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Good afternoon, Mr. Chairman, Ranking Member Cortez Masto, and members of the subcommittee:

It is an honor to be invited to testify before this subcommittee and its distinguished members. It is a great privilege to join you today to discuss the economic challenges the United States currently faces and will continue to face with regard to China.

Today there is great concern over China's growing strength, its assertive behavior, and its potential to overtake the United States as the preeminent economic power in the world. Rising powers are often the cause of great concern to established powers like the United States. In the 1970's and 1980's, leaders in the United States looked on at Japan's growing economy with worry. The U.S. imposed tariffs on semiconductors and other products that were the focus of dumping allegations. In the run-up to the 1984 presidential election, Walter Mondale [asked](#) "What do we want our kids to do? Sweep up around the Japanese computers?" A growing trade deficit with Japan and concerns over the low valuation of the yen amplified worries in Europe and the United States.

Unlike Japan, though, China does not accept the basic characteristics of the international system. More importantly, China does not share the same ambitions as Japan. In the recent past, China appeared to many observers to be a capitalist country operating within the global economic system with the common aspiration of expanding its economy and furthering its development. However, China's political and economic apparatus is controlled by the state's Communist Party. China must be thought of not as a developing nation working within the global economic system but as a communist country actively hostile to the current global economic system and world order. Because the Chinese government increasingly deploys the economic and financial tools at its command to undermine and subvert the American-led global system, every economic question about China is also a political one.

## China's Regression and the Current Threat

The diagnosis is not in my view that there can be no decent relationship with a China ruled by the CCP. I would say rather that China under Xi Jinping has taken a wrong turn. The CCP has in the past been the instrument of a terrible despotism under Mao, and in the service of Mao's political and economic delusions, China lost several decades on the road to modernization and inflicted horrific suffering on itself.

After Mao's death, the CCP leadership drew back from the brink. The fanatics behind the cruelties and distortions of the Cultural Revolution were removed from power, and a chastened CCP leadership took steps to prevent a return to the personalistic dictatorship of Mao even as it abandoned the madness and folly of his economic vision. Realizing that China needed to move toward a market economy and the institutionalization of power, they enacted a series of visionary reforms that raised living standards throughout the country while increasing the personal freedom of the Chinese people.

Americans viewed this turn toward a more humane and successful approach to governance with respect and sympathy and hoped that continuing development would open the door to further economic and political development. Many Chinese, including senior figures in the CCP, shared this hope.

Unfortunately, in recent years China has taken a different turn. Instead of continuing to evolve away from totalitarianism and personalistic rule, the CCP has regressed. The repression of Tibetans, Uighurs and others recall the atrocities of Mao's time, and the CCP inflicts the kind of degrading and humiliating control of intellectuals and civil society participants that limit China's development and lower its intellectual and cultural standards. Thoughtful voices calling for reform have been forced into silence or marginalized in today's China, but there is an internal opposition to the new hard line that might one day renew the promise of a better future for China's people.

Tempted perhaps by the allure of the power that new surveillance technologies make possible, China's leadership seems ready to sacrifice the cultural and economic development of the Chinese people and of China's neighbors to entrench its own power and privilege. Ren Zhiqiang, a member of the CCP who has been known to criticize the state's censorship, has been missing since mid-March after he published an article that criticized Xi Jinping's leadership and referred to him as a "clown." In the midst of the Covid-19 pandemic, the Cyberspace Administration of China (CAC) has increased its censorship of social media.

It is important to make clear that America's goal in our relationship with China cannot be to block its economic development or to dictate the course of its political development. The rise of China is a great moment in human history and we have no desire — and we have no power — to prevent more than one billion people from standing up.

Nor should American policy be predicated on the destruction of the CCP. While under its present leadership and on its present course, the CCP is a threat to China's development and to

world peace, there are healthy elements in the CCP who would like to steer China on a more sustainable course.

## Policy Considerations

There are ways the United States can work to prevent a worst case-scenario and try to prevent US-China competition from boiling over into an all-consuming contest as difficult, as dangerous and as long as the Cold War, and we should explore them. But at the same time, we cannot delay dealing with the challenges China's behavior currently presents in the hope that American restraint would find an echo in Beijing. Certain changes in Beijing require responses in American policy and both condition and limit the opportunities to engage. There are six areas of concern I would like to highlight for you today.

**The first is that the CCP leadership not only seems to view harsh and even brutal crackdowns at home as necessary to its survival; it has also adopted international policies that undermine world peace, corrode the international trading system, limit the opportunities for economic development in many countries, and support harsh governments and dictators who need outside support to control their own unhappy people.**

The CCP leadership envisions Belt and Road as a means to not only offload the excess steel, concrete, and infrastructure that China produces, but also as a means of restructuring the global economic system around China's economic needs. Not only would their success undermine American economic competitiveness, it will also set back the development aspirations of the people in target countries, who will be trapped in a subservient relationship with China.

Belt and Road is an extension of the Xi regime's efforts to return back to the Maoist concept of total penetration of the state. The purpose of China's foreign investments and infrastructure projects is to adjust the norms of the current international order to more closely align with the values of the CCP. As Elizabeth Economy noted in 2018, Xi has stated that "China should be capable of "constructing international playgrounds"—and "creating the rules" of the games played on them." Projects in Pakistan include the development of surveillance programs similar to those used in China and ventures to deliver Chinese media to Pakistani citizens. The CCP's goal is to make China indispensable for not just Pakistan's economy, but its security and society too.

In 2018, Beijing established the China International Commercial Court (CICC) as part of the BRI to help resolve commercial disputes related to BRI projects. One can interpret this as an effort on the part of the CCP to safeguard its SOE's involved in BRI projects and force partner countries and foreign firms to adhere to Beijing's trade practices. While the BRI is marketed as a series of international development projects, it is clear that the CCP intends to use increased economic integration to challenge the current norms of the global economic order.

Debt-trap diplomacy furthers China's efforts at drawing other countries into its orbit. Even before the advent of BRI, China carried out a policy of bilateral and opaque lending programs. According to the International Monetary Fund, the share of poor countries' debt held by China increased from 6.2% in 2013 to 11.6% in 2016. China has lent roughly \$1.5 trillion to over 150 countries globally through loans and trade credits. This makes China the largest creditor in the [world](#). However, it is unclear exactly how much China has lent and at what terms because China does not report on its loans and debtor countries often fail to report the data themselves. The Harvard Business Review completed a years-long analysis of China's lending

practices and their data show that China lends at market terms, unlike traditional institutions such as the World Bank that offer countries in need easier terms than they can receive elsewhere. Chinese loans are also frequently backed by collateral. HBR found that the average stock of debt owed to China increased from less than 1% of a debtor nation's GDP to over 15% from 2005 to 2017. 12 countries owe 20% or more of their nominal GDP to China. Half of China's loans are unreported.

These lending practices should be of great concern to the United States and its allies. Experts note that some BRI projects are unfeasible; Morgan Stanley predicts that by 2027 BRI expenses could reach \$1.3 trillion. Poor countries that have accepted loans from China have already faced the consequences of default. Sri Lanka was unable to repay the loan to construct a port in Hambantota and allowed China to sign a 99-year lease for use of the [port](#) in exchange. Across Africa, nations in debt distress risk forfeiting strategic assets to China due to its lending practices.

The CCP has made inroads into the developed world as well, particularly in Europe. Last year, Italy broke with the G-7 to endorse the BRI. Italy faces a projected GDP decline of 9.1% this year and is dissatisfied with the relief efforts of the European Commission. It is unlikely that, without a major aid package, Italy will reject future Chinese investment. Chinese firms already have a controlling stake in the Greek port of Piraeus and Italian ports, which are desperate to prevent Greece from taking their traffic, could welcome further Chinese ownership.

China's Belt and Road Initiative and other predatory lending practices violate the standard and fair practices of development that international institutions such as the IMF and World Bank adhere to. While many of the BRI projects may not be completed, the initiative will, and has already, expand China's influence in poor countries as well as its material holdings. The BRI can be seen as part of the Xi regime's strategy to undermine the established global order and replace it with one that is more favorable to the CCP's principles.

One of the great ironies of the post-Cold War era is that China's attempts to maintain state control over its growing economy has created many of the problems that doctrinaire Communists predicted would hasten the downfall of capitalism. Lenin believed that as capitalist countries became wealthier, their domestic economies would become awash with excess capital and production. Banks would chase increasingly precarious investments in factories that could never quite make enough profit to stay solvent, and the resulting economic collapse would pave the way for the revolution to bring true Communism to the industrial world.

The only way to stave off the catastrophe was to find new markets for this extra capital and industrial capacity, which for Lenin was the true motive behind capitalist imperialism. The European powers built empires and extended their reach around the world in search of new projects for their bankers and new markets for their goods, but competition for the remaining virgin territories would become more intense, eventually leading to wars between the imperial powers.

Capitalism eventually resolved this dilemma by increasing the purchasing power of each consumer and through the creation of a global market, but China has closed off this path to development and now has caught itself in Lenin's trap. Worse, decades of state directed over-

investment in both manufacturing and infrastructure producing firms has produced powerful lobbies. Even a ruler as powerful as Xi Jinping can only restructure the Chinese economy away from heavy production and infrastructure spending by alienating powerful factions that could threaten his hold on power. From this perspective, Belt and Road is not just a geopolitical exercise for Beijing, but also a gamble to keep unproductive but important sections of the Chinese economy going as long as possible.

In any case, the combination of a Leninist state-guided economy and an imperialist foreign policy forces the United States, among others, to treat China as something other than a “normal” market economy pursuing normal market competition.

Under these conditions we can no longer treat trade as a purely economic question. Given China’s clear interest in challenging other countries, other countries have no choice but to audit their supply chains for key materials to eliminate any strategic dependence on China and to protect themselves against Chinese technology that may be used for other purposes. Nor can our diplomats simply engage with China as a “normal country.” Countries like China – and Russia – who have essentially declared themselves to be actively seeking to undermine American interests and countering American values – need to be taken at their word.

**The second problem involves the connection between state power and technological development.** In a world driven increasingly by the logic and the power of the information revolution, China’s attempts to reach technological supremacy through theft, illegal behavior and the elimination of competition pose direct security threats to other countries, including the United States. The CCP requires many foreign companies that wish to sell their products in China to partner with a Chinese firm and transfer their technology to their local partner, who often later becomes their competitor. Hackers and other actors affiliated with the Chinese government actively seek to steal American technology, acquiring everything from [information](#) about anti-submarine weapons to [kernels](#) of genetically-modified corn. Just yesterday, the U.S. government indicted two hackers for allegedly conspiring with the Chinese government to steal trade secrets related to our national defense and health care.

While some have warned against erecting a “digital iron curtain” as tensions between the U.S. and China continue, there are legitimate reasons to be wary of cooperation with China on IT and of Chinese investment in telecommunications initiatives such as 5G in the U.S. and its allies. The CCP has demonstrated its willingness to use surveillance technologies for both espionage and for monitoring its citizens. China’s domestic development and foreign investment strategies are both centered on the growth of its high-tech and IT sectors.

China’s focus on the development of surveillance, communications and artificial intelligence technologies is intimately connected to its ideological project. The Cyberspace Administration of China (CAC) has released [research](#) stating that “If our Party cannot traverse the hurdle represented by the internet, it cannot traverse the hurdle of remaining in power for the long term.” Xi himself has stated his ambition for China to become a “cyber superpower.” The ways in which China develops and uses these technologies is then of utmost relevance to how the U.S. should cooperate with or counter China.

The use of advanced technologies to exert state control is central to Xi's mission. In 2015 at the World Internet Conference in the Zhejiang province, Mr. Xi called for "cyber sovereignty." Domestically this philosophy has been expressed through increased censorship and monitoring. As China continues to broaden its reach, we should expect CCP attempts to make other states adhere to its philosophy as well. The Chinese government recognizes as legitimate few, if any, restrictions on the state's use of technology to control its people.

These threats must be addressed even at significant political and economic cost. China's trading partners must protect themselves against illicit practices by both state-owned and private firms in China, and they are entitled to exact retaliation by placing limits on Chinese business.

**The third problem posed by communist China's role in the world economy is that under the new system of hyper-centralized control that increasingly and sadly characterizes China today, distinctions between state-owned corporations and private business can no longer be taken at face value.** The installation of party committees in both SOE's and private enterprises, in accordance with the 2012 constitution, gives the CCP immense influence. The extent of said influence within private businesses, unfortunately, is impossible to know. In 2017, [more than](#) two out of every three private sector companies in China had CCP officials working in their offices overseeing their activities.

The Chinese government protects domestic companies from competitors by hamstringing foreign investors that want to invest in Chinese startups that could threaten the court favorites. Demanding hundreds of regulatory documents from potential investors, central and local governments create a complex and foreboding market for [FDI](#). These restrictions are often successful in limiting competition in sectors of particular political interest to the CCP. While foreign investors whose projects are rejected may appeal, all approval authorities and People's Courts are under the control of the CCP. This limits any FDI that may conflict with the CCP's agenda.

Chinese business and Chinese investors are under the thumb of the Chinese government. This necessarily reduces the willingness of foreign governments, including the American government, to treat them in the same way governments treat true private actors.

**The fourth issue that demands a response involves China's open efforts to infringe on the law of the sea and to make illegitimate territorial claims.**

By now, many are familiar with China's island-building campaign in the South China Sea, which is a vital artery of international commerce. International tribunals have ruled against the Chinese government's territorial claims, but the CCP has ignored those rulings. The Chinese navy, coast guard, and paramilitary naval units also regularly harass and attack civilian vessels in international or disputed waters, attack the naval and coast guard ships of neighboring countries, and further other Chinese attempts to exploit the natural resources of disputed territories at great cost to China's neighbors and the local environment.

Creating instability in a region that one-third of global shipping traverses threatens global and American prosperity, but China's ambitions do not stop there. China makes and attempts to enforce territorial claims against other neighboring countries and is trying to claim a stake in the

Arctic Ocean as well, which could become both an important shipping route and a source of valuable natural resources in the coming decades.

**The fifth issue is that China's steady military buildup combined with its increased efforts to partner with countries like Russia and Iran have major implications for the American defense budget.** We must scale up our efforts to ensure levels of primacy on land, at sea, in the air, in cyber and in space that deter any rivals from contesting. Some of this effort may require restructuring our forces to operate better in the vast and varied Indo-Pacific theater and to respond to new threats, such as the new aircraft carriers China is building rapidly. But other steps need to be taken that will have both military and non-military applications. Among these are investing in research and development to maintain the current American technological lead in fields like artificial intelligence as well as basic sciences in fields like biology that are likely to define the economies of the late twenty-first or even twenty-second centuries.

China and Russia are working together to develop their AI capacities. In June of last year during Xi Jinping's visit to Russia, the two states announced a joint investment fund with a focus on funding AI research. It launched in September with a \$1 billion budget. In December of 2019 Vladimir Putin signed a [decree](#) declaring 2020 "the year of Russian-Chinese Scientific, Technical and Innovation Cooperation." Chinese and Russian firms have cooperated on the development of facial recognition products and other AI technology. Last June, Huawei acquired the rights to Russian firm Vocord's facial recognition technology for \$50 million. Vocord's website specifically highlights the surveillance applications of its technology in public spaces, while offering a [tool](#) for seeing "which relative your child most resembles." Huawei's vice president Jiang Tao has spoken of the construction of "an AI ecosystem" in Russia.

While China and Russia have not announced cooperation on military AI, China has already exported unmanned aerial vehicles (UAVs) like the Rainbow CH-4 to the United Arab Emirates, Saudi Arabia, Pakistan and elsewhere in the [Middle East](#). Through its foreign investment strategy China has increased poor nations' dependency on it and increased its own assets including strategically-located ports and military bases. Through the Made in China 2025 strategy Beijing has directed the state-led economy toward high-tech innovation. Beijing now intends to export its products and philosophical model globally. China is furnishing militaries in the Middle East and exporting its surveillance technology to many parts of the world. There is a direct line connecting China's domestic development strategy to its geopolitical strategy that is focused on undermining the liberal order.

Unlike the arms race of the Cold War, IT has dual uses. While the civilian applications of emerging technologies are lucrative and private enterprises ought to have the ability to expand their markets abroad, these technologies can be used by militaries and governments for ends that could pose a threat to national security.

**The sixth issue is that the new levels of repression currently being used against ethnic and religious minorities in China and the prospect of a further extension to other groups as yet only lightly targeted requires an international response.** There are many elements of Chinese governance that Americans do not like, but we do not insist that Chinese practice conform to our ways or those of our Atlantic partners and friends in order to have



normal relations. However, the systemic destruction of cultures and religious communities crosses a line that neither the United States nor other countries can ignore.

China's attempts to silence or eradicate religious and ethnic minorities in China do not merely strengthen the elements within the CCP committed to a brutal and totalitarian vision of their country; they also leave the world poorer by depriving the Chinese and other people of the beauty, insight and wisdom created by these communities, many of which have been a part of China's heritage for centuries, if not longer. The high-tech repression the CCP is perfecting at home now will be used abroad in the future, to the detriment of both Americans and other peoples. Although the United States and its partners should not seek to overthrow the current Chinese government or attempt to force it to make structural changes that will threaten its survival, it is important to raise the costs of Chinese repression and impede its spread outside of China's borders.

It is important to remember that the realities of our current conflict with China do not mirror those same challenges we faced in the Cold War the Soviet Union. Unlike with the Soviet Union, the economies of the U.S. and its allies are deeply connected to the Chinese economy. China remains the second largest economy in the world, to completely sever economic relations with it would have devastating implications for the U.S. Rather, we should focus on areas where we have mutual interests. Sectors that involve the production or development of security-sensitive technology should be encouraged to consider their level of interaction with China with care. In other sectors it will remain profitable to cooperate and trade.

## **Conclusion**

I would like to leave you with a couple of thoughts. We should take China and the challenges it poses seriously, but we think calmly and rationally about the relationship. China is not ten feet tall. It has achieved some remarkable, even historic, economic growth, but it lacks important factors needed for long term stability and success.

Despite the heated, chest-thumping rhetoric from the so-called “wolf diplomats,” China’s leadership is worried about the future. In developing our policies in response to the China Challenge, we must understand these fears – not only because they point to strategic vulnerabilities which can be exploited, but because more importantly they point to factors and forces which could either prevent a full rupture between China and the United States or ensure that in the event of such a rupture the United States and its associates and allies would prevail.

China's recent behavior raises significant concerns for the United States as well as for the global economic system that has raised hundreds of millions out of poverty in just a few decades. In response, the United States and its partners should push back against harmful Chinese actions while also encouraging the CCP to make choices that will enhance both Chinese wellbeing and global peace. China's behavior was more acceptable in the past, which means that it can be in the future. If a new Cold War must come, America can and must rise to the challenge. But we should not abandon all hope that wiser counsels will prevail in Beijing. Our goal is and should remain the construction of a relationship which promotes the prosperity and security of both the American and Chinese peoples.