

**A NEW APPROACH FOR AN ERA
OF U.S.-CHINA COMPETITION**

HEARING

BEFORE THE

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A NEW APPROACH FOR AN ERA OF U.S.–CHINA COMPETITION

WEDNESDAY, MARCH 13, 2019

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:19 a.m. in room SD–419, Dirksen Senate Office Building, Hon. James E. Risch, chairman of the committee, presiding.

Present: Senators Risch [presiding], Rubio, Johnson, Gardner, Romney, Isakson, Portman, Young, Cruz, Menendez, Cardin, Shaheen, Coons, Murphy, Kaine, Markey, and Merkley.

OPENING STATEMENT OF HON. JAMES E. RISCH, U.S. SENATOR FROM IDAHO

The CHAIRMAN. I thank everyone for joining us here today.

Today what we are going to do is, as the Foreign Relations Committee of the United States Senate of the 116th Congress, we are going to continue our review from a 30,000 or 50,000 foot level of observations about what the world looks like today and where we are headed as we journey into the 21st century further. We are, of course, approaching the end of the first quarter of the 21st century, and there are some things that have become evident. And that is what we are going to continue to focus on in these hearings.

And today, of course, we are going to talk about China and where we have been and where we are headed as far as our relationship with China is concerned.

After 20 years of helping China prosper economically and hoping they would emerge as a responsible partner on the world stage, it is time for U.S. policymakers to acknowledge this path was not the right path. But, of course, we have the advantage of hindsight now which we did not have when we started on this journey.

Today, China steals our intellectual property and uses it to put our people out of work. It intimidates its neighbors, including close U.S. allies, while increasing its military capabilities in the South and East China Seas. China exports corruption and its authoritarian model across the globe. It uses cheap financing as a debt trap and has built a police state that the Chinese Communist Party uses to limit free expression that contradicts the party line.

These are not the actions of a responsible stakeholder. Rather, it proves that the assumption that as China continued to rise, it would begin to mature into a responsible international actor was and is wrong.

It is clear the Chinese Communist Party does not share the same values that the United States and our partners have. To them, life, liberty, and the pursuit of happiness are not aspirations to deliver to their people but values the Communist Party should fear and control.

As we enter a new era of relations with China, we must be clear-eyed and honest about the challenges ahead. China is seeking to be a preeminent power in Asia, but its ambitions are broader. It is building naval bases in Africa, stealing the intellectual property of Western companies, subsidizing its companies overseas to gain economic and political leverage, and threatening military conflict with its neighbors.

Given Chinese behavior over the past several years, economic, political, and military, some now believe conflict is inevitable. I do not think it is, at least not yet. But the relationship must be rebalanced in order to avoid future conflict and provide a sustainable way forward for both countries.

The Trump administration has forced a new conversation on what the relationship will look like moving forward. Its trade policies show Beijing that business as usual is over. We will not stand for our ideas and technologies being stolen, and we will not stand for our people losing their jobs to unfair competition.

The best example of this type of behavior comes from my home State of Idaho. Micron Technology, the second largest producer of semiconductors in the world, has had their intellectual property stolen by a Chinese company, patented in China, and then used to sue Micron in Chinese courts directed by the Chinese Government. To its credit, the Trump administration imposed sanctions for this action and brought criminal charges against those responsible.

But economics is not the whole ball game. Chinese foreign policy is increasingly aggressive, and Chinese military activity in the region is on the rise. They have created and armed artificial outposts in the South China Sea, illegally claimed annexation of nearly the entire sea, and claimed territorial waters from sovereign countries like the Philippines, Vietnam, and Taiwan.

As a side note, it is important to note that China and its victims in its maritime misadventures are all members of the Law of the Sea Treaty, which has been useless against China in this conflict.

If China is allowed to control the western Pacific, it would present a major challenge to the free movement of goods across the globe, potentially allowing Beijing to hold the international trade system hostage.

The territorial issues in the South and East China Seas need to be resolved according to internationally recognized norms, and we need to support all countries that wish to use and abide by this process.

Let us be clear. China has no allies, only transactional partners and states too weak to push back. The strength of the United States is found in our alliances and partnerships. These partnerships are critical to protecting international laws and norms and push back on Chinese coercion and economic leverage around the world.

Domestically if a Chinese citizen wants to prosper, the Communist Party requires them to surrender to surveillance state and

party line. To those who refuse, they are subject to immense suppression tactics, such as imprisonment and forced disappearances of political prisoners.

To whole groups the Communist Party opposes, such as the Uighurs and other ethnic minorities, the solution is even more simple: send them to reeducation camps. It is hard for China to be a responsible world actor if it violates the most basic human rights of its own people. Unfortunately, the Communist Party also does not realize that diversity actually encourages innovation and prosperity. U.S. policy must defend those who struggle for freedom.

But it is not all lost yet. I believe there is still time to rebalance our relations and address the foundational problems impacting our relationship like the rule of law and trade that is free and fair. The Trump administration has already engaged in this process, but much, much more needs to be done.

My hope is that China will take the opportunities at hand and itself change its own policies and commit to working with the rest of the world in order that all benefit and prosper under the rule of law, human rights, restrained military activity, and economic action that is free, fair, and absent corruption.

With that, I will yield to the ranking member, Senator Menendez.

**STATEMENT OF HON. ROBERT MENENDEZ,
U.S. SENATOR FROM NEW JERSEY**

Senator MENENDEZ. Thank you, Mr. Chairman.

Let me thank Senator Talent and Dr. Mastro for joining us today and helping us understand one of the biggest foreign policy challenges on our nation's agenda: dealing with the strategic challenge of a rising and perhaps risen China.

When we consider the strategic challenge of China, the characterization does speak to a deeper truth. China is playing four dimensional chess across every element of national security: militarily, economically, diplomatically, and culturally.

In the maritime domain, and in the South China Sea in particular, China's aggressive island-building campaign and its rejection of international law threaten not just regional stability but longstanding U.S. interests in the free flow of commerce, freedom of navigation, and diplomatically resolving disputes consistent with international law.

Economically, I sincerely hope that the current U.S.-China trade negotiations will result in real structural reform. Over the past decade, we have seen a determined China bend the rules to its own benefit on trade and economic matters as it has made its way to be the world's second largest economy. But structural challenges remain: in China's often cyber-enabled theft of intellectual property rights; in its unfair advantages by manipulating market access; and in its underwriting of state-owned enterprises. And the entwined relationships between companies like Huawei and the Chinese national security apparatus raise serious questions.

Diplomatically, China has fashioned a brand of international diplomacy often rooted in manipulative investment. More subtly, China's Belt and Road Initiative has seen its influence work its way across the world in port contracts and United Nations voting pat-

terns. Overtly, China continues cooperation with North Korea where, after some initial toughening in 2017 and 2018, we once again see a lessening of pressure out of concern for regime stability.

China has developed complex influence campaigns by traditional and non-traditional means. China may not manipulate social media the way we saw with Russian tradecraft in 2016, but its tentacles of influence are far-reaching. The launch of the Confucius Institutes on many U.S. campuses, a desire to set up party cells in U.S. businesses, and espionage targeted at universities pursuing high tech research all speak to the pervasive extent of China's united front efforts.

And while we consider Chinese foreign policy endeavors, let us also point out that domestically Xi Jinping has overseen the emergence of a neo-Maoist authoritarian model and a total surveillance state. The government is pursuing a brutal crackdown on the Uighurs in Xinjiang, including the internment of an estimated 1 million people in camps subjected to, quote, "reeducation campaigns, forced labor, and total surveillance."

All of these dynamics make constructing an effective China policy uniquely challenging for U.S. policymakers.

Now, I know it may surprise some of my colleagues, but I agree with President Trump when it comes to recognizing the scope of the challenge that China presents to the United States and to the entire international order. But I do not think the President has found the right approach.

As others have noted, merely being more confrontational with China does not make us more competitive with China.

So we have to ask, are there still opportunities for cooperation? What are the risks of the competition becoming conflict? 30 years ago, we debated whether or not China would rise to be a major power. 10 years ago, we wondered what sort of power China would be. Today, the book is not by any means closed. On the contrary, new pages and chapters are beginning to emerge. And I have to tell you, Mr. Chairman, the reading so far is not promising.

We must be holistically strategic, leveraging all of our diplomatic tools. Slashing America's foreign affairs budget, as the Trump administration has yet again proposed, weakens our ability to effectively confront China's economic and diplomatic reach around the globe.

As we contemplate a more competitive environment with China, we also need to pay attention to building, not destroying, our alliances and partnerships.

I have repeatedly argued that core American values must be the centerpiece of our foreign policy. China's model is appealing, unfortunately, in all too many parts of the world. We must offer a better model.

In celebrating the 40th anniversary of the Taiwan Relations Act and a strong partnership with Taiwan, we also celebrate the values of a flourishing democracy.

So I look forward to hearing from our witnesses today on how to better understand the strategic and economic realities unfolding with the rise of China and how to best structure U.S. policy to safeguard our national interests and our values.

The CHAIRMAN. Thank you, Senator Menendez.

And with that, we will turn to our first witness, Senator Jim Talent, who is currently a commissioner on the U.S.-China Economic and Security Review Commission, a body that was established in part to review the national security implications of trade and economic ties between the United States and the People's Republic of China.

Additionally, Senator Talent is a senior fellow at the Bipartisan Policy Center, as well as the Director of the National Security 2020 Project and visiting senior fellow at the American Enterprise Institute.

Previously, Senator Talent served the people of Missouri here in Washington, DC for 14 years, first as a Member of the House of Representatives and then here in the United States Senate.

With that, Senator Talent, welcome. Thank you for joining us today. We look forward to hearing from you.

STATEMENT OF HON. JAMES M. TALENT, COMMISSIONER, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, WASHINGTON, DC

Senator TALENT. Thank you, Mr. Chairman, and thanks to Senator Menendez and the committee for inviting me. I am pretty certain you asked me here basically because I am on the China Commission and have served there for 6 years.

I will say a word about the commission. It was established in 2000 upon China's accession to the WTO. Its function is to review every year annually the economic and security relationship between the United States and China. We hold hearings. We produce papers. We produce an annual report that is like 550 pages long. It is very thoroughly documented. It has become a kind of standard reference I think in the field, and I am proud of the staff and the commission, particularly the longstanding members. It is very professional, and I recommend it to you as a resource.

My views here are my own. My main message from the commission is that we are statutorily and functionally a creature and servant of the Congress of the United States. So anything we can help you with, any requests, I would encourage you or your staff to make it if we can help you in any way.

My statement goes through the background that both the chairman and the ranking member covered. I will cover it very briefly. It is hard to be brief. I did serve in this body and some habits are hard to break, but I will do it.

I think it is fair to say that for really 40 years after Richard Nixon visited China in 1972, our government pursued a policy of encouraging and assisting China in developing economically and participating in international affairs. And I think we have to be fair. There were reasons for believing that China's trajectory would be hopeful. They were introducing a number of the features of economic liberalization in their economy. There were and are voices in China, even after Tiananmen Square, arguing for political liberalization, and that was a period of time when many authoritarian regimes were becoming democracies. And so there was a reason for the prevailing view during the period, and many of you served in that period. I did.

The logic was if the Chinese Communist Party wanted China to become wealthy—and it did—it would have to continue liberalizing its economy. There was a good chance that that would lead to political liberalization, and even if it did not, the discipline of participating in the world economic system would end up at least making China a responsible player in regional and world affairs. So, in other words, the prevailing view was that full participation in the world economic system would change China in the right direction.

But I also think it is fair to say that what actually happened is that China, under the Chinese Communist Party, is changing the world trading system and is threatening the broader international order, as well as the interests and the security of the United States and its allies in the region.

So my statement goes through two of the categories of methods that they have developed pretty systematically to do that. And I will refer to an attachment that I put in my statement I know Senators have. And by the way, Mr. Chairman, I understand I need to ask that the attachments be included in the record.

The CHAIRMAN. It will be. Thank you.

Senator TALENT. China's techno-nationalism toolbox, which is a really good short resource for you and your staff about the tools that the CCP, the Chinese Communist Party, has developed to maximize the benefits it receives under the world trading system while pretty systematically avoiding its obligations.

So those include massive subsidies to firms particularly in the sectors that are part of the Made in China 2025 project that lowers the cost of capital, enables them to compete not just effectively at home but capture markets abroad against competitors; forced technology transfer requiring joint ventures with Chinese firms as a condition of doing business and then getting the technology; foreign investment restrictions designed to grow domestic champions; discriminatory regulatory enforcement against Chinese firms.

We heard testimony a couple years ago that over a 3-year period, the Chinese antitrust regulatory body filed like 24 antitrust actions, all of them against foreign firms. There were like no Chinese firms that had any antitrust problems.

China's specific tech standards that discourage foreign firms from entering. And then as the chair and the ranking member mentioned, outright theft of technology. It amounts to probably several hundred billion dollars a year.

Now, again, to be fair, there are many countries that maneuver on the margin of the world trading system to get advantages for themselves. But I do think this is the first time we have seen an economy of this size so systematically attempt to evade the obligations of the system. And I think it amounts to a subversion or an attempted subversion of the system, and the WTO procedures, which do not anticipate that, are inadequate to deal with it.

China has used this growing wealth, among other things, for a massive buildup of its armed forces. I am bumping up against the 5-minute limit. So I will refer to my statement on that. That has empowered them, as the chair and the ranking member mentioned, in a series of provocative and aggressive actions in their near seas. The committee is as familiar with that as I am.

Now, what I do want to say is that fortunately the Obama administration in 2011 reacted I think pretty quickly and decisively to the provocations with its pivot or rebalance policy. In form, that was a redirection of American foreign policy towards Asia. In fact, it was a signal that the era of wishful thinking about Chinese intentions was over, and the administration followed it up by shifting additional forces to the region, to the extent we had them to shift—you cannot shift ships that you do not have—firming up our alliances, highlighting, for example, Chinese cyber espionage.

And the Trump administration, I agree, has extended and deepened the strategic shift embodied in the rebalance. The National Security Strategy names great power competition as the primary goal of American foreign policy, or an object of it, and names China appropriately as the greatest challenge. And the administration has also canvassed and reinvigorated the economic tools that it is using to leverage against the Chinese illicit actions.

I do want to say I am very proud of the role Congress has played in the last 3 years as a former Senator and former Member, lifting the defense sequester, strengthening CFIUS, passing the BUILD Act, which was a miracle that you guys accomplished. I think it is a tremendous foundation going forward. And then ARIA, the Asia Reassurance Initiative Act, which I think foreshadows many more good things to come. So you do not get many compliments, but I want to give you one.

So I will just close with three things.

First, I think the right way to think of where we are now is in a time of transition that is similar to the 1945–1955 time frame, not in the sense that we are entering a Cold War. I do not think we are, and I do not think we want to think of it that way. But it was during that period of time that, on a bipartisan basis, the Congress and the executive through two administrations built the architecture of tools, doctrine, and institutions that successive administrations used in the Cold War for the 40 years thereafter. And I see what is happening now as the same thing albeit applied to a different kind of challenge.

Second, there are reasons—and my statement goes through them—why the Chinese Communist Party is doing what it is doing. Those are powerful reasons rooted deeply in their thinking. They are not going to voluntarily and fundamentally change policy. We can expect this to continue in more or less this form unless and until costs and consequences are imposed which channel them in a different direction.

Third, it is important to keep in mind our competition is not with the Chinese people. The problem here is not the pride of the Chinese people in their history or their culture or their aspirations for the future. The problem is the way in which the Chinese Communist Party is defining its ambitions for China and the methods it is using to achieve those ambitions.

And finally, I would remind you all—there is a formula that I find helpful to think of that influences the product of intention and capability. Intention is relatively easy to change. You all have changed intention, going back to the rebalance and pivot. And I do not think the intention is changing back when I listened to the statements of the chairman and the ranking member. Capability is

not easy to change. And the truth of the matter is that we allowed too many of the tools of influence to atrophy over the years and failed to build up others that were appropriate to this challenge.

So what you are doing now really is thoughtfully but vigorously and quickly considering the tools that we are going to need going forward and putting them into place. And I would encourage you to think of your work in that way. I know the committee is going to be at the epicenter of it, and I am very encouraged by what you have done.

And again, the commission stands ready to help you, as do I personally in any way that I can.

[The prepared statement of Senator Talent follows:]

PREPARED STATEMENT OF SENATOR JAMES M. TALENT

Mr. Chairman, Senator Menendez, and Senators, thank you for inviting me to share my views regarding the U.S.-China relationship. It's my understanding that the Committee intends to hold a series of hearings on this subject. I congratulate you on that.

The Committee's remit of course extends to every aspect of America's global foreign relations. But you are right to focus on U.S.-China affairs. The United States and China have the two largest economies and the two most powerful armed forces in the world; the two countries are in an era of competition, and the way that competition is conducted will have a decisive impact on the future security and prosperity of both countries, and indeed of the world, in the 21st Century.

I should say a word about the U.S.-China Commission on which I have served for the last 6 years. It was created by Congress in 2000 to provide oversight over the impact China's WTO accession would have on our economy and national security. It's a standing bipartisan Commission whose mandate is to hold hearings, produce papers, and publish a comprehensive Annual Report with recommendations to Congress for legislative action.

The Commission is a creature and servant of the Congress. While the views expressed in this testimony are my own, I speak on behalf of the Commission when I say that we stand ready to assist you or your staff in any way or in response to any request.

BACKGROUND

For 40 years after Richard Nixon's visit to Beijing in 1972, successive administrations and Congresses facilitated the rise of China, granting it diplomatic recognition, providing China access to the American market and to America's technology and educational system, and assisting the Chinese as they sought full participation in various international organizations and bodies. The initial reasons for this policy were largely geo-political; successive administrations wanted to play the China card in the Cold War against the Soviet Union.

By the time the Berlin Wall fell, China had fully emerged from the Mao era and, for over 10 years, had been pursuing a new economic model which Deng Xiaoping had called "socialism with Chinese characteristics." In the process, the Chinese state had relinquished a significant degree of direct control over the economy and introduced many of the features of a market system.

By the end of the 1990s, China was urgently petitioning to be admitted to the WTO; that hinged on being granted Permanent Normal Trade Relations (PNTR) with the United States. The Clinton administration supported that change, and Congress approved it in May of 2000. I was serving in the House at the time, and I supported the administration's policy.

Many Senators will no doubt remember the vigorous debate over PNTR, particularly in the House. There were many vocal opponents, but the view that prevailed was that if the Chinese Communist Party (CCP) wanted China to grow economically, it would have to pursue further economic liberalization and continue the progress towards a market based system. While after Tiananmen Square it seemed unlikely that the CCP would ever voluntarily relinquish its control over the country, the belief was that economic liberalization in China would lead inevitably to greater political freedom in the country, or at minimum that full participation in the world trading system would make China a responsible player in the broader international order.

In other words, the dominant view at the time in our government, and for years afterwards, was that participating fully in the world trading system would change China. But it's fair to say that the opposite happened—that China has succeeded in changing the world trading system.

Over time, Beijing developed a comprehensive set of policies that enabled it to enjoy the benefits of the system while evading many of its obligations. These include: enormous subsidies to Chinese firms in key sectors that lower the cost of doing business and enable them to control domestic markets and capture markets abroad, forced technology transfer as a condition of doing business in China, subterfuges to avoid Beijing's commitments to liberalize its import regime, regulatory discrimination against foreign firms, foreign investment restrictions to keep out competition, and massive outright theft of vital technology.

The U.S.-China Commission has prepared a very useful summary of the tools which the CCP has developed and used to gain wealth through illicit methods. It's a short paper called "China's Technonationalism Toolbox: A Primer". I have attached it to this testimony and recommend it as a resource for Senators and staff.

It's certainly true that there is a great deal of legitimate competition and innovation by Chinese firms. No one should discount the energy and dynamism of the Chinese people. It's also true that many countries regularly try, on the margins, to game the WTO rules for their own benefit. But that does not change the fact that Beijing has purposely developed and implemented a comprehensive set of policies that, taken together and given the size and influence of the Chinese economy, constitute an unprecedented threat to both the spirit and the letter of the world trading system.

As China grew in economic power, the CCP was also engineering a massive, 25 year buildup of the People's Liberation Army (PLA). That effort has borne fruit over the last decade. Here are some features of the build-up.

- The PLA Navy is now larger than the navy of the United States, with modern multi-mission vessels, and far larger than the portion of the U.S. fleet assigned to the Indo-Pacific. China continues to build more ships annually than the United States, and its shipbuilding capacity is the largest in the world.
- The PLA has the world's largest inventory of sophisticated cruise and ballistic missiles capable of hitting sea or ground targets at great distances.
- The PLA is upgrading and growing its arsenal of nuclear missiles.
- The PLA Air Force has over 2,000 capable fighters, has introduced fifth generation fighters, and is developing a stealthy long range bomber capable of delivering nuclear weapons.
- The PLA has developed effective anti-satellite capability that can threaten America's space architecture in every orbital domain.
- The PLA is pouring resources and energy into developing advanced weapons, like hypersonics, and already has very substantial national cyber capabilities.

Beijing's purpose in this buildup was initially to develop the capability to exclude American forces from China's near seas during a conflict; hence the missile-centric focus of the effort. But in the last decade the PLA has also been investing in expeditionary capabilities in a way that clearly indicates the intention to achieve global reach.

I do not want to suggest that the PLA is ten feet tall. They have continued deficiencies and disadvantages. For one thing, they are operationally inexperienced compared to America's armed forces. For another, the United States has close regional treaty partners with substantial capabilities of their own that partially offset the PLA's advantage in proximity to the region.

But there is no question that the Chinese buildup has shifted the balance of forces in its near seas. By way of illustration, I have attached to this statement a graphic from a briefing at Indo-Pacific Command, then known as PACOM, that the Commission received several years ago.

This shift in forces, coupled with China's tremendous economic growth, has had profound consequences for the stability of the region.

As the Committee knows, Beijing systematically challenges the rights of its neighbors in the East and South China Seas and about 8 years ago began increasing its confrontations. The list of recent provocations includes: using naval and air forces to encroach on the Senkaku Islands, declaring an ADIZ over the East China Sea, taking control of the Scarborough Shoal from the Philippines and threatening the Second Thomas Shoal, ignoring an adverse international arbitration decision, drilling for oil in contested waters while coercing its neighbors into abandoning drilling projects in their own exclusive economic zones, constant encroachment on the fishing waters of other nations, and reclaiming and militarizing a number of coral reefs

in the South China Sea—the last in express contradiction of explicit commitments made to President Obama.

Fortunately, when these provocations began the Obama administration reacted quickly with its Rebalance policy. The Rebalance was in form a recognition of the primary importance of Asia generally to America’s long term interests, but in fact it was a signal that the era of wishful thinking about Beijing’s intentions was ending. The Rebalance affirmed America’s commitment to the region, led to closer relationships with our treaty partners and—most important of all—made clear that the object of our policy was to uphold the rights of the United States to trade and travel in the region and the integrity of the norm based global order.

The Trump administration has refined and deepened the scope of the Rebalance. The new national security strategy properly identifies great power competition as the main focus of our foreign policy and explicitly and appropriately features China as a threat. In furtherance of the new strategy, the administration is developing and applying a range of economic tools capable of imposing costs and consequences on Beijing.

In addition, Congress has played a vigorous role in the last few years. The following steps were of particular importance: lifting the defense sequester and increasing the budget for the armed forces, amending and strengthening CFIUS to provide greater protection against Chinese investments in the United States that threaten our national security, and passing the BUILD Act to enable the United States to contest the One Belt One Road initiative with an alternative that emphasizes respect for labor standards, the environment, and the interests of local workers and economies. Most recently, Congress passed the Asia Reassurance Initiative Act to deter aggression, including from China, promote partnerships in the region, and ensure the American budgetary commitment to the Indo Pacific more closely matches our national interest in the region.

Those were major achievements, and this hearing is a sign that more are coming. As a former Member and Senator, I’m proud of how Congress is responding.

CONCLUSION AND RECOMMENDATIONS

We are now in a time of transition similar to the decade following the Second World War. At that time the Truman and Eisenhower administrations recognized the danger of Soviet aggression, defined the nature of the threat and the strategy necessary to counter it, and built an architecture of tools necessary to carry out the strategy.

To be sure, it would be inaccurate and unhelpful to think of the U.S.-China relationship as a cold war. It’s better framed as a competition between two powerful nations which have conflicting interests and very different visions of the world.

The CCP is seeking for China a kind of regional hegemony, with the broader and longer term goal of reshaping the world order. There are three sets of reasons motivating the regime:

1. *Economic and strategic*: Beijing wants to leverage its economic strength to capture markets, secure unfettered access to critical resources, attain technological dominance, and promote its economic model abroad.

2. *Nationalistic and historical*: The United States and its allies have midwived an international system that fosters, however imperfectly, free access to the international “commons,” neutral rules governing trade, and the peaceful resolution of disputes. China’s leaders are happy to accept the benefits of such a system but chafe at the constraints. Their vision is of a world where the powerful countries get most of the benefits, at least within their respective spheres of influence. They are moving to create such a sphere, at least in Asia.

3. *Political*: The CCP is well aware that it lacks the legitimacy of a democratically elected government. To strengthen its popular support, the Party believes it must deliver economic growth, a better quality of life, and a reassertion of China’s historic place as the Middle Kingdom in Asia and a leading power in the world. Success in those areas is therefore not just a matter of national interest, but vital, in the CCP’s view, to the continued stability of the regime.

These reasons are deeply rooted in the psyche of the CCP leadership and in their own interests as they have defined them. That means that we cannot expect China, as long as it is controlled by the CCP, to abandon either its hegemonic goals or the means it has used to achieve them, unless and until costs and consequences are imposed which channel the Party in a different and acceptable direction.

The problem is that the path which the CCP has chosen for China constitutes a serious threat to the peace of the region, the security and legitimate interests of the

United States and its allies, and the norm based international order that promotes equal rights for all nations and the peaceful resolution of disputes.

That is the reason this national competition is now underway.

The immediate task for the United States government is to build on the progress made in recent years and, in concert with allies and partners, complete the creation of a national security architecture for the challenge that lies ahead.

Certain strategic considerations should be kept firmly in mind as this process unfolds.

- It will be necessary to sustain bipartisan agreement on what success in this national competition means, and on the highest order principles and methods that will be used to achieve it. Only such an agreement can sustain the kind of prolonged national effort that will be necessary to achieve a favorable result.
- China is a great power that is reassuming its place as a leading figure in the community of nations. The United States should welcome and respect that development. The problem here is not the aspirations of the Chinese people or the pride they take in the history and culture of their country. The problem is how the CCP is defining its ambitions for China and the coercive and illicit methods it is using to achieve them. In this context, it will be necessary clearly to communicate to the CCP leadership what is and is not acceptable and to impose real costs and consequences for actions which cross the line.
- Congress should focus on continuing to develop a range of flexible tools for imposing costs in a way that does not escalate confrontations into crises. The majority of those tools should be economic, diplomatic, or reputational. While it is vital to continue rebuilding our armed forces and to maintain a substantial forward presence in the region, the primary mission of American hard power should be to prevent escalating armed conflict so that the tools of soft or smart power have time to work.

Here are some specific recommendations for the Committee:

1. The Committee is right to be concerned about China's One Belt One Road (OBOR) program and generally about the PRC's use of investment and other incentives to interfere with America's bilateral relationships. I am particularly concerned about the maritime aspects of OBOR. An estimated 70 percent of the world's container traffic flows through Chinese owned or invested ports, generating substantial economic leverage China could convert into broader political and military influence. The Committee should consider investigating the details of those investments, or securing an assessment by the intelligence community or the Federal Maritime Administration, with a view towards developing an appropriate response.

2. The BUILD Act was a vital first step in creating a development alternative for countries targeted by One Belt One Road. The Committee should oversee the creation of the new agency to ensure that it works with other development bodies to maximize its impact, and to contest in appropriate ways the Chinese narrative regarding One Belt One Road.

3. I am sure the Committee intends to vigorously oversee implementation of the Asia Reassurance Initiative Act. The authorization in the bill should be fully funded, and the Committee should press for additional funding after the program is up and running. The Committee might also consider encouraging colleagues on the Armed Services Committee to authorize an Indo Pacific Deterrence Initiative, modeled off the European Deterrence Initiative (EDI), to further enhance U.S. military presence and commitment to the region.

4. The Chinese are actively using investments and promises of support, particularly in Eastern Europe, to fragment the EU's response to China's human rights record and unfair trade practices. Though the European Deterrence Initiative is directed mostly at Russia, it (and NATO) could be a good vehicle for increasing our influence in Europe in support of the EU where China is concerned.

5. The Committee is aware of the CCP's use of "sharp" power to protect its narrative by manipulating opinion in other countries. A hearing directed to that subject, with a focus on the CCP's United Front activities, could be the basis for legislation expanding the capabilities of the State Department and other agencies to respond in a manner consistent with our values. Long term, this tool will be essential in the national competition.

I'll close by quoting the final paragraph of the introduction to the Commission's 2018 Report:

For several decades, U.S. policy toward China was rooted in hopes that economic, diplomatic, and security engagement would lay the foundation for a more open, lib-

eral, and responsible China. Those hopes have, so far, proven futile. Members of Congress, the administration, and the business community have already begun taking bipartisan steps to address China’s subversion of the international order. Washington now appears to be calling with a unified voice for a firmer U.S. response to China’s disruptive actions. In many areas, the CCP will be quick to cast any pushback or legitimate criticism as fear, nationalism, protectionism, and racism against the Chinese people. As a new approach takes shape, U.S. policy makers have difficult decisions to make, but one choice is easy: reality, not hope, should drive U.S. policy toward China.

Again, I speak on behalf of the U.S.-China Commission when I say we want to assist you in any way we can as you move forward with your efforts.

[The information referred to follows:]

CHINA’S TECHNATIONALISM TOOLBOX: A PRIMER



March 28, 2018

China’s Technationalism Toolbox: A Primer

Katherine Koleski, Policy Analyst, Economics and Trade
 Nargiza Salidjanova, Senior Policy Analyst, Economics and Trade

The Chinese government has pursued comprehensive, long-term industrial strategies to build internationally competitive domestic firms and replace foreign technology and products with those designed and made by Chinese companies first at home, and then abroad.¹ This state-led approach is enshrined in the “Made in China 2025” strategy—the government’s industrial blueprint designed to transform China into a technological powerhouse.² The Chinese government’s toolbox includes localization targets, massive state funding for industry development, government procurement and research and development (R&D), China-specific standards, foreign investment restrictions, recruitment of foreign talent, state-directed acquisition of foreign technology and intellectual property, and, in some cases, industrial espionage (see Table 1).²

In a broad range of industries—from aerospace to semiconductors—Chinese government policies require U.S. and other foreign firms to transfer technology, move manufacturing and assembly facilities to China, and collaborate with their future competitors (often as minority joint-venture partners) as the price of market entry, impacting U.S. firms’ profitability, operations, and future competitiveness.³ More recently, China has been leveraging the openness of the United States and other market-based economies to gain access to advanced research and data, recruit a globally talented workforce, acquire and invest in leading-edge firms through Chinese state financing, and freely sell their products and services abroad.⁴ The scale and volume of government resources directed toward these sectors severely limits the ability of foreign firms to compete fairly in China’s market, and creates distorted global and domestic market conditions.⁵

Table 1: China’s Industrial Policy Toolbox

Policy Tool	Description
Localization Targets	Within its industrial plans, the Chinese government sets targets for domestic and international market share that should be held by local technology and production, such as increasing Chinese companies’ share of the domestic industrial robot market to 70 percent by 2025.
State Funding for Industry Development	The central government provides national investment funds, subsidies, tax breaks, preferential loans, export subsidies and guarantees, and other forms of financial support to develop national champions in strategic sectors. For example, in the solar sector, China’s Ministry of Finance subsidized 50 to 60 percent of production costs of select solar companies, and 50 to 70 percent of installation costs for solar generation and distribution systems. Local governments, which account for the largest share of financial aid, provide additional support to local champions. At least 21 cities and five provinces have pledged a combined \$6 billion in subsidies for robotics. These subsidies account for an estimated 10 percent of total operation revenue for Chinese robotics firms Siasun and Estun. Local governments are also subsidizing between 15 and 30 percent of the purchase price of robotics to encourage greater usage. Designated national

¹ The Made in China 2025 targets ten key sectors: (1) energy saving and new energy vehicles, (2) next-generation IT, (3) biotechnology, (4) new materials, (5) aerospace, (6) ocean engineering and high-tech ships, (7) railway, (8) robotics, (9) power equipment, and (10) agricultural machinery. For more information, see Katherine Koleski, “The 13th Five-Year Plan,” *U.S.-China Economic and Security Review Commission*, February 14, 2017. https://www.uscc.gov/sites/default/files/Research/The%2015th%20Five-Year%20Plan_Final_2.14.17_Updated%20%28002%29.pdf.

	champions also received advantageous capital terms from state-owned banks and investment funds (e.g., wind turbine manufacturer Goldwind received a \$5.5 billion loan from the state-owned China Development Bank).
Government R&D Funding	The Chinese government provides significant R&D funding to strategic sectors. From 2005 to 2015, total government R&D spending grew more than 350 percent to reach \$44.5 billion. China's R&D expenditures are rapidly catching up to the United States, with China's total R&D spending (public and private) increasing from 26.5 percent of total U.S. R&D expenditures in 2005 to 75.1 percent in 2015.
Government Procurement	The Chinese government leverages its large central and local government procurement markets to benefit domestic firms in strategic sectors. For example, in 2012, the central government mandated its agencies to purchase only Chinese automobile brands, leading several municipal and provincial governments to follow suit.
Technology Standards	The Chinese government has repeatedly created China-specific standards to raise the costs of market entry for foreign firms. For example, the People's Bank of China announced a new technical encryption standard for bank cards—incompatible with existing international standards and only used by the state-owned China UnionPay—effectively cutting foreign electronic payment firms such as Visa and MasterCard out of the market and forcing them to spend additional money to redesign their cards to meet the standard.
Regulations	The Chinese government advantages domestic firms by setting high regulatory thresholds for market entry and creating vague regulations that allow for discretionary enforcement and interpretation to favor domestic firms. In the automobile sector, for instance, the government requires foreign firms to form joint ventures with state-owned firms as the price of market entry.
Foreign Investment Restrictions and Import Guidance	Through its <i>Catalogue on Guiding Foreign Investment</i> and <i>Catalogue on Encouraged Imported Technology and Products</i> , the Chinese government directs foreign investment and technology imports toward strategic sectors by designating industries as either “encouraged,” “permitted,” or “restricted” to foreign investment. Foreign investment in targeted sectors is first welcomed to build domestic capacity, but after domestic firms become competitive, the government gradually restricts this investment to provide a protected market for domestic firms. For example, the automobile industry shifted from “encouraged” in 1994–2010 to “permitted” in 2011–2014 to “restricted” in 2015.
Foreign Talent	The Chinese government is recruiting overseas Chinese and foreign academics, experts and entrepreneurs in strategic sectors to come teach and work in China, most notably through its Thousand Talents Program and Project 111. The Thousand Talents Program was launched in December 2008 and has brought more than 4,000 foreigners to China's scientific laboratories, companies, and research centers. The Chinese government also uses research and startup funding to incentivize foreign experts and entrepreneurs to split time between their positions overseas and in China. Project 111 was launched in 2006 to recruit 1,000 foreign experts in strategic sectors from the world's top 100 universities and research institutes.
Acquisition of Foreign Technology	The Chinese government encourages Chinese companies in strategic sectors to expand their global market access and gain ownership of key foreign technology, intellectual property, and assets. Under the 13th Five-Year Plan (2016–2020), hundreds of government-controlled venture capital funds with combined endowments worth at least \$325 billion support Chinese companies in these strategic industries and enable them to pursue foreign acquisitions. For example, the National Integrated Circuit Industry Investment Fund (with at least \$17.9 billion in endowment) has been instrumental in providing financing for the rapid increase in domestic capacity and acquisitions abroad. In 2015–2016, Chinese firms attempted or completed at least 21 acquisitions of U.S. semiconductor companies.
Industrial Espionage	The Chinese government continues to conduct pervasive industrial espionage against U.S. companies, universities, and the government, and to direct efforts to circumvent U.S. export controls to gain access to cutting-edge technologies and intellectual property in strategic sectors.

Source: Adapted from U.S.-China Economic and Security Review Commission, “Chapter 4, Section 1: China's Pursuit of Dominance in Computing, Robotics, and Biotechnology,” *2017 Annual Report to Congress*, November 2017, 511–515; U.S.-China Economic and Security Review Commission, “Chapter 1, Section 3: China's 13th Five-Year Plan,” *2016 Annual Report to Congress*, November 2016, 151, 156–160.

Selected Recommendations

The Commission has made the following recommendations to address China's trade-distorting policies related to technology development and intellectual property.

2017 Annual Report to Congress:

- Congress consider legislation updating the Committee on Foreign Investment in the United States (CFIUS) statute to address current and evolving security risks. Among the issues Congress should consider are:
 - Prohibiting the acquisition of U.S. assets by Chinese state-owned or state-controlled entities, including sovereign wealth funds.
 - Requiring a mandatory review of any transaction involving the acquisition of a controlling interest in U.S. assets by Chinese entities not falling under the above class of acquiring entities.
 - Requiring reviews of investments in U.S.-based greenfield assets by Chinese-controlled entities to assess any potential harm to U.S. national and economic security.
 - Expanding the definition of “control” to include joint ventures, venture capital funds, licensing agreements, and other arrangements or agreements that enable Chinese entities to access and/or determine the disposition of any asset.
 - Prohibiting any acquisition or investment that would confer “control” with regard to critical technologies or infrastructure. The U.S. Departments of Homeland Security, Commerce, and Defense shall prepare and regularly update a list of critical technologies or infrastructure that would not be eligible for acquisition or investment by any Chinese entities to ensure U.S. economic and national security interests are protected.
 - Including a net economic benefit test to assess the impact of acquisitions by Chinese entities in the United States to ensure they advance U.S. national economic interests.
 - Requiring that any proposed acquisition of a media property by a Chinese entity be assessed in terms of the acquiring entity's history of adhering to Chinese Communist Party propaganda objectives and its potential to influence public opinion in the United States.
 - Authorizing an independent review panel, appointed by Congress, to review the actions and activities of CFIUS on a continuing basis.
 - Allowing any CFIUS member agency to bring a transaction up for review and investigation.
- Congress direct the National Science and Technology Council, in coordination with the National Economic Council and relevant agencies, to identify gaps in U.S. technological development vis-à-vis China, including funding, science, technology, engineering, and mathematics workforce development, interagency coordination, and utilization of existing innovation and manufacturing institutes, and, following this assessment, develop and update biennially a comprehensive strategic plan to enhance U.S. competitiveness in advanced science and technology.
- Congress direct the Federal Bureau of Investigation in concert with the U.S. Department of Commerce's International Trade Administration to expand outreach to and develop educational materials and tools for U.S. academics, businesses, venture capitalists, and startups in dual-use sectors on potential risks associated with Chinese investors and partners, the Chinese government's role in acquiring technology through programs such as the Thousand Talents Program and Project 111, and steps to prevent industrial and cyber espionage.

2015 Annual Report to Congress:

- Congress pass legislation to require the Securities and Exchange Commission (SEC) to make clear to publicly traded companies and their investors the circumstances under which the theft of intellectual property through a computer network intrusion may be a material fact that might affect a company's revenues and should therefore be required to be disclosed to the SEC.

Further Reading

- U.S.-China Economic and Security Review Commission, "Chapter 4, Section 1: China's Pursuit of Dominance in Computing, Robotics, and Biotechnology," *2017 Annual Report to Congress*, November 2017.
- U.S.-China Economic and Security Review Commission, "Chapter 1, Section 3: China's 13th Five-Year Plan," *2016 Annual Report to Congress*, November 2016.
- U.S.-China Economic and Security Review Commission, "Chapter 1, Section 3: China's State-Led Market Reform and Competitiveness Agenda," *2015 Annual Report to Congress*, November 2015.
- U.S.-China Economic and Security Review Commission, "Chapter 1, Section 4: Commercial Cyber Espionage and Barriers to Digital Trade in China," *2015 Annual Report to Congress*, November 2015.

Disclaimer: The U.S.-China Economic and Security Review Commission was created by Congress to report on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China. For more information, visit www.uscc.gov or join the Commission on Facebook.

This report is the product of professional research performed by the staff of the U.S.-China Economic and Security Review Commission, and was prepared at the request of the Commission to support its deliberations. Posting of the report to the Commission's website is intended to promote greater public understanding of the issues addressed by the Commission in its ongoing assessment of U.S.-China economic relations and their implications for U.S. security, as mandated by Public Law 106-398 and Public Law 113-291. However, it does not necessarily imply an endorsement by the Commission, any individual Commissioner, or the Commission's other professional staff, of the views or conclusions expressed in this staff research report.

¹ People's Republic of China, *13th Five-Year Plan on National Economic and Social Development*, March 17, 2016. Translation; State Council of the People's Republic of China, *Made in China 2025*, May 8, 2015. Translation; Tai Ming Cheung et al., "Planning for Innovation: Understanding China's Plans for Technological, Energy, Industrial, and Defense Development," *University of California Institute on Global Conflict and Cooperation* (prepared for the U.S.-China Economic and Security Review Commission), July 28, 2016.

² Tai Ming Cheung et al., "Planning for Innovation: Understanding China's Plans for Technological, Energy, Industrial, and Defense Development," *University of California Institute on Global Conflict and Cooperation* (prepared for the U.S.-China Economic and Security Review Commission), July 28, 2016.

³ U.S.-China Economic and Security Review Commission, Chapter 1, Section 3, "China's 13th Five-Year Plan," in *2016 Annual Report to Congress*, November 2016, 151–161.

⁴ U.S.-China Economic and Security Review Commission, "Chapter 4, Section 1: China's Pursuit of Dominance in Computing, Robotics, and Biotechnology," *2017 Annual Report to Congress*, November 2017.

⁵ PricewaterhouseCoopers, "A Decade of Unprecedented Growth: China's Impact on the Semiconductor Industry 2014 Update," January 2015, 74; Jost Wubbeke et al., "Made in China 2025: The Making of a High-Tech Superpower and Consequences for Industrial Countries," *Mercator Institute for China Studies*, December 2016, 23, 44; *Xinhua*, "China Establishes Fund to Invest in Advanced Manufacturing," *China Daily*, June 8, 2016; Engen Tham and David Stanway, "China Launches \$30 Bln State-Controlled Venture Capital Fund," *Reuters*, August 18, 2016; *Xinhua*, "China Launches \$14.6B Internet Investment Fund," *State Council of the People's Republic of China*, January 23, 2017; Ministry of Industry and Information Technology of the People's Republic of China, *Ministry of Industry and Information Technology and the China Development Bank Jointly Agree to Sign an Agreement to Advance the "Made in China 2025" Initiative*, November 9, 2016. Translation; Elias Glenn, "China State Firms Set up 150 Billion Yuan Fund to Invest in New Technologies: Xinhua," *Reuters*, May 16, 2017; U.S.-China Economic and Security Review Commission, *Hearing on China Ahead of the 13th Five-Year Plan: Competitiveness and Market Reform*, written testimony of Oliver K. Melton, April 22, 2015, 10.

The CHAIRMAN. Senator Talent, thank you very much. As you noted, you went substantially over your time. Even though you have hung up your toga, you have not given up the Senate habits. [Laughter.]

The CHAIRMAN. So in that regard, you have our forgiveness.

Senator TALENT. I very much appreciate your indulgence and that of the ranking member. Thank you.

The CHAIRMAN. But thank you so much. Those were great statements.

Now we have Dr. Oriana Mastro. Dr. Mastro is an assistant professor of security studies in the Edmund A. Walsh School of Foreign Service at Georgetown University where she focuses on Chinese military and security policy, Asia-Pacific issues, war termination, and course of diplomacy.

She is also an officer in the United States Air Force Reserve—thank you—for which she works as a political military affairs strategist at PACAF and is currently the Jeane Kirkpatrick Fellow at the American Enterprise Institute.

Previously, Dr. Mastro was a Stanton Nuclear Security Fellow at the Council on Foreign Relations, a fellow in the Asia-Pacific Security Program at the Center for a New American Security, a University of Virginia Miller Center National Fellow, a Center for Strategic and International Studies Pacific Forum Sasakawa Peace Fellow, and a pre-doctoral fellow at the Institution for Security and Conflict Studies at George Washington University.

Additionally, she has worked on China policy issues at the Carnegie Endowment for International Peace, RAND Corporation, U.S. Pacific Command, and Project 2049.

Doctor, thank you so much for joining us, and we look forward to hearing from you.

STATEMENT OF DR. ORIANA MASTRO, ASSISTANT PROFESSOR OF SECURITY STUDIES, EDMUND A. WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Dr. MASTRO. Thank you, Mr. Chairman, Ranking Member Menendez, and distinguished members of the committee. Thank you for the opportunity to discuss some of the ways China is increasing its power and influence, in some cases at the expense of the United States.

The views I am about to express are my own, though given the time constraints, I am going to try to use more of my military training and less of my academic training to make my comments as brief as possible.

China's economic growth has been astounding. But for me perhaps even more significant has been China's ability to translate its economic growth into vast economic, political, and military power on the world stage, especially over the past 20 years. This is surprising because China actually started out in a weaker position vis-à-vis the United States. China's systems and values are generally less attractive to most around the world than those of the United States. China also does not have any allies or really strong partners. Its military is so greatly inferior to that of the United States in terms of power projection capabilities, though I list in my testimony how it has managed to create some severe operational difficulties in the region.

China's economy, we have to remember, has been smaller than that of the United States over the past 20 years, and it entered an international order in which the United States wielded a disproportionate degree of influence.

But even with all these disadvantages, China's relative power has grown to the point that we now find ourselves in a great power competition.

And so this situation highlights the theme of my testimony today, which is to look at how China has managed to make such power gains over the past 20 years. I think answering this question can provide some critical insights into how the United States should increase its own competitiveness in this great power competition.

In my written testimony, I go through this obviously in much more detail. But my bottom line argument is that to date, China has gained power and influence by focusing on areas where the U.S.'s ability and willingness to compete has been relatively weak, and then leveraging China's own strengths, its own comparative advantages in new and entrepreneurial ways to build power in those areas. Admittedly, China's efforts have not always been successful, but we know that its share of world power has increased, suggesting that it succeeds more often than it fails.

In terms of China's approach to building political power, it has been mentioned that China only joined many of these international institutions in the 1990s, and the United States largely supported this change with the idea that the more China participated, the more it would be socialized into the then-current norms and rules of behavior. We know now that the logic of this U.S. support was proven flawed.

But to me the problem is not China's participation in international institutions. The central problem is that these institutions have not adapted to ensure that China is accommodated in the few cases where its aims are legitimate and that the institutions can constrain Chinese behavior when Chinese aims are not legitimate. The United States has also not attempted to build new institutions to address contemporary issues.

As a result, China has been able to build up power by exploiting many gaps in the international order by building alternative institutions, and then actually by shaping a lot of rules and norms in its favor. There are many areas where these norms are either non-existent or weak, and China has been actively working to shape them so that they benefit China economically, politically, and militarily.

In terms of their approach to military power, I think this is one area where their entrepreneurial approach is extremely clear. China has long understood that to succeed in reaching great power status, they had to avoid a strong response from the United States to delay action. And they have done so by being relatively ambiguous to date, at least until the past couple of years, about what their intentions have been.

There is nowhere I think that China's entrepreneurial strategies are more evident than their anti-access/area denial strategy. This is when they focus on low-cost asymmetric capabilities designed to erode U.S. military supremacy and to make it difficult for the United States to come to the aid of our allies in the region in case of a conflict with China.

Another area where they have been very entrepreneurial is in their approach to building up power and influence in the South China Sea. Instead of directly confronting the United States—in my position and I would say from reading Chinese writings and listening to Chinese speeches, this is not controversial—is that China

wants to be dominant in the Indo-Pacific region, and that dominance includes pushing the United States military out of the region.

But to do so, they have not done it directly. They engage, for example, in gray zone activities, which means that China increases the risk of the United States in operating in the South China Sea by harassing our vessels and aircraft with non-military platforms. This makes it very difficult for us to respond.

In my written testimony, I go through great detail about China's strategy to control the South China Sea, and I do so only to highlight one of my final points, which is that the South China Sea lies, in my view, at the center of this geopolitical competition.

To sum up, I do not think it is fair to say that China has been outcompeting the United States. In many ways the United States has not been competing. We have not been present in many of these areas and many of these countries where China has focused on building its influence when they use industrial policy or infrastructure building. The amount of money that the United States has focused on these efforts has been quite small.

And when it comes to the military, while balancing is a step in the right direction, the United States military still does not have the platforms, the posture, the basing, and the training that it needs to ensure it prevails in most conflicts in Asia.

Washington needs to get back into the game. We need to start competing again. And I do not think we should do so by lowering our standards to China's level. While imperfect in implementation, the values and principles behind U.S. global power and leadership ensure that others also benefit. China's Achilles heel in my mind is that its leaders have failed to articulate a vision of Chinese dominance that is beneficial for anyone but China. In the pursuit of economic, political, and military power, I believe the protection of liberal values needs to be our guidepost and a priority.

There are many things that we can do to be more competitive—and I am happy to address some of those in the Q&A. But I do think Washington needs to embark on a program of institution building and take seriously the idea that we need to shape international norms in our favor and fill gaps so that China cannot exploit the international system to its benefit.

And we need to leverage our own strengths against Chinese weaknesses, one of which is our allies and partners and ability to build coalitions. This is not a great power competition between the United States and China. This is between China and the United States with our allies and partners. And being competitive does not mean confronting China and undermining China. It means making ourselves a more attractive global partner.

It will take immense political capital to facilitate such cooperation among nations, but this is the only way I believe to ensure that the United States, in conjunction with its allies and partners, maintains the vast share of power and influence in the international system, which I believe is to all countries' benefit.

Thank you very much.

[The prepared statement of Dr. Mastro follows:]

PREPARED STATEMENT OF DR. ORIANA MASTRO

Chairman Risch, Ranking Member Menendez, and distinguished members of the committee, thank you for the opportunity to discuss some of the ways China is challenging U.S. primacy in the region and in the international system more broadly. Before I begin describing the tactics China has been employing to accumulate power and influence, at times at the United States' expense, I want to be upfront about the strategic framework that colors my thinking.

First, I do not believe China is inherently a threat to the United States. But China has defined its interests and goals in such a way that they conflict with those of the United States. Specifically, China believes that dominance of the Indo-Pacific is central to its security and interests, meaning that Beijing cannot feel secure with the U.S. forward presence in the region. And the United States cannot protect its own interests and national security without the ability to operate there. Thus, we have a serious conflict of interest.

Second, China prefers to use political and economic tools to achieve its security goals, but as its military becomes more proficient, it will not shy away from using this tool as well if the issue at hand is important and the other tools do not suffice. In other words, I believe Chinese leaders are being truthful when they say they would prefer to achieve China's goals peacefully. But this just means that they hope the United States and others will fully accommodate their position without a fight.

Lastly, I believe China's territorial aims are limited. It wants control over the South China Sea, the East China Sea and Taiwan, and nothing more. Thus, if the United States conceded to China the sphere of influence of Northeast, Southeast, Central, and South Asia, our points of contention would be greatly lessened. However, I also believe these demands are too much and that the U.S. cannot concede to them without seriously jeopardizing its own security and that of its allies and partners in the region. In other words, it is easy to avoid conflict if you give the other side everything it wants.

THE STRATEGY BEHIND CHINA'S RISE

China's rise has been meteoric in pace and astounding in scale. Since Deng Xiaoping's market reforms in 1979 that shifted China to a more market-based economy, Chinese gross domestic product growth has "averaged nearly 10 percent a year ... and has lifted more than 800 million people out of poverty."¹ Today, China is the second-largest economy and the largest single contributor to world growth since the 2008 financial crisis.² Between 2005 and 2018, China invested around \$1,941.53 billion (USD) worldwide.³ In the same time frame, nominal Chinese military spending increased from \$76.6 billion (USD) to \$228.2 billion.⁴

China has managed to translate its economic growth into vast economic, political, and military power on the world stage. On the most basic level, power is the ability to get other countries to do what you want. China's system and values are generally less attractive than those of the United States. China also does not have allies or even the long-standing relationships that the United States has around the world, its military is still greatly inferior to that of the United States in power projection capabilities, its economy has been smaller, and it entered an international order in which the United States wielded a disproportionate degree of influence. But even with all these disadvantages, Chinese relative power has grown to the point that we now find ourselves in a great power competition.

This situation highlights the theme of my testimony today: how China has managed to make relative power gains from its weaker position over the past 20 years. My bottom-line argument is that China has consistently chosen a position in the international system from which it can best limit the degree to which other states' policies affect it and from which it can influence the nature and terms of competition. For example, China spent much of the 1990s and 2000s finding places and issues where the competition among states was the weakest—military operations other than war such as peacekeeping and infrastructure development as a key component of economic aid and engagement with specific countries in Africa, Latin America, and Asia that had a weak U.S. presence. China then leveraged its strengths and took entrepreneurial actions to outmaneuver the United States, tipping the balance of power in its favor. Admittedly, China is not always successful in its endeavors. But its share of world power has increased, suggesting that it succeeds often enough. I argue that this is not because the United States is insufficiently competitive on the world stage as a political, economic, or military partner, but because Washington has simply not been competing.

CHINA'S APPROACH TO BUILDING POLITICAL POWER

The United States set up international institutions after WWII as means of promoting cooperation and constraining states in ways that encouraged responsible, stabilizing foreign policy choices on the part of the participants. This experiment has largely been successful. States are more cooperative than ever before, and the rate of interstate conflict is at a historical low. (And the interstate wars that do erupt are shorter and less violent.) These institutions also facilitate the promotion of structures, norms, principles, and values that support U.S. power and reduce the transaction costs of diplomacy, making it easier for the United States to exercise its power.

For these reasons, China avoided international institutions during the Cold War and criticized them as tools of U.S. hegemonic power. In the 1990s, however, Chinese leaders decided it would be to their benefit to become less isolated economically and politically, so China joined almost all of the existing institutions. The United States supported this change, as American strategists believed that the more China participated, the more it would be socialized into the then-current norms and rules of behavior.

The logic behind the U.S. support has proved flawed. This does not imply, however, that the inclusive approach is incorrect. That others benefit from U.S. leadership is one of the greatest competitive advantages the United States wields over China. And there is little evidence that China wants to overturn the current order, as Beijing benefits greatly from aspects of it. As a member of the permanent five with veto power, China has gained significant power over international security from its participation in the United Nations Security Council. As of April 2018, the World Bank had lent China more than \$60.495 trillion for 416 projects on domestic growth in transportation, urban development, rural development, water resources management, energy, and the environment. China's accession to the World Trade Organization (WTO) expanded China's access to foreign markets, leading to a surge in exports that fueled its impressive economic growth.

The biggest issue is not China's participation in international institutions. The central problems are not only that these institutions have not adapted to ensure that China is accommodated when its aims are legitimate and constrained when they are not, but also that the United States has not attempted to build new institutions to address contemporary issues. As a result, China has been able to build up its political power in three ways: by exploiting blind spots in the international order, by building alternative institutions, and by shaping roles and norms in its favor. The result of this strategy is twofold. First, China is more inured from international pressure, making it more difficult to shape Chinese behavior. Second, states are dependent on Beijing economically and politically, which allows China to compel others to accommodate its will. States' desire to avoid Beijing's wrath to not become targets of its political warfare or economic coercion makes many, including allies and partners of the United States, unwilling to support U.S. policies that push back against China or condemn some of its irresponsible behavior.

Exploiting Strategic Blind Spots. First, the U.S.-led world order has weaknesses and gaps that China has successfully exploited. When China began to enter international institutions, some parts of the world were largely outside the U.S.-led world order and consequently were not benefiting from it. Thus, China initially chose to focus on increasing its influence in parts of the world where the U.S. presence was weak or nonexistent. These areas included unsavory regimes that the U.S. had abandoned such as North Korea, Myanmar, and Zimbabwe. China's relationships with these regimes increase its political power without threatening the United States. They also included parts of the world that the United States had neglected. China did not supplant the United States in Central Asia or in many African countries; the U.S. was simply not there. U.S. companies in particular have been conspicuously absent. For example, in Ecuador, Chinese companies invested \$1.8 billion USD in 2005, while U.S. companies invested less than \$50,000.⁵

Second, Beijing actively builds defenses against aspects of the order that are unfavorable to its interests. It has done so, for example, by infiltrating groups to render them ineffective, as in the case of the U.N. Human Rights Council (UNHRC).⁶ Within the UNHRC, China has used its position to shield itself from criticism about its domestic human rights violations and change norms surrounding transparency and accountability in dealing with human rights violations in other countries.⁷ For instance, China has blocked the accreditation of certain nongovernmental organizations that criticize or investigate human rights violations. It has also emphasized principles such as "sovereignty" to shield states from having to disclose certain information about domestic human rights violations.⁸ The United States, instead of

strengthening its role in the UNHRC to ensure that the institution performs as originally intended, has conceded ground by withdrawing from it.

When it does not infiltrate international organizations to render them ineffective, Beijing repurposes institutions for its own strategic purposes. For example, it uses INTERPOL's "red notice" system to track down dissidents. Since Meng Hongwei,⁹ a former Chinese vice minister of public security, was elected the leader of INTERPOL in 2016, INTERPOL has released nearly 100 red notices for Chinese dissidents abroad.¹⁰

Building Alternative Institutions. In some cases, China has worked to change the rules of institutions to gain a greater official say in their activities and decisions. It has sought to rewrite the rules in institutions like the WTO, the International Monetary Fund (IMF), and the World Bank to increase its voting power to be commensurate with its economic stature. For example, during the 2001–09 WTO Doha development rounds, China led a group of developing countries in pushing back against the developed nations to demand better trade deals for developing nations worldwide.¹¹ At the IMF, voting power and governance are based on special drawing rights (SDR), or an international reserve asset.¹² In 2015, China fought to make the renminbi part of the SDR, and its quota share increased from 4 percent to 6.41 percent.¹³

Yet when China believes it cannot achieve a level of influence commensurate with its economic status, it is often prepared to create its own institutions. For example, the Asian Infrastructure Investment Bank (AIIB) shows China's willingness to found organizations that further its interests but that are still tied to the international trade system. After years of arguing for better infrastructure investment in Asia at the World Bank and the IMF, China launched the AIIB in 2016 to invest in projects that were "high quality, low cost" in infrastructure and connectivity.¹⁴ In the most recently available Annual Report (2017), the AIIB claims to have 84 approved members and over \$4.22 billion USD worth of investments in projects and funds.¹⁵ The United States has no influence in this institution because Washington refused to participate.

The most significant initiative for building and exercising Chinese power globally is the Belt and Road Initiative (BRI). Since 2013, over 70 countries have signed contracts for projects under the BRI, and it is reported that between 2013 and 2018 China spent a total of \$614 billion USD on BRI projects.¹⁶ In Africa, the BRI has built airports, railways, manufacturing hubs, and infrastructure improvements with significant investments in Nigeria, Ethiopia, and Kenya. In Europe, the BRI has made inroads in central and eastern Europe and has recently been in dialogue with Portugal and Greece (with a specific interest in port access). In Asia, the BRI has made significant investments in railway and port construction, with proposals in Indonesia, Laos, and Malaysia.¹⁷

But the initiative is not just about building infrastructure. Through the BRI, China is attempting to leverage its economic power for political and security purposes, which include making the world a safe place for authoritarian governments. Nadège Rolland, in her definitive book on the BRI, writes that "BRI is intended to enable China to better use its growing economic clout to achieve its ultimate political aims without provoking a countervailing response or a military conflict" to achieve its ultimate goal "of establishing itself as the preponderant power in Eurasia and a global power second to none."¹⁸ Many of these countries take Chinese funding because they have few other options—and the Trump administration's initiative to dedicate \$113 million to new technology, energy, and infrastructure initiatives in emerging Asia is far from sufficient to change this calculus.

Shaping Rules and Norms in China's Favor. Third, China has sought to establish new standards, rules, norms, and processes to give it a competitive advantage where the established order is weak, ambiguous, or nonexistent. For example, China is trying to shape governance and policy in artificial intelligence in ways that give its companies an edge, legitimize its internal social uses of technologies such as face recognition software, and weaken the voices of independent civil society actors who inform the debate in North America and Europe.

In the cyber realm, China has been pushing an idea of "cyber sovereignty" that considers cyberspace to be primarily governed by states and recognizes the legitimacy of every state's efforts to govern content within its borders, rather than just ensuring the functioning of the internet. This idea stands in contrast to the United States' desired model, which is multilateral and guarantees a role for nonstate, civilian actors. To shift the norm in its preferred direction, China has put the brakes on U.S.-led norm building in the U.N. Group of Governmental Experts (the main norm-setting body for Western governments in cyberspace) and has held its own annual World Internet Conference in Wuzhen since 2014. China has been watching the 2016 U.S. election hacking with keen interest to see if Western countries will

start to follow China's lead in favoring content controls over the internet and will walk back from the ideas set out in the UNHRC's "internet freedom" speech.

In the maritime realm, the United States insists that freedom of navigation of military vessels is a universally established and accepted practice enshrined in international law, but not all countries accept this interpretation. Argentina, Brazil, China, India, Indonesia, Iran, Malaysia, the Maldives, Oman, and Vietnam argue that warships have no automatic right of innocent passage in their territorial seas. Twenty other developing countries (including Brazil, India, Malaysia, and Vietnam) insist that military activities such as close-in surveillance and reconnaissance by a country in another country's exclusive economic zone (EEZ) infringe on coastal states' security interests and therefore are not protected under freedom of navigation. China is exploiting this lack of consensus, and that the United States has not even ratified U.N. Convention on the Law of the Seas, to its advantage. It is seeking to establish a code of conduct with Association of Southwest Asian Nations (ASEAN) countries that could legitimize Chinese expansionist activities in the South China Sea.

CHINA'S APPROACH TO BUILDING MILITARY POWER

Chinese leaders and strategists have long understood that to rise to great power status, they must avoid a strong negative response from the U.S. In the late 1990s, China adopted a strategy of reassurance that emphasized "regional economic integration and multilateral confidence building in an effort to assuage the fears of China's neighbors during its ascendance to great-power status."¹⁹ Chinese military modernization came last and is therefore a relatively new phenomenon. Ten years ago, Chinese defense spending was a third of what it is today. By all standard measures, the Chinese military was backward. Its navy was a glorified coast guard that could not sail beyond visual range of the coastline. Its pilots, poorly trained and with few flight hours, did not fly at night or over water. Its nuclear forces still relied on liquid fuel and storage in silos, both of which greatly reduced its survivability. And none of the services had modern, mechanized equipment. Indeed, the mechanization of the Chinese military is only scheduled to be completed 2 years from now.

Once China did begin modernizing, it focused on defensive military capabilities first. China's desire to engage in "military operations other than war" such as peacekeeping, humanitarian assistance, and disaster relief under Hu Jintao's New Historic Missions reassured many that China planned to use its military for the global good. China has been the number one contributor of peacekeeping troops among the permanent five since 2012.²⁰

This is all to say that China's overwhelming economic power and military capabilities are relatively new phenomena and that there is a clear connection between China's increasing clout and its shift from reassurance to a growing reliance on coercion to achieve its goals. In its defense policy, China made a conscious shift to prioritize the military as a key tool of national power and to leverage it for national security purposes, especially the aim of protecting its territorial integrity and sovereignty as defined by China. Xi Jinping has put the military at the forefront of China's efforts to achieve national rejuvenation. A strong military is one of the key components of the China Dream, and Xi has called on China's armed forces to be prepared to fight and win wars. This assertiveness is no longer new; it began in 2009 with coercive diplomacy in the South China Sea. This fact suggests that China's reliance on coercion will only increase. It is also telling that Chinese leaders and strategists perceive coercion as an effective strategy.

Two reasons explain why Deng's approach of keeping a low profile was jettisoned for a more assertive, confident, and proactive foreign policy. First, the previous policy of taoguangyuhui was seen as insufficient to protect national interests because it did not persuade others to respect China's interests in the region. Second, while some admit that the United States and China's neighboring countries are uncomfortable with the new approach, they argue that it is more practical and effective than letting China suffer disgraces and insults for the sake of "biding its time." Many Chinese thinkers complain that the potential benefits of keeping a low profile—a positive international image or greater support and friendship from neighboring countries—have not materialized.²¹ Neighboring powers were suspicious of China's rise long before the foreign policy shift, and the behavior of other South China Sea claimants during that period suggests that an "unprincipled" strategy like "biding time" does not command respect or prevent countries from harming China's core interests.²²

Perhaps nowhere is the challenge of China's entrepreneurial strategies more evident than in military competition. First, China's anti-access area denial (A2AD) strategy, in which it developed relatively low-cost asymmetric capabilities to erode

U.S. military supremacy, significantly complicates any U.S. plans to come to the aid of Japan, Taiwan, or the Philippines in the event of a conflict with China. China is also building economic and political power that it can leverage during a time of conflict to convince countries not to host or support U.S. military operations. This strategy includes using all the tools at its disposal to create wedges between the U.S. and its allies so that countries such as Japan or Australia will choose to stay neutral in a conflict between China and the United States over Taiwan or the South China Sea, for example.

Second, instead of directly confronting the United States to push it out of the Asia-Pacific with military force, China has engaged in gray-zone activities. Specifically, China has increased the risk to the U.S. of operating in the South China Sea by harassing U.S. vessels and aircraft with nonmilitary platforms. In this way, it maintains a degree of deniability that discourages a U.S. response. With these tactics, China has made significant political and territorial gains without crossing the threshold into open conflict with the United States or rival claimants, especially in the South China Sea. These strategies help China build relative power vis-à-vis the United States. Beijing also strives to reduce U.S. credibility as a security partner and ally to erode the U.S.-led security order in Asia.

China's Strategy to Control the South China Sea. China's strategy of focusing on areas where competitive forces are weakest and then leveraging its comparative advantages is strikingly evident in its strategy to control the South China Sea—an end China is actively pursuing.

On the military side, Beijing is positioning itself in a way that weakens the conventional U.S. deterrent against China. China wants the ability to deny foreign military vessels and aircrafts access to the sea and airspace over the South China Sea. It has been making progress toward this goal by building bases in the South China Sea, specifically on Fiery Cross, Subi, and Mischief Reefs in the Spratlys (known as the Big 3). All these bases will have approximately 10,000 foot runways and the airfield support facilities (including reinforced hangars) to accommodate fighters, bombers, tankers, large transport, patrol airborne early warning, and aircraft refueling.²³ China's largest island in the Paracels, Woody Island, is also China's largest military outpost in the South China Sea. China has developed airstrips and port facilities and placed permanently stationed military personnel and temporarily deployed fighters, surface-to-air missiles, and anti-ship cruise missiles on the island.²⁴

These bases will eventually house systems that will expand the reach and increase the layers of China's A2AD capabilities and the range of China's own power projection capabilities. For example, if China were to deploy H6-K bombers to the Big 3, it could then hold U.S. defense facilities in northern Australia and Guam at risk. If they were stationed at Woody Island, almost all of the Philippines, including the five sites selected for U.S. base development, would fall within range.²⁵ If China put HQ-9s and anti-ship on Woody Island and Fiery Cross Reef, Subi Reef, or Mischief Reef, it could hold any U.S. assets that dared to operate in most of the South China Sea at severe risk.

I could spend pages laying out the possible combinations and what they mean for U.S. operations. But the bottom line is that while China is building facilities to house military systems, they are still in the initial stages. In May 2018, the Chinese landed a H6-K bomber on Woody for the first time. HQ-9 anti-aircraft missiles were first reported on Woody Island, an island disputed by China, Taiwan, and Vietnam, in 2016 (though they were removed in 2018 and then redeployed).²⁶ Since April 2016, China has deployed, at various times, Y-8 military transport planes, YJ-12B cruise missiles, and HQ-9B surface-to-air missile systems on each of the Big 3.²⁷ In February 2019, after the People's Liberation Army Navy conducted a monthlong series of drills in the South China Sea, an anonymous source mentioned that the People's Liberation Army Strategic Rocket Force was looking to deploy its HQ-9 anti-air missiles and YJ anti-ship missiles on Woody Island on a permanent basis.²⁸ We should thus expect the pace and scale of future deployments to increase. With these deployments, China will be in a position to enforce an overly expansive air defense identification zone or eventually even a maritime exclusion zone in the region, which will put the burden of escalation on the United States if it chooses not to recognize the zones. This means that the present moment is a crucial time for U.S. policy. If Washington hopes to deter or prevent the militarization of the South China Sea Islands, it has to take a tougher stance now.

Yet China's preferred strategy is to sidestep, rather than confront, the United States and to cajole other countries into agreeing to resolve their claims on terms favorable to Beijing. China calls this the "dual-track" principle, according to which regional neighbors negotiate to resolve disputes and cooperate to maintain peace and stability.²⁹ This doctrine implies exclusion of the U.S. and other non-regional

powers, as well as international institutions. For example, after the Permanent Court of Arbitration (PCA) ruled in favor of the Philippines in its case against China in 2016, China deemed the PCA illegitimate because the Philippines had violated the Declaration on the Conduct of Parties in the South China Sea by taking the case beyond the concerned parties.³⁰

China also uses influence operations and predatory economics to coerce neighboring countries to reorder the Indo-Pacific region to its advantage.³¹ For example, after the PCA ruling, the Philippines' President Rodrigo Duterte said he would "set aside" the ruling "in the play of politics" to avoid "impos[ing] anything on China."³² This position was widely attributed to Duterte's view of China as an "essential ally" that he hoped would fund his infrastructure plans in the Philippines.³³ At the July 2016 ASEAN meeting, Cambodia—a close political ally of China's—blocked any mention of the PCA ruling, effectively shielding China from any ASEAN-led multilateral approaches to dealing with Chinese actions in the South China Sea.³⁴ Laos, which heavily relies on Chinese investments, supported Cambodia's block, demonstrating China's ability to leverage its economic and political clout over small regional neighbors.³⁵ China has tried to insert language that would prevent countries from engaging in military exercises with countries from outside the region (read: the United States) unless the parties concerned, such as China, do not object.

The Implications of Chinese Control. If China controlled the South China Sea, the restrictions it would impose there would likely depend on the activity. On the more permissive side, China has not shown interest in disrupting commercial transit through the South China Sea. In 2016, global trade transiting through the South China Sea reached \$3.37 trillion USD, with most exports coming from China, or about 39.5 percent of the total Chinese trade goods passing through these waters.³⁶ These commercial activities benefit China, and there is little incentive to disrupt them wholesale.

However, China has shown a great willingness to engage in economic coercion to signal its displeasure with other countries' foreign policies, and if it controlled the South China Sea, it might disrupt selectively and periodically to the same end. In 2010, after a territorial dispute with Japan in the East China Sea, China implemented a rare earth minerals embargo against Japan. (This ban was later extended to include the United States and Europe after the Obama administration called for investigations into whether this ban violated international trade law).³⁷ In 2017, after South Korea confirmed its purchase of the U.S. Terminal High Altitude Aerial Defense battery, China retaliated against South Korean companies in China and significantly reduced Chinese tourism to South Korea. A year later, the Bank of Korea estimated that this backlash had reduced South Korea's economic growth rate by 0.4 percent.³⁸ In other words, while China will not seek to deny commercial access to the South China Sea as it will deny military access, it may periodically hold commercial interests at risk as part of a campaign to coerce a country to concede on something.

In the middle of the spectrum would be China's approach to the exploited natural resources in the waters that fall within the nine-dash line. These resources include oil and gas deposits and fisheries. An estimated 190 trillion cubic feet of natural gas and 11 billion barrels of oil reserves lie within the South China Sea, and access to these energy resources is crucial for all of the claimants involved.³⁹ On the fisheries side, the South China Sea is in the top five "most productive fishing zones," with half of the fishing vessels in the world operating in these waters and accounting for over 10 percent of the global fish catch.⁴⁰

China has proposed a number of joint cooperative ventures with other claimants. Since 2007, China and Vietnam have conducted regular joint Gulf of Tonkin exploration ventures,⁴¹ and China and Brunei embarked on joint oil and gas development ventures last year.⁴² In 2017, China supported the idea of a joint energy venture with the Philippines that would develop oil fields and exploration and exploitation in the South China Sea.⁴³ This is the aspect of their strategy that Chinese leaders highlight to present their position as fair, legitimate, and peaceful. An analysis of the statements made on the South China Sea by members of the Political Bureau of the Communist Party of China Central Committee, for example, show these leaders use terms such as "cooperation" and "political solution" six times more frequently than competitive themes such as "sovereignty," "military," "tension," "freedom of navigation," or other U.S. themes.⁴⁴

On the other end of the spectrum, China would be the most restrictive about military activities, which is why the issue is central to U.S. national security. Chinese domestic law attempts to extend more state power over China's EEZ than international law allows, including jurisdiction over hydrographic surveys, military surveys, and intelligence gathering.⁴⁵ China believes the EEZ does not constitute the high seas, and therefore the U.S. does not have the right to conduct intel gathering

activities or other military activities there.⁴⁶ China also claims the Paracels and Spratlys, including the artificial islands. Each is surrounded by a 200-mile EEZ, and China argues that the islands should be treated as archipelagos, which means the waters between them would be territorial waters (according to international law).⁴⁷ It is through this manipulation of international law that China deems the South China Sea within its EEZ and claims that the U.S. military is not allowed to operate there.

Much more is at stake for the United States if it concedes to China in the South China Sea. First, China currently claims nearly the entire East and South China Seas as its historic waters and EEZ.⁴⁸ If China proves successful at changing the interpretation of maritime law so that the EEZ is equivalent to territorial waters, then (1) the United States will be unable to conduct operations vital to U.S. national security in much of the world's oceans and (2) "freedom of navigation near the shore will be diminished, impairing naval and air operations and diminishing power-projection and forced-entry capabilities of amphibious forces."⁴⁹

Politically, U.S. acquiescence to Chinese coercive diplomacy could increase anxiety among U.S. allies and strategic partners, leading to Asian policy changes that could undermine regional stability.⁵⁰ Moreover, U.S. deterrence against China would be severely weakened. Without the ability to operate militarily in the South China Sea, given the tyranny of distance, the United States' ability to hold China at risk would be greatly reduced. This is the whole point of China's South China Sea strategy—to push the U.S. military out so that China can do whatever it wants without having to answer to the United States. For deterrence purposes, the United States needs to be able to threaten China with unacceptable costs. It cannot do so if the U.S. military does not maintain a presence in Asia and the ability to operate freely around China. And the United States cannot protect and defend South Korea, Japan, Taiwan, or the Philippines without the ability to operate in the waters surrounding China. This is simply the reality of current technology.

To sum up, China is not outcompeting the United States; the U.S. is not competing. China is gaining power and influence at the expense of the United States by focusing on areas where the U.S. ability and willingness to compete have been weakest and then leveraging its strengths in entrepreneurial ways to build power in those areas.

Washington needs to get back in the game, but without lowering its standards to China's level. While perhaps imperfect in implementation, the values and principles behind U.S. global power and leadership ensure others benefit. China's Achilles' heel is that its leaders have failed to articulate a vision of Chinese dominance that is beneficial for anyone but China. In its pursuit of economic, political, and military power, the protection of liberal values needs to be a guidepost and a priority.

The South China Sea lies at the center of this geopolitical competition. The United States has to move beyond symbolic displays of force such as the freedom of navigation operations to include actions that improve the United States' ability to operate in those waters. This could include building a new institution or coalition of like-minded states that patrol the waters and protect all countries' rights of freedom of navigation in the South China Sea. Or the U.S. could make peace in the South China Sea a real diplomatic priority, getting all parties to the negotiating table, and if China is unwilling to participate, the U.S. could bring the other claimants together without Beijing to establish a consensus at least among them that supports U.S. interpretation of freedom of navigation. And if the United States wants to deter the militarization of these islands, which threaten U.S. sovereignty, it has to threaten unacceptable costs on China, for example, by communicating to Beijing that the United States will build its own bases in the area in response.

Beyond the South China Sea, Washington needs to embark on a program of institution building that will shape norms in our favor and fill the gaps in the order that China has been able to exploit. The United States needs to leverage its own strengths against Chinese weaknesses, one of which is the ability to build coalitions. This should not be a great power competition between China and the United States but between China and the United States along with its allies and partners. China cannot outspend the United States and the European Union together. For example, it cannot prevail in a regional conflict against the United States, Japan, and Australia. So, if China uses economic coercion against a country, U.S. allies and partners should ban together and sanction China. We should be patrolling the South China Sea together to ensure that every country, even those that are not treaty allies of the United States, has the ability to sail and fish there. And the U.S. needs to lead by example. If Washington is unwilling to stand up to China as the most powerful nation in the world, it cannot expect anyone else to do so. It will take immense political capital to facilitate such cooperation among nations, but it is the

only way to ensure the United States, in conjunction with its allies and partners, maintains the vast share of power and influence in the international system.

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⁴⁴This analysis is based on the full content regarding the SCS from 2013 to 2018 under the “Leadership Activities” category in the People Data (data.people.com.cn). The database collects data from official media and websites.

⁴⁵For the details of the legal positions, see Law of the People’s Republic of China on the Exclusive Economic Zone and the Continental Shelf, June 26, 1998; United Nations Convention on the Law of the Sea, and China’s Statement upon Ratification. For a thorough analysis, see Peter A. Dutton, “Maritime Disputes and Sovereignty Issues in East Asia,” Testimony before the United States Senate Committee on Foreign Relations, July 15, 2009.

⁴⁶Ying Yang, “Zhuanshu Jingji Qu Zhidu Yu Junshi Huodong de Falv Poxi” [An analysis of laws and military activities regarding the Exclusive Economic Zone], *Social Science Journal* no. 5 (2017): 118–24; Zirong Yang and Feng Xiao, “Hangxing Ziyou Jue Bushi ‘Junshi Huodong Ziyou’” [Freedom of navigation is not freedom of military activities], *Jiefangjun Bao*, May 12, 2016, and Cheng Zhao, “Meishi ‘Hangxing Ziyou’ Chongji Guoji Haiyang Zhixu” [American ‘freedom of navigation’ disrupts international maritime orders], *Renmin Ribao*, July 27, 2016.

⁴⁷Lei Hong, “2016 Nian 7 Yue 8 Ri Wajiaabu Fayaren Hong Lei Zhuchi Lixing Jizhehui” [July 8th, 2016 the Spokesman of the Foreign Affairs Ministry, Hong Lei, hosted regular press conference], Foreign Affairs Ministry, July 8, 2016, and Ziwen Zhang, Song Qu, and Yang Bai, “Nansha Diaojiao Jianshe Shu Zhongguo Hefa Quanli” [To construct on the Spratlys is China’s legal right], *Renmin Ribao*, July 25, 2016.

⁴⁸James Kraska, “Sovereignty at Sea,” *Journal of the International Institute of Strategic Studies* 51 (June/July 2009): 13–18.

⁴⁹Kraska, “Sovereignty at Sea.”

⁵⁰Even if the U.S. regional maritime presence is not reduced, but rather shifted to different zones, U.S. concessions in the face of Chinese coercive diplomacy would still cause anxiety among U.S. allies about the United States’ willingness to absorb costs to stay active in the region and protect its allies’ interests.

The CHAIRMAN. Thank you.

We will now go to a round of questions. I am going to take just a brief shot here at the beginning.

Dr. Mastro, that was an interesting observation you made regarding China’s work around the world where they build infrastructure. They are really focused on that. We see that everywhere where we go where their hands are involved in that. And interestingly, our hand is there too, but instead of infrastructure, it is on humanitarian aid.

What do you think about the balance of the spending, our doing it on humanitarian aid and their doing it on infrastructure building? How would you address that?

Dr. MASTRO. Mr. Chairman, I think this really highlights the point of the fact that we need to look at our own comparative advantages instead of trying to respond to China by doing exactly what they do. So a lot of countries do have this demand for infrastructure, and I think the United States needs to get more involved in that game. But, on the other hand, humanitarian aid, assistance, disaster relief—these are some of the ways that the United States has provided leadership in the international system that are to the benefit of other nations and where China is actually relatively weak. And so I think we should be doing much more of this humanitarian aid and highlighting to the countries around the world that this is a service that the United States provides that China does not provide.

The CHAIRMAN. Do you agree that—what I find—I do not know if others find this too, but that particular item, and that is us doing

humanitarian things, the Chinese doing infrastructure things where they are actually trying to get their hands on something in a country, is becoming better and better known around the world. Each of us, the United States and China, is developing a reputation in that regard. Do you agree or disagree with that?

Dr. MASTRO. I agree with that. I think in general China prefers weaker partners, and that is another fundamental difference between us and the Chinese. Now, the jury is still out on how successful their strategy is going to be because I think countries are learning that over time it is not beneficial for them to be in that weaker position vis-à-vis China as the Chinese are willing to use coercion to ensure that their will is accommodated.

But those countries need alternatives. For example, one of the areas the BRI, the Belt and Road Initiative, first entered into was Central Asia. This is not a place where China was replacing the United States. We were not present not only sort of politically and militarily, but also economically. So we need to be able to provide countries with alternatives to this cheap investment.

The CHAIRMAN. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Thank you both for very thoughtful testimony.

Let me say it seems that there are as many opinions regarding China's global intentions as there are analysts, with some saying that it is strictly economic, while others saying they seek to change the global system of governance, and still others asserting that China only wants to achieve regional hegemony.

So I would like to ask both of you, in your view, what does China want in the near term, in the long term, and why? And secondly, what are in your views the three most important things the United States can do to protect its interests in all of its dimensions vis-à-vis China?

Senator TALENT. You have really asked a \$64 question, Senator, which is what is the ultimate object of these policies. I refer in my statement to the fact that they are seeking a kind of hegemony in East Asia, but what does that really mean? I think I want to answer that with reference to one of the reasons that they are doing it. In my statement, I talk about sets of reasons. One set of reasons is nationalistic and historical.

So a Japanese scholar said to me a few years ago when I was visiting, he said you have to understand we view the world horizontally and they view it vertically. So we view the international order as one in which nations relate to each other basically according to agreed-upon rules and resolve disputes according to those rules and resolve them peacefully where there are no rules, negotiate peacefully.

He said they view the relations between nations as one in which the larger and more powerful nations naturally get the benefits. And if you think in terms of the history, their way of looking at the world has actually been the predominant way in which nations have related to each other through most of history. I am not going to even attack them for this. And I think they are more comfortable in that kind of a setting just as we are more comfortable in ours.

The order that we and our allies and most of the world has built comports with our values. We believe it preserves the peace, and

it is one in which we have prospered and, as Dr. Mastro said, many nations have had an opportunity to prosper.

So I do think as an ultimate objective they want to move the world more in the direction of their view of how nations ought to relate to each other.

Senator MENENDEZ. Any suggestions on the top two or three things we should be doing?

Senator TALENT. Well, look, I have to say I put an attachment to the Senators, which we got from PACOM a few years ago, showing how the balances of forces in the region has changed from 1999 to 2016. And it shows the disproportion in terms of Chinese numbers, platforms, ships, planes, et cetera in the region.

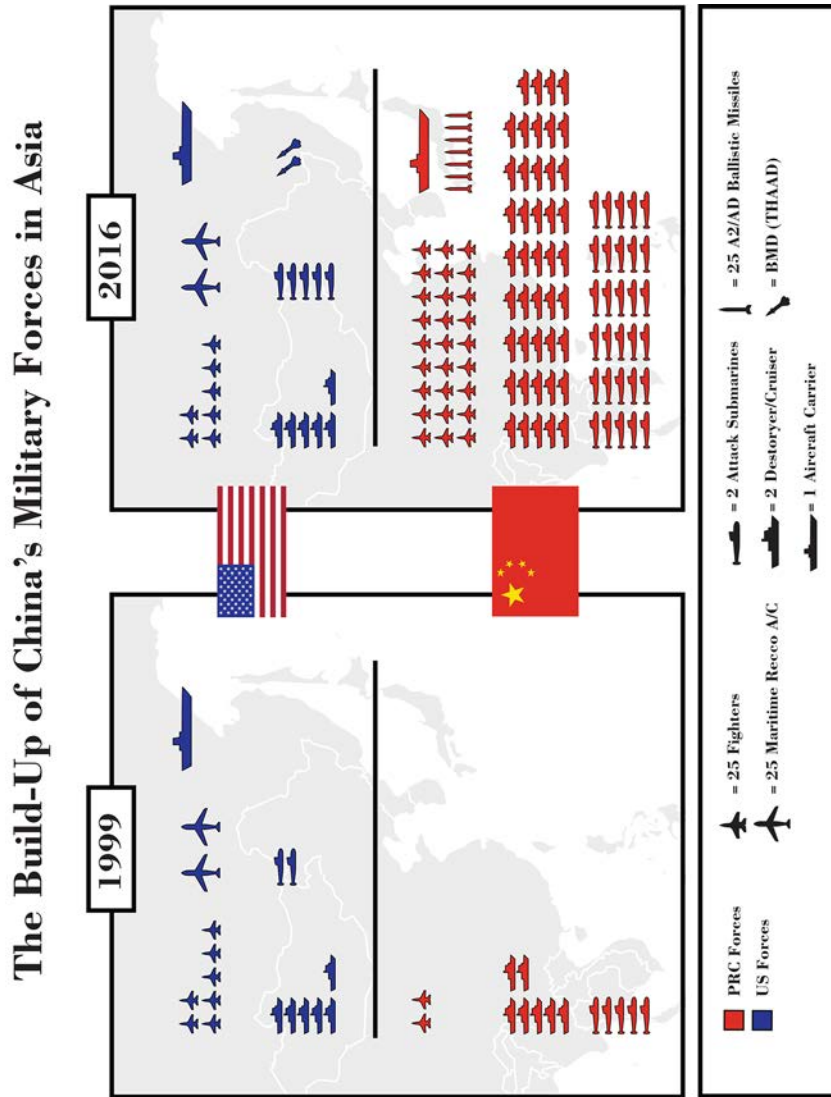
I think we and our allies have to think very thoughtfully about how we are going to begin effectively redressing that balance because I think I am very concerned that if we do not effectively deter kinetic aggression in the region better than I think we are doing now—I agree with Dr. Mastro that operationally we have a lot of advantages. But if we continue to allow the balance of power to shift, there is a danger that they may get opportunistic and may move quickly in some area. And I am really concerned about Taiwan, for example, becoming a flashpoint. What we do not want is a confrontation to become escalating armed aggression.

So the point is that—and I will be try and be quick. The armed services, by preventing that, are also the foundation for the tools of soft power to work. So I would say we need to restore the deterrent more strongly. We need to build tools that allow us to get our narrative out, which we are not doing effectively. I think you have laid the basis for that with ARIA. And I would work on how the State Department can be more effective in that.

And then I think we have to think very strongly about how we can make the WTO more effective and on a multilateral basis in dealing with the broader set of tactics. WTO tools are not sufficient.

[The information referred to follows:]

THE BUILD-UP OF CHINA'S MILITARY FORCES IN ASIA



Senator MENENDEZ. Let me turn to Dr. Mastro.

Dr. MASTRO. I think China, as I mentioned, wants to dominate the Indo-Pacific, but it just wants veto power everywhere else. So I do not think they really want to replace the United States. They just want to displace the United States in order to widen their own freedom of maneuver. China wants, in capitals around the world, countries to ask themselves, first, what would China think and, second what would the United States think.

I would say in terms of the global system, they do want to change it, but they do not want to overthrow it. It is not that they hate all aspects of it. Some they benefit from. But the aspects that they do not benefit from, they either render those ineffective like in terms of the human rights commissions or they try to change those institutions from within.

In terms of the three things that we should do about it, first I just want to double down on restoring the deterrent. Right now, this is China being deterred. We are seeing the best of Chinese behavior right now, and that is because China does not have faith in its own military capabilities. But that is not going to be the case forever. They have embarked on a massive military reform program that, by their estimation, should be done by 2025. I am very concerned if the United States does not make some significant changes, not only in the quality of some of our platforms, but the quantity, because that becomes very important in conflicts, that China is no longer going to be deterred by that time frame.

The second thing I think we need to do is invest at home. Now, I am a military specialist, but I look at the economic power as the basis for U.S. power in the world. I heard a statistic yesterday that China is now graduating more data scientists out of one university than we are in all of our universities combined. And so I think providing the necessary incentives for research, development, and improving our education at home is one way we need to compete.

And lastly, we need to get serious about global leadership. In my view an America First strategy is a very Chinese strategy. We need to be thinking more about our role in the world, and that includes building new institutions. I am not surprised that institutions built decades ago cannot handle what to do about cyber, what to do about attacks in space, and other norms of behavior in terms of the standards for AI, for example. So we really need to get serious again about building institutions and enhancing our global leadership.

Senator MENENDEZ. Thank you.

The CHAIRMAN. Thank you, Senator Menendez.

Senator Rubio.

Senator RUBIO. Thank you both for being here.

There is a concept: war of choice. It is where a nation sort of picks a time and place of their choosing in which to engage militarily—somewhere where they think they can wrap up the conflict quickly, but they do it, first, to project power, to sort of send the message that we have capability. Second of all is to build capacity, to learn where their weaknesses are and build upon it.

What, in the short- and mid-term, do either of you think is a risk of a war of choice by China, whether it is a border conflict with Vietnam that they could quickly wrap up, a Taiwan contingency, but some military engagement in which they are able to choose the timing and the place of it, they can wrap it up before there could be U.S. or other intervention, and in the process sort of prove to the world some muscularity, some of their capability, and also learn a little bit about their weaknesses, in essence, use it almost as a low-risk military exercise?

Dr. MASTRO. Sir, I think the likelihood of that is quite high, especially in the timeline that I laid out. So one of the big issues with

the military reforms was that the Chinese military has never conducted a joint operation before, the idea that the air force and the navy could work together. In most contingencies, such as Taiwan, the South China Sea, and the East China Sea, that is what is necessary.

So when Xi Jinping came into power, he took a look at the military forces and decided they were not ready to fight and win. And so he has this phrase of preparing for military struggle, and that was the whole reform period.

In my view, they need to test those capabilities against opponents that they know they can win against because there are also domestic political factors here. The Chinese people are paying attention to how much money they are spending on the military, even as the economy is slowing. So it would look very bad for the Chinese not to perform well. They need to make sure that they can perform well before they take on a reunification with Taiwan or a U.S. treaty ally that can bring in the United States.

My bets are on a naval skirmish with Vietnam. I think it probably will not be on the border because they are not practicing as much ground operations as they are air and naval operations. But I think we might see some more forceful actions after they militarize the islands in the South China Sea in which they try to occupy some of the islands that are currently occupied by others.

Senator TALENT. Yes. I think they are legitimately, sincerely concerned about their operational capabilities. This is a constant theme. It is very significant that they have undertaken this reorganization of the armed forces. It is their parallel to the Goldwater-Nichols reforms that we engaged in about 35 years ago. Xi Jinping constantly talks about the need to train for combat. They talk about the five incapables, their concerns about what their military can do operationally, and I think they respect the operational effectiveness of the United States.

So I think they would like to get through that reorganization before they actually test it. I think they may be underestimating how long it is going to take to really make that work. They may say it is done, but they may not really have matured as a force. But I think when that is done, I agree, I think they will attempt something probably with one of their neighbors. I do not think Xi Jinping—I mean, he talks about having a world-class military in 2035. He is going to be in his 80s. I do not think even if he thinks he is going to be in power, that he wants to wait that long. So I think they will be patient until they work their way through that. They could continue to be patient, as long as they feel they are winning by the salami slicing, but they could also move.

And I will just add this. One of the dangers of the United States moving as you all and the executive branch have moved in the last few years to rebuild the tools, to come up with a relevant doctrine, to build new institutions is the more effectively they see us doing this and, in particular, if we are successful in some local kinds of confrontation, the greater danger that they may decide to express their intentions and their ambitions militarily.

And there is a parallel for that, of course, in the late 1930s, early 1940s when we used economic tools very effectively against another rising Asian power, and they decided that they would try and take

us out. Now, I do not think that they are planning that. I do not think they want that, but I do not think it is impossible either.

The CHAIRMAN. Thank you, Senator Rubio.

Senator Coons.

Senator COONS. Thank you, Chairman Risch, Ranking Member Menendez, for organizing this briefing, for your compelling opening statements.

And thank you, Senator Talent, Dr. Mastro, for sharing your expertise with us today.

It is hard to think of any challenge more consequential to the world we live in today and the world we will live in tomorrow than an ascendant China. If politics is to stop at the water's edge, then surely this committee can and should work together with our administration to develop a sustained and bipartisan strategy for dealing with China. And I look forward to working with members of this committee to shape legislation that will form our country's response to China's challenge.

Last year, I worked closely with a number of members of this committee to pass the BUILD Act, which will create a 21st century Development Finance Corporation that will guarantee roughly \$60 billion a year in private sector investment. It has revamped tools with our private sector to be more effective. That finance corporation will be up and running by October, and I look forward to working with the administration and members of this committee to ensure it provides a transparent alternative to China's Belt and Road Initiative through American investments consistent with best international practices in labor, environment, and social standards.

China will be holding a major Belt and Road conference in April. I think international participants should know there are alternatives to China's much larger Belt and Road Initiative.

Dr. Mastro, if I could, how should we ensure that international officials who attend that conference understand the risks of Chinese investment and that the United States has new tools available to facilitate investment in developing countries?

Dr. MASTRO. Sir, thank you for that question.

I think the first issue—and it is a very difficult issue, and I do not mean to suggest that this is the case for all leaders, but in some cases in the Belt and Road Initiative, it is not that the leaders of places do not know, but in some cases they are being bribed by the Chinese to accept the Chinese money over other sources of money that might be better for their country. I think the bigger issue here is a good governance issue that is going to be difficult for the United States to compete in some countries where leaders would prefer to take whatever the Chinese are giving them over what the United States gives them.

But there are many that want higher quality, even infrastructure. I spent a couple weeks driving through Central Asia, and just anecdotally people would say, "The Chinese built this road. It will last us 4 or 5 years. We wished someone else was willing to build it."

So in terms of getting the word out about what the United States is doing, especially partnerships with the private sector to encourage more private investment abroad, I think a lot of that is going to fall on the State Department in terms of our relationships with

these countries. We could even think about holding our own types of fora to bring different countries together or an institution that could bring countries together to focus on good governance, good practices in terms of infrastructure.

Also, I think there is an aspect of that in which the United States has to ensure that it has its own house in order in terms of infrastructure to provide that positive example to other countries around the world.

Senator COONS. Dr. Mastro, I agree with the response you gave to an earlier question that sort of posited should we be investing more in infrastructure or sustaining our humanitarian work around the world. And I think the answer is to do both and do them better and make sure that our programs are efficient and targeted. But the good will that we have earned, the close alliances and values-based partnerships we have earned through effective humanitarian relief around the world we have to also complement by showing up. Most African heads of state I have met with in the last 8 years would prefer American investment, American technology, American partnership, but we have gotten out of that work. I think we need to reengage and compete.

Senator Talent, thank you for your service on the commission that you described. Your 2018 report includes ten key recommendations, including requiring a number of reports from different parts of our government to ensure that every major U.S. Government department and agency is appropriately preparing for the challenges that China presents. I will give just quick examples.

The report recommends the DNI conduct an assessment of China's access and basing facilities along the Belt and Road Initiative, and it directs the Department of Defense and Homeland Security to examine the implications of changes to the Chinese coast guard's command structure.

Given this robust reach and range of recommendations, would you recommend that Congress take up debate and pass a statute directing that these recommendations be implemented to ensure that they are heard and followed in the executive branch?

Senator TALENT. Yes. I fully supported the recommendations, and you could do it, I think, in appropriations or by statute, whatever would be a good way of doing it. I do think that we have to be aware and assess constantly what the intentions of the Chinese are in a number of different areas. And we are developing that capability now. Again, we are in a time of transition, but we have to be able to make those assessments.

If I may just comment on your earlier question very briefly, I think there is a real opportunity for us here with the BUILD Act because, as the committee knows, the Chinese narrative regarding One Belt One Road is in some trouble. There are a number of different countries—you mentioned Africa, Sri Lanka, a whole lot of places—where people are having a hangover after doing these deals and realizing what it means in terms of their debt. They see Chinese companies bringing in Chinese workers. They see environmental standards degraded.

And so I think in terms of the competition and the policy, we could do a lot with a little if we could amplify the narrative while we were doing it. And I hope in implementing and overseeing the

implementation of the BUILD Act, you pay real attention to using what we are doing. And it is a very legitimate narrative that we are doing it the right way and helping people.

And I would not underestimate the impact on Beijing of even small investments in strategic places. They are really throwing their weight around in Southeast Asia now, and if we go in there with some investments in a different model, the lights would go on in Beijing at night and they are going to have to figure out what we are doing. It is a way of countering and occupying them and taking the initiative.

Senator COONS. The new structure of this new development and finance institution literally encourages and allows us to do things in a multilateral way with the Australians, with the Japanese, with the New Zealanders, with the Scandinavian countries. And so I think it allows us to reengage with some of our critical allies in exactly that work.

I am looking for cosponsors for a bill that would implement the recommendations of your report, and I hope to be introducing that legislation soon.

Thank you both for your testimony.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Gardner.

Senator GARDNER. Thank you, Mr. Chairman.

Thank you both for your testimony today.

Chairman, thank you very much for holding this hearing, and thanks again for the work this committee is doing and has done on China. We are at a true inflexion point in the relationship between the United States and China. The questions we have to ask: what tradeoffs will be made? What costs are we willing to endure with those tradeoffs? Whose values will determine and shape the future of trade, diplomacy, human rights, rule of law?

As stated in our National Security Strategy, for decades U.S. policy was rooted in the belief that support for China's rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others.

The challenge before us now is identifying what policy tools the United States has at its disposal and how we shape and execute a comprehensive and effective strategy to deal with Beijing and to chart a new course for U.S.-China relations.

This is why in the 115th Congress, Senator Markey and I held four hearings in our subcommittee dedicated to China, including a three-part series of hearings titled "The China Challenge," which examined how the United States should respond to the challenge of a China that seeks to upend and supplant the U.S.-led liberal world order. The hearings examined security, economic, and human rights implications of a less than peaceful rise by China.

At one of our hearings, Dr. Graham Allison of Harvard University astutely observed as realistic students of history, Chinese leaders recognize that the role the United States has played since World War II as the architect and underwriter of regional stability and security has been essential to the rise of Asia, including China itself. But they believe that as the tide that brought the United

States to Asia recedes, America must leave with it. Much as Britain's role in the western hemisphere faded in the beginning of the 20th century, so must America's role in Asia as the region's historic super power resumes its place.

That is why Senator Markey and I led the passage of the Asia Reassurance Initiative Act, which was signed into law on December 31st, 2018. We will not simply allow America to recede with the tide.

In order to deal with an assertive China, we first and foremost need a stronger network of allies and partners in the Indo-Pacific, as you have stated. That is exactly the intent of the Asia Reassurance Initiative. And I hope the administration will fully fund and fully implement the strategy and the funding that is mandated by the legislation.

We have talked in this hearing about the needs for security. It authorizes dollars for an Asia-Pacific security initiative, counterterrorism, maritime domain awareness, South China Sea freedom of navigation operations. It authorizes legislation to address intellectual property theft in China, legislation dealing with cyber initiatives, legislation that could create a cyber league of the Indo-Pacific states to counter China's behavior when it comes to their approach to the Internet and the cyber field.

This is an opportunity for this Congress to build out on that. China has no qualms or doubt about the direction that it is headed, the leadership that it seeks, the dominance that it pursues. Many of our values are and will be in direct conflict with China, but we must build on the strategy of the Asia Reassurance Initiative, be ever present throughout the region, and never forget the long-term interests of the United States will be met and delivered or denied in Asia. A great power competition defined American exceptionalism. We will not let it write the last chapter of U.S. power.

The question I want to start with is this. If we simply want China to be a less concerning business environment to do business in—we talked about this yesterday, Dr. Mastro. If we simply want China to be a less concerning place to do business in, to deal with, and yet we want more trade, we want more opportunity there, we are simply tying ourselves to a nation whose human rights and governance is at odds with our own, making it more difficult to extract ourselves later on or to influence future behavior when they do not change their behavior. Can we do both? Senator Talent, Dr. Mastro?

Senator TALENT. How do we influence their behavior in terms of their economic—

Senator GARDNER. If our interest is simply to make more trade deals with them, to invest more with them, are we simply making a deal with a country whose human rights are at odds with ours, whose beliefs and rule of law are at odds with ours, or can we use that to change their behavior in a significant—

Senator TALENT. Oh, I think we can use economic tools to change their behavior. I think the problem—and the administration is exploring doing that. I mean, it is doing that. It is using the leverage and the tools that it has available. And I think we have a lot of clout in that standpoint because we have a big trade deficit with

China. We are a big customer. In other words, to the extent that trade becomes an issue, they have more to lose than we do, and I think that they view it that way.

I think the problem we are going to have with this is that they know that that economy needs to grow not only so that they can get the resources they need to support the objects of the state, to fund the military buildup and the others, but also because the Chinese leaders are very well aware they need a measure of legitimacy with the people. They cannot do it all through repression. And as you know, the deal is the Chinese Communist Party continues to rule the country, and they deliver a better quality of life to the Chinese people.

Now, they are not going to engage in the economic liberalization that would mean giving up control of vital parts of the economy by the Chinese Communist Party. So they have got to get that wealth somehow. And what I have said very often—I have written this in additional views on commission reports—I think they are going to be moving in the direction of more of the same kind of illicit activity we have seen in the past because they have to figure out ways to get growth.

I think the economy is slowing more than they admit. I think the imbalances are a big problem. They have a lot of weaknesses. I think their currency is in some trouble.

I do not think deals with them are the way to go, and I do not think it is going to change behavior. I do not think they have much choice but to continue trying to do what they are going to do because they are not going to take the next step to have a truly liberal market economy.

Senator GARDNER. Dr. Mastro.

Dr. MASTRO. Sir, I think one of the difficulties of the United States leveraging economic power is like economic sanctions. One country doing it alone does not have a great impact because China can substitute its trade by going somewhere else. And I do not think they are going to make some of the structural reforms that we want because primarily the party wants to stay in power, and there is no amount of threatening we can do that would cause them to make changes to human rights or to the economy domestically if they think it will undermine their power.

So I really think this is an area where coalitions matter because China will only stop its behavior when it does not work. And so today they are able to engage in the theft of IPR or to force foreign companies to give them technologies and information because all countries are allowing it. And so I think the focus of our efforts should be less on China and more on ensuring that we are on the same page with private business and companies. I think in the United States we now are, though that was not always the case. But private businesses are not on the same page with their governments elsewhere in other countries, in some cases with our allies and partners.

So if the international community somehow could come together and say just because China is only targeting the Philippines today or only targeting South Korea today or only targeting the U.K. today, we do not want to take the economic cost associated with that. So we all turn a blind eye. And the bottom line is unless the

United States, the most powerful country in the world, stands up to China in these areas, no other country is willing to do so.

I think it is a step in the right direction for the United States to be willing to absorb some costs itself economically to signal to China that this behavior will not be tolerated. But in the end, we really do need to think about the international system and building more pressure globally on China to stop, whether it is cyber-enabled espionage or the stealing of intellectual property.

Senator GARDNER. Thank you both.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Romney.

Senator ROMNEY. Thank you, Mr. Chairman and Ranking Member, for calling this hearing. Most instructive and informative.

And I appreciate very much both of you being here and testifying today and the work that you are doing on an ongoing basis.

It is said, obviously, that demographics are destiny, and they have what? Approaching 1.4 billion people. And so they are going to be about four times our size. What that means is that ultimately their economy will be larger than ours. At some point, it will be substantially larger than ours, and their investment in the military could be greater. Their investment in technology could be greater, education, and so forth.

So in a setting like that, in my view, the only way that one is able to succeed and prevent that from occurring would be for us to link arms in a very strong way with our allies around the world that share our values, economic values, human rights, and so forth. And that allows us to have the same economic and, if you will, demographic clout that it will have.

I am concerned that there is a perception that somehow China will be dissuaded from action by virtue of shame or by being called cheaters or the people who steal intellectual property. My perception is the things that we consider to be shameful, they consider to be praiseworthy and laudable and they celebrate. And they only will respond to things which they believe are in their self-interest.

In changing the perception of self-interest, I believe it is essential for us, as you both indicated, to have a much stronger series of actions to strengthen our relationship with allies. We have all said that, but I am interested in your perceptions as to what things we can do in the region and globally to specifically strengthen our associations with our allies militarily and economically and diplomatically such that we present a much stronger face to China, such that they recalculate what is in their self-interest. They decide that instead of fighting and pushing that they are better off to work together with us. So I would appreciate your thoughts about specifically the sense we have now.

Some of us celebrate that the EU is trouble. I do not celebrate that. I want the EU to be stronger. We tell nations, hey, you go off and do your own thing. No, no. We need to all come together because what is in the best interest of the United States of America is also in the best interests of these other countries, and combining with them is essential for us long-term.

So how do we strengthen those ties? What should be our priorities? What actions should we take to be stronger with our alliances as opposed to more atomized?

Dr. MASTRO. Well, sir, I will answer your question.

First, I just want to highlight I completely agree about the economic power issue. China's economy might be bigger than that of the United States, but that of the United States and the EU, it will not be. So thinking in terms of these coalitions is very important.

And going back to the cyber-enabled espionage, this is a perfect example of what I highlighted of how they exploit weaknesses in the system. This was something that countries did not really do before until China started doing it on such a grand scale. So we have to find our weak spots before the Chinese do in a lot of cases.

In terms of improving our relationships with allies and partners, my concern is I do not think we are really trying to do that right now. In a lot of cases, it really just requires good diplomacy, and especially with the EU. One of the issues is that our European partners would say that they do not really have any security concerns with China. You know, China is an economic partner to them, and the security concerns lie in the region and they lie between China and the United States and no one else.

So I think what we need is less a China strategy and more a new type of U.S. foreign policy that with it highlights how U.S. leadership in the world is beneficial for everyone and how, if China undermines that leadership in Asia, for example, that will have great impact on what the United States and the European Union can do in regions that are potentially more important to our European allies.

I argue that we need to be more entrepreneurial in our approaches, but I do not have something amazingly innovative for you besides the fact that I think we need to show up. We need to invest more in our diplomatic efforts in the region, invest more in economic investment in Europe, and try to convince them that the security issues that are existent in Asia impact them as well.

Senator ROMNEY. Thank you.

Senator TALENT. I think the most effective immediate reassurance of our allies in the region and potential partners and the thing that would cause them to want to work with us comes down to something pretty simple, Senator, which is rebuilding the armed forces to the point where we can increase our forward presence in the region. In other words, that will be a sign of our commitment. That will assure them that we are capable of deterring actual Chinese aggression, which Senator Rubio asked about, and it is really the indispensable attribute of a world leader.

I think it can have a similar impact that Reagan's rebuild did in the 1980s. The armed forces both perform a really important function, but also send a really important and reassuring message and will suggest to other countries like the ASEAN countries that the wind is still blowing in America's direction. They do not need to and should not cut a deal with China.

Now, one specific economic tool the commission recommended is instituting with other countries what is called—and I had to get it to read it because this is not my area of expertise—a non-violation, nullification, or impairment case against China. There is a provi-

sion in the WTO that permits countries to bring a sort of global case against a country, not based on any specific violation but saying that a number of different actions taken together—Mr. Portman probably could give you chapter and verse on this given his experience—is nullifying the benefits of WTO membership to a number of other countries.

Dr. Mastro mentioned the fact that we have not updated or worked on new institutions that are appropriate for 21st century challenges like this one, and I really think—I know this is part of your remit and also I guess the Finance Committee—to look at the tools of the WTO. And it is going to be much easier—it is still hard, but much easier to use the existing institution in innovative ways than it will be to try and come up with some new institution for controlling illicit economic activity. And this is what the commission recommended.

Senator ROMNEY. Thank you.

The CHAIRMAN. Thank you.

Senator Cardin.

Senator CARDIN. Well, let me thank both of our witnesses.

Clearly, as the chairman and ranking member stated in their opening statements, there are multiple issues and challenges in regards to our relationship with China.

But I want to follow up first, if I might, on the trade front. We had a hearing yesterday in the Finance Committee on WTO and how it has evolved over the last 25 years and the fact that when we entered WTO, we had a lot of hope that it would deal with non-market economies in a way that we would have a more level playing field as these economies emerged.

And then shortly after we established WTO, we had the discussion about China's accession to the WTO. And it was a controversial issue here in Congress, and we recognized that we had to deal with China. We wanted to use international norms to deal with China, and we were hopeful that by joining the WTO, it would evolve over time to deal with the challenges of non-market economies. At the ministerial meetings over the last decade, there has virtually been no progress made on dealing with these issues.

So I sort of want to get at least your views as to what should be our agenda, the bilateral discussions between the United States and China, the multilateral discussions. There will be a ministerial meeting in 2020 with the WTO. But we have allowed China to emerge as a major economic power without having to comply with normal standard trade rules. I would argue its number one objective is to be a world dominant economic power and then to use that for its influences globally. But it is focused on becoming a world economic power, and we are allowing that to take place without having a fair, level playing field.

I applaud the President's efforts in the bilateral discussions to do this. It is going to be challenging to see that happen if we do not have multilateral support for our discussions with China. And of course, the United States is not part of TPP, which would have given us a broader bargaining unit in order to deal with the challenges of China.

I give you one example that has come to my attention of an immediate problem is that China uses Mongolia's cashmere as a way

to get value for export, and Mongolia does not have the right to directly use the general system of preferences to get their cashmere here in the United States. It is an issue we are going to work with a separate bill. But it just shows how strategic they are in every industry to try to get an economic advantage and control that through its central government rather than through market forces.

How can we be strong with our trading partners to change the international trading rules so non-market economies do not have the type of advantages they have today as witnessed by China's growth?

Dr. MASTRO. Well, sir, I think this really highlights a point from the previous question about what the United States can do to reassure, and while I think obviously I believe in the effectiveness of the military as a tool of national power, a lot of countries in the world and many of our allies and our partners do not face the military threat of China. They are primarily concerned about trade and economic issues, and they want to see leadership from the United States in this area.

But China is the number one trading partner of many of our allies. I think China is one trade agreement away from having more formal trade agreements in Asia than the United States.

Senator CARDIN. Are we making a mistake by doing it alone, bilateral without multilateral discussions?

Dr. MASTRO. Well, sir, there are many free trade agreements that we could do bilaterally in the region that we have not signed. We also need to move forward. Maybe TPP was not the best answer, but we do need to take seriously the economic arrangements that we have with countries around the world. And that is difficult given that the United States has to be serious about free trade and there are some protectionist tendencies—

Senator CARDIN. And how do we deal with the local pressures of commerce, the light, inexpensive products? So they will take the short-term gains of having inexpensive products enter our market when we lose the long-term capacity of economic growth.

Dr. MASTRO. Well, sir, I would just say that is a very difficult question. And one of the big issues, for example, in terms of pressuring China to make market reforms like not requiring joint ventures, for example, is if the United States is the only one doing it, U.S. businesses are going to be harmed and less competitive compared to businesses from other countries. And so in this back and forth between China and the United States, we really have to push other countries as well to take as much of a stance on these issues or else we will be more at a disadvantage if we are the only ones doing it.

Senator CARDIN. I would just conclude on this. I agree with that. But it seems to me the way this has been set up with just the bilateral discussions, while we are having trade disagreements with our traditional trading partners on other issues such as aluminum and steel and auto parts, that it puts us in a weaker position in trying to get the type of good governance concessions in the trade discussions with China that we desperately need to have.

One of the good things about TPP was that we had a good governance section in that bill to deal with non-market economies because there were non-market economies in TPP. It is going to be

challenging for the United States alone to be able to negotiate those types of terms in a bilateral discussion.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Cardin.

Senator TALENT. Mr. Chairman, can I just say a couple things in response to Senator Cardin, and I promise I will be very brief.

The CHAIRMAN. Senator, that is always a risk, but I am going to take it.

Senator TALENT. Multilaterally, I mentioned to Senator Romney there are tools available at the WTO. They have not been used very extensively for a number of countries to bring a case based on global kinds of illicit activities, a range of illicit activities. I would do that.

Bilaterally, I think we ought to set an example around the world by enforcing our own laws. You are probably aware that Chinese companies listed on an American stock exchange do not comply with the rules of the SEC and the auditing requirements because we are not permitted to audit the Chinese auditing firms, and yet we continue to allow them to be listed. When I saw that, I thought why in the world.

And the other thing is I think you should consider developing tools as we get into this back and forth trade, whether multilateral or bilateral. There are going to be sectors of our economy that get hurt. You addressed—the farm issue is one. But consider other kinds of tools to assist companies that are taking damage when the Chinese react. I think it would be an interesting tool that would empower administrations.

The CHAIRMAN. Thank you, Senator Cardin.

I am next going to call on Senator Portman, but before I do, I want to note that in this hearing we really have not touched at all on the type of infusion that the Chinese have done in our institutions, be they national labs, be they the education system, or as you just referred to, Senator Talent, our stock markets and that sort of thing. And that is probably an item for a hearing in and of itself because it is so broad.

But I do want to include in the record the 93-page report that was issued February 22nd, 2019 by the Permanent Subcommittee on Investigations, which is a subcommittee of the Committee on Homeland Security and Governmental Affairs, entitled “China’s Impact on the U.S. Education System.” It deals with the Confucius Institutes and those kinds of things, all of which was chaired by our own Senator Rob Portman. So I am going to put that in the record.

The Staff Report referred to was appended to a subcommittee hearing held on February 28, 2019 (S. Hrg. 116-30/Jacket 36158, pp. 80–175)

[The material referred to above can be accessed at the following url:]

<https://www.govinfo.gov/content/pkg/CHRG-116shrg36158/pdf/CHRG-116shrg36158.pdf>

The CHAIRMAN. And with that, I will yield to Senator Portman.

Senator PORTMAN. Thank you, Mr. Chairman. I appreciate your holding this hearing. It is another good opportunity for us to take

a broader view here. We have talked about military, soft power, trade tools, so much to do with regard to China.

I will, if it is okay, ask a question in a moment about the Confucius Institutes. And the chairman is right. We had an 8-month investigation, and we found some disturbing things about lack of reciprocity and lack of transparency that I want to touch on with you, Mr. Talent.

Thanks to both of you and, Jim, for your service on the commission over the years.

Just quickly on the trade issues at the WTO, a lot of good points made this morning by Senator Romney, Senator Cardin, and others. China has wanted to get out of non-market status for a long time. As you know, we have been the ones that have pushed back. We have to continue to push back. They are a non-market economy. Unfortunately, under this new administration in China, they have been even more focused on their state-owned enterprises.

And we also have to deal with this issue of China self-certifying their developing status. Because of this growing economy that they have, they are taking advantage of what developing countries, truly developing countries, are able to use in the WTO system.

And so there are things that can be done, as you say, within the system. Nullification would require us to get the EU and Japan strongly on board. They have reason to do that. And I agree with you that we need to be more multilateral in how we approach it.

But I will say this administration has done the right thing in my view with regard to the 301 case, as tough as it is for some of my Ohio farmers and manufacturers and others. And I hope—we all have to hope—that by the next few weeks we will have some good news coming out of those negotiations. If so, we will for the first time have dealt with some of the structural issues.

You are right. We need to use our own tools more. We have a 269 percent tariff in place on rolled steel from China right now, as an example, because we did pass legislation here 3 years ago, which we are now using much more aggressively to go after dumping and subsidization. But it is way broader than that, and intellectual property obviously is the focus of the 301.

On the Confucius Institutes just quickly, what we found out was \$158 million has gone from the Chinese Government into these Confucius Institutes over the last half dozen years. And it is amazing to me that we do not hear more from the academy on this because you got about 100 colleges and universities that have Confucius Institutes now. And they come with strings attached, and I think those strings can compromise academic freedom.

I do not know if you have looked into this much, but any thoughts you had on that, Jim, would be appreciated. The Chinese Government vets and approves all the Chinese directors, the teachers, the events themselves, the research proposals, the speakers at Confucius Institutes. Chinese teachers also sign contracts with the Chinese Government saying that they will follow Chinese law and conscientiously safeguard China's national interests. Any thoughts on the Confucius Institutes?

Senator TALENT. Yes. The influence goes beyond just the Confucius Institutes because the influence of the money, the participation—it is causing scholars in the field in some cases to self-censor,

to be very careful about what they say because they will not have access to grants, they will not be able to travel to China as they need to. It is a real problem.

I would encourage you even to broaden the approach and look at the work of the United Front Work Department, which is in charge of the Confucius Institutes. It is, I think, one of the oldest organs created by the Chinese Communist Party. They have hired tens of thousands of new cadres or employees under Xi Jinping. This whole concept of sharp power—you know, we are used to soft power, smart power, hard power. Sharp power is gray war tactics that they use extremely effectively to disrupt, confuse the narrative in other countries, and they are doing it through higher ed.

I do think we should not view the Higher Academy as like our enemy in this. I mean, they did not know what was going on any more than many other people did.

But, yes, there is a broader narrative, and I think it is important that the committee become aware of the facts. And again, this is an area where we have to develop tools for countering effectively.

Senator PORTMAN. One of the tools—Dr. Mastro, I want to hear from you—that we tried to develop is to have our own ability to have a presence in Chinese universities, colleges, educational system. We have failed in that because we have been blocked from doing that. That is the reciprocity concern that while you have a growth of Confucius Institutes—by the way, there are also about 1,000 K through 12 institutions that have Confucius Institutes primarily focused on Chinese language, as I understand it. We focus more on the colleges and universities, but it also is K through 12. We cannot do that in China. In fact, we are pulling back. As of this summer, we will have no U.S. State Department presence in terms of our own American values and history being taught in China. Dr. Mastro?

Dr. MASTRO. So I think these Confucius Institutes and in general the department that was previously mentioned is extremely entrepreneurial in that China combined covert operations with public diplomacy, which is something that the United States does not do. And this is why they have been able to really have such influence on academic discussion to a degree and also instruction because the main goal of this funding is to shape the conversation about China to ensure that people are not saying things about China in the United States and other countries. This is a big issue about political interference that goes against what the party wants people to say.

I do not think, bottom line, it is bad to take any money from the PRC, to tell universities that there might be a big funder that comes from China and so you should not engage with them. That might not be the right approach. But there needs to be serious constraints on the amount of influence that China can have so it does not restrict academic freedom. For example, universities should be able to choose their own instructors for these institutes. If they then, like with other donors, want to say and we thank the People's Republic of China for their donation, that is fine.

But this level of control and the lack of reciprocity is a real issue. I myself have spent time in Beijing studying, and the amount to which the foreigners have to be kept separately from the Chinese

students at that time—I cannot confirm now, but at that time, it was illegal for me to enter a dormitory to engage with Chinese students. So I think the United States needs to demand much more of this reciprocity.

Senator PORTMAN. And Chinese monitors at all those institutions.

My time has expired, and I apologize.

On the transparency issue, just so you know, it is not so much the fact that these schools are accepting the funding. It is that they are not reporting it. And in fact, we think that about 70 percent of the schools are out of compliance with our own U.S. Department of Education rules on that. So at a minimum, we should have reciprocity and transparency so people know what is going on.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Portman.

Senator Markey.

Senator MARKEY. Thank you, Mr. Chairman.

Senator Gardner and I were able to pass the Asia Reassurance Initiative that was signed by President Trump in December. And just more and more reports coming out of China makes it clear why we need that legislation and why we have to work on a bipartisan basis to continue to deal with this China threat.

This morning, the *Wall Street Journal* detailed an internal Navy report stating that the United States Navy and its industry partners are, quote, “under cyber siege.” This follows an earlier report that a known Chinese hacking group is behind a series of cyber attacks on American universities as part of an elaborate scheme to steal research about maritime technology.

In fact, this morning’s *Wall Street Journal* article references letters I sent this week to the Departments of Defense and Homeland Security asking how they are ensuring that sensitive and classified military information at research institutions and universities are protected. After all, in this age of great power competition, it should come as no surprise that Chinese hackers are targeting academic institutions with valuable information about U.S. military capabilities.

Dr. Mastro, as someone who has worked in academia, in think tanks, and for the U.S. military, how well do you think our government is doing in ensuring that sensitive and classified material is protected at research institutions and defense contractors and what more should we be doing to ensure that that information is being protected?

Dr. MASTRO. Sir, thank you for that question. It gives me an opportunity to really highlight what I think is one of the main issues, which is that many people who do not focus on China or the China challenge are relatively naive about some of the security challenges that come with it, whether it is having sensitive information or research at universities in which the main goal is the creation of knowledge for knowledge’s sake or allowing Confucius Institutes to be funded. In many cases, people who are outside of this field do not understand those risks. And so it is less I think that the government is not protecting that information, but more that a lot of those protections are not necessarily in place in some of these

places that the Chinese are able to find certain weak spots whether it is in the networks—

Senator MARKEY. But bottom line, that just means we are not doing the job. If they can find weak spots, then we are not doing the job.

Dr. MASTRO. Yes, sir. I agree. I was trying to say it more diplomatically. But, yes, I think we are not doing the job, and we are not having a whole-of-government approach in which people in the business community, in academia, and all fields and sectors understand the challenge of China.

Senator MARKEY. I appreciate that.

Now, last week, Eric Rosenbach, who has extensive experience in national security, testified that it was not fair to leave security up to universities and that DOD should do more to help protect information. Do you agree with that?

Dr. MASTRO. I do agree with that, but to be a bit pessimistic, the DOD has its own issues with ensuring that its own networks are protected from hacking and has its own vulnerabilities vis-à-vis China.

Senator MARKEY. Good. You are becoming less diplomatic as this question is going on. Excellent.

[Laughter.]

Senator MARKEY. The words just have to be said. It just has to be said they are not doing the job, and it exposes the whole system from top to bottom. And the Chinese are attacking and here are the words. The U.S. Navy is under cyber siege right now.

So I would like now to stay on the topic of China and cybersecurity. CNN reported on Monday that rural American telecom companies have installed equipment from the Chinese firm Huawei within their cellular networks operating in close proximity to a field of intercontinental ballistic missiles outside of Malmstrom Air Force Base in Montana. According to James Lewis, a cybersecurity expert at CSIS, the Chinese Government, quote, “could decide to interfere with ICBM command and control or with ICBM personnel,” the people manning the missile silos.

Dr. Mastro, with the recognition that we should be cautious about generalizing too much about the nature of the threats, what level of threat could foreign telecommunications technologies pose to U.S. ballistic missiles and their associated command and control networks?

Dr. MASTRO. Sir, it is my understanding from cyber experts that the degree to which this presents a threat depends on the exact technology, the system it is a part of, and what it is networked into. And therefore, I think this really highlights the need not only for the DOD to be focusing on cyber efforts but for there to be more efforts for Silicon Valley and DOD to work together so that we have the technical expertise necessary to be able to adequately answer that question.

Senator MARKEY. So can we have a high degree of confidence that our existing nuclear command and control networks, given the advent of and deployment of Chinese advanced technology in close proximity to the most deadly weapons on the planet, in fact may be vulnerable? How high a level of confidence can we have? What state of knowledge do we have?

Dr. MASTRO. So, sir, I would say I am not equipped to say whether those towers themselves present a risk, but I would say, given Chinese capabilities, the risks are there and their ability—

Senator MARKEY. Do you think it makes sense for us temporarily to bring in outside cyber experts to help the Department of Defense? Would that make sense to you?

Dr. MASTRO. Yes, sir.

Senator MARKEY. Yes. And I thank you for that recommendation. Would you agree with that, Commissioner?

Senator TALENT. Yes, I would. You know, they looted our defense contractors 3 years ago. They are continuing to do it, and it is going to get worse as 5G rolls out, Senator.

Senator MARKEY. No, I agree.

Senator TALENT. Because the number of devices that are going to be extant is going to go up by a factor of something like 10, and the Chinese are engaged in a major competition to control 5G. If they do that and produce those devices, we are not going to be able to trust anything that happens. And I will say I have a fair degree of confidence in the cyber defenses of the Department itself. But I would agree I think this is something we have to act on.

Senator MARKEY. Again, you are being diplomatic. You are saying I have a fair degree of confidence.

Senator TALENT. You know what? You are right. And I will put it this way. I have very little confidence in actors outside of the Department certainly, and I am concerned about that. We have to assume that they are going to be situationally aware about the capabilities of our systems and our platforms in the event that there is a conflict because they have reconnoitered it through cyber. You have raised an outstanding point.

Senator MARKEY. My feeling about the Chinese is very simple. They are not 10 feet tall, but they have a plan. What is our plan? Who is our cyber leader in the Federal Government? Who is the person whose name we all know that you would call and say what do they know about this potential threat? We do not know that person. And we can beat China in anything they do, but you need a plan. They have one. What is our plan? And you cannot just have a fairly high level of confidence. You just cannot wonder whether or not these agencies are providing extra help to the universities in order to protect the secrets that they have as well. We have to have a plan, and somebody has to be able to articulate to this committee what that plan is otherwise they will exploit these secrets to their advantage and our disadvantage and our allies'.

Thank you, Mr. Chairman.

The CHAIRMAN. Well said, Senator Markey. Thank you.

Senator Young.

Senator YOUNG. Thank you, Dr. Mastro and Senator Talent, for being here today. Your testimony has been thoughtful, and it is very much related to a topic that we have been exploring in a subcommittee that I have chaired over the last couple of years.

We focused in my Multilateral Institutions and International Economic Policy Subcommittee on China's predatory economic practices. We have been inattentive as a country now for a couple of years with respect to trying to address China's practices through a multilateral mechanism. I do see that improving somewhat, but

it is kind of a drum that I keep on beating. And the question was just asked by one of my colleagues, what is the plan? That question is being asked in committee after committee, hearing after hearing.

Now, in 2017, Senator Talent, the commission that you serve on called for a plan. It called for a plan to identify gaps in U.S. technological development vis-à-vis China and following this assessment, develop and update biennially a comprehensive strategic plan to enhance U.S. competitiveness and advance science and technology. That is a plan.

I have related legislation calling for a national economic security strategy to be created out of the National Economic Council. You know, this is similar to what we do. We develop a National Security Strategy and then a National Defense Strategy and a National Diplomacy and Development Strategy. Why do we not have a national economic security strategy? And I may complement, frankly, my legislation with the gaps in our technological development per the commission's recommendations. But this is just a huge gap.

China has a plan. It is on the website, you know, Made in China 2025. Anyone can google it. We at least know strategically where they are headed. And it is hard to even know strategically what our plan is. So we need to get our bearings on that front. So I am very glad each of you has underscored that.

Is there a particular mechanism through which we ought to be working multilaterally that just comes to mind, an optimal mechanism? I would have thought the Trans-Pacific Partnership agreement would have been helpful, but in a bipartisan way, there was sort of a decision to abandon that approach. And I accept where we are on that, though there may be a way back in.

We could work with a coalition of the willing, you know, G7 or ASEAN partners perhaps. It would be a variant of a collective security arrangement where we would collectively agree—those participating countries—to engage in a form of reciprocity. When any one country has been injured through theft of intellectual property, all the other countries would bring to bear their economic weight against China, and suddenly we would have a lot more leverage, something, Dr. Mastro, you indicated we need to have. We cannot do this alone. We need the international community behind us if we are really going to deal with the deeper issue of intellectual property theft and forced technology transfers and all the things the commission has identified here in your toolkit.

So give me your thoughts on, A) should Congress legislate the creation of some sort of strategy? Should we mandate that not just this administration, but each successive administration produces one? And then, B) do you have in mind a particular sort of construct where the U.S. can use our convening power to develop those sorts of institutions that were developed in the post-World War II time frame updated to this new environment where we are dealing with a state capitalist model?

Senator TALENT. Yes. I like the idea of an economic strategic plan. I think what you might want to do is rather than—the danger with this is trying to boil the sea, in other words, trying to cover too much. I would take it step by step. I would identify, for example, skills and technologies that are going to be necessary in the national security workforce, and I would target assistance and

aid in those areas. So, for example, we need—and I think the plan is there to modernize nuclear infrastructure, the strategic arsenal, but our skilled workforce has aged out or is aging out rapidly. So I would try and walk a little bit before you run. I would pick some things.

I like the idea of operating multilaterally to try and recruit smaller countries and to get them working together to deal with Chinese abuses. Now, what I would do is approach our allies in the region who are already working together much more than they were before, I mean, like with the Quadrilateral group with the Japanese, the Australians. And what you are going to need to do is to provide reassurances to the smaller countries, because the Chinese are going to react, and they are going to be concerned about how they could be hit. So I think they are going to need reassurance, and I think it needs to come from a group of countries that if they cooperate and help us, that we will protect them from any kind of reprisals.

You are thinking along the right lines. I like the way you are updating the strategy and the doctrine. I think if we bring a committed economic power of the United States to bear, I think a lot of these things are possible going forward.

Senator YOUNG. Thank you.

Doctor, did you have any thoughts?

Dr. MASTRO. I just wanted to also agree with the convening power of the United States. I think it would be best to think about these new institutions, for example, if you had one that you were focused largely on protection of technologies and IPR, of trying to make it a new institution versus tacking it onto one of the existing institutions largely because institutions are meant to be sticky. They are meant to be difficult to change. And so a lot of the issues that we have with our current institutional structure is that it is outdated to deal with contemporary issues. If we went in that direction, which I think is a positive direction, I would think about starting a whole new institution versus tacking it onto the WTO or something like that.

The CHAIRMAN. Thank you, Senator Young.

We have got a couple minutes before we have a vote starting. I know both Senator Cruz and Senator Shaheen want to get in on this. So, Senator Shaheen, you are next.

Senator SHAHEEN. Thank you. Thank you both for being here.

I am sorry that I missed the discussion. I understand that tariffs have come up. But in response to the initial round of tariffs that have been imposed by this administration, China has leveled retaliatory duties on a number of U.S. products that have really affected particularly small businesses. New Hampshire, which I represent, is a small business State, and we have seen a real impact on dairy products, on seafood, on a number of our small businesses that do business in China. And while I appreciate the need to get tough with those countries who cheat—and I certainly would agree that China has abused the rules—I wonder if there are other ways that we can do it that do not put our American businesses at a competitive disadvantage. And I wonder if either of you can speak to that.

Senator TALENT. Senator, yes. I think as we develop these tools and refine how we are going to use them effectively against China,

one of the things we have to consider is what is the down side because they are not going to sit there and do nothing when we put 10 or 25 percent tariffs on broad ranges of their products.

Now, I think there is a lot of precedent for the Congress providing assistance in a targeted way to particular businesses or segments of the economy that get hurt by the fallout in an economic back and forth. I would encourage you to think in that direction.

Senator SHAHEEN. I do not want to interrupt, Senator, but with all due respect, you have been a Member of this body. You know how hard it is to get something like that done. And I would argue that that would be very difficult under the current circumstances.

So I guess what I am really hoping you might suggest is are there other incentives, disincentives, sticks or carrots that we have with China itself that we could use in order to address—

Senator TALENT. Oh, other than tariffs or other than this economic—yes, but I think the problem is that anything we do that is going to be effective is going to provoke a response on their part. And they will try to analyze what we see as our particular vulnerabilities and leverage points, and they will try to hit those. So I do not know that, going forward, we are going to be able to use economic tools without them responding in a way that will cause some damage.

I totally agree with you about the difficulty, although I would suggest, if I might, Senator, that going forward there may be opportunities and potential, as the whole government adjusts to this new era we are entering, to do things that might have been considered very difficult. But, no, obviously, getting anything done here—I get it. It is hard.

Senator SHAHEEN. Dr. Mastro, do you want to—

Dr. MASTRO. Ma'am, I think in general this idea of confronting China directly and alone, whether it is in the economic sphere, other spheres, is not the best strategy. To be competitive in the international system, it is not about undermining China. It is about being a better global partner. China can target us because we are acting alone. They cannot put tariffs on the whole world. And so I think we need to do a better job at multilateralism and our diplomacy in that arena to get countries on board. But many countries, including our allies and partners, are afraid of Chinese retaliation, and that is why to date it is hard to get them on board with U.S. policies. I think some of our own diplomatic efforts under the Trump administration have not helped. So I would say we need to think less about doing this alone in a bilateral trading environment and think more about how we can bring to bear pressure from many different avenues.

Senator SHAHEEN. The budget document that was just sent over to the Congress emphasizes the importance of great power competition and our need to be competitive with Russia and China. At the same time, the budget calls for a 24 percent decrease in the State Department in diplomatic initiatives. While we are doing that, what we have seen from the Chinese is that they have increased their budget by almost an equal amount for foreign affairs.

Can you just talk about the priorities of suggesting that the only way we can deal with China and the great power competition is

through military might as opposed to soft power and the importance of diplomacy?

Dr. MASTRO. One of the big issues, when you look at the history of rising powers, is that rising powers always build power in a different way than the predecessor. That is what makes them competitive. So just like the United States did not build colonies, China is not going to build a system similar to the United States.

Historically, the United States has relied a lot on its military power projection and foreign military intervention as key tools of foreign policy. So moving forward, that consistently is what the United States focuses on. But China has recognized the fact of that is how the United States does business, and so it has focused most of its efforts—now, in my testimony, I talk about some of the regional challenges with the military—on political and economic power. And they have been largely successful in those areas.

The bottom line is, of course, the United States needs to maintain its military edge. We need to be able to deter China and protect our allies and partners in the region. But the majority of countries are not focused on the military threat from China most of the time. They are focused on the political and economic aspects of this issue. So we should be investing much more in the State Department, USAID, and other tools of U.S. power. Doubling down and doing more of the same is not innovative and is not going to work given how competitive China has been.

Senator TALENT. We are going to need a range of tools, and they need all to be robust, Senator.

Senator SHAHEEN. Thank you.

The CHAIRMAN. Thank you.

Senator Cruz.

Senator CRUZ. Thank you, Mr. Chairman.

Welcome to the both of you. Thank you for your testimony today.

China is in my judgment the greatest long-term geopolitical rival to the United States. Presidents in both parties have believed for decades that America could turn China from a foe into a friend through trade and diplomacy or that allowing China into rules-based institutions would turn China into a rules-based country. Instead, sadly, the opposite has happened.

America cannot sever commerce with our largest trading partner, nor should we. But we must recognize China for the threat it poses to our national security.

There are three urgent matters before America and our allies: number one, to insulate our vulnerability to Chinese espionage and interference; number two, to deconflict our commerce from enabling the party's human rights abuses; and number three, to compete to secure our interests. Let me focus principally on the first.

Many of us are increasingly concerned that China is gaining access to American secrets by using non-traditional, all-of-government or even all-of-nation approaches to espionage against us and our allies. Huawei is a Communist Party-controlled surveillance agency veiled as a telecommunications company. It has maneuvered itself into a dominant position providing infrastructure across the globe, including to partners within the Five Eyes intelligence network of Great Britain, Canada, Australia, and New Zealand.

Can you assess the risks presented by Huawei's commercial participation in the 5G build-out within these countries?

Dr. MASTRO. Sir, at the very least—now, I do not have the ability to independently assess the degree to which Huawei is controlled by the party and whether or not there are back doors that could lead to vulnerabilities in civilian or critical infrastructure, as well as impacts on military infrastructure.

But what I can say is at the very least, a Chinese company like Huawei has to do what the Communist Party asks them to do even if Huawei is 100 percent private. I am not an economist but based on some of my studies, even private corporations have very close government ties—even if they are 100 percent private, even if their leadership has no love lost for the Communist Party, in the end if you are going to operate in China and if it is critical enough for Chinese national security and core interests that the party asks you to do something, you have to do it. And so given those connections I think between companies in China and the government, we have to be very careful on the national security front.

However, I think we have to be careful also not to—this is not for Huawei, but other examples—use national security issues for protectionist goals because that really undermines the areas in which national security is really threatened.

And I think we need to think differently about counterintelligence. We are in a different age of an intel threat that is very different than before. The insider threat is no longer someone that just wants money or something like that. We have China who is very proactive at getting information through cyber means but also just mass. They are not very good at it, but they have so much effort going at it. So there really does have to be a broader effort in the counterintelligence sphere, to your first point.

Senator TALENT. We should plan on the assumption that for the purposes of the national security goals of the Chinese state, private companies, companies that are technically private, are not private. And as a matter of fact, they have been pretty explicit recently in increasing the presence and visibility of the Chinese Communist Party committees which are attached to every company, even private companies.

And so I agree with Dr. Mastro, and we have said this in the commission for a number of years. There are, obviously, differences between state-owned enterprises and private companies for certain economic purposes, but you have to assume they are all going to do the will of the state.

And you mentioned 5G. This is a competition that the United States must win, and the Chinese understand this and they are pushing very, very hard. They are going to control the standards if we are not careful, and they are going to control the devices. And if they do that, then espionage is going to be very easy for them.

Senator CRUZ. Last year, I authored and passed an amendment in the National Defense Authorization Act to prohibit DOD from funding Confucius Institutes, which are one of the tools the Chinese use to penetrate American higher education.

I have also introduced the Stop Higher Education Espionage and Theft Act to require the FBI to designate foreign actors conducting espionage in our colleges and universities.

In your judgment, what further steps can Congress take to insulate our universities and research institutions from Chinese espionage?

Dr. MASTRO. Sir, I do not mean to pivot, but can I add one more concern from the point of higher education?

Senator CRUZ. Absolutely.

Dr. MASTRO. Which is to elevate the cases of scholars who are punished or retaliated against based on their research or their writing or even U.S.-based companies that will censor some scholar's work overseas. I myself have just canceled a trip in two weeks to China because I am concerned about my own safety, and that is the first time. I love going to China. I spend a lot of time there. But I am concerned that this would not be a priority back at home if, in retaliation for what is happening in the Huawei situation, China started harassing or detaining U.S. citizens. And so the intel aspect is very important.

But we also have to recognize that individuals are being retaliated against that work in these institutions, whether it is to deny them access, visas, or what have you. And so I think that also has to be part of the national discussion.

Senator TALENT. And reciprocity ought to be the theme there. For example, in the commission, we have looked—for years they will deny—and this is a little outside higher ed. They will deny or hold up visas to foreign reporters wanting to come into China, and of course, we are letting Chinese reporters in the United States all the time. When Senator Dorgan was on the commission, he and I used to talk about why do we not respond in kind in those kinds of situations. And why should they not keep doing it from their point of view? We do not react.

Senator CRUZ. Thank you.

The CHAIRMAN. Thank you, Senator Cruz.

Senator Menendez.

Senator MENENDEZ. Very brief, Mr. Chairman, because I know we have to go to vote.

This has been very instructive and I personally would like to follow up with both of you at different times on some of the elements I have not been able to get to.

But there used to be a cyber coordinator at State. The administration got rid of it, and we have been working with offices on both sides of the aisle to try to bring it back. I hope we can do that. I think that type of action speaks to the disconnect between a confrontational approach and a real policy and strategy to be competitive at the end of the day.

And I just want to follow up, Dr. Mastro. In your very opening statement, you said we have to start competing again. One of the concerns I have is that every time we retreat from a leadership role in the international context, we let China ultimately expand its role on the global stage, whether that is the Paris climate agreement, whether that is the Trans-Pacific Partnership, UNESCO, just to mention some.

The impact of these moves has been twofold. It led some of the country's closest allies to begin hedging their bets and they are decreasing the weight they give to U.S. preferences in their own decision-making because they view the United States as unreliable.

And secondly, when we withdraw from agreements such as TPP, it shifts economic attention to other vehicles, in this case the regional comprehensive economic partnership, a TPP-11 deal in which the U.S. is not included. The result is the U.S. is at a disadvantage because it is unable to influence the content of either of these agreements, thereby missing out on both the potential benefits of increased access to these markets and the opportunity to mitigate any potentially negative effects on the U.S. economy and other vulnerable societies.

When we say we have to compete, we need to be in the game in all of these things in order to be able to affect the outcome because otherwise our preferences, which we used to lead the world in, are largely going to be sidelined, and when we are sidelined, then China takes advantage.

Is that a fair statement?

Dr. MASTRO. Yes, sir. I think one of the big issues is not so much that China violates international norms, which is an issue, but the problem is that there are a lot of areas in which those norms have not been significantly set yet and they are ambiguous and they are nonexistent.

And so we were just talking about 5G. I learned yesterday, in terms of the Telecommunications Union, China sends very high level representatives to ensure that standards are set in a way that is competitive for their companies, and we do not.

And so it seems kind of on the softer side—in my written testimony, I focus a lot on military power because I think that is an important part of U.S. power, but this competition is everywhere. And setting the norms, rules of behavior are very important. The international system is not all-encompassing. There are many areas where there continue to be gaps, and so that needs to be a focus of U.S. efforts. I firmly agree with that.

Senator MENENDEZ. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Menendez.

Well, thank you sincerely to both of our witnesses. This is an incredibly important issue to the United States of America, and we need to continue to focus on it and bring attention to all the many issues we discussed today and many more that we did not quite get to. So we will be doing some work in this area. But anyway, thank you, both of you, for your testimony.

For the information of the members, the record will remain open until close of business Friday. We would ask that if you do get some questions for the record, that you give us as prompt an answer as possible, understanding you are a volunteer, but we need it to complete the record. So thank you so much.

And with that, the committee is adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSE OF HON. JAMES TALENT TO QUESTION SUBMITTED
BY SENATOR JOHNNY ISAKSON

Question. Personally, I believe the name of this hearing should have been “A New Strategy for an Era of U.S.-China Competition”, because that’s that we need—a robust strategy to proactively address an increasingly competitive China from a holistic perspective.

As you mention in your testimony, the Chinese Communist Party (CCP) has built up its armed forces over the past 25 years, investing in the research of advanced weapons and creating a navy that is now larger than our own.

The CCP is also using China’s growing economy to expand its influence. As you say, the CCP is seeking to “leverage its economic strength to capture markets [and] secure unfettered access to critical resources.”

Mr. Talent, what steps can we take to address Chinese competition from both a security and economic standpoint? Particularly in Africa, where I consistently hear concerns over China’s growing influence.

Answer. Thanks for the question. Here is my response. Senator Isakson has asked the most important question. What is our strategy?

Strategic thinking requires choosing the highest order ends and the highest order means by which the ends will be achieved. It has to come from the top levels of political authority—the President and Congress. Once strategic clarity is achieved, the middle and lower levels of government know what they are trying to achieve and can effectively harmonize their efforts, nurture the tools by which they will accomplish the strategic goals, and plan and execute particular operations. Importantly, these tools and operations must be fully resourced to ensure the rhetoric of strategy is manifested through concrete action.

I’ll offer these as strategic goals in the competition with China.

Protecting the United States and its allies from aggression;

Protecting America’s right to trade and travel in the international “commons” (sea, air, space, and cyberspace), and in the international economic system, freely and on the same terms as other countries;

Preserving an international system where nations relate to each other according to norms, rather than by size and power;

Preventing all armed conflict if possible, but in any event preventing escalating armed conflict.

The highest order means to accomplish the goals should include the following.

Armed forces of sufficient strength, and sufficient presence in Asia, to decisively deter China from attempting to achieve its goals through armed aggression;

Strong alliances and partnerships that validate American leadership and share the burden of the competition;

The use of economic power to impose costs on China for any systematic violation or subversion of the global trading system;

Effectively contesting China’s narrative about its intentions and actions so as to preserve unity at home and among allies, and impose reputational costs on the Chinese government for aggression, provocation, or violation of norms.

Choosing the right strategy is not enough by itself for success, but without it the risk of failure goes way up. Conversely, a strategy without resourcing and action is not credible. I believe that Committee members, either in a formal hearing or in informal discussions, should work to try to identify a common strategy and the means to implement it. What I’ve outlined above is a first cut for the Committee’s consideration.

As regards a plan for Africa and other places where the Chinese are making investments: Congress should make certain that the appropriate Executive branch agency has clear responsibility for monitoring those investments and assessing any concrete national security implications. The United States should be fully prepared to exact reputational damage on China when it invests, as it often does, in a manner that corrupts local officials or rides roughshod over local labor, business, or environmental interests. We should robustly fund our own development programs and administer them with the strategic goals of the competition in mind.

Having said that, I don’t think the United States should get in a “whack a mole” game everywhere on the planet where China makes investments. We need to identify areas of real concern based on the broader implications for the strategy. I will say that I am particularly concerned about China’s ownership and influence in ports around the world and China’s investment in digital infrastructure. Those trends have serious economic and security implications for the United States and need to

be the subject of a focused and well-resourced Executive plan. The Committee could do good work by overseeing vigorously in those areas.

Let me add a point about corruption, which will be particularly relevant in Africa, where many governments struggle with weak institutions and poor governance. According to Transparency International, in 2018, China ranked 87th among 180 countries surveyed—a fall of 10 places from its rank last year. Chinese companies operating abroad take their corrupt practices with them, which is detrimental to both host government and economies, and U.S. businesses trying to do honest business in these countries. For that reason, I would like to draw your attention to the “China Initiative” recently announced by the U.S. Department of Justice. Among other aspects, the Initiative’s goal is to examine how the Foreign Corrupt Practices Act (FCPA) can be used to address behavior of Chinese companies unfairly competing against American businesses. The Initiative is still in its infancy, but I would encourage the Committee to examine its structure and implementation.

Finally, the U.S.-China Commission, on which I serve, made 26 recommendations in its 2018 Annual Report to Congress to help bolster U.S. economic, security, and diplomatic capabilities. In my view, the strategy should focus on making better use of existing U.S. institutions and tools, and bolstering the capacity of smaller countries to manage pressure from China.

Excerpted below are some of the recommendations I think particular relevant to your inquiry.

Protecting freedom of navigation.

Congress require the Director of National Intelligence to produce a National Intelligence Estimate (NIE), with a classified annex, that details the impact of existing and potential Chinese access and basing facilities along the Belt and Road on freedom of navigation and sea control, both in peacetime and during a conflict. The NIE should cover the impact on U.S., allied, and regional political and security interests.

Capacity building in allies and partners.

Congress create a fund to provide additional bilateral assistance for countries that are a target of or vulnerable to Chinese economic or diplomatic pressure, especially in the Indo-Pacific region. The fund should be used to promote digital connectivity, infrastructure, and energy access. The fund could also be used to promote sustainable development, combat corruption, promote transparency, improve rule of law, respond to humanitarian crises, and build the capacity of civil society and the media.

Congress direct the administration to strengthen cooperation between the United States and its allies and partners in Europe and the Indo-Pacific on shared economic and security interests and policies pertaining to China, including through the following measures.

Urge the administration to engage in regular information sharing and joint monitoring of Chinese investment activities and to share best practices regarding screening of foreign investments with national security implications, including development of common standards for screening mechanisms.

Enhance consultations on mitigating the export of dual-use technology to China and identifying other foundational technologies essential for national security.

Congress consider raising the threshold of congressional notification on sales of defense articles and services to Taiwan to those set for major U.S. allies, and terminating any requirement to provide notification of maintenance and sustainment of Taiwan’s existing capabilities.

Protecting freedom of information and contesting China’s narrative.

Congress require the U.S. Department of State to prepare a report to Congress on the actions it is taking to provide an alternative, fact-based narrative to counter Chinese messaging on the Belt and Road Initiative (BRI). Such a report should also examine where BRI projects fail to meet international standards and highlight the links between BRI and China’s attempts to suppress information about and misrepresent reporting of its human rights abuses of Uyghurs in Xinjiang.

Congress direct the National Counterintelligence and Security Center to produce an unclassified annual report, with a classified annex, on the Chinese Communist Party’s influence and propaganda activities in the United States.

Protecting U.S. critical infrastructure.

Congress require the Office of Management and Budget’s Federal Chief Information Security Officer Council to prepare an annual report to Congress to ensure supply chain vulnerabilities from China are adequately addressed. This report should collect and assess.

Each agency’s plans for supply chain risk management and assessments;

Existing departmental procurement and security policies and guidance on cybersecurity, operations security, physical security, information security and data security that may affect information and communications technology, 5G networks, and Internet of Things devices; and

Areas where new policies and guidance may be needed—including for specific information and communications technology, 5G networks, and Internet of Things devices, applications, or procedures—and where existing security policies and guidance can be updated to address supply chain, cyber, operations, physical, information, and data security vulnerabilities.

Congress direct the National Telecommunications and Information Administration and Federal Communications Commission to identify (1) steps to ensure the rapid and secure deployment of a 5G network, with a particular focus on the threat posed by equipment and services designed or manufactured in China; and (2) whether any new statutory authorities are required to ensure the security of domestic 5G networks.

