

Written Testimony of Kevin D. Freeman, CFA
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“Chinese Investment and Influence in Europe”
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Chairman Rohrabacher, Ranking Member Meeks, and Members of the Subcommittee, thank you for the opportunity to provide testimony regarding Chinese Investment and Influence in Europe.

My name is Kevin Freeman, and I have a background in global investment management with a Chartered Financial Analyst (CFA) designation. I am also an active student of Economic Warfare techniques, having written two books on the subject and providing research and testimony to the Department of Defense and various government agencies. I would like to begin with the proposition that what we see as a marketplace, our enemies view as a battlespace. When we recognize this truth, we will be better able to confront both opportunities and threats as they appear.

Early in my investment career, I had the privilege of working for Sir John Templeton, founder of the Templeton Funds and truly the pioneer of global investing. I met him in 1987 and went to work for him in 1990, as the world was dramatically shifting. These were glorious times for global investors as the Cold War was ending and there were amazing opportunities for profit emerging around the globe.

I well recall the time with Sir John when we were watching the fall of the Soviet Union. Despite the euphoria and consensus, he pointed me to China as the better investment. He said that because communism infected Russia in 1917 there were too few Russians alive who understood market behavior. By contrast, though, the Chinese fell to communism after the end of World War II. The Chinese thus had a better collective memory of how markets work. In hindsight, of course, he was right. In 1990, the Chinese economy wasn't listed among the world's top 10 when ranked by total Gross Domestic Product while the Soviet Union was ranked number 3. Now, less than three decades later, China is ranked second only to the United States in nominal GDP and by some estimates, using Purchasing Power Parity, is already the world's largest economy. Russia has fallen out of the top 10 entirely.¹ I make this point to demonstrate that the Chinese people understand the power of economics and, to borrow a phrase, the Art of a Deal.

¹ En.wikipedia.org. (2018). *List of countries by largest historical GDP*. [online] Available at: https://en.wikipedia.org/wiki/List_of_countries_by_largest_historical_GDP [Accessed 22 May 2018].

Investing in China, however, notoriously comes with a price. There are limits to capital flows in and out of China and limits on foreign ownership of Chinese assets.² Similarly, Chinese foreign investment also comes with a price. It is essential to remember that although China has instituted multiple market reforms over the past two decades, they overall remain a centrally planned economy. The markets are a tool of the state. And, all market-driven decisions are subject to review and oversight to make certain they strategically fit China-first priorities such as “Made in China 2025.”³ Investments often also require that intellectual property and control are transferred to Beijing.

To understand China, you must understand *The China Dream* as the goal and *Unrestricted Warfare* as the primary strategy.⁴ *Unrestricted Warfare* is the title of a 1999 book written by two Senior PLA Colonels, Qiao Lang and Wang Xiangsui, published by the People’s Liberation Army (PLA) Press. The concept of this book fits with near perfect accuracy the path of China over the two decades since it was published. Therefore, I strongly recommend to the Committee that any study of Chinese investments in Europe or elsewhere be considered through the lens of *Unrestricted Warfare*. This is, in essence, a view of global economic warfare.

Consider this quote from the English translation:

“When people begin to lean toward and rejoice in the reduced use of military force to resolve conflicts, war will be reborn in another form and in another arena, becoming an instrument of enormous power in the hands of those who harbor intentions of controlling other countries or regions.”⁵

If we had taken to heart the message of *Unrestricted Warfare* in 1999, we would have been quick to recognize the focus on Intellectual Property theft, hacking, currency manipulation, strategic control of rare earth minerals, satellite warfare, strategic acquisitions, financial market manipulation, and a host of other challenges that we see in place today. At the time, however, the focus was on opening Chinese markets for American business and rushing China into Most Favored Nation (MFN) status and the World Trade Organization (WTO). The political class, for the most part, even seemed willing to overlook clear Chinese efforts to influence our elections with massive illegal contributions. There was greater public evidence of Chinese interference in

² Ft.com. (2018). *China steps up capital controls with overseas withdrawal cap*. [online] Available at: <https://www.ft.com/content/b69166fa-ee01-11e7-b220-857e26d1aca4> [Accessed 22 May 2018].

³ Csis.org. (2018). *Made in China 2025*. [online] Available at: <https://www.csis.org/analysis/made-china-2025> [Accessed 22 May 2018].

⁴ BBC News. (2018). *What does Xi Jinping's China Dream mean?* [online] Available at: <http://www.bbc.com/news/world-asia-china-22726375> [Accessed 22 May 2018].

⁵ Qiao, L., Santoli, A. and Wang, X. (1999). *Unrestricted warfare*. Beijing: PLA Press

the 1996 election than anything demonstrated so far regarding Russia in 2016. In fact, there was clear evidence of foreign economic warfare in 2008 (although not Chinese) just before our Presidential election. I personally believe the outcome was dramatically altered as a result.

It is important to note that the Chinese authors were quite open about how they would exploit the weapons of Unrestricted Warfare while Americans remained in ignorance:

“...the Americans have not been able to get their act together in this area. This is because proposing a new concept of weapons does not require relying on the springboard of new technology, it just demands lucid and incisive thinking. However, this is not a strong point of the Americans, who are slaves to technology in their thinking. The Americans invariably halt their thinking at the boundary where technology has not yet reached.”⁶

The authors are basically suggesting that Americans see war as solely kinetic with the intention of direct physical destruction. Further, they are suggesting that the military of the United States is almost exclusively focused on personnel and equipment, on traditional weapons such as ships, planes, tanks, and missiles. *Unrestricted Warfare* requires looking beyond the military and kinetic and includes causing riots, a stock market crash, or acquiring a strategic port through purchase, as “new concept weapons.” Further, they are direct in suggesting that Americans won’t recognize such activity as warfare even while it is occurring before their very eyes.

After more than a decade of effort to inform policymakers and political leaders, I can sadly report that the Chinese author’s assessment is largely correct.⁷ For the last decade, I have been presenting clear and compelling evidence of economic warfare attacks against the United States. These attacks utilize new concept weaponry specifically listed in the *Unrestricted Warfare* doctrine. Yet, because my warnings did not fit the political narrative at the time, they were largely ignored and, in some cases, purposely suppressed.

A major problem is that we are siloed in our thinking. After declaring victory in the Cold War, we largely separated economics from defense. The belief was that we had the world’s most capable military and global markets should be free and open. While both thoughts were (and are) mostly true in concept, the real-world application is actually quite different. Other than attempts to restrict terrorist financing or the use of sanctions to modify behavior, we have largely ignored the growing global economic war. In briefing after briefing to the Defense Intelligence establishment, I was told that while “these concerns are valid,” they “were not in our swimming lanes” and thus remain unaddressed. The warfighters deigned ignorance of

⁶ Qiao, L., Santoli, A. and Wang, X. (1999). *Unrestricted warfare*. Beijing: PLA Press

⁷ The American Legion. (2012). *The message no one wanted to hear*. [online] Available at: <https://www.legion.org/magazine/162503/message-no-one-wanted-hear> [Accessed 22 May 2018].

markets and economics while the economists and financial community looked for profit opportunities, overlooking obvious geostrategic risks. These are the capitalists about whom the communists once boasted, “would sell the rope with which they hang us.”

The Communist Chinese do not suffer under these same considerations. All actions are perceived from a geostrategic view. Dissent is not allowed. The time horizon is measured in decades, rather than with quarterly profits. Business and the military are greatly integrated. In fact, the PLA owns or controls a very large portion of Chinese business interests. The goal is not to maximize money but rather to reestablish China’s rightful place in the world from their viewpoint. And their strategy roughly follows *Unrestricted Warfare*. This is obvious when you review inside documents not intended for Western eyes.

It is essential to recognize just how broad the nature of *Unrestricted Warfare* truly is. The range of influence operations from Hollywood to Washington is really quite extraordinary. I’ve included an Infographic from the *Epoch Times* that details these activities.⁸ There should be no doubt that the “One Belt, One Road” efforts taking place in Europe and Asia are intimately tied to the same strategy.⁹ Likewise, investments in Latin America and Africa are also part and parcel of *Unrestricted Warfare* and must be recognized as such.

For too long, the Chinese have been effective at hiding their true intentions, or “crossing the sea in full view” as ancient Chinese folklore would implore. As Dr. Michael Pillsbury explained in his powerful book, *The Hundred-Year Marathon*, “Americans have been wrong about China again and again, sometimes with profound consequences.”¹⁰ He should know as he admittedly was a leading “Panda Hugger” through multiple administrations dating back to Nixon. He has since understood the true nature of Chinese intentions.

As Confucius supposedly said, “there cannot be two suns in the sky.” The goal under President Xi is to displace the United States so that China can take her rightful place, controlling at least one-third of the world’s economy and overseeing the rest. The goal is to achieve this objective by 2049, 100 years after Mao took control. In addition, the Chinese realize that two decades after Tiananmen Square, the world celebrated China at the Beijing Olympics. The Chinese belief is that even horrendous action can be forgotten in 20 years. We should therefore expect Chinese belligerence between 2019 and 2029.

⁸ [www.theepochtimes.com. \(2018\). Infographic: China's Secret War Against America.](https://www.theepochtimes.com/infographic-chinas-secret-war-against-america_2458236.html) [online] Available at: https://www.theepochtimes.com/infographic-chinas-secret-war-against-america_2458236.html [Accessed 22 May 2018].

⁹ Shin Kawashima, T. (2018). *The Risks of One Belt, One Road for China's Neighbors.* [online] The Diplomat. Available at: <https://thediplomat.com/2018/04/the-risks-of-one-belt-one-road-for-chinas-neighbors/> [Accessed 22 May 2018].

¹⁰ Pillsbury, M. (2016). *The hundred-year marathon.* New York, New York: Griffin. Page 4.

We are already witnessing an increasingly assertive China. Foreign companies that fail to conform to the Chinese purpose are criticized and punished. Most recently, Canada Air was called to account for the crime of publishing a map including Taiwan.¹¹ The Gap clothing store received Chinese anger for daring to sell a shirt that mentioned Tibet.¹² A report in Australia documents that Australia's neighbors are forced to adopt Chinese policy because they took Chinese investments, loans, and assistance.¹³

For those who doubt that *Unrestricted Warfare* has become the primary strategy to achieve Chinese dominance over America, I'd point you to Major General Gen. Qiao Liang. He was one of the two primary authors of *Unrestricted Warfare* in 1999. He now teaches at PLA National Defense University. Here is a recent quote from him in an Op-Ed he published in China Military Online:

"To effectively contain the United States, other countries shall think more about how to cut off the capital flow to the United States..."¹⁴

This was not intended for a Western audience but nonetheless provides a summary of Chinese strategy. We are now closing in on a period in which action will be increasingly overt and aggressive. The Chinese leadership believes that it is less necessary to conceal activity and can openly challenge the Western powers. A perfect example of this is President Xi's consolidation of power, jailing rivals, and appointing himself essentially "president for life." Another example is the official policy statement that China is calling for the "de-Americanization of the world."

We are now entering a critical phase in our relationship with China. The Chinese view themselves ascendant and expect the demise of American power. In fact, they are actively pursuing that outcome through *Unrestricted Warfare*. All investments, whether in Europe, Asia, Africa, or Latin America must be understood through this lens. All investments in the United States should be reviewed carefully by a strengthened CFIUS. Those firms with ties to the

¹¹ The Globe and Mail. (2018). *Air Canada bows to China, upsets Taiwan over Taipei relisting*. [online] Available at: <https://www.theglobeandmail.com/politics/article-air-canada-begins-listing-taipei-as-part-of-china/> [Accessed 22 May 2018].

¹² Denyer, S. (2018). *Gap apologizes to China over map on T-shirt that omits Taiwan, South China Sea*. [online] Washington Post. Available at: https://www.washingtonpost.com/news/worldviews/wp/2018/05/15/u-s-retailer-gap-apologizes-to-china-over-map-on-t-shirt-that-omits-taiwan-south-china-sea/?utm_term=.097faca3b6a6 [Accessed 22 May 2018].

¹³ Shin Kawashima, T. (2018). *The Risks of One Belt, One Road for China's Neighbors*. Retrieved from <https://thediplomat.com/2018/04/the-risks-of-one-belt-one-road-for-chinas-neighbors/>

¹⁴ www.theepochtimes.com. (2016). *Chinese General Says 'Contain the United States' by Attacking Its Finances*. [online] Available at: https://www.theepochtimes.com/chinese-general-says-contain-the-united-states-by-attacking-its-finances_1967150.html [Accessed 22 May 2018].

People's Liberation Army should be especially scrutinized. And, all American investments in China should likewise be available for review. Peter Schweizer's sobering new book, *Secret Empires*, must be taken to heart. Foreign interests too often use "sweetheart deals" with business people and relatives of leadership in order to gain undue influence.¹⁵

These are just a few examples of *Unrestricted Warfare*, barely scratching the surface of the very comprehensive effort underway. One additional recognition is required, however. While China is clearly active in spending, loaning, and investing money around the world, the Chinese banking system is rapidly adding extraordinary debt. One recent estimate is that the Chinese banking system has rapidly grown to \$35 trillion, far greater than their annual GDP.¹⁶ At some point, this also must be viewed as a global systemic risk. Beyond that, China continues to suffer from the second-order demographic consequences of their "one Child policy."¹⁷ China risks serious corruption with consolidated power. China faces the challenge of misallocation of resources that results from central planning rather than market determinations.

In summary:

1. The Chinese are **not** primarily economic investors. They are geostrategic investors. While there are no doubt exceptions, this general truth is a natural consequence of centrally planned economy with geostrategic objectives. In this case, the objective is a hundred-year marathon to displace the United States as the primary superpower (to "de-Americanize the world" and replace it with *The China Dream*).
2. While Chinese foreign investment may be extremely welcome in many parts of the world, it must be made known that such investment arrives with multiple strings. The Chinese expect recipients to adopt their worldview. This is tantamount to conquest by acquisition and investment.
3. All of this must be viewed through the lens of *Unrestricted Warfare*.
4. China faces many challenges. Their use of debt and loans may be or become a serious danger to the global financial structure. They also face challenges at home from demographics and corruption. In order to maintain centralized control, China is increasingly authoritarian, using multiple forms of pressure both on citizens and foreigners.

¹⁵ Schweizer, P. (2018). *Secret empires*. New York, NY: HarperLuxe, an imprint of HarperCollinsPublishers.

¹⁶ Theweek.com. (2018). *Chinese banks are big. Too big?* [online] Available at: <http://theweek.com/articles/771201/chinese-banks-are-big-big> [Accessed 22 May 2018].

¹⁷ Newsweek. (2014). *One-Child Policy Is One Big Problem for China*. [online] Available at: <http://www.newsweek.com/2014/01/24/one-child-policy-one-big-problem-china-245118.html> [Accessed 22 May 2018].

The essential first step to address these threats is to recognize the fact that what we see as a marketplace, our enemies view as a battle space. We must recognize that a global economic war is already underway with dramatic consequences. We must prepare cogent responses that take into account both national security and economic implications.

Thank you for the opportunity to address this committee and share my concerns and recommendations.