to your proposal. So, I'm worried what you're suggesting, in one case because the regime is ill-fitting and in the lesser case because the Department of Commerce is uncooperative isn't going to work.

And what I want to from you is what can we do that is less long term, less risky in terms of failing, it's not going to be as effective - Ideally, we have a multilateral, great, aimed-at-China regime but I don't think that's going to happen.

So, is there anything short of that that you would propose that we could do now?

MS. WEINSTEIN: Happy to address that and I just want to say, too, to your first point, I totally agree and I think what we've seen particularly on the import bans as they relate to what China has imposed recently with Taiwan, it's all been things like baked goods and fish and citrus.

If you actually look at the main things that China relies on from Taiwan, it's not those. So, China is clearly being very strategic in picking things that are not actually going to hurt them that much.

If they really wanted to actually hurt Taiwan, they would go for technologies, they would go for semiconductors, they would go for things like that. But China, as you said, is vulnerable to those things.

So, they were very strategic in picking that.

If we can't get to the point of a multilateral regime that we've built out of the Ukraine invasion, I think the next easiest step or the low-hanging fruit that we would need to work on would be again focusing on working with for instance some of the allies or most of the allies that have shown they actually can go beyond the four multilateral export control regimes we have now.

Which until February and March of 2022, they had always said, oh, look, we can't impose country-based end user controls on countries or we can't control anything beyond non-proliferation or anything like that because we're limited.

They've broken the mold on that, they've shown us they can do that so now I think it would be great to get these countries together.

We don't have to form a regime but we can work to try and harmonize, for instance, things like military end user requirements or things that are the more low-hanging fruit things that, okay, we are concerned about technology that is flowing to the PLA, blocking for instance things like your big top-ten defense SOEs, your AVICs, your CETCs, things like that.

Because right now the allies have no ability to do anything like that.

So, even just getting them up to the point where we are, not saying we're at 100 percent, we're far from 100 percent, but helping them to catch up I think would be really important.

COMMISSIONER SCISSORS: Just a really quick follow-up, in your assessment, which allies have been most cooperative with regards to post-invasion controls?

MS. WEINSTEIN: I don't have a good answer off the top of my head. I will say I do know that some allies in Europe were much more willing to abide by the foreign direct product rule or go along with it.

Others begrudgingly went along with it because they didn't really have a choice.

But that goes back to my point that I do think allies don't like having these imposed upon them and I do understand that in some instances, if we don't impose them on allies they won't do anything.

I do recognize that as a struggle but I do think getting everyone in the room will help to make sure that people aren't begrudging our attempts to get them on board. So, I would say yes.

So, to go back to your question, some have been better than others, for the most part I would say I was surprised mostly by the response that we got in Europe although obviously not as surprised because the conflict was happening in their backyard.

COMMISSIONER SCHRIVER: Thank you, Ms. Weinstein. The Co-Chairs of this panel are going to slide to the clean-up spots at the end and so we will move to our Vice Chair, Commissioner Glas?

VICE CHAIR GLAS: Thank you so much to all of our panelists today. Ms. Weinstein, just adding onto Commissioner Scissors' question and given the focus of the Commission in recent years related to export controls and ECRA, which was part of our report last year, and talking about the national and economic security implications associated with the effective enforcement of export controls as well as other measures like sanctions that you talked about very well in your written and oral testimony, there's a couple questions I have for you.

You noted in your oral testimony about having the tools at our disposal to, quote, run faster.

And in your written comments you talk about ECRA and the flexibility that exists in current law to construct a multilateral regime or whatever we want to call it in coordination with other parties, which would require no further Congressional action.

So, are we running at all? Where are we running? Are we walking? Where should Congress be focusing its attention and should it be calling on the Administration to do more under current existing authorities?

MS. WEINSTEIN: Great question, thank you. I don't necessarily know if I would put us in the walking or the running category but I would say things like the CHIPS Act, that are really aimed at bolstering domestic capacity, I don't think --

When we think of run faster I don't want to necessarily scope it just to domestic, I think it's conversations that I know Secretary Yellen has had and others about this idea of friend-shoring or onshoring places where we have friends I think is another piece of the run faster effort that I think could be helpful.

My one specific recommendation that I would add to, that is something I think you all can bring to Congress and to the administration, is this idea to create this open source science and technology monitoring organization.

I do think something like this would not only help equip our defensive measures like export controls and sanctions more effectively would put us in a position to say instead of, as Mr. Fisherman noted, a lot of these economic statecraft things are usually very reactive.

And having this type of organization would actually allow us to keep better track of these types of things.

And I think I noted in my written testimony as well that I hope this type of organization would exist outside of the intelligence community so things could be made public for industry, for academia, for everyone.

So, I think something like that could really help us, for instance, to Derek's point on the emerging and foundational technologies that drive everyone a little bit crazy in Washington, I think one of the things we can do in this type of organization is actually have the capacity to globally track trends in emerging and foundational technologies.

Because this is something that the capability does exist, the data is out there and I do think it's about getting the resources behind it and getting really set up to establish this type of organization.

The other piece that I would add too is, again, the United States is no longer the home of all innovation.

Emerging technologies and emerging trends in technologies are happening around the world, so to go back to the point of friend-shoring or involving our allies, I do think there's something to be said about getting allies and partners in on something like this open source science and technology analysis organization.

Because if there's something that is emerging in hypersonics in Germany, for instance, or let's say someone in Japan has the next greatest thing on, I don't know, flat monitor display panel, any type of technology that's coming out, it would be great to be able to have those conversations and get signals from some of our allies and partners so we can say, look, in the United States we're really behind on this but in X country they're doing really well.

Also, getting the perspective of countries in different parts of the world, Japan, South Korea, other countries that might have closer ties to China or to Russia who are still technically on our side may have more insights than we do.

That information-sharing component is really important.

VICE CHAIR GLAS: I know we only have a few seconds left, but to what extent are you aware of that level of coordination that currently is existing with some of our allies and partners?

MS. WEINSTEIN: I am not aware of anything like that happening right now.

COMMISSIONER SCHRIEVER: Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Thank you very much and thanks to all our witnesses for really excellent presentations.

I wanted to focus on Mr. Fishman and Ms. Weinstein's presentations because it seems to me that first you both make concrete proposals, which is admirable, suggesting institutional

changes that could be made to improve our capacity.

But also, there seems to be a tension here between preparing for a crisis on the one hand, and doing things in peace time on the other, even in the absence of a crisis.

So, for example, Mr. Fishman, as one of your four objectives you mentioned attrition, reducing the capacity of an opponent by cutting off access to certain products or technologies.

That seems like it's something you would need to do beforehand and you'd need to get agreement on beforehand.

So, I wanted to ask you to comment on that and also, related to it, this Interagency Committee you proposed seems like an excellent idea but why should it just be limited to contingency planning?

It seems like what's needed is actually an economic statecraft or, although we don't use this term anymore, economic warfare planning department.

And then, Ms. Weinstein, the daughter of COCOM proposal that you make building on what we've seen coming out of Russia, there too I'm not clear whether you're talking about doing things that would just about put into motion if China were to do something like invade Taiwan, or whether what you have in mind is cooperation to achieve other objectives.

And it seems in your testimony that the objectives that you have in mind are quite broad, securing supply chain resiliency, responding to misuse of commercial technologies, and the abuse of human rights and so on.

These are things that would need to be done now it seems to me, not just in the event of a crisis. Mr. Fishman, to you first.

MR. FISHMAN: Thank you, Commissioner, and look, I take it very seriously the invitation to testify today and that's why I tried to provide as concrete of proposals as I possibly could.

Because I do think this Commission has a very important role to play.

On attrition, I would fully endorse what you said which is that these are steps that need to be taken before a crisis, particularly when you're dealing with a country like China.

I think just to use Russia again as an analogy because I was most closely involved in that, we have historically viewed sanctions as a tool of behavior change vis-a-vis Russia, trying to change Putin's psychology, not a tool of attrition, not a tool of weakening Russia.

Secretary of Defense Lloyd Austin caught some flack for saying one of our goals was weakening Russia.

And I think what we're seeing now, of course, after the goal of trying to use sanctions as a deterrent failed and Putin launched the invasion, we pivoted to attrition as a goal.

But I think by then it's a really tall task to say that we're going to trick Russia's military capacity and affect the war in Ukraine while a live military conflict is going on.

So, certainly with respect to China that would be even more difficult, I do not believe that once China has decided to invade Taiwan that economic statecraft tools have any role to play in degrading Russia's military capacity vis-a-vis Taiwan.

So, I think you need to take those steps now and that's why in my written testimony I write about this concept of preventative attrition, identifying some of these targets for degrading upfront and taking those steps.

As for my proposal for the Economic Contingency Planning Committee, or ECPC, I would agree with you that contingency planning may be too specific of a goal. I think the idea there is just to plan for future uses of economic statecraft.

If you want to call it economic warfare, I think that's reasonable.

And having also had the privilege of serving in the Pentagon, I know that the Department of Defense spends a huge amount of resources and time planning for potential wars that it may fight or it may never fight.

We just don't have the resources to do that within the economic statecraft community in the Government. OFAC, the State Department, the Commerce Department are pretty much at capacity.

So, I think providing that kind of institutional body that has that responsibility to look ahead and not just be reactive, as Emily states, I think is absolutely critical.

MS. WEINSTEIN: I would just add briefly I think you did get the messaging that I was making. I do think this is broader than just a potential invasion of Taiwan.

The COCOM's daughter, the proposal that I put out on a new multilateral export control regime, actually does try to hit on just the broader gaps that we have in our current export control regimes because right now, again, allies rely on these multilateral regimes to create their domestic authorities on export controls.

And without modernizing this at the multi-lateral level and creating something that can deal with things beyond non-proliferation and conventional weapons objectives, allies will remain behind.

And God forbid we get to the point where there is a Taiwan contingency, then we need to have these things already in place so that we can go about and do what went to do in order to impose export controls on China.

COMMISSIONER FRIEDBERG: Thank you.

COMMISSIONER SCHRIVER: Commissioner Fielder?

COMMISSIONER FIELDER: I want to take some sort of dangerous scenarios. China invades Taiwan, U.S. gets involved militarily with China. Presumably all our trade with China stops.

Is that fair to assume? Anybody disagree wildly?

And trade with Europe similarly stops. Our NATO allies are presumably not going to trade with somebody we're involved in a conflict with, is that correct? Do we all believe that?

MS. WEINSTEIN: I can just say really briefly that I don't think that there would be any way to completely decouple the U.S. and Chinese economies.

Even if, again, we decided to turn things off and China turned things off, things would still flow through Europe, they would flow through Southeast Asia and South Asia and other places.

So, I don't think that Chinese products would still end up in the United States and I think U.S. products would still end up in China, regardless of what we tried to do.

COMMISSIONER FIELDER: So, you think the war with Taiwan would have little or no impact on the Chinese economy?

MS. WEINSTEIN: No, I think it would have a very big effect on the Chinese economy but I don't think we as the United States alone would be able to stop China from--

COMMISSIONER FIELDER: That's why I included our NATO allies in the equation. So, you think they would continue to allow Chinese ships to trade while the U.S. is at war with China over Taiwan?

MS. WEINSTEIN: I don't have a good answer to that right now. I don't know if any of the other panelists do.

COMMISSIONER FIELDER: But it is a clear scenario possibility, correct, war with Taiwan?

MS. WEINSTEIN: Yes, I think so.

COMMISSIONER FIELDER: I tend not to believe that there's any deterrent effect to sanctions vis-a-vis the Chinese.

There was little with the Russians and I don't believe that it will deter China from doing what it wants to in Taiwan, therefore, I'm concerned about all of these other things.

So, I'm concerned about what the United States does if it doesn't go into direct conflict with Taiwan, what does it do vis-a-vis trade with China?

MS. WEINSTEIN: Again, I'll just speak from the point of export controls and just reiterate the point that I made.

COMMISSIONER FIELDER: Excuse me, the export control question doesn't matter when the war starts. So, it's over.

What I'm talking about is the political will, the effect on the United States' political will, because of the economic relationship we have with China, our political will vis-a-vis Taiwan. And you're actually in your responses indicating to me what that might be. Oh, well, we can't decouple. War is going to force the decoupling in my view and I'm not sure why you're not agreeing with me on that.

Not because I'm arrogant about it but it seems to be obvious.

MS. WEINSTEIN: I would argue and I say this in my written testimony as well that decoupling has already been happening and the Chinese have initiated a lot of it too.

With Made in China 2025 and things like that, they've been trying to reduce their vulnerabilities to not only the U.S. but to other countries as well.

I would just say that I can't speak necessarily to Europe but I'm not convinced right now the U.S. would be in a position, I don't think we would have the political will to completely cut ourselves off from the Chinese economy even if we did get to an invasion scenario.

COMMISSIONER FIELDER: Bonnie, I'm interested in your response to that.

MS. GLASER: Well, certainly whatever decoupling is taking place now has targeted its small gardens, high fences, it's totally different from the kind of decoupling that might take place in war time.

My short answer would be that I think that our trade with China would come to a trickle, it probably wouldn't fall to zero.

I agree with Emily that there would be some ways that people and companies would circumvent various shipment routes and would end up perhaps going through Vietnam or some country in Southeast Asia.

Sure, there would be some trade but I believe that if we were in a war that was escalating because China invaded Taiwan and the Taiwanese were fighting to defend themselves and we were launching attacks on mainland China, if we get to a point where a war escalates, then I agree with you, there would be very little trade with China.

It might take a little bit of time to start turning off the spigots but Americans would suffer as a result too.

COMMISSIONER FIELDER: Thank you.

COMMISSIONER SCHRIVER: Commissioner Cleveland?

COMMISSIONER CLEVELAND: Dr. Greitens, I was interested in your discussion of the Global Security Initiative, and I wonder if you could characterize for us what success over the next year would look like for China?

What would be the benchmarks that we would be looking for in terms of endorsements by other countries? How would we assess they're making progress in this campaign?

DR. CHESTNUT GREITENS: That's a great question, particularly since this is not an initiative that at present is a clear policy plan with measurable or deliverable outcomes attached to it.

That's not uncommon in the Chinese political system, I think it's actually designed to give the system some flexibility on determining where to take the initiative and what success looks like.

So, my answer is probably going to be unsatisfying due to just the inherent way that a policy roll-out like this has worked and seems to be working in this case in the Chinese political system.

What I would expect to see is a lot of more internal working out of how to apply this conceptual framework that Xi Jinping has laid out and translate it into concrete policy objectives.

I would actually expect that would take a year or two. Again, based on what we saw with the previous precedent that's been laid down as the basis for the GSI, which is the Comprehensive National Security Concept.

It took a year or two for the Party-state to internally formulate, okay, we've got this concept, we've got this strategic direction, how do we turn this into concrete policies?

I will say in terms of a couple of measurable things that I will be looking for, one is how this rhetoric plays in the global south. This is something that is very clearly directed I think as a challenge to the United States' alliance network.

Chinese sources are already very explicitly framing this as the way the United States does security, promotes security for the people in the alliance and partnership network at the expense of everyone outside it.

And indivisible security is designed to be the counter or the alternative to that.

So, if we start to see receptiveness to that in the global south and in swing countries that the United States might need for coalition-building to protect certain interests, then I would start to get concerned the initiative is getting traction in ways that are detrimental to U.S. interests and to the existing international order.

The second thing is that I think even when we talk about security, this is going to be a contest over the legitimacy of security architecture, but it's also going to involve some non-traditional security tools.

Xi Jinping has made a big deal out of linking traditional and non-traditional security, and a huge part of what we've seen in the Chinese security space with the Comprehensive National Security Concept is not using military tools but projection of law enforcement and police power outside of the PRC, which is something Xi Jinping called for in 2017 and that the Ministry of Public Security has really ramped up in the past few years.

So, I think we need to figure out, and I don't think we have a great answer, about exactly how to compete in that space.

Obviously, the United States has resources and can think about how to promote a model and an alternative that's compatible with liberal democratic ideals and a rules-based international order.

But I don't think we have an interagency and strategic plan for how to respond if a lot of this activity is in the policing and law enforcement space, which at least initially it seems to be.

And so I would expect continued activity in that area in the next year or two.

COMMISSIONER CLEVELAND: Thank you, I think that's a useful distinction because we do tend to focus on national security capabilities rather than the law enforcement approach, and I appreciate you testified on this earlier to the Commission.

Bonnie, if I could ask a question?

You mentioned in your testimony that you supported the Menendez Graham Bill on Taiwan and in pulling it up in preparation for this hearing, I was interested in the bill's requirements besides to set up an FMF program that we should assess efforts of Taiwan to acquire and employ long-range precision fires, integrated air and missile defense system, anti-ship cruise missiles, land attack cruise missiles, coastal defense, anti-armor, undersea warfare, and survivable swarming maritime assets.

How would you assess that these have Taiwanese current capabilities when it comes to those requirements identified in the legislation that you supported that's necessary for Taiwan's defense?

MS. GLASER: That would be a very long assessment so let me start by saying just to be on the record that I do not endorse the entire bill, there are elements of it that I have some concerns about.

But I did specifically say that I support the FMF.

I think the time has come to be more supportive and to provide resources for Taiwan's self-defense and to work more closely with them. But in all of the areas that you specify, there's obviously progress that needs to be made.

There's certain things that Taiwan has already, as I said, given us the decision, we have already approved that they want to purchase them, things like that coastal defense cruise missiles that have obviously not yet been delivered and deployed.

So, Taiwan has to take a delivery of these systems and they have to then integrate them into their operational concepts and their training. So, there's just an enormous amount of progress that needs to be made.

And then, of course, some of the areas that you mentioned there, they really lag behind. So, it's really very uneven. They have certainly acquired some asymmetric capabilities, there's a lot more they need to acquire.

Among all the things you mentioned, I think the long-range strike is the most controversial. Taiwan is developing its own systems there and I think there needs to be a clear concept and strategy in Taiwan.

Many of us know that Taiwan previously had something they called the overall defense concept, which they're really no longer talking about.

And so I think it's really important for Taiwan to articulate what the strategy is now and how the procurements fit into that going forward.

COMMISSIONER CLEVELAND: Thank you, I'll have follow-up for the record.

COMMISSIONER SCHRIVER: Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you.

As often happens after Commissioner Fielder speaks, it makes me go off in another direction mentally and I have to go back to what I was thinking. I could sit and discuss everything he said probably for an hour with him.

All of you had a common theme today that I think we all agree on and that is that something needs to be done right away. I'm curious, Ms. Glaser, you talked about the obvious supply chain problem with missiles.

I've read the same things, they're not being delivered and may not get delivered in time, it's absurd that it could be another six years.

I'm curious from all three of you, we are focused on the deterrence question and how we're deterring China but one of the things we've had other people in earlier hearings bring up is

that in Taiwan particularly they apparently have some issues with the Chinese deterring them by creating assimilation for their young folks, that maybe the young people aren't as concerned about being taken over by the Chinese.

So, I'm curious as to whether or not you have an opinion on that and then when you speak, Mr. Fishman, I'm very, very interested in your comment about defensive capabilities today, if you have an idea about that specifically that we ought to be doing immediately.

So, Ms. Glaser, I would start with you, do you have a comment about the testimony we've had in the past regarding the young folks of Taiwan, and then, Ms. Weinstein, same thing?

MS. GLASER: Thank you, Commissioner. I don't know exactly when that particular hearing took place that this issue was discussed but it really is notable that since Russia's invasion of Ukraine, there has been greater awareness in Taiwan.

I'm told that on television every night there's film footage of what's going on in Ukraine. People are very concerned in the public, the public opinion polls show a higher percentage of Taiwanese willing to fight.

I'm told there might even be some increasing recruitment this year, which would be great.

There's been some wonderful anecdotal stories about a surgeon, obviously not a very young person, who wanted to learn about trauma surgery so that she could contribute at the front.

There's a Washington Post story about a relatively young person who's fighting in Ukraine and maybe about up to 10 Taiwanese, not a large number but I do think there are signs of growing concern and willingness to contribute to efforts to make Taiwan more of a fortress and enable people to fight for their country.

But if the Government does not lead this effort along with the military, it will be a missed opportunity.

MS. WEINSTEIN: I'll just add really quickly I agree with everything that Bonnie has laid out but I will say, too, I too have seen the increasingly nationalistic sentiment coming of Taiwan, particularly in the wake of the invasion of Ukraine.

And I think within the past 48 hours, too, some of the things that China has banned imports on, for instance, are things that are kind of at the core of the Taiwanese heart, things like pineapple cakes.

It almost feels like it was much more --

COMMISSIONER BOROCHOFF: Personal.

MS. WEINSTEIN: Yes, it was a much more personal attack and obviously, we're just in the hours and days following those import bans but I do think we may see an increase in this nationalistic sentiment now, particularly as China is going at the heart of what matters to Taiwan.

COMMISSIONER SCHRIVER: Mr. Fishman?

MR. FISHMAN: Thanks, Commissioner. You're right, I think playing defense is absolutely critical.

In any sort of economic conflict with China there are two things we need to be cognizant of. The first is spill-overs or unintended consequences from our own sanctions.

I'm implying that in a Taiwan scenario we would see some pretty significant sanctions against China and almost definitely there will be unintended consequences of those sanctions that affect Americans business, as we've seen with Russia.

So, I think the first step is modeling out what those will be, trying to get ahead of them and understanding them.

The other thing we need to be aware of is symmetric retaliation. This could be China responding with its own sanctions against the United States and our allies.

In terms of defensive measures, obviously understanding is the most important thing, to try to get ahead of what some of these consequences could be.

But I think we actually have to translate that knowledge into action. So, what could some of those actions look like? One could be stockpiling critical supplies if we do identify that there is an area where China could significantly curtail a meaningful quantity of American supply and we should stockpile them.

The second is to build alternative supply chains with allies.

So, maybe you don't rip and replace supply chains that are working but you certainly should want to know that in the event of a cut-off from China of the specific component that we really need that we know who else to call and where else to go.

And then the third is this concept of preventative attrition that I mentioned, which is identifying chokepoints that China could be targeting and then taking steps ahead of time to prevent that.

I look at the campaign against China's efforts in 5G and against Huawei and ZTE as the classic case of that kind of a strategy and I think it's something that we should scale up and use more as emerging technologies arise in the coming years.

COMMISSIONER BOROCHOFF: Thank you all.

COMMISSIONER SCHRIVER: Commissioner Bartholomew?

COMMISSIONER BARTHOLOMEW: Thanks very much. Thank you to all of our witnesses, events change rapidly, don't they? Sometimes things change, sometimes don't seem like they're changing at all.

I guess I have couple of questions, one is, is there any information or sense of whether the Chinese leadership thinks that Russia is winning or losing in Ukraine?

Because the lessons learned I would think would be quite different if they think that it's been successful or if they think it's not being successful. That's one.

The second one is I'm presuming that one of the lessons that they've learned is something they've exercised already, which is how to exploit cracks in alliance in terms of some countries are more interested in protecting economic relations with China in particular sectors or not.

So, how is it when we talk about economic state craft that we try to...I don't want to use the word paper over those cracks but make sure the cracks don't make something ineffective?

And then a different kind of question, but you all have said that so far there's no evidence that China is providing any military equipment to Russia to use in Ukraine.

I'm just curious what you think we should or would do if indeed it turns out that Chinese material is showing up being used by Russians in Ukraine? Any of those questions for all of our witnesses.

Dr. Chestnut Greitens, do you want to start?

DR. CHESTNUT GREITENS: Thank you. I largely agree with Bonnie's comments earlier that it's a little bit too soon to figure out how the Chinese political system is going to process the military and especially the battlefield lessons coming out of Ukraine.

Certainly, I think what we saw in the early days of China's response was a Chinese political system that was a little bit on its back foot in responding to consequences or an initial rollout of this military operation that wasn't what they expected.

I don't know what exactly Vladimir Putin told Xi Jinping in early February when they met but it appears that the invasion did not go the way that Putin himself expected.

There were lots of failures in terms of preparing political warfare and some of the estimation of resistance inside Ukraine among both elites and the population, the failure to

politically prepare the Russian military for what they were being asked to do, when you have soldiers who think they're going on exercises and who are suddenly told as they're crossing the border that they're doing something very different.

And so it seems to me that it's likely that some of Russia's own miscalculations and Putin's personal miscalculations were probably communicated to Xi Jinping in some form.

And so the Chinese political system had to recalibrate.

They probably had, to some extent, more information from Russia than potentially almost anyone in the international system and yet still seemed to be surprised, perhaps because their information came from Moscow.

So, I think one of the short-term or medium-term lessons has actually been about the risks of miscalculation and overestimation and so I think in some ways the response may be to sit back and really try to watch how the conflict plays out before drawing lessons prematurely.

And I share Bonnie's view that this is likely to be something that, A, will depend on the outcome of the conflict and, B, even once the outcome of the conflict is more clear, will take a year or two before we start to see it translated into any sort of operational planning, doctrine, training, et cetera, vis-a-vis Taiwan.

MR. FISHMAN: I'm happy to jump in on your point on alliance cohesion because I think it's a really important one and we have seen that as a critical battleground of the Russia economic statecraft campaign and I think it would be even harder in the context of China because China is a much bigger economic actor.

So, I think there are really two ways that we can deal with some of these cracks that I think you correctly see as emerging. The first is designating now what the international contact group will be for coordinating those economic statecraft tools against China.

In the Russia context we have what's called the G7+ Russia sanctions contact group. We took the G7, we added Poland, Norway, Australia, a few other who are particularly interested in the issue.

We built that contact group in 2014 so we've developed the norms of cooperation. That group was revived to impose the sanctions in 2022 and many of the same people like Daleep Singh and Peter Harrell that were working with us in 2014 were involved back then.

So, I think having that group designated for China is critical right now. I think you could build it off in the G7 with a few other additional members.

Certainly, you'd want to bring in South Korea, Australia, you could build it off the Quad, there are probably a number of different formulations.

The second, and this is critical because I think it's misunderstood, U.S. financial sanctions can really paper over cracks in any alliance imposing economic warfare and that's because the dollar is the lifeblood of the global economy.

And so I think this is something that's misunderstood often. If the U.S. is willing to go ahead and impose full blocking sanctions, it really has the effect of a multilateral sanction.

And that's why you're seeing, for instance, Russian imports from places outside of the sanctions coalition like China and India have collapsed by almost as much as they've collapsed in countries like the U.S. and Europe.

And that's because it's really hard to pay for things if you can't deal with American banks.

So, I think it's important for us not to let perfect be the enemy of the good and even if we can't get perfect alignment with Europe and others on sanctions against China, we can use that devastating hammer we have in financial sanctions and paper over a lot of the cracks just with that.

COMMISSIONER BARTHOLOMEW: Thank you, I know I'm way overtime here so if there's a second round I'll go back to my question about if we're finding a Chinese material on the battlefield, what do we do, what should we do?

Otherwise, I'll submit that for the record. Thanks.

COMMISSIONER SCHRIVER: Commissioner, I think we'll have time for a second round. If somebody wants to jump in on that now we can do that, Ms. Weinstein.

MS. WEINSTEIN: I have a quick comment on that.

If we turn around tomorrow and we see there are Chinese inputs or Chinese military equipment in Ukraine that the Russians are using, I would want to take a step back and make sure or see if we can confirm that these directly came from China.

I would like to know where this equipment is coming from because if it's coming directly from Norinco or one of the big suppliers in China, I wouldn't necessarily have a problem if we decided to work with the multilateral export control group that we have now to go ahead and put export controls on Norinco.

To me, I think if we can prove, again, there's a direct connection there, I don't have a problem with that.

What worries me, though, is potentially putting export controls on something that we don't fully understand, in the instance that we don't fully understand how it got there. Because there could be instances, and this came up, obviously, in the context of the United States recently where U.S. components were found in Russian military equipment.

People were looking at GPUs or other things like that. These are commodities that didn't necessarily come directly from the United States and some people point to this as a hole in our export controls.

But in that instance, I think we have to take a step back and think about can we actually use export controls to stop this Chinese equipment, this Chinese component from getting to Russia?

Because I think in a lot of instances it would be really hard to do, particularly if it's a commodity that can be bought off.

I was telling folks when we were finding in video chips and things like that in Russian military equipment, I logged onto Taobao or Alibaba and I could look up an Nvidia GTX 3090 on there and I could have bought it myself.

So, those things are easy to find so in that case, export controls would probably do more harm than good.

COMMISSIONER SCHRIVER: Thank you. Commissioner Mann?

COMMISSIONER MANN: I wanted to turn to the events of the last few days, I'm interested in the implications of Speaker Pelosi's visit. I wanted to direct at least the first question to Panelists Glaser and Chestnut Greitens.

What have you seen in the run-up to this visit and in the hours after of allied reactions since we're particularly interested in the subject of allied reactions throughout this year?

MS. GLASER: A very timely question, Commissioner Mann, because as we sit here, there was a statement that was released, the G7 foreign minister statement on preserving peace and stability across the Taiwan Strait.

It does condemn what China is doing in Taiwan, it calls it particularly the live fire exercises and economic coercion which risk unnecessary escalation and states there is no justification to use a visit as pretext for aggressive military activity in the Taiwan Strait, saying it is normal and routine for legislators to travel internationally.

And it says the PRC's escalatory response risks increasing tensions and destabilizing the region. It's a very strong statement and I believe this is a first.

The G7 has mentioned something about preserving peace and stability in the Taiwan Strait, of course, and promoted Taiwan's participation in the international community but this is a first, a statement focused on calling out China for its actions that it has taken surrounding Speaker Pelosi's visit.

So, I think this really does underscore how much concern there is among our closest allies, Japan being number one on that list. Taiwan is existential for Japan but others as well.

COMMISSIONER MANN: Does that imply they would support collective sanctions? Is there any sign they would not?

MS. GLASER: My own view from conversations that I've had with European officials quietly as well as some European companies is that they have said what we're doing against Russia is terrific and companies have said some of them will pay the cost.

We've stopped our operations, we've pulled out, we're willing to do that, but we really hope that China doesn't take any kind of actions here that would cause secondary sanctions to go into effect.

Just an example of the fact that there's greater reluctance from my perspective to take really the kind of measures like freezing the central bank in Russia against China. But the point has already been made here that there's no one on one comparison.

Actions taken against Russia are not necessarily the right ones to be taking against China. So, I think our European allies and some of our Asian allies are willing to enter into this conversation.

I've heard they are concerned, they want to talk about it. I don't know if we're going to be able to get them on the same page in signaling very strong actions that we would all be willing to take that would strengthen deterrence.

So, it has to be a process. From what I hear, that conversation at an official level has really not started in any really in-depth way and I've recently talked to some U.S. officials about this.

They've heard some European countries ask, say this is a conversation we should have but they haven't done much more yet.

DR. CHESTNUT GREITENS: If I could just follow up on that, I largely agree with what Ms. Glaser has said in terms of the G7 response and growing concerns by allies and partners in Asia.

Having looked at the response of allies and partners in the military and diplomatic space to a Taiwan contingency, I've generally been on the more skeptical or cautious side in terms of estimating their support materially in terms of basing and actually getting involved in Taiwan.

But on the economic realm, I think what we're seeing is an increasing willingness to make some of these strong statements, like what's come out of the G7 this morning in part to try to head off or limit or reduce the risks of that exact scenario.

And I think the other lesson that we probably all should and are drawing from what happened in Ukraine is that military action and military tension really changes people's willingness to contemplate options that weren't on the table before.

So, the discussion in Europe is dramatically different this year than it was last year and I think, again, if I was sitting in Beijing I would be increasingly concerned about my own ability to predict the response of U.S. allies and partners.

And I think the United States and countries in the region should probably emphasize that,

the ability to predict and control how other people respond if China chooses to engage in escalatory behavior, for example, around a visit to Taiwan or any future scenario.

That's really a gamble that Beijing is taking and I think it's actually helpful to have this precedent where the response was much stronger than might have been predicted if there aren't direct parallels.

And so I think that's worth noting and it only reinforces some of the points Ms. Glaser was making. Thank you.

COMMISSIONER MANN: Thank you.

COMMISSIONER SCHRIVER: Let me add my thanks to the witnesses for extraordinarily strong statements and I appreciate the thoughtful answers to questions thus far.

I think given what we've discussed so far I'd like to maybe take advantage of Ms. Glaser's significant expertise.

We've talked just a little bit about U.S. relations with Taiwan. I think Commissioner Cleveland's question was getting at that a bit with respect to the legislation that's been proposed.

But let me ask you, I hear increasingly about the Ukraine model for Taiwan and you didn't say that so I'm not trying to put words in your mouth but there are people that are increasingly suggesting that particularly with regards to the asymmetric strategies there's a Ukraine model for Taiwan.

And set aside the obvious weakness of that model that Ukraine was invaded and tens of the same of people have been killed and millions of refugees are now the burden of neighboring countries.

But there are certain parts of the Ukraine model that work quite well and certain parts that didn't and I want to ask you about those with respect to applying those to Taiwan.

So, one thing that is not talked about a lot is the training component. The Ukraine model worked quite well because we did significant training with Ukrainian forces over many years.

We don't really train with Taiwan. We have small packages associated with FMS programs, which is rudimentary training on competency to run a system but we don't really train with Taiwan.

You alluded to doing more with Taiwan or closer cooperation with Taiwan, is that an area you think should be enhanced?

And then I think one of the significant weaknesses of the Ukraine model is we did not assist them or encourage them or support them in pushing back in the grey zone and the coercion that went on for many, many years.

Crimea being a great example of that, but even activities in Eastern Ukraine, very little pushback and the possibility that ignoring the coercion and the incremental aggression against Ukraine actually made the invasion ultimately more likely.

So, when people talk about Taiwan and how others are rushed to deal with the most dangerous scenario, the all-out attack invasion scenario, and we've got to get these systems, we've got to get these capabilities.

But there's also explicit suggestion that this should come at the expense of the grey zone capabilities.

The Administration is actually talking about denying Taiwan's request for capabilities that may not be the most optimized for an invasion but do help them in the grey zone with respect to air intercepts, with respect to maritime domain awareness.

I find that problematic but those are the two parts of the Ukraine model I'd like to hear your expert thoughts on.

MS. GLASER: Terrific questions, Commissioner Schriver. Obviously, after the Russians seized Crimea we started training Ukrainians and that has proven to be incredibly successful, as I understand it.

They over the last eight years acquired significant capabilities. So, my view in short would be, yes, we need to do more training with Taiwan but maybe we can try to do it in a way that first of all is not public.

I really feel we make too much public that we're doing with Taiwan. We've done so much for a long time that has been kept under wraps and it becomes even more problematic I think in the Chinese domestic political context when it is made public.

But the question of course is how is the best way to do this? Do you take units out of Taiwan, maybe train with them in Guam? Do you take them to Hawaii or do you do that training in Taiwan?

I would argue that maybe doing it in Taiwan if it's not necessary to do that, perhaps we should avoid that.

The way that we structure it has to be done based on how it's going to actually have the most efficacy but then also think about the impact that it might have.

I want to deter China, I don't want to provoke China. I don't think we have a very clear understanding as to what deters and what provokes but there are going to be things that we have to do that are focused on improving Taiwan's ability to fight.

So, I agree with you on that score. I also want to mention that in terms of building what I mentioned earlier, a territorial defense force, Ukraine didn't have that.

There are countries that do, Finland, Sweden, the Baltic States, there is so much that Taiwan could learn there. So, building that kind of force in peace time I think is very important.

There is a huge debate in the community, not only of experts on China and Taiwan but also in the defense expert community about the allocation of our resources and Taiwan's resources to deal with grey zone coercion and to deal with preventing the PLA from landing on the beach and taking over Taiwan.

I agree with you, we must do both and Taiwan is a democracy and it has to be able to demonstrate to its people that it is responding effectively to these grey zone threats. Taiwan can't have no air force just because it might be taken out in the first hours of the war.

They have to be able to scramble and intercept maybe not every single aircraft that goes in the aegis, but they do have to have the capability to do that.

So, I think we just have to have a good conversation with Taiwan about what are the most dangerous grey zone threats, what's the allocation of their resources?

We certainly don't want too much focused on those grey zone threats but I believe that simply focusing on this strategy of denial and ignoring everything in the grey zone space is not the right thing to do for Taiwan.

COMMISSIONER SCHRIVER: Thank you very much. We do have time for a second round or at least a few. I know one or two Commissioners, I saw Commissioner Scissors first? I'll collect all of them.

COMMISSIONER SCISSORS: I'll try to be quick, at least in my question. I think my problem with today's hearing is I don't actually think the U.S. can deter China in Taiwan.

I realize I could be wrong but I do think it's a considerable probability that the decision will be made independently of what we do, it will be driven by Chinese domestic politics.

In that light, Mr. Fishman, I want to ask you about your idea of attrition and your comments, which I agree with, about the role of the dollar. So, pick one, please, current U.S.

tactic that will most attrit Chinese capabilities?

Obviously, we don't know what the time horizon is so I'm not going to hold you to anything.

I want you to pick something that stands out to you and then if a conflict starts, I'd like you to be specific about what's the most effective use of the dollar to harm China and limit its ability to sustain a conflict?

So, one now that's going to hurt the Chinese capabilities the most and one if a conflict starts.

MR. FISHMAN: Happy to answer that.

One thing I would say, though, is I think that one of the risks of the failure of economic deterrence against Russia in the current Ukraine crisis, one of the challenges is there's an instinct to say, okay, this could have never worked.

The threat of massive economic consequences would have never deterred Putin, he made the decision to invade anyway.

The one thing I'd say, and I put this in my written testimony, is that there's actually good evidence that Putin really underestimated both the capacity and will of the West to bring down economic damage on Russia's economy.

And the best evidence of that is you have Putin, the biggest economic policy that he advanced after 2014 was accumulating hard currency reserves, foreign exchange reserves, built up \$600 billion-plus in reserves, and yet, two-thirds of those were in dollars, euro, pound, yen-denominated assets when Putin made the decision to invade.

And to me, that suggested he didn't think the West was going to go so far as to impose sanctions on the central bank of Russia. So, I think that my one challenge to you is I do think there are things we could do to potentially use economic deterrence more effectively against China.

In terms of attrition, this is a challenging one because as I say in my written testimony, China is a lot less resource-constrained than Russia is and has a lot more capacity, certainly in its technology sector, than Russia does.

I think if there is one thing we could do ahead of time it would be to continue to identify some of these more advanced technologies that China will need for its military power and do what we can to prevent those technologies from getting in China's hands and certainly from us, and also preventing them from developing their homegrown industries to the extent that's possible.

The point you made about commodities I found interesting earlier because you're definitely right that that's China's biggest point of vulnerability.

I think the issue there is when it comes to U.S. sanctions, we just don't impose sanctions on food, medicine, medical devices.

Obviously, China is dependent on food imports. That's not something that legally we can do or have done in the past and probably there's pretty significant humanitarian implications.

When it comes to energy, China is obviously getting most of its oil at this point from Russia, after that Saudi Arabia. They are building these alternative payment channels, paying for Russian oil in renminbi.

Russia now and Saudi Arabia, there could be basically alternative payment challenges. So, I think in terms of what the dollar could be used for in a conflict scenario, imposing sanctions on the biggest Chinese banks would have repercussions that go well beyond just U.S.-China trade.

This was my point about Russian imports collapsing from countries outside of the sanctions coalition. And I do think that in a Taiwan scenario, really putting a financial freeze on China would have really dramatic implications.

I also think there's some benefit to the U.S. in that freezing China's foreign exchange reserves would prevent China from just offloading all of its treasuries because they would be frozen and that would of course prevent a broader sell-off.

COMMISSIONER SCHRIVER: Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Just a quick comment, the idea of attrition, maybe attrition isn't quite the right word. The object of these controls, it seems to me, is to slow down China's acquisition of key technologies.

If we're in a competition with them it's ongoing, it's not that we're going to stop them and we will go ahead. Both of us will move forward. The question is who will be ahead?

So, I pose that as a question, do you think that's a good way of characterizing it? The other question I had just generally for anybody and maybe it's more for the people who talked about economics.

But what measures exactly, economic or otherwise, might the United States and its allies credibly threaten against China in the event of an invasion or an attack on Taiwan that in your view could change the CCP's calculus and its decision whether or not to use force, assuming that's even possible?

MR. FISHMAN: I'm happy to quickly weigh in on the attrition point. This is verbiage that I've been using now for a few years but I'm always open to different formulations.

I actually would commend Ms. Weinstein's testimony where she does talk about delay as being one of the goals of these moves. I don't think that it's possible to prevent China from developing a homegrown semiconductor industry.

The one thing that I state in my testimony is right now China is using about 20 percent of Chinese-made semiconductors in their products.

They want to boost that to 70 percent by 2025. But when you look at the actual state of the technology, the Chinese SMIC chips are still several generations behind TSMC's and Samsung's.

I also bring up the example of airplanes where they pulled \$70 billion into developing the C919 and yet they're still using an engine that's built by GE Aviation and SACRA, two Western companies.

So, I would agree, I think that part of the goal here isn't necessarily to prevent China from eventually getting these capabilities, it's keeping them at least one or ideally multiple generations behind the state-of-the-art technology in the west.

MS. WEINSTEIN: If I could jump in, I would just say, as Mr. Fishman pointed out, in my written testimony I do mention the fact that I don't think we can stop China from indigenously innovating through any tools, export controls, sanctions, anything.

I think a great example that came out in the past two weeks was we saw that SMIC was able to achieve semiconductor capabilities of 7 nanometers and although a lot of people were pointing fingers at different parts of the U.S. Government, I have yet to be able to find any examples that show that SMIC was able to actually get to 7 nanometers thanks to U.S. technology or equipment or personnel or anything.

That means they were able to do it through either third parties or through indigenous capabilities.

So, again, just reframing in terms of we are trying to keep China generations behind us,

we are not trying to completely destroy companies, we are not trying to completely destroy and industry because I don't think we can and I think trying to do that is misplaced.

My controversial take on your second question about what can we credibly threaten, I don't necessarily know if we can credibly threaten China to the point of actually deterring them from what they're doing.

I think Derek made the point that an invasion of Taiwan is really a domestic political issue in China and it's going to be based on a calculus that Xi Jinping makes if and when the time comes.

But I do think in moving the conversation from one that is just U.S. versus China to as many other countries in the rest of world with the U.S. plus China I think would change China's calculus a bit more.

I don't think again necessarily it would completely deter them but I do think it would, like I said, change the calculus.

MS. GLASER: I'm going to disagree with the point that it is completely a domestic political decision to attack Taiwan and certainly domestic politics in China will be important.

We don't have a lot of visibility into those factors in China but I think ultimately Xi Jinping's cost-benefit calculus is going to matter and that's what we need to influence.

And so I think that Commissioner Friedberg's question was right, how do we increase the cost? And I think China would be concerned about losing access to the international banking system.

I think that's going to be very difficult for us to cut them off from that banking system but I think ultimately, that's one thing that we should try to do.

But there's probably no single thing that is this magic bullet that is going to cause a lightbulb to go off in Xi Jinping's head and say, ah-ha, it's too costly.

It's going to be a series of steps that we take and most importantly, if we don't have the military capability to inflict a lot of damage on the PLA, if we don't have the military capability to defend Taiwan, then all of these other conversations that we're having I think are not going to matter very much.

COMMISSIONER SCHRIVER: Chairman Wong?

CHAIRMAN WONG: Thanks. Bonnie, in your recommendations you talk about FMF and we've talked in this hearing about the capabilities of Taiwan to defend itself in bolstering that.

But I want to talk a little bit more about what you see as the current status of U.S. capabilities to fight in a Taiwan contingency. Are we up to the point that we have the capabilities we need?

Are we falling behind, have they been depleted because of the systems we've been giving to Ukraine?

If that's the case, what are the capabilities we should invest more in and if we do think this is an acute threat, the timeline unknown but perhaps close, would you support a specialized appropriations vehicle to ensure that the funding gets to these capabilities in a tailored fashion and on a faster timeline?

I'm going to invite Dr. Chestnut Greitens to weigh in too after Bonnie speaks.

MS. GLASER: You're going to very quickly reach the limits of my expertise in specific defense capabilities. As you know, I am first and foremost a China foreign policy and security expert.

But I listen very closely to the opinions, the views, the debates that I think go on in this

area. Most people tell me that if we end up going to war with China before the early 2030s, we will fight with the force that we have in place.

We may have a different posture but we probably won't have a significantly new capability.

Some of the new weapon systems that may come online, the new technologies that we may apply like lasers, for example, we're probably not going to see in the 2020s.

So, I could be wrong there, maybe there are some things that we can do more effectively in the near term. So, I think there's this concern about this window of vulnerability that then potentially the Chinese tried to take advantage of.

Whether there are things we can do in the interim to ensure we are getting the most that we have for those defense capabilities, I leave to people who know more than I do.

But I certainly support your mention of special appropriations to get us to where we need to be.

The Chinese have developed over the last decade or longer this suite of anti-access area denial capabilities that really would put at tremendous risk U.S. military assets that are operating in the region.

So, what do we do to deal with that?

We should think more about what kind of missile capability we want to have in the region and the Japanese are thinking themselves about the possibility of developing a longer-range strike.

But now that we have withdrawn from the INF treaty, what are the options that exist there? So, this is a serious defense problem for the U.S. that I think we ought to make a priority, thank you.

DR. CHESTNUT GREITENS: I would largely agree with what Bonnie has said this morning.

I also wanted to endorse some of the previous comments about FMF and training, although that training should probably be very carefully designed to avoid producing some sort of escalation risk.

And so while I think it's important to do it, let's also be very careful about how that's designed so that we get the most effective enhancement of training in Taiwan while also minimizing unnecessary political blowback.

So, I think there have been long-standing complaints about the allocation of U.S. defense spending not matching the rhetoric of prioritizing the Indo Pacific.

I think a lot of those complaints are valid and although I defer to my colleagues who know how the Hill works a little bit better than I do on exactly what the right vehicle is, I certainly think the appropriations proposal that you mentioned has some real merit and is worth considering.

I also think, though, just to put an additional note, that that needs to really be coupled with serious conversations with Taiwan about their own military spending, their own defense concept, how that matches procurement and mobilization planning on the Taiwan side.

Again, I think that process has been far slower than it needs to be, and so as the United States thinks about what we are spending and what we are investing, that needs to be matched by a set of conversations both with Taipei but also with our allies and partners throughout the region to make sure that their own defense concepts, defense planning and procurement are avoiding duplication where we can and also enhancing and complementing U.S. capabilities rather than again either being redundant or being things that will not be as useful across the spectrum of

operations from the grey zone to a full-on invasion or blockade scenario that we need to be thinking through and planning for right now.

COMMISSIONER SCHRIVER: Commissioner Mann?

COMMISSIONER MANN: I just had a couple of quick questions for panelist Glaser about her written testimony on the subject of information dominance. There are just things I didn't understand.

You referred the PRC's significant control over Taiwan's media. On the surface it looks like a very lively media to me but tell me what you meant.

MS. GLASER: There's a lot of reporting that has been done on this of specific media outlets, and now I'm going to blank on what the names are, Jessica is sitting over there, she can help me, that were bought out by the Chinese.

There was money that went from the Taiwan Affairs Office in Beijing to media outlets in Taiwan.

Some of this has been shut down but frankly, the vast majority of the media, particularly the print media, in Taiwan is still affiliated in some way with China, either its owners are pro-China and some of them perhaps get --

I don't have evidence but I think some of them perhaps still get funding from China. It's a serious problem.

I don't think this has gone away and then of course, on top of that, you have the disinformation efforts by China and probably some disinformation that comes from within Taiwan, I think there's evidence of that as well. So, it's a complex media environment.

COMMISSIONER MANN: That brings me to you referred to the information dominance will likely prioritize operations to decapitate Taiwan's political and military leadership.

Did you mean by decapitate assassinate or did you mean cut people off, cut leaders off from being able to speak to the people?

MS. GLASER: There certainly could be, if they believe it would be effective to simply cut off the leadership access to the people then they would plan to do that.

My guess, just to guess, is they would not be confident that that would be sufficient and I would not be surprised if the PRC has plans to assassinate the leadership.

COMMISSIONER MANN: How do information techniques enable that? That's a matter of sheer use of force, right?

MS. GLASER: I wasn't saying they would use information sources, they would want to ensure that leadership in Taiwan would not be able to use information.

So, no, we're really talking about assassination, which is one of the reasons why Taiwan's leadership is exercising in case of a crisis to go to a safe place just as we do with our leadership in the United States.

COMMISSIONER MANN: Thank you.

COMMISSIONER SCHRIVER: We have maybe not even quite five minutes left. I'd like to weigh in. I think China is deterrable and I think a big piece of the question is the military piece. And we haven't talked a lot about long polls in the tents for the PLAs so let me just wrap up with this question for anyone who wants to weigh in.

One of the Ukraine might very well be that this stuff is hard and Russia had a running start with the occupation of Crimea, occupation of parts of Eastern Ukraine, a satellite state in Belarus, a lot of lead-up time, and a land border.

Not 80 nautical miles of water, not mountainous inhospitable terrain, not unfavorable sea

conditions. This is a military that hasn't seen combat since 1979, they don't train in highly complex environments.

Putting aside the economic statecraft points, which I think are excellent and need to be developed, I think there's a lot more we can do to exploit the PLA vulnerabilities that they themselves understand.

If you read my colleague's book, Ian Easton, he talked about how the Chinese themselves understand how hard this is, how hard an amphibious operation would be.

So, maybe closing comments for anyone who might want to jump in on the progress of the PLA and the potential that we're actually overestimating their ability to carry out something that's highly complex and difficult?

Or I'll just keep speaking on the subject too.

MS. GLASER: I'll start by saying that even if we are overestimating their capabilities, what really matters is how they estimate their capabilities.

And we know that the PLA internally and also in their journals and their newspapers they talk about their deficiencies and their weaknesses but we don't really know when Xi Jinping asks the Vice Chairman of the CMC can we go take Taiwan successfully tomorrow.

We don't know what the PLA is telling at that level to Xi Jinping and that makes me a little worried because there is this tendency to tell the guy at the top anything he wants to hear.

Now, I hope that he is being told the truth.

I do think we should think about ways to exploit PLA vulnerabilities, there are probably lots of ways that we can do that because this kind of an operation would be incredibly difficult for them.

And I'm sure there are many ways that we can highlight what those challenges would be. Xi Jinping doesn't want to lose half his Navy or a very large number, perhaps, of deaths of single-child families.

There's a lot of things and ways that I think we could make them more worried about what this would look like.

I think we all know that a PLA defeat in this effort could ultimately weaken the legitimacy of the Chinese Communist Party and so we should focus on that as well.

So, I'm glad to hear you agree that deterrence matters, we can do things to strengthen it. It is not just going to be determined by what's happening in the walls of Zhongnanhai.

Thank you.

COMMISSIONER SCHRIVER: Last 60 seconds, anybody else? Great, thank you very much. With that, we will break for lunch and reconvene for the third panel at 2:20. Thank you.

(Whereupon, the above-entitled matter went off the record at 1:19 p.m. and resumed at 2:20 p.m.)

PANEL III INTRODUCTION BY COMMISSIONER JAMES MANN

COMMISSIONER MANN: We will now resume. Our third panel will examine China's activities and ambitions in the Pacific Islands. We'll start with Mr. Derek Grossman, who is a senior defense analyst at the Rand Corporation, then we'll hear from Dr. Alan Tidwell.

Dr. Tidwell is Professor of the Practice and Director of the Center for Australian, New Zealand, and Pacific Studies at Georgetown University. Thank you all very much for your testimony.

The Commission is looking forward to your remarks. I ask all our witnesses to please keep their remarks to seven minutes. Mr. Grossman, we'll begin with you.

OPENING STATEMENT OF DEREK GROSSMAN, SENIOR DEFENSE ANALYST, RAND CORPORATION

MR. GROSSMAN: Good afternoon, Commissioner Mann and Commissioner Shriver, Members of the Commission and Staff. Thank you for the opportunity to testify today on China's strategy for the Pacific Islands.

My apologies for not being able to attend in person as I'm traveling throughout the Indo Pacific.

Relying on an evidence based approach, my testimony today seeks to describe and analyze the evolving geostrategic dynamics between China, the Pacific Island countries, and the United States and its allies and partners.

In my written statement that I've provided to you, I offer a baseline of what we know about China's gambit in the Pacific, including its strategic goals and approach to the region.

Next I discuss how Pacific Island states are responding to having China in their region as a new permanent power.

Leveraging this analysis, I then examine implications for U.S. strategy, not only in Oceania but also throughout the Indo Pacific region with a particular emphasis on U.S. allies and partners.

And finally, I recommend to Congress several options going forward that should improve the United States' profile in the region, particularly as China continues to try to enhance its own.

I go into significant detail in my written statement on all of these points but I want to take my time today to briefly focus on my key takeaway as well as implications and recommendations for Congress.

My key takeaway is that despite the recent signing of the China-Solomon Islands deal and Chinese Foreign Minister Wang Yi's ten-day eight-nation tour in the Pacific. Beijing faces immense challenges toward achieving economic or security parity with traditional powers, Australia, New Zealand, and the United States, let alone primacy in the Pacific.

Flowing from this I offer four implications. First, given, as I argue in my written statement, that China has thus far only experienced partial success in achieving its strategic goals, and more importantly, because the road ahead seems quite challenging, the U.S. and its allies and partners arguably should dispel the notion that they are somehow losing influence to Beijing and the Pacific.

Indeed, the facts speak quite to the opposite. Most significantly on display, when all Pacific Islander Forum or PIF dialog partners were barred from last month's summit yet Vice President Kamala Harris was allowed to give a virtual address.

Having good friends Australia and New Zealand in the PIF as full-fledged members certainly helps the United States maintain influence in the region.

That said, Beijing is clearly determined to make additional inroads and most likely will succeed in the coming years. Hence, the United States and its allies and partners should not fall into complacency either.

A second implication of my analysis is that the U.S. and its allies and partners while welcome to provide additional support to Taiwan to maintain its diplomatic space probably do not have to expend too much time and resources on this effort.

The fact is that Taiwan's remaining partners, which are the Marshall Islands, Nauru, Palau, and Tuvalu are quite staunch supporters of Taipei over Beijing.

To be sure, elections can bring to power new leaders who do not share the same

perspective but Taiwan will undoubtedly remain at the forefront of influencing them to keep their policies intact.

Rather, the U.S. and its allies and partners might continue to argue for Taipei's inclusion in multilateral fora to ensure representation on issues important to Taiwanese security such as discussions on pandemic recovery through the World Health Assembly.

Beijing, as I'm sure we all know, has blocked Taipei's participation there and in many other multilateral venues for many years.

A third implication is that instead of engaging in blatant forms of rivalrous behavior versus China and the Pacific, the U.S. and its allies and partners should find ways to better support the PIF leadership's 2050 strategy for the Blue Pacific Continent and commune from last months.

The top-line goal of the PIF strategy is to, quote, ensure a resilient Pacific region of peace, harmony, security, social inclusion and prosperity that ensures that all Pacific people can lead free, healthy and productive lives.

So, intensified rivalry with China in the Pacific would only seem to risk achieving these goals between now and 2050 and beyond.

And moreover, the PIF leadership commune, quote, reconfirmed that climate change remains the single greatest existential threat facing the Blue Pacific.

Hence if the U.S. along with its allies and partners prioritizes and leads collaborative efforts to resolve or mitigate the climate crisis, then that can go a long way to building trust with Pacific Island nations at China's strategic expense.

Fourth and finally, the U.S. and its allies and partners generally should seek to avoid further militarization of the Pacific or resorting to military options first when dealing with the region.

Although it's concerning that China may eventually establish a naval base in Solomon Islands or an air base in Kiribati, these developments alone, should they come to pass, are not necessarily game-changing militarily, nor do they warrant counter moves that could escalate into a regional war.

Washington and Canberra's decision in 2018, for example, to refurbish Lombrum Naval Base on Manus Island in Papua New Guinea to counter Chinese military plans is likely only going to make the situation tenser.

Pacific Island leaders resoundingly rejected geostrategic competition at their summit last month and that would logically include military competition.

Finally, I offer the following options for Congress and for the broader Federal Government to consider. First, consider taking action on climate change policy.

Without action on climate change, which is an existential issue for Pacific Island countries, Washington will look like a significantly less credible partner in the Pacific.

Not doing so also bolsters China's counternarrative that the U.S. cannot be trusted. Second, consider Pacific-focused policy.

Bills focused on the Pacific Islands region such as Boosting Long-term U.S. Engagement or BLUE and the Pacific Act, which is H.R. 2967, shows a renewed emphasis on the region and particularly on assisting Pacific Island states with challenges most important to them.

Without necessarily endorsing the specifics of this bill, I believe that more Pacific focused policy is better than less. Or I should say focused legislation is better than less.

And then third, leverage existing government capabilities to achieve targeted goals. Because they are overwhelmingly small and impoverished, Pacific Island countries would

greatly benefit from U.S. assistance in such areas as economic development and health security.

Fourth, ensure funding for the renewed compacts of free association.

The compacts are essential for Washington to maintain because these unique international agreements with the freely associated states, which are Marshall Islands, Micronesia, and Palau in the North Pacific enable the U.S. military to have near exclusive access to the FAS territories and their exclusive economic zones for dealing with potential contingencies in the region.

And then finally, consider opening diplomatic missions in every Pacific Island state.

Embassies act as Washington's eyes and ears on the ground and requesting information from Australia and New Zealand representatives has proven insufficient towards accomplishing all of the Washington's objectives.

And doing so also overburdens our friends. So, by taking these initial steps we can ensure that China remains comfortably in the rearview mirror in the Pacific.

Thank you and I look forward to your questions.

COMMISSIONER MANN: Thank you. Mr. Tidwell?

**PREPARED STATEMENT OF DEREK GROSSMAN, SENIOR DEFENSE ANALYST,
RAND CORPORATION**

China's Gambit in the Pacific

Implications for the United States and Its Allies and Partners

Derek Grossman

CT-A2198-1

Testimony presented before the U.S.-China Economic and Security Review Commission on August 3, 2022.



For more information on this publication, visit www.rand.org/t/CTA2198-1.

Testimonies

RAND testimonies record testimony presented or submitted by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies.

Published by the RAND Corporation, Santa Monica, Calif.

© 2022 RAND Corporation

RAND® is a registered trademark.

Limited Print and Electronic Distribution Rights

This publication and trademark(s) contained herein are protected by law. This representation of RAND intellectual property is provided for noncommercial use only. Unauthorized posting of this publication online is prohibited; linking directly to its webpage on rand.org is encouraged. Permission is required from RAND to reproduce, or reuse in another form, any of its research products for commercial purposes. For information on reprint and reuse permissions, please visit www.rand.org/pubs/permissions.

www.rand.org

China's Gambit in the Pacific: Implications for the United States and Its Allies and Partners

Testimony of Derek Grossman¹
The RAND Corporation²

Before the U.S.-China Economic and Security Review Commission

August 3, 2022

In the first half of 2022, China made clear the scale and scope of its geostrategic ambitions in the Pacific Islands region. The first indication came in March when a secret draft security agreement between China and Solomon Islands leaked to the public. The draft deal authorized Chinese warships to make routine port visits and for Beijing's security forces to train and assist local law enforcement in Solomon Islands.³ Despite regional concerns, Beijing and Honiara signed the agreement in April.⁴ Then, in late May, Chinese Foreign Minister Wang Yi embarked on an eight-nation ten-day tour of the South Pacific visiting Solomon Islands, Kiribati, Samoa, Fiji, Tonga, Vanuatu, Papua New Guinea, and Timor-Leste. His mission was to convince Pacific Island nations to participate in a new sweeping set of multilateral development and security deals, which Beijing called the "China-Pacific Island Countries Common Development Vision."⁵ In the end, Pacific Island states rebuffed Chinese overtures. Beijing's partial success

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

² The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's mission is enabled through its core values of quality and objectivity and its commitment to integrity and ethical behavior. RAND subjects its research publications to a robust and exacting quality-assurance process; avoids financial and other conflicts of interest through staff training, project screening, and a policy of mandatory disclosure; and pursues transparency through the open publication of research findings and recommendations, disclosure of the source of funding of published research, and policies to ensure intellectual independence. This testimony is not a research publication, but witnesses affiliated with RAND routinely draw on relevant research conducted in the organization.

³ Damien Cave, "China and Solomon Islands Draft Secret Security Pact, Raising Alarm in the Pacific," *New York Times*, March 24, 2022.

⁴ Michael E. Miller and Frances Vinall, "China Signs Security Deal with Solomon Islands, Alarming Neighbors," *Washington Post*, April 20, 2022.

⁵ "China-Pacific Island Countries Common Development Vision," leaked draft, ABC News (Australian Broadcasting Corporation), undated, <https://www.documentcloud.org/documents/22037011-china-pacific-island-countries-common-development-vision>.

with Solomon Islands, however, and expected successes with other countries, such as Kiribati, and perhaps future multilateral deals are good reasons for concern among traditional regional powers, including the United States, Australia, and New Zealand. That said, Beijing also faces immense challenges toward achieving diplomatic, economic, or security parity with such regional powers, let alone primacy, in the Pacific; thus, context is important to avoid inflating threat perceptions.

Relying on an evidence-based approach, this testimony seeks to describe and analyze the evolving geostrategic dynamics between China, the Pacific Island countries, and the United States and its allies and partners. First, I provide a baseline of what we know about China's gambit in the Pacific, including its strategic goals and approach to the region. Next, I discuss how Pacific Island states are responding to having China in their region as a new, permanent power. Leveraging this analysis, I then examine implications for U.S. strategy not only in Oceania but also throughout the Indo-Pacific region, with a particular emphasis on U.S. allies and partners. Finally, I recommend to Congress several steps going forward that should improve the United States' profile in the region, particularly as China continues to try to enhance its own.

China's Strategic Goals and Approach

According to Beijing's official worldview, the Pacific Islands are part of China's "periphery" [*zhoubian*], or neighboring region.⁶ Beijing for decades had virtually ignored this part of the world, despite its close proximity to the Chinese mainland, in favor of focusing on "major powers," such as the United States and Russia, as well as countries that share borders with China and other parts of the developing world, such as Africa. In recent years, however, Chinese attention has increasingly included Oceania, probably in no small part because of China's growing economic and military power and interests. Indeed, Chinese President Xi Jinping in 2015 referred to the South Pacific as the "southern leg" of the "Maritime Silk Road," which would eventually become part of the modern-day global investment and infrastructure program, known as Belt and Road Initiative (BRI), and his signature economic program.⁷

Although mainstream interest in China's strategy toward the Pacific has been growing in recent years, Western and Chinese scholarship on the subject remains thin compared with other regions, making it more difficult to discern the true nature of Beijing's objectives there. Nevertheless, the available scholarly literature generally coalesces around China pursuing three interrelated objectives in the Pacific (not necessarily in rank order): (1) eliminating Taiwan's

⁶ Timothy R. Heath, Derek Grossman, and Asha Clark, *China's Quest for Global Primacy: An Analysis of Chinese International and Defense Strategies to Outcompete the United States*, Santa Monica, Calif.: RAND Corporation, , 2021, p. 40, https://www.rand.org/pubs/research_reports/RRA447-1.html

⁷ National Development and Reform Commission, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road," Ministry of Foreign Affairs and Ministry of Commerce, People's Republic of China, 2015.

diplomatic space, (2) accessing natural resources and generating economic activity, and (3) breaking through the U.S. military's domination of the second island chain.⁸ Differences among experts, whether Western or Chinese, usually stem from emphasizing one driver over another, but the debate is simply a matter of degree: Most, if not all, researchers recognize that China's Pacific strategy is the product of these three factors.

Regarding China's goal to eliminate Taiwan's diplomatic space, Oceania is home to four of Taipei's remaining 14 official diplomatic partners worldwide: Marshall Islands, Nauru, Palau, and Tuvalu. Notably, two Pacific Island countries—Solomon Islands and Kiribati—switched their diplomatic recognition in 2019 from Taiwan to China, underscoring how quickly Taipei can lose diplomatic ground to Beijing in this contested region. As part of a study on the Freely Associated States (FAS, which consists of Marshall Islands, Micronesia, and Palau) and Chinese influence that I conducted with RAND colleagues in 2018, we found that Beijing was leveraging both carrots and sticks to induce shifts in diplomatic recognition among Taiwan's remaining partners.⁹ For example, with Palau, Chinese tourism ramped up for years until, suddenly in November 2017, Beijing barred tourists from traveling to this pristine vacation spot. It appears that Beijing's move was in retaliation for Palau's refusal to switch diplomatic recognition.¹⁰ Meanwhile, Beijing for years has been offering economic incentives—such as lowering import taxes for Marshallese-flagged shipping into Chinese harbors—in exchange for official ties with China.¹¹ This was a significant incentive because, at the time of our research, Marshall Islands

⁸ The U.S.-China Economic and Security Review Commission's own report states that "Beijing's heightened engagement in the region in recent years is driven by its broader diplomatic and strategic interests, reducing Taiwan's international space, and gaining access to raw materials and natural resources" (Ethan Meick, Michelle Ker, and Han May Chan, *China's Engagement in the Pacific Islands: Implications for the United States*, Washington, D.C.: U.S.-China Economic and Security Review Commission, June 14, 2018, p. 1. One recent study of interest surveys and interviews 39 Chinese scholars on Beijing's top goals in the Pacific. It found that pursuing Chinese economic interests were paramount, although reducing Taiwan's diplomatic space was also important. For more, see Denghua Zhang, "China's Motives, Influence, and Prospects in Pacific Island Countries: Views of Chinese Scholars," *International Relations of the Asia-Pacific*, September 17, 2021. Another study places more emphasis on the economic aspects of China's strategy in the Pacific, see Jenny Hayward-Jones, "Big Enough for All of Us: Geo-Strategic Competition in the Pacific Islands," Lowy Institute, May 16, 2013. A separate study argues that Beijing's economic agenda in the Pacific is helping China to carve out a new "sphere of influence" meant to challenge the United States' and Australia's current spheres (Yu Lei and Sophia Sui, "S. China-Pacific Island Countries Strategic Partnership: China's Strategy to Reshape the Regional Order," *East Asia*, Vol. 39, March 2022, pp. 81–96. Other experts have emphasized the geostrategic implications of China's approach to the Pacific. See, for example, Jonathan Pryke, "The Risks of China's Ambitions in the South Pacific," Brookings Institution, July 20, 2020, and Terence Wesley-Smith and Graeme Smith, *The China Alternative: Changing Regional Order in the Pacific Islands*, Canberra: Australian National University Press, 2021.

⁹ Derek Grossman, Michael S. Chase, Gerard Finin, Wallace Gregson, Jeffrey W. Hornung, Logan Ma, Jordan R. Reimer, and Alice Shih, *America's Pacific Island Allies: The Freely Associated States and Chinese Influence*, Santa Monica, Calif.: RAND Corporation, 2019, https://www.rand.org/pubs/research_reports/RR2973.html.

¹⁰ Grossman et al., 2019, pp. 41–42.

¹¹ Grossman et al., 2019, p. 40.

was the third-largest ship registry. Two other countries at the top of ship-registry rankings, Panama and Liberia, both switched diplomatic recognition from Taiwan to China and received the same benefit.

China also wants to access natural resources in the Pacific. Most significantly, as fisheries dwindle in the nearby South China Sea from a combination of coral reef destruction for artificial island construction, overfishing, pollution, and climate change, Beijing has sought to make up losses farther afield.¹² According to a report published this year, Beijing's *distant-water fishing fleet*, defined as ships fishing outside of internationally recognized exclusive economic zones (EEZs), numbered 2,701 ships in 2020, easily making it the world's largest.¹³ The problem is that in order to satisfy the tastes of China's burgeoning middle class, Beijing—without respect for international commercial and environmental standards—incentivizes fleets to haul in as much seafood as possible (tuna and sea cucumbers, in particular), resulting in massive numbers of illegal, unreported, and unregulated (IUU) fishing incidents. According to the study, from 2015 to 2019, Beijing's fleets committed the most incidents of IUU fishing on the high seas, and the locations of the second- and third-most frequent Chinese IUU fishing incidents were in the Western and Central Pacific and South Pacific, respectively.¹⁴ These regions are home to the Pacific Island countries. For example, in December 2020, Palau, with the assistance of the U.S. Coast Guard, discovered and deported 28 Chinese fishermen poaching sea creatures within its EEZ.¹⁵ Chinese fishing trawlers have also depleted tuna stocks in the South Pacific around American Samoa.¹⁶ They have even been spotted as far east as the Galapagos Islands.¹⁷

Besides finding additional fishery stocks to tap, China is a huge proponent of deep-sea mining access to hunt for important metals, such as nickel, cobalt, copper, and manganese.¹⁸ Beijing also mines land resources. Excluding Australia and New Zealand, Pacific Island nations

¹² U. Rashid Samaila, William W. L. Cheung, Louise S. L. Teh, Ashley H. Y. Bang, Tim Cashion, Zeyu Zeng, Juan Jose Alva, Sophia Ie Clue, and Yvonne Sadovy de Mitcheson, *Sink or Swin: The Future of Fisheries in the East and South China Seas*, Hong Kong: ADM Capital Foundation, 2021.

¹³ Environmental Justice Foundation, *The Ever-Widening Net: Mapping the Scale, Nature and Corporate Structures of Illegal, Unreported and Unregulated Fishing by the Chinese Distant-Water Fleet*, London, United Kingdom, March 2022, p. 11.

¹⁴ Environmental Justice Foundation, 2022, p. 25.

¹⁵ Adam Somers, "Chinese Fishing Boat Stripped and Escorted Out of Palau," *Island Times*, January 5, 2021.

¹⁶ Dan Southerland, "Chinese Overfishing in the South Pacific Devastates Some Islands' Livelihoods," *Radio Free Asia*, April 6, 2021.

¹⁷ Jaime Moreno, "China's Fishing Fleet Threatens the Galapagos Islands," *Voice of America*, November 3, 2021.

¹⁸ Denghua Zhang, "China Looking Under the Sea for Opportunities in the Pacific," *East Asia Forum*, June 30, 2018.

generally do not have much land mass. However, Beijing for years has been exploiting gold and nickel mines, liquefied natural gas, and timber in Papua New Guinea.¹⁹

Finally, on the military objective of breaking through the second island chain, Beijing seeks to weaken U.S. partnerships in the Pacific that affords the United States military advantages that could be leveraged against China during a Taiwan, South or East China Sea, or even Korea scenario.²⁰ When RAND researchers analyzed Chinese primary source literature on this subject in 2018, the record was scant, probably because Beijing had not been giving the Pacific Islands region much attention; it will be interesting to see whether this changes over time. Nonetheless, there are several examples worth noting here. One Chinese scholar, Qi Huaigao of Fudan University, outlined in 2014 how a school of contemporary Chinese foreign policy thinking viewed the development of ties in the Pacific as necessary to achieve “maritime breakthroughs” past encircling external powers.²¹ Another Chinese expert, Zhang Ying of Beijing Foreign Studies University, wrote in 2016 that the “South Pacific region . . . hinders China’s expansion into the deep sea.”²² And Xu Xiujun, a scholar at the Chinese Academy of Social Sciences, concurred with Zhang’s assessment. Xu added in 2014 that U.S. military presence in the region will very likely play a key role in U.S. efforts to contain China.²³

Beyond the literature, Beijing has engaged in behavior throughout the region that could eventually support the objective to puncture the second island chain. Most notably, as discussed above, in April, China signed a security agreement with Solomon Islands to allow regular visits of Chinese navy ships and training of local law enforcement. Traditional regional powers are concerned that Beijing might eventually leverage these activities to establish a permanent base in the region. Meanwhile, Beijing is assisting Kiribati to upgrade its airstrip on Canton Island, which is located just 1,500 miles off the coast of Hawaii. Tarawa claims the renovation will support tourism, but Washington believes it could be a future Chinese airbase.²⁴ In 2018, China reportedly was helping Vanuatu build a potentially dual-use wharf on Santo Island. At first, the

¹⁹ Meick, Ker, and Chan, 2018, p. 7.

²⁰ For an assessment of Chinese conceptions of the second island chain, see Andrew S. Erickson and Joel Wuthnow, “Barriers, Springboards and Benchmarks: China Conceptualizes the Pacific ‘Island Chains,’” *China Quarterly*, No. 225, March 2016, pp. 1–22.

²¹ Qi Huaigao [祁怀高], “Thoughts on the Top Design of Periphery Diplomacy” [“关于周边外交顶层设计的思考”], *Journal of International Relations* [国际关系研究], No. 4, 2014, p. 15.

²² Zhang Ying [张颖], “China’s Strategic Choice in the South Pacific: Perspectives, Motivations and Paths” [“中国在南太平洋地区的战略选择:视角、动因与路径”], *Contemporary World and Socialism*, No. 6, 2016, p. 132.

²³ Xu Xiujun [徐秀军], “The Diplomatic Strategy of China to Develop the Relations with the South Pacific Region” [“中国发展南太平洋地区关系的外交战略”], *Pacific Journal* [太平洋学报], Vol. 22, No. 11, November 2014, p. 21.

²⁴ Jonathan Barrett, “Kiribati Says China-Backed Pacific Airstrip Project for Civilian Use,” Reuters, May 13, 2021.

Vanuatans dismissed concerns, but eventually they decided to end the project.²⁵ Broadly, China is adding defense attachés throughout the Pacific Island countries—of which only three (Fiji, Papua New Guinea, and Tonga) have militaries (excluding Australia and New Zealand)—and is offering to train security officials, perhaps further enabling an operating presence in the region in the years to come.²⁶

China seeks to achieve its three top objectives in the Pacific by leading with the least controversial and most attractive agenda to Pacific Island states. Then, over time, and as Pacific Island nations' trust in Beijing grows, it can leverage noncontroversial cooperation for more-sensitive benefits, such as accessing their EEZs for fishing, switching diplomatic allegiance from Taiwan to China, and establishing a military foothold in the region. As evidenced by the leaked China-Pacific Island Countries Common Vision Plan that Chinese Foreign Minister Wang brought to the region in late May for concurrence, Beijing seeks to boost economic, pandemic-related, people-to-people, and climate change cooperation, among other initiatives.²⁷

Simultaneously, Beijing very likely employs information operations to control the narrative, such as by denigrating American, Australian, Japanese, Taiwanese, and perhaps New Zealander contributions to the Pacific and suggesting greater “win-win” or mutually beneficial Chinese involvement in the region with “no strings attached.” Beijing has even shown a willingness to block unfavorable media coverage from within Pacific Island states, as it did during Foreign Minister Wang's visit there.²⁸ China also probably bribes government officials and entities at all levels and contributes to political activities that reinforce its narrative. Micronesian President David Panuelo outlined a new area of potential concern—China's goal of dominating regional communications infrastructure—in his unprecedented and blistering warning letter of May 20, 2022, to Pacific Island leaders, prior to the Pacific Islands Forum (PIF), the premier multilateral regional venue, which held its annual summit in July. He noted that “the Common Development Vision seeks Chinese control and ownership of our communications infrastructure . . . for the purpose of . . . mass surveillance of those residing in, entering, and leaving our islands, ostensibly to occur in part through cybersecurity partnership.”²⁹ If his interpretation is accurate, Beijing seeks some level of control over Pacific Islanders' daily activities.

²⁵ Ben Bohane, “South Pacific Nations Shrug Off Worries on China's Influence,” *New York Times*, June 13, 2018.

²⁶ Denghua Zhang, “China's Military Engagement with Pacific Island Countries,” *Asia and the Pacific Policy Society*, August 17, 2020.

²⁷ ABC News, undated. Also, see Wang Yi's official statement on the plan at “Wang Yi: The Comprehensive Strategic Partnership Between China and Pacific Island Countries Will Surely Achieve Steady and Sustained Growth,” Ministry of Foreign Affairs of the People's Republic of China, May 30, 2022.

²⁸ Edwina Seselja and Joshua Boscaini, “China's Visit to Pacific Highlights Growing Threat to Journalism in the Region,” ABC News, June 1, 2022.

²⁹ David W. Panuelo, “Letter to Pacific Island Leaders,” Palikir, Pohnpei, Federated States of Micronesia, May 20, 2022, p. 4, <https://s3.documentcloud.org/documents/22039750/letter-from-h-e-david-w-panuelo-to-pacific-island-leaders-may-20-2022-signed.pdf>.

Pacific Island Nation Responses

Pacific Island countries have been responding to China's strategy, and the returns, on the whole, have not been encouraging for Beijing.

On its first objective, to eliminate Taiwan's diplomatic space in Oceania, China certainly made notable progress in 2019 with the Solomon Islands and Kiribati's shifts in diplomatic recognition. However, the remaining four Pacific Island nations that recognize Taipei over Beijing—Marshall Islands, Nauru, Palau, and Tuvalu—are seemingly dug in for the long term thanks to a combination of shared history and their love for democracy over authoritarianism. Palau's president, Surangel Whipps, for instance, argued on the PIF summit sidelines last month that “there's a lot of pressure on Palau. . . . what we've told them [China] is that we don't have any enemies—so we shouldn't have to choose. If you want to have relations with Palau, you're welcome. But you cannot tell us that we cannot have relations with Taiwan.”³⁰ Meanwhile, in June, Tuvalu withdrew from a United Nations Ocean Conference because China blocked Taiwan's participation.³¹ When the Marshallese president, David Kabua, visited Taipei in March, he extolled Marshall Islands-Taiwan relations as a “unique alliance,” adding that “Taiwan is a shining example of a vibrant and peaceful progressive nation. It is time for Taiwan to take its rightful place as an equal member of the family of nations.”³² Nauru has also consistently supported Taiwan: In 2019, President Lionel Aingimea described their hearts as being “linked as one.”³³

China has a more mixed record on achieving its second objective, which is to extract natural resources from the Pacific. In this area, Beijing has certainly achieved success in mining on Papua New Guinea, but the region remains wary of Chinese intentions at sea. In regard to fishing, Micronesian President Panuelo's letter ahead of the PIF summit warned members that the Common Development Vision “seeks Chinese economic control of our collective fisheries and extractive resource sectors,” and his warning may have contributed to most of the PIF foreign ministers rebuking the deal. Beijing may have scored a victory, however, when Foreign Minister Wang visited Kiribati and the two nations apparently signed a secret fisheries deal.³⁴ In November 2021, Tarawa decided to de-register the Phoenix Islands Protected Area (PIPA)—the

³⁰ Fumi Matsumoto, “Palau Maintains Taiwan Ties Despite Chinese Pressure,” *Nikkei Asia*, July 13, 2022.

³¹ Lucy Craymer, “Tuvalu Minister Pulls Out of U.N. Ocean Conference After China Blocks Its Taiwanese Delegates,” *Reuters*, June 27, 2022.

³² Ben Blanchard and Robert Birsell, “Marshall Islands Says ‘Strongly Committed’ to Taiwan Ties,” *Reuters*, March 22, 2022.

³³ Ben Blanchard and Simon Cameron-Moore, “Hearts ‘Linked as One’ as Taiwan Welcomes Tiny Nauru Amid China Tussle,” *Reuters*, December 12, 2019.

³⁴ I have heard about the China-Kiribati deal only anecdotally. For a more general discussion on their bilateral agreements, see “Kiribati Signs Multiple Deals to Work More Closely with China, Govt Says,” *Radio New Zealand*, May 30, 2022.

world's largest marine preserve—as a World Heritage site, allowing it to sell fishing licenses to foreign nations.³⁵ The concern is that Kiribati may have given China exclusive tuna fishing rights to PIPA. On deep-sea mining, several Pacific Island countries, such as the Cook Islands, Nauru, and Tonga, are preparing to issue licenses to explore the ocean floor within their EEZs, and this might be sufficient for Beijing over the short term, but others, including Palau and Fiji, are looking to form an alliance against the activity because of the high potential risk of environmental and ecological damages.³⁶

Finally, China's objective to contest the U.S. military position in the second island chain is likely a long way from coming to fruition. To be sure, the China-Solomon Islands security deal should encourage Beijing, but this is only part of the story. In my view, the deal came at the cost of tarnishing China's image in the process because of the way in which it was done. Rather than conducting secret bilateral negotiations, Beijing should have been transparent from the beginning—or pushed Honiara in this direction—to allow the PIF to deliberate its potential ramifications. In the Pacific, consensus-based decisionmaking is crucial, particularly on issues that might affect the entire region. According to the Biketawa Declaration of 2000, regional crises must be coordinated and resolved from within the “Pacific Family,” i.e., among the 18 PIF members. In 2003, for example, Solomon Islands dialed up fellow PIF members to deploy their police to help quell domestic unrest, an operation known as Regional Assistance Mission to Solomon Islands, or RAMSI. This year, by contrast, Solomon Islands faced no immediate unrest, although there were riots in Honiara in November 2021 that turned anti-Chinese. Instead of engaging PIF members in security talks, however, Honiara unilaterally authorized an outsider, China, to potentially participate in future regional assistance missions, which is in violation of the Biketawa Declaration.³⁷ China should have known that this would not sit well with the PIF. Beijing's decision will almost certainly make it harder for Pacific Islanders to trust that China is not trying to undermine the PIF.

And because of the way Beijing handled the Solomon Islands security deal, the PIF spotlight is now on China. Indeed, Beijing has raised eyebrows among Pacific Island leaders when it comes to its dealings with another one of their own: Kiribati. Like Solomon Islands, in 2019, Kiribati switched diplomatic recognition from Taiwan to China, and since then, the two nations have maintained a cozy partnership. As mentioned above, Beijing is refurbishing the airstrip on Kiribati's Canton Island, which sits just 1,500 miles from Hawaii, and Washington worries it

³⁵ Bernadette Carreon, “Kiribati to Open One of World's Largest Marine Protected Areas to Commercial Fishing,” *The Guardian*, November 15, 2021.

³⁶ Catarina Demony, Sergio Goncalves, and Helen Reid, “‘Not Worth the Risk’: Palau, Fiji Call for Deep-Sea Mining Moratorium,” Reuters, June 27, 2022. For those interested in pursuing deep-sea mining, see Nic Maclellan, “Cook Islands: ‘Uphold the Decision Making Process of Our Forum Leaders,’” *Islands Business*, July 14, 2022.

³⁷ For more on RAMSI, visit <https://www.ramsi.org/>. For more on the Biketawa Declaration, and particularly its relevance to RAMSI, visit <https://www.ramsi.org/wp-content/uploads/2014/07/Biketawa-Declaration.pdf>.

might become a future airbase. Adding to the intrigue, on the eve of the PIF summit held in July, Kiribati stunned the forum by announcing it would not participate, ostensibly for reasons related to the forum's leadership. However, a former president of Kiribati, Anote Tong, believes that the current government is "cooking something" with Beijing, perhaps fishing access to PIPA or something more.³⁸ Beijing's bilateral dealings with Kiribati outside the PIF's purview, especially on issues such as Canton Island or PIPA, which are likely to hold serious strategic implications for Oceania, are worrisome to the region and, like in the Solomon Islands case, undermine Pacific Islanders' confidence in Beijing.

From a broader perspective, China's attempt at ramming its China-Pacific Islands Common Development Vision through the foreign minister PIF (which did not include all members) in May also elicited suspicion. For example, Samoa's Prime Minister and Foreign Minister Fiamē Naomi Mata'afa stated that issues such as the Solomon Islands deal "need to be considered in the broader context of what we have in place and what we want to do in terms of security provisions for the region."³⁹ PIF consensus-building takes time, yet Beijing is attempting to hurry members along. Other leaders have serious concerns about the contents of China's plan. Micronesian President Panuelo, for example, suggested that China's Common Development Vision is to "ensure Chinese control of 'traditional and non-traditional security' of our islands," while calling the plan "a smokescreen for a larger agenda."⁴⁰

Another challenge for Beijing is that the PIF, at the highest levels, has noted its disinterest in and distaste for getting swept up in great power competition between China and the United States. Following the 2022 Forum Foreign Ministers Meeting in July, for instance, the PIF Secretary-General Henry Puna, who hails from the Cook Islands, pointedly stated, "They [Chinese delegation led by Wang] came here with their own prepared outcomes document. And it was that that our members have reacted against. Because, the thing is, if anybody knows what we want, what we need, and what our priorities are, it's not other people, it's us. So, it was on that basis that the region did not accept that approach."⁴¹ Puna's comments echo Fijian Prime Minister Frank Bainimarama's tweet during Wang's visits, in which he wrote, "The Pacific needs genuine partners, not superpowers that are super-focussed on power."⁴² His comments

³⁸ Eleisha Foon, "Kiribati 'Cooking Something with China'—Former Kiribati President," Radio New Zealand, July 14, 2022.

³⁹ Lucy Craymer, "Pacific Islands Forum Should Consider China Security Ties, Samoa's Prime Minister Says," Reuters, June 14, 2022.

⁴⁰ Panuelo, 2022, pp. 3 and 7.

⁴¹ Stephen Dziedzic, "Pacific Leaders to Declare 'Climate Emergency' in PIF Statement, Praise Australia's Move to Lift Emissions Reduction Target," ABC News, July 14, 2022.

⁴² Fijian Prime Minister Frank Bainimarama, "The Pacific needs genuine partners ...," Twitter tweet, May 30, 2022, <https://twitter.com/FijiPM/status/1531180835356803072>.

have real heft because Fiji is considered the traditional power center of the Pacific and is the physical location of the PIF headquarters.

Yet their aversion to great power competition does not mean Pacific Island nations are not leaning to one side. In another surprise move at the July PIF summit, members invited U.S. Vice President Kamala Harris to give a virtual address to the forum in spite of an earlier decision to exclude all dialogue partners, including China.⁴³ Moreover, when the Biden administration unveiled its Indo-Pacific Economic Framework in May to compete with China's growing economic clout, Fiji quickly announced its intention to join.⁴⁴ In other words, Washington, not Beijing, gets the benefit of the doubt on regional initiatives, even when at a moment's notice.

Moreover, Beijing has to battle the Western narrative that BRI creates unsustainable debt for recipient countries. Rightly or wrongly, many observers have blamed Sri Lanka's recent economic collapse, at least in part, on bad BRI loans.⁴⁵ Within Oceania itself, seven nations are at high risk of debt distress: Kiribati, Marshall Islands, Micronesia, Papua New Guinea, Samoa, Tonga, and Tuvalu. Another three nations (Solomon Islands, Vanuatu, and Timor-Leste), are currently at moderate risk.⁴⁶ These are all low-income nations that rely on external assistance for their survival. For Beijing to have future success in the Pacific, it must demonstrate how BRI is a safe and fair option for each program participant.

Implications for the United States and Its Allies and Partners

Following this analysis, four major implications can be drawn for the United States and its allies and partners, namely Australia, France, Japan, New Zealand, Taiwan, and the United Kingdom.

First, given that China has thus far only experienced partial success in achieving its strategic goals, and more importantly, because the road ahead seems quite challenging, the United States and its allies and partners arguably should dispel the notion that they are somehow losing influence to Beijing in the Pacific. Indeed, the facts speak to quite the opposite—most significantly on display when all PIF dialogue partners were barred from last month's summit, yet Vice President Harris was allowed to give a virtual address. Having good friends Australia and New Zealand in the PIF as full-fledged members certainly helps the United States maintain influence in the region.

That said, Beijing is clearly determined to make additional inroads and most likely will succeed in the coming years. Hence, the United States and its allies and partners should not fall into complacency, either. Vice President Harris' recently announced initiatives, including the opening of U.S. diplomatic missions in Kiribati and Tonga (in addition to reopening the U.S.

⁴³ "Remarks by Vice President Harris at the Pacific Islands Forum," White House, July 12, 2022.

⁴⁴ "White House Welcomes Fiji to Its Indo-Pacific Economic Plan," Reuters, May 27, 2022.

⁴⁵ Jamie Seidel, "China Accused of Luring Countries Like Sri Lanka and Laos into 'Debt Trap,'" news.com.au, July 18, 2022.

⁴⁶ These rankings come from Keshmeer Makun, "The Pacific Has a Spiralling Debt Problem—and This Is What Governments Can Do About It," ABC News, July 9, 2022.

embassy in Solomon Islands, announced earlier), appointing the first-ever envoy to PIF, tripling the administration's request for funding in the Pacific, bringing back the Peace Corps, reestablishing the USAID mission in Fiji, and drafting a Pacific Islands strategy are all positive developments. Washington was also wise earlier this year to appoint a special envoy, Joseph Yun, to seal renewal of the Compacts of Free Association (COFAs)—unique international agreements granting the U.S. military near-exclusive access to FAS territories and EEZs—because Beijing has also been seeking opportunities to weaken these bonds in the second island chain. It also made sense for the Biden administration in June to establish “Partners in the Blue Pacific,” which leverages key ally and partner contributions across multiple challenges, such as climate change, health, and connectivity and transportation, by including Australia, Japan, New Zealand, and the United Kingdom, and by working in consultation with France.⁴⁷

Moreover, the United States is in the advantageous position of having Australia and New Zealand refocus their attention on their own neighborhood. Australia is taking China's heightened presence in the region very seriously. The Solomon Islands security deal was a major political issue in Australia's national elections held in May, and the new government, led by Prime Minister Anthony Albanese, quickly dispatched Foreign Minister Penny Wong to the Pacific Islands to shadow Wang. After Wang left, Wong made two additional trips to shore up Pacific Family partnerships. Canberra vows to offer more economic assistance to the region and plans to establish a defense school to train Pacific Island militaries, in an obvious counter to Chinese plans to train Solomon Islands' law enforcement officers. Pacific Island states are also quite pleased with the Albanese Labor government's pledges to lower Australia's carbon emissions, which was a sore point under the previous Scott Morrison-led Liberal government.⁴⁸

New Zealand, which until recently has tried to steer a middle path on China—keeping political and economic ties separate—gave in and acknowledged its growing concerns. During her visit to the White House in late May, Prime Minister Jacinda Ardern, in a joint statement with President Biden, said, “We note with concern the security agreement between the People's Republic of China and the Solomon Islands. In particular, the United States and New Zealand share a concern that the establishment of a persistent military presence in the Pacific by a state that does not share our values or security interests would fundamentally alter the strategic balance of the region and pose national-security concerns to both of our countries.”⁴⁹ Ardern later walked back this statement to appease Beijing, but it is clear that she and her government are increasingly uncomfortable with Chinese activities in Oceania.

A second implication of this analysis is that the United States and its allies and partners, while welcome to provide additional support to Taiwan to maintain its diplomatic space, probably do not have to expend too much time and resources on this effort. The fact is that Taiwan's remaining partners—Marshall Islands, Nauru, Palau, and Tuvalu—are quite staunch

⁴⁷ “Statement by Australia, Japan, New Zealand, the United Kingdom, and the United States on the Establishment of the Partners in the Blue Pacific (PBP),” White House, June 24, 2022.

⁴⁸ Dziedzic, 2022.

⁴⁹ “United States-Aotearoa New Zealand Joint Statement,” White House, May 31, 2022.

supporters of Taipei over Beijing. To be sure, elections can bring to power new leaders who do not share the same perspective, but Taiwan will undoubtedly remain at the forefront of influencing them to keep their policies intact. Rather, the United States and its allies and partners might continue to argue for Taipei's inclusion in multilateral fora to ensure representation on issues important to Taiwanese security, such as discussions on pandemic recovery through the World Health Assembly. Beijing has blocked Taipei's participation there and in many other venues for many years.

Third, instead of engaging in blatant forms of rivalrous behavior versus China in the Pacific, the United States and its allies and partners should find ways to better support the PIF leadership's *2050 Strategy for the Blue Pacific Continent* and communique from last month. The topline goal of the PIF's strategy is to ensure "a resilient Pacific region of peace, harmony, security, social inclusion and prosperity, that ensures all Pacific peoples can lead free, healthy and productive lives."⁵⁰ Intensified rivalry with China in the Pacific would only seem to put at risk the potential achievement of these goals between now and 2050 and beyond. Moreover, the PIF leadership communique "reconfirmed that climate change remains the single greatest existential threat facing the Blue Pacific, underscoring the urgency to limit global warming to 1.5 degrees through rapid, deep and sustained reductions in greenhouse gas emissions."⁵¹ Hence, if the United States, along with its allies and partners, prioritizes and leads collaborative efforts to resolve or mitigate the climate change crisis, then that could go a long way toward building trust with Pacific Island nations—at China's strategic expense. As part of the communique, leaders also discussed "the need for urgent and immediate assistance with vulnerability to debt; a clear pathway for energy security and urgent requirement for decarbonization of the energy sector towards renewable energy; and the need to address supply chains issues and rising costs of food." These areas offer additional pathways for the United States and its allies and partners to build up their influence throughout the Pacific. As noted above, Pacific Island debt is a particularly vexing concern; thus, if the United States and its allies and partners offer viable alternatives to China's BRI, then that might ease Pacific Island concerns.

Fourth, and finally, the United States and its allies and partners generally should seek to avoid further militarization of the Pacific, or resorting to military options first, when dealing with the region. Although it is concerning that China may eventually establish a naval base in Solomon Islands or an airbase in Kiribati, these developments alone, should they come to pass, are not necessarily game-changing militarily, nor do they warrant counter moves that could escalate towards regional war. Washington and Canberra's decision in 2018, for example, to refurbish Lombrum naval base on Manus Island in Papua New Guinea to counter Chinese military plans is likely to only make the situation tenser.⁵² Pacific Island leaders resoundingly

⁵⁰ Pacific Islands Forum, *2050 Blue Strategy for Blue Pacific Continent*, Suva, Fiji, July 2022, p. 6.

⁵¹ "Report: Communique of the 51st Pacific Islands Forum Leaders Meeting," Pacific Islands Forum Secretariat, July 14, 2022.

⁵² Tim Fish, "Australia, U.S. Set to Expand Papua New Guinea Naval Base," *USNI News*, November 23, 2018.

rejected geostrategic competition at their summit last month and that would logically include military competition.

Recommendations for the U.S. Congress and Federal Government

In the future, the U.S. Congress and broader federal government might consider the following:

- **Consider taking action on climate change policy.** Without action on climate change, an existential challenge in Oceania, Washington will look like a significantly less-credible partner in the Pacific. Inaction on climate change will further feed the counternarrative that Beijing is offering to Pacific Island countries, which dismisses the United States' seriousness in helping the region on this existential challenge. Recent reports indicate that the Biden administration is considering an emergency executive action on climate change.⁵³ This would be better than nothing, but legislation would signal a much deeper commitment.
- **Consider Pacific-focused policy.** Bills focused on the Pacific Island region, such as the Boosting Long-term U.S. Engagement (BLUE) in the Pacific Act (H.R. 2967), shows a renewed emphasis on the region, and particularly on assisting Pacific Island states with challenges most important to them. The BLUE Pacific Act, for example, covers climate change, pandemic recovery, and natural disaster preparedness, among many other areas.⁵⁴
- **Leverage existing government capabilities to achieve targeted goals.** Because they are overwhelmingly small and impoverished, Pacific Island countries would greatly benefit from U.S. assistance in such areas as economic development and health security. For instance, Washington could call upon the National Guard State Partnership Program, or SPP, for specific services, such as pandemic relief. SPP already has partnerships across Oceania, including Tonga and Fiji both paired with Nevada and Papua New Guinea paired with Wisconsin. Vice President Harris' announcement that the United States plans to reestablish USAID and Peace Corps presence in the region is a welcome development in this regard.
- **Ensure funding for the renewed Compacts of Free Association (COFAs).** RAND research has addressed this subject, starting in 2019.⁵⁵ The COFAs are essential for Washington to maintain because these unique international agreements with the FAS in the North Pacific enable the U.S. military to have near-exclusive access to the FAS territories and EEZs. COFAs provide Washington with a "power projection superhighway" into the Indo-Pacific to address potential future contingencies, including a Taiwan, East or South China Sea, or Korea scenario. That said, because the COFAs have been around for many years, Washington, by renewing them, would not be signaling additional militarization of the Pacific Islands region. Assuming the Biden

⁵³ Jennifer A. Dlouhy, Ari Natter, and Josh Wingrove, "White House Considers Emergency Declaration to Fight Climate Change," Bloomberg News, July 19, 2022.

⁵⁴ U.S. House of Representatives, "Boosting Long-term U.S. Engagement (BLUE) in the Pacific Act," H.R. 2967, Washington, D.C., May 4, 2021, <https://www.congress.gov/bill/117th-congress/house-bill/2967>.

⁵⁵ Grossman et al., 2019.

administration's new special envoy to the FAS successfully renews the COFAs, then Congress should consider ensuring funding that is at least equal to current levels, but an increased amount would demonstrate a strong commitment to this geostrategically vital subregion of Oceania.

- **Consider opening diplomatic missions in every Pacific Island state.** Vice President Harris' announcement to PIF that the United States would open diplomatic missions in Kiribati and Tonga, and Secretary of State Antony Blinken's announcement in February that Washington would reopen its embassy in Solomon Islands after nearly 30 years are welcome developments. However, more needs to be done. The current State Department posture has some ambassadors covering multiple Pacific Island countries, or defense attachés doing likewise. Embassies act as Washington's eyes and ears on the ground, and requesting information from Australian and New Zealander representatives has proven insufficient toward accomplishing all of Washington's objectives. And doing so overburdens Washington's friends. Instead, the United States could look to build its own diplomatic capabilities to ensure that China does not acquire an informational advantage.

**OPENING STATEMENT OF ALAN TIDWELL, PROFESSOR OF THE PRACTICE
AND DIRECTOR OF THE CENTER FOR AUSTRALIAN, NEW ZEALAND AND
PACIFIC STUDIES, GEORGETOWN UNIVERSITY**

DR. TIDWELL: Thank you very much. I want to thank the Commission for the opportunity to testify on China's engagement in the Pacific Islands.

I believe the United States should continue to contest Chinese influence in the region by promoting real and meaningful benefits to the Pacific Island countries.

In considering China's involvement in the Pacific Islands, it's important to put the islands in context.

It's also important to look at the positive development role that China has played in the region while at the same time, taking into consideration some of the troubling aspects of the PRC's Pacific engagement.

The essential point to keep in mind is this. The Pacific Island countries find themselves wedged between economic need and economic and available opportunities. Let's put the Pacific in context.

The Pacific Island countries are among the most aid-dependent countries globally live in an ocean region with only one land border between Papua New Guinea and Indonesia.

Often referred to as large ocean countries, nearly 12 million people inhabit these small independent sovereign nation states.

At the macro level, the small Pacific Island economies have limited economic opportunities including mining, palm oil, logging in Melanesia as well as tourism, small-scale agriculture, boutique exports, strategic rents, and fishing.

The Pacific value chain is dominated by natural resources making it a very short chain indeed. The Islands require significant investment and assistance from external actors.

The need is great so when opportunity comes knocking, decision makers are often ready to listen. The Chinese people are not new to the Pacific Islands, three different stages of Chinese economic activity can be discerned in the region.

The earliest stage predates the Chinese revolution and that goes back a couple of hundred years. The second stage comes with the more recent arrival in the last quarter of the 20th century with small shopkeepers and business owners migrating to parts of the Pacific.

And finally, we see large economic interests, state-owned enterprises having played an increasingly influential role especially in the last 10 to 15 years.

So, this testimony refers primarily to these latter and larger economic interests. There can be no doubt that many of the PRC's projects have returned real and important benefits to the people of the Pacific.

Take, for example, China's investments in Vanuatu.

These include the expansion of Luganville Wharf, road improvements, constructing an agricultural college, providing the building for the Melanesia Spearhead Group, construction of the National Convention Center, establishing an e-government broadband network, providing free aircraft, upgrading the Prime Minister's offices, expanding the university campus, and building a tuna processing factory.

Taken together, these investments are worth roughly \$205 million. Echoes of similar stories can be found elsewhere in the Pacific. Pacific Island countries seek to deepen relations with Chinese entities in pursuit of investment and infrastructure.

For example, Papua New Guinea, or PNG, is the largest Pacific Island country with some

9 million people and it has the most complex economic relationship with the PRC.

Their trade relationship is dominated by PNG exports of natural gas, minerals, and timber, and PNG imports from China a wide range of value added and consumer goods.

DR. TIDWELL: They share a comprehensive strategic partnership, and they're in discussions about establishing a free trade agreement. Papua New Guinea-PRC trade is valued at around some 3 billion dollars. The total trade volume between China and the entire Pacific Island region is valued at 5.3 billion dollars in 2021.

Chinese direct investment throughout the region is valued at 2.72 billion dollars. China also works with specific sub-state actors in places like the Solomon Islands, Micronesia, and Vanuatu. Take Vanuatu again, for example, which has four sister city relationships with the PRC.

Luganville with a population of some 16,000 signed a sister city agreement with China's Zhuhai Wanshan Marine Development Experimental zone in 2019. Luganville's Mayor expressed hope that the public launch of a sister city arrangement would give his town some real benefits. The sister city relationship came about after Vanuatu's prime minister visited Zhuhai Wanshan in 2018.

That same year, by the way, Luganville briefly gained international notoriety with worries that the PRC funded wharf there in Luganville would be used by the People's Liberation Army Navy as a naval base. Along with these economic benefits are costs in the form of elite capture, environmental destruction, and economic coercion. The PRC's elite focus has facilitated deep engagement and created the opportunity for elite capture.

Elite capture facilitates opportunities to win contracts and otherwise wield influence. Rumors of such elite capture have emerged in Solomon Islands, Papua New Guinea, Kiribati. Transparency International's global corruption barometer, Pacific 2021, supports the assertion that elite capture is a problem in the region.

Transparency International found that, quote, a majority of respondents feel corruption is a big problem in both business sector and in government, particularly among parliamentarians and officials in heads of governments' offices, end quote. In particular, they call out both PNG and Solomon Islands for what appears to be an extraordinarily high level of corruption with some 95 percent of respondents saying corruption in government is a significant problem. Australian academic emeritus professor Clive Moore recently echoed this sentiment writing that Solomon Island's government is rife with cronyism and corruption.

China's role in the natural resources sector tests their commitment to protecting the environment. Ramu Nickel in Papua New Guinea is 85 percent owned by the Metallurgical Corporation of China. And it pumps its mining tailings directly into the sea.

It is alleged that these tailings have resulted in the presence of heavy metals in nearby water samples. Mismanagement of mining tailings has been a political fraught issue in PNG for decades. And Ramu Nickel represents another chapter in that story.

China also plays a central role in the deforestation of Solomon Islands. China imports 82 percent of Solomon Island timber. And timber accounts for two-thirds of Solomon Island exports. A report produced by Solomon Islands Ministry of Finance forecasts the current pace of natural resources -- the natural pace of the exhaustion of natural forest will see them depleted in the year 2036.

One final point and then a quick conclusion. So Palau is a tiny country with a population of some 18,000. And it's been the target of economic coercion. Before COVID, tourism accounted for roughly 40 percent of Palau's GDP.

Palau which does not recognize the PRC had experienced a dramatic increase in tourism by mainland Chinese, accounting for some 88,000 visits per annum. Beijing unsuccessfully pressured Palau to end its recognition of Taiwan. As a consequence, in November of 2017, Beijing revoked permission for allowing group tour operators to sell package deals, and tourist numbers plummeted as did Palau's GDP.

COMMISSIONER MANN: Mr. Tidwell, I'm going to ask you to bring it to a close. The time is --

DR. TIDWELL: I'm there, Chairman. I'm right there.

COMMISSIONER MANN: Okay.

DR. TIDWELL: So just essentially assisting Pacific Island countries to better address the needs is the best way forward for the U.S. in countering the PRC and the Pacific. In my submitted testimony, I've outlined nine steps the United States could take to improve its position amongst the Pacific Islands. Thank you.

**PREPARED STATEMENT OF ALAN TIDWELL, PROFESSOR OF THE PRACTICE
AND DIRECTOR OF THE CENTER FOR AUSTRALIAN, NEW ZEALAND AND
PACIFIC STUDIES, GEORGETOWN UNIVERSITY**

August 3, 2022

Alan Tidwell

Director

Center for Australian, New Zealand and Pacific Studies

Edmund A. Walsh School of Foreign Service

Georgetown University

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

Challenges from Chinese Policy in 2022: Zero-COVID, Ukraine, and Pacific Diplomacy

Introduction

I want to thank the United States-China Economic and Security Review Commission for the opportunity to present my testimony on China's engagement in the Pacific Islands. The commissioners have asked me to address several topics concerning China's Pacific engagement, but before doing so I want to offer some context that will help interpret the People's Republic of China's (PRC) actions.

Contextualizing the Pacific Islands

Pacific Island Countries (PICs), among the most aid dependent countries globally, live in an ocean region with only one land border (between Papua New Guinea (PNG) and Indonesia). Often referred to as large-ocean countries, the nearly 12 million people living in sovereign independent nation states have limited economic opportunities. Many who live in rural and semi-rural locations maintain a subsistence lifestyle, and even those in urban locales may revert back to subsistence when needed. A government official in Niue noted "There's no such thing as 'unemployment' in Niue. A Niuean can 'go bush' or 'can go sea' to survive" (Mak, 2012:12). At the macro level small Pacific Island economies have limited opportunities, these include mining, palm oil production and logging in Melanesia, as well as tourism, small scale agriculture, boutique exports, strategic rents and fishing throughout the region. The Pacific value chain is dominated by natural resources and primary exports. To make these sectors efficient and profitable PICs require significant investment and assistance from external actors. The need is great in the Pacific, so when opportunities come knocking, island decision-makers are often ready to listen.

It is against this backdrop that I will now turn to the subject at hand, China's engagement with the Pacific.

The Chinese people have long been present in the Pacific Islands. Three different stages of Chinese economic activity can be discerned. The earliest stage pre-dates the Chinese revolution. For example, Chinese miners who joined in the mid-19th century goldrushes in California and Australia also spread to the Pacific Islands. The second stage comes with the more recent arrival, in the latter quarter of the 20th century, of small business owners migrated to many parts

of the Pacific. Finally, large economic interests, often in the form of state-owned-enterprises (SOE) have played an influential role, especially in the last 10 - 15 years. This testimony refers, primarily, to these later and larger economic interests.

Chinese engagement with the PICs has returned significant benefits to the islands, but not without significant challenges. The benefits include roads, ports, government buildings and more, and the costs have come in the form of environmental destruction, governance and regulatory challenges and in some cases eroded public trust. Sometimes these challenges are caused by China alone, but more often than not the challenges come from interactions between the people and institutions in the PICs and Chinese entities.

Beijing's Pacific Influence

In line with the PRC's international messaging, engagement in the Pacific is often framed as one developing nation helping other developing nations. In broad terms Chinese enterprises and especially the Beijing government's approach has been to focus on elites as decision-makers. The elite focus creates the basis for making agreements and pursuing trade and investment outcomes. Chinese engagement stands in contrast to the United States which has been criticized by some in the Pacific for "not showing up" or not being sufficiently present in the region. The eruption of COVID in early 2020 is illustrative. The PRC began its COVID relief efforts to the PICs in March 2020. On March 10,

...senior officials from the Chinese Ministry of Foreign Affairs and the National Health Commission, as well as Chinese ambassadors to Pacific Island countries, held a video conference with over 100 of their Pacific Island counterparts plus PNG's Minister of Health, FSM's Acting Minister of Health and the CEO of Tonga's Ministry of Health (Kabutaulaka, 2021).

Medical supplies and equipment, in addition to advice and coordination, were sent by Beijing. Longer term the PRC's global COVID diplomacy has been hammered by decreasingly effective vaccines in the face of new COVID variants, misrepresenting vaccine sales as donations, and allegations of linking vaccine distribution to shifting recognition away from Taiwan (Lin et al., 2022 and de Bengy Puyvallée and Storeng, 2022).

While quick action does not necessarily equate to effective action, it at least signals attention. In being present relationships are formed and become the conduit to influence. By showing up China communicates interest, identifies opportunities for investment and development, and sometimes delivers on those opportunities.

Being present gives PRC firms an advantage when preparing procurement bids. They can win government contracts through providing the lowest bid, edging out competitors. For example, the Kingdom of Tonga's procurement rules published in 2016 stipulate that bids may be awarded solely on the basis of cost, or through a combination of cost and other factors. In this example, no apparent guidance exists for determining whether a bid may be determined for cost alone or by cost and other factors. When procurement processes require value for money assessments, such as those in Kiribati or Vanuatu, those with greater local knowledge may be in a better position to meet those requirements.

The PRC's elite focus has facilitated deeper engagement and created the opportunity for elite capture. Elite capture facilitates opportunities to win contracts and otherwise wield influence. Rumors of such elite capture have emerged in Solomon Islands, Papua New Guinea and Kiribati. Transparency International's *Global Corruption Barometer – Pacific 2021* supports the assertion that elite capture is a problem in the region. Transparency International found that "A majority of respondents feel corruption is a big problem in both the business sector and government, particularly among parliamentarians and officials in heads of government's offices". In particular, they called out both PNG and Solomon Islands for what appears to be an extraordinarily high level of corruption, with 95% of respondents saying corruption in government was a significant problem. Australian academic, Emeritus Professor Clive Moore, recently echoed this sentiment writing that Solomon Islands government is rife with cronyism and corruption (Moore, 2022) for example.

Engaging Sub-State Actors

China actively engages with sub-state actors to advance its goals in the region. Sub-state engagement, also known as paradiplomacy, plays an important role in the Belt and Road Initiative (BRI). "Local governments are important because they are able to make planning decisions on the kinds of infrastructure projects China wants to establish..." in the BRI (Brady, 2017). In 2020 I wrote "Strategic Competition and the Evolving Role of Indo-Pacific Paradiplomacy", examining the PRC's sub-state engagement.

Here are three notable cases that illustrate China's pursuit of local government influence. First, is an overview of the PRC's work in the Federated States of Micronesia (FSM), second is a brief snapshot of Vanuatu's the sister city relationship with the PRC and finally the PRC's engagement with Isobel provincial government in Solomon Islands.

In 2017 FSM President Christian signed an MOU joining the BRI and announced the creation of a sister city relationship between Sokehs municipality in Pohnpei State in the FSM and China's Zhongshan City, and sister state relationships between Hainan Province and Yap State (FSM Information Services 2017). Chuuk state has been a recipient of PRC largesse. Chuuk is also home to a secessionist movement and chief among their complaints is the allocation of funds from the capital. In 2008, China provided the Chuuk state government with a grant of \$US 3.5 million for its Financial Recovery Program. In 2009, China gave \$2.8 million to Chuuk to repair of the cargo-passenger ship Chief Mailo. That same year Beijing granted \$280,000 to the Chuuk campus of the College of Micronesia-FSM. Not surprisingly, Chuuk leaders have welcomed PRC funds.

A second example of engaging with sub-state actors comes from Vanuatu, which has four sister city relationships with the PRC. Luganville, with a population of 16,000, signed a sister city agreement with China's Zhuhai Wanshan Marine Development Experimental Zone in 2019 (Ligo, 2019). Luganville's Lord Mayor expressed hope at the public launch of the sister city arrangement that his town would see a raft of benefits follow on, including: 1) road construction machinery, 2) upgrade of pharmacies, 3) youth empowerment through people to people exchanges, 4) improved business connectivity, 5) city beautification, and 6) the creation of a recycling plant. The sister city relationship came about after Vanuatu's prime minister, Charlot Salwai, had visited Zhuhai Wanshan in 2018. That same year Luganville briefly gained notoriety with worries that PRC funded wharf would be used as a People's Liberation Army Navy (PLAN) base (Wroe, 2018).

A final example the PRC's sub-state focus occurred in September 2020 when the president of the Chinese SOE, AVIC International Project Engineering Company, wrote, Leslie Kikolo, premier of Solomon Islands Isobel Province (Smith, 2022). AVIC International proposed opportunities to develop naval and other infrastructure projects in Isobel Province, on land to be leased to the PLAN for 75 years. While it does not appear that land was leased, it nonetheless suggested a close relationship between the provincial government and AVIC International. Premier Kikolo participated in August 2021 in an online dialogue between officials and business leaders in Shandong Province with an eye towards deepening the link between the two provinces (Press Release, 2021a). The dialogue had been facilitated by the PRC embassy in Honiara. At the dialogue the Chinese also announced the donation of computers at Isabel Province high schools.

Sub-state outreach by the PRC has generated mixed results. Chuuk state certainly benefited, but if the PRC was hoping to ramp up secessionist fury the recent shuttering of the Chuuk Political Status Commission suggests they failed. Sub-state diplomacy does, however, generate people-to-people links and helps to open the doors of opportunity.

Benefits for Pacific Island Countries

PICs seek to deepen relations with the Chinese entities in pursuit of investment and infrastructure. For example, PNG, the largest PIC, has the most complex economic relationship with the PRC. Their trade relationship is dominated by PNG exports of natural gas, oil, minerals and timber. PNG imports from China a wide range of value-added and consumer goods. They share a comprehensive strategic partnership and are in discussions over establishing a free trade agreement. Perhaps as a consequence, PNG was one of 53 countries on the UN Human Rights Council to support China's national security law, limiting freedom of expression in Hong Kong (Wall, 2020a). Most other PICs do not have such a complex economic relationship with the PRC.

PICs seek economic relations with the United States, Australia, and Japan through aid, investment and trade. Fishing, agriculture, tourism and labor mobility all play a role. Strategic rents also contribute to economic engagement. The United States has agreements of free association with FSM, Marshall Islands and Palau, who have swapped their defense interests for domestic financial support. The Marshall Islands went one step further welcoming the Ronald Reagan Ballistic Missile Defense Test Site. Palau has been vocal in urging the United States to establish a base there. Palau's leaders have been quite open about the development benefits such a base would bring. The Cook Islands and Niue, both in free association with New Zealand, also receive similar financial support (albeit without military bases). Perhaps not rising to the level of strategic rents, PNG and Nauru have provided large scale leasing arrangements to accommodate asylum seekers refused entry into Australia.

PICs have traditionally sought bilateral and multilateral development assistance. Chief bilateral donors in 2019 were (in order of funds contributed) Australia, New Zealand, Japan, PRC, and United States. In addition, the Asian Development Bank (ADB), World Bank and United Nations have all been deeply involved in the region. Reuters reported last year that PICs, in the face of COVID affected budgets, have now also engaged with China's Asia Infrastructure Investment Bank (AIIB) for support (Barrett & Menon, 2021).

Impact of China's Economic Activities

There can be no doubt that many of the PRC's projects have returned real and important benefits to the people of the Pacific. Improved roads on the island of Tanna in Vanuatu, for example, facilitate the movement of people and commerce. China's investments in Vanuatu, according to the Lowy Institute, include expansion of the Luganville wharf, 45km road upgrade, the Santo agricultural college, a building for the Melanesia Spearhead Group secretariat, the National Convention Center, E-government broadband network, three aircraft, upgrading prime minister's office, university campus expansion, and a tuna processing factory. Taken together, these Chinese investments in Vanuatu are worth roughly \$205 million. Echoes of similar stories are common elsewhere in the Pacific.

The PRC's economic activities among the PICs have had a significant benefit but they have also come with a cost. China is the second largest public lender to the Pacific Islands behind the ABD. The obvious challenge facing the PICs with significant borrowing will be servicing that debt. In 2018, Tonga's debt with the PRC equated to 26.7% of GDP, making it globally the fourth most heavily indebted country to China (Rajah, et.al., 2019). That same year Samoa and Vanuatu were sixth and seventh most indebted to China.

Perhaps one of most striking negative economic impacts occurred in Palau, a tiny country with a population around 18,000. Tourism accounts for roughly 40% of its GDP. Palau, which does not recognize the PRC, had experienced a large increase in the number of Chinese tourists, peaking to 88,000 per annum. Beijing unsuccessfully pressured Palau to end recognition of Taiwan. As a consequence, in November 2017, Beijing revoked permission allowing tour operators to sell package deals and tourist numbers plummeted as did Palau's GDP.

In recent years several large-scale Chinese investments have been proposed in a number of different settings. In November 2020, Fujian Zhonghong Fishery Company and PNG signed an MOU to build the Daru fishing industrial park (Wall, 2020b). Local people comment that there are no commercially exploitable fish stocks in the region, which has raised questions in some quarters about the intentions behind the investment. In 2019 the China Sam Enterprise Group attempted to lease the entire island of Tulagi, along with its deep-water port, from Solomon Island's Central Province (Barrett, 2019). The proposed deal ignored the rights of customary landholders and was deemed by the country's attorney general as illegal. That same year Honiara signed an MOU with AVIC XAC Commercial Aircraft Company, in which the Solomon Islands government promised to purchase six aircraft and then create a regional air hub (Dziedzic et al., 2022). The proposed deal never took off. Yet, together these are suggestive of Chinese SOE intentions in the PICs.

Chinese economic activity has accounted for significant environmental degradation as well. Three examples are illustrative. In Fiji in 2018, Freesoul real estate, a Chinese-linked company, carved a channel in a reef allowing barges to bring supplies onto land, dumped excavated coral onto the beach of their neighbors' property, decimated a swathe of mangrove and pumped sewage into the ocean. The story became a *cause celebre* in Fiji, pitting foreign commercial interests against those of local landholders. Ramu Nickel in PNG, 85% owned by Metallurgical Corporation of China, pumps mining tailings into the sea. It is alleged that these tailings have resulted in the presence of heavy metals in nearby water samples (Fox, 2019). Mismanagement of mining tailings has been a politically fraught issue in PNG, and Ramu Nickel represents another chapter to that story. Finally, China plays a central role in the deforestation of Solomon Islands. China imports 82% of Solomon Islands timber. Timber accounts for two-thirds of

Solomon Island exports. A report produced by Solomon Islands' Ministry of Finance forecast that at the current pace natural forests will be exhausted by 2036 (Global Witness, 2018). In *Paradise Lost: How China can help the Solomon Islands protect its forests* Global Witness argues that the future of Solomon Islands forests rests in Chinese hands. They urged the PRC “to require its timber importers to carry out checks to ensure that the timber they buy is, at a minimum, legal in its country of origin”. No action appears to have been taken. All three examples show an environmental indifference on the part of the businesses, but equally illustrate weak or non-existent regulatory regimes.

Pacific Institutional Capacity

Institutional capacity among the PICs varies from state to state. The ABD has described PIC institutional capacity as challenging normative expectations of the state as being the supreme guarantor and arbiter of public order and justice. Writing for the ADB, Laking (2010) explains:

In many Pacific countries, institutions other than the state engender more trust and reliance for ordering interpersonal and societal relationships. Principal among these are forms of traditional governance based on clan or chiefly authority, and the churches.

The way in which institutional capacity is distributed in many PICs requires in-depth understanding of the people in question. People in authority in the state structure may not necessarily be those with the greatest cultural authority. The important role of the church may also test those without a good understanding and religious appreciation. A useful phrase in thinking about institutional capacity among the PICs is the ‘relational state’. “Despite having no official physical presence, it is responsible for the vast majority of the actual governance on the ground. It consists of bureaucrats leveraging their relational ties, histories, connections and affiliations to get stuff done (Peake & Forsyth, 2021).

One outcome of the relational state is to downplay the formality of dispute resolution mechanisms. So, for example, when the PRC and Solomon Islands concluded their security agreement there was no formal dispute resolution process. Rather, it was left to the parties to consult.

The weakness of formal dispute resolution mechanisms has benefited some Chinese projects. In Solomon Islands, Leeroy Wharf near Henderson Airport in Honiara operates outside the control of the Solomon Islands Port Authority (SIPA). The wharf handles PRC flagged container vessels (Packam, 2022). The Authority complained publicly writing in April 2021:

SIPA questions why the relevant authorities continue to turn a blind eye and allow Lee Roy Jetty to continue international operations and could potentially destroy the future of a prominent state-owned enterprise employing more than 500 staff and help support more than 8000 family members (Press Release, 2021b).

The prominence of the relational state can leave actors, like SIPA, at the whim of individual and ill-defined requirements. Given the pivotal role individuals can play in these settings it also raises the prospect of elite capture. Solomon Islands opposition leader, Matthew Wale and Daniel Suidani, premier of Solomon Islands Malaita Province, have both accused Prime Minister Manasseh Sogavare of being corrupt and aligned with foreign powers (Moore, 2022). Of course, the challenge of such accusations is ferreting out those that are politically motivated from more serious concerns.

Pacific Public Reaction

Not surprisingly pushback against the PRC has been mixed, and often is expressed in local terms. Public reaction to Chinese economic interests has, for the most part, been peaceful, however there have been exceptions. Rioting broke out in Honiara, Solomon Islands, in November 2021, when protests against the government and Chinese owned businesses turned violent. Numerous media reports explained the protests as being centered on complaints over the 2019 switch by the national government from recognition of Taiwan to the PRC. Malaita's premier, Daniel Suidani, had been an outspoken critic of the switch. The rioting was the trigger to signing the PRC-Solomon Islands security agreement, that provided for the deployment of PRC police and other security personnel at the request of the government in Honiara.

Grassroots protest, media coverage and court action are the most apparent peaceful avenues from which to gauge public reaction to the PRC. In 2021 the Chinese owned company, DingJing, was granted with two mineral exploration licenses for Vuda and Rakiraki in Fiji. The public consultative meeting attracted 40 villagers. The reporter from the *Fiji Times* summed up their reaction to the proposed mining exploration writing:

...the villagers were adamant and said they welcomed the development, but they would prefer a local company as they had reservations of some of the countries that had applied for a prospecting license in Rakiraki” (Tuilau, 2021).

The villagers' discomfort with DingJing was modest at best, and in the face of potential economic development no strong objections were lodged.

Environmental degradation has long been a cause of public disputation. Given the PRC's high profile in natural resource extraction it is hardly surprising that they find themselves the target of legal action. For example, in PNG Ramu Nickel was the subject of a lawsuit filed by landowners, representing some 8000 people, in PNG's Madang province. The landowners claim the dumping of tailings in the ocean is causing widespread environmental damage (Fox, 2020). In Solomon Islands, a landmark case, *Mas Solo Investment Ltd v Nesa [2021]*, allows for residents of a logged region, and not just landowners, to seek compensation for environmental impact. The case is significant, inasmuch as it offers an avenue for redress of grievances not previously available to members of the public.

The press among the PICs is generally regarded as free. Reporters without Borders 2022 rankings of press freedom place several PICs in the middle of the pack. Samoa is ranked as the most-free PIC at number 45 (for context the United States ranks 42nd). The least-free is Fiji at number 102. Several PICs are missing altogether from the ranking. In the aftermath of the announced security agreement between the PRC and Solomon Islands journalist Dorothy Wickham, of the Melanesian News Network, wrote, “The China security treaty has changed the political landscape, and tested the Solomon Islands government's commitment to a free press” (Wickham, 2022). Press freedoms are not set in stone and can rapidly change.

Recommendations

Broadly speaking the United States should continue to contest the influence of the PRC in the Pacific by promoting real and meaningful benefits to the PICs. Since 2019 the United States has increased its financial contributions to the region.

I detailed in a January 2022 article entitled “Being a Better Pacific Partner” (Tidwell, 2022) a number of steps for the United States. Chief among these was that the United States should complete negotiations for the Compacts of Free Association by the end of this year. The appointment in March 2022 of Ambassador Joseph Yun as special envoy to lead the United States negotiations is a welcome step. As is the appointment in the National Security Council of an officer with exclusive responsibility for Oceania. In addition, funding from the Pacific Deterrence Initiative should be used to upgrade select PIC facilities, from which the United States Coast Guard can operate, as well as forward position resources in the PICs. Such forward positioning of resources is useful in a time of conflict and has important development benefits today by generating maintenance and security jobs that will have real payoffs locally.

The announcement of new embassies in Solomon Islands, Tonga and Kiribati are clear demonstrations that the United States is showing up. While this a welcome and important step consideration could be given to further deepening of United State engagement.

Another way in which the United States can show up is to improve relationships with elected leaders. The Biden administration’s proposal to convene a meeting of Pacific Island leaders in Washington is an important step. Care must be taken to focus on building respectful relationships with the leaders of all the sovereign Pacific countries. In addition, the United States should build links with sub-state leaders. The State Department, the Department of Commerce, the National Governors Association, the United States Conference of Mayors and Sister Cities International could collaborate to deepen United States work with sub-state governments in the Pacific. This is a powerful way of contesting PRC influence and manifesting United States involvement throughout the region. By helping to promote meaningful people-to-people links the United States can gain greater insight into the needs of the Pacific Island people.

The United States should continue to build on the three people-to-people assets largely unavailable to the PRC. First, the Biden administration’s promotion of the Peace Corps working in Solomon Islands must be expanded to include other PICs. Second, the United States could liaise with American churches to learn from their ongoing involvement in the Pacific. Finally, the United States should work with Americans of Pacific Island heritage to create a formal advisory council to help inform and guide engagement among the PICs. People from American Samoa, Guam, Hawaii, Mariana Islands as well as those from the freely associated countries of the Marshall Islands, Micronesia and Palau could help inform United States policy in the region.

The United States should continue to work with our allies, Australia, New Zealand and Japan, to expand funding of PIC infrastructure.

Finally, the United States should work with its allies, as well as with multilateral agencies, to redouble efforts to promote transparency, anti-corruption and the use of environmental safeguards to ensure that money spent in the region helps build a more secure and sustainable Pacific.

I believe these steps will help counter the unsavory elements of PRC involvement among the PICs.

Bibliography

- Barrett, Jonathan, and Praveen Menon. 2021. "Pacific Island Nations Turn to Beijing-Backed AIIB as Pandemic Sinks Economies." Thomson Reuters. January 25, 2021. <https://www.reuters.com/article/china-pacific-cookislands/pacific-island-nations-turn-to-beijing-backed-aiib-as-pandemic-sinks-economies-idINKBN29U01X>.
- Barrett, Jonathan. 2019. "Solomon Government Says Chinese Company's Lease of Island 'Unlawful'." Thomson Reuters. October 25, 2019. <https://www.reuters.com/article/us-china-solomonislands/solomon-government-says-chinese-companys-lease-of-island-unlawful-idUSKBN1X400G>.
- Brady, Anne-Marie. 2017. "Magic Weapons: China's Political Influence Activities under Xi Jinping." Wilson Center, September 18, 2017. <https://www.wilsoncenter.org/article/magic-weapons-chinas-political-influence-activities-under-xi-jinping>.
- de Bengy Puyvallée, A., Storeng, K.T. 2022. "COVAX, vaccine donations and the politics of global vaccine inequity". *Global Health* 18, 26. <https://doi.org/10.1186/s12992-022-00801-z>
- Dziedzic, Stephen, Evan Wasuka, and Iris Zhao. 2022. "Leaked Documents Reveal Chinese Company's Aviation Plans for Solomon Islands to Become a 'Regional Hub'." ABC News. April 28, 2022. <https://www.abc.net.au/news/2022-04-29/avic-solomon-islands-aviation-plan/101022480>.
- Fox, Liam. 2019. "Chinese-Owned Mine in PNG Spills 200,000 Litres of 'Very Toxic' Slurry into the Sea." ABC News. August 30, 2019. <https://www.abc.net.au/news/2019-08-30/chinese-owned-mine-in-png-spills-200000-litres-of-toxic-slurry/11464108>.
- Fox, Liam. 2020. "PNG: Landowners Sue Chinese-Owned Mine for Waste Dump." ABC Radio Australia. Australian Broadcasting Corporation. February 7, 2020. <https://www.abc.net.au/radio-australia/programs/pacificbeat/png-landowners-sue-chinese-owned-mine/11942160#:~:text=A%20group%20of%20landowners%20in,support%20of%20the%20provincial%20government>.
- FSM Information Services. 2017. "Official Visit to China by President Peter M. Christian." Kaselehlle Press. April 4, 2017. http://www.kpress.info/index.php?option=com_content.
- Kabutaulaka, Tarcisius. 2021. "China's 'COVID-19 Diplomacy' and Geopolitics in Oceania". *Georgetown Journal of International Affairs* 22(2), 254-261.
- Lin, Bonnie, Matthew Funaiolo, Brian Hart, and Hannah Price. 2022. "China Is Exploiting the Pandemic to Advance Its Interests, with Mixed Results." Center for Strategic and International Studies. July 19, 2022. <https://www.csis.org/analysis/china-exploiting-pandemic-advance-its-interests-mixed-results>.
- Moore, Clive. 2022. "Solomon Islands Prime Minister Manasseh Sogavare in Perspective." Oceanic Currents. Center for Australian, New Zealand and Pacific Studies. June 25, 2022. <https://canzps.georgetown.edu/2022/06/24/solomon-islands-prime-minister-manasseh-sogavare-in-perspective/>.
- Packam, Ben. 2022. "China 'Already Owns Land' for Solomons Bases." The Australian. News Corp. May 12, 2022. <https://www.theaustralian.com.au/world/china-already-owns-land-for-solomons-bases/news-story/ce64c34c3cb0eff3d712487b48e7cee0>.

- Peake, Gordon, and Miranda Forsyth. 2021. "Working with the Relational State: The Case of Bougainville." Devpolicy Blog from the Development Policy Centre. October 5, 2021. <https://devpolicy.org/working-with-the-relational-state-the-case-of-bougainville-20210705/>.
- Press Release. 2021a. "Isabel Holds Online Meet with Shandong Province of China." The Island Sun Daily News. August 31, 2021. <https://theislandsun.com.sb/isabel-holds-online-meet-with-shandong-province-of-china/>.
- Press Release. 2021b. "Sipa in Danger of Silent Takeover?" Solomon Islands Ports Authority. April 15, 2021. <https://www.sipa.com.sb/port-news/posts/2021/april/sipa-in-danger-of-silent-takeover/>.
- Rajah, Roland, Alexandre Dayant, and Jonathan Pryke. 2019. Ocean of Debt? Belt and Road and Debt Diplomacy in the Pacific. Lowy Institute. <https://www.lowyinstitute.org/publications/ocean-debt-belt-and-road-and-debt-diplomacy-pacific>
- Tidwell, Alan. 2022. "Being a Better Pacific Partner." War on the Rocks. January 28, 2022. <https://warontherocks.com/2022/01/being-a-better-partner-in-the-pacific/>
- Tidwell, Alan. 2020. "Strategic Competition and the Evolving Role of Indo-Pacific Paradiplomacy." *Australian Journal of International Affairs* 75 (1): 103–19. <https://doi.org/10.1080/10357718.2020.1831437>.
- Wall, Jeffrey. 2020a. "Papua New Guinea Sides with China on Hong Kong." The Strategist. July 13, 2020. <https://www.aspistrategist.org.au/papua-new-guinea-sides-with-china-on-hong-kong/>.
- Wall, Jeffrey. 2020b. "China to Build \$200 Million Fishery Project on Australia's Doorstep." The Strategist. December 14, 2020. <https://www.aspistrategist.org.au/china-to-build-200-million-fishery-project-on-australias-doorstep/>.
- Wickham, Dorothy. 2022. "In 35 Years' Reporting from Solomon Islands, I Have Never Seen Such Secrecy as the Last Few Months | Dorothy Wickham." The Guardian. Guardian News and Media. May 2, 2022. <https://www.theguardian.com/world/2022/may/03/in-35-years-reporting-from-solomon-islands-i-have-never-seen-such-secrecy-as-the-last-few-months>.
- Wroe, David. 2018. "The Great Wharf from China, Raising Eyebrows across the Pacific." The Sydney Morning Herald. April 11, 2018. <https://www.smh.com.au/politics/federal/the-great-wharf-from-china-raising-eyebrows-across-the-pacific-20180411-p4z8yu.html>.

PANEL III QUESTION AND ANSWER

COMMISSIONER MANN: Thank you very much. Time for questions by Commissioners. Commissioner Bartholomew?

COMMISSIONER BARTHOLOMEW: Thanks very much, and thank you to both of our witnesses for interesting testimony. I know that the Pacific Islands are made up of a number of different countries. But could you talk a little bit about what fertile ground there might be for the Chinese model of authoritarianism -- economic growth with authoritarianism?

I know in the Solomon Islands, of course, there's been interest in -- how do I say this -- in undercutting the opposition. And I just wondered especially, Dr. Tidwell, since you talked about elite capture, how much of this do we need to be worried about? And are there places in particular we should be focused on?

COMMISSIONER BARTHOLOMEW: Thank you very much for the question. In terms of echoing authoritarianism with Chinese characteristics, I would say not very likely. But authoritarianism with big man Pacific characteristics, well, that is an issue.

And so you would think about, for instance, the series of coups that have pestered Fiji over the past 30 or 35 years. Fiji has had a number of run-ins with effectively big man politics. Right now, there's concern Solomon Islands is seeing really the assertion of Prime Minister Sogavare's dominance in the political landscape.

This has stretched to really tamping down political voice, his embrace of the Chinese security arrangement without any discussion or debate was really -- it has not landed well amongst many in Solomon Islands. People in Malaita, the island to the north, have complained bitterly about their lack of consultation, lack of consultation even over the switch between -- from Taiwan to Beijing. The recent announcement that really effectively the shuttering of the press -- free press in Solomon Islands has been another issue of concern.

But the question is, is this China inspired, or is this Solomon Islands inspired? That's the 64 thousand dollar question. And I would lean in the direction of it's mostly inspired by the political machinations of domestic Solomon Island politics with the Chinese coming in and taking advantage of and then maybe urging it along when they can.

COMMISSIONER BARTHOLOMEW: And facilitated with Chinese surveillance equipment?

DR. TIDWELL: Well, there's Chinese surveillance equipment, absolutely, that this has been an issue that has been on the table. But even more facilitated along the lines of -- and this is probably the most -- the greatest lever that they've got and that's money. And the way that Solomon Islands organizes community development in the country is really through a constituency development fund so that members of parliament are given pots of money to distribute locally with a development focus.

And this is part of Solomon Island law. I think it's an act from 2011. And it gets used and abused. The Taiwanese used it and they used it for exactly the same purposes about trying to hold up members of parliament who embraced Taiwan. And the PRC has managed to kind of shift things around and now are bolstering those who would endorse the recognition of the PRC.

So I mean, that's the avenue that's most concerning. There are a number of other issues you can think about, little projects that have been put forward by Chinese state-owned enterprises. And I've outlined those in my testimony, and I'm happy to talk a little bit more about them if you like.

COMMISSIONER BARTHOLOMEW: Mr. Grossman, anything to add? You're muted.

MR. GROSSMAN: Yeah, sorry about that. I agree with everything that Alan said. I

guess I would just add that we think a lot about how we're trying to make the world safe for democracy, right? But China is trying to make the world safe for authoritarianism.

It's clear that authoritarian governments enjoy doing business with each other. But it's not just authoritarian governments that China deals well with. It's also kleptocratic authoritarian governments which there are unfortunately a lot of in the Pacific Islands.

And that is really kind of China's modus vivendi to take advantage of that type of system. There was a report out just the other day from Australian ABC talking about how the Solomon Islands is essentially completely bought off by the Chinese, right? They have a slush fund that they provide to different parliamentary officials there. They offer free trips to China.

So there's all kinds of reasons to worry about that and plus the Belt and Road Initiative. If Sri Lanka is the poster child of a small country that gets into debt with these projects and can't pay up, well, the Pacific happens to have seven countries that are ranked at the worst level of debt. And they all do business with China on BRI.

And then there's, I think, three or four other countries. I think it's three other countries that are considered to be in moderate debt, and they also are part of BRI. So that's another point of leverage I think we have to be concerned about.

COMMISSIONER BARTHOLOMEW: Thank you.

COMMISSIONER MANN: Thank you. Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you very much. I was struck by the fact that you agree with each other somewhat. But Mr. Grossman, I think what you said was that we don't need to panic because generally speaking the islands are not inclined to go to an authoritarian relationship with China.

And I think that my interpretation, Dr. Tidwell, was that what you're saying is, look, they're headed in the direction of being in the pocket of the Chinese if we don't do something about it. And then you both had slightly different suggestions on how to fix it. But what I got from you, Dr. Tidwell, was that amazingly, if I understand, 12 million people in total live in these large ocean countries, 9 million are in PNG. Is that accurate?

DR. TIDWELL: That's correct. Just a little comment on my number. I was pointing to sovereign state countries. So I'm not including New Caledonia and French Polynesia or American Samoa --

COMMISSIONER BOROCHOFF: Okay.

DR. TIDWELL: -- Mariana Islands.

COMMISSIONER BOROCHOFF: So I have a couple of quick questions about that. Looking at these numbers of what it takes to coerce people, they're amazingly low, 2.8 million to fix a boat, walking around money for elected officials, and 200 million total in investments, just not a lot of money with a huge impact. And I'm curious just because I have just enough knowledge to not really know what I'm talking about, but I know a little bit.

What is the role of Exxon in PNG? What role do they have in that whole arena there? They're an American company, and I'm curious. They probably -- I mean, they're making lots of money from whoever they can.

But I'm thinking they're going to be inclined to be as concerned as we are in the general sense about the Chinese. Am I wrong on this? I'll ask you both that.

DR. TIDWELL: Derek, do you want me to jump in, or --

MR. GROSSMAN: You go first. Go ahead.

DR. TIDWELL: Look, of course Exxon has tremendous investment in the natural gas sector in Papua New Guinea. They've poured a ton of money in there. But also remember

Exxon by virtue of that ton of money and that investment understand the domestic environment of PNG really well.

And PNG is -- Papua New Guinea is one of the most geographically dispersed places on the planet. I mean, it's home to I think 300 distinct languages. And they're distinct by valley to valley.

There's tremendous isolation. Roadways, go on Google Earth sometime and try to find paved roads. It's really kind of an entertaining exercise.

Exxon owns -- if I remember correctly, Exxon has the longest runway of any entity in the Pacific Islands. And when they built it, they advertised that it was long enough to land the space shuttle which is kind of a random thing to claim. But in fact, they built this huge airfield. Commissioner, that doesn't go precisely to your question but kind of gives you a sense of, one, their depth of understanding and the depth of their investments. So yeah, I think they are concerned about the Chinese.

MR. GROSSMAN: Yeah, I have not looked at that issue closely, the Exxon issue. But I will say in my research, I came across what China was doing in Papua New Guinea and that is mining the resources there. And that is the only Pacific Island country in which they are mining substantial resources on land. Everything else is deep sea mining and interest in the fisheries. So it's all at sea.

COMMISSIONER BOROCHOFF: I think probably Exxon has got some interest in minerals too, but I don't know. Okay. Well, you answered my question. That's something I'm interested in based on what you all said today. So thank you very much.

COMMISSIONER MANN: Thank you. Commissioner Cleveland?

COMMISSIONER CLEVELAND: Thank you. And thank you to our witnesses for drawing attention to a critical part of the world, certainly a critical part of American history. I'd like to ask two different questions and I'm not sure which of you is the expert on each.

While there are not significant sums at stake, the fact that seven countries are in a state of high debt distress and continue to be engaged with China, I'm curious if you could speak to whether or not China is providing grants or loans, whether we know anything about the loans that are being provided in terms of sector. And are they specifically supporting state-owned enterprises?

Kind of what's the nature of support when it comes to development assistance? And then the second question is we've appointed an envoy to secure new COFA agreements. Can either of you speak to the importance of the COFA agreements to U.S. interests and potential Chinese response? Thank you.

MR. GROSSMAN: Could I maybe handle just the second question?

COMMISSIONER CLEVELAND: The COFA question?

MR. GROSSMAN: Yeah, I think I'm better equipped to handle that. So at RAND in 2019 we released a report called America's Pacific Allies and China's Influence in the Freely Associated States. And I cited in my written testimony. Also it was commissioned by Congress, so I'm sure you're aware of it.

But anyway, in that report, we do talk about the importance of renewing the COFAs. The COFAs are unique international agreements that provide the U.S. military with near exclusive access to both the territories of the Freely Associated States and their EEZs. And of course, we have two of the COFAs coming up for renewal in 2023 with Micronesia and Marshall Islands and then in 2024 with Palau. So the pressure is certainly on to seal the deal on the new COFAs.

And one of the things that I've pointed out, perhaps not in my written statement but

elsewhere, is that the new funding has to be at least equal to what we've provided in the past, but much more preferably above what we have provided because of a variety of reasons. Inflation is one but also just the need to symbolically demonstrate that we are moving that relationship forward. If the COFA agreements happen to fail which I think is a very low probability or one or more of them fail, then there is a grant trustee mechanism in place that does provide them with yearly economic assistance.

But it is nowhere near the level of the year-to-year COFA assistance. So they would really take a hit if that were to happen. And from China's perspective, China looks at the COFAs and thinks how can we maybe undermine those agreements so that we can mitigate the U.S. military's ability to use the Freely Associated States as I refer to it -- my colleagues and I refer to it in our report as a power projection superhighway from Hawaii on into the Asia Pacific Theater to deal with Taiwan or South or East China Sea or Korea scenarios.

So we have seen China do certain things that we outline in that report and in my written statement. One is curtailing -- and I know Dr. Tidwell mentioned this as well -- curtailing tourism to Palau in November 2017, knocking down Marshall Islands door to try to get them to switch recognition from Taiwan to China by floating things such as lowering taxation barriers to enter Chinese ports with Marshallese flagged shipping. So all kinds of different tactics that they have employed to loosen up those COFAs a bit.

COMMISSIONER CLEVELAND: Thank you. Mr. Tidwell, can you speak to either the COFAs or the nature of Chinese lending or grant assistance to these countries that obviously have critical needs?

DR. TIDWELL: Sure. First, let me just come in on after Derek's comments. One, let me highly recommend to you the report that he's mentioning from 2019. That was a stellar piece of work, and I would strongly recommend that any of you who are interested, that's a great report.

We utilized it in the more recent version of a report coming out from USIP. So I highly recommend it, and Derek has nailed it. This is -- it's important symbolically and it's important materially.

It's important materially for U.S. defense interest. It's important materially for the people of the Freely Associated States who face really sort of a developmental cliff if the COFAs fail. And I think symbolically it sends a message to the rest of the Pacific that if the United States cannot support three of its closest allies, then what hope is there for anybody.

So honestly, I would just underscore that in great big bold. In terms of loans and grants, so China uses a mix of grants and loans that the lending out of the PRC has fallen off since about 2017. You see a larger number of grants.

The AIIB has come in to make a few loans during the COVID era where they're putting their money primarily into infrastructure. And then other small grants or other small loans are going in to support among other things education and that sort of thing. But really you see the primary investment of the Chinese is in the infrastructure sector with education kind of being a distance second.

So that's from my perspective the Chinese. And of course, there's loans, grants, and investments, that basket of money really is mostly focused in Melanesia. So it's mostly focused in Papua New Guinea, Vanuatu, Solomon Islands, and the larger populated countries.

COMMISSIONER CLEVELAND: Would it be reasonable to assume that those investments support state-owned enterprises or that lending -- when you talk about infrastructure, it supports roads, ports, or activities that, in turn, support the Chinese economy, or --

DR. TIDWELL: Well, building a road in Vanuatu I suppose might indirectly in some long way support the Chinese economy, but by and large, no. The one example I think I even mentioned in my testimony was the tuna processing plant in Vanuatu. And I think that has been a bit troubled.

And there was some talk at one point about importing the labor to actually do the tuna processing. And I think that got quashed eventually and that they're using locals to do their tuna processing. But by and large, this stuff is real development dollars except for the bids that aren't. So Ramu Nickel in Papua New Guinea is very intensive in terms of its employment of seasoned Chinese mining engineers. They don't have a large employment footprint, that's my understanding, that Ramu Nickel primarily -- it's mostly skilled and semi-skilled imported labor.

COMMISSIONER CLEVELAND: Thank you.

COMMISSIONER MANN: Thank you. Commissioner Fiedler?

COMMISSIONER FIEDLER: Thank you. So it seems to me that the Chinese goal here is to inhibit the ability of our military to operate as it has in the past in the Pacific. You've made mention of the defense implications. Where must the Chinese succeed among these various states to in fact inhibit our ability to operate?

MR. GROSSMAN: Yeah, I don't know if there is a must have country, per se. I think it in an ideal world, they would be able to pry away at least one, if not more, of the Freely Associated States because the North Pacific, like I said, is really that power projection superhighway into the potential future theater of operations. So one example -- one possibility there is -- and Dr. Tidwell can speak a lot more on this.

But there is Chuuk which is a part of the Federated States of Micronesia. It is, I believe, the deepest lagoon in the Pacific. It was used to great effect by the Japanese navy to hide their submarines.

And so Chuuk has had an ongoing thought about seceding, although been told -- from Micronesia which could potentially break the COFA with the United States because Chuuk would no longer be part of the Federated States of Micronesia. And the COFA is inherently encompassing the designated island of Chuuk and the others that make up Micronesia. So that would mean that China might have the opportunity to do business with Chuuk one on one.

And if they were to then gain access to that deepwater lagoon, that could be very worrisome for the U.S. But beyond that, I mean, I don't really see many possibilities in the North Pacific. In the South Pacific, I mean, there's lots of opportunities, especially by leveraging BRI.

I mean, Dr. Tidwell mentioned the Vanuatu case and the wharf. And of course, we have Solomon Islands now. We're worried about Kanton Island and Kiribati, central for refurbishing an airstrip there. It's only 1,500 miles away from Hawaii. So there are potential opportunities.

But what I try to point out in my written statement is that China, the way it went about the Solomon Islands deal was extremely secretive and I believe contrary to what's called the Bikitawa declaration of the year 2000 which essentially says that the Pacific Island Forum members -- the 18 members of the Pacific family -- must coordinate on regional security issues. That was not regionally coordinated, and it does impact everybody if China has a future naval basis in the Solomon Islands. So things like that I think have kind of tarnished China's ability to get things done in the future.

COMMISSIONER FIEDLER: Any additional comments? Yeah, please.

DR. TIDWELL: Yeah, I think one way to ask the question a little differently might be to say, well, where have the Chinese flexed their muscle of interest? And they flexed it most

prominently in Vanuatu and in Solomon Islands. And it does lead one to ask the question, well, why there?

The Chuuk thing is kind of interesting. I think that's more opportunistic more than anything else. I absolutely agree with Derek and his analysis of the importance of Chuuk.

But I don't know. I don't know how much the Chinese were really trying to pry Chuuk away in the hopes that it would suddenly switch and become avidly pro-Beijing or just put a banana peel under the wheels of the Free Association. But if you look where the Chinese have undertaken more effort, it's been in the Luganville Wharf.

And then in Solomon Islands, it's even more complicated than that in a sense. We've had this talk about the security deal and there is a wharf in Solomon Islands in Honiara, the location of the beginning of the campaign of Guadalcanal. And its Leroy wharf, it operates outside of the Solomon Island Port Authority.

It's annoyed them to no end. It's servicing PRC flag vessels technically outside of -- out of the rules. And one wonders why they built such a large port and aren't playing with anyone else, why they refuse to be put under the control of the Solomon Islands Port Authority. So I mean, you can point to at least some expressed interest on the part of the PRC. And it looks like Solomon, Vanuatu, that sort of curtain over Australia and New Zealand.

COMMISSIONER FIEDLER: Thank you very much.

COMMISSIONER MANN: Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Thank you very much. I had a question about U.S. strategy and then a question about Chinese strategy which I'd like to direct to both of our witnesses.

The first regarding the United States, it's certainly my impression as an observer not well informed about the details of what we've been doing in this part of the world that we were taken by surprise by what the Chinese have been attempting to do. And so there's a sense in which we appear to be scrambling now, appointing ambassadors, starting to do all kinds of things which we weren't doing before. So my first question is, were we, in fact, taken by surprise? And if so, why?

And then secondly on the Chinese side, it seems that as has happened periodically in the last few years the Chinese may actually have done us a favor by overreaching, by pushing too hard to get this deal with the Solomons, by trying to go around and get everybody to sign up all at one go. That doesn't seem to have been their M.O. generally. They seem to have been content in many parts of the world to advance incrementally. Do you have any sense of why they might have felt emboldened to do what they've done? And then following from that, what do you think they'll do next?

MR. GROSSMAN: Should I go first? Okay. So thank you, Commissioner. So on your first question, since the end of World War II I think as a federal government, we have certainly lost sight of and overlooked the geostrategic importance of the Pacific.

Now there's one caveat to that, and that is the United States Marine Corps who has never lost sight of it because of the bloody island hopping campaign they had to conduct to defeat Japan, right? But other than the Marine Corps, I think we have lost sight of it. And what happened in my view -- and I can't prove this as causation necessarily.

But the sense I get in doing my research -- I'd be curious to hear what Alan has to say about it as well -- is that when the Micronesian president Peter Christian when to Beijing and essentially he got the red carpet treatment, met with Xi Jinping. He came back, and I'm paraphrasing now. He said, I can't believe that such a large and strong country like China would

treat such a small and weak country like Micronesia with such respect.

And the optics of that really kind of hit Washington hard. Like, hey, we're losing out in the influence game, and China is somehow gaining there. So what you saw during the Trump administration is a very conscious effort to up our game in the Pacific.

President Trump met with all three Freely Associated States leaders at the White House. It was the first time that ever happened. And before that, you had Secretary of State Mike Pompeo and Secretary of Defense Mark Esper become the first sitting Secretaries to visit Micronesia and Palau respectively.

You also saw the National Security Council forming a dedicated director for Oceania. Notice I say dedicated director. There had been directors in the past, but they were always combined with other things like Japan and Oceania. Now it's Oceania specifically.

And the Biden administration has continued that effort. So that's an answer to your first question. On your second, I would say that the Chinese, it's hard to know why they kind of feel emboldened in this region to go multilateral and try to ram through their common vision statement because I think you're right.

In the past, they have not only been incremental in how they've done things. But they've also usually gone bilateral. And in this case, they went multilateral, right?

Save the Solomon Islands deal, that they went secretive and bilateral. But they came with what the Secretary General of the PIF said was essentially an outcomes document, that they just wanted all of the PIF members to sign and to be okay with without debating it, without thinking about it. So yeah, I think it's just a matter of China feeling more confident and feeling like the U.S. can't sustain its presence in the region, neither maybe can Australia and New Zealand compared to China's abilities through BRI and other means to do so.

COMMISSIONER FRIEDBERG: Thank you.

DR. TIDWELL: Yeah, Derek mentions Peter Christian's visit to Beijing and the observation that such a world power was giving such honor to this very small country and what respect that was communicated in that meeting. And they threw it all under the bus when Wang Yi showed up in the Pacific with a sign here document. It was received with, I think, tremendous shock, no consultation, no invitation for debate, no invitation for negotiations.

So yeah, that was quite problematic. Yeah, and was it a surprise? No, it wasn't a surprise really. I mean, yes and no. Kurt Campbell in the announcement at the introduction of the Australia chair at CSIS earlier this year said in his opening comments, he said, this summer we will see a base announced in the Pacific. It's hardly a surprise. It was a comment that was just forgotten.

COMMISSIONER FRIEDBERG: Thank you.

COMMISSIONER MANN: Commissioner Glas?

VICE CHAIR GLAS: Thanks to both of you. I'd like to turn our attention onto the environment which was both part of both of your testimonies. Dr. Tidwell, you talked about in your written and oral testimony about the environmental degradation associated with projects in the Pacific Islands, including mining, other projects related to deforestation. Mr. Grossman, you talked about the need for Congress to pass climate legislation.

I have a two-part question here. We know that the Chinese are investing, giving grants and loans, prioritizing certain projects in the Pacific Island region to make allies for strategic -- to gain strategic assets. But to what extent -- since China is the number one contributor of global greenhouse gas emissions and these islands are very vulnerable as well as other island nations around the world, to what extent is China actually helping these islands with climate resiliency?

And to what extent is the United States helping provide assistance to these islands to mitigate the crisis that we now face?

DR. TIDWELL: Derek, I'll jump in there on that one if that's okay. So because of the nature of many of the Chinese investments in the Pacific, they intersect poorly with the environment, for instance, like large scale mining. So if it's large scale mining in Ramu Nickel or if it's in the gold mines over the hills of Honiara, those things are dirty and they make a mess and they disturb the local community.

But neither of them have a profound environmental impact where the environmental -- I'm sorry, a climate impact. The climate impact really comes for the Pacific Islands through environmental degradation like through deforestation in Solomon Islands. It's ripping away that carbon sink in Solomon Islands and just denuding the place of one of their largest exports that is not only creating an environmental catastrophe.

It's creating a climate catastrophe and it's creating an economic catastrophe. You can just see it coming in the not too distant future. And where it leaves the people of Solomon Islands, I have no idea.

I don't think that China has invested heavily or even much at all in adaptation kind of projects. The kind of adaptation projects that are needed in the Pacific Islands have to do with managing the foreshore, replanting mangroves, securing potable water, securing food resources. Those are the kinds of things that Pacific Islanders desperately need in the face of increased storm intensity and heightening sea levels.

MR. GROSSMAN: Yeah, I just add to that from a U.S.-China competition perspective which, of course, the Pacific Islands don't want to be involved in but we're involved in it and the Chinese are. By denying climate change as we did during the past administration, it did us no favors because it essentially boosted China's counter narrative that the U.S. is fundamentally not a credible partner on climate change and cannot be trusted. And so I think now with the current administration who is emphasizing the need to do something on climate and is trying to pass climate change policy as we speak, I think that any policy that we can pass would add to our credibility.

Now it's an existential issue, right, for the Pacific Islands. So they want us to go as big as humanly possible. And I'm not going to comment on whether this package is big enough or whatnot, right? But it's probably not for them.

But the reality is we have to do something in order to improve our influence there because China during the past administration would swoop in and say, we can help you with this with green technology and we're not going to deny climate change. We think it exists. Now there's one other wrinkle to that which is you have to actually do something about it, right?

You can't just pass legislation and then move on. We have to actually implement what we do. Like, and Australia ran into this problem under Prime Minister Morrison. They said that they were going to put a cap on their carbon emissions and then they wound up using carbon credits. And it severely undermined trust with the Pacific Island states. So that's what I would add. Thanks.

VICE CHAIR GLAS: Can I just add -- well, maybe for a second round. I'll wait on a second round. Thank you.

COMMISSIONER MANN: Commissioner Scissors?

COMMISSIONER SCISSORS: Okay. It's the afternoon. Let's spice things up a little bit. I would like the two of you -- Derek first because you have the clearly superior name. I would like the two of you to give us the worst ten years -- roughly ten years out -- the worst case

for U.S. interests with regard to China and the Pacific Islands.

So I'm not looking for Pacific Islands interest because we cannot recommend legislation for the Pacific Islands. And I'm looking for U.S. interests in particular with regard to China. I don't mean worst case, like, what if a meteor struck. I mean, it could -- if the U.S. is irresponsible and China gets its act together, where do you see the situation in ten years in a really bad case that's realistic for U.S. interests with regard to China? Derek first.

MR. GROSSMAN: Sure, yeah. So I mean, starting in the -- I'll do North Pacific and then South Pacific because it's just easier to think about it that way. So I mean, in the North Pacific, if we do not -- if we fail to renew the COFAs for whatever reason and it could be because now, for example, the Marshall Islands wants to include discussions about radioactive leakage from a facility in particular that we built that's still poisoning their environment and their people, right?

If we cannot reach agreements on some of the new issues that may come into play during COFA, renewable negotiations, then the COFAs could fall apart. And that opens the avenue for the Freely Associated States to do business with China. Or as I said, if Chuuk actually does secede, right, that could be another play for China there.

In the South Pacific, I mean, there's so many more countries and there's Australia and New Zealand who have really the predominant influence, whether it's Australia with the Melanesian states or New Zealand with the Polynesian states. It would really require China -- it would really require Australia, New Zealand, and the U.S. failing on multiple fronts and China just kind of poking holes in all of our failures and finding a way in. And I think one way I can envision that frankly is on climate change yet again because, I mean, if we're going to continue to say that we're going to do something on climate change and we don't and we're not honest about it, then China has an opportunity to gain more leverage there.

I mean, you also have to think about where COVID is going because I mean most of these states have been insulated from it to date. But I mean, it's starting to creep up there. And China is offering COVID vaccines. So are we, but China also is offering -- I believe they're offering more, but I could check with Alan on that.

So that's another way that they can potentially build trust in the region that they can then try to leverage into bases or other forms of influence. And then also importantly -- I mean, of the seven countries that are in high debt that I mentioned, the vast majority if not all of them are in the South Pacific. So that's the thing that you got to worry about that they're going to have to make some tradeoffs with China in the future to sustain the level of engagement they have with the Chinese.

DR. TIDWELL: So Derek, just as Commissioner -- you got me on your first name here. Commissioner, just in service of your desire for spice, the two things I would think about in what ifs, what if China takes a book out of U.S. foreign policy practice and signs a Compact to Free Association with a Pacific power? And there, I'd be thinking about Kiribati.

I mean, what's the reply? What is the reply out of Washington if fair minded Free Association deal is signed with Kiribati, for instance? I don't know what the reply is. But you want spice. That would be pretty spicy.

And the other issue I would touch upon is interstate -- sorry, intrastate conflict, a separatist conflict, either a hot conflict in Papua New Guinea and not a continuation of the recently ended conflict in Bougainville, but rather a hot conflict, separatist conflict in Bougainville or a separatist conflict in Solomon Islands. That would energize sort of the clientelism that we saw back when we all had different colored hair. Back in the day when

China and the Soviet Union were pumping out weapons to client states, that's a real possibility for me in Solomon Islands.

MR. GROSSMAN: Can I just, sir, just add one thing? It was very interesting with Kiribati at the last moment deciding -- it was literally on the eve of the PIF summit deciding not to attend. And there's rumors about how China might've convinced them not to attend.

And so to get back to your worst case scenario, if China can undermine the PIF from within, break members off, and will no longer have a Pacific family there, will no longer have consensus driven decision making. Bilateral -- going back to Commissioner Friedberg's point, bilateral is kind of China's preferred methodology. And they would have a much better chance of doing that if they can undermine the PIF that way.

COMMISSIONER MANN: Thank you. Commissioner Wessel, is he with us? No, okay. Commissioner Chair Wong?

CHAIRMAN WONG: I'm going to skip and pass it to the second round.

COMMISSIONER MANN: Okay. Commissioner Schriver?

COMMISSIONER SCHRIVER: Great, thanks. Thanks to both our witnesses for your statements and your thoughtful answers to the questions. I'm a great admirer of both your work. I want to actually get a little granular.

You've actually made progress, Derek. You usually ask that as, why should I care about any of this? This doesn't matter. But I know how you reformulated that.

But I actually just want to get granular here for a moment. I was encouraged coming out of the Quad when the administration announced the effort to promote maritime domain awareness within the compact states. But I haven't heard much since then. Are either of you aware of any progress on that initiative and what that initiative might look like?

MDA would, I think, fit squarely, Mr. Grossman and Dr. Tidwell, what you're talking about, addressing something that the island states care about, addressing problems that they had that they have identified as important to them. But it seems to me there's a real capacity issue in terms of, what are we doing, putting in radars in these places? Who's going to monitor them? Who's going to man the fusion centers, et cetera? So any update on the initiative and any idea of what ultimately that cooperation could look like?

MR. GROSSMAN: Well, Commissioner, I will just say I don't have an update, per se. But I agree with you that there's certainly a capacity issue in setting up that MDA network. But would it be useful for them? Of course.

Because, I mean, China -- and I point this out in my written statement. There was a report earlier this year talking about illegal, unregulated, and unreported fishing incidents. And China is a leader in IUU worldwide, and they're a leader on the high seas and in all parts of the Pacific pretty much.

And I'm sure we all recall when there were Chinese fishermen who were caught operating their boats in Palau's EEZ. And they were detained and deported. But how did that happen, though?

Palau doesn't really have the capabilities do it on its own. They ask the U.S. Coast Guard to help them out. So having that MDA capability to your point, Commissioner, I think would give the Pacific Island states much more lead time in dealing with these issues, these challenges, and also to better understand what is happening around them and not relying on a written report after the fact.

DR. TIDWELL: Just to add to that, it's testing my memory a little bit and I apologize. I know that Palau, for instance, has two different Air Force platforms stationed in Palau that assist

with maritime domain awareness. And they share one of them with FSM, and I just cannot remember the name of the thing.

So I think the space is developing. And we'll see kind of where it goes. And then adding to that, of course, is your capability not only for maritime domain awareness through technical means but also just by sailing around on a boat.

And of course, the Palau operates the Guardian class Australian provided patrol boat as well as a couple of small Japanese vessels. So I think that space is currently developing. And Commissioner, I'm sorry. I just can't remember the name of the platform that Palau has been using very recently.

COMMISSIONER SCHRIVER: No, that's fine. One other question on partnerships. I talked a lot about Australia and New Zealand for very understandable reasons. Japanese were just mentioned. What's the state of cooperation with the French?

You did mention the territories of New Caledonia and Tahiti. And they do have forward deployed forces. But there was a bit of a rupture shall we say around AUKUS and the ending of the submarine deal. I think the French cooperation in the South Pacific is essentially. Do you have a sense of where things stand now, either?

DR. TIDWELL: I'm not sure I've got much to add other than to say that France wasn't included as a signatory to the Blue Pacific Partnership. They had been -- at one point, I had actually seen that there was a press release with France on there and then it vanished. So I don't know the back story to that.

I'm sorry, other than to say that Australian Prime Minister Albanese did travel to meet with President Macron. And I don't know whether or not they talked about security cooperation in the Pacific. I imagine they mostly talked about submarines.

But that certainly might've been another point of conversation. But I'm sorry. I haven't caught up on that one.

MR. GROSSMAN: Yeah, so my understanding is a little bit different there. So for the partnership in the Blue Pacific, the readout from the White House says in consultation with France. So they are on there, but they are not a formal partner.

And the reason for that is not necessarily because of AUKUS because I think fences have been sufficiently mended over that. It actually is more to do with the fact that New Caledonia is still a part of France. And so it falls into a different category where the Blue Partnership is more designed for sovereign independent nations.

So for example, we don't mention Guam in there or American Samoa, right, because we don't -- we're not worried about China's growing influence in those places. I mean, maybe we are to some extent on different issues like counterintelligence and stuff like that. But we're not worried about the Chinese setting up a naval base on Guam for obvious reasons, right?

So I think it's kind of similar with France. And in speaking with French interlocutors, I haven't spoken to many but I've spoken to actually a couple recently, who have also pointed out that they have a bandwidth issue. And especially with Russia's ongoing war in Ukraine, I mean, they're very focused on what's going on in their neighborhood.

They do have an Indo-Pacific strategy. They are interested in getting more involved. But they also realize their own limitations.

COMMISSIONER MANN: My own turn, I wanted to focus a little bit more on the role of Australia and New Zealand, just how influential are they in the region. Where are they more influential and where less so. And are there any differences of view that appear between the two

of them for each of the witnesses?

DR. TIDWELL: Commissioner, the main point of difference between Australia and New Zealand is which one plays better rugby. And we know the answer to that issue. But Australia is the number one aid donor to the region, and New Zealand is number two.

New Zealand also has a number of Pacific Island states and part of the Realm in Free Association with New Zealand. New Zealand's remit is primarily in Polynesia. And Australia is primarily in Melanesia.

Australia was the colonial power in Papua New Guinea and in many respects also had a colonial footprint, not officially, but unofficially in Solomon Islands as well. The relationships are deep. There are lots of Pacific Islanders who reside in and are citizens of New Zealand and Australia.

And so the relationship between those two large states, New Zealand and Australia, to the small Pacific Island states is deep and it's profound. But I will also tell you that when it comes to, I suppose, thumbing your nose a little bit and it really is kind of like that, there is almost a jealousy between the small Pacific Island states and Australia. Because Australia is the largest aid provider, they also tend to be the party that says no the most frequently.

And saying no the most frequently, there's a little bit of tension that gets generated. New Zealand has managed to use that to their benefit in terms of their relationships with Pacific Islands as well as their own Pacific identity through the Maori people of New Zealand as a way of kind of nuancing how they engage with Pacific Island peoples. Derek, over to you.

MR. GROSSMAN: No, I mean, that's great on the Pacific Islands themselves. I'll just comment on the competition angle. So I mean, Australia under the Morrison government, like I said, kind of didn't do such a great job with climate change because of tapping into the carbon credits.

So now with the Albanese government in place, I think they're trying to refresh some of those partnerships in the Pacific and try to stay true to their climate change goals. And New Zealand, there's always some Trans-Tasman tension, right, and rivalry. And some of it's healthy. Maybe some of it's not. I think most of it's healthy.

But New Zealand has always implicitly, maybe even directly sometimes, criticized Australia for not staying true to those climate change goals whereas New Zealand cast itself as the kind of uber green country, right? Obviously, you can't dock nuclear powered ships in New Zealand. And that became a huge issue between us and New Zealand.

And so Australia has kind of taken umbrage to that in the past. But New Zealand has been able to leverage that for stronger partnerships based on common climate change values in the Pacific. Another point I would add is it was fascinating when Prime Minister Ardern visited the White House. I think it was in June.

And the readout from the Biden-Ardern meeting included a line about common concern on the Solomon Islands deal. And I'm paraphrasing here, said something to the effect of we are concerned about a country whose values we do not share having a greater presence in Oceania. And so that was a clear shot at China, and Beijing took a lot of umbrage to that because I think it was the most direct and forceful statement New Zealand had made about how they have growing concerns about what China is doing in their neighborhood.

Prior to that, New Zealand always tried to compartmentalize its economic interactions with China versus the political, right? And that seems to be increasingly an untenable situation for New Zealand to maintain. And they seem to be verging more along the lines of how the U.S. and Australia are looking at China's growing influence in the Pacific, and that is with a wary eye

and looking to counter it.

COMMISSIONER MANN: Thank you. We do have time for a second round of questions. So why don't I go alphabetically this time. Commissioner Bartholomew?

COMMISSIONER BARTHOLOMEW: Thank you. First, Dr. Tidwell, while you mentioned the competition between New Zealand and Australia, we can't forget the competition about who invented the pavlova. I know you focused on rugby, but culinary competition too. On a more serious note, I wondered if both of you could say anything about China's information presence, media control. How much information are they providing into the media environment, the information environment across the Pacific Islands?

MR. GROSSMAN: I'll go. This is not an area that I've studied closely. But I do know that Australia had essentially dominated the information environment in terms of high frequency radios, for example.

We think that everybody is on the internet, right? But in the Pacific, not everybody is on the internet. In fact, a lot of people get their news and information from radios.

But for reasons specific to Australia, funding cuts, and companies dissolving and merging, they have not -- Australia no longer is in the business of providing high frequency radio coverage like they once did. And so guess who's stepping into the void on that, right? So yeah, there are some concerns about how China may try to replace what Australia was doing.

And of course, there's the telecommunications angle. So if Huawei happens to be the most popular telecommunications company and we have concerns in this country about how Huawei may be used in a dual way to not only allow for communication but to also spy on people, that is a deep concern. And the Micronesian president David Panuelo in May right before the PIF summit -- or actually it was the PIF foreign ministers meeting, I think -- he released an unprecedented and blistering statement about how if the Pacific Islands Forum members sign up to China's common vision for the Pacific, they will essentially be monitored by the Chinese.

Everything that they do will essentially be monitored because China will have access to their data. And so that, I thought, was pretty eye opening. Now whether that's true or not, I mean, we can argue. But it's also eye opening in the sense that Micronesia is the one Freely Associated State that recognizes China over Taiwan. And yet their president still has that level of concern.

COMMISSIONER BARTHOLOMEW: Dr. Tidwell, anything to add?

DR. TIDWELL: Sure. I would just jump in there and say the other thing to think a little bit about is Chinese-owned media. And I don't know how much Chinese-owned print media there is in the Pacific. But certainly in Australia and New Zealand, there's a fair amount.

And how much of that bleeds out into the broader community is an interesting question. There's also on the telecommunications front just to remind you that the cell phone carrier, Digicell, which is the cell phone provider of record for a large part of the Pacific, was up for sale. And Australia's telecom, Telstra, bought Digicell and basically at the behest of the Australian government to protect Digicell from falling into Chinese hands.

It was to protect that infrastructure. And so that's kind of where we are on the media front. But it would be an interesting accounting exercise to go and look at Chinese language print media in the Pacific to kind of look at ownership levels. And I'm just not familiar with that.

COMMISSIONER BARTHOLOMEW: Thank you.

COMMISSIONER MANN: Commissioner Fiedler, do you have anything for second round?

COMMISSIONER FIEDLER: No, I don't.

COMMISSIONER MANN: Commissioner Friedberg?

COMMISSIONER FRIEDBERG: One question about possible counters to Chinese efforts to extend their influence in this part of the world. It seems like many of these countries are particularly susceptible to the kinds of techniques that the Chinese have been using. They're relatively poor. In many cases, it seems they have weak domestic institutions. It seems like it doesn't take that much money to pay people off and perhaps don't have to pay that many people off in order to gain disproportionate influence.

In other parts of the world, it seems that the presence of independent media and non-governmental organizations able to call attention to some of the activities of officials or Chinese companies that are engaged in practices that damage the environment that has helped to slow down China's efforts to extend its influence. Is this kind of technique or tool relevant do you think in the Pacific Island nations? Are there things that the U.S. or others could do to try to strengthen civil society?

DR. TIDWELL: I'd love to jump in there. So a couple of things, one of my great concerns with the Pacific and Chinese influence is that influence just comes on the back of opportunity. And the Chinese economic opportunity is the vanguard of their influence.

And so to my way of thinking, the best way to counter Chinese influence is to step into that void and to provide economic opportunity to the Pacific Island peoples. But add to that American expertise and Western expertise and engaging with civil society I think is critically important. And if you define civil society, it's not merely NGOs but also the body of religious organizations.

Then civil society looks like a very different sort of animal than you might otherwise consider. So large named NGOs, they're not really that many. And they tend to be subsidiaries of somebody else.

There are a number of -- there's some small NGOs in the Pacific that are kind of homegrown entities. But the religious organizations really wield tremendous influence. So Seventh Day Adventist, the Mormon Church, the Catholic Church, these really play a profound role. And remember that most of these Pacific Island countries are by constitution God-fearing countries.

God appears in their constitution and has a preferred place in the constitution. And to my way of thinking it seems to me that while the United States can maintain its recognition of not endorsing particular religious faith, separation of church and state nonetheless can utilize engagement with those religious organizations to help promote social capital. Because at the end of the day, it's building social capital, building those relationships that will make those fragile societies more robust and more capable of withstanding nefarious influence. So that's kind of my pitch on it.

COMMISSIONER FRIEDBERG: Thank you.

MR. GROSSMAN: I don't have anything to add to that --
(Simultaneous speaking.)

COMMISSIONER FRIEDBERG: Okay. Thank you very much.

COMMISSIONER MANN: Commissioner Glas?

VICE CHAIR GLAS: One question I had, and it dovetails with Commissioner Bartholomew's question related to information and the sort of level of communication that China has or influence in the Pacific Island region and dovetailing also on my question related to the environment. To what extent do you believe based on your research that the Pacific Island

nations are aware that China is contributing to climate change the most significantly around the globe that's impacting their communities as well as some of the environmental degradation issues that are happening on specific islands as they're trying to figure out guardrails related to environmental degradation?

And then conversely, to what extent -- and I think that was getting to my question about the U.S. government and our lending or projects that we are doing in the region. To what extent are they climate resilient? Or in what ways are we promoting with the media and otherwise projects that are high impact but helping with climate resiliency?

MR. GROSSMAN: Maybe you should go first on that, Alan.

DR. TIDWELL: Okay. So if you think about public opinion and looking at public opinion in the Pacific and who's responsible for climate change, in one respect, there's not a lot of differentiation between it being the United States or China. It's just, in a sense, everybody else. It is the developed world.

It is the metropol, however you want to define that, but large countries. I think that there is growing awareness that China is a contributor to -- is a major contributor to greenhouse gases. I've not seen polling on this.

It would be interesting to look at some multinational polling to see kind of where perceptions lay. In the broader context of thinking about environmental degradation, you look at Ramu Nickel that I mentioned a moment ago. I mean, there are lawsuits being filed in Papua New Guinea trying to close the mine down because it's pouring heavy metals into the waterways.

So there is clear recognition that that's a Chinese mine. Having said that, if you look back in time, the largest mining spill in Papua New Guinea was, I believe, an Australian-American mine. And so basically it's effectively those with money who've come in to despoil resources that are really the guilty sources, if you will.

On the broader question of climate resilience, some of the power installation that Australia, New Zealand, Japan, U.S.-led electrification of Papua New Guinea, some of that capacity has been wind and solar. Some of it's just it's too complicated to use wind and solar given particularities of their power needs. But they've tried to use solar in different places, in part because it allows you to create a boutique solution to a particular locale. And USAID, of course, uses safeguard standards in trying to protect and consider the impact on the environment. And by extension in some instances, that would include the climate as well.

MR. GROSSMAN: Yeah, I mean, I think it would be very interesting to get polling on that question or some sort of sense of how Pacific Islanders are thinking about China. I don't know that we have that level of data, and it's something to look into in the future. But I agree with Alan that, yeah, it's more kind of a developing world versus developed world thing that they're concerned about.

And I also think it's not just climate change but also the environmental degradation part that you mentioned. And one thing that we have not talked as much about during this testimony are two things. One is the deep sea mining that China is mostly likely going to be engaged in to get at critical minerals.

And I mean, there's already a handful of Pacific Island states, including Nauru and Cook Islands, who are interested in moving forward with deep sea mining within their EEZs. But then there are others like Palau and Fiji who are opposed to it. And so that's going to be -- all of this is going to probably come to a head at the next PIF meeting next year.

And that's -- who knows where it's going to go. But I mean, Pacific family, again, consensus driven decision-making is what it's all about, and if you now have these two camps

forming. And by the way, the United Nations within the next year has to come up with guidelines for deep sea fishing within EEZs because Nauru actually opened the door to this.

They said they wanted to license that activity to whoever wants to do it. And it's going to be China, and it's going to be a handful of other modernized countries. So Palau and Fiji's concerns and others' concerns is about when we do that type of activity, how is this going to impact our environment, because in the past when they've done some limited versions of it, it's had a really severe effect.

The other thing is on the fishing. I mentioned the IUUs. Well, why is that happening, right? Because the South China Sea by some estimates, the fisheries there are 90 percent depleted and that's because of a combination of the destruction of coral reefs due to land reclamation to build artificial islands and bases on those islands.

It's also pollution and overfishing, not just China. Vietnam, Philippines, others are complicit in that as well. But because the fisheries are so depleted, China is going farther and farther afield into the Pacific to try to get access to those fisheries.

And of course with Kiribati, you have that Phoenix Island preserve which is a massive world -- was a massive world heritage site that was not -- nobody was allowed to fish there. Well, Kiribati in November decided to lift the lid on that. And who's going to get one of the licenses? Most likely China. So you're going to see additional fishery activity there that's going to cause more problems in the end environmentally.

COMMISSIONER MANN: Thank you. Commissioner Scissors? Commissioner Scissors passes. Commissioner Wong? Pass. Commissioner Schriver?

COMMISSIONER SCHRIVER: Pass.

COMMISSIONER MANN: Well, I will also pass. So I want to thank both of our panelists for their excellent remarks and just say that we have now completed a very wide ranging series of panels. Maybe we win a record for different subjects at once. I don't know. But the hearing and transcript will be available on the Commission website. And with that, I will declare this hearing at an end.

(Whereupon, the above-entitled matter went off the record at 3:44 p.m.)

QUESTIONS FOR THE RECORD

**Responses from Yanzhong Huang, Professor and Director of the Center for Global Health Studies, Seton Hall University School of Diplomacy and International Relations;
Senior Fellow for Global Health, Council on Foreign Relations**

Submitted by Commissioner Robin Cleveland:

Is there any evidence the dozens of labs established in Africa during COVID are being used to support health surveillance as monkeypox spreads?

Answer:

Not to my knowledge.

Submitted by Commissioner James Mann:

1) Has China ever in the past two years talked about switching to the more effective mRNA vaccines? Are the reasons for not doing so a reflection of Chinese nationalism? Or are they budgetary? Have there been any estimates of what it cost (or would have cost) to import mRNA vaccines from abroad, for at least some Chinese citizens (for example, the elderly)?

2) Have there been any reports of Chinese leaders, or the elites, getting mRNA vaccines from abroad?

Answer:

1) There were indeed some Chinese public health experts (e.g., George Gao and Zhong Nanshan) talking about the advantages of mRNA vaccines, but there has never been any public discussion on switching to mRNA vaccines. This is a clear reflection of Chinese techno-nationalism -- China prefers to developing the homegrown mRNA vaccines. But concerns about mRNA vaccines' disruption to the existing vaccination program and the resistance from non-mRNA vaccine makers may also have played a role. I haven't not heard about any estimates of the cost to import mRNA vaccines from abroad.

2) No-- according to Zeng Yixin, deputy head of China NHC, all the incumbent Chinese leaders have been vaccinated with Chinese made vaccines.

Responses from Manoj Kewalramani, Fellow-China Studies & Chair Indo-Pacific Studies Programme, The Takshashila Institution

Submitted by Commissioner James Mann:

- 1) Has China ever in the past two years talked about switching to the more effective mRNA vaccines? Are the reasons for not doing so a reflection of Chinese nationalism? Or are they budgetary? Have there been any estimates of what it cost (or would have cost) to import mRNA vaccines from abroad, for at least some Chinese citizens (for example, the elderly)?
- 2) Have there been any reports of Chinese leaders, or the elites, getting mRNA vaccines from abroad?

Answer:

- 1) Yes, there has been significant discussion around the use of mRNA vaccines, and there are several Chinese-made mRNA vaccine candidates that are currently in different phases of development. However, it is highly unlikely that Chinese authorities will approve the use of foreign mRNA vaccines in the mainland.

Over the past two years, there have been some notable reports about the possibility of using imported mRNA vaccines. In 2020, Fosun Pharma signed an agreement to distribute and subsequently manufacture the mRNA vaccine made by Pfizer and BioNTec. Subsequently, authorities in Hong Kong and Macau approved the use of these foreign-made mRNA vaccines. However, mainland authorities have refrained from giving the required approvals.

There appears to be no specific public health concern for doing so, and neither does it appear to be an issue of budgetary concerns. While I have not noted any specific discussion in this regard, perhaps there are concerns around indemnification against side effects, which other countries have highlighted in negotiations with companies like Moderna and Pfizer. However, in all likelihood, the reason for lack of approvals is political. Vaccine diplomacy has been a key part of Beijing's outreach to large parts of the developing world during the pandemic. The large-scale use of foreign vaccines to secure vulnerable populations domestically would severely undermine this effort, while also undercutting the gains of Chinese vaccine makers.

- 2) No, there have been no reports of Chinese leaders or elites getting mRNA vaccines from abroad. In fact, one of the peculiar aspects of the Chinese vaccination campaign had been the lack of reporting on whether the leaders had taken any vaccines at all. In most other countries, particularly democracies, political leaders were early to take vaccines as a means to assure the population about their safety and nudge them to get vaccinated. In China, it was only in July 2022 that the National Health Commission confirmed that senior party and state leaders had all been fully vaccinated. The NHC made it a point to emphasise that they had been vaccinated with Chinese shots.