



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on “What Keeps Xi Up at Night: Beijing’s Internal and External Challenges”

**Opening Statement of Senator James Talent
February 7, 2019
Washington, DC**

Thank you, Senator Goodwin, and good morning, everyone. I want to thank our witnesses for the time and effort they have put into their excellent testimonies.

The Commission chooses its hearing subjects carefully, and we have chosen this subject because it is timely and important. China has experienced enormous economic growth over the last two decades and has during the same period engaged in a substantial and effective military buildup. It has used its growing strength to advance its ambitions in the region and, increasingly, around the globe and has had considerable success in doing so. But it’s important to maintain perspective and consider China’s vulnerabilities as well as its strengths, and that is the purpose of this hearing.

The first panel discussed the internal political challenges facing the leadership of the Chinese Communist Party. In addition to those, Beijing also confronts significant economic and external challenges—from slowing drivers of growth to global pushback against its assertive behavior—that could undermine its internal stability, national security, and international influence.

In the second panel of today’s hearing, we will examine the weaknesses in China’s economy and finances, the risks and benefits of its form of state capitalism, and its reliance on key foreign technologies.

Chinese policymakers credit their state-led economic model for the country’s rapid growth, but the contradictions in their approach are increasingly apparent as China’s economic challenges mount. For example, Beijing recognizes the financial risks associated with the country’s high debt levels but continues to lean on stimulus in the face of economic headwinds. Similarly, Beijing’s preferential treatment of state-owned enterprises

continues to introduce imbalances and inefficiencies into its economy. Additionally, while the Chinese government has poured vast amounts of resources towards encouraging domestic innovation, China remains deeply dependent on foreign technology and vulnerable to supply chain disruption.

Finally, the third panel examines China's external challenges. In the military domain, President Xi has directed the People's Liberation Army to overcome its so-called "peace disease" and the enduring shortfalls in its ability to fight and win a modern war. This view of the operational effectiveness of the PLA may influence the calculus of the regime as it considers the use of the military to advance Beijing's interests.

Beijing's heavy-handed application of power and influence abroad has also prompted pushback from countries both in Asia and around the globe. Notably, Japan has increased its defense spending and procurement to counter China's growing military capabilities; the United States, Japan, Australia, and India have revitalized the Quadrilateral Security Dialogue; and a growing number of countries around the world have banned or are

considering banning the use of technology from Huawei and other Chinese firms in their critical infrastructure networks. These developments suggest China's assertive economic and military activities may be causing exactly what Beijing fears: the purposeful cooperation of other countries in meeting and countering China's illicit trade tactics, aggressive foreign policy, and other violations of international norms.

By understanding the challenges Beijing faces, the United States may be able to position itself to better shape the nature and direction of the emerging competition with China and advance U.S. interests and those of our allies and partners.

Before we begin, I would like to remind you that the testimonies and transcript from today's hearing will be posted on our website, www.uscc.gov.

Also, please mark your calendars for the Commission's upcoming hearing on "Risks, Rewards, and Results: U.S. Companies in China and Chinese Companies in the United States," which will take place on February 28.