

# Rising to the China Challenge

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**Hearing on Strategic Competition with China**

## **Overall Assessment**

Chairman Thornberry, Ranking Member Smith, distinguished members of the committee, thank you for the opportunity to discuss a topic of vital importance to the United States. Let me begin with four topline observations on the current state of the U.S.-China competition:

- 1) The United States and China are now locked in a geopolitical competition. How this competition evolves will determine the rules, norms, and institutions that govern international relations in the coming decades, as well as the levels of peace and prosperity for the United States.
- 2) The United States, on balance, is losing this competition in ways that increase the likelihood not just of the erosion of the U.S.-led order, but also the rise of an illiberal China-dominated Asia and beyond. If current trends continue, Asia will head toward a future that is less democratic, less open to U.S. trade and investment, more hostile to U.S. alliances and military presence, and too often dictated by raw Chinese power rather than mutually-agreed upon standards of behavior. Many of America's foreign policy achievements of the last seventy five years will be displaced, and it will take generations (at least) to revive central elements of today's liberal international order.

- 3) The U.S. government has failed to approach this competition with anything approximating its importance for the country's future. Much of Washington remains distracted and unserious about the China challenge. The Trump administration has sounded some of the right notes in its first National Security Strategy and National Defense Strategy, but many of its foreign and domestic policies do not reflect a government committed to projecting or sustaining power and leadership in Asia and the world.
- 4) Despite current trends, the United States can still arrest China's momentum and prevent the growth of an illiberal order in Asia and internationally. There is nothing inexorable either about China's rise or American decline. In fact, the foundations of American power remain strong, while China's vulnerabilities are mounting by the day. Washington's ability to muster the necessary strategy, attention, and resources will go a long way in determining the character of international politics in the twenty-first century.

### **How We Got Here and What's at Stake**

U.S. policy toward China since the end of the Cold War was predicated on steering its development and shaping the regional environment such that Beijing would ultimately decide not to challenge U.S. dominance in Asia. At its core, it was a strategy for preventing a China challenge from ever surfacing in the first place. This approach was guided by the promise that economic modernization and interdependence would lead to political and market reforms internally, while also creating overwhelming incentives for China to integrate into the prevailing international order. At the same time, given uncertainties about China's intentions, the United States and its allies developed military capabilities to deter Chinese aggression and dissuade Beijing from aspiring to regional hegemony. It was an imperfect marriage of liberal visions of integration with a hawkish commitment to American primacy. There have been ongoing debates in Washington about which element merited greater emphasis, but this combination of "engagement" and "balancing" has served as consensus U.S. strategy toward China for over two decades.

This policy approach was valid as long as there were indications that it was working—or at least enough ambiguity and uncertainty about China's future behavior. Such was the case throughout most of the 1990s and 2000s, when China adhered to a fairly cautious and conservative foreign policy. But that era has ended, and the results are not encouraging. Contrary to U.S. aspirations, China is becoming more authoritarian, the regime is tightening its grip on the economy, and its foreign policies are increasingly ambitious and assertive in seeking to undermine and displace the U.S.-led order in Asia.<sup>1</sup>

China has substantially revised its foreign policies over the last decade. Gone are the days of laying low and focusing on internal development. Instead, China is emerging with confidence and ambition, setting its sights on global leadership, undergirded by greater economic, military, and ideological power. Meanwhile, Washington's response has been slow, unfocused, and inadequate.

As a result, China continues advancing toward a position of dominant control over the economics, security, and politics of Asia. This runs directly counter to U.S. vital interests in maintaining an international system that is open, rules-based, and democratic and free. Although the Chinese government has never publicly

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<sup>1</sup> See Kurt Campbell and Ely Ratner, "The China Reckoning: How Beijing Defied American Expectations," *Foreign Affairs*, March/April 2018, <https://www.foreignaffairs.com/articles/united-states/2018-02-13/china-reckoning>.

articulated an official blueprint for its preferred future, its actions and interests paint a fairly clear picture of where Beijing, if left unobstructed, will steer the world. Without sufficient pushback, three dominant characteristics are likely to emerge, all contrary to U.S. interests: exclusionary, coercive, and authoritarian.

*Exclusionary:* China is seeking to diminish Washington's role in Asia and exclude the United States from the region, railing frequently on the interference of "outside powers" and trumpeting themes of "Asia for Asians." This has been most pronounced on security matters, where China's regional strategy and military modernization have focused on gaining control of the East and South China Seas, eroding U.S. alliances, and developing capabilities to deny U.S. military access to the Western Pacific. Beijing is making similar moves in diplomatic and economic realms; rather than supporting existing regional institutions in which Washington has a leading role, China is designing new political groupings and trading blocs that do not include the United States.

*Coercive:* Beijing is increasingly eschewing existing rules and norms, relying instead on coercion to achieve its various economic, military, and diplomatic aims. This includes flouting international laws that constrain China's power, fracturing and capturing regional institutions that could otherwise raise collective concerns about China's behavior, and intimidating countries in maritime Asia that seek to lawfully extract resources and defend their sovereignty. China's employment of economic coercion has become particularly pronounced, using foreign direct investment (including via its Belt and Road strategy) and market access to compel foreign governments to accept China's will on political and security matters.

*Authoritarian:* China has begun exporting its own authoritarianism in ways that weaken the promotion and protection of individual rights in the world. Primarily to defend the interests of the Chinese Communist Party, but also to shape public opinion outside its borders, Beijing is working overseas—including in the United States—to undermine academic freedom, censor foreign media, restrict the free flow of information, and curb civil society. Beijing is also promoting its own state-led model of development in explicit contrast to liberal democracy.

China has been making steady progress on all these fronts, abetted by the absence of a concerted U.S. response. This is not to say that Beijing does not deserve greater voice or influence commensurate with its position as a major power; of course it does. But there is a difference between greater Chinese power (even China being the most powerful country in the region), and a situation in which Beijing exerts hegemonic control over Asia. The latter would include: the Chinese military administering the South and East China Seas; regional countries sufficiently coerced into not questioning or challenging China's preferences on security and diplomatic matters; the de facto reunification of Taiwan; Beijing with full agenda-setting power over regional institutions; a China-centric economic order in which Beijing sets trade and investment rules in its favor; and the gradual spread of authoritarianism.

Altogether, a China-led order would be grim for the United States: weaker alliances, fewer security partners, and a military forced to operate at greater distances; U.S. firms without access to leading technologies and markets, and disadvantaged by unique standards, investment rules, and trading blocs; inert regional institutions unable to resist Chinese coercion; and a secular decline in democracy and individual freedoms. The net result would be a less secure, less prosperous United States that is less able to exert power and influence in the world.

## Recommendations for U.S. Policy

Continued Chinese advantage in the overall strategic competition is by no means a *fait accompli*. China has its own substantial vulnerabilities, particularly compared to the robust and enduring foundations of American power. As much as China's diplomats and propaganda organs have complained bitterly about U.S. officials speaking in more competitive terms, it is no secret that Beijing has been intensely focused on strategic competition with the United States for decades. In fact, China has been gaining ground across the geopolitical competition primarily because it has been the only one competing. A concerted U.S. effort that brings together the right strategy, sustained attention, and sufficient resources can regain momentum in the contest and put the world back on a path to a more open and democratic future.

The Trump administration deserves credit for acknowledging the reality of U.S. strategic competition with China. But it has not yet presented a comprehensive set of policies at home and abroad to enhance U.S. competitiveness in Asia and the world. Doing so will require knitting together a comprehensive whole-of-government strategy that addresses the military, diplomatic, economic, political, and ideological elements of the competition. Recommendations for U.S. policy follow.

### Security Competition

- *Prioritize defense resources for the China challenge:* The Trump administration's January 2018 National Defense Strategy included the critically-important insight that: "Inter-state strategic competition, not terrorism, is now the primary concern in U.S. national security." Congress should endorse this formulation and prioritize defense spending accordingly. Secretary Mattis said it well in his February 6, 2018 testimony before this committee that, "no strategy can survive without the funding necessary to resource it." Congress should support the Pentagon's priorities of building a more lethal force, strengthening alliances and partnerships, and reforming the Defense Department to enhance performance and affordability. At the same time, the Trump administration will have to be judicious in how it uses the force. This means being willing to make hard tradeoffs that shift limited U.S. resources—for example on intelligence, surveillance, and reconnaissance assets—from the Middle East and Africa to the Indo-Pacific, and from the war on terror to strategic competition with China.
- *Avoid wars of choice:* It will be far more difficult, if not impossible, for the United States to succeed in a strategic competition with China if Washington initiates a new war of choice, including with North Korea. In addition to the horrendous human costs, America's strategic position in Asia would be significantly diminished. U.S. attention and resources would be devoured on the Korean peninsula, at the expense of U.S. alliances, Taiwan, the South China Sea, the East China Sea, and the Indian Ocean region. Reconstruction and nation-building costs would be tremendous. A war with North Korea would also hobble U.S. efforts to renew its strength at home: The American people should not be asked to pay for a \$1 trillion infrastructure program to build roads and bridges in Pyongyang. To put it bluntly, starting a war of choice with North Korea (or Iran) would also be a decision to forfeit strategic competition with China.
- *Actively "burden-shift" to China:* China's interests in security and stability are growing in regions where the United States is expending considerable resources. U.S. policymakers should map areas where China's interests are rising and, concurrently, the United States is overextended or bearing disproportionate costs. Rather than imploring Beijing to "burden-share" or be a "responsible

stakeholder,” the United States should consider unilaterally reducing its outlay of resources where U.S. and Chinese goals sufficiently overlap and where China’s interests are sufficiently large such that Beijing would be forced to pick up the slack. Afghanistan is the most obvious example, followed by parts of the Middle East. It is no longer justifiable that the United States is spending several billions of dollars a year in Afghanistan while China provides only tens of millions of dollars.

- *Build more capable and independent U.S. allies and partners:* The U.S. government should work to boost the military power of U.S. allies (especially Japan, South Korea, and Australia) and critical partners (including India, Vietnam, and Indonesia) by, for instance, loosening restrictions on certain technology transfers and investing more in building partner capacity. Frontline states should have independent capabilities to act as a first line of deterrence and defense, and the United States should assist partners in developing their own counter-intervention capabilities to ward off Chinese coercion. To do so, Congress should ensure—as is definitively not the case today—that U.S. allies and partners associated with the China challenge are receiving an appropriate proportion of U.S. defense trade and arms transfers, including through foreign military financing programs, foreign military sales, and excess defense articles. The Southeast Asia Maritime Security Initiative (MSI) provides an illustrative example. The five-year, \$425 million dollar program is a good start, but pales in comparison to the several billions of dollars the United States is spending building foreign forces in Afghanistan and the Middle East. Congress should also increase funding to sustain a U.S. Coast Guard presence in Asia, which could work closely with maritime partners and augment their ability to administer surrounding waters.
- *Prevent China from controlling the South China Sea:* China is steadily moving toward dominance of the South China Sea. China’s control of the South China Sea, one of the world’s most important waterways, would pose a significant threat to U.S. commercial and national security interests. Over \$3 trillion of maritime trade transits through the South China Sea each year, more than \$200 billion of which is either coming from or bound to the United States. China’s track record in recent years—willfully blocking freedom of navigation and using economic coercion over political and security issues—is a troubling indicator of how Beijing would likely exploit administrative control over commercial and military access to the South China Sea. Moreover, as the main artery between the Pacific and Indian Oceans, the South China Sea is a critical military arena in which a dominant China would have significant leverage over vulnerable chokepoints and sea-lanes, as well as launching pads to project military power beyond East Asia. Unfortunately, U.S. policy to date, largely predicated on false hopes for China’s restraint and adherence to international law, have proven insufficient to prevent China from taking incremental steps to consolidate control of the South China Sea. The United States needs a new approach that includes a combination of economic, military, informational, and diplomatic measures.<sup>2</sup> As part of that effort, the 2019 National Defense Authorization Act should require a quarterly public report from the State Department describing China’s destabilizing actions in the South China Sea, including declassified aerial imagery as supporting evidence. (Pursuant to Executive Order 13526, the Secretary of Defense can direct the director of the Defense Intelligence Agency to declassify this imagery for public release.) U.S. interests would be better served with more public information about China’s assertive and coercive activities in the South China Sea. Beijing would have to think twice about bullying energy companies,

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<sup>2</sup> Ely Ratner, “Course Correction: How to Stop China’s Maritime Advance,” *Foreign Affairs*, July/August 2017, <https://www.foreignaffairs.com/articles/2017-06-13/course-correction>.

militarizing islands, and harassing foreign fisherman if it knew that images of its behavior would inevitably appear on the front pages of regional newspapers. Moreover, regional governments would be better equipped to respond both militarily and diplomatically. They would also face greater domestic pressure to defend against China's sovereignty violations, which would help to galvanize regional attention and support. Through this measure, Congress could readily advance America's position in the informational component of the geopolitical contest.

### Economic Competition

- *Rejoin the Trans-Pacific Partnership:* U.S. withdrawal from the Trans-Pacific Partnership (TPP) constitutes America's biggest strategic mistake in Asia in at least a decade. The negative externalities of China's growing power and influence are growing substantially larger in the absence of U.S. economic leadership; widespread perceptions of a China-led economic order are starting to cascade into political and security realms. The result is that countries in the region are increasingly reluctant both to partner with the United States and to resist China's acts of coercion. The South China Sea is a leading indicator, where regional countries have all but folded their hands given the lack of an alternative pole of American power and influence. When similar dynamics become present elsewhere, this trend will repeat itself in South Asia, the Middle East, and even parts of Europe. U.S. efforts to set high-standard trade and investment rules, knitting together TPP with the Transatlantic Trade and Investment Partnership (T-TIP) with Europe, would bracket both sides of the Eurasian continent, thereby reducing China's coercive leverage, resisting the spread of illiberalism, and creating political space for continued security cooperation with the United States. The Trump administration's strategy of pursuing a "free and open Indo-Pacific region" is the right framework, but it will fail without an economic component on par with the scale and scope of TPP. President Trump recently suggested he might be open to rejoining TPP; members of Congress should seize this opportunity to press the Trump administration and make the case for the normative and strategic value of the deal. Moreover, the Trump administration's approach to revising or even withdrawing from the Korea-U.S. Free Trade Agreement (KORUS) and the North American Free Trade Agreement (NAFTA) will also shape the willingness of U.S. partners to engage in trade negotiations with the United States. Congress should continue demanding regular reporting on KORUS and NAFTA negotiations.
- *Modernize CFIUS:* Revising the purview, processes, and authorities of the Committee on Foreign Investment in the United States (CFIUS) is both overdue and an appropriate response to concerns about Chinese high-tech investments in the United States that could pose potential national security threats and abet China's discriminatory industrial policy. By all accounts, the House and Senate are both working on bipartisan legislation and approaching the issue in a sober and responsible manner. Congress will also have to ensure that CFIUS itself has sufficient personnel and resources to handle the significantly larger caseload that will result from greater levels of scrutiny. Moreover, the Trump administration will have to coordinate these efforts with allies and partners, such that China is not simply able to turn to other advanced economies if U.S. technology is no longer available. Members of Congress can underscore the importance of coordinating on this issue when meeting with counterparts from Europe and Asia.
- *Limit China's ability to exact economic coercion:* China's economic carrots and sticks—particularly under the rubric of its Belt and Road strategy—are giving Beijing considerable leverage over security and



political issues in regional countries. It bears underscoring that there is significant demand for more infrastructure in Eurasia and Southeast Asia, and no viable alternative to replace China's potential provision of resources entirely. That being said, it will run counter to U.S. interests if recipient countries are subject to corruption and coercion, burdened with commercially non-viable development projects, or caught in debt traps that China exploits for political and strategic ends. The United States should team up with like-minded countries (including Australia, India, Japan, and Singapore) to provide technical assistance to help recipient countries evaluate proposed major infrastructure projects. Washington should also consider which existing multilateral institutions could act as a clearing house of best practices or a neutral forum to assess Belt and Road projects. Cognizant of potential moral hazard, the United States could also consider working with other advanced economies to make funds available at affordable interest rates for governments stuck in China-induced debts traps. Countries like Sri Lanka and Myanmar should have alternatives to handing over vital infrastructure to Beijing if they find themselves indebted to China.

### Political Competition

- *Rebuild institutions for U.S. information operations:* The United States should revive its ability to engage in information operations and strategic competition, which have not featured prominently in U.S. China policy for decades. The goal should be to provide a counterpoint to the billions of dollars China spends each year in propaganda to sell a vision of its own ascendancy and benevolence, alongside U.S. decline and depravity. The resulting perceptions of the inevitability of China's rise and of future dependence on China have reinforced Beijing's coercive toolkit. More U.S. media and information platforms can provide a degree of level setting about the facts and fictions of China's power, expound the strengths of the United States, and cast a more skeptical shadow on certain expressions of Chinese influence, including its governing model, its ideological assertions, and the overall strength of its economy. Citizens in Southeast Asia, for instance, might be surprised to hear that U.S. and Japanese foreign direct investment in their region is considerably larger than China's. Current efforts to enhance U.S. government broadcasting and information operations, largely in response to Russian disinformation campaigns, should also focus on developing more capable China-related and Chinese-language platforms in strategically-significant countries. Congress can help by increasing funding for the Broadcasting Board of Governors to augment China-related content in Asia and beyond. A larger budget, for instance, would allow Radio Free Asia to bolster its regional offices and employ more journalists throughout Asia to report on China's activities of concern, including those related to the Belt and Road strategy. Alternatively, failing to augment U.S. resources in the information space will make it much more difficult to succeed in other areas of the competition.
- *Refocus the U.S. government's civilian agencies on Asia:* The Obama administration's "rebalance" to Asia was largely an effort to shift strategic attention to the Pacific. It did not, however, refashion the U.S. foreign policy bureaucracy in ways that would be necessary to actually implement a comprehensive Asia strategy. An April 2014 report from the Senate Foreign Relations Committee revealed that Asia remained under-resourced in most relevant civilian agencies.<sup>3</sup> To successfully compete with China, the composition and activities of U.S. government agencies will have to reflect Asia as a priority, including

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<sup>3</sup> U.S. Congress. Senate. Committee on Foreign Relations. *Re-Balancing the Rebalance: Resourcing U.S. Diplomatic Strategy in the Asia-Pacific Region*. 113th Cong., 2nd sess., April 17, 2014. <https://www.foreign.senate.gov/imo/media/doc/872692.pdf>.

development assistance, the relative size of U.S. embassies and associated bureaus at the State Department, and Treasury and Commerce Department officials devoted to advancing U.S. economic interests in the region. Moreover, as China's reach extends beyond Asia, the United States will need more China watchers in embassies and departments that cover other regions, including Europe, the Middle East, Africa, and Latin America. In the short term, Congress should urge the Trump administration to fill the many vacancies throughout the national security bureaucracy. The lack of U.S. ambassadors in Asia, for instance in South Korea and Singapore (the 2018 chair of ASEAN), is highly self-defeating. More generally, it does not bode well for U.S. competitiveness that China has doubled its foreign affairs budget since 2013 while the Trump administration is proposing to major cuts to the State Department.

- *Root out Chinese Communist Party influence operations in the United States:* The Chinese Communist Party is succeeding in undermining basic democratic values in the United States. As a result of various forms of Chinese espionage and coercion, American schools and universities are avoiding topics Beijing deems sensitive, students in the United States are intimidated from speaking freely, U.S. media outlets and scholars are self-censoring, U.S. companies are curbing their speech to placate China, and millions of Americans are subject to veiled Chinese propaganda through Communist Party-run online, television, print, and radio media. Congress can play a role in curbing illiberal Chinese influence: by increasing transparency and shining a light on these issues; requiring greater reciprocity in areas like journalist visas; and mobilizing professional groups to speak with one voice and share best practices for managing Chinese influence activities.
- *Build a bipartisan consensus on China:* One of China's strongest cards in the U.S.-China competition today is the perception of dysfunction and partisanship in Washington, including on Capitol Hill. China's state-run media have seized upon political paralysis in the United States as part of a global propaganda campaign to discredit the West. In this regard, U.S. government shutdowns, massive deficits, and the inability to compromise on common-sense solutions to health care and immigration all accumulate to weaken the ability of the United States to remain a leading global power. Building and sustaining a bipartisan consensus on the China challenge—and recognizing the implications for domestic and foreign policy—will be of utmost importance to America's long-term success.