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HOW CHINA USES ECONOMIC COERCION TO SILENCE CRITICS AND ACHIEVE ITS POLITICAL AIMS GLOBALLY

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HOW CHINA USES ECONOMIC COERCION TO SILENCE CRITICS AND ACHIEVE ITS POLITICAL AIMS GLOBALLY

TUESDAY, DECEMBER 7, 2021

CONGRESSIONAL-EXECUTIVE
COMMISSION ON CHINA,
Washington, DC.

The hearing was held from 10:00 a.m. to 11:54 a.m. in Room 106, Dirksen Senate Office Building, Senator Jeff Merkley, Chair, Congressional-Executive Commission on China, presiding.

Also present: Senators Rubio, Lankford, Ossoff, and Daines, and Representatives Smith, Suozzi, Steel, Wexton, and Mast.

OPENING STATEMENT OF HON. JEFF MERKLEY, A U.S. SENATOR FROM OREGON; CHAIR, CONGRESSIONAL-EXECUTIVE COMMISSION ON CHINA

Chair MERKLEY. Good morning. Today's hearing of the Congressional-Executive Commission on China entitled "How China Uses Economic Coercion to Silence Critics and Achieve Its Political Aims Globally" will come to order.

As the second-largest economy in the world and the largest trading partner to many countries, China leverages the attraction of its market and the global economy's deep ties to supply chains in China to punish critics and reward self-censorship. This hearing will examine the ways the Chinese government and Communist Party attempt to use economic coercion for political aims, such as quashing critical commentary on China's policies and conduct regarding Taiwan, regarding Hong Kong, regarding Xinjiang, or anything else China deems sensitive, or intimidating U.S. and other businesses into toeing the Communist Party line if they want access to China's market.

Increasingly, those that run afoul of these aims can see their products targeted, from Australian wine to Norwegian salmon to Philippine bananas to Taiwanese pineapples. The Chinese government has also ramped up the intensity of its coercive behavior, as seen in its wide-reaching campaign against Australia in response to calls for an independent inquiry into the origins of COVID–19. This Commission has also been on the receiving end of formal sanctions, just like other parliamentarians, government officials, nongovernmental organizations, researchers, and others who speak out against human rights abuses in China.

For this Commission, like many groups around the world, the intimidation, harassment, and economic coercion directed at critics of

the Chinese government and Communist Party only reinforces our resolve to shine a light on this behavior. But for many other groups, the threat of retaliation by the Chinese government or market casts a very long shadow. Earlier this year, the Commission held a hearing with the top U.S.-based sponsors of the Olympic Games. Even after being confronted with many of the most egregious human rights violations of this century, the companies' testimony largely served to demonstrate how the pull of the Chinese market continues to incentivize self-censorship.

That's because it's not easy to stand up to a government so willing to use its country's economic clout as a cudgel to bully individuals, corporations, and sovereign states. We saw this dynamic in action in recent weeks when a Marriott hotel in Prague turned away the World Uyghur Congress because of concerns about "political neutrality." Yet not everybody is cowed into silence by the bullying. The recent actions by the Women's Tennis Association to suspend tournaments in China in response to the treatment of Chinese tennis star Peng Shuai inspire me and inspire many members of this Commission.

Clearly this is an evolving landscape. For the United States to be able to defend American businesses and citizens from censorship and intimidation or to work with other countries to help insulate one another from coercive economic tools that undermine basic political rights, we need to better understand the nature, the scale, and the scope of this challenge. We need to identify the tools that will be effective in response—and those that won't be effective—as well as where China's economic coercion is headed.

Those are the questions we're hoping to grapple with in this hearing. The panel of experts we'll hear will help us do that. Today's witnesses will shed light on the range of measures China employs, on pertinent trends, on particular impacts on U.S. businesses, on the risky environment Hong Kong is becoming for multinational corporations, and on recommendations for policymakers in the United States and globally. Just as last month's hearing on techno-authoritarianism highlighted the ways in which China exports authoritarian values through technology, this hearing will examine the ways in which it exports and imposes authoritarian values through trade and business ties. I look forward to learning from our expert witnesses how we can resist the erosion of civil, political, and human rights threatened by these developments.

I'd now like to recognize Congressman Smith for his opening remarks.

STATEMENT OF HON. CHRIS SMITH, A U.S. REPRESENTATIVE FROM NEW JERSEY

Representative SMITH. Mr. Chairman, thank you very much for convening this very important hearing. Mr. Chairman, as we all know, the motto of the 2022 Beijing Olympic Games is "Together for a Shared Future," ostensibly expressing an ideal of global solidarity and good will that is cherished globally. No one betrays this motto more flagrantly and violently than the Chinese Communist Party.

With its increased global stature and power, the People's Republic of China has been given an opportunity to become a responsible

member of the global community, although my reservations have never abated. During forty-one years in Congress, I have had deep concerns about the Chinese Communist Party, and indeed, I chaired four congressional hearings—the first 22 years ago, on December 8, 1999, on why China should not be accepted into the WTO until systematic human rights violations that are pervasive were stopped. Yet, the global community, from businesses, to governments, to the International Olympic Committee, continues to welcome China with open arms.

Unfortunately, the PRC has used its power and stature to coerce as a means to achieve their ends, what the CCP deems as fitting Chinese national interests, at the expense of fair and transparent international relations, giving the lie to the saccharine sweet "shared future" Olympic Games rhetoric. We used to worry about the PRC cultivating soft power and persuasive policy tools, and that is a concern. But that worry was misplaced. There is nothing soft about the CCP's increasingly naked tactics of economic coercion. As our expert witnesses will likely tell us today, the PRC's first notable act of economic retaliation occurred in 2010 as China blocked salmon imports from Norway after the Nobel Committee awarded the Peace Prize to Chinese human rights activist Liu Xiaobo.

For the Philippines, teeth were bared after the country confronted China in 2012 at Scarborough Shoal in the South China Sea. The Philippines discovered that its tropical fruit exports to China were quarantined due to alleged infestation. Mongolia was targeted after hosting the Dalai Lama. For South Korea, the economic retaliation came after deploying the U.S. missile defense system. For the U.K., it was for supporting pro-democracy protesters in Hong Kong, while China retaliated against the Czech city of Prague for signing a sister-city deal with Taipei. Hardly a week goes by without some reporting of Chinese economic coercion. The most recent targets seem to be Australia and Lithuania, and on multiple fronts. In sum, the list just keeps growing and it's not just restricted to any certain industry or region.

Indeed, perhaps countries could take heart from the brave resistance to the PRC by Lithuania, a country that suffered firsthand from the degradations of communism. Because of the openness and closer ties with Taiwan, and its withdrawal from the Beijing-led 17+1 group of mostly Central and Eastern European countries, the PRC has stopped clearing exported goods from Lithuania through customs and has interfered with the workings of the Lithuanian embassy in Beijing, in violation of the Vienna Convention on Diplomatic Relations.

Rather than buckling under, Lithuania announced that its officials would not be attending the genocide Olympic Games in Beijing. Indeed, perhaps Lithuania would have gone even further had the U.S. led by example and fully boycotted the genocide Olympics unless the venue were moved from the PRC to another country. If the Chinese Communist Party truly desired to lead globally, it would cultivate trust and friendship. Yet even this short-term reliance on bullying seems to be backfiring. The adverse effect of China's counterproductive tactic of economic coercion truly is now seeing some consequences.

According to the Carnegie Endowment for International Peace, in April of 2020 an internal report was circulated by the Chinese Institutes of Contemporary International Relations, a government-affiliated think tank associated with the PRC's top intelligence agency. This report concluded that, "global anti-China sentiment is at its highest since the 1989 Tiananmen Square crackdown. Even in Asia, where strong economic ties with China are construed to be critical to development, anti-Chinese sentiment is indeed growing. Last year Vietnam issued its first defense white paper in 10 years in which it rejected Beijing's claims and criticized China's maritime tactics, citing "unilateral actions, power-based coercion, violation of international law, militarization, change in the status quo, and infringement upon Vietnam's sovereignty, sovereign rights, and jurisdiction as provided in international law."

Malaysia and the Philippines are building up their militaries. They're strengthening outposts that would help push back against Chinese expansion. The New York Times recently reported that anti-Chinese sentiment in South Korea has also grown so much this year that China has replaced Japan, its former colonial ruler, as the country regarded most unfavorably in South Korea. China is reporting approaching challenges from within, tottering along a demographic precipice. From 2020 to 2050 it will lose 200 million working-age adults and gain 200 million senior citizens—all of which will impose monumental social and economic costs, severely testing China's leadership. And all of that is attributable, of course, to child limitation policies, including the almost 40-year one child per couple policy.

Moreover, China is running out of resources, too. Water has become scarce, and the country has imported more energy and food than any other nation. It is evident that were its leadership rational, the PRC would change its behavior to obtain global support and cooperation. Yet, under Xi Jinping, the genocide dictator, it does not do so. Today's hearing is yet more evidence that the PRC's economic coercion and its attempt to silence critics have not gone unnoticed. Again, I thank you for putting this together, Mr. Chairman.

Chair MERKLEY. Congressman Suozzi, do you have opening remarks?

STATEMENT OF HON. THOMAS SUOZZI, A U.S. REPRESENTATIVE FROM NEW YORK

Representative SUOZZI. Thank you, Mr. Chairman. Thank you so much for yet another hearing where we are trying to call to people's attention what the Chinese Communist Party is up to and what they are trying to do to impose their will throughout the world. I sound like a broken record, and I've said this before, that ever since the 1970s when Nixon went to China, we thought that the more that China was exposed to the United States and to the West generally, the more they would become like us and the more they would look at the ideas of democracy and of human rights and of capitalism. And that just has not happened. They do not share our values in any way whatsoever.

In the 1980s, we were worried about the car companies from Japan and Germany taking over our manufacturing base, and they

did a pretty good job of it. But we changed the way we did business and we really moved aggressively with technology and globalization, looking for the best prices wherever we could throughout the world. China was a great opportunity for us to reduce the cost of consumer goods here in the United States of America, but now we are paying the price. China has become one of the world's dominating forces, and they are breaking the rules on a regular basis. That's why this hearing is so important—to talk about how they're using their power.

You know, we talk in America all the time about the whole of government. Well, the Chinese Communist Party is certainly using the whole of government to advance their ideas and to try to hide from the world how they treat even their own people—whether it's the Uyghurs in the Xinjiang region, or the students in Hong Kong, or the Buddhists in Tibet. They just subjugate people, and ethnic minorities, religious minorities, because they want to have uniformity in their country. They're using every single possible tool at their disposal, whether it's intellectual property theft, whether it's forced technology transfer, state intervention in markets, and certainly the Belt and Road Initiative.

Now we see that whenever anybody dares to speak out about their treatment of the Uyghurs, or to speak out about their treatment of the press or the students in Hong Kong, or their treatment of the Buddhists, they will do everything they can using the whole of government to try and hurt them economically, whether it's the NBA basketball teams, or celebrities, or major corporations of the United States of America, or manufacturers, or hotel chains. They will do whatever they can to withhold economic benefit, to sanction, to hold American and international companies accountable for saying something that they disagree with.

We need to continue to wake up the people of the United States of America and the world community as to the abuses by the Chinese Communist Party. And we need to recognize that they're pretty effective. They have managed to use the whole of government—they use every tool in their toolbox—to suppress discussion about their human rights violations, about their unfair trade practices, and about their attempts to try and become the global power economically, militarily, technologically. We have such an important role, and I thank you, Mr. Chairman, for holding this hearing to call everyone's attention to what the Chinese Communist Party is up to and the power and effectiveness they are using to do that.

Tom Lantos, a Holocaust survivor and former member of Congress, and certainly one of our great advocates for human rights, said, "The veneer of civilization is paper thin. We are its guardians, and we can never rest." That's why this hearing, and the other hearings you've held, Mr. Chairman, are so important. And we thank you for doing it. I appreciate the witnesses for being here today to share their thoughts. Thank you.

Chair MERKLEY. Thank you, Congressman.

I'd now like to introduce our panel. Bonnie Glaser is the Director of the Asia Program at the German Marshall Fund of the United States. She was previously a Senior Advisor for Asia at the Center for Strategic and International Studies. Ms. Glaser is a Non-

resident Fellow with the Lowy Institute in Sydney, Australia, and Senior Associate with the Pacific Forum.

Zack Cooper is a Senior Fellow at the American Enterprise Institute and Co-director of the Alliance for Securing Democracy. He also teaches at Princeton University, is a partner at Armitage International, and co-hosts a net assessment podcast for War on the Rocks. He previously served on staff at the Pentagon and White House and has conducted research at the Center for Strategic and International Studies and the Center for Strategic and Budgetary Assessments.

Jenny Wang is a Senior Strategy and Research Associate at the Human Rights Foundation, where she works on Asia-related research, projects, and campaigns, and spearheads the organization's Oslo Freedom Forum in Taiwan. She is co-author of the Human Rights Foundation's report, "Corporate Intimidation and Censorship in China: Recommendations for Foreign Companies."

Ho-fung Hung is the Henry M. and Elizabeth P. Wiesenfeld Professor in Political Economy at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies. He is the author of "City on the Edge: Hong Kong under Chinese Rule," "Clash of Empires: From 'Chimerica' to the 'New Cold War,'" "China Boom: Why China Will Not Rule the World," and "Protest with Chinese Characteristics."

Our witnesses will now proceed in that order. Ms. Glaser, you are first.

STATEMENT OF BONNIE GLASER, ASIA PROGRAM DIRECTOR, GERMAN MARSHALL FUND OF THE UNITED STATES

Ms. GLASER. Chairman Merkley and distinguished members of the Commission, thank you for holding this important hearing and inviting me to participate. As the world's top trading nation and second-largest market and one of the largest providers of development finance, the PRC has the potential to wield significant influence by using both economic sticks and carrots. In the past decade, there have been dozens of instances of PRC economic coercion, which include threats and the imposition of economic costs by a state on a target with the objective of extracting a policy concession.

China's employment of economic coercion and positive economic inducements have had only limited success in compelling targets to change their behaviors. Beijing has successfully deterred countries and companies from undertaking actions harmful to Chinese interests, including refraining from criticizing PRC policies. There are known instances where Chinese officials have threatened economic consequences against countries that refuse to side with China in votes at the UN Human Rights Council.

Since 2010, the PRC has used economic coercion more and more frequently, and in virtually every case the targets have been companies and industries in democratic states, based on an apparent calculation that pressure on influential business constituencies in democracies will mobilize them to lobby their governments to change policies detrimental to China. Unlike traditional economic sanctions, Beijing's economic coercion usually relies on informal measures that provide plausible deniability and enable China to

ratchet pressure up or down as needed. Chinese economic coercion tactics include import and export trade restrictions, tourism curbs, popular boycotts, and other measures. Over the years, Beijing has become increasingly bold in the use of such tactics. In two recent cases, the PRC has banned the import of almost a dozen products from Australia and blocked all imports from Lithuania, in violation of WTO rules.

Despite limited success and occasional blowbacks, Beijing continues to view economic coercion as a valuable tool in its economic statecraft toolkit. This is likely because it judges that the cost to China is negligible. Recent developments, such as the AUKUS deal and the pending EU anti-economic coercion tool, suggest that countries are willing to band together to impose greater economic costs on China. The United States should undertake unilateral steps, as well as with like-minded partners, to counter and deter potential Chinese economic coercion, as well as prepare measures to limit potential damage to companies and industries.

First, the most effective defense against trade coercion is to diversify trade relationships. The U.S. should identify sectors which are overly dependent on Chinese markets on both the export and import side, and therefore vulnerable to coercive trade practices. National and local governments should actively promote trade diversification.

Second, the United States should help potential targets of economic coercion to develop tools to identify cases of trade coercion and respond quickly. Trade associations and other stakeholders should be encouraged to work closely with U.S. Government agencies. A mechanism should be created for sharing information and best practices.

Third, American companies should have plans in place to respond to potential Chinese coercion. They should be encouraged to report all instances of coercion to appropriate U.S. Government entities. Congress should explore how to appropriate funds for a vehicle to compensate companies affected by such coercion.

Fourth, Congress should examine whether companies should be required to report or disclose when they are subject to pressure or benefits from Chinese measures, including subsidies. Also worth considering is requiring disclosure of significant import or export dependence on China in sectors closely linked to national security.

Fifth, encourage private sector trade associations to develop a voluntary code of conduct regarding China. Such a code would include commitments by American companies to refrain from self-censorship and other activities that are contrary to U.S. values and interests. The U.S. should consider developing incentives that could be provided to companies that sign onto the code of conduct.

Sixth, and finally, create a voluntary counter-coercion coalition of like-minded countries willing to push back against economic coercion. Collective steps could include encouraging targeted countries to pursue WTO dispute settlement cases against instances of economic coercion, where WTO remedies are possible, taking retaliatory trade investment or other policy measures against China, and creating a counter-coercion reserve fund to compensate companies for economic losses.

Thank you again for the opportunity to testify today and for holding this very important hearing, Senator.

Chair MERKLEY. Thank you very much.

Dr. Cooper.

STATEMENT OF ZACK COOPER, SENIOR FELLOW, AMERICAN ENTERPRISE INSTITUTE

Mr. COOPER. Chairman Merkley and other distinguished Commission members, thank you for the invitation to testify before you today. The topic of this hearing could not be timelier. Over the last few weeks, the world has watched as Beijing has attempted to silence one of China's brightest global stars. Peng Shuai's courage in speaking out stands in stark contrast to the Beijing government's efforts to censor her. This case highlights the lengths that Beijing will go to to silence criticism, both at home and abroad.

Economic coercion is a particularly difficult challenge in this regard. In my written remarks, I argue that China's economic coercion against Norway, Mongolia, Australia, the European Union, and the United States highlights three concerning trends—specifically, China's economic coercion has become more frequent, more targeted, and more explicit.

In terms of frequency, Beijing is growing more willing to use economic tools for foreign policy ends. Whereas there were only a handful of cases of clear economic coercion by China in the early 2010s, experts have identified dozens of incidents over the last few years. The Alliance for Securing Democracy, which I co-direct, collects data on this through our Authoritarian Interference Tracker. We list, at the moment, 67 cases of economic coercion by China against companies, individuals, and countries in the last decade—most in the last few years.

At the moment, our database only tracks transatlantic targets, so it doesn't deal with any of the Asian or other targets that are well known. These cases include not only threats but also problematic positive inducements, which Audrye Wong has labeled "subversive carrots." The evidence suggests that China's leaders are turning increasingly to economic tools, despite the fact that many of these sanctions have negative effects on China's standing abroad.

At the same time, China's leaders' use of economic measures has become more targeted. China's earlier pressure on Norway and Mongolia broadly impacted key economic sectors in each country, but many recent measures have been designed to isolate specific companies and individuals. Human rights activists, political leaders, and businesses have all come under pressure for actions that the Communist Party opposes. Even adhering to foreign laws can now put companies at risk under China's new anti-sanctions law.

Finally, China's economic statecraft is far more explicit today than it was a decade ago. Beijing used to disguise most of its economic pressure, attempting to use ambiguity to make it more difficult to call them on their World Trade Organization violations. Today, however, China's leaders are more willing to be explicit when they use economic tools for coercive purposes. For example, Beijing has threatened to blacklist companies by putting them on an "unreliable entity list." And amidst political disputes with Aus-

tralia and Lithuania, China has explicitly applied economic tools for coercive purposes.

In short, China's economic coercion is becoming more frequent, more targeted, and more explicit. This will require renewed efforts to protect our societies, deter future bullying, and punish Beijing when it acts coercively. I go into more detail into each of these in my written remarks, so let me summarize the main points here. As a starting point, we should aim to better protect ourselves through diversification. Dependence on China allows Beijing to accumulate influence over time and then to deploy that leverage coercively. There is no way to avoid these pressures entirely, but countries and companies can manage these risks through prudent diversification.

At the same time, since our economies will no doubt remain interdependent, at least to some degree, we should seek to leverage our own economic power in certain strategic areas. Selective decoupling will no doubt continue, but it is also in our interest that China remain dependent on the United States and our allies and partners in certain areas. This should be seen as a counterpart to selective de-coupling and should be implemented strategically in concert with key allies. Ultimately, the United States will have to work with like-minded countries to penalize China when it engages in economic coercion. The European Union's anti-coercion instrument should be a starting point for these discussions. In fact, China's coercion against Lithuania may provide an early test of this approach. Collective action will be critical, since Beijing is hoping that it can use its economic heft to coerce smaller players.

Thank you once again for the opportunity to testify before you today. I look forward to joining the other panelists in addressing your questions.

Chair MERKLEY. Thank you very much, Dr. Cooper.

And now we'll turn to Ms. Wang.

STATEMENT OF JENNY WANG, SENIOR STRATEGY AND RESEARCH ASSOCIATE, HUMAN RIGHTS FOUNDATION

Ms. WANG. Chairman Merkley and members of the Commission, thank you for inviting me to testify today. I will be speaking about the authoritarian Chinese government, but more specifically, the stunning costs that multinational companies pay in order to appease the Chinese government and secure access to the Chinese market.

On the face of it, this topic may seem like an economic issue, but it is a human rights and moral issue as well. Companies wishing to profit in China must be willing to comply with draconian Chinese national laws or face expulsion from the market. When companies deliberately choose to censor or apologize to appease the Chinese government, they are offering legitimacy to the authoritarian regime and signaling their willingness to disregard not only the human rights of others but of their own, too, as the cost of doing business in China.

In March 2021, Swedish apparel brand H&M faced a boycott in China for simply releasing a statement of concern about Uyghur forced labor. The company lost approximately $74 million in sales for the quarter ending May 31 this year. With the 2022 Beijing

Olympics just weeks away, it is expected that the Chinese government will continue its fierce campaign of economic coercion as a strategic tool to intimidate firms to remain silent about its human rights record.

Based on my observations, as described in my written testimony, companies are now choosing from three methods to approach China's economic coercion. One, they embrace it. Two, they capitulate to it. Or, three, they condemn it. We must be demanding better of these businesses that employ, supply, entertain, and house our people. When companies are not held accountable for embracing or capitulating to China's economic coercion, they will not fully recognize the severity of their actions.

In order to approach China's economic coercion with human rights central to the discussion, immediate next steps should be to raise awareness about such coercion and to increase accountability. To raise public awareness and visibility, my recommendation is to approve legislation to establish the China Censorship Monitor and Action Group. The establishment of this group would be a critical first step toward raising awareness about how the Chinese government impacts the freedoms of multinationals, specifically those founded on liberal values in democratic countries. Additionally, Congress should mandate greater transparency among American companies by introducing legislation that would require them to publicly report their respective exposures to China.

To increase accountability, my recommendations are to sign H.R. 1187 into law, which would mandate that the Securities and Exchange Commission define environmental, social, and governance—ESG—practices. Recently, there has been more awareness about climate change and environmental issues. It is imperative for corporations to remember that ESGs also include human rights and ethical considerations.

Furthermore, especially in light of the U.S.'s diplomatic boycott, we should request a follow-up with the witnesses of the Corporate Sponsorship of the 2022 Beijing Olympics hearing to discern whether they have taken any concrete actions to address what was discussed. Businesses with global operations have great influence, both positive and negative. It is up to Congress to help influence, inform, and prompt them to uphold our values, to avoid complicity, and stand firmly with human rights in response to China's economic coercion.

I look forward to discussing this in more detail and answering your questions. Thank you for the humbling opportunity to testify before the Commission today.

Chair MERKLEY. Thank you very much, Ms. Wang.

And now we turn to Dr. Hung.

STATEMENT OF HO-FUNG HUNG, HENRY M. AND ELIZABETH P. WIESENFELD PROFESSOR IN POLITICAL ECONOMY, JOHNS HOPKINS UNIVERSITY

Mr. HUNG. Chairman Merkley and distinguished members of the Commission, thank you very much for holding this very important hearing today. It is my honor to have this opportunity to testify here today. My testimony will focus on the political and economic risk that U.S. corporations and investors face under the new polit-

ical environment in Hong Kong after the implementation of the National Security Law.

Hong Kong has always been an indispensable and unique offshore financial center of China. It is the doorway through which most money goes in and out of China. Hong Kong's global financial center status hinges on its rule of law, freedom of the press, and the transparency of corporate governance. These foundations have been thorns on the back of the CCP leaders, whose secret wealth kept in Hong Kong was often exposed by journalists. Hong Kong-based Chinese front companies that helped Iran, North Korea, and other unruly regimes to evade international sanctions are often exposed by journalists working in Hong Kong.

Under the new political environment, the Hong Kong and Beijing governments have been passing new laws, besides the National Security Law, that enhance political control and jeopardize these foundations. This summer the Chinese government was ready to apply the Anti-Foreign Sanctions Law to Hong Kong. This law will force foreign corporations in Hong Kong to choose between violating international sanctions, U.S. sanctions, or violating Chinese law. Such an impossible choice will force many foreign corporations to leave Hong Kong.

In this context, the Biden administration issued a business warning to American corporations in Hong Kong on July 16th this year. In August, the National People's Congress Standing Committee, surprisingly, announced it would delay the application of the law to Hong Kong. Beijing appeared to be hesitant about destroying Hong Kong's financial centrality too hastily, though it is expected the law's application to Hong Kong will come back sooner or later.

For another example, the Hong Kong government has started restricting public access to information on directors and executives of registered companies. If such restriction had been in place earlier, journalists and the U.S. Government would have never discovered that Huawei has been using a Hong Kong-registered front company to violate international sanctions in Iran and trick a foreign bank to become an inadvertent accomplice in the scheme.

Another troubling development is the implementing of the anti-doxxing law amendment in September this year. The amended law criminalized unconsented disclosure of private information, vaguely defined, without the need for proof of the harm done. It hands the government vast authority to prosecute dissidents and journalists who disseminate information about the powerful elite. It expands the authorities' power to request internet platforms to remove content. It also gives authorities the power to access electronic devices and search premises without a warrant. This law will force social media companies to comply with the Hong Kong authorities to delete posts or surrender users' information.

The independence and integrity of financial regulators in the Hong Kong financial markets have also been under threat. Even before the implementation of the National Security Law in 2014, the Hong Kong Securities and Futures Commission fined and banned an American short seller for publishing a negative research report about Evergrande, the now-troubled private property developer in China. It also fined and reprimanded Moody's, the credit rating agency, for a report that warned about corporate governance

irregularities of 49 mainland Chinese companies listed on the Hong Kong stock exchange.

The Hong Kong government's denial of visas to foreign journalists covering financial news is equally troubling. As independent and critical research of Chinese business and government in Hong Kong becomes ever-more difficult and corporate governance becomes murky, investment into the financial products issued by the Chinese government and Chinese companies will become increasingly risky. U.S. investors' involvement in these financial products also ties their financial fortunes to Chinese companies and to Chinese government actions that violate international sanctions and human rights.

In light of the above, there are several things that the U.S. Government could do to protect the interests and integrity of U.S. corporations and investors in Hong Kong. First, the U.S. Government could regulate tech companies and ensure that they will not become the accomplices in the crackdown on Hong Kong. Second, the U.S. Government could devote resources to develop technology and tools that residents in Hong Kong and elsewhere in China could use to bypass internet censorship and suppression. The relevant Hong Kong sections in the U.S. Innovation and Competition Act of 2021 are a laudable first step and need to become law soon.

Third, the U.S. Government could issue warnings about or place restrictions on investment in risky financial products issued by dubious Chinese entities and sold in Hong Kong markets. The Treasury sanctions restricting investment in Russian sovereign bonds earlier this year is a precedent. Fourth and last, foreign journalists in Hong Kong are the last line of defense for a fair, clean, and level playing field for foreign companies in Hong Kong. The U.S. Government needs to use whatever diplomatic tools are available to ensure the free operation of foreign journalists in Hong Kong.

Again, I have to thank the chairman and the Commission members for holding this hearing. And I look forward to your questions. Thank you.

Chair MERKLEY. Thank you very much.

We're now going to proceed to seven-minute periods for questions. I encourage our witnesses to keep your remarks pointed and tight so we can get to as much information as possible. Ms. Glaser, I wanted to start with you. You're arguing for collective strategies. The United States just announced a diplomatic boycott of the Olympic Games to draw attention to both the stripping of political rights in Hong Kong, but very much also the genocide against ethnic minorities, including the Uyghurs. That's a genocide determination that's come from both Democratic and Republican administrations.

We haven't heard Europe or other nations announce that they're going to join us in this diplomatic boycott to highlight what China has been doing, and then to prevent the Olympics from being used as a propaganda façade for China. Do you anticipate other countries are going to join us, or how should the U.S. go about expanding its partnership in this?

Ms. GLASER. Thank you for the question, Senator.

Over the last 24 hours, I have also paid close attention, waiting for some of our allies and partners to similarly announce that they

too will not have their officials attend the Olympics. I know that members of the Biden administration have been consulting very closely for months with our allies and partners on the issue of how we would respond to the Olympics. I personally think that it would have been ideal if the Olympics could have been moved out of Beijing. That way, athletes would be able to participate, but the spotlight would not be on Beijing. They would not be able to benefit from being host.

Unfortunately, that path was not taken, and so now I think the only option really that is available to us is to try to get as many countries as we can to stand with us in this coalition. I hope that we will see in the coming days countries state that they too will not be sending their diplomats to the Olympics. I'm sure that, as I said, the Biden administration is continuing to have discussions with them, but I'm personally disappointed that we did not announce simultaneously with our allies and partners, and if they shy away from doing so and send their officials, then I think that undermines our ability to signal China that their practices in Xinjiang and the other human rights violations that they are pursuing are unacceptable.

Chair MERKLEY. You know, I was thinking about how China internally has such effective censorship to prevent Chinese citizens from knowing what is going on in the world in terms of reaction to China's policies and pondering whether there is enough publicity around these strategies of economic coercion that the damage to China's reputation around the world might, in their eyes, start to exceed the value of trying to discourage criticism. Do you think that a vocal, extended, multilateral commentary on China's human rights record and publicity about their economic coercion strategy might lead China to find, in time, that this is a strategy they should abandon?

Ms. GLASER. Well, Senator, I agree with you that this is a message we should be sending around the world, though I personally think we will have more impact on other countries who are being affected. We should encourage them to speak out, even in the case of Muslim-majority countries that are often standing behind China and supporting their activities in Xinjiang. We should be communicating with their people to encourage them to put pressure on their governments to speak out. But in terms of resonating with this message inside China, I'm personally less optimistic. I think we need to impose costs, not just try to impose reputational costs but real economic costs.

Chair MERKLEY. Thank you. Dr. Cooper, you have noted that selective decoupling could be an effective strategy, but you've also said that it's in our interests for China to remain dependent on the U.S. in some sectors. These two thoughts seem in tension with each other. How do you draw the line between them?

Mr. COOPER. I think what's so important here, Senator, is that we can't cut all the links between the United States and China. If we look first for the links that China is most dependent on, those are actually the links that give us the most leverage. It is very tempting to go after the economic sectors and the specific products that we know Beijing needs the most, but in doing so, we actually decrease our leverage over the long term. What I think we need is

to work with allies and partners on a very specific plan to look at the areas that China is most vulnerable to and where it's most dependent on the United States and our allies and partners, and then to work with them, our allies, to figure out how to actually perhaps even increase China's dependence on some of those areas. Strategic decoupling in some areas at the same time as we strategically recouple in others.

Chair MERKLEY. Okay. Thank you.

Ms. Wang, when we see a situation—how China treats Australia in blocking a dozen-plus products, or we see how Lithuania's being treated with particular, kind of, complete exclusion of their products, how should the free world respond to back up those countries and alleviate the economic costs, and therefore undermine the effectiveness of China's strategies?

Ms. WANG. Thank you, Senator, for this question. How should the free world respond to how the Chinese government treats Australia and Lithuania? First, I think it is important for us to work closely with our allies and to work closely with our partners, but we should also be looking internally domestically here as well. We need to also be pushing our companies domestically to be accountable, and to learn more about the nature and the scope of China's economic coercion. Thank you, Senator.

Chair MERKLEY. Thank you very much. With that, my time's expired. We're going to turn to Senator Rubio.

Senator RUBIO. Thank you, Mr. Chairman. Thank you all for coming in and doing this. It couldn't be more timely. This is a major issue all across the board. My questions are largely geared on something you've all talked about, and what the purpose of the hearing is, and that is the ability to leverage economic power, whether that is direct spending and/or investments that China's Communist Party makes abroad, or access to their marketplace, to get all kinds of actors to bend to their will—international organizations, countries and governments, and corporations.

It is my belief, and I think well founded, that there are major American corporations who are either witting or unwitting lobbyists on behalf of the official narratives and policy preferences of the Communist Party of China. The reason is pretty simple, and that is they go to them and say: If you want to continue to have access to our—whether they say it or they imply it—if you want to continue to have access to our marketplace, if you want to continue to be able to sell things here, which represents X amount of your annual revenue, then we expect you to go talk to your "friends" in America and get them to back off. I think that perhaps the most stunning example of it has been the cowardly, but real, effort behind the scenes by several corporations who benefit from slave labor to impede the passage of the Uyghur Forced Labor bill that the chairman and I and so many others, including in the House, have been working on.

So with that reality in place, we've got some things that we need to tackle. First, Ms. Glaser, I think in your testimony you recommended developing a voluntary code of conduct for businesses regarding China, I think including a commitment to refrain from self-censorship. That's another pretty amazing thing—how much of the information and news we consume today is self-censored be-

cause they don't want to not be able to distribute that program, that movie, whatever it might be, in a pretty large market. But how would we hold these companies accountable if they in fact signed this code of conduct? Obviously, this can't be sort of a legal prescription because it sounds almost like a shaming and naming effort. But how would we first, you know, get companies to sign on? But more importantly, who would hold them accountable for violations of it? And how would we hold them accountable if we had such a code?

Ms. GLASER. Well, thank you, Senator Rubio. It's very difficult, I think, to influence companies' choices, as well as to hold them accountable. If companies don't sign up to a code of conduct, yes, we can name and shame and say they are not interested in adhering to our values and joining with other companies around the United States and the world to defend those democratic values. So, yes, it is a mechanism essentially to name and shame, and try to provide incentives for companies to get on board.

In the case of something like slave labor, then I think you have more options because if you do good research and you identify that companies are using slave labor, you make that data public, then that company is going to be spotlighted in a way that it doesn't want to be. Perhaps people will buy fewer of their goods. People will write articles about them. This is going to be very negative in terms of, I think, their bottom line, as well as their reputation.

In terms of things like movies, obviously far more difficult because the Chinese have accumulated a great deal of influence because there are a lot of people who watch movies in China. I think that in that regard you have to start with naming and shaming, and I think making something like this voluntary, you're more likely to get companies to join onboard. At least it's a beginning step. Thank you.

Senator RUBIO. Thank you.

And Ms. Wang, you talked about passage of S. 413, that establishes the China Censorship Monitor and Action Group. I'm proud to be the lead Republican co-sponsor on this bill. I hope we can pass it swiftly. You recommend increasing transparency among American companies that are significantly exposed to China. Do you think it would be a good idea to require U.S.-listed companies to disclose the existence of Chinese Communist Party committees and the role they play in the company's corporate governance in their annual reports to the SEC?

Ms. WANG. Thank you, Senator. Yes, I do believe that American businesses should be disclosing these. I was reading a bit more about Hollywood, actually. I read a recent report by PEN America, and it stated that a lot of the filmmakers have private meetings with decisionmakers. So I think when we ask for transparency we can ask about their market shares, their closed-door meetings, and who they are talking with. How can we better understand the situation when we don't have this data and we don't have this information? So, yes, I do believe that we should be——

Senator RUBIO. Just to be clear, when you talk about these private meetings, what you're basically saying is they're going through a pre-censorship review? Like, this is what our movie's about, this is what our script is about—does any of this give you

a problem or heartburn? They're trying to avoid producing something they later on have to edit so they can have it distributed in this market?

Ms. WANG. Correct. According to the report, there is a quote that Xi Jinping says often. He would like films to "tell China's story well."

Senator RUBIO. Professor Hung, do you believe Hong Kong should continue to enjoy its reputation as a center for international finance, given the power the Communist Party of China now exercises over foreign companies, and last year's detainment and arrest of business executives? Should they continue to be considered the sort of international hub that's safe to do business in?

Mr. HUNG. Thank you, Senator Rubio. I think, as I outlined in my testimony, there's a lot of troubling signs that the nature of the Hong Kong financial center and the institutions that protect its integrity and fairness has been deteriorating. There's some remaining institutions and practices that separate Hong Kong financial markets from, for example, the Shanghai or Shenzhen financial markets, but the direction of the development is really troubling.

I think what we in the U.S. can do is to indicate the kind of measures that the U.S. can do, for example, as I recommended, that it can be put on the table that at some point that the U.S. can ban the investing in Chinese government bonds, and like what we have done with regard to the Russian sovereign debt. Also, totally decertify Hong Kong and stop recognizing Hong Kong as a kind of financial market separate from mainland China. And with regard to access to U.S. dollars and many other measures. This kind of option needs to be put on the table to let them know that if they go further that this will be enacted. Thank you.

Senator RUBIO. My time has expired, but I thank you all for being here. I apologize I didn't get to you, Mr. Cooper, but I thank you all for being a part of this.

Chair MERKLEY. Thank you very much. Congresswoman Steel, are you with us?

Representative STEEL. Yes. I'm with you. Thank you very much, Mr. Chairman. Thank you, all the witnesses, for coming out. I'm just so grateful, because we really have to make China transparent and stop the human rights abuses. The Chinese Communist Party has a long history of using threatening and violent tactics to silence those who want to speak out against the government. As mentioned, the disappearance of Peng Shuai once again highlights this serious issue.

The Olympics is coming up in February next year. This week I had to send a letter calling on corporate businesses who are sponsoring the Beijing Games to follow the lead of the Tennis Association and use their platforms to call out China's human rights abuses. My first question is for Ms. Wang. Do you feel other global companies have an obligation to speak out like we saw with the Women's Tennis Association? Why are these companies feeling the pressure from the CCP?

Ms. WANG. Thank you for this question. Yes, I do believe that corporate sponsors and businesses do have an obligation to speak up and to follow the WTA's lead. I would like to draw our attention to the United Nations Guiding Principles on Business and Human

Rights. This document provides guidelines for both states and companies on how they can best address and prevent human rights abuses. Furthermore, what I think is most crucial and important about these guiding principles is that it states that when there are conflicting requirements—so, for example, in the U.S. and China—companies must honor internationally recognized standards of human rights; for example, the Universal Declaration of Human Rights, as well as the International Convention on Civil and Political Rights.

Representative STEEL. Thank you very much for your answer. China has recently violated international standards related to intellectual property rights. We really have a problem with that, not just the U.S. but other countries too. And then subsidization and over-capacity, and they do not abide by the international norms and rules that have brought China to its current economic position. So I want to ask Dr. Cooper or Ms. Glaser, how can other global leaders hold China transparent and accountable in an international system that is free, open, and fair? And is that really possible?

Mr. COOPER. Well, thank you, Congresswoman. This is such an important question. I think there are at least three steps that we have to take. First, the United States has to realize that it needs to work with allies and partners to address this issue. Addressing it unilaterally has not been effective, so we need to work with our key allies, especially the G–7 countries and perhaps an expanded group of countries, to address Chinese unfair economic practices, especially intellectual property theft.

That means, in my view, that we have to be looking at trade agreements that would hold China and others to high standards. I know this is a difficult issue on Capitol Hill, but that means thinking about what the Trans-Pacific Partnership or its follow-on agreement is going to be, and how the U.S. can take a leadership role there, not just in bilateral discussions with China.

Then finally, I think we have to make this a key issue in the relationship. China always talks about its core issues. Well, there's something like $300 billion of U.S. intellectual property being stolen each year by China. That has to be a core issue from an American perspective on the relationship, and China has to understand that if it doesn't adapt its behavior that that's going to have some very severe negative effects over the long term on the U.S.-China bilateral relationship.

Representative STEEL. Okay. Thank you very much. Professor Hung, the Chinese government has worked hard to manipulate public opinion and censor pro-democracy leaders in Hong Kong. What does it look like for American businesses that want to do business inside of Hong Kong? What kind of censorship, intimidation are we seeing in Hong Kong today by the CCP?

Mr. HUNG. Thank you very much for that question, Congresswoman. American businesses and foreign businesses have been complaining about unfair treatment and an unlevel playing field and biased regulatory enforcement in mainland China for a long time. And for a long time, Hong Kong has been upholding its separation from mainland China in this regard and maintaining kind of a relatively fair and open, transparent corporate environment. But unfortunately, in recent years, it has been deteriorating in

Hong Kong, and many American businesses and foreign businesses in Hong Kong are starting to face some of the same challenges that they have been facing in mainland China.

Particularly after the implementation of the National Security Law, it's not only the National Security Law that creates additional political economic risk to American corporations, but the political environment has changed, and the government's mentality and assumption has changed. For example, in recent months there's been a draconian quarantine and, I would say, unscientific closure of the borders of Hong Kong. American businesses and the Chamber of Commerce have been lobbying the Hong Kong government to relax this rule because it is very bad for global firms in Hong Kong. They cannot see their families and they cannot travel.

But they didn't listen, and they didn't loosen. So the government definitely is now taking kind of a priority on political considerations over economic considerations, and the situation in Hong Kong is deteriorating for American and global business there.

Representative STEEL. Thank you, Professor Hung.

So, you know, it seems like it's getting worse and worse every day. How are you going to fix it? And how can the Hong Kong government really participate and work and try to make sure that these American businesses can just do free business there—like most countries—they go in and they can do, as long as they follow the rules. But the rules are getting tougher and tougher that the Chinese government is imposing. How are we going to fix this? And how are we going to grow? And what is Hong Kong's future?

Mr. HUNG. For one thing, some American businesses and other foreign businesses in Hong Kong have been diversifying their operations to other financial centers farther away from China. For example, in Singapore. They can continue to do business with their Chinese clients, no longer in Hong Kong, but in Singapore. In fact, some private equity funds run by some well-connected mainland Chinese businessmen have already reportedly diversified their operation in Singapore. It is going to be a trend. Definitely the CCP and whole of government want to maintain Hong Kong as a financial sector.

But with the deteriorating regulatory environment and the other situation that can turn Hong Kong into another kind of financial sector, is what I worry about. That is, a kind of financial sector which is more like a Caribbean tax haven, a money laundering center. It is also a financial sector with a lot of money coming in and going out, but it will be very different from the financial center of Hong Kong right now that's based on fair and transparent corporate governance and open information, and so on and so forth. So it can become like that, and if that's the case, then it will be very unfortunate.

Representative STEEL. Thank you.

Chair MERKLEY. Thank you very much. We now turn to Senator Lankford.

Senator LANKFORD. Mr. Chairman, thank you, and thanks to all the witnesses for bringing the facts and information to our conversation today. Professor Hung, I want to continue on with our dialogue on this and the Belt and Road Initiative, and what China is doing in countries around Africa, around multiple regions of

Asia, around the Western Hemisphere, Central and South America to be able to influence markets, but to also be able to control minerals, to control ports, control airports, and to be able to take on some of the sovereign debt. You have written about some of these issues specifically, about them taking on debt around the world and how sustainable that is, but also the effect for those individual countries as well. Can you elaborate more on that?

Mr. HUNG. Thank you, Senator, for the very important question. Actually, that is the design and the intention of the Chinese government, to use Hong Kong as a kind of offshore financial sector to channel money and to finance a lot of these Chinese companies going to Belt and Road. In this regard, and China definitely is extending a lot of loans and debt to the Belt and Road countries, but at the same time the U.S. still has leverage to shape how this development unfolds because many of the Belt and Road and bilateral loans or multilateral loans for the AIIB (Asian Infrastructure Investment Bank) are actually denominated in U.S. dollars.

The reality is that the world economy is still very much reliant on the U.S. dollar as the reserve currency and kind of a transaction currency. And so a lot of these developing countries and Asian countries, when they borrow money from China they refuse to take the renminbi loan. And that is a very typical development—in the beginning the Chinese try to lend in renminbi. But actually, the debtor is not interested. So in the end China lends in U.S. dollars.

As far as China relying on the U.S. dollar, many Chinese entities and Chinese corporations rely on the Hong Kong financial market to raise debt and bonds in U.S. dollars, and then through the Hong Kong financial market raise capital in Hong Kong dollars, which are actually pegged with the U.S. dollar and freely convertible. So in this regard, in the international transaction clearance and through the SWIFT (Society for Worldwide Interbank Financial Telecommunications) system, and also Hong Kong access to the U.S. dollar, the U.S. still has a lot of leverage in influencing China's behavior in Belt and Road and the developing world.

Senator LANKFORD. Dr. Cooper, earlier Ms. Wang was asked about Australia. I want to be able to drill down just a little bit more on supply chain issues and what example we can take from what China has done using economic leverage on Australia to our own supply chain issues that we're facing now and the potential for that in the future. Ms. Wang had the opportunity to be able to answer that. Dr. Cooper, I wanted you to be able to also talk about this as well. What should we see from the issue of Australia? What should we learn from that? And what awareness should we have around our own supply chain issues?

Mr. COOPER. Well, thank you, Senator Lankford. I think Australia is a really important case for several reasons. The first is that actually China has struggled to get its political objectives obtained in Australia, and I think it's done remarkable damage to Beijing's cause. Now, I will admit that I think a lot of friends of China don't acknowledge how much damage China has done, but if you look at the objectives that China appeared to have, and here China was quite clear; in fact, the Chinese embassy in Canberra gave a list of 14 demands that they were seeking from the Aus-

tralian government, and I think they've obtained precisely zero of those demands through this economic coercion campaign.

In fact, if you look at the Australian economy, there are roughly 11 different products that were directly affected. Only one or two of those were not relatively quickly shifted to other global markets. So the damage done to the Australian economy has been much less significant than I think many in China, and even many in Australia, would have imagined. So I think it's a good reminder that, in fact, the world still has substantial leverage to push back against China, and even countries that are targeted can withstand that pressure, as Australia has. Now, it comes at a cost, but we're seeing increasingly that countries are willing to bear those costs. I think the Lithuania case right now is another important example.

So I think what we should take away from the Australian case is, first, you probably can't escape this kind of pressure unless you're going to fully agree with China on every issue, which very few countries and companies are willing to do. Second, that when the pressure comes, that countries can stand firm against it, especially if they have allies and partners that are willing to stand with them.

Senator LANKFORD. Dr. Cooper, thank you.

Ms. Wang, you've written extensively on the issue of Taiwan. It's very different than Australia or very different than the United States in the threats that they face in Taiwan in particular. They're exceptionally isolated. Could you talk about some of the economic pressures that they are facing right there in Taiwan, and what the United States in particular can do to be able to lessen some of the economic pressures? And what other countries—as China tries to cut off diplomatic relationships with any country that has diplomatic relationships with Taiwan—can do to actually support the people of Taiwan rather than isolate them?

Ms. WANG. Thank you. The topic of Taiwan is quite sensitive to the Chinese government, as we all know. Taiwan is one of the sensitive three Ts, along with Tibet and Tiananmen. Taiwan is increasingly under pressure from the Chinese authoritarian government. They're diplomatically isolating them and they're bullying them on a geopolitical level.

I think what we can do to support Taiwan is to continue these delegations to visit the island and to meet legislators there as well. I would also be happy to look into this in more detail and respond in writing for the record.

Senator LANKFORD. Okay. I appreciate that very much. I really see what China did with Hong Kong as the model of what they're going to try to do with Taiwan as well, to be able to buy off political figures, to be able to use social media, and to be able to control the conversation in Hong Kong to then be able to move in, get the laws changed, and to be able to take over quietly as the model that they'll try to do in Taiwan as well. There's a real risk of that in the days ahead, and there are ways that we can continue to be able to stand with the people of Taiwan to be able to get, actually, facts and information to them about the brutality of the Communist government, what they've done on human rights violations, and to be able to continue to protect their free and fair elections in the days ahead would be a tremendous asset to them and the world. Then

also, to increase diplomatic conversations with others. So I appreciate very much the engagement of all the witnesses that are here. Thank you, Mr. Chairman.

Ms. GLASER. Could I possibly offer just maybe 15 seconds in answer to that question?

Chair MERKLEY. Please go ahead.

Ms. GLASER. I think the most important thing that the United States needs, and other countries need to do with Taiwan, is to be signing economic agreements with them. This has been, I think, an unfortunate gap in our relationship with Taiwan. Even as we strengthen diplomatic and security ties with Taiwan, we are not negotiating a bilateral free trade agreement, a bilateral investment agreement. Since we are not in the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), there is very little we can do to help Taiwan get into that. The European Parliament has endorsed signing a bilateral investment treaty with Taiwan, but so far, of course, the EU has not opened those negotiations.

So Taiwan is increasingly isolated economically. They recently signed free trade agreements, when Ma Ying-jeou was president, with New Zealand and with Singapore. Then China has boxed them out of being able to sign other agreements, and I think it's really important for countries around the world to stand up to China. We can do so and strengthen Taiwan's security and the economic prosperity of the island by negotiating such agreements. Thank you.

Senator LANKFORD. It's a pleasure. Thank you. Thank you, Mr. Chairman.

Chair MERKLEY. Thank you, Senator Lankford.

We'll turn back to the House, to Congresswoman Wexton, who represents Northern Virginia and the Shenandoah Valley.

Representative WEXTON. Thank you, Mr. Chairman. I want to thank all the witnesses for coming and appearing before us today and talking about this really important topic. You know, one of the things that has become clear to me the more that I learn about China is that they play the long game, you know? They think in terms of century or even millennia. Here in the U.S., and in the West generally, we have a much shorter-term time horizon. We think about the fiscal year, or we think about our congressional term, or we think about when the next shareholder dividend is supposed to be paid.

China takes advantage of that. And they have methodically inserted themselves deeply into the economies, not just here in the West and in the U.S., but in just about every country in the world. They have been able to do that by manipulating our systems and what we value here in the U.S. Here it's really kind of been twofold. It's been the cheap goods that U.S. companies are able to sell all around the world. Then it's also been access to the Chinese market, which is huge and extremely lucrative for U.S. companies.

So, Ms. Wang, I'm very glad that you mentioned the Women's Tennis Association. I want to get to that in a moment. But, Ms. Glaser, I want to talk with you a little bit about your comments on China pressuring U.S. companies to do kind of their dirty work for them, right, and to lobby us here in Congress for what they

want to see happen legislatively. I know that most of us on this panel have been on the receiving end of this same kind of pressure about the Uyghur Forced Labor Prevention Act, and I'm glad to see that that will hopefully be moving through the House shortly. But I know that I've been on the receiving end of that for my Uyghur Forced Labor Disclosure Act. And so, Ms. Glaser, if you could talk a little bit about the pressures that come from U.S. corporations in order to do China's work for them here in Congress.

Ms. GLASER. Well, thank you for the question, Congresswoman. I think it's obvious, and many of us have talked about today, how companies are essentially lobbying members of Congress, as well as the U.S. Government, for the United States to lift tariffs on China, to take a series of actions that will certainly benefit those companies' bottom line, but will not necessarily, I think, be in the broader interests of the United States.

I was at the U.S.-China Business Council annual gala this past week, where our Under Secretary of State Jose Fernandez really gave a terrific speech laying out some of the problems that China presents, the challenges in stealing intellectual property and forced technology transfer, its subsidies to companies. And I have to say that many members of the U.S. Business Council, the companies, were almost embarrassed by the fact that a Biden administration official was giving this message, because ultimately what they want to do is just do more trade and more business with China.

So I think that this is a problem. And I think that we should be trying to bring companies together to understand the consequences for our shared interests, and particularly when it comes to forced labor in Xinjiang. This is something that we should be naming and shaming companies for—sourcing some of their products in Xinjiang.

Representative WEXTON. Thank you so much, Ms. Glaser. It's really not just the forced labor, it's also the genocide that's going on. Which brings me to the upcoming Olympics in Beijing, for the Winter 2022 Olympics. You know, that's just weeks away. Ms. Wang, I'm very glad that you mentioned the Women's Tennis Association and its CEO Steve Simon, because he truly deserves to be held up as an example of how to handle the Chinese government's intimidation.

I want to add my voice to the chorus of those calling out the IOC for their role as propagandist-in-chief for the CCP on this issue. You know, they don't have the best history, but they've really hit a new low with this. And so I'm very concerned with the upcoming Olympics that we're not going to be able to ensure the safety of U.S. athletes and the world's athletes there. But, you know, I'm just encouraged that the U.S. has instituted this diplomatic boycott. I do hope that other nations will join us. I do want to commend Lithuania for really punching above their weight in this area, when it comes to pushing back against China's abuses.

Now, the WTA is tiny compared to some of these multinational corporations who are sponsors of the Olympics and who are very, very entangled in their markets over there. You know, it's fair to say that they will be hurt more by their pulling out of China than the PRC will. But what would happen, Ms. Wang, say, if Nike, or

Coca-Cola, or Apple were to make their stance on this known and start pulling their supply chains and their products out of China?

Ms. WANG. Thank you. I think that would be wonderful news. It would be great if we saw Apple, if we saw Coca-Cola all pull out of China, because they would be following WTA's lead and standing firmly with human rights and avoiding complicity. According to international law, corporations should not be aiding and abetting human rights abuses. So I would greatly applaud Apple and Coca-Cola if they do not abide by the Chinese government. Thanks.

Representative WEXTON. Thank you very much.

Ms. Glaser, do you have any ways that the U.S. Congress and the administration could support those businesses who do wish to support the WTA and take action against China?

Ms. GLASER. Thank you, Congresswoman. I will think about that and get back to you, but I do think we should come up with incentives so that we can give companies a reason to not stand by China. Perhaps, you know, reputational advantage isn't enough. In the case of the WTA, of course, the opposite outcome. If they had not taken the action that they did, I think we would all be condemning them. So the risk of that reputational cost I think is important. But I think we should think about more incentives, and I will think about that. Thank you.

Representative WEXTON. Thank you so much. It seems my time has expired, and I yield back.

Chair MERKLEY. Thank you very much, Congresswoman.

We are now going to turn to Senator Ossoff of Georgia.

Senator OSSOFF. Thank you, Mr. Chairman.

A question I'd like to pose to the panel as a whole, beginning with you, please, Ms. Glaser, is: When in your view have the various policies that we're grouping under the rubric of Chinese economic coercion—when have they been effective from the standpoint of the CCP and achieved the aims of the CCP? And when have they failed?

Ms. GLASER. Well, that's a terrific question. I do talk about that a bit in my written testimony. The first case, in 2010, against Norway, I think was very effective and not because of the economic consequences, because they were actually short lived and Norwegian salmon producers were able to circumvent restrictions and get their salmon through third markets to China. But the political consequences for Norway were deemed unacceptable. They were frozen out for many years, and finally, in 2017, signed a joint statement with China which, if you read it, you can tell it was written in Beijing, that condemned any action that would violate the one China principle. And basically, Norway pledged that they would never damage Chinese interests in any way, shape, or form again.

In the case of Mongolia, the Mongolian government said that it would not invite the Dalai Lama to visit Mongolia again. So that was another successful case. Even the 2010 Japanese case, where Japan agreed to release the captain of the fishing boat that had collided with the Japanese Coast Guard ship. It was successful in the short run. China did get the captain to be released. But of course, over the longer term it was just the beginning of the really significant turn in Japanese sentiment against China. So I would say they ended up paying a price for it because the effort to curtail

rare earth exports to Japan—at that time Japan was about 90 percent dependent on China for its rare earth imports—within a decade Japan brought that down to 58 percent. And that is an example for so many other countries, again, about the need to diversify, find other sources for goods, and not be overly trade dependent on China.

There are other cases, but I will leave you more time to ask questions of other witnesses. Thank you.

Senator OSSOFF. Thank you. Mr. Cooper, same question to you, please.

Mr. COOPER. Well, thank you. It's a wonderful question. I agree with everything that Ms. Glaser said and just add on that I think what we've seen is that the smallest players are the most vulnerable, especially when you're a small player and you're highly dependent on China for certain parts of your market. So if you look at the Philippines with tropical fruit, and bananas in particular, huge vulnerability there. If you look at other countries, like Vietnam, with tourism, at times that's been highly effective.

I think the countries that actually have stood more strongly against this kind of economic coercion and been less vulnerable to it are, not surprisingly, the bigger countries. So China has often avoided targeting the United States with these kinds of economic measures, at least maybe it's gone after individual companies and individuals, but it hasn't gone after the United States as a whole, for the most part. It hasn't gone after the European Union as a whole. Look who it's going after now, one of the smallest member states in the EU, Lithuania. And I think there is a reason for that.

What I think we need to do to demonstrate solidarity with those smaller countries is stand behind them and show that through either an anti-coercion mechanism or some other collective action that actually China can't isolate these smaller countries and that big countries are going to stand beside them. That, I think, has to be the key message, because otherwise Beijing will be able to continue picking off smaller countries and companies and individuals one at a time.

Senator OSSOFF. Thank you, Mr. Cooper.

Ms. Wang, the same question to you, please.

Ms. WANG. Thank you. I will be speaking from a human rights dimension. I believe, of course, China's intimidation and censorship has long been around, for decades. So for example, one of the earliest examples that we can refer to is Disney. Back in 1996, there was a Disney film called "Kundun," featuring a story about Tibet and the Dalai Lama. And that resulted in a Disney ban in 1999 and that ban was only lifted because they had conversations with the Chinese government to open a Shanghai Disneyland, and also the cartoon "Mulan."

This intimidation has been specifically more about the three Ts—Taiwan, Tibet, and Tiananmen, but I believe we saw an uptick in 2019, surrounding the anti-extradition protests in Hong Kong. I believe there was this uptick then because the protests really captured the global spotlight, and that's when the Chinese government realized that they have these tools at their disposal. They have these tools that they honed for decades to silence criticism and dissent.

So from this perspective, I think China's coercion in intimidating and censoring companies and businesses really increased in 2019 up until now. And it will only increase as we approach the Beijing Olympics.

Senator OSSOFF. Thank you, Ms. Wang.

Mr. Hung, my time has expired but I'll send that question to you for the record. I yield back, Mr. Chairman. Thanks again to our panel.

Chair MERKLEY. Thank you very much, Senator. Now we'll turn to the House side to Congressman Mast from Florida's 18th Congressional District.

Representative MAST. I thank everybody for their testimony. I've enjoyed it. I've enjoyed the analysis. Probably one of my favorite presidents, Reagan, spoke about a number of things in his 1964 "A Time for Choosing" speech. But he gave a poignant phrase at one point, which has been used at different times throughout history. He said: Those who had the most to lose have done the least. Can somebody in this panel prove me wrong, prove this sentiment wrong in this case, as it relates to this chameleon, crooked communist China that we're dealing with, and the three Ts that were just brought up, and COVID–19, and the list could go on and on, all of the economic coercion that we see across the globe, from large economies or strong economies to smaller economies and weaker economies. Could somebody prove me wrong, or rather prove that sentiment wrong? Not me wrong, but prove that sentiment wrong, that those that have the most to lose have done the least as it relates to this situation?

Ms. GLASER. I'd be happy to jump in, Congressman, and maybe to try to give you an example. I think actually Taiwan has an enormous amount to lose, but it certainly has not done the least. Taiwan has been sending about—if you include Hong Kong and Macau in their exports—in 2020 I think the export level rose to over 40 percent. I think it hit almost 44 percent of their exports that year. And it is coming down now, and I think has dropped now to under 40 percent. But we have seen Taiwan, I think in really significant ways, stand up to China.

They are doing so not just economically and trying to encourage their businesses to come back and reinvest, re-shore in Taiwan, and have seen a great deal of success in part because of the economic circumstances, of course, in China, as well as the tariffs. But they're also standing up to China politically, but I would say in ways that are consistent and prudent, and not provocative, doing so in ways that are very much in the interests of the United States, which is one of the reasons that the United States has seen ever-stronger relations with Taiwan in the last few years. Thank you.

Representative MAST. Thank you for the thoughtful response. I think it leads well into a follow-on question. What, number one, could we all learn from Taiwan's response, if you would call that the strongest response? And an additional follow-on to that would be this: Why should the response not be provocative?

Ms. GLASER. Well, I will address the second part of the question and maybe give others an opportunity to talk about what we should learn from Taiwan. There are so many things. But if Taiwan were to take actions that were deemed by Beijing as being ex-

ceedingly provocative, we could end up in a situation where Xi Jinping decides to use force to, as they would say, reunify Taiwan with China. I think that that would be catastrophic.

Therefore I believe the best set of policies by Taiwan and by the United States is to help keep Taiwan strong and enable it to continue its practices of self-governance, being able to develop its own policies, to participate more in the international community and, as I mentioned earlier, sign free trade agreements and other trade agreements, which they are allowed to do under WTO. They are, after all, full members. So when I use the term "provocative," what I mean is I worry about the potential for a Chinese attack on Taiwan. I want to see Taiwan continue to be safe and to be able to make their own decisions on behalf of their own citizens. Thank you.

Representative MAST. Yes, ma'am. And again, I appreciate the conversation on this, your willingness to speak up on that front. I think for many of us, we could probably say that there's a spoiler alert in this, in that in my opinion it wouldn't be whether Taiwan is provocative or not. I'm not trying to dissect you in this way. I don't think you're trying to make all of these points, but it brings it up. I don't think it's the fact that Taiwan is or is not provocative that keeps them from violent actions by China. It's only by China's decision that they decided to not yet resort to a violent takeover of Taiwan, that that has not occurred yet.

And I think probably many of us can sit here and believe that this is exactly what they're mulling over, chewing over, not as it relates to Taiwan's actions but as it relates solely to China's desire. And in that, I would say that the greatest strength we have is using any and all means to be provocative against China, letting them know that we will not tolerate these kinds of actions on any front, understanding that we're not waiting for an action to occur because they're reacting to somebody else. They're simply acting out of their own desire, and we have to be at that place of understanding of China in order to truly combat them.

Ms. WANG. May I add on? Thank you. I want to———

Representative MAST. I would hope you would.

Ms. WANG. Thank you. I wanted to piggyback, or answer your question about what we can learn from Taiwan. I think we can all refer to Taiwan's response to the COVID–19 pandemic. They had their own #TaiwanModel "all hands on deck" approach. I think what the U.S. can learn is that, as Congressman Suozzi mentioned in his opening remarks, we need a whole-of-government approach. How can we get everyone involved to stand with our values, to protect human rights, and to protect our democracy? Thank you.

Representative MAST. I thank everybody for the time.

Chair MERKLEY. Thank you very much, Congressman. Senator Daines is enroute to join us, but he's a couple minutes out. While we're waiting for him, I wanted to have you, Dr. Cooper—you note that China has this category, "unreliable partner." It's a lesser categorization that makes it hard for a foreign entity to participate in China's economy. Can you just explain how they're using that tool?

Mr. COOPER. Absolutely. Thank you, Mr. Chairman.

The United States has a very formal, legalized approach to sanctions, and China has, for a very long time, had almost no formal

legalized approach to sanctions. I think what we've seen in the last few years is Beijing realizing that actually it would be helpful if Beijing had at least a quasi-legal approach. And so what it has done is create in many ways parallel processes to what we have in the United States. In this case, it's called the Unreliable Entity List. And this, I think, is intended very specifically to be a response to the U.S. Entity List, which is run by the Commerce Department. And so this Unreliable Entity List would, I think, very clearly target those companies that are engaged in behavior that Beijing thinks crosses some red lines. And it's a little unclear exactly what those red lines would be, and it's unclear which companies would be targeted first.

But I think what we do know is that China is looking to create what will at least appear to be legal mechanisms. The big difference here, of course, is that our mechanisms, our sanctions, are rooted in U.S. law, and they tend to be very specific actions, and they require legal justification. And the Treasury Department in particular spends a huge amount of time making sure that it can come to these conclusions. I think it's quite clear that Beijing will do nothing of the sort. A company will be on the list for highly political reasons, and it will be very difficult to tell what got a company on the list and how they might come off. And so that's the case not just with the Unreliable Entity List but with some of the other sanctions that China is creating at the moment.

Chair MERKLEY. So have they put a country or a company on this list yet or threatened to put a company or country onto this list in order to obtain a change in behavior?

Mr. COOPER. They have threatened to put several companies on this list. There were reports months ago about a handful of specific companies that might be listed. My understanding is that they were not formally listed—none of them have, yes. I think no one has at the moment, but other panelists may know more on that.

Chair MERKLEY. Thank you very much.

Senator Daines of Montana.

Senator DAINES. Senator Merkley, thank you. I want to thank you all for coming before this Commission and providing perspective and expertise on this important topic.

I spent nearly six years working in China as an American expat launching brands, once upon a time, to compete against Chinese brands when I worked in the private sector. I've led congressional visits to China and neighboring countries several times. Just last month I was in India, meeting with government officials and some tech leaders, talking about trade as well as the threats and the challenges that China poses to the United States, to India, other allies, and even its own people.

It's clear that the U.S. needs to work closely with our allies to counter China's growing economic coercion, influence, and its efforts to export its surveillance state abroad.

Dr. Cooper, it's clear that China is not satisfied with simply censoring its own population but also seeks to influence speech and actions abroad, outside its borders, including the self-censorship of scholars, foreign publishers, businesses, even academic journals, related to doing work in or about China.

What do you believe are the long-term effects of such actions? And what could be done to help both governments and the private sector withstand such pressures?

Mr. COOPER. Thank you, Senator.

I think there are a number of long-term impacts. Many of them are quite detrimental to China directly. I think one of the clear impacts we've seen is that many Americans, including many experts on China, are unwilling to go to China today because they fear for their safety. And this is not a completely unfounded fear. On my last trip to China, one of the small number of people I was on a trip with ended up in jail later.

Senator DAINES. And what was the date of that?

Mr. COOPER. I guess that was three years ago; Michael Kovrig. He's a Canadian citizen, now finally back in Canada after being detained in response to, effectively, an American court case against Huawei. So I think China has done tremendous damage to its own cause in many ways. And the difficulty with people, even experts on China, being able to go to China is going to be a real problem for understanding what's going on in Beijing and for Beijing understanding what's going on outside its own borders.

I think that's another thing that we're seeing as a result of this censorship campaign is actually many people in China don't understand how much damage China has done to its own cause abroad. They don't understand how bad the polling data is outside of China on views, not just of Xi Jinping and the Communist Party, but on the country as a whole. We could get into the effects on individual companies and on down the line. I think China has done tremendous damage to itself through many of these measures.

Senator DAINES. Yes. Just look at the flow of capital, decisions being made just as we speak. Capital that may have been intended for direct investment in China is now headed to other markets in the region and elsewhere.

Australia in particular has been targeted aggressively by China. What can we learn from their experience? And what would you say is China's assessment of the reaction by the United States, as well as other democracies?

Mr. COOPER. I think we can learn a lot from Australia, particularly that if you're willing to stand firmly behind your beliefs that you can make it through one of these pressure campaigns. We're certainly not at the end of it yet. I don't know when Australia will get to the end of this campaign, but I do think the Chinese view tends to be that there's no reason to stop putting pressure on Australia, and perhaps eventually Australia will cave. I don't think that's going to happen, and I think it's in our interest to demonstrate that our alliance is very close and that we and our friends will stand with Australia.

I think the AUKUS agreement was an effort to do so, but let me say that I think we need to do more for Australia economically. Australia is under economic pressure, and we've responded in part by tightening our alliance in the security area.

But if you think about other countries that are going to come under pressure from China, they're not going to get their own AUKUS-type deal. What they're going to want is U.S. support, U.S. economic support, and support from other like-minded countries.

And so I think we have to do more to stand with Australia economically to show other countries that actually, if they come under this kind of pressure, that their friends will stand with them as well.

Senator DAINES. Dr. Cooper, thank you.

Ms. Wang, China is in the process of testing a digital yuan. While most countries that are looking at digital currencies are concerned about privacy implications, China's motivation stems in large part from a desire to gain insight into the financial lives of its citizens. How could a push by the Chinese government to spread the use of the digital yuan outside of its own borders threaten human rights in neighboring countries, in countries where China has made significant capital investments?

Ms. WANG. Thank you.

I think pushing a digital yuan is a threat to human rights and democracy, because essentially the Chinese government is exporting its authoritarianism, and it is exporting its censorship by weaponizing its power. I think the export of surveillance we've seen play out in Tibet. We see it play out in the Uyghur region. From there itself we can see crimes against humanity, against millions of innocent people. So thank you for the question.

Senator DAINES. Dr. Cooper, with regard to Taiwan and China's ongoing and increasing pressure campaign on that democracy, what would be appropriate additional steps for the United States to take to support Taiwan and deter heightened Chinese aggression?

Mr. COOPER. I think there are a number of military steps that we should take, and I think we should be focusing most on action and less on talk. But I think one thing that other panelists have already raised is the importance of economic ties with Taiwan. One thing that we keep coming back to this morning is the importance of diversification. We should be helping Taiwan diversify. That means giving it other economic options. So whether it's the United States or Europe looking to make trade agreements with Taiwan, that's the kind of thing that gives countries leverage to push back against economic coercion, and I think that should be a top priority.

Senator DAINES. Senator Merkley, I'm out of time. Thank you.

Chair MERKLEY. Thank you very much, Senator.

I'm going to ask a few questions in closing here. First, I wanted to note, Ms. Glaser, that you and several panelists have suggested that we need to understand the landscape of economic coercion better by having companies systematically report both their potential exposure to the risk of Chinese economic coercion but also instances in which there are threats or actions taken—in the form of coercion.

Do you envision a particular congressional law then that mandates companies to report in this fashion? And do we have model legislation for this?

Ms. GLASER. That's an excellent question, Senator. I don't know whether we have any specific model that we can look to, but I do think that legislation is necessary in this regard because I think we can compel companies. This would have to be clearly defined. What is the information that we are asking them to convey or re-

port? Is it going to be the percentage of their exports that go to China? How much perhaps they have invested in China? I mean, those are examples of exposure. Are we going to just narrow it down to areas where there are national security implications rather than trying to identify writ large what the exposure of a company is economically to China?

So I think we'd have to think through exactly what the purpose of it is. But I think that that's an exercise that is very much worth considering, and I think Congress should take up this issue.

Chair MERKLEY. Okay. Well, I invite you and others to brainstorm what that might look like, and any information you have on conversations that have been held with our multinationals in regard to how they might support or have concerns that we could address in that regard.

Another point raised for potential legislation was a compensation fund. Would anyone on the panel like to address how that might work?

Dr. Cooper.

Mr. COOPER. Yes. I think in the long term we need some sort of compensation fund, not to fully compensate those that are targeted—that's probably impossible—but to demonstrate solidarity with those that are targeted. So if the political message coming out of a Chinese coercion campaign is that the rest of the world, or at least a big subset of states, are standing with the country that has been targeted, that's a very different message than, Oh, they've just been left on their own. And that means both that we need to have a coercive response to China—a strong deterrent—but also that we have to provide at least some support.

Right now, for example, one of the messages you hear often in Australia is that the United States has actually benefited from China's sanctions on Australia because, for example, American producers of various goods are now replacing Australian producers in China. That's the wrong message. We need the message to be that like-minded governments are standing with one another.

So I don't think we're talking about a huge amount of money. The question in my mind is how do you do this in a way that doesn't clearly violate the World Trade Organization? There's been talk, for example, of could you have a countervailing action that would go against certain Chinese companies that would gather some funds and that could be redirected toward the companies that have been harmed by Chinese action? I think that's probably WTO-violating. But I think those are the kinds of discussions that I would expect to be hearing the next few years as people think through ways to do this.

Chair MERKLEY. Thank you, because I think it's important to put forward models of what that might look like and test them. What happens when the Women's Tennis Association says we're forgoing games in China, or the NBA says we are going to withdraw our extensive strategy for a basketball league in China? It might be a little simpler when a single company, a single product, is affected; what that looks like, and whether this is an international effort or just nation by nation.

Then I want to turn to the blocking laws. Dr. Cooper and Dr. Hung, you've both mentioned in your testimony the anti-foreign

sanctions law. This was back in June of 2021. It built on previous laws China had adopted, expanding the private right of action and creating a counter-control list that could affect visas, and freezing assets of foreign entities. This is part of kind of the new phase of Chinese strategy and economic coercion. It places companies in a tight spot between following their home's country laws and then being subject to sanctions by China.

Would either of you, Dr. Hung and Dr. Cooper, like to expand on the challenge this presents and whether China has used this strategy yet, and, if so, what it looks like?

Mr. HUNG. Thank you, Senator.

I would like to respond by saying that right now the sanctions regime that China is trying to develop is much less effective and sophisticated than the U.S. one. Dr. Cooper already pointed out that the U.S. regime is very much legal-based. And another reason is that the U.S. sanctions regime is very much based on the international economy's economic dependence on the U.S. dollar as a kind of reserve currency and as a kind of transaction currency.

A lot of U.S. sanctions against entities and against countries and financial institutions that are doing business with them will be in trouble because the transaction needs to go through the U.S. dollar system. And it is exactly why China tried to extend their entire foreign sanction norms to Hong Kong, but they backpedaled and then did some estimation about whether they will delay it or actually cancel it, because actually Chinese companies depend on Hong Kong and depend on the Hong Kong financial markets for access to U.S. dollars—in raising capital and borrowing in U.S. dollars.

So China tried to turn the tables by internationalizing the use of renminbi. And some of the questions mentioned the attempt to popularize the use of digital yuan and then creating a whole Chinese alternative currency system. This is the thing that China actually is trying to do but is still a long way from achieving. But in that regard, it will be very important for the U.S. to—vigilance about this China plan to develop an alternative currency and currency system and then uproot the international use of the U.S. dollar, which is a huge lever that the U.S. has regarding these sanctions issues.

Chair MERKLEY. Thank you very much, Dr. Hung.

And I have to note that I may be approaching the last person to vote, and so my team is telling me I need to conclude the hearing. I think this new phase that China is involved in of creating a legal regime to try to reinforce its strategy of economic coercion is one that merits a lot of attention.

Thank you all very much for your expertise and testimony today. To summarize, China is engaged in a massive acceleration of its strategy of economic coercion. Its goal is to silence criticism around the world, to be able to conduct egregious actions, whether it's stripping Hong Kong of political rights or engaging in genocide, and have the world not respond.

But here in the free world it's essential that we stand up for our values, our human rights values. It's essential that we respond. A huge thank you to the Biden administration for announcing yesterday a diplomatic boycott of the Olympic Games, and we must challenge every other nation in the free world to join us.

A huge thank you to the Women's Tennis Association for being very powerful in its response to Ms. Peng's treatment, the tennis star's treatment, by the Chinese government. They're really setting a great example.

We need to carry forward and work on the suggestions that you all, as a panel of experts, have put forward today, including exploring having companies report on their exposure to economic coercion, proceeding to have companies report on any attempted coercion. And then we need to work in partnership with the rest of the world, because the United States by itself cannot be effective in responding.

So thank you for standing up for the human spirit. China has said that it's criticizing the United States for its diplomatic boycott, saying it's not in keeping with the Olympic spirit. I'll tell you what's not in keeping with the Olympic spirit of uplifting humanity, and that's crushing humanity by stripping people of their political rights and engaging in genocide.

Thank you all very much. The record will remain open until the close of business on Friday, December 10th, for any items members would like to submit for the record or any additional questions for our witnesses.

This hearing is adjourned.

[Whereupon, at 11:54 a.m., the hearing was concluded.]

A P P E N D I X

PREPARED STATEMENTS

PREPARED STATEMENT OF BONNIE S. GLASER

Chairman Merkley, Chairman McGovern, and distinguished Members of the Commission, thank you for holding this important hearing and asking me to participate.

Economic coercion—defined here as a threatened or actual imposition of economic costs by a state on a target with the objective of extracting a policy concession—is an increasingly prominent instrument of Chinese foreign policy. A vast array of economic coercion measures combined with a set of positive inducements comprise China's economic statecraft toolkit. As the world's top trading nation, the second-largest market, and one of the largest providers of development finance, Beijing has the potential to wield significant influence by using these sticks and carrots. Although China's employment of economic coercion has had only limited success in changing the behavior of targets, it has been more successful in deterring countries and companies from undertaking actions harmful to Chinese interests. In addition, PRC positive economic inducements have unquestionably persuaded some states and firms to refrain from criticizing PRC policies, although this impact is more difficult to measure.

Unlike traditional economic sanctions, Beijing's economic coercion usually relies on informal measures that provide plausible deniability and enable China to ratchet pressure up or down as needed. Whereas there are many instances of Chinese officials and state media threatening to take punitive economic actions against countries and foreign firms, there are very few cases where the Chinese government has publicly acknowledged implementing coercive acts. For example, after Australia called for an independent investigation into the origins of the coronavirus, China's ambassador to Australia, Chen Jingye warned that ordinary Chinese would say "Why should we drink Australian wine? Eat Australian beef?" Beijing subsequently cited violations of phytosanitary requirements as the reason for holding up imports of Australian beef, timber, and lobster. China also falsely alleged that Australia was dumping barley and wine and subsidizing the producers of those products. After months of vague import restrictions on Australian coal, the Chinese government formalized the ban by granting approval to Chinese power companies to source coal from a list of countries that did not include Australia.

The PRC has employed coercive economic measures in support of its foreign policy objectives since at least 2010 when it used coercion on two occasions: (1) halting rare earth exports to Japan to compel Tokyo to release the captain of a Chinese fishing trawler who was detained after colliding with a Japanese patrol boat operating near the disputed Senkaku/Diaoyu islands; and (2) restricting salmon imports from Norway after the Norwegian Nobel Peace Prize Committee granted the annual award to Chinese dissident Liu Xiaobo. Since then, the PRC has used economic coercion against over a dozen countries. In virtually every case, the targets have been companies and industries in democratic states. The Chinese apparently believe that by pressuring influential business constituencies in democracies they can change the policies of targeted governments.

Beijing often uses other non-economic coercive tactics in combination with economic coercion. Downgrading bilateral relations, cancellations of high-level dialogues, or preventing foreign officials from meeting with their Chinese counterparts are commonly used alongside economic coercion tactics. Arbitrary indictments, detainments, and harsh sentences for imprisoned foreign nationals have been used by the PRC to exert pressure on foreign governments. In its attempt to compel Ottawa to release Huawei's CFO Meng Wangzhou, Beijing's illegally detained Canadian citizens Michael Kovrig and Michael Spavor as well as restricted imports of Canadian commodities such as canola seeds, oil and meal. Swedish citizen Gui Minhai was sentenced to 10 years in prison in 2020 on charges of illegally providing intelligence to foreigners. Gui was awarded the annual Tucholsky Prize for writers and publicists living under threat or in exile by Swedish PEN, an NGO committed to defending freedom of expression. China's ambassador to Sweden publicly an-

nounced that his country planned to impose restrictions on economic ties and trade with Sweden and deny visas to reporters from Sweden who criticize China.

Below are four categories of PRC coercive economic diplomacy.

TRADE RESTRICTIONS

The majority of cases have included the imposition of export and import restrictions. Beijing has employed many tactics, including tariff increases, targeted customs inspections, license denials, informal embargoes, and selective use of international regulations. In one of the most recent cases, Beijing ended all trade with Lithuania by delisting it as a country of origin, which meant that imported goods from that country cannot clear customs. The measures were taken to punish Vilnius for permitting Taiwan to establish a representative office with the name "Taiwanese Representative Office." China has only taken measures to restrict imports of products for which it has an easily available substitute. It did not target imports of iron ore from Australia, for example, because China sources 60% of its iron ore from Australia and has no reliable alternative suppliers.

TOURISM CURBS

With a large number of outbound tourists and considerable control over their movements, Beijing has frequently restricted tourist flows to other countries. The Philippines was one of the first targets of a freeze on Chinese tourist visits in 2012 after a Philippine warship attempted to arrest Chinese fishermen who were fishing in the lagoon at Scarborough Shoal, which is disputed between the PRC and the Philippines. Protests against China in Manila provided a pretext for the state-owned China Travel Service to suspend indefinitely all tours to the Philippines due to "strong anti-China sentiment" that could pose a risk to the safety of PRC citizens.

ACTIONS AGAINST FOREIGN COMPANIES AND INDUSTRIES

A high degree of centralized government control enables the PRC to take punitive measures against companies and industries that are associated with a country that China is seeking to punish. When South Korea deployed the Terminal High Altitude Area Defense (THAAD) anti-missile system in 2017, Beijing rejected certification of Korean batteries for hybrid-electric vehicles, which prevented any vehicle equipped with cells made by LG Chem and Samsung SDI from being sold in China.

In some instances, the PRC uses economic coercion to target companies to change specific practices that the Chinese Communist Party deems objectionable which are not connected to government policy. In early 2018, the PRC threatened to take action against Western airlines and companies that listed Taiwan as a "country" on their websites. The following year, China canceled digital streaming of Houston Rockets games after the NBA team's General Manager Daryl Morey posted a tweet supporting Hong Kong protesters. Rather than risk being shut out of the Chinese market, the NBA and other entities that have faced censorship from China have issued public apologies and many companies have complied with Chinese demands.

Just last month, Taiwanese company Far Eastern Group and its subsidiaries were fined US$13.89 million for alleged breaches involving environmental, land use, fire safety, tax issues and other regulations at factories in five Chinese provinces. Beijing openly accused the company of supporting Taiwanese independence by providing large political donations to candidates from Taiwan's ruling party, the Democratic Progressive Party.

China has long required Taiwanese businesses seeking to invest in China to support the "One China" policy, but it has rarely enforced this policy. Seeking to prevent further punitive actions from being taken against his company, Far Eastern Group Chairman Douglas Tong Hsu published an article stating that he has always opposed Taiwan independence and supported the "one-China principle."

POPULAR BOYCOTTS

The PRC uses state and social media to encourage its citizens to launch nationalistic boycotts against companies and industries from a target state. The South Korean conglomerate Lotte Group, which provided the land in Seoul for the THAAD deployment, was targeted with massive protests that eventually forced it to shut down its 112 stores in China. In 2012, Chinese authorities fueled anti-Japanese protests after Tokyo's prefectural governor Shintaro Ishihara announced his decision to let the municipality purchase three of the disputed Senkaku/Diaoyu Islands from their private owner.

In some cases, popular boycotts by the Chinese people and companies may occur without Chinese government urging or direction, as PRC officials claim. However, it is undeniable that the government has employed a range of levers to both promote and tamp down popular boycotts during foreign policy disputes. The fact that Chinese officials threatened to instigate consumer boycotts of some Australian products in retaliation for Canberra's offending policies indicates that Beijing views popular boycotts as a useful coercive economic tool.

Although this hearing is focused primarily on economic coercion, it is important to note the negative impact of China's positive economic inducements as well. In addition to creating debt crises, corruption, environmental damage, and other negative consequences, China's financing to developing countries under the Belt and Road Initiative has stifled global criticism of Chinese violations of human rights. Many recipients of China's BRI funding have openly supported Beijing's position that its actions against Uighurs and other minorities in Xinjiang are necessary to counter terrorism and extremism. During the 47th session of the United Nations Human Rights Council earlier this year, more than 90 countries, including several with majority Muslim populations, expressed their support for China's stance and 65 of them opposed interference in China's handling of the situations in Xinjiang and Tibet. Although it is difficult to prove, it is likely that many of the states that sided with China did so because they want to continue to receive Chinese loans and investment, and fear that refusal to support Beijing would put those benefits at risk.

When has the PRC's economic coercion been successful and why? Studies show that the level of economic pain that initiating countries can inflict on targets rarely, by itself, determines whether coercion is effective. In the cases in which China has employed economic coercion, the failure to compel many of the targeted foreign governments to alter their policies is due in part to the fact that Chinese application of economic pressure has generally been aimed at a small number of companies or industries in each target country and therefore the impact on China's total trade with that country has been relatively limited. In most cases, the economic hardship has been short lived because companies have discovered ways to circumvent PRC restrictions or found new markets for their goods. For example, Canada's exports to China fell by $3.5 billion in 2019, but that loss only constituted a small fraction of Canada's $447 billion in exports that year.

Of the almost one dozen Australian products targeted by Chinese coercion, all are being shipped elsewhere, except for a small percentage of high-end Australian wine.

The PRC's move to halt all trade with Lithuania will not have a major negative effect on the Lithuanian economy because only 1% of its exports go to China. However, if Beijing were to take similar actions to block all imports from a state that has a greater trade dependency on China, the impact could be far more damaging. Since the PRC's decision to delist Lithuania as a country of origin is in clear violation of WTO rules, it is possible that this action may strengthen the willingness of democracies to unite to push back against Chinese economic coercion.

In the cases that PRC pressure has successfully led to policy changes in the target state, political factors have played a bigger role than the effectiveness of economic coercion. Norway's exports to China declined as much as $1.3 billion between 2011 and 2013, but by 2014 its exports had rebounded to normal levels. The Norwegian government remained subject to significant restrictions on political interactions with Beijing, however. After seven years, Oslo agreed to make political concessions to China to restore the bilateral relationship to normal. In 2017, Norway signed a new political agreement with Beijing in which it said that Norway "fully respects China's sovereignty and territorial integrity, attaches high importance to China's core interests and major concerns, will not support actions that undermine them, and will do its best to avoid any future damage to the bilateral relations."

Mongolia conceded to Chinese demands more quickly than Norway. The PRC implemented measures to hamper trade with Mongolia after Ulaanbaatar hosted the Dalai Lama, Tibetan's spiritual leader, for a visit. The Mongolian government subsequently publicly stated that "Tibet is an inseparable part of China and the Tibet issue is China's internal affair." It agreed to never host the Dalai Lama again. Both political and economic factors likely played a role in Ulaanbaatar's decision. Mongolia was desperate for Chinese investment in mining and infrastructure and Beijing had canceled talks to discuss a potential loan. The country's geographical proximity to China also requires preserving some modicum of friendliness and stability in relations with its much larger neighbor.

In Japan's case, although China was not successful in blocking rare exports to Japan, Tokyo capitulated and released the Chinese captain of the fishing vessel. Japan's decision was likely based on political considerations, and perhaps concerns that Beijing could take more harmful measures, such as acting against Japanese investment in China.

In the majority of instances in which Beijing has used economic coercion against states, it has failed to change the policies of its targets. In some cases, China's trade weaponization has backfired. In the wake of being subjected to Chinese pressure, some countries have taken steps to reduce their dependence on China and create more resiliency in their supply chains. Although China won a short-term victory against Japan in 2010, Tokyo subsequently slashed its vulnerability to China: over 90% of Japan's rare earths were imported from China in 2010, it cut that reliance to 58% within a decade.

Moreover, Beijing's coercion has caused many countries to rethink their economic relationships with China and encourage their companies to diversify. In some cases, China's use of coercive tools has inadvertently caused the formation of nascent anti-China coalitions. The pursuit of trade restrictions against Australian industries was probably a factor in Canberra's reassessment of its security environment that led to its decision to sign the trilateral AUKUS pact with the United States and Australia.

China's economic coercion has likely been more successful in deterring some countries from taking actions that could damage Chinese interests than in compelling policy reversals. In fact, the intended target of Chinese actions often may not be the offending country; instead, China often coerces one to deter another—"killing the chicken to scare the monkey."

RECOMMENDATIONS

Despite its limited success and occasional blowbacks, Beijing continues to view economic coercion as a valuable tool in its economic statecraft toolkit. This is likely because it judges that the cost to China is negligible. Recent developments such as the AUKUS deal and the pending EU anti-economic coercion tool suggest that countries are willing to band together to impose greater costs on China. The United States should consider undertaking unilateral steps as well as working with like-minded partners to counter and deter potential Chinese economic coercion, and to prepare measures to limit potential damage to companies and industries.

To Do List:

- *Diversify trade relationships.* The United States should identify sectors which are overly dependent on the Chinese market and therefore vulnerable to coercive trade practices. National and local governments should actively promote trade diversification.
- *Assist companies and industries to identify and respond to trade coercion.* The United States should help potential targets of economic coercion to develop tools to identify cases of trade coercion and respond quickly. Trade associations and other stakeholders should be encouraged to work closely with U.S. government agencies. Mechanisms should be created for sharing information and best practices.
- *Prepare to assist targets of coercion.* Encourage companies to have a plan in place to respond to potential Chinese coercion. They should be encouraged to report all instances of coercion to appropriate U.S. government entities. The U.S. government should become actively involved in coercion cases in various ways, ranging from diplomatic condemnations of China's actions to providing compensatory support for targeted industries and workers. Congress should explore how to appropriate funds for a vehicle to compensate companies affected by Chinese coercion. The provision of assistance to targets of coercion will likely reduce incentives to comply with Chinese demands.
- *Encourage private sector trade associations to develop a voluntary code of conduct regarding China.* Such a code would include commitments by U.S. companies to refrain from self-censorship and other activities in China that are contrary to U.S. values and interests. The U.S. should consider developing incentives that could be provided to companies that sign on to the code of conduct.
- *Create a voluntary counter-coercion coalition of like-minded countries willing to push back against economic coercion.* When instances of economic coercion take place, coalition members can decide whether and how to respond. Through collective action, the coalition would seek to compel China to stop its economic coercion campaign and to desist from taking future coercive measures in the future. Collective steps could include: (1) issuing a joint declaratory statement condemning Chinese behavior and other coordinated diplomatic actions; (2) encouraging targeted countries to pursue WTO dispute settlement cases against instances of economic coercion where WTO remedies are possible, with other coalition members then signing on to those cases as third parties; (3) explore ways

of taking retaliatory trade, investment or other policy measures against China that are consistent with WTO rules; and (4) create a counter-coercion reserve fund to compensate companies for economic losses. The fund should be capitalized by coalition members and private sector firms who might be targeted by coercion and receive compensatory support. Even a small amount of compensation would send a signal of political support to the targets of coercion, and more broadly to allies, partners, and the private sector.

- *Work with allies and partners to reform the WTO so that member states are protected from economic predation.* Realistically, this cannot be achieved quickly, but it is in the interests of democracies to strengthen the WTO so it can effectively penalize bad behavior when it occurs and arbitrate disputes objectively.

PRC Trade Coercion

Country	Year	Precipitating Action	Punishment
	2010	Liu Xiaobo granted Nobel Peace Prize	Curtail salmon imports; freeze FTA talks
	2010	Chinese fishing captain arrested	Block rare earth exports
Philippines	2012	Confrontation at Scarborough Shoal	Block tropical fruit imports/cut tourists
	2016	Dalai Lama visit	Impose fees on commodity imports
South Korea	2016	THAAD deployment	Boycott South Korean products
Taiwan	2016*	Refusal to endorse "one China"	Restrict tourists, boycott fruit
Australia	2017*	Campaign against interference/5G policy/ call for investigation into origins of Covid19	Limits on coal, wine, barley copper, sugar, timber, and lobster imports
Canada	2018	Arrest of Huawei CFO Meng Wanzhou	Ban some Canadian agricultural goods
New Zealand	2019	Huawei blocked from 5G rollout	China-NZ year of tourism postponed
Sweden	2019	Culture Minister gives rights prize toGui Minhai	Trade/business delegations canceled
Czech Republic	2019	Prague signs sister city deal with Taipei	Shanghai cuts ties, ends official contacts
United Kingdom	2020	UK support for Hong Kong protesters	Suspend Shanghai-London stock connect
Sweden	2021*	Ban on Huawei in 5G telecom market	Reduced Ericsson's share in tender
Lithuania	2021*	Taipei opens "Taiwan" office in Vilnius	Suspend rail freight, stopped trade

*ongoing successful partly successful (This list is selective; there are additional cases not included)

PREPARED STATEMENT OF ZACK COOPER

BETWEEN BEIJING AND A HARD PLACE: RESPONDING TO CHINA'S ECONOMIC COERCION

Senator Merkley, Representative McGovern, and other distinguished Commission members, thank you for inviting me to testify before you today.

The topic of this hearing—how China uses economic coercion to silence critics and achieve its political aims globally—could not be more timely. Over the last few weeks, the world has watched as Beijing has attempted to silence one of China's brightest global stars. Peng Shuai's courage in coming forward with allegations of sexual assault perpetrated against her by a former vice premier stands in stark contrast to the Communist Party's efforts to muzzle her.[1] After Peng described her assault on social media, state censors quickly deleted the post and restricted searches for Peng's name. Shortly thereafter, Peng disappeared from public view, only to reappear several days later in materials circulated by state media purporting to show Peng safe and sound. Few were convinced, including the Women's Tennis Association, which has continued to advocate on Peng's behalf, despite the likely economic consequences.

Many around the world—including members of this Commission—have persistently brought attention to this case.[2] China's efforts to silence Peng remind many of Beijing's censorship and repression campaigns on a variety of other domestic issues, including Hong Kong, Tibet, and Xinjiang. But China's leaders have been active in silencing criticism abroad as well, often using a variety of economic tools. The Alliance for Securing Democracy, which I co-direct, collects data on economic coercion through our Authoritarian Interference Tracker.[3] We list 67 cases of economic coercion by China in the last decade alone. And at the moment, our database only tracks actions targeting the transatlantic community, so it does not capture the multitude of well-known cases of economic coercion against targets outside the United States and Europe.

EXAMPLES OF CHINA'S ECONOMIC COERCION TO SILENCE CRITICS

To better understand the approaches that Beijing tends to take—and how these tactics have shifted over time—it is helpful to scrutinize five cases of Chinese economic coercion. The cases below illustrate how China has sought to silence critics in U.S. partner countries (Norway and Mongolia), U.S. treaty allies (in Australia and Europe), and even in the United States itself. There are a number of similarities across cases, but they also suggest that Beijing is shifting its approach in three ways: China's economic coercion is becoming more frequent, targeted, and explicit.

- **Norway:** In 2010, the Norwegian Nobel Committee awarded the Nobel Peace Prize to Chinese dissident Liu Xiaobo. At the time, Liu was jailed in China for "inciting subversion of state power" by calling for political reforms. In response to the Nobel Prize award, the Chinese government instituted economic punishments against Norway.[4] Subsequently, the Norwegian Seafood Council claimed that Norway's share of the Chinese salmon market fell from 92% to 29%.[5] Furthermore, Beijing stopped negotiations with Oslo on a free trade agreement, and some Norwegian individuals were reportedly denied visas to China.[6] Relations between the two countries did not improve until 2016, when Chinese foreign minister Wang Yi stated, "Norway deeply reflected upon the reasons why bilateral mutual trust was harmed, and had conscientious, solemn consultations with China about how to improve bilateral relations."[7] A Norwegian scholar concluded, "the Chinese government can effectively use economic sanctions to affect the foreign policy positions of democratic governments ... China has become too big to fault."[8]
- **Mongolia:** In 2016, the Dalai Lama traveled to Mongolia. One week after the Dalai Lama's visit, China began to impose fees on commodity imports from Mongolia. In addition, loan negotiations between Mongolia and China were suspended. Chinese foreign minister Wang Yi warned that "The Dalai Lama's furtive visit to Mongolia brought a negative economic impact to China-Mongolia relations."[9] Under growing economic pressure from its larger neighbor, the Mongolian government relented and promised to prevent future visits of the Dalai Lama.[10] Mongolian Foreign Minister Tsend Munkh-Orgil publicly stated, "Under this current government, the Dalai Lama will not be invited to Mongolia, even for religious reasons."[11] The Chinese government noted this commitment and stated that it hoped "Mongolia will truly learn lessons from this inci-

dent."[12] Similar patterns of economic punishment have been observed elsewhere, with researchers finding that visits by the Dalai Lama decreased exports to China by 12.5% over the following two years.[13]

- **European Union:** China has used economic leverage with individual European Union (EU) member countries to restrict statements on human rights and other contentious issues. In 2017, for example, the EU drafted language criticizing China for its human rights record. The statement was intended to be released at the United Nations Human Rights Council, but for the first time the EU failed to come to agreement on a public statement. Public reports suggested that Greece and Hungary led efforts to block the statement, with the Greek foreign minister opposing "unconstructive criticism of China."[14] Both countries took similar actions in 2016 to prevent issuance of an EU statement criticizing China's South China Sea policies. Chinese funding for the port of Piraeus in Greece and for railways in Hungary appears to have provided Beijing with leverage. After one Greek intervention, China's Foreign Ministry went so far as to publicly congratulate "the relevant EU country for sticking to the right position."[15] More recently, Beijing has sanctioned European experts, officials, and institutions that have spoken out on human rights issues. And in just the last few days, China has delisted Lithuania as a country of origin, effectively blocking all imports from or exports to Lithuania, amidst their ongoing political dispute.[16]
- **Australia:** In 2017, Chinese influence in Australia attracted substantial attention due to a series of disclosures about Chinese political donations.[17] Donations from individuals with close ties to Beijing appear to have been intended to alter Australian decision-making regarding China. In some cases, Chinese officials directly threatened Australian political leaders that they would suffer in elections if they went against Chinese wishes.[18] Tensions rose again when Australia called for an investigation into the origins of the pandemic, after which China placed restrictions on a variety of Australian exports to China. Chinese officials even provided a list of 14 grievances that they insisted be addressed, which included "unfriendly or antagonistic report[s] on China by media" in Australia.[19] Deep China-Australia economic ties gave China an "increased ability to threaten and use economic coercion in its relations with Australia."[20] Yet, despite this leverage and pressure, Australia has stood strong. Jeffrey Wilson concludes that, "Beijing's attempt to bully Canberra has been a spectacular failure."[21] Rory Medcalf notes, "perceptions of Australia's vulnerability to Chinese economic pressure are exaggerated."[22]
- **United States:** Although China has traditionally been reticent to target the United States with economic sanctions, Beijing has recently used economic tools to penalize American businesses and individuals for speaking out on various human rights issues.[23] In the best known case, the National Basketball Association lost substantial business in China after one of its general managers posted on social media about Chinese repression in Hong Kong.[24] American companies that do business in Taiwan have also faced various kinds of pressure to alter their labeling of Taipei.[25] And prominent athletes and actors have been warned to avoid criticizing China, lest they and their employers lose business.[26] Chinese officials have even gone so far as to warn U.S. businesses that they "cannot make a fortune in silence"—suggesting that they lobby the Biden administration to change it policies toward China.[27] Beijing has also sanctioned U.S. officials, experts, and institutions for speaking out, signaling a fundamental change in China's traditional approach.[28] Whereas the United States once appeared to be largely off-limits for Chinese economic coercion, U.S. companies and individuals are increasingly coming under direct pressure.

Trends in China's Use of Economic Coercion

These five cases demonstrate that the scope, scale, and severity of the challenge from China's economic coercion is expanding. In particular, China's economic coercion has become more frequent, more targeted, and more explicit in recent years. Going forward, policymakers should expect these trends to continue.[29]

- **More Frequent:** Beijing is far more willing today to use economic tools for foreign policy ends than it was a few years ago. Whereas there were only a handful of clear cases of economic coercion by China in the early 2010s, experts have identified dozens of incidents over the last few years.[30] This is true not only for negative penalties, but also positive inducements. Audrye Wong explains that China has provided "economic inducements in illicit and opaque ways," which she calls "subversive carrots."[31] Elaine Dezenski notes that despite promises to

avoid "conditionality" in its overseas assistance, China prefers "closed bidding processes, non-transparent contracts, and a commitment to non-interference," making political influence easier.[32] These trends suggest that Chinese leaders feel more confident in using economic tools, despite the fact that many of these actions have had significant negative effects on China's standing abroad.[33]

- **More Targeted:** At the same time, China's leaders have become more targeted in their use of economic measures. This transition toward more targeted measures mirrors the longer-term shift toward more targeted sanctions by the United States and many of its allies and partners. Earlier pressure on Norway and Mongolia broadly targeted key economic sectors in each country, but recent measures have been designed to isolate specific companies and individuals. Human rights activists, political leaders, and businesses have all come under pressure for making statements and taking actions that the Communist Party opposes. Even adhering to foreign laws can put companies at risk now that China's National People's Congress has passed an anti-sanctions law that permits a broad set of responses against entities that adhere to foreign sanctions which Beijing considers "arbitrary" or "unilateral."[34]
- **More Explicit:** Finally, China's economic statecraft is far more explicit and legalistic today than it was a decade ago. Beijing used to disguise most of its economic pressure, attempting to use ambiguity to avoid committing egregious World Trade Organization violations.[35] Thus, previous measures, such as restrictions on rare earth exports, were often described in public as simple trade disputes unconnected to foreign policy choices.[36] As William Norris has noted, there are a multitude of economic actors in China with different interests, which has often made it difficult to know the intent behind any specific Chinese economic action.[37] Today, however, China's leaders are more willing to be explicit when they use economic tools for coercive purposes, with few if any efforts made to disguise the behavior. For example, Beijing has threatened to blacklist companies by putting them on an "unreliable entity list" when they "endanger national sovereignty, security, or development interests in China, or violate normal market transaction principles by suspending normal transactions."[38]

Implications for Policymakers

These trends suggest that China is likely to increase the frequency, targeting, and explicitness of its economic coercion in the years ahead. To deter and defend against these actions, the United States and other like-minded countries will have to work together more closely.[39] Not only that, but China's growing willingness to target companies and individuals will mean that those actors will find themselves isolated unless they can find ways to coordinate among themselves and with their governments. With those objectives in mind, here are three steps that the United States and others should consider to better defend themselves, deter future bullying, and counter Beijing's economic coercion through collective action.

- **Defending through Active Diversification:** In a recent report, Darren Lim, Ashley Feng, and I argued that foreign actors will have to rely more on diversification to protect themselves against Chinese economic statecraft.[40] This is true not only of the United States and its allies and partners, but also of companies and individuals within those countries. Deep dependence on China allows Beijing to accumulate influence over time and then to deploy that leverage coercively when countries, companies, and individuals act against the Communist Party's interests. There is no way to avoid such pressures entirely, but these risks can be managed by diversifying export markets and production hubs. The administration and the Congress should therefore consider whether companies operating in the United States should have to disclose the material risks to their businesses from over-exposure to any single foreign market or production hub, particularly ones that engage in widespread censorship and disinformation. Doing so might spur corporate boards to insist on auditing procedures that could identify over-exposure to certain risky markets and thereby incentivize diversification.
- **Deterring through Strategic Recoupling:** Over the last few years, a number of countries have engaged in selective decoupling to reduce their dependence on China in certain sensitive areas. These steps will no doubt continue. In the long-term, however, it is also in the U.S. interest that China continues to be dependent on America and its allies and partners for a wide range of goods.[41] This is true both in high-technology areas, such as advanced semiconductors, but also in more basic but essential commodities such as agricultural products. One need look no further than Australia to see that imports like iron ore are

critical to China, which gives foreign governments real leverage. Therefore, the offensive tool of strategic recoupling should be seen as a natural counterpart to defensively oriented selective decoupling. The United States should lead efforts with allies and partners to determine in which areas China's dependence can be maintained, or even increased, to provide leverage for deterring future economic coercion campaigns.

- **Countering through Collective Action:** Defense and deterrence are two key elements, but ultimately the United States will have to work with key allies and partners to penalize China when it engages in economic coercion against such countries, companies, and individuals.[42] Doing so requires cooperation on what the European Commission is calling an anti-coercion instrument.[43] When certain steps are triggered, the European Union will be able to institute countermeasures against coercion from abroad. The current case of Chinese coercion against Lithuania may provide an early test of this approach. Collective action will be critical, since Beijing is hoping that it can use its large market to coerce smaller foreign actors. Effective responses to China's economic statecraft will require concerted action by a number of like-minded countries. Working together with the European Union and others on a mechanism to counter coercion should therefore be a top priority for U.S. lawmakers and policymakers. Although this effort is likely to take years, work toward this type of arrangement should begin in earnest immediately.

[Endnotes begin on the following page.]

Endnotes:

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PREPARED STATEMENT OF JENNY WANG

Chairman Merkley, Co-chair McGovern, members of the Commission, and distinguished guests, thank you for inviting me to testify today, just days before the inaugural Summit for Democracy.

Today, I will be speaking about one of the most pressing threats to democracies and global freedoms: the authoritarian Chinese government, and more specifically—the stunning costs that multinational companies pay in order to appease the Chinese government and secure access to the Chinese market.

On the face of it, this topic may seem like an economic issue, but it is a human rights and moral issue as well.

According to the Human Rights Foundation's political regime analysis, China is a fully authoritarian regime, ruled by the Chinese Communist Party (CCP). There is no separation of powers, no judicial independence, and a severe lack of respect for the fundamental rights of citizens. While freedoms are enshrined in Chapter II of the Constitution of the People's Republic of China (PRC), in practice, the Chinese government monitors all aspects of its citizens' lives, suppressing any criticism about its rule and ideologies.[1] This grip has only tightened under Xi Jinping, impacting those far beyond its borders.[2] China's bellicose behavior is driven solely by the CCP's sheer determination to maintain and consolidate power—and it is willing to go to great lengths to do so.

Corporations worldwide have long been enticed by China's market, due to the country's large population and the promise of growth.

As such, the CCP is weaponizing their economic power to pressure firms to censor themselves or to even apologize if they don't help advance the party's political agendas. Companies wishing to profit in China must be willing to comply with draconian Chinese national laws and to carry out pro-CCP narratives, or face expulsion from the market.[3]

When companies decide to abide by the Chinese government's demands, they are intentionally complicit in human rights abuses and acts of genocide perpetrated by the CCP, and they are actively violating rights widely recognized by international human rights law.

When companies deliberately choose to censor or apologize to appease the CCP, they are offering legitimacy to the authoritarian regime, and signaling their willingness to disregard not only the human rights of others, but of their own too, as the cost of doing business in China.

In 2020, my colleagues at the Human Rights Foundation and I published a report titled *Corporate Intimidation & Censorship in China* which illustrates these dire realities.

While this phenomena is not new, we saw a sharp rise of such economic coercion and fear of expulsion among companies with interests in China, in the summer and fall of 2019 during the anti-extradition protests in Hong Kong. The Chinese government, whether directly through state-controlled media or indirectly by manipulating public opinion, rebuked multinationals for supporting Hong Kong's pro-democracy movement—or for even simply posting content that could be interpreted as support.[4] The CCP's use of economic coercion is to not only silence criticism and dissent, but to intentionally trigger a ripple effect[5] to mold public opinion both inside China, and overseas.

Corporations are constantly facing economic, moral, and humanitarian challenges as they navigate this landscape. Such navigation, in and of itself, is a challenge too.

For example, in March 2021, Swedish apparel brand H&M (formally known as Hennes & Mauritz AB) faced a scathing boycott in China for simply releasing a statement of concern about Uyghur forced labor. Chinese state media and citizens flooded the internet to vilify the brand; several H&M stores closed, online presence disappeared, and locations were removed from maps.[6] The company reportedly lost approximately $74 million in sales in China for the quarter ending May 31, 2021.[7]

Even if the Chinese government does not mobilize nor retaliate immediately after an offending comment or action, corporations and their leaders are quick to preemptively apologize to best protect their access to China's market. Just last month, Jamie Dimon, the CEO of JPMorgan, expressed regret for a joke he made about the CCP's centennial.[8]

With the 2022 Beijing Winter Olympics weeks away, it is expected that the Chinese government will continue its fierce campaign of economic coercion as a strategic tool to intimidate firms to remain silent about its human rights record.

Based on my observations, companies are now choosing from three methods to approach China's economic coercion: (1) Embrace, (2) Capitulate, or (3) Condemn.

1. **Embrace:** Maintaining the current trajectory

Maintaining the current trajectory includes the continuation of censoring, apologizing to the regime, or being complicit in the Chinese government's abuses.

At the CECC's *Corporate Sponsorship of the 2022 Beijing Olympics* hearing in July 2021, representatives from U.S.-based companies Airbnb, Coca-Cola, Procter & Gamble, and Visa deliberately avoided explicitly condemning the Chinese government's atrocities.[9]

Furthermore, just last week, it was revealed that Airbnb has been renting homes in Xinjiang, on land owned by the paramilitary organization Xinjiang Production and Construction Corps (XPCC)—despite the human rights abuses unfolding in the region, and the fact that XPCC is sanctioned under the Global Magnitsky Act.[10]

Multinationals that choose this method are aware of the reputational risks and corporate hypocrisy of embracing China's economic coercion—but choose not to care. They should recognize their actions may put them at higher regulatory risk from the U.S. government due to their reflexive obedience and willingness to appease the Chinese government at any and all costs.[11]

2. **Capitulate:** "One company, two systems"

In June of 2019, I received an official email from LinkedIn Support Team, notifying me that "due to prohibited content" located on my LinkedIn profile, my profile and my public activity on the page "will not be viewable in China."[12] Several jour-

nalists, academics, and activists who have posted content deemed sensitive by the Chinese government have also received the same message.[13]

In October 2021, LinkedIn, which is owned by Microsoft, decided to shut down its localized version in China, citing "a significantly more challenging operating environment and greater compliance requirements." However, instead of exiting the Chinese market altogether, it opted to create a new application called "InJobs,"[14] which will be even more localized and compliant with stringent local regulations, with no social posting and networking features, specifically for usage in China.[15] It is knowingly aiding and abetting the Chinese government's clampdown on human rights.

"One company, two systems" is a play on Hong Kong's failed "One country, two systems" model. Such a framework to address China's economic coercion may seem promising on the surface because it illustrates how corporations are starting to acknowledge the issue, yet still does not fully address it. It is deceitful and disingenuous since it continues to turn a blind eye to the Chinese government's abuses to ensure access to the market, and does not firmly ensure human rights are protected.

3. **Confront:** Standing firm

Multinationals have long approached China's economic coercion by abiding by the Chinese government's requests—which is why the Women's Tennis Association (WTA)'s recent stance against China is so rare and warmly welcomed.

In early December 2021, CEO and Chairman of the WTA Steve Simon officially announced the WTA's decision to immediately suspend all tournaments in China, including Hong Kong, in response to the uncertainties surrounding Chinese tennis player Peng Shuai's freedom, safety, and well-being. Within the statement, Simon expressed his hope of how "leaders around the world will speak out . . . no matter the financial ramifications."[16] In 2019, the WTA entered a ten-year deal to host WTA Finals in China. According to Simon, the ballpark monetary amount of the WTA's involvement in China is more than $1 billion, including real estate, stadium build-out, prize money, etc.

The WTA's responses to the Chinese government's intimidation and lack of transparency about Peng Shuai have been a master class of how multinationals with interests in China can prioritize moral responsibility and human rights over profits.[17]

The WTA's stance is an example of how companies can use their corporate leverage to demand accountability from the Chinese government. The WTA's corporate leverage includes the Association's international presence, Simon's public statements in support of Peng Shuai, as well as the trust and influence of top tennis players such as Naomi Osaka and Serena Williams.

We must be demanding better of the businesses that employ, supply, entertain, and house our people.

When companies are not held accountable for embracing or capitulating to the CCP's economic coercion, they will not fully recognize the severity of their actions.

In order to address these three methods and to approach China's economic coercion with human rights central to the discussion, immediate next steps would be to (1) raise awareness and visibility about China's economic coercion and (2) increase accountability.

To raise public awareness and visibility about economic coercion, my recommendations are to:

1. **Approve legislation to establish the China Censorship Monitor and Action Group** per S. 413.[18] The establishment of this task force would be a critical first step towards increasing awareness about how the Chinese government impacts the freedoms of transnational companies, specifically those founded on liberal values in democratic countries. Furthermore, in addition to consulting with federal and independent agencies, relevant stakeholders in the private sector and the media, and United States allies and partners, the task force should also consult the United Nations Guiding Principles on Business and Human Rights.

2. **Mandate greater transparency among American companies by introducing legislation that would require them to publicly report their respective exposures to China.** This data would provide both policymakers and consumers better insight about the potential impact of China's economic coercion and guide pragmatic and achievable policy decisions in the future. These exposures to China could include market shares, closed-door meetings, and who American business leaders are engaging with.

To increase accountability, my recommendations are to:

1. **Sign H.R. 1187 into law,** which would mandate the Securities and Exchange Commission to define environmental, social, and governance ("ESG") practices, and establish a Sustainable Finance Advisory Committee.[19] Recently, there has been

more awareness around climate change and environmental issues. It is imperative for corporations to remember the "S" in ESGs also include human rights and ethical considerations.

2. **Request a follow-up hearing with the witnesses of CECC's *Corporate Sponsorship of the 2022 Beijing Olympics* hearing in July 2021.** A follow-up hearing would provide an opportunity for the Commission to discern whether the witnesses have taken any concrete actions to address what was discussed, and to once again emphasize the importance of leveraging their influence to uphold fundamental human rights.

Businesses with global operations have great influence—both positive and negative. It is up to Congress to help influence, inform, and prompt them to uphold our values, and stand firmly with human rights in response to China's economic coercion.

I look forward to discussing this in more detail and answering your questions. Thank you for the humbling opportunity to testify before the Commission today.

[Appendix and Endnotes appear on the following pages.]

APPENDIX

Image 1:

From: "領英客户服务" <linkedin_cn@cs.linkedin.com>
Date: Thu, Jun 27, 2019, 03:22
Subject: Official Message from LinkedIn Support Team [事件: 190627-000829]
To: <[redacted]>

LinkedIn

前往帮助中心查看此申请单

Subject: Official Message from LinkedIn Support Team [190627-000829]

回应 (2019-06-27 02:22 CST)

Hi Jenny,
Your LinkedIn profile is an integral part of how you present your professional self to the world. That's why we believe it's important to inform you that due to the presence of prohibited content located in the "Publication" section of your LinkedIn profile, your profile and your public activity, such as your comments and items you share with your network, will not be made viewable in China. Your profile and activity continues to remain viewable throughout the rest of the countries in which LinkedIn is available.
We will work with you to minimize the impact and can review your profile's accessibility within China if you update the"Publication" section of your profile. But the decision whether to update your profile is yours.
In February 2014, we began offering a localized version of LinkedIn in China. We believe that people everywhere can benefit from Chinese individuals connecting with each other and Linkedin members in other parts of the world, and that the creation of economic opportunity can have a profound impact on their lives and the lives of their families and communities.
While we strongly support freedom of expression, we recognized when we launched that we would need to adhere to the requirements of the Chinese government in order to operate in China. As a reminder, your profile will remain viewable throughout the rest of the countries in which LinkedIn is available.
If you have any questions, please contact Customer Service.
Regards,
LinkedIn Support Team

Endnotes:

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[3] *Supra* note 1 at page 7.

[4] *Supra* note 1 at page 15.

[5] A ripple effect from employers to employees, from merchants to consumers, from educators to students, from movie films to movie audiences, etc.

[6] *H&M's China Sales Hit as Boycott Bites,* Reuters (2 July 2021), https://www.reuters.com/business/retail-consumer/hms-china-sales-hit-boycott-bites-2021-07-02/.

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[11] *Supra* note 1 at page 20.

[12] Image 1 in Appendix.

[13] Bethany Allen-Ebrahimian, *LinkedIn blocks U.S. journalists' profiles in China,* Axios (30 September 2021), https://www.axios.com/linkedin-blocks-us-journalists-profiles-in-china-22fcefd4-5bc1-490b-a448-b4f9b05e9566.html.

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[17] Ben Morse and Nectar Gan, *Women's Tennis Suspends All Tournament in China Over Concern for Peng Shuai,* CNN, (02 December 2021), https://www.cnn.com/2021/12/01/tennis/wta-suspend-tournaments-china-peng-shuai-spt-intl/index.html.

[18] *S. 413, 117th Congress (2021–2022): A bill to establish the China Censorship Monitor and Action Group, and for other purposes.* (24 February 2021), https://www.congress.gov/bill/117th-congress/senate-bill/413/text.

[19] *H.R. 1187, 117th Congress (2021–2022): Corporate Governance Improvement and Investor Protection Act.* (Referred in Senate, 17 June 2021), https://www.congress.gov/bill/117th-congress/house-bill/1187/text.

PREPARED STATEMENT OF HO-FUNG HUNG

Chairman Merkley, Chairman McGovern, and respected members of the Commission, it is my honor to have this opportunity to contribute my expertise and testify before the Commission on China's economic coercion. My testimony will draw from the findings of my ongoing research and publications about Hong Kong business and politics. It will focus on the challenges that U.S. corporations and investors face under the new political environment in Hong Kong after the implementation of the National Security Law in July 2020.

Since the 1980s, Hong Kong has been an indispensable offshore financial center of China while China's financial system was closed to the world. One purpose of Beijing's One Country, Two Systems design is to maintain such a role of Hong Kong after the sovereignty handover.

After China acceded to the WTO, China has continued to keep strict foreign exchange control and refused to liberalize its capital account. Hong Kong has been the only financial market under Chinese sovereignty that maintained a free financial system open to the world and a freely convertible currency of its own. It is a unique gateway where Chinese corporations raised capital from international investors, borrowed in USD, and channeled their investment to other parts of the world. As my forthcoming book *City on the Edge: Hong Kong under Chinese Rule* shows, as of 2019, among the 1,738 Chinese companies listed in overseas markets, 1,331 were listed in Hong Kong.[1] In 2018, 67 percent of FDI going into China originated from Hong Kong, and 57 percent of China's outgoing FDI was destined for Hong Kong.

Hong Kong is still an indispensable doorway through which money goes in and out of China.

Such special status of Hong Kong under China's sovereignty turns Hong Kong into an ideal destination for the Chinese political elite to hide their wealth and conduct shady international financial and commercial deals, violating international sanctions. With the tightening of political control in Hong Kong across the board, foreign companies which used to operate in a liberal and open environment have started to face unique and mounting political and economic risks.

Hong Kong status as a free offshore financial center with enthusiastic participation by investors and corporations worldwide hinges on its rule of law, freedom of the press, the transparency of its corporate governance, and neutrality of its business regulators. These foundations for Hong Kong's financial centrality are now being threatened in the new political landscape. Despite their economic significance, these foundations have been thorns in the side of the CCP. For example, the presence of a free press presents a constant threat that the Chinese political elite's private wealth in Hong Kong would be exposed and create embarrassment for them.[2] Hong Kong-based Chinese front companies that helped North Korea and other unruly regimes to evade international sanctions are often exposed by journalists working in Hong Kong.[3]

While the National Security Law itself poses a threat to civil liberty, the free flow of information, and private property in Hong Kong, it also profoundly transforms Hong Kong's political climate. It opens the door for the HKSAR and Beijing governments to pass new laws in the name of national security that worsen Hong Kong's business environment for foreign corporations and investors.

THE ANTI-FOREIGN SANCTIONS LAW

For example, this summer (2021), Chinese official media and establishment political figures in Hong Kong have been citing authoritative sources to indicate that the Anti-Foreign Sanctions Law, passed in China in June of this year, would be made applicable to Hong Kong in the NPCSC meeting in August. If it becomes a reality, any corporation, foreign or Chinese, operating in Hong Kong will face an impossible dilemma. If they abide by U.S. sanctions on Chinese or Hong Kong entities and officials, they will be violating China's Anti-Foreign Sanctions Law and penalized. If they comply with China's Anti-Foreign Sanctions Law, they will be violating the many U.S. and international sanctions. Facing this impossible choice, many corporations would have to consider leaving Hong Kong.[4] Against this backdrop of a looming anti-foreign sanctions law beside tightening repression in many other realms of Hong Kong, the U.S. Government issued an official warning to U.S. businesses operating in Hong Kong on July 16.[5]

As it turns out, Beijing's political elite are seemingly still divided on how much economic price to pay for continuing to tighten the screws on Hong Kong. Presumably, certain factions of the powerful elite still worry about the loss of Hong Kong as an offshore market.

When the market was worrying about the inevitable application of the Anti-Foreign Sanctions Law to Hong Kong in late August, the NPCSC surprisingly announced it would delay the decision to obtain more time to assess its economic impact.[6] Despite this temporary backpedaling, establishment figures do express confidence that the application of the law to Hong Kong will be back on the agenda sooner or later.[7] But this episode also manifests the soft spot and limits of Beijing's crackdown on Hong Kong and U.S. continuous leverage over Beijing's Hong Kong policy.

DECLINING CORPORATE GOVERNANCE TRANSPARENCY

When the Hong Kong authorities are expanding their control of the media in the name of safeguarding national security, it also expands its power in a way that jeopardizes the very transparency and integrity of the Hong Kong business environment. For example, in March 2021, the HKSAR government announced it would start restricting public access to information of directors and executives of registered companies.[8] For decades, journalists in Hong Kong took advantage of public access to such information, including name, HKID number, and addresses of directors of registered companies, to identify who is truly behind some important business transactions and property holdings. It is the channel through which journalists expose many corruption cases and unfair business transactions (e.g., government officials with insider information sell or buy a property through a company they hold). It is also the channel through which the Chinese elite's property ownership in Hong Kong, usually owned in the name of companies set up to hide the identities of the true owners, was discovered.[9] Labeling journalists' access to the board of directors'

information as undue "privilege," the HKSAR government is transforming the Hong Kong business environment into one rife with mysterious companies with secretive, powerful owners behind the scene, somewhat like money laundering centers and tax havens in the Caribbean. Journalists would also find it more difficult to discover problems with publicly listed companies if the identities of their bosses were shrouded in the dark.

Also, it has been an established practice that powerful Chinese companies set up front companies in Hong Kong to conduct international transactions that violate international sanctions. If one of such front companies were exposed and blacklisted internationally, the powerful company behind would move on to establish a new front company in its place. If the new ban on public access to companies directors' information had been in place earlier, the world would have never known that Skycom, a Hong Kong-registered company that violated U.S. sanctions and sold restricted computer equipment to Iran illegally, was controlled by Huawei.[10] Powerful Chinese companies would have tricked more foreign banks operating in Hong Kong to violate international sanctions inadvertently, like the example of HSBC in the Huawei case.[11] This new restriction on disclosure of company information muddles the environment for foreign corporations operating in Hong Kong.

THE ANTI-DOXXING LAW

Another troubling development is implementing the anti-doxxing law amendment in October this year. The amended law criminalized unconsented disclosure of private information, vaguely defined, without the need for proof of the harm done. It hands the authorities vast new authorities to prosecute dissidents and journalists who disseminate information about the powerful elite and expands the authorities' power to request local and foreign media and internet platforms to remove content deemed to violate the law. It also gives authorities the power to access electronic devices and search premises without a warrant.[12]

This law will significantly impact U.S. social media companies operating in Hong Kong, as the law's most draconian measures can be applied to them if one of their users is deemed to violate the vaguely defined offense. To try to maintain Hong Kong's financial center status, the Hong Kong government has not yet banned U.S. social media and internet browsing platforms. The continuous presence of U.S. social media companies in authoritarian Hong Kong poses a unique challenge. Under the anti-doxxing law, the social media companies could be forced to comply with the HK authorities to delete posts or surrender users' information out of the HKSAR government's request with a threat of heavy penalty. The law could effectively turn those companies into the enforcers of the government's efforts to stifle the free speech of their users, including U.S. citizens inside or outside Hong Kong. The law would also force those companies to surrender users' data.

Before the law was enacted, Singapore-based Asia Internet Coalition (AIC), which represents Apple, Facebook, Google and Twitter among other members, warned that "introducing sanctions aimed at individuals is not aligned with global norms and trends," and that local staff in Hong Kong handling the day-to-day operations for these tech giants does not have the access rights or ability to remove content if so demanded by the local government. The anti-doxxing law could place members in an untenable position that could force them to "refrain from investing and offering their services in Hong Kong."[13]

DETERIORATING REGULATORY ENVIRONMENT

Independent and respected institutions that have been instrumental in safeguarding the reputation and integrity of the Hong Kong business environment have been under threat even before the National Security Law. Some of them appear to face increasing political pressure and start to behave like a political tool of the authorities. For example, it is unclear whether Hong Kong's independent financial regulator, the Securities and Futures Commission, could uphold its independence. In 2014, the SFC took action against an American short-seller for publishing a negative research report about a powerful property developer (Evergrande!) from mainland China. It also fined and reprimanded credit rating agency Moody's for a report that warned about corporate governance irregularities of 49 mainland Chinese companies listed in the Hong Kong market.[14]

These may be isolated cases, but they already raised the fear that the regulatory body would increasingly favor mainland companies, creating a chilling effect on financial analysts who do research that was critical of them. This summer, *The Economist* warned that "[g]lobal banks say that practices from mainland China are seeping into the city. These include a shift in the way IPOs and bonds are underwritten. Where banks' roles were once clearly defined early in the process, now a handful

of institutions, many of them mainland Chinese, fight for top spots in transactions. Many are accused of inflating their orders for the securities in order to impress clients. This has reduced the transparency of the process and disrupted price discovery. . . . bankers fear that Hong Kong's standing as a global financial centre will suffer. Moreover, the situation mirrors the city's greater dilemma. A cosmopolitan society with globally recognised norms is rapidly losing ground to a Chinese way of life."

RISKS TO U.S. INVESTORS

With China's economic slowdown and brewing economic crisis over the last decade, Chinese entities have been increasingly eager to raise debt in the international financial market via the Hong Kong platform. Hong Kong is already a unique global platform for Chinese corporate bond offshore sales. It also started to emerge as a platform for Chinese government bond sales. Just this October, the debut of the Shenzhen government bond in Hong Kong—the first-ever offshore sale of Chinese government bonds—attracted USD 775 million worth of global subscriptions.[15] U.S. institutional and individual investors' involvement in these financial products could effectively tie their financial fortunes to Chinese companies and Chinese government action that violate international sanctions and human rights.

As independent and critical research, including financial analysis, academic research, and journalistic reporting, of Chinese business and government in Hong Kong became increasingly difficult, and as Hong Kong regulators become ever more biased toward the mainland Chinese firms and government, investment into these corporate and government bonds in the Hong Kong market will become increasingly risky. While U.S. institutional investors may feel the urge to follow the herd of global high finance to pile into such an exotic bond market, individual contributors to investment funds will always have to bear the heaviest loss when anything bad happens. The explosion of the debt crisis of Evergrande and other major Chinese property developers recently is the best indication of such risk to U.S. investors.

My new book about the corporate origins of deteriorating U.S.-China relations shows U.S. businesses in mainland China have been complaining about the lack of rule of law, lack of free flow of information, bias of regulators against them, unpredictability (or politicization) of law and regulations enforcement there for a long time. These problems have created an unlevel playing field in which U.S. corporations compete with domestic Chinese ones at a disadvantageous position.[16] But at least for financial deals, U.S. corporations could rely on the Hong Kong financial market, which did not share many of the shortcomings in the mainland Chinese environment. However, under the new political climate of Hong Kong, the institutional foundations of the fairness and transparency of Hong Kong's financial market erode rapidly, making the Hong Kong business environment converge with the mainland.

The temporary stalling of applying the Anti-Foreign Sanctions Law to Hong Kong shows significant vested interests in the CCP still prefer not to destroy Hong Kong's financial center status too rapidly. But the development in the recent two years shows that Beijing's instinct for absolute control is so great that any internal check against the destruction of Hong Kong's financial centrality can at best be temporary. The HKSAR government's refusal to take any advice and complaint from AmCham Hong Kong and U.S. financial firms to lessen the draconian and unscientific quarantine regime and border closure that hinders operations of global firms indicates that the authorities are ready to sacrifice Hong Kong's financial centrality for the sake of political control.[17] The recent denial of work visas to foreign journalists covering financial news in Hong Kong (like the rejection of visa renewal for the Hong Kong correspondent of *The Economist*) without giving any reasons is another indicator.[18]

For a long time, Beijing had adopted a "frog-cooking" approach to taking away Hong Kong's political freedom, adding the temperature gradually so we might not be alerted that the freedom is taken away. After a certain point, Beijing turns up the fire all the way to destroy whatever remains (via the imposition of the NSL new order). Now, Beijing has started to use this frog-cooking approach to slowly take away the institutional foundations of Hong Kong's status as a transparent, fair, and clean offshore financial center, turning it into a murky swamp where politically well-connected Chinese firms and their collaborators enjoy outsized feasts whereas unsuspecting foreign investors are eaten. It also slowly pressures foreign corporations eager to make money in Hong Kong to become accomplices of its efforts to repress and surveil Hong Kong's civil society and subvert international order and rule.

RECOMMENDATIONS

In light of the above considerations, there are several things that the executive and legislative branches of the U.S. Government could do to protect U.S. corporations and investors concerning the deteriorating business environment in Hong Kong.

(1) While most U.S. social media and web browsing platforms cannot operate in China and nearly all other authoritarian states, their continuous operation in Hong Kong poses a unique challenge. The Hong Kong government has not yet banned them, but it has been trying to force them to comply and aid its efforts to stifle dissenting voices and collect users' information. The U.S. Government should find ways in existing laws or make new laws to regulate these companies and ensure that they will not become the accomplices of the crackdown in Hong Kong. Such measures would help U.S. companies to resist the temptation of staying in Hong Kong and muddling through while slowly becoming enforcers of local repressive policies. Such cooperation with local authorities might yield short-term profit, but it will also create a huge risk to those companies and their investors in the long run.

(2) The U.S. could allocate more resources to develop technology and tools that residents in Hong Kong (and elsewhere in China) could use to bypass internet censorship and suppression. The fund allocated to develop technologies and programs for an "open, interoperable, reliable and secure internet" for Hong Kong residents in the U.S. Innovation and Competition Act of 2021 is a laudable first step.[19] While the Great Firewall of China is closing in on Hong Kong fast, time is running out for the U.S. Government to counteract the enclosure and help maintain internet freedom in Hong Kong. The USICA was passed in the Senate earlier this year. It needs to be passed in the House and become law soon.

(3) Continue to monitor the political and economic risks that investment in Chinese stocks, corporate bonds, and government bonds could bring to U.S. investors. Suppose the transparency and accountability of the Chinese issuers of financial products in Hong Kong continue to erode. In that case, the U.S. Government will be responsible for issuing warnings or even restrictions on U.S. institutional investors' involvement in such products. It will be a necessary thing to do to protect the savings, investments, and pensions of millions of working Americans. There is a precedent in the Treasury sanction against investment in Russian sovereign bonds earlier this year.[20] Keeping this option open could also serve as a deterrent that shapes the Chinese and Hong Kong authorities' calculation about how fast and wide they would dismantle preexisting institutions that warrant the integrity of the Hong Kong financial market.

(4) For a long time, Hong Kong has been a base for journalists, analysts, and academic researchers who might not be able to enter mainland China to investigate Chinese companies, Chinese political development, and the Chinese business environment. The knowledge generated in these endeavors is of utmost importance to U.S. investors when making investment decisions. With the troubling new trend of expelling foreign journalists and the stifling of local media under the NSL, the U.S. Government needs to use whatever diplomatic tools are available to ensure media organizations and personnel from the U.S. and other like-minded countries can continue to operate freely in Hong Kong. They constitute an irreplaceable line of defense for a fair, transparent, and level playing field in the interest of many U.S. companies operating in the Hong Kong market.

[Endnotes appear on the following page.]

Endnotes:

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PREPARED STATEMENT OF SENATOR MERKLEY

Good morning. Today's hearing of the Congressional-Executive Commission on China entitled "How China Uses Economic Coercion to Silence Critics and Achieve Its Political Aims Globally" will come to order.

As the second-largest economy in the world and the largest trading partner to many countries around the world, China leverages the attraction of its market and the global economy's deep ties to supply chains in China to punish critics and reward self-censorship. This hearing will examine the ways the Chinese government and Communist Party attempt to use economic coercion for political aims, such as quashing critical commentary on China's policies and conduct regarding Taiwan, Hong Kong, Xinjiang, or anything else China deems sensitive, or intimidating U.S. and other businesses into toeing the Party line if they want access to China's market.

Increasingly often, those that run afoul of these aims see their products targeted, from Australian wine to Norwegian salmon to Philippine bananas to Taiwanese pineapples. The Chinese government has also ramped up the intensity of its coercive behavior, as seen in its wide-reaching campaign against Australia in response to calls for an independent inquiry into the origins of COVID–19 and other political grievances. This Commission has also been on the receiving end of formal sanctions, just like other parliamentarians, government officials, nongovernmental organizations, researchers, and others who speak out against human rights abuses in China.

For this Commission, like many around the world, the intimidation, harassment, and economic coercion directed at critics of the Chinese government and Communist Party only reinforces our resolve to shine a light on this behavior. But for many others the threat of retaliation by the Chinese government or market casts a long shadow. Earlier this year, the Commission held a hearing with the top U.S-based sponsors of the Olympic Games. Even after being confronted with many of the most egregious human rights violations of this century, the companies' testimony largely served to demonstrate how the pull of the Chinese market continues to incentivize self-censorship.

That's because it's not easy to stand up to a government so willing to use its country's economic clout as a cudgel to bully individuals, corporations, and other sovereign states. We saw this dynamic in action in recent weeks when a Marriott Hotel in Prague turned away the World Uyghur Congress because of concerns about "political neutrality."

Yet not everybody is cowed into silence by the bullying. The recent actions by the Women's Tennis Association to suspend tournaments in China in response to the treatment of Chinese tennis star Peng Shuai inspire me and many members of this Commission.

Clearly this is an evolving landscape. For the United States to be able to defend American businesses and citizens from censorship and intimidation, or to work with other countries to help insulate one another from coercive economic tools that undermine basic political rights, we need to better understand the nature, scale, and scope of this challenge. We also need to identify the tools that will be effective in response—and those that won't—as well as where China's economic coercion is headed.

Those are the questions we're hoping to grapple with in this hearing. The panel of experts we'll hear from will help us do that. Today's witnesses will shed light on the range of measures China employs, pertinent trends, particular impacts on U.S. businesses, the risky environment Hong Kong is becoming for multinational corporations because of the reach of new laws, and recommendations for policymakers in the United States and globally.

Just as last month's hearing on techno-authoritarianism highlighted the ways in which China exports authoritarian values through technology, this hearing will examine the ways in which it exports—and imposes—authoritarian values through trade and business ties. I look forward to learning from our witnesses about how we can resist the erosion of civil, political, and human rights threatened by these developments.

PREPARED STATEMENT OF REPRESENTATIVE MCGOVERN

Thank you, Mr. Chairman, for convening this hearing on the Chinese government and party's coercive use of its economic might to pursue its political objectives and to silence critics.

Last July this Commission held a hearing entitled "Corporate Sponsorship of the 2022 Beijing Olympics" with the five U.S.-based companies that are top sponsors of the International Olympic Committee. We wanted to know if they would use their ample leverage as sponsors to insist on human rights improvements in China in the lead-up to the 2022 Beijing Winter Olympics.

Each of the five witnesses testified to how their company had incorporated human rights principles into their business operations. When asked by Commissioners, however, whether they would press those principles with the Chinese government ahead of the Olympics, they declined to answer. In fact, when asked directly by Senator Cotton whether they accepted the finding by two Administrations that the Chinese government was committing genocide against the Uyghurs, only one of the five said yes. These American companies refused to publicly acknowledge a fact because they feared Chinese government retaliation. This is a clear example of China's economic coercion at work.

It is also a case where evidence of coercion is inferred rather than visible. I suspect this is the norm. While there are many reported cases of the Chinese government flexing its economic muscle for political reasons—the boycott of Norwegian salmon in response to the award of the Nobel Peace Prize to Liu Xiaobo comes to mind—they are likely dwarfed by unreported cases, much like the amount of an iceberg under the surface.

Further, it may be that companies, whether tech giants, international financial firms, or sports leagues, are self-limiting or self-censoring because intimidation by the Chinese government and party is the expected price of doing business there.

This is a big picture question I hope our witnesses will address: To what extent is economic coercion the norm? Are additional analytical tools needed to help us understand and assess the scope of this coercion?

I also look forward to the witnesses' policy recommendations for how we should respond. The options appear to be neither simple nor easy, and will require careful and considerate diplomacy with international partners and collaboration between governments and industry.

In the legislative and regulatory realm, calls for enhanced transparency to help in the effort to resist economic coercion also dovetail with reforms sought in the growing movement to tackle corruption as a foreign policy and human rights priority. These topics and more will be discussed in this week's Summit for Democracy convened by the Administration and could create a good synergy for policy solutions.

Thank you and I look forward to your testimony.

SUBMISSIONS FOR THE RECORD

QUESTIONS AND ANSWERS FOR THE RECORD

QUESTION FROM SENATOR OSSOFF FOR DR. HO-FUNG HUNG

Question. When, in your view, have the various policies that we are grouping under the rubric of Chinese economic coercion been effective from the standpoint of the Chinese Communist Party and achieved the aims of the Chinese Communist Party, and when have they failed?

Answer. Beijing's purpose in employing economic coercion against countries, companies, or civil institutions is to make them do things aligned with Beijing's poitical positions or not do things contrary to those positions, mostly the latter. It can be about stopping their expression of concern about Xinjiang, canceling invitations to the Dalai Lama and Hong Kong dissidents, terminating cooperation with the U.S. over the South China Sea, etc. The CCP will regard their efforts as successful if the concerned entities do play along and cease doing things Beijing does not like. The efforts fail if the entities ignore Beijing's preferences and continue doing those things.

United States House of Representatives
Congressional-Executive Commission on China

"Truth in Testimony" Disclosure Form

In accordance with Rule XI, clause 2(g) of the Rules of the House of Representatives, witnesses are asked to disclose the following information. Please complete this form and attach it to your written testimony and it may be made publicly available in electronic format.

1. Date of Hearing:

2. Hearing Title:

3. Your Name:

4. Organization, organizations, or government entity you are representing:

5. Position title:

6. Are you an active registrant under the Foreign Agents Registration Act (FARA)?
   _____Yes _____No

False Statement Certification:

Knowingly providing material false information to this commission, or knowingly concealing material information from this commission, is a crime (18 U.S.C. 1001). This form may be made part of the hearing record.

_____

Witness Signature **Date**

Witness Biographies

Bonnie Glaser, Asia Program Director, German Marshall Fund of the United States

Bonnie S. Glaser is the Director of the Asia Program at the German Marshall Fund of the United States. She was previously a Senior Adviser for Asia and the Director of the China Power Project at the Center for Strategic and International Studies. Ms. Glaser is concomitantly a Nonresident Fellow with the Lowy Institute in Sydney, Australia, and a Senior Associate with the Pacific Forum. For more than three decades, Ms. Glaser has worked at the intersection of Asia-Pacific geopolitics and U.S. policy.

Zack Cooper, Senior Fellow, American Enterprise Institute

Zack Cooper is a Senior Fellow at the American Enterprise Institute and Co-director of the Alliance for Securing Democracy. He also teaches at Princeton University, is a partner with Armitage International, and co-hosts the "Net Assessment" podcast for War on the Rocks. He previously served on staff at the Pentagon and White House and has conducted research at the Center for Strategic and International Studies and the Center for Strategic and Budgetary Assessments. He received a Ph.D., M.A., and M.P.A. from Princeton University and a B.A. from Stanford University.

Jenny Wang, Senior Strategy and Research Associate, Human Rights Foundation

Jenny Wang is a Senior Strategy and Research Associate at the Human Rights Foundation (HRF), where she works on Asia-related research, projects, and campaigns, and spearheads the organizations' Oslo Freedom Forum in Taiwan. She is a co-author of the Human Rights Foundation's report "Corporate Intimidation & Censorship in China: Recommendations for Foreign Companies."

Ho-fung Hung, Henry M. and Elizabeth P. Wiesenfeld Professor in Political Economy, Johns Hopkins University

Ho-Fung Hung is the Henry M. and Elizabeth P. Wiesenfeld Professor in Political Economy in the Sociology Department and the Paul H. Nitze School of Advanced International Studies of the Johns Hopkins University. He is the author of "City on the Edge: Hong Kong under Chinese Rule" (Cambridge UP, 2022), "Clash of Empires: From 'Chimerica' to the 'New Cold War'" (Cambridge UP, 2022), "China Boom: Why China Will Not Rule the World" (Columbia UP, 2015), and "Protest with Chinese Characteristics" (Columbia UP, 2011). His analysis on Chinese and Hong Kong politics and economy has been cited or featured in major news outlets around the world. His commentary about the environment for businesses in Hong Kong, particularly since passage of Hong Kong's National Security Law, has appeared in such media as the Wall Street Journal, the Washington Post, NPR, and Politico.

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