

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

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Before the

Committee on Foreign Affairs

United States House of Representatives

1st Session, 116th Congress

May 8, 2019

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

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."^{iiiiiv}

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).^{ix}

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.^x 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.^{xi}
- 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).^{xii}

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).^{xiii}

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.^{xiv}

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. officials and analysts, Xi's China symbolizes a failure of engagement to realize its objectives.^{xv} 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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