

2020 Report to Congress of the U.S.-China Economic and Security Review Commission



Executive Summary and Recommendations

One Hundred Sixteenth Congress
Second Session
December 2020

Printed for the use of the
U.S.-China Economic and Security Review Commission
Available online at: <https://www.uscc.gov>

2020 Report to Congress

of the

U.S.-China Economic and Security Review Commission



Executive Summary and Recommendations

One Hundred Sixteenth Congress
Second Session
December 2020

Printed for the use of the
U.S.-China Economic and Security Review Commission
Available online at: <https://www.uscc.gov>



U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Robin Cleveland, *Chairman*

Carolyn Bartholomew, *Vice Chairman*

COMMISSIONERS

Andreas Borgeas

Thea Mei Lee

Bob Borochoff

Kenneth Lewis

Jeffrey Fiedler

Hon. James M. Talent

Hon. Carte P. Goodwin

Michael R. Wessel

Roy D. Kamphausen

Larry M. Wortzel

2020 COMMISSION STAFF

Daniel W. Peck, *Executive Director*

Alexander A. Bowe, *Policy Analyst, Security and Foreign Affairs*

Kendra Brock, *Research Assistant, Economics and Trade*

Erik Castillo, *Operations Support Specialist*

Jameson Cunningham, *Director, Congressional Affairs and Communications*

Kevin Fashola, *Congressional Fellow*

Christopher P. Fioravante, *Director of Operations and Administration*

Benjamin B. Frohman, *Director, Security and Foreign Affairs*

Will Green, *Policy Analyst, Security and Foreign Affairs*

Charles Horne, *Research Coordinator and Policy Analyst, Economics and Trade*

Sierra Janik, *Policy Analyst, Security and Foreign Affairs*

Anastasya Lloyd-Damnjanovic, *Policy Analyst, Security and Foreign Affairs*

Kaj Malden, *Policy Analyst, Economics and Trade*

Leyton Nelson, *Policy Analyst, Economics and Trade*

Emma Rafaelof, *Policy Analyst, Economics and Trade*

Nargiza Salidjanova, *Director, Economics and Trade*

Howard Wang, *Policy Analyst, Security and Foreign Affairs*

The Commission was created on October 30, 2000 by the Floyd D. Spence National Defense Authorization Act of 2001, Pub. L. No. 106–398 (codified at 22 U.S.C. § 7002), as amended by: The Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107–67 (Nov. 12, 2001) (regarding employment status of staff and changing annual report due date from March to June); The Consolidated Appropriations Resolution, 2003, Pub. L. No. 108–7 (Feb. 20, 2003) (regarding Commission name change, terms of Commissioners, and responsibilities of the Commission); The Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109–108 (Nov. 22, 2005) (regarding responsibilities of the Commission and applicability of FACA); The Consolidated Appropriations Act, 2008, Pub. L. No. 110–161 (Dec. 26, 2007) (regarding submission of accounting reports; printing and bindings; compensation for the executive director; changing annual report due date from June to December; and travel by members of the Commission and its staff); The Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113–291 (Dec. 19, 2014) (regarding responsibilities of the Commission).

The Commission’s full charter and statutory mandate are available online at: <https://www.uscc.gov/charter>.

U.S.-China Economic and Security Review Commission

December 1, 2020

The Honorable Chuck Grassley
President Pro Tempore of the U.S. Senate, Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the U.S. House of Representatives, Washington, DC 20510

Dear Senator Grassley and Speaker Pelosi:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the Commission's 2020 Annual Report to Congress. This Report responds to our mandate "to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China." The Commission reached a broad and bipartisan consensus on the contents of this Report, with all 12 members voting unanimously to approve and submit it to Congress.

In accordance with our mandate, this Report, which is current as of October 16, includes the results and recommendations of our hearings, research, and review of the areas identified by Congress in our mandate, as defined in Public Law No. 106-398 (October 30, 2000) and amended by Public Laws No. 107-67 (November 12, 2001), No. 108-7 (February 20, 2003), 109-108 (November 22, 2005), No. 110-161 (December 26, 2007), and No. 113-291 (December 19, 2014). The Commission's charter, which includes the 11 directed research areas of our mandate, is included as Appendix I of the Report.

The Commission conducted seven public hearings, taking testimony from 62 expert witnesses from government, the private sector, academia, think tanks, research institutions, and other backgrounds. For each of these hearings, the Commission produced a transcript (posted on our website at <https://www.uscc.gov>). This year's hearings included:

- China's Quest for Capital: Motivations, Methods, and Implications;
- China's Military Power Projection and U.S. National Interests;
- A "China Model?" Beijing's Promotion of Alternative Global Norms and Standards;
- China's Evolving Healthcare Ecosystem: Challenges and Opportunities;
- China's Strategic Aims in Africa;
- The Chinese View of Strategic Competition with the United States; and
- U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges.

The Commission received a number of briefings by executive branch agencies and the intelligence community, including both unclassified and classified briefings on China's relationship with the European Union, the cross-Strait military balance, U.S.-Hong Kong relations, China's threat to U.S. technological leadership, and U.S. policies and actions with regard to long-term competition with China. The Commission also received briefings by foreign diplomatic and military officials as well as U.S. and foreign nongovernmental experts. The Commission includes key insights gained through these briefings either in its unclassified Annual Report or, as appropriate, in a classified annex to that Report.

The Commission was unable to conduct official travel this year due to the COVID-19 pandemic. We adapted and increased our virtual discussions with interlocutors to ensure the continued diversity of perspectives heard by the Commission. The Commission also relied substantially on the work of our excellent professional staff and supported outside research (see Appendix IV) in accordance with our mandate (see Appendix I).

The Report includes 19 recommendations for congressional consideration. The Commissioners agreed that ten of these recommendations, which appear on page 3, are the most important for congressional action. The complete list of recommendations appears on page 25 at the conclusion of the Executive Summary.

We offer this Report to Congress in the hope that it will be useful for assessing progress and challenges in U.S.-China relations. Thank you for the opportunity to serve. We look forward to continuing to work with Members of Congress in the upcoming year to address issues of concern in the U.S.-China relationship.

Yours truly,



Robin Cleveland
Chairman



Carolyn Bartholomew
Vice Chairman

Contents

1	INTRODUCTION
3	THE COMMISSION'S KEY RECOMMENDATIONS
5	EXECUTIVE SUMMARY
5	Chapter 1: U.S.-China Global Competition
5	Section 1: A Global Contest for Power and Influence: China's View of Strategic Competition with the United States
7	Section 2: The China Model: Return of the Middle Kingdom
9	Section 3: China's Strategic Aims in Africa
12	Chapter 2: U.S.-China Economic and Trade Relations
12	Section 1: Year in Review: Economics and Trade
13	Section 2: Vulnerabilities in China's Financial System and Risks for the United States
15	Section 3: U.S.-China Links in Healthcare and Biotechnology
16	Chapter 3: U.S.-China Security, Politics, and Foreign Affairs
16	Section 1: Year in Review: Security, Politics, and Foreign Affairs
17	Section 2: China's Growing Power Projection and Expeditionary Capabilities
20	Chapter 4: Taiwan
24	Chapter 5: Hong Kong
25	COMPREHENSIVE LIST OF THE COMMISSION'S RECOMMENDATIONS

Introduction

In 2000, Congress established this Commission to monitor and report on the national security implications of the U.S.-China economic relationship. Over the years, we have tracked the People's Republic of China's (PRC) accountability to its global commitments, including those made in its accession to the World Trade Organization. Two decades later, the Chinese Communist Party (CCP) selectively adheres to its global economic, trade, and political obligations and has abandoned any concern for international opinion. Now the CCP envisions itself atop a new hierarchical global order in which the world acquiesces to China's worldview while supplying it with markets, capital, resources, and talent.

The novel coronavirus (COVID-19) pandemic has focused public attention on China, but the PRC's ambitions are neither new nor secret. For decades, the CCP has made its ambitions clear through industrial policy and planning documents, leadership speeches, and military directives. Under General Secretary Xi Jinping, however, the CCP is aggressively asserting its interests both domestically and globally.

In the past, the CCP focused its attempts at economic dominance on legacy sectors of steel, aluminum, and transportation, among others. Its current goals are to dominate the world's newest and most cutting-edge industries, including biotechnology, semiconductors, artificial intelligence, and clean energy. Though the focus of China's industrial policies is changing, the government's strategy and objectives retain the same mercantilist and coercive tools: compelling foreign entrants to transfer technology to their domestic competitors for limited market access, lavishing generous subsidies on state-owned enterprises and domestic national champions, and leveraging illicit methods, including cyber-enabled theft, to obtain valuable intellectual property and mountains of data.

China's security laws threaten the arrest of anyone who criticizes China, its leaders, or its policies. This threat now extends to Americans inside China as well as those who live in or travel to countries that have an extradition treaty with China. Foreign journalists live in fear of detention or expulsion.

The CCP claims to protect the interests of the Chinese people. Its true purpose, however, is to protect its own existence and grow its power, no matter the costs. Party leaders judge any sign of criticism to be too great a risk to CCP rule. The CCP's response is harsh and swift whether reacting to the single voice of a doctor raising health alarms about the emergence of COVID-19, to internal criticism, or to millions of peaceful prodemocracy demonstrators in Hong Kong. This year, the CCP undertook new levels of effort to silence critics and prevent the flow of information.

The CCP's actions in Hong Kong show the Party's lack of tolerance for any sign of opposition to its interests and its lack of intent to honor its international commitments. Acting with swiftness and brutality, the CCP imposed draconian restrictions in Hong Kong, bypassing citizens' rights, the local government, and the legislature with a law drafted and directed by Beijing. Moving mainland authorities into Hong Kong,

the CCP has arrested hundreds and threatened thousands of citizens who have simply demanded China honor its pledge to guarantee Hong Kong a "high degree of autonomy" in its legal, social, and economic life. That the CCP's brazen assertion of power violated a legally binding treaty registered with the UN did not constrain its actions. Responding to global criticism, the head of China's Hong Kong and Macau Affairs Office affirmed the new CCP approach, replying, "The era when the Chinese cared what others thought and looked up to others is in the past, never to return."

From its mismanagement of the COVID-19 outbreak in Wuhan to its imposition of full and direct authoritarian rule in Hong Kong and continued militarization of the South China Sea, the PRC has repeatedly violated its own pledges and international obligations. Enabled by its economic strength, China's disregard for international rules and norms or censure from the international community raises grave concerns over future CCP policy choices and actions. The prospect is growing that the CCP will use military or other coercive means to forcibly absorb Taiwan. Taiwan's thriving democracy and civil society stand as the ultimate rebuke to the CCP's claim that Chinese people are not suited for democracy.

As the CCP accelerates its aggressive pursuit of global power and leadership, this Report shows that the PRC considers its relationships with African countries to be a blueprint for building its new, Sinocentric world order. The PRC's dominance of extractive industries on the African continent that are critical for technology and defense, combined with its influence over media and political parties, are key elements of a multidimensional approach it is now advancing in other regions, including Latin America and the Caribbean.

China's activities in Africa serve as the template for projecting power and influence far from China's shores. Such activities include the establishment of a military base it calls a "logistics facility" in Djibouti, the use of Chinese troops involved in peacekeeping operations that violate the spirit if not the letter of China's UN obligations, and political opportunism and interference enabled by predatory economic practices. Chinese companies' construction of potentially dual-use ports and telecommunications networks along China's ever-expanding Belt and Road Initiative are representative of the mutually reinforcing nature of its military-civil fusion strategy and expansionist goals.

Meanwhile, the People's Liberation Army is evolving into a formidable and increasingly modern force. It augments robust force projection capabilities in East and Southeast Asia with routine operations in the Indian Ocean, initial forays into the South Atlantic, and the asymmetric capability to project power globally in the space and cyber domains. The CCP employs its armed forces as a coercive tool during peacetime, carrying out large-scale intimidation exercises around Taiwan and in the South China Sea. This year, it provoked the first deadly clash on the China-India border in nearly half a century.

China's rising aggression has not gone unnoticed. Policymakers, businesses, civil society leaders, and citizens around the world have

been awakened to the ambitions and tactics of the CCP. Governments in developed and developing countries alike have become more cautious about accepting China's coercive terms of trade, technology products, and services. No trend exemplifies this shift in opinion better than rising restrictions in many countries limiting access to 5G infrastructure for Chinese companies beholden to the CCP by its national security laws.

In addition to reporting on the current state of the U.S.-China relationship, the Commission has focused on new theaters and emerging dimensions of the threat to U.S. interests posed by CCP policy choices. This year, we examined how the CCP advances its interests in new domains of competition. In international organizations, both those falling under the UN umbrella and those bringing together regional partners, China is positioning trusted officials, whether nationals of the PRC or others vulnerable to Chinese influence, in key leadership posts. Long dependent on foreign technology, China is working to influence international technical standards for emerging technologies to promote Chinese companies and technologies as the basis for new global standards. The cumulative effect of China's influence in these organizations was on full display this year when the director-general of the World Health Organization (WHO) publicly praised Beijing's transparency and early response to the COVID-19 outbreak, despite the extreme measures Beijing took to lock down information while allowing infected persons to travel domestically and internationally, seeding a global pandemic. At the same time, the WHO, at Beijing's behest, blocked Taiwan from meaningful participation in the global pandemic response despite Taiwan's early and open communication and model epidemic control and prevention efforts.

While General Secretary Xi and the ruling CCP have sought to project an image of confidence, their tone-deaf response to global criticism suggests the possible hazards ahead. By suppressing all criticism and dissent, General Secretary Xi has created a dangerous echo chamber leaving China's government vulnerable to miscalculation. The United States and its allies and partners cannot afford, however, to simply wait out the PRC's current rulers with a false hope of reform or policy change. The CCP's repression of the Chinese people, and especially the atrocities it has committed against ethnic Uyghur and Tibetan minorities, may constitute crimes against humanity, even genocide. Concern about the Party's abusive treatment of ethnic Mongolians is also rising.

The CCP has launched determined and systematic efforts to hollow out global governance institutions, suppress internal opposition, subjugate free peoples in Hong Kong and around China's periphery, dominate global economic resources, and project military power. These efforts threaten vital interests of the United States and the security and vitality of an increasing number of countries around the globe.

Left unchecked, the PRC will continue building a new global order anathema to the interests and values that have underpinned unprecedented economic growth and stability among nations in the post-Cold War era. The past 20 years are littered with the CCP's broken promises. In China's intended new order, there is little reason to believe CCP promises of "win-win" solutions, mutual respect, and peaceful coexistence. A clear understanding of the CCP's adversarial national security and economic ambitions is essential as U.S. and allied leaders develop the policies and programs that will define the conditions of global freedom and shape our future.

The Commission's Key Recommendations

The Commission considers 10 of its 19 recommendations to Congress to be of particular significance. The complete list of recommendations appears on page 25.

The Commission recommends:

1. Congress adopt the principle of reciprocity as foundational in all legislation bearing on U.S.-China relations. Issues to be considered in applying this principle should include but are not limited to the following:
 - ▶ The ability of journalists and online media to operate without undue restriction;
 - ▶ The ability of nongovernmental organizations to conduct meaningful engagement with civil society;
 - ▶ Access to information, including but not limited to financial and research data;
 - ▶ Access for social media and mobile apps from U.S. companies;
 - ▶ Access for diplomatic personnel, including but not limited to diplomats' freedom of travel and ability to meaningfully exchange views with the host country public; and
 - ▶ Market access and regulatory parity, including but not limited to companies' ability to participate in trade, investment, and financial market transactions, cross-border capital transfer, and protections of intellectual property.
2. Congress expand the authority of the Federal Trade Commission (FTC) to monitor and take foreign government subsidies into account in premerger notification processes.
 - ▶ The FTC shall develop a process to determine to what extent proposed transactions are facilitated by the support of foreign government subsidies.
 - ▶ The definition of foreign government subsidies shall encompass direct subsidies, grants, loans, below-market loans, loan guarantees, tax concessions, governmental procurement policies, and other forms of government support.
 - ▶ Companies operating in the United States that benefit from the financial support of a foreign government must provide the FTC with a detailed accounting of these subsidies when undergoing FTC premerger procedures.
 - ▶ If the FTC finds foreign subsidies have facilitated the transaction, the FTC can either propose a modification to remedy the distortion or prohibit the transaction under Section 7 of the Clayton Act, which prohibits mergers and acquisitions where the effect "may be substantially to lessen competition, or to tend to create a monopoly."
3. Congress direct the U.S. Department of State to produce an annual report detailing China's actions in the United Nations and its subordinate agencies that subvert the principles and purposes of the United Nations. Such a report would at a minimum document the following:
 - ▶ China's actions violating United Nations treaties to which it is a party;
 - ▶ China's actions to influence the votes of United Nations members, including through coercive means;
 - ▶ China's actions to nominate or support candidates for United Nations leadership positions that do not adhere to United Nations standards for impartiality or are subject to the influence of the Chinese government;
 - ▶ Actions by nationals of the People's Republic of China and others currently holding United Nations leadership positions that appear to support the interests of the Chinese government in violation of United Nations impartiality standards;
 - ▶ Actions by nationals of the People's Republic of China serving in functional positions in United Nations organizations impacting hiring practices, internal policies, and other functions that appear to support the interests of the Chinese government in violation of United Nations impartiality standards;
 - ▶ Actions by Chinese military and support personnel engaged in United Nations peacekeeping operations that are inconsistent with the principles governing these missions, including China's deployment of these personnel to protect its economic interests and improve the power projection capabilities of the People's Liberation Army; and
 - ▶ The number and positions of United States personnel employed by the United Nations and its agencies.
4. Congress hold hearings to consider the creation of an interagency executive Committee on Technical Standards that would be responsible for coordinating U.S. government policy and priorities on international standards. This Committee would consist of high-level political appointees from executive departments with equities relating to international technical standards, including the Department of Commerce, the Department of State, the Department of Defense, the Department of Energy, the Office of Science and Technology Policy, and other agencies or government stakeholders with relevant jurisdiction. The Committee's mandate would be to ensure common purpose and coordination within the executive branch on international standards. Specifically, the Committee would:

- ▶ Identify the technical standards with the greatest potential impact on American national security and economic competitiveness;
 - ▶ Coordinate government efforts relating to those standards;
 - ▶ Act as a liaison between government, academia, and the private sector to coordinate and enhance joint efforts in relation to standards;
 - ▶ Manage outreach to counterpart agencies among U.S. allies and partners;
 - ▶ Set funding priorities and recommendations to Congress; and
 - ▶ Produce annual reports to Congress on the status of technical standards issues and their impact on U.S. national security and economic competitiveness.
5. Congress consider establishing a “Manhattan Project”-like effort to ensure that the American public has access to safe and secure supplies of critical lifesaving and life-sustaining drugs and medical equipment, and to ensure that these supplies are available from domestic sources or, where necessary, trusted allies. Such a project would supplement the recommendation the Commission made in its 2019 Annual Report that Congress hold hearings with a view toward enacting legislation requiring the U.S. government to procure medicines only from U.S. production facilities or from facilities that have been certified compliant with U.S. standards.
6. Congress enact legislation establishing a China Economic Data Coordination Center (CEDCC) at the Bureau of Economic Analysis at the U.S. Department of Commerce. The Center would be mandated to collect and synthesize official and unofficial Chinese economic data on developments in China’s financial markets and U.S. exposure to risks and vulnerabilities in China’s financial system, including:
- ▶ Data on baseline economic statistics (e.g., gross domestic product [GDP]) and other indicators of economic health;
 - ▶ Data on national and local government debt;
 - ▶ Data on nonperforming loan amounts;
 - ▶ Data on the composition of shadow banking assets;
 - ▶ Data on the composition of China’s foreign exchange reserves; and
 - ▶ Data on bank loan interest rates.
7. Congress direct the Administration, when sanctioning an entity in the People’s Republic of China for actions contrary to the economic and national security interests of the United States or for violations of human rights, to also sanction the parent entity.
8. Congress consider enacting legislation to make the Director of the American Institute in Taiwan a presidential nomination subject to the advice and consent of the United States Senate.
9. Congress amend the Immigration and Nationality Act to clarify that association with a foreign government’s technology transfer programs may be considered grounds to deny a nonimmigrant visa if the foreign government in question is deemed a strategic competitor of the United States, or if the applicant has engaged in violations of U.S. laws relating to espionage, sabotage, or export controls. Association with a foreign government’s technology transfer programs can include any of the following:
- ▶ Participation in a foreign government-sponsored program designed to incentivize participants to transfer fundamental research to a foreign country via a talent recruitment program or in a foreign government-sponsored startup competition;
 - ▶ Acceptance of a government scholarship that requires recipients to study specific strategic scientific and technological fields, to return to the foreign country for a government work requirement after the scholarship term ends, or facilitates coordination with talent programs;
 - ▶ Association with a university or a department of a university that the U.S. government has designated as a participant in the foreign government’s military-civil fusion efforts; or
 - ▶ Status (current or past) as a scientist, technician, or officer for a foreign military, if the applicant does not disclose such information when applying for a visa.
10. Congress direct the Administration to identify and remove barriers to receiving United States visas for Hong Kong residents attempting to exit Hong Kong for fear of political persecution.

Executive Summary

Chapter 1: U.S.-China Global Competition

SECTION 1: A GLOBAL CONTEST FOR POWER AND INFLUENCE: CHINA'S VIEW OF STRATEGIC COMPETITION WITH THE UNITED STATES

China is engaged in a global competition for power and influence with the United States. The ruling Chinese Communist Party (CCP) regards the liberal democratic values championed by the United States as a fundamental impediment to its external ambitions and an existential threat to its domestic rule. Chinese leaders' assessment of the United States as a dangerous and firmly committed opponent has informed nearly every facet of China's diplomatic strategy, economic policy, and military planning in the post-Cold War era. Although elements of this competition have been evident for some time, under General Secretary of the CCP Xi Jinping the competition has intensified.

Through its modernization efforts, China has emerged as an unprecedented economic rival and a growing military threat capable of inflicting grave harm on the United States and its allies and partners. China's economic engagement with the United States has proved to be a critical enabler of its rapid economic growth, steadily feeding Beijing's confidence in its ability to act on its longstanding ambition to match and ultimately displace the United States as the predominant global leader. Meanwhile, Beijing has intensified its diplomatic efforts, underpinned by an increased use of economic and military coercion, to drive wedges between Washington and its allies.

Strategic competition with China presents an increasing challenge for the United States. As Chinese leaders have perceived the power gap between China and the United States as steadily closing, they have become increasingly confident in their ability to expand the reach of the CCP's authoritarian values and repression to the detriment of the United States, its workers, businesses, and allies. Continued success by the Chinese government in achieving its economic, diplomatic, and military goals could set back U.S. economic and technological progress for decades at the cost of good jobs and shared prosperity, embolden autocrats and dictators around the world, and obstruct U.S. military support to U.S. allies and partners in the Indo-Pacific in the event of a future conflict.

Key Findings

▶ Beijing has long held the ambition to match the United States as the world's most powerful and influential nation. Over the past 15 years, as its economic and technological prowess, diplomatic influence, and military capabilities have grown, China has turned its focus toward surpassing the United States. Chinese leaders have grown increasingly aggressive in their pursuit of this goal following the 2008 global financial crisis and General Secretary Xi's ascent to power in 2012.

- ▶ Chinese leaders regard the United States as China's primary adversary and as the country most capable of preventing the CCP from achieving its goals. Over the nearly three decades of the post-Cold War era, Beijing has made concerted efforts to diminish the global strength and appeal of the United States. Chinese leaders have become increasingly active in seizing opportunities to present the CCP's one-party, authoritarian governance system and values as an alternative model to U.S. global leadership.
- ▶ China's approach to competition with the United States is based on the CCP's view of the United States as a dangerous ideological opponent that seeks to constrain its rise and undermine the legitimacy of its rule. In recent years, the CCP's perception of the threat posed by Washington's championing of liberal democratic ideals has intensified as the Party has reemphasized the ideological basis for its rule.
- ▶ Beijing views economic competition with the United States in the context of its broader economic development strategy. Beginning in 2006, the United States, as the global economic and technological leader, became a target to chase and surpass as the CCP fostered domestic production and innovation through successive waves of industrial plans (see Figure 1).
- ▶ In China's most recent industrial policy wave, set by the 2016 Innovation-Driven Development Strategy, which includes the Made in China 2025 plan, policymakers have promoted the development of China's digital ecosystem and accompanying regulatory architecture. The CCP believes China faces a rare historic opportunity to establish control over a cluster of revolutionary, networked technologies, including high-speed internet, sensors, telecommunications, artificial intelligence, robotics, and smart city infrastructure. Doing so could allow Beijing to leapfrog the United States and other powerful competitors and lead in the next generation of global innovation.
- ▶ The People's Liberation Army (PLA) views the U.S. military as its primary strategic adversary and has engaged in long-term efforts to close the wide capability gap with U.S. military power since the mid-1990s. In 2004, the PLA shifted its focus to emphasize leapfrogging the United States in certain warfighting areas by introducing new concepts the PLA believed could enable it to defeat a conventionally superior opponent.
- ▶ The PLA's long-term strategy to gain advantage over the U.S. military includes developing "informationized" capabilities and exploiting ostensibly civilian information systems, likely including those built overseas by Chinese companies. The PLA is complementing these efforts by developing cyberattack, space and counterspace, and long-range precision-strike capabilities and expanding its capacity to delay and threaten U.S. military forces at increasing distances from China's shores.

FIGURE 1: CATCH UP AND SURPASS: CHINA'S ECONOMIC STRATEGY

First Wave (2006 – 2020)

The National Medium- and Long-Term Plan for Science and Technology Development

- A concerted effort by the Chinese government to invest in domestic production and master certain “core technologies.”
- “Core technologies” were ill-defined, but the plan argued for “indigenous innovation,” defined as the “assimilation and absorption of imported technology” to develop China’s innovation capacity.

Second Wave (ongoing since 2010)

The Strategic and Emerging Industries

- After 2010, technologies targeted by China’s government were specified in the promulgation of the Strategic and Emerging Industries (SEI) program. The chosen technologies represented potentially “revolutionary” new industries in emerging fields, which could allow Chinese companies to “surpass” rather than simply “catch up” to the international technological frontier.
- The SEI program focused on the use of foreign technology, obtained legally or through illicit means, to develop local industries and intellectual property. For example, it directed domestic companies to “digest and absorb” new technologies.
- The program targeted seven industries: energy-efficient technologies, next-generation information technology, biotechnology, high-end equipment manufacturing, new energy, new materials, and new-energy vehicles.

Third Wave (ongoing since 2016)

Innovation-Driven Development Strategy

- Beginning in 2016, Chinese economic planners instituted the Innovation-Driven Development Strategy (IDDS).
- The promulgation of the IDDS was precipitated by Chinese leadership’s concern over persistent weaknesses in China’s innovation system, coupled with a conviction that technological changes were coming together in a distinctive pattern that constituted a new technological revolution.
- Under IDDS, legal and illicit channels for foreign technology acquisition gained a new significance. Weaving together a series of plans, including the SEI plan, the Made in China 2025 plan, the Internet Plus plan, military-civil fusion, and the Artificial Intelligence plan, the IDDS emphasizes attracting global talent and foreign investment and innovation.

Source: Created by Commission staff. See the full Annual Report for complete list of sources.

SECTION 2: THE CHINA MODEL: RETURN OF THE MIDDLE KINGDOM

The CCP sees itself as engaged in a systemic struggle with the United States and other democratic countries over the future of the world order. Beijing seeks to use its growing power to transform the international order, ultimately legitimizing its repressive governance system; expanding its economic, security, and political interests; and restoring China to what it views as its rightful place at the center of the world. It desires for other countries to accept if not praise its authoritarian, single-party governance model as a superior alternative to liberal democracy and seeks to export elements of its model, popularizing internationally the norm that power, not rules-based accountability, is a legitimate basis for political authority. The CCP hopes to remold global governance, ultimately enabling China to act unconstrained by the current rules-based order. These objectives predate General Secretary Xi's rule and will likely persist beyond it, posing a long-term challenge to U.S. interests, the integrity of international institutions, and liberal democracy worldwide.

The Chinese government is shaping and subverting the international governance system to align with Beijing's own principles, which are directly opposed to universal values and individual rights. Beijing uses economic leverage to secure other countries' support for these alternative values in the UN and other organizations while exploiting leadership roles in UN agencies (see Figure 2) to promote Chinese foreign policy objectives, such as marginalizing Taiwan. Meanwhile, through a parallel order of alternative China-centric organizations, including the Belt and Road Initiative (BRI), China is creating an integrated economic and geopolitical order under China's leadership. Beijing seeks to use its central role in this new parallel order to exploit globalization, using the networks and resources of other countries while limiting access to its own market. It also uses its leverage to export to developing countries elements of its economic model that threaten private enterprise and rule of law in favor of a dominant state sector and corrupt business environment.

FIGURE 2: UN SPECIAL AGENCY LEADERSHIP

Organization	Leadership Nationality	Expected End of Current Term
Food and Agriculture Organization	Chinese	Jul. 2023
International Civil Aviation Organization	Chinese	Mar. 2021
International Fund for Agricultural Development	Togolese	Mar. 2021
International Labour Organization	British	Oct. 2022
International Maritime Organization	South Korean	Dec. 2023
International Monetary Fund	Bulgarian	Oct. 2024
International Telecommunications Union	Chinese	Nov. 2022
United Nations Educational, Scientific and Cultural Organization	French	Nov. 2021
United Nations Industrial Development Organization	Chinese	Nov. 2021
Universal Postal Union	Kenyan	Dec. 2020
World Bank Group	U.S.	Apr. 2024
World Health Organization	Ethiopian	Jul. 2022
World Intellectual Property Organization	Singaporean	Oct. 2026
World Meteorological Organization	Finnish	Dec. 2023
World Tourism Organization	Georgian	Dec. 2021

Source: See the full Annual Report for complete list of sources.

As part of its ambitions to shape global governance and become the preeminent power, the CCP seeks to dominate development of emerging technologies and ensure the norms and values for how these technologies are deployed further its geopolitical goals. To do so, it aims to establish China's leadership in international standardization bodies and export Chinese technical standards, the design features and product specifications that allow different products to work together. Because the Chinese government treats technical standards as a tool of industrial policy and market access, China's ambitions threaten to disrupt organic industry-led innovation that has allowed the U.S. technological ecosystem to thrive. Furthermore, China's influence over information and telecommunications technology, including connected technologies used in surveillance and the building blocks of the internet, provide like-minded authoritarian regimes with the tools to repress their own populations, control information flows, and support China's surveillance and data collection programs.

If Beijing succeeds in normalizing its views of governance, the result could undermine individual rights around the world. Underestimating Beijing's intent to revise the international order based on its current capabilities risks delaying a response until it is already too late to preserve the liberal international order that has allowed the unprecedented flourishing of human life and freedoms for the last three quarters of a century.

Key Findings

- ▶ The CCP seeks to revise the international order to be more amenable to its own interests and authoritarian governance system. It desires for other countries not only to acquiesce to its prerogatives but also to acknowledge what it perceives as China's rightful place at the top of a new hierarchical world order.
- ▶ The CCP's ambitions for global preeminence have been consistent throughout its existence: every CCP leader since Mao Zedong has proclaimed the Party would ultimately prove the superiority of its Marxist-Leninist system over the rest of the world. Under General Secretary Xi, the Chinese government has become more aggressive in pursuing its interests and promoting its model internationally.
- ▶ The CCP aims to establish an international system in which Beijing can freely influence the behavior and access the markets of other countries while constraining the ability of others to influence its behavior or access markets it controls. The "community of common human destiny," the CCP's proposed alternative global governance system, is explicitly based on historical Chinese traditions and presumes Beijing and the illiberal norms and institutions it favors should be the primary forces guiding globalization.
- ▶ The CCP has attempted to use the novel coronavirus (COVID-19) pandemic to promote itself as a responsible and benevolent global leader and to prove that its model of governance is superior to liberal democracy. Thus far, it appears Beijing has not changed many minds, if any. Countries already skeptical of the CCP's intentions argue it failed to contain the virus where it originated and withheld information until it was too late to avoid a global pandemic. Countries already predisposed to view Beijing favorably have praised its pandemic response.

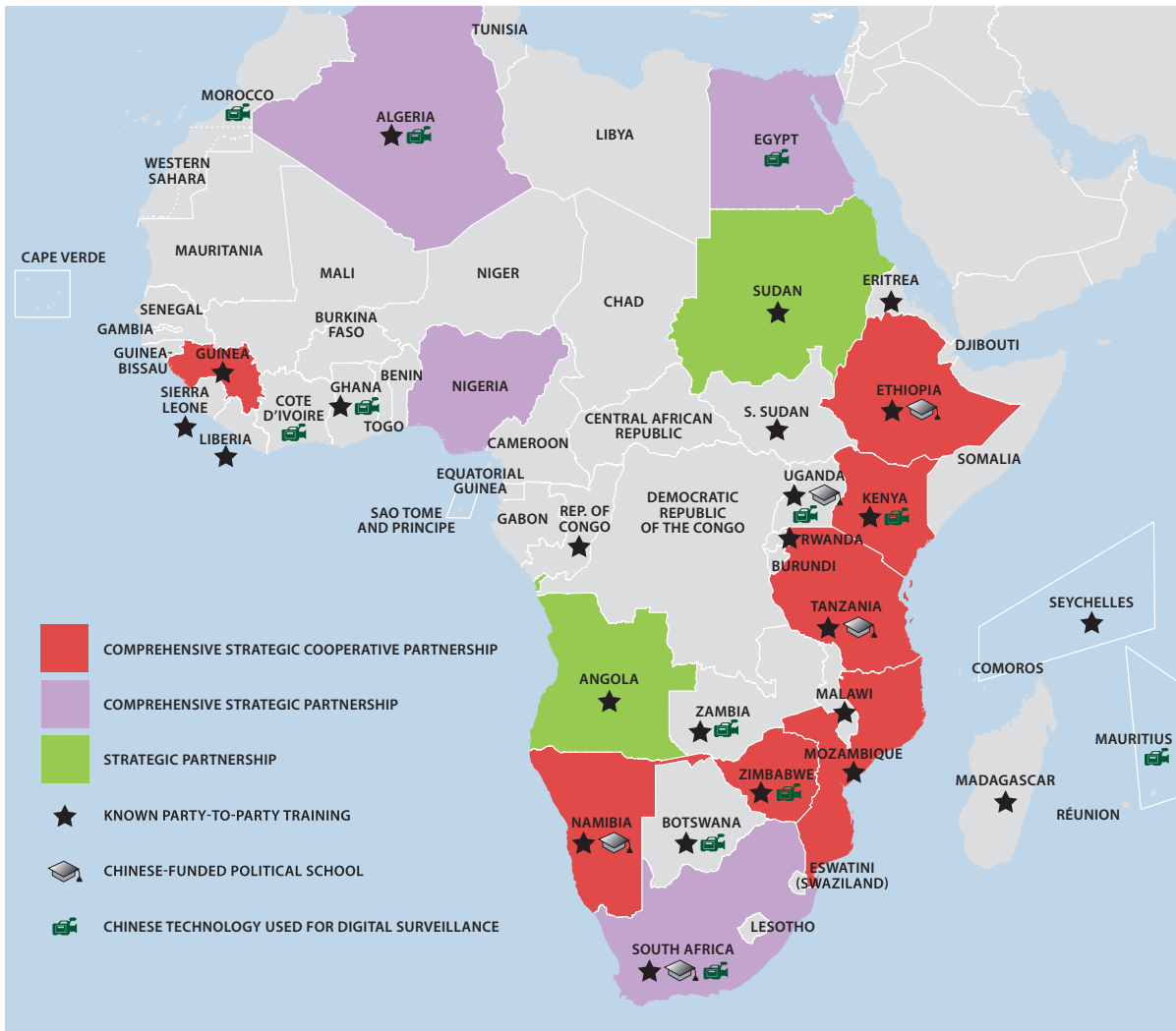
- ▶ The Chinese government's Belt and Road Initiative is both a blueprint and a testbed for establishing a Sinocentric world order. The initiative has no membership protocols or formal rules but is based on informal agreements and a network of bilateral deals with China as the hub and other countries as the spokes. This framework lets Beijing act arbitrarily and dictate terms as the stronger party.
- ▶ The CCP seeks to coopt established international governance institutions by increasing its leadership and functionary positions within these institutions and rewriting the norms by which they operate to align with China's model of international relations. Within these institutions, the Party builds coalitions that support China in the UN and portray its political priorities as supported by international consensus.
- ▶ In some cases, Beijing bypasses the existing system by creating alternative international institutions it can influence from the start. Where possible, it excludes the United States and European powers from these institutions, and in some cases the United States chooses not to participate.
- ▶ The Chinese government views technical standards as a policy tool to advance its economic and geopolitical interests. It has systematically tried to expand its influence in international standards-setting organizations by installing Chinese nationals in key leadership and functionary positions and pushing standards backed by its industrial policies.

SECTION 3: CHINA'S STRATEGIC AIMS IN AFRICA

Over the last two decades, China has reinvigorated its longstanding ties to African countries, placing the continent squarely at the center of its ambitions to become a global political and economic leader. Beijing views Africa as a testing ground for the export of its political and economic model and believes that if more African countries emulate China's system of governance, it will be easier for Beijing to advance its strategic objectives across the continent and globally. To this end, the Chinese government regularly hosts African political and military leaders for training sessions (see Figure 3), many of which stress the superiority of China's autocratic governance model.

The CCP has used the influence it gains from its political engagement with African countries to enlist African support for its geopolitical objectives, diminishing the impact of U.S. diplomacy in African countries and in the international system.

FIGURE 3: CHINA'S STRATEGIC PARTNERSHIPS IN AFRICA

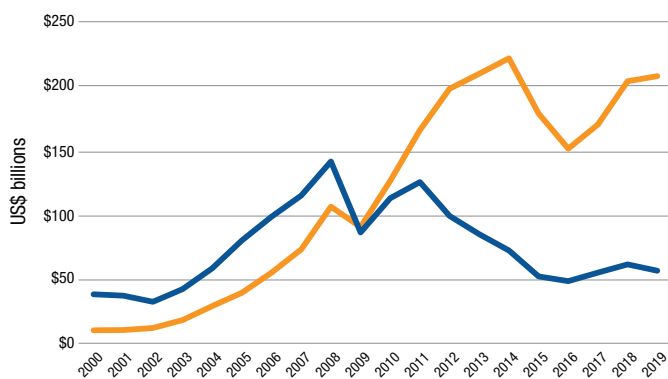


Note: Beijing has a multitiered system to rank its diplomatic partnerships with countries around the world, including in Africa. In general, the higher the partnership level, the more Beijing will engage with the country, such as by increasing economic ties and diplomatic exchanges. The three highest levels of partnership are “comprehensive strategic cooperative partnership,” “comprehensive strategic partnership,” and “strategic partnership.”

Source: See the full Annual Report for complete list of sources.

Economics is a key pillar in Beijing's Africa strategy, with China surpassing the United States as Africa's largest trading partner in 2009 (see Figure 4). Today, China is also Africa's largest bilateral creditor. Though China's growing presence in African economies can bring much-needed infrastructure to many countries, the Chinese government's lack of transparency, accountability, and adherence to global development standards raises concerns, including over its support for corruption and repression. Beijing's increasing control over the supply of key African commodities such as cobalt could threaten U.S. access to inputs for emerging technologies. Additionally, China's infrastructure financing often comes with requirements that Chinese firms complete the projects, depriving non-Chinese firms of important business opportunities in many African countries.

FIGURE 4: U.S. AND CHINESE BILATERAL GOODS TRADE WITH AFRICA, 2000–2019



Note: Figures include total goods exports and imports. U.S. and Chinese aggregations of African trade data may include minor differences in trade partners.
Source: China General Administration of Customs via CEIC Database; U.S. Census Bureau, Trade in Goods with Africa.

Chinese loans also risk creating an unsustainable debt burden in some African countries, which may leave them vulnerable to Chinese government coercion. Separately, the United States and other responsible lenders might end up shouldering an outsized burden in debt relief efforts, essentially bailing out Beijing's irresponsible lending practices. While commodities and infrastructure continue to dominate China-Africa economic relations, China has also focused increasing attention on Africa's emerging digital economy. Chinese firms already dominate Africa's mobile phone handset market and have made increasing investments in its venture capital market, providing China with opportunities to set emerging technological standards in Africa.

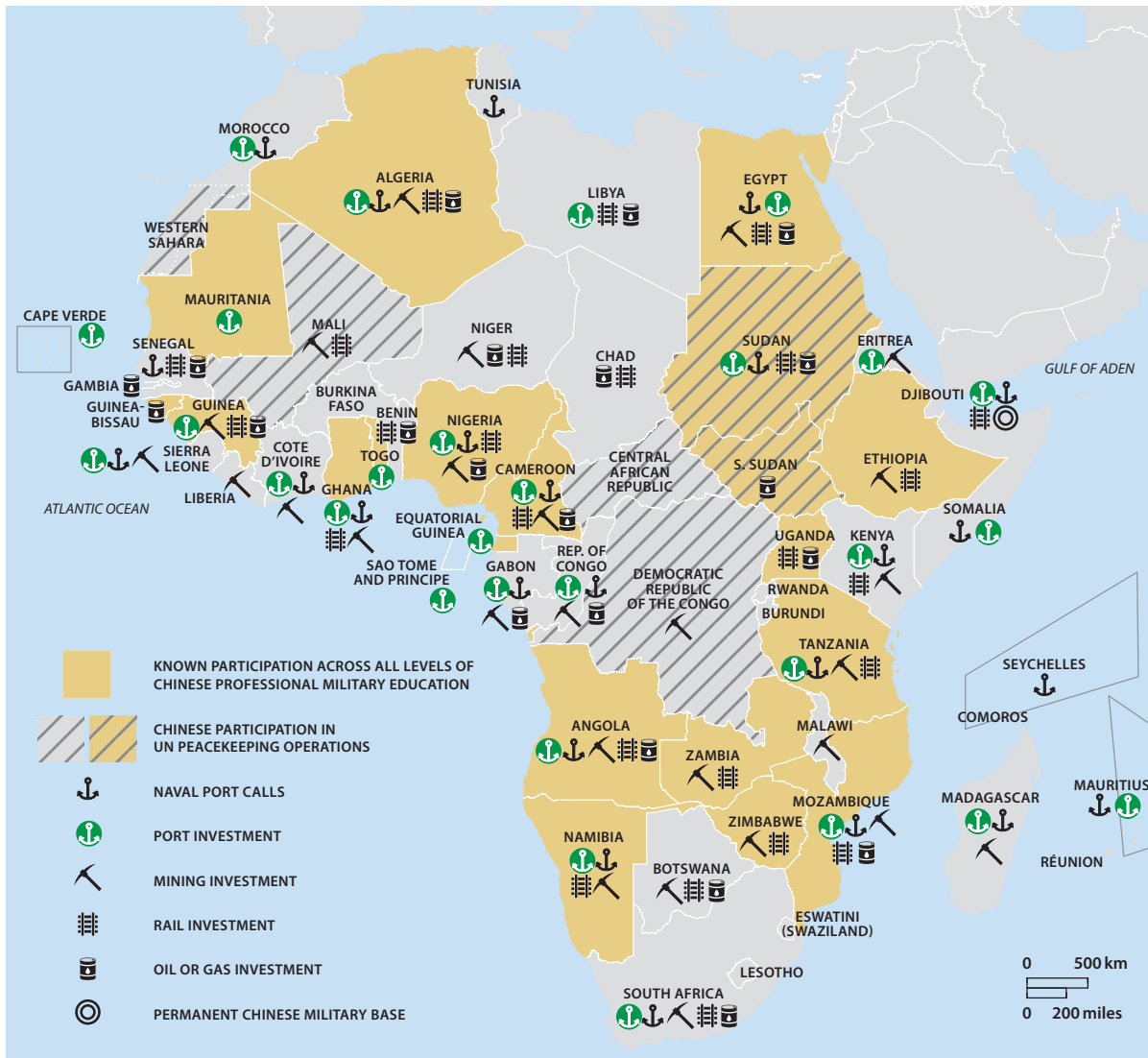
Although China seeks to minimize its visible military presence on the continent, it nonetheless employs a multidimensional approach to security engagement with African countries that supports its political, economic, and military interests (see Figure 5). Beijing primarily relies on private military contractors and African partners to protect its investments, and there is evidence it has shown a willingness to leverage its influence in the UN peacekeeping operations system to advance its economic goals in Africa. China's permanent military base in Djibouti improves its ability to deploy and sustain troops on the continent, while substantial investments in civilian ports could lead to dual-use arrangements or the

establishment of additional military bases in the future. If China further expands its military presence on and around the continent, it could allow the PLA to impede the movement of the U.S. Navy in the western Indian Ocean and even the southern Atlantic in the event of a future conflict in East Asia.

Key Findings

- ▶ Beijing has long viewed African countries as occupying a central position in its efforts to increase China's global influence and revise the international order. Over the last two decades, and especially under General Secretary Xi's leadership since 2012, Beijing has launched new initiatives to transform Africa into a testing ground for the export of its governance system of state-led economic growth under one-party, authoritarian rule.
- ▶ Beijing uses its influence in Africa to gain preferential access to Africa's natural resources, open up markets for Chinese exports, and enlist African support for Chinese diplomatic priorities on and beyond the continent. The CCP flexibly tailors its approach to different African countries with the goal of instilling admiration and at times emulation of China's alternative political and governance regime.
- ▶ China is dependent on Africa for imports of fossil fuels and commodities constituting critical inputs in emerging technology products. Beijing has increased its control of African commodities through strategic direct investment in oil fields, mines, and production facilities, as well as through resource-backed loans that call for in-kind payments of commodities. This control threatens the ability of U.S. companies to access key supplies.
- ▶ As the top bilateral financier of infrastructure projects across Africa, China plays an important role in addressing the shortage of infrastructure on the continent. China's financing is opaque and often comes with onerous terms, however, leading to rising concerns of economic exploitation, dependency, and political coercion. Many African countries borrowing from Beijing face growing debt burdens.
- ▶ China has shown an apparent willingness to leverage its influence in the UN peacekeeping operations system to advance its economic interests in African countries, raising the possibility that Beijing is subverting UN norms and procedures in the process. Beijing also relies on the assistance of African partners and private security contractors to advance its economic objectives on the continent.
- ▶ China's approach to security engagement allows Beijing to expand its influence in Africa's security domain while minimizing its visible military presence outside of its UN peacekeeping operations contributions. As Beijing's economic and political influence on the continent grows, it might leverage its security ties to establish another base in the medium to long term, as it did in Djibouti.

FIGURE 5: CHINA'S ECONOMIC AND SECURITY ACTIVITIES IN AFRICA



Source: See the full Annual Report for complete list of sources.

Chapter 2: U.S.-China Economic and Trade Relations

SECTION 1: YEAR IN REVIEW: ECONOMICS AND TRADE

The CCP's mismanagement and concealment of the COVID-19 outbreak fueled a global pandemic and contributed to a massive shock to the global economy in 2020. China's own economy appears to be in an early recovery, yet it is concluding 2020 in a more precarious economic position than it began the year. Both the immediate economic shock and uneven recovery have deepened inequality and perpetuated inefficient allocation of resources and credit. To revive growth, the government rehashed a familiar strategy of state-led investment in the industrial sector but did little to shore up the social safety net, leading to a rebound in industrial output but not consumption. Continued increases in supply without revival of demand risk exacerbating Chinese overproduction and could drive down global prices, hurting workers and businesses beyond China's borders.

Prior to the outbreak, in January 2020 the U.S. and Chinese governments signed a Phase One agreement, which secured commitments across a range of U.S. interests. Although the deal was welcomed by many stakeholders, it left unaddressed longstanding structural distortions introduced by China's economic policies. China's commitments to provide greater market access for some foreign financial services may present commercial opportunities for U.S. firms but could also expose U.S. financial institutions and investors to substantial risks. The commitments are by no means synonymous with liberalizing the sector, and U.S. entrants will likely compete with local rivals on unfair terms. A fresh infusion of foreign capital may also allow Chinese banks to roll over delinquent loans and keep perennially loss-making enterprises afloat, rather than pushing through much-needed reforms to address systemic financial risks.

U.S.-China bilateral tensions continued to escalate in 2020. In a series of unilateral measures, U.S. policymakers moved to halt the flow of U.S. advanced technology to Chinese companies that pose a national security threat. Chinese policymakers are considering a range of retaliatory measures, including introducing export regulations and an unreliable entity list—a blacklist—aimed at punitive reciprocal restrictions. As U.S. imports from China declined, U.S. multinationals began to reconsider how best to structure their supply chains in the face of uncertainty and political risk.

Key Findings

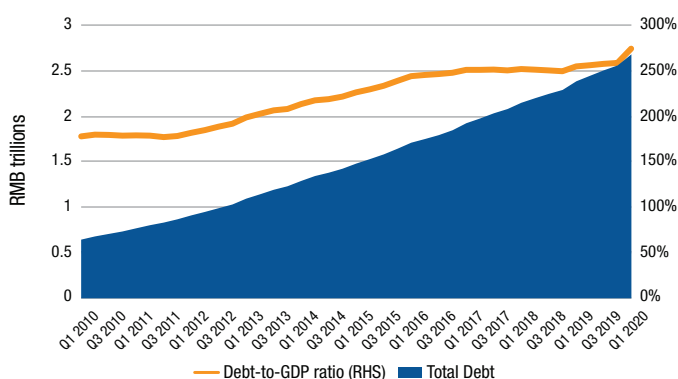
- ▶ China's GDP contracted 6.8 percent the first quarter of 2020, marking the worst quarterly performance since 1992 and the first contraction since the Mao era. Responding to the economic shock, China's government reverted to past practices, exacerbating enduring structural problems within China's economy. Massive state-led investment and other policy choices have benefitted state-owned enterprises at the expense of households and small business and risk increasing global overcapacity, inequality, and debt buildup.
- ▶ U.S.-China tensions continued to escalate over trade and national security concerns. The U.S. Department of Commerce tightened restrictions on Huawei and added over 100 China-based entries to the Entity List for a range of activities, including illicitly providing U.S. technology to China's military, aiding in the repression of China's ethnic Uyghur minority, and constructing artificial islands in the South China Sea. The U.S. Department of Homeland Security also blocked Chinese imports from factories and companies suspected of using forced labor, primarily in China's Xinjiang Uyghur Autonomous Region. Chinese leaders have threatened retaliatory treatment and redoubled efforts to secure technological self-sufficiency.
- ▶ Continuing trade tensions and shortages related to the spread of the COVID-19 pandemic revealed key supply chain vulnerabilities, prompting the United States and its allies to accelerate their reassessment of dependence on China for critical inputs and finished goods. As 2020 comes to a close, U.S. companies continue to weigh their sourcing options and consider what degree of reliance on concentrated production in China is acceptable.
- ▶ Despite mounting tensions between the United States and China, the two countries reached a Phase One trade agreement in January. In the agreement, China once again committed to ensuring technology transfer occurred on a voluntary basis, providing stronger intellectual property protection, allowing greater market access for U.S. financial services, reducing nontariff barriers to trade for U.S. agricultural products, and reaching specific purchase targets of U.S. exports, though by August 2020 China was on track to import only one third of the aggregate target for the year. Remaining long-term challenges, including Chinese government subsidies, local content requirements, and continuing market access restrictions in other sectors were deferred to future rounds of negotiation.
- ▶ The Chinese government's decision to allow greater foreign investment in its financial sector coincides with an urgent domestic demand for capital, as China's banking sector faces an unsustainable debt burden. Favoritism for local corporations, lack of transparency, and weak regulatory and accounting practices place U.S. assets and investors, including pension funds, at substantial risk.

SECTION 2: VULNERABILITIES IN CHINA'S FINANCIAL SYSTEM AND RISKS FOR THE UNITED STATES

In 2020, the Chinese government leaned on state control to contain the economic fallout of the COVID-19 pandemic, instructing banks to lend to companies hard hit by the virus and deploying the country's financial system to absorb the pandemic's shocks. While Beijing's response has enabled a rapid recovery in China's economy, it has done so by fortifying the role of the state in managing economic activity and promoting policies similar to those that have generated misallocation of credit and ballooning debt in the past. The Chinese government's tenacious commitment to economic stability above all else reinforces public expectations that it will always be there to bail out struggling banks or companies. This implicit guarantee of government support contributed to local governments and companies taking on increasing amounts of credit after the 2008 crisis, leading to current concerns about the stability of the financial system. China's first economic contraction in four decades also raises renewed concerns that debt levels will continue to rise.

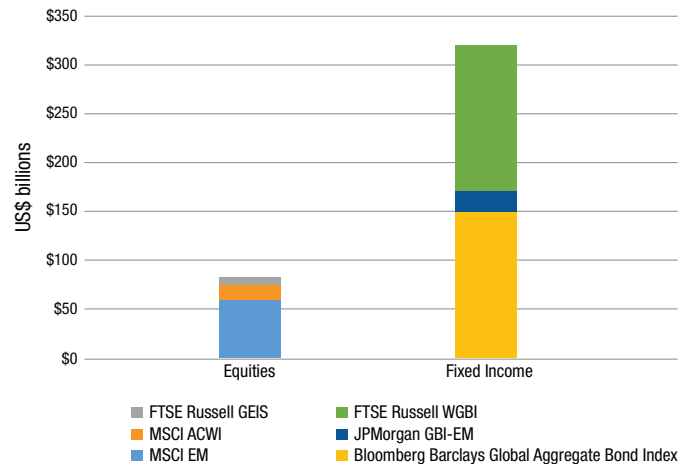
The Chinese government is beginning to experiment with breaking this implicit guarantee and to defuse risks in China's financial system as regulators embark on a cleanup of the banking sector and assess systemic problems caused by a decade of rapidly accumulated debt (see Figure 6). Confronting the scale of these problems, the Chinese government increasingly views foreign capital as part of the solution. Beijing's financial opening in recent years thus reflects a calculated strategy to secure foreign investment inflows and use them to shore up the domestic economy and strengthen its companies. As this opening continues, exposure to unique risks in China's financial system rises for foreign investors, and their financial wellbeing becomes increasingly staked on Beijing's management of the Chinese economy. China's financial opening is also deepening U.S.-China financial integration just as the U.S. government takes more concerted steps to confront China's unfair economic policies and threats to U.S. interests. Of particular concern is the rising inclusion of Chinese securities in global investment indices. These inclusions are funneling hundreds of billions of U.S. investment dollars toward a financial system that lacks transparency, adequate pricing of risks, and regulatory oversight (see Figure 7). They are also financing companies whose operations are otherwise antithetical to U.S. national security and foreign policy objectives.

FIGURE 6: CHINA'S TOTAL DEBT AND DEBT-TO-GDP RATIO, Q1 2010–Q1 2020



Source: Bank for International Settlements, "Credit to the Non-Financial Sector," September 14, 2020.

FIGURE 7: ESTIMATED FOREIGN PORTFOLIO INVESTMENT INFLOWS TO CHINA FROM INDEX INCLUSION OF CHINESE SECURITIES



Source: See the full Annual Report for complete list of sources.

There is every indication that China's quest for foreign capital will continue. Local governments shoulder crushing debt levels, banks remain undercapitalized, and increased public expenditure on caring for an aging population will erode national savings. U.S. portfolio investment inflows to China are also poised to grow significantly, especially if China recovers from the pandemic ahead of other economies, making Chinese financial markets more attractive. As these trends converge and U.S. exposure to risks in China's financial system rises, doubts about whether deepening U.S.-China financial integration is desirable are coming into sharper relief.

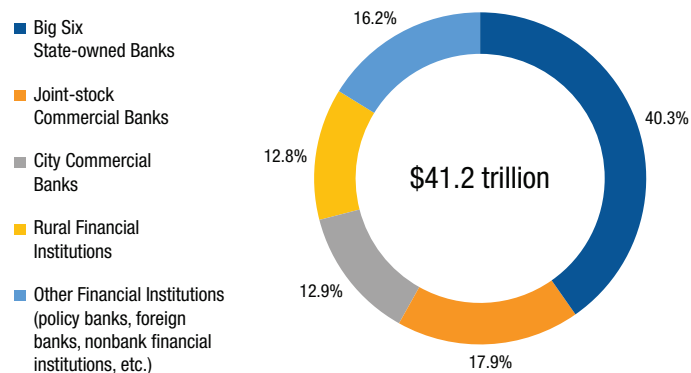
Key Findings

- ▶ China's formal financial system is dominated by state-owned banks, whose position has been strengthened in the wake of the COVID-19 pandemic in 2020 (see Figure 8). These banks favor state-owned enterprises (SOEs) and privileged companies, leaving other Chinese companies starved for capital. Between 2008 and 2016, a large and unwieldy shadow banking sector emerged to fill this gap, leading to a proliferation of risky financial products and rising leverage across China's financial sector.
- ▶ In 2016, Beijing launched a financial de-risking campaign to rein in shadow banking activity and clean up the financial sector. This campaign choked off small private companies' access to financing. The COVID-19 pandemic has further deteriorated the financial health of these companies, forcing the government to ease its regulatory tightening and prioritize economic stability over financial de-risking. With such vulnerabilities remaining unaddressed, investors in China's capital markets are increasingly exposed to structural problems in China's financial system.

- ▶ As Beijing strategically opens its financial sector to secure foreign capital and global investment indices shift asset allocations toward Chinese securities, U.S. investors' exposure to the unique and significant risks accumulated in China's capital markets rises (see Figure 9). These risks center around the opacity of China's financial system and Beijing's interference in market activity to advance its political objectives.
- ▶ Increased financial exposure to China threatens to undermine U.S. efforts to defend against China's unfair economic practices and protect U.S. policy interests. Several Chinese companies included in global investment indices are subject to U.S. export controls but not investment restrictions. This mismatch enables problematic Chinese companies to continue raising U.S. capital and reduces the strength with which the United States can defend against companies that threaten national security.
- ▶ While China's leadership speaks of developing more dynamic capital markets, liberalizing interest rates, and imposing market discipline on the banking sector, these ambitions are tempered by a low tolerance for market instability and a strong bias in favor of state-owned companies to maintain economic growth and safeguard employment.
- ▶ After years of unbridled lending, China's financial system is facing mounting problems. Local governments have recorded significant revenue shortfalls, banks remain undercapitalized, and an aging population threatens persistent current account deficits. The Chinese government seeks to attract large volumes of new foreign investment to meet these capital shortfalls. These circumstances provide the key context for the entry of foreign capital and expertise into the country's financial system.

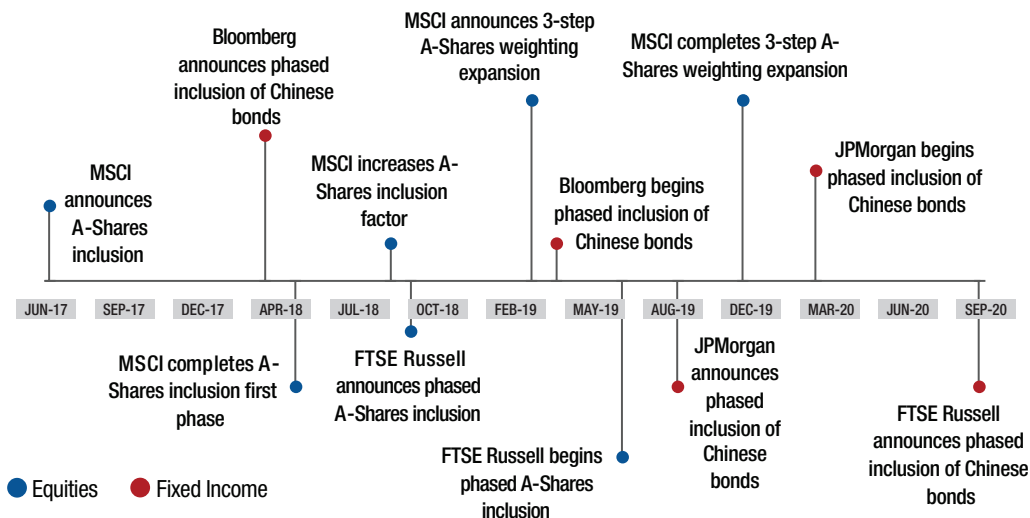
- ▶ Beijing continues to deny U.S. audit regulators full visibility into the financials of U.S.-listed Chinese companies in line with U.S. accounting standards. These evasions from effective regulation and oversight, together with U.S.-listed Chinese companies' complex ownership structures, deprive U.S. investors of both full transparency and the opportunity for legal redress in cases of accounting fraud, eroding the integrity of U.S. capital markets.
- ▶ The COVID-19 pandemic has exacerbated key risks in China's already strained financial system. Although a full accounting of economic damage is still underway, China's first economic contraction in four decades will make it more difficult to tackle the country's debt burden, resolve nonperforming loans, and efficiently allocate capital.
- ▶ Beijing's imposition of the national security law in Hong Kong has accelerated the territory's assimilation into China's national governance system, which could erode its status as a global financial hub. As the Chinese government calibrates financial opening, it may lean more on Hong Kong to raise foreign capital and serve Chinese companies and continue to rely on the territory as an extension of mainland capital markets.

FIGURE 8: CHINESE BANK ASSETS BY TYPE, DECEMBER 2019



Source: China Banking and Insurance Regulatory Commission via CEIC database.

FIGURE 9: TIMELINE OF CHINESE SECURITIES' INCLUSION INTO GLOBAL INVESTMENT INDICES, JUNE 2017–SEPTEMBER 2020



Source: Created by Commission staff.

SECTION 3: U.S.-CHINA LINKS IN HEALTHCARE AND BIOTECHNOLOGY

Beijing views its ability to deliver high-quality healthcare to Chinese citizens as a key aspect of maintaining its legitimacy, yet much of China's healthcare infrastructure is out of date and struggles to meet even the basic needs of many patients. Consequently, Chinese policymakers have set ambitious targets for improvements to China's healthcare system. In particular, the Chinese government has prioritized high-growth sectors such as biotechnology (biotech), digital health, and precision medicine. These sectors not only offer the potential of improving China's healthcare system but also align with Beijing's industrial policy goals of moving up the global value chain.

Despite officially encouraging foreign participation in China's healthcare sector, the Chinese government continues to place foreign firms at a disadvantage, most notably in terms of collecting and sharing healthcare data, which is an increasingly vital component of new healthcare treatments. This data collection occurs through legal channels such as investment in U.S. firms and academic research partnerships as well as illicit methods such as state-sponsored hacking of U.S. healthcare providers and businesses. China's collection of U.S. healthcare data raises privacy concerns for U.S. citizens. China's nonreciprocal collection of health data gives Chinese firms a distinct advantage in research and development, threatening to erode U.S. leadership in medicine and biotech by allowing Chinese companies access to both U.S. and Chinese datasets while blocking U.S. competitors from Chinese data. This comes at a time when the rapid advancement of biological sciences has led to a "biorevolution" that will have increasingly important economic and security implications.

While Chinese policymakers have aggressively supported cutting-edge biotech developments, they have paid far less attention to China's public health system. Years of underfunding, increasing staffing shortfalls, and bureaucratic weaknesses in much of China's public health system have undermined the country's ability to stop the spread of infectious diseases. Moreover, an increasingly repressive political atmosphere has silenced healthcare workers and journalists reporting on such outbreaks, preventing vital information-sharing in the early stages of the COVID-19 outbreak. Beijing's unwillingness to cooperate or share information with foreign governments and international organizations further obstructed efforts to contain what was initially a localized outbreak. The widespread loss of human life and economic devastation in the wake of the COVID-19 pandemic has vividly exposed the shortcomings in China's epidemiological preparedness and demonstrated the worldwide ramifications of the CCP's policy priorities.

Key Findings

- ▶ Longstanding problems in China's public health system, including funding shortfalls and bureaucratic weaknesses, have undermined the country's epidemiological preparedness. These vulnerabilities are compounded by a political atmosphere that silences and punishes healthcare workers who raise concerns about potential disease outbreaks because the CCP fears such disclosures could undermine social stability. As a result, the risk of another epidemic in China will remain heightened even as Beijing attempts to improve its public health system in the wake of the COVID-19 pandemic.
- ▶ Chinese regulators have officially encouraged foreign participation in China's healthcare sector but maintain regulatory barriers that disadvantage foreign firms and hinder free competition. Most notably, Beijing has placed increasingly tight restrictions on foreign firms' ability to access and share healthcare-related data collected in China.
- ▶ The Chinese government has made the collection of domestic and foreign healthcare data a national priority and has sought access to U.S. healthcare data through both licit and illicit means. Chinese entities have gained access to U.S. healthcare data through investment in U.S. firms, sales of equipment and services, and partnerships with U.S. universities and hospitals, even as Beijing prevents U.S. entities from gaining reciprocal access to Chinese data. Chinese state-sponsored groups have also obtained U.S. healthcare data and targeted COVID-19 research by hacking U.S. healthcare providers and businesses.
- ▶ Through its scientific talent recruitment programs, the Chinese government has systematically targeted the U.S. research community, particularly participants in the biological and medical sciences. Although there are many benefits to research cooperation, Beijing has used financial inducements and other means to encourage foreign researchers to establish shadow laboratories in China that mirror federally funded research conducted in the United States and facilitate the transfer of commercially and medically valuable research to China.
- ▶ While China has made significant improvements to its healthcare system, substantial shortfalls remain. In particular, China lacks a long-term care infrastructure for its aging population and its healthcare system is underequipped to handle challenges posed by the rise in chronic disease.
- ▶ China's policymakers are making major efforts to improve the quality and affordability of healthcare, prioritizing innovation in technologies and treatments to manage rising chronic disease. Prior to the outbreak of COVID-19, infectious disease monitoring and prevention have received comparatively less attention.

Chapter 3: U.S.-China Security, Politics, and Foreign Affairs

SECTION 1: YEAR IN REVIEW: SECURITY, POLITICS, AND FOREIGN AFFAIRS

In 2020, Beijing aggressively escalated its pursuit of global leadership, revealing its ambition to imprint international institutions and influence regions with the agenda of the CCP. Beijing refused to recognize its culpability in the outbreak and spread of COVID-19, lashing out at its critics and initiating a global diplomatic campaign to present itself as the country best suited to lead the world from the devastation left in the pandemic's wake. As the world's attention was focused on the pandemic, China ramped up military intimidation of its neighbors while levying economic punishment against countries that criticized its behavior. The Chinese government's imposition of a draconian national security law for Hong Kong in June sent shockwaves around the globe and demonstrated Chinese leaders' disregard for their international commitments as well as the aspirations of Hong Kong's prodemocracy movement.

Chinese leaders confronted the fallout from the pandemic alongside severe domestic and external challenges as they prepared to mark a series of critical political, economic, and military milestones. The PLA made steady progress toward its goal of becoming a world-class military, although it appeared to only partially achieve its 2020 goal to mechanize the force and admitted a two-year delay in redesigning its personnel and policy systems under its overall reorganization and modernization program. As the CCP prepared for the 2021 celebration of the centennial of its founding, Party leaders reiterated concerns over endemic corruption and bureaucratic ineptitude amid signs of popular and elite discontent, especially with the government's mismanagement of the COVID-19 crisis.

Facing growing opposition abroad and fallout from COVID-19 at home, Chinese leaders intensified their campaign of ideological control and repression. The Ministry of Education issued new guidelines requiring ideological conformity within university curricula, while new details continued to emerge regarding the CCP's campaign of cultural devastation and abuse of China's Uyghur, Tibetan, and Mongolian minority populations. Some experts began to argue that the CCP's campaign against Uyghurs, including forced abortions and sterilizations, fits the legal definition of genocide. Meanwhile, tensions with the United States escalated further as the CCP, under General Secretary Xi, defined a more confrontational relationship with the United States than at any time since the beginning of U.S.-China détente nearly half a century ago.

Key Findings

- ▶ In 2020, China sought to project an image of confidence and increased efforts to portray itself as a global leader superior to the United States even as it faced an increasing array of challenges at home and abroad. Meanwhile, CCP leaders took new steps to silence criticism of the Party and demand praise for its actions both among the Chinese populace and in foreign countries.
- ▶ General Secretary Xi continued to emphasize the military dimension of U.S.-China competition, instructing the PLA for a second year to prepare for a potential military conflict with a “powerful enemy adversary”—a phrase used by the CCP to refer to the United States. The PLA commissioned its first indigenously produced aircraft carrier and the first of a new class of advanced, large displacement destroyers while continuing to struggle with persistent weaknesses in its training and the limited command capabilities of its officer corps.
- ▶ The CCP grew more openly confrontational toward the United States and key U.S. allies and partners as Beijing increasingly demonstrated its disregard for international rules, norms, and criticism of its actions. This aggressive approach was typified by Beijing's growing use of economic coercion against countries that took actions Beijing perceived as contrary to its interests.
- ▶ Beijing ramped up its multiyear coercion campaign against its neighbors, provoking military or paramilitary standoffs with countries from Japan to India and much of Southeast Asia. Shortly after China's defense minister urged Beijing to use military force to stabilize its periphery, a violent clash on the China-India border in June led to the first loss of life between the two countries since 1975.
- ▶ The CCP combined its aggressive actions beyond its borders with increasing domestic repression. Beijing implemented a draconian security law that ended the political freedoms it had pledged to guarantee to Hong Kong, while new evidence emerged of the CCP's campaign of cultural genocide against the millions of Uyghurs and Tibetans living under its rule. Concern about its abusive treatment of ethnic Mongolians is also rising.
- ▶ The U.S.-China relationship grew increasingly confrontational in 2020 as both governments characterized the other in sharply adversarial terms and unfavorable views toward China among the U.S. public reached a new historic high. The United States took significant new steps to curtail bilateral economic, scientific, and educational exchanges.
- ▶ The rapid spread of COVID-19 from Wuhan across China and beyond its borders revealed a range of systemic flaws in the Chinese governance system. Government authorities' active suppression of information, an overriding emphasis on secrecy and political image, and bureaucratic paralysis combined to severely delay any meaningful policy response. Evidence also emerged that Beijing's official numbers dramatically underreported actual cases.

SECTION 2: CHINA'S GROWING POWER PROJECTION AND EXPEDITIONARY CAPABILITIES

China has made changes to its military strategy, equipment, and global posture over the last two decades that now enable it to project power at greater distances from its shores. Under the leadership of General Secretary Xi, the PLA has begun the process of transforming itself into a “world-class military” to support his ambitions for national rejuvenation. China’s strategic requirements relating to the projection of military power are defending sovereign territory as the CCP defines it; delaying or denying potential threats or intervention in a regional conflict or sovereignty dispute by other powers, such as the United States; and protecting China’s overseas economic interests and sea lines of communication. PLA strategists argue that a world-class military must possess a blue-water navy capable of conducting expeditionary operations with air and ground forces on faraway continents. Authoritative sources suggest Chinese leaders aspire to project force and be capable of fighting limited wars around the globe by the middle of the century.

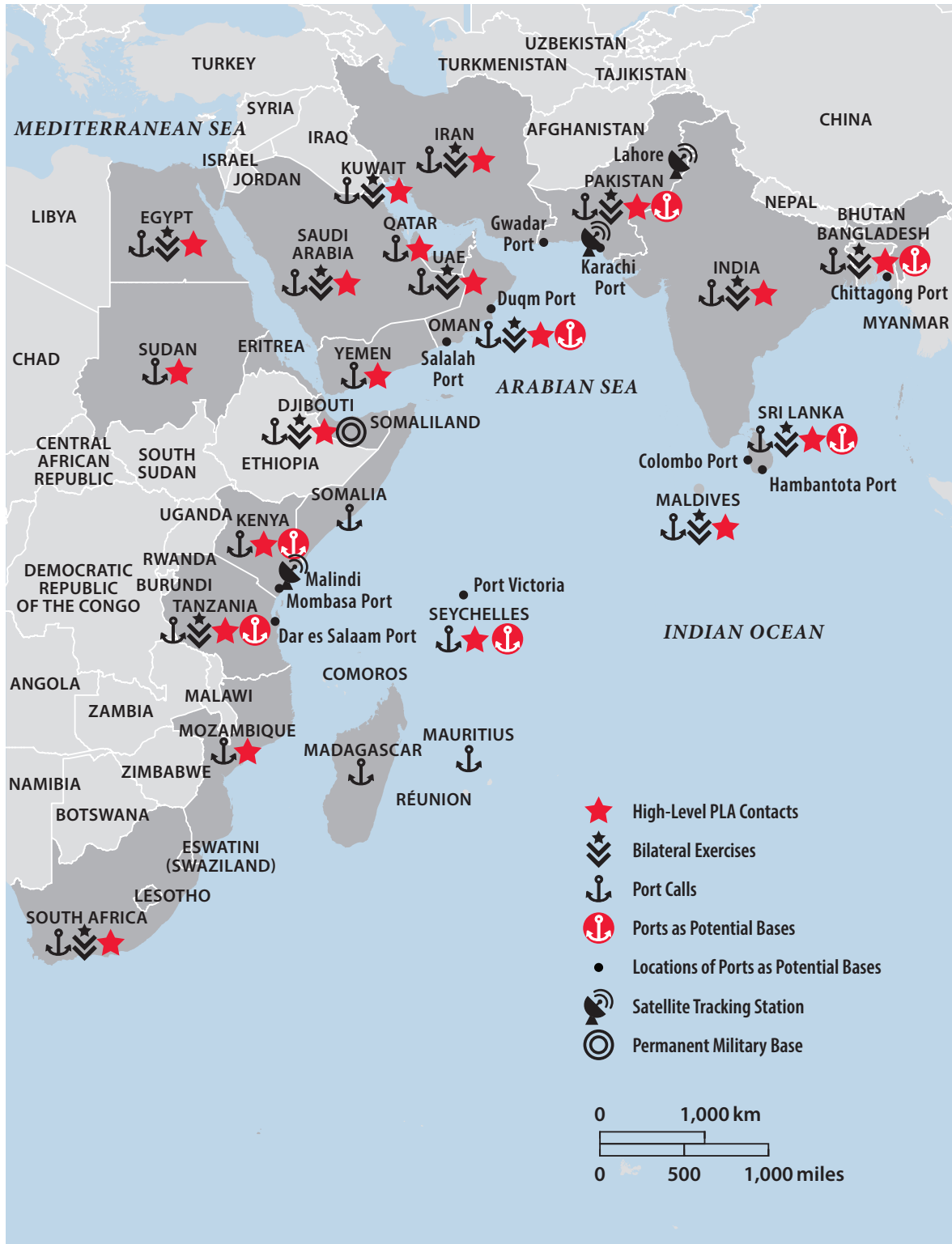
Today, the PLA is vigorously updating its equipment, training, and organization in ways that increase the capacity and range of its power projection capabilities. The force’s efforts focus on rectifying shortfalls in six operational areas: amphibious assault, naval power projection, air power projection and delivery, long-range precision strike, global logistics, and global command and control. Two notable dimensions of the PLA’s capability-building efforts are its incorporation of cyber and space technologies for power projection and its reliance on civilian entities for global logistics and force sustainment. China’s base in Djibouti and its expanding access to civilian ports and airfields around the world also help support the PLA’s global operations.

China’s power projection capabilities are currently most developed in East and Southeast Asia, where its activities threaten the security of the United States and its allies and partners, but these capabilities diminish as distance from the region increases. To prepare the groundwork for a future network of overseas military bases and dual-use logistics facilities, the PLA uses traditional military diplomacy and humanitarian activities to burnish its image and sway host nation leaders. China’s overseas access model also relies on civilian ports operated or majority owned by Chinese SOEs, which may become dual-use logistics facilities. The PLA’s power projection capabilities have already had significant ramifications for the U.S. security architecture in East Asia and could eventually affect the United States’ ability to defend its interests across the globe.

Key Findings

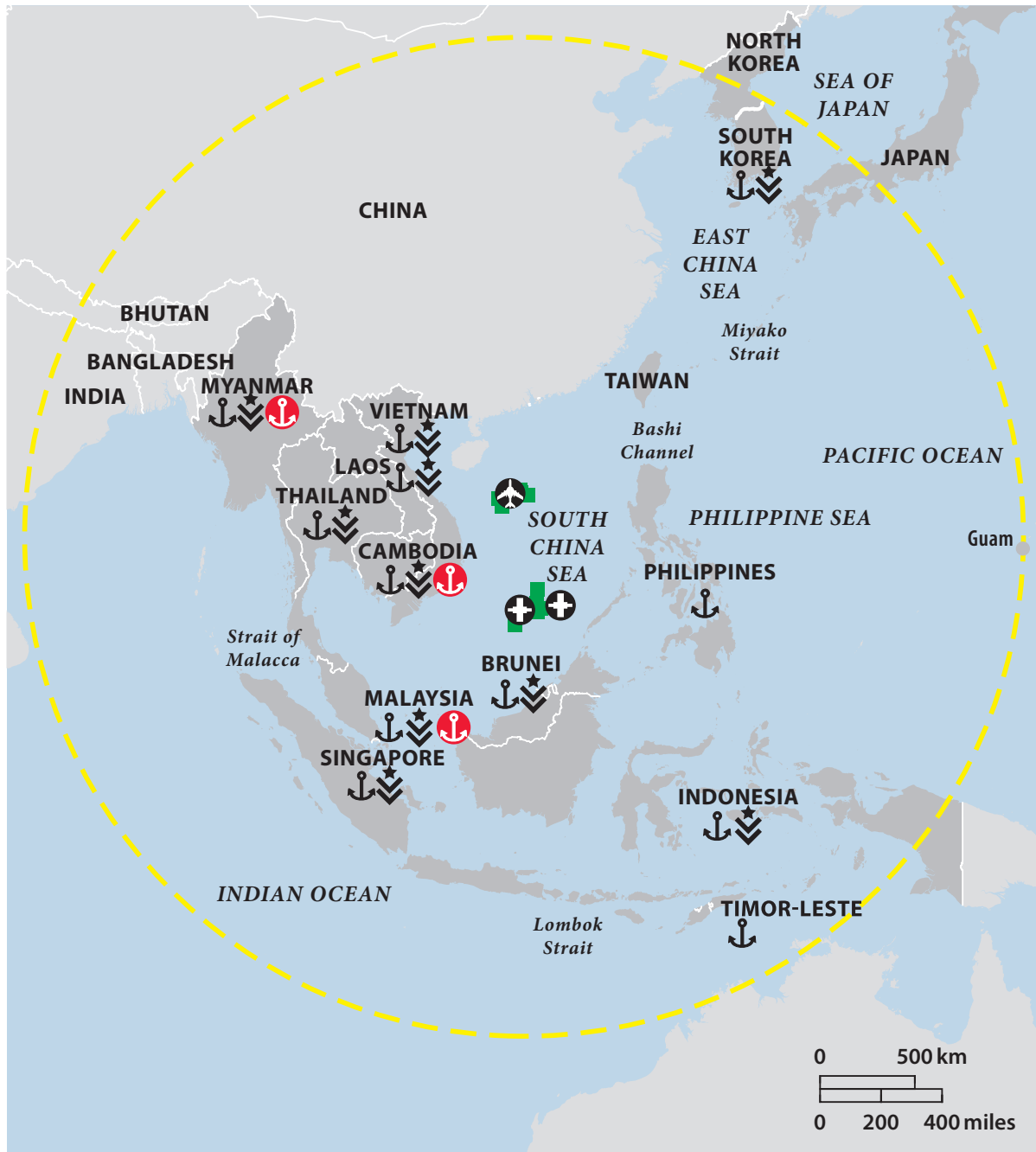
- ▶ Recent advances in equipment, organization, and logistics have significantly improved the PLA’s ability to project power and deploy expeditionary forces far from China’s shores. A concurrent evolution in military strategy requires the force to become capable of operating anywhere around the globe and of contesting the U.S. military if called upon to do so. Chinese leaders have vigorously pushed the PLA to develop power projection and expeditionary capabilities over the last 20 years.
- ▶ China’s power projection capabilities are developing at a brisk and consistent pace, reflecting the civilian leadership’s determination to transform the PLA into a global expeditionary force in a matter of decades. In the short term (next five years), the PLA will focus on consolidating the capabilities that would enable it to conduct large-scale military operations around its maritime periphery. In the medium term (next 10–15 years), the PLA aims to be capable of fighting a limited war overseas to protect its interests in countries participating in the BRI. By mid-century, the PLA aims to be capable of rapidly deploying forces anywhere in the world.
- ▶ China’s basing model includes military facilities operated exclusively by the PLA as well as civilian ports operated or majority-owned by Chinese firms, which may become dual-use logistics facilities. Chinese firms partially own or operate nearly 100 ports globally, more than half of which involve a Chinese SOE.
- ▶ Despite the PLA’s progress in building expeditionary capabilities, it continues to face a number of challenges in projecting power. These challenges grow more pronounced the farther away the PLA operates from China’s immediate periphery and include inadequate airlift, sealift, at-sea replenishment, and in-air refueling capabilities.
- ▶ China’s power projection capabilities are robust in East and Southeast Asia, where it is building military bases (see Figure 11). In the Indian Ocean, the PLA deploys naval task forces that regularly operate for seven to eight months as far away as Africa’s eastern seaboard (see Figure 10). While the PLA’s power projection capabilities diminish the farther it operates from China, it is beginning to develop the ability to project power in the South Atlantic, where it occasionally conducts naval operations, makes port calls, and carries out military exercises with local partners. In Latin America and the Caribbean, where PLA power projection capabilities are weakest, the force is cultivating political influence and greater access to the region that will complement the satellite tracking station it already maintains in Argentina.








FIGURE 10: PLA POWER PROJECTION ALONG THE INDIAN OCEAN RIM



Source: Created for the U.S.-China Economic and Security Review Commission. See the full Annual Report for complete list of sources.

FIGURE 11: PLA POWER PROJECTION IN EAST ASIA AND THE SOUTH CHINA SEA



-  Bilateral Exercises
-  Port Calls
-  Ports as Potential Bases
-  Chinese Outposts
-  H-6K Strategic Bomber Deployment
-  Range of H-6 with Land-Attack Cruise Missile
-  Jamming Equipment

Source: Created for the U.S.-China Economic and Security Review Commission. See the full Annual Report for complete list of sources.

Chapter 4: Taiwan

The year 2020 was pivotal for cross-Strait relations as well as the United States' relationship with Taiwan. China's imposition of the national security law in Hong Kong and its intensifying military operations around Taiwan suggest that Chinese leaders intend to pursue their political objectives without concern for their existing commitments or the reputational costs they might incur by violating them. President Tsai Ing-wen's reelection in Taiwan and public support for the pro-democracy movement in Hong Kong underscored the island's resolve to remain free in the face of escalating Chinese coercion. Taiwan's government also responded to China's belligerence by moving closer to the United States, taking steps to address longstanding sources of U.S. concern over trade and defense.

Beijing leveraged its undue influence in the World Health Organization and other international bodies to exclude Taiwan from the global response to the COVID-19 pandemic. Despite these efforts, Taipei's robust epidemic control and prevention measures won praise and recognition from leaders around the world. Taipei's contributions to the international response to the pandemic further highlighted Taiwan's determination to be an active participant in the international community. Leveraging its robust supply of medical expertise and personal protective equipment, Taipei launched a global assistance campaign and formed research partnerships with the United States and European Union to develop treatments for COVID-19.

Taipei underlined its commitment to limiting its vulnerability to Beijing's coercion by reinvigorating efforts to diversify supply chains away from the Mainland and removing barriers to expanded economic ties with the United States. Through an array of investment incentives targeting Taiwan and multinational firms, Taipei moved to fortify its position in technology supply chains and demonstrated how it can serve as a valuable partner in securing them. President Tsai's politically fraught decision to lift restrictions on U.S. meat imports further demonstrated Taiwan's dedication to both reducing its economic reliance on mainland China and forging a stronger relationship with the United States.

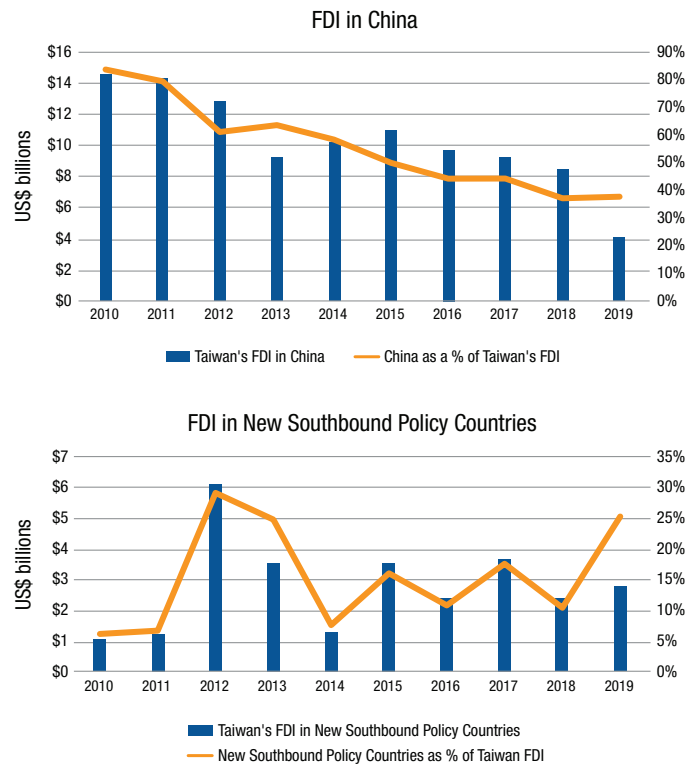
A growing chorus of voices in Washington policy circles are questioning whether China's mounting aggression toward Taipei and the deepening cross-Strait military imbalance (see Figure 12) necessitate a new U.S. approach to cross-Strait relations. U.S. policymakers face an increasingly urgent and difficult set of choices about responses to China's coercion of Taiwan. The U.S. government's steps in the next few years to address China's destabilizing impact on cross-Strait relations will have far-reaching consequences for the people of Taiwan, U.S. interests in the region, and the United States' standing in the world.

Key Findings

- ▶ The year 2020 was pivotal for cross-Strait relations. China's imposition of the national security law in Hong Kong and its intensifying military activities around Taiwan proved that Chinese leaders are determined to pursue their political objectives without concern for their existing commitments or the reputational costs they might incur by violating them. Events this year underscored the urgency of ongoing discussions in Washington over whether the United States should alter its longstanding policy toward Taiwan and how China's annexation of the island could affect U.S. national security interests.
- ▶ Taiwan President Tsai Ing-wen won reelection by a landslide in January 2020, easily defeating her opponent with an historic number of votes in a victory many experts viewed as improbable just a year ago. President Tsai's late surge in the polls was driven largely by voter dissatisfaction with Beijing's heavy-handed approach to the island and its destruction of basic freedoms in Hong Kong. The CCP's imposition of the national security law in Hong Kong discredits Beijing's assurance that Taiwan could preserve its chosen way of life under a prospective unification model and proved Chinese leaders intend to pursue their sovereignty claims regardless of the international reaction.
- ▶ In 2020, Beijing continued its multifaceted pressure campaign against Taiwan. Both of Taiwan's dominant political parties rejected Beijing's pursuit of unification under its "one country, two systems" framework, affirming their commitment to the island's free, multiparty democracy. The Tsai Administration continued initiatives introduced during its first term to deepen ties with the United States and other countries in the Indo-Pacific region.
- ▶ The outbreak of COVID-19 underscored the consequences of Beijing's politically motivated exclusion of Taiwan from international organizations. Despite Beijing's attempts to marginalize the island, Taiwan's impressive domestic epidemic control and prevention efforts earned it the admiration of countries around the world, with many expressing strong opposition to Beijing's actions.
- ▶ Through stringent measures for case identification and containment, Taipei mounted a model response to the COVID-19 pandemic and averted a largescale economic shutdown. As a result, Taiwan's economy continued to expand in 2020, albeit at a slower pace, even as its neighbors suffered contractions. Taipei may face challenges in the medium term, however, as the pandemic roils the global economy and threatens to reduce external demand for the island's exports.

- ▶ The COVID-19 pandemic brought into stark relief the risks associated with China-centric supply chains and led Taipei to accelerate its push to reduce Taiwan's economic reliance on mainland China (see Figure 13). The Taiwan government reinvigorated its efforts to incentivize Taiwan companies operating on the Mainland to relocate production to the island and unveiled other investment incentives and subsidies to encourage multinational technology firms to expand operations in Taiwan. These developments led to the preliminary recalibrations of global technology supply chains.
- ▶ The foundations of the U.S.-Taiwan economic relationship began to shift in 2020 as Taipei and Washington took significant steps to upgrade economic engagement. President Tsai removed a longstanding source of friction in bilateral trade ties by lifting restrictions on U.S. meat imports while the Trump Administration announced it would launch a new Economic and Commercial Dialogue with Taipei focused on supply chain security, among other objectives.
- ▶ The PLA's military activities around Taiwan in 2020 were more frequent and more aggressive than those recorded in 2019 (see Figure 14). The PLA's moves abrogated norms that once managed tensions across the Strait and expanded Beijing's operations in the air and waters around Taiwan. The more frequent presence of PLA aircraft and naval vessels around Taiwan also increases the chance of a crisis stemming from an accident or miscalculation.
- ▶ Taiwan stepped up its missile production, upgraded its unmanned aerial vehicles, and continued to develop other asymmetric capabilities in 2020 even as it sought to replace aging conventional legacy systems with modern aircraft and tanks. Despite these efforts, Taiwan's military continued to grapple with ongoing problems related to equipment, readiness, and its transition to an all-volunteer force as the cross-Strait military balance remained deeply tilted in Beijing's favor.
- ▶ The U.S. government demonstrated its support for Taiwan through multiple avenues of engagement in late 2019 and 2020. In the political realm, the United States sent U.S. Department of Health and Human Services Secretary Alex Azar to Taipei in August 2020, making him the highest-ranking U.S. cabinet official to visit the island since 1979. In the military realm, the United States dispatched a senior defense official to Taiwan; initiated the sale of multiple major weapons systems to Taiwan; enabled Taiwan's participation in U.S.-led multilateral security consultations; and continued U.S. air and maritime transits around the island.
- ▶ The U.S. Department of State reaffirmed longstanding policy by releasing declassified cables containing its "Six Assurances" to Taiwan and emphasizing that the United States regards the question of Taiwan's sovereign status as unresolved. Assistant Secretary of State for the Bureau of East Asian and Pacific Affairs David R. Stilwell said in a speech, however, that the United States was making "important updates" to its engagement with Taiwan in response to "changing circumstances." These changes will be "significant, but still well within the boundaries of [the] One China policy."

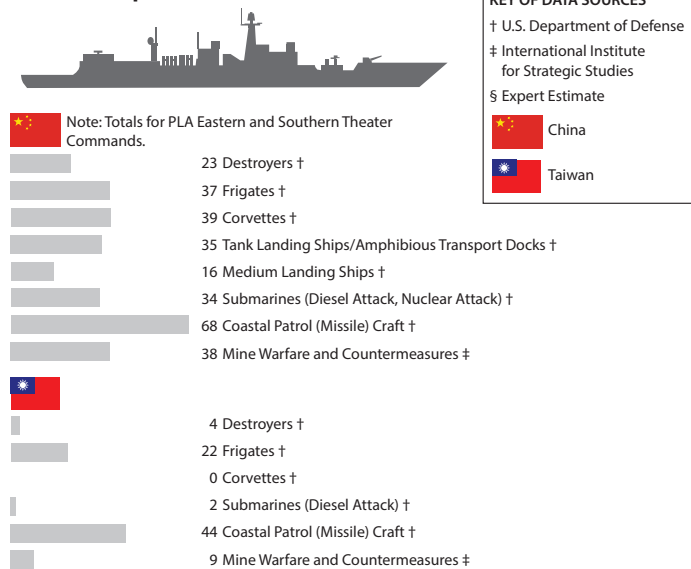
FIGURE 13: TAIWAN'S FDI, 2010–2019
(year-on-year)



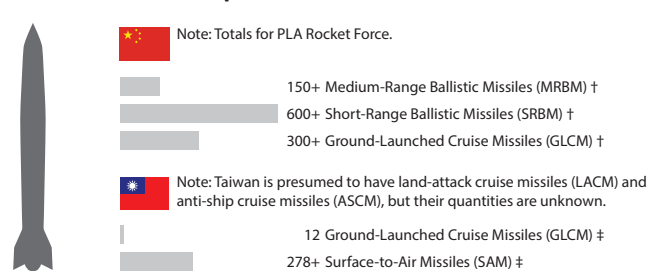
Note: New Southbound Policy countries include Australia, Bangladesh, Bhutan, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, and Vietnam.
Source: Taiwan's Ministry of Economic Affairs, Investment Commission, *Monthly Report*, August 2020.

FIGURE 12: THE CROSS-STRAIT MILITARY BALANCE

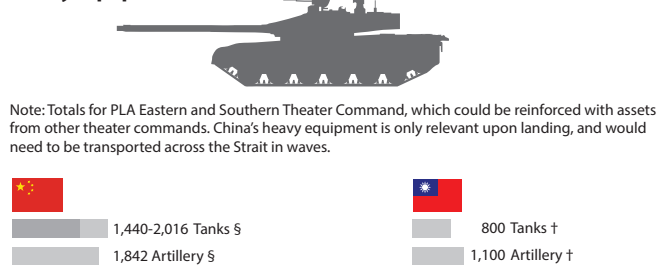
Maritime Capabilities



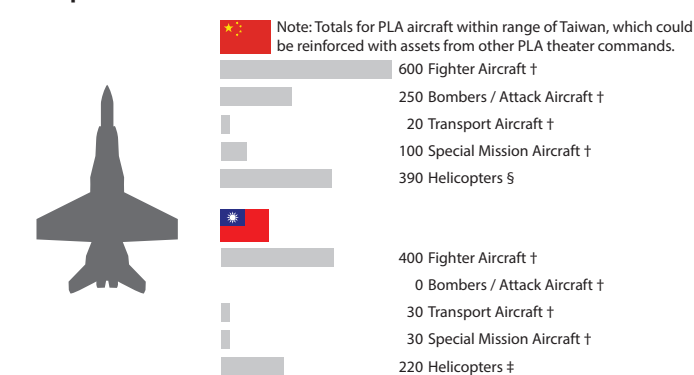
Missile and Rocket Capabilities



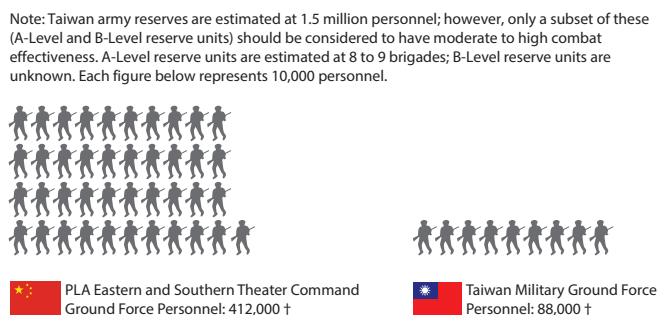
Heavy Equipment



Air Capabilities

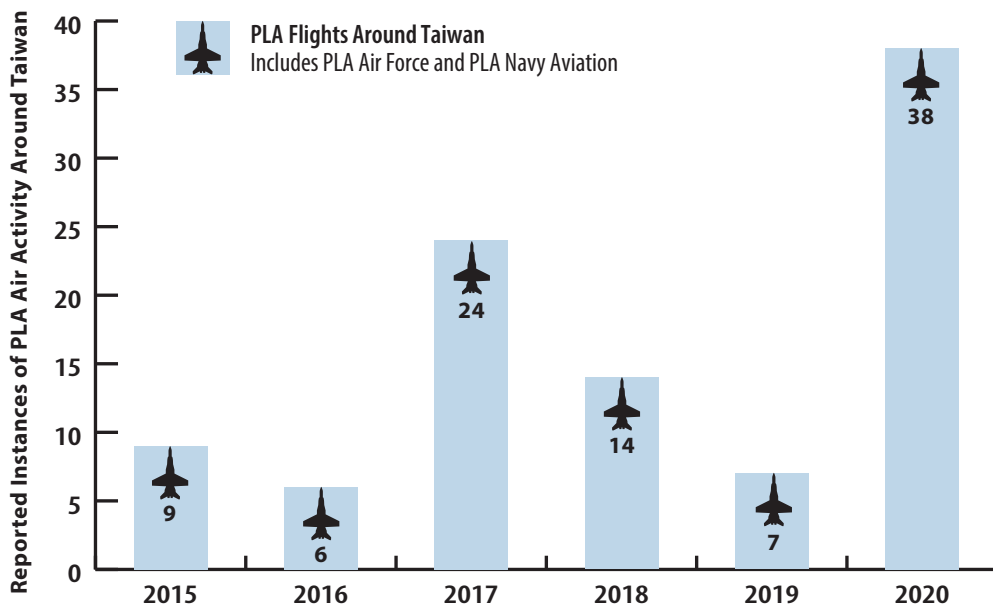
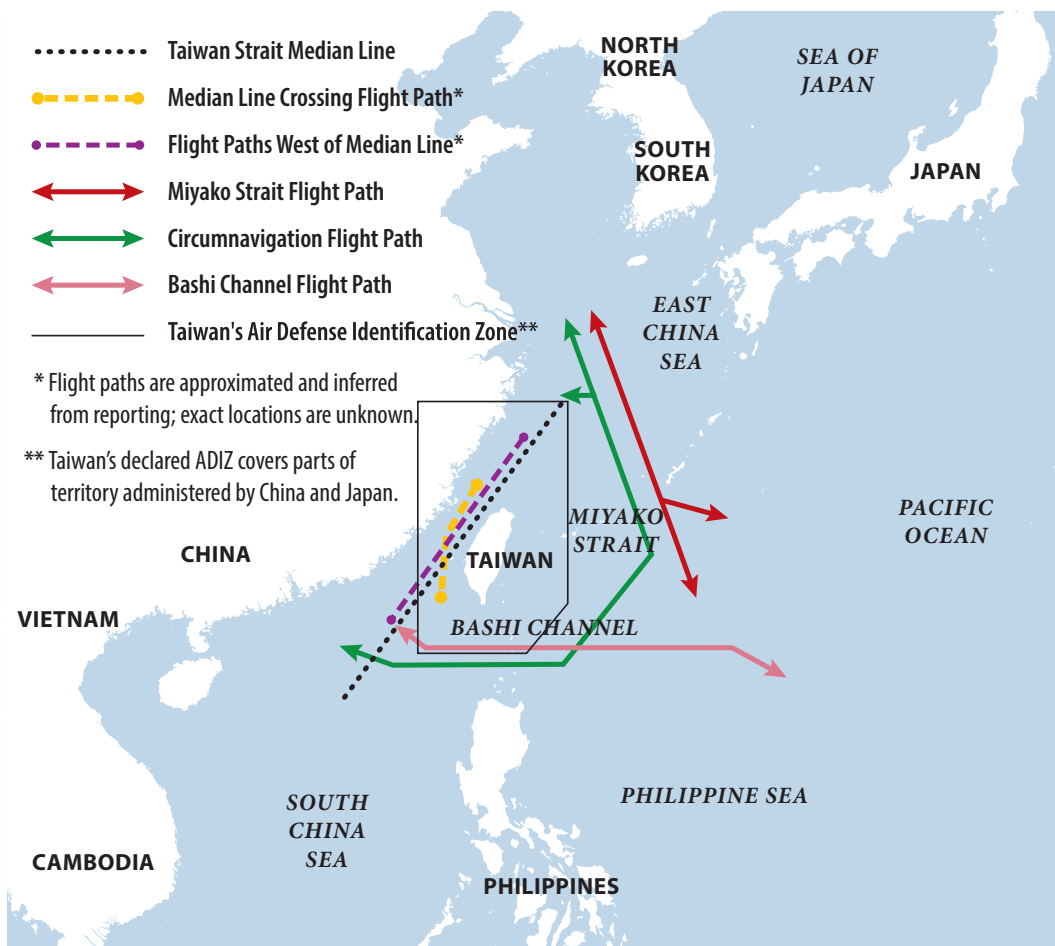


Ground Force Personnel



Source: Created for the U.S.-China Economic and Security Review Commission; U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China*, 2020, 164–166; International Institute of Strategic Studies, *The Military Balance: 2020*, 2020, 259–268, 311–314; and expert interviews with Commission staff, August 17–19, 2020.

FIGURE 14: PLA AIR ACTIVITY NEAR TAIWAN, 2015–2020



Source: Created for the U.S.-China Economic and Security Review Commission. See the full Annual Report for complete list of sources.

Chapter 5: Hong Kong

The Chinese government swiftly brought the 7.5 million residents of Hong Kong under full and direct authoritarian rule with the implementation of a draconian national security law passed in Beijing. The dramatic change in Hong Kong's status showed the CCP's profound disregard for its international commitments and obligations to the people of Hong Kong. Unchecked, the national security law's extraterritoriality could grant China's government broad powers to censor global discourse and punish opinions that are critical of its interests or actions in the territory. This action was one of many in 2020—including border skirmishes with India, military exercises to intimidate Taiwan, and pressure on Australia, Canada, and the United Kingdom, among others—that demonstrated the Chinese government's indifference to its reputation abroad. For Taiwan, the case of Hong Kong exemplifies the hollowness of the CCP's promise that unification under “one country, two systems” is a viable option.

After the law's announcement, the Hong Kong government increasingly turned into the executor of Beijing's directives. The Hong Kong authorities curtailed an anticipated prodemocracy victory in the legislative election originally planned for September 2020, banning a dozen prodemocracy candidates and delaying the election for a year using the pandemic as a pretext. As of October 2020, the Hong Kong authorities and officials from the new Mainland security office created by the national security law continued to arrest prodemocracy activists and supporters as part of a wide-scale crackdown on opposition. U.S. multinationals and their staff in the territory now face the difficult task of assessing an entirely different kind of political and personal risk and are watching the law's implementation and the U.S. government's response.

The United States has maintained deep, longstanding economic and social ties to Hong Kong. More than 1,300 U.S. companies, including nearly every major U.S. financial firm, have offices in Hong Kong. Beyond the commercial considerations, approximately 85,000 U.S. citizens are Hong Kong residents. In 2018, 1.3 million U.S. visitors traveled to Hong Kong, while an estimated 127,000 Hong Kong residents came to the United States. The swift imposition of the national security law may have fundamentally undermined the cosmopolitan vibrancy, dynamism, and openness that characterized the city. In light of the changed nature of the city, U.S. policymakers have begun the process of revoking the special status granted to Hong Kong in U.S. regulations.

Key Findings

▶ On June 30, 2020, the Chinese government implemented a sweeping national security law for Hong Kong that brought the 7.5 million residents of Hong Kong under the full and direct authoritarian rule of the CCP. This action violated China's commitment to preserve the “one country, two systems” framework that would have guaranteed Hong Kong's autonomy through 2047. In passing this law, Beijing demonstrated its willingness to sacrifice economic interests, the rule of law, and basic human rights to establish political control over the territory.

- ▶ The national security law has fundamentally transformed Hong Kong's relationship with the United States and other democracies, as well as the international perception of China as a global actor. China's unapologetic violation of a binding treaty once again calls into question the credibility of its commitments to the international community. In recognition of Hong Kong's changed status, the United States has begun dismantling Hong Kong's separate treatment in U.S. law, which served as the basis of U.S.-Hong Kong relations for nearly 30 years.
- ▶ The new law's extraterritorial provisions pose a substantial risk to U.S. citizens in Hong Kong and internationally. It criminalizes any perceived criticism of the Chinese or Hong Kong governments, regardless of where the offending individual or entity resides. Under this law, the Hong Kong government has already sought the arrest of a U.S. citizen, the director of a prodemocracy group advocating for congressional action on Hong Kong. Left unchecked, the law could grant the Chinese government broad powers to censor global discourse.
- ▶ U.S. multinationals and their personnel in the territory now face a heightened degree of political and personal risk and are waiting on the law's implementation and the U.S. government's response. Companies with operations on the Mainland may replicate precautions there for operations in Hong Kong. Other companies may choose to relocate more international-facing operations elsewhere. Major U.S. technology firms face particular challenges due to their collection of sensitive user data.
- ▶ In further confirmation of the territory's changed status, the Hong Kong authorities quickly moved to erase democratic processes in Hong Kong. Facing a likely prodemocracy victory, the government postponed a pivotal Legislative Council election and banned a dozen prodemocracy candidates. The de facto separation between mainland and Hong Kong security forces also vanished. Immediately after the national security law's implementation, the authorities began targeting and arresting prodemocracy supporters. Despite the danger of arrest under the law, many activists are committed to staying in the city to defend their freedoms, while others seek to move abroad.
- ▶ The national security law has significantly compromised Hong Kong's historically strong rule of law and press freedom. Under growing pressure from the CCP, the territory's judicial system has been thrown into crisis as judges are compelled to adopt mainland legal principles and CCP positions. Journalists faced new levels of pressure to self-censor while the Hong Kong authorities harassed prodemocracy news outlets and refused to renew press credentials. The CCP has also suppressed all other aspects of Hong Kong's civil society. Illustrating this trend, the Hong Kong authorities for the first time banned the annual vigil to mark the 1989 Tiananmen Square massacre.

Comprehensive List of the Commission's Recommendations

Chapter 1: U.S.-China Global Competition

SECTION 1: A GLOBAL CONTEST FOR POWER AND INFLUENCE: CHINA'S VIEW OF STRATEGIC COMPETITION WITH THE UNITED STATES

The Commission recommends:

1. Congress adopt the principle of reciprocity as foundational in all legislation bearing on U.S.-China relations. Issues to be considered in applying this principle should include but are not limited to the following:
 - ▶ The ability of journalists and online media to operate without undue restriction;
 - ▶ The ability of nongovernmental organizations to conduct meaningful engagement with civil society;
 - ▶ Access to information, including but not limited to financial and research data;
 - ▶ Access for social media and mobile apps from U.S. companies;
 - ▶ Access for diplomatic personnel, including but not limited to diplomats' freedom of travel and ability to meaningfully exchange views with the host country public; and
 - ▶ Market access and regulatory parity, including but not limited to companies' ability to participate in trade, investment, and financial market transactions, cross-border capital transfer, and protections of intellectual property.
2. Congress direct the U.S. Department of State to produce an annual report detailing China's actions in the United Nations and its subordinate agencies that subvert the principles and purposes of the United Nations. Such a report would at a minimum document the following:
 - ▶ China's actions violating United Nations treaties to which it is a party;
 - ▶ China's actions to influence the votes of United Nations members, including through coercive means;
 - ▶ China's actions to nominate or support candidates for United Nations leadership positions that do not adhere to United Nations standards for impartiality or are subject to the influence of the Chinese government;
 - ▶ Actions by nationals of the People's Republic of China and others currently holding United Nations leadership positions that appear to support the interests of the Chinese government in violation of United Nations impartiality standards;
 - ▶ Actions by nationals of the People's Republic of China serving in functional positions in United Nations organizations impacting hiring practices, internal policies, and other functions that appear to support the interests of the Chinese government in violation of United Nations impartiality standards;
 - ▶ Actions by Chinese military and support personnel engaged in United Nations peacekeeping operations that are inconsistent with the principles governing these missions, including China's deployment of these personnel to protect its economic interests and improve the power projection capabilities of the People's Liberation Army; and
 - ▶ The number and positions of United States personnel employed by the United Nations and its agencies.
3. Congress expand the authority of the Federal Trade Commission (FTC) to monitor and take foreign government subsidies into account in premerger notification processes.
 - ▶ The FTC shall develop a process to determine to what extent proposed transactions are facilitated by the support of foreign government subsidies.
 - ▶ The definition of foreign government subsidies shall encompass direct subsidies, grants, loans, below-market loans, loan guarantees, tax concessions, governmental procurement policies, and other forms of government support.
 - ▶ Companies operating in the United States that benefit from the financial support of a foreign government must provide the FTC with a detailed accounting of these subsidies when undergoing FTC premerger procedures.
 - ▶ If the FTC finds foreign subsidies have facilitated the transaction, the FTC can either propose a modification to remedy the distortion or prohibit the transaction under Section 7 of the Clayton Act, which prohibits mergers and acquisitions where the effect "may be substantially to lessen competition, or to tend to create a monopoly."
4. Congress direct the Administration, when sanctioning an entity in the People's Republic of China for actions contrary to the economic and national security interests of the United States or for violations of human rights, to also sanction the parent entity.
5. Congress amend the Immigration and Nationality Act to clarify that association with a foreign government's technology transfer programs may be considered grounds to deny a nonimmigrant visa if the foreign government in question is deemed a strategic competitor of the United States, or if the applicant has engaged in violations of U.S. laws relating to espionage, sabotage, or export controls. Association with a foreign government's technology transfer programs can include any of the following:

- ▶ Participation in a foreign government-sponsored program designed to incentivize participants to transfer fundamental research to a foreign country via a talent recruitment program or in a foreign government-sponsored startup competition;
- ▶ Acceptance of a government scholarship that requires recipients to study specific strategic scientific and technological fields, to return to the foreign country for a government work requirement after the scholarship term ends, or facilitates coordination with talent programs;
- ▶ Association with a university or a department of a university that the U.S. government has designated as a participant in the foreign government's military-civil fusion efforts; or
- ▶ Status (current or past) as a scientist, technician, or officer for a foreign military, if the applicant does not disclose such information when applying for a visa.

SECTION 2: THE CHINA MODEL: RETURN OF THE MIDDLE KINGDOM

The Commission recommends:

6. Congress hold hearings to consider the creation of an interagency executive Committee on Technical Standards that would be responsible for coordinating U.S. government policy and priorities on international standards. This Committee would consist of high-level political appointees from executive departments with equities relating to international technical standards, including the Department of Commerce, the Department of State, the Department of Defense, the Department of Energy, the Office of Science and Technology Policy, and other agencies or government stakeholders with relevant jurisdiction. The Committee's mandate would be to ensure common purpose and coordination within the executive branch on international standards. Specifically, the Committee would:
 - ▶ Identify the technical standards with the greatest potential impact on American national security and economic competitiveness;
 - ▶ Coordinate government efforts relating to those standards;
 - ▶ Act as a liaison between government, academia, and the private sector to coordinate and enhance joint efforts in relation to standards;
 - ▶ Manage outreach to counterpart agencies among U.S. allies and partners;
 - ▶ Set funding priorities and recommendations to Congress; and
 - ▶ Produce annual reports to Congress on the status of technical standards issues and their impact on U.S. national security and economic competitiveness.

SECTION 3: CHINA'S STRATEGIC AIMS IN AFRICA

The Commission recommends:

7. Congress require the Office of the U.S. Trade Representative, within 180 days, to prepare a report on China's use of rules of origin intended to benefit countries eligible for the African Growth and Opportunity Act (AGOA) to ensure AGOA countries obtain the benefit of favorable trade policies and China is not using them to circumvent U.S. trade policies.

Chapter 2: U.S.-China Economic and Trade Relations

SECTION 2: VULNERABILITIES IN CHINA'S FINANCIAL SYSTEM AND RISKS FOR THE UNITED STATES

The Commission recommends:

8. Congress enact legislation establishing a China Economic Data Coordination Center (CEDCC) at the Bureau of Economic Analysis at the U.S. Department of Commerce. The Center would be mandated to collect and synthesize official and unofficial Chinese economic data on developments in China's financial markets and U.S. exposure to risks and vulnerabilities in China's financial system, including:
 - ▶ Data on baseline economic statistics (e.g., gross domestic product [GDP]) and other indicators of economic health;
 - ▶ Data on national and local government debt;
 - ▶ Data on nonperforming loan amounts;
 - ▶ Data on the composition of shadow banking assets;
 - ▶ Data on the composition of China's foreign exchange reserves; and
 - ▶ Data on bank loan interest rates.
9. Congress request that the Administration prepare a report on the research and development activities of the affiliates of U.S. multinational enterprises operating in China and the implications of such activities for U.S. production, employment, and the economy.

SECTION 3: U.S.-CHINA LINKS IN HEALTHCARE AND BIOTECHNOLOGY

The Commission recommends:

10. Congress enact legislation to require ancestry and health testing services to (1) require explicit consent from customers to provide, sell, lease, or rent to any party individual data that is aggregated for the purposes of research; and (2) disclose to customers any parent company or subsidiary relationship.
11. Congress establish a new U.S. national laboratory focusing on biotechnology or designate an existing U.S. national laboratory to focus on biotechnology
12. Congress consider establishing a “Manhattan Project”-like effort to ensure that the American public has access to safe and secure supplies of critical lifesaving and life-sustaining drugs and medical equipment, and to ensure that these supplies are available from domestic sources or, where necessary, trusted allies. Such a project would supplement the recommendation the Commission made in its 2019 Annual Report that Congress hold hearings with a view toward enacting legislation requiring the U.S. government to procure medicines only from U.S. production facilities or from facilities that have been certified compliant with U.S. standards.

Chapter 4: Taiwan

The Commission recommends:

13. Congress consider enacting legislation to make the Director of the American Institute in Taiwan a presidential nomination subject to the advice and consent of the United States Senate.
14. Congress amend the TAIPEI Act to provide that the United States, as a member of any international organization, should oppose any attempts by China to resolve Taiwan’s status by distorting the language, policies, or procedures of the organization.
15. Congress evaluate the opportunity to strengthen economic relations with Taiwan in key sectors where there are unique reciprocal opportunities, with technology as the initial sector for evaluation.
16. Congress encourage the Administration to include Taiwan in multilateral efforts to coordinate and strengthen supply chain cooperation and security. This could be done through the expansion of Global Cooperation and Training Framework programming or a new multilateral arrangement with likeminded democracies. This multilateral engagement should focus on securing critical inputs and assuring supply chain resilience in strategic industries critical to economic competitiveness and national security, including information and communications technology, integrated circuits, and electronic components.

Chapter 5: Hong Kong

The Commission recommends:

17. Congress direct the Administration to identify and remove barriers to receiving United States visas for Hong Kong residents attempting to exit Hong Kong for fear of political persecution.
18. Congress consider legislation extending political asylum to residents of Hong Kong born on or after June 30, 1997, who currently cannot apply for a second form of identification beyond a Hong Kong Special Administrative Region passport.
19. Congress direct the Office of the U.S. Trade Representative to produce a report within 90 days assessing the risk of mainland China using Hong Kong to evade or circumvent Section 301 trade enforcement actions or other U.S. trade remedies.



2020 Report to Congress
of the
U.S.-China Economic and
Security Review Commission

Executive Summary and Recommendations