

SMART COMPETITION: ADAPTING U.S. STRATEGY TOWARD CHINA AT 40 YEARS

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CONTENTS

	Page
WITNESSES	
Economy, Dr. Elizabeth, C.V. Starr Senior Fellow and Director for Asia Studies, Council on Foreign Relations	7
Sacks, Ms. Samm, Cybersecurity Policy and China Digital Economy Fellow, New America	19
Magsamen, Ms. Kelly, Vice President, National Security and International Policy, Center for American Progress, and Former Principal Deputy Assistant Secretary of Defense for Asian and Pacific Security Affairs	37
Friedberg, Dr. Aaron, Professor of Politics and International Affairs, Co-Director of the Woodrow Wilson School's Center for International Security Studies, Princeton University, and Former Deputy Assistant for National Security Affairs, Office of Vice President Dick Cheney	55
APPENDIX	
Hearing Notice	114
Hearing Minutes	115
Hearing Attendance	116
ADDITIONAL MATERIALS SUBMITTED FOR THE RECORD	
Wall Street Journal article submitted for the record from Representative Deutch	117
RESPONSES TO QUESTIONS SUBMITTED FOR THE RECORD	
Responses to questions submitted for the record from Representative Sires	120
Responses to questions submitted for the record from Representative Chabot ..	123
Responses to questions submitted for the record from Representative Spanberger	126
Responses to questions submitted for the record from Representative Wagner ..	129
Responses to questions submitted for the record from Representative Gonzalez	131

SMART COMPETITION: ADAPTING U.S. STRATEGY TOWARD CHINA AT 40 YEARS

Wednesday, May 8, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC

The committee met, pursuant to notice, at 10:06 a.m., in room 2172, Rayburn House Office Building, Hon. Eliot Engel (chairman of the committee) presiding.

Chairman ENGEL [presiding]. The committee will come to order.

Without objection, all members will have 5 days to submit statements, extraneous material, and questions for the record, subject to the length limitation in the rules.

Let me welcome our witnesses. Thank you for your time and expertise this morning.

Welcome to members of the public and the press as well.

Today, we will examine U.S. strategy toward China. China represents a profound strategic challenge all around the world economically, geopolitically, and even potentially militarily. At the same time, China is a necessary, if sometimes difficult, partner in certain areas.

In 2019, we marked 40 years since the United States normalized relations with the People's Republic of China. We did so then because we recognized what remains true today: the U.S.-China relationship is one of the most consequential relationships in the world. In many ways, the nature of that relationship shapes the world we live in today, so we need to get it right.

Over the past four decades, the United States has facilitated China's rise. We supported China joining the World Trade Organization in 2001, which opened the Chinese market and helped bring the country into the world economy. American firms and venture capital have floated to China over the years, including in the Chinese technology market, which has become a matter of strategic concern for our Government today.

The United States made a gamble that, as China became more and more involved on the global stage, it would open up domestically and become a constructive stakeholder in the international system. It is pretty clear that gamble has not paid off in the way we hoped it would.

While the United States had been embroiled in costly and seemingly endless conflict in the Middle East over the last two decades, China has grown into the second largest economy in the world, a fact that has propelled many of China's geopolitical ambitions. Our original hope was that this growth would come in tandem with China abandoning its authoritarian tendencies, that we could

somehow shape Beijing's incentives to better fit our interests, but that just has not come to pass.

China today under Xi Jinping is a powerful nation with a long-term agenda and vast resources. In global affairs, China often stands opposite the United States, and not just on democratic values or support for human rights. As the United States retreats from the world under a Trump Administration's policies, Xi Jinping is eager to present China as an alternative to the American model of global leadership. But it is a stark reality.

Bullying China's neighbors in the South China Sea, exploiting corrupt officials to smooth the way for strategic investments in Africa and Latin America, building out a global technology infrastructure beholden to Beijing's interests, putting more than a million Muslims in western China in concentration camps—and managing to keep the world silent about it. There is no question that China is a determined actor that does not share our country's fundamental values.

I am pleased that the Trump Administration's National Security Strategy identified China as a competitor and Chinese influence globally as a challenge that must be prioritized. But competition itself is not a strategy. The scale of these challenges demands that we put forward a cohesive, coordinated response to China. We should work with our allies to develop and implement that strategy. After all, our allies are the greatest advantage when it comes to advancing our interests and values around the world.

As we sit here, the Trump administration is preparing for another round of trade talks with Chinese leaders tomorrow. Up to \$200 billion in additional tariffs are possible, according to the Administration. Our negotiators should seek to get the best deal possible for American workers, but trade wars and bellicose rhetoric alone are certainly not a strategy.

So, the question is, what does a smart competition with China look like? It starts with investment here at home to make the United States more competitive. That is what China has been doing for years, while we have poured energy and resources into costly wars and tax cuts for the wealthy, and spent far too little investing in our people, in the middle class, and in areas like infrastructure, scientific research, and education.

We also need to double down on our strengths. The United States has long been a global leader that articulates our values, our commitment to democratic principles of openness, freedom, and human rights. We have not always lived out these values perfectly—and right now it seems like we can barely see them in the rearview mirror—but if we fail to hold them up as a global standard, we do ourselves a great disservice. This is certainly an area where we distinguish ourselves from China.

And while doing all of this, we must work with China on challenges we all share. From non-proliferation, to climate change, to global health and pandemics, our interests often align with those of China. We must be able to work together to tackle these global challenges.

I am eager to hear from our witnesses on how we should be orienting ourselves toward the next 40 years in the U.S.-China relationship.

But, first, I will turn it over to Ranking Member McCaul for any remarks he might have.

Mr. MCCAUL. Thank you, Mr. Chairman.

The Chinese Communist Party is a clear and growing threat to the United States. Between their Made in China 2025 plan, Belt and Road Initiative, and forceful land grab in the South China Sea, they pose an active and serious threat to the United States economy, developing countries, global democracy, and human rights.

After 40 years of engagement with China, we are at an historic inflection point in our relationship. And I want to thank you, Chairman Engel, for calling this hearing, so we can better highlight what China is doing today.

When the United States established diplomatic relations with the People's Republic of China 40 years ago, our GDP was \$2.6 trillion and theirs was \$178 million, 14 times their size. Today, China is getting close to achieving economic parity with the United States, having reached \$12 trillion in 2017 GDP compared to our \$19 trillion.

China has also grown in military strength, technological sophistication, and spread its Belt and Road influence well beyond its neighbors. Just this Monday, Secretary Pompeo detailed China's designs on the Arctic, including the development of shipping lanes in the Arctic Ocean.

Next month will mark the 30th anniversary of the Tiananmen Square Massacre, when tanks rolled over pro-democracy protesters and crushed the dream of a freer society under the party's iron-fist rule. Today, as many as 3 million ethnic minority Muslims are imprisoned in what an Assistant Secretary of Defense characterized last week as concentration camps. And when Secretary Pompeo released this year's State Department's human rights reports, he said that China is "in a league of its own" when it comes to human rights violations.

Under President Xi, the party's evils at home are being spread abroad. The party is seeking to establish dominance over neighboring countries, including Taiwan, and they are seizing maritime territories, developing military capabilities intended to hamstring American forces, and projecting authoritarian influence around the world.

The party's malign agenda touches the United States as well. In 2014, it was revealed that Chinese hackers stole 22.5 million security clearances, including my own. Today, the United States Justice Department is working to hold China accountable for their blatant intellectual property theft from U.S. businesses. Their economic ambitions have been achieved at the expense of American ideas and innovation, and this behavior is simply and completely unacceptable.

At the Senate's Worldwide Threats hearing this year, the DNI testified that Chinese aggression was, quote, "a long-term strategy to achieve global superiority"—closed quotes—through domestic repression, unfair economic practices, and military expansion. If our views and actions toward China remain complacent, as they were in previous decades, not recognizing their true threat, in another 40 years the world will look very different than it does today for

my children, our children, and our grandchildren. And that is why I was pleased that we took this bipartisan action.

Just yesterday, the House passed my Championing American Business Through Diplomacy Act, which I introduced with Chairman Engel. This legislation makes the promotion of U.S. economy interests a principal duty of our missions abroad. It also requires economic and commercial training for our diplomats serving overseas.

Promotion of American businesses abroad has never been more important. Where China brings their debt-trap financing, predatory lending, their companies, and their workers, America facilitates fair financing using local companies and workers. Our alternative fosters stability and security, while theirs brings just the opposite. If America does not step up its economic engagement in the world, this vacuum will be filled by others, with a potentially devastating impact on American national security.

So, with that, I would like to thank the witnesses for being here today, and I look forward to this discussion.

With that, Mr. Chairman, I yield back.

Chairman ENGEL. Thank you, Mr. McCaul.

And now, I would like to introduce Dr. Elizabeth Economy, the C.V. Starr senior fellow and director for Asia Studies at the Council on Foreign Relations. She is an acclaimed author and a leading scholar on Chinese domestic and foreign policy. Her most recent book addresses the impact of Xi Jinping's leadership on the Chinese State.

Thank you for being here.

I would also like to introduce Ms. Samm Sacks, cybersecurity policy and China digital economy fellow at New America and a recognized expert on the U.S.-China technology relationship and China's cybersecurity regime.

Welcome as well.

Next, Ms. Kelly Magsamen is the vice president for national security and international policy at the Center for American Progress, and formerly served as the Principal Deputy Assistant Secretary for Asian and Pacific Security Affairs at the Pentagon.

Welcome.

And finally, I want to welcome Dr. Aaron Friedberg, professor of politics and international affairs at Princeton University and co-director of the Woodrow Wilson School's Center for International Security Studies. Dr. Friedberg also served as Deputy Assistant for National Security Affairs in the Office of Vice President Dick Cheney.

I will now recognize you for 5 minutes each to summarize your testimony, and we will put anything that you want to submit into the record that you do not say. That would be fine. Let's start with Dr. Economy.

STATEMENT OF DR. ELIZABETH ECONOMY, C.V. STARR SENIOR FELLOW AND DIRECTOR FOR ASIA STUDIES, COUNCIL ON FOREIGN RELATIONS

Dr. ECONOMY. Thank you, Chairman Engel, Ranking Member McCaul, and members of the committee, for inviting me here to speak this morning as part of such a distinguished panel.

I would like to begin just by unpacking the concept of smart competition to frame my remarks. As I understand it, smart competition means that we know what we are competing for, that we have an objective in mind. It means that we know our competitor and we know our competitors' strengths and weaknesses. And it means we know what resources we have, what resources we need, and we know how to marshal those resources effectively.

I think in this context, the U.S.-China relationship, that we are falling short. First, we have no clear sense for what we are fighting for. I think the Administration and Congress have done a very good job of understanding the challenges and potential challenges that China poses, but we are largely playing a defensive game. And a defensive game is not a very good strategy for competition.

We need a positive and proactive vision of the United States, of where the United States stands within itself, where it stands in the Asia-Pacific region, and where it stands on the global stage—not just for today, but for 2026, when the United States turns 250 years old, or for 2050. China has such a vision, and it allows it to set its priorities, its policies, and to figure out how to allocate its resources.

I think that the Administration's Free and Open Indo-Pacific strategy offers a good starting point. It reflects U.S. values. These are values that are shared by our allies. And it reframes the competition away from the United States versus China—a competition that we are going to lose in many different ways—to our advantage. An advantage that is based and rooted in our essential values, and again, the values that are shared by our allies.

Second, do we understand China? I think we are getting there. We are making progress. It is a complicated, complex country. I tried to lay out some thoughts in my written testimony. But we need a pipeline of expertise that begins in our secondary schools through our colleges, graduate schools, and into the U.S. Government.

Reports that it is more difficult today for young experts, young people who spent their training and their time learning Chinese and studying in China, that it is more difficult for them now to enter the Government, are moving us in the wrong direction. We should not be penalizing people for developing expertise, and we certainly should not be penalizing Chinese-Americans as well.

We also need cooperation with China. And I was heartened to hear the chairman mention this in his remarks. Cooperation not only is essential for addressing many of the global challenges that we face and many bilateral and common interests that we have, but it is also essential for us to understand China. If we cutoff cooperation, if we cutoff exchanges, if we begin to develop a visa policy that is restricting our exchanges, then we are losing again because we lose our insight into this country.

Finally, have we mastered or are we marshaling our resources effectively? I think there are some bright spots, and I think Congress is responsible for some of them. The Asia Reassurance Initiative Act, the BUILD Act, I think are both very important. I think we have people in our Government, Matt Pottinger, Randy Schriver, who are internationalists and multilateral in their orientation, who are working together to advance a proactive and positive policy.

And I think our military gets it. They understand what Free and Open Indo-Pacific means, and they are trying to marshal their resources.

But we do not have a coherent and constructive and coordinated approach across the various agencies of our Government, and we need that. We need a message to come down from the President that reaffirms our support of the Free and Open Indo-Pacific. We need our public diplomacy and our political capacity-building, and our trade and investment strategy, and our military all to row in the same direction.

We need a calling card. It is not enough for us to condemn Chinese policies—the Belt and Road Initiative, or Made in China 2025, or any of the other myriad policies—that we rightly find offensive and challenging. But what is it that we are bringing to the table?

Vice President Pence announced an initiative on Smart Cities back in the U.S.-ASEAN meeting last fall, but I have not seen any evidence that we are truly developing this. Why not develop a smart and sustainable cities program, something, again, that would bring together various parts of our administration, and announce a positive and proactive role for the United States?

Finally, I think Congress has an important role. In addition to writing, drafting, and passing legislation, it has a diplomatic role that it could play. For example, when we look at the Huawei discussion, I look around many of the countries that I visit in Europe and Asia, and there are a lot of divisions within these governments. Between the security elements and their equivalent to the State Department and foreign ministries, there are different perspectives. Congress should be engaging with their counterparts to help sort of energize the debate in a way that supports the U.S. perspective. We suffer a diplomatic deficit at our top-level leadership, and Congress needs to step up to help fill that.

And Congress I think plays an important role, or a potentially important role, as a convener of the various parts of American society that need to get behind this effort. I spent the past three or 4 months out at Stanford University as a visiting fellow. Being there on the West Coast, I can tell you, you have got a very different perspective from a university in the tech community and in a very significant Chinese-American community. These are communities that need to be engaged. Congress needs to learn from them, and they also need to learn from Congress. So, I hope, through informal briefing sessions as well as hearings, that you are drawing in other parts of the community that are deeply invested in the U.S.-China relationship.

So, I will just conclude by saying I think FBI Director Wray had it just about right when he said that this is a whole-of-government and whole-of-society response that we need for China. I would just add that it needs to be a whole-of-the-world response as well.

Thank you.

[The prepared statement of Dr. Economy follows:]

Smart Competition: Adapting U.S. Strategy Towards China at 40 Years

Prepared statement by

Elizabeth C. Economy

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Council on Foreign Relations*

Before the

Committee on Foreign Affairs

United States House of Representatives

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Introduction

Chairman Engel, Ranking Member McCaul, and distinguished Members of the Committee, thank you for the opportunity to testify before you today.

The U.S.-China relationship has entered a new, increasingly contentious period that is marked more by overt confrontation and competition than by coordination and cooperation. Talk of “engagement” is rare. Discussion of a “G2,” in which the United States and China would respond together to global challenges and shape the norms and institutions of global governance, has disappeared. Instead, China-focused conversations in the United States revolve around the challenge—even the threat—that China poses to the United States.

As former U.S. Treasury Secretary Hank Paulson stated at the November 2018 Bloomberg Conference in Singapore, “China is viewed—by a growing consensus [within the U.S. policy establishment] not just as a strategic challenge to America, but as a country whose rise has come at our expense.”ⁱ And as FBI Director Christopher Wray famously testified before Congress in early 2018, “One of the things we’re trying to do is view the China threat as not just a whole-of-government threat, but as a whole-of-society threat.”ⁱⁱ U.S. policy documents refer to China as a strategic competitor, on par with or even exceeding the challenge posed by Russia.

The result of this new understanding in Washington is a frenzied effort to arrive at a strategy to meet the emergent China challenge. The Trump administration and Congress have weighed in with an avalanche of new initiatives, regulations, and laws. Gradually, a reasonably coherent set of overarching policies—if not an overarching strategy—is taking form. American policy is no longer “engage but hedge,” but rather “compete, counter, and contain.” It is an approach that accurately recognizes the range and seriousness of new challenges posed by China and establishes some

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important defensive strategies. However, it fails to 1) advance a positive and proactive U.S. message and set of policies on the global stage to counter China's threat to U.S. interests and attack on the liberal international order; 2) strengthen the economic pillar of U.S. global engagement; 3) leverage U.S. allies and partners; 4) develop the political, economic, and security resources to compete with China over the medium to long-term; and 5) establish areas for common action with China to minimize the risk of spiraling down into a Cold War or hot conflict.

The Rethink

Over the past 40 years, since the normalization of relations between the United States and China, the two countries' relationship has been characterized by ongoing, but typically low-intensity conflict around issues such as trade, Taiwan, and human rights. Events like the 1999 bombing of the Chinese embassy in Belgrade or the 2001 EP-3 incident produced spikes in tensions, but were resolved within a matter of weeks or months.

The exception to this was the 1989 Tiananmen Square massacre, after which some American companies boycotted China, and Washington imposed a set of new trade restrictions. Nonetheless, even this tragedy derailed the relationship for only a relatively brief period.

Implicit in the relationship has always been the understanding that neither country would be well served by allowing relations to deteriorate too much. Senior officials, particularly in the United States, have consistently sought areas of common cause around which they could forge cooperation, such as the threat posed by the Soviet Union in the 1980s, climate change, public health in Africa, or non-proliferation. And expanding business and civil society ties between the two countries have served to bolster a sense of common interest and purpose.

Within the American policymaking and analytical community, there was also a belief shared by many (but certainly not all) that over time, as China's economy developed and the country integrated more deeply into international institutions like the United Nations and the World Trade Organization, its economy and political system would liberalize in ways that would align it more closely with the world's advanced market democracies. And in fact, a snapshot of China circa 2011-2012, with its vibrant Internet and civil society, suggested that the country might well follow such a trajectory.

However, the advent of a new Chinese leadership in 2012-2013, headed by Xi Jinping, has contributed to both a rethink and a reset of U.S. China policy. As one of China's top scholars of the United States, Wang Jisi, noted in an October 2018 interview: "For over 200 years, the United States has never changed its strategic goals for its relationship with China: free flow of goods and capital, and free flow of information and values. Chinese have always had reservations or imposed boycotts to oppose these two goals. We should criticize and have reason to criticize the United States, but we should realize that China's own actions have changed Sino-U.S. relations and U.S. perceptions of China. [...] If we are looking for the cause, it was the change in Chinese policy that led to adjustments in U.S. policy towards China. U.S. policy has changed because China changed."^{iv}

The China Challenge

As Wang suggests, China's policy under Xi Jinping has changed. And competing effectively with China necessitates an accurate understanding of the nature of the change. To begin with, Xi Jinping's China differs from the Deng Xiaoping-Jiang Zemin-Hu Jintao era in four material respects:

First, Xi has moved away from the previous three decades of consensus and collective-based decision-making process to consolidate vast institutional power in his own hands. He sits on top of virtually all the most important

commissions and committees that oversee broad areas of domestic and foreign policy and has used the anti-corruption campaign not only to attack corruption—in 2018, 621,000 officials were punished for corruption^v—but also to eliminate his political competitors and their allies. He has also abolished the two-term limit on the presidency, thereby granting him the opportunity to hold three of the most important positions—General Secretary of the Communist Party (CCP), Chairman of the Central Military Commission, and President—for life. In addition, the most downloaded app in China is *Xuexi Qiangguo*—translated variously as “Study to Make China Strong” or “Xi Study Strong Country”—which is replete with information and quizzes on Xi Jinping, his thought, and CCP policy. Many workplaces have adopted the app as part of their official employee training and evaluation procedures, with workers required to submit the hours spent on the app and the scores they received on the quizzes. Unless there is a sustained economic slowdown or other crisis, Xi is likely to stay in power until at least 2027.

Nonetheless, institutional power should not be conflated with political legitimacy; there are significant pockets of dissent and discontent within China over the direction of many of Xi’s policies. In 2018, birthrates, which correlate closely with economic growth and optimism, fell to their lowest rate since 1961. Wealthy Chinese continue to flee the country, taking their children and capital with them. Entrepreneurs resent the intrusion of the Party into their economic decision-making. And broad based social movements around the environment, feminism, and LGBTQ rights that cross age, gender, and class, have arisen alongside traditional protests around wages and pensions. The ever-increasing political repression in the country should be understood fundamentally as a sign of Chinese government weakness, not strength.

Second, Xi has reasserted the power of the Communist Party into Chinese political and economic life. The Communist Party now has eyes everywhere: As many as 200 million surveillance cameras contribute to control the population^{vi}—both to reduce crime and to control dissent. This surveillance technology also plays an essential role in the country’s social credit system, which evaluates people’s political and economic trustworthiness, and rewards and punishes them accordingly. The most extreme manifestation of this social control is in Xinjiang Autonomous Region, where millions of Uighur Muslims are subjected to racial and ethnic profiling, denied their religious and civil liberties, and have been forcibly interned in labor and reeducation camps.

Importantly, Beijing is now applying these tools of social control to foreign enterprises and citizens. The social credit system has recently been extended to multinationals (and even, reportedly, to the senior leadership of multinationals). Already, for example, the CCP has fined one corporation for identifying Taiwan as a separate entity and entered this information into its social credit score. Some U.S. firms now report they are “scrubbing” Taiwan from their materials.

In addition, rather than expand market-based economic reform, the CCP has strengthened the role of state owned enterprises (SOEs) in the Chinese economy. It has also extended its reach into 70 percent of all private enterprises and joint ventures through the establishment of party committees and has tasked them with ensuring that Beijing’s political and economic interests are advanced.^{vii} In this way, the CCP has effectively blurred the lines between the state-owned and private sectors in China, seeking to make private companies and joint-ventures extensions of the Chinese state.

Third, Xi has created a virtual wall of restrictions and regulations designed to limit the influence of foreign ideas and capital inside China. Increasing numbers of foreign websites are blocked; foreign television content has been slashed; the free flow of information via the Internet is increasingly constrained as Beijing widens the scope for what is considered threatening to national security. Moreover, in the wake of the January 1, 2017 Law on the Management of Foreign Non-Governmental Organizations, the number of foreign NGOs operating in China has fallen from more than 7,000 to under 400.^{viii}

In the economic realm as well, Xi has enhanced government efforts to protect Chinese industry from foreign competition, sacrificing market efficiency in favor of market protection. Xi Jinping's Made in China 2025, for example, is dedicated to ensuring the dominance of Chinese firms in ten critical cutting-edge areas of technology, such as new materials, artificial intelligence, and medical devices, by subsidizing uncompetitive Chinese firms, acquiring foreign technology through licit and illicit means, and putting in place non-market barriers to entry for foreign firms. In Sichuan province, for example, the local government has passed a regulation that prevents hospitals from being reimbursed for operations and procedures unless they use Chinese-manufactured medical devices (for fifteen types of devices).³⁸

Fourth, Xi seeks to project the Chinese government's values, priorities, and policies globally to expand the country's political, economic, and security influence and power. Several distinct, but related challenges have emerged around China's efforts to assert its power on the global stage:

- Over the past six years, Xi has moved from staking claims around sovereignty in the South China Sea, Hong Kong, and Taiwan, to realizing them through a number of coercive economic, political, and military actions. Many of these actions threaten freedom of navigation and overflight, the political and economic security of the citizens of Hong Kong and Taiwan, and regional stability and security.
- China's Belt and Road Initiative, which began in 2013 primarily as an effort to export Chinese overcapacity and connect interior Chinese cities to external markets, has evolved into a far more expansive endeavor with significant implications for the future geopolitical landscape.
 - Through its deployment of both Chinese hard and digital infrastructure, Beijing is setting global standards for equipment and technology for the 21st century.
 - Beijing's control of at least 76 ports in 34 countries provides it with new opportunities for economic coercion, as well as military expansionism.³⁹ According to one senior military official, he expects as many as one hundred Chinese overseas bases in the future.
 - Xi Jinping has also suggested that the "China model" might offer a different path forward for countries disenchanted with the western model of market democracy. China's Digital Belt and Road is particularly important in this respect. In 2018, Beijing conducted two and three-week courses on censorship and surveillance for officials from dozens of BRI countries, and sent officials to countries such as Uganda and Tanzania to train their counterparts on how to control the media and manage civil society. Overall China has exported its surveillance system to eighteen countries and assisted thirty-six countries in developing the capacity to repress free speech.⁴⁰
- Xi Jinping has exploited the openness of other societies, including the United States, to advance PRC political and economic interests. The CCP uses Confucius Institutes, Chinese Students and Scholars Associations, and stakes in media companies to project a benign view of Chinese activities and limit dissenting views. It also actively deploys cyber tools, as well as Chinese students, scholars, and businesspeople, to engage in intellectual property theft from university labs and corporations.
- Finally, Xi Jinping has called for China to lead in the reform of global governance and to make international norms and institutions more directly reflect Chinese values and interests. Such reform may be positive, such as the establishment of the Asian Infrastructure Investment Bank, which operates according to existing international norms. In other arenas, however, Beijing uses international institutions to advance PRC policies, such as inserting the BRI into UN development resolutions or proposing ideas and arrangements in human rights or Internet governance that are antithetical to U.S. values and interests. And China's promotion of a "community of common destiny" is at heart a call for the end of the U.S.-led system of alliances.

Taken together, these shifts in Chinese policy pose a set of new, distinct and broader challenges for the United States. First, Xi Jinping is not only more ambitious to lead in a globalized world but also seeks to project the current Chinese political and economic development model globally. This raises the specter of a far more difficult international environment for the United States in which free trade, the free flow of information, and principles of good governance are routinely challenged by an ever-expanding set of authoritarian nations.

Second, China's protectionist innovation strategy around Made in China 2025, the BRI, and failure to move forward on SOE reform reflect non-market principles and behavior that pose a challenge to U.S. economic interests at home, in China, and globally. (Notwithstanding CCP efforts to tone down the rhetoric around Made in China 2025 and the BRI, both policies remain central to Beijing's long-term strategic plans.) The United States is ill-prepared to compete against a China that has the political and economic wherewithal to accept the suboptimal economic and efficiency outcomes generated by non-market practices in the near term to try to ensure market dominance over the long term.

And third, while China takes advantage of the openness of the United States and other market-based liberal democracies to further its economic interests and advance its political and cultural influence, it increasingly constrains opportunities for foreign actors to participate in China's political and economic development.

A Strategy of Smart Competition

The Trump Administration and Congress deserve significant credit for identifying and responding to many of the new threats posed by Xi's China. They have pushed back against Chinese aggression in the South China Sea through regular Freedom of Navigation Operations; moved to address unfair Chinese trade practices by imposing tariffs on Chinese exports; called out Beijing's poor governance practices around the BRI; sought censure in the United Nations for Chinese human rights abuses in Xinjiang; adopted legislation to protect sensitive U.S. technology; and enhanced U.S. support of Taiwan, among other measures.

Yet, as outlined below, to be successful and compete smartly, the administration must move beyond its more reactive and defensive strategy to adopt a strategy that reflects a more profound and sustainable path to effective competition with China, including:

- 1) **A more proactive, positive and coherent assertion of U.S. interests;**
- 2) **A clearly defined strategy for global economic engagement;**
- 3) **Effective leveraging of U.S. allies and partners;**
- 4) **The development of economic, political and security resources at home to compete effectively with China over the mid and long term; and**
- 5) **A continued effort to find areas of common purpose with China.**

1) Smart competition moves the United States away from a reactive and defensive posture of "confronting and containing China" to a more proactive and positive approach of "contributing to advance global prosperity and security."

China today poses significant threats to U.S. interests across all domains and at all levels of governance—global, regional, and national. It is not surprising that, at least initially, the United States has found itself in a reactive posture. However, when coupled with President Trump's narrower conception of when and how the United States will lead, his prioritization of immediate threats to the United States rather than the development and exercise of institutions to

manage underlying challenges in security and trade, and his “America First” rhetoric, the United States appears weak and defensive. Without a positive global narrative—a U.S. vision for global prosperity and security and policies to support that vision—Beijing’s efforts will continue to gain traction because there is no alternative.

As an important first step, President Trump should fully embrace the concept of a Free and Open Indo-Pacific (FOIP). In his speech before the APEC Forum CEO Summit in November 2017, he called for a Free and Open Indo-Pacific, rooted in a rules-based order that embodies the principles of free and fair trade, freedom of navigation and overflight, and human rights and good governance (rule of law, transparency and official accountability).

FOIP offers several advantages: it reflects U.S. values and interests; its underlying principles are shared broadly by all U.S. allies and partners, not just those in the Asia Pacific; and it provides a direct rebuttal to Beijing’s narrative of state-directed economic growth, political repression, and expansive military aspirations.

Particularly important, FOIP effectively characterizes competition as *not* between China and the United States but instead between China and a set of broadly shared values and principles.

To be effective, however, President Trump and the rest of his administration must offer their full-throated support for FOIP. While some senior officials and members of Congress are building strategies and commitments around FOIP, the President has not made it a centerpiece of his China policy, leaving other countries unsure of his commitment. (This lack of coherence within the U.S. policy process around China and Asia more broadly is also evidenced in the ongoing trade negotiations with China, policy around Chinese human rights abuses in Xinjiang, and U.S. commitment to its allies.)

In addition, FOIP must also be populated with meaningful initiatives. The Asia Reassurance Initiative Act (ARIA) reflects many of the necessary building blocks of a forward-leaning and positive U.S. strategy toward China and the Indo-Pacific. These include support for projects that help to build democratic institutions in the region’s developing economies, to enhance the defense capabilities of U.S. partners in the region, and to promote cooperative investment projects, such as the U.S.-Australia-Japan-New Zealand project to electrify 70 percent of Papua New Guinea by 2030. Congress should evaluate on an annual basis the projects and overall progress of these efforts.

The United States should also develop a strategy for engaging all countries into the framework of FOIP, in particular other Asia Pacific actors, such as South Korea and Taiwan, as well members of the European Union and Latin America, who are committed to the principles of the Free and Open Indo Pacific. The peace and prosperity produced by the trans-Atlantic partnership of market democracies further suggest that European Union member states, as well as Canada and Mexico, would be useful additions to the FOIP framework.

2) Smart competition necessitates a stronger economic pillar of U.S. global engagement through increased trade and investment.

The United States operates at a deficit relative to China because much of the Asia Pacific region—and the world—believe that “the United States is essential for security but China is indispensable for economic prosperity.” China’s growing global economic footprint provides it with significant leverage in its pursuit of political and military influence, both within other countries and in the arena of global governance. To counteract this situation, the Trump administration needs to change both the form and substance of its global economic engagement.

To begin with, Congress and the administration should underscore the actual level and impact of U.S. investment globally. While China is the largest trading partner for most countries in the world, it is not the largest investor in any region in the world. In 2017, for example, U.S. firms invested more in Africa than China (as they do most years).²⁸

Moreover, in Southeast Asia, Japan and the European Union are more significant sources of investment than China. Such facts are little known but provide an important counterpoint to the narrative that China is the only development game in town.

The administration should also launch a smart and sustainable cities initiative within the context of FOIP, beginning with the U.S.-ASEAN Smart Cities Partnership announced by Vice President Pence in November 2018 in Singapore. With the newly-established U.S. International Development Finance Corporation (IDFC), the administration has the wherewithal to develop and sustain such an initiative. Under the auspices of the IDFC, the Trump administration should encourage the identification and financing of five to ten high profile smart city projects in developing Asia and Africa. These projects, likely in partnership with multinationals from other countries, would underscore the U.S.'s natural leadership in sustainable cities, while at the same time promoting an alternative to China's digital belt and road.

In advancing the United States as a leading generator of economic prosperity globally, the United States must also re-engage in trade negotiations with the Asia Pacific region. The ARIA embraces U.S. bilateral and multilateral trade negotiations as a cornerstone of U.S. engagement in the Asia Pacific. Congress should hold hearings around the potential of rejoining the Trans Pacific Partnership (TPP) (now the Comprehensive and Progressive TPP) and around the feasibility of a U.S.-ASEAN free trade agreement. In the meantime, Congress should ensure that any trade agreements signed are aligned with the terms of the CPTPP.

3) Smart competition leverages U.S. allies and partners.

One of America's greatest strengths in its relationship with China is its allies. Many countries in Europe and Asia share the United States' interest in finding an effective set of policies to manage Xi Jinping's more walled-off domestic environment and ambitious foreign policy. And in the spring 2018 Pew polls, a 25-country median of 63 percent said they preferred a world in which the U.S. was the leading power, while only 19 percent favored China (although President Trump, himself, fared worse in the polls than Xi Jinping).³⁰³

The United States should seek to coordinate and cooperate with allies and partners, whenever possible, to amplify its influence over Chinese government policy. Such partnerships will not be one-size-fits-all. Different issues will engage different countries. For example, on the security front China's military expansionism in the South China Sea and claim to sovereignty over Taiwan pose a significant threat to peace and stability in the Asia Pacific. To assert freedom of navigation in the South China Sea, France sailed through the disputed Spratly Islands and the U.K. joined the United States in joint drills. The United States should similarly seek such support among its Asian and European allies for upholding the basic principle of Taiwanese sovereignty and its freedom to develop without fear of Chinese coercion; one possible avenue of engagement would be supporting Taiwan's participation in FOIP capacity building projects in Asia's developing economies.

Congress should also seek stronger partnerships with its counterparts in other countries. For example, the European Union is seeking ways to address the human rights crisis in Xinjiang. As Congress continues to push the White House to impose targeted sanctions against Xinjiang officials and companies through the "Uighur Human Rights Policy Act of 2018," it should reach out to EU counterparts to assess their interest in adopting similar legislation.

Congress should also consider working with partners to push back against China's application of domestic political tools, such as Party Committee governance and the social credit system, in market access or other business opportunities for multinationals. Such coordinated action has been effective in the past in pressuring China to reverse or at least modify its policies.

Finally, Congressional engagement could be particularly useful when governments are divided around a China-related issue, as in, for example, the current debates over the inclusion of Huawei in countries' networks. The heavy-handed approach of the Trump administration in pressuring other countries to ban Huawei from their networks has largely proved ineffectual. On future such issues, interaction and quiet lobbying between members of Congress and their foreign counterparts could well help to forge new understanding and perhaps a common approach.

4) Smart competition begins at home.

The United States must invest at home to ensure competitiveness abroad. The United States already lags well-behind China in some critical areas of hard and digital infrastructure, such as high speed rail, mobile payments, and 5G capabilities. As the United States confronts policies such as Made in China 2025, the first line of defense must be to strengthen its own innovation capacity. As numerous organizations and reports have advised, this means the development of a medium and long term strategic plan; investment in innovation and the policy framework to encourage adoption of new technologies; and sound policies around workforce capabilities, including education, training, and immigration.^{siv}

China's efforts to exploit U.S. openness for its own advantage, however, necessitate additional thinking around political and economic resilience. American educational institutions, think tanks, media, and corporations are all potential targets for subtle forms of inappropriate Chinese influence, such as that exerted by Confucius Institutes on university campuses, or outright malign interference, such as intellectual property theft.

In the concern to address these potential threats as quickly as possible, however, there is the danger of adopting too blunt a set of policy tools or advancing too broad a mandate. The current debate around Confucius Institutes provides a case in point. As Congress considers measures designed to force universities to close their CI's, it should weigh the potential consequences, trade-offs, and alternatives of such measures. For example, without Confucius Institute funding, fewer Americans will study Chinese, thereby placing the United States at a disadvantage in its long-term effort to understand and compete with China.

To avoid such an outcome, Congress could agree that if a university shuts down its Confucius Institute, it is guaranteed government funding for Chinese language instruction or it could encourage universities to renegotiate their CI contracts such that the Chinese government pays for instruction but the teachers and curriculum are selected by the Universities. Both these options avoid the worst possible outcome, which is to undermine U.S. long-term competitiveness by curtailing opportunities for Chinese language study.

In helping U.S. institutions and communities respond to the potential threats posed by China's various influence operations, Congress should begin by inviting relevant actors to the table through informal consultations and then formal hearings to ensure that both Congress and the affected communities share an understanding of the threat and appropriate response. The measures that Congress adopts around Chinese investment in U.S. technology companies, the role of Chinese students and professors in university labs, Confucius Institutes, and visas for visiting Chinese scholars, among other concerns, will be more effective if they are developed in conjunction with the people they affect most directly.

5) Smart competition with China does not eschew cooperation with China.

Engagement with China is no longer a foundational principle of U.S. policy. As exemplified by a 2018 *Foreign Affairs* article by former Obama administration officials Kurt Campbell and Ely Ratner, for most U.S. official and analysts, Xi's China symbolizes a failure of engagement to realize its objectives.^{sv} The expectation was that as the United States helped to integrate China into the international system, and as China's economy developed, Beijing would both liberalize its political and economic system at home and become, alongside the United States and other advanced

economies, a standard bearer for the liberal international order abroad. While neither of those objectives has been fully realized, the Trump administration should not ignore the potential for cooperative efforts to yield important and positive outcomes.

First, political change is a long game, and the game is not over. There are many people in China—including senior officials, billionaire entrepreneurs, well-known cultural figures, civil society activists, and ordinary Chinese citizens—who are not enamored of Xi Jinping's more repressive political turn. Chinese leaders change over time and bring their own political inclinations. Cooperation, particularly at the level of civil society, provides important economic and political sustenance to reform-oriented actors.

In addition, engagement has had important and positive impacts. With pressure from the United States, China stepped up to the plate to do more than it had originally planned on climate change, Ebola, and sanctions on North Korea. Since the mid-1990s, moreover, partnerships between Chinese and American NGOs—and U.S. and Chinese government actors—have produced significant and important changes in Chinese laws and behavior in areas such as the environment, the economy, and broader social policy.

Most engagement operates not at the level of grand bargain to address global challenges but at the more mundane level of technical cooperation around the big issues of global governance, including drug trafficking, cybercrimes and the dark web, counter-terrorism, and clean energy. Along these lines, the United States and China could work toward developing norms on issues as disparate as the weaponization of Artificial Intelligence, infrastructure investment standards, or non-communicable diseases.

Such cooperation is essential to addressing many U.S. priorities and should not be ignored even as Washington adopts a more competitive posture with regard to Beijing. Cooperation also provides a counterpoint to the narrative that the United States is simply trying to contain China. And most important, neither country will be well-served if the fabric of the relationship frays beyond repair, and the two countries spirals down into a sustained cold war or hot conflict.

End notes

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Chairman ENGEL. Thank you very much, Dr. Economy.

I would now like to introduce Ms. Samm Sacks, cybersecurity policy and China digital economy fellow.

**STATEMENT OF MS. SAMM SACKS, CYBERSECURITY POLICY
AND CHINA DIGITAL ECONOMY FELLOW, NEW AMERICA**

Ms. SACKS. Chairman Engel, Ranking Member McCaul, and members of the committee, thank you very much for the opportunity to testify today.

I have worked on Chinese technology issues for over a decade, both with the national security community and in the private sector. The United States and China are locked in a deepening conflict over technology which is likely to continue for years to come, whatever happens with the trade agreement this week or soon. Beijing is doubling down on aspirations for China to become a cyber superpower. These aspirations manifest through a State-driven approach to cementing China's leadership in emerging technologies like artificial intelligence and 5G networks that will enable ubiquitous computing, as more physical systems rely on software.

I refer the committee to my testimony from March before the Senate Commerce Subcommittee on Security in which I spoke about source code reviews, localization pressures, and restrictions on cross-border data flows that compel tech transfer and impede market access. I would be happy to answer any questions about this in the hearing. Additionally, there are national security and human rights dimensions.

So, what is to be done? Overall, the U.S. policy position needs to be based on a "small-yard, high-fence" approach. This is a phrase from former Secretary of Defense Robert Gates. It essentially means being selective about what technologies we want to protect, but aggressive in protecting them.

Overreach in the form of blanket bans, unwinding global supply chains, and discrimination against Chinese individuals is not the answer. The line between U.S. and Chinese technological development is not as clear as the political borders between the two countries, as it was during the cold war. We belong to an interconnected system when it comes to research, development, manufacturing, and talent. Not all Chinese students, researchers, and scientists are spies. Treating them as such is dangerous to U.S. national interests.

So, how do we maintain the openness of the U.S. system in a way that is less vulnerable to exploitation? Is it possible to build a system that is both open and resilient? Yes, I believe we can and we must.

Let's first talk about export controls. The Department of Commerce has issued a list of emerging technologies that may be subject to new export controls due to their importance for national security and has solicited feedback from industry. I would like to offer a framework that can help us arrive at a more specific list of technologies and their applications.

Technology should be subject to greater control if it is essential to military technology, but not simply used by the military. Two, there is a scarcity of knowledge about that technology, and, three, that technology is developed exclusively in the United States or

other countries that enforce similar export controls, so as to avoid designing out of U.S.-made components. Reviews should be conducted by both military and non-military stakeholders, and the findings must be regularly reevaluated and updated.

A second issue, right now in Xinjiang the Chinese government is detaining large numbers of ethnic Muslims and using a range of technologies, like biometric scans, facial recognition, to enable mass incarceration and surveillance. There needs to be a process to systematically consider the ethnical harm that can result from seemingly benign open-source U.S.-China collaboration on basic AI research. But, to date, there has been no systematic study of this.

Export controls may not be the best tool for this, but I recommend that the United States engage with international standards bodies to develop a guide for how we can think about ethnical collaboration on academic AI. It is not a simple task. First, many AI applications are inherently dual-use. So, it is almost impossible to determine at times what is military and what is civilian. Second, it is very difficult to prevent code from going across borders. Many state-of-the-art AI systems are openly published online. And third, the United States derives benefit from working with Chinese researchers who are, frankly, doing very cutting-edge work on similar problem sets as we are. There are also national security risks to losing visibility into China's advancements.

I would suggest a process to evaluate how we can think about the nature of different collaborations, the possibility that the Chinese government may co-op private sector or academic projects, the level of technology diffusion and development toward application. This is just the beginning of the conversation.

Last, the United States must play offense by investing in its own R&D, infrastructure, and STEM education. China will not abandon its technological ambitions. So, we must be able to compete in our own right.

Thank you, and I look forward to your questions.

[The prepared statement of Ms. Sacks follows:]

On "Smart Competition: Adapting U.S. Strategy toward China at 40 Years"

A Hearing Before the

House Foreign Affairs Committee

Testimony of Samm Sacks

Cybersecurity Policy and China Digital Economy Fellow, New America

May 8, 2019

Chairman Engel, Ranking Member McCaul, and Members of the Committee, thank you for the opportunity to testify today.

I am a Cybersecurity Policy and China Digital Economy Fellow at New America. My research focuses on information and communication technology (ICT) policies in China. I have worked on Chinese technology issues for over a decade, not only with the national security community, where I focused on technology transfer and dual-use technology, but also with the private sector, tracking China's cyber regulatory environment.

All eyes this week are on the potential for a trade agreement between the United States and China. To be sure, such an agreement would be a stabilizing force in what has been perhaps the most tumultuous period in the bilateral relationship in four decades. But even if we do get some kind of agreement, the two governments will continue to struggle with a much deeper, simmering conflict over technology. As my colleague Graham Webster wrote recently: "The two societies and their governments are only starting to reckon with the challenges that will come with emerging technologies and their deep integration with social and economic systems."¹

¹ Graham Webster, "If the U.S. and China Make a Trade Deal, Then What?" *ChinaFile*, Asia Society, April 30, 2019, available at: <http://www.chinafile.com/conversation/if-us-and-china-make-trade-deal-then-what>.

The administration of President Xi Jinping is doubling down on aspirations for China to become a so-called “cyber superpower” and “science and technology superpower.”² These aspirations manifest through a state-driven approach in which political and financial resources are directed toward cementing China’s leadership in emerging technologies and the development of technical standards.³ Artificial intelligence (AI) and the 5G wireless networks that will enable data-driven applications and connectivity are top priorities for the country’s leadership.

As part of this vision, the leadership is seeking to reduce reliance on foreign suppliers in what are deemed “core technologies.”⁴ For a more detailed discussion of the challenges posed for market access of U.S. firms operating in China, I would like to refer the Committee to my earlier testimony from March before the Senate Commerce Subcommittee on Security, in which I spoke about issues such as source code review requirements, localization pressures, and restrictions on cross-border data flows.⁵ I talked about how the risks created by China’s domestic cybersecurity standards regime are not likely to go away, even if the Chinese government appears to make concessions in a trade deal, for instance by prohibiting technology transfer requirements or by removing caps on foreign ownership shares in certain sectors. I would be happy to take any questions on this topic during the hearing.

² Elsa Kania, Samm Sacks, Paul Triolo, and Graham Webster, “China’s Strategic Thinking on Building Power in Cyberspace,” *DigiChina*, New America, September 25, 2018, available at: <https://www.newamerica.org/cybersecurity-initiative/blog/chinas-strategic-thinking-building-power-cyberspace/>.

³ Hilary McGeachy, “US-China Technology Competition: Impacting a Rules Based Order,” United States Studies Centre, University of Sydney, May 2019, available at: <https://www.usssc.edu.au/analysis/us-china-technology-competition-impacting-a-rules-based-order>.

⁴ Paul Triolo, Lorand Laskai, Graham Webster, and Katharin Tai, “Xi Jinping Puts ‘Indigenous Innovation’ and ‘Core Technologies’ at the Center of Development Priorities,” *DigiChina*, New America, May 19, 2018, available at: <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/xi-jinping-puts-indigenous-innovation-and-core-technologies-center-development-priorities/>.

⁵ Samm Sacks, Testimony before the Senate Commerce Subcommittee on Security on “China: Challenges to U.S. Commerce,” March 7, 2019, available at: <https://www.commerce.senate.gov/public/index.cfm/2019/3/china-%20challenges%20for%20u.s.%20commerce> and Graham Webster, Samm Sacks, and Paul Triolo, “Three Digital Policies at Stake in US-China Trade Talks,” *DigiChina*, New America, April 2, 2019, available at: <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/three-chinese-digital-economy-policies-at-stake-in-the-uschina-talks/>.

Beyond market access, there are also national security, supply chain, ideological, and human rights dimensions to this technology conflict with China. The decisions U.S. policymakers take at this juncture are likely to have implications for generations to come. So what should be done?

U.S. policy should be based on a “small yard, high fence” approach.

Borrowing a phrase from former Secretary of Defense Robert Gates, this means being selective about what technologies are vital to U.S. national security, but being aggressive in protecting them.⁶ Overreach in the form of blanket bans, unwinding global supply chains, and discrimination against Chinese individuals based on national origin is not the answer.

The United States and China belong to an interconnected system when it comes to research, development, manufacturing, and talent. Innovation by American companies is fueled by access to the Chinese market. The leading semiconductor manufacturers make substantial profits in China. They then plow a major portion of those profits back into R&D in order to stay competitive in emerging technologies like 5G. Unlike the Cold War space race with the Soviet Union, the line between U.S. and Chinese technological development is not as clear as the political border between the two countries. Efforts to segregate or “decouple” the two systems will come at a steep cost to U.S. innovation and technological leadership.

Moreover, not all Chinese students, researchers, and scientists are spies. Treating them as such is dangerous to U.S. national interests.

⁶ Lorand Laskai and Sam Sacks, “The Right Way to Protect to American Innovation,” *Foreign Affairs*, October 23, 2018, available at: <https://www.foreignaffairs.com/articles/2018-10-23/right-way-protect-americas-innovation-advantage>.

The question, then, is: How do we maintain the openness of the U.S. system in a way that is less vulnerable to exploitation? Is it possible to build a system that is both open and resilient? Yes, I believe we can and we must.

I'd like to talk about the different tools available to do this. First, export controls.

The Department of Commerce has issued a list of “emerging technologies” that may be subject to new export controls due to their importance for national security and has solicited feedback from industry. Updating the export control regime is an important step, but, as Kevin Wolf—who played a key role in creating these rules in his former role as Assistant Secretary of Commerce for Export Administration—has testified before this committee last year: “[they must be] properly calibrated, tailored controls to avoid collateral economic costs, unnecessary regulatory burdens, and misallocation of federal resources. Excessive controls harm the U.S. defense industrial base, which results in harm to our national security.”⁷

I cannot identify today a list of emerging technologies that should be prioritized into the future. In fact, I would argue that we cannot know ahead of time the specific technologies that will be crucial to U.S. national security. So, instead of the open-ended and vague negative list that has been proposed, I'd like to offer a framework and a set of principles that can help us arrive at a specific list of technologies and applications.

In general, a technology should be subject to greater control if:

- 1) It is essential to military technology; however, the term “essential” should not be interpreted to encompass technology that is simply used or is usable by the military, since the defense industry

⁷ Kevin Wolf, Testimony before the House Foreign Affairs Committee on “Modernizing Export Controls: Protecting Cutting-Edge Technology and U.S. National Security,” March 14, 2018, available at: <https://docs.house.gov/meetings/FA/FA00/20180314/107997/HHRG-115-FA00-Wstate-WolfK-20180314.pdf>.

is increasingly reliant on commercial off-the-shelf technology. The International Traffic in Arms Regulations (ITARs) are designed to fulfill this purpose, but differentiating between essential military technology (often controlled by the United States Munitions List) and dual-use technology remains a challenge;

- 2) There is a scarcity of knowledge about the technology, except among a small group of experts located in the United States or like-minded countries; and
- 3) The United States is truly ahead of the curve, and that technology is developed exclusively in the United States or other countries that enforce similar export controls. Technical experts must be regularly consulted to evaluate incremental differences between our technology and that of other countries on this point. Not doing so risks the “designing out” of U.S.-made components from products for global markets, which would advantage foreign companies with similar products that are not subject to export controls.

Reviews of the list of emerging technologies should be conducted by both military and non-military stakeholders (including those from the commercial sector who are not regularly part of the export control system), and the findings must be regularly reevaluated and updated.⁸ This should not be a one-off process. It is very important that industry provide specific feedback to the ongoing Commerce Department process.

There are some technologies for which export controls may not be a suitable tool. Which brings me to the next question: **How should we think about U.S.-China collaboration on basic AI research?**

This is a very complex and difficult issue, and to date there is no rigorous, objective study that addresses the challenge. I recommend that the United States actively engage with international standards bodies

⁸ Ibid.

such as ISO or Institute of Electronics and Electrical Engineers (IEEE) to guide the development of standards for collaboration on open AI research. This is not something that will be solved simply or quickly due to the interplay of three main challenges:

- 1) Many AI applications are inherently dual-use. As experts like MIT's R. David Edelman have commented, it may be impossible to distinguish between civilian and military uses of AI.⁹ For example, facial recognition tools could be used to target drone strikes as well as to identify customers in a store.¹⁰
- 2) It is very difficult to prevent code from crossing borders. Many state-of-the-art AI systems like facial recognition are produced by industry and are then (in part or fully) published openly online. It would not be too difficult for a foreign military to pick up the technology and leverage it in a military application. In addition, research is often done collaboratively through networks of engineers around the world that do not conform neatly to national borders. Once code and other AI-related capabilities are published openly, it is virtually impossible to control their diffusion. Gaining control over end uses and users in global supply chains may be near impossible.
- 3) Lastly, the United States derives benefit from joint research with Chinese partners in the form of access to talent and to cutting-edge work in areas where U.S. and Chinese researchers are working to find answers to similar problems. Innovation now flows both ways across the Pacific. There also also national security risks to losing visibility and insight into the advancements of Chinese researchers and companies.

⁹ Cade Metz, "Curbs on A.I. Exports? Silicon Valley Fears Losing Its Edge," *The New York Times*, January 1, 2019, available at: <https://www.nytimes.com/2019/01/01/technology/artificial-intelligence-export-restrictions.html>

¹⁰ Justin Sherman, "U.S. Tech Needs Hard Lines on China," *Foreign Policy*, May 3, 2019, available at: <https://foreignpolicy.com/2019/05/03/u-s-tech-needs-hard-lines-on-china-artificial-intelligence-technology-microsoft-google-defense/>.

Despite these challenges, there may be more urgency now than ever for guidelines on the ethics of AI collaboration. As my colleague Justin Sherman recently wrote, “Collaboration on AI research gives far better insight into developing technology and its implementation than just reading a paper or downloading code online.”¹¹ This matters because right now in Xinjiang, the Chinese government is detaining large numbers of ethnic Muslims and using a range of technologies in the process. Biometric scans, facial recognition, devices that scan smartphones for encrypted chats, and high-tech big data monitoring systems are enabling the mass surveillance and incarceration of Uighurs and other citizens, with estimates ranging from hundreds of thousands to more than one million people affected. Recent reports indicate that the Chinese government may be using AI for racial profiling to identify and track Uighur faces.¹²

International standards are one option for assessing AI collaborations with Chinese partner organizations. The idea would be to put in place a process to systematically consider the ethics of new projects, including the potential harm that can result from seemingly benign research like computer vision. When considering AI collaborations, factors to consider include: the possibility that the Chinese government may co-opt private sector or academic projects; whether the technology has already diffused and where it is on the spectrum of theoretical research to application; the nature of the collaboration; etc. Many U.S. companies are already having these discussions internally, so the aim of a standard would be to provide a more comprehensive framework and resources for thinking through the issue, potentially including third-party audits.

Relying on standards is not a complete or perfect way to address national security or human rights implications of AI collaboration, but the extreme positions—pretending these issues do not exist in this sprawling and changing field of research, or pushing to sever all AI research ties with China, regardless of

¹¹ Ibid.

¹² Paul Mozur, “One Month, 500,000 Face Scans: How China Is Using A.I. to Profile a Minority,” *The New York Times*, April 14, 2019, available at: <https://www.nytimes.com/2019/04/14/technology/china-surveillance-artificial-intelligence-racial-profiling.html>.

the specifics or the downsides—do not serve U.S. interests and values. I hope that this can be the start of a candid and clear-eyed conversation among U.S. policymakers, companies, and research organizations.

My third and final recommendation is that the United States **must play offense by investing in its own R&D, infrastructure, and STEM education**. Ezekiel Emanuel, Amy Gadsden, and Scott Moore of the University of Pennsylvania argued in a recent op-ed that the United States must “fix the mismatch between its declared national technology priorities and the deployment of research funding.” They argue for doubling funding in basic and applied research in the areas identified by the U.S. intelligence community such as AI, 5G, and quantum computing.¹³

The bottom line is that China will not abandon its technological ambitions, so we must be able to compete in our own right.

Thank you. I look forward to your questions.

¹³ Ezekiel Emanuel, Amy Gadsden, and Scott Moore, “How the US Surrendered to China on Scientific Research,” *The Wall Street Journal*, April 19, 2019, available at: <https://www.wsj.com/articles/how-the-u-s-surrendered-to-china-on-scientific-research-11555666200>.

On “China: Challenges to U.S. Commerce”

A Hearing Before the

**Senate Committee on Commerce, Science, and Transportation’s
Subcommittee on Security**

Testimony of Samm Sacks

Cybersecurity Policy and China Digital Economy Fellow, New America

March 7, 2019

Chairman Sullivan, Ranking Member Markey, and Members of the Subcommittee, I appreciate the opportunity to testify on the challenges China presents to U.S. commerce.

I am a Cybersecurity Policy and China Digital Economy Fellow at New America. New America is a nonpartisan think tank dedicated to the mission of realizing our nation’s highest ideals through confronting challenges caused by rapid technological and social change.

My research focuses on information and communication technology (ICT) policies in China and the U.S.-China technology relationship. I have worked on Chinese technology and cyber issues for over a decade, not only with the U.S. government, where I focused on the national security implications of technology transfer and dual-use technology, but also with the private sector, looking at China’s complex and rapidly evolving regulatory environment.

This hearing could not come at a more critical moment. The United States and China are locked in a deepening conflict with technology and cybersecurity at the center. It is arguably the most significant period in the bilateral trade and investment relationship in the last four decades. The decisions made by U.S. policymakers during this window will have consequences for U.S. national security, competitiveness, innovation, technological leadership, and norms for years to come.

China’s Technology Challenge

In his testimony last week before the House Ways and Means Committee, Ambassador Lighthizer testified that technology transfer, failure to protect intellectual property (IP), large subsidies, and cyber theft of commercial secrets present major problems for the U.S.

economy.¹ While much attention is paid to the role played by joint ventures (JVs) and China's industrial policy, I will focus here on three related issues that get less attention than they deserve and where there is an opportunity right now for action: standards, data flows, and emerging technology norms and governance.

While I will focus my comments on the ICT space, these challenges are not limited to companies in the technology industry. They also matter for all sectors that rely on ICT infrastructure, data, and digital platforms—including manufacturing, finance, energy, retail, healthcare, etc.

1. *Market Access, IP, and Technology Transfer*

The administration of President Xi Jinping is doubling down on plans to reduce reliance on foreign suppliers in what are deemed “core technologies.”² These efforts coincide with Beijing's rapid build-out of the most comprehensive cybersecurity legal and regulatory regime of any government in the world. An interlocking system of laws, regulations, and standards create a maze of rules spanning data, online content, and critical infrastructure. While the Cybersecurity Law is the centerpiece of this system, far less understood are the hundreds of cybersecurity standards accompanying it, which in practice are vital for actually doing business on the ground.

These standards contribute to making China an increasingly difficult market for foreign firms to operate in. There are three main challenges posed by the standards regime:³

- **First, the Chinese government can use standards to pressure companies to undergo invasive product reviews where sensitive information and source code (even if not explicitly required) may be exposed as part of verification and testing.** This includes, for example, the security assessment process for products such as central processing units, operating systems, and office software suites. As part of the assessment, suppliers need to submit verification materials including product IP, source code, and design and development documents. China's Standardization Law (which took effect in January 2018) may require public disclosure of what are called “enterprise standards,” referring to a company's proprietary product and service specifications, according to BSA's Special 301 Submission.⁴

¹ Robert Lighthizer, “Opening Statement of USTR Robert Lighthizer to the House Ways and Means Committee,” February 27, 2019, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/february/opening-statement-ustr-robert>.

² Paul Triolo, Graham Webster, Lorand Laskai, and Katharin Tai, “Xi Jinping Puts ‘Indigenous Innovation’ and ‘Core Technologies’ at the Center of Development Priorities,” *DigiChina*, New America, May 2, 2018, <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/xi-jinping-puts-indigenous-innovation-and-core-technologies-center-development-priorities/>.

³ Sam Sacks and Manyi Kathy Li, “How Chinese Cybersecurity Standards Impact Doing Business in China,” *CSIS Briefs*, Center for Strategic & International Studies, August 2 2018, <https://www.csis.org/analysis/how-chinese-cybersecurity-standards-impact-doing-business-china>.

⁴ BSA | The Software Alliance, “Special 301 Submission,” February 8, 2018, <https://www.bsa.org/~media/Files/Policy/Trade/BSA2018Special301.pdf>.

- **Second, Chinese standards also create a competitive advantage for Chinese companies.** Chinese companies may not have the same concerns foreign companies do about providing sensitive information to the government as a condition of meeting the standards. Chinese regulators may also deem Chinese companies as being more secure under the vague criteria contained in the standards simply because they are local and therefore perceived to be more “secure and controllable” and without influence from foreign governments.
- **Third, to comply with some standards, foreign firms may need to redesign products for the China market where they are not compatible with international standards.** This is not only costly, but also creates interoperability issues with global markets.

Beijing uses vague language in standards, like in many Chinese laws and regulations, to avoid issues, such as World Trade Organization (WTO) challenges, while allowing the government maximum flexibility and discretion to apply onerous provisions when it sees fit. Internationally Beijing must disclose required standards to the WTO. However, in 2017 the government downgraded over 1,000 Chinese standards submitted to the WTO from required national standards to recommendations.⁵

Although officially most standards are deemed “recommended,” in practice many may often be required to do business in China. This is the case when standards are listed as procurement requirements for government or state-owned enterprises. Beyond government customers, some Chinese customers may not buy from vendors who lack a certification associated with certain standards. There have been cases in which customer deals do not go through because a product lacks a certain certification.

Many more standards are likely to come, as Beijing is still only in the early stages of a national effort to build out its cybersecurity standards regime. Many existing standards are still only in draft form.

For more details on China’s cybersecurity standards regime, please see the report I wrote in my previous position at the Center for Strategic & International Studies.⁶ The report includes our translation and analysis of more than 300 standards dating back to 2015, when the Cybersecurity Law drafting process began.

⁵ “396-xiang Qiangzhixing Guojia Biaozhun Feizhi 1077-xiang Qiangzhixing Guojia Biaozhun Zhuanhua” [396 Mandatory National Standards Abolished, 1077 National Standards Transformed], Ministry of Commerce of the People’s Republic of China, April 1, 2017, <http://chinawto.mofcom.gov.cn/article/j/ac/201704/20170402545384.shtml>.

⁶ Sacks and Li, “How Chinese Cybersecurity Standards Impact Doing Business in China.”

2. Data Localization

Restrictions on cross-border data flows represent one of the top problems for U.S. companies in China. According to Article 37 of China's Cybersecurity Law: "Critical information infrastructure operators that gather or produce personal information or important data during operations within the mainland territory of the People's Republic of China, shall store it within mainland China."⁷ Depending on how it is implemented, this provision could require certain kinds of data to be stored within mainland China and require security approvals for cross-border data transfer.

The Chinese government is still defining "personal information" and "important data," as well as what sectors fall under "critical information infrastructure" (CII), under separate measures still in draft form,⁸ but there are concerns that the scope could be vast and ambiguous.⁹

As the government finalizes these draft requirements amid much internal debate, it is important to keep in mind that there are also competing voices in China advocating for more alignment with international practices. Key players in China's private sector have argued that cutting off cross-border data flows will hurt the country's global economic goals; in fact, one of the main reasons why Beijing has yet to finalize the cross-border data flow measures is that there has been so much pushback from Chinese industry seeking global markets.

3. Leadership in Technology Norms and Governance

Artificial intelligence (AI), the Internet of Things (IoT), and the collection and use of the data involved present new challenges when it comes to technology norms and governance. The rules do not yet exist when it comes to complex questions related to ethics, safety, privacy, and discrimination.

Chinese scholars, practitioners, and the government are beginning to grapple with these challenges in often positive ways. There is a growing field of public conversations and legal scholarship in China devoted to topics ranging from the right to contest algorithmic decisions to

⁷ A translation of China's Cybersecurity Law is available at: <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/translation-cybersecurity-law-peoples-republic-china/>.

⁸ "Measures on Security Assessment of Cross-border Transfer of Personal Information & Important Data (Draft for comment)" and separate standard Information Security Technology - Guidelines for Data Cross-Border Transfer Security Assessment (draft for comment) together are meant to flesh out technical guidelines assessing cross-border data transfers. LINK See also Samm Sacks, Paul Triolo, and Graham Webster, "Beyond the Worst-Case Assumptions on China's Cybersecurity Law," *DigiChina*, New America, October 13, 2017, <https://www.newamerica.org/cybersecurity-initiative/blog/beyond-worst-case-assumptions-chinas-cybersecurity-law/>.

⁹ According to the latest publicly available draft, all "network operators" will be subject to assessments before exporting data out of China. In practice, this could mean anyone who owns and operates an IT network. Industry sources report the government may have walked this back recently to focus just on CII operators, but there is still tremendous regulatory uncertainty given that the definition of CII itself is up in the air. The May 27, 2017, version gives a sweeping definition of "important data," spanning that which can "influence or harm the government, state, military, economy, culture, society, technology, information ... and other national security matters."

bias and discrimination in AI—similar questions under discussion among leading AI thinkers in the United States.¹⁰

Last year, China took a major step in asserting leadership in AI governance by hosting a major international AI standards meeting in Beijing and publishing an AI standards white paper that underlined the need for rules of the road when it comes to AI ethics, privacy, and safety.¹¹ Chinese authorities see this as a way to take a leading role in international governance, reflecting long-standing concerns that Chinese representatives were not at the table to help set the rules of the game for the global Internet. The Chinese government wants to make sure that this does not happen with the next generation of transformative technology, now that China has become a technology power with a sizeable market and leading technology companies.

With AI governance still in its early stages, it is too early to know what approach China will take; however, in some areas there are very troubling indications when it comes to the Communist Party's vision for the use of technology.

Reputable reports say that in Xinjiang, the government is detaining large numbers of Muslims and using a range of technologies in the process. Biometric scans, facial recognition, devices that scan smartphones for encrypted chats, and high-tech big data monitoring systems are enabling the mass surveillance and incarceration of Uighurs and other citizens, with estimates ranging from hundreds of thousands to as many as one million people affected.¹²

It is not clear whether the Chinese government plans to expand the model for how technology is being used by security services in Xinjiang to other parts of China, but we cannot ignore that possibility that it could in the future.

There is tremendous uncertainty in China and the rest of the world about how to shape rules and norms around new technologies in ways that will bring benefits to humanity. China aspires to play a leading role in this conversation in ways that will have ramifications for U.S. companies doing business in China, and, more broadly, for the formation of global governance frameworks for the use of technology.

¹⁰ I recently participated in a Track 2 dialogue on privacy with Berkeley Law and Peking University Law. The link to the public portion of the conference is available here: <https://www.law.berkeley.edu/research/bclt/bcltevents/2019-privacy-and-cybersecurity-law-developments/agenda/>.

¹¹ Jeff Ding, Paul Triolo, and Samm Sacks, "Chinese Interests Take a Big Seat at the AI Governance Table," *DigiChina*, New America, June 20, 2018, <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/chinese-interests-take-big-seat-ai-governance-table/>.

¹² Josh Chin and Clemente Burge, "Twelve Days in Xinjiang: How China's Surveillance State Overwhelms Daily Life," *The Wall Street Journal*, December 19, 2018, <https://www.wsj.com/articles/twelve-days-in-xinjiang-how-chinas-surveillance-state-overwhelms-daily-life-1513700355>.

Recommendations for U.S. Policy Toward China

As Ambassador Lighthizer testified last week, the U.S. government is engaged in “very intense, extremely serious, and very specific negotiation with China on crucial structural issues.”¹³ This presents a window for achieving meaningful change that should not be squandered.

I have five recommendations:

1. **Adopt a “small yard, high fence” approach.** The question is how to address the challenges posed by China in a way that does not undermine ourselves in the process. In a recent article for *Foreign Affairs*, my colleague Lorand Laskai and I argue for an approach based on what the former Secretary of Defense Robert Gates called “small yard, high fence.” This means being selective about what technologies are vital to U.S. national security, but being aggressive in protecting them.¹⁴

Overreach in the form of blanket bans, unwinding global supply chains, and discrimination based on national origin is not the answer. Tools like the Committee on Foreign Investment in the United States (CFIUS), export controls, and law enforcement are designed to be used as scalpels, not blunt instruments.

Overreach has costs for U.S. security, competitiveness, and innovation. As my New America colleague Graham Webster writes for *MIT Technology Review*, there may be greater harm to U.S. interests in viewing China’s technological ambitions as an existential struggle between two competing blocs.¹⁵ That is because the United States and China belong to an interconnected system when it comes to research, development, and manufacturing. Innovation by American companies is fueled by access to the Chinese market. The leading semiconductor manufacturers make substantial profits in China. They then plow a major portion of those profits back into R&D in order to stay competitive in emerging technologies like 5G.

Unlike the Cold War space race with the Soviet Union, the line between U.S. and Chinese technological development is not as clear as the political border between the two countries. Today, government scientists have been replaced by international corporations and diffuse global networks of entrepreneurs, researchers, and venture capitalists.¹⁶

¹³ Lighthizer, “Opening Statement of USTR Robert Lighthizer to the House Ways and Means Committee.”

¹⁴ Lorand Laskai and Samm Sacks, “The Right Way to Protect America’s Innovation Advantage,” *Foreign Affairs*, October 23, 2018, <https://www.foreignaffairs.com/articles/2018-10-23/right-way-protect-americas-innovation-advantage>.

¹⁵ Graham Webster, “The U.S. and China Aren’t in a Cold War, So Stop Calling it That,” *MIT Technology Review*, December 19, 2018, <https://www.technologyreview.com/s/612602/the-us-and-china-arent-in-a-cold-war-so-stop-calling-it-that/>.

¹⁶ Laskai and Sacks, “The Right Way to Protect America’s Innovation Advantage.”

Innovation flows both ways across the Pacific. China is emerging as an AI powerhouse, with Chinese start-ups excelling in several areas, including computer vision, speech recognition, and machine translation. If U.S. companies are to have any chance of keeping up, they will need access to Chinese research, talent, and expertise.

2. Targeted demands in China trade talks. As U.S. and Chinese negotiators work to complete a trade deal, the U.S. side should structure its demands of Beijing to focus on the following issues which will have significant effect on the ability of U.S. companies to do business in China. By prioritizing the following three issues, the U.S. side may have a shot at achieving more than just a cosmetic deal with Beijing. These do not require that Beijing dismantle state capitalism or abandon its technological ambitions, but they could result in meaningful changes for doing business in China:

- a. **Standards:** Since China's standards regime is still taking shape, this is an area upon which the United States should press Beijing. The Chinese government should commit to revise regulations and standards that pressure U.S. companies to disclose source code, encryption keys, and other sensitive information such as proprietary product specifications in exchange for market access. Any government reviews should be conducted in a non-arbitrary and transparent manner, and include international third-party accredited bodies.¹⁷
- b. **Data Flows:** Beijing has yet to finalize the scope of what kind of data must be stored locally under the pending definition of critical information infrastructure. Beijing should commit to allow more commercial data to exit the country without undergoing opaque and arbitrary security audits. The final version of the relevant regulations on the issue should spell this scope out in clear terms. Beijing should also sign onto the Asia-Pacific Economic Cooperation's (APEC's) Cross Border Privacy Rules System (CBPRS)¹⁸ to facilitate cross-border data transfers with the United States. Since Beijing is concerned with new U.S. restrictions on U.S. citizen data under the expanded CFIUS regime, the U.S. side should agree to its own security reviews involving access to U.S. citizen data in a narrow fashion.
- c. **IP Theft:** On IP theft, Beijing should commit to impose criminal penalties, including jail time (not just fines) against individuals as a deterrent against IP theft. It also should agree to put in place measures that protect confidential business information during government review processes, including a dispute channel to address conflicts of interest and the types of information requested, according to the U.S. China Business Council.¹⁹

¹⁷ BSA | The Software Alliance, "Special 301 Submission."

¹⁸ See: <http://cbprs.org/>.

¹⁹ US-China Business Council, "US-China Business Council Statement on Section 301 Report," March 22, 2018, <https://www.uschina.org/media/press/us-china-business-council-statement-section-301-report>.

Robust verification measures should be put in place to backstop commitments made by Beijing. China did not live up to its commitments not to conduct cyber industrial espionage under the 2015 Xi-Obama cyber agreement. A compliance monitoring system focused specifically on IP and tech transfer should be used to scrutinize practices, procedures, and systems of violators.

3. **Work with China on setting norms for emerging technologies.** As governments around the world grapple with how to set norms and shape governance for emerging technologies, the United States benefits from cooperation and exchange with Chinese officials, companies, and policy thinkers. There are risks to losing visibility and insight into what China is doing on this front. It is in the U.S. interest to work with China to set rules on AI ethics and safety. Joint research and other partnerships provide this lens and channel.
4. **Coordinate with allies and partners to create international pressure on Beijing.** Multilateral pressure has proven successful in the past. For example, in 2009 a coalition including the United States, Japan, and Europe combined efforts to pressure the Chinese government to suspend a requirement that screening software (“Green Dam Youth Escort”) with surveillance capabilities be installed on computers sold in China. The United States should build upon the alliance structures that have been successful since the end of World War II. Unilateral action will not only compel China to retaliate against U.S. companies; it will make Beijing double down on the very structural problems we want to address, feeding Beijing’s own narrative about cybersecurity governance.
5. **The United States must play offense by investing in its own R&D, infrastructure, STEM education, and a capital market that rewards investment.** China will continue to invest in closing the technology gap with the United States regardless of our actions, so the United States must be able to compete through its own technological and economic leadership.

Chairman ENGEL. Thank you, Ms. Sacks.
Ms. Magsamen.

STATEMENT OF MS. KELLY MAGSAMEN, VICE PRESIDENT, NATIONAL SECURITY AND INTERNATIONAL POLICY, CENTER FOR AMERICAN PROGRESS, AND FORMER PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR ASIAN AND PACIFIC SECURITY AFFAIRS

Ms. MAGSAMEN. Chairman Engel, Ranking Member McCaul, and distinguished members of the committee, I am honored to testify today about the challenge that China presents to the United States and what we should be doing about it. I also commend this committee for taking on this topic so comprehensively.

I also want to thank my fellow panelists for their immense scholarship on China, which I turn to often to inform my own views.

I have submitted for the record a written statement, as well as a recent Center for American Progress strategy on China that I co-authored with Dr. Melanie Hart. I hope our report and its recommendations will prove useful to the committee as you take this effort forward. I would like to offer four general observations.

First, at the 40th anniversary of U.S.-China relations, we are entering a new competitive phase in our relationship that will need to be managed carefully by both sides. China has been in competition with us for a while, but we have been so invested in the Middle East and South Asia, and paralyzed politically at home, that we have failed to take adequate action for many years. Going forward, we will need to make better choices about where we place our strategic focus, not just overseas, but also here at home.

And, yes, there will, indeed, be choices, and we will need to accept some risk in taking them, whether it is what defense and security investments we make, what diplomatic efforts we choose to pursue, and what resource tradeoffs we make across the national enterprise. The nature of this competition will be comprehensive.

Second, in this regard, I believe that the competition with China will be defined as much by what we do to make ourselves competitive in Michigan and Ohio as what we do in the South China Sea. Whether we successfully compete will be more about how we invest in our greatest strength, the American people, than in how many aircraft carriers we have. And I say that as a former senior defense official.

Over the past few decades, China has funneled trillions of dollars into public education, public infrastructure upgrades, high-tech research and development, and global diplomacy. At the same time, Washington has dialed back investments in the fundamental pillars of national strength and, most importantly, the American people.

Third, the United States cannot compete with China alone. We need our friends, whether to confront China's unfair trade practices or to uphold international law in the South China Sea. Generating a U.S.-China competition on a purely bilateral basis does not leverage the collective strength of our allies. It also puts some countries in a position of feeling forced to choose, a dynamic we should scrupulously avoid.

Finally, U.S. policymakers should be cautious about overcorrecting on competition. We cannot abandon our democratic values. In fact, we should see those values as our comparative advantage on the field. They are what make us different from China and more attractive to others. Likewise, we should avoid painting competition as somehow civilizational. That is not only wrong-headed, but counterproductive. And even as we compete, we should remember that U.S.-China relations have also yielded constructive results for mankind.

With these observations in mind, I recommend the United States pursue a three-prong strategy with respect to China: limit, leverage, and compete.

First, we need to limit China's ability to exploit our open system without sacrificing our values.

Second, we need to leverage China's growing capabilities to advance collective interests where it makes sense for us.

Third, we need to compete at full national strength with major investments in our comparative advantage, the American people.

In conclusion, the United States can manage this new phase in our relationship with China. We should be confident in our abilities, but vigilant to what is necessary to compete effectively. And while much of the national effort required will go well beyond the jurisdiction of this committee, we must view this challenge comprehensively because that is how China views us. We can compete with China without sacrificing our values or driving ourselves into unnecessary conflict. But we have to change course now. We need to put in place some better fundamentals, both here at home and abroad.

Thank you for the opportunity to testify, and I look forward to answering your questions.

[The prepared statement of Ms. Magsamen follows:]

House Foreign Affairs Committee Hearing
“Smart Competition: Adapting U.S. Strategy Toward China at 40 Years”
May 8, 2019

Prepared Testimony by Kelly E. Magsamen
Vice President for National Security and International Policy
Center for American Progress

Chairman Engel, Ranking Member McCaul, and distinguished members of the Committee, I am honored to testify today about the challenge that China presents to the United States and what we should be doing about it. I commend this Committee for taking on this topic in such a comprehensive way. I also want to thank my fellow panelists for their immense scholarship on China, which I turn to often to inform my own. I have submitted for the record a written statement as well as a recent Center for American Progress strategy on China that I co-authored with Dr. Melanie Hart. I hope our report and its recommendations will prove useful to the Committee as you take this effort forward.

I would like to begin by offering **four** general observations:

First, at the 40th anniversary of U.S.-China relations, we are entering a new competitive phase in our relationship that will need to be managed carefully by both sides. China has been in a competition with us for a while, but we have been so invested in the Middle East and South Asia and paralyzed politically at home that we failed to take adequate action for many years. Going forward, we will need to make better choices about where we place our strategic focus—not just overseas but also here at home. And yes, there will indeed be choices and we will need to accept some risk in making them—whether it is what defense and security investments we make, what diplomatic efforts we choose to pursue, or what resource trade-offs we make across the national enterprise. The nature of this competition will be comprehensive.

Second, in this regard, I believe that competition with China will be defined as much by what we do to make ourselves competitive in Michigan and Ohio as by what we do in the South China Sea. Whether we successfully compete will be more about how we invest in our greatest strength—the American people—than how many aircraft carriers we have. And I say that as a former Defense Department official. Over the past few decades, China funneled trillions of dollars into public education, public infrastructure upgrades, high-tech research and development, and global diplomacy. At the same time, Washington dialed back investments in those fundamental pillars of national strength—and, most importantly, in the American people—and assumed the United States had enough of a head start to maintain its edge without the necessary investments at home.

Third, the United States cannot compete with China alone. We need our friends, whether to confront China’s unfair trade practices or to uphold international law in

the South China Sea. Generating a U.S.-China competition on a purely bilateral basis does not leverage collective strength of our allies. It also puts some countries in a position of feeling forced to choose – a dynamic we should scrupulously avoid.

Finally, U.S. policymakers should be cautious about over correcting with competition. We cannot abandon our democratic values. In fact, we should see those values are a comparative advantage on the field. They are what make us different from China and more attractive to others. Likewise we should avoid painting competition as somehow civilizational; that is not only wrongheaded but counterproductive. And even as we compete, we should remember that U.S.-China relations have also yielded constructive results for mankind.

With these observations in mind, I recommend the United States pursue a three-pronged strategy with respect to China:

- First, we need to **limit** China's ability to exploit our open system.
- Second, we need to **leverage** China's growing capabilities to advance collective interests.
- Third, we need to **compete** at full national strength.

Limit. U.S. markets and information platforms generally operate like an open public square. Individuals and companies from other nations can invest and do business in the United States. Visitors from other nations can share their views with the American public, enjoying some of the same rights and freedoms—such as the freedom of speech—that Americans do. To be sure, everyone must follow the law, and screening requirements do apply in some cases—but U.S. policy aims to keep the nation's markets and information arenas open so that market forces determine business outcomes and the U.S. public can make its own decisions about which information to take in and how to judge that information.

From Beijing's perspective, open systems in the United States and other liberal democracies give China the opportunity to exert influence in those nations, acquire sensitive information and technology, and bolster China's position at the target nation's expense. On the economic front, Beijing dispatches an array of firms and investment funds to acquire U.S. technologies that China cannot yet produce on its own, bring that know-how back to China, and use it to undercut U.S. comparative advantages in global technology markets.

Beijing deploys similar tactics on the information front, executing a coordinated campaign to flood public U.S. fora with positive information about China in order to counterbalance negative information about Beijing's intentions and actions. This occurs via direct propaganda and indirect narrative-shaping via proxy. On the direct side, China's state-run propaganda organizations operate their own English-language television, radio, and print media platforms in the United States; publicize pro-China material on those platforms; and insert material into major U.S.

publications. That material appears in the form of independent news articles, but these publications are part of a state-run, coordinated propaganda campaign. On the indirect side, Beijing funds language and research programs across hundreds of American primary schools, secondary schools, universities, and think tanks to support and promote pro-China school curriculums and policy research. Keep in mind, American businesses and information platforms are not afforded the same rights in China.

We cannot force China to change its approach. Nor can we abandon the openness and values that makes Americans who we are. But we can limit China's ability to exploit our openness by imposing enhanced transparency and screening. For example, we should take some of the following steps:

- Require Chinese firms to disclose their ownership structure and funding sources before entering the U.S. market.
- Mandate disclaimers on direct foreign government propaganda.
- Mandate transparency for U.S. civil society and educational institutions receiving Chinese government funding.
- Overhaul the U.S. legal framework on foreign interference to account for the scale of the China and Russia challenge.

Leverage. Where China's strategic intent aligns with U.S. and broader global interests, the United States should seek to leverage rather than limit Chinese initiatives. From a U.S. perspective, where multiple nations must share the burden to address a common global problem—such as climate change, international development, environmental degradation, nonproliferation, disaster relief, or a pandemic disease—U.S. interests are best served when all nations contribute their fair share. If the United States allows China to free-ride on global public goods provision, the United States will inevitably carry some of China's weight, and global problems will be harder to solve. And if the United States leans back diplomatically, such as the Paris Climate Accord, China then gets a freer hand to set the standards, which will inevitably be lower.

The U.S. needs to be selective and active in how it leverages China's capabilities. With this in mind, I recommend we take some of the following steps:

- Leverage China's Belt and Road Initiative where it is in our interest to do so and work to improve transparency and competition.
- Encourage greater Chinese contributions on humanitarian assistance, disaster relief and pandemic disease.
- Partner with China on global sustainability efforts so that we drive the international standards rather than ceding the field to China.

Compete. It is natural for China to seek a stronger global position and stronger influence over global rules and norms as its capabilities grow, and the United States

should not be intimidated by China. To be clear, the goal of competition should not be to prevent or hinder China's rise; rather, the goal should be to ensure that all countries are free to make their own economic and security choices free from coercion. We should also work to ensure that China's rise does not come at the expense of our fundamental interests. As we compete, it is important to remember that the United States still holds multiple advantages over China. We remain the world's largest economy (for now) and have the world's most capable military. However, we are failing to make the necessary strategic investments to sustain those advantages, both in our economic and foreign policy.

At home, the United States is not adjusting its economic policies to account for globalization. The international economy has shifted, but U.S. workers have not received the support they need to adjust to the consequences of an increasingly globalized economy. Wages are not rising despite strong economic growth, and the American middle class is being hollowed out. The United States has failed to establish domestic policies that ensure the benefits of growth are broadly shared; the result is increased inequality, stagnant wages for workers, and the lack of a viable economic model for shared prosperity in the 21st century. Going forward, the United States must make the necessary investments in the innovation drivers—science and technology education, R&D, among others—that are needed to sustain its comparative advantages in the global economy and pair those investments with policies that ensure gains are distributed equitably. A similar pattern is playing out on foreign and security policy, where the United States remains deeply invested—both in terms of resources and strategic focus—in the challenges of the past two decades.

Meanwhile, China's predatory technology acquisitions and techno-nationalist industrial policies are enabling it to dominate global markets across multiple key industries. It is then using its vast economic power to coerce countries politically. Militarily, China has made massive modernization efforts aimed at closing the gap with U.S. forces, eroding regional confidence in our security credibility, and upending regional maritime stability. Within the global governance system, China is making a series of moves—such as eroding U.N. mechanisms for human rights accountability—that undermines liberal democratic norms and augments or replaces them with more authoritarian ones.

It is becoming increasingly clear that the central contest of this century will likely be between the U.S. model of economic and political development and a more authoritarian model. We cannot rest on our laurels from the last century. With this in mind, I recommend the United States take some of the following steps:

- Launch a "National Competitiveness Initiative" with strategic investments in research and development, higher education, workforce development and public infrastructure.

- Fight back on trade in partnership with our friends and allies, in particular on digital trade and taking collective action in the WTO.
- Launch a next generation digital infrastructure initiative to ensure the U.S. is leading in setting the standards for information.
- Network a new Asia Pacific regional security architecture with an emphasis on our democratic partners, including India.
- Make the necessary defense investments to ensure effective deterrence and defeat aggression.
- Work collectively to uphold and defend democratic values, including holding China accountable for its gross human rights abuses against the Uyghur community and other marginalized groups.
- Position the U.S. national security infrastructure to compete successfully with investments in personnel, especially Chinese language training as well as more integrated policymaking structures.

In conclusion, the United States can manage this new phase in our relationship with China. We should be confident in our abilities, but vigilant to what is necessary to compete effectively. And while much of the national effort required will go well beyond the jurisdiction of this Committee, we must view this challenge comprehensively because that is how China views us. We can compete with China without sacrificing our values or driving ourselves into unnecessary conflict. But we have to change course now. Once we put some better fundamentals in place at home and abroad, we will be in a better position to succeed in this century regardless of what path China chooses to take.

Thank you again for the opportunity to testify. I look forward to answering your questions.

Introduction and summary

The greatest geopolitical challenge in the 21st century will be how the United States—and the rest of the world—responds to the rise of China. China's gross domestic product (GDP), when measured in domestic purchasing power (purchasing power parity), already surpasses that of the United States. It is now, by some measures, the dominant global economic power and is mobilizing that wealth to pursue its own vision for the international system. The central contest of this century will be between the U.S. model of political and economic development and the Chinese model of political and economic development. If China's vision prevails—if it becomes the dominant power of the 21st century—there is a risk the United States and the world will be less free, less prosperous, and less safe. The United States does not need to engage China in a zero-sum Cold War to avoid this outcome. However, it does need to put its own ideas on the table internationally, advocate for that vision, reassert global leadership, and rectify a pattern of serious missteps at home.

The United States should be well-equipped to address the challenges China is posing, but it has been hindered by decades of strategic inertia. Since the early 2000s—when China joined the World Trade Organization (WTO) and the United States launched wars in Afghanistan and Iraq—the United States has pursued a strategy that is fundamentally flawed. Instead of channeling public resources to support American innovation and invest in American workers, Washington assumed the United States could coast on a combination of natural comparative advantages and status quo technology dominance, much of which stemmed from investments made decades earlier. That approach has not worked. China is investing heavily in emerging technology sectors—such as artificial intelligence and next-generation mobile communication—to successfully chip away at U.S. technology leadership and global market share. However, in the United States, many U.S. workers are unable to find good jobs in the information economy. In sum, the United States has lagged on the very areas of strength it needs to compete against an increasingly powerful China.

Over the past few decades, China funneled trillions of dollars into public education, public infrastructure upgrades, high-tech research and development (R & D), and global diplomacy. At the same time, Washington dialed back investments in those fundamental pillars of national strength—including, most importantly, the American people—and assumed the United States had enough of a head start to maintain its edge without the necessary investments at home.

The Trump administration has identified the growing China challenge and the risks it poses to U.S. security and prosperity. Unfortunately, the administration is pursuing a strategy that weakens and isolates the United States and makes the problem worse. The Trump administration's approach to China suffers from two fundamental flaws: Economically, it is failing to enact the necessary policies at home to support U.S. workers and set the United States up to compete effectively in new technologies and markets. And, politically, it is withdrawing from its role as a global leader at the same time it is alienating potential allies and partners—who share similar concerns about China—instead of working with them.

If the United States maintains its current course, it will cede substantial ground to China. Economically, China will dominate key global markets and technologies and the high-paying jobs that go with them, forcing the United States down the value chain. China will continue to use its growing economic footprint to pursue political, military, and diplomatic goals that undermine U.S. national security, such as leveraging its role as a next-generation mobile telecom equipment provider to control global communication networks and push an authoritarian governance model for the global internet. On security issues, China's growing assertiveness will continue to undermine the security balance in Asia, take advantage of new openings that Trump is creating to erode U.S. alliances, and increasingly directly threaten U.S. national security as it shrinks the military capabilities gap. On global challenges such as climate change and global public health, absent renewed U.S. leadership, China will have wide leeway to make minimal contributions while claiming that it is doing more than enough to fulfill its responsibilities as a great power.

To turn this dynamic around, the United States must address U.S. economic challenges head-on and invest in the fundamental drivers of economic prosperity and national security: public education, infrastructure, innovation, R & D, and diplomacy. Instead of acting unilaterally, the United States must reach out multilaterally to lead and build a united front with allies and partners. With those core fundamentals in place, the United States can then execute a strategy that limits China's ability to exploit its openness; leverages China to contribute its growing capabilities in ways that benefit the global common good; and positions the United States to compete more comprehensively over the long term.

The goal of this strategy is straightforward: advance the country's national interests and put the United States in the best possible strategic position regardless of how China acts. Ideally, China returns to a more peaceful and collaborative purpose, engaging in fair competition—instead of tilting the field—and using its growing military clout to pursue common objectives that other nations share. But as the United States continues to encourage China to change course, Washington must develop policies that respond to the realities of a more assertive China that is actively undermining U.S. interests around the world.

This report presents a new strategic framework—limit, leverage, and compete—as well as key measures the United States should take to begin implementing it. The first section explains how major political shifts in the United States and China put both countries on a trajectory that led to China's re-emergence as a global power. It concludes by describing the strategic missteps—including a multidecade period of inertia and two wars in the Middle East—that have hindered the United States' ability to compete against an increasingly powerful China. The second section lays out an alternative approach to China that will reverse the current trajectory. It recommends a new strategic framework that limits China's ability to exploit U.S. openness; leverages China's growing capabilities to address global challenges; and positions the United States to compete more comprehensively over the long term. The section concludes by explaining how this strategic framework—limit, leverage, and compete—will put the United States in a stronger position to respond to the realities of a more assertive China while providing ample off ramps to adjust if China chooses a more collaborative path. The third and final section makes specific recommendations about how each pillar of this strategy should be implemented, prioritizing investments in the United States' network of democratic allies, its democratic values, and the unlimited potential of the American people.

Pillar One: Limit describes how China is exploiting U.S. openness to distort markets and exert influence over U.S. policy toward China. It offers specific policy measures the United States must adopt to limit Beijing's ability to exploit open systems for China's gain.

- Require Chinese firms to disclose their ownership structure and funding sources before entering the U.S. market
- Require disclaimers on direct foreign government propaganda
- Mandate transparency for U.S. educational and civil society institutions receiving Chinese government funding
- Overhaul the U.S. legal framework on foreign interference
- Stop allowing Chinese security services to operate illegally within U.S. borders

Pillar Two: Leverage argues that where China's strategic intent aligns with U.S. and broader global interests, the United States should seek to leverage rather than limit Chinese initiatives. It offers specific policy measures the United States must adopt to leverage China's growing capabilities to solve global challenges.

- Leverage China's Belt and Road Initiative to support regional development needs
- Encourage greater contribution to humanitarian assistance and disaster relief
- Partner on global sustainability efforts
- Push China to meet its pandemic disease responsibilities

Pillar Three: Compete explains how China uses gray-zone tactics to strengthen its global position and exert influence over global rules and norms without triggering a proportional U.S. response. It argues that the United States must shift to comprehensive competition and double down on its own comparative advantages. It offers specific policy measures the United States must take to compete at full strength.

- Launch a national competitiveness initiative
- Fight back on trade in partnership with allies
- Launch a next-generation digital infrastructure initiative
- Network a new Asia-Pacific regional security architecture
- Make the necessary defense investments to ensure effective deterrence and defeat aggression
- Work collectively to uphold and defend democratic values
- Position U.S. policy for success

While China presents the most serious economic and security challenge to the United States in a generation, the good news is that, throughout history, the United States has always excelled and advanced when it faced a strong peer competitor. Although competition with China brings significant downside risks, it also provides a critical strategic opportunity for the United States to get its own house in order. U.S. leaders and lawmakers' collective task now is to ensure that the United States puts in place a strategy that rebuilds the foundation of American strength at home and denies China easy wins. This report presents key policy recommendations for how the United States should implement each of these three parts of that strategy—limit, leverage, and compete—to advance U.S. national interests and put the U.S.-China relationship on a more competitive and stable trajectory.

How the United States got here: The emergence of a new China challenge

When the United States first reached out to China to establish formal diplomatic relations in the 1970s, China was poor, isolated, and unable to project military power beyond its periphery. Washington expected China to grow more powerful over time and assumed the best way to advance U.S. interests was to bring China into the international system and create incentives for China to rise within that system—and abide by its rules—rather than operate outside of it. Washington paired that open-door approach with a beefed-up security architecture designed to deter China from using its growing military power against U.S. allies and security interests in Asia. This “engage and hedge” strategy reached its apex in 2001, when the United States shepherded China’s entry into the WTO. Over the following decade, major political shifts in China and in the United States began to lay the groundwork for the China challenge the United States faces today.

Shortly after China joined the WTO, Beijing began to reassess the nation’s economic path. China’s piecemeal market reforms benefited some interest groups more than others, and by the early 2000s, the losers were getting restless. China’s authoritarian regime does not provide effective channels for citizens to voice discontent; when frustrations are high, citizens join forces for collective protests that, from Beijing’s perspective, could easily spiral out of control. From the mid-1990s to the early 2000s, collective protest incidents rose from less than 10,000 per year to nearly 60,000 per year.¹ Beijing feared the escalating unrest could coalesce into a massive social movement on par with the color revolutions that swept the former Soviet Union.² At the same time, Chinese leaders also began to detect early signs that China’s development model—based primarily on low-value-added manufacturing and heavy-infrastructure investment—would soon run out of steam. The only way to keep growing was to shift into higher-value-added production. In the tech sector, for example, in order to manufacture and sell DVD players, Chinese companies had to rely on core technology from Hitachi, Toshiba, and other foreign patent holders, and they had to fork over one-third of the per-unit sales price in licensing fees.³ Beijing wanted Chinese companies to develop their own technology standards so they could shift from paying royalty

fees to receiving them. But developing a knowledge economy based on the Western model—with broad access to information, a strong court system for intellectual property enforcement, and profit-driven financing—would require Beijing to relinquish more control over the nation's economy and society. Instead of taking that risk, Beijing decided to follow a different path: Reassert state control over key sectors of the economy and use those controls to restructure global markets in ways that would benefit China at its trading partners' expense.

China's economic pivot amounted to a rejection of the bargain Washington thought it struck with Beijing when it brought China into the WTO. The United States knew that welcoming a massive developing economy into the global trading system would inevitably pull manufacturing jobs from the United States to China. However, Washington expected that as China developed, the United States would gain new opportunities to export higher-value-added products to Chinese consumers, balancing the initial losses.

What Beijing decided to do in the mid-2000s was to own both ends of this deal: Use the early manufacturing shift to gain access to U.S. technology and then use state funding and preferential regulatory policies—such as forced technology transfer—to help Chinese companies develop their own homegrown versions of higher-end U.S. products.⁴ Once Chinese companies figured out how to replicate what their foreign partners were producing, Beijing then provided financial subsidies to help them sell the products at below-market costs, driving the original U.S. firms out of business. This pattern was particularly prevalent in "strategic emerging industries" where, in Beijing's view, the gap between China and developed nations was not yet insurmountable.⁵

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Forced technology transfer and intellectual property theft

Forced technology transfer occurs when regulators require foreign companies to hand over core technology and trade secrets to gain market access. For example, China requires U.S. and other foreign companies to form joint venture partnerships with a Chinese firm in order to do business in sectors ranging from auto manufacturing to electronics.⁶ That gives the Chinese partner access to U.S. technology, which the partner can use to replicate the product. For example, China's Zhangjiagang Glory used its joint venture partnership with DuPont to replicate a proprietary chemical process and produce and sell a DuPont product without DuPont's involvement or consent.⁷ When DuPont tried to stop work through China's legal system to force Zhangjiagang Glory to stop using the stolen technology, Chinese officials raided DuPont's Shanghai office. More recently, China's Cybersecurity Law gives the nation's police and intelligence officials the authority to access

company networks and force foreign companies to hand over source codes and other proprietary intellectual property to prove the equipment they sell to Chinese consumers is secure.⁸ Many companies fear Beijing intends to use those inspections to steal foreign technology secrets. The joint venture requirement and new cybersecurity requirements both utilize Chinese market access as a carrot to convince U.S. and other foreign companies to voluntarily hand over their technology secrets. Companies who do not seek market access or refuse to hand over technology to gain that access can still lose intellectual property to China through cyberattacks and covert human theft operations. For example, U.S. chip maker Micron has accused China's state-owned Fujian Jinhua Integrated Circuit Co. of offering lucrative salary packages to Micron employees, hiring them, and then using them to steal and replicate Micron's semiconductor technology.⁹

In the wind industry, for example, Beijing used localization rules to force foreign companies to hand over turbine technology, which China then used to build its own manufacturing sector. In 2005 Beijing issued a notice stating that, in order to “speed up the pace of development of the domestic manufacturing of wind power equipment,” Chinese regulators would no longer grant construction permits for wind farms that did not source at least 70 percent of their content from domestic firms.¹⁰ To stay in the market, foreign firms—such as Spain’s Gamesa—trained Chinese firms to serve as their component suppliers. The Chinese government then provided hundreds of millions of dollars in subsidies to help newly trained Chinese suppliers gain market share at home and around the world.¹¹ In 2005 Spain’s Gamesa had a 35 percent market share in China.¹² By 2010, after Gamesa trained more than 500 Chinese companies to make turbine components, its market share had decreased to 3 percent in China, and Chinese firms were providing components for 85 percent of China’s domestic market and nearly 50 percent of the global market.¹³

To be sure, smart policy also played a critical role in moving China up the value chain. In addition to pilfering trade secrets from international partners, China’s indigenous innovation initiative also directed trillions of dollars to build up the nation’s education, infrastructure, and R & D capabilities. Smart policy investments in those sectors—the pillars of a nation’s innovation ecosystem—made it possible for China to significantly upgrade its domestic science and technology capabilities. In 2000, China had 1,041 colleges and universities producing 950,000 graduates per year; as of 2017, China had 2,631 colleges and universities producing more than 7 million graduates per year.¹⁴ Between 1992 and 2011, China spent 8.5 percent of its GDP on public infrastructure—roads, rail, telecommunication, utility, airport, and seaport projects—that improved production efficiency and connected its citizens to the global economy.¹⁵ In contrast, the United States spent just 2.6 percent of its GDP on public infrastructure during that same time frame.¹⁶ Since 2000, China has increased its R & D spending by around 18 percent per year, doubling its gross domestic research and development expenditures from less than 1 percent of GDP in 2000 to 2.1 percent in 2017.¹⁷ In contrast, U.S. spending remained relatively flat—the United States spent 2.6 percent of its GDP on R & D in 2000 and 2.78 percent in 2017.¹⁸

Inertia and the Great Recession

From the beginning, Beijing’s goal was to catch up with and eventually surpass the United States. The United States helped China along by entering a multidecade period of inertia. On the foreign policy front, at the same time China joined the WTO, the United States launched two wars in the Middle East and South Asia that made it harder to invest in economic development at home or focus strategically on forward-looking diplomatic

engagement in Asia. Unlike the Cold War, the war on terror did not force the United States to face off against a peer economic competitor, so Washington did not have a foreign policy imperative to upgrade the nation's domestic economic capabilities. When global manufacturing began to shift to China following its WTO entry—pulling critical jobs out of the United States—Washington did not significantly ramp up domestic investments in education, public infrastructure, or R & D to help develop new, higher-tech industrial sectors and high-paying jobs to replace those lost to China.

For both nations, the 2008-2009 global financial crisis was a major inflection point. On the U.S. side, one-fifth of American workers lost their jobs, and less than half have found new jobs with salaries equivalent to those they had before the crisis.¹⁹ In China, Beijing used a combination of capital controls and a \$586 billion stimulus to avoid following the United States and Europe into recession.²⁰ China weathered the crisis so well that many Chinese observers viewed it as an indicator that China's state-directed economic model was superior to Western-style liberalism. The crisis also convinced many in Beijing that U.S. decline was officially underway, China was ascendant, and it was time for China to step forward and play a much bigger leadership role at the international level. After Xi Jinping took over as China's top leader in 2013, he made expanding China's global influence a top priority.

The United States was slow to recognize the degree of change underway in China. Three factors muddled the waters. First, China was beginning to leverage its new capabilities to support global objectives the United States shared, such as joining forces with the Bush administration and other G-20 nations to prevent global economic collapse in 2008 and working with the Obama administration to secure the Paris climate agreement and the Iranian nuclear deal in 2015. Those successes produced positive examples of U.S.-China partnership that, at a macro level, counterbalanced some of the concerns growing in other areas. Second, for U.S. businesses, the picture was mixed. U.S. exports to China grew 86 percent between 2007 and 2017, and those exports support 1 million U.S. jobs.²¹ For every U.S. company sounding the alarm about Chinese malpractice—such as American Superconductor Corp., which spent years pursuing restitution after China's Sinovel stole its wind turbine technology—there was another company describing China as a land of opportunity.²² Third, there was—and continues to be—a divide in China, with many experts and even senior party and government officials calling for more liberal economic reform. In November 2013, Xi Jinping released a sweeping 60-point economic reform blueprint that promised to let “market forces play a decisive role” in the economy.²³ There were many hopeful reformers inside China reading that plan as an indicator that Xi's escalating political crackdowns were primarily aimed at breaking up powerful

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interest groups blocking liberal economic reform. Those hopes were dashed in 2015 when China's stock market crashed and the new leadership responded with heavy-handed interventions. These included banning major shareholders from selling their stocks and threatening to arrest those who did not comply; arresting journalists who shared negative information about the market; and using more than \$200 billion in state funds to prop up the market through ad hoc purchases.²⁴ Anti-market voices in Beijing utilized the crash to silence liberal reformers, arguing that market forces bring unacceptable political risks and the Chinese Communist Party (CCP)—not the markets—must play the decisive role going forward.

By 2015, alarm bells were sounding on multiple fronts.²⁵ On the economic front, U.S. businesses were facing a host of new Chinese market regulations that imposed new barriers and tilted playing fields to favor Chinese firms over foreign competitors. Beijing released the “Made in China 2025” plan, which called for Chinese firms to supplant their foreign competitors in China and in global markets and provided financial and regulatory support to help them do so. Beijing also implemented a new cybersecurity law requiring foreign firms to store data on mainland Chinese servers and hand over proprietary source codes and other trade secrets to pass a new national security review process—measures that exposed U.S. data and intellectual property to potential misuse and theft.²⁶

On the security front, there was growing evidence that China intended to exercise its strength in destabilizing ways. The United States and the world began to pay sharper attention to China's actions in the South China Sea.²⁷ China had made significant progress constructing a massive man-made island in disputed waters, and those images served as an impossible-to-ignore metric for China's military ambitions.²⁸ When the Philippines exercised their legal rights under the U.N. Convention on the Law of the Sea (UNCLOS) to contest China's behavior, Beijing worked to undermine the U.N. tribunal adjudicating the case.²⁹ In the East China Sea, China increased its air and maritime operations around the Senkaku Islands. The United States also uncovered two massive Chinese cyberattacks in 2015: an attack on the U.S. Office of Personnel Management, in which China obtained 4 million federal government personnel files, and an attack on health insurer Anthem Inc., in which China obtained private data on 80 million Americans.³⁰

On the political front, Beijing adopted a new foreign nongovernment organization (NGO) management law that requires U.S. think tanks, business associations, and other NGOs to apply for a permit from the Chinese police before visiting China for meetings and other “temporary activities.”³¹ These changes unfolded against the backdrop of a much broader domestic political tightening, in which the CCP enacted sweeping new controls over Chinese society, reducing the space for Chinese citizens to voice or hear independent views.

When U.S. officials tried to push back against these measures, they discovered they did not have effective tools to do so. The U.S.-China Strategic and Economic Dialogue (S&ED) proved to be much more effective at highlighting areas of agreement than addressing disagreement. Annual S&ED meetings produced hundreds of Chinese commitments to address U.S. trade and investment complaints, but there was no formal mechanism to track implementation or to hold China accountable.³² Beijing made the same promises year after year, convincing many U.S. officials that China primarily saw the S&ED as a mechanism for keeping Americans running on a hamster-wheel of meetings, diverting energy they might otherwise use to pursue retaliatory actions that could impose real costs on China. U.S. companies could pursue anti-dumping or countervailing duty remedies through the U.S. Department of Commerce, but those remedies only apply to Chinese goods sold in the U.S. market. Companies could also petition the U.S. government to pursue cases against China at the WTO—something individual companies cannot do themselves—but that approach is slow, costly, and risks Chinese retaliation. Beijing frequently threatens to kick companies who file formal trade cases against China—or even just voice their complaints publicly—out of the Chinese market. To avoid that, many do not bother, choosing instead to accept their losses as a cost of doing business in China. Over time, those losses add up to a major erosion in U.S. competitiveness. Even when U.S. companies—or the U.S. government acting on their behalf—do win trade cases against China, Beijing frequently uses its state-controlled system to avoid enforcement.

For example, in 2017, Beijing amended more than 1,000 cybersecurity standards, downgrading previously mandatory requirements to voluntary ones as a means to evade WTO scrutiny.³³ However, despite the change in official language, Beijing still requires foreign firms to meet those standards in order to do business in China. The only difference is that those firms no longer have clear evidence to use for WTO complaints. When the world's largest economy consistently evades accountability and enforcement, it begins to undermine the entire rules-based trading system.

When the United States first engaged China, Washington assumed rules-based international systems were strong enough to shape China; instead, in the Xi Jinping era, it is discovering that China can undermine those systems in dangerous ways.

When U.S. officials tried to push back against these measures, they discovered they did not have effective tools to do so.

Chairman ENGEL. Thank you, Ms. Magsamen.
Dr. Friedberg.

STATEMENT OF DR. AARON FRIEDBERG, PROFESSOR OF POLITICS AND INTERNATIONAL AFFAIRS, CO-DIRECTOR, CENTER FOR INTERNATIONAL SECURITY, WOODROW WILSON SCHOOL, AND FORMER DEPUTY ASSISTANT FOR NATIONAL SECURITY AFFAIRS, OFFICE OF VICE PRESIDENT DICK CHENEY

Dr. FRIEDBERG. Chairman Engel, Ranking Member McCaul, thank you very much for giving me the opportunity to testify.

I would like to touch on three issues. First, what is our strategy toward China. Second, what China's strategy appears to be. And then, third, how we might adjust our strategy in light of those insights.

I would like to begin by endorsing a point that Chairman Engel made in his opening statement. The strategy of engaging with China that we have been pursuing for the last 40 years I think was not a blunder, but it was a gamble, and it has become increasingly obvious that the gamble has not paid off. China has clearly become richer and stronger, but the CCP regime has become even more repressive and more militantly nationalistic. It continues to deploy market-distorting, mercantilist economic policies, and its external behavior has become increasingly aggressive. The simplest explanation for the failure of U.S. strategy is that it underestimated the resilience, the resourcefulness, and the ruthlessness of the Chinese Communist Party and its determination to hold onto domestic political power.

China's rulers appear to have three consistent strategic objectives. First and foremost, to preserve the power of the CCP. Second, to restore China to what the regime sees as its proper historic status as the preponderant power in eastern Eurasia. And third, to become a truly global power with influence and presence on par with, and perhaps eventually superior to, that of the United States.

And the key point I think is that the last two goals are related to the first. As their power has grown, China's leaders have begun to reach out beyond their borders in an attempt to reshape the world in ways that they believe will make it less threatening and more conducive to the survival of their regime. In sum, they are trying to make the world safe for authoritarians or at least for perpetual CCP rule of China. And this shift toward a more assertive stance began to become visible in the aftermath of the 2008 global financial crisis, and it has intensified markedly since the rise to power of Xi Jinping in 2012–2013.

There is obviously ambition here. China's leaders believe that the U.S. is in decline and that their time has come, but there is also a good deal of insecurity and a sense of urgency. Like his predecessors, Xi fears dissent, social instability, and political unrest. He knows that China faces serious difficulties in sustaining economic growth and dealing with the needs of its aging population, among other problems. And one reason the CCP regime is pressing so hard now may be that they see a window of opportunity that they do not think is going to stay open forever.

In its own neighborhood, China is trying to use its growing military capabilities to undermine the credibility of America's security guarantees and push the U.S. away, while relying on political influence operations and the increasing gravitational attraction of its own massive economy to pull others toward it. And ultimately, they seem to envision a new regional system that would extend across much of Eurasia, linked together by infrastructure and trade agreements, with China at its center and America's democratic allies either integrated and subordinated or weakened and isolated, and the United States pushed to the periphery, if not out of East Asia altogether.

As regards their global ambitions, they believe that in every historical period there is a dominant power that gets to set the rules and shape the institutions in ways that serve its own interests and reflect its ideology. And in the long run, I think the regime aims to surpass the United States in terms of material capabilities and to usurp its role in shaping the international order. Of course, it is one thing to have such ambitions, quite another, actually, to fulfill them.

So, in light of these considerations, how should we adjust our strategy? The root of our problems with Beijing, in my view, is the character of the CCP regime. This is not a civilizational struggle, but it is a contest between two opposing political systems and two contending visions for the future of Asia and the world. And the history of the last several decades suggests that we have very limited capacity to encourage positive change in China, certainly not by offering yet more rewards and inducements. We need to deal with China as it is, not how we would wish it to be. But, for that reason, we need to acknowledge that, for the foreseeable future, the prospects for stable, cooperative relations are very limited. Beijing is going to continue to push, and unless we choose to give way, a period of intensifying rivalry is, therefore, inevitable.

A second point that should be obvious, but bears repeating—and several have already said it—our prospects in this rivalry will be greatly enhanced if we can find ways to cooperate more effectively with our democratic friends and allies. Looking ahead, I think our strategy will have to be two parts defensive and one part offensive.

First, and perhaps most obvious, together with our friends and allies, we need to counter Beijing's attempts to expand its influence through coercion and subversion, and in the Indo-Pacific region that is, at root, a problem of military planning and collective defense. At the same time as we seek to block some of the many vectors of Chinese outward expansion, we, together with our friends and allies, have to take steps to better protect our own society's economies and political systems from exploitation and manipulation. And this is a difficult problem, and I think it is one that we have only begun to wrestle with.

In the political domain, the question is how we can best protect ourselves against Chinese influence operations without sacrificing the openness that has historically been our greatest source of strength. And in the economic realm, the challenge will be to defend against China's predatory practices, protect our technological advantages, and avoid doing things that make it easier for Beijing

to sustain its current economic model without imposing undue costs on ourselves.

Third and finally, we cannot afford to remain entirely on the defensive in our evolving competition with China. We need to find ways to impose costs on Beijing for its egregious and harmful behavior, both at home and abroad. The proximate aim of our new strategy must be not to change the character of the CCP regime, but to protect ourselves against it. We need to demonstrate to China's current rulers that they cannot succeed if they continue along their present path. In the process, it is possible that we could help to set in motion forces that will lead eventually to meaningful change. But, in the meantime, to paraphrase George Kennan, we are going to have to look to our own defenses while we await the "breakup or gradual mellowing" of CCP power.

Thank you very much. I look forward to answering your questions.

[The prepared statement of Dr. Friedberg follows:]

Testimony before the House Foreign Affairs Committee

“Smart Competition: Adapting U.S. Strategy Toward China at 40 Years”

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May 8, 2019

A superficial consensus

- Chairman Engel, Ranking Member McCaul – thank you for inviting me to testify.
 - I am grateful for this opportunity to express my views and I appreciate your efforts to reach bipartisan agreement on how best to meet the urgent and intensifying strategic challenge that we now face from China.
 - Here and throughout my remarks when I use the term “China” I am actually referring to that country’s Communist Party rulers.
- Despite what some recent commentary might seem to suggest, I don’t believe that we have yet achieved a consensus on the nature of that challenge, still less on the strategy that we are going to need to adopt in order to meet and defeat it.
 - To use a medical analogy: after a prolonged period of collective denial we’ve finally started to acknowledge the existence of some very troubling symptoms
 - But we haven’t yet reached agreement on a *diagnosis* of their cause, nor on a *prescription* for treating them.
- It is vital that we do so, and preferably sooner rather than later.
 - We have considerable strengths and sources of potential advantage that we can and should bring to bear.
 - But, given the nature of our domestic political system we will not be able to exploit these advantages to the fullest in the absence of broad agreement on the necessity of doing so.
- Historically, we have tended to achieve such consensus only in the aftermath of shocks or crises that galvanized and unified the nation.
 - This has worked out for us in the past, but it is a costly and potentially very risky way of doing business.
 - It would certainly be preferable if we could act decisively in anticipation of such events in order to prevent them from happening.
- With this in mind, I would like to discuss three sets of issues:
 - First, how did we arrive at this point? What is the nature of the strategy we have been pursuing towards China and why has it failed?

- Second, what is *China's* strategy? How does the CCP regime define its objectives and how is it attempting to achieve them?
- Third and finally, in light of what we now know, how should we redefine our goals and reshape our strategy so as to improve our prospects for eventual success?

A failed strategy

- For the better part of the past four decades the United States pursued a two-pronged approach to dealing with China, one that combined engagement with “balancing”:
 - On the one hand, we sought to engage with China across all fronts: diplomatic, cultural, scientific and above all economic.
 - At the same time, after the end of the Cold War, successive U.S. administrations worked to maintain a favorable balance of power in the Asia-Pacific region, primarily by strengthening U.S. forward-based forces and bolstering traditional alliances
- The goals of this two-pronged strategy were essentially to preserve stability, discouraging aggression or attempts at coercion while waiting for engagement to “tame” and ultimately to transform China.
 - Engagement was supposed to encourage China’s leaders to become “responsible stakeholders” in the existing, U.S.-led international order - while at the same time setting in motion forces that would accelerate the liberalization of China’s economy and, eventually, the democratization of its political system.
- This mixed strategy promised economic, as well as strategic benefits for the United States. It had strong, bipartisan political support. And it was not, from the start, an obvious mistake.
 - But it was a gamble.
 - And, has become increasingly obvious, that gamble has not paid off.
 - China has clearly become far richer and stronger, but instead of loosening its grip, the CCP regime has become even more repressive and more militantly nationalistic.
 - Instead of evolving towards a truly market-based economy, Beijing continues to deploy state-directed, market-distorting, mercantilist policies.
 - Meanwhile, China’s external behavior has become more assertive, and even in certain respects aggressive.
- The simplest explanation for the failure of U.S. strategy is that it underestimated the resilience, resourcefulness and ruthlessness of the Chinese Communist Party and its determination to hold on to domestic political power.
 - Even as they opened up and began to enjoy the enormous benefits of foreign trade and investment with the U.S. and other Western countries, China’s rulers worked diligently to retain control over the direction of their national economy and to

preserve their grip on the Chinese people through an evolving mix of surveillance, repression, co-optation and nationalist propaganda and indoctrination.

- In sum, they found a way to enhance their wealth and power without having to fundamentally alter their economic and political systems and without triggering a strong counter-reaction from us.

What does Beijing want?

- Over the past 40 years, and arguably since the founding of the People's Republic, its rulers appear to have had 3 strategic objectives:
 - First and foremost, to preserve the power of the CCP
 - Second, to restore China to what the regime sees as its proper, historic status as the preponderant power in eastern Eurasia
 - Third, to become a truly global player, with power, presence and influence on par with, and eventually superior to, that of the United States.
- These last two goals are related to the first:
 - As their power has grown, China's leaders have begun to reach out beyond their borders in an attempt to reshape the world in ways that they believe will make it less threatening and more conducive to the survival of their regime
 - Just as, at the turn of the twentieth century, American policymakers set out to "make the world safe for democracy," so, since the start of the twenty-first, their Chinese counterparts have been working more openly and vigorously to make it safe for authoritarianism, or at least for continued CCP rule of China
 - This shift towards a more assertive stance began to become visible in the aftermath of the 2008 global financial crisis, and it has intensified markedly since the rise to power of Xi Jinping in 2012/2013
- Like his predecessors, Xi is driven by a mix of insecurity and ambition.
 - He fears dissent, social instability, and political unrest and he is convinced that the United States and its democratic allies are out to encircle his country and undermine his regime.
 - He has also learned that, within certain limits, a measure of tension and controlled confrontation with other countries can be useful in stirring nationalist sentiment, rallying popular support, and deflecting public frustration outward against what the regime describes as "hostile foreign forces."
- Especially in the aftermath of the financial crisis, Xi and his colleagues have concluded that the United States is in relative decline, that their own power is on the rise, and that the moment has come for China to reclaim its rightful place in Asia and on the world stage.
 - They decided to put aside Deng Xiaoping's advice that China should "hide its capabilities and bide its time."
- But even the regime's overall, long-term confidence is tinged with uncertainty and a sense of urgency:

- China's rulers know that they face serious difficulties in sustaining growth (avoiding the so-called "middle income trap"), dealing with the needs of an aging population and a severely polluted natural environment, among other problems.
 - And they continue to have a healthy respect for the resilience and power of the U.S. system and our ability to mobilize resources once we recognize that we are being challenged.
 - One reason they are pressing so hard now is that they see a window of opportunity that may not stay open forever
- Both in Asia and more broadly, Beijing is attempting to integrate and apply all of the instruments of its national power, albeit in varying combinations
- In its own neighborhood:
 - The regime hopes that its growing military capabilities will help to undermine the credibility of America's security guarantees and to weaken its alliances.
 - The object of China's military buildup is not to be able to fight and win a war with the United States but rather to "win without fighting," building sufficient strength that resistance to its wishes will eventually appear futile
 - At the same time as it tries to push the U.S. away, China is using the attraction of its massive market and its increasing role as a source of investment to try to pull others toward it and to extend its influence, via the Belt and Road Initiative, into maritime East Asia and across continental Eurasia
 - At Xi's direction, the CCP has also stepped up its use of influence operations to try to undermine and weaken the ability of other countries to resist its efforts
 - Ultimately Beijing appears to envision a new regional system extending across Eurasia, linked together by infrastructure and trade agreements, with China at its center, America's democratic allies either integrated and subordinate or weakened and isolated, and the United States pushed to the periphery, if not out of East Asia altogether.
- As regards their global ambitions:
 - China's rulers believe that, in every historical period and every international system, there is a dominant player, or hegemon, that gets to set the rules and shape the institutions in ways that serve its own interests and reflect its ideology
 - Since the end of the Cold War that dominant player has been the U.S., with its insistence on what the CCP derisively refers to as "so-called universal values": freedom of speech and religion, representative democracy, the rule of law, and so on.
 - Those values are obviously profoundly threatening to the legitimacy of the CCP regime.
 - In the long run, China's rulers hope to be able to surpass the United States in terms of material capabilities and to usurp its role in shaping the international order.

- That is why, among other things, they attach such importance to closing the technological gap that still separates them from the West and transforming China into an “innovation superpower”
 - This is not just a matter of prestige, still less of improving the welfare of the Chinese people.
 - Winning the contest for technological advantage is part of China’s ongoing struggle for power and influence with the United States. It is a matter of life and death.
- But Beijing is not sitting back and waiting for the day when it overtakes the United States according to some abstract measure of national power. To the contrary, it is actively applying its growing capabilities to expand its global presence and influence and to begin to reshape portions of the existing international order.
 - It is sometimes said that, because it has benefited so greatly from that order China would never seek to overthrow it. That may be true in a narrow sense, at least for now. But it also misses the reality of what Beijing is up to:
 - The regime is currently picking and choosing, continuing to support and to exploit those institutions from which it still benefits (like the World Trade Organization and the UN Security Council), ignoring those that do not serve its interests (like the International Tribunal for the Law of the Sea), turning others (like INTERPOL) to its own purposes, and weakening those (like the UN Commission on Human Rights) that threaten its legitimacy.
 - Beijing has also begun to develop new institutions (like the AIIB) and to promote new norms (like the idea of “internet sovereignty”) that aim to circumvent and perhaps eventually to displace those favored by the West.
 - Some observers also claim that China is not trying actively to spread its own brand of market authoritarianism to other parts of the world. While this may once have been true, it is no longer the case.
 - Xi Jinping has recently said that China has a model that others may wish to imitate.
 - In any case, China is acting in ways that weaken democratic institutions where they are not firmly established (through bribery and corruption) and strengthening the hands of the authoritarian regimes with whom it generally prefers to deal (including by providing them with CCTV networks, facial recognition software and other surveillance technology).
 - Chinese planners are focusing particular attention on parts of the developing world, especially Africa (a continent whose population is now projected to double to over 2 billion people by the middle of this century)
 - They evidently see African nations (and other parts of the global South) as a source, not only of raw materials as in the past, but of

markets, data and diplomatic support in future confrontations with the West.

- And they are also clearly interested in acquiring access to ports, airfields and other facilities from which they can conduct surveillance and one day project military power.
 - As regards the advanced industrial democracies, in the last several years, Beijing has become more aggressive in using economic threats to try to squelch criticisms of its domestic repression and to punish other governments for pursuing policies to which it objects.
 - More generally, China seeks to exploit and widen divisions within the West, taking advantage of differences over trade issues to try to drive wedges between the U.S. and its allies in Europe and Asia.
- China's leaders may not yet have a fully developed picture of how they would like the world to look, but in certain respects their picture of a desired future will likely resemble an inverted image of the recent past. In the coming decades:
 - CCP-ruled China will be acknowledged as the world's most powerful nation
 - Especially in the developing world, an increasing number of countries will look to it as an example of how to organize their economic and political systems
 - International institutions, norms and standards will increasingly reflect its preferences
 - And its presence and influence will expand, even as those of the U.S. contract.
 - In the long run, the United States will be reduced to playing the part of a regional power, while China steps up to become a truly global player
 - It is one thing to have such ambitions, quite another actually to fulfill them.
 - But if we are to compete effectively, we need to begin by trying harder to understand what it is that our opponents seek to achieve and by acknowledging that Beijing's vision for the future is likely very different from and, in many respects, antithetical to our own.

How should the U.S. respond?

- In light of these considerations, how should we adjust (or overhaul) our strategy?
- The root of our problems with Beijing is the character of the CCP regime.
 - This is not a "civilizational struggle," nor is it merely a traditional great power rivalry (although it does have elements of one).
 - Rather it is a contest between two opposing political systems and two contending visions for the future of Asia, and the world.
- The history of the last several decades suggests that we have very limited capacity to encourage positive change in China, certainly not by offering yet more rewards and inducements.

- We need to deal with China as it is, not how we might wish it to be.
 - But, for that reason, we need to acknowledge that, for the foreseeable future, the prospects for meaningful cooperation are very limited and conciliatory gestures risk being perceived as signs of weakness.
 - Notwithstanding their various anxieties and concerns, at least for the moment, the CCP leadership believes they have the wind at their backs and that history is on their side.
 - They are going to continue to push and, unless we choose to give way, a period of intensifying rivalry is thus inevitable.
- A second point that should be obvious but bears repeating: our prospects in this rivalry will be greatly enhanced if we can find ways to cooperate more effectively with our democratic friends and allies.
 - Both in Asia and in Europe there is a growing awareness of the challenge China poses across multiple fronts and of the need to find an effective response.
 - Taken together, the democratic nations of Europe, Asia and the Western Hemisphere account for over half of global GDP (versus only about 15% at present for China)
 - Properly mobilized and applied, this should be more than enough to maintain a favorable balance of power, even assuming that China continues to grow rapidly, which it may not
 - In a sense, Beijing has done us a favor in recent years by acting as aggressively as it has.
 - The CCP leadership would probably have been wiser to continue to follow Deng Xiaoping's advice about keeping a low profile.
 - But we need to take advantage of this opportunity rather than squandering it by squabbling with our allies over secondary issues.
- Looking ahead, our strategy will have to be two parts defensive and one part offensive.
- First, and perhaps most obvious: together with our friends and allies, we will need to work harder to counter Beijing's attempts to expand its influence through coercion and subversion.
 - In the Indo-Pacific region this is, at root, a problem of military planning and collective defense:
 - Our top priority must be devising, articulating, funding and implementing a set of operational concepts that visibly offset China's investments in anti-access/area denial capabilities.
 - This is essential to the continuing credibility of our security commitments and therefore to the durability of our regional alliances.
 - Yet, as the recent report of the National Defense Strategy Commission points out, it is something that the Defense Department has not yet done.
 - Congress needs to hold DoD's feet to the fire on this issue.

- Both in the region and beyond, especially in the developing world, we will need to work with others to limit the harmful effects of China's closely linked investment and political influence operations, especially under the auspices of its so-called Belt and Road Initiative.
 - Here the emphasis must be on economic statecraft, diplomacy and public information, rather than military means.
 - But here again we need a strategy to help set priorities and to discipline and focus our actions.
 - We should not, and cannot afford to oppose everything China is trying to do in this domain.
 - Not so much because some of it may have benefits for local populations (although that is possible) but because much of it will likely turn out to be economically wasteful and strategically counterproductive for Beijing.
 - We shouldn't do things that have the effect of shielding them from the consequences of their own mistakes.
 - Exposing the risks and problems associated with Chinese investment is useful.
 - Recent experience suggests that this can be done far more credibly by local journalists, think tanks and NGOs than by State Department-sponsored videos
 - Organizations like the International Republican Institute and the National Endowment for Democracy can play an especially helpful role in this regard and they deserve strong and continuing Congressional support.
 - But we can't beat something with nothing.
 - Here the BUILD Act is a step in the right direction.
- At the same time as we seek to block some of the many vectors of China's outward expansion we, together with our friends and allies, are going to have to find ways of better protecting our own societies, economies and political systems from exploitation and manipulation.
 - In sum, we are going to have to modulate and constrict certain aspects of our economic and societal engagement with China.
 - This is a difficult problem and one that we have only begun to wrestle with.
 - Among the questions that need to be addressed are: how can we do this without imposing greater costs on ourselves than on our competitors? And how can we do it without sacrificing the openness that has historically been our greatest source of strength?
 - The toughest challenge we and the other advanced industrial nations face in this regard is figuring out exactly where and to what extent we should seek to disentangle or decouple our economies from China's.

- This process is already well underway, and largely at China's instigation.
 - We need to reexamine all aspects of our economic relationship, including but not limited to those related to the development of new technologies that may have military as well as commercial applications.
 - The question we should be asking is not whether particular transactions or arrangements benefit specific companies or even entire sectors but whether, on balance, they serve the interests of the nation as a whole.
- Third and finally: we cannot afford to remain entirely on the defensive in our evolving competition with China.
 - We need to find ways to illuminate the brutal and corrupt character of the CCP regime and to impose costs on it for its egregious and harmful behavior, both at home and abroad.
 - To take only one example:
 - We and our allies should be seeking ways to make Beijing pay a price for its treatment of its Uighur minority population
 - At a minimum, we should not be doing things that make it easier for the CCP to repress and control its people.
 - For example, by failing to discourage our firms and universities from cooperating with Chinese counterparts in developing technologies that can be used for these purposes.
- The proximate aim of our new strategy must be, not to change the character of the CCP regime, but to protect ourselves against it.
 - We need to demonstrate to China's current rulers that they cannot succeed if they continue along their present path.
 - In the process, it is possible that we could help to set in motion forces that will lead eventually to meaningful change. We should certainly not overlook or do anything to foreclose this possibility.
 - But, because the regime now has confidence and a good deal of momentum behind it, this is going to take time.
 - There is reason to believe that, in the long run, China's efforts to combine authoritarian politics with partially market-driven economics will prove unsustainable.
 - This is especially likely to be the case if we do not do things that help Beijing prolong the life of its current development model.
 - In the meantime, to paraphrase George Kennan, we are going to have to look to our own defenses while we await the "breakup or gradual mellowing" of CCP power.



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Competing with China

Aaron L. Friedberg

There appears to be a growing consensus in Washington, and in the capitals of many other advanced industrial democracies, that prevailing policies towards China have failed and that an alternative approach is now urgently required. In a recent, widely read article in *Foreign Affairs*, two former Obama-administration officials conclude that, after years of 'hopeful thinking' about China's future, the United States finds itself confronting 'its most dynamic and formidable competitor in modern history'.¹ Republican Senator Marco Rubio describes the challenge in similar terms, noting that in the 240 years since its founding, the United States has never before 'faced an adversary of this scale, scope, and capacity'.² 'Decades of optimism about China's rise have been discarded', declares *The Economist*.³ 'We got China wrong', writes an editorialist for the *Washington Post*. 'Now what?'⁴

The answer is by no means obvious. To put the matter in medical terms, while there may be increasingly widespread agreement about the existence of certain troubling symptoms, there is much less regarding a diagnosis of underlying causes, and virtually none at all on the appropriate prescription. Despite the evident severity of the challenge, debate on how to respond remains nascent and fragmentary.

For its part, in its formal statements the Trump administration has adopted an unprecedentedly combative stance towards China, describing it as a 'revisionist power ... that seeks to displace the United States in the

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Indo-Pacific region',⁵ and 'a strategic competitor' that is using 'predatory economics', as well as its growing military capabilities, 'to intimidate its neighbors'.⁶ These harsh words are offset, to a degree, by the president's own odd expressions of personal admiration and affection for his opposite number in Beijing.⁷ Notwithstanding these effusions, however, the administration's general stance, at least for the moment, seems clear enough: the United States must shed its illusions and gird for a 'long-term strategic competition' with China, one that will require 'the seamless integration of multiple elements of national power', including 'diplomacy, information, economics ... and military' capabilities.⁸

But why is such a competition necessary, and what are its stakes? What are China's aims in this intensifying rivalry, and how do its leaders intend to achieve them?⁹ And how should the United States redefine its goals and reshape its strategy in response? The purpose of this essay is to provide one possible set of answers to these questions.

If there is a single theme that unifies much of what follows, it is the often underestimated importance of political beliefs and ideology. America's post-Cold War strategy for dealing with China was rooted in prevailing liberal ideas about the linkages between trade, economic growth and democracy, and a faith in the presumed universality and irresistible power of the human desire for freedom. The strategy pursued by China's leaders, on the other hand, was, and still is, motivated first and foremost by their commitment to preserving the Chinese Communist Party's monopoly on domestic political power. The CCP's use of militant nationalism, its cultivation of historic claims and grievances against foreign powers, and its rejection of the idea that there are, in fact, universal human values are essential pieces of its programme for mobilising popular support and bolstering regime legitimacy. It is impossible to make sense of the ambitions, fears, strategy and tactics of China's present regime without reference to its authoritarian, illiberal character and distinctive, Leninist roots.

The intensifying competition between the United States and China is thus driven not only by the traditional dynamics of power politics – that is, by the narrowing gap between a preponderant hegemon and a fast-rising challenger – but also by a wide and deep divergence in values between

their respective regimes. The resulting rivalry is more intense, the stakes are higher, and the likelihood of a lasting *entente* is lower than would otherwise be the case. The two powers are separated not only by divergent interests, some of which could conceivably be reconciled, but by incompatible visions for the future of Asia and the world. China's current rulers may not be trying actively to spread their own unique blend of repressive politics and semi-market economics, but as they have become richer and stronger they have begun to act in ways that inspire and strengthen other authoritarian regimes, while potentially weakening the institutions of young and developing democracies. Beijing is also using its new-found clout to reach out into the world, including into the societies, economies and political systems of the advanced industrial democracies, to try to influence the perceptions and policies of their people and governments, and to suppress information and discourage the expression of opinions seen as threatening to the CCP.

*The stakes
are higher*

If they wish to respond effectively to these new realities, American and allied policymakers cannot afford to downplay the ideological dimension in their own strategy. Beijing's obsessive desire to squelch dissent, block the inward flow of unfavourable news and discredit 'so-called universal values' bespeaks an insecurity that is, in itself, a form of strategic vulnerability. China's rulers clearly believe the ideological realm to be a crucially important domain of competition, one that they would be only too happy to see the United States and the other Western nations ignore or abandon.

Assuming that China's power continues to grow, the United States will need to cooperate even more closely with its friends and allies, mobilising a coalition of like-minded countries to check Beijing's predatory economic practices, oppose its attempts to close off portions of the global commons, deter Chinese aggression and keep the peace. With only a handful of exceptions, the members of this coalition, which must include European as well as Asian nations, will be liberal democracies. Whatever their differences over trade, climate change or other issues, and notwithstanding the temporary frustrations caused by elected leaders who appear indifferent to these facts, the nations of the liberal-democratic West continue to have far more in common with one another than they do with the authoritarian powers.

Like it or not, if they do not wish to hang separately, they are going to have to hang together.

Last but not least, the experience of the past century suggests that, if America's leaders are serious about mobilising and sustaining the bureaucratic focus, domestic political support and economic resources necessary to wage a protracted strategic competition against a powerful and determined rival, they are going to have to cast the challenge, at least in part, in ideological terms. Geopolitical abstractions and economic statistics may be important, but historically what has moved and motivated the American people is a recognition that the principles on which their system is founded are under threat. There is an undeniable risk here of fear-mongering and overreaction, but at this point excessive caution and a continuing refusal to face facts may be an even greater danger. What is needed instead is a sober assessment of the challenge in all its dimensions, a clear articulation of the measures necessary to meet it, and leaders in Congress, the executive branch and the private sector who are capable of conveying both to the public.

America's failed China strategy

For almost a quarter-century after the end of the Cold War, the United States had a broadly stable, two-part strategy for dealing with China. On the one hand, in a continuation of a process that began with the Nixon/Kissinger 'opening' in the late 1960s, the United States sought to engage China across a wide variety of fronts: diplomatic, cultural, scientific, educational and, above all, economic. These efforts grew broader and deeper over time, and from the early 1990s onwards, after a brief period of uncertainty and debate in the wake of the 1989 Tiananmen Square massacre, the economic element of engagement, in particular, expanded at a rapid pace.

Contrary to what some recent commentary might suggest, however, the United States did not simply throw caution to the wind and embrace China without restraint. At the same time as it pressed ahead with engagement, from the mid-1990s onwards Washington also began to work harder to preserve a favourable balance of power in the Asia-Pacific region. The balancing part of US strategy had several subsidiary components. In addition to maintaining its own forward-based forces, the United States sought to

strengthen its traditional alliance partnerships with Japan, Australia, South Korea and, albeit with more limited success, Thailand, the Philippines and New Zealand. Successive presidents restated the long-standing US commitment to Taiwan, and Washington also began to build new, quasi-alliance partnerships with other countries in the region to which it did not extend security guarantees, but which shared with the US a concern over the implications of China's growing power, including Singapore, India and, more tentatively, Vietnam.

The goal of balancing was to preserve stability and deter attempts at coercion or overt aggression while waiting for engagement to work its magic. Engagement, in turn, had three interlocking objectives. By welcoming Beijing into the existing, largely US-built and -led international order, Washington hoped that it could persuade China's leaders that their interests lay in preserving that order rather than seeking its overthrow or substantial modification. In the words of George W. Bush administration official Robert Zoellick, the United States wanted China to become a 'responsible stakeholder' in the existing international system.¹⁰ It was expected that the process of inclusion, most notably China's 2001 admission into the World Trade Organization (WTO), would accelerate its transition away from state-directed economic planning and towards a more open, market-driven model of development. Finally, although they were blunter in saying this in the 1990s and early 2000s than in the years that followed, US policymakers continued to hope that engagement would promote tendencies – including the growth of a middle class, the spread of liberal ideas, and the development of the rule of law and the institutions of civil society – that would lead eventually to democratising political reforms.¹¹

As it was in Europe, so too in Asia at the end of the Cold War was the ultimate aim of US policy to build a region 'whole and free', filled with democracies tied together by trade, investment and regional institutions, and integrated into a global system built along similar lines – a free and open region in a free and open world. The incorporation and eventual transformation of China were central to this ambitious vision.

Since the turn of the century, and especially in the past ten years, it has become increasingly evident that US strategy has thus far failed to achieve

its objectives. Thanks in large measure to its rapid integration into the global economy, China has grown richer and stronger far faster than would otherwise have been possible. Rather than loosen its grip, however, the CCP regime has become even more repressive and more militantly nationalistic. In the economic domain, instead of shifting towards greater reliance on market forces, as had been expected after 2001, the party-state has maintained and, in certain respects, expanded its use of mercantilist policy tools. As regards its external behaviour, instead of evolving into a mellow, satisfied, 'responsible' status quo power, Beijing has grown more assertive and, at times, aggressive. The sustained build-up of China's armed forces is making it increasingly difficult for the United States and its allies to maintain a favourable balance of power in the Western Pacific. Meanwhile, China's leaders have become more open about their intention to use their growing military strength, new-found economic clout and expanding repertoire of 'soft' and 'sharp' power tools to try to reshape the existing Asian regional system and some aspects of the wider international order.¹²

Why did US strategy fail? And why were American and other Western policymakers so slow to acknowledge reality and to adjust their policies accordingly?

At the deepest level, the failure of America's China strategy is a grim tribute to the resilience, resourcefulness and ruthlessness of the Chinese Communist Party and the determination of its leaders to retain their monopoly on domestic political power. Even as it opened China to the West, the CCP found ways to maintain control over the direction of the national economy, while preserving its hold on the population through an evolving mixture of surveillance, coercion, co-option and ideological indoctrination. During the early stages of the process of 'reform and opening up', initiated by Deng Xiaoping in 1978, there may have been some in the top ranks of the Party who favoured political liberalisation, but these figures and their followers were purged after Tiananmen, never to re-emerge.¹³

Like the Sovietologists who debated whether Lenin led inevitably to Stalin, future generations of China specialists will no doubt argue over whether Xi Jinping was the natural heir to Deng, or perhaps to Mao Zedong

himself.¹⁴ Whatever the verdict of history, there is certainly a strong case to be made that, from the early 1990s onwards, China was launched on a trajectory that would lead toward increasing authoritarianism, as the regime redoubled its efforts to contain and neutralise the potentially disruptive effects of rapid economic growth and societal development. This was not immediately obvious at the time. Nonetheless, despite the mea culpas of some former officials, it is simply not the case that everyone 'got China wrong'. As early as the turn of the century, a number of observers had begun to write of what they described as China's 'authoritarian resilience',¹⁵ noting that instead of making steady progress towards democracy and markets, China appeared 'trapped' in a form of 'developmental autocracy',¹⁶ and arguing that visions of imminent liberalisation were, in fact, a 'fantasy'.¹⁷ But these voices remained discordant exceptions in a general chorus of optimism.

*Both sides believed
that time was on
their side*

American and other Western leaders gambled that engagement would tame and transform China, even as it enabled the country to get richer and more powerful, thereby obviating the need for endless and increasingly costly balancing. China's leaders, on the other hand, calculated that they could continue to enjoy the fruits of engagement, growing stronger and less vulnerable to what they saw as Western pressure and attempts at ideological subversion without having to fundamentally alter the character of their system or abandon their broader ambitions. Both sides believed that time was on their side. It would appear, at least for now, that Beijing got the better of that bet.

Despite accumulating evidence that its initial wager was not paying off, Washington continued to double down on engagement without pausing periodically to reassess the costs and potential risks. While they did make some adjustments, successive US administrations also neglected to hedge adequately against the possibility of failure by investing sufficient resources in balancing. This pattern reflects the relative strengths of the bureaucratic and domestic political coalitions favouring the two halves of America's mixed strategy.

Throughout the 1990s and into the 2000s, even as they began to focus more attention on the problem, US intelligence agencies tended to underestimate the pace and scope of China's military build-up and to understate the true nature and extent of its revisionist aims.¹⁸ Defence planners generally acknowledged the importance of the balancing mission, but they held varying views about the extent to which the locus of national strategy should shift towards the Asia-Pacific. Even within the US Navy and Air Force, the services that would naturally have the greatest role to play in that theatre, there was an inclination to regard the emerging challenge as relatively distant and most likely manageable with weapons systems and concepts of operation that were already on the books. To a surprising degree, many professional military officers also seem to have internalised the hopeful conventional wisdom of the day regarding the transformative effects of engagement and the danger that, by appearing to treat China as an enemy, they might cause it to become one.¹⁹

Things began to change after the turn of the century, as the Bush administration took a series of steps intended to start what one top official described as a 'long-term shift in focus' towards the Asia-Pacific.²⁰ By bolstering the US military posture in the region and strengthening defence ties with and among local friends and allies, the administration hoped to preserve a balance of power so overwhelmingly favourable that it would dissuade China from trying to mount a serious challenge for many years to come.

Many of these initiatives continued throughout the 2000s, laying the ground for the Obama administration's subsequent 'pivot' to Asia. But the 9/11 attacks, and the protracted, wasteful conflicts in Afghanistan and Iraq that followed, deflected money, intelligence resources and organisational energy away from the task of waging a long-term military competition with China and towards the more immediate problems of counter-terrorism and counter-insurgency. The Obama administration's efforts to pick up where its predecessor had left off and redirect America's strategic attention back to Asia were stymied by a variety of factors, including the persistence of fiscal constraints (made worse in some respects by the aftermath of the 2008 financial crisis) and the re-emergence of challenges in other regions, including the Middle East and Eastern Europe.

Chairman ENGEL. Thank you, Doctor.

I will now recognize members for the purpose of questioning witnesses. I will recognize myself for 5 minutes.

The Trump Administration has said that the U.S. and China are now in an era of competition. It is hard to disagree, which is why this is the first of five hearings on China in the Foreign Affairs Committee this week. But we want to make sure we get this right. Terms like “new cold war” are being thrown around, which concerns many of our partners who simply do not want to be forced to choose between the U.S. and China.

Dr. Economy, in your written testimony you discuss how the U.S.-China relationship has been based in part on the mutual understanding that neither side benefited from letting the relationship deteriorate too much. Ms. Magsamen, your testimony also highlights some of the risks associated with focusing exclusively on competition with China. So, let me ask you both, under the leadership of Xi Jinping and Donald Trump, does this basic assumption about the importance of relative stability in the U.S.-China relationship still hold? As we adjust our policy toward China, are you concerned that the U.S. policy is overcorrecting toward competition? And finally, what do you think the U.S.’s strategy objectives should be in a competition with China? Whoever would like to start?

Dr. ECONOMY. So, I would say, certainly, with this Administration, there is much less interest in trying to identify areas of potential cooperation with China. But I think in this era of strategic competition, identifying those areas is more important than ever. We may not be able to find areas such as climate change, significant areas of global cooperation, but certainly technical cooperation on things like drug trafficking, refugee issues, and other areas, we should be able to identify a number of places where we can continue to work together.

I think, again, civil society efforts should not be maligned. We should be looking to engage, working with our Chinese counterparts in environmental protection, areas of poverty alleviation. All of these things actually give hope to reformers within China. They still exist, and if we close off cooperation, we are actually closing off a lifeline for them. We need to be thinking not only at the level of government-to-government cooperation but also in terms of maintaining the civil society contacts and dialogues. So, it is more difficult, I would say, but it is even more important.

And we can do things in multilateral fashion as well. It just does not have to be about the United States and China. We can cooperate in third countries, as we have in the past. Public health in Africa was an important initiative that has become moribund. We should be talking about development finance standards. There are many different ways that we can go at issues that concern us about China through dialogue, not just through pushing back.

Chairman ENGEL. Ms. Sacks.

Ms. SACKS. So, I talked about the ethics of AI, and I think that this also is an area of potential collaboration. Not many people may be aware, but there is an important project underway in China. This week, actually, a new report was released looking at issues around AI safety and the ethics there. So, although there are areas

in which I think we have significant disagreements, we are all struggling with what are the rules for these emerging technologies. How are they going to be deployed? What are important questions? And so, this is an area where it is in our benefit to work with counterparts in China that are also in the midst of writing standards around how technologies of the future will be used and the social and economic implications of that.

Chairman ENGEL. Thank you very much.

Ms. Magsamen, let me ask you this: the Swedish think tank SIPRI reported that the U.S. military spending in 2018 was \$640 billion, which is the highest in the world and more than almost the next eight top spenders combined. However, more spending does not necessarily mean better outcomes. And it is important to remember that, while the U.S. has been fighting wars in the Middle East, China has been investing at home.

So, let me ask you, is the United States building the kind of military necessary to fight a potential conflict in the Asia-Pacific, or are we still primarily building a military that, perhaps due to bureaucratic inertia or entrenched interests, may not be as effective in such a conflict? Ms. Magsamen, would you like to try that?

Ms. MAGSAMEN. Thank you very much, Chairman. It is a very good question.

You are right, China spends about \$170 billion a year, and that is just publicly what we know they spend on defense, and we, of course, are about seven times higher than that. I will say, however, that the gap between China's military spending and the military spending of some of our closest allies in the region is pretty severe. For example, Taiwan only spends about \$10.6 billion a year. Japan spends \$47 billion a year, and India spends \$60 billion a year. So, there is a significant gap in defense spending between China and our allies, which I think is an important consideration.

I also think that it is not really how much we spend on defense; it is what we spend it on. I think that some of the investments we have made in the past with respect to surface vessels as our more traditional means of defense are going to be completely invalid potentially in a conflict with China. So, we are going to have to make some defense investments in areas where we have a comparative advantage, whether it is undersea, space, and cyber. I think we need to be thinking differently about how we spend on defense.

But I also think, more importantly—and I say this as a defense official again—that what we do to invest in the American people is going to be more significant in terms of competition with China than anything we spend on national defense.

Chairman ENGEL. OK. And finally, whoever would care to answer, talk about the Uyghurs. Randy Schriver, the Assistant Secretary of Defense, Asia, called the flagrant human rights abuses in Xinjiang concentration camps—he said there are at least a million, possibly as many as 3 million, Uyghur Muslims who have been arbitrarily detained in recent months. What should we be doing to address this crisis? And why have we not seen more leaders of Muslim majority countries condemning China's rights abuses in Xinjiang? Anyone care to do it? Dr. Friedberg, would you care to do that?

Dr. FRIEDBERG. Well, I think what we are learning about what China is doing to its Uyghur population should shock the conscience of democratic societies everywhere. I think we should—we have begun to do more to call attention to this, and note that a lot of the initial efforts to uncover what was going on were not done by government agencies, but by private scholars and think tanks, and so on. And that suggests, I think, one of the valuable roles that independent analysts can play in shaping our responses to what China is doing.

I think there has to be, or there should be, a collective response from democratic societies, in particular, to this. There is, I think, an anxiety on the part of many governments about speaking out too strongly because China now wields considerable leverage through the threat of loss of access to its markets. As far as the response from the Islamic countries, I think there, too—I do not know in detail—many of the oil-producing countries have strong interests in commercial relations with China, and the Chinese have been very effective in threatening and silencing people to not criticizing them.

But this is something that we should be focused on really day-in and day-out because, in my view, it reveals something important about the true character of this regime.

Chairman ENGEL. Thank you.

And very quickly, Dr. Economy, do you concur?

Dr. ECONOMY. Yes, very quickly. So, I would say Congress already has pushed forward with looking at the Magnitsky Act. I think we need Secretary Pompeo/President Trump to raise this issue because they are not, near as I can tell. Europe is looking for potential areas of cooperation with the United States on this issue. This is someplace where Congress maybe should, again, take the lead with European allies.

I will say there is evidence that, if you publicize companies that are doing business in Xinjiang, even Chinese companies like SenseTime has pulled out of a venture—it was very active in the AI facial recognition area—pulled its stakes out. I think it was worried about being embarrassed publicly.

And then, finally, I think to Aaron's point, if we do not have a strong economic pillar engaged globally, then we are not able to compete with the kind of economic leverage that China exerts over other countries. And that is why you are not seeing that output from the other Muslim countries.

Chairman ENGEL. Thank you very much.

Mr. McCaul.

Mr. MCCAUL. Thank you, Mr. Chairman.

When the chairman and I met with Secretary Pompeo last week, he said that China is a primary threat to the United States. FBI Director Wray testified at Aspen, or spoke at Aspen, saying that it is the most significant threat that we face as a country. And the President's National Security Strategy named China as the top challenge in the modern era.

As we traveled to Latin America, and I was in Africa as well, China is everywhere. I mean, this predatory lending practice, One Belt, One Road, it was amazing, it popped up in El Salvador. It popped up in Colombia. It popped up in Rwanda, all throughout

the continent of Africa, the Western Hemisphere. They can take ports like Sri Lanka. They can have a port in Djibouti right next to our military base without one shot being fired. So, that, to me, how do you compete with that?

We passed a bill yesterday that tries to advance our mission in the State Department across the world to advance American businesses through diplomacy.

But, then, on the technology side—Ms. Sacks, you talked a little bit about this as well—I worry about the competition on the technology side, the technology transfers, the theft of intellectual property. So, I look at the four main areas. Artificial intelligence you spoke to. Quantum computing, we have not talked much about that today, but that is going to be the next race for the nuclear digital bomb, if you will. Whoever gets there first will control. Of course, cyber, and then, 5G. 5G, everywhere, every country we went to, China was opening Huawei up to 5G in these countries. As all four of you know, when 5G goes in, they control all the data. But the problem is, can we compete with their 5G? Are our Verizon and AT&Ts competitive enough to compete with their 5G?

So, this is a worldwide competition, as I see it. We talk a little bit about collaboration, and that sounds nice, but we are dealing with a country that likes to steal things and not invent necessarily. And I know this is kind of a broad-based question, but that is just the way I see China today.

And when I have the top national security experts tell me it is the biggest threat we face—you know, it used to be Islamic terror. When I would get my threat briefings when I was chairman of Homeland Security, that was it. Now they are saying it is China. So, that speaks volumes, I think, in terms of the threat level.

And I would just like to go down the panel, if there are any comments?

Dr. ECONOMY. So, I think you make the really important point that what we see China doing at home, if we are looking at things like the development of its internet policies, the way that it has developed in terms of its own economic development, human rights practices, it is now exporting those to all the countries that you mentioned, through the Belt and Road Initiative. The Belt and Road Initiative began as an infrastructure plan; it has moved to a digital Belt and Road, fiberoptic cables, e-commerce, and satellite systems.

There is a security component, as you mentioned, with the ports. China is training officials in Tanzania and Uganda on how to manage the internet, how to do online monitoring. It is exporting political capacity-building for authoritarianism, and it is doing it at the global level in terms of global governance. So, the same values that we see in China at home, China is exporting to other countries. It is also negotiating those, in the United Nations.

So, how do we address it? Again, we have to have our own proactive and positive policy and message. And we cannot do it alone. We are going to have to do it with our allies. It cannot be about condemning the Belt and Road. You cannot go to Rwanda and just say, "Don't do this." We have to provide an alternative.

One last point that I made in my written testimony I think bears mentioning that is that we do invest more in many parts of the

world than China does, not just stock investment, but even investment last year. And we need to shape that narrative a little bit better than we do.

Mr. MCCAUL. I think we have to offer a better alternative. I mean, they are offering a product. We have to compete with them.

Ms. Sacks.

Ms. SACKS. I agree with Ms. Magsamen that we cannot have a purely defensive strategy. We have to be able to compete. And so, let's talk about 5G for a moment. The U.S. has no viable alternative to Huawei. And we can talk about why that is, but at this point it is simply too late. This is a decade-long process.

So, how can we look forward and make sure that that does not happen again? I think about companies like semiconductor companies that are in China right now. A lot of the profit that comes from that market in China is, then, plowed back into R&D in emerging technologies like 5G. So, it is not just as simple as let's get out of China. We need that as part of our own innovation base which underpins U.S. power.

The other issue is on the resources and the role that we give cyber within our own government. Shortly after Xi Jinping took power, he set up an office which has become one of the most powerful organizations in the Chinese bureaucracy, focused specifically on cyber. Meanwhile, we have struggled to have our own—we do not have an equivalent of the Cyberspace Administration of China in our own government. The Department, the Cyber Coordinator position has been in flux. So, we need to make sure that we are matching toe-to-toe with the investment from the resources on the cyber front because their attacks are becoming increasingly sophisticated. So, again, the fundamental point here is defense is not the only way to go about this.

Mr. MCCAUL. Ms. Magsamen.

Ms. MAGSAMEN. With respect to the Belt and Road Initiative, I do think it is important to distinguish between China's activities that are actually potentially good in terms of regional development—for example, like China building a road in Africa may be something that is in our interest as well. So, I think we need to be selective about where we decide to compete with the Chinese on the Belt and Road.

I also think that the biggest weapon that we can wield with respect to China's economic engagement is transparency, working with regional platforms to establish transparency around these deals. Because once you have that transparency, China tends to change its own behavior in terms of what it is offering. So, if a country knows a deal is a bad deal, they are not going to pursue it with the Chinese. So, I think part of it is transparency, and part of it is offering an alternative, but being selective about how we do that.

On the tech side on 5G, you know, one immediate idea on 5G would be to try to pursue a digital trade union with the European Union and 5i. I think that the Europeans, in particular, and many of our Asian allies are looking for the United States to offer that kind of leadership where we try to marshal a collective union around that. Now that is going to require some tradeoffs from the United States potentially around privacy rights with the European

Union. But I think those are the kinds of things that we need to be doing in the immediate term with the Europeans.

Mr. MCCAUL. Yes, I think the 5G for 5i in the EU is a great idea.

My time is way expired, but if you have just a very quick comment, Dr. Friedberg?

Dr. FRIEDBERG. Just two very brief. On Belt and Road, I agree about being selective, the necessity of being selective. And as I said in my remarks, part of the reason for that is there may be positive effects from what China is doing, but there are also negative effects for China, which we should not be protecting them against.

I also agree that transparency is critically important. And here, too, NGO's and scholars and others have played a very important role in bringing to light some of the harmful effects of Chinese investment. And that is something, for example, the National Endowment for Democracy and the International Republican Institute here in the United States have played a role in and deserve congressional support.

The technological competition is, obviously, a huge subject. I would just say, I think we are headed toward some degree of decoupling and disengagement between our economy and China's, particularly in the high technology areas. That is already underway. It is really initiated, first and foremost, by things that China has been doing for some time. We are now trying to figure out how to respond. The question, in my view, is not whether we are going to do that, but how far and how fast it is going to unfold, and how we can shape it to better serve our interests. And there is a lot more to be said there, obviously.

Chairman ENGEL. Thank you very much.

Mr. Sherman.

Mr. SHERMAN. I join the chair in regretting the shameful lack of comment from Muslim countries about the oppressors of the Uyghurs. Only Turkey has spoken, and that is only because the Turkish opposition party shamed the government into it because the Uyghurs are not only Muslim, but also Turkic. Every other Muslim country has cowered toward China. They do not cower toward the United States. They are free to criticize us, and often do.

I join with the ranking member in support of his bill, which we passed, to have the State Department push America's economic goals abroad. I would share with you just how long a distance we have to go in changing the culture there. Ironically, our top diplomatic schools are dominated by those with the attitudes of Confucian scholars toward the messiness of business and trade.

In one instance, I remember we had before my subcommittee one of the top diplomats in America who, in response to a question, said, yes, he did do something to support American jobs. He supported the sale in the country he represented of the Chrysler Crossfire, which is 99 percent made in Germany, not a mistake this diplomat would have made about anything he cared about.

The WTO was not a risk; it was a blunder. Sixty-five percent of the Democratic Caucus voted no. Three point four million jobs is what we have lost as a result of this blunder, according to the Economic Policy Institute. And today, we have a President who at least is trying to do something about it. The reaction in my party is natural. We call it "Trump derangement syndrome". It is that we

must reverse our position if Trump is anywhere close to where we have always been. I hope he does not tweet something in favor of Mother's Day; there will be pressure on me to come out against mothers.

[Laughter.]

The fact is we were right then; we are right now. We should not abandon our economic values and join the U.S. Chamber of Commerce just so we can be opposite of Trump. And we have got to beware that Wall Street funds most of the economic institutes in this country who, then, confer legitimacy on an ideology that is pro-Wall-Street and anti-jobs.

One quick dovish statement: the islets in the South China Sea, there is no oil there, and if there was, it would not be ours. There is no people living there. Trillions of dollars worth of trade sails by there because it goes in and out of Chinese ports, and this would give the Chinese the capacity to blockade their own ports. It is not an excuse to tremendously increase the aggressiveness and funding of the U.S. Navy.

People on this panel came of age during the last parts of China's great century of weakness, but we have got to remember that is an anomalous period. For millennia, China has been the hegemon in its whole world. Then, its whole world was East Asia. Now its whole world is the world.

In the history of Rome, when a Roman leader made a political mistake and was on the wrong side, that Roman leader would get into a warm bath with wine and luxuries, soft music, and they would open their veins. And they would relax in comfort for a wonderful hour. We are at that hour. We are comfortable, surrounded by luxuries and \$600 billion worth of goods, more than we actually produce. That is our trade deficit. We hear the soft music of economists telling us not to worry about the trade deficit, and in an hour we will expire.

We are eyeball-to-eyeball with China, and in the Chinese view, they are going to win. They know they have the weaker economy. They are dependent upon American markets far more than we are dependent on them. They think they will win because their political system is stronger. They believe that if they lose a trillion dollars in GDP and we lose a billion dollars in GDP, we will fold; that they have the unity and patriotism to persevere, and that we have division, self-interest, and no willingness to endure even the slightest pain to achieve victory.

We do not need to wage a trade war against China, but we have to be prepared to win a trade war against China. We will avoid that war and win if China thinks we will win. They now think we would lose. We cannot win a trade war with China if we do not have a plan to deal with a sharp decline in Sino-U.S. trade. They have a plan; we do not. Virtually no U.S. corporation has a plan to deal with a temporary cutoff in Chinese trade. That is a level of corporate malfeasance that I am not sure their errs and omissions policies will cover from shareholder lawsuits.

And in my own hometown newspaper, the headline is, "Trump Trade War Hurts American Consumers". We are either going to endure a little bit of pain now or going to bleed to death slowly with unsustainable trade deficits.

We have a question in here somewhere. I will say that we are going to have subcommittee hearings on this this afternoon. Everyone on the committee is invited, and you may actually see me ask a question. I promise it will happen.

If I had more time, I would ask the panel, and maybe they would just respond. Obviously, zero trade would be balanced trade with China. Is there any other approach that would get a zero trade balance with China in the next decade? I do not know if we have time for that, but they should respond for the record.

My colleague asked me, what is the question? Are you aware of any plan, other than a complete end of trade with China, that would get us to a zero trade deficit within 10 years?

Dr. FRIEDBERG. I will answer the question because I think, unfortunately, the answer is no. I mean, it is a simple answer. I do not think that the trade deficit with China is the principal manifestation of our problems with them. I mean I think the Administration is trying to address that by pressuring China to buy more products from the United States. I do not think that is a long-term solution to our deeper problems with them, which have to do with the structural industrial policies and technology promotion policies that they are pursuing.

We have thought that, by including them in the WTO, we would encourage them to become more like advanced market economies. They have not, as you have noted.

Mr. SHERMAN. If I can interrupt, the trade deficit increase has cost us 3.4 million jobs, according to the Economic Policy Institute. That does not matter to people in Washington. It does not matter to people in think tanks. But it got Donald Trump elected. And I think it matters to the country.

I will yield back.

Dr. ECONOMY. Can I just say that—

Chairman ENGEL. Thank you, Mr. Sherman.

Oh, did someone—

Dr. ECONOMY. Sorry. Can I just say—

Chairman ENGEL. Sure.

Dr. ECONOMY [continuing]. I think it does matter to people in think tanks, actually, but I do not think that the zero trade balance deficit is the issue at hand? We are going to have trade deficits with countries all the time.

Mr. SHERMAN. No, actually, we should—

Dr. ECONOMY. Whether we have a fair and open playing field, with other countries. That is the issue.

Mr. SHERMAN. What matters to people is whether they lose their jobs, get addicted to opiates, have all the health problems. They do not want to lose and be told it is OK you lost your job, but it is a fair system. The jobs matter, not just whether we meet the rules. But, if the rules were fair, we would have those 3.4 billion jobs.

I yield back.

Chairman ENGEL. Thank you, Mr. Sherman.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

And thank each of our witnesses for being here today.

Dr. Economy—and then, we will go with each of you—the consequence of the U.N. sanctions that have been implemented

against the Democratic People's Republic of North Korea, China has been assisted, but is there sufficient assistance to make every effort to denuclearize the Korean peninsula? Begin with Dr. Economy and each of you, what has been the level of cooperation in regard to the U.N. sanctions?

Dr. ECONOMY. I think we had very strong cooperation initially, the strongest that I think we have ever had over the past 2 years. But my understanding is that, over the past six, maybe eight, months or so, that there has been a little bit of a lessening of the sanctions, and that China and South Korea and Russia are all agitating for a slightly different approach where we loosen the sanctions. And I think that we are already seeing mean North Korean workers back in China, back in Russia, with the ability to repatriate profits, et cetera. So, I think we are seeing over time there has been a relaxation in some areas of the sanctions.

Mr. WILSON. Ms. Sacks?

Ms. SACKS. This is outside of my field of expertise. So, I will defer.

Mr. WILSON. OK.

Ms. MAGSAMEN. I would agree with Dr. Economy. China uses its economic leverage with North Korea as a means to get to a political end, and they tend to toggle it back and forth, depending on the circumstances of the situation, where diplomacy stands, where they are doing missile tests. So, right now, I would agree with Dr. Economy, they are in the loosening phase because I think they are trying to get Kim Jong-un to actually engage diplomatically with the United States. So, they kind of go back and forth.

Mr. WILSON. Thank you.

Dr. FRIEDBERG. Let me add that this is something they have been doing for a long time. And generally, I think the pattern has been, when the Chinese leadership feels under pressure, particularly from us, or becomes more concerned about what the North Koreans are doing, they will ratchet up sanctions, at least for a time. If they are less concerned, they will draw back.

I do not think they have any intention or ever will do all that they could to put maximum economic pressure on the North Korean regime because they are afraid that it would collapse. Unfortunately, I think it is only if the regime were put in a life-or-death position that there is any chance they would give up their nuclear weapons. So, I do not think we can count on China to solve this problem for us.

Mr. WILSON. And beginning with Dr. Friedberg and going the reverse direction, that is—Congressman Sherman has already referenced it—but the artificial islands which have now been converted to military outposts, the implications on that are to maritime trade?

Dr. FRIEDBERG. Yes, I hesitate to do this, but I disagree with Congressman Sherman on this issue. I think the islands in the South China Sea are actually quite significant in a number of ways. They enable China to better maintain a year-round, 24-hour-a-day naval and air presence over these waters that they claim, and at some point potentially, if we do not oppose them in a satisfactory way, to constrict the use of this vital waterway by other

countries, principally allies of ours, as well as our own shipping. So, that is a major concern.

I think the second issue here is that, by doing what they have done since 2014, and getting away with it, effectively, I think they have succeeded in raising serious questions about our resolve and our capacity to oppose their expansion. And I think that was part of the point, to demonstrate our inability to act effectively.

Ms. MAGSAMEN. So, I think the South China Sea threat is less about the commercial shipping lanes and more about pushing the American military further out. You know, those islands allow them to project power in ways they could not before, for example, to what Dr. Friedberg said. And they also use that as a way to undermine confidence in America's resolve and ability, and they use it politically as well in the region, in particular, with the Philippines and other countries. So, China's objectives in this space are less about restricting commercial shipping and more about undermining the confidence in the United States' security guarantees.

Dr. ECONOMY. I would only add that I think it is stage one, and stage two is looking toward Taiwan. So, I think at every level we need to be pushing back in ways that seek to demonstrate that the United States does have the resolve to prevent China from moving forward in this way.

Mr. WILSON. And I thank each of you for your responses, and we look forward to working with you in the future. Thank you very much.

Chairman ENGEL. Thank you.

Mr. Sires.

Mr. SIREN. Thank you, Mr. Chairman.

And thank you for being here.

First, I would like to agree with the ranking member's comments regarding the technology. And I will just share an experience that I had last month. In my district, I have Stevens Institute of Technology, which is a very fine institution. And they had been asking me for a long time to visit because they are doing some wonderful things, good research.

So, I went and they were explaining some of the research that they just started on quantum physics. Well, I am still trying to learn about quantum physics. But what was really telling to me was that the person that was in charge of the research was Chinese. Of the 10 students doing the research, working with the professor, nine were Chinese. There was only one American.

Now Stevens Institute of Technology does, also, a lot of defense work. My concern is how to deal with the fact that we do not get enough Americans to do some of this research in some of these areas. Why should we have an institution like the Stevens Institute that is one of the finest institutions in America, and yet, we do not have enough Americans? And it is not because they are not trying.

So, can you talk a little bit about some of what I just said? Ms. Sacks?

Ms. SACKS. So, colleagues at the University of Pennsylvania recently wrote an excellent op-ed in which they described a mismatch between what our declared national intelligence priorities are, focusing on quantum, 5G, and AI, and where investment and public

funding is going. So, I think the first thing is we need to make sure that we are investing in basic research in these areas.

The second——

Mr. SIREN. Yes, but the people that do the basic research——

Ms. SACKS. Excuse me. I am not finished.

The second issue is that there needs to be incentives to have Chinese researchers and scientists who are working in our labs and universities stay here. I think when we do not provide the right environment for them, if they feel targeted here, they will go back to China. And so, we want our universities, which are the best in the world, to continue to attract the best from around the world, but have them stay here and contribute to the U.S. economy.

The third is in terms of STEM graduates and making sure that we are investing in that area as well. I also think that there needs to be more of a focus on inclusivity in that field. There has been a lot of focus on how can we better make a cyber work force, for example, that is representative, both from a gender perspective and others. So, there is a lot of focus, and this plays back into the idea of it is not just playing defense, but thinking really strategically in an offensive way about investing in our own capabilities in these fields.

Mr. SIREN. So, how do we recruit people that are from this country to take some of these courses?

Ms. SACKS. That is probably a good idea.

Mr. SIREN. Oh, thanks.

Dr. ECONOMY. Can I just——

Mr. SIREN. Yes.

Dr. ECONOMY. Can I just ask—it seems to me, if I remember Stevens Institute of Technology, that it has often been a very welcoming place for first generation immigrants to come and be educated, right?

Mr. SIREN. That is because it is in Hoboken, New Jersey, and Hoboken has been an entryway into America for over 200 years.

Dr. ECONOMY. Right.

Mr. SIREN. You know, forever.

Dr. ECONOMY. Right. So, in that context——

Chairman ENGEL. And the birthplace of Frank Sinatra.

Mr. SIREN. That is right.

[Laughter.]

Dr. ECONOMY. Even more importantly.

[Laughter.]

But in that context, I think Sam's point is well-taken that perhaps these are Chinese who should be welcomed, you know, and thought about in terms of developing, granting citizenship.

Mr. SIREN. Well, look, I am welcoming them. I just want more participation from our students. It is not that I am unwelcoming. I am concerned over the fact that nine out of 10—and then, I went to another section of the college and it was very similar. You know, there were some of the students from India doing most of the research.

Dr. ECONOMY. Right.

Mr. SIREN. So, I am interested in getting our kids. And I am wondering, is it because of the cost, that it is prohibitive? Because Ste-

vens is not—you know, whether that is a factor. I want our kids, our good kids, to participate.

And, you know, interacting with students—I was a teacher for 10 years—OK?—and my wife for 37 years. Interacting with students helps a great deal understanding each other's country, but it cannot be so one-sided. That is my concern.

Ms. Magsamen?

Ms. MAGSAMEN. So, I completely agree. And I think part of this challenge is that Chinese students often pay full tuition to many of these universities. And so, there is an economic incentive for these universities to seek Chinese students and sort of invest in them.

I do think that there has to be some investment in post-graduate science education, some tuition assistance for American students, so that we can continue to have a pipeline of American scientists and researchers. So, I do think that part of the answer is actually some level of tuition assistance for American students.

But this gets back to the original point I made earlier. We need to be thinking about our human capital in this country in a different way than we thought about it before. We need to be making moonshot investments in science education and post-graduate education in ways that get the American people competitive again, and they are able to actually get into the pipeline of competition. And until we take those steps and think strategically about this in the context of China, we are going to be behind the eightball.

Chairman ENGEL. Thank you.

Mr. Yoho.

Mr. YOHO. Thank you, Mr. Chairman.

I appreciate the panelists being here.

China again. We have seen a rising China in the last, I guess, 40 years, but, most recently, in the last 10 years. I know you guys know the history real well. But if we go back to just with Mao Zedong, when he claimed in 1949 the chairmanship of the Chinese Communist Party after they fought the civil war and ran the KMT out, that formed Taiwan. And since then, he put a vision of 100 years of where China would be. It is estimated that, under his authoritarian rule, 80 million Chinese died.

And I think you guys were talking about something that I hear over and over again. It was one of the reasons I ran for Congress: a lack of vision, a lack of leadership for America. We sit up here and we squabble over social issues; we squabble over, you know, border security; we squabble over these things, but you do not hear one politician, one leader of this country, of where America is going to be 100 years from now. And I am guilty of that myself.

And so, we need to raise our bar. You were talking about education. Have we not dumped a lot of money into education? But we are not going in a direction. We just throw money into it without a vision. And until we have a vision of this country, we are going to have our clocks cleaned, as we see, by China.

China entered into the modern world in the 1970's, and since that time, since Mao Zedong, they are 70 years into the 100-year plan, and they have done remarkable. We should be envious. And I applaud them for their success and I want them to be successful, but not at the expense of us or other nations. Competition is good,

but not to the point where it inflicts damage on another economy, another way of life.

And then, we have Deng Xiaoping in the 1980's who said, "Bide your time; hide your strength." And they did. They cornered the rare earth metals market in the world. And I am sure you guys are aware, our F-35s, 10 percent of the weight is rare earth metals. Ninety percent of that comes directly from China. The other 10 percent comes from countries that get it from China. Does anybody see a problem here?

And now, we have Xi Jinping who has declared himself—or voted in, in fair elections I am sure—Emperor for life for China. In the 17th Chinese Communist Party Congress, in October 2017, he said: the era of China has arrived. No longer will China be made to swallow their interests around the world. It is time for China to take the "world center stage".

We have seen what they have done in the South China Sea. When Xi Jinping was here in the Rose Garden with President Obama, he said, we will not militarize those islands. Yet, today they have airstrips, military barracks, military offensive and defensive weapons, and radar systems. And they do have a lighthouse. They claim that is for peaceful navigational purposes.

We see them making claims to the Arctic Circle. And the international standard, as it was in the South China Sea, that is, if you do not have land touching those areas, you do not have any claim to it. China was sued by the Philippines and lost that lawsuit. Yet, they continue to build and militarize these islands. They are going to do the same in the Arctic.

There is a saying; I do not know who gets credit for it. But it says, if you want to know the past, look at your present. If you want to know the future, look at your present activity. I think it is very clear what China is doing.

I wish we could say, man, they are great players; we want to invite them over for lunch and dinner, and let our kids play with them. But we see them infiltrating our universities. They steal intellectual property from corn seeds to computer technology. Huawei came to my university and wanted to fund 100 percent a cybersecurity program, which we nixed and said, "I do not believe so."

And this is something, you know, I wish we could be—we are already naive—but not stupid. You know, they have an aggressive path forward, and their goal is to build five new deepwater aircraft carriers by 2030. And I bet they do. Yet, we have fed this monster—I do not want to call them an "enemy"—we have fed this economy by allowing our manufacturers to go over there. And it is time for America to wake up. We need to have a policy called the ABC policy, "Anywhere But China for manufacturing". Our manufacturers need to get out of China and go "Anywhere But China".

We do not want a head-on conflict with China. Nobody wants that in the world. And so, the only way we can counter that is economically. And if we starve the economic engine, Xi Jinping will have to turn and adapt to the policies in the world. Am I wrong in that? Has anybody got a comment?

Dr. FRIEDBERG. Just a general comment about our ability to compete effectively. I think, historically, as a country, we have been slow and reluctant to engage ourselves, to mobilize our resources

to engage in international competition. We preferred to have a relatively weak government and to allow people to do the things that they want to do.

What has tended to mobilize this country has been a shock, a setback, a crisis of some kind that galvanizes the American people and our leaders, and gets people pointed in the same direction. And I worry that it may take that to mobilize us sufficiently to address this challenge, in part, because the Chinese leadership has, I think very intelligently, sought to avoid giving us that Sputnik moment.

Mr. YOHO. Right.

Dr. FRIEDBERG. And they have been successful——

Mr. YOHO. I am going to cut you off because I am out of time, but I do appreciate it and I would love to talk to you longer.

Thank you, Mr. Chairman.

Chairman ENGEL. Thank you, Mr. Yoho.

Mr. Espaillat.

Mr. ESPAILLAT. Thank you, Mr. Chairman.

As part of the Belt and Road Initiative, China is investing massive sums of money in various countries, some of our allies. And, of course, this money comes at a heavy price, right? We have observed and heard from our allies about China's predatory loans that often lock these countries in many years of debt. Could you share with us some of the predatory practices that they are putting in motion, that they are engaging some of these countries in? For example, I know that in Ecuador that was the case, and several other countries in the Western Hemisphere and abroad, and in Africa. What are some of the predatory practices that China engages in with regards to these loans? Anybody?

Dr. ECONOMY. I think the challenge with the Chinese loans is, first, that they are not transparently done. So, we do not know whether, for example, there are deals being struck between Chinese companies and leaders of some of these countries, are payoffs being made? There are issues around the fact that China exports its labor to do most of these projects. So, the people are not getting the benefits. Basically, they are getting the loans to do the projects, but the benefits are not being realized by the people of the country.

There are the terms. In some cases, if the loans are not going to be repaid, China puts in the contracts that there will be payment through natural resources or perhaps even through a port. Although in the Sri Lanka case, it is not clear. I have heard that the Sri Lankans actually offered up the port. It was not that it was part of the contract.

Mr. ESPAILLAT. Is there any evidence of corruption and bribery?

Dr. ECONOMY. Well, there are many, many cases. This is nothing new. Quite frankly, this goes back to 1999, when China began its Go Out strategy for natural resources. The Belt and Road is simply an amplified version of that. I mean, in Zambia and other countries, elections have turned on the corruption that was inherent in Chinese dealings inside the country.

So, there is no problem coming up with cases of corruption at this point. I think the problem is really, what is the alternative? And to that point, focusing on transparency is one element of it, but the other element is, are we out there lending?

And the last point I will make is, it is not actually all about investment. China only invests between \$10 and \$15 billion a year in these Belt and Road countries. Much more investment goes to Europe and goes to the United States, although not last year. But, in any case, China is more interested in investing in the advanced industrialized economies. What it is doing is lending. So, we should just change the terms of reference there.

Mr. ESPAILLAT. China has, further, been investing in ports and coastal land, lands across the region. In fact, the chairman and I just visited El Salvador, and we were told by the incoming President that the past administration there was engaging or engaged in a deal to sell vast parts of its coastal territory.

Additionally, in the Dominican Republic, China is attempting to purchase or construct port infrastructure and a coal power plant, and they want to get their hands on the 911 system, which we helped fund, to implement facial recognition measures in it.

What are your feelings regarding China and coastal projects, ports, and facial recognition in this hemisphere? Anyone?

Dr. ECONOMY. Where are we?

Mr. ESPAILLAT. Yes, but we have an issue with fentanyl, right? Do you feel that the Chinese control of ports will further contribute to our opioid crisis here in the United States?

Ms. MAGSAMEN. So, the only point I would offer is that there is always a duality in China's strategy with respect to economic engagement overseas. And you see that manifest itself especially in the maritime space, where they do seek to have port contracts. Those are very strategic port contracts. It is about ensuring that they get free flow of energy, but also there is a security dimension to that in terms of what they may do, in terms of spying on the countries. Or, for example, in Djibouti with our military base. So, there is always a strategic dimension to much of what they do, especially in the maritime space.

Mr. ESPAILLAT. Thank you, Mr. Chairman.

Chairman ENGEL. Thank you.

Mr. Curtis.

Mr. CURTIS. Thank you, Mr. Chairman, for holding this hearing. I find it of great interest.

To our witnesses, thank you for being here.

Dr. Economy, you referenced a pipeline, and when you did, I thought about my district. I would wager we have the highest number of English-speaking students who speak Chinese as a second language as anywhere in the entire country. Our dual immersion programs really are exemplary, and there is a strong desire to understand and learn the Chinese culture. I, myself, speak passable Chinese. I have spent several years in the Orient. As the mayor of my city before I came here, we had a sister city in China, and I spent a considerable amount of time with that mayor learning and understanding that culture.

When I was young, I think we tended to view China as, what I would say, dependent and needing our help. That changed along the way, and I think we started to view them as a friend and somebody like maybe our NATO country friends; we could both prosper from a mutually beneficial relationship. Somewhere along the line, that changed to a competitor. And since I have come to Congress,

I have had a chance to travel and understand and learn a lot more. I am questioning this term as competitor as well. When I think of a competitor, I think of a level playing field, I think of an officiator, I think of two teams going on the field and working and performing to their best, walking off both better for their efforts.

And so, I have heard terms today like rival. I have heard adversary. I have heard primary threat. I have heard predatory. It seems like all of you have kind of alluded to this frustration that we are not taking this serious enough or we are not doing enough. And I am wondering if that is because we have not yet really defined what our relationship is with China, and if we are really ready to say some of the words that might truly define that relationship. So, I would like to put you all on the spot and ask you, are they an enemy; are they an adversary; are they a competitor? What exactly are they? And who would like to begin?

Dr. FRIEDBERG. I think they are clearly a rival. They are competing with us across the board economically, militarily, for political influence. As I indicated, I think their ultimate objective or their hope is to displace the United States not only as the preponderant power in East Asia, but as the dominant power in the international system.

Mr. CURTIS. Can I freeze that comment for just a minute?

Dr. FRIEDBERG. Sure.

Mr. CURTIS. Because that is very aggressive and that is far more than a competitor. That is an adversary.

Dr. FRIEDBERG. That is my view.

Mr. CURTIS. OK.

Ms. MAGSAMEN. I will offer the more nuanced view. I actually think China is a rival in the context of the Asia-Pacific. I think their aims there are more clearly defined in terms of trying to push the United States out from the security and political and economic dimension.

I think global ambitions with China I think are still somewhat of an open question, but I do think that they are taking steps to put themselves in the strongest position possible to take us on at the global level.

Mr. CURTIS. So, interestingly, if we go back to the sports analogy, a rival tends to infer a heated—our rival across town, right, is usually the one that we hate to lose to, that we sometimes cheat, right? And so, to me, is it fair to say that rival is a step beyond a competitor?

Ms. MAGSAMEN. I sort of see that it is very similar, but potentially.

Mr. CURTIS. Right. But you mentioned that you were going to nuance it.

Ms. MAGSAMEN. Yes.

Mr. CURTIS. And you did do that.

Ms. MAGSAMEN. Yes, yes. But I do think that, for China, its global aims I think are a lot less defined than maybe they are being portrayed in this hearing. I think their regional aims are much more clear, and I think that is the place where we are going to have more significant challenges.

Mr. CURTIS. And, Ms. Sacks, before you comment, I might also try to bifurcate the Chinese people from the Chinese leadership.

And I want to be careful, I think we find the Chinese people our friends and want to feel that way about them, but it is the leadership that perhaps falls into this category.

Ms. SACKS. And I really appreciate that comment. It is very important.

I would add the term "interconnected," whether you choose competitor or rival. So, I think they are an interconnected competitor or rival with us, in which from a security, but also from a competitive and innovation standpoint, that interdependence is not going away and has to be a core part of our approach.

Mr. CURTIS. And, Dr. Economy, before I run out of time, let me have you comment. But, also, perhaps the question I have in mind, that I at least want to ask, if we do not have time to answer it, is what they are doing sustainable? I have been over there. I have seen the empty cities, right? I mean, it just does not seem sustainable to me, and that would be my second question.

Dr. ECONOMY. Very quickly, I would tend toward the adversary element in rival. I think, actually, their aims on the global level are fairly clear. Xi Jinping has said that he wants China to lead in the reform of global governance, and that means changing norms and institutions in ways that reflect Chinese values, policies, and priorities. So, I think we need to pay attention to what he says because what he says is what he does.

Is it sustainable? You know, we have waited a long time to see the Chinese economy collapse. It has not done that. But I think there are so many pressures there, I think it is in for a sustained economic slowdown over the long term, and I think there are a number of pressures. And we should always be alert to the potential that one day we are going to wake up and Xi Jinping is not there.

Mr. CURTIS. Yes. Thank you. I am sorry I am out of time because I would love to explore that more. Perhaps the next time. Thank you.

Mr. Chairman, I yield.

Chairman ENGEL. Thank you very much.

Mr. Phillips.

Mr. PHILLIPS. Mr. Chairman, may I yield to Mr. Levin who has to leave in a moment? I will go after.

Chairman ENGEL. Yes, he was next, but you can switch. That is fine.

Mr. LEVIN. Thank you, Mr. Chairman, and thanks, Mr. Phillips.

I really appreciate you all being here. I just want to tell you, I want to focus my questions on Tibet actually. But yesterday I introduced the Advancing International and Foreign Language Education Act with my senior colleagues, David Price of North Carolina and Susan Davis of California. I am the kid of the trio. But I just want to emphasize our commitment. A lot of you have mentioned the importance of this.

It comes from personal experience for me. I spent a year in India during my undergraduate days and studied Asian languages and cultures as a graduate student at University of Michigan. And my wife was an East Asian studies major and spent a year in China in like 1984, 5 foot 10, strawberry blonde, teaching English in Hangzhou at an engineering university. You can imagine how she

stood out. I think you all have an idea of what it was like in those days.

But I do want to ask you about Tibet. The Chinese government maintains that it alone will decide whether and in whom the Dalai Lama will reincarnate, even though His Holiness has implied he may not reincarnate at all and has rejected Chinese assertions that they have a role to play here. And it is a religious matter, essentially.

As Foreign Policy fittingly reported earlier this year, “China will no doubt anoint some successor to the Dalai Lama, and Tibetans will no doubt reject that person’s legitimacy.” Dr. Economy, if this scenario plays out, what will it mean for Tibetans in China and outside?

Dr. ECONOMY. I think Tibet is already under so much pressure. Of course, this would be a devastating blow to Tibet and to the Tibetan culture. And I think we see what is happening in Xinjiang. And Tibet was both the precursor, but also could become now more like Xinjiang in terms of the level of repression and surveillance. So, I think it is devastating, frankly.

And how we give voice to what is happening I think is difficult. One thought that I have had is that the Vatican, for example, has become very active in negotiations and discussions with the Chinese government. It seems to me that the Pope and other religious leaders should actually stand up and take a more active role in talking to China about the religious aspects, the religious and cultural aspects of Chinese repression. We can do some things, but I think there are other actors that also have a different kind of legitimate voice in this.

Mr. LEVIN. Thank you. Well, let’s followup on the Xinjiang connection. I mean, as you know, the Chinese created the Tibet Autonomous Region. It did not cover all of Tibet. Kham, as the Tibetans say, is in Xinjiang and Jiangsu provinces, and Amdo, much of Amdo was in Xinjiang. And there are a lot of Tibetan people there.

The architecture of the security policy of forced assimilation in Xinjiang, Chen Quanguo, used to be the party secretary in Tibet. And during his tenure there, he installed roughly 700 convenience police stations and divided urban centers into grids to better surveil all activities. And we now see similar tactics, as you mentioned, being used more intensively in Xinjiang.

So, I wonder if you or others on the panel want to comment on this. Is it likely that these so-called improved surveillance tactics will go back into Tibet from Xinjiang and be introduced in other parts of China as well?

Ms. SACKS. The way that technology is being deployed in Xinjiang as part of tracking, surveillance, and incarceration is deeply worrying. I think that there are open questions about the extent to which this will remain in Xinjiang or expand further. Regardless, this is a moment where, as Dr. Economy has mentioned, it is very important for U.S. businesses and investors that are in China to take stock of what are direct relationships between what is going on there or not.

Sometimes those lines are very clear, when Thermo Fisher, for example, decided to stop selling DNA sequencers. Sometimes it is very difficult. I have heard companies talk about the fact that there

are very intense internal conversations going on, but how do you figure out what is an end-user, what is an end-use case in an expansive global supply chain? So, this is a conversation that needs to happen, whether it is through an international standards body, whether it is through targeted export controls, but the conversation needs to begin.

Mr. LEVIN. Well, thank you.

Oh, do you want to make a comment?

Dr. FRIEDBERG. Just quickly. It seems that Xinjiang is something of a testbed for the surveillance technologies. And my understanding is it is including DNA sampling.

Mr. LEVIN. Right.

Dr. FRIEDBERG. I would expect that those techniques would be applied elsewhere if they are successful and if the regime feels that it has not really paid much of a price for doing what it is doing. And right now, it does not appear that they have that concern.

Mr. LEVIN. Thank you. Well, my time has expired, but we will have to talk about this much more going forward.

Thank you, Mr. Chairman.

Chairman ENGEL. Thank you, Mr. Levin.

Mr. Burchett.

Mr. BURCHETT. Thank you, Mr. Chairman, members.

I read your all's limited biographies, and I think we ought to be sitting down here and you all ought to be sitting up here asking us questions.

A very impressive panel, Mr. Chairman. Thank you for assembling it.

I have some really nice questions, but most of them have already been asked. But I guess what keeps going through my mind is, it is almost like we have this parasitic role with China. They do not want to kill us off, but they just keep us alive, and then, they just keep bleeding us.

And my question to you all, in my east Tennessee candor, is, are they exploiting our stupidity or is it just our greed for some short-term gain that we just keep giving in to them? It just seems to me, you know, we get up here and we talk tough. We are going to do this; we are going to do that. But, then, we get a call from home saying, "Hey, do not do that," and then, we back off.

And the Chamber of Commerce, you know, I mean, I do not follow them at all actually. I get a little disgusted; sometimes I think they sell us out for their short-term greed, and that ticks me off.

And I am wondering what your feelings are on that. I am sure your grammar will be a lot better than mine, but I apologize. This whole discussion angers me.

Dr. FRIEDBERG. I think the Chinese are exploiting our openness. They are exploiting some sort of essential characteristics of our system. We encourage our companies to go make a profit.

Mr. BURCHETT. Sure.

Dr. FRIEDBERG. So, I do not think we can fault individuals particularly or individual companies, or even sectors of the economy, for doing the things that we have, as a country, encouraged them to do over the last 25 years. Having said that, I think we are at a point now where we have to reexamine all aspects of the economic component of our relationship because there are portions of

it that are undoubtedly beneficial for particular sectors of our economy and particular firms and individuals, but no longer serve our national interest.

Coming back to this question of whether we made a mistake by trying to engage them economically, we did that I think, in part, because we believed that economic growth would lead inevitably to political liberalization. And at the time, it seemed like that was the wave of the future. This is in the immediate aftermath of the cold war. And that was very much in keeping also with our sort of deep beliefs about the way the world works and should work. But we have to come to terms with the fact now that has not panned out in the way that we would hope.

Mr. BURCHETT. Right, but it seems it is a worldwide phenomena. I was in Israel for 4 days and we were flying over their deep port. And guess who is building it? The Chinese. America did not even bid on it. And we talked to the Ambassador about that, and it is sort of like it just kind of slipped through. I mean, I do not get it. I just do not get it. I am sorry.

Dr. FRIEDBERG. The fact that they have so much money—

Mr. BURCHETT. Yes.

Mr. FRIEDBERG [continuing]. To invest, the fact that their market is as big as it is gives them an enormous amount of leverage, and they are becoming more, I think, strategic and aggressive in using that leverage.

Mr. BURCHETT. Yes, but you said that our companies go over there. But I ride a motorcycle. I collect old bikes, and I have had a few Harleys in my life. I have studied the phenomena of Harley through their ups and down. Everybody was cheering that China was opening their market, but it was a joke, if you looked at it. I mean, they would let one have in one area, but it is only being sold to a certain class of people. I mean, it was a complete marketing joke to me. There again, Pavlov's dog, they ring the bell and we come salivating.

I am sorry. Go ahead, ma'am.

Ms. MAGSAMEN. So, I think that parasite is a very good way of describing what is happening.

Mr. BURCHETT. Ma'am, you will not get anywhere in this committee by complimenting me, I can assure you. The rest of the committee has just written you off.

[Laughter.]

Ms. MAGSAMEN. But I think that the costs—I mean, basically, I think we are going through a new cost-benefit analysis of doing business with China. And the good news, I think, is that many in the American business community are experiencing the negative aspects of doing business in China. I think the Chinese are placing requirements on the American business community that is actually unhelpful for them. And so, the good news I feel is, you know, maybe 10 years ago the American business community was all in on China. I do not know that that is the case anymore. I think they are feeling the restrictions and are making more strategic decisions.

Mr. BURCHETT. Great.

Dr. ECONOMY. I would just say, quickly, that we have benefited from the economic relationship with China, of course, in terms of

import of low-cost goods. Our companies have benefited. Our IP brings a lot more money to Apple from the iPhone than the Chinese make off of that. But I think Kelly is right, we are going through a rethink, and I think that is smart. I would only suggest that you give the U.S. Chamber another look because they actually take a very tough position when it comes to China trade and investment.

Ms. SACKS. I will just say briefly on the Chamber of Commerce, they should take a lesson from this panel here, as they regularly have experts speaking on issues and have what are called “manels” of all men. So, the Chamber would be wise to observe the way that this committee has done this, with the exception of Dr. Economy.

Mr. BURCHETT. I would say—and my time is up; I have to go—I would say, if they were so great at what they are doing, they would be out making money instead of sitting behind some desk grabbing a four-legged mahogany all day.

Thank you, Mr. Chairman.

Chairman ENGEL. Thank you. Thank you, Mr. Burchett. Thank you.

Mr. Phillips.

Mr. PHILLIPS. Thank you, Mr. Chairman, and to our witnesses.

I want to go upstream and talk about education. If we do not start preparing our young people for the world that is, and what will surely be, I believe hearings like this will be of little consequence. And I was pleased that you, Ms. Magsamen, talked about investing in our greatest strength, our people. You, Ms. Sacks, talked about investment in STEM education.

I think it is fair to say that we still in the United States have the world’s preeminent higher education system, as evidenced by over 350,000 Chinese students attending our universities at this very moment. But all the evidence indicates that we are falling behind relative to our primary and secondary education.

Is there anything specifically we can learn from how the Chinese are preparing their young people that we might adopt in this country? Ms. Sacks?

Ms. SACKS. When I go to China and I talk with graduates coming out of universities, you know, we have this sort of conception that the Chinese State-owned enterprises are really what are fueling China’s technological ambitions. The reality is there is a growing class of really savvy, hard-working entrepreneurs in Chinese private companies, and this is really what is at the forefront of innovation in these emerging technologies. It is an exciting, futuristic place to be.

What can we learn from that? You know, there is a saying in China, “996,” that Chinese entrepreneurs and these sort of young people coming into startups are working from 9 to 9 6 days a week, and this is one of the things that potentially is making these startups so innovative in stuff like AI, and other lessons to be learned in our own culture, as we think about ways to approach these cutting-edge fields.

Mr. PHILLIPS. Anything specifically in schools, primary and secondary schools, that the Chinese, how they are preparing their children vis-a-vis how we are relative to new technologies, STEM? Any of you? Of which you are aware?

Ms. SACKS. I can get back to you on that. It is an excellent question.

Mr. PHILLIPS. OK. I would welcome it, yes.

Ms. SACKS. Yes.

Mr. PHILLIPS. I also want to ask a question on fentanyl. It is now the cause of over 30,000 deaths in this country annually. That exceeds HIV, car crashes, and gun violence at their respective peaks. Of course, just last month the Chinese agreed to ban fentanyl, which we hope will stem the flow into this country.

(A) Do you believe that they will follow through on that commitment? And (B), if not, what can and should we do to prevent the flow of one of the leading causes of death in the United States? Whoever wants to take it.

Ms. MAGSAMEN. I would say that, while the Chinese have made that commitment, it is going to be important for the most senior levels of this government, including Members of Congress, to hold them accountable to that commitment aggressively, because I am not entirely convinced that they will actually implement that commitment. So, part of it will be political level pressure that needs to be sustained, especially at the Presidential level, going forward.

In terms of what to do about it afterwards, I think part of this challenge is also going to be, again, working with—and actually, the Defense Department is very focused on this, and they did a report on it—looking at kind of maritime shipments and working on sort of like maritime transparency initiatives with other allies around the fentanyl trade as well.

Mr. PHILLIPS. Any other perspectives? Yes, Doctor?

Dr. FRIEDBERG. I would be surprised, actually, if the Chinese regime is very successful in cutting this off, whether because of lack of commitment on their part or because it is a huge and complex economy. And they probably do not attach very high priority to it. Although I agree, if we want to increase the odds that they will, we have to make clear to them that this is a top priority issue and keep coming back to it.

I gather—I am not an expert on this—but I gather that some of the measures that have been taken limiting the ability of companies to ship small packages into the United States at low cost actually will have an impact on at least one channel through which these chemicals come into the U.S. But, undoubtedly, there will be others.

Mr. PHILLIPS. From a cultural perspective, what works relative to negotiating and prioritizing, especially when it comes to an issue like this? How do we make something that kills 30,000 people in this country annually the highest priority, or at least amongst them, with our Chinese counterparts?

Ms. MAGSAMEN. It has to happen at the Presidential level.

Mr. PHILLIPS. OK.

Dr. ECONOMY. I think you have to identify interests within China that share the interests here. That is how we got them to do something on climate change. There were already groups within China that were pressuring the government to do more. If that does not exist, I think the odds of them actually adhering to this kind of agreement are quite low. And what you are probably going to see is more exports going to Mexico, and then, from Mexico, coming

into the United States. So, it will require a level of enforcement, that is going to be quite extraordinary on our end.

Mr. PHILLIPS. OK. Thank you all. I am out of time.

Thank you.

Chairman ENGEL. Thank you.

Mr. Perry.

Mr. PERRY. Thanks, Mr. Chairman.

And I thank the members of the panel for being here.

Without being too overly simplistic, and I suspect, just listening to what I have of Ms. Sacks' testimony, by talking, in my mind, about, if I can characterize it this way, the average Chinese person who in many cases loves America, wants to emulate America, and from my understanding, if you travel to China and just meet those folks, they are generally capitalistic and have a lot of Western values. But the context of the question is, we are not dealing with those individuals on a decisionmaking level. We are dealing with the world that is, which is the Chinese government, the Chinese communist oppressive government. And so, I think it starts out with how we characterize them. And I am just wanting to get your take on China, friend or foe, strategic adversary, ally, enemy? What do we characterize them as? And if you folks are confused, imagine how we feel. Anybody?

Dr. FRIEDBERG. Well, we had a little bit of a back-and-forth on this, and at least I put my hand up supporting the term "adversary," for lack of a better one. I think the point you started with, though, is an extremely important one, and a number of people have touched on it, the necessity of differentiating between the Chinese people, the Chinese nation and civilization with its long history, and the current Chinese regime, the Chinese Communist Party regime. We have to be very clear when we talk about China that we are referring to the regime and not the Chinese people.

Mr. PERRY. I would agree with you. There have been regimes throughout history where everybody in the country was not a part of, or believed in, the beliefs or the goals of the regime in charge, but, yet, still, they were there and the world had to deal with the reality of the regime in charge.

And my point in making that is, while there are not many times, unfortunately, that I agree with my friends down on the other side of the aisle here, but particularly Mr. Sires when he talks about nine of the 10 of the students were Chinese, or even my good friend from Sherman Oaks and he talks about the jobs are important. I look at China and I wonder what they do that is in the United States' interest that is not more in their own interest. Everything they do is more in their interest. And while it is nice to have Chinese students here, and maybe they would stay, I am not sure that that is in our interest, if they are going to be collecting on us and sending that information, whether it is intellectual property or anything else, back to mother China that is going to be, for all intents and purposes, in support of their mission.

And so, I guess my question to you is this: right now, we are in this, well, we have been involved in a trade war, and we finally have a President that has responded to the war, in my opinion. But I wonder about the differences, as you see them, between sanctions and tariffs. Because tariffs are a tool that do not have the stigma

of sanctions, but I wonder how many times we have to watch China disrespect us, steal from us, and import opioids—you name the list of infractions—before we sanction, before we punish—sanctions are punishments, right?—before we punish China.

And is there an appreciable difference to the American people, to the person that wants a job, the people in the Midwest that are suffering because of the tariffs, the people in the steel industry that, to a certain extent, some are suffering if you are using steel, and some are winning if you are producing steel? So, if anybody can talk about the difference between sanctions and tariffs, and what is at stake for China and what is at stake for the United States in that regard?

Dr. ECONOMY. I would just offer that, as far as I am concerned, the tariffs are useful only insofar as they shocked the Chinese system, and shocked the Chinese leadership into understanding that this is a different administration with a different approach? This is not something that we should look to sustain over the long term because, you are right, it does harm our farmers and other actors in the United States.

Sanctions are useful insofar as they target very specific acts of economic aggression? So, when you have a Chinese semiconductor company, looking to steal or attempting to steal from Micron Technologies, then we put the full force of the FBI and the Justice Department behind it, and we go after those companies. And maybe we bar them from accessing other U.S. materials and bar them from selling the United States.

So, to me, they are two very different things and should have two very different uses.

Mr. PERRY. I would agree with you. And since I am out of time, let me just ask you this: with everything that has happened, including North Korea's recent infractions, is it time now—I mean, I understand China is going to play long ball and they wait dynasties, where we have Presidential cycles that run every 4 years—is it time now to increase pressure on China with sanctions?

Dr. ECONOMY. I am sorry, you mean sanction China over North Korea?

Mr. PERRY. Sanction China over numerous things, but the point is to increase the pressure using sanctions as opposed to tariffs.

Dr. ECONOMY. Again, for me, I see sanctions as being very targeted—

Mr. PERRY. OK.

Ms. ECONOMY [continuing]. Sort of applications for very targeted infractions.

Mr. PERRY. OK. So, let's just say that the intellectual military property that was stolen from universities, as evidenced in The Wall Street Journal article about a month ago, should China be sanctioned for that?

Dr. ECONOMY. I think the Chinese companies that participate in that, absolutely, we should find ways to—

Mr. PERRY. And what about the government that sanctions their participation?

Dr. ECONOMY. Yes, I would have to think more—

Mr. PERRY. OK.

Mr. CURTIS [continuing]. Particularly about what kind of sanction could be imposed upon the Chinese government itself.

Mr. PERRY. Financial. OK.

My time has expired. Thank you, Mr. Chairman.

Chairman ENGEL. Thank you very much.

Mr. Malinowski.

Mr. MALINOWSKI. Thank you, Mr. Chairman.

Thanks to the panel.

Just a word on the South China Sea issue and transitioning to the questions that I want to ask you. Your exchange earlier reminded me of a conversation that I had with our former colleague, Admiral Harris, when he was the commander of our forces in the Pacific. And we were talking about my job in the State Department, which was human rights, and his job, which was dealing with China and its incursions in the South China Sea. And we agreed that we were working on exactly the same issue because in both cases what we were dealing with was China as a great power asserting that the rules did not apply to it, and that that is really our interest. And in a sense, we have an equivalent interest, whether it is trade, human rights, South China Sea, security, in asserting that the rules apply, and I think this is how we win our great power competition, by being the champion of those international rules that small and large countries around the world embrace.

But let me focus, in particular, on the human rights issue and begin with the situation with the Uyghurs, exploring some practical possibilities. Dr. Economy, you mentioned that a number of large companies had begun to divest from relationships with Chinese companies involved in surveillance technology, for example, in Xinjiang. And that is, indeed, true, but there is still quite a few that have not. There are major American pension funds that are still invested in Chinese companies that are basically running the surveillance apparatus that is oppressing the Uyghurs. McKinsey held their retreat near Kashgar, which was quite unfortunate. There is a controversy surrounding Erik Prince's company, whether it is, in fact, involved in an enterprise, a training camp that would be situated there.

So, the question is, should we do something about this? Should the Congress look to legislation in this area? Should we, for example, require companies that are listed on American stock exchanges to disclose relationships with Chinese security services? Should we require the State Department to publish a list of problematic Chinese companies that are involved in State repression, and perhaps discourage, perhaps prohibit U.S. companies from engaging in business relationships with those companies, or other things along those lines? For anybody on the panel.

Dr. FRIEDBERG. It seems to me the answer is, yes, we should. I do not know the exact mechanism for doing that, but why should we allow companies that are engaged in this kind of activity, to which we object for a variety of reasons, to operate freely in the United States? I do not see any reason why we should not or could not do that kind of thing.

I think there have been cases in the past where Congress has passed legislation that imposed similar limitations on American

companies that were selling materials that could be used for surveillance or repression in other parts of the world. So, there are models for that that could be applied to China as well.

Ms. MAGSAMEN. So, I would say, yes, yes, yes, and “plus”. I would add the “plus” being working with other democracies and our allies to do the same, so that we are not the only ones on the field doing that.

Mr. MALINOWSKI. Good point. Thanks.

Ms. SACKS. Absolutely. The challenge is going to be, when there are not direct collaborations, how do you assess this? So, for example, if you look at the top AI startups in China right now, a very high proportion of them are working with security firms that are involved with surveillance in Xinjiang. But, again, this is inherently dual-use. So, I could have a conversation with a Chinese company that is working on AI for growing cucumbers, and then, I can talk with someone about drones and sort of biometrics. So, the trick is, in those expansive supply chains, when you have U.S. companies investing in broad AI incubation and research centers in China, where do you draw those lines? And I think that is where the answer is a resounding yes, but, then, on these issues it becomes very thorny to actually implement it.

Mr. MALINOWSKI. Good. Well, we have four really smart panelists who agree that we should do it and that it might be complicated. I would love to get specific recommendations from all of you, and I think many of us would be interested in pursuing that.

The second quick question, reciprocity also seems to be an important principle that we can apply in advancing some of our interests and values. I remember from my time in the State Department we had a problem that virtually every single public diplomacy activity that our embassies and consulates tried to undertake to reach out to the Chinese people was being blocked, sometimes hours or days before the scheduled event. And yet, Chinese diplomats are completely free in the United States to conduct outreach in all 50 States. We are blocked from even traveling to some Chinese provinces. They are not in any way impeded from doing the same in the United States.

Again, there are fine lines here. We do not want to mirror-image bad behavior, but should we be more focused on reciprocity when it comes to public diplomacy, when it comes to Chinese media, quote/unquote, “State media,” having full access to the United States, but American journalists are denied visas to go to China? Should we get more serious about direct reciprocity?

Dr. ECONOMY. On this one, I will say absolutely. It is something I have recommended across the board, that reciprocity has often been viewed as something that is lose/lose and leads to the lowest common denominator, and thus, we do not want to practice it. Traditionally we have believed that we should set ourselves up as a model for the Chinese to emulate. But I think we are past that point. And so, whether we are talking about the media or about Confucius Institutes and American Corners, or we are talking about visas, I think that reciprocity would be useful for all of them, with the caveat that we need to understand what our endgame is in using reciprocity.

And so, for me, I look at the issue with the visas right now where we have started to make it more difficult for some Chinese scholars to come to the United States. And I think the objective should not be to prevent these Chinese scholars from coming to the United States. The objective should be to open the discussion with the Chinese government, so that our scholars who have been banned or are having trouble getting to China, that the door opens to them. And I think the same is true across the board, not banning Chinese TV just for the sake of banning Chinese TV, but for opening the door to American television content in China.

Chairman ENGEL. The gentleman's time has expired.

Mr. Chabot.

Mr. CHABOT. Thank you.

Dr. Friedberg, I would like to go to you first, if I could, about Taiwan. Taiwan is not part of China. It has its own government, its own elections, its own military, its own courts. It has its own visas and passports that it issues. It borrows sovereign debt. It has its own central bank and its own currency, its own economy, its own trade relationships, its own national identity. It has never been part of the PRC. Despite the fact that China likes to make people think that it was, it never has been, nor do the people of Taiwan want to be part of the PRC. The only thing that makes it different than any other normal country is that Beijing forces international organizations and other countries to treat it differently.

Since Jimmy Carter switched diplomatic relations from Taiwan to China, Congress has been in an ongoing tug-of-war with the executive branch to get the State Department to treat Taiwan more like the country that it is. And I have been a long-time supporter of Taiwan—you probably sense that from what I am saying—and was one of the founding Members of the Congressional Taiwan Caucus, and I am now one of the co-chairs of the Caucus.

Would you agree that giving excessive deference to Beijing's One China view and the way it looks at China is counter to our interests, to U.S. interests? And what else should the U.S. be doing to support one of our strongest allies, not only in the region, but really around the world? I look at them much as I do Israel as far as a country that their interests and our interests are very, very similar, if not always the same, pretty close. So, what more can we do to support this ally against the bullying tactics of one of our chief rivals, the PRC, China?

Dr. FRIEDBERG. Well, I agree with your characterization. I think the measures that we have been taking, and could take with more strength, include on the diplomatic front being less concerned about the inevitable protests from the Chinese if we have contact with and dialogue with Taiwanese counterparts. I think we have to demonstrate to them that they have not so sensitized us that we are afraid of doing things that are within our sovereign rights as a country. And I think we are doing a bit more of that.

To me, part of the purpose of that is to signal to the Chinese, to the PRC, our continuing commitment to Taiwan. If we are allow ourselves to be backed further and further away, I think we run the risk of encouraging the regime to think that in the end we are really not going to support Taiwan.

There are measures in the military domain, and we have continued to sell arms to them under the terms of the Taiwan Relations Act. And I think there is more that we could do. And in the economic realm, there may be opportunities for trade agreements of various kinds that would enable Taiwan to have even greater access to our economy and perhaps to limit the extent to which they are dependent on the mainland.

This is going to be an ongoing struggle, and Dr. Economy mentioned—and I agree—that I think the longer-term, or maybe not-so-long-term, objective of the current Chinese leadership is to at some point to try to resolve this issue in their favor. And as they try to push us away and undermine the credibility of our commitments, their objective ultimately is to isolate Taiwan.

Mr. CHABOT. Thank you very much.

And I have probably got time for just one more question. I will throw it to either of the other three witnesses here, whoever wants to take it. Whether it is massive global infrastructure investments through the One Belt, One Road Initiative, building artificial islands in the South China Sea and then militarizing them, cyber theft of technological and military secrets, the development carrier killer missiles, or leveraging international organizations to advance its policies on Taiwan, as I just mentioned, to name but a few, Beijing's asymmetric strategies have often caught U.S. administrations pretty flat-footed. How do we need to change our thinking to counter these types of threats? It seems almost like the problem is systematic here. So, whoever wants to take that on, I am open to them. Dr. Economy?

Dr. ECONOMY. So, let me just say, I think it begins with paying attention to what Xi Jinping is saying and how his words are going to be translated into action, right? Because China often signals what it plans to do. We should not be caught offguard.

Having said that, China is also very opportunistic. When the Belt and Road started, it was an infrastructure plan. It was not the digital Belt and Road. It was not the polar Belt and Road. So, there is a constant need to stay on top of what is being said, the policies that are being developed, and what we see being translated on the ground.

On the Taiwan point, I would say, quickly, I think there are two other things we could do. One is to engage Taiwan as we are thinking through our free and open Indo-Pacific projects, like the electrification of Papua, New Guinea that we are doing with New Zealand, Australia, and Japan. Why not include Taiwan in that kind of endeavor as a way of opening up the international space for them, as China is trying to close it.

The second thing is that I think we need to work with Europeans and other allies to ensure that our business community is not scrubbing Taiwan from all its sites. The pressure is intense, but if they are not faced with the competition from Europeans, American companies will not do it. So, I think that is the second thing we should do.

Mr. CHABOT. Thank you very much. Excellent panel. Thank you. Chairman ENGEL. Thank you very much.

Ms. Houlahan..

Ms. HOULAHAN. Thank you, Mr. Chair.

And thank you to all of you all for your wonderful testimony.

My questions are for anybody who has input into them. My first one has to do with the United Nations, and particularly China's influence in peacekeeping operations. We have, obviously, seen that China has been very active in peacekeeping operations, but has also in some cases undermined some of those operations in human rights and sexual trafficking or slave trafficking. And in 2014, we saw that China appeared to use the aspects of the U.N. for peacekeeping to their own benefit in the Sudan and protecting the workers in the oil industry there. And so, although it would appear that they are more gracious with their time and with their resources, sometimes it is in their own self-interest. And so, my question is, how can the U.S. ask China to contribute more in this way for the global good as opposed to for their own personal good or for their own State good? And how can we exert diplomatic pressure to achieve that?

Ms. MAGSAMEN. So, this comes back to, as China's capabilities grow, and they should be contributing more to the global public good, it is really important for the United States to be the one helping them set the standards for that contribution. And so, when we lean out of, whether it is climate change or peacekeeping—or pick your global issue—China, then, has a lower bar to hit. So, part of it is about us and how we engage in these spaces and how we push the Chinese. Just by the sheer fact of our participation in some of these agreements, that will be the most helpful, I think, in terms of this.

You used PKO. There is also global pandemic disease, where China is really not contributing at the level they need to be contributing at, and, in fact, very much focused on their own interests in terms of domestic stability in the case of many of these pandemic issues.

So, I think, basically, the bottom line is we have to be present. We have to be leading in the standard-setting, and we have to be marshaling our friends to push the Chinese as well.

Ms. HOULAHAN. Thank you. And, in fact, this committee and the body as a whole just passed forward legislation that talked about exactly that with relation to the climate issue and, also, asking our presence to be more felt and challenging our Government to be more responsible from a diplomatic standpoint to issues of climate. And I think you are right, we lead by example. And if we do not lead, there is a vacuum and the opportunity to sort of lower the standards.

My second question is, again, for anyone, which has to do with a recent assessment that the Navy just published in their Cyber Readiness Review, which says that they found the Department of Navy preparing to win a future kinetic battle, while it is losing the current global counter-force, counter-value cyber war. I am also a member of the Armed Services Committee, and I have heard testimony from the DoD regarding our need to invest in capabilities to respond to China's investment in emerging weapon and cyber technologies. And my question is, considering the size of our defense budget and our demonstrated priorities recently, in your assessment, are we maintaining our elite military status or is China gaining ground?

Ms. MAGSAMEN. As a former DoD person, again, I think with respect to China, we need to be making investments in the domains that they are going to compete with us in. And frankly, more surface fleet is not going to win the day with respect to China. It is going to be about how we compete in the digital space, in the cyberspace, in outerspace. And so, it is really how we spend that money on defense that is going to be the most important. I feel like a broken record on this as a former DoD official, but Congress has a role to play in pushing the Services, in particular, ma'am, on these issues because they want to just invest in legacy systems and legacy programs that, frankly, are the programs of the last century and not the programs of this century.

Ms. HOULAHAN. Well, thank you.

Dr. FRIEDBERG. Could I just add—

Ms. HOULAHAN. Oh, please, go ahead.

Mr. FRIEDBERG [continuing]. On that point, I think what appears still to be lacking in this domain is an overarching strategy or concepts of operations for countering China, especially their Anti Access/Area Denial capabilities, with all that that implies. And yet, as the recent report of the National Defense Strategy Commission points out, the Defense Department has not yet articulated those concepts. And here, I agree, I think Congress has an important role to play in holding the feet of the DoD to the fire to do that.

Because going back now to the discussion of Air-Sea Battle in 2011, we have, as a country, identified a serious strategy problem, called attention to it, and now, not evidently found a solution to it. I know that we are working on it. But we need to be able to articulate to ourselves, to the Chinese, to our friends in the region, how it is that we are going to respond to their buildup, and we have not yet done that.

Ms. HOULAHAN. Thank you. I have run out of time. I yield back.

Chairman ENGEL. Thank you very much.

Mr. Watkins.

Mr. WATKINS. Thank you to the panel for being here.

The violations of intellectual property, are those perpetrated by non-State actors in China or just the government?

Ms. SACKS. I mentioned earlier that I testified in March about the role that China's cybersecurity standards regime plays in tech transfer and IP theft. And I want to highlight that because I think these will continue to be problems even if we get a trade deal. There are over 300 domestic cybersecurity standards in China which, as part of doing business, require things like invasive source code reviews and other kinds of sensitive information. This is a channel for IP theft that has nothing to do with State actors or even joint ventures. It is something that I think is somewhat under the radar, but will continue to be an issue. So, the answer is it is much beyond the State actor. It is the whole regulatory structure.

Ms. MAGSAMEN. Can I just add that I think one step that the United States could take would be to require Chinese firms to disclose their ownership structure before they enter the U.S. market, in part, because the distinction between State and private is not always as clear as it appears on the surface. So, when a Chinese citizen enters the United States, they have to provide 5 years of their residences on a form. We should be doing the same thing for Chi-

nese companies in terms of exposing their ownership structure. It is not barring them. It is just imposing a level of transparency that we are currently not imposing.

Dr. FRIEDBERG. Could I add also, going back to the discussion we had a few minutes ago about sanctions, if we are interested in deterring future theft, we have to impose costs on those who have been identified as engaging in theft. And that, to me, is one reason for using the tool of sanctions in a targeted way against companies/entities where we can prove that they have been involved in theft of intellectual property.

Mr. WATKINS. In 2018, China published their Arctic policy which painted a picture of their vision. Can anybody comment on what the U.S. should be doing? They have a pretty aggressive vision, particularly along the lines of trade routes, scientific research I suppose. Anything, any comments on that?

If not, that is fine. I will yield the remainder of my time. Thank you.

Chairman ENGEL. Thank you.

Mr. Trone.

Mr. TRONE. Thank you, Mr. Chairman.

I want to followup on the comments by Congressman Phillips a bit ago and reinforce his message. The CDC indicates that over 70,000 Americans died last year of drug overdose. That is 192 every day. Significantly, these overdose deaths come of heroin/fentanyl or other products that are laced with fentanyl. If you ask local stakeholders, it comes back to one word; it is fentanyl.

So, I had a meeting last week with Minister Xueyuan Xu from the Chinese Embassy, and I spoke to her and congratulated her about their commitment to list the fentanyl, but had a difficult time understanding exactly where they stood on enforcement. I could not get much clarity about how that was going to take place and how it might look. And I know you touched on that a bit, but I was very frustrated.

So, my first question will be for Ms. Sacks. How do we work with China to make sure they crack down on internet sales and that as a platform for spreading this drug?

Ms. SACKS. I was about to say fentanyl is way outside my expertise. But the internet issue is interesting because China has one of the most comprehensive legal and regulatory regimes for cyberspace in the world. I think I would advise maybe next time you have these conversations to talk about ways that, if there are areas of sort of black market sales or other things that are going on through China's digital economy, I would think that Chinese law-makers and officials would have an interest in using some of those tools, not just to crack down on censoring content that is at odds with the CCP, but also things that could potentially be a constructive use of those government authorities over cyberspace.

Mr. TRONE. We will hope for the best.

Given that local Chinese government officials may benefit from the export of some of these materials because it helps drive local economic targets, what is your assessment of the potential to be successful in getting Chinese-U.S. cooperation in this space? Dr. Friedberg?

Dr. FRIEDBERG. Well, I am afraid I am not optimistic about it, for the reasons some of which you have suggested in your second question. If there are parties in China, as there clearly are, that benefit from this process, even if people at the top of the regime want to shut it down, it will be difficult to do. And that assumes that the people at the top are really taking it seriously. And I think, as your conversation suggests, there is some reason to question whether that is yet the case.

Mr. TRONE. Do we have any sense of the dollars of impact it is that is coming out in 2018 of fentanyl?

No one has any data whatsoever? OK, great.

Chairman ENGEL. Thank you. The gentleman's time has expired.

Mr. Guest.

Mr. GUEST. Thank you, Mr. Chairman.

Dr. Economy, I saw on page 3 of your written testimony you talk a little bit about China's social credit system, which sounds very Orwellian to me, very Big Brotherish. Could you please explain that just in a little more detail, please, ma'am?

Dr. ECONOMY. Sure. The social credit system is an effort by the Chinese government to evaluate the political and economic trustworthiness of its own citizens. Right now, it is underway in about 40 different pilot projects. So, there is no one national system. Different pilot projects use different sets of metrics, evaluate Chinese people on different things.

Some of the ones that are common are whether or not you have repaid loans whether you are a good citizen in terms of your financial standard, but it can be many of other things. Did you participate in a protest? That could lower your social credit score. Did your friend Sam participate in a protest? That could also lower your social credit score. There has been talk of using things like, are you buying Chinese goods. So, if you buy Chinese goods as opposed to foreign goods, that could increase your social credit score.

And then, these scores are to be used in a forum for rewards and punishment. Punishment, maybe you do not get to board a high-speed train or a plane. A reward might be that you jump to the head of the line for your child at a prestigious school. So, all of these things are under discussion and, as I said, different parts of the country are doing different types of measures. Even when it is a national program in 2020 and everybody has a social credit score, there is not going to be one uniform set of metrics.

What is most troubling is the expansion of this social credit score to foreign actors, the assignment of a social credit score to multinationals, and I just heard recently to the leadership of these multinationals. I have only heard of one case of this, but I think this is very troubling. So, assessing the sort of loyalty to China, in effect, for companies and for American and other heads of multinationals I think is very problematic.

Mr. GUEST. Yes, ma'am.

Ms. Sacks, a question for you. In your written statement you say, on page 2, you talk a little bit about—and give me one moment here—that China is seeking to become a cyber superpower, and you talk a little about 5G, artificial intelligence. As we stand today, where do we stand, where do our capacities stand as it relates to China? In the 1960's, it sounded like we had the space race. It

sounds like we may be moving into a technology race with the Chinese. And my question is, where do we stand in that race?

Ms. SACKS. The first thing I would say is it is not a zero-sum game. So, we have U.S. companies that are doing cutting-edge work in these fields accessing talent from China, which feeds into that innovation. So, we have to think of these, again, as interconnected systems.

In 5G, the reality is you have two struggling European companies, and then, Huawei and the other Chinese telecom, ZTE. We missed the boat on that. So, 5G is a real issue.

On AI, I think that there is certainly cutting-edge work being done, primarily by China's private sector in AI. But if you look at sort of the application of those companies beyond China, I am a little bit skeptical of their ability to capture market share outside of China. I think that there is still a lot of work to be done in terms of having really—it is not just access to massive quantities of data to train AI algorithms. It is the math that is being done to that and what is being done at sort of the post-graduate and advanced level. So, it is close.

Mr. GUEST. And how do you work with the Chinese, but at the same time keep the Chinese from stealing our technology? I think we have seen industrial espionage. I think we have seen the Chinese take American technology, use that in their military programs. And how do you have a working relationship with the Chinese, but, on the other hand, make sure that we are protecting proprietary interests as it relates to things that are necessarily militarily important?

Ms. SACKS. And so, this is where I get to the concept of “small-yard, high-fence,” where we are selective about what we are protecting. The current list of emerging technologies that has been circulated by the Department of Commerce, frankly, I find it unhelpful. They gave industry a very short period of time to comment on it, and they are very overly broad. So, I think a framework needs to be developed for input from military, from commercial stakeholders who have been outside of the export control process, to come up with more specific technologies and applications.

It is also hard because we are talking about how do we predict technologies in the future, emerging technologies. We do not know yet what their use for national security is going to be. So, to have a sort of negative list that is overly broad I think could shoot ourselves in the foot.

Mr. GUEST. And one quick question for the panel. The recent media reports said that there appears to be a more modern Chinese aircraft carrier that is under construction, which would give them a third carrier group, if they were able to deploy that. And I know our discussion has not necessarily been as it relates to military, but to the witnesses here, does that cause any of the witnesses concerns, that they are continuing to expand their military?

Ms. MAGSAMEN. So, in some respects, China's growing economic power means it is going to naturally develop a more significant military. They have global economic interests that they, themselves, also want to protect.

In terms of the aircraft carrier itself, I still feel confident that ours are better, and I think they have proved that recently. So,

does it concern me that they are spending all this on massive military modernization? Yes, I think we should be attentive to what they are doing in that space, but I also think we need to be focusing more on what we are doing and the investments that we are making to ensure that we are actually going to maintain a competitive edge in the domains where we are actually going to compete with the Chinese. And I am not as certain that it is going to be aircraft carrier on aircraft carrier.

Dr. FRIEDBERG. Just very quickly, I think what is important about the further carrier development is as an indication of their intent and desire to be able to project power beyond the region on a global scale, something they are only beginning to do. We will see more of it. It is not shocking. We should expect it. We should think about how we respond.

Chairman ENGEL. The gentleman's time has expired.

Mr. Allred.

Mr. ALLRED. Thank you, Mr. Chairman.

And thank you to our great panel. I have learned a lot reading your testimony and listening to you today.

I was struck by the juxtaposition—I am a new Member of Congress here. I was sworn in during a shutdown. And while our Government was shut down, the Chinese were landing a lander on the far side of the moon. And to me, it was kind of a perfect example of how some of our own internal squabbles, lack of domestic and foreign investment, have accelerated China's kind of rise to peer status in many areas. And so, it was an interesting way to enter Congress.

But one area, Dr. Economy, that I wanted to talk to you about to begin with that I find perplexing is what China is doing on the environment and with their efforts to combat pollution, but also some things they are doing that are going to contribute to their pollution outputs. And I want to ask, despite they are, of course, a member of the Paris Agreement, we are not. In this House, we have voted to try to rejoin the Paris Climate Accord. But I wonder if you could walk me through what you think the Chinese are thinking there and what kind of their strategic goals are?

Dr. ECONOMY. Sure. This is the first Chinese leadership, I would say, to take the environment seriously in China. And it has done so because the environment was really the largest source of social unrest in the country, just as this leadership was coming into power. Both online and in terms of actual massive demonstrations, they would have 10–15,000 people gather in the streets to protest the air quality. So, I think they take it seriously.

The response has been primarily to assuage the concerns of the upper middle class, the coastal provinces, the wealthier areas. So, that is where the initial efforts have been targeted. We have seen that, as the economy has slowed, they have stepped back from some of their environmental targets and timetables because the economy is still more important to them than the environment.

I think they see a technological advantage to be had or an economic advantage to be had from pushing forward very aggressively in renewable energies, where they have captured the market, solar energy, wind, et cetera. So, I think now they are going to do it with electric cars. They have more than 400 different electric car compa-

nies. They have the largest electric car market and electric car manufacturing capacity. I think they see this as a big advantage for them moving into this space.

At the same time, first, their CO2 emissions increased both last year and the year before. Second, they are exporting over 100 coal-fired power plants through their Belt and Road project. So, it is important to distinguish between what they want to accomplish at home for domestic purposes and for domestic stability, what they see as an economic advantage, and what they really care about when it comes to addressing the true challenge of global climate change. I think they are three different things.

Mr. ALLRED. Yes. Well, I would think there is another element here, which is what you touched on around solar and wind, which is, who among us is going to dominate the next generation of energy? In Texas, we have expanded our wind capacity dramatically. It is our second highest source of energy, electric energy. We are the No. 1 State for wind, not Iowa, as some people think, Texas. But we also are investing and there is a lot of private investment around solar.

And I wanted to ask you about that because, obviously, with the Chinese kind of dumping solar panels and their use of subsidies that I think ended last year, what is the current status of their efforts around the world with solar and what is their goal there? And is it possible for us to compete? Are the tariffs that we have in place a part of that?

Dr. ECONOMY. I am not sure where the tariffs are with regard to solar. Maybe somebody else on the panel knows. Is it possible for us to compete? It will be difficult. China, because of its manufacturing capacity, provides cheap and good enough technology that can be used for much of the developing world.

And I think that is a problem we are going to face, also, with the electric car market. We may have a Tesla. We may have the highest-quality, highest-performing sort of elements, whether it is solar energy or it is electric cars, but it is difficult to compete on the cost level.

Mr. ALLRED. Yes. Well, for Texas, we are an energy State. I want use to be an energy State going forward, and that means dominating the renewable energy market and trying to find ways to compete with China. So, I would encourage my colleagues for us to continue to think about how we can invest in our own markets here, drive innovation, lower costs, consider what subsidies, what might be necessary.

Ms. Sacks, briefly, if you could, President Obama reached a cyber agreement with China that was kind of broadly hailed. What is the status of that? Has it basically been ignored?

Ms. SACKS. I think the consensus is that the Chinese side has not lived up to the commitments made during that. I would argue that the reason that there was some initial decline in cyberattacks after the agreement, I think it really had nothing to do with the agreement. Apologies to anyone in the room who was involved in with it. I think that those are other factors and probably Chinese cyberattacks just became much more sophisticated and difficult to detect.

Mr. ALLRED. Thank you so much.

Thank you, Mr. Chairman.

Chairman ENGEL. Thank you, Mr. Allred.

Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman.

A lot of questions, not enough time. Try to be focused in your responses.

Would you describe that we have any sort of a comprehensive policy toward China with this administration today? Either of you? Any of you?

Dr. FRIEDBERG. If we do, I do not know exactly what it is.

Mr. COSTA. OK. Next?

Ms. MAGSAMEN. I think it is incoherent.

Ms. SACKS. I think that the endgame may be decoupling the two systems. Steven Bannon had an op-ed recently in which he actually said, I may be radical, but I want regime change. So, I think these are sort of the metrics we are discussing.

Mr. COSTA. Yes. Dr. Economy?

Dr. ECONOMY. I think maybe Matt Pottinger has a comprehensive strategy, but nobody else.

Mr. COSTA. OK. I think there is a question—I mean, I view China as a competitor that could well become a very significant adversary. And for those of us who have spent some time in China and followed it closely, I think the notion of the Middle Kingdom and the rise again of the Middle Kingdom is really part and parcel of the Chinese leadership's focus, as well as many of the people.

Having said that, do you see President Xi as—I mean, clearly, he is not a reformer, in my opinion. Among the leadership cadre there, is there anyone left that are really reformers?

Dr. ECONOMY. Certainly there are. And I think even within the top seven members of the Standing Committee, the Politburo, you could look to Wang Yang. I think Li Keqiang is actually fairly reform-oriented and perhaps Han Zheng. I will just note that, over the summer there was reportedly a lot of criticism of President Xi Jinping and there was even discussion that there had been a vote about pushing him back.

Mr. COSTA. And I hear that below the surface among some of my—yes?

Dr. FRIEDBERG. I think there is a question of what we mean by “reform”.

Mr. COSTA. Well, I think President Xi will embrace reform if it helps him consolidate his power.

Dr. FRIEDBERG. Yes.

Mr. COSTA. I think he did that a couple of years ago on the corruption thing.

Dr. FRIEDBERG. But I would distinguish, also, between economic and political reform.

Mr. COSTA. Right.

Dr. FRIEDBERG. I think there are people who believe the State should back away, the market should get a somewhat greater role. I am not aware of people in the top ranks—

Mr. COSTA. And that is a good segue because, with our current strategy with this, for lack of a better term, I call it poker tariff one-upmanship that we are engaged in, do you believe this is going

to lead to an agreement here where negotiations in the next 48 hours may poise another play on this chess game?

Ms. MAGSAMEN. I think our guess is probably as good as yours. I do think that the Chinese believe they have figured out how to deal with this President, which is basically give him a lot of, you know, superficial business deals at the highest level, but not structurally actually——

Mr. COSTA. Well, that is the easy stuff. You can buy more soybeans.

Ms. MAGSAMEN. Right.

Mr. COSTA. You can buy more corn. You can buy more of this and that.

Ms. MAGSAMEN. Yes.

Mr. COSTA. But any real reforms with regards to enforcements of the World Trade Organization and copyrights and industrial espionage, and the like, that we really must require as a part of any agreement, I think it remains elusive.

Dr. ECONOMY. I would say, I think it remains elusive, but I do think that Ambassador Lighthizer is trying to accomplish just that.

Mr. COSTA. No, I have had several conversations with him about it, and he wants to have a mechanism in place, so that when he leaves, we will be able to enforce it. And I think that is what the difficulty is, it seems to me.

Do you think going back to TPP as a strategy to kind of encircle the Chinese would be a better way to go about this?

Dr. ECONOMY. I do not know that it would be better, but I think it would complement it and reassert the economic pillar of our diplomacy, reestablish us as a leader in the region, and give us something that we are actually doing that is positive as opposed to just defensive. So, absolutely, if you have it in your power to start holding some hearings around rejoining the new CPTPP or doing some kind of U.S. ASEAN act——

Mr. COSTA. Well, some of us have been urging——

Ms. ECONOMY [continuing]. It would be terrific.

Mr. COSTA [continuing]. The administration to consider that with the different departments.

Tell me, I was just last month with a group of our top military folks in Hawaii and that whole Pacific-Indo region, and we had a group of NATO representatives, a 2-day detailed briefing. And there were a lot of comments to the effect that they wish there was an equivalent of a NATO in the Pacific as it related to the current challenges that China is creating and juxtaposed with North Korea. Any thoughts or comments on that?

Dr. FRIEDBERG. I do not think that is likely to happen——

Mr. COSTA. No, I do not think it is, either, but——

Mr. FRIEDBERG [continuing]. In large part, because other countries in the region would be reluctant to be drawn into such an arrangement.

Ms. MAGSAMEN. But I do think that there are some things organically emerging because of China's activities. There is greater cooperation, for example, between Japan, Australia, the United States, on the defense front. Certainly, we are seeing in the South China Sea among the claimant States more maritime domain

awareness cooperation. So, some networking is actually emerging, even if it is not formal.

Mr. COSTA. My time has expired. But if the chairman would entertain one quick last question? Do we really believe—I mean, because I do not think it is in China's interest that they are going to really be constructive in supporting our efforts to denuclearize North Korea. It seems the last thing they want is a united Korean peninsula, in my perspective, and I think they just want to control North Korea to the degree that it continues to be a problem for us. I do not know. Am I wrong?

Ms. MAGSAMEN. I think that is a sound analysis.

Dr. FRIEDBERG. I agree. I do not think that they are going to press hard enough to bring about those changes.

Dr. ECONOMY. I would just say, I think there certainly has been a debate underway inside China, and there are certainly many scholars and sort of senior-type scholars who would favor a denuclearized North Korea, who view North Korea as a millstone around China's neck. So, I think there is an active debate or there has been an active debate.

Mr. COSTA. Well, as we know, China no exception, countries do what they believe is in their own interest, and that is what we have to deal with from a realistic standpoint.

Thank you, Mr. Chairman, for the time and this important hearing.

Chairman ENGEL. Thank you, Mr. Costa.

Mr. Deutch.

Mr. DEUTCH. Thank you, Mr. Chairman.

And thanks to the witnesses for being here and staying here.

Nearly 7 years after the founding of the People's Republic of China and 40 years after the reestablishment of U.S.-China's diplomatic relations, China has become a political, economic, technological, and military competitor of the U.S. Obviously, as we have spoken about throughout this hearing, China's interests are increasingly global. Heavy metals, Australian politics, constructed its first military base in Djibouti, invested in more than a dozen ports throughout Europe, and then, now serving as the largest creditor in Latin America. Beijing is also the largest importer of oil from the Middle East and North Africa. Tomorrow I will chair a subcommittee hearing that will examine Chinese influence in the Middle East, and I look forward to learning more about China's influence in that region.

But today I want to just look at ways in which China uses non-traditional power plays to disrupt U.S. interests. And I would like to submit for the record a Wall Street Journal article entitled, "Flood of Trademark Applications from China Alarms U.S. Officials," dated May 5th, 2018. And I see no objection to submitting that for the record.

[The information referred to follows: appendix 4 deutch ifr 3 pages]

Mr. DEUTCH. This article describes the massive influx of trademark applications filed by Chinese entities and individuals. It describes the IP challenges the U.S. is facing in China and the monetary incentives some Chinese provincial governments are offering

their citizens for successfully registered trademarks here in the U.S.

According to the U.S. PTO's "Performance and Accountability Report," there were 6323 applications in 2014 by Chinese entities and individuals. By 2015, the number of applications more than doubled, over 14,000. In 2016, there were almost 29,000, a 200 percent increase. In 2017, there were over 50,000 applications, and last year, a smaller, but still significant uptick to close to 58,000 applications.

So, from the reporting that I have seen, a significant number of applications, even ones that end up being granted by the PTO, are fraudulent with clearly Photoshopped photographs of products or photos taken from competitors' websites rather than of their own products. We have spoken with the PTO about this problem. I know they are taking some steps to better identify and address the problem, but it still seems like malign actors in China have been very successful in gaming our system either for local incentives or for more traditional trolling. In the end, we are left with too many fraudulent trademarks in our system that prevent Americans and other legitimate businesses from qualifying for legitimate trademarks considered too similar, too suspicious, and likely fraudulent Chinese trademarks. And this deceptive practice is designed to not only harm U.S. financial interests, but it makes U.S. actors less competitive in the global marketplace.

So, the question, and late in the hearing I guess I will ask it generally, how best should the U.S. confront these sorts of IP challenges that we are seeing in China, specifically with the PTO and these applications? Dr. Friedberg?

Dr. FRIEDBERG. Well, I have to say I thought I was aware of most of the things that the Chinese are up to. I had not heard about this. So, it is something else to worry about.

Mr. DEUTCH. I just made this a successful hearing then.

Dr. FRIEDBERG. So, thank you.

Just a general point, I am afraid this is not a specific answer because I just do not know enough about this topic. But it seems to me that we have reached a point where we really cannot continue to treat China as a normal trading partner in any one of a variety of different domains because of the nature of their system and the way in which they have been exploiting the openness of ours.

So, in a sense, I think we have to look at a blank sheet and ask ourselves, not just is this a non-zero-sum relationship, because it may be, but who is gaining more from it and how are the Chinese gaining from it? If we do not do that, I think we are going to run in circles, as we have about a variety of other issues related to intellectual property. So, that is not an answer to your question, but I think we have to stand back from the whole relationship and look at it in its totality, given what has happened now with the evolution of the Chinese system. We were open. We thought it would change. It did not. What are we going to do about it?

Mr. DEUTCH. So, as we reevaluate, in response to U.S. criticism, Beijing approved this new foreign investment law to protect what they refer to as the legitimate rights and interests of foreign firms. Is that sufficient and, if not, what areas need further improvement? Dr. Economy?

Dr. ECONOMY. That is just the law. What we have to look at are the implementing regulations and what happens when companies try to do business. Because one thing that happens oftentimes with China, when they do something that seems good on the face of it, it is that they put in place a number of informal barriers to market entry or local regulations that are designed to achieve something that the State wants to achieve. So, then, in effect, yes, Visa and Mastercard can have access to the Chinese market, but three or 4 years later they still have no license to operate. And by the way, even if they get a license, at this point it is basically useless.

Mr. DEUTCH. Great.

Thank you, Mr. Chairman. Thanks for holding this really important hearing.

And thanks, again, to the witnesses for being here.

Chairman ENGEL. Thank you, Mr. Deutch.

Before I adjourn the hearing, I have a question I would like to ask each of our panelists. And that is—and it was touched on before by a few people—is a Chinese move on Taiwan inevitable? Why do not we start with Dr. Economy?

Dr. ECONOMY. I think unless there is a change in leadership, yes.

Chairman ENGEL. Ms. Sacks?

Ms. SACKS. It is outside my area of expertise.

Chairman ENGEL. OK.

Ms. MAGSAMEN. I agree with Dr. Economy. I think it matters, though, the how. I think that the way China is proceeding right now is they are basically trying to economically absorb Taiwan and isolate it enough internationally that no one notices what is going on or disrupting their political campaigns. Whether or not they choose to militarily invade I think will depend on a number of factors.

Dr. FRIEDBERG. I do not think it is inevitable.

Chairman ENGEL. You think or you do not think?

Dr. FRIEDBERG. I do not think it is inevitable, but that assumes that we are going to continue to do things to signal the seriousness of our commitment to Taiwan. I mean, we have played this game out as long as we have. I think we can keep on doing that for some period of time into the future.

Chairman ENGEL. Well, you have sort of answered my second, my final question. It is, if so, what should we do about it?

Dr. FRIEDBERG. Well, I think we need to continue the things we have been doing and expand some of the things we have been doing to strengthen our diplomatic ties with Taiwan, to signal to Beijing the seriousness of our commitment, to try to incorporate them more fully into trade agreements and other arrangements, and contributing to development in the region. And also, militarily, we have to continue to sell them the equipment they need to defend themselves, encourage them to do things in their own interest to make it more difficult for China to coerce or attack them.

Chairman ENGEL. Dr. Economy, do you agree?

Dr. ECONOMY. Yes, I would just say, as I mentioned before, I think including them in the free and open Indo-Pacific in a much more substantive way is important. And I think we need to get other allies onboard, Japan, Australia, the European Union. This

cannot just be about the United States sustaining Taiwan, but it needs to be a much more aggressive and global effort.

Chairman ENGEL. Anybody else? Yes?

Ms. MAGSAMEN. I would also think it is important to assess Taiwan in the context of a broader global trend of shrinking democracy globally and the rise of authoritarianism. And we tend to put Taiwan purely in a U.S.-China bilateral context, and actually, it is part of a larger problem.

Chairman ENGEL. Thank you.

You know, we had a hearing a few months ago and it was really interesting. Part of it was about NATO and what we should expect and what are the pitfalls and what will we be doing. And all the witnesses agreed that the biggest threat to NATO in the incoming years would be China rather than Russia, which struck me as very interesting since NATO was actually formed to stop the then-Soviet Union from making moves. So, I think China is—it was very interesting to have that kind of a statement.

So, I want to thank all our witnesses for their time and testimony today. This hearing has underscored the immense and cross-cutting nature of the U.S.-China challenge. And while smart competition with China is an imperative for U.S. foreign policy, it is clearly not just a foreign policy issue, but one that demands a whole-of-government and, indeed, whole-of-society response.

So, that is why we are doing a lot of things on China in the committee. I look forward to the outcomes of the subcommittee hearings that will take place this afternoon and tomorrow, and to our continued work on this committee on this pressing issue.

Again, I want to thank our excellent witnesses.

That concludes the hearing, and the committee is adjourned.

[Whereupon, at 12:49 p.m., the committee was adjourned.]

APPENDIX

FULL COMMITTEE HEARING NOTICE COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Eliot L. Engel (D-NY), Chairman

May 8, 2019

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at <https://foreignaffairs.house.gov/>):

DATE: Wednesday, May 8, 2019

TIME: 10:00 a.m.

SUBJECT: Smart Competition: Adapting U.S. Strategy Toward China at 40 Years

WITNESSES: Elizabeth Economy, Ph.D.
C. V. Starr Senior Fellow and Director for Asia Studies
Council on Foreign Relations

Ms. Samm Sacks
Cybersecurity Policy and China Digital Economy Fellow
New America

Ms. Kelly Magsamen
Vice President, National Security and International Policy
Center for American Progress
(Former Principal Deputy Assistant Secretary of Defense for Asian and Pacific Security Affairs)

Aaron Friedberg, Ph.D.
Professor of Politics and International Affairs
Co-Director of the Woodrow Wilson School's Center for International Security Studies
Princeton University
(Former Deputy Assistant for National Security Affairs in the Office of the Vice President)

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS
MINUTES OF FULL COMMITTEE HEARING

Day Wednesday Date 05/08/19 Room 2172 RHOB

Starting Time 10:06 a.m. Ending Time 12:49 p.m.

Recesses 0 (____ to ____) (____ to ____) (____ to ____) (____ to ____) (____ to ____) (____ to ____)

Presiding Member(s)

Chairman Eliot L. Engel

Check all of the following that apply:

Open Session ☒

Executive (closed) Session ☐

Televised ☒

Electronically Recorded (taped) ☒

Stenographic Record ☒

TITLE OF HEARING:

Smart Competition: Adapting U.S. Strategy Toward China at 40 Years

COMMITTEE MEMBERS PRESENT:

See attached.

NON-COMMITTEE MEMBERS PRESENT:

N/A

HEARING WITNESSES: Same as meeting notice attached? Yes ☒ No ☐

(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: (List any statements submitted for the record.)

IFR - Deutch

QFR - Sires, Chabot, Spanberger, Wagner, Gonzalez

TIME SCHEDULED TO RECONVENE _____

or

TIME ADJOURNED 12:49 p.m.

Evan Bussey
Full Committee Hearing Coordinator

HOUSE COMMITTEE ON FOREIGN AFFAIRS
FULL COMMITTEE HEARING

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ADDITIONAL MATERIALS SUBMITTED FOR THE RECORD

5/9/2019

Flood of Trademark Applications From China Alarms U.S. Officials - WSJ

THE WALL STREET JOURNAL.

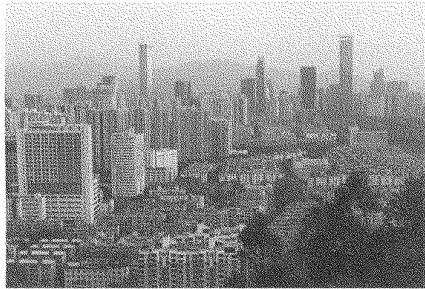
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<https://www.wsj.com/articles/flood-of-trademark-applications-fromchinaalarms-u-s-officials-1525521600>

BUSINESS

**Flood of Trademark Applications
From China Alarms U.S. Officials**

Most of the Chinese filers are tiny merchants hawking goods like pocketbooks, binoculars and phone chargers



China's southeastern city of Shenzhen, often referred to as the Silicon Valley of China, pays companies and individuals as much as roughly \$800 for each U.S. trademark they register. PHOTO: EPA/SHUTTERSTOCK

By Jacob Gershman

May 5, 2018 8:00 a.m. ET

Huge numbers of Chinese citizens are seeking trademarks in the U.S., flooding the U.S. Patent and Trademark Office with applications that officials say appear to be rife with false information.

The surge of filings from China has surprised the patent office. Officials say it could be fueled by cash subsidies that Chinese municipal governments are offering to citizens who register a trademark in a foreign country.

Trademark applications from China have grown more than 12-fold since 2013 and for fiscal 2017 totaled thousands more than the combined filings from Canada, Germany and the U.K. About one in every nine trademark applications reviewed by the U.S. agency is China-based, according to government data.

<https://www.wsj.com/articles/flood-of-trademark-applications-fromchinaalarms-u-s-officials-1525521600>

1/3

Patent and trademark officials say cash incentives could be a factor. As part of a national effort to ramp up intellectual-property ownership, China's provincial governments are paying citizens hundreds of dollars in Chinese currency for each trademark registered in the U.S.

Many Chinese applicants list addresses in the southeastern city of Shenzhen, often referred to as the Silicon Valley of China. Shenzhen pays companies and individuals as much as roughly \$800 for a U.S. registered trademark, according to the city's intellectual-property bureau.

The U.S. officials say many China filings show a pattern of suspicious claims about the goods in question and the qualifications of the attorneys handling them.

“There's been a dramatic increase on Chinese filings. A lot of [them] seem to be not legitimate,” the patent office's trademarks commissioner, Mary Boney Denison, said at a Trademark Public Advisory Committee meeting last fall, according to a transcript.

Josh Gerben, a Washington, D.C., trademark lawyer, said fraudulent trademarks could cause costly delays for other filers if their names are too similar, a grounds for a refusal. “The significant number of fraudulent trademark filings being made from China is disrupting our trademark system,” he said.

The vast majority of the Chinese filers are tiny merchants hawking online goods, such as pocketbooks, binoculars, phone chargers and knit hats, under an array of sometimes vowel-less brand names.

To qualify for a federal trademark registration, a product or service must be “used in commerce,” among other requirements. But unless another company is challenging the trademark, little evidence is required to back up the “in use” claim. There have been instances when a screenshot of a listing on Amazon or another e-commerce site is all an applicant needed to demonstrate market activity.

The Patent and Trademark Office has found numerous instances of Chinese applicants asserting that a proposed trademark is used in commerce, while submitting multiple nearly-identical images of the same consumer product with a different word on the brand tag. FORLISEA, CINYIFAAN, ENJOYSWEETY and GOOKET are some of the two dozen Chinese brands shown on an identically designed pair of zebra-print pants, for example.

The trademark subsidies are part of China's “planned approach to intellectual property,” said Mark Cohen, a China-focused intellectual-property expert at Berkeley Law School and former senior counsel at the patent office. As with patents, China has a “highly metric, numbers-oriented approach” to intellectual property, he said.

5/9/2019

Flood of Trademark Applications From China Alarms U.S. Officials - WSJ

Having a trademark registered in the U.S. is crucial for sellers on Amazon, whose brand-registry program rewards officially trademarked products with more site visibility and a higher listing in search results.

A number of Chinese merchants appear to be represented by foreign attorneys who aren't licensed to practice law in the U.S., violating application rules. In one recent application, a Shenzhen address was listed for an attorney representing a Hong Kong client who had digitally altered a photo to insert the word "Instamarket" over a Walmart storefront.

And more than a dozen Chinese applicants entered the name "Wendy" into the entry box for the attorney name on the trademark application.

Hundreds of Chinese applicants are represented by an Atlanta trademark attorney, Amber Saunders. She said she developed her client pool after accidentally emailing a marketing message to a China-based intellectual-property company, which then started steering Chinese merchants her way.

Some of the merchants had already submitted problematic paperwork that needed fixing. Ms. Saunders said she took on only clients whose commercial activity seemed legitimate. The ones submitted by a lawyer named "Wendy" were among the red flags, Ms. Saunders said. "I wanted to know if they were making stuff up."

—*Fanfan Wang contributed to this article.*

Write to Jacob Gershman at jacob.gershman@wsj.com

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RESPONSES TO QUESTIONS SUBMITTED FOR THE RECORD

Questions for the Record from Representative Albio Sires
Smart Competition: Adapting U.S. Strategy Toward China at 40 Years
May 8, 2019

Question

It is clear that the Chinese Communist Party has become increasingly aggressive in seeking to isolate Taiwan. Since 2016, El Salvador, Panama, and the Dominican Republic have all rescinded their prior diplomatic recognition of Taiwan. What do you think is driving China's return to "checkbook diplomacy" and what should the U.S. be doing to counter these efforts?

Answer

Dr. Elizabeth Economy: China has reasserted its checkbook diplomacy as a means of pressuring the more independent-minded Tsai government. As long as Beijing believed that it was making headway in its reunification efforts—as it did during the previous tenure of Taiwan president Ma Ying-jeou—it did not feel the need to undertake such efforts. It is part of Beijing's broader strategy, including punishing multinationals for listing Taiwan as an independent entity, to constrain Taiwan's international space.

The most important measures the United States can undertake is to help integrate Taiwan into the international community more deeply, for example, by including it in partnerships under the free and open indo-pacific umbrella. Partnering with Taiwan, Japan, and Australia, for example, to undertake development projects in third countries would be an important first step. Also, engaging countries in Europe with global presence, such as the UK, France, and Germany, in recognizing the value of Taiwan's democratic model is important. It is not reasonable for the United States to punish countries that drop diplomatic recognition with Taiwan, since the U.S. does not, itself, have formal diplomatic relations. It should instead encourage more countries to develop semi-official relations, such as those deployed by the United States.

Question

China's efforts to export its surveillance technologies not only help repressive governments spy on their own people, but they could also provide China with data about millions of people around the world. Do we know how much of the data collected through Chinese surveillance systems is being accessed and analyzed by Chinese officials?

Answer

Ms. Sacks: In a world increasingly underpinned and powered by artificial intelligence (AI), those looking to develop globally competitive AI systems—algorithms that will be precise and accurate in many parts of the world, across many demographics—will need access to data on those different demographics, from those different regions. Not getting certain kinds of data could limit how well tailored products are to different people. Beijing has ambitions for China to be a global leader in AI, but Chinese internet companies cannot succeed outside of China unless they can access non-Chinese datasets to train AI systems. Many Chinese companies operating

outside of China have set up segmented systems (some to comply with the European Union's General Data Protection Regulation or GDPR) so that customer data is stored on servers in places such as Singapore, for example, but not accessible by headquarters in China. Other companies like the Chinese drone maker DJI have stated that they do not have access to customer data at all because it is not needed for their business model. The problem, however, it is impossible to know what the reality is for how data is stored and accessed within those companies, and then shared or not with Beijing. There is no clear evidence to date on the issue.

Question

It seems that a core component of China's global strategy is to secure access to strategic ports around the world. What are the most significant port acquisitions the Chinese government has made? What can the U.S. do to more effectively respond?

Answer

Ms. Magsamen: Beijing has spent billions of dollars securing seaports and expanding sea lanes around the globe. Chinese investments tend to flow into economically vulnerable countries that also serve Beijing's strategic goals. The following provides examples of port acquisitions in Asia, Europe, Africa and North America.

China loaned more than \$44 billion to Sri Lanka to finance a port project, and when the project did not generate revenue to cover the nation's debt payments, Sri Lanka ceded control of the Hambantota port to China for 99 years.

China and Pakistan signed a China-Pakistan Economic Corridor (CPEC) deal that stretches from Xinjiang to Gwadar. Gwadar occupies a strategic location as a gateway to the sea lanes that carry most of China's oil imports and as an addition to the "string of pearls"—a network of Chinese naval bases encircling India from the sea and displaying Chinese maritime aspirations.

In 2016, Chinese state-owned shipping company COSCO secured a majority stake in Greece's biggest port of Piraeus and now has acquired a 100 percent share. Piraeus is a gateway to Europe and handles about 10 percent of Europe's shipping container capacity. At the time, Greece was facing financial challenges and European leaders were not too concerned about the Chinese investment. Now, it has become the biggest growing port in the world.

Djibouti strategically sits at a crossroads of Asia-Europe trade. Its port connects the Red Sea with the Gulf of Aden and the Arabian Sea. The government of Djibouti cancelled the concession made with DP World and instead, offered the control of the Doraleh Container Terminal to China Merchants Port Holdings.

In July of 2018, COSCO bought the Long Beach Container Terminal operated by Oriental Overseas International Ltd for \$6.3 billion, but because of U.S. national security concerns, they are now selling it to Macquarie Infrastructure Partners for \$1.78 billion. This shows that China's port acquisition strategy does not necessarily end at the border of the United States.

What the U.S. can do—more than merely condemning the Belt and Road Initiative’s debt-trap characteristics—is to leverage Chinese efforts to support development needs where it makes sense and is sustainable and transparent. We also need to engage with recipient countries to set up regional platforms for project transparency and accountability. In addition to leveraging China, the U.S. should strategically compete with China by offering an alternative to the recipient countries when it is in our broader national security interests. Countries that desperately need development assistance do not have a choice but to allow Chinese investments.

Questions for the Record from Representative Steve Chabot
Smart Competition: Adapting U.S. Strategy Toward China at 40 Years
May 8, 2019

Question

Thitu Island Standoff

I co-chair the U.S.-Philippine Friendship Caucus with Representative Bobby Scott so I wanted to ask about the situation around Thitu or Pagasa island. Since December, China has had a fleet of non-military ships “swarming” or “loitering” around the island. The numbers of ships changes but to we are not talking about a couple of ships, it’s more like 100 or more. What does China hope to accomplish and what should our response be?

Answer

Dr. Economy: China is using the persistent presence of these ships around Thitu or Pagasa island as a defacto marker of its sovereignty claims, an intimidation tactic, and a reminder that China is on a path to becoming the preeminent military power in the region, with the ability to be present everywhere in one form or another. It is also possible that Beijing is establishing a precedent such that larger naval ships may join in and transit through at a later date. Finally, it helps maintain pressure on the Philippine government in the midst of the China-ASEAN negotiations over the code of conduct.

Ms. Magsamen: China has deployed more than 200 fishing vessels near Thitu or Pagasa island, and 600 more Chinese vessels have been circling this island—the biggest feature claimed by the Philippines in the Spratly Islands. Chinese vessel presence has not only increased difficulty for Filipino fishermen but also once again raises the question of national sovereignty of claimant states. While this is not a new issue, it is still a growing security concern to the United States and the claimants in the South China Sea. China has demonstrated an interest in (1) expanding and strengthening its geopolitical power and (2) shaping international rules and norms in the South China Sea region to suit China’s interests.

Beijing’s assertive claim in the South China Sea encompasses 80 percent of the region within the nine-dash line and is based on its argument of historical rights and protection against the infringement of its national sovereignty. From a Chinese perspective, safeguarding national sovereignty and security is important to safeguarding the stability of the party leadership. The protection of China’s national sovereignty is embedded in the Chinese Communist Party’s strategy to consolidate its power. Beijing has seen the disputes in the South China Sea as a continuation of a “century of humiliation.” China’s elites have convinced the population of their rights to the area within the nine-dash line. The erosion of China’s ability to safeguard its national security can equate the erosion of the CCP to assert its “rights” in China’s own backyard. Therefore, China patrolling small islands in the Spratly and defending its claims are seen as part of its broader CCP plan to increase its bargaining power and strengthen its geostrategic and geopolitical power in the Asia, while simultaneously undermining regional confidence of U.S. security guarantee.

China also has an interest in shaping the international rules and norms to ones that would leverage their position in the region and globally. The goal is to maintain its nine-dash line claim in the South China Sea. After the Philippines filed a Statement of Notification of Claim under Article 287 and Annex VII of UNCLOS III and received an arbitration award by the Arbitral Tribunal, Beijing has pursued a dual-track approach by both urging more “dialogue and consultation” with claimant countries while also projecting power to build leverage and coerce those same countries. China rejects the Tribunal award and continues to send both military and fishing vessels to the region. This is meant to undermine the multilateral decision-making body and at the same time, promote its own dispute settlement mechanism that has a bilateral focus and serves its interests. In sum, by patrolling the sea and ignoring the existing international rules and norms, China seeks to shape new ones that serve its interests in the long run.

The Trump Administration’s strategy in the South China Sea remains rightly focused on upholding freedom of navigation, as part of its broader strategy to maintain a free and open Indo-Pacific. The U.S. should also prioritize crisis management in the South China Sea to reduce chances of miscalculation and conflict and work to strengthen existing confidence building measures with China put in place during the Obama Administration. In addition, the U.S. should ratify the United Nations Convention on the Law of the Sea (UNCLOS) and work with our allies to uphold transparent and multilaterally established international rules and norms. China has tried to delegitimize the arbitral body and undermine UNCLOS’s authority to settle disputes specifically in the South China Sea. Therefore, it is essential to foster discussions amongst claimant states in the South China Sea and urge ASEAN and China to conclude discussions on a Code of Conduct that upholds international law. The U.S. also needs to demonstrate our capability to deter Chinese aggression and our willingness to defend our allies.

Ms. Sacks: This question is beyond my area of expertise.

Dr. Friedberg: This question is beyond my area of expertise.

Question

Human Rights Concerns Integral to our Commitment to Southeast Asia

From time to time you hear the argument that we have to downplay human rights concerns in Southeast Asia because pressuring countries like Cambodia or Burma can drive them into China’s arms. Doesn’t this argument sell out our values, and if we buy into it, hasn’t China’s authoritarian model already won?

Answer

Dr. Economy: Instead of simply condemning human rights abuses in Cambodia or Burma—which we should continue to do—we should be developing long-term strategies that embrace political and economic development in ways that will advance market democracy. Both countries have elections and possess institutions that can be used to achieve genuine democracy. In the meantime, the United States should be working on developing the foundations of market democracy in these countries—for example, the digital infrastructure, property rights, the rule of law, and, where possible, support for indigenous NGOs. Otherwise, China will capture

Cambodia even more fully and make greater inroads into Burma. The United States—particularly working with Japan and Australia—should be launching a comprehensive political and economic capacity building effort in these countries.

Ms. Magsamen: I view democratic values and standing up for universal rights to be a U.S. comparative advantage in competition with China, not a hindrance. It is what sets us apart from China and makes the American model compelling to people around the world. It is also Standing up for democratic values and universal rights also provides an alternative idea to countries. If the absence of alternative ideas, then China will have even greater ability to transform the regional and global order to make it safe for autocracy.

Ms. Sacks: This question is beyond my area of expertise.

Dr. Friedberg: This question is beyond my area of expertise.

Questions for the Record from Representative Abigail Spanberger
Smart Competition: Adapting U.S. Strategy Toward China at 40 Years
May 8, 2019

Question

In the US and in conversations with our closest allies, we hear frequently about the future of 5G technology and the potential threat China and companies building 5G networks and infrastructure pose. Most of our attempts to counter this threat look at near-term solutions and strategies to prevent China from controlling the market. While we need to provide a viable, cost-effective alternative to Huawei today, your comment, Ms. Magsamen, regarding how we must also invest in our competitive advantage—the American people—is particularly salient for those inclined to look at long-term strategies for countering the threat of Chinese dominance in particular technologies.

What can Congress do to ensure we are optimizing the strength of our competitive advantage - the American people? In your estimation, how can we proactively prepare the American people, particularly the next generation, for the next phase of competition with China or other future global competitors?

Answer

Ms. Magsamen: While jurisdictionally hard across Congressional committees, I strongly believe that Congress should design and legislate a National Competitiveness Initiative that would make a massive investment in the economic competitiveness of the American workforce for the next century. That includes more funding for research and development, science, medical and engineering education at primary and secondary public schools, tuition assistance for graduate STEM degrees, and new national infrastructure (especially green infrastructure). This competition with China won't stop at 5G; we need to be thinking ahead and very long-term with respect to technological competition.

Question

How much does China spend on education, particularly in technology? How do you assess this investment correlates to or causes China's current technological strength, and how does the Chinese government view and talk about this investment in its workforce? How does China's spending compare to our own spending?

Answer

Ms. Magsamen: China has invested in a massive expansion in education. According to official figures released by the Chinese Ministry of Education, China spent 4.6135 trillion RMB or roughly \$671 billion in 2018.

The United States spends more on education (per capita) than any other OECD country. So it is not purely a question of funding levels. That said, U.S. education funding is in decline at a strategic moment when it should be going up. According to the U.S. Department of Education, the President's FY2018 Budget provides \$59 billion -- \$9 billion or 13 percent below the FY2017 actualized level.

Chinese investment in human capital development is essential to its current economic and technological strength. Because China is a state-driven economy, the Chinese Communist Party has the ability to use revenue for strategic aims and drive massive resources to national priorities whether it is education or military modernization. Based on China's 13th Five-Year-Plan, innovation is a priority in China's blueprint for future development. Beijing wants to move Chinese manufacturing up the value-added chain and enhance its future global competitiveness and technological edge. To realize this vision, the Chinese government aimed to increase spending on R&D to meet the target of \$1.2 trillion by 2020. In addition to increasing the general R&D spending, the Chinese government also plans to enhance human capital by increasing the share of China's R&D personnel per 10,000 people with scientific degree from 48.5 in 2015 to 60 in 2020, which means the share of its total population with scientific degrees is expected to increase from 6.5 percent in 2015 to 10 percent by 2020. In addition, the Central Party Committee and the State Council announced plans for the development and promotion of world-class universities and first-class subject building through the implementation of "211 Project" and "985 Project". The Chinese government was quick to realize that it can no longer rely on low-cost and abundant labor force as comparative advantage to compete globally, especially as the nation's population is aging and shrinking. The correlation between Chinese investment and current technological strength is direct.

Question

Synthetic opioids remain a massive problem in this country. In my home state of Virginia, there were over 700 overdose deaths from fentanyl or its analogs in just 2017. The U.S.-China Economic and Security Review Commission—which was established by Congress—called China the “largest source of illicit fentanyl and fentanyl-like substances in the U.S.” and recently reiterated that China was not doing enough to stop it and its related analogs from reaching the U.S.

We've seen some willingness from China to address U.S. domestic counterdrug concerns, including by scheduling increasing numbers of fentanyl analogs since 2015 and the recent bilateral agreement to control all fentanyl-related substances.

Has China implemented its bans on fentanyl and fentanyl analogs by taking law enforcement actions to shut down or prosecute illicit fentanyl production and international distribution?

Answer

Ms. Magsamen: No, despite adding fentanyl to the list of “non-medical use narcotic drugs and psychotropic drugs control variety catalogue of supplementary basis for determining drug approval”, China has not shown a full commitment to enforcing this policy which officially took

effect three months ago. While China's decision to identify more fentanyl compounds and ban 25 substances—4 more than the United Nation—seems promising, the reality falls way behind.

There is evidence that shutting or prosecuting illicit fentanyl production and international distribution will be difficult. First, the issue of enforcement is a murky one. The announcement from the Ministry of Public Security, National Health Committee and State Drug Administration also includes a short statement on fentanyl non-medicinal and medicinal categorization. It reads, "if fentanyl has any medicinal, industrial, scientific research or other legitimate use, it shall be adjusted according to the article 3, paragraph 2 of the measures of the listing and control of non-medicinal narcotic drugs and psychotropic drugs." This means that the bans on fentanyl is not a complete ban. Factories that produce fentanyl can still claim "medicinal use," get the approval and continue to bypass the law.

The Chinese ban also does not include all precursors used to make fentanyl and its analogues. Producers can alter the compound and produce an entirely different substance. The Chinese government will have to continuously add more substances to its exhausted list and train inspectors to identify these controlled non-medical use narcotic drugs.

Question

How can the U.S. best monitor China's actions and ensure Beijing is living up to its promises?

Answer

Ms. Magsamen: The United States and China share an interest in controlling Fentanyl production and distribution, and this could become an obvious area of bilateral cooperation if China shows commitment to real action. At a time of heightened tension in other areas of the bilateral relationship, the Administration should be real diplomatic and political muscle behind areas where cooperation in our mutual interest. China will only engage cooperatively if the President consistently raises it with Xi Jinping directly and consistently.

**Questions for the Record from Representative Ann Wagner
Smart Competition: Adapting U.S. Strategy Toward China at 40 Years
May 8, 2019**

Question

I understand the unique characteristics of the cyber domain limit the utility of traditional arms control agreements. However, this shouldn't doom the United States and China to an all-out cyberweaponry arms race. Ms. Sacks, how should the United States think about arms control in the cyber domain, and what do you think a U.S.-China cyber agreement should look like?

Answer

Ms. Sacks: I do not have expertise on the issue of arms control agreements in the cyber domain.

Question

Dr. Friedberg, China has historically pursued a relatively restrained nuclear weapons program. How do you think China will tailor its nuclear capabilities as it attempts to compete with the United States, and how can the United States encourage continued restraint?

Answer

Dr. Friedberg: China will most likely continue to modernize and modestly to expand the size of its nuclear forces. Among other measures, the PRC will proceed with the deployment of land-mobile and sea-launched intercontinental range ballistic missiles, some equipped with multiple, independently-targeted warheads. The primary motivation for these developments appears to be to ensure that, regardless of possible improvements in U.S. offensive capabilities (including conventional precision-strike weapons) and missile defenses, Beijing can remain confident of its ability to deliver dozens and potentially hundreds of nuclear weapons against the United States. Chinese strategists likely also hope that, by proceeding in this way, in the long run they can erode the credibility of U.S. extended deterrent guarantees to its regional allies.

In addition to more traditional delivery systems, the PRC is also investing in the development of hypersonic weapons which could deliver nuclear as well as conventional warheads in a matter of minutes, at extended range and along trajectories that would make them especially difficult to detect, track and intercept. The U.S. and Russia are working on similar systems. The U.S. should not refrain from developing hypersonics unilaterally in the hopes that this would induce restraint on the part of China and Russia. Whether, on balance, negotiated, verifiable multilateral constraints on the deployment of these weapons would be in U.S. interests, and, if so, whether such agreements can be reached, are questions that deserve consideration.

Question

Dr. Friedberg, the global arms control regime was designed to curb competition between the United States and Russia. How should the international community alter the structure of the arms control regime to incorporate a rising China?

Answer

Dr. Friedberg: Beijing has historically shown little interest in participating in nuclear arms control agreements of the sort that the U.S. and Russia/the Soviet Union have entered into periodically since the 1970s. One reason for this is likely that Chinese policy makers have seen themselves as relatively weak and therefore at a disadvantage in any potential negotiations. While it is possible that this could change as China's capabilities grow, there is little indication at present that Beijing has any interest in exploring Cold War-style arms control agreements with the United States.

Given China's ongoing buildup of its so-called anti-access/area denial capabilities and the difficult challenge that these pose, I do not believe that the United States should continue to adhere to the INF Treaty. This agreement constrains us from deploying intermediate-range conventional missiles that could help to counter the large number of such weapons that Beijing has fielded in the last several decades.

Questions for the Record from Representative Vicente Gonzalez
 Smart Competition: Adapting U.S. Strategy Toward China at 40 Years
 May 8, 2019

Question 1

I am particularly interested in hearing your thoughts about the rise in the number of foreign nationals—including American and Canadian citizens detained for allegedly spying, those that have been subjected to exit bans to compel the return of a Chinese fugitive, or those like my constituent, Mark Swidan, who was recently sentenced to death on drug related charges. To my knowledge, Mark is the first American to be sentenced to death by a Chinese court, though his sentence has been suspended for two years.

- a.) Is there evidence that China is more aggressively enforcing certain laws to extract political concessions from foreign governments?

Answer

Ms. Magsamen: While it is unclear to the general public whether the Chinese government enforces certain laws with the intention to extract political concessions from foreign governments, there is growing evidence that laws in China are kept extremely vague and exceptionally wide in scope in order to achieve such thing. When the Chinese government changes its position on a certain issue, it can leverage the vagueness of the laws. On the business front, the Cyber Security Law took effect in June 2017 for China to force foreign companies to provide business-critical data to Chinese authorities. In the name of national security, article 28 states, “Network operator shall provide technical supports and assistance to public security organs and national security organs.”

The Chinese authorities’ definition of national security can vary case by case, which widens the scope of the law and makes it extremely difficult for American businesses to operate without being directly monitored by the Chinese authorities. In addition, with this law, the Chinese authorities can access business-critical information of foreign firms. Article 37 states, “Critical information infrastructure operators that gather or produce personal information or important data during operations within the mainland territory of the People’s Republic of China, shall store it within mainland China.” Because of the vagueness of such law, the Chinese government can punish American firms and use them as tool to make necessary political concessions with the United States.

Finally, last month, when the Trump administration announced a series of measures targeting Huawei, China retaliated with a “unreliable foreigners list,” which Gao Feng of the Ministry of Commerce said is meant to punish foreign firms that violate Chinese foreign trade law, anti-monopoly law and national security law. If these laws remain vague and wide in scope, then surely China can use them to penalize American firms and citizens—either prohibiting them from doing business in China or prosecuting them under Chinese laws.

b.) Should Americans be wary of traveling to China? How should the U.S. government respond to these actions?

Answer

Ms. Magsamen: Americans should still travel to China but always pay close attention to State Department travel warnings. The State Department issued a travel warning on China in January 2019 that categorizes China as level 2: exercise increased caution. In addition to common thefts and scams, the State Department also warns travelers of “exit bans” which Chinese authorities use to keep U.S. citizens in China for years. Traveling to Tibet, Xinjiang and other disputed areas is still advised against. China has been extremely strict when it comes to individuals—Chinese nationals or foreigners—being involved in illicit activities such as drug trafficking and other criminal activities. The Department of Foreign Affairs and Trade also gives warning about illegals drug activities in China. In sum, Americans should take extra precautions when traveling to China.

With respect to detained American citizens, the U.S. government must advocate aggressively with the Chinese authorities for their release at the highest levels. Given that these detentions are also increasingly happening with citizens of our allies like Canada, who China perceives are more vulnerable, it is essential that the U.S. government also speak out on behalf of those citizens as well. China should not be allowed to take political hostages or bargaining chips without costs to its bilateral relationship with the United States.

c.) Do you think the broader tensions in the U.S.-China relationship play a role in individual cases like these?

Answer

Ms. Magsamen: Yes, the Chinese government is highly centralized and mainly operates in a top-down manner. Any decision made by the central government is likely to be implemented on the local level. It is likely that China is using these cases to gain leverage in negotiations with the United States.

d.) What more should the Administration be doing to make these cases a priority?

Answer

Ms. Magsamen: These kinds of cases need to be raised in dialogues at the political level with Beijing, including by the President, Vice President and Secretary of State. The State Department should also be working in tandem with other governments facing similar challenges like Canada.

Dr. Economy (responding to Question 1 parts a, b, c, and d): The United States and China need a comprehensive discussion around consular affairs. This includes visas as well as protection of individual citizens. A climate of fear is developing in both countries around doing research and business in the other. No matter the larger tensions in the bilateral relationship, this

is not a healthy development; both governments need to ensure that the rights of the citizens of the other country are protected.

Many other countries—Australia, Sweden, the U.K., and Canada among them—currently or previously have had citizens detained under dubious circumstances. This is therefore likely an area where multilateral pressure could be brought to bear effectively

Ms. Sacks (responding to Question 1 parts a, b, c, and d): These questions are beyond my area of expertise.

Dr. Friedberg (responding to Question 1 parts a, b, c, and d): These questions are beyond my area of expertise.

Question 2

The Chinese now have interests in 17 fields which will grow to 20 after they complete the takeover of Kuwait Energy. U.S. companies have 1 field in southern Iraq and 6 in Kurdistan. Iraq tenders its fields through competitive bidding but the Chinese bid non-commercial terms in order to capture the entire value chain. Is the U.S. aware that Chinese companies are taking stakes in most of Iraq's oilfields?

Answer

Ms. Magsamen: China will naturally seek to advance its economic interests around the world, which include a secure long-term energy supply. Given American energy independence (a good thing) and China's dependence, China will inevitably seek to dominate the field. That said, it is important for the U.S. and the Iraqi government to be aware of the nature of these companies. They are state-owned enterprises that are subordinate to the Chinese Communist Party's authority and therefore also an extension of China's strategic aims which could have strings attached for regional governments.

Dr. Economy: See below.

Ms. Sacks: This question is beyond my area of expertise.

Dr. Friedberg: This question is beyond my area of expertise.

Question 3

Iraq has so far resisted but the Chinese are dangling carrots such as the recently approved \$10 billion credit line for Iraq. The Iraqi Foreign Minister was recently at the Belt & Road Summit and received heavy pressure for Iraq to formally join. There is still great goodwill towards the U.S. in Iraq but U.S. needs to step up its political, diplomatic, commercial, economic and cultural

engagement with Iraqis. Is the U.S. aware that China is exerting pressure on Iraq to join the Belt & Road Initiative and the Asian Infrastructure Bank?

Answer

Ms. Magsamen: The Belt and Road Initiative (BRI) is both a strategic and economic initiative that the U.S. must actively monitor but we also must selectively decide when it makes strategic sense to engage with alternatives. The U.S. is not going to match China dollar for dollar, but we can offer compelling development and investment alternatives to regional countries when it is in our broader strategic interests to do so. And we should work with the region to push for greater transparency on the terms Chinese “deals” in order to both pressure China to offer a higher standard but also give regional countries a greater choice.

The U.S. should also recognize that the Iraqi government’s decision to join the BRI is not merely due to China exerting pressure on this state. There are pull factors such as job creation opportunity that work alongside China pushing to accelerate this engagement. The Iraqi government sees China’s oil investment as an opportunity to create jobs for the 1 million Iraqis who enter the labor force each year. Iraqi’s economy depends on oil as it accounts for more than 90 percent government revenues.

Dr. Economy (responding to Questions 2 and 3): Embodied in these questions is the answer. The only response the United States should make is to compete. There is no sense complaining about the Belt and Road unless the United States and its allies and partners present a good alternative. There is no harm in Iraq joining the BRI or AIIB; the issue is the type of projects that might be developed under their auspices. The United States should engage with the Iraqi government and major corporations to understand the government’s needs and how best the United States and its allies and partners can support them. This should be done from the position of strength and opportunity that market democracies present not as a reflexive effort to prevent China from playing a role in the country’s economic development.

Ms. Sacks: This question is beyond my area of expertise.

Dr. Friedberg: This question is beyond my area of expertise.