



Statement before the House Foreign Affairs Committee  
Subcommittee on Europe, Eurasia, Energy, and the Environment  
on China's Expanding Influence in Europe and Eurasia

## **Bridging the Transatlantic Divide on China**

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Chairman Keating, Ranking Member Kinzinger, and other distinguished committee members, it is an honor to join you today to discuss China's expanding influence in Europe and Eurasia.

I believe that the growing transatlantic divide on China policy poses a serious challenge—not just for America's relationships with its European allies and partners, but for US grand strategy more generally.

The United States' greatest strength in the competition with China is our global network of alliances and partnerships. It is vital that the United States pursue policies that unite these allies and partners in support of our shared interests and a rules-based international order.

In my view, the greatest challenge to a united transatlantic approach is the growing influence of Chinese economic statecraft in Europe. In my comments, I will focus in particular on two elements of Chinese economic statecraft—the Belt and Road Initiative and 5G technology—that are producing discord in our transatlantic relationships.

I should note at the outset that Congress has long shown leadership on Asia policy, most recently through the bipartisan BUILD Act, the Asia Reassurance Initiative Act (ARIA), and the Foreign Investment Risk Review Modernization Act (FIRRMA). To this end, I will suggest a number of actions that Congress might consider to bridge the transatlantic divide on China.

### **The Transatlantic Divide on China**

Over the past two years, the US debate on China has changed rapidly. The good news is that there is an emerging and largely bipartisan consensus in Washington on the challenge that the Chinese Communist Party poses. The bad news, however, is that this consensus is not yet shared with many of our allies in Europe.

Furthermore, there is still no agreement on either side of the Atlantic (or the Pacific, for that matter) about what China strategy we should pursue. Although the United States has identified China as a strategic competitor, it has not yet publicly adopted a clear set of objectives and desired end states for its China policy.

Without a clear set of US objectives, many European allies and partners have found themselves unsure of how to respond to China's rise. Recently, the Trump administration has attempted to convince European countries to reject China's Belt and Road Initiative as well as Chinese companies' involvement in domestic 5G networks. To date, however, both of these efforts have had mixed results, at best.

During a recent trip to several European capitals to discuss Chinese activities on the continent, European government officials and business leaders expressed frustration with US policies. In particular, they singled out the administration's criticism of allies and its embrace of unpredictability as sources of deep concern.

My view is that the center of gravity in the US competition with China is the alignment of key regional and global players. If this is right, then the success of our policies on China should be judged largely by their effectiveness in building a robust coalition of like-minded countries. The divisions between the United States and our European allies and partners make clear that we must do more to build an effective transatlantic strategy on China.

### **The Role of Chinese Economic Statecraft**

China's economic statecraft poses the greatest challenge to a united American and European strategy. In recent years, Beijing has developed a series of economic strategies designed to pursue its security and economic interests, often at the expense of the United States and its allies and partners. China has undertaken both licit and illicit activities in the following areas:

***Investments with Noncommercial Aims.*** Some Chinese investment practices pose strategic challenges for the United States and its partners because they aim to fulfill state objectives—such as the Communist Party's political or military objectives—rather than commercial ends.

- ***Geostrategic Influence Accumulation.*** Some Belt and Road projects appear to be motivated by a geostrategic logic, providing leverage over decision makers in recipient countries.
- ***National Champion Industries.*** China often uses its industrial policies to support domestic industries at the expense of foreign firms, including in sectors with military applications.
- ***Dual-Use Facilities.*** Some Chinese infrastructure investments have multiple possible uses, providing China with potential overseas military basing options.

***Example:*** China has used its economic leverage with individual European Union member countries to restrict statements on human rights and others contentious issues. In 2017, the EU drafted language criticizing China for its human rights record. The statement was intended to be released at the United Nations Human Rights Council, but for the first time the EU failed to agree on a public statement. Public reports suggested that Greece and Hungary led efforts to block the statement, with the Greek foreign minister opposing “unconstructive criticism of China.” Both countries took similar actions in 2016 to prevent an EU statement criticizing China's South China Sea policies. After one successful Greek intervention, the Chinese Foreign Ministry publicly congratulated “the relevant EU country for sticking to the right position.” Observers believe that Chinese funding for projects in Greece and Hungary have provided Beijing leverage to disrupt a united European policy on China. Some worry that China could use additional leverage through the emerging “17+1” grouping or other bilateral and multilateral ties to similarly divide Europe.

***Targeted Technology Acquisition.*** China's theft or forced transfer of intellectual property and technology is a growing concern among governments and businesses worldwide, but it has been a particular concern in the United States and Europe.

- *Industrial and Cyber Espionage.* China has engaged in commercial espionage, including state-directed hacking, to strengthen domestic industries. Chinese technology companies and state-owned enterprises have reportedly assisted in some of these activities.
- *Disguised Capital Funds and Shell Companies.* Chinese involvement in acquisitions and investments, particularly in high-technology startups, have allegedly been hidden to obscure ties to foreign organizations.
- *Market Access Restrictions.* Many companies have been forced to choose between Chinese market access and the transfer of critical technologies or trade secrets to Chinese firms.

*Example:* Germany and China are engaged in a high-technology economic competition as China attempts to execute its Made in China 2025 vision, which is modeled on Germany's Industrie 4.0 plan. German experts have suggested that China has conducted industrial espionage against the car manufacturing, renewable energy, chemistry, communications, optics, X-ray technology, machinery, materials research, and armaments industries. Several cases of Chinese espionage have reached German courts, and many other cyber intrusions have been reported against German companies. Yet, most incidents do not reach the press because companies do not wish to disclose their vulnerabilities or risk business opportunities in China. In recent years, the German government has taken more aggressive defensive steps, including publicly stating that a Chinese hacking group was behind intrusions against high-technology German firms. In just one month, a single German telecommunications firm reported more than 30,000 Chinese cyber intrusions. Similar behavior also continues elsewhere in Europe and around the globe.<sup>1</sup>

***Coercive Economic Statecraft.*** China has used its economic influence—including Chinese market access—to pressure foreign leaders, presenting a strategic challenge to its trade partners.

- *Deliberate Corruption Campaigns.* China has allegedly paid individuals and interest groups to influence political processes in foreign countries, including on US territory.
- *Deniable Trade Measures.* China has engaged in disguised embargoes and boycotts to influence foreign businesses and governments on security matters.
- *Explicit Economic Pressure.* China has openly used economic leverage to force other countries to alter their foreign policies, often pressuring specific foreign companies and sectors.

*Example:* In 2010, the Norwegian Nobel Committee awarded the Nobel Peace Prize to Chinese dissident Liu Xiaobo. At the time, Liu was in jail for “inciting subversion of state power” by calling for political reforms in China. In response to the Nobel Prize award, the Chinese government

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<sup>1</sup> For a deeper discussion of Chinese economic statecraft, see Zack Cooper, *Understanding the Chinese Communist Party's Approach to Cyber-Enabled Economic Warfare*, Foundation for Defense of Democracies, September 2018, <http://www.fdd.org/analysis/2018/09/05/understanding-the-chinese-communist-partys-approach-to-cyber-enabled-economic-warfare>.

instituted economic punishments against Norway. Subsequently, the Norwegian Seafood Council claimed that Norway's share of the Chinese salmon market fell from 92 percent to 29 percent. Furthermore, Beijing stopped negotiations with Oslo on a free trade agreement, and China reportedly denied some Norwegian individuals visas. Relations between the two countries did not improve until 2016, when Chinese Foreign Minister Wang Yi stated, "Norway deeply reflected upon the reasons why bilateral mutual trust was harmed, and had conscientious, solemn consultations with China about how to improve bilateral relations." A Norwegian scholar concluded, "The Chinese government can effectively use economic sanctions to affect the foreign policy positions of democratic governments... China has become too big to fault." China has conducted similar economic coercion campaigns against most US allies in Asia, so we should expect that these types of activities will continue and could increasingly target Europe.

### **Bridging the Transatlantic Divide on China**

Many policymakers in Washington are deeply concerned about the impact of Chinese economic statecraft, both at home and abroad. In particular, China's Belt and Road Initiative and the growing role of Chinese companies in 5G networks have triggered substantial anxiety. For a variety of reasons, Chinese companies are unlikely to build major infrastructure or 5G networks in the United States, so the focus has shifted to Chinese activities in Europe and elsewhere.

Most European countries have taken a different approach; they are focused on mitigation rather than exclusion. For example, the United Kingdom and Germany appear to be adopting mitigation strategies with regards to Chinese involvement in 5G networks. And Italy has recently become the first G7 country to sign on to the Belt and Road Initiative. Smaller European powers have also welcomed Chinese investment and sought to mitigate the risks, with varying levels of success.

How can Congress ensure that the United States and Europe develop a more unified approach on China?

First, Congress could work with the administration to *empower our allies and partners to better mitigate the risks of Chinese economic statecraft*. Many countries are choosing to accept Chinese investment in infrastructure and technology, regardless of US objections. Therefore, the United States should help our allies and partners to better mitigate the risks inherent in these types of projects. In a recent report, I worked with scholars from the Center for a New American Security and the Brookings Institution<sup>2</sup> to describe seven concerns with Chinese infrastructure projects:

- *Erosion of National Sovereignty*. In a number of cases, Beijing has obtained control over foreign infrastructure through equity arrangements, long-term leases, or multi-decade operating contracts.
- *Lack of Transparency*. Many projects feature opaque bidding processes and financial terms

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<sup>2</sup> Daniel Kliman, Rush Doshi, Kristine Lee, and Zack Cooper, *Grading China's Belt and Road*, Center for a New American Security, April 8, 2019, <http://www.cnas.org/publications/reports/beltandroad>.

that are not subject to public scrutiny.

- *Financial Unsustainability.* Chinese lending has sometimes increased the risk of debt default or repayment difficulties, while certain completed projects have not generated sufficient revenue to justify the cost.
- *Local Disengagement.* Projects often use Chinese firms and labor for construction, which does little to transfer skills to local workers, and sometimes projects involve inequitable profit-sharing arrangements.
- *Geopolitical Risks.* Some projects financed, built, or operated by China compromise the recipient state's telecommunications infrastructure or security architecture.
- *Environmental Damage.* Some projects have proceeded without adequate environmental assessments or have caused severe environmental damage.
- *Corruption.* In countries that already have high levels of kleptocracy, Chinese projects have reportedly involved payoffs to politicians and bureaucrats.

To guard against these dangers, Congress should work with the administration to ensure that our allies and partners have access to technical assistance and support in their negotiations with Beijing and with Chinese enterprises. The goal should be to ensure that any Chinese projects adhere to the same standards and expectations that we would have of other actors. This means that countries should permit only high-quality projects that are sovereignty upholding, transparent, financially sustainable, locally engaged, geopolitically prudent, environmentally sustainable, and corruption resistant. Funding additional engagement by experts capable of providing technical assistance in Europe and elsewhere could therefore prove highly beneficial.

Second, Congress could help *encourage cooperation with allies and partners on an overall China strategy.* The lack of agreement, not only between the United States and Europe but also among other allies and partners, threatens our ability to protect our interests and uphold the rules-based international order. Too often we have allowed China's strategy to divide the United States from some of its allies and partners. Nowhere has this been more evident than in Europe over the past few years. China has been nimble in adapting its messaging, so we must also be more deft in our diplomacy.

Congress has an important role to play in forging a new strategy, and I am greatly encouraged that the House Foreign Affairs Committee is holding five hearings this week alone on China's global role and US strategy. Broadening these efforts by including allies and partners in these discussions is a logical next step. At the end of the day, Europe and the United States share similar interests regarding intellectual property theft and market access restrictions in China. We should be working together through the World Trade Organization and other international organizations—including the G7—to forge a common position on these issues. Similarly, we should be coordinating closely on technology standards, foreign investment restrictions, and

human rights concerns. Congress has a central role to play in these discussions, and I am encouraged by this committee's renewed focus.

Third and finally, Congress should *continue to forge a bipartisan consensus on China policy and to broaden that consensus by directly engaging the American people*. Our allies and partners want a consistent approach that endures across the US government and from administration to administration. In this regard, the BUILD Act, ARIA, and FIRRMA are important signals of America's ability to execute a coherent long-term strategy. Ensuring that China policy remains an area of largely bipartisan agreement is crucial to retaining the support of allies and partners; it should therefore be a top priority in the years ahead.

One area of particular concern is whether a gap is opening between Washington's views of China and perspectives in the rest of the country. Several recent polls have found that the American public is less concerned about China's rise than are leaders in Washington. Therefore, American political leaders must discuss China policy directly with their constituents. This would help ensure that our China policy is broadly understood and supported not just inside Washington, but outside as well.

Congress and the administration's recognition of the long-term character of strategic competition with China has been commendable and underscores the importance of securing the enduring support of the American public at large. While we must be clear-eyed about the challenges, we should also acknowledge that our concerns have to do with the actions of the Chinese Communist Party, not the aspirations of the Chinese people. Upholding the principles of freedom, democracy, and rule of law will strengthen our position in this long-term competition. Doing so will also send a signal about the seriousness and sustainability of a more realistic approach to China's rise and set American policymaking on a surer footing over the long term.

Thank you for holding this important hearing today and providing me the opportunity to testify. I look forward to your questions.